

HAITI

1. General trends

The Haitian economy performed modestly in fiscal 2015, with gross domestic product (GDP) growing by just 1.2%, largely owing to the contraction in agriculture (-5.4%) and slowdowns in major sectors such as commerce and construction.¹ Inflation rose sharply to 11.3% from the previous year's 5.3%, despite the fall in international commodity prices. The central government's fiscal deficit (1.4% of GDP, down from 4.6% in 2014) and the current account deficit (2.6% compared to 8.8%) were both significantly lower than a year earlier.

The calendar year brought much sociopolitical uncertainty, generated by the legislative and presidential elections of August and October 2015, respectively. The presidential election process could not be completed, since various opposition groups challenged the results announced by the electoral body (Conseil Électoral Provisoire, CEP). This made it impossible to hold the second round of voting; and, in early February 2016, the government agreed to the formation of a transition administration tasked with finding a consensus-based mechanism for overcoming the political impasse, following completion of the outgoing president's term of office on 7 February.

Those circumstances—in conjunction with other more structural factors such as low productivity, the country's small tax burden, and balance of payments constraints—are probably downgrading economic growth forecasts for the current fiscal year, which were already not very encouraging.² Despite the less gloomy scenario for certain key activity sectors, such as agriculture, GDP growth is not expected to top 1.5% in 2016. Moreover, trends fuelling a steeper exchange-rate depreciation (25%), inflationary pressures (13%) and upward pressure on the fiscal deficit could persist, mitigated only by the relatively positive outlook for the balance-of-payments current account deficit, in a likely scenario of reduced imports.

2. Economic policy

Economic policy in 2015 was largely harnessed to the three-year arrangement under the Extended Credit Facility signed by the Haitian authorities and the International Monetary Fund (IMF) in May 2015. The first, and thus far only, disbursement under that arrangement was made in the same month, for a total of US\$ 10 million. The subsequent periodic review, scheduled for November last year, was postponed.

The authorities tightened monetary and fiscal policies in 2015. The issues prioritized in the arrangement with IMF include controlling inflation, consolidating the macroeconomic balances by reducing the fiscal deficit and cutting subsidies—particularly those granted to the State-owned electricity company (Electricité d'Haïti, EDH)—and reducing monetary financing.

¹ The period of analysis relates to fiscal 2015 (from October 2014 to September 2015, and the first half of fiscal 2016 (October 2015 to March 2016). Nonetheless, to facilitate the comparison with regional data, in some cases the statistics may correspond to the end of calendar 2015 (in such cases this is specifically mentioned).

² The forecasts reported here reflect the trends observed as of end-March 2016.

In the political climate prevailing since mid-February 2016, some of the guidelines announced in the fiscal 2016 budget, particularly on employment and growth policies, seem unlikely to be fulfilled owing to the multiple financial constraints facing the transition government.

(a) Fiscal policy

Haiti has a light tax burden —just 13% of GDP in 2015. Tax revenue grew by 12% in real terms in that year, largely thanks to the positive contributions made by tariffs, which grew by 22%, and both indirect and direct taxes (11.5% and 8.6%, respectively).

Total central government expenditure was down by 15%, with reductions in current expenditure (-14%), and more particularly in capital spending (-22%), resulting from the over-50% cut in funds from the PetroCaribe agreement with the Bolivarian Republic of Venezuela, which finances these expenses. Payroll outgoings grew by 22%, reflecting the wage hikes approved towards the end of the previous fiscal year (September 2014) and about 1,500 new hirings in the civil service.

The conjunction of these two phenomena helped reduce the central government's fiscal deficit to 1.4% in 2015 from the previous year's 4.6%. Nonetheless, the non-financial public sector deficit was substantially larger (about 4% of GDP), owing to the still considerable transfers and subsidies (US\$ 167 million), targeting the State-owned electric power company (EDH) which represented 2% of GDP. The fiscal deficit was mostly financed by the central bank, in the amount of 2.3% of GDP.

Several of the constraints that affected the economy in 2015 persisted in the first half of the current fiscal year (October 2015 to March 2016), of which the most worrying are clearly those relating to income. These include discouraging forecasts for the availability of external funds, both from the PetroCaribe arrangement and from budgetary support, whether bilateral or provided by multilateral agencies. The revenue reduction will affect the public investment programme, which is 70% financed by those external contributions. As of end-March 2016, investment expenditure based on these funding sources amounted to just US\$ 24 million equivalent; and revenue obtained from PetroCaribe specifically (US\$ 14 million) was down by 74%.

In these first six months, current income and expenditure have grown at similar rates, with real increases of 5.4% and 4.8%, respectively, relative to the year-earlier period. Nonetheless, a 48% nominal contraction in overall investment expenditure —whether financed by the public treasury or by external saving— mainly reflected the lack of external funding. In fact, 58% of disbursements for investment as of end-March 2016 were financed domestically, whereas the budget had put that figure at 30%.

The recent protocol on cash management signed between the Ministry of Economy and Finance and the central bank, signed in April 2016, aims to tighten control over public sector expenditure, restricting it to effective fiscal income, and thus reduce monetary financing of the deficit.

Haiti's external debt in 2015 stood at US\$ 1.982 billion (21% of GDP), of which 88% is owed to the Bolivarian Republic of Venezuela, under the PetroCaribe scheme. During the course of the year, the Dominican Republic and Jamaica were able to buy back their debt with the Bolivarian Republic of Venezuela on advantageous terms —with “haircuts” of 54% and 52%, respectively — owing to the latter country's extreme shortage of foreign exchange. Nonetheless, Haiti was unable to do this because it does not have the means to issue sovereign bonds.

Apart from recurrent worries about the sustainability of Haiti's long-term debt, the greatest concern currently relates to short-term maturities, since payment arrears of US\$ 85 million have accumulated with the Bolivarian Republic of Venezuela between August 2015 and January 2016. In the context of the low prices prevailing on the international hydrocarbons market, the PetroCaribe agreement stipulates a larger, 70%, cash payment (which reduced the immediate liquidity of the Haitian counterpart).

(b) Monetary policy

Backdropped by persistent inflationary pressure, a steeply depreciating currency and fragile public finances, the central bank maintained a contractionary monetary stance throughout 2015, although with slight and momentary signs of relaxation, pursuant to its mandate to stimulate stronger economic growth.

Evidence of that contractionary orientation was the rise in legal reserve ratios, which were gradually increased to 44% on liabilities in gourdes (up from 37% at the start of fiscal 2015), and 48% on dollar liabilities at the fiscal year-end in September 2015 (compared to 40% of the start of fiscal 2015). In addition, the yields on 91-day central bank bonds (a benchmark for interbank transactions) rose from 5% to 16%. Interest rates on bank loans fluctuated between 16% and 21%, while rates on deposits varied between 2% and 6%.

Although private sector credit remained relatively stable in relation to GDP (21%), it declined by 7.2% in real terms. Nonetheless, the most representative indicators of monetary liquidity (M1 and M2) posted nominal increases of 9.1% and 12.3%, respectively, while the monetary base expanded by 22%.

(c) Exchange-rate policy

Import demand plays a key role in the trend of both the exchange rate and the Haitian economy. Although the modest economic expansion in 2015 eased pressure on this demand somewhat, the behaviour of the nominal exchange rate was highly volatile. The rate rose from 45.7 gourdes per dollar in October 2014, to 51.8 in the following September; and it recorded an average depreciation of 8.8% against the dollar in 2015. This probably reflects the negative expectations of the most important players in the foreign-exchange market. In real terms, the national currency depreciated by 1.5%. These exchange-rate fluctuations prompted a process of increasing deposit dollarization (58.6% of the total). Since July 2015, the central bank has placed restrictions on consumer loans in dollars, as an additional measure to absorb pressures for a steeper depreciation of the gourde against the dollar. Nonetheless, consumer credit in dollars still accounts for 37% of the total credit portfolio.

The central bank's interventions on the foreign exchange market in 2015 resulted in net sales of US\$ 82 million, which did not substantially erode the level of net international reserves, since these stand at US\$ 843 million (equivalent to nearly three months' import cover).

The first half of fiscal 2016 saw a pronounced revival of those interventions by the central bank, with net sales amounting to US\$ 82.6 million. Nonetheless, the gourde continued to depreciate and, by the end of March 2016, it was down by a cumulative 16.7% from its October 2015 level.

Although an easing of exchange-rate pressures was predictable owing to the fall in the international prices of the commodities that Haiti mostly imports (hydrocarbons, rice, oils and flour), and the stability of remittance flows (nearly US\$ 183 million per month), foreign-exchange market volatility persists, and this gives cause for concern among the authorities and the main local economic agents.

(d) Other policies

Over the last few years, the issue of energy —particularly reducing or reversing the budgetary haemorrhaging caused by the State-owned enterprise EDH— has been an ongoing cause of concern for the authorities. In fact, several initiatives were agreed upon in this regard with the country's main international partners: IMF, the World Bank and the Inter-American Development Bank (IDB). In January 2016, the outgoing government issued a decree involving a major restructuring of the energy sector, by deregulating the state monopoly in the distribution segment (awarded to EDH), and creating a regulatory body (Autorité nationale de régulation du secteur de l'énergie, ANARSE).

3. The main variables**(a) The external sector**

The trade balance (US\$ 2.669 billion) decreased by 13%, and the current account deficit narrowed significantly to 2.6% of GDP from the previous year's 8.8%. Income from remittances totalled US\$ 2.2 million, while grants (US\$ 488 million) continued to dwindle.

Export growth dipped slightly in 2015 to 5.4%, from 6.1% in 2014. The leading export products remained maquila-produced garments (US\$ 895 million), under the preferential arrangements (the HOPE and HELP agreements) in force with the United States, their main destination market. A few commodities (essential oils, mango, cocoa and coffee) jointly generated US\$ 51 million in export earnings; and essential oils (US\$ 22 million) were the leading product for the third consecutive year, while mango exports stalled.

Imports of hydrocarbons (US\$ 618 million) were down in value terms (-38%) and also in volume (-12%), while food imports (US\$ 998 million) grew moderately (4.3%). In both cases, the international backdrop of downward trending prices was the key factor. These two items jointly accounted for 44% of the country's total imports.

The average price of the main export products rose by 0.6%, while the price of the import basket dropped by 10%. These circumstances generated a 12% improvement in Haiti's terms of trade; and this trend could persist in 2016, since there were significant reductions in the international prices of products that are important for the country in the first half of the year, including oil (-38%), rice (-12%), and wheat (-24%).

Fiscal 2015 brought very small foreign investment inflows in absolute terms (US\$ 104 million), which were, moreover, offset by a net outflow of capital from the banking sector, equivalent to US\$ 97 million. In this domain, and in foreign trade, projections for 2016 anticipate modest results owing to the persistent climate of political uncertainty.

The PetroCaribe operation in Haiti is channelled through a management entity (Bureau de Monétisation des Programmes d'Aide au Développement, BMPAD) that acts as an intermediary between the leading private sector hydrocarbons importers and the Venezuelan supplier, Petróleos de Venezuela, S.A. (PDVSA). Although the Haitian intermediary should have received immediate payment from the local importers, these have hidden behind the shortage of foreign exchange on the market to delay meeting these liabilities. In addition, a large proportion of the transactions undertaken by three private operators reflects their demand for electric power generation services which they have contracted with EDH under various modalities.

(b) Economic activity

Aggregate demand grew by just 1.4% in 2015, driven mainly by exports (2.4%), gross domestic investment (2%) and, to a much smaller extent, consumption (1%), although the latter is the largest demand component (accounting for 65% of the total). In the specific case of external demand, the expansion of the maquila industry was the most important factor. Meanwhile, the modest trend of investment was largely due to the severe constraints (owing to the reduction in revenue from PetroCaribe), facing public investment in the last two years, and the subsequent implications for growth in the private sector, particularly in construction. A likely factor underlying the consumption growth stems firstly from the steady and continuous increase in remittances and, secondly, from the relative recovery of civil servants' wages.

The agriculture sector represents 22% of Haiti's GDP, so the sharp downturn in that sector in 2015 (-5.4%) had major repercussions for the overall performance of the economy. The poor performance of the agriculture sector reflects a set of factors, both short-term (drought) and more structural constraints (financing, fertilizers, seeds and equipment).

Although no other activity sector performed so poorly in 2015, nearly all recorded slowdowns. The exception was manufacturing, which grew by 4.5%, compared to 2.7% in 2014. Among other sectors, the slowdown was evident in commerce (3.2% growth compared to 4.2% in 2014) and construction (2.3%, down from 7.9% in the previous year).

The GDP growth forecasts for 2016—in a range that is unlikely to exceed 1.5%—remain reserved. The political context, constraints on public expenditure—mainly in terms of investment—and expectations among the leading economic agents make it unrealistic to forecast a good economic performance.

(c) Prices, wages and employment

The behaviour of the consumer price index (CPI) in 2015 showed signs of inflationary pressures, resulting in an annual average increase of 7.5% and a 14.5% rise at the end of the calendar year in December 2015. This is partly explained by exchange rate pass-through, but also by the drought conditions prevailing over extensive areas of the country, which caused substantial reductions in the national supply of agricultural products in the basic shopping basket, and their consequently higher prices. The international backdrop—with falling prices among Haiti's main import products—together with tight monetary policy measures and foreign-exchange intervention by the central bank, helped to avert even worse effects from this inflationary surge.

In the first half of fiscal 2016 (October-March), the annual average rise in prices was 13.1% (up from 4.7% in the year earlier period). This is a sign that inflationary pressures are persisting. The results obtained in the autumn and winter farming cycles (August to February) and long-range weather forecasts for 2016 augur less severe drought conditions than those of the last two years. Nonetheless, expectations are not encouraging, with persistent and significant budgetary constraints on timely support from the public sector. And, given the current situation of transitional administration, the outlook is not good for effective execution of the government's emergency measures, announced in January 2016 to mitigate the adverse effects of the agricultural crisis on food security and to facilitate a path for production recovery.

On the pay front, minimum wages were raised from 225 gourdes to 240 gourdes per day (roughly US\$ 5) in May 2015, which supported a 2.2% recovery in real wages during the year. The annual review process to set the new wage scales was finalized in May 2016, and the government published new tables which include a rise to 300 gourdes per working day in the case of the maquila industry. Negotiations were held amid tension between the main union and employer representatives, given the decrease in purchasing power of around 8% that has occurred over the preceding 12 months.

Table 1
HAITI: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
	Annual growth rates b/								
Gross domestic product	3.3	0.8	3.1	-5.5	5.5	2.9	4.2	2.8	1.2
Per capita gross domestic product	1.7	-0.7	1.5	-6.9	4.0	1.4	2.8	1.4	-0.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.2	1.7	1.7	13.8	-2.8	-5.2	2.7	0.9	1.0
Gross capital formation	3.1	2.8	3.6	-6.5	9.6	6.2	6.1	2.1	2.0
Exports (goods and services)	-2.9	13.6	22.2	5.1	20.3	2.1	5.0	6.3	2.4
Imports (goods and services)	0.5	5.3	5.8	20.7	0.1	-5.7	3.2	1.5	1.5
	Percentajes of GDP								
Investment and saving c/									
Gross capital formation	30.5	28.8	27.5	25.4	27.9	29.5	30.1	30.9	31.8
National saving	22.5	25.6	25.6	23.9	23.5	23.8	23.7	22.0	29.2
External saving	8.0	3.2	1.9	1.5	4.4	5.7	6.4	9.0	2.6
	Millions of dollars								
Balance of payments									
Current account balance	-477	-205	-122	-102	-326	-449	-537	-776	-224
Goods balance	-1,182	-1,618	-1,481	-2,447	-2,546	-2,305	-2,414	-2,705	-2,407
Exports, f.o.b.	522	490	551	563	768	775	915	961	1,029
Imports, f.o.b.	1,704	2,108	2,032	3,010	3,314	3,079	3,329	3,666	3,436
Services trade balance	-423	-319	-289	-824	-575	-567	-438	-374	-263
Income balance	2	6	13	22	38	55	32	12	10
Net current transfers	1,126	1,726	1,635	3,147	2,757	2,368	2,283	2,291	2,436
Capital and financial balance d/	287	-180	-1,006	845	513	703	178	681	66
Net foreign direct investment	75	30	55	178	119	156	160	99	104
Other capital movements	212	-209	-1,061	667	394	547	17	582	-38
Overall balance	-191	-384	-1,128	743	186	254	-359	-94	-157
Variation in reserve assets e/	-208	-163	-238	-845	-209	-285	-58	479	155
Other financing	399	548	1,366	102	23	31	418	-385	2
Other external-sector indicators									
Terms of trade for goods (index: 2010=100)	111.2	79.9	103.4	100.0	83.0	86.0	80.6	83.1	93.4
Net resource transfer (millions of dollars)	688	374	373	969	573	788	627	309	79
Gross external public debt (millions of dollars)	1,627	1,921	1,333	354	709	1,173	1,562	1,875	1,948
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	10.0	10.1	2.0	6.2	8.3	7.6	3.4	6.4	12.5
Variation in nominal exchange rate (annual average)	-7.2	6.3	2.1	-0.2	1.3	3.3	3.1	5.0	13.4
Variation in minimum real wage	-7.8	-12.9	27.9	58.2	-7.7	1.7	16.5	3.5	-0.4
Nominal deposit rate f/	5.2	2.5	1.7	0.9	0.4	0.5	0.7	2.0	3.9
Nominal lending rate g/	31.2	23.3	21.6	20.7	19.8	19.4	18.9	18.6	18.8

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Central government	Percentajes of GDP								
Total revenue	11.3	10.8	12.0	14.0	14.4	13.4	13.3	13.1	13.5
Tax revenue	10.8	10.6	11.7	11.8	12.9	12.9	12.2	12.0	13.2
Total expenditure	12.9	12.1	13.3	14.5	12.3	14.3	14.5	13.4	12.6
Current expenditure	10.2	9.7	11.1	10.2	10.0	10.5	10.8	11.5	11.2
Interest	0.3	0.3	0.5	0.4	0.4	0.3	0.4	0.4	0.2
Capital expenditure	2.7	2.4	2.2	4.3	2.3	3.7	3.7	1.9	1.4
Primary balance	-1.3	-1.0	-0.7	0.5	1.9	2.0	-1.0	-0.5	0.3
Overall balance	-1.6	-1.3	-1.3	0.0	1.6	1.7	-1.4	-0.9	0.1
Central government public debt	33.6	42.3	34.3	22.8	23.9	28.0	30.5	35.8	35.8
Domestic	8.9	13.7	14.5	17.6	14.1	13.5	12.6	13.2	11.9
External	24.7	28.5	19.8	5.3	9.8	14.5	17.7	22.6	23.9
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	22.3	21.4	20.0	14.7	12.3	15.4	21.7	24.5	25.8
To the public sector	8.1	6.6	3.6	-1.1	-5.2	-5.5	0.3	2.2	4.4
To the private sector	14.2	14.9	16.4	15.7	17.5	20.8	21.4	22.3	21.4
Monetary base	20.3	21.0	22.1	31.9	29.9	30.5	26.3	25.9	28.9
Money (M1)	10.8	11.2	11.1	15.1	14.1	14.8	13.9	15.2	14.4
M2	21.4	21.4	20.9	26.2	24.0	24.4	23.4	24.4	24.1
Foreign-currency deposits	15.8	16.7	18.1	23.2	22.3	21.8	21.1	20.9	26.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1986 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Average of minimum and maximum rates on time deposits.

g/ Average of minimum and maximum lending rates.

Table 2
HAITI: MAIN QUARTERLY INDICATORS

	2014				2015				2016	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross international reserves (millions of dollars)	1,329	1,177	1,203	1,162	1,145	1,115	1,047	982	985	...
Consumer prices (12-month percentage variation)	3.2	4.2	5.3	6.4	6.4	8.0	11.3	12.5	14.8	15.1 b/
Average nominal exchange rate (gourdes per dollar)	42.6	45.4	45.6	46.6	47.3	49.2	53.2	54.6	60.4	62.6
Nominal interest rates (average annualized percentages)										
Deposit rate c/	0.5	2.7	2.5	2.5	3.0	3.5	4.6	4.6	4.9	4.4 b/
Lending rate d/	18.5	19.0	18.3	18.5	18.8	18.8	17.9	19.8	18.9	19.9 b/
Monetary policy rates	3.7	5.0	5.0	5.7	8.0	9.3	16.0	16.0	16.0	15.3
Domestic credit (variation from same quarter of preceding year)	31.9	33.7	28.1	28.4	24.9	19.4	18.4	11.5	10.0	...
Non-performing loans as a percentage of total credit	4.6	3.3	3.0	4.3	4.4	4.0	3.9	4.8	4.6	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Figures as of May.

c/ Average of minimum and maximum rates on time deposits.

d/ Average of minimum and maximum lending rates.