DOMINICA

ECONOMIC BRIEF

Eastern Caribbean Dollar (EC$); United States Dollar (US$) US$1 = EC$2.70

Overview

Dominica's economy maintained its recovery momentum in 2022. Growth was driven primarily by the robust return of tourist arrivals and increased output in the agricultural sector, albeit hampered by higher inflation. Despite efforts at expenditure containment, the fiscal performance weakened during the period on account of the convergence of lower Citizenship-by-Investment (CBI) receipts and higher interest payments.

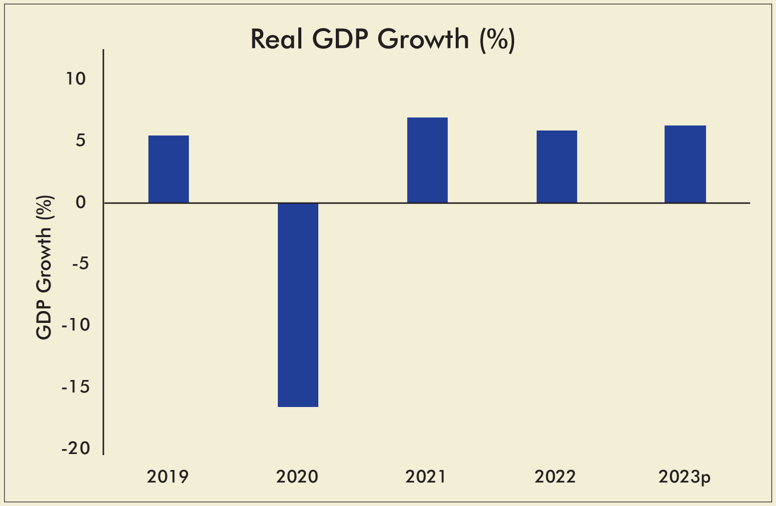
The continued resurgence in economic activity contributed to a reduction in the public debt-to-gross domestic product (GDP) ratio. Despite declining profitability, the financial sector remained relatively stable. Risks, however, emanate from the undercapitalisation of two of the largest credit unions, elevated non-performing loans (NPLs), higher non-interest expenditure, and the exit of CIBC First Caribbean International Bank from the jurisdiction in 2022.

The 2023 outlook is favourable. The forecast is anchored on the continued normalisation of tourist arrivals to pre-pandemic levels, and the planned implementation of large public investment projects. Fiscal consolidation measures announced in the 2023-24 Fiscal Year Budget Estimates will improve the fiscal and debt outcomes, albeit at a slow pace. Risks are, however, tilted to the downside.

KEY DEVELOPMENTS IN 2022

Dominica's economy grew by 5.9% in 2022 (see Chart 1). The economy maintained its recovery momentum, but output remained below pre-pandemic levels. Growth was reflective of robust expansion in the hotels and restaurants, which expanded by 174.9%. This solid performance was driven by the removal of all arrival COVID-19-related travel requirements, increased airlift from the United States of America, and the resumption of Dominica's World Creole Festival following a two-year hiatus. Stayover arrivals, which stood at 14,888 in 2021, grew to 61,037 to reach 68.3% of 2019 levels, with strong recovery registered for all visitor market segments. Equally, cruise passenger arrivals, which accounts for 60% of total arrivals, expanded to 170,145 compared with 50,831 in 2021.

Chart 1: Real Gross Domestic Product Growth



Source: *Eastern Caribbean Central Bank (ECCB).*

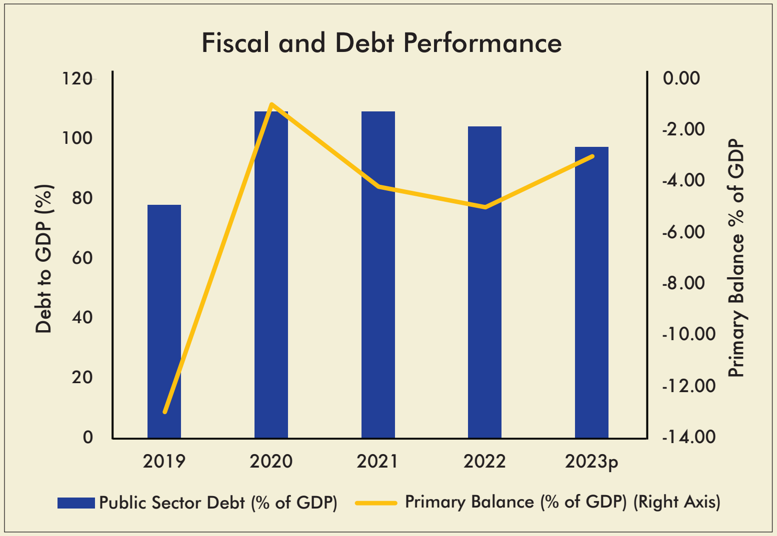
Agricultural output expanded for a fourth consecutive year, posting growth of 5.4%. This reflects strategic public investment to revitalise the sector post-Hurricane Maria, complemented by COVID-19 fiscal stimulus support aimed at increasing the sector's resilience, enhancing food and nutrition security, and safeguarding rural livelihoods. Output in the sub-categories of "other crops" and "banana" grew by 6.0% and 5.7%, respectively, indicating the continued recovery after storm damage and robust external demand from the northern Caribbean markets.

Construction activity contracted by 2.8% due to implementation challenges emanating from higher freight costs and delays in supply delivery. Even so, work continued on the US$1.4 billion CBI-funded Dominica International Airport with the intensification of site preparatory works. In addition, plans towards tapping into the island's geothermal energy resources continued, geared towards generating 10 megawatts (MW) for domestic consumption and 50 MW for the export market. Projects funded by the United Kingdom Caribbean Infrastructure Fund for water and road infrastructure continued during the year, though impacted by higher input costs.

The consumer price index registered a fivefold increase in 2022. Average inflation increased to 7.8% compared with 1.5% in 2021. Price inflation was influenced by increases in the categories of housing, utilities, gas and fuel (11.6%); food and non-alcoholic beverages (11.0%), and transport (8.9%), which jointly account for 68.8% of the consumer basket in Dominica. Policies to cushion the burden of higher prices included fuel subsidies, custom fee waivers, and the temporary increase in the number of value-added tax-free kilowatts of electricity from 100 kilowatt hours (kWh) to 150 kWh.

Government's fiscal position deteriorated even as expenditures declined. An overall deficit of EC$125.9 mn, the equivalent of 7.6% of GDP, and a primary deficit of EC$83.2 mn, 5.0% of GDP, were registered during 2022 (see Chart 2). This outturn was attributed to a 9.0% contraction in total revenues, which outpaced a 5.3% decline in overall expenditure. Even though tax revenues increased by 2.1% (EC$348.7 mn), CBI receipts, which account for 47.4% of total revenues inclusive of non-tax revenues (and 24.3% of GDP), declined by 19.4% to EC$401.7 mn. Noteworthy increases in expenditures were recorded in non-contributory social pension assistance (41.4% over 2021), as well as interest payment (by 23.5%), on account of the expiration of the World Bank/G20 Debt Service Suspension Initiative in 2021.

Chart 2: Fiscal and Debt Performance



Source: *ECCB.*

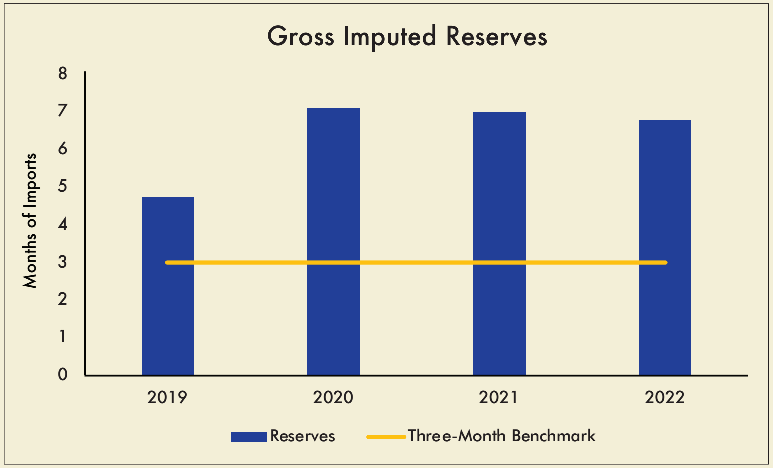
Consistent with an increase nominal GDP, public sector debt declined, both in nominal terms and as a per cent of GDP. Total disbursed outstanding debt reached EC$1,723.5 mn (104.3% of GDP) in 2022, from EC$1,636.9 mn in 2021 (109.2% of GDP).

Commercial bank credit expanded in 2022, albeit at a decelerate pace. After growing by 12.9% in 2021, domestic claims grew by 1.8%. This expansion was attributed to increased onlending to the private sector by 2.8%, for credit made available to business and households. The financial sector remained liquid, as measured by the ratio of liquid asset to total assets which stood at 38.6%, a 41 basis points increase relative to the 2021 outturn. Additionally, the total loans to deposit ratio rose to 60.3% when compared with 58.5% in 2021, although below ECCB's benchmark of 75-85%. NPLs to total loans stood at 13.8%, well above the ECCB's prudential threshold of 5%. The banking sector also encountered profitability challenges reflected by the rate of return on assets declining from 0.2% in 2021 to -0.9% in 2022, due in large measure to an increase in noninterest expense to gross income which rose to 113.6% in 2022. However, the regulatory capital to risk-weighted assets at 15.9%, remained well above the minimum capital requirement.

Dominica's external position improved. The current account deficit narrowed by EC$53.0 mn to EC$360.7 mn (21.8% of GDP) compared with 2021. Although there was an improvement in the services account associated with a 289.8% increase in travel receipts, this was offset by an increase in imports of goods to EC$632.9 mn due to higher costs of food and fuel merchandise.

Gross imputed international reserves[1] rose by 10.4% to EC$492.3 mn. This is equivalent to 6.8 months of imports of goods and services (see Chart 3).

Chart 3: Gross Imputed Foreign Reserves



Source: *ECCB.*

[1] ECCB does not allocate foreign reserves to any member country in ECCU but pool reserves at the aggregate level.

2023 OUTLOOK

Dominica's economic outlook for 2023 is favourable. Real growth is projected to increase by 6.3%, premised on the implementation of several large public sector projects that includes the new international airport and investments in climate resilience infrastructure such as water, roads, and public health. Positive contributions are also expected from the agricultural sector. Tourism is expected to fully recover in 2023, buoyed by increase airlift to the destination, facilitated by the extension of the tarmac at the Douglas Charles Airport in the near term. Inflation is expected to recede, mirroring the anticipated deceleration in global commodity prices.

The fiscal outturn should improve in 2023. The 2023 Budget announcements of several revenue measures, such as a 2% stamp duty on outward remittances and increases in the operating license fees for the offshore financial and insurance sector are expected to improve the fiscal outturn. Government's commitment to debt sustainability evident by the recent establishment of a Debt Repayment Fund capitalised using a levy applied on CBI applications is expected to contribute to the gradually reduction of the stock of public debt to the Eastern Caribbean Currency Union's (ECCU) debt target of 60% by 2035.

The outlook is subject to several downside risks. Key among these is the uncertainty surrounding the magnitude and duration of global inflation, volatility of CBI revenues and the ever-present reality of climate-related hazards.

DATA

The table below summarises the key economic and social indicators underpinning this country economic review. These data are taken from several sources, and are the latest available at time of publication. The 2023 data are estimates and are subject to revision.

Selected Indicators

	2019	2020	2021	2022	2023e
Real GDP Growth (%)	5.5	-16.6	6.9	5.9	6.3
Average Inflation (%)	1.5	-0.07	1.5	7.8	6.2
Primary Balance (% of GDP)	-13.0	-1.0	-4.2	-5.0	-3.0
Public Sector Debt (% of GDP)	78.0	109.1	109.2	104.3	97.2

Sources: *GOCD, ECCB.*

Note: e-estimate.