Haiti

Fiscal year 2017 (which runs from October 2016 to September 2017) was ushered in by the disaster left in the wake of Hurricane Matthew in October 2016 in south-western Haiti. Preliminary estimates point to a less adverse trend than had been expected, however, with GDP growing at around 1.3%, largely thanks to a good spring harvest. Inflation remained high at an average annual rate of 14%, however, and both the fiscal deficit and the deficit on current account swelled (rising from -3% to -4% of GDP and from -1% to -3.2% of GDP, respectively).

The new Administration that took office in February 2017 laid out a road map for attaining macroeconomic stability and galvanizing key production sectors in the local economy, especially crop farming. The funds for achieving these objectives, which are being drawn from domestic sources and from external loans and grants, are earmarked in the budget for fiscal 2018 (which started in October 2017).

In 2017, the central government tax burden (14.1% of GDP) rose slightly from its level of the year before (13.6% of GDP), but total tax receipts shrank in real terms (-1.5%), as the increase in direct taxation (17%) was counteracted by a drop in tariff revenues (-7%) and indirect taxation (-11%). Tax receipts from the latter source were hurt by the loss of hydrocarbon excise taxes.

The central government's total expenditures declined by 6% in real terms. This was partly the result of a dip in current expenditure (-3%), but the main factors were a 35% reduction in public investment due to lower revenues from the PetroCaribe scheme and the contractionary (austerity) stance adopted by the transitional government during the first five months of the fiscal year.

The total central government deficit (-4% of GDP) was chiefly financed with net funding from the central bank (the Banque de la République d'Haïti (BRH)) amounting to 1.2% of GDP. This ran counter to the cash management protocol —which called for the alignment of public spending with disposable income — that had been signed by the Ministry of Economic Affairs and Finance and the central bank in 2016.

Haiti's external public debt came to US$ 2.129 billion (26% of GDP). The 6% increase in that debt was mainly a result of the trend in loans from the Bolivarian Republic of Venezuela, which is the country's biggest creditor under the PetroCaribe agreement. More recently, in the aftermath of Hurricane Matthew, a new debt component was added in the form of US$ 42 million in funding provided through the International Monetary Fund's emergency financing facility. That injection of funds reversed the gradual downward trend in disbursements seen over the last four years. On the other hand, debt servicing plummeted by 85% in 2017 —from US$ 88 million to US$ 13 million— owing to restrictions placed on the country by the embargo imposed by the United States financial system, which prevented it from making transfers to its Venezuelan creditor.

Monetary policy remained tight in 2017 owing, above all, to the presence of strong inflationary pressures. Legal reserve requirements (over 40%), interbank interest rates (12% on central bank bonds) and the volume of central bank bond issues all stayed at around the same levels as the year before.

Against this backdrop, net domestic credit in nominal terms rose by 10.5%, which was fairly close to the rate of increase in private credit (7%), but far less than the 46% jump in public-sector credit that came on the back of its steep drop (38%) in 2016.

The sharp depreciation in the nominal exchange rate in 2016 (23%) and in the first seven months of fiscal 2017 (11% up to April) accounts for the increasing dollarization of total deposits (65%) and of the broadly defined money supply (M3) (56%) in what is already a highly dollarized economy. Exchange-rate policy in 2017 was mainly focused on buffering its inflationary impact (via transmission effects) by means of interventions in the currency market and direct auctions of dollars to the largest operators. The central bank sold US$ 150 million dollars (59% more than in 2016), but its net purchases in 2017 of US$ 12 million helped to bolster its net international reserves, which closed September at US$ 929 million.

Haiti: main economic indicators, 2015-2017

	2015	2016	2017 [a]
	Annual growth rate		
Gross domestic product	1.2	1.4	1.3
Per capita gross domestic product	-0.1	0.1	0.0
Consumer prices	12.5	14.3	15.6 [b]
Money (M1)	12.7	6.0	18.4 [b]
Terms of trade	6.2	-2.0	-2.9
	Annual average percentage		
Central government			
Overall balance / GDP	0.1	0.6	…
Nominal deposit rate [c]	3.9	5.0	4.4 [d]
Nominal lending rate [e]	18.8	19.7	17.9 [d]
	Millions of dollars		
Exports of goods and services	1 747	1 602	1 601
Imports of goods and services	4 491	4 196	4 737
Current account balance	-266	-83	-256
Capital and financial balance [f]	81	164	321
Overall balance	-185	81	65

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
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on the basis of official figures.
a/ Estimates.
b/ Figures as of August.
c/ Average of highest and lowest deposit rates.
d/ Figures as of September.
e/ Average of highest and lowest lending rates.
f/ Includes errors and omissions.

Although Haiti did not enter into any formal agreement with the International Monetary Fund (IMF) in 2017, various steps taken by the Ministry of Economic Affairs and Finance and by the central bank (such as adjustments in the prices of hydrocarbons and the introduction of a plan for reducing the hefty subsidies given to the State-owned electricity company) were intended to maintain macroeconomic stability and move structural reforms forward —in line with the provisions of the usual types of IMF agreements.

With exports remaining virtually flat, the upswing in imports (13%) deepened the trade deficit to US$ 3.136 billion, for a 21% increase in the deficit relative to its 2016 level. Rising international prices for hydrocarbons (a 12% hike in the case of Haiti's hydrocarbon imports) and in some raw materials and foodstuffs fueled an upward trend in imports, while the factors that did the most to depress exports were the contraction in both the value (5%) and volume (7.5%) of the external sales of maquilas producing wearing apparel (which represent 75% of total export values). Despite the prevailing political atmosphere in the United States, family remittances were up sharply (15%) in 2017 and came to US$ 2.723 billion, which helped to narrow the deficit on current account. On the capital account, foreign direct investment (FDI) totalled US$ 374 million —as compared with just US$ 105 million in 2016— and was mainly composed of the sale of privately held Haitian-owned assets to a transnational corporation.

The positive trend (3%) in the terms of trade was much weaker than it had been in the three preceding years but nonetheless reflected the continuation of the downturn in the international prices for many of the goods that make up Haiti's food import basket. This was offset to some extent by climbing hydrocarbon prices.

Estimates of a 1.3% expansion of economic activity in 2017 are founded upon a recovery in the crop-farming sector, whose spring harvest (the one that contributes the most to the sector's overall performance) was a good one for such crops as maize, legumes, root crops and bananas. As of the third quarter of the fiscal year, however, the cumulative variation in the short-run indicator of economic activity (ICAE) in the sector was still signaling a waning trend (-1.7%). Nevertheless, increases in activity in both manufacturing and the construction industry (of 1.4% and 4.6%, respectively) were recorded, and commerce was up by 0.9%.

Year-on-year inflation up to September amounted to 15.4%. During the first two quarters, the sharpest increase was in locally produced foodstuffs owing to the supply shock generated in certain product categories by Hurricane Matthew. As the year progressed, the upward trend was strengthened by the transmission effects of the depreciating exchange rate and the increase in fuel prices seen in May.

Negotiations among employer, government and union representatives concerning the setting of minimum wages in 2017 dragged on until August, when an agreement was finally reached. In the maquila industry, the 16% hike in the minimum wage raised it from 300 gourdes to 350 gourdes per day (from US$ 4.70 to US$ 5.60, approximately).

Forecasts of a stronger recovery of GDP in 2018 are based on rebounding public investment in agricultural infrastructure and sustainable reforms in the delivery of energy and other basic services against a backdrop of exchange-rate stability, lower inflation (11%), a reduction in the fiscal deficit made possible by more robust receipts (thanks to new taxes, rates and duties) and the elimination of oil subsidies. In addition, new grants from bilateral sources and multilateral cooperation agencies are expected to help shrink the deficit on the balance-of-payments current account.