HAITI [1]

1. General trends

Now that a year and a half have passed since the devastating earthquake that struck Haiti in January 2010, it is time to take stock of the progress made in rehabilitation and reconstruction. The Haitian Institute of Statistics and Information Sciences estimates that the country's gross domestic product (GDP) contracted by 5.1% in real terms in fiscal year 2010, much less than originally forecast. One of the contributory factors may have been the 15% increase in final effective household consumption, supported by transfers and grants in kind. At the sectoral level, since the agricultural sector was not as hard hit, the fall in GDP was not as sharp as it might have been, despite a 15% decline in manufacturing and an 8% contraction in commerce.

The main macroeconomic indicators also suggest that the impact was less severe than had been predicted. Average inflation stood at 4.2% and the fiscal deficit was equivalent to 2.1% of GDP. The balance-of-payments current account deficit (equivalent to 2.3% of GDP) was attributable to the steep rise in the value of imports (38%) compared with a modest increase (3%) in exports.

This stability in inflation and public finances was observed at a time when the country was in the throes of a grave humanitarian crisis due to the earthquake and the cholera outbreak, which claimed 5,000 lives.

The outlook for fiscal year 2011 is for a robust economic upturn with an 8% rise in GDP, fuelled by stronger external resources and a more dynamic reconstruction. A number of political and economic weaknesses persist, however. The solution of the political weaknesses will depend on communication between the executive and legislative branches, bearing in mind that the recently elected president has very little support in congress. The campaign strategies of the new president were built around three pillars: free and universal primary education, relocation of the earthquake victims and revitalization of the agricultural sector. The authorities have been considering setting up a national primary education fund using specific taxes on telecommunications and remittances.

In terms of economic recovery in 2011, the government will need to reconcile its priorities and adjust its timeliness on the basis of actual disbursements of external funds by the international community. The availability of these funds on a timely basis is crucial for public investment and social programmes and projects. The escalation in international hydrocarbon and food prices is bound to have an impact on the economy in the coming months, but the extent of this is not yet clear.

2. Economic policy

The Haitian authorities signed a three-year extended credit facility (ECF) with the International Monetary Fund (IMF) in July 2010. This is the main economic policy management instrument available to the authorities. In May 2011, IMF delivered a favourable assessment of the first half-year results.

---

[1] The period under consideration encompasses fiscal year 2010 (October 2009-September 2010) and a few months of 2011 (October 2010- June 2011); however, in some cases, statistics relating to the calendar year have been used for ease of comparison with regional data.

In response to the after-effects of the earthquake, the economic authorities in 2010 sought to maintain price, public-finance and exchange-rate stability despite the urgency of social demands, including humanitarian needs and more deeply entrenched structural problems (poverty and inequality). The macroeconomic balance was positive, while in social terms, the results were limited.

In both cases, the authorities had the backing of the financial community and a vast movement of international solidarity. However, actual disbursements at the International Donors' Conference in New York were lower than expected (31% of the programmed amount), despite bilateral and multilateral contributions and not including the specific debt-forgiveness programmes (US$ 1.368 billion), which have been satisfactorily concluded.

Programmed funds for 2010 and 2011 amounted to US$ 5.6 billion, of which US$ 1.9 billion were supposed to have been allocated for 2010. Of this amount, it is estimated that only US$ 738 million (38%) was effectively disbursed. This reveals once again the challenges of coordination and alignment between government priorities and donor autonomy.

In the current fiscal year 2010-2011, with the emergency programme still in force up to September, the economic policy situation has remained largely unchanged except as regards the possibility of macroeconomic disequilibria and the probability of a spike in domestic inflation due to the rise in international food and fuel prices, which are cause for apprehension.

(a) Fiscal policy

In 2010, the central government deficit (on a cash basis, not including externally financed extrabudgetary programmes and projects) stood at 2.1% of GDP; the valuation on an accrual basis, not including external contributions, was equivalent to 5.2% of GDP.

Fiscal revenues (12.1% of GDP) diminished by 2.7% in real terms, owing to a fall in indirect tax receipts (value added tax (VAT) was down by 10.7% and duties and licences by 29.5%). The subsidy on energy products was the main component, as the authorities froze domestic prices for hydrocarbons in an attempt to curb inflation and halt the deterioration in living conditions. This measure resulted in a loss of revenue of approximately US$ 26 million during fiscal year 2010. Despite the special duty-free allowances granted in the aftermath of the earthquake, customs duties showed real growth of 22.3%.

Expenditure (14.2% of GDP), funded with internally generated revenues and direct budgetary assistance, grew by 2.4% in real terms, thanks to the significant increase in investment expenditure (56.6%), since current expenditure items fell by 8.4%, even with the extraordinary pay granted to civil servants (August 2010). Disbursements of direct budgetary assistance (non-earmarked external funding) stood at US$ 225 million.

In spite of the economic hardships, the authorities did manage to rein in expenditure to some degree and budget performance was suboptimal. Public social spending amounted to 8.094 billion gourdes (approximately US$ 200 million) due to constraints caused by delays in the release of funds and by weaknesses in the public administration’s executing capacity.

The forecast for 2011, in the light of results for the first half of the fiscal year (October-March) is for a larger global deficit on an accrual basis (7.4% of GDP) —excluding grants and external funding— triggered mainly by greater flexibility in current expenditure (due, among other things, to the electoral situation in the first quarter) and the vigorous growth in public investments.

Total cumulative revenues in the first half of fiscal year 2011 (October-March) showed a 29% real increase over the same period in the previous year, although tax receipts were down (by US$ 85 million) owing to lower collections from hydrocarbon imports and to temporary fiscal measures designed to reactivate the reconstruction process: duty-free import of capital goods and construction materials and tax exemptions, in general, applied to real-estate activities. Nevertheless, certain extraordinary fiscal measures were adopted in order to compensate for the potential loss of revenue: for example, a new tax on vehicle ownership as well as the reactivation of the automatic adjustment of hydrocarbon prices in the domestic market in March (an increase of 27%) and, consequently, the associated tax collection.

In March 2011, total expenditure already reflected a 10% real increase based to a great extent on investments, since current expenditure declined by 2%. In the remaining months of the fiscal year, total public spending based on internally generated revenues and, even more important, external cooperation, is expected to be equivalent to 34% of GDP.

Debt relief amounting to US$ 810 million was granted in fiscal year 2009-2010 and amounting to US$ 558 million in 2010-2011 (up to March). This relief came from bilateral donors (including Bolivarian Republic of Venezuela, Canada, France, Italy, Spain and United States) as well as from multilateral agencies (notably Inter-American Development Bank (IDB), World Bank and International Monetary Fund). In March 2011, the balance of the debt declined by US$ 417 million, the principal creditors being the Bolivarian Republic of Venezuela (58% being preferential debt financing within the framework of PetroCaribe), Taiwan Province of China (20%) and the International Fund for Agricultural Development (IFAD) (16%).

(b) Monetary policy

While the Bank of the Republic of Haiti (BRH) maintained a restrictive policy stance in fiscal year 2010, the monetary aggregates (M3) and the monetary base increased by 17.2% and 37.4%, respectively, in real terms, mainly as a result of the build-up in international reserves. The Bank chose not to intervene to correct this trend because of the low inflationary risks, the need to boost the economy and the regressive behaviour of domestic credit. In fact, the legal reserve requirement for the commercial banks was reduced (to 29% on liabilities in gourdes and 34% on those in foreign exchange) as an incentive for real estate loan operations.

The benchmark interest rate (BRH bonds) remained at the August 2009 level. A 49% decline in net domestic credit in fiscal year 2010 reflects the situation of private credit markets (down 9.8%) as well as net loan repayments by the public sector. However, this decline is attributable to weaker demand (fewer new applications), and supply constraints (high risk and less solvency among clients). A partial guarantee credit fund (safeguard fund) of US$ 35 million was set up to address this situation. The fund is administered jointly by the Industrial Development Fund of the central bank, IDB, World Bank and the United States Agency for International Development (USAID) with different banks acting as intermediaries. The Fund’s operations, which were launched in December 2010, prioritize risk coverage for credit finance agencies, rescheduling of loans of delinquent and non-delinquent borrowers and, in a second phase, credit facilitation for small and medium-sized enterprises.

The findings of the first half of fiscal year 2010-2011 do not point to any likelihood of a robust credit recovery, probably because of the uncertain political and electoral context. Treasury bonds were issued in September 2010 to replace traditional central bank bonds and a second auction took place in

January 2011; however, the full introduction of supplementary measures and new monetary policy instruments seems to have been postponed to fiscal year 2012.

(c) Exchange-rate policy

In the past two years, the fluctuations of the gourde against the United States dollar have been minimal, with the nominal exchange rate remaining at around 40 gourdes to the dollar. Meanwhile, the real exchange rate reflected a 3.7% appreciation during the same period, reinforced in 2010 by the abundance of foreign exchange in the economy, a moderate level of inflation and minimum speculative pressures given the strength of central bank reserves.

This situation will continue in 2011, since at the close of the first half-year (in March) the real appreciation in the value of the currency (5.1%) was maintained, bolstered by foreign currency inflows in the form of remittances and international aid; for the time being, the expansion of imports is not likely to jeopardize this relative availability; indeed the only risk of a reversal in this situation might come from a fresh escalation in international prices for certain commodities.

The economy was heavily dollarized in 2010, with 56% of deposits and 45% of loans denominated in United States dollars, although dollarized loans fell by almost 10 percentage points with respect to 2009 (56%).

While the central bank perceives a certain risk of Dutch disease and loss of competitiveness for the export sector; the labour market in Haiti is very depressed with extremely low wages, and constitutes a pool of workers for the maquila industry, the leading export sector in Haiti.

3. The main variables

(a) Economic activity

The earthquake was the main cause of the 5.1% contraction in GDP in 2010. While per capita GDP fell by 6.6%, gross national income (GNI) grew by 5.4%, thanks to the substantial transfers (remittances and grants) received by the country. The bulk of manufacturing, commerce, and transport and communications activities, which fell by 14.7%, 7.9% and 2.8%, respectively, occur in Port-au-Prince, one of the areas hardest hit by the disaster. The direct impact on the agricultural sector, which has a high weighting in national output (25%) was less drastic, and this averted a more dramatic fall in total GDP.

Output in the sectors of construction, electricity and government services was up by 4.1%, 1.5% and 1.4%, respectively. Construction was buoyant on account of reconstruction work (both public and private) and related tasks (including demolition and removal of debris) and because of wage rises.

On the demand side, whereas total consumption climbed sharply (15.4%), reflecting household expenses and humanitarian aid transfers in kind to households, significant declines were observed in investment (-6.5%) and exports (-7.3%).

The favourable forecasts for GDP growth (8%) for fiscal year 2011 point to a robust improvement in the economy —due to higher disbursements of external cooperation funds— the sustained dynamism of public investment and the recovery of other sectors (commerce and financial services). However, given the lags accumulated between December and March, due to the climate of uncertainty in the run-up to the elections and within three months of the closure of the fiscal year, this scenario seems highly optimistic.

(b) Prices, wages and employment

Year-on-year inflation to September 2010 was up by 4.7% and to December 2009 by 6.2%. This increase was 50% lower than the initial expectations in the aftermath of the earthquake, thanks to massive humanitarian aid programmes and the availability of foreign exchange, which boosted the value of the currency and attenuated the pass-through of higher international prices for agrifoods. However, the potential risks of greater food insecurity in Haiti are still considerable.

Inflation has spiked since the beginning of fiscal year 2011, with monthly variations in general inflation and in food inflation of 1.1% and 1.4%, respectively, resulting in year-on-year rates of 7.2% and 9.4%, respectively, at the end of the first half of the fiscal year (March). Fuel costs soared (by 27%) to the end of March and could generate second round effects, but these are more likely to occur in the production-trade chains rather than in payroll costs, and should be largely offset by the appreciation of the currency.

The adjustment in minimum wages in 2009 (which doubled from 70 gourdes to 150 gourdes) averted more drastic losses in the purchasing power of households; however, in March 2011, this advantage had been completely eroded and in year-on-year terms, the real minimum wage fell by 6.7%.

Traditional frictions in the Haitian labour market —weak demand and disproportionately high supply, lack of skills, low productivity and excessive informality, to mention just a few— flared up despite the new survival options (the cash-for-work programme), which, however, do not give rise to stable employment. Unless these programmes are placed on a more sustainable footing, it is difficult to foresee a recovery in the labour situation, which is itself a chronic structural impediment to development.

(c) The external sector

The impact of the earthquake translated into a wider trade deficit and record levels of current transfers, while the capital account registered high and unusual inflows reflecting debt relief.

In 2010, the current account showed a deficit of US$ 155 million (equivalent to 2.3% of GDP), less than in 2009 (3.5%), thanks to current transfers in the form of donations and remittances (US$ 1.790 billion and US$ 1.474 billion respectively), since the trade deficit (US$ 3.274 billion) worsened considerably (US$ 1.4 billion) with respect to the previous year. In fact, the value of goods and services exports (US$ 802 million) fell by 14%, while the value of goods and services imports (US$ 4.076 billion) shot up by 45%.

The terms of trade fell by 3.3% owing to the rise in hydrocarbon prices (20%) and in some agrifood products together with a negative net export value for cocoa and mango, despite the fact that prices were high in international markets. The change in the import mix, in which intermediate and capital goods account for a greater share (from US$ 60 million to US$ 120 million), also contributed to this deterioration.

Foreign direct investment stood at US$ 150 million in 2010, which includes privatization operations in the telephone sector (US$ 59 million invested in the purchase of a 60% share in Natcom), and flows of close to US$ 57 million in the electricity co-generating sector invested by E-power, a financial conglomerate combining local and international capital.

At the end of fiscal year 2010, net international reserves amounted to US$ 829 million (12.5% of GDP, and 3.5 months of import cover), thanks to external resources and foreign-exchange purchases by the central bank, which totalled US$ 120 million during the period; in the first half of fiscal year 2011, this trend continued with additional purchases of US$ 57 million bringing net international reserves to US$ 856 million.

Exports from the maquila sector remain buoyant (an increase of up to 20% year on year) and the outlook for a stronger economic performance suggests that substantial quantities of inputs will need to be imported. Overall in the first half of the year, imports expanded by more than 20% compared with the average for the two years prior to the 2010 earthquake. Given the preliminary estimates to March 2011 for Haitian trade (both exports and imports) with two of its main trading partners (Dominican Republic and United States of America), both these trends will probably be strengthened.