

# Haiti's Economic Development since 2004/05 and Macroeconomic Outlook

By Ugo Fasano

Former IMF Resident Representative in Haiti  
the American-Haitian Chamber of Commerce

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- IV. Macroeconomic outlook for the remainder of FY2009 and FY2010
- V. Challenges

# I. The historical relationship between Haiti and the IMF

- Haiti joined the IMF in 1953 and had its first IMF-support program in 1958.
- In the 1960s and 1970s, Haiti had programs following balance of payments crises caused by natural disasters, drastic changes in coffee output and world prices, and economic mismanagement
- From the early 1980s to 2004, Haiti has had nine Fund-supported programs, the last one in October 1996.
- Performance under these programs has been uneven, reflecting intermittent political and social crises, leading to frequent government turnovers and programs going “off-track.”

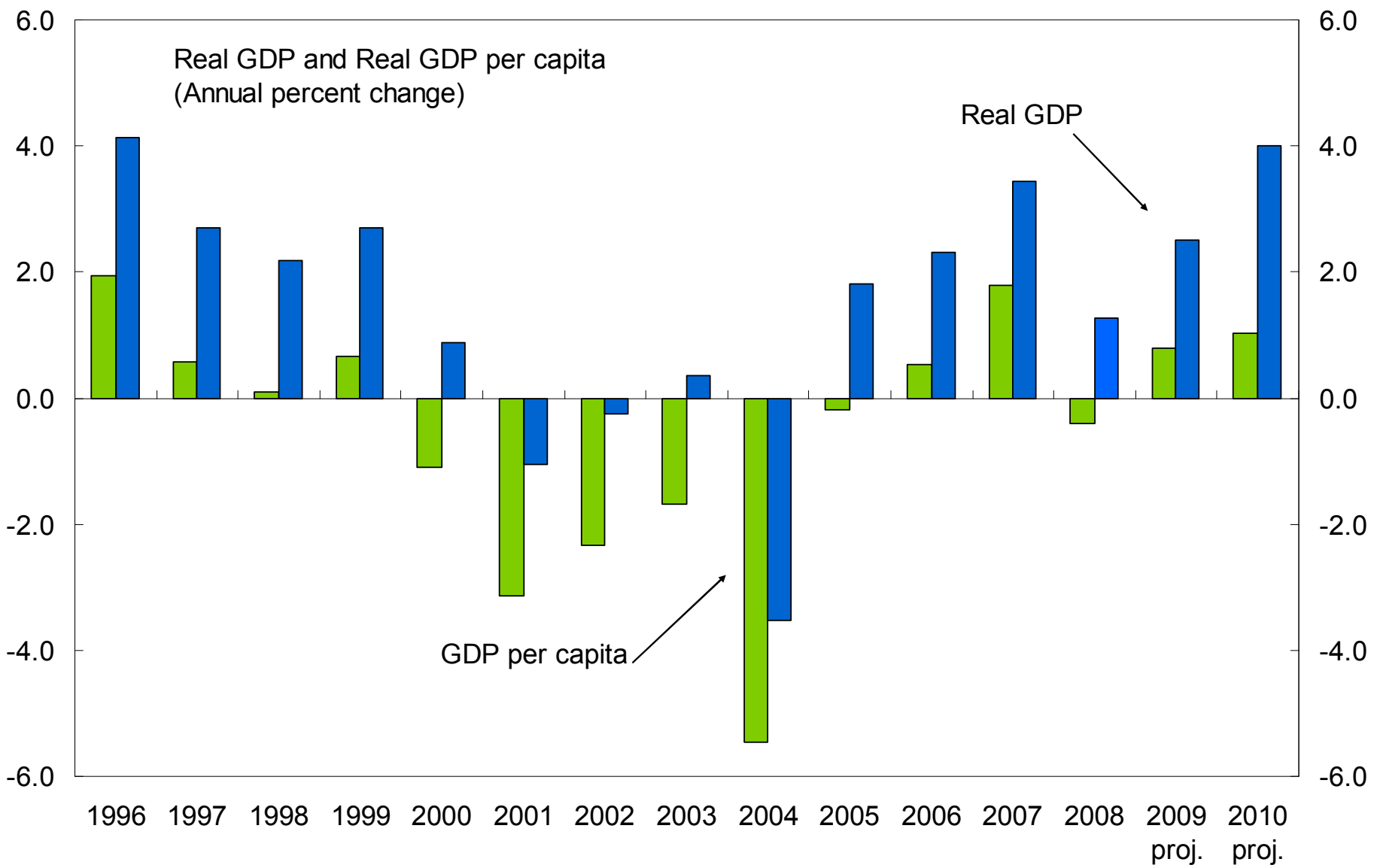
## II. Haiti's Economic Development since 2004/05

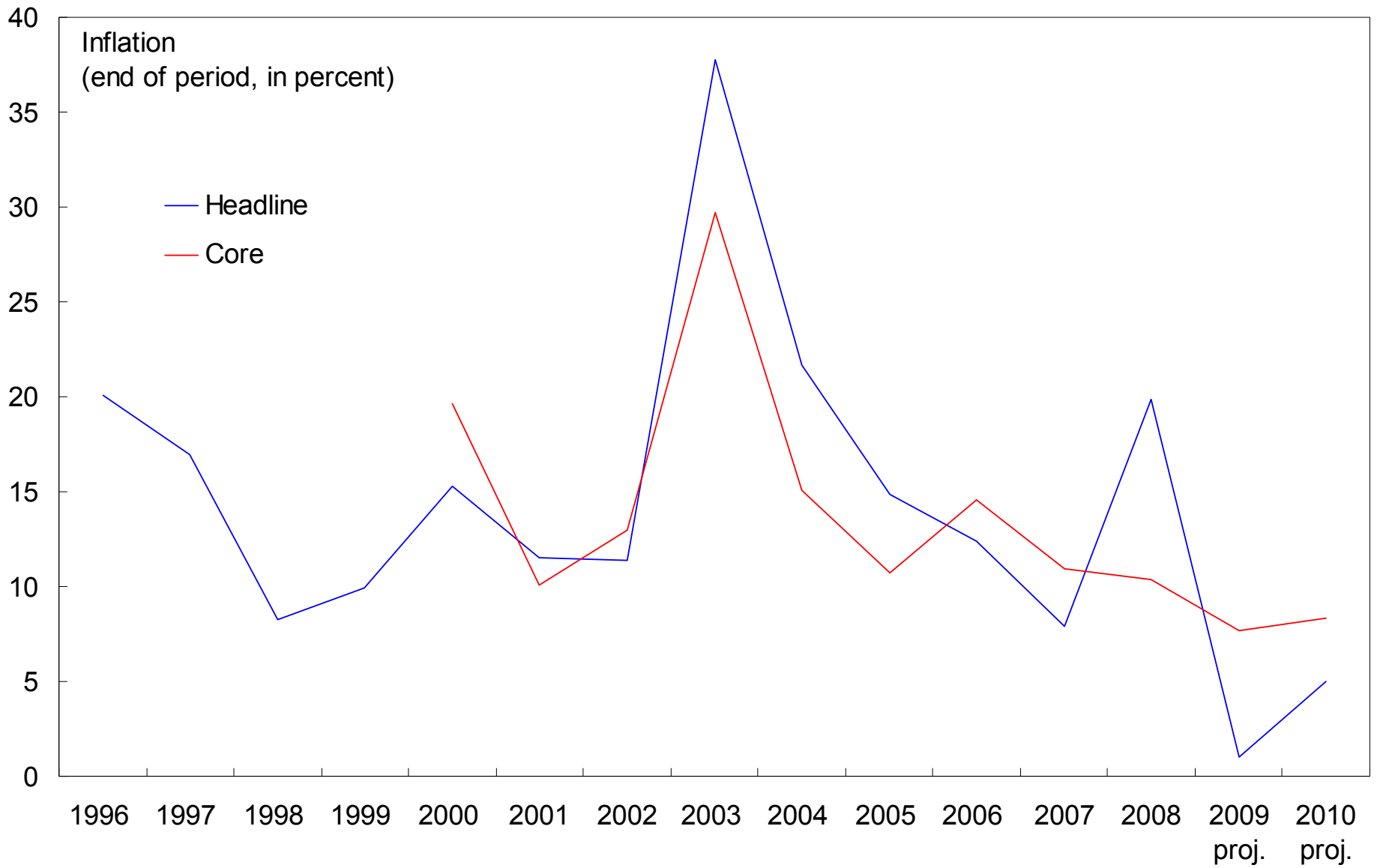
- **Haiti has made remarkable progress since 2004 toward economic stabilization under three IMF-supported programs.**

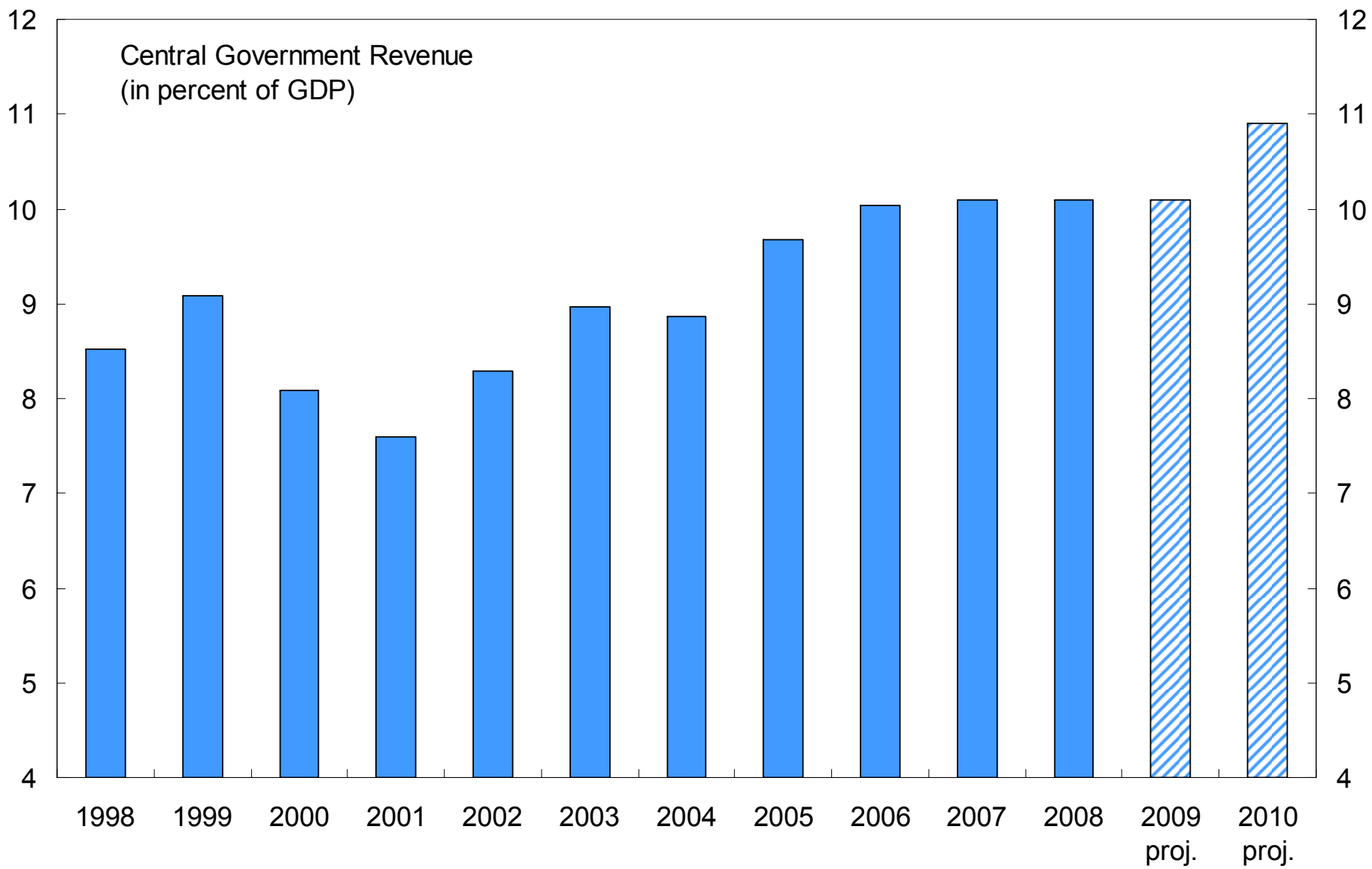
This progress has been underpinned by prudent fiscal and monetary policies.

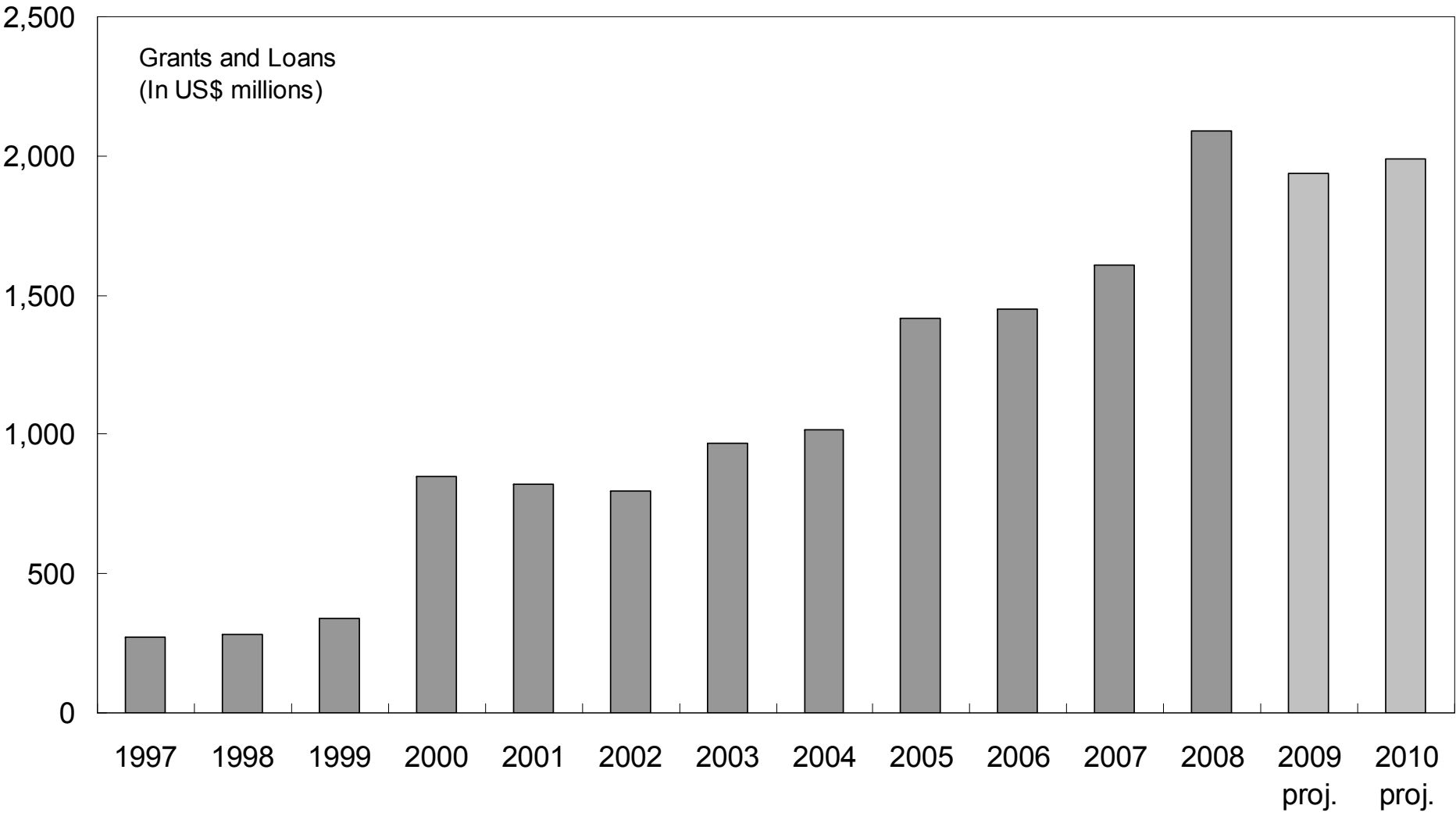
Financing of fiscal deficits through money creation has been largely eliminated.

- **But in 2007/08, Haiti experienced severe external shocks (devastating hurricane season and rising commodity prices) and a five-month political stalemate, and**
- **In the first half of 2008/09, Haiti is being affected by the global downturn**

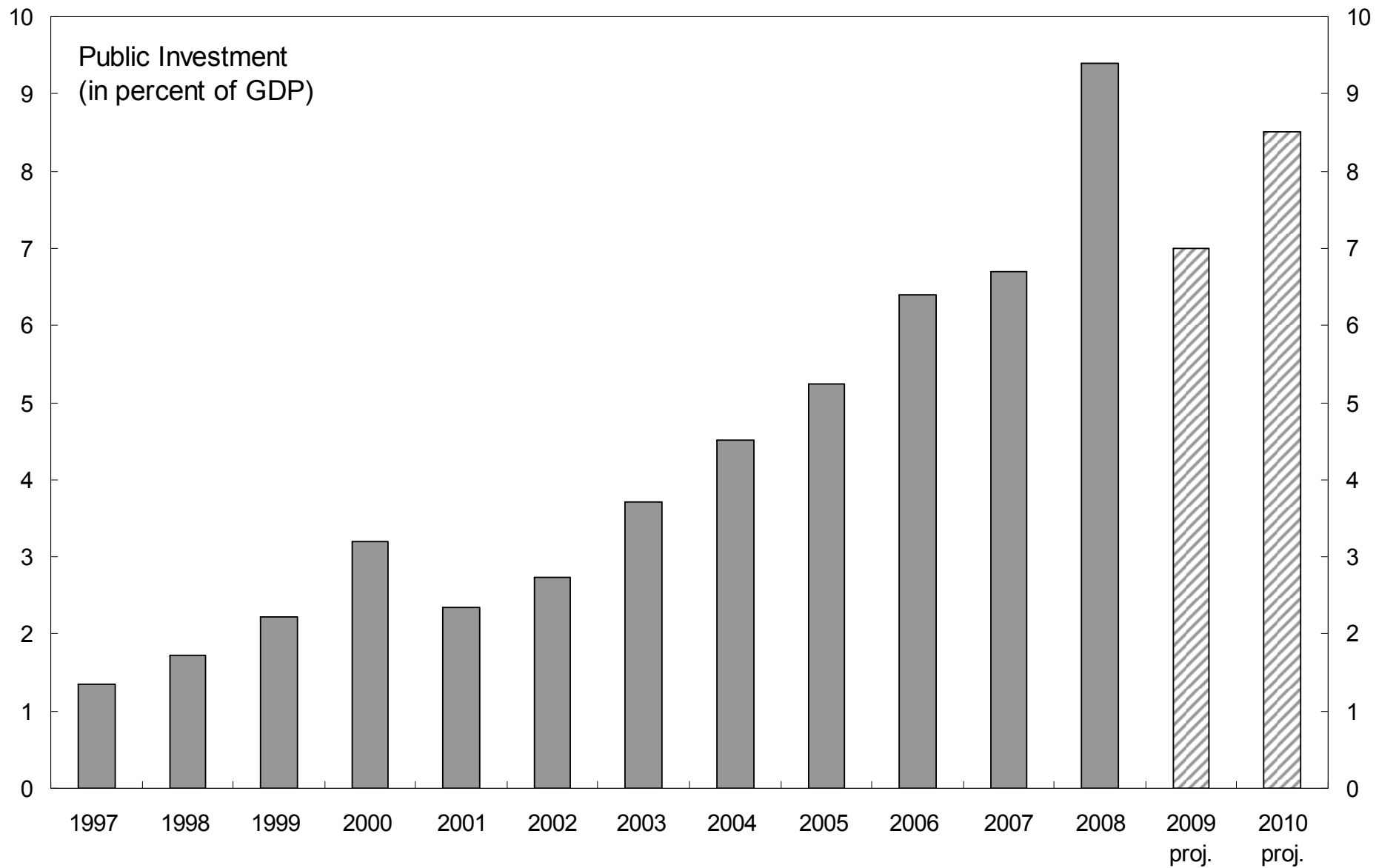


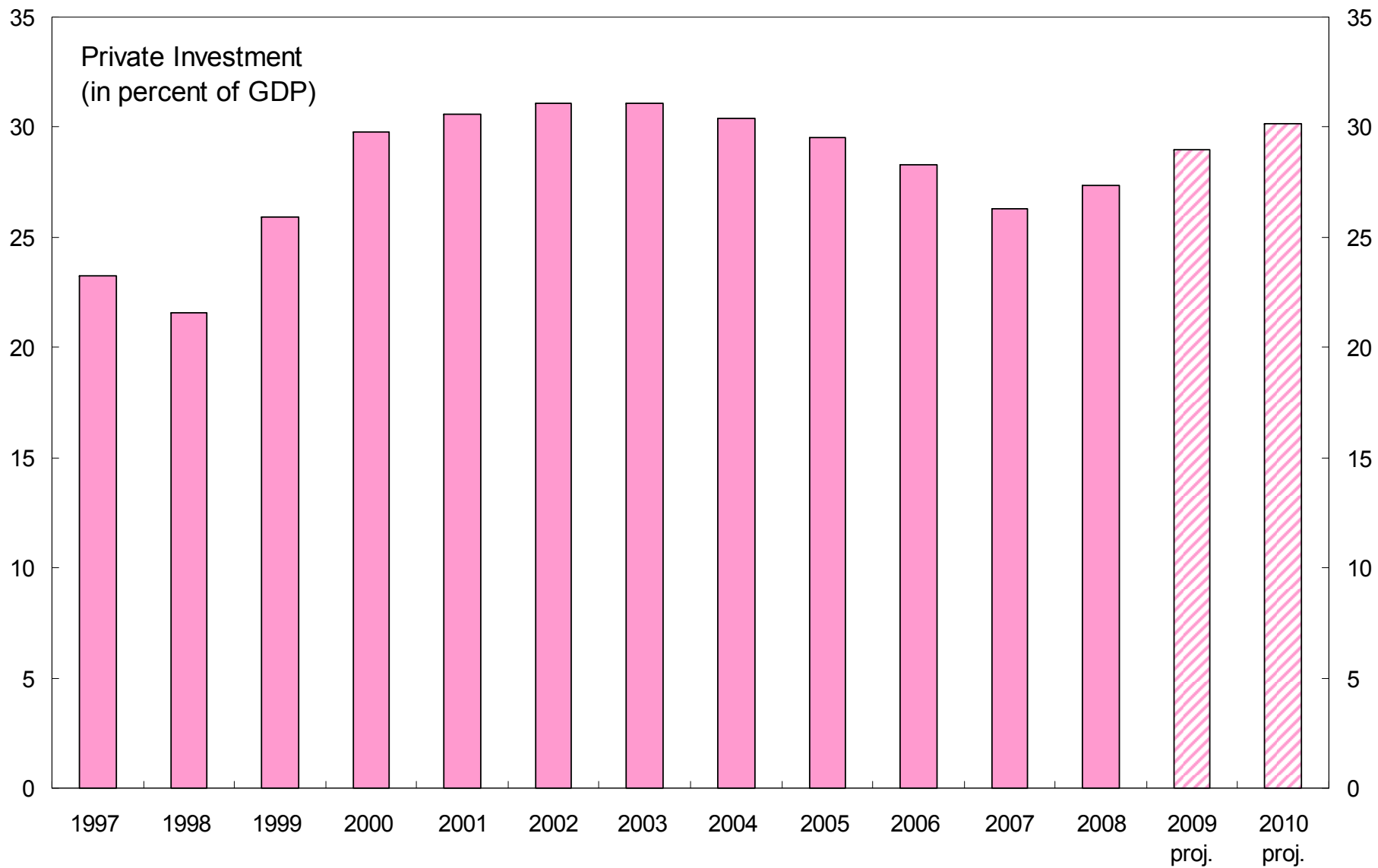


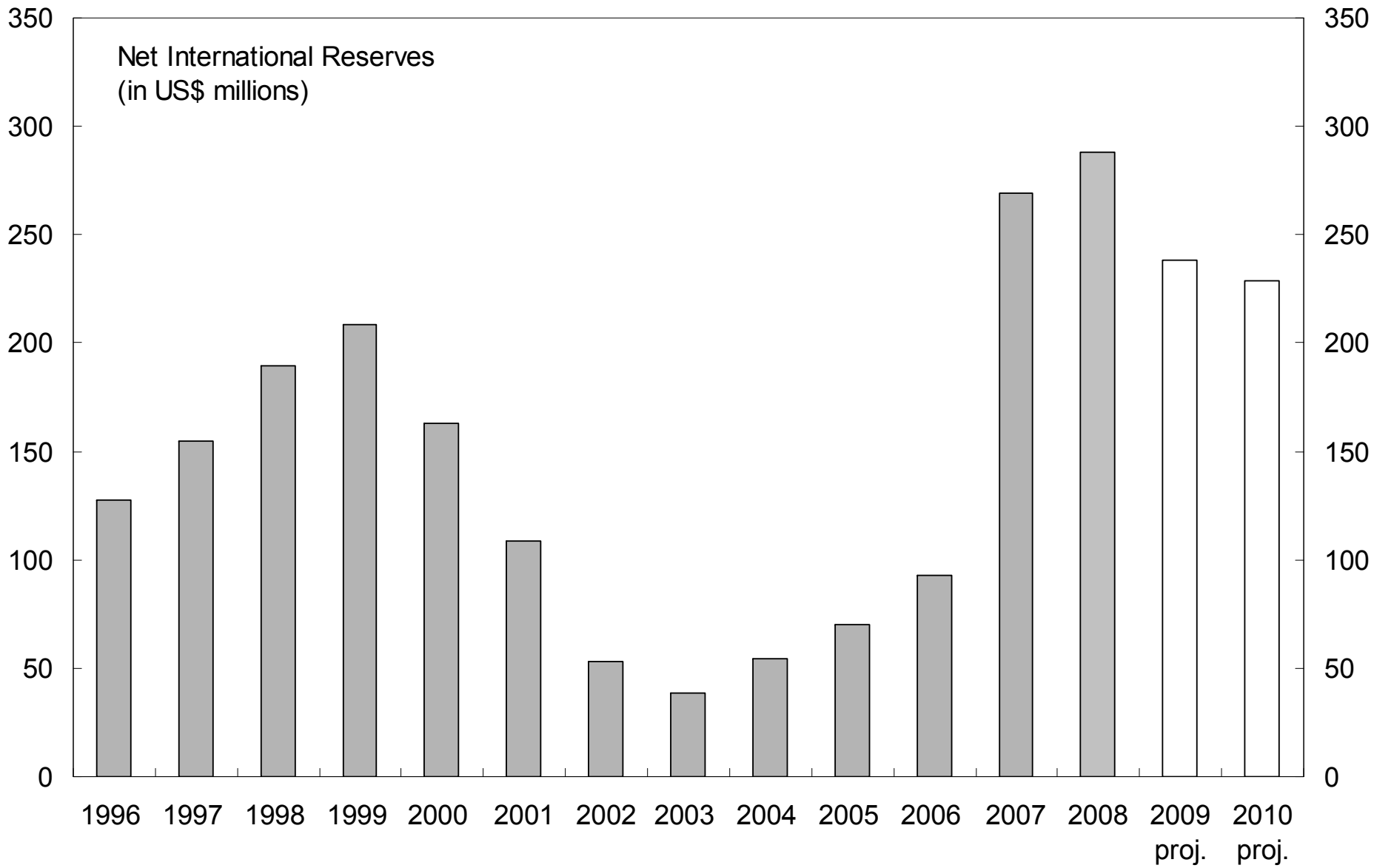












### III. Structural Reforms Implemented In The Past Few Years

- **Despite the complexity of Haiti's problems, the authorities have had a *strong track record of delivering on their commitments on structural reforms.***
  - structural reforms have focused on strengthening: (i) revenue mobilization, (ii) budget execution, (iii) monetary policy, the (iv) financial sector, and (v) central bank independence, as well as improving monetary and fiscal statistics.

# Structural Reforms-Financial Sector

- To strengthen **central bank independence**, legislation was passed eliminating its involvement with several public enterprises and a recapitalization plan is under way.
- A **new banking law** to strengthen the supervisory role of the central bank was drafted and is awaiting parliamentary approval.
- The BRH extended its **supervision to credit cooperatives**
- **Reform of the financial sector**: addressed weak financial institutions → The financial sector remains sound and adequately capitalized.
- To strengthen **market-based monetary operations**, the BRH **broadened participation in its bond auctions** to include non-bank financial institutions. Plan to allow individuals to participate in bond auctions through certified brokers.

# Structural Reforms—Fiscal area

- The **income tax system** has been reformed, the collection of tax arrears strengthened, and tax administration improved, including in the provinces.
- To strengthen **customs control**, the Sydonia World system has started to be applied, and six customs posts have become operational. Automated system for customs data (ASYCUDA) being implemented.
- To **improve expenditure control**, the authorities limited the use of discretionary accounts, and completed a census of public employment to eliminate “ghost workers”. Elimination of payment arrears to suppliers.
- The **preparation and execution of the public investment program** was improved with the strengthening of programming units of line ministries. Audits of the state-owned telephone and electricity companies were completed.

## IV. Macroeconomic Outlook for FY2009 and FY2010

- **Growth would rise but remain modest.** In FY2009, growth is expected to rise to 2 percent, and in FY 2010, to 2.4 percent.
- **Risks to the growth outlook remain significant,** notably through lower remittances, exports, and public investment, with additional uncertainty associated with the upcoming elections.
- **Inflation would decline sharply in FY2009 and remain low in FY2010.** Annual inflation is projected at 1 percent at end-September 2009, and to rise to 5 at end-September 2010.

## IV. Macroeconomic Outlook for FY2009 and FY2010

- **The global crisis is having an adverse impact on fiscal revenue.** The revenue shortfall is projected at G3.7 billion for his fiscal year, but revenue would rise to by probably G5 billion to G35 billion next year to eliminate any central bank financing→New revenue measures will have to be adopted.
- **The overall fiscal deficit would increase** to 4.7 percent of GDP compared to 2.9 percent in FY 2008, The authorities are committed to increasing electricity tariffs to cost-recovery levels by end-September 2009, while protecting poor households. It is projected to decline to 2.7 percent in FY2010.
- **Domestically-financed investment would rise sharply in FY2009** to G11.8 billion (including PetroCaribe financed spending), but decline to G6.5 billion next year.



## IV. Macroeconomic Outlook for FY2009 and FY2010

- **The global crisis is expected to have a muted impact on the external accounts.** The external current account deficit would decline in FY2009 to 3 percent of GDP from 4.2 percent in FY2008 and remain stable in FY2010.
- Remittances are now projected to decline by 4 percent. From October-May, they increased 0.4 percent from a year ago.

## IV. Macroeconomic Outlook for FY2009 and FY2010

- A turning point for Haiti took place at end-June 2009:
- The approval of HIPC and MDRI debt relief has reduced Haiti's debt stock by \$1.1 billion and will reduce annual debt service by more than \$50 million for over a decade (all in nominal terms).
- This saving should provide fiscal space to increase social spending and investment

## IV. Macroeconomic Outlook for FY2009 and FY2010

- **To receive HIPC and MDRI relief:** Haiti had to align spending with its poverty reduction strategy, track and publish reports on poverty reducing spending, boost education outlays, raise primary school enrollment by at least 50,000 children, increase immunization rates, develop an HIV/AIDS prevention and treatment and, improve debt management, economic governance, and tax collection.



# Reforms Implemented under HIPC

- **Economic governance**
  - The anti-corruption unit became operational.
  - To improve transparency and efficiency in procurement, the National Procurement Board (CNMP) was established, and a new procurement law was approved.
  - Government accounts being audited by parliament
  - Adoption of a law on asset declaration
- **Education:** increased primary education funding, school enrollment, teacher training, and school inspections. Mechanism transferring subsidies to schools has been established and is now supporting an estimated 80,000 children.
- **Health.** Greater immunization coverage and an HIV/AIDS prevention and treatment strategy.
- **Poverty-reduction spending is better tracked**
- **Debt management.** Publication of quarterly external debt reports using a new database.

# V. Challenges

**Looking ahead, important challenges remain to:**

- (i) consolidate stabilization gains,**
- (ii) promote growth, and**
- (iii) reduce poverty**

# V. Challenges

The main challenge is to boost confidence and thereby investment

## V. Challenges—How to boost confidence?

1. **Mobilize domestic resources** → increase spending in a way that is both fiscally sustainable and cost-effective.
2. **Promote a business-friendly environment**
3. **Support financial sector development** → strengthen governance, transparency, and accountability.



# Main Conclusion

- **Haiti is NOT in a “cycle of failure”:**

**The authorities have succeeded in maintaining macroeconomic stability amid severe shocks.** Prudent policies have allowed macroeconomic performance under IMF-supported program to remain satisfactory. Important structural reforms were also implemented. Haiti achieved substantial debt relief.

# Main Conclusion

- **But important challenges remain.** In part due to Haiti's vulnerability to shocks and political uncertainty, **growth remains too low** to make real inroads in poverty reduction, and key economic reforms need to be passed into law and consolidated. A decisive push to strengthen governance would help increase confidence and investment and mobilize additional donor support.