

# DOMINICA

**Table 1** **2020**

Population, million	0.1
GDP, current US\$ billion	0.5
GDP per capita, current US\$	6936.9
School enrollment, primary (% gross) <sup>a</sup>	100.4
Life expectancy at birth, years <sup>a</sup>	76.6

Source: WDI, Macro Poverty Outlook, and official data.  
Notes:  
(a) Most recent WDI value (2018).

*Dominica's economy contracted by 10 percent in 2020 following COVID-induced shocks and the sudden stop in tourism. Poverty is expected to have increased due to this decline in economic activity. Fiscal pressures remain acute, highlighting the need for fiscal consolidation and increased fiscal resilience. Risk of debt distress remains high. As the pandemic subsides, medium-term growth prospects appear favorable as Dominica begins its transition to a more climate- and disaster-resilient economy.*

## Key conditions and challenges

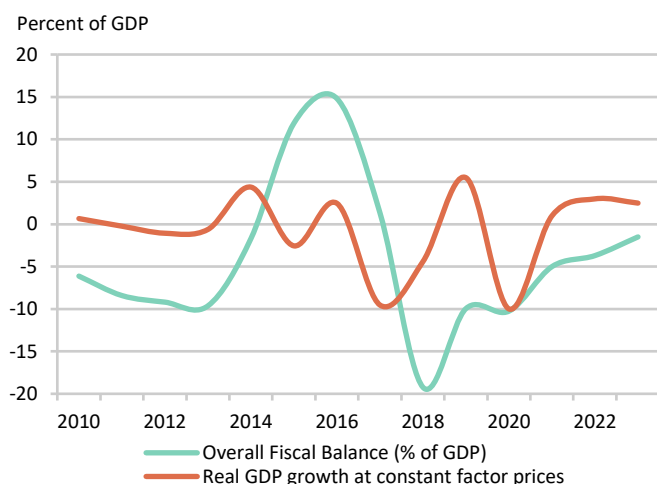
Dominica is a small island developing state with an economy driven largely by tourism and agriculture. Tourism accounts for close to 25 percent of GDP and employment. This makes the country vulnerable to climate change, natural disasters and external economic shocks. The government has a well-articulated Climate Resilience and Recovery Plan (CRRP) 2020-2030 to rebuild Dominica as the world's first fully climate resilient nation. In line with CRRP targets, the government had begun to implement measures aimed at building-back-better following Hurricane Maria (September 2017), including more robust public infrastructure, improved housing, strengthening of health systems climate resilient agriculture, geothermal power investment, and a fiscal consolidation of 6 percent of GDP over 6 years. This agenda, though challenging, was a clear step toward improving fiscal, environmental, and social resilience in a high-risk environment. The COVID-19 shock to growth and public finances occurred when Dominica was still undertaking reconstruction, rehabilitation, and recovery efforts following damages caused by Hurricane Maria (226 percent of GDP), further exacerbating fiscal and public debt challenges. The global recession, disruptions in international trade and travel, and local containment measures have nearly

halted tourism and adversely affected domestic production. The precise poverty and welfare impact of the current challenging economic and social conditions remain unclear, though there is a reasonable expectation that poverty levels have worsened. The latest poverty data are from 2008. With an estimated headcount rate of 28.8 percent, data indicated a strong downward trend in poverty rates at that time. However, Dominica's vulnerability to catastrophic weather events was evident in the period since then. Estimates indicate that poverty increased to 43 percent after Hurricane Maria in 2017. Economic recovery in 2018 and 2019 may subsequently have lowered poverty, but COVID-19 has likely reversed these recent gains.

## Recent developments

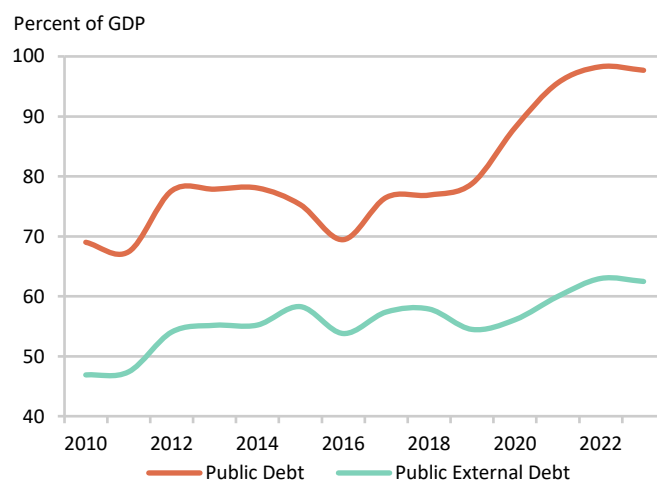
GDP is estimated to have contracted by 10.0 percent in 2020. COVID-19 has impacted growth through several channels, including: the near complete stop in tourism; COVID-related restrictions on domestic activities; lower foreign direct investment (FDI); and falling Citizenship-by-Investment (CBI) revenues. Expectations are that poverty indicators have worsened as household income from tourism-related occupations has fallen significantly and households indirectly dependent on tourism have also been affected. Women are expected to have been especially affected, due to their high participation in the services and informal sectors. Dominica was effective

**FIGURE 1 Dominica / Real GDP and fiscal balance**



Sources: Government of Dominica (2020), World Bank staff estimates.

**FIGURE 2 Dominica / Public debt**



Sources: World Bank staff estimates.

in controlling COVID-19 transmission and has so far experienced relatively few cases and no deaths. The government distributed transfers under a variety of social protection and business continuation programs, particularly targeting people who had lost income because of the pandemic, the poor, and the elderly. Agriculture has also rebounded to a considerable degree post-Hurricane Maria and government stimulus programs have focused on local community economic activities. However, these measures are unlikely to have fully offset the impacts on poverty.

Fiscal and debt metrics have deteriorated with an overall fiscal deficit of 10.2 percent of GDP in FY2020 (July 2019-June 2020) following decreased revenues, increased COVID-related expenditures, and lower CBI revenues. Pre-COVID-19, the FY2020 fiscal deficit had been projected at 3.8 percent of GDP, which represents a 6.4 percent of GDP deterioration in the fiscal account resulting from the pandemic. A fiscal deficit of 5.0 percent of GDP is projected in FY2021. Tax revenue projections remain muted given the global recession and ongoing tourism constraints, though budget expenditures are expected to fall modestly going forward as COVID-19 support programs wind down. Public debt levels increased from 78.8 percent of GDP in 2019 to 88.1 percent in 2020, and

are expected to peak at 98.3 percent in 2022, declining thereafter. Pre-COVID-19 debt levels had been forecast to peak at 80 percent of GDP in 2020 following post-Hurricane Maria reconstruction.

## Outlook

Growth in 2021 remains uncertain and dependent on pandemic developments. The 2021 peak tourism season is considered lost; as such, 2021 growth projections are estimated to be in the range of 1.0 percent. Post-COVID-19 efforts to boost climate resilience, including investments in energy infrastructure, port and airport modernization, and agricultural productivity should contribute to increased growth prospects over the medium term. Fewer losses and damages post-disaster, and a more climate- and disaster-resilient economy over the long term are also seen as growth-enhancing. Success in transitioning to a more climate-resilient economy and will depend on necessary domestic fiscal consolidation as well as donor support. Inflationary pressures are expected to remain low and stable, and external imbalances, remain well-managed by the Eastern Caribbean Central Bank. Considering that

macro-economic instability, natural disasters, and inflation are considered to be key drivers of poverty in Dominica, increased growth, reduced post-disaster losses, and low inflation are all expected to contribute to a reduction in poverty rates in the medium term. There is an urgent need for improved poverty data.

There continue to be risks emanating from the COVID-19 pandemic and from potential natural disasters. Risks also include public financing uncertainties, possible financial sector instability, the loss of physical capital, rising public debt vulnerabilities, and transitory increases in poverty. A struggling economy will exert further strain on a very difficult fiscal position and perhaps aggravate financial instability from previously weakened bank balance sheets post-hurricane. These pressures will occur in an environment where transition to a fully climate-resilient economy requires additional efforts to strengthen fiscal consolidation.

Post-pandemic, the government's challenge will be to shift focus from the current emphasis on recovery and reconstruction to building ex-ante resilience based on fiscal buffers, climate resilient investment, and expanded insurance protection, both public and private. Managing these risks will be challenging given capacity constraints.

**TABLE 2** Dominica / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
<b>Real GDP growth, at constant market prices<sup>a</sup></b>	2.3	3.6	-10.0	1.0	3.0	2.5
<b>Real GDP growth, at constant factor prices<sup>a</sup></b>	-4.4	5.5	-10.0	1.0	3.0	2.5
Agriculture	-27.4	14.9	6.5	2.5	1.1	-4.2
Industry	33.1	3.7	-16.8	2.9	1.7	3.3
Services	-7.6	4.7	-10.5	0.3	3.6	3.4
<b>Inflation (Consumer Price Index)</b>	1.0	1.5	-0.3	1.7	1.3	1.6
<b>Current Account Balance (% of GDP)</b>	-43.5	-27.9	-30.4	-24.8	-20.1	-13.5
<b>Fiscal Balance (% of GDP)<sup>b</sup></b>	-19.3	-9.8	-10.2	-5.0	-3.7	-1.5
<b>Debt (% of GDP)<sup>b</sup></b>	76.9	78.8	88.1	95.6	98.3	97.7
<b>Primary Balance (% of GDP)<sup>b</sup></b>	-17.2	-8.7	-7.9	-3.6	-2.2	0.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.

(b) Fiscal balances are reported in fiscal years (July 1st -June 30th).