

## HAITI

### 1. General trends

In the context of the national and international crisis caused by the coronavirus disease (COVID-19) pandemic, the Haitian economy contracted by 3.3% in 2020.<sup>1</sup> This second consecutive annual decline—in 2019, GDP fell by 1.7%—is due not only to the effects of the global health crisis itself on supply and demand, but also to the deterioration of domestic macroeconomic conditions since 2018 as a result of the persistence of an adverse sociopolitical environment of institutional instability, growing insecurity and social discontent.

The most representative macroeconomic indicators in 2020 reflect the above-mentioned conditions: high inflation rates (25.2% year-on-year as of September and 22.9% annual average inflation), marked depreciation of the gourde (-18%) and widening of the fiscal deficit (-2.9% of GDP, compared to -0.9% in 2019).<sup>2</sup> However, the current account posted a surplus of 9.6% of GDP in 2020 (-0.8% in 2019), resulting from the sharp decline in imports (-17%), which was partly offset by higher remittance flows (22%).

For 2021, the Economic Commission for Latin America and the Caribbean (ECLAC) projects that Haiti's GDP will post negative growth of -1.3%. An upsurge of COVID-19 infections in Haiti since May 2021 led to the reestablishment of a state of health emergency. This, together with increased insecurity, could impair the few sectors currently prompting forecasts of economic reactivation. The assassination of the President in July 2021 adds further political instability to an already fragile economic environment.

The most relevant macroeconomic variables are projected to differ from those observed in 2020. On the one hand, a widening of the fiscal deficit, monetary financing and the current account deficit is to be expected, based on trends in the first half of the fiscal year (October–March). The downward trend in inflation—the year-on-year variation was 16.4% in April, compared to 22.4% in the same month of 2020—could be reversed, as weak demand and a slower pace of exchange rate depreciation could be offset by an increase in the international prices of hydrocarbons (up 274% compared to April 2020) and other primary goods.

### 2. Economic policy

During fiscal year 2020, economic policy focused on mitigating the monetary, financial and fiscal effects of the pandemic and, to a lesser extent, on the productive sectors. Likewise, through the implementation of social programmes (cash transfers and food baskets), an attempt was made to contain their impacts on the most disadvantaged households. The guidelines for fiscal year 2021, reflected in the

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<sup>1</sup> The period analysed for Haiti is fiscal year 2020, which runs from October 2019 to September 2020, and the first half of fiscal year 2021, which runs from October 2020 to March 2021. However, in order to facilitate comparison with regional data, in some cases the figures mentioned may correspond to the close of the 2020 calendar year. In such cases, specific mention is made of the timeframe referred to.

<sup>2</sup> In July 2020, the Haitian Institute of Statistics and Informatics (IHSI) published new series of the National Accounting System with base year 2012, replacing the previous series (base year 1986–1987). The revaluation of GDP in 2012 represented an increase of 73% in nominal terms with respect to the previous series, so that indicators referring to GDP may reflect substantial decreases attributable to that revaluation.

budget approved in October 2020, confirm that these policies will continue in the short and medium term, taking into account the main lines of intervention outlined in the Post-COVID Economic Recovery Plan (PREPOC) 2020–2023.

Negotiations begun in early 2020 between the national authorities and the International Monetary Fund (IMF) for the signing of a Staff Monitored Program (SMP) —after approval in April 2020 of the emergency disbursement to address COVID-19 under the Rapid Credit Facility— had not concluded as of the closing date of this note. Macroeconomic performance in fiscal years 2020 and 2021 is likely to dictate the need to consider a new transition protocol.

#### **(a) Fiscal policy**

In 2020, Haiti pursued an expansionary fiscal stance. Total central government revenue was equivalent to 6.0% of GDP (the same ratio as in 2019), while total expenditure posted an increase (8.5% of GDP, compared to 6.1% in 2019) as a result of the measures taken to address the pandemic. That contributed to an increase in the fiscal deficit (-2.7% of GDP). Despite the nominal growth (14%) in tax revenue, in real terms it fell 9% and was 3% lower than programmed. Other factors contributing to these outcomes included the adverse performance of both direct and indirect revenue and tariff revenue, which fell in real terms by 25%, 22% and 13%, respectively, owing to lower economic and foreign trade activity.

The increase in total expenditure (29% in real terms) is attributable to higher current expenditure (19%), but above all to the growth of investment (225%), reflecting public interventions to address the pandemic. Also noteworthy is the inclusion in the public accounts, as of 2020, of energy subsidies to the state-owned electricity company Électricité d'Haïti (EDH) (1.9% of GDP).

The fiscal deficit was covered mainly by the central bank (Banque de la République d'Haïti - BRH), with monetary financing of 42.91 billion gourdes (3% of GDP) and treasury bond issues (1.6% of GDP). Domestic debt nearly doubled its 2019 level and domestic debt servicing (repayments of principal and interest payments) accounted for net outlays representing 3.4% of GDP. The external public debt (US\$ 2.196 billion, equivalent to 17% of GDP) posted a moderate increase of 4.5% over 2019 and its servicing amounted to US\$16 million. The main creditor is the Bolivarian Republic of Venezuela, under the Petrocaribe programme, suspended since 2018.

In the first half of fiscal year 2021 (October–March), public finances continued the trend observed in 2020. Although there was an increase in real terms in total revenue (8.4% year-on-year), it is still 20% below the programmed level for the first half of the year. There were considerable reductions in direct (-45%) and indirect (-26%) taxation, offset by a 4% increase in tariff revenues thanks to a slight recovery in imports.

Total expenditure fell by 2% in real terms, which can largely be attributed to the fall in public investments (-24%), since current expenditure remained practically constant. In contrast to 2020, the subsidies posted a 42% drop.

Monetary financing of the central bank (33.241 billion gourdes at the close of the first half) again offset the widening of the budget deficit, at a level (80%) close to the ceiling established in the November 2020 agreement between the Ministry of Economy and Finance and the central bank for the fiscal year as a whole. The sharper increase in the public sector's domestic debt (including treasury bonds) continued. Principal and interest payments on it constituted major public sector outlays, equivalent to 57% of revenue and 40% of expenditure.

**(b) Monetary policy and exchange rate policies**

Since the declaration of the state of health emergency caused by the pandemic in March 2020, the BRH has pursued an expansionary monetary policy. The most notable measures include: the reduction of the cash reserve requirement, the increase in the ceilings for transactions made through mobile payment services, the waiving of commissions on interbank transfers, as well as other measures to support lending to the private sector, such as a temporary 90-day (unpenalized) moratorium on interest payments.

The monetary base grew by 9% year-on-year in nominal terms (-11% real), while credit to the public sector rose by 56% in real terms (bond placements), compared to a 25% reduction in lending to the private sector, the latter attributable to a context of uncertainty and exchange rate volatility. As a percentage of GDP, private credit declined from 12% in 2019 to 9% in 2020. Dollar loans at the end of September 2020 (US\$ 675 million) were down 10% from their 2019 level, while the dollarization of the economy (ratio of dollar deposits to M3) fell 13 percentage points (from 57% to 44%).

The nominal benchmark bank rate was adjusted from 15% to 10% in March 2020. Real lending and deposit rates in the banking market were negative, with average levels of -4.5% and -14.8%, respectively.

In 2020, the average exchange rate stood at US\$ 1 = 99.77 gourdes. At the close of the fiscal year in September, the gourde posted a 26% nominal appreciation vis-à-vis the dollar (from US\$ 1 = 117.67 to US\$ 1 = 86.80 gourdes between August and September). Excluding September, the nominal year-on-year depreciation was 18% (but the real appreciation was 2.3%), with a monthly average of 2.5%. Given the large share of imported products in Haiti's consumption basket, in addition to hydrocarbons, the transmission of exchange rate depreciation to inflation has been a recurrent phenomenon.

Faced with exchange rate volatility throughout the year, in a context of crisis and an adverse scenario of reduced exports and foreign aid (donations), the monetary authorities intervened in the remittance-related foreign exchange market. The BRH issued circulars making it mandatory to pay remittances in gourdes at the official exchange rate (except for direct foreign currency transfers to account holders) and to deliver 30% of the collected foreign currency to the BRH. The limited supply of foreign currency produced an informal parallel market offering more than the official rate.

During fiscal year 2020, BRH interventions in the foreign exchange market totalled US\$ 94 million, including sales, which amounted to US\$ 164 million in August and September. Net international reserves decreased by US\$ 42 million to US\$ 701 million in September 2020, a level equivalent to two months of imports.

In the months so far elapsed in fiscal year 2021, monetary policy was shaped, first, by the November 2020 agreement between the Ministry of Economy and Finance and the central bank aimed at limiting monetary financing. The traditional provision of BRH bonds to absorb liquidity was reduced—from 15.581 to 1.15 billion gourdes between March 2020 and March 2021—in order to facilitate the acquisition of government securities (treasury bonds) by commercial banks.

Deposits in local currency continue to surpass those denominated in dollars, but the dollarization of the banking system is still considerable, since this currency accounts for 45% of total deposits.

The monetary authority expects the implementation of measures aimed at alleviating tensions in the exchange market and their impact on prices to continue during fiscal year 2021. This process is likely

to be accompanied by other regulatory initiatives to return to normal relations with foreign exchange intermediaries and prices in local currency.

The trends observed at the end of the first half of the fiscal year (March 2021) and subsequent months again point to a gradual process of depreciation —4.7% per month on average, compared to 2.1% in 2020— in a context of still rising remittance flows, but with an appreciable upturn in imports.

### **3. The main variables**

#### **(a) The external sector**

The national and global crisis had a mixed set of supply and demand impacts on Haiti's external sector in fiscal year 2020. Preliminary central bank data —the balance of payments for 2020 was not yet available at the close of this note— and own estimates point to a significant (-18%) narrowing of the goods and services trade deficit, caused by a (-17%) drop in imports of goods. The reduction in imports was due to lower demand and the collapse of some international prices (-25%) in the case of hydrocarbons, which account for a quarter of total imports.

Exports of apparel and other maquila sector products, which represent close to 80% of total exports, experienced a 25% contraction. Other local export products, such as mango, alcoholic beverages and cocoa, posted increases.

The improvement observed in the terms of trade (4.7%) is attributable to a more pronounced drop in the price of imports (-5.9%) compared to that of exports (-1.5%).

The current account surplus (US\$ 625 million) was largely due to remittance inflows of US\$ 2.7 billion, which, contrary to initial forecasts of a contraction caused by the pandemic and the crisis in the United States, their main source, increased by 22%.

In contrast to the figures for 2020, data for the first half of fiscal year 2021 show a year-on-year (October–March) increase in the value of imports (37%). Meanwhile, exports continue their downward trend (-4%).

The upward trend of remittances continued, with average monthly flows of US\$ 300 million and a year-on-year (October–March) increase of 40%. In addition to the overall recovery of the United States economy, one factor that could explain the increase in remittances is the government programme of exceptional cash transfers to United States households, which undoubtedly benefit a considerable number of Haitian migrants.

If the trends observed at the end of the first half of 2021 persist during the rest of the year, the current account of the balance of payments is likely to revert to a deficit. That would be a result of the increase in the import bill and the resurgence of tensions in the foreign exchange market.

#### **(b) Economic activity**

In 2020, the Haitian economy suffered a second consecutive year of GDP contraction. On the supply side, estimates from the Haitian Institute of Statistics and Informatics (IHSI) point to declines of 3.2% in the primary sector, 2.8% in the secondary sector and 4.2% in the tertiary sector. The contraction of the agricultural sector (-2.5%) is due to climatic factors (less rainfall), supply chain restrictions and a

reduction in public investment in maintenance works and the supply of inputs (fertilizers). The negative performance of this sector has severe implications in terms of food insecurity, given that nearly 46% of the population is experiencing a food emergency, according to data from the National Food Security Coordination Office (CNSA). Internal and external shocks also impaired the performance of the other productive sectors, in all of which across-the-board socio-political unrest and insecurity have taken their toll. In the manufacturing sector (-4.2%), textile maquila activities were hit by the drastic drop in external demand, while the construction industry declined (-15%) as a result of the slowdown or suspension of public and private works. In the tertiary sector, the decreases in trade activities (-2.9%) and transport and storage (-24%) are attributable to the overall economic crisis. Public administration value-added proved to be an exception, posting 6.1% growth.

On the expenditure side, domestic demand (-5.2%) showed a reduction in both household consumption (-4.4%) and investment (-21%). However, the public components (minority weighting) of both consumption and investment posted increases of 11% and 4%, respectively. These increases were attributable to public policy actions aimed at addressing the pandemic, among other factors.

In the absence of recent estimates for the productive sector, the outlook for fiscal year 2021 points to a negative trend (-1.3%) in GDP. The current economic activity index (ICAE) registered a year-on-year uptick of 1.2% in the first quarter of the fiscal year. The agricultural sector could recover thanks to more favourable weather conditions.

### (c) **Prices, wages and employment**

Since 2016, the Haitian economy has recorded double-digit inflation rates. In fiscal year 2020, inflationary pressures intensified, resulting in average annual inflation of 22.9% (19.2% December–December) and an average month-on-month variation of 2.0%. A number of internal and external factors contributed to this acceleration in annual price increases, such as the more marked depreciation of the gourde and disruptions and shortages in supply chains—for example, due to the closing of borders. Here, it is worth noting that downward trends in international hydrocarbon prices in 2020 did not pass through to the domestic market, which has had fixed prices since 2017.

Minimum wages continued at levels established in November 2019 (applicable to fiscal year 2020). For those employed in the maquila sector, the increase was 19% (from 420 to 500 gourdes per workday; approximately US\$ 4.7 at the time). The exchange rate depreciation and inflation resulted in a substantial decline in the purchasing power of the formal wage-earning population in general.

In 2021, according to the trend observed during the first half of the year, inflation slowed somewhat (from 16% year-on-year as of April). The confirmation of this trend will depend to a large extent on the national economic and socio-political context, changes in the exchange rate and possible new restrictions as a result of the reactivation of the health emergency. Year-on-year core inflation in February was 18.8%, compared to 17.7% in the same month of 2020.

In the formal labour market, according to reports from the Association of Industries of Haiti (ADIH), after a loss of 19,000 jobs in 2020 (one third of total employment), the sector had almost completely recovered its workforce as of January 2021 (56,619 people). The unemployment caused by the COVID-19 health emergency affected women more than men, owing to the preponderance of female employees in the hardest-hit sectors, such as the maquila sector (where women account for two thirds of the employed) and commerce (where 70% of workers are women), but also in care work, which is heavily skewed towards women.

Although exchange rate appreciation has led to a revaluation of the minimum wage in dollar terms (US\$ 7 per day in March 2021), there is still a 13% decrease in the real wage in gourdes.

In October 2020, in connection with the approval of the budget for the 2020–2021 fiscal year, wage increases of between 10% and 55% were announced for the Haitian civil service, that is to say, approximately 107,155 people, 30% of whom are women. Estimates made on the basis of the minimum monthly wage for lower levels (10,000 gourdes) point to a nominal increase of 55% in these categories, which would represent a real-terms hike of 34%.

Table 1  
**HAITI: MAIN ECONOMIC INDICATORS**

	2012	2013	2014	2015	2016	2017	2018	2019	2020 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	0.5	4.3	1.7	2.6	1.8	2.5	1.7	-1.7	-3.3
Per capita gross domestic product	-1.0	2.8	0.3	1.2	0.5	1.2	0.4	-2.9	-4.5
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.7	5.4	0.5	5.3	5.8	4.7	4.1	-1.6	-2.9
Gross capital formation	-10.4	-7.0	20.5	-22.0	17.2	7.9	-5.2	7.7	-20.6
Exports (goods and services)	-1.9	16.5	4.8	6.2	1.1	-0.6	-6.5	6.8	-39.7
Imports (goods and services)	-3.2	5.2	8.1	-1.4	21.7	10.4	3.3	4.2	-18.3
Investment and saving c/	<b>Percentages of GDP</b>								
Gross capital formation	17.5	17.5	16.5	14.1	16.9	20.2	18.7	20.3	18.0
National saving	14.3	13.7	11.5	12.2	16.4	19.7	16.4	19.4	24.0
External saving	3.2	3.8	5.0	1.9	0.5	0.6	2.4	0.9	-6.0
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-436	-561	-749	-266	-71	-84	-373	-123	918
Goods balance	-2 302	-2 426	-2 705	-2 425	-2 176	-2 626	-3 406	-2 996	-2 587
Exports, f.o.b.	778	915	961	1 024	1 007	991	1 079	1 201	886
Imports, f.o.b.	3 079	3 341	3 666	3 449	3 183	3 618	4 484	4 198	3 473
Services trade balance	-567	-450	-384	-318	-408	-399	-486	-618	-369
Income balance	64	32	49	41	48	59	50	50	28
Net current transfers	2 368	2 283	2 291	2 437	2 464	2 883	3 469	3 442	3 847
Capital and financial balance d/	689	570	662	42	153	112	322	-67	-918
Net foreign direct investment	156	162	99	106	105	375	105	75	0
Other capital movements	533	409	563	-63	48	-262	217	-142	-918
Overall balance	252	10	-87	-223	81	28	-51	-190	...
Variation in reserve assets e/	-285	-32	80	141	-142	-206	-33	109	...
Other financing	31	23	7	82	61	178	84	81	...
Other external-sector indicators									
Terms of trade for goods (index: 2010=100)	86.0	80.6	83.1	87.4	86.4	87.6	86.4	87.4	88.3
Net resource transfer (millions of dollars)	784	625	718	165	261	349	456	64	-890
Gross external public debt (millions of dollars)	1 070	1 478	1 833	1 985	2 013	2 133	2 125	2 104	...
Prices	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	7.6	3.4	6.4	12.5	14.3	13.3	16.5	20.8	19.2
Variation in nominal exchange rate (annual average)	3.3	3.1	5.0	13.4	23.8	3.1	4.0	33.4	4.2
Variation in minimum real wage	1.7	16.5	3.5	-0.4	4.4	0.0	0.8	-0.3	...
Nominal deposit rate f/	0.5	0.7	2.0	3.9	5.0	4.5	4.9	6.1	4.4
Nominal lending rate g/	19.4	18.9	18.6	18.8	19.7	18.1	17.7	18.7	16.2

Table 1 (concluded)

	2012	2013	2014	2015	2016	2017	2018	2019	2020 a/
<b>Central government</b>	<b>Percentages of GDP</b>								
Total revenue	13.4	13.3	13.1	13.7	14.4	13.8	13.2	...	...
Tax revenue	12.9	12.2	12.0	13.4	13.7	13.6	12.6	...	...
Total expenditure	14.3	14.5	13.4	12.8	13.2	12.7	13.9	...	...
Current expenditure	10.5	10.8	11.5	11.4	11.9	11.6	12.1	...	...
Interest	0.3	0.4	0.4	0.2	0.3	0.3	0.3	...	...
Capital expenditure	3.7	3.7	1.9	1.5	1.2	1.1	1.9	...	...
Primary balance	2.0	-1.0	-0.5	0.3	0.9	0.7	-2.4	...	...
Overall balance	1.7	-1.4	-0.9	0.1	0.6	0.4	-2.7	...	...
<b>Central government public debt</b>	28.0	30.5	35.1	39.7	40.8	38.3	39.9	47.0	...
Domestic	13.5	12.6	12.7	13.0	12.6	12.5	12.9	15.2	...
External	14.5	17.7	22.4	26.7	28.2	24.7	27.0	31.8	...
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	8.8	12.3	14.2	15.5	14.2	14.3	16.9	18.0	19.8
To the public sector	-3.1	0.2	1.3	2.6	1.3	2.5	4.3	6.3	9.7
To the private sector	12.0	12.2	12.9	12.8	12.9	11.8	12.6	11.6	10.1
Monetary base	17.6	14.9	15.0	17.3	18.0	17.4	19.0	30.5	27.9
Money (M1)	8.5	7.9	8.8	8.6	8.6	8.2	9.4	9.1	10.4
M2	14.0	13.3	14.1	14.4	14.1	13.3	14.8	14.4	15.3
Foreign-currency deposits	12.6	12.0	12.1	15.7	16.4	15.3	16.1	16.6	12.7

**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.

Table 2  
**HAITI: MAIN QUARTERLY INDICATORS**

	2019				2020				2021	
	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)	1 281	1 300	1 354	1 332	1 338	1 412	1 406	...	...	...
Consumer prices (12-month percentage variation)	17.7	19.3	19.7	20.8	22.0	24.8	25.2	19.2	17.2	...
Average nominal exchange rate (gourdes per dollar)	81.3	88.9	95.0	96.9	97.0	104.6	109.6	66.1	74.6	86.2
Nominal interest rates (average annualized percentages)										
Deposit rate b/	5.0	6.0	6.9	6.3	5.3	4.3	3.7	4.2	...	...
Lending rate c/	17.1	16.4	21.5	20.0	17.9	15.2	15.8	15.4	...	...
Monetary policy rates	12.0	15.3	22.0	17.3	13.3	10.0	10.0	10.0	...	...
Domestic credit (variation from same quarter of preceding year)	22.4	29.7	25.4	23.8	25.0	32.1	29.4	24.7	28.9 d/	...

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

a/ Preliminary figures.

b/ Average of minimum and maximum rates on time deposits.

c/ Average of minimum and maximum lending rates.

d/ Figures as of February.