

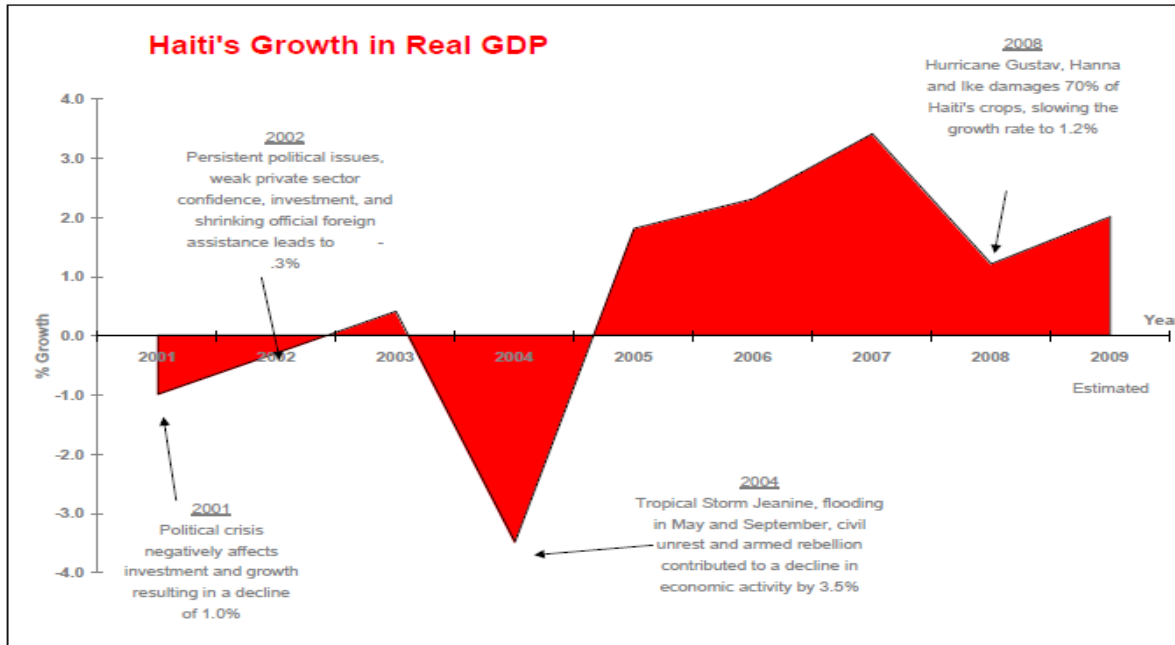


Haiti's Loveless Spell...

Barely two weeks into the New Year, Haiti was hit by a massive earthquake with devastating effects in its capital, Port-au-Prince. The images depicting colossal destruction and the plight of those alive have tugged at the heart of many, prompting various types of institutions and even entertainment icons such as Oprah Winfrey to provide any assistance possible. For Haiti, however, this has not been the first of its troubles. Haiti has been ravaged by the effects of natural disasters time and time again and plagued by political instability, earning the rank of seventh highest in terms of political risk out of 165 countries, according to the Economic Intelligence Unit. Despite these circumstances, Haiti has been trying to break what seems to be its loveless spell.

Like almost all other Caribbean countries, Haiti's history dates back to the fifteenth century arrival of Christopher Columbus but more importantly, the years following proved difficult for Haiti. Specifically, as the country changed leadership continuously with some estimates suggesting that a change in government occurred every three years compared to a typical term in presidential office of five years. Acts of violence would usually prompt a change in government, but in 1996, approximately 192 years after Haiti gained independence from France, the first transition between two democratically elected presidents was seen. Haiti has also been the location for numerous natural disasters, the first of which was an earthquake that took place as early as 1770. This earthquake measured 7.5 on the Richter scale and also caused a Tsunami. Other earthquakes took place in 1842 and 1946. Some years later Hurricane George in 1998 destroyed almost 80% of all crops in the country. Haiti was then hit twice in 2004 by heavy flooding and then by Hurricanes Gustav, Hanna and Ike in 2008. Indeed, Haiti has suffered continuous damage despite barely recovering from the traumas before. The latest incident is of course the January 12, 2010 7.0 earthquake. Despite all of the negative external shocks, Haiti's economic growth has been able to show mostly positive signs, averaging 0.54% over the period 2001 to 2008 (refer to Figure 1).

Figure 1: Haiti's Growth in Real GDP



Source: International Monetary Fund

Prior to the 12 January earthquake, estimates were for a 3.9% growth in 2010. In the medium term, recovery efforts in reconstruction can maintain economic activity but longer term sustainable growth will depend on the quality of infrastructure and spending.

Despite attempts to push economic growth along over the years, the government has managed to increase the quality of life but failed to do so to adequate levels. The United Nations Human Development Index ranks Haiti 149th out of 182 countries. On a further note, to emphasize the state of affairs in Haiti, the per capita income (USD 790) was the lowest compared to the other 34 countries in the Americas. Access to basic needs and education remains a concern for most inhabitants in Haiti. Going forward, sustained improvements in standard of living are less likely in the short term but in the longer term, if this renewed international interest in Haiti is sustained and the government uses the support to its advantage, quality of life can be improved substantially.

On a more positive note, inflation has been lowered gradually from double digit figures of 28% in 2004 to 3.5% in 2009. The decline in 2009 owed to lower international oil prices stemming from concerns about a slowing global economy. Reported inflation remains well below the IMF mandate of 9%. The Central Bank of Haiti (also known as the BHR) has in the past pursued generally conservative monetary policies, and it employed high cash-reserve ratios in commercial banks as the key policy tool to regulate the money supply. In an effort to increase the dynamism of the economy, the BRH sought to inject more credit into the private sector, particularly for long-term uses. In 2009, the BHR had advocated to the International Monetary Fund (IMF) to monitor inflationary concerns stemming from an increase in the minimum wage and an upward trend in oil prices. Given better global growth prospects, there is a case for higher trending commodity prices in 2010. The effects on inflation could be exacerbated by internal supply constraints for necessities in light of the recent earthquake.

The fiscal deficit worsened in 2009 to approximately 5.3% of GDP compared to 2.4% in 2008. This has been of some concern to the government as IMF requires them to stay below a 4.4% deficit threshold. The increase in the deficit has been attributable to a decline in government revenues. Given that 2010 was expected to be an election year but there is the possibility that it may be postponed in light of the current events, government spending is expected to remain relatively high as they seek to rebuild infrastructure and stimulate economic activity in the coming months. Overall, the outlook for the fiscal deficit is bleak.

Over the last few years, Haiti has maintained a relatively small current account deficit averaging -2.2% of GDP for the period 2001 to 2008. In 2008, however, the deficit reached a high of 4.3% as escalation of oil prices in 2008 (reaching a high of \$145.29) increased Haiti's import bill. In line with expectations of an upward trend in oil prices in 2010, the current account deficit has the potential to worsen as the year progresses.

Last but not least, social unrest has reignited as shortages on food supplies and shelter have led to stealing and violence. If this continues alongside any politically affiliated violence, development can be severely hindered. Though immense international assistance such as USD 114 million from IMF has been promised, planning is necessary in order to efficiently use these resources. Whether the Haitian government is equipped to do so is another topic for discussion.

Though the final figures are not yet in, current estimates have put this earthquake as the second largest, according to number of fatalities, in recording history. This translates into less manpower for an economy that is already suffering from a massive brain drain. The effects on Haiti will more than likely be amplified due to the country's previous economic status; hence the reason for the bleak economic outlook but with the committed assistance of multilaterals and major players like the US, there is hope for Haiti and always the possibility of breaking its loveless spell.

FINANCIAL & ECONOMIC INDICATORS

As at 28 January, 2010

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	89.92	90.43
Euro	1.40	1.41
Jamaica	89.67	89.67
Guyana	204.70	204.70

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	73.64	76.08
Natural Gas (US\$/mmbtu)	5.33	5.52
Gold (US\$/Troy Ounce)	1,087.10	1,093.95

Eurobond Indices (As at 28-01-10)

Lehman Brothers Global Aggregate Index (Return % YTD)	0.58
JP Morgan EMBI+ (Basis points)	301
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	1.00

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	0.13	0.10
Euro Zone	1.00	1.00
Japan	0.10	0.11
Brazil	8.75	8.75
Trinidad	5.00	5.25
Jamaica	12.50	12.50
Barbados	2.50	2.50

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.07	0.04
US 10-Yr Treasury	3.64	3.59
3-month UK Libor	0.62	0.62
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	9.17	9.17
TT 90-day T-Bill	1.36	1.34
Jamaica 90-day T-Bill	15.34	15.34
Barbados 90-day T-Bill	3.40	3.40

Sources: Bloomberg, J.P. Morgan, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com

DISCLAIMER

The information contained in this documentation is for your information only. All information contained in this documentation has been obtained from and is based on sources, including but not limited to, newspaper and magazine articles that CMMB believes to be accurate and reliable. However such information, facts, calculations, methodology, assumptions and estimates contained in this documentation have not been verified by us. All opinions and estimates constitute the Author's judgment as of the date of the documentation which are subject to change; however neither its accuracy and completeness nor the opinions based thereon are guaranteed. As such, no warranty, express or implied, as to the accuracy, timeliness or completeness of this documentation is given or made by CMMB in any form whatsoever. Consequently, CMMB assumes no liability for the accompanying information, which is being provided to you solely for general information.