



DOMINICA

COUNTRY ECONOMIC REVIEW 2020

Eastern Caribbean dollar (EC\$); United States dollar (US\$). US\$1 = EC\$2.70

OVERVIEW

The economy contracted in 2020 because of the impacts of the COVID-19 pandemic, which led to border closure and restrictions on activity between March and June to contain the spread of the virus. While this successfully contained the spread of COVID-19 to 88 cases at year end with no related deaths, tourism was significantly affected. Construction activity, much of which was related to rebuilding after Hurricane Maria in 2017, slowed.

The public fiscal situation was already weakening prior to the pandemic due to the prior impact of a major hurricane. The need to increase expenditure to support health and social sector needs, combined with a dramatic fall in tax revenue from reduced economic activity, required an increase in public debt.

KEY DEVELOPMENTS IN 2020

The economy contracted by 16.7% due to the COVID-19 pandemic (see Chart 1). The closure of the country's borders and the imposition of a lockdown for non-essential workers during mid-March to June, brought with it a sudden stop to commercial flights, cruise ships calls, and the closure of hotels, with 2,082 employees being laid off¹. Tourism, which in 2019 accounted for 36.9% of gross domestic product (GDP) and 56.4% of exports, came to an abrupt halt in March. In May, the Government effected a phased reopening strategy, with a limited recovery in economic activity. Tourist arrivals for the year were 76% lower than in 2019, and activity in the Hotels and Restaurants sector fell by 61.1%.

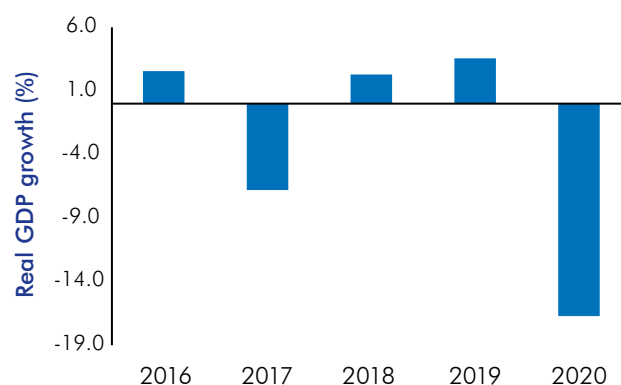
¹ Source: Dominica Hotel and Tourism Association.

Construction had been expected to grow on the back of continued reconstruction following Hurricane Maria in 2017. However, construction activity fell by 56.6%, limited by COVID-19 disruptions and restrictions on movement. Other sectors linked to tourism were similarly affected, such as wholesale and retail trade, which declined by 22.4%, and transport, storage and communications, which contracted by 31.7%.

Average consumer prices fell in 2020.

Inflation, as measured by the consumer price Index, was -0.29%, down from 1.5% a year before. This reflected lower average prices for food, beverages, and household furnishings, supply and maintenance. There were increases in the prices of clothing and transport.

Chart 1: Real gross domestic product growth



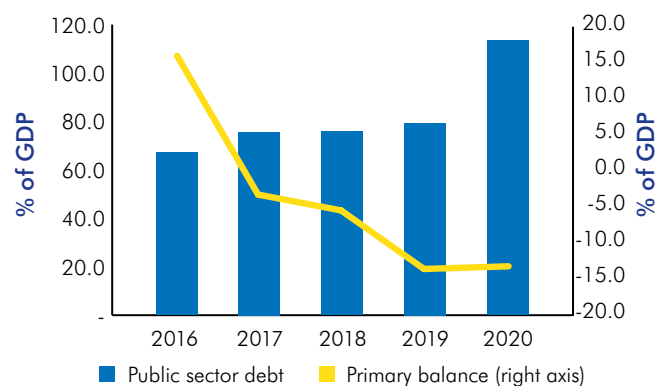
Source: Eastern Caribbean Central Bank (ECCB).

The slowdown in economic activity severely impacted government revenues, resulting in a recurrent deficit. The recurrent deficit for calendar year 2020 was EC\$69.1 million (mn), following a surplus of EC\$28.3 mn one year earlier. This was mainly attributable to a

EC\$157-mn (24%) decline in recurrent revenues to EC\$492 mn. Much of this decline came from falling tax revenue (by EC\$115 mn) and from lower (by EC\$26 mn) Citizenship-by-Investment receipts. An EC\$62-mn fall in current expenditure did not compensate. Additional expenditure was necessary to provide for expanded healthcare, and for economic and social support for those affected by the pandemic. Capital expenditure fell by EC\$141 mn (47%) to EC\$162 mn, allowing for a narrowing in the primary deficit from 13.6% to 11.9% of GDP, (see Chart 2). Nevertheless, budget support was required from development partners, including the Caribbean Development Bank (CDB).

Public sector debt rose in 2020. Total disbursed outstanding debt stood at EC\$1,440 mn at the end of the year. This equated to an estimated 113.5% of GDP, up from 79.4% in 2019 (see Chart 2). There were increases in both domestic and external debt to fund the pandemic response, as well as some capital projects.

Chart 2: Fiscal and debt performance

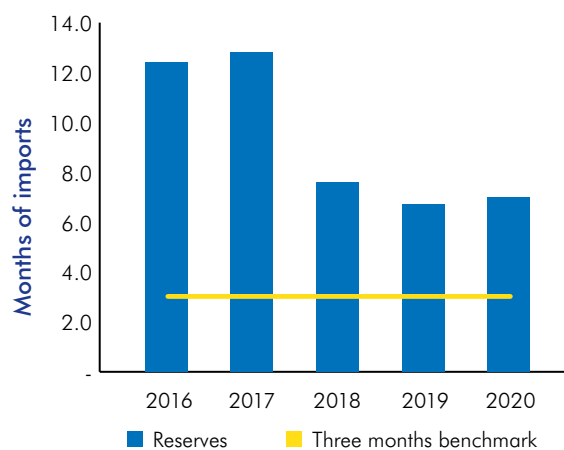


Source: ECCB.

At the inception of the pandemic, ECCB relaxed supervisory guidelines. Commercial banks were encouraged to assist with measures to alleviate the burden on borrowers. ECCB measures included moratoria on loan payments, plus a waiver of late fees and charges, and a reduced discount rate. As a result, the private sector credit declined very slightly (0.3%) to EC\$725 mn.

The trade deficit narrowed in 2020. In the first nine months of 2020 the merchandise trade deficit fell by 34% to EC\$393 mn. This was mainly due to an EC\$205-mn (33%) decline in imports as the economy contracted. However, the services balance suffered as visitor expenditure fell by 65% over the same period, consistent with the drop in tourist arrivals. Imputed reserves were EC\$463.8 mn, equivalent to seven months of 2019 imports (see Chart 3).

Chart 3: Gross imputed foreign reserves



Source: ECCB.

OUTLOOK

CDB projects growth of 0.3% for 2021, but significant uncertainty remains. The development and approval of new vaccines has raised hopes for a return to near normality, but logistical issues need to be overcome to ensure a sufficiently wide roll-out. About 70% of a country's population needs to be vaccinated to ensure that the entire population is protected. In the more developed countries, this might not happen until the second half of the year. Roll-out has begun in Canada, the United Kingdom, and the United States of America, which are Dominica's major source markets for tourism. Some health protocols are likely to remain and there could be new ones, such as the requirement of proof of vaccination, to travel. This could disproportionately affect tourism-dependent countries, such as Dominica. Recovery in the agricultural sector will depend on favourable weather conditions.

The emergence of COVID-19 has required significant readjustment in the short to medium-term, and these effects can be compounded by annual hurricanes and other hazards given the country's

vulnerabilities. The Government intends to maintain its efforts to build resilience and is continuing to implement its Climate Resilience and Recovery Plan. With limited fiscal space, the Government will require external support.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision. The 2020 data are CDB estimates.

Selected indicators

	2016	2017	2018	2019	2020 ^e
Real GDP growth (%)	2.6	-6.8	2.3	3.6	-16.7
Average inflation (%)	0.1	0.3	1.0	1.5	-0.3
Unemployment (%)	12.1	n.a.	n.a.	n.a.	n.a.
Primary balance (% of GDP)	15.6	-3.4	-5.9	-13.9	-13.7
Public sector debt (% of GDP)	67.1	75.6	75.2	78.4	113.5

Sources: Ministry of Finance, ECCB.

Note: e – estimate (as at April 15, 2021); n.a. – not available.

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