

HAITI

1. General trends

The Economic Commission for Latin America and the Caribbean (ECLAC) projects that Haiti's GDP will fall by 5% in 2020, in an international and domestic economic environment marked by a crisis owing to the health measures adopted to tackle the coronavirus disease (COVID-19) pandemic. This crisis is taking place in a context of fragility in the country, as 2019 was marked by sociopolitical unrest and a partial halt in economic activities for several months.¹

In 2020, the economy has suffered the effects of a double shock, relating to supply on the one hand and to demand on the other. The first stems from the drop in activity in the agriculture, services and transport sectors, while the second is the result of mobility restrictions and the decrease in remittances. External demand, particularly with regard to maquila exports, has also declined sharply. The most important macroeconomic variables are expected to perform negatively with respect to 2019. The fiscal deficit is projected to reach 6.4% of GDP, while the current account deficit is expected to widen to 3.7% of GDP. Average annual inflation is forecast at around 23%. In the first eight months of the fiscal year (October 2019 to May 2020), the gourde depreciated by 15%.

In response to the pandemic, a presidential decree was issued on 19 March declaring a state of health emergency for one month, which was extended on two subsequent occasions. The most recent extension took effect on 20 May, with extraordinary conditions extended until the end of July. Measures to restrict mobility and for confinement, which include the widespread closure of the air, sea and land border (with the Dominican Republic), are noteworthy. While these steps do not apply to the transport of goods, increased transaction costs and disruption of supply chains are likely to lead to a decline in imports and exports, which are estimated to fall by 13% and 28%, respectively. The measures have been somewhat flexible in the maquila industry, with respect to which a commitment was made to partially redirect textile production to the domestic market, in order to manufacture sanitary and personal protection equipment. The steps taken will carry a considerable social cost owing to the predominance of informal employment in the Haitian economy and given the level of social deprivation, namely, high poverty and marginalization and low social protection coverage.

The decline of the Haitian economy in 2019—a contraction of 1.8%, compared to growth of 1.5% in 2018—was the first negative change in a decade. The most important macroeconomic indicators revealed widespread deterioration: a high inflation rate—which came to 20.0% year-on-year in September 2019 and reflected an annual average of 17.0%—linked to a marked depreciation of the gourde (34.0%), and a widening of the fiscal deficit (which was close to 8.0% of GDP, compared to 6.5% in 2018). The current account deficit narrowed significantly (from 3.9% of GDP in 2018 to 1.5% of GDP in 2019) thanks in part to increased exports of goods (11.4%) and remittances (6.9%), but owing mainly to a reduction in imports (6.4%).

¹ The period of analysis is fiscal year 2019 (October 2018 to September 2019) and the first half of fiscal year 2020 (October 2019 to March 2020). However, to facilitate the comparison with regional data, the statistics mentioned may sometimes refer to the end of the 2019 calendar year. In such cases, this is specifically outlined.

2. Economic policy

In May and June 2020, negotiations were under way between the national authorities and the International Monetary Fund (IMF) for a new agreement to implement a staff-monitored programme. These negotiations would allow, in a relatively short period of time, the creation of a frame of reference and guarantees for the contributions of other international bodies, such as the Inter-American Development Bank (IDB), the World Bank, the European Union and the United States Agency for International Development (USAID), among others, so that these bodies could increase disbursements, either by allocating new funds or by reallocating pre-existing funds. In addition, the revenue and expenditure budget for the current fiscal year (2020), which was enacted on 5 June, provides a set of economic policy guidelines.

(a) Fiscal policy

In view of the extraordinary expenditure in response to the pandemic and the contraction of tax revenues, the fiscal policy guidelines for 2020 project a deficit of 6.4% of GDP and a tax burden of 10%. The central bank will try to contain monetary financing of the deficit, and efforts will be made to prioritize public investments aimed, above all, at dealing with the pandemic.

In April 2020, IMF granted the Government of Haiti six months of debt service relief amounting to US\$ 5.6 million, as well as an emergency loan of US\$ 111.6 million under the Rapid Credit Facility mechanism, which provides access to financing equivalent to a portion of a country's IMF quota. This occurred in a context in which, during the first seven months of the fiscal year (October 2019 to April 2020), fiscal revenues were stagnant (up by 1.0% with respect to 2019), and expenditure had increased (20%) owing to extraordinary spending to tackle the pandemic and the implementation of social mitigation programmes. According to official reports, actions taken between March and May 2020, including those financed with the treasury's own resources, represented an overall disbursement of US\$ 55.3 million.

In the first seven months of the fiscal year (from October 2019 to April 2020), nominal tax revenues were 10% lower than projected, with direct taxes recording the largest decline (15%). In the same period, current expenditure increased by 21% owing to the purchase of goods and services, which increased by 17%, and to subsidies, which increased by 79%. Monetary financing by the central bank (Banque de la République d'Haïti) increased considerably and represented almost three times the ceiling stipulated in 2019.

In 2019, the adverse political context in Haiti made it difficult to implement economic policy. For more than a year (from February 2019 to March 2020), the government structure was unstable, with successive temporary heads of government and cabinets, amid continued friction between the executive branch and legislative bodies, and social protests recurring throughout most of the year.

In February 2019, a governance pact was signed between the Ministry of Economic Affairs and Finance and the central bank to agree on greater control of monetary financing, which was substantially reduced from 3.5% of GDP in 2018 to 1.4% of GDP in 2019. Meanwhile, domestic non-bank arrears, for example for suppliers, wages and salaries, rose sharply and accounted for almost 3.2% of GDP.

In 2019, total collection slumped by 20% in real terms because of the drop in revenue from direct taxes, which fell by 20%, and from indirect taxes, which decreased by 17%. With regard to indirect taxes, tariff revenues dropped by 28%. These poor results derived from both the economic recession and the sociopolitical instability that halted the activities of the collection agencies.

Expenditure, however, fell by 28% in real terms because of the drop in current spending, which was reduced by 20%, but above all because of the collapse in investment, which plummeted by 75%. The non-financial public sector deficit was equivalent to 3.5% of GDP, given that the central government and the public electricity company, Électricité d'Haïti, recorded negative balances equivalent to 2.4% and 1.1% of GDP, respectively. This deficit was financed mainly by net central bank contributions. The tax burden, which represented 10.9% of GDP, was reduced by 2 percentage points compared to 2018.

The overall external public debt of Haiti, whose main creditor is the Bolivarian Republic of Venezuela, was US\$ 2.101 billion (25.2% of GDP) in 2019, while total domestic debt represented approximately 20.3% of GDP. There were no new foreign debt disbursements that year, and grants amounted to just US\$ 181 million, a 53.0% reduction compared to 2018.

(b) Monetary policy

On 20 March, the central bank adopted a set of measures to mitigate the impact of the pandemic. Some are aimed at increasing liquidity (reduction of legal reserve requirements, increase in the limits of transactions carried out through mobile payment services and waiver of interbank transfer fees), and others are intended to support lending to the private sector, such as those granting a temporary 90-day moratorium on interest payments, without penalty.

As of May 2020, the monetary base had grown by 30.2% year-on-year and lending to the public sector had expanded by 65.3%, while credit to the private sector had increased by just 2.2%. The expansion of credit to the public sector reflected strong monetary financing for that sector (3.5% of GDP), which could also explain some of the decline in lending to the private sector, already affected by the pessimistic expectations since 2019 and the new uncertainties caused by the pandemic.

Under the staff-monitored IMF programme, agreements on fiscal deficit limits, monetary financing and the level of net international reserves are expected to be reached for the remainder of fiscal year 2020 and fiscal year 2021.

In 2019, in an inflationary context, the central bank maintained a contractionary stance. The benchmark interest rate rose from 12% (in effect from December 2016) to 22% in June 2019, while the legal reserve requirement for commercial banks' foreign currency liabilities increased by 1.5 percentage points to 51% (in January 2019).

In 2019, the M1 and M2 monetary aggregates grew by 9.7% and 11.0%, respectively, in nominal terms, while foreign currency deposits expanded. The monetary base grew by 13.7%. Nominal net domestic lending increased by 22.0%, driven by similar variations in credit to both the public sector (20.0%) and the private sector (23.0%). Commercial banks' real lending and deposit rates averaged 1.0% and -10.0%, respectively.

(c) Exchange-rate policy

In January 2020, the gourde had depreciated by 18.0% compared to the same month the previous year and the pandemic initially led to a worsening of this trend, owing to the contraction of remittances and exports. In mid-June, the exchange rate was 110 gourdes to the United States dollar, while at the beginning of the fiscal year (October 2019), it was 92.1 gourdes to the dollar, indicating an average monthly depreciation of 2.0%. The impact of this trend on inflation is a concern given the high dollarization of the economy.

Between January and May 2020, the central bank's total interventions in the foreign exchange market, which amounted to US\$ 62 million, were approximately 10% less than in the same period of the previous year (US\$ 68 million).

In 2019, the average exchange rate was 84.3 gourdes to the dollar. Year-on-year depreciation came to 34.0%, while the monthly average stood at 2.5%, and the central bank's net sales amounted to US\$ 163 million, double the level seen in 2018. Net international reserves stood at US\$ 746 million (five months of import cover), and their decline was partly offset by the receipt of US\$ 181 million in grants, mainly from international organizations such as IDB and the World Bank.

3. The main variables

(a) The external sector

Given the global nature of the COVID-19 pandemic, the external sector is a central transmission channel. In Haiti, based on the most recent effects —observed between March and May 2020— and on the outlook for the remainder of the fiscal year, adverse effects are expected mainly in two areas: a reduction in remittances and exports, and a worsening of the current account deficit from 1.5% to 3.2% of GDP. This is expected to occur despite the favourable effects associated with the substantial drop in the price of hydrocarbons (the price of West Texas Intermediate fell by 25.0%), which represent approximately one quarter of total imports.

Remittances decreased from April onward, falling by 3.7% compared to March and by 4.3% year-on-year. The projections for 2020 as a whole range from reductions of 6.0% (central bank) to 18.0% (IMF), which would represent a decrease of between US\$ 200 million and US\$ 500 million in absolute terms. These estimates are based on forecasts of GDP and unemployment in the United States, as well as on the characteristics of Haitian migration in that country (sectors of activity, types of employment and length of stay, among other factors). In recent years (from 2017 to 2019), an increasing share of remittances has come from Brazil (3.0%), Chile (8.0%) and the Dominican Republic (3.0%). The contraction in flows from these countries is expected to contribute to a further reduction in remittances.

In the first four months of calendar year 2020 —January to April—, maquila exports dropped by 24% in value and by 22% in volume. With respect to the fiscal year (October to April), these exports declined by 17% in value and 13% in volume. As of fiscal year 2019, maquila activities were hit by sociopolitical unrest and economic paralysis. Specifically in the context of COVID-19, the sector's performance derives partly from a reduction in demand from the United States and partly from a decrease in supply owing to difficulties in the provision of inputs and the total or partial closure of Haitian companies because of the health emergency.

In 2019, the trade deficit of US\$ 3.615 billion was reduced by 7% compared to 2018, accompanied by a significant reduction in exports of characteristic domestic products, such as essential oils, which fell by 37%. The terms of trade deteriorated by 12%, and foreign direct investment flows, which amounted to just US\$ 75 million, fell by 29% compared to 2018.

The performance of the United States economy in 2019 favoured family remittances to Haiti, which totalled US\$ 3.328 billion, representing a 7% increase compared to 2018, but a slowdown with respect to the previous three years, when the increase had averaged 12% per year.

(b) Economic activity

According to forecasts, in 2020 the GDP of the Haitian economy will contract for the second consecutive year. The Ministry of Economic Affairs and Finance estimates a general decline in supply, of 3.2% in the primary sector, 2.8% in the secondary sector and 4.2% in the tertiary sector. Given the adverse conditions observed in 2019, the negative performance of the agricultural sector is likely to represent a substantial food security risk.

In Haiti, nearly 65.0% of the consumer goods needed to meet demand are imported, and this heavy dependence on the outside world exacerbates structural vulnerability to the pressing challenge of disrupted supply chains and foreign currency availability. There is also a risk that, in 2020, the hurricane season will be more intense than normal, and Haiti is extremely vulnerable to such phenomena.

The reduction in remittances in 2020 is expected to have a significant impact on demand given the role they play in financing household consumption. Similarly, the suspension of activities until the end of July because of the health emergency is likely to directly affect formal and informal employment and household income. The programmes of the Economic and Social Assistance Fund (FAES) and the Ministry of Social Affairs and Labour (MAST), which aim to mitigate the social effects of the pandemic, have consisted of the delivery of food baskets, cash transfers (3,072 gourdes or about US\$ 28 per recipient) and other actions intended to cover 1.5 million households. Investment will be driven mostly by the public works for sanitation, infrastructure and hospital equipment included in the 2020 budget, which account for one third of total public spending. About 50% of these investments are expected to be financed by external funds (loans, grants, budget support and projects). Meanwhile, almost one third of public investment (US\$ 154 million) is expected to go towards tackling the pandemic.

In 2019, GDP fell by 1.8% owing to a significant decline in the primary sector (-5.1%), but also in the secondary and tertiary sectors (-1.1% and -1.0%, respectively). Sociopolitical unrest and recurrent paralysis of economic activities adversely affected sectors such as tourism and services in general, including transport.

(c) Prices, wages and employment

Although no official figures are available from the Haitian Institute of Statistics and Information (IHSI), the projections of the Ministry of Economic Affairs and Finance assume that the upward trend in inflation in 2019 will persist through fiscal year 2020. It is anticipated that the context of the pandemic — in which there are imbalances and shortages in the local and international supply chains—, as well as the depreciation of the gourde (transmission effect), will worsen inflation in 2020. According to forecasts, inflation will amount to 24% year-on-year and reflect an average annual rate of 23%. The sharp drop in international oil prices in 2020 —equivalent to 37% between January and April, using West Texas Intermediate (WTI) as a benchmark— will be a mitigating factor. However, these fluctuations have so far not been incorporated into domestic prices, which have remained unchanged since 2017.

According to a recent survey by the National Coordination for Food Security (CNSA), in March 2020, the average nominal cost of a basket of six basic goods (rice, wheat flour, maize, beans, sugar and vegetable oil) was about 1,960 gourdes per person per month, compared to 1,880 gourdes in February 2020 and 1,563 gourdes in March 2019. This represents month-on-month and year-on-year increases of 4% and 25%, respectively. This inflationary dynamic involves, in addition to the exchange rate, supply problems owing to the closure of the land border with the Dominican Republic, the country of origin of a wide range of consumer products.

Minimum wages were adjusted in November 2019, and the level corresponding to the maquila industry was raised by 19%, from 420 gourdes to 500 gourdes (about US\$ 4.7) per working day. Since then, in this and other segments, exchange-rate depreciation has substantially reduced the purchasing power of a workforce of some 56,000 people. In the context of the health emergency caused by COVID-19 and the forced suspension of activities in the maquila industry, an exceptional one-month closure was implemented. In addition, a government subsidy was provided to support the income of maquila workers during the shutdown in April. However, a report published by the Haiti Industries Association (ADIH) in May 2020 states that, during the month of April, 19,000 jobs (one third of the total) were cut in the sector. Free zones—in particular the Caracol Industrial Park, located in the northeast of the country—are also expected to receive resources from IDB (equivalent to US\$ 65 million), specifically for physical expansion and improved management.

In an economy where informal employment is predominant, social confinement measures, suspension of activities and restriction of mobility, while difficult to implement effectively, are expected to have a negative impact on the remuneration and employment of the labour force. This is not only projected to occur in the informal sector, but also in the formal sector, owing to the adjustment of working hours, dismissals and the reduction of working hours, often in violation of the law.

Table 1
HAITI: MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
Annual growth rates b/									
Gross domestic product	5.5	2.9	4.2	2.8	1.2	1.5	1.2	1.5	-1.8
Per capita gross domestic product	3.9	1.4	2.7	1.4	-0.2	0.1	-0.1	0.2	-3.0
Gross domestic product, by type of expenditure									
Final consumption expenditure	-2.8	-5.2	2.7	2.4	0.8	1.2	2.7	1.2	...
Gross capital formation	9.6	6.2	6.1	2.0	3.6	1.1	0.9	2.3	...
Exports (goods and services)	20.3	2.1	5.0	4.5	3.6	0.7	-1.2	2.0	...
Imports (goods and services)	0.1	-5.7	3.2	2.6	2.2	0.8	2.0	1.5	...
Percentages of GDP									
Investment and saving c/									
Gross capital formation	27.9	29.5	30.0	30.9	32.4	30.5	29.0	29.0	...
National saving	23.5	23.8	23.3	22.3	29.2	29.5	28.0	25.0	...
External saving	4.4	5.7	6.7	8.7	3.2	0.9	1.0	4.0	1.5
Millions of dollars									
Balance of payments									
Current account balance	-326	-449	-561	-750	-266	-71	-84	-373	-123
Goods balance	-2 546	-2 305	-2 426	-2 705	-2 425	-2 176	-2 626	-3 406	-2 996
Exports, f.o.b.	768	775	915	961	1 024	1 007	991	1 079	1 201
Imports, f.o.b.	3 314	3 079	3 341	3 666	3 449	3 183	3 618	4 484	4 198
Services trade balance	-575	-567	-450	-385	-318	-408	-399	-486	-618
Income balance	38	55	32	49	41	48	59	50	50
Net current transfers	2 757	2 368	2 283	2 291	2 437	2 464	2 883	3 469	3 442
Capital and financial balance d/									
Net foreign direct investment	119	156	162	99	106	105	375	105	75
Other capital movements	394	547	409	170	-63	48	-262	217	-142
Overall balance	186	254	10	-480	-223	81	28	-51	-190
Variation in reserve assets e/	-209	-285	-32	473	141	-142	-206	-33	109
Other financing	23	31	23	7	82	61	178	84	81
Other external-sector indicators									
Terms of trade for goods									
(index: 2010=100)	83.0	86.0	80.6	83.1	87.4	86.4	88.9	82.8	82.0
Net resource transfer (millions of dollars)	573	788	625	325	165	261	349	456	64
Gross external public debt (millions of dollars)	860	1 070	1 478	1 833	1 985	2 013	2 133	2 125	2 104
Annual percentages									
Prices									
Variation in consumer prices									
(December-December)	8.3	7.6	3.4	6.4	12.5	14.3	13.3	16.5	20.8
Variation in nominal exchange rate									
(annual average)	1.3	3.3	3.1	5.0	13.4	23.8	3.1	4.0	33.4
Variation in minimum real wage	-7.7	1.7	16.5	3.5	-0.4	4.4	0.0	0.8	...
Nominal deposit rate f/	0.4	0.5	0.7	2.0	3.9	5.0	4.5	4.9	6.1
Nominal lending rate g/	19.8	19.4	18.9	18.6	18.8	19.7	18.1	17.7	18.7

Table 1 (concluded)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Central government	Percentages of GDP								
Total revenue	14.4	13.4	13.3	13.1	13.7	14.4	13.8	13.2	...
Tax revenue	12.9	12.9	12.2	12.0	13.4	13.7	13.6	12.6	...
Total expenditure	12.3	14.3	14.5	13.4	12.8	13.2	12.7	13.9	...
Current expenditure	10.0	10.5	10.8	11.5	11.4	11.9	11.6	12.1	...
Interest	0.4	0.3	0.4	0.4	0.2	0.3	0.3	0.3	...
Capital expenditure	2.3	3.7	3.7	1.9	1.5	1.2	1.1	1.9	...
Primary balance	1.9	2.0	-1.0	-0.5	0.3	0.9	0.7	-2.4	...
Overall balance	1.6	1.7	-1.4	-0.9	0.1	0.6	0.4	-2.7	...
Central government public debt	23.9	28.0	30.5	35.1	39.7	40.8	36.7	32.7	...
Domestic	14.1	13.5	12.6	12.7	13.0	12.6	12.0	10.5	...
External	9.8	14.5	17.7	22.4	26.7	28.2	24.7	21.5	...
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	12.3	15.4	21.7	24.5	26.3	24.9	25.5	28.8	31.1
To the public sector	-5.2	-5.5	0.3	2.2	4.5	2.2	4.5	7.4	10.5
To the private sector	17.5	20.8	21.4	22.3	21.8	22.7	21.0	21.5	20.6
Monetary base	29.9	30.5	26.3	25.9	29.4	31.6	31.1	32.4	34.7
Money (M1)	14.1	14.8	13.9	15.2	14.7	15.0	14.7	16.0	16.1
M2	24.0	24.4	23.4	24.4	24.5	24.8	23.8	25.3	25.4
Foreign-currency deposits	22.3	21.8	21.1	20.9	26.6	28.7	27.3	27.4	29.4

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 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Average of minimum and maximum rates on time deposits.

g/ Average of minimum and maximum lending rates.

Table 2
HAITI: MAIN QUARTERLY INDICATORS

	2018				2019				2020	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross international reserves (millions of dollars)	1 200	1 212	1 236	1 278	1 281	1 300	1 354	1 318	1 355	b/ ...
Consumer prices (12-month percentage variation)	12.9	13.0	14.5	16.5	17.7	19.3	19.5	20.8	22.0	23.4 c/
Average nominal exchange rate (gourdes per dollar)	64.4	65.1	68.1	73.7	81.3	88.9	95.0	96.9	97.0	102.8 c/
Nominal interest rates (average annualized percentages)										
Deposit rate c/	4.9	4.6	5.1	5.2	5.0	6.0	6.9	6.3	5.3	5.0 e/
Lending rate f/	18.1	18.2	17.4	17.2	17.1	16.4	21.5	20.0	17.9	13.8 e/
Monetary policy rates	12.0	12.0	12.0	12.0	12.0	15.3	22.0	17.3	13.3	10.0
Domestic credit (variation from same quarter of preceding year)	19.3	19.4	27.3	25.5	22.4	29.7	25.3	22.5	24.0	g/ ...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Figures as of January.

c/ Figures as of May.

d/ Average of minimum and maximum rates on time deposits.

e/ Figures as of April.

f/ Average of minimum and maximum lending rates.

g/ Figures as of February.