
Country Report

Haiti

November 2009

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The Economist Intelligence Unit

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Haiti

November 2009

Summary

Outlook for 2010-11 The government will continue to face economic and political difficulties in 2010-11. Political stability took a hit in late October when the Senate voted to remove the prime minister, Michèle Pierre-Louis, although the newly appointed prime minister, Jean-Max Bellerive, has been quick to form a government. A better security situation and renewed international attention have improved Haiti's economic outlook, but risks remain, particularly if political volatility returns. The main political parties are feeble and tend toward populism. Political manoeuvring ahead of 2010 elections will complicate governance. The risk of social unrest and government paralysis will remain high, at least until a sustained economic recovery begins. Prospects for attracting investment have improved slightly, owing to security gains, US trade preferences and the strong support of a former US president, Bill Clinton (1993-2001). However, investors could be turned off by further instability. After a weak 2008/09 the Economist Intelligence Unit expects Haiti's GDP to grow by 2.5% in 2009/10 and 3.5% in 2010/11. Average inflation will rise in 2010 after reaching historical lows in 2009. The trade and current-account deficits will narrow slightly but remain wide.

The political scene International support has buoyed René Prével's presidency, but this will be tested by inefficiency and potentially contentious elections during the outlook period. Elections for the Senate and the Chamber of Deputies were due in November but have been postponed until some time in 2010; a presidential election is tentatively expected before the end of that year. Government effectiveness will remain limited, as party discipline is weak and legislators scramble for influence and popular support ahead of the elections.

Economic policy Debt relief will free up around US\$50m per year in the fiscal budget. This and a gradually improving economic environment will enable the government to increase spending on infrastructure and public works projects in 2010-11, despite constraints on external assistance and the rejection of additional taxes.

The domestic economy Annual inflation turned negative in May and was -4.7% in September, owing to the high base of comparison and the relatively stable currency. The gourde has continued to depreciate moderately against the US dollar.

Foreign trade and payments Export earnings grew by 11.7% year on year during the first three quarters of 2008/09, as assembly exports increased steadily. Revised figures show that remittances fell 5.5% in the first half of 2008/09 but FDI was up 20% to US\$15.4m.

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Basic data

Land area	27,750 sq km
Population	9.5m (2006 IMF estimate)
Main towns	Population in '000, 2005 (unofficial estimates)
	Port-au-Prince (capital) 2,100 (incl surrounding districts)
	Cap-Haïtien 145
	Gonaïves 120
	Les Cayes 90
Climate	Tropical
Weather in Port-au-Prince (altitude 37 metres)	Hottest month, July, 23-34°C (average daily minimum and maximum); coldest month, January, 20-31°C; driest months: December and January, 33 mm average rainfall; wettest month: May, 231 mm average rainfall
Languages	Creole and French
Measures	Metric system
Currency	1 gourde (G) = 100 centimes. An officially fixed rate of G5:US\$1 was abandoned in favour of a free-market exchange rate in 1991. Average exchange rate in 2008: G39.1:US\$1; exchange rate on November 11th 2009: G42.1:US\$1
Fiscal year	October-September
Time	5 hours behind GMT
Public holidays	January 1st and 2nd; Shrove Tuesday; Good Friday; April 14th; May 1st, 18th and Ascension Day; May 22nd; Holy Spirit; Corpus Christi; Assumption; October 8th, 17th and 24th; November 1st, 2nd and 18th; December 5th and 25th

Political structure

Official name	Republic of Haiti	
Form of government	The president, elected for a five-year term, chooses the prime minister from the largest party in the National Assembly; these two then appoint the cabinet, subject to approval by the National Assembly; the Assembly comprises a 30-member Senate (the upper house), which is elected for six-year terms in staggered elections, with one-third of seats being contested every two years, and a 99-member Chamber of Deputies (the lower house)	
Head of state	René Préval of the Lespwa coalition was inaugurated as president on May 14th 2006, following his victory in the February 7th election	
Legal system	Based on the Napoleonic Code; courts of appeal and civil courts sit in each department	
National elections	Presidential and legislative elections took place in February 2006. Second-round run-off elections for nearly all the legislative posts were held in April 2006. Elections for municipal mayors, and local government assemblies and councils, took place in December 2006. First-round elections for 12 vacant upper-house seats took place in April 2009; run-off elections for 11 seats took place in June. Additional elections for one-third of the upper house (ten seats) and all the seats in the lower house are due to take place some time in 2010. The next presidential election is set to occur before the end of 2010.	
National government	An entirely new National Assembly took office in early May 2006. The largest party in both houses is Lespwa. It currently holds a majority in the upper house	
Main political organisations	Lespwa; Fanmi Lavalas (FL); Fusion des Sociaux-Démocrates (known as Fusion); Organisation du Peuple en Lutte (OPL); Alliance Démocratique (known as Alyans); Rassemblement des Démocrates Nationaux Progressistes (RDNP); Union Nationale Chrétienne Pour la Reconstruction d'Haïti (known as Union); L'Ayiti Ann Aksyon (LAAA); Front de Reconstruction Nationale (FRN); l'Union des Citoyens Haitiens Démocrates pour le Développement et l'Éducation (UCCADE)	
	President	René Préval
	Prime minister	Jean-Max Bellerive
Ministers	Agriculture & natural resources	Joanas Gué
	Commerce & industry	Jocelyne Colimon
	Culture	Marie-Laurence Jocelyn Lassègue
	Economy & finance	Ronald Baudin
	Education	Joël Desrosiers Jean-Pierre
	Environment	Jean-Marie Claude Germain
	Foreign affairs	Marie Michéle Rey
	Haitians living abroad	Edwin Paraison
	Health	Alex Larsen
	Interior & territorial collectivities	Paul Antoine Bien-Aimé
	Justice & public security	Paul Denis
	Parliamentary affairs	Joseph Jasmin
	Planning & external co-operation	Jean-Max Bellerive
	Public works, transport & communications	Jacques Gabriel
	Social affairs	Yves Cristallin
	Tourism	Patrick Delatour
	Women's affairs	Marjory Michel
	Youth, sport & civic action	Evans Lescouflair
Central bank governor	Charles Castel	

Economic structure

Annual indicators

	2004 ^a	2005 ^a	2006 ^a	2007 ^a	2008 ^a
GDP at market prices (G bn) ^b	140.4	168.0	200.5	225.9	261.7
GDP (US\$ m) ^b	3,660	4,154	4,961	6,129	6,693
Real GDP growth (%)	-2.2	2.0	2.3	3.4	1.3
Consumer price inflation (av; %)	22.8	15.7	13.1	8.5	15.5
Consumer price inflation (end-period; %)	20.1	15.3	10.3	10.0	10.1
Population (m)	9.3	9.4	9.6	9.7 ^c	9.9 ^c
Exports of goods fob (US\$ m) ^b	376.9	459.6	495.2	522.1	490.2
Imports of goods fob (US\$ m) ^b	1,210.5	1,308.5	1,548.2	1,618.1	2,107.8
Current-account balance (US\$ m) ^b	-162.9	-356.4	-458.5	-377.7	-772.7
Foreign-exchange reserves excl gold (US\$ m)	114.4	133.1	253.1	452.0	541.4
Total external debt (US\$ bn)	1.3	1.3	1.5 ^c	1.6	1.8 ^c
Debt-service ratio, paid (%)	6.7 ^c	3.6 ^c	5.1 ^c	2.9 ^c	2.6 ^c
Exchange rate (av) G:US\$	38.35	40.45	40.41	36.86	39.11

^a Actual. ^b Fiscal year ending September 30th. ^c Economist Intelligence Unit estimates.

Origins of gross domestic product 2007/08	% of total	Components of gross domestic product 2007/08	% of total
Agriculture & fisheries	25.3	Consumption	100.1
Commerce, hotels & restaurants	30.5	Gross domestic investment	25.7
Government services	11.9	Exports of goods & services	11.1
Manufacturing	8.1	Imports of goods & services	-36.8
Total incl others	100.0	Total	100.0

Principal exports 2007/08 ^a	US\$ m	Principal imports 2007/08 ^a	US\$ m
Light manufactures	165.1	Fuels & lubricants	651.8
Essential oils	17.8	Food	616.9
Mango	10.0	Manufactured goods	242.7
Cacao	7.4	Machinery & transport equipment	187.7

Main destinations of exports 2007/08	% of total	Main origins of imports 2007/08	% of total
US	69.0	US	43.8
Dominican Republic	10.2	China	5.4
Canada	3.0	Brazil	4.1
Mexico	2.8	Colombia	2.9

^a Fiscal years ending September 30th.

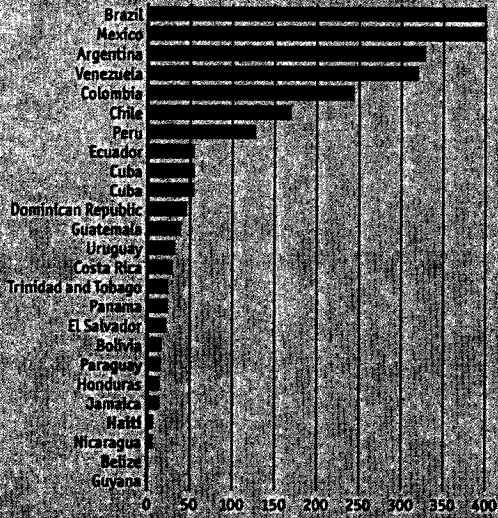
Quarterly indicators

	2007		2008			2009		
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Financial indicators								
Exchange rate G:US\$ (av)	35.8	36.7	37.7	38.9	39.9	40.1	40.8	40.4
Exchange rate G:US\$ (end-period)	36.4	36.8	38.7	39.6	40.0	39.8	40.6	41.0
Deposit rate (%; av)	5.0	3.0	1.8	2.5	2.1	2.3	2.3	1.2
Lending rate (%; av)	22.3	19.2	15.3	17.6	18.6	19.7	17.4	18.1
Savings rate (%; av)	0.3	0.4	0.3	0.5	0.5	0.4	0.4	0.3
Central bank bond rate (%;end-period)	8.9	4.0	7.0	8.0	8.0	8.0	7.1	4.0
M1 (end-period; G m)	23,029.0	23,713.3	24,096.7	24,564.6	24,965.1	27,956.3	27,075.1	26,254.4
M1 (% change, year on year)	7.6	8.0	15.0	14.0	8.4	17.9	12.4	6.9
M2 (end-period; G m)	47,210.9	47,210.9	48,376.9	49,822.3	50,254.4	53,662.2	53,332.0	52,465.3
M2 (% change, year on year)	7.4	11.1	16.2	18.3	6.4	13.7	10.2	5.3
Prices								
Consumer prices, (2005=100)	123.4	127.3	134.0	141.1	146.8	145.1	140.6	140.5
Consumer prices, (% change, year on year)	7.8	9.1	13.1	16.0	19.0	14.0	4.9	-0.5
Foreign trade (US\$ m)								
Exports fob	128.4	129.9	90.9	130.4	139.2	119.3	113.4	158.8
Imports cif	376.6	526.7	529.1	580.4	679.3	588.1	495.7	474.0
Trade balance	-248.2	-396.7	-438.1	-450.0	-540.1	-468.8	-382.3	-315.2
Foreign reserves (US\$ m)								
Reserves excl gold (end-period)	372.7	452.0	482.5	515.7	494.7	541.4	557.0	515.9

Source: IMF, International Financial Statistics.

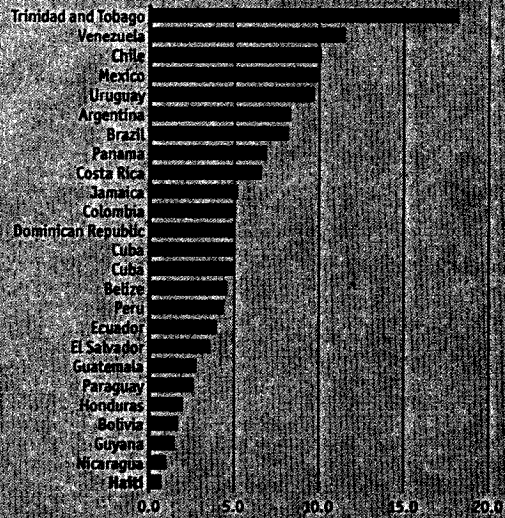
Comparative economic indicators, 2008

Gross domestic product
(US\$ bn; market exchange rates)



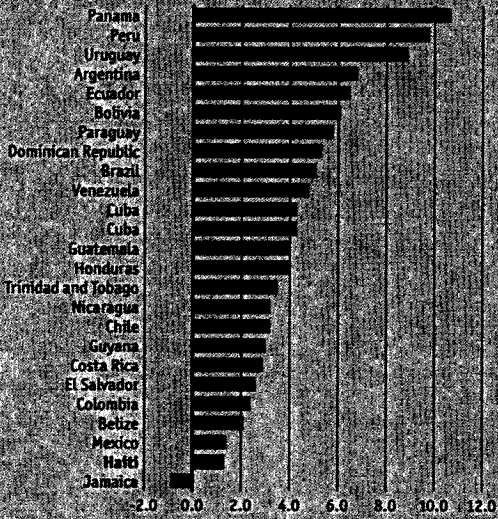
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product per head
(US\$ '000; market exchange rates)



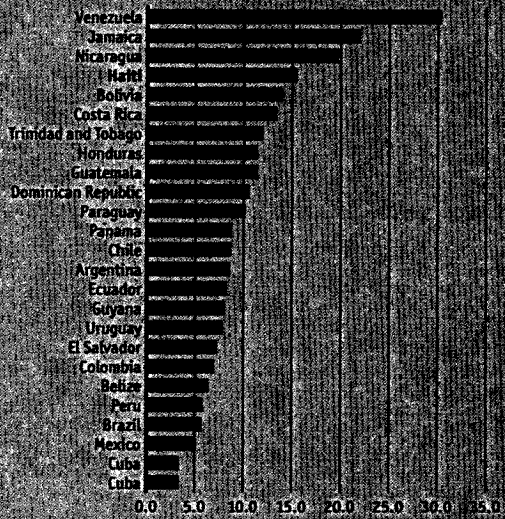
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Consumer prices
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Outlook for 2010-11

Political outlook

Domestic politics A vote in the Senate (the upper house) in late October to remove the prime minister, Michèle Pierre-Louis, and her cabinet surprised both local residents and the international community and highlighted the still-volatile nature of Haitian politics. Ms Pierre-Louis's ouster is likely to have had more to do with political manoeuvring ahead of 2010 elections than with her job performance. The president, René Préval of the Lespwa party, was quick to nominate Jean-Max Bellerive, the current minister for planning and external co-operation, as the new prime minister. The confirmation of Mr Bellerive and his cabinet (he retained 10 of the 18 ministers from the previous government) by the legislature was unanimous and swift. Ms Pierre-Louis's sacking, initiated by senators from the ruling Lespwa party, consolidates Lespwa's control of government while removing a potential political rival (Ms Pierre-Louis is an independent) but will set back recent efforts, by both the authorities and other governments and international agencies, to portray Haiti as more politically stable. The Economist Intelligence Unit expects the current governing programme, which is focused on the need to co-ordinate reconstruction and development efforts and stimulate economic growth, to continue until elections in late 2010 (Mr Bellerive was an architect of the poverty reduction strategy paper which has underpinned the government's economic approach). But a turn toward populism is possible as various political factions battle for influence and popular support while attempting to establish systems of patronage. Pre-election manoeuvring will create difficulties for governance. The administration's ability to generate employment, upgrade social infrastructure and reduce poverty will remain weak until pledged international funding and investment are forthcoming.

The security situation has vastly improved but remains precarious; disorder could be sparked by political discontent or an intensification of economic hardship. Discontent over the government's failure to improve living conditions sufficiently will remain high, as will the risk of social unrest and government paralysis, at least until a sustained economic recovery takes hold. Nevertheless, we assume that the presence of international peacekeepers from the Mission des Nations Unies pour la Stabilisation en Haïti (Minustah, the UN Stabilisation Mission in Haiti), along with that of the Police Nationale d'Haïti (PNH, the national police force), will be sufficient to maintain control.

International relations The Haitian government will remain heavily reliant on multilateral and bilateral aid flows in 2010-11. International support from increased strongly during Ms Pierre-Louis's time in office and should continue, although relations with the new government will likely be more cautious. The involvement of a former US president, Bill Clinton (1993-2001), who serves as the UN's special envoy to Haiti, will help keep attention on Haiti's economic development needs and help raise aid funds from key governments and development agencies. Mr Préval will retain the backing of foreign governments and multilateral agencies, but sufficient financial assistance from abroad will be

slow to arrive. Political uncertainty, especially surrounding 2010 elections, will act as a constraint on external support during the outlook period.

A UN presence to help provide security will be needed for several years, at least through the transfer of power to the next elected government in 2010. The mandate of the Minustah stabilisation force has been extended for an additional year, to October 2010, and given the current state of affairs an additional extension is likely for 2011. Minustah's role has been expanded to provide support for training and reform of the police and to help control the maritime and land border with the Dominican Republic. Tensions with the Dominican Republic, centred on the perennial issues of the illegal migration of Haitians and cross-border trade, will continue in the outlook period and intensify as a result of the economic weakening in both countries. The Caribbean Community (Caricom, to which Haiti was readmitted in July 2006) is taking steps to facilitate Haiti's integration in the region, but the process will be slow. Relations with the US will remain important, and bilateral trade should increase under the Haitian Hemispheric Opportunity through Partnership Encouragement Act (HOPE II), which provides duty-free access to the US market for Haitian textiles.

Economic policy outlook

Policy trends The government will continue to rely heavily on international assistance to support its economic agenda throughout the outlook period but will face increased pressures to step up its efforts to create jobs and increase investment. Substantial debt relief (an estimated US\$1.4bn from multilateral and bilateral creditors) under the IMF and World Bank's heavily indebted poor countries (HIPC) initiative, finalised in June/July, will save the government around US\$50m (almost 3% of the 2008 expenditure) per year in repayments. The Haitian authorities will continue to co-operate with the IMF to meet policy goals set out in a three-year poverty reduction and growth facility (PRGF) agreed with the Fund in November 2006 and extended until January 2010. We expect co-operation to continue during 2010-11, but it is not yet clear if the PRGF will be extended or a new agreement discussed. Objectives include maintaining broadly orthodox fiscal and monetary policies, and implementation of a host of structural reforms aimed at increasing tax income, raising social spending, strengthening governance, increasing economic transparency and improving Haiti's overall investment climate.

The longer-term strategies outlined in the government's growth promotion and poverty reduction strategy paper (PRSP) in 2007 have been overtaken by the short-term needs to address the damage from the hurricanes of late 2008 and, amid the severe US recession, stimulate domestic economic activity in order to prevent a worsening of the already poor living standards of most Haitians. As a result of the shift in priorities, and some diversion of aid funding, structural reforms aimed at improving fiscal revenue are likely to be set back further. The state ambitiously hopes to raise the level of tax revenue to 15% of GDP (from around 11% in recent years) gradually to reduce dependency on donor financing. Efforts will be made in the areas of collecting arrears, tackling tax evasion, reducing exemptions, and reforming and modernising the Direction

Générale des Impôts (DGI, the internal revenue agency) and the Administration Générale des Douanes (AGD, the national customs administration). However, in the current political and economic environment, such goals will prove difficult to achieve. Restructuring of state enterprises to reduce their burden on the public finances has been mooted. Negotiations to transfer Télécommunications d'Haïti (Téléco, the state telecommunications company) and the Banque Nationale de Crédit (a state-owned bank) to the private sector, are still ongoing. It is unclear when these will be completed, but we expect a deal will be announced before the end of 2011. Given the contentious nature of the issue, we do not foresee the privatisation of these entities in the short term.

The effectiveness and success of the new government will depend on its ability to produce tangible short-term results, such as the creation of jobs and improvement of public services. Efforts will intensify to promote private-sector activity by increasing access to credit and improving infrastructure. However, a renewed period of political instability cannot be ruled out, and this would hamper both commercial banks' willingness to extend loans and the government's ability to move forward with large-scale projects. Expansion of credit will be constrained by high interest rates and a large informal sector. Recent measures, such as the US\$4m equity investment by the International Finance Corporation (IFC) in a local bank to facilitate access to financing for micro, small and medium enterprises, will attempt to address this, but more foreign support will likely be needed.

Economic forecast

International assumptions

International assumptions summary

(% unless otherwise indicated)

	2008	2009	2010	2011
Real GDP growth				
World	2.8	-1.3	3.2	3.4
US	0.4	-2.4	2.4	1.1
EU27	0.7	-4.2	0.7	1.2
Exchange rates				
¥:US\$	103.4	93.8	90.0	89.0
US\$:€	1.470	1.398	1.423	1.398
SDR:US\$	0.629	0.645	0.637	0.640
Financial indicators				
US\$ 3-month commercial paper rate	2.18	0.25	0.55	1.50
US\$ 3-month Libor	2.91	0.99	1.29	2.24
Commodity prices				
Oil (West Texas Intermediate; US\$/b)	99.6	61.9	74.7	70.7
Natural gas (US; US\$/m Btu)	8.9	3.7	4.1	4.8
Total non-oil commodities (% change in US\$ terms)	13.1	-23.5	10.7	3.1
Industrial raw materials (% change in US\$ terms)	-5.1	-28.8	18.6	6.0

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

The global economic picture continues to improve. Global economic activity began to pick up steam during the second half of 2009, on the back of fading inventory reductions and aggressive fiscal and monetary stimulus programmes. As a result, we have revised up our forecast for US GDP growth in 2010, to 2.4%, compared with 1.4% previously. We maintain, however, our assumption for US

weakening in 2011 as government stimulus fades. The recovery in the US, Haiti's main trading and investment partner and the source of most of the remittances sent home by Haitian nationals living abroad, will remain weak by historical standards and limit Haiti's economic prospects in the outlook period. Preferential access to the US market for Haiti's garment assembly industry has been enhanced under the HOPE II Act and will provide some stimulus to Haiti's recovery, although this will be limited by the weak rebound in US demand.

Haiti will remain heavily reliant on imports of oil, and pressure on its external accounts will increase as commodity and import prices rise. Electricity generation and inland transport, which are dependent on imported fuel, will remain costly in the outlook period (but less so than during 2008). Prices for West Texas Intermediate crude are now forecast to average US\$74.7/barrel (previously US\$59.4/b) in 2010 before dropping to US\$70.7/b (previously US\$71.4/b) in 2011. Participation in Venezuela's PetroCaribe initiative has provided Haiti with preferential financing terms for Venezuelan oil and will continue to reduce pressure on import spending.

Economic growth

Despite lapses in political stability and still-weak external conditions, Haiti's economic outlook has improved as a result of better security, substantial debt relief and the more active participation of international organisations and private-sector investors. Nevertheless, in order to solidify recent gains and prevent a return to social unrest and insecurity, Haiti desperately needs to foment more rapid economic growth, improve social indicators and create jobs. After a difficult fiscal year 2008/09, in light of the hurricane damage—estimated at US\$1bn—and the US recession, we expect the economy to grow by 2.5% in 2009/10 and 3.5% in 2010/11. The economy will be bolstered by stronger inflows of remittances and foreign investment, as well as increased activity in the garment assembly sector. Ongoing international development aid will provide significant support, but the economic growth needed to reduce poverty and improve social indicators will have to come from investment and increased consumption. However, risks are weighted on the downside, and Haiti's economic performance will be worse than forecast if domestic security deteriorates, or there is a new surge of political or legislative instability, or both, that impedes the inflow of development assistance and foreign investment.

High US unemployment (at 10.2% as of October) will have an impact on inflows of family remittances, which represented around 20% of GDP in 2007/08 and are a critical support to consumer spending. Remittances were down by 5.5% year on year in October-March (the latest data available) but we expect these to rebound moderately in 2010-11, to 19.8% of GDP, and to support private consumption growth. We expect real exports—which will mostly comprise garments assembled for the US market under the HOPE II preferential access programme—to rise during the outlook period, although the still-weak US economy will limit the strength of this expansion. Assembly-sector growth will depend on the levels (and timeliness) of private investment as well as an increase in textile contracts. Haiti's trade accounts will remain in deficit in 2010-11 but these will narrow slightly as real exports rise slightly faster than imports.

Agricultural production will remain dependent on weather conditions in the outlook period. Significant damage from hurricanes and storms hit farm output in both 2007/08 and 2008/09. We are forecasting a slight recovery in 2009/10 (barring any significant weather damage), driven by international and domestic support for the development of local food production. Industry has suffered owing to a lack of investment and reduced global demand, although we expect a moderate rebound in the next two years. A sustained period of GDP growth of 3% or above per year would be needed to have a significant impact on Haiti's high poverty levels and aid-dependency. Faster growth is not possible without a more effective and urgent implementation of a capital investment and employment creation programme, and a continued improvement in security. Such conditions will only emerge with time and will be dependent on sustained economic and political stability.

Inflation and the exchange rate

We expect that consumer prices will rise at a relatively stable annual rate of 6.2% in 2010-11, after reaching record lows in 2009 owing to comparatively lower food and fuel prices and the disinflationary effect of a relatively stable exchange rate. Annual inflation turned negative in May and fell to -4.7% in September (mainly owing to a high base of comparison), however, prices have been rising on a monthly basis since April on the back of an increase in international oil prices. We expect this to continue in 2010, although—barring unexpected supply shocks—still-weak domestic and global demand and a stable exchange rate will prevent inflation climbing back to double-digit levels. However, if the currency depreciates faster than forecast, inflationary pressures will increase.

The Haitian gourde has maintained a trend of gradual nominal depreciation during 2009, with the exchange rate weakening from G39.8:US\$1 at end-2008 to G41.6:US\$1 in September. We forecast that the gourde will depreciate at a similar pace in 2010, to end the year at G43.4:US\$1 before generally stabilising in 2011, as the external accounts improve and economic growth picks up. However, a sharp increase in the current-account deficit (potentially set off by a spike in import prices) and a rise in uncertainty would lead to a sharper-than-expected nominal depreciation of the currency.

Foreign trade and payments

Haiti's export sector has been suffering from a contraction in import demand in the US, its primary export market, but the situation appears to have improved in the April-June quarter (when export earnings were up 22% year on year) and should pick up further in the outlook period as the US economy recovers and the assembly sector is better able to take advantage of trade preferences. Textile exports will continue to face challenges, although exports will increase in 2010-11 as a result of the HOPE II Act, which has given Haiti expanded, duty-free access to the US market for textile products until 2018. Despite a continued heavy reliance on imports—reflected in a highly unfavourable export/import ratio—we expect a reduction in the trade deficit from 31% of GDP in 2008/09 to an average of 21.6% in the forecast period oil prices are down from historic highs and exports pick up thanks to HOPE II. After falling by 6% in 2007/08, we expect export earnings to grow by an annual average of 12.3% in 2008/09-2010/11, while imports will rise by an average of just 2.4% during the period (which includes a contraction in 2008/09).

Environmental degradation, devastation from recent hurricanes and under-investment in agriculture will constrain food output and keep it vulnerable to natural risks. These factors, together with steady population growth, will sustain Haiti's food import dependency, despite an increase in agricultural development programmes during the forecast period.

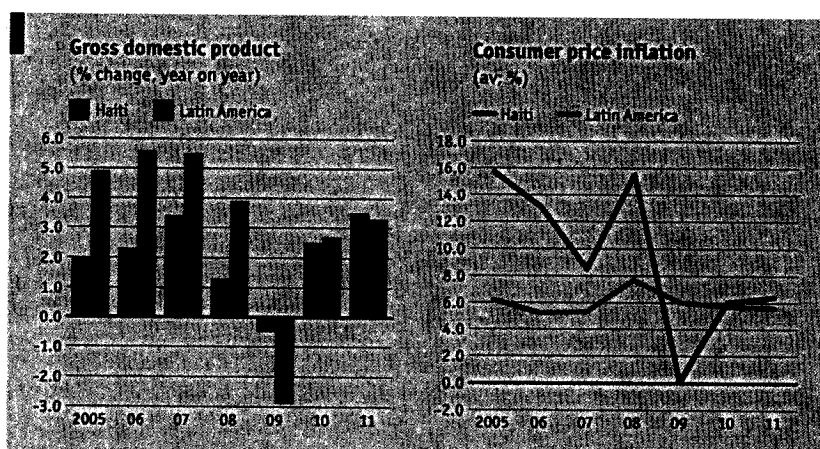
External grants increased by almost 40% during the first half of this fiscal year and will help support the current transfers surplus in the outlook period. The inflow of workers' remittances will recover only gradually after contracting in 2008/09, and will be comparatively weak owing to high unemployment in the US. The combination of a steadily increasing current transfers surplus and narrower trade deficits (compared with 2008) will reduce the current-account deficit from 11.5% of GDP in 2007/08 to 6% of GDP in 2010/11. Haiti's balance-of-payments position will remain relatively weak in the outlook period, although the financing requirement will come down to more manageable levels and foreign direct investment (FDI) should rise from recent lows.

Forecast summary

(% unless otherwise indicated)

	2008 ^a	2009 ^b	2010 ^c	2011 ^c
Real GDP growth ^d	1.3	2.0	2.5	3.5
Gross agricultural production growth	-5.0	-3.0	2.0	2.5
Consumer price inflation (av)	15.5	0.1	6.0	6.4
Consumer price inflation (end-period)	10.1	2.6	6.5	7.2
Average lending rate	17.8	17.7	17.8	18.0
Central government balance (% of GDP) ^d	-2.9 ^b	-7.5	-7.3	-3.4
Exports of goods fob (US\$ m) ^d	490.2	549.2	629.4	694.2
Imports of goods fob (US\$ m) ^d	2,107.8	1,917.2	2,098.6	2,240.0
Current-account balance (US\$ m) ^d	-772.7	-429.1	-464.5	-436.6
Current-account balance (% of GDP) ^d	-11.5	-6.4	-6.8	-6.0
External debt (year-end; US\$ bn)	1.8 ^b	0.5	0.7	0.8
Exchange rate G:US\$ (av)	39.1	41.4	42.9	43.6
Exchange rate G:US\$ (end-period)	39.8	42.4	43.4	43.1

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts. ^d Fiscal year ending September 30th.



The political scene

Pierre-Louis government removed by Senate vote

A rare period of political stability was brought to an abrupt end during the last days of October when the Senate (the upper house) passed a vote of no confidence in the prime minister, Michèle Pierre-Louis, removing her and her cabinet of ministers from office after less than 14 months in government. The demise of the Pierre-Louis government is a set-back for the recent efforts, by both the authorities and the international community, to portray the country as much more politically stable, following years of turmoil and social unrest. Both the US Embassy in the capital, Port-au-Prince, and the UN peacekeeping mission issued statements immediately after the Senate vote expressing concern that the fall of the government would damage attempts to persuade foreign investors to take an interest in opportunities in Haiti. The president, René Préval, was however quick to nominate a successor, Jean-Max Bellerive, the minister for planning and external co-operation, who was approved unanimously and swiftly by the legislature.

Removal is seen as politically motivated

The no-confidence vote was supported by 18 of the 30 senators, nearly all of them members of the ruling Lespwa party. The ostensible reason given for the vote was that the prime minister had failed to provide satisfactory answers to questions about the government's use of US\$197m for relief and repairs to infrastructure carried out in the year since the hurricanes disaster of August and September 2008. The amount had been received through the Venezuelan-sponsored PetroCaribe programme, which provides Haiti with oil at preferential rates. However some senators who voted to oust the prime minister stated that their problem with her administration was more general, claiming the government was not doing enough to help alleviate poverty, or taking effective measures to revive the economy. Despite these claims, it is more likely that the move against Ms Pierre-Louis was politically motivated, reflecting an ongoing re-alignment of forces ahead of elections for a new National Assembly and president in 2010. The main political parties in Haiti are loosely organised, have few members and little or no defining ideology, except populism. Lespwa—newly invigorated in the Senate following the arrival of the six senators elected earlier this year (August 2009, The political scene)—is attempting to expand and form an identity while seeking to build alliances with factions of the Fanmi Lavalas (FL) party. A former prime minister, Jacques-Edouard Alexis, who was himself ousted from office by the Senate in April 2008 (May 2008, The political scene), is believed to be positioning himself as a possible candidate for the presidency under the Lespwa banner.

The suggestion that the ouster of Ms Pierre-Louis is part of a Lespwa pre-electoral strategy, rather than the expression of a demand for the government to take a new economic direction, was strengthened when Mr Préval quickly announced that he was nominating Mr Bellerive as the new prime minister. Mr Bellerive has held the planning and external co-operation post since his appointment at the advent of the Alexis government in 2006. He is one of the architects of the poverty reduction strategy paper that has underpinned the Pierre-Louis government's economic policies. Mr Bellerive is also close to a number of leading members of the FL, having served first as the chief-of-staff of

a former FL prime minister, Jean-Marie Cherestal, and then as a leading advisor of the last FL prime minister, Yvon Neptune, in 2001-04, when Jean-Bertrand Aristide was president. He is a member of the Mouvement pour l'Instauration de la Democratie en Haiti (MIDH), a centrist party headed by the former World Bank economist and politician, Marc Bazin. Mr Bazin stood as the FL candidate for president in the 2006 election, after the MIDH forged an electoral alliance with a faction of the FL.

Elections for parliament and president due before end-2010

Elections for the Chamber of Deputies (the lower house), which were due in November, will not take place until an unspecified date in 2010. In mid-September Mr Préval concluded an agreement with the deputies to extend their mandate until May 2010. In mid-October he dismissed the much-criticised electoral council, and appointed a new nine-person body tasked with organising the Chamber of Deputy elections. The reappointment of four of the members of the previous council prompted leaders of numerous political parties to express doubts about the prospects for well-organised and impartial elections. Elections for the presidency, and a further third of the Senate, are also due before the end of 2010.

UN extends mission for another year

On October 13th the UN Security Council extended the Mission des Nations Unies pour la Stabilisation en Haïti (Minustah, the UN Stabilisation Mission in Haiti) for another year, saying that despite recent progress the situation in Haiti continued to constitute a threat to regional peace and security. In one of the few changes to the existing mandate, the number of soldiers was reduced by 120 to 6,940, and the number of police increased by the same number to total 2,211. The change was made to help Minustah support the Police Nationale d'Haïti (PNH) with crowd control. Ahead of the UN vote to extend the Minustah mission, in mid-September the foreign ministers of Brazil and France made a joint visit to Haiti. France's minister of foreign affairs, Bernard Kouchner, said he believed that Minustah would remain in Haiti at least until the election for a new president was concluded—perhaps until early 2011 (although another extension of its mandate is likely).

Continued tensions with the Dominican Republic

Perennial tensions between Haiti and the neighbouring Dominican Republic took a turn for the worse in late October when media reported that the bodies of four Haitians had been found near the Dominican border town of Jimaní. The men had been shot and beheaded, and their bodies burnt in a charcoal pit. A fifth man was shot but survived. The alleged assailants attacked the Haitians as they were burning trees to produce charcoal. The incident followed a widely reported eviction of hundreds of Haitians who had squatted on part of a nature reserve in another part of the Dominican Republic close to the border. Dominicans are increasingly concerned that the number of Haitians crossing the border to cut trees and make charcoal will worsen the deforestation of the border region. In Haiti, news of the murder of the four charcoal-makers prompted anti-Dominican protests that blocked the road leading from the capital to the border crossing at Malpasse-Jimaní.

Economic policy

Policy to remain dependent on aid disbursement

The government's economic policy approach is unlikely to change with the advent of a new administration, and implementation will continue to be heavily dependent on the disbursement of promised external assistance. The incoming prime minister and his administration will seek to consolidate relations with the main donors, and especially with the UN special envoy to Haiti, a former US president, Bill Clinton (1993-2001). His advocacy efforts in favour of international support, and particularly for foreign direct investment (FDI), are regarded as key to plans for the revitalisation of the country's economy. In early September Mr Clinton echoed the concerns of the government when, following an address to the UN Security Council in New York, he told reporters that although the government had honoured its commitment to stabilise the country, donor nations had failed to deliver the aid they had pledged earlier in the year. Around US\$350m was pledged at a donors' conference on Haiti held in Washington DC in April, but according to Mr Clinton only US\$21m had actually been disbursed. Mr Clinton added that he hoped to boost private investment in Haiti, but that private investment projects were dependent on donor nations living up to their aid commitments so that the Haitian authorities could continue to improve the country's infrastructure.

Mr Clinton promotes investment opportunities

Mr Clinton's efforts to attract private investment continued in early October when he attended a two-day investment conference organised by the Inter-American Development Bank (IDB) in Port-au-Prince. The conference attracted 600 participants, at least 200 of them foreign investors. Mr Clinton and other speakers focused on the potential for investment in the garment assembly, food processing and tourism sectors. The conference also aimed to promote a more positive image of the country, and dispel the perceptions created by years of media coverage highlighting political violence and natural disasters. No investment deals were signed as a result of the conference but Haitian officials were optimistic that, in time, it would result in foreign investment, joint ventures and, importantly, new jobs.

The joint government-UN drive to promote Haiti's garment assembly sector in the context of the preferential access provided by the Haitian Hemispheric Opportunity through Partnership Encouragement Act (HOPE II, which provides duty-free access to the US market for Haitian textiles) has been hindered by the global economic slowdown and US recession and has yet to create significant employment opportunities. However, there are signs of interest, and in late September a group of Brazilian textile entrepreneurs inspected factory facilities in Port-au-Prince and the free-trade zone in the north-eastern town of Ouanaminthe. Another new initiative designed to take advantage of the HOPE II legislation was highlighted immediately after the investors' conference. Mr Clinton staged a media photo opportunity on the site of a planned new industrial park near the notorious slum area of Cité Soleil, on the outskirts of the capital. The West Indies Free Zone will be jointly funded by the WIN Group (a Haiti-based company held by the Mevs family) and the Soros Economic Development Fund (created by a Hungarian billionaire philanthropist, George Soros). The initial phase of construction is scheduled to begin before the end of

this year, and is due for completion by the end of 2012. The 60-acre site is expected to provide facilities for over 40 factories, which could employ around 25,000 workers.

Compromise is reached on minimum wages increase

The authorities' aim to attract foreign investment to the garment assembly sector received a boost in August when the National Assembly voted in favour of Mr Préval's compromise minimum daily wage. Following months of street protests by students and, belatedly, workers from the garment assembly sector itself in support of the National Assembly's original decision to raise the wage from 70 to 200 gourdes a day (from approximately US\$1.70 to US\$4.90), legislators finally backed the president's compromise of G125 (US\$3.05) a day for garment assembly workers and G200 for other workers. Mr Préval had waged a strong campaign warning that raising the wage of garment assembly workers to G200 would deter foreign investment in the sector.

2009/10 budget is finally approved

The budget for fiscal year 2009/10 was finally passed into law on October 15th following some last-minute wrangling over proposed allocations to the political parties and a government liaison office working with the UN's envoy, Mr Clinton. The final budget, which envisions a total of G88bn (US\$2.1bn) in combined spending and revenue (no specific breakdown is available), included an allocation of G55m (US\$1.3m) for the institutional strengthening of the main political parties and G22m for work in support of Mr Clinton. The latter amount that was to be administered by a government liaison office in the US was at the last minute rerouted to the Ministry of Foreign Affairs. The main priorities of the budget remain justice, security, infrastructure and agriculture.

The domestic economy

Food insecurity remains high

According to the September report of the Coordination Nationale Sécurité Alimentaire (CNSA, the national food security foundation), the situation of the country's food-insecure population has not changed. As in June the number of people lacking food security was estimated at around 1.9m people (or nearly 20% of the population). Seeing this stability as a relative success, the report cites three factors explaining why the figure has not increased: a successful harvest of spring crops following abundant rainfall; stable prices of both locally-produced and imported food; and a boost in household incomes provided by public-works programmes to rehabilitate irrigation and road networks. At the same time, however, the report points out that the number of those at risk remains very high and that food insecurity increased in certain parts of the country, particularly related to the effects of a drought in the north-west and of Teschen disease affecting the pig population in the south.

Deflation continues while the exchange rate is stable

After rising to a peak of 19.8% in September 2008, annual consumer price inflation (CPI) has been on a sharp decline since then, largely as a consequence of the fall in international food and fuel prices. Annual inflation declined from 10.1% in December to 1% in March, and was -1% in June. It continued to fall in the third quarter of 2009, hitting -2.5% in July, -2.8% in August and -4.7% in September, a historical low. Deflation has been driven by falls in prices for transport, owing to much lower petrol prices during the period, and for locally-

produced food, the production of which has been much stronger than during 2008. The rate of inflation has also been helped by the stability of the gourde, which stood at around G40:US\$1 at the end of 2008 and has since depreciated only gradually, to G41.3:US\$1 in July, G41.5:US\$1 in August and G41.6:US\$1 in September.

Consumer price inflation

(% change)

	2008		2009	
	Monthly	Annual	Monthly	Annual
Jan	1.5	11.0	-0.4	8.1
Feb	1.6	11.9	-0.4	5.9
Mar	4.5	16.3	-0.3	1.0
Apr	1.1	16.5	0.1	0.1
May	0.5	15.6	0.1	-0.4
Jun	1.0	15.8	0.3	-1.0
Jul	1.7	18.3	0.2	-2.5
Aug	0.9	18.8	0.6	-2.8
Sep	2.6	19.8	0.6	-4.7
Oct	-0.9	18.0	-	-
Nov	-2.4	13.8	-	-
Dec	-2.2	10.1	-	-

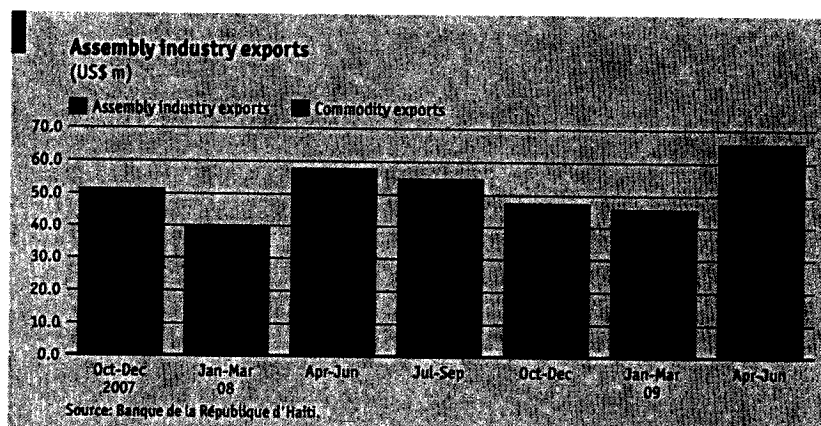
Source: Banque de la République d'Haïti.

A series of reductions in domestic fuel prices in late 2008 resulted from the declines in international oil prices, but fluctuations on the international market since the half-way point of 2009 have obliged the authorities to adjust local prices as well. After falling gradually in the year the prices of a gallon of higher and lower grade petrol and diesel and were raised by an average of 13% in late August. This was one of the reasons for the monthly price rise (of 0.6%) in September and is likely to induce a return to annual inflation before the end of the year.

Foreign trade and payments

Total export earnings increase 22% in third quarter

According to data from the Banque de la République d'Haïti (the central bank), export earnings surged during the third quarter of 2008/09 (April-June) by 22% year on year, as assembly plant goods (nearly all garments assembled for re-export to the US) grew by 30% year on year. This puts earnings from exports in the first three-quarters of the fiscal year at US\$392m, up 12% compared with the year-earlier period. Exports of assembly goods represent the largest export item in terms of foreign-exchange earnings and have accounted for the largest single increase in absolute terms this year. These earnings reached US\$54m during April-June, representing the highest quarterly earnings to date, and are set to expand further as US demand recovers gradually.



This marked growth reflects the delayed impact of the Haitian Hemispheric Opportunity through Partnership Encouragement Act (HOPE II, which provides duty-free access to the US market for Haitian textiles), passed by the US Congress in June 2008, which gives preferential access to the US market for garments assembled in Haiti. By contrast, the performance of the top commodity export earners—coffee, cacao, essential oils and mangoes—was weak, reflecting reduced demand as a result of the ongoing global recession.

A 16% year-on-year decline in total import spending during the third quarter, mainly as a consequence of the slump in international oil prices, helped narrow the trade deficit to US\$1.06bn in October-June. The two largest import segments, oil and derivatives and food imports, were responsible for most of the decline. Oil and derivatives imports fell by 48% year on year in the third quarter while food imports were down 7% (both segments also contracted annually in October-June).

Trade in goods

(US\$ m; Oct-Jun)

	2008/09	2009/10	% change
Exports (fob)^a	350.6	391.5	11.7
Coffee	3.2	2.2	-31.0
Cocoa	6.6	6.3	-5.1
Essential oils	14.9	8.3	-44.3
Mangoes	8.0	6.8	-14.8
Light industry	1.8	2.2	20.1
Assembly industry exports	116.2	135.4	16.5
Freight adjustments	181.7	211.7	16.5
Other	18.1	18.6	2.7

Trade in goods

(US\$ m; Oct-Jun)

	2008/09	2009/10	% change
Imports (fob)	1,487.7	1,451.5	-2.4
Food	375.6	354.7	-5.6
Beverages & tobacco	19.0	20.6	8.5
Oil & derivatives	438.2	275.9	-37.0
Manufactured goods	173.0	185.2	7.0
Machinery & transport material	149.0	161.2	8.2
Chemical goods	56.3	65.7	16.8
Other	276.6	388.2	40.3
Trade balance	-1,137.1	-1,060.0	-6.8

^a Includes re-exports of imported inputs used in assembly industry.

Source: Banque de la République d'Haïti.