COUNTRY ECONOMIC REVIEW 2018

HAITI

OVERVIEW

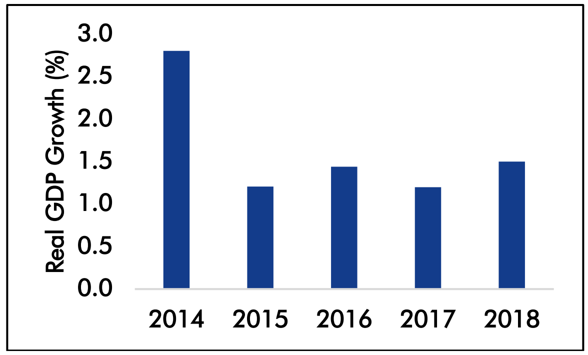
Haiti's economy recorded modest growth of 1.5% in Fiscal Year[1] (FY) 2017-18. The agriculture sector continued its recovery, increasing by 1.0%, a slight improvement over 0.8% in the previous FY. Output from the other main sectors increased modestly. The current account deficit improved slightly, but remains high at 4.0% of gross domestic product (GDP). The fiscal deficit widened to 2.2% of GDP as efforts to improve tax collection and remove energy subsidies were foiled by social unrest. As access to concessionary finance is slowly declining, public debt has been rising. The Government of Haiti (GOH), while cognisant of the population's sensitivity to economic shocks, will need to find ways to raise revenue and reduce subsidies in order to achieve debt and fiscal sustainability.

Political instability remains a significant challenge. GOH's removal of fuel subsidies[2] in July resulted in mass protest, a policy reversal, and the resignation of the Prime Minister. Social unrest continued in October. Political and policy uncertainty are downside risks that constrain the ability of GOH to attract investment and create jobs.

KEY DEVELOPMENTS IN 2018

Economic growth in 2018 was only marginally higher than in the previous FY (see Chart 1). According to Haitian Institute of Statistics and Informatics (IHSI) data, GDP grew by 1.5% in FY 2017-18, compared with 1.2% in the previous year. Agriculture, building and public works, and the commerce, restaurant and hotel sectors were the main contributors to this outturn. Manufacturing output grew by 1.2% owing to a more stable industrial climate in 2018, when compared with 2017.

Chart 1: Real GDP Growth



Source: The International Monetary Fund (IMF), IHSI.

Inflation remained perennially high at 13.7% in 2018, down from 14.7% in 2017. A relatively weak exchange rate and rising fuel prices are the main contributing factors. Inflation mostly affects the poor, given that food accounts for over 50% of the consumer price index basket.

Haiti's fiscal imbalances widened over FY 2017-18. The primary deficit increased to 2.2% of GDP, up by two percentage points when compared with the previous FY. The deficit widened as expenditures on recovery from Hurricane Matthew in 2016 continued, and support was provided for the Fuel Stabilisation Fund. Revenue collection, which averages 18% of GDP, and revenue growth were low, while expenditure roseat a faster

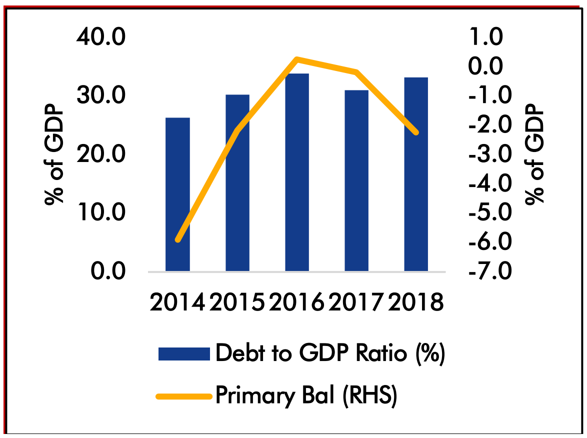
[1] Haiti's FY runs from October to September.

[2] Subsidy removal would have resulted in increases of 38% increase in gasoline prices, 47% in diesel prices, and 51% in kerosene prices.

rate to sustain much needed public investment.

Although still relatively low, public sector debt, continued its upward trend in 2018. The ratio of debt to GDP climbed from 31.0% to 33.2% (see Chart 2). Access to concessionary finance is declining and, with Haiti's urgent infrastructure needs, the rise in public debt is likely to continue over the medium term. In May 2018, the Republic of China on Taiwan agreed to provide GOH with US$150 million (mn) in direct assistance. Additionally, the IMF committed to providing a 6-month line of credit, yielding a disbursement of US$96 mn, pending the removal of fuel subsidies. This decision was subsequently reversed. GOH's Budget for FY 2018-19 proposed new spending of US$2.3 billion, including on two large hospitals and 63 new health centres. The Budget did not address spending on fuel subsidies and proposed no new taxes.

Chart 2: Fiscal and Debt Performance



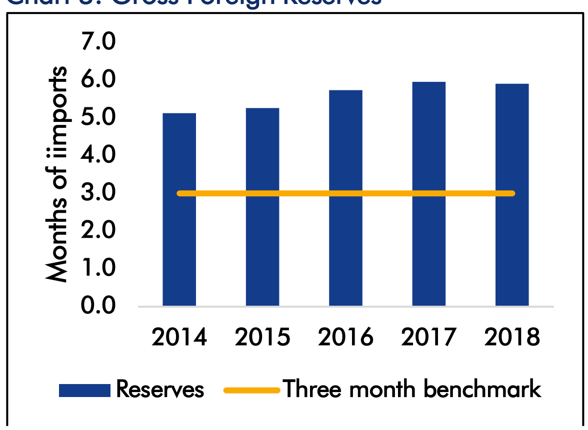
Source: IMF.

The Bank of the Republic of Haiti (BRH) maintained a relatively tight monetary policy stance in an effort to mitigate inflationary pressures arising from exchange rate depreciation and fuel price induced hikes in food costs. During 2018, BRH kept interest rates for bonds of different maturities unchanged (6% on 7-day bonds, 8% on 28-day bonds, and 12% on 91-day bonds) in order to contain double-digit inflation. However, BRH tightened its monetary policy stance by raising reserve requirements for the Gourde and US dollar deposits in an effort to reduce liquidity.

The Gourde depreciated significantly during 2018. On December 31, 2018, it stood at G77.35:US$1, a nominal depreciation of 21.4% from G63.7:US$1 at the end of 2017. This occurred in part due to an executive decree by GOH directing that all domestic transactions be conducted in Gourdes. This policy is part of a plan to dedollarise.

Gross international reserves stood at just under six months of import cover (see Chart 4). The current account deficit was unchanged at its 2017 level of 4.0% of GDP. Notwithstanding rising fuel costs and the costs of importing goods and services for hurricane-related reconstruction, the merchandise trade deficit was significantly offset by increasing remittances spurred from the United States of America (as well as conditions in Haiti).

Chart 3: Gross Foreign Reserves



Source: IMF, World Bank.

Higher inward transfers (including remittances) contributed to a transfer surplus amounting to 27.1% of GDP. This almost completely offset the trade deficit (27.8% of GDP). In the short-to-medium term, the balance of payments is expected to be bolstered by modest foreign direct investment and inflows of development aid. This trend is not expected to be sustained as donor assistance is not likely to be maintained at current levels in the long term.

Conditional on a stable industrial climate, and given the extension of the HOPE[3] II Act (which grants duty free access to the US market for Haitian textile products) to 2025, exports are expected to rebound in FY 2018-19.

OUTLOOK

The Caribbean Development Bank (CDB) projects a modest improvement in growth to 2.3% in 2019. Activity in the textile industry is expected to increase, based in part on additional investment in the sector, as well as a more competitive exchange rate. Private consumption should be buoyed by a consistent and high level of workers' remittances from abroad. Public investment in infrastructure is expected to increase over the near-to-medium term. However, institutional weakness and human resource capacity constraints pose significant risks for the implementation of Government's capital investment programme. Higher agricultural output will largely depend on the level of rainfall. The 2.3% forecast is based on an assumption of political stability and a relatively calm industrial climate.

Enhanced growth and resilience are vital. Overall, Haiti faces considerable deficits in infrastructure, energy, food security, and human resource capacity. Haiti is also highly susceptible to natural disasters.

Improvements in the capacity of the state to deliver infrastructure projects and provide public education are necessary for longer-term growth and development. In addition, GOH needs to continue its efforts to boost productivity in agriculture.

[3] Haitian Hemispheric Opportunity through Partnership Encouragement Act.

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

	2013	2014	2015	2016	2017	2018
Real GDP Growth (%)	4.2	2.8	1.2	1.4	1.2	1.5
Average Inflation (%)	6.8	4.6	9.0	13.8	14.7	13.7
Unemployment (%)	n.a	n.a	n.a	n.a	n.a	n.a
Primary Balance (% of GDP)	-6.7	-2.2	0.3	-0.2	-2.2	-2.2
Public Sector Debt (% of GDP)	21.5	26.3	30.2	33.9	31.1	33.3

Sources: IMF, IHSI, Economist Intelligence Unit, BRH.

Notes: e – estimate; n.a. – not available.