INTERNATIONAL MONETARY FUND

Staff Country Reports

IMF Country Report No.11/324

DOMINICA

2011 ARTICLE IV CONSULTATION

November 2011

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2011 Article IV consultation with Dominica, the following documents have been released and are included in this package:

- **Staff Report** for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 27, 2011, 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 6, 2011. 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.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Informational Annex** prepared by the IMF.
- **Public Information Notice** (PIN)

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INTERNATIONAL MONETARY FUND

DOMINICA

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

July 6, 2011

KEY ISSUES

Setting: Growth resumed in 2010 but is expected to remain modest both in the near and medium-term due to lack of strong growth drivers to substitute for the decline in agriculture and weak competitiveness.

Proceeding with fiscal consolidation: While appropriately supportive during the crisis, fiscal policy is increasingly constrained by deteriorating debt dynamics. Staff commends the authorities' intention to start withdrawing the fiscal stimulus in the fiscal year 2011, and underscores the need to sustain the adjustment effort to return to the long-standing primary surplus target of 2.4 percent of GDP over the next few years. Clear plans for achieving the target need to be formulated and should focus on reining in current spending, safeguarding revenues, and ensuring sustainability of the adjustment effort through structural reforms.

Safeguarding against financial stability risks: Tremors in the regional financial systems, to which Dominica is heavily exposed, have underscored the need for increased vigilance and close monitoring of the financial sector. Recent reforms have gone a long way in this direction, but renewed efforts to identify and counteract sources of risks in the banking and non-banking financial sector will be critical.

Improving growth prospects: To boost growth prospects and improve social conditions, structural reforms should focus on increasing the country's capacity to attract private investment, especially through swift reforms of its regulatory environment, and on creating fiscal space for a well-designed infrastructure investment program.

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Approved By
David Vegara and Jan Kees Martijn

The discussions took place in Roseau during May 17–27, 2011. The staff team comprised A. Cebotari (head), L. Erickson, J. Gonzalez-Garcia, and A. Guscina (all WHD).

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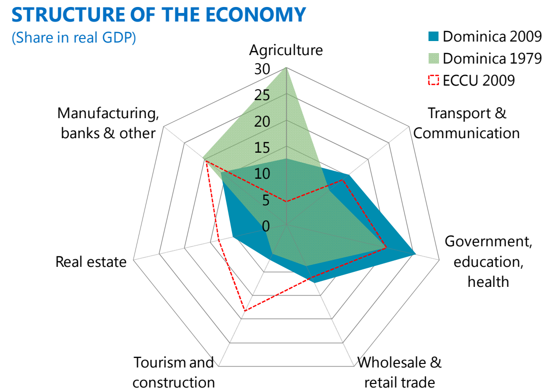
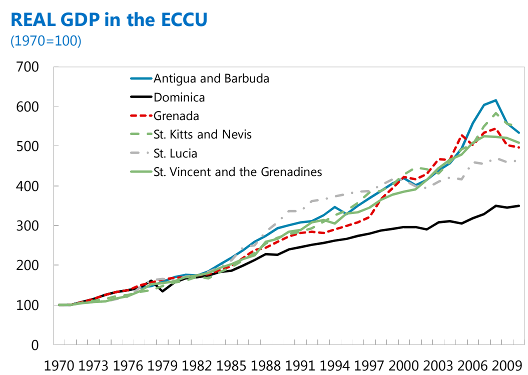
SETTING

1. Background. Dominica is a small open economy in the Caribbean, and one of the eight members of the Eastern Caribbean Currency Union (ECCU).[1] Unlike its peers in the union, Dominica has a relatively large agricultural sector. Like its peers, however, its economy has been grappling with the fast decline in agricultural production as preferential access to European banana markets ebbed. But while most of the ECCU countries are transitioning from agriculture to tourism-based economies, Dominica is still in search of new growth drivers, as poor infrastructure and the rugged terrain hindered tourism from becoming a key driver for growth. Thus, growth has lagged significantly behind, leaving Dominica with the lowest income per capita in the union and heavily dependent on aid flows (Figure 1). Dominica has benefitted from substantial aid flows, increasingly from non-traditional donors, which helped cover large current account deficits that averaged 17 percent of GDP over the past twenty years (according to the recently rebased national accounts; see Annex I).





2. Past fiscal adjustment. Following a crisis in 2001–02 brought about by profligate fiscal policies and external shocks, Dominica undertook an impressive effort to restore fiscal sustainability through a large fiscal adjustment, debt restructuring (2004), and concerted efforts to shift public financing towards grant and concessional borrowing—supported by two IMF programs during 2002–06. As a result, debt declined from 100 percent of GDP in mid-2002 to 67.3 percent in mid-2011, helped by primary surpluses that averaged 3 percent

[1] ECCU members consist of six independent countries (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines) and two dependent territories of the United Kingdom (Anguilla and Montserrat). The ECCU dollar has been pegged at EC$2.7 to US$1 since 1976.

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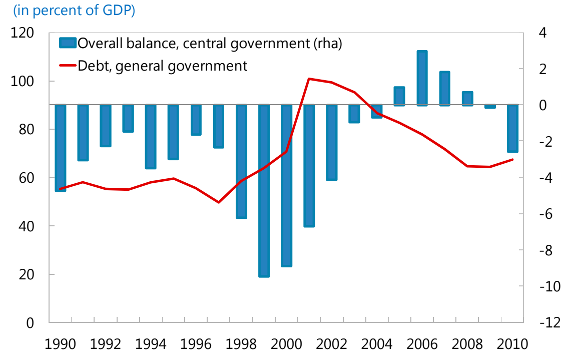
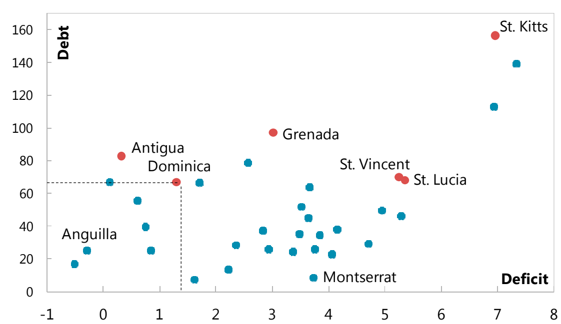
of GDP over the past eight years. Thus, Dominica entered the recent global financial crisis with one of the strongest fiscal positions in the ECCU.

DOMINICA: DEBT AND DEFICITS
(in percent of GDP)



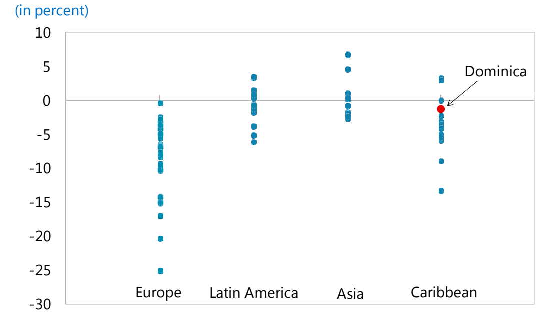
LATIN AMERICA AND CARIBBEAN: DEBT AND DEFICITS 1/
(in percent of GDP, 2010)



Source: WEO, ECCB, and staff estimates.
1/ Uses the rebased GDP series for ECCU countries.

3. Impact of the crisis. Dominica withstood the global crisis well. The decline in global activity led to a mild contraction relative to most countries (-¾ percent) due to limited reliance on tourism, a mild pre-crisis boom in investment and supportive fiscal policies. Private credit continued to grow throughout the crisis, formal employment was not significantly affected and neither was the external balance, as a moderate retraction in FDI, remittances and tourism receipts was fully offset by other private inflows and by the lower cost of commodity imports during 2009. The financial system has weathered the crisis as well, although tremors in the regional financial markets, to which Dominica is heavily exposed, have heightened solvency and liquidity risks.

PEAK-TO-TROUGH DECLINE DURING THE CRISIS 1/
(in percent)



Source: Haver, WEO, and Fund staff estimates.
1/ Based on seasonally-adjusted quarterly real GDP, except for the Caribbean cumulative annual decline.

4. Policy response to the crisis. Prudent fiscal management in the years leading up to the crisis has served the authorities well, affording them room for supportive fiscal policies during the crisis. Entering the crisis with a relatively strong fiscal position—a primary surplus of 3¾ percent of GDP and a debt of 72 percent of GDP—allowed the authorities to inject a significant fiscal stimulus during FY 2007–09 by: (i) doubling investment spending relative to historical averages, first aimed at supporting post-hurricane reconstruction and later at propping economic activity during the downturn; (ii) scaling up

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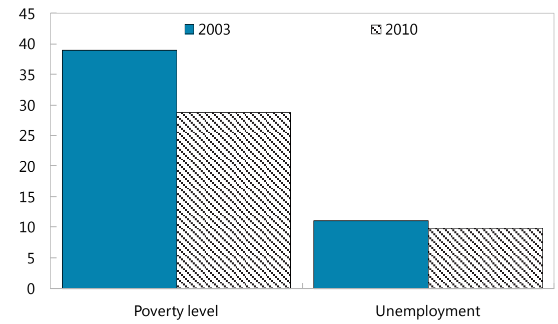
social spending;[2] and (iii) rolling out a three-year reduction in personal income taxes to levels more comparable to regional peers.[3] The total fiscal impulse during this period is estimated at about 7 percentage points of GDP, about half financed by grants and half by non-commercial borrowing, a significant demand support in light of the constraints on monetary and exchange rate policies due to participation in the currency union.[4] The authorities also accessed the IMF's Exogenous Shocks Facility in July 2009 (1.1 percent of 2009 GDP) to mitigate the impact of the global crisis on FDI and tourism flows.

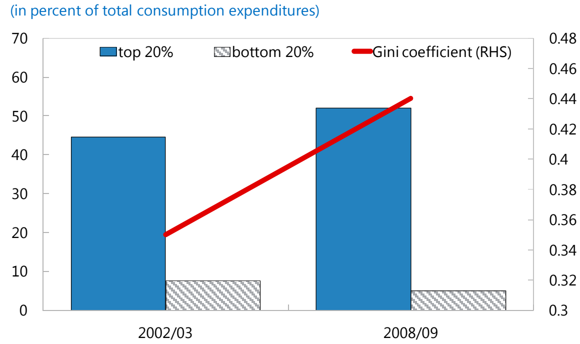
5. Social dimensions. Social indicators in Dominica have improved significantly between 2002 and 2009, according to the poverty assessments conducted by the Caribbean Development Bank in those years.[5] There was a major fall in unemployment and poverty levels, but the income distribution worsened. In particular, unemployment declined from 25 to 14 percent during this period, but youth unemployment remained high at about 31 percent in 2009.[6] Poverty also declined, from 39 percent in 2002 to 29 percent in 2009. Inequality, however, has worsened, with the GINI coefficient increasing to 0.44 in 2009 compared to 0.35 in 2002.

Poverty Indicators
(in percent of population)



Source: Caribbean Development Bank, *Country Poverty Assessment* - Dominica 2008/09

Inequality
(in percent of total consumption expenditures)



Source: Caribbean Development Bank, *Country Poverty Assessment* - Dominica 2008/09

[2] The authorities introduced new social protection programs for the vulnerable elderly (*Yes We Care*), children (*Chances*), and other groups (*Public Assistance Program)*. Other, less targeted programs, were also expanded.

[3] The marginal personal income tax rates were reduced during 2008–2010 by 5 percentage points in each bracket (to 35, 25 and 15 percent) and the personal exemption was increased, at an estimated total cost of ⅔ percent of GDP.

[4] The impulse reflects the impact of the change in spending over and above domestic structural revenues, i.e. spending financed by grants and by additional debt.

[5] Caribbean Development Bank, *Country Poverty Assessment - Dominica 2008/09*, at www.dominica.gov.dm/cms/... /dominica_cpa_2009_main_report_final.pdf.

[6] The high unemployment rate reflects in part the inclusion of discouraged unemployed in the labor force, similar to the practice in many ECCU countries, but contrary to the more generally-accepted definition. Excluding discouraged persons from the labor force reduces estimated unemployment to about 10 percent in 2009.

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6. Previous Article IV recommendations. Previous Article IV discussions focused on the expected deterioration in the fiscal position during FY 2010–13 as the authorities planned to avail themselves of a loan from China to undertake large infrastructure works. Staff recommended a swift return to the primary surplus target of 2.4 percent of GDP by FY 2013 (equivalent to 3 percent of GDP before the rebasing of the national accounts). In the event, the fiscal position deteriorated by more than anticipated, although the authorities remain committed to the primary surplus target. Recommendations also focused on strengthening tax and customs administration to support the fiscal effort, improving non-bank supervision and strengthening monitoring of the development bank, including through an on-site inspection. Broadly similar commitments were undertaken by the authorities under their 2009 request for Rapid-Access Component of the Fund's Exogenous Shocks Facility. The authorities have made progress on these fronts, discussed below in the report.

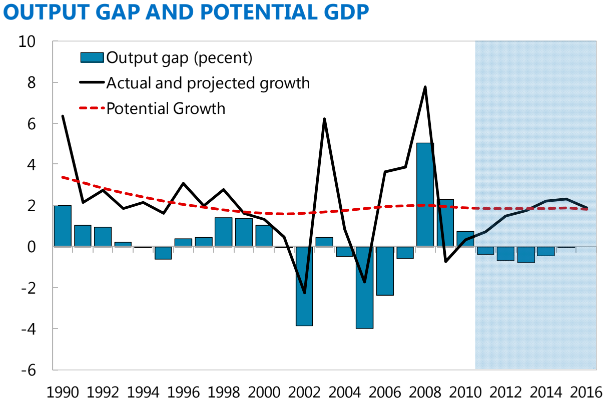
MACROECONOMIC OUTLOOK AND RISKS

7. Recent developments and outlook. The economy is recovering, but the outlook remains weak, both in the short and medium term (Tables 1–4).

- *Growth*. Growth turned positive in 2010, but the economy is still to show firm signs of recovery and faces headwinds from the recent cancellation of a cruise-ship line that accounted for a significant share of tourist arrivals (Figure 2). Activity is projected to grow by only 0.9 percent in 2011, supported by a recovery in construction and agriculture. Over the medium term, growth is projected to pick up gradually to only 2 percent, as prospects are dampened by lack of strong growth drivers and weak competitiveness. Overall, real GDP and growth are expected to remain below potential in the near future.

- *Inflation*. The recent surge in food and fuel prices has not yet translated into higher inflation as of February 2011, with headline inflation hovering around its long-term historical average of 2 percent. However,

OUTPUT GAP AND POTENTIAL GDP



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reflecting this surge, headline inflation is projected to more than double in the second half of 2011, ending the year at about 4 percent, with second round effects on core inflation expected to be muted by the negative output gap. As the impact of commodity inflation peters out, headline inflation will gradually return to its long-term average.

- *Balance of payments*. The improvement in the current account deficit—from a 26 percent of GDP peak in 2008 to around 21½ percent in 2009–10—was driven by external factors, including falling commodity prices and a slowdown in imports related to FDI and capital grants as reconstruction activities after the 2007 hurricane were completed (Figure 3). However, the recent surge in commodity prices and an expected decline in grants will renew pressures on the balance of payments in 2011; these are expected to be mitigated by higher public and other inflows or, if these do not materialize, by contractionary pressures on the monetary base as reserves are drawn down. Over the medium term, the current account deficit is projected to narrow to 17 percent of GDP with the falling cost of commodity imports and a recovery in tourist source countries. But while FDI and grants to the public sector financed the bulk of the deficit in the past, over the medium term they are expected to cover only about half of it as recent grant flows from non-traditional donors such as Venezuela, China and Libya are not expected to be sustained at recent levels. If private borrowing finances the remainder of the current account, as currently projected, external debt could increase considerably, suggesting potential sustainability issues.

- *Monetary conditions*. Despite stable domestic interest rates over the past several years and widening interest differentials with the rest of the world, non-FDI capital inflows have remained largely unaffected, precluding the importation of monetary policy easing from the U.S. over the past three years (Figure 4). Some easing of monetary conditions came only from a recent depreciation of Dominica's real effective exchange rate following the depreciation of the U.S. dollar.

- *Risks*. Near-term risks are tilted to the downside on account of a potentially stronger impact of a slowing demand in advanced economies, on which Dominica relies for the bulk of tourism, remittances and FDI (on the demand side), and a weaker-than-expected performance in agriculture, manufacturing and trade (on the production side). Risks are more balanced over the medium term, with upside risks from several projects that are in the pipeline in the tourism and geothermal energy sector that could provide the needed boost to private sector

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investment and growth if they come through, and downside risks from potential spillovers from financial weaknesses in the region.

POST-CRISIS POLICY CHALLENGES

Against the background of an incipient recovery, poor growth prospects and a weakened fiscal position, discussions focused on key challenges going forward: (i) withdrawing the fiscal stimulus and returning to fiscal sustainability, while preserving space for needed infrastructure investment; (ii) ensuring that weaknesses in the financial system do not pose a threat to macrostability; and (iii) boosting the country's growth prospects.

A. Fiscal Policies: Proceeding with the Consolidation

8. Current policy setting. The fiscal position weakened over the past two years reflecting the impact of the fiscal stimulus, the cut in the personal income tax, weaker VAT performance and retroactive wage increases.[7] The primary balance deteriorated by over three percentage points of GDP during this period, and turned into a deficit of about 1 percent of GDP in FY 2010;[8] the first primary deficit in the decade. The resulting overall fiscal deficit, if sustained at current levels, will begin to challenge the authorities' ability to finance it in the absence of market access and will set off a precarious debt dynamics.

9. Near-term outlook. The authorities agreed on the need for fiscal consolidation, and are appropriately planning to begin withdrawing the fiscal stimulus in the next fiscal year. The draft FY 2011 budget targets a primary balance of 0.6 percent of GDP, an adjustment of almost two percentage points of GDP. However, the brunt of the correction falls on investment, as current spending will continue to grow. The authorities explained that the increase was driven by the higher cost of social programs and the needed boost in police force, to address increasingly

[7] The triennial negotiations of public sector wages for the period FY 2009–11 concluded only partially in September 2010, when the unions accepted a 3 percent increase corresponding to FY 2009. A retroactive payment was made in early 2011 covering the wage increase for the period July 2009-December 2010. Negotiations for the remaining two years are still ongoing, leaving open the possibility for further wage increases.

[8] The fiscal year runs from July 1 to June 30. FY 2010 ends in June 2011.

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challenging crime issues, and health sector staff. While supporting the planned withdrawal of the fiscal stimulus, staff expressed concern about the continued growth in current spending and indicated that achieving the budget's primary surplus target critically hinges on the authorities' ability to raise the revenues from house sales, which has proven difficult in recent years. Staff, therefore, projects that under current policies the primary balance will remain marginally negative in FY 2011 and debt will remain broadly unchanged in GDP terms. The authorities recognized the risks, and expressed their readiness to take additional measures early in FY 2011 should these risks materialize.

10. Medium-term outlook and risks. For the medium term, staff projects that primary balances will turn slightly positive—as capital spending related to the execution of a Chinese loan winds down, while revenues weaken somewhat with the projected decline in imports—falling about 2 percentage points of GDP short of the authorities' target of 2.4 percent of GDP that has anchored fiscal policies since 2003. Debt dynamics will remain uncertain, as debt levels, already high, would decline only slowly over the medium term. A number of risks—including from external and natural disaster shocks, continued pressures on current and capital spending, and contingent costs from the failure of the regional insurance companies—could, if they materialize, set the debt on an upward path and derail debt reduction efforts (Figure 5, Tables 5–6).

Selected Fiscal Indicators, 2007-2016
(In percent of fiscal year GDP)

	2007	2008	2009	2010[e]	2011[p]	2012[p]	2013-16[p]
Total Public Debt	71.7	64.7	64.2	67.3	67.3	66.7	63.7
Overall balance	1.8	0.7	-0.2	-2.6	-1.7	-1.4	-0.9
Revenues	26.7	26.7	28.0	27.1	26.4	26.1	25.6
Grants	9.1	8.9	8.8	4.7	5.0	4.5	4.5
Expenditures	34.0	34.9	37.0	34.3	33.1	31.9	31.0
Current	22.6	22.6	22.7	23.4	23.8	23.8	23.8
Investment	11.4	12.4	14.3	10.9	9.3	8.1	7.2
Grant-financed	8.7	8.9	8.8	4.6	4.6	4.5	4.5
Nongrant-financed	2.7	3.4	5.5	6.3	4.7	3.6	2.8
Primary balance	3.7	2.4	1.2	-1.2	-0.3	0.1	0.5

11. Protecting sustainability. Staff underlined the need to continue debt reduction efforts until a more comfortable fiscal position is reached and to rebuild fiscal buffers in a country vulnerable to significant external and natural disaster risks. The authorities agreed with the importance of setting the debt on a firmly downward path, but pointed to the need for preserving the social safety nets and infrastructure investments. While they remain committed to reaching a 2.4 percent primary surplus by FY 2013, which would reduce debt to close to 50 percent of GDP by 2016, the mission urged crystallizing the consolidation plans as they would lend credibility to the authorities' commitment.

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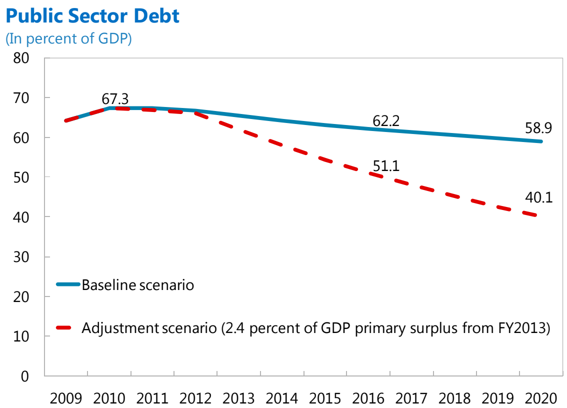

12. Adjustment measures. Staff recommended that fiscal space for well-designed infrastructure programs be preserved and that consolidation efforts focus on reining in current spending, safeguarding revenues, and ensuring the medium term sustainability of the fiscal adjustment efforts through structural reforms, and identified a panoply of measures for the authorities' consideration (discussed in Annex II). These include: (i) *on the spending side*, rationalizing and targeting the social assistance programs, addressing the spending pressures in the healthcare sector, reforming the operations of the loss-making state agencies, rolling back food subsidies (tariff reductions), safeguarding the viability of the pension system and reducing the cost of the noncontributory public pensions; (ii) *on the revenue side*, safeguarding the integrity of the tax system by rationalizing the system of tax exemptions and reinvigorating revenue administration reforms; and (iii) *on the structural side*, increasing the efficiency of public spending through an improved capital budgeting framework and revised procurement legislation, among other; divesting assets, and considering the introduction of a fiscal responsibility framework.

B. Financial System: Maintaining Financial Stability

13. Context. The financial system in Dominica is relatively small among its peers in the ECCU, with about 170 percent of GDP in assets. Like other ECCU countries, banks (one domestic and three foreign) dominate the financial sector but unlike them, credit unions play a much more significant and dynamic role in Dominica given its still agriculture-dependent economy. Credit unions account for a third of total financial system assets and their membership covers 83 percent of the population, the highest penetration in the world. Limited investment opportunities at home led financial institutions to invest available liquidity abroad, in the ECCU financial system and with parent banks in the case of foreign banks. As a result, banks have accumulated a large net foreign assets

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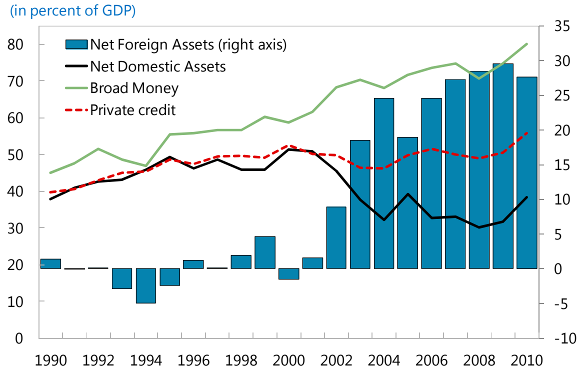
position, from near zero in early 2000s to close to 30 percent of GDP by 2009, the largest among the ECCU.

Dominica's financial system (in percent of GDP, 2010)

	Number	Assets	Loans	Deposits 1/
Onshore financial system	**46**	**174.5**	**99.1**	**155.7**
Banks	4	127.5	66.1	104.0
Local (majority public)	1	68.8	34.1	53.1
Foreign incorporated	3	58.7	32.1	50.9
Credit Unions	10	36.6	23.9	32.4
Development bank	1	10.3	9.1	0.8
Insurance Companies	20	...	...	18.5
Money remittances & other	6	...	...	...
Offshore banks	**3**	**5.6**	...	...

Source: Authorities; World Council of Credit Unions (2009 report).
1/ Liabilities in case of insurance companies, incl. CLICO and BAICO.

DOMINICA: COMMERCIAL BANKS' NFA
(in percent of GDP)



14. Impact of the regional insurance crisis. The January 2009 collapse of the regional insurance company CL Financial Group has exposed Dominica to relatively large potential losses.[9] Latest estimates put the net liabilities of the group in Dominica (after accounting for loss provisioning) at about 11½ percent of GDP, the bulk of which are in non-traditional insurance instruments ("annuities"). These are not likely to have any substantial backing either from existing assets or from the home governments of the group's two subsidiaries—the Barbados-based CLICO (Colonial Life Insurance Company) and the Trinidad and Tobago-based BAICO (British American Insurance Company)—thereby exposing the financial system and the government to contingent losses.

Exposure to CLICO and BAICO
(in percent of 2010 GDP)

	Gross	Provisions	Net
Total	**13.1**	**1.5**	**11.6**
Traditional insurance	**2.4**	**0.0**	**2.4**
Annuities	**10.7**	**1.5**	**9.2**
Banking system	2.4	1.1	1.4
Credit Unions	2.3	0.4	1.9
Social Security	1.2	...	1.2
Other	4.7	0.0	4.7

15. Recent performance. Financial soundness indicators suggest that domestic banks coped relatively well with the weak macroeconomic environment. Modest credit expansion prior to the crisis and ample liquidity limited the accumulation of nonperforming assets. This, together with weaker provisioning against loan losses, explains the resilience of banks' capital ratios, which strengthened to 10.3 percent by end-2010, above the 8 percent minimum regulatory requirement (although significantly below average capitalization levels in the ECCU). Prudential data on credit unions were not immediately available, but several credit unions are likely undercapitalized and some are likely to have been rendered insolvent by their exposure to the regional insurance companies, although provisioning forbearance

[9] For a background on the collapse of the group see IMF Country Report No. 09/175 "Eastern Caribbean Currency Union: 2009 Discussion on Common Policies of Members Countries—Staff Report."

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will shore up reported capital for some time to come.[10]

Selected Financial Soundness Indicators.

	2007	2008	2009	2010	ECCU, 2010
Capital adequacy ratio	9.0	8.9	9.3	10.3	22.6
NPLs	8.1	7.1	5.5	8.7	10.6
Past due loans (%) loans	5.8	6.1	4.4	2.8	3.5
Provisions % NPLs	29.4	21.2	20.6	14.2	24.4
Loan-to-deposit ratio	54.3	58.4	60.4	63.6	88.6
Liquidity ratio 1/	52.3	45.8	44.5	39.7	27.1
Return on average assets 2/	8.1	8.0	11.7	15.0	7.3

1/ Liquid assets (%) of deposits and liquid liabilities.
2/ Interest Income (%) average earning assets.

16. **Vulnerabilities.** Key vulnerabilities stem from exposure to the failed regional insurance companies, other impaired assets abroad, and potential spillovers across segments of the financial system. While some forbearance on credit unions' provisioning for their exposures to the failed companies is unavoidable, its slow pace (5–10 years) risks exposing them to liquidity risk in the absence of an income stream from these assets. Moreover, as credit unions—who are in a weaker financial position than banks and who hold large exposures to the failed companies—have sizeable deposits in the banking system, the spillovers from credit unions to the rest of the financial system may be significant. Finally, the commercial banks' portfolio in the ECCU is notably impaired and presents a potential liquidity and solvency risk. In terms of government contingent liabilities, the situation is also exacerbated by the impaired portfolio of the development bank (with nonperforming loans at 30-35 percent) and by its recent rapid credit expansion, which will expose it to further credit risk.[11]

17. **Policies to ensure financial stability.** Staff welcomed the authorities' increased efforts in the nonbanking system, including passage of the legal framework for the regulation and supervision of nonbanks, of supplementary credit union legislation and drafting of the insurance legislation, as well as strengthening of the Financial Services Unit, the agency responsible for the supervision of nonbanks. At the same time, staff urged a more proactive monitoring and tackling of existing vulnerabilities to ensure that they do not pose risks to macrostability. The authorities recognized the increased vulnerabilities in the financial system and agreed to closely monitor developments in these areas:

- *In the nonbanking system*, staff emphasized the importance of strengthened and more formalized agreements with credit unions for provisioning against exposures to the failed insurance companies, limiting activities until these exposures are written off and increasing capital to rebuild the

[10] Exposures to BAICO and to CLICO will be provisioned for during a 5 and 10 year period, respectively.

[11] All borrowing by the development bank, which finances its on-lending activities, is guaranteed by the government and included in public debt statistics. The bank no longer accepts deposits.

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needed cushions. Staff also suggested that, as the authorities enhance their monitoring of credit unions, including under the newly passed legislation, supervision should be attuned to potential liquidity pressures with a view to preempting liquidity crunches that could spill over to the wider financial system. With regard to the insurance sector, staff continued to support efforts towards a regional resolution of the failed insurance companies provided they aim at avoiding systemic contamination, minimizing fiscal costs to the extent possible, and ensuring equitable treatment of claimants.[12] In the development bank, the accumulation of credit risks should also come under close scrutiny, and the pace of expansion of its loan portfolio restrained in line with its ability to properly evaluate risks and the need to provision for the existing impaired portfolio. The authorities informed the staff that an onsite inspection was underway in the development bank and its findings will guide the authorities' actions in this area.

- *In the domestic commercial banking system*, whose supervision has been delegated to the Eastern Caribbean Central Bank (ECCB), staff suggested that the authorities consider working closely with the ECCB to improve arrangements for information sharing with a view to ensuring adequate and timely access to bank soundness indicators and to any remedial actions required by the supervisors and undertaken by banks. The authorities indicated that, within the existing arrangement with the ECCB, they saw the merit of the suggestion given the contingent liabilities involved for the Dominican government.

- *On the crisis management framework*, staff suggested that the authorities work closely with the ECCB towards strengthening the crisis management framework in the region to: (i) clarify responsibilities for failed financial institutions in the monetary union and strengthen mechanisms for their resolution, in order to avoid inequitable burden-sharing in future cross-border bailouts; and (ii) explore options for a deposit insurance scheme in line with best international practice, to reduce moral hazard from the implicit blanket government guarantee and limit fiscal costs.

[12] In terms of the resolution of the BAICO and CLICO branches in Dominica, the appointment of a judicial manager has already occurred for the former and is awaiting court decision for the latter. The judicial managers' reports will inform and guide decisions on the resolution of the companies, including at the regional level.

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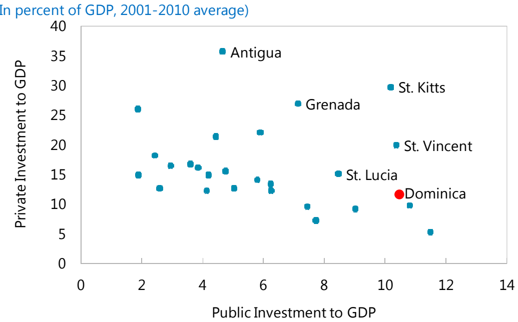
C. Boosting Growth in the Long-Term

18. Key challenges. Dominica faces serious growth challenges: its agriculture-based growth model is ageing, unable to generate activity levels that would boost its income in a sustained manner. It has also been unable to attract sufficient investments to reengineer the model or to transition to other sectors as key growth drivers. Indeed, reliance on public investment has been among the highest in the region but has not yielded the needed results, while private investment has been among the lowest in the region (chart). At the same time, a number of factors compromise Dominica's competitiveness and cannot be offset by a more competitive exchange rate due to participation in the currency union. These include:

Private and Public Investment in LAC and the Caribbean
(In percent of GDP, 2001-2010 average)



Sources: World Economic Outlook and IMF staff calculations.

- *Lack of economies of scale* due to small market size, which creates cost disadvantages, holds back productivity growth, and limits the number of market participants, leading in turn to higher markups due to the emergence of natural monopolies or oligopolies;
- *Shortage of skilled workers*, which constrains the competitiveness of the labor force, forcing businesses to import a significant share of skilled labor;
- *Cumbersome investment and court procedures,* which lead to lengthy delays in the approval of investments or in the recovery of collateral, particularly in cases related to title transfers for land or other properties. Indeed, World Bank's *Doing Business* rankings suggest relative weaknesses in contract enforcement both in terms of time and procedures;
- *Inadequate infrastructure*, which limits access to and across the island, a byproduct of a rugged terrain and limited fiscal space for undertaking large scale capital projects. The high cost of electricity due to terrain-related distribution hurdles and inefficient generation also add to production costs;
- *Provisions in labor market regulations*, which impose undue restrictions, at least *de jure*, on hours worked, type of labor employed, and firing;
- *Customs and trade regulations* that add to the cost of imports, on which Dominica relies for most of its production inputs, through high tariffs vis-à-vis countries outside the CARICOM customs union,

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- import monopolies and import restrictions under CARICOM trade agreements.

19. Competitiveness. Potential competitiveness issues are also suggested by quantitative assessments of the real effective exchange rate (Annex III). Two of the three methods used to assess the exchange rate—namely those based on comparing the projected current account with a "norm" based on the country's demographic, growth or external debt profile—suggest an overvaluation of the real effective exchange rate in the range of 25–34 percent.

20. Policies to boost growth. Boosting Dominica's competitiveness and its long-term growth prospects will require a concerted policy effort. While the government will continue to play an important role in meeting infrastructure needs to attract private capital and facilitate access throughout the island, its ability to directly support growth will be seriously constrained by the need to return to a prudent fiscal stance and ensure debt sustainability. Thus, efforts will need to focus on creating and maintaining an environment propitious for private sector investments, which should take over as the main engine for growth. This will require, *inter alia*:

a. *Improving the institutional and regulatory environment for investments*, with a view to reducing red tape, simplifying the investment approval process, introducing time limits for government approval of investment applications, improving land tenancy arrangements, and reforming the government procurement system (draft procurement legislation has been approved by the government).

b. *Improving flexibility of labor and product markets,* which are important to safeguard competitiveness under the common currency arrangement. This would require, *inter alia*, a review of the labor regulations with a view to removing undue restrictions where they exist, and working with the regional authorities towards reducing protectionism by ensuring that tariff and nontariff barriers are not unduly high to hinder competitiveness.

c. *Increasing access to credit* by removing both price and non-price impediments to credit availability. This would require working closely with the regional governments and the ECCB to (i) remove the 3 percent floor on bank saving deposits so as to lower financing costs for the private sector, and (ii) establish a credit registry, which would facilitate bank lending decisions through easy access to credit information. Ensuring an adequate provisioning for impaired assets in the financial system will also help free resources available for lending.

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d. *Improving public infrastructure* will also be critical in boosting long-term growth, both through its direct impact on the capital stock and through its competitiveness-enhancing effects. However, to increase its hitherto low growth dividend, the effectiveness of public investment spending needs to be boosted through reforms of the capital budgeting framework to improve the evaluation, prioritization and monitoring of investment projects.

STAFF APPRAISAL

21. **Dominica has managed the crisis well, but the recovery has been lackluster and growth prospects remain weak**. The fiscal stimulus during the crisis helped the country avoid a deep recession, but tepid demand in advanced countries (Dominica's main tourist source), weak competitiveness and lack of clear growth drivers have led to a slow recovery and will constrain future growth.

22. **While appropriately supportive during the crisis, fiscal policies need to be returned to a sounder footing to correct the weakening fiscal position.** Staff welcomes the authorities' plan to start withdrawing the fiscal stimulus in FY 2011 but underscores the importance of a close monitoring of fiscal developments with a view to ensuring that the budget's primary deficit target of 0.6 percent of GDP for FY 2011 will be achieved. Given weakening revenues, staff believes that achieving the authorities' target will necessitate additional fiscal measures beyond those envisaged in the budget. In this context, staff urges the authorities to contain the growth in current spending, as this reduces space for investment critical for future growth and makes further fiscal corrections more difficult in light of the likely permanent nature of the spending increase.

23. **The adjustment effort will need to continue over the next few years**, as debt levels remain uncomfortably high and current policies do not provide sufficient assurances that debt would remain on a downward path given the country's exposure to external and natural disaster shocks. In this regard, staff welcomes the authorities' commitment to the primary surplus target of 2.4 percent of GDP by FY 2013 and encourages them to develop a clear plan for achieving it. This long-standing fiscal objective has served the authorities well in the past and achieving it will help put the public debt back on its downward path, preserve the hard-earned confidence in the country's fiscal management, and improve its ability to cope with future shocks. In this context, staff suggests focus on reining in current spending, safeguarding revenues, and

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ensuring sustainability of the adjustment efforts through structural reforms. Achievement of the FY 2011 fiscal targets will be an essential stepping stone and will boost fiscal policy credibility.

24. Increased vigilance is needed to safeguard against financial stability risks. Impaired investments in the failed insurance companies and other regional institutions are creating solvency and potential liquidity pressures. The authorities' efforts to improve the regulation and supervision of nonbank institutions are commendable, but renewed efforts to identify and counteract sources of risks in the financial system are needed, including through (i) strengthened monitoring of credit unions, and a stricter enforcement of the newly legislated provisioning and capital requirements; and (ii) improved information-sharing arrangements with the ECCB, the bank supervisor, to allow the authorities to monitor risks in the banking system.

25. Improving growth prospects will require wide-ranging structural reforms. These should focus on increasing the country's capacity to attract and absorb private investments, especially through swift reforms of the regulatory environment for investments. The upcoming review of the government's medium-term *Growth and Social Protection Strategy* will provide a good opportunity to articulate a strong strategy of dealing with existing obstacles to growth.

26. Increased engagement with the Fund may be useful. While Dominica does not face an immediate financing need, the narrowing space to handle economic and natural disaster shocks and the need for policy correction suggest that such an engagement could be beneficial. Staff indicated that it stands ready to engage should the authorities deem appropriate.

27. Staff recommends that the next Article IV consultation be held on the standard 12-month cycle.

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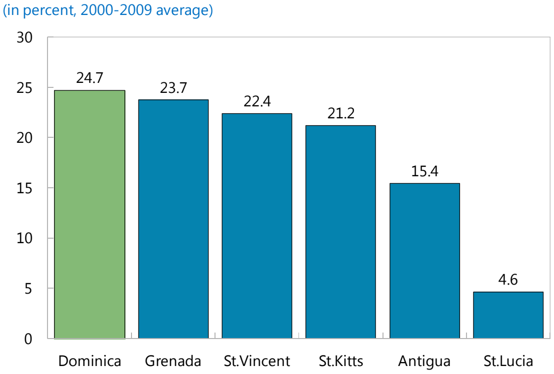
ANNEX I. REBASING OF THE NATIONAL ACCOUNTS

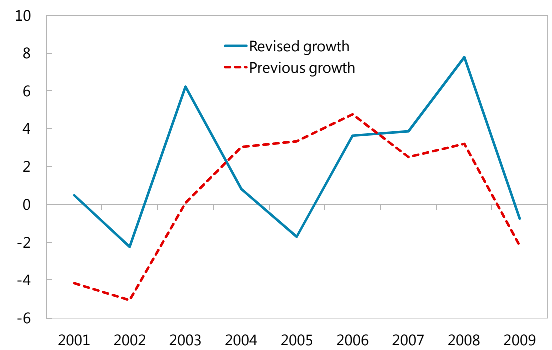
1. **The national accounts of the ECCU member countries, including Dominica, were rebased in early 2011**. The revisions show higher levels of GDP than previously estimated due to changes in the structure of the economy (the base year relative to which GDP is compiled has been changed from 1990 to 2006), broader coverage of a number of activities, and improved estimation procedures. As a result of the revisions, other economic and fiscal indicators expressed as ratios to GDP were affected.

ECCU: NOMINAL GDP REVISIONS
(in percent, 2000-2009 average)



2. **The revisions were the largest in Dominica,** where the level of nominal GDP was revised upward by about 25 percent on average for 2000–2009 due to broader coverage of the services sector, including self-employment, offshore education and communications. The revisions suggest that growth rates in Dominica were about three times higher than estimated earlier, reaching 2 percent during 2001–09. The 2001–02 recession appears now much shallower than previously estimated and the revised data identified another downturn in the cycle during 2004–05, due to an across-the-board decline in production and a retrenchment in government consumption during 2003–04.

DOMINICA: REAL GDP GROWTH REVISIONS
(in percent)



3. **The increase in nominal GDP levels following its rebasing affected the fiscal ratios to GDP, including the fiscal targets**. The primary surplus fell from an average of 4½ percent of GDP during 2003–09 to 3½ percent under the rebased accounts. In particular, the 3 percent primary surplus target that underpinned the authorities' fiscal policy making since 2003 is equivalent to a 2.4 percent of GDP surplus under the new GDP. Debt levels also dropped proportionately, with the mid-2011 levels revised from about 85 percent of GDP to about 67 percent, close to the ECCU-wide debt target of 60 percent that the monetary union countries were aiming to reach by 2020.

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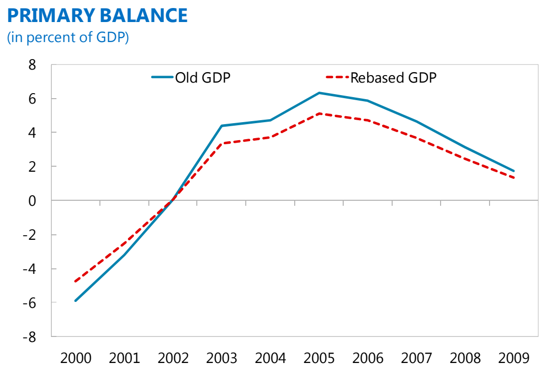

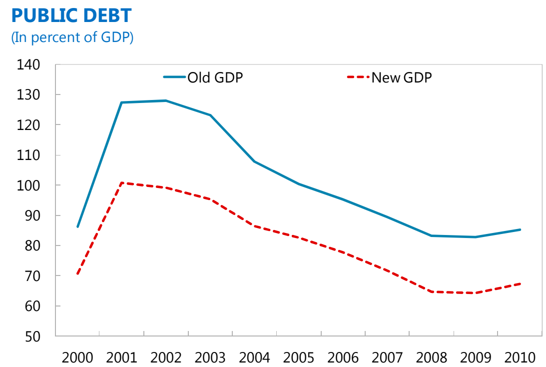

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ANNEX II. FISCAL ADJUSTMENT MEASURES

In order to ensure a return to the fiscal anchor of 2.4 percent of GDP primary surplus, the authorities could consider a number of options, including:

On the expenditure side

a. *Rationalizing and targeting the social assistance programs*. There are about 30 social assistance programs in Dominica. In an effort to improve the ability of these programs to target the poor, improve coordination and avoid overlap, the government is putting in place a beneficiary identification and registry system, and new proxy means testing that will be rolled out in three pilot programs this year. This is a step in the right direction, but a broader review of the social assistance strategy is needed to eliminate duplication and rationalize the programs. As administrative capacity develops, the authorities intend to make the provision of social assistance conditional on human capital development (such as school or health clinic attendance); a pilot jurisdiction for such a program has been identified.

b. *Addressing the spending pressures in the healthcare sector*. Public spending on healthcare is among the highest in the ECCU region and is rising fast. Staff suggested reforms to address emerging financing constraints, including by identifying permanent funding sources, such as strengthened co-pay, eliminating pay exemptions, and/or introducing a small "piggy back" charge to social security contributions.

c. *Reforming the operations of the loss-making state agencies*, such as the water and sewerage company and the airport and sea authorities, to set them on a sounder footing by increasing charger fees to support their activities and rationalizing their spending. Without reforms, these agencies will become an increasing burden on the government.

d. *Rolling back food subsidies* (tariff reductions) introduced during the 2007-08 food crisis, as soon as prices subside.

e. *Safeguarding the viability of the pension system*. The social security system is financially unsustainable, the benefits are already exceeding contributions, and liquid reserves will be depleted within three years—this presents a significant

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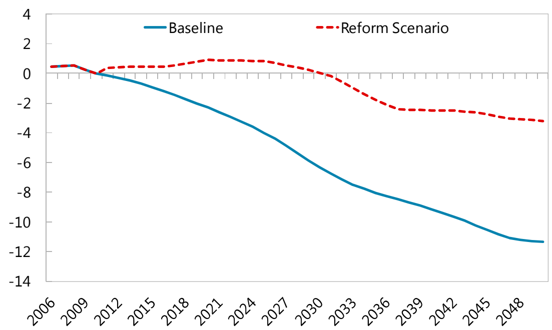
contingent liability for the government and a liquidity risk in the near term because of the government's limited market access. Urgent reforms are needed to increase the retirement age (from 60 to 65) and increase the contribution rate by one percentage point, both reforms suggested by previous actuarial reviews.

PENSION SYSTEM: NET CASH FLOWS

(in percent of GDP)



Source: Dominica authorities and Fund staff estimates.

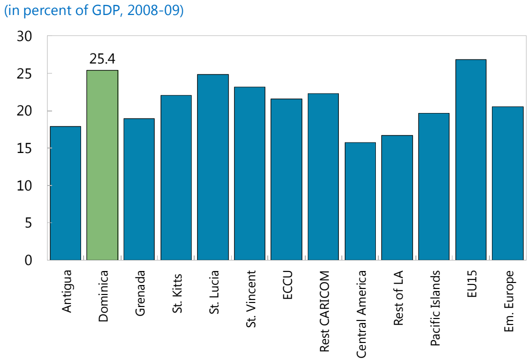
f. *Reducing the cost of the noncontributory public pensions*. Savings in pension spending could be achieved by making the public service pension contributory and reducing the replacement rate to make it complementary to the Dominica Social Security system (DSS) by yielding a reasonable combined replacement rate. In the context of a likely future increase in the private pension retirement age, pensions to bridge civil servants from the lower retirement age in the public sector to the DSS-eligible age would be avoided by harmonizing the retirement age of the public system with that in DSS.

On the revenue side:

g. *Safeguarding the integrity of the tax system*. Tax revenues in Dominica are comparable to those in many emerging countries, in part due to the success of the VAT and excise duty regime introduced in 2006. Protecting the integrity of the tax base is important as pressures for granting tax exemptions and holidays will remain strong, and consideration should be given to strategically reviewing and rationalizing the system of exemptions and incentives with a view to reducing their fiscal cost.

TAX REVENUES

(in percent of GDP, 2008-09)



h. *Reinvigorating revenue administration reforms*. Authorities' recent customs administration reforms produced strong results. The legislative framework and the IT systems of customs—which collects about a half of tax revenues—has been modernized during 2010; more recent efforts focused on trade facilitation and service by way of reducing the costs of doing business. The mission supported the authorities' intent to refocus their efforts

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on strengthening tax administration at the Inland Revenue department, with assistance from CARTAC. Current plans include strengthened audit capacity; a medium-term move towards an organization based on function and taxpayer size (rather than tax type) to improve the focus and efficiency of tax collections; and the integration of the customs and Inland Revenue department over the long term.

On fiscal structural reforms:

i. *Increasing the efficiency of public spending through public financial management reforms*, by: (i) enacting revised procurement legislation to ensure effective and transparent use of scarce resources; (ii) strengthening the capital budgeting framework, to ensure adequate evaluation, prioritization and monitoring of public infrastructure projects; (iii) strengthening the external and internal audit functions in the government; and (iv) finalizing the move to a system of electronic payments to suppliers and social assistance beneficiaries, which will help reduce costs and allow a more efficient cash management.

j. *Divesting assets*, such as land or shares in companies.

k. *Introducing a fiscal responsibility framework to underpin the entire system of government finances and uphold fiscal discipline*. The framework would help: (i) formalize the government's primary surplus target and link it to the debt sustainability objectives, thereby helping achieve the target through the cycle until debt converges to comfortable levels; (ii) introduce financial reporting requirements for entities outside the central government, especially for state agencies, thereby strengthening fiscal reporting at the consolidated level and monitoring of contingent liabilities; and (iii) strengthen multiannual budgetary planning, among other.

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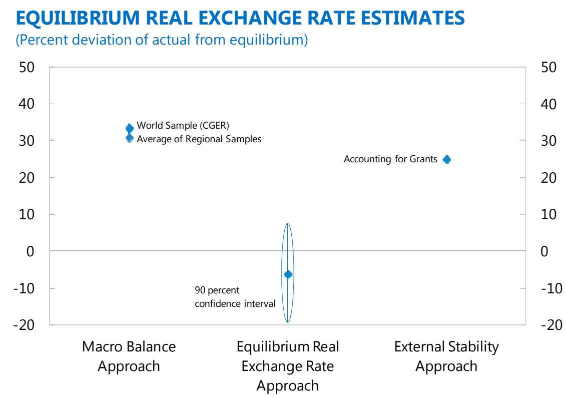
ANNEX III. REAL EFFECTIVE EXCHANGE RATE AND EXTERNAL COMPETITIVENESS

Exchange rate assessment. Despite the nominal exchange rate peg to the U.S. dollar for the last 35 years, quantitative estimates do not provide unambiguous indications that the exchange rate is overvalued. One of the three CGER-type methods used suggests a possible slight undervaluation, with the other two indicating an overvaluation in the range of 25-34 percent.

- Results from the *equilibrium real exchange rate* approach—which looks at fundamentals believed to affect the equilibrium real exchange rate—suggest no misalignment or even a slight undervaluation. Both the equilibrium and the actual exchange rates depreciated over time in line with declining growth and productivity, terms of trade and government consumption. Nevertheless, the real effective exchange rate may not be the most relevant measure of the country's competitiveness given the nominal peg to the U.S. dollar and the largely imported inflation (imports account for about 60 percent of GDP).

- The *macro-balance approach*—comparing the projected current account balance with the savings-investment balance determined by fundamentals such as demographic/income status, aid flows and fiscal position—yields a wide range of estimates depending on the sample, with an average overvaluation of about 32 percent.[13]

- Results from the third method, looking at *external sustainability*, indicates that stabilizing external debt would require a



[13] Two methodologies were used for the macro-balance approach. One is based on the CGER methodology, using a sample of 184 countries. The second methodology focuses on a sample of 24 Caricom and other tourism-dependent countries, following Emilio Pineda, Paul Cashin, and Yan Sun, "Assessing Exchange Rate Competitiveness in the Eastern Caribbean Currency Union," IMF Working Paper WP/09/78, 2009. In addition to sample, there are some differences in regressors (with the latter methodology including FDI but excluding relative old age dependency, relative population growth, initial net foreign assets and remittances).

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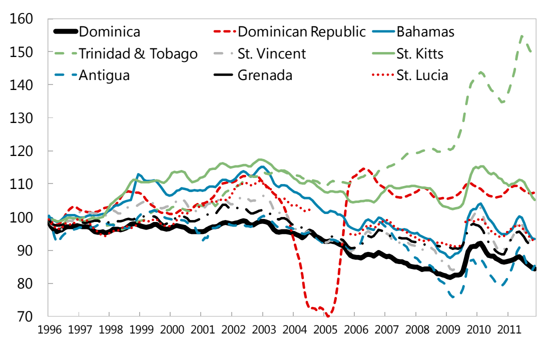
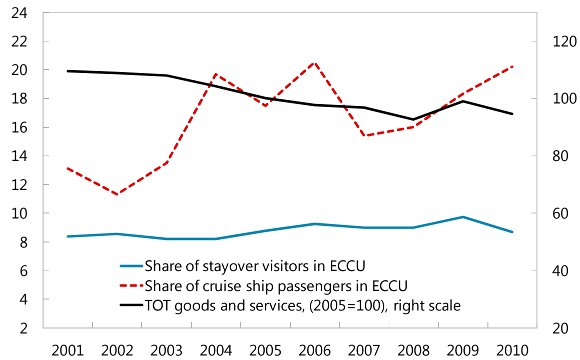
real exchange rate depreciation of about 25 percent relative to the 2010 average.[14]

Developments. Beyond these model-based estimates, existing indicators of competitiveness are mixed as well. The real effective exchange rate depreciated over the past two years, alongside the U.S. dollar, and the share of Dominica's cruiseship arrivals has increased during the past two years, indicating improved competitiveness. At the same time, the share in stayover arrivals has recently decreased, the prospects for cruiseship tourism are also likely to dim with recent cancellation of a cruiseship line, and the terms of trade are deteriorating with renewed pressures on world food and fuel prices.

REAL EFFECTIVE EXCHANGE RATE
(Jan 1995=100, CPI-based, SA)



SELECTED COMPETITIVENESS INDICATORS



[14] In the absence of data on international investment position, estimates are based on the external debt-stabilizing current account from the IMF template on external debt sustainability analysis.

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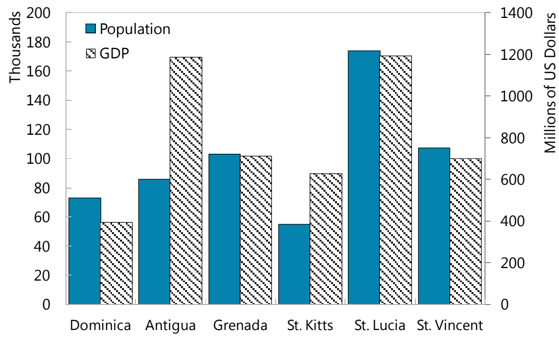
Figure 1. Dominica: Regional Comparisons

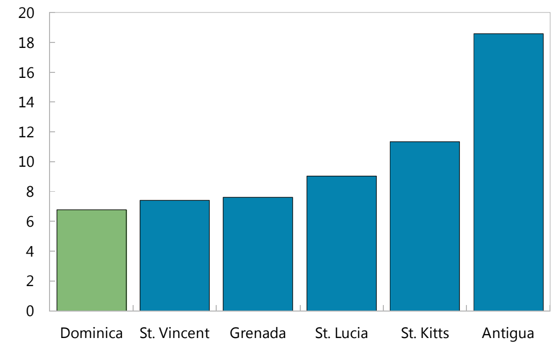
Within the ECCU, Dominica is relatively small by population and size of the economy,...

Population and GDP
(2010)



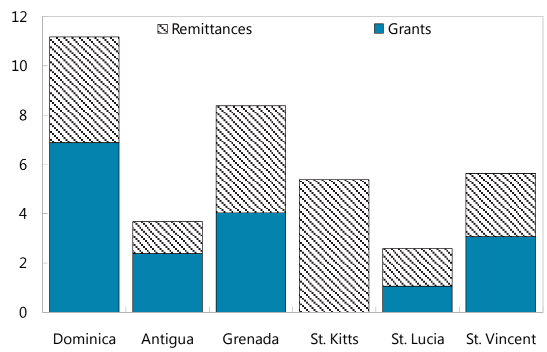
...and has the lowest per capita GDP, ...

Real GDP Per Capita
(In thousands of EC Dollars, 2010)



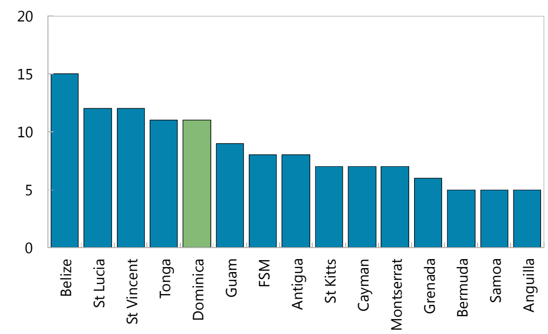
....rendering it highly dependent on grants and remittances.

Grants and Remittances
(Percent of GDP, 2000-10 average)



Like other Caribbean countries, Dominica is highly vulnerable to natural disasters,...

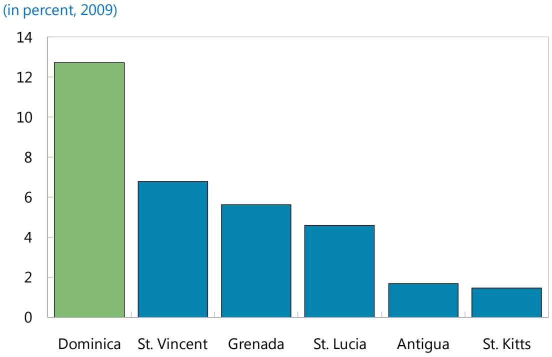
Number of Events Between 1970 and 2008 1/



1/ 15 countries with the highest number of events in a sample of 190 countries.

...which, given its high dependency on agriculture, are particularly costly.

Share of Agriculture in Real GDP
(in percent, 2009)



Tourism is relatively underdeveloped, and relies mostly on cruiseship rather than stayover tourism.

Passengers Per Inhabitant
(2009)

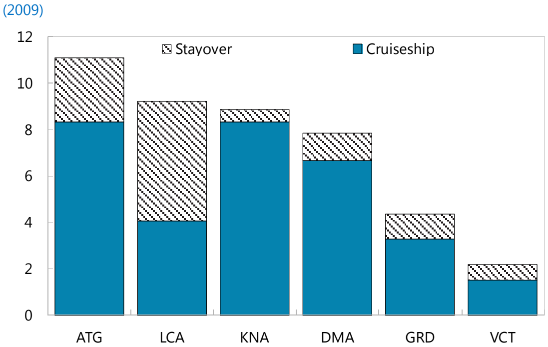


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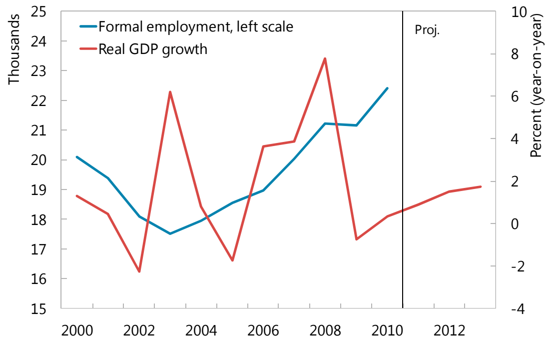
Figure 2. Dominica: Selected Economic Indicators

Dominica has shown resilience to the crisis, but growth is projected to remain subdued.

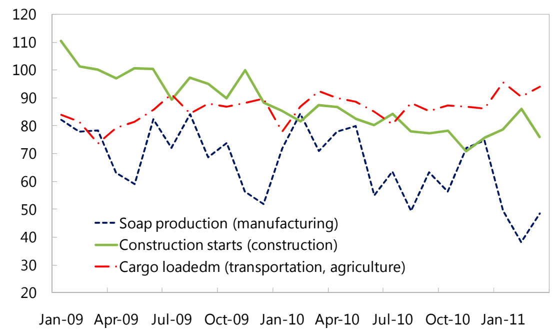
Growth and Employment



Short-term indicators point to an incipient recovery in some sectors,...

Short-term indicators of economic activity

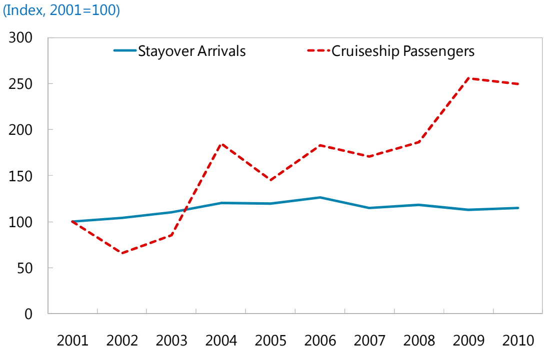
Indices, 2009=100, SA



...but the end-2010 cancellation of a cruiseship dampens prospects for tourism and related sectors.

Stayover Arrivals and Cruiseship Passengers

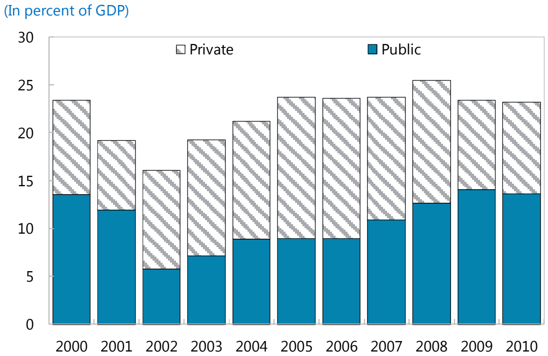
(Index, 2001=100)



Investment was shored up during the past several years by increased public infrastructure spending,...

Domestic Investment

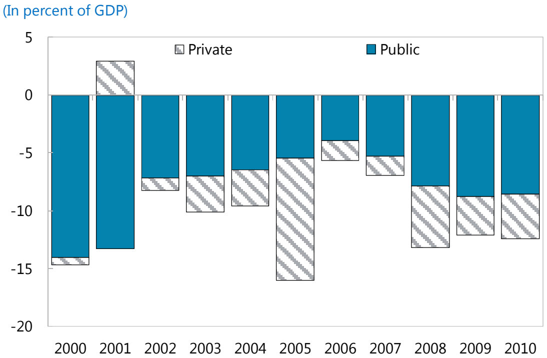
(In percent of GDP)



...which contributed to a deterioration of public, and consequently economy-wide, savings-investment balances.

Savings-Investment Balance

(In percent of GDP)



Inflation has remained subdued so far, but is projected to pick up in the second half of 2011 with world commodity prices.

Inflation

(in percent, year-on-year)

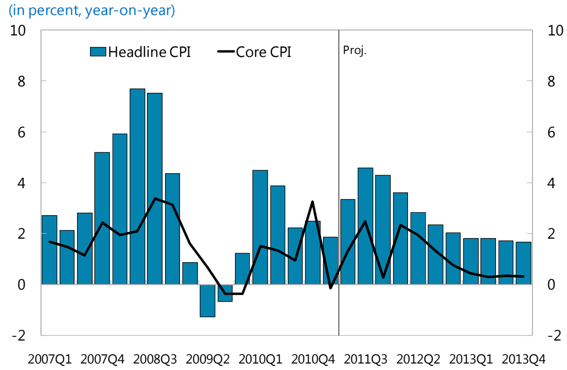


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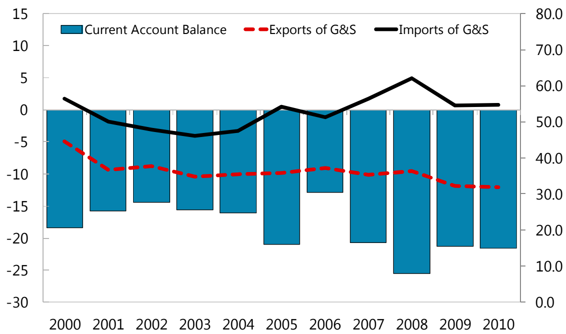
Figure 3. Dominica: External Sector Developments

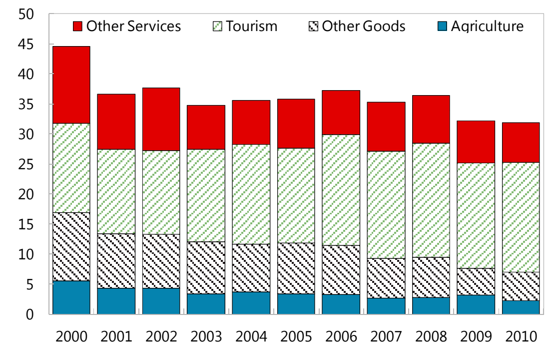
The current account has improved slightly in 2009-10…

Current Account, Exports and Imports
(In percent of GDP)



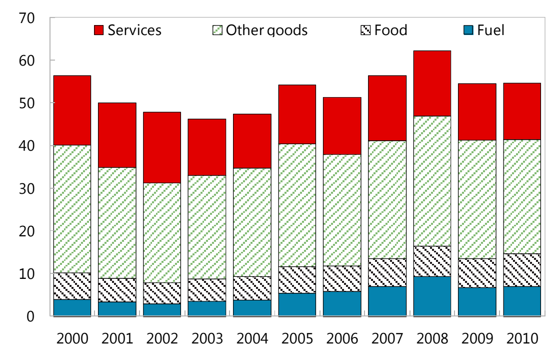
…despite declines in manufacturing exports and sluggish growth in tourism,…

Exports of goods and services
(In percent of GDP)



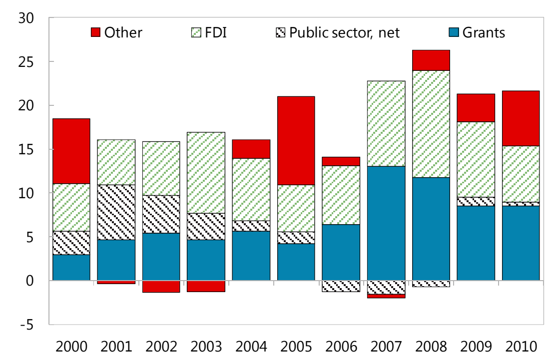
…supported by lower imports due to favorable commodity prices and a fall in FDI and grants.

Imports of goods and services
(In percent of GDP)



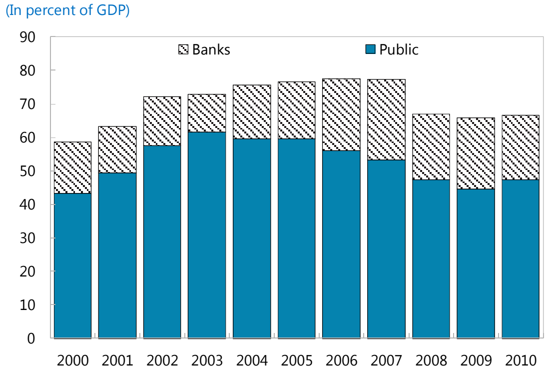
FDI and grants financed more than half of the current account, ….

Financing of the current account
(In percent of GDP)



…allowing, together with the fiscal consolidation, a decrease in external debt.

External debt
(In percent of GDP)



Relative to its ECCU neighbors, Dominica has the highest grants and the lowest FDI.

Grants and FDI in the ECCU
(2010 data, in percent of GDP)

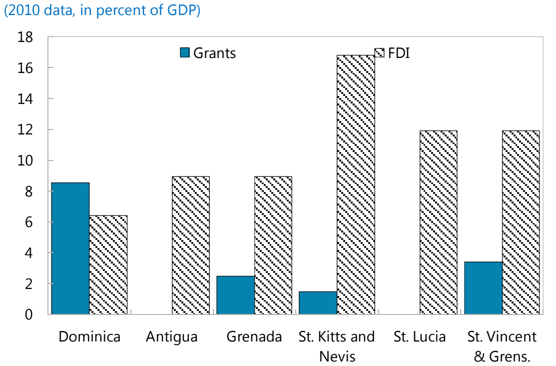


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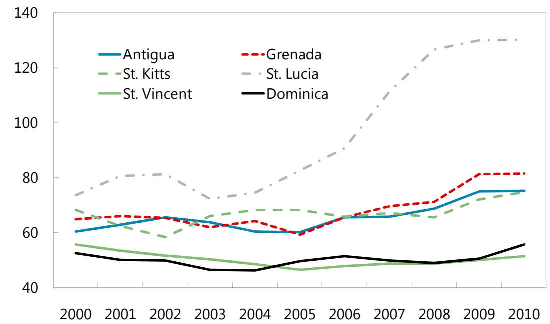
Figure 4. Dominica: Monetary and Financial Developments

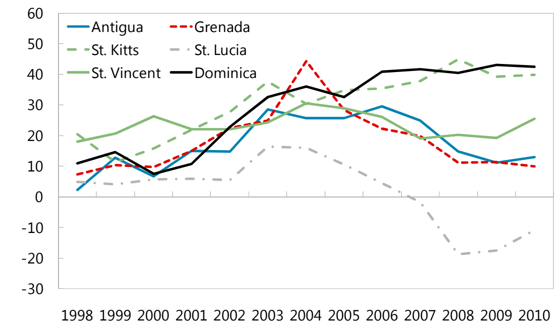
Private credit grew through the crisis, although it remains among the lowest in the ECCU,

Private Sector Credit
(Percent of GDP)



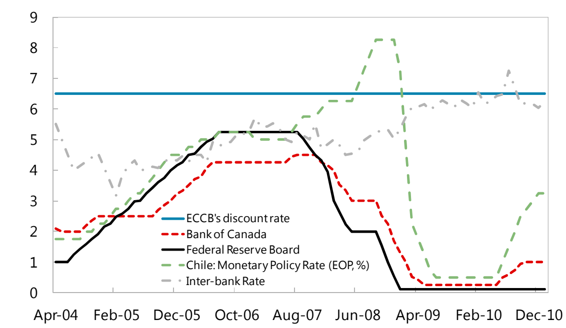
... with banks choosing to invest mostly abroad.

Net Foreign Assets
(Percent of GDP)



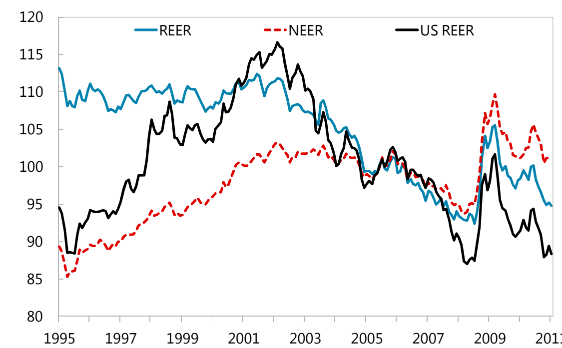
Interest rates have not followed the decline in world rates, ...

Interest Rates
(Percent)



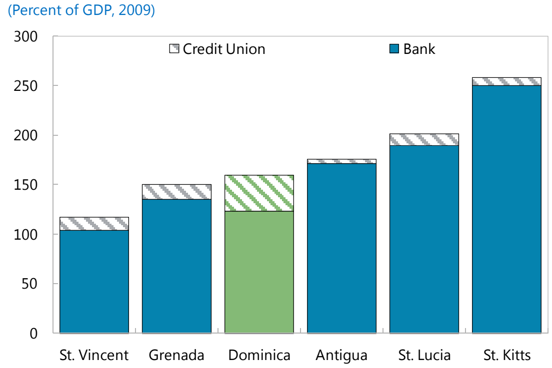
...although the real effective exchange rate provided some relaxation in the monetary conditions during the crisis.

Real and Nominal Effective Exchange Rate Indices
(CPI-based, SA)



Credit unions became important financial intermediaries, significantly more so than in the rest of the ECCU,

Bank and Credit Union Assets
(Percent of GDP, 2009)



...and their membership penetration is among the highest in the world.

Credit Unions
(Percentage of Members to Total Population)

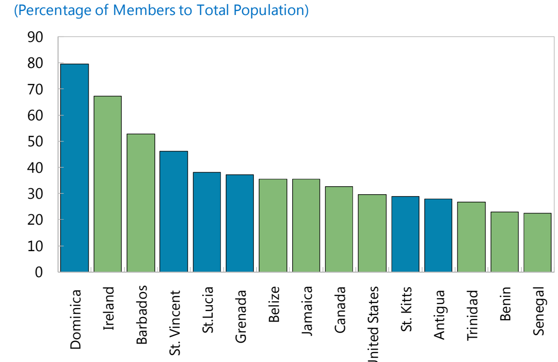


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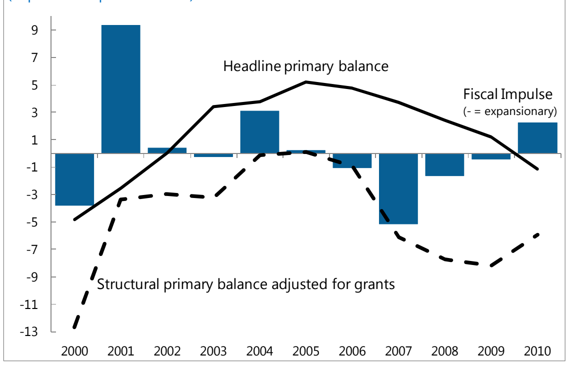
Figure 5. Dominica: Fiscal Developments

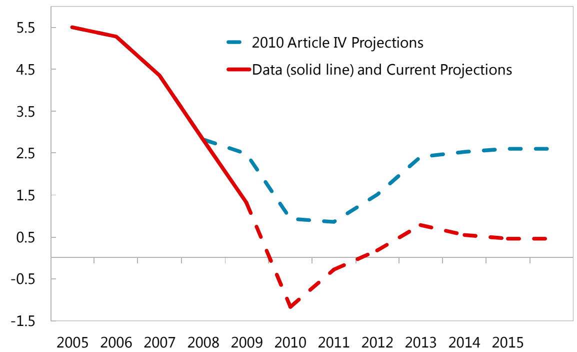
Strong fiscal performance over the decade afforded a significant fiscal stimulus during the global crisis.

Primary Balances and Fiscal Impulse
(In percent of potential GDP)



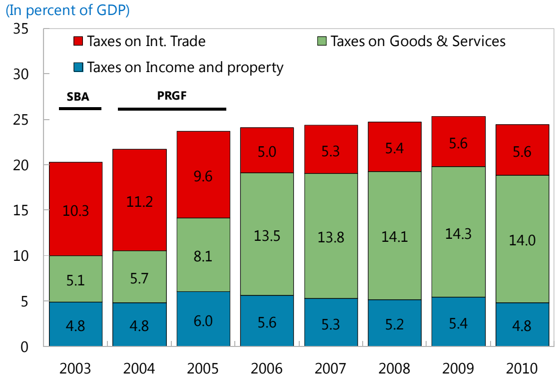
However, the projected primary balance has deteriorated more than anticipated earlier…

Dominica: Primary Balance
(In percent of GDP)



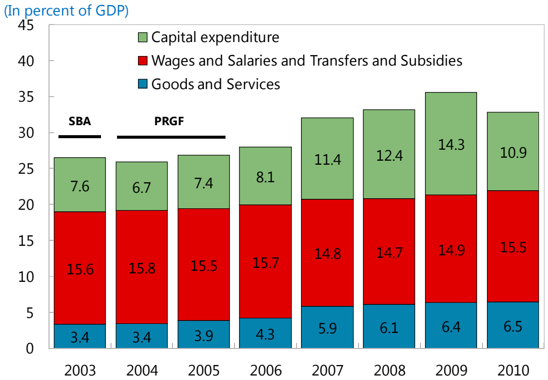
…on account of weakening tax revenues…

Tax Revenue
(In percent of GDP)



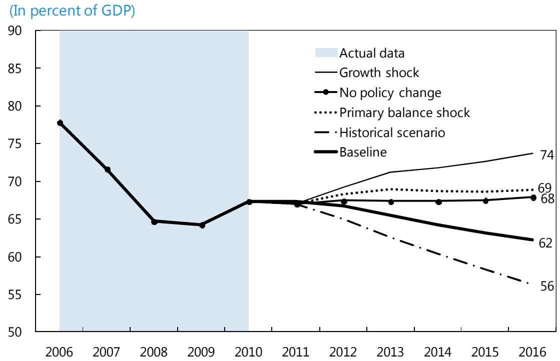
…and increasing current and capital spending.

Primary Expenditure
(In percent of GDP)



Under current policies, debt profile would not provide sufficient assurances of a continued decline in debt ratio given the country's exposure to external risks.

Public Debt Sustainability Scenarios [1/]
(In percent of GDP)



[1/] Individual shocks are permanent one-half standard deviation shocks.

Dominica has not accessed private bond markets yet, its debt held largely by multilaterals, bilaterals, social security and banks.

Composition of public sector debt
(In percent of total)

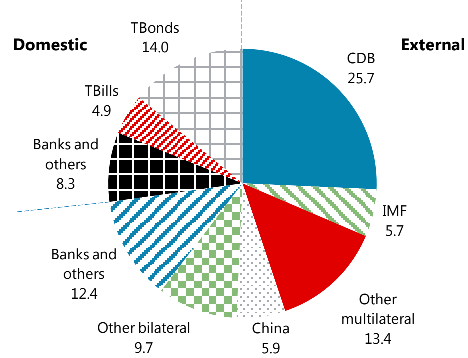


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Table 1. Dominica: Selected Economic and Social Indicators

I. Social and Demographic Indicators

Area (sq. km.)	754.0	Adult literacy rate (percent, 2004)	88
Population (2009)		Unemployment (including discouraged)	14.0
Total	71,785	Unemployment rate (excl. discouraged)	9.8
Annual rate of growth (percent)	0.5		
Density (per sq. km.)	95.2	Gross Domestic Product (2009)	
Population characteristics		(millions of E.C. dollars)	1,297
Life expectancy at birth (years, 2006)	74.1	(millions of U.S. dollars)	480
Infant mortality (per thousand live births, 2006)	13.0	(US dollars per capita)	6,691

II. Economic Indicators 1/

				Est.	Proj.					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	(Annual percentage change, unless otherwise specified)									
Output and prices										
Real GDP	3.9	7.8	-0.7	0.3	0.9	1.5	1.8	2.2	2.3	1.9
Consumer prices (end of period)	6.0	2.1	3.1	2.1	3.8	2.3	1.7	1.7	1.8	2.1
Consumer prices (period average)	3.2	6.4	0.0	3.3	4.2	1.9	1.8	1.8	1.8	2.0
Output gap	-0.6	5.1	2.3	0.7	-0.2	-0.5	-0.6	-0.3	0.1	0.0
Real effective exchange rate										
(period average, depreciation -)	-3.2	0.9	5.0	-2.9	…	…	…	…	…	…
	(In percent of GDP, unless otherwise specified)									
Savings-Investment Balance 2/	-6.9	-13.1	-12.1	-12.4	-17.3	-16.5	-15.0	-13.5	-12.7	-11.9
Savings	16.8	12.4	11.3	10.8	4.7	4.9	6.1	7.3	8.2	8.9
Investment	23.8	25.5	23.4	23.2	22.0	21.4	21.1	20.7	20.8	20.8
Central government 3/ 4/										
Revenue and grants, *of which:*	35.8	35.6	36.9	31.7	31.4	30.6	30.2	30.1	30.0	30.0
Revenues	26.7	26.7	28.0	27.1	26.4	26.1	25.8	25.5	25.5	25.5
Grants	9.1	8.9	8.8	4.7	5.0	4.5	4.5	4.5	4.5	4.5
Total expenditure	34.0	34.9	37.0	34.3	33.1	31.9	31.0	31.0	31.0	31.0
Primary balance	3.7	2.4	1.2	-1.2	-0.3	0.1	0.7	0.4	0.4	0.4
Overall balance	1.8	0.7	-0.2	-2.6	-1.7	-1.4	-0.8	-1.0	-1.0	-1.0
Public sector debt (gross) 5/	71.7	64.7	64.2	67.3	67.3	66.7	65.4	64.2	63.1	62.2
External	50.9	45.4	45.0	49.0	49.2	48.9	48.0	47.2	46.4	45.9
Domestic	20.7	19.3	19.3	18.3	18.2	17.9	17.5	17.0	16.7	16.3
Money and credit	(Annual percentage change)									
Broad money (M2)	9.7	4.3	10.0	6.1	4.2	4.1	3.6	3.8	4.1	4.0
Credit to the private sector	4.9	8.3	6.9	9.5	4.7	3.9	3.5	3.9	4.1	4.0
Balance of payments	(In percent of GDP)									
Current account balance	-20.8	-25.6	-21.3	-21.6	-22.4	-21.6	-20.1	-18.5	-17.7	-17.0
Trade balance	-31.8	-37.5	-33.6	-34.5	-35.0	-34.2	-33.0	-31.7	-31.1	-30.6
Services balance	10.7	11.8	11.2	11.6	11.5	11.6	12.0	12.2	12.4	12.5
Capital and financial account balance 6/	19.8	23.7	18.8	20.0	22.6	21.8	20.3	18.7	17.9	17.2
FDI	9.7	12.2	8.6	6.4	6.5	6.6	6.7	6.8	6.9	7.0
Capital grants	13.1	11.8	8.5	8.5	5.5	4.5	4.5	4.5	4.5	4.5
Other	-2.9	-0.3	1.6	5.1	10.6	10.6	9.1	7.4	6.5	5.6
External debt (gross) 7/	77.4	67.0	66.0	67.5	72.4	77.4	81.4	82.5	82.3	81.2
Current account balance including net capital transfers	-6.9	-13.1	-12.1	-12.4	-16.4	-16.5	-15.0	-13.4	-12.6	-11.9
Memorandum items:										
Nominal GDP at market prices (EC$ millions)										
Calendar year	1,131	1,248	1,297	1,285	1,324	1,371	1,419	1,475	1,536	1,596
Net imputed international reserves										
(U.S. dollars millions; end-of-period)	60.4	55.1	64.5	66.4	67.3	68.2	69.1	70.0	71.0	72.1

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

1/ Historical revisions of many indicators reflect a rebasing of national accounts in early 2011, affecting the GDP and ratios to GDP.
2/ Based on current account balance including net capital transfers.
3/ Fiscal year (July–June) basis. Figures shown for a given calendar year relate to the fiscal year beginning on July 1 of that year.
4/ Does not include grants that were received but not spent.
5/ Includes central government liabilities to Dominica Social Security.
6/ Including errors and omissions.
7/ Comprises public sector external debt, foreign liabilities of commerical banks and other private debt.

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Table 2. Dominica: Summary Accounts of the Central Government[1/]

	2007	2008	2009	2010	2011		2012	2013	2014	2015	2016
					Draft Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of Eastern Caribbean dollars)										
Total revenue and grants	**425.8**	**453.2**	**476.1**	**414.1**	**434.6**	**423.2**	**426.5**	**437.4**	**452.6**	**469.4**	**486.7**
Revenues	318.0	339.4	362.0	353.0	366.6	355.3	363.7	372.9	384.6	398.7	413.4
Tax revenue	289.3	313.7	327.0	318.4	327.6	325.0	332.3	340.4	350.7	363.5	376.9
Income	52.5	54.8	60.9	55.4	54.1	57.2	59.2	61.4	63.9	66.5	68.9
Property	10.0	10.9	8.9	7.5	8.5	7.8	8.1	8.4	8.7	9.1	9.4
Domestic goods and services	164.1	179.5	185.2	182.8	192.3	189.0	193.4	198.3	204.4	211.9	219.7
International trade and transactions	62.7	68.6	72.0	72.6	72.7	71.0	71.6	72.3	73.7	76.0	78.8
Nontax revenue	27.9	25.4	33.9	33.1	32.0	28.7	29.7	30.8	32.0	33.3	34.5
Capital revenue	0.8	0.3	1.1	1.6	7.1	1.6	1.7	1.8	1.8	1.9	2.0
Grants 2/	107.8	113.8	114.1	61.0	67.9	67.9	62.8	64.5	68.0	70.7	73.3
Total expenditure	**404.5**	**444.3**	**478.2**	**447.6**	**445.0**	**446.6**	**445.4**	**448.7**	**467.1**	**485.3**	**502.8**
Current expenditure	269.1	287.0	293.3	305.4	319.9	320.9	332.1	344.3	357.6	371.4	384.7
Wages and salaries	117.7	123.5	126.2	135.7	144.5	144.5	149.6	155.2	161.4	167.9	174.0
Goods and services	70.5	78.1	82.7	85.0	90.2	90.2	93.3	96.8	100.7	104.8	108.6
Interest	22.7	21.9	17.8	18.5	18.7	19.7	20.4	20.9	21.2	21.5	21.9
Transfers and subsidies	58.3	63.6	66.6	66.2	66.5	66.5	68.9	71.4	74.3	77.3	80.1
Capital expenditure and net lending	135.3	157.3	184.9	142.2	125.1	125.7	113.2	104.4	109.5	113.9	118.1
Primary balance	**44.0**	**30.8**	**15.7**	**-15.0**	**8.3**	**-3.6**	**1.5**	**9.6**	**6.6**	**5.7**	**5.9**
Overall balance	**21.4**	**9.0**	**-2.1**	**-33.5**	**-10.4**	**-23.4**	**-18.9**	**-11.2**	**-14.5**	**-15.9**	**-16.1**
	(In percent of GDP) 3/										
Total revenue and grants	**35.8**	**35.6**	**36.9**	**31.7**	**32.2**	**31.4**	**30.6**	**30.2**	**30.1**	**30.0**	**30.0**
Revenues	26.7	26.7	28.0	27.1	27.2	26.4	26.1	25.8	25.5	25.5	25.5
Tax revenue	24.3	24.7	25.3	24.4	24.3	24.1	23.8	23.5	23.3	23.2	23.2
Income	4.4	4.3	4.7	4.2	4.0	4.2	4.2	4.2	4.2	4.2	4.2
Property	0.8	0.9	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Domestic goods and services	13.8	14.1	14.3	14.0	14.3	14.0	13.9	13.7	13.6	13.5	13.5
International trade and transactions	5.3	5.4	5.6	5.6	5.4	5.3	5.1	5.0	4.9	4.9	4.9
Nontax revenue	2.3	2.0	2.6	2.5	2.4	2.1	2.1	2.1	2.1	2.1	2.1
Capital revenue	0.1	0.0	0.1	0.1	0.5	0.1	0.1	0.1	0.1	0.1	0.1
Grants 2/	9.1	8.9	8.8	4.7	5.0	5.0	4.5	4.5	4.5	4.5	4.5
Total expenditure	**34.0**	**34.9**	**37.0**	**34.3**	**33.0**	**33.1**	**31.9**	**31.0**	**31.0**	**31.0**	**31.0**
Current expenditure	22.6	22.6	22.7	23.4	23.7	23.8	23.8	23.8	23.8	23.7	23.7
Wages and salaries	9.9	9.7	9.8	10.4	10.7	10.7	10.7	10.7	10.7	10.7	10.7
Goods and services	5.9	6.1	6.4	6.5	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Interest	1.9	1.7	1.4	1.4	1.4	1.5	1.5	1.4	1.4	1.4	1.4
Transfers and subsidies	4.9	5.0	5.2	5.1	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Capital expenditure and net lending	11.4	12.4	14.3	10.9	9.3	9.3	8.1	7.2	7.3	7.3	7.3
Primary balance	**3.7**	**2.4**	**1.2**	**-1.2**	**0.6**	**-0.3**	**0.1**	**0.7**	**0.4**	**0.4**	**0.4**
Overall balance	**1.8**	**0.7**	**-0.2**	**-2.6**	**-0.8**	**-1.7**	**-1.4**	**-0.8**	**-1.0**	**-1.0**	**-1.0**
Financing	**-1.8**	**-0.7**	**0.2**	**2.6**	...	**1.7**	**1.4**	**0.8**	**1.0**	**1.0**	**1.0**
Net external financing	-0.9	-0.7	1.5	2.6	...	1.5	1.1	0.6	0.7	0.8	0.8
Net domestic financing	-0.6	-0.4	-2.0	-0.1	...	0.3	0.3	0.2	0.2	0.2	0.2
Statistical discrepancy	-0.3	0.4	0.6	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Nonfinancial public sector debt	71.7	64.7	64.2	67.3	...	67.3	66.7	65.4	64.2	63.1	62.2
External	50.9	45.4	45.0	49.0	...	49.2	48.9	48.0	47.2	46.4	45.9
Domestic	20.7	19.3	19.3	18.3	...	18.2	17.9	17.5	17.0	16.7	16.3
Nominal GDP fiscal year (EC$ millions)	1,189	1,272	1,291	1,305	1,348	1,348	1,395	1,447	1,506	1,566	1,623

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

1/ Fiscal year (July-June) basis. Figures shown for a given calendar year relate to the fiscal year beginning on July 1.

2/ Does not include grants that were received but not spent.

3/ Historical revisions of many indicators reflect a rebasing of national accounts in early 2011, affecting the GDP and ratios to GDP.

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Table 3. Dominica: Balance of Payments

	2007	2008	2009	Est. 2010	Proj. 2011	2012	2013	2014	2015	2016
	(In millions of U.S. dollars)									
Current account balance	**-86.9**	**-118.3**	**-102.2**	**-103.0**	**-110.1**	**-109.7**	**-105.8**	**-101.1**	**-100.9**	**-100.3**
Trade balance	-133.3	-173.5	-161.4	-164.0	-171.5	-173.5	-173.6	-173.2	-177.2	-180.5
Exports (f.o.b.)	39.0	43.9	36.8	33.3	36.6	38.2	39.1	40.6	42.1	43.9
Imports (f.o.b.)	172.3	217.4	198.2	197.3	208.2	211.7	212.7	213.9	219.3	224.4
Mineral fuels	29.6	43.4	32.4	33.6	44.8	45.4	46.3	45.8	47.4	48.8
Food	27.3	32.7	32.4	36.2	44.0	43.3	41.9	40.5	39.2	39.3
Other	115.4	141.3	133.4	127.5	119.4	123.0	124.5	127.6	132.7	136.3
Services balance	44.8	54.5	54.0	55.5	56.6	59.1	62.8	66.8	70.5	74.0
Exports of services	108.8	124.4	117.8	118.6	122.3	126.7	131.8	137.4	143.5	149.4
Tourism receipts	74.5	87.8	84.1	87.3	89.8	92.7	96.5	100.6	105.1	109.2
Other	34.4	36.7	33.6	31.3	32.5	33.9	35.3	36.8	38.5	40.2
Imports of services	64.0	69.9	63.8	63.1	65.8	67.5	69.0	70.6	73.0	75.4
Net income, *of which*	-19.6	-18.3	-13.8	-14.2	-15.5	-16.6	-17.1	-17.6	-18.1	-18.6
Interest payments (public sector)	-6.1	-6.6	-6.2	-5.4	-6.4	-7.0	-7.1	-7.1	-7.1	-7.1
Net current transfers	21.2	19.0	19.1	19.8	20.4	21.2	22.0	22.9	23.8	24.8
Capital and financial account	**82.9**	**109.5**	**90.1**	**95.3**	**111.0**	**110.6**	**106.6**	**102.0**	**101.9**	**101.4**
Capital account	58.0	57.6	44.0	43.9	29.9	26.1	26.7	27.8	29.1	30.2
Public capital transfers	54.7	54.3	40.8	40.7	26.9	23.1	23.6	24.5	25.7	26.7
Private capital transfers	3.2	3.3	3.1	3.2	2.9	3.0	3.2	3.3	3.4	3.5
Financial account	24.9	51.9	46.1	51.4	81.1	84.5	79.9	74.2	72.8	71.1
Public sector	-6.7	-3.4	4.8	0.4	10.8	7.8	5.9	5.3	6.1	6.4
Private sector	31.6	55.3	41.3	51.0	70.3	76.8	74.0	68.9	66.8	64.8
Direct investment	40.5	56.5	41.3	30.5	32.0	33.7	35.4	37.2	39.3	41.4
Commercial banks	-18.8	-17.6	-10.3	10.2	4.5	4.4	4.4	4.3	4.2	4.1
Other private flows 1/	10.0	16.3	10.4	10.3	33.8	38.6	34.3	27.4	23.3	19.2
Errors and omissions	**1.5**	**3.5**	**9.2**	**9.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-2.6**	**-5.3**	**-2.9**	**1.9**	**0.9**	**0.9**	**0.8**	**0.9**	**1.0**	**1.1**
Overall financing	**2.6**	**5.3**	**2.9**	**-1.9**	**-0.9**	**-0.9**	**-0.8**	**-0.9**	**-1.0**	**-1.1**
Change in ECCB NFA	5.0	2.1	-1.5	-0.8	-0.9	-0.9	-0.8	-0.9	-1.0	-1.1
Change in net imputed reserves	5.0	2.1	-13.8	-0.8	-0.9	-0.9	-0.8	-0.9	-1.0	-1.1
Of which: due to SDR allocation	...	...	-12.3	...	...	...	...	...	...	...
Change in medium- and long-term liabilities	...	...	12.3	...	...	...	...	...	...	...
IMF reserve liabilities	-2.5	3.2	4.4	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP) 2/									
Current account balance	-20.8	-25.6	-21.3	-21.6	-22.4	-21.6	-20.1	-18.5	-17.7	-17.0
Exports of goods and services	35.3	36.4	32.2	31.9	32.4	32.5	32.5	32.6	32.6	32.7
Imports of goods and services	56.4	62.2	54.6	54.7	55.8	55.0	53.6	52.1	51.4	50.7
Net Income	-4.7	-4.0	-2.9	-3.0	-3.2	-3.3	-3.2	-3.2	-3.2	-3.1
Net current transfers	5.1	4.1	4.0	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Capital and financial account	19.8	23.7	18.8	20.0	22.6	21.8	20.3	18.7	17.9	17.2
Foreign direct investment	9.7	12.2	8.6	6.4	6.5	6.6	6.7	6.8	6.9	7.0
Public sector flows	-1.6	-0.7	1.0	0.1	2.2	1.5	1.1	1.0	1.1	1.1
Grants	13.1	11.8	8.5	8.5	5.5	4.5	4.5	4.5	4.5	4.5
Other flows 1/	-1.4	0.4	0.7	5.0	8.4	9.1	7.9	6.4	5.4	4.6
External debt gross 3/	77.4	67.0	66.0	67.5	72.4	77.4	81.4	82.5	82.3	81.2
	(In percent of exports of goods and nonfactor services)									
External public debt service	10.6	8.9	10.8	12.7	11.1	10.3	10.7	8.8	8.7	9.9
Amortization	7.2	6.1	7.1	8.8	7.3	6.4	7.3	5.4	5.4	6.7
Interest	3.4	2.8	3.7	3.9	3.8	3.9	3.4	3.4	3.3	3.2
Memorandum item:										
Current account balance including net capital transfers (In percent of GDP)	-6.9	-13.1	-12.1	-12.4	-16.4	-16.5	-15.0	-13.4	-12.6	-11.9

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

1/ Assumed to cover the residual financing needs over the projection period.

2/ Historical revisions of many indicators reflect a rebasing of national accounts in early 2011, affecting the GDP and ratios to GD

3/ Comprises external public sector debt, gross liabilities of commercial banks and other private debt that covers the projected financing needs.

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Table 4. Dominica: Summary Accounts of the Banking System

	2006	2007	2008	2009	2010	2011 Proj.
(In millions of Eastern Caribbean dollars, end of period)						
Net foreign assets	427.2	471.2	504.1	557.3	535.0	525.2
Central Bank	170.2	163.2	148.8	174.1	179.3	181.7
Commercial Banks (net)	257.1	307.9	355.4	383.3	355.7	343.4
Assets	481.3	579.9	599.8	659.4	612.4	600.2
Liabilities	-224.3	-271.9	-244.4	-276.1	-256.8	-256.8
Net domestic assets	342.5	373.4	376.9	412.0	493.3	545.8
Public sector credit, net	-46.0	-70.4	-73.3	-87.5	-108.0	-99.6
Central Government	12.0	2.9	10.6	4.9	-21.6	-10.6
Other public sector	-58.0	-73.3	-83.9	-92.5	-86.4	-89.0
Private sector credit	538.8	565.0	611.9	654.3	716.2	749.9
Private sector credit (in real terms)	492.2	486.9	516.3	535.2	572.0	578.7
Other items (net)	-150.4	-121.2	-161.6	-154.8	-115.0	-104.4
Money and quasi-money (M2)	769.7	844.5	881.1	969.3	1028.2	1071.0
Money	174.6	196.5	183.4	198.4	205.3	215.0
Currency outside banks	45.4	49.0	43.9	50.7	46.5	48.6
Demand deposits	129.2	147.4	139.5	147.7	158.9	166.3
Quasi-money, *of which:*	595.1	648.1	697.6	771.0	822.9	856.0
Time deposits	184.2	192.7	208.9	236.3	254.1	260.4
Savings deposits	398.6	445.2	473.3	520.5	533.9	559.0
Foreign currency deposits	12.2	10.2	15.5	14.2	29.6	31.0
(12-month percentage change)						
Net foreign assets	34.4	10.3	7.0	10.6	-4.0	-1.8
Net domestic assets, *of which:*	-10.5	9.0	1.0	9.3	19.7	10.7
Private sector credit	10.9	4.9	8.3	6.9	9.5	4.7
(in real terms)	9.0	-1.1	6.0	3.7	6.9	1.2
Broad money	9.9	9.7	4.3	10.0	6.1	4.2
Money	1.3	12.5	-6.6	8.1	3.5	4.7
Quasi-money	12.7	8.9	7.6	10.5	6.7	4.0
(In percent of GDP) 1/						
Net foreign assets	40.8	41.7	40.4	43.0	41.6	39.7
Net domestic assets	32.7	33.0	30.2	31.8	38.4	41.2
Public sector credit, net	-4.4	-6.2	-5.9	-6.8	-8.4	-7.5
Private sector credit	51.5	50.0	49.0	50.5	55.7	56.6
Broad Money	73.5	74.7	70.6	74.8	80.0	80.9
Interest rates (percent per year) 2/						
Time deposit rate	5.06	5.06	4.91	4.63	4.76	4.56
Weighted average lending rate	9.17	9.18	8.88	9.99	8.95	8.79

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

1/ Historical revisions of many indicators reflect a rebasing of national accounts in early 2011, affecting the GDP and ratios to GDP.

2/ Commercial banks; end-of-period rates for local currency; 2011 latest available.

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Table 5. Dominica: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008–2031 1/

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2008	2009	2010	Average 2/	Standard Deviation 2/	2011	2012	2013	2014	2015	2016	2011-16 Average	2021	2031	2017-31 Average
Public sector debt 3/	**64.7**	**64.2**	**67.3**			**67.3**	**66.7**	**65.4**	**64.2**	**63.1**	**62.2**		**58.2**	**50.6**	
o/w foreign-currency denominated	45.4	45.0	49.0			49.2	48.9	48.0	47.2	46.4	45.9		43.3	38.2	
Change in public sector debt	-9.3	-0.4	3.1			0.0	-0.6	-1.3	-1.2	-1.1	-0.9		-0.7	-0.7	
Identified debt-creating flows	-5.6	0.1	2.1			0.0	-0.6	-1.3	-1.2	-1.1	-0.9		-0.7	-0.7	
Primary deficit	-2.5	-1.2	1.2	-2.1	2.6	0.3	-0.2	-0.7	-0.5	-0.4	-0.4	-0.3	-0.3	-0.1	-0.2
Revenue and grants	44.6	45.8	40.7			40.3	39.5	39.2	39.0	38.9	38.9		38.9	38.9	
of which: grants	8.9	8.8	4.7			5.0	4.5	4.5	4.5	4.5	4.5		4.5	4.5	
Primary (noninterest) expenditure	42.1	44.6	41.9			40.6	39.3	38.4	38.5	38.5	38.6		38.6	38.8	
Automatic debt dynamics	-3.1	1.2	0.9			-0.3	-0.4	-0.6	-0.7	-0.7	-0.5		-0.5	-0.7	
Contribution from interest rate/growth differential	-4.5	1.8	1.1			0.6	-0.1	-0.5	-0.8	-0.9	-0.6		-0.7	-0.5	
of which: contribution from average real interest rate	0.8	1.4	1.3			1.2	0.9	0.6	0.6	0.6	0.5		0.5	0.1	
of which: contribution from real GDP growth	-5.3	0.5	-0.2			-0.6	-1.0	-1.1	-1.4	-1.4	-1.2		-1.1	-0.6	
Contribution from real exchange rate depreciation	1.4	-0.6	-0.2			-0.8	-0.2	0.0	0.1	0.2	0.1		...	...	
Residual, including asset changes	-3.7	-0.5	1.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other Sustainability Indicators															
PV of public sector debt	**...**	**...**	**58.7**			**57.6**	**55.9**	**53.8**	**51.6**	**49.9**	**48.6**		**46.2**	**39.6**	
o/w foreign-currency denominated	...	...	40.4			39.5	38.0	36.3	34.5	33.3	32.3		31.2	27.2	
o/w external	...	...	40.4			39.5	38.0	36.3	34.5	33.3	32.3		31.2	27.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 4/	1.8	3.9	5.1			8.5	6.9	6.9	7.7	7.1	7.3		8.8	7.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	144.4			142.8	141.6	137.4	132.2	128.3	125.0		118.6	101.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	163.2			163.2	159.8	155.1	149.6	145.1	141.4		134.2	115.1	
o/w external 5/	...	...	112.3			111.8	108.7	104.7	100.1	96.7	93.9		90.8	79.0	
Debt service-to-revenue and grants ratio (in percent) 4/	9.7	11.1	9.6			20.5	17.9	19.5	21.0	19.2	19.7		23.3	19.5	
Debt service-to-revenue ratio (in percent) 6/	12.1	13.8	10.8			23.4	20.2	22.0	23.8	21.7	22.3		26.4	22.0	
Primary deficit that stabilizes the debt-to-GDP ratio	6.8	-0.7	-1.9			0.3	0.4	0.6	0.7	0.7	0.5		0.5	0.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.8	-0.7	0.3	1.8	3.4	0.9	1.5	1.7	2.2	2.3	1.9	1.8	2.0	1.2	1.9
Average nominal interest rate on forex debt (in percent)	2.1	3.1	2.3	2.5	0.3	2.2	2.3	2.2	2.1	2.0	1.9	2.1	1.3	0.8	1.2
Average real interest rate on domestic debt (in percent)	4.1	2.0	2.2	1.7	2.0	2.3	2.6	2.7	3.3	3.6	3.5	3.0	5.0	4.5	4.7
Real exchange rate depreciation (in percent, + indicates depreciation)	2.9	-1.3	-0.3	0.1	1.9	-1.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-0.7	2.2	0.7	2.2	2.2	2.4	2.0	2.0	1.8	1.7	1.8	1.9	1.5	2.4	1.6
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.1	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	30.9	31.3	31.3	31.3	31.3	31.3	31.3	31.3	31.3	...

Sources: Country authorities; and staff estimates and projections.

1/ Figures shown for a given calendar year relate to the fiscal year beginning on July 1 of that year.

2/ Historical averages an standard deviations are generally derived over the past 10 years, subjecto to data availability.

3/ Nonfinancial public sector.

4/ 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.

5/ Revenues excluding grants.

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

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Table 6. Dominica: External Debt Sustainability Framework, Baseline Scenario, 2008-2031 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 2/ Average	Standard 2/ Deviation	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-2016 Average	2021	2031	2017-2031 Average
External debt 3/	**65.9**	**65.6**	**70.7**			**75.0**	**79.5**	**81.9**	**82.4**	**81.8**	**81.7**		**75.6**	**62.3**	
o/w public and publicly guaranteed (PPG)	45.4	45.0	49.0			49.2	48.9	48.0	47.2	46.4	45.9		43.3	38.2	
Change in external debt	-6.8	-0.3	5.0			4.4	4.5	2.4	0.5	-0.6	-0.1		-1.5	-1.2	
Identified net debt-creating flows	8.4	11.8	14.3			15.0	13.6	11.8	9.7	8.8	8.3		7.8	7.0	
Non-interest current account deficit	**23.4**	**19.3**	**19.7**	**15.5**	**4.5**	**20.4**	**19.5**	**18.1**	**16.5**	**15.9**	**15.3**		**15.1**	**14.1**	14.8
Deficit in balance of goods and services	25.3	22.5	22.5			23.0	22.1	20.7	19.1	18.4	17.7		17.4	16.3	
Exports	35.7	32.3	31.4			31.8	31.9	31.9	31.9	32.0	32.1		32.6	33.7	
Imports	61.0	54.8	53.9			54.9	54.0	52.5	51.0	50.4	49.9		50.0	50.0	
Net current transfers (negative = inflow)	-4.0	-4.0	-4.1	-4.5	0.6	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1		-4.2	-4.4	-4.3
o/w official	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	2.2	0.9	1.3			1.5	1.5	1.5	1.6	1.6	1.7		1.9	2.2	
Net FDI (negative = inflow)	**-12.0**	**-8.6**	**-6.3**	**-7.5**	**2.2**	**-6.4**	**-6.5**	**-6.6**	**-6.7**	**-6.8**	**-6.9**		**-6.9**	**-7.1**	-6.9
Endogenous debt dynamics 4/	**-3.0**	**1.1**	**0.9**			**1.0**	**0.7**	**0.3**	**-0.1**	**-0.3**	**-0.1**		**-0.4**	**0.0**	
Contribution from nominal interest rate	1.7	2.0	1.6			1.7	1.7	1.7	1.6	1.5	1.4		1.1	0.7	
Contribution from real GDP growth	-5.3	0.5	-0.2			-0.6	-1.1	-1.3	-1.7	-1.8	-1.5		-1.5	-0.8	
Contribution from price and exchange rate changes	0.5	-1.4	-0.5			...	...	...	...	...	...		...	...	
Residual (3-4) 5/	**-15.1**	**-12.0**	**-9.3**			**-10.7**	**-9.1**	**-9.4**	**-9.2**	**-9.4**	**-8.4**		**-9.3**	**-8.2**	
o/w capital grants	-12.2	-9.2	-9.1			-6.0	-5.1	-5.0	-5.0	-5.0	-5.0		-5.2	-5.2	
PV of external debt 6/	...	...	62.0			65.3	68.7	70.3	69.7	68.6	68.1		63.6	51.3	
In percent of exports	...	...	197.4			205.1	215.3	220.4	218.4	214.2	211.9		195.2	152.3	
PV of PPG external debt	**...**	**...**	**40.4**			**39.5**	**38.0**	**36.3**	**34.5**	**33.3**	**32.3**		**31.2**	**27.2**	
In percent of exports	**...**	**...**	**128.6**			**123.9**	**119.2**	**114.0**	**108.1**	**103.9**	**100.5**		**95.9**	**80.7**	
In percent of government revenues	**...**	**...**	**112.3**			**111.8**	**108.7**	**104.7**	**100.1**	**96.7**	**93.9**		**90.8**	**79.0**	
Debt service-to-exports ratio (in percent)	**10.7**	**14.1**	**11.5**			**18.8**	**15.3**	**16.4**	**19.2**	**16.4**	**16.5**		**15.5**	**10.5**	
PPG debt service-to-exports ratio (in percent)	**8.8**	**12.1**	**9.7**			**16.8**	**13.2**	**14.4**	**17.3**	**14.6**	**14.7**		**14.0**	**9.4**	
PPG debt service-to-revenue ratio (in percent)	**8.8**	**10.5**	**8.5**			**15.2**	**12.0**	**13.2**	**16.0**	**13.6**	**13.8**		**13.3**	**9.2**	
Total gross financing need (Millions of U.S. dollars)	71.8	73.0	82.3			99.7	92.2	89.4	89.3	83.5	82.3		95.0	107.9	
Non-interest current account deficit that stabilizes debt ratio	30.2	19.6	14.7			16.0	15.0	15.7	16.1	16.5	15.4		16.6	15.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.8	-0.7	0.3	1.8	3.4	0.9	1.5	1.7	2.2	2.3	1.9	1.8	2.0	1.2	1.9
GDP deflator in US dollar terms (change in percent)	-0.7	2.2	0.7	2.2	2.2	2.4	2.0	2.0	1.8	1.7	1.8	1.9	1.5	2.4	1.6
Effective interest rate (percent) 7/	2.5	3.1	2.5	3.1	0.5	2.4	2.4	2.2	2.0	1.9	1.8	2.1	1.4	1.1	1.3
Growth of exports of G&S (US dollar terms, in percent)	13.8	-8.2	-1.8	0.9	9.3	4.7	3.7	3.7	4.2	4.3	4.1	4.1	3.8	5.4	3.9
Growth of imports of G&S (US dollar terms, in percent)	21.6	-8.8	-0.6	4.1	11.2	5.2	2.0	0.9	1.0	2.8	2.6	2.4	3.5	3.8	3.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	30.9	31.3	31.3	31.3	31.3	31.3	31.3	31.3	31.3	31.3
Government revenues (excluding grants, in percent of GDP)	35.6	37.0	36.0			35.3	35.0	34.7	34.5	34.4	34.4		34.4	34.4	34.4
Aid flows (in Millions of US dollars) 8/	42.2	42.3	22.6			49.6	41.3	41.9	50.9	48.3	50.9		65.0	80.6	
o/w Grants	42.2	42.3	22.6			25.2	23.2	23.9	25.2	26.2	27.2		32.4	46.1	
o/w Concessional loans	0.0	0.0	0.0			24.4	18.0	18.0	25.7	22.1	23.7		32.7	34.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			6.7	5.6	5.5	6.0	5.7	5.8		5.9	5.6	5.8
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			64.5	70.0	70.5	65.3	68.6	68.0		65.5	70.6	67.6
Memorandum items:															
Nominal GDP (Millions of US dollars)	471.2	478.2	483.3		-1.1	499.1	516.7	536.0	557.6	579.9	601.3		716.2	1020.9	
Nominal dollar GDP growth	7.0	1.5	1.1		-0.3	3.3	3.5	3.7	4.0	4.0	3.7	3.7	3.5	3.7	3.6
PV of PPG external debt (in Millions of US dollars)			195.3			196.9	196.6	194.8	192.4	192.9	194.3		223.8	277.3	
(PVt-PVt-1)/GDPt-1 (in percent)						0.3	-0.1	-0.3	-0.4	0.1	0.2	0.0	1.2	0.2	0.7

Sources: Country authorities; and staff estimates and projections.

1/ Figures shown for a given calendar year relate to the fiscal year beginning on July of that year.
2/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
3/ Includes both public and private sector external debt.
4/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP
5/ Includes excepcional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
6/ Assumes that PV of private sector debt is equivalent to its face value.
7/ Current year interest payments divided by previous period debt stock.
8/ Defined as grants, concessional loans, and debt relief.

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INTERNATIONAL MONETARY FUND

DOMINICA

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

July 6, 2011

Approved By
David Vegara and Jan Kees Martijn

Prepared by the Staff of the International Monetary Fund in consultation with the World Bank Staff

The rapid decline in Dominica's public debt during 2001–08 has halted during the recent global crisis, as fiscal policies turned expansionary in support of economic activity. In the event, the underlying fiscal position has weakened and, in the absence of a stronger adjustment effort, debt would decline only slowly over the medium term, from 67.3 percent of GDP in FY 2010 to below 60 percent in FY 2020. Given the country's vulnerability to external and natural disaster risks, this profile does not provide sufficient assurances that debt would remain on a downward path under a series of plausible shocks.

The debt outlook has deteriorated relative to previous assessments. For public debt, this is due to a weaker fiscal position, and for external debt, due to a revision in the stock of external debt and to weaker prospects for non-debt inflows to finance the large current account deficit. The risk of public external debt distress, however, remains moderate as most debt and debt service thresholds are respected in the baseline and stress scenarios.[1]

[1] For a description of the DSA exercise see Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income countries (IMF Policy Paper, January 22, 2010; available at http://www.imf.org/external/np/pp/eng/2010/012210.pdf).

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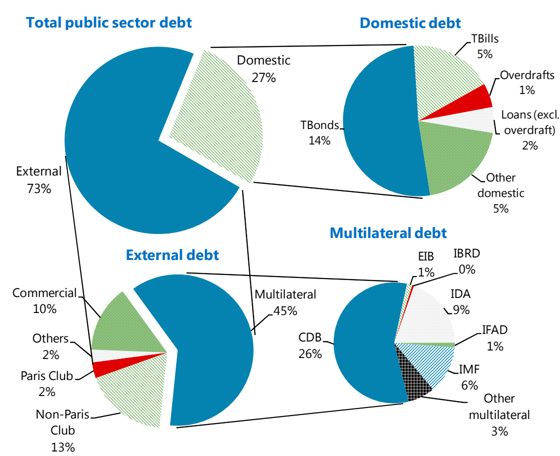
BACKGROUND

1. Past fiscal adjustment. Following a crisis in 2001–02 brought about by profligate fiscal policies and external shocks, Dominica undertook an impressive effort to restore fiscal sustainability through a large fiscal adjustment, debt restructuring (2004),[2] and concerted efforts to shift public financing towards grant and concessional borrowing—supported by two IMF programs during 2002–06. As a result, debt declined from 100 percent of GDP in mid-2002 to 67.3 percent in mid-2011, helped by primary surpluses that averaged 3 percent of GDP over the past eight years.[3]

2. Recent developments. Prudent fiscal management prior to the crisis allowed the authorities to inject a significant fiscal stimulus during FY 2007–10. The fiscal position weakened significantly as a result, with the headline primary balance deteriorating by over six percentage points during this period, to an estimated deficit of 1.2 percent of GDP in FY 2010,[4] the first primary deficit in the decade. Consequently, the declining trend in public debt halted in FY 2009 and reversed in FY 2010, with public debt increasing to an estimated 67.3 percent by end-June 2011.

3. Debt composition. Dominica has never accessed bond markets to date. About ⅔ of its debt is held externally by multilateral and bilateral lenders, with the remainder held largely by Dominica Social Security, domestic banks, and private individuals (Table 1). The composition of debt has increasingly shifted towards bilateral donors due to the growing role of China and Venezuela, who hold slightly over 5 percent of GDP in Dominica's debt.



4. Currency composition. The bulk of the external debt, and hence of total debt, is in foreign currencies, mainly the U.S. dollar. Exchange rate risk, however, is moderate as the

[2] Of the three remaining holdout creditors that chose not to participate in the 2005 debt restructuring until end-2010, a telecommunications company has recently accepted the terms of the renegotiation, with two more holdouts (foreign banks) remaining. The government continues its good-faith efforts to reach agreement with these creditors and continues its practice of depositing interest payments on the restructured terms into an escrow account at the ECCB, to be paid out once these creditors agree to the new terms.

[3] All ratios to GDP differ from previous reports due to the early-2011 rebasing of the national accounts, which resulted in an increase in Dominica's nominal GDP by about 25 percent on average for 2000–09.

[4] The fiscal year runs from July 1 to June 30. FY 2010 ends in June 2011.

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local currency has been pegged to the U.S. dollar since 1976. Some risks stem from the recent increase in exposure to the Chinese renminbi (about 6 percent of total debt). All domestic debt is in local currency.

UNDERLYING DSA ASSUMPTIONS

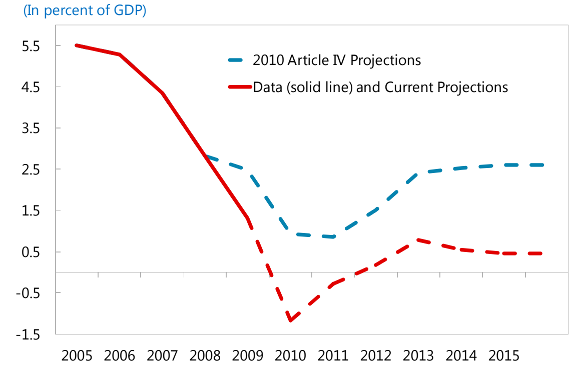
5. Macroeconomic and fiscal assumptions. Dominica's DSA is built on a baseline scenario that assumes:

- *Real GDP growth* rising to about 2 percent over the medium-term, compared to 3 percent under the previous Article IV DSA, constrained by lack of strong growth drivers to replace a declining agricultural sector and weak competitiveness.

- A gradual improvement in the *primary balance*, to about ½ percent of GDP over the medium term, due to the compression in infrastructure spending as the use of the US$40 million loan from China winds down. This marks the biggest difference from the DSA in the previous Article IV report, where the authorities were assumed to be able to return to their long-standing primary surplus target of 2.4 percent of GDP by FY 2013. The main reason for the difference is that fiscal space was eroded in the meantime by increasing current spending and weakening revenues, which—in the absence of clear adjustment plans—will make the achievement of the 2.4 percent of GDP target difficult.

Dominica: Primary Balance

(In percent of GDP)



- *Concessional lending* is expected to continue playing a major role in financing the overall fiscal balance, in line with Dominica's long-standing policy of pursuing grant and concessional financing to the extent possible. The grant element of new external financing is expected at about 30 percent in the coming years. The authorities are planning to tap the regional bond markets later in 2011 if the yields are attractive enough to allow a replacement of existing higher-yield bonds.

- *The external current account deficit* is expected to narrow over the medium term—from about 21½ percent in 2010 to 17 percent of GDP—with the falling cost of commodity imports and a recovery in tourist source countries. This is broadly in

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line with the projected current account balance during the 2010 Article IV consultation (once adjusted for a rebased GDP).

- *BOP financing*. While FDI and capital grants to the public sector financed the bulk of the current account deficit in the past, over the medium term they are expected to cover only about half of it as grant flows from non-traditional donors are not expected to be sustained at recent levels. This is different from the previous Article IV report, where FDI and grants were assumed to fully cover the medium-term current account deficit. Staff projections assume that private borrowing finances the remainder of the deficit, increasing external debt over the medium term.

Dominica: Key assumptions and Indicators in the DSA, 2010-2031
(In percent of GDP, unless otherwise indicated)

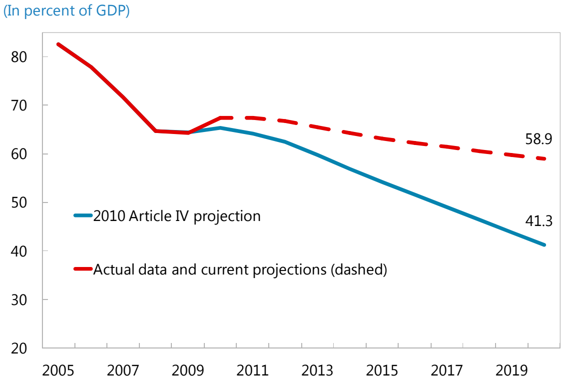
	Prelim.		Projections		
	2010	2011	2021	2027	2031
Total revenue and grants *	31.7	31.4	30.0	30.0	30.5
Primary expenditure *	32.9	31.7	29.6	29.6	30.1
Primary balance (inlcuding grants) *	-1.2	-0.3	0.4	0.4	0.4
External current account balance	-21.6	-22.4	-16.4	-15.5	-15.2
Exports of goods and services	31.9	32.4	33.2	33.7	33.9
Real GDP growth	0.3	0.9	2.0	2.0	2.0
Inflation rate (average, in percent)	3.3	4.2	1.5	1.6	1.7

Sources: Ministry of Finance; and Fund staff estimates and projections.
* Refer to the fiscal year (July-June) that begins in the year shown.

PUBLIC DSA

6. Public debt outlook. The debt outlook has deteriorated since the previous year's DSA analysis, reflecting both the weakened fiscal position and the downward revision of the medium-term growth. Public debt is projected to fall from 67.3 percent of GDP in FY 2010 to slightly below 60 percent of GDP by FY 2020, thereby meeting the associated ECCU-wide target (Table 2 and Figure 1).

Projection of public debt
(In percent of GDP)



7. Risks. Risks to the debt outlook are broadly balanced. *On the upside*, identifying and implementing adjustment measures to reach the primary surplus target of 2.4 percent of GDP by FY 2013—an objective to which the authorities remain committed—would set debt on a firmly downward path, bringing it under 60 percent of GDP by FY 2014, significantly ahead of the 2020 under the ECCU target. In addition, the likelihood of additional large borrowing has decreased relative to the previous Article IV (when the contracting of a second, 12 percent of GDP, loan from China was under active consideration). At the same time, *downside risks* are significant: (i) a slower recovery of the global economy, and in particular of those economies that are the main sources of tourism (US and UK), poses the risk of even slower growth for Dominica ; (ii) contingent

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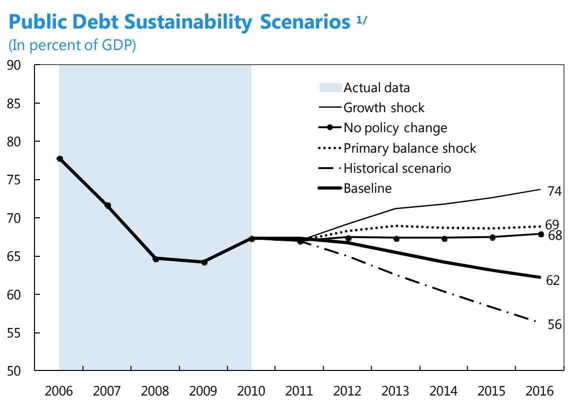
liabilities in the financial sector or public sector institutions still remain large; and (iii) the country is heavily exposed to external or natural disaster shocks and has limited fiscal space to deal with them without incurring further debt.

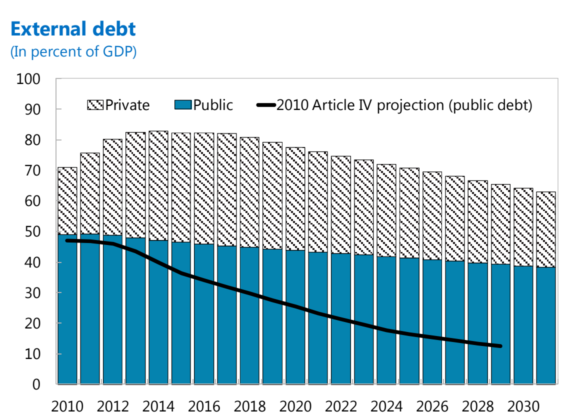


1/ Individual shocks are permanent one-half standard deviation shocks.

8. Sensitivity analysis confirms the risks outlined above (Table 3). A return to historical primary surpluses (2.1 percent of GDP over the past ten years) would significantly improve the debt outlook, setting it on a rapidly declining path. However, failure to reduce the primary fiscal deficits from current levels or lower growth as a result of external and natural disaster shocks could easily set the debt on an upward path and derail debt reduction efforts.

EXTERNAL DSA

9. External debt outlook. External debt is projected to increase from an estimated 71 percent of GDP at the end of FY 2010 to a peak of 82 percent in FY 2014, before declining gradually over the medium term in line with the current account deficit (Table 4). Driving this dynamics is private debt, which is assumed to finance the share of the current account deficit not already covered by FDI, grants or the pubic sector. Debt levels and dynamics differ significantly from the past Article IV in that: (i) the stock of external debt has been revised to include—in addition to public debt— foreign liabilities of commercial banks and other private debt that is assumed to cover the residual external financing needs over the projection period; (ii) FDI and grants are no longer assumed to finance the entire current account over the medium-term, and gradually return to their historical levels (or somewhat lower in the case of grants, as discussed above); and (iii) public external debt dynamics is less benign in light of the worsening overall public debt outlook.



10. Risks. The risks to the external debt outlook are broadly balanced. On the upside, a stronger fiscal adjustment over the medium-term

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or stronger FDI and grant inflows would improve the external debt profile. On the downside, higher-than-assumed current account deficits or lower non-debt creating inflows would push external debt higher than in staff's projections. It should also be noted that data for private exernal debt other than commercial banks are not available, although it is not expected to be large.

11. Public external debt. For the purposes of assessing public external debt vulnerabilities, Dominica is rated as a strong performer according to the World Bank's Country Policy and Institutional Assessment rating (CPIA), reflecting strong economic policies followed over the years.[5] The applicable prudential thresholds on various public external debt indicators for strong performers are reported in the table below.

Debt Burden Thresholds under the Debt Sustainability Framework
(Applying to external public debt)

	PV of debt in percent of			Debt Service in percent of GDP	
	Exports	GDP	Revenue	Exports	Revenue
Strong policy	200	50	300	25	35

Source: SM/10/16. Staff Guidance on the Application of the Joint Fund- Bank Debt Sustainability Framework for Low Income Countries.

- In the baseline scenario, none of the five debt burden thresholds applicable to the ratios of public external debt are breached, and debt service ratios in particular are well below the thresholds for the entire horizon of the projection (Figure 2, Table 5).
- Projections under alternative scenarios and stress tests keep debt indicators below the thresholds under most scenarios, but indicate vulnerability to a deterioration in the terms of new borrowing (which leads to a breach of two thresholds, relating to the debt ratio to GDP and to exports) and higher current account deficits than assumed in the baseline (as public debt is assumed to finance the residual gap).

CONCLUSION AND DEBT DISTRESS CLASSIFICATION

12. The public debt outlook has deteriorated relative to previous assessments due to a weaker underlying fiscal position. In the absence of a stronger adjustment effort than embedded in staff's baseline scenario, debt would decline only slowly over the medium term, from 67.3 percent of GDP in FY 2010 to somewhat below 60 percent in 2020. Given the country's vulnerability to external and natural disaster risks, this profile does not provide sufficient assurances that debt would remain on a downward path under a series of plausible shocks. A return to the authorities' long-standing primary surplus target of 2.4 percent of GDP over the next few years

[5] The CPIA offers ratings for countries based on criteria describing the strength of economic management, structural policies, policies for social inclusion and equity, and the quality of public sector management and institutions. The 2009 CPIA rating for Dominica is 3.81, putting it in a "strong performer" category.

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would rebuild the necessary cushions and set the debt on a firmly downward path.

13. **The external debt outlook has also deteriorated**, reflecting the revision of the total debt stock to include commercial bank debt and weaker prospects for non-debt-creating inflows to finance the large current account deficit.

14. **Dominica's risk of public external debt distress remains moderate**. This reflects the expectation that most thresholds for debt stocks and debt service would be respected under the baseline and stress scenarios, as well as the broadly balanced risks to the debt outlook.

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Table 1. Dominica: Public Sector Debt, 2010–11
(In millions of EC dollars)

		Percent of	
	Stock	Total Debt	GDP
Nonfinancial public sector	878.7	100.0	67.3
Central government	733.6	83.5	56.2
Public enterprises	145.1	16.5	11.1
External	639.7	72.8	49.0
Multilateral	394.1	44.8	30.2
CDB	225.7	25.7	17.3
EIB	5.8	0.7	0.4
IBRD	1.8	0.2	0.1
IDA	77.3	8.8	5.9
IFAD	5.0	0.6	0.4
IMF	50.3	5.7	3.9
Other multilateral	28.2	3.2	2.2
Bilateral	136.3	15.5	10.4
Paris Club	21.6	2.5	1.7
France	21.6	2.5	1.7
Non-Paris Club	114.7	13.1	8.8
China	51.5	5.9	3.9
Bahamas	0.0	0.0	0.0
Barbados	13.5	1.5	1.0
Belize	2.7	0.3	0.2
Grenada	2.7	0.3	0.2
Trinidad and Tobago	10.7	1.2	0.8
Kuwait	17.4	2.0	1.3
Venezuela	16.2	1.8	1.2
Commercial banks	91.9	10.5	7.0
Other 1/	17.4	2.0	1.3
Domestic	239.0	27.2	18.3
Bank loans	13.2	1.5	1.0
Overdraft	12.4	1.4	0.9
Treasury Bills	42.7	4.9	3.3
Medium-long term securities	123.0	14.0	9.4
Other 2/	47.6	5.4	3.6

Sources: Dominica authorities and Fund staff estimates
1/ Includes private and monetary authorities
2/ Includes debt with Dominica Social Security

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Table 2. Dominica: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008–2031 1/
(In percent of GDP; unless otherwise indicated)

	Actual					Estimate	Projections								
	2008	2009	2010	Average 2/	Standard Deviation 2/	2011	2012	2013	2014	2015	2016	2011-16 Average	2021	2031	2017-31 Average
Public sector debt 3/	64.7	64.2	67.3			67.3	66.7	65.4	64.2	63.1	62.2		58.2	50.6	
o/w foreign-currency denominated	45.4	45.0	49.0			49.2	48.9	48.0	47.2	46.4	45.9		43.3	38.2	
Change in public sector debt	-9.3	-0.4	3.1			0.0	-0.6	-1.3	-1.2	-1.1	-0.9		-0.7	-0.7	
Identified debt-creating flows	-5.6	0.1	2.1			0.0	-0.6	-1.3	-1.2	-1.1	-0.9		-0.7	-0.7	
Primary deficit	-2.5	-1.2	1.2	-2.1	2.6	0.3	-0.2	-0.7	-0.5	-0.4	-0.4	-0.3	-0.3	-0.1	-0.2
Revenue and grants	44.6	45.8	40.7			40.3	39.5	39.2	39.0	38.9	38.9		38.9	38.9	
of which: grants	8.9	8.8	4.7			5.0	4.5	4.5	4.5	4.5	4.5		4.5	4.5	
Primary (noninterest) expenditure	42.1	44.6	41.9			40.6	39.3	38.4	38.5	38.5	38.6		38.6	38.8	
Automatic debt dynamics	-3.1	1.2	0.9			-0.3	-0.4	-0.6	-0.7	-0.7	-0.5		-0.5	-0.7	
Contribution from interest rate/growth differential	-4.5	1.8	1.1			0.6	-0.1	-0.5	-0.8	-0.9	-0.6		-0.7	-0.5	
of which: contribution from average real interest rate	0.8	1.4	1.3			1.2	0.9	0.6	0.6	0.6	0.5		0.5	0.1	
of which: contribution from real GDP growth	-5.3	0.5	-0.2			-0.6	-1.0	-1.1	-1.4	-1.4	-1.2		-1.1	-0.6	
Contribution from real exchange rate depreciation	1.4	-0.6	-0.2			-0.8	-0.2	0.0	0.1	0.2	0.1		...	...	
Residual, including asset changes	-3.7	-0.5	1.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	58.7			57.6	55.9	53.8	51.6	49.9	48.6		46.2	39.6	
o/w foreign-currency denominated	...	...	40.4			39.5	38.0	36.3	34.5	33.3	32.3		31.2	27.2	
o/w external	...	...	40.4			39.5	38.0	36.3	34.5	33.3	32.3		31.2	27.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 4/	1.8	3.9	5.1			8.5	6.9	6.9	7.7	7.1	7.3		8.8	7.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	144.4			142.8	141.6	137.4	132.2	128.3	125.0		118.6	101.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	163.2			163.2	159.8	155.1	149.6	145.1	141.4		134.2	115.1	
o/w external 5/	...	...	112.3			111.8	108.7	104.7	100.1	96.7	93.9		90.8	79.0	
Debt service-to-revenue and grants ratio (in percent) 4/	9.7	11.1	9.6			20.5	17.9	19.5	21.0	19.2	19.7		23.3	19.5	
Debt service-to-revenue ratio (in percent) 6/	12.1	13.8	10.8			23.4	20.2	22.0	23.8	21.7	22.3		26.4	22.0	
Primary deficit that stabilizes the debt-to-GDP ratio	6.8	-0.7	-1.9			0.3	0.4	0.6	0.7	0.7	0.5		0.5	0.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.8	-0.7	0.3	1.8	3.4	0.9	1.5	1.7	2.2	2.3	1.9	1.8	2.0	1.2	1.9
Average nominal interest rate on forex debt (in percent)	2.1	3.1	2.3	2.5	0.3	2.2	2.3	2.2	2.1	2.0	1.9	2.1	1.3	0.8	1.2
Average real interest rate on domestic debt (in percent)	4.1	2.0	2.2	1.7	2.0	2.3	2.6	2.7	3.3	3.6	3.5	3.0	5.0	4.5	4.7
Real exchange rate depreciation (in percent, + indicates depreciation)	2.9	-1.3	-0.3	0.1	1.9	-1.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-0.7	2.2	0.7	2.2	2.2	2.4	2.0	2.0	1.8	1.7	1.8	1.9	1.5	2.4	1.6
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.1	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	30.9	31.3	31.3	31.3	31.3	31.3	31.3	31.3	31.3	...

Sources: Country authorities; and staff estimates and projections.
1/ Figures shown for a given calendar year relate to the fiscal year beginning on July 1 of that year.
2/ Historical averages an standard deviations are generally derived over the past 10 years, subjecto to data availability.
3/ Nonfinancial public sector.
4/ 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.
5/ Revenues excluding grants.
6/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

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Table 3. Dominica: Sensitivity Analysis for Key Indicators of Public Debt 2011–2031
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
PV of Debt-to-GDP Ratio								
Baseline	58	56	54	52	50	49	46	40
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	58	54	50	47	44	41	30	4
A2. Primary balance is unchanged from 2011	58	56	55	54	53	52	52	49
A3. Permanently lower GDP growth 1/	58	57	55	54	54	54	63	101
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	58	59	61	60	61	62	70	84
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	58	56	55	54	53	52	53	47
B3. Combination of B1-B2 using one half standard deviation shocks	58	56	55	53	53	52	55	58
B4. One-time 30 percent real depreciation in 2012	58	72	70	66	64	63	61	57
B5. 15 percent of GDP increase in other debt-creating flows in 2012	58	70	68	66	64	63	60	54
PV of Debt-to-Revenue Ratio 2/								
Baseline	143	142	137	132	128	125	119	102
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	143	137	129	120	112	105	77	11
A2. Primary balance is unchanged from 2011	143	143	141	138	136	134	134	127
A3. Permanently lower GDP growth 1/	143	143	141	139	138	139	162	255
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	143	148	154	154	155	157	178	214
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	143	143	141	137	135	134	136	120
B3. Combination of B1-B2 using one half standard deviation shocks	143	142	139	137	135	134	140	148
B4. One-time 30 percent real depreciation in 2012	143	183	178	170	165	161	156	147
B5. 15 percent of GDP increase in other debt-creating flows in 2012	143	178	174	169	165	162	155	138
Debt Service-to-Revenue Ratio 2/								
Baseline	20	18	19	21	19	20	23	19
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	20	18	19	18	17	16	15	0
A2. Primary balance is unchanged from 2011	20	18	20	22	21	21	26	25
A3. Permanently lower GDP growth 1/	20	18	20	22	21	22	31	50
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	20	18	21	24	24	25	34	43
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	20	18	20	22	21	21	27	24
B3. Combination of B1-B2 using one half standard deviation shocks	20	18	20	21	20	21	27	29
B4. One-time 30 percent real depreciation in 2012	20	20	25	29	27	29	37	42
B5. 15 percent of GDP increase in other debt-creating flows in 2012	20	18	21	41	21	30	32	28

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

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Table 4. Dominica: External Debt Sustainability Framework, Baseline Scenario, 2008–2031[1/]
(In percent of GDP; unless otherwise indicated)

	Actual			Historical [2/] Average	Standard [2/] Deviation	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-2016 Average	2021	2031	2017-2031 Average
External debt 3/	**65.9**	**65.6**	**70.7**			**75.0**	**79.5**	**81.9**	**82.4**	**81.8**	**81.7**		**75.6**	**62.3**	
o/w public and publicly guaranteed (PPG)	45.4	45.0	49.0			49.2	48.9	48.0	47.2	46.4	45.9		43.3	38.2	
Change in external debt	-6.8	-0.3	5.0			4.4	4.5	2.4	0.5	-0.6	-0.1		-1.5	-1.2	
Identified net debt-creating flows	8.4	11.8	14.3			15.0	13.6	11.8	9.7	8.8	8.3		7.8	7.0	
Non-interest current account deficit	**23.4**	**19.3**	**19.7**	**15.5**	**4.5**	**20.4**	**19.5**	**18.1**	**16.5**	**15.9**	**15.3**		**15.1**	**14.1**	14.8
Deficit in balance of goods and services	25.3	22.5	22.5			23.0	22.1	20.7	19.1	18.4	17.7		17.4	16.3	
Exports	35.7	32.3	31.4			31.8	31.9	31.9	31.9	32.0	32.1		32.6	33.7	
Imports	61.0	54.8	53.9			54.9	54.0	52.5	51.0	50.4	49.9		50.0	50.0	
Net current transfers (negative = inflow)	-4.0	-4.0	-4.1	-4.5	0.6	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1		-4.2	-4.4	-4.3
o/w official	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	2.2	0.9	1.3			1.5	1.5	1.5	1.6	1.6	1.7		1.9	2.2	
Net FDI (negative = inflow)	**-12.0**	**-8.6**	**-6.3**	**-7.5**	**2.2**	**-6.4**	**-6.5**	**-6.6**	**-6.7**	**-6.8**	**-6.9**		**-6.9**	**-7.1**	-6.9
Endogenous debt dynamics 4/	**-3.0**	**1.1**	**0.9**			**1.0**	**0.7**	**0.3**	**-0.1**	**-0.3**	**-0.1**		**-0.4**	**0.0**	
Contribution from nominal interest rate	1.7	2.0	1.6			1.7	1.7	1.7	1.6	1.5	1.4		1.1	0.7	
Contribution from real GDP growth	-5.3	0.5	-0.2			-0.6	-1.1	-1.3	-1.7	-1.8	-1.5		-1.5	-0.8	
Contribution from price and exchange rate changes	0.5	-1.4	-0.5			...	...	...	...	...	...		...	...	
Residual (3-4) 5/	**-15.1**	**-12.0**	**-9.3**			**-10.7**	**-9.1**	**-9.4**	**-9.2**	**-9.4**	**-8.4**		**-9.3**	**-8.2**	
o/w capital grants	-12.2	-9.2	-9.1			-6.0	-5.1	-5.0	-5.0	-5.0	-5.0		-5.2	-5.2	
PV of external debt 6/	...	...	62.0			65.3	68.7	70.3	69.7	68.6	68.1		63.6	51.3	
In percent of exports	...	...	197.4			205.1	215.3	220.4	218.4	214.2	211.9		195.2	152.3	
PV of PPG external debt	**...**	**...**	**40.4**			**39.5**	**38.0**	**36.3**	**34.5**	**33.3**	**32.3**		**31.2**	**27.2**	
In percent of exports	**...**	**...**	**128.6**			**123.9**	**119.2**	**114.0**	**108.1**	**103.9**	**100.5**		**95.9**	**80.7**	
In percent of government revenues	**...**	**...**	**112.3**			**111.8**	**108.7**	**104.7**	**100.1**	**96.7**	**93.9**		**90.8**	**79.0**	
Debt service-to-exports ratio (in percent)	**10.7**	**14.1**	**11.5**			**18.8**	**15.3**	**16.4**	**19.2**	**16.4**	**16.5**		**15.5**	**10.5**	
PPG debt service-to-exports ratio (in percent)	**8.8**	**12.1**	**9.7**			**16.8**	**13.2**	**14.4**	**17.3**	**14.6**	**14.7**		**14.0**	**9.4**	
PPG debt service-to-revenue ratio (in percent)	**8.8**	**10.5**	**8.5**			**15.2**	**12.0**	**13.2**	**16.0**	**13.6**	**13.8**		**13.3**	**9.2**	
Total gross financing need (Millions of U.S. dollars)	71.8	73.0	82.3			99.7	92.2	89.4	89.3	83.5	82.3		95.0	107.9	
Non-interest current account deficit that stabilizes debt ratio	30.2	19.6	14.7			16.0	15.0	15.7	16.1	16.5	15.4		16.6	15.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.8	-0.7	0.3	1.8	3.4	0.9	1.5	1.7	2.2	2.3	1.9	1.8	2.0	1.2	1.9
GDP deflator in US dollar terms (change in percent)	-0.7	2.2	0.7	2.2	2.2	2.4	2.0	2.0	1.8	1.7	1.8	1.9	1.5	2.4	1.6
Effective interest rate (percent) 7/	2.5	3.1	2.5	3.1	0.5	2.4	2.4	2.2	2.0	1.9	1.8	2.1	1.4	1.1	1.3
Growth of exports of G&S (US dollar terms, in percent)	13.8	-8.2	-1.8	0.9	9.3	4.7	3.7	3.7	4.2	4.3	4.1	4.1	3.8	5.4	3.9
Growth of imports of G&S (US dollar terms, in percent)	21.6	-8.8	-0.6	4.1	11.2	5.2	2.0	0.9	1.0	2.8	2.6	2.4	3.5	3.8	3.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	30.9	31.3	31.3	31.3	31.3	31.3	31.3	31.3	31.3	31.3
Government revenues (excluding grants, in percent of GDP)	35.6	37.0	36.0			35.3	35.0	34.7	34.5	34.4	34.4		34.4	34.4	34.4
Aid flows (in Millions of US dollars) 8/	42.2	42.3	22.6			49.6	41.3	41.9	50.9	48.3	50.9		65.0	80.6	
o/w Grants	42.2	42.3	22.6			25.2	23.2	23.9	25.2	26.2	27.2		32.4	46.1	
o/w Concessional loans	0.0	0.0	0.0			24.4	18.0	18.0	25.7	22.1	23.7		32.7	34.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			6.7	5.6	5.5	6.0	5.7	5.8		5.9	5.6	5.8
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			64.5	70.0	70.5	65.3	68.6	68.0		65.5	70.6	67.6
Memorandum items:															
Nominal GDP (Millions of US dollars)	471.2	478.2	483.3		-1.1	499.1	516.7	536.0	557.6	579.9	601.3		716.2	1020.9	
Nominal dollar GDP growth	7.0	1.5	1.1		-0.3	3.3	3.5	3.7	4.0	4.0	3.7	3.7	3.5	3.7	3.6
PV of PPG external debt (in Millions of US dollars)			195.3			196.9	196.6	194.8	192.4	192.9	194.3		223.8	277.3	
(PVt-PVt-1)/GDPt-1 (in percent)						0.3	-0.1	-0.3	-0.4	0.1	0.2	0.0	1.2	0.2	0.7

Sources: Country authorities; and staff estimates and projections.

1/ Figures shown for a given calendar year relate to the fiscal year beginning on July of that year.
2/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
3/ Includes both public and private sector external debt.
4/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP
5/ Includes excepcional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
6/ Assumes that PV of private sector debt is equivalent to its face value.
7/ Current year interest payments divided by previous period debt stock.
8/ Defined as grants, concessional loans, and debt relief.

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Table 5a. Dominica: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011–2031
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
PV of debt-to GDP ratio								
Baseline	39	38	36	35	33	32	**31**	27
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	39	33	28	25	22	21	**18**	19
A2. New public sector loans on less favorable terms in 2011-2031 2	39	40	40	40	41	42	**52**	68
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	39	39	39	37	35	34	**33**	29
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	39	42	46	45	43	42	**41**	34
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	39	39	38	36	35	34	**32**	28
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	39	39	39	37	36	35	**34**	29
B5. Combination of B1-B4 using one-half standard deviation shocks	39	41	45	44	42	41	**40**	33
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	39	54	51	49	47	46	**44**	38
PV of debt-to-exports ratio								
Baseline	124	119	114	108	104	101	**96**	81
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	124	104	88	77	70	65	**54**	56
A2. New public sector loans on less favorable terms in 2011-2031 2	124	124	124	125	127	129	**159**	202
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	124	119	114	108	104	101	**96**	81
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	124	147	186	179	173	169	**163**	129
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	124	119	114	108	104	101	**96**	81
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	124	123	122	116	112	109	**104**	86
B5. Combination of B1-B4 using one-half standard deviation shocks	124	137	158	151	146	142	**137**	110
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	124	119	114	108	104	101	**96**	81
PV of debt-to-revenue ratio								
Baseline	112	109	105	100	97	94	**91**	79
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	112	95	81	71	65	61	**51**	55
A2. New public sector loans on less favorable terms in 2011-2031 2	112	113	114	116	118	121	**150**	198
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	112	112	112	107	103	100	**97**	84
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	112	119	134	129	126	123	**120**	99
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	112	111	109	104	101	98	**94**	82
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	112	112	112	108	104	102	**99**	84
B5. Combination of B1-B4 using one-half standard deviation shocks	112	118	131	126	123	120	**117**	97
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	112	154	148	142	137	133	**129**	112

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

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Table 5b. Dominica: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011–2031
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
Debt service-to-exports ratio								
Baseline	17	13	14	17	15	15	**14**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	17	11	11	13	10	9	**7**	6
A2. New public sector loans on less favorable terms in 2011-2031 /2	17	11	11	14	11	11	**10**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	17	11	12	14	11	10	**8**	8
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	17	13	16	20	15	15	**12**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	17	11	12	14	11	10	**8**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	17	11	12	14	11	11	**8**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	17	12	14	17	14	13	**10**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	17	11	12	14	11	10	**8**	8
Debt service-to-revenue ratio								
Baseline	15	12	13	16	14	14	**13**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	15	10	10	12	9	9	**6**	6
A2. New public sector loans on less favorable terms in 2011-2031 /2	15	10	11	13	10	10	**10**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	15	11	12	14	11	10	**8**	9
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	15	10	11	14	11	11	**9**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	15	11	11	14	11	10	**8**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	15	10	11	13	10	10	**8**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	15	11	12	14	11	11	**9**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	15	15	15	19	14	14	**11**	12
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	7	7	7	7	7	7	**7**	7

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

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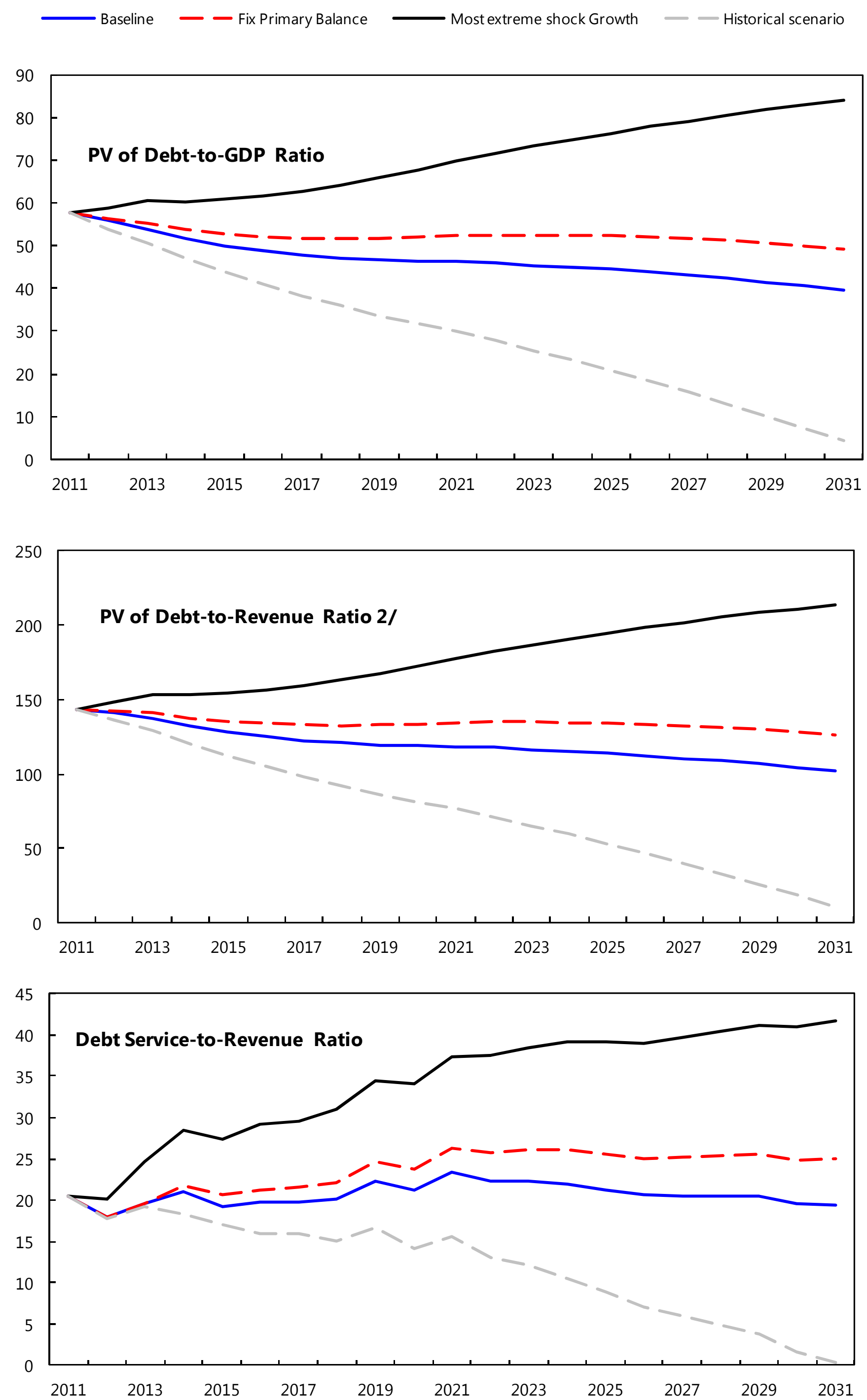
Figure 1. Dominica: Indicators of Public Debt Under Alternative Scenarios, 2011–2031[1/]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2021.
2/ Revenues are defined inclusive of grants.

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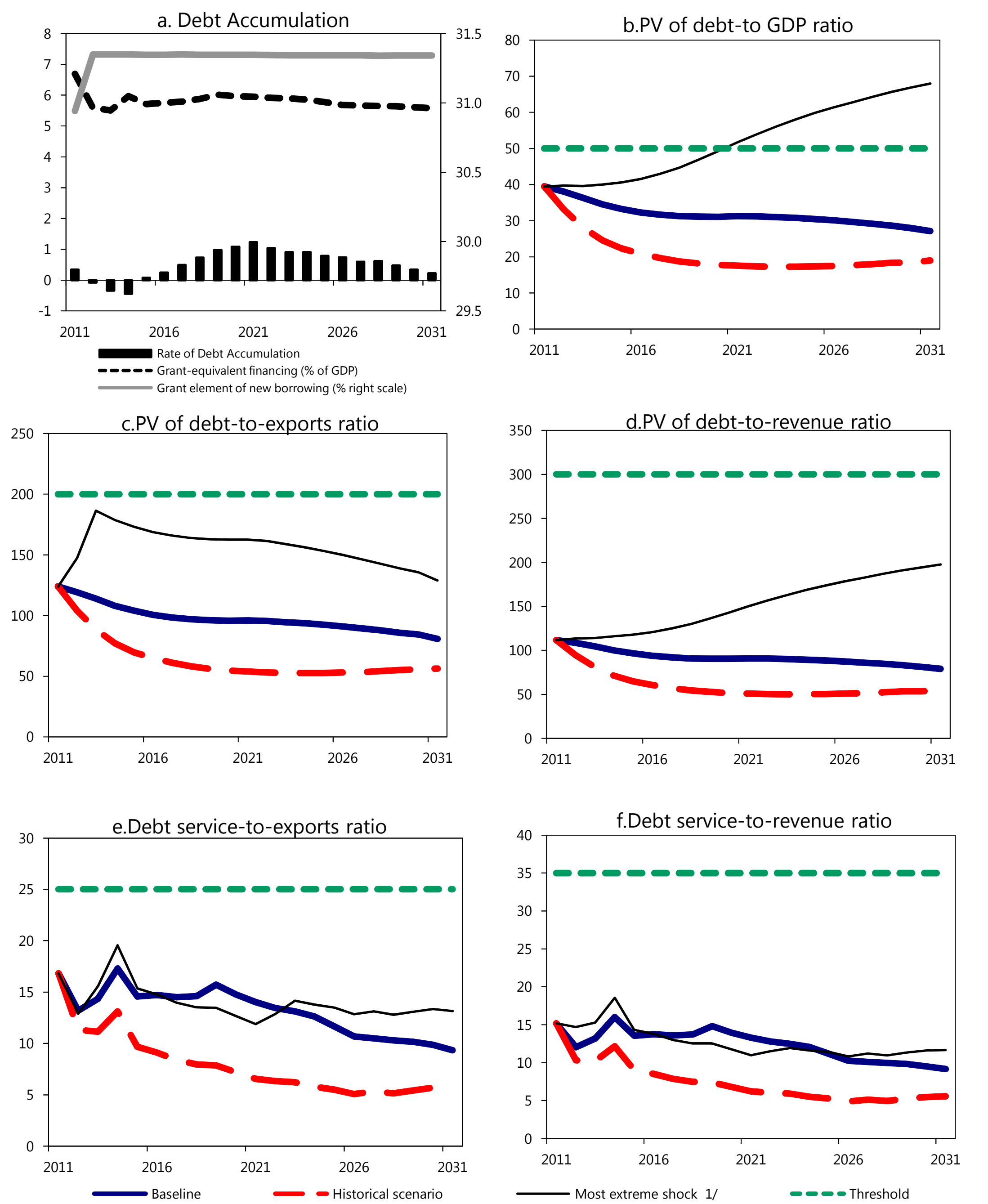
Figure 2. Dominica: Indicators of Public External Debt Under Alternative Scenarios, 2011–2031[1/]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2021. In figure b. it corresponds to a Terms shock; in c. to a Exports shock; in d. to a Terms shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

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INTERNATIONAL MONETARY FUND

DOMINICA

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 6, 2011

Prepared By	The Western Hemisphere Department (In collaboration with other departments)

CONTENTS

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APPENDIX I. DOMINICA: FUND RELATIONS

(As of May 31, 2011)

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	10.24	121.77
	Reserve position in Fund	0.01	0.11
III.	**SDR Department**	**SDR Million**	**Percent of Allocation**
	Net cumulative allocation	7.84	100.00
	Holdings	5.72	73.00
IV.	**Outstanding Purchases and Loans:**	**SDR Million**	**Percent of Quota**
	Emergency Assistance	1.79	21.88
	ESF RAC Loan	3.28	40.00
	ECF Arrangements	6.17	75.21

V. **Latest Financial Arrangements:**

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn**
ECF	12/29/03	12/28/06	7.69	7.69
Stand-By	08/28/02	01/02/04	2.97	2.97
SAF	11/26/86	11/25/89	2.80	2.80

Projected Payments to the Fund on an Obligation Basis (SDR Million)[1]:

			Forthcoming		
	2011	**2012**	**2013**	**2014**	**2015**
Principal	1.28	2.56	1.79	1.04	1.48
Charges/Interest	0.02	0.05	0.03	0.02	0.02
Total	**1.30**	**2.61**	**1.82**	**1.06**	**1.50**

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. Dominica has accepted the obligations of Article VIII, Sections 2, 3 and 4, and maintains an exchange rate free of restrictions on the making of payments and transfers for current international transactions.

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

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VII. **Safeguards Assessment**: Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB), of which Dominica is a member, is subject to a full safeguards assessment under a four year cycle. The most recent assessment was completed in July 2007, and concluded that the ECCB continues to have appropriate control mechanisms in place, which have strengthened since the first safeguards assessment completed in 2003. ECCB management places emphasis on good governance and sound controls, and has enhanced the bank's transparency and accountability since the last assessment, including the publications of financial statements that comply with International Financial Reporting Standards. The assessment made some recommendations to sustain the ECCB's safeguards framework going forward.

VIII. **Article IV consultation**: The last Article IV consultation was concluded by the Executive Board on May 10, 2010; the relevant document is IMF Country Report No. 10/261. Dominica is on a 12-month cycle.

IX. **Technical assistance:** Dominica has received significant technical assistance from Caribbean Regional Technical Assistance Center (CARTAC) and the IMF. Technical assistance missions focused on tax reform, revenue administration, expenditure rationalization, financial sector, and Public Financial Management (PFM):

Tax Reforms and Revenue Administration

- January/February 2009 (FAD): customs and tax administration reforms, including capacity building, organizational restructuring, and revenue authority options
- September 2007 (FAD): tax policy aspects of the value-added (VAT) and excises, and other reform options
- January 2007 (FAD-CARTAC): revenue administration and tax policy
- 2005 (FAD): tax policy and administration
- 1999 (FAD): VAT implementation
- 1997 (FAD): urban property taxation

Expenditure Rationalization

- January/February 2011 (FAD): regional project on public expenditure issues, including expenditure trends, policies, and expenditure rationalization options
- 2010 (CARTAC): pension reforms
- 2005 (FAD): social security and pension reform options
- 2004 (FAD): fiscal responsibility laws
- 1995 (FAD): expenditure control

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PFM reforms

- 2010 (CARTAC): strengthening budget preparations
- October 2009 (MCM): improving debt management capacity of the government

Financial Sector

- 2010 (CARTAC): regional initiatives to strengthen regulation and supervision of non-bank financial institutions (NBFIs)
- 2006 (MCM): drafting an action plan for AID Bank
- 2005 (MCM): strengthening the supervisory framework for Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT) in the nonbank sector

National Accounts

- December 2009 and August 2009 (CARTAC): National Income Accounts Statistics aimed at rebasing the GDP constant price estimates to 2006

X. **FSAP:** A joint IMF/World Bank team performed an assessment of the financial sector of the member states of the ECCU, 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. A detailed assessment of the AML/CFT regimes of Dominica was conducted in September 2003 by the Caribbean Financial Action Task Force (CFATF). 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.

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APPENDIX II. DOMINICA: RELATIONS WITH THE WORLD BANK GROUP

(As of June 8, 2011)

The World Bank Group's Management presented to its Board the Organization of the Eastern Caribbean States (OECS) Regional Partnership Strategy (RPS) on June 8, 2010. The RPS covers the five year period July 2009—June 2014. It sets forth the terms of engagement of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC) with the countries of the Eastern Caribbean, sub-regional organizations and other development partners in pursuit of the following strategic objectives: (a) building resilience; and (b) enhancing competitiveness and stimulating growth over the medium term.

To help build resilience, the Bank Group supports interventions aimed at promoting fiscal and debt sustainability, protecting and improving human capital—particularly social safety nets, education and health—and strengthening climate resilience.

To help enhance competitiveness and stimulate sustainable growth, it focuses its support on two critical areas: strengthening the countries' domestic financial sectors and improving access to quality services to create more competitive business environments. The Strategy is aimed at providing remedial measures to address the crippling effects of the global and regional crises, while supporting key policy reforms that establish a platform for growth in the medium term.

The planned program of support will entail new commitments totaling up to about US$120 million on IBRD terms and up to US$73 million of IDA financing for the six Bank Members of the OECS, including Dominica, which is eligible to borrow from IDA and IBRD during the period of the RPS.

A. Projects

There are currently two active Bank projects in Dominica for a net commitment of approximately US$2.94 million:

The **OECS E-Government for Regional Integration Program** was approved by the Board in May 2008, including an US$2.3 million IDA Credit to Dominica designed to promote the efficiency, quality, and transparency of public services through the delivery of regionally integrated e-government applications that take advantage of economies of scale. The program is structured in phases. Phase 1 focuses on cross-sectoral e-government issues, as well as on specific applications in the public finance area (including Public Financial Management, tax, customs and procurement), and also includes an e-government pilot project in health

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(possibly together with preparatory and complementary activities in other social and productive sectors). Subsequent phases are expected to deepen the assistance provided under Phase 1, while expanding the program to cover other sectors, in particular education, agriculture, and tourism, among others.

The **Telecommunications & ICT Development Project**, approved in May 2005 for US$0.5 million, aims at improving the access, quality, and use of telecommunications and ICT services to achieve socio-economic development in the OECS. The project has four components. Component 1 will strengthen the national and regional regulatory frameworks and promote additional competition in the telecommunications sector. Emphasis will be given to providing capacity building to the Eastern Caribbean Telecommunications Authority (ECTEL) and the National Telecommunications Regulatory Commissions (NTRCs) by assisting them in revising the regional and national sector legislation, and in developing 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. Component 4 will finance the management and administration of the overall project. The project will finance related technical assistance by providing complementary resources.

B. Economic and Sector Work

The Bank has completed a series of analytical products relating to public expenditure, fiscal and debt sustainability, growth and competitiveness, the financial sector, public sector management and social protection. The ongoing dissemination of these reports represents a key instrument for policy dialogue with the OECS governments, including Dominica.

The Bank's program in Dominica is further supported by a comprehensive series of completed, ongoing and planned analytical and advisory activities, including the following: "Towards a New Agenda for Growth"—OECS growth and competitiveness study (2005); An OECS Skills Enhancement Policy Note (2006); a Caribbean Air Transport Report (2006); a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007); an OECS Private Sector Financing Study (2008); the OECS Tourism Backward Linkages Study (2008); the report titled "Caribbean—Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction" (2009); a study on the Nurse Labor & Education Markets in the English-Speaking CARICOM: Issues and Options for Reform (2009); and Caribbean Regional Electricity Supply Options: Toward Greater Security, Renewable and Resilience (2011).

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Financial Relations

(In millions of U.S. Dollars)

Operation	Original Principal	Available[1]	Disbursed[1]
The OECS E-Government for Regional Integration Program	2.40	2.04	0.37
OECS Telecommunications and ICT Development Project	0.54	0.28	0.36
Total	**2.94**	**2.32**	**0.73**

1/ Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.

Disbursements and Debt Service (Fiscal Year)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Total disbursements	0.5	1.5	2.8	3.9	1.6	0.0	1.3	1.3	0.6	1.6	0.7
Repayments	0.1	0.1	0.3	0.6	0.7	0.8	1.0	1.3	1.2	0.9	0.8
Net disbursements	0.4	1.4	2.5	3.4	0.9	-0.8	0.2	0.2	-0.6	0.6	-0.2
Interest and fees	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.2

*Data as of June 8, 2011

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APPENDIX III. DOMINICA: RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)

(As of December 31, 2010)

The CDB has played a significant role in Dominica's development process. Bank support has been provided through the provision of investment loans and technical assistance grants, as well as special economic stabilization loans during a crisis in 2003–2004. The Bank has also extensively utilized its Basic Needs Trust Fund for poverty reduction interventions. These resources have gone towards boosting the productive capacity of the economy, strengthening human resource development and, in particular, improving economic management systems, expanding agricultural output, improving critical economic infrastructure, upgrading ecotourism sites, promoting shelter development and supporting development in the territory reserved for Dominica's indigenous people, the Kalinago. Disaster rehabilitation works have also been a frequent element of interventions.

Total loans and grants approved over the period 1970–2010 amounted to USD205.4 million, making Dominica the eighth largest beneficiary among the Bank's 18 borrowing members. At end-2010, CDB's loan exposure to Dominica was USD85.4 million, which represented 5.5 percent of CDB's total disbursed debt outstanding, down from 6.1 percent at end-2009.

Following unusually high disbursements in 2003 and 2004, which represented CDB's support to Dominica during the crisis period, lending to the country stagnated, with net resource flows turning negative from 2006 (Table). This downtrend reflects some caution on the part of the Dominican government to borrow after a debt restructuring in 2004, particularly as efforts to maintain prudent fiscal policies and enhance debt sustainability have been facilitated by strong inflows of grant resources in recent years. However, positive net resource flows from CDB to Dominica resumed in 2010, amid reduced grant inflows. Disbursements nearly doubled, mainly reflecting the implementation of key interventions programmed in CDB's Country Strategy Paper for Dominica for the period 2010 to 2012, a line of credit for productive sector development and an education enhancement project.

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Dominica: Loan Disbursement, Service and Resource Flow

(In millions of U.S. dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net disbursement	3.66	8.46	10.39	3.99	0.91	-1.07	-1.5	0.32	2.99
Disbursement	6.25	11.26	20.61	6.34	2.14	2.36	3.2	4.23	7.11
Amortization	2.59	2.8	10.22	2.35	1.23	3.43	4.7	3.93	4.12
Interest and charges	1.9	2.03	2.25	2.44	1.54	2.95	2.2	2.23	2.13
Net resource flow	1.76	6.43	8.14	1.55	-0.63	-4.02	-3.7	-1.91	0.86

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APPENDIX IV. DOMINICA: STATISTICAL ISSUES

Data provision has notable shortcomings due to capacity constraints, but is broadly adequate for surveillance. There are weaknesses in coverage, accuracy, frequency, and timeliness of data that continue to hamper more effective economic analysis and policy formulation. Priority should be given to compilation and dissemination of national accounts at a quarterly basis, and to tourism, agriculture and labor statistics. Despite progress, significant weaknesses remain in the compilation of fiscal accounts and the balance of payments. Dominica participates in the General Data Dissemination System. However the metadata for national accounts, external sector and government finance statistics have not been updated since December 2002.

A. Real sector

Nominal GDP data are compiled using the production and the expenditure approaches only annually. Beginning 2011, estimates are compiled using 2006 as the new base year. GDP estimates are available about four months after the end of the year and are usually finalized with a two-year lag. CPI data are compiled with a three-month lag. 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 shortage of staff working on price statistics limits developments in CPI methodology and the likelihood that XMPIs will be developed in the near future. Data on employment are limited and there are no official data on producer prices. A new census is to be prepared in 2011.

B. Government finance

Statistical capacity problems affect the timely production of quality government finance statistics. Monthly data can be obtained but they show some shortcomings. In particular, the data are subject to frequent revisions stemming in part from omissions and misclassifications. Capital expenditure data reported in the public sector investment program (PSIP) are not timely. Delays in the reporting the PSIP data stem from reporting delays from line ministries. Ongoing initiatives to strengthen expenditure management should help minimize the extent of this problem. A new automation technology, mandatory for all ministries and suppliers of goods and services, was installed in all line ministries in 2005 and is the basis for the reporting.

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Although progress has been made in improving the measurement of the government debt, data show shortcomings and are not tracked continuously. Very limited financing data are available. 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—are obtained directly from each entity with frequent delays and omissions. No government finance data are reported to STA for publication in the *International Financial Statistics* (*IFS)* or the *Government Finance Statistics* (*GFS) Yearbook*.

C. Monetary statistics

Monetary statistics are compiled and reported to the Fund by the ECCB on a monthly basis based on a standardized report adopted in 2006. The institutional coverage of monetary statistics needs to be improved by including the accounts of mortgage companies, building societies, credit unions, and insurance companies. The lack of data on credit unions is a serious shortcoming as the sector is large in Dominica. In this respect, close coordination between the ECCB and the single regulatory unit (which supervises financial corporations other than those licensed under the Banking Act) is crucial.

D. 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 becoming more timely, but still suffer from relatively numerous and volatile errors and omissions. Short-term indicators of trade balances can be obtained from the Central Statistical Office on a quarterly basis but with long delays relative to the reference period.

E. 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, while the Treasury maintains the data on bonds placed abroad. Data from the two databases are not consolidated, requiring further adjustments to measure total debt stock. In addition, information on payments by creditor (actual and scheduled) should be available to the compilation agencies at least on a monthly

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basis, in order to produce timely debt stock data. Data on private external debt stocks are not available, other than from the monetary survey in the case of commercial banks.

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Dominica: Table of Common Indicators Required for Surveillance

(As of June 17, 2011)

	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]	March 2011	6/12/11	M	M	Q
Reserve/Base Money	March 2011	6/12/11	M	M	Q
Broad Money	March 2011	6/12/11	M	M	Q
Central Bank Balance Sheet	March 2011	6/12/11	M	M	Q
Consolidated Balance Sheet of the Banking System	March 2011	6/12/11	M	M	Q
Interest Rates [3]	March 2011	6/12/11	Q	Q	Q
Consumer Price Index	February 2011	5/27/11	M	M	M
Revenue, Expenditure, Balance and Composition of Financing [4]—Central Government	April 2011	5/27/11	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt [6]	April 2011	5/27/11	M	M	A
External Current Account Balance	2010	5/27/11	A	A	A
Exports and Imports of Goods and Services	2010	5/27/11	A	A	A
GDP/GNP	2010	5/27/11	A	A	A
Gross External Debt	March 2011	5/27/11	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).

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IMF Executive Board Concludes 2011 Article IV Consultation with Dominica

On July 22, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Dominica, and considered and endorsed the staff appraisal without a meeting.[1]

Background

Dominica has made significant progress over the past decade in strengthening its macroeconomic policy management. Prudent fiscal management in the years leading up to the crisis has served the authorities well, leading to primary surpluses that average 3 percent of Gross Domestic Product (GDP) over the past eight years and to a significant reduction in public debt, to about 67 percent by mid-2011. Social indicators have also improved, with a major fall in unemployment and poverty levels, although these remain high at 14 percent and 29 percent, respectively, as of 2009.

Dominica is emerging from the crisis. The decline in global activity led to a relatively mild contraction due to a strong countercyclical fiscal response and limited reliance on tourism. Growth turned positive in 2010, but tepid demand and the needed fiscal consolidation will weigh on the near-term prospects, with activity projected to growth at 0.9 percent in 2011. Near-term risks to growth are tilted to the downside on account of a potentially stronger impact of a slowing demand in advanced economies and weaker performance in agriculture, manufacturing and trade.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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High world commodity prices are expected to put some pressures on inflation and the balance of payments in 2011, but these should be manageable and should subside in line with world fuel and food prices.

The financial system has weathered the crisis, although tremors in the regional financial markets, to which Dominica is heavily exposed, have heightened solvency and liquidity risks. Modest credit expansion prior to the crisis limited the accumulation of nonperforming loans and preserved capital ratios, but the financial system remains exposed to the failed regional insurance companies, other impaired investments in the Eastern Caribbean Currency Union (ECCU), and potential spillovers across segments of the financial system.

With regard to macro policies, the weakening of the fiscal position during the past two years is set to reverse in fiscal year (FY) 2011 that started in July. The proposed budget for FY 2011 targets a primary balance of 0.6 percent of GDP, an adjustment of almost two percentage points of GDP, the brunt of which falls on investment. As the achievement of the budget target hinges critically on the ability to raise revenue from house sales, which has proven difficult in recent years, staff projects that under current policies the primary balance would remain marginally negative in FY 2011 and debt will remain broadly unchanged in GDP terms.

Executive Board Assessment

In concluding the 2011 Article IV consultation with Dominica, Executive Directors endorsed staff's appraisal, as follows:

Dominica has managed the crisis well, but the recovery has been lackluster and growth prospects remain weak. The fiscal stimulus during the crisis helped the country avoid a deep recession, but tepid demand in advanced countries (Dominica's main tourist source), weak competitiveness and lack of clear growth drivers have led to a slow recovery and will constrain future growth.

While appropriately supportive during the crisis, fiscal policies need to be returned to a sounder footing to correct the weakening fiscal position. Staff welcomes the authorities' plan to start withdrawing the fiscal stimulus in FY 2011 but underscores the importance of a close monitoring of fiscal developments with a view to ensuring that the budget's primary deficit target of 0.6 percent of GDP for FY 2011 will be achieved. Given weakening revenues, staff believes that achieving the authorities' target will necessitate additional fiscal measures beyond those envisaged in the budget. In this context, staff urges the authorities to contain the growth in current spending, as this reduces space for investment critical for future growth and makes further fiscal corrections more difficult in light of the likely permanent nature of the spending increase.

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The adjustment effort will need to continue over the next few years, as debt levels remain uncomfortably high and current policies do not provide sufficient assurances that debt would remain on a downward path given the country's exposure to external and natural disaster shocks. In this regard, staff welcomes the authorities' commitment to the primary surplus target of 2.4 percent of GDP by FY 2013 and encourages them to develop a clear plan for achieving it. This long-standing fiscal objective has served the authorities well in the past and achieving it will help put the public debt back on its downward path, preserve the hard-earned confidence in the country's fiscal management, and improve its ability to cope with future shocks. In this context, staff suggests focus on reining in current spending, safeguarding revenues, and ensuring sustainability of the adjustment efforts through structural reforms. Achievement of the FY 2011 fiscal targets will be an essential stepping stone and will boost fiscal policy credibility.

Increased vigilance is needed to safeguard against financial stability risks. Impaired investments in the failed insurance companies and other regional institutions are creating solvency and potential liquidity pressures. The authorities' efforts to improve the regulation and supervision of nonbank institutions are commendable, but renewed efforts to identify and counteract sources of risks in the financial system are needed, including through (i) strengthened monitoring of credit unions, and a stricter enforcement of the newly legislated provisioning and capital requirements; and (ii) improved information-sharing arrangements with the Eastern Caribbean Central Bank, the bank supervisor, to allow the authorities to monitor risks in the banking system.

Improving growth prospects will require wide-ranging structural reforms. These should focus on increasing the country's capacity to attract and absorb private investments, especially through swift reforms of the regulatory environment for investments. The upcoming review of the government's medium-term Growth and Social Protection Strategy will provide a good opportunity to articulate a strong strategy of dealing with existing obstacles to growth.

Increased engagement with the Fund may be useful. While Dominica does not face an immediate financing need, the narrowing space to handle economic and natural disaster shocks and the need for policy correction suggest that such an engagement could be beneficial. Staff indicated that it stands ready to engage should the authorities deem appropriate.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

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Dominica: Selected Economic Indicators[1/]

	2007	2008	2009	Est. 2010	Proj. 2011
			(Annual percentage change)		
Output and prices					
Real GDP	3.9	7.8	-0.7	0.3	0.9
Consumer prices (end of period)	6.0	2.1	3.1	2.1	3.8
Consumer prices (period average)	3.2	6.4	0.0	3.3	4.2
Output gap (in percent of potential GDP)	-0.6	5.1	2.3	0.7	-0.2
Real effective exchange rate					
(period average, depreciation -)	-3.2	0.9	5.0	-2.9	…
			(In percent of GDP)		
Savings-Investment Balance 2/	-6.9	-13.1	-12.1	-12.4	-17.3
Savings	16.8	12.4	11.3	10.8	4.7
Investment	23.8	25.5	23.4	23.2	22.0
Central government 3/ 4/					
Revenue and grants, *of which:*	35.8	35.6	36.9	31.7	31.4
Revenues	26.7	26.7	28.0	27.1	26.4
Grants	9.1	8.9	8.8	4.7	5.0
Total expenditure	34.0	34.9	37.0	34.3	33.1
Primary balance	3.7	2.4	1.2	-1.2	-0.3
Overall balance	1.8	0.7	-0.2	-2.6	-1.7
Public sector debt (gross) 5/	71.7	64.7	64.2	67.3	67.3
External	50.9	45.4	45.0	49.0	49.2
Domestic	20.7	19.3	19.3	18.3	18.2
Money and credit			(Annual percentage change)		
Broad money (M2)	9.7	4.3	10.0	6.1	4.2
Credit to the private sector	4.9	8.3	6.9	9.5	4.7
Balance of payments			(In percent of GDP)		
Current account balance	-20.8	-25.6	-21.3	-21.6	-22.4
Trade balance	-31.8	-37.5	-33.6	-34.5	-35.0
Services balance	10.7	11.8	11.2	11.6	11.5
Capital and financial account balance 6/	19.8	23.7	18.8	20.0	22.6
FDI	9.7	12.2	8.6	6.4	6.5
Capital grants	13.1	11.8	8.5	8.5	5.5
Other	-2.9	-0.3	1.6	5.1	10.6
External debt (gross) 7/	77.4	67.0	66.0	67.5	72.4
Memorandum items:					
Nominal GDP at market prices (EC$ millions)	1,131	1,248	1,297	1,285	1,324
Net imputed international reserves					
(U.S. dollars millions; end-of-period)	60.4	55.1	64.5	66.4	67.3

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

1/ Historical revisions of many indicators reflect a rebasing of national accounts in early 2011.

2/ Based on current account balance including net capital transfers.

3/ Fiscal year (July–June) basis. Figures shown relate to the fiscal year beginning on July 1 of that year.

4/ Does not include grants that were received but not spent.

5/ Includes central government liabilities to Dominica Social Security.

6/ Including errors and omissions.

7/ Comprises public sector external debt, foreign liabilities of commercial banks and other private debt.

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