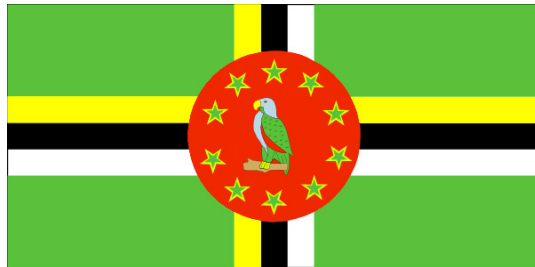


COUNTRY REVIEW

Dominica



25 February 2010

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EULER HERMES COUNTRY RISK GRADE: C

**Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.**

COUNTRY PROFILE

Capital city:	Roseau
GDP:	USD364mn (2008e)
Population:	72,000 (2005)
GDP per capita:	USD 4,986 (2008e)
Currency:	East Caribbean Dollar (XCD)
Form of state:	Parliamentary Democracy
Head of government:	PM Roosevelt Skerrit
Next elections:	2014

Dominica, independent since 1980, has been politically stable since two failed coup attempts in 1981 and has an established succession process via parliamentary elections. The most recent elections in December 2009 returned PM Roosevelt Skerrit and the centrist Dominica Labour Party (DLP) for a third term. The DLP has an overwhelming a majority in parliament.

The economy—dominated by agriculture and tourism—is highly vulnerable to natural disasters as well external shocks, both of which have hit hard in the past three years. Hurricanes struck in 2007 and 2008 with cumulative damage amounting to 35% of GDP. Growth of real GDP slowed to 1.8% in 2007, but picked up to 3.2% in 2008. The global downturn in 2009 reduced earnings from tourism and workers remittances—mainstays of the economy—and also FDI inflows and as a result GDP contracted, but this was limited to an estimated -0.3% (IMF) by maintaining government capital spending at the high levels of 2008. Growth of around 1.5% is expected in 2010, but much depends on a recovery in tourism (in turn dependent on global economic recovery).

The medium-term aim of fiscal policy is to maintain a primary surplus of 3% of GDP to continue downward pressure on the public debt-GDP ratio towards 60%. The ratio had fallen from 128% in 2003 to 87% in 2008, though this includes debt restructuring. In 2010/11 the surplus is not expected to reach 3%, though the additional spending will be financed from external loans. The public debt ratio remains high and it will be necessary to return to 3% to maintain debt sustainability.

Monetary policy is determined by the East Caribbean Central Bank and is based on a long-standing currency board (East Caribbean Currency Union, ECCU) which has pegged the East Caribbean Dollar to the USD for the past 28 years without any change in the exchange rate. Inflation was 3.2% yr/yr at end-2009 reflecting to a large extent movements in food and oil prices.

The external current account balance is in chronic deficit—around 30% of GDP in 2008-09, though it is about 50% covered by FDI inflows. However, the ECCU has a pooled FX reserve arrangement and the vulnerability of the exchange rate peg depends on broad trends within the ECCU as a whole. As noted above, the peg is of long standing and does not appear to have come under serious pressure during the global financial crisis, though there has been some uncertainty associated with the collapse of CILGO in Trinidad & Tobago. Moreover, net foreign assets increased during 2009. However, the region has a large current account deficit, large fiscal deficits and high public debt ratios, which poses some risk to the peg. Like others in the region, Dominica has had recourse to the IMF's Exogenous Shock Facility to cope with the downturn.

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