

Restoring stability

INTERVIEW WITH CHARLES CASTEL

GOVERNOR, BANQUE DE LA RÉPUBLIQUE D'HAÏTI (BRH)



CHARLES CASTEL holds Bachelor's degrees in Business Administration and Law from the Université d'État d'Haïti and Master's in Economics from the State University of New York and Law from Columbia University, also in New York. He has had a distinguished career as a public servant in Haiti and has sat on a number of state committees responsible for the modernisation and reform of public enterprises, securities law and other aspects of Haitian government policy. Mr Castel joined Haiti's central bank, Banque de la République d'Haïti, in 1995 and was appointed Governor in 2007.

What is your assessment of the current health of the Haitian financial system, and that of the wider economy?

The Haitian financial system largely resisted the financial crisis of 2008 and the earthquake of 2010. Its stability can be seen in the consistency of the banking sector's profitability ratios over the last decade: on average, return on assets (ROA) has been 1.25 per cent, and return on earnings 20 per cent, with an overall net profit margin of 21 per cent. The strength of the banking sector's capital base is another good indicator: over the past decade this has been at 6 per cent, superseding the minimum level of 5 per cent.

Other financial institutions, specifically micro finance institutions, considered to be the backbone of the economy, have also shown solid growth and profitability, with average asset growth of 16.92 per cent, ROA of 3.25 per cent – better than the Caribbean and South America, which are respectively 0.20 per cent and 2.30 per cent, according to the Strategic Management Group.

Thanks to well-coordinated fiscal and monetary policies, macroeconomic indicators have also been fairly stable, with inflation in single figures, and a not-too volatile exchange rate. However, the recovery has been slow due to many structural imbalances and institutional inefficiencies. So far, Haiti has yet to enjoy the growth that was expected after the earthquake. Measures are now being taken to reinforce our public institutions, fight corruption, rebuild infrastructure and promote financial inclusion.

What measures has the BRH undertaken to restore macroeconomic stability since the earthquake of 2010, and how successful have these been?

The Central Bank has played an accommodating role in facilitating economic growth, while keeping inflation in single figures. Following the 2010 earthquake, the country received large aid inflows and remittances. This had a positive effect on the exchange rate. In this context, the BRH's interventions helped avoid excessive appreciation in the real exchange rate, reduce volatility in the exchange rate, and preserve macroeconomic stability. The Central Bank has maintained the country's external position at an adequate level of international reserves. The BRH bond rate has remained low in an effort to buttress

economic growth. Commercial bank credit has increased rapidly by 30 per cent in 2011 and 32.5 per cent in 2012, but remains below the level in LICs (Low Income Countries) relative to GDP. Another key contributing factor to macroeconomic stability is the fiscal discipline we have been enjoying since 2004, as well as no recourse to monetary financing.

Beyond helping with stability, the BRH has taken steps to increase financial inclusion through different initiatives aimed at deepening and widening access to credit that leads to job creation. This is a necessary condition to achieving sustainable and inclusive economic growth. These measures entailed the launch of a Partial Credit Guarantee Fund; reserve requirement waivers for housing loans; providing liquidity for fix interest rates for mortgage loans, etc.

The IMF forecast Haitian GDP growth of 8 per cent in both 2011 and 2012, but the reality was a rather more modest 2.5 per cent. To what do you attribute this shortfall, and when do you expect to see the country's recovery begin in earnest?

Haiti's growth rates have been lower than expected. Very often the economy's performance is undermined by its vulnerability to external and internal shocks. The Haitian economy is usually affected by the adverse impact of high commodity prices and unfavourable weather conditions. Negative shocks such as hurricanes and drought, which affected agricultural production and damaged our productive capacities, led to lower than expected real GDP growth. Although the country is prone to natural disasters, I would like to highlight that important improvements have been made in disaster and risk management. The low execution rate of public investment has also impacted reconstruction and growth performance recently. The authorities are aware that reconstruction and economic recovery from the 2010 earthquake have been slow, but efforts are being made to accelerate reconstruction and improve the public investment framework. Efforts are also being made to enhance the administrative capacity and enhance project management. We are going in the right direction, although the economic recovery has been slow. But in the medium term Haiti's growth performance will be higher, since more fiscal space will be created, as well as enhanced capacity building in the public and

private sectors. Within our strategy for sustainable and more inclusive growth, it is important to point out the reforms initiated by the government to strengthen institutional capacity, improve the business environment and promote private sector development. With respect to the external sector, we are determined to attract more FDI, boost the tourism industry and expand and diversify the export base, while being aware that a global economic slowdown could have negative spill-overs.

Which sectors of the economy do you see as the most likely engines of growth in the medium term?

In the medium term, five sectors are seen as engines of growth. The first is construction. We have to rebuild roads, housing, airports, hotels, and ports. So there are huge opportunities here for investors, and the impact on the economy will be huge. Then there are free economic zones such as the Caracol and Ouanaminthe parks, which have huge potential to create jobs and to stimulate growth in the areas around them. We also need to develop our textile sector by building more assembly plants. Next is tourism. We have a master plan to turn the sector into a major revenue earner and source of employment. Finally, the agricultural sector: Haiti's Investment plan for growth in the sector focuses on establishing new mechanisms with the assistance of the international community to help farmers access credit, as well as providing them with seed and fertilisers. The government also aims to develop sub-sectors and to strengthen trade through incentive mechanisms for the consumption of local products, development of decentralised credit for agro-industries, and the promotion of small businesses.

The World Bank and IMF were quick to respond in the aftermath of the earthquake in 2010, offering advice and assistance to help Haiti rebuild its financial system, and broadening access in the process. What is your assessment of the progress to date, both in terms of restoring payment systems and also pushing through the reforms recommended by the IFIs?

Following the earthquake, the Bretton Woods institutions have responded quickly to our needs. In addition to debt relief and financial support the IMF and World Bank have provided technical assistance to help the authorities to implement the necessary reforms in the financial sector such as a new banking law, the establishment of a Treasury Bill (T-bill) market, a credit bureau, microfinance institutions, a partial credit fund, improving liquidity management, and a new insurance regulatory framework.

Even before the earthquake Haiti operated primarily as a cash economy, with only 40,000 checking accounts in a country of nine million people. At the same time remittance flows, which account for almost 20 per cent of Haiti's GDP, increased sharply in the aftermath of the quake. What strategies are you looking at to funnel more of these funds into the banking system and microfinance institutions, thereby increasing the amount of available credit to Haiti's micro, small and medium-sized enterprises (MSMEs)?

Remittance flows to Haiti have increased over the last ten years, especially after the earthquake. They accounted for a major part of the country's economy, making a large contribution to offsetting the goods and services deficit in the balance of payments. They represent more than 20 per cent of the country's GDP. The amount of remittances that remains as

The Central Bank has played an accommodating role in facilitating economic growth, while keeping inflation in single figures

Photo: Thierry Bijou



Haiti's textile sector needs massive investment in order to realise its full potential

The BRH has taken steps to increase financial inclusion through initiatives aimed at deepening and widening access to credit that leads to job creation

savings in the banking system is difficult to estimate, but certainly a portion of that amount is financing the banking sector's liquidity available for credit of SMEs. Remittances have become a significant source of income for many Haitian families, and these transfers have begun to draw the attention of both private and public sectors, who are studying and planning innovative ways to make the most of this steady financial flow.

In October last year, you signed an MOU with the International Finance Corporation (IFC) to help Haiti's financial and business sectors expand leasing for MSMEs. What makes leasing so important for Haitian companies, and how do you see your partnership with the IFC improving their situation?

We are encouraging all initiatives that can expand credit to the economy especially to the SMEs. Haitian SMEs have traditionally experienced difficulty getting credit, in part due to lack of reliable guarantees. Leasing offers the opportunity to finance equipment to those SMEs since, as you know, the assets being financed remain the lenders' property during the life of the loan, eliminating the need for additional collateral. Also, leasing companies are more prepared to serve this group, as well as micro entrepreneurs faced with the same challenges. Our partnership with the IFC will allow us to promote leasing in Haiti by benefitting from its extensive experience with this financial product in countries with similar credit markets. Our collaboration has already led to the drafting of a leasing bill and prudential norms for the sector. We are weighing our options to either use the existing legal framework or to pass a specific law tailored to this

new financing tool. The new leasing law is still being reviewed at the bank and a final decision regarding the strategy to launch leasing activities in Haiti will be made soon.

During your tenure in office you have been a vocal and active advocate for the creation and maintenance of an enabling environment for the growth of investment, describing the task of attracting more FDI as one that "requires a new mindset, a new mentality of wealth more favourable to the contractor." How successful do you believe you have been in fostering this new mindset among Haiti's business community and policy makers?

I am not alone in this. All the stakeholders involved in making Haiti more attractive to FDI have played their part, starting with infrastructure improvements in airports and roads, to steps aimed at shortening the length of the company registration process. With the increase in governance transparency and willingness to comply with international standards and norms, government officials as well as local investors are reaching out to foreign investors. All this has undoubtedly led to many joint ventures between local and foreign investors being announced recently, and in the past, particularly in the hospitality, telecom and industrial sectors. With this comes a healthier attitude towards wealth, where for example it is no longer seen as taboo to announce millions of US dollars of total investment in a private sector project. In this sense I believe that most Haitians today are conscious of the change in mindset needed to attract more FDI, understanding that this is the principal means towards economic and social prosperity. I therefore think we are on the right track. **F**



The Caracol industrial park has the potential to transform the economy of northern Haiti