



Brief on the Macroeconomic Situation

March 2010



Republic of Haiti

This brief prepared by the Ministry of Economy and Finances (MEF) presents the macroeconomic situation before and after January 12, 2010; it discusses the main emergency measures needed to facilitate the re-launch of economic activities and concludes by advocating for budget support to strengthen financial stability and to reactivate the economy.

A. The macroeconomic situation before January 12, 2010

Macroeconomic background

In 2004, the Republic of Haiti initiated a process of political normalization, of strengthening of economic governance and business environment, which has been met with remarkable progress. Despite the international financial crisis and the hurricanes which hit the country in 2007/2008, fiscal year 2008/2009 ended with the consolidation of the

achievements in the field of macroeconomic stability observed during the last five years. The macroeconomic objectives of the program agreed upon with the international financial institutions were globally reached. The last evaluation concluded that the Facility for the Reduction of PRGF (Poverty Reduction and Growth Facility) program was a success.

The progress achieved in terms of security and political stability, as well as the improvement of the macroeconomic environment, contributed to a growth of 2.9% of the GDP (second best growth rate in the Caribbean region) in 2008/2009. It was mostly due to the public investment made in the agriculture sector, in roads infrastructure, and also by the reactivation initiated in the assembly sector with the enactment of the HOPE II Act. Despite the impact of exogenous shocks, the fiscal deficit (4.4% of the GDP) was maintained within the limits of the macroeconomic objectives. At the same time, the

Haiti: Main economic and financial indicators

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|------|------|------|------|-------|-------|-------|
| Real GDP (annual change in %) | 0.4 | -3.5 | 1.8 | 2.3 | 3.4 | 1.2 | 2.9 |
| Inflation rate (end of the period and annual change in %) | 37.8 | 21.7 | 14.8 | 12.4 | 7.9 | 19.8 | -4.7 |
| Global Balance of Central Government (grants included), % of GDP | -3.5 | -2.5 | -0.7 | -1.4 | 0.2 | -2.9 | -4.1 |
| Broad Money (M3 and annual change in %) | 39.8 | 9.1 | 20.3 | 9.1 | 4.8 | 17.7 | 11.0 |
| Exchange rate (yearly average and annual change in %) gourde vs. dollar (negative variation = appreciation) | 49.3 | -1.8 | -1.9 | 6.6 | -9.8 | 2.3 | 4.5 |
| Gross reserves | | | | | | | |
| • million US\$ | — | — | — | — | 544.7 | 707.8 | 947.5 |
| • months of imports of previous year | — | — | — | — | 2.3 | 3.0 | 3.7 |

Source : MEF ; Central Bank



Republic of Haiti



increase of exports, the reduction of prices of imported goods, and the remittances contributed in reducing the deficit of the current accounts from 4.5% in 2008 to 3.2% of the GDP in 2009, thus facilitating the strengthening of the international reserves which reached 3.7 months of imports.

The performance of the financial system was also satisfactory. Credit to the private sector increased by 14.2% and the yield on the capital of the banks was near 20.5%. Inflation was negative, -4.7% in annual rhythm by the month of September 2009 after the 19.85% increase registered the previous year due to a sharp increase of the international prices of food produces and fuel.

Budget and framework of the medium term expenses (Cadre des Dépenses à Moyen Terme – CDMT)

During the last three years, the Government ascertained that the budget reflected the priority policies defined in the Document of National Strategy for Growth and the Reduction of Poverty (Document de Stratégie Nationale pour la Croissance et la Réduction de la Pauvreté – DSNCRP).

The new budget framework established a sound basis for a healthier public financial management of the Government while the process for medium term budget framing was underway, as well as the process for improving transparency related to budget performance and objectives.

Since the passing of the law on budget management and the introduction of a new budget nomenclature, strict discipline has been observed for the preparation of the law of finances within the legally established deadlines. This will enable the improvement of the presentation of the budget and of the information accompanying it, significantly reduce the use of current accounts, computerize the chain of expenses and simplify control systems. The reorganization of the functions of the Supreme Court of Audit and Administrative Conflicts (Cour Supérieure des Comptes et du Contentieux

Administratif – CSC/CA) is also planned. The establishment of the National Committee for Public Procurement (Commission Nationale des Marchés Publics – CNMP) contributes to the strengthening the management of the Government, with the adoption of new procurement procedures.

The recent institutional measures enabled the Ministry of Economy and Finances to improve the quality of data presented in the table of the financial operations of the Government (Table des Opérations Financières de l'Etat – TOFE), to identify the expenses aiming at reducing poverty and monitoring them, to maintain the quality and regularity of the monthly reports on the execution of the budget, to strengthen the efficiency of internal control and audit of the annual accounts.

In this context, the new technical process for the preparation of the operations budget and of the investment budget will be initiated by the Study and Programming Units (UEP) which are being created. The first phase will be a pilot experience taking into account the multi-annual nature of the budget as of 2009-2010, using macroeconomic modeling tools, the global and sector CDMTs and the SWAP.

Public finance management

The transparency effort in public finance management initiated by the transition government (2004-2006) is maintained by the new political power. The focus is on the improvement of management and collect of revenues, the adequate adjustment of the expenses and the introduction of new public management methods.

Public Finance Management has been deemed sufficiently transparent to justify, since 2004, the reactivation of budget support granted by the main donors (The World Bank, the International Monetary Fund, the Inter American Development Bank, the USAID), including the European Union and Member States.

The drafting of the PRSP was an opportunity to develop a budgeted action plan to improve public

finance management in Haiti during the next five years. Hence, the Government developed a matrix for public finance reform including measures to improve the existing reforms. This matrix also aims at implementing new structural reforms with an impact on the medium term as well as capacity strengthening activities.

B. Macroeconomic situation after January 12 (Impact of the earthquake)

Prospects before the earthquake

Before the earthquake, the projections were based on the prospect of a gradual improvement of the growth rate. They were of 3.5% for fiscal year 2009/2010, and a higher average rate over the next five years. A gradual improvement of the business environment sustained this clear trend of investment reactivation in the country. The major works through public investments in infrastructures, and the private sector's ongoing and planned initiatives in the assembly, construction and tourism sectors were to foster that growth of the economy. Fiscal reforms aiming at an increase of the global productivity of the system and the creation of a Treasury bonds market would entail the increased availability of resources and the maintaining of a sustainable debt level.

An agreement on a new program, the Extended Credit Facility, was about to be reached with the IMF following the satisfactory review of the last three-year PRGF program. Under the strengthening of the economic and financial governance effort, a new matrix of actions, which at that time was being discussed with the main donors providing budget support, was about to be agreed upon.

Impact of the earthquake

The powerful earthquake of January 12, 2010, of a 7.3 magnitude, caused unprecedented damages. The epicenter was located in the metropolitan area of the Capital City where more than one quarter of the population lives and where the majority of the economic and administrative infrastructures are

situated. Hence, the whole political (executive, legislative and judicial) and socioeconomic (banks, businesses, schools, universities and churches) systems of the country were affected.

The extent of the destruction of the buildings is mostly due to high demographic density and to anarchic constructions in the metropolitan area of Port-au-Prince. The number of victims is estimated at over 200,000 dead and 300,000 wounded. The United Nations estimate that about one million individuals live under tents and this number could increase. The affected population's access to the satisfaction of its basic needs such as food, water, healthcare, housing and education is reduced. Hospitals and a great number of schools in Port-au-Prince collapsed. According to estimates, 1300 education establishments and 50 hospitals were destroyed or are unusable.

The economic infrastructures in and around the Capital City were mostly destroyed. Several bank branches were hit. The port of Port-au-Prince is not operational. The Port-au-Prince airport is damaged, but open to receive provided assistance although the lack of fuel, infrastructure, physical and telephone communications produced bottlenecks.

The Government's capacity for intervention, namely to provide support to the affected population, was significantly reduced. Several ministries and tax and customs duties collection agencies were destroyed. The Presidential Palace, the Parliament building, the Prime Minister's Office, the Supreme Court of Justice's premises were severely damaged, and many public servants died. Technical and financial partners as well as some NGOs also suffered a high death toll and many material damages.

At the macroeconomic level, the prospects for growth reversed due to the losses and damages affecting the productive sectors. It is likely that the GDP will decrease to about 8% for 2009/2010, and inflation should be higher by more than 3 points compared to projections. The sharp reduction in fiscal revenues entails a need for financing currently estimated at some 350 million US dollars, and the

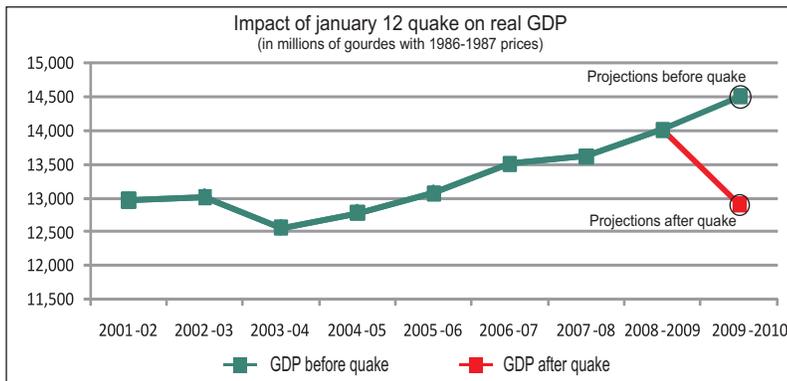
current balance (grants not included) should deteriorate due to the reduction of the production and to the import needs necessary for both the subsistence of the population and for reconstruction.

C. Emergency measures to facilitate functioning of the economy.

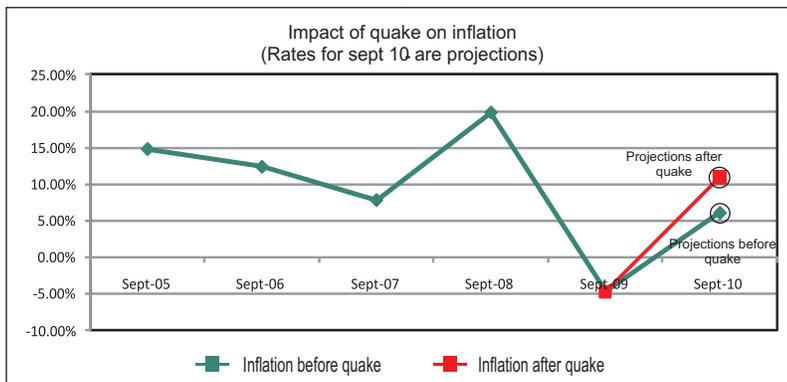
The evaluation performed after the earthquake concluded that the computer system of the Ministry of Economy and Finance is in working condition, as well as the payment system, despite the damages to the Central Bank's building. Money transfers from abroad and payment orders continued to be executed. Dispositions were taken to secure the equipments and a technical unit was implemented to ensure minimum services to the population. Hence, the following was made possible:

1. The re-establishment of the computer system. The equipment was recuperated, put back in operation, and re-located in another building belonging to the Ministry. The interconnection between the Central Bank and the MEF was re-established, as well as with the Tax Administration and Customs Offices.
2. The re-establishment of the expenses execution system. As of January 21, payment of salaries to all public servants and retirees was executed for the month of January 2010. Computer work stations were set up to enable other public institutions to key in their requests and execute their budget expenses. The Tax Administration agencies located in the unaffected geographic departments continued to work as usual.
3. The opening of the Customs offices of Port-au-Prince and of the airport as of January 18, 2010. The other offices in the unaffected areas continued to work as usual.
4. The reactivation of the payment system. The Central Bank and the Bankers Association (Association

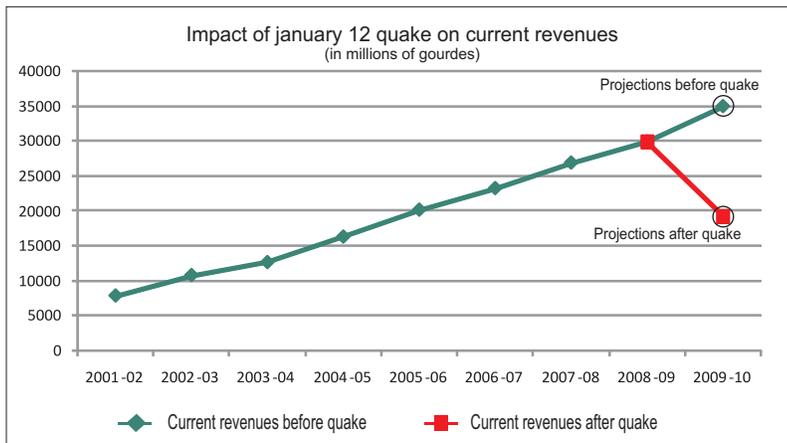
Graph 1



Graph 2



Graph 3



Professionnelle des Banques – APB) signed and issued a joint statement on the resumption of operations. The Central Bank opened a window for economic agents holding a check issued by the Public Treasury. International money transfer possibilities were technically evaluated.

5. Implementation of procedures to facilitate the clearance from Customs of assistance goods to earthquake victims.
6. Negotiations with the authorities of the Dominican Republic for a priority transit corridor for goods.
7. Continuance of usual management procedures for financial resources granted to the Government.
8. Support from the Public Treasury to some sectors, for the provision or re-establishment of certain basic services to the population, namely health, electricity, communications, transportation, food.
9. Support to reactivate the supply and distribution of fuel products.
10. Partial restoration of capacity of the international airport and ports.
Today, they have respectively recuperated 60% and 80% of their capacity, with the collaboration of the private sector and the US army.

D. Advocacy for budget support

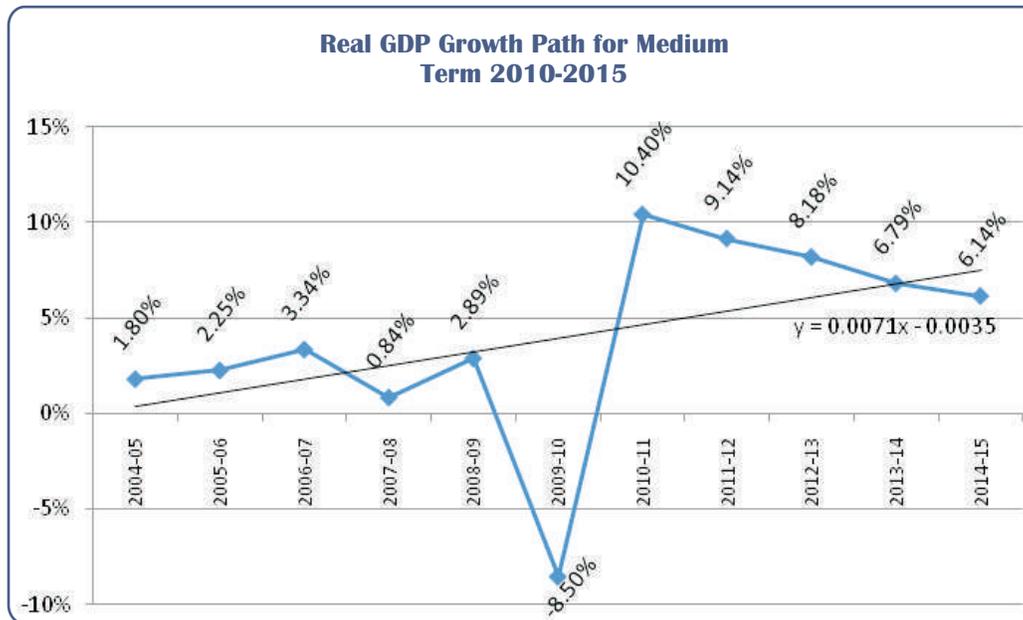
The purpose of external help is to enable the country to develop its capacities in terms of political, social and economic management. Such an objective can only be reached through the strengthening of government institutions in charge of providing public services and of regulating socioeconomic activities. This calls for budget financed technical and human resources. It is therefore necessary to work for the budget to be the management tool par excellence for development activities. An approach which fits within the logic of a budget-program

developed and executed under a multi-annual framework. This rationale advocates for the mobilization of a strong budget support over several years, with implementation modalities which may easily fit within the Budget Support Partnership Framework.

The Interim Cooperation Framework (ICF) approved in July 2004, opened the path to dialogue and a coordination mechanism between the donors and the Government. Since 2004, this coordination mechanism has been progressively strengthened. The achievements in the area of the implementation of public finance reforms initiated by the Government with the main donors such as the IMF, the World Bank, the IDB, speak for themselves. More recently, the Ministry of Economy and Finance confirmed the will to implement a sector table: “Budget Support and Public Finance Management”, to strengthen the coordination in this sector. The technical and financial partners, together with the Ministry of Economy and Finance, developed and signed a partnership framework similar to the ones existing in different countries benefiting from budget support. New donors, namely the USAID, were associated and discussions were held with emerging countries of Northern Europe and South America that are willing to provide budget support.

The 2010 New York International Conference will be the venue to strengthen effective coordination of donors wishing to join the Partnership Framework for Budget Support based on a structured dialogue with the Ministry of Economy and Finance. This Ministry is committed to convene the donors on such a coordination mechanism which could be facilitated by the implementation of a single matrix for Budget Support.

Haiti: Economic Path for Medium Term 2010-2015



Haiti: Main Economic Indicators for Medium term (2010-2015)

| Indicators | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|-------|-------|-------|-------|-------|-------|-------|
| Real GDP (annual change in %) | 2.9 | -8.5 | 10.2 | 9.1 | 8.2 | 6.8 | 6.1 |
| Inflation rate (end of period and annual change in %) | -4.7 | 8.5 | 8.6 | 7.5 | 7.0 | 6.0 | 5.0 |
| Central government revenue (excl. grants and in % GDP) | 11.2 | 7.3 | 10.2 | 10.9 | 11.6 | 12.3 | 13.2 |
| Global Balance of Central government (including grants and % GDP) | -5 | -7.3 | -6.9 | -6.7 | -5.6 | -5.4 | -4.7 |
| Broad money (M3, annual change in %) | 11 | 8.3 | 19.3 | 18.0 | 14.2 | 12.8 | 11.3 |
| Investment (% of GDP) | 23.4 | 26.2 | 36.0 | 37.6 | 37.0 | 36.0 | 35.0 |
| current account excluding official transfers (% of GDP) | -10.6 | -24.6 | -26.6 | -22.6 | -17.1 | -14.5 | -13.1 |
| Liquid gross reserves in months of imports | 3.1 | 2.4 | 2.4 | 2.6 | 2.7 | 2.8 | 2.9 |

Real GDP Growth Path for Medium Term (2010-2015)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------------------------|-------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Primary Sector | 5.2% | 4.8% | 6.1% | 4.5% | 4.5% | 4.2% | 3.8% |
| Agriculture | 5.2% | 4.8% | 6.0% | 4.4% | 4.4% | 4.1% | 3.8% |
| Mining | 6.3% | 2.0% | 21.0% | 25.0% | 14.0% | 11.0% | 8.0% |
| Secondary Sector | 4.1% | 6.3% | 18.6% | 22.2% | 14.4% | 11.6% | 10.1% |
| Manufacture | 3.7% | -6.0% | 4.0% | 5.0% | 6.4% | 5.7% | 5.1% |
| Electricity | 30.8% | -25.0% | 26.0% | 36.0% | 20.0% | 15.0% | 12.0% |
| Construction | 3.1% | 20.0% | 29.3% | 32.0% | 18.0% | 14.0% | 12.0% |
| Services | 1.4% | -13.0% | 2.6% | 4.2% | 5.3% | 4.6% | 4.3% |
| total Gross Value added | 2.8% | -5.1% | 6.7% | 8.2% | 7.3% | 6.3% | 5.8% |
| Taxes (net) | 14.0% | -50.0% | 90.0% | 21.0% | 19.0% | 12.0% | 10.0% |
| growth rate of real GDP in % | 2.9% | -8.5% | 10.2% | 9.1% | 8.2% | 6.8% | 6.1% |