HAITI

COUNTRY ECONOMIC REVIEW 2020

Gourde (G); United States dollar (US$).

OVERVIEW

Haiti's gross domestic product (GDP) growth was derailed by the adverse effects of the COVID-19 pandemic and social unrest. The pandemic exacerbated an already weak and unstable economy. In 2020, the economy contracted by about 4.0%, complemented by a widened fiscal deficit and deteriorating external current account balance. Public debt rose as the authorities accessed concessional financing to bridge the financing gap.

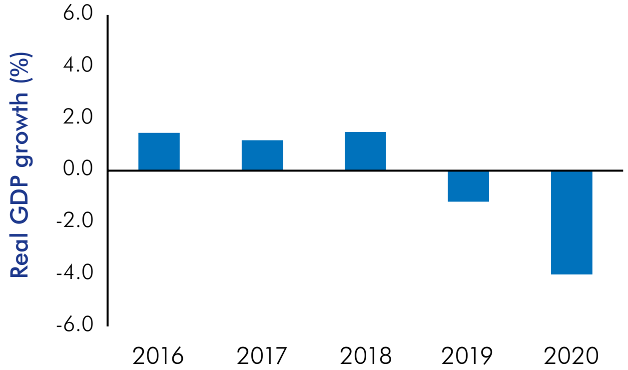
KEY DEVELOPMENTS IN 2020

The economy declined by 4.0% in fiscal year (FY) 2020[1]. This was attributed to a combination of social unrest early in the year and the adverse effects of the COVID-19 pandemic. Against a backdrop of widespread protests and protracted civil unrest, Haiti was impacted by the global pandemic, confirming its first case of COVID-19 in March. The country recorded just over 10,000 cases for the year, with 236 related deaths.

Stringent measures, which included border closures and a lockdown that involved closing schools and factories, were introduced in March to contain the spread of the virus. These measures restricted movement, lowered the demand for goods and services, introduced production disruptions while simultaneously disrupting the supply chain with major trading partners – China, Dominican Republic, and United States of America (USA).

1 FY runs from October to September.

Chart 1: Real GDP growth



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

The secondary and tertiary sectors, particularly textiles and tourism, suffered from weak external demand induced by the pandemic. Reduced tourism receipts and textile supply chain disruptions with China and the Dominican Republic resulted in a decline in exports. Value added in the agriculture sector, which normally accounts for approximately a quarter of GDP, initially declined but was buoyed by increased rainfall in the fourth quarter of FY 2020 (July-September). On the demand side, private consumption is estimated to have fallen sharply as remittances declined due to the global economic downturn affecting more than a quarter of all Haitian households.

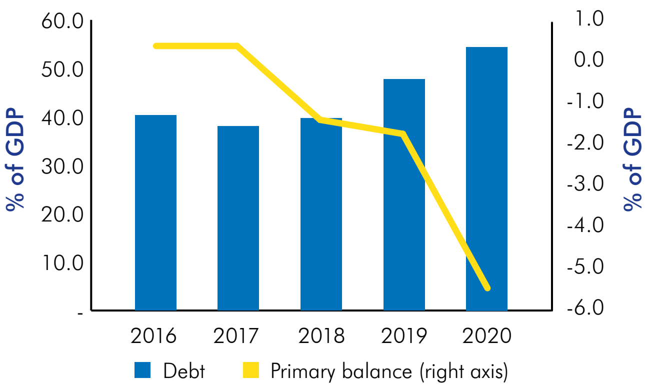
Average inflation remained high at 22.4% in 2020, up from 17.3% in 2019. A weak exchange rate, monetary financing of the fiscal deficit and a drop in food supply were the main contributing factors.

The fiscal deficit deteriorated in 2020. The primary deficit widened to 5.6% of GDP, because of higher public spending to support the Government's COVID-19 response. Expenditure increased by G63.7

billion (bn) to G169.4 bn (19.7% of GDP) from G105.7 bn (14.4% of GDP) in the previous year on account of increased expenditures in health, social programmes, and security. Tax revenue also increased to 13.8% of GDP in 2020 from 12.1% in the previous period.

Public sector debt continued its upward trend. The debt ratio increased from 47.7% of GDP in 2019 to 54.4% of GDP (see Chart 2). Within the context of the COVID-19 crisis, Haiti benefited from increased access to concessionary finance and debt forgiveness to bridge the financing gap. The IMF approved a US$111.6 million (mn) disbursement under a Rapid Credit Facility in April 2020 to ease the impact of COVID-19 on the population, and the Government was able to mobilise additional resources from other international financial institutions.

Chart 2: Fiscal and debt performance



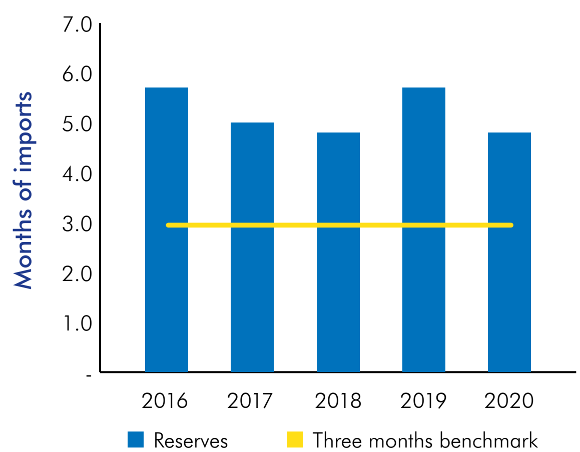
Source: *IMF.*

The Bank of the Republic of Haiti (BRH) adopted an accommodative monetary policy stance to mitigate the economic fallout from the pandemic. In March, BRH introduced liquidity measures to support the financial system. These included reduced refinance rates, lower reserve requirements on domestic currency deposits, eased loan repayment obligations for three months, and suspended fees in the interbank payment system. At its September 2020 meeting, BRH maintained its benchmark rate of 10%, having cut it from 15% in March.

The Gourde appreciated significantly in 2020. Following a steady depreciation against the United States dollar in recent years due to high inflation, the Gourde rapidly appreciated from a low of G116.8/US$ in August 2020 to G72.55/US$ at the end of December. The appreciation was largely attributed to a tightening of regulations on the foreign exchange market, and BRH interventions in the currency market.

Gross international reserves stood at US$1.9 bn or about 4.8 months of imports (see Chart 3). The current account deficit widened marginally to 2.5% of GDP in 2020 relative to 1.5% of GDP in 2019. This was driven by a drop in remittances (18.3%) and merchandise exports (15.2%). The decline in imports (14.8%) was not enough to contain the deterioration of external balances.

Chart 3: Gross foreign reserves



Sources: *IMF, World Bank.*

OUTLOOK

A modest recovery is forecast for 2021. GDP is expected to rebound by 1.2% on account of the Government's expansionary fiscal stance, a pickup in private consumption associated with higher remittance inflows as Haiti's top remittances-sending countries (Canada, France, and USA) come out of recession, and a rebound in exports, particularly in the garment and apparel sector.

However, risks to the economic outlook are stacked to the downside. A slower than expected global recovery will have a negative impact on the fragile economy. Increasing insecurity and persistent social unrest will dampen business and consumer confidence. The upcoming 2021 general elections and associated political uncertainly could also derail the economic recovery. Notwithstanding the moderate debt levels, the authorities will, in the medium term, need to sustain efforts on the fiscal front, including fiscal consolidation, given the country's fragility to economic and natural shocks.

DATA

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

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	1.5	1.2	1.5	-1.2	-4.0
Average inflation (%)	13.4	14.7	12.9	17.3	22.4
Unemployment (%)	n.a	na	n.a	n.a	n.a
Primary balance (% of GDP)	0.3	0.3	-1.4	-1.8	-5.6
Public sector debt (% of GDP)	40.3	38.0	39.7	47.7	54.4

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

Note: e – estimate (as at March 31, 2021); n.a. – not available.

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