COMMONWEALTH OF DOMINICA

ECONOMIC AND FINANCIAL REVIEW

June 2024

Eastern Caribbean Central Bank

JUNE 2024

ECONOMIC AND FINANCIAL REVIEW

COMMONWEALTH OF DOMINICA

EASTERN CARIBBEAN CENTRAL BANK

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Commonwealth of Dominica
Economic and Financial Review - June 2024

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Visitor arrivals **increased** in the first half of June 2024 to **257,588**, a **2.4 per cent** expansion over the corresponding period.

The consumer price index (end of period) is estimated to have **fallen** to **2.6 per cent** in June 2024, from 3.5 per cent in the corresponding period of 2023.

The total disbursed outstanding debt of the public sector **decreased by 2.7 per cent** to **$1,686.2m** at the end of June 2024.

The overall deficit (after grants) **narrowed** in the first half of 2024 to **$71.4m**, compared with $119.9m in the comparative period.

The commercial banks' loan portfolio quality **improved** as the non-performing loans ratio fell by **1.6 percentage points to 11.2 per cent** during the year ended June 2024.

The merchandise trade deficit **narrowed** in the first half of 2024 to **$335.0m** from $387.1m in the same period in 2023.

> "**Strong economic activity is expected to continue in the second half of 2024 supported by tourism, construction, and increased agricultural output**"

Overview[1]

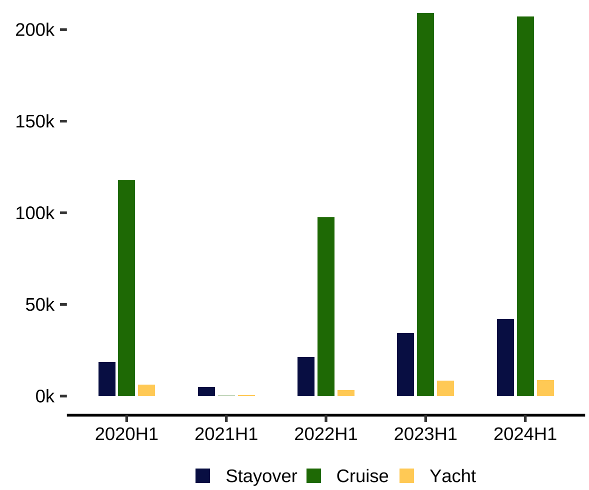
- Economic activity in the Commonwealth of Dominica expanded in the first half of 2024 underpinned by continued recovery in tourism, ongoing construction activity, and increased manufacturing output.
- The consumer price index (CPI) moderated in 2024, as the rise in international commodity prices slowed, relative to the same period last year.
- A lower overall deficit was recorded in government finances, due to a contraction in total expenditure and steady revenue growth. Notwithstanding, public debt remained elevated.
- Monetary trends in the first half of the year resulted in a notable expansion of domestic credit to several key economic sectors.
- The Commonwealth of Dominica's economy is expected to grow, driven by tourism and the government's transformative agenda. However, global instability, volatile commodity markets, uncertainties in the citizenship by investment programme and climate-related risks may pose potential obstacles to this growth.

The Economy (Real Sector)

Preliminary data during the first half of the year indicated that the economy of the Commonwealth of Dominica sustained its growth momentum, although at a more tempered pace. Tourism output continued to register healthy growth with positive spillovers in supporting sectors such as wholesale and retail trade; transport and storage; and real estate activities.

Tourism metrics for the first six months of 2024 suggest that the sector maintained its growth trajectory, undergirded by gains in total visitor arrivals. Overall, visitor arrivals increased to 257,588, a 2.4 per cent expansion over the corresponding period in 2023. This growth was primarily attributed to an increase in the number of stayover and yacht tourists (Figure 1).

Figure 1: Visitor Arrivals in Selected Categories



Source: ECCB

Stayover arrivals registered growth of 22.2 per cent to 41,742, largely due to an increase in visitors from the major source markets though still lagging pre-pandemic levels. More specifically, growth was recorded for visitors from USA (20.6 per cent), Canada (8.1 per cent), UK (4.8 per cent) and other countries (63.2 per cent). This outturn was, in part, the result of the introduction of additional airlift from the US and visibility of the destination by major international travel brands. Although growth was evident in the key stayover source markets, the Caribbean, which represents the largest share of the market, experienced a 7.3 per cent decline to 11,627. Notwithstanding, the lagging recovery of stayover tourist arrivals to pre-pandemic norms may be a temporary phenomenon, reflecting air connectivity challenges. The runway extension project is anticipated to alleviate some of the previous airlift constraints and ultimately enable the tourism sector to

[1] Photo Credit: Discover Dominica

recover to pre-pandemic visitor levels.

Yacht passengers, witnessed a modest increase of 3.9 per cent, reaching 8,532 in June 2024 compared to 8,215 in the corresponding period.

While the tourism sector exhibited growth, it was tempered by a slight decrease in cruise arrivals, in spite of an increase in the number of cruise ship calls (Figure 1). Additionally, excursionists, who represent the smallest segment of total visitors, experienced a notable 23.9 per cent decline.

The manufacturing sector experienced strong growth as the volume of output increased. Supported by local demand, the production of beverages increased by 12.0 per cent to 139,057 cases relative to the output of 124,150 cases in the corresponding period of 2023. Similarly, the output of paints increased by 13.2 per cent to 105,456 gallons relative to the production of 93,162 gallons in the same period last year. Additionally, output of soap increased by 19.2 per cent, representing an improvement from the decline of 14.2 per cent in the comparative period.

Agricultural yields experienced a notable downturn. Banana production is estimated to have contracted by 5.4 per cent to 262.6 tonnes, relative to the first half of 2023. This outturn is reflective of the ongoing challenges confronting the sector including shortages of farm labour, pest and diseases. Notwithstanding, the authority continues to strategically invest resources in the sector in an effort to expand output and achieve sustainable growth.

The commissioning of a state-of-the-art agricultural science complex is expected to facilitate the production of high quality disease resistant seedlings. This aligns with the national strategy to transform the agricultural sector and promote a viable and sustainable food system to supply the local market and facilitate exports.

The construction sector demonstrated a sustained level of activity consistent with the authority's resilience and growth plans. The ongoing construction of key public infrastructural projects such as the flagship international airport, resilient housing infrastructure, a Cable car project and the extensive construction and rehabilitation of roads, bridges and other works, have resulted in vibrant activity in the construction sector.

Private construction also remained buoyant, mainly due to the on-going works on several CBI funded properties, including Tranquility Beach Resort (Hilton hotel), Anichi Resort and Spa (Marriott hotel), Ocean's Edge and Sanctuary Rainforest Eco Resort & Spa.

The completion and commissioning of these resorts will add to the total number of quality rooms available on island to cater to the stayover industry. Additionally, there has been a substantial growth in residential development on the island, as the number of new construction projects more than doubled since the previous year.

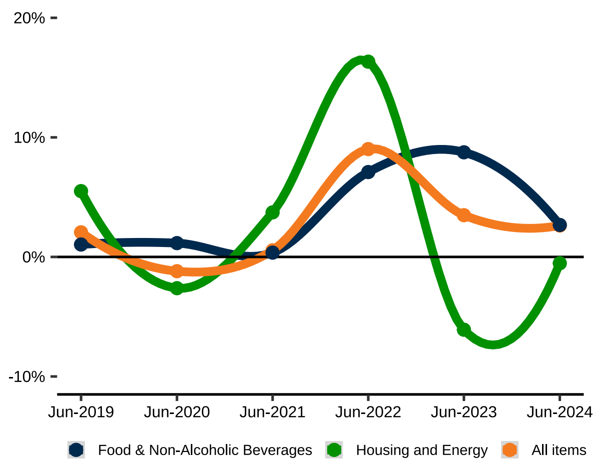
Consumer Prices

Inflationary pressures eased due to a softening in global commodity prices. Inflation slowed (as at end of period) at a rate of 2.6 per cent in June 2024, from 3.5 per cent in the corresponding period of 2023 (Figure 2). The reduction in the index generally reflected lower prices for food and non-alcoholic beverages (2.7 per cent), alcoholic beverages and tobacco (1.1 per cent) and transport (6.5 per cent).

The lower overall price level was moderated by an increase in housing, water, electricity and gas sub-index (5.6 percentage points) which has the largest weighting of the sub-indices which comprise the consumer basket.

Figure 2: Selected Categories of Inflation

end-period, y-o-y



Source: ECCB

Government Operations

Preliminary fiscal data [2] indicate that the overall deficit (after grants) narrowed in the first half of 2024 to $71.4m, compared with $119.9m in the comparative period. A current account surplus of $454.1m was recorded, while the government's primary deficit (after grants) improved to $51.4m from $92.5m (Table 1).

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

Item	2020H1	2021H1	2022H1	2023H1	2024H1
Current Revenue	308.2	572.4	539.3	772.4	**786.3**
Tax Revenue	158.3	172.0	181.0	210.0	**207.6**
Non-Tax Revenue	149.9	400.4	358.3	562.4	**578.7**
Current Expenditure	357.2	309.4	343.6	356.8	**332.2**
Current Account Balance (after Grants)	-49.0	263.0	195.7	415.6	**454.1**
Capital Revenue	0.1	0.0	0.1	0.1	**18.2**
Grants	166.1	26.0	50.1	13.9	**3.5**
Capital Expenditure and Net Lending	89.9	358.4	347.8	548.8	**545.4**
Primary Balance (after Grants)	47.3	-53.7	-79.1	-92.5	**-51.4**
Overall Balance (after Grants)	27.2	-69.3	-102.0	-119.9	**-71.4**

* Sources: ECCB and National Statistics Office

Current revenue increased by 1.8 per cent to $786.3m. Of this total, tax revenue amounted to $207.6m, which marked a fall of 1.2 per cent ($2.5m) from the comparative period. The outturn reflected declines in the yield from corporation tax by 15.9 per cent ($3.4m) and taxes on goods and services by 2.8 per cent ($3.3m). By contrast, non-tax revenue rose by 3.0 per cent ($16.3m) associated with higher receipts from the non-CBI related fees and modest growth (0.5 per cent) in CBI inflows.

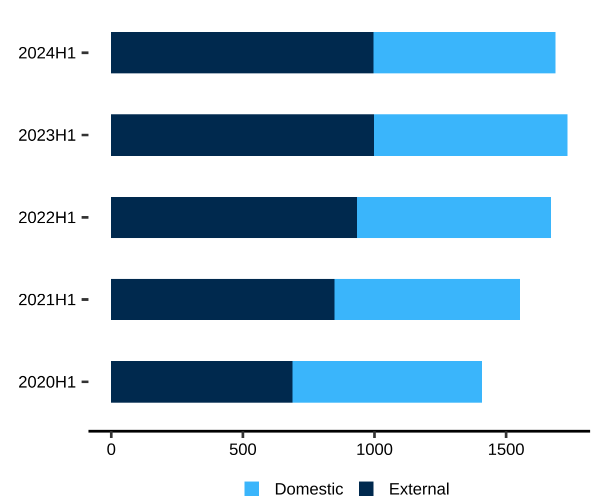
During the period under review, current expenditure contracted by 6.9 per cent to $332.2m. This outturn mainly reflected a reduction in spending on transfers and subsidies (16.8 per cent) and goods and services (5.8 per cent). In line with the country's economic modernization and resilience building agenda, capital expenditure remained robust at $547m; though a marginal decline of 0.4 per cent ($2.2m) was recorded for the period.

Debt

Public debt continued to decline gradually but remains vulnerable to shocks. The total disbursed outstanding debt of the public sector decreased by 2.7 per cent to $1,686.2m at the end of June 2024 (Figure 3). This outturn was primarily as a result of a 2.5 per cent decline in central government debt, the larger component of public debt. Public corporation debt, which accounts for 8.3 per cent of total debt, declined by 4.7 per cent to $140.1m.

Figure 3: Outstanding Public Sector Debt (EC$M)

Stock -End-of-period



Source: ECCB

[2] ECCB estimates

A further disaggregation of the outstanding balances indicate that public sector external debt registered a marginal decline of $1.5m (0.1 per cent) mainly due to net principal repayments. Likewise, public sector domestic debt registered a decline of $44.7m (6.1 per cent) primarily due to net payments to local suppliers.

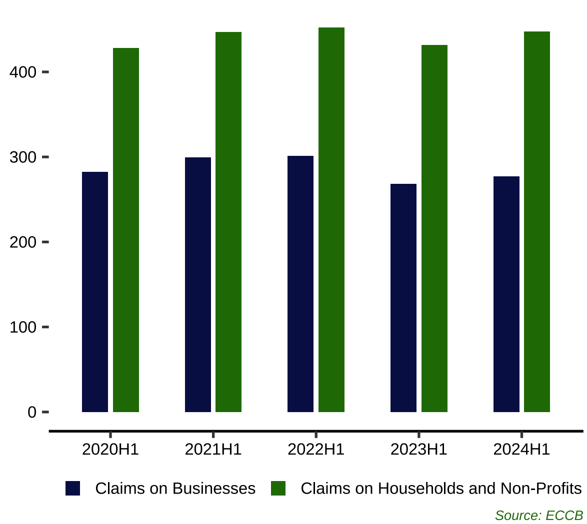
Banking Developments

In line with the broader economic activity, commercial bank credit expanded moderately in the first half of 2024. Domestic claims (credit) in the banking sector grew by $66.4m (7.8 per cent) to $918.6m at the end of June 2024 (Figure 4). This outturn was supported by an expansion in credit to the general government and other sectors in the economy. Credit to the general government expanded by 48.8 per cent ($50.1m), while government deposits declined by 9.5 per cent.

Similarly, commercial bank credit to other sectors grew by 2.2 per cent ($16.3m) marked by an expansion in credit to household and non-profit institutions (3.7 per cent) and private businesses (3.3 per cent). Notwithstanding, the growth in credit was moderated by a 17.1 per cent ($8.5m) contraction in credit to non-bank financial institutions.

Figure 4: Claims (Credit) on Selected Sectors (EC$M)

Stock - end-of-period



An analysis of the distribution of commercial bank credit (loans) by economic sector indicated that total outstanding loans and advances grew year on year by $48.6m (4.6 per cent) to $1,102m relative to a contraction of 3.6 per cent during the first half 2023. Growth in total outstanding credit was recorded in several economic sectors, inter alia commercial land purchases (99.1 per cent), transport and storage (14.5 per cent), public administration (10.7 per cent) and manufacturing (9.7 percent). These expansions were moderated by a contraction in credit allocated to the agriculture, forestry and fishing sector (31 per cent), house and land purchases (16.4 per cent) and public utilities (6.7 per cent).

Broad money liabilities (M2), which comprise of currency issued and bank deposits, grew at a marginal pace of 0.7 per cent to an aggregate value of $1,398.9m year on year. This outturn was influenced by an increase of 2.1 per cent in narrow money (M1), reflected in the growth of currency outside depository corporation (4.1 per cent) and transferable deposits (1.6 per cent). However, the growth in deposits was partially offset by a contraction in quasi money, the larger component of M2.

The financial sector remained sound, as banks were well capitalized and liquid. The ratio of liquid assets to total assets declined by 2.6 percentage points to 49.9 per cent at the end of June 2024 relative to June 2023, but it remained well above the ECCB's benchmark of 20 per cent. Consistent with an expansion of credit, the ratio of total non-interbank loans to total non-interbank deposits grew by 4.9 percentage points to 58.8 per cent year on year, however, still well below the ECCB's benchmark range of 75.0 to 85.0 per cent. The commercial banks' loan portfolio quality improved as the non-performing loans ratio fell by 1.6 percentage points to 11.2 per cent during the year ended June 2024. Notwithstanding, the ratio remained elevated, well above the ECCB's prudential limit of 5.0 per cent.

External Trade

Preliminary estimates for the first half of 2024 indicate that the merchandise trade deficit narrowed to $335.0m from $387.1m in the same period in 2023. This outturn was largely attributed to a contraction in imports and exports. The value of merchandise imports decreased by 14.1 per cent to $349.4m, primarily due to a decline in import values across all the subcategories of imports including beverages and tobacco (34.5 per cent), animal and vegetable oil (31.7 per cent), food and live animals (25.4 per cent), and machinery and transport equipment (21.8 per cent). Earnings from merchandise exports fell to $14.3m in June 2024, compared to $19.4m in the same period last year. The export values across the major subcategories including food and live animals, beverages and chemical and related products declined. However, this development is expected to be transitory, as efforts are underway to secure and expand export markets for local production in the near-term.

Outlook

Strong economic activity is expected to continue in the second half of 2024 supported by tourism, construction, and increased agricultural output.

- Strategic interventions by the government aimed at enhancing the tourism product and strengthening the capacity and effectiveness of the tourism authority are expected to bolster tourism activity. The expansion of the airport runway is expected to increase airlift in the near-term and boost growth in the stayover market. Further, the hosting of the Creole Music Festival in the second half of the year is expected to add to tourism demand. Looking further ahead, efforts to expand the room stock with the addition of new internationally branded hotels within the next two years will serve to attract new and repeat tourist to the island.
- Public sector construction is expected to maintain its momentum in the second half of the year as the authority continues to invest in critical infrastructure, including the new international airport, the new marina, upgrades to the road and bridge network and the Roseau Enhancement project. Further, these investments are expected to have spillover effects in other sectors and the overall economy.
- Larger contributions to growth from the agriculture sector are anticipated as initiatives such as the commissioning of a state-of-the-art agriculture lab, rehabilitation of plant propagation facilitates, new irrigation and water storage systems, and support for the Dominica Export Import Agency are operationalized.
- The fiscal balance is expected to improve albeit gradually. Although tax revenues are expected to increase, a primary deficit is forecasted at the end of the year mainly due to significant capital expenditure on key sectors including agriculture, digitalization, housing and road rehabilitation works. However, as these projects come to an end and capital expenditure reduces, the fiscal balance is expected to improve over time.
- The outlook is subject to downside risks, especially from climate change, volatile tourism receipts, commodity prices, and CBI revenue. Heightened geopolitical tensions coupled with volatility in oil prices could disrupt travel activity. An escalation of trade tensions could further raise near-term risks to inflation by increasing the cost of imported goods along the supply chain. Further, shortfalls in CBI inflows could impede timely completion of major infrastructural projects essential to shore up growth in the near to medium term.

Box 1: FY2024/2025 Budget Summary

The Minister of Finance for the Commonwealth of Dominica presented the FY2024/2025 budget under the theme **"Partnering to Build a Platform for Sustainable Growth and Development."**

The 2024/2025 budget aims to build a resilient Dominica characterized by competitiveness, diversification, inclusivity and abundant economic prospects. Consistent with these objectives, the government announced an ambitious expenditure plan to the tune of $1,641.0m. Of this amount, $934.0m was allocated to capital expenditure in keeping with its resilience building agenda. To finance its key plans and programmes, the government envisages total receipts amounting to $1,502.4m comprising recurrent revenue of $1,202.5m, capital revenue of $5.2m, grants equivalent to $112.4m and loan funds amounting to $182.3m.

Receipts from the Citizenship by Investment Programme (CBI) have been the dominant source of government income for the past five years. This trend continues in the current fiscal year, with CBI receipts projected to account for $760.0m (63 per cent) of current revenue.

Through strategic partnerships with the private sector, the Government outlined its plans to develop the productive sectors, namely, agriculture, tourism, the blue economy, renewable energy and the digital economy, for sustainable growth and development. Moreover, critical infrastructure, such as, the international airport, geothermal development, cable car project, and on-going road rehabilitation, are expected to provide job opportunities and accelerate growth in the near to medium term.

Notwithstanding, the government's expansionary fiscal stance could impact the public debt trajectory potentially causing further delays in meeting the regional debt target by 2035. This year's primary deficit is projected to reach 8.8 per cent of GDP,[a] deviating substantially from the required 2.0 per cent surplus by 2026 mandated by law. Also, the potential for significant fluctuations in CBI receipts poses a risk to the budget's stability and could undermine economic growth prospects.

[a] FY2024/2025 Budget estimates

Selected Economic Indicators

Item	2020H1	2021H1	2022H1	2023H1	2024H1
Banking and Monetary					
Net Foreign Assets (EC$M)	943.9	1,009.1	988.9	1,017.9	946.1
Domestic Credit (EC$M)	813.4	853.1	894.5	852.2	918.6
M2 (EC$M)	1,361.0	1,394.2	1,428.4	1,389.9	1,398.9
Currency in Circulation (EC$M)	102.5	100.2	111.8	118.2	117.8
Liquid assets to total assets	49.9	45.8	49.4	52.6	50.0
Liquid assets to short-term liabilities	56.9	53.6	56.7	61.8	56.8
Customer deposits to total (noninterbank)loans	158.9	154.0	160.2	162.9	153.5
Weighted Average Deposit Rate (%)	1.7	1.7	1.5	1.6	1.6
Weighted Average Lending Rate (%)	6.8	6.5	7.3	6.0	5.9
Interest Rate Spread (%)	5.0	4.8	5.7	4.4	4.3
Non-Performing Loans to Total Loans (%)	15.9	14.7	14.3	12.9	11.2
Real Sector and Prices					
Inflation Rate (year-on-year)(end-June) (%)	−1.2	0.6	9.0	3.5	2.6
Inflation Rate (half-year) (%)	−0.7	0.5	5.6	0.8	0.9
Total Visitor Arrivals	142,573	4,963	121,644	251,449	257,588
Total Visitor Expenditure (EC$M)	49.8	14.1	61.7	106.2	122.0
Government Finances					
Current Revenue (EC$M)	308.2	572.4	539.3	772.4	786.3
Current Expenditure (EC$M)	357.2	309.4	343.6	356.8	332.2
Current Balance (EC$M)	−49.0	263.0	195.7	415.6	454.1
Primary Balance (EC$M)	47.3	−53.7	−79.1	−92.5	−51.4
Overall Balance (EC$M)	27.2	−69.3	−102.0	−119.9	−71.4
Total Public Sector Debt (EC$M)	1,407.7	1,552.8	1,669.1	1,732.5	1,686.2

Data as at August 2024

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