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Haiti: 2010 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Haiti

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2010 Article IV consultation with Haiti, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 28, 2010, with the officials of Haiti on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 30, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement consisting of the joint IMF/World Bank debt sustainability analysis.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 21, 2010 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Haiti.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Haiti*
Memorandum of Economic and Financial Policies by the authorities of Haiti*
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

HAITI

Staff Report for the 2010 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by Gilbert Terrier and Dominique Desruelle

July 8, 2010

EXECUTIVE SUMMARY

The January 12, 2010 earthquake was a major setback for Haiti, after several years of progress in maintaining macroeconomic stability and implementing essential reforms. Performance under the PRGF/ECF-supported program (November 2006-May 2010) remained satisfactory, despite a series of shocks, political instability, and social unrest. The sixth and last ECF review was completed on January 27, 2010, together with an augmentation of access equivalent to 80 percent of quota.

There are signs that the economy is now rebounding, despite a relatively slow start of reconstruction activities. Damages and losses from the earthquake are estimated at 120 percent of 2009 GDP. Agriculture, construction, and textile manufacturing are leading the recovery. However, the humanitarian situation remains dire, with about 1.3 million people still in temporary shelters.

Successful implementation of the authorities' medium-term reconstruction plan hinges crucially on the timely disbursement of aid commitments. Donors will need to accelerate disbursements of the amounts pledged in order for the reconstruction to proceed and to ensure a rapid improvement in living conditions. The reconstruction plan aims at sustainably raising medium-term growth and reducing poverty by creating decentralized economic growth poles, reducing vulnerability to natural disasters, enhancing access to basic social services, and strengthening state institutions. To support reconstruction, donors pledged US$9.9 billion, of which US$5.3 billion are to be disbursed over the next 18 months. Donors are also committed to cancelling Haiti's debt.

The proposed three-year program, supported by a new ECF arrangement in an amount equivalent to 50 percent of quota, aims at buttressing macroeconomic policies and boosting economic growth. In the context of large and volatile aid inflows, Fund financing would help mitigate excessive exchange rate and reserves movements. These inflows (projected to triple to about 15 percent of GDP a year on average in 2010-14) will likely place upward pressure on the currency, which will have to be mitigated by efforts to expand supply capacity and remove structural obstacles to competitiveness. Program risks remain high, but the earthquake has highlighted the urgency of moving forward with the unfinished reform agenda and further strengthening institutions and economic governance.

Relations with the Fund. Haiti has accepted the obligations of Article VIII, Sections 2, 3, and 4, and its exchange rate system is free of restrictions on payments and transfers for current transactions. The *de jure* exchange regime remains a managed float with no pre-determined path for the exchange rate.

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I. Post-Earthquake Challenges[1]

1. **The massive January 12, 2010 earthquake struck Haiti at a time when its economic outlook was improving.** The earthquake caused unprecedented destruction of human and physical capital, with damages and losses estimated at 120 percent of 2009 GDP. Over 225,000 persons were killed and 300,000 injured. Most ministries, hospitals, and schools were destroyed. Prior to the earthquake, the political and security situations were gradually improving and foreign investors' interest in the tourism, energy, and textile manufacturing sectors had begun to materialize. In 2009, economic growth reached close to 3 percent. The authorities' success at maintaining macroeconomic stability and implementing essential structural reforms despite of numerous shocks allowed the cancellation of US$1.2 billion of debt under the HIPC/MDRI Initiative in mid-2009.

2. **Although the international emergency response has been generous, the humanitarian situation is only slowly improving, increasing risks of widespread social unrest**. At a high-level UN conference in March, the government presented its reconstruction plan, aiming at building a better Haiti. The international community committed US$9.9 billion in support of this plan, of which US$5.3 billion are to be disbursed over the next 18 months (Text Table 1). In recent weeks, the distribution of tents to about 96 percent of homeless families, large-scale cash-for-work programs, and the reopening of schools have helped improve living conditions. However, about 1.3 million people remain in temporary shelters, at the start of the hurricane season. Recent attacks on MINUSTAH troops and rapidly rising insecurity are evidence of the rising discontent of the population.

Text Table 1: Donor Pledges 1/
(in millions of U.S. dollars)

	2009/10	2010/11	2011/12	2012/13 and beyond	Total
Humanitarian aid	**3,047**	…	…	…	**3,047**
Recovery and reconstruction	**3,407**	**1,457**	**218**	**4,840**	**9,922**
Grant	2,267	1,358	196	3,953	**7,773**
Of which: budget support	441	100	5	270	**816**
Loan	132	32	18	20	**202**
New debt relief	712	0	0	90	**802**
Unallocated	296	68	4	777	**1,144**

Source: United Nations, Office of the Special Envoy for Haiti.
1/ As of June 7, 2010.

3. **Timely disbursement of the amounts pledged, effective coordination of reconstruction efforts, and strengthening of the government's implementation capacity are essential**. The Interim Haiti Reconstruction Commission (IHCR) is expected to set strategic reconstruction priorities and coordinate government and donor activities (including NGOs). A Multi-Donor Trust Fund (MDTF, or Haiti Reconstruction Fund ─ HRF) operated by the World Bank will help channel resources for the reconstruction. Disbursement of aid through the government budget or the Multi-Donor Trust Fund would enhance coordination and local capacity building.

[1] Discussions were held in Port-au-Prince during May 24-28, 2010. The staff team, which comprised Ms. Deléchat (head), Ms. Martin and Ms. Touré (all WHD), Ms. Riad (SPR), Mr. Gray (MCM), and Mr. Bouhga-Hagbe (Resident Representative), was joined by Mr. Perez (OED) for some of the policy discussions. The team met with Prime Minister Bellerive, Finance Minister Baudin, Central Bank Governor Castel, and other government and private sector representatives.

4. **Boosting investment will be key to sustainably raising medium-term growth and reducing poverty beyond the reconstruction period.** The authorities' objectives to sustain an annual rate of growth of 5-6 percent over the medium-term and reduce the poverty rate from 54 percent to 40 percent by 2015 are ambitious in light of historical performance (Text Table 2). Reaching these objectives will require boosting investment and improving infrastructure, in particular with respect to electricity and roads; removing obstacles to private sector credit; improving the business environment and economic governance; and enhancing the population's access to basic social services.

Text Table 2. Average Real GDP Growth (in percent)

	1995-2000	2001-05	2006-09	20010-13
Haiti	3.8	-0.5	2.3	4.2
Low income countries	3.5	5.3	5.2	5.5
ECF countries	5.6	7.9	6.7	5.3
Post-conflict countries	2.6	5.2	4.9	4.5

Source: World Economic Outlook; Fund staff estimates.

5. **In this context, the new ECF arrangement supports macroeconomic policies aimed at facilitating the absorption of aid inflows and raising medium-term growth, in line with the authorities' objectives**. Fund resources would play an important role in allowing the authorities to smooth out exchange rate and reserves fluctuations that may be caused by large and volatile aid resources. Aid inflows are expected to triple from an annual average of 5–6 percent of GDP during FY 2005-09 to almost 15 percent of GDP during FY 2011–14. Close coordination and enhanced effectiveness of fiscal, monetary, and exchange rate policies will be needed to ensure effective spending and absorption of these inflows. The program design complements and builds upon the large financial and technical support provided by IFIs and bilateral donors for Haiti's reconstruction (Box 1).

II. Recent Developments: An Incipient Recovery

6. **Economic activity has rebounded rapidly since the earthquake**. Agricultural production, construction (including debris removal), and textile manufacturing are leading the recovery. Remittances, which grew by 12 percent in January-May (year-on-year), are supporting consumption and imports. The trade deficit is widening, although exports are recovering. Twelve-month inflation reached 6.4 percent in May, in line with staff's projections for the end of this fiscal year (8.5 percent at end-September). The Gourde has remained broadly stable against the U.S. dollar since end-January, as the central bank (Banque de la République d'Haiti─BRH) has stepped up its net foreign exchange purchases. NIR grew to US$646 million at end-May (from US$402 million at end-December), while the 12-month rate of base money growth rose to 28 percent (Figure 1, Tables 1, 3-4, MEFP ¶5).

7. **A recovery in revenue collection and weak spending have helped compensate for slow budget support disbursements.** Revenue has been trending upward since January, and tax collections during February-May represented about 80 percent of budgeted amounts. The good performance of taxes based on sales of goods and services is likely to continue, as economic activity strengthens. However, sustaining the favorable revenue collection from income taxes, based on FY 2009 activity, will require a strengthening in controls and audits. Capital spending has remained subdued due to capacity constraints and uncertain financing, but has started to pick up in May. As of end-June, budget support disbursements amounted to only 30 percent of total commitments for the fiscal year ending in September (Table 2).

Box 1. The Fund's Response to the Earthquake and Donor Coordination

The Fund's prompt response to the January 2010 earthquake was closely coordinated with those of other major multilateral and bilateral donors. Emergency interventions in the immediate aftermath of the earthquake are being replaced by support for the authorities' reconstruction plan over the medium-term.

The Fund responded promptly to the emergency by providing liquidity support and technical assistance to restore basic state functions. The US$102 million ECF augmentation disbursed at end-January helped to keep cash flowing in the economy and finance emergency imports. Fund technical assistance missions helped restore basic treasury and revenue administration functions and provided advice on maintaining financial sector stability. These efforts were closely coordinated with other donors' interventions, which focused on providing temporary office space and equipment to key government agencies (World Bank, Sweden, USAID); reestablishing the payments system as well as the government payroll and basic IT functions (World Bank, IDB and U.S. Treasury); and assessing the impact of the earthquake on the insurance sector (World Bank).

The long-term reconstruction effort is supported by large-scale financial and technical assistance from the international community. Substantial resources for reconstruction projects, most of which are in the form of grants, have been committed by donors. Additional budget support commitments amount to US$171 million for this fiscal year and next. Most of Haiti's creditors have also indicated that they would cancel Haiti's remaining debt. In this context, the proposed three-year ECF-supported arrangement aims at providing a coherent macroeconomic framework that would help anchor support from other donors.

The new ECF program is supported by a comprehensive medium-term technical assistance strategy focused on strengthening state institutions within the Fund's core areas of expertise. The Haitian authorities have expressed a clear commitment to use the earthquake as an opportunity to accelerate reforms in certain areas, in particular revenue administration. In the fiscal area, Fund TA will focus on tax policy and revenue administration, budget preparation and planning, fiscal reporting, and Treasury management. The Fund is also assisting in financial sector issues with the establishment of a Partial Credit Guarantee scheme (PCG Fund) in collaboration with the World Bank, the IDB and the U.S. Treasury; the development of a domestic Treasury bill market; central bank recapitalization; and the design of a framework for insurance regulation. Haiti's development partners are building capacity in complementary fields, such as payroll management, internal and external audits and procurement, anti-corruption and governance (World Bank), debt management (Canada, IDB), energy sector (World Bank, Canada), and restoration of IT systems (USAID). The European Union supports overall economic governance and public financial management reforms.

8. **Banking sector capitalization has been negatively affected by the earthquake**. At end-2009, the Haitian banking system was well capitalized and highly liquid. Credit and deposits were growing, liquidity had improved, all banks posted positive earnings, and non-performing loan ratios had declined. However, financial intermediation margins remained wide, loan concentration high, and related lending pervasive. Bank capital has been negatively affected by the earthquake, and non-performing loans rose from 8.6 percent of

total loans in December to 12.1 percent in March.[2] The authorities estimate that a third of bank loans may have been impaired as a result of the earthquake. Private sector credit declined by 12 percent between December and May (Figure 2, Table 5, MEFP ¶5).[3]

9. **The earthquake also exposed the underlying vulnerabilities of the non-bank financial sector**. Both micro-finance institutions and insurance companies were poorly regulated. Micro-finance institutions, which were undercapitalized and, for the most part, uninsured, were hard-hit by the earthquake. For most borrowers to be able to repay existing loans, maturities will need to be extended and some new credit provided. The insurance sector is also affected, with gross costs estimated at around US$200 million. However, reinsurance coverage for catastrophic events appears to have been appropriate, covering most of the reinsured claims and about 75 percent of the total cost.

10. **The political and security situations are increasingly volatile.** Parliamentary elections, originally scheduled for February 2010, have been postponed to November 2010. They will be held simultaneously with the presidential and municipal elections. A controversy has emerged about the feasibility of this calendar, compounded by an 18-month extension of the state of emergency during which the Executive can govern by decree. The security situation in Port-au-Prince has also deteriorated since the earthquake, as criminals and gang leaders escaped from prison, and kidnappings have increased, including of foreigners.

III. POLICY DISCUSSIONS: BUILDING A BETTER HAITI

11. **The Government has prepared an ambitious reconstruction plan, which aims at raising long-term growth and reducing poverty**. This plan focuses on creating decentralized poles of economic growth and strengthening state institutions (Box 2). It also aims at reducing vulnerability to natural disasters and enhancing access to basic social services. The priority areas identified in the plan are consistent with the PRSP, although the plan gives more prominence to addressing housing and territorial development issues, which have been heightened by the earthquake. The authorities intend to prepare a PRSP update in 2011 but, in the meantime, staff and the authorities agreed that the reconstruction plan presents revised poverty reduction and growth objectives.

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[2] Excluding BNC, a large bank which absorbed the failed SOCABANK in 2008, the NPL ratio rose from 3.8 percent to 6.5 percent over the same period.

[3] This decline was due in part to the fact that borrowers used their insurance payments to pay down lines of credit until they are in a position to re-start their businesses.

Box 2: Haiti's National Action Plan for Recovery and Development

On March 31, 2010 at a high-level UN donors' conference, the authorities presented their ten-year action plan for building a better Haiti, raising long-run growth and reducing poverty. The first 18-month period aims at starting the economic recovery and reconstruction process, while continuing to provide emergency support to the affected population. Priority is given to humanitarian and rehabilitation needs ahead of the hurricane season. Schools and universities are reopening. Measures to stabilize the financial system and restore SMEs access to credit will help restart economic activity and create jobs.

The longer-term development and growth strategy is structured around four pillars:

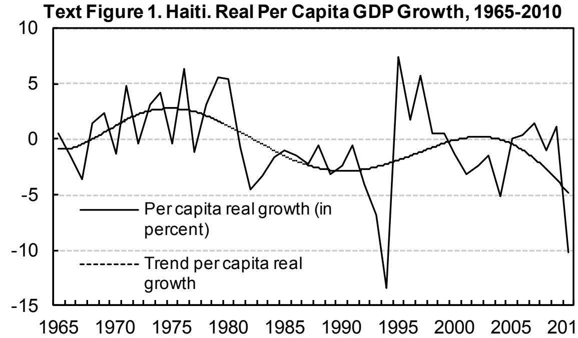
- **Territorial rebuilding.** Economic activity is to be decentralized from the capital to the rest of the country through the development of regional economic centers. This will also require improving the transport and communication infrastructure, and implementing a land settlement strategy with a reliable land registry.
- **Economic rebuilding**. Agriculture and private sector development are considered the main growth engines. Agricultural yields will be improved through the distribution of agricultural inputs and the development of irrigation and rural road networks. Private sector development is to be promoted through: (i) strengthening the legal and regulatory framework for doing business; (ii) facilitating the establishment of manufacturing industries, tax-free zones, industrial areas, and tourism development; (iii) attracting private investment, including by eliminating red tape; (iv) boosting credit to the private sector, particularly to SMEs; and (v) seeking public-private partnerships (PPPs) for large infrastructure projects.
- **Social rebuilding**. The plan aims at reducing poverty rates from 54 percent in 2009 to 40 percent by 2015 (share of the population living under 1 U.S. dollar per day). Protecting the most vulnerable will be addressed by promoting employment and social inclusion. Basic public services and social safety nets will be enhanced.
- **Institutional rebuilding**. Improving political, economic, and social governance will be critical to the success of the plan. The plan highlights the needs to support democratic institutions and seek political consensus.

Institutions dedicated to manage the reconstruction process started to operate in June. The Interim Haiti Reconstruction Commission (IHRC) is co-chaired by Prime Minister Bellerive and the UN Secretary General's Special Envoy Bill Clinton. Its mandate over the next 18 months will be to oversee reconstruction activity, including coordination among all partners. The Commission is composed by an equal number of Haitian and donor representatives. The IHRC will be replaced after 18 months by the Haiti Reconstruction Agency (HRA). A Multi-Donor Trust Fund (MDTF) or Haiti Reconstruction Fund (HRF) managed by the World Bank will support the reconstruction plan. All projects financed by the HRF will have to be approved by the IHRC.

A. Haiti's Growth Challenges

12. **Haiti has been impoverished by decades of volatile and declining growth.** Real GDP per capita has contracted by 30 percent since the 1960s. Although macroeconomic stability was maintained and growth performance improved in recent years, growth remained below the PRSP objective (4 percent) and was insufficient to reduce poverty, with 72 percent of the population living under US$2 a day (Text Figure 1 and Text Table 3).

Text Figure 1. Haiti. Real Per Capita GDP Growth, 1965-2010



Source: IMF, World Economic Outlook.

Text table 3. Haiti: Selected Social Indicators

	Human Development Index	Life expectancy at birth (years)	DPT immunization rate (percent of children ages 12-23 months)	Prevalence of undernourishment (percent of population)	Adult literacy rate (percent of population above age 15)
Haiti [1]	0.53	61	53	58	55 [2]
Low income countries	0.54	58	80	31	64
Latin America and the Caribbean	0.82	73	92	9	91

Sources: UNDP, Human Development Report; World Bank, World Development Indicators.

[1] Haiti ranks 149th over 182 in the 2009 Human Development Report.

[2] Haiti uses the Creole literacy rate w hereas other countries use the main European language.

13. **Staff and the authorities agreed that this disappointing growth performance is to a large extent attributable to the persistence of long-standing structural and institutional barriers, which continue to deter private investment and credit**. Haiti's extreme poverty, environmental degradation and concentration of the population in a few areas have heightened vulnerability to natural disasters and other external shocks. Although progress in maintaining macroeconomic stability, strengthening governance, and improving political stability and security are notable, these achievements do not seem to have yet reached the "critical mass" needed to boost private sector investment:

- *Progress made in strengthening governance and democratic processes, as well as improvements in the security situation, must be consolidated*. Organizing a fair and free general election 10 months after the earthquake is a challenge, but will be critical to maintaining the government's credibility and boosting donor and investor confidence. MINUSTAH's presence should help reverse the post-earthquake deterioration in the security situation. The authorities' strong commitment to continue strengthening governance is also welcome (see Box 3).

- *The population's access to basic social services, in particular health and education, will need to be further enhanced*. Living standards have deteriorated since the earthquake and tangible improvements must be made to reduce the risks of civil unrest and enhance human capital and labor productivity.

- *Infrastructure, in particular energy and transportation, needs to be upgraded.* Energy supply is inadequate, expensive and unreliable. Roads, ports, airports, irrigation systems need to be repaired or built from scratch.
- *Property rights are difficult to enforce, impeding private investment and credit*. The civil and land registries are unreliable and incomplete. The judiciary system is weak and 80 percent of this system in Port-au-Prince has been adversely affected by the earthquake.
- *Doing business is expensive and difficult*. Administrative procedures for setting up new businesses are lengthy, costly, and cumbersome (according to the 2010 World Bank's Doing Business indicators, it currently takes 180 days to start a business). The Center for Facilitation of Investments (CFI) will need to be transformed into an efficient one-stop shop for foreign investors.

14. **The authorities are confident that implementation of their Action Plan will help address these issues and boost GDP growth to about 6 percent a year by 2015 while significantly reducing poverty**. Staff agreed that the reconstruction plan provides a sound basis for sustainably raising growth, and noted that the substantial resources pledged by donors represented a unique opportunity to tackle Haiti's development challenges in a comprehensive manner. Given vast needs, staff recommended that the authorities set clear priorities, further articulate their growth strategy, and focus their interventions where they could be the most effective. Donor-funded projects should be prioritized and coordinated by the Reconstruction Commission to reflect the authorities' priorities.

15. **Staff noted that successful economic decentralization was the cornerstone of the authorities' Action Plan**. Decentralization of economic activity, including across sectors (agriculture, tourism, textile manufacturing), would help expand and diversify the sources of growth, boost competitiveness, and enhance resilience to shocks. Creating new economic growth poles would imply developing infrastructure, housing, and business-related services in the provinces. To this aim, staff supported the authorities' strategy to engage in PPPs for the development of ports and airports, to help attract private capital while minimizing costs to the budget. However, staff emphasized the importance of strong legal and regulatory frameworks in this area, and noted that Fund technical assistance in that area would be available. Staff also stressed the importance of creating a level playing field for investment, and urged the authorities not to use tax exemptions or other discriminatory incentives to favor investment in the provinces.

16. **Staff highlighted the importance of rapidly adopting concrete measures to jumpstart decentralization and growth.** The introduction and enforcement of a new building code are critical to increasing foreign direct investment in the textile and tourism sectors, and to developing new free trade and industrial zones. Strengthening the cadastre and property rights is also fundamental for the population to rebuild and for activity to settle outside of the capital. Small businesses have been hard hit by the earthquake, and a lack of adequate credit to the private sector in need of capital to restart activities could delay the recovery. The launching of major public and infrastructure works would create jobs and generate a reconstruction momentum. Delays in implementing these measures would undermine confidence in the government's ability to implement its plan and risk weighing permanently on medium-term growth prospects.

17. **Over the medium-term, the authorities concurred that reforms to enhance non-price competitiveness would be critical in preserving export competitiveness, while allowing the absorption of large aid inflows** (MEFP ¶22-24). The authorities agreed that better infrastructure, including roads and energy supply, and improvements in the business climate would go a long way toward boosting private investment. The government is determined to cut red-tape, simplify business regulations, and improve the delivery of judicial services. The authorities have started to revise the legal and financial regulation framework with a view to meeting international FDI standards. Among other advantages, this would enable Haiti's textile export sector to fully benefit from the *Haiti Economic Lift Program* (HELP) Act.[4] On December 11, 2009, Haiti also concluded the Economic Partnership Agreement (EPA) with the European Union, joining the fourteen Caribbean states that signed the EPA in October 2008. The EPA is expected to strengthen Haiti's ties both with the European Union and with the region, and allow it to benefit from a stable trading environment for goods and services as well as greater opportunities for foreign investment.

18. **Against this backdrop, discussions focused on macroeconomic policies that would help support growth and the authorities' plan.** More efficient and transparent spending and renewed efforts to increase revenue would enhance the credibility of the state and the availability of domestic resources for reconstruction. Measures to boost absorptive capacity, modernize monetary and exchange rate operations, and enhance credit growth will be essential to eliciting the needed supply response.

B. Macroeconomic Outlook

19. **Staff and the authorities agreed that the macroeconomic outlook for FY 2010–13 was highly uncertain and would depend heavily on the path of aid disbursements**. Official grants are projected to average about US$1.5 billion a year (over 20 percent of GDP) until 2013, which will require careful coordination of macroeconomic policies.

- *In the near-term, growth should rebound strongly*, to about 9 percent on average over the next two years, driven mostly by reconstruction. Staff and the authorities agreed that the projected growth path was realistic, based on detailed estimates of sectoral damages and losses, recovery potential in each sector, and given the projected path of aid inflows (Appendix I). Annual inflation would remain high, at 8.6 percent in FY 2011, due to supply and transport bottlenecks, and strong demand. Inflation would gradually decline thereafter to 7 percent by end-FY 2013.
- *Medium-term projections assume that aid inflows are effectively spent and absorbed*, with the widening of the fiscal and current account deficits associated with reconstruction spending and imports to be sustainably covered by grants. NIR coverage would remain at about 3 months of imports throughout the period. By 2013, both the fiscal deficit and the current account (excluding grants) would converge to

[4] The HELP Act, which was passed by the U.S. Congress on May 6, 2010 would extend Haiti's trade preferences provided under the HOPE II initiative until 2020 and expand duty-free access to the U.S. market for additional Haitian textile and apparel exports. The initiative is designed to create jobs for Haitian factories.

levels consistent with fiscal and external sustainability, as indicated in the debt sustainability analysis and staff's exchange rate assessment (Text Table 4, Table 6, MEFP ¶6).[5] Remittances to Haiti tend to be more countercyclical and resilient than in other countries of the region and are projected to continue to grow, albeit at a slower pace than in recent months (Figure 3). However, external vulnerabilities remain high, and weaker-than-anticipated remittances and exports could derail growth (Table 7), while natural disasters will continue to pose risks over the medium term.

Text Table 4. Haiti: Medium-Term Macroeconomic Framework
(Fiscal year ending September 30)

	2009	2010	2011	2012	2013
(change over previous year unless otherwise stated)					
GDP at constant prices	2.9	-8.5	9.8	8.4	6.9
Consumer prices (end-of-period)	-4.7	8.5	8.6	7.5	7.0
(in percent of GDP, unless otherwise stated)					
Overall fiscal balance	-4.4	-2.9	-3.9	-4.9	-4.2
Overall fiscal balance (excl. grants and externally financed projects)	-4.4	-6.8	-5.7	-4.1	-3.0
Central bank net credit to the central government	0.2	0.1	0.0	0.0	0.0
External current account balance (incl. official grants)	-3.2	-2.1	-3.7	-4.1	-4.1
External grants	7.4	26.6	20.5	15.5	12.7
External current account balance (excl. official grants)	-10.6	-28.7	-24.2	-19.7	-16.8
(In millions of U.S. dollars, unless otherwise stated)					
Net international reserves (program)	439	301	339	425	455
Liquid gross reserves	948	1,076	1,140	1,212	1,302
In months of imports of the following year	2.9	3.1	3.2	3.2	3.4

Sources: Ministry of Economy and Finance; Bank of the Republic of Haiti; and Fund staff estimates.

C. Fiscal Policy

20. **Fiscal policy discussions focused on short- and medium-term challenges associated with the reconstruction.** The earthquake destroyed the tax administration building and information systems, killed many directors, and damaged tax records. Staff and the authorities agreed that an immediate priority was to find adequate office space and restore basic functions. The earthquake has also further weakened spending execution capacity, at a time where needs are both massive and urgent. Over the medium term, the authorities noted that their main objectives were to: (i) raise domestic revenue through a reform of the tax system and the building of modern and efficient tax and customs administrations; (ii) align the budget and its financing to reconstruction priorities within a programmatic framework; and (iii) continue strengthening public financial management to enhance the quality and transparency of spending.

Tax administration and policy

21. **Staff and the authorities agreed that a comprehensive tax reform and a stronger revenue administration would help raise domestic revenue collection above 13 percent of GDP by FY 2013.** At about 11 percent of GDP in FY 2009, Haiti's fiscal pressure was below that of similar countries, and it has been set back further by the earthquake. The

[5] See EBS/10/139, supplement 1, and Appendix II.

authorities intend to increase revenue collection by broadening the tax base, combating fraud, and reducing exemptions. Staff also welcomed the authorities' efforts in leading an ambitious reform of the revenue administration, which would help reach medium-term revenue objectives.

22. **The authorities are designing a strategy for rebuilding a modern and efficient tax administration.** Tax and customs administration will be refocused on performance and fiscal missions, verification and controls will be stepped up, and quarterly performance reports will be published (MEFP ¶11). Design and implementation of the strategy will be supported by technical assistance from the Fund and other partners.

23. **Tax policy reforms will focus on a review of the tax system, including exemptions**. The authorities welcomed Fund technical assistance in reforming the VAT, excises, and income taxation, and for the preparation of a new tax code. As a first step, they plan to establish, by end-September 2010, a working group tasked with preparing and submitting revised tax laws to Parliament during FY 2011. These new laws would be consolidated in a tax code in FY 2012. In the short-run, the authorities agreed to introduce (by end-September) a tax on incoming international calls and car registration fees, which had been delayed by the earthquake. These measures are expected to increase annual revenue by about 0.4 percent of GDP. The authorities also indicated that they would continue reviewing exemptions to reduce their number, and would publish quarterly reports identifying all fiscal expenditures by beneficiary sector, starting in September 2010 (MEFP ¶11, Table 2).

Fiscal spending

24. **Staff and the authorities agreed that stronger and more transparent fiscal institutions could help attract additional budget support resources.** In May, Haiti's main budget support donors and the authorities agreed on a revised set of priority measures to pursue ongoing reforms to enhance economic governance (Box 3). These measures would form the basis for future budget support disbursements, thereby strengthening donor coordination and increasing the predictability of external financing. Staff and the authorities agreed to base program conditionality in the fiscal area on this common matrix, which includes measures to strengthen budget preparation and execution, revenue mobilization, payroll and treasury management, controls and audits and corruption prevention, as well as measures to increase and track poverty-reduction spending. In the short-term, fiscal transparency will be enhanced through the publication of data on: (i) quarterly spending on poverty-reducing expenditures; (ii) monthly transfers to investment project accounts, including PetroCaribe projects; and (iii) monthly subsidies and cash transfers by beneficiary entity (MEFP ¶13–14).

25. **Strengthening public financial management will be essential to support the implementation of the reconstruction plan**. The authorities envisage progressively shifting to a programmatic budget approach, starting with key line ministries in FY 2012. As a first step, rolling multi-year public investment programs will be prepared, informed by better recording and tracking of investment spending. CARTAC and FAD technical assistance is supporting the establishment of a macro-fiscal unit at the Ministry of Finance that would help strengthen planning and better reflect spending priorities in the budget. Budget planning will be supported by the preparation of monthly reconciled Treasury balances and of quarterly

plans for liquidity management. The progressive move to a Single Treasury Account will complement these reforms. (MEFP ¶14).

Box 3. Haiti: Recent Improvements in Governance

Since 2004, the Haitian government has implemented reforms aiming at improving transparency and strengthening governance. The government is strongly committed to continue with these reforms in order to improve the business environment, boost private investment, and create jobs. Although Haiti continues to rank low in world governance indicators, progress has been made in recent years in several areas:

- ***Public financial management***. Achievements include: (i) approval of budgets before the start of the fiscal year and publication in the official journal; (ii) monthly publication of information on budget execution; (iii) improvements in budget execution (the share of spending executed without prior authorization fell from 62 percent of non-wage current spending in FY2004 to 3 percent in FY 2009); (iv) reinforcement of expenditure management and control through the extension of the current spending management system (SYSDEP) to various branches of the government, the deployment of public accountants and financial comptrollers in line ministries, ; (v) the establishment of civil service employment verification systems based on attendance lists; (vi) auditing public accounts, submitting them to Parliament, and publishing audit results; and (vii) the passing of a new Procurement law in June 2009.
- ***Public enterprises***. Financial audits of the national port authority (APN), the telecommunications company (TELECO), and the national electricity company (EDH), were completed by international auditing firms in 2005. TELECO was privatized in May 2010, completing the central bank's disengagement from commercial activities.
- ***Anticorruption efforts***. The government created an Anticorruption Unit (ULCC) in 2004 to fight corruption in the public administration. The unit key achievements' include the adoption and implementation of an asset declaration law for civil servants in 2008 and the adoption of a national anticorruption strategy in March 2009.

While Haiti has been strengthening governance, efforts in that area need to be pursued. Most decrees implementing the Procurement law have yet to be adopted, and compliance with the asset declaration law among members of the legislative and judicial branch should improve. The tracking and quality of public investment spending, and overall fiscal transparency, need to be further enhanced. The authorities have committed to implementing specific measures in these areas, as part of the common conditionality framework for budget support agreed with key donors.

26. **To reach their objective of reducing the poverty rate to 40 percent by 2015, the authorities aim at increasing priority social spending by 30 percent by September 2011** (MEFP ¶13). The earthquake has aggravated the poverty situation and led to a deterioration in food security, highlighting the urgency of improving access to social services and reducing vulnerability to natural disasters. The authorities noted that public investments under the reconstruction plan would focus on improving the delivery of public services including education and health, establishing basic social safety nets, and developing transport and communication infrastructure.

Budget financing

27. **The authorities expressed a strong preference for channeling aid through existing coordination mechanisms, either the budget or the MDTF.** Staff agreed, noting that this would help strengthen transparency, better monitor fiscal developments, and improve coordination in an environment of limited capacity. Staff and the authorities agreed to include all donor-financed government projects, as well as previously off-budget resources such as PetroCaribe financing, in the revised FY 2010 and subsequent budgets and budget execution reports. The Interim Haiti Reconstruction Commission (IHRC) is expected to play the leading role in coordinating reconstruction activities with reconstruction institutions and donors (including NGOs). It will also track aid disbursements to ensure transparency, coordination, and exchange of information between all actors involved (MEFP ¶9).

28. **Despite the large donor pledges, the slow start of aid disbursements and difficulties in securing adequate budget financing for the next 12-18 months has been a concern.** The immediate needs of the affected population include the relocation of families in temporary shelters ahead of the hurricane season, the provision of basic social services, and the purchase and distribution of seeds and fertilizers. The shortfall in revenue caused by the earthquake has led the authorities to reprioritize spending. Lower-than-budgeted spending on wages and goods and services has created room for higher expenditure on transfers and subsidies (including on public utilities and hospitals that have lost their revenue base) and investment spending, which could be well-above originally budgeted amounts to meet post-earthquake needs. They have also allocated a portion of accumulated PetroCaribe resources (up to US$163 million) to emergency relocation and infrastructure projects (MEFP ¶12). So far however, only 30 percent of all scheduled budget support financing for this fiscal year has been disbursed, and ensuring that the remainder will be disbursed before end-September 2010 is a challenge. The program envisages that a financing shortfall of up to US$25 million could be compensated by an ad hoc issuance of T-bills (MEFP ¶19). Based on projected quarterly budget support disbursements, the first year of the program is fully financed (i.e. through end-June 2011). However, a financing gap of about US$50 million remains for the last quarter of the fiscal year ending in September 2011 (Text Table 5).

Text Table 5. Haiti: Budget Support in FY 2010-11
(in millions of U.S. dollars, unless otherwise specified)

	FY 2010				FY 2011
	Pre-earthquake Commitments	Post-earthquake Commitments	Total	Disbursed (in percent)[1]	Total
Grants	**150.0**	**104.8**	**254.7**	**31.4**	**138.6**
IDB	30.0	20.0	50.0		50.0
IDA	27.0	15.5	42.5	29.4	20.0
European Union	76.2		76.2	60.9	33.9
CARICOM		7.8	7.8	100.0	
Brazil		15.0	15.0		
Colombia (UNASUR)		3.4	3.4		
Ecuador		2.0	2.0	100.0	
France		26.1	26.1	25.0	26.1
Norway		15.0	15.0		
Spain	6.6		6.6		
United States	10.2		10.2	47.1	8.6

Sources: Haitian authorities; and Fund staff estimates.
[1] As of June 28, 2010.

D. Financial Sector Policies

29. **Staff and the authorities agreed that restarting private sector credit while preserving financial stability will be critical to the reconstruction efforts.** Full implementation of the financial sector reforms identified by the 2008 FSAP, including measures to lower the cost of collateral and ease the recovery of non-performing loans, would be the most effective way to support existing enterprises and boost credit. Staff welcomed the BRH's decision to restructure bank loans affected by the earthquake, provided that they were performing before the earthquake. Staff also encouraged the BRH to relax provisioning against NPLs, when the delays in payments were related to the earthquake. Staff and the authorities agreed that it would be important to introduce a regulatory and supervisory framework for the insurance sector, following on the establishment of a similar framework for credit unions in FY 2009 (MEFP ¶15).

30. **The authorities highlighted the urgency of proceeding rapidly with their plans to establish a Partial Credit Guarantee (PCG) scheme to restart private credit growth**. The scheme is composed of two pillars: (a) Pillar 1 aims at restructuring viable bank loans impacted by the earthquake and financing business recovery; and (b) Pillar 2 supports new lending to small and medium-sized enterprises. The PCG scheme can be accessed by banks and cooperatives which are compliant with prudential standards and have strong lending procedures. An upfront commission is payable, and after a deductible amount related to bank-specific historic NPLs, the scheme would guarantee up to 50 percent of the unpaid balance of loans under Pillar 1 and up to 80 percent of the loan under Pillar 2. Access terms will be the same for state-owned and private banks, although the BRH acknowledges that donors may require a heavier burden of proof for state-owned banks.

31. **Funding for the PCG still needs to be fully secured**. About US$100 million in capital is required for Pillar 1 and US$30 million for Pillar 2. Donor funding so far only amounts to US$25-30 million, and is insufficient in regard to the total amount estimated to be needed to capitalize the scheme (around US$130 million). Given the urgency of the situation, staff agreed that the central bank should launch the scheme promptly, setting aside on a temporary basis some of its foreign exchange reserves (US$70 million) as initial guarantee. No payouts are expected during the first half year of operations of the scheme, as loans covered must be non-performing for at least six months before claims can be made. Over time, the authorities will need to secure additional resources to cover potential future losses and replace the temporary BRH guarantee. Such financing could be secured in the form of commitments from donors including through the MDTF.

32. **Staff noted that complementary financial reforms as identified in the 2008 FSAP would be essential to deepen financial intermediation.** The authorities had made good progress prior to the earthquake in setting up a credit bureau that would help lower the cost of lending. Although the building was destroyed in the earthquake, they are now rekindling their efforts in that area. The authorities also plan to press ahead with the establishment of a centralized registry for movable collateral and a strengthened civil registry and cadastre (for which donors have offered funding and technical assistance). Reducing the spreads between lending and borrowing rates, and improvements in risk assessment capacity are also expected to help boost credit. (MEFP ¶17). Staff recommended reforming insolvency legislation.

E. Monetary and Exchange Rate Policy

33. **In real effective terms, Haiti's currency has appreciated by almost 90 percent between 2003 and December 2009**. Despite this appreciation, export indicators have improved since 2003, with Haiti's export share of U.S. apparel imports up sharply in recent years, and increases in market shares compared to regional textile export competitors (Figure 4). Staff and the authorities agreed that the pre-earthquake real appreciation did represent an equilibrium response to the sustained increase in aid and remittance inflows, with the modest overvaluation uncovered by econometric analysis well within the model's error margins (Appendix II).

34. **The authorities concurred that the appreciation trend is likely to continue in the context of aid inflows, which could pose important challenges to monetary and exchange rate management.** In addition, lags between large and lumpy aid inflows and related import demand can lead to exchange rate volatility. Staff agreed that the central bank's net purchases of foreign exchanges since the earthquake had helped smooth excessive exchange rate volatility and rebuild reserves, but noted that this had also contributed to rapid monetary growth. With inflation rising, staff recommended that, going forward, such purchases be at least partly sterilized. The authorities indicated that they would continue to aim at containing base money growth, while noting that large reconstruction expenditures could contribute to an increase in money demand. They reiterated their commitment to tighten monetary policy if needed (MEFP ¶18).

35. **The authorities' plans include steps to improve the monetary operations framework**. High dollarization, underdeveloped money markets, and excess liquidity have limited the effectiveness of monetary policy. Staff and the authorities agreed on the importance of allowing for greater exchange rate flexibility and of deepening financial markets over the medium term. This would help support the development of interest-rate transmission mechanisms and enhance the effectiveness of open market operations. The authorities also plan to develop regular foreign exchange auctions (instead of sales where both price and quantity are fixed) as part of a strategy to facilitate the absorption of aid inflows while managing exchange rate fluctuations (MEFP ¶19).

36. **The central bank welcomed the prospect of replacing BRH bonds with T-bills, and the associated move to open-market operations as one of the main instruments of monetary policy.** The authorities envisage launching the domestic T-bill market with the publication of a regular auction calendar. Staff noted that, in order to be successful, the development of a T-bill market needed to be underpinned by improvements in liquidity and Treasury management, inflation forecasting, and debt management. Staff noted that T-bills would also be used to gradually securitize the outstanding government debt to the central bank and thus contribute to BRH recapitalization (MEFP ¶19).

37. **Staff and the authorities agreed that central bank independence should be enhanced to strengthen the ability of the central bank to conduct monetary operations.** Implementation of the central bank recapitalization plan would need to be complemented by the adoption of a modern central bank law. The new law (to be submitted to Parliament by FY 2011) will anchor the principle of central bank independence and provide for the gradual elimination of direct government financing. It will also provide for the rotation of external

auditors and the publication of audited BRH accounts within 6 months after the end of the fiscal year (MEFP ¶20).

F. External Debt Sustainability

38. **Haiti remains at high risk of debt distress, as the earthquake has significantly worsened the macroeconomic outlook.** Despite the delivery of US$1.2 billion in debt relief under the HIPC/MDRI initiative in June 2009, Haiti remained at high risk of debt distress prior to the earthquake. By generating massive reconstruction needs, deteriorating the macroeconomic outlook, reducing the export base, and further weakening debt management capacity, the earthquake further worsened Haiti's debt outlook. The updated LIC DSA shows that Haiti's risk of debt distress remains high, with the net present value (NPV) of debt-to-exports ratio breaching the relevant policy-dependent threshold in the baseline scenario for the medium-term.

39. **Delivery of debt relief announced by multilateral and bilateral creditors after the earthquake, including the Fund, would substantially improve the debt sustainability outlook**. Creditors representing about 92 percent of Haiti's end-September 2009 debt stock (excluding the Fund) are committed to cancelling Haiti's remaining debt.[6] Among the main multilateral and bilateral creditors, the World Bank has already cancelled SDR 24.3 million (about US$36 million as of May 21, 2010), and debt relief for the IDB (US$479 million) is expected to become effective in the near future, as soon as the committed donor financing is available. Venezuela also confirmed that it would provide debt relief on US$395 million of outstanding PetroCaribe debt.[7] If Haiti were to be deemed eligible to full stock debt relief by the Fund, such relief would cover about US$263 million (SDR 178.13 million) in outstanding debt as of end-January 2010. An alternative DSA scenario including these debt relief commitments shows that, although the debt-to-exports ratio would breach the policy-dependent ceiling between 2014 and 2018, external debt would then be placed on a downward path. Nonetheless, vulnerability to shocks would remain high, highlighting the importance of covering financing needs mostly through grants; any new borrowing should be limited and on highly concessional terms.

40. **The authorities are committed to continue to strengthen debt management capacity**. Ongoing efforts include the operationalization of a debt unit with front, middle, and back-office functions that would be overseeing external and domestic debt. The legal framework is being updated and work on a public debt law is underway. Capacity building

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[6] Paris Club creditors have already committed to cancel all of Haiti's outstanding debt as part of HIPC/MDRI debt relief committed in July 2009. Bilateral agreements with Canada and the U.S. have already been signed, and the signature of agreements with France, Italy and Spain is imminent.

[7] Under the PetroCaribe arrangement, financing of oil imports is provided on concessional terms, namely, two-year grace period, 25-year maturity and 1 percent interest. The size of the financed portion of oil shipments is determined based on prevailing oil prices and varies between 30 percent of total shipments for oil prices US$40-50 per barrel to 70 percent for oil prices US$150 and above.

efforts are focusing on the development of a medium-term debt strategy that would form the basis for annual financing plans (MEFP ¶25).

IV. ECF ARRANGEMENT

41. **Access.** The earthquake has aggravated Haiti's already protracted and substantial balance-of-payments needs. However, given that most of the medium-term external financing need is expected to be covered by grants and that program risks are high, including due to weaker implementation capacity, staff proposes that access be relatively low, at 50 percent of quota (SDR 40.95 million or US$60.43 million). Nonetheless, Fund resources would be instrumental in allowing the central bank to smooth out exchange rate and reserves fluctuations caused by large and volatile aid resources. Donors have also clearly indicated that satisfactory progress under the Fund-supported program is an essential element for their continued engagement. Staff proposes that total access be set at 10 percent of quota each for the first two disbursements, followed by five disbursements equivalent to 6 percent of quota each. Program reviews would be linked to end-March and end-September test dates, in line with Haiti's fiscal year (Table 9).

42. **Monitoring**. Performance criteria will include a zero ceiling for net central bank credit to the central government, a ceiling on net domestic assets of the central government, a floor on NIRs, and zero ceilings on the accumulation of external and domestic arrears, and the contracting or guaranteeing of non-concessional debt. Indicative targets will help monitor net domestic financing of the government, and base money growth. An indicative floor on poverty-reducing spending was set in close consultation with the World Bank (MEFP Table 1). Structural reforms objectives for FY 2010-11 will focus on improving revenue collection, enhancing the efficiency and tracking of government spending, and developing a T-bill market. The program will also promote transparent and regular reporting of poverty-reducing expenditures (MEFP Table 2).

43. **External financing and capacity to repay the Fund.** The program assumes continuing budget support in the order of about US$100 million a year starting in FY 2012. It includes a US$50 million external financing adjustor to offset delayed disbursement of already-identified budget support. The associated domestic financing would be expected to unwind when the budget support is received and at the latest, to be fully repaid within one year (TMU ¶36). Reserve coverage would average 3.2 months of imports throughout the program period. Debt service to the Fund is projected to peak in 2016 at 4 percent of exports of goods and services and 3 percent of domestic revenues. Debt service capacity is expected to remain manageable throughout the program period, but would be significantly improved once the committed debt relief materializes (Table 10). If the Fund provides debt relief on the outstanding debt stock as of end-January 2010, debt service to the Fund would be significantly lower, at 0.7 percent of exports of goods and services and 0.5 of domestic revenues in 2019.

44. **Safeguards**. A safeguards assessment should be completed at the time of the first review. The last safeguards assessment was completed in September 2008. The updated assessment would be based on the progress of the external audit of the BRH's financial statements for the fiscal year ending September 20, 2009, and the documents provided by the BRH for review. The authorities have made some progress in implementing the key

recommendations of the 2008 safeguards assessment update. Revised reserve investment guidelines have been adopted and an investment committee has been appointed. The external audit of BRH accounts for FY 2008 has been published, and NIR data for FY 2009 have been verified by the external auditors. The authorities committed to publishing the BRH audited financial statements for FY 2009 by the time of the first program review (MEFP Table 2).

45. **Risks**. Key program risks include: (i) widespread social unrest, triggered by delays in the start of reconstruction activities, and/or the elections; (ii) pervasive capacity constraints, amplified by the earthquake; and (iii) high vulnerability to external shocks, in particular natural disasters. The international community has an important role to play, by delivering on the commitments made at the New-York conference, and by assisting with the organization of peaceful elections. Visible improvements in fiscal transparency and governance as supported under the program would also help mitigate political and social risks. Finally, the comprehensive TA strategy implemented by the Fund and other development partners aims at building capacity and strengthening institutions.

V. Staff Appraisal

46. **The January earthquake represents a major setback for Haiti, after years of progress in maintaining macroeconomic stability.** The earthquake caused damages and losses estimated at 120 percent of GDP, and affected one-third of Haiti's population, making it one of the largest natural disasters in recent history. The destruction of human and physical capital created a massive and immediate need for recovery and reconstruction resources and radically altered the macroeconomic outlook, jeopardizing recent hard-won gains.

47. **The authorities' determination to build on the reform momentum and to use the earthquake as an opportunity to build a better Haiti is commendable**. Staff believes that the National Action Plan for Recovery and Development provides an appropriate anchor for rebuilding the economic structure and institutions of the country, and promote more transparent and effective policies. Implementation of the Action Plan in a context of severe capacity constraints will require close coordination and tracking of interventions of all development partners by the IHRC. Channeling external assistance through the government's budget or the MDTF would effectively support coordination and local capacity building.

48. **Disbursement of the amounts pledged in New-York should start and reconstruction should begin promptly**. The expectations created by the large aid pledges and the limited progress so far are increasing risks of widespread social unrest. On their part, the authorities should continue their efforts to facilitate the relocation of families, adopt a new building code with anti-seismic norms, and launch large public works programs to generate a reconstruction momentum.

49. **The authorities' medium-term growth objectives are ambitious but can be reached provided measures to boost private credit and investment are implemented**. The rapid implementation of the PCG scheme is essential to restart private sector activity. The reform momentum generated by the earthquake also provides an opportunity to implement structural reforms to improve the business environment. Development of infrastructure, in particular transport and energy, in partnership with the private sector would

boost investment. Improvements in the civil and land registries and a simplification of administrative procedures will be essential.

50. **Securing adequate support to finance the budget is critical**. The government needs to be able to address the urgent needs of the population, including relocation of displaced families, hurricane prevention, and preparations for the planting season and school year starting in September. The absence of such support would seriously undermine the government's credibility and ongoing reconstruction efforts.

51. **Steps taken to strengthen revenue administration and improve the coverage, quality, tracking, and reporting of public spending are welcome, and could help attract further budget support**. Investments to restore the delivery of public services, generate private-sector-led growth and employment, and improve the security and humanitarian situation are particularly urgent. Ongoing PFM reforms, supported by technical assistance, are essential to enhance the transparency of spending, and sustain the aid inflows. At the same time, efforts to increase domestic revenue collection will enhance both the credibility of the state and its capacity to mobilize domestic resources for reconstruction.

52. **Further improvements in the monetary framework will be critical to ensuring the absorption of aid inflows while avoiding excessive inflationary pressures.** The widening of the external trade deficit associated with the large reconstruction needs appears sustainable, as it is financed by aid and remittance inflows. In recent months, the central bank has appropriately stepped up foreign exchange purchases to mitigate excessive exchange rate volatility and rebuild its reserves level. However, balance sheet considerations have prevented the central bank from sterilizing the purchases. Accelerating the reform of foreign exchange auctions, introducing Treasury bills, and recapitalizing the central bank are essential measures to enhance the effectiveness of monetary policy. The competitiveness impact of the real appreciation associated with the foreign inflows should be mainly addressed through structural policies aiming at reducing supply-side bottlenecks, expanding the export base and improving the business environment.

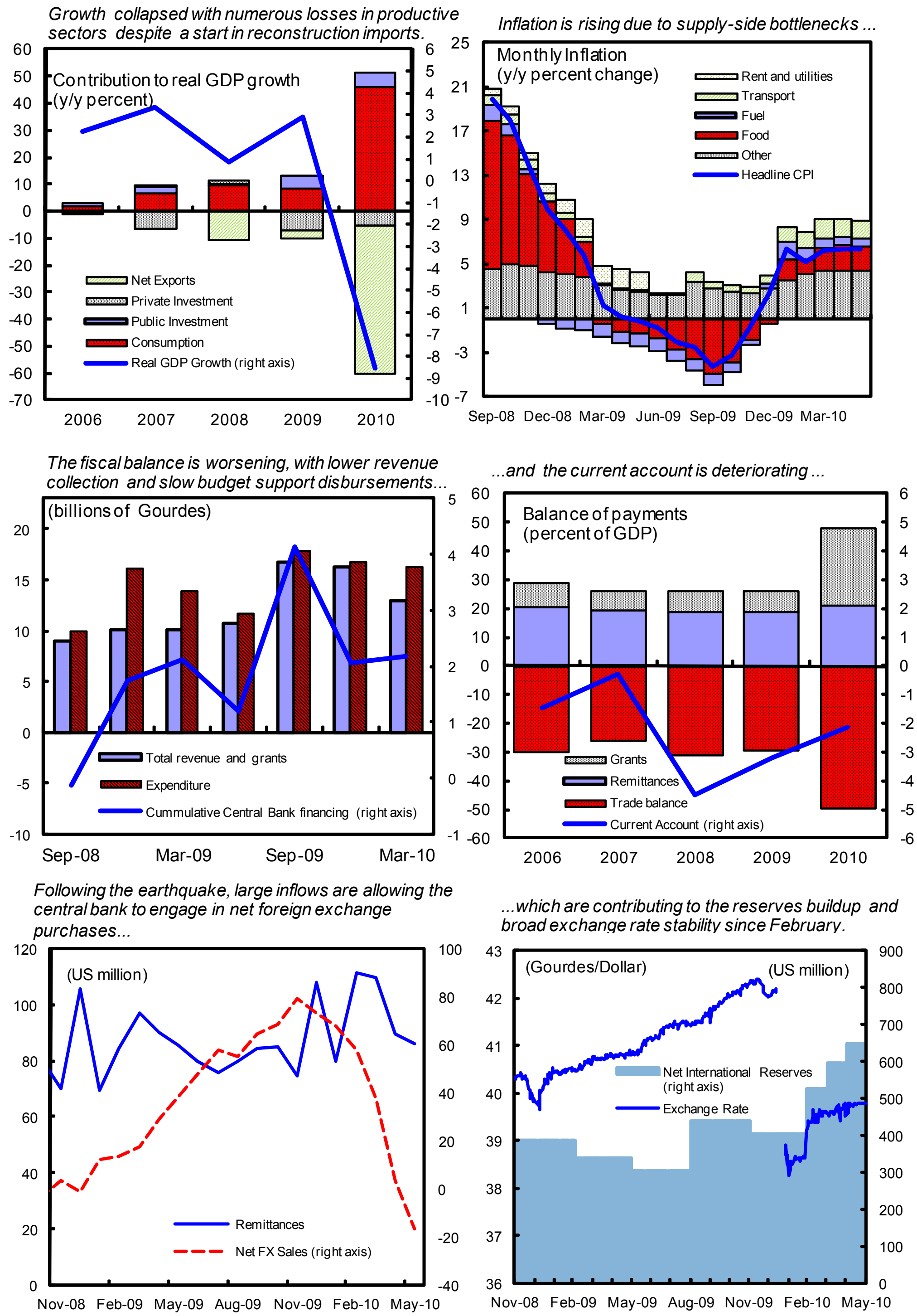
53. **The delivery of committed debt relief should substantially reduce the risk of debt distress, but vulnerabilities will remain**. Haiti's risk of debt distress remains high after the earthquake, due to the worsened macroeconomic outlook, weakened capacity and even lower export base. Delivery of debt relief committed by most of Haiti's creditors after the earthquake would substantially improve the outlook, though external debt would remain vulnerable to a number of shocks, highlighting the importance of covering financing needs mostly through grants.

54. **Staff supports the authorities' request for a new three-year arrangement under the Extended Credit Facility**. Although risks are high, the program provides a necessary anchor to the authorities' economic policies and donor support for the reconstruction process. While limited due to Haiti's low debt-carrying capacity and the large post-earthquake external grant commitments, Fund resources will allow the authorities to smooth macroeconomic volatility associated with large and lumpy aid disbursements.

55. It is proposed that the next Article IV consultation with Haiti be held in accordance with the July 15, 2002 decision on consultation cycles.

Figure 1. Haiti: Recent Economic Indicators

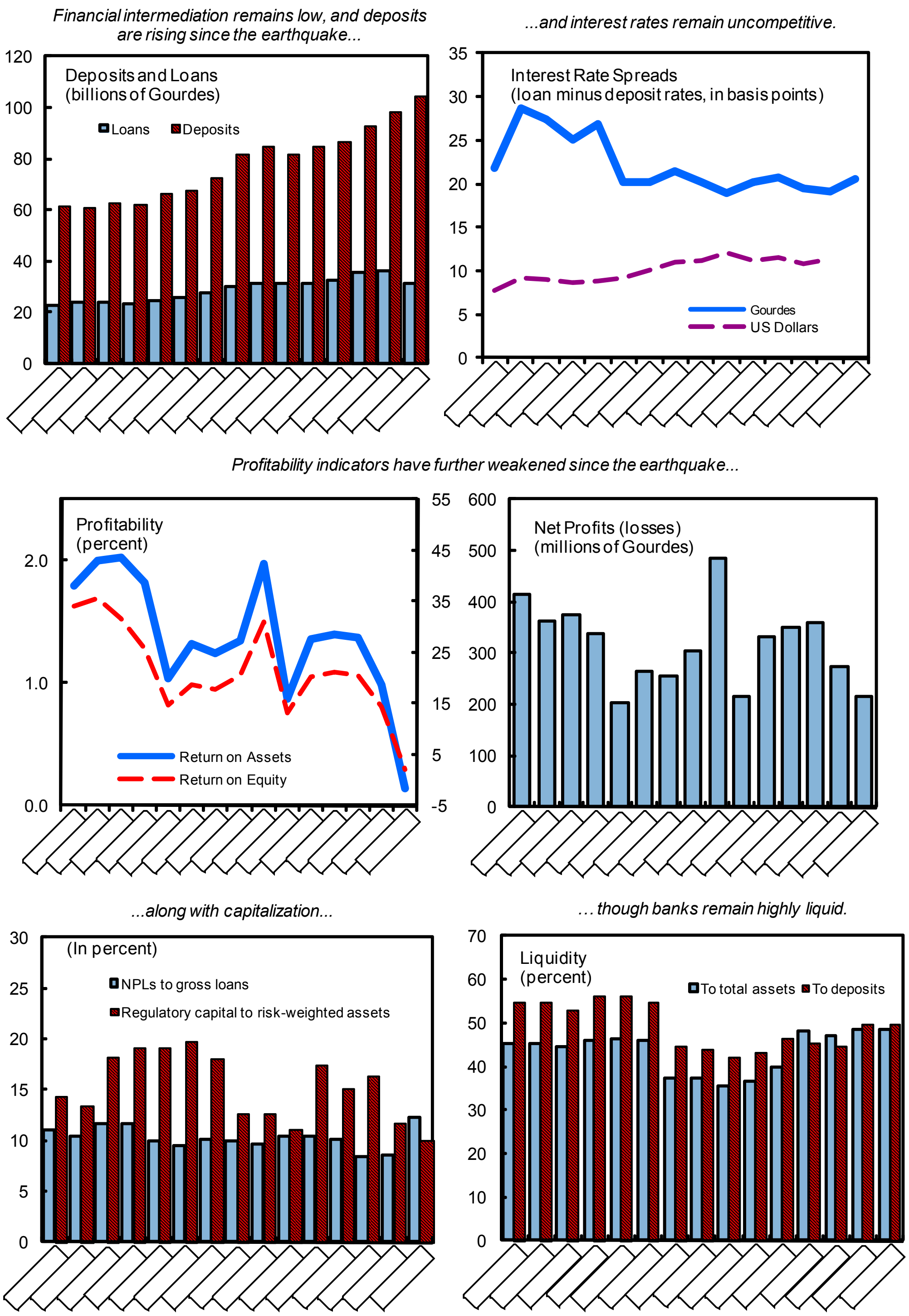
The January earthquake fundamentally altered Haiti''s macroeconomic outlook



Sources: Haitian authorities; and IMF staff calculations.

Figure 2. Haiti: Financial Indicators of the Banking System

The financial sector in Haiti remains underdeveloped, and the earthquake further weakened banks profitability and capital position.

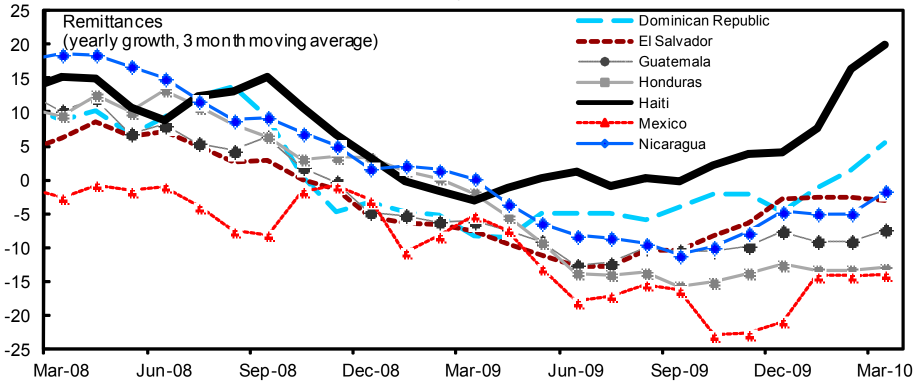


Sources: Haitian authorities; and Fund staff calculations.

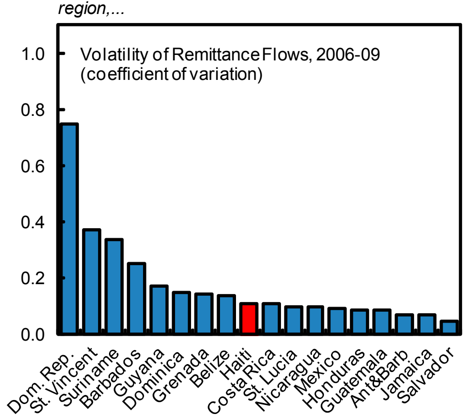
Figure 3. Haiti: Remittances

Remittances to Haiti surged in the months following the earthquake, supporting consumption and modest growth.

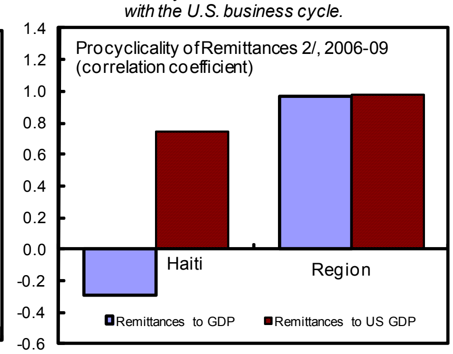
While remittances in the region declined with the global crisis, those to Haiti were resilient and surged following the earthquake.



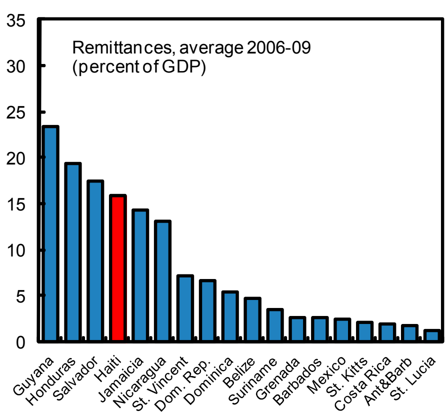
Remittances to Haiti were less volatile than in the region,...



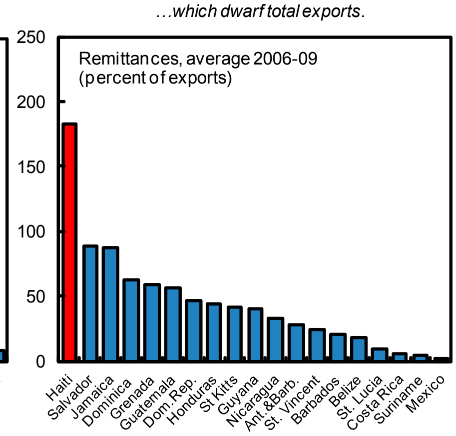
...more countercyclical and overall less correlated with the U.S. business cycle.



This was fortunate given Haiti's particularly high dependence on such inflows...



...which dwarf total exports.

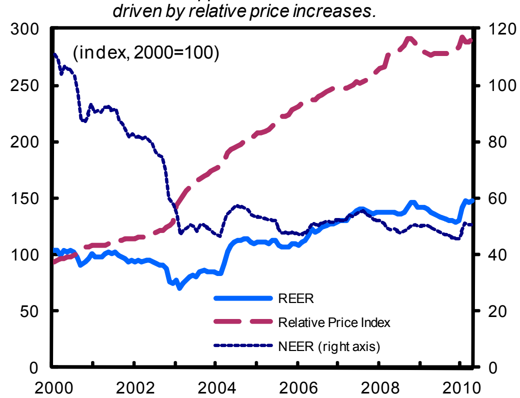


Sources: Haitian authorities; World Economic Outlook; Haver Analytics; and Fund staff calculations.
1/ Excluding Panama and Guatemala.
2/ Correlation of the annual change in remittances to real GDP growth.

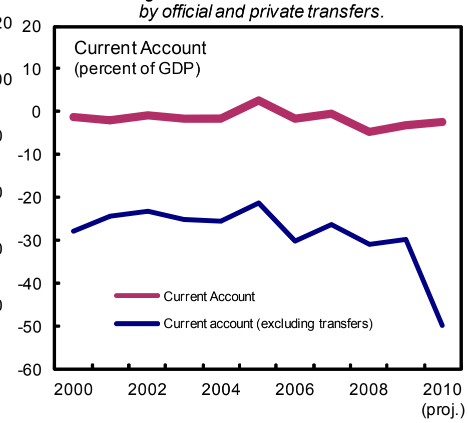
Figure 4. Haiti: External Sector and Competitiveness

Most competitiveness indicators indicated either some deterioration in recent years or a relatively worse position than

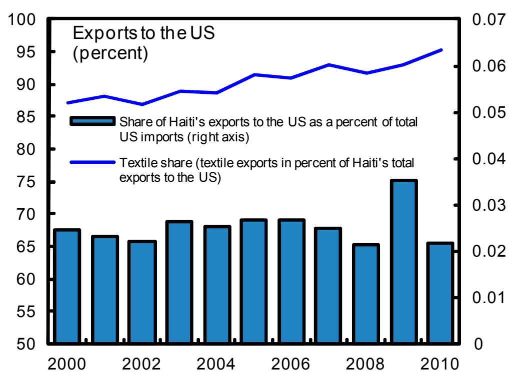
The trend real appreciation since 2003 was driven by relative price increases.



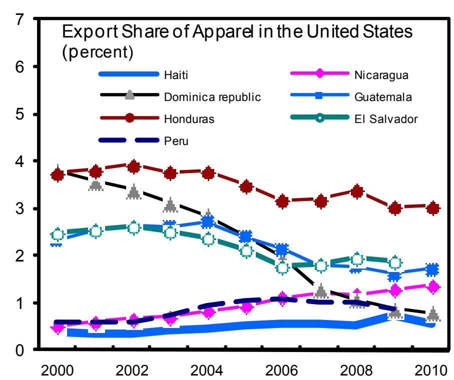
The large current account deficit is financed by official and private transfers.



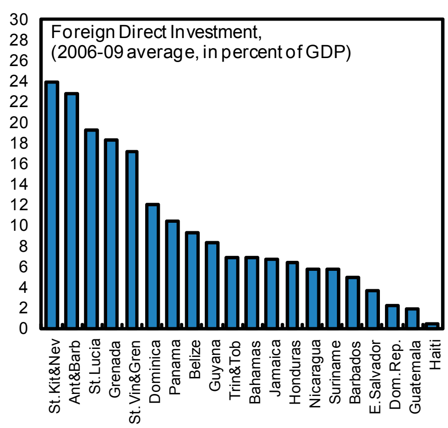
Haiti was increasingly dependent on textile exports, but its overall U.S. market share declined.



Competitors in the region appear better positioned, in spite of Haiti's preferential access to the U.S. market.



Haiti didn't fare well in attracting FDI...



...A symptom of a more difficult business environment.

Haiti: Comparison of Doing Business Indicators (2010)

	HTI	DOM	NIC	GTM	Avg.
Overall Ranking (Out of 183)	151	86	117	110	116
1. Starting a Business	180	107	95	156	135
2. Closing a Business	155	146	70	93	116
3. Registering Property	129	112	143	24	102
4. Obtaining Credit	135	71	87	4	74
5. Protecting Investors	165	57	93	132	112
6. Paying Taxes	99	70	165	109	111
7. Trading Across Borders	144	36	99	119	100
8. Enforcing Contracts	92	86	67	103	87

Sources: Haitian authorities; U.S. Department of Commerce and the U.S. International Trade Commission (USCIT); World Bank Doing Business Project; World Economic Outlook; and IMF staff calculations.

Table 1. Haiti: Selected Economic and Financial Indicators

(Fiscal year ending September 30)

Nominal GDP (2009): US$ 6.56 billion | GDP per capita (2009): US$ 661
Population (2009): 9.9 million | Adult literacy (2008): 53 percent
Share of pop. living with less than $1.25 a day (2001): 55 percent | Unemployment rate (2003): 27 percent
Share of pop. living with less than $2 a day (2001): 72 percent

	2007/08	2008/09		Proj.			
	Est.	Actual GDP 1/	Prel.	2009/10	2010/11	2011/12	2012/13
	(change over previous year unless otherwise stated)						
National income and prices							
GDP at constant prices	0.8	2.0	2.9	-8.5	9.8	8.4	6.9
GDP deflator	13.8	6.3	3.2	8.0	9.7	8.6	7.4
Consumer prices (period average)	14.4	5.1	3.4	4.9	8.8	8.6	7.3
Consumer prices (end-of-period)	19.8	1.0	-4.7	8.5	8.6	7.5	7.0
External sector							
Exports (f.o.b.)	-6.2	0.1	12.4	-12.1	10.6	10.5	12.3
Imports (f.o.b.)	30.2	-0.8	-3.3	15.5	26.0	6.2	7.8
Real effective exchange rate (+ appreciation)	2.9	…	1.0	…			
Central government							
Total revenue and grants	9.2	29.4	25.9	34.6	41.0	5.5	7.6
Total revenue excl. grants	15.7	8.2	11.3	-12.1	29.5	34.4	23.5
Current expenditure	42.8	21.8	13.8	0.1	17.4	15.9	15.0
Total expenditure	33.4	37.4	30.3	20.8	43.0	10.8	5.9
Money and credit							
Credit to the nonfinancial public sector (net) 2/	-29.8	63.7	25.3	-32.1	-8.8	0.9	-25.0
Credit to private sector	25.2	12.8	14.7	-7.7	29.5	29.4	24.6
Base money	13.9	9.3	9.5	15.0	16.9	16.5	13.3
Broad money (incl. foreign currency deposits)	17.7	10.0	11.0	11.4	18.8	17.6	15.4
	(in percent of GDP, unless otherwise stated)						
Central government							
Overall balance	-3.1	0.0	-4.4	-2.9	-3.9	-4.9	-4.2
Overall balance (excl. grants)	-7.5	-5.0	-11.1	-17.3	-21.7	-18.3	-15.0
Overall balance (excl. grants and externally-financed projects)	-2.3	-4.0	-4.4	-6.8	-5.7	-4.1	-3.0
Overall balance (excl. ext.-financed projects and project grants)	-0.9	-2.9	-2.9	-2.9	-3.9	-4.1	-3.0
Central bank net credit to the central government	0.0	0.9	0.2	0.1	0.0	0.0	0.0
Savings and investment							
Gross investment	26.0	38.2	23.4	23.9	38.6	40.3	39.8
Gross national savings	21.5	34.9	20.2	21.7	34.9	36.2	35.7
Of which: Central government savings	1.4	0.9	1.2	2.2	1.2	1.1	2.0
External current account balance (incl. official grants)	-4.5	-3.0	-3.2	-2.1	-3.7	-4.1	-4.1
External current account balance (excl. official grants)	-11.7	-12.4	-10.6	-28.7	-24.2	-19.7	-16.8
Public Debt							
External public debt (end-of-period)	29.5	13.8	16.6	22.0	21.6	21.9	21.6
Total public debt (end-of-period) 3/	37.7	23.2	24.8	30.7	31.7	32.2	32.4
External public debt service (in percent of exports of goods and nonfactor services) 4/	8.2	10.0	3.9	3.1	3.7	4.2	6.0
	(in millions of U.S. dollars, unless otherwise stated)						
Overall balance of payments	41.5	-57.4	33.4	-17.3	-4.0	-48.0	-40.0
Net international reserves (program) 5/	313.6	238.1	438.6	300.5	339.1	425.2	454.6
Liquid gross reserves 5/6/	707.8	754.7	947.5	1,076.2	1,139.8	1,212.0	1,302.2
In months of imports of the following year	2.9	3.0	2.9	3.1	3.2	3.2	3.4
Exchange rate (gourdes per dollar, end-of-period)	40.0	…	41.8	…	…	…	…
Nominal GDP (millions of gourdes)	251,464	266,885	266,885	263,736	317,527	373,800	429,162
Nominal GDP (millions of U.S. dollars)	6,572	6,560	6,560	6,495	7,669	9,143	10,497

Sources: Ministry of Economy and Finance; Bank of the Republic of Haiti; Fund staff estimates; and World Bank.

1/ GDP ratios are calculated using nominal program figures for 2009 (numerator) and actual nominal GDP (denominator).

2/ In 2008 it reflects accumulation of Petrocaribe-related resources; in 2009, it reflects the use of Petrocaribe-related resources accumulated in 2008.

3/ Coverage has been modified since EBS/09/16. Includes external public sector debt, domestic debt of the central government, but excludes BRH bonds issued for monetary purposes. Reflects HIPC/MDRI debt reduction in 2009.

4/ Includes HIPC/MDRI relief beginning in 2010.

5/ Excluding commercial bank forex deposits, letters of credit, guarantees, earmarked project accounts and U.S. dollar-denominated bank reserves. the NIR definition has been changed relative to that of the previous program, with the SDR allocation no longer netted out as a liability. This table reports NIR under the new definition.

6/ As of August 28, 2009, also includes the (general and special) SDR holdings of SDR 64.8 million.

Table 2a. Haiti: Central Government Operations

(Fiscal year ending September 30; in millions of gourdes)

	2007/08	2008/09		2009/10		Proj.		
	Est.	Prog.	Est.	Budget	Proj.	2010/11	2011/12	2012/13
Total revenue and grants	37,901	49,062	47,717	76,853	64,208	90,524	95,542	102,804
Domestic revenue	26,849	29,041	29,881	34,925	26,258	33,991	45,677	56,416
Domestic taxes	18,026	19,663	19,954	23,873	16,649	22,376	31,761	37,695
Customs duties	7,917	8,939	8,958	10,570	8,702	10,777	12,929	17,588
Other current revenue	906	438	970	482	907	838	987	1,133
Grants	11,052	20,021	17,836	41,928	37,950	56,532	49,865	46,388
Budget support	3,485	5,956	3,873	3,168	10,273	5,737	207	206
Project grants	7,568	14,065	13,962	38,760	27,677	50,795	49,658	46,182
Total expenditure 1/	45,680	62,497	59,534	88,198	71,915	102,825	113,943	120,616
Current expenditure	26,935	32,595	30,641	31,700	30,660	36,007	41,735	48,013
Wages and salaries	11,716	13,997	13,396	16,031	14,344	16,511	19,438	22,316
Net Operations 2/	8,416	7,671	7,159	8,698	6,618	9,744	13,083	15,021
Operations 2/	7,350	7,671	7,655	8,698	6,618	9,744	13,083	15,021
Interest payments	1,768	2,259	2,242	1,559	1,698	1,751	1,867	2,578
External	928	1,064	1,106	420	507	429	694	844
Domestic	840	1,194	1,136	1,139	1,191	1,322	1,173	1,734
Transfers and subsidies	5,035	8,669	7,844	5,412	8,000	8,000	7,348	8,098
o/w energy sector	…	4,258	3,448	2,000	3,500	4,445	2,990	3,433
Capital expenditure	18,745	29,902	28,894	56,498	41,255	66,818	72,207	72,603
Domestically financed	5,611	11,839	10,959	9,054	13,579	16,023	19,436	21,399
Of which: Treasury	5,611	3,021	2,225	7,892	12,417	14,753	17,941	19,682
Of which: not related to PetroCaribe spending	…	…	…	7,892	6,764	10,753	13,941	19,682
Of which: related to PetroCaribe spending	…	…	…	0	4,368	4,000	4,000	0
Of which: Counterpart funds 3/	…	1,899	1,899	1,162	1,162	1,270	1,495	1,717
Foreign-financed	13,134	18,063	17,934	47,444	27,677	50,795	52,771	51,204
Overall balance	-7,778	-13,435	-11,817	-11,345	-7,707	-12,301	-18,401	-17,812
Excl. grants	-18,831	-33,456	-29,653	-53,273	-45,657	-68,834	-68,266	-64,200
Excl. grants and externally financed projects	-5,697	-15,394	-11,718	-5,828	-17,981	-18,039	-15,495	-12,996
Excl. project grants and ext. financed projects	-2,212	-9,437	-7,845	-2,660	-7,707	-12,301	-15,288	-12,791
Financing	7,778	13,435	11,817	11,345	7,707	10,316	14,312	13,729
External net financing	6,786	8,298	8,210	8,399	9,859	9,530	12,080	13,800
Loans (net)	6,786	8,281	8,210	8,399	9,859	9,530	12,080	13,800
Disbursements	8,461	10,015	9,935	8,685	10,293	9,530	12,781	14,865
Budget support	2,895	6,017	5,963	0	10,293	9,530	9,668	9,844
Of which: Petrocaribe	1,951	5,996	5,963	0	10,293	9,530	9,668	9,844
Project loans	5,566	3,997	3,972	8,685	0	0	3,113	5,021
Amortization	-1,676	-1,734	-1,725	-285	-434	0	-701	-1,065
External financing to be committed	…	17	0	0	0	0	242	0
Arrears (net)	0	0	0	0	0	0	0	0
Internal net financing	83	3,603	2,082	2,946	-2,152	787	2,231	-71
Banking system	-229	2,395	644	2,244	-4,704	-988	96	-2,593
BRH	121	2,395	644	2,244	171	0	0	0
excl. Petrocaribe			644	2,244	0	0	0	0
Net T-bills for recap	…	…	…	…	0	4,000	4,000	4,000
Commercial banks	-349	0	0	0	-4,875	-988	96	-2,593
excl. Petrocaribe			0	0	957	4,542	5,764	7,251
Net purchase of T-bills	…	…	…	…	957	4,542	5,764	7,251
Nonbank financing	312	1,208	1,439	702	2,552	1,775	2,136	2,522
Amortization	…	-690	-460	-460	-460	-106	-611	-1,251
Counterpart funds 3/	…	1,899	1,899	1,162	1,162	1,270	1,495	1,717
Arrears (net)	0	0	0	0	0	0	0	0
Debt rescheduling	163	143	142	0	0	0	0	0
HIPC interim relief	747	1,391	1,383	0	0	0	0	0
Unidentified financing (in U.S. dollars)	0	0	0	0	0	48	100	100

Sources: Ministry of Finance and Economy; and Fund staff estimates.

1/ Commitment basis except for domestically financed capital expenditure, which is reported on cash basis from 2007 onwards.

2/ Includes statistical discrepancy.

3/ Sales proceeds from grants received in kind.

Table 2b. Haiti: Central Government Operations

(Fiscal year ending September 30; in percent of GDP)

	2007/08	2008/09		2009/10		Proj.		
	Est.	Actual GDP 3/	Est.	Budget	Proj.	2010/11	2011/12	2012/13
Total revenue and grants	15.1	18.4	17.9	29.1	24.3	28.5	25.6	24.0
Domestic revenue	10.7	10.9	11.2	13.2	10.0	10.7	12.2	13.1
Domestic taxes	7.2	7.4	7.5	9.1	6.3	7.0	8.5	8.8
Customs duties	3.1	3.3	3.4	4.0	3.3	3.4	3.5	4.1
Other current revenue	0.4	0.2	0.4	0.2	0.3	0.3	0.3	0.3
Grants	4.4	7.5	6.7	15.9	14.4	17.8	13.3	10.8
Budget support	1.4	2.2	1.5	1.2	3.9	1.8	0.1	0.0
Project grants	3.0	5.3	5.2	14.7	10.5	16.0	13.3	10.8
Total expenditure 1/	18.2	23.4	22.3	33.4	27.3	32.4	30.5	28.1
Current expenditure	10.7	12.2	11.5	12.0	11.6	11.3	11.2	11.2
Wages and salaries	4.7	5.2	5.0	6.1	5.4	5.2	5.2	5.2
Net Operations 2/	3.3	2.9	2.7	3.3	2.5	3.1	3.5	3.5
Operations 2/	2.9	2.9	2.9	3.3	2.5	3.1	3.5	3.5
Interest payments	0.7	0.8	0.8	0.6	0.6	0.6	0.5	0.6
Transfers and subsidies	2.0	3.2	2.9	2.1	3.0	2.5	2.0	1.9
Of which: energy sector	…	1.6	1.3	0.8	1.3	1.4	0.8	0.8
Capital expenditure	7.5	11.2	10.8	21.4	15.6	21.0	19.3	16.9
Domestically financed	2.2	4.4	4.1	3.4	5.1	5.0	5.2	5.0
Of which: Treasury	2.2	1.1	0.8	3.0	4.7	4.6	4.8	4.6
Of which: not related to PetroCaribe spending	…	…	…	3.0	2.6	3.4	3.7	4.6
Of which: related to PetroCaribe spending	…	…	…	0.0	1.7	1.3	1.1	0.0
Of which: Counterpart funds 4/	0.0	0.7	0.7	0.4	0.4	0.4	0.4	0.4
Foreign-financed	5.2	6.8	6.7	18.0	10.5	16.0	14.1	11.9
Overall balance	-3.1	-5.0	-4.4	-4.3	-2.9	-3.9	-4.9	-4.2
Excl. grants	-7.5	-12.5	-11.1	-20.2	-17.3	-21.7	-18.3	-15.0
Excl. grants and externally financed projects	-2.3	-5.8	-4.4	-2.2	-6.8	-5.7	-4.1	-3.0
Excl. project grants and ext. financed projects	-0.9	-3.5	-2.9	-1.0	-2.9	-3.9	-4.1	-3.0
Financing	3.1	5.0	4.4	4.3	2.9	3.2	3.8	3.2
External net financing	2.7	3.1	3.1	3.2	3.7	3.0	3.2	3.2
Loans (net)	2.7	3.1	3.1	3.2	3.7	3.0	3.2	3.2
Disbursements	3.4	3.8	3.7	3.3	3.9	3.0	3.4	3.5
Budget support	1.2	2.3	2.2	0.0	3.9	3.0	2.6	2.3
Of which: Petrocaribe	0.8	2.2	2.2	0.0	3.9	3.0	2.6	2.3
Project loans	2.2	1.5	1.5	3.3	…	…	0.8	1.2
Amortization	-0.7	-0.6	-0.6	-0.1	-0.2	0.0	-0.2	-0.2
External financing to be committed	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internal net financing	0.0	1.4	0.8	1.1	-0.8	0.2	0.6	0.0
Banking system	-0.1	0.9	0.2	0.9	-1.8	-0.3	0.0	-0.6
BRH	0.0	0.9	0.2	0.9	0.1	0.0	0.0	0.0
excl. Petrocaribe			0.2	0.9	0.0	0.0	0.0	0.0
Net T-bills for recap	…	…	0.0	0.0	0.0	1.3	1.1	0.9
Commercial banks	-0.1	0.0	0.0	0.0	-1.8	-0.3	0.0	-0.6
excl. Petrocaribe			0.0	0.0	0.4	1.4	1.5	1.7
Net purchase of T-bills	…	…	0.0	0.0	0.4	1.4	1.5	1.7
Other nonbank financing	0.1	0.5	0.5	0.3	1.0	0.6	0.6	0.6
Amortization	…	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0
Counterpart funds 4/	…	0.7	0.7	0.0	0.0	0.0	0.0	0.0
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
HIPC interim relief	0.3	0.5	0.5	0.0	0.0	0.0	0.0	0.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.6	1.1	1.0

Sources: Ministry of Finance and Economy; and Fund staff estimates.

1/ Commitment basis except for domestically financed capital expenditure, which is reported on cash basis from 2007 onwards.
2/ Includes statistical discrepancy.
3/ GDP ratios are calculated using nominal program figures for 2008 (numerator) and actual nominal GDP (denominator).
4/ Sales proceeds from grants received in kind.

Table 3. Haiti: Summary Accounts of the Banking System

(Fiscal year ending September 30; in millions of gourdes)

	2007/08	2008/09		Proj.			
	Est.	Prog.	Act.	2009/10	2010/11	2011/12	2012/13
				I. Central Bank			
Net foreign assets	21,035	21,522	24,953	24,304	25,747	27,605	30,046
(In millions of U.S. dollars)	526	507	597	583	627	679	739
Net international reserves (program) 1/	314	238	439	301	339	425	455
Commercial bank forex deposits	222	250	268	395	400	366	396
Net domestic assets	7,356	9,522	6,126	11,447	16,029	21,067	25,094
Net credit to the nonfinancial public sector	20,541	22,936	21,549	21,918	21,918	21,918	21,918
Of which: Net credit to the central government	20,607	23,002	23,118	23,289	23,289	23,289	23,289
Of *which*: t-bills				0	8,000	12,000	16,000
Liabilities to commercial banks (excl gourde deposits)	-18,431	-20,777	-20,711	-25,958	-24,936	-19,882	-22,126
BRH bonds/Open market operations	-9,601	-10,161	-9,552	-9,500	-8,500	-5,000	-6,000
Counterpart of commercial bank forex deposits	-8,830	-10,616	-11,159	-16,458	-16,436	-14,882	-16,126
Other	5,247	7,363	5,289	15,486	19,047	19,031	25,302
Base Money	28,392	31,043	31,080	35,751	41,776	48,672	55,140
Currency in circulation	13,030	14,271	13,448	15,590	18,134	21,026	24,109
Commercial bank gourde deposits	15,362	16,773	17,632	20,161	23,643	27,646	31,031
				II. Consolidated Banking System			
Net foreign assets	39,111	38,603	41,490	45,406	48,177	52,658	57,539
(In millions of U.S. dollars)	979	909	993	1,088	1,172	1,294	1,414
Of which: Commercial banks NFA	452	402	396	506	546	616	676
Net domestic assets	53,469	63,196	61,303	69,121	87,855	107,341	127,105
Credit to the nonfinancial public sector	13,224	21,649	16,575	11,253	10,265	10,361	7,767
Credit to the private sector	37,496	42,291	43,002	39,697	51,418	66,552	82,906
In gourdes	16,117	17,284	19,206	21,128	25,435	32,043	39,610
In foreign currency	21,380	25,007	23,796	18,569	25,983	34,509	43,296
In millions of U.S. dollars	535	589	570	445	632	848	1,064
Other	2,748	-744	1,727	18,171	26,173	30,428	36,431
Broad money	92,580	101,800	102,794	114,528	136,032	159,999	184,644
Currency in circulation	13,030	14,271	13,448	15,590	18,134	21,026	24,109
Gourde deposits	37,050	39,829	41,182	44,583	53,676	63,189	72,548
Foreign currency deposits	42,500	47,700	48,164	54,354	64,222	75,784	87,987
In millions of U.S. dollars	1,064	1,124	1,153	1,303	1,563	1,863	2,163
				(12-month percentage change)			
Currency in circulation	12.6	9.5	3.2	15.9	16.3	16.0	14.7
Base money	13.9	9.3	9.5	15.0	16.9	16.5	13.3
Gourde money (M2)	12.4	8.0	9.1	10.1	19.3	17.3	14.8
Broad money (M3)	17.7	10.0	11.0	11.4	18.8	17.6	15.4
Gourde deposits	12.4	7.5	11.2	8.3	20.4	17.7	14.8
Foreign currency deposits (U.S. dollars)	24.6	12.2	13.3	12.9	18.2	18.0	16.1
Credit to the nonfinancial public sector	-29.8	63.7	25.3	-32.1	-8.8	0.9	-25.0
Credit to the private sector	25.2	12.8	14.7	-7.7	29.5	29.4	24.6
Credit in gourdes	21.3	7.2	19.2	10.0	20.4	26.0	23.6
Credit in foreign currency (U.S. dollars)	28.3	17.0	11.3	-22.0	39.9	32.8	25.5
Memorandum items:							
Foreign currency bank deposits (percent of total)	53.4	54.5	53.9	54.9	54.5	54.5	54.8
Foreign currency credit to private sector (percent of total)	57.0	59.1	55.3	46.8	50.5	51.9	52.2
Commercial Banks' Credit to Private Sector (percent of GDP) 2/	14.2	15.8	15.4	14.3	15.4	17.1	18.6

Sources: Bank of the Republic of Haiti; and Fund staff estimates.

1/ Excluding commercial bank forex deposits, letters of credit, guarantees, earmarked project accounts and U.S.dollar-denominated bank reserves. the NIR definition has been changed relative to that of the previous program, with the SDR allocation no longer netted out as a liability. This table reports NIR under the new definition.

2/ GDP ratio calculated using nominal program figure for 2009 (numerator) and actual nominal GDP (denominator).

Table 4. Haiti: Balance of Payments

(Fiscal year ending September 30; in millions of U.S. dollars)

	2007/08	2008/09		Proj.			
	Est.	Prog.	Est.	2009/10	2010/11	2011/12	2012/13
Current account	-295.3	-213.9	-210.8	-139.3	-283.7	-376.6	-429.6
Current account (excluding grants)	-769.0	-875.4	-698.2	-1,865.4	-1,856.3	-1,797.5	-1,763.7
Trade balance	-1,617.0	-1600.1	-1,486.0	-1,868.7	-2,429.4	-2,558.1	-2,731.8
Exports of goods	490.2	490.8	551.2	484.6	535.9	591.9	664.8
Of which: Assembly industry	423.3	432.1	491.3	436.7	485.0	538.8	605.7
Imports of goods	-2,107.2	-2090.9	-2,037.2	-2,353.3	-2,965.3	-3,150.0	-3,396.6
Of which: Petroleum products	-602.2	-425.0	-384.6	-433.8	-503.7	-508.2	-513.9
Services (net)	-420.6	-451.5	-462.7	-1,364.6	-892.0	-804.6	-703.3
Receipts	342.8	319.9	381.8	266.3	304.4	347.4	388.4
Payments	-763.4	-771.4	-844.5	-1,630.9	-1,196.4	-1,152.0	-1,091.7
Income (net)	16.0	-12.8	10.2	-5.4	-3.5	13.8	49.5
Of which: Interest payments 1/	-24.6	-26.8	-12.2	-12.5	-13.6	-17.4	-21.3
Current transfers (net)	1,726.4	1850.5	1,727.7	3,099.3	3,041.2	2,972.2	2,956.0
Official transfers (net)	473.7	661.5	487.4	1,726.0	1,572.5	1,420.8	1,334.1
Of which: budget support				254.7	138.6	5.1	5.0
Private transfers (net)	1,252.7	1189.0	1,240.3	1,373.2	1,468.6	1,551.4	1,622.0
Capital and financial accounts	336.7	156.6	244.1	122.0	279.7	328.6	389.6
Capital transfers (HIPC/MDRI)	0.0	1069.0	1,069.0	0.0	0.0	0.0	0.0
Public sector capital flows (net)	319.7	49.6	263.8	150.7	213.1	295.5	337.5
Loan disbursements	363.5	98.0	186.4	161.3	230.2	312.6	363.6
Amortization 1/	-43.8	-48.4	-24.0	-10.7	-17.1	-17.1	-26.1
Debt stock reduction (HIPC/MDRI)	0.0	-1092.0	-1,092.0	0.0	0.0	0.0	0.0
Banks (net) 2/	-143.0	50.0	56.5	-110.0	-40.0	-70.0	-60.0
Private sector capital flows 2/	115.8	57.0	-0.8	81.4	106.7	103.2	112.0
Of which: Foreign direct investment	29.8	20.0	38.0	81.4	106.7	103.2	112.0
Errors and omissions 3/	44.2	0.0	26.0	0.0	0.0	0.0	0.0
Overall balance	41.5	-57.4	33.4	-17.3	-4.0	-48.0	-40.0
Financing	-41.5	57.4	-33.4	17.3	-44.0	-52.0	-60.0
Change in net foreign assets 4/	-63.4	19.5	-70.8	14.7	-44.0	-52.0	-60.0
Change in gross reserves	-163.0	-46.7	-258.7	-128.6	-63.7	-72.1	-90.3
Liabilities	99.6	66.2	187.9	143.4	19.7	20.1	30.3
Utilization of Fund credits(net)	49.9	60.3	61.3	122.9	19.7	9.4	-0.7
Purchases and loans	49.9	60.3	61.3	122.9	19.7	14.8	14.8
Repayments	0.0	0.0	0.0	0.0	0.0	-5.4	-15.5
Other liabilities	49.7	5.9	126.6	20.4	0.0	10.7	31.0
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	3.6	3.5	3.5	0.0	0.0	0.0	0.0
HIPC interim assistance	18.3	34.0	34.0	2.6	0.0	0.0	0.0
External financing to be committed	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	48.0	100.0	100.0
Memorandum items:							
Current account balance (in percent of GDP)	-4.5	-3.0	-3.2	-2.1	-3.7	-4.1	-4.1
Current account balance, excl. grants (in percent of GDP)	-11.7	-12.4	-10.6	-28.7	-24.2	-19.7	-16.8
Goods exports (f.o.b) growth	-6.2	0.1	12.4	-12.1	10.6	10.5	12.3
Goods import (f.o.b) growth	30.2	-0.8	-3.3	15.5	26.0	6.2	7.8
Debt service as percent of exports	8.2	9.3	3.9	3.1	3.7	4.2	6.0
Gross liquid international reserves (in millions of U.S. dollars)	707.8	754.7	947.5	1,076.2	1,139.8	1,212.0	1,302.2
Gross liquid international reserves (in months of next year's imports of goods and services)	2.9	3.0	2.9	3.1	3.2	3.2	3.4

Sources: Bank of the Republic of Haiti; and Fund staff estimates.

1/ Includes HIPC/MDRI debt relief beginning in 2010 (2009 HIPC/MDRI debt relief is reflected below-the-line).
2/ Includes NIR and commercial banks' foreign currency deposits with the BRH.
3/ Includes short-term capital and errors and omissions for historical period.
4/ Petrocaribe resources for 2009 are recorded as private capital inflows and outflows of banks' NFA.

Table 5. Haiti: Financial Soundness Indicators of the Banking System

(Fiscal year ending September 30; in percent unless otherwise indicated)

	2006/07	2007/08	2008/09	2009/10 Dec.	2009/10 Mar.
Size and Growth					
Total assets (in millions of gourdes)	79,764	100,302	107,913	114,183	120,512
Of which: central bank bonds	9,008	9,397	9,552	6,552	8,339
Of which: total loans	24,670	31,187	35,405	35,880	31,264
Total assets (in millions of U.S. dollars) 1/	2,192	2,510	2,583	2,674	3,206
Total Deposits (in millions of gourdes)	66,031	84,725	92,460	98,351	104,073
Net Profits (loss) (in millions of gourdes)	202.3	483.7	359.8	274.6	214.8
Credit/GDP	10.9	10.8	13.3	13.4	11.7
Deposits/GDP	29.2	34.6	37.8	42.6	45.0
Credit growth (net) from year before 2/	9.9	29.3	14.2	15.2	0.9
Capital adequacy					
Regulatory capital to risk-weighted assets 3/	19.0	12.6	16.4	11.7	10.0
Capital (net worth) to assets	7.0	6.1	6.7	6.9	6.5
Asset quality and composition					
Loans (net) to assets	28.3	29.1	30.9	29.6	24.0
NPLs to gross loans	10.0	9.7	8.5	8.6	12.3
Provisions to gross loans	8.5	6.4	5.9	5.8	7.4
Provisions to gross NPLs	85.5	66.4	69.6	66.7	59.8
NPL less provisions to net worth	6.4	15.6	12.6	13.0	15.4
Earnings and profitability (annualized)					
Net Earnings/Assets (ROA)	1.0	2.0	1.4	1.0	0.1
Net Earnings/Equity (ROE)	14.7	30.9	20.5	14.5	2.0
Net interest income to gross interest income	67.1	80.0	87.3	86.6	87.9
Operating expenses to net profits	86.0	73.5	74.1	76.2	75.4
Efficiency					
Interest rate spread in gourdes 4/	10.2	12.4	19.5	19.1	20.5
Interest rate spread in U.S. dollars 4/	8.9	10.7	10.9	11.4	-
Liquidity					
Liquid assets to total assets 5/	46.5	35.4	46.9	54.4	48.4
Liquid assets to deposits 5/	56.1	41.9	44.4	49.5	49.5
Market Risk					
Foreign currency loans to total loans (net)	70.1	69.3	68.9	64.4	66.7
Foreign currency deposit to total deposits	52.4	58.2	56.9	60.1	59.8

Sources: Fund staff computations based on data from the Bank of the Republic of Haiti.

1/ Data for all years converted from gourdes.
2/ Net credit equal to gross loans less non performing loans.
3/ The prudential requirement is 12 percent.
4/ Defined as the difference between average lending rate and average fixed deposit rate in the banking system.
5/ Liquid assets include cash and central bank bonds.

Table 6. Haiti: Medium-Term Scenario

(Fiscal year ending September 30)

	Est.		Proj.					
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Real sector (annual percentage rate)								
Real GDP growth	0.8	2.9	-8.5	9.8	8.4	6.9	6.2	6.0
Inflation (CPI end-of-period)	19.8	-4.7	8.5	8.6	7.5	7.0	6.0	5.0
Fiscal sector (in percent of GDP)								
Central government overall balance (incl. grants)	-3.1	-4.4	-2.9	-3.9	-4.9	-4.2	-4.1	-3.6
Total revenue and grants	15.1	17.9	24.3	28.5	25.6	24.0	22.4	21.6
Central government revenue	10.7	11.2	10.0	10.7	12.2	13.1	13.5	14.1
Central government expenditure	18.2	22.3	27.3	32.4	30.5	28.1	26.5	25.2
Domestic financing	0.0	0.8	-0.8	0.2	0.6	0.0	0.4	0.4
External financing 1/	2.7	3.1	3.7	3.0	3.2	3.2	2.8	2.4
Monetary sector								
Growth in broad money (M3)	17.7	11.0	11.4	18.8	17.6	15.4	13.4	12.8
External sector (in percent of GDP)								
Trade balance	-24.6	-22.7	-28.8	-31.7	-28.0	-26.0	-24.4	-23.5
Services (net)	-6.4	-7.1	-21.0	-11.6	-8.8	-6.7	-4.7	-3.2
Income (net)	0.2	0.2	-0.1	0.0	0.2	0.5	0.6	0.5
Private transfers (net)	19.1	18.9	21.1	19.1	17.0	15.5	14.3	13.8
External grants	7.2	7.4	26.6	20.5	15.5	12.7	10.6	9.1
Current account (incl. official transfers)	-4.5	-3.2	-2.1	-3.7	-4.1	-4.1	-3.7	-3.3
Current account (excl. official transfers)	-11.7	-10.6	-28.7	-24.2	-19.7	-16.8	-14.3	-12.4
External financing gap for central government	0.0	0.0	0.0	0.6	1.1	1.0	0.8	0.8
Liquid gross reserves (in millions of U.S. dollars)	708	948	1,076	1,140	1,212	1,302	1,381	1,454
In months of imports of the following year	2.9	2.9	3.1	3.2	3.2	3.4	3.5	3.6

Sources: Haitian authorities; and Fund staff estimates.

1/ Including rescheduling and HIPC relief.

Table 7. Haiti: Indicators of External Vulnerability 1/

(Units as indicated)

	2007/08	2008/09	2009/10	Proj.		
				2010/11	2011/12	2012/13
Debt indicators						
Total external public debt (in percent of GDP)	29.5	16.6	22.0	21.6	21.9	21.6
Total external public debt (in percent of exports 2/)	232.5	116.4	189.9	197.1	213.4	215.0
External debt service (in percent of GDP)	1.0	0.8	0.4	0.4	0.4	0.6
Amortization	0.7	0.4	0.2	0.2	0.2	0.4
Interest	0.4	0.4	0.2	0.2	0.2	0.2
External debt service (in percent of exports 2/)	8.2	5.6	3.1	3.7	4.2	6.0
Amortization	5.3	2.6	1.4	2.0	2.4	3.9
Interest	3.0	3.0	1.7	1.6	1.8	2.0
External debt service (in percent of current central govt. revenues)	9.8	7.1	3.6	3.7	3.6	4.6
Amortization	6.2	3.3	1.6	2.1	2.0	3.0
Interest	3.5	3.8	1.9	1.7	1.6	1.5
Other indicators						
Exports (percent change, 12-month basis in U.S. dollars)	-6.2	12.4	-12.1	10.6	10.5	12.3
Imports (percent change, 12-month basis in U.S. dollars)	30.2	-3.3	15.5	26.0	6.2	7.8
Remittances and grants in percent of gross disposable income	20.8	20.8	32.3	28.4	24.5	21.9
Real effective exchange rate appreciation (+) (end of period)	2.9	1.0	…	…	…	…
Exchange rate (per U.S. dollar, period average)	38.3	40.7	…	…	…	…
Current account balance (US$ million) 3/	-295.3	-210.8	-139.3	-283.7	-376.6	-429.6
Capital and financial account balance (US$ million) 4/	336.7	244.1	122.0	279.7	328.6	389.6
Public sector	319.7	263.8	150.7	213.1	295.5	337.5
Private sector	17.1	81.7	-28.6	66.7	33.2	52.0
Liquid gross reserves (US$ million)	707.8	947.5	1076.2	1139.8	1212.0	1302.2
In months of imports of the following year 2/	2.9	2.9	3.1	3.2	3.2	3.4
In percent of debt service due in the following year	1363	4088	3504	2859	1928	1383
In percent of base money	99.6	127.4	125.6	112.1	101.3	96.1

Sources: Bank of the Republic of Haiti; and Fund staff estimates.

1/ Reflects HIPC/MDRI relief.
2/ Goods and services.
3/ Including grants.
4/ Includes in the private sector FDI, short-term capital, and errors and omissions in addition to bank flows.

Table 8. Haiti: Millennium Development Goals

	1990	1995	2000	2005	2008
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	56.0	54.0	55.0	55.0	56.0
Employment to population ratio, ages 15-24, total (%)	37.0	39.0	44.0	46.0	48.0
GDP per person employed (annual % growth)	-10.0	-18.0	-1.0	-4.0	0.0
Income share held by lowest 20%	…	…	2.5	…	…
Malnutrition prevalence, weight for age (% of children under 5)	…	24.0	13.9	18.9	18.9
Poverty gap at $1.25 a day (PPP) (%)	…	…	28.0	…	…
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	…	…	55.0	…	…
Prevalence of undernourishment (% of population)	63.0	60.0	…	58.0	…
Vulnerable employment, total (% of total employment)	…	…	…	…	…
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	…	…	…	…	…
Literacy rate, youth male (% of males ages 15-24)	…	…	…	…	…
Persistence to last grade of primary, total (% of cohort)	…	…	…	…	…
Primary completion rate, total (% of relevant age group)	29.0	…	…	…	…
Total enrollment, primary (% net)	…	…	…	…	…
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	…	4.0	4.0	4.0	4.0
Ratio of female to male enrollments in tertiary education	…	…	…	…	…
Ratio of female to male primary enrollment	95.0	95.0	…	…	…
Ratio of female to male secondary enrollment	94.0	…	…	…	…
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	44.2	…	…	…	…
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	31.0	49.0	55.0	58.0	58.0
Mortality rate, infant (per 1,000 live births)	105.0	98.0	78.0	62.0	57.0
Mortality rate, under-5 (per 1,000)	152.0	141.0	109.0	84.0	76.0
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	…	…	…	…	…
Births attended by skilled health staff (% of total)	23.0	20.0	24.0	26.0	26.0
Contraceptive prevalence (% of women ages 15-49)	10.0	18.0	28.0	32.0	32.0
Maternal mortality ratio (modeled estimate, per 100,000 live births)	…	…	…	670.0	…
Pregnant women receiving prenatal care (%)	71.0	68.0	79.0	85.0	85.0
Unmet need for contraception (% of married women ages 15-49)	…	45.0	40.0	38.0	…
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	…	…	12.0	5.0	5.0
Condom use, population ages 15-24, female (% of females ages 15-24)	…	…	13.0	37.0	37.0
Condom use, population ages 15-24, male (% of males ages 15-24)	…	…	28.0	42.0	42.0
Incidence of tuberculosis (per 100,000 people)	306.0	306.0	306.0	306.0	306.0
Prevalence of HIV, female (% ages 15-24)	…	…	…	1.4	1.4
Prevalence of HIV, male (% ages 15-24)	…	…	…	1.0	1.0
Prevalence of HIV, total (% of population ages 15-49)	1.2	2.1	2.2	2.2	2.2
Tuberculosis cases detected under DOTS (%)	…	2.0	19.0	44.0	49.0
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP $ of GDP)	0.1	0.1	0.2	0.2	…
CO2 emissions (metric tons per capita)	0.1	0.1	0.2	0.2	…
Forest area (% of land area)	4.0	4.0	4.0	4.0	…
Improved sanitation facilities (% of population with access)	29.0	27.0	24.0	19.0	19.0
Improved water source (% of population with access)	52.0	54.0	56.0	58.0	58.0
Marine protected areas, (% of surface area)	…	…	…	…	…
Nationally protected areas (% of total land area)	…	…	…	0.3	0.3
Goal 8: Develop a global partnership for development					
Aid per capita (current U.S. dollars)	24.0	92.0	24.0	54.0	73.0
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	9.0	50.0	8.0	17.0	6.0
Internet users (per 100 people)	0.0	0.0	0.2	6.5	10.4
Mobile cellular subscriptions (per 100 people)	0.0	0.0	1.0	5.0	33.0
Telephone lines (per 100 people)	1.0	1.0	1.0	2.0	1.0

Source: World Development Indicators.

Table 9. Haiti: Proposed Schedule of Disbursements

Amount	Date	Conditions for Disbursement [1/]
SDR 8,190,000	July 15, 2010	Executive Board approval of the three-year arrangement under the ECF.
SDR 8,190,000	January 15, 2011	Observance of performance criteria for September 2010 and completion of the first review under the ECF arrangement.
SDR 4,914,000	July 15, 2011	Observance of performance criteria for March 2011 and completion of the second review under the ECF arrangement.
SDR 4,914,000	January 15, 2012	Observance of performance criteria for September 2011 and completion of the third review under the ECF arrangement.
SDR 4,914,000	July 15, 2012	Observance of performance criteria for March 2012 and completion of the fourth review under the ECF arrangement.
SDR 4,914,000	January 15, 2013	Observance of performance criteria for September 2012 and completion of the fifth review under the ECF arrangement.
SDR 4,914,000	July 15, 2013	Observance of performance criteria for March 2013 and completion of the sixth review under the ECF arrangement.

Source: IMF staff estimates and projections.

[1/] Other than the generally applicable conditions for the Extended Credit Facility (ECF).

Table 10. Haiti Indicators of Capacity to Repay the Fund, 2010-23

(In fiscal year ending September 30)

				Projections													
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Fund obligations based on existing credit																	
(in millions of SDRs)																	
Principal	1.5	0.0	0.0	0.0	0.0	3.6	10.3	15.9	28.7	36.0	30.4	25.7	20.2	7.3	0.0	0.0	0.0
Charges and interest	0.5	0.2	0.3	0.0	0.0	0.5	0.5	0.4	0.4	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit 1/ 3/																	
(in millions of SDRs)																	
Principal	1.5	0.0	0.0	0.0	0.0	3.6	10.3	15.9	28.7	38.5	35.2	32.5	28.4	15.5	5.7	3.4	1.5
Charges and interest	0.5	0.2	0.3	0.0	0.0	0.5	0.5	0.5	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0	0.0
Total obligations based on existing and prospective credit 1/																	
In millions of SDRs	2.0	0.2	0.3	0.0	0.0	4.1	10.8	16.4	29.2	38.9	35.4	32.7	28.5	15.6	5.8	3.5	1.5
In millions of U.S. dollars	3.0	0.3	0.4	0.0	0.0	6.1	16.3	24.6	43.9	58.4	53.3	49.1	42.8	23.4	8.7	5.2	2.2
In percent of exports of goods and services	0.4	0.0	0.0	0.0	0.0	0.6	1.5	2.0	3.3	4.0	3.4	2.9	2.3	1.2	0.4	0.2	0.1
In percent of debt service 2/	3.3	0.6	2.9	0.1	0.1	15.3	25.9	26.2	37.6	48.1	31.4	26.2	21.6	12.2	4.7	3.4	1.5
In percent of government domestic revenues	0.5	0.0	0.1	0.0	0.0	0.5	1.2	1.6	2.4	3.0	2.5	2.1	1.7	0.8	0.3	0.2	0.1
In percent of quota	2.4	0.2	0.3	0.0	0.0	5.0	13.2	20.0	35.6	47.5	43.3	39.9	34.8	19.0	7.0	4.2	1.8
In percent of gross international reserves	0.5	0.0	0.0	0.0	0.0	0.5	1.2	1.7	2.9	3.7	3.2	2.8	2.3	1.2	0.4	0.2	0.1
Outstanding Fund credit																	
In millions of SDRs	35.7	67.3	105.0	186.3	199.4	205.7	205.2	189.4	160.6	122.1	87.0	54.5	26.2	10.7	4.9	1.5	0.0
In millions of U.S. dollars	55.6	104.8	164.5	283.1	299.3	309.0	308.6	285.0	241.8	183.9	130.9	82.1	39.4	16.0	7.4	2.2	0.0
In percent of exports of goods and services	7.1	12.6	17.6	37.7	35.6	32.9	29.3	23.6	18.0	12.6	8.3	4.8	2.1	0.8	0.4	0.1	0.0
In percent of debt service 2/	60.4	225.1	1138.3	1221.5	974.5	774.9	490.8	302.7	207.0	151.4	77.2	43.7	19.9	8.3	4.0	1.4	0.0
In percent of government domestic revenues	9.0	14.9	22.4	43.8	36.5	27.7	22.4	18.0	13.4	9.3	6.1	3.5	1.5	0.6	0.2	0.1	0.0
In percent of quota	43.6	82.1	128.2	227.5	243.5	251.1	250.6	231.2	196.1	149.1	106.2	66.6	31.9	13.0	6.0	1.8	0.0
In percent of gross international reserves	9.3	13.8	16.2	24.7	24.7	24.1	22.5	19.6	15.9	11.5	7.8	4.7	2.1	0.8	0.4	0.1	0.0
Memorandum items:																	
Exports of goods and services (millions of U.S. dollars)	782.1	833.0	932.9	750.9	840.3	939.3	1053.2	1209.4	1343.1	1454.7	1575.6	1706.5	1831.1	1946.2	2068.6	2198.7	2337.0
Debt service (millions of U.S. dollars) 2/	91.9	46.5	14.4	23.2	30.7	39.9	62.9	94.1	116.8	121.5	169.7	187.7	198.3	192.0	183.6	155.4	151.7
Domestic Revenues (millions of U.S. dollars)	620.2	701.7	734.5	646.7	821.0	1117.2	1379.9	1586.3	1798.2	1975.6	2163.6	2363.2	2580.2	2816.0	3072.2	3309.2	3564.2
Quota (millions of SDRs)	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9
Gross international reserves (millions of U.S. dollars)	595.9	758.9	1017.6	1146.3	1209.9	1282.0	1372.3	1451.2	1523.7	1599.9	1679.9	1763.9	1852.1	1944.7	2041.9	2144.0	2251.2
GDP (millions of U.S. dollars)	5,858	6,572	6,560	6,495	7,669	9,143	10,497	11,755	12,763	13,729	14,729	15,766	16,875	18,063	19,335	20,696	22,152

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

1/ Assumes disbursements of SDR 8.190 million in July 2010 under new ECF arrangement.

2/ Net of HIPC assistance.

3/ Obligations take into account the interest rate grace period and new interest rates which came into effect January 7, 2010.

ATTACHMENT I: HAITI: LETTER OF INTENT

Port-au-Prince
July 6, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. The earthquake that struck Port-au-Prince and surrounding areas on January 12, 2010 is a major setback for Haiti. Overall performance under the previous ECF-supported arrangement has been satisfactory, and the sixth and last review was successfully concluded on January 27, 2010. Under successive Fund-supported programs since 2004, Haiti has implemented macroeconomic and financial policies that have helped stabilize the economy and restore growth despite successive shocks, including the global slowdown. Progress with essential structural reforms including critical improvements in governance allowed for the delivery of HIPC/MDRI debt relief in 2009.

2. The earthquake destroyed key economic and government infrastructure, threatening these hard-won gains and weakening institutions. Total damages and losses amount to 120 percent of GDP. About 225,000 people were killed, and most ministries, hospitals and schools were destroyed. The international community's response was swift and generous, but the humanitarian situation is only slowly improving. About 1.3 million people are still living in temporary shelters and the hurricane season is starting.

3. The significant resources pledged represent a unique opportunity to build a better Haiti. Our National Action Plan for the Reconstruction and Development of Haiti aims at raising long-term growth and reducing poverty by: (i) creating decentralized poles of economic growth; (ii) reducing vulnerability to natural disasters; (iii) enhancing access to basic social services; and (iv) strengthening state institutions. An Interim Commission for Haiti's Reconstruction has been established to oversee the implementation of the plan for the first 18 months. We are fully committed to the utmost transparency in the use of donor and internal resources for reconstruction, and are in the process of implementing reforms in our fiscal governance framework, with technical support from our development partners.

4. As part of the international effort to support Haiti's recovery and reconstruction, we hereby request Fund support under a new three-year ECF arrangement in the amount of SDR 40.95 million, or 50 percent of quota. The new Fund-supported program (July 2010-June/July 2013) will provide a coherent macroeconomic framework that will support the

implementation of our Action Plan and ensure the efficient spending and absorption of aid inflows. At the same time, technical assistance will help rebuild key economic institutions and strengthen administrative capacity. The attached Memorandum of Economic and Financial Policies (MEFP) outlines the medium-term and first year objectives of Haiti's proposed program to be supported under the ECF. Our economic program focuses on improving the quality and efficiency of public spending and increasing revenue through tax policy and administration reforms. Measures to boost absorptive capacity and enhance credit growth while maintaining financial sector stability will be essential to eliciting the needed supply response. Improvements in the business environment and concrete steps to encourage private credit and investment will be critical to support growth.

5. Approval of this request would result in a first disbursement of SDR 8.19 million, followed by six semi-annual disbursements. These resources will help us smooth excessive exchange rate and/or reserves movements caused by large and volatile aid inflows. Because the financing already committed by donors will be disbursed with a lag, we also request that access under the new arrangement be frontloaded, with the first two disbursements of 10 percent of quota each in the first year, followed by 5 disbursements equivalent to 6 percent of quota each in the following years.

6. The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of our program, but will take any further measures that may become appropriate for this purpose. Haiti will keep consulting with the Fund on the adoption of these measures and in advance of any revision to policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

7. In line with our commitment to transparency in government operations, we agree to the publication of all ECF-related documents circulated to the IMF Executive Board.

Sincerely yours,

/s/

Ronald Baudin
Minister of Economy and Finance
Republic of Haiti

/s/

Charles Castel
Governor
Bank of the Republic of Haiti
Republic of Haiti

ATTACHMENT II: HAITI: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. Introduction

1. **After several years of significant progress toward macroeconomic stability and growth, the January earthquake has been a major setback.** Anchored by prudent fiscal policies to limit central bank financing, our policies in recent years have helped stabilize the gourde and significantly reduce inflation. The reserve coverage was raised and, despite the global slowdown, growth reached close to 3 percent in FY 2009, one of the highest rates in the region. Structural reforms also advanced, qualifying Haiti for US$1.2 billion in HIPC/MDRI debt relief in June 2009. Public financial management (PFM) and tax administration have been enhanced. Governance was improved, with the adoption of laws on asset declaration for public officials and public procurement, and the establishment of an anti-corruption unit. Measures to strengthen central bank independence and promote the development of the financial sector have been implemented. Reforms in the social area have improved access to basic health and education services.

2. **We are determined to continue to build on the advances made in recent years and to press on with our reform agenda.** Immediately after the earthquake, we have moved quickly to restore basic government and payment systems functions. However, the constraints posed by the destruction of buildings and material and the loss of key personnel still largely need to be addressed, with the support of the international community. In the short term, we are giving priority to rebuilding and strengthening our institutions, and are focusing on immediate improvements in transparency and economic governance.

3. **Our Action Plan for National Recovery and Development aims at building a better Haiti by addressing vulnerabilities and tackling the structural causes of poverty and underdevelopment**. Specifically, our plan aims at: (i) decentralizing economic activity to regional economic centers; (ii) developing agriculture and encouraging private sector credit and investment; (iii) reducing the poverty rate from 54 percent in 2009 to 40 percent by 2015 while improving our population's access to basic public services and developing social safety nets; and (iv) improving governance and enhancing the efficiency and transparency of public spending.

4. **The successful implementation of our Action Plan depends crucially on the timeliness and management of the aid inflows.** A total of US$9.9 billion was pledged for Haiti's reconstruction at the high level donor conference at the UN at the end of March. Of this total, US$5.3 billion were committed to be disbursed during this fiscal year and next, representing a tripling of aid flows as a percent of GDP from recent years. Timely disbursement of the promised aid will be essential to the transition from recovery to reconstruction. The Interim Haiti Reconstruction Commission (IHRC) will ensure that resources are allocated to priority projects consistent with our action plan. Our economic program, anchored by a new three-year arrangement under the Extended Credit Facility, will ensure that the aid is spent transparently. Structural measures to promote investment and expand the export base are designed to help boost competitiveness.

II. Recent Developments

5. **Economic activity has rebounded since the earthquake**. Agricultural production is anticipated to be higher than last year on account of clement weather, increases in the size of irrigated areas, and distribution of seeds and fertilizers after the earthquake. Construction (including debris removal) has picked up. Textile exports to the United States recovered to pre-earthquake levels by March 2010.

- ***Revenue collection is gradually recovering.*** Revenue has been trending upward since January, and collections during January-May represent about 83 percent of budgeted amounts. Spending has remained low due to capacity constraints, weak revenue, and low budget support disbursements. Wages and operational expense payments thus had to be covered in part through central bank financing (US$35.3 million during January and February, which was fully repaid by end-May). As of end-May, only 30 percent of budget support committed for the year had been disbursed.

- ***The trade balance has worsened but remittances have picked up.*** The trade deficit rose to more than 8 percent of GDP in January-March, compared to 5 percent of GDP last year. Exports were 25 percent lower compared to the same period last year, while imports grew by more than 35 percent, reflecting increased food and emergency-related imports. Remittance inflows surged immediately after the earthquake, and were up by 11.7 percent during January-May (year-on-year). At end-May, NIR rose to US$646 million at end-May, from US$402 million at end-December. The gourde had appreciated by 5.3 percent against the U.S. dollar from end-2009. Twelve-month base money growth rose to 28 percent, from 11 percent in December, reflecting in part an increased preference for cash.

- ***In May, inflation stabilized to 6.4 percent, although rent, transport, and utilities prices remain high***. Monthly food prices decreased by 0.1 percent but high oil prices and supply-side bottlenecks remain a concern (annual inflation reached 18 percent for rent and utilities and 7.5 percent for transportation).

- ***The banking sector remains fairly liquid, but bank capital has been negatively affected by the earthquake, and non-performing loans are rising.*** Deposits increased by 10 percent between December and May. Over the same period, credit to the private sector declined by 6.6 percent. Bank profitability decreased, as the average return on assets dropped to 0.1 percent during January-March compared with a positive return rate of 1.4 percent in the same period of last year. About a third of bank loans is estimated to have been impaired, and NPLs rose from 8.5 percent of total loans in December to 12.3 percent in March. Provisioning for NPLs dropped from 66.7 percent of total NPLs in December to 59.8 percent in March.

III. Medium-Term Macroeconomic Framework

6. **Our objective is to implement a set of macroeconomic policies aimed at managing large aid inflows and at supporting the successful implementation of our Action Plan.** We expect the flow of donor resources to peak over the next 2-3 years, which will require careful coordination of fiscal, monetary, and exchange rate policies.

- After a decline of 8.5 percent in FY 2010, annual ***GDP growth*** is expected to peak at about 9 percent in FY 2011–12, driven mostly by reconstruction. Private sector credit and investment should support the reconstruction and raise medium-term growth. The establishment of a Partial Credit Guarantee Scheme and the implementation of measures to enhance the business environment will be critical steps in the reconstruction effort. Higher activity in the assembly, tourism, and agriculture sectors would sustain medium-term growth at about 6 percent.

- ***Annual inflation*** is projected to rise to 8.5 percent in FY 2010 and to decline to about 7 percent by FY 2013. Pressures from supply and transport bottlenecks would only ease gradually, while domestic demand would remain strong in the context of the reconstruction.

- The ***external current account deficit*** (excluding grants) is projected to widen to about 29 percent of GDP in FY 2010 and to decline to about 17 percent by FY 2013. Exports would recover to their pre-earthquake value by FY 2011, and grow at an average of 11 percent through FY 2013. Growth in textile exports will benefit from the *Haiti Economic Lift Program* (HELP) Act.[1]

- Reconstruction-related imports would grow strongly through FY 2013, financed by aid inflows. The current account deficit including grants should average about 3.2 percent during the program period.

- The ***fiscal deficit*** (excluding grants and foreign-financed projects) is projected to rise to close to 7 percent of GDP in FY 2010 (from 4.4 percent in FY 2009) due to the revenue shortfall and higher spending needs following the earthquake. A comprehensive tax policy and administration reform would help narrow the fiscal deficit to about 3 percent of GDP by FY 2013.

- ***The timely disbursement of aid and an increase in resources available for reconstruction are essential to the achievement of our macroeconomic objectives***. Official grants are projected to average about US$1.5 billion a year (over 20 percent of GDP) until 2013. Improved efficiency in spending, higher revenue, and external debt relief are also expected to free up resources for the reconstruction. Non-recourse to central bank financing over the course of the program (except on a temporary basis) will continue to anchor our fiscal program. The planned introduction of T-bills by March 2011 will provide an alternative source of domestic financing. To maintain medium-term debt sustainability, the path of domestic public debt will be established based on an updated debt sustainability analysis.

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[1] The HELP Act, approved by the U.S. Senate on May 6, would extend Haiti's trade preferences provided under the HOPE II initiative until 2020 and expand duty-free access to the U.S. market for additional Haitian textile and apparel exports. This initiative is designed to create jobs for Haitian factories.

IV. Policy and Structural Reform Agenda

7. **The overarching objective of our Action Plan for National Recovery and Development is to set Haiti on a higher economic growth path and reduce poverty.** Our plan focuses on creating decentralized economic growth poles, reducing the vulnerability to natural disasters, enhancing access to basic social services, and strengthening state institutions. These priorities are in line with our Poverty Reduction Strategy, with added emphasis on housing and territorial development. Measures to encourage private sector credit and investment are an essential component of our strategy to raise medium-term growth.

A. Fiscal Strategy

8. **Our fiscal objectives are to enhance the quality and effectiveness of reconstruction spending, while rebuilding a modern and efficient tax administration to raise domestic resources.** We plan to gradually implement a multi-year fiscal framework anchored on debt sustainability that is consistent with our medium-term growth targets, the strategic objectives of our reconstruction program, and related sectoral priorities. A combination of higher revenue collection, more efficient spending and the introduction of a domestic T-bill market will increase the resource envelope available for reconstruction, while allowing us to smooth out volatile aid inflows disbursements.

9. **To monitor developments better, we plan to expand the coverage of the budget to include resources and spending channeled through the Multi-Donor Trust Fund (MDTF)**. The MTDF, which is managed by the World Bank, started operating in June. With large-scale donor disbursements not expected to materialize for a few more months, immediate budget support will be essential to support the recovery and the transition to the reconstruction phase. In addition to setting strategic reconstruction objectives, the IHRC will play a key role in coordinating reconstruction activity and tracking aid disbursements. A database managed by the IHRC will support reporting and transparency.

Revenue measures and tax administration

10. **The earthquake has severely damaged the resources of the Tax Administration Agency.** Prior to the earthquake, revenue collection remained well below potential, reflecting weaknesses in administration and a complex tax system with many exemptions. In the aftermath of the earthquake, the lack of adequate building facilities together with the destruction of the information systems and tax records are impeding the operations of the tax and customs administrations. An immediate priority is to find adequate office space for all staff and ensure that basic administrative functions are restored. With donor support, we expect to transition away from the current emergency phase in the coming months. Revenue collection has already been recovering, driven by customs and large taxpayer contributions, and is expected to reach 10 percent of GDP in FY2010, equivalent to about 75 percent of budgeted amounts.

11. **Implementation of our medium-term strategy will help boost revenue collections to 13 percent of GDP by FY 2013**. The increase in revenue is to be generated through a

comprehensive reform of the tax system, with a view to broadening the base, rationalizing exemptions and combating fraud, and through the building of modern and efficient tax and customs administrations. The current low productivity of the VAT—at about 32 percent compared with an average of 70 percent in the region —indicates that seriously tackling tax evasion while broadening the tax base could more than double VAT revenue.[2]

- ***On tax policy, our main objective is to improve the equity of the tax system by rationalizing exemptions and broadening the tax base***. By end-September 2010, we will start publishing tax expenditure reports by beneficiary sectors to raise awareness on the inefficiency and cost of exemptions (structural benchmark). We will also set up a working group in charge of preparing a new tax code aimed at simplifying the tax system, increasing transparency, and broadening the base. This working group will establish a work program with specific milestones by September 2010 (structural benchmark), and request technical assistance from the IMF. The objective is to submit a proposal to reform the VAT, excise taxation and the income tax to Parliament, by end-FY 2011. These measures will also be reflected in the new tax code, which would be finalized during FY 2012. Meanwhile, we will continue to keep the regime of exemptions for non-governmental organizations under review, with a view to narrowing eligibility to a small and well-defined group of organizations by end-December 2010. The introduction of a telecommunication tax and car registration fees has been delayed because of the earthquake, but we now plan to introduce these measures by September 2010, which are expected to yield about 0.4 percent of GDP per year over the program period.

- ***We are developing a strategy to overhaul the tax and customs administration.*** This strategy will include a reorganization of the revenue administration focusing on: (a) fiscal missions; (b) segmentation of taxpayers; (c) computerization and rationalization of local and regional networks; (d) tighter controls; and (e) greater monitoring and accountability through the design and publication of performance indicators. To combat fraud, we will intensify our tax verification program. In an effort to raise awareness and guide revenue mobilization efforts, reports on the performance of the tax system, including revenue collections and the cost of exemptions, will be published on the Ministry of Economy and Finance website starting in September 2010 (structural benchmark).

Expenditure policy and poverty-reduction objectives

12. **Following the earthquake, we have re-prioritized spending to focus on providing humanitarian assistance to the population and restarting basic government functions.** During January-April, spending remained low due to capacity constraints, the shortfall in

[2] VAT productivity is calculated as the ratio of: (a) Total VAT revenue as a percentage of GDP; divided by (b) the VAT rate.

revenue, and slow budget support disbursements. For the remainder of this year however, we plan to accelerate priority expenditures on housing, hurricane prevention, and education. As a result of the emergency, we have also decided to allocate an amount of US$163 million (2.5 percent of GDP) of available PetroCaribe resources to large infrastructure projects in the provinces, in order to create jobs for the population displaced by the earthquake. We are in the process of preparing a revised budget for FY 2010 that will incorporate the updated spending allocations and our emergency fund resources.[3] We will also strive to include projects to be financed under the MDTF in our revised budget for this year and in future budgets.

13. **The earthquake has highlighted the urgency to improve access to basic social services and strengthen the resilience against natural disasters**. The earthquake has led to a sharp deterioration in food security and poverty levels. Hospitals and schools have been destroyed. We are determined to reduce poverty by focusing public investments on improving the delivery of public services, social safety nets, educational and health care systems, as well as transportation and communication infrastructure. We are preparing a PRSP update for no later than September 2011. We will resume the publication of reports on the execution of social expenditures (health, education and agriculture) by end-June 2010 (prior action). Our goal is to raise priority social expenditures by at least 30 percent by September 2011.

Public financial management (PFM) and economic governance

14. **Further improvements in public financial management and economic governance are an essential component of our strategy.** Remaining weaknesses in budget preparation, execution and controls, as well as in cash management, will be addressed taking into account recent IMF technical assistance recommendations. Together with our main development partners, we have identified key measures to further strengthen public financial management and economic governance. They have been summarized in the common conditionality matrix which presents the set of reforms that we will implement in the short term and our objectives. To that effect, we will strengthen:

- ***The framework of annual budget preparation***. To strengthen our ability to prepare medium-term macroeconomic and expenditure frameworks, we have started to establish a macro-fiscal unit at the Ministry of Economy and Finance, with the assistance of an external consultant. We intend to *gradually move toward a programmatic budget approach*, starting with key line Ministries in FY 2012.

[3] Until the date the new private bi-national company that will be in charge of managing the PetroCaribe program is legally established, all accumulated PetroCaribe resources will be: (i) treated as external financing as defined in paragraph 19 of the TMU; (ii) recorded as central government debt; and (iii) integrally transferred to the budget. Until PetroCaribe funds are fully accounted for under the budget, the new program will continue to include adjustors for the use of PetroCaribe resources and for the accumulation of new inflows in government deposits with the banking system (TMU ¶34).

- ***Budget execution and reporting***. More accurate and transparent reporting of budget execution will help inform budget preparation and improve Treasury management, while enhancing overall accountability and governance. As first step, we will focus on the monitoring and reporting of investment spending and current transfers and subsidies.
  - Beginning on June 30, 2010, we will publish central government transfers to project accounts, project by project, including PetroCaribe projects (prior action). Given that a large share of the reconstruction projects will be implemented outside of the budget framework, the Treasury's contribution to investment projects will have to be well-coordinated with reconstruction plans prepared by the IHRC.
  - Beginning on June 30, 2010, we will publish central government current transfers and subsidies by beneficiary sector to raise accountability (prior action).
  - Starting in March 2011, we will publish investment execution from the computerized management system SYSGEP with particular attention to the education, health, agriculture, and road sectors (structural benchmark).
- ***Treasury management***. Cash management is hampered by the multiplicity of Treasury accounts in the banking system, some of them with idle balances in periods when the Treasury is borrowing. Moving to a Treasury Single Account (TSA) will generate significant savings and strengthen accounting. In order to initiate the transition to a TSA, we will prepare comprehensive monthly Treasury balances by end-September 2010 (structural benchmark), and make an inventory of all government and donor accounts at the BRH and commercial banks (structural benchmark). By March 2011, we will publish quarterly cash plans including PetroCaribe spending and financing needs. This will help better align donor support to the country's needs, and enhance transparency and prioritization in spending execution (structural benchmark).

B. Financial Sector Policies

15. **The government of Haiti and the BRH are taking steps to increase private sector credit and preserve financial stability.** The earthquake has affected banks, both directly through the destruction of physical assets and personnel and indirectly through its impact on the quality of loan portfolios. Banks appear reluctant to provide new credit due to uncertainty about their clients' true financial situation and economic prospects more widely. Non-performing loans have inevitably risen because of disruptions to borrowers' cash flow. The capital position of three banks, representing 27 percent of total banking sector assets, needs to be strengthened. The financial sector has an essential role to play in the economic recovery and reconstruction of the country. Viable firms have lost part or all of their working capital and some need a restructuring of existing loans and some new credit to continue to operate. At the same time, an expansion of credit to new borrowers would support housing and overall economic activity.

16. **In close coordination with donors, we therefore plan to establish a Partial Credit Guarantee (PCG) scheme, to support renewed credit growth to the private sector while maintaining the stability of the banking system**. A technical proposal, prepared with support from the staffs of the IMF and the World Bank, has been finalized. The PCG scheme will require between US$200 and 250 millions, and will comprise two pillars: (a) Pillar 1, with a finite life, will aim at restructuring bank and microcredit loans impacted by the earthquake and financing business recovery; and (b) Pillar 2 will support new lending. In order to start with the program, we estimate that about US$100 million in capital is required for Pillar 1 and US$30 million for Pillar 2. Given that identified donor funding remains insufficient, we plan to set aside up to US$70 million in central bank reserves to fund the initial guarantee including US$50 million for Pillar 1 and US$20 million for Pillar 2. This will enable us to launch the scheme rapidly by mid-July 2010, while continuing to seek additional grant resources from donors, possibly through the Multi-Donor Trust Fund. Under the scheme, no payouts would occur during the first six months, as loans must be non-performing for six months before claims can be made to the PCG. Unless losses were to be significantly higher than expected at present, we anticipate that the fund should be able to repay a substantial amount of capital when it is wound up. We are liaising closely with the banking sector and other economic agents to ensure that the scheme is widely understood and operates effectively.

17. **Complementary financial sector reforms will support the expansion of private credit and growth, while strengthening financial sector supervision.** The earthquake has made even more urgent the adoption of measures to address (i) structural obstacles to credit growth recommended by the 2008 FSAP, due to the close link between private sector credit and territorial development; and (ii) regulation and supervision of the insurance sector. We intend to take the following measures to address these issues:

- ***A set of initiatives to lower the cost of taking collateral, and reduce the time and improve the ease of recovery of non-performing loans***. Key measures include the establishment of a credit bureau and a centralized registry of security collateral and a cadastre. At the same time, we will introduce comprehensive insolvency legislation in Parliament.
- ***Introduction of a regulatory and supervisory framework for nonbank financial institutions***. Some progress had been made under the previous ECF arrangement for credit unions, with the introduction of a credit union law. For insurance companies, a regulatory and supervisory framework will be set up in FY 2011.

C. Monetary Policy

18. **The expected surge in reconstruction-related aid inflows poses important challenges for monetary and exchange rate management.** The increase in aid inflows, together with higher remittances, could lead to further real exchange rate appreciation. In addition, lags between large and lumpy aid inflows and actual imports could cause excessive volatility in the exchange rate. The BRH plans to continue with its policy of recent months to

take advantage of foreign exchange inflows to buy foreign exchange with a view to continuing to strengthen its foreign exchange position. This policy will help ensure that foreign exchange is available later for reconstruction-related import demand, while mitigating the nominal appreciation of the currency. We will also enhance the BRH's intervention strategy, strive to liaise with major donors and NGOs and improve communication on BRH operations while encouraging the development of the interbank foreign exchange market. The central bank will continue to smooth out excessive exchange rate volatility but still allow some flexibility in the exchange rate. The BRH stands ready to drain excess reserves, and to tighten monetary conditions if domestic demand appears to be exceeding the absorptive capacity of the economy; we will continue to aim at containing base money growth as our intermediary monetary policy target.

19. **Improvements in the monetary and exchange rate operations framework will allow for the effective absorption of aid inflows.** So far, monetary policy effectiveness has been hampered in part by the limited availability of financial instruments, overly liquid banks, and a history of fiscal dominance. We intend to continue to improve liquidity management and inflation forecasting. The gradual development of a market for government securities will help improve the effectiveness of monetary policy and serve as a catalyst for the development over time of domestic financial markets. A predetermined public auction calendar for T-bills will be established by end-March 2011 (structural benchmark) with the objective of successfully organizing a first T-bill issuance by end-March 2011. Should, however, a small fiscal financing gap remain for this fiscal year, a first issue of T-bills limited to US$25 million of net new borrowing could already take place before end-September 2010. These reforms will support our policy to allow exchange rate movements to reflect further changes in underlying fundamentals, while continuing to smooth disruptive exchange rate volatility.

20. **During FY 2010–11, we will take further steps to enhance BRH independence**. The recapitalization plan of the BRH will be updated by end-March 2011, as part of the T-bill implementation project (structural benchmark). This update will include the preparation of a calendar for the securitization of BRH claims on the government over a period of several years, with the first tranche of the securitization scheduled for end-March 2011 (structural benchmark). A new central bank law will be prepared and submitted to Parliament by end-September 2011. The central bank law would also enshrine central bank independence and further strengthen external audit and reserves management.

21. **Implementation of the pending recommendations from the 2008 safeguards assessment update will be accelerated in the context of the new ECF-supported program.** An investment committee has been established, and reserve investment guidelines adopted (prior action). The investment committee will oversee the implementation of an overall investment strategy. The central bank has made efforts to enhance competition and rotation in the hiring of external auditors. This has caused delays in producing audited financial statements for FY 2008 and FY 2009, which were exacerbated by the earthquake. Nonetheless, we will strive to publish annual audited financial statements within a period of six months after the end of each fiscal year. The FY 2008 audited accounts have been

published by end-June 2010 (prior action), and the FY 2009 accounts will be published by end-September 2010 (structural benchmark).[4]

D. Promoting Private Sector Activity and Investment

22. **The success of our Action Plan depends critically on private sector participation.** We are implementing reforms to strengthen competitiveness by reducing high transaction costs, improving the business environment, facilitating access to credit, and simplifying the establishment of new businesses. Production costs are driven up by the lack of adequate infrastructure, including energy supply bottlenecks, low and costly access to credit and a weak legal and judicial environment. In addition, macroeconomic policies should allow for the absorption of large and persistent aid inflows, while preserving competitiveness.

23. **Our decentralization strategy envisages large projects to improve the transportation and energy infrastructure and create jobs in the provinces**. We are working to establish a robust legal framework for Public-Private Partnerships to help promote investment in these sectors with the assistance of the IMF. This will support the development of export industries, including textiles, agribusiness, and tourism. We are preparing new construction guidelines for residential buildings based on international best practices, and are in the process of establishing and enforcing a new building code for commercial buildings. This will be critical for increasing foreign direct investment in the textile and tourism sectors and in developing new industrial zones.

24. **We are actively strengthening the framework for business and investment.** Our reform program seeks a tangible improvement in Haiti's image as a country open for business and foreign investment. We will improve governance and the legal framework for investment, which are essential for financial market deepening and increased private investment. An improved investment climate will also be important to enable Haiti's textile sector to fully benefit from the HELP Act and expanded access to the U.S. market.

- With donor support, we are simplifying the legal and regulatory framework for investments in export-processing zones, and we intend to revamp the investment promotion office as an effective one-stop shop for potential investors.

- As part of its efforts to promote financial sector development and encourage investment, the government attaches high priority to the development of a cadastre, initially focused on development zones, together with a timetable for the surveying and establishment of specialized cadastres to encourage investment in these zones.

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[4] The FY 2009 NIR data have been verified by end-June 2010 (prior action).

E. Debt Management

25. **Prior to the earthquake, we made significant progress in strengthening debt management capacity in the context of the ECF-supported program and as part of the HIPC/MDRI debt relief process.** Information on public external and domestic currency debt was centralized in a single database. The SYGADE software was installed and regular debt reports were being produced. However, the earthquake was a major setback and, to rebuild our debt management capacity, we intend to:

- Prepare a progress report on the steps taken towards setting up a legal and institutional framework for public debt management by end-September 2010.
- Operationalize the debt unit at Ministry of Economy and Finance by March 2011. Middle and back office functions will be fully operational, including clear assignments of functional responsibilities and the drafting of memoranda of understanding between the MEF and other ministries and the BRH to clearly establish responsibilities and avoid overlapping (structural benchmark).
- Submit a public debt law to the Council of Ministers by end-September 2011 that establishes a sound legal and institutional framework for public debt management (structural benchmark).
- Prepare a medium-term debt management strategy, based on a comprehensive analysis of the sustainability of total public debt in FY 2012. This will help make informed choices on how to meet the government's financing requirements and better manage contingent liabilities, while taking due account of constraints and potential risks.

V. Program Monitoring

26. **The first year of the ECF-supported program will cover July 2010–June 2011**. The program will be monitored using quarterly quantitative benchmarks and semi-annual quantitative performance criteria and structural benchmarks, with test dates set at end-September and end-March. Quantitative targets are set on net international reserves, net domestic assets of the central bank, net central bank credit to the central government and to the entire nonfinancial public sector, public sector external arrears accumulation, and non-concessional external loans contracted or guaranteed by the public sector (all performance criteria); base money, net domestic financing by the central government, domestic arrears accumulation of the central government, and a floor on poverty-reducing spending (indicative targets) (Table 1). The definitions of these quantitative targets and program adjustors are provided in the attached Technical Memorandum of Understanding (TMU). Structural benchmarks are set for end-March and end-September and listed in Table 2, including prior actions. They are further defined in the TMU. A monitoring committee composed of high-level officials from the MEF and will be created by end-June 2010 to monitor program implementation. We expect the first review of the program to be completed by February 2011 and the second review to be completed by July 2011.

27. In accordance with the IMF's Articles of Agreement, we will refrain from imposing restrictions on payments and transfers for international transactions, introduce new or intensify trade restrictions for balance of payments purposes, resort to multiple currency practices, or enter into bilateral payments agreements incorporating restrictive practices with other IMF members.

Table 1. Haiti: Indicative Targets and Quantitative Performance Criteria

	Actual stock at end-	Cumulative Flows from September 2009				
		Dec 09	Jun 2010	Sep 2010	Dec 2010	March 2011
	Sep 09	Actual	Proj.	Test date PC	Indicative target	Test date PC
(In millions of gourdes, unless otherwise indicated)						
I. Quantitative performance criteria						
Net central bank credit to the non-financial public sector - ceiling	21,549	168	549	370	370	370
Central Government	23,118	178	351	171	171	171
Rest of non-financial public sector	-1,569	-10	198	198	198	198
Net domestic assets of the central bank - ceiling 1/	11,562	5,095	6,142	10,193	12,689	13,123
Net international reserves of central bank (in millions of U.S. dollars) - floor	439	-36	-25	-138	-128	-119
II. Continuous performance criteria						
Domestic arrears accumulation of the central government	0	0	0	0	0	0
New contracting or guaranteeing by the public sector						
of nonconcessional external or foreign currency debt (In millions of U.S. dollars) 2/	0	33	33	33	33	33
Up to and including one year	0	0	0	0	0	0
Over one-year maturity	0	33	33	33	33	33
Public sector external arrears accumulation (in millions of U.S. dollars)	0	0	0	0	0	0
III. Indicative targets						
Change in base money - ceiling	31,080	3,501	5,143	4,671	7,551	8,371
Net domestic credit to the central government - ceiling 3/	18,199	-5,793	-4,413	-2,909	-684	-433
Poverty reducing expenditures - floor 4/	--	2,399	7,198	9,597	12,716	15,835
Memorandum items						
Change in currency in circulation	13,448	2,404	1,986	2,142	4,768	5,039
Net domestic credit to the rest of the of the non-financial public sector	-1,624	-72	145	145	145	145
Government total revenue, excluding grants	--	8,961	21,031	26,258	34,167	42,469
Government total expenditure, excluding ext-fin investment	--	9,541	31,242	44,239	57,950	70,391

Sources: Ministry of Finance, Bank of the Republic of Haiti, and Fund staff estimates.

1/ For program monitoring purposes, NDA is defined as monetary base minus program NIR in gourde terms. Program exchange rate of G40 per US$.
2/ Excludes guarantees granted to the electricity sector in the form of credit/guarantee letters.
3/This includes central bank, commercial bank, and non-bank financing to the government. It includes net T-bill issuance for government financing.
4/ Poverty reducing expenditures consist of domestically-financed spending in health, education, and agriculture.

Table 2 a. Haiti: Structural Reform Objectives and Proposed Measures

Macro-criticality	Objective	Proposed Benchmarks
Prior Actions (completed)		
Improve the tracking of poverty-reducing expenditures	Publish regular reports on poverty-reducing spending on the MEF website.	Start publishing quarterly reports on poverty-reducing expenditures on the MEF website, including domestically-financed health, education and agriculture spending.
Improve the monetary policy framework and its effectiveness	Improve timeliness of external audits of the BRH; enforce rotation of external auditors.	Completion and publication of externally audited financial statements for 2007/08; and external audit of 2008/09 NIR data.
	Strengthen reserves management.	Establish an investment committee, and prepare and adopt reserve management guidelines.
End-September 2010		
Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and cash management	Strengthen the transparency of expenditure policy.	Start publishing central government monthly transfers to investment project accounts, project by project, including PetroCaribe projects.
		Start publishing central government monthly transfers by beneficiary entity.
	Improve control of budget execution and fiscal reporting.	Start preparing monthly consolidated Treasury balances (TMU ¶38).
	Improve cash management.	Prepare an inventory of all government and donor accounts at the BRH and BNC (TMU ¶39).
Raise government revenue	Strengthen operation of tax and customs administrations.	Prepare quarterly reports with monthly data on the performances of the tax system and the tax administration, including the cost of exemptions and revenue collected in the provinces (TMU ¶40).
	Enhance the transparency of the tax exemption policy.	Start publishing a quarterly report that identifies all fiscal expenditure by beneficiary sectors.
	Introduce a new tax code that would increase revenue and rationalize the tax system.	Set up a working group that would be tasked to prepare a study to simplify the tax system, increase revenue, improve tax productivity, custom and fiscal administration, establish a work program with specific deadlines (TMU ¶37).
Improve the monetary policy framework and its effectiveness	Improve timeliness of external audits of the BRH; enforce rotation of external auditors.	Completion and publication of externally audited financial statements for 2008/09.
Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and cash management	Improve the tracking of investment spending and improve ability to make multi-year investment projections.	Start producing quarterly reports with monthly data of investment expenditure based on SYSGEP and publish them on the MEF website.
	Improve cash management.	Start preparimg and publishing monthly cash plans including PetroCaribe spending and financing needs.

Table 2 b. Haiti: Structural Reform Objectives and Proposed Measures

Macro-criticality	Objective	Proposed Benchmarks
Second and third years of the program		
Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and cash management	Improve cash management.	Implement a Single Treasury Account
	Improve the tracking of investment spending and improve ability to make multi-year investment projections.	Prepare multi-year public investment programs, starting with at least three key ministries.
	Improve control of budget execution.	Eliminate discrepancies between accounts provided by BRH, Treasury and revenue agencies and the TOFE.
Raise government revenue	Strengthen operation of tax and customs administrations.	Customs code approved by Parliament, implementation begins.
		Design and implement monitorable performance indicators for DGI and AGD.
	Enhance the transparency of the tax exemption policy.	Continue publishing the quarterly report that identifies all fiscal expenditure by beneficiary sectors.
	Introduce a new tax code that would increase revenue and rationalize the tax system.	Submit revised tax law to Parliament, begin implementation
Finance the government and develop domestic financial markets	Introduce a securities law.	Submission and adoption of a securities law by Parliament that would establish, inter alia, a security registry for collateral.
	Introduce a t-bill market and recapitalize the central bank.	Sign a memorandum of understanding between the MEF and the BRH adopting T-bill implementation plan, including regular public auction calendar (TMU ¶41). Development of a secondary T-bill market including establishment of a security registry; and start of open-market and repo operations; continue implementation of recapitalization plan until BRH capital is replenished.
Improve the monetary policy framework and its effectiveness	Improve exchange rate management to cope with large aid inflows.	Develop an exchange rate management strategy encompassing also reform of the foreign exchange market.
	Introduce a new central bank law that would, inter alia, strengthen central bank independence, external audit and reserve management.	Submit the new central bank law to Parliament; ensure adoption of central bank law by Parliament and its implementation.
	Improve timeliness of external audits of the BRH; enforce rotation of external auditors.	Publish external audits within 6 months after the end of each fiscal year; adopt a policy requiring that external auditors rotate every 3 years.
Financial sector stability and development	Maintain financial sector stability.	Banking law approved by Parliament , implementation begins.
	Improve access to financial services.	Reform legal regime for collateral.
Debt management	Complete the setting-up of the debt unit at the MEF and build capacity to prepare a medium-term debt strategy.	Debt unit fully operational; Preparation of annual debt sustainability analyses and medium-term debt strategy.
	Strengthen the legal framework for debt management.	Submit to Parliament a public debt law that would establish a sound legal and institutional framework for public debt management. Approval and implementation of the law.

ATTACHMENT III: HAITI: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. Haiti's performance under the program supported by the Extended Credit Facility (ECF) arrangement will be assessed on the basis of the observance of quantitative performance criteria as well as compliance with structural benchmarks. This Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, specification of certain structural benchmarks, and indicative targets for the period July 1st, 2010-June 30, 2011, specified in Tables 1 and 2 of the Memorandum on Economic and Financial Policies (MEFP). It also lays down the monitoring and reporting requirements. The quantitative performance criteria under the program are set for end-September 2010 and end-March 2011. The target for end-December 2010 is indicative.

I. INSTITUTIONAL DEFINITIONS

2. **Central government.** The central government comprises the presidency, prime minister's office, parliament, national courts, treasury, line ministries and "organismes déconcentrés". It includes expenditures financed directly by foreign donors through ministerial accounts (comptes-courants).

3. **Non-financial public sector**. The non-financial public sector includes the central government plus non-budgetary autonomous organizations, local governments and public sector enterprises (enterprises and agencies in which the government holds a controlling stake of more than 50 percent of the shares).

4. **Total public sector**. The total public sector comprises the non-financial public sector and the central bank (BRH).

II. QUANTITATIVE TARGETS

A. Net BRH Credit to the Non-Financial Public Sector

5. Net BRH credit to the non-financial public sector equals net central bank credit to the central government plus net central bank credit to the rest of the non-financial public sector.

6. The change in net BRH credit to the central government is defined as, and will be measured using:

a. Change in net domestic credit to the central government from the BRH according to Table 10R of the BRH.

b. Change in the stock of project accounts ("Comptes de projets") included in Table 10R of the BRH will be excluded from change in net domestic credit to the central government as defined above.

c. Change in the stock of Special Accounts ("Comptes Speciaux") and seized values ("Valeurs Saisies UCREF") included in Table 10R of the BRH will be excluded from the change in net domestic credit to the central government as defined above.[1]

7. The change in net central bank credit to the rest of the non-financial public sector, is defined as, and will be measured using:

d. Change in "créances nettes sur le secteur public" (i.e, net credit to the non-financial public sector) minus the change in " créances nettes sur l'état" (i.e. net credit to the central government), according to table 10R of the BRH.

e. The changes will be measured on a cumulative basis from the stock at end-September 2009.

B. Net Domestic Financing to the Central Government

8. Net domestic financing to the central government will comprise the change in net banking sector credit to the central government (defined below) plus the change in nonbank financing which includes amortization, counterpart funds,[2] and the net issuance of Treasury bills and other government securities by the central government to non-banks. Net domestic banking sector credit to the central governent is defined as, and will be measured, using:

a. The change in the stock of net domestic credit to the central government from the BRH according to Table 10R of the BRH, plus, the change in the stock of net domestic credit of the central government from domestic banks according to Table 20R of the BRH, which will include the net issuance of treasury bills and other government securities by the central government for government financing purposes. Securities issued for the recapitalization of the BRH are excluded from this defintion.

b. The change in the stock of project accounts ("Comptes de projets"), as defined in 6.b above, will be excluded from the change in net domestic banking sector to the Central Government.

c. The change in the total stock of Special Accounts ("Comptes Speciaux") and seized values ("Valeurs Saisies UCREF"), as defined in 6.c above, will be excluded from the change in net domestic banking sector to the Central Government.

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[1] Special Accounts ("Comptes Speciaux") refer to U.S. dollar-denominated central government sight deposits at the BRH. The balance of these accounts increase with the proceeds of the sales of in-kind aid (in the form of wheat, maize, rice, etc.) received by the Haitian government; these proceeds are earmarked to finance specific projects and cannot be used by the Central Government without the explicit authorization of respective donors.

[2] Counterpart funds are proceeds from sales of grants received in kind.

9. The changes will be measured on a cumulative basis from the stock at end-September 2009.

C. Net International Reserves

10. The change in net international reserves will be measured using:

a. Change in net foreign assets ("Réserves de change nettes" of the BRH Table 10R);[3]

b. Minus the change in foreign currency deposits of commercial banks at the BRH ("Dépôts à vue en dollars U.S. et en Euros des BCM à la BRH", and the "CAM transfer" of the BRH Table 10R).

c. Minus the change in the stock of project accounts ("Comptes de projets") as defined in 6.b above.

d. Minus the change in the stock of Special Accounts ("Comptes Speciaux") in dollars and euros (and excluding gourdes), and seized values ("Valeurs Saisies UCREF"), the latter as defined in 6.c above.

e. Plus the change in the stock of the Special Drawing Rights (SDR) allocation ("Allocations DTS") from the BRH Table 10R.

11. Data will be expressed in U.S. dollar terms and valued at the corresponding end-period market exchange rate from the BRH Table 10R.

12. For definition purposes, net international reserves are the difference between the BRH's gross foreign assets (comprising monetary gold, all claims on nonresidents, SDR holdings, and BRH claims in foreign currency on domestic financial institutions) and reserve liabilities (including liabilities to nonresidents of one-year maturity or less, use of Fund credit, and excluding the full SDR allocation, and trust funds).[4] Swaps in foreign currency with domestic financial institutions and pledged or otherwise encumbered reserve assets are excluded from net international reserves.

13. The changes will be measured on a cumulative basis from the stock at end-September 2009.

D. Net Domestic Assets of the BRH

14. The change in net domestic assets of the BRH is defined as, and will be measured using:

a. The change in base money (program definition according to Section I. below);

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[3] Letters of credit and guarantee ("Lettres de crédit" and "Lettres de garantie") are reported in Table 10R as part of BRH foreign liabilities ("Engagements exterieurs"), and therefore are already netted out of NIR.

[4] Program NIR does not net out the full SDR allocation on the liability side since it is a long-term liability to the SDR Department (and not the Fund).

b. Minus the change in the U.S. dollar amount of net international reserves (program definition according to section C above), converted into gourdes at the program exchange rate.

15. The program definition of net domestic assets of the BRH will use a program exchange rate of G 40.0 per U.S. dollar for the period June 2010- March 2011.

16. The changes will be measured on a cumulative basis from the stock at end-September 2009.

E. PetroCaribe-Related Funds

17. As of June 15, 2010, the outstanding balance of PetroCaribe funds totaled US$152.7 million, with US$2.0 million held in U.S. dollar-denominated sight deposits of the central government at the BRH, and the remaining US$150.7 million in U.S. dollar denominated deposits of the central government at domestic commercial banks.

18. The authorities indicated that they were exploring options to channel new Petrocaribe/ALBA-related inflows through a binational Venezuela-Haiti corporation.[5] Until new institutional arrangements are finalized and the statutes of the new societe mixte are published in the "Journal Officiel" (Le Moniteur), PetroCaribe-related inflows will continue to constitute direct external debt of the central government. These resources are under the direct control of the central government, and, for program purposes, will be fully reflected in program fiscal tables. They will be treated as budget support loans, whose proceeds are partly or entirely deposited in government accounts in the banking system (Petrocaribe deposits). Spending from PetroCaribe resources (up to US$163 million in FY 2010), financed with a drawdown of PetroCaribe deposits in the banking system, will also be fully reflected in program tables.

19. Following ratification of the societe mixte, the annual budgets of the company will be published on the MEF website before the beginning of the fiscal year. Audited annual financial statements will be published within six months of the end of each financial year.

F. Nonconcessional Public Sector External and Foreign-Currency Denominated Debt

20. The definition of debt comprises all forms of debt, including loans, suppliers' credits, and leases, that constitute current, i.e. not contingent, liabilities, which are created under a contractual arrangement through the provision of value in the form of

[5] ALBA refers to "Alternativa Boliviarana de las Americas".

assets (including currency) or services, and which require the obligor to make one or more payments in the form of assets (including currency) or services, at some point in the future, as set forth in Executive Board Decision No. 12274, Point 9, and revised on August 31, 2009.

21. A ceiling applies to the contracting and guaranteeing by the public sector of new nonconcessional debt with nonresidents with original maturities of one year of more. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This applies to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector.

22. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full any shortfall incurred by the debtor.

23. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt.[6] The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt, based on the currency specific commercial interest reference rates (CIRRs) as laid out by the Organization for Economic Cooperation and Development (OECD).[7] For a debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and hence, its grant element. For debt with maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margin for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

24. Excluded from the ceiling are short-term import-related credits, rescheduling arrangements, borrowing from the Fund, non-resident purchases of treasury bills, and guarantees for the electricity sector in the form of letters of credit.

25. The ceilings for contracting and guaranteeing of nonconcessional debt by the total public sector (as defined in para.4) will be set at zero continuously throughout the program period.

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[6] The grant element calculator can be found at http://www.imf.org/external/np/pdr/conc/calculator/default.aspx.

[7] The grant element calculations will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

G. Arrears of the Central Government

26. External payment arrears are defined as overdue payments (principal and interest) to non-residents on debt contracted and guaranteed by the central government, and will be defined according to the terms of indebtedness of each creditor. The criterion of zero accumulation of external arrears will be monitored on a continuous basis.

27. Domestic arrears of the central government are defined to include: (i) any bill that has been received by a spending ministry from a supplier for goods and services delivered (and verified) and for which payment has not been made within 90 days after the due date of payment; (ii) wage, salary, and other payment to government employees, including direct and indirect allowances, that were due to be paid in a given month but remained unpaid on the 30th of the following month; and (iii) interest or principal obligations which remain unpaid 30 days after the due date of payment. This definition excludes changes in the stock of arrears on account of interest, penalties and valuation changes.

H. Base Money

28. The change in base money is defined as, and will be measured using:

a. The change in the stock of currency in circulation from Table 10R of the BRH.

b. The change in the stock of reserve deposits of commercial banks at the BRH, from Table 10R, using gourde sight deposits of commercial banks (Dépôts a vue en gourdes des BCM a la BRH) and cash-in-vault of commercial banks (Encaisses des BCM).

29. The changes will be measured on a cumulative basis from the stock at end-September 2009.

I. Poverty-Reducing Expenditures

30. The growth in poverty reducing expenditure will be measured as the sum of domestically-financed spending for the Ministries in charge of agriculture, health, and education. This will be a flow measured on a cumulative basis from end-September 2009.

III. Quarterly Adjustments

31. The quarterly performance criteria and indicative targets will be adjusted for the following amounts:

A. Adjustment for Domestic Arrears Accumulation

32. The ceilings for net BRH credit to the central government and the net domestic banking sector credit to the central government will be adjusted downwards for the amount of outstanding domestic arrears accumulation.

B. Adjustment for PetroCaribe-related Inflows in FY 2010

33. Until the binational company charged to administer PetroCaribe-related funds is legally established, any drawdown of PetroCaribe-related deposits will be considered as central government spending for program purposes.

34. The ceiling for net domestic credit to the central government will include movements in PetroCaribe accounts in the banking system and will be adjusted for the difference between the actual stock of PetroCaribe deposits in the banking system and programmed stock of these deposits in the banking system. The ceilings for net BRH credit to the central government, on BRH net domestic assets, and the floor for NIR will also include movements in PetroCaribe accounts at the BRH. They will be will be adjusted for the difference between the actual stock of PetroCaribe deposits at the BRH and the programmed stock of these deposits at the BRH. The adjustor will be calculated on a cumulative basis from October 1, 2009.

Haiti. PetroCaribe Deposits

	September 2009	December 2009	March 2010	June 2010	September 2010	December 2010	March 2011	June 2011	September 2011
Total deposits in government accounts in the banking system									
Cumulative flows (G mlns)	...	1804.3	1520.7	2114.3	1873.4	3269.4	4656.3	6034.2	7403.1
in US dollars (US$ mlns)	...	42.4	43.2	55.8	45.0	79.1	113.3	147.4	181.6
Stocks (G mlns)	3713.2	5517.5	5233.9	5827.5	5586.6	6982.6	8369.5	9747.3	11116.3
in US dollars (US$ mlns)	88.9	131.3	132.1	144.7	133.9	168.0	202.2	236.3	270.5
Deposits in government accounts at the BRH									
Cumulative flows (G mlns)	...	-90.3	-93.0	-93.0	-171.0	-171.0	-171.0	-171.0	-171.0
in US dollars (US$ mlns)	...	-2.2	-2.1	-2.2	-4.1	-4.1	-4.1	-4.1	-4.1
Stocks (G mlns)	171.0	80.7	78.0	78.0	0.0	0.0	0.0	0.0	0.0
in US dollars (US$mlns)	4.1	1.9	2.0	1.9	0.0	0.0	0.0	0.0	0.0
Deposits in government accounts in commercial banks									
Cumulative flows (G mlns)	...	1894.6	1613.7	2207.3	2044.5	3440.4	4827.3	6205.2	7574.1
in US dollars (US$ mlns)	...	44.6	45.4	58.0	49.1	83.2	117.4	151.5	185.7
Stocks (G mlns)	3542.2	5436.8	5155.9	5749.5	5586.6	6982.6	8369.5	9747.3	11116.3
in US dollars (US$ mlns)	84.8	129.4	130.1	142.8	133.9	168.0	202.2	236.3	270.5

Sources: Haitian Authorities and IMF Staff estimates and projections

C. Adjustment for Net Program External Financing in FY 2010

35. The program ceilings on BRH net credit to the central government, net domestic financing to the government, and on BRH net domestic assets, and the floor on NIR reflect an assumed flow of net external financing, defined as disbursements of cash budgetary assistance, exceptional financing (including rescheduled principal and interest) and debt relief minus debt service. These amounts exclude all PetroCaribe flows.

Program Net External Financing

(In millions of U.S. dollars)

Cumulative basis	December 2009	March 2010	June 2010	September 2010
Program net external financing	-3.6	25.4	124.6	235.1

36. If actual net external financing is lower than programmed, the ceilings on net BRH credit to the central government, net domestic financing to the government, and on net BRH domestic assets will be adjusted upward, and the floor on NIR will be adjusted downward, by the amount of the difference between actual and programmed net external financing, converted into gourdes at the program exchange rate. The amount of this adjustment will be limited to US$50 million to smooth volatility in external financing, and would only offset temporary delays in disbursements of already-identified budget support. The adjuster will be calculated on a cumulative basis from October 1, 2009. Any amount of net BRH financing under this adjuster would be expected to unwind when the budget support is received, or, at the latest to be fully repaid within one year.

IV. CLARIFICATION OF STRUCTURAL CONDITIONALITY

A. Fiscal Sector

37. The structural benchmark on initiating efforts to introduce a new tax code will involve setting up a working group in the MEF, and publishing a work program with specific deadlines on the MEF website by end-September 2010.

38. The benchmark on preparing monthly consolidated Treasury balances will involve publishing on the MEF website a table consolidating balances in all accounts in the ledger of government accounts maintained by the Treasury, not later than three months after the end of each month, starting from end-September 2010 with end-June 2010 data.

39. The structural benchmark on making an inventory of all government and donor accounts at the BRH and BNC will involve preparing and submitting to the IMF a list of all government and donor accounts at the BRH and BNC and updating it as needed. It will be set for end-September 2010.

40. The structural benchmark on publishing quarterly reports with monthly data (for AGD and DGI) on revenue performance on the MEF website, involves for AGD, publishing reports that include the following: the number of importers in SYDONIA; the number of importers in SYDONIA that have imported during the month; the number of importers in SYDONIA that have imported during the month in provinces; the total number of customs posts; the number of customs posts in provinces; the value of imports by broad categories, including imports of fuel products and imports exempted from or zero-rated under various duties and taxes; collections by type of duty and tax; and collections from provinces. For DGI, the benchmark involves publishing reports that include the number of taxpayers in DGI files, including exempted taxpayers, government employees, and public enterprises; the number of taxpayers in DGI files that have fulfilled their tax obligations, including exempted taxpayers, government employees, and public enterprises; the aggregate turnover or revenue, aggregate profits, labor, and non-labor costs for taxpayers that have fulfilled their tax obligations, including exempted taxpayers, government employees, and public enterprises; and collections by type of tax or duty, including in provinces. The benchmark will be assessed quarterly with the initial test date set at end-September 2010.

B. Monetary Policy and Financial Sector

41. The benchmark regarding the signature of a memorandum of understanding between the MEF and the BRH will (i) establish the amount of government debt owed to the BRH, (ii) update the BRH recapitalization plan and (iii) set a calendar of T-bill issuance with amounts to be issued for financing and for BRH recapitalization. This will be set for end-September 2010.

V. PROVISION OF INFORMATION

42. To ensure adequate monitoring of the program, the authorities will provide daily, weekly and monthly monetary and fiscal indicators to IMF staff, details of any loan contract or guarantee to be ratified by a non-financial public sector entity, including public enterprises, before signature, as well as other data upon request.

43. **Daily.** The exchange rate.

44. **Weekly.** *Monetary Indicators*: (a) Stock of BRH bonds; (b) Deposits at commercial banks (in gourdes and U.S. dollars); (c) Credit to private sector (in gourdes and U.S. dollars); (d) Credit to central government and public sector (net); (e) Currency in circulation, (f) base money, (g) details of inflows and outflows of gross foreign exchange reserves, (h) volume of foreign exchange transactions, of which BRH sales and purchases; (i) gross international reserves; and (d) net international reserves (NIR). The NIR data will be reported using the following table format.

	Net International Reserves of the BRH [1/] (in USD millions)
	End-October, 2009
A. Gross Foreign Exchange Reserves	1,024.9
B. Gross Liabilities	439.1
C. Net Foreign Assets (=A-B)	**585.8**
D. FX deposits of commercial banks & CAM transfer at the BRH	284.1
E. Project accounts	8.9
F. Special accounts in U.S. dollars & euros	4.4
G. Seized values	3.0
H. SDR allocation (liability)	124.8
J. NIR (=C-D-E-F-G+H)	**410.3**

[1/] Calculated using the current exchange rate from the 10R form.

45. *Fiscal Indicators*: (a) Revenues (internal, external, other) and (b) Expenditures on cash basis (wages and salaries, goods and services, external debt, current accounts).

46. These data will be reported with maximum five-day lag preliminary data (four weeks for final data).

47. **Monthly data.**

- Table 10 R and Table 20 R with a maximum of 30-day lag for final data.
- Tableau on the comptes courants with a maximum of 30-day lag for final data.
- "Project Accounts", by donor, with a maximum of 30-day lag for final data

- Tableau de trésorerie de devises with a maximum of 30-day lag for final data.

- Tableau des Operations Financières de l'Etat (within 14 days).

- Table underlying the TOFE which enables the determination of checks in circulation and balance on investment project accounts.

- Set of external debt tables with a maximum 30-day lag for final data.

- Report of revenue collection of DGI (Rapport d'activités), with a maximum 30-day lag for final data.

- The aide memoire table, which includes monetary policy indicators (foreign exchange interventions, Gourde and foreign currency credit and deposits, monetary financing).

- Tables of revenue collection of AGD (Indicateurs d'activités aux ports, Rapport analytique des perceptions douanières à l'importation), with a maximum 30-day lag for final data.

- Balance of Bureau de Monetization accounts, including spending from "fonds de contrepartie" those movements related with flows linked to the ALBA-PetroCaribe agreement. Balance of PetroCaribe/ALBA-related deposits at commercial banks and the BRH, with a maximum 30-day lag for final data.

48. **Quarterly.** Report on poverty-reducing expenditures, with a maximum 30-day lag for final data.

A. Other Information

49. The authorities will share with staff the by-laws of the new binational (Venezuela-Haiti) entity (as soon as they are enacted), including any and all needed information to assess the nature of such new entity; the authorities will also share with staff the financing terms of any financing received by such entity, including any and all information needed to assess whether any financing flows received by such new entity constitute public debt (direct and/or contingent) of any form.

APPENDIX I: HAITI–METHODOLOGICAL NOTE FOR POST-EARTHQUAKE GDP ESTIMATES[1]

This note describes the methodology used to generate Haiti's post-disaster GDP and presents preliminary staff estimates of the earthquake impact on medium-term growth, based on the results of the post disaster needs assessment (PDNA). This approach could be of use in similar post-disaster situations.

1. **The earthquake caused unprecedented damages and losses, estimated by PDNA at US$7.8 billion, or 120 percent of GDP.** Estimates point to damages of US$4.2 billion (65 percent of GDP) and losses of US$ 3.6 billion (55 percent of GDP).[2] The PDNA gauged recovery and reconstruction needs at US$3.9 billion for the next 18 months and at US$8.9 up to US$ 11.5 billion for the next three years (Table 1).[3]

Table 1. Post Disaster Needs Assessment Costing
(in millions of U.S. dollars)

	2010	2011	2012	2013	Total
Damages	4,237	-	-	-	4,237
Losses	2,377	796	289	99	3,561
Recovery	1,606	863	398	75	2,942
Reconstruction	2,913	1,964	712	444	6,033

Souce: Haiti Earthquake PDNA Report, issued on March 30, 2010.

2. **Post-disaster GDP projections were generated from estimated flows from the PDNA exercise and using the 2009 GDP as a basis.** Annual flows related to losses, recovery, and reconstruction needs were combined and scaled with sectoral production coefficients to generate proxies for changes in value-added (Table 2).[4] We projected constant price GDP using 2009 as a base year and estimated annual change in value-added. Given existing shortcomings in national accounts statistics and the unavailability of information about intermediate consumption, this approach was used to estimate national output and generate constant annual GDP estimates.

[1] Prepared by Aminata Touré (WHD).

[2] Damages are stock of lost assets that should be recorded in financial accounts. However losses are flows of foregone revenues.

[3] Recovery and reconstruction needs are flow of resources essential to rebuild post disaster.

[4] Damages are excluded from our GDP impact analysis. However other flows, related to GDP, such as losses and amounts needed for recovery and reconstruction are taken into account.

Table 2. Haiti: Losses, Recovery and Reconstruction Flows and Corresponding Value Added
(in millions of U.S. dollars)

	2010	2011	2012	2013	2014	2015	Total
I. Losses							
Primary Sector	**119**	**11**	**0**	**0**	**0**	**0**	**130**
Agriculture, farming and fishing	119	11	0	0	0	0	130
Mining	0	0	0	0	0	0	-
Secondary Sector	**894**	**314**	**147**	**99**	**0**	**0**	**1,455**
Manufacturing	231	68	0	0	0	0	299
Electricity, gas, water	233	126	37	0	0	0	396
Construction	430	120	110	99	0	0	760
Services	**1364**	**471**	**143**	**0**	**0**	**0**	**1,977**
Total	**2377**	**796**	**289**	**99**	**0**	**0**	**3,561**
II. Recovery and Reconstruction flows							
Primary Sector	**16**	**12**	**7**	**1**	**0**	**2**	**40**
Agriculture, farming and fishing	16	12	7	1	0	2	40
Mining	-	-	-	-	-	-	-
Secondary Sector	**946**	**783**	**661**	**568**	**462**	**328**	**3,748**
Manufacturing	40	32	23	14	10	68	187
Electricity, gas, water	101	78	46	7	-	-	232
Construction	805	672	592	548	452	260	3,329
Services	**433**	**339**	**211**	**54**	**24**	**159**	**1,219**
Total	**1,395**	**1,134**	**879**	**624**	**486**	**488**	**5,007**
III. Value added 1/							
Primary Sector	**-60**	**1**	**4**	**1**	**0**	**1**	
Agriculture, farming and fishing	-60	0.9	4.4	0.8	0.2	1.1	
Mining	0.0	0.0	0.0	0.0	0.0	0.0	
Secondary Sector	**185**	**411**	**395**	**364**	**363**	**231**	
Manufacturing	-69	-13	8	5	4	24	
Electricity, gas, water	-44	-16	3	2	0	0	
Construction	299	440	383	357	360	207	
Services	**-694**	**-98**	**52**	**41**	**18**	**124**	
Total Gross Value Added	**-569**	**313**	**451**	**406**	**382**	**356**	

Sources: Haiti Earthquake PDNA Report, and staff estimates.

1/ These represent value added flow s obtained using follow ing steps. First, annual flow s related to losses , recovery and reconstruction needs are added. Then, flow s are scaled w ith sectoral production coefficients to generate proxies for the changes in value added.

3. **The methodology used first isolated flows affecting domestic product on the income side.** While we fully factored the flows of losses, for the recovery and reconstruction we removed flows associated with activities not likely to generate income, or affect output and capital formation (Table 3). Specifically, we excluded activities related to the distribution of food assistance and cash for work programs. We also excluded imported household goods, education equipment, furniture and vehicles for the reconstruction. Overall, we are

incorporating US$2.6 billion in recovery funds (out of US$2.9 billion) and US$5.2 billion in reconstruction funds (out of US$6 billion).

Table 3. Summary of Flows Retained from the PDNA [1/]
(in millions of U.S. dollars)

	2010	2011	2012	2013	Total
Losses	2,377	796	289	99	3,561
Recovery [2/]	1,138	883	523	75	2,618
Reconstruction [3/]	2,331	1,663	748	444	5,186

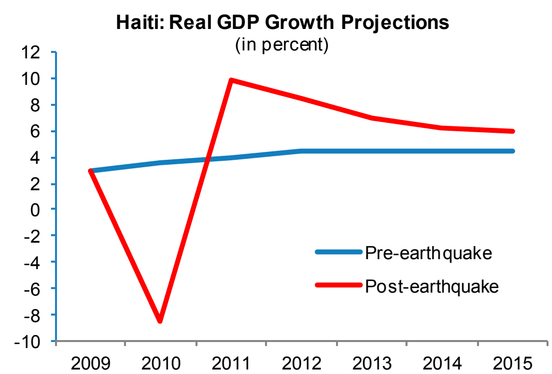
Souces: Haiti Earthquake PDNA Report, issued on March 30 2010; and staff estimates.

[1/] Flow s excluding activities that are not likely to affect output and capital formation

[2/] Excluding recovery activities that are not likely to affect output, such as distribution of food assistance and cash for w ork programs amounting to US$324 million.

[3/] Excluding imported construction goods (household goods, education equipment and materials, furniture, vehicles) that are not generating value added amounting to US$847 million

4. **The projected recovery and reconstruction envelope was further scaled down and re-phased to address non-residents services and incomes and absorptive capacity.** The level of the PDNA needs was reduced assuming that only a portion of these resources would remunerate activities or services provided by non residents, and hence would not count as value added for the Haitian economy. The phasing of the reconstruction resources was also stretched from FY 2013 to FY 2015 to account for possible constraints arising from time required to mobilize pledged resources, the country's limited absorptive capacity, and supply bottlenecks (Table 4).



Sources: Haiti Earthquake PDNA Report, authorities, and staff estimates.

Table 4. Rephased and Reduced PDNA Envelope
(in millions of U.S. dollars)

	2010	2011	2012	2013	2014	2015	Total
Losses	2,377	796	289	99	-	-	3,561
Total Recovery and reconstruction	1,395	1,134	879	624	486	488	5,007
Recovery	1,135	881	522	75	-	-	2,612
Reconstruction	261	253	358	549	486	488	2,395

Souces: Haiti Earthquake PDNA Report, issued on March 30, 2010; and staff estimates.

5. **Despite the recovery in activity of recent months, in FY 2010 economic activity is estimated to contract by 8.5 percent on account of the significant upfront losses.** The earthquake hit Haiti at the beginning of the second quarter of its fiscal year, disrupting economic activity for the remaining quarters for public infrastructure services, manufacturing industries, and commerce. The bulk of the earthquake losses (67 percent) affected all sectors, hindering growth despite a 100 percent expansion of the construction sector (Table 5).

Table 5. Haiti: GDP Growth, 2010-15

	GDP structure (in percent of total)		GDP at 2009 prices						
	2009	2015	2009	2010	2011	2012	2013	2014	2015
Supply Side GDP			(in million of Gourde)						
Primary Sector	***28.7***	***28.3***	**76,567**	**79,092**	**83,127**	**87,308**	**91,341**	**95,347**	**99,393**
Agriculture, farming and fishing	*28.6*	*28.2*	76,243	78,769	82,804	86,984	91,017	95,024	99,069
Mining	*0.1*	*0.1*	324	324	324	324	324	324	324
Secondary Sector	***20.7***	***38.5***	**55,224**	**62,828**	**79,665**	**95,858**	**110,791**	**125,691**	**135,167**
Manufacturing	*14.5*	*10.5*	38,638	35,824	35,301	35,645	35,846	35,993	36,989
Electricity, gas, water	*1.7*	*0.7*	4,562	2,739	2,074	2,207	2,299	2,299	2,299
Construction	*4.5*	*27.3*	12,025	24,265	42,289	58,006	72,647	87,399	95,879
Services	***45.3***	***28.7***	**120,945**	**95,213**	**91,191**	**93,309**	**94,992**	**95,747**	**100,840**
Total Gross Value Added	***94.7***	***95.6***	**252,736**	**237,133**	**253,983**	**276,476**	**297,124**	**316,785**	**335,400**
VAT	*5.3*	*4.4*	14,168	7,084	14,168	14,468	14,768	15,068	15,368
Real GDP	*100.0*	*100.0*	**266,904**	**244,217**	**268,150**	**290,675**	**310,732**	**329,997**	**349,797**
			(percent change from previous period, unless otherwise indicated)						
Primary Sector			**5.2**	**3.3**	**5.1**	**5.0**	**4.6**	**4.4**	**4.2**
Agriculture, farming and fishing			5.2	3.3	5.1	5.0	4.6	4.4	4.3
Mining			6.3	0.0	0.0	0.0	0.0	0.0	0.0
Secondary Sector			**4.1**	**13.8**	**26.8**	**20.3**	**15.6**	**13.4**	**7.5**
Manufacturing			3.7	-7.3	-1.5	1.0	0.6	0.4	2.8
Electricity, gas, water			30.8	-39.9	-24.3	6.4	4.2	0.0	0.0
Construction			3.1	101.8	74.3	37.2	25.2	20.3	9.7
Services			**1.4**	**-21.3**	**-4.2**	**2.3**	**1.8**	**0.8**	**5.3**
Total Gross Value Added			**2.8**	**-6.2**	**7.1**	**8.9**	**7.5**	**6.6**	**5.9**
VAT			4.1	-50.0	100.0	2.1	2.1	2.0	2.0
Real GDP			**2.9**	**-8.5**	**9.8**	**8.4**	**6.9**	**6.2**	**6.0**

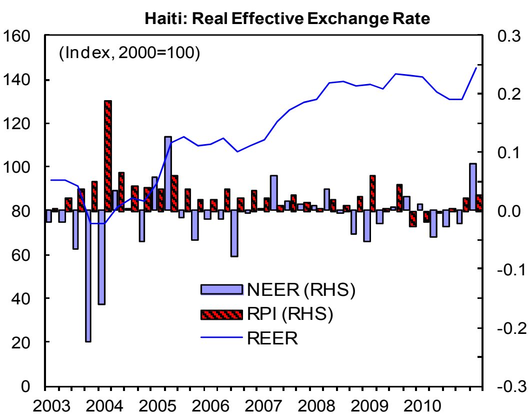
Sources: Haiti Earthquake PDNA Report, authorities, and staff estimates.

6. **Growth in FY 2011 could reach 9.8 percent and average 7 percent over FY 2012–15 on account of recovery and construction activities.** The economy would continue to endure losses until FY 2013, while growth is fueled by strong construction and recovery activities in addition to a gradual pick-up in services, manufacturing and mining.

APPENDIX II: HAITI—ASSESSING EXTERNAL STABILITY[1]

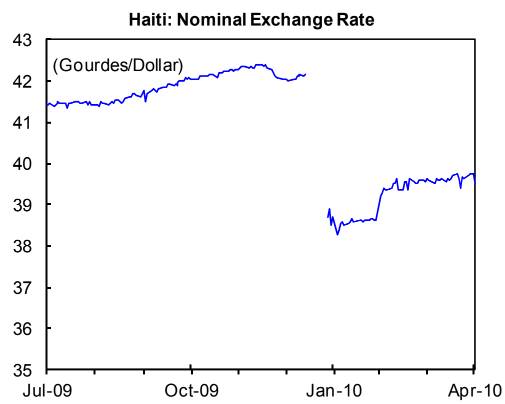
The structural break in Haiti's economic data caused by the January 2010 earthquake complicates a comprehensive exchange rate assessment. Nonetheless, an analysis of medium-term current account projections and of non-price competitiveness indicators can help inform a forward-looking assessment of exchange rate dynamics in Haiti.

1. **Haiti's real effective exchange rate (REER) appreciated by almost 90 percent during 2003–2008, in large part driven by large remittances and external aid inflows**. In 2009 the currency depreciated by about 8 percent in real effective terms, reflecting both a modest nominal depreciation and the unwinding of the food and fuel price shock. However, real appreciation has resumed in the aftermath of the earthquake. The REER rose by about 11 percent between December 2009 and April 2010, driven by the nominal appreciation of the gourde—about 6 percent over the same period—and higher inflation.



Source: Authorities; and Fund staff calculations.

2. **Haiti's de jure exchange arrangement is floating, but since January 2010, is de facto classified as a managed exchange rate regime ("other managed").** Following the earthquake, the central bank has been purchasing foreign exchange to build reserves ahead of large future import demand related to the reconstruction. This has helped mitigate exchange rate volatility associated with large remittance inflows and an increased supply of foreign exchange associated with NGO activity in the country.

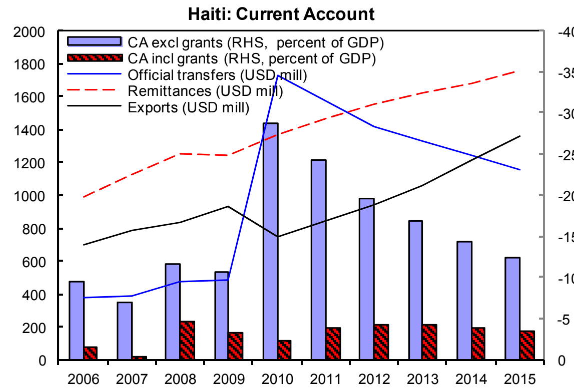


Source: National Authorities.

3. **An analysis of current account flows up to December 2009 suggested that the real appreciation reflected mostly an equilibrium response to movements in fundamentals, with little evidence of loss of competitiveness**. Haiti's growing trade deficit appears to be sustainably financed by increasing transfers (official and private). Export indicators have also improved since 2003. Following a retooling of the textile industry in 2008, Haiti's export share of U.S apparel imports increased sharply in 2009, also compared to regional textile export competitors. Econometric analysis conducted on pre-earthquake data using the equilibrium real effective exchange rate approach pointed to some modest overvaluation, which nonetheless remained within the model's margins of error.

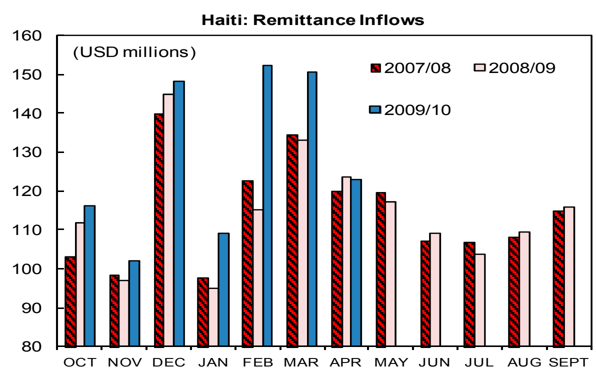
[1] Prepared by Nagwa Riad (SPR).

4. **Over the medium-term, large current account deficits (excluding grants) associated with the surge in reconstruction-related imports are expected to be almost entirely covered by grants**. Official transfers to Haiti averaged about 7 percent of GDP a year during 2005-2009. Conservative assumptions about likely flows of aid disbursements based on existing commitments could amount to about 14 percent of GDP a year on average during FY 2011–15. The current account deficit including grants is thus expected to return to around 3 percent of GDP by 2015—close to the current account norm estimated for Haiti prior to the earthquake.



Source: Authorities; and Fund staff calculations.

5. **Remittance inflows have increased in the aftermath of the earthquake**. Inflows of remittances hit a record high of US$111 million in February 2010 (a 32 percent increase year-on-year), and are projected to grow by about 11 percent in FY 2010. The persistence in the surge in remittance inflows, however, is subject to some uncertainty. On the one hand, the introduction of the temporary protected status (TPS) for Haitian immigrants in the U.S. could underlie the observed surge in remittances following the earthquake.[2] At the same time, remittance inflows for April were slightly below their level of last year, suggesting possible tapering-off of the surge witnessed in the aftermath of the earthquake. Given these considerations, net remittance inflows are projected to grow slightly above host country growth for FY 2011 and to gradually align with host country trends by FY 2015.



Source: Authorities; and Fund staff calculations.

6. **The outlook for exports could surprise on the upside**. With textile exports accounting for about 95 percent of Haiti's exports, almost entirely to the United States, the Haiti Economic Lift Program (HELP) Act recently introduced by the U.S. could provide an important avenue for expanding Haiti's textile industry. Among other provisions, the Act would increase current tariff preference levels for certain knit and woven apparel products, and raise the volume of those products eligible to tariff preferences. Textile production capacity and distribution networks were temporarily disrupted following the earthquake, but recent data show some recovery and the apparel industry is operating at close to capacity.

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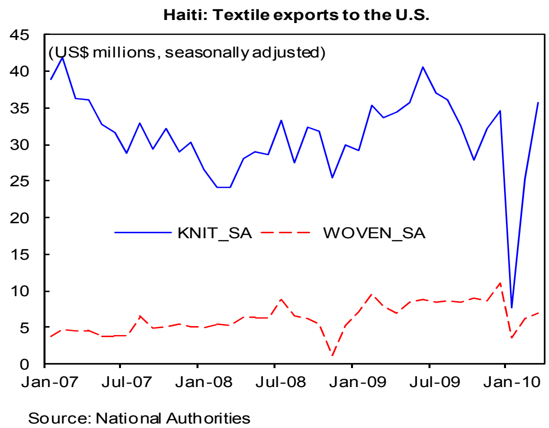
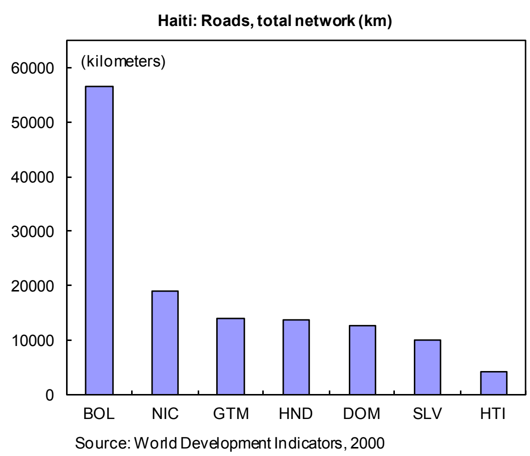
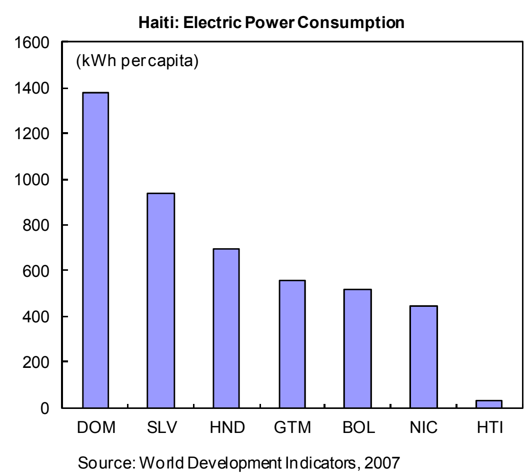
[2] Shortly after the earthquake the United States announced it would grant temporary protected status (TPS) for 18 months to Haitians already in the U.S. The TPS would grant legal status to over 200,000 Haitians currently residing illegally in the U.S., allowing them to transfer money home through formal channels.

Therefore, in order for Haiti to benefit from the HELP Act, new industrial zones must be established and FDI secured to expand production capacity and move up the value chain. Provided the government moves expeditiously on its objectives to set up new industrial zones and implements measures to improve the business climate, exports could grow at an even faster pace than currently projected.



7. **Structural indicators indicate that non-price competitiveness continues to be limited in Haiti.** Haiti consistently fares very low on infrastructure indicators by regional standards. Its total network of roads stood at about 4,000 km in 2000. Haiti's electricity production and consumption is also the lowest in the region, with consumption per capita at only 2 percent the level in its neighbor, the Dominican Republic. FDI inflows to Haiti as a share of GDP continue to be among the lowest in the region. According to the World Bank Doing Business Indicators, Haiti still ranks last in the Latin America and Caribbean region in terms of ease of starting a business, and in the lowest quintile among low income countries. Finally, Haiti has seen virtually no improvement on measures of economic and political risk, as rated by the International Country Risk Guide.





8. **Even if an important portion of the aid and remittance inflows were to be absorbed via higher imports, the sheer magnitude of such scaled-up aid is expected to exert significant real appreciation pressures.** Excess capacity resulting from the massive destruction of physical capital may temporarily mitigate the impact of the real appreciation on inflation. Strengthened coordination between fiscal and monetary and exchange rate policies will be critical to appropriately manage the surge in aid and external inflows and avoid excessive exchange rate volatility. In the short-term, the central bank could lean against excessive exchange rate volatility by building up reserves, but over time real appreciation will be unavoidable. Structural reforms to reduce supply-side bottlenecks, expand the export base and improve the business environment would be essential in mitigating the impact of exchange rate appreciation on external sector competitiveness.

INTERNATIONAL MONETARY FUND
and INTERNATIONAL DEVELOPMENT ASSOCIATION

HAITI

Joint Bank-Fund Staff Debt Sustainability Analysis 2010

Prepared by the Staffs of the International Monetary Fund
and the International Development Association

Approved by Gilbert Terrier and Dominique Desruelle (IMF)
and Auguste Kouame and Sudarshan Gooptu (IDA)

July 8, 2010

The updated DSA was prepared jointly by the Fund and Bank staffs in accordance with the revised Joint Fund-Bank Debt Sustainability Framework (DSF) for low-income countries (LICs). Under the baseline scenario that does not include any debt relief provided or committed by official creditors following the January 2010 catastrophic earthquake, the updated DSA shows that Haiti's risk of debt distress remains high due to the deterioration of the macroeconomic outlook and new borrowing. Although HIPC and MDRI relief have substantially reduced Haiti's debt burden since June 2009, the updated DSA findings indicate that the net present value (NPV) of the debt-to-exports ratio would breach the relevant policy-dependent threshold in the baseline scenario for the medium term.[1] Haiti's weaker near-term macroeconomic outlook following the January 2010 earthquake, a narrow export base, together with new and projected borrowing, are key factors in the risk of debt distress.[2] An alternative scenario shows that delivery of announced debt relief by multilateral and bilateral creditors would improve the debt sustainability outlook. That scenario also stresses the need for new borrowing to remain limited and on highly concessional terms. Staff will continue to closely monitor the evolution of external debt and the government's ability to secure highly concessional financing and mobilize domestic resources.

I. Background

1. **Haiti reached the completion point in June 2009 and qualified for US$1.2 billion in debt relief under the HIPC Initiative and MDRI.** Debt service savings amounted to US$265 million under the HIPC Initiative and US$972.7 million under MDRI. The debt

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[1] Haiti is classified as a weak performer based on its three-year average score of 2.86 on the World Bank's Country Policy and Institutional Assessment (CPIA). For a weak performer (defined as those with three-year average CPIA ratings below 3.25), the indicative thresholds for external debt sustainability are PV of debt-to-GDP ratio of 30 percent, PV of debt-to-exports ratio of 100 percent, PV of debt-to-revenue ratio of 200 percent, debt service-to-exports ratio of 15 percent, and debt service-to-revenue ratio of 25 percent. Haiti is currently classified as in high risk of debt distress.

[2] Country Report No. 09/288, Appendix II, June 16, 2009.

stock in NPV terms was reduced from US$1,320 million at end-September 2008 to US$641 million at end-September 2009.[3] While most relief has been provided, conclusion of bilateral agreements with some Paris Club creditors is still pending.[4] As a result of the debt relief initiatives, Haiti's nominal external public and publicly guaranteed debt stock reached US$1.24 billion at end-September 2009 (about 19 percent of GDP), down from US$1.88 billion at end-September 2008 (Text Table 1). Assuming full delivery of Paris Club debt relief, debt stock at end-September 2009 would stand at US$1.06 billion (16.6 percent of GDP).

2. **Haiti's public debt as of end-September 2009 was estimated at about 24.8 percent of GDP**. Most of the public and publicly guaranteed (PPG) debt is owed to external creditors (about 67 percent), and the rest is domestic debt (equivalent to about 8.2 percent of GDP). The domestic debt corresponds to credit to the government from the central bank (BRH).

Text Table 1. Haiti: Debt Stock as of end-September 2009 and end-March 2010

(In millions of U.S. dollars, unless otherwise specified)

	September 2009 *		March 2010		
	Amount	Share (percent of total)	Amount	Share (percent of total)	Creditors Providing Full Debt Relief (percent of March debt stock excl. IMF)
Multilateral creditors	**676.7**	**54.4**	**828.9**	**56.0**	**45.4**
IBRD/IDA 2/	38.8	3.1	***37.2***	2.5	3.1
IMF	165.6	13.3	273.6	18.5	
IDB 2/	417.5	33.6	***452.5***	30.6	37.5
IFAD 2/	48.3	3.9	***57.8***	3.9	4.8
OPEC	6.6	0.5	7.8	0.5	
Bilateral creditors	**566.5**	**45.6**	**650.9**	**44.0**	**46.6**
Paris Club 1/	***181.6***	***14.6***	***167.0***	**11.3**	13.8
Canada	2.1	0.2	0.0	**0.0**	
France	81.5	6.6	69.2	**4.7**	5.7
Spain	39.7	3.2	39.5	**2.7**	3.3
Italy	58.3	4.7	58.3	**3.9**	4.8
Non-Paris Club	***384.9***	***31.0***	***483.9***	**32.7**	**32.7**
Taiwan, Province of China	89.7	7.2	88.9	6.0	
Venezuela 2/	295.2	23.7	***395.0***	26.7	32.7
Total	**1,243**	**100.0**	**1,480**	**100.0**	**92.0**

Source: Haitian authorities; and IMF staff calculations.

* Haitian fiscal year ending September.

1/ Debt to be cancelled as part of Paris Club agreement in June 2009 but for which some bilateral agreements have yet to be concluded.

2/ Creditors that have announced debt relief initiatives on Haiti's outstanding debt stock.

[3] Haiti's fiscal year ends in September.

[4] Bilateral agreements for Italy, Spain, and France have been prepared and are awaiting signature by the Haitian authorities. Staff will continue to follow up with the authorities on the status of this process.

3. **The level of external PPG debt at end-September 2009 rose by more than previously projected at the time of the Completion Point in June 2009.**[5] In nominal terms, Haiti's debt was expected to reach 13.2 percent of GDP in 2009 under the Completion Point DSA—3 ½ percentage points lower than actual debt stock. The larger-than-expected increase reflects higher bilateral debt between 2008 and 2009 due to new borrowing (on concessional terms) from Venezuela under the PetroCaribe agreement, on which no relief was provided under the HIPC initiative.[6] Haiti's external debt rose to US$1.48 billion at end-March 2010, reflecting the IMF emergency augmentation of January 2010, new IDB borrowing, and further PetroCaribe financing.

4. **Haiti's debt situation is being reassessed in light of the catastrophic damage to the economy.** Damages and losses from the earthquake are estimated at more than 120 percent of 2009 GDP. A multi-year reconstruction and growth strategy has been developed by the Haitian authorities in conjunction with the international community, for which a total of US$9.9 billion have been pledged at the New York Donors' Conference in March 2010. Several creditors have announced their intentions to provide debt relief on Haiti's outstanding debt stocks, as part of a broader initiative to alleviate debt service constraints. These include:

- The **World Bank** provided debt relief on Haiti's outstanding debt of SDR 24.3 million (about US$36 million as of May 21, 2010). Debt relief became effective in May 2010 when the 14 donors to the Debt Relief Trust Fund agreed to allocate the resources needed to cover the debt cancellation.

- The **IDB** would provide US$479 million to cancel Haiti's outstanding debt as of end-December 2009 and convert the undisbursed loans in the existing project portfolio into grants. Debt relief, which was approved in March 2010 by the Board of Governors, will become effective in the near future, as soon as the committed donor financing is available.

- **IFAD** announced in April that it would cancel about US$50.7 million in outstanding debt (in NPV terms) to be delivered in the form of grants against debt service due, on a pay-as-you-go basis.

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[5] The Completion Point DSA prepared in June 2009 is deemed a more reliable comparator in terms of macroeconomic assumptions (Country Report No. 09/288), given that the January DSA Update was based on very uncertain data immediately following the earthquake (Country Report No. 10/35). The January 2010 DSA Update also found Haiti's risk of debt distress to have increased markedly, reflecting both a worsened near-term outlook and new higher borrowing. The updated DSA also reflects a lower discount rate, which increases the PV of debt.

[6] In the Completion Point DSA, resources accumulated under the PetroCaribe agreement (US$104 million) were treated as private debt on the understanding that the binational company (Société Mixte) would be set up in early 2009, in which case financing from PetroCaribe flows would become the debt of the binational company and not of the government. The binational company is yet to be established, and total PetroCaribe flows, including new flows accumulated as of end-FY2009, in the amount of US$295 are now considered part of government debt.

- **Venezuela** officially confirmed it would provide debt relief on Haiti's outstanding debt as of January 25, 2010 in the amount of US$395 million. Modalities for debt relief have yet to be clarified.[7]

- **Taiwan, Province of China,** has offered to pay about US$12 million in interest and to provide a five-year moratorium on principal payments on Haiti's outstanding debt.

5. **In June 2010, the IMF Executive Board approved the establishment of the Post-Catastrophe Debt Relief (PCDR) Trust.** The PCDR is a dedicated instrument to assist countries affected by catastrophic natural disasters like Haiti. Such a mechanism would enable the Fund to provide debt relief to Haiti and would also be available to other low-income countries that are hit by similar catastrophic disasters in the future. Debt relief from the Fund would complement a concerted international effort to cancel Haiti's remaining debt. Official creditors accounting for about 92 percent of Haiti's outstanding debt as of end-March 2010 (excluding the Fund) have already delivered or are firmly committed to providing debt relief on outstanding debt stocks (Text Table 1). If Haiti's eligibility for assistance under the PCDR is approved, debt stock relief could be provided on Haiti's outstanding obligations to the Fund in the amount of SDR 178.13 million.

6. **The current DSA framework includes new borrowing accumulated since the Completion Point in June 2009, as well as projected new borrowing through FY 2015**. In particular, accumulated concessional trade financing from Venezuela under the PetroCaribe agreement of US$295 million is now included. The treatment of this portion of debt follows the same approach as in the January 2010 DSA Update.[8] The framework also incorporates the new airport loan (US$33 million) contracted in December 2009 with the Development Bank of Venezuela (BANDES).[9] In terms of new flows, the framework includes projected ECF disbursements through FY 2013, together with accumulated PetroCaribe flows of US$160 million in FY 2010 and projected future PetroCaribe borrowing in the range of US$230-250 million a year through FY 2015.

II. External Debt Sustainability Outlook, 2010-2030

Baseline Scenario

7. **The baseline macroeconomic framework for the long-term debt sustainability analysis has been revised to take into account recent developments as well as the macroeconomic impact of the 2010 earthquake.** Key macroeconomic assumptions are

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[7] The DSA scenario with debt relief assumes cancellation of US$295 million outstanding as of end-September 2009, plus US$100 million in subsequent (future) flows in 2010.

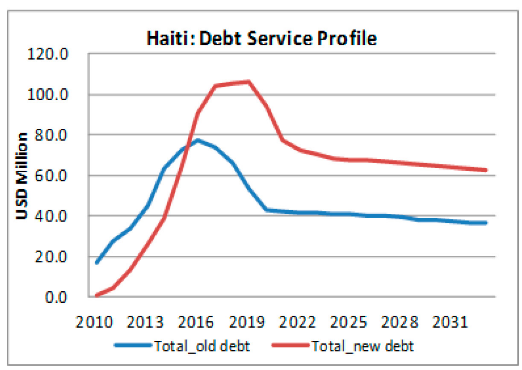
[8] In the January 2010 DSA Update, resources accumulated under the PetroCaribe agreement were considered part of government debt.

[9] The terms of the airport loan from BANDES did not meet the minimum concessionality criteria required under the ECF arrangement and therefore a waiver on the performance criterion on contracting of external non-concessional debt was requested at the time of the Sixth Review under the ECF (Country Report No. 10/14).

summarized in Box 1 and Text Table 2. Long-term assumptions are somewhat more optimistic compared to those used in the completion point DSA. Specifically, long-run growth is now assumed to be slightly higher, reflecting the massive reconstruction effort projected to take place over the medium-term. Government revenues (excluding grants) are also projected to increase, in line with the new ECF's objectives. Exports of goods and services would grow by 10–12 percent a year, but decline in percent of GDP until FY 2013. They would subsequently recover gradually to their pre-earthquake levels and rise to more than 17 percent of GDP by 2030. Imports would surge by more than 60 percent in FY 2011, in line with the reconstruction plan. Imports are expected to remain somewhat elevated in the medium-term and revert to about 35 percent of GDP in 2030.

8. **Given a weaker near-term macroeconomic outlook compared to the Completion Point DSA and higher borrowing, Haiti remains at high risk of debt distress after the earthquake** (Figure 1). Haiti's present value (PV) of external debt relative to exports breaches the indicative threshold until 2022, reaching a peak of 187 percent in 2013 before declining gradually to less than 100 percent in 2022. Despite higher average GDP growth between FY 2011 and FY 2013 compared to the Completion Point, exports (in percent of GDP) are projected to be lower and imports and government expenditure much higher. The PV of the debt-to-revenue ratio is slightly below the relevant policy threshold in 2010 (at 23.5 percent) but declines steadily over the projection period.

9. **Higher borrowing in 2009, and projected continued borrowing under the PetroCaribe arrangement through 2015, substantially raises risks to debt sustainability.** Haiti's debt sustainability outlook has worsened since reaching the HIPC Completion Point in June 2009, mainly due to new bilateral borrowing. Based on the January 2010 DSA Update, accumulated PetroCaribe debt of US$295 million alone raised the PV of external debt by more than 45 percentage points of exports in FY 2010. Although the terms of PetroCaribe financing are highly concessional, the continued accumulation of PetroCaribe borrowing, which is expected to increase by about US$230–250 million a year based on current projections of oil imports, poses a risk to medium-term debt servicing capacity.[10] However, the terms of future PetroCaribe borrowing have yet to be clarified. The possibility of creating a private binational corporation that would use accumulated inflows to finance energy and social projects is still on the table. If and when that happens, future PetroCaribe flows would become private liabilities and no longer add to public debt. On the other hand, at the June 2nd donor summit in the Dominican Republic, Venezuela indicated



[10] Under the PetroCaribe arrangement, financing of oil imports is provided on concessional terms, namely, two-year grace period, 25-year maturity and 1 percent interest. The size of the portion financed is determined based on prevailing oil prices and varies between 30 percent of total shipments for oil prices US$40-50 per barrel to 70 percent for oil prices US$150 and above.

that a large share of future PetroCaribe inflows over the coming years could be converted into grants.

10. **Based on the sensitivity analysis, Haiti's debt situation remains vulnerable to a combination of shocks, but in particular to less favorable export performance.** With the exception of the debt service-to-revenues ratio, the alternative and shock scenarios worsen all of Haiti's debt stock and service indicators. Importantly, the ratios would exceed the relevant thresholds in the case of the PV of debt-to-exports, debt-to-revenue, as well as debt-to-GDP ratios. In the particular case of the PV of the debt-to-exports ratio, Haiti is most vulnerable to a combined shock to growth, exports, and non-debt creating flows. Together, these shocks could push the PV of debt-to-exports ratios up to 400 percent in FY 2012 before declining, although it would remain above the threshold for the projection period.

11. **The prolonged nature of the breach in the baseline scenario precludes a modification of Haiti's risk of debt distress rating using the remittance-based framework**. The revised debt sustainability framework (DSF) for low-income countries approved in August 2009 allows for the effect of remittances in the determination of a country's risk of debt distress. Under the new guidelines, however, taking into consideration remittances can change the risk of debt distress only if breaches to the thresholds under the baseline or stress tests (i.e. before taking into account remittances) are not very protracted. A benchmark for the maximum permissible length of the breach of the thresholds could be 10 years starting from the current year (i.e. about half of the projection period) (SM/10/16). In the case of Haiti, the debt-to-exports ratio is breached until 2022 in the baseline scenario, and all indicators except for the debt service-to-revenues ratio sustain a protracted breach under the stress tests.

Debt Relief Scenario

12. **Delivery of announced debt relief would significantly improve long run debt sustainability** (Figure 2). The debt relief scenario assumes delivery of relief on debt stocks as of end-September 2009 as outlined in paragraph 5 by the World Bank, IDB, IFAD, and PetroCaribe. The scenario also assumes debt relief on outstanding credit to the Fund as of end-January 2010 (i.e. SDR 178.13 million).[11] This would translate into a debt stock relief of about US$965 million in nominal terms as of end-2009. The debt relief scenario maintains the assumption in the baseline regarding the projected accumulation of PetroCaribe borrowing outlined in paragraph 6. Based on these assumptions, all debt indicators remain below the policy relevant threshold in the baseline scenario, with the exception of the debt-to-exports indicator which temporarily breaches the policy relevant threshold between 2014 and 2018.

13. **Debt dynamics would however remain sensitive to external shocks.** Breaches would persist under the most extreme shock scenario (the combination shock) for the three

[11] This includes SDR 105 million outstanding as of end-September 2009 in addition to SDR 73.13 million disbursed in January 2010.

stock indicators: (a) PV of debt-to-GDP; (b) PV of debt-to-exports; and (c) PV of debt-to-revenue. The breach is particularly protracted for the debt-to-exports indicator (peaking to 297 percent in 2012 and remaining above 100 percent until 2027). This highlights Haiti's continued external debt vulnerability, in part stemming from its very narrow export base.

III. Public Debt Sustainability Analysis

14. **In the baseline scenario, public debt indicators remain somewhat unchanged over the projection period** (Figure 3). The PV of public debt-to-GDP remains at about 30 percent throughout the projection period. This stability reflects a decrease in the level of external debt that is offset by an increase in domestic borrowing, which increases from 8 percent of GDP in FY 2010 to 20 percent of GDP by 2030. The PV of the debt-to-revenue ratio rises gradually to about 160 percent by 2016 and remains at that level over the projection period.

15. **Shock scenarios put public debt on a sharper rising trajectory over the projection period.** Public debt indicators are particularly sensitive to growth shocks and to debt-creating flows. Moreover, a combination of a growth shock and lower primary balance would significantly raise the PV of debt-to-GDP and debt-to-revenue ratios well above the baseline scenario.

IV. Debt Management

16. **The earthquake is thought to have severely disrupted existing debt management systems.** The Ministry of Finance building has been damaged. Based on an assessment of the damages, further technical and financial support will be needed to recover data, set up a working computer system, and rehabilitate physical infrastructure.

17. **The earthquake is a major setback, given recent steady progress.** Debt management capacity had improved in Haiti since the decision point was reached in December 2006. In the area of debt recording, the BRH and the MEF had completed the installation of the most recent version of UNCTAD DMFAS system, version 5.3, which allows for improvements in the availability, quality and security of debt data. In part resulting from the upgrade to the latest DMFAS system, debt reporting by the government had also improved.

18. **Prior to the earthquake, satisfactory progress had also been made in establishing the debt unit at the Ministry of Finance**, although the finalization of the draft operations manual, and the legal and institutional framework for debt management did depend on the results of ongoing technical assistance by UNCTAD and CEMLA.

V. Conclusions

19. **Haiti's risk of external debt distress remains high even after HIPC and MDRI debt relief.** The PV of debt-to-exports ratio breaches the 100 percent threshold for a prolonged period, even though other debt indicators remain below their relevant thresholds.

The analysis, however, shows that implementation of debt relief commitments would significantly improve the debt sustainability outlook and contribute to the reconstruction effort, provided donors meet Haiti's large and immediate financing needs through grants and highly concessional loans.

Box 1: Macroeconomic Assumptions

Growth and inflation. After contracting by 8.5 percent in FY 2010 following the devastation of the earthquake, growth is expected to rebound to almost 10 percent in FY 2011, averaging about 7.5 percent a year between FY2011 and FY2015 on the back of significant reconstruction related aid inflows, before reverting to its long-run trend. Long-run growth is projected to be slightly higher than the rate assumed in the Completion Point (CP) DSA (5 percent against 4.5 percent), assuming effective utilization of the surge in aid-inflows and reforms to expand to absorptive capacity of the economy. Inflation is projected to increase to about 8 percent in FY 2011 and FY 2012 on account of increased domestic demand and short-run supply side bottlenecks associated with large reconstruction aid inflows. Inflation is expected to revert to about 6.5 percent starting FY 2014.

Fiscal policy. Revenue, which reached 11 percent of GDP in FY 2009, is projected at about 10 percent of GDP due to severe losses in government administrative and physical capacities. Government revenues are expected to recover gradually, in line with the rebound in economic activity, and to increase to 14 percent of GDP in 2015. Primary spending is projected to peak to about 32 percent of GDP in 2011 and 2012 in line with the surge in reconstruction-based aid inflows before falling to about 22 percent of GDP in the long run. The fiscal deficit is expected to peak at 5 percent of GDP in 2012, and to average 3.4 percent of GDP from 2016 onwards.

Grants and financing. Grants are assumed to peak to about US$1.5 billion per year in FY 2011-12 as reconstruction and economic activity rebound and average about US$1.1 billion per year through FY 2015. It is assumed that Haiti would remain eligible for concessional assistance from IDA and IDB which would cover most of Haiti's external borrowing needs from 2018 onwards. The assumed grant element of new external borrowing is 35 percent. Following the introduction of a Treasury-bill market during 2011, domestic financing will remain capped to maintain medium-term public debt sustainability.

Current account. After contracting by 20 percent in FY 2010 due to damage in textile production capacity and to distribution infrastructure, exports of goods and services are projected to rebound and grow by an average of 12 percent in FY 2011–15 and reach their pre-earthquake value by 2016. Exports are assumed to increase to about 18 percent of GDP by 2030, slightly higher than CP assumption. Imports of goods and services, on the other hand, are projected to surge to about 52 percent of GDP in FY 2011–12 reflecting reconstruction related imports, and to revert to about 37 percent of GDP by 2030. The current account deficit excluding grants in percent of GDP is projected to widen significantly in FY 2010 and FY 2011 to about 29 percent and 24 percent, respectively, before declining to about 13 percent by FY 2015. The current account deficit is expected to be covered largely by grants and is projected to average 3.5 percent of GDP in FY 2013–15 and 4.4 percent through 2030.

Text Table 2. Haiti: Long-Term Macroeconomic Assumptions, FY 2010-2030

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2030	Averages	
													2010-19	2020-30
							(Annual percentage change)							
National income and prices														
GDP at constant prices	2.9	-8.5	9.8	8.4	6.9	6.2	6.0	5.5	5.2	5.0	5.0	5.0	5.0	5.0
GDP deflator	3.2	8.0	9.7	8.6	7.4	6.5	5.0	5.0	5.0	5.0	5.0	5.0	6.5	5.0
Real GDP per capita (local currency)	1.2	-7.9	5.6	6.7	5.2	4.6	4.9	3.9	3.7	3.5	3.5	3.7	3.4	3.6
Consumer prices (period average)	3.4	5.0	8.7	8.6	7.3	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.9	6.5
External sector (value in USD)														
Exports of goods and non-factor services	12.0	-19.5	11.9	11.8	12.1	14.8	12.3	11.1	11.1	10.8	10.6	10.2	8.7	10.5
Imports of goods and non-factor services	0.4	38.3	4.5	3.4	4.3	3.3	2.8	7.7	7.2	7.0	7.0	7.0	8.5	7.0
Central government (value in Gourdes)														
Total revenue and grants	25.9	34.6	41.0	5.5	7.6	5.7	8.0	6.7	6.6	10.5	10.6	9.9	13.7	9.8
Central government revenue 1/	11.3	-12.1	29.5	34.4	23.5	16.1	16.8	13.7	12.8	12.5	12.4	10.9	15.9	11.2
Central government primary expenditure	30.9	21.3	43.9	10.9	5.3	5.9	6.2	8.6	6.8	9.3	9.3	8.3	12.8	9.3
							(In percent of GDP, unless otherwise indicated)							
National income														
Nominal GDP (Gourdes, billions)	267	264	318	374	429	485	543	601	665	733	808	2,363	468	1,461
Nominal GDP (USD billions)	6.6	6.5	7.7	9.1	10.5	11.8	12.8	13.6	14.6	15.6	16.7	35.3	10.9	24.9
GDP per capita (US dollars)	661	656	740	868	981	1,082	1,157	1,226	1,295	1,366	1,441	2,642	1,003	1,983
External sector														
Non-interest current account deficit 2/, 3/	-4.7	-3.4	-1.8	-3.0	-3.7	-4.1	-4.0	-3.7	-4.8	-5.3	-5.3	-4.0	-3.9	-4.9
Exports of goods and non-factor services	14.2	11.6	11.0	10.3	10.0	10.3	10.6	11.1	11.5	11.9	12.3	17.5	11.3	14.8
Imports of goods and non-factor services	43.9	61.3	54.3	47.1	42.8	39.4	37.3	37.8	37.8	37.8	37.7	37.5	43.9	37.6
External current account balance (excl grants) 1/	-10.6	-28.7	-24.2	-19.6	-16.8	-14.3	-12.4	-10.9	-11.1	-11.2	-10.9	-6.9	-16.0	-9.0
External current account balance (incl grants) 2/	-3.2	-2.1	-3.7	-4.1	-4.1	-3.7	-3.3	-3.5	-4.5	-4.9	-4.9	-3.6	-3.7	-4.4
Liquid gross reserves (in months of imports of G&S	2.8	3.1	2.9	3.0	3.1	3.2	3.5	3.3	3.3	3.2	3.2	2.7	3.2	2.9
Central government														
Central government overall balance (incl grants) 2/	-4.4	-2.9	-3.9	-4.9	-4.2	-4.1	-3.6	-3.8	-3.8	-3.6	-3.4	-2.6	-3.9	-3.1
Total revenue and grants	17.9	24.3	28.5	25.6	24.0	22.4	21.6	20.8	20.1	20.2	20.2	19.3	22.5	19.8
Central government revenue (excl grants) 1/	11.2	10.0	10.7	12.2	13.1	13.5	14.1	14.5	14.8	15.1	15.4	16.9	12.9	16.3
Central government primary expenditure	21.7	26.6	31.8	30.0	27.5	25.7	24.4	24.0	23.2	23.0	22.8	20.7	25.8	21.9

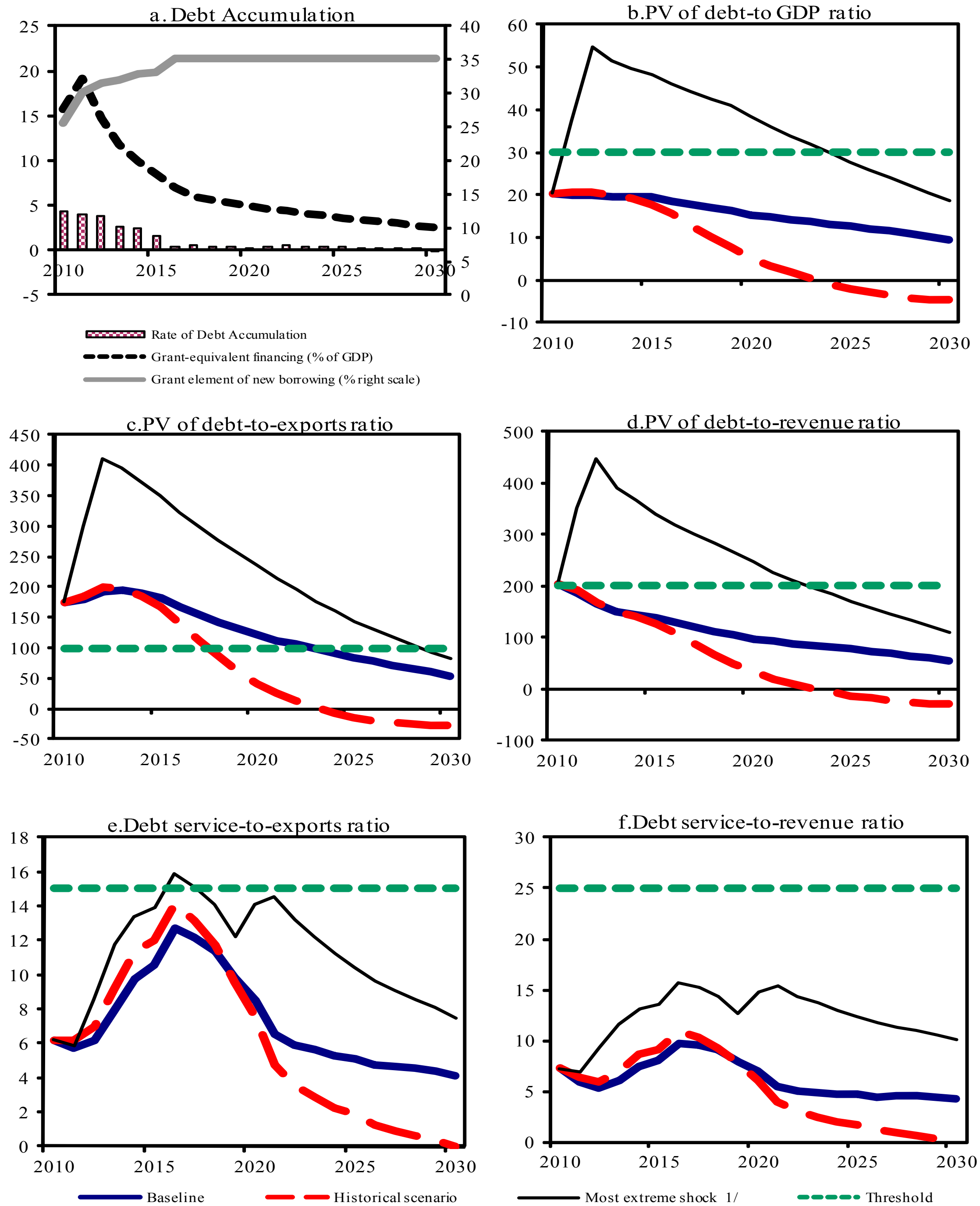
Sources: Country authorities; and staff estimates and projections.

1/ Excluding grants

2/ Including grants

3/ Includes interest earned on foreign exchange reserves.

Figure 1. Haiti: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock

Table 1a. Haiti: External Debt Sustainability Framework, Baseline Scenario, 2007-2030 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections																						
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-2015 Average	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2016-203 Average
External debt (nominal) 1/	**25.6**	**29.5**	**16.6**			**22.0**	**21.6**	**21.9**	**21.6**	**21.6**	**21.9**		**21.1**	**20.4**	**19.7**	**18.9**	**18.1**	**17.4**	**16.9**	**16.4**	**15.8**	**15.1**	**14.5**	**13.8**	**13.0**	**12.2**	**11.4**	
o/w public and publicly guaranteed (PPG)	25.6	29.5	16.6			22.0	21.6	21.9	21.6	21.6	21.9		21.1	20.4	19.7	18.9	18.1	17.4	16.9	16.4	15.8	15.1	14.5	13.8	13.0	12.2	11.4	
Change in external debt	-2.9	3.9	-12.9			5.4	-0.4	0.3	-0.3	0.0	0.3		-0.8	-0.7	-0.7	-0.7	-0.9	-0.6	-0.5	-0.5	-0.6	-0.6	-0.7	-0.7	-0.8	-0.8	-0.8	
Identified net debt-creating flows	-6.3	1.3	2.7			2.4	0.5	1.5	1.8	1.6	1.2		1.4	2.4	2.8	2.7	2.6	2.5	2.4	2.4	2.2	2.1	1.9	1.7	1.5	1.3	1.0	
Non-interest current account deficit	**0.1**	**4.2**	**3.0**	**1.5**	**1.8**	**1.5**	**3.2**	**3.6**	**3.6**	**3.2**	**2.9**		**3.1**	**4.1**	**4.5**	**4.5**	**4.5**	**4.5**	**4.5**	**4.5**	**4.4**	**4.3**	**4.1**	**4.0**	**3.8**	**3.6**	**3.4**	4.1
Deficit in balance of goods and services	26.3	31.0	29.7			50.0	43.7	37.1	33.1	29.5	27.1		26.7	26.3	25.8	25.4	25.0	24.6	24.2	23.6	23.1	22.6	22.1	21.6	21.0	20.5	20.0	
Exports	13.4	12.7	14.2			11.6	11.0	10.3	10.1	10.4	10.7		11.1	11.5	11.9	12.3	12.7	13.1	13.5	14.0	14.5	15.0	15.5	16.0	16.5	17.0	17.5	
Imports	39.6	43.7	43.9			61.6	54.7	47.4	43.2	39.8	37.8		37.8	37.8	37.8	37.7	37.7	37.7	37.7	37.7	37.6	37.6	37.6	37.6	37.6	37.5	37.5	
Net current transfers (negative = inflow)	-25.9	-26.3	-26.3	-27.4	2.7	-47.9	-40.1	-32.8	-28.5	-25.1	-23.1		-21.6	-20.8	-20.4	-20.0	-19.6	-19.2	-18.8	-18.4	-18.0	-17.7	-17.3	-17.0	-16.7	-16.5	-16.2	-18.5
o/w official	-6.7	-7.2	-7.4			-26.7	-20.7	-15.7	-12.8	-10.7	-9.2		-7.4	-6.6	-6.4	-6.1	-5.7	-5.4	-5.1	-4.8	-4.6	-4.3	-4.1	-3.9	-3.7	-3.5	-3.4	
Other current account flows (negative = net inflow)	-0.2	-0.5	-0.3			-0.6	-0.4	-0.6	-1.0	-1.1	-1.1		-2.0	-1.4	-1.0	-0.9	-1.0	-0.9	-0.9	-0.7	-0.7	-0.7	-0.6	-0.6	-0.5	-0.5	-0.4	
Net FDI (negative = inflow)	**-1.3**	**-0.5**	**-0.6**	**-0.9**	**1.1**	**-1.1**	**-1.3**	**-1.0**	**-0.9**	**-0.8**	**-0.8**		**-1.0**	**-1.1**	**-1.2**	**-1.3**	**-1.4**	**-1.5**	**-1.6**	**-1.6**	**-1.7**	**-1.7**	**-1.8**	**-1.8**	**-1.9**	**-1.9**	**-2.0**	-1.5
Endogenous debt dynamics 2/	**-5.2**	**-2.5**	**0.2**			**2.0**	**-1.4**	**-1.2**	**-1.0**	**-0.8**	**-0.9**		**-0.7**	**-0.6**	**-0.6**	**-0.6**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	
Contribution from nominal interest rate	0.1	0.2	0.2			0.6	0.4	0.4	0.4	0.4	0.4		0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	
Contribution from real GDP growth	-0.8	-0.2	-0.9			1.4	-1.8	-1.5	-1.3	-1.2	-1.3		-1.1	-1.0	-1.0	-0.9	-0.9	-0.8	-0.8	-0.8	-0.8	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6	
Contribution from price and exchange rate changes	-4.5	-2.6	0.9			…	…	…	…	…	…		…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	
Residual (3-4) 3/	**3.4**	**2.6**	**-15.6**			**3.0**	**-0.9**	**-1.1**	**-2.1**	**-1.6**	**-0.9**		**-2.2**	**-3.0**	**-3.5**	**-3.4**	**-3.4**	**-3.2**	**-3.0**	**-2.9**	**-2.9**	**-2.7**	**-2.6**	**-2.4**	**-2.3**	**-2.1**	**-1.8**	
o/w exceptional financing	-0.4	-0.3	-15.6			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PV of external debt 4/	...	...	15.5			19.6	18.8	19.1	18.9	18.9	18.8		17.9	17.1	16.4	15.6	14.8	14.3	13.8	13.3	12.8	12.3	11.7	11.1	10.5	9.9	9.2	
In percent of exports	...	...	108.8			169.2	170.0	184.1	187.2	182.7	176.0		161.3	149.0	137.5	126.9	116.7	108.8	102.2	95.1	88.3	81.8	75.7	69.6	63.8	58.0	52.5	
PV of PPG external debt	**...**	**...**	**15.5**			**19.6**	**18.8**	**19.1**	**18.9**	**18.9**	**18.8**		**17.9**	**17.1**	**16.4**	**15.6**	**14.8**	**14.3**	**13.8**	**13.3**	**12.8**	**12.3**	**11.7**	**11.1**	**10.5**	**9.9**	**9.2**	
In percent of exports	**...**	**...**	**108.8**			**169.2**	**170.0**	**184.1**	**187.2**	**182.7**	**176.0**		**161.3**	**149.0**	**137.5**	**126.9**	**116.7**	**108.8**	**102.2**	**95.1**	**88.3**	**81.8**	**75.7**	**69.6**	**63.8**	**58.0**	**52.5**	
In percent of government revenues	**...**	**...**	**138.3**			**197.0**	**175.9**	**156.4**	**143.3**	**139.7**	**133.1**		**124.0**	**116.2**	**108.7**	**101.8**	**94.7**	**89.4**	**86.0**	**82.5**	**78.8**	**75.1**	**71.3**	**67.3**	**63.2**	**58.9**	**54.6**	
Debt service-to-exports ratio (in percent)	**6.8**	**5.8**	**3.7**			**6.2**	**5.7**	**5.9**	**7.6**	**9.5**	**10.3**		**12.5**	**12.0**	**11.2**	**9.7**	**8.4**	**6.5**	**5.8**	**5.6**	**5.2**	**5.0**	**4.6**	**4.6**	**4.4**	**4.3**	**4.1**	
PPG debt service-to-exports ratio (in percent)	**6.8**	**5.8**	**3.7**			**6.2**	**5.7**	**5.9**	**7.6**	**9.5**	**10.3**		**12.5**	**12.0**	**11.2**	**9.7**	**8.4**	**6.5**	**5.8**	**5.6**	**5.2**	**5.0**	**4.6**	**4.6**	**4.4**	**4.3**	**4.1**	
PPG debt service-to-revenue ratio (in percent)	**8.5**	**6.9**	**4.7**			**7.2**	**5.9**	**5.0**	**5.8**	**7.3**	**7.8**		**9.6**	**9.4**	**8.9**	**7.7**	**6.8**	**5.3**	**4.9**	**4.8**	**4.7**	**4.6**	**4.4**	**4.4**	**4.4**	**4.3**	**4.2**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.3	0.2			0.1	0.2	0.3	0.4	0.4	0.4		0.5	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	
Non-interest current account deficit that stabilizes debt ratio	3.0	0.4	15.9			-3.9	3.6	3.3	4.0	3.2	2.6		3.9	4.7	5.2	5.2	5.3	5.2	5.0	5.1	5.0	4.9	4.8	4.7	4.6	4.4	4.2	
Key macroeconomic assumptions																												
Real GDP growth (in percent)	3.3	0.8	2.9	0.8	2.0	-8.5	9.8	8.4	6.9	6.2	6.0	4.8	5.5	5.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.1
GDP deflator in US dollar terms (change in percent)	18.8	11.2	-3.0	9.1	13.9	7.8	6.8	10.0	7.4	5.4	1.9	6.6	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Effective interest rate (percent) 5/	0.5	1.0	0.7	-0.4	1.4	3.6	2.2	2.0	1.9	2.0	2.0	2.3	2.1	2.0	2.0	2.0	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.8
Growth of exports of G&S (US dollar terms, in percent)	12.1	6.5	12.0	11.5	4.4	-19.6	11.6	11.8	12.1	14.8	12.2	7.2	11.6	11.1	10.8	10.6	10.5	10.4	10.3	11.0	10.9	10.7	10.6	10.5	10.4	10.3	10.2	10.7
Growth of imports of G&S (US dollar terms, in percent)	8.7	23.6	0.4	13.0	7.7	38.2	4.2	3.3	4.5	3.3	3.1	9.4	7.5	7.2	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	25.6	30.3	31.5	31.6	32.8	33.0	30.8	35.2	34.5	34.3	34.1	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.0
Government revenues (excluding grants, in percent of GDP)	10.6	10.7	11.2			10.0	10.7	12.2	13.2	13.5	14.2		14.5	14.8	15.1	15.4	15.7	16.0	16.1	16.2	16.3	16.4	16.5	16.6	16.7	16.8	16.9	16.0
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.4			0.9	1.4	1.3	1.2	1.1	1.0		1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	
o/w Grants	0.3	0.3	0.4			0.9	1.4	1.2	1.1	1.0	1.0		0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			15.7	19.2	14.8	11.8	9.9	8.5		7.0	6.0	5.6	5.3	4.9	4.7	4.4	4.1	3.9	3.6	3.4	3.2	3.0	2.8	2.6	4.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			80.9	87.6	84.3	85.7	83.6	82.3		86.5	83.8	84.4	85.4	87.4	86.9	85.8	85.7	86.2	86.4	86.6	87.3	87.4	88.5	88.9	86.5
Memorandum items:																												
Nominal GDP (Billions of US dollars)	5.9	6.6	6.6			6.5	7.6	9.0	10.4	11.6	12.6		13.6	14.6	15.6	16.7	17.9	19.1	20.5	21.9	23.4	25.1	26.9	28.8	30.8	32.9	35.3	
Nominal dollar GDP growth	22.8	12.2	-0.2			-1.4	17.3	19.2	14.8	12.0	8.6	11.7	7.6	7.3	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.1
PV of PPG external debt (in Billions of US dollars)			1.0			1.2	1.4	1.7	2.0	2.2	2.4		2.4	2.5	2.6	2.6	2.7	2.7	2.8	2.9	3.0	3.1	3.2	3.2	3.3	3.3	3.3	
(PVt-PVt-1)/GDPt-1 (in percent)						3.6	3.2	3.9	2.7	2.3	1.5	2.9	0.4	0.5	0.4	0.4	0.3	0.4	0.5	0.5	0.4	0.3	0.3	0.2	0.1	0.0	0.0	0.3
Gross remittances (Billions of US dollars)	1.1	1.3	1.2			1.4	1.5	1.6	1.6	1.7	1.8		1.9	2.0	2.1	2.3	2.4	2.5	2.6	2.8	2.9	3.1	3.3	3.4	3.6	3.8	4.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.0			16.2	15.7	16.3	16.4	16.5	16.5		15.7	15.0	14.4	13.8	13.1	12.6	12.2	11.8	11.4	10.9	10.5	10.0	9.4	8.8	8.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	46.7			59.7	61.7	69.3	73.5	76.3	75.2		71.0	67.4	63.8	60.4	56.9	54.3	52.2	49.8	47.4	44.9	42.4	39.9	37.3	34.5	31.9	
Debt service of PPG external debt (in percent of exports + remitt	...	...	1.6			2.2	2.1	2.2	3.0	4.0	4.4		5.5	5.4	5.2	4.6	4.1	3.2	3.0	2.9	2.8	2.7	2.6	2.6	2.6	2.5	2.5	

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 1b. Haiti: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030
(In percent)

	Projections																				
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio																					
Baseline	20	19	19	19	19	19	18	17	16	16	**15**	14	14	13	13	12	12	11	11	10	9
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	20	19	20	19	18	17	15	12	9	7	**4**	3	1	0	-2	-3	-3	-4	-5	-5	-5
A2. New public sector loans on less favorable terms in 2010-2030 2	20	20	21	21	22	22	21	21	21	20	**19**	19	19	18	18	18	17	16	16	15	14
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	20	21	23	23	23	23	22	21	20	19	**18**	18	17	16	16	15	14	14	13	12	11
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	20	19	20	20	20	20	19	18	17	16	**15**	15	14	14	13	13	12	11	11	10	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	20	21	25	25	25	25	23	22	21	20	**19**	19	18	17	17	16	15	15	14	13	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	20	30	35	33	32	32	30	29	28	27	**25**	24	22	21	20	18	17	16	15	14	13
B5. Combination of B1-B4 using one-half standard deviation shocks	20	36	53	51	49	47	45	44	42	40	**38**	35	33	31	29	27	25	24	22	20	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	20	26	27	26	26	26	25	24	23	22	**21**	20	19	19	18	17	16	16	15	14	13
PV of debt-to-exports ratio																					
Baseline	169	170	184	187	183	176	161	149	137	127	**117**	109	102	95	88	82	76	70	64	58	53
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	169	174	189	187	174	157	131	104	77	55	**35**	20	8	-2	-11	-17	-22	-26	-28	-29	-29
A2. New public sector loans on less favorable terms in 2010-2030 2	169	179	201	209	209	206	193	183	173	163	**153**	145	139	131	124	117	110	103	96	89	83
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	169	171	185	188	184	177	162	150	138	128	**117**	109	103	96	89	82	76	70	64	58	53
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	169	181	210	212	207	199	182	168	156	144	**132**	123	115	107	99	92	85	78	71	65	59
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	169	171	185	188	184	177	162	150	138	128	**117**	109	103	96	89	82	76	70	64	58	53
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	169	273	340	331	312	295	272	252	233	217	**198**	180	165	150	136	123	112	101	90	81	72
B5. Combination of B1-B4 using one-half standard deviation shocks	169	290	401	388	364	344	317	293	272	253	**231**	210	191	173	157	141	127	114	102	91	81
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	169	171	185	188	184	177	162	150	138	128	**117**	109	103	96	89	82	76	70	64	58	53
PV of debt-to-revenue ratio																					
Baseline	197	176	156	143	140	133	124	116	109	102	**95**	89	86	83	79	75	71	67	63	59	55
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	197	180	161	143	133	119	101	81	61	44	**28**	16	7	-2	-10	-16	-21	-25	-28	-29	-30
A2. New public sector loans on less favorable terms in 2010-2030 2	197	185	171	160	160	156	149	143	137	131	**124**	119	117	114	111	107	104	99	95	91	86
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	197	197	192	176	171	163	152	143	134	125	**116**	110	106	101	97	92	88	83	78	72	67
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	197	180	164	150	145	138	129	121	113	106	**99**	93	89	85	81	77	73	69	65	60	56
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	197	199	204	186	182	173	161	151	142	132	**123**	116	112	107	103	98	93	88	82	77	71
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	197	283	289	253	239	223	209	196	185	174	**160**	148	139	130	121	113	105	97	90	82	75
B5. Combination of B1-B4 using one-half standard deviation shocks	197	338	439	383	359	335	314	295	278	261	**242**	222	208	194	180	167	155	143	131	119	108
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	197	246	219	200	195	186	173	162	152	142	**132**	125	120	115	110	105	100	94	88	82	76

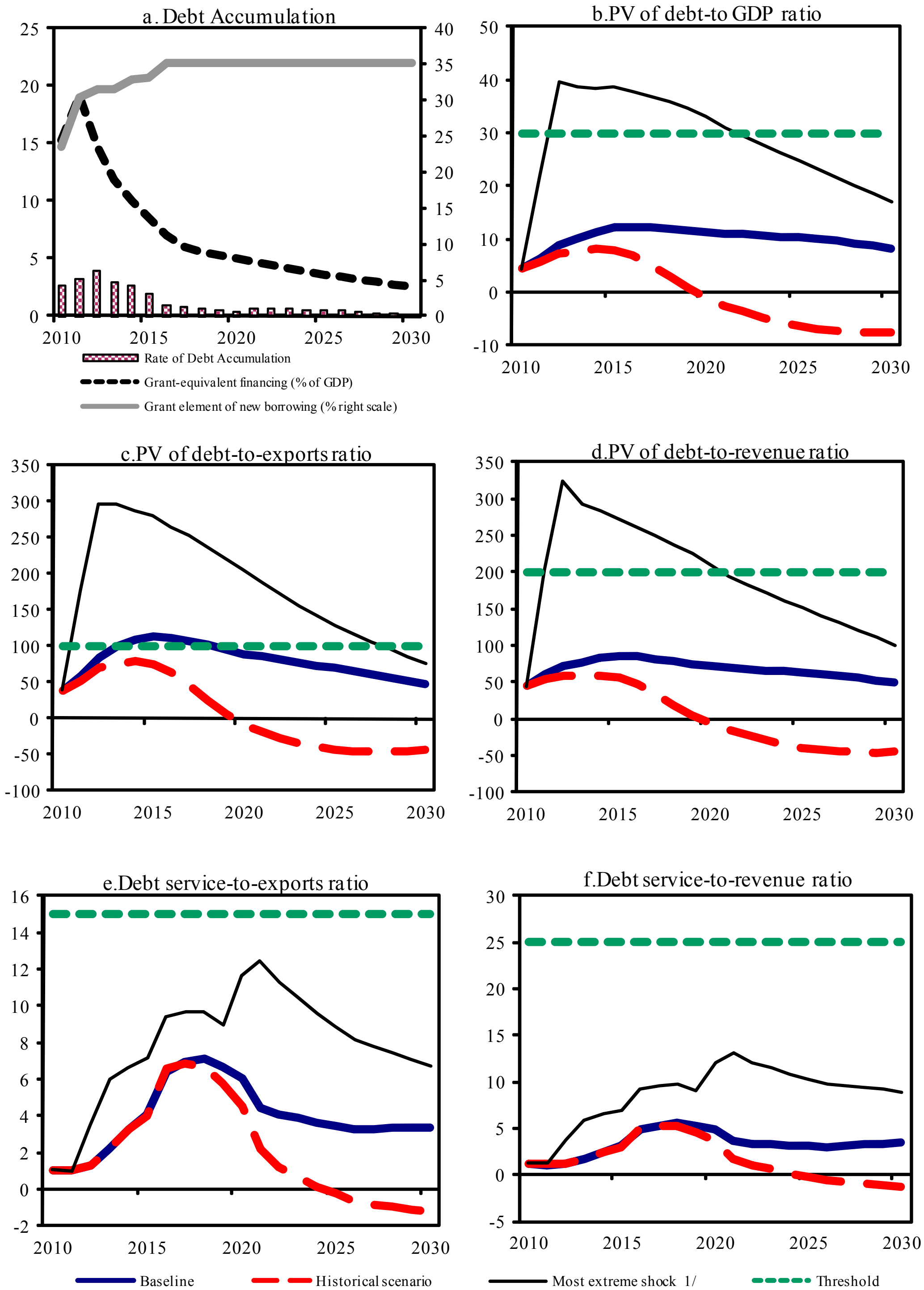
Table 1b. Haiti: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030 (continued)
(In percent)

	Debt service-to-exports ratio																				
Baseline	6	6	6	8	9	10	12	12	11	10	**8**	6	6	6	5	5	5	5	4	4	4
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	6	6	7	9	11	12	14	13	12	9	**7**	5	3	3	2	2	1	1	0	0	0
A2. New public sector loans on less favorable terms in 2010-2030 2	6	6	6	8	11	13	12	13	12	11	**10**	9	9	8	7	7	6	6	6	6	5
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	6	6	6	8	9	10	12	12	11	10	**8**	6	6	6	5	5	5	5	4	4	4
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	6	6	6	8	10	11	14	13	12	11	**9**	7	7	6	6	6	5	5	5	5	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	6	6	6	8	9	10	12	12	11	10	**8**	6	6	6	5	5	5	5	4	4	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	6	6	8	10	12	12	14	14	13	11	**13**	12	11	10	9	9	8	8	7	7	6
B5. Combination of B1-B4 using one-half standard deviation shocks	6	6	8	12	13	14	16	15	14	12	**14**	14	13	12	11	10	10	9	8	8	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	6	6	6	8	9	10	12	12	11	10	**8**	6	6	6	5	5	5	5	4	4	4
	Debt service-to-revenue ratio																				
Baseline	7	6	5	6	7	8	10	9	9	8	**7**	5	5	5	5	5	4	4	4	4	4
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	7	6	6	7	8	9	11	10	9	7	**6**	4	3	2	2	2	1	1	0	0	0
A2. New public sector loans on less favorable terms in 2010-2030 2	7	6	5	6	8	10	10	10	9	9	**8**	8	7	7	7	6	6	6	6	6	5
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	7	7	6	7	9	10	12	11	11	9	**8**	6	6	6	6	6	5	5	5	5	5
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	7	6	5	6	7	8	10	9	9	8	**7**	6	5	5	5	5	5	5	5	4	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	7	7	6	7	9	10	12	12	11	10	**9**	7	6	6	6	6	6	6	6	6	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	7	6	7	8	9	9	11	11	10	9	**10**	10	9	9	8	8	8	7	7	7	7
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	9	11	13	13	15	15	14	12	**15**	15	14	14	13	12	12	11	11	10	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	7	8	7	8	10	11	13	13	12	11	**9**	7	7	7	6	6	6	6	6	6	6
Memorandum item:																					
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	33	33	33	33	33	33	33	33	33	33	**33**	33	33	33	33	33	33	33	33	33	33

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 2. Haiti--Debt Relief Scenario: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock

Table 2a. Haiti--Debt Relief Scenario: External Debt Sustainability Framework, Baseline Scenario, 2007-2030 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections																						
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-2015 Average	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2016-203 Average
External debt (nominal) 1/	**25.6**	**29.5**	**16.6**			**5.1**	**8.0**	**10.7**	**12.1**	**13.5**	**15.0**		**15.1**	**15.1**	**15.0**	**14.7**	**14.3**	**14.1**	**13.9**	**13.8**	**13.5**	**13.2**	**12.8**	**12.4**	**11.9**	**11.2**	**10.6**	
o/w public and publicly guaranteed (PPG)	25.6	29.5	16.6			5.1	8.0	10.7	12.1	13.5	15.0		15.1	15.1	15.0	14.7	14.3	14.1	13.9	13.8	13.5	13.2	12.8	12.4	11.9	11.2	10.6	
Change in external debt	-2.9	3.9	-12.9			-11.5	2.9	2.7	1.4	1.4	1.4		0.1	0.1	-0.1	-0.3	-0.4	-0.2	-0.1	-0.2	-0.3	-0.3	-0.4	-0.5	-0.5	-0.6	-0.7	
Identified net debt-creating flows	-6.3	1.3	2.7			2.3	1.8	2.3	2.3	2.0	1.6		1.8	2.8	3.2	3.1	3.0	2.9	2.8	2.7	2.6	2.4	2.2	2.0	1.8	1.5	1.3	
Non-interest current account deficit	**0.1**	**4.2**	**3.0**	**1.5**	**1.8**	**1.9**	**3.4**	**3.8**	**3.8**	**3.3**	**3.0**		**3.3**	**4.4**	**4.8**	**4.8**	**4.8**	**4.8**	**4.8**	**4.8**	**4.7**	**4.5**	**4.4**	**4.2**	**4.0**	**3.8**	**3.6**	4.4
Deficit in balance of goods and services	26.3	31.0	29.7			50.0	43.7	37.1	33.1	29.5	27.1		26.8	26.5	26.0	25.6	25.2	24.8	24.4	23.8	23.3	22.8	22.3	21.8	21.2	20.7	20.2	
Exports	13.4	12.7	14.2			11.6	11.0	10.3	10.1	10.4	10.7		11.0	11.3	11.7	12.1	12.5	12.9	13.3	13.8	14.3	14.8	15.3	15.8	16.3	16.8	17.3	
Imports	39.6	43.7	43.9			61.6	54.7	47.4	43.2	39.8	37.8		37.8	37.8	37.8	37.7	37.7	37.7	37.7	37.7	37.6	37.6	37.6	37.6	37.6	37.5	37.5	
Net current transfers (negative = inflow)	-25.9	-26.3	-26.3	-27.4	2.7	-47.9	-40.1	-32.8	-28.5	-25.1	-23.1		-21.6	-20.8	-20.4	-20.0	-19.6	-19.2	-18.8	-18.4	-18.0	-17.7	-17.3	-17.0	-16.7	-16.5	-16.2	-18.5
o/w official	-6.7	-7.2	-7.4			-26.7	-20.7	-15.7	-12.8	-10.7	-9.2		-7.4	-6.6	-6.4	-6.1	-5.7	-5.4	-5.1	-4.8	-4.6	-4.3	-4.1	-3.9	-3.7	-3.5	-3.4	
Other current account flows (negative = net inflow)	-0.2	-0.5	-0.3			-0.2	-0.2	-0.4	-0.8	-1.0	-1.0		-1.9	-1.3	-0.8	-0.8	-0.8	-0.8	-0.8	-0.7	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5	-0.4	
Net FDI (negative = inflow)	**-1.3**	**-0.5**	**-0.6**	**-0.9**	**1.1**	**-1.1**	**-1.3**	**-1.0**	**-0.9**	**-0.8**	**-0.8**		**-1.0**	**-1.1**	**-1.2**	**-1.3**	**-1.4**	**-1.5**	**-1.6**	**-1.6**	**-1.7**	**-1.7**	**-1.8**	**-1.8**	**-1.9**	**-1.9**	**-2.0**	-1.5
Endogenous debt dynamics 2/	**-5.2**	**-2.5**	**0.2**			**1.5**	**-0.4**	**-0.5**	**-0.5**	**-0.5**	**-0.6**		**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	
Contribution from nominal interest rate	0.1	0.2	0.2			0.1	0.1	0.1	0.1	0.2	0.2		0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Contribution from real GDP growth	-0.8	-0.2	-0.9			1.4	-0.4	-0.6	-0.6	-0.7	-0.8		-0.8	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5	
Contribution from price and exchange rate changes	-4.5	-2.6	0.9			…	…	…	…	…	…		…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	
Residual (3-4) 3/	**3.4**	**2.6**	**-15.6**			**-13.7**	**1.1**	**0.4**	**-0.9**	**-0.6**	**-0.1**		**-1.6**	**-2.7**	**-3.3**	**-3.4**	**-3.4**	**-3.1**	**-2.9**	**-2.9**	**-2.8**	**-2.7**	**-2.5**	**-2.4**	**-2.3**	**-2.1**	**-1.9**	
o/w exceptional financing	-0.4	-0.3	-15.6			-13.7	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PV of external debt 4/	...	...	1.8			4.5	6.4	8.7	10.1	11.4	12.3		12.2	12.2	11.9	11.6	11.2	11.0	10.9	10.8	10.6	10.3	10.1	9.7	9.3	8.8	8.3	
In percent of exports	...	...	12.3			38.9	58.1	84.3	99.9	109.8	114.7		111.2	107.5	101.9	95.8	89.7	85.4	82.0	77.9	73.7	69.7	65.7	61.4	57.1	52.6	48.2	
PV of PPG external debt	**...**	**...**	**1.8**			**4.5**	**6.4**	**8.7**	**10.1**	**11.4**	**12.3**		**12.2**	**12.2**	**11.9**	**11.6**	**11.2**	**11.0**	**10.9**	**10.8**	**10.6**	**10.3**	**10.1**	**9.7**	**9.3**	**8.8**	**8.3**	
In percent of exports	**...**	**...**	**12.3**			**38.9**	**58.1**	**84.3**	**99.9**	**109.8**	**114.7**		**111.2**	**107.5**	**101.9**	**95.8**	**89.7**	**85.4**	**82.0**	**77.9**	**73.7**	**69.7**	**65.7**	**61.4**	**57.1**	**52.6**	**48.2**	
In percent of government revenues	**...**	**...**	**15.7**			**45.2**	**60.2**	**71.6**	**76.5**	**84.0**	**86.8**		**84.7**	**82.4**	**79.2**	**75.5**	**71.7**	**69.1**	**67.9**	**66.6**	**64.9**	**63.1**	**61.1**	**58.7**	**55.9**	**52.8**	**49.5**	
Debt service-to-exports ratio (in percent)	**6.8**	**5.8**	**3.7**			**1.1**	**1.0**	**1.3**	**2.2**	**3.3**	**4.1**		**6.5**	**7.0**	**7.1**	**6.6**	**6.0**	**4.5**	**4.0**	**3.9**	**3.6**	**3.4**	**3.3**	**3.3**	**3.4**	**3.4**	**3.3**	
PPG debt service-to-exports ratio (in percent)	**6.8**	**5.8**	**3.7**			**1.1**	**1.0**	**1.3**	**2.2**	**3.3**	**4.1**		**6.5**	**7.0**	**7.1**	**6.6**	**6.0**	**4.5**	**4.0**	**3.9**	**3.6**	**3.4**	**3.3**	**3.3**	**3.4**	**3.4**	**3.3**	
PPG debt service-to-revenue ratio (in percent)	**8.5**	**6.9**	**4.7**			**1.3**	**1.0**	**1.1**	**1.7**	**2.5**	**3.1**		**4.9**	**5.3**	**5.5**	**5.2**	**4.8**	**3.6**	**3.4**	**3.3**	**3.2**	**3.1**	**3.0**	**3.2**	**3.3**	**3.4**	**3.4**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.3	0.2			0.1	0.2	0.3	0.3	0.3	0.3		0.4	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	
Non-interest current account deficit that stabilizes debt ratio	3.0	0.4	15.9			13.4	0.5	1.1	2.3	1.9	1.6		3.1	4.3	5.0	5.1	5.2	5.0	4.9	5.0	4.9	4.8	4.7	4.7	4.6	4.4	4.2	
Key macroeconomic assumptions																												
Real GDP growth (in percent)	3.3	0.8	2.9	0.8	2.0	-8.5	9.8	8.4	6.9	6.2	6.0	4.8	5.5	5.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.1
GDP deflator in US dollar terms (change in percent)	18.8	11.2	-3.0	9.1	13.9	7.8	6.8	10.0	7.4	5.4	1.9	6.6	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Effective interest rate (percent) 5/	0.5	1.0	0.7	-0.4	1.4	0.4	1.4	1.3	1.5	1.7	1.7	1.3	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.6
Growth of exports of G&S (US dollar terms, in percent)	12.1	6.5	12.0	11.5	4.4	-19.6	11.6	11.8	12.1	14.8	12.2	7.2	10.6	10.2	10.8	10.7	10.6	10.5	10.4	11.1	10.9	10.8	10.7	10.5	10.4	10.3	10.2	10.6
Growth of imports of G&S (US dollar terms, in percent)	8.7	23.6	0.4	13.0	7.7	38.2	4.2	3.3	4.5	3.3	3.1	9.4	7.5	7.2	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	23.5	30.3	31.5	31.6	32.8	33.0	30.5	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2
Government revenues (excluding grants, in percent of GDP)	10.6	10.7	11.2			10.0	10.7	12.2	13.2	13.5	14.2		14.5	14.8	15.1	15.4	15.7	16.0	16.1	16.2	16.3	16.4	16.5	16.6	16.7	16.8	16.9	16.0
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.4			0.9	1.4	1.3	1.2	1.1	1.0		1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	
o/w Grants	0.3	0.3	0.4			0.9	1.4	1.2	1.1	1.0	1.0		0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			15.3	19.2	14.8	11.8	9.9	8.5		7.0	5.9	5.6	5.3	4.9	4.7	4.4	4.1	3.9	3.6	3.4	3.2	3.0	2.8	2.6	4.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			85.2	87.6	84.3	85.7	83.6	82.3		86.5	84.6	85.5	86.7	87.4	86.9	85.8	85.7	86.2	86.4	86.6	87.3	87.4	88.5	88.9	86.7
Memorandum items:																												
Nominal GDP (Billions of US dollars)	5.9	6.6	6.6			6.5	7.6	9.0	10.4	11.6	12.6		13.6	14.6	15.6	16.7	17.9	19.1	20.5	21.9	23.4	25.1	26.9	28.8	30.8	32.9	35.3	
Nominal dollar GDP growth	22.8	12.2	-0.2			-1.4	17.3	19.2	14.8	12.0	8.6	11.7	7.6	7.3	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.1
PV of PPG external debt (in Billions of US dollars)			0.1			0.3	0.5	0.8	1.1	1.3	1.6		1.7	1.8	1.9	1.9	2.0	2.1	2.2	2.4	2.5	2.6	2.7	2.8	2.9	2.9	3.0	
(PVt-PVt-1)/GDPt-1 (in percent)						2.6	3.2	4.0	2.9	2.7	2.0	2.9	0.9	0.8	0.6	0.5	0.4	0.6	0.6	0.6	0.5	0.5	0.4	0.3	0.3	0.2	0.1	0.5
Gross remittances (Billions of US dollars)	1.1	1.3	1.2			1.4	1.5	1.6	1.6	1.7	1.8		1.9	2.0	2.1	2.3	2.4	2.5	2.6	2.8	2.9	3.1	3.3	3.4	3.6	3.8	4.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	1.5			3.7	5.4	7.4	8.7	9.9	10.7		10.7	10.7	10.5	10.2	9.9	9.7	9.7	9.5	9.4	9.2	9.0	8.7	8.3	7.9	7.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	5.3			13.7	21.1	31.7	39.2	45.8	49.0		48.7	48.1	46.9	45.2	43.4	42.3	41.5	40.5	39.3	38.0	36.6	35.0	33.2	31.2	29.1	
Debt service of PPG external debt (in percent of exports + remitta	...	...	1.6			0.4	0.4	0.5	0.9	1.4	1.7		2.8	3.1	3.3	3.1	2.9	2.2	2.1	2.0	1.9	1.9	1.8	1.9	2.0	2.0	2.0	

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 2b.Haiti--Debt Relief Scenario: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030
(In percent)

	Projections																				
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio																					
Baseline	5	6	9	10	11	12	12	12	12	12	**11**	11	11	11	11	10	10	10	9	9	8
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	5	6	7	8	8	8	7	5	3	1	**-1**	-2	-4	-5	-6	-6	-7	-7	-8	-8	-8
A2. New public sector loans on less favorable terms in 2010-2030 2	5	7	10	12	14	16	16	16	16	16	**16**	16	16	16	16	15	15	15	15	14	14
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	5	7	11	12	14	15	15	15	15	14	**14**	14	13	13	13	13	12	12	11	11	10
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	5	7	10	11	12	13	13	13	13	12	**12**	12	11	11	11	11	10	10	10	9	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	5	7	11	13	15	16	16	16	16	15	**15**	14	14	14	14	13	13	13	12	12	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	5	18	25	25	25	25	25	24	23	23	**22**	20	19	18	17	17	16	15	14	13	12
B5. Combination of B1-B4 using one-half standard deviation shocks	5	22	40	39	38	39	38	37	36	35	**33**	31	29	28	26	25	23	22	20	19	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	5	9	12	14	16	17	17	17	17	16	**16**	15	15	15	15	14	14	14	13	12	12
PV of debt-to-exports ratio																					
Baseline	39	58	84	100	110	115	111	108	102	96	**90**	85	82	78	74	70	66	61	57	53	48
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	39	52	70	76	78	75	63	45	25	7	**-8**	-19	-27	-34	-39	-43	-45	-46	-46	-45	-44
A2. New public sector loans on less favorable terms in 2010-2030 2	39	67	101	122	136	145	143	142	138	132	**126**	122	118	114	109	105	100	95	89	84	78
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	39	59	85	100	110	115	112	108	102	96	**90**	86	82	78	74	70	66	62	57	53	48
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	39	64	101	117	127	132	128	123	117	110	**103**	97	93	88	83	79	74	69	64	59	54
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	39	59	85	100	110	115	112	108	102	96	**90**	86	82	78	74	70	66	62	57	53	48
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	39	161	240	243	239	234	223	212	199	187	**172**	158	146	133	122	112	102	93	84	76	68
B5. Combination of B1-B4 using one-half standard deviation shocks	39	175	297	297	288	280	266	253	237	222	**205**	187	172	156	142	129	118	106	96	86	77
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	39	59	85	100	110	115	112	108	102	96	**90**	86	82	78	74	70	66	62	57	53	48
PV of debt-to-revenue ratio																					
Baseline	45	60	72	76	84	87	85	82	79	76	**72**	69	68	67	65	63	61	59	56	53	49
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	45	54	59	58	60	57	48	34	19	5	**-7**	-16	-23	-29	-34	-39	-42	-44	-45	-45	-45
A2. New public sector loans on less favorable terms in 2010-2030 2	45	69	86	93	104	110	109	109	107	104	**101**	99	98	97	96	95	93	90	88	84	81
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	45	67	88	94	103	107	104	101	97	93	**88**	85	83	82	80	77	75	72	69	65	61
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	45	63	79	82	89	92	89	87	83	80	**75**	73	71	69	67	65	63	61	58	54	51
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	45	68	93	100	109	113	110	107	103	98	**93**	90	88	87	85	82	80	76	73	69	64
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	45	166	204	186	183	177	169	162	155	147	**137**	128	121	114	107	101	95	89	82	76	69
B5. Combination of B1-B4 using one-half standard deviation shocks	45	204	325	293	284	273	261	250	238	226	**211**	195	183	172	161	151	141	131	121	111	101
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	45	84	100	107	117	121	118	115	111	106	**100**	97	95	93	91	88	85	82	78	74	69

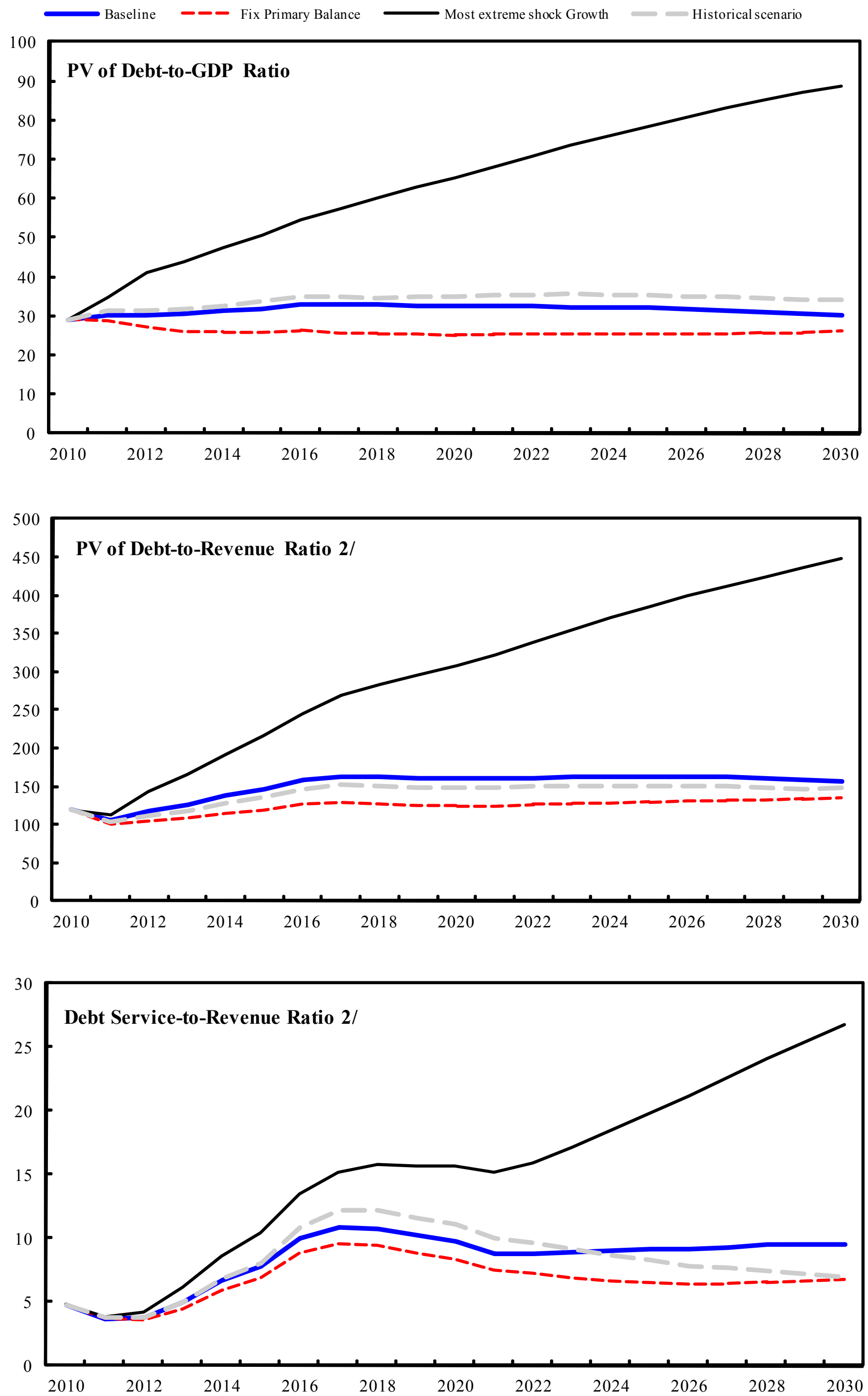
Table 2b.Haiti--Debt Relief Scenario: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030 (continued)
(In percent)

											Debt service-to-exports ratio										
Baseline	1	1	1	2	3	4	6	7	7	7	**6**	4	4	4	4	3	3	3	3	3	3
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	1	1	1	2	3	4	7	7	7	6	**5**	2	1	1	0	0	-1	-1	-1	-1	-1
A2. New public sector loans on less favorable terms in 2010-2030 2	1	1	2	3	4	7	7	9	8	9	**8**	8	7	7	6	6	6	5	5	5	5
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	1	1	1	2	3	4	6	7	7	7	**6**	4	4	4	4	3	3	3	3	3	3
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	1	1	2	3	4	5	7	8	8	7	**7**	5	5	5	4	4	4	4	4	4	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	1	1	1	2	3	4	6	7	7	7	**6**	4	4	4	4	3	3	3	3	3	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	1	1	3	5	6	6	8	9	9	8	**10**	10	9	9	8	7	7	7	6	6	6
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	3	6	7	7	9	10	10	9	**12**	12	11	11	10	9	8	8	7	7	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	1	1	1	2	3	4	6	7	7	7	**6**	4	4	4	4	3	3	3	3	3	3
											Debt service-to-revenue ratio										
Baseline	1	1	1	2	3	3	5	5	6	5	**5**	4	3	3	3	3	3	3	3	3	3
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	1	1	1	2	2	3	5	5	5	5	**4**	2	1	1	0	0	-1	-1	-1	-1	-1
A2. New public sector loans on less favorable terms in 2010-2030 2	1	1	1	2	3	5	6	7	6	7	**7**	6	6	6	6	5	5	5	5	5	5
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	1	1	1	2	3	4	6	7	7	6	**6**	4	4	4	4	4	4	4	4	4	4
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	1	1	1	2	3	3	5	5	6	5	**5**	4	4	4	3	3	3	3	3	4	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	1	1	1	2	3	4	6	7	7	7	**6**	5	4	4	4	4	4	4	4	4	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	1	1	3	4	4	5	6	7	7	6	**8**	8	8	7	7	7	6	6	6	6	6
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	4	6	7	7	9	10	10	9	**12**	13	12	12	11	10	10	10	9	9	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	1	1	2	2	3	4	7	7	8	7	**7**	5	5	5	4	4	4	4	5	5	5
Memorandum item:																					
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	33	33	33	33	33	33	33	33	33	33	**33**	33	33	33	33	33	33	33	33	33	33

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 3. Haiti: Indicators of Public Debt Under Alternative Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2020.
2/ Revenues are defined inclusive of grants.

Table 3a.Haiti: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007-2030
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
Public sector debt 1/	34.9	37.7	24.8			30.7	31.7	32.3	32.4	33.2	34.2		35.1	32.1	
o/w foreign-currency denominated	25.6	29.5	16.6			22.0	21.6	21.9	21.6	21.6	21.9		18.1	11.4	
Change in public sector debt	-4.4	2.7	-12.9			5.9	1.0	0.5	0.2	0.8	1.0		-0.3	-0.6	
Identified debt-creating flows	-5.9	0.8	3.5			3.4	-1.6	0.0	0.0	0.6	0.8		0.5	-0.2	
Primary deficit	-1.1	2.5	3.8	1.9	1.6	1.9	3.1	4.3	3.4	3.3	2.8	3.1	2.0	1.2	2.0
Revenue and grants	15.8	15.1	17.9			24.4	28.7	25.7	24.1	22.5	21.8		20.2	19.3	
of which: grants	5.3	4.4	6.7			14.5	18.0	13.5	10.9	9.0	7.6		4.6	2.4	
Primary (noninterest) expenditure	14.7	17.6	21.7			26.3	31.8	29.9	27.5	25.8	24.5		22.2	20.5	
Automatic debt dynamics	-4.7	-1.7	-0.3			1.5	-4.7	-4.3	-3.4	-2.7	-2.0		-1.5	-1.4	
Contribution from interest rate/growth differential	-1.8	1.9	-1.0			2.6	-2.9	-2.8	-2.3	-2.0	-1.9		-1.5	-1.7	
of which: contribution from average real interest rate	-0.5	2.2	0.0			0.3	-0.1	-0.4	-0.3	-0.1	0.1		0.2	-0.2	
of which: contribution from real GDP growth	-1.3	-0.3	-1.1			2.3	-2.7	-2.5	-2.1	-1.9	-2.0		-1.7	-1.6	
Contribution from real exchange rate depreciation	-2.9	-3.6	0.7			-1.1	-1.8	-1.4	-1.1	-0.7	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	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	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.5	1.9	-16.4			2.4	2.6	0.6	0.2	0.1	0.2		-0.7	-0.4	
Other Sustainability Indicators															
PV of public sector debt	9.4	8.2	23.7			28.3	28.9	29.4	29.7	30.5	31.2		31.8	30.0	
o/w foreign-currency denominated	0.0	0.0	15.5			19.6	18.8	19.1	18.9	18.9	18.8		14.8	9.2	
o/w external	...	...	15.5			19.6	18.8	19.1	18.9	18.9	18.8		14.8	9.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	10.3	11.7	12.5			11.4	11.4	13.8	13.6	14.4	14.8		18.8	21.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	59.0	54.4	132.5			116.0	100.6	114.5	123.3	135.5	143.1		157.5	155.4	
PV of public sector debt-to-revenue ratio (in percent)	88.3	76.8	211.6			284.5	270.6	241.3	225.4	225.4	220.1		203.3	177.8	
o/w external 3/	…	…	138.3			197.0	175.9	156.4	143.3	139.7	133.1		94.7	54.6	
Debt service-to-revenue and grants ratio (in percent) 4/	10.6	7.1	5.4			4.8	3.6	3.6	4.9	6.6	7.7		9.7	9.5	
Debt service-to-revenue ratio (in percent) 4/	15.8	10.1	8.5			11.8	9.8	7.6	8.9	11.0	11.9		12.5	10.8	
Primary deficit that stabilizes the debt-to-GDP ratio	3.2	-0.2	16.7			-4.0	2.0	3.7	3.2	2.5	1.7		2.3	1.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.3	0.8	2.9	0.8	2.0	-8.5	9.8	8.4	6.9	6.2	6.0	4.8	5.0	5.0	5.1
Average nominal interest rate on forex debt (in percent)	0.5	1.0	0.7	-0.4	1.4	3.6	2.2	2.0	1.9	2.0	2.0	2.3	1.9	1.7	1.8
Average real interest rate on domestic debt (in percent)	0.7	-8.5	2.3	-8.9	7.9	-2.4	-3.6	-4.5	-2.7	-1.1	0.5	-2.3	1.0	1.0	1.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-10.9	-12.6	2.6	-7.0	13.8	-5.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	7.2	13.8	3.2	15.0	8.1	8.0	9.7	8.6	7.4	6.5	5.0	7.5	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.2	0.3	0.1	0.2	0.1	0.3	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	25.6	30.3	31.5	31.6	32.8	33.0	30.8	35.2	35.2	...

Sources: Country authorities; and staff estimates and projections.
1/ Includes gross external debt of or guaranteed by the central government and central bank, and gross domestic debt of the central government.
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 3b. Haiti: Sensitivity Analysis for Key Indicators of Public Debt 2010-2030

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	28	29	29	30	31	31	32	30
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	28	30	30	30	31	32	34	33
A2. Primary balance is unchanged from 2010	28	28	26	25	25	25	24	26
A3. Permanently lower GDP growth 1/	28	29	30	30	32	33	36	45
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	28	33	40	43	46	50	65	88
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	28	29	29	29	30	31	32	30
B3. Combination of B1-B2 using one half standard deviation shocks	28	31	32	35	39	43	57	78
B4. One-time 30 percent real depreciation in 2011	28	35	35	35	35	35	36	35
B5. 10 percent of GDP increase in other debt-creating flows in 2011	28	39	38	38	38	38	38	35
PV of Debt-to-Revenue Ratio 2/								
Baseline	116	101	114	123	135	143	157	155
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	116	99	107	114	123	131	143	142
A2. Primary balance is unchanged from 2010	116	97	102	105	111	115	121	133
A3. Permanently lower GDP growth 1/	116	101	115	125	139	149	178	232
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	116	108	139	161	189	212	305	446
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	116	102	113	122	134	142	157	155
B3. Combination of B1-B2 using one half standard deviation shocks	116	102	114	135	161	183	268	397
B4. One-time 30 percent real depreciation in 2011	116	124	136	144	155	162	178	181
B5. 10 percent of GDP increase in other debt-creating flows in 2011	116	135	149	156	168	175	187	179
Debt Service-to-Revenue Ratio 2/								
Baseline	5	4	4	5	7	8	10	9
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	5	4	4	5	7	8	11	7
A2. Primary balance is unchanged from 2010	5	4	3	4	6	7	8	7
A3. Permanently lower GDP growth 1/	5	4	4	5	7	8	10	13
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	5	4	4	6	8	10	16	27
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	5	4	4	5	7	8	10	9
B3. Combination of B1-B2 using one half standard deviation shocks	5	4	4	5	7	9	14	23
B4. One-time 30 percent real depreciation in 2011	5	4	5	6	8	10	12	13
B5. 10 percent of GDP increase in other debt-creating flows in 2011	5	4	5	6	8	9	11	12

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.

INTERNATIONAL MONETARY FUND

HAITI

Staff Report for the 2010 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility

Informational Annex

Prepared by the Western Hemisphere Department
(In collaboration with other departments)

July 8, 2010

Contents Page

Annexes

Annex I. Fund Relations

(As of May 31, 2010)

I. Membership Status:
Joined: September 08, 1953; Article VIII member

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	81.90	100.00
Fund holdings of currency	81.83	99.92
Reserve Position	0.07	0.08
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	78.51	100.00
Holdings	68.91	87.77

IV. **Outstanding Purchases and Loans:**	**SDR Million**	**%Quota**
ECF Arrangements	178.13	217.

V. **Latest Financial Arrangements:**

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Nov 20, 2006	May 31, 2010	180.18	180.18
ECF	Oct 18, 1996	Oct 17, 1999	91.05	15.18
Stand-By	Mar 08, 1995	Mar 07, 1996	20.00	16.40

IV. Projected Payments to Fund (without HIPC Assistance)[1/]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2010	2011	2012	2013	2014
Principal			3.57	10.30	15.85
Charges/Interest	0.02	0.02	0.47	0.45	0.42
Total	0.02	0.02	4.04	10.75	16.27

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. **Commitment of HIPC assistance**	
Decision point date	Nov 2006
Assistance committed	
by all creditors (US$ Million) [1/]	140.30
Of which: IMF assistance (US$ million)	3.12
(SDR equivalent in millions)	2.10
Completion point date	June 2009
II. **Disbursement of IMF assistance (SDR Million)**	
Assistance disbursed to the member	2.10
Interim assistance	0.29
Completion point balance	1.81
Additional disbursement of interest income [2/]	0.23
Total disbursements	2.34

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Exchange Arrangement

Haiti's de jure exchange rate arrangement is floating. The de facto exchange rate arrangement has been reclassified with the January 12, 2010 earthquake from crawl-like to "other managed" arrangement. Prior to the earthquake, the gourde was on a depreciating trend against the US dollar and remained within a narrow band between April 1, 2008 and January 10, 2010. Consequently, during that period, the de facto IMF classification has been retrospectively reclassified to a crawl-like arrangement. Since the earthquake, the exchange rate has appreciated and remained somewhat more volatile. Therefore, effective January 11, 2010, the de facto arrangement has been reclassified to other managed from crawl-like.
The change from a fixed to managed floating regime took place in January 1990. Haiti's exchange system is free of restrictions on the making of payments and transfers for current international transactions. Since September 1991, all transactions have taken place at the free (interbank) market rate.

X. Safeguards Assessment

The update assessment of the Banque de la République d'Haiti (BRH) was concluded in September 2008. The authorities have made progress in implementing safeguards recommendations, but improvements are still needed in a number of areas. At the time, the qualitative analysis of the main differences between currently used accounting principles and IFRS did not reveal major differences and suggested that a gradual adoption of IFRS by the BRH was feasible. The Audit Committee was set up, but its capacity needs to be strengthened. Vulnerabilities remain in the areas of foreign reserves management, the timely conduct of external audits, and timely production of audited financial statements.

The impact of the January 2010 earthquake on the key safeguards within the central bank is not yet clear. A reassessment will be necessary in the future in the context of the new program.

XI. Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on July 9, 2007. Haiti is on a 24-month cycle. The conclusion of the 2009 Article IV consultation has been delayed, including by the January 12, 2010 earthquake.

XII. Technical Assistance

Haiti has benefited from the following IMF technical assistance missions since 2005:

Department	Dates	Purpose
FAD		
	July 2010	Tax policy
	June 2010	Revenue administration (Control of revenue exemptions)
	February 2010	Revenue administration (Tax and customs administration)[1]
	February 2010	Cash management
	November 2009	Public financial management
	November 2009	Budget preparation and execution
	September 2009	Evaluation of tax and customs administrations
	November 2006	Public expenditure management
	April 2005	Public expenditure management
	May 2005	Tax policy and revenue administration

[1] Joint mission with CARTAC.

CARTAC		
	April-June 2010	Macro-fiscal unit development
	November 2009	National accounts statistics
	April 2008	Customs administration
MCM		
	March 2010	Partial credit guarantee scheme
	December 2009	Development of domestic debt market
	November 2009	Insurance sector
	March 2008	FSAP and ROSC on Banking Supervision
	November 2007	BRH recapitalization plan
	March 2007	Banking law (jointly with LEG)
	May 2006	Accounting of the central bank
	November 2005	Implementation of a bond auction mechanism
	March 2005	Monetary operations
STA	April-May and November 2007	GDDS workshop
	May, October and December 2006	Monetary and financial statistics, Government Finance statistics
	November 2005 and May 2006	Multisector statistics
LEG	March 2007	Banking law

XIII. Resident Representative

Mr. Jacques Bouhga Hagbe is the Fund's Resident Representative since July 1, 2010 replacing Mr. Graeme Justice.

Annex II. Relations with the Inter-American Development Bank

(As of June 15, 2010)

The IDB is Haiti's largest multilateral donor with an uninterrupted presence of 50 years and a strong commitment to the people and Government of Haiti. In the aftermath of January 12th, 2010 earthquake, the IDB has mobilized unprecedented financial and human resources to respond to the multiple needs of Haiti. In collaboration with the government and other donors, the Bank has extensively been engaged in humanitarian relief efforts, reconstruction, rehabilitation activities, and delivery of basic social services.

Beyond the financing of key recovery and development investments, the Bank has assumed additional responsibilities including assisting in the design and implementation of new earthquake recovery institutional mechanisms such as the Interim Haiti Reconstruction Commission (IHRC) and the Haiti Reconstruction Fund (HRF).

The Bank has also played a key role in the Government's Action Plan for National Recovery and Reconstruction by undertaking a comprehensive sector analysis of projects.

Key Developments for 2010

In March 2010, the Bank pledged US$400 million in new grants for 2010-11. In addition, in April 2010, the Board of Governors approved the replenishment the Haiti Grant Facility for US$200 million per year starting in 2011 until 2020. This amounts to US$2.2 billion over the next eleven years, representing the Bank's long term commitment to Haiti's reconstruction plan. These resources will finance crucial investments for Haiti's post-earthquake recovery, to tackle extreme poverty and inequality, and to establish the platform for long term economic growth as well as institutional and social development.

In consultation with the government, to support recovery and development, the Bank can take the lead in following five of its areas of expertise: education, transport, water and sanitation, agriculture, and private sector development. These areas are the most critical ones, in which the Bank has a proven track record and has established teams in both field and headquarters.

The Bank lending portfolio in 2010 amounts to US$200 million and would be structured in 9 operations: US$30 million for temporary housing, US$50 million in budget support, US$15 million for water and sanitation in Port-au-Prince, US$20 million for the partial credit guarantee fund, US$14 million for an electricity project in Port-au-Prince, US$3 million for an e-government platform, US$54 million for Transport infrastructure, and US$14 million for education. The first two operations were approved in April 2010, while the remaining projects should be approved in the third quarter of 2010.
The IDB Board of Governors agreed to cancel Haiti's outstanding debt with the Bank amounting US$479 million and representing about 40 percent of the government's external debt. The IDB Governors also agreed to convert the undisbursed loans portion, totaling about US$186 million into grants, thereby freeing up public resources for critical investments. These decisions were preceded by the 2009 HIPC/MDRI debt relied initiatives, under which

the IDB granted about US$511 million in debt relief, clearing the way for the Government to undertake vital public investments.

Portfolio Indicators

As of June 15, 2010, the IDB's active portfolio consisted of 28 investment and sector projects for a total of US$793 million out of which US$394 million or 50 percent is already disbursed. In addition, a budget support grant of US$50 million is expected to be disbursed in June 2010. IDB disbursements reached US$127 million in 2009, and are expected to reach US$180 million in 2010.

The IDB has a comprehensive program in key strategic sectors: transport (US$272 million or 34 percent of the portfolio), agriculture and environment (US$140 million or 17 percent of the portfolio) and water and sanitation (US$88 million or 11percent of the portfolio).

The Multilateral Investment Fund (MIF) has an active portfolio of US$18 million, most of which has been approved in the aftermath of the earthquake. In addition to relief operations in the housing sector, which totaled US$5.5 million this year, the MIF supports projects to (i) improve the business environment and (ii) strengthen micro, small and medium enterprises. The MIF has also supported activities to enhance the impact of remittances.

The Technical Cooperation (TC) portfolio has been an important complement to the Bank's operational program, as of May 2010, the program consisted of 43 operations representing US$18 million.

	Projects	Multilateral Investment Fund	Bank Administered Funds*	Technical Cooperation
Number of Operations	28	24	12	43
Approved Amount	793	18	175	18
Available Balance	394	16	137	12

Figures in millions of US$, as of May 31, 2010.
*The Bank currently administers funds from CDB, CIDA, EC, and OFID
*Approved amount does not include US$50 million granted as budget support for FY 2010.

The IDB administers US$175 million of other donors' resources. This includes about US$20 million in soft loans from OFID for different projects in the education, transport, and water and sanitation sectors; US$8 million grant from the EU for vocational training and agricultural health initiatives; and over US$80 million from CIDA for primary road construction projects. The Bank also administers a total of US$65 million from the Spanish Water Fund for water and sanitation projects in urban, peri-urban and rural areas. Finally, a US$45 million agreement has been reached with OFID, KFW, and the CDB in electricity, education and social protection. Following the earthquake, these donors expressed interest in providing financial and technical support to the government's reconstruction strategy.

Annex III. Relations with the World Bank Group
(As of June 17, 2010)

The World Bank stepped up its engagement in Haiti since March 2004, as part of a broader partnership between the transitional government and donors, to address Haiti's social, economic and institutional needs under the Interim Cooperation Framework (ICF).

On June 2, 2009, the Bank's Board approved the FY2009-12 Country Assistance Strategy (CAS), prepared jointly by the World Bank and the IFC to align their assistance with the country's National Growth and Poverty Reduction Strategy Paper (the DSNCRP). The strategy has three main pillars: (i) promoting growth and local development; (ii) investing in human capital; and (iii) reducing vulnerability to disasters. Cutting across the CAS is an emphasis on longer-term institution building and support for the Government in the delivery of quick, visible results. The CAS also reflects the strategic imperatives of recovery, reconstruction, and risk mitigation, in the aftermath of the devastating 2008 hurricane season. The total envelope of International Development Association (IDA) resources for the new four-year CAS period is around US$121 million. Normal IDA allocations were supplemented by US$40 million of post-disaster assistance following the catastrophic 2008 hurricane season. All current IDA and trust fund assistance is in grant form.

Since 2005, the Bank has approved US$283 million of IDA resources for Haiti, and more than US$55 million from trust funds ($22 million from the Education for All Fast-Track Initiative Catalytic Fund).

In the aftermath of the earthquake, the World Bank has pledged US$189 million in additional funding through FY2011, of which $154 million will come from IDA (US$115 million in new IDA grants; and US$39 million in debt relief to cancel Haiti's remaining IDA debt.

The most recent Board approvals were: (i) an infrastructure and institutional emergency projects (US$65 million), in March 2010; (ii) a US$12.5 million Development Policy Operation (the Third Economic Governance Reform Operation) in December 2010; and (iii) US$12 million of Additional Financing for the Transport and Territorial Development project, to cover cost overruns and post-hurricane repairs in December 2010.

From FY 2010 onwards, new IDA projects are envisioned in just three areas in which the Bank already has a strong program: CDD, education, and institutional strengthening (including budget support). The upcoming budget support of $US30 million is being finalized, the disbursement of which is expected by the end of the Haitian fiscal year. Most of the 14 pre-existing IDA investment projects (commitment US$199 million) are being redeployed and/or restructured to respond to the challenges created by the earthquake. The Bank utilizes the capacity of existing projects, including those that focus on education and community-driven development, to provide assistance quickly and effectively.

The Bank has participated in the Post Disaster Needs Assessment (PDNA) led by the Government with Haiti's partners to assess needs and losses and plan for recovery and reconstruction. The Assessment, coordinated jointly by the World Bank, the European

Union, the Inter-American Development Bank, and the United Nations Development Programme (UNDP), put total reconstruction and recovery needs at $11.5 billion. The World Bank participated in the eight priority areas, with a team of more than 30 people on the ground. At the government's request, the International Development Association (IDA) of the World Bank Group will serve as the Trustee and fiscal agent for the Haiti Reconstruction Fund, which mobilizes international support for recovery and reconstruction process.

The International Finance Corporation (IFC) has supported the government's priorities of promoting economic growth and improving access to quality basic services, particularly for the most vulnerable groups. IFC has expanded its activities in Haiti over the past two years and established a full-time presence in the country, with three staff in its office, co-located in the World Bank office. IFC activities in Haiti have focused on four key areas: the financial sector, infrastructure, textiles, and investment climate. IFC has worked closely with IDA and the donor community to identify targeted and concrete actions that: (i) support the development of a sustainable private sector and resulting in income generating activities; and (ii) help improve the business climate in infrastructure, access to finance, and SMEs. Among the recent activities features investment to generate employment by fostering investment in apparel and improving free zones and industrial parks for such investments. Working with the Minister of Commerce and the CTMO-Hope, the Investment Climate Department is working to: (i) remove legal and land bottlenecks to new investment; (ii) improve the zone infrastructure to ensure new investors have sites within which to begin their operations rapidly and efficiently; and (iii) generate new investment leads and provide aftercare to existing manufacturers. The project is undertaking a demand analysis for identification of industrial sites outside Port-au-Prince to inform the decentralization policy of the Haitian Government. The project is funded by $1.26 million from the Netherlands Ministry of Foreign Affairs and the Government of the Wallonia Region (Belgium).
IFC also approved in March 2010 a US$35 million package of loans to six private sector clients to facilitate the resumption of their operations. These include a bottling plant, an independent power producer, a textile company, two banks, and a micro-credit institution. Second-stage investment opportunities (for example in telecommunications or tourism) are being considered.

Statement by Paulo Nogueira Batista, Executive Director for Haiti, Renato Perez, Senior Advisor to Executive Director and Eduardo Saboia, Advisor to Executive Director
July 21, 2010

1. On behalf of our Haitian authorities, we would like to thank the Managing Director for his efforts in support of the recovery and reconstruction of the country. We would also like to commend the IMF staff for their work on the establishment of the Post-Catastrophe Debt Relief (PCDR) Trust Fund. The staff team that deals with Haiti has also worked hard to bring to the Board the new three-year program under the Extended Credit Facility (ECF) and the request for debt stock relief. The Haitian authorities have asked us to express their appreciation of the dialogue and cooperation with the IMF. Technical assistance in several areas, the proposed debt cancellation, as well as the catalytic role that the institution has played in mobilizing support for Haiti, are highly valued by the government.

2. The earthquake struck the country when the economic performance was strong, as we mentioned in our buff statement for the January Board meeting on Haiti. During FY 2009, GDP growth reached 2.9 percent. Business confidence had strengthened, inflation was in line with the program, and the authorities were moving forward with the macroreform agenda. Even during the worst period of the international crisis, in FY 2009, exports increased by 12 percent relatively to FY 2008. International reserves had been rising considerably. Performance for the sixth and last review of the ECF was considered by staff as broadly satisfactory. The overall policy performance, including structural reforms and improvements in governance, allowed for the delivery of HIPC/MDRI debt relief in 2009.

3. Six months have passed since the earthquake that destroyed the major part of Port-au-Prince in January 2010, killing and injuring more Haitians that any other natural disaster in the country's history. Over 3.7 million people, more than one third of the population, were affected by the earthquake. The staff report provides a broad picture of the extent of human suffering and the size of the economic losses. Conditions remain very difficult. For instance, only 275,000 of 20 million cubic meters of rubble have been removed, according to a UN report. The post-disaster needs assessment (PDNA) indicates that the recovery and reconstruction needs may reach as much as US$11.5 billion over the next three years. In the upcoming weeks, Haiti will face the beginning of the hurricane season, and the population of Port-au-Prince has perhaps never been so unprotected against these risks.

International response to the earthquake

4. The authorities welcome the generous pledges by donors announced at the high-level UN conference in March 2010 and reaffirm their commitment to greater transparency and accountability in the use of financial resources. However, the slow pace of disbursement of the amounts pledged by donors—particularly those for budget support in FY 2010—remains a major concern for the authorities, who have limited space for monetary financing and, given the debt sustainability framework, can only receive external financing on a grant basis or through highly concessional loans.

5. A shortfall in budget support disbursements would undermine Haiti's recovery. Projections for GDP and other macroeconomic variables presented in the staff report will have to be revised downwards if budget support fails to materialize. We call upon Executive Directors to convey to their capitals the urgency of following through with the prompt delivery of budget support assistance, particularly before the end of FY 2010.

6. We note in passing that some countries or groups of countries, including from our constituency (for example, Brazil, Ecuador and CARICOM), have disbursed significant amounts, partly for budget support. The Dominican Republic has made great efforts to assist Haiti since immediately after the earthquake. The staff report does not always do justice to these efforts and contributions. For instance, there is no reference to the Dominican Republic's role. Moreover, Table 5 (p.14) does not mention the fact that Brazil has already disbursed US$ 55 million through the Haiti Reconstruction Fund channel, including US$15 million in budget support.

Post-Catastrophe Debt Relief (PCDR) and Extended Credit Facility (ECF)

7. The authorities welcome the recent establishment of the PCDR Trust Fund, which as the Board knows was modeled on the Haitian experience after the earthquake. We believe that the PCDR will be of considerable help to Haiti. It constitutes a useful framework for other member countries that may face similarly extreme circumstances in the future.

8. By requesting a new ECF, the authorities reiterate their strong commitment to sound macroeconomic management and to the National Action Plan for the Reconstruction and Development of Haiti. This action plan is oriented to promoting growth and poverty reduction by creating decentralized poles of economic activity, reducing vulnerability to natural disasters, enhancing access to basic social services, and strengthening state institutions, as explained in the Letter of Intent. It is essential for the successful implementation of the ECF that the program be adequately financed. This means, among other things, that disbursements by donors should match their pledges, especially during the first 18 months.

9. As mentioned in the Memorandum of Economic and Financial Policies, the Internal Revenue Agency (DGI) was nearly destroyed by the earthquake. Important efforts will be required to restore tax administration and the government's capacity to mobilize a larger amount of domestic resources. Donor support will be critical to the recovery and modernization of the DGI and customs administration.

10. On the expenditure side, the program includes a comprehensive reform and redefinition of spending priorities in response to the population's needs. The Fund's technical assistance has been and will continue to be instrumental to improving public financial management and the efficiency of government spending.

11. The authorities and the staff indicate that the resources provided by the Fund under the ECF will be used to smooth the volatility of international reserves and of the exchange rate associated with large and lumpy aid disbursements. This approach is consistent with the

limited amount of new resources envisaged under the program presented for Board consideration.

12. The authorities believe that strong private sector participation in Haiti's action plan requires removing critical infrastructure bottlenecks, improving energy supply, reducing transaction costs, and increasing the access to credit. They welcome the IMF's support in establishing the legal framework for public-private partnership, which they expect will lead to an increase of foreign direct investment in economic sectors such as tourism and textiles.

Financial sector

13. Although the Haitian banking sector has adequate liquidity, non-performing loans have increased and private sector credit has declined since the earthquake. The authorities and the staff agree on the urgency of implementing the Partial Credit Guarantee (PCG) scheme. Many debtors are not or will not be in a situation to adequately service their debts. The authorities are convinced that the economy will not get back on its feet until banks and microfinance institutions are in a position to expand the supply of credit, even if at a lower level than in the pre-earthquake period.

14. The adequate size of the PCG is estimated by the central bank (BRH) at US$130 million, and staff has endorsed this number. However, according to information provided to us by World Bank staff, and confirmed by the authorities, only US$35 million have been pledged or are expected to be pledged in the near term for this purpose (by the IDB, the World Bank, and one donor to the Haiti Reconstruction Fund). Given the urgency, the BRH has decided to set aside US$70 million from its own international reserves. The staff supports this decision.

A new start

15. Looking forward, our authorities would like to stress that, despite the immense suffering and challenges, Haiti takes responsibility for its own future. While appreciating the help provided by the international community, the government realizes that the country's prospects depend fundamentally on the initiative of its own citizens in a democratic setting. The Haitian people are resilient and proud of their rich culture and heritage. In the late 18th century and during most of the 19th century, Haiti led the way in the struggle for independence and the abolition of slavery. Very few countries have left such a strong mark on world history. These strengths may be dormant, but are not dead. Paradoxically, today's tragedy could be transformed into an opportunity to make a new start.

INTERNATIONAL MONETARY FUND

HAITI

Staff Assessment of Eligibility and Qualification for Debt Stock Relief Under the Post-Catastrophe Debt Relief Trust Fund

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by Gilbert Terrier and Dominique Desruelle

July 8, 2010

The January 12, 2010 earthquake has caused extensive casualties and unprecedented damage to Haiti, considerably worsening already difficult medium-term balance-of-payments and debt situations. Resources freed by debt stock relief would be critical for meeting the balance-of-payments needs exacerbated by the earthquake and subsequent recovery efforts. Staff considers that Haiti is eligible and qualifies for debt stock relief under the PCDR Trust Fund, and supports the authorities' request for full debt relief on Haiti's eligible obligations toward the Fund. Eligible obligations include the PRGT credit that was outstanding on January 12, 2010, and the ECF disbursement of January 29, 2010. All the necessary conditions for disbursement by the Fund of the debt stock relief are in place.

I. Eligibility for PCDR Assistance

1. **Haiti is eligible and qualifies for debt relief under the PCDR Trust, and the January 12, 2010 earthquake meets the PCDR Trust definition of a qualifying Catastrophic Disaster.**[1] Haiti is a PRGT-eligible country with annual per capita income of US$661 in 2009—well below the current IDA operational threshold of US$1,135. The earthquake that struck Port-au-Prince caused unprecedented human and physical losses, estimated at about 120 percent of 2009 GDP by the Post Disaster Needs Assessment (PDNA) conducted jointly by the United Nations and the World Bank. About 3.7 million people (over a third of Haiti's 9.7 million population,[2] were directly affected by the earthquake; an estimated 250,000 persons were killed and over 300,000 injured. According to the Haitian government, 60 percent of government, administrative and economic infrastructure has been destroyed.

[1] To qualify for debt stock relief under the PCDR Trust Instrument, an eligible member must: (i) qualify for debt flow relief; and (ii) meet additional qualifications for debt stock relief.

[2] Haiti's 2009 population as estimated by the U.S. Census Bureau.

II. Qualification for Debt Stock Relief Under the PCDR Trust Fund

2. **The earthquake has exacerbated Haiti's already difficult balance-of-payments needs and worsened its already difficult debt situation.** The earthquake has generated massive and long-lasting reconstruction-related balance-of-payments needs, deteriorated the macroeconomic outlook, reduced an already narrow export base, and weakened debt management capacity.

- Reconstruction costs could amount to US$11.5 billion over the next ten years. Imports related to recovery and reconstruction have already grown at about 35 percent year-on-year since the earthquake and are expected to remain high over the medium term. Notwithstanding the large aid commitments announced so far, aid disbursements have been slow to materialize, and substantial financing gaps to be covered by grants and debt relief are projected to persist beyond the period that would be covered by debt flow relief, through at least 2015. This also takes into account the need to maintain a sufficient reserves cushion to meet private sector demand for foreign exchange without severe market disruptions, and to mitigate vulnerability to external shocks, including natural disasters (Table 1).

- The updated Debt Sustainability Analysis (DSA) shows that, prior to the delivery of any post-earthquake debt relief, Haiti's debt-to-exports ratio would remain above 100 percent until 2022, with a peak at 187 percent in 2013, and thus remain at high risk of debt distress (see EBS/10/139, Sup. 1). Thus, as part of a broader initiative by the international community to alleviate Haiti's debt burden, resources freed by debt stock relief by the Fund would be critical for meeting the above-mentioned balance-of-payments needs.

III. Eligible Debt and Delivery of Assistance

3. **Haiti's outstanding obligations to the Fund that would be eligible for stock debt relief under the PCDR Trust amount to SDR 178.13 million**. This includes the PRGT credit of SDR 105 million that was outstanding as of January 12, 2010, and the ECF disbursement (including an augmentation) of SDR 73.13 million made on January 29, 2010. All of this debt would be considered for stock debt relief under the PCDR since it would still be outstanding as of January 12, 2012. Haiti has made all scheduled debt service payments on the debt that was outstanding as of January 12, 2010. While Haiti would be eligible for debt flow relief on this debt under the PCDR Trust until January 12, 2012, there will be no applicable debt service until June 2012.[3]

[3] No principal payment is scheduled to fall due during this period, and, following the Fund's waiver of interest charges on all of its concessional loans through end-December 2011, the next interest payment on this debt is scheduled for June 2012.

4. **Debt relief from the Fund would complement a concerted international effort to cancel Haiti's remaining debt**. Official creditors accounting for about 92 percent of Haiti's outstanding debt as of end-March 2010 (excluding the Fund) have already delivered or are firmly committed to providing debt relief on outstanding debt stocks (Text Table 1). Paris Club creditors have already committed to cancel Haiti's debt as part of the HIPC/MDRI initiative as of July 2009. While some creditors have already signed bilateral debt cancellation agreements with Haiti, signature of agreements with France, Italy and Spain is still pending, though the process is in its final stages. In May 2010, the World Bank approved debt stock relief in the amount of SDR 24.3 million (about US$36 million), financed by individual donors' contributions. Debt relief by the IDB on US$479 million in outstanding stock and undisbursed loan amounts, which was approved in March 2010 by the Board of Governors, will become effective in the near future, as soon as the committed donor financing is available. IFAD announced in April it would cancel about US$50.7 million in outstanding debt (in NPV terms), to be delivered in the form of grants against debt service due, on a pay-as-you-go basis. Venezuela also confirmed that it would provide US$395 million in debt relief on outstanding PetroCaribe obligations as of January 25, 2010.[4]

Text Table 1. Haiti: Debt Stock as of end-September 2009 and end-March 2010

(In millions of U.S. dollars, unless otherwise specified)

	September 2009 *		March 2010		
	Amount	Share (percent of total)	Amount	Share (percent of total)	Creditors Providing Full Debt Relief (percent of March debt stock excl. IMF)
Multilateral creditors	**676.7**	**54.4**	**828.9**	**56.0**	**45.4**
IBRD/IDA 2/	38.8	3.1	***37.2***	2.5	3.1
IMF	165.6	13.3	273.6	18.5	
IDB 2/	417.5	33.6	***452.5***	30.6	37.5
IFAD 2/	48.3	3.9	***57.8***	3.9	4.8
OPEC	6.6	0.5	7.8	0.5	
Bilateral creditors	**566.5**	**45.6**	**650.9**	**44.0**	**46.6**
Paris Club 1/	***181.6***	***14.6***	***167.0***	**11.3**	13.8
Canada	2.1	0.2	0.0	**0.0**	
France	81.5	6.6	69.2	**4.7**	5.7
Spain	39.7	3.2	39.5	**2.7**	3.3
Italy	58.3	4.7	58.3	**3.9**	4.8
Non-Paris Club	***384.9***	***31.0***	***483.9***	**32.7**	**32.7**
Taiwan, Province of China	89.7	7.2	88.9	6.0	
Venezuela 2/	295.2	23.7	***395.0***	26.7	32.7
Total	**1,243**	**100.0**	**1,480**	**100.0**	**92.0**

Source: Haitian authorities; and IMF staff calculations.

* Haitian fiscal year ending September.

1/ Debt to be cancelled as part of Paris Club agreement in June 2009 but for which some bilateral agreements have yet to be concluded.

2/ Creditors that have announced debt relief initiatives on Haiti's outstanding debt stock.

[4] Taiwan, Province of China, has offered to pay about US$12 million in interest and to provide a five-year moratorium on principal payments.

5. **Policy implementation over the six months since the earthquake has remained satisfactory, and the authorities are determined to use the earthquake as an opportunity to build a better Haiti.** As indicated in the staff report for the 2010 Article IV consultation and request for a new ECF arrangement (EBS/10/139), the authorities have continued to implement prudent macroeconomic policies since the earthquake. Their National Action Plan for Reconstruction and Development aims at sustainably raising medium-term growth and reducing poverty by creating decentralized economic growth poles, reducing vulnerability to natural disasters, enhancing access to basic social services, and strengthening state institutions. Donors pledged a total of US$9.9 billion to support the reconstruction plan, of which US$5.3 billion are to be disbursed over the next 18 months.

6. **Under the new ECF-supported program, the authorities are committed to implementing policies consistent with maintaining macroeconomic stability, addressing the large reconstruction needs, and promoting sustained growth**. The authorities' economic strategy focuses on: (i) raising revenue collection and increasing the efficiency and transparency of spending; (ii) upgrading monetary operations to facilitate the absorption of aid inflows and effectively manage related pressures; (iii) restarting credit while maintaining financial sector stability through the creation of a partial credit guarantee scheme; and (iv) attracting investment and expanding the export base, through improvements in infrastructure and the business environment. The new ECF-supported program is underpinned by a comprehensive medium-term technical assistance strategy, coordinated with Haiti's development partners, with technical assistance from the Fund focusing on financial sector issues, revenue administration, budget preparation and planning and Treasury management.

IV. Staff Appraisal

7. **Staff supports the authorities' request for debt-stock relief under the PCDR Trust, and recommends disbursement of such relief**. As indicated in the attached letter, the earthquake caused destruction amounting to about 120 percent of 2009 GDP, affected more than a third of Haiti's population, and generated substantial and long-lasting balance-of-payments needs. The resources freed by the debt relief are critical to meeting these needs and to placing Haiti's debt on a sustainable path. In the six-month period following the earthquake, with limited financial resources and capacity, the authorities have moved promptly to restore basic administrative functions and payment systems. They have maintained macroeconomic stability and launched a coordinated reconstruction effort. Going forward, macroeconomic policies are to be supported by a new three-year ECF arrangement and, in that context, staff is confident that close coordination will continue with the authorities in the design and implementation of these policies. The authorities' reconstruction efforts are supported by the international community, with official creditors accounting for 92 percent of Haiti's outstanding debt as of end-March 2010 (excluding the Fund) having already delivered or having made firm commitments to providing debt stock relief.

Table 1. Haiti: Balance of Payments

(Fiscal year ending September 30; in millions of U.S. dollars)

	2007/08	2008/09		Proj.			
	Est.	Prog.	Est.	2009/10	2010/11	2011/12	2012/13
Current account	-295.3	-213.9	-210.8	-139.3	-283.7	-376.6	-429.6
Current account (excluding grants)	-769.0	-875.4	-698.2	-1,865.4	-1,856.3	-1,797.5	-1,763.7
Trade balance	-1,617.0	-1600.1	-1,486.0	-1,868.7	-2,429.4	-2,558.1	-2,731.8
Exports of goods	490.2	490.8	551.2	484.6	535.9	591.9	664.8
Of which: Assembly industry	423.3	432.1	491.3	436.7	485.0	538.8	605.7
Imports of goods	-2,107.2	-2090.9	-2,037.2	-2,353.3	-2,965.3	-3,150.0	-3,396.6
Of which: Petroleum products	-602.2	-425.0	-384.6	-433.8	-503.7	-508.2	-513.9
Services (net)	-420.6	-451.5	-462.7	-1,364.6	-892.0	-804.6	-703.3
Receipts	342.8	319.9	381.8	266.3	304.4	347.4	388.4
Payments	-763.4	-771.4	-844.5	-1,630.9	-1,196.4	-1,152.0	-1,091.7
Income (net)	16.0	-12.8	10.2	-5.4	-3.5	13.8	49.5
Of which: Interest payments 1/	-24.6	-26.8	-12.2	-12.5	-13.6	-17.4	-21.3
Current transfers (net)	1,726.4	1850.5	1,727.7	3,099.3	3,041.2	2,972.2	2,956.0
Official transfers (net)	473.7	661.5	487.4	1,726.0	1,572.5	1,420.8	1,334.1
Of which: budget support				254.7	138.6	5.1	5.0
Private transfers (net)	1,252.7	1189.0	1,240.3	1,373.2	1,468.6	1,551.4	1,622.0
Capital and financial accounts	336.7	156.6	244.1	122.0	279.7	328.6	389.6
Capital transfers (HIPC/MDRI)	0.0	1069.0	1,069.0	0.0	0.0	0.0	0.0
Public sector capital flows (net)	319.7	49.6	263.8	150.7	213.1	295.5	337.5
Loan disbursements	363.5	98.0	186.4	161.3	230.2	312.6	363.6
Amortization 1/	-43.8	-48.4	-24.0	-10.7	-17.1	-17.1	-26.1
Debt stock reduction (HIPC/MDRI)	0.0	-1092.0	-1,092.0	0.0	0.0	0.0	0.0
Banks (net) 2/	-143.0	50.0	56.5	-110.0	-40.0	-70.0	-60.0
Private sector capital flows 2/	115.8	57.0	-0.8	81.4	106.7	103.2	112.0
Of which: Foreign direct investment	29.8	20.0	38.0	81.4	106.7	103.2	112.0
Errors and omissions 3/	44.2	0.0	26.0	0.0	0.0	0.0	0.0
Overall balance	41.5	-57.4	33.4	-17.3	-4.0	-48.0	-40.0
Financing	-41.5	57.4	-33.4	17.3	-44.0	-52.0	-60.0
Change in net foreign assets 4/	-63.4	19.5	-70.8	14.7	-44.0	-52.0	-60.0
Change in gross reserves	-163.0	-46.7	-258.7	-128.6	-63.7	-72.1	-90.3
Liabilities	99.6	66.2	187.9	143.4	19.7	20.1	30.3
Utilization of Fund credits(net)	49.9	60.3	61.3	122.9	19.7	9.4	-0.7
Purchases and loans	49.9	60.3	61.3	122.9	19.7	14.8	14.8
Repayments	0.0	0.0	0.0	0.0	0.0	-5.4	-15.5
Other liabilities	49.7	5.9	126.6	20.4	0.0	10.7	31.0
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	3.6	3.5	3.5	0.0	0.0	0.0	0.0
HIPC interim assistance	18.3	34.0	34.0	2.6	0.0	0.0	0.0
External financing to be committed	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	48.0	100.0	100.0
Memorandum items:							
Current account balance (in percent of GDP)	-4.5	-3.0	-3.2	-2.1	-3.7	-4.1	-4.1
Current account balance, excl. grants (in percent of GDP)	-11.7	-12.4	-10.6	-28.7	-24.2	-19.7	-16.8
Goods exports (f.o.b) growth	-6.2	0.1	12.4	-12.1	10.6	10.5	12.3
Goods import (f.o.b) growth	30.2	-0.8	-3.3	15.5	26.0	6.2	7.8
Debt service as percent of exports	8.2	9.3	3.9	3.1	3.7	4.2	6.0
Gross liquid international reserves (in millions of U.S. dollars)	707.8	754.7	947.5	1,076.2	1,139.8	1,212.0	1,302.2
Gross liquid international reserves (in months of next year's imports of goods and services)	2.9	3.0	2.9	3.1	3.2	3.2	3.4

Sources: Bank of the Republic of Haiti; and Fund staff estimates.

1/ Includes HIPC/MDRI debt relief beginning in 2010 (2009 HIPC/MDRI debt relief is reflected below-the-line).
2/ Includes NIR and commercial banks' foreign currency deposits with the BRH.
3/ Includes short-term capital and errors and omissions for historical period.
4/ Petrocaribe resources for 2009 are recorded as private capital inflows and outflows of banks' NFA.

Attachment I: Letter Requesting Debt Relief under the PCDR Trust

Port-au-Prince
July 6, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. As you know, the January 12, 2010 earthquake caused damages and losses estimated at 120 percent of GDP, and reconstruction costs amount to US$11.5 billion over the next 10 years. About 3.7 million Haitians (over a third of our population) living in Port-au-Prince and neighboring cities have been directly affected by the disaster. By generating massive reconstruction needs, deteriorating the macroeconomic outlook, and reducing the export base, the earthquake has further worsened Haiti's balance-of-payments and debt outlook.

2. Debt relief from the Fund and other creditors would be a critical contribution to the reconstruction effort and substantially improve Haiti's debt outlook. Considering the very high debt burden and the large and persistent balance of payments needs in the coming years, we believe that Haiti meets the eligibility and qualification criteria for debt stock relief under the Post-Catastrophe Debt Relief (PCDR) Trust Fund, and hereby request such relief from the Fund in the form of grant financing under the PCDR Trust.

3. Since the earthquake, we have successfully maintained macroeconomic stability despite the difficult conditions in which our administration is still operating. After the disaster, we have moved swiftly to restore basic government and payments systems functions, with donor support. The economy is recovering, and inflation remains contained. Revenue collection and spending execution are gradually normalizing. The Gourde has been broadly stable, and we have been building foreign exchange reserves in anticipation of large future import demand related to the reconstruction.

4. Going forward, our reconstruction plan aims at building a better Haiti, restoring growth, and placing Haiti's debt on a sustainable path. We are committed to the sustained implementation of our plan with the support of foreign aid inflows, while maintaining macroeconomic stability. These policies, which will be supported by a new three-year ECF arrangement, are described in our Memorandum of Economic and Financial Policies. We believe that these policies are appropriate to address our balance-of-payments problems and will refrain from any measures that could compound these problems.

Sincerely yours,

/s/

Ronald Baudin
Minister of Economy and Finance
Republic of Haiti

/s/

Charles Castel
Governor
Bank of the Republic of Haiti
Republic of Haiti

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 10/xx
FOR IMMEDIATE RELEASE
[July xx, 2010]

IMF Executive Board Concludes 2010 Article IV Consultation with Haiti

On July 21, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Haiti.[1]

Background

The January 12, 2010 earthquake was a major setback for Haiti. Progress since 2004 in maintaining macroeconomic stability, resuming growth, and implementing essential reforms allowed the cancellation of US$1.2 billion of debt under the HIPC/MDRI Initiative in June 2009. Growth reached 2.9 percent in 2009, one of the highest rates in the Western Hemisphere, fueled by stronger agricultural and manufacturing output. Annual inflation was virtually zero in December due to the unwinding of the international food and fuel price shock. Prudent fiscal policies helped contain the deficit (excluding grants and externally financed projects) to 4.4 percent of GDP, while the external current account deficit narrowed to 3.2 percent of GDP (from 4.8 percent of GDP in 2008), helped by strong exports, low import prices, and resilient remittances.

The earthquake caused unprecedented damages and losses, estimated at 120 percent of 2009 GDP. Over 225,000 persons were killed and 300,000 injured. Most ministries, hospitals, and schools in the Port-au-Prince region were destroyed. The humanitarian situation is only slowly improving, with 1.3 million people remaining in temporary shelters. Before the earthquake, Haiti was already the poorest country in the Western Hemisphere, ranking in the bottom quartile of the United Nations Development Program (UNDP) Human Development Index.

At a high level donor conference in New York in March, the government presented its National Action Plan for Recovery and Development to build a better Haiti. The plan

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

aims at sustainably raising medium-term growth and reducing poverty by creating decentralized economic growth poles, reducing vulnerability to natural disasters, enhancing access to basic social services, and strengthening state institutions. Donors generously pledged US$9.9 billion in support of Haiti's reconstruction, of which US$5.3 billion are to be disbursed over the next 18 months. Although actual disbursements so far have been slow, external aid related to the reconstruction could triple as a share of GDP over the next 3-5 years.

A recovery in economic activity, led by a rebound in agriculture, construction (including debris removal), and textile manufacturing, is mitigating the GDP decline (projected at 8.5 percent for the fiscal year ending in September 2010). Twelve month inflation reached 6.4 percent in May, in line with a projected increase of 8.5 percent for the year. The gourde has remained broadly stable since end-January, as the BRH has stepped up its net foreign exchange purchases. NIR grew to US$646 million at end-May (from US$402 million at end-December). A recovery in revenue collection since January and weak spending have compensated for slow budget support disbursements. However, priority spending on relocation of families, education, energy, and transport infrastructure should pick up in the coming months. To maintain financial sector stability and restart credit, the central bank is launching a partial credit guarantee scheme, with technical support from the IMF and the World Bank.

Executive Board Assessment

Executive Directors broadly agreed with the thrust of the staff appraisal. They noted that the January 2010 earthquake represented a major setback for Haiti, after several years of improved economic performance. Directors commended the authorities for quickly restoring basic government functions and maintaining sound policies in the very difficult conditions following the earthquake. They welcomed the incipient economic recovery, and stressed that swift disbursement of the resources pledged by donors for reconstruction and steady implementation of the economic program will be crucial to sustain growth.

Directors praised the authorities for their determination to build a better Haiti in the aftermath of the earthquake. They welcomed the authorities' National Action Plan for Recovery and Development and agreed that the priorities outlined in the Plan should guide the reconstruction process. Directors also noted that, in the context of severe capacity constraints, the successful implementation of the Action Plan will require close coordination by the Interim Haitian Reconstruction Commission.

Directors agreed that securing adequate budget support from donors is essential to fund priority programs. They welcomed the authorities' commitment to further strengthen revenue administration and reform tax policy to enhance domestic resource generation. Directors also welcomed the authorities' efforts to prioritize and align spending with reconstruction priorities, and to improve the tracking and reporting of public spending.

Directors stressed that further improvements in the monetary framework will be critical to enhancing the effectiveness of monetary policy. They welcomed plans to accelerate foreign exchange auctions reform, introduce Treasury bills, and recapitalize the central bank. Directors also noted staff's assessment that the exchange rate is broadly in line with economic fundamentals and underscored that additional exchange rate flexibility will help ensure the absorption of aid inflows while avoiding inflationary pressures.

Directors concurred that steadfast improvements in the business climate and in governance are required to boost investment and private credit, reduce supply-side bottlenecks, and expand the export base. They welcomed the implementation of the Partial Credit Guarantee scheme as an important step to restart private sector activity and noted that the successful decentralization of economic activity will require strong partnerships with the private sector.

Directors agreed that the new three-year ECF-supported program provides an important anchor to the authorities' economic policies and donor support in the context of the reconstruction process. The program provides a coherent set of macroeconomic policies that will support the authorities' reconstruction and growth objectives, including by smoothing out the impact on the economy of large expected aid inflows. The program is supported by a comprehensive medium-term technical assistance strategy focused on strengthening state institutions.

Directors agreed that Haiti met the eligibility and qualification criteria for debt stock relief under the PCDR Trust Fund. They noted that debt relief from the Fund and other creditors would free vital resources to alleviate Haiti's protracted balance-of-payments needs, which have been exacerbated by the earthquake. Given Haiti's persistent high debt vulnerabilities, Directors emphasized that future financing needs should be covered mostly through grants and highly concessional financing.

It is expected that the next Article IV consultation with Haiti will be held in accordance with the Executive Board decision on the consultation cycle for members with Fund arrangements.

Haiti: Selected Economic and Financial Indicators

	2006/07	2007/08	2008/09	2009/10 (proj)
(Annual percentage change, unless otherwise indicated)				
Domestic economy				
GDP at constant prices	3.3	0.8	2.9	-8.5
Consumer prices (end-of-period)	7.9	19.8	-4.7	8.5
Gross domestic investment (in percent of GDP)	25.0	26.0	23.4	23.9
Gross national savings (in percent of GDP)	24.8	21.5	20.2	21.7
(In percent of GDP)				
Public finances				
Central government overall balance (including grants)	0.2	-3.1	-4.4	-2.9
Central government overall balance (excluding grants)	-5.0	-7.5	-11.1	-17.3
Public sector savings	3.2	1.4	1.2	2.2
(Changes in percent of beginning-of-period broad money)				
Money and credit				
Net domestic assets	-1.2	3.7	8.5	7.6
Credit to the public sector (net)	-1.9	-7.2	3.6	-5.2
Credit to the private sector	3.9	9.6	5.9	-3.2
Broad money (including foreign currency deposits)	4.8	17.7	11.0	11.4
(Annual percentage change, unless otherwise indicated)				
External sector				
Exports (f.o.b.)	5.7	-6.2	12.4	-12.1
Imports (f.o.b.)	4.5	30.2	-3.3	15.5
Current account balance (including official grants, in percent of GDP)	-0.3	-4.5	-3.2	-2.1
Current account balance (excluding official grants, in percent of GDP)	-6.9	-11.7	-10.6	-28.7
External public debt (end-of-period, in percent of GDP)	25.6	29.5	16.6	22.0
External public debt service (in percent of exports of goods and nonfactor services)	8.3	8.2	3.9	3.1
Net international reserves (in millions of U.S. dollars) 1/	290.4	313.6	438.6	300.5
Liquid gross reserves (in millions of U.S. dollars) 2/	544.7	707.8	947.5	1076.2
In months of imports of the following year	2.3	2.9	2.9	3.1
Real effective exchange rate (appreciation +)	15.3	2.9	1.0	...

Sources: Ministry of Economy and Finance; Bank of the Republic of Haiti; and Fund staff estimates.

1/ Excludes commercial banks' foreign currency deposits with the BRH.

2/ Gross reserves excluding capital contributions to international organizations.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Cancels Haiti's Debt and Approves New Three-Year Program to Support Reconstruction and Economic Growth

The Executive Board of the International Monetary Fund (IMF) today approved the full cancellation of Haiti's outstanding liabilities to the Fund, of about SDR 178 million (equivalent to US$268 million). The Board also approved a new three-year arrangement for Haiti under the Extended Credit Facility (ECF) requested by the authorities to support the country's reconstruction and growth program.

Both decisions form part of a broad strategy to support Haiti's longer term reconstruction plans, following the devastating earthquake of January 12, 2010. The cancellation of existing debt was advocated by IMF Managing Director Dominique Strauss-Kahn in the days following the disaster as part of a concerted international effort to launch a "Marshall Plan" for the reconstruction of the country. The new program provides a strong and forward-looking framework to support economic stability and reconstruction in the country, and will also help catalyze donors' contributions.

"Donors must start delivering on their promises to Haiti quickly," Mr. Strauss-Kahn said, "so reconstruction can be accelerated, living standards quickly improved, and social tensions soothed." At a high-level donors' conference in March, the international community pledged US$ 9.9 billion to Haiti's reconstruction, of which US$ 5.3 billion is to be disbursed over the next 18 months.

Resources freed by IMF debt relief will help Haiti to meet substantial balance-of-payments needs exacerbated by the earthquake. The debt relief is financed by the Post-Catastrophe Debt Relief (PCDR) Trust Fund, recently established by the Fund to help very poor countries hit by catastrophic natural disasters (see attached factsheet).

The new ECF arrangement will provide SDR 40.9 million (about US$ 60 million) over three years to boost Haiti's international reserves and help the central bank manage potential swings in the value of the local currency - important to avoid raises in the prices of basic commodities consumed by the poor - without adding to the country's net debt. Financing under the ECF carries a zero interest rate until end-2011 and thereafter zero to 0.5 percent, with a maturity of 10 years and a grace period of 5½ years. The temporary interest waiver is part of the package that was approved in July 2009 to support the IMF's lending to low-income countries, financed from the IMF's internal resources, including the use of resources linked to the gold sales, and through bilateral contributions (see Factsheet "Financing the Fund's Concessional Lending to Low-Income Countries"). The new program also includes important policy commitments from the authorities that will help protect macroeconomic stability, and strengthen fiscal governance.

"The new program will provide a coherent macroeconomic framework to support the implementation of our Action Plan and ensure efficient spending and absorption of aid inflows," Haiti's Minister of Economy and Finance Ronald Baudin said.

Technical Assistance
The IMF will also provide a comprehensive medium-term technical assistance program aimed at strengthening state institutions, concentrating in the areas of tax policies, revenue administration, budget preparation and execution, and helping the country in organizing its first ever issuance of government securities.

"Improving the business environment and fostering private credit and investment will be essential to support growth," Charles Castel, Governor of the Bank of the Republic of Haiti said. "The Fund's technical assistance will help rebuild economic institutions and build capacity."

Following the Executive Board discussion on Haiti, Mr. Naoyuki Shinohara Deputy Managing Director and Acting Chair, issued the following statement:

"The January 2010 earthquake was devastating for Haiti, after several years of progress in maintaining economic stability, resuming growth, and implementing essential reforms. The authorities are to be commended for good policy implementation in the six-month period since the earthquake, in spite of limited financial resources and weakened capacity.

"Haiti meets the eligibility and qualification conditions for debt stock relief under the PCDR Trust Fund. Resources freed by debt stock relief under the PCDR Trust Fund are critical to meeting the large and protracted balance-of-payments needs exacerbated by the earthquake and subsequent recovery efforts, and to placing Haiti's debt on a sustainable path. Debt relief from the Fund is part of a concerted international effort to cancel Haiti's remaining debt after the earthquake.

"The newly approved ECF-supported arrangement provides a coherent macroeconomic framework to support the authorities' reconstruction and growth objectives. The macroeconomic outlook, and implementation of the authorities' reconstruction plan, depends crucially on the timely disbursement of the large donor pledges. Furthermore, improvements in infrastructure and the business environment will be essential to raise medium-term growth, by attracting private investment and expanding the export base. The establishment of a partial credit guarantee fund will help restart private sector credit

“The Fund-supported program aims at smoothing the impact on the economy of large expected aid flows, projected to triple to about 15 percent of GDP over in the next 3 years. Fiscal objectives are to raise domestic revenue, align the budget and its financing with reconstruction priorities, and continue strengthening fiscal governance. Monetary and exchange rate policies will be upgraded to facilitate the absorption of aid inflows, while avoiding large swings in the exchange rate and keeping inflation under control The program is supported by a comprehensive medium term technical assistance strategy, coordinated with Haiti's development partners.”

ANNEX

Recent Economic Developments
The earthquake of January 12, 2010 caused unprecedented destruction of human and physical capital, with losses estimated at 120 percent of 2009 GDP. The disaster struck the country at a time when its outlook was improving after several years of prudent macroeconomic management. In 2009, Haiti’s growth reached almost 3 percent, the second-fastest rate in the Western Hemisphere.

A still fragile recovery is taking place after the earthquake. Agricultural production, construction and textile manufacturing are supporting economic activity, while remittances, which grew by 12 percent between January and May of 2010 (over the previous year), are supporting consumption and imports. Exports are recovering, although the trade deficit is still widening.

Main Program Objectives
The program is focused on macroeconomic policies that can support growth and the Haitian authorities’ reconstruction plan, as well as help manage the aid inflows. It includes improving the efficiency and transparency of spending, increasing revenues, modernizing monetary and exchange rate operations, and enhancing credit growth.

Growth: GDP is projected to expand by 9 percent in fiscal year 2011-12, due mostly to reconstruction activity, and 6 percent by 2015.

Inflation: expected to reach 8.5 percent in the current fiscal year and to decline to 7 percent by 2013.

Fiscal strategy: to boost revenue collection to 13 percent of GDP by 2013, from 10% percent currently. The authorities’ objective is to enhance the quality and effectiveness of reconstruction spending and rebuild a more modern and efficient tax administration.

Monetary policy: the program aims at building a sustainable external position while absorbing the reconstruction-related foreign exchange flows. To enhance the effectiveness of monetary policy, further steps will be taken to improve the Bank of the Republic of Haiti's independence. The authorities also aim at gradually developing a market for government securities.