

Haiti¹

GDP growth in the Haitian economy was 2.0% in fiscal 2016. The performance improvement relative to 2015 (when growth was 1.2%) was mainly due to recovery in the agricultural sector after more than two years of drought. Inflation (at 12.5%, as against 11.0% in 2015) maintained an upward trend despite protracted declines in the most representative international prices (oil and raw materials), owing to the pass-through effect of exchange-rate depreciation, among other factors. The central government fiscal deficit dropped sharply (from 6.6% of GDP in 2015 to 2.9% of GDP), as did the current account deficit (from 2.3% of GDP in 2015 to 0.5% of GDP), these declines being due to a large reduction in investment expenditure in the first case and a drop in imports in the second.

The socio-political context remained uncertain during 2016. The transition agreement reached between the outgoing president and Congress in February 2016 made it possible to form a transition government tasked with reaching consensus on a mechanism for overcoming the political deadlock. Elections were finally held on 20 November and seem to have set the country on a path towards this normalization. These circumstances affected the economic results for 2016 and the outlook for fiscal 2017. The devastating effects of Hurricane Matthew, which ravaged the south of the country in October 2016, obviously call into question the already modest forecasts for the fiscal year just beginning.

Economic policy in 2016 continued to be largely set within the framework of the Extended Credit Facility arrangement entered into by the Haitian authorities and the International Monetary Fund (IMF) in May 2015. After the first disbursement made under the arrangement that same month for a total of US\$ 10 million, however, the 2016 reviews could not be carried out and the programme was deemed to have effectually terminated. Nevertheless, monetary and fiscal policy was kept restrictive, in accordance with the quantitative guidelines set in that programme, particularly as regards monetary control and reduction of the budget deficit.

Tax revenues posted a small real increase of 2.6% in 2016 (as compared to 12.0% in 2015), this being due to modest growth in revenues from tariffs (up 1.6%) and indirect taxes (up 6.9%), which were boosted by currency depreciation, rather than to any tax-raising effort. Total central government expenditure grew by 2.7% in real terms, reflecting a rise of 5.2% in current expenditure and, especially, a considerable drop in investment spending (-17%), in line with the gradual reduction of resources furnished under the PetroCaribe energy cooperation agreement. Despite substantial outgoings associated with transfers and subsidies, the central government primary balance was in surplus (1.5% of GDP), mainly thanks to better treasury management. Haiti's outstanding external debt was US\$ 2 billion, the equivalent of 24% of GDP.

The persistence in 2016 of a macroeconomic environment characterized by inflationary spikes, rapid exchange-rate depreciation and tenuous equilibrium in the public finances in a context of political uncertainty led the central bank to maintain a contractionary monetary stance, as it had in 2015. Legal reserve ratios were kept at 42% and 46% for commercial banks' liabilities in gourdes and dollars, respectively. Banking market lending and deposit rates ranged between 10.5% and 22.5% and between 2.8% and 7.0%, respectively. Lending rates were reduced for a spell in February and again in June (to 16.0%), but changes over the rest of the year were minimal.

Domestic credit shrank by 3.3% in real terms, with a negative performance (-1.9%) for lending to the private sector, which represents 20% of GDP, accompanied by a very sharp drop in lending to the

¹ The period of analysis is fiscal year 2016, running from October 2015 to September 2016.

public sector (-14.2%). Dollarization in the banking system remains at high levels (63% for deposits and 37% for loans).

Interventions on the foreign-exchange market by the Bank of the Republic of Haiti (BRH) in 2016 consisted in net sales of US\$ 92 million, which eroded the country's net international reserves, leaving them at US\$ 905 million (11% of GDP). The gourde depreciated by more than 20% in the fiscal year, chiefly owing to the political situation, while the exchange rate stood at 65.2 gourdes per dollar in September 2016.

The trade deficit shrank for the second consecutive year (to the equivalent of -8.4% of GDP) as imports fell by more (-6.0%) than exports (-2.2%). Coupled with continuing remittance inflows (28% of GDP), this led to a drop of more than 2 percentage points of GDP in the current account deficit, leaving this at 0.3% of GDP, despite lower donations.

On the export side, the most representative products continued to be maquila-produced garments (totalling US\$ 345 million) and some agricultural items, namely essential oils, mangos, cocoa and coffee (totalling US\$ 53 million between them). Buoyancy in the maquila sector, which has benefited from the quotas and preferential conditions established in the HOPE II and HELP agreements with the United States, could be affected by a scenario of greater protectionism and renegotiation of these terms. The country's terms of trade improved by 6.6% as import prices fell by more than export prices.

Foreign direct investment (US\$ 108 million) remained at a level similar to that of the year before, although the net outflow of capital from the banking sector (US\$ 20 million) was significantly lower. These modest results were largely due to political uncertainty.

Estimates made in the third quarter of fiscal 2016 put GDP growth in that fiscal year at 2.0%, though the figure will largely depend on how the agricultural sector ultimately performs.

According to the recently launched short-term indicator for economic activity (ICAE), activity in 2016 was driven by the primary sector (which grew by 2.5%) and the tertiary sector (4.2%). In the secondary sector, recovery in construction (6.9%) was overshadowed by the contraction of manufacturing (-2.2%). Remittance inflows continued to contribute to private-sector household consumption, accounting for two thirds of total demand.

There were signs of upward pressure in the consumer price index (CPI) in 2016, with an average annual increase of 13.4% and an increase of 12.5% as of the end of the fiscal year (in September).

The annual minimum wage review, completed in May 2016, yielded an increase from 240 gourdes to 300 gourdes per day (approximately US\$ 5), representing a rise of barely 1% in real wages.

GDP growth is projected to be about 1% in 2017 unless there is a further reconstruction effort following the extensive damage and losses caused by Hurricane Matthew (estimated at US\$ 2.6 billion, equivalent to about 30% of GDP).

Haiti: main economic indicators, 2014-2016

	2014	2015	2016 ^a
	Annual growth rate		
Gross domestic product	2.8	1.7	2.0
Per capita gross domestic product	1.4	0.3	0.7
Consumer prices	6.4	12.5	12.5 ^b
Money (M1)	8.7	12.7	2.3 ^c
Terms of trade	3.0	12.4	2.7
	Annual average percentage		
Central government			
Overall balance / GDP	-0.9	0.1	0.6
Nominal deposit rate ^d	2.0	3.9	4.9 ^e
Nominal lending rate ^f	18.6	18.8	19.8 ^e
	Millions of dollars		
Exports of goods and services	1,662	1,747	1,652
Imports of goods and services	4,751	4,432	4,111
Current account balance	-748	-202	-44
Capital and financial balance ^g	288	85	252
Overall balance	-94	-157	208

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

a/ Estimates.

b/ Figures as of September.

c/ Figures as of June.

d/ Average of highest and lowest deposit rates.

e/ Figures as of October.

f/ Average of highest and lowest lending rates.

g/ Includes errors and omissions.

A bigger fiscal deficit is expected, owing to extraordinary current and investment expenditure, subject to the actual amount of new revenue from budgetary aid, donations and borrowing (which could total as much as US\$ 200 million). The balance-of-payments current account deficit is also expected to rise again as a consequence of higher imports, particularly of materials and equipment for reconstruction. Some very short-term inflationary pressures can be expected for a limited range of agricultural products from the areas most affected by the hurricane.

Arrangements currently being entered into with IMF (the Government of Haiti's letter of intent to the organization) and with other multilateral organizations (the World Bank and Inter-American Development Bank) and the European Union will decisively influence the future situation. In the first case, an emergency loan of US\$ 42 million was signed off on in November under the Rapid Credit Facility. In the case of agreements with other agencies, the reallocation of previously approved resources will probably be called for, given the uncertainty about prospects for obtaining fresh funding.