COUNTRY ECONOMIC REVIEW 2018

DOMINICA

OVERVIEW

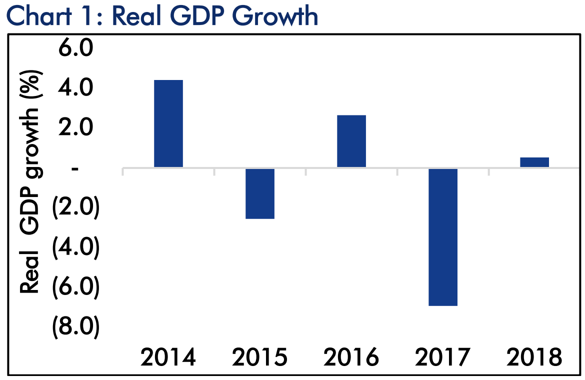
Economic growth in Dominica was positive in 2018, exceeding expectations. Overall, growth was 0.5%. Post Hurricane Maria-related construction led the way, and this will likely continue into 2019. Value added in the wholesale and retail sector also increased significantly. Output from all of the other main sectors declined. Central Government (CG) operations resulted in an overall deficit, notwithstanding a reduction in total public debt. Fiscal conditions remain uncertain as some pledges of international financial assistance, following the recent weather events, remain unfulfilled. On the external side, the current account balance deteriorated over the period largely due to a ballooning trade deficit. Vulnerabilities in the financial sector, particularly the non-bank financial sector, persist.

GOCD's primary focus is on building climate and economic resilience. This is necessary to reduce the volatility of the country's economic growth trajectory. Dominica consistently ranks among the most vulnerable countries in the world, because of its high susceptibility to natural hazards. The commitment of Government of the Commonwealth of Dominica (GOCD) to "Build Back Better" and develop strategies to encourage resilient infrastructure must be sustained.

KEY DEVELOPMENTS IN 2018

Economic activity in the aftermath of Hurricane Maria remained subdued but shows signs of recovery. (See Chart 1). The passage of the hurricane in 2017 had devastating effects on the Dominica economy, resulting in a gross domestic product (GDP) contraction of 9.5%. Output began to recover in the second half of 2018, placing GDP marginally (0.5%) above its 2017 level. Construction activity was the main contributor, growing by 33.0%. The wholesale and retail sector increased by 15.0%. The traditional lead sectors recorded declines in output. Total visitor arrivals up to September stood at 74,243, down by 68.0% relative to the same period in 2017[1]. Dominica suffered the departure of Ross University School of Medicine (RUSM), a major contributor to economic activity. Value added generated by private education declined by 85.0%.

Chart 1: Real GDP Growth



Source: Eastern Caribbean Central Bank (ECCB).

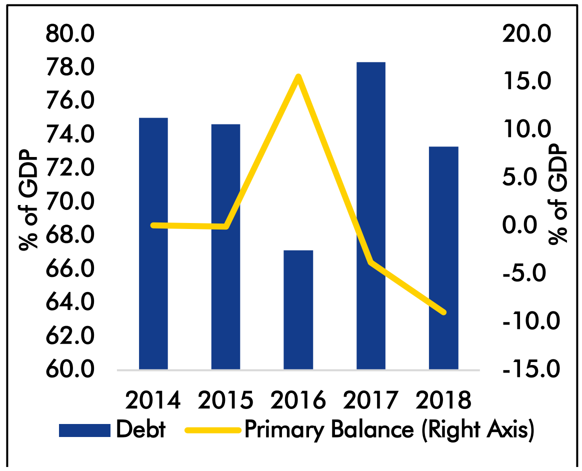
Inflation rose compared to 2017. The consumer price index increased by 1.6% during the first three quarters of 2018, compared with a 0.6% jump in the corresponding period of 2017. This was largely attributable to an 8.1% increase in the food and non-alcoholic beverage sub-index.

[1] Stay-over arrivals stood at 39,463 at the end of September 2018, representing a decline of 36.0%.

GOCD's fiscal operations resulted in an overall deficit of $140.2 mn by the end of September 2018, up considerably from a deficit of $18 mn in the corresponding period of 2017. Similarly, the primary deficit stood at $121.8 mn (or 9.0% of GDP) at the end of the third quarter of 2018, up from $0.58 mn in the same period of 2017. (See Chart 2.) The increase in the deficit is mostly explained by a rise in capital spending related to post-hurricane reconstruction and rehabilitation efforts. Capital expenditure increased by 40.8% in the first three quarters of 2018, relative to the same period in 2017. Public works included rehabilitation of the Douglas Charles Airport, construction of the West Bridge in Roseau, house building, and dredging of rivers. Total revenues declined by 6.5% during the period under review, driven largely by a 25% reduction in Citizenship-By-Investment Programme (CBI) receipts. Tax revenues actually increased by 4.6%, showing improvement in all main sub-categories except tax receipts on income and profits.

Public sector debt fell in 2018. Total disbursed outstanding debt stood at $1.0 billion at the end of October 2018. As a percentage of GDP, debt fell from 78.4% to an estimated 73.3%. This was attributable to declines in debt owed by both CG and public corporations.

Chart 2: Fiscal and Debt Performance



Source: ECCB.

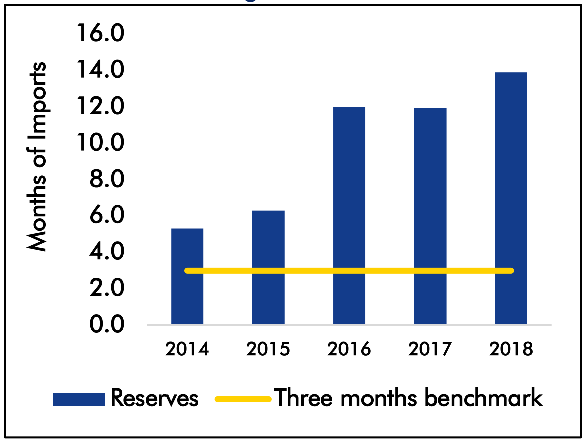
Domestic credit increased by 40.8% year-on-year at the end of the third quarter of 2018. This was mainly due to a 56.9% decrease in the net deposit position of GOCD as it drew down on deposits. Credit to the private sector increased by 0.6%, reflecting the offsetting effects of a 4.4% reduction in credit to households, and a 9.4% increase to businesses. Net foreign assets increased by 8.3% over the first three quarters of 2018. The ratio of gross non-performing loans (NPLs) to total loans was 16.5% at the end of September, up from 13.8% recorded one year earlier. With increased poverty and unemployment, falling incomes, and a struggling insurance sector, risks to the financial sector abound. NPLs are down relative to the second quarter of 2018, but it is too early to make a judgement about whether the financial sector is showing signs of recovery.

Dominica's gross international reserves[2] **increased from 11.9 to 13.9 months of import cover** (see Chart 3). The merchandise trade deficit expanded over the year due to a 10% reduction of exports and a 59% increase in imports up to the third quarter of 2018.

[2] Gross international reserves are apportioned to Dominica as part of the Eastern Caribbean Currency Union.

These developments were related to hurricane relief and reconstruction efforts, in particular the importation of machinery and transportation equipment, and food and manufactured goods.

Chart 3: Gross Foreign Reserves



Source: ECCB.

A current account deficit of $379.9 mn is estimated for 2018. As the country improves its impaired productive base, export performance will be critical to ensuring that growth is sustained over the medium-to-long term.

OUTLOOK

Dominica's economic outlook is favourable. Growth is projected at 2.0% for 2019. This is based on an expected pickup in reconstruction and rehabilitation efforts. Several projects in the planning stages since late 2017 are expected to come on stream in 2019. Private sector activity will be a major contributor to construction as individuals repair and rebuild their homes, and hotel construction of Jungle Bay and Range Developments continue. Growth in agriculture is conditional on favourable weather and the success of replanting efforts.

The Climate Resilience Execution Agency for Dominica, established in 2018, is expected to result in greater rationalisation of scarce human and material resources, and improve the rate of project implementation. Low human resource capacity is a perennial risk to project implementation in Dominica. The decline in CBI flows and continuing uncertainty about international financial assistance also present considerable risks to the growth forecast.

The loss of RUSM directly impaired the private education sector and negatively impacted the ancillary business services and real estate sectors in Portsmouth. At the same time, potentially transformative investments in geothermal energy and other economic and climate resilience projects provide some grounds for optimism.

Building economic, social and climate resilience are critical. GOCD has recognised the need to make investments that build in resilience to natural hazards and climate change more broadly. In this regard, GOCD has embarked on several initiatives to build more resilient public and private infrastructure. Financing from the Caribbean Development Bank (CDB) and its development partners will support the development of a comprehensive water sector strategy that builds in resilience and identifies and prioritises investments. CDB and its development partners will also provide support to housing reconstruction and school rehabilitation.

DATA

The table below summarises the key economic and social indicators underpinning this Country Brief. These data are taken from a number of sources, and are the latest available at time of publication. Some are subject to revision. The 2018 data are CDB estimates.

Selected Indicators

	2013	2014	2015	2016	2017	2018[e]
Real GDP Growth (%)	-0.6	4.4	-2.5	2.6	-6.9	0.53
Average Inflation (%)	-0.03	0.04	-0.05	0.06	0.05	0.17
Unemployment (%)	16.9	n.a	13.8	12.1	n.a	n.a
Primary Balance (% of GDP)	-7.5	0.1	0.0	15.6	-3.8	-9.0
Public Sector Debt (% of GDP)	75.4	75.0	74.7	67.2	78.4	73.3

Sources: GOCD, ECCB.

Notes: e – estimate; n.a. – not available.