HAITI

1. General trends

The Haitian economy performed considerably less well in fiscal year 2013/2014 than forecast.[1] At 2.8%, GDP growth was modest, particularly compared with the rate of 4.5% that had been projected. A similar result is very likely for the current fiscal year (2014/2015), given the fragile political situation since the end of last year and the upcoming electoral season, with legislative, municipal and presidential elections scheduled for August and October 2015.

The results for the 2013/2014 fiscal year were caused not only by a poor performance in the agricultural sector (-1.5%), but also by a slowdown relative to the previous fiscal year in other key sectors such as commerce (4.2%, down from 4.9% in 2012/2013) and construction (7.9%, down from 9.3%).

Gross domestic investment weakened, with growth of just 2.1% contrasting with an average of 7.0% in the previous three years. This was largely due to a severe contraction in public investment owing to institutional constraints (adoption of the budget was delayed until the eighth month of the fiscal year) and a drop of US$ 238 million in external assistance (grants and net lending).

The fiscal deficit widened from 3.9% to almost 5% of GDP in fiscal year 2013/2014, while the balance-of-payments current account deficit deepened from 6.4% to 6.9% of GDP. Similar trends are forecast for 2015 in both cases, given the poor results for the first half of the year, in addition to mounting external debt (US$ 1.829 billion), which is now back to more or less where it was in 2008, before debt relief.

Average annual inflation (3.7%) was half that of the previous year (7.0%), as international prices for a substantial range of products imported by Haiti remained stable or decreased. A reversal of this process is likely in fiscal year 2014/2015, owing to a marked depreciation of the gourde against the dollar (6%).

2. Economic policy

After concluding the eighth and final review of the Extended Credit Facility arrangement in December 2014, the Haitian authorities and the International Monetary Fund (IMF) signed a new three-year agreement in May 2015 for US$ 69 million, US$ 10 million of which was disbursed immediately. Among the things highlighted by a review of the previous programme —which entailed a disbursement of US$ 58 million and prioritized macroeconomic stability— were the tenuous macroeconomic equilibria that had been achieved with regard to inflation, international reserves and containment of the fiscal deficit, although significantly less progress than expected had been made in the areas of structural reform, economic growth and the alleviation of ongoing socioeconomic problems (poverty and employment).

[1] This review encompasses fiscal year 2013/2014 (from October 2013 to September 2014) and the first half of fiscal year 2014/2015 (from October 2014 to March 2015). In some cases, however, figures for the end of calendar year 2014 are used to facilitate comparison with regional data, and this is specified where it occurs.

(a) Fiscal policy

Notwithstanding a restrictive fiscal policy, the central government fiscal deficit widened slightly to 4.6% of GDP in fiscal year 2013/2014 on a cash basis from 3.9% of GDP the previous year. This occurred, in spite of deep cuts to investment expenditure (-63% in real terms), because of muted growth in current revenues (1.5%) and a sharp increase in operating expenditure (69%). With regard to revenues (13.2% of GDP), receipts fell in the two most important categories: tariff revenues and value added tax, this being the second consecutive year in which the former declined (from 3.9% to 3.6% of GDP).

The real-term increase in total expenditure (12%) was due to higher current spending (mainly on operating costs rather than wages and salaries), given that investment expenditure contracted greatly during this time. The appointment of an additional 1,700 civil servants and the implementation of wage increases for teachers at the end of fiscal year 2013/2014 will be reflected in the figures for the current fiscal year (2014/2015). In fact, wages were up by a nominal 29% in the first quarter of 2014/2015 (October to December) over the same period of the previous fiscal year.

Current transfers and subsidies, above all to the State-owned power company Électricité d'Haïti (EDH), absorbed the equivalent of 1.3% of GDP in fiscal year 2013/2014. An average increase of 7.7% in hydrocarbon prices (gasoline, diesel and kerosene) in October 2014 is expected to reduce these subsidies and transfers, with a positive fiscal impact on the year in course. During the first half of the year (October to March 2015), these subsidies fell by 75%.

The fragile political situation from late 2014, which led among other things to the resignation of the Prime Minister in December, a legislative vacuum and the formation of a transition government in mid-January, taken together with the discouraging outlook for the public finances, doubtless accounts for the emergency measures announced by the new government. Increased austerity was a response, in particular, to lower international oil prices and their negative impact on the funds available for public investment under the PetroCaribe agreement with the Bolivarian Republic of Venezuela.

The new budgetary decree of March 2015, which replaced the one promulgated by the executive in October 2014, established a programme for employment and inclusive economic growth (PECEI), among other things. Also introduced was a set of measures to boost fiscal revenues by means of higher tariffs and new duties, combined with budgetary austerity to contain the fiscal deficit. This included a contraction of US$ 240 million in investment expenditure to lessen the impact of the roughly 50% decline in resources from the PetroCaribe agreement.

(b) Monetary policy

The monetary policy stance of the Bank of the Republic of Haiti (BRH) in fiscal year 2013/2014 was contractionary, as evidenced by successive increases in interest rates (from 4% to 5%, 6% and 8% on 91-day central bank bonds), a rise in the banking reserve requirement (from 35% to 37%) and the provision that dollar-denominated liabilities should be covered only by reserves in that currency. This translated into a smaller monetary base (-4.5%), which was not, however, reflected in the monetary liquidity indicators (M1 and M2). Growth in lending to the private sector also slowed from 11.1% in 2012/2013 to 5.8%, but there was no reduction in absolute terms.

In the months of fiscal year 2014/2015 that have elapsed so far, the central bank has maintained and in fact intensified its contractionary stance, raising the reserve requirement to 40% and then to 43% in response to rising inflation and depreciation of the gourde against the dollar, both of which have exacerbated the already high levels of dollarization in the banking system (56% of deposits).

(c) Exchange-rate policy

Haiti’s modest economic upturn in fiscal year 2013/2014 dampened import demand growth (which was only 4.6%, as against 8.1% during the previous fiscal year), resulting in a fairly stable evolution of the nominal exchange rate, which depreciated by 3.5% against the dollar in 2014. In real terms, the depreciation was 1.4%.

Central bank interventions in the foreign-exchange market netted out to sales of US$ 21 million and did not significantly affect the level of net international reserves (US$ 1.01 billion, or almost five months of import cover). The central bank stepped up its interventions sharply during the first half of fiscal year 2014/2015, selling US$ 61 million. The gourde has nevertheless continued to depreciate, falling by a cumulative 8% from the beginning of the fiscal year to the end of June 2015. In an inherently fragile political and electoral context, the main concern of local economic agents appears to be the fact that the foreign-exchange market remains volatile despite lower international prices for the main Haitian commodity imports (petroleum, rice, oils and flour) and stable monthly remittance inflows of some US$ 130 million.

(d) Other policies

The main plank of the recently signed Extended Credit Facility arrangement between Haiti and IMF is a tight fiscal and monetary policy aimed at reducing the non-financial public-sector deficit to 2.5% of GDP in the medium term and keeping inflation close to 5%. The programme also aims to ensure relatively comfortable levels of international reserves (four to five months’ import cover), given the country’s vulnerability to external and internal shocks, such as those resulting from natural disasters. It includes a set of non-quantitative measures (structural benchmarks) consisting, among other things, in the gradual abolition of petrol subsidies, the establishment of automatic petrol price adjustment mechanisms, retrenchment at the State-owned power company EDH (owing to the large volume of transfers it requires), and certain reforms to the tax administration and laws.

The programme for employment and inclusive economic growth (PECEI), which was set out in a document annexed to the 2014/2015 budget, will initially run for the same three-year period as the Extended Credit Facility arrangement. It establishes short- and medium-term guidelines for a strategic reorientation of the mechanisms relied upon to set a course towards sustainable economic growth in the country with a degree of social support. The programme’s key consideration is that new initiatives must be accompanied by mechanisms for creating jobs in small and medium-sized enterprises that are capable of triggering a multiplier effect, especially in the construction and agribusiness sectors. Although implementation of some aspects of PECEI could begin very shortly, with highly labour-intensive initiatives being an example, measures of a more structural nature, and likewise financing sources and arrangements (investment funds or the issuance of securities on a range of assets, among others), will not be approved until the new government has been formed in 2016, after the elections.

3. The main variables

(a) The external sector

Modest economic growth in fiscal year 2013/2014 was accompanied by a slower expansion of both exports (5.6%, in contrast to 18.4% in 2013) and imports (3.2%, versus 5.3% in 2013). The volumes imported from two of Haiti's main trading partners, the United States and the Dominican Republic, were down by 16% and 17%, respectively.

The trade deficit was up slightly (1.8%) at US$ 2.53 billion, while the current account deficit (6.9% of GDP) remained largely unchanged from the previous year thanks to stable remittance inflows (US$ 1.977 billion), given that grants (US$ 563 million) have continued to decline at an annual rate of almost 25% since the year after the 2010 earthquake.

Once again, the principal exports during fiscal year 2013/2014 were maquila-produced garments (US$ 825 million), which benefited from preferential treatment under the special HOPE and HELP agreements between Haiti and the United States, their main export destination, and a smaller number of commodities (essential oils, mangoes, cocoa and coffee), totalling US$ 44 million.

As for imports, hydrocarbons (US$ 956 million) and food (US$ 781 million) made up 50% of the total. Of the latter, the most important were rice, chicken, wheat, dairy products and pulses, accounting for 75% of total food imports.

Thanks to higher prices for its main export products (up by 6% on average) and lower international prices for several commodities such as rice (-21%) and wheat (-8%) during fiscal year 2013/2014, Haiti's terms of trade improved by 6.2%. This trend could continue into 2014/2015, since the prices of several commodities of great importance to Haiti fell sharply in the first half of the year, including oil (-40%), rice (-7%) and wheat (-22%).

At US$ 99 million, foreign investment was low in absolute terms in 2013/2014, and 38% lower than in 2012/2013. Forecasts for this and for external trade in 2015 are modest, owing to the uncertainty that tends to cloud Haitian elections. The elections will begin in August and are very likely to lower expectations among the main economic agents, both in the country and internationally.

Haiti's external debt, almost all of which is owed to the Bolivarian Republic of Venezuela, stood at US$ 1.829 billion (21% of GDP). Its growth over the past five years (from just 9% of GDP in 2011) and its structure have prompted repeated warnings about its sustainability. Systemic risks have growth, firstly because Haiti's structural conditions –a small export base and low tax revenues– mean that resources to finance the debt are limited, and secondly because the current instability in the Venezuelan economy could threaten the continuity of the PetroCaribe agreement.

(b) Economic activity

Given the weight of the agricultural sector in the economy (22% of GDP), its contraction of 1.5% in 2013/2014 was largely responsible for the country's meagre growth of 2.8% in that fiscal year. Growth in the rest of the economy was still positive, albeit less dynamic, with manufacturing expanding by 2.2% in both fiscal years, while construction was up by 7.9% in 2013/2014 (as against 9.3% in the previous fiscal year) and commerce by 4.2% (versus 4.9%).

The contraction in agricultural output was attributable to adverse weather conditions in a number of regions (lack of water) and failure by public bodies to provide sufficient financial resources and inputs (fertilizers, seeds and equipment) when needed. Only 70% of the budget allocated to investment programmes in this sector from public (treasury) funds and external resources (PetroCaribe and other programmes) was actually spent, as has been confirmed by the reports of the Ministry of Agriculture, Natural Resources and Rural Development (MARNDR) and the National Food Security Coordination (CNSA).

The upturn in the construction sector was substantially weaker than forecast. Although innumerable works are in progress, the most substantial projects, including the reconstruction of public buildings, have yet to be completed. Out of a total of US$ 169 million budgeted from PetroCaribe resources, actual transfers to the infrastructure and housing subsector totalled US$ 110 million (65%).

With regard to ongoing projects, following a freeze that began in late 2014 (and also affected social programmes), the new budget plans (April 2015) approved funding of US$ 254 million, of which only US$ 19 million (7%) is currently being disbursed for works deemed of high priority, in keeping with the public treasury guidelines set out in the new Public Investment Programme (PIP) budget for 2015.

The economy also performed modestly where expenditure was concerned, with low growth in imports (2.6%), investment (2.1%), consumption (2.3%) and exports (4.5%). The figure for consumption was probably boosted by the positive effect of remittances, social spending and moderating inflation. The slowdown in investment growth, which had been 6.1% in 2012/2013, was essentially due to the contraction in public investment, partly offset by gross capital formation in the private sector.

An even lower rate of GDP growth (2.5%) is forecast for 2014/2015, given an unfavourable political outlook (elections) and a tightening of public spending –especially on investment, except in high-priority areas– to restrain the tendency towards deficits in the public finances at a time when the PetroCaribe programme is expected to provide fewer resources owing to downward trends in international hydrocarbon prices.

(c) Prices, wages and employment

Inflation remained moderate on the whole during 2014, with an average annual rate of 3.7%. However, the results towards the end of the fiscal year in September (5.3%, versus 4.5% in 2012/2013) and the end of the calendar year in December (6.4%, versus 3.4% in 2013) seem to indicate something of a resurgence, owing among other factors to the increase in domestic hydrocarbon prices in October after a three-year freeze that began in 2011. Relatively low international prices for Haiti's main import products, together with tighter monetary policy and central bank interventions in the currency market, undoubtedly mitigated potential adverse effects that could have pushed inflation still higher.

Projections for the authorities' new framework programme with IMF (May 2015) are for inflation of 7% to September 2015, a result consistent with developments in the first half of the 2014/2015 fiscal year (6.3%), on the assumption that there will be no more external shocks for the rest of the fiscal year.

The 2014 increase in the minimum wage (from 200 to 225 gourdes per day, equivalent to US$ 4.00 and US$ 4.50, respectively) led to a small rise of 1.5% in real wages. Meanwhile, the late implementation of public-sector wage rises at the end of the fiscal year had no immediate impact on the wage bill, being reflected instead in the public-sector balance sheet for fiscal year 2014/2015. The minimum wage was increased again in May 2015 (to 240 gourdes per day, or US$ 5.00), a 5% increase in real terms on 2013/2014.

The focus and approach set out by the Haitian authorities in the programme for employment and inclusive economic growth (PECEI) emphasized two areas vital to a sustainable development policy, namely employment and growth, which could provide the frame of reference for future action in this area, although current measures are short-term, consisting of “emergency interventions” in the form of labour-intensive programmes.

Table 1
HAITI: MAIN ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
	Annual growth rates b/								
Gross domestic product	2.3	3.3	0.8	3.1	-5.5	5.5	2.9	4.2	2.8
Per capita gross domestic product	0.9	2.0	-0.4	1.8	-6.7	4.2	1.6	3.0	1.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.2	2.2	1.7	1.7	13.8	-2.8	-5.2	2.7	2.3
Gross capital formation	2.2	3.1	2.8	3.6	-6.5	9.6	6.2	6.1	2.1
Exports (goods and services)	7.2	-2.9	13.6	22.2	5.1	20.3	2.1	5.0	4.5
Imports (goods and services)	1.9	0.5	5.3	5.8	20.7	0.1	-5.7	3.2	2.6
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	29.3	30.5	28.8	27.5	25.4	27.9	29.5	30.1	31.2
National saving	19.9	22.5	25.6	25.6	23.9	23.5	23.8	23.7	24.2
External saving	9.4	8.0	3.2	1.9	1.5	4.4	5.7	6.4	7.0
Balance of payments	**Millions of dollars**								
Current account balance	-459	-477	-205	-122	-102	-326	-449	-537	-600
Goods balance	-1,053	-1,182	-1,618	-1,481	-2,447	-2,546	-2,305	-2,414	-2,530
Exports, f.o.b.	495	522	490	551	563	768	775	915	954
Imports, f.o.b.	1,548	1,704	2,108	2,032	3,010	3,314	3,079	3,329	3,483
Services trade balance	-399	-423	-319	-289	-824	-575	-567	-438	-374
Income balance	7	2	6	13	22	38	55	32	12
Net current transfers	987	1,126	1,726	1,635	3,147	2,757	2,368	2,283	2,291
Capital and financial balance d/	181	287	-180	-1,006	845	513	703	178	506
Net foreign direct investment	161	75	30	55	178	119	156	160	99
Other capital movements	21	212	-209	-1,061	667	394	547	17	407
Overall balance	-277	-191	-384	-1,128	743	186	254	-359	-94
Variation in reserve assets e/	-108	-208	-163	-238	-845	-209	-285	-58	479
Other financing	385	399	548	1,366	102	23	31	418	-385
Other external-sector indicators									
Terms of trade for goods (index: 2010=100)	114.4	111.2	79.9	103.4	100.0	83.0	86.0	80.6	83.1
Net resource transfer (millions of dollars)	573	688	374	373	969	573	788	627	133
Gross external public debt (millions of dollars)	1,484	1,627	1,921	1,333	354	709	11,730	1,562	1,827
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	10.3	10.0	10.1	2.0	6.2	8.3	7.6	3.4	6.4
Variation in nominal exchange rate (annual average)	0.3	-7.2	6.3	2.1	-0.2	1.3	3.3	3.1	5.0
Variation in minimum real wage	-11.8	-7.8	-12.9	27.9	58.2	-7.7	1.7	16.5	3.5
Nominal deposit rate f/	6.0	5.2	2.4	1.7	0.9	0.4	0.5	0.7	2.0
Nominal lending rate g/	29.5	31.2	23.3	21.6	20.7	19.8	19.4	18.9	18.6

Table 1 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
Central government	**Percentajes of GDP**								
Total revenue	10.7	11.3	10.8	12.0	14.0	14.4	13.4	13.3	13.2
Tax revenue	10.4	10.8	10.6	11.7	11.8	12.9	12.9	12.2	12.1
Total expenditure	10.8	12.9	12.1	13.3	14.5	12.3	14.3	14.5	13.5
Current expenditure	9.8	10.2	9.7	11.1	10.2	10.0	10.5	10.8	11.6
Interest	1.2	0.3	0.3	0.5	0.4	0.4	0.3	0.4	0.4
Capital expenditure	0.9	2.7	2.4	2.2	4.3	2.3	3.7	3.7	1.9
Primary balance	1.2	-1.3	-1.0	-0.7	0.5	1.9	2.0	-1.0	-0.5
Overall balance	0.0	-1.6	-1.3	-1.3	0.0	1.6	1.7	-1.4	-0.9
Central government public debt	36.2	33.6	42.3	34.3	22.8	23.9	28.0	30.5	32.1
Domestic	10.7	8.9	13.7	14.5	17.6	14.1	13.5	12.6	13.3
External	25.5	24.7	28.5	19.8	5.3	9.8	14.5	17.7	18.8
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	24.3	22.3	21.4	20.0	14.7	12.3	15.4	21.7	24.9
To the public sector	9.8	8.1	6.6	3.6	-1.1	-5.2	-5.5	0.3	2.4
To the private sector	14.4	14.2	14.9	16.4	15.7	17.5	20.8	21.4	22.5
Monetary base	20.4	20.3	21.0	22.1	31.9	29.9	30.5	26.3	26.0
Money (M1)	10.7	10.8	11.2	11.1	15.1	14.1	14.8	13.9	15.3
M2	22.6	21.4	21.4	20.9	26.2	24.0	24.4	23.4	24.6
Foreign-currency deposits	15.9	15.8	16.7	18.1	23.2	22.3	21.8	21.1	21.0

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.

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Table 2

HAITI: MAIN QUARTERLY INDICATORS

	2013				2014				2015	
	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)	1,304	1,272	1,583	1,734	1,329	1,177	1,203	1,135	1,078	...
Consumer prices										
(12-month percentage variation)	7.4	7.0	5.4	3.7	3.3	3.7	5.1	6.1	6.5	6.5 b/
Average nominal exchange rate										
(gourdes per dollar)	42.4	42.5	43.8	43.0	42.6	45.4	45.6	46.6	46.4	47.5
Nominal interest rates (average annualized percentages)										
Deposit rate c/	0.3	1.7	0.7	0.3	0.5	2.7	2.5	2.5	2.7 d/	...
Lending rate e/	18.5	19.7	18.8	18.5	18.5	19.0	18.3	18.5	19.1 d/	...
Monetary policy rates	3.0	3.0	3.0	3.0	3.0	5.0	5.0	5.3	8.0	...
Domestic credit (variation from same										
quarter of preceding year)	76.8	78.2	74.8	55.3	31.9	33.7	28.1	29.0	26.2	...
Non-performing loans as										
a percentage of total credit	2.6	3.0	2.4	4.3	4.6	3.3	3.0	4.3	...	...

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/ Figures as of February.
e/ Average of minimum and maximum lending rates.