COMMONWEALTH OF DOMINICA

JUNE 2022

ECONOMIC AND FINANCIAL REVIEW

Eastern Caribbean Central Bank

JUNE 2022

Economic and Financial Review

HALF-YEAR REVIEW

COMMONWEALTH OF DOMINICA

EASTERN CARIBBEAN CENTRAL BANK

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Commonwealth of Dominica

Economic and Financial Review: 2022 Half-Year (2022H1)

Research, Statistics and Data Analytics Department

Contents

1 Overview **2**

2 The Economy (Real Sector) **2**

2.1 Consumer Prices 4

3 Government Operations **4**

3.1 Debt 6

4 Banking Developments (Monetary) **6**

5 External Trade **8**

6 Outlook **8**

7 Selected Economic Indicators **10**

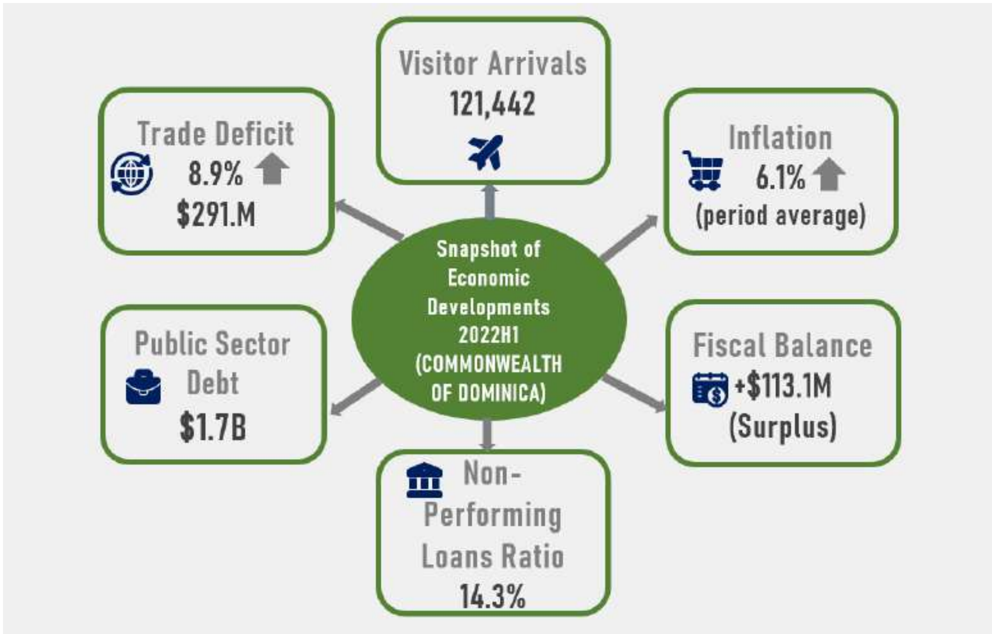

Figure 1: Snapshot of Economic and Financial Developments for 2022H1

1 Overview

- Preliminary estimates indicate that GDP output in the Commonwealth of Dominica expanded in the first half of 2022, relative to the same period in 2021. [1]
- The expansion was spurred by activity in the tourism, agricultural, and manufacturing sectors.
- Downside risks to near-term growth include geopolitical conflicts, a slowing global economy, increasing global commodity price pressures and climate change risks.

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2 The Economy (Real Sector)

Economic activity in Dominica is estimated to have increased at an accelerated pace in the first half of 2022, relative to the corresponding period in 2021. Economic advancement primarily stemmed from tourism activity and its supporting sectors of wholesale and retail trade; transport and storage; and real estate, renting and business activities. Activity in the tourism industry rose sharply during the first six months of 2022.

[1] The review period for this report is the first 6 months of 2022, and is abbreviated 2022H1 in this report

The total number of visitor arrivals surged to 121,442 from 4,963 at the end of June 2021 reflecting a resumption of cruise tourism and stronger stay-over arrivals (Figure 2). Cruise passengers totaled 97,319. Stay-over arrivals increased to 20,983, up from 4,634 one year earlier. Yacht passengers amounted to 3,071 from 316 in 2021.

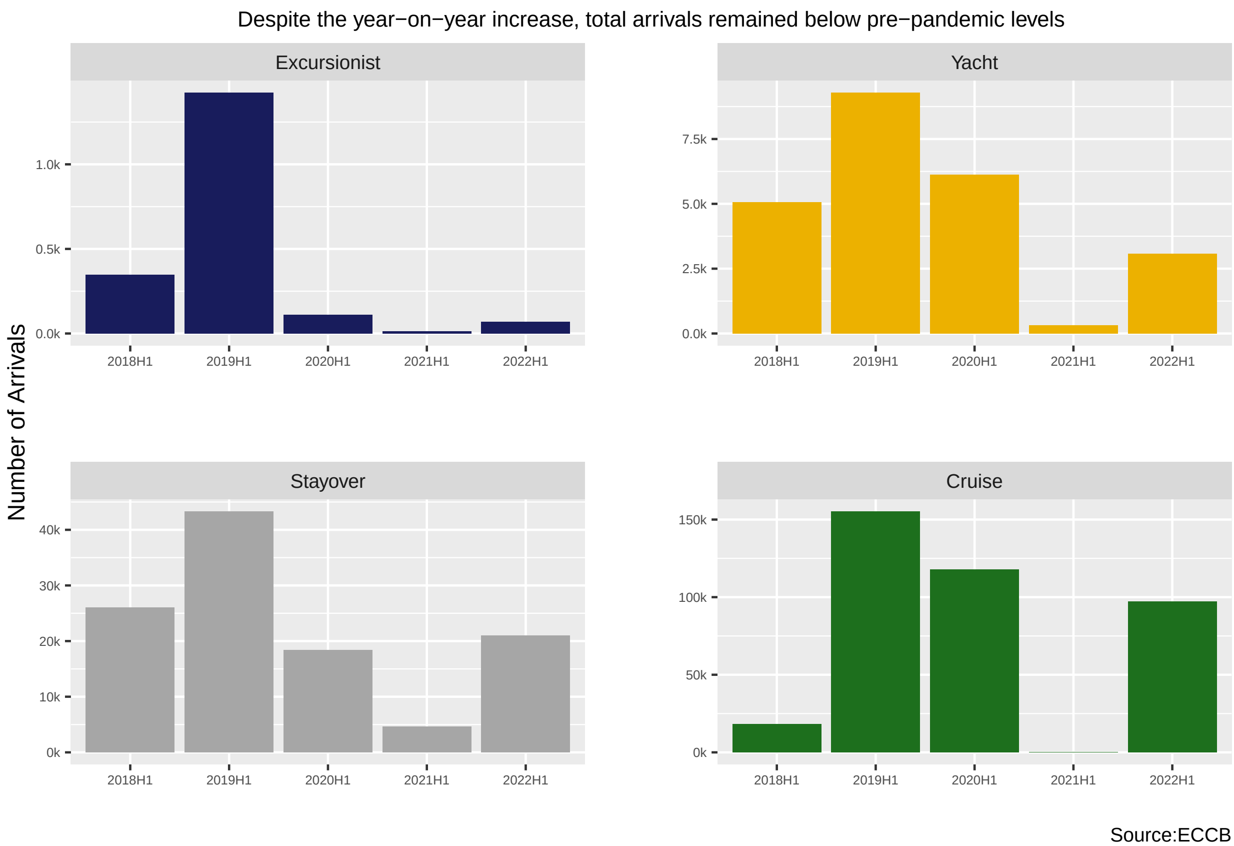

Figure 2: Visitor Arrivals to Commonwealth of Dominica by Category.

The agricultural sector is also estimated to have registered an increase in the first half of the year, as banana production rose by 4.2 per cent. Other crops and livestock were also estimated to have increased. Manufacturing output was mixed as increases in soap production (84.8 per cent) and beverages (1.8 per cent) were offset by a decline in paint production (15.1 per cent).

Conversely, activity in the construction sector is estimated to have contracted as evidenced by a 62.9 per cent reduction in public sector capital investment as some major projects came to an end. There was also a 47.4 per cent decline in private sector -residential and commercial - construction starts.

2.1 Consumer Prices

The rate of inflation (period average) accelerated in the first half of 2022, rising to 6.11 per cent from 0.5 per cent a year prior (Figure 3). Global increases in food and oil prices effectuated higher domestic price indices of housing, utilities, gas, and fuels (13.6 per cent), food (5.7 per cent) and transport (1.8 per cent).

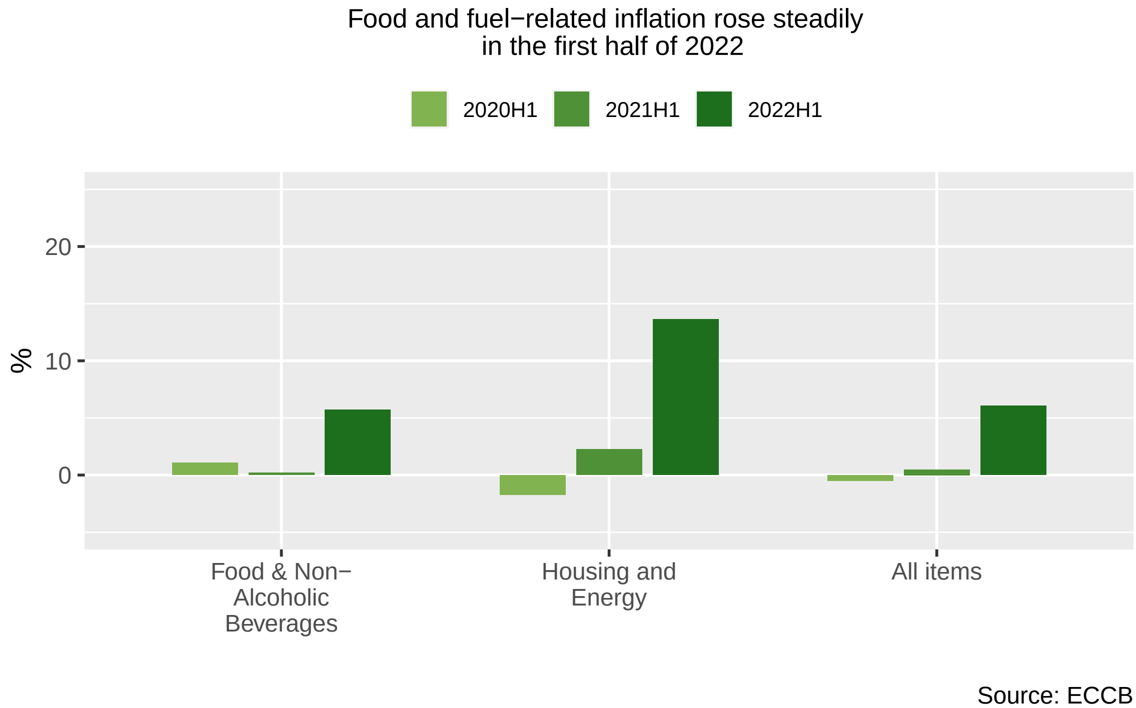

Figure 3: Trends in Period-Average Inflation

3 Government Operations

The fiscal operations of the central government resulted in an overall surplus of $113.1m in the first half of 2022, a significant improvement from a deficit of $69.3m recorded in the corresponding period of 2021 (see Figure 4). Similarly, a primary surplus of $135.0m was realized. The improvement in the fiscal balances was underpinned by a sharp reduction in capital outlays (Figure 5B).

Capital expenditure declined by 62.9 per cent to $133.0m as works on a number of projects slowed while others concluded. Meanwhile, capital grants rose to $49.0m from $26.0m in June 2021, reflecting receipts from bilateral and multilateral partners.

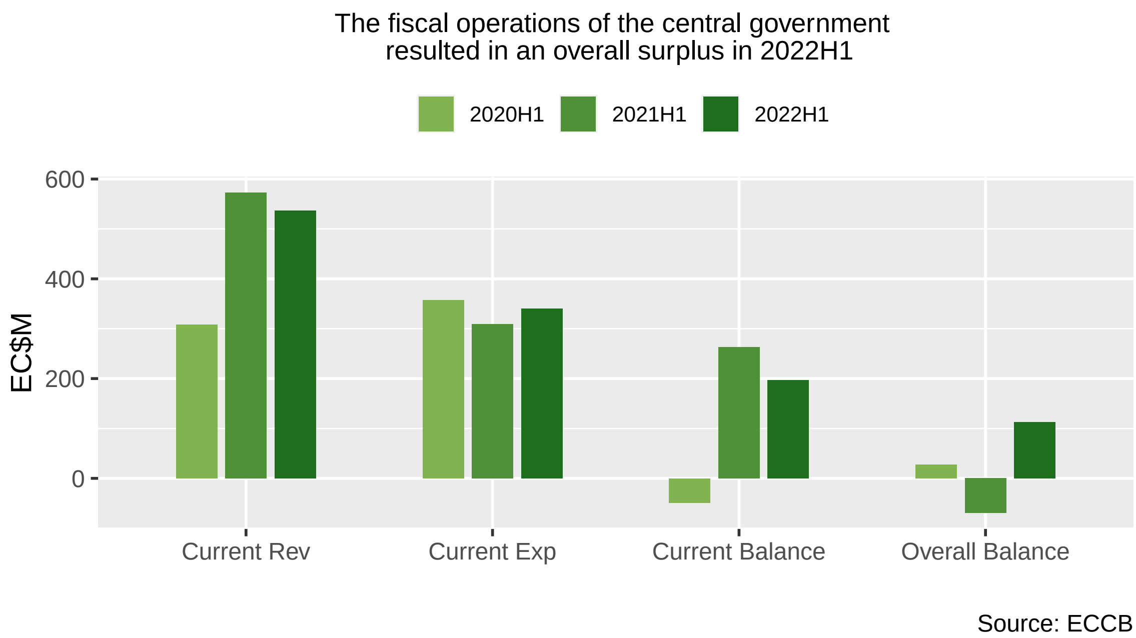

Figure 4: Trends in Fiscal Balances

On the current account, a surplus of $196.9m was recorded, approximately 25.0 per cent lower than the level obtained in June 2021. Current revenue fell by 6.2 per cent to $536.8m mainly attributable to a contraction in non–tax revenue ($44.2m). Receipts from the Economic Citizenship Programme (ECP) fell by 10.6 per cent to $340.5m, contributing to the fall in non-tax revenue (Figure 5A).

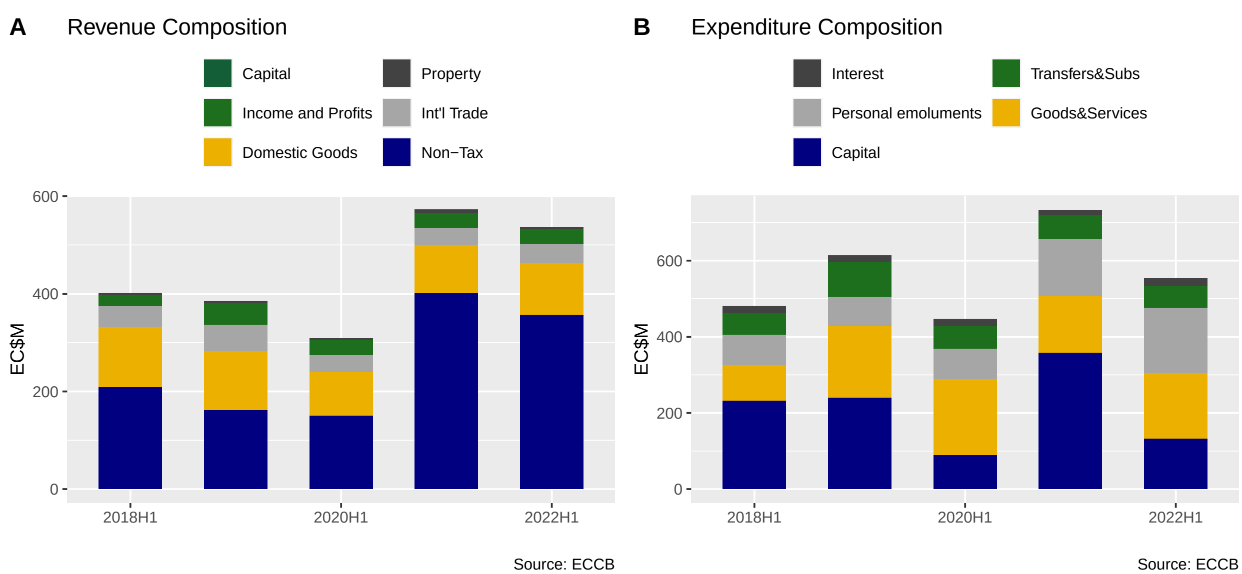

Figure 5: Trends in Composition of Revenue and Expenditure

The improvement in the fiscal balances was underpinned by a sharp reduction in capital outlays (Figure 5B). Capital expenditure declined by 62.9 per cent to $133.0m as works on a number of projects slowed while others concluded. Meanwhile, capital grants rose to $49.0m from $26.0m in June 2021, reflecting receipts from bilateral and multilateral partners.

3.1 Debt

The total disbursed outstanding public sector debt increased by 7.5 per cent to $1,669.1m at the end of June 2022, as the government borrowed for Disaster Risk Management projects and COVID-19 response and recovery. Central government debt rose by $124.5m, while that of public corporations fell by $8.2m. Further disaggregation indicated that the total external debt rose by $85.3m due to new disbursements from Multilateral Institutions, namely the World Bank and the Caribbean Development Bank. Domestic debt rose by $31.1m primarily reflecting new issuances on the RGSM (Figure 6).

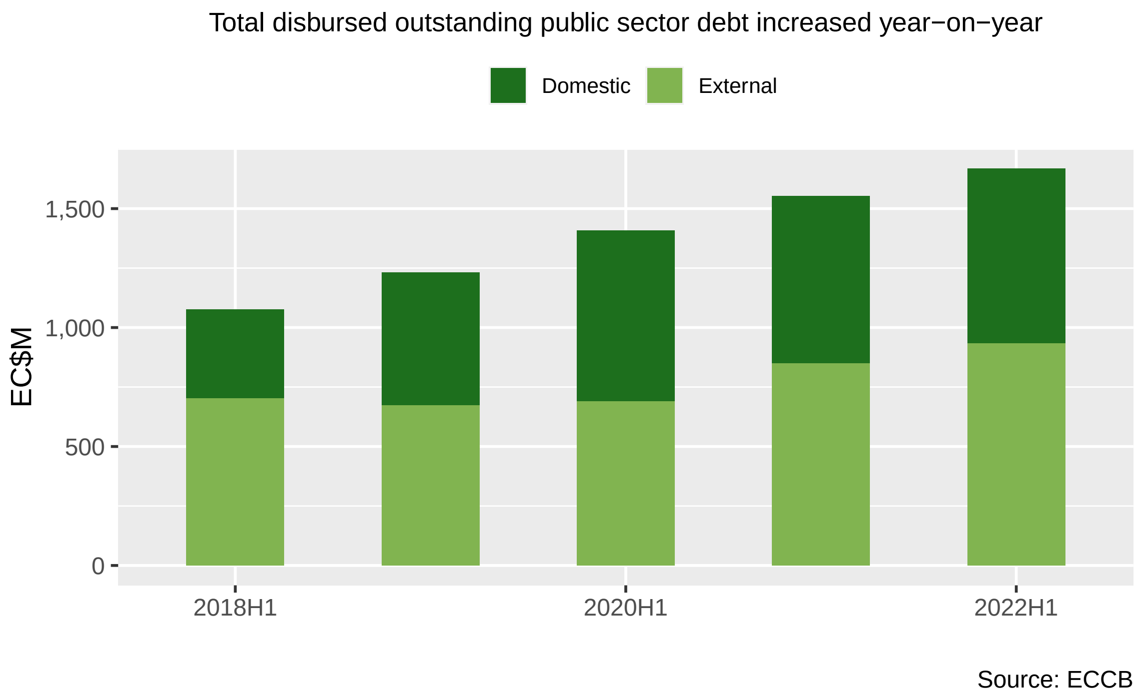

Figure 6: Trends in Outstanding Public Sector Debt

4 Banking Developments (Monetary)

Domestic claims (credit) grew by 4.9 per cent to $894.5m. This was led by an increase in Government's net indebtedness, which rose by $37.6m on account of a decline in deposits. Claims on the private sector grew marginally by 0.9 per cent to $753.2m. The expansion in private sector claims (credit) reflected an increase in credit to business sector (0.6 per cent) and to households (1.1 per cent). Total deposits rose by 1.9 per cent consistent with greater economic activity and money creation.

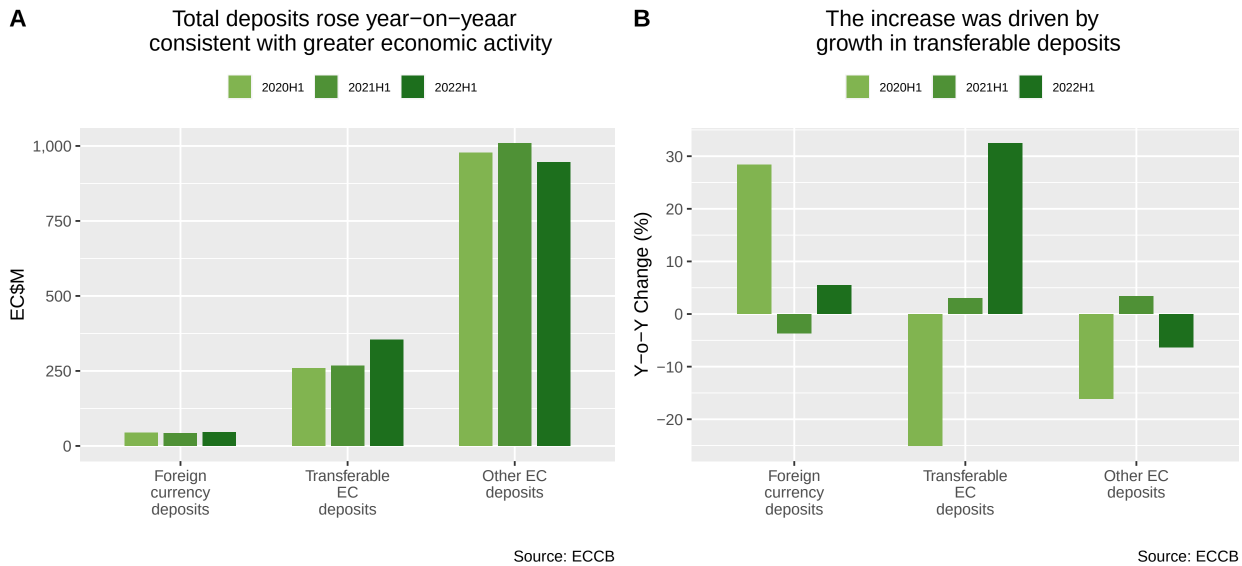

Figure 7: Trends in Domestic Deposits

The banking sector remained highly liquid. The lending capacity of commercial banks rose as the total loans to deposits ratio fell by 3.2 percentage points to 54.5 per cent, significantly below the benchmark of 75-85 per cent. The non-performing loans ratio remained elevated at 14.3 per cent exceeding the ECCB's prudential limit of 5.0 per cent (Figure 8).

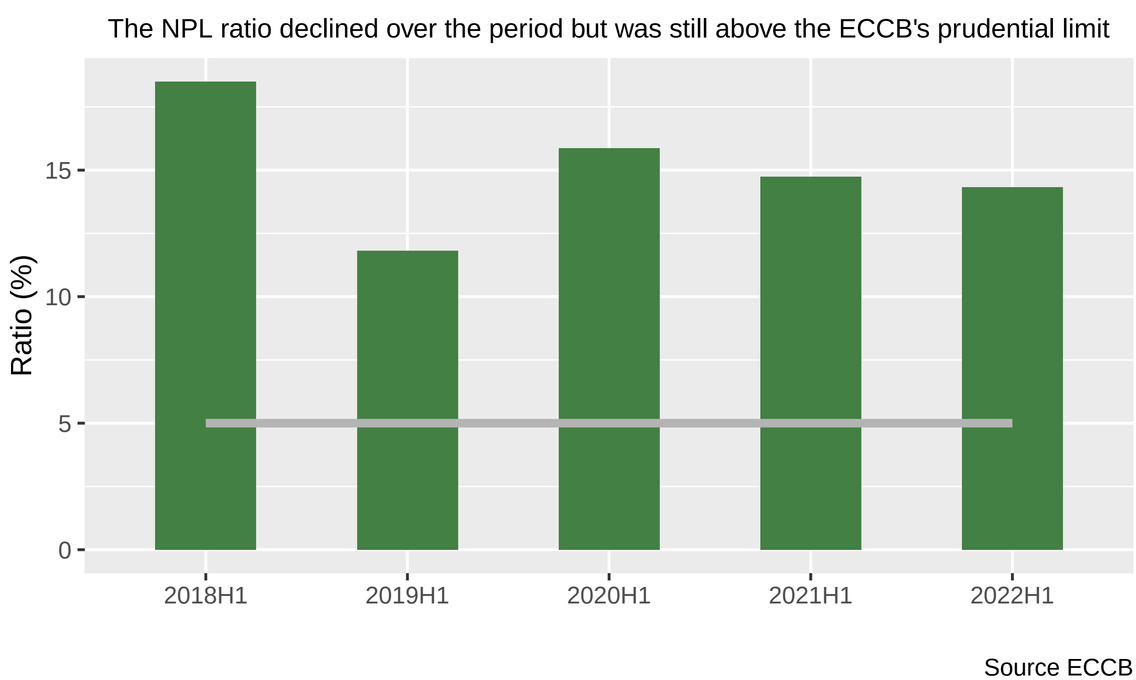

Figure 8: Half-Year Trends in Non-Performing Loans

5 External Trade

The merchandise trade deficit expanded by 8.9 per cent to $291.7m in the first half of 2022 (Figure 9). This outcome was driven by an increase in import payments by 10.4 per cent to $319.5m related to higher import prices for food, fuel, and machinery and transport equipment. Receipts from exports increased by 29.4 per cent to $27.8m mirroring gains from the export of paints, soap and bananas. Gross travel receipts are estimated to have risen to $61.5m from $14.1m in June 2021 as visitor arrivals rose.

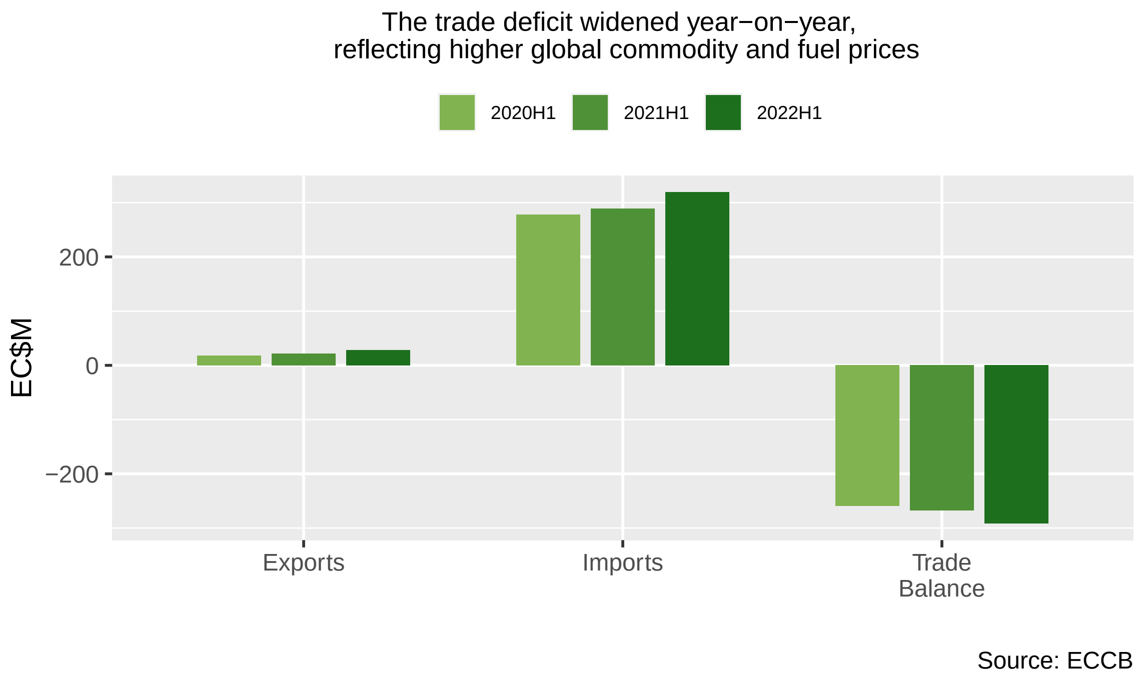

Figure 9: Selected Components of External Trade

6 Outlook

Economic activity is expected to remain buoyant in the remainder of 2022, based on anticipated positive developments in key sectors.

- Activity in the construction sector is likely to pick up in the second half of the year as the government begins work under its Resilience Infrastructure Programme to include new and enhanced road networks, water systems, and air and seaports, consistent with the 2022/23 Budget Statement;
- The agricultural sector will continue to benefit from a number of initiatives aimed at boosting production, such as the provision of inputs and greenhouses, and plant propagation programmes;
- Tourism activity is expected to remain strong, maintaining the rebound observed in the first half of the year, and strengthened further during the upcoming peak season and the hosting of the World Creole Music Festival. The strategic rebranding of the destination to focus on five pillars – Adventure, Agro-tourism/Cuisine, Health and Wellness, Aqua/Water Adventure, and Events and Entertainment

should also raise the profile of the destination;

- The risks to growth are tilted to the downside. Greater regional competition and the threat by the European Union to remove visa-free access to the Schengen area could adversely impact inflows from the Economic Citizenship Programme;

- Geopolitical conflicts such as the Russia-Ukraine war and the recent oil production cut by OPEC could continue to put upward pressures on global commodity prices and further slow global growth. Dominica also remains highly vulnerable to climate related natural disasters, which could erase development gains.

7 Selected Economic Indicators

Indicator	2018H1	2019H1	2020H1	2021H1	2022H1
Current Revenue (EC$M)	401.5	385.4	308.2	572.4	536.8
Current Expenditure (EC$M)	249.1	372.8	357.2	309.4	339.9
Current Balance (EC$M)	152.4	12.7	-49.0	263.0	196.9
Primary Balance (EC$M)	-45.4	-194.0	47.3	-53.7	135.0
Overall Balance (EC$M)	-64.7	-211.7	27.2	-69.3	113.1
Total Public Sector Debt (EC$M)	1077.0	1231.2	1407.7	1552.8	1669.1
Inflation (Period Average %)	0.4	2.0	-0.5	0.5	6.1
Total Visitor Arrivals ('000)	49.5	209.2	142.6	5.0	121.4
Total Visitor Expenditure (EC$M)	87.0	166.4	49.8	14.1	61.5
Net Foreign Assets (EC$M)	1404.7	1026.4	943.9	1009.1	988.9
Domestic Credit (EC$M)	530.2	749.1	813.4	853.1	894.5
M2 (EC$M)	1774.6	1637.5	1361.0	1394.2	1428.4
Currency in Circulation (EC$M)	101.8	110.9	102.5	100.2	111.8
Liquid assets to total assets	61.8	53.0	49.9	45.8	49.4
Liquid assets to short-term liabilities	68.9	58.9	56.9	53.6	56.7
Customer deposits to total (noninterbank) loans	208.4	175.0	158.9	154.0	160.2
Weighted Average Deposit Rate (%)	1.6	1.8	1.7	1.7	1.5
Weighted Average Lending Rate (%)	7.8	7.5	6.8	6.5	7.3
Interest Rate Spread (%)	6.2	5.8	5.0	4.8	5.7
Non-Performing Loans to Total Loans (%)	18.5	11.8	15.9	14.7	14.3

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