Haiti [1]

Economic performance in 2011 was shaped by the economic and social consequences of the 2010 earthquake combined with a long period of uncertainty (as the presidential election period stretched from November 2010 to May 2011) and delays in installing the new administration. Haiti's economy thus grew by just 4.5% instead of the 8% originally forecast. However, public finances (cash basis deficit of 0.1% of GDP), international reserves (US$ 1.2 billion) and exchange-rate stability resulted in a favourable preliminary review by the International Monetary Fund (IMF). There is cause for concern, however, due to the spike in inflation since April (which resulted in a year-on-year variation of 10.4% to September) and apparent underexecution of current public spending and investment. Economic prospects for 2012 are more encouraging. A substantial improvement in the real sector is expected (GDP growth of 8%) as normal government activities resume and the pace of disbursement and execution of funds from international donors and the public sector picks up, especially for reconstruction activities.

The moderating pace of the economic slowdown in the United States is a positive sign for the Haitian economy because the United States is the main destination for Haitian exports and one of its main sources of foreign exchange, in the form of remittances, which totalled around US$ 1.55 billion in 2011. Moreover, new foreign direct investment projects in the maquila sector (around US$ 50 million for the Caracol industrial park in north-eastern Haiti) and tourist and hotel infrastructure (around US$ 90 million) are creating a certain degree of optimism about the recovery process.

The new administration and the broader international community are aware, however, that nearly two years on from the earthquake, tangible improvements in the living conditions of those affected by the catastrophe are urgently needed, especially for the least protected and most vulnerable. Moreover, there are persistent doubts over the effectiveness of the mechanisms established under the 2010 emergency agreements. This is particularly the case with the Interim Haiti Recovery Commission, a joint body comprising representatives of the government and major donors, and could result in the reorganization of these bodies. The new administration led by President Michel Martelly (not fully in place until October 2011 following difficult negotiations with Congress over the appointment of the Prime Minister) will therefore have to demonstrate in the coming months that it can rise to the challenges inherited as a result of the earthquake. Some humanitarian programmes (concerning water, food aid and medical services) have already been scaled down or ended. Hence, replacement social policies are needed.

The second review of the Extended Credit Facility (ECF) arrangement by the authorities and the IMF was postponed from July to December 2011. In view of the relative macroeconomic and financial stability, overall performance under the arrangement is expected to be satisfactory in 2011. Some results fell short of expectations, however, especially budget execution (spending was less than 50% of the amount called for under the ECF performance criteria).

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1 This review encompasses fiscal year 2011 (October 2010-September 2011). However, in some cases, statistics relating to the calendar year have been used for ease of comparison with regional data.

The fiscal deficit (cash basis) was estimated at 0.1% of GDP thanks to a significant expansion in current revenue (15% in real terms) and a variation of just 5% in total expenditure. Tax receipts under the key headings —tariffs, value added tax and direct taxation— accounted for 35%, 27% and 18% of total tax receipts, respectively, and showed real increases of 12%, 14% and 7% respectively. Investment fell sharply (34% in real terms), although subsidies (especially for the energy sector) were up by 16%. Tax receipts grew despite the adverse conditions prevailing in the country. The government has predicted that, even without fiscal reform, fiscal revenue could expand to 14% of GDP in future years, compared with averages of 10%-11% in the past decade.

Monetary policy was geared towards greater flexibility in order to revive the economy. Although net domestic lending fell by 8.5% overall in response to public sector repayments, credit to the private sector showed real growth of 13% after plummeting by 10% in 2010. In January 2011 the Bank of the Republic of Haiti cut the interest rate on its 91-day bonds from 5% to 3% and extended the no-reserves option in order to increase liquidity flows to the property rebuilding sector. In real terms (deflated), the most representative monetary indicators (monetary base, M1 and M3) contracted or remained stagnant (-2%, -1.7% and -0.3% respectively). This stands in contrast to respective variations of 37%, 23% and 17% in 2010, when temporary imbalances in the banking system and caution on the part of its main actors resulted in higher liquidity and increased dollarization (nearly 50% of deposits). In the foreign-exchange market, the relative abundance of foreign currency from remittances and grants and comparatively subdued demand (imports grew by 3.8% in nominal terms) kept the nominal exchange rate between 40 and 41 gourdes per dollar (real appreciation of 4%).

Despite uncertain agricultural sector performance, the positive variations in the most representative indicators of manufacturing activities (27%), the electricity sector (33%), trade (30%) and the construction industry (14%) were significantly higher than in 2010 and point to projected GDP growth of 4.5% in 2011. Growth in the construction industry, although based on temporary activities, reflected the impact of labour-intensive programmes, such as the cash-for-work programmes, implemented by various national and international agencies.

Fluctuating international prices had an adverse effect on the Haitian economy, especially in the hydrocarbon and food sectors. The spike in domestic inflation translated into year-on-year growth (September-September) of 13% in food prices, which were affected by these external factors and by the local rice shortage owing to an unusual drought and the short supply of fertilizers. The fluctuations resulted in a 7% drop in the purchasing power of real wages.

Positive export performance (up 33%) and the moderate (10%) drop in imports offset the significant reduction in official donations received in 2011 compared with 2010. The current account deficit thus narrowed from US$ 155 million to US$ 28 million. The terms of trade improved slightly (3.6%) as export prices rose more (by 18%) than import prices (up 14%). In 2011, the capital account still reflected the positive effects of foreign debt forgiveness programmes and foreign direct investment inflows (US$ 180 million). Widespread external debt forgiveness during fiscal years 2010 and 2011 (US$ 813 million and US$ 557 million respectively) drastically reduced outstanding external debt. As a result, the variations posted in 2011 between the start and end of the period (from US$ 391 million to US$ 565 million) correspond almost exclusively to transactions under the Petrocaribe agreement (balance of US$ 443 million to September 2011) with the Bolivarian Republic of Venezuela. Net international reserves stood at US$ 1.2 billion at the close of the fiscal year (September 2011), an increase of US$ 242 million compared with the previous year and more than enough to cover nearly five months of imports.

HAITI: MAIN ECONOMIC INDICATORS

	2009	2010	2011 [a]
	Annual growth rates		
Gross domestic product	2.9	-5.1	4.5
Per capita gross domestic product	1.2	-6.6	2.8
Consumer prices	2.1	6.2	10.4 [b]
Real minimum wage	27.9	58.2	-7.8
Money (M1)	6.6	33.0	6.5 [b]
Terms of trade	29.4	-3.3	-17.0
	Annual average percentages		
Central government overall balance / GDP [c]	-1.3	-0.2	1.9
Nominal deposit rate [d]	1.7	0.9	0.4 [e]
Nominal lending rate [f]	21.6	20.7	19.8 [e]
	Millions of dollars		
Exports of goods and services	930	802	1 090
Imports of goods and services	2 804	4 076	3 802
Current account balance	-227	-155	-28
Capital and financial balance [g]	76	1 139	165
Overall balance	-150	984	137

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 2011.
[c] Fiscal year.
[d] Average of minimum and maximum rates on time deposits.
[e] January-November average.
[f] Average of minimum and maximum lending rates.
[g] Includes errors and omissions.