HAITI

Table 1	2019
Population, million	11.2
GDP, current US$ billion	8.7
GDP per capita, current US$	770.8
International poverty rate ($1.9)[a]	24.5
Lower middle-income poverty rate ($3.2)[a]	50.3
Upper middle-income poverty rate ($5.5)[a]	78.6
Gini index[a]	41.1
Life expectancy at birth, years[b]	63.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2012), 2011 PPPs.
(b) Most recent WDI value (2018).

The COVID-19 pandemic and Haiti's deep-rooted structural problems and political instability took a severe toll on the economy and manifested in rising poverty. Limited fiscal space – due weak revenue mobilization, ill-defined spending priorities and absence of efficient targeting mechanisms – hindered government's response capacity to support vulnerable household and firms adversely affected by the pandemic. Better targeted policies and an ease of the political tensions will be necessary to stabilize the economy and facilitate a recovery.

Recent developments

After dipping 1.4 percent in HFY2019 behind the backdrop of political turmoil and social discontent, economic activity depressed further in the first semester of HFY2020 due to the global economic downturn, the lingering political crisis and the social distancing measures adopted by the Haitian authorities to curb the spread of COVID-19. The business indicator (ICAE), which tracks about 80 percent of economic activity, contracted by 4.1 percent in first half of HFY2020. The increase in government consumption to finance social programs, including cash transfers and payroll support, amid the COVID-19 crisis could not offset the decline in exports (because of sluggish demand from the USA), and investment (due to uncertainty surrounding the country's political process).

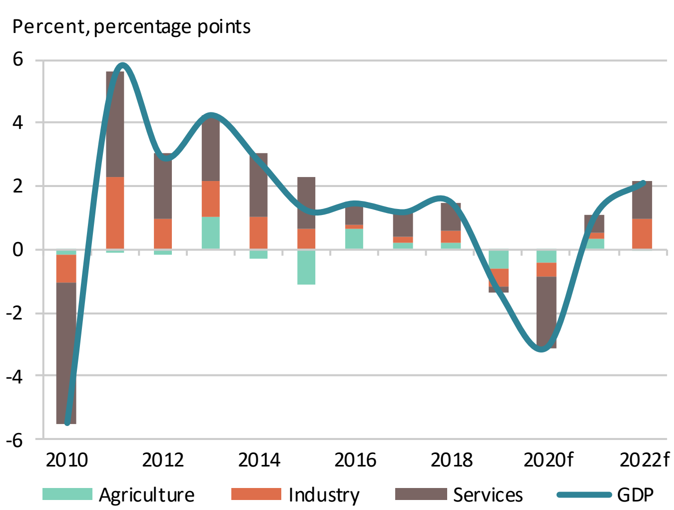
The current account turned slightly positive in H1 HFY2020, thanks to declining oil prices and the unanticipated increase of 10.0 percent y-o-y end June in remittances. These current account dynamics, however, did not prevent the continued depreciation of the local currency. The gourde lost cumulatively 23.4 percent of its value between October 2019 and August 2020 on large government deficits financed principally via central bank (BRH) money creation. But aggressive interventions of BRH in the FOREX market in early September to mop up excess gourde liquidity and the decision of the fiscal authorities to suspend all discretionary expenses before the end of the fiscal year boosted the gourde, which by mid-September has appreciated against the USD by around 30 percent. Fiscal dominance and ensuing monetization of the government deficit has weakened the effectiveness of monetary policy transmission channels. Headline consumer price inflation, moving pari passu with the exchange rate due to the strong pass-through, reached 25.7 percent, while food inflation surged to 31.1 percent y-o-y in July 2020.

The central bank also slashed its key policy rate 400 bsp to 10.0 percent and ordered a three-month moratorium on loans payment in the wake of the COVID-19 crisis, to allow credit to flow to the private sector and preserve firms' working capital to support a certain level of economic activity. But uncertainty due to the unstable political landscape and increased gang violence have kept economic activity subdued.

In this unsettled context, the poverty rate at the international poverty line (US$1.90 per day, 2011 PPP) is estimated to have risen to 27.3 percent in 2020, from 25.9 percent in 2019, in line with the economic slowdown and shrinking real private consumption. As of May 2020, nearly half of those employed pre COVID-19 lost jobs largely due to a halt in business activity (High Frequency Survey results).

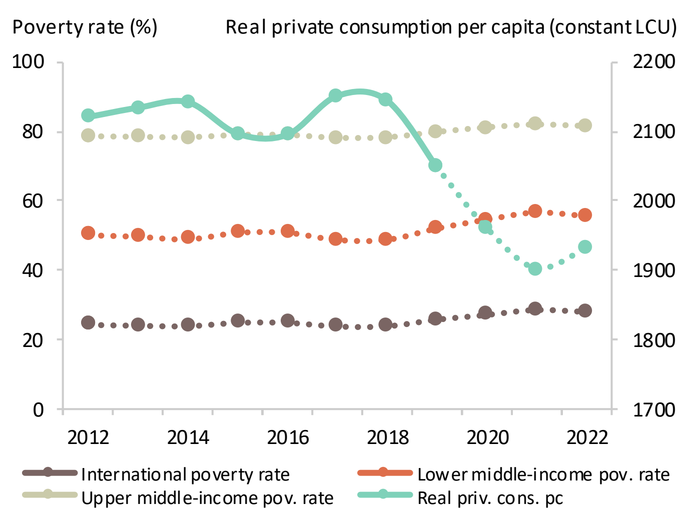
Rampant inflation continues to diminish the purchasing power of households and compounds the effects of income losses stemming from the economic contraction since 2019.

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



Source: Haiti Statistical Office (IHSI).

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



Sources: World Bank. Notes: see table 2.

Outlook

GDP is expected to contract by 3.1 percent in 2020, as a result of the global economic slump, the measures enacted by the authorities to curb the spread of the pandemic and political uncertainty. All aggregate demand components are expected to decline significantly. A current account surplus is expected due to the big decline in import and the unexpected boost in remittances, the latter thanks to crisis support programs enacted by the governments of the United States and Canada (Haiti's top remittances-sending countries) to help households weather through the setbacks of the COVID-19 pandemic. However, since poor households are less likely to be recipients of remittances, their mitigating effect on poverty may be limited.

Despite the widening output gap, fiscal dominance and its effect on the exchange rate will keep inflationary pressures because of the exchange rate pass-through effect and lack of investment to boost productivity in the agricultural sector.

The poverty rate is projected to increase further to 28.7 percent in 2021 based on the expected contraction in private consumption. Disruptions in basic services, namely health and education, are undermining human capital. The negative impacts on early childhood development and educational attainment have the potential for long-term negative effects on the earning potential as adults.

Risks and challenges

The announcement of the first cases of COVID-19 brought a lull to the political tensions, but the hiatus was short-lived. Gang violence has intensified, putting at risk the political process and organization of elections. The path ahead remains fraught and exposed to ongoing political instability that could continue to hamper economic recovery in the medium- to long-term. State capture has prevented progress toward a more enabling business environment. Compounding this, Haiti's ill-preparedness and inadequate response mechanisms make it extremely vulnerable to shocks. Labor income for many households has declined as workers lose jobs or earn less due to the economic slowdown behind the backdrop of the pandemic and the political instability, with attendant negative consequences for poverty reduction.

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

	2016/17	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f
Real GDP growth, at constant market prices	1.2	1.5	-1.4	-3.1	1.1	2.1
Private Consumption	4.0	0.9	-3.4	-2.7	-1.9	2.6
Government Consumption	-8.0	3.8	-23.0	31.1	-13.3	5.2
Gross Fixed Capital Investment	0.9	2.3	-0.9	-25.2	27.6	4.0
Exports, Goods and Services	-1.2	2.0	-3.3	-5.0	1.5	3.2
Imports, Goods and Services	2.0	1.5	-6.2	-6.5	2.2	3.9
Real GDP growth, at constant factor prices	1.1	1.5	-0.9	-3.3	0.9	1.9
Agriculture	0.8	1.0	-2.3	-2.1	1.4	-0.5
Industry	0.9	1.7	-2.6	-2.1	0.7	4.7
Services	1.2	1.5	0.3	-4.1	0.8	1.9
Inflation (Consumer Price Index)	14.7	13.5	17.2	22.8	26.0	19.0
Current Account Balance (% of GDP)	-1.0	-3.9	-2.0	0.3	-2.0	-3.4
Net Foreign Direct Investment (% of GDP)	4.4	1.1	1.0	0.4	0.5	1.1
Fiscal Balance (% of GDP)	-1.9	-4.3	-3.7	-6.8	-4.1	-2.5
Debt (% of GDP)	35.6	38.3	42.5	47.9	51.2	51.2
Primary Balance (% of GDP)	-1.6	-4.0	-3.2	-5.8	-1.6	-1.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	24.0	24.1	25.9	27.3	28.7	28.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	48.9	49.0	52.2	54.6	56.7	55.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	78.2	78.3	79.8	81.2	82.0	81.5

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 and fiscal year growth rates.Actual data: 2012. Nowcast: 2013-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2012) with pass-through = 1 based on private consumption per capita in constant LCU.