

DOMINICA

Table 1 **2021**

| | |
|---|--------|
| Population, million | 0.1 |
| GDP, current US\$ billion | 0.5 |
| GDP per capita, current US\$ | 7518.5 |
| School enrollment, primary (% gross) ^a | 102.3 |
| Life expectancy at birth, years ^a | 76.6 |
| Total GHG emissions (mtCO ₂ e) | 0.2 |

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2002).

Dominica's economy continues to rebound following the abrupt stop in tourism in 2020 and the removal of COVID-19 containment measures. Nonetheless, poverty is expected to remain elevated compared to pre-COVID-19 levels. Fiscal financing needs remain high, highlighting the need for strengthened fiscal management and resilience. Risk of debt distress remains high. Medium-term growth prospects appear favorable, although considerable uncertainty remains.

Key conditions and challenges

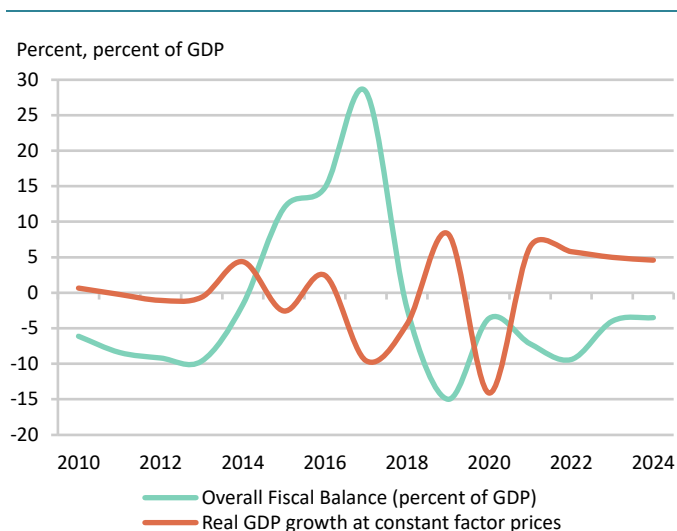
Dominica is a small island developing state highly vulnerable to climate change, natural disasters, and external economic shocks. Dominica's economy continues to be affected by the COVID-19 pandemic, and rising food and fuel prices. Tourism, which accounted for 25 percent of GDP pre-COVID, is returning but global economic conditions and a resurgence of COVID variants have hampered recovery. The pandemic has had negative impacts on employment that were at best partially offset by social assistance programs. A recent World Bank/UNDP phone survey (June 2021) indicated that 17 percent of those working before the pandemic were no longer working after the pandemic, and there was a notable decrease in formal employment (jobs in public and private enterprises) in favor of an increase in informal work and self-employment. Job losses were markedly more common for women (23 percent) than for men (12 percent). Women reported a more pronounced increase in time spent on services at home and supporting children with school during the pandemic. Only a limited share of respondents (10 percent) reported receiving monetary or in-kind income from the government in response to the pandemic. As such, the active transfers programs, instituted by the Government, and continued reconstruction spending post-Hurricane Maria are unlikely to have fully offset the impacts on poverty.

Dominica is highly vulnerable to extreme weather events and external shocks. It came under terrible strain after Hurricane Maria hit the island in 2017. Fiscal pressures were further exacerbated by the COVID-19 pandemic and debt levels have risen. The Government has taken measures to consolidate spending and reduce debt, however, significant challenges remain given the pandemic and a highly ambitious public investment pipeline, which includes a new international airport and geothermal energy investments. The airport and the development of geothermal energy production are potentially significant long-term drivers of growth. Despite these large public investment projects, the fiscal path remains on track to meet fiscal rule targets set for 2024/25 as reconstruction and exceptional COVID-19 spending measures wrap up. Post-pandemic, the challenge will be to shift focus from the current emphasis on recovery and reconstruction to building ex-ante resilience based on fiscal buffers, increasing climate-resilient investment, and expanding public and private insurance protection and social assistance. This is all taking place within a context of significant capacity constraints.

Recent developments

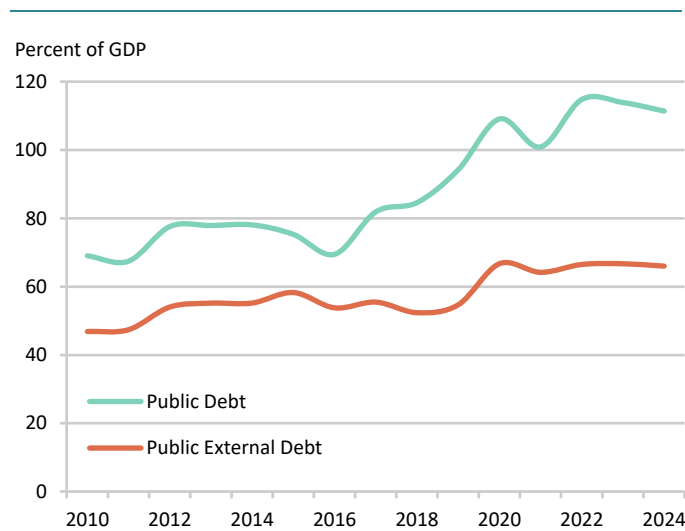
Growth rebounded modestly in 2021 on the relaxation of domestic COVID-19 containment measures and improving tourist arrivals. While the emergence of new COVID variants and global economic conditions have slowed the expected rebound

FIGURE 1 Dominica / Real GDP growth and fiscal balance



Sources: Government of Dominica and World Bank staff estimates.

FIGURE 2 Dominica / Public debt



Source: World Bank staff estimates.

in tourism, January to May 2022 tourism arrivals reached 34 percent of pre-COVID 2019 levels. Inflation remained modest in 2021 but increased over the first half of 2022 at just over 5.0 percent, driven largely by fuel and energy prices, and to a lesser extent by food prices.

Household income from tourism-related occupations remains depressed, women have been hit especially hard given their high participation in the services and informal sectors. However, agriculture has rebounded post-Hurricane Maria and has helped limit the overall impact on poverty. Fiscal and debt metrics remain challenging with an overall fiscal deficit of 7.2 percent of GDP in FY2021 (July 2020 -June 2021) and 9.4 percent expected in FY2022 (recently completed) as a result of decreased revenues, increased COVID-related expenditures, and an ambitious public investment pipeline. Public debt levels are expected to peak at near 115 percent in 2022 and decline thereafter.

Outlook

Growth is forecast to accelerate to 5.8 percent in 2022 as tourism and the domestic

economy further rebound from the pandemic. Short to medium-term GDP growth remains largely driven by a resumption in tourist arrivals. Growth will also be aided by a robust public investment program, including new hotel developments and housing construction using Citizen-by-Investment revenues. Geothermal developments and an international airport bode well for future growth prospects, as does Dominica's commitment to becoming a fully climate-resilient economy. These large public investment projects will require careful management, prioritization, and implementation in order to ensure fiscal and debt sustainability.

CPI inflation is expected to approach 5 percent in 2022 but to return to around 2 percent by 2024. The government has taken several measures to cushion the impact of rising food and fuel prices, including the provision of conditional cash transfers to vulnerable households and increased support to agricultural producers.

The current account deficit is forecast to narrow as tourism receipts increase. Financial sector vulnerabilities will require close monitoring given implicit contingent fiscal liabilities arising from the large credit

union and insurance sectors. These sectors have yet to fully recover from Hurricane Maria (Sept 2017), and the impacts of the COVID-19 pandemic continue to be felt on balance sheets.

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 updated poverty data and better documentation that describes the extent to which social protection measures reach those most in need. A population and housing census started in June 2022 and is expected to be delivered by December 2022. The CPA is expected to be completed after the national census. This data can guide policy and assistance programs to help households cushion the effect of economic shocks.

Risks from natural disasters and the impact of climate change remain, including rising sea levels. Risks also arise from the financial sector, and fiscal and public debt vulnerabilities.

Forecasts are subject to considerable downside risk given rising food and fuel prices, the economic impact of global geopolitical developments, and the ever-present risk of natural disasters.

TABLE 2 Dominica / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

| | 2019 | 2020 | 2021 | 2022e | 2023f | 2024f |
|---|-------|-------|-------|-------|-------|-------|
| Real GDP growth, at constant market prices | 5.5 | -16.6 | 6.5 | 5.8 | 5.0 | 4.6 |
| Real GDP growth, at constant factor prices | 8.3 | -14.1 | 6.5 | 5.8 | 5.0 | 4.6 |
| Agriculture | 21.6 | 3.2 | 25.3 | 4.2 | -7.8 | -0.9 |
| Industry | 0.7 | -31.5 | 3.8 | 8.6 | 1.6 | -7.3 |
| Services | 8.8 | -11.9 | 4.0 | 5.6 | 8.1 | 7.8 |
| Inflation (Consumer Price Index) | 1.5 | -0.7 | 1.5 | 5.5 | 4.2 | 2.0 |
| Current Account Balance (% of GDP) | -34.4 | -29.3 | -32.8 | -41.3 | -37.3 | -38.5 |
| Fiscal Balance (% of GDP)^a | -15.0 | -3.6 | -7.2 | -9.4 | -4.0 | -3.5 |
| Debt (% of GDP)^a | 78.1 | 109.1 | 111.1 | 114.8 | 113.9 | 111.4 |
| Primary Balance (% of GDP)^a | -13.0 | -1.0 | -5.0 | -7.4 | -1.7 | -1.2 |
| GHG emissions growth (mtCO₂e) | 0.1 | -10.4 | 16.0 | 7.3 | 0.1 | 0.1 |
| Energy related GHG emissions (% of total) | 72.9 | 76.6 | 81.8 | 85.0 | 86.9 | 88.9 |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

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