CARIBBEAN DEVELOPMENT BANK

1970 - 2020
50 YEARS
Transforming Lives

COUNTRY ECONOMIC REVIEW 2019

DOMINICA

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

OVERVIEW

The economy of Dominica continued to recover following the destruction brought about by Hurricane Maria in 2017. In 2019, economic activity was buoyed by ongoing post-hurricane construction and growth in the tourism and agriculture sectors. Value added also increased significantly in the wholesale and retail and transportation and communication sectors. Central Government fiscal operations resulted in an overall deficit and higher public debt. On the external side, the trade surplus improved largely due to an expansion of exports from the productive sectors and a slowing of imports. The financial sector continued its gradual recovery and remained stable.

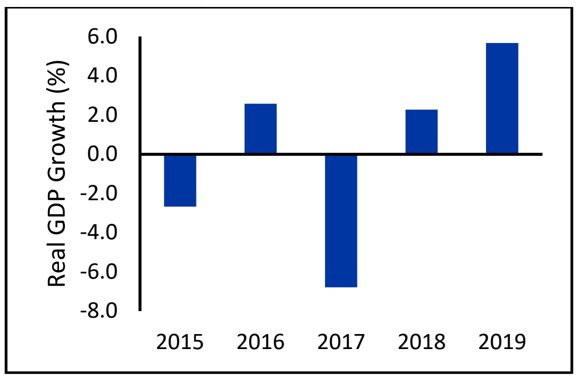
The primary focus of the Government is building climate and economic resilience. This is the country's major development imperative and necessary to lower the volatility of output. The commitment of the Government to *build back better* and develop strategies to encourage resilient infra-structure needs to be sustained.

KEY DEVELOPMENTS IN 2019

Economic growth was 5.7%, returning the economy towards its pre-hurricane level (see Chart 1). This recovery can be attributed to significant expansion in all areas of economic activity. Value added in the agriculture, livestock and forestry sector increased by 13.8%, mainly supported by double-digit growth in crop production[1].

There was a 6.7% growth in value added from construction, which remained an important part of Dominica's recovery effort. Wholesale and retail trade, transportation, storage, and communications grew by 8.0% and 8.2%, respectively. Tourism activity continued to rise, reflecting an expansion of the hotel room stock and more cruise ship calls. Preliminary data show that up to September, stayover visitor arrivals were up by 59.5% and cruise visitors by 325.9%. Value added in the hotel and restaurant sector grew by 41.9%. Earnings from exports were 104% higher year-on-year up to September, while imports rose by 5.4%, a much more moderate increase relative to the previous year. Inflation remained low and stable at around 0.3%.

Chart 1: Real GDP Growth



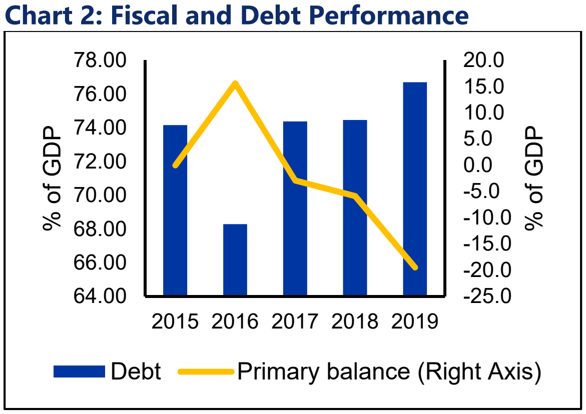
Source: Eastern Caribbean Central Bank (ECCB.)

The Government's fiscal operations resulted in a wider deficit. The overall deficit was EC$261.4 million (mn) by the end of September, up considerably from EC$61.5 mn one year earlier. Similarly, the primary deficit stood at EC$235.0 mn (19.5% of gross

[1] After Hurricane Maria, the Ministry of Agriculture successfully implemented a vegetable programme, which targeted over 300 acres of land for mixed vegetables.

domestic product [GDP]) at the end of the third quarter, up from EC$39.3 mn (5.9% of GDP) in 2018 (see Chart 2). The larger deficits are explained by a 14.5% decrease in revenue coupled with a 46.5% jump in spending. Significant additional expenditure on goods and services, and sizeable increases in transfers and subsidies were the primary factors contributing to larger outlays. Total revenue continued its decline from the previous year owing to a precipitous fall in non-tax revenue. Citizenship by Investment (CBI) receipts, which account for most non-tax revenue, declined by 47.3% in the first three quarters. Tax revenues increased by 10.2% and showed improvement in all most major subcategories except tax receipts on domestic goods and services.

Chart 2: Fiscal and Debt Performance



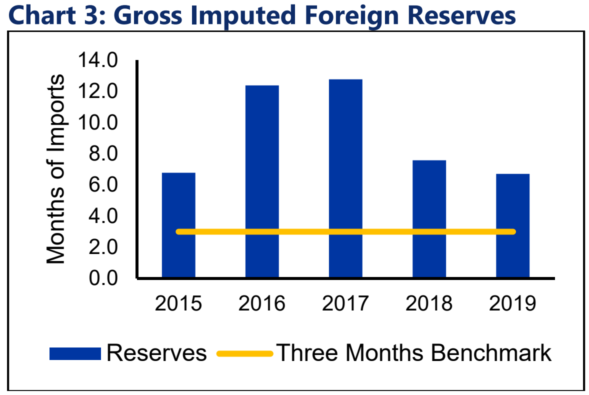
Source: ECCB.

Public sector debt rose in 2019. Total disbursed outstanding debt stood at EC$1,234 mn at the end of September. As a percentage of GDP, debt increased from 74.5% in 2018, to an estimated 76.7% as of September 2019 (see Chart 2). This was attributable to disbursements by Central Government for large-scale reconstruction, rehabilitation, and resilience projects.

Domestic credit increased by 31.8% year-on-year at the end of the third quarter. This was mainly due to an increase in the net credit position of the Central Government as it drew down on deposits. Credit to the private sector decreased by 6.6%, including a 10.4% reduction in credit extended to businesses. Credit to households declined by 3.8%. Net foreign assets fell by 20.3% over the first three quarters. The ratio of gross non-performing loans to total loans was 12.2% at the end of September, down from 16.5% recorded in September 2018.

Gross imputed international reserves[2] decreased to 6.7 months of import cover (see Chart 3). The merchandise trade deficit rose mainly due to a 5.5% increase in imports, up to the third quarter. A return to pre-hurricane levels of economic activity resulted in higher output across all sectors, including exporting industries, and a slowing of recovery-related imports.

Chart 3: Gross Imputed Foreign Reserves



Source: ECCB.

[2] The Eastern Caribbean Central Bank does not allocate foreign reserves to any particular member country in the Currency Union but pool reserves at the aggregate level.

OUTLOOK

Dominica's economic outlook has become clouded by the outbreak of COVID-19, which has significantly affected developed and developing economies. In early 2020 Dominica's tourism sector has seen mass cancellations. Construction activity has slowed, and government finances have come under increasing pressure.

Given the uncertainty as to how long this situation will persist, it is very difficult to forecast how the economy will perform in 2020 and beyond. This will be addressed in an updated Economic Brief later this year.

When feasible, the Government intends to continue its efforts to build resilience and, in this regard, is likely to complete implementation of its Climate Resilience and Recovery Plan[3].

[3] The Climate Resilience and Recovery Plan is a costed medium-term development plan designed to operationalise the National Development Resilience Strategy, which is the overall vision articulated by the Government in 2017.

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 2019 data are CDB estimates.

Selected Indicators

	2015	**2016**	**2017**	**2018**	**2019[e]**
Real GDP Growth (%)	-2.7	2.6	-6.8	2.3	5.7
Average Inflation (%)	-0.9	0.1	0.3	1.0	0.3
Unemployment (%)	13.8	12.1	n.a.	n.a.	n.a.
Primary Balance (% of GDP)	0.0	15.6	-2.9	-5.9	-19.5
Public Sector Debt (% of GDP)	74.2	68.3	74.4	74.5	76.7

Sources: GOCD, ECCB.

Notes: e – estimate (as at January 31, 2020); n.a. – not available.

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