INTERNATIONAL MONETARY FUND

HAITI

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

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This Debt Sustainability Analysis (DSA) was prepared in accordance with the revised joint Bank-Fund debt sustainability framework (DSF) for low-income countries (LICs).[1] Haiti's risk of debt distress has improved from high to moderate on the back of significantly lower oil prices and some fiscal consolidation. However, the balance of risks is still to the downside, and a rebound in oil prices would result in an increase in the likelihood of debt distress and the risk of external debt distress would become high again.[2] The country's main challenge continues to be ensuring macro stability while protecting social and investment spending needed for social cohesion and growth. Policies under the baseline scenario assume improved energy policies that allow to broadly lock-in the fiscal gains associated with lower oil prices. The country's external debt profile is vulnerable to changes in oil prices, borrowing conditions and the exchange rate; moreover, a decline in the rate of growth would have a negative impact on public debt. The cost of a sudden stop of Petrocaribe inflows would be lower than previously assessed (EBS/14/33) provided oil prices continue to be at lower levels. However, given the extreme sensitivity of Haiti's debt to shocks, improvements in the risk of debt distress implied by this DSA should be interpreted with great caution. It is essential that Haiti maintain prudent macroeconomic policies, strengthen debt management and public financial management, and deepen structural reforms to boost exports and growth.

[1] World Bank and IMF (2009). "Review of Some Aspects of the Low-Income Country Debt Sustainability Framework." (IDA/SecM2009-0397; SM/09/216; BUFF/09/146); World Bank and IMF (2012), "Revisiting the Debt Sustainability Framework for Low Income Countries," (SM/12/10). In line with the guidance note, "a change in the external risk rating or in the assessment of the overall risk of debt distress since the previous DSA would warrant a full DSA". Accordingly, this full DSA was prepared jointly by IMF and World Bank staffs.

[2] Thresholds are set according to the country's CPIA ranking. Haiti is classified as a weak performer based on its three-year 2011-13 average score of 2.88 in the World Bank's Country Policy and Institutional Assessment (CPIA) framework. For weak performers (defined as those with three-year average CPIA ratings below 3.25), the indicative thresholds for external debt sustainability are PV debt-to-GDP ratio of 30 percent and 27 percent when remittances are included; PV debt-to-exports ratio of 100 percent and 80 percent when remittances are included, PV debt-to-revenue ratio of 200 percent, debt service-to-exports ratio of 15 percent and 12 percent with remittances; and debt service-to-revenue ratio of 25 percent.

Background

1. At end-2014, Haiti's stock of public sector debt amounted to US$2,279 million, (24.8 percent of GDP), composed almost exclusively by external debt on concessional terms (Text Table 1). External debt amounted to US$1,825 million, of which US$136 million corresponded to multilateral debt, and US$1,690 million to bilateral debt, mainly to Venezuela (US$1,574 million of Petrocaribe debt). Domestic public debt was about US$230 million, mostly in the form of treasury bills largely held by commercial banks and about US$45 million is a publicly guaranteed debt to a commercial bank contracted by the state-owned electricity company EDH (*Electricité d'Haïti*).

2. Other outstanding creditor and debtor positions with the private sector appear in favor of the public sector. The non-financial public sector remains a net creditor to the consolidated banking system, mainly reflecting Petrocaribe and other deposits at commercial banks (about US$228 million at end-2014). In addition, the public sector maintains a debtor position *vis-à-vis* independent power producers (IPPs), for arrears accumulated by EDH for about US$350 million; in turn the IPPs have accumulating arrears to the central government (US$200 million at end-2014), for the provision of fuel.

A. Macroeconomic Outlook, 2015–35

3. Haiti's main challenge is to balance the need for a gradual fiscal adjustment with large social and investment needs. A stronger-than-warranted fiscal adjustment may result in a better debt profile at the cost of lower GDP growth and slower progress in addressing social needs. Conversely, too large a primary deficit could compromise macroeconomic stability. In particular, the baseline scenario is based on the following assumptions:

Text Table 1. Haiti: Structure of External Public Debt at end-2014

		in percent of	
	US$ millions	total debt	GDP [1/]
Total	**1825.4**	**100.0**	**21.0**
Multilateral creditors	**135.7**	**7.4**	**1.6**
IMF	57.2	3.1	0.7
World Bank	0.0	0.0	0.0
IFAD	61.0	3.3	0.7
IDB	0.0	0.0	0.0
OPEC	17.5	1.0	0.2
Official bilateral creditors	**1689.7**	**92.6**	**19.4**
Venezuela	1600.4	87.7	18.4
PetroCaribe	1573.7	86.2	18.1
BANDES	26.7	1.5	0.3
Taiwan, Province of China	89.3	4.9	1.0

Sources: Haitian authorities; and Fund staff estimates.
1/ The debt ratio differs slightly from that in Tables 1a and 3a given the use of average, instead of end-of-period, exchange rates.

- Projections include an annual average real GDP growth of about 3.4 percent, starting from 2.5 percent growth rate in 2015, increasing to 3.8 by 2019 as structural reforms yield higher growth, and then declining progressively to 3 percent by 2035.
- A stable real exchange rate vis-à-vis the US dollar.
- Oil prices are projected to decline in 2015 and increase gradually in 2016–20 in line with WEO, and to remain constant in real terms thereafter.
- Fiscal projections include an upfront fiscal consolidation, as the positive fiscal impact of lower oil prices is locked in. Domestic revenues of the central government increase to about 18.4 percent of GDP by 2035 (from 12.5 percent in 2014), while foreign grants will gradually decrease to about 2 percent of GDP (from 6.5 percent of GDP in 2014). Primary expenditure

(including EDH's deficit) is projected to decline from 27.8 percent of GDP in 2014 to 21.1 percent in 2035, with capital expenditure (domestically and externally financed) stabilizing at 10 percent of GDP by 2035, reflecting lower Petrocaribe financing. This would involve an adjustment in the non-financial public sector (NFPS) primary balance of about 6 percentage points of GDP during the projection period. The primary deficit in 2035 (about 0.6 percent of GDP) would be consistent with a decreasing debt ratio. For the external outlook, projections consider a significant improvement of the trade deficit (from 32.8 percent of GDP in 2014 to 13.5 percent in 2035), in large part due to lower oil prices, and gradually increasing FDI (from 1.1 percent of GDP in 2014 to 3.7 percent in 2035). The projections further assume Petrocaribe debt inflows will decrease significantly, given the reduced oil bill (from 11.1 percent of GDP in 2014 to 8.2 percent in 2010 (the end of the WEO projection period). As the country develops, transfers (both official and remittances) would decline gradually, from 26.3 percent of GDP in 2014 to 11.2 percent in 2035.

4. Gross financing needs will be covered by a combination of external and domestic debt. Gross financing needs are projected to average about 3.3 percent of GDP per year, which will be financed by external debt flows (about 3.0 percent of GDP) and the rest by domestic debt (and deposit withdrawals in 2015–17). The DSA assumes that external borrowing would be almost evenly split between Petrocaribe flows and additional external bilateral borrowing at concessional terms. Domestic borrowing would comprise only treasury bills with 1–5 year maturities, and 8.8 percent interest rate (in US$ terms). For 2015–17, withdrawals of balances of the PCDR account are also projected, for a total amount of 1.6 percent of GDP.[3]

Text Table 2. DSA 2015 vs. DSA 2014

	Average 2013-17		Average 2018-31	
	Previous DSA	Current DSA	Previous DSA	Current DSA
(annual percentage change, unless otherwise indicated)				
Real GDP	4.1	3.3	3.5	3.5
Consumer prices (period average)	5.3	6.0	5.0	5.0
(in percent of GDP, unless otherwise indicated)				
Total revenue and grants	20.6	20.2	20.7	20.5
Of which: Revenue	13.4	13.9	16.0	16.4
Primary expenditure	26.6	23.8	24.2	22.0
Of which: Capital expenditure	14.6	11.9	11.5	10.6
Overall balance	-6.5	-4.1	-4.5	-2.1
Current account balance	-5.9	-4.7	-5.0	-3.5
Exports of goods and services	18.5	19.1	21.3	21.3
Imports of goods and services	-49.8	-49.1	-44.6	-43.5

Source: Haitian authorities; and Fund staff estimates and projections.

[3] The baseline scenario assumes that the country will be able to secure the concessional financing needed to smooth out the adjustment of the primary deficit over several years, and that structural reforms proceed, but slowly.

5. The DSA projects that public debt will grow from about 25 percent of GDP in 2014 to 39 percent of GDP in 2035. In turn, external debt will grow from around 21.4 percent of GDP in 2014 to 30.5 percent of GDP in 2035. External debt accumulation would be lower than in the previous DSA, as Petrocaribe inflows will be lower on the back of a decreased oil bill.; the grant element of new borrowing would increase slightly from 36 percent to 38 percent due to greater resort to multilateral financing. (Tables 1 to 3).

The main differences in the medium-term macroeconomic assumptions with respect to the previous DSA are as follow (Text Table 2),

- GDP growth was marked down slightly in view of recent performance; the positive impulse to growth from lower oil prices was assumed to be broadly offset by the effect on growth of a more challenging socio-political environment. Inflation would be broadly unchanged as lower oil prices are only marginal passed on to consumers.
- Government revenues are projected to be larger on the back of the elimination in 2015 of foregone revenues linked with fuel taxes.
- Export growth would follow a similar trajectory as in the previous DSA, given the HELP and HOPE initiatives, which provide advantageous conditions for apparel exports to the U.S. Imports, however, were revised down significantly given decreased oil prices, but non-oil imports are similar, reflecting the country's needs to rebuild infrastructure, as well as Haiti's status as a net food importer.
- Remittances continue to be significant in the short-to-medium terms (19.8 percent of GDP in 2014, almost double all goods exports) and are projected to decline to 9.4 percent of GDP in 2035, similar to the previous DSA.

B. Debt Sustainability Outlook, 2015–35

6. Haiti's risk of external debt distress improved from high to moderate. The more favorable assessment reflects lower oil prices (with significant fiscal impact), as well as consolidation efforts initiated by the Haitian authorities in early 2015. No debt threshold would be breached under the baseline scenario (Fig.1). Caution is however essential in interpreting these results. First, while the debt service-to-exports and the debt service-to-revenue ratios under the baseline scenario would not breach the respective thresholds during the projection period, they are on an upward trend. Second, a permanent increase in oil prices (of 50 percent) would result in the breach of most thresholds, and a return to a situation of high debt distress (see section C). Under the previous LIC-DSA, the ratios of PV of debt to GDP, to exports and to revenue would be breached by 2021–2022; the ratio of debt service to revenue was a boarder case, and the ratio of debt service to exports, while below the threshold during the projection period, was on an upward trend.

7. Haiti's external position is vulnerable to changes in borrowing terms and to higher exchange rate depreciation. Haiti's external debt remains vulnerable to shocks, particularly on borrowing terms. An increase by 200 bps in the interest rate over the entire projection period would cause the thresholds for the PV of debt –to-exports ratio and the PV of debt-to-GDP ratio to be breached starting from FY2028 (Tables 3b). In addition, while the debt service-to-exports and the debt service-to-revenue ratios would not breach the respective threshold during the projection period, they would be on an upward

trend under terms and depreciation shocks, respectively. Higher oil prices would result in increased stress, as described below.

8. Public sector debt indicators continue to be vulnerable to growth and policy shocks. Under the baseline scenario, the PV of debt-to-GDP ratio would remain below the threshold (Table 2). Shocks to growth and the primary balance would result in unsustainably high public debt indicators. The threshold for the PV of debt-to-GDP ratio would be exceeded by FY2028.

C. Increased Stress Scenarios

A 'Sudden Stop' of Petrocaribe Inflows

9. The likelihood of a stop of Petrocaribe flows increased since the last DSA. Significantly lower oil prices have worsened Venezuela's (already very tight) financing constrains. As a result, the likelihood of change in financing terms, or an outright stop, of Petrocaribe financing has become more likely.

10. A stop of Petrocaribe flows would lead, in the short-term, to fiscal adjustment and lower GDP growth. A sudden stop of Petrocaribe flows starting in FY2016 would impact investment spending and the financing of the electricity sector, negatively affecting growth. The shock to growth would bring domestic tax revenues below the baseline. The impact on the economy would be cushioned by a decrease in domestic revenues, some drawdown of government deposits (including Petrocaribe deposits), a reduction in international reserves, and additional bilateral assistance.

11. The impact on the economy would be lower than previously assessed given lower oil prices. The decline in oil prices causes an automatic decrease in Petrocaribe financing (as the latter depends on the size of the oil bill), even if Petrocaribe continues. The lower financing flows compared with the last DSA (1.3 percent of GDP on average in 2015-17), will be more than offset by the improvement in the oil bill (3.3 percent of GDP on average during 2015-17). The effect of a stop of residual Petrocaribe flows (2.0 percent on average during 2015-17), is expected to subtract about 1 percent point from growth in FY2016–FY2017, as the authorities would be compelled to curtail Petrocaribe-financed capital expenditures and transfers to the electricity sector.

12. The stock of public debt would remain broadly unchanged and the risk of external debt distress would remain moderate. Debt ratios would deteriorate slightly in the aftermath of the shock, given lower GDP growth, and some REER depreciation. However, the lower Petrocaribe flows would force a somewhat faster fiscal consolidation, and thus, debt ratios would be broadly unchanged with respect to the baseline at the end of the projection period.

A Rebound of Oil Prices

13. Higher oil prices would result in increased external debt distress. A permanent increase in oil prices by 50 percent in 2016 would complicate policy implementation, and would result in decreases in GDP growth and in fiscal pressures, in particular through the impact of the higher prices on electricity generation and thus, on EDH's deficit. Under this scenario, the debt stock would increase to above 50 percent of GDP by 2035.

14. The stock of external debt would increase significantly and the risk of external debt distress would become high. The ratios of PV of debt to GDP, to exports and to revenue would be breached by 2020–2021; the ratios of debt service to revenue and to exports, while below the respective thresholds during the projection period, would be on an upward trend. Moreover Haiti's debt would remain vulnerable to terms and depreciation shocks.

D. Conclusions

15. The updated DSA suggests that Haiti's risk of debt distress improved, but that it could deteriorate should growth fall short or oil prices rebound. The debt is also vulnerable to shocks to growth, borrowing terms and the exchange rate. A sudden stop of Petrocaribe financing would negatively impact growth and bring about a REER depreciation, worsening temporarily public debt ratios. However, the impact of a stop of these flows is much weaker than previously assessed, given that lower oil prices act as the main buffer to absorb the shock. An increase in oil prices would result in increased debt stress and the risk of external debt distress would become high again. This suggests caution in interpreting the observed improvement in Haiti's debt distress, as it is very likely that a significant portion of the current oil price decrease will prove to be temporary. Against this backdrop, the lower oil prices provide a unique opportunity to switch to good energy policies, which will lock in fiscal and efficiency gains. The implementation of structural reforms (including improving the effectiveness of public investment) is necessary to push up growth above its historical norm, and close to the average for LICs, as assumed in the DSA. As highlighted in the previous DSA, it remains crucial that Haiti maintains prudent macroeconomic policies; strengthens the effectiveness of public investment, debt management, and PFM more generally, improves the sustainability of the electricity sector, and continues the implementation of structural reforms to improve the investment climate, in order to boost exports and growth.

16. The authorities broadly concurred with the main findings of the DSA. Staff and the authorities discussed the main assumptions and conclusions of the updated DSA, as well as main risks affecting surrounding the baseline. The authorities agreed with the need to increase the yield on growth of public investment, and more generally to contain the primary deficit of the non-financial public sector, in view of the financing risks. They agreed on the need to speed up the implementation of reforms, but highlighted that a number of constraints (including the complexity of some reforms, or lengthy discussions originated in the presence of vested interests) have slowed down the process.[4]

[4] Discussions were held on a Seminar on Debt Sustainability in Port-au-Prince, during February 2015.

Table 1. Haiti: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–2035

(In percent GDP, unless otherwise indicated)

	Actual					Estimate						Projections			
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	15.8	19.5	24.1			25.5	26.4	27.2	28.2	28.9	29.3		33.2	34.4	
of which: foreign-currency denominated	13.8	17.7	21.4			22.4	23.0	23.6	24.2	24.7	25.3		30.2	32.2	
Change in public sector debt	4.3	3.7	4.6			1.4	0.9	0.8	1.0	0.7	0.4		0.7	-0.5	
Identified debt-creating flows	4.2	7.0	7.5			0.8	0.8	0.9	0.7	0.6	0.6		0.4	-0.6	
Primary deficit	4.7	8.0	7.2	3.2	3.0	3.1	2.1	2.3	1.9	1.7	1.6	2.1	1.7	0.6	1.4
Revenue and grants	23.4	22.6	20.6			22.1	21.9	22.1	22.3	22.4	23.0		20.5	20.4	
of which: grants	10.6	8.1	6.5			6.1	5.6	5.3	5.0	4.8	4.8		4.1	2.0	
Primary (noninterest) expenditure	28.1	30.6	27.8			25.2	24.0	24.4	24.2	24.1	24.7		22.2	21.1	
Automatic debt dynamics	-0.5	-0.9	-0.3			-0.6	-1.0	-1.2	-1.1	-1.1	-1.1		-1.3	-1.3	
Contribution from interest rate/growth differential	-0.6	-0.9	-0.4			-0.7	-0.8	-1.1	-1.1	-1.1	-1.1		-1.3	-1.3	
of which: contribution from average real interest rate	-0.2	-0.3	0.1			-0.1	0.0	-0.1	-0.1	-0.1	-0.1		-0.2	-0.2	
of which: contribution from real GDP growth	-0.3	-0.6	-0.5			-0.6	-0.8	-1.0	-1.0	-1.0	-1.0		-1.1	-1.0	
Contribution from real exchange rate depreciation	0.0	0.0	0.1			0.2	-0.2	-0.1	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.6			-1.8	-0.3	-0.2	-0.1	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Domestic obligations and arrears	0.0	0.0	0.6			-1.8	-0.3	-0.2	-0.1	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.1	-3.3	-2.9			0.6	0.1	-0.1	0.3	0.1	-0.2		0.2	0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	17.4			18.7	19.5	20.2	21.1	21.6	21.8		24.2	25.3	
of which: foreign-currency denominated	...	...	14.7			15.7	16.2	16.7	17.1	17.5	17.9		21.2	23.0	
of which: external	...	...	14.7			15.7	16.2	16.7	17.1	17.5	17.9		21.2	23.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	6.7	10.2	12.3			7.8	6.2	7.4	7.5	7.5	7.6		7.1	5.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	84.5			84.7	89.4	91.3	94.6	96.4	94.8		117.7	123.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	123.1			116.8	120.3	119.8	122.1	122.7	119.8		146.9	137.4	
of which: external 3/	...	...	104.1			97.9	99.6	98.9	99.0	99.1	98.1		128.8	125.2	
Debt service-to-revenue and grants ratio (in percent) 4/	0.6	3.9	18.8			12.5	8.0	11.2	12.2	11.0	10.6		12.1	13.4	
Debt service-to-revenue ratio (in percent) 4/	1.0	6.1	27.4			17.3	10.8	14.8	15.8	13.9	13.4		15.2	14.9	
Primary deficit that stabilizes the debt-to-GDP ratio	0.4	4.3	2.6			1.7	1.2	1.5	0.9	1.0	1.2		1.0	1.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	2.9	4.2	2.7	2.1	3.0	2.5	3.2	3.8	3.7	3.8	3.5	3.4	3.5	3.0	3.3
Average nominal interest rate on forex debt (in percent)	0.6	1.2	1.0	1.1	0.6	1.2	1.2	1.2	1.3	1.3	1.3	1.2	1.2	1.0	1.1
Average real interest rate on domestic debt (in percent)	-4.7	-3.4	-2.3	-4.3	1.9	-3.8	0.7	0.4	2.0	2.4	1.3	0.5	1.2	1.6	1.5
Real exchange rate depreciation (in percent, + indicates depreciation	0.3	-0.4	0.6	0.0	4.7	0.8	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	5.3	6.6	3.8	8.6	4.8	6.6	6.4	5.4	5.0	5.0	5.0	5.6	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percer	13.5	13.3	-6.4	2.1	6.3	-7.4	-1.5	5.4	2.8	3.4	6.1	1.5	-0.5	2.6	2.3
Grant element of new external borrowing (in percent)	...	...	...	...	...	36.5	37.3	36.9	37.0	37.2	37.6	37.1	39.2	39.4	...

Sources: Country authorities; and staff estimates and projections.

1/ The DSA reflects flows for the non-financial public sector. Central Bank accounts are mostly balanced. Debt is expressed in gross terms.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Haiti: Sensitivity Analysis for Key Indicators of Public Debt, 2015–2035

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	19	20	20	21	22	22	24	25
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	19	21	22	24	26	28	35	51
A2. Primary balance is unchanged from 2015	19	20	22	23	25	26	32	44
A3. Permanently lower GDP growth 1/	19	20	21	22	23	24	30	44
A4. Alternative Scenario: Petrocaribe Sudden Stop	19	21	22	23	23	23	23	22
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	19	21	24	26	27	29	36	45
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	19	23	26	27	27	27	29	29
B3. Combination of B1-B2 using one half standard deviation shocks	19	22	25	27	28	29	34	39
B4. One-time 30 percent real depreciation in 2016	19	26	26	27	27	27	27	29
B5. 10 percent of GDP increase in other debt-creating flows in 2016	19	28	28	28	28	28	30	29
PV of Debt-to-Revenue Ratio 2/								
Baseline	85	89	91	95	96	95	118	124
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	85	94	100	108	116	119	167	244
A2. Primary balance is unchanged from 2015	85	93	98	105	111	113	155	217
A3. Permanently lower GDP growth 1/	85	90	93	98	102	103	143	214
A4. Alternative Scenario: Petrocaribe Sudden Stop	85	99	103	104	103	102	114	112
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	85	94	105	114	120	123	170	218
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	85	104	119	121	121	117	140	140
B3. Combination of B1-B2 using one half standard deviation shocks	85	100	112	118	122	123	161	192
B4. One-time 30 percent real depreciation in 2016	85	120	119	120	119	115	133	142
B5. 10 percent of GDP increase in other debt-creating flows in 2016	85	126	125	126	126	123	145	143
Debt Service-to-Revenue Ratio 2/								
Baseline	13	8	11	12	11	11	12	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	13	8	12	14	13	14	18	28
A2. Primary balance is unchanged from 2015	13	8	11	14	13	13	16	25
A3. Permanently lower GDP growth 1/	13	8	11	13	12	11	15	24
A4. Alternative Scenario: Petrocaribe Sudden Stop	13	8	11	13	11	11	12	13
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	13	8	12	14	14	14	18	25
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	13	8	12	18	17	14	14	16
B3. Combination of B1-B2 using one half standard deviation shocks	13	8	12	16	15	14	17	22
B4. One-time 30 percent real depreciation in 2016	13	9	13	15	14	14	17	22
B5. 10 percent of GDP increase in other debt-creating flows in 2016	13	8	14	23	15	14	15	16

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Table 3a. Haiti: External Debt Sustainability Framework, Baseline Scenario, 2012–2035 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**13.8**	**17.7**	**21.4**			**22.4**	**23.0**	**23.6**	**24.2**	**24.7**	**25.3**		**30.2**	**32.2**	
of which: public and publicly guaranteed (PPG)	13.8	17.7	21.4			22.4	23.0	23.6	24.2	24.7	25.3		30.2	32.2	
Change in external debt	4.9	3.9	3.7			1.0	0.6	0.6	0.5	0.5	0.6		1.0	-0.3	
Identified net debt-creating flows	3.3	3.5	4.7			1.8	1.4	0.9	0.6	0.1	0.1		-0.2	-1.3	
Non-interest current account deficit	**5.6**	**6.2**	**6.2**	**2.9**	**2.6**	**3.3**	**3.6**	**3.5**	**3.4**	**3.3**	**3.1**		**3.3**	**3.0**	3.1
Deficit in balance of goods and services	36.4	33.7	32.8			28.3	27.8	27.5	27.2	26.7	25.6		22.0	13.5	
Exports	16.8	18.6	19.0			19.1	19.3	19.5	19.7	19.9	20.1		21.2	25.4	
Imports	53.2	52.3	51.8			47.5	47.1	47.0	46.9	46.6	45.7		43.2	38.9	
Net current transfers (negative = inflow)	-30.0	-27.0	-26.3	-30.4	6.9	-25.6	-24.7	-24.3	-23.8	-23.3	-22.5		-19.0	-11.2	-16.6
of which: official	-12.5	-8.9	-6.5			-6.0	-5.6	-5.3	-5.0	-4.8	-4.8		-4.1	-2.0	
Other current account flows (negative = net inflow)	-0.7	-0.5	-0.3			0.5	0.5	0.2	0.0	-0.1	0.0		0.2	0.7	
Net FDI (negative = inflow)	**-2.0**	**-1.9**	**-1.1**	**-1.6**	**0.9**	**-1.2**	**-1.8**	**-2.0**	**-2.3**	**-2.6**	**-2.5**		**-2.8**	**-3.7**	-3.1
Endogenous debt dynamics 2/	**-0.4**	**-0.8**	**-0.4**			**-0.3**	**-0.4**	**-0.5**	**-0.6**	**-0.6**	**-0.5**		**-0.6**	**-0.6**	
Contribution from nominal interest rate	0.1	0.2	0.2			0.2	0.3	0.3	0.3	0.3	0.3		0.3	0.3	
Contribution from real GDP growth	-0.2	-0.5	-0.5			-0.5	-0.7	-0.8	-0.8	-0.9	-0.8		-1.0	-0.9	
Contribution from price and exchange rate changes	-0.2	-0.4	-0.1			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**1.6**	**0.4**	**-0.9**			**-0.8**	**-0.8**	**-0.3**	**0.0**	**0.4**	**0.5**		**1.2**	**1.0**	
of which: exceptional financing	-0.1	-0.1	-0.4			-0.5	-0.3	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	14.7			15.7	16.2	16.7	17.1	17.5	17.9		21.2	23.0	
In percent of exports	...	...	77.4			81.7	83.9	85.6	86.7	87.6	89.0		99.8	90.5	
PV of PPG external debt	**...**	**...**	**14.7**			**15.7**	**16.2**	**16.7**	**17.1**	**17.5**	**17.9**		**21.2**	**23.0**	
In percent of exports	**...**	**...**	**77.4**			**81.7**	**83.9**	**85.6**	**86.7**	**87.6**	**89.0**		**99.8**	**90.5**	
In percent of government revenues	**...**	**...**	**104.1**			**97.9**	**99.6**	**98.9**	**99.0**	**99.1**	**98.1**		**128.8**	**125.2**	
Debt service-to-exports ratio (in percent)	**0.7**	**1.8**	**2.4**			**3.7**	**4.6**	**5.5**	**6.1**	**6.1**	**6.3**		**6.5**	**7.6**	
PPG debt service-to-exports ratio (in percent)	**0.7**	**1.8**	**2.4**			**3.7**	**4.6**	**5.5**	**6.1**	**6.1**	**6.3**		**6.5**	**7.6**	
PPG debt service-to-revenue ratio (in percent)	**1.0**	**2.3**	**3.3**			**4.4**	**5.5**	**6.4**	**6.9**	**6.9**	**7.0**		**8.4**	**10.5**	
Total gross financing need (Billions of U.S. dollars)	0.3	0.4	0.5			0.3	0.3	0.3	0.2	0.2	0.2		0.3	0.3	
Non-interest current account deficit that stabilizes debt ratio	0.7	2.2	2.4			2.2	3.0	2.8	2.9	2.8	2.5		2.2	3.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.9	4.2	2.7	2.1	3.0	2.5	3.2	3.8	3.7	3.8	3.5	3.4	3.5	3.0	3.3
GDP deflator in US dollar terms (change in percent)	2.0	2.8	0.3	7.4	7.5	1.4	1.4	1.8	1.9	1.9	1.9	1.7	1.9	1.9	1.9
Effective interest rate (percent) 5/	0.6	1.2	1.0	1.1	0.6	1.2	1.2	1.2	1.3	1.3	1.3	1.2	1.2	1.0	1.1
Growth of exports of G&S (US dollar terms, in percent)	1.0	18.5	5.6	12.8	9.2	4.6	5.4	6.6	7.0	7.1	6.4	6.2	6.8	7.2	7.0
Growth of imports of G&S (US dollar terms, in percent)	-5.4	5.3	2.1	12.3	16.7	-4.8	3.8	5.5	5.5	5.2	3.5	3.1	4.1	4.1	4.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	36.5	37.3	36.9	37.0	37.2	37.6	37.1	39.2	39.4	39.1
Government revenues (excluding grants, in percent of GDP)	12.8	14.5	14.1			16.0	16.2	16.9	17.3	17.6	18.2		16.5	18.4	17.1
Aid flows (in Billions of US dollars) 7/	16.7	18.4	17.6			0.7	0.8	0.8	0.8	0.8	0.9		1.2	1.2	
of which: Grants	0.8	0.7	0.6			0.5	0.5	0.5	0.5	0.5	0.6		0.6	0.5	
of which: Concessional loans	15.9	17.7	17.1			0.2	0.2	0.3	0.3	0.3	0.3		0.6	0.7	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			6.8	6.5	6.3	6.0	5.8	5.9		5.5	3.2	4.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			83.8	81.4	78.4	77.8	77.2	76.8		71.5	64.9	70.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	7.9	8.5	8.7			9.1	9.5	10.0	10.6	11.2	11.8		15.5	25.7	
Nominal dollar GDP growth	5.0	7.1	3.1			3.9	4.7	5.7	5.8	5.8	5.5	5.2	5.5	5.0	5.3
PV of PPG external debt (in Billions of US dollars)			1.3			1.4	1.5	1.6	1.8	1.9	2.1		3.2	5.8	
(PVt-PVt-1)/GDPt-1 (in percent)						1.4	1.4	1.5	1.4	1.4	1.4	1.4	1.9	0.9	1.5
Gross workers' remittances (Billions of US dollars)	1.4	1.5	1.7			1.8	1.8	1.9	2.0	2.1	2.1		2.3	2.4	
PV of PPG external debt (in percent of GDP + remittances)	...	...	12.3			13.1	13.6	14.0	14.4	14.7	15.2		18.4	21.1	
PV of PPG external debt (in percent of exports + remittances)	...	...	37.9			40.4	42.1	43.3	44.4	45.4	47.3		58.7	66.5	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	1.2			1.8	2.3	2.8	3.1	3.2	3.4		3.8	5.6	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3b. Haiti: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–2035

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to-GDP+remittances ratio								
Baseline	13	14	14	14	15	15	**18**	21
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	13	13	13	13	13	14	**17**	21
A2. New public sector loans on less favorable terms in 2015-2035 2/	13	14	15	15	16	17	**23**	31
A3. Alternative Scenario: A Permanent 50 percent increase in Oil Prices in 2015	13	15	18	20	22	24	**32**	31
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	13	14	15	15	16	16	**20**	22
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	13	13	14	15	15	16	**19**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	13	13	14	15	15	15	**19**	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	13	15	16	17	17	17	**20**	21
B5. Combination of B1-B4 using one-half standard deviation shocks	13	12	12	12	13	13	**17**	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	13	18	18	19	19	20	**24**	28
PV of debt-to-exports+remittances ratio								
Baseline	40	42	43	44	45	47	**59**	66
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	40	40	41	41	43	45	**61**	76
A2. New public sector loans on less favorable terms in 2015-2035 2/	40	43	45	48	50	54	**74**	96
A3. Alternative Scenario: A Permanent 50 percent increase in Oil Prices in 2015	39	47	55	62	69	76	**104**	97
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	40	41	43	44	45	47	**58**	65
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	40	42	46	47	48	50	**61**	68
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	40	41	43	44	45	47	**58**	65
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	40	46	51	51	52	54	**63**	67
B5. Combination of B1-B4 using one-half standard deviation shocks	40	36	34	36	37	39	**51**	62
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	40	41	43	44	45	47	**58**	65
PV of debt-to-revenue ratio								
Baseline	98	100	99	99	99	98	**129**	125
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	98	93	89	87	87	86	**116**	121
A2. New public sector loans on less favorable terms in 2015-2035 2/	98	101	104	107	110	111	**162**	181
A3. Alternative Scenario: A Permanent 50 percent increase in Oil Prices in 2015	95	111	125	138	151	159	**228**	183
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	98	102	106	106	106	105	**138**	134
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	98	99	102	102	102	100	**130**	124
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	98	99	101	101	101	100	**131**	127
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	98	107	114	114	113	112	**138**	125
B5. Combination of B1-B4 using one-half standard deviation shocks	98	90	84	84	85	84	**118**	123
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	98	139	138	138	139	137	**180**	175

Table 3b. Haiti: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–2035 (concluded)

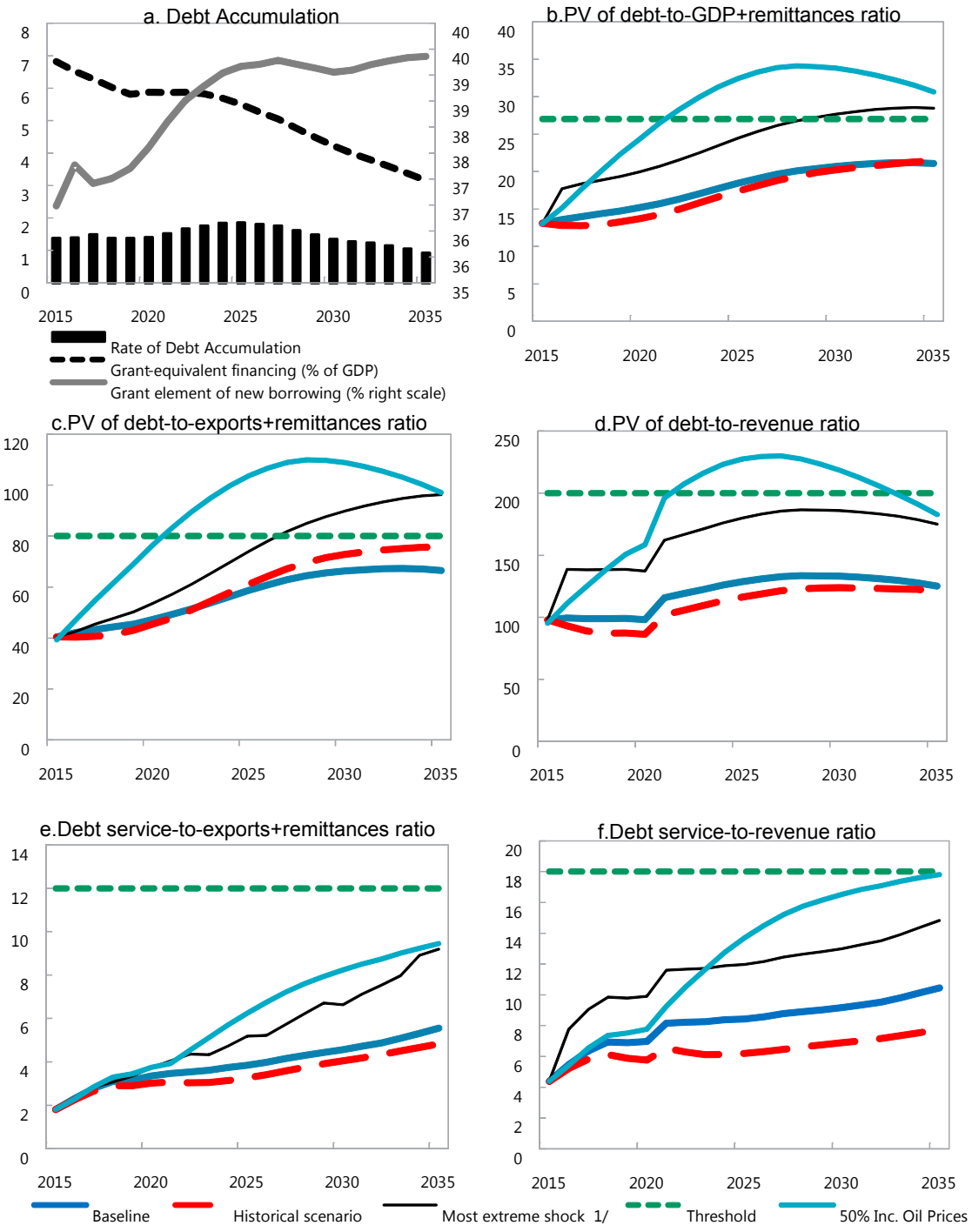
(In percent)

Debt service-to-exports+remittances ratio								
Baseline	2	2	3	3	3	3	**4**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	2	2	3	3	3	3	**3**	5
A2. New public sector loans on less favorable terms in 2015-2035 2/	2	2	3	3	3	4	**5**	9
A3. Alternative Scenario: A Permanent 50 percent increase in Oil Prices in 2015	2	2	3	3	3	4	**6**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	2	2	3	3	3	3	**4**	6
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	2	2	3	3	3	3	**4**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	2	2	3	3	3	3	**4**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	2	2	3	3	3	3	**4**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	3	3	3	3	**3**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	2	2	3	3	3	3	**4**	6
Debt service-to-revenue ratio								
Baseline	4	5	6	7	7	7	**8**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	4	5	6	6	6	6	**6**	8
A2. New public sector loans on less favorable terms in 2015-2035 2/	4	5	6	7	7	8	**11**	17
A3. Alternative Scenario: A Permanent 50 percent increase in Oil Prices in 2015	4	5	7	7	8	8	**14**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	4	6	7	8	8	8	**9**	11
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	4	5	6	7	7	7	**9**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	4	6	7	7	7	7	**9**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	4	5	7	7	7	7	**10**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	4	5	6	7	7	7	**7**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	4	8	9	10	10	10	**12**	15
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	38	38	38	38	38	38	**38**	38

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

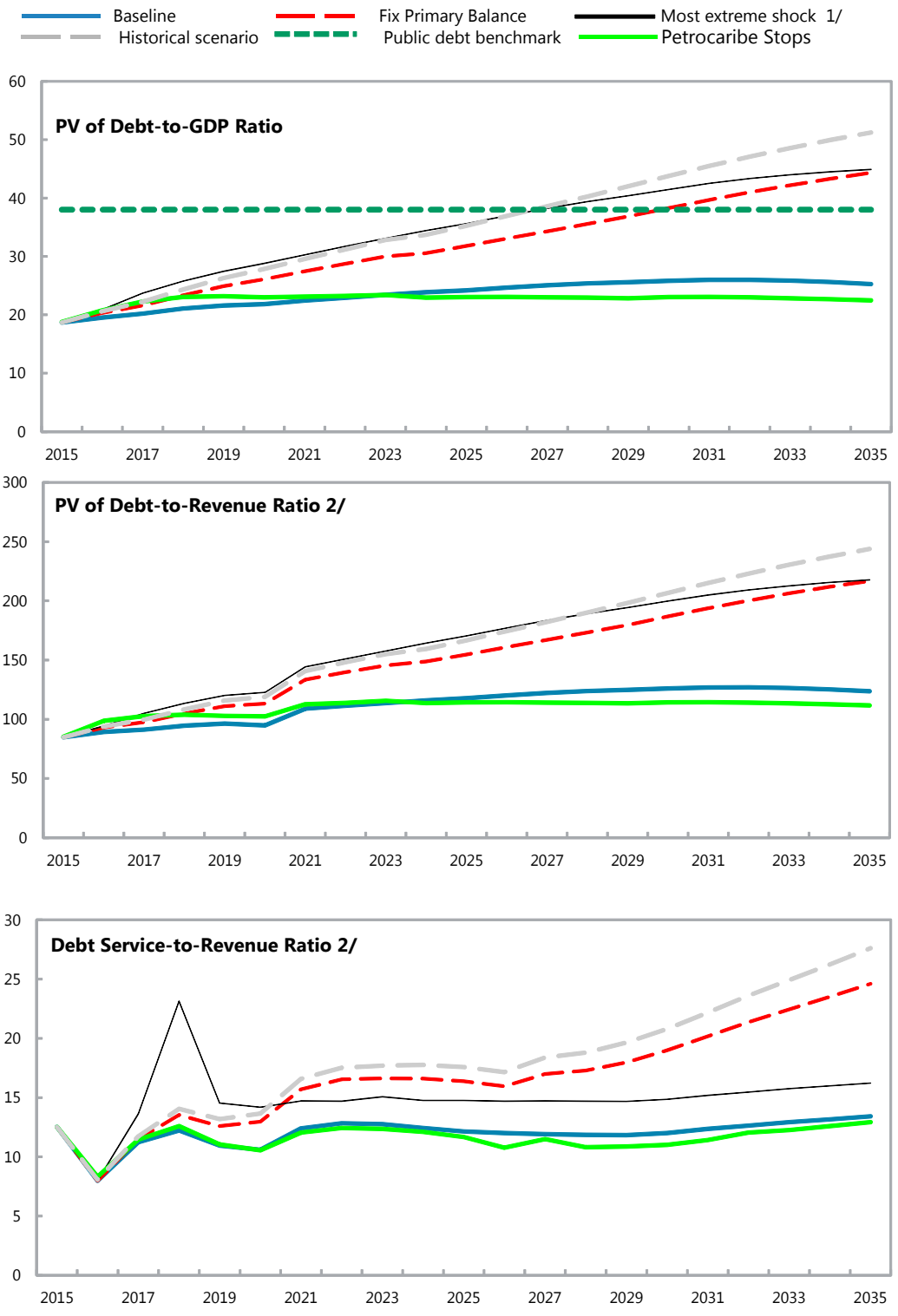
Figure 1. Haiti: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2015–2035 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Terms shock and in figure f. to a One-time depreciation shock.

Figure 2. Haiti: Indicators of Public Debt Under Alternative Scenarios, 2015–2035 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
2/ Revenues are defined inclusive of grants.

Statement by Paulo Nogueira Batista, Executive Director for Haiti,
Oliveira Lima, Alternate Executive Director,
and Ketleen Florestal, Advisor to the Executive Director
May 18, 2015

1. On behalf of our authorities, we would like to thank management and staff for the continued engagement with Haiti.

Recent Developments

2. At the time of the Executive Board's discussion of the eighth review of the last Extended Credit Facility (ECF) this past December, the Government of Haiti had already indicated that it would want a successor arrangement with the Fund and specified the priority areas for the new program. Negotiations with staff were initiated in March 2015, less than two months after a new Government took office. Concurrently, the authorities were confronted with significant challenges, including the shrinking budget funding from PetroCaribe, given its link to petroleum prices that had fallen rapidly. Repeated strikes were called from different sectors. Some of those, convened by unions in the transportation sector to press the Government to reduce petroleum prices at the pump, became violent and complicated the social and economic situation.

3. The Haitian authorities continued to press ahead with politically-sensitive reforms, despite the fact that 2015 is an electoral year with elections on all levels –including presidential. The reforms seek to enhance the transparency and efficiency of public expenditure management, in particular with the full implementation of the single treasury account, to improve the performance of the electricity sector and to phase-out fuel subsidies. The authorities' commitment to fiscal sustainability was exemplified by the completion of two key prior actions: (i) the adoption of an automatic price mechanism for refined oil products with regular price adjustments starting in June 2015; and (ii) the adoption by the board of the public electricity company (Electricité d'Haiti – EDH) of a revised budget with substantial programmed savings.

4. The Government's program lays the basis for a significant transformation of the Haitian economy by enhancing its growth potential and reducing its vulnerability to external shocks. Key program targets are to remove bottlenecks to growth and strengthen the fiscal policy framework. The authorities are also committed to pursue tax and fiscal administration reforms as a way to build sustainable fiscal conditions. The authorities' reform package is ambitious and comprehensive. Besides phasing out untargeted fuel price subsidies and upgrading the performance of EDH, the program seeks to improve tax compliance and collection, to strengthen the legal framework and the functioning of the cadastre, and to enhance access to credit.

Electricity Sector Reforms

5. The authorities consider that there is a small window of opportunity to jumpstart the reforms in the electricity sector, with the support of the IMF and several donors. As stated in

the MEFP, the electricity sector has been both a key bottleneck to growth and a significant fiscal drain. The staff report and the selected issues paper have underscored how the weak performance of the electricity sector is affecting several aspects of economic life and social well-being. The sources of losses and inefficiencies at EDH are also highlighted. These include onerous contracts with independent power producers and, until recently, weak coordination among donors and within public entities.

6. Our authorities wish to reiterate their determination to achieve a complete overhaul in the electricity sector. However, as staff indicated, the reforms jeopardize vested interests and the authorities know they will continue to face strong resistance both domestically and externally. They are confident that with political will and domestic ownership positive results can be achieved. The authorities also look forward to better coordination among donors and an enhanced level of accountability by domestic and external stakeholders.

7. As for the pricing of petroleum at the pump, the authorities are committed to depoliticize the system and to ensure that subsidies are better targeted. The Government has sought technical support from the World Bank to design a program that would shelter the vulnerable segments of the population from significant price increases in public transportation.

Monetary and Exchange Rate Policy

8. The Haitian authorities place great emphasis on adhering to their commitments under the ECF program with the Fund. Because of that, they have expressed concerns regarding the performance criterion (PC) on net international reserves (NIRs). The concerns of the Haitian authorities are reinforced by the rapid increase in petroleum prices since the close of negotiations about six weeks ago, from US$50 to US$65 per barrel; by expectations of an increase in food imports due to a recent drought; and by the prospects of a decrease in travel inflows linked to uncertainties related to the upcoming elections.

9. The authorities are also concerned about the limit the adjusters may impose on their capacity to take advantage of additional external support. The program takes into account assistance that was confirmed at the time of negotiation and sets up caps to the amount of additional external financing that can be freely used. Beyond those caps, external financing will entail a reduction in the amount of net domestic financing to the central government allowed in the program.

On the debt sustainability analysis

10. According to staff's assessment, Haiti is considered this year to be at moderate risk of debt distress. However, staff warns that the change in classification from high to moderate is mostly due to the fall in oil prices and ensuing improvement in the terms of trade. Hence, staff recommends caution as the oil price decrease could be temporary. Our authorities share the view that continued prudence is warranted in contracting debt. However, they find staff's considerations on the DSA unbalanced, because the potential upside risk from the increased

economic activity in the United States, which would impact Haiti particularly through remittances, does not seem to have been considered.

Conclusions

11. The Fund should support the authorities' efforts to undertake difficult reforms in an electoral year. At the time of the last Board discussion, Directors advised that future Fund engagements with Haiti be guided by the recommendations of the Ex Post Assessment of Longer-Term Program Engagement, including the need for a more realistic policy framework and greater ownership. As we have underlined on several occasions, full domestic ownership of an arrangement with the IMF requires that the authorities remain in the driver's seat while the Fund helps them marshal support for the program.

12. Haiti is a country in a fragile situation, member of the g7+ grouping. We believe that this is one of the instances in which the Fund could showcase its willingness to cater appropriately to the needs of this segment of the membership. With the reduction of PetroCaribe flows expected to be of about 50 percent, there is also a pressing need to develop innovative lending mechanisms that would ease the current financing constraints and allow Haiti to invest in a better future.