Haiti [1]

1. General trends

The external and domestic shocks which affected the Haitian economy in 2008 resulted in a substantial deceleration of the GDP growth rate, which stood at 1.2%, as compared with 3.4% recorded in 2007. In addition, other macroeconomic indicators reversed the favourable trend from previous years. The growth rate of per capita GDP fell from 1.8% to -0.5%, the inflation rate rose from 7.9% to 19.8% and the balance-of-payments current account recorded a deficit of 4.9%, compared with a surplus equivalent to 0.2% of GDP the previous year. In contrast, the central government fiscal deficit went from 1.6% of GDP in 2007 to 1.2% in 2008.

The external shocks that contributed most to these results were the surges in international food and fuel prices. The domestic shocks with the greatest impact included the institutional crisis which resulted from the fall of the government and paralysed the country from April to August, and the devastating effects of four consecutive hurricanes. According to estimates by ECLAC and other national and international institutions, the combined damage of these two factors represented a total of some US$ 900 million (15% of GDP).

ECLAC projects GDP growth of 2% in 2009. Public investment —within the framework of the emergency programme approved in the wake of the natural disasters— will be the main engine for economic recovery. The agriculture sector may also contribute to growth, since its encouraging first-semester results may offset the highly negative performance in 2008 (-6.1%). Given the slowdown in inflation during the first six months of the fiscal year, an inflation rate of 9% is expected for the year ending in September 2009.

The worldwide recession and, in particular, the deceleration of the United States economy will translate into slacker external demand for Haitian exports (especially maquila textile manufactures) and slower growth in remittances. As a result, the external sector may be characterized by export stagnation and a drop in imports in 2009.

In terms of the financial and monetary climate, the authorities announced the continuation of their tight policy stance aimed at achieving macroeconomic stabilization and lowering inflation, within the framework of the third and final year of the Poverty Reduction and Growth Facility (PRGF) negotiated with the International Monetary Fund (IMF). One of the authorities' prime objectives was to reach, in late June, the completion point under the Heavily Indebted Poor Countries (HIPC) Debt Initiative, of which Haiti is a beneficiary. At that point, Haiti will qualify for approximately US$ 900 million in debt forgiveness and its debt servicing will be reduced by nearly US$ 48 million annually.

[1] This analysis refers to fiscal years 2008 (October 2007 to September 2008) and 2009 (October 2008 to September 2009). To facilitate a regional comparison, however, data is presented by calendar year.

Table 1
HAITI: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	0.9	-1.0	-0.3	0.4	-3.5	1.8	2.3	3.4	1.2
Per capita gross domestic product	-0.8	-2.7	-1.8	-1.2	-5.0	0.2	0.7	1.8	-0.5
Gross domestic product, by sector									
Agriculture,,hunting, forestry and fishing	-3.6	0.9	-3.7	0.2	-4.8	2.6	1.7	2.7	-6.1
Mining and quarrying	0.5	2.7	0.0	0.0	-7.1	7.7	7.1	0.0	6.7
Manufacturing	-0.5	-0.0	1.8	0.3	-2.5	1.6	2.3	1.3	-0.1
Electricity, gas and water	-9.2	-26.8	1.7	3.3	11.1	7.1	-22.7	-1.7	-8.8
Construction	8.3	0.7	0.9	1.9	-2.7	3.0	2.9	2.6	5.5
Wholesale and retail commerce, restaurants and hotels	4.5	0.4	2.9	0.6	-6.4	1.4	3.0	6.1	6.1
Transport, storage and communications	12.5	2.2	-0.3	1.6	0.8	3.2	4.5	8.1	6.6
Financial institutions, insurance, real estate and business services	4.4	-0.7	-1.6	0.3	-0.8	1.3	2.0	1.8	1.7
Community, social and personal services	-1.6	-2.6	1.1	-1.4	-3.2	1.6	1.5	4.6	4.9
Gross domestic product, by type of expenditure									
Final consumption expenditure	14.8	-1.6	-1.2	0.8	-3.1	5.3	1.2	1.8	3.9
Fixed domestic investment	18.3	-1.2	2.5	3.1	-3.2	1.4	2.2	3.1	7.6
Exports (goods and services)	6.3	-2.2	-2.1	7.7	2.5	6.6	7.2	-2.9	6.9
Imports (goods and services)	29.3	-2.1	-1.2	3.2	-1.7	7.3	1.9	-0.2	7.9
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	27.3	25.9	25.1	30.7	27.3	27.4	28.9	27.7	25.7
National saving	24.3	22.0	22.3	29.1	25.8	27.6	27.1	27.9	21.6
External saving	3.0	3.8	2.8	1.6	1.5	-0.2	1.7	-0.2	4.1
					Millions of dollars				
Balance of payments									
Current account balance	-111	-134	-89	-44	-56	7	-85	10	-295
Goods balance	-755	-750	-706	-782	-833	-849	-1 053	-1 096	-1 617
Exports, f.o.b.	332	305	274	334	377	460	495	522	490
Imports, f.o.b.	1 087	1 055	980	1 116	1 210	1 309	1 548	1 618	2 107
Services trade balance	-108	-124	-123	-164	-204	-399	-399	-417	-421
Income balance	-9	-9	-14	-14	-12	-35	7	5	16
Net current transfers	761	750	754	917	993	1 290	1 361	1 517	1 726
Capital and financial balance [d]	64	131	8	36	91	27	179	151	393
Net foreign direct investment	13	4	6	14	6	26	161	75	30
Other capital movements	51	127	3	22	85	1	18	77	363
Overall balance	-47	-2	-81	-8	35	34	94	161	97
Variation in reserve assets [e]	57	-5	49	25	-50	-22	-109	-208	-171
Other financing	-10	7	32	-17	15	-12	15	47	73
Other external-sector indicators									
Terms of trade for goods (index: 2000=100)	100.0	101.2	100.2	98.7	96.0	92.4	88.9	86.4	62.4
Net resource transfer (millions of dollars)	45	129	26	5	94	-20	201	204	482
Gross external public debt (millions of dollars)	1 170	1 189	1 229	1 316	1 376	1 335	1 419	1 541	1 885
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	19.0	8.1	15.2	35.8	19.1	15.4	10.3	10.0	10.2
Variation in nominal exchange rate (annual average)	25.0	15.4	19.7	44.8	-10.2	3.9	0.3	-7.2	6.3
Variation in average real wage	-11.9	-11.6	-8.9	33.5	-14.7	-13.2	-12.0	-7.5	-13.3
Nominal deposit rate [f]	11.8	13.6	8.2	14.0	10.9	3.5	6.0	5.2	2.4
Nominal lending rate [g]	25.1	28.6	25.5	30.7	34.1	27.1	29.5	31.2	23.3
					Percentages of GDP				
Central government [h]									
Total income [i]	8.2	7.8	8.3	8.9	8.9	10.9	10.6	10.9	9.6
Current income	8.0	7.4	8.2	8.8	8.9	9.7	10.2	10.3	9.5
Tax income	7.9	7.4	8.2	8.8	8.9	9.7	10.2	10.3	9.5
Total expenditure	10.5	10.0	11.0	12.0	12.0	11.5	10.6	12.4	10.8
Current expenditure	8.1	8.2	9.0	8.7	9.2	10.2	9.7	9.8	8.6
Interest	0.5	0.3	0.1	0.4	0.7	1.0	0.8	0.3	0.3
Capital expenditure	2.4	1.8	2.0	3.3	2.8	1.2	0.9	2.6	2.1
Primary balance	-1.8	-1.9	-2.6	-2.7	-2.4	0.5	0.8	-1.2	-0.9
Overall balance	-2.3	-2.2	-2.7	-3.1	-3.1	-0.5	-0.0	-1.6	-1.2

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Central government debt	43.8	46.2	60.2	57.5	46.7	44.1	35.6	32.2	37.6
Domestic	13.6	14.8	17.4	17.2	14.8	13.5	10.5	8.6	12.2
External	30.2	31.5	42.7	40.4	31.8	30.6	25.1	23.7	25.4
Money and credit [j]									
Domestic credit	29.3	30.1	35.6	34.5	29.8	28.6	23.9	21.3	19.1
To the public sector	13.3	14.6	17.3	16.8	14.3	12.8	9.7	7.7	5.9
To the private sector	16.0	15.6	18.4	17.7	15.4	15.7	14.2	13.6	13.2
Liquidity (M3)	37.6	38.7	45.4	47.8	42.5	42.1	37.9	35.8	33.9
Currency outside banks and local-currency deposits (M2)	25.9	25.6	27.9	27.7	26.0	24.1	22.3	20.6	19.0
Foreign-currency deposits	11.7	13.1	17.6	20.0	16.6	18.0	15.6	15.2	14.8

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.

2. Economic policy

In spite of the blows suffered by the economy, economic policy in 2008 was aimed at maintaining the parameters for fiscal and monetary discipline outlined in the Poverty Reduction and Growth Facility (PRGF). After heavy social protests broke out in April 2008, however, the authorities implemented a programme of subsidies to help mitigate the effects of rising prices, specifically for rice and hydrocarbons, which remained in place until August and mid-October respectively.

The main economic policy guidelines for fiscal year 2009 were based on the latest PRGF Review and the letter of intent to IMF in February 2009. In addition, the economic recovery plan announced by the authorities for 2009-2010 outlined four high-priority objectives: reducing vulnerability to natural disasters, improving economic output, providing access to basic services and ensuring macroeconomic stability. Unlike in past programmes, emphasis was placed on the urgent need to facilitate job creation and income generation, in an attempt to make up social lags and stimulate the economy.

(a) Fiscal policy

In fiscal year 2008, the central government's fiscal accounts showed a deficit equivalent to 1.2% of GDP, owing to a 5.1% real reduction in income and a 6.8% decrease in expenditures. Operating expenditures dropped by 31% and investments fell by 13%. Wages, however, showed a positive variation (27%). Subsidies grew by 4.3%, owing mainly to the two programmes undertaken by the government to lower rice and fuel prices. Central bank monetary financing was partially funded (US$ 51 million) towards the end of the fiscal year with resources obtained through the PETROCARIBE programme, an agreement brokered by the Bolivarian Republic of Venezuela.

In an attempt to boost fiscal revenues, the Ministry of Finance and the Economy submitted a proposal to congress —among other measures— to raise the taxes applied to telecommunications services (cellular telephone services). In the face of widespread protests by telecoms operators and other sectors, however, the initiative was scrapped. The administrative and oversight measures adopted in previous years to improve tax collection, increase tax coverage and systematically reduce tax evasion thus became even more important.

As of April 2009, the cumulative balance of the current fiscal year reflected, in real terms, tax revenue growth of 7.4%, thanks to increased takings in direct taxes (15%) and VAT (9.9%). Nevertheless, as result of slight increases in customs duties (2.5%) and a large drop in grants (direct budgetary assistance), total revenues fell by 1.3%.

Table 2
HAITI: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross international reserves (millions of dollars)	333	369	415	494	524	558	537	587	602	...
Consumer prices (12-month percentage variation)	8.0	9.1	7.9	10.0	16.3	15.8	19.9	10.2	1.0	-1.0
Average nominal exchange rate (gourdes per dollar)	38.1	36.6	35.8	36.6	37.7	38.8	39.9	39.8	40.1	40.0
Nominal interest rates (annualized percentages)										
Deposit rate [d]	5.8	6.3	5.2	3.4	2.1	2.3	2.8	2.7	1.9	1.5
Lending rate [e]	34.1	34.1	32.5	24.2	23.1	24.0	23.1	22.8	22.4	22.3
Domestic credit (variation from same quarter of preceding year)	-2.1	-3.8	2.9	2.3	10.8	9.6	3.4	9.8	...	...
Non-performing loans as a percentage of total credit	11.7	11.6	11.1	9.6	10.2	10.0	9.7	10.5	10.5	...

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

In the same period, expenditure was up by 5.7% in real terms, given that the 28.7% increase in current expenditures —which was driven, in turn, by wages (5.9%)— was outweighed by a 66.5% plunge in locally funded investments. This, however, did not imply a negative variation in gross public capital formation, since the vast majority of actual spending in this budget line is supported by external funding, which is not reflected here. The contraction of the central government's operating expenditures (-5.6%) reflects the adjustment mechanism used by government agencies.

Thanks to extrabudgetary resources derived from PETROCARIBE funds, the authorities were able to establish a US$ 197 million emergency programme in September 2008. Of that amount, almost 75% will be allocated for investment spending and 25% for current expenditures. Both will occur in the current fiscal year.

The budget for fiscal year 2009 was presented to Congress in December 2008, but was not passed until June. The emergency funding law passed in September, however, gave the authorities special powers to execute expenditures, redistribute budget items and expedite government contracts, significantly reducing the restrictions that late approval would have meant in the first six months of the fiscal year.

Public spending is expected to rise somewhat in 2009 in order to promote infrastructure reconstruction and increase social spending. Some social spending measures had already been envisaged in the National Growth and Poverty Reduction Strategy (in 2007) and others arose out of the humanitarian crisis caused by natural disasters in 2008. Spending items will see substantial increases in both current expenditures and investment, while fiscal revenues will be flat given the economic outlook. This suggests a likely deficit of up to 2.8% of GDP at the end of fiscal year 2009, which would be financed with additional resources from the international community and the central bank.

(b) Monetary policy

In light of the external shocks which beleaguered the Haitian economy and the resulting rise in inflation, the central bank severely tightened monetary policy in 2008. Towards the end of the fiscal year (September 20008), this translated into a reduction in real terms of the monetary base (-3.8%) and of net credit to the economy (-11.8%), particularly to the public sector (-43.3%). Private lending was up by 4.5%, owing in part to higher demand from importers, whose invoicing rose considerably.

The benchmark interest rate (91-day BRH bonds) remained high (8%) throughout this period and excess liquidity was absorbed through net sales of foreign exchange (US$ 59 million) by the central bank.

Although the central bank eased its stance somewhat in May, the 2-percentage-point reduction in the rate on BHR bonds seems to indicate a very cautious position for fiscal year 2009 overall. In fact, the programme agreed to with IMF highlights the need to keep monetary indicators on a moderate trend.

In the first semester (March 2009) net domestic credit increased (7.1%), as did M1 (11.2%) and M3 (10.9%). The nominal variation of the monetary base (9.5%) was in line with the indicator's projections to September (9.3%).

(c) Exchange-rate policy

In 2008 the gourde's nominal exchange rate against the United States dollar fell by 2.3%. The availability of net reserves held by the central bank allowed for targeted interventions aimed at containing sudden (speculative) fluctuations in the exchange rate, with net sales totalling US$ 59 million, approximately 10% of total reserves. Flows of remittances and grants also helped to maintain a degree of exchange-rate stability within the framework of a real appreciation (6.6%), despite the external shocks.

In light of fluctuations as of May 2009 (nominal depreciation of 7.5%), exchange-rate policy will likely continue as described during the current fiscal year, even though, in a departure from the trend of recent years, the real exchange rate depreciated slightly (0.4%). If remittances —which are the chief source of foreign exchange and finance almost 60% of the trade gap— slow as expected, the currency could come under further downward pressure. The provisions of the IMF programme allow for such a situation and include an additional margin for drawdown of net reserves held by the central bank —up to US$ 50 million— by the end of this fiscal year.

(d) Other policies

The international donors' conference for Haiti, held in April 2009 in Washington D.C. under the auspices of the Inter-American Development Bank (IDB), helped to strengthen the cooperation framework and reaffirm the international community's commitment to assist the country, and represented a response to the Government of Haiti's request for additional funds. These funds will be allocated to an emergency programme to reduce the country's vulnerability and promote economic and social recovery by creating over 150,000 jobs, among other measures. New commitments were garnered totalling some US$ 323 million in budgetary assistance and investments for 2009 and 2010.

3. The main variables

The external and domestic shocks that battered the Haitian economy in 2008 were reflected in meagre GDP growth of 1.2% and worsened already difficult conditions rooted in serious structural lags suffered by the country.

(a) Economic activity

Sluggishness in the production sector in 2008 stemmed from negative performance in agriculture (-6.1%) and flat manufacturing output (0.1%). Agriculture was dented first by the combined effects of droughts in several production areas, then by the devastating effects of consecutive hurricanes. In manufacturing, the slowdown in the United Sates economy had negative repercussions on the maquila industry while construction, transport and communications, and commerce fared better (up by 5.5%, 6.6% and 6.1%, respectively).

Domestic demand expanded by 2.8% in 2008 thanks to growth in investment (2.8%) and total consumption (1.6%), which was buoyed by remittances and a rise in outlays on wages in the public sector, which took on over 9,000 new employees in 2008.

The prospect of an upturn in GDP in the current fiscal year (2.0%) is largely tied to good preliminary results in agriculture during the first winter harvest and, especially, to the prospect of increased public investment. The emergency programme of September 2008 seeks to energize vital sectors such as agriculture and infrastructure and construction, which will receive 17% and 43%, respectively, of the extrabudgetary emergency funds, as well as other sectors in which investment should help to contain the damage sustained in catastrophic events like those of 2008 (15% of GDP).

(b) Prices, wages and remuneration

Following a spike in prices in 2008 (19.8% from September 2007 to September 2008), fuelled by rising food and fuel prices in the international market, inflation is notably down in fiscal year 2009. The seven-month cumulative rate of inflation (from October to April) averaged 7.9%, compared with 11.9% the year before. Falling prices for food (-2.1%) and transport (-2.9%) were key determinants for this result, with lower prices for imported components playing a role in both cases.

While the yearly average inflation rate in 2008 was 14.4%, variations recorded up to April 2009 showed an average of 3.8%, suggesting that the inflation target could be met at the end of the fiscal year (9.5% from September 2008 to September 2009).

However, with the wage lag that has built up —real minimum wages fell by 12.6% in 2008 and purchasing power has plummeted by 70% since 2004— debates on revision of the minimum wage have reached the heart of the national agenda and become part of the crisis the country now faces. The resolution passed by congress in May 2009, which increased the minimum wage to 200 gourdes per day (from 70 gourdes per day, its level since 2003), has yet to be signed by the executive branch. The ensuing debates —within the executive and some sectors of business— make consensus seem still some way off.

Even if the job creation goals announced in the emergency programme were to be met, the lag would still be significant, given that the jobs created would be mainly temporary positions associated with labour-intensive schemes.

(c) The external sector

Following a small surplus equivalent to 0.2% of GDP in 2007, the balance-of-payments current account showed a deficit of US$ 295 million (4.9% of GDP) in 2008, owing to a severe worsening (of over 20%) of the terms of trade. While exports and imports both fell in volume terms (by 9.3% and 9.5% respectively), only exports dropped in value (-6.1%); conversely, import values rose by 30.2% as a result of an average price variation of 44%.

Remittances (US$ 1.252 billion, equivalent to 21% of GDP) and grants (US$ 474 million), which rose in the wake of the humanitarian crisis caused by the natural disasters, helped mitigate the negative impact of the trade balance. The capital account balance was bolstered by loan disbursements (US$ 385 million), while loan servicing payments were down by one third with respect to the previous year. This trend should continue in the current fiscal year and those to come since Haiti qualifies for the benefits associated with the debt forgiveness programme, having reached completion point in late June.

The Haitian economy is highly dependent on international prices for certain products (food and hydrocarbons), which is reflected in the scale of the external shocks weathered in 2008. In addition, the financial crisis in the world economy in 2009 —and, particularly, the recession in the United States— will likely prolong the harsh external conditions. Given that the United States is the main export market and the principal source of remittances for Haiti, the trends observed so far in 2009 give cause for concern. The upturn in the maquila export sector is still modest and remittances are not only slowing, but actually dropping.