Dominica and the IMF

Press Release:
IMF Executive Board Approves US$3.3 Million in Emergency Assistance for Dominica
February 5, 2008

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Dominica: Letter of Intent

January 17, 2008

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Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Strauss-Kahn,

Dominica has been badly affected by Hurricane Dean, which passed the region over the period of August 16–17, 2007. The high levels of precipitation have resulted in landslides, causing human causalities and severe damage to the island's roads. High winds and flash flooding have damaged the agricultural sector (banana, in particular), commercial and residential buildings and other key physical infrastructure while, fortunately, the important tourism sector has been largely unaffected. The initial estimate of the overall damage is about EC$162 million, nearly 20 percent of GDP, including earnings forgone in the agriculture sector of some EC$46 million, 5 percent of GDP. Our preliminary estimates suggest that the economy could stall or contract somewhat this year, after three consecutive years of strong above-trend growth under a reform program supported by a recently expired PRGF Arrangement of the IMF. The external current account deficit will likely widen considerably as agricultural exports plunge and rehabilitation imports surge.

Efforts are already underway to provide immediate relief to those affected by the natural disaster, and undertake repair and reconstruction work. While many donors, in particular the Government of Trinidad and Tobago through the CARICOM Petroleum Fund and the Government of the Bolivarian Republic of Venezuela, have responded immediately to help meet these priorities, the process will require a considerable amount of time and resources. Accordingly, the Government of Dominica requests a purchase equivalent to SDR 2.05 million (25 percent of quota) under the Fund's policy on Emergency Assistance for Natural Disaster and further requests a subsidy on the rate of charge on such purchase. The purchase will help meet the immediate foreign exchange needs stemming from the disaster, thereby easing pressure on our external reserves and maintaining confidence in the external position.

The government's overall strategy for dealing with the crisis is two-pronged. First, the immediate priorities being undertaken—with the assistance of donors—are to repair critical infrastructure (roads, bridges, and seawalls) and to provide assistance to those who suffered abrupt losses in earnings. Second, the government, with the help of donor countries and multilateral agencies, will shortly develop a comprehensive home-grown program aimed at reactivating the economy and addressing the large social needs, drawing extensively on the existing Growth and Social Protection Strategy (GSPS) of the government that was developed alongside the PRGF-supported program.

In the short run, some emergency measures have been introduced to ease the economic burden stemming from the crisis. In the fiscal area, the government has redirected expenditure to emergency needs, including repairing and rebuilding critical infrastructure and humanitarian assistance for the displaced and other severely affected groups. It is government's intention to limit the total net increase in spending compared with the FY 2007/08 budget to EC$20 million or 2½ percent of GDP in order to adhere to the primary surplus target of 3 percent of GDP.

As regards fiscal revenues, the government will closely monitor the revenue developments and ensure maintaining the integrity of the newly introduced VAT. In any case, the increased spending will be financed primarily by external grants and where necessary, with concessional or near-concessional loans, but without any external commercial borrowing, in order to ensure debt sustainability over the long term. All cash disbursements received from donors will be channeled through the consolidated fund to ensure adequate accounting and use of these resources. The government will stay current in all debt-service payments to creditors and will continue to make good-faith efforts toward collaborative debt restructuring agreements with remaining holdout creditors as proposed by the Government of Dominica in 2004.

The government attaches great importance to implementing its agenda of structural reforms aimed at faster economic growth and lower poverty. As soon as the immediate priorities have been addressed, the government is determined to refocus its attention on developing the policies and reforms that could be supported in the context of a new PRGF arrangement. The government believes that the existing GSPS is a good starting point and that a home-grown reform program, supported by the IMF, could play a key role in achieving our policy objectives. The main priorities for reform will remain (i) maintaining prudent fiscal policies to reduce Dominica's still high public debt; (ii) enhancing the investment climate for private sector development; (iii) and strengthening oversight of, and resilience in, the financial sector.

It is hoped that the international financial community will support generously our efforts to repair and rehabilitate our severely damaged economy and the country's social structure. We look forward to an early approval by the Fund of the emergency assistance, and to accelerated and increased financial and technical assistance from other donors, in particular the EU, the World Bank, and governments.

The government will continue to cooperate with the Fund in an effort to strengthen Dominica's balance of payments situation and maintain economic stabilization. The government does not intend to impose or intensify restrictions on the making of payments and transfers for current international transactions, introduce multiple currency practices, impose or intensify import restrictions for balance of payments purposes, or conclude bilateral payments agreements that are inconsistent with Article VIII.

Sincerely yours,

/s/

HON. ROOSEVELT SKERRIT
PRIME MINISTER AND MINISTER
FOR FINANCE AND PLANNING