Haiti

In 2007 the Haitian economy recorded positive GDP growth (3.3%) for the third year running. However, several sectors turned in modest performances, suggesting that the economic recovery has not fully taken hold. Local supply remains limited, partly due to shortcomings in infrastructure (particularly in terms of energy) that may become systematic bottlenecks blocking a sustained economic recovery. GDP growth of 4% is projected for 2008.

The 2006/2007 fiscal year, which was the first full budget cycle managed by the government authorities that took office in May 2006, was globally positive in terms of the main macroeconomic indicators. Inflation was lower than in the year-earlier period, while the fiscal deficit (1.6% of GDP) was covered without monetary financing from the central bank. In addition, the balance-of-payments current account posted a surplus and the levels of net international reserves would cover over three months of imports for the first time in 10 years.

The authorities finalized the Poverty Reduction and Growth Strategy Paper, although this has yet to be approved by the executive branch and parliament, and is pending validation by the International Monetary Fund (IMF) and the World Bank. When those stages have been completed, the economic and social policy strategies will be defined for the next three years, particularly in terms of possible debt reduction and forgiveness. In the 2007/2008 fiscal year, the assessment and follow-up of the strategy will confirm the effective availability of the resources required (approximately US$ 464 million).

The expectations for 2008 will probably be affected not only by those factors but also by other political changes. The need for constitutional reform (repeatedly called for by President René Préval) and the presumable renewal of members of the Electoral Council in the run up to the senatorial by-elections are the main issues in a dispute that could weaken the country's political stability if a consensus is not reached.

The one-year extension of the mandate of the United Nations Mission in Haiti, and the ratification of commitments undertaken by bilateral and multilateral donors, are encouraging signs of a consolidation of efforts to provide cooperation to the country.

In the 2006/2007 fiscal year, there was a considerable delay in budget implementation throughout the period. The largest items of expenditures (37% of total spending) were paid out in the last few months (especially in September).

The results of economic policy were in keeping with the guidelines laid down in the Poverty Reduction and Growth Facility (PRGF) agreed with IMF. The fiscal situation significantly improved in real terms, on the level of both revenues (6.7%) and outlays (23.3%). This generated a deficit of 1.6% of GDP, following the virtually balanced result of the previous year.

The current surplus (0.6% of GDP) was the result of the favourable performance (in real terms) of indirect taxes (8%). Items to fare well included VAT, tax on external trade and, in particular, the heading of "various" indirect taxes. One of the main examples of the latter is the effective collection of duties known as road maintenance funds. Stricter control of tax evasion, fraud and corruption also had a positive effect. The strong rise in spending (despite the curbing of current expenditure (6.3%) in the first nine months), is largely attributable to the hike in capital expenditure (202%).

The Bank of the Republic of Haiti (BRH) continued to implement a policy of monetary stability to contain inflation. As a result, the monetary base expanded by only 3.2% in real terms. However, the nominal rates on BRH bonds (91 days) were reduced by nine percentage points (to 8.64% at the end of the fiscal year), in an attempt to boost credit within the economy. Even so, net domestic credit to the private sector edged up by a mere 2.8% in real terms: loans in dollars made a positive contribution (9.1%), while local-currency loans fell (-4%). Although non-performing loans only increased slightly on last year from 11% to 12% of gross credit, it is a cause for concern as it shows the banking system has been unable to reverse the upward trend.

Apart from September, when the central bank had to intervene by selling US$ 10 million of currency, the gourde continued to appreciate in nominal and real terms thanks to inflows of foreign exchange in the form of remittances and external cooperation, and contained import demand. In the 2006/2007 fiscal year, currency appreciation averaged 9.8% in nominal and 15.2% in real terms. Indicators of dollarization (43.3% of deposits and 55.4% of credit) remained relatively stable, but with a slight increase of 3.2 points in terms of credit.

The positive GDP result (3.3%) was attributable to the performance of agriculture, construction (4.5%) and trade services (19.4%). Agriculture fared well thanks to favourable weather conditions, while construction was supported by investments in public works and trade benefited from the upturn in consumption resulting from remittances and small but segmented increases in employment. As for investment, higher capital expenditure in the public sector (up 202% in real terms) had an extremely positive effect on the overall indicator.

October-to-October inflation (8.1%) was considerably lower than the 10.3% recorded at the end of the previous year, partly thanks to greater control by the authorities but mainly due to the effects of currency appreciation. This is demonstrated by the fact that the price of the basket of local goods rose by 8.4%, while the basket of imported goods increased by just 2.7%. This result cushioned the fall in real wages (with the 8.2% lower than the 12.5% recorded in 2006). Despite this, job creation is still lagging.

HAITI: MAIN ECONOMIC INDICATORS

	2005	2006	2007 [a]
		Annual growth rates	
Gross domestic product	1.8	2.3	3.3
Per capita gross domestic product	0.2	0.7	1.6
Consumer prices	14.8	10.2	8.1 [b]
Real minimum wage	-13.2	-12.0	-7.6
Money (M1)	14.7	9.3	1.3 [c]
Terms of trade	-3.7	-3.8	-5.7
		Annual average percentages	
National administration overall balance / GDP	-0.6	-0.0	-1.6
Nominal deposit rate	3.5	5.9	5.5 [d]
Nominal lending rate	27.1	29.7	32.6 [d]
		Millions of dollars	
Exports of goods and services	604	698	731
Imports of goods and services	1 785	2 086	2 045
Current account	39	-19	99
Capital and financial account	14	113	70
Overall balance	53	94	169

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2007.
[c] Twelve-month variation to September 2007.
[d] Average from January to October, annualized.

The US$ 99 million surplus on the balance-of-payments current account was due to net transfers (particularly remittances) totalling US$ 1.1 billion and a US$ 74 million reduction in the trade deficit. There was a net decrease in imports, both in terms of value (-8%) and volumes (-13%). The rise in import prices combined with a slight fall in export prices to bring down the terms of trade (-6.2%). The capital flight trend in banking services changed direction to post US$ 11 million in net inflows, while official funds saw a hike in outlays (up from US$ 99 million to US$ 146 million) in the form of loans, and an increase in debt servicing (from US$ 57 million to US$ 75 million). Meanwhile, net international reserves (US$ 290 million) were more than twice the level recorded in 2006.