DOMINICA

Table 1	2023
Population, million	0.1
GDP, current US$ billion	0.7
GDP per capita, current US$	9015.8
School enrollment, primary (% gross)[a]	92.5
Life expectancy at birth, years[a]	72.8
Total GHG emissions (mtCO2e)	0.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2021).

Dominica, a small island developing state (SIDS), faces economic challenges and climate vulnerability. Post-pandemic recovery is strong, driven by tourism, infrastructure, and agriculture, though high inflation is affecting the poor disproportionately. Food insecurity persists. Public debt soared due to pandemic support and inflation mitigation efforts. Investments in geothermal energy and an international airport will significantly boost future growth and stimulate private sector development. Reliance on volatile Citizen-by-Investment (CBI) revenues poses risks. Strengthening fiscal policy is needed to safeguard debt sustainability amid external shocks, including those related to climate change.

Key conditions and challenges

Dominica is highly vulnerable to climate change, natural disasters, and other external shocks. The economy has recovered from the pandemic and continues to perform well, largely supported by infrastructure investments and a rebound in tourism. Increases in global commodity prices pushed inflation to historical highs in 2022 and 2023. Although inflation is expected to moderate in 2024, higher price levels of basic goods continue to impact household welfare, particularly the poor.

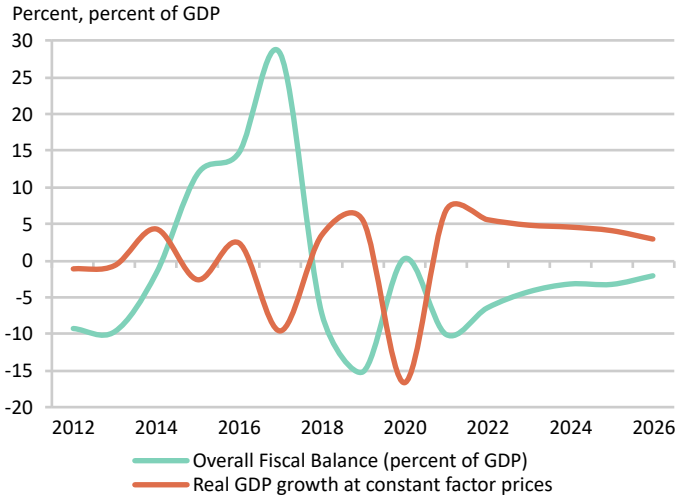
The latest round of the CARICOM/WFP online COVID-19 Food Security and Livelihoods Impact Survey in the Caribbean (May 2023) indicates that about half of respondents faced livelihood disruptions in the thirty days prior to the survey, largely due to unaffordable livelihood inputs. While there has been considerable improvement given the strength in tourism and stronger growth, 29 percent of the respondents reported a job loss or a reduction in labor income in the last six months, and this is actually an improvement compared to the earlier round. Although the survey provides helpful insights, the data is not representative and should be interpreted with caution.

The fiscal deficit widened significantly during the pandemic, but it fell considerably in 2023. Pandemic-related support, increased infrastructure spending, and fiscal measures to mitigate the impact of inflation on the poorest (e.g., subsidies on diesel and gasoline, increased VAT-free units in domestic electricity bills), led to high fiscal deficits and pushed public debt over 100 percent of GDP. Recurrent expenditures are now returning to pre-pandemic levels although further effort will be needed to meet Dominica's primary balance target of 2 percent of GDP by FY26 as per their fiscal rule. The government is implementing a highly ambitious public investment pipeline, largely financed by CBI revenues, including a new international airport, geothermal energy investments, and a significant housing program. While CBI revenues have remained buoyant, they can be volatile and reliance on such revenues raises financing risk. Dominica's vulnerability to hurricanes and climate change means that the authorities will have to increasingly focus on building resilience based on fiscal buffers, climate resilient investment, and expanding public and private insurance protection and social assistance within a context of limited fiscal space. Geothermal energy development and the new airport bode well for future growth prospects and will help address Dominica's small island state competitiveness challenges.

Recent developments

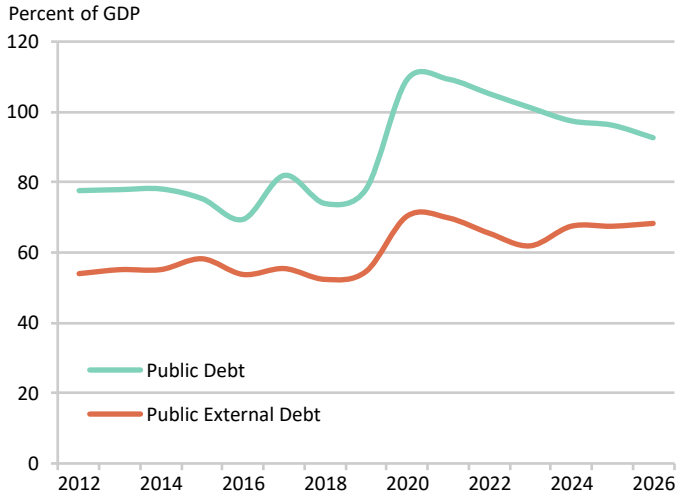
Growth continued its rebound in 2023 at 4.9 percent (5.6 percent in 2022), due to the relaxation of domestic COVID-19 containment measures and improving tourist arrivals. Growth is estimated to remain strong in 2024 as tourism returns to 2019

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



Sources: Government of Dominica and World Bank staff calculations.

FIGURE 2 **Dominica** / Public debt



Sources: Government of Dominica and World Bank staff calculations.

levels and as it is further supported by public investment. Inflation was 5.5 percent in 2023 after peaking at 7.8 percent in 2022, driven largely by fuel prices, and to a lesser extent by food prices. Inflation is expected to decline to 2.3 percent in 2024.

Inflation continued to affect households' purchasing power and access to food over 2023, given Dominica's dependence on imported food products. According to the CARICOM/WFP survey, nearly all respondents reported an increase in prices of food, gas, transport, and electricity in the three months prior. Similarly, farmers and fishermen continue to report increased input costs. Food insecurity appears to have leveled out in the first half of 2023, although it remains widespread. A considerably large number of respondents indicated that they reduced essential non-food expenditures (e.g., education and health) and spent savings to meet immediate food needs, which could compromise their well-being in the long term and make them less prepared for future shocks. Low-income households, women, and younger respondents appear to be experiencing greater challenges across most metrics of well-being and are at risk of falling further behind.

The fiscal position has improved, registering an overall deficit of 4.2 percent in FY23 following a 6.4 percent deficit in FY22. This modest improvement was the result of reduced current expenditure in a post-COVID environment, reduced public investment, and a robust growth environment. Public debt remains high at 101 percent of GDP at the end-2023 after peaking at 109 percent in 2021. Approximately 90 percent of Dominica's external debt is owed to multilateral and bilateral creditors on concessional terms. Nonetheless, with a 22 percent debt service to revenue ratio in 2023, public debt obligations run the risk of crowding out other spending priorities. A combination of sound fiscal policy and sustained growth is needed to put public debt levels on a firm downward trajectory.

The current account deficit (CAD) at 21.6 percent of GDP in 2023 reflects Dominica's SIDS status and is financed primarily by CBI revenues, grants, and FDI. Reserves are adequate at 5.0 months of import coverage. Financial sector stability and related risks are limited as banks are well capitalized. Recapitalization of credit unions is progressing, though balance sheets remain strained following recent shocks. Private sector credit remains constrained as most recent bank lending has been to the public sector.

Outlook

Short- to medium-term GDP growth continues to be driven by tourism, aided by a robust public investment program financed through CBI revenues. Geothermal developments and a new international airport should boost structural and potential growth. Nonetheless, these large public investment projects will require careful management and implementation. Growth and lower inflation should contribute to a reduction in poverty rates in the medium term. There is an urgent need for updated poverty data, as well as other key indicators including labor market statistics, to monitor households' wellbeing and inform the design of public policy.

The fiscal deficit is expected to narrow as exceptional spending measures continue to be wound down, current spending is reduced and rationalized, and fiscal rules metrics are adhered to, including primary balances of 2.0 percent of GDP by 2026, though further measures will be needed to achieve this target. The CAD is forecast to narrow as tourism receipts increase, though high food and fuel prices will maintain some pressure on the CAD. Financial sector risks will continue to require monitoring given implicit contingent fiscal liabilities arising from the large credit union and insurance sectors. These sectors, while improving, have yet to fully recover from Hurricane Maria, and the impacts of the COVID-19 pandemic also continue to be felt on balance sheets.

Forecasts are subject to considerable downside risk given uncertain food and fuel prices, the economic impact of global geo-political developments, and continued reliance on volatile CBI revenues. Risks from natural disasters and the impact of climate change remain significant. Risks also arise from the financial sector and fiscal and public debt vulnerabilities.

TABLE 2 Dominica / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	6.9	5.6	4.9	4.6	4.2	3.0
Real GDP growth, at constant factor prices	6.8	6.8	4.9	4.6	4.2	3.0
Agriculture	23.4	-0.7	2.7	2.6	2.1	1.9
Industry	5.0	1.1	3.3	3.2	3.0	2.6
Services	4.5	9.4	5.6	5.2	4.7	3.3
Inflation (consumer price index)	1.5	7.8	5.5	2.3	2.0	2.0
Current account balance (% of GDP)	-32.9	-26.7	-21.6	-18.0	-15.3	-12.6
Fiscal balance (% of GDP)[a]	-10.0	-6.4	-4.2	-3.1	-3.2	-2.0
Revenues (% of GDP)	58.6	53.1	48.1	47.2	46.1	43.8
Debt (% of GDP)[a]	109.2	105.1	101.1	97.4	96.1	92.6
Primary balance (% of GDP)[a]	-7.7	-3.6	-1.0	0.0	-0.5	0.6
GHG emissions growth (mtCO2e)	-7.5	-1.9	-0.3	0.1	0.2	0.1
Energy related GHG emissions (% of total)	71.9	72.3	73.1	73.9	74.6	75.2

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).