COUNTRY ECONOMIC REVIEW 2019

HAITI

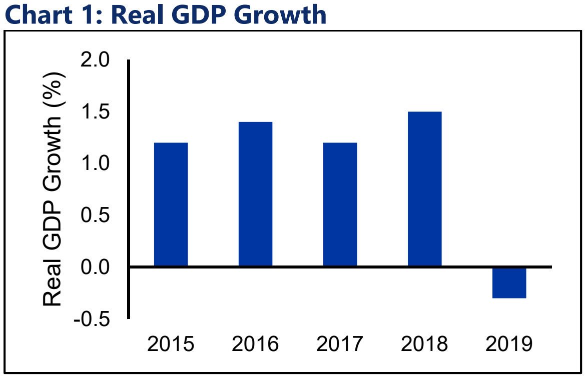
OVERVIEW

Incessant social unrest and a high degree of political instability weighed down the economy. Economic growth contracted by about 0.3% in the fiscal year 2018/19. The current account balance improved slightly due to a modest increase in the trade balance. The economic slowdown caused both tax revenue and, especially, government expenditure to decline resulting in a fiscal deficit of 2.6% of gross domestic product (GDP). As access to concessionary finance fell, public debt rose.

KEY DEVELOPMENTS IN 2019

The economy declined by 0.3% in fiscal year 2018/19[1] (see Chart 1). The political, economic, and social crisis resulted in a recession, with the country at a virtual standstill since November 2018. This crisis disrupted economic activity, particularly in the manufacturing sector, which experienced repeated industrial action motivated by demands for increases in the minimum wage.

Chart 1: Real GDP Growth



Source: International Monetary Fund (IMF), Institute of Statistics and Informatics (IHSI).

Value added in the agriculture sector, which accounts for approximately a quarter of GDP, declined due to drought-induced lower crop yields. Investment declined from 29.0% of GDP in 2018 to 28.5% of GDP in 2019. In the first half of 2019, stayover visitor arrivals declined by 45.7% and cruise visitor numbers were down by 16.6%. Until the political climate improves, this trend is expected to continue.

Average inflation remained high at 17.6% in 2019, up from 12.9% in 2018. A weak exchange rate, monetary financing of the fiscal deficit and rising fuel prices were the main contributing factors.

The fiscal deficit was 2.6% of GDP in 2018/19. The primary deficit widened to 2.1% of GDP, up by four percentage points when compared with the the previous fiscal year. Tax revenue declined from 17.3% to 14.7% of GDP, due to weak economic performance, high levels of informal economic activity, and weak tax administration. Expenditure declined from 19.4% to 17.2% of GDP.

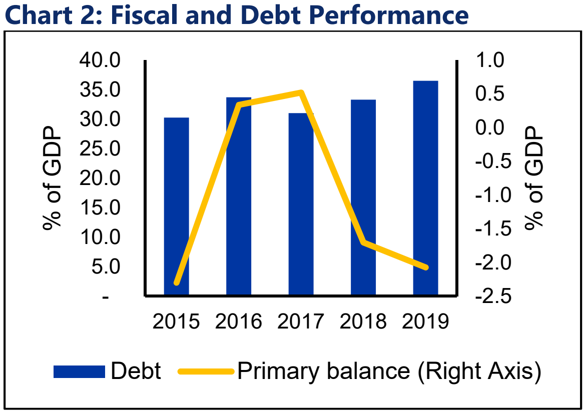
Budgetary pressures continue. Oil price increases have implications for expenditure on energy subsidies. Social protests aimed at increasing minimum wages could raise the public sector wage bill; and given Haiti's infrastructure deficit, there is a need to sustain public sector investment. Fiscal consolidation should focus on strengthening tax administration and collection, and rationalising spending.

[1] FY runs from October to September.

Public sector debt, although low, continued its upward trend. The debt ratio increased from 33.3% of GDP to 36.5% of GDP (see Chart 2). Access to concessionary finance is declining and with urgent infrastructure needs, the rise in public debt is likely to continue over the medium term.

In March 2019, the IMF agreed to provide the Government of Haiti with a US$229 million (mn) extended credit facility over three years, conditional on meeting agreed fiscal and governance targets. However, this facility, along with other international financial assistance was put on hold because of the political crisis.

Chart 2: Fiscal and Debt Performance



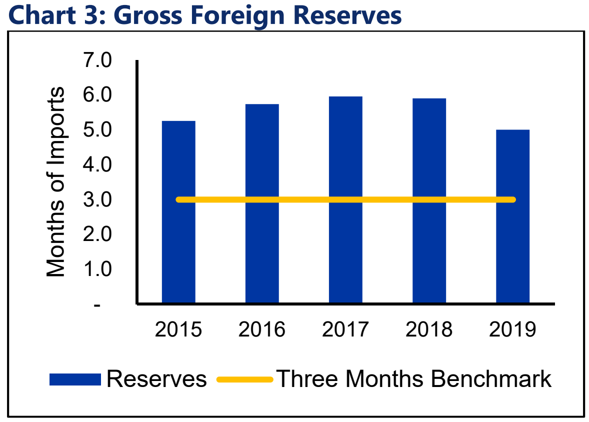
Source: IMF.

The Bank of the Republic of Haiti (BRH) maintained a relatively tight monetary policy stance in an effort to mitigate inflationary pressures. Interest rates on bonds of different maturities were raised (from 6% to 10% on seven-day bonds; 8% to 14% on 28-day bonds; and 12% to 22% on 91-day bonds) in an effort to contain double-digit inflation. BRH also intervened in the foreign exchange market by selling US$150 mn of its foreign reserves. However, BRH continues to finance the Government's fiscal deficits, which could have offsetting inflationary impacts.

The Gourde depreciated significantly. On December 31, it stood at G95.18 per US$1, a nominal depreciation of 23.1% from G77.35 per US$1 at the end of 2018. The depreciation was largely attributed to high inflationary pressures and a sizable current account deficit.

Gross international reserves stood at US$2.3 billion or about five months of imports (see Chart 3). The current account deficit was 3.3% of GDP, a slight narrowing relative to 3.7% of GDP in 2018. This was driven by an increase in the trade balance and strong inflows of remittances.

Chart 3: Gross Foreign Reserves



Source: IMF, World Bank.

OUTLOOK

The outlook for Haiti has become clouded by the outbreak of COVID-19, which has significantly affected developed and developing economies, including the country's main trading partners. The closure of borders has hindered a possible recovery in tourism, and other economic activity has been stagnant. This comes against the background of social unrest.

Given the uncertainty as to how long this situation will persist, it is very difficult to forecast how the economy will perform in

2020 and beyond. This will be addressed in an updated Economic Brief later this year.

COVID-19 is yet another challenge as Haiti seeks to enhance growth and resilience. One of the poorest countries in the Western Hemisphere, Haiti is faced with considerable deficits in infrastructure, energy, food security, and human resource capacity; and is also highly susceptible to natural disasters. At growth rates projected before COVID-19, the per capita income is unlikely to increase.

Amidst increased sensitivity of the population to economic changes, the Government will need to find ways to raise revenue and reduce expenditure on subsidies in order to ensure debt and fiscal sustainability.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from a number of sources, and are the latest available at time of publication. Some are subject to revision.

Selected Indicators

	2015	2016	2017	2018	2019[e]
Real GDP Growth (%)	1.2	1.4	1.2	1.5	(0.3)
Average Inflation (%)	7.5	13.4	14.7	12.9	17.6
Unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Primary Balance (% of GDP)	(2.3)	0.3	0.5	(1.7)	(2.1)
Public Sector Debt (% of GDP)	30.3	33.7	31.0	33.3	36.5

Sources: International Monetary Fund, Haitian Institute of Statistics and Informatics, Economist Intelligence Unit, Bank of the Republic of Haiti.

Notes: e – estimate (as at January 31, 2020); n.a. – not available.

CARIBBEAN DEVELOPMENT BANK
P.O. Box 408, Wildey, St. Michael, Barbados
Tel: (246) 539-1600 • Fax (246) 426-7269
www.caribank.org • Email: info@caribank.org