HAITI

1. General trends

For the second year running, the Haitian economy performed poorly; its gross domestic product (GDP) actually contracted by 1.2%, resulting in a reduction of per capita GDP (-3%) and real income (-2.2%). The main macroeconomic indicators deteriorated: average inflation for the fiscal period rose substantially (16.8%), the fiscal deficit remained high (-2.7% of GDP) and the balance-of-payments current-account deficit reached 1.5% of GDP. There was also an evident backslide in both investment (-6.8%) and consumption (-5.3%). The fall in real income was accentuated by the sharp deterioration in the terms of trade (4%), but was cushioned somewhat by remittances from abroad. The uncertain political outlook and the slowdown in the United States economy affected performance in all sectors of production.

EXTERNAL FINANCING was once again restricted as the Inter-American Development Bank (IDB) and other international financial institutions suspended disbursements as a result of the Haitian authorities’ payment arrears, while external aid remained frozen because of the failure to negotiate a settlement of the dispute that arose after the 2000 elections.

Indeed, Haiti’s political situation continues to exert a decisive influence on its economic performance. Since the spate of violence in December 2001, the political impasse has continued and there have been no signs of recovery: cumulative exports and imports between October and January are still down by 12% and 18%, respectively, in relation to the year-earlier period.

The International Monetary Fund (IMF) began talks with the national authorities with a view to carrying out a new Fund-monitored programme for the period 2001-2002, which has not yet been implemented and which would be a precondition for the provision of resources from the Poverty Reduction and Growth Facility (PRGF).

Since the beginning of the year there has been a crisis involving pyramid-type institutions in the cooperative banking sector. Although the formal banking sector seems to have insulated itself against possible direct contagion by returning funds on deposit to the cooperatives, this will not protect it from the secondary effects that could result from a more serious crisis. As
Figure 1
Haiti: Main economic indicators

- Gross domestic product
- Gross national income
- Consumer prices
- Central government balance
- Current account balance

Source: ECLAC, on the basis of official figures.
there is no clear regulatory framework for this sector, a
collision has arisen not only with the commercial banks,
but also with the authorities of the Ministry of Planning
and External Cooperation and those of the central bank
(Banque de la République d’Haïti).

This difficult domestic situation, compounded by the
poor prospects for the international economy, especially
the United States economy, does not offer a promising
outlook for the Haitian economy in 2002—–even leaving
aside the trend towards higher oil prices—, as two key
sectors for its external performance may be adversely
affected: maquila exports and remittances from abroad.

2. Economic policy

In the 2001 fiscal period, the main goals set out in the
programme tentatively agreed upon with IMF were not
achieved. Specifically, because of the public-sector
deficit and the high level of central government
financing by the Banque de la République, the other
measures (containment of the money supply, build-up
of international reserves, abstention from direct
intervention in the exchange market and elimination of
arrears in external debt payments) were insufficient to
meet the established targets.

The political and economic situation also impeded
progress with the structural reforms agreed upon and
reformulated several times over the past three years in
the national authorities’ negotiations with IMF,
specifically the programmes for boosting fiscal
revenues, managing public expenditure and reforming
the financial sector and State-owned enterprises.

(a) Fiscal policy

The authorities had very little room for manoeuvre
in fiscal matters, in view of the domestic economic
recession and the constraints on external financing.
While income declined by 12% in real terms, spending
contracted by 10%. Despite the increase in domestic
prices of petroleum products in September 2000, tax
receipts failed to rebound and losses in this area (over
900 million gourdes) remained significant. IMF
recommended strict application of the 1995 tax
legislation on hydrocarbons, with periodic consumer
price adjustments to reflect changes in both
international prices and exchange rates. In view of the
decline in international prices of hydrocarbons, as well
as the possibility of an upsurge in inflation and the
increased social discontent that might be triggered, the
authorities chose not to readjust the prices set at the
end of 2000.

Tax receipts fell in real terms, though value added
tax (VAT) revenues increased slightly as control measures
in respect of major taxpayers were tightened.

With regard to the structure of expenditure made with
funds from national sources only, social spending at current
prices held steady at nearly 3% of GDP, at the expense of
investment spending in general, which sagged from 1.1%
in 2000 to less than a fifth of that value in 2001 (0.2%).
Although these figures illustrate only one component of
government intervention in the social sphere, since they
do not reflect external financing for development, they
are nevertheless a cause for concern because they show
how far the Haitian economy lags behind in this area
compared to similar economies in the region.

The fiscal deficit in current terms (-2.7% of GDP),
though slightly higher than the preceding year’s deficit,
does not reflect the shift from capital to current
expenditure that the authorities had to make to prevent
further deterioration in the public accounts. Investment
spending receded by about 27% in real terms, though it
should be borne in mind that Haiti’s public accounts
undervalue these outlays, as they cover only operations
effected with local funds, while the investments of public
agencies that are direct recipients of external funds are
included to a very limited extent or not at all.

Meanwhile, the accumulation of payment arrears on
the external debt perpetuated the vicious circle in which
disbursements are suspended in response to non-
payment. The central bank continued to provide nearly
all of the central government’s financing, though its
contribution dipped slightly (-1.5% in real terms).

The 2001-2002 budget targets (including an 11%
tax ratio) do not appear disproportionate in relative terms,
and are even modest compared to those of other countries
in the region. However, the reforms needed to meet them
are hard for the country to implement in the current
strained political climate.
## Table 1: Haiti: Main Economic Indicators

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<td>-34</td>
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(b) Monetary policy

To rein in the expansive effect of central government financing, the monetary authorities tightened measures to control liquidity. In June they raised the legal reserve requirement to 31% for both local-currency and dollar deposits. In addition, they changed the rules governing the composition of those reserves: in the case of dollar deposits, 70% of the relevant reserves in financial entities must consist of foreign exchange and the remaining 30%, of local currency. This rule, which reversed the previous requirement (30% foreign exchange and 70% local currency), slowed the erosion of the central bank’s foreign-exchange reserves.

Accordingly, the balance of the monetary base in September 2001 reflected a real increase of 3.7%, owing to the large increase in credit to the government, which expanded by 15%, while credit to the private sector contracted by 17% and the bonds placed by the central bank doubled.

Liquidity patterns over the fiscal period reflected reduced demand for money in a context of recession, together with the hike in the legal reserve requirement. In September, total liquidity in the economy (M3) slid by 6.3% in real terms, largely as a result of the contraction in dollar deposits (-11.8%), time deposits in local currency (-3.3%) and narrow money (M1) (-3.8%). Real interest rates trended downward. The reduction of lending rates, which declined from 11.1% in 2000 to 9.8% in 2001, did not, however, trigger a resurgence in loans, given the slack demand for credit. As a result, credit to the private sector fell by 17.2% in real terms.

(c) Foreign-exchange policy

The average annual exchange rate of the gourde in relation to the dollar reflected a depreciation of 21.4% in nominal terms and 7% in real terms. The shrinking demand for foreign exchange, credit (-16.8%) and direct foreign-exchange transactions (-26%) was due to the depressed level of economic activity. This phenomenon arose without the direct intervention of the central bank in the foreign-exchange market, in view of its very limited reserves. The reduction (-11.2%) in net external assets was not offset by new borrowing owing to the external restrictions. The new rule on the composition of foreign-exchange reserves forced commercial banks to use part of their assets in dollars to meet this...
requirement. This significantly boosted the share of dollar assets in the central bank’s net reserves from barely 5% in 2000 to 37% in 2001.

The slight dip in the economy’s dollarization ratio, measured as the percentage of dollar deposits out of total deposits (41%) or M3 (34%), seems to be a temporary phenomenon, possibly generated by withdrawals made by savers and investors for use in transactions. It could also mean, however, that these individuals were seeking much higher returns; the pyramid-type cooperative banks offered nominal monthly returns of 8% on time deposits in dollars, compared to 5% a year from the commercial banks.

3. The main variables

(a) Economic activity

Since last year, the Haitian Institute of Statistics and Information Science has produced national accounts series with a new intermediate base (1986-1987) that replaces the previous one (1975-1976). According to this new methodology, GDP declined by 1.2%. This contraction -the first in the past seven years- was due to the poor performance of the primary sector (0.6%), which was too feeble even to cover the rate of natural population growth (1.8%), and to the stagnation or actual contraction of other activities. The latter include basic services, which shrank by 1.6% owing to the steep drop (44%) in the electricity subsector, and other services.

Because of its large contribution to GDP (26.5%), agriculture continued to be a major determinant of overall economic performance; thus, its stagnation helped to drag down the economy as a whole. Available estimates indicate that the production of crops, both for domestic consumption and for export, fell by an average of over 5%. The primary causes of this situation were low yields, the side effects of prolonged environmental degradation (especially deforestation) and the degree of import penetration, as imports increased their share of apparent consumption from 6% to 11% between 1988 and 2000.

The structural crisis in the agricultural sector is also reflected in various indicators based on the household survey conducted in 1999-2000, which show higher rates of poverty (39.6% of households) and income concentration in rural areas, where the top 20% of households receive 66.3% of total income. Also, the fact that income from agricultural production represents a shrinking share (28%) of income in rural areas reflects a critical social situation: though the soil is producing less and less, new sources of income, which are often informal, do not provide agricultural communities with alternative means of subsistence.

Despite the conclusion, in March 2001, of an energy supply contract between the State-owned firm Electricité d’Haïti and a private Dominican company, electricity output fell to critically low levels as gross generation dropped by 31%, adversely affecting production and households.

The slowdown in business services, whose contribution to GDP (26.4%) was similar to that of agriculture, was due to lower levels of demand –as a result of the erosion of income– and of domestic and external supply, exchange-rate depreciation and the cutback in credit.

Domestic output now represents less than 50% of total supply, compared to close to 80% just 15 years ago. Although this implies that the national economy is more open, it also points to growing gaps in the country’s productive capacity.

All the components of total demand were down. In the case of investment (-6.8%), this was due to a sharp contraction in public-sector investment, which represents one fifth of the total. The central government’s financial accounts showed a 26% drop, in real terms, in investment spending with local funds. This decline was barely offset by private-sector investments, which reflected a tendency to await more encouraging political signs and were limited by high interest rates.

Consumption (-5.3%) remained depressed owing to listless demand in the labour market and the slide in real income, including a 14% cut in the minimum wage, in an economy that was already plagued by high levels of poverty. The relative poverty rate is estimated at around 29%, but this indicator rises to 40% in rural areas. Remittances, which benefit 11.9% of households, are of considerable help in mitigating the adverse effects of chronic poverty, as they contribute 10% of household income and a similar percentage (10.4%) of household monetary consumption.

(b) Prices, wages and employment

Average annual inflation was 16.8% and reached its highest levels in the first quarter, owing to the ripple
effects of the increase in domestic prices of petroleum products in September 2000. Food prices (18.1%) were also affected by the depreciation of the local currency, since the food supply includes a high percentage of imports.

In the absence of specific and uninterrupted data on wages and employment, some of the indicators from the 1999-2000 household survey can be used to assess the scale of the Haitian economic crisis.

While the net activity rate declined from 57.2% to 54.5% between 1986-1987 and 1999-2000, the more recent survey indicated an economic dependency rate as high as 83.5%. The “expanded” unemployment rate (including both unemployed and discouraged workers) in the Port-au-Prince metropolitan area reached an alarming level (34.2%). The low proportion of wage employment even in the capital (47.4% of active workers) reveals a swelling contingent of underemployed and informal workers who, if counted as self-employed workers, raise the latter category’s share to 48.7% of active workers. This category accounts for the overwhelming majority of activities in commerce, in which 41.3% of all workers in Port-au-Prince are engaged.

Other facets of the Haitian economy’s grim reality include the extent of relative poverty, at 45% nationwide and 54% in rural areas, taking only primary income into account; the fact that remittances from abroad far exceed the resources generated domestically; the pattern of household consumption (the richest 20% of households account for 55% of total consumption); the sharp discrepancies between rural and urban areas; and the increasing polarization of political and social conflicts.

(c) The external sector

The merchandise trade balance remained practically unchanged in view of the decline in both exports (-7.2%) and imports (-2.7%). In the case of exports, this was due to a substantial drop in agricultural (-34%) and maquila (-3%) exports. Although cocoa benefited from a strong upturn in international prices (20%), the collapse of prices for coffee (-31%) and mangoes (-16%), as well as the United States authorities’ application of stricter phytosanitary standards to mango shipments, dealt a severe blow to exports of traditional products. The most dynamic segment of the maquila industry – wearing apparel, which represented more than 80% of exports to the United States – was stifled by the economic slump in that country and by structural shortcomings that delayed its adaptation to new contractual requirements. As a result, its exports declined in both value (-6.4%) and volume (-5%). Merchandise exports as a whole experienced a 6% decrease in volume.

The fall in imports, particularly of intermediate goods, was largely attributable to the depressed level of domestic activity. Fuel imports took a substantial dive in both value (-12%) and volume (-17%). Despite the sharp reduction in crude oil prices on the international market (-25%), the averages recorded during the Haitian fiscal year still reflected an increase in import prices (5%), probably because of the purchasing conditions for such shipments. A similar price hike (4.5%) was seen in the food sector and, as both groups have considerable weight in the import structure, the overall level of import prices rose by 2%. Haiti’s external sector then suffered a further deterioration of about 4% in the terms of trade.

Because of the continued restrictions imposed by almost the entire international financial community (except Taiwan Province of China, which extended loans, and IDB, which made credit disbursements until the third quarter), the net balance of the external debt changed very little (US$ 1.189 billion, equivalent to 1%). New disbursements amounted to scarcely US$ 35.4 million, while debt servicing payments (US$ 24 million) were considerably lower than they had been the preceding year. At the end of the fiscal period, the Haitian authorities’ payment arrears amounted to US$ 17.8 million, including US$ 4 million with IDB, US$ 2.8 million with the French government and US$ 6.1 million with the World Bank. In the last quarter of the fiscal year (July to September), this situation prompted nearly all creditor agencies to suspend disbursements.