

International Monetary Fund  
Research Department

Financial Institutions in Haiti

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Approved by Javier Marquez and  
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February 9, 1949.

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1. The Haitian Economy

The total area of Haiti is approximately 10,700 square miles, of which 8,000 are mountainous. Cultivable areas total some 2,223,000 acres, or approximately one third of the total area. In the dry areas some 309,000 acres are irrigable, of which only 62,000 acres are presently under irrigation.

No census has ever been taken and estimates of population vary considerably. It is commonly accepted that the total is in the neighborhood of 3 million, of whom not over 400,000 live in towns and villages, the remainder being scattered widely over the countryside. While the absence of statistics makes accurate conclusions impossible, there is evidence that population is increasing rapidly. About 85 per cent of the population is illiterate, and the average standard of living is very low. The general health of the population leaves much to be desired, and housing conditions are poor.

There are virtually no available statistics in any field in Haiti, with the exception of exports, imports, and public finance. There are some figures on money and banking, but they are very poor and unsatisfactory. A newly formed Bureau of Labor is now engaged in computing various statistical series, including price indices, but there is virtually nothing available for past years. Based on some data collected from private concerns in Haiti, a cost-of-living index has been computed which may be of some use in interpreting developments, but it must be used with great caution because the data on which it is based are far from satisfactory. According to this index the price level has risen by some 90 per cent between December 1940 and August 1948.

No statistics are available on national income, or even on agricultural production, and it is therefore impossible to give the ratio of exports to total production. Haiti, however, is an export economy: exports of coffee,

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\* The release of this paper has been delayed until after the publication of the report of the United Nations Mission of Technical Assistance to Haiti (United Nations, Mission to Haiti, Lake Success, N.Y. Publication 1949.IIB. 2.), as it is based on information obtained by Mr. McLeod while a member of the Mission. Released October 21, 1949.

bananas, sugar, sisal, cotton, and other staples are very important to the domestic economy. Coffee accounted for as much as 70 per cent or 80 per cent of all exports in the 1920's, but the expansion of other exports since then has cut this percentage in half in recent years; even so the country is heavily dependent on relatively few exports. In the fiscal year ended September 30th 1947 the value of recorded exports was a little greater than the value of imports and other known current debit items. In 1947-48 there appears to have been a small deficit in the balance of payments on current account. In both years the foreign assets of the Banque National de la Republique d'Haiti declined.

Agriculture is the main industry. The soil is badly denuded in many areas by lack of fertilization, and erosion under the torrential tropical rains is a serious problem, but the soil appears to have good recuperative powers and there are substantial areas of fertile soil. Some land is already irrigated, and there is a considerable acreage in which irrigation could be greatly extended and would yield a substantial increase of agricultural production. Land holdings are generally small and excessively subdivided, plantations are few and cover perhaps 10 per cent of the total cultivable area. Methods of cultivation are generally primitive.

There is very little industrialization. Sugar is manufactured for export, and sisal fiber is produced by decortication but is not further processed (except for a small amount used in handicraft industries) before being exported. The production of essential oils for export, though small relative to the main export industries, has shown important developments in recent years; it is particularly notable in that native Haitian capital, rather than foreign capital, is predominant. Industries producing exclusively for the home market are confined to a textile plant now coming into operation which should supply a major part of local demand, lumber, and a number of local service industries of generally minor importance. Mineral resources are few. There is some lignite of quality as yet unproven and some bauxite; the Reynolds Aluminum Company holds a concession in respect of the largest bauxite deposit and has begun some exploratory production.

## 2. Public Finance

Agreements between the Haitian and the U.S. Governments made during the American occupation (1915-1934), together with the terms of the contract for the 1922 loan (described more fully in a later paragraph), made the servicing of the debt a first lien on government revenues, required that the budget be kept in balance, and placed the principal control over revenue collection and budgeting in the hands of a Financial Advisor and General Receiver appointed by the U.S. Government. In 1933 this officer was replaced by a Fiscal Representative appointed by the United States Government, and a further revision in 1941 abolished the office but placed its functions under the Fiscal Department of the Banque Nationale de la Republique d'Haiti, which was largely independent of the Government since three of the six voting members of the Board of Directors (including one of the two co-presidents, performing the function of general manager) were U.S. citizens appointed by mutual agreement of the two governments. In 1947,

however, the old external loan was repaid and the Government recovered its financial independence; the budgeting functions are now in process of transfer to the Department of Finance.

Government revenues are mainly from customs duties; there has however been a significant shift to internal taxes. The importance of export taxes declined until about 1940, but this tendency was reversed thereafter as prices rose and export taxes were increased in order to take advantage of the increased profits earned by export producers. The export tax on coffee accounted for 80 per cent or more of all export tax receipts prior to 1945, and is still the major item in this category.

An income tax is levied in Haiti. It does not yield a very high percentage of total government receipts, and many technical criticisms can be levelled at it, but it is a beginning and improvements may be expected in the future. Before it was revised at the beginning of the fiscal year 1948-1949 it applied solely to business income, but it now applies to personal income also.

Haitian fiscal practice has generally involved a balanced budget and the subordination of domestic expenditure to the necessity of servicing the external loans; if a deficit occurred in one year, taxes were increased or expenditures reduced in the next. Virtually all capital expenditure was covered by tax revenues, so that a balanced budget as reported in the Haitian accounts really involves a surplus on current account. Under the 1922 loan contract, amortization was accelerated whenever the public revenues rose above 35 million gourdes (\$7 million), and the Haitian Government undertook not to alter customs duties or to contract additional public debt except by agreement with the United States.

Some beginning of a conscious contracyclical policy must however be noted in 1937-38. With the sharp fall in coffee prices the Government was forced to give some relief to exporters, and the export tax on coffee was reduced. At the same time a contract was entered into with the J.G. White Company for a program of public works with a more or less direct bearing on increasing production for export. This program was financed by a 4 per cent loan from the Export-Import Bank equivalent to 27.5 million gourdes (\$5.5 million) and was intended to alleviate unemployment. Of this loan, 8.4 million gourdes (\$1.7 million) was still outstanding on September 30, 1948. The structure of the present coffee export tax also contains some elements of contracyclical variation, in that the tax per pound of coffee increases (though less than proportionately) as the price increases.

Prior to 1947 the public debt of Haiti was composed of the outstanding balances of the Export-Import Bank loan for the 1938 Public Works Contract, and the U.S. loans of 1922 and 1923. The foreign debt of Haiti originated in 1825 when bonds were floated in the French market to repay French proprietors for losses suffered in the revolution; this and subsequent loans were refinanced in the same market in 1875 and 1910. In 1922 and 1923, bond issues totalling \$23.7 million (118.5 million gourdes) were floated in the U.S. market for repayment of the French loans, refunding of the internal debt, and to finance public works. The 1938 public works loan and the loans

of 1922 and 1923 were all subject to regular annual amortization. Interest and amortization absorbed something like 30 per cent of annual revenues from 1925 to 1936; with the break in export prices in 1937 the U.S. Government granted some relief in the form of a reduction of amortization payments to a small token sum, and amortization did not assume substantial proportions again until the fiscal year 1943-44, but even so the service of the debt absorbed about 15 per cent of total revenues over the period 1936-46. In 1947 the Government floated an Internal Loan at 5 per cent and fully repaid the outstanding balance of the 1922 and 1923 loans, which by this time had been reduced to the equivalent of 24.3 million gourdes (14.9 million). By September 30, 1948 some \$7.6 million (38.1 million gourdes) had been raised in the 1947 Internal Loan;<sup>1/</sup> 14.8 million gourdes was subscribed by the Government from various trust and other funds, 10.1 million gourdes by the Banque Nationale de la Republique d'Haiti, 9.8 million gourdes by other parties in Haiti, and about 3.4 million gourdes by third parties abroad. These sums included the conversion of old bonds at a 3 per cent premium, to the amount of 0.2 million gourdes for the Government accounts, 3.4 million gourdes for the B.N.R.H., 2.7 million gourdes for other Haitians, and the full amount (3.4 million gourdes) of subscriptions from abroad. In effect, therefore, Haiti repaid the bulk of the old bonds out of exchange reserves accumulated as a result of the favorable balance of payments of recent years, and thus effected a substantial saving on interest payments abroad.

Fiscal policy in Haiti in general has not been development promoting, because it has been primarily motivated by considerations of immediate revenue yields and has generally failed to give active encouragement to economic development. The business community complains of a lack of sympathy on the part of the fiscal authorities, sudden and arbitrary new taxes, and the like. Instances have been reported to show that promising new industries have been thwarted to the point of being forced out of business by the application of new taxes that made the venture unprofitable.

### 3. Existing Financial Institutions

The monetary unit is the gourde, equivalent to twenty U.S. cents. It is rigidly tied to the American dollar, and has not varied since it was stabilized on May 2, 1919. Exchange controls have never been applied in Haiti, and there has never been an exchange problem, internal policy having been rigidly subjected to the maintenance of exchange stability and the servicing of the public debt.

The only financial institutions in the country are two banks, the Banque Nationale de la Republique d'Haiti, with eight branches and three agencies, and a branch of the Royal Bank of Canada at Port-au-Prince. A number of private money lenders and merchants also make loans and engage in other types of financial operations, but virtually no data are available on the magnitude of their activities, and the published statistics of the two Banks are confined to a summary monthly balance sheet of the B.N.R.H.

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<sup>1/</sup> The loan is denominated in U.S. dollars.

and some figures published annually on the combined deposits and loans of the banks. The major portion of bank loans is used to finance import and export trade, though the B.N.R.H. also holds a relatively small amount of government bonds. There is no provision for medium or long term credit to agriculture or industry, except such as may be available privately. Some bank credit reaches agricultural producers indirectly, since the merchants make advances to middlemen for the purchase of export crops and these middlemen in turn may make advances (at exorbitant rates of interest) to producers. There is also a considerable amount of lending to salaried persons in the towns, again at exorbitant rates of interest, for consumption purposes or emergency expenditures. It is impossible to determine the total volume of money involved in these loans; probably the total amount is not large, but in relation to their incomes it is undoubtedly often very serious for the individuals concerned.

The Banque Nationale de la Republique d'Haiti is the bank of issue, with sole right to issue bank notes. It is, however, essentially a commercial bank and performs no functions of conscious control or regulation of credit. It is the fiscal agent of the Government and has been owned by the Government since 1935. Its history has been closely related to foreign-imposed financial control over the service of the external debt and of the 1922 and 1923 loans in particular; only since 1947, when these loans were repaid, has the Government had complete authority over the Bank. It is legally required to maintain a reserve in U.S. funds of one-third of its note issue up to 20 million gourdes, and of 100 per cent for any issue in excess of 20 million gourdes. There are no legal reserve requirements with respect to deposits. The Bank has followed a highly conservative policy, and in recent years has not extended loans to anything like the legal maximum. This conservative practice undoubtedly explains the relative mildness of inflation in Haiti.

The Royal Bank of Canada operates as an independent commercial bank without the right to issue notes. It maintains a deposit at the B.N.R.H. for working purposes, and keeps a substantial amount of U.S. currency in Haiti, but the bulk of its assets are held in the New York office. As with the B.N.R.H., its loans within Haiti are small relative to deposit liabilities. There are no published data on the operations of the Royal Bank in Haiti.

Both banks have traditionally followed a very conservative lending policy. Nevertheless there has been no conscious limitation of the total amount of credit granted on account of any consideration for its general effects on price levels, or on the economy in general. Indeed there have been no statistics available on which any such policy could have been based. The granting of loans has been determined solely by the prospects of each individual application, and by normal considerations of the soundness of the loan.

Published data are inadequate to compute a satisfactory series for the money supply; they cover only the note issue of the B.N.R.H., a figure for total deposits of individuals at both banks (including savings deposits but not including all the demand liabilities of the banks), and the amount of government deposits. In addition an estimate of the amount of U.S. currency

in circulation as at September 30 of each year is available. From these data a rough estimate of the money supply is given in Chart I; the figures are plotted as of the end of March and August each year, these being the approximate seasonal peak and trough respectively. The September figures have been used for U.S. currency in circulation for August, and the March figures have been interpolated on the arbitrary assumption that they bear the same ratio to the August figures of the same year as total Haitian notes and deposits for March bear to those for August. Government deposits have been included in the money supply because the usual reasons for excluding them (namely, that their level is determined mainly by considerations of economic policy, and that shifts in holdings as between the public and the government will be offset by central bank policy) do not apply in Haiti; the foreign assets of the B.N.R.H. are large relative to its demand liabilities including government deposits, and in fact have sometimes exceeded them.

Despite the unsatisfactory nature of the material on which it is based, the sharp variation in the money supply over the business cycle is unmistakable. Chart II gives the export and import trade of Haiti for the same years, for comparison; the similarity is striking, and strongly supports the view that export income is the prime factor in the cycle for an open economy like Haiti.

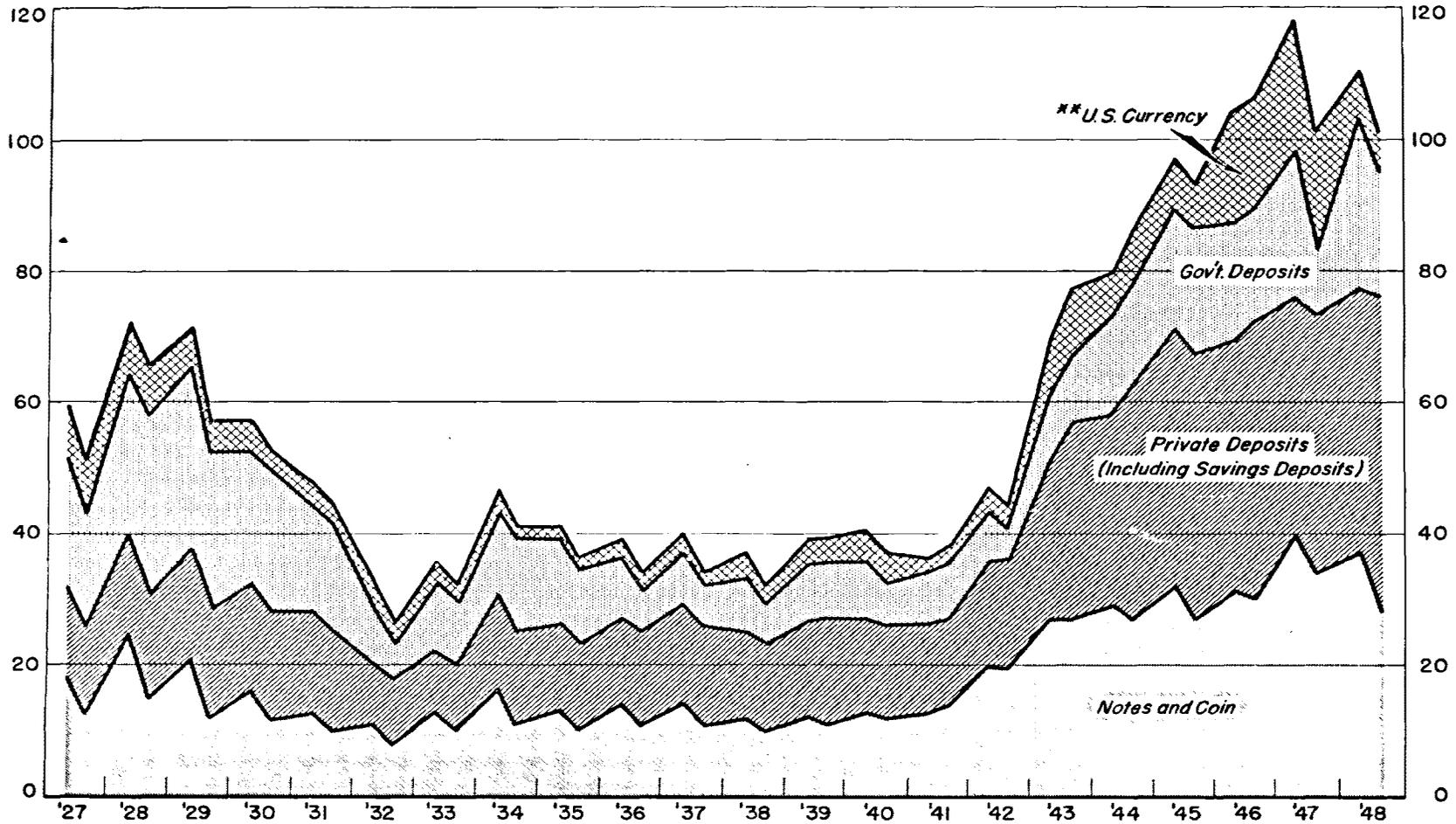
#### 4. Savings and Investment

No data are available on savings, especially with respect to the level of current savings as a proportion of national income. Only general impressions can be given of the form in which savings are held. Savings deposits in the banks were 11.3 million gourdes (\$2.3 million) on September 30, 1948; there is some hoarding of currency, particularly among the country population, and some private money is lent out on various terms, including mortgages, but the favorite method is to invest in land or other tangible goods. The country people tend to invest the proceeds of their cash crops in land or animals, which they may sell later in the year when they need money for food.<sup>1/</sup> There is some holding of government bonds in Haiti,

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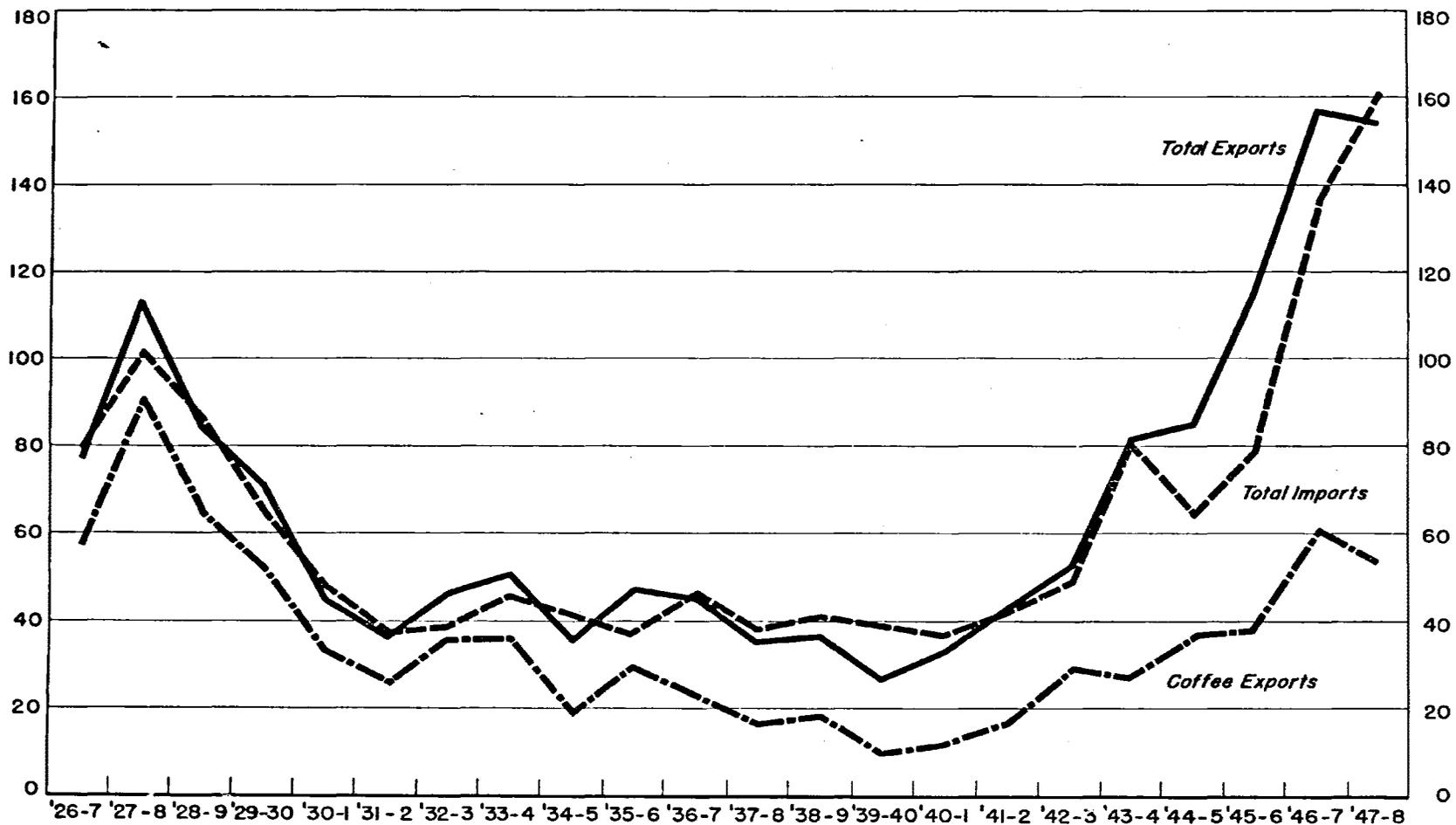
<sup>1/</sup> In this connection it should be noted that the Haitian economy gives evidence of being a money rather than a subsistence economy to a rather surprising extent. Producers commonly sell their crops for cash when they are harvested, even when they will themselves need to purchase the same products later in the year; no doubt the reason is that sometimes they have debts that must be paid, but in part at least it is because of difficulties of storage in the face of deterioration under attack by fungus growth or insects. The varying rainfall over the country, the varying elevation at which crops are grown, and the fact that two or even three crops can often be grown in a single year, result in a relatively steady supply on local markets; a complex system of commodity arbitrage between the various local markets, in which "revendeurs" buy in one market and transport products for sale in other markets, effects the distribution of these crops over the country. Trade in these markets is generally on a cash basis.

**HAITI**  
**ESTIMATED MONEY SUPPLY, 1927-1948\***  
 In Millions of Gourdes; One Gourde = \$ 0.20 U.S.



\* As of March and August, approximately the seasonal peak and trough.  
 \*\* Estimated holdings of the public.

**HAITI**  
**EXPORTS AND IMPORTS, 1926-27 TO 1947-48\***  
 In Millions of Gourdes; One Gourde = \$ 0.20 U.S.



\* Fiscal years ended September 30th

mostly by larger corporations and business firms. There is very little evidence of hoarding of foreign exchange or gold.

Little information is available on investments. Capital works performed by the Government are included in the general budget, and are generally not large. There is undoubtedly some reinvestment of business earnings, but there is no information available on its magnitude. No doubt there is also a certain amount of petty investment by peasants in additional equipment as a result of their higher earning in recent years, but the total would be small and no information is available on it. An official of the B.N.R.H. estimated that total foreign investment in Haiti would not exceed \$40 million, mostly in the form of direct investments. The accumulated liquid savings of Haiti (as represented by the assets of the banks) are held in foreign exchange or are on deposit abroad. This means, in effect, that Haiti is lending money abroad, despite its need for capital for development at home. An interesting aspect of this phenomenon is that the peculiarly conservative accounting practices of the Government result in large idle bank balances; this means that the Government is in effect paying 5 per cent (the rate of interest on the Internal Loan of 1947) for the privilege of holding money idle in the bank.

#### 5. Money and Capital Markets

There is no organized money market, stock market, bond market, or mortgage market, and there is no systematic effort to encourage savings. The Royal Bank pays no interest on savings deposits since it does not feel able to find profitable employment in Haiti for the funds it already has; the B.N.R.H. pays 1-1/2 per cent on balances of 50 to 5,000 gourdes, declining progressively to 1/4 per cent on balances in excess of 25,000 gourdes. There is some local holding of government bonds, mostly by businesses and by the B.N.R.H. The 1947 loan is to be amortized over ten years, and the funds allotted by the Government to the B.N.R.H. for this purpose are first used to buy bonds at a price not above par to the extent that this is possible, thus providing a market for those who wish to sell their holdings. Mortgage loans can be had from private sources at rates that are said to begin at 12 per cent per annum, but the banks accept mortgages only as collateral security on what are essentially commercial loans; there is no institutional source of mortgage credit in the usual sense.

Interest rates at the banks range generally from 6 to 12 per cent, according to the nature of the loan. Loans on staple exports are generally at 6 per cent (sometimes less), loans on mortgage security at 9 per cent, and salary advances to civil servants at 12 per cent. Loans obtained from private sources are at substantially higher rates; mortgages are said to run at 12 per cent or more, and other loans may be at 2 per cent or 3 per cent per month or even more. Loans by middlemen to the country people are said to be at effective rates of 100 per cent per annum or more, though the amounts involved in each loan are generally small; repayment is usually exacted in kind, especially in coffee when the coffee crop is gathered.

## 6. Conclusions

Progress in Haiti will certainly be slow without some external assistance, at least on the technical level. The effectiveness of external assistance will, however, depend directly upon the adoption at the same time of appropriate domestic policies.

There are many obvious defects in the Haitian financial structure. The outstanding shortcomings are the failure to provide medium or long term credit for developmental expenditures, and the fact that existing Haitian liquid resources are in effect invested abroad instead of being applied for domestic development. Monetary and fiscal policies have generally been passive, and have not been used to further development. Some reorganization of the banking and fiscal structure is desirable, so that the automatic responses to external forces which have characterized the economy in the past may be replaced by a more deliberate use of monetary and fiscal policies in the interest of both development and stability. In particular, there should be some institutional provision for medium and long term developmental credits for approved projects and enterprises, in both agriculture and industry.

It is clear, however, that new institutions alone are not the only requirement; the absence of suitable institutions may handicap or even prevent development, but their existence will not ensure that development will take place. The real need is for an imaginative approach to the developmental possibilities of the country, for some push and initiative in undertaking developmental projects, and for technical ability and administrative skill in carrying them out and operating them. Better educational and health measures will be necessary to aid and make possible any developmental program. Most important of all, perhaps, it will be necessary to foster a spirit of self-help among the people, emphasizing the use of their own resources and their own capital, and probably also emphasizing the stimulation of cooperative ventures whereby the group can do things which individuals cannot.