Haiti

1. General trends

After three years of a political crisis involving ever-larger sections of civil society, two months of almost complete paralysis in urban economic life and a month of violent conflicts, in February 2004 Haiti entered a new political phase. President Jean-Bertrand Aristide left the country and power passed to a transition team headed by President Boniface Alexandre (29 February) and Prime Minister Gérard Latortue (10 March). In May, further problems were caused by severe flooding that affected the south-east of the country, with heavy loss of human life.

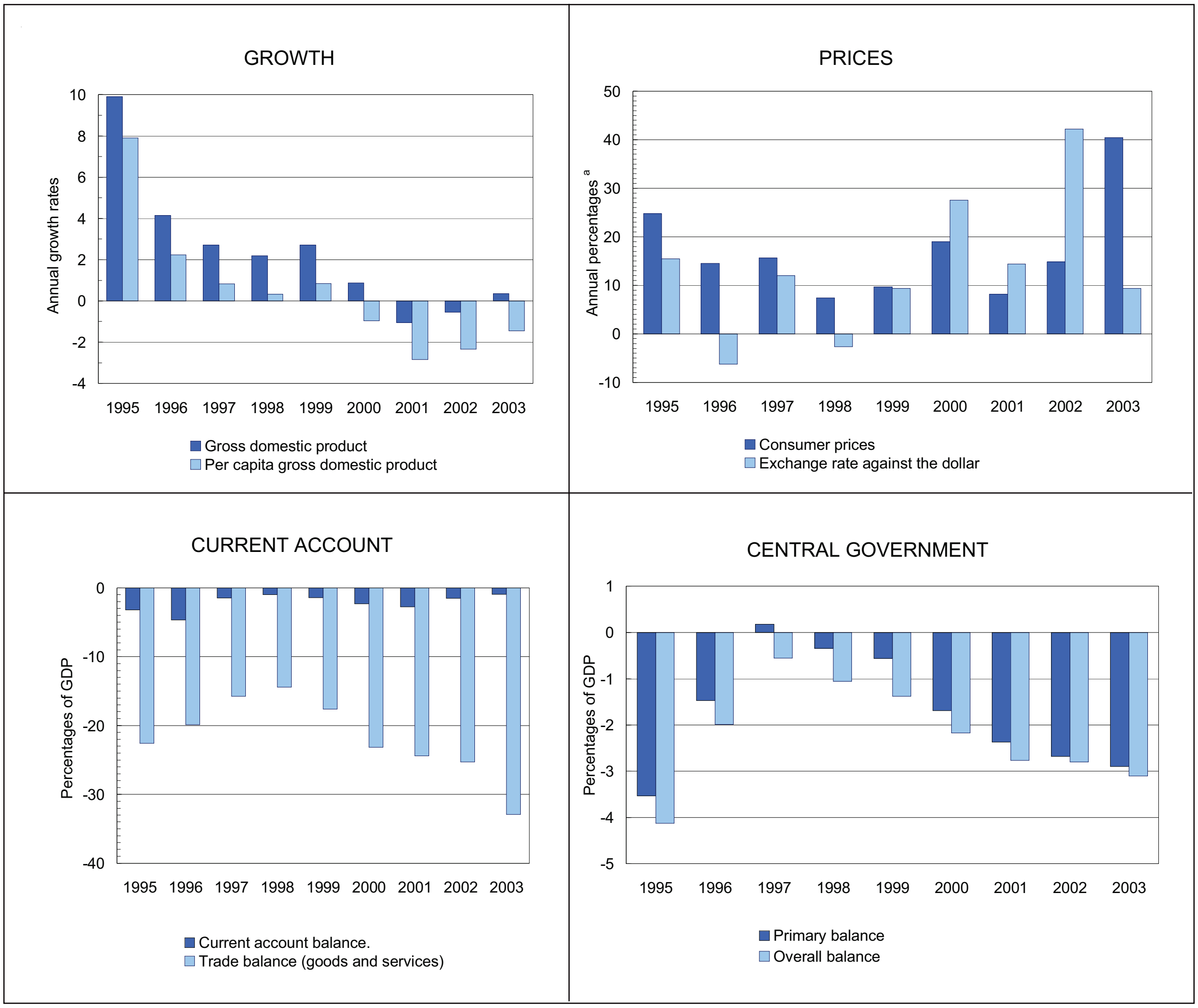
Under United Nations Security Council resolution 1529 of 29 February 2003, a Provisional Multinational Force headed by the United States was established in the country. This force was replaced by the United Nations Stabilization Mission in Haiti (MINUSTAH), created by virtue of resolution 1542 of 30 April 2003, which began deploying on 1 June.

In 2003, Haiti's gross domestic product (GDP) grew by a bare 0.4%, so that per capita output fell by 1.4%, the fourth consecutive year of decline.[1] External demand picked up considerably (9.6%), but private consumption declined somewhat, so that domestic demand remained virtually unchanged (0.6%) despite a small rise in investment (3.7%), mainly on public works. In January 2003 inflation accelerated sharply, but it subsequently eased. Meanwhile, external financing came to a virtual halt in the early months of the year, before resuming in July. The exchange rate weakened sharply in the fourth quarter of 2002 and the first quarter of 2003 (47%), but this tendency halted and even reversed to a considerable degree in 2004.

The priorities for 2004 are to deal with the humanitarian emergencies produced both by the recent crises and by the worsening of the situation caused by cutbacks in donations and support programmes during the last three years. The socio-political instability that prevailed during the January-March period will certainly affect the results for the year as a whole. The growth prospects of the economy are difficult to predict owing to the recessionary effects of the political upheaval, the consequences of the May flooding and the uncertainty about what sums will actually be disbursed by external cooperation agencies in what is left of the fiscal year. To date, about US$ 185 million in donations and a net US$ 30 million in loans have been committed. In the light of the new political environment, the main financial organizations and donors (bilateral and multilateral) have expressed a desire to work out agreements at the meeting they will be holding with the country's authorities in July 2004. In any event, the effects of this will be seen in the 2004-2005 fiscal year.

1 The analysis covers the 2003 and 2004 fiscal years. A fiscal year is the period of 12 months from October of the previous year to September of the current year.

Figure 1
HAITI: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] December-December variation.

The public sector has put the direct damage caused by the February-March disturbances at 5.966 billion gourdes (about US$ 147 million), while the private business sector has assessed its losses at about US$ 60 million, the equivalent of 5.5% of GDP. However, this does not include other adverse effects on a large part of the population: lower incomes, higher living costs, the worsening humanitarian emergency in a country where some 3 million people are in receipt of emergency assistance, and the damage caused by the flooding.

There is uncertainty about the outcome of the policies implemented to repair the damage. As a result, GDP growth forecasts for the 2003-2004 fiscal year are uncertain, but in any event they will be very unfavourable. Some estimates are for a decline in output of up to 5%. Whether or not expectations improve will largely depend on how effective the emergency measures are, on whether external cooperation flows are fully restored, and on whether greater macroeconomic stability is achieved over the coming months.

2. Economic policy

The agreements that the authorities signed with the International Monetary Fund (IMF) in June 2003 included four lines of action: fiscal adjustment to reduce the public-sector deficit, monetary policy to reduce inflation and stabilize the exchange rate, economic governance measures (fiscal and budgetary discipline, particularly cuts in discretionary public-sector spending accounts), and payments on debts to international financial institutions.[2]

These objectives were partially met in an initial stage (April-September 2003), but in a second stage (October 2003-March 2004) they were not, owing to public spending growth and the political and social events in the country from February onward.

During 2003 the fiscal deficit rose to 3.1% of GDP, but discretionary operations (advances on the current account), while substantially reduced during the last quarter, represented 25% of total central government spending. Meanwhile, payments on the external debt were made only to the Inter-American Development Bank (IDB). Payments could not be made to the World Bank, the country's main creditor.

The government that took power in March 2004 has focused its provisional administration, firstly, on responding in the short term to the emergency situation and, secondly, on establishing the medium- and long-term measures needed to deal with the crisis it has inherited.

The authorities, civil society, business and different international institutions have agreed a *Cadre de coopération intérimaire* (CCI, Interim Cooperation Framework) to identify needs and priorities, following the approach used in similar international situations subsequent to armed conflict (such as Afghanistan and Iraq). The results of this exercise largely provide the content for the plan of action that will have to be implemented in the political, economic and social spheres over the coming two-year period (September 2004 to September 2006) and that will be presented to international financial institutions and donors in July.

In the short term, priority has been given to restoring security, re-establishing basic services and creating economic opportunities for those most affected by the recent crisis.

In the medium term, this programme is based on four strategic axes: political governance, economic governance and institutional development, economic growth, and improved basic services (water and sewerage, health and nutrition, education, food security, deprived areas and social security networks).

The idea is that the short-term economic scheme (April-September 2004) should restore macroeconomic stability, and reduce inflation in particular. In addition, specific subject areas were identified as requiring immediate improvements, such as electricity generation, private-sector capitalization and the creation of jobs by means of labour-intensive activities, chiefly in rural areas. These measures are extremely urgent given the profound deterioration of the economy and the country's state of underdevelopment, both socially (76% of the population is poor) and in terms of infrastructure (two thirds of the population has no access to electricity and less than half has safe sources of drinking water).

(a) Fiscal policy

The public-sector revenue-raising and oversight measures initiated last year are likely to be maintained. They include the engagement of the *Société générale de surveillance* (SGS) to inspect import shipments, the reduction of tax exemptions and changes in tax regimes.

Nonetheless, the severe damage caused to tax collection agencies (in customs offices, tax services and ports), combined with the drop in the tax take during February and March, meant a net reduction in revenue that was offset only partially by the strict spending policy operated until May. Widening of the fiscal base is seen as a medium- and long-term goal (14% of GDP in 2015, the horizon of the millennium development objectives, as against an average of 8.3% over the last five years), since for there to be any real prospect of achieving this in the short term there would have to be a strong social consensus to combat smuggling and under-invoicing, something that is not entirely feasible given the socio-political instability that still prevails.

On the spending side, measures to strengthen public institutions, possibly with support from international cooperation agencies, could lead to an increase in current outgoings. In fact, the financial authorities have recently announced wage increases of 30% for public servants, starting in October (the last increase was in 1999). In addition, payment of the arrears (US$ 37.3 million) on

2 Government of Haiti, "Letter of intent" and "Memorandum of Economic and Financial Policies", 10 June 2003.

Table 1
HAITI: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
					Annual growth rates [b]				
Gross domestic product	9.9	4.1	2.7	2.2	2.7	0.9	-1.0	-0.5	0.4
Per capita gross domestic product	7.9	2.2	0.8	0.3	0.8	-1.0	-2.8	-2.3	-1.4
Gross domestic product. by sector									
Agriculture, livestock, hunting, forestry and fishing	0.1	1.0	-1.5	-0.2	-2.8	-3.6	0.6	-3.7	…
Mining	79.4	-26.0	10.2	9.5	7.1	5.9	-4.9	1.5	…
Manufacturing	4.3	5.6	0.3	0.3	-3.0	-0.5	0.1	0.3	…
Electricity, gas and water	5.3	0.6	5.3	-2.8	-3.5	-9.3	-27.1	2.0	…
Construction	67.0	-7.9	9.1	11.2	10.4	8.3	0.7	0.9	…
Wholesale and retail commerce, restaurants and hotels	11.2	8.6	5.8	3.1	4.0	4.5	0.4	0.0	…
Transport, storage and communications	10.1	7.2	7.2	7.1	17.0	12.5	2.2	-0.2	…
Financial institutions, insurance, real estate and business services	-6.7	31.9	6.8	5.9	3.2	4.4	-0.7	-0.1	…
Community, social and personal services	-0.1	1.8	1.2	1.3	-0.1	-1.6	-2.6	0.3	…
Gross domestic product, by type of expenditure									
Consumption	15.5	13.4	3.0	3.1	8.4	14.8	-2.4	-1.0	…
General government	-0.7	1.2	-0.1	1.1	0.2	1.3	-6.0	3.9	…
Private	18.4	15.2	3.4	3.4	9.4	16.3	-2.0	-1.4	…
Gross domestic investment	123.4	11.8	7.6	-3.2	24.0	18.3	-1.9	1.3	…
Exports (goods and services)	35.2	27.3	14.2	23.3	16.5	6.3	-3.2	-2.9	…
Imports (goods and services)	69.2	32.6	7.2	6.6	22.7	29.3	-3.5	-0.8	…
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	26.1	28.1	24.5	26.0	27.7	27.3	25.9	25.0	31.1
National saving	22.9	23.5	23.1	25.0	26.3	25.0	23.1	23.4	30.1
External saving	3.2	4.6	1.5	1.0	1.4	2.3	2.8	1.5	0.9
					Millions of dollars				
Balance of payments									
Current account balance	-87	-138	-48	-38	-59	-86	-97	-49	-26
Merchandise trade balance	-429	-416	-354	-341	-677	-758	-750	-706	-783
Exports, f.o.b.	88	83	205	299	341	328	305	274	333
Imports, f.o.b.	517	499	560	641	1 018	1 087	1 055	980	1 116
Services trade balance	-180	-174	-158	-201	-43	-90	-106	-105	-135
Income balance	-31	-10	-14	-12	-13	-9	-9	-14	-14
Net current transfers	553	463	478	516	674	772	769	776	907
Capital and financial balance [d]	225	87	78	73	80	40	94	-34	14
Net foreign direct investment	7	4	4	11	30	13	4	6	8
Financial capital [e]	218	83	74	62	50	27	90	-40	6
Overall balance	138	-50	30	34	21	-46	-2	-83	-12
Variation in reserve assets [f]	-176	49	-51	-29	-34	57	-5	49	25
Other financing [g]	38	2	21	-5	12	-11	7	34	-14
Other external-sector indicators									
Terms of trade for goods (index: 1997=100)	105.5	95.6	100.0	102.0	100.5	93.0	94.0	93.1	91.7
Net resource transfer (% of GDP)	8.6	2.7	2.6	1.5	2.0	0.5	2.6	-0.4	-0.5
Gross external public debt (millions of dollars)	901	914	1 025	1 104	1 162	1 170	1 189	1 212	1 287
Gross external public debt (% of GDP)	33.4	30.8	31.6	29.4	28.4	31.9	33.9	37.8	46.2
Net profits and interest (% of exports) [h]	-15.9	-5.2	-3.6	-2.4	-2.4	-1.8	-2.1	-3.2	-2.8

Table 1 (concluded)

	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
				Annual percentages					
Prices									
Variation in consumer prices (December-December)	24.8	14.5	15.7	7.4	9.7	19.0	8.1	14.8	40.4
Variation in nominal exchange rate (December-December)	15.4	-6.3	12.0	-2.6	9.4	27.5	14.4	42.2	9.4
Variation in average real wage	88.0	-17.1	-13.9	-11.3	-7.9	-11.8	-11.7	-8.8	33.3
Nominal deposit rate (calendar year) [i]	…	10.9	10.8	13.1	7.4	11.8	13.6	8.2	14.0
Nominal lending rate (calendar year) [j]	…	26.3	21.5	23.5	22.9	25.1	28.6	25.5	30.7
				Percentages of GDP					
Central government									
Current income	5.5	6.9	8.7	8.3	8.8	7.9	7.4	8.2	8.9
Current expenditure	9.5	8.5	9.4	8.8	9.3	8.1	8.2	8.8	9.1
Current balance	-3.9	-1.7	-0.7	-0.5	-0.5	-0.2	-0.8	-0.6	-0.2
Capital expenditure	0.7	0.3	1.0	2.0	2.1	2.4	1.8	2.2	3.0
Primary balance	-3.5	-1.5	0.2	-0.3	-0.6	-1.7	-2.4	-2.7	-2.9
Overall balance	-4.1	-2.0	-0.6	-1.1	-1.4	-2.2	-2.8	-2.8	-3.1
Public debt	…	39.4	38.5	37.2	36.4	41.2	42.9	46.9	56.2
Domestic	…	13.1	11.5	11.3	11.4	12.8	13.7	13.6	16.0
External	…	26.3	27.0	25.9	25.0	28.4	29.2	33.3	40.2
Interest payments (% of current income)	10.7	7.5	8.4	8.4	9.3	6.1	3.6	1.6	2.7
Money and credit [k]									
Domestic credit [l]	21.4	23.5	23.9	23.3	24.0	27.5	30.1	32.1	33.0
To the public sector	12.3	12.0	10.6	9.3	10.1	12.7	16.0	17.3	17.3
To the private sector	9.1	11.5	13.3	14.0	13.9	14.8	14.2	14.8	15.7
Liquidity (M3)	...	...	...	29.7	32.6	36.8	37.1	40.1	43.0
Money stock and local-currency deposits (M2)	...	...	...	22.8	24.0	24.9	24.7	25.7	25.5
Deposits in foreign currency	...	...	...	7.0	8.5	11.9	12.4	14.4	17.5

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 1988 prices, except for GDP in the 2001-2003 period, for which 1986-1987 prices are used. [c] Based on figures in local currency at current prices. [d] Includes errors and omissions. [e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. [f] A minus sign (-) denotes an increase in reserves. [g] Includes the use of IMF credit and loans, and exceptional financing. [h] Refers to net investment income as a percentage of export of goods and services as shown on the balance of payments. [i] Average of highest and lowest rates on time deposits, commercial banks. [j] Average of highest and lowest lending rates, commercial banks. [k] The monetary figures are annual averages. [l] Refers to net credit extended to the public and private sectors by the monetary authority and deposit banks.

the debt contracted with the World Bank will undoubtedly be a priority for the current government, so that it can benefit from the “windows of opportunity” that now exist as regards external cooperation.

The scenarios and goals established by the recent (May-June) IMF mission to Haiti have not yet been made public. At a time of inflationary pressure like the present, the guidelines can be expected to aim at restraining the growth of financing for the public sector. Given the priorities recognized by government agencies so far, however, the fiscal deficit is expected to rise, chiefly to fund urgent measures relating to security and the re-establishment of vital basic services. Budgetary support from the international community, including US$ 35 million from the United States Agency for International Development (USAID), could limit the inflationary effects of these measures.

(b) Monetary policy

Monetary policy was subjected to severe constraints by the large devaluation, the high fiscal deficit (caused chiefly by the discretionary spending of central government) and the disappearance of external assistance. As these problems eased it became possible to implement a restrictive policy to halt the rise in inflation. A degree of success was achieved and the inflationary spiral was checked, but the new upsurge in inflation, with prices rising by 6.5% in April 2004, will probably force the Central Bank to maintain a policy of contraction for the money supply. More recent signals, however, such as the decline from 27.8% to 22.2% in the leading interest rate (91-day bonds issued by the Bank of the Republic of Haiti-BRH), would seem to indicate that, in order to halt the economic recession

Table 2
HAITI: MAIN QUARTERLY INDICATORS

	2002				2003 [a]				2004 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Merchandise exports, f.o.b. (millions of dollars)	58.6	75.6	74.8	72.5	74.9	91.7	91.3	69.1	68.8	
Merchandise imports. c.i.f. (millions of dollars)	226.2	279.5	265.5	294.5	264.6	266.2	290.6	268.2	214.8	...
Consumer prices (12-month percentage variation)	8.5	8.4	10.1	14.8	37.0	41.7	42.5	40.4	20.8	25.4[b]
Average nominal exchange rate (gourdes per dollar)	26.7	26.8	28.5	34.8	42.1	39.2	38.9	40.0	41.0	34.2
Nominal interest rates (annualized percentages)										
Deposit rate [c]	9.2	7.6	7.9	8.0	12.1	14.3	14.6	14.9	15.3	13.0
Lending rate [d]	26.0	25.2	26.0	25.0	27.0	30.6	33.0	32.3	33.0	36.5
Domestic credit [e] (variation from same quarter of preceding year)	7.4	10.4	15.2	30.4	40.5	42.7	31.5	19.8	9.3	7.5[b]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures. [b] Data up to April. [c] Average of the highest and lowest rates on time deposits, commercial banks. [d] Average of the highest and lowest lending rates, commercial rates. [e] Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

and improve the expectations of the business sector, the financial authorities wish to expand credit to the private sector, at least moderately. Similarly, the government programme (CCI) provides for mechanisms to compensate the commercial banking system by reducing the legal reserve requirement and buying back BRH bonds in circulation to increase the liquidity of the system and make it easier for loans to be granted under new microfinance schemes.

(c) Exchange-rate policy

The exchange rate weakened greatly from late 2002 to early 2003, but it then held fairly steady until the end of the year. In January 2004 it weakened again, but it strengthened considerably in March and to a lesser degree in April. A relatively stable exchange rate is predicted for the remaining months of 2004. Foreign currency revenue expected from donations and loans, combined with the fall in imports, could even strengthen the local currency. In April and May the Central Bank spent US$ 22 million on interventions in the currency market, taking advantage of the appreciation to rebuild gross reserves. The low level of reserves continues to be a concern, however. Totalling US$ 144 million, they are equivalent to less than 50 days of imports.

(d) Other policies

As can be seen from the CCI, the priorities of the transitional government's programme of action include policies to stimulate employment and a reformulated anti-poverty strategy. The time horizons for these are different. In the specific case of short-term job creation, the preferred option is to achieve this by means of highly labour-intensive activities, particularly local infrastructure projects in rural areas. As regards the anti-poverty document (PRSP) being prepared since last year, the authorities have decided to use the CCI itself as a frame of reference for implementation, and to delay drawing it up until 2005.

In its planning document of last April, the government announced its intention of retreating on tariff policy,[3] owing to the unfavourable consequences that indiscriminate trade liberalization has had on the country's economy (particularly in the farm sector, where lower production and falling employment have been the predominant effects), although there does not yet seem to be a consensus on the matter. The CCI document does not reinforce this message; on the contrary, the most recent measures by the authorities to reduce domestic prices for certain imported staple foodstuffs (rice) have offered tariff concessions to the major importers of these products.

3 See "Position du gouvernement et action envisagée", document presented by the Government of Haiti to a number of international institutions in late April.

3. The main variables

(a) Economic activity

On the whole, the economy performed poorly during the 2003 fiscal year, with GDP growing by just 0.4%. Poor sectoral results were accompanied by some improvement in investment (3.7%), thanks to the public-sector component, while consumption fell by 0.1% (and the private component by 0.3%) owing to the substantial decline in household purchasing power caused by inflation, even though the nominal minimum wage virtually doubled in February.

Agriculture experienced a modest 0.2% recovery thanks to favourable weather conditions, and the commerce, restaurants and hotels sector grew by 0.4%. These two activities were responsible for about 50% of the increase in total value-added. Construction expanded by 1.4%, which was a slight improvement on the previous year (0.8%), thanks to public-sector infrastructure works (public squares, social housing and irrigation channels in rural areas), many of which were undertaken as part of the preparations for the bicentenary of national independence. The manufacturing sector grew only slightly (0.5%), despite a significant recovery in maquila exports (26%). The electrical power subsector expanded for the second year running and was largely responsible for the positive performance (3.1%) of the electricity and water category, but power generation was only 80% of the 1999 level.

Forecasts for the 2004 fiscal year are pessimistic, with GDP expected to fall by up to 5%. There is scope for sectoral recovery only in some service activities (commerce and restaurants), owing to the presence of a large body of international forces, and probably in agriculture, as the direct damage caused by the political crisis of the second quarter (January to March) was only slight.

(b) Prices, wages and employment

Inflation rose sharply in early 2003, following a significant currency devaluation. It then eased off, holding steady between August 2003 and February 2004. In March 2004 it took off again (6.5% in April), with rises of up to 11% in food prices, partly because of the shortages and looting that resulted from the severe crisis of February and March, and partly because of rising international hydrocarbon prices. Consequently, restraining inflation is one of the stabilization priorities of the new authorities, who are seeking to keep annual price increases down to 25%, i.e., to an average monthly rate of some 1.4% for the rest of the fiscal year.

Regarding employment and wages, there could be some slight improvements if the highly labour-intensive employment programmes planned are implemented; furthermore, the establishment of MINUSTAH on 1 June last could create indirect service jobs. It must be noted, however, that the country still has high levels of open unemployment (17% in urban areas) and underemployment (55% of the working population in urban areas have informal jobs), with adverse effects for the earnings and living standards of much of the population.

(c) The external sector

To obtain access to new financing from the World Bank, the country's authorities will have to negotiate payment of their arrears with that institution. This might be postponed until the next fiscal year (2004-2005), however, once the financial contributions of the international community have been agreed. Given the legislative vacuum, no new borrowing is to be expected. Consequently, little change is expected in the capital account of the balance of payments, other than the disbursements already approved by IDB of approximately US$ 26 million. In the current account, however, official donations totalling US$ 185 million are expected.

Given the financial restrictions noted, emigrants' remittances, estimated at US$ 840 million for 2004, will once again have to be the main factor both in balancing the external accounts and, in the absence of other sources of foreign currency, in attaining the immediate economic and social objectives set by the new authorities.

Annualized to April 2004, maquila exports of wearing apparel grew by 14.8% and 22.6% in volume and value, respectively, while agricultural products that are more firmly established in the export market (mangoes, cacao and essential oils) showed a slight downward trend, with the exception of the last of these. The rising tendency of hydrocarbon prices in international markets (30% between October and May) will have an adverse effect on the Haitian economy, which is a net importer of these derivatives, with all the negative implications this has for the terms of trade.