The Offer described herein will expire at 5:00 p.m. (Roseau time)
on April 30, 2004, unless extended or earlier terminated.

OFFERING CIRCULAR
dated April 6, 2004

Commonwealth of Dominica

Offer to Exchange

EC Dollar 3.5% Bonds due 2014 (the "*Short Bonds*")
EC Dollar 3.5% Bonds due 2024 (the "*Intermediate Bonds*")
EC Dollar 3.5% Bonds due 2034 (the "*Long Bonds*")
(collectively, the "*New Bonds*")

for

Schedule A Claims and Schedule B Claims (as defined herein)
(collectively, the "*Eligible Claims*")

The Commonwealth of Dominica ("*Dominica*" or the "*Commonwealth*") hereby offers to exchange the New Bonds for the Eligible Claims on the terms set forth herein (the "*Offer*"). The New Bonds will be direct, unconditional and unsecured obligations of Dominica. This Offer represents one component of Dominica's comprehensive debt management program (the "*Program*") announced on December 17, 2003.

A holder of an Existing Claim may only participate in the Offer by delivering a Letter of Acceptance, in the form set out in this Offering Circular, at or prior to 5:00 p.m. (Roseau time) on April 30, 2004 at the address specified in the Letter of Acceptance by hand, mail or facsimile.

Dominica may at its option terminate the Offer if the total outstanding principal amount of tendered Eligible Claims is less than 66% of the aggregate outstanding principal amount of Eligible Claims, or if certain other conditions (described herein) are not met.

Application will be made to issue the New Bonds in the Regional Government Securities Market for trading on the Eastern Caribbean Securities Exchange.

This written description of the Offer is referred to as the "*Offering Circular.*"

Government of the Commonwealth of Dominica
MINISTRY OF FINANCE AND PLANNING

Tel: (767) 448-2401 Extn. 3354/3216
Fax: (767) 448-0054/0406
E-mail: finsec@cwdom.dm

Finance Building, 5th Floor
Kennedy Avenue, Roseau
Commonwealth of Dominica
West Indies

Ref:

April 6, 2004

To: Holders of Eligible Credits of the Commonwealth of Dominica

From: Honorable Roosevelt Skerrit
Prime Minister and Minister of Finance
of the Commonwealth of Dominica

Re: <u>Dominica's Comprehensive Debt Management Programme</u>

Ladies and Gentlemen:

I am pleased to enclose the Commonwealth of Dominica's Offer to Exchange certain categories of its existing public debts ("Eligible Claims") for new bonds to be issued by the Commonwealth (the "New Bonds"). Details regarding this offer are set out in the attached Offering Circular dated April 6, 2004.

Dominica's Economy

Dominica is confronting a severe economic crisis. We have endured several years of painful economic contraction resulting primarily from a slowdown in tourism following the events of September 11, 2001, and a major dislocation in the world market for bananas (our principal agricultural export). Since 1988, the dollar value of our exports has fallen by one third.

The Government has responded vigorously to address this crisis. On 10th December 2003, we signed a three-year Poverty Reduction and Growth Facility with the International Monetary Fund, the details of which are set out in Attachment 1 to the enclosed Offering Circular. That Facility will give Dominica access to new funds repayable over 10 years (with 5-1/2 years of grace) at an annual interest rate of 0.05%.

Dominica is also taking a series of stringent fiscal adjustment measures, including:

- Fiscal policy will be strengthened significantly over the medium term to reach a primary surplus of 3 percent of gross domestic product (GDP) by 2006-2007.

- Achievement of this target will require the adoption of fiscal measures of about 5 percent of GDP in the next three years.

- Targeted expenditure cuts will include further reductions in public sector wages of 5% in 2004-2005 and another 5% cut in 2005-2006.

- A targeted primary surplus for 2003-2004 of 0.5% of GDP.

- Targeted reductions in tax exemptions of will yield 0.5% of GDP in 2003-2004.

Dominica's Debt Profile

Dominica's public debt burden is visibly unsustainable on existing terms. The country's debt to GDP ratio is nearly 120%, roughly twice the level that countries in Dominica's position are advised not to exceed. It is perfectly clear to the Government, and to the international financial institutions that have been supporting Dominica in its economic recovery effort, that unless this debt burden is alleviated very promptly, Dominica must slip into payment default. Indeed, the new IMF programme is expressly conditioned on Dominica's successful completion of a comprehensive debt reprofiling. If we fail in this endeavor, that Facility, and the other multilateral assistance that is conditioned on that Facility, will terminate.

The Comprehensive Debt Management Programme

Dominica does not wish to default on its public debt. History, including current history elsewhere in this hemisphere, teaches that once sovereign payment defaults occur, they tend to persist for many months or years. During this period, the value of the creditors' investments in the sovereign's debt instruments is crushed. The eventual debt restructuring, if and when it occurs, then returns to the investors only a small fraction of their original investments.

We do not want this model to be followed in Dominica. We intend to do everything in our power to preserve the value of the investments that have been made in Dominica and, to this end, we have made extraordinary efforts to remain current on our public debt instruments until an orderly and consensual restructuring of these liabilities could be arranged.

That time has now come. Dominica is today launching a comprehensive debt management programme (the "Programme") designed to return the country promptly to a sustainable debt profile. The Programme is comprehensive in nature and contemplates contributions from all affected creditors. By acting preemptively before a payment default occurs, and by seeking contributions on an equitable basis from all major creditors, Dominica is seeking to minimize the sacrifices that it must ask of any one creditor or creditor group. This Programme, including a description of the proposed treatment of all creditor groups, is set out in the enclosed Offering Circular.

The Exchange Offer

As it relates to holders of Dominica's commercial indebtedness, the Programme contemplates an exchange of existing Eligible Claims for three series of new, liquid Commonwealth of Dominica bonds: the Short Bond, the Intermediate Bond and the Long Bond.

Holders of existing short-term claims (that is, claims maturing on or before March 31, 2006), may exchange those claims for any of the three series of New Bonds, at their option. Holders of existing claims maturing after March 31, 2006, may exchange those claims for the Intermediate Bond or the Long Bond, at the option of each holder.

Each series of the New Bonds will be denominated in EC dollars, and they all carry a fixed interest coupon of 3.5%. The choice among the three New Bonds thus involves a straightforward choice between tenor (maturity date) and discount as follows:

- the Long Bond, which has a tenor of 30 years, is exchangeable for existing claims at par (that is, no discount to principal),

- the Intermediate Bond has a 20-year tenor, but is exchanged at a discount of 20% from the principal amount of the tendered existing claim, and

- the Short Bond has a 10-year life, but involves a discount of 30% in the exchange.

Notwithstanding its deeper discount, the Short Bond has a somewhat higher net present value (NPV), reflecting the fact that existing claims with short maturities (which are the only claims eligible to be exchanged for the Short Bond) tend to have a higher market value.

All accrued interest on all existing claims tendered in the exchange will be paid in cash on the closing date.

Each series of the New Bonds also carries a "mandatory debt management" feature that requires Dominica to retire from the market a specified percentage of the original principal amount of that series in each year (following a grace period), or face the prospect of making an equivalent partial redemption of the bonds. This feature is designed to ensure that Dominica will gradually retire the bonds prior to final maturity. It also benefits all holders of the New Bonds because Dominica's repurchase of the instruments in the market will tend to support the market price of the bonds over time.

The Government fully realizes that this exchange involves a degree of financial hardship for the holders of existing claims. As you consider this offer, however, we would ask you to bear in mind these factors:

- Not taking these measures at this time will result in considerably more pain -- for both Dominica and its creditors -- down the road; indeed, a very short way down the road*; and

- A successful contemplation of this Programme, together with the aggressive economic adjustment measures we have been taking, will quickly return Dominica to a position of creditworthiness. The market value of the New Bonds issued in the exchange (which are designed to be liquid instruments) should reflect that status.

Conclusion

Dominica believes that this comprehensive debt management programme is the only alternative to an across-the-board cessation of payments. With the cooperation of our creditors, we can weather this difficult period and preserve, to the greatest extent possible, the value of the investments that have been made in our country. We are asking for your assistance.

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* In the only other sovereign debt restructuring currently underway, the sovereign borrower (after more than two years of payment default) has been forced to propose to its creditors an exchange involving a 75% haircut to principal. The residual amount of a creditor's claim (equal to one-fourth of its original amount) will apparently be exchanged for a new bond with a 42-year tenor and a coupon of 0.05%. It is a sobering prospect for us all.

If you have any questions concerning the offer, or require assistance in completing a Letter of Acceptance, please contact Mrs. Rosamund Edwards or Mrs. Vindrani Shillingford (767-448-2401 Ext. 3301 and 3232) of the Ministry and Finance and Planning.

HONOURABLE ROOSEVELT SKERRIT
PRIME MINISTER AND MINISTER OF FINANCE AND PLANNING

Enclosures:

Offering Circular

Letter from the IMF

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

FIRST DEPUTY MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

March 29, 2004

The International Financial Community

I would like to inform you about Dominica's recent economic developments, its economic program, and its relations with the International Monetary Fund.

Dominica's macroeconomic adjustment and structural reform program aims to stabilize the economy, regain debt sustainability, re-establish growth, and reduce unemployment-related poverty. The program has been supported by the Fund since August 2002 initially under a 12-month Stand-By Arrangement (SBA) for SDR 3.3 million, which was modified and extended by six months in July 2003, and subsequently under a three-year Poverty Reduction and Growth Facility (PRGF) for SDR 7.7 million since December 2003. Performance under the extended SBA and the PRGF has been strong, all performance criteria and benchmarks under the program have been observed since July 2003. The IMF Executive Board has just concluded the first review under the PRGF arrangement on March 24.

The economy suffered strong setbacks caused by Dominica's loss of preferential access to the European banana market, and the shock to tourism after the September 11th attacks. Following a sharp economic contraction of about 10 percent in 2001–02, the economy appears to have stabilized in 2003, and real GDP growth is expected to turn positive in 2004.

The deterioration in the fiscal situation—which began in 1998—was exacerbated by these shocks, and by inadequate policy responses. As a result, the level of public debt grew rapidly, reaching unsustainable levels by 2003. Under the extended SBA, the authorities regained control of the budgetary situation. After strong fiscal measures contained in the budget for FY 2003/04 (July–June)—including a 5 percent nominal wage cut—the "structural" primary balance shifted from a deficit of 4½ percent of GDP in FY 2002/03 to a projected small surplus for FY 2004/05 and a surplus of 3 percent of GDP by FY 2006/07.

The structural reform agenda under the PRGF-supported program seeks to remove key obstacles to growth by focusing on strengthening the public finances and on four main areas, namely:

- Implementation of a comprehensive debt restructuring, as this provides the necessary financing for the program.

- Fiscal reform to address weaknesses in the public accounts, including wage bill cuts of 10 percent in two equal installments in FY 2004/05 and FY 2005/06 (through civil service retrenchment); tax reform, including the introduction of the VAT and a review of tax exemptions; pension reform, including extending the civil service retirement age from 55 to 60; improved budgetary procedures; and the introduction of a Fiscal Responsibility Law.

- Financial sector strengthening, including measures designed to reduce potential vulnerabilities to the banking system.

- Reforms to enhance the investment climate, improve competitiveness and deregulate the economy.

In order to restore sustainability in Dominica, a restructuring of the public debt with a significant debt reduction in NPV terms is necessary (the public debt doubled in the last five years and reached 115 percent of GDP in 2003). Indeed, the success of the program rests on the continued support from: (i) international financial institutions, providing policy advise and financial and technical assistance; (ii) donors, in the form of new disbursements and technical advise; (iii) the Dominican authorities, who must continue along the ambitious path they have set out for themselves in terms of fiscal adjustment and structural reform; and (iv) creditors, in the form of participation in a cooperative debt restructuring to restore the country's debt to sustainability and the economy to viability. The restructuring of existing debt is essential to secure sufficient financing for the program while seeking an equitable burden sharing among various creditor groups.

The Dominican Government is mindful of the substantial challenges ahead. It has—through its strong performance under the program—demonstrated its willingness to address economic imbalances by adopting ambitious fiscal and structural reforms, aimed at removing obstacles to growth and returning to a sustainable path. Toward these ends, the Dominican authorities and the Fund staff are in close consultation as the appropriate policies are designed and implemented. Financial support from the international community, including the country's creditors, is crucial to the future success of Dominica's program. It would be essential, therefore, that the international financial community supports this exchange offer.

Sincerely yours,

Anne O. Krueger

Anne O. Krueger
Acting Managing Director

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INTRODUCTION

When you make your investment decision, you should rely only on the information contained in this Offering Circular. The Commonwealth of Dominica ("Dominica") has not authorized anyone to provide you with information that is different. This document may only be used where it is legal to offer and sell these securities. The information in this Offering Circular may only be accurate as of the date of this Offering Circular.

Dominica does not assume responsibility for information other than the Offering Circular and all amendments thereto.

Dominica is furnishing the Offering Circular to you solely for use in the context of Dominica's Offer. After having made all reasonable inquiries, Dominica confirms that:

- the information contained in this Offering Circular is true and correct in all material respects and is not misleading as of the date of this Offering Circular;
- it holds the opinions and intentions expressed in this Offering Circular;
- to the best of its knowledge and belief, it has not omitted other facts, the omission of which makes this Offering Circular as a whole misleading as of the date of this Offering Circular; and
- it accepts responsibility for the information it has provided in this Offering Circular.

Before you participate in the Offer, you should read this Offering Circular and the related form of Letter of Acceptance, as each contain information regarding Dominica, the Offer, the New Bonds and other matters. You must make your own decision as to whether to tender your Eligible Claims in exchange for New Bonds or refrain from doing so.

Letters of Acceptance may be submitted by hand, by mail or by facsimile transmission. Dominica reserves the right to reject any Letter of Acceptance not received in the appropriate form.

CERTAIN LEGAL RESTRICTIONS

The distribution of this Offering Circular and the transactions contemplated by the Offer may be restricted by law in certain jurisdictions. If the Offering Circular comes into your possession, you are required by Dominica to inform yourself of and to observe all of these restrictions. The Offering Circular does not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law.

SUMMARY

This summary highlights information contained elsewhere in this Offering Circular. It is not complete and may not contain all of the information that you should consider before tendering Eligible Claims in exchange for New Bonds. You should read the entire Offering Circular carefully.

The Offer

The Offer................................ Dominica is inviting holders of the Eligible Claims listed on Schedule A ("*Schedule A Claims*") and Schedule B ("*Schedule B Claims*") to this Offering Circular to tender their Eligible Claims in exchange for newly-issued New Bonds on the terms and subject to the conditions set forth in this Offering Circular and the related form of Letter of Acceptance.

The Offer expires at 5:00 P.M., Roseau time, on April 30, 2004, unless Dominica in its sole discretion extends it or terminates it earlier. We refer to the date on which the Offer expires as the "*Expiration Date.*"

Dominica will announce the results of the Offer on the third business day in Roseau following the Expiration Date or as soon as possible thereafter.

Concurrent Offers .... As part of the Program, Dominica is approaching its other creditors (including its bilateral creditors) for debt relief consistent with that being sought pursuant to this offer. See "Terms of the Offer—Intercreditor Equity." These offers to other creditors are referred to as the "*Concurrent Offers*".

Schedule A Claims and Schedule B Claims................. Schedule A Claims comprise Eligible Claims that have a final maturity date falling on or prior to March 31, 2006.

Schedule B Claims comprise Eligible Claims that have a final maturity date falling after March 31, 2006.

Because Schedule A Claims have a shorter maturity, they are entitled to be exchanged for the Short Bond; an instrument that has a higher net present value than either the Intermediate Bond or the Long Bond.

Consideration to Be Received for Eligible Claims Tendered.... Subject to the terms and conditions set forth in this Offering Circular, if the Offer is completed you will receive for each Eligible Claim validly tendered pursuant to this Offer:

- for Schedule A Claims, at your option:
  - Short Bonds, or
  - Intermediate Bonds, or
  - Long Bonds,*

  in each case with a principal amount as described herein;
- for Schedule B Claims, at your option, either:
  - Intermediate Bonds, or
  - Long Bonds,*

  in each case with a principal amount as described herein;

and, in all cases, contractual interest on the Eligible Claim accrued to, but excluding, the Closing Date (see "Terms of the Offer—Consideration to Be Received for Eligible Claims Tendered"). In addition, Dominica will clear, on or prior to the Closing Date, any arrears of past due interest on Eligible Claims tendered and accepted pursuant to the offer.

Summary of Exchange Terms For each EC$1,000** principal amount of Schedule A Claims or Schedule B Claims validly tendered and accepted pursuant to the Offer, you will receive the following principal amount of New Bonds (depending on which New Bond you elect to take):

Eligible Claim	Short Bonds		Intermediate Bonds		Long Bonds
Schedule A Claims	EC$700	or	EC$800	or	EC$1,000
Schedule B Claims	N/A		EC$800	or	EC$1,000

* Long Bonds will not be issued if the aggregate amount of subscriptions for Long Bonds is less than EC$25 million. See "Summary Description of New Bonds—The Long Bond" below.

** Eligible Claims denominated in currencies other than EC dollars will be converted, for calculation purposes only, into EC dollars at the exchange rate prevailing on the third business day preceding the Closing Date.

Minimum Level of Overall Participation Required for Completion of Offer........ Dominica may, at its option, terminate the Offer if less than 66% of the total Eligible Claims participate in the Offer.

The Government reserves the right to complete the Offer if the participation level falls below that threshold, but it will not do so if the resulting debt profile (viewed in light of the responses to the Concurrent Offers) is judged to be unsustainable. For more information about the requirements for completing the Offer, see "Terms of the Offer—Minimum Level of Overall Participation Required for Completion of Offer."

Tendering Eligible Claims by Submission of Letters of Acceptance .... You or the custodial entity through which you hold your Eligible Claims must transmit at or prior to 5:00 p.m. (Roseau time) on the Expiration Date a properly completed Letter of Acceptance.

A description of the procedures for submitting letters of acceptance can be found in "Terms of the Offer—Tender Procedures—Procedures for Submitting Letters of Acceptance" in this Offering Circular.

Withdrawal Rights.......... Any tender for exchange and the corresponding Letter of Acceptance may be withdrawn, for any reason, at any time prior to 5:00 p.m. on the Expiration Date. Thereafter, they shall become irrevocable.

For more information about the conditions for withdrawal, see "Terms of the Offer—Irrevocability; Withdrawal Rights."

Summary Description of The New Bonds

Common Terms

This table presents a summary of certain terms common to all New Bonds, and should be read in conjunction with the more detailed description of the bonds appearing elsewhere in this Offering Circular.

Issuer..	The Commonwealth of Dominica.
Constitutive Document	The New Bonds will be issued under a Trust Deed. Dominica will make copies of the Trust Deed (including the forms of the New Bonds) available for inspection at the Ministry of Finance and Planning, Finance Building, 5th Floor, Kennedy Road, Roseau, by not later than April 15, 2004, and a copy of these documents will be mailed upon request to any holder of an Eligible Claim.
Withholding Tax and Additional Amounts................	Dominica will make payments of principal and interest in respect of the New Bonds without withholding or deducting for or on account of any present or future Dominican taxes, duties, assessments or governmental charges of whatever nature except as set forth in the Trust Deed.
Further Issues..........................	Dominica may, from time to time, create and issue further bonds having the same terms as and ranking equally with any series of the New Bonds in all respects and such further bonds will be consolidated and form a single series with the appropriate series of the New Bonds.
Governing Law........................	Trinidad and Tobago.
Denominations.........................	Dominica will issue the New Bonds only in integral multiples of EC$1.
Listing	Application will be made to issue the New Bonds in the Regional Government Securities Market for trading on the Eastern Caribbean Securities Exchange.

The Short Bond

Issuer	Commonwealth of Dominica
Currency	EC Dollars
Exchange Ratio	0.70 (*i.e.*, for every EC$1,000 principal amount of a Tendered Eligible Claim, the holder will receive EC$700 principal amount of a Short Bond.)
Maturity Date	10 years after issuance (bullet)
Mandatory Debt Management	Starting in year 6 after issuance, and thereafter in each year through year 9, Dominica must have retired in each year (through buybacks in the market, debt exchanges, debt-for-equity conversions or otherwise) a face amount of the Short Bonds equal to 20% of the original amount of the issue. If Dominica fails to meet this target in any year, it will be obliged to make a partial redemption of the Short Bonds in that year equal to the shortfall.
Interest Rate	3.5% p.a., fixed
Interest Periods	First interest period is 3 months; thereafter semi-annual
Governing Instrument	Trust Deed
Trustee	To be announced

The Intermediate Bond

Issuer	Commonwealth of Dominica
Currency	EC Dollars
Exchange Ratio	0.80 (*i.e.,* for every EC $1,000 principal amount of a Tendered Eligible Claim, the holder will receive EC $800 principal amount of an Intermediate Bond)
Maturity Date	20 years after issuance (bullet)
Mandatory Debt Management	Similar to that for the Short Bond except that the face amount of Intermediate Bonds to be retired is 8% per year in years 7 through 17 and 4% per year in years 18 and 19.
Interest Rate	3.5% p.a., fixed
Interest Periods	First interest period is 5 months; thereafter semi-annual
Governing Instrument	Trust Deed
Trustee	To be announced

The Long Bond*

Issuer.. Commonwealth of Dominica

Currency.................................. EC Dollars

Exchange Ratio....................... Par exchange

Maturity Date.......................... 30 years after issuance (bullet)

Mandatory Debt Management............................ Similar to that for the Short Bond except that the face amount of Long Bonds to be retired is 8% per year in years 15.5 through 26 and 4% per year in years 27 through 29.

Interest Rate............................ 3.5% p.a., fixed

Interest Periods....................... First interest period is 7 months; thereafter semi-annual

Governing Instrument........... Trust Deed

Trustee..................................... To be announced

* The Long Bond will only be issued if aggregate subscriptions for the Long Bond exceed EC$25 million. If not issued, subscriptions to the Long Bond will automatically be treated as subscriptions to the Intermediate Bond.

TIMETABLE FOR THE OFFER

The following summarizes the anticipated time schedule for the Offer assuming, among other things, that the Expiration Date is not extended. This summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Circular. All references are to Roseau time unless otherwise noted.

Date	**Action**
April 6, 2004	*Commencement Date of the Offer* Distribution of the Offering Circular describing the terms of the Offer.
April 6, 2004 – April 30, 2004	*Offer Period* The Offer is open during this period.
April 30, 2004 at 5:00 P.M.	*Expiration Date and Time* Deadline for holders of Eligible Claims to deliver completed Letters of Acceptance as described in this Offering Circular unless Dominica extends or terminates the Offer earlier in its sole discretion.
May 5, 2004	*Announcement Date* Unless it has extended the Expiration Date or terminated the Offer earlier, Dominica will announce on this date or as soon as possible thereafter the results of the Offer and whether the requirements for completion of the Offer set forth in this Offering Circular have been met.
May 19, 2004	*Closing Date* The New Bonds are issued and the Eligible Claims tendered and cancelled.

TERMS OF THE OFFER

Dominica is inviting owners of Eligible Claims, also referred to as "*creditors,*" to tender, on the terms and subject to the conditions of this Offering Circular and the related form of Letter of Acceptance, their Eligible Claims in exchange for newly-issued New Bonds. Each such tender for exchange is referred to as a "*tender*."

Purpose of the Offer

The Offer and the Concurrent Offers have been designed to adjust Dominica's debt profile and make it sustainable.

Consideration to Be Received for Eligible Claims Tendered

As described in detail below, for Eligible Claims validly tendered and accepted pursuant to this Offer, you will receive on the Closing Date either Short Bonds, Intermediate Bonds or Long Bonds, as applicable.

Regardless of which New Bond you elect, you will also receive on the Closing Date accrued but unpaid interest on the tendered and accepted Eligible Claims (at the normal contractual rate for that Eligible Claim) to, but excluding, the Closing Date. In addition, Dominica will clear, on or prior to the Closing Date, any arrears of past due interest on Eligible Claims tendered and accepted pursuant to the Offer.

In calculating principal amounts of Eligible Claims not denominated in EC dollars, Dominica will use currency exchange rates specified below in "Currency Exchange Rates."

Schedule A Claims

For each EC$1,000 principal amount of a Schedule A Claim validly tendered, you will receive:

- EC$700 principal amount of a Short Bond, or
- EC$800 principal amount of an Intermediate Bond, or
- EC$1,000 principal amount of a Long Bond.*

Schedule B Claims

For each EC$1,000 principal amount of a Schedule B Claim validly tendered, you will receive:

- EC$800 principal amount of an Intermediate Bond, or
- EC$1,000 principal amount of a Long Bond.*

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* Note that if aggregate subscriptions for the Long Bond do not exceed EC $25 million, the Long Bond will not be issued and tenders electing the Long Bond will automatically be treated as elections of the Intermediate Bond.

Intercreditor Equity

The public debt of Dominica is mainly held by four types of creditors: multilateral lending institutions (including the International Monetary Fund, the World Bank and the Caribbean Development Bank), bilateral creditors, commercial creditors (including both loans and bonds) and domestic creditors. The principle of intercreditor equity has guided the preparation of the terms of the Offer and the Concurrent Offers. This section summarizes the proposed treatment of each creditor group affected by the Program.

Proposed Treatment of Each Creditor Group

IMF/World Bank/CDB Credits. Dominica expects that these institutions will be net new lenders to the country over the medium term. CDB is the single largest creditor of the Commonwealth. As a multilateral development bank, CDB has "preferred creditor" status, and its loans are not regarded as subject to debt restructuring programs. In recognition of the debt servicing sustainability issues facing Dominica, however, CDB is voluntarily preparing a proposal for consideration by its Board of Directors (subject to overall acceptance of the Program by the other holders of claims on Dominica) that would, if approved, provide significant debt servicing relief to Dominica. This relief would take the form of the substitution of lower-interest special funds loans with long maturities and grace periods in place of existing higher-interest, shorter-maturity, ordinary capital resources loans, together with additional short-term debt servicing relief.

Bilateral Creditors. Bilateral creditors are being asked to adjust the terms of their existing loans to Dominica to achieve, for each bilateral creditor, an overall NPV equal to approximately 50% of the debt stock's nominal value (using a discount rate of 9%).

Bilateral creditors will also be given an option to exchange their existing loans for either the Intermediate Bond or the Long Bond described below. Bilateral credits with a final maturity date falling on or prior to March 31, 2006, may also be exchanged for the Short Bond described below.

Commercial and Domestic Creditors. Dominica's commercial and domestic creditors (apart from holders of short-term Treasury bills and the operating portion of commercial bank overdraft lines as described below) are being invited pursuant to this Offer to exchange those claims for Short Bonds, Intermediate Bonds or Long Bonds on the terms provided in this Offering Circular. Using a 9% discount rate, the NPV of the debt tendered for the Short Bond is approximately 49%, the NPV of the debt tendered for the Intermediate Bond is approximately 48% and the NPV of the Long Bond is approximately 48%.

Excluded Debt

Only the following three categories of liabilities are being excluded from Dominica's comprehensive debt reprofiling:

- *Short-term (three months or less) Treasury Obligations*. It is expected that these Treasury obligations will continue to be rolled over.

- *Operating Component of Overdraft Lines*. The Government's operating overdraft lines with local banks will not be affected by the Program.

- *New Credits*. Credits that are contracted or disbursed after December 17, 2003 (the date of the announcement of an impending restructuring) will not be affected by the Program.

Summary

In summary, the bilateral creditors, the commercial creditors and the domestic creditors, taken as a whole, are each being asked to contribute a comparable level of debt relief as part of Dominica's comprehensive debt reprofiling. The net present value of the claims of each creditor group, after implementation of these arrangements, will be similar – approximately 50% of the nominal value of the affected debt stock (using a consistent 9% discount rate).

Minimum Level of Overall Participation Required for Completion of Offer

Dominica may, at its option, terminate the Offer if less than 66% of the total Eligible Claims participate in the Offer.

The Government reserves the right to complete the Offer if the participation level falls below this threshold, but it will not do so if the resulting debt profile (viewed in light of the response to the Concurrent Offers) is judged to be unsustainable.

In calculating the level of overall participation, all principal amounts of Eligible Claims denominated in currencies other than EC dollars will be converted to EC dollars using the currency exchange rates specified below under "—Currency Exchange Rates".

Currency Exchange Rates

The currency exchange rates used to determine the consideration specified above (under "—Consideration to be Received for Eligible Claims Tendered") and the level of participation specified above (see "—Minimum Level of Overall Participation Required for Completion of Offer") will be the exchange rate for the sale of such currency for EC dollars prevailing (for the purpose of determining the minimum level of participation) on the last day for tenders, and (for the purpose of determining the consideration to be received for tendered Eligible Claims) on the third business day in Roseau prior to the Closing Date, in each case by reference to the relevant exchange rate notified by the Eastern Caribbean Central Bank.

Rounding

To determine the amount of New Bonds that will be exchanged for a specific tender, the principal amount of Eligible Claims tendered will be multiplied by the appropriate exchange ratios for the type of New Bonds selected by the creditor, and the resultant amount will be rounded down to the nearest whole number. This rounded amount will be the principal amount of New Bonds received, and no additional cash will be paid in lieu of any principal amount of New Bonds not received as a result of rounding down.

TENDER PROCEDURES

General

If you desire to tender Eligible Claims for New Bonds pursuant to the Offer, a Letter of Acceptance applicable to the Eligible Claims tendered must be submitted by you or on your behalf as explained below. Creditors tendering any Eligible Claim must tender all Eligible Claims owned by that creditor.

Procedures for Submitting Letters of Acceptance

In order to submit a tender, you must submit, or arrange to have submitted on your behalf, a duly completed Letter of Acceptance (by hand delivery, by telefax or by mail) to:

Financial Secretary
Ministry of Finance and Planning
Finance Building, 5th Floor
Kennedy Avenue, Roseau
Commonwealth of Dominica
West Indies
Fax. No.: (767) 448-0054

Letters of Acceptance must be submitted during the Offer Period.

If you encounter difficulties in submitting your Letter of Acceptance, you may contact Dominica at (767) 448-2401, ext. 3201 or 3354.

Irregularities

All questions regarding the validity, form and eligibility, including time of receipt or revocation or revision, of any Letter of Acceptance will be determined by Dominica in its sole discretion, which determination will be final and binding. Dominica reserves the absolute right to reject any and all letters of acceptance not in proper form or for which any corresponding agreement by Dominica to exchange would, in the opinion of Dominica's counsel, be unlawful. Dominica also reserves the right in its sole discretion to reject any tender in which the tendered Eligible Claim cannot be reconciled with Dominica's own records. Dominica reserves the absolute right to waive any of the conditions of the Offer or defects in Letters of Acceptance and tenders. Dominica shall not be under any duty to give notice to you, as the tendering creditor, of any irregularities in Letters of Acceptance, nor shall Dominica incur any liability for the failure to give such notice.

Withdrawal Rights

Any tender for exchange and the corresponding Letter of Acceptance may be withdrawn for any reason, at any time prior to the Expiration Date. Thereafter, the tenders will be irrevocable.

In addition, if Dominica terminates the Offer without accepting any tenders for exchange, all tenders for exchange and Letters of Acceptance shall automatically be deemed to be withdrawn.

Term of Offer, Termination, Amendments

The Offer will expire at 5:00 p.m., Roseau time, on the Expiration Date, unless Dominica in its sole discretion extends it or terminates it earlier.

At any time before the expiry of the Offer, Dominica may, in its sole discretion:

- terminate the Offer, including with respect to tenders submitted prior to the time of the termination,
- extend the Offer past the originally scheduled Expiration Date, or
- amend the Offer from time to time in any fashion.

Publication

Dominica will publish notices concerning the Offer in the *Official Gazette* of Roseau.

Settlement

The Closing Date for the Offer will be May 19, 2004, unless the Offer is extended, in which case a new Closing Date, if necessary, will be announced by press release.

On the Closing Date:

- you must deliver to Dominica good and marketable title to your Eligible Claims, free and clear of all liens, charges, claims, encumbrances, interests, rights of third parties and restrictions of any kind, and
- in return you will receive the New Bonds you are entitled to receive pursuant to the Offer, together with any cash you are entitled to receive pursuant to the Offer.

Market for the New Bonds

Each series of New Bonds is a new issue of securities with no established trading market. Dominica will apply to issue the New Bonds in the Regional Government Securities Market for trading on the Eastern Caribbean Securities Exchange. No assurance can be given as to the liquidity of the trading market for any series of the New Bonds. The price at which each series of the New Bonds will trade in the secondary market is uncertain.

Treatment of Eligible Claims Not Tendered

If any Eligible Claims are not tendered in connection with this Offer, the Government intends to pay those non-tendered Eligible Claims as and when resources to do so become available to the Government. The Government does not intend, however, to pay any amount in respect of a non-tendered Eligible Claim if, at the time such payment is due, a payment default then exists under any Short Bond, Intermediate Bond or Long Bond.

FORM OF LETTER OF ACCEPTANCE

To: The Commonwealth of Dominica
c/o Ministry of Finance and Planning
Finance Building, 5th Floor
Kennedy Avenue, Roseau
Commonwealth of Dominica
West Indies

__________ __, 2004

Re: Tender of Eligible Claims

Ladies and Gentlemen:

This Letter of Acceptance is being submitted in connection with the Commonwealth of Dominica's (the "Commonwealth" or "Dominica") Offer to Exchange dated April 6, 2004 (the "Offer"). All capitalized terms used but not defined in this Letter of Acceptance have the meanings given to those terms in the Offer. The undersigned acknowledges receipt of a copy of the Offer.

The undersigned owns each Schedule A Claim identified in Attachment 1 to this Letter of Acceptance (if any). The undersigned owns each Schedule B Claim identified in Attachment 2 to this Letter of Acceptance (if any). All Eligible Claims identified in Attachment 1 and Attachment 2 are referred to herein as the "Tendered Eligible Claims".

Tender

The undersigned hereby tenders the Tendered Eligible Claims for exchange for New Bonds on the terms, and subject to the conditions, of the Offer.

New Bond Election

For each Tendered Eligible Claim that is a Schedule A Claim, we have shown on Attachment 1 the type of New Bond (Short Bonds, Intermediate Bonds or Long Bonds) that we wish to receive in exchange for that Schedule A Claim.

For each Tendered Eligible Claim that is a Schedule B Claim, we have shown in Attachment 2 the type of New Bond (Intermediate Bonds or Long Bonds) that we wish to receive in exchange for that Schedule B Claim.

We understand and agree that if the aggregate subscriptions for the Long Bond in the Offer do not exceed EC$25 million, the Long Bond will not be issued and any election we may have made for the Long Bond will automatically be treated as an election of the Intermediate Bond.

We also understand that on the Closing Date we shall receive, in respect of each Tendered Eligible Claim, interest accrued on that Eligible Claim from and including the last day interest was paid thereon to but excluding the Closing Date, calculated at the normal contractual interest rate applicable to that Eligible Claim (for each Tendered Eligible Claim, the "Cash Amount").

Representation and Warranties

The undersigned represents and warrants to the Commonwealth as follows:

1. The undersigned owns the Tendered Eligible Claims and has full power and authority to tender the Tendered Eligible Claims in connection with the Offer.

2. On the Closing Date, the Tendered Eligible Claims will be transferred to the Commonwealth free and clear of any liens, charges, claims, encumbrances, interests or rights of third parties and restrictions of any kind.

3. Following delivery to the undersigned of the New Bonds corresponding to each Tendered Eligible Claim in accordance with the terms of the Offer and the payment to the undersigned of the applicable Cash Amount for that Tendered Eligible Claim on the Closing Date, all of our right, title, and interest in that Tendered Eligible Claim shall automatically be transferred to the Commonwealth.

4. In deciding to submit this Tender, the undersigned has not relied on any representation or warranty of the Commonwealth, or any party acting or purporting to act on behalf of the Commonwealth, other than those contained in the Offer.

5. The Tendered Eligible Claims constitute the entirety of the Eligible Claims owned by the undersigned.

6. The undersigned understands that submission of this tender pursuant to the Offer constitutes our acceptance of the terms and conditions of the Offer. Dominica's acceptance for exchange of the Tendered Eligible Claims will constitute a binding agreement between the undersigned and Dominica in accordance with the terms and subject to the conditions of the Offer.

7. All authority conferred or agreed to be conferred by this Letter of Acceptance shall not be affected by, and shall survive, the undersigned's death or incapacity (if a natural person), and all of our obligations hereunder shall be binding upon our heirs, executors, administrators, trustees in bankruptcy, personal and legal representatives, successors and assigns.

Covenants

The undersigned covenants with the Commonwealth as follows:

1. Between the date hereof and the Expiration Date, the undersigned shall not sell, transfer or encumber any Tendered Eligible Claim unless it has first withdrawn this tender by written notice to the Commonwealth as provided in the Offer.

2. Between the Expiration Date and the Closing Date, the undersigned will not sell, transfer or encumber any Tendered Eligible Claim unless the Commonwealth has first published a notice (in the manner prescribed in the Offer) terminating the Offer.

3. Not less than three Roseau business days prior to the Closing Date, the undersigned shall deliver to the Ministry of Finance & Planning (at Finance Building, 5th Floor, Kennedy Avenue, Roseau) the original of any debt instrument (such as a promissory note) evidencing a Tendered Eligible Claim.

4. The undersigned agrees to take such further steps, and to execute such additional documents, as the Commonwealth may reasonably request to confirm the Commonwealth as the sole owner of the Tendered Eligible Claims following a closing on the Closing Date in accordance with the terms of the Offer.

* * * *

This Letter of Acceptance and the tender contained herein shall be governed by, and construed in accordance with, the law of the Commonwealth of Dominica.

Very truly yours,

____
[Signature]

____
[Typed or printed name and title]

Contact details:
Address:
Telephone:
Fax:
E-mail:

Attachment 1 (Tendered Schedule A Claims)
Attachment 2 (Tendered Schedule B Claims)

Name of Creditor Tendering:

Attachment 1
to Letter of Acceptance

____

Tendered Schedule A Claims

Coupon No. (see list attached to Offer)	Final Maturity Date of Tendered Claim	Principal Amount of Eligible Claim Being Tendered (in original currency)	New Bond Election*

* Options are Short Bond, Intermediate Bond or Long Bond.

Name of Creditor Tendering:

Attachment 2
to Letter of Acceptance

____

Tendered Schedule B Claims

Coupon No. (see list attached to Offer)	Final Maturity Date of Tendered Claim	Principal Amount of Eligible Claim Being Tendered (in original currency)	New Bond Election*

* Options are Intermediate Bond or Long Bond.

THE COMMONWEALTH OF DOMINICA

Territory and Population

The Commonwealth of Dominica is the largest and most northerly of the Windward Islands between Guadeloupe and Martinique. Dominica has an area of 751 square kilometers and is the most mountainous of the Eastern Caribbean Islands. It is estimated that Dominica is 65% forested and that it has the largest rain forest among the Lesser Antilles. Rainfall ranges between 1,200mm per year on the east coast to 10,000mm in the central part of the island. The national capital of Dominica is Roseau. The main commercial ports are Roseau and Portsmouth.

Dominica's population is concentrated along coastal towns and villages because of the rugged nature of the terrain. The population was estimated in 2003 at 69,655, and is mostly of African origin, apart from a small population of indigenous Carib origin. English is the official language, but a French-based *Creole* is widely spoken in outlying villages. The main religions are Roman Catholic (77%) and Protestant (15%).

Constitution, Government and Political Parties

Dominica was a British colony from 1763 and became a self-governing Associated State in 1967. Dominica achieved independence as a Republic within the British Commonwealth on November 3, 1978. The legal system is based on UK common law as exercised by the Eastern Caribbean Supreme Court of Justice.

Dominica has a UK-style representative system of government with the President performing a mainly ceremonial role. It has a unicameral House of Assembly with 30 voting members, 21 elected directly and 9 appointed senators. Elections are held at least every five years, with universal suffrage for adults over 18. Following the last general election, held in January 2000, the Dominica Labour Party (DLP) and the Dominica Freedom Party (DFP) formed a coalition government, unseating the previously governing United Workers Party. The Prime Minister is Roosevelt Skerrit of the DLP, who recently succeeded Pierre Charles after the latter's death due to natural causes in January 2004. The President is Dr. Nicholas J.O. Liverpool. The next elections are due by April, 2005.

Social Indicators

Dominica is generally classified as a middle-income developing country. The following table sets forth comparative social indicators.

Cross-Country Comparison of Selected Social Indicators

	Dominica	LAC	Upper Middle Income
Infant mortality (per 1000)............................	18	36	25
Access to potable water (% pop)..................	91	85	87
Net primary school enrollment	99	85	87
Adult literacy..	91	89	90
Life expectancy at birth (years)....................	77	70	71
Public spending on education (% of GDP)	7	2.8	2.9
on health (% of GDP)................................	4.5	3.3	4.4
on social protection (% of GDP)...............	4.7	4.7	n/a

Source: Ministry of Finance and Planning, Interim Poverty Reduction Strategy Paper (November 30, 2003)

Dominica has good social indicators: social indicators such as infant mortality, primary school completion, adult literacy and life expectancy rates are significantly higher than the averages for upper-middle income countries, reflecting Dominica's long-standing tradition of productive investments in human development, including social protection. In 2003, an estimated 91% of the population was literate. However, poverty and unemployment levels are high. In 2003, 29% of households and 39% of the population were poor and 11% of households and 15% of the population were indigent, or severely poor.

International and Regional Relations

Dominica is a member of several trading agreements, including CARICOM, the Caricom Single Market and Economy, and the Organization of Eastern Caribbean States, and is a member of the Eastern Caribbean Central Bank.

Economic and Financial Developments

Attached to this Offering Circular is a report on Dominica prepared by the International Monetary Fund in connection with the Second Review under Dominica's Stand-By Arrangement. It contains information concerning Dominica's current (and historical) economic and financial condition, as well as a description of Dominica's on-going Poverty Reduction and Growth Facility with the IMF.

SCHEDULE A CLAIMS*

Type of Claim	Coupon No.	Date of Issue	Issue No.	Final Maturity	Interest Rate	Principal Amount (In EC$ unless otherwise indicated)
External						
Debenture	3		2006	Nov 2004	6.0	368,000
Debenture	32	01-Jan-95	2004/2006	31-Dec-04	7.5	500,000
Debenture	33-35	01-Jan-95	2004/2006	31-Dec-04	7.5	250,000
Debenture	31	01-Jan-95	2006/2008	31-Dec-04	7.5	100,000
Debenture	3		2002/2007	Feb 2005	6.0	180,000
Debenture	36-43	15-Jun-95	2004/2006	14-Jun-05	7.5	336,000
Debenture	62	29-Aug-95	2004/2006	28-Aug-05	7.5	10,000
Debenture	65	22-Sep-95	2004/2006	21-Sep-05	7.5	1,000
Debenture	63-64	22-Sep-95	2004/2006	21-Sep-05	7.5	20,000
Debenture	71-72	03-Oct-95	2004/2006	02-Oct-05	7.5	100,000
Debenture	68-70	19-Oct-95	2004/2006	18-Oct-05	7.5	3,000
Debenture	67	19-Oct-95	2004/2006	18-Oct-05	7.5	10,000
Debenture	66	25-Oct-95	2004/2006	24-Oct-05	7.5	10,000
Debenture	4		2006	Nov 2005	6.0	368,000
Debenture	80-82	19-Jan-96	2004/2006	18-Jan-06	7.5	3,000
Debenture	4		2002/2007	Feb 2006	6.0	180,000

* Dominica reserves the right to add additional Eligible Claims to this list as appropriate.

Type of Claim	Coupon No.	Date of Issue	Issue No.	Final Maturity	Interest Rate	Principal Amount (In EC$ unless otherwise indicated)
Domestic						
Debenture	172		1992	1992	7.0	5,000
Debenture	83-98	01-Jan-95	2004/2006	31-Dec-04	7.5	5,950,000
Debenture	73-79	01-Jan-95	2004/2007	31-Dec-04	7.5	47,000
Debenture	11-16	01-Jan-95	2004/2006	31-Dec-04	7.5	420,000
Debenture	1-5	01-Apr-95	2004/2006	30-Mar-05	7.5	54,000
Debenture	17-18	25-May-95	2004/2006	24-May-05	7.5	200,000
Debenture	27-29	29-May-95	2004/2006	28-May-05	7.5	7,000
Debenture	26	29-May-95	2004/2006	28-May-05	7.5	1,000
Debenture	30	29-May-95	2004/2006	28-May-05	7.5	10,000
Debenture	19-22	29-May-95	2004/2006	28-May-05	7.5	80,000
Debenture	58-60	12-Jun-95	2004/2006	11-Jun-05	7.5	250,000
Debenture	99	27-Mar-96	2004/2006	26-Mar-06	7.5	50,000
Loan	BARB10001	31-Oct-00	N/A	01-Apr-04	6.0	1,044,887
Loan	1994713	21-Sep-94	N/A	04-Sep-04	11.0	734,114
Loan	1995702	22-Dec-99	N/A		9.0	14,888,299
Gov't Guaranteed Loan	2003708	30-Jun-03	N/A	30-Jun-04	10.0	1,000,000
Gov't Guaranteed Loan	2003706	30-Jun-03	N/A	30-Jun-04	9.0	5,488,641
Gov't Guaranteed Loan	2003700	30-Jun-03	N/A	30-Jun-04	10.0	1,500,831
Overdraft Lines	Embedded portion of commercial bank overdraft lines (as separately discussed with each affected bank)					

SCHEDULE B CLAIMS*

Type of Claim	Coupon No.	Date of Issue	Issue No.	Final Maturity	Interest Rate	Principal Amount (In EC$ unless otherwise indicated)
External						
Debenture	102A/102	04-Apr-96	2004/2006	03-Apr-06	7.5	2,000
Debenture	103	10-May-96	2004/2006	09-May-06	7.5	10,000
Debenture	104-105	17-May-96	2004/2006	16-May-06	7.5	20,000
Debenture	106-108	20-May-96	2004/2006	19-May-06	7.5	3,000
Debenture	109	18-Jun-96	2004/2006	17-Jun-06	7.5	10,000
Debenture	5		2006	Nov 2006	6.0	368,000
Debenture	5		2002/2007	Feb 2007	6.0	180,000
Debenture	25	01-Jan-98	2004/2006	31-Dec-07	7.5	100,000
Debenture	100	23-Mar-98	2004/2006	22-Mar-08	7.5	10,000
Debenture	1-4	04-Mar-99	1999/2009	03-Mar-09	9.0	1,538,780
Debenture	61	29-Aug-99	2004/2006	28-Aug-09	7.5	50,000
Debenture	5-8	10-Dec-99	1999/2009	09-Dec-09	9.0	461,159
Debenture	57	02-Feb-02	2002/2012	01-Feb-12	7.0	50,000
Debenture	001-003	10-Feb-99	1999/2009	09-Feb-09	10	US$ 587,893
Debenture	004-006	13-May-99	1999/2009	12-May-09	10	US$ 261,286
Debenture	009-013	08-Jul-99	1999/2009	07-Jul-09	10	US$ 261,286
Debenture	014-018	04-Aug-99	1999/2009	03-Aug-09	10	US$ 261,286
Debenture	019-023	29-Oct-99	2000/2009	28-Oct-09	10	US$ 261,286
Debenture	024-028	28-Jan-00	2000/2009	27-Jan-10	10	US$ 261,286
Debenture	029-033	03-Mar-00	2000/2009	02-Mar-10	10	US$ 261,286

* Dominica reserves the right to add additional Eligible Claims to this list as appropriate.

Type of Claim	Coupon No.	Date of Issue	Issue No.	Final Maturity	Interest Rate	Principal Amount (In EC$ unless otherwise indicated)
Debenture	034-039	15-Aug-00	2000/2010	14-Aug-10	10	US$ 410,548
Debenture	1997500	25-Apr-97	1997/2012	Mar 2012	2.0	US$ 75,000
Bond	1999040	14-Jul-99		16-Jul-14	9.0	US$ 30,585,947
Bond	1999050	23-Jul-99		23-Jul-24	9.0	45,500,000
Domestic						
Debenture	101	18-Apr-96	2004/2006	17-Apr-06	7.5	100,000
Debenture	110-118	12-Dec-96	2004/2006	11-Dec-06	7.5	2,000,000
Debenture	59-60	01-Aug-02	2002/2007	31-Jul-07	7.0	1,200,000
Debenture	125-144	28-May-98	2004/2006	27-May-08	7.5	10,000,000
Debenture	52-53	03-Sep-03	2003/2008	02-Sep-08	6.5	1,000,000
Debenture	119-124	12-Dec-96	2004/2006	30-Nov-08	7.5	500,000
Debenture	36-37	01-Dec-98	2006/2008	30-Nov-08	7.5	200,000
Debenture	30-32	01-Dec-98	2006/2008	30-Nov-08	7.5	200,000
Debenture	26-29	01-Dec-98	2006/2008	30-Nov-08	7.5	75,000
Debenture	61-63	01-Dec-98	2006/2008	30-Nov-08	7.5	350,000
Debenture	79-108	01-Dec-98	2006/2008	30-Nov-08	7.5	3,000,000
Debenture	35	01-Dec-98	2006/2008	30-Nov-08	7.5	100,000
Debenture	24	01-Dec-98	2006/2008	30-Nov-08	7.5	100,000
Debenture	33	01-Dec-98	2006/2008	30-Nov-08	7.5	5,000
Debenture	34	01-Dec-98	2006/2008	30-Nov-08	7.5	100,000
Debenture	6-10	01-Apr-99	2004/2006	31-Mar-09	7.5	225,000
Debenture	1-20	30-Jun-99	1999/2009	29-Jun-09	7.75	20,000,000
Debenture	145	22-Feb-00	2004/2006	21-Feb-10	7.5	10,000
Debenture	109-148	12-May-00	2006/2008	11-May-10	7.5	4,000,000
Debenture	31-60	12-May-00	2006/2008	11-May-10	6.5	3,000,000
Debenture	1-30	12-May-00	2006/2008	11-May-10	6.5	3,000,000

Type of Claim	Coupon No.	Date of Issue	Issue No.	Final Maturity	Interest Rate	Principal Amount (In EC$ unless otherwise indicated)
Debenture	56	02-Feb-02	2002/2012	01-Feb-12	7.0	50,000
Debenture	54	02-Feb-02	2002/2012	01-Feb-12	7.0	36,500
Debenture	29-34	01-Mar-02	2002/2012	29-Feb-12	7.0	600,000
Debenture	40-43	01-Mar-02	2002/2012	29-Feb-12	7.0	2,000,000
Debenture	25-28	1-Mar-02	2002/2012	29-Feb-12	7.0	400,000
Debenture	9-11	01-Mar-02	2002/2012	29-Feb-12	7.0	1,500,000
Debenture	6-8	01-Mar-02	2002/2012	29-Feb-12	7.0	1,500,000
Debenture	12-15	01-Mar-02	2002/2012	29-Feb-12	7.0	2,000,000
Debenture	16-24	01-Mar-02	2002/2012	29-Feb-12	7.0	3,250,000
Debenture	40-44	01-Mar-02	2002/2012	29-Feb-12	7.0	820,000
Debenture	35-39	01-Mar-02	2002/2012	29-Feb-12	7.0	2,500,000
Debenture	55	01-Mar-02	2002/2012	29-Feb-12	7.0	10,000
Debenture	1-33	20-Sep-02	2002/2012	20-Sep-12	7.0	16,293,450
Loan	1994712	30-Sep-95		30-Jun-10	7.0	2,806,209
Loan	1998701	16-Feb-98		31-Mar-20	7.0	4,505,673

IMF COUNTRY REPORT

January 2004
IMF Country Report No. 04/6

Dominica: Second Review Under the Stand-By Arrangement, Cancellation of Stand-By Arrangement and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Dominica

In the context of the second review under the stand-by arrangement, cancellation of stand-by arrangement and request for a three-year arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the Second Review Under the Stand-By Arrangement, Cancellation of Stand-By Arrangement and Request for a Three-year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on **November 21, 2003**, 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 December 11, 2003**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **December 19, 2003** updating information on recent developments.

- a Press Release summarizing the **views of the Executive Board as expressed during its December 19, 2003** discussion of the staff report that completed the review.

- a statement by the Executive Director for Dominica.

The document(s) listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Dominica*
Memorandum of Economic Policies by the authorities of Dominica*
Technical Memorandum of Understanding*
Interim Poverty Reduction Strategy Paper
Joint Staff Assessment of the Interim Poverty Reduction Strategy Paper
*May also be included in Staff Report

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

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

Copies of this report are available to the public from

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

DOMINICA

Second Review Under the Stand-By Arrangement, Cancellation of Stand-By Arrangement and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the Western Hemisphere Department

(In consultation with other departments)

Approved by Ranjit Teja and Matthew Fisher

December 11, 2003

- **Stand-By Arrangement.** The Executive Board approved a 12-month SBA for SDR 3.3 million (US$4½ million, 40 percent of quota) in August 2002. The program, however, went off track soon after approval. After substantial fiscal measures and a commitment to develop a debt strategy, the first review was completed in July 2003 and the program was extended through February 2004. So far SDR 2.7 million has been purchased.

- **Recent Developments.** Economic activity appears to have bottomed out, although GDP is expected to fall by 1 percent in 2003. Performance under the modified SBA has been solid. Observance of end-July performance criteria released the third purchase in September. All quantitative performance criteria for end-September were observed as well as all structural benchmarks for September, October and November, including the design of a debt strategy, which is a key measure for this review.

- **Poverty Reduction and Growth Facility Arrangement.** A medium-term framework is needed to underpin financing and debt restructuring. Concessional financing via a PRGF arrangement is deemed more appropriate, given serious sustainability concerns and protracted balance of payments problems. Access under a three-year PRGF supported program will amount to SDR 7.7 million (US$11.2 million, 93.8 percent of quota) and includes the remaining purchase under the SBA which is proposed to be cancelled. The macroeconomic framework envisages a return to growth and a significant strengthening of the public finances to reach a primary surplus of 3 percent over the medium term, consistent with the debt strategy. The structural side aims at re-establishing conditions for growth based on: (i) debt strategy implementation; (ii) fiscal reform; (iii) financial system strengthening; and (iv) other reforms to strengthen competitiveness.

- **Discussions.** These took place in Roseau during November 4–20, 2003. The staff met with Prime Minister Charles, Deputy Prime Minister Savarin, Director General Lestrade, and other senior officials and private sector representatives. The staff team comprised of A. Santos (Head), R. Randall, P. Dyczewski, (all WHD), S. Seshadri (PDR), and A. Ivanova (FAD). World Bank and ECCB staff also participated.

- **Publication.** The authorities agree to publish the Staff Report, the Letter of Intent, the Interim Poverty Reduction Strategy Paper (I-PRSP) and the Joint Staff Assessment of the I-PRSP.

List of Acronyms

CARTAC	Caribbean Regional Technical Assistance Center
CAS	Country Assistance Strategy
CDB	Caribbean Development Bank
CIRR	Commercial Interest Reference Rates
DFID	UK Department for International Development
DSS	Dominica Social Security
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EFF	Extended Fund Facility
EU	European Union
FSAP	Financial Sector Assessment Program
FY	Fiscal Year
GDDS	General Data Dissemination System
GFS	Government Finance Statistics
IFS	International Financial Statistics
I-PRSP	Interim Poverty Reduction Strategy Paper
IT	Indicative Target
JSA	Joint Staff Assessment
LEG	Legal Department
LOI	Letter of Intent
LPO	Local Purchase Order
MEP	Memorandum of Economic Policies
NCB	National Commercial Bank
NDC	National Development Corporation
NPC	Negative Pledge Clause
OECD	Organization for Economic Co-operation and Development
OECS	Organization of Eastern Caribbean Countries
PC	Performance Criteria
PDR	Policy Development & Review Department
PRGF	Poverty Reduction and Growth Facility
PSIP	Public Sector Investment Program
SAF	Structural Adjustment Facility
SBA	Stand-By Arrangement
SDR	Special Drawing Rights
TMU	Technical Memorandum of Understanding
VAT	Value Added Tax
WB	World Bank
WHD	Western Hemisphere Department

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I. Recent Developments

1. **While the economic situation remains difficult, there are some indications that the recession is bottoming out**. There are signs of a modest recovery in manufacturing and tourism in the second quarter, partly offsetting the continued deterioration in the banana sector. For the third quarter, tax collections have rebounded and imports are beginning to expand vigorously (due to a surge in construction). However, other indicators are less encouraging, with exports continuing to shrink, mostly on account of lower banana production, and credit to the private sector still trending down. The program was based on the assumption that GDP could fall by 1–3 percent in 2003; the contraction now seems more likely to be at the lower end of this range.

2. **Inflation remains under control, below 3 percent per year**. The tax measures adopted in the context of the 2003/04 budget and the tariff increases by the unregulated private electricity company pushed up the price level in July and August. CPI inflation on a 12-month basis increased from 0.4 percent in December 2002 to 3.1 percent in August 2003. This uptick in inflation was partly reversed in September, when CPI inflation slowed to 2.8 percent after the government negotiated a partial roll-back of electricity tariffs.

3. **Performance under the program has been solid**. Despite capacity implementation constraints, there has been a dramatic strengthening in policy implementation relative to the first half of the program period. All performance criteria for end-July 2003 were observed, releasing the third purchase. The structural benchmarks for September, October and November 2003, including the elaboration of a debt strategy, as well as all performance criteria for end-September 2003 were also observed.[1] The cash management system, implemented in July, has been instrumental in controlling expenditures, and is being strengthened and refined with technical assistance from the United Kingdom, Department for International Development (DFID).

4. **The authorities have outlined an ambitious debt strategy**. The authorities have concluded that the debt situation is unsustainable and that a policy framework involving a comprehensive debt restructuring is needed to restore sustainability over the medium term. The main objectives of their strategy are to: (i) reduce significantly the public debt ratio in net present value terms; (ii) improve the primary balance over the medium term to reach a surplus of 3 percent of GDP; and (iii) approach creditors while financing is still available, with a view to completing the debt restructuring operation during the first quarter of 2004.

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[1] On the structural benchmarks, the debt strategy was presented in September. The automatic fuel price adjustment mechanism was also implemented in September. The public sector reform strategy was developed in October; it presents a broad road map on how to conduct the public sector reform. The diagnostic review study of the financial sector was completed in November and identifies weaknesses in important segments of the banking system.

5. **The financing of the SBA-supported program is slightly behind schedule.** There are loans and grants from the World Bank, the Caribbean Development Bank (CDB) and the European Union (EU) still to be disbursed. The World Bank is expected to disburse its loan after the Board meeting scheduled now for January. CDB and the EU will disburse soon after completion of this review. The delay in World Bank disbursements is partly due to a potential breach of the negative pledge clause from a bond issued in 1999. The World Bank staff is still determining if the clause was breached and, if so, will explore ways to resolve this issue in order to proceed with their budget support loan. There is the risk of further delays in donor support, especially after the announcement of the debt strategy; however, the establishment of a cut-off date before these loans are disbursed would help to resolve those uncertainties.

Dominica: External Budgetary Support (Jul-Dec 2003)
(In millions of U.S. dollars)

	Committed	Disbursed 1/	Balance
European Union	3.3	2.2	1.1
World Bank	3.0	--	3.0
CDB	3.0	1.0	2.0
Bahamas	1.5	1.5	--
IMF	1.3	0.9	0.4
ECCB	1.0	1.0	--
Total	13.1	6.6	6.5

Source: Dominican authorities.
1/ Preliminary as of November 20, 2003.

6. **The social situation is stable so far.** The social reaction to the 5 percent wage cut to public employees announced in July has been less intense than feared, and a call for a general strike by the public workers union was unsuccessful. There are reports of wages falling in the private sector too. While there is social consensus on the need to adjust further, the political situation is becoming more polarized with general elections scheduled for January 2005. The opposition party has been critical of the policies of the current administration.

II. Request for a Poverty Reduction and Growth Facility (PRGF)

7. **A medium-term program supported under the PRGF constitutes the second part of the two-stage strategy outlined by the authorities at the last review.** At the time of completing the first review in July 2002, the authorities outlined a two-stage strategy for stabilization and structural reform. The first stage is proceeding well under the SBA and the economy has stabilized but the program only covers the period through end-2003. The second stage consists of measures to re-establish the basis for growth and implementation of the debt strategy to ensure medium-term debt sustainability. For that purpose the authorities are requesting cancellation of the SBA and approval of a three-year arrangement under the PRGF. This program would also provide a macroeconomic framework that could serve as the basis for discussions with creditors when implementing the debt strategy.

8. **The PRGF is the appropriate facility for Dominica, which needs to re-establish growth, reduce unemployment-related poverty, and limit debt service in the near term.** The country will continue facing protracted balance of payments problems and fragile debt dynamics in the next few years, even with the successful implementation of a comprehensive debt restructuring. Dominica will benefit from the use of the facility as the long maturity and

low interest rate addresses remaining vulnerabilities in its debt dynamics. A facility focused on growth would also address the country's most pressing economic problem, which is an unemployment rate of about 25 percent. The authorities' Interim Poverty Reduction Strategy Paper (I-PRSP) indicates that poverty is predominantly associated with high unemployment. As access to social services and social capital is broadly appropriate, growth and a recovery in employment would be crucial to reducing emerging poverty.

A. Macroeconomic Framework

9. **The main objective of the three-year program is to revive growth by addressing the debt overhang and structural weaknesses.** The program aims at boosting growth to the pre-crisis historical average of 2 percent per annum, while preserving price stability. Growth is expected to rebound from -1 in 2003 to 1 percent in 2004 and to 2 percent thereafter. Consistent with the reduced level of debt, fiscal policy will be strengthened significantly over the medium term to reach a primary surplus of 3 percent of GDP. At the same time, the program will aim to significantly reduce the large current account deficit, mostly though improvements in competitiveness.

Dominica: Macroeconomic Framework, 2002-2006

	SBA			PRGF		
		Prog	Rev. Proj.			
	2002	2003		2004	2005	2006
	(In percent)					
GDP growth	-4.7	-1 to -3	-1.0	1.0	2.0	2.0
Inflation	0.5	0.5	2.5	1.5	1.5	1.5
Current account / GDP	-14.7	-15.1	-16.7	-15.4	-12.8	-10.7
	(In percent of GDP, fiscal year)					
Structural primary balance	-4.5	-3.0	-2.0	0.5	2.0	3.0
Overall fiscal balance	-7.1	-7.7	-5.6	-5.5	-3.8	-2.7
Public debt	95.4	113.6	111.5	...	...	...

Sources: Dominican authorities; and Fund staff estimates.

B. Fiscal Policy

10. **In order to ensure sustainability after debt restructuring, the authorities have committed to a medium-term primary surplus target of 3 percent of GDP, entailing a fiscal effort of 5 percent of GDP over the next three years**. This target is consistent with the authorities' objective of a significant reduction in the debt to GDP ratio in net present value terms and a broad range of macroeconomic parameters. Achievement of this target will require the adoption of fiscal measures of about 5 percent of GDP in the next three years, given that the primary balance in 2003/04 is now projected to record a *deficit* of about 2 percent of GDP (excluding one-time exceptional grants of some 2¼ percent of GDP). The

authorities indicated that the fiscal program would be designed to still preserve public investment at its historical ratio of 7 percent of GDP (Box 1).[2]

11. **The authorities intend to adopt a front-loaded fiscal adjustment, with a primary surplus of ½ percent of GDP for the 2004/05 budget**. Subsequently, the authorities plan to strengthen the primary surplus to 2 percent in 2005/06 and 3 percent in 2006/07. This adjustment path requires the adoption of fiscal adjustment measures equivalent to 2½ percent of GDP in the first year (to switch from an underlying primary *deficit* of about 2 percent of GDP to a *surplus* of ½ percent). Under the program, the primary fiscal target would be adjusted to accommodate the one-off costs of structural reform (e.g., severance payments for employment retrenchment), unless they are financed by additional grants.

12. **The required fiscal adjustment for the first year will be undertaken in two installments, one with immediate effect and the other in the upcoming budget.** The fiscal year in Dominica begins on July 1 and the authorities find it difficult to introduce fiscal measures outside the budgetary cycle, particularly as significant measures were adopted in July 2003. Hence:

- ***The first phase*** of fiscal action consists of a policy commitment to reduce discretionary tax exemptions, with a view to achieving additional tax collections for ½ percent of GDP on an annualized basis. Cabinet approval of this step is a prior action for Board consideration (MEP ¶12).

- ***The second phase*** of measures, equivalent to 2 percent of GDP, will be implemented in the 2004/05 budget next July.

Dominica: Fiscal Adjustment Package for 2004-05

	In percent of GDP
Total Fiscal Measures	**2.5**
Prior Action	**0.5**
1. Reduction in discretionary tax exemptions	0.5
Measures in the 2004/05 budget	**2.0**
2. Reduction of the wage bill by 5 percent	1.2
3. Expenditure freeze 1/	0.4
4. Increase in retirement age	0.2
5. Revision of vacation and study leave policy	0.2
6. Broadening tax base for professional license fees	0.1
Memorandum item:	
Revenue measures	0.5
Expenditure measures	2.0

Sources: Ministry of Finance; and Fund staff estimates.
1/ Refers to non-interest current expenditurte

Overall, the proposed fiscal package gives more emphasis to expenditure cuts (2 percent of GDP) than to revenue measures (½ percent of GDP).

[2] The SBA includes an adjustor on the overall fiscal balance for excesses or shortfalls in capital expenditure. The adjustor is being maintained through June 2004, but eliminated thereafter, in order to reach the medium-term primary balance objective of the program.

13. **Building on the approach of the current budget, the revenue measures in the new fiscal package for FY 2004/05 seek to broaden the tax base.** The revenue measures, based on the recommendations of an IMF/CARTAC technical assistance mission, aim at widening the tax base rather than raising tax rates, which are already relatively high in Dominica. Quantification of the impact of widening the tax base is difficult and entails some risk, but the authorities have been conservative in their estimates, and believe that the revenue objectives can be achieved.

14. **While expenditure measures cover all noninterest current spending, it emphasizes a further reduction in the wage bill.** The authorities intend to continue the nominal expenditure freeze imposed this year. Moreover, the nominal wage bill will continue to be lowered by about 5 percent in FY 2004/05. Rather than cutting nominal wages, as in the July 2003 budget, the authorities intend to reduce the wage bill by reducing the number of employees as part of a comprehensive public sector reform beginning with the 2004/05 budget. In order not to create an incentive to postpone this kind of costly reform, the one-off net costs associated with this reform will be excluded from the measurement of fiscal performance criteria.[3] It is expected that the cost of this reform will be financed by grants or concessional loans. The staff discussed with the authorities the timing of the retrenchment measure, given the unemployment situation. The authorities concluded, however, that there were no options other than to pursue a bold expenditure reduction policy to regain credibility.

15. **A large financing gap persists for 2004 despite the ambitious fiscal package, and is expected to be covered mostly by a debt restructuring.** It is estimated that for calendar year 2004 the financing gap will amount to US$26 million. The only source of new money will be the Fund, which leaves a residual financing gap at US$21 million. The residual gap could be covered by a debt rescheduling. Creditors, thus, will be financing the remaining gap through a debt restructuring. The authorities have recently announced their intention to approach their creditors to seek a debt restructuring that achieves debt sustainability. The authorities committed to pursue a debt restructuring process that is collaborative and, to that end, to continue, to the extent possible, to remain current on their debt obligations during this process. The World Bank will take a decision on further financial support to Dominica on the basis of

Dominica: Fiscal Deficit and Financing Gap for 2004

	In millions of US$	As percent of GDP
Primary balance	0.0	0.0
Interest payments	-15.6	-6.0
Overall fiscal balance	-15.6	-6.0
Domestic financing	0.0	0.0
External financing	-10.3	-4.0
Financing gap	26.0	10.0
IMF	5.0	2.0
Residual gap	21.0	8.0

Sources: Fund and staff estimates.

[3] Neither the cost of the reform nor the potential advance of grants provided for this purpose will count towards assessing performance under the program. One-off spending on retrenchment is likely to be covered mostly by an EU grant provided for this purpose.

progress made in sustaining implementation of reform measures included in the current budget support loan. However, as of now, the World Bank does not have any structural adjustment operation scheduled for the period covered by the PRGF program.

C. Structural Reform

16. **The structural reform agenda seeks to remove key obstacles to growth, including the economic uncertainty stemming from weak public finances.** The structural agenda covers four main areas: (i) debt strategy, to eliminate the debt overhang and create the conditions for growth; (ii) fiscal reform, which includes public sector reform, tax reform, pension reform and improved budgetary procedures; (iii) financial sector strengthening, to ensure an efficient functioning of financial intermediation; and (iv) other reforms to strengthen the investment climate, improve competitiveness and deregulate the economy.

Debt strategy

17. **The implementation of the debt strategy is critical to securing appropriate financing for the program.** The high level of public debt creates uncertainties about the future course of fiscal policy, reducing investment and growth prospects; investment has collapsed in the last few years—from 27 percent of GDP in 1998 to 11 percent of GDP in 2002. While the benchmark on the debt strategy was presented to staff last September as envisaged, there were delays in putting together a team of advisors due to logistical and financial difficulties that have now been addressed. The advisors are assisting the authorities and a formal announcement of the need to engage in a collaborative debt restructuring has already been made. The authorities expect to complete the debt restructuring in the first quarter of 2004.

Fiscal reform

18. **The underlying objective of the fiscal reform is to support achievement of the medium-term primary surplus target.** Sustained fiscal consolidation efforts are required to ensure that the debt remains at a manageable level after restructuring. There will be five elements of fiscal reform:

- ***Expenditure reform***. The main policy initiative relates to the public sector wage bill, which at 16 percent of GDP is one of the largest in the region. The authorities intend to reduce the wage bill by 10 percent in the next two fiscal years through reductions in the number of public employees. Mindful of the difficult employment situation in the country, and to ensure there is financing to cover for the cost of severance payments, the

Dominica: Public Sector Wage Bill Indicators 1/
(In percent)

	Latin America	Caribbean Countries	Dominica
Wage bill to GDP ratio	5.6	8.6	15.4
Wage bill to expenditure ratio	25.0	31.1	42.7

1/ Average for 1990-2001

authorities intend to phase this reform in two wage bill reductions of 5 percent each over the next two budgets. Altogether, this measure will generate permanent savings for the budget of about 2½ percent of GDP per annum over the medium term. It is estimated that with the implementation of the second cut-back in the wage bill for the 2005/06 budget and with some moderation in expenditure, it should be possible to achieve the medium-term primary surplus objective of 3 percent of GDP by 2006/07. While it is difficult to assess the cost of this reform, an early estimate is that it will require at least US$5-6 million over the next two years (2–2¼ percent of GDP).

- ***Tax reform***. With a view to improving efficiency and minimizing distortions, the authorities intend to introduce a VAT by mid-2005, mainly in lieu of consumption, sales and other taxes. While it is not envisaged at this stage that additional tax increases are needed to achieve the fiscal targets over the medium term, this tax would be used to safeguard the fiscal objectives of the program.

- ***Fiscal institution building***. The authorities will request technical assistance from the Fund and CARTAC to design a fiscal responsibility law by mid-2005. The objective is to have broad guidelines on the conduct of fiscal policy over the business cycle as well as rules to prevent another rapid accumulation of debt in the future.

- ***Pension reform***. The authorities will conduct a review of the social security system by March 2004 aimed at improving its financial position. As a first step, the authorities will increase the retirement age in a gradual manner from 55 to 60 years. Legislation will be submitted to Parliament for this purpose by mid-2004. At present the government pays retirement benefits for five years, from age 55 to 60 years, before the pensioners are transferred to the social security system. This reform will eventually generate permanent budgetary savings of about 1 percent of GDP.

- ***Longer term budgeting***. The authorities plan to introduce the practice of having a three-year rolling budget, something that is already being done with the public sector investment plan. The authorities have requested technical assistance from the Fund and DFID with the aim of putting the upcoming budget for 2004/05 already under a three-year rolling budget.

Financial sector strengthening

19. **A key objective is to improve the functioning of the banking system by addressing weaknesses and strengthening supervision**. There are only a limited number of financial institutions in Dominica, mostly branches of foreign banks. The main vulnerabilities in the banking system stem from the National Commercial Bank (NCB), which has a large exposure to the government, and the Aid Bank (a second tier bank), which at present enjoys an advantageous position in the financial system with access to funds at

below market rates.[4] The authorities will review their operations by March 2004 to determine the need and scope of restructuring. The authorities are also prepared to adopt the recommendations of the FSAP mission. The debt restructuring will be designed so as to safeguard the capital and profitability of the banking system.

Competitiveness and deregulation

20. **The authorities will implement a number of initiatives to strengthen the investment climate in the economy**. The authorities are seeking to deal with negative investor perceptions of a rigid and antiquated regulatory framework that raises production costs. The authorities' proposed response includes: (i) streamlining process/procedures for registering new businesses; (ii) improving the regulatory framework for electricity supply; (iii) conducting a cadastral survey and strengthening the registry service; and (iv) revising the land acquisition act to make procedures transparent and expedient, and facilitate investors' access to land. Finally, with a view to improving its performance, the government will review the structure and operations of the National Development Corporation, the public agency entrusted with the mandate of attracting private investment and promoting tourism.

III. Medium-Term Outlook, Risks, and Capacity to Repay the Fund

21. **The authorities have concluded that the debt situation is unsustainable in the absence of a comprehensive restructuring.** The debt sustainability analysis indicates that, even after the strong fiscal adjustment envisaged in the program, the debt to GDP ratio continues to increase. The staff estimates that, in the absence of a restructuring that substantially reduces the net present value of debt, financing gaps of about US$20 million or about 8 percent of GDP will persist for the foreseeable future. It is unlikely that new money can be found to finance such wide gaps. The comprehensive debt restructuring will provide the necessary financing to cover those remaining needs over the medium-term.

22. **Implementation of the debt strategy will be key to regaining debt sustainability.** The solution to this entrenched debt problem will require a combination of fiscal consolidation measures, growth-enhancing structural reform, and a comprehensive debt restructuring. All these elements are included in this program, and need to be implemented vigorously to restore the viability of the public finances, and prevent a disorderly resolution to these problems (with negative economic and regional consequences).

23. **This operation poses significant risks to the Fund.** While the authorities have demonstrated their commitment to their program, have successfully implemented the first stage of the agreed adjustment strategy, and a debt strategy has been designed, many uncertainties remain and the risks to the Fund under the PRGF remain significant.

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[4] The government is in the process of divesting from the NCB, and expects to eliminate its majority stake by mid-December, by then the number of government appointees to the Board Directors will fall below half.

Specifically: (i) the debt strategy still needs to be successfully implemented to reduce the heavy debt burden and ease concerns about the debt dynamics; (ii) the cash situation of the budget remains tight, and a budgetary crisis could still erupt due to weak financing assurances; (iii) implementation difficulties due to technical capacity constraints remain significant; (iv) there might be political pressures to spend beyond program limits ahead of the January 2005 elections; (v) the macroeconomic framework could deteriorate, especially if conditions in the region worsen; (vi) contagion to other islands is possible, precipitating broader instability; (vii) financial difficulties in the state banks could add liabilities to the government; and (viii) misreporting remains a risk, given the weak statistical infrastructure.

IV. Program Monitoring

24. **The authorities request the cancellation of the current SBA and its replacement with a three-year PRGF arrangement for 94 percent of quota.** After completion of this review, there is one remaining purchase under the SBA for SDR 0.31 million (3.75 percent of quota), which will not be made if the arrangement is cancelled. Access under the PRGF consists of two parts: (i) the normal access for a first time PRGF user, SDR 7.38 million (90 percent of quota); and (ii) the cancelled amount under the SBA. Altogether, the requested access amounts to SDR 7.69 million (93.75 percent of quota). It is proposed that access be slightly front-loaded to help: (i) withstand potential financial uncertainties following the announcement of the debt strategy and the likely lack of external financing; and (ii) achieve the objective of a collaborative restructuring while servicing the debt obligations to the extent possible. It is proposed that 43.75 percent of quota be made available in the first year, 30 percent in the second year, and 20 percent in the third year.

25. **There is a need for close monitoring of the program under the PRGF arrangement.** While quarterly disbursements are unusual for a PRGF program, this is justified by the risks and vulnerabilities at the start of the program. There will be quarterly test dates and disbursements in the first two years of the arrangement and semi-annual disbursements in the third year. It is also proposed that the first three program reviews be on a quarterly basis during the first year (March, June and September 2004) before moving to semi-annual reviews. This is to ensure adequate financing assurances in the initial stages of the program. There will also be financing assurances reviews related to disbursements, as required under the Fund's conditionality guidelines.

26. **Performance criteria under the PRGF program will, for the most part, cover the same variables as the SBA.** The structure of performance criteria under the SBA will continue to apply to the end-December 2003 performance criteria. However, some changes will be introduced in January 2004. Given the emphasis on sustainability, beginning with the March 2004 test date, the main fiscal target will be switched to the primary balance, with the overall balance being an indicative target. Also, as noted earlier, the symmetric adjustor on excesses/shortfalls on capital expenditure will be discontinued after the end of the current fiscal year (end-June 2004).

27. **Conditionality under the first year PRGF program will cover the following**:

- ***Prior action***. There is one. The government will reduce discretionary tax exemptions equivalent to ½ percent of GDP on an annual basis.
- ***Quantitative performance criteria***. These have been established for end-March and end-June 2004. The structure of performance criteria is very similar to that of the SBA, as set out in Table 1 of the Memorandum of Economic Policies (Attachment II).
- ***Continuous performance criteria***. Applies to the nonaccumulation of external arrears; the limits on domestic arrears; and the zero short-term external debt ceiling.
- ***Quantitative indicative targets***. These have been established for end-September, and end-December 2004 for the same set of variables with a view to converting them into performance criteria at a later stage. In order to guide policy, indicative targets have been established for end-January, end-February, end-April and end-May.
- ***Structural performance criteria***. Approval of the 2004/05 budget consistent with the program will be a performance criterion for end-July 2004.
- ***Structural benchmarks***. In order to keep structural conditionality streamlined and focused, five benchmarks are proposed for the first year of the program:
    - ➢ *Public sector reform*. Conduct a study outlining the process by which the target of a 5 percent reduction in the wage bill for 2004/05 will be achieved. The study should define the legal basis for payments to laid-off employees, as well as an estimate of the cost of this reform (end-March 2004).
    - ➢ *Tax policy*. Conduct a review of all statutory tax exemptions with a view to assessing their effectiveness and justification (end-June 2004.)
    - ➢ *Pension reform*. Submit legislation to Parliament proposing a phased increase in the retirement age for public employees to 60 years (end-June 2004).
    - ➢ *Tax system*. Announce in the budget for 2004/05 the adoption of the VAT by mid-2005. Cabinet approval of key parameters like base, rate, registration threshold, filing frequency, and refund system (end-September 2004).
    - ➢ *Institutional strengthening*. Improve the regulatory framework for electricity supply, following recommendations of the World Bank technical assistance mission (end-September 2004).

V. Staff Appraisal

28. **There has been a turn around in policy implementation, with tangible results after the modification of the Stand-By Arrangement in July 2003**. Despite difficult conditions, the authorities have regained control of the budgetary situation, and the economy appears to have bottomed out. The revised program has been implemented as planned, and all

performance criteria and benchmarks have been observed. The outlook for observance of the targets for end-December 2003 is good. This is in sharp contrast with the implementation of the original program in August 2002, when performance fell short of expectations. An important element in explaining this change in outcomes is the increasing level of program ownership by the government and civil society.

29. **The immediate challenge ahead is the implementation of the debt strategy**. The authorities have a difficult job ahead in negotiating a comprehensive and ambitious debt restructuring with a broad range of creditors. They aim at significant debt reduction in net present value terms, and have already announced their intention to engage creditors in a debt restructuring process while trying to remain current on debt service obligations. The staff urged the authorities to engage in an early dialogue with creditors so as to achieve a collaborative restructuring. The staff also urged the authorities that, to the extent possible, they should remain current on all their debt obligations during this process. Given that the financing available is limited, the authorities need to move quickly with the debt negotiations.

30. **The PRGF program builds on the recent record of policy implementation, and focuses on fiscal consolidation and removing impediments to growth.** Attaining a sustainable and realistic growth necessary to reduce poverty, as specified in the I-PRSP, will require not only maintenance of macroeconomic stability, but also major structural reforms to safeguard the fiscal objectives and improve the investment climate. It is important to confront these challenges with bold policies to increase credibility and the chances of success. It is critical that the authorities deepen the required fiscal consolidation effort and structural reform to put the economy in a better position to restart growth, reduce unemployment, and address poverty issues.

31. **The program is based on a realistic macroeconomic framework and an ambitious policy stance**. The cornerstone of the PRGF program is a fiscal adjustment of 5 percent of GDP to take place over the three-year period of the program, with substantial front-loading of the adjustment effort. The fiscal targets are ambitious, but necessary to ensure a sustainable fiscal position over the medium term. However, most fiscal measures will only be enacted in the context of the next budget in June 2004. Work needs to begin now to prepare the ground for measures to be introduced in the upcoming budget, especially politically and socially difficult reforms such as the reduction in the wage bill and the phased increase in the retirement age.

32. **The structural reform agenda is appropriately focused on policies to raise growth and reduce the unemployment that underlies poverty**. The four areas of the structural reform agenda emphasize policies that are needed for the success of the program. The debt strategy needs to be implemented to reduce the debt to manageable levels, and eliminate the current debt overhang. The fiscal reform will complement the debt strategy efforts, and will be vital in regaining sustainability and preventing another episode of rapid debt accumulation. Financial sector strengthening is needed to ensure a proper flow of credit to the private sector under appropriate conditions. The other elements of the reform agenda,

notably on deregulation, are needed to unlock the growth potential and provide an adequate investment climate in the economy.

33. **While all areas of structural reform are important, the implementation of the public sector employment reform will be crucial to the success of the program.** This reform is equally important for the structural agenda and for the macroeconomic program, as it represents about half of the measures to be included in the 2004/05 budget. At the same time, this is a difficult reform. First, it is costly, and appropriate financing needs to be firmed up; if the funds pledged for this purpose are not made available on time, it will jeopardize the reform. Second, the reform presents difficult trade-offs in terms of personnel; special care should be given to maintaining the quality of social services currently being provided. Third, this is not a popular reform, and could be derailed in the pre-electoral political climate.

34. **The I-PRSP has been prepared through a comprehensive process of consultation and presents a basis for the presentation of a solid poverty reduction strategy.** It is difficult to simultaneously address all concerns of all groups in society, but there is an emerging national consensus on the need to adjust and bring the country back to a sustainable situation and prevent a disorderly resolution to the debt problem. In moving toward the full PRSP, targeted for next year, the authorities will need to prioritize and sequence their policies. They will also need to work towards a more precise estimate of the cost of these reforms and to engage donors to provide adequate financing for this purpose.

35. **This successor program continues to carry high—but justifiable—risks for the Fund.** The approach adopted by the staff to safeguard Fund resources was to negotiate a strong program, and the implementation of a debt strategy to address sustainability issues. While the lending into arrears policy will continue to be used under the PRGF arrangement, the arrears situation could deteriorate once the financing available is used. Approval of the 2004/05 budget, which includes the bulk of the fiscal measures, will be key to the success of the program. This is bound to be politically challenging as there are elections in January 2005. Fund support is justified, as in its absence, a fiscal financing crisis may erupt, which could have a negative impact on the domestic financial system and the region at large.

36. **Taking all elements into account, the staff supports the request for a three-year PRGF program, completion of the second review, and a financing assurances review under the SBA.** Given the authorities' recent record of performance, their demonstrated commitment, the bold macroeconomic program, the strength of their structural reform agenda, and completion of the prior actions, the staff recommends completion of the second review under the SBA, and approval of the authorities' request for an arrangement under the PRGF.

Box 1. Dominica: Medium-Term Fiscal Adjustment Effort

In order to determine the required level of adjustment over the medium term, it is necessary to assess the current fiscal situation and have a fiscal objective. Adjustment can simply be defined as the difference between the long-term fiscal objective and the underlying fiscal situation at present.

The long-term objective is broadly defined in the debt strategy. It asserts that the authorities aim at having a primary surplus of 3 percent of GDP over the medium term.

The underlying fiscal position is worse than indicated by the statistics because of abnormally high grants and low capital expenditures. In order to have a more accurate estimate of the "structural" fiscal position, staff corrected the figures for the current and past fiscal years for a constant but sustainable level of capital expenditure and related grants. Staff is of the view that a level of capital expenditure of 7 percent of GDP is adequate for Dominica, and can be maintained over the medium term. It is estimated that about half of that capital expenditure can be financed with grants. When these adjustments are made, the "structural" primary balance last fiscal year (2002/03) is a deficit of 4½ percent of GDP and 2 percent of GDP this fiscal year (2003/04) (see table).

Dominica: Structural Fiscal Accounts
(In percent of GDP)

	SBA			PRGF		
		Prog.	Rev. Proj.			
	2002/03	2003/04		2004/05	2005/06	2006/07
Primary Balance	-1.6	-1.9	0.2	0.5	2.0	3.0
Capital expenditure shortfall 1/	-1.9	0.0	0.0	0.0	0.0	0.0
Grants adjustment excesses 2/	-1.0	-1.1	-2.2	0.0	0.0	0.0
Structural Primary Balance 3/	**-4.5**	**-3.0**	**-2.0**	**0.5**	**2.0**	**3.0**
Memorandum item:						
Primary savings (before grants)	-1.0	0.5	1.5	4.0	5.5	6.5
Cumulative fiscal effort	...	1.5	2.5	5.0	6.5	7.5

1/ Shortfall with respect to the structural capital expenditure level of 7 percent of GDP.
2/ Excess with respect to the structural grant level of 3.5 percent of GDP.
3/ Assumes a structural level of capital spending of 7 percent of GDP of which grants finance 1/2.

A significant fiscal effort is required over the medium term to achieve the fiscal objective. Since there is a "structural" primary deficit of about 2 percent of GDP at present, it will take a fiscal effort of about 5 percent of GDP in the following three years to switch to a primary surplus of 3 percent of GDP toward the end of the PRGF program.

The program front loads fiscal effort to regain credibility and persuade creditors about the seriousness of the authorities' commitment. The fiscal objective for the first year of the program is to reach a primary surplus of ½ percent of GDP. This would entail fiscal measures of about 3 percent of GDP. Measures are difficult to take outside the budget cycle (which starts on July 1). For that reason, one measure for about ½ percent of GDP will be taken as a prior action and another 2½ percent to be taken in the context of the 2004/05 budget. The fiscal objective for the second year of the program will be a primary surplus of 2 percent of GDP, and for the last year of the program, the objective will be a surplus of 3 percent of GDP. The cumulative fiscal effort since the beginning of the SBA until the end of the PRGF would be about 7½ percent of GDP.

Table 1. Dominica: Quantitative Performance Criteria (PC) and Indicative Targets (IT) Under Stand-By Arrangement for 2003

	July 31, 2003				Sept. 30, 2003				Dec. 31
	PC	Adj. PC	Actual	Margin (+)/ Excess (-)	PC	Adj. PC	Actual	Margin (+)/ Excess (-)	PC
I. Performance Criteria									
(In millions of E.C. dollars)									
Central government overall balance 1/	-31.0	-30.4	-16.2	14.2	-37.4	-39.8	-19.1	20.8	-46.9
Central government wage bill	37.5	37.5	36.9	0.6	55.8	55.8	54.8	1.0	84.0
Banking system net credit to central government 2/	8.0	15.0	8.6	6.4	6.0	12.8	4.6	8.2	3.0
Net changes in central government arrears to private domestic parties 3/	15.0	15.0	-2.5	17.5	15.0	15.0	-4.7	19.7	15.0
(In millions of U.S. dollars)									
Disbursement of central government or central government guaranteed external nonconcessional debt with maturity of at least one year 1/ 4/	19.7	19.5	1.6	17.9	21.5	23.3	4.7	18.6	23.9
Net changes in the oustanding stock of contracted or guaranteed short-term external debt of the central government (with maturity of less than one year) 3/ 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net changes in external payments arrears of the central government 3/ 5/	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.2	0.0
II. Indicative Targets									
(In millions of E.C. dollars)									
Central government revenues	58.9	58.9	69.0	10.1	89.3	89.3	103.7	14.4	140.5
Central government primary savings	-11.8	-11.8	3.9	15.7	-11.9	-11.9	13.8	25.7	-9.5

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

1/ Limits will be adjusted downward (upwards) to the extent that project financing falls short of (exceeds) programmed amounts. Upward adjustments will not exceed US$1.9 million by end-July 2003, US$2.6 million by end-September 2003, and US$3.9 million by end-December 2003.

2/ Limits on banking system net credit to the central government will be adjusted upward to the extent that there are shortfalls in external nonproject financing that are outside the control of the authorities. These upward adjustments will not exceed US$2.6 million by end-July 2003, US$4.0 million by end-September 2003, and US$4.0 million by end-December 2003. Limits on banking system net credit to the central government will be adjusted downward to the extent that external nonproject financing exceeds programmed amounts.

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

4/ For the definition of external debt, see paragraph 16 of the Technical Memorandum of Understanding.

5/ External arrears accumulated prior to the Executive Board discussion on July 25th were waived; no arrears have been accumulated since then.

Table 2. Dominica: Structural Reform Agenda through December 2003 1/

	Lead Institution	Completion Date	Category	Status
Fiscal				
Approval of budget for FY03/04 consistent with the program, including the fiscal package for 2.5 percent of GDP	IMF	July 7, 2003	Prior Action	Done
Implement effective fiscal cash management procedures	IMF/CARTAC	July 15, 2003	Prior Action	Done
Debt sustainability				
Provision to Fund staff of a debt strategy that ensures public sector debt sustainability over the medium term based upon conservative assumptions	IMF	September 30, 2003	Benchmark	Done
Energy prices				
Substitute price controls on fuel with an automatic adjustment mechanism.	WB	September 30, 2003	Benchmark	Done
Public sector reform				
Design a detailed public sector reform strategy covering public sector employment	WB	October 31, 2003	Benchmark	Done
Financial system oversight				
Conduct a diagnostic study of the financial sector with a view to assessing the financial health of the system	IMF/WB	November 30, 2003	Benchmark	Done
Privatization				
Divesture of government shares in NCB to below 50 percent (and which will reduce the number of Board directors appointed by the government accordingly)	IMF	December 31, 2003	Benchmark	In progress

Sources: Dominican authorities; and Fund staff.

1/ The program continues to be subject to the continuous performance criteria as set forth in section 3(e) of the Stand-By Arrangement (

Table 3. Dominica: Selected Economic and Financial Indicators

	2000	2001	2002	2003 Prog. 1/	2003 Rev. Proj.	2004 Projections	2005	2006	2007	2008
	(Annual percent change, unless otherwise specified)									
Output and prices										
Real GDP (factor cost)	1.4	-4.2	-4.7	-1 to -3	-1.0	1.0	2.0	2.0	2.0	2.0
GDP deflator (factor cost)	0.6	1.2	-0.4	0.5	1.5	1.5	1.5	1.5	1.5	1.5
Nominal GDP (at factor cost)	2.0	-3.0	-5.1	-1.5	0.5	2.6	3.5	3.5	3.5	3.5
Nominal GDP at market prices	1.3	-2.7	-6.2	-1.5	1.6	3.1	3.5	3.5	3.5	3.5
Consumer prices (end of period)	1.1	1.9	0.5	0.5	2.5	1.5	1.5	1.5	1.5	1.5
Money and credit										
Net foreign assets of the banking system 2/	-12.8	6.6	19.9	1.9	4.0	1.3	1.5	1.5	1.4	1.4
Net domestic assets of the banking system 2/	13.4	0.9	-11.3	1.1	-1.0	1.8	2.1	2.1	2.1	2.1
Of which										
Net credit to the nonfinancial public sector 2/	5.7	5.6	-7.0	-0.1	0.1	0.0	0.0	0.0	0.0	0.0
Credit to the private sector 2/	7.3	-3.1	-1.3	1.1	-0.8	2.4	2.7	2.7	2.7	2.7
Liabilities to the private sector (M2)	0.6	7.4	8.5	3.0	3.0	3.1	3.5	3.5	3.5	3.5
Balance of payments										
Merchandise exports, f.o.b.	-2.3	-18.9	-3.7	-7.4	-6.7	3.0	4.1	3.3	3.0	3.0
Merchandise imports, f.o.b.	7.3	-11.6	-12.1	-3.1	5.0	0.0	1.2	2.0	2.0	2.0
Terms of trade	-5.3	1.5	0.1	...	...	...	...	...	...	...
Real effective exchange rate (end-of-period; depreciation -)	4.8	3.7	-6.0	...	...	...	...	...	...	...
	(In millions of U.S. dollars)									
Merchandise exports, f.o.b.	54.7	44.4	42.8	39.6	39.9	41.1	42.8	44.2	45.5	46.9
Merchandise imports, f.o.b.	130.4	115.3	101.4	98.2	106.4	106.4	107.7	109.9	112.1	114.3
Current account balance 3/	-52.5	-47.6	-37.0	-33.5	-42.1	-40.3	-34.5	-30.0	-27.7	-26.7
Capital account balance 4/	50.3	49.5	48.5	17.5	43.6	15.9	14.3	13.6	12.8	12.8
Overall balance	-2.2	1.9	11.4	-19.3	1.5	-24.4	-20.2	-16.4	-14.9	-13.9
	(In percent of GDP, unless otherwise specified)									
Savings and investment										
Gross domestic investment	24.8	21.2	10.6	11.8	13.0	14.9	15.9	17.0	18.3	18.3
Public	16.7	15.3	6.6	6.8	7.0	8.4	7.9	9.0	9.3	9.3
Private	8.1	5.9	4.0	5.0	6.0	6.5	8.0	8.0	9.0	9.0
Gross national saving	5.3	3.0	-4.3	-2.0	-3.7	-0.5	3.1	6.3	8.7	9.4
Public 3/	-0.6	-2.4	-3.0	-4.0	-2.9	-1.4	0.6	2.0	2.7	2.9
Private	5.8	5.4	-1.4	2.0	-0.8	0.9	2.5	4.3	6.0	6.5
Central government 5/										
Savings	5.3	-3.0	-0.6	-0.9	1.1	1.2	2.9	4.1	4.3	4.4
Of which										
Primary	10.7	2.4	5.2	5.1	7.2	7.5	9.0	10.0	10.0	10.0
Grants	9.4	1.7	4.5	4.6	5.7	3.5	3.5	3.5	3.5	3.5
Capital expenditure and net lending	16.6	5.7	5.1	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Primary balance	-5.9	-3.3	-1.6	-1.9	0.2	0.5	2.0	3.0	3.0	3.0
Overall balance	-10.9	-8.6	-7.1	-7.7	-5.6	-5.5	-3.8	-2.7	-2.5	-2.3
Nonfinancial public sector debt (gross) 5/	**87.4**	**95.4**	**111.5**	**116.6**	**114.7**	**117.8**	**120.3**	**120.4**	...	...
External 7/	59.1	71.0	84.1	85.9	89.8	92.2	93.0	92.8	...	...
Domestic	28.2	24.4	27.4	30.7	25.0	25.7	27.3	27.6	...	...
External sector										
Current account balance 3/	-19.5	-18.2	-15.0	-13.7	-16.7	-15.4	-12.8	-10.7	-9.6	-8.9
External public debt service 8/	7.4	10.8	12.3	20.9	20.9	14.5	13.4	13.7	14.0	13.3
Amortization	3.1	4.5	4.9	12.3	12.3	7.1	6.5	7.1	7.6	7.2
Interest	4.3	6.4	7.5	8.6	8.6	7.5	6.9	6.6	6.3	6.1
Memorandum items:										
Nominal GDP at market prices (EC$ millions)										
Calendar year	726.4	706.8	680.5	658.4	683.0	704.1	728.6	754.4	781.0	808.5
Net international reserves (U.S.dollars millions; end-of-period) 9/	29.0	30.4	43.6	45.9	45.1	46.7	48.5	50.4	52.4	54.4

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

1/ EBS/03/102.
2/ Change relative to the stock of M2 at the beginning of the period.
3/ Includes public current transfers of 1.3 percent of GDP for the 2003 program.
4/ Including errors and omissions.
5/ These data are presented on a fiscal year (July–June) basis. Figures shown for a given calendar year relate to the fiscal year beginning on July 1 of that year.
7/ Including external financing gap.
8/ In percent of exports of goods and nonfactor services.
9/ Imputed reserves at the ECCB.

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

(In millions of Eastern Caribbean dollars)

	2000/01	2001/02	2002/03	Prog. 2/ 2003/2004	Rev. Proj. 2003/2004	Projections 2004/2005	Projections 2005/2006	Projections 2006/2007
Total revenue and grants	**271.5**	**209.7**	**224.1**	**223.6**	**237.2**	**233.8**	**242.0**	**250.6**
Current revenue	200.5	197.1	191.9	191.6	196.3	207.3	214.6	222.1
Capital revenue	3.0	0.9	1.3	1.5	1.5	1.6	1.6	1.7
Grants	68.0	11.8	30.9	30.4	39.3	24.9	25.8	26.8
Total expenditure 3/	**350.3**	**269.3**	**261.3**	**274.5**	**276.3**	**273.2**	**270.5**	**271.3**
Current expenditure	230.1	229.7	226.6	228.1	227.7	223.4	218.9	217.7
Wages and salaries	116.2	116.5	116.1	108.6	108.6	103.2	97.8	97.8
Interest	36.0	36.9	37.6	38.2	40.5	43.1	43.6	43.7
Domestic	20.2	19.3	17.8	17.0	18.1	15.9	15.9	15.9
External	15.7	17.5	19.8	21.2	22.4	27.2	27.7	27.9
Others	77.9	76.3	72.8	81.3	78.6	77.2	77.6	76.2
Capital expenditure and net lending	120.2	39.6	34.7	46.4	48.6	49.8	51.6	53.5
Overall balance	**-78.8**	**-59.5**	**-37.2**	**-51.0**	**-39.2**	**-39.5**	**-28.5**	**-20.7**
Statistical discrepancy 4/	18.7	8.2	-11.5	...	...	...	...	...
Financing	**60.1**	**51.3**	**48.7**	**-26.6**	**18.4**	**-26.1**	**-24.8**	**-24.8**
Net foreign financing	42.7	25.6	44.9	-22.7	28.8	-26.1	-24.8	-24.8
Disbursment	...	31.9	47.7	14.3	65.6	19.9	20.7	21.4
Amortization	...	6.3	6.5	37.1	39.7	46.0	45.4	46.3
Net domestic financing	17.4	25.7	3.8	-3.8	-10.4	0.0	0.0	0.0
Bank	11.2	16.3	-6.9	-3.0	-10.5	0.0	0.0	0.0
Nonbank	6.2	9.5	10.7	-0.8	0.1	0.0	0.0	0.0
Gap	**0.0**	**0.0**	**0.0**	**77.5**	**20.8**	**65.5**	**53.3**	**45.5**
		(In percent of GDP)						
Total revenue and grants	**37.6**	**30.2**	**32.9**	**33.6**	**34.2**	**32.6**	**32.6**	**32.6**
Current revenue	27.8	28.4	28.1	28.8	28.3	28.9	28.9	28.9
Capital revenue	0.4	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Grants	9.4	1.7	4.5	4.6	5.7	3.5	3.5	3.5
Total expenditure 3/	**48.5**	**38.8**	**38.3**	**41.3**	**39.8**	**38.1**	**36.5**	**35.3**
Current expenditure	31.9	33.1	33.2	34.3	32.8	31.2	29.5	28.4
Wages and salaries	16.1	16.8	17.0	16.3	15.7	14.4	13.2	12.7
Interest	5.0	5.3	5.5	5.7	5.8	6.0	5.9	5.7
Domestic	2.8	2.8	2.6	2.6	2.6	2.2	2.1	2.1
External	2.2	2.5	2.9	3.2	3.2	3.8	3.7	3.6
Others	10.8	11.0	10.7	12.2	11.3	10.8	10.5	9.9
Capital expenditure and net lending	16.6	5.7	5.1	7.0	7.0	7.0	7.0	7.0
Overall balance	**-10.9**	**-8.6**	**-5.5**	-7.7	**-5.6**	**-5.5**	**-3.8**	**-2.7**
Statistical discrepancy 4/	2.6	1.2	-1.7	...	...	...	...	...
Financing	**8.3**	**7.4**	**7.1**	-4.0	**2.7**	**-3.6**	**-3.3**	**-3.2**
Net foreign financing	5.9	3.7	6.6	-3.4	4.2	-3.6	-3.3	-3.2
Disbursements	...	4.6	7.0	2.2	9.5	2.8	2.8	2.8
Amortization	...	0.9	1.0	5.6	5.7	6.4	6.1	6.0
Net domestic financing	2.4	3.7	0.6	-0.6	-1.5	0.0	0.0	0.0
Bank	1.5	2.3	-1.0	-0.5	-1.5	0.0	0.0	0.0
Nonbank	0.9	1.4	1.6	-0.1	0.0	0.0	0.0	0.0
Gap	**0.0**	**0.0**	**0.0**	**11.7**	**3.0**	**9.1**	**7.2**	**5.9**
Memorandum items:								
Savings (incl. grants)	5.3	-3.0	-0.6	-0.9	1.1	1.2	2.9	4.1
Primary savings (before grants)	1.3	0.7	0.6	0.5	1.5	4.0	5.5	6.5
Primary balance (incl. grants) 5/	-5.9	-3.3	-1.6	-1.9	0.2	0.5	2.0	3.0
Total debt service to government revenue		23.2	20.3	36.2	36.2	42.9	41.5	40.5
Nominal GDP at market prices (EC$ millions	722.4	693.7	681.8	665.0	693.5	716.3	741.5	767.7

Sources: Ministry of Finance; and Fund staff estimates and projection

1/ Fiscal years beginning July 1.
2/ EBS/03/102.
3/ On a due basis.
4/ Difference between identified financing and overall balance.
5/ Starting from FY 2002/2003 the primary balance is computed using overall deficit measured from below-the-line.

Table 5. Dominica: Financing Gap for 2004

	In millions of U.S. dollars	In millions of EC$	In percent of GDP
Overall fiscal balance	**-15.6**	**-42.2**	**-6.0**
Identified financing	**-10.3**	**-27.9**	**-4.0**
Domestic financing	0.0	0.0	0.0
External financing	-10.3	-27.9	-4.0
Disbursements	6.9	19	2.7
Amortization due	-17.3	-46.6	-6.6
Financing gap	**26.0**	**70.1**	**10.0**
IMF	5.0	13.5	2.0
Residual gap	21.0	56.6	8.0

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

1/ Includes the IMF, the World Bank, the ECCB, DSS, and domestic commercial banks.

Table 6. Dominica: Summary Accounts of the Banking System

	2000	2001	2002	2003 Prog. 1/	2003 Rev. Proj. 2/	2004 Projections	2005 Projections	2006 Projections
(In millions of Eastern Caribbean dollars, end of period)								
I. Consolidated Banking System 2/								
Net foreign assets	**65.2**	**96.1**	**196.7**	**205.2**	**218.6**	**225.8**	**234.0**	**242.5**
Net domestic assets	**405.8**	**409.8**	**352.5**	**360.6**	**347.2**	**357.5**	**369.7**	**382.3**
Net credit to the nonfinancial public sector	75.8	102.3	66.8	68.3	67.3	67.3	67.3	67.3
Of which								
Central government	70.3	92.3	56.2	60.8	59.8	59.8	59.8	59.8
Net credit to nonbank financial institutions	-35.8	-37.7	-46.6	-48.0	-48.0	-49.5	-51.2	-53.0
Credit to the private sector	454.1	439.6	433.2	439.5	428.9	442.2	457.7	473.7
Other items (net) 3/	-88.3	-94.4	-101.0	-98.0	-101.1	-102.6	-104.2	-105.7
Broad money 4/	**471.0**	**506.0**	**549.2**	**565.7**	**565.7**	**583.3**	**603.7**	**624.8**
II. Operations of the Eastern Caribbean Central Bank								
Imputed net international reserves	**78.2**	**82.1**	**117.8**	**123.8**	**121.7**	**126.0**	**130.9**	**136.1**
Net domestic assets	**10.9**	**10.2**	**13.4**	**16.3**	**16.3**	**16.3**	**16.3**	**16.3**
Monetary base	**89.1**	**92.3**	**131.2**	**140.1**	**138.0**	**142.3**	**147.2**	**152.4**
Currency in circulation	35.4	34.6	35.5	36.6	36.6	37.7	39.0	40.4
Commercial bank reserves	53.6	57.7	95.7	103.5	101.4	104.5	108.2	112.0
III. Commercial Banks								
Net foreign assets	**-12.9**	**14.0**	**79.0**	**81.3**	**96.9**	**99.8**	**103.1**	**106.4**
Net claims on ECCB	**51.2**	**58.5**	**98.2**	**101.1**	**101.1**	**104.2**	**107.9**	**111.7**
Net domestic assets	**397.3**	**398.9**	**336.6**	**346.7**	**331.2**	**341.5**	**353.7**	**366.4**
Net credit to the nonfinancial public sector	65.0	92.1	53.4	52.1	52.1	52.1	52.1	52.1
Net credit to nonbank financial institutions	-35.8	-37.7	-46.6	-48.0	-48.0	-49.5	-51.2	-53.0
Credit to the private sector	454.1	439.6	433.2	439.5	428.9	442.2	457.7	473.7
Other (net)	-86.0	-95.2	-103.5	-96.9	-101.9	-103.3	-104.9	-106.4
Private sector deposits 4/	**435.6**	**477.4**	**513.7**	**529.1**	**529.1**	**545.5**	**564.6**	**584.4**
IV. Consolidated Banking System								
(Annual percentage change)								
Credit to the private sector	8.2	-3.2	-1.4	1.4	-1.0	3.1	3.5	3.5
Private sector deposits	0.3	9.6	7.6	3.0	3.0	3.1	3.5	3.5
Broad money 5/	0.6	7.4	8.5	3.0	3.0	3.1	3.5	3.5
(Contributions to liquidity growth) 5/								
Net foreign assets	-12.8	6.6	19.9	1.5	4.0	1.3	1.5	1.5
Net domestic assets	13.4	0.9	-11.3	1.5	-1.0	1.8	2.1	2.1
Net credit to the nonfinancial public sector	5.7	5.6	-7.0	0.3	0.1	0.0	0.0	0.0
Credit to the private sector	7.3	-3.1	-1.3	1.1	-0.8	2.4	2.7	2.7
Memorandum items:								
Interest rates 6/								
Deposits (3-month time—maximum rate)	6.0	6.0	6.0	...	...	...	...	...
Lending: Minimum rate	9.5	9.5	8.5	...	...	...	...	...
Maximum rate	20.8	20.8	20.8	...	...	...	...	...

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

1/ EBS/03/102.

2/ The projection for 2003 reflects actual data through October 2003.

3/ Includes interbank float.

4/ Including deposits denominated in U.S. dollars.

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

6/ Commercial banks; end-of-period rates, percent per annum.

Table 7. Dominica: Balance of Payments

	1998	1999	2000	2001	2002	Prog. 1/ 2003	Rev. Proj. 2003	Projections 2004	Projections 2005	Projections 2006
			(In millions of U.S. dollars)							
Current account balance	**-23.3**	**-34.6**	**-52.5**	**-47.6**	**-37.0**	**-36.8**	**-42.1**	**-40.3**	**-34.5**	**-30.0**
Trade balance	-53.2	-65.6	-75.6	-70.9	-58.6	-58.6	-66.6	-65.4	-65.0	-65.7
Exports (f.o.b.) 2/	63.2	56.0	54.7	44.4	42.8	39.6	39.9	41.1	42.8	44.2
Imports (f.o.b.)	116.4	121.6	130.4	115.3	101.4	98.2	106.4	106.4	107.7	109.9
Services balance	32.6	41.8	37.1	25.0	25.2	27.7	26.9	32.3	37.4	41.8
Exports of services	88.4	100.8	89.7	76.7	74.7	76.9	77.8	81.7	87.2	92.4
Travel	46.5	50.7	48.2	46.3	44.2	45.5	46.4	48.7	52.0	55.1
Other	41.9	50.0	41.6	30.4	30.5	31.4	31.4	33.0	35.2	37.3
Imports of services	55.8	59.0	52.7	51.7	49.4	49.3	50.9	49.3	49.8	50.6
Net income	-15.5	-24.3	-32.0	-19.2	-20.1	-18.7	-17.4	-20.1	-20.8	-21.1
Interest payments (public sector)	-2.4	-2.6	-6.2	-7.7	-8.8	-10.0	-8.0	-11.1	-11.6	-11.7
Other income	-13.1	-21.7	-25.8	-11.5	-11.3	-8.7	-9.4	-9.0	-9.2	-9.4
Net current transfers	12.7	13.6	18.1	17.5	16.4	12.9	14.9	12.9	13.9	14.9
Private	9.5	10.3	10.6	11.5	12.0	12.9	11.6	12.9	13.9	14.9
Public	3.3	3.2	7.4	5.9	4.4	0.0	3.3	0.0	0.0	0.0
Capital and financial account	**12.3**	**45.7**	**53.2**	**41.2**	**27.3**	**17.5**	**32.8**	**15.9**	**14.3**	**13.6**
Capital account	14.7	11.8	10.9	18.0	13.3	10.8	12.6	15.3	12.5	12.9
Public capital transfers	12.3	9.4	9.6	15.3	10.5	8.0	9.6	12.3	9.4	9.7
Private capital transfers	2.4	2.5	2.7	2.7	2.7	2.8	2.9	3.0	3.1	3.2
Financial account	-2.4	33.9	42.3	23.2	14.1	6.7	20.3	0.6	1.9	0.7
Public sector	1.9	35.0	21.2	23.0	25.2	-8.6	10.7	-10.3	-9.9	-8.5
Budgetary flows (net)	1.5	42.0	23.9	24.6	24.4	-8.6	10.7	-10.3	-9.9	-8.5
Disbursements	7.1	47.3	28.4	30.0	30.1	5.7	25.8	10.4	11.1	11.6
Repayments	5.6	5.2	4.5	5.4	5.7	14.3	15.1	20.7	21.0	20.1
Nonbudgetary flows (net)	0.4	-7.1	-2.7	-1.6	0.8	0.0	0.0	0.0	0.0	0.0
Private sector	-4.9	6.2	22.7	0.2	-11.1	15.4	9.6	11.0	11.7	9.2
Direct investment	6.5	18.0	10.8	11.9	13.2	13.2	13.2	13.2	13.2	13.2
Commercial banks	-6.0	-8.8	19.7	-10.0	-24.0	-0.9	-6.6	-1.2	-1.2	-1.2
Other private flows	-5.4	-3.0	-7.8	-1.7	-0.3	3.0	3.0	-1.1	-0.3	-2.8
Errors and omissions	**14.4**	**-7.6**	**-2.9**	**8.3**	**21.2**	**0.0**	**10.7**	**0.0**	**0.0**	**0.0**
Overall balance	**3.4**	**3.5**	**-2.2**	**1.9**	**11.4**	**-19.3**	**1.5**	**-24.4**	**-20.2**	**-16.4**
Overall financing	**-3.4**	**-3.5**	**2.2**	**-1.9**	**-11.4**	**19.3**	**-1.5**	**24.4**	**20.2**	**16.4**
Net international reserves	-3.8	-3.9	2.2	-1.9	-11.4	-2.2	-1.5	-1.6	-1.8	-1.9
Gross reserves	-3.8	-3.9	2.2	-1.9	-14.3	-2.2	-2.8	-1.6	-1.8	-1.9
Reserve liabilities (IMF)	0.0	0.0	0.0	0.0	2.8	0.0	1.3	0.0	0.0	0.0
Exceptional financing	0.4	0.4	0.0	0.0	0.0	22.3	0.0	26.0	22.0	18.3
Arrears	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	22.3	0.0	26.0	22.0	18.3
			(In percent of GDP)							
Memorandum items:										
Current account balance	-9.0	-12.9	-19.5	-18.2	-15.0	-15.1	-16.7	-15.4	-12.8	-10.7
External public debt 3/	35.1	48.4	53.7	64.6	77.4	80.4	88.1	91.5	92.9	93.2

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

1/ EBS/03/102.
2/ Includes stores and bunkers.
3/ Includes external financing gap.

Table 8. Dominica: Financial and External Vulnerability Indicators

(In percent of GDP, unless otherwise indicated)

	1999	2000	2001	2002	Prog. 1/ 2003	Rev.Proj. 2003
Financial indicators						
Broad money (percent change, 12-month basis) 2/	10.4	0.6	7.4	8.5	3.0	3.5
Private sector credit (percent change, 12-month basis) 2/	2.4	8.2	-3.2	-1.4	1.4	-2.8
Nonperforming loans (3 months and over)/total loans (percent) 3/	18.7	18.3	21.4	19.2	...	19.5
Provisioning/nonperforming loans (percent) 3/	35.7	38.0	31.9	36.7	...	35.4
Capital/risk weighted assets (percent)	8.2	8.8	9.8	8.5	...	...
Three-month treasury bill rate (end of period) 3/	6.4	6.4	6.4	6.0	...	6.4
Three-month treasury bill rate (real) 3/ 4/	6.4	5.3	4.5	5.5	...	5.9
External indicators						
Exports of goods and services (percent change, 12-month basis in U.S.dlrs.)	3.4	-7.9	-16.2	-3.0	-0.8	0.2
Imports of goods and services (percent change, 12-month basis in U.S. dlrs.)	4.9	1.4	-8.8	-9.7	-2.2	4.3
Current account balance 5/	-12.9	-19.5	-18.2	-14.7	-15.1	-16.7
Capital and financial account balance 6/	14.2	18.7	18.9	19.2	7.2	17.2
Net official reserves (in millions of U.S. dollars, end of period) 7/	31.5	29.0	30.4	43.6	45.9	45.1
Net reserves to broad money (percent, end of period) 7/	18.2	16.6	16.2	21.4	21.9	21.5
Public sector external debt	48.4	53.7	64.6	77.4	80.4	80.0
External debt (end of period) to exports of goods and services (percent) 8/	82.7	100.8	140.8	163.2	153.4	187.5
External interest payments to exports of goods and services (percent) 8/	-1.7	-4.3	-6.4	-7.5	-8.6	-6.8
External amortization payments to exports of goods and services (percent) 8/	-3.3	-3.1	-4.5	-4.9	-12.3	-12.8
Exchange rate (per U.S. dlrs, end of period)	2.7	2.7	2.7	2.7	2.7	2.7
REER appreciation (end of period; depreciation -)	0.8	4.8	3.7	-6.0	...	...

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

1/ EBS/03/102.
2/ Data for 2003 as of September 2003.
3/ Data for 2003 as of June 2003.
4/ Treasury bill rate adjusted by end-of-period inflation.
5/ Includes public current transfers for 2002 and projected public current transfers for 2003.
6/ Includes errors and omissions.
7/ Imputed reserves at the ECCB.
8/ Refers to public sector debt.

Table 9. Dominica: Medium-Term Projections

	2001	2002	Est. 2003	Projections 1/ 2004	2005	2006	2007	2008
	(Annual percentage change)							
National income and prices								
GDP at constant (1990) prices	-4.2	-4.7	-1.0	1.0	2.0	2.0	2.0	2.0
Implicit GDP deflator (factor cost)	1.2	-0.4	1.5	1.5	1.5	1.5	1.5	1.5
	(In percent of GDP, unless otherwise stated)							
Saving and investment								
Gross domestic investment	21.2	10.6	13.0	14.9	15.9	17.0	18.3	18.3
Public	15.3	6.6	7.0	8.4	7.9	9.0	9.3	9.3
Private	5.9	4.0	6.0	6.5	8.0	8.0	9.0	9.0
Gross national saving	3.0	-4.3	-3.7	-0.5	3.1	6.3	8.7	9.4
Public	-2.4	-3.0	-2.9	-1.4	0.6	2.0	2.7	2.9
Private	5.4	-1.4	-0.8	0.9	2.5	4.3	6.0	6.5
Central government finances 2/								
Central government saving (excluding grants)	-4.7	-5.1	-4.5	-2.3	-0.6	0.6	0.8	1.0
Current revenue	28.4	28.1	28.3	28.9	28.9	28.9	28.9	28.9
Current expenditure	33.1	33.2	32.8	31.2	29.5	28.4	28.2	28.0
Overall balance (after grants)	-8.6	-5.5	-5.6	-5.5	-3.8	-2.7	-2.5	-2.3
Grants	1.7	4.5	5.7	3.5	3.5	3.5	3.5	3.5
Capital spending	5.7	5.1	7.0	7.0	7.0	7.0	7.0	7.0
Primary balance	-3.3	-1.6	0.2	0.5	2.0	3.0	3.0	3.0
Balance of payments								
External current account	-18.2	-15.0	-16.7	-15.4	-12.8	-10.7	-9.6	-8.9
Of which:								
Exports of goods and services	46.3	46.6	46.5	47.1	48.2	48.9	49.0	49.0
Imports of goods and services	63.8	59.8	62.2	59.7	58.4	57.4	56.6	55.8
Capital and financial account 3/	18.9	19.2	17.2	6.1	5.3	4.9	4.4	4.3
Overall balance	0.7	4.3	0.6	-9.4	-7.5	-5.9	-5.2	-4.6
Identified financing	-0.7	-4.5	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7
Financing gap 4/ 5/	0.0	0.0	0.0	10.0	8.2	6.5	5.8	5.3
Public sector debt and debt service								
Public sector debt 2/	95.4	111.5	114.7	117.8	120.3	120.4	...	...
External	71.0	84.1	89.8	92.2	93.0	92.8	...	...
Domestic	24.4	27.4	25.0	25.7	27.3	27.6	...	...
External debt/exports 6/	153.5	180.6	193.0	195.8	193.2	189.8	...	...
External debt service/exports 6/	10.8	12.3	20.9	14.5	13.4	13.7	...	...

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

1/ Projections assume an adjustment scenario.

2/ These data are presented on a fiscal year (July–June) basis. Figures shown for a given calendar year relate to the fiscal year beginning on July 1 of that year.

3/ Including errors and omissions.

4/ Excludes projected public current transfers for 2003-08. Gaps are expected to be filled by a combination of sustained fiscal adjustment, stuctural reform, privatization, exceptional donor financing and implementation of a comprehensive debt strategy.

5/ Excludes US$10.2 million in debt assumed to be rolled-over.

6/ Exports of goods and services.

Table 10. Dominica: Nonfinancial Public Sector Debt Structure at End-June 2003

	Debt stocks			
	In millions of EC$	In millions of US$	In percent of GDP	Share of total debt
Domestic debt	**186.6**	**69.1**	**27.4**	**24.5**
Commercial Banks	127.8	47.3	18.7	16.8
NCB	53.2	19.7	7.8	7.0
Others	74.6	27.6	10.9	9.8
ECCB	14.2	5.3	2.1	1.9
Private	44.6	16.5	6.5	5.9
External debt	**573.6**	**212.4**	**84.1**	**75.5**
Multilateral	266.8	98.8	39.1	35.1
CDB	176.8	65.5	25.9	23.3
World Bank	58.5	21.7	8.6	7.7
IMF	7.8	2.9	1.1	1.0
Others 1/	23.6	8.7	3.5	3.1
Bilateral	108.6	40.2	15.9	14.3
France	32.6	12.1	4.8	4.3
Taiwan	31.6	11.7	4.6	4.2
Others 2/	44.5	16.5	6.5	5.8
Commercial	182.4	67.5	26.8	24.0
Citicorp	45.5	16.9	6.7	6.0
Royal Merchant Bank	82.6	30.6	12.1	10.9
Societe Generale 3/	30.2	11.2	4.4	4.0
Intercommercial Bank	6.8	2.5	1.0	0.9
Others	17.3	6.4	2.5	2.3
Arrears	15.9	5.9	2.3	2.1
Total	**760.1**	**281.5**	**111.5**	**100.0**

Sources: Dominican authorities; and Fund staff estimates.

1/ Includes EIB, IFAD and OPEC.

2/ Includes Barbados, Belize, Granada, Kuwait, St. Vincent, Trinidad and Tobago and Venezuela.

3/ Loan guaranteed by the U.K. government. The guarantee has been exercised.

Table 11. Dominica: Public Sector Debt Sustainability Framework, 1997/8-2006/7

(In percent of GDP, unless otherwise indicated)

	Actual						Projections			
	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
I. Baseline Medium-Term Projections										
Public sector debt 1/	**60.9**	**71.0**	**76.8**	**87.4**	**95.4**	**111.5**	**114.7**	**117.8**	**120.3**	**120.4**
o/w foreign-currency denominated	44.1	52.6	52.6	61.7	68.5	66.6	73.9	79.2	85.1	88.9
Change in public sector debt	5.6	10.1	5.8	10.6	8.0	16.0	3.3	3.1	2.5	0.1
Identified debt-creating flows	1.3	4.8	9.7	11.7	11.5	8.8	3.8	1.9	-0.1	-1.4
Primary deficit	1.1	5.0	7.5	6.0	3.3	1.6	-0.2	-0.5	-2.0	-3.0
Revenue and grants	31.7	33.9	32.3	37.9	30.2	32.9	34.2	32.6	32.6	32.6
Primary (noninterest) expenditure	32.8	38.8	39.9	43.9	33.5	34.5	34.0	32.1	30.6	29.6
Automatic debt dynamics 2/	0.2	-0.2	2.2	5.7	8.2	7.2	3.9	2.4	1.9	1.6
Contribution from interest rate/growth differential 3/	0.2	-0.2	2.2	5.7	8.2	7.2	3.9	2.4	1.9	1.6
Of which contribution from real interest rate	1.6	1.1	3.3	4.6	4.2	4.4	3.9	4.0	4.2	3.9
Of which contribution from real GDP growth	-1.4	-1.3	-1.0	1.1	4.0	2.8	0.0	-1.7	-2.3	-2.3
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes	4.3	5.3	-3.9	-1.1	-3.4	7.2	-0.5	1.2	2.7	1.5
Public sector debt in percent of revenues 1/	192.0	209.7	237.6	230.6	315.6	339.1	335.5	361.1	368.7	368.8
Gross financing 5/	3.2	8.0	13.1	13.6	11.5	8.7	11.8	8.7	7.3	6.1
In millions of U.S. dollars	8.0	20.8	35.1	36.1	29.6	22.0	30.3	23.0	20.0	17.3
Key Macroeconomic and Fiscal Assumptions										
Real GDP growth (in percent)	2.6	2.3	1.5	-1.4	-4.4	-2.9	0.0	1.5	2.0	2.0
Average nominal interest rate on public debt (in percent) 6/	5.0	4.3	5.6	6.5	5.9	5.7	5.3	5.4	5.2	4.9
Average real interest rate (nominal rate minus change in GDP deflator, in per	3.1	1.9	4.7	5.9	4.6	4.5	3.6	3.6	3.7	3.4
Nominal appreciation (increase in US dlr. value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	1.9	2.4	0.9	0.6	1.3	1.2	1.7	1.8	1.5	1.5
Growth of real primary spending (deflated by GDP deflator, in percent)	13.6	21.0	4.2	8.5	-27.0	0.0	-1.5	-4.1	-2.8	-1.2
II. Stress Tests										
1. Real GDP growth, real interest rate, and primary balance are at historical averages in 2003-2007						111.5	111.7	113.7	117.1	119.4
2. Real interest rate is at historical average plus two standard deviations in 2003 and 2004						111.5	117.9	124.2	126.8	127.0
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004						111.5	118.9	128.3	130.8	130.7
4. Primary balance is at historical average minus two standard deviations in 2003 and 2004						111.5	139.1	167.4	170.6	171.4
5. Combination of 2-4 using one standard deviation shocks						111.5	129.0	149.3	151.0	150.1
6. One time 30 percent real depreciation in 2003 7/						111.5	149.3	153.1	156.2	156.7
7. 10 percent of GDP increase in other debt-creating flows in 2003						111.5	124.7	128.0	130.7	130.9
8. Impact on **debt-to-GDP ratio** if revenue-to-GDP ratio is at historical average minus two std. dev. in 2003-04						111.5	124.5	136.0	138.8	139.1
8a. Impact on **debt-to-revenue ratio** if revenue-to-GDP ratio is at historical average minus two std. dev. in 2003-04						339.1	509.2	556.1	425.2	426.0

Historical Statistics for Key Variables (past 10 years)	Historical Average	Standard Deviation
Primary deficit	-1.1	12.6
Real GDP growth (in percent)	1.1	2.3
Nominal interest rate (in percent) 6/	5.0	1.0
Real interest rate (in percent)	2.8	1.8
Inflation rate (GDP deflator, in percent)	2.2	1.2
Revenue to GDP ratio	31.3	3.4

1/ The coverage is for the nonfinancial public sector and the data are on a gross basis.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation.

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the denominator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

6/ Derived as nominal interest expenditure divided by previous period debt stock.

7/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table12. Dominica: External Debt Sustainability Framework, 1999-2007
(In percent of GDP, unless otherwise indicated)

	Actual			Est.	Projections				
	1999	2000	2001	2002	2003	2004	2005	2006	2007
I. Baseline Medium-Term Projections									
External debt	**48.4**	**53.7**	**64.6**	**77.4**	**88.1**	**91.4**	**92.9**	**93.2**	**92.4**
Change in external debt	13.4	5.3	10.9	12.8	10.7	3.4	1.4	0.3	-0.8
Identified external debt-creating flows (4+8+11)	-20.5	-24.0	-20.2	-15.6	-18.7	-20.6	-22.9	-20.2	-16.9
Current account deficit, excluding interest payments	-14.2	-21.6	-21.0	-16.9	-17.5	-18.1	-20.6	-17.9	-14.6
Deficit in balance of goods and services	8.9	14.2	17.4	13.5	15.7	12.7	10.2	8.5	7.6
Exports	58.6	53.3	45.9	47.4	46.5	47.1	48.2	48.9	49.0
Imports	67.5	67.5	63.3	60.9	62.2	59.7	58.4	57.4	56.6
Net non-debt creating capital inflows (negative)	-6.7	-4.0	-4.5	-5.3	-5.2	-5.1	-4.9	-4.7	-4.6
Net foreign direct investment, equity	6.7	4.0	4.5	5.3	5.2	5.1	4.9	4.7	4.6
Net portfolio investment,equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Automatic debt dynamics 1/	0.4	1.6	5.3	6.7	4.0	2.6	2.6	2.4	2.3
Contribution from nominal interest rate	1.0	2.3	3.0	3.5	3.2	4.3	4.4	4.2	4.1
Contribution from real GDP growth	-0.6	-0.7	2.4	3.2	0.8	-1.7	-1.8	-1.8	-1.8
Contribution from price and exchange rate changes 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, incl. change in gross foreign assets (2-3)	33.9	29.3	31.1	28.4	29.4	23.9	24.3	20.5	16.1
External debt-to-exports ratio (in percent)	82.7	100.8	140.8	163.2	189.4	194.3	192.8	190.6	188.8
Gross external financing need (in billions of U.S. dollars) 3/	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Key Macroeconomic and External Assumptions									
Real GDP growth (in percent)	1.6	1.4	-4.2	-4.7	-1.0	2.0	2.0	2.0	2.0
Exchange rate appreciation (US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0				
GDP deflator in US dollars (change in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal external interest rate (in percent)	2.9	4.8	5.3	5.1	4.2	5.0	4.9	4.7	4.5
Growth of exports (US dollar terms, in percent)	3.4	-7.9	-16.2	-3.0	0.2	4.3	5.9	5.1	3.7
Growth of imports (US dollar terms, in percent)	4.9	1.4	-8.8	-9.7	4.3	-1.0	1.1	1.8	2.0
II. Stress Tests for External Debt Ratio									
1. Real GDP growth, nominal interest rate, dollar deflator, non-interest current account, and nondebt inflows are at historical average in 2003-2007				93.5	115.8	133.1	151.0	165.4	175.6
2. Nominal interest rate is at historical average plus two standard deviations in 2003 and 2004				93.5	124.6	149.5	173.1	193.4	209.7
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004				93.5	124.6	153.8	177.5	198.0	214.3
4. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2003 and 2004				93.5	123.6	148.0	171.6	191.9	208.1
5. Non-interest current account is at historical average minus two standard deviations in 2003 and 2004				93.5	123.6	148.0	171.6	191.9	208.1
6. Combination of 2-5 using one standard deviation shocks				93.5	122.4	147.5	171.0	191.3	207.5
7. One time 30 percent nominal depreciation in 2003				93.5	166.2	192.5	217.3	238.8	256.1

Historical Statistics for Key Variables (past 10 years)	Standard Deviation	Average 2002-07
Current account deficit, excluding interest payments	9.3	-17.6
Net non-debt creating capital inflows	6.2	5.0
Nominal external interest rate (in percent)	1.1	4.7
Real GDP growth (in percent)	2.1	0.4
GDP deflator in U.S. dlrs. (change in percent)	0.0	0.0

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).
3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

Table 13. Dominica: Schedule of Purchases Under the Stand-By Arrangement and the Poverty Reduction and Growth Facility

Date	Purchases (in millions) US$ 1/	SDR	As Percent of Quota	Conditions
2002	**2.973**	**2.050**	**25.0**	
August 28	2.973	2.050	25.0	Board approval of SBA (first credit tranche)
2003	**4.757**	**3.281**	**40.0**	
July 28	0.446	0.308	3.8	First review under the SBA; and adoption of prior actions
September 15	0.446	0.308	3.8	End-July 2003 performance criteria
Decemeber 19	0.446	0.308	3.8	Second review under the SBA; and end September 2003 performance criteria
Decemeber 19	3.419	2.358	28.8	Board approval of PRGF; and adoption of prior actions
2004	**1.786**	**1.232**	**15.0**	
March 15	0.447	0.308	3.8	First review under the PRGF; and end-December 2003 performance criteria
June 15	0.447	0.308	3.8	Second review under the PRGF; and end-March 2004 performance criteria
September 15	0.447	0.308	3.8	Third review under the PRGF; and end-June 2004 performance criteria
December 15	0.447	0.308	3.8	End-September 2004 performance criteria
2005	**3.567**	**2.460**	**30.0**	
March 15	0.892	0.615	7.5	Fourth review under the PRGF; and end-December 2004 performance criteria
June 15	0.892	0.615	7.5	End-March 2005 performance criteria
September 15	0.892	0.615	7.5	Fifth review under the PRGF; and end-June 2005 performance criteria
December 15	0.892	0.615	7.5	End-September 2005 performance criteria
2006	**2.378**	**1.640**	**20.0**	
April 30	1.189	0.820	10.0	Sixth review under the PRGF; and end-December 2005 performance criteria
October 31	1.189	0.820	10.0	Seventh review under the PRGF; and end-June 2006 performance criteria
Total	**15.46**	**10.66**	**130.0**	
SBA	4.31	2.97	36.25	
PRGF	11.15	7.69	93.78	
Memorandum item:				
Quota (in millions)	11.89	8.20	100.0	

Source: Fund staff estimates.

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

Table 14. Dominica: Indicators of Capacity to Repay the Fund, 2002-08

	2002	2003	2004	2005	2006	2007	2008
		Projections 1/					
Fund repurchases and charges 2/							
In millions of SDRs	0.0	0.1	0.1	0.4	1.2	1.3	0.4
In millions of U.S. dollars	0.0	0.1	0.1	0.6	1.7	1.8	0.6
In percent of exports of goods and services	0.0	0.1	0.1	0.4	1.2	1.3	0.4
In percent of debt service	0.0	0.6	0.4	1.7	5.2	5.3	1.6
In percent of quota	0.0	1.2	1.2	4.9	14.6	15.9	4.9
In percent of imputed net official reserves	0.0	0.3	0.3	1.1	3.3	3.4	1.0
Fund credit outstanding 2/							
In millions of SDRs	2.1	5.3	6.6	8.7	9.3	8.1	7.7
In millions of U.S. dollars	2.8	7.4	9.1	12.1	12.8	11.1	10.6
In percent of exports of goods and services	2.4	6.3	7.4	9.3	9.4	7.9	7.2
In percent of debt service	19.6	32.2	28.6	37.0	40.3	33.1	31.3
In percent of quota	25.0	65.0	80.0	106.4	113.0	98.3	93.4
In percent of imputed net official reserves	6.5	16.4	19.5	24.9	25.4	21.2	19.4
Memorandum items:							
Exports of goods and services (millions of U.S. dollars)	117.4	117.7	122.7	130.0	136.6	141.6	146.9
Debt service (millions of U.S. dollars) 2/	14.5	23.0	31.8	32.6	31.8	33.6	33.7
Quota (millions of SDRs)	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Quota (millions of U.S. dollars)	11.4	11.4	11.4	11.3	11.3	11.3	11.3
Imputed net official reserves (millions of U.S. dollars)	43.6	45.1	46.7	48.5	50.4	52.4	54.4
GDP (millions of U.S. dollars)	252.0	253.0	260.8	269.9	279.4	289.3	299.5
U.S. dollars per SDR 3/	0.721	0.720	0.721	0.723	0.723	0.725	0.726

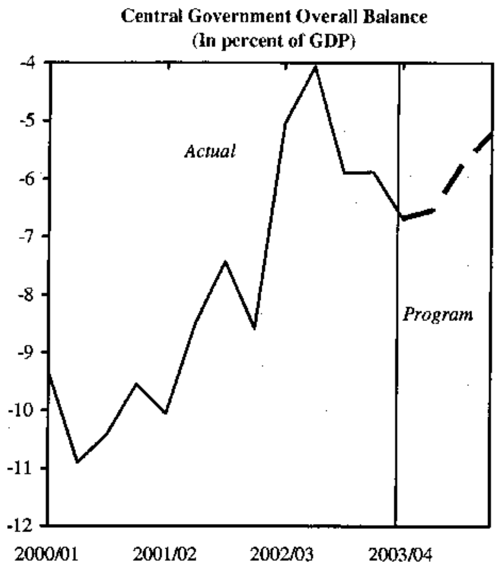
Sources: Dominican authorities; Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.

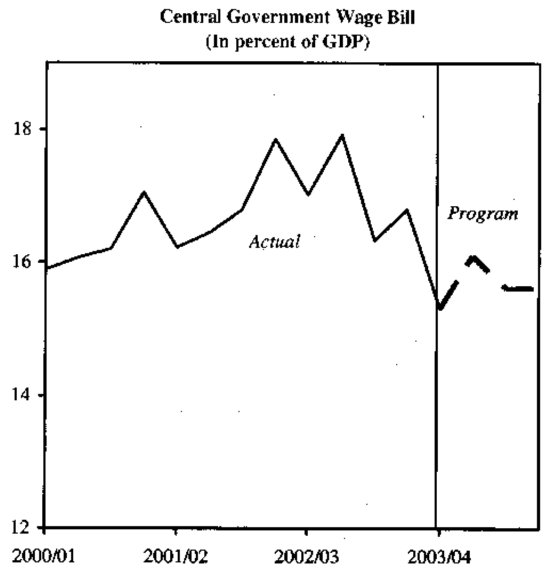
1/ As of May 2003.

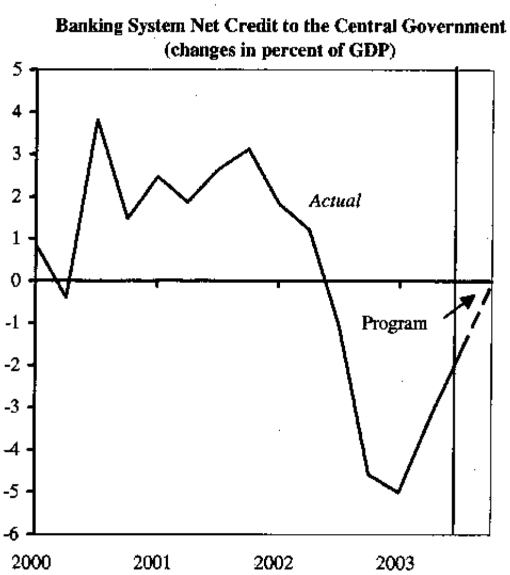
2/ Including hypothetical purchases under Stand-By Arrangement and PRGF, not shown in the BoP projections.

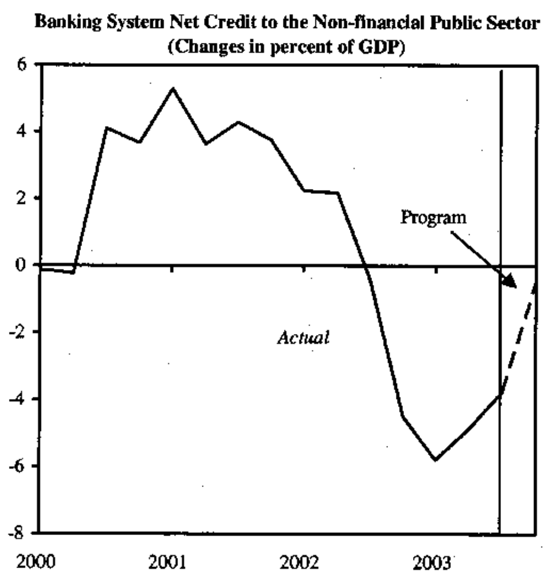
3/ For the projection period: WEO assumptions of September 2003.

Figure 1. Dominica: Performance Under the Program



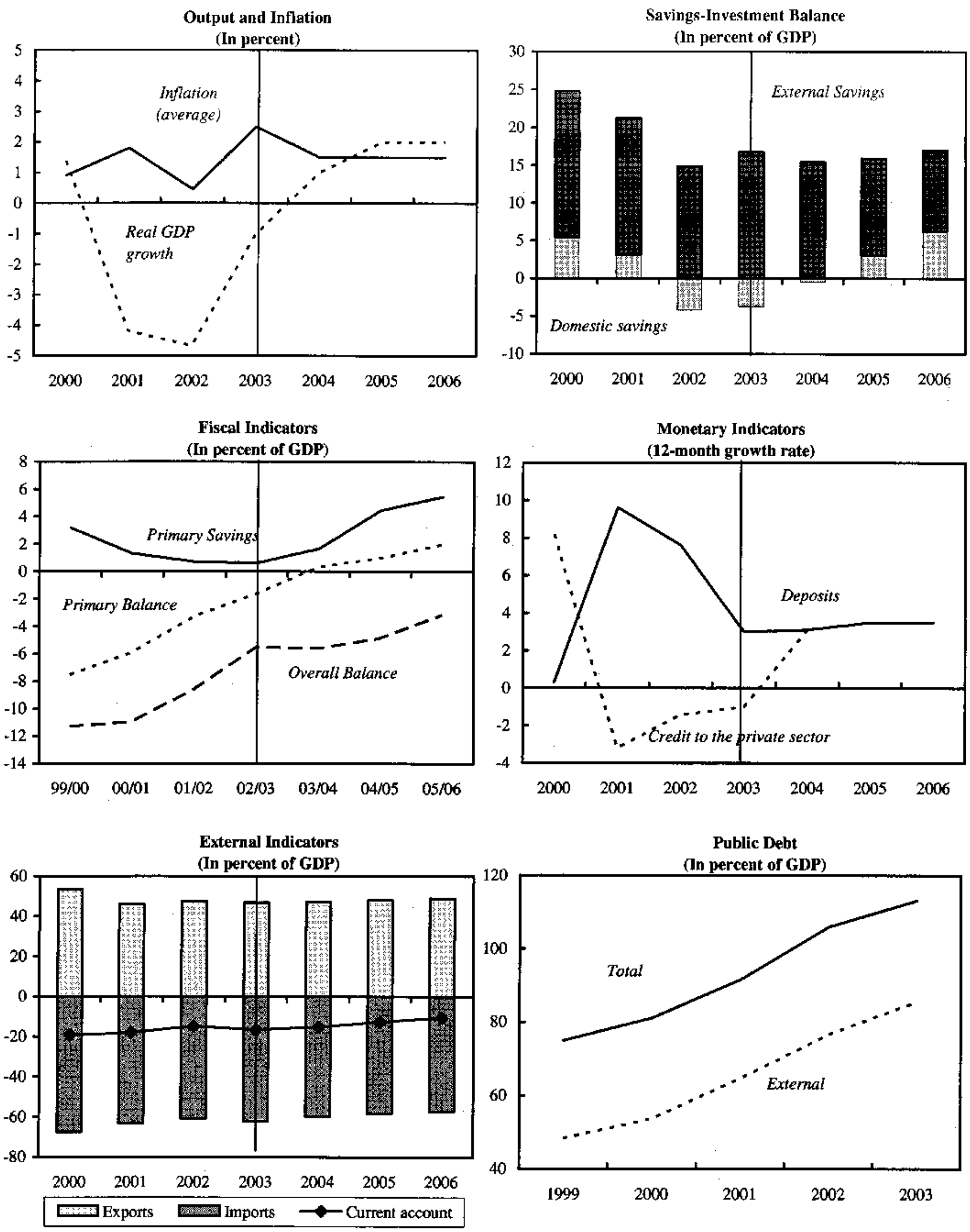






Sources: Dominican authorities; Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.

Figure 2. Dominica: Macroeconomic Performance



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

Dominica: Fund Relations

(As of October 31, 2003)

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	10.86	132.40
Reserve position in Fund	0.01	0.11

III. SDR Department	**SDR Million**	**Allocation**
Net cumulative allocation	0.59	100.00
Holdings	0.00	0.49

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
Stand-by arrangements	2.67	32.50

V. Latest Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved** (SDR Million)	**Amount Drawn** (SDR Million)
Stand-By	08/28/02	02/27/04	3.28	2.67
SAF	11/26/86	11/25/89	2.80	2.80
Stand-By	07/18/84	07/17/85	1.40	0.97
EFF	02/06/81	02/05/84	8.55	8.55

VI. Projected Obligations to the Fund

	Forthcoming				
	2003	**2004**	**2005**	**2006**	**2007**
Principal	0.00	0.00	0.26	1.10	1.08
Charges/Interest	0.02	0.07	0.07	0.05	0.03
Total	**0.02**	**0.07**	**0.32**	**1.16**	**1.11**

* Less than SDR 50,000.

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

VIII. Safeguards Assessment: Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB), of which Dominica is a participating government, is subject to a full safeguards assessment with respect to the Stand-By Arrangement approved on August 28, 2002 and scheduled to expire on August 27, 2003.

The on-site safeguards assessment was completed on February 20, 2003, and concluded that the ECCB has in place appropriate mechanisms to manage resources, including Fund disbursements and that the vulnerabilities that remain do not present an undue risk. The safeguards assessment proposed specific measures to address these vulnerabilities and implementation by the ECCB is currently in progress.

IX. Article IV consultation: The last Article IV consultation was concluded by the Executive Board on August 28, 2002. Dominica is on the standard 24-month cycle.

X. Technical assistance: FAD missions visited Roseau to provide technical assistance on tax policy and administration, with special emphasis on VAT implementation (2002 and 1999), on urban property taxation (1997), and on tax policy and administration, and expenditure control (1995).

XI. FSAP: A joint IMF/World Bank team performed an assessment of the financial sector of the member states of the ECCB, in two missions—September 1-19 and October 20-31, 2003. The principal objective of the missions was to assist the authorities in assessing the development needs and opportunities for the financial sector and identifying potential vulnerabilities of financial institutions and markets to macroeconomic shocks, as well as the risks to macroeconomic stability from weaknesses and shortcomings in the financial sector.

Dominica: Relations with the Caribbean Development Bank (CDB)

(As of October 31, 2003)

The CDB has approved loans and grants for Dominica totaling approximately US$140.1 million. Of this amount US$136.5 million represented loans aimed at boosting real sector activity, particularly in agriculture, manufacturing and tourism. Significant resources were also dedicated towards improving road access, sea defenses and other physical infrastructure. A large portion of loans to the productive sector was channeled to the private sector through the Dominica Agricultural, Industrial and Development Bank (DAIDB).

In 2003, CDB completed a detailed poverty assessment in Dominica. Inter alia, this will serve to inform Government strategic interventions aimed at sustained poverty reduction. Moreover, CDB in collaboration with other development partners, has provided critical budget support to Dominica through an Economic Stabilization Loan. This intervention seeks to facilitate an orderly adjustment process in Dominica and will also allow for the formulation of a longer-term structural adjustment strategy.

Ongoing capital projects financed by CDB include the Fourth Consolidated Line of Credit, Roseau Water and Sewerage Project, Seventh Consolidated Line of Credit, OECS Solid Waste Project, and Eco-tourism project, and the Seventh Consolidated Line of Credit to DAIDB for on-lending to the productive sectors and to students.

Dominica: Financial Relations with CDB
(In millions of U.S. Dollars)

ITEM	1999	2000	2001	2002	As of September 2003
Cumulative Total Credit Approved	96.21	113.20	118.63	128.01	136.18
Cumulative Disbursements	72.79	82.73	94.56	101.54	106.30
Disbursements	5.51	9.94	11.83	6.98	4.76
Outstanding Debt	44.69	51.41	60.39	65.02	67.27
Amortization	2.73	2.73	2.70	2.59	2.10
Interest	1.14	1.35	1.61	1.58	1.50

Dominica: World Bank Relations[5]

(As of October 31, 2003)

The World Bank role in Dominica: The Bank will continue to collaborate with the Fund and other donors in supporting the authorities efforts in stabilizing macroeconomic conditions and in restarting economic growth and reducing poverty. The Bank will lead the policy dialogue on key structural reforms, including public expenditure, public sector reform, social protection, and on the environment for private sector development.

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

Bank Group strategy: The World Bank's strategy for Dominica is a part of the Country Assistance Strategy (CAS) for the Eastern Caribbean (OECS) sub-region, presented to the Bank Board on June 28, 2001. The CAS which covers FY 2002–06, proposes new commitments of around US$110 million for the five borrowing member states of the OECS (Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines). The main goals of the strategy are to reduce income insecurity and vulnerability at the national and household levels, and build human and institutional capacity to meet the challenging economic and social environment facing these small states.

Ongoing projects: There are currently two ongoing World Bank projects in Dominica (as well as other OECS borrowing countries) with total commitments of approximately US$4.4 million.

(i) The *OECS Telecommunications Reform Program*, approved in FY 1998 seeks to introduce pro-competition reforms in the telecommunications sectors and increase the supply of informatics-related skills in the OECS borrowing countries. The project has helped these countries establish a regional regulatory authority, negotiate with the sub-regional telecommunications monopoly, and lower telephone rates. Dominica's share of the US$6.0 million loan is US$1.2 million.

(ii) The *OECS Emergency Recovery Project*: This project was approved in FY 2002 to help mitigate the impact of the September 11 attack on the tourism sector. The project supports improvements to airport and sea port security arrangements. The World Bank's assistance for this sub-regional program is US$21 million, including US$3.2 million for Dominica.

[5] Source: World Bank.

Upcoming projects: The Bank is currently preparing two projects for Dominica.

(i) (i) The *Economic Recovery Support Operation*—an adjustment operation for US$3 million—will support reforms in the areas of public expenditure, financial and debt management, financial sector, and port operations, petroleum pricing and the design and implementation of a broad public sector reform strategy. This operation is expected to be presented to the Board of Directors for approval in the first half of FY04.

(ii)

(ii) The Bank is also preparing the Dominica component of the *Caribbean HIV/AIDS Prevention and Control Project* which is expected to presented for approval in FY05.

(iii) **Analytical and Advisory Services:** During FY03, the Bank prepared a Dominica-specific Country Financial Accountability Assessment, Country Procurement Assessment Report and Social Protection Review. A public expenditure review for Dominica, is underway in the context of the ongoing OECS Analysis of Fiscal Issues. The Bank is also providing technical assistance to support reforms in the petroleum, electricity and financial sectors.

(iv)

Key aspects of the Bank's Caribbean research and technical assistance program include:

(i) The first component builds on a Bank-wide program on small states and provides research and technical assistance on key vulnerability issues in the Caribbean—such as macroeconomic volatility and income security, catastrophic insurance, natural hazard risk mitigation strategies, institutional arrangements for environmental management in the OECS, and on the measurement of poverty and social welfare.

(ii) The second body of work addresses long-term development issues. In this regard, the Bank is about to embark on a study of Growth and Competitiveness in the OECS, scheduled for completion during the first half of 2004.

(iii) Finally, the Bank will continue to work together with the IMF and the ECCB to fully review the financial sector, including off-shore operations, through the ongoing Financial Sector Assessment Program (FSAP)—this report should be concluded by end-2003.

Financial Relations
(In millions of U.S. dollars)

Operations	**Commitments**	**Disbursed**	**Undisbursed**
Emergency Recovery Project	3.2	1.5	1.7
OECS Telecommunication Reform	1.2	0.5	0.7

Gross Disbursements and Debt Service During Fiscal Year

	1997	1998	1999	2000	2001	2002	2003	2004*
Total disbursements	0.5	1.9	1.4	2.1	0.4	1.7	2.7	3.03
Repayments	0.2	0.1	0.1	0.1	0.0	0.1	0.3	0.27
Net disbursements	0.3	1.8	1.3	1.9	0.4	1.6	2.4	2.76
Cancelled	0.0	0.0	0.0	0.0	0.0	1.0	2.3	0.00
Interest and fees	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.17

*Projections as of September 30, 2003.

Dominica: Statistical Issues

There are weaknesses in coverage, frequency, quality, and timeliness of the statistical database that continue to restrict effective economic analysis and policy formulation. The weakest areas are the fiscal accounts, public debt, and the balance of payments.

The authorities are aware of the deficiencies in their statistical database and have chosen to participate in the General Data Dissemination System (GDDS). Metadata and plans for improving Dominica's statistical system are posted on the Internet on the IMF's Dissemination Standards Bulletin Board (http://dsbb.imf.org).

Real sector

CPI data are provided on a timely basis. The ECCB compiles semi-annual GDP estimates, which are then available with a one-quarter lag. Estimated annual data on nominal GDP (by activity) are available within a few months of the end of the year. Data on employment are very limited and there are no official data on producer prices or wages in the private sector.

Government finance

There are statistical capacity problems that affect the timely production of quality government finance statistics—in particular, the data are subject to frequent revisions stemming in part from data omissions and misclassifications. Data on central government operations are incomplete and must be supplemented with additional information from external sources. For instance, some investment project spending is undertaken outside the consolidated fund as are some loan and grant receipts as well as related on-lending and transfers to public enterprises. As a result, the authorities' capital expenditure data, recorded by the Treasury, must be supplemented with additional donor financing information, particularly since the Public Sector Investment Program (PSIP) data are not timely.

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

In addition, only limited financing data are available. Although much progress has been made in improving the measurement of the government's floating debt, there are concerns that there is under recording of government commitments. However, there are several ongoing initiatives to strengthen expenditure management, which should help minimize the under-recording of government domestic debt. In particular, there is an ongoing effort to automate the expenditure execution process. The new automation technology will be fully installed in ***all*** line ministries by the early 2004, at which point all local purchase orders (LPOs) will be entered and tracked electronically. Once an LPO is generated electronically, there is an automatic commitment that is charged against a specific budget allocation. It is the intention that all ministries and suppliers of goods and services will be compelled to use the new system following the completion of the automation program.

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

During financial year 2002/03 the authorities received technical assistance from the CARTAC in the area of cash and commitment management. The main source of assistance now comes through DFID's FERP project.

Monetary statistics

Monetary statistics are compiled by the ECCB on a monthly basis and reported to the Fund regularly, although the coverage merits improvements. For instance, the banking statistics do not explicitly capture loans from ECCB's fiscal reserve tranche to the government of Dominica. The monetary survey does not include the accounts of credit unions that accept demand deposits. The ECCB is aware of the need to improve coverage of the monetary statistics and is taking steps to collect data on credit unions. Data on the activities of offshore banks are not reported to the Fund.

Balance of payments

Balance of payments data are compiled by the ECCB on an annual basis and are not reported in the format recommended in the fifth edition of the IMF's *Balance of Payments Manual*. The timeliness of the data has improved recently but the data still suffers from exceptionally high and volatile errors and omissions, at times reaching levels of 12 percent of GDP.

External debt

The ministry of finance maintains a database on public and publicly-guaranteed external loans that provides detailed and reasonably current information on disbursements, debt service, and debt stocks. The Treasury maintains the data on bonds placed abroad. Unfortunately, the two government agencies do not consolidate their databases to provide a comprehensive external debt picture. The external debt data is deficient not only in its ability to measure the debt stock, but also in the ability to provide comprehensive monthly information on payments by creditor (actual and scheduled), which makes the compilation of up-to-date information on arrears, and the NFPS debt stock very difficult.

Roseau, Dominica
December 10, 2003

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

1. The letter and memorandum of economic policies (MEP) of June 21, 2003 outline the government's two-stage strategy to solve the complex fiscal and public debt problems facing the country. The first stage consisted of a short-term program of stabilization and financing, in the context of an extended Stand-By Arrangement (SBA). The second stage consisted of a medium-term program, in the context of a successor Fund arrangement, to re-establish the basis for growth and implement a debt strategy to ensure medium-term sustainability.

2. Performance under the first stage of the strategy has been very satisfactory, despite difficult conditions. All performance criteria and benchmarks have been observed since the program was modified last July, including the design of a debt strategy. Accordingly, we request completion of the second review under the SBA.

3. This letter and the attached MEP describe the economic program to be adopted by the Government of Dominica for 2004–06 as part of the second stage of the strategy. The main objective of this program is to restore economic growth by removing impediments to growth, thus reducing unemployment and the level of poverty in the country. The overall strategy is laid out in our Interim Poverty Reduction Strategy Paper (I-PRSP). We are requesting a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 7.69 million (93.8 percent of quota) in support of the program detailed in the attached memorandum. We intend to cancel the SBA no later than two weeks after completion of this review.

4. Before the above requests are considered by the IMF Board, we will take one fiscal measure, Cabinet will take a policy decision to reduce significantly discretionary tax exemptions, with immediate effect, in an effort to rationalize our tax system. By mid-2004, we will also conduct a review of all statutory and discretionary tax exemptions with a view to assessing their effectiveness and justification, and to prevent abuses.

5. As in the past, the government will maintain a continuous dialogue with the Fund, and stand ready to adopt measures that may be appropriate to achieve the objectives of the program. We will also provide Fund staff with all the relevant information required to complete program reviews and measure performance criteria. The government will abstain

from imposing or intensifying exchange and trade restrictions for balance of payments purposes. There will be quarterly performance criteria in the first two years of the arrangement and semi-annual performance criteria in the third year. Reviews under the PRGF arrangement will be completed by mid-March 2004, mid-June 2004 and mid-September 2004 during the first year of the arrangement and semi-annually thereafter. These reviews will be associated with observance of relevant performance criteria. Also, disbursements under the arrangement will be subject to financing assurances reviews in the context of the IMF policy on lending into arrears.

6. We have authorized the Fund to publish this letter, the attached Memorandum of Economic Policies (MEP) and the Interim Poverty Reduction Strategy Paper (I-PRSP), to facilitate a wider access and review of our policies.

Sincerely yours,

/s/

Honorable Pierre Charles
Prime Minister and Minister of Finance
and Planning

Attachment

MEMORANDUM OF ECONOMIC POLICIES OF THE GOVERNMENT OF DOMINICA

I. BACKGROUND

1. **After a difficult start, the government took important steps to bring the program back on track.** The Fund-supported program adopted by the government in the summer of 2002 to address the deteriorating economic situation fell short of expectations. Expenditure overruns and tax collection shortfalls derived from a more pronounced economic contraction and external shocks made it difficult to observe the targets under the Stand-By Arrangement (SBA). Most performance criteria for end-December 2002 were not observed. However, after a period of national consultation and a deteriorating outlook, the government decided to strengthen its policies and adopted an austere budget for 2003/04 including a 5 percent wage cut and other fiscal measures equivalent to 2½ percent of GDP.

2. **A new two-stage strategy was adopted to deal with the intricate problems confronted by the economy.** With economic conditions deteriorating rapidly and the possibility of facing a budgetary financing crisis, the government designed the new strategy. The first stage involved a short-term program with strengthened macroeconomic policies and a refocused structural agenda for the remainder of 2003 to stabilize the economic situation. A key benchmark was the design of a debt strategy to ensure medium-term sustainability. For this purpose, the SBA was extended for six months through February 2004 to give the government time to develop a comprehensive program and a structural reform agenda. The second stage involves the implementation of such a medium-term program with a strong structural component to restore growth and increase employment while simultaneously reducing poverty. To this end, we are requesting a three-year poverty reduction and growth facility (PRGF) from the IMF.

II. RECENT DEVELOPMENTS

3. **The strategy adopted at the last review has worked well and all performance criteria and benchmarks under the program have been observed.** Following the approval of the strong budget in early July 2003, and the implementation of a cash management system, the IMF Board completed the first review under the SBA in late July. Subsequently, all performance criteria for end-July and end-September were observed, as were structural benchmarks on: (i) providing Fund staff a debt strategy (end-September); (ii) substituting price controls on fuels by an automatic price adjustment mechanism (end-September); (iii) designing a detailed public sector reform strategy (end-October); and (iv) completing a diagnostic review of the financial system (end-November). These achievements were obtained thanks to better coordination at the government level, and to the effectiveness of the cash management system as a tool in guiding expenditure decisions.

4. **There are indications that the economy might have bottomed out.** One of the main objectives of the program was to contain the precipitous decline in output. We are glad to report that there are encouraging signs that a recovery might be in sight. The main

indicators of this trend are a rebound in tax collections and imports, as well as a modest recovery in tourism and manufacturing production.

5. **An ambitious debt strategy has been designed with the objective of regaining medium-term sustainability**. The government has reached the conclusion that the current level of public debt at over 110 percent of GDP imposes a heavy burden on the economy and cannot be systematically serviced even if significant additional adjustment efforts were carried out. Against this background, we are seeking a comprehensive debt restructuring that would yield a significant debt reduction in the net present value of outstanding claims and would pave the way to achieving medium-term sustainability. We are mindful of possible fragilities in the financial system, and for this reason, domestic banks are expected to provide only limited support for this operation. We will remain current, to the extent possible, on all current obligations during the restructuring process.

III. Medium-Term Macroeconomic Framework, Structural Reform and Poverty Reduction Strategy

6. **The main objective of the medium-term program is to re-establish growth and enable the economy to achieve its full potential by removing all impediments to growth.** Following the most severe economic contraction in the history of the country since independence, we aim at regaining the pre-crisis economic growth rate of 2 percent per year. While it would be desirable to achieve an even higher growth rate, we would like to establish realistic targets for the medium term, while laying solid foundations for a more rapid growth in the long run. With a sustained economic recovery and growth, the depressed levels of employment are expected to rise significantly, improving the standard of living and reducing poverty. The results from our recent Poverty Assessment confirms that poverty in Dominica is predominantly associated with unemployment, largely as a result of the decline in the banana industry, and therefore its reduction will require a resumption of growth and the generation of new jobs. Our approach to poverty alleviation is spelled out in the Interim Poverty Reduction Strategy Paper (I-PRSP). We will remain vigilant in ensuring that social spending is safeguarded in the coming budgets as adjustment efforts proceed. Another objective of the program is to significantly reduce the high external current account deficit.

7. **The cornerstone of our macroeconomic framework is a significant fiscal effort over the next three years to achieve a primary surplus of 3 percent of GDP**. We estimate in our debt strategy that, given the fundamentals of the economy, it is necessary to run a primary surplus of 3 percent of GDP over the medium term. Against the background of an underlying primary deficit (excluding nonrecurrent grants) of about 2 percent of GDP in 2003/04, the fiscal objective of the program would require a fiscal effort of about 5 percent of GDP over the medium term.

8. **The structural reform agenda will be cemented on four pillars namely debt, budget, financial and investment climate issues**. We have identified these four areas as main structural impediments to growth:

- ***Debt strategy implementation.*** A high level of debt discourages investment and growth as it creates economic uncertainty.

- ***Fiscal reform.*** The debt problem arose due to a combination of exogenous shocks and inappropriate policy responses. We will endeavor to enact fiscal reform to secure our fiscal objectives and correct previous weaknesses.

- ***Financial sector strengthening.*** In order to ensure an efficient allocation of financial resources, the government will seek the assistance of the ECCB to ensure that there is a level playing field among major financial intermediaries.

- ***Other reforms.*** There are other impediments to growth that need to be addressed especially in the areas of deregulation and competitiveness, to improve the investment climate in the country.

IV. MACROECONOMIC POLICIES FOR 2004

9. **Macroeconomic policies will concentrate on fiscal issues during the program.** The current exchange rate peg in the context of the Eastern Caribbean Currency Union (ECCU) limits the role of monetary policy and enhances the role of fiscal policy. The government recognizes the very limited ability of the ECCB to conduct credit operations and to pursue functions of lender of last resort.

10. **The government will aim at achieving a primary surplus of ½ percent of GDP in 2004/05.** We understand the need to front-load our adjustment efforts to enhance the credibility of our policies and facilitate discussions with our creditors. Achievement of the fiscal target requires an adjustment of 2½ percent of GDP in the budget for 2004/05, or one half of the 5 percent envisaged over the medium term.

11. **We will divide the adjustment in 2004 into two phases, one with immediate effect, and the other to be implemented in the upcoming budget.** This is for consistency with our budget cycle. We will take one further measure for FY 2003/04 with immediate effect, and other measures will be taken in the context of the 2004/05 budget.

12. **The government commits to reducing discretionary tax exemptions before the IMF Board considers this request.** Cabinet will take a policy decision to significantly reduce discretionary tax exemptions with immediate effect, with a view to achieve additional tax collections for ½ percent of GDP on an annualized basis. We will also conduct a comprehensive review of all statutory and discretionary tax exemptions to assess their effectiveness and justification by June 2004, and to prevent abuses. This will constitute a structural benchmark under the program. Users of these exemptions will be subject to observance of execution tests to be specified by the government in the context of the review. In order to better monitor these exemptions and to ensure that they are used for intended purposes, the government will require quarterly reports from the users of these statutory exemptions including assessments on execution tests. This is being done in an effort to

rationalize our tax system and to improve efficiency of collections. It is difficult to assess the yield of this measure as certain transactions may not take place once the exemption is removed. We will revisit these estimates at the time of the 2004/05 budget.

13. **Additional fiscal measures aimed at improving the tax administration and rationalizing expenditures will be introduced in the context of the 2004/05 budget**. The remaining measures to achieve our objective of a primary surplus of ½ percent of GDP for 2004/05 will be included in the upcoming budget. Approval of the 2004/05 budget consistent with the program will be a structural performance criteria for end-July 2004. These measures will amount to about 2 percent of GDP, and will include the following:

Expenditure reducing measures. There are four measures amounting to 2.0 percent of GDP.

- ***Reduction of the wage bill.*** It is the government's intention to reduce the wage bill by 5 percent in nominal terms by reducing personnel in the 2004/05 budget. This will generate savings of 1.2 percent of GDP on an annual basis.

- ***Expenditure freeze.*** The government will not increase noninterest current expenditures in the next budget which will represent a net saving in real terms. This will include a continuation of the hiring and wage freezes. This measure will accrue savings of about 0.4 percent of GDP on an annual basis.

- ***Increase in retirement age.*** It is proposed to change the statutory retirement age in the public service from 55 to 60 years to be implemented over a period of four years, beginning in July 2004. The resulting savings in pension payments in 2004/05 and postponement of gratuities amount to 0.2 percent of GDP.

- ***Revision of vacation and study leave policy.*** The cost of current policies on vacation and study leave is 0.9 percent of GDP. It is proposed, starting in January 2004, to put measures in place with a view to reducing this cost by 40 percent over two years, resulting in savings in 2004/05 of 0.2 percent of GDP.

Revenue enhancing measures. There is one measure amounting to 0.1 percent of GDP.

- ***Broadening the tax base for professional license fees.*** The government will broaden the scope of this tax to other professional activities not currently covered, and will also strengthen the enforcement of the fees charged. We estimate that additional revenues for 0.1 percent of GDP can be obtained.

14. **Capital expenditure is expected to be maintained at 7 percent of GDP, but could be reduced if necessary**. We estimate that the country can absorb high quality public investment of this amount, which could support our efforts to reinvigorate growth and reduce poverty. Our public sector investment program (PSIP) reflects this objective. However, we are fully committed to our sustainability objective, and will be prepared to make adjustments to the PSIP if this becomes necessary. Capital expenditure will adhere to the approved PSIP,

which will be reviewed by the World Bank. Borrowing decisions will continue to be centralized in the Ministry of Finance, which will be involved at an early stage of project planning and borrowing decision-making, especially for externally financed projects.

15. **It is expected that the structural reforms would carry short-term costs, but bear long-term benefits**. As explained below, some of the structural measures will require additional expenditures such as civil service reform (severance payments). For the purpose of the program, these costs will not count against the primary surplus target, so as to prevent discouraging the adoption of needed structural measures for fear of not observing the fiscal target. However, there is no financing identified for all these reforms and they can only be implemented once adequate financing has been secured. We expect the cost of these reforms to be covered by grants and concessional loans. We also expect that the fiscal adjustment for the second and third year of the program will come mostly from the lasting savings of the structural reforms, most notably the civil service reform.

16. **Financing under the program will come mostly from the debt restructuring**. It is estimated that even after the significant adjustment adopted in the 2004/05 budget, there will be a financing gap of about US$26 million in 2004 of which the IMF will contribute about US$5 million, and the remaining US$21 million will be covered by the debt restructuring. We estimate that a comprehensive debt restructuring with significant debt reduction in net present value terms is needed to cover the residual financing gaps over the medium term.

V. Structural Reforms

17. **The structural agenda will aim at removing impediments to growth and ensuring medium-term sustainability**. As already mentioned, the structural policies will be built around four pillars.

A. Debt Strategy Implementation

18. **Implementation of the debt strategy will be key to achieving medium-term sustainability**. The economy is suffering from debt overhang, as uncertainty about future taxation deters private investment. Growth is unlikely to resume unless the large debt burden is reduced significantly. We have recently announced our intention to approach creditors to seek a debt restructuring that achieves debt sustainability. We committed to pursue a debt restructuring process that is collaborative and to continue, to the extent possible, to remain current on their debt obligations during this process. While discussions with our creditors are likely to be complex, we expect to finalize the debt restructuring during the first quarter of 2004. Rapid implementation of the strategy is important to secure orderly financing under the program.

B. Fiscal Reform

19. **The main objective of this reform is to improve the efficiency of fiscal policy and underpin the program's fiscal objectives**. There are four main areas of focus:

- ***Public sector reform***. One of the main reasons for the inflexibility of public finances is the relatively large wage bill. We already began the process of reducing wage costs in the 2003/04 budget by reducing wages by 5 percent. We intend to reduce the wage bill by 10 percent over the next two fiscal years mainly through a reduction in the number of positions (with permanent savings of about 2 ½ percent of GDP per year). We plan to reduce the wage bill by 5 percent during the 2004/05 budget, and by an additional 5 percent the following fiscal year. We will build on the work of DFID and the EU to launch this initiative. We will identify the positions that need to be eliminated through the rationalization the public service and secure the necessary financing for this reform. We will conduct a study in March 2004, outlining the process by which this target will be achieved. This will constitute a structural benchmark under the program. We estimate the one-off cost of this reform to be about US$5–6 million (about 2½ percent of GDP). Preliminary estimates indicate that very limited net savings will accrue to the budget during the first year of the reform as the severance payments can be around one year of salaries. However, permanent savings will accrue in the subsequent years of about 2 percent of GDP per annum.

- ***Tax reform***. The main objective is the substitution of the VAT for the consumption tax, the sales tax, the hotel occupancy tax and other minor levies. We will request technical assistance from the IMF and CARTAC for this purpose. We expect the VAT to be in place at the time of the 2005/06 budget. The budget for 2004/05 is expected to include all the preparatory regulations so that the VAT can be introduced with the following budget. Cabinet will approve key parameters like the base, rate, registration threshold, filing frequency and refund system by end-September 2004. This will constitute a structural benchmark under the program. The rate of the VAT will be determined such that it compensates for the taxes that are being eliminated.

- ***Fiscal institution building***. In order to ensure fiscal prudence and improve the transparency of the budgetary process, we will adopt a fiscal responsibility law that articulates the conditions under which deficits or surpluses would be allowed, while ensuring that the debt stock is under control. We will embrace other transparency initiatives in the budget, including publishing of statutory tax concessions and the level of public employment. We will request technical assistance from the IMF and CARTAC for this purpose and expect that this law will be in place by in mid-2005 in time to guide the budget for 2005/06.

- ***Phased increase in the retirement age***. The current retirement age of 55 years is too low by international standards and a heavy burden for an economy with a large aging population (Dominica has one of the highest life expectancies in the world). We will introduce legislation to Parliament by mid-2004 to increase the retirement age for public employees to 60 years in a phased manner. This will constitute a structural benchmark under the program. This will be the first step towards a reform of the pension and social security systems.

- ***Adoption of a three-year rolling budget.*** This is a good practice that is followed in an increasing number of countries in the world and requires a medium-term macroeconomic framework. Clarity on future policies would reduce public uncertainty enhancing the prospects for investment. We will request technical assistance from the IMF and DFID and expect that the upcoming 2004/05 budget will adopt this practice.

C. Financial Sector Strengthening

20. **We aim at improving the efficiency of the financial system by restructuring state banks and strengthening the supervision of credit unions.** While the government will soon have a minority stake in the National Commercial Bank (NCB), we will work with the ECCB in analyzing its portfolio and determining if its capital base remains adequate. We will also review the operations of the Aid Bank to determine the need and scope for restructuring it, with a view to satisfying strategic objectives and performance criteria to be defined by the government. We have requested assistance from the ECCB to review the Aid Bank operations by March 2004, and will develop an action plan by June 2004 with a view to implementation by end-December 2004. We are taking steps to safeguard the financial sector, including credit unions inter alia by assigning responsibility for financial supervision and regulation to the ministry of finance and planning, and by conducting a round of inspections of credit unions with assistance from the ECCB.

21. **We will analyze the conclusions of the FSAP mission and will aim at implementing its recommendations.** It is expected that the FSAP report will be ready by early 2004. We will review its conclusions and will seek assistance from the ECCB to enhance our structural agenda in this area by adopting FSAP recommendations where appropriate. More specific actions will be announced by the time of the second program review.

22. **Implementation of the debt strategy is not expected to modify the balance sheets of the domestic banks in any significant manner.** While a restructuring of bank claims on the government will be needed, we will seek to safeguard their capital and portfolio as well as limit the erosion of their profitability. Ultimately, the restructuring is expected to increase the maturity of bank's claims with only limited interest relief.

D. Other Reforms

23. **There is an urgent need to improve competitiveness in the economy and reduce external imbalances.** Reinvigoration of the export sector will reinforce growth and reduce the large external current account deficit. While it is not easy to achieve these gains in the context of a fixed exchange rate, we believe that an adequate incomes policies together with improvements in the tax system and the regulatory frameworks will improve competitiveness in the economy and help reduce external imbalances. We present, in the matrix of our I-PRSP more detailed measures in this area that we intend to implement during the program.

We also intend to embrace further policy recommendations that could emerge from the World Bank regional competitiveness study, where appropriate.

24. **The structure and focus of the National Development Corporation (NDC) needs to be clearly defined to improve its effectiveness.** Taking into account recommendations contained in various reviews conducted over the years, Cabinet will take a decision on the structure and focus of the NDC with a view to enhancing institutional arrangements for tourism marketing and attracting private investment by end-March 2004.

25. **Improving the environment for private investment will be critical for the restoration of growth:** A full set of measures will be drawn from the I-PRSP and will be implemented with financial and technical assistance from the international community. These will include: (i) streamlining process/procedures for registering new businesses, to make them fully transparent and minimize the scope for discretion; (ii) improving the regulatory framework for the electricity supply in order to protect consumers and facilitate efficiency gains that would permit lowering of rates over time. This will constitute a structural benchmark under the program; (iii) conducting a cadastral survey and strengthening the registry service so as to accelerate the regulation of property rights and facilitate access to credit by small farmers and other small investors; (iv) revising the land acquisition act to make procedures fully transparent and expedient. We will strive to enhance the investment climate in the economy considerably.

26. **We remain fully committed to the program, and will take any additional action that is necessary to ensure that the objectives of the program are achieved.**

Table 1. Dominica: Quantitative Performance Criteria (PC), and Indicative Targets (IT), for 2004
Under the Poverty Reduction and Growth Facility Arrangement
(Cumulative amounts from June 30, 2003, unless otherwise indicated)

	2003								
	Dec. 31 1/ (PC)	Jan. 31 (IT)	Feb. 28 (IT)	Mar. 31 (PC)	30-Apr (IT)	31-May (IT)	Jun. 30 (PC)	Sept. 30 (IT)	31-Dec (IT)
I. Performance Criteria									
(In millions of Eastern Caribbean dollars)									
Central government primary balance 2/	...	0.0	0.0	0.0	0.2	0.5	0.8	0.9	1.0
Central government wage bill	84.0	62.8	72.0	83.2	90.3	99.5	108.6	134.4	160.2
Banking system net credit to central government 3/	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
(In millions of Eastern Caribbean dollars)									
Net changes in central government arrears to private domestic parties 4/	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
(In millions of U.S. dollars)									
Disbursement of central government or central government guaranteed external nonconcessional debt with maturity of at least one year 2/ 5/	23.9	30.0	30.0	30.0	33.0	33.0	33.0	33.0	33.0
Net changes in the outstanding stock of contracted or guaranteed short-term external debt of the central government (with maturity of less than one year) 4/ 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net changes in external payments arrears of the central government 4/ 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
II. Indicative Targets									
(In millions of Eastern Caribbean dollars)									
Central government overall balance 2/ 7/	-46.9	-28.8	-32.1	-33.5	-33.8	-36.7	-39.2	-57.8	-61.3
Central government revenues	140.5	117.7	131.9	148.5	166.1	181.1	197.4	245.1	302.0
Central government primary savings	-9.5	5.3	3.3	0.0	11.7	10.6	10.6	14.3	24.4

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

1/ Cumulative from March, 31 2003.
2/ Limits will be adjusted downward (upwards) to the extent that project financing falls short of (exceeds) programmed amounts. Upward adjustments will not exceed US$5 million by end-December 2003 , US$6.35 million by end-March 2004, and US$7.7 million by end-June 2004. The limits will be adjusted downward to the extent that budgetary grants exceed programmed amounts.
3/ Limits on banking system net credit to the central government will be adjusted upward to the extent that there are shortfalls in external nonproject financing that are outside the control of the authorities. These upward adjustments will not exceed US$4.0 million by end-December 2003. Limits on banking system net credit to the central government will be adjusted downward to the extent that external nonproject financing exceeds US$20.4 million by end-December 2003. For the period through December 2004, the limits on banking system net credit to the central government will be adjusted downward to the extent that budgetary lending has been obtained and not used for intended reform.
4/ These performance criteria will be monitored on a continuous basis.
5/ For the definition of external debt, see paragraph 21 of the Technical Memorandum of Understanding.
6/ Excluding subscription arrears to regional and international organizations.
7/ Performance criterion for December 2003 and an indicative target thereafter.

Table 2. Dominica: Structural Performance Criteria and Structural Benchmarks for the PRGF Arrangement through December 2004

Structural Reform Measure under Original Program	Lead Institution	MEP Paragraph Number	Completion Date	Category
Tax policy Elimination of discretionary tax exemptions.	IMF	12	...	Prior Action
Budget approval Approval of FY2004/05 budget, consistent with the program.		13	End-July 2004	Performance Criterion
Tax policy Announcement in the budget for FY2004/05 the adoption of the VAT by mid-2005. Cabinet approval of key parameters such as the base, the rate, registration threshold, filing frequency, and refund system.	IMF	19	End-September 2004	Benchmark
Civil service reform Study outlining the process for redcution in the wage bill for FY2004/05 by 5 percent through attrition.	EU/DFID	19	End-March 2004	Benchmark
Tax policy and administration Conduct a review of all statutory tax exemptions with a view to assessing their effectiveness and justification, and to prevent abuses.	CARTAC	12	End-June, 2004	Benchmark
Pension reform Submit legislation to Parliament proposing a phased increase in the retirement age for public employees to 60 years.	IMF	19	End-June, 2004	Benchmark
Institutional strengthening Improve the regulatory framework for electricity supply, following the recommendations of technical assistance mission.	World Bank	25	End-September 2004	Benchmark

Sources: Dominican Authorities and Fund staff.

DOMINICA—TECHNICAL MEMORANDUM OF UNDERSTANDING

1. Dominica's performance under the Stand-By Arrangement and Poverty Reduction and Growth Facility (PRGF), described in the letter of the Government of Dominica dated December 10, 2003, will be assessed by the IMF on the basis of the observance of quantitative performance criteria as well as compliance with structural performance criteria and benchmarks. This Technical Memorandum of Understanding (TMU) sets out and defines the performance criteria (and adjustors), indicative targets, and benchmarks specified in Tables 1 and 2 of the Memorandum of Economic Policies, as well as the monitoring and reporting requirements.

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

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

VI. FISCAL TARGETS

1. Performance Criterion on the Overall Balance of the Central Government

	Floor (In millions of Eastern Caribbean dollars)
Cumulative balance (from March 31, 2003)	
End-December 2003 (performance criterion)	-46.9
Cumulative balance (from June 30, 2003)	
End-January 2004 (indicative target)	-28.8
End-February 2004 (indicative target)	-32.1
End-March 2004 (indicative target)	-33.5
End-April 2004 (indicative target)	-33.8
End-May 2004 (indicative target)	-36.7
End-June 2004 (indicative target)	-39.2
End-September 2004 (indicative target)	-57.8
End-December 2004 (indicative target)	-61.3

4. **The central government overall balance** will be measured from the financing side as the sum of the net domestic borrowing plus net external borrowing. The floor on the overall balance is cumulative from the specified dates.

5. **Net domestic borrowing** by the central government is the sum of: (i) net domestic bank financing as reported by the consolidated balance sheet of the banking system adjusted for double signature accounts,[6] (ii) net nonbank financing measured by the net changes in holdings of government securities by nonbanks, and net borrowing from nonbank institutions (including special tranches from the ECCB); (iii) the change in the stock of domestic arrears of the central government defined as net changes in unpaid checks issued, unprocessed claims, invoices pending, plus accrued interest payments, and other forms of expenditures recorded above the line but not paid; and (iv) gross receipts from divestment.

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

The following adjusters will apply:

7. The floor on the **overall balance of the central government** will be adjusted upward[7] (downward) to the extent that project loans fall short of (exceed) programmed amounts. This adjustor applies up to June 2004 and will be discontinued thereafter. **Project loans** are defined as the receipt of loan proceeds to finance the central government's portion of the Public Sector Investment Program. For the purpose of this adjustor, the cumulative project loans amount to: cumulative from March, 31, 2003, US$3.9 million by end-December 2003; cumulative from June, 30, 2003, US$5 million by end-March 2004 and US$6.6 million by end-June 2004. Upward adjustments will not exceed US$5 million by end-December 2003, US$6.35 million by end-March 2004 and US$7.7 million by end-June 2004.

8. The floor on the **overall balance of the central government** will be adjusted upward[2] to the extent that budgetary grants exceed programmed amounts. **Budgetary grants** are defined as grant receipts that are not earmarked for capital outlays. For the period through

[6] Net domestic bank financing is defined as the changes in the net credit extended by the domestic banking system to the central government, excluding net changes in "double signature accounts" in which grant receipts are deposited. The double signature accounts include the accounts 2797, 2976, 2220, 1912, 3015, 3025, 1911, 1471, 1523, 3053, 1710, and 1970 held in the National Commercial Bank (NCB), and any new account in which grant receipts are deposited and which requires a signature of an external party for the release of its funds. Treasury bills will be recorded at face value, except for those held by the banking system which will be recorded on a purchase price basis.

[7] Upward adjustment means lower deficit.

December 31, 2003, the cumulative programmed amounts are: US$0 million by end-December 2003. Beginning in January 2004, any budgetary grants will be counted as part of revenue if it is used to cover the cost of a specific reform, otherwise the overall balance will be adjusted upwards.

9. The floor on the overall balance of the central government will be adjusted downward by the amount of severance payments or administrative expenditures linked to the debt strategy. It is expected that these costs will be mostly covered by grants, which would also be excluded from the measurement of the overall balance of the central government. In the event of loan financing for this purpose, it will not count toward the measurement of the overall balance of the central government.

2. Performance Criterion on the Central Government Primary Balance

	Floor (In millions of Eastern Caribbean dollars)
Cumulative balance (from June 30, 2003)	
End-January 2004 (indicative target)	0.0
End-February 2004 (indicative target)	0.0
End-March 2004 (performance criterion)	0.0
End-April 2004 (indicative target)	0.1
End-May 2004 (indicative target)	0.3
End-June 2004 (performance criterion)	0.5
End-September 2004 (indicative target)	0.7
End-December 2004 (indicative target)	1.0

10. **The central government primary balance** will be defined as the central government overall balance (from the financing side as defined in paragraph 4) plus scheduled domestic and external interest payments. Interest payments do not include either domestic or external interest payment made by the central government on behalf of other parties. The floor on the central government primary balance will be cumulative from June 30, 2003.

The following adjusters will apply:

11. The same adjustors described in paragraph 7, 8 and 9 apply to the primary balance.

3. Performance Criterion on the Central Government Wage Bill

	Ceiling (In millions of Eastern Caribbean dollars)
Cumulative flows (from March 31, 2003)	
End-December 2003 (performance criterion)	84.0
Cumulative flows (from June 30, 2003)	
End-January 2004 (indicative target)	62.8
End-February 2004 (indicative target)	72.0
End-March 2004 (performance criterion)	83.2
End-April 2004 (indicative target)	90.3
End-May 2004 (indicative target)	99.5
End-June 2004 (performance criterion)	108.6
End-September 2004 (indicative target)	134.4
End-December 2004 (indicative target)	160.2

12. The **central government wage bill** will be measured as the total expenditure of the central government on wages and salaries of central government employees net of wage refunds, including acting allowances, special duty allowances, responsibility allowances, subsistence allowances, and the employer contribution to Dominica Social Security, but not including retirement benefits, severance payments or other related one-off payments (i.e. accumulated leave). As such, the ceiling does not include wage-related transfers to schools, the National Development Corporation, and local governments. For the period through December 31, 2003, the ceiling on the central government wage bill is cumulative from March 31, 2003. For the period beginning January 1, 2004, the ceiling on the central government wage bill is cumulative from June 30, 2003.

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

	Ceiling (In millions of Eastern Caribbean dollars)
Cumulative change in stock (from March 31, 2003)	
End-December 2003 (performance criterion)	15.0
Cumulative flows (from June 30, 2003)	
End-January 2004 (indicative target)	15.0
End-February 2004 (indicative target)	15.0
End-March 2004 (performance criterion)	15.0
End-April 2004 (indicative target)	15.0
End-May 2004 (indicative target)	15.0
End-June 2004 (performance criterion)	15.0
End-September 2004 (indicative target)	15.0
End-December 2004 (indicative target)	15.0

13. **Net changes in central government arrears to domestic private parties** is defined as the sum of all pending payments by government for goods and services already purchased from these parties, as well as pending interest and amortization obligations on domestic debt held by them. Private domestic parties exclude DOWASCO, Dominica Social Security, National Development Corporation, Dominica Broadcasting Corporation, DEXIA, and the Port Authority. The measure used will be unpaid checks issued and pending invoices for which payment is overdue. The ceiling on net changes of central government payment arrears is cumulative from March 31, 2003. This ceiling will be monitored on a continuous basis through December 31, 2003.

5. Indicative Targets on Revenues of the Central Government

	Floor (In millions of Eastern Caribbean dollars)
Cumulative flows (from March 31, 2003)	
End-December 2003 (indicative target)	140.5
Cumulative flows (from June 30, 2003)	117.7
End-January 2004 (indicative target)	
End-February 2004 (indicative target)	131.9
End-March 2004 (indicative target)	148.5
End-April 2004 (indicative target)	166.1
End-May 2004 (indicative target)	181.1
End-June 2004 (indicative target)	197.4
End-September 2004 (indicative target)	245.1
End-December 2004 (indicative target)	302.0

14. **Central government revenue** is defined as tax collections and nontax revenues reported in the treasury accounts (economic classification), excluding (i) revenues from the economic citizenship program, (ii) foreign and domestic grant receipts, (iii) loan repayments, (iv) wage refunds, and (v) privatization receipts, and includes income tax refunds. For the period through December 31, 2003, the floor on central government revenue is cumulative from March 31, 2003. For the period beginning January 1, 2004, the floor on central government revenue will be cumulative from June 30, 2003.

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

	Floor (In millions of Eastern Caribbean dollars)
Cumulative balance (from March 31, 2003)	
End-December 2003 (indicative target)	-9.5
Cumulative flows (from June 30, 2003)	
End-January 2004 (indicative target)	5.3
End-February 2004 (indicative target)	3.3
End-March 2004 (indicative target)	0.0
End-April 2004 (indicative target)	11.7
End-May 2004 (indicative target)	10.6
End-June 2004 (indicative target)	10.6
End-September 2004 (indicative target)	14.3
End-December 2004 (indicative target)	24.4

15. **Central government primary savings** is measured on an accrual basis (including unpaid checks issued and unprocessed invoices) and is defined as the central government revenue before grants (i.e., excluding grants) minus current non-interest expenditure. For the period through December 31, 2003, the floor on government primary savings is cumulative from March 31, 2003. For the period beginning January 1, 2004, the floor on government primary savings will be cumulative from June 30, 2003. The adjustors described in paragraph 8 and 9 apply to the central government primary savings.

Monitoring Discretionary Tax Exemptions

16. **Discretionary tax exemptions** are defined as tax exemptions granted under sections 6(2) and 31[8] of the Consumption Order Act, Section 26 of the Sales Tax Act, Section 60 of the Customs (Control and Management) Act, Section 25(2) of the Income Tax Act, or remissions of tax under section 109 of the Income Tax Act (except in cases where the Comptroller certifies that the tax to be remitted is uncollectible).

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

[8] As a transitional rule the government might allow exemptions described in Section 31(b) relating to agreements entered into before the date of announcement. The Cabinet's decision should include a decision not to enter into such agreements after the date of announcement.

VII. Monetary Targets

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

	Ceiling (In millions of Eastern Caribbean dollars)
Cumulative flows (from March 31, 2003)	
End-December 2003 (performance criterion)	3.0
Cumulative flows (from June 30, 2003)	
End-January 2004 (indicative target)	3.0
End-February 2004 (indicative target)	3.0
End-March 2004 (performance criterion)	3.0
End-April 2004 (indicative target)	
End-May 2004 (indicative target)	3.0
End-June 2004 (performance criterion)	3.0
	3.0
End-September 2004 (indicative target)	
End-December 2004 (indicative target)	3.0

17. **Net credit of the banking system** is defined as in paragraph 5. The **banking system** is defined as the consolidation of the Eastern Caribbean Central Bank operations in Dominica (including credit extended under the fiscal tranche window), with the accounts of all banks licensed by the ECCB to do business in Dominica as commercial banks.

The following adjusters will apply:

18. For the period through December 31, 2003, the limits on **banking system net credit to the central government** will be adjusted downward to the extent that net external nonproject financing (i.e., budgetary lending) exceeds US$20.4 million by end-December 2003. For the period through December 31, 2004, the limits on the banking system net credit to the central government will be adjusted upward to the extent that budgetary lending has been obtained and not used for the intended reform.

19. The limits on **banking system net credit to the central government** will be adjusted upward to the extent that there are temporary shortfalls in external nonproject financing (i.e., budgetary lending) that are outside the control of the authorities. For the period through December 31, 2003, the upward adjustments will not exceed a cumulative US$4.0 million by end-December 2003.

VIII. External Sector Targets

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

	Ceiling (In millions of U.S. dollars)
Cumulative flows (from March 31, 2003)	
End-December 2003 (performance criterion)	23.9
Cumulative flows (from June 30, 2003)	
End-January 2004 (indicative target)	30.0
End-February 2004 (indicative target)	30.0
End-March 2004 (performance criterion)	30.0
End-April 2004 (indicative target)	33.0
End-May 2004 (indicative target)	33.0
End-June 2004 (performance criterion)	33.0
End-September 2004 (indicative target)	33.0
End-December 2004 (indicative target)	33.0

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

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

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

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

from the buyer in the future (such as repurchase agreements and official swap arrangements);

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

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

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

22. **Nonconcessional** is defined as debt having a grant element (in net present value relative to face value) **of less than 35 percent**, based on the currency- and maturity-specific Commercial Reference Rates (CIRR), published monthly by the OECD.[9] The limit excludes the disbursements of short-term import related debts, the use of Fund resources, refinancing operations, and disbursements of external loans for clearance of payment arrears to DOWASCO.

The following adjusters will apply:

23. The limits on the **disbursement of nonconcesssional external loans** will be adjusted downward (upward) to the extent that external project loans fall short of (exceed) programmed amounts. **External project loans** are defined as the receipt of loan proceeds to finance the central government's portion of the PSIP. The cumulative programmed amounts are as follows: cumulative from March, 31, 2003 US$3.9 million by end-December 2003; cumulative from June, 30, 2003, US$5 by end-March 2004 and US$6.6 by end-June 2004.

[9] For loans with a maturity of at least 15 years, the 10-year average commercial interest reference rates and for loans with shorter maturities, the 6-month average CIRRs, as of November 15, 2003 published by the OECD will be used as the discount rates. To both the 10-year and 6-month averages, the following margins for differing repayment periods will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 years or more.

Upward adjustments will not exceed US$5 million by end-December 2003, US$ 6.35 million by end-March 2004 and US$7.7 by end-June 2004.

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

	Ceiling (In millions of U.S. dollars)
Cumulative flows (from March 31, 2003)	
End-December 2003 (performance criterion)	0.0
Cumulative flows (from June 30, 2003)	
End-January 2004 (indicative target)	0.0
End-February 2004 (indicative target)	0.0
End-March 2004 (performance criterion)	0.0
End-April 2004 (indicative target)	0.0
End-May 2004 (indicative target)	0.0
End-June 2004 (performance criterion)	0.0
End-September 2004 (indicative target)	0.0
End-December 2004 (indicative target)	0.0

24. **Stock of short-term external debt outstanding** is defined as debt with original maturity of less than one year contracted or guaranteed by the central government. The term debt is defined as set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000) (see paragraph 16), but excludes normal import-related credits. This ceiling will be monitored on a continuous basis. The ceiling must not be exceeded at any time. For the period through December 31, 2003, the ceiling on short-term external debt is cumulative from March 31, 2003. For the period beginning January 1, 2004, the ceiling is cumulative from June 30, 2003.

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

25. **Central government and central government guaranteed external payment arrears** are defined as overdue payments on all debt contracted or guaranteed by the central government. The definition of arrears does not include outstanding subscription payments to regional and international organizations for which understandings will be reached to ease payment obligations consistent with the program. For the period through December 31, 2003, the ceiling on the nonaccumulation of central government and central government guaranteed external payment arrears is cumulative from March 31, 2003. This ceiling will be monitored on a continuous basis.

IX. Prior actions, Structural performance criteria, and Structural Benchmarks

Prior Action

26. **Government will take a policy decision to reduce significantly discretionary tax exemptions (as defined in paragraph 16 of the TMU).** This measure will take immediate effect following the said policy decision prior to the Executive Board consideration of the PRGF Arrangement. This measure is expected to yield ½ percent of GDP on an annual basis.

Structural performance criteria

27. Approval of the 2004/05 budget, consistent with the program, will be a performance criterion for end-July 2004.

Structural benchmarks

28. **Divestiture of government shares** in the NCB below 50 percent (structural benchmark) means reducing its shareholdings via direct sale of some shares to existing stockholders or to NCB itself to meet this limit. Also, NCB bylaws will have to be amended, consistent with government naming only three of seven directors (or any number of less than 50 percent) (end-December 2003).

29. **Civil service reform.** Conduct a study outlining the process by which the target of a 5 percent reduction in the wage bill for 2004/05 will be achieved. The study should define the legal basis for the individual payments that will be required for laid off employees as well as an estimate of the cost of this reform (end-March 2004).

30. **Tax policy and administration.**

- Conduct a review of all statutory tax exemptions with a view to assessing their effectiveness and justification and to prevent abuses (end-June 2004)

- Announce in the budget for 2004/05 the adoption of the VAT by mid-2005. Cabinet approval of key parameters such as the base, rate, registration threshold, filing frequency, and refund system (end-September 2004).

32. **Pension reform.** Submit legislation to Parliament proposing a phased increase in the retirement age for public employees to 60 years (end-June 2004).

33. **Institutional strengthening.** Improve the regulatory framework for electricity supply, following the recommendations of technical assistance mission (end-September 2004).

X. Periodic Reporting

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

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

  - Fiscal sector

    (i) Central government budgetary accounts.

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

    (iii) Central government domestic debt data.

    (iv) Current grant inflows.

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

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

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

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

  - Financial sector

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

  - External and real sectors

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

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

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

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

(xv) Consumer price index.

(xvi) Real sector indicators

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

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

- External and real sectors

(xvii) GDP and its components.

(xviii) Balance of payments accounts.

36. Other reporting will include:

- Reports of legislative changes pertaining to economic matters.

Statement by the IMF Staff Representative
December 19, 2003

This note provides additional information on recent developments since the issuance of the staff report. This information does not materially change the staff appraisal.

- **The authorities have implemented the prior action on discretionary tax exemptions.** The Cabinet's decision of December 16, 2003 ceases the issuance of any new one-off discretionary exemptions, except religious and charitable organizations. Moreover, maturing time-bound discretionary exemptions will not be extended, except in exceptional circumstances. It is estimated that this decision will generate additional revenues equivalent to ½ percent of GDP on an annualized basis. A mechanism to monitor and control future exemptions is being put in place. The authorities regretted that it was not possible for the Cabinet to meet the customary five-day guideline for prior actions on account of scheduling constraints.

- **On financing assurances, the staff has received an assessment letter from the World Bank (attached).** The letter notes that the delays in World Bank disbursements under the Economic Recovery Support Operation (ERSO) are expected to be temporary, as the authorities are making good progress in observing prior actions under the loan; an exception is also being sought on Dominica's breach of the negative pledge clause. It is expected that the ERSO will be considered by the World Bank's Board in January 2004.

Press Release No. 03/228
FOR IMMEDIATE RELEASE
December 22, 2003

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves In Principle US$11.4 Million PRGF Arrangement for Dominica

The Executive Board of the International Monetary Fund (IMF) has approved a three-year SDR 7.7 million (about US$11.4 million) credit for Dominica under the Poverty Reduction and Growth Facility (PRGF) arrangement. The decision approving the arrangement will become effective on December 29, 2003, provided that as of that date the Word Bank has concluded that Dominica's Interim Poverty Reduction Strategy Paper (IPRSP) provides a sound basis for the development of a fully participatory PRSP. The effectiveness of the decision will enable the release of SDR 2.4 million (about US$3.5 million) for Dominica under the PRGF arrangement.

The IMF Executive Board today also completed the second and final review of Dominica's one-year SDR 3.3 million (about US$4.9 million) Stand-By Arrangement, which had been approved on August 28, 2002 (see Press Release No. 02/37). The completion of this review entitles Dominica to the release of SDR 307,500 (about US$450,000), bringing total disbursements under the Stand-By Arrangement to SDR 2.97 million (about US$4.4 million). The Executive Board also noted Dominica's intention to cancel the Stand-By Arrangement as of January 2, 2004.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Following the Executive Board's discussion on December 19, 2003 for Dominica, Agustín Carstens, Deputy Managing Director and Acting Chairman, said:

"The recent performance by the Dominican authorities under the Stand-By Arrangement (SBA) has been encouraging. Policy implementation strengthened considerably, reflecting steps taken earlier this year to control government spending. The structural benchmarks for September, October, and November 2003, as well as all performance criteria for end-July and end-September 2003, were observed. In addition, the authorities have prepared their debt strategy and elaborated a comprehensive medium-term economic program designed to reestablish growth and reduce unemployment-related poverty. These actions evidenced the firm commitment of the government to achieving the objectives set out in the SBA.

"The authorities are now prepared to embark on the second stage of their economic strategy, during which they will implement an ambitious fiscal program, combined with their debt strategy and a comprehensive structural reform agenda, with the support of an arrangement under the Poverty Reduction and Growth Facility.

"During the first year and a half of the PRGF arrangement, the primary fiscal balance is projected to improve steadily. The adjustment will place greater emphasis on expenditure cuts, with key expenditure measures including a continuation of the freeze on all other non-interest current expenditures in the budget for FY2004/05, as well as a 5 percent reduction in the central government wage bill through the implementation of a comprehensive civil service reform.

"During the remainder of the PRGF arrangement, the primary fiscal surplus is targeted to reach 3 percent of GDP. Additional fiscal adjustment measures to achieve this goal will include expenditure moderation and a second round of public sector retrenchment during FY2005/06 designed to reduce the size of the public sector wage bill, as well as measures to broaden the tax base and enhance the efficiency of tax collections.

"A large residual financing gap will still remain over the medium term, which is expected to be covered by debt restructuring. However, determined efforts toward fiscal consolidation supported by reforms to improve the efficiency and competitiveness of the economy will continue to be essential for achieving debt sustainability and preventing the reemergence of a debt problem.

"The authorities plan to focus their structural reform agenda on four main areas, namely:

- Implementation of the debt strategy, which is critical to securing financing for the program;
- Fiscal reform, including civil service reform, tax reform, pension reform, and improved budgetary procedures;
- Financial sector strengthening and
- Other reforms to improve the investment climate, enhance competitiveness, and diversify the economy.

"These structural reforms will be implemented in line with the authorities' poverty reduction strategy, as articulated in the authorities' Interim Poverty Reduction Strategy Paper, with a view to preserving essential social safety nets and reducing employment-related poverty," Mr. Carstens stated.

ANNEX

Recent economic developments

Dominica's economic situation remains difficult, but there are signs of a modest recovery in manufacturing and tourism in the second quarter of this year, partly offsetting the continued deterioration in the banana sector. For the third quarter, tax collections have rebounded and imports are beginning to expand due to a surge in construction. However, exports continue to shrink, mostly on account of low banana production. GDP is expected to fall by 1 percent in 2003.

Program summary

The economic program supported by the PRGF arrangement envisages a return to growth by addressing the country's debt overhang and structural weaknesses. The program aims at boosting growth to an annual average of 2 percent, while preserving price stability. Growth is expected to rebound from negative 1 percent in 2003 to 1 percent in 2004, and to 2 percent thereafter. The program will also aim to significantly reduce the large current account deficit, mostly through improvements in competitiveness.

Consistent with a reduced level of debt, **fiscal policy** will be strengthened significantly over the medium term to reach a primary surplus of 3 percent of GDP. Achievement of this target will require the adoption of fiscal measures of about 5 percent of GDP in the next three years, given that the primary balance in 2003/04 is now projected to record a deficit of about 2 percent of GDP. The authorities indicated that the fiscal program would be designed to still preserve public investment at the historical average ratio of 7 percent of GDP.

The **structural reform** agenda seeks to remove key obstacles to growth, including the economic uncertainty stemming from weak public finances. The structural agenda covers four main areas: (i) debt strategy, to eliminate the debt overhang and create the conditions for growth; (ii) fiscal reform, which includes public sector reform, tax reform, pension reform and improved budgetary procedures; (iii) financial sector strengthening, to ensure an efficient functioning of financial intermediation; and (iv) other reforms to strengthen the investment climate, improve competitiveness and deregulate the economy.

Dominica joined the IMF on December 12, 1978, and its current quota is SDR 8.2 million (about US$12.1 million). Its outstanding use of IMF credit currently totals SDR 2.67 million (about US$3.9 million).

Dominica: Selected Economic Indicators

	1999	2000	2001	2002	Proj. 2003
(Annual percent change, unless otherwise specified)					
Output and prices					
Real GDP (factor cost)	1.6	1.4	-4.2	-4.7	-1.0
Nominal GDP at market prices	3.2	1.3	-2.7	-6.2	1.6
Consumer prices (end of period)	0.0	1.1	1.9	0.5	2.5
Money and credit					
Net credit to the nonfinancial public sector 1/	2.8	5.7	5.6	-7.0	0.1
Money and quasi-money	10.4	0.6	7.4	8.5	3.0
Balance of payments					
Merchandise exports, f.o.b.	-11.4	-2.3	-18.9	-3.7	-6.8
Merchandise imports, f.o.b.	4.5	7.3	-11.6	-12.1	4.9
Terms of trade	-6.2	-5.3	1.5	0.1	...
Real effective exchange rate (end-of-period; depreciation -)	0.8	4.8	3.7	-6.0	...
(In percent of GDP, unless otherwise specified)					
Savings and investment					
Gross domestic investment	25.2	24.8	21.2	10.6	13.0
Gross national saving	12.2	5.3	3.0	-4.3	-3.7
Central Government					
Savings (including grants)	-0.7	5.3	-3.0	-0.6	1.1
Capital expenditure and net lending	13.4	16.6	5.7	5.1	7.0
Primary balance	-10.2	-5.9	-3.3	-1.6	0.2
Nonfinancial public sector debt (gross) 2/	74.9	87.4	95.4	111.5	114.7
External 3/	48.4	59.1	71.0	84.1	89.8
Domestic	26.5	28.2	24.4	27.4	25.0
External sector					
Current account balance	-12.9	-19.5	-18.2	-15.0	-16.7
External public debt service 4/	5.0	7.4	10.8	12.3	20.9
Memorandum items:					
Nominal GDP at market prices (EC$ millions)	722.6	726.4	706.8	680.5	683.0
Nominal three-month treasury bill rate (percent, end of period)	6.4	6.4	6.4	6.0	6.4
Real three-month treasury bill rate (percent, end of period)	6.4	5.3	4.5	5.5	5.9

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

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

2/ These data are presented on a fiscal year (July–June) basis. Figures shown for a given calendar year relate to the fiscal year beginning on July 1 of that year.

3/ Including external financing gap.

4/ In percent of exports of goods and nonfactor services.

Statement by Ian Bennett, Executive Director for Dominica
December 19, 2003

My Dominican authorities wish to express their appreciation to the staff and management for their valuable policy advice and continued support during this difficult period of adjustment. Dominica's performance under the modified stand-by arrangement (SBA) has been exemplary and the program has achieved its objective of stabilizing the economic environment. This success is due, in large part, to the impressive strengthening in policy implementation relative to the first half of the program period.

Nevertheless, Dominica's economic situation remains extremely fragile. While economic activity is set to recover, the banana industry – the traditional economic mainstay – continues to retrench with the loss of preferential EU access and private investment remains weak. Moreover, a combination of fiscal rigidities, capacity limitations, and years of declining growth, has generated an unsustainable debt burden.

The PRGF Arrangement

While the government has made important inroads in confronting its challenges, these efforts will need to be sustained and broadened. To that end, Dominica believes the time is right to move into the 2nd phase of its economic stabilization and growth strategy – i.e. a Fund-supported PRGF arrangement. Indeed, the concessional nature of the PRGF and its longer-term growth orientation is especially well-suited for Dominica's specific circumstances.

The 3-year PRGF program seeks to revive growth by addressing debt overhang and structural weaknesses that constrain growth potential. The program tackles these problems with an ambitious policy agenda corresponding to three inter-related structural policy pillars: *i)* implementing a debt strategy to restore sustainability; *ii)* accelerating comprehensive fiscal reform, and *iii)* strengthening the financial sector, competitiveness, and investment. The ambitious nature of the program reflects the emerging national consensus on the need to prevent a disorderly economic adjustment. Moreover, its main pillars correspond to priorities identified during consultations with civil society and elaborated in the interim PRSP.

Debt Strategy

Dominica's public debt-to-GDP ratio exceeds 110 percent and remains on an increasing path over the medium term. The associated debt overhang seriously undermines growth potential by compromising much-needed public investment and contributing to a relatively high tax burden. Implementing the agreed debt strategy is, therefore, regarded as an over-riding priority in the immediate term. Even if successfully implemented, however, Dominica's debt dynamics will remain fragile for some time to come, which underscores the importance of sustained fiscal discipline and growth-enhancing structural reform.

Good progress has already been made in terms of the debt strategy in a very short period. The authorities have, with the generous support of a select group of donors, recently engaged a team of internationally recognized legal and financial experts to assist them in the implementation of a collaborative debt reduction operation. On their advice, the authorities issued a public announcement advising creditors of their intention to restructure Dominica's public debt on December 10. A meeting with creditors is taking place today (an update will be provided at Friday's meeting) which marks the formal launch of the debt strategy. While the magnitude of debt reduction and its overall scope are still to be determined, the authorities are firmly committed to proceeding on the basis of good faith negotiations and in line with international best practices. In this respect, they are mindful of the need for transparency, inter-creditor equity issues, and comparable treatment as guiding principles. The intention is to remain current, to the extent possible, with creditors while an agreement is being negotiated.

Fiscal Reform

Bringing order to public finances remains the centerpiece of the macroeconomic framework. The authorities are committed to reaching a 3 percent of GDP primary surplus target in the next three years. If achieved, this would represent an overall 7½ percent swing in the structural primary balance since embarking on the SBA in 2002, which constitutes an extraordinary effort in view of the prolonged depressed economic environment.

To reaffirm their commitment to the stabilization process, the government has opted to front-load fiscal reform so that half of the agreed adjustment is achieved in the first year of the PRGF. Doing so will shift the primary balance into a small surplus position in 2004/05. Moreover, the proposed fiscal package puts a heavy emphasis on expenditure measures that will transform the underlying structure of public finances and secure permanent gains. In addition to maintaining an expenditure freeze on non-interest current spending, the government is set to increase the retirement age and decrease the wage bill by 5 percent based on reductions in the number of employees. Overall, the government intends to reduce the public wage bill by a total of 10 percent in the next two fiscal years through comprehensive public sector reform. This effort is on top of the 5 percent nominal wage cut that was introduced in the 2003/04 budget and should go a long way towards alleviating regional competitiveness concerns. Finally, while the adjustment package preserves capital expenditure at 7 percent of GDP, this could be reduced if necessary.

Over the medium term, the government intends to build further on the above measures to improve its financial position and strengthen fiscal discipline. Planned measures include: a review of the social security system by March 2004; introducing a VAT in 2005 (in place of inefficient consumption, sales, and other taxes); designing a fiscal responsibility law by mid-2005 to guard against pro-cyclical fiscal policy and prevent another rapid accumulation of debt, and shifting to a three-year rolling budget to provide a forward-looking perspective on planned expenditures.

Strengthening the Financial Sector and Investment Climate

Improving the efficiency of the financial system and institutional-related reforms that boost investment and competitiveness are important elements of the authorities' growth strategy. In terms of the financial sector, the government intends to divest its majority stake in the National Commercial Bank (NCB) and review the operation of the NCB and Aid Bank by end-March. Furthermore, the authorities will review the conclusions of the FSAP mission and implement its recommendations in a timely manner. Finally, steps are underway to safeguard the financial sector, including conducting a round of on-site inspections of credit unions. And, while a restructuring of bank claims is envisioned as part of the debt strategy, care will be taken to safeguard balance sheets and limit the erosion of profitability. It is hoped that the implementation of debt strategy will ultimately increase the maturity of bank's claims with only limited interest relief.

Additional reforms to improve the environment for private investment, include: *i)* establishing a set of streamlined and transparent procedures for registering new businesses; *ii)* improving the regulatory environment for electricity supply; *iii)* conducting a land survey and strengthening property rights, and *iv)* revising the land acquisition act to improve investor access to land in a transparent manner.

Conclusion

The authorities are resolved to follow-through on the process of fiscal and structural adjustment supported by the IMF program. The first phase of the stabilization strategy has been successful and the authorities are ready to proceed with a PRGF that addresses deep-rooted impediments to growth. This approach will build on Dominica's solid track record through the second half of the SBA. The bold structural reform program embodied in the PRGF – including restructuring the country's unsustainable debt burden – reflects a national consensus in support of a fundamental change in the direction of the country's economy and finances. Recognizing that the support of the international community is key to engineering a smooth economic transformation, my Dominican authorities seek a strong endorsement by the Board of the PRGF.

Commonwealth of Dominica

Offer to Exchange