HAITI

Table 1	2020
Population, million	11.7
GDP, current US$ billion	13.5
GDP per capita, current US$[a]	1149.5
International poverty rate ($1.9)[b]	24.5
Lower middle-income poverty rate ($3.2)[b]	50.3
Gini index[c]	41.1
Life expectancy at birth, years[c]	63.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Haiti rebased its GDP after thirty-three years, resulting in a 73.8 percent increase in GDP for the new base year 2012.
(b) Most recent value (2012), 2011 PPPs.
(c) Most recent WDI value (2018).

The COVID-19 pandemic and political turmoil took a toll on the Haitian economy, with GDP estimated to have contracted by 3.4 percent in the Haitian fiscal year (HFY) 2020. Disruption of essential health services and school closures have undermined human capital with potential long-term welfare effects. Economic recovery will require containment of the pandemic and, especially, political stability as well as transition towards a more diversified economy and greater resilience to natural hazard shocks.

Key conditions and challenges

Haiti's most critical challenge is solving its protracted political crisis. Also high on the reform agenda, however, are improving governance and the justice system, upgrading basic infrastructure to eliminate spatial frictions that impede movement of goods and disconnect rural communities from urban markets, and creating a more enabling business environment.

The export base is narrow, with textiles representing over 90 percent of total exports. In addition, Haiti's extreme vulnerability to natural hazard shocks has constrained its capacity to sustain growth.

Fiscal dominance has led to rapid monetary growth and high inflation. The continuous fiscal deficits have led to increasing debt/GDP ratios, and a weakened external position. Despite agreements each year between the monetary and fiscal authorities aimed at controlling spending and limiting the monetary financing of deficits, they are seldom met. The lack of a clear, articulated, and credible policy framework erodes confidence and impairs economic agents' ability to plan for the long term and raises the cost of capital.

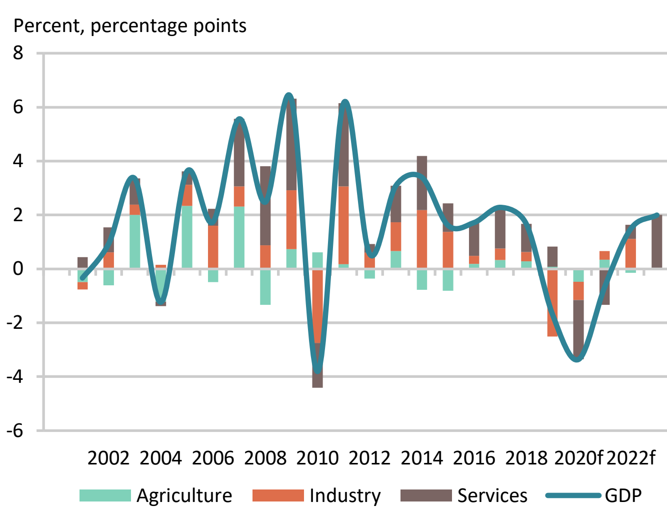
COVID-19 has compounded these issues, making poverty reduction even more difficult. As of May 2020, nearly half of those employed prior to COVID-19 lost jobs due to a halt in business activity. Disruptions in basic services, namely health and education, are undermining human capital. The negative impacts on early childhood development and educational attainment have long-term negative effects on the earning potential of future adults.

Haiti's Post COVID-19 Economic Recovery Plan 2020-2023 (PREPOC) intends to tackle these challenges by relaxing the structural constraints that hinder growth through, inter alia, boosting human capital, strengthening governance, and improving resilience to natural hazard shocks. However, the HFY2021 budget is not clearly aligned with PREPOC's stated intentions. The budget prioritizes security and electricity generation over the PREPOC's above-mentioned pillars.

Recent developments

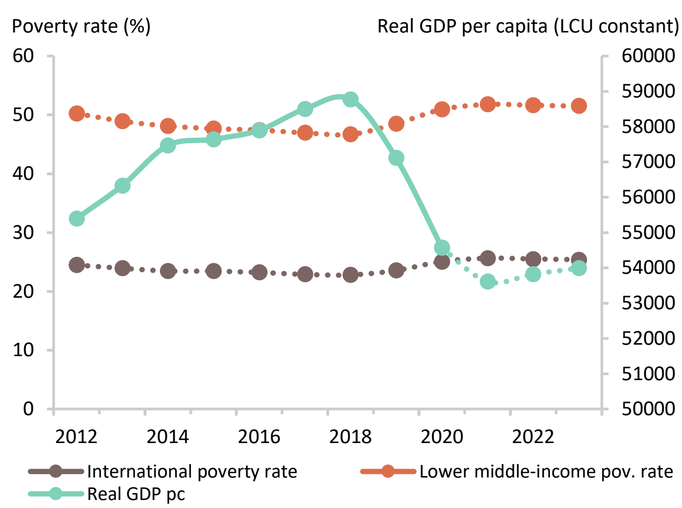
Both the COVID-19 pandemic and Haiti's protracted political crisis took a toll on economic activity during HFY2020, with GDP estimated to have contracted by 3.4 percent. Output of all three sectors declined. The pandemic's impact on the Haitian economy was less severe compared to other Caribbean countries because Haiti's tourism sector is small. The contraction of GDP resulted in job and income losses. The poverty rate at the international poverty line (US$1.90 per day, 2011 PPP) is estimated to have risen to 25.1 percent in 2020, from 23.6 percent in 2019, in line with the economic slump. The health emergency measures enacted to curb the spread of the virus were lifted at the end of HFY2020. However, the political crisis

FIGURE 1 Haiti / Real GDP growth and sectoral contributions to real GDP growth



Sources: Haiti Statistical Office (IHSI).

FIGURE 2 Haiti / Actual and projected poverty rates and real GDP per capita



Sources: World Bank. Notes: see Table 2.

started intensifying in Q1 HFY2021, keeping economic activity subdued.

The current account turned positive in HFY2020 (5.8 percent of GDP) thanks to a 26.1 percent decline in imports, and a 13.5 percent rise in remittances which offset the 16.3 percent drop in exports. This does not, however, signal a turnaround in Haiti's structural trade deficit (18.2 percent in HFY2020), which is to be tackled via improvement in productivity across all sectors and by broadening the export base.

Due to monetization of large government deficit the local currency (gourde) depreciated by over 23 percent during the first eleven months of HFY2020. This prompted the central bank's intervention in the forex market, as well as a freeze of government spending, to stabilize the gourde, to tame runaway inflation and quell social discontent. In the last month of the HFY the gourde strengthened, closing 2020 with a 7.5 percent year-on-year appreciation against the US dollar. This destabilized the main anchor on which the private sector bases its expectations, with negative impacts on investment planning and long-term growth. The sharp appreciation translated into fewer local currency to households relying on remittances. Nonetheless, appreciation of the gourde proved fleeting after government spending and imports resumed. The gourde depreciated by 13.5 percent between November 2020 and January 2021. Excessive volatility, as experienced recently, can be a destabilizing factor.

The large government deficit (4.1 percent of GDP in HFY2020 compared to 2.2 percent of GDP in FY2019) and low productivity of the agricultural sector fueled inflation that reached 22.8 percent on average during HFY2020. However, as a result of the strong gourde policy and the pass-through effect, CPI inflation declined to 19.2 percent in December 2020 after peaking at 27.8 percent in August. While this reversal can help improve households' purchasing power, it is nonetheless still elevated and will continue to erode any savings.

Outlook

As Haiti remains engulfed in political turmoil, GDP is expected to contract for a third consecutive year, by 0.7 percent in 2021. A return to pre-pandemic GDP levels is not envisioned until after 2023, under the proviso of a return to some political stability. Under this scenario, the poverty rate is projected to increase further to 25.6 percent in 2021 as economic opportunities remain limited.

The strong gourde policy is set to boost imports, particularly consumer goods, while discouraging exports, turning the current account surplus into a deficit in 2021. Over the long term, efforts to diversify the export base and reform the business environment to attract foreign investment could improve the external position.

While control of budgetary spending suggests a narrowing of the fiscal deficit to 3.4 percent of GDP in HFY2021, fiscal pressures are expected to mount as the government embarks on the PREPOC that has a total cost of 24.4 percent of GDP over a three-year period. PREPOC's cost in the first year of implementation is 6.9 percent of GDP, with a 3.2 percent of GDP financing gap. This is likely to be filled via money creation, potentially further fueling inflation and hurting the poor the hardest.

As COVID-19 vaccines become more available and the global economy rebounds, this could help boost demand for Haiti's products. However, the path ahead remains fraught and exposed to ongoing political instability that could continue to hinder economic recovery.

TABLE 2 Haiti / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f	2022/23 f
Real GDP growth, at constant market prices	1.7	-1.7	-3.4	-0.7	1.5	2.0
Private Consumption	3.4	-0.5	-2.6	0.5	-0.5	2.0
Government Consumption	3.5	-8.0	20.3	11.7	13.5	1.0
Gross Fixed Capital Investment	6.5	5.7	-17.6	32.0	-0.4	3.4
Exports, Goods and Services	-0.8	-1.6	-5.0	-3.0	16.9	0.0
Imports, Goods and Services	8.6	3.6	-4.1	18.6	1.7	2.0
Real GDP growth, at constant factor prices	1.6	-2.4	-2.9	-0.4	1.5	2.1
Agriculture	1.5	-0.2	-2.1	1.4	-0.5	0.0
Industry	1.1	-10.0	-2.1	0.7	4.7	1.0
Services	1.8	0.8	-3.5	-1.5	0.7	3.3
Inflation (Consumer Price Index)	13.5	17.2	22.8	20.0	19.0	15.0
Current Account Balance (% of GDP)	-4.4	-1.7	5.8	-2.0	-0.5	-2.2
Net Foreign Direct Investment (% of GDP)	0.7	0.5	0.1	0.2	0.5	0.5
Fiscal Balance (% of GDP)	-2.6	-2.2	-4.1	-3.4	-2.6	-2.8
Debt (% of GDP)	23.2	25.7	28.8	32.3	32.1	30.8
Primary Balance (% of GDP)	-2.4	-2.0	-3.5	-1.8	-2.2	-2.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	22.8	23.6	25.1	25.6	25.5	25.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	46.7	48.5	51.0	51.8	51.7	51.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2012-ECVMAS.Actual data: 2012. Nowcast: 2013-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2012) with pass-through = 0.87 based on GDP per capita in constant LCU.