

## Haiti

In 2006 the Haitian economy recorded positive GDP growth (2.5%) for the second year running, driven by favourable, albeit modest, trends in both aggregate supply and aggregate demand. The construction and manufacturing sectors both showed signs of recovery, as did investment and consumption. In the external sector, imports and exports both continued to strengthen; the fiscal deficit narrowed to 0.3% of GDP, and inflation was 11.8%. Trends in the energy sector and in terms of job creation were less certain, however.

The municipal elections held on 3 December 2006 concluded the process of establishing national and local authorities that began in February with the presidential and legislative elections. Institutions and bodies are now in place at all levels. Nonetheless, the volatility that still persists in the political and social arenas could damage the emerging stability and undermine reconstruction efforts.

The new Government's record for its first seven months shows a set of positive economic and political signals, in which the clear renewal of external cooperation is playing a key role. In addition, the adoption of general policy guidelines (agreed in July 2006 at the International Conference for Haiti's Economic and Social Development) together with the country's eligibility for the Heavily Indebted Poor Countries (HIPC) Debt Initiative (decision point) and the Poverty Reduction and Growth Facility (PRGF) are also events that will affect its economic development.

GDP growth of around 4% is forecast for 2007. Approval by the World Bank and the International Monetary Fund (IMF) of Haiti's eligibility for the HIPC Debt Initiative and PRGF will provide the authorities with immediate funds amounting to US\$ 42 million. With regard to the poverty-reduction conditionalities of the HIPC Debt Initiative, the authorities have committed to a set of programmes and policies to reduce poverty as set out in the interim version of the Poverty Reduction Strategy Paper. The results obtained from reductions in both the level of outstanding debt and its service will depend largely on progress over the next three years and the preparation of a final document expected for late 2007.

Although the International Conference for Haiti's Economic and Social Development, held on 29 and 30

November 2006 in Madrid, did not provide substantial fresh financial resources, it did strengthen the framework of cooperation between the country's authorities and the international community in their joint search for improved national leadership, especially in terms of coordination. In that regard, Haiti has recently been chosen by the European Union to pilot a new common programming strategy with its member countries.

The new Government's economic policy maintained the guidelines laid down in the interim period, largely because of ongoing agreements with IMF and the World Bank. The fact that Haiti has attained the decision point in the HIPC Debt Initiative means that additional funds will be available from the PRGF (US\$ 109.5 million over the next three years).

For the first time in the last three decades, public finances generated a primary surplus (0.4% of GDP), thanks to a strong performance on the income side (8.3% growth in real terms) and a cut (-4.1%) in expenditure, despite a significant increase in capital spending (17.5%). Rather than reflecting a deliberate policy, the fact that programmed expenditures are being underexecuted is indicative of limited absorption capacity and delays in executing public works because of disagreements regarding protocols with the donor community.

Although the authorities have kept monetary policy tight with the aim of maintaining the downward trend in inflation, recent signs have suggested greater concern for economic revival, such as a slight reduction in the interest rate on bonds issued by the Banque de la République d'Haïti (BRH). Real lending rates in the commercial banking sector remain high (11.6%), however, while real returns on deposits are negative (-7.3%).

There have been worrying developments in the national financial system such as the recent crisis of the country's third commercial bank (Société Caraïbéenne de Banque S.A., Socabank), which was intervened by BRH in September 2006. Against this, there have also been positive signs such as a degree of restructuring of the banking sector following the takeover by Société Générale Haïtienne de Banque S.A. (Sogebank) —leader of the national financial system in asset terms— of Banque de Promotion Commerciale et Industrielle S.A. (Promobank), another national financial institution.

The significant real reduction in the level of net domestic credit (-13.7%) reflected contractions in both of its components: public (-16.4%) and private (-11.3%). Net international reserves at the BRH amounted to US\$ 126 million, considerably above forecast. The central bank intervened on the foreign- exchange market with purchases totalling US\$ 65 million during the year, nearly half of this between April and May 2006.

Thanks to the substantial flow of foreign exchange in the form of remittances and external cooperation, the Haitian currency appreciated significantly in fiscal 2006, by 9.1% in nominal terms and 16.9% in real terms. Net disbursements for debt service totalled US\$ 25 million, reversing the negative trend of the last four years.

Output growth of 2.5% in 2006 allowed for an increase in per capita GDP (0.7%) for the first time in five years. Maquila enterprises were showing signs of revival (export volumes were up by 29%), as were the construction industry (7%) and commerce. Nonetheless, a downturn in the electric power sector (28%) had an adverse effect on various productive sectors, while agriculture again showed some momentum, albeit less than in 2005.

Inflation was three percentage points lower, despite the major effect of the rise in international oil prices on domestic prices. The real minimum wage fell by 12% —a cumulative decline of 50% over the last three years— while the outlook for employment remained generally gloomy, except for unskilled labour where temporary jobs in highway infrastructure works and

Table 1  
HAITI: MAIN ECONOMIC INDICATORS

	2004	2005	2006 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	-3.5	1.8	2.5
Consumer prices	20.2	14.8	11.8 <sup>b</sup>
Real minimum wage	-14.7	-13.2	-12.0
Money (M1)	13.2	14.7	12.0 <sup>c</sup>
Terms of trade	-2.8	-3.7	-5.6
<b>Annual average percentages</b>			
Central government			
overall balance/GDP <sup>d</sup>	-3.3	-0.5	0.2
Nominal deposit rate	10.9	3.5	6.0 <sup>e</sup>
Nominal lending rate	34.1	27.1	28.6 <sup>e</sup>
<b>Millions of dollars</b>			
Exports of goods and services	510	597	655
Imports of goods and services	1 547	1 760	2 096
Current account	-56	55	-36
Capital and financial account	91	-4	124
Overall balance	35	51	88

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to October 2006.

<sup>c</sup> Year-on-year average variation, January to September.

<sup>d</sup> Overall balance calculated below the line.

<sup>e</sup> Average from January to October, annualized.

various services have been created under labour-intensive programmes sponsored by the Government and by non-governmental organizations.

The current account deficit on the balance of payments came in at US\$ 35.8 million (equivalent to 0.8% of GDP), with current transfers (remittances and grants) of US\$ 1.4 billion offsetting the trade deficit. The capital account produced a surplus of US\$ 124 million (including errors and omissions), despite capital flight totalling US\$ 64 million, thanks to an unprecedented level of foreign direct investment (US\$ 46 million) and net resource transfers to the authorities.

Exports grew modestly in nominal terms (7%) and only covered 45% of the trade deficit (US\$ 1.441 billion). Imports grew strongly (20%) partly owing to the economic recovery, but mainly because of a 3.7% deterioration in terms of trade caused by increases in the prices of hydrocarbons and certain food products on international markets.