Haiti[1]

Preliminary estimates indicate that in 2008 the Haitian economy registered GDP growth of just 1.5%, a surge in the inflation rate to 19.8% at the end of the fiscal year in September, and an increase in both the overall fiscal deficit (2.1% of GDP) and the balance-of-payments current account deficit (2.4% of GDP).

Consequently, the performance of the Haitian economy in 2008 was substantially worse than expected owing to internal and external shocks. Among the former were those of a social and political nature, such as the climate of institutional uncertainty which prevailed from April to August pending the appointment and confirmation in office of a new Prime Minister and cabinet, and the natural disasters that struck the country, causing considerable damage. On the external front, as with other small economies highly dependent on food and petroleum imports, the escalation in both food and fuel prices up to July 2008 created an extremely serious problem for the country's economy.

The adverse international climate, dominated by the recession in the United States economy and the still-uncertain consequences of the global financial crisis are expected to have a negative impact on the country's economy during 2009. The impact of the crisis on multilateral institutions (which hold 77% of the country's debt) and bilateral bodies could put paid to commitments or disbursements of international aid, which provides funding for most of Haiti's public investment programmes (90%).

Within the framework of agreements with the international financial community (the 2006-2009 three-year Poverty Reduction and Growth Facility with the International Monetary Fund), the authorities wish to reach completion point of the debt cancellation stage, involving around US$ 900 million, by June 2009. This target has been maintained in spite of the non-fulfillment of some of the criteria agreed with the IMF owing to the extraordinary shocks that have disrupted the economy.

In 2008, the authorities maintained a policy of prudence and fiscal discipline, generally adhering to the performance criteria agreed under the three-year programme. Between April and June, in order to mitigate the effects of external shocks, they applied subsidies to lower the price of rice and contain rising fuel prices, using budget funds obtained through the financial agreement with the Bolivarian Republic of Venezuela (PETROCARIBE) and other donors.

Tax income declined by 0.8% in real terms. Budgetary targets could not be met because production levels were down and because the suspension of the mechanism for automatic adjustment of local fuel prices in line with oil prices on the international market resulted in a loss of revenue from the tax on fuel imports.

However, a significant increase was recorded for grants (82.3%) and some categories of direct taxation (income tax) and indirect taxation (VAT), which increased by 3.6% and 4.8%, respectively, thanks to new enforcement mechanisms and other measures.

In spite of the reduction of operating expenditure in real terms (-44%) and investments (-12,5%), total expenditure was up by 8.5%, reflecting a higher wage bill (16%) and subsidies (287%); the latter were equivalent to 2.2% of GDP. The increase in the total fiscal deficit (2.1% of GDP) was financed by non-recurring external contributions, without resort to monetary financing.

Regarding external public debt (27.3% of GDP), the most significant developments were a reduction in debt-servicing (from US$ 75 million to US$ 49 million), and a new debt agreement for US$ 135 million with Petróleos de Venezuela S.A. under the fuel arrangement with that country, which has been fully operational since March.

The monetary policy implemented by the Bank of the Republic of Haiti (BRH) sought to reduce liquidity in order to curb inflation. The Bank increased the interest rate on 91-day BRH bonds from 4% to 8% and also increased from 27.5% to 37.5% the local currency proportion of the legal reserve requirement. In September, despite expanding private credit (25.1%), net domestic credit

[1] The present study relates to fiscal year 2008 (October 2007 to September 2008); however, in some cases, in order to facilitate comparison with other regional data, the reported statistics correspond to the calendar year.

increased by only 3.4% compared with the same month of the previous year, owing to the significant reduction in public credit (-32.3%).

Net international reserves grew by 7% compared with the previous year, despite net sales of dollars made by the central bank in an attempt to curb depreciation of the local currency. Nominal currency depreciation was 10.5% for fiscal year October 2007 to September 2008, increasing by an average of just 2.3%. Owing to the above as well as high domestic inflation, the real exchange rate still recorded an appreciation of 6.6% compared with 2007.

The low level of GDP growth (1.5%) in 2008 is attributable to the shocks suffered by the Haitian economy. The sharp rise in international prices eroded the purchasing power of households and pushed up costs. Nevertheless, remittances, albeit less buoyant, helped to mitigate the direct effects on consumption.

Investments rose up to March, but then dried up in the wake of the institutional crisis in April. Purchases of machinery and equipment, in particular, were affected. The construction industry grew by 4%.

Haitian exports are expected to contract in 2008 (despite favourable prices for agricultural products) owing to a significant reduction in the volume of maquila exports. The high cost of food and fuel is likely to lead to a real increase in the import bill.

In 2008, the average rate of inflation (14.4%) was almost double that for 2007 (8.9%). There were two main causes for this upsurge: food and fuel imports. Differential inflation rates for local goods (14.7%) and imported goods (27.2%) reflected this asymmetry up to September. These shocks were also accompanied by a drastic reduction in the purchasing power of wages, which over the past five years has accumulated a loss of 70%.

The fall in the value of exports (9%) contrasts with the increase in imports (21%). The trade deficit was even wider and was accompanied by a sharp deterioration in the country's terms of trade (-23%). Despite current transfers —grants and above all remittances (US$ 429 million and US$ 1.258 billion, respectively)— the current account deficit increased (2.4% of GDP compared with 0.5% of GDP in 2007).

The balance-of-payments financial account surplus (US$ 239 million, including errors and omissions) doubled and net inflows of funds increased thanks to new disbursements and a reduction in debt-servicing by one third.

HAITI: MAIN ECONOMIC INDICATORS

	2006	2007	2008 [a]
	Annual growth rates		
Gross domestic product	2.3	3.2	1.5
Per capita gross domestic product	0.7	1.5	-0.2
Consumer prices	10.3	10.3	18.0 [b]
Real minimun wage	-12.0	-7.6	-14.2
Money (M1)	2.7	12.7	17.4 [c]
Terms of trade	-3.8	-2.8	-22.9
	Annual average percentages		
Central government overall balance / GDP [d]	0.3	-1.6	-2.1
Nominal deposit rate [e]	6.0	5.2	2.4 [f]
Nominal lending rate [g]	29.5	31.2	23.3 [f]
	Millions of dollars		
Exports of goods and services	695	782	818
Imports of goods and services	2 136	2 319	2 686
Current account	- 73	- 29	- 168
Capital and financial account	166	188	239
Overall balance	93	159	70

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2008.
[c] Twelve-month variation to September 2008.
[d] Fiscal year.
[e] Average of minimum and maximum rates on time deposits.
[f] Average from January to October, annualized.
[g] Average of minimum and maximum lending rates.

Together with the factors previously mentioned, which by themselves are cause for concern, the floods caused by the four hurricanes that struck the country in August and September (Fay, Gustav, Hanna and Ike), had disastrous consequences for the country: 900 deaths, more than 800,000 people affected and total damage equivalent to 15% of GDP.

Apart from the immediate effects (such as shortages, worsening food insecurity and a deterioration in public finance owing to heavy outlays and expenditure restructuring), the most severe socio-economic consequences of these disasters will be felt in the fiscal year ending in September 2009, threatening already meagre advances in production and social conditions. The scope of these repercussions could be mitigated by reactivating key sectors such as infrastructure and construction, and promoting the generation of jobs and income. Recovery programmes focused on the agricultural sector, which sustained losses of around US$ 200 million, will play a determining role.