COMMONWEALTH OF DOMINICA

ANNUAL ECONOMIC AND FINANCIAL REVIEW

2023

EASTERN CARIBBEAN CENTRAL BANK

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ECONOMIC AND FINANCIAL REVIEW

COMMONWEALTH OF DOMINICA

EASTERN CARIBBEAN CENTRAL BANK

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Commonwealth of Dominica
Annual Economic and Financial Review - 2023

Eastern Caribbean Central Bank

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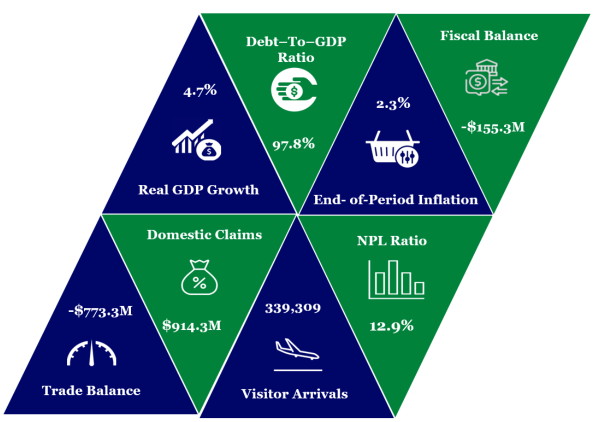
Overview[1]

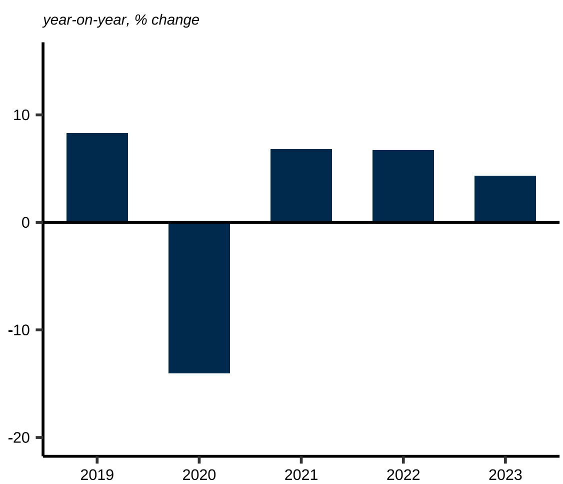
The economy of the Commonwealth of Dominica sustained its growth momentum in 2023, although at a more tempered pace. Real GDP grew by 4.7 per cent in 2023, compared with an increase of 5.6 per cent in 2022. The expansion in 2023 was largely driven by the implementation of public sector investment projects, recovery in the tourism sector, and strong growth in the services sector. The economy is expected to remain on an expansionary path in 2024 as stayover arrivals return to pre-pandemic levels, and priority infrastructure projects continue to advance.



The Economy (Real Sector)

The economy of the Commonwealth of Dominica remained on an expansionary path, with growth of 4.7 per cent in 2023 compared with growth of 5.6 per cent in 2022 (see Figure 1). The expansion was supported by growth in value-added in several economic sectors, including hotels and restaurants (25.4 per cent), wholesale and retail trade (13.0 per cent), transportation and communications (10.3 per cent), construction (5.9 per cent) and fishing (5.0 per cent).

Figure 1: Real GDP Growth Rates



Source: ECCB

[1] Photo Credit: Discover Dominica

By contrast, a decline in value added in the agricultural sector (2.3 per cent) was recorded. Lower output in the agricultural sector was attributed to a shortfall in farm labour support and decreased banana production as the crop continued to be impacted by the black sigatoka disease.

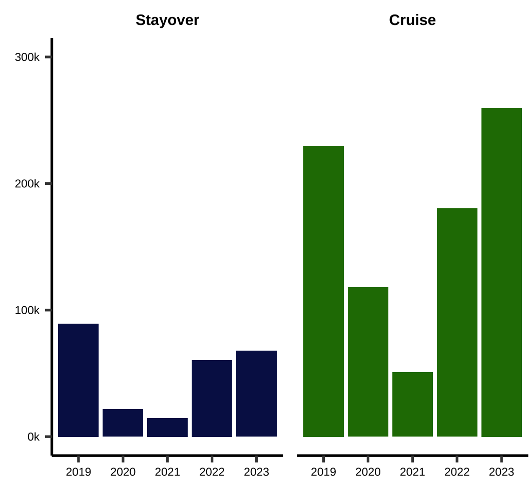
Despite falling output, the authorities have recognized agriculture as a key driver of medium term economic growth. The government has set an ambitious objective of increasing the sector's contribution to GDP to $700 million by 2030. Reflecting this focus, several initiatives to boost domestic production are on-going including the implementation of an import substitution strategy, diversifying away from banana production with a focus on climate resilient crops (root crops), the rehabilitation of supporting infrastructure such as propagation facilities and the pursuit of new export markets. As these expansion initiatives take hold, it is expected that agricultural output will increase.

The government has set an ambitious objective of increasing the sector's contribution to GDP to $700 million by 2030. Reflecting this focus, several initiatives to boost domestic production are on-going including the implementation of an import substitution strategy.

Tourism output continued to register healthy growth, supported by gains in the sea segment and the high value-added air segment, as the demand for travel from some source markets increased. Total visitor arrivals Total visitor arrivals rose by 37.2 percent to 339,309 in 2023. The expansion was due to growth in the cruise market segment, which increased to 259,751 from 180,125 in the previous year. Value-added in the air segment grew by 12.0 per cent to 67,764 though not yet surpassing the 2019 pre-pandemic level (see Figure 2). A breakdown of arrivals by source markets reflected increased stayover arrivals from Europe (24.0 per cent) and French West Indies (16.0 per cent).

Despite growth in stayover passengers in 2023, connectivity challenges persisted. However, the extension of the runway at the Douglas-Charles international airport was one of the measures that the authority has taken to improve accessibility. It is anticipated that this move will attract more international carriers, particularly from the US and European market which should positively impact the stayover market.

Figure 2: Visitor Arrivals in Selected Categories



Source: ECCB

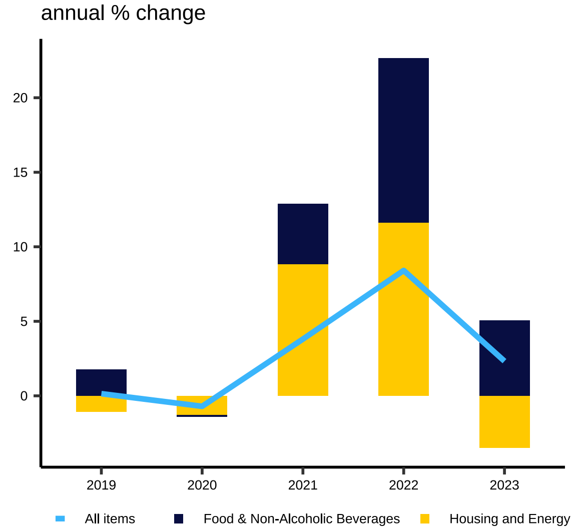
Implementation of the ambitious Public Sector Investment Program (PSIP) was the main driver of growth in construction. Construction activity expanded by 5.9 per cent after contracting by 3.8 per cent in the comparative period of 2022. Improvements in both public and private sector activity supported the sector's growth. Capital expenditure and net lending in the public sector registered a 35.9 per cent increase relative to 2022, totaling $557.4 million. This significant increase in capital outlay supported the on-going work on the flagship international airport, the geothermal development project, road rehabilitation, and the extensive resilient housing program.

In the private sector, construction activity also recorded significant growth, supported by a 71.0 per cent increase in the number of residential starts. Further, the on-going construction of the CBI funded private sector developments, including Ocean's Edge, Rainforest Eco-Resort, Marriott Resort, Tranquility Hilton, and the cable car project, also contributed to growth in the sector. It is anticipated that the completion of these major hotel developments will expand the room stock by 40 per cent to 1,400 rooms by the end of 2025.

Consumer Prices

Inflationary pressures eased as the rise in international oil prices moderated. The consumer price index (end of period) declined to 2.3 per cent in 2023 from a high of 8.4 per cent in 2022, as the rise in international oil prices moderated compared to the previous year. The 6.1 percentage point decline was supported by a 3.5 per cent contraction in prices in the housing and fuel sub-index, which is the heaviest weighted index (Figure 3). This outturn was consistent with a decline in international fuel prices and the decision by the authority to maintain the reduction in VAT on electricity, which was originally a temporary relief measure announced in the FY2022/23 budget on account of price pressures after the pandemic. Additionally, inflationary pressures eased in the following sub-indices: food and non-alcoholic beverages 5.1 per cent, alcoholic beverages, tobacco and narcotics 3.75 per cent, and transport 4.5 per cent.

Figure 3: Selected Categories of Inflation



Source: ECCB

Government Operations

The fiscal operations of the central government resulted in a widening of the overall deficit (after grants) to \$155.3m (8.8 per cent of GDP); from \$106.5m (6.5 per cent of GDP) in 2022. Similarly, there was a deterioration in the primary balance (after grants) as a deficit of \$107.7m (6.1 per cent of GDP) was realized compared with one of \$61.8m (3.8 per cent of GDP) in the previous year. Notwithstanding, the current account balance (after grants) improved in 2023, totaling \$381.4m compared with a surplus of \$232.6m in 2022 (Table 1).

Current revenue increased by 19.8 per cent to \$958.4m in 2023, due to improved performance in both the tax and non-tax revenue. Tax receipts were largely influenced by higher collections from taxes on profits and capital gains (20.7 per cent) and taxes on goods and services (9.4 per cent). Growth in non-tax revenue mainly reflected an increase in receipts from the Citizenship by Investment (CBI) programme (31.1 per cent).

Table 1: Central Government Fiscal Operations (EC\$M)

Item	2019	2020	2021	2022	2023
Current Revenue	649.2	547.6	868.6	799.8	**958.4**
Tax Revenue	433.7	319.6	341.4	351.2	**386.6**
Non-Tax Revenue	215.5	228.0	527.3	448.6	**571.8**
Current Expenditure	618.9	598.5	593.1	567.2	**577.0**
Current Account Balance (after Grants)	30.4	-50.9	275.6	232.6	**381.4**
Capital Revenue	1.1	2.0	0.0	8.7	**0.1**
Grants	26.0	175.6	62.7	62.2	**20.6**
Capital Expenditure and Net Lending	306.7	175.2	434.7	410.0	**557.4**
Primary Balance (after Grants)	-214.3	-13.9	-62.5	-61.8	**-107.7**
Overall Balance (after Grants)	-249.3	-48.6	-96.4	-106.5	**-155.3**
Financing	249.3	48.6	96.4	106.5	**155.3**

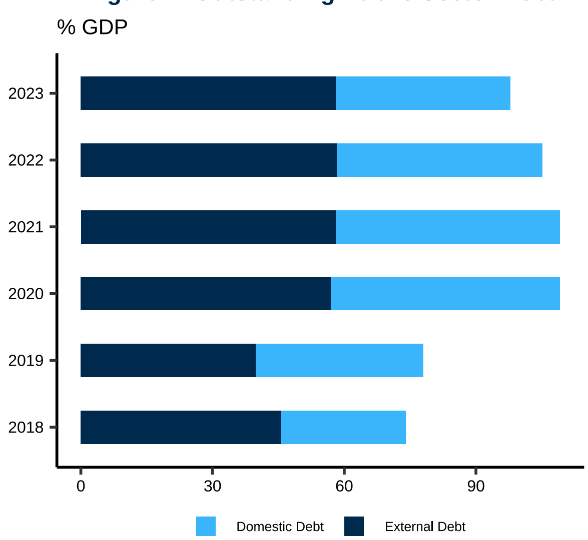
Note:
Sources: ECCB and National Statistics Office

Current expenditure rose by 1.7 per cent to $577.0m (32.7 per cent of GDP) mainly reflecting a 12.6 per cent growth ($15.2m) in transfers and subsidies attributed to a change in the remuneration arrangement (reclassification) for hospital staff. Due to this reclassification, there was a corresponding decline in the public wage bill in 2023 when compared to 2022. Capital expenditure and net lending increased by 35.9 per cent to $557.4m (31.6 percent of GDP) to support the government's priority infrastructure projects.

Debt

While public debt has improved slightly, the ratio is still well above the regional benchmark of 60 per cent. The debt-to-GDP ratio registered a 7.4 percentage point decline, moving to 97.8 per cent in 2023 from 105.1 per cent in 2022 (Figure 4). In nominal terms, the total disbursed outstanding public sector debt increased marginally by 0.2 per cent to $1,726.5m at the end of 2023 from $1723.5m in 2022. However, growth in gross domestic product outpaced the increase in nominal debt, which contributed to the ratio falling below 100 per cent.

Figure 4: Outstanding Public Sector Debt



Source: ECCB

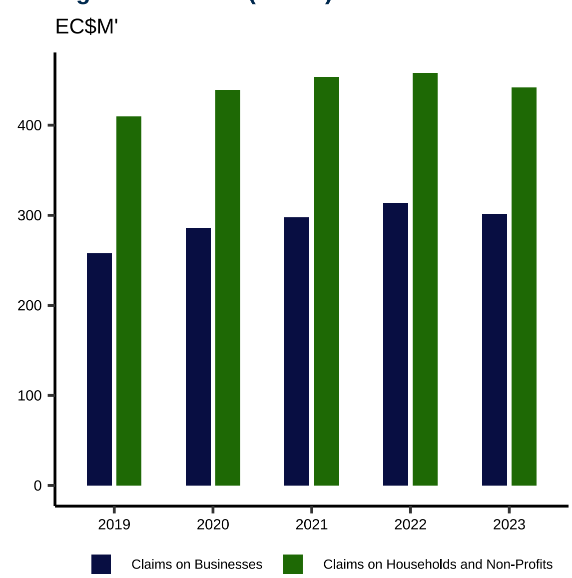
Further disaggregation of the outstanding balances indicates that public sector external debt registered an increase of $68.4m (7.2 per cent) mainly due to net disbursements from multilateral creditors including the World Bank and the Caribbean Development Bank. Conversely, public sector domestic debt registered a decline of $65.4m (8.5 per cent) as a result of net payments to domestic creditors.

Banking Developments

Commercial bank lending was subdued in 2023. Domestic claims (credit) in the banking sector decreased by 5.6 per cent to $914.3m during the period under review. This outturn was influenced by a contraction in lending to other financial corporations (non-bank financial institutions) (7.1 per cent), businesses (3.8 per cent) and households and non-profit institutions (3.4 per cent) (Figure 5).

The decline in domestic credit also reflected a contraction (15.9 per cent) in net claims on general government, stemming from a contraction in credit to government by $20.4m (4.8 per cent) which was partially offset by an increase in government deposits by $2.5m (0.8 per cent).

Figure 5: Claims (Credit) on Selected Sectors



Source: ECCB

Broad money liabilities (M2), which comprise currency issued and bank deposits, fell

marginally by 0.5 per cent during 2023 to an aggregate value of $1,390.5m (78.7 per cent of GDP). This outturn was influenced by contractions in the two major components comprising quasi money – foreign currency deposits $7.2m (19.5 per cent) and other deposits in national currency $4.2m (0.5 per cent). Notwithstanding, growth in narrow money (M1) of $5.1m (1.0 per cent) served to temper the overall decline.

Banks remained liquid while the share of non-performing loans declined. Monetary trends featured an expansion in banking sector liquidity, as the share of liquid assets to total assets grew by 2.3 percentage points to 50.5 per cent (considerably above the ECCB minimum benchmark of 20.0 per cent). The ratio of non-performing loans to gross loans stood at 12.9 per cent, roughly 0.9 percentage point below the corresponding period in 2022, but above the ECCB's limit of 5.0 per cent.

External Trade

The trade balance widened to $773.3m as imports of capital goods surged to support the on-going public sector projects. The merchandise trade deficit expanded by 16.5 per cent to $773.3m (43.8 per cent of GDP) in 2023, reflecting a year over year increase in the deficit. Overall, expenditure on imports increased by 13.0 per cent to $814.6m primarily due to a rise in import values across major sub-categories, including mineral fuels and related materials (26.9 per cent), machinery and transport equipment (25.0 per cent), beverages and tobacco (18.2 per cent) and food and live animals (9.0 per cent).

Conversely, earnings from merchandise exports fell to $41.3m in 2023, accounting for an overall decline of 27.3 per cent ($15.5m) in contrast to growth of 3.0 per cent ($1.6m) in the same period last year. The major export categories that experienced significant declines included food and live animals (53.5 per cent) and crude materials (30.8 per cent).

Outlook

Despite challenges, the outlook remains optimistic. This is bolstered by the anticipated full rebound of stayover arrivals, the implementation of key investment plans, and a focus on sound fiscal management. The on-going construction of the new international airport and hotel projects, the transition to geothermal energy, and continued efforts to build resilient infrastructure are expected to yield long-term growth dividends. The current account deficit should narrow in the medium term as agricultural and service exports increase while imports of investment goods and fuel decline.

In price developments, inflation is projected to continue to trend downward as improvements in global oil prices persist. On the fiscal front, an ambitious fiscal consolidation effort is needed to achieve objectives under the Fiscal Responsibility law enacted in 2021, in order to reduce public debt. In accordance with the fiscal rule, the authority would be required to take steps to achieve a minimum primary surplus of 2.5 per cent of GDP by FY 2026/2027. As such, the upcoming FY 2024/2025 budget should identify savings over the next three years towards achieving the required primary balance. Further, the consolidation effort should be underpinned by an improvement in the overall tax revenue administration function and rationalization of expenditure.

However, downside risks persist due to an uncertain global environment, climate change, and volatile CBI flows. Several external factors weigh heavily on economic gains. Geopolitical tensions and tightening of financial conditions can potentially negatively impact international trade, commodity prices and global demand. Further, the impact of natural disasters linked to climate change threatens output and capital. Critically, shortfalls in CBI inflows could impede the completion of planned infrastructure projects including the timely completion of major hotel projects and overall activity in the construction sector.

Monetary sector developments will continue to include elevated levels of liquidity as commercial banks maintain their conservative lending posture. However, the current financial environment should encourage the strengthening of lending to the private sector, given its anticipated positive impact on economic activity.

Selected Economic Indicators

Item	2019	2020	2021	2022	2023
National Income and Prices (Annual % change)					
Nominal Gross Domestic Product (GDP) at Market Prices	10.2	-17.5	10.1	9.3	7.7
Real GDP at Market Prices	5.5	-16.6	6.9	5.6	4.7
Consumer Prices (end of period)	0.1	-0.7	3.8	8.4	2.3
Consumer Prices (period average)	1.5	-0.7	1.5	7.8	3.5
Real Gross Value Added (GVA) at basic prices (%)					
Agriculture, Livestock and Forestry	22.6	3.1	24.4	-1.0	-2.3
Manufacturing	-9.8	4.6	-8.4	15.9	1.0
Construction	-7.8	-56.5	15.8	-3.8	5.9
Wholesale and Retail Trade	3.7	-28.4	7.7	7.3	13.0
Hotels and Restaurants	17.7	-62.1	-14.1	85.9	25.5
Transport, Storage and Communications	-0.3	-31.5	3.6	50.9	10.3
Financial Intermediation	31.4	7.8	6.0	0.3	-0.2
Real Estate, Renting and Business Activities	14.7	-2.1	1.8	3.7	2.8
Public Administration, Defence & Compulsory Social Security	8.2	2.6	4.6	-2.6	0.6
Total Public Sector Debt (% GDP)					
Total Public Sector Debt	78.0	109.1	109.2	105.1	97.8
Public Sector External Debt (end-of-period)	39.9	56.9	58.1	58.4	58.1
Central Government Finances (in XCD millions)					
Current Account Balance	30.4	-50.9	275.6	232.6	381.4
Current Revenue	649.2	547.6	868.6	799.8	958.4
Current Expenditure	618.9	598.5	593.1	567.2	577.0
Capital Expenditure and Net Lending	306.7	175.2	434.7	410.0	557.4
Overall Fiscal Balance	-249.3	-48.6	-96.4	-106.5	-155.3
Monetary Sector (% p.a.)					
Weighted Deposit Interest Rates	1.7	1.8	1.6	1.6	1.6
Weighted Lending Interest Rates	7.5	6.5	5.9	6.2	5.9
Non-Performing Loans Ratio (%)	12.2	15.0	15.7	13.8	12.9
Memorandum items (in XCD millions, unless otherwise stated)					
Nominal GDP at Market Prices	1,651.1	1,361.4	1,499.2	1,639.3	1,765.8
Real GDP at Market Prices	1,246.9	1,039.8	1,111.5	1,173.5	1,228.8
GDP per capita (EC$)	18,440.4	15,426.0	16,845.0	19,155.7	20,358.5
Merchandise Imports (f.o.b)	862.0	575.5	621.1	720.8	814.6
Merchandise Exports	50.1	44.5	55.1	56.8	41.3
Gross Visitor Expenditure	328.4	57.4	44.5	163.1	193.1
Net Foreign Assets	847.6	962.6	970.5	925.5	948.6
Domestic Credit	827.4	842.4	951.2	968.6	914.3
Money Supply (M2)	1,574.2	1,389.1	1,414.5	1,396.8	1,390.5
Currency in Circulation	117.0	108.3	115.7	126.8	118.8

Note:

Data as at 23 February 2024

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

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