Haiti[1]

1. General Trends

The earthquake measuring 7.3 on the Richter scale that struck Haiti on 12 January 2010 has had far-reaching repercussions on economic and social conditions in the country and on its growth prospects for the future. GDP is expected to contract by 8.5% in 2010. The earthquake left more than 220,000 persons dead and approximately 300,000 injured, while 1.3 million have sought refuge in temporary shelters; in addition, more than half a million people fled the worst affected areas. Some 105,000 dwellings were totally destroyed, as were 1,300 educational establishments and more than 50 hospitals. A substantial number of public and community buildings were destroyed or shut down, including the national palace, ministries, decentralized agencies, the port and the airport. According to the post-disaster needs assessment (PDNA), damage and losses totalled US$ 7.8 billion, 20% above the GDP figure for 2009, with sizeable losses in both the private sector (70% of the total, mostly in housing, which sustained 40% of total damage) and the public sector.

2. Economic policy

This situation brought home to national authorities and the international community the need to implement a post-disaster action plan (Action Plan for the Reconstruction and National Development of Haiti) and a broader national programme for territorial, economic, social and institutional development and reconstruction.

Despite the external shocks caused by the international financial crisis, macroeconomic indicators were relatively favourable in 2009. Real GDP growth stood at 2.9%, annual average inflation at 3.4% and the fiscal deficit was equivalent to 1.3% of GDP. Exports increased by 9.9% and imports by 5.8%. There was an improvement in terms of trade (31%), while remittances totalled US$ 1.241 billion, 1% lower than in 2008. As a result, the current account deficit decreased from 4.4% of GDP in 2008 to 3.5% of GDP in 2009. Furthermore, certain sectors of the economy picked up to some extent, with growth in agriculture (5.2%), manufacturing (3.7%) and construction (3.1%).

1 The period under consideration encompasses fiscal years 2009 (October 2008-September 2009) and 2010 (October 2009-September 2010); however, in some cases, statistics relating to the calendar year have been used for ease of comparison with regional data.

Table 1
HAITI: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009[a]
				Annual growth rates [b]					
Gross domestic product	-1.0	-0.3	0.4	-3.5	1.8	2.3	3.3	0.8	2.9
Per capita gross domestic product	-2.7	-1.8	-1.2	-5.0	0.2	0.6	1.7	-0.8	1.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.9	-3.7	0.2	-4.8	2.6	1.4	2.3	-7.5	5.2
Mining and quarrying	-4.9	2.2	0.7	-5.0	4.5	7.1	0.0	6.7	6.3
Manufacturing	0.1	1.6	0.4	-2.5	1.6	2.3	1.3	-0.1	3.7
Electricity, gas and water	-27.1	2.0	3.3	11.1	7.1	-22.7	-1.7	-8.8	30.8
Construction	0.7	1.0	1.9	-2.7	3.0	2.9	2.6	5.2	3.1
Wholesale and retail commerce, restaurants and hotels	0.4	2.9	0.6	-6.4	1.4	3.0	6.1	5.7	1.1
Transport, storage and communications	2.2	-0.2	1.6	0.8	3.2	4.5	8.1	6.3	2.5
Financial institutions, insurance, real estate and business services	-0.7	-1.5	0.2	-0.8	1.3	2.0	1.8	3.2	0.1
Community, social and personal services	-2.6	1.1	-1.4	-3.2	1.6	1.5	4.6	4.9	0.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	-1.6	-1.2	0.9	-3.7	5.8	1.2	2.2	1.7	3.9
Gross capital formation	-1.2	2.5	3.1	-3.2	1.4	2.2	3.1	2.8	3.2
Exports (goods and services)	-2.2	-2.1	7.2	9.8	0.0	7.2	-2.9	13.6	9.9
Imports (goods and services)	-2.1	-1.2	3.2	-1.1	6.6	1.9	0.5	5.3	5.8
				Percentages of GDP					
Investment and saving [c]									
Gross capital formation	25.9	25.1	30.7	27.3	27.4	29.3	30.5	28.8	27.4
National saving	22.0	22.3	29.1	25.8	27.6	27.6	29.0	24.3	23.8
External saving	3.8	2.8	1.6	1.5	-0.2	1.7	1.4	4.5	3.6
				Millions of dollars					
Balance of payments									
Current account balance	-134	-89	-44	-56	7	-85	-86	-289	-232
Goods balance	-750	-706	-782	-833	-849	-1 053	-1 182	-1 618	-1 481
Exports, f.o.b.	305	274	334	377	460	495	522	490	551
Imports, f.o.b.	1 055	980	1 116	1 210	1 309	1 548	1 704	2 108	2 032
Services trade balance	-124	-123	-164	-204	-399	-399	-423	-403	-399
Income balance	-9	-14	-14	-12	-35	7	2	6	13
Net current transfers	750	754	917	993	1 290	1 361	1 517	1 726	1 635
Capital and financial balance [d]	131	8	36	91	27	179	284	387	388
Net foreign direct investment	4	6	14	6	26	161	75	30	38
Other capital movements	127	3	22	85	1	18	209	357	350
Overall balance	-2	-81	-8	35	34	94	198	98	156
Variation in reserve assets [e]	-5	49	25	-50	-22	-109	-208	-171	-246
Other financing	7	32	-17	15	-12	15	10	73	90
Other external-sector indicators									
Terms of trade for goods (index: 2000=100)	101.2	100.2	98.7	96.0	92.4	88.9	86.4	62.1	80.4
Net resource transfer (millions of dollars)	129	26	5	94	-20	201	296	465	491
Gross external public debt (millions of dollars)[j]	1 189	1 229	1 316	1 376	1 335	1 484	1 628	1 917	1 272
				Annual percentages					
Prices									
Variation in consumer prices (December-December)	8.1	14.8	40.4	20.2	14.8	10.2	9.3	10.1	2.1
Variation in nominal exchange rate (annual average)	14.8	18.3	38.0	-8.8	9.3	0.3	-7.2	6.3	2.1
Variation in average real wage	-11.6	-8.9	33.5	-14.7	-13.2	-11.8	-7.8	-12.9	28.0
Nominal deposit rate [f]	13.6	8.2	14.0	10.9	3.5	6.0	5.2	2.4	1.7
Nominal lending rate [g]	28.6	25.5	30.7	34.1	27.1	29.5	31.2	23.3	21.6
				Percentages of GDP					
Central government [h]									
Total income [i]	7.8	8.3	8.9	8.9	10.9	10.7	11.3	10.8	12.1
Current income	7.4	8.2	8.8	8.9	9.7	10.4	10.8	10.6	11.7
Tax income	7.4	8.2	8.8	8.9	9.7	10.4	10.8	10.6	11.7
Total expenditure	10.0	11.0	12.0	12.0	11.5	10.8	12.9	12.1	13.3
Current expenditure	8.2	9.0	8.7	9.2	10.2	9.8	10.2	9.7	12.6
Interest	0.3	0.1	0.4	0.7	1.0	1.2	0.3	0.3	0.5
Capital expenditure	1.8	2.0	3.3	2.8	1.2	0.9	2.7	2.4	0.7
Primary balance	-1.9	-2.6	-2.7	-2.4	0.4	1.2	-1.3	-1.0	-0.8
Overall balance	-2.2	-2.7	-3.1	-3.1	-0.5	-0.0	-1.6	-1.3	-1.3

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009[a]
Central government debt	46.2	60.2	57.5	46.7	44.1	36.2	33.6	36.8	38.6
Domestic	14.8	17.4	17.2	14.8	13.5	10.7	8.9	8.3	8.8
External	31.5	42.7	40.4	31.8	30.6	25.5	24.7	28.5	29.9
Money and credit[j]									
Domestic credit	30.1	35.6	34.5	29.8	28.6	24.3	22.3	21.4	20.3
To the public sector	14.6	17.3	16.8	14.3	12.8	9.8	8.1	6.6	3.9
To the private sector	15.6	18.4	17.7	15.4	15.7	14.4	14.2	14.9	16.4
Liquidity (M3)	38.7	45.4	47.8	42.5	42.1	38.5	37.3	38.1	39.3
Currency outside banks and local-currency deposits (M2)	25.6	27.9	27.7	26.0	24.1	22.6	21.4	21.4	21.1
Foreign-currency deposits	13.1	17.6	20.0	16.6	18.0	15.9	15.8	16.7	18.2

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 1986-1987 prices, fiscal years, October to September.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Average of highest and lowest rates on time deposits, commercial banks.
[g] Average of highest and lowest lending rates, commercial banks.
[h] Fiscal years.
[i] Includes grants.
[j] The monetary figures are end-of-year stocks.

These figures, the prospect of recovery in the world economy and in the United States in 2010, public and private investment programmes and disbursements of external funds, all augured well for stronger growth in 2010. The picture, however, changed completely following the earthquake.

Cooperation from abroad will play a fundamental part in Haiti's economic recovery. At the donors' conference in March 2010, assistance totalling US$ 3.5 billion was pledged for 2010, of which US$ 940 million represented restructured funds. Cash disbursements and cash pledges account for only 25% of the total.

In the short term (at the close of the 2010 fiscal year) the country will rely heavily on inflows of budgetary assistance to help finance its increased fiscal deficit (7% of GDP) without resorting to central bank financing, and to carry out a series of projects, failing which the government's plan of action will be difficult to bring to fruition either in terms of both content and time frames.

An upturn in production is expected only in those sectors that were least affected by the earthquake (agriculture), or those, such as construction, whose resurgence will stem from priority earthquake recovery activities (reconstruction of housing, public buildings and infrastructure). This impetus will not be enough to boost the rest of the economy, however, owing to limited absorption capacity and demand-side constraints. Some key sectors such as commerce, which account for about a third of GDP, will in fact continue to suffer from households' loss of capital and from the process of physical demolition and clearing work.

Systematic increases in investment will require feasibility studies because a host of parameters (environmental, physical and financial) that used to be considered for executing such projects will probably have to be revised in light of the scale of the earthquake. Indeed, the priority objectives and the new territorial approach proposed by the authorities may make it necessary to redefine them altogether.

The magnitude of the disaster has heightened the social challenges facing by the country. The government views this new environment as an opportunity to make changes in some areas, including the very structure of basic and social services, in its medium- and long-term plans. Providing educational and health services was considered a priority since for the most part (75%) such services are handled by private or non-governmental organizations and are seldom in line with public policies.

2. Economic policy

The economic policy of the past three years was based mainly on the Poverty Reduction and Growth Facility (PRGF), now superseded by the Extended Credit Facility (ECF) of the International Monetary Fund (IMF).

Immediately following the earthquake, IMF established a line of credit for US$ 114 million. The Haitian authorities also benefited from other multilateral and bilateral contributions (Inter-American Development Bank (IDB),

Table 2
HAITI: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross international reserves (millions of dollars)	524	558	537	587	602	561	749	733	920	...
Consumer prices (12-month percentage variation)	15.6	15.0	19.1	10.1	1.1	-1.0	-4.7	2.1	6.1	6.4 [b]
Average nominal exchange rate (gourdes per dollar)	37.7	38.8	39.9	39.8	40.1	40.0	39.7	39.8	39.7	39.7
Nominal interest rates (annualized percentages)										
Deposit rate [c]	2.1	2.3	2.8	2.7	1.9	1.5	1.5	1.7	1.2	1.1 [b]
Lending rate [d]	23.1	24.0	23.1	22.8	22.4	22.3	21.0	20.8	19.4	20.2 [b]
Domestic credit (variation from same quarter of preceding year)	10.8	9.6	3.4	9.4	6.6	12.3	17.8	0.7	-8.0	...
Non-performing loans as a percentage of total credit	10.2	10.0	9.7	10.5	10.5	10.1	8.5	8.6	12.3	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Data to April.
[c] Average of highest and lowest rates on time deposits, commercial banks.
[d] Average of highest and lowest lending rates, commercial banks.

World Bank, the Bolivarian Republic of Venezuela), and debt cancellation commitments, which would represent a substantial reduction in the debt balance and servicing.

In this context, the financial authorities in Haiti placed emphasis on obtaining a direct budgetary contribution from international counterparts, in order to finance the increased fiscal deficit which followed the earthquake.

(a) Fiscal policy

In 2009, the central government deficit (on a cash basis, excluding externally financed extrabudgetary programmes and projects) stood at 1.3% of GDP; the valuation on an accrual basis, including external contributions, was 4.4% of GDP.

Fiscal revenues were up by 13.5% in real terms thanks to stricter tax control policies and a larger tax base. As for indirect taxes, value added tax (VAT) was up 7.3% and duties and permits by 49.1%. Tariffs rose by 10.1% and direct taxation by 3.1%.

Total spending from internally generated revenues increased by 13.3%, and although the investment component fell by 68.7%, this was partially offset by the variation in current expenditure (33.7%). Accrued public investment, two thirds of which proceeded from external funds, was up by 49%. Resources from the PETROCARIBE programme enabled the authorities to implement emergency programmes to the tune of US$ 197 million.

Budget projections for 2010 were adjusted substantially following the earthquake. The fiscal deficit is estimated to reach about 7% of GDP, as a result of a sharp nominal reduction in revenues (20%) and a 10% increase in some expenditure items (extraordinary subsidies and operating expenses). International resources (US$ 350 million requested) or funds from the central bank could help to narrow the gap.

The fall in revenue is due to the overall reduction in economic activity and to the resulting decrease in VAT receipts. The metropolitan area of Port-au-Prince accounts for 95% of total fiscal resources; moreover, 75% of direct and indirect taxes comes from a small group of taxpayers (20 out of the 100 leading entities). The decline in collections was exacerbated by the temporary closure of the tariff collection centres (at the port and airport), the use of temporary facilities in the customs compounds on the land border with the Dominican Republic, and the fact that collection offices were only partially operational.

It is hoped that fiscal pressure will be increased in the medium term, even with the unfavourable conditions caused by the earthquake, through the implementation of a series of other measures, in particular fiscal reform and stricter tax enforcement, in addition to tariff increases since October 2009, which brought national tariffs more in line with those applied in the Caribbean Community (CARICOM).

Government expenditure on most projects will depend particularly on external financing for their implementation. This financing should help to pay for operating expenses (25%) (in particular, transfers and subsidies for the electric power sector) and capital expenditure. In terms of the latter, the allocation of resources (US$ 100 million) for school and housing reconstruction programmes was considered a priority (40% of total investment).

(b) Monetary policy

In 2009, the authorities partially relaxed their policy of monetary restraint. The monetary base grew by 20% in real terms and net domestic credit, which had been shrinking over the previous three years, picked up by 22% thanks to the upturn in the public component (33%) and in private credit markets (20%).

Net international reserves (US$ 587 million, equivalent to 3.5 months' imports) expanded by almost US$ 300 million, despite net sales of US$ 66 million by the central bank to prevent a further real exchange-rate depreciation.

The fall in inflation, including a series of price cuts in 2009, together with persistently high nominal lending rates (20%) translated into real lending rates of about 18%. Deposit rates were lowered, averaging -1% in real terms, with savers being penalized.

Damage and losses to the banking system through direct impacts (destruction of property and buildings) and indirect repercussions (their clients) were estimated at US$ 450 million.

In response, the central bank and the Ministry of Economic Affairs and Finance adopted a prudent approach. Precautionary measures were put in place, including capitalization of the banking system, guarantee funds and venture capital, in order to curb the deterioration in arrears indicators (from 8.5% in October to 12.3% in March).

Support for these measures will be received from multilateral finance organizations (IDB, World Bank) and others, in the shape of traditional formal agreements with banking entities and more informal arrangements with microfinance institutions (microcredit and savings banks), which account for 15% of the assets of the financial system.

In 2009, the banking system's gross loan portfolio stood at US$ 885 million, of which 80% corresponded to commerce, while deposits amounted to US$ 2.311 billion; that is an investment rate of barely 38%.

In the aftermath of the earthquake there should be no shortage of liquidity, but rather a lack of venture capital. Furthermore, the monetary authorities face the challenge of boosting and diversifying lending to sectors that have traditionally been ignored. Reactivation of productive sectors, mostly consisting of small and medium-sized enterprises, and reviving the housing and tourist sectors were identified as priority tasks.

Following the earthquake, net domestic credit to the public and private sectors fell (by 26% and 18%, respectively), but the money supply expanded with the influx of external resources, which boosted reserves.

Some monetary policy measures planned for the 2010 fiscal year, including the launch of Haitian treasury bonds to replace the central bank bonds, will probably be postponed.

(c) Exchange-rate policy

In 2009, the nominal and real exchange rate of the gourde against the United States dollar depreciated by 6.3% and 2.8%, respectively, compared with 2008. The central bank's margin for manoeuvre with respect to its reserves enabled it to make net foreign exchange sales to curb the most severe fluctuations in the exchange rate, even though foreign exchange was less readily available owing to a decline in grants and sluggish inflows of remittances. At the same time, demand for imports was relatively strong, although imports were lower in value terms than in the previous year thanks to the fall in price for some key commodities such as hydrocarbons and food.

During the current fiscal year, thanks to growing inflows of foreign exchange in the form of remittances and international cooperation funds following the earthquake, cumulative fluctuations (to March 2010) reveal a nominal appreciation in the local currency (5.4%). The central bank increased its net reserves through the acquisition of US$ 61 million (April 2010). With the expectation of further inflows of foreign exchange and with the prospect that inflation will be kept under control (average annual variation of 8.5%), the gourde will continue to appreciate (10% in March) during the rest of 2010.

3. The main variables

In 2009, the 2.9% and 1.2% growth in GDP and per capita GDP, respectively, were insufficient to meet structural needs and rebuild a severely eroded production base, which is barely equivalent to that of 30 years ago. The adverse effects of the earthquake have aroused much concern as to the capacity of the national economy to reverse this lag and, at the same time, revive the most seriously affected sectors (housing, basic education and health services, public services and commerce).

(a) Economic activity

The favourable results of 2009 were achieved thanks to growth in agricultural activity (5.2%), supported by public-sector investments (equipment, infrastructure, enhancement of fertilizer and seed subsidy programmes).

Following its lacklustre performance in 2008, manufacturing picked up by 3.7% in 2009. Construction grew by 3.1% and transport and communications by 2.5%. Manufacturing was boosted by the maquila industry, while construction benefited from infrastructure works to repair damage caused by hurricanes in 2008. For the first time in three years, there was a remarkable upswing in the electric power sector (30%), fuelled by substantial public subsidies (close to US$ 80 million).

On the demand side, investment rose by 3.2%, consumption by 3.9% and exports by 9.9%, thanks to public and private investment (for example, US$ 50 million invested in the cruise-ship pier at Labadie), steady remittance flows and the upturn in maquila exports.

The 8.5% contraction in GDP in 2010 will stem from all sectors, except agriculture and construction, for which the outlook is positive because the direct impact of the earthquake on agriculture was smaller and because of the reconstruction of housing and various other buildings.

On the other hand, a contraction is expected in the services sectors (commerce, financial services, basic services and government services) as well as in manufacturing.

However, the outcome will depend on the level and pace of reconstruction driven by both national efforts and international contributions. Indeed, the latter will determine the effective rehabilitation of various activities, according to their degree of autonomy, the participation of public stakeholders (public administration and basic infrastructure services), and subsidy requirements (education and health).

Despite a substantial reduction (20%) in export volumes in the second quarter, cumulative results in 2010 showed a certain revival of the maquila industry —thanks to the land corridor with the Dominican Republic and the gradual restart of port and airport operations— with a performance close to that of 2009 (variations of -1.3% and 1.6% in volume and value, respectively). These activities will also benefit from additional trade preferences under the Haiti Economic Lift Program Act (HELP) adopted by the United States Congress in May 2010.

The strategies employed by the Ministry of Economic Affairs and Finance would appear to place emphasis, in the short term, on schemes for boosting demand (through employment programmes in construction and infrastructure works) and subsequently in the medium and long terms to direct efforts on the supply side (agricultural production, tourist services).

(b) Prices, wages and employment

In 2009, average annual inflation stood at just 3.4% with a negative year-on-year variation (-4.7%), reflecting falls in the world prices of oil (-47%) and foodstuffs (-19%). Some of the most representative items in the basic basket dropped sharply, for example, rice (-20.5%), edible oils (-27.6%), sugar (-7.2%), coal (-10%) and kerosene (-33%).

These indicators do not point to any improvement in the minimum wage in real terms (70 gourdes per day since 2003), which lost 28% of its purchasing power in 2003-2008. However, following lengthy negotiations, the minimum wage was adjusted to 150 gourdes (almost US$ 4) with effect from October 2009.

Structurally, the level of activity in the Haitian economy has had very little impact in terms of sustained creation of formal-sector jobs. Indeed, even with some degree of improvement on the cards, as in 2009, this component continued to show a considerable deficit, lessened temporarily by some labour-intensive programmes. In addition to the agricultural sector (40%), a third of the labour supply is engaged in low-productivity, low-paid, small-scale commercial activities, which are for the most part informal, a situation which prevails in almost all other sectors.

As a result of the earthquake, the Ministry of Economic Affairs and Finance has stated that the country must adopt a development strategy centred on job creation if it wishes to undo this vicious cycle.

The inflation rate, which averaged 6% in the months following the earthquake (January-April 2010), has been brought more or less under control. Despite the foreseeable fluctuations in the first few months, caused by shortages, speculation and higher transaction costs, a higher rate than the pre-disaster forecasts (8%) is expected, but within a range slightly above 10% at the close of the 2010 fiscal year. Certain categories that carry a lower weighting, for example, housing (17.1%), are expected to have much sharper rises.

The asymmetry in the basket between imported goods (8.7%) and local goods (4.3%) and to an even greater extent in the case of foodstuffs (11% compared with 1.7%) comes as no surprise, bearing in mind factors such as higher transport costs, extraordinary expenditure (storage), new trends in consumption patterns and lower demand for local products (because of the income effect and competition from products supplied by humanitarian aid).

(c) The external sector

Without the impact of external shocks, which depleted the current account in 2008 (4.4% of GDP), the deficit was reduced in 2009 to 3.5% of GDP, including official grants totalling US$ 395 million. The deficit on the trade balance fell to US$ 1.9 billion, down by 7% with respect to 2008, despite a 12.4% increase in exports and a 3.6% reduction in imports, as the nominal value of imports was more than three times higher than that of exports. The improvement in the terms of trade (29.5%) was due to the significant fall in the prices of hydrocarbons and foodstuffs.

In 2010, despite the drastic effects of the earthquake, the deterioration in the trade balance caused by rising imports and a marginal fall in exports is expected to be offset by remittances and grants. This forecast is based on an increase in remittances of over 15% and pledges of external funds.

Debt totalling US$ 893 million was cancelled in 2009. In 2010, the capital account may benefit from similar initiatives in response to the disaster, to the tune of US$ 817 million from donors both bilateral (Bolivarian Republic of Venezuela, Canada, Spain and United States) and multilateral (IDB and World Bank).

Foreign direct investment (FDI), which expanded by 27% in 2009, may continue to grow with the reactivation of projects that were under way (electric power generation, tourism, free zones), and new investments in housing, now an attractive segment as a result of the devastation caused by the earthquake, both in terms of volumes and in terms of facilities that may be provided, despite the remaining obstacles in the corresponding national legislation.

The privatization of the semi-public telephone company TELECO was completed in December 2009. The company was sold to Viettel Telecom, a Vietnamese investment group. The transaction, worth US$ 59 million and a 60% share of the firm’s capital, was concluded in April 2010.

The lag between pledges of aid and the date of the actual payments has prompted the national authorities to put in place alternative mechanisms. In this context, just as the sum of US$ 196 million from the PETROCARIBE funds was used in 2009 to defray the costs of the 2008 post-hurricane emergencies, the government has drawn US$ 41.2 million from these funds to cover expenses resulting from the earthquake.