INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/157

HAITI

June 2015

2015 STAFF REPORT FOR THE ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR HAITI

In the context of the Staff Report for the 2015 Article IV Consultation and request for a three-year arrangement under the Extended Credit Facility, the following documents have been released and are included in this package:

- **Press Releases** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its May 18, 2015 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 18, 2015, following discussions that ended on March 20, 2015, 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 May 6, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- 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*
Selected Issues
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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May 28, 2015

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2015 Article IV Consultation with Haiti

On May 18, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the 2015 Article IV consultation[1] with Haiti.

In December 2014, Haiti completed an arrangement under the Extended Credit Facility (ECF), which helped to support economic growth and maintain macroeconomic stability after the 2010 earthquake. A drought that affected agricultural output slowed GDP growth to 2.7 percent in FY2014 (from 4.2 percent in FY2013), but inflation remained in the mid-single digits. The overall fiscal deficit of the central government remained high, in part due to one-off investment related to the Sandy storm. International reserves remained appropriate at about 5 months of imports.

The implementation of structural reforms to support growth underpins the medium-term outlook, which is nonetheless subject to downside risks. GDP growth in FY2015 is expected to be between 2–3 percent, and to increase to 3–4 percent in the medium term. Inflation is projected to remain in the mid-single digits, and gross international reserves to be equivalent to between 4–5 months of imports, thanks to a prudent policy mix. Risks are mainly associated with a rebound in international oil prices, a stop in external financing from Venezuela, and weather events.

Executive Board Assessment[2]

Directors commended the authorities for maintaining macroeconomic stability in the aftermath of the 2010 earthquake—noting positive growth, moderate inflation, adequate international reserves, and an improvement in Haiti's debt assessment. Nevertheless, growth remains insufficient to reduce poverty significantly, and vulnerabilities remain against the backdrop of a challenging domestic and external environment. Directors agreed that the authorities' new

[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.

[2] 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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

program appropriately focuses on entrenching macroeconomic stability, and ambitious structural reforms to enhance competitiveness, spur inclusive growth and strengthen policy buffers. They stressed that strong ownership and well-coordinated donor support will be important for the success of the program.

Directors welcomed the approval of a revised FY2015 budget consistent with reducing the deficit of the non-financial public sector to about 2½ percent of GDP over the medium term, in line with debt sustainability and program objectives. They supported the front-loaded fiscal consolidation, and noted that the adoption of an automatic fuel price mechanism and measures to improve the performance of the electricity sector will help contain fiscal risks, and create space for increased priority social and investment spending. They stressed the importance of mitigating the impact of the reforms on the poor and vulnerable. Going forward, Directors encouraged the authorities to follow through on reforms to improve public financial management, including the implementation of the Treasury Single Account; and to strengthen tax administration and collection; and budgetary transparency.

Directors encouraged the authorities to maintain a tight monetary stance, as needed, until the fiscal deficit is reduced, and to be ready to increase exchange rate flexibility, in order to preserve adequate international reserve buffers and anchor inflationary expectations. A number of Directors expressed concern that, if downside risks materialize, meeting the target for Net International Reserves could be challenging. Directors took note of the contingency measures that may need to be implemented in such case. Directors also encouraged the authorities to strengthen the monetary policy framework, through improvements in reserve management and the functioning of the foreign exchange market.

Directors noted that the banking sector remains well-capitalized and profitable, while calling for continued vigilance against financial sector risks. They also stressed the importance of sustained efforts to further develop financial intermediation and inclusion. In this regard, they welcomed adoption of the new financial inclusion strategy, and encouraged the authorities to enact pending laws on financial cooperatives and microfinance institutions.

Directors supported the program’s emphasis on structural reforms designed to lift Haiti’s growth potential and enhance its competitiveness. Priorities include: improvements to property rights, credit access and labor productivity; streamlining business regulations; and infrastructure development—most notably by strengthening the governance and performance of the electricity sector.

Directors encouraged the authorities to improve the quality of the economic data, with technical assistance from the Fund and other donors.

Haiti: Selected Economic and Financial Indicators, 2012/13–2018/19

(Fiscal year ending September 30)

Nominal GDP (2014): US$8.7 billion — GDP per capita (2014): $833

Population (2014): 10.5 million — Percent of population below poverty line (2012): 58

	2012/2013	2013/2014	2014/15	2015/16	2016/17	2017/18	2018/19
	Act.	Prov.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Change over previous year; unless otherwise indicated)						
National income and prices 1/							
GDP at constant prices	4.2	2.7	2.0-3.0	3.0-3.5	3.5-4.0	3.5-4.0	3.5-4.0
GDP deflator	6.6	3.8	6.6	6.4	5.4	5.0	5.0
Consumer prices (period average)	6.8	3.9	6.6	6.5	5.4	5.0	5.0
Consumer prices (end-of-period)	4.5	5.3	7.1	5.9	5.0	5.0	5.0
Exports (goods, valued in dollars, f.o.b.)	18.3	4.2	5.0	5.4	6.0	6.7	7.0
Imports (goods, valued in dollars, f.o.b.)	8.1	3.4	-4.7	3.8	5.5	5.5	5.2
Real effective exchange rate (end of period; + appreciation)	0.7	0.8	0.0	0.0	0.0	0.0	0.0
Money and credit (valued in gourdes)							
Credit to private sector (in dollars and gourdes)	16.4	11.2	4.7	11.4	9.0	10.4	11.4
Base money (currency in circulation and gourde deposits)	15.1	0.5	3.0	7.0	8.1	8.2	7.1
Broad money (incl. foreign currency deposits)	6.6	9.8	7.3	7.6	7.9	8.3	8.5
	(In percent of GDP; unless otherwise indicated)						
Central government							
Overall balance (including grants)	-7.2	-6.4	-2.7	-1.9	-2.2	-2.0	-2.0
Domestic revenue	12.8	12.5	14.7	14.7	15.0	15.3	15.5
Grants 2/	8.1	6.5	6.1	5.6	5.3	5.0	4.8
Expenditures	28.1	25.4	23.4	22.2	22.5	22.3	22.3
Current expenditures	12.0	12.6	12.5	12.5	12.5	12.5	12.5
Capital expenditures	16.1	12.8	10.9	9.7	10.0	9.8	9.8
Overall Balance of Total Non-Financial Public Sector 3/	-8.2	-7.4	-3.2	-2.3	-2.4	-2.2	-2.0
Savings and investment							
Gross investment	30.1	31.2	26.6	24.8	24.9	24.7	24.8
Of which: public investment	16.1	12.8	10.9	9.7	10.0	9.8	9.8
Gross national savings	23.7	24.8	23.1	21.0	21.1	21.0	21.2
Of which: central government savings	1.9	1.3	2.9	2.8	3.0	3.0	3.0
External current account balance (including official grants) 2/	-6.3	-6.3	-3.5	-3.8	-3.7	-3.7	-3.6
External current account balance (excluding official grants)	-15.2	-12.8	-8.8	-8.8	-8.6	-8.5	-8.4
External Balance: Fossil Fuels	-11.3	-11.9	-7.3	-7.8	-8.1	-8.3	-8.4
Public Debt							
External public debt (medium and long-term, end-of-period) 4/	17.4	21.0	21.8	22.6	23.3	23.8	24.3
Total public sector debt (end-of-period) 5/	19.5	24.1	25.5	26.4	27.2	28.2	28.9
External public debt service 6/	1.8	2.4	3.7	4.6	5.5	6.1	6.1
	(In millions of dollars, unless otherwise indicated)						
Overall balance of payments	-282	-178	-210	-61	3	32	77
Net international reserves (program definition) 7/	1,219	1,010	860	890	950	1,017	1,085
Gross International Reserves 8/	2,384	1,914	1,782	1,808	1,872	1,940	2,010
In months of imports of the following year	6.3	5.3	4.8	4.6	4.5	4.5	4.5
Nominal GDP (millions of Gourdes)	364,526	388,809	424,832	466,707	510,359	555,960	605,653
Nominal GDP (millions of US$)	8,451	8,711	9,054	9,475	10,012	10,589	11,199

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

1/ Staff assume a range of 2-3 percent and a point projection of 2.5 percent for FY2015; a range of 3-3.5 percent and a point projection of 3.25 percent for growth in FY2016, and a range of 3.5-4.0 percent and a point projection of 3.75 percent for FY2017-FY2019.

2/ A new ECF would catalyze identified multilateral budget support (see Tables 4a and 4b). Until a new IMF-supported program is approved, current account projections exclude these flows.

3/ Includes state-owned electricity company (EDH).

4/ Debt ratios differ slightly from those in the DSA given the use of average, instead of end-of-period, exchange rates.

5/ Excludes central bank repurchase operations in FY2013.

6/ In percent of exports of goods and nonfactor services. Includes debt relief.

7/ Includes SDR allocation as both an asset and liability.

8/ Includes gold; includes transactions related to BRH repurchase operations; corresponds to BPM6 definition of reserves.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 15/231
FOR IMMEDIATE RELEASE
May 19, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves Three-Year US$69.7 Million Under ECF for Haiti

The Executive Board of the International Monetary Fund (IMF) Monday approved a three-year SDR 49.14 million (about US$69.7 million, 60 percent of quota) arrangement under the Extended Credit Facility (ECF) for Haiti. The approval enables the immediate disbursement of an amount equivalent to SDR 7.02 million (about US$10 million), while the remaining amount will be phased over the duration of the arrangement, subject to semi-annual program reviews.

The authorities' ECF-supported program aims to raise Haiti's growth potential and reduce vulnerabilities to shocks, while entrenching macroeconomic stability.

Following the Executive Board's discussion on Haiti, Mr. Min Zhu, Deputy Managing Director, and Acting Chair, made the following statement:

"Haiti's pursuit of macroeconomic stability in the aftermath of the 2010 earthquake is commendable—growth has been positive, inflation has remained moderate, and international reserve levels adequate. Going forward, continued efforts are needed to support sustained and inclusive growth, strengthen institutions and the policy framework, and maintain adequate buffers to absorb shocks.

"The new three-year program supported by the Fund's Extended Credit Facility (ECF) seeks to entrench macroeconomic stability, improve competitiveness to spur inclusive growth, and preserve buffers, through streamlined policies that have full country ownership. Donor support ensures the full financing of the program.

"The program targets a reduction of the non-financial public sector deficit from 7.5 percent in FY2014 to 3.25 percent of GDP in FY2015 and 2.5 percent in the medium term to preserve sustainability. Lower oil prices will facilitate fiscal consolidation (allowing the government to raise fuel taxes and lower electricity subsidies), while preserving pro-poor spending. The adoption of an automatic fuel pricing mechanism will safeguard fuel taxes if oil prices rebound.

"The program aims to preserve price stability. Accordingly, the monetary policy stance will remain tight as needed until fiscal consolidation proceeds to anchor exchange rate expectations. The policy mix seeks to keep international reserves at an appropriate level to ensure adequate buffers.

"The program's structural reform agenda focuses on strengthening competitiveness to foster growth. It tackles deep-seated problems in the electricity sector; supports the authorities' efforts to strengthen property rights; and includes actions to increase policy effectiveness through reforms in tax administration, tax policy and public financial management, as well as improvements in the monetary framework and economic statistics."

ANNEX

Recent Economic Developments

In December 2014, Haiti completed the arrangement under the Extended Credit Facility (ECF), which helped support positive economic growth and maintain macroeconomic stability after the 2010 earthquake. However, while per capita growth has been positive, it has been insufficient to significantly reduce poverty. Fiscal and external deficits rose to high levels, increasing Haiti's vulnerabilities. Due partly to a difficult socio-political environment, progress on structural reform was limited.

Main Program Objectives

The program aims at entrenching macroeconomic stability and at deepening structural reforms, to support sustained and shared growth. The program seeks to maintain buffers in the form of foreign reserves and bank deposits to reduce Haiti's vulnerability to shocks, and to avoid stop-and-go policies. Real GDP is projected to growth by 3-4 percent over the medium term helped by the implementation of structural and institutional reforms addressing bottlenecks to growth and job creation, including improvements in the business environment and property rights, financial inclusion, and access to available and cheap electricity. Inflation is expected to be contained in the mid-single digits, reflecting prudent fiscal and monetary policies, while gross international reserves would cover more than 4.5 months of imports.

Fiscal policy aims at placing public debt on a sustainable path and preserving buffers against downside risks. It targets a reduction in the deficit of the non financial public sector to 2.5 percent of GDP in the medium term, while preserving poverty-reducing spending. Fiscal consolidation will result from the elimination of regressive fuel subsidies, the adjustment of investment spending to sustainable levels, and the reduction of quasi-fiscal losses in the electricity sector. In this regard, the revised FY2015 budget includes a strong fiscal adjustment that takes advantage of the low international oil prices. To prevent a reemergence of fuel subsidies if international prices rebound, the authorities have adopted an automatic pricing mechanism for petroleum products, which will reflect international oil prices into domestic fuel prices, while protecting the most vulnerable.

Additional Background

Haiti, which became of member of the IMF on September 8, 1953, has an IMF quota of SDR 81.90 million.

For additional background on the IMF and Haiti, see: http://www.imf.org/external/country/HTI/index.htm .

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7/ Includes SDR allocation as both an asset and liability.

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INTERNATIONAL MONETARY FUND

HAITI

May 6, 2015

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

KEY ISSUES

Background. Haiti's recently completed arrangement under the Extended Credit Facility (ECF) helped to maintain macroeconomic stability after the 2010 earthquake. While Haiti has seen four consecutive years of growth, reducing poverty requires higher and sustained growth rates.

Article IV Discussions. Discussions focused on strategies to improve Haiti's growth potential and external competiveness, as well as how to leverage the current period of low international oil prices to reduce Haiti's vulnerabilities, particularly in the energy sector. These challenges must be overcome in order to sustain strong economic growth and achieve progress in poverty reduction.

The Proposed Program. The authorities' economic program, anchored on the Strategic Plan for the Development of Haiti (PSDH), aims to entrench stability through a front-loaded fiscal adjustment, deepen institutional reform, mitigate vulnerabilities, and support growth and employment. QPCs now include a limit on the deficit of the non-financial public sector. Structural benchmarks focus on reducing subsidies, improving PFM and expenditure effectiveness, and creating an enabling environment for growth. The program focuses on:

- Lowering fiscal deficits while preserving poverty-reducing spending. This would crowd in private credit, preserve buffers, and support the use of the exchange rate as a nominal anchor.

- Removing bottlenecks to growth and job creation with improvements in the business environment and property rights, and access to cheaper and reliable electricity.

- Improving the policy framework by addressing governance issues, strengthening budgetary transparency, the public investment management and the monetary policy framework.

Request for an ECF Arrangement. The Haitian authorities request a three-year arrangement under the ECF in an amount equivalent to SDR 49.14 million (60 percent of quota) in support of their medium-term economic reform program.

Risks. Risks to the program include the complex political situation, which could delay implementation of reforms, a rebound in international petroleum prices, a sudden stop in external financing from Venezuela, and weather events.

Approved By
A. Cheasty (WHD) and B. Traa (SPR)

Discussions were held in Port-au-Prince during February 2–12, and March 16–20, 2015. The staff team consisted of Messrs. Di Bella (head), Ntamatungiro and Norton (all WHD), Mr. El Omari and Ms. Hanedar (both FAD), Mr. Ishikawa (STA), and Mr. Camard (resident representative). It met with Prime Minister Paul; Minister of Economy and Finance Laleau; Central Bank Governor Castel; Minister of Public Works Rousseau; other senior government officials; representatives of the private sector; and development partners. Ms. Florestal (OED) participated in the policy discussions.

CONTENTS

TABLES

APPENDICES

HAITI AND THE FUND, 2006–2014

Reflecting Haiti's challenging environment over the past ten years, the two previous Fund-supported arrangements focused on maintaining macroeconomic stability, rebuilding capacity and strengthening the policy framework.

1. **Fund-supported programs with Haiti since 2006 focused on maintaining macroeconomic stability and supporting growth and poverty reduction in a difficult environment.** Haiti's 2006 program took place in the aftermath of a period of severe political instability, and the 2010 ECF arrangement was approved after a devastating earthquake. Reform efforts were supported by debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC), the Multilateral Debt Relief Initiative (MDRI), in 2009, and the Post Catastrophe Debt Relief Trust (PCDR), in 2010. Given urgent reconstruction needs, the 2010-2014 Fund arrangement accommodated an ambitious public investment agenda, and anti-poverty spending.

2. **In the 2012 Article IV discussions, the authorities were encouraged to maintain macroeconomic stability while redoubling reform efforts to achieve sustained and inclusive growth.** Directors called for improved revenue administration to create fiscal space for pro-poor and growth-enhancing spending, as well as public financial management reforms to improve the quality of public spending. Directors stressed that strong and inclusive growth would require structural reforms to improve competitiveness. They identified improving financial intermediation, addressing infrastructure bottlenecks, notably in the electricity sector, and improving the business environment as key reform priorities.

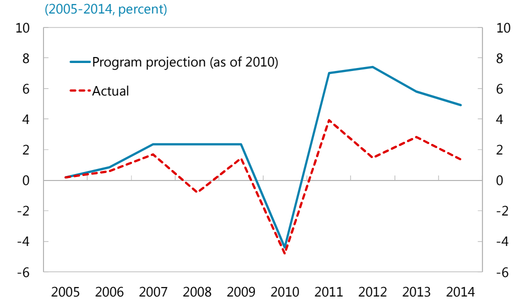
3. **The recent Ex-post assessment of Haiti's longer-term program engagement (EPA) highlighted both achievements and disappointments of Haiti's previous Fund engagement.** The EPA noted that the authorities had been successful in maintaining macroeconomic stability. Monetary policy contained inflation in the mid-single digits, and the authorities avoided excessive exchange rate volatility while maintaining an appropriate reserve cushion. GDP growth, while positive and favorable compared with Haiti's recent history, was lower than projected and insufficient to reduce poverty. Financed by concessional flows, fiscal and external deficits rose to unsustainable levels, increasing Haiti's vulnerabilities. Progress on structural reform was also mixed, with ongoing problems at the state electricity utility (EDH), slower-than-projected progress in adopting the Treasury Single Account (TSA), and legislative delays in modernizing the legal framework for the financial sector. The EPA observed limited progress in improving Haiti's business climate, governance, and competitiveness.

CONTEXT: LOW GROWTH AMID CONTINUED VULNERABILITY

Aid-financed reconstruction following the 2010 earthquake proceeded, but growth was lower than expected. Fiscal deficits increased, mainly financed by Petrocaribe flows, which are decreasing sharply in FY2015. Inflation remains contained, given moderate exchange rate depreciation. The political situation adds to risks. Oil price decreases should be used to improve energy policies and reduce fiscal vulnerabilities.

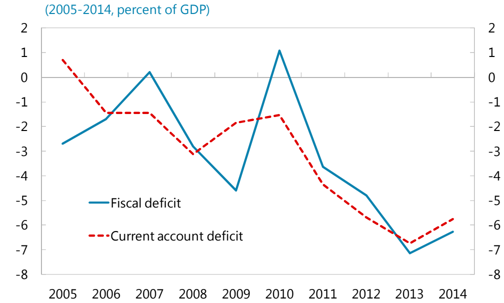
4. A complex political environment and the devastating 2010 earthquake provide the context for recent economic developments. Policy challenges were related to absorbing large aid flows without compromising sustainability.[1] Repeatedly postponed parliamentary elections resulted in a political impasse at end-2014. As part of the efforts to overcome the impasse, the President appointed, in January 2015, Mr. Evans Paul (an opposition figure) as new Prime Minister to lead a *gouvernement d'ouverture*. As a result, many of the newly appointed ministers belong to opposition parties. However, without a quorum to function, Parliament will not convene for most of 2015. Election-related tensions eased further following the publication of the electoral calendar in March 2015: Parliamentary and presidential elections are scheduled for the second half of 2015. The new Parliament will be known before end-2015, and a new President inaugurated in February 2016.

Per-Capita GDP Growth, Actual vs. Program Projections
(2005-2014, percent)



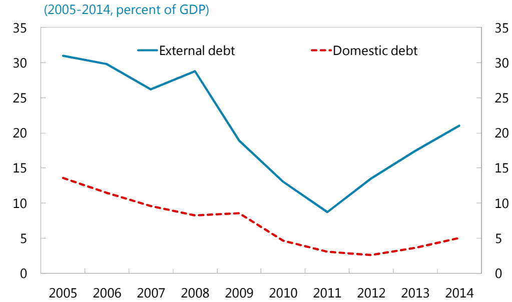
Sources: 2005-09, PRGF program request; 2010-13: first ECF review; 2014, fifth ECF review.

Current Account and Fiscal Deficits
(2005-2014, percent of GDP)



Source: IMF staff estimates.

Domestic and External Debt
(2005-2014, percent of GDP)



Source: IMF staff estimates.

5. Fueled by reconstruction spending, per capita GDP growth was positive since FY2011, but meaningfully reducing poverty will require higher and sustained growth rates. Haiti achieved its fourth consecutive year of real per capita growth in FY2014. GDP growth last year (2.7 percent) decreased *vis-a-vis* FY2013 due in large part to a drought. Excluding the volatile agricultural sector, growth has been steady at about 4 percent since FY2011, supported by construction, industry and services. While Haiti has seen progress in meeting its Millennium Development Goals (MDGs, Box 1), per capita income growth since 2010 has not made a significant dent in poverty levels.[2] This reflects interrelated factors, including weak institutions and

[1] Aid flows are expected to decrease to more moderate levels in the coming years.

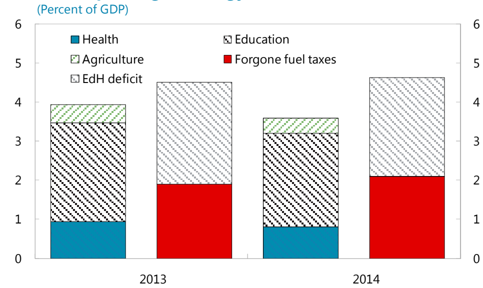
[2] See Haiti Ex-Post Assessment, Country Report No. 15/4 (December 4, 2014).

governance, lack of competition and predatory business practices, inadequate policy frameworks, weak donor coordination, vulnerability to natural disasters, inadequate infrastructure, and still-low labor productivity. A difficult socio-political environment slowed implementation of structural reforms.

6. Fiscal and current account deficits widened with increased Petrocaribe flows and diminished buffers. The central government deficit increased to 6–7 percent of GDP during FY2013–FY2014, raising the current account deficit. Financing came from Petrocaribe inflows (which averaged 4 percent of GDP during FY2009–FY2014), and by diminished fiscal and external buffers (in the form of government deposits at the banking system and international reserves) during FY2013–FY2014. External public debt (which had fallen to 9 percent of GDP in FY2011 following HIPC completion point and the debt write-offs after the earthquake), rebounded to 21 percent of GDP in FY2014, almost exclusively due to Venezuela-related Petrocaribe concessional financing. Domestic public debt is around 4 percent in FY2014, reflecting shallow domestic financial markets.

7. The energy sector's very poor performance and policies are a key driver of fiscal imbalances. The deficit (before central government transfers) of the state-owned electricity sector company EDH increased to 2.5 percent of GDP in FY2014, due to low billing, substantial technical losses and widespread electricity theft.[3] Domestic fuel prices were frozen from March 2011 until October 2014, resulting in foregone tax revenues that peaked at about 2 percent of GDP in FY2014.[4] The combined fiscal cost of regressive fuel subsidies and EDH's deficit has been larger than social spending, which hovered around 3–4 percent of GDP since FY2010. Lower oil prices provide a unique opportunity to improve energy policies.

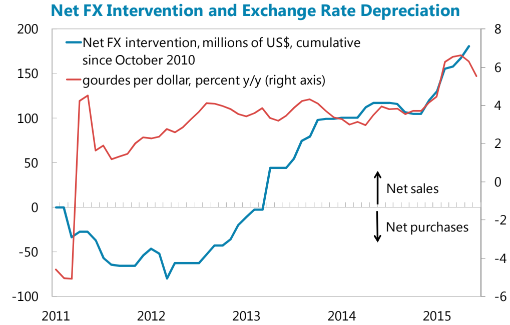
Social Spending vs. Energy Subsidies
(Percent of GDP)



Source: IMF staff estimates.

8. The Central Bank (BRH) has striven to keep gourde depreciation at a moderate rate given a high pass-through to inflation. Large external aid flows coupled with slow absorption resulted in a build-up of international reserves in FY2010–FY2012. Higher fiscal deficits in FY2013–FY2014 prompted the BRH to sell foreign exchange and to tighten monetary policy to keep exchange rate depreciation moderate at 3–4 percent per year. Some easing in the monetary stance at end-FY2014 (to accommodate the payment of debt to suppliers) resulted in pressures in the foreign exchange market, while political risks have increased dollar hoarding and reduced supply. Accordingly, international reserves declined to below 5 months of imports by February 2015. The BRH responded by letting the gourde depreciate more (by about 6 percent y/y

Net FX Intervention and Exchange Rate Depreciation



Sources: BRH; and IMF staff estimates.

[3] See accompanying Selected Issues Paper "Opportunities and Challenges for Growth."

[4] According to the World Bank, about 90 percent of fuel subsidies accrued to the richest 20 percent of the population.

through March), and by tightening monetary policy in March through increased reserve requirements and policy rates. Anchoring inflation expectations depends on lowering the fiscal deficit and maintaining BRH reserves equivalent to 4–5 months of prospective imports.[5]

Box 1. Haiti: Millennium Development Goals 1/

Haiti has made progress towards achieving a number of the Millennium Development Goals (MDGs). The proportion of people living under extreme poverty dropped to about 25 percent, while the number of underweight children under 5 years old was halved. Net enrollment in primary education grew from 47 percent in 1993 to 88 percent, attaining gender parity in primary and secondary education. Haiti also made progress in health indicators. Infant and child mortality has decreased drastically since 1990, while access to maternal healthcare improved and maternal mortality was reduced. Haiti has also contained the spread of HIV/AIDS, and nearly 65 percent of households now have improved access to water (see table).

Haiti: Millennium Development Goals Indicators

Millennium Development Goals	Indicator	Baseline	Current Status	2015 Target
1. Eradicate extreme poverty and hunger	Proportion of people living on less than $1.25 a day	61.7	58.6	30.9
	Proportion of people living under extreme poverty ($1, PPP)		24.7	No target
	Employment-to-population ratio	50.2	30.0	No target
	Prevalence of underweight children under five years of age	23.7	11.4	11.9
2. Achieve universal primary education	Literacy rate in the age group of 15-24 years of age	32.3	85.1	100
	Proportions of pupils starting grade 1 who reach last grade of primary	68.0	66.2	100
	Net enrollment rate in primary education	47.0	88.0	100
3. Promote gender equality and empower women	Ratio of girls to boys in:			
	Primary education	...	0.9	1.0
	Secondary education	1.0	1.1	No target
	Proportion of seats held by women in national parliament	2.7	4.3	30.0
	Share of women in wage employment		44.2	No target
4. Reduce child mortality	Under-five mortality rate	156.1	88.0	50.4
	Infant-mortality rate	109.1	59.0	36.4
	Proportion of one-year-old children immunized against measles	25.8	85.0	100
5. Improve maternal health	Proportion of births attended by skilled health personnel	24.2	37.3	100
	Maternal mortality rate (per 100,000 live births)		157.0	No target
6. Combat HIV/AIDS, malaria, and other diseases	People living with HIV, 15-49 years old (percentage)	2.9	1.8	No target
	Prevalence of HIV/AIDS aged 15-24 years old	1.0	0.9	No target
	Malaria death rate (per 100,000 population)		5.0	No target
7. Ensure environmental sustainability	Proportion of land areas covered by forests (percentage)	5.5	3.7	No target
	Proportion of population using an improved drinking water source	36.5	64.8	72.7
	Slum population as percentage of urban	93.4	70.1	Min. 62
8. Global partnership for development	Internet users per 100 inhabitants	0.2	10.6	No target

Source: United Nations - MDG Indicators, 2013 Report
Last updated: 07/07/2014

Despite progress, vast challenges remain, due to low capacity, insufficient resources and difficulties to coordinate key stakeholders (including donors). Strengthening safety nets, while increasing spending in health and education, remain key priorities and mobilizing donor support remains essential. Continued migration from rural areas to urban centers creates challenges. Vulnerability to epidemics remains high. The government's goal is to reduce poverty and achieve free universal education through the implementation of various social programs such as the *Ede Pep* (Help the People), and the PSUGO (*Programme de Scolarisation Universelle Gratuite et Obligatoire*). The Strategic Plan for the Development of Haiti (PSDH) launched in May 2012, aims at speeding up poverty reduction and making Haiti an emerging country by 2030. These efforts signal the country's ongoing commitment beyond 2015.

1/ This box was prepared by Daniela Cortez.

[5] Staff analysis suggests that international reserves within this range would be appropriate for a country like Haiti that is subject to multiple and frequent shocks. See Selected Issues Paper "External Buffers and Competitiveness to Absorb Shocks And Support Growth."

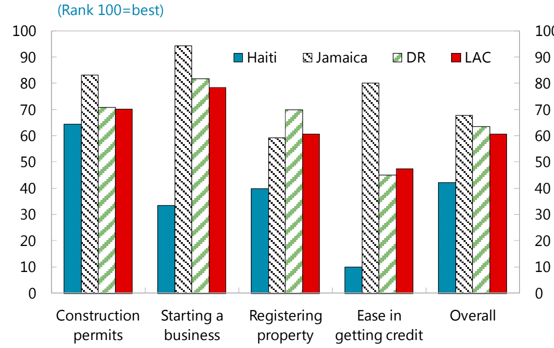
MEDIUM-TERM CHALLENGES: INCREASE GROWTH AND PRESERVE BUFFERS TO ADDRESS RISKS

Article IV discussions focused on reforms and policies to: strengthen competitiveness to spur sustained and inclusive growth in the context of lower external support; safeguard macroeconomic stability by preserving fiscal and external buffers; and strengthen the policy framework to address vulnerabilities.

A. Structural Reforms for Sustained and Inclusive Economic Growth

9. Sustained growth is essential for poverty reduction and social cohesion. Given the tapering of aid, staff argued that the impetus to growth needs to come from structural reforms and institutional strengthening. Lower oil prices, if sustained, will also support growth. Potential growth and competitiveness remain low as reforms implemented in recent years are insufficient (impeding, e.g., taking full advantage of preferential trade agreements). The authorities concurred, but noted progress in social indicators and pointed out that the slow pace of reforms is at times rooted in their complex nature, which sometimes affect vested interests. The authorities also highlighted the need to carefully analyze trade policy, arguing that low average tariff rates (below Caribbean Community and Common Market, CARICOM, levels) put domestic producers at a relative disadvantage vis-à-vis countries in the region.[6] Staff and the authorities agreed that the main constraints to competitiveness include:

Doing Business Indicators (2015)
(Rank 100=best)



Sources: Doing Business (2015) World Bank Report.

- **Weak institutions.** Weak property rights constrain the real estate market, foreign investment, access to credit, and efficient agriculture (which provides the basic livelihood to most Haitians).[7] Predatory practices are widespread. Lack of transparency in government contracting has resulted in, e.g., unfavorable conditions for electricity supply, high electricity costs, and hidden costs in the structure of fuel pump prices (Box 3).[8] A still-large U.N. force continues to ensure security.

- **Domestic Politics.** Political crises caused severe decreases in the level of per-capita income during the last 30 years (Box 2). Accordingly, the yield for growth of maintaining political peace would be significant.

[6] See accompanying Selected Issues Paper "Opportunities and Challenges for Growth."

[7] Haiti is ranked 147th (out of 148 countries) in property rights in the World Economic Forum's "Global Competitiveness Index" for 2014.

[8] Haiti is ranked 166th (out of 177 countries) in the 2014 "Corruption Perceptions Index" by Transparency International.

- **Inadequate infrastructure**. Port services and electricity supply are inefficient and expensive, and road infrastructure is deficient to keep the country fully integrated.[9]

- **The policy framework needs strengthening.** Fiscal policy implementation is constrained by the lack of an integrated framework. A number of small taxes result in informational and operational costs to investors. Administrative formalities for enterprise creation add costs.

- **Low labor productivity.** Access to healthcare and technical education is limited, restricting human capital formation, and social infrastructure is the worst in LAC. These factors constrain investment.

- **Data quality.** Data provision has serious shortcomings that significantly hamper surveillance. Most affected are the national accounts and labor indicators. Fiscal and external sector data are broadly adequate, but need improvements in coverage and timeliness. Collection, production and distribution of economic data were seriously affected by the 2010 earthquake. This deprives policy-makers and the private sector alike of access to timely and accurate information about the economy, including potential opportunities.

10. Staff argued Haiti's real effective exchange rate (REER) level is broadly appropriate, but that further appreciation may constrain competitiveness, and thus, that the gourde should remain flexible to respond to changes in fundamentals. The REER drifted slowly upwards since 2010, as exchange rate depreciation has been moderate and inflation, while well-contained, has been higher than in Haiti's main trading partners. Staff analysis suggests that the moderate upward movement in the REER reflects both strong aid and remittance inflows, as well as a significant improvement in the net foreign asset position following substantial post-earthquake debt relief.[10] Haiti's exchange system (a crawl-like arrrangement, with no significant restrictions for capital movements) remains unchanged since the 2012 Article IV consultation.[11]

11. Staff highlighted that Haiti's low competitiveness would be best addressed by removing structural bottlenecks to growth. These range from a lack of basic public services, a cumbersome legal and regulatory environment, to political uncertainty and weak governance. The authorities added that a sharp change in the nominal exchange rate would raise inflation and fuel social pressures without appreciably improving competitiveness, and underscored the need to diversify Haiti's productive and export base.

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[9] Haiti is ranked 177th (out of 189 countries) on the World Bank's "Doing Business" indicators for 2015. As pointed out in an independent evaluation of the Doing Business survey (see www.worldbank.org/ieg/doingbusiness), care should be exercised when interpreting these indicators given their, at times, subjective nature, limited coverage of business constraints, and a small sample, which taken together tend to overstate the indicators' coverage and explanatory power.

[10] See Selected Issues Paper "External Buffers and Competitiveness to Absorb Shocks And Support Growth."

[11] Thus, as in the last Article IV consultation, Haiti's system is free from restrictions on the making of payments and transfers for current international transactions.

B. Preserving Macroeconomic Stability and Reducing Vulnerabilities

12. Preserving macroeconomic stability is a prerequisite for growth. Staff and the authorities agreed that a low and stable rate of inflation underpinned by moderate exchange rate depreciation and a sustainable fiscal position should contribute to anchoring investors' expectations. They concurred that maintaining adequate financial buffers is essential to support Haiti's resilience in the face of shocks, and avoid stop-and-go growth dynamics.

(i) Rebuilding fiscal space and strengthening the quality of fiscal policy

13. Staff and the authorities agreed on the need to cut the central government's deficit to preserve buffers. This is also needed given expected reductions in available concessional financing between FY2014 and FY2018. External grants and Petrocaribe inflows are each projected to decline by 2 percent of GDP (as earthquake rebuilding winds down and on lower oil prices, respectively). Staff argued that in view of the limited domestic financing prospects, the need to preserve fiscal buffers (in the form of deposits at the banking sector), and to contain fiscal risks, the central government deficit should be reduced from 6¼ percent of GDP in FY2014 to about 2 percent GDP in FY2018. Haiti's risk of debt distress has improved on the back of expected fiscal consolidation, but importantly, is based on a projection of significantly lower oil prices in the medium term. A rebound in oil prices, however, could result in the risk of debt distress to become high again (see Debt Sustainability Analysis, DSA).[12] The authorities agreed on the need to cut the deficit to preserve macroeconomic stability, but underlined the need for donors to support the adjustment by keeping a steady flow of budgetary and project grants. Staff stressed that lower fiscal deficits will allow a gradual loosening of monetary policy and crowd in bank credit to the private sector.

14. Staff and the authorities also agreed on the importance of reining in EDH's deficit. The decrease in international oil prices reduces EDH's deficit by 0.5 percent of GDP in FY2015, given lower generation costs, and unchanged tariffs. The authorities explained that the latter will be adjusted only after an analysis of their structure. They further explained that EDH management presented a revised FY2015 budget with an action plan to increase cash recovery based on improved billing and collection from larger clients. The Ministry of Public Works (which oversees EDH) has selected *Electricité de France* (EDF) to develop a master plan for the sector, with World Bank financing.

15. Domestic revenue should be increased. Staff noted that Haiti's revenue-to-GDP ratio is low by regional standards, in part due to forgone fuel tax revenues. Staff urged the authorities to take advantage of the decline in international oil prices to eliminate remaining fuel subsidies, which should yield 1.5–1.6 percent of GDP in FY2015. The authorities agreed, and highlighted that they

[12] The DSA also shows that Haiti's external debt profile remains vulnerable to shocks to borrowing conditions and the exchange rate, while shocks to growth have a negative impact on public debt. The cost of a sudden stop of Petrocaribe financing would be lower than previously assessed provided oil prices evolve as projected.

had resisted pressures for large decreases in pump fuel prices. Staff further argued that multi-year investment in improving revenue administration (notably by strengthening the large and medium tax payers' offices and the unit in charge of NGOs and exempted entities), should allow domestic revenue to increase to 15.5 percent of GDP by FY2019. Staff stressed that the elimination of several low-yield taxes will improve clarity of the tax code, and that work towards VAT implementation and a new mining code should continue. The authorities noted that work in these areas is ongoing, with help from donors, including the IMF.

16. Staff and the authorities concurred on the need to strengthen the fiscal policy framework with a view to improving the quality and composition of public spending. Strengthening the public investment framework (including the preparation, evaluation, and monitoring of projects) will decrease ineffective spending. Advancing the implementation of the Treasury Single Account (TSA) will improve cash and debt management and control over fiscal policy. The authorities explained that they have made significant progress in both areas with help by the World Bank and the IMF. Staff urged the authorities to develop a more targeted and sustainable social safety net. Eliminating blanket subsidies and reorienting them to poverty-reducing outlays (such as education and health) will build social cohesion and improve human capital.[13] The decrease of transfers to EDH should create fiscal space for priority expenditures, including on health, education, and a fully-staffed national police, in view of the expected decrease in MINUSTAH forces. The authorities agreed that the decrease in EDH transfers will create space for priority expenditure including for the national police, health expenditures, and education spending under the PSUGO program, and they requested technical assistance from the World Bank to design a social tariff for public transportation.

17. Staff urged the authorities to strengthen fiscal transparency. Staff stressed that budget documents should report special accounts and programs, civil service pensions and future pension liabilities, earmarked resources for municipalities, financial transactions with SOEs (including contingent liabilities) and all Petrocaribe-funded transactions.[14] The authorities explained that only central government–related transactions can be included in the national budget, and that all Petrocaribe-funded transactions (with the exception of those related to EDH) are already included in the budget.

(ii) Strengthening the monetary policy framework and the soundness of the financial sector

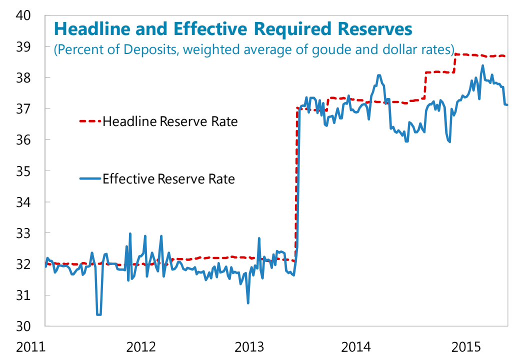
18. Staff and the authorities concurred that monetary policy should be geared at keeping a low and stable inflation rate. Given high pass-through rates, this will require both moderate exchange rate depreciation, and well-anchored exchange rate depreciation expectations. This is only possible if the REER is close to equilibrium, and if the expected path for the fiscal deficit is consistent with keeping international reserves at 4–5 months of prospective imports (i.e., sufficient for credible

[13] See accompanying Selected Issues Paper "Public Expenditure in Haiti: Balancing Human Capital and Infrastructure Formation."

[14] See accompanying Selected Issues Paper "Haiti's Public Sector: Explaining the ECF's Fiscal Target"

market intervention).[15] Staff stressed that foreign exchange market intervention should also reduce excess volatility. Staff argued that if fiscal consolidation falters, the BRH should allow for more exchange rate flexibility, as the depletion of buffers can negatively impact expectations and reduce the room to react in the face of shocks. Staff cautioned that unanchored expectations may result in a decrease in gourde demand amid increasing volatility and higher dollarization. Strengthening the communication of monetary policy decisions will assist in managing expectations.

19. Staff urged the BRH to keep the stance of monetary policy tight until the fiscal deficit is reduced. High legal reserve requirements have reduced excess reserves, strengthening the transmission from open market operations (OMOs) to credit growth. Using OMOs for any further tightening should then be preferred to further increases in legal reserve requirements as this will help improving the functioning of the interbank money market and strengthening the transmission mechanism. BRH authorities indicated that this is indeed the instrument that it was used to tighten the monetary stance since mid-2014. Staff also encouraged the BRH to consider using 5-year government bonds acquired at end-FY2014 when conducting OMOs. Staff urged the BRH to avoid the use of exceptions in the computation of reserve requirements, as this undermines their effect and makes the policy stance less transparent.[16] The BRH's authorities indicated that they are analyzing the use of government bonds in OMOs, as well as their intention to issue dollar-indexed bonds to absorb liquidity and reduce foreign exchange market pressures. Staff noted that, if market priced, such bonds can help discover exchange rate depreciation expectations. However, staff cautioned that they also could exacerbate foreign exchange pressures if the fiscal deficit is not swiftly reduced.



Sources: BRH FMI Weekly; Fund Staff Calculations

20. Staff noted that there is room to further improve BRH operations. Reserve management needs strengthening, in line with the 2011 safeguards recommendations and IMF technical assistance. Developing a deeper foreign exchange market would improve monetary policy effectiveness, as would an enhanced framework for foreign exchange intervention. Timely access to information would help improve real-time monetary policy decision-making. The authorities welcomed IMF technical assistance on reserve management, stressing that revised investment guidelines and a more appropriate benchmark could help achieve the BRH's objective of securing a positive real return on its reserve portfolio without compromising capital preservation and liquidity objectives. They also highlighted the efforts to continue developing the interbank foreign exchange market to reduce unnecessary exchange rate volatility.

[15] See Selected Issues Paper "External Buffers and Competitiveness to Absorb Shocks And Support Growth."

[16] See Selected Issues Paper "Monetary Policy and Financial Intermediation."

Box 2. Haiti: GDP Growth Projections under the ECF arrangement

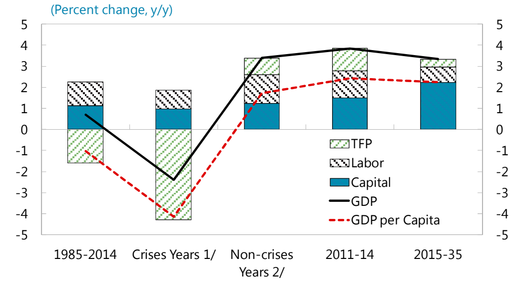
Average per-capita GDP growth in Haiti in the past three decades has been negative. Per capita GDP growth in the thirty years through 2014 was -1 percent. This situates Haiti in the bottom 5th percentile when compared with a range of country groups (including countries of all levels of development, low-income countries (LICs), and non-resource rich LICs, see Table). This compares with a median per capita GDP growth rate of about 1.4 percent for all LICs and 1.2 percent for non-resource rich LICs.[1]

Political instability, weather and terms of trade shocks produced a number of stop-and-go growth episodes. Although both headline and per-capita GDP growth were positive during non-crisis years, this performance did not offset the negative impact on per-capita income *levels*, after political crisis. While natural disasters continue to affect Haiti (as agriculture is about 20 percent of GDP), GDP per capita has recovered after those. Standard growth accounting exercises suggest that total factor productivity (TFP) growth was somewhat positive in non-crisis years, but extremely negative during crisis years (see Chart).

The macroeconomic framework of the ECF-supported program is underpinned by ambitious, yet achievable, per capita GDP growth rates. Concretely, average per-capita GDP growth for 2015–2035 is assumed at 2.2 percent, about similar to the median for all country groups. This would be the result of a projected average real GDP growth rate of 3.4 percent and population growth of 1.2 percent.[2]

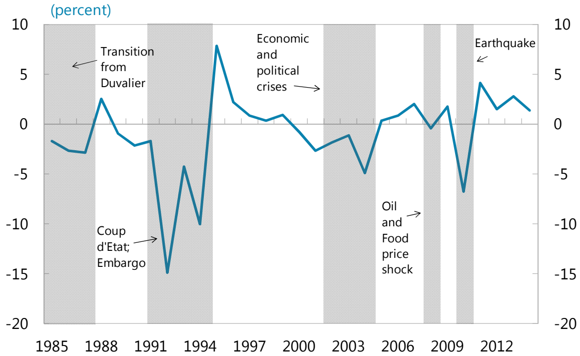
Projections are conditional on political and macroeconomic stability, and appropriate buffers to withstand shocks and avoid stop-and-go growth dynamics. Given large space for catch-up growth, positive institutional change could generate large increases in TFP. Accordingly, baseline GDP growth rates are the result of expected labor force increases (in line with demographic trends), increases in the capital stock (mainly due to still-high public investment), and a low (but positive) TFP contribution. Stronger progress in structural reforms could yield larger increases in TFP. Relatively large TFP increases have been observed in LICs that significantly improved their policy performance.

GDP and Input Contributions
(Percent change, y/y)



Sources: United Nations Database; National Authorities; and IMF staff calculations.
1/ "Crisis years" are: 1985-87, 1990-94, 2001, 2002-2004, 2008, and 2010.
2/ "Non-crises years" excludes all crises years.

Per Capita Growth, 1985-2014
(percent)



Sources: National Authorities; and IMF staff calculations.

Haiti: Average and Projected Per Capita GDP Growth As A Percentile of World Averages, 1985-2014

	Percentile, all countries (142)	Percentile, LICs (51)	Percentile, Non-Resource Rich LICs (34)
1985-2014, Actual			
-1.0% growth, average	4	2	1
1.7% average growth, ex crisis years 1/	49	58	58
Memo: -4.2% average growth in crisis years			
2015-2019, Proj.			
2.1%	60	61	60
2020-2035, Proj.			
2.3%	64	65	61

Source: WEO, Fund Staff calculations
1/ Crisis years in Haiti are defined as 1985-1987; 1990-1994; 2001; 2002-2004; 2008, and 2010.

[1] Data on per capita growth rates for 142 countries (including 51 LICs and 34 non-resource rich LICs) were obtained from the World Development Indicators database. The distinction between all LICs and non-resource rich LICs is based on "Macroeconomic Policy Frameworks for Resource-Rich Developing Countries" (IMF, 2012)

[2] Population projections are those of IHSI and United Nations.

21. The banking sector remains well-capitalized and profitable, but some sectors may come under pressure as the post-earthquake relief effort winds down. Staff noted that commercial bank credit remains concentrated mainly in commerce and non-tradable sectors. In particular, the service sector expanded after the earthquake (including hotels and restaurants, mainly in the capital Port-au-Prince) to respond to the increased demand that originated in the international relief effort. As this effort winds down, demand may decrease and thus the service sector may come under pressure. In this regard, staff recommended the implementation of periodic stress testing to spot risks. The authorities noted that financial soundness is safeguarded through periodic on-site and off-site inspections, but would consider stress tests. They explained that they have allowed banks to renegotiate loans to non-tradable sectors to provide time for such sectors to adjust to the demand plateau. Staff cautioned that the use of such renegotiations should be monitored, to assess the effect on capital ratios, and that banks should be ready to withhold dividends or inject new capital if needed. BRH authorities concurred. The authorities stressed that the adoption (in late 2013) of the anti-money laundering and combating the financing of terrorism (AML/CFT) law addressed a number of the recommendations by the Caribbean Financial Action Task Force (CFATF), but cautioned that remaining reforms (including reforms to the penal code) will need parliament approval.

22. Staff argued that low access to credit is a constraint to growth. Staff argued that deeper financial intermediation would support inclusive growth. Intermediation can be increased by strengthening property rights and competition among financial institutions. The authorities highlighted their new financial inclusion strategy, developed in consultation with the World Bank, and noted that recent reforms such as the establishment of a credit bureau will result in reliable information about the credit-worthiness of individuals and businesses. The authorities explained that they intend to resume efforts to enact pending laws on financial cooperatives and on microfinance institutions, and stressed that data collection in this sector has improved.

A NEW ECF ARRANGEMENT: LIFTING BOTTLENECKS TO GROWTH AND ENTRENCHING MACROECONOMIC STABILITY

In line with the Ex-Post Assessment (EPA) recommendations and the medium-term challenges facing Haiti identified in the Article IV discussions, the new program seeks to entrench macroeconomic stability and promote inclusive growth and sustained poverty reduction, through streamlined policies and actions that are fully owned by the authorities.

23. The previous ECF-supported program aimed at accommodating post-earthquake reconstruction spending, maintaining macroeconomic stability, and advancing structural reforms. Facing enormous reconstruction challenges, the program made room for absorbing large external flows, while keeping a moderate and stable rate of inflation. Reforms were mainly addressed at improving the policy framework and rebuilding capacity.

24. As post-earthquake assistance tapers off, the new ECF-supported program aims at lifting bottlenecks to growth, strengthening the policy framework, entrenching macroeconomic stability and preserving buffers to avoid stop-and-go growth dynamics. Sustainable fiscal deficits will allow preserving external buffers equivalent to 4–5 months of prospective imports, essential to absorb shocks that could derail growth. Adequate buffers will also contribute to anchor expectations and keep inflation in the mid-single digits. PFM reforms will strengthen the effectiveness of fiscal policy. Improving EDH's performance will tackle a source of vulnerability while improving competitiveness. Progress in implementing a reliable cadastre will support investment and growth, while efforts at financial deepening should make growth more inclusive.

A. Entrenching Macroeconomic Stability and Containing Risks

25. The macroeconomic framework of the ECF-supported program is underpinned by achievable GDP growth rates (MEFP ¶10–11). GDP growth is projected at 2–3 percent in FY2015, and should pick up to 3–4 percent in the medium term as structural reforms proceed (Box 2). Growth will be underpinned by remittance-driven consumption, construction, a growing textile industry, and will be supported by lower oil prices. Inflation is projected to remain in the mid-single digits, due to a prudent policy mix. The current account deficit is projected to remain under 4 percent of GDP through FY2017, reflecting lower oil prices and fiscal consolidation.

Program definition of NFPS

Institutional Aggregate	Included in Proposed Program Definition of NFPS	Comments
Central Government	Yes	
Petrocaribe-related Spending/Financing	Yes	
PSUGO own resources	Yes	
Road Fund	Yes	
Local Governments	Partially	Only transfers of earmarked national taxes and corresponding spending. Local Governments are small (2 percent of GDP on aggregate) and data are produced with significant lags.
Social Security		
Private Mandatory	No	Still low dependency ratios result in surpluses.
Civil Service	No	
State-owned Enterprises		
Electricity (EHD)	Yes	Macro relevant.
Port Authority (APN)	No	
Airport Authority (AAN)	No	
Postal Office (OPH)	No	
Labor and Maternity Insurance Office (OFATMA)	No	Small in size and significant lags in data provision.
Third-party vehicle insurance company (OAVCT)	No	
Sugar Factory (USJLDD)	No	
Telecom Company (NETCO, 40 percent stake)	No	

Source: Ministry of Economy and Finance

26. Risks to the baseline GDP growth projections are tilted to the downside.

- **Domestic politics.** The complex political situation poses challenges for policy implementation, and for anchoring expectations.
- **Oil prices.** The decline in oil prices is a positive terms of trade shock; oil prices remain, however, highly volatile. The risk of a stop in Petrocaribe financing has increased, and this could result in lower GDP growth of about 1 percentage point.
- **Donor fatigue.** Aid inflows are decreasing as earthquake rebuilding winds down. Slower aid flows (including due to political stress) are a downside risk.

- **Weather events.** Weather shocks and natural disasters are responsible for stop-and-go dynamics and combined with low response capacity and institutional weaknesses prevent the accumulation of capital. Agriculture (over 20 percent of GDP), is particularly vulnerable to weather events.

- **U.S. growth.** The U.S. is Haiti's largest export market and the main source of remittances (20 percent of GDP). Higher U.S. growth constitutes an upside risk.

27. The ECF-supported program is built on a front-loaded fiscal adjustment (MEFP ¶12, 24–25). The deficit (including grants) of the non-financial public sector (NFPS, the program's fiscal anchor, text table) is set to decrease from about 7½ percent of GDP in FY2014 to 3¼ percent in FY2015, and will decline further to less than 2½ percent of GDP in FY2016−FY2018. About half of the fiscal consolidation in FY2015 is derived from lower international oil prices, and thus, should not result in a negative fiscal impulse. The reduction in the NFPS deficit should bolster sustainability while preserving poverty-reducing spending, crowd in private sector bank credit and preserve buffers.

The fiscal adjustment stems from the central government (3.7 percent of GDP) and EDH (0.5 percent of GDP)

	2015
Nonfinancial public sector (I + II)	**4.2**
Central government (I)	**3.7**
Revenue and budget support	1.6
Budget support	-0.4
Fuel taxes	1.5
Fuel price increase	0.2
Locked-in windfall revenue	1.3
Admnistrative measures (incl. vehicle tags)	0.3
Expenditure	-2.1
Transfers to electricy sector [1/]	-0.5
Non-electricity transfers [2/]	-0.4
Transfers to municipalities for street lighting	0.2
Mitigating measures for fuel price increases	0.1
Wage bill [2/]	1.0
Petrocaribe-funded investment	-1.5
Exceptional post-Sandy investment	-1.0
EDH deficit (after transfers) (II)	**0.5**

Sources: Ministry of Economy and Finance; and Fund staff estimates.
1/ Excluding transfers to municipalities for street lighting.
2/ Some wages were previously classified under transfers.

- **The program for FY2015.** In March 2015, the central government adopted (as a prior action) a revised FY2015 budget consistent with a deficit of 2.7 percent of GDP, that includes allocations for elections and street lighting, a (warranted) reclassification of current transfers into wages, and a reduction of capital spending towards more sustainable levels, in line with the large decline in Petrocaribe financing. Central Government revenue will increase to 14.7 percent of GDP, given the elimination of fuel subsidies and the lock-in of windfall revenue from the declining oil prices. Grants will decline by 0.4 percent of GDP (with budget support expected from the IDB and the European Union). Current spending will remain broadly stable, as wage bill increases (of 1 percent of GDP, given the reclassification of transfers and increases for teachers and the national police), will be offset by reductions in transfers, including to the electricity sector. Investment will decline, as one-off post-Sandy emergency spending concludes and only ongoing projects receive budgetary financing. In addition, EDH's board adopted (as a prior action) a revised budget for FY2015 with savings of about 0.7 percent of GDP. Savings will come from reductions in production costs, a more rational utilization of available supply, and improvements in billing and collection at unchanged tariffs.

- **The program for FY2016–FY2018.** The FY2016 budgets for the central government and EDH will be adopted before end-September 2015 in line with an NFPS deficit of

2.3 percent of GDP (structural benchmark). Savings will mainly come from additional efforts at rationalizing domestically-financed investment and additional gains from EDH reforms. The NFPS deficit will decline to 2.2 percent of GDP by FY2018 (Central Government deficit of 2 percent and EDH deficit -after transfers- of 0.2 percent). To control current spending, net recruitments are only expected in the social and security sectors. Wages will not be indexed, and increases will not surpass inflation.

- **Risk Management.** A disruption of Petrocaribe flows would create a financing gap of about 1 percent of GDP in FY2015 and of 2 percent of GDP in FY2016 relative to program projections. Additional donor financing and temporary drawdown of deposits and reserves could offset half of the gap this and next fiscal year. The authorities explained that no new Petrocaribe-financed projects will be initiated, and that they have identified projects that can be implemented more slowly should the need arise. Thus, in case of a stop, the authorities stressed that the spending pace will be adjusted to absorb the shock. The authorities argued that the adoption (as a prior action), and the implementation before end-FY2015 (as a continuous structural benchmark) of an automatic mechanism for oil products to reflect international prices should contain fiscal risks derived from a rebound in international oil prices (Box 3).

28. The monetary program under the ECF-supported program is geared at achieving a moderate and stable inflation while preserving a credible reserve buffer (MEFP ¶13–14). The program will target international reserves at 4–5 months of prospective imports and ensure no monetary financing of the fiscal deficit.

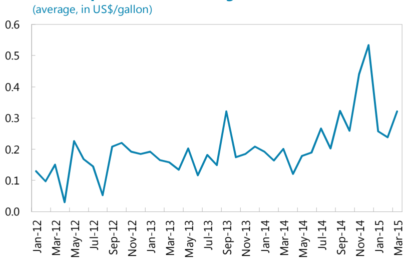
- **The program for FY2015.** After a decline in NIR of about US$100 million during the first half of FY2015 (as the BRH accommodated the payment of debt to government suppliers at end-FY2014, but also due to increased dollar hoarding by the private sector responding to the political cycle), NIR are programmed to decline by at most US$50 million in the second half of FY2015. The additional decrease will come from the use of government deposits to partially absorb the strong decline in Petrocaribe flows, but also from an expected increase in deposit dollarization until the election cycle concludes. Given the importance of a credible reserve buffer to anchor expectations, increased exchange rate flexibility will be needed to meet the NIR target in case exchange rate pressures are higher than expected.

Box 3. Haiti: An Automatic Pricing Mechanism

Fuel prices in Haiti are similar to those in Caribbean and Sub Saharan African countries. Retail prices at end-2014 were somewhat higher than the average for Latin America and the Caribbean (LAC), developing Asia, and the (heavily subsidized) prices in the Middle East and North Africa, but significantly lower than the average for advanced economies (see chart). The small gap that existed with the LAC average was, however, closed after pump price decreases last February.

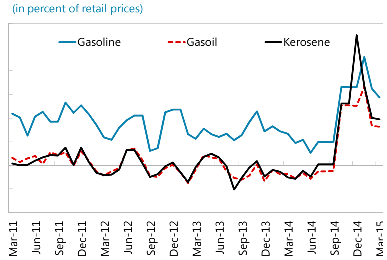
The price structure for fuel products suffers from some shortcomings including a lack of transparency. The base imported prices used in the price structure are not those in invoices paid by importers (based on Platt's), but rather the "Caribbean posting" quotes, a benchmark that includes insurance and other costs in addition to the base price for refined oil products. This results in the double counting of some costs within the price structure. The gap between actual import prices and the "Caribbean posting" quotes is positive, and has increased since April 2014 (see chart). This gap is transferred to private sector importers, including for payment of storage costs which are not explicitly shown in the price structure.[1] These transfers have increased in the last 12 months.

Price Gap Caribbean Posting and Platt's
(average, in US$/gallon)



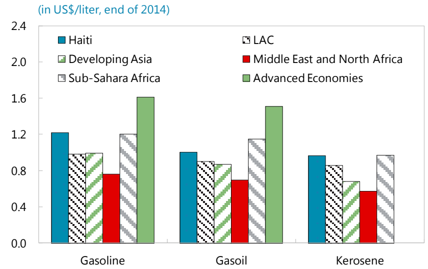
Sources: National Authorities; and IMF staff calculations.

Effective Taxes
(in percent of retail prices)



Sources: National Authorities; and IMF staff calculations.

Retail Prices
(in US$/liter, end of 2014)



Sources: National Authorities; and IMF staff calculations.

The authorities will implement an automatic pricing mechanism (APM) to protect fiscal revenues from fluctuations in international oil prices. Fuel prices were fixed during March 2011–October 2014. The price freeze implied that taxes were adjusted to keep pump prices fixed. As international oil prices increased (and the gourde depreciated), implicit fuel taxes declined and the gap with fuel prices in the region increased (e.g., in June 2014, pump prices in Haiti were, on average, about 30 percent lower than in the Dominican Republic, where retail prices move broadly in tandem with international prices). In the context of the ECF, the authorities committed to implementing an APM before the end of FY2015. This will ensure that international prices are passed-through into domestic retail prices, preserving fiscal revenues and providing the right signal for resource allocation. It will also depoliticize fuel price adjustments and anchor expectations about the causes of price changes. The APM will include a smoothing mechanism to prevent sharp increases in domestic prices in response to international price hikes. This mechanism will allow for additional (forgone) revenues of up to G 1 billion (0.2 percent of GDP). However, international prices will be fully passed-through (upwards or downwards), whenever additional (forgone) revenues reach G 1 billion in absolute terms. The authorities also committed to revise the price structure so it reflects actual imported prices and all costs in the value chain.

The authorities are also planning to implement well targeted mitigating measures. This is in line with best practice. In this regard, in a number of countries the elimination of fuel subsidies was accompanied by the introduction of a social tariff for public transportation (e.g. in the Dominican Republic, Paraguay, Nicaragua and Panama). The authorities have requested assistance from the World Bank to design such a system. The planned fiscal cost of this direct subsidy (0.2–0.3 percent of GDP) is minor when compared with the cost of blanket subsidies in FY2014 (about 2 percent).

1/ The importers are in charge of storing the products they contract through private companies. Installed storage capacity is estimated at 365,000 barrels, which is the equivalent of three weeks of national consumption.

- **The program for FY2016–FY2017.** As the fiscal adjustment proceeds and the electoral cycle comes to an end, NIR are programmed to rebound as dollarization is gradually reduced and dollar hoarding declines. Over the medium-term, fiscal consolidation will permit a gradual loosening of monetary policy and a crowding in of private sector credit, without unwarranted pressures on international reserves. Monetary financing of the government will be limited to a drawdown of Post-Catastrophe Debt Relief (PCDR) resources. This will ensure that international reserves and government deposits at the BRH are at levels appropriate to serve as cushions against a possible disruption in Petrocaribe and other shocks.

B. Structural Reforms to Support Growth and the Policy Framework

29. Structural reforms will focus on removing constraints to growth and completing fiscal and financial sector reforms under way. Actions will be focused and streamlined, in line with EPA recommendations. Their timing will be guided by capacity constraints and the ongoing TA agenda.

30. Growth and social cohesion (MEFP ¶17–22). Actions will target lifting basic constraints to growth in areas of IMF expertise.

- **Energy sector.** Strengthening EDH's financial position will reduce fiscal risks and allow a gradual increase of supply. Accordingly, the main stakeholders in the electricity sector are preparing a work program to be reflected in a protocol for the sector (structural benchmark).[17] The protocol includes provisions to improve governance, strengthen performance, provide timely information for decision-making, and consolidate cross-arrears.[18] The authorities will audit the largest clients to boost billing and collection (structural benchmark). The adoption and implementation of an automatic pricing mechanism for domestic fuel products (to reflect international prices) will improve efficiency and prevent blanket subsidies (prior action and continuous structural benchmark).[19]

- **Property rights.** Strengthening property rights will boost Haiti's growth potential. Transferable property rights will support private domestic and foreign investment, facilitate access to credit by allowing the use of land as collateral, and can be a valuable input to broadening the tax base. A modern cadastre system would improve Haiti's resilience to natural disasters, as stronger property rights would encourage investments in structural improvements. In line with their ongoing work-program, the inter-ministerial commission on land management will prepare an action plan for

[17] This effort is supported by the World Bank and the IDB.

[18] While IPPs have a creditor position *vis-à-vis* EDH,for the provision of electricity, the central government has a creditor position *vis-à-vis* IPPs for the provision of fuel. Consolidating these arrears will bring clarity to the financial position of the sector's stakeholders.

[19] Efficiency will also increase due to the gradual harmonization of custom duties across products.

FY2016–FY2017 to strengthen the legal framework and functioning of the cadastre (structural benchmark).[20]

- **Access to credit.** A fully-functioning credit bureau will help strengthen access to credit by providing a tool to assess creditworthiness. Regular reporting by financial institutions to the bureau is a crucial first step, but the authorities should allow potential first-time borrowers to build a credit history by incorporating other indicators of creditworthiness into the database, such as proof of utilities payment. The non-bank financial sector (insurance companies, cooperatives, and microfinance) should be further developed, as should new financial instruments such as leasing.[21]

- **Poverty Reduction.** The authorities will build on the progress in the MDG framework by targeting consistent increases in domestically-financed spending on education, health, and agriculture (indicative target).

- **Data quality.** In the near term, the authorities will prioritize the introduction of an overall quarterly economic index to serve as a leading indicator of GDP growth (currently presented only on a yearly basis). With technical assistance from the IMF and from France, the authorities will revamp national accounts, including the change of the base year. The authorities have also completed a household survey, the results of which will be crucial in improving estimates of poverty and poverty reduction as well on the labor force. The authorities will also address data gaps in the external accounts, and will request IMF technical assistance to this end.

31. Fiscal Reforms (MEFP ¶23–27). Actions were drawn from the Public Finance Reform Strategy adopted last year, and will focus on strengthening tax policy and administration, improving public financial management, enhancing expenditure effectiveness, and creating an enabling environment for the private sector.

- **Tax policy.** A working group in charge of producing a draft of the tax code will be appointed by end-July 2015 (structural benchmark). This group will also assess the elimination of a number of small taxes with low yield and high costs, and the adoption of a mining code and of a full-fledged VAT system. The IMF will provide technical assistance in analyzing tax expenditures

- **Tax administration.** Actions will focus on restructuring and deepening taxpayer segmentation. Registration and audit of new potential taxpayers (identified with IMF support), the transfer of files of medium taxpayers from the LTO and local tax offices to

[20] This effort is being supported by the IDB, France and Canada.

[21] This is in line with the recommendations of the Financial Inclusion Strategy recently completed with support from the World Bank. See Selected Issues Paper "Monetary Policy and Financial Intermediation."

the MTO (structural benchmark), and strengthening the unit in charge of NGOs and exempted entities will increase compliance. Strengthening IT tax management will improve country-wide monitoring of tax payer filings. Reforms at customs administration will contain tax exemptions, the fight against smuggling and the communication of information from the Automated System for Customs Data (ASYCUDA) to the tax department for auditing purposes (structural benchmark)

- **Public financial management**. Work on the TSA will continue, including the conversion of spending accounts into Treasury sub-accounts and of specific revenue accounts into secondary accounts; and the establishment of all remaining accounting centers by end-September 2015 (structural benchmark). To this end, the government has implemented the terms of a December 2014 memorandum placing all public accounts at the BRH under the control of public accountants, a measure also to be applied by the state-owned bank BNC (prior action). Actions to strengthen cash and debt management will complement this work. The authorities will make their best effort so that the draft laws on the reorganization of the ministry of finance and on public debt are adopted following the election of a new parliament. To ensure respect of the budgetary process, the government has tightened modalities for the clearance of off-budget commitments (continuous structural benchmark). Improving the effectiveness of public investment will help upgrade infrastructure and reduce costs for the private sector. In the medium-term, the expansion of the TSA to the rest of the NFPS will help improve the coverage of public sector finances.

32. Monetary and financial sector reforms (MEFP ¶28–31). The ECF-supported program targets regulatory and supervisory enhancements and reforms to improve the monetary policy framework, promote financing deepening, and support inclusive growth.

- **Reserve management.** Actions to improve the BRH's reserve management framework will include better documentation of reserve management decisions and better alignment of portfolio management decisions to internal guidelines, in line with IMF technical assistance recommendations. The authorities will prepare periodic reports on the liquidity of gross reserves, and will quantify the BRH's three goals in managing its reserve portfolio (capital preservation, liquidity, and return). The authorities will refine the investment guidelines and benchmarks agreed with external managers to ensure conformity with the BRH's objectives.

- **Foreign exchange market.** Actions in this area will include improving the reporting of transactions, beginning single-price foreign exchange auctions, setting up an electronic platform for FX transactions, and establishing an interbank market for foreign exchange with an increased number of participants.

- **Safeguards.** Actions will be geared at strengthening the investment committee's autonomy from investment operations, appointing a compliance officer to provide independent oversight of foreign reserves policy and investment guidelines, and achieving full adoption of IFRS.[22]

- **Banking supervision and AML/CFT.** The authorities will request IMF technical assistance on stress testing, with a view of implementing them on a regular basis to identify risks. The authorities will implement remaining CFTAF recommendations on AML/CFT, and implement the 2012 Financial Action Task Force (FATF) standard, with a view to improve governance and address tax evasion.

C. Program Modalities and Access

33. It is proposed that Haiti's program be supported by an arrangement under the Fund's Extended Credit Facility (ECF). Staff proposes a 3-year arrangement with access of 60 percent of quota divided in seven equal tranches, with disbursements subject to semi-annual reviews with test dates in March and September.[23] Proposed access would ensure that international reserves remain close to their appropriate value for a country exposed to large and frequent shocks like Haiti. Debt service to the Fund would remain manageable. Staff considers Fund support essential for the successful implementation of Haiti's economic program, including because of its catalytic effect on the provision of budget support from multilateral donors, thus ensuring that the program is fully financed. As set out in the protocol for the electricity sector, the authorities are making good faith efforts in resolving EDH's arrears.

34. Performance will be monitored through quantitative performance criteria and indicative targets (MEFP ¶32). Performance criteria will include: (i) a ceiling on net central bank credit to the non-financial public sector; (ii) a ceiling on net domestic assets of the central bank; (iii) a floor on net international reserves of the central bank; (iv) a ceiling on the deficit of the non-financial public sector; and (v) a ceiling on domestic financing of the central government. Continuous performance criteria will include: zero ceilings on (i) the accumulation of public sector external arrears; and (ii) the contracting or guaranteeing of non-concessional debt. An indicative floor will be set for domestically-financed poverty-reducing expenditure.

35. Staff recommends the establishment of a committee dedicated to monitoring implementation of reforms under the ECF-supported program. The authorities decided that the Secretary of State for Finance lead this committee; that it include representatives from the BRH, EDH, and Budget, Treasury and Economic Studies Directorates at the Ministry of Finance; and that it work closely with the Fund Resident Representative. This should result in better communication between the Fund and the authorities, and ensure that consultations are undertaken in matters related to the ECF-supported program.

[22] IMF safeguards policy requires an update safeguards assessment to be completed no later than the first review under the new ECF arrangement.

[23] This reflects Haiti's fiscal year (October –September).

STAFF APPRAISAL

36. Since the 2012 Article IV Consultation, Haiti has continued to successfully maintain macroeconomic stability. The authorities have navigated the surge, and subsequent decline, in financial flows following the devastating earthquake, and have carried out significant reconstruction while maintaining buffers and avoiding high inflation. International reserves remain appropriate, and the country has seen the longest stretch of growth in per capita income since the mid-1980s.

37. Raising Haiti's growth rate requires deep-seated structural reforms to improve competitiveness. While Haiti's recent growth record is positive when compared with its recent history, it has fallen short of expectations and is insufficient to rapidly reduce poverty. Raising Haiti's growth rate (to 3 – 4 percent in the medium term) will require addressing structural bottlenecks to growth and job creation with improvements in the business environment and property rights, and access to cheaper and reliable electricity. The development of secure and transferable land property rights through a functioning cadastre system is a key reform that would support investment and unlock financing. Financial inclusion should be pursued, including via a credit bureau and the promotion of credit cooperatives and microfinance institutions.

38. The appropriate policy mix for FY2015 includes a fiscal adjustment and an unchanged monetary policy stance. The fiscal deficit (that rose to 6–7 percent of GDP over the past two years), needs to be reined in to about 3¼ percent of GDP, in part due to the strong decline in Petrocaribe flows, and the need to preserve buffers. The authorities have appropriately taken advantage of the decrease in oil prices to eliminate foregone revenues related with fuel taxes, while the adoption of an automatic price mechanism for oil products should address the fiscal risks associated with a rebound of oil prices. While part of the necessary adjustment reflects a return to sustainable levels of investment spending and improvements in revenue collection, the poor performance of the electricity sector must be addressed, as it has been a key driver of fiscal imbalances. The monetary policy stance is appropriately tight, and should remain unchanged until fiscal consolidation proceeds. Fiscal consolidation will support the use of the exchange rate as a nominal anchor. The central bank should be prepared to increase exchange rate flexibility to ensure that international reserve buffers remain appropriate if fiscal consolidation falters.

39. The policy framework needs further improvement. The electoral impasse has delayed the legislative reform agenda, and clearing the backlog of draft laws should be a top priority after a new parliament is elected later this year. Public financial management should continue to be improved, including via the final establishment of a TSA. Enhancing budgetary transparency should also be a key priority, and the central bank should continue to develop its reserve management framework and improve the functioning of the foreign exchange market. Improving the quality of economic data is essential, given serious shortcomings that hamper surveillance.

40. The new ECF-supported program seeks to entrench macroeconomic stability, address sources of vulnerabilities, and promote growth. These objectives will be achieved through streamlined policies and actions that are fully owned by the authorities. They have the commitment and capacity to implement the proposed set of policies aimed at correcting external imbalances and enabling repayment to the Fund.[24] In this regard, the program seeks to address the main sources of vulnerability identified by the Ex-Post Assessment (EPA), and also highlighted in the Article IV discussions.

41. The ECF-supported program will be geared at ensuring fiscal sustainability, while preserving poverty-reducing spending. The revised budget for FY2015 is an appropriate response to existing constraints and preserves fiscal buffers, which are essential to face unanticipated shocks. The deficit target (of around 2½ percent of GDP) through the medium-term is consistent with ensuring fiscal sustainability. By targeting the deficit of the non-financial public sector, the ECF-supported program appropriately covers all sources of fiscal vulnerability, in particular the state-owned electricity utility (EDH). The program seeks to lock-in the fiscal gains created by the current low oil price environment. In this regard, the adoption of an automatic fuel pricing mechanism will help protect revenue against oil price shocks. The design of a targeted social tariff for public transport will mitigate the impact of fuel price volatility on the population.

42. The new program will support the authorities' efforts to ensure that inflation remains moderate and stable, and inflation expectations well-anchored. The BRH will keep the stance of monetary policy tight, as needed, until the fiscal deficit is reduced, and will avoid the use of exceptions in the computation of reserve requirements. Increasing exchange rate flexibility is warranted to maintain adequate international reserves while ensuring that the real exchange rate is close to equilibrium. Fiscal consolidation and improved communication on monetary policy should help in managing expectations.

43. Structural reforms under the program aim at supporting sustained economic growth and reducing Haiti's vulnerabilities, in line with Article IV and EPA recommendations. Reducing fuel subsidies and improving tax administration will provide needed fiscal space for spending in education and health, while PFM reforms, particularly the implementation of the TSA, will strengthen the framework for fiscal policy. Increasing the effectiveness of public investment will help improve infrastructure and reduce costs for the private sector. Gradual progress with a land cadastre will unlock investment and improve investor perceptions. While initial steps at reining in the financial situation of EDH (including through the signing of a protocol for the sector) are welcome, the work with other development partners (including the World Bank and IDB) to improve billing and collection should be deepened. A financially viable electricity sector will attract investment, and result in increases in supply and lower generation costs. The positive spillovers to productivity, reduction of vulnerabilities, and poverty reduction would be substantial.

44. Staff supports the authorities' request for Fund assistance under the ECF in an amount equivalent to 60 percent of quota. The ECF will contribute to maintaining an appropriate level of international reserves, and thus to anchoring expectations. The front loaded fiscal adjustment and

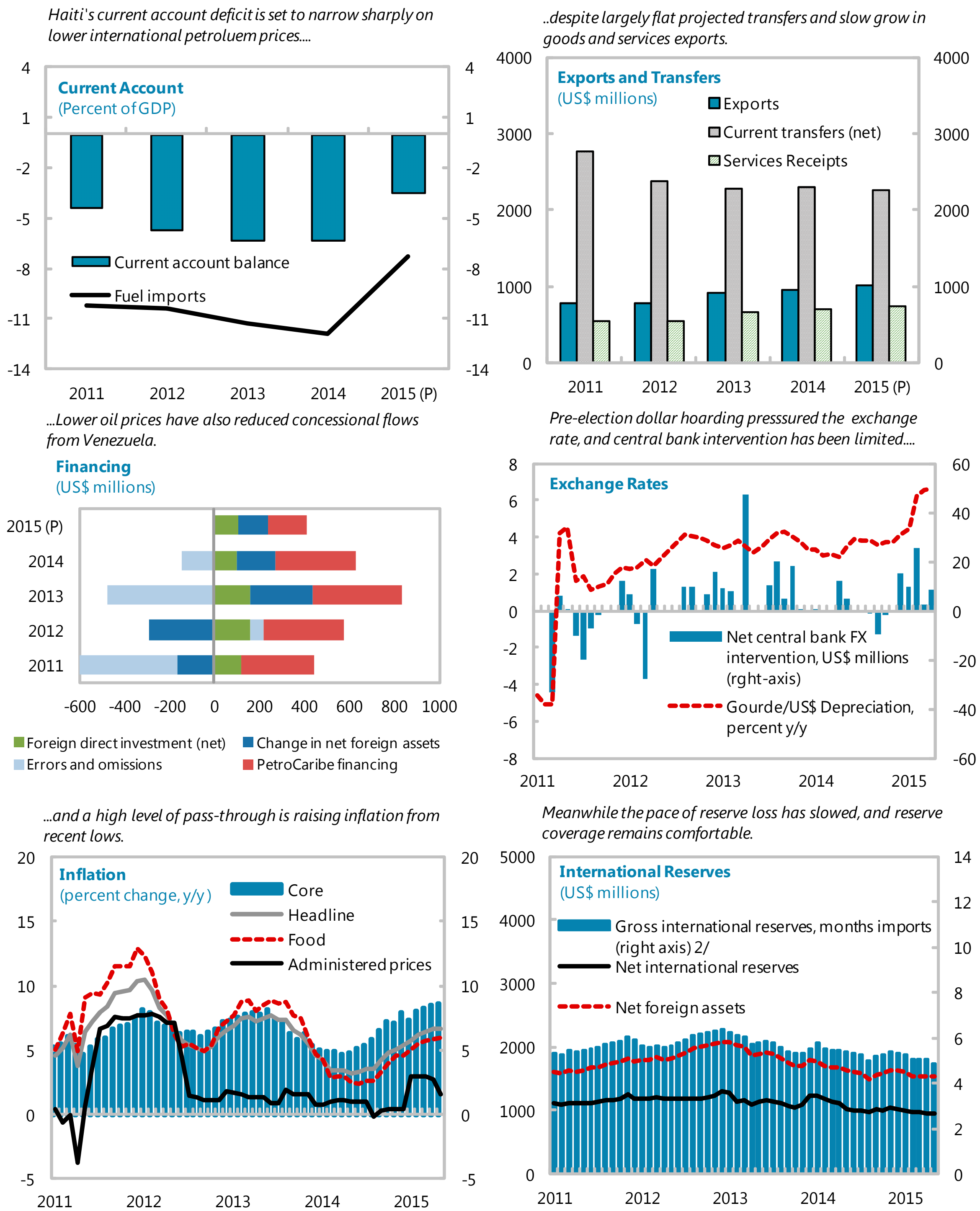
[24] Accordingly, the proposed ECF meets the UCT conditionality standard, as required by Fund policy.

the implementation of prior actions are indicative of the authorities' determination to maintain macroeconomic stability and mitigate existing risks.

45. It is proposed that the next Article IV Consultation with Haiti take place on the 24-month cycle, subject to the decision on consultation cycles.[25]

[25] Decision No. 14747-(10/96), September 28, 2010.

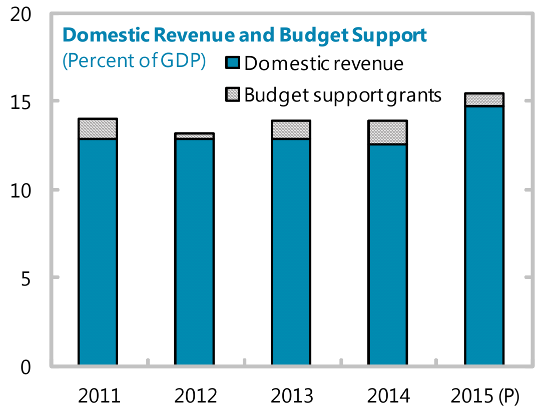
Figure 1. Haiti: Recent Economic Developments, 2011–15 1/



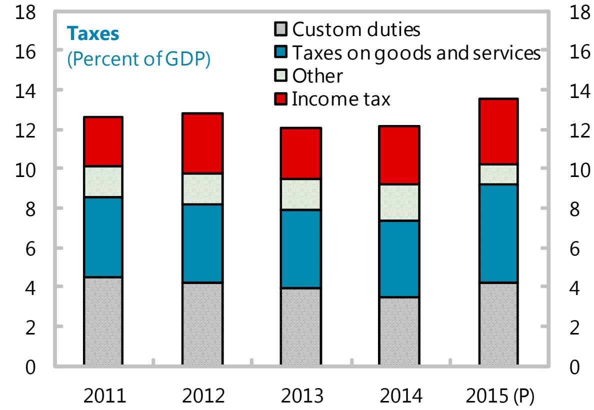
Source: National Authorities; and IMF staff estimates.
1/ Data are in fiscal years.
2/ Gross international reserves exclude central bank repurchase operations in 2013.

Figure 2. Haiti: Fiscal Developments, 2011–15 1/

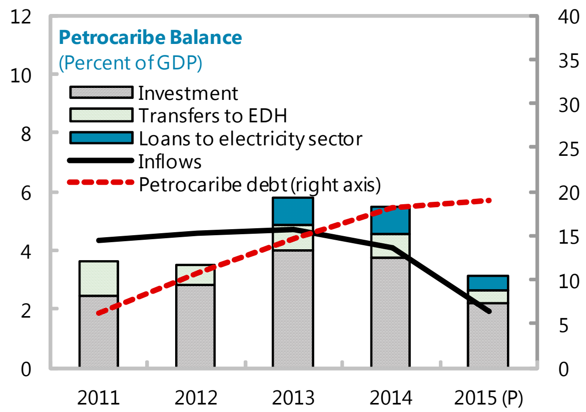
Revenues (excluding project grants) are set to rise sharply in FY2015...



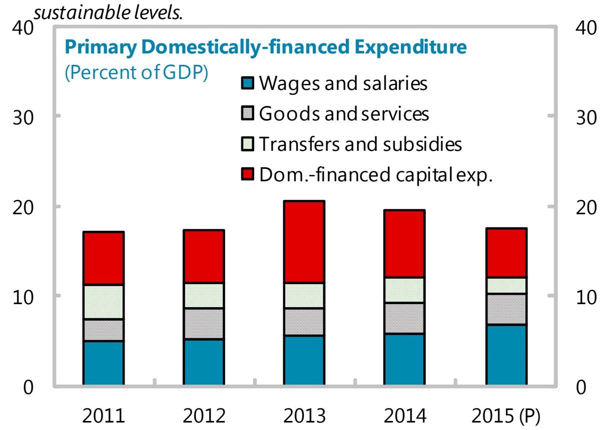
...Due to a significant increase in fuel tax revenue as well as improved tax collection.



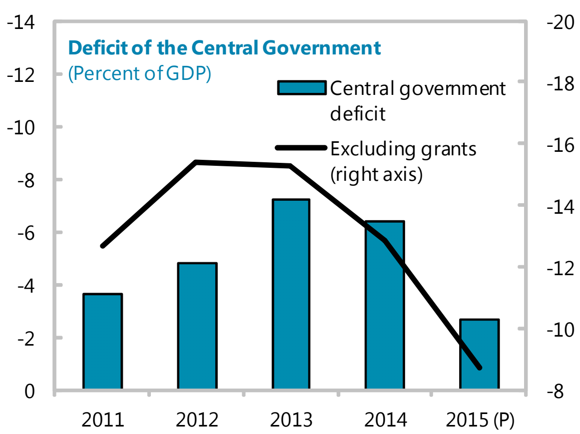
The decline in international oil prices decreased Petrocaribe flows, prompting a slowdown in Petrocaribe investment spending...



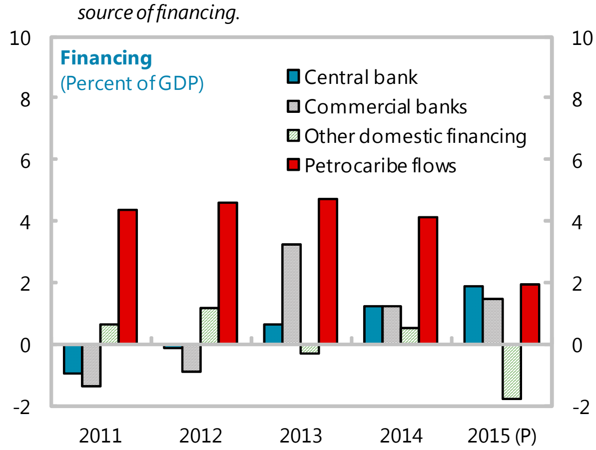
...and domestically-financed capital spending is decreasing to sustainable levels.



These factors are sharply reducing the overall fiscal deficit...



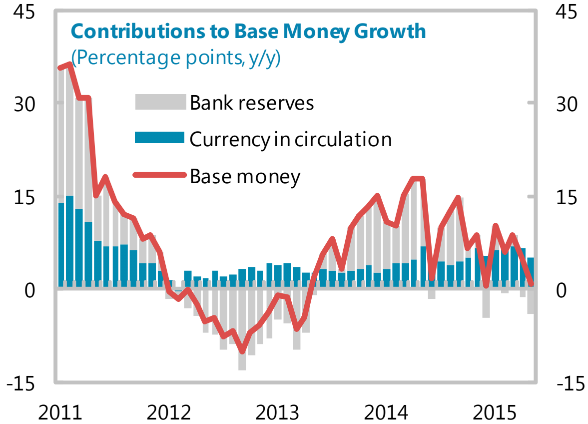
...although Petrocaribe flows remain an important source of financing.



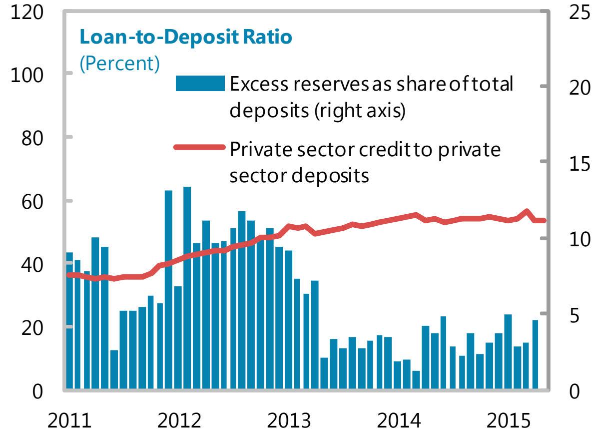
Source: National Authorities; and IMF staff estimates.
1/ Data are in fiscal years unless noted otherwise.

Figure 3. Haiti: Monetary and Financial Market Developments, 2011–14 1/

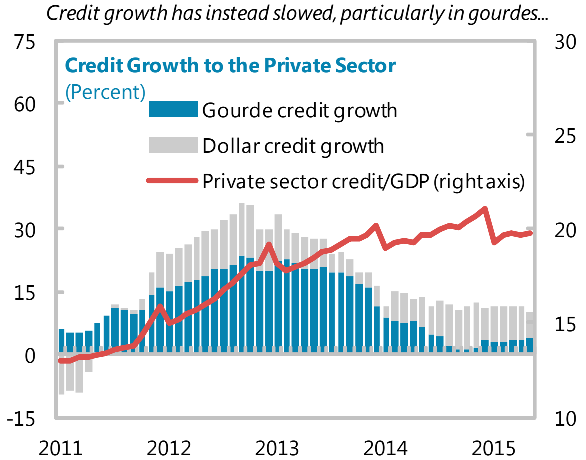
Base money growth remains near zero on monetary policy changes allowing gourde reserves to fall...



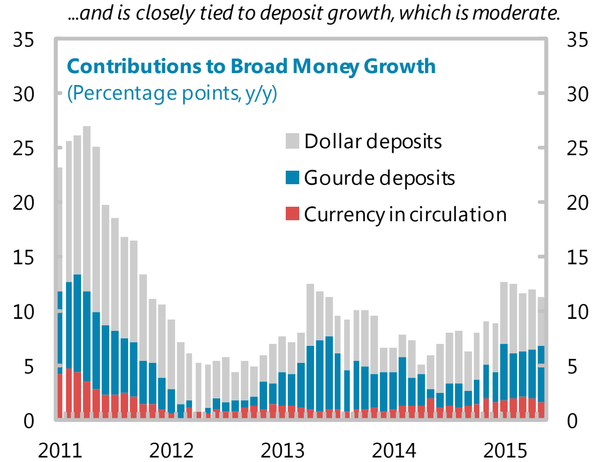
...although this has not generated excess liquidity or private credit, because the reserves are allocated for specific uses.



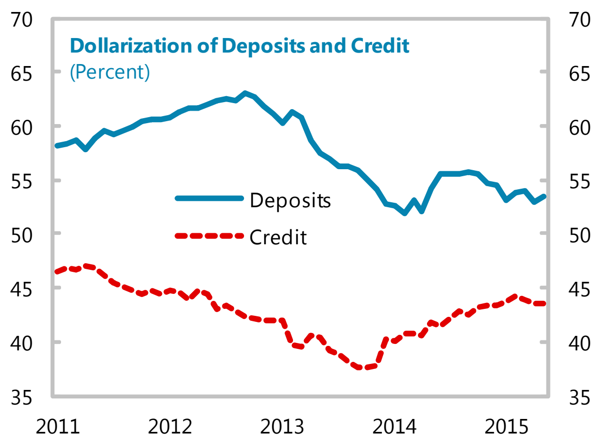
Credit growth has instead slowed, particularly in gourdes...



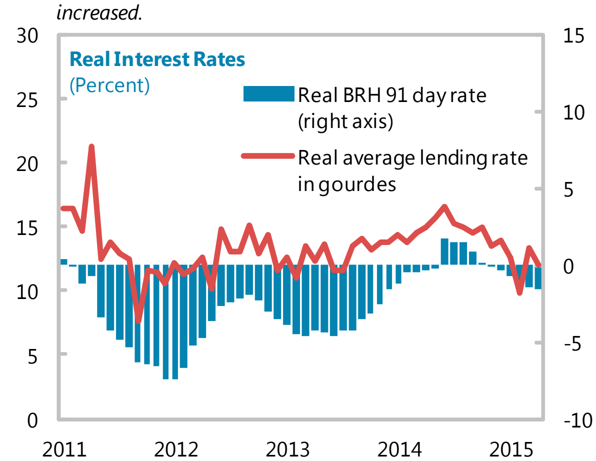
...and is closely tied to deposit growth, which is moderate.



Dollarization remains elevated, particulary of deposits...

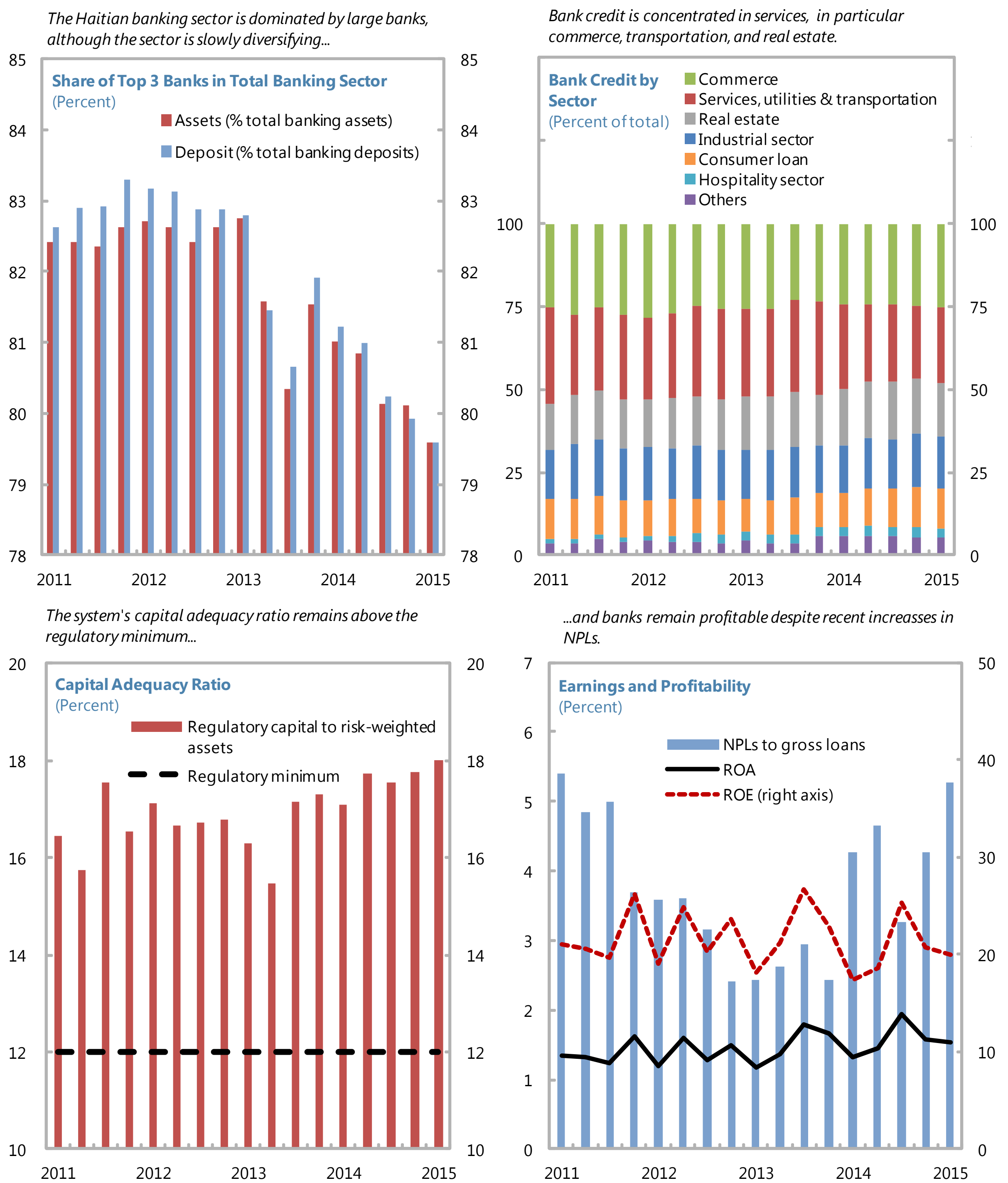


...and real interest rates have fallen as inflation has increased.



Source: National Authorities; and IMF staff estimates.
1/ Data are in fiscal years.

Figure 4. Haiti: Banking Sector, 2011–15 1/



Source: Haitian National Authorities; and IMF staff estimates.
1/ Data are in fiscal years.

Table 1. Haiti: Selected Economic and Financial Indicators, 2012/13–2018/19

(Fiscal year ending September 30)

Nominal GDP (2014): US$8.7 billion — GDP per capita (2014): $833

Population (2014): 10.5 million — Percent of population below poverty line (2012): 58

	2012/2013	2013/2014	2014/15	2015/16	2016/17	2017/18	2018/19
	Act.	Prov.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Change over previous year; unless otherwise indicated)						
National income and prices 1/							
GDP at constant prices	4.2	2.7	2.0-3.0	3.0-3.5	3.5-4.0	3.5-4.0	3.5-4.0
GDP deflator	6.6	3.8	6.6	6.4	5.4	5.0	5.0
Consumer prices (period average)	6.8	3.9	6.6	6.5	5.4	5.0	5.0
Consumer prices (end-of-period)	4.5	5.3	7.1	5.9	5.0	5.0	5.0
Exports (goods, valued in dollars, f.o.b.)	18.3	4.2	5.0	5.4	6.0	6.7	7.0
Imports (goods, valued in dollars, f.o.b.)	8.1	3.4	-4.7	3.8	5.5	5.5	5.2
Real effective exchange rate (end of period; + appreciation)	0.7	0.8	0.0	0.0	0.0	0.0	0.0
Money and credit (valued in gourdes)							
Credit to private sector (in dollars and gourdes)	16.4	11.2	4.7	11.4	9.0	10.4	11.4
Base money (currency in circulation and gourde deposits)	15.1	0.5	3.0	7.0	8.1	8.2	7.1
Broad money (incl. foreign currency deposits)	6.6	9.8	7.3	7.6	7.9	8.3	8.5
	(In percent of GDP; unless otherwise indicated)						
Central government							
Overall balance (including grants)	-7.2	-6.4	-2.7	-1.9	-2.2	-2.0	-2.0
Domestic revenue	12.8	12.5	14.7	14.7	15.0	15.3	15.5
Grants 2/	8.1	6.5	6.1	5.6	5.3	5.0	4.8
Expenditures	28.1	25.4	23.4	22.2	22.5	22.3	22.3
Current expenditures	12.0	12.6	12.5	12.5	12.5	12.5	12.5
Capital expenditures	16.1	12.8	10.9	9.7	10.0	9.8	9.8
Overall Balance of Total Non-Financial Public Sector 3/	-8.2	-7.4	-3.2	-2.3	-2.4	-2.2	-2.0
Savings and investment							
Gross investment	30.1	31.2	26.6	24.8	24.9	24.7	24.8
Of which: public investment	16.1	12.8	10.9	9.7	10.0	9.8	9.8
Gross national savings	23.7	24.8	23.1	21.0	21.1	21.0	21.2
Of which: central government savings	1.9	1.3	2.9	2.8	3.0	3.0	3.0
External current account balance (including official grants) 2/	-6.3	-6.3	-3.5	-3.8	-3.7	-3.7	-3.6
External current account balance (excluding official grants)	-15.2	-12.8	-8.8	-8.8	-8.6	-8.5	-8.4
External Balance: Fossil Fuels	-11.3	-11.9	-7.3	-7.8	-8.1	-8.3	-8.4
Public Debt							
External public debt (medium and long-term, end-of-period) 4/	17.4	21.0	21.8	22.6	23.3	23.8	24.3
Total public sector debt (end-of-period) 5/	19.5	24.1	25.5	26.4	27.2	28.2	28.9
External public debt service 6/	1.8	2.4	3.7	4.6	5.5	6.1	6.1
	(In millions of dollars, unless otherwise indicated)						
Overall balance of payments	-282	-178	-210	-61	3	32	77
Net international reserves (program definition) 7/	1,219	1,010	860	890	950	1,017	1,085
Gross International Reserves 8/	2,384	1,914	1,782	1,808	1,872	1,940	2,010
In months of imports of the following year	6.3	5.3	4.8	4.6	4.5	4.5	4.5
Nominal GDP (millions of Gourdes)	364,526	388,809	424,832	466,707	510,359	555,960	605,653
Nominal GDP (millions of US$)	8,451	8,711	9,054	9,475	10,012	10,589	11,199

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

1/ Staff assume a range of 2-3 percent and a point projection of 2.5 percent for FY2015; a range of 3-3.5 percent and a point projection of 3.25 percent for growth in FY2016, and a range of 3.5-4.0 percent and a point projection of 3.75 percent for FY2017-FY2019.

2/ A new ECF would catalyze identified multilateral budget support (see Tables 4a and 4b). Until a new IMF-supported program is approved, current account projections exclude these flows.

3/ Includes state-owned electricity company (EDH).

4/ Debt ratios differ slightly from those in the DSA given the use of average, instead of end-of-period, exchange rates.

5/ Excludes central bank repurchase operations in FY2013.

6/ In percent of exports of goods and nonfactor services. Includes debt relief.

7/ Includes SDR allocation as both an asset and liability.

8/ Includes gold; includes transactions related to BRH repurchase operations; corresponds to BPM6 definition of reserves.

Table 2a. Haiti: Non-Financial Public Sector Operations, 2012/13–2018/19

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

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Act.	Prov.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	76,193	73,906	88,006	94,692	103,647	112,843	123,014
Domestic revenue	46,811	48,775	62,254	68,396	76,742	84,927	93,942
Domestic taxes	29,578	33,735	39,432	43,117	48,843	54,618	61,137
Customs duties	14,230	13,401	17,967	20,302	22,456	24,379	26,346
Of which: fuel taxes	1,028	820	7,400	8,221	8,990	9,794	10,669
Other current revenue 1/	3,002	1,639	4,855	4,977	5,443	5,930	6,460
Of which: FNE	1,954	1,313	1,812	1,991	2,177	2,371	2,583
Of which: FER	0	0	595	654	715	779	848
Grants	29,383	25,130	25,752	26,295	26,905	27,917	29,071
Budget support 2/	3,791	4,999	3,300	3,145	2,182	1,191	0
Project grants	25,591	20,131	22,452	23,151	24,723	26,725	29,071
Total expenditure 3/	102,394	98,764	99,402	103,556	114,655	123,895	134,993
Current expenditure	43,662	48,914	53,050	58,460	63,847	69,517	75,619
Wages and salaries	20,007	22,625	28,993	29,772	32,557	35,466	38,636
Goods and services	11,320	13,175	14,637	15,221	16,645	18,132	19,753
Interest payments	1,879	1,861	1,770	3,179	3,352	3,892	4,472
External	575	661	948	1,072	1,206	1,335	1,472
Domestic	1,304	1,200	822	2,107	2,145	2,557	3,000
Transfers and subsidies	10,456	11,253	7,651	10,288	11,293	12,027	12,758
Of which: energy sector 4/	5,988	5,686	4,353	5,803	6,375	6,669	6,921
Of which: mitigating measures (fuel)	0	0	266	1,167	1,276	1,390	1,514
Capital expenditure	58,732	49,850	46,352	45,096	50,808	54,379	59,374
Domestically financed 5/	32,870	28,922	23,196	19,680	24,003	25,180	27,098
Of which: Treasury	32,870	28,922	23,196	19,680	24,003	25,180	27,098
Of which: related to PetroCaribe spending	14,450	14,596	9,354	4,315	7,312	7,781	8,946
Of which: PCDR	1,587	1,404	2,680	1,893	2,828	0	0
Of which: FNE and FER related spending	1,704	1,460	2,407	2,644	2,892	3,150	3,431
Foreign-financed	25,863	20,928	23,156	25,417	26,805	29,198	32,276
Overall balance including grants	-26,201	-24,858	-11,396	-8,864	-11,008	-11,052	-11,979
Excluding grants	-55,583	-49,989	-37,148	-35,160	-37,913	-38,969	-41,051
Excluding grants and externally financed projects	-29,720	-29,060	-13,992	-9,743	-11,108	-9,770	-8,774
Overall balance of NFPS, including grants	-29,945	-28,853	-13,471	-10,678	-12,469	-12,016	-12,179
Adjustment (unsettled payment obligations)	3,221	2,228	0	0	0	0	0
Financing, central government	29,422	27,086	13,471	10,678	12,469	12,016	12,179
External net financing	16,637	15,597	6,850	8,234	9,417	9,795	10,691
Loans (net)	16,637	15,597	6,850	8,234	9,417	9,795	10,691
Disbursements	17,426	16,725	8,803	11,083	14,018	15,154	16,541
Of which: Petrocaribe	17,154	15,928	8,099	8,817	11,936	12,681	13,336
Project loans	272	797	704	2,266	2,082	2,473	3,205
Amortization	-789	-1,129	-1,953	-2,849	-4,601	-5,360	-5,850
Arrears (net)	0	0	0	0	0	0	0
Internal net financing	12,785	11,490	6,621	2,444	3,052	2,221	1,488
Banking system	14,026	9,589	14,120	2,581	3,450	1,119	712
BRH	2,332	4,834	7,865	1,319	2,255	-574	-574
Of which: deposits, excluding Petrocaribe	745	868	5,759	0	0	0	0
Of which: PCDR	1,587	1,097	2,680	1,893	2,828	0	0
Of which : government bonds	0	2,869	-574	-574	-574	-574	-574
Commercial banks	11,694	4,755	6,255	1,262	1,195	1,693	1,285
Of which: deposits Petrocaribe	4,982	3,168	3,120	-366	-455	-926	-926
Of which: deposits, excluding Petrocaribe	3,836	-2,387	1,500	0	0	0	0
Of which : T-bills	2,875	1,105	0	2,702	2,724	3,693	3,285
Of which: government bonds	0	2,869	1,635	-1,074	-1,074	-1,074	-1,074
Nonbank financing 6/	-1,241	1,900	-7,499	-137	-398	1,102	777
Of which: T-bills	1,800	-250	0	1,363	602	1,602	777
Of which: Amort. Long-term obligations	-1,800	-1,845	-1,761	-1,500	-1,000	-500	0
Of which: Receivables from the electricity sector	-3,366	-2,541	-1,541	-1,814	-1,461	-964	-200
Of which: EDH letters of credit	0	-1,004	-535	0	0	0	0
Of which: Checks in circulation	445	-63	0	0	0	0	0
Of which: Post-Sandy government obligations 7/	1,680	4,058	-5,738	0	0	0	0
Other EDH financing	378.1	3,545.0	2,075	1,814	1,461	964	200
Memorandum items							
Balance of Petrocaribe deposits	8,555	5,389	2,269	2,635	3,090	4,016	4,942
at BRH	0	2	2	2	2	2	2
at commercial banks	8,555	5,387	2,267	2,633	3,088	4,014	4,940
Balance of PCDR account (in millions of US$)	194	162	98	56	0	0	0
Social spending (in millions of Gourdes)	14,350	14,197	15,269	17,735	19,904	22,238	25,437
Nominal GDP (millions of Gourdes)	364,526	388,809	424,832	466,707	510,359	555,960	605,653

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

1/ The outturn for FY2013-FY2014 and projections for FY2015 onwards include revenues of the National Education Fund (FNE). Projections for FY2015 onwards include revenues of the Road Fund (FER).

2/ Includes identified multilateral budget support expected to be catalyzed by a new IMF-supported program (see Tables 4a and 4b).

3/ Commitment basis, except for domestically financed spending, which is reported on the basis of project account replenishments.

4/ Includes transfers from Petrocaribe resources from FY2011 onwards to finance electricity generation.

5/ Capital spending for FY2013 and FY2014 includes post-Sandy emergency outlays.

6/ Includes Treasury bills, the increase in outstanding debt of IPPs *vis-à-vis* BMPAD, increases in central government claims *vis-à-vis* EDH, net checks in circulation, and payments of judiciary sentences and other domestic claims.

7/ The government placed bonds for G 5.7 billion in the banking system at end-FY2014 to clear post-Sandy obligations during FY2015.

Table 2b. Haiti: Non-Financial Public Sector Operations, 2012/13–2018/19

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

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Act.	Prov.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	20.9	19.0	20.7	20.3	20.3	20.3	20.3
Domestic revenue	12.8	12.5	14.7	14.7	15.0	15.3	15.5
Domestic taxes	8.1	8.7	9.3	9.2	9.6	9.8	10.1
Customs duties	3.9	3.4	4.2	4.4	4.4	4.4	4.4
Of which: fuel taxes	0.3	0.2	1.7	1.8	1.8	1.8	1.8
Other current revenue 1/	0.8	0.4	1.1	1.1	1.1	1.1	1.1
Of which: FNE	0.5	0.3	0.4	0.4	0.4	0.4	0.4
Of which: FER	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Grants	8.1	6.5	6.1	5.6	5.3	5.0	4.8
Budget support 2/	1.0	1.3	0.8	0.7	0.4	0.2	0.0
Project grants	7.0	5.2	5.3	5.0	4.8	4.8	4.8
Total expenditure 3/	28.1	25.4	23.4	22.2	22.5	22.3	22.3
Current expenditure	12.0	12.6	12.5	12.5	12.5	12.5	12.5
Wages and salaries	5.5	5.8	6.8	6.4	6.4	6.4	6.4
Goods and services	3.1	3.4	3.4	3.3	3.3	3.3	3.3
Interest payments	0.5	0.5	0.4	0.7	0.7	0.7	0.7
External	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Domestic	0.4	0.3	0.2	0.5	0.4	0.5	0.5
Transfers and subsidies	2.9	2.9	1.8	2.2	2.2	2.2	2.1
Of which: energy sector 4/	1.6	1.5	1.0	1.2	1.2	1.2	1.1
Of which: mitigating measures (fuel)	0.0	0.0	0.1	0.2	0.3	0.3	0.3
Capital expenditure	16.1	12.8	10.9	9.7	10.0	9.8	9.8
Domestically financed 5/	9.0	7.4	5.5	4.2	4.7	4.5	4.5
Of which: Treasury	9.0	7.4	5.5	4.2	4.7	4.5	4.5
Of which: related to PetroCaribe spending	4.0	3.8	2.2	0.9	1.4	1.4	1.5
Of which: PCDR	0.4	0.4	0.6	0.4	0.6	0.0	0.0
Of which: FNE and FER related spending	0.5	0.4	0.6	0.6	0.6	0.6	0.6
Foreign-financed	7.1	5.4	5.5	5.4	5.3	5.3	5.3
Overall balance including grants	-7.2	-6.4	-2.7	-1.9	-2.2	-2.0	-2.0
Excluding grants	-15.2	-12.9	-8.7	-7.5	-7.4	-7.0	-6.8
Excluding grants and externally financed projects	-8.2	-7.5	-3.3	-2.1	-2.2	-1.8	-1.4
Overall balance of NFPS, including grants	-8.2	-7.4	-3.2	-2.3	-2.4	-2.2	-2.0
Adjustment (unsettled payment obligations)	0.9	0.6	0.0	0.0	0.0	0.0	0.0
Financing, central government	8.1	7.0	3.2	2.3	2.4	2.2	2.0
External net financing	4.6	4.0	1.6	1.8	1.8	1.8	1.8
Loans (net)	4.6	4.0	1.6	1.8	1.8	1.8	1.8
Disbursements	4.8	4.3	2.1	2.4	2.7	2.7	2.7
Of which: Petrocaribe	4.7	4.1	1.9	1.9	2.3	2.3	2.2
Project loans	0.1	0.2	0.2	0.5	0.4	0.4	0.5
Amortization	-0.2	-0.3	-0.5	-0.6	-0.9	-1.0	-1.0
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internal net financing	3.5	3.0	1.6	0.5	0.6	0.4	0.2
Banking system	3.8	2.5	3.3	0.6	0.7	0.2	0.1
BRH	0.6	1.2	1.9	0.3	0.4	-0.1	-0.1
Of which: deposits, excluding Petrocaribe	0.2	0.2	1.4	0.0	0.0	0.0	0.0
Of which: PCDR	0.4	0.3	0.6	0.4	0.6	0.0	0.0
Of which : government bonds	0.0	0.7	-0.1	-0.1	-0.1	-0.1	-0.1
Commercial banks	3.2	1.2	1.5	0.3	0.2	0.3	0.2
Of which: deposits Petrocaribe	1.4	0.8	0.7	-0.1	-0.1	-0.2	-0.2
Of which: deposits, excluding Petrocaribe	1.1	-0.6	0.4	0.0	0.0	0.0	0.0
Of which: T-bills	0.8	0.3	0.0	0.6	0.5	0.7	0.5
Of which: government bonds	0.0	0.7	0.4	-0.2	-0.2	-0.2	-0.2
Nonbank financing 6/	-0.3	0.5	-1.8	0.0	-0.1	0.2	0.1
Of which: T-bills	0.5	-0.1	0.0	0.3	0.1	0.3	0.1
Of which: Amort. Long-term obligations	-0.5	-0.5	-0.4	-0.3	-0.2	-0.1	0.0
Of which: Receivables from the electricity sector	-0.9	-0.7	-0.4	-0.4	-0.3	-0.2	0.0
Of which: EDH letters of credit	0.0	-0.3	-0.1	0.0	0.0	0.0	0.0
Of which: Checks in circulation	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Post-Sandy government obligations 7/	0.5	1.0	-1.4	0.0	0.0	0.0	0.0
Other EDH financing	0.1	0.9	0.5	0.4	0.3	0.2	0.0
Memorandum items							
Balance of Petrocaribe deposits	2.3	1.4	0.5	0.6	0.6	0.7	0.8
at BRH	0.0	0.0	0.0	0.0	0.0	0.0	0.0
at commercial banks	2.3	1.4	0.5	0.6	0.6	0.7	0.8
Balance of PCDR account (in millions of US$)	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Social spending (in millions of Gourdes)	3.9	3.7	3.6	3.8	3.9	n.a.	n.a.
Nominal GDP (millions of Gourdes)	364,526	388,809	424,832	466,707	510,359	555,960	605,653

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

1/ The outturn for FY2013-FY2014 and projections for FY2015 onwards include revenues of the National Education Fund (FNE). Projections for FY2015 onwards include revenues of the Road Fund (FER).

2/ Includes identified multilateral budget support expected to be catalyzed by a new IMF-supported program (see Tables 4a and 4b).

3/ Commitment basis, except for domestically financed spending, which is reported on the basis of project account replenishments.

4/ Includes transfers from Petrocaribe resources from FY2011 onwards to finance electricity generation.

5/ Capital spending for FY2013 and FY2014 includes post-Sandy emergency outlays.

6/ Includes Treasury bills, the increase in outstanding debt of IPPs *vis-à-vis* BMPAD, increases in central government claims *vis-à-vis* EDH, net checks in circulation, and payments of judiciary sentences and other domestic claims.

7/ The government placed bonds for G 5.7 billion in the banking system at end-FY2014 to clear post-Sandy obligations during FY2015.

Table 2c. Haiti: Central Government Gross Cash Flows, 2012/13–2018/19

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

	2012/13 Act.	2013/14 Prov.	2014/15 Proj.	2015/16 Proj.	2016/17 Proj.	2017/18 Proj.	2018/19 Proj.
Gross cash inflow	34,932	33,917	24,362	17,040	20,172	20,449	20,603
Debt placement	33,252	29,860	24,362	17,040	20,172	20,449	20,603
Domestic (including use of bank deposits)	15,826	13,134	15,559	5,958	6,154	5,295	4,062
BRH	2,332	4,834	8,439	1,893	2,828	0	0
Commercial banks	11,694	4,755	7,121	2,702	2,724	3,693	3,285
Nonbanks	1,800	3,545	0	1,363	602	1,602	777
External	17,426	16,725	8,803	11,083	14,018	15,154	16,541
Arrears accumulation	1,680	4,058	0	0	0	0	0
Gross cash outflow	34,932	33,917	24,362	17,040	20,172	20,449	20,603
Primary deficit	24,322	22,998	9,626	5,686	7,656	7,160	7,507
Interest	1,879	1,861	1,770	3,179	3,352	3,892	4,472
Amortization	5,955	6,769	7,229	8,176	9,164	9,397	8,624
Domestic	5,166	5,640	5,276	5,328	4,564	4,037	2,773
BRH	0	0	574	574	574	574	574
Commercial banks	0	0	866	1,440	1,529	2,000	2,000
Nonbanks	5,166	5,640	3,837	3,314	2,461	1,464	200
External	789	1,129	1,953	2,849	4,601	5,360	5,850
Arrears payments	2,776	2,291	5,738	0	0	0	0
Net cash flow	0	0	0	0	0	0	0
Memorandum items							
Overall fiscal balance	-26,201	-24,858	-11,396	-8,864	-11,008	-11,052	-11,979
Registered debt	27,297	50,388	67,522	76,386	87,393	98,446	110,425
Domestic	10,660	18,155	28,437	29,068	30,658	31,916	33,204
External	16,637	32,234	39,084	47,318	56,735	66,530	77,220
Stock of Arrears	3,970	5,738	0	0	0	0	0
Nominal GDP	364,526	388,809	424,832	466,707	510,359	555,960	605,653
In percent of GDP							
Gross cash outflow	9.6	8.7	5.7	3.7	4.0	3.7	3.4
Overall fiscal balance	7.2	6.4	2.7	1.9	2.2	2.0	2.0
Amortization needs	1.6	1.7	1.7	1.8	1.8	1.7	1.4
Arrears payments	0.8	0.6	1.4	0.0	0.0	0.0	0.0

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

Table 3. Haiti: Summary Accounts of the Banking System, 2012/13–2018/19
(Fiscal year ending September 30; in millions of gourds, unless otherwise indicated)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Act.	Prov.	Proj.	Proj.	Proj.	Proj.	Proj.
				I. Central Bank			
Net foreign assets	78,456	73,940	72,074	76,410	82,266	88,887	95,968
(In millions of US$)	1,793	1,623	1,492	1,521	1,590	1,668	1,749
Net international reserves (program) [1/]	1,219	1,010	860	890	950	1,017	1,085
Commercial bank forex deposits	686	731	751	750	759	770	783
Net domestic assets	-30,534	-25,791	-22,494	-23,341	-24,912	-26,840	-29,523
Net credit to the nonfinancial public sector	4,848	12,330	21,209	22,828	25,082	24,509	23,935
Of which: Net credit to the central government	11,308	16,142	24,007	25,326	27,581	27,007	26,433
Of which: T-bills	0	0	0	0	0	0	0
Of which: IMF PCDR Debt Relief	-8,498	-7,401	-4,721	-2,828	0	0	0
Liabilities to commercial banks (excl gourde deposits)	-35,918	-38,025	-43,258	-43,155	-44,397	-44,234	-45,157
BRH bonds/Open market operations	-5,945	-4,709	-7,000	-5,500	-5,156	-3,200	-2,200
Counterpart of commercial bank forex deposits	-29,973	-33,316	-36,258	-37,655	-39,241	-41,034	-42,957
Other	537	-96	-444	-3,014	-5,597	-7,115	-8,301
Base Money	47,922	48,150	49,580	53,069	57,354	62,048	66,445
Currency in circulation	21,352	23,865	26,365	28,963	31,672	34,502	37,586
Commercial bank gourde deposits	26,570	24,285	23,216	24,105	25,682	27,545	28,858
				II. Consolidated Banking System			
Net foreign assets	100,972	95,190	94,254	98,759	103,993	110,200	117,920
(In millions of US$)	2,308	2,089	1,952	1,966	2,010	2,068	2,149
Of which: Commercial banks NFA	515	466	459	445	420	400	400
Net domestic assets	57,800	79,192	92,858	102,573	113,245	125,069	137,347
Credit to the nonfinancial public sector	-4,583	7,519	20,608	23,989	27,938	29,557	30,768
Of which: Net credit to the central government	2,195	11,785	23,696	26,777	30,726	32,345	33,556
Credit to the private sector	76,350	84,871	88,837	98,998	107,921	119,189	132,783
In gourdes	45,597	48,108	50,645	56,508	63,297	71,183	80,391
In foreign currency	30,753	36,763	38,192	42,490	44,624	48,006	52,392
In millions of US$	703	807	791	846	863	901	955
Other	-13,967	-13,198	-16,587	-20,413	-22,614	-23,678	-26,205
Broad money	158,772	174,382	187,112	201,332	217,238	235,268	255,266
Currency in circulation	21,352	23,865	26,365	28,963	31,672	34,502	37,586
Gourde deposits	60,277	64,709	66,392	71,769	77,870	85,112	93,197
Foreign currency deposits	77,142	85,808	94,356	100,600	107,696	115,655	124,483
In millions of US$	1,764	1,884	1,954	2,003	2,082	2,171	2,268
				(12-month percentage change)			
Currency in circulation	5.5	11.8	10.5	9.9	9.4	8.9	8.9
Base money	15.1	0.5	3.0	7.0	8.1	8.2	7.1
Gourde money (M2)	8.6	8.5	4.7	8.6	8.7	9.2	9.3
Broad money (M3)	6.6	9.8	7.3	7.6	7.9	8.3	8.5
Gourde deposits	9.7	7.4	2.6	8.1	8.5	9.3	9.5
Foreign currency deposits	4.6	11.2	10.0	6.6	7.1	7.4	7.6
Credit to the private sector	16.4	11.2	4.7	11.4	9.0	10.4	11.4
Credit in gourdes	19.8	5.5	5.3	11.6	12.0	12.5	12.9
Credit in foreign currency	11.7	19.5	3.9	11.3	5.0	7.6	9.1
Memorandum items:							
Foreign currency deposits (percent of total private deposits)	56.1	57.0	58.7	58.4	58.0	57.6	57.2
Foreign curr. credit to priv. sector (percent of total)	40.3	43.3	43.0	42.9	41.3	40.3	39.5
Commercial Banks' Credit to Private Sector (percent of GDP)	20.2	21.0	20.1	20.4	20.4	20.6	21.1

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

1/ Excluding commercial bank forex deposits, letters of credit, guarantees, earmarked project accounts and U.S.dollar-denominated bank reserves. The SDR allocation is not netted out of NIR.

Table 4a. Haiti: Balance of Payments, 2012/13–2018/19

(In millions of US dollars on a fiscal year basis, unless otherwise indicated)

	2012/13	2013/2014	2014/15	2015/16	2016/17	2017/18	2018/19
	Act.	Prov.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account (including grants) [1/]	-535	-552	-318	-362	-374	-391	-402
Current account (excluding grants)	-1,285	-1,115	-796	-832	-859	-900	-940
Trade balance	-2,412	-2,487	-2,277	-2,347	-2,470	-2,593	-2,707
Exports of goods	917	956	1,004	1,058	1,122	1,197	1,281
Of which: Assembly industry	837	868	911	960	1,018	1,086	1,162
Imports of goods	-3,329	-3,443	-3,281	-3,406	-3,592	-3,791	-3,988
Of which: Fossil Fuels	-951	-1,039	-663	-735	-814	-877	-937
Services (net)	-438	-369	-288	-287	-287	-287	-282
Receipts	652	701	729	769	826	887	951
Payments	-1,090	-1,070	-1,017	-1,056	-1,113	-1,175	-1,233
Income (net)	32	12	-4	-7	-4	-10	-22
Of which: Interest payments	-13	-15	-20	-22	-24	-26	-27
Current transfers (net)	2,283	2,291	2,251	2,280	2,387	2,500	2,609
Official transfers (net)	750	614	478	470	509	551	582
Of which: budget support	88	112	0	0	0	0	0
Private transfers (net)	1,533	1,728	1,772	1,810	1,902	1,991	2,072
Capital and financial accounts	730	523	108	301	377	423	480
Capital transfers	20	26	42	25	0	0	0
Debt stock reduction	0	0	0	0	0	0	0
Public sector capital flows (net)	389	349	146	167	185	187	198
Loan disbursements	404	375	188	225	275	289	306
Amortization	-15	-25	-42	-58	-90	-102	-108
Foreign direct investment (net)	160	99	104	166	200	244	296
Banks (net) [2/]	160	48	7	14	25	20	0
Other items (net)	1	0	-192	-71	-32	-27	-14
Errors and omissions [3/]	-477	-148	0	0	0	0	0
Overall balance	-282	-178	-210	-61	3	32	77
Financing	282	178	136	-23	-66	-75	-77
Change in net foreign assets	274	171	131	-29	-69	-78	-80
Change in gross reserves	-38	471	132	-27	-63	-69	-70
Liabilities	311	-300	-2	-2	-6	-9	-11
Utilization of Fund credits(net)	10	2	2	-2	-6	-10	-11
Other liabilities [4/]	301	-302	-4	0	0	0	0
Debt rescheduling and debt relief	8	7	6	6	3	3	3
Financing Gap	0	0	-74	-84	-63	-43	0
Proposed Access	…	…	10	20	20	20	0
Identified Budget Support (IDB and EU) [5/]	…	…	64	64	43	23	0
Memorandum items:							
Current account (in percent of GDP)	-6.3	-6.3	-3.5	-3.8	-3.7	-3.7	-3.6
Excluding official transfers	-15.2	-12.8	-8.8	-8.8	-8.6	-8.5	-8.4
Exports of goods, f.o.b (percent change)	18.3	4.2	5.0	5.4	6.0	6.7	7.0
Imports of goods, f.o.b (percent change)	8.1	3.4	-4.7	3.8	5.5	5.5	5.2
Projected average oil price (US$ per barrel, APSP)	103.4	103.7	61.2	64.4	69.7	71.8	73.1
Debt service (in percent of exports of goods and services)	1.8	2.4	3.7	4.6	5.5	6.1	6.1
Gross International reserves (in millions of US$) [6/]	2,384	1,914	1,782	1,808	1,872	1,940	2,010
(in months of next year's imports of goods and services)	6.3	5.3	4.8	4.6	4.5	4.5	4.5

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

1/ A new ECF would catalyze identified multilateral budget support. Until a new IMF-supported program is approved, current account projections exclude these flows.
3/ Change in net foreign assets of commercial banks.
3/ Errors and omissions for FY2013 and FY2014 likely reflect underreported imports.
4/ Includes repurchase operations contracted in FY2013 and unwound in FY2014.
5/ Identified multilateral budget support assumed to be catalyzed by a new IMF-supported program.
6/ Includes gold; reflects unwinding of repurchase operations in FY2014.

Table 4b. Haiti: Balance of Payments, 2012/13–2018/19

(As a percentage of GDP on a fiscal year basis, unless otherwise indicated)

	2012/2013	2013/2014	2014/15	2015/16	2016/17	2017/18	2018/2019
	Act	Prov.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account (including grants) 1/	-6.3	-6.3	-3.5	-3.8	-3.7	-3.7	-3.6
Current account (excluding grants)	-15.2	-12.8	-8.8	-8.8	-8.6	-8.5	-8.4
Trade balance	-28.5	-28.5	-25.1	-24.8	-24.7	-24.5	-24.2
Exports of goods	10.9	11.0	11.1	11.2	11.2	11.3	11.4
Of which: Assembly industry	9.9	10.0	10.1	10.1	10.2	10.3	10.4
Imports of goods	-39.4	-39.5	-36.2	-35.9	-35.9	-35.8	-35.6
Of which: Fossil Fuels	-11.3	-11.9	-7.3	-7.8	-8.1	-8.3	-8.4
Services (net)	-5.2	-4.2	-3.2	-3.0	-2.9	-2.7	-2.5
Receipts	7.7	8.0	8.1	8.1	8.3	8.4	8.5
Payments	-12.9	-12.3	-11.2	-11.1	-11.1	-11.1	-11.0
Income (net)	0.4	0.1	0.0	-0.1	0.0	-0.1	-0.2
Of which: Interest payments	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Current transfers (net)	27.0	26.3	24.9	24.1	23.8	23.6	23.3
Official transfers (net)	8.9	7.0	5.3	5.0	5.1	5.2	5.2
Of which: budget support	1.0	1.3	0.0	0.0	0.0	0.0	0.0
Private transfers (net)	18.1	19.8	19.6	19.1	19.0	18.8	18.5
Capital and financial accounts	8.6	6.0	1.2	3.2	3.8	4.0	4.3
Capital transfers	0.2	0.3	0.5	0.3	0.0	0.0	0.0
Debt stock reduction	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector capital flows (net)	4.6	4.0	1.6	1.8	1.8	1.8	1.8
Loan disbursements	4.8	4.3	2.1	2.4	2.7	2.7	2.7
Amortization	-0.2	-0.3	-0.5	-0.6	-0.9	-1.0	-1.0
Foreign direct investment (net)	1.9	1.1	1.2	1.8	2.0	2.3	2.6
Banks (net) 2/	1.9	0.6	0.1	0.2	0.2	0.2	0.0
Other items (net)	0.0	0.0	-2.1	-0.7	-0.3	-0.3	-0.1
Errors and omissions 3/	-5.6	-1.7	0.0	0.0	0.0	0.0	0.0
Overall balance	-3.3	-2.0	-2.3	-0.6	0.0	0.3	0.7
Financing	3.3	2.0	1.5	-0.2	-0.7	-0.7	-0.7
Change in net foreign assets	3.2	2.0	1.4	-0.3	-0.7	-0.7	-0.7
Change in gross reserves	-0.4	5.4	1.5	-0.3	-0.6	-0.6	-0.6
Liabilities	3.7	-3.4	0.0	0.0	-0.1	-0.1	-0.1
Utilization of Fund credits(net)	0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1
Other liabilities 4/	3.6	-3.5	0.0	0.0	0.0	0.0	0.0
Debt rescheduling and debt relief	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Financing Gap	0.0	0.0	-0.8	-0.9	-0.6	-0.4	0.0
Proposed Access	...	...	0.1	0.2	0.2	0.2	0.0
Budget Support (IDB and EU) 5/	...	...	0.7	0.7	0.4	0.2	0.0
Memorandum items:							
Exports of goods, f.o.b (percent change)	18.3	4.2	5.0	5.4	6.0	6.7	7.0
Imports of goods, f.o.b (percent change)	8.1	3.4	-4.7	3.8	5.5	5.5	5.2
Projected average oil price (US$ per barrel, APSP)	103.4	103.7	61.2	64.4	69.7	71.8	73.1
Debt service (in percent of exports of goods and services)	1.8	2.4	3.7	4.6	5.5	6.1	6.1
Gross liquid international reserves (in millions of US$) 6/	2,384	1,914	1,782	1,808	1,872	1,940	2,010
(in months of next year's imports of goods and services)	6.3	5.3	4.8	4.6	4.5	4.5	4.5

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

1/ A new ECF would catalyze identified multilateral budget support. Until a new IMF-supported program is approved, current account projections exclude these flows.
3/ Change in net foreign assets of commercial banks.
3/ Errors and omissions for FY2013 and FY2014 likely reflect underreported imports.
4/ Includes repurchase operations contracted in FY2013 and unwound in FY2014.
5/ Identified multilateral budget support assumed to be catalyzed by a new IMF-supported program.
6/ Includes gold; reflects unwinding of repurchase operations in FY2014.

Table 5. Haiti: Financial Soundness Indicators, September 2013–September 2014
(In percent; unless otherwise indicated)

	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Size and growth						
Asset volume (in US$ millions)	4020.5	4004.3	4068.2	4046.3	4276.0	4173.7
Deposit volume (in US$ millions)	3328.4	3303.5	3386.9	3328.9	3463.6	3397.2
Asset growth (in gourde terms) since beginning of fiscal year	3.2	-0.1	2.9	4.3	10.6	0.2
Credit growth (net, in gourde terms) since beginning of fiscal year	19.9	2.3	3.0	3.3	9.7	2.4
Capital adequacy						
Regulatory capital to risk-weighted assets	17.3	17.1	17.7	17.5	17.8	18.0
Assets to Regulatory Capital	12.0	9.3	13.5	13.6	13.6	13.3
Asset quality and composition						
Loans (net) to assets	35.3	36.2	35.4	35.0	35.1	35.8
NPLs to gross loans	2.4	4.3	4.6	3.3	3.0	4.3
Provisions to gross loans	1.8	1.8	2.2	2.3	2.2	2.3
Provisions to gross NPLs	72.2	41.5	46.5	69.3	72.1	54.9
NPLs less provisions to net worth	3.3	11.7	11.7	4.7	4.0	8.9
Earnings and profitability (cumulative since beginning of fiscal year)						
Return on Assets (ROA)	1.7	1.3	1.4	1.9	1.6	1.5
Return on equity (ROE)	22.9	17.4	18.6	25.3	20.7	19.9
Net interest income to gross interest income	92.5	91.3	90.4	87.9	87.1	87.6
Operating expenses to net profits	67.6	67.0	65.9	59.9	65.6	64.1
Efficiency						
Interest rate spread [1/]	7.5	7.4	7.2	8.1	7.7	7.8
Liquidity						
Liquid assets to total assets [2/]	41.6	40.5	41.5	39.4	40.0	40.0
Liquid assets to deposits [2/]	50.2	49.1	49.8	47.9	49.4	49.1
Dollarization						
Foreign currency loans to total loans (net)	48.2	48.8	49.7	51.9	52.4	53.1
Foreign currency deposits to total deposits	55.1	55.4	58.1	58.5	57.3	56.5
Foreign currency loans to foreign currency deposits	37.3	38.6	36.4	37.8	39.5	41.3

Sources: BRH Banking System Financial Summary; and IMF estimates and projections. These indicators reflect the aggregated results of the nine licensed banks in operation in Haiti; thus figures in this table may not exactly match the information in Table 3, which reflect the consolidated banking system.

1/ Defined as the difference between average lending rate and average fixed deposit rate in the banking system.
2/ Liquid assets comprise cash and central bank bonds.

Table 6. Haiti: Indicators of Public Debt and External Vulnerability, 2012/13–2018/19

(Units as indicated)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Act.	Prov.	Proj.	Proj.	Proj.	Proj.	Proj.
Debt indicators							
Total external public debt (in percent of GDP) 1/	17.4	21.0	21.8	22.6	23.3	23.8	24.3
Total external public debt (in percent of exports) 2/	93.9	110.3	113.6	116.8	116.4	115.4	114.3
Total public debt (in percent of GDP)	19.5	24.1	25.5	26.4	27.2	28.2	28.9
Total public debt (in millions of US$)	1,626	2,056	2,240	2,453	2,681	2,941	3,186
o/w domestic debt	153	228	266	314	348	417	460
o/w Petrocaribe	1,235	1,576	1,717	1,849	2,003	2,158	2,309
o/w other external debt	239	252	257	290	329	367	418
External debt service (in percent of GDP)	0.3	0.5	0.7	0.9	1.2	1.3	1.3
Amortization	0.2	0.3	0.5	0.6	1.0	1.1	1.1
Interest	0.2	0.2	0.2	0.2	0.2	0.2	0.2
External debt service (in percent of exports) 2/	1.8	2.4	3.7	4.6	5.5	6.1	6.1
External debt service (in percent of current central govt. revenues)	2.6	3.7	4.7	5.9	8.0	8.5	8.4
Other indicators							
Exports of goods and services (percent change, 12-month basis in US$)	18.5	5.6	4.6	5.4	6.6	7.0	7.1
Imports of goods and services (percent change, 12-month basis in US$)	5.3	2.1	-4.8	3.8	5.5	5.5	5.2
Remittances and grants in percent of gross disposable income	21.2	20.8	19.9	19.4	19.3	19.1	18.9
Exchange rate (per U.S. dollar, period average)	43.1	44.6	…	…	…	…	…
Current account balance (millions of US$) 3/	-535	-552	-318	-362	-374	-391	-402
Capital and financial account balance (millions of US$)	730	523	108	301	377	423	480
Liquid gross reserves (millions of US$) 4/	2,242	1,782	1,650	1,677	1,740	1,809	1,878
In months of imports of the following year 2/	6.0	5.0	4.4	4.3	4.2	4.2	4.2
In percent of debt service due in the following year	5,593	2,883	2,012	1,394	1,266	1,235	1,163
In percent of base money	204.7	168.6	160.7	158.7	156.9	155.3	155.1

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

1/ Reflects debt relief. Debt ratios differ slightly from those in the DSA given the use of average, instead of end-of-period, exchange rates.
2/ Goods and services
3/ Including grants, but excluding for FY2015-FY2018 identified budget suport expected to be catalyzed by a new IMF-supported program.
4/ Includes the impact of central bank repurchase operations in FY2013; excludes gold.

Table 7. Haiti: Proposed Schedule of Disbursements Under the Proposed ECF Arrangement, 2015–18

Amount	Availability Date	Conditions for Disbursement [1/]
SDR 7,020,000	5/18/2015	Executive Board approval of the three-year arrangement under the ECF.
SDR 7,020,000	10/30/2015	Observance of performance criteria for September 2015 and completion of the first review under the ECF arrangement.
SDR 7,020,000	4/30/2016	Observance of performance criteria for March 2016 and completion of the second review under the ECF arrangement.
SDR 7,020,000	10/30/2016	Observance of performance criteria for September 2016 and completion of the third review under the ECF arrangement.
SDR 7,020,000	4/30/2017	Observance of performance criteria for March 2017 and completion of the fourth review under the ECF arrangement.
SDR 7,020,000	10/30/2017	Observance of performance criteria for September 2017 and completion of the fifth review under the ECF arrangement.
SDR 7,020,000	4/30/2018	Observance of performance criteria for March 2018 and completion of the sixth review under the ECF arrangement.

Memorandum:

Prospective Total Access under the ECF arrangement: SDR 49,140,000

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

Table 8a. Haiti: Indicators of Capacity to Repay the Fund (Existing Fund Credit), 2014/15–2024/25

(Units as indicated)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fund obligations based on existing credit (in millions of SDRs)											
Principal	0.0	1.6	4.3	6.7	7.5	8.0	6.6	3.9	1.5	0.7	0.2
Interest	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing credit											
In millions of SDRs	0.0	1.6	4.3	6.7	7.6	8.1	6.6	3.9	1.5	0.7	0.2
In millions of US$	0.0	2.3	6.1	9.6	10.8	11.5	9.4	5.6	2.1	0.9	0.2
In percent of											
exports	0.0	0.1	0.3	0.5	0.5	0.5	0.4	0.2	0.1	0.0	0.0
government revenue	0.0	0.2	0.3	0.4	0.4	0.4	0.3	0.1	0.0	0.0	0.0
reserves	0.0	0.1	0.3	0.5	0.6	0.6	0.5	0.3	0.1	0.0	0.0
debt service	0.0	2.8	5.0	7.0	7.4	7.1	5.4	3.0	1.1	0.4	0.1
quota	0.0	2.0	5.2	8.2	9.2	9.9	8.0	4.8	1.8	0.8	0.2
Outstanding Fund credit (end of period)											
In millions of SDRs	41.0	39.3	35.1	28.3	20.8	12.8	6.2	2.3	0.8	0.2	0.0
In millions of US$	59.6	57.5	51.6	41.7	30.6	18.8	9.2	3.4	1.2	0.2	0.0
In percent of											
exports	3.6	3.2	2.7	2.0	1.4	0.8	0.4	0.1	0.0	0.0	0.0
government revenues	4.4	4.0	3.3	2.5	1.7	1.0	0.5	0.2	0.1	0.0	0.0
reserves	3.3	3.2	2.7	2.1	1.5	0.9	0.4	0.1	0.0	0.0	0.0
quota	50.0	48.0	42.8	34.6	25.4	15.6	7.6	2.8	1.0	0.2	0.0
Memorandum items:											
Exports [1/ 2/]	1.7	1.8	1.9	2.1	2.2	2.4	2.5	2.7	2.9	3.1	3.3
Government revenues [1/ 3/]	1.4	1.4	1.6	1.7	1.8	1.9	2.0	2.2	2.3	2.4	2.6
Reserves [1/ 4/]	1.8	1.8	1.9	2.0	2.0	2.1	2.2	2.3	2.5	2.6	2.7
Debt service [1/]	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Quota (in 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
GDP [1/]	9.2	9.6	10.2	10.8	11.5	12.1	12.8	13.5	14.2	15.0	15.8

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

Note: Data covers Haiti's fiscal year, which runs from October 1 to September 30.

1/ In billions of U.S. dollars.

2/ Exports of goods and services.

3/ Central government domestic revenues.

4/ Gross liquid international reserves, end of period.

Table 8b. Haiti: Indicators of Capacity to Repay the Fund (Existing and Proposed Credit), 2014/15–2027/28

(Units as indicated)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Fund obligations based on existing credit (in millions of SDRs)														
Principal	0.0	1.6	4.3	6.7	7.5	8.0	6.6	3.9	1.5	0.7	0.2	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit (in millions of SDRs)														
Principal	0.0	1.6	4.3	6.7	7.5	8.0	8.7	8.9	9.2	10.5	10.0	7.7	4.9	2.1
Interest	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Total obligations based on existing and prospective credit														
In millions of SDRs	0.0	1.6	4.3	6.7	7.6	8.2	8.8	9.0	9.3	10.6	10.0	7.8	4.9	2.1
In millions of US$	0.0	2.3	6.1	9.6	10.9	11.7	12.5	12.8	13.2	15.0	14.3	11.0	7.0	3.0
In percent of														
exports	0.0	0.1	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.3	0.2	0.1
government revenue	0.0	0.2	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.1	0.0
reserves	0.0	0.1	0.3	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.4	0.3	0.1
debt service	0.0	2.8	5.0	7.0	7.4	7.2	7.2	6.9	6.6	6.8	5.9	4.2	2.4	0.9
quota	0.0	2.0	5.2	8.2	9.3	10.0	10.8	11.0	11.4	12.9	12.3	9.5	6.0	2.6
Outstanding Fund credit (end of period)														
In millions of SDRs	48.0	60.4	70.2	77.5	69.9	61.9	53.3	44.4	35.2	24.7	14.7	7.0	2.1	0.0
In millions of US$	67.7	85.7	100.2	110.7	99.9	88.4	76.1	63.4	50.3	35.3	21.0	10.0	3.0	0.0
In percent of														
exports	3.9	4.7	5.1	5.3	4.5	3.7	3.0	2.4	1.7	1.2	0.6	0.3	0.1	0.0
government revenues	5.1	6.2	6.7	6.8	5.8	4.7	3.8	3.0	2.2	1.5	0.8	0.4	0.1	0.0
reserves	4.1	5.1	5.8	6.1	5.3	4.5	3.7	2.9	2.2	1.5	0.8	0.4	0.1	0.0
quota	58.6	73.7	85.7	94.6	85.4	75.6	65.0	54.2	43.0	30.2	18.0	8.6	2.6	0.0
Memorandum items:														
Exports 1/ 2/	1.7	1.8	1.9	2.1	2.2	2.4	2.5	2.7	2.9	3.1	3.3	3.5	3.8	4.0
Government revenues 1/ 3/	1.3	1.4	1.5	1.6	1.7	1.9	2.0	2.1	2.2	2.4	2.5	2.7	2.9	3.1
Reserves 1/ 4/	1.6	1.7	1.7	1.8	1.9	2.0	2.1	2.2	2.3	2.4	2.5	2.6	2.7	2.9
Debt service 1/	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Quota (in 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
GDP 1/	9.1	9.5	10.0	10.6	11.2	11.8	12.5	13.2	13.9	14.6	15.5	16.3	17.2	18.1

Sources: Haitian authorities; and Fund staff estimates and projections.
Note: Data covers Haiti's fiscal year, which runs from October 1 to September 30.
1/ In billions of U.S. dollars.
2/ Exports of goods and services.
3/ Central government domestic revenues.
4/ Gross liquid international reserves, end of period.

Table 9. Haiti: Indicative Targets and Quantitative Performance Criteria, June 2015–June 2016 1/

(In millions of gourdes, unless otherwise indicated)

	Actual Stock at end-September 2014	Cumulative flows since end-September 2014						
		December 2014	March 2015	June 2015	September 2015	December 2015	March 2016	June 2016
		Est.	Proj.	Indicative target	Performance Criterion	Indicative target	Performance Criterion	Indicative target
I. Quantitative performance criteria								
(measured as cumulative flows since September 2014)								
Net central bank credit to the non-financial public sector - ceiling	12,330	5,970	6,425	7,652	8,879	9,284	9,689	10,094
Net domestic assets of the central bank - ceiling	-23,625	6,834	8,538	8,645	9,550	10,199	10,849	10,559
Net international reserves of central bank (in millions of U.S. dollars) - floor	1,010	-50	-100	-117	-150	-150	-150	-130
Deficit of the Non-Financial Public Sector - ceiling	…	4,000	8,856	11,242	13,471	16,141	18,810	21,480
Domestic Financing of Central Government - ceiling	…	1,178	4,854	5,817	6,621	7,232	7,843	8,454
II. Continuous performance criteria								
New contracting or guaranteeing by the public sector of nonconcessional external debt (In millions of U.S. dollars) 1/								
Up to and including one year	0	0	0	0	0	0	0	0
Over one-year maturity	…	0	0	0	0	0	0	0
Public sector external arrears accumulation (in millions of U.S. dollars)	0	0	0	0	0	0	0	0
III. Indicative targets								
Poverty reducing expenditures - floor 2/	…	3,630	7,421	11,345	15,269	19,490	23,889	28,446
Memorandum items								
Net Central Bank Credit to the Central Government	16,142	5,797	5,971	6,918	7,865	8,195	8,524	8,854
Stock of Base money 3/	48,150	52,851	51,761	50,671	49,580	50,452	51,325	52,197
Gross International Reserves (in millions of U.S. dollars)	1,914	1,817	1,808	1,794	1,782	1,782	1,782	1,802

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

1/ Excludes guarantees to the electricity sector in the form of credit/guarantee letters.

2/ Poverty reducing expenditures consist of domestically-financed spending in health, education, and agriculture.

3/ Excludes US$-denominated commercial bank reserves at the central bank.

Table 10. Haiti: Proposed Prior Actions and Structural Benchmarks, FY 2015–16

Measure		Timing	Rationale
Adoption of a revised budget for the central government for FY2015 consistent with a deficit of at most G 13.5 bn; TMU ¶32.	PA		Promote fiscal sustainability
Adoption of an automatic price mechanism for refined oil products (gasoline 95, diesel, and kerosene products); TMU ¶34.	PA		Eliminate fuel subsidies and contain fiscal risks
Implement TSA-related actions in line with paragraph 35 of the TMU.	PA		Advance TSA implementation
EDH Board adoption of a revised budget for EDH consistent with savings of at least G3.4bn in FY2015; TMU ¶33.	PA		Improve performance of electricity sector and contain fiscal risks
Signature of a protocol by the PM, the Minister of Public Works, the Minister of Finance, EDH, and other stakeholders that lays out the obligations of different stakeholders in achieving the targeted improvement in the electricity sector's performance; TMU ¶38.	SB	End-June 2015	Improve performance of electricity sector and contain fiscal risks
Implement an automatic price formula for fuel products; TMU ¶34 and ¶36.	SB	Continuous as of End-June 2015	Eliminate fuel subsidies and contain fiscal risks
Payment of unpaid off-budget CG commitments; TMU ¶37.	SB	To be observed continuously	Improve fiscal transparency
Establish a working group to produce by end-July 2016 a preliminary draft of a tax code that will put all tax laws into a general tax code and eliminate a large number of small taxes with low yields and high costs; TMU ¶39	SB	End-July 2015	Improve tax policy
The LTO and local tax offices to complete the transfer of all medium taxpayers' files to the MTO; TMU ¶40.	SB	End-August 2015	Improve tax administration
Adoption of FY2016 budgets for the Central Government and EDH consistent with a NFPS deficit of 2.3 percent of GDP; TMU ¶41.	SB	End-September 2015	Promote fiscal sustainability
Establish and make operational all remaining accounting centers; TMU ¶42.	SB	End-September 2015	Advance TSA implementation
An interministerial working group shares with IMF staff an agreed action plan for 2016-17 to strenghten the legal framework and functioning of the cadastre; TMU ¶43.	SB	End-February 2016	Improve business climate
In line with EDH protocol, complete audit of the 200 largest clients, complete analysis on EDH tariff determination and penalties for non-payment; TMU ¶44.	SB	End-March 2016	Improve performance of electricity sector and contain fiscal risks
Implement a program to ensure tax compliance of importers with an annual turnover above G10 million but who are not currently covered by the LTO/MTO; TMU ¶45.	SB	End-April 2016	Improve tax administration

Table 11. Haiti: Structural Reforms to be Implemented During ECF, 2015–17 1/

Macro-critical Area	Planned Reforms		Actions	Targeted Period
Strengthen the framework for fiscal policy	Increase tax compliance and modernize the tax system	Improve the effectiveness of the LTO and MTO	Design an implement a program to ensure compliance of importers an annual turnover above G10 billion but who are not currently covered by the LTO/MTO**	2015
			The MTO administers the medium taxpayers' files effecitvely including those transferred from the LTO and local tax offices to the MTO**	2015
		Rationalize the tax system	Finalize a new tax code and eliminate small taxes with low yield**	2016-17
			Complete studies on tax expenditures	2015-17
			Introduction of full-fledged VAT system	2017-18
			Adopt the new mining law	2016-17
	Improve PFM	Implement the TSA	Transform all ministerial accounts into Treasury sub-accounts and secondary accounts*	2015
			Establish the remaining accounting centers**	2015
			Include accounts of autonomous agencies, public enterprises and donor accounts in the TSA	2015-16
		Improve cash and debt management	Adopt the draft laws on the reorganization of the ministry of finance and on public debt	2016
	Improve expenditure quality	Avoid blanket fuel subsidies	Adopt an automatic price formula*	2015-16
			Implement an automatic price formula**	
		Better target poverty-reducing expenditure	Streamline the spending categories covered under poverty-reducing expenditure	2015-16
		Improve the effectiveness of public investment	Implement recommendations of the World Bank study completed in September 2014	2015-17
		Improve budgetary transparency	Set up the legal framework for the National Education Fund (FNE)	2015-17
			Include operations on special accounts in budget documents (FNE, FER, pension system for civil servants, transactions with SOEs, Petrocaribe resources)	2015-17
Strengthen the financial sector	Strengthen banking supervision	Control systemic risks	Conduct periodic stress tests for the banking sector	2015-17
		Strengthen the AML/CFT framework	Adopting the Financial Intelligence Unit (UCREF) Bill, new Penal and Criminal Investigation Codes in line with the CFATF action plan, and implementing the AML/CFT framework.	2015-17
	Strenghten monetary policy framework	Develop the financial sector	Adopt the pending draft law on insurance companies	2016
		Develop the Forex market	Implement MCM recommendations to improve the functioning of the forex market	2015-17
		Implement safeguards recommendations	Adopt IFRS, strenghten independece of investment committee	2015-17
Remove bottlenecks to growth	Improve performance of the electricity sector	Reduce subsidies to EDH	Submit EDH under a management contract	2015-17
		Improve the framework for electricity sector and strenghten performance	Eliminate cross arrears	2015-17
			Conduct audits of largest clients to increase billing and recovery**	2015-17
			Review contracts with IPPs	2015-16
			Review tariff determination and penalties for non-payment **	2016-17
	Improve business climate	Strenghten property rights	Set up a cadastre**	2015-16
		Improve access to credit	Adopt pending draft laws on financial cooperatives and microfinance institutions	2016
			Ensure full operation of the credit bureau	2015-16
	Improve economic statistics for policy implementation	Improve data quality	Strengthen national, labor and external accounts	2015-17

1/ Possible Prior actions (PA) are marked with an asterisk (*) and structural benchmarks (SB) two asterisk (**).

Appendix I. Letter of Intent

May 4, 2015

Mme. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C.

Mme. Managing Director:

1. Over the past five years, Haiti has implemented macroeconomic policies that have helped maintain macroeconomic stability while recovering from the impact of the 2010 earthquake and advance key structural reforms. These policies were supported by an arrangement under the IMF's Extended Credit Facility (ECF). We are now determined to move to a new phase, reinforcing these gains while undertaking new efforts to boost Haiti's growth potential and significantly increase the living standards of the Haitian people. Our ultimate goal is to transform Haiti into an emerging economy by 2030, which will require entrenching macroeconomic stability while improving Haiti's infrastructure and boosting foreign and domestic private investment. We believe that the policies implemented to date and the program outlined in the attached memorandum provide a sound basis for our request for a new ECF arrangement.

2. The new program (May 2015–May 2018) for which we are requesting support under a new ECF will provide a macroeconomic anchor and a framework for necessary medium-term reforms. The attached Memorandum of Economic and Financial Policies (MEFP) outlines the first-year and medium-term objectives of our program. We are determined to further strengthen domestic revenue to sustain domestic investment in the face of declining external assistance and to increase the effectiveness of poverty-reducing expenditures. We will also continue to strengthen public financial management, building on the establishment of the Treasury Single Account, while addressing bottlenecks to private investment and higher growth, notably in the electricity sector.

3. The three-year period covered by the program offers a unique opportunity to reinforce the gains Haiti has made since the earthquake and to pursue new reforms to deliver sustained and inclusive growth over the medium-term. Doing so would facilitate rapid progress in the fight against poverty. Our program thus redirects resources previously devoted to fuel subsidies to protecting the most vulnerable, and supporting productive investment. We also plan a wide range of measures to boost Haiti's growth potential, from land tenure reform to promoting domestic industry.

4. As the recent Ex Post Assessment of Longer-Term Fund Engagement in Haiti highlights, there is consensus within Haitian society on the need to maintain macroeconomic stability and to

implement necessary reforms to promote better governance and strong and sustainable growth. In this regard, we will continue to work with our international partners. In particular, the authorities believe that implementing a new IMF-supported program will demonstrate Haiti's commitment to sound economic policies.

5. In order to facilitate the implementation of our program and reduce remaining balance of payments vulnerabilities, the Government of Haiti requests assistance under the IMF's ECF in an amount equivalent to SDR 49.14 million, or 60 percent of quota, to be disbursed in seven equal tranches over three years. Approval of this request would result in an immediate disbursement of SDR 7.02 million. A first review of the program would be completed no later than December 31, 2015, and a second review by June 30, 2016.

6. We believe that the policies set forth in the attached MEFP are sufficient to achieve the goals set forth in our program, but we stand ready to undertake further measures as needed. We will consult with the Fund on the adoption of such measures, and in advance of any revision to the policies contained in the MEFP, in accordance with the Fund's policies. In particular, the authorities and Fund staff will discuss (including during program reviews), on any unexpected developments that could affect the economic program to jointly analyze their impact and best courses of action, without compromising the program's objectives. We intend to provide timely information necessary for monitoring economic developments and the implementation of policies defined in the program, as agreed under the attached Technical Memorandum of Understanding, or upon request.

Sincerely yours,

/s/	/s/
Charles Castel,	Wilson Laleau,
Governor, Central Bank of Haiti	Minister of Economy and Finance

Attachment 1. Memorandum of Economic and Financial Policies for 2015–2018

Introduction

1. Following the devastating earthquake of 2010, the government of Haiti implemented in 2010–2014 an economic and financial program supported by the IMF under the Extend Credit Facility (ECF). Policies taken over the past several years, together with support from Haiti's development partners, helped assure macroeconomic stability, advance key structural reforms, and pursue the objectives of our Poverty Reduction Strategy (the Strategic Plan for the Development of Haiti, PSDH). To consolidate this progress and to address remaining obstacles to strong and sustained growth, the government has prepared a new medium-term economic program for 2015–2018.

2. This Memorandum of Economic and Financial Policies (MEFP) presents recent developments and performance as well as economic and structural policies of Haiti's medium-term program for which we are requesting IMF support under a new three-year ECF arrangement.

3. Under the new ECF-supported program, the government's overarching objective is to boost Haiti's long-term growth potential, allowing for continuous progress in poverty reduction. In addition to maintaining macroeconomic stability, this will require addressing barriers to domestic and foreign investment, supporting private sector development, and raising adequate domestic revenue while improving public financial management. In face of declining aid, a broader tax base and an efficient execution of public spending help address Haiti's crucial infrastructure gaps and as well as its pressing social spending needs. We recognize that the electricity sector in particular has been both a key bottleneck to growth and a significant fiscal drain, and will prioritize reducing its deficit and improving its performance under the new ECF-supported program.

Taking Stock of the Last ECF arrangement

4. Haiti's previous arrangement with the Fund was approved in the context of a catastrophic earthquake that caused massive loss of life and economic damage. However, the earthquake also triggered a huge increase in aid flows, as well as debt relief from Haiti's international partners, including from the IMF under the Post-Catastrophe Debt Relief (PCDR) Trust.

5. The key achievement under the previous program was maintaining macroeconomic stability and a return to growth despite severe shocks, including a cholera epidemic and the impact of Hurricane Sandy. Fuelled by reconstruction spending and a surge in remittances from Haitians living abroad, growth has been steady since 2011. Inflation was contained in the mid-single digits, aided by a prudent monetary policy that limited exchange rate volatility and increased reserve buffers. Taking advantage of technical assistance from the IMF and other partners, there was also progress on structural reforms, notably in revenue administration and in completing the first steps towards a Treasury Single Account (TSA).

6. Nevertheless, there is much that remains to be done. Economic growth, while higher than in Haiti's recent history, was significantly lower than projected and insufficient to rapidly reduce poverty. Public investment was also lower than projected, and remained dependent on foreign grants and Petrocaribe financing. The fiscal deficit in FY2013 and FY2014 increased to unsustainable levels, in particular due to onerous energy subsidies that cost US$ 350–450 million per year. These were driven by pump prices that were fixed in nominal gourde terms from March 2011 until October 2014, and by large transfers to the loss-making *Electricité d'Haïti* (EDH). External public debt rebounded and exceeded 20 percent of GDP by end FY2014. Finally, while monetary policy was successful in anchoring inflation expectations, access to credit remains low and concentrated in a few sectors.

7. Progress on the structural reform was steady but slow, given capacity and other constraints. Large (LTO) and medium (MTO) taxpayer offices were established, but tax compliance and enforcement should be further improved to broaden the tax base. There were some delays in proceeding towards adoption of the TSA, but the basic infrastructure was established in FY2014, and the accounting centers were made operational for the largest ministries. Other structural reforms, including in tax policy, financial sector regulation, and on public debt management proceeded only slowly.

Recent Economic Developments

8. Haiti achieved its fourth consecutive year of real per capita growth in FY2014. Growth was lower than expected at about 2.7 percent versus 4.2 percent in FY2013, due in large part to a drought in some areas of the country. Excluding the volatile agricultural sector growth, growth has been steady at about 4 percent in recent years, supported by construction, industry and services. Inflation continued to be well-contained, ending FY2014 at 5.3 percent despite lower agricultural production. The current account deficit was still large at over 6 percent of GDP in FY2014, but financing from Venezuela under the Petrocaribe Agreement helped Haiti preserve an adequate reserve buffer.

9. The fiscal deficit in FY2014 was unsustainably high, with the energy sector contributing around US$ 450 million to a deficit that exceeded 7 percent of GDP. Wage increases to teachers and the police will have a full-year effect in FY2015. Investment increased to historic highs, in particular due to capital spending related to Hurricane Sandy. The fiscal deficit was financed mainly by Petrocaribe resources, and a larger-than programmed drawdown on government deposits, as the domestic market for treasury bills remains shallow. Monetary policy remained focused on maintaining price stability and adequate international reserve buffers. The gourde depreciated moderately during FY2014, helping keep inflation expectations anchored, despite reduced intervention in the exchange rate market. However, private sector credit growth decelerated to 11.2 percent during FY 2014, with credit in gourdes increasing only by 5.2 percent, reflecting more binding liquidity constraints but also barriers to broader access to credit.

Macroeconomic Framework for FY2015–FY2018

10. Economic growth (as measured by GDP) is projected to remain in the 2–3 percent range in FY2015, on a slowdown in public and private investment, although remittances would continue to support domestic consumption. Risks are on the downside given ongoing weakness in agricultural production. Inflation is projected to remain in the mid-single digits in FY2015, as prudent monetary policy, helped by a decrease in the fiscal deficit, should ensure moderate exchange rate depreciation. The fall in international oil prices should contribute to contain inflation, despite continued weakness in domestic agricultural production. For FY2016–FY2018, GDP growth is expected to average about 3.5 percent, while inflation is projected to remain in the mid-single digits.

11. The external current account deficit should decline to the 3 percent of GDP range in FY2015, given the positive impact of international oil price declines in the oil bill. Financing of the current account deficit, however, would likewise decrease as Petrocaribe flows (which are tied to the oil bill) will fall by more than US$200 million. For FY2016–FY2018, the current account deficit is expected to widen somewhat towards 4 percent of GDP, as international oil prices are expected to gradually increase in the medium-term.

12. The revised budget for FY2015 will significantly reduce the fiscal deficit. The deficit of the non-financial public sector (NFPS, program definition) should decrease to about 3.2 percent of GDP (from 7.4 percent of GDP in FY2014). Petroleum-taxes will add 1.5 percent of GDP more to revenues, as fuel subsidies are eliminated, while improvement in tax and customs administration should help enhance fiscal revenues. Accordingly, domestic revenues should reach 14.7 percent of GDP (2.2 percent of GDP more than in FY2014). Public spending is projected to decline relative to FY2014. The wage bill (for teachers and police) will increase, while spending on goods and services will reflect the cost of elections. Transfers to the electricity sector will be contained. Capital spending will decrease to 10.9 percent of GDP, a more sustainable level. Financing from Petrocaribe will fall sharply, and thus, budget financing will mainly come from domestic sources, including drawing down government deposits. Budget support from the IDB and the European Union is expected at US$70 million, and the authorities have requested budget support from the World Bank. The NFPS deficit for FY2016-FY2018 will be further reduced (to 2.3 percent of GDP on average), so to ensure that public debt remains sustainable. The ECF-supported program includes adjusters to ensure fiscal and external debt sustainability in case of changes in expected external financing.

13. Monetary policy in FY2015 remains focused on containing inflation in the mid-single digits. Exchange rate pressures increased somewhat early in the fiscal year following a decision to allow certain Treasury bonds placed in the banking system to count towards reserve requirements. This loosening in the monetary policy stance occurred together with a strong reduction in the fiscal deficit, allowing banks to moderately expand credit to the private sector. During FY2016–FY2018, the BRH will continue focused in its core mission of anchoring inflation expectations while maintaining an adequate level of foreign reserves. The BRH is aware that Haiti will continue to be exposed to a wide range of risks, ranging from a decrease in external financing to a reversal in the terms of trade, and thus it is crucial to maintain a comfortable reserve cushion of around 5 months of imports. The BRH will intervene to smooth exchange rate movements originated in temporary factors. The authorities stress that continued budget support from Haiti's development partners is essential to keep exchange rate depreciation expectations well-anchored.

14. The central bank is working to improve the transmission of monetary policy. To this end, the BRH is analyzing the possibility of issuing dollar-indexed bills directly to the public to absorb liquidity and to reduce foreign-exchange market pressures; the BRH is aware that issuing such bills is only possible in a context where the fiscal deficit is sustainable. The monetary authorities also are committed to reduce obstacles to financial inclusion, including through the operation of a new credit bureau to better document borrower creditworthiness.

Economic and Financial Policies for FY2015-FY2018

15. The PSDH and its three-year investment program will serve as a reference for economic and financial policies. The PSDH intends to transform Haiti into an emerging country by 2030, and is based on four pillars. The first is a territorial refoundation, which involves making better use of, and protection of, Haiti's land. Land management, urban planning, electrification, and environmental protection all fall within this pillar. The second pillar is economic refoundation, which targets policies intended to spur foreign and domestic investment in Haiti's most competitive sectors, particularly manufacturing and tourism, but also in the agricultural sector, in order to spur formal employment. The third pillar of social refoundation targets modern health and education networks accessible to all Haitians, as well as policies of social inclusion and gender equality. The final pillar, institutional refoundation, foresees an overhaul of the legal framework as well as boosting public administration, an independent judiciary, and decentralized government entities.

16. The authorities' challenge for the coming years is two-fold: first, to achieve fiscal sustainability while maintaining the ability to meet urgent spending needs; and second, to unlock Haiti's growth potential and reduce extreme poverty. To meet this dual challenge, the government intends to implement a program that: (i) removes bottlenecks to growth; (ii) strengthens the framework for fiscal policy; and (iii) implements financial and monetary reforms to improve the policy framework and facilitate access to credit.

A. Removing Bottlenecks to Growth

17. While Haiti has achieved four consecutive years of economic growth during the previous Fund-supported arrangement, it has not been sufficient to rapidly reduce poverty. Going forward, strong and sustained growth will require deep-seated structural reforms, particularly given ongoing declines in aid flows. As the PSDH establishes, growth-supporting policies must be economically, environmentally, and socially sustainable.

18. To help ensure that growth is inclusive, and to combat extreme poverty, the government will continue to prioritize social expenditures in its budget process and will look to streamline the categories covered under poverty-reducing expenditures. An appropriate level of social expenditures would also promote economic growth by developing a human capital through a more educated workforce, improve efficiencies at many small farms, and boost productivity by expanding access to healthcare.

19. Improving infrastructure, in particular the operation of the electricity sector, and expanding access to credit, are fundamental to enhancing Haiti's growth potential. Strengthening the regulatory framework of the energy sector should result in better governance and increased transparency and attract investment to the sector. Other reforms, notably improving the efficiency and reducing the cost of port services, would likewise spur growth.

20. Strengthening property rights, including through the establishment of a modern cadastre, would produce enormous growth dividends. Securing transferable property rights would increase incentives to private domestic and foreign investment, which are now often delayed by uncertainties and disputes over ownership of the underlying land. The impact would be felt across the entire economy, from facilitating the construction of new factories to promoting more efficient farming techniques. The ability to use land as collateral would also greatly facilitate access to credit, which is now effectively denied to the large majority of Haitians, and would promote the development of a mortgage market. A modern cadastre system would improve Haiti's resilience to natural disasters, as stronger property rights would encourage investments in structural improvements. Accordingly, the inter-ministerial commission on land management will share with IMF staff by end-February 2016 an agreed action plan for FY2016–FY2017 to strengthen the legal framework and functioning of the cadastre (structural benchmark).

21. Promoting formal sector employment is a key goal of the program, as formal jobs are likely to be better paid and offer greater opportunities than those in the informal sector (including in commerce and agriculture) which currently employs most Haitians. The PSDH identifies two sectors in particular, manufacturing and tourism, as being aligned with Haiti's comparative advantages. The trade preferences offered by the United States under the HELP/HOPE Acts offer Haiti unparalleled access to the U.S. textile market, and the government will both encourage development of this sector and work to ensure that these preferences are extended. The tourism sector also holds great potential, due both to Haiti's beautiful location in the heart of the Caribbean but also due to the natural warmth and friendliness of its people. Attracting more visitors will require steady improvements in infrastructure and security, both of which would be served by a broader revenue base and by improving the quality of public expenditures.

22. Many experienced and dedicated civil servants lost their lives in the 2010 earthquake, which proved to be a major blow in the collection and distribution of economic data. This has an impact on growth not only because it deprives policy-makers access to timely and accurate information about the state and direction of the economy, but because private sector actors are less likely to be able to identify and act on potential economic opportunities. We therefore commit to work with the Fund and other technical assistance partners to improve the quality of the national, labor, and external accounts over the course of the program. Key short-term objectives include the introduction a headline economic activity indicator to serve as a reliable leading indicator for economic growth, and to modernize the national accounts, including by updating the base year.

B. Strengthening the Framework for Fiscal Policy

23. We will implement sustainable fiscal policies and maintain buffers to cushion against potential shocks. Fiscal sustainability is crucial to macroeconomic stability, as excessive deficits stoke exchange rate depreciation pressures and higher inflation, while crowding out credit to the private sector, reducing Haiti's growth potential. Haiti's vulnerability to a wide range of shocks, including a potential reduction of external financing flows or a rebound in international oil prices, require the maintenance of buffers, including in the form of international reserves and government deposits in the banking sector as insurance against downside risks. According, we adopted a revised budget for the central government for FY2015 consistent with a deficit of at most G13.5 billion (prior action). Lower fiscal deficits would also allow a gradual loosening of monetary policy and crowd in private sector credit. Particular efforts will be made to target quality expenditures with high impact on growth and poverty reduction. The authorities trust that the international community will provide additional financial support for the implementation of high return investments, which are essential to achieve a balanced growth path. The stronger fiscal position will be accompanied by a strengthening of public financial management as we are determined to implementing a wide range of reforms in this area, drawing on the Public Finance Reform Strategy adopted in 2013. The clearance of obligations arising from off-budget CG commitments will be made only after a thorough analysis of supporting documentation and proper budgeting (continuous structural benchmark).

24. Achieving fiscal sustainability will require preventing a reemergence of fuel price subsidies. In this regard the government has adopted an automatic fuel price adjustment mechanism by end-April (prior action), which will begin implementation as of end-June 2015 as described in paragraphs 34 and 36 of the TMU (structural benchmark). The automatic mechanism, based on international practices, will help protect public finances. Accordingly, the implementation of this mechanism will be complemented by direct subsidies to public transportation (at a cost of about 0.3 percent of GDP), that will allow to smooth the effect of fuel price volatility on urban public transportation tariffs. In addition, the authorities are drafting a new regulatory framework for the fuel sector, which reviews the price structure for refined products at the pump, in order for them to reflect actual imported CIF prices.

25. Fiscal sustainability will also require a substantial improvement in EDH finances. For this reason the ECF-supported program will have a target for the deficit of the NFPS, which includes EDH. Reducing EDH's deficit will require a significant improvement in billing and collection, as well as increasing the efficiency in energy production, which should contribute to reducing high generation costs. For this purpose, the Prime Minister, the Minister of Public Works, the Minister of Finance, EDH, and other stakeholders will sign before end-June 2015 a protocol for the electricity sector that lays out the obligations of different stakeholders in achieving the targeted improvement in the sector's performance (structural benchmark). The protocol includes provisions with respect to the revision of electricity tariffs, penalties for non-payment, the elimination of cross-arrears, the review of contracts with Independent Power Producers (IPPs), and the increase in transparency, in particular through the finalization of an audit of EDH, as well as better data production and diffusion to allow for better monitoring. In particular for FY2015, the combination of lower international oil prices and the adoption of measures targeting an increase in the cash recovery index (CRI) of about 4 percentage points, will allow adoption of a revised EDH budget with savings of at least G3.4 billion that will reduce the deficit (before transfers) from 2.5 percent of GDP to 1.7 percent of GDP (prior action). For the coming months, the EDH will implement actions agreed on in the reform protocol, including completing the audit of the 200 largest clients, having a first analysis of EDH tariff determination and penalties for non-payment, and updating an action plan for 2016-2018 (structural benchmark for end-March 2016).

26. Increasing domestic revenue is another key element to strengthening Haiti's fiscal position. Haiti's current system performance needs to be enhanced both in revenue collection and in improving tax compliance by removing cumbersome small taxes with low yield and high costs ("*taxes de nuisance*"). Accordingly, the government will establish a formal working group by July 2015 (structural benchmark) to draft a new tax code that will revise and put all tax laws into a general tax code and eliminate a number of *taxes de nuisance*. The working group will produce a preliminary draft of the tax code by end-July 2016. The working group will also prepare the adoption of a mining code, a full-fledged VAT system, and the modernization of the income tax. To improve tax administration, the LTO and local tax offices will complete the transfer of all medium taxpayer files to the MTO by end-August 2015 (structural benchmark). As gaps in coverage of the LTO and MTO can be readily discovered by identifying large importers that are not covered by these tax offices, the government will implement a program to ensure tax compliance by importers with an annual turnover of over G10 million who are not currently covered by the LTO/MTO by end-April 2016 (structural benchmark). In the medium term, the government will finalize the tax code, complete a study on tax expenditures, adopt a mining code, reform the income tax and introduce a full-fledged VAT system, all of which are key element of a modern tax system.

27. We remaining committed to a further strengthening of public financial management and the quality of public expenditures. Further progress towards the TSA, to be established by end-FY2015, is essential. To this end, the government will implement the terms of a protocol signed by the MEF and the BRH on the TSA as well as the MEF decision of December 18, 2014 placing all public accounts at the BRH under the control of public accounts, and the BRH has ensured its application by the state-owned bank BNC as described in paragraph 35 of the TMU (prior action). Four new accounting centers were installed in March, namely Accounting Center Economic Sector III, Accounting Center Economic Sector IV, Accounting Center Political Sector I, and Accounting Center Political Sector II. All remaining accounting centers will be established and operational by end-September 2015 (structural benchmark). In the medium-term, the TSA will be expanded to include the accounts of autonomous agencies, public enterprises, and donor accounts. To improve the effectiveness of public investment, the government will implement relevant recommendations of the World Bank study completed in September 2014, and will draw on the experience of countries in the regions.

C. Monetary and Financial Reforms

28. Credit to the private sector remains low, acting as a key obstacle to economic growth and inclusion. We intend to boost financial intermediation by strengthening property rights (including via a land cadastre) as well as by encouraging greater competition among financial institutions. We will pursue enactment of pending laws on financial cooperatives and microfinance institutions, and will promote the use of the recently-established credit bureau, which by improving information flows will broaden access to credit.

29. The government intends to further strengthen financial sector supervision to better control systemic risks and enhance the anti-money laundering and combating the financing of terrorism (AML/CFT) framework. We will conduct periodic stress tests of the banking sector, based on technical assistance from the Monetary and Capital Markets Department (MCM), and develop the surveillance and regulatory framework for cooperatives and microfinance institutions, in line with the recently adopted strategy for financial inclusion. The latter will require improving data collection and distribution of key indicators on the website of the central bank. To enhance the AML/CFT framework, the government will adopt the Financial Intelligence Unit (UCREF) Bill, the new Penal and Criminal Investigation Codes in line with the Caribbean Financial Action Task Force (CFATF) action plan implementing the AML/CFT framework. As part of our efforts to pursue a deepening of the financial sector, we will pursue the adoption of the draft law on insurance companies.

30. We also prioritize improvements in the monetary policy framework and the operations of the BRH, which would help transmit more effectively policy decisions onto the real economy, reduce volatility, increase transparency, and guard against tail risks. To develop the foreign exchange market, we will implement 2011 MCM recommendations to improve its functioning. This will target a unification of the FX intervention process while reducing its frequency to promote the development of a deeper interbank market for foreign exchange.

31. We remain committed to structural reforms to strengthen monetary policy and financial transparency. The BRH received (in May) IMF technical assistance on the functioning of the foreign exchange market resulting in recommendations for improving the reporting of transactions. The IMF also provided advice (in August) on strengthening foreign reserve management; the BRH established a work program incorporating the mission's recommendations. We continue to implement the recommendations of the 2010 Safeguards assessment follow-up mission, and in this regard, the FY2013 BRH financial statements were published in November 2014. We are committed to strengthening the autonomy of the investment committee, and are appointing a compliance officer to monitor foreign reserves management as well as a full adoption of IFRS accounting standards.

Program Monitoring

32. The government intends to take all the necessary measures agreed in the context of the ECF-supported program, as indicated in Tables 1 and 2 of this Memorandum. A committee dedicated to program monitoring, chaired by the State Secretary of Finance, with participation of representatives of the BRH, EDH, as well as relevant units of the Ministry of Finance (including the

Economic Studies, Budget and Treasury Directorates), has been set up. The program will be monitored based on performance criteria as of end-March and end-September, continuous performance criteria, indicative targets as of end-June and December, as well as structural benchmarks. Performance criteria and indicative targets are defined in the technical memorandum of understanding (TMU, Attachment 2), which also defines the scope and frequency of data to be reported for program monitoring purposes.

Table 1. Haiti: Indicative Targets and Quantitative Performance Criteria, June 2015–June 2016

	Actual Stock at end-September 2014	Cumulative flows since end-September 2014						
		December 2014	March 2015	June 2015	September 2015	December 2015	March 2016	June 2016
		Est.	Proj.	Indicative target	Performance Criterion	Indicative target	Performance Criterion	Indicative target
I. Quantitative performance criteria								
(measured as cumulative flows since September 2014)								
Net central bank credit to the non-financial public sector - ceiling	12,330	5,970	6,425	7,652	8,879	9,284	9,689	10,094
Net domestic assets of the central bank - ceiling	-23,625	6,834	8,538	8,645	9,550	10,199	10,849	10,559
Net international reserves of central bank (in millions of U.S. dollars) - floor	1,010	-50	-100	-117	-150	-150	-150	-130
Deficit of the Non-Financial Public Sector - ceiling	...	4,000	8,856	11,242	13,471	16,141	18,810	21,480
Domestic Financing of Central Government - ceiling	...	1,178	4,854	5,817	6,621	7,232	7,843	8,454
II. Continuous performance criteria								
New contracting or guaranteeing by the public sector of nonconcessional external debt (In millions of U.S. dollars) [1/]								
Up to and including one year	0	0	0	0	0	0	0	0
Over one-year maturity	...	0	0	0	0	0	0	0
Public sector external arrears accumulation (in millions of U.S. dollars)	0	0	0	0	0	0	0	0
III. Indicative targets								
Poverty reducing expenditures - floor [2/]	...	3,630	7,421	11,345	15,269	19,490	23,889	28,446
Memorandum items								
Net Central Bank Credit to the Central Government	16,142	5,797	5,971	6,918	7,865	8,195	8,524	8,854
Stock of Base money [3/]	48,150	52,851	51,761	50,671	49,580	50,452	51,325	52,197
Gross International Reserves (in millions of U.S. dollars)	1,914	1,817	1,808	1,794	1,782	1,782	1,782	1,802

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

1/ Excludes guarantees to the electricity sector in the form of credit/guarantee letters.

2/ Poverty reducing expenditures consist of domestically-financed spending in health, education, and agriculture.

3/ Excludes US$-denominated commercial bank reserves at the central bank.

Table 2. Haiti: Prior Actions and Structural Benchmarks, FY2015–FY2016

Measure		Timing	Rationale
Adoption of a revised budget for the central government for FY2015 consistent with a deficit of at most G 13.5 bn; TMU ¶32.	PA		Promote fiscal sustainability
Adoption of an automatic price mechanism for refined oil products (gasoline 95, diesel, and kerosene products); TMU ¶34.	PA		Eliminate fuel subsidies and contain fiscal risks
Implement TSA-related actions in line with paragraph 35 of the TMU.	PA		Advance TSA implementation
EDH Board adoption of a revised budget for EDH consistent with savings of at least G3.4bn in FY2015; TMU ¶33.	PA		Improve performance of electricity sector and contain fiscal risks
Signature of a protocol by the PM, the Minister of Public Works, the Minister of Finance, EDH, and other stakeholders that lays out the obligations of different stakeholders in achieving the targeted improvement in the electricity sector's performance; TMU ¶38.	SB	End-June 2015	Improve performance of electricity sector and contain fiscal risks
Implement an automatic price formula for fuel products; TMU ¶34 and ¶36.	SB	Continuous as of End-June 2015	Eliminate fuel subsidies and contain fiscal risks
Payment of unpaid off-budget CG commitments; TMU ¶37.	SB	To be observed continuously	Improve fiscal transparency
Establish a working group to produce by end-July 2016 a preliminary draft of a tax code that will put all tax laws into a general tax code and eliminate a large number of small taxes with low yields and high costs; TMU ¶39	SB	End-July 2015	Improve tax policy
The LTO and local tax offices to complete the transfer of all medium taxpayers' files to the MTO; TMU ¶40.	SB	End-August 2015	Improve tax administration
Adoption of FY2016 budgets for the Central Government and EDH consistent with a NFPS deficit of 2.3 percent of GDP; TMU ¶41.	SB	End-September 2015	Promote fiscal sustainability
Establish and make operational all remaining accounting centers; TMU ¶42.	SB	End-September 2015	Advance TSA implementation
An interministerial working group shares with IMF staff an agreed action plan for 2016-17 to strenghten the legal framework and functioning of the cadastre; TMU ¶43.	SB	End-February 2016	Improve business climate
In line with EDH protocol, complete audit of the 200 largest clients, complete analysis on EDH tariff determination and penalties for non-payment; TMU ¶44.	SB	End-March 2016	Improve performance of electricity sector and contain fiscal risks
Implement a program to ensure tax compliance of importers with an annual turnover above G10 million but who are not currently covered by the LTO/MTO; TMU ¶45.	SB	End-April 2016	Improve tax administration

Attachment II. Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) defines quantitative performance criteria (QPCs), indicative targets (ITs), prior actions (PAs), and structural benchmarks (SBs) for Haiti's program supported by the Extended Credit Facility (ECF) arrangement from 2015–18. It also establishes the framework for monitoring the implementation of such a program. Unless otherwise specified, all QPCs and ITs will be evaluated in terms of cumulative flows from end-September 2014, as specified in Table 1 of the Memorandum of Economic and Financial Policies (MEFP).

Definitions

2. Central Government (CG). Unless otherwise indicated, the CG refers to the central administration of Haiti and excludes local administrations (municipalities), the central bank (BRH) and other public financial institutions, autonomous state organizations and state-owned enterprises (SOEs). CG expenditures are financed by domestic taxes and other levies and by foreign donors through, *inter alia*, foreign grants, ministerial accounts (*comptes-courants*) and foreign public debt (including Petrocaribe). All transactions financed with Petrocaribe-flows (as reported by *Bureau de Monétisation des Programmes d'Aide au Développement,* BMPAD) constitute, for the purpose of the ECF, CG operations.

3. Special Funds and Programs. These include the Road Fund (*Fonds d'Entretien Routier*, FER) and resources mobilized to finance the PSUGO program in addition to Treasury transfers. For the purpose of the ECF, resources levied to finance FER and PSUGO will be recorded as revenues, with total expenses differing from revenues through variation of deposits recorded within CG deposits at the BRH.

4. *Electricité d'Haïti* (EDH). An SOE that produces, transmits, and distributes electricity. Flows between EDH and the CG include (i) CG transfers (including through sales taxes collected on electricity consumption and not devolved to the CG, and budgetary transfers); (ii) transfers financed with Petrocaribe resources for the operation of a tri-national electricity generation company (PBM); (iii) the payment of letters of credit in favor of independent power producers (IPPs) by debiting CG deposits at the BRH to cancel unpaid generation bills by EDH; (iv) the accumulation of financial claims by the CG for fuel purchases by IPPs, which are a counterpart of EDH arrears for unpaid generation bills. For the purpose of the ECF arrangement (i) and (ii) are recorded under operations "above the line", while (iii) and (iv) are recorded under financing items "below the line".

5. Non-financial public sector (NFPS). The NFPS includes the central government, special funds and programs (defined in paragraph 3), non-budgetary autonomous organizations, local governments and SOEs (enterprises and agencies in which the government holds a controlling stake of more than 50 percent of the shares, including EDH, defined in paragraph 4), but excluding the BRH and state-owned commercial banks.

6. The public sector (PS). The PS comprises the NFPS and the BRH.

7. Net BRH credit to the NFPS. It is defined as the difference between BRH assets and liabilities *vis-à-vis* the NFPS (*Créances nettes sur le secteur public*) according to Table 10R. This includes net BRH credit *vis-à-vis* the CG; and, net BRH credit *vis-à-vis* the rest of the NFPS.

8. Domestic arrears of the CG. They are defined as expenditures accepted by the Treasury that are unpaid. Domestic arrears of the CG exclude unpaid off-budget government commitments.

9. Unpaid off-budget CG commitments. These refer to obligations arising outside the budget process (originating in ministries or other public agencies), that may result in contingent claims on central government resources.

10. Net domestic financing (NDF) of the CG. It is defined as the sum of (i) net central bank credit to the CG (see paragraph 7); (ii) net credit from domestic commercial banks (as reported in Table 20R), which includes changes in CG deposits and the net issuance of treasury bills and other CG securities to commercial banks; and (iii) net non-bank credit to the CG, which includes net issuance of Treasury bills and other CG securities to non-banks, the change in net creditor position of the CG *vis-à-vis* the electricity sector (including IPPs and EDH), other CG claims and debts vis-à-vis nonbank institutions (including the change in net checks issued and not cashed, suppliers' credit, and the payment of judicial sentences), and the net change in domestic arrears of CG (paragraph 8).

11. Net external financing (NEF) of the CG. It is defined as the sum of (i) new external loan disbursements (including financing under Petrocaribe as well as loans from other external partners, but excluding the IMF); (ii) external loan amortizations; and (iii) the net change in external arrears.

Table 1: Projected External Net Financing of the Central Government

(Cumulative fiscal flows since end-September 2014, in millions of gourdes)

	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Net Financing	**5,426**	**6,850**	**8,909**	**10,967**	**13,026**
Loans (net)	5,426	6,850	8,909	10,967	13,026
Disbursements	6,788	8,803	11,574	14,344	17,115
Of which: Petrocaribe	6,312	8,099	10,303	12,507	14,711
Project loans	476	704	1,271	1,837	2,404
Amortization	-1,362	-1,953	-2,665	-3,377	-4,089
Arrears (net)	0	0	0	0	0

12. EDH's deficit after CG transfers. For the purpose of the program, EDH revenues include all cash income related to the distribution of electricity (*recettes d'energie* and *recettes diverses*), as well as CG transfers (*subventions*, including those financed with budgetary and Petrocaribe resources, including retained taxes). EDH expenditures include: (i) current spending (*dépenses d'exploitation*) corresponding to the fiscal year (i.e., excluding the cancelation of arrears with IPPs); these include, current electricity bills by IPPs and PBM, fuel, administration, wages, and maintenance; and, (ii) capital spending. Revenues and expenditures correspond to the fiscal year under consideration; any changes in claims or debts from previous fiscal years will be recorded below the line (as financing). EDH's deficit after CG transfers will be measured as EDH expenditures, minus EDH revenues (including CG transfers to EDH).

13. NFPS Deficit target. For the purposes of the program, the NFPS deficit target will be defined as the sum of NDF of the CG (paragraph 10); plus, NEF of the CG (paragraph 11); plus, EDH's deficit after CG transfers (paragraph 12).

14. Budgetary Grants. Budgetary grants are grants received from Haiti's bilateral or multilateral partners (including the European Union, the Inter-American Development Bank, the World Bank, the Haiti Reconstruction Fund, and bilateral donors) for general or sector budget support purposes.

Table 2: Projected Quarterly Budget Support Disbursements

(Cumulative flows since end-September 2014, in millions of U.S. dollars)

Donor	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
European Union	0.0	36.7	36.7	36.7	36.7
IDB	27.0	27.0	27.0	54.0	54.0
Total	**27.0**	**63.7**	**63.7**	**90.7**	**90.7**

15. Poverty-Reducing Expenditure of the CG. It is measured as the sum of the domestically-financed expenditure by the Ministries of Health, Education and Agriculture.

16. Debt. For the purposes of the performance criteria, the definition of debt is set out in Executive Board Decision No.6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-09/91) : Debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, according to a specific schedule; these payments will discharge the obligor of the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being loans[1], suppliers' credits[2], and leases.[3] Under the definition of debt set out above, arrears, penalties, and judicially-awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt.

17. Debt guarantees by the PS. For the purposes of the performance criteria on the contracting or guaranteeing of nonconcessional external debt, a public sector debt guarantee

[1] Loans are advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements).

[2] Suppliers' credits are contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided.

[3] Leases are arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments necessary for the operation, repair, or maintenance of the property.

means an explicit legal obligation to service a debt in the event of non-payment by the borrower (through payment in cash or in kind).

18. Debt concessionality. For the purposes of the ECF, an external debt is considered concessional if it includes a grant element of at least 35 percent.[4]

19. External debt. It is defined as debt contracted or serviced with and to non-residents. It excludes debt issued domestically by the PS and held by non-residents.

20. Arrears on external debt. They include all debt-service obligations (principal and interest) on loans contracted or guaranteed by the PS that are due but not paid on the due date as set out in the loan contract; they exclude those arising from obligations being renegotiated with external creditors and (or) those that are litigious.

21. Program exchange rate. The program exchange rate for FY2015 and FY2016 is 47 gourdes per dollar.

22. Gross international reserves (GIR) of the BRH. Reserve assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing). Reserve assets must be foreign currency assets and assets that actually exist. Potential assets are excluded. Underlying the concept of reserve assets are the notions of "control," and "availability for use," by the monetary authorities. For further details, please refer to the IMF's sixth edition of the *Balance of Payments and International Investment Position Manual* and the *Guidelines for a Data Template: International Reserves and Foreign Currency Liquidity*.[5] GIR as reported by the BRH in Table 10R should conform to this definition. Swaps in foreign currency with domestic financial institutions and pledged or otherwise encumbered reserve assets are excluded from GIR.

23. Net international reserves (NIR) of the BRH. They are defined as BRH's gross foreign exchange assets (comprising monetary gold, all claims on nonresidents, Special Drawing Rights – SDR- holdings, and BRH claims in foreign currency on domestic financial institutions); minus, gross short-term reserve-related liabilities, minus, 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*); all from Table 10R (Table 3).

[4] This page on the IMF website provides a tool to calculate the grant element of a wide range of financial packages: http://www.imf.org/external/np/pdr/conc/calculator/

[5] See the *Balance of Payments Manual*, http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm and the *Guideline for a Data Template*, http://www.imf.org/external/np/sta/ir/IRProcessWeb/pdf/guide2013.pdf.

Table 3: Net International Reserves BRH, End-September 2014 1/

(In millions of U.S. dollars)

A. Gross Foreign Exchange Reserves	1,913.7
B. Gross Liabilities	290.7
C. Net Foreign Assets (=A-B)	**1,623.0**
D. FX deposits of commercial banks and CAM transfer at the BRH	731.3
E. SDR allocation (liability)	118.7
J. NIR (=C-D+E)	**1,010.4**

Source: Haitian authorities; and Fund staff estimates.

1/ Figures are preliminary.

24. **Monetary Base.** It is defined, for the purpose of the ECF, as the stock of currency in circulation outside commercial banks; plus, Gourde sight deposits of commercial banks (*Dépôts a vue en gourdes des BCM a la BRH*); plus, cash-in-vault of commercial banks (*Encaisses des BCM*), all from Table 10R.

25. **Net Domestic Assets (NDA) of the BRH.** It is defined as the stock of currency in circulation (see paragraph 24); minus, NIR (in U.S. dollars, paragraph 23) converted into Gourdes at the program exchange rate (paragraph 21).

Quantitative Performance Criteria (QPCs)

26. The QPCs for 2015-16 include ceilings on: the change in net BRH credit to the NFPS (paragraph 7); the change in the NDA of the BRH (paragraph 25); the change in NDF of the CG (paragraph 10); and, the deficit of the NFPS (paragraph 13). They also include a zero ceiling for accumulation of arrears on external public debt, to be evaluated continuously; a zero ceiling on the new contracting or guaranteeing by the public sector of non-concessional external debt; and a floor on the change in the NIR of the BRH.

27. The government undertakes not to contract or guarantee any non-concessional external debt beyond the ceilings identified in MEFP Table 1. These performance criteria apply to external debt as defined in paragraphs 16 and 19, with concessionality being defined in paragraph 18. This QPC also applies to any private debt guaranteed by the government that constitutes a contingent government liability as defined in paragraph 17. Excluded from the ceiling are short-term import-related credits, rescheduling arrangements, borrowing from the Fund, non-resident purchases of treasury bills, and gourde-denominated BRH bills that are indexed to the exchange rate. This commitment is a performance criterion, to be observed continuously.

Adjustment

28. The ceilings on the change in net BRH credit to the NFPS, the change in the NDA of the BRH, the change in NDF of the CG, and the deficit of the NFPS will be adjusted upwards, and the floor on the change in the NIR of the BRH will be adjusted downwards, if budget support grants are lower than programmed, as shown in Table 2. This adjustor will be applied provided the deviations are temporary and only reflect delays in the disbursements of programmed, already identified, amounts.

The adjustor will not be applied if the deviations are not temporary. Staff and the authorities will consult with donors to determine whether any deviations (in the timing of disbursements and in amounts) can be considered temporary. Staff will consider that deviations are temporary if amounts are to be disbursed within the fiscal year, or during the first quarter of the following fiscal year, at the latest.

29. The ceiling on NDF of the CG will be adjusted upwards if NEF of the CG is lower than programmed, as shown in Table 1. This adjustment will be capped at US$10 million.

30. The deficit of the NFPS will be adjusted upwards, if NEF of the CG is higher than programmed, as shown in Table 1. This adjustment will be capped at US$20 million. If NEF of the CG is higher than programmed by more than US$20 million, NDF to the CG will be adjusted downwards by the difference between the additional external financing and US$20 million.

Indicative Targets (ITs) and Memorandum Items

31. The only IT in the program is a floor on poverty-reducing expenditures of the CG measured on a cumulative yearly basis. The quantitative performance criteria table will include, as memorandum, the cumulative change in the stock of GIR.

Prior Actions (PAs)

32. Adoption of a revised budget for the central government for FY2015. The government will adopt a revised budget consistent with a deficit for the NFPS of at most G13.5 billion.

33. Adoption of a revised budget for EDH for FY2015. The Board of EDH will adopt a revised budget for FY2015 will be consistent with savings of at least G3.4 billion during FY2015.

34. Adoption of an automatic price mechanism for refined oil products (i.e., gasoline 95, diesel, and kerosene products). The prior action will be the publication (in the official gazette or a newspaper of large circulation) of *Circulaire interministeriel portant application d'une décision adoptée par le Premier Ministre* (the "Circular") stating the following elements (i) the law of 1995 establishing the automatic price mechanism will be applied from end-June 2015 at the latest; (ii) beginning from end-June 2015, after each shipment, the Ministry of Finance (MEF) will publish (in a newspaper of large circulation) the theoretical price structure for each product, the price structure in application, and the theoretical value for stock of the stabilization margin; and (iii) the application of points (i) and (ii) above will begin before end-June 2015 if the value of the stabilization margin decreases below G -1 billion (minus G 1 billion); in such a case, pump prices will be increased so the value of the stabilization margin never decreases below G -1 billion. The same criterion will apply from end-June 2015 onwards: pump prices will be adjusted upwards so to avoid at all times that the value of the stabilization margin decreases below G -1 billion. In case the value of the stabilization margin surpasses G 1 billion (plus G 1 billion), pump prices could be adjusted downwards. The theoretical value of the stabilization margin at mid-March 2015 was minus G 27 million as of March 2015 (Table 4). The authorities will share with Fund

Table 4. Accumulation of Stabilization Fund as of March, 2015
(January-March, in millions of gourdes)

Gasoline 95	Diesel	Kerosene	Total
30	-66	9	-27

Sources: Haitian Authorities; and IMF staff calculations.

staff the effective import prices, and commit to revise the price structure to include effective import prices instead of "Caribbean posting" quotations as soon as possible.

35. Treasury Single Account (TSA) and accounting centers. As part of the transformation of current accounts opened with BRH in the name of the central administration into sub-accounts, the MEF and the BRH signed a protocol (in December 2014) to advance this process with minimum delay. Prior actions related with the implementation of this protocol include: (i) The Treasury will send to the BRH the technical specifications to be developed and the BRH will produce a pilot IT solution for accounting centers under "Economic Sector I" (its generalization to all accounting centers will be made in stages); (ii) The MEF and BRH will regroup government accounts at the BRH, with a view of identifying dormant accounts that will be closed and accounts that will be transformed in TSA sub-accounts. The MEF will analyze the government accounts that are still open in commercial banks (state-owned and private) with a view of closing them or passing them under MEF control.[6] Prior actions associated with the decision by the MEF adopted on December 18, 2014 include: (i) the MEF will ensure that all accounts open at the BRH and the BNC (*Banque Nationale de Crédit*) are under the control of a public accountant; and (ii) the BRH will allow the public accountants access to the accounts that are under their respective responsibility. The prior action associated with a memorandum of understanding signed in March 2015 between the BRH and BNC includes: (i) tax revenues collected by the BNC on behalf of the Tax department (DGI) and the customs department (AGD) will begin to be transferred to the central treasury account within 48 hours. The prior action related with the implementation of accounting centers includes: (i) five new accounting centers will be installed, namely Accounting Center Economic Sector III; Accounting Center Economic Sector IV; Accounting Center Political Sector I; Accounting Center Political Sector II; and Central Accounting Center.

Structural Benchmarks (SBs)

36. Automatic Fuel Price Adjustment Mechanism. The implementation of the automatic price mechanism as discussed in paragraph 34 will be a structural benchmark to be observed continuously. The automatic fuel price adjustment mechanism will begin implementation by end-June 2015, at the latest, unless the stabilization margin decreases below G -1 billion, as explained in paragraph 34. In such a case, pump prices will be adjusted upwards so the stabilization margin is at all times above G -1 billion. Implementation of the mechanism will be monitored through the calculation of the value for the stock of the stabilization margin (on a monthly basis) as described in paragraph 34.

37. Payment of unpaid off-budget CG commitments. If at any point during the life of the program, unpaid off-budget expenditures give rise to claims on the central government, the ministry of finance, before recognizing them as debts, will (i) analyze the supporting documentation to establish the appropriateness of their nature (as effective public spending); (ii) before such commitments are cleared, they will be incorporated in the budget, through a revision. This structural

[6] This is in line with the objective to consolidate all accounts opened with BRH and BNC, entailing the reduction of the number of sub-accounts to 3 by ministry (all entities): 2 sub-accounts for current and investment expenditure and one sub-account for own revenues, and the closing inactive accounts.

benchmark will be observed continuously. Monitoring of this structural benchmark will require the Ministry of Finance to report to IMF staff (on a monthly basis) the stock and composition of off-budget CG commitments that arrive at the Treasury.

38. Signature of protocol for the reform of EDH. The Prime Minister, the Minister of Public Works, the Minister of Finance, EDH, and other stakeholders will sign a protocol (by end-June 2015, at the latest) that lays out the obligations of different stakeholders in achieving the targeted improvement in the sector's performance. The protocol will include provisions with respect the revision of electricity tariffs, penalties for non-payment, the elimination of cross-arrears, the review of contracts with IPPs, and the increase in transparency, in particular through the finalization of an audit of EDH, as well as better data production and diffusion to allow for better monitoring.

39. Establish a working group for strengthening tax policy. The government will establish a working group (under the reform unit) by end-July 2015 for drafting the tax code that will put all tax laws into a general tax code and to eliminate a large number of small taxes ("taxes de nuisance") with low yield and high administrative costs. The working group will produce the preliminary draft by end-July 2016.

40. Strengthening the medium taxpayers' office (MTO). The large taxpayers' office (LTO) as well as local tax offices will complete the transfer of all medium-size tax payer files to the MTO. These actions will be completed by end-August 2015.

41. NFPS Deficit for FY2016. The Central Government and EDH will adopt budgets for FY2016 consistent with a deficit for the NFPS of 2.3 percent of GDP in line with the program. These actions will be completed by end-September 2015.

42. Establishment of remaining accounting centers. To ensure rapidity and efficiency of controls on the implementation of investment projects, accounting centers 1 and 2 of the economic sector were split into four accounting centers (Accounting Centers Economic Sector –ACES I, II, III, and IV). All established accounting centers are operational since the first half of FY2014. As part of the strengthening of management capabilities, a training plan for public accountants and budget administrators is planned for the month of April 2015. The authorities will implement an interfacing the information systems of revenues collection (TAX-solution and SYDONIA) with the accounting system (GL) in line with the already established timetable. The plan to set up other accounting centers continues in line with the already established timetable. This action will be completed by end-September 2015.

43. Establishing a modern cadastre and property rights system. The government has established an inter-ministerial commission on land management. With donor assistance, the commission is conducting an inventory of the cadastre on a pilot basis in a number of municipalities. The commission will transmit an action plan for FY2016-FY2017 to strengthen the legal framework and functioning of the cadastre in Haiti by no later than end-February 2016.

44. Audit of 200 largest EDH active clients. In line with the agreed protocol, EDH will, before end-March 2016, complete the audit of the 200 largest clients, and have a first analysis of EDH tariff determination and penalties for non-payment, and updated action plan for FY2016–FY2018.

45. Implement a program to ensure compliance of importers with an annual turnover above G10 million but who are not currently covered by LTO/MTO (End-April 2016). On a regular basis, the Customs Department (AGD) will communicate to the Tax Department (DGI) information on import activities generated by ASYCUDA so that the DGI can identify new large taxpayers and ensure that they are properly covered by tax administration.

46. Information concerning the implementation of measures constituting structural benchmarks will be reported to the IMF staff no later than two weeks after their scheduled implementation date.

Data Provision for Program Monitoring

47. To facilitate program monitoring, the government will report the information indicated in electronic format in the following summary table to IMF staff (Table 5).

Table 5. Summary of Reporting Requirements

Sector	Type of Data	Frequency	Reporting Deadline
Real Sector	National Accounts	Annual	Year-end + 3 months
	Quarterly Economic Indicators (Conjoncture Economique)	Quarterly	Quarter-End + 2 months
	Consumer Price Index Breakdowns	Monthly	Month-End + 3 weeks
Public Finance	Fiscal Revenues (internal, external, other)	Weekly	Week-end + 1 week (4 weeks final data)
	Expenditures on Cash Basis (wages and salaries, goods and services, external debt, current accounts)	Weekly	Week-end + 1 week (4 weeks final data)
	Central Government TOFE (Tableau des Operations Financières de l'Etat)	Montly	Month-end + 2 weeks
	Table on Current Accounts (Balance des Comptes Courants et de Fonctionment des Projets)	Montly	Month-end + one month
	Table Underlying TOFE, which enables the determination of checks in circulation and balance on invesmtent project accounts	Montly	Month-end + one month
	Report of Revenue Collection of DGI (Rapport d'activités)	Monthly	Month-end + one month
	Tables of revenue collection of AGD (Indicateurs d'activités aux ports, Rapport analytique des perceptions douanières à l'importation)	Monthly	Month-end + one month
	Balance of BMPAD accounts, including (i) financing under the Petrocaribe agreement by shipment and terms therof; (ii) transfers to project accounts; (ii) transfers to IPPs; and (iv) transfers to EDH.	Monthly	Month-end + one month
	Balance of PetroCaribe/ALBA-related deposits at commercial banks and the BRH, in gourdes and in foreign currency.	Monthly	Month-end + one month
	Report on Poverty-Reducing Expenditures	Quarterly	30-day lag (final data)
	Table on the implementation of the PSUGO program	Quarterly	30-day lag (final data)
	Tableau de Bord of the the state electricity utility EDH showing monthly information on the production of electricity, making explicit the composition of production by IPP, EDH, and by region	Monthly	30-day lag (final data)
	Information of any off-budget claims presented for payment	Monthly	Month-end + one month
	Stock of unpaid off-budget CG commitments.	Monthly	Month-end + one month
	Data on all fuel shipments per product giving the CIF import price, the full price structure (including "marge de stabilization") and import and consumption quantities. Data on actual collections for each month with a decomposition per product and tax type.	Monthly	Month-end + one week
	Balance of the stock of the Stabilization Fund for fuel products	Monthly	Month-end + one week
Monetary and Financial Data	Exchange Rate	Daily	Day-end + one day
	Monetary base and sources thereof under the program definition, broad definition (sens large), and currency in circulation.	Weekly	Week-end + one week
	Aide Memoire Table containing, inter alia: (i) Stock of BRH bonds; (ii) Deposits at commercial banks; (iii) credit to private sector (in gourdes and U.S. dollars; (iv) details of inflows and outflows of foreign exchange reserves including budget support received; (v) volume of FX transactions including BRH sales and purchases; (vi) gross and net international reserves; and (vii) net BRH credit to the central government and non-financial public sector.	Weekly	Week-end + one week
	Statistiques monétaires tables showing, inter alia, the balance sheet of the BRH (Table 10R) and the consolidated banking sector (Table 20R)	Monthly	Month-end + one month
	FMI Weekly Tables showing, inter alia, the average and weighted interest rates on gourde and U.S. dollar-denominated deposits and credit; and excess reserves in the banking system.	Monthly	Month-end + one month
	Information on the composition of gross reserves; based on the template provided by STA expert in March 2015.	Monthly	Month-end + one month
	Banking supervision statistics and financial indicators on commerical banks	Quarterly	Quarter-end + one month
	The calendar and planned placements of BRH bills including to banks and non banks, including in gourdes and in dollar indexed bonds	Quarterly	Quarter-end + one month
	Audited Financial Statements of the BRH	Yearly	Year-end + three months
Balance of Payments	Balance of Payments	Quarterly	Quarter-end + one month
	Revised Balance of Payments	Quarterly	3 months after original submission
	BRH FX cash flow table (Tableau de tresorerie de devises); quarterly projections through end of fiscal year.	Quarterly	Quarter-end + one month
External Debt	External debt report (Rapport Dette Externe) prepared by the BRH showing monthly disbursements; debt service, debt forgiveness and rescheduling, arrears, and debt stocks.	Monthly	Month-end + one month
	Details on any nonconcessional external public debt and debt guaranteed by the government, including those excluded from the ceiling as described in paragraph xx.	Monthly	Month-end + one month
	Data on outstanding balances, accumulation, and repayment of external arrears will be forwarded within six weeks after the end of each month.	Monthly	Month-end + six weeks

Appendix II. Risk Assessment Matrix [1]

	Nature/Source of Risk	Overall Level of Concern: Likelihood of realization (High, Medium, or Low)	Overall Level of Concern: Expected Impact if Risk is Materialized (High, Medium, or Low)	Policy Response
Short-Term Risks	**1. Higher-than-expected U.S. growth**	**Medium** Higher-than-anticipated growth on the back of continued improvement in labor markets	**Medium** Remittances and apparel export growth would increase, supporting domestic demand and the growth outlook. Formal employment would be pushed upwards	Strengthen business climate to make full use of advantages in HOPE/HELP acts, including by enhancing the efficiency of electricity sector and of the PIP. Increase exchange rate flexibility.
Short-Term Risks	**2. Political Instability**	**Medium/High** Political tensions increase in the wake of the dissolution of parliament and the President's ruling by decree, as provided for Haiti's constitution.	**High** Popular protests may impede the implementation of structural reforms, constrain growth, and heigthen fiscal vulnerabilities or deplete reserves. Private investment and growth remain low.	Promote inclusive political and economic institutions and open discussions on the reform agenda. Engage with all stakeholders to strengthen the business climate and enhance poverty reduction efforts.
Short-Term Risks	**3. Venezuela's macroeconomic situation worsens**	**High** Petrocaribe-related flows decrease significantly with possibility of a sudden stop.	**High** A sudden stop of Petrocaribe resources would cut GDP growth, although the decline in oil prices would mitigate its impact. Financing of the PIP and of EDH's deficit would be constrained.	Keep Petrocaribe-related deposits at adequate levels by adjusting spending plans to available resources. Promote domestic revenue mobilization. Accelerate reforms aimed at EDH's financial sustainability. Seek additional budget support
Short-Term Risks	**4. Oil Prices Increase**	**Medium** Geopolitical or natural events push up oil and food prices.	**High** Inflation would increase, and the current account and the growth outlook would deteriorate.	Maintain financial buffers and Increase flexibility of exchange rate policy. Eliminate blanket subsidies, focusing them on the poor. Enhance efficiency of the electricity sector.
Medium-term Risks	**5. Natural Disasters**	**Medium** Although natural disasters are unpredictable, Haiti's geographical location makes it prone to be affected by these shocks.	**High** Natural disasters have resulted in loss of life, infrastructure destruction and disruption of production, in particular of agriculture.	Increase flexibility of exchange rate policy and maintain fiscal buffers. Strengthen the national and risk management system. Strengthen effectiveness of fiscal policy to reach the poor fast. Focus transfers and subsidies.
Medium-term Risks	**6. Donor Fatigue**	**Medium** Following the effort after the earthquake, donor flows decrease more rapidly than projected.	**High** Public investment decreases and the growth outlook deteriorates. Fiscal and external accounts also deteriorate.	Promote domestic revenue mobilization. Maintain financial buffers and increase flexibility of exchange rate policy. Continue implementation of structural reforms and strengthen governance and AML/CFT efforts.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

INTERNATIONAL MONETARY FUND

HAITI

May 6, 2015

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

Prepared By | Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of March 31, 2015)

Membership Status: Joined September 8, 1953; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	81.90	100.00
Fund holdings of currency	81.83	99.92
Reserve position in Fund	0.07	0.08

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	78.51	100.00
Holdings	68.81	87.64

Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
ECF Arrangement	40.95	50.00

Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
ECF	07/21/2010	12/24/2014	40.95	40.95
ECF 1/	11/20/2006	1/29/2010	180.18	180.18
ECF 1/	10/18/1996	10/17/1999	91.05	15.18

1/ Formerly PRGF

Projected Payments to the Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	2015	2016	2017	2018	2019
Principal		2.46	4.26	6.72	7.70
Charges/Interest		0.01	0.01	0.01	0.06
Total		2.46	4.26	6.72	7.76

Exchange Rate Arrangement and Exchange Restrictions:

Haiti's currency is the gourde. The de jure exchange rate regime is floating. The de facto exchange rate arrangement has been classified as a crawl-like arrangement since April 2008, except for a short period of post-earthquake disruption in the exchange rate market from January through February of 2010, during which time the gourde was classified as an other managed arrangement. Haiti has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Safeguards Assessment:

An update safeguards assessment was concluded in January 2011. The assessment noted that despite the serious setback resulting from the earthquake, elements of the safeguards framework within the central bank remain in place. However, the safeguards assessment also concluded that new vulnerabilities emerged, particularly, in the areas of governance, external audit and reserves management. In order to address these vulnerabilities, the safeguards assessment recommended rotation of the external auditors, as well the adoption of a formal selection policy in the area of external audit. The assessment recommended the adoption of a global reserves management policy and guidelines, to cover both reserves managed internally as well as reserves managed externally. Other recommendations aim to strengthen the oversight bodies including through the reconstitution of the Investment Committee, and the appointment of an independent Compliance Officer. An update assessment will be required before the first review under the new ECF arrangement.

Article IV Consultations:

The last Article IV consultation was concluded on March 11, 2013 (IMF Country Report No. (13/90). Consultations were held in Port-au-Prince Dublin during January 20–27, 2014. The IMF team comprised Mr. Boileau Loko (head), Abdelrahmi Bessaha, Olga Sulla, Alain Brousseau (all WHD), and Elva Bova (FAD). Jacques Bouhga-Hagbe, the resident representative, assisted the mission. Ms. Ketleen Florestal from the Executive Director's office participated in the discussions. The mission met with Prime Minister Lamothe, Minister of Economy and Finance Jean Marie, Minister of Commerce and Industry Laleau, Minister of Agriculture Jacques, Minister Delegate in charge of Human Rights and the Fight against Poverty Auguste, Governor Castle, and senior financial and economic officials. The mission also met with representatives of the donor and diplomatic community and the private sector. Article IV consultations with Haiti are on the 24-month cycle.

Technical Assistance:

Haiti has received the following IMF technical assistance missions since November 2012:[1]

[1] For previous technical assistance missions please consult the Haiti 2012 Article IV consultation available at http://www.imf.org/external/pubs/ft/scr/2013/cr1390.pdf

Department	Dates	Purpose
FAD	Mar 2015	Tax Administration
	Nov 2014	Tax Administration
	Oct 2014	Tax Administration
	Aug 2014	Tax Administration
	Jul 2014	Energy Subsidy Reform
	Jun 2014	Mining Taxation
	Apr 2014	Cash and Treasury Management
	Feb 2014	Tax Administration
	Nov 2013	Tax Administration
	Jul 2013	Public Financial Management
	Jun 2013	Tax Administration
	Apr 2013	Cash and Treasury Management
	Apr 2013	Value-Added Tax
	Mar 2013	Public Accounting
	Mar 2013	Macro-fiscal
	Jan 2013	Tax Administration
	Dec 2012	Tax Policy
	Nov 2012	Cash and Treasury Management
MCM	Nov 2014	Credit Union Supervision
	Aug 2014	Reserve Management Guidelines
	May 2014	Foreign Exchange Market

	Feb 2014	Credit Union Supervision
	April 2013	Macroprudential Policies
STA	Jun 2014	National Accounts Statistics
	Jun 2013	Consumer Price Index
	June 2013	National Accounts
LEG	Jun 2013	Drafting of a general tax code
	Dec 2012	Drafting of a VAT law

Resident Representative:

Mr. Wayne Camard has been the Fund's Resident Representative since August 1, 2013, replacing Mr. Jacques Bouhga-Hagbe.

JOINT WORLD BANK-IMF WORK PROGRAM, 2015–16

The IMF country team coordinated closely with the World Bank during the Article IV consultation mission and staff visit, with World Bank staff participating actively in all discussions. The teams were led by Mr. Raju Singh (Lead Economist and Program Leader, World Bank) and Mr. Gabriel Di Bella (IMF Mission Chief for Haiti).

The teams agreed that while Haiti should be commended for maintaining macroeconomic stability, deep-seated structural reforms are needed to raise Haiti's growth rate and ensure steady progress in poverty reduction. The teams agreed that electricity should be a top reform priority, both because the sector's large fiscal costs crowd out other public spending and because poor and unreliable electricity service constitutes a key obstacle to economic development. Together with the electricity utility and responsible government ministries, the teams coordinated closely in the incorporation of electricity sector issues into the ECF arrangement, and will continue to do so over the course of the program.

The teams also jointly developed the debt sustainability analysis (See Debt Sustainability Analysis). They agreed that the recent fall in international fuel prices drove the improvement in Haiti's projected debt sustainability as compared with the previous DSA, and is thus vulnerable to a sudden reversal. The results therefore underscored the need for an automatic fuel price mechanism, together with targeted mitigating measures, to guard against the risk of a rebound in prices while protecting the most vulnerable. Both the Bank and the Fund have been active in providing technical assistance in this area.

Title	Products	Provisional Timing of Mission	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	Systematic Country Diagnostic	Ongoing	End-June, 2015
	Public Expenditure Review	Ongoing	End-June, 2015
	Infrastructure and Institutions Emergency Recovery Program – Support on PFM	Ongoing	
	Business Development and Investment –	Ongoing	

	Value Chain Analyses and Review of Tax Exemptions		
	Programmatic Social Protection Knowledge Work	Ongoing	End-June 2016
	Study on Economic and Fiscal Impacts of Disasters in Haiti and Analysis of the Government's Fiscal Management of Disasters	Ongoing	End-June 2016
B. Requests for Work Program Inputs			
World Bank request to IMF	Periodic update of the macro-framework		Continuous
IMF request to World Bank	Regular update on Bank activities		Continuous
C. Agreement on Joint Products and Missions			
Joint Products in next 12 months	Joint Bank-Fund Debt Sustainability Analysis (Update)	Ongoing	May 2015

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of March 2015)

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

The Bank also assumed additional responsibilities beyond the financing of key recovery and development investments, including support for sector-wide plans and active roles in the design and implementation of the earthquake recovery institutional mechanisms such as the Haiti Reconstruction Fund (HRF), for which it acts as one of three Partner Entities.

The Bank is uniquely positioned to support the Government's Action Plan for National Recovery and Reconstruction. In order to identify priority sectors and focus its resources, the Bank and the GOH carried out a comprehensive sector analysis of its project pipeline, past experience and areas of comparative advantage, relationships with key GOH and other international and Haitian stakeholders, as well as the Bank's comparative strength and reputation with respect to other donors.

A. Key Developments Since the Earthquake

In the months following the earthquake, the IDB Board of Governors also agreed to cancel Haiti's outstanding debt with the Bank, which at US$479 million constituted about 40% of the Government's external liabilities. The IDB Governors also agreed to convert the undisbursed portion of loans, totaling some US$186 million into grants, thereby freeing up public resources for critical investments. These decisions were preceded by the 2009 E-HIPC/MDRI initiative when the IDB granted some US$511 million in debt relief, clearing the way for the Government to undertake vital public investments.

The Bank also pledged to provide Haiti more than US$2.3 billion in new grants for the 2010–20 period to fund its recovery efforts and long-term development plans. This decision sealed the Bank's long-term commitment with Haiti's reconstruction plan. These resources will finance investments vital 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.

On the basis of an analysis of the most critical areas of support for recovery and development, as well as consultations with the GOH, the Bank focuses its projects on six sector

programmatic areas:, Education, Private sector Development, Water and Sanitation, Agriculture, and transport.

Since the earthquake, total approvals reached US$1,139M, and total disbursements US$893.9M. The following tables show evolution by year and by priority sector of IDB approvals and disbursements:

	IDB Approvals							IDB Disbursements						
Priority Sectors	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total 2010-2015**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total 2010-2015**
Education	50.0	50.0	50.0		24.0		**174.0**	19.6	23.8	10.5	7.1	36.8	2.3	**100.1**
Private Sector Development	20.0	66.0	71.0	40.5	55.0		**252.5**		16.1	34.3	38.4	29.0	0.0	**117.8**
Energy	14.0	55.0	12.0	22.0	7.7		**110.7**	2.6	41.0	21.4	27.7	12.3	0.3	**105.5**
Water & Sanitation	15.0			35.5	15.0		**65.5**	13.6	16.5	16.8	10.5	24.3	0.0	**81.8**
Agriculture & Environment		15.0	42.0	40.0	50.0		**147.0**	10.6	16.8	28.8	38.0	31.6	0.1	**125.7**
Transport & Infrastructure	54.0	55.0	70.5	50.0	62.0		**291.5**	71.5	32.2	28.6	49.9	66.5	0.1	**248.8**
Other	98.0						**98.0**	58.9	28.4	6.9	14.7	5.0	0.1	**114.2**
Total	**251.0**	**241.0**	**245.5**	**188.0**	**213.7**	**0.0**	**1,139.2**	**176.9**	**174.8**	**147.4**	**186.3**	**205.6**	**3.0**	**893.9**

STATISTICAL ISSUES

A. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that significantly hamper surveillance. Most affected are the national accounts and labor indicators. Fiscal and external sector data are broadly adequate, but need improvements in coverage and timeliness.
National Accounts and Real Sector Data. The Haitian statistical system was severely impacted by the January 2010 earthquake. Since the earthquake Haiti has only published preliminary estimates of the national accounts and no longer publishes final results. Another issue is the 1986/1987 base year of constant price GDP data, which does not adequately capture the structural shifts in the economy since then. The Fund continues to provide technical assistance in this area in coordination with other TA providers, aiming at moving the base year from 1986/87 to 2012 and improving compilation methods. Other shortcomings include incomplete and untimely reporting on performance in the agricultural sector, and the lack over an overall quarterly economic indicator that could be used to estimate quarterly GDP.
Price and Labor Statistics. CPI is compiled by the Haitian Institute of Statistics on information based on a 2000 household survey structure, using 2004 as the reference year. The index follows a Laspeyres methodology and comprises 287 products. The statistical institute also produces estimates of inflation of local and imported goods, but these are not consistent with the headline survey, preventing an accurate estimation of the contributions to overall inflation from local and imported goods. No labor statistics are published.
Government Finance Statistics. Staff receive data from the Ministry of Finance in the form of a monthly "Table of Government Financial Operations" (TOFE) for program monitoring and surveillance. Data presentation is broadly adequate but has weaknesses including limited coverage, high aggregation, misclassifications, the non-reporting of major categories such as net lending, financing and Petrocaribe-related operations, and incomplete information on debt service. There is a need to improve the timeliness of publication of the accounts of autonomous agencies and public enterprises, particularly the electricity utility EDH, to establish the accounts of the nonfinancial public sector. The reporting of budgetary expenditures, especially on ministerial discretionary accounts, should be improved to increase transparency. The authorities are encouraged to establish a plan for migrating to the GFSM 2001/2014 framework for compiling fiscal statistics.
Monetary and Financial Statistics. The monthly accounts of the balance sheets of the central bank and the consolidated banking sector are broadly adequate for surveillance. However, there are some inconsistencies between the central bank and commercial bank accounts. There is also a need to expand institutional coverage of financial institutions to include credit unions and cooperatives into the survey of depository corporations, and to improve the timeliness of reported data to the Fund.

Financial Sector Surveillance. With regard to financial soundness indicators (FSIs), Haiti currently does not report data to the Fund for dissemination on the Fund website.	
External Sector Statistics. Balance of payments data is broadly adequate for surveillance but suffers from some deficiencies in scope, source data, and timeliness. Large errors and omissions, as well as gaps between the data reported by Haiti and its partners indicate incomplete coverage of current and financial account transactions. Special attention should be given to customs data coverage and classification of post-earthquake official and private flows, as well as recording of the external assets and liabilities of the private sector. CARTAC is ready to facilitate any TA upon the authorities' request.	
B. Data Standards and Quality	
Haiti participates in the Fund's General Data Dissemination System.	No data ROSC is available.
C. Reporting to STA	
Haiti currently does not report monthly or annual fiscal data to STA for publication in the International Financial Statistics (IFS) or in the Government Finance Statistics Year (GFSY), respectively. Haiti reports annual IIP and quarterly balance of payments to STA, although these suffer from a lack of consistency.	

Haiti: Table of Common Indicators Required for Surveillance

(As of April 2015)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	April 2015	April 2015	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	March 2015	April 2015	M	M	I
Reserve/Base Money	April 2015	April 2015	M	M	I
Broad Money	March 2015	April 2015	M	M	I
Central Bank Balance Sheet	April 2015	April 2015	M	M	I
Consolidated Balance Sheet of the Banking System	February 2015	April 2015	M	M	I
Interest Rates[2]	April 2015	April 2015	W	W	I
Consumer Price Index	March 2015	April 2015	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	January 2015	March 2015	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	January 2015	March 2015	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	September 2014	November 2014	M	Q	I
External Current Account Balance	2015:Q1	March 2015	Q	Q	Q
Exports and Imports of Goods and Services	January 2015	March 2015	M	M	I
GDP/GNP	2014	Dec 2014	A	A	A
Gross External Debt	February 2015	April 2015	M	M	I
International Investment Positions	2013	June 2014	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I) Not Available (NA).

HAITI

May 6, 2015

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

Approved By
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Prepared by the International Monetary Fund and the World Bank

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

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

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

Background

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

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

A. Macroeconomic Outlook, 2015–35

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

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

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

Sources: Haitian authorities; and Fund staff estimates.

1/ The debt ratio differs slightly from that in Tables 1a and 3a given the use of average, instead of end-of-period, exchange rates.

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

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

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

Text Table 2. DSA 2015 vs. DSA 2014

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

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

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

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

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

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

B. Debt Sustainability Outlook, 2015–35

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

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

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

C. Increased Stress Scenarios

A 'Sudden Stop' of Petrocaribe Inflows

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

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

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

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

A Rebound of Oil Prices

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

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

D. Conclusions

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

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

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

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

(In percent GDP, unless otherwise indicated)

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

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

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

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

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

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

(In percent of GDP, unless otherwise indicated)

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

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

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

(In percent)

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

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

(In percent)

Debt service-to-exports+remittances ratio

Baseline	2	2	3	3	3	3	**4**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	2	2	3	3	3	3	**3**	5
A2. New public sector loans on less favorable terms in 2015-2035 2/	2	2	3	3	3	4	**5**	9
A3. Alternative Scenario: A Permanent 50 percent increase in Oil Prices in 2015	2	2	3	3	3	4	**6**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	2	2	3	3	3	3	**4**	6
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	2	2	3	3	3	3	**4**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	2	2	3	3	3	3	**4**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	2	2	3	3	3	3	**4**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	3	3	3	3	**3**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	2	2	3	3	3	3	**4**	6

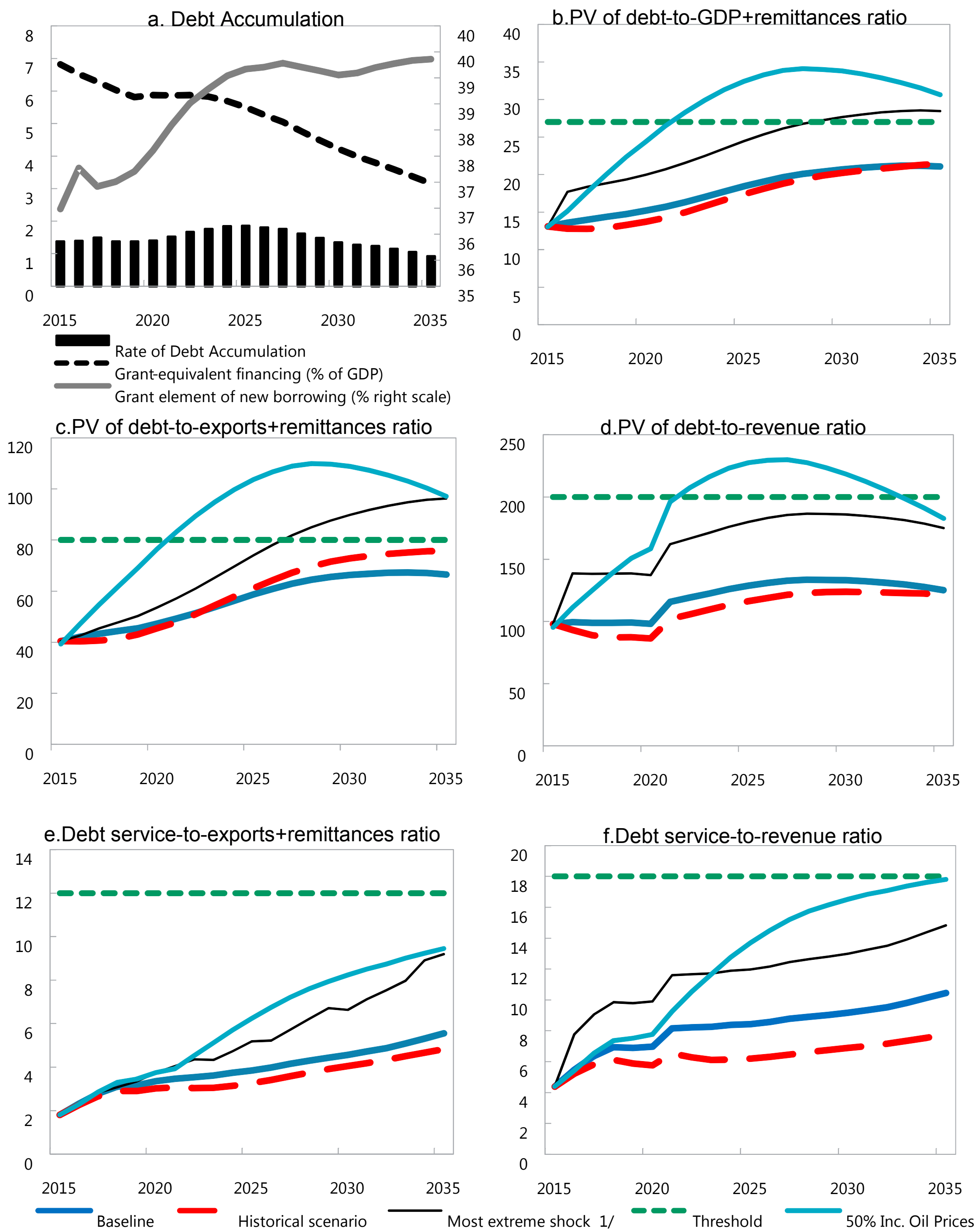
Debt service-to-revenue ratio

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

Sources: Country authorities; and staff estimates and projections.

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

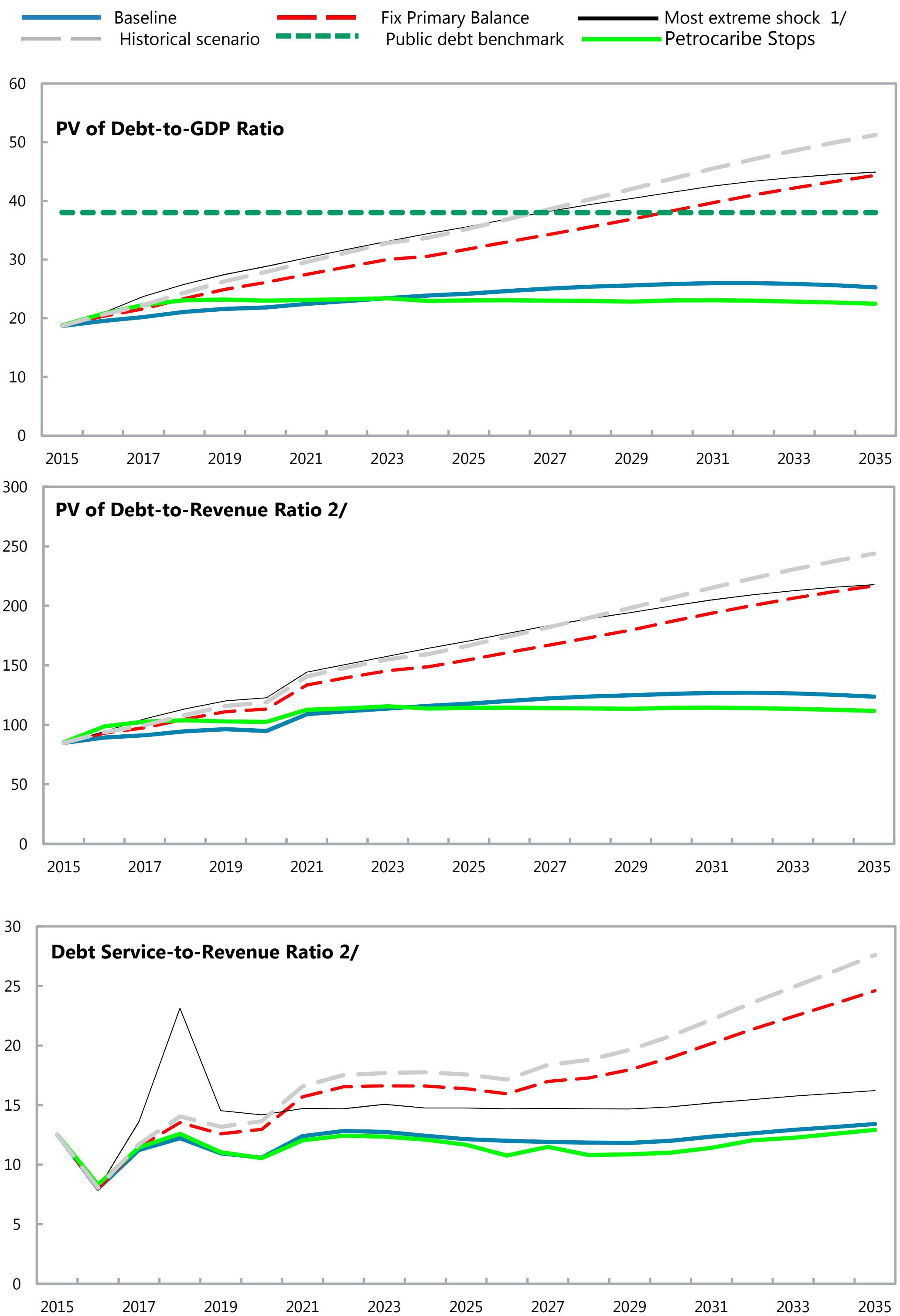
Figure 1. Haiti: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2015–2035 1/



Sources: Country authorities; and staff estimates and projections.

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

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



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

2/ Revenues are defined inclusive of grants.

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

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

Recent Developments

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

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

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

Electricity Sector Reforms

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

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

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

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

Monetary and Exchange Rate Policy

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

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

On the debt sustainability analysis

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

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

Conclusions

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

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