DOMINICA

Table 1	2023
Population, million	0.1
GDP, current US$ billion	0.7
GDP per capita, current US$	8953.9
School enrollment, primary (% gross)[a]	91.9
Life expectancy at birth, years[a]	73.0
Total GHG emissions (mtCO2e)	0.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2022).

A recovery in tourism infrastructure spending and easing inflation have supported economic activity in Dominica in 2023, although high food prices continue to disrupt livelihoods of vulnerable populations. Completion of major ongoing infrastructure projects will boost growth. An uptick in public debt resulting from pandemic-related spending has led authorities to implement fiscal rule-based austerity measures throughout the forecast horizon. Worsening external conditions and climate-related events pose downside risks to growth and debt sustainability.

Key conditions and challenges

As a small island developing state (SIDS), Dominica faces economic challenges and climate vulnerability. Post-pandemic, economic growth has been largely supported by infrastructure investments and a rebound in tourism. The country's growth potential has declined over the past few decades amid shrinking total factor productivity and lower contribution from labor, stemming in part, from emigration of skilled labor. Fiscal policy is constrained by the Fiscal Responsibility Law (FRL) of 2021, which requires achieving a minimum primary surplus of 2 percent of GDP by 2026 to reduce public debt below 60 percent of GDP by 2035. Finally, as a pegged exchange rate regime, Dominica lacks effective monetary policy tools, therefore structural reforms are needed to ensure efficient financial intermediation.

Pandemic-related support, increased infrastructure spending, and fiscal measures to mitigate the impact of inflation on the poorest led to high fiscal deficits and pushed public debt over 100 percent of GDP. Fiscal imbalances have only gradually come down as recurrent expenditures are now returning to pre-pandemic levels. Further efforts will be needed to comply with Dominica's FRL.

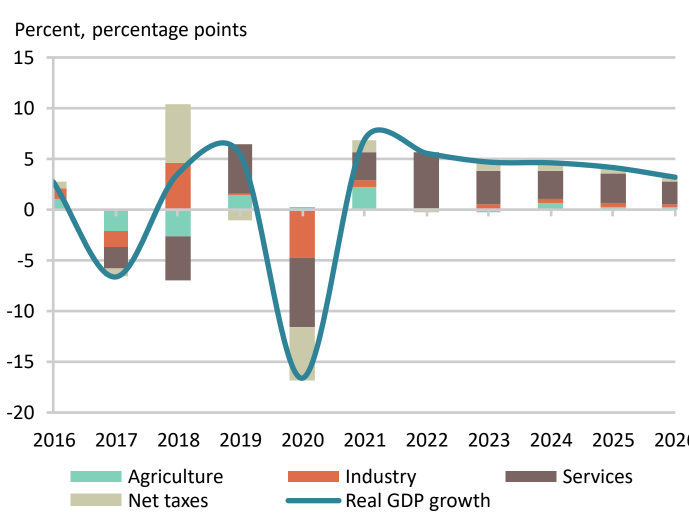
The government is implementing a highly ambitious public investment pipeline, largely financed by citizenship by investment (CBI) revenues, including a new international airport, geothermal energy investments, and a large housing program. CBI revenues have remained buoyant but tend to be volatile and dependence thereon may increase financing risk. Dominica's vulnerability to hurricanes and climate change requires increasing focus on resilience through fiscal buffers, climate-resilient investment, as well as expansion of public and private insurance protection and social assistance within a context of limited fiscal space.

Recent developments

Growth maintained its momentum at 4.7 percent in 2023, amid further improvements in tourism and investment in climate-resilient infrastructure. Tourist arrivals surpassed pre-pandemic levels, driven by growth in cruise arrivals. Implementation of initiatives in agriculture are expected to boost contribution from the sector in 2024. After peaking at 7.8 percent in 2022, inflation eased to 3.5 percent in 2023, driven in part by a reduction in energy costs.

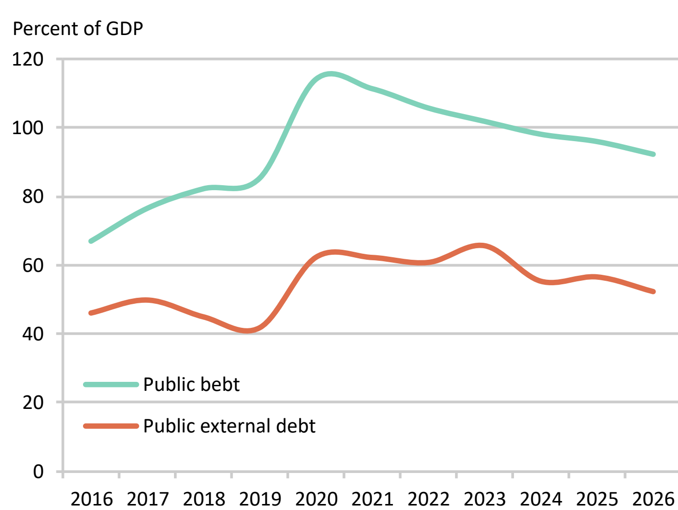
Inflation continues to affect households' purchasing power and access to food, given Dominica's dependence on imported food products. In April 2024, virtually all respondents to the Food Security and Livelihoods Survey reported an increase in the prices of food, gas, and electricity in the three months prior to the survey. Food insecurity persisted with 21 percent of respondents reporting that they had gone a whole day without eating in the previous

FIGURE 1 Dominica / Real GDP growth and sectoral contributions to real GDP growth



Sources: Government of Dominica and World Bank staff calculations.

FIGURE 2 Dominica / Public debt



Sources: Government of Dominica and World Bank staff calculations.
Note: See Table 2.

30 days and 42 percent reporting that they were hungry but did not eat.

The fiscal position has improved, registering an estimated deficit of 4.0 percent in FY23 compared to 7.6 percent in FY22. Lower capital spending offset the drop in revenue from CBI inflows. Public debt remains high at 101.8 percent of GDP at the end of 2023, down from 105.7 in 2022. Approximately 90 percent of Dominica's external debt is owed to multilateral and bilateral creditors on concessional terms.

The current account deficit (CAD) further widened to 33.9 percent of GDP in 2023 as an increase in imports of goods, driven by large infrastructure projects, more than offset the increase in tourism receipts. Financing of the CAD continues to come primarily from CBI revenues, grants, and foreign direct investment inflows. Reserves, as of 2023, are adequate at 5.0 months of import coverage.

Financial sector stability risks are limited as banks are well capitalized, however, non-performing loans remain high, and provisioning is below the Eastern Caribbean Central Bank's (ECCB's) regional prudential requirements.

Outlook

GDP growth is expected to be robust at 4.6 in 2024 and remain buoyant over the forecast horizon driven primarily by tourism and a robust public investment program financed by CBI revenues. Geothermal developments and a new international airport should boost potential growth. Inflation is expected to decline to 3 percent in 2024 and stabilize at 2 percent amid weaker pressure from international prices. Solid growth prospects and lower inflation should contribute to a reduction in poverty rates in the medium term. There is an urgent need for updated poverty data, and other key indicators like labor market statistics, to monitor households' wellbeing and inform the design of public policy.

The fiscal deficit is forecast to narrow as infrastructure spending winds down, current spending is reduced and rationalized, and fiscal rules metrics are adhered to; this includes primary balances of 2.0 percent of GDP by 2026, though further measures will be needed to achieve this target. A combination of sound fiscal policy and sustained growth is expected to push public debt levels below 60 percent of GDP by 2035, as mandated by Eastern Caribbean Currency Union membership.

The CAD, financed in part by CBI inflows, is expected to narrow to 20.9 percent of GDP in 2024 and continue closing thereafter as tourism receipts increase and infrastructure-related imports decline.

The economic outlook is subject to considerable downside risks due to volatile food and fuel prices, global geo-political events, and volatile CBI revenues. Natural disasters, climate change, tighter global financial conditions, fiscal vulnerabilities, and public debt sustainability concerns pose additional risks. The financial sector is vulnerable to risks from the credit unions.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	6.9	5.6	4.7	4.6	4.2	3.2
Real GDP growth, at constant factor prices	6.8	6.7	4.4	4.6	4.2	3.3
Agriculture	23.4	-0.7	-2.0	5.9	3.2	2.0
Industry	5.0	0.6	5.0	3.4	3.3	3.0
Services	4.5	9.4	5.3	4.6	4.5	3.5
Inflation (consumer price index)	1.5	7.8	3.5	3.0	2.0	2.0
Current account balance (% of GDP)	-32.9	-26.7	-33.9	-20.9	-19.1	-17.8
Fiscal balance (% of GDP)[a]	-8.6	-7.6	-4.0	-3.3	-2.0	-1.5
Revenues (% of GDP)	61.5	65.2	45.5	42.1	41.7	41.3
Debt (% of GDP)[a]	111.3	105.7	101.8	98.1	95.9	92.2
Primary balance (% of GDP)[a]	-5.9	-4.6	0.4	-0.2	0.3	0.6
GHG emissions growth (mtCO2e)	3.1	3.0	2.8	2.7	2.6	2.4
Energy related GHG emissions (% of total)	75.6	75.8	76.1	76.3	76.5	76.7

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).