COMMONWEALTH OF DOMINICA

DECEMBER 2022

ECONOMIC AND FINANCIAL REVIEW

Eastern Caribbean Central Bank

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ANNUAL REVIEW

COMMONWEALTH OF DOMINICA

EASTERN CARIBBEAN CENTRAL BANK

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Commonwealth of Dominica
Annual Economic and Financial Review - 2022

Eastern Caribbean Central Bank

Contents

Overview

- Preliminary estimates indicate that GDP output in the Commonwealth of Dominica expanded for the second consecutive year, post the Covid-19 pandemic.
- The economic expansion was led by a return to growth in the tourism and manufacturing industries, along with greater value added in the agriculture, wholesale and retail trade, and transportation sectors.
- A significant reduction in expenditure was the main factor contributing to an overall fiscal surplus, following a deficit obtained in the previous year.
- Downside risks to near-term growth include an escalation in geopolitical conflicts, a slowing global economy, a surge in global commodity price pressures and climate change risks.

5.9%
Real GDP Growth

9.6%
end-of-period inflation

104.3%
Debt-to-GDP ratio

3.8%
Overall fiscal surplus (%GDP)

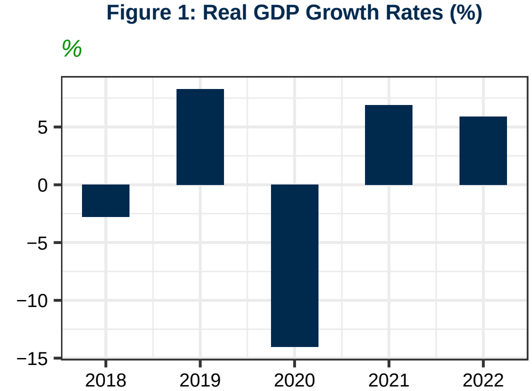
$661.1M
Merchandise trade deficit

$969.0M
Domestic claims

The Economy (Real Sector)

Real GDP expanded by 5.9 per cent in 2022, following growth of 6.9 per cent in 2021. The economic expansion was reflective of increased value added in all major sectors except construction (Figure 1). The hotels and restaurants sector (tourism) grew at a strong rate of 175.0 per cent in 2022, reversing the contraction of 14.1 per cent in 2021. However, the sector's direct contribution to GDP is relatively small, accounting for less than 2.0 per cent. Nevertheless, the spill-overs to the wholesale and retail trade; transport, storage and communications; and real estate, rental and business activity were significant, with those sectors reporting expansions of 11.0 per cent, 11.3 per cent and 3.6 per cent, respectively. Collectively these sectors contribute approximately 35.0 per cent of GDP.

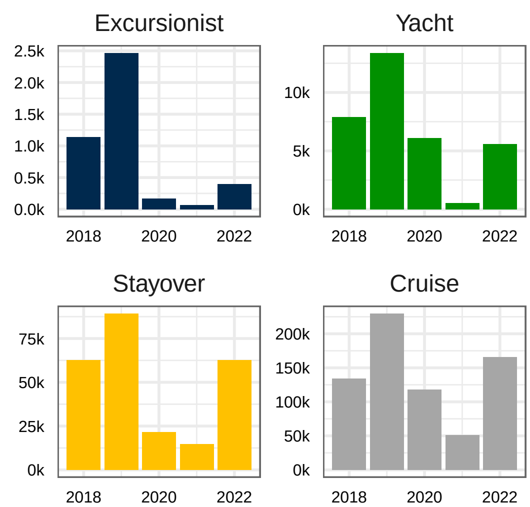
Figure 1: Real GDP Growth Rates (%)



Source: ECCB

Most of this impact stemmed from the stay-over market segment, which saw arrivals of 60,422 compared with 14,728 in 2021. Stay-over arrivals from all source markets grew exponentially, with notable mentions of the United States and French West Indies markets. Despite this significant improvement, the 2022 outturn represented 68.0 per cent of the 2019 pre-pandemic benchmark. The number of cruise ship passengers rose to 180,125 in 2022 from 50,829 in 2021. Similarly, yacht passengers grew to 5,932 in 2022 from 540 in 2021 (Figure 2).

Figure 2: Visitor Arrivals by Category



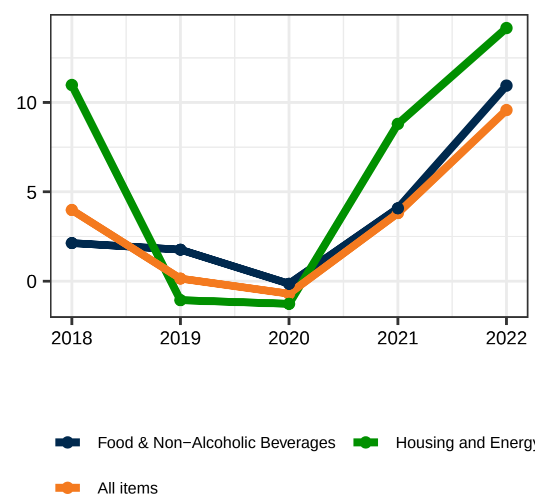
Source: ECCB

Consumer Prices

Largely impacted by the uptick in global energy and food prices, estimates of consumer prices, point to an acceleration in the rate of inflation in 2022 to 9.6 per cent, the highest level in 5 years (Figure 3). This represents 6.0 percentage points increase over the comparable period in 2021. The main drivers of inflation were housing, water, electricity, gas and other fuels (14.2 per cent); transport (11.2 per cent), and food (10.9 per cent).

Figure 3: Selected Categories of Inflation

%, y−o−y



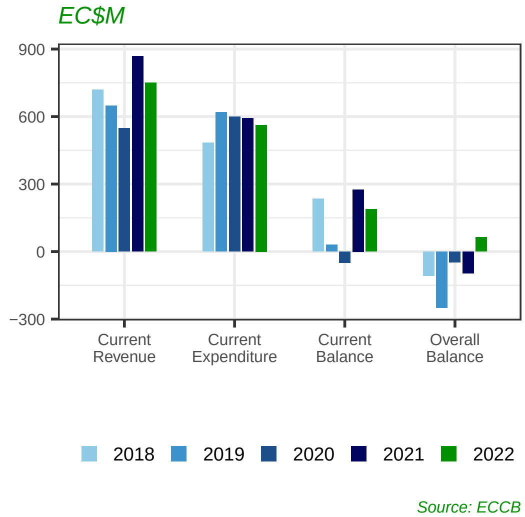
Source: ECCB

Output in the agricultural sector increased by 5.4 per cent, a much slower pace of growth when compared to 2021, in which the sector grew by 24.4 per cent. The slowdown in the sector reflected a tempering of growth in the banana sub-sector. Manufacturing output rose by 20.0 per cent owing to higher production of soap and beverages. In contrast, the construction sector declined by 2.8 per cent mirroring lower execution of the public sector investment programme and a slowdown in private sector activity.

Government Operations

The financial operations of the central government yielded an overall surplus of $63.6m (3.8 per cent of GDP) at the end of the calendar year 2022. This outturn was an improvement from the deficit of $96.4m (6.4 per cent of GDP) recorded in the corresponding period in 2021 (Figure 4). The primary balance followed the same pattern shifting to a surplus of $104.2m (6.3 per cent of GDP) in 2022 from a deficit of $62.4m (4.2 per cent of GDP) in 2021. The improvement in the fiscal balances mirrored expenditure restraint on both current and capital accounts.

Figure 4: Central Government Fiscal Balance



The current account surplus fell to $187.7m (11.4 per cent of GDP) at the end of 2022, from $275.6m (18.3 per cent of GDP) at the end of the prior year. The decline in the surplus was attributed to lower non-tax revenue. Non-tax revenue, which constituted 54.0 per cent of current revenue fell by $123.0m to $404.3m (25.0 per cent of GDP) largely due to lower inflows from the Citizen by Investment Programme (93.0 per cent of non-tax revenue). Meanwhile, tax revenue grew by $4.2m to $345.6m (21.0 per cent of GDP) solely resulting from greater tax receipts on goods and services, namely the value added tax (VAT). These revenue movements led to an overall decline in current revenue by $118.8m to $749.9m (45.4 per cent of GDP). Current expenditure declined by $30.8m to $562.2m (30.0 per cent of GDP) largely on account of lower spending on goods and services and personal emoluments. Capital spending fell by $241.6m to $193.1m (11.7 per cent of GDP) at the end of 2022, reflecting lower execution of the public sector investment programme. In the corresponding period, capital grants fell by $2.3m to $60.4m.

Debt

Total public sector debt [1] at the end of December 2022 was $1,723.54m (104.3 per cent of GDP) comprising external debt of $956.8m (57.9 per cent of GDP) and domestic debt of $766.7m (46.4 per cent of GDP), respectively as illustrated in Figure 5. This represents an increase of 5.3 per cent in the nominal stock over 2021, primarily on account of additions to both the external and domestic components of the stock. Due primarily to net inflows for the period, the external debt stock saw a significantly greater nominal increase than the domestic debt stock. In 2022, external debt grew by 9.8 per cent ($85.4m) over 2021, mainly on account of net disbursements on new and existing loans from multilateral donors, to support its capital program and to provide budgetary support. On the domestic side, the marginal increase ($1.2m) in the debt stock was primarily attributed to the accumulation of supplier arrears (net of payments on other domestic liabilities) during the period under review.

[1] Figures adjusted to include Accounts Payables

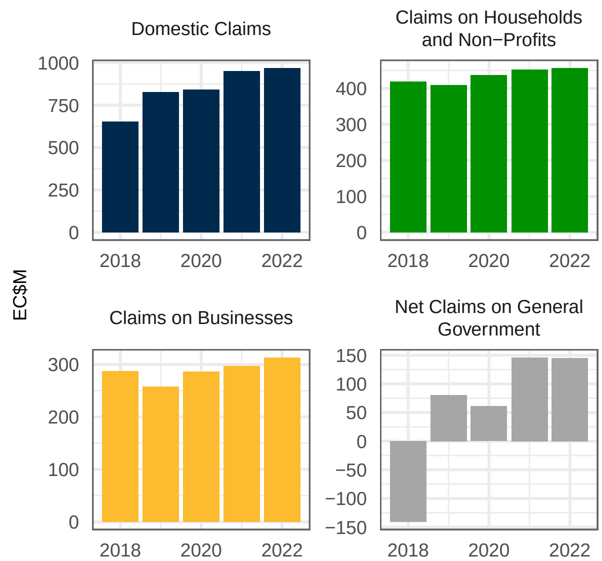
Figure 5: Outstanding Public Sector Debt

Banking Developments (Monetary)

Domestic claims (credit) grew at a decelerated rate of 1.9 per cent to $969.0m in 2022 when compared with a rate of growth of 12.9 per cent in 2021. The growth in credit was led by private sector activity (Figure 6). Claims on the private sector grew by 2.8 per cent to $771.3m associated with increases in the liabilities of both businesses (5.4 per cent) and households (1.0 per cent). Conversely, the Government's net indebtedness fell by 0.9 per cent to $145.0m as deposits were utilized to reduce outstanding credit.

Figure 6: Claims (Credit) to Selected Sectors

in EC$M



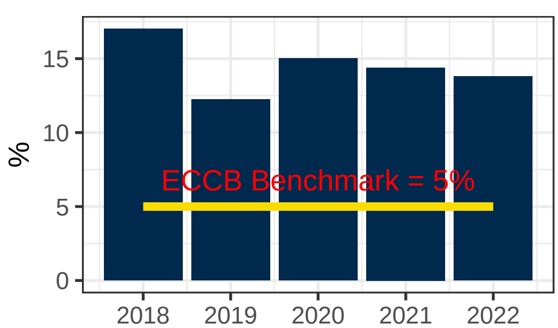
Source: ECCB

Currency in circulation and transferable deposits[2] rose by 13.0 per cent and 3.7 per cent, respectively, an indication of greater liquidity in the economy. Meanwhile, other deposits held in national currency fell by 4.6 per cent.

Commercial banks remained highly liquid during the period under review. The total loans to deposits ratio rose to 60.3 per cent from 58.5 per cent in 2021, significantly below the benchmark of 75-85 per cent. The non-performing loans ratio fell to 13.8 per cent in 2022 from 14.4 per cent in 2021 (Figure 7).

Figure 7: Non−Performing Loans Ratio

% of Total Loans



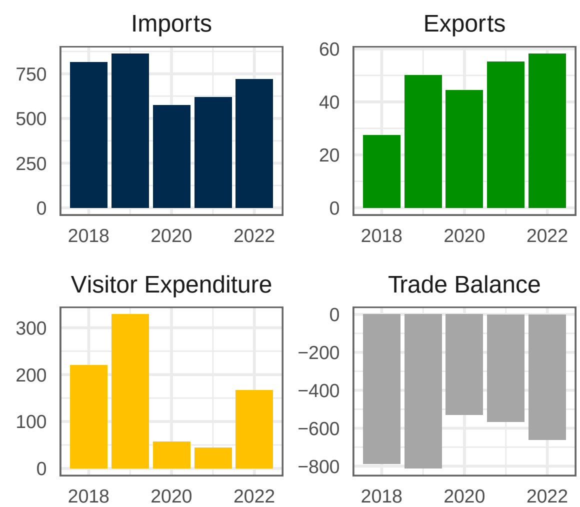
Source ECCB

External Trade

Driven by higher import values, the merchandise trade deficit expanded by $95.1m to $661.1m in 2022 (Figure 8). Import payments rose by $98.1m to $719.2m associated with higher payments for food, mineral fuels, and machinery and transport equipment. This increase was partly offset by growth in export receipts of $3.0m to $58.2m reflecting greater earnings from soap and paints exports. Meanwhile, on the services account, visitor expenditure rose to $163.3m in 2022, up from $44.5m in 2021 consistent with greater tourist arrivals.

Figure 8: Selected Categories of External Sector

EC$M



Source: ECCB

Outlook

The economic outlook for the Commonwealth of Dominica is positive, with the expectation that real GDP will revert to the pre-pandemic level in 2023. The hotels and restaurants sector is projected to remain on an expansionary path, albeit at a less buoyant rate.

- While the stay-over arrivals segment is forecasted to fully recover in 2024, the cruise sector should fully return and possibly surpass the 2019 outturn in 2023, as demand for cruise continues to increase.
- Activity in the construction sector is likely to pick up in 2023 due to increased activity on public sec-

[2] Transferable deposits include chequing accounts and other demand deposits

tor projects including the international airport, road networks and the housing revolution programme. This will be supported by private sector projects comprising of hotel and residential construction.

- Output in the agricultural and manufacturing sectors is projected to grow as a result of strategic interventions to boost food production and provide support to small and medium size manufacturers.
- The risks to growth are tilted to the downside. Intra-regional travel continues to be impacted by poor connectivity and high airfare, which can affect the rate of growth in visitor arrivals from this source market.
- Lower than anticipated inflows from the Citizenship by Investment Program can lead to decrease government revenue, which can have a negative impact on the government's fiscal outlook.
- Relative to 2022, global growth is forecasted to slow in 2023 according to international organizations including the IMF, World Bank and the OECD. The impact of the war in Ukraine on commodity prices, and the cost of living could curtail international demand for travel and adversely affect the Dominican economy.
- Continued monetary policy tightening in advanced economies, has increased the cost of borrowing and could dampen access to financing for public expenditure. Further, the financial sector could be impacted by capital losses resulting from a higher interest rate environment. Adverse weather during the upcoming hurricane season also poses a major threat to the attainment of the aforementioned growth.

Selected Economic Indicators

Indicators	2018	2019	2020	2021	2022
National Income and Prices (Annual % change)					
Nominal Gross Domestic Product (GDP) at Market Prices	6.4	10.2	-17.5	10.1	10.2
Real GDP at Market Prices	3.5	5.5	-16.6	6.9	5.9
Deflator	2.7	4.5	-1.1	3.0	4.0
Consumer Prices (end of period)	4.0	0.1	-0.7	3.8	9.6
Consumer Prices (period average)	1.0	1.5	-0.7	1.5	7.9
Real Gross Value Added (GVA) at basic prices (%)					
Agriculture, Livestock and Forestry	-28.8	22.6	3.1	24.4	5.4
Construction	98.3	-7.8	-56.5	15.8	-2.8
Wholesale and Retail Trade	34.5	3.7	-28.4	7.7	11.0
Hotels and Restaurants	-22.8	17.7	-62.1	-14.1	175.0
Transport, Storage and Communications	2.9	-0.3	-31.5	3.6	11.3
Financial Intermediation	-2.1	31.4	7.8	6.0	1.5
Real Estate, Renting and Business Activities	-0.1	14.7	-2.1	1.8	3.6
Public Administration, Defence & Compulsory Social Security	-14.8	8.2	2.6	4.6	3.0
Total Public Sector Debt (% GDP)					
Total Public Sector Debt	73.9	78.0	109.1	109.2	104.3
Public Sector External Debt	45.6	39.9	56.9	58.1	57.9
Central Government (in XCD millions)					
Current Account Balance	234.3	30.4	-50.9	275.6	187.7
Current Revenue	718.7	649.2	547.6	868.6	749.9
Current Expenditure	484.4	618.9	598.5	593.1	562.2
Capital Expenditure and Net Lending	383.2	306.7	175.2	434.7	193.1
Overall Fiscal Balance	-106.9	-249.3	-48.6	-96.4	63.6
Monetary Sector (% p.a.)					
Weighted Deposit Interest Rates	1.7	1.7	1.8	1.6	1.6
Weighted Lending Interest Rates	7.6	7.5	6.5	5.9	6.2
Non-Performing Loans Ratio (%)	17.0	12.2	15.0	14.4	13.8
Memo (in XCD millions, unless otherwise stated)					
Nominal GDP at Market Prices	1,497.9	1,651.1	1,361.4	1,499.2	1,652.5
Real GDP at Market Prices	1,181.8	1,246.9	1,039.8	1,111.5	1,177.5
GDP per capita (EC$)	16,937.5	18,440.4	15,426.0	16,845.0	18,457.0
Merchandise Imports (f.o.b)	816.1	862.0	575.5	621.1	719.2
Merchandise Exports	27.4	50.1	44.5	55.1	58.2
Gross Visitor Expenditure	220.6	328.4	57.4	44.5	163.3
Net Foreign Assets	1,182.2	847.6	962.6	970.5	925.1
Domestic Credit	652.3	827.4	842.4	951.2	969.0
Money Supply (M2)	1,686.0	1,574.2	1,389.1	1,414.5	1,396.8
Currency in Circulation	114.1	117.0	108.3	115.7	126.8

Note:

Data as at February 2023

[1] Sources:Central Statistics Office and Eastern Caribbean Central Bank