Haiti

The earthquake that struck Haiti on 12 January 2010 had disastrous human, social and economic consequences for the country and caused output to fall by 7% of GDP in real terms. Before the country had a chance to recover from the devastation wrought by the earthquake, an outbreak of cholera later in the year claimed some 2,000 lives, with tens of thousands of others falling ill. The outcome of the presidential and legislative elections held on 28 November 2010 may reveal either continuity or a total break with the outgoing government. In either case, the challenges for the next government will largely be defined by the need to deal with the social and economic effects of the earthquake.

Before the cholera epidemic, the economic prospects for 2011 looked good: GDP growth expected at 9%; strong recovery in the farming, construction and maquila sectors; and larger disbursements of external aid. However, the public health challenge now facing the country may necessitate a reallocation of resources and thus affect the previous outlook.

The main macroeconomic indicators yielded less gloomy results for 2010 than had initially been expected. The public sector deficit, calculated on an accrual basis, stood at 2.9% of GDP (0.3% in 2009), and cumulative inflation in the 12 months to September was 4.7%. A moderate increase in exports (3.2%) was offset by a surge in imports (33%), considerably widening the trade deficit (by 48%, to 43% of GDP). However, current transfers in the form of remittances and grants (US$ 3.178 billion) yielded a surplus equivalent to 4.3% of GDP on the balance-of-payments current account. The capital account benefited from external debt forgiveness programmes aimed at assisting the country's reconstruction effort.

Temporary adjustments aside, the main lines of economic policy are consistent with the general framework of the new programme signed by the authorities with the International Monetary Fund (IMF) to secure approval of a three-year renewal of the Extended Credit Facility arrangement.

On a cash basis, the fiscal deficit remained fairly small at 2.2% of GDP (1.4% in 2009). This fiscal result, which was somewhat unexpected, was due to the performance of both revenue and spending. Fiscal revenues covered 80% of the budgetary total targeted before the earthquake, thanks to real-term increases in customs revenue (21.3%) and direct taxation (5.1%). As was to be expected, the largest drops were in items directly related to the level of activity in the economy, with value added tax receipts, for example, falling by 11%.

Government spending fell short of its mark owing in part to a deliberate cost-containment effort, but mainly because of administrative, physical and personnel constraints throughout the public sector. Start-up delays at some key bodies, among them the Interim Haiti Recovery Commission and the Multi-Donor Trust Fund, hindered programme and project implementation in a few instances. Another crucial factor was the relatively slow disbursement of international funds for the reconstruction work (just US$ 900 million, or 42% of the amount agreed on for the 2010 fiscal year).

Positive fiscal results in the third quarter of the fiscal year (April-June) and the signing in July of the IMF Extended Credit Facility arrangement gave the authorities greater room for manoeuvre during the budget year. Particularly noteworthy was the use of resources from the PetroCaribe programme (US$ 163 million) for social and infrastructure projects.

A prudent monetary policy sought to restrain potential inflationary risks from the increased liquidity in the economy. In real terms, base money and broad money (M3) grew by 37% and 17%, respectively, with the post-earthquake situation triggering sharp drops in both credit supply and demand. Likewise in real terms, net domestic lending fell by 31% (61.2% in the public sector and 9.8% in the private sector) and the arrears rate increased to 12%. The authorities, banks and international organizations such as the Inter-American Development Bank and the World Bank launched a series of initiatives providing partial credit guarantee funds to support the restructuring of the hardest-hit or potentially most vulnerable firms. Some bilateral donors, including the United States Agency for International Development, rolled out similar activities oriented towards more informal segments.

In September, the Ministry of Economic Affairs and Finance and the Bank of the Republic of Haiti (BRH) released a first issue of treasury bonds worth 300 million gourdes with a maturity of 36 days at 1%, with a view to gradually replacing BRH bonds and reducing monetary financing of the public sector.

The ample supply of foreign currency caused the gourde to appreciate against the dollar in nominal and real terms during the 2010 fiscal year by an average of 1% and 3.7%, respectively. To stabilize the exchange rate and have dollars available to cover further increases in imports, BRH intervened repeatedly to buy currency (US$ 143 million), thereby pushing net international reserves up to US$ 1.14 billion (US$ 700 million more than at the close of 2009).

Public-sector initiatives, involving funds from the PetroCaribe programme and the government's own resources, prioritized the areas of agriculture, education and health care, with programmes totalling US$ 212 million. The education sector received two thirds of this amount, in the form of direct spending and subsidies that were used to reopen some schools in April, rebuild classrooms and set up alternative facilities. As many people had to relocate to provincial towns and rural areas, the government pursued a strategy of building capacity in the farm sector to prevent further deterioration of living conditions in these areas.

International humanitarian aid totalling US$ 2.1 billion flowed into the country during the period and was channelled to different sectors according to each donor agency's area of specialization. In general, food, health, housing and education were the areas receiving the most assistance.

The positive performance of the agricultural sector (which had suffered little direct impact from the earthquake and benefited from recovery measures in 2008 and 2009), the rapid recovery of the maquila export industry and incipient debris removal, rehabilitation and reconstruction activities helped to avert a greater decline in GDP.

The international prices of greatest significance to the Haitian economy, i.e., those of hydrocarbons and food, rose by 19% and 8%, respectively, but those increases were not passed through in full to local consumers and were offset by the international humanitarian assistance received and the stronger exchange rate. Consequently, general inflation (September to September) stood at only 4.7%, while food price inflation was 5%.

Employment policy was oriented towards labour-intensive programmes having a humanitarian slant (such as the cash-for-work programme). These programmes, which were implemented by various international cooperation agencies, were designed to restore a minimum level of consumption in the most vulnerable households; they focused on low-skill activities and ensured a rotation of beneficiaries. Temporary jobs of a more formal nature were created in service provision areas associated with the activities financed by the international community. Nonetheless, it is quite likely that the earthquake has led to a net loss of skilled jobs as professional and technical workers emigrated abroad taking advantage of the facilities provided by different countries.

External debt relief (US$ 1.325 billion) reduced the outstanding balance of the debt by 36% (to US$ 794 million, as against US$ 1.248 billion in 2009) and lowered debt service payments. This freed up additional resources that the authorities were able to reallocate to a number of particularly urgent budget items. At the close of the 2010 fiscal year, external debt was equivalent to 12% of GDP (compared to 19% in 2009).

HAITI: MAIN ECONOMIC INDICATORS

	2008	2009	2010 [a]
	Annual percentage growth rates		
Gross domestic product	0.8	2.9	-7.0
Per capita gross domestic product	-0.8	1.2	-8.5
Consumer prices	10.1	2.0	4.6 [b]
Real minimun wage	-12.9	28.0	...
Money (M1)	17.9	6.6	28.4 [c]
Terms of trade	-28.1	29.4	-3.1
	Annual average percentages		
Central government overall balance / GDP [d]	-1.3	-1.3	-0.2
Nominal deposit rate [e]	2.4	1.7	0.9 [f]
Nominal lending rate [g]	23.3	21.6	20.7 [f]
	Millions of dollars		
Exports of goods and services	833	930	960
Imports of goods and services	2 854	2 804	3 733
Current account	- 289	- 227	273
Capital and financial account [h]	387	383	196
Overall balance	98	156	469

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

[a] Preliminary estimates.
[b] Twelve-month variation to October 2010.
[c] Twelve-month variation to September 2010.
[d] Fiscal year.
[e] Average of minimum and maximum rates on time deposits, annualized.
[f] Average from January to November.
[g] Average of minimum and maximum lending rates, annualized.
[h] Includes errors and omissions.