HAITI

1. General trends

The Haitian economy grew by just 1.2% in 2017, compared to 1.5% in 2016. The positive, albeit modest, expansion in the agricultural sector (0.8%), confounding forecasts of a likely contraction, made it possible to avoid a more pronounced deterioration and avert outright recession, given the sector's large share in overall GDP (20%). The other sectors displayed slowdowns or small increases, such as in manufacturing (1%), commerce (1.1%), financial services (1.6%) and construction (0.9%).[1] Inflationary pressures —at two-digit levels for the third consecutive year— did not ease, and, at the close of the fiscal year in September 2017, inflation was running at 15.4%. This coincided with substantial monetary financing; hikes in key international prices, such as fuels (19%); and an 8.7% nominal depreciation of the gourde against the dollar, although this was considerably less steep than the previous year's 24% slide. The central government fiscal deficit represented 4% of GDP (compared to 3.3% in 2016); and the current account deficit was equivalent to 2.9% of GDP (compared to 1.0% in 2016), mainly owing to resurgent imports.

The first half of the fiscal year (October 2016-March 2017), was affected by the devastation caused by Hurricane Matthew in October 2016 and the postponement of the electoral process. Despite a degree of normalization of the political environment (the president-elect was sworn in in February 2017), the new government taking office and the implementation of its economic policy guidelines fuelled the uncertainties that frequent arise in such circumstances.

Although annual GDP growth of 1.8% is forecast for fiscal 2018, the results at the end of the first half of the fiscal year (October-March), both in the economic sectors (uncertain scenarios in agricultural activity) and in terms of the macroeconomic variables (fiscal deficit, current account, exchange-rate depreciation) put this in doubt. Moreover, inflationary pressures persist at 12.9%, albeit against a backdrop of a mild 5.6% nominal exchange-rate appreciation.

The Staff-Monitored Program (SMP), signed with the International Monetary Fund (IMF) in late February 2018, sets quantitative targets such as a deficit ceiling for the non-financial public sector (NFPS) of 2.4% of GDP and reserves of US$ 910 million. It also contains structural guidelines, such as reforms in the parastatal electric power utility, *Electricité d'Haïti* (EDH), and fuel-price hikes. Some tensions are expected, stemming not only from the scope of the proposed targets (the fiscal balance and its sources of financing), but also in the operation of the social mitigation and support schemes.

The programme also establishes a number of key actions that are likely to have an effect in the very short term (between June and September 2018): the fuel price hikes and the roadmap for reform of the parastatal EDH (billing rate and recovery/collection rate). Although there is no explicit conditionality, multilateral budget support funds totalling US$ 105 million from the Inter-American Development Bank (IDB), the European Union and the World Bank probably depend on progress made in that programme.

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[1] The analysis period refers to fiscal 2017 (October 2016 to September 2017) and the first semester of fiscal 2018 (October 2017 to March 2018). To facilitate comparison with regional data, however, in some cases the statistics may correspond to the end of the 2017 calendar year (specific mention is made of this where it occurs).

2. Economic policy

In 2017, the economic policy environment focused mainly on promoting fiscal and monetary austerity, prioritizing inflation control, consolidating the macroeconomic balances by reducing the fiscal deficit and subsidies (in particular those granted to EDH), and reducing monetary financing by the central bank, Banque de la République d'Haïti (BRH). Nonetheless, to judge by the main indicators detailed below, the results were not very convincing.

(a) Fiscal policy

The central government tax burden, at 13.7% of GDP in 2017, was slightly less than the previous year's 14.4%. Total revenue collection was down in real terms by 1.1%, with increased revenue from direct taxation (17.5%) being offset by a reduction in income from tariffs (-7%) and indirect taxation (-11%). The latter, in particular, suffered losses in respect of hydrocarbon duties.

Total central government expenditures were down by 3.9% in real terms, partly owing to lower current expenses (-3%), but above all to a 15% contraction in public investment. This stemmed from a reduction in income received from Petrocaribe, compounded by the transitional government's austerity stance (under-execution) during the first five months of the fiscal year.

The result was a central government fiscal deficit of around 2.0% of GDP, financed mainly by net contributions from the central bank (BRH) of 6.632 billion gourdes (about 1.2% of GDP). The May 2017 rise in fuel prices (gasoline, diesel and kerosene) only temporarily mitigated the losses incurred by the public sector. The adjustments that had been scheduled for later, with a view to completely eliminating the subsidy and thus normalize the mechanism of automatic adjustments in line with price variations on international markets, were not implemented.

Haiti's external debt stood at US$ 2.169 billion in 2017 (roughly 25% of GDP), with the Bolivarian Republic of Venezuela accounting for 88% of the total, most of which was acquired through the Petrocaribe energy cooperation agreement. Disbursements amounted to US$ 118.6 million, clearly trending down relative to previous years, and the long-term financing mechanism inherent in the agreement was reversed.

In terms of the State's domestic debt, which has traditionally not been large and represents one third of the total public debt, a new component to be considered as from October 2017 is the contracting of a 48-month supplier credit with three local franchise-holders, for the purchase of machinery and heavy equipment totalling US$ 123 million. Servicing this debt (interest plus amortization) amounts to about US$ 2.4 million per month, similar to the monthly amount the State pays to service the external debt.

The budgetary guidelines for the current fiscal year 2017-2018 are being revised. Several of the scenarios considered during the preparation of the budget, in terms of both economic growth and public finances, will need to be adjusted in the light of the new SMP agreement with the IMF, and also a set of measures to be implemented in the coming months. Some of these are likely to boost tax revenues and, consequently, help reduce the deficit; others will help cut subsidies (EDH). Nonetheless, on the expenditure side, a set of measures to mitigate the adverse impact of such reforms on the most vulnerable social sectors is also being considered. The scope and financing of these measures, partly with funds from multilateral international aid, have not yet been fully quantified.

(b) Monetary policy

In a context of high inflation, the central bank strove to maintain a tight monetary-policy stance in 2017. Reserve requirements on commercial bank gourde and dollar liabilities were held at 44% and 48%, respectively. The benchmark interbank rate (91-day BRH bonds) eased from 14% to 12% in 2017, while BRH bond issuance grew by 15% to absorb liquidity from the economy (equivalent to 2% of GDP). Commercial bank nominal lending and deposit rates averaged 18.2% and 4.8%, respectively, equivalent to real rates of 3.8% and -8.7%.

As of the end of fiscal 2017, monetary financing of the public sector by the central bank was up substantially (54%). In terms of the main monetary indicators, the monetary base grew by 11% (following the previous year's 20% increase), while monetary liquidity (M1 and M2) increased in nominal terms by 14% and 11%, respectively. In real terms, net domestic credit contracted by 4.5%, although lending to the public sector grew by 38%, while private credit shrank by 10%.

In the first half of fiscal 2017-2018, the central bank kept monetary control measures in place, especially those aimed at reducing tensions in the market. In March, liquidity displayed a year-on-year variation of 22% (M1) and 15% (M2). Net domestic credit was up by 7.7% in real terms, owing to the growth of the public component (94%), since private credit continued to decline (-4%). Central bank financing, at nearly 9 billion gourdes, was more than four times the year-earlier level, and far from the cash management targets agreed on with the Ministry of Economy and Finance (MEF) in September 2017.

Net international reserves stood at US$ 923 million at the end of fiscal 2017 (September), up slightly from the previous year's US$ 906 million and equivalent to three months' imports. This result was achieved through multiple interventions on the foreign-exchange market (purchases and sales of foreign currency by the BRH) during the period, which involved net purchases of US$ 12 million.

In the current fiscal year (2017-2018), the SMP agreement criteria specify a minimum of US$ 825 million for net international reserves. The reference value to the month of March (US$ 844 million) meets that target with some slack, although cumulative central bank interventions now represent net sales of US$ 20 million.

(c) Exchange-rate policy

The gourde depreciated by an average of 8.7% in 2017, having lost 24% in value in the previous year. Pursuant to its mandate, the central bank's exchange-rate policy, implemented through interventions on the foreign-exchange market, aimed to reduce such fluctuations to counteract negative expectations and discourage speculation, but also to offset its effect on inflation (pass-through), especially in a context of persistent exchange-rate volatility during the first half of the year.

In the first six months of fiscal 2017-2018, the gourde appreciated by 5.6%, in contrast to the year-earlier depreciation (-17%). The appreciation was driven by net sales of US$ 42 million by the central bank.

Dollarization has been a major feature of the Haitian economy over the last two decades, and it is reflected in the dollar-denominated shares of both deposits and credits, although more pronounced in the former. Currently, these coefficients are 66% and 40%, respectively, with the former increasing almost constantly. The monetary authorities (BRH) have adopted various corrective measures, such as limits on consumer loans in dollars (since 2015), or differentiated required reserve ratios on liabilities denominated in domestic currency and in dollars, with heavier penalty for the latter. Nonetheless, several factors — including the dollar’s attractiveness as a safe haven, either through speculation or to conserve purchasing power in the face of inflationary pressures— have diminished their effect. In March 2018, the authorities adopted new measures, by presidential decree, to reduce the dollarization of the economy. The circulars that will specify the modalities and deadlines for their application are still pending. Nonetheless, dialogue processes that are currently under way between the authorities and leading economic agents make it premature to evaluate the effects of such measures, whether normative (pricing), institutional (foreign-exchange agents) or other (formulation of contracts, prevailing exchange rates and others).

3. The main variables

(a) The external sector

Foreign trade caused the current account deficit to widen from 1% to 2.9% of GDP in 2017, as imports rebounded with growth of 14%, following two consecutive years of decline, and exports shrank by 1.5%. The slight increase in official grants (US$ 385 million) compared to the previous year (US$ 372 million), and above all the major buoyancy of remittances, which grew by 15% to US$ 2.721 million in 2017, helped to curb this deficit.

The resurgence of imports was primarily driven by the rise in the oil bill (volume up by 16% and prices 13% higher), compounded by the behaviour of other import categories, such as food (up by 15%) and machinery and equipment (+8%).

The contraction in the value of exports was spurred by a 5% drop in the largest merchandise item: garments produced by the maquila industry (70%). This is partly explained by sporadic strike movements and social discontent, both in the sector itself and more generally. The country’s export basket is largely based on a small range of products: essential oils (US$ 36 million in 2017), mango (US$ 12 million), cocoa (US$ 5 million) and, more recently, seafood (US$ 14.7 million).

A 2.7% rise in the terms of trade in 2017 reflected a continuing downtrend in the international prices of products such as wheat and rice, which have a significant weight in Haiti’s import basket, although this was counteracted by the rising trend in hydrocarbon prices. The fluctuations that occurred in the first half of 2018 herald results for the year as a whole that are likely to reverse the prevailing favourable trends.

On the financial account of the balance of payments, foreign direct investment totalled US$ 374 million in 2017 (compared to the previous year’s US$ 105 million), an increase largely attributable to the sale of domestic private assets by the oil distribution company, Dinasa, to a French transnational consortium. As the counterpart of this, the banking sector reported net outflows of US$ 267 million.

At the close of the first half of the current fiscal year, the current account was displaying a year-on-year increase. The total value of imports was up by 35%, owing to larger imports of fuel and food, but also of machinery and equipment (25%). In the latter case, the increase is partly attributable to government equipment procurement, which accounts for nearly 20% of total imports in this category. Total exports were up by 7%, with maquila exports matching this performance, unlike what happened in the previous year. Remittances, with year-on-year growth of 22%, will continue to be extremely important for narrowing the current account gap.

(b) Economic activity

The GDP growth of just 1.2% in 2017 was made possible mainly by the positive performance of the agricultural sector (0.8%), given the predominantly pessimistic forecasts made for this sector following the devastation caused by Hurricane Matthew. There were slight increases in the other sectors, such as manufacturing (1%), construction (0.9%) and trade (1.1%).

Aggregate demand grew by 1.7%, driven by consumption (2.7%) —mainly the private component financed by remittances— while investment posted meagre growth of 0.9%.

In 2018, GDP is forecast to grow by 1.8%, based on expectations of a more stable macroeconomic environment (the SMP agreement with the IMF) and smaller public-finance deficits and subsidies. In connection with the latter, public funds can be expected to be targeted more efficiently on investment (especially in infrastructures), and funding will be sought from international multilateral assistance. Moreover, a less uncertain environment would likely stimulate an upswing in private credit and production activities, encouraged by the public sector's own endeavours. The effects of the government's initiatives —the "caravan of change"— in the agriculture sector in particular, together with full implementation of the emergency programme in response to the disasters caused by Hurricane Matthew, remain uncertain, especially in the light of worrying structural indices of food insecurity.

Although the year-on-year sector variations available to date (economic activity conjuncture indicator (ICAE) for the first quarter of fiscal 2018) report positive overall results (3.4%), these are relative to the same period in 2017, which was particularly depressed after the effects caused by Hurricane Matthew in October 2016.

(c) Prices, wages and employment

The consumer price index (CPI) posted average annual increases of 13.4% in 2017 and 14.3% at the calendar year-end in December 2017; and core inflation came in at 12.8%. This was due not only to the environment of rising international prices among Haiti's main import products, but also to exchange-rate pass-through. Against this backdrop, the minimum wage, which in August 2017 was raised to 350 gourdes per day (US$ 5.60), rose by just 1.4% in real terms. Employment in the maquila sector grew by 12.6%, from 40,713 to 45,856 jobs in the year to September 2017.

At the close of the first semester of the current fiscal year in March 2018, year-on-year inflation (12.9%) and core inflation (12.5%) revealed the persistence of trends from the previous year (international oil prices rose by 17%) and their effects on purchasing power. The real minimum wage declined by 5.4%.

On the employment front, the global employment index based on administrative records, recently published by the Institute of Statistics and Informatics of Haiti (IHSI), reports a year-on-year increase of 12.3% in the first quarter (October-December 2017) relative to the year-earlier period. This buoyancy probably reflects temporary jobs created in labour-intensive activities in the public sector. According to data available from the Haiti Industries Association (ADIH), employment in the maquila sector continues to grow, with 49,258 jobs reported in March 2018, 7% more than in the previous September.

The announced hikes in domestic fuel prices, whether implemented as a single increase or in a phased manner, will have repercussions owing to their cross-cutting effects on transport and other products and services. In such circumstances, the (still to be completed) review of minimum wages and social mitigation programmes will play a key role in sociopolitical stability in the remaining months of the fiscal year.

Table 1
HAITI: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017 a/
	Annual growth rates b/								
Gross domestic product	3.1	-5.5	5.5	2.9	4.2	2.8	1.2	1.5	1.2
Per capita gross domestic product	1.5	-6.9	4.0	1.4	2.8	1.4	-0.1	0.1	-0.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.7	13.8	-2.8	-5.2	2.7	2.4	0.8	1.2	2.7
Gross capital formation	3.6	-6.5	9.6	6.2	6.1	2.0	3.6	1.1	0.9
Exports (goods and services)	22.2	5.1	20.3	2.1	5.0	4.5	3.6	0.7	-1.2
Imports (goods and services)	5.8	20.7	0.1	-5.7	3.2	2.6	2.2	0.8	2.0
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	27.5	25.4	27.9	29.5	30.0	30.9	32.4	30.5	29.0
National saving	25.6	23.9	23.5	24.0	23.3	22.3	29.2	29.4	26.3
External saving	1.9	1.5	4.4	5.6	6.7	8.7	3.2	1.1	2.7
Balance of payments	**Millions of dollars**								
Current account balance	-122	-102	-326	-436	-561	-750	-266	-83	-231
Goods balance	-1 481	-2 447	-2 546	-2 302	-2 426	-2 705	-2 425	-2 188	-2 636
Exports, f.o.b.	551	563	768	778	915	961	1 024	995	980
Imports, f.o.b.	2 032	3 010	3 314	3 079	3 341	3 666	3 449	3 183	3 616
Services trade balance	-289	-824	-575	-567	-450	-385	-318	-407	-481
Income balance	13	22	38	64	32	49	41	48	54
Net current transfers	1 635	3 147	2 757	2 368	2 283	2 291	2 437	2 464	2 832
Capital and financial balance d/	273	845	513	689	570	269	43	164	272
Net foreign direct investment	55	178	119	156	162	99	106	105	374
Other capital movements	217	667	394	533	409	170	-63	59	-102
Overall balance	150	743	186	252	10	-480	-223	82	41
Variation in reserve assets e/	-240	-845	-209	-285	-32	473	141	-142	-207
Other financing	89	102	23	31	23	7	82	61	166
Other external-sector indicators									
Terms of trade for goods (index: 2010=100)	103.4	100.0	83.0	86.0	80.6	83.1	87.4	86.4	89.3
Net resource transfer (millions of dollars)	375	969	573	784	625	325	165	273	492
Gross external public debt (millions of dollars)	1 278	353	727	1 126	1 503	1 875	1 993	2 019	2 107
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	2.0	6.2	8.3	7.6	3.4	6.4	12.5	14.3	13.3
Variation in nominal exchange rate (annual average)	2.1	-0.2	1.3	3.3	3.1	5.0	13.4	23.8	3.1
Variation in minimum real wage	27.9	58.2	-7.7	1.7	16.5	3.5	-0.4	4.4	0.0
Nominal deposit rate f/	1.7	0.9	0.4	0.5	0.7	2.0	3.9	5.0	4.5
Nominal lending rate g/	21.6	20.7	19.8	19.4	18.9	18.6	18.8	19.7	18.1

Table 1 (concluded)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Central government	**Percentajes of GDP**								
Total revenue	12.0	14.0	14.4	13.4	13.3	13.1	13.7	14.4	13.8
Tax revenue	11.7	11.8	12.9	12.9	12.2	12.0	13.4	13.7	13.6
Total expenditure	13.3	14.5	12.3	14.3	14.5	13.4	12.8	13.2	12.7
Current expenditure	11.1	10.2	10.0	10.5	10.8	11.5	11.4	11.9	11.6
Interest	0.5	0.4	0.4	0.3	0.4	0.4	0.2	0.3	0.3
Capital expenditure	2.2	4.3	2.3	3.7	3.7	1.9	1.5	1.2	1.1
Primary balance	-0.7	0.5	1.9	2.0	-1.0	-0.5	0.3	0.9	0.7
Overall balance	-1.3	0.0	1.6	1.7	-1.4	-0.9	0.1	0.6	0.4
Central government public debt	34.3	22.8	23.9	28.0	30.5	35.1	39.7	40.8	36.6
Domestic	14.5	17.6	14.1	13.5	12.6	12.7	13.0	12.6	11.9
External	19.8	5.3	9.8	14.5	17.7	22.4	26.7	28.2	24.6
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	20.0	14.7	12.3	15.4	21.7	24.5	26.3	24.9	23.8
To the public sector	3.6	-1.1	-5.2	-5.5	0.3	2.2	4.5	2.2	3.7
To the private sector	16.4	15.7	17.5	20.8	21.4	22.3	21.8	22.7	20.1
Monetary base	22.1	31.9	29.9	30.5	26.3	25.9	29.4	31.6	28.7
Money (M1)	11.1	15.1	14.1	14.8	13.9	15.2	14.7	15.0	13.0
M2	20.9	26.2	24.0	24.4	23.4	24.4	24.5	24.8	21.6
Foreign-currency deposits	18.1	23.2	22.3	21.8	21.1	20.9	26.6	28.7	27.2

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 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

	2016				2017				2018	
	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)	985	1 014	1 073	1 093	1 081	1 199	1 230	...	...	...
Consumer prices (12-month percentage variation)	14.8	13.9	12.5	14.3	14.3	15.8	15.3	13.3	12.9	13.0
Average nominal exchange rate (gourdes per dollar)	60.4	62.6	64.4	65.7	67.7	66.2	63.6	63.6	64.4	65.1
Nominal interest rates (average annualized percentages)										
Deposit rate b/	4.9	4.5	4.8	6.0	4.7	4.4	4.0	4.7	4.9	4.8 c/
Lending rate d/	18.9	22.1	18.6	19.2	18.0	17.7	17.9	18.4	18.1	18.2 c/
Monetary policy rates	16.0	15.3	14.0	13.3	12.0	12.0	12.0	12.0	12.0	12.0
Domestic credit (variation from same quarter of preceding year)	10.0	11.3	9.7	9.7	12.1	10.8	11.1	...	...	...
Non-performing loans as a percentage of total credit	4.6	4.8	3.4	3.4	3.7	3.8	2.9	2.8	4.0	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Average of minimum and maximum rates on time deposits.
c/ Figures as of May.
d/ Average of minimum and maximum lending rates.

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