COMMONWEALTH
OF DOMINICA
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ECONOMIC AND FINANCIAL REVIEW

Eastern Caribbean Central Bank
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Commonwealth of Dominica
Economic and Financial Review - June 2023
Eastern Caribbean Central Bank

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Overview

- Economic activity in the Commonwealth of Dominica expanded in the first half of 2023 relative to the comparative period in 2022. The improved performance was supported by a strong performance in the tourism sector, as visitor arrivals surpassed 2019 (pre-COVID) levels. The recovery was also supported by increased manufacturing output.

- A lower overall deficit was recorded in government finances, as the contraction in total expenditure surpassed the decline in current revenue. Notwithstanding, public debt remained elevated.

- The financial sector remained sound, as banks were well capitalized and liquid.

- A further strengthening of economic activity is expected in the second half of 2023; however, the economy faces several headwinds, including a weakened global economic outlook, volatility in the citizenship by investment revenues, climate-related shocks, and more limited policy space.

The Economy (Real Sector)

The economy of Dominica continued on a steady path of recovery in the first half of 2023. Favorable outcomes in the tourism sector facilitated positive spillovers in supporting sectors such as wholesale and retail trade; transport and storage; and real estate activities. Overall, visitor arrivals increased to 219,600, an 81.0 per cent increase over the corresponding period in 2022. This expansion is primarily attributed to an increase in the number of visitors across all categories of arrivals (Figure 1).

Cruise tourism, which constitutes the largest share of visitor arrivals, grew by 82.0 per cent to 176,867. Stayover arrivals registered growth of 58.2 per cent to 33,448 largely attributed to an increase in visitors from the major source markets. More specifically, the number of stayover visitors from the Caribbean, the largest source market, grew by 52.7 per cent to 12,549. Growth was also recorded for visitors from Europe (92 per cent), Canada (50.5 per cent) and the USA (3.1 per cent). This outturn was, in part, the result of increased airlift and visibility of the destination in light of its recognition by an international travel brand. Additionally, the number of yacht passengers (9,055) and excursionists (230) visiting the island increased in the first half of 2023 compared to 3,116 and 69, respectively, in the corresponding period in 2022.
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Output in the manufacturing sector recorded strong growth in the first half of 2023. The production of beverages increased by 46.0 per cent to 124,150 cases relative to the output of 85,060 cases in the corresponding period of 2022 primarily due to increased demand. Similarly, the output of paints increased by 24.5 per cent to 93,162 gallons relative to the production of 74,833 gallons in the same period last year. However, the increase in manufactured output was tempered by a 14.2 per cent decrease in soap production.

In the agricultural sector, banana output is estimated to have declined. Total banana production amounted to 356 tonnes, 40 tonnes less than the output recorded in the first half of 2022, reflecting the impact of the Black Sigatoka, a leaf spot disease caused by the ascomycete fungus. Conversely, the production of non-banana agricultural products is estimated to have increased relative to the output in the corresponding period of 2022, as reflected by an increase in the export of food and live animals.

Construction activity contracted in the first half of 2023, mainly influenced by a decline in public sector construction. Capital expenditure in the public sector registered a five-fold decline, totaling $75.7m in the first half of 2023 compared with $347.9m in the corresponding period of 2022, as some public projects such as the Roseau and Marigot Fisheries Complexes and other infrastructural rehabilitation projects concluded, while the pace of other projects slowed. Conversely, in the private sector, construction activity expanded moderately due to a 10.0 per cent increase in the number of residential starts. Further, the on-going construction of the CBI-funded private sector developments, including Tranquility Beach Resort (Hilton hotel), Anichi Resort and Spa (Marriott hotel) and expansion of Secret Bay also contributed to growth in private construction.

**Consumer Prices**

The annual inflation rate was 3.6 per cent for the 12 months ended June 2023. This follows a rise of 9.0 per cent in the corresponding period (Figure 2). The general rise in prices was associated with increases in the major sub-indices including food and non-alcoholic beverages (12.3 per cent), and transport (7.8 per cent). However, these upturns were tempered by a 5.2 per cent decline in the housing, water, electricity, gas and other fuels sub-index, which has the heaviest weighting. The decline in the price of electricity was due, in part, to the reduction of VAT on electricity, which took effect from 1 August 2022, as well as the decline in average fuel prices on the international market.

![Graph of Consumer Prices](image)

**Government Operations**

The fiscal operations of the central government resulted in a narrowing of the overall deficit to $28.4m in the first half of 2023, a notable improvement in the deficit of $101.9m recorded in the corresponding period in 2022 (Figure 3). Similarly, the primary balance also improved moving to a deficit of $4.5m in the first half of 2023 compared with one of $79.0m in the comparable period of 2022. The improvement in the overall balance was mainly influenced by a sharp reduction in capital expenditure, which declined by 78.2 per cent to $75.7m as public works on a number of projects slowed (Figure 5).
On the current account, a surplus of $33.7m was recorded, approximately 82.8 per cent lower than the level obtained in 2022H1, reflecting a decline in current revenue. Current revenue fell by 35.1 per cent to $350.0m mainly attributable to a contraction in non–tax revenue ($215.8m). Receipts from the Economic Citizenship Programme (ECP) fell by 62.6 per cent ($213.5m), contributing to the fall in non-tax revenue. The decline in ECP receipts was consistent with the slowdown in public projects observed in the first half of 2023. By contrast, tax revenue rose by 14.7 per cent ($26.6m), associated with higher receipts from all the major tax categories. (Figure 4).

Current expenditure declined by 7.9 per cent to $316.3 largely on account of decreased spending on goods and services ($24.8m) and personal emoluments ($14.1m). Of note, the decline in personal emoluments is primarily due to a change in the arrangements for the remuneration of hospital staff.¹

Debt

The total disbursed outstanding debt of the public sector increased by 2.8 per cent to $1,716.4m at the end of June 2023 (Figure 6). This outturn was primarily as a result of a 3.5 per cent increase in central government debt, the larger component of public debt. Public corporation debt, which accounts for 8.2 per cent of total debt, declined by 4.9 per cent to $140.0m. Further disaggregation of the outstanding balances indicates that public sector external debt registered an increase of $58.1m (6.2 per cent) mainly due to net disbursements from multilateral creditors including the World Bank and the Caribbean Development Bank. Conversely, public sector domestic debt registered a decline of $10.8m (1.5 per cent) as a result of net payments to domestic creditors.

¹Salaries of hospital staff will be covered by the hospital authority. This payment is reflected as a subvention under transfers to local institution.
Domestic claims (credit) in the banking sector decreased by 4.7 per cent to $852.2m at the end of June 2023 (Figure 7). This outturn was influenced by a contraction in claims on other financial corporations (6.7 per cent), businesses (10.9 per cent) and households and non-profit institutions (4.6 per cent). However, the contraction in domestic credit was moderated by an increase in the net claims on general government of 16.8 per cent to $102.6m primarily on account of government’s increased indebtedness to other depository corporations by 4.4 per cent or ($15.1m).

Accordingly, an analysis of the distribution of commercial bank credit (loans) by economic activity revealed that total outstanding loans and advances fell by 3.6 per cent to $1,053.0m relative to an increase of 0.4 per cent during the first half of 2022. Contraction in total outstanding credit were recorded in several sub-sectors, inter alia mining and quarrying activities (32.1 per cent), commercial purchases (66.5 per cent), wholesale and retail trade (26.0 per cent), accommodation and food services (32.9 per cent) and consumer loans (28.4 per cent). These declines were partly offset by expansions in credit allocated to manufacturing (84.0 per cent), public administration and social security (19.0 per cent) and agriculture, forestry and fishing (7.1 per cent).

Monetary liabilities (M2) contracted by 2.7 per cent to $1,389.9m over the twelve months to June 2023 compared with growth of 2.5 per cent one year prior. Quasi money, the larger component of M2, fell by 7.9 per cent, attributed to decreases in foreign currency deposits (19.4 per cent) and other EC deposits (7.3 per cent). However, the contraction in deposits was partially offset by an increase of 9.0 per cent in narrow money (M1) reflected in the growth of 8.9 per cent of transferable deposits (Figure 8).

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fell by 0.7 percentage points to 53.8 per cent which is below the ECCB’s benchmark range of 75.0 to 85.0 per cent.

Despite a fall in the non-performing loans ratio by 1.4 percentage points to 12.9 per cent during the year ended June 2023, the ratio remained elevated, well above the ECCB’s prudential limit of 5 per cent (Figure 9).

External Trade

The merchandise trade deficit widened by 29.2 per cent to $376.0m during the first half of 2023 (Figure 10). This development was attributed to an increase in import payments, which was partially offset by an increase in export receipts. The value of merchandise imports increased by 27.3 per cent to $405.6m primarily due to higher import prices across all the subcategories, including mineral fuels, machinery and transport equipment, manufactured goods and food. Earnings from merchandise exports grew in the first half of 2023, accounting for a 6.7 per cent growth ($1.9m) compared to growth of 29.4 per cent ($6.3m) in the same period last year. The major export earners included food and live animals (15.1 per cent), crude materials (14.3 per cent) and beverages (13.3 per cent).

Outlook

- Economic activity in the Commonwealth of Dominica is expected to accelerate in the remainder of 2023, predicated on increased activity in the tourism sector and continued implementation of the government’s large public investment programme. The hosting of the Creole Music Festival in the second half of the year is expected to boost tourism demand. Moreover, increased marketing efforts by the Discover Dominica Authority, supported by an expanded tourism budget, are also expected to support the growth of the industry.

- Construction activity is expected to gain momentum in the latter half of 2023 as the authority continues to invest in resilient infrastructure, including the new international airport, the geothermal power plant, the new marina, the road and bridge network and the Roseau Enhancement project as outlined in the 2023/2024 budget statement. Further, these investments are expected to have spillover effects in other sectors and the overall economy.

- The agricultural sector is expected to see an increase in output in the latter half of the year and continue thereafter. This is due to the government’s outline of several strategic initiatives in the 2023/2024 budget to boost production. These initiatives include: increasing allocations in the 2030 Agricultural Plan, obtaining technical assistance.
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from Cuba to support crop and livestock expansion, establishing an agricultural procurement facility, and increasing farm labour support.

• The fiscal balance is expected to improve with gradual fiscal consolidation; however, public debt will remain high over the medium term.

• Risks to the outlook are tilted to the downside. The imposition of a visa requirement by the UK could adversely impact inflows from the Economic Citizenship Programme, which can in turn slow down the execution of some public projects.

• Further, on-going exposure to plant diseases could undermine output in the agricultural sector. In addition, Dominica remains vulnerable to external shocks such as adverse weather and downturns in the economies of development partners and major tourism source markets.
## Selected Economic Indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2019H1</th>
<th>2020H1</th>
<th>2021H1</th>
<th>2022H1</th>
<th>2023H1</th>
</tr>
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<tbody>
<tr>
<td>Current Revenue (EC$M)</td>
<td>385.4</td>
<td>308.2</td>
<td>572.4</td>
<td>539.3</td>
<td>350.0</td>
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<tr>
<td>Current Expenditure (EC$M)</td>
<td>372.8</td>
<td>357.2</td>
<td>309.4</td>
<td>343.6</td>
<td>316.3</td>
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<tr>
<td>Current Balance (EC$M)</td>
<td>12.7</td>
<td>−49.0</td>
<td>263.0</td>
<td>195.7</td>
<td>33.7</td>
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<tr>
<td>Primary Balance (EC$M)</td>
<td>−194.0</td>
<td>47.3</td>
<td>−107.0</td>
<td>−79.0</td>
<td>−4.5</td>
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<tr>
<td>Overall Balance (EC$M)</td>
<td>−211.7</td>
<td>27.2</td>
<td>−122.7</td>
<td>−101.9</td>
<td>−28.4</td>
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<tr>
<td>Total Public Sector Debt (EC$M)</td>
<td>1,231.2</td>
<td>1,407.7</td>
<td>1,552.8</td>
<td>1,669.1</td>
<td>1,716.4</td>
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<tr>
<td>Inflation Rate (Y-o-Y)(end of period %)</td>
<td>2.1</td>
<td>−1.2</td>
<td>0.6</td>
<td>9.0</td>
<td>3.6</td>
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<tr>
<td>Total Visitor Arrivals</td>
<td>209,248.0</td>
<td>142,573.0</td>
<td>4,963.0</td>
<td>121,644.0</td>
<td>219,600.0</td>
</tr>
<tr>
<td>Total Visitor Expenditure (EC$M)</td>
<td>166.4</td>
<td>49.8</td>
<td>14.1</td>
<td>61.7</td>
<td>100.7</td>
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<tr>
<td>Net Foreign Assets (EC$M)</td>
<td>1,026.4</td>
<td>943.9</td>
<td>1,009.1</td>
<td>988.9</td>
<td>1,017.9</td>
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<tr>
<td>Domestic Credit (EC$M)</td>
<td>749.1</td>
<td>813.4</td>
<td>853.1</td>
<td>894.5</td>
<td>852.2</td>
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<tr>
<td>M2 (EC$M)</td>
<td>1,637.5</td>
<td>1,361.0</td>
<td>1,394.2</td>
<td>1,428.4</td>
<td>1,389.9</td>
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<tr>
<td>Currency in Circulation (EC$M)</td>
<td>110.9</td>
<td>102.5</td>
<td>100.2</td>
<td>111.8</td>
<td>118.2</td>
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<tr>
<td>Liquid assets to total assets</td>
<td>53.0</td>
<td>49.9</td>
<td>45.8</td>
<td>49.4</td>
<td>52.6</td>
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<tr>
<td>Liquid assets to short-term liabilities</td>
<td>58.9</td>
<td>56.9</td>
<td>53.6</td>
<td>56.7</td>
<td>61.8</td>
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<tr>
<td>Customer deposits to total (noninterbank)loans</td>
<td>175.0</td>
<td>158.9</td>
<td>154.0</td>
<td>160.2</td>
<td>162.9</td>
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<tr>
<td>Weighted Average Deposit Rate (%)</td>
<td>1.8</td>
<td>1.7</td>
<td>1.7</td>
<td>1.5</td>
<td>1.6</td>
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<tr>
<td>Weighted Average Lending Rate (%)</td>
<td>7.5</td>
<td>6.8</td>
<td>6.5</td>
<td>7.3</td>
<td>6.0</td>
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<tr>
<td>Interest Rate Spread (%)</td>
<td>5.8</td>
<td>5.0</td>
<td>4.8</td>
<td>5.7</td>
<td>4.4</td>
</tr>
<tr>
<td>Non-Performing Loans to Total Loans (%)</td>
<td>11.8</td>
<td>15.9</td>
<td>14.7</td>
<td>14.3</td>
<td>12.9</td>
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Data as at August 2023

Sources: ECCB & Central Statistics Offices

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