HAITI

1. General trends

Haiti saw GDP growth of 1.5% in 2018[1] (compared to 1.2% in 2017), which was the same as the natural population growth rate (1.5%), but far from the public policy goal of 3.9%. This performance was the result of meagre increases in the agricultural (1%), manufacturing (1.2%) and construction (2.1%) sectors; the services sector also grew, in particular financial (2.4%) and government (2.2%) services, although commerce decelerated slightly (0.9%).

At the close of the fiscal year, inflation rates remained in double digits (14.6%), edging down slightly from the previous year (15.4%). The depreciation of the gourde against the United States dollar also slowed, with the annual average showing a slight appreciation (0.3%), but in September 2018 the gourde registered a year-on-year depreciation of 11% against the dollar. The fiscal deficit (6.5% of GDP) and the current account deficit (3.5% of GDP) worsened compared with the previous year (3.9% and 2.9% respectively).

The first half of fiscal year 2019 (October 2018 to March 2019) was marked by sociopolitical upheavals of varying types and magnitude. These erupted in July 2018 in response to the authorities' failed attempt to push up fuel prices, continued in October and November and flared up again in February 2019. The situation not only compelled the Prime Minister to resign, but also led to a prolonged state of political and economic uncertainty.

Given that situation at the end of the first half of fiscal 2019, it seems highly unlikely that annual GDP growth will reach the target, which was revised down to 1.7% in February 2019. The Economic Commission for Latin America and the Caribbean (ECLAC) projects growth at 0.9%, which could be revised down if the recessionary trends in the agricultural sector are confirmed. The available macroeconomic indicators substantiate this projection: a drop in fiscal revenues and expenditures (down by 20% and 13%, respectively, in real terms) and in public investment (down 53%), as well as a depreciation of the gourde (27%) and persistent inflation (16.7%), reducing disposable income.

2. Economic policy

The staff-monitored programme that the government signed with the International Monetary Fund (IMF) in February 2018 lapsed because of non-compliance with quantitative criteria —in particular, the public sector deficit, monetary financing and reserve levels— and with structural guidelines, such as reforms to the State-owned electricity corporation and reduction of fuel subsidies.

A new Extended Credit Facility signed with IMF in early March 2019 was on hold by the end of May. Unlike its predecessor, this agreement provides for the transfer of resources (in the form of lending at concessional rates) and disbursements of approximately US$ 45 million in the course of the current fiscal year. The resources will be allocated on condition that a new government is ratified and the budget is

[1] The analysis period refers to fiscal year 2018 (October 2017 to September 2018) and the first half of fiscal year 2019 (October 2018 to March 2019). To facilitate comparison with regional data, however, in some cases the statistics may refer to the end of calendar year 2018 ((in such cases this is specifically mentioned).

adopted, in addition to other more traditional quantitative and qualitative criteria subject to regular reviews during the course of the Facility. An innovative criterion is the inclusion of social protection measures (school feeding, direct transfers and housing aid, among others) as an integral part of the agreement.

The main macroeconomic indicators reveal that the results for 2018 fell far short of initially established criteria, leading to an expansive policy. The initiatives under way in fiscal 2019 could improve the fiscal balance in the short term, in particular the governance pact signed in February between the Ministry of Economic Affairs and Finance and the central bank, Banque de la République d'Haiti, that seeks to improve control of monetary financing by adopting contractionary management approaches and policies. However, these initiatives are unlikely to be sufficient to spur economic growth given that economic agents will, in all probability, reverse their expectations.

(a) Fiscal policy

Total revenue collection was down 4% in real terms in fiscal 2018, as a result of declines in direct (-5%) and indirect taxation (-11%) and in tariff revenues (-8%). This was the result of the economic downturn and cumulative structural effects, such as tariff revenue losses due to the uptick in smuggling, particularly from the Dominican Republic, which accounts for an estimated 3% of GDP.

In contrast, total central government spending rallied significantly —up 17.7% in real terms— on the back of higher current expenditure (17%), particularly subsidies (37%), and, for the first time in five years, of public investment (26%), mainly in infrastructure projects in the agricultural sector.

As a result, the central government tax burden was 12.6% of GDP in 2018, compared to 13.6% the previous year, and the central government fiscal deficit was in the order of 6.5% of GDP. This deficit was financed mainly by net contributions from the central bank, which reached record levels (4% of GDP). As a heavily indebted poor country, Haiti's sole options for financing from external resources are grants and concessional loans. In 2018, major grants were disbursed by the Inter-American Development Bank (IDB) (US$ 113 million), the European Union (US$ 30 million) and the World Bank (US$ 20 million), the latter in response to the extraordinary circumstances arising as a result of the unrest seen in July 2018.

Haiti's external public debt stood at US$ 2.121 billion (22% of GDP) in 2018. Fresh disbursements from Petróleos de Venezuela, S.A. (PDVSA) and the Organization of Petroleum Exporting Countries (OPEC) totalled just US$ 27 million, similar to Haiti's debt servicing costs (US$ 21 million). The Bolivarian Republic of Venezuela remains Haiti's main creditor under the Petrocaribe programme, although resource flows have ebbed considerably in recent years.

Furthermore, domestic public debt, which accounted for 37% of total debt and corresponded primarily to central government debt, stood at approximately 14% of GDP in 2018, continuing the steady climb of recent years.

The aforementioned governance pact between the Ministry of Economic Affairs and Finance and the central bank aims to contain public spending within the limits of actual available resources (income) and to facilitate orderly access to foreign currency to cover recurrent oil bill payments through a public agency for the monetization of development aid programmes (Bureau de Monétisation des Programmes d'Aide au Développement (BMPAD)), to avoid putting excessive pressure on the exchange market. At the request of private hydrocarbon companies, this mechanism was revised in March 2019. However, the process of import liberalization is not yet complete; the State continues to regulate hydrocarbon prices and the regular calls for oil and gas tenders.

While monetary financing data for end-March showed an appreciable year-on-year reduction (55%), this was coupled with a decline in income and, more importantly, a substantial cut in investment expenditure, at the expense of a possible and much-needed upturn and dynamism in the production sector.

(b) Monetary policy

Against the general backdrop of high inflation in 2018, the central bank maintained a tight monetary-policy stance, holding the benchmark interest rate at 12% and the legal reserve rates on commercial bank gourde and foreign currency liabilities at 44% and 49.5%, respectively. Likewise, the national currency cover required for foreign currency liabilities was increased from 5% to 7.5%, with the twin objectives of increasing gourde liquidity-absorbing operations and the supply of foreign currency to ease market exchange-rate pressures.

However, these contractionary measures were offset by substantial monetary financing to the central government, as a result of which the monetary base grew by 18% over the fiscal year, while monetary liquidity, measured by monetary aggregates M1 and M2, increased in nominal terms by 26% and 23%, respectively. Net nominal domestic credit grew by 25%, following an increase of just 9% in private sector credit and of 140% in lending to the public sector. The banking system's nominal lending and deposit rates averaged 18% and 4.8%, respectively, compared with 18.2% and 4.8% the previous year.

As mentioned above, monetary financing had increased considerably at the end of fiscal 2018, accounting for 4% of GDP (compared to 1.2% in 2017), in order to finance the public sector deficit.

The measures to facilitate the signing of the IMF Extended Credit Facility agreement during the second quarter of fiscal year 2019 (January–March) reinforced the central bank's tighter monetary control, particularly with regard to the monetary financing of the public deficit, which narrowed to around 4 billion gourdes, down from 6.7 billion gourdes at the end of December 2018.

In the first six months of fiscal year 2019 (October 2018 to March 2019) liquidity displayed a year-on-year variation of 12% (M1) and 13% (M2). Net domestic credit contracted by 3.2; while lending to the public sector grew by 30%, private credit shrank by 12%.

(c) Exchange-rate policy

Pursuant to its mandate, the central bank's exchange-rate policy is to reduce fluctuations, with the aim not only of counteracting any speculative movements, but also of offsetting exchange rates' significant inflationary impact (pass-through), given the high share of imports in the domestic supply. The economy is highly dollarized, both in terms of total deposits (60%) and as a percentage of M3 (52%).

The average exchange rate in fiscal 2018 (65.42 gourdes per dollar) was similar to that of 2017 (65.64 gourdes per dollar). However, while the exchange rate appreciated in real terms by 10%, the nominal exchange rate depreciated in 2018 (-11.6%) compared to the close of 2017, a phenomenon that accelerated as of March because of the tax authorities' stricter requirements for dollar-denominated transactions (which were reversed in October) and intense speculation about the shortage of dollars in the economy.

Currency market interventions by the central bank totalled US$ 90 million, double the 2017 figure. This contributed to a loss of almost US$ 150 million in net international reserves, which totalled US$ 772 million at the end of September, compared to US$ 924 million in 2017. Despite the central bank's interventions during the first half of the fiscal year, reserve levels remained almost unchanged as of March 2019, amounting to US$ 61 million.

In the first half of fiscal year 2019, exchange-rate volatility did not subside and was a determining factor in economic agents' lack of confidence in the policies adopted by both the tax authorities and the central bank. Cumulative nominal depreciation as of March 2019 was 21%, while the year-on-year rate compared to the same month of 2018 was 27%.

3. The main variables

(a) The external sector

The current account deficit widened to 3.5% of GDP in fiscal year 2018, compared to 2.9% in 2017. This was largely driven by the trade deficit, as imports of goods and services increased by about 20% —primarily due to the price effect— while exports of goods and services grew by 6%.

The trade deficit of US$ 3.966 billion, up 27% on 2017, was driven by rising international hydrocarbon prices (33%) and, to a lesser extent, higher prices for other commodities and food. Although the volume of hydrocarbon imports remained virtually unchanged (approximately 10.9 million barrels), the bill increased by 23%.

The modest growth in exports was due to the robust performance of exports of garments produced by the maquila industry (8.5%), which account for 75% of total exports by value, and of some agricultural products, including essential oils (US$ 52 million). Meanwhile, growth in exports of traditional products, such as coffee, cocoa and mango, remains low.

The evolution of the terms of trade was unfavourable (-10%) because of rising prices for hydrocarbons and other commodities such as rice, chicken and wheat, which make up 75% of food imports from the United States, with increases averaging 11%.

Family remittances increased by 18% in 2018, boosted by the dynamism of the United States economy, and totalled US$ 3.215 billion (compared to US$ 2.745 billion in 2017), or 33% of GDP. These inflows helped not only to contain the current account deficit, but also to sustain the consumption of a considerable number of households, as has been the case for decades.

In the first months of fiscal year 2019, exports of garments produced by the maquila industry grew by 22% in volume and by 16% in value, year-on-year. In contrast, tourism suffered a setback as a result of domestic political and social unrest. Imports also fell following the slowdown in economic activity.

(b) Economic activity

The 1.5% economic growth in 2018 was the result of a positive (albeit modest, as indicated above) performance by the agricultural sector, as well as manufacturing and construction and, to a lesser extent, commerce. In the case of the agricultural sector, the absence of extreme shocks (natural disasters) was decisive, however the late provision of government support —in terms of inputs such as seeds and fertilizers— made it impossible to capitalize on those favourable conditions.

Aggregate demand was driven by investment (2.3%), thanks in large part to public infrastructure projects. Consumption was up by 1.2%, owing in part to the private component financed by remittances, and to current expenditure in the public sector.

Growth of 0.9% of GDP is forecast for 2019. The first half of the year was marked by poor performances in almost all areas, reflected both in the real economy involving the production of goods and services, which were directly and negatively affected by economic stagnation, and in the public finances' weak results. Uncertainty about the future is also confounding economic expectations: reflected, on the one hand, in the political controversy between the executive and parliament regarding the ratification of a new prime minister and, on the other, in the fact that the three-year US$ 229 million Extended Credit Facility agreed with IMF is still on hold. The IMF agreement would not only expedite immediate disbursements, but also sets the pattern for support from other international partners (the World Bank, IDB and the European Union).

The year-on-year variations available to date (according to the short-term indicator of economic activity (ICAE) as of the first quarter of fiscal 2019) point to negative results in various key sectors, including agriculture, manufacturing and construction. A reversal of these trends is unlikely to occur in the remainder of the fiscal year, as the social and political unrest that affected the production sectors in February 2019 brought economic activity to a standstill. The tourism sector has been hit particularly hard by the reclassification of Haiti as an "unsafe destination" by the United States and some other countries, which caused occupancy rates to plummet. At the same time, the civil service faces an uncertain transition until a new government is formed and appointment processes are standardized.

(c) Prices, wages and employment

The consumer price index (CPI) posted an average annual increase of 13.5% in 2018 and was up 15.1% year-on-year at the calendar year end in December 2018. This was attributed not only to the rise in international prices of Haiti's main import products —including hydrocarbons—, but also to exchange-rate pass-through in a context of sharp depreciation of the nominal exchange rate.

The minimum wage in the maquila sector rose from 300 to 350 gourdes (US$ 5.6) per day in August 2017. It was adjusted again in October 2018 to 420 gourdes (US$ 5.91) per day for fiscal year 2019, which corresponded to a real increase of 2.8%. In March 2019, the Chamber of Deputies moved to raise it to 750 gourdes (approximately US$ 8.74), but the bill has not yet been ratified. Employers represented by the Haiti Industries Association (ADIH) have strongly contested this bill, both in its form —it was presented by the legislature and not by the Wage Council, as prescribed by law— and in its substance, citing the loss of competitiveness and the risk of mass layoffs.

Employment in the maquila sector grew by 15%, from 45,856 jobs in 2017 to 52,870 in 2018. At end-March 2019, it was estimated that 54,941 people worked in this sector.

The employment index, based on the records of the Haitian Institute of Statistics and Information Sciences (IHSI), was down 1.2% year-on-year by the end of the first quarter of fiscal 2019 (end-December 2018); a trend that was forecast to continue into the subsequent quarter.

In March 2019, at the end of the first half of the current fiscal year, year-on-year inflation (16.7%) and core inflation (17.7%) rates indicate not only the continuation of the trends and tensions of the previous year, but also year-on-year variations that had not been observed since 2008. In this context, the ongoing review of minimum wages and the agreed guidelines for shaping social programmes in support of public policies are likely to be among the avenues for dialogue that could enhance sociopolitical stability in the remaining months of the fiscal year.

Table 1
HAITI: MAIN ECONOMIC INDICATORS

	2010	2011	2012	2013	2014	2015	2016	2017	2018 a/
	Annual growth rates b/								
Gross domestic product	-5.5	5.5	2.9	4.2	2.8	1.2	1.5	1.2	1.5
Per capita gross domestic product	-6.9	4.0	1.4	2.8	1.4	-0.1	0.1	-0.1	0.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	13.8	-2.8	-5.2	2.7	2.4	0.8	1.2	2.7	1.2
Gross capital formation	-6.5	9.6	6.2	6.1	2.0	3.6	1.1	0.9	2.3
Exports (goods and services)	5.1	20.3	2.1	5.0	4.5	3.6	0.7	-1.2	2.0
Imports (goods and services)	20.7	0.1	-5.7	3.2	2.6	2.2	0.8	2.0	1.5
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	25.4	27.9	29.5	30.0	30.9	32.4	30.5	29.0	29.0
National saving	23.9	23.5	24.0	23.3	22.3	29.2	29.4	26.1	24.6
External saving	1.5	4.4	5.6	6.7	8.7	3.2	1.1	2.9	4.4
Balance of payments	**Millions of dollars**								
Current account balance	-102	-326	-436	-561	-750	-266	-83	-246	-336
Goods balance	-2 447	-2 546	-2 302	-2 426	-2 705	-2 425	-2 188	-2 626	-3 478
Exports, f.o.b.	563	768	778	915	961	1 024	995	992	1 078
Imports, f.o.b.	3 010	3 314	3 079	3 341	3 666	3 449	3 183	3 618	4 556
Services trade balance	-824	-575	-567	-450	-385	-318	-407	-506	-489
Income balance	22	38	64	32	49	41	48	54	53
Net current transfers	3 147	2 757	2 368	2 283	2 291	2 437	2 464	2 832	3 577
Capital and financial balance d/	845	513	689	570	269	42	164	273	172
Net foreign direct investment	178	119	156	162	99	106	105	375	105
Other capital movements	667	394	533	409	170	-63	59	-102	67
Overall balance	743	186	252	10	-480	-223	81	27	-164
Variation in reserve assets e/	-845	-209	-285	-32	473	141	-142	-202	25
Other financing	102	23	31	23	7	82	61	175	139
Other external-sector indicators									
Terms of trade for goods (index: 2010=100) f/	100.0	83.0	86.0	80.6	83.1	87.4	86.4	86.9	82.8
Net resource transfer (millions of dollars)	969	573	784	625	325	165	273	502	364
Gross external public debt (millions of dollars)	353	727	1 126	1 503	1 875	1 993	2 019	2 107	2 124
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	6.2	8.3	7.6	3.4	6.4	12.5	14.3	13.3	16.5
Variation in nominal exchange rate (annual average)	-0.2	1.3	3.3	3.1	5.0	13.4	23.8	3.1	4.0
Variation in minimum real wage	58.2	-7.7	1.7	16.5	3.5	-0.4	4.4	0.0	0.8
Nominal deposit rate g/	0.9	0.4	0.5	0.7	2.0	3.9	5.0	4.5	4.9
Nominal lending rate h/	20.7	19.8	19.4	18.9	18.6	18.8	19.7	18.1	17.7

Table 1 (concluded)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Central government	**Percentages of GDP**								
Total revenue	14.0	14.4	13.4	13.3	13.1	13.7	14.4	13.8	13.2
Tax revenue	11.8	12.9	12.9	12.2	12.0	13.4	13.7	13.6	12.6
Total expenditure	14.5	12.3	14.3	14.5	13.4	12.8	13.2	12.7	13.9
Current expenditure	10.2	10.0	10.5	10.8	11.5	11.4	11.9	11.6	12.1
Interest	0.4	0.4	0.3	0.4	0.4	0.2	0.3	0.3	0.3
Capital expenditure	4.3	2.3	3.7	3.7	1.9	1.5	1.2	1.1	1.9
Primary balance	0.5	1.9	2.0	-1.0	-0.5	0.3	0.9	0.7	-2.4
Overall balance	0.0	1.6	1.7	-1.4	-0.9	0.1	0.6	0.4	-2.7
Central government public debt	22.8	23.9	28.0	30.5	35.1	39.7	40.8	35.1	32.7
Domestic	17.6	14.1	13.5	12.6	12.7	13.0	12.6	10.5	10.5
External	5.3	9.8	14.5	17.7	22.4	26.7	28.2	24.6	21.5
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	14.7	12.3	15.4	21.7	24.5	26.3	24.9	23.4	29.0
To the public sector	-1.1	-5.2	-5.5	0.3	2.2	4.5	2.2	3.3	7.6
To the private sector	15.7	17.5	20.8	21.4	22.3	21.8	22.7	20.1	21.5
Monetary base	31.9	29.9	30.5	26.3	25.9	29.4	31.6	31.1	32.4
Money (M1)	15.1	14.1	14.8	13.9	15.2	14.7	15.0	14.7	16.0
M2	26.2	24.0	24.4	23.4	24.4	24.5	24.8	23.8	25.3
Foreign-currency deposits	23.2	22.3	21.8	21.1	20.9	26.6	28.7	27.3	27.4

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/ Economic Development Division, calculations for Economic Survey of Latin America and the Caribbean, 2019.
g/ Average of minimum and maximum rates on time deposits.
h/ Average of minimum and maximum lending rates.

Table 2
HAITI: MAIN QUARTERLY INDICATORS

	2017				2018				2019	
	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)	985	1 014	1 073	1 093	1 081	1 199	1 230	…	…	…
Consumer prices										
(12-month percentage variation)	14.8	13.9	12.5	14.3	14.3	15.8	15.3	13.3	12.9	13.0
Average nominal exchange rate										
(gourdes per dollar)	60.4	62.6	64.4	65.7	67.7	66.2	63.6	63.6	64.4	65.1
Nominal interest rates (average annualized percentages)										
Deposit rate c/	4.9	4.5	4.8	6.0	4.7	4.4	4.0	4.7	4.9	4.8 c/
Lending rate d/	18.9	22.1	18.6	19.2	18.0	17.7	17.9	18.4	18.1	18.2 c/
Monetary policy rates	16.0	15.3	14.0	13.3	12.0	12.0	12.0	12.0	12.0	12.0
Domestic credit (variation from same	12.1	10.8	10.5	13.3	18.9	19.4	27.9	27.5	23.1	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Figures as of May.
b/ Average of minimum and maximum rates on time deposits.
d/ Average of minimum and maximum lending rates.

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