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2012 ARTICLE IV CONSULTATION AND FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2012 Article IV consultation with Haiti, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on December 7, 2012, 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 February 21, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- **Informational Annex** prepared by the IMF.

- **Financial Sector Report** prepared by the IMF.

- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its March 11, 2012 discussion of the staff report that concluded the Article IV consultation.

- **Statement by the Executive Director** for Haiti.

The document listed below has 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*
Selected Issues Paper
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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International Monetary Fund
Washington, D.C.

HAITI

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION AND FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY

February 21, 2013

KEY ISSUES

Context. The economy is recovering from the January 2010 earthquake, albeit at a slower pace than anticipated. Prudent macroeconomic policies have helped keep inflation in the single digits and improve the external position. However, underexecution of capital spending due predominantly to limited administrative and absorptive capacity, coupled with a series of natural disasters, including cholera and tropical storms, has slowed down the reconstruction and the economic recovery. The business environment remains unattractive and the political situation tense.

Outlook. The recovery is expected to be firmer in 2013, assuming a rebound in agricultural output and a pickup in public investment. Medium-term prospects are promising. The risks to the outlook are on the downside, stemming mainly from a further slowdown in the world economy, a volatile political environment, a fragile social context, and continued weak capacity.

Article IV discussions. Policy discussions focused on macroeconomic policies and structural reforms to accelerate the reconstruction, foster broad-based and inclusive growth, create jobs and reduce poverty. The authorities and staff agreed that meeting these challenges will require, in addition to political stability and improved security conditions, optimizing sustainable growth-oriented fiscal policy, particularly by (i) ensuring fiscal sustainability; (ii) expanding the fiscal space for development goals; (iii) improving the execution rate and quality of capital spending; and (iv) strengthening public financial management (PFM). It will also require maintaining price stability and facilitating external adjustment, and improving the business environment by eliminating key impediments to private investments as well as to growth and job creation.

Program implementation. Program performance is broadly satisfactory. All end-June 2012 indicative targets have been observed and all end-September 2012 quantitative performance criteria have been met. But progress on structural reforms has been mixed. The authorities have implemented the end-June 2012 benchmark and two out of the three end-September 2012 benchmarks. Two end-March 2012 structural benchmarks are not yet observed.

Approved By
Adrienne Cheasty (WHD) and Chris Lane (SPR)

Discussions took place in Port-au-Prince from November 28 – December 7, 2012. The staff team comprised Mr. Loko (head), Mr. Bessaha, Ms. Sulla, Mr. Brousseau (all WHD), and Ms. Bova (FAD). Mr. Bouhga-Hagbe, the resident representative, assisted the mission. Ms. Florestal (OED) joined the policy 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 Castel, and senior financial and economic officials. The mission also met with representatives of the donor and diplomatic community and the private sector.

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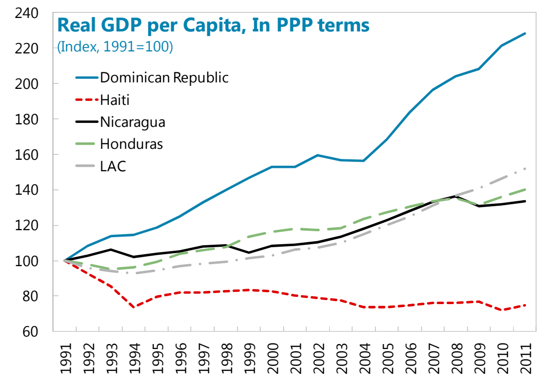
Selected Abbreviations

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BRH	Banque de la République d'Haïti
FATF	Financial Action Task Force
FT	Financial Terrorism
GCI	Global Competitiveness Index
IFRS	International Financial Reporting Standards
MEF	Ministry of Economy and Finance
ML	Money Laundering
PCDR	Post-Catastrophe Debt Relief Trust Fund
PFM	Public Financial Management
UNDP	United Nations Development Programme

CONTEXT

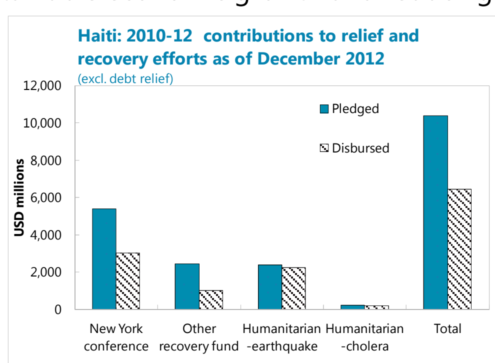
1. **Haiti's growth and development challenges are daunting**. In 2011, real per capita GDP was about US$ 1,034,[1] 25 percent below its level twenty years ago. Almost 80 percent of the population lives with less than US$2 per day (extreme poverty) and living standards are very low. The country ranks 158 out of 187 countries according to the UNDP Human Development Index. Unemployment is high, particularly among the youth. In 2009 unemployment was estimated at around 30 percent overall, with 62 percent unemployment for the young (between 15 and 19-year-old). In addition to a persistent difficult security situation and political instability, as well as frequent natural disasters, these indicators reflect deep domestic institutional and structural weaknesses.



Sources: World Development Indicators

2. **The massive 2010 earthquake further exacerbated the country's development challenges**. A total of 220,000 people were killed, including one out of three civil servants (many in middle management), 1,200 teachers, and over 500 health personnel. In addition, 300,000 houses, 13 out of 15 ministerial buildings, 4,200 schools, and more than 60 percent of the country's hospitals were damaged or destroyed. Total damage caused by the earthquake was estimated at about US$9 billion, the equivalent of 120 percent of 2009 GDP.

3. **In the aftermath of the 2010 earthquake, the Haitian authorities have adopted a ten-year action plan for building a better Haiti.**[2] This plan provides a framework for the reconstruction, while laying the ground for achieving sustainable economic growth and reducing poverty. Donors pledged about US$10 billion in support of the authorities' reconstruction plan (US$6.4 billion has been disbursed by end-December 2012). The IMF provided emergency funds in the amount of US$110 million and approved a three-year ECF arrangement in July 2010 (about US$60 million), together with debt relief under the Post-Catastrophe Debt Relief Trust Fund (PCDR) of US$268 million.[3] The Fund has also provided comprehensive technical assistance to help the authorities restore basic state



[1] PPP based in 2005 US$.

[2] Action Plan for National Recovery and Development of Haiti; Government of the Republic of Haiti, March 2010.

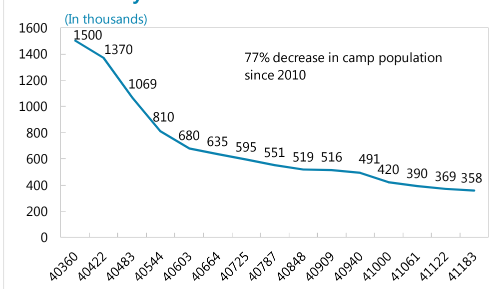
[3] By October 2012, the authorities had used US$55.8 million reflecting the underexecution of capital spending due to limited administrative and absorptive capacity, and the long political transition after the earthquake.

functions and undertake much-needed reforms, including in the fiscal, financial, monetary, and statistics areas.

4. Significant progress has been made since the last Article IV consultation in July 2010 – just after the earthquake—to safeguard macroeconomic stability. Supported by the ECF arrangement and in line with policy advice in the 2010 Article IV, economic activity has rebounded and macroeconomic policies have contributed to smooth adjustment to the large aid inflows and keep inflation in the single digits (Figure I). Official inflows and remittances contributed to strengthen the external position. Haiti's debt situation has significantly improved owing to additional debt relief from major partners (including the Fund) after the January 2010 earthquake.

5. However, the pace of the reconstruction has been slow. Progress was made in relocating people housed in temporary shelters, rebuilding many schools and restoring all state functions. About 80 percent of the debris generated by the earthquake has been removed. Further efforts are needed to provide permanent lodging to the remaining people still living in tents and rehabilitating many important structures, including public buildings, schools and hospitals.

Haiti: Total Number of Displaced Individuals from July 2010 to October 2012

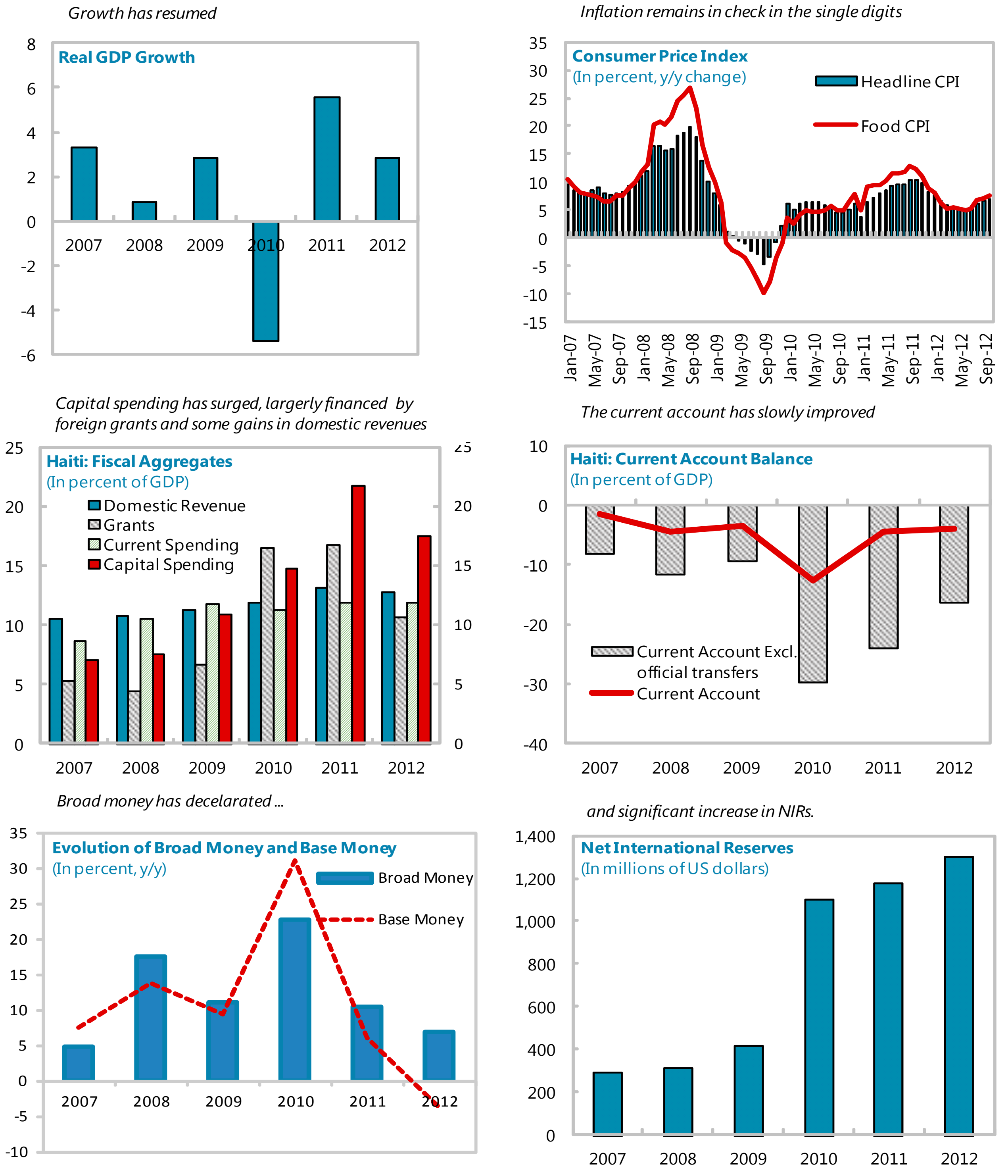


Sources: United Nations, "Haiti Moving Forward Step by Step, 2012"

6. The business environment remains unattractive. Doing Business Indicators rank Haiti at 174 out of 185 countries, while the 2012–13 Global Competitiveness Index (GCI) ranks it 142 out of 144 countries. According to these indicators and the investors' survey of the GCI, the major constraints in Haiti's business environment include poor infrastructure, access to finance, administrative procedures to start a business, and taxation.

7. The country is extremely vulnerable to exogenous shocks. Since the earthquake, the country has repeatedly suffered from natural disasters, including cholera and two major hurricanes and multiple floods (Box 1). Together, Hurricanes Isaac in August 2012 and Sandy in October 2012 caused at least 50 deaths and overall losses estimated at US$570 million (7.2 percent of 2012 GDP). The agricultural sector (about one-fourth of GDP) was again severely hit. In addition to direct costs to physical and human capital, natural disasters complicate macroeconomic management, undermine growth, and increase poverty.

Figure 1. Haiti: Macroeconomic Developments Since the Earthquake, 2007-2012



Source: Haitian authorities and IMF Staff estimates.

Box 1. Haiti: Natural Disasters

Haiti's exposure to natural disasters is exceptionally high. Over the last 20 years, the country has been struck by 60 natural disasters, affecting about 6 million people and causing almost US$ 9 billion in damages.

The 2010 earthquake stands as the biggest natural disaster in Haiti's history. It affected almost 4 million people and caused damage estimated at about 120 percent of 2009 GDP. More recently, hurricanes Isaac (August 2012) and Sandy (October 2012) caused about $170 and $400 million in damages, (mostly in the agricultural sector). Yet, improved warning and rescuing systems limited the toll on the population, compared to previous disasters.

Natural disasters may have severe economic consequences. In addition to direct costs to physical and human capital, natural disasters complicate macroeconomic management, undermine growth and increase poverty. In Haiti, after the 2010 earthquake, real GDP declined by 5.4 percent compared to the pre-earthquake projection of 2.4 percent. The impact of floods and storms can also be significant for agricultural output, which represents about 25 percent of GDP. Overall, excluding the recent earthquake, natural disasters are estimated to have reduced growth performance by an average of 1 to 2 percent of GDP. They also put pressure on the fiscal and external accounts and slowed progress toward poverty reduction. However, in most instances, adequate and timely external financing has helped the country address immediate resource needs and limit contractionary macro policies that could aggravate the effects of the shocks.

Haiti: Natural Disasters, 1993-2012

type of disaster	number of events	Average years between disaster	Casualties	People affected	Damage (US$'000)
drought	2	10.0	-	35,000	-
earthquake	1	20.0	222,570	3,700,000	8,000,000
flood	31	0.6	3,059	444,958	1,000
storm	26	0.8	5,071	2,407,164	331,620
total	60	0.33	230,700	6,587,122	8,332,620

Source: www.emdat.be

The national risk and disaster management system (NRDMS) in place needs to be further strengthened. While natural disasters can rarely be prevented, the policy response will have an important impact on the speed of recovery. Available fiscal and external buffers, flexibility in macroeconomic policies, and external financing can help mitigate the impact of the shocks and accelerate the recovery. Much can also be done ex ante to reduce the human suffering and economic costs of natural disasters. These include relocating communities from disaster-prone areas, enforcing building codes, holding food inventories as buffers against drought, and developing emergency response mechanisms and a comprehensive system of social safety nets for the most vulnerable. Building a better Haiti will require enhancing the NRDMS, which still suffers from a lack of capacity, resources, and institutional support, to reduce vulnerabilities, protect human and physical capital and establish the conditions for broad-based and inclusive growth.

8. The political situation remains volatile and tense. Recent publication of amendments to the Constitution opens the door for dual nationality, a measure aimed at involving Haitians living abroad in the development of Haiti. However, the President's lack of majority in Parliament remains an impediment for the passage of key legislation. In addition, the upcoming cycle of senatorial, municipal, and other local elections[4] coupled with pervasive poverty and lack of progress in improving living standards could heighten social and political tensions. The security situation remains challenging.

9. Looking ahead, macroeconomic policies and structural and institutional reforms to reduce the country's vulnerability to foreign assistance and to natural disasters, and create a conducive environment for private sector investment, will be needed to sustain high growth, reduce unemployment, and raise living standards. In the near-term, the main challenge remains to take full advantage of the technical assistance and financial support made available by the donor community and the IFIs, including the IMF, to build capacity, accelerate the reconstruction, and sustain the recovery while safeguarding macroeconomic stability.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Recent Developments: Weak Recovery

10. Economic activity decelerated and inflation picked up. After contracting by 5.4 percent in FY2010 following the earthquake, economic activity expanded by 5.6 percent in real terms in FY2011. Real GDP growth decelerated to 2.8 percent in FY2012, reflecting a spring drought, the impact of Hurricane Isaac, and delays in implementing key public investment projects. Inflation remains in the single digits, although it has picked up to 7.6 percent in December, up by 2.7 percentage points since June, reflecting primarily higher international food prices and reduced domestic food supply, because of Hurricanes Isaac and Sandy.

11. The overall fiscal deficit for FY2011/12 was higher than expected. Revenue was slightly below target (12.8 percent of GDP instead of 13.5 percent, corresponding to a 5.7 percent decline in nominal terms), because of lower imports and persistent inefficiencies in the tax and customs collection process. Disbursement of budget support was significantly lower than planned (US$27 million against US$55 million), reflecting the country's limited administrative and absorptive capacities and slow progress in key structural areas important to donors, including procurement and governance. Emergency spending following Hurricane Isaac, outlays for new ministries and higher transfers to the electricity company, increased current spending by almost US$50 million above target (0.6 percent of GDP). Domestically-financed capital spending slightly exceeded the program target, although some of the spending merely represents transfers of resources to project accounts

[4] The elections, which were initially planned for November 2011, have been postponed several times, particularly due to contention regarding the composition and mandate of the Permanent Electoral Council. Then there was an agreement to form a transitional body with a mandate to solely oversee the forthcoming elections. Discussions are still ongoing between the Executive, Legislative, and Judiciary to nominate the nine members of the Council.

and not actual project execution[5]. Overall, the government ended FY2012 with a deficit of 5.9 percent of GDP, against a programmed deficit of 3.6 percent.

12. The external position has strengthened. The current account deficit decreased to 4 percent of GDP, from 4.6 percent in FY2011, despite the significant drop in official transfers from 19.6 percent of GDP to 12.5 percent of GDP, due to the completion of the immediate post-earthquake disaster phase, slow progress in structural reforms, and weak execution and absorption capacities. At the same time, capital inflows, including FDI, continued to be strong. The overall balance of payments recorded a small surplus and, gross international reserves increased to US$2.2 billion at end-December 2012, equivalent to 6 months of imports, above the commonly-used rule of thumb of 3 months of imports.

13. Monetary policy has been largely passive. Key policy rates have remained unchanged since January 2011. However, increase in public sector deposits contributed to a marked slowdown in broad money growth. Overall, broad money increased by 6.9 percent in 2012, well below the programmed level (11.2 percent).

14. Bank credit growth has been strong. Commercial bank credit to the private sector has continued to grow (34.5 percent at end-October 2012, y/y), fuelled by rising demand for short-term trade credit. Credit growth in gourdes was 1.7 times higher than that in dollars in October 2012 (37.5 vs. 22.7 percent), reflecting continued macroeconomic stability and recent decisions by the Central Bank to eliminate the requirement to keep in gourdes 30 percent of the reserves for dollar deposits.

15. The banking sector remains sound and profitable. Banks had an average capital adequacy ratio of 16.8 percent at end September 2012, above the regulatory minimum (12 percent). Returns on assets and equity are comfortable, and non-performing loans are low, at 2.4 percent of total loans at end September 2012. Liquidity and exchange rate risks related to the high financial dollarization appear manageable in the near-term. Current prudential regulations prevent banks' net open foreign exchange position to exceed 2 percent of equity, and the three systemic banks in Haiti have more assets than liabilities in foreign currency. However, banks' potential exposures to indirect credit risk may require closer oversight, although anecdotal evidence suggests that commercial banks in Haiti tend to grant dollar loans

Haiti: Financial Soundness Indicators of Individual Banks, September 2010 - September 2012

(In percent; unless otherwise stated)

	Sep-10	Sep-11	Mar-12	Jun-12	Sep-12
Capital adequacy					
Regulatory capital to risk-weighted assets	13.4	16.5	16.7	16.7	16.8
Asset quality and composition					
NPLs to gross loans	5.7	3.7	3.6	3.2	2.4
Provisions to gross NPLs	84.1	93.1	83.3	88.8	96.7
Earnings and profitability (cumulative since beginning of fiscal year)					
Return on Assets (ROA)	1.2	1.4	1.4	1.3	1.5
Return on equity (ROE)	18.4	22.2	22.2	21.7	21.9
Dollarization					
Foreign currency loans to total loans (net)	60.1	55.7	53.8	51.8	51.7
Foreign currency deposits to total deposits	44.1	62.3	63.9	64.5	62.9
Foreign currency loans to foreign currency deposits	31.3	32.6	34.6	35.7	37.3

Sources: BRH Banking System Financial Summary; and IMF estimates

1/ Defined as the difference between average lending rate and average fixed deposit rate in the banking system.

5 Capital spending representing merely transfers to project accounts has not yet been translated into higher imports.

mainly to larger commercial entities that derive most of their income in US dollars. Vulnerabilities remain, particularly related to the concentrated lending portfolios, relatively underdeveloped credit risk management practices and weak governance.

16. The implementation of the recommendations of the 2008 FSAP to further strengthen the financial sector is underway, albeit with some delays. The January 2010 earthquake has slowed down the reform process, shifted priorities and added new challenges. Nevertheless, some progress was made with (i) the adoption of a new banking law, (i) the hiring of a new audit firm to conduct the audit of the BRH; and (iii), the establishment of a T-bill market (See Table 9). Measures have also been taken to enhance coordination between the central bank and the ministry of finance, and to improve liquidity management. Work is ongoing with the World Bank to establish a credit bureau and set up a collateral registry.

B. Prospects and Risks: Promising but Challenging

17. The recovery is expected to continue in FY2013. Real GDP is projected to grow by 6.5 percent assuming a rebound in the agricultural sector and the continued execution of several large public investment projects, including those aimed at promoting exports and tourism.[6] Inflation should remain stable, in the mid-single digits. Official transfers are expected to decline reflecting the transition from the emergency situation, as well as weak execution and absorption capacities in Haiti. Higher reconstruction-related imports would widen the external account deficit, and reduce gross liquid official reserves to 5.5 months of imports.

Haiti: Medium-Term Macroeconomic Framework, 2010-2017

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	(Change over previous year; unless otherwise stated)						
GDP at constant prices	5.6	2.8	6.5	6.3	6.1	5.8	5.6
Consumer prices (end-of-period)	10.4	6.5	5.0	4.5	4.0	3.5	3.0
	(In percent of GDP; unless otherwise stated)						
Overall fiscal balance	-3.7	-5.9	-5.3	-5.5	-4.6	-3.4	-3.1
External current account balance	-4.6	-4.0	-5.6	-5.3	-5.2	-5.0	-4.8
External current account balance (excluding official grants)	-24.2	-16.5	-17.7	-16.1	-14.7	-13.5	-12.4
External public debt (end-of-period)	8.9	13.2	16.6	19.1	20.6	21.6	22.3
Total government debt (end-of-period)	12.2	15.4	20.4	24.2	26.7	28.6	29.7
Gross reserves (In months of imports of the following year)	6.3	6.5	5.5	5.2	4.8	4.4	4.1

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

18. Medium-term prospects are promising. Maturing ongoing agricultural projects, a rebound in public construction investment, and rising exports of textiles and other manufacturing goods assembled in emerging free zones are expected to sustain growth in the medium term. The external account deficit should decline, associated with a gradual winding-down of reconstruction-related

[6] Renovation and upgrade of the airports in Haiti's two largest cities are almost completed. The 128-room Royal Oasis has just opened and the 106-room Best Western hotel is scheduled to open in FY 2013.

imports and improved exports. Total government debt-to-GDP, the medium-term fiscal anchor, will remain below 30 percent (the pre-earthquake level).

19. The outlook is subject to significant downside risks. On the external front, a severe shock to global growth could have negative spillovers (See Risk Assessment Matrix below) — predominantly through remittances (about 18 percent of GDP in 2012), trade (exports were 13.2 percent of GDP and mainly destined for the US), and official transfers (about 12.5 percent of GDP). However, remittances displayed some resilience during past episodes of the global slowdown. Higher food and oil prices are also a major source of external risk. On the domestic front, heightened political tensions could postpone or again slow down public investment spending and delay the reform agenda. Lingering social tensions, fueled by pervasive poverty and lack of progress in improving living standards, and natural disasters, could also impede the fragile recovery and constrain Haiti's growth prospects. Finally, Haiti's debt continues to be assessed as high-risk (Country Report No. 12/220; February 24, 2012).[7]

20. The authorities broadly agreed with the staff's overall outlook. However, they believed that growth could be higher than projected because of (i) the launching of the reconstruction of key public buildings, including those of the Ministries of Economy and Finance, and of Commerce as well as Parliament; (ii) the creation of four micro parks in rural areas aimed at improving the harvesting, stocking, and preservation of agricultural products; and (iii) the ongoing work to strengthen the national risk and disaster management system. Staff saw some merit to the authorities' views, but pointed out that low capacity remains a major hindrance. In addition, staff emphasized that real GDP growth under the baseline scenario (6.5 percent) depends critically on a strong pick-up in reconstruction-related projects, including the construction of several public buildings. Also, the authorities viewed lower aid flows and higher food prices as key risks to the outlook. They indicated that lower official transfers coupled with the withdrawal of many international NGOs could lead to a more rapid decline in net international reserves in the medium term. They remain, however, committed to keeping international reserves above three months of imports.

[7] The PV of public external debt to exports is projected to breach the indicative threshold of 100 percent.

Risk Assessment Matrix[8]

(Scale - high, medium, or low)

Nature/Source of Main Threats	Impact if Realized	Policy recommendations
Global economic slowdown ***Likelihood: Medium***	***Medium*** • Could affect Haiti through lower official transfers, remittances, and exports. • Lower growth. • Slow reforms.	• Build buffers and increase flexibility in macroeconomic policies to help absorb shocks and undertake the necessary adjustment. • Delay some non-priority capital spending and mobilize additional domestic financing through the issuance of T-bills.
Lower external aid Political instability and slow progress in structural reforms could slow aid inflows. ***Likelihood: High***	***Medium*** • Slow growth. • Further delay reforms.	• Mobilize additional domestic financing through the issuance of T-bills. • Delay some non-priority spending. • Insert buffer in budget
Deterioration in international food and energy prices ***Likelihood: Low***	***Low*** • Could lead to higher inflation; food and fuel represent more than half of Haiti's CPI basket • Could generate social unrest and exacerbate political tensions. • Deterioration of fiscal and external positions and slow growth.	• Consistent with past Fund advice, the authorities should accommodate the first round effect and use targeted subsidies to protect the poor. BRH should be ready to tighten monetary policy if any signs of second-round effects materialize.
Heightened political tensions ***Likelihood: High***	***High*** • Slow the reconstruction and recovery and weaken the business environment. • Delay the approval of key legislation and limit progress in the reform agenda.	• Build a national political consensus on a sustainable growth reform agenda. • Improve transparency and governance and combat corruption. • Ensure that growth is inclusive.
Natural disasters ***Likelihood: High***	***High*** • Loss of human life and destruction of capacity and infrastructure. • Higher volatility and deterioration in macroeconomic accounts. • Low growth prospects and delays in poverty reduction.	• Build financial buffers. • More flexibility in macroeconomic policies. • Strengthen the national risk and disaster management system.

[8] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to occur in the view of IMF staff. The RAM reflects staff views on the sources of risks at the time of discussions with the authorities."

POLICY CHALLENGES FOR SUSTAINING A BROAD-BASED AND INCLUSIVE GROWTH

21. Policy discussions focused on macroeconomic policies and structural reforms to accelerate the reconstruction, foster broad-based and inclusive growth, to create jobs and reduce poverty. The authorities and staff agreed that in addition to political stability and improved security conditions, meeting this challenge will require (i) optimizing fiscal policy for higher and more inclusive growth; (ii) maintaining price stability and facilitating external adjustment; and (iii) and improving the business environment by eliminating key impediments to private investments as well as growth and job creation.

A. Optimizing fiscal policy for high and inclusive growth

22. Staff and the authorities agreed that fiscal policy can help achieve higher and more inclusive growth while ensuring medium-term sustainability.[9] This will require expanding the fiscal space for development goals, improving the execution rate and quality of capital spending, and strengthening public financial management (PFM).

23. The FY2013 budget targets an overall deficit of 5.3 percent of GDP, down from 5.9 percent in FY2012. The decline reflects mostly higher revenue and somewhat lower current spending.

- Revenue is projected to reach 14.1 percent in FY2013, up from 12.8 percent of GDP in FY2012. This increase reflects reforms in tax policy and revenue administration. Some tax reforms approved in FY2012 (the new excise on alcoholic beverages and fees on casinos and house games) will have their full effect in FY2013. Achievement of the 2013 Budget Law will importantly depend on the effectiveness of the wide ranging improvements in revenue administration, including stronger controls and enforcement of tougher collection practices, a newly created

Haiti: Impact of Potential Revenue Measures FY2013 (percent of GDP)

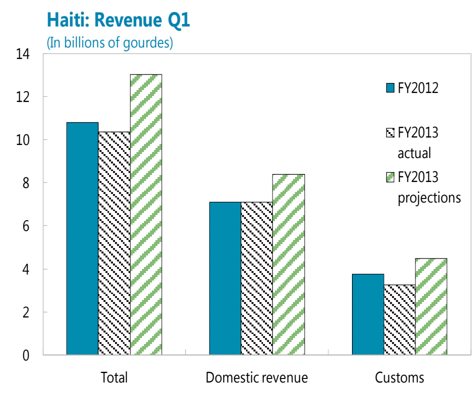
	2012	2013	Δ
Total Revenue	12.8	14.1	1.3
Domestic Revenue	8.5	9.2	0.7
TCA	3.6	3.9	0.3
(improved tax collection with the new medium-taxpayer unit and implementation of e-declaration)			
Tax on income and profits	3.0	3.3	0.3
(improved tax collection with the new medium-taxpayer unit and e-			
Excises	0.3	0.6	0.3
(excise on alchoolic beverages)			
(fees on casinos and house games)			
Other Taxes	1.6	1.3	-0.3
Custom duties	4.2	4.7	0.5
(improving identification and product evaluation at customs)			
(combating evasion)			
Other	0.1	0.2	0.1

[9] See Chapter I of the Selected Issues Paper: "Building Inclusive Growth in Haiti: the Role of Fiscal Policy."

unit for medium-size tax payers, and an e-declaration which has been in place since January 2013 (MEFP, ¶ 14). Improved identification and evaluation of merchandise and a better control of exemptions are expected to enhance collection at customs.

- The wage bill is expected to increase by almost 0.6 percent of GDP owing mostly to new hiring in social sectors and security, and higher salaries for the low-earning civil servants. Nevertheless, the budget targets lower levels of goods and services as well as transfers to make room for higher development spending. In particular, outlays in goods and services will remain in line with previous years' levels (MEFP,¶ 15). Consistent with the authorities' intention to step up the reconstruction, domestically-financed capital spending will be ramped up to around 9 percent of GDP, more than 2 percent higher than in 2012. The projected deficit is fully financed with external resources (4.4 percent of GDP) and domestic financing, including issuance of T-bills (0.9 percent of GDP).

24. Staff viewed the FY 2013 fiscal policy stance as broadly appropriate, but highlighted several implementation risks. First, the underperformance observed in the first quarter of FY2013 (October-December 2012) of the fiscal year poses a challenge for meeting the FY2013 revenue target. Second, weak administrative capacity and inadequate public investment framework could lead again to underexecution of capital spending. Finally, the continued practice of bunching expenditure near the end of the fiscal year could adversely affect spending quality and complicate liquidity and macroeconomic management.



25. Looking ahead, fiscal policy will aim at further enhancing revenue mobilization and improving the composition of public spending. Domestic revenue would increase to about 15 percent of GDP in 2017 while donor support is expected to trend down to about 6 percent of GDP, down from 10.6 percent in FY2012. Current expenditures are expected to be contained below 11 percent while protecting social spending (Box 2). Progress with reconstruction and the country's developmental needs would maintain capital spending high in the medium term. The overall deficit is projected to decrease gradually to 3.1 percent of GDP by 2017.

Expanding the fiscal space for achieving development goals

26. The revenue target for 2013 is ambitious. The authorities indicated that the underperformance observed in the first three months of FY2013 is partially due to Hurricane Sandy, which disrupted revenue collection. They were confident meeting the end-year target, and reiterated their commitment in stepping up efforts to increase revenue mobilization. Staff underscored the need for steadfast implementation of the revenue measures included in the 2013 budget law. The authorities and staff agreed that, given the high reconstruction-related needs, the government has the option of drawing down its deposits and issuing additional T-Bills in the event of a shortfall in domestic revenue, while ensuring medium-term debt sustainability and macroeconomic stability (MEFP,¶ 13). The authorities could also consider reducing some non-priority current spending or delaying some non-reconstruction-related domestically-financed capital spending (without affecting the overall execution and consistency of the investment program).

27. The authorities are aware that achieving their revenue target of 15 percent by 2017 will require moving forcefully on tax policy and administration reforms. This will require decisive actions to further improve revenue collection and compliance, reduce and rationalize exemptions (more than 3 percent of GDP in FY2011), and expand the tax base, including through increased formalization of economic activity (MEFP,¶ 21). In particular, staff underscored the importance of launching a broader reform of the tax system, including a shift to a VAT system. Efforts are also needed to improve controls, internal audits, and training in both customs and revenue administrations.

Box 2. Haiti: Strengthening Social Safety Nets and Human Capital

Haiti ranked at 158 out of 187 countries in the UNDP Human Development Index in 2011. The literacy rate remains significantly lower than that of the Caribbean average and maternal mortality almost four times higher than average. Government spending on education and health remains relatively low, at 2.1 and 1.4 percent of GDP respectively, compared to 3.8 and 3.4 percent on average in the region. Health spending in Haiti has actually declined since 1997 in percent of GDP. Therefore, strengthening current transfer schemes and safety nets for the poor while increasing spending in health and education, remain key priorities.

Haiti: Millennium Development Indicators, 2010

	Haiti	Dominican Republic	Caribbean
Literacy rates of 15-24 years old, (in percentage)	72.3	95.8	89.5
Mortality rate, infant (per 1000 live births)	57	22	38
Maternal mortality ratio (per 100,000 live births)	670	100	170
Prevalence of HIV, total (Percentage of population 15-49)	2.2	0.9	1.0
Births attended by skilled health personnel (In percentage)	26	97.8	69
Primary completion rate, both sexes	27.4	89.5	

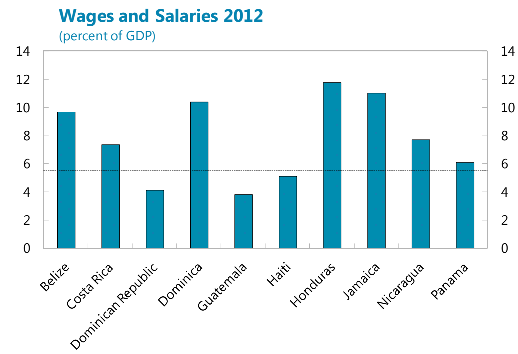
Source: *The Millennium Development Goals Report 2011,* United Nations.

The national social assistance program known as "Ede Pep" (or "Help the People"), has put great emphasis on the most vulnerable segments of the population , and about one million children are now attending school for free under the PSUGO (Programme de Scolarisation Universel Gratuit et Obligatoire). The conditional cash transfer program ("Ti-manman-cheri") has benefitted about 25 thousand women who have been receiving monthly allowances from the government. The disabled and elderly have also benefitted from cash transfers.

Looking ahead, the authorities intend to promote access to preschool, primary and secondary education through dedicated learning centers, expanding school feeding programs, strengthening vocational and technical training through the creation of training centers and government fellowships and increasing the provision of health services.

28. The authorities agreed that further restraint on recurrent expenditure would free resources to fund growth-enhancing projects and social spending. This will require:

- Containing the public sector wage bill. The wage bill in Haiti remains relatively low in comparison to regional peers and low-income countries. Staff recognized the need for higher civil service wages to compensate for cost-of living increases, maintain competitive pay to improve administrative capacity, and support the hiring of additional workers in social sectors. However, it reiterated the importance to limit the rise in the civil service wage bill to avoid the risk of crowding out domestically-financed public investment. The authorities shared staff concern and indicated that they will contain the wage bill at 5.0 percent of GDP in the medium term. In this context, they intend to launch in the near term a civil service reform aimed notably at rationalizing the public work force (elimination of ghost employees) and streamlining the public service sector.



- Gradually unwinding subsidies to the electricity company EDH. While conceding that this is a challenging issue given its social and political impact, the authorities agreed that a comprehensive strategy, developed with the assistance of key donors, would help reverse the financial difficulties of EDH, reduce budgetary transfers (MEFP,¶ 15), and create the conditions for improving electricity availability at a reasonable cost (Box 3).

Improving the execution rate and quality of capital spending

29. The execution rate of public investment has been low.[10] This underperformance is attributable to various factors, including poor design and preparation of projects, low execution capacity, lack of coordination between government agencies, weak reporting, political uncertainty, volatile security, and loose enforcement of internal control mechanisms.

30. There was a broad agreement that weaknesses in public investment, including a low execution rate, have impeded reconstruction and slowed growth. The steady rise in investment particularly during the post-earthquake period put pressure on the already weak institutional framework, overran current technical capacity, and highlighted the fragile state of the project management process. Public investment efficiency as measured by the Public Investment Management Index (PIMI)[11] ranked Haiti in the lowest quartile of project performance.

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[10] See Chapter II of the Selected Issues Paper: "A Renewed Public Investment Policy in Support of Growth and Poverty Reduction."

[11] See Dabla-Norris et al. 2011, "Investing in Public Investment: an Index of Public Investment Efficiency", Working Paper (WP/11/37), International Monetary Fund, Washington DC. The PIMI is built around four key pillars,

(continued)

Haiti: Public Investment Management Ranking

	Overall Index	Sub Indices			
		Appraisal	*Selection*	*Management*	*Evaluation*
Highest Score	3.53	4.00	4.00	2.80	3.33
Median	1.65	1.33	1.60	2.00	1.33
Haiti	1.07	0.00	1.20	1.73	1.33
Barbados	1.19	0.50	2.00	0.93	1.33
Trinidad and Tobag	1.10	0.00	2.40	1.33	0.67
Belize	0.27	0.00	0.80	0.27	0.00

Source: Era Dabla Norris, Jim Brumby, Annette Kyobe, Zack Mills, and Chris Papageorgiou, 2011.

31. **Improving the execution and quality of capital spending will require a strong political commitment and leadership to upgrade the current public investment framework through enhanced transparency, better procurement practices, and stronger governance**. In particular, there is a need to redefine and clarify responsibilities among government institutions involved in public investment project management, strengthen the units in charge of project execution within ministries (including by hiring technical experts), enhance the control system, and promote a more dynamic information system (MEFP,¶ 16). Preliminary results of an analytical paper on this issue were presented to the government and the donor community and its recommendations were well received.[12] Staff intends to continue working with the authorities and donor community to strengthen project preparation, execution, and control while ensuring the overall quality and consistency of public investment.

Improving public financial management

The authorities reiterated their commitments to improve public financial management. In particular, the authorities highlighted ongoing progress towards a treasury single account (TSA), with completion of the first phase that included closing all identified dormant government accounts in the banking system, and the training of public accountants. It is now important to introduce the TSA by June 2013 in a first wave of ministries with adequate capacity for a rapid shift. The authorities and staff viewed the establishment of a TSA as key to improving cash management, budget execution and the quality of public spending, particularly by enhancing the execution rate of capital spending and improving transparency by eliminating the current practice of bunching transfers of resources to project accounts

including strategic guidance and project appraisal, project selection and budgeting, project implementation, and project evaluation and audit.

[12] See Chapter II of the Selected Issues Paper: "A Renewed Public Investment Policy in Support of Growth and Poverty Reduction."

near the end of the fiscal year. Continued progress needs to be made to strengthen budget formulation, execution, transparency and reporting, and improve internal and external controls (MEFP, ¶ 22).

Box 3. Haiti: Electricity Sector

By law, the public utility Electricité d'Haïti (EDH) holds a monopoly over the purchase, transmission, distribution and commercialization of electricity, and generates about 15 percent of the energy produced in Haiti. About 75 percent of the electricity it distributes is produced by independent power producers, the rest being generated by power plants operated by the Tripartite Cooperation (Haiti-Venezuela-Cuba). Installed generation capacity of 212 MW is insufficient to meet peak load demand estimated at around 250 MW. Insufficient generation capacity and inefficient distribution grid lead to frequent energy rationing, which causes businesses and residential users to rely on expensive back-up generators. There is no clear responsibility within the Government for sector oversight, and no investment master plan for the sector.

EDH's financial situation is critical. Technical and commercial losses are estimated at about 66 percent, the ratio of energy unpaid to energy produced is high (35 percent of the energy delivered is stolen), [1] and the utility paid bills cover less than a third of the electricity generated. In this context, EDH charges high electricity tariffs: average tariffs amount to $0.31/kWh[2], at par with levels in the Caribbean, but industrial and commercial tariffs are even higher at $0.35/kWh.

In February 2011, a Memorandum of Understanding (MOU) was agreed between the government, the IADB, and USAID to help reform the electricity sector. On August 2, 2012, the EDH Board approved a loss reduction plan for the utility. On August 17, 2012, the external firm TETRATECH was given the authority to implement measures to improve EDH performance. A new managing director and deputy directors were also appointed at EDH to improve management of the company, reduce distribution and commercial losses, and raise bill payments proceeds. In addition, the government and EDH signed a MoU establishing a mechanism for budgetary transfers to the electricity sector for the fiscal years 2013 to 2016. Despite all these recent measures and an improvement in revenue collection, the sector financial situation remains dire. Government transfers to EDH amounted in FY2012 to US$ 142 million.

Next steps would include (i) an immediate analysis of the current financial situation of EDH and the sector as a whole; (ii) measures to improve the financial situation of EDH and of the electricity sector over the medium-term; and (iii) the design of a detailed program to implement a financial recovery strategy for the electricity sector, starting with the preparation of a financial recovery plan. More specifically,

- EDH is developing a plan with the support of donor partners to restore EDH's financial soundness, including reducing losses and production leakages, improving the distribution network, enhancing bill collection, and strengthening energy supply. This plan, which would eliminate transfers by 2016, will be submitted to the government for adoption in April 2013.

- Donors (including USAID, the World Bank, and the IADB) have committed to support the government's electricity strategy through a coordinated investment plan of approximately US$400 million over the next five years, focusing on loss reduction, grid rehabilitation and extension, and technical assistance to improve capacity in the sector and within EDH.

[1] MTPTC *Stratégie de développement du sous-secteur de l'Electricité en Haïti (2006 à 2011).*

[2] WB *Project Appraisal Document on a Proposed Grant for Rebuilding Energy Infrastructure and Access Project*, August 27, 2012.

32. Staff and the authorities agreed that further strengthening administrative capacity will be critical to improve PFM and the delivery of public services. Staff reiterated the Fund's commitment to continue assisting Haiti, including in capacity-building. Since October 2011, a long-term IMF expert has been posted at the MEF, particularly to build capacity at the Treasury and help with the creation of the TSA. Several macro-fiscal missions have also taken place in the recent months[13] to provide training and help (i) establish and make operational a macro-fiscal unit at the Ministry of Economy and Finance; and (ii) prepare macro-fiscal forecasts and analyses. The next visit scheduled for March 2013 will aim at developing tools for the analysis of the quality of capital expenditure. In addition, a series of technical assistance missions have taken place to help strengthen revenue administration and improve tax policy.

33. There was a consensus that potential fiscal risks associated with extra-budgetary funds and quasi-fiscal activities need to be closely monitored. In particular, the government should remain vigilant and closely monitor the risks associated with the joint-venture between the Haitian and Venezuelan governments on public investment. The new company has been created and registered with the tax administration and its managing director has been appointed. Once operational, the company will manage the PetroCaribe program, and PetroCaribe-related inflows will become a non-governmental debt. This is not expected to worsen the medium-term fiscal and public debt sustainability, as the new entity is expected to continue to finance PetroCaribe –related capital and social spending. Staff reiterated the need to enhance transparency and accountability, including through the timely publication of the annual budgets and the audited annual financial statements of the new company.

B. Maintaining price stability and facilitating external adjustment

34. Monetary policy will continue to focus on achieving price stability. Both staff and the authorities agreed that the current monetary policy stance appropriately supports the post-earthquake recovery while keeping inflation in single digits. The recent pickup in inflation reflects mainly higher international food prices and disruption in the supply of domestic foods caused by recent hurricanes and floods. Inflation is expected to remain in the 5-6 percent range over the coming year, assuming that the shock from international food prices will recede and domestic food production will recover. However, staff reiterated the need for the central bank to remain vigilant in monitoring inflationary pressures. The authorities indicated that policy tightening could be done through available tools, including the policy rate, the required reserves ratio, and the issuance of central bank and Treasury bills.

35. Unwinding excess liquidity will enhance monetary transmission mechanisms and facilitate the conduct of monetary policy. The banking sector remains highly liquid. In line with the recommendations of the 2008 FSAP, the authorities have taken steps to deepen the domestic financial market and improve liquidity management (MEFP, ¶ 17). In particular, the legal and operational market infrastructure is in place and several initial T-bill issuances were

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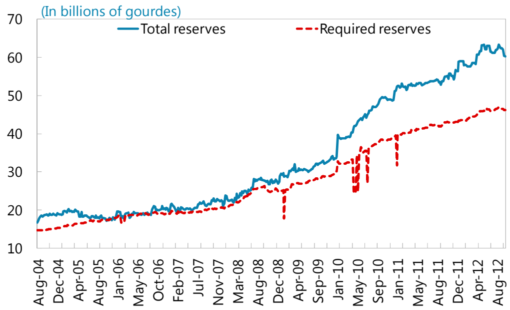
[13] These missions are done under the project "Improving Macro-fiscal Framework, Government Accounting and Cash Management".

successful. However, there have not been regular issuances, predominantly because of the lack of financing needs by the Treasury. In this context, staff was encouraged by the recent framework agreement for securitization of the large government debt toward the BRH.[14] This will help further develop the T-Bill market and gradually absorb excess reserves.

Haiti: Consolidated Reserves of Banking System, 2004-2012

(In billions of gourdes)

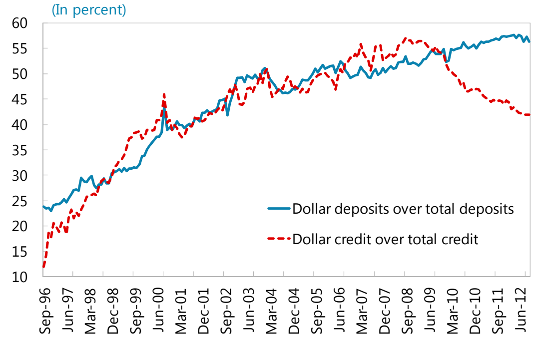


Sources: BRH weekly excess reserves table; and Fund staff estimates.

36. The authorities are cognizant of the need to limit dollarization to strengthen the traction of monetary policy. While declining in recent months, dollarization remains high. The authorities agreed with staff that reducing dollarization will require a positive and longer track record of political and economic stability, greater flexibility in the exchange rate, and deepening of domestic financial markets to provide alternative investment opportunities instead of foreign currency deposits (MEFP, ¶ 18).

Haiti: Dollarization, 1996-2012

(In percent)



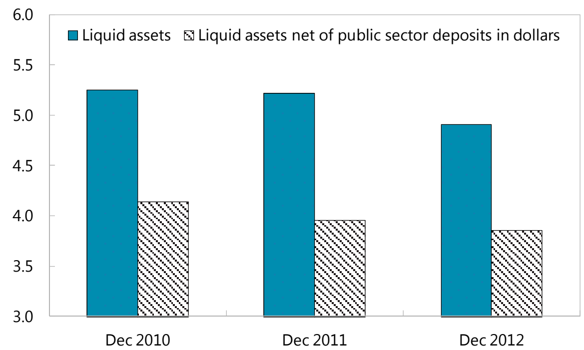
Sources: BRH Tables 10R and 20R; and Fund staff estimates.

37. Staff estimates that the exchange rate remains broadly in line with its medium-term fundamentals (Annex 1). Since April 2010, the gourde has depreciated gradually against the U.S. dollar by about 8 percent, and returned to its pre-earthquake level. However, relatively higher inflation has led to the gourde's appreciation in real effective terms by about 7 percent. The authorities shared the staff's assessment and pointed out that the small appreciation of the gourde does not pose a threat to external competitiveness. Given the high dollarization, it was agreed that gaining competitiveness will depend critically on structural reforms to reduce supply-side bottlenecks and improve the business environment.

[14] In December 2012, a convention was signed that provides the framework for the securitization of government debt owed to the BRH.

38. The current level of international reserves of about six months of imports provides Haiti a good buffer in the near term. Official transfers significantly increased after the earthquake from US$395 million in FY2009 to US$1446 million in FY2011 before declining to US$988 million in FY2012. Similarly, private transfers, mostly workers' remittances, have increased by US$140 million during the same period. These inflows, coupled with the slow reconstruction and related imports, have led to a rapid accumulation of gross official reserves to about US$2.2 billion at end-December 2012 from US$1 billion in December 2009. Excluding government deposits, gross official reserves are still at 4 months of imports at end-December 2012. The current level of international reserves provides Haiti a relatively good buffer in the short-term. Preserving external stability in the long term hinges on improving competitiveness and promoting exports. In this respect, staff was encouraged by the recent launching of the industrial Park of CARACOL.[15]

Haiti: Gross Liquid International Reserves, 2010-12
(in months of imports of goods and services)



Sources: BRH; and IMF estimates

39. Greater flexibility in the exchange rate will help protect external stability. The authorities agreed that they should take advantage of the current situation, adequate reserve coverage and a REER broadly in line with fundamentals, to allow for greater flexibility in the exchange rate. However, they were concerned that the country's shallow foreign exchange market could lead to significant exchange rate volatility, as lumpy transactions or very few participants could cause jumps in the exchange rate. They also expressed concern about upside inflation risks associated with exchange rate depreciation. The authorities reaffirmed their commitment to the floating exchange rate regime but wished to move cautiously and gradually to single-price foreign exchange auctions. A first step is to allow more participants and promote the development of the interbank foreign exchange market. At the same time, BRH interventions in the foreign exchange market will continue to aim at smoothing excessive fluctuations (MEFP, ¶ 19).

C. Strengthening the Business Environment

40. The authorities agreed that improving the business environment is urgent to raise productivity, enhance competitiveness, and lift constraints on growth (MEFP, ¶ 23). The business community in Haiti as well as international surveys indicated that weak infrastructure and lack of access to finance have been two major impediments to private sector-led growth.

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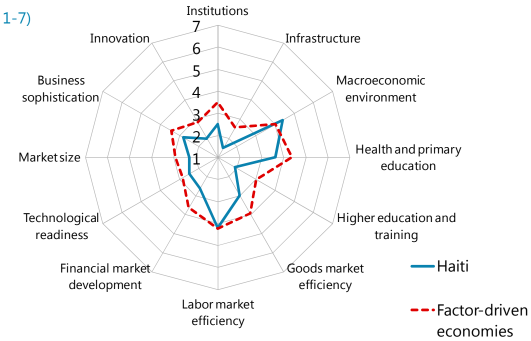
[15] CARACOl is a new industrial park in the north of the country. The authorities expect the park to boost exports and generate several thousand jobs.

Haiti: Global Competitiveness Index Indicators, 2011

(Score 1-7)



Source: Global Competitiveness Report 2012-2013

Haiti: Most problematic factors for doing business, 2011

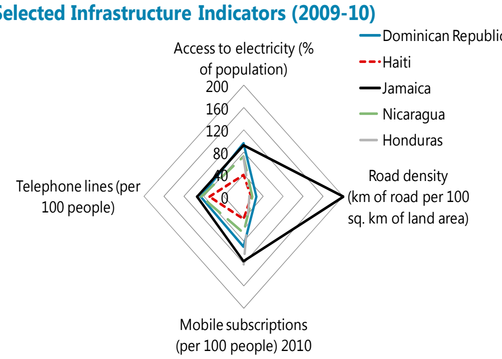
(Percent of responses)

Source: Global Competitiveness Report 2012-2013

Upgrading the country's infrastructure

41. Addressing the infrastructure gap is critical for growth prospects. Haiti performs poorly on most infrastructure indicators. Ramping up domestically-financed investment is crucial to build the necessary infrastructure that would unlock the country's potential. To safeguard public debt sustainability, the authorities agreed with staff to seek concessional financing for infrastructure, including PetroCaribe resources and Public-Private Partnerships (MEFP, ¶ 26). They indicated that they are finalizing the legal framework for PPPs (MEFP, ¶ 23).

Selected Infrastructure Indicators (2009-10)



Sources: Source: World Bank, World Development Indicators.
Access to electricity is for 2009. Road density is for 2001 for Haiti, Dominican Republic, Honduras and for 2009 for Jamaica and Nicaragua.

Deepening financial intermediation while preserving stability

42. The authorities are extremely keen to further deepen financial intermediation. Commercial bank credit to the private sector has increased on average by about 28 percent a year over the last two years, reflecting predominantly the impact of the reconstruction, large current transfers, the increased liquidity in the banking system and new measures, including the creation of a Partial Guarantee Funds in the aftermath of the earthquake. However, at about 19 percent of GDP at end-September 2012, credit to the private sector stands well below the average for LICs, due to a broad range of factors, including significant weaknesses in the legal and institutional framework, the fragile security situation, and limited competition between banks[16]. In addition, banks restrict their lending to a limited number of economic activities and

[16] An overview of Haiti's financial system and challenges was produced in the context of the pilot on strengthening financial sector surveillance in LICs (Supplement 2).

borrowers. The authorities consider further improvements in financial intermediation as crucial for their growth revival agenda (MEFP, ¶ 20). Measures include the establishment of a credit bureau, setting up a collateral registry, adopting a legal framework for the supervision of microfinance institutions, and implementing regulatory changes to facilitate leasing.

43. The authorities recognized that rapid credit growth, while essential, could also pose a number of challenges for the banking system and the economy. Recent credit growth has been healthy and the banking sector remains relatively sound and profitable. Nevertheless, the authorities and staff concurred that the rapid credit growth may require a tightening of prudential regulations and closer supervision to preserve financial sector soundness. (MEFP, ¶ 20).[17] The BRH has requested technical assistance from the IMF to develop macroprudential rules. In particular, an upcoming 3 day-workshop will focus on a set of prudential, regulatory, legal, and structural measures to maintain credit quality and limit macroprudential risks. Staff emphasized the need to accelerate the implementation of the recommendations of the 2008 FSAP to further improve the financial regulatory and supervisory framework.

PROGRAM IMPLEMENTATION

44. Program performance is broadly satisfactory. All end-June 2012 indicative targets were observed and all end-September 2012 performance criteria were met. Full data are not yet available to assess observation of end-December indicative targets. In the structural area, the authorities have implemented the end-June 2012 benchmark related to the closing of all dormant accounts of the central government at the central bank and commercial banks as well as the two end-September 2012 benchmarks on the creation of the fiscal policy unit with the MEF and of the unit in charge of the medium and large enterprises. The third end-September benchmark related to the move to single-price foreign exchange auctions has not been implemented yet, mostly because of lack of competition in the FX market, which is dominated by a few major players. The authorities' objective is to start by expanding the number of participants in the FX markets. Also, two end-March 2012 structural benchmarks are not yet observed. The benchmark on strengthening the debt unit with fully operational middle and back offices is underway as it is linked to the passage of the organic law on the reorganization of the Ministry of Economy and Finance which the government intends to submit to Parliament early 2013. The second benchmark related to the public debt law is also expected to be submitted to parliament at the same time. The Minister of Finance has submitted the two draft laws in January 2013 to the Prime Minister's office before submission to the Parliament by end-March 2013. Thus, the two benchmarks would be rescheduled from end-March 2012 to end-March 2013.

[17] Staff presented to the authorities the preliminary results of an analytical paper addressing this issue. The paper was well received.

Haiti: Remaining Benchmarks Through End-March 2013

Macro-criticality	Objective	Structural Benchmarks	Timing	Status
Debt management	Complete the setting-up of the debt unit at the MEF and build capacity to prepare a medium-term debt strategy.	Strengthen the debt unit with fully operational middle and back office functions; Preparation of annual debt sustainability analyses.	Reprogrammed to End-March 2013 from End-March 2012	In progress
	Strengthen the legal framework for debt management.	Submit to Parliament a public debt law that would establish a sound legal and institutional framework for public debt management.	Reprogrammed to End-March 2013 from End-March 2012	In progress
Accounting	Improve accounting procedures and enhance transparency	Reduce the number of domestically-funded imprest accounts to three by ministry or institutions (for revenue collection, capital spending, and other transactions) and deploy the network of public accounting offices at the line ministries level and gradually grant signature authority on these accounts to public accountants appointed by the Ministry of Economy and Finance	End-March 2013	In progress
	Enhance accounting for expenditure management	Roll out in all ministries the GL-software and start to record projects and imprest accounts expenditure when they are effectively paid, and no longer when the replenishment of the account is made.	End-March 2013	In progress
Exchange rate management	Improve the functioning of foreign exchange market	Establish unconstrained single price foreign exchange auctions	End-September 2012	Not met

OTHER ISSUES

45. Safeguards assessment. The authorities continue to implement the recommendations of the 2010 follow-up review of the safeguards assessment (MEFP, ¶ 28), albeit with some delays. Progress is underway to migrate to IFRS, including the creation of a special committee to monitor its implementation. The recent adoption of the framework agreement between the BRH and the MEF paves the way for the securitization of central bank credit to government. Lastly, staff urged the authorities to activate the Investment Committee as an independent oversight body and appoint a compliance officer to monitor observation of foreign reserves policy and investment guidelines.

46. Anti-money laundering and combating the financing of terrorism (AML/CFT). The draft AML/CFT law is being finalized and should be enacted by Parliament during its spring 2013 session (MEFP, ¶ 29). Staff encourages the authorities to ensure the new law's compliance with the Financial Action Task Force (FATF) standards and to proceed with its effective implementation as this will support efforts to combat corruption.

47. Data provision. Data are broadly adequate for surveillance purposes, but data gaps, linked to capacity constraints, still occur in many areas, including national accounts, balance of payments and social and labor market indicators.

STAFF APPRAISAL

48. The economy is gradually recovering from the January 2010 earthquake. Prudent macroeconomic policies have helped keep inflation in the single digits and improve the external position. However, under-execution of capital spending, due predominantly to limited administrative and absorptive capacity, coupled with persistent political tensions and instability, and a series of shocks, including cholera and tropical storms, have considerably slowed down the reconstruction and economic activity. The recovery is expected to be firmer in 2013, led by a rebound in agricultural output and a pickup in public investment. The risks to the outlook are on the downside, stemming mainly from a volatile political environment, fragile social context, and weak capacity.

49. Fiscal reforms should continue. Fiscal space for poverty-related and growth-enhancing spending should be secured through increasing revenue and containing current spending. The 2013 revenue target is ambitious but could be achieved provided there is strong resolve to combat fraud, particularly at customs, and strengthen revenue collection. In this context, staff welcomes the launch of the e-declaration in January 2013 and urges the authorities to implement rapidly the remaining measures specified in the 2013 budget law. Looking ahead, efforts will need to be stepped up to further strengthen revenue administration, reduce tax expenditure, and expand the tax base. There is ample room to improve the composition and quality of spending. In particular, staff urges the authorities to adopt a comprehensive energy sector reform to gradually reduce subsidies to EDH. Recent efforts are welcome to improve public financial management and in particular to establish a treasury single account. Continued progress needs to be made to strengthen budget formulation, execution, transparency and reporting, and improve internal and external controls.

50. Improving the execution rate of public investment should be a key priority. Ramping up domestically-financed investment is crucial to build the necessary infrastructure that would unlock the country's potential. Staff urges the authorities to work closely with donors to strengthen project design and preparation, execution, reporting and control while ensuring the overall quality and consistency of public investment. In particular, it is urgent to strengthen the agency in charge of procurement and the units in charge of project assessment and programming (UEP) and of technical execution (UTE) in line ministries, including by hiring international experts in key spending ministries.

51. Efforts to further develop and strengthen social safety nets are essential. Recent initiatives to alleviate poverty through direct transfers are welcome. However, targeting the beneficiaries of these policies is a daunting task as a very large segment of the population is highly vulnerable, and government resources are limited. Spending will have to be frequently audited to prevent the misuse of funds, and impact analysis conducted to ensure that the money spent helps meet the authorities' social goals. The government will have to strike a balance between helping the poor and not creating unrealistic expectations about how much government can do. A sustainable fight against poverty can only be waged through high and inclusive growth.

52. The monetary policy stance is appropriate. The authorities will need to remain vigilant to keep price inflation under check. Further progress to improve liquidity management, deepen the domestic financial market, strengthen market-based operations, and reduce dollarization will help strengthen monetary transmission mechanisms.

53. The authorities' continuing commitment to exchange rate flexibility is welcome. Greater exchange rate flexibility would help absorb external shocks and increase monetary policy effectiveness. Consideration should be given to the gradual introduction of single-price foreign exchange auctions and BRH's interventions should be limited to smoothing excessive exchange rate volatility.

54. Improving the business environment is urgent to raise productivity, enhance competitiveness, and achieve higher and more inclusive growth. Measures are under way to streamline the country's numerous, complex, and cumbersome regulations, reduce the cost and alleviate the burden of doing business, and promote private sector development. However, a strong political consensus and commitment are needed to move ahead with long-awaited structural reforms to make Haiti a country open for business and attractive for investors. It will be particularly important to address the country's infrastructure gap, deepen financial intermediation while safeguarding stability, and strengthen human capital. The authorities also need to vigorously pursue reform of the energy sector to reduce the high cost of electricity and improve the reliability and efficiency of energy supply. Clarifying the property rights will also help.

55. Staff supports the completion of the fifth review of the ECF arrangement in view of Haiti's good performance so far and the authorities' commitment to the program.

56. It is proposed that the next Article IV consultation with Haiti be held in accordance with the decision on Article IV Consultation Cycles adopted on September 28, 2010, as amended.

Table 1. Haiti: Selected Economic and Financial Indicators, 2009/10 - 2016/17

(Fiscal year ending September 30)

Nominal GDP (2011): US$7.4 billion
Population (2009): 9.9 million

	2009/10	2010/11		2011/12		2012/13		2013/14	2014/15	2015/16	2016/17
	Act.	Prog.	Est.	Prog.	Prov.	Prog.	Proj.		Proj.		
	(Change over previous year; unless otherwise indicated)										
National income and prices											
GDP at constant prices	-5.4	8.6	5.6	4.5	2.8	6.5	6.5	6.3	6.1	5.8	5.6
GDP deflator	4.7	6.2	6.8	5.7	7.5	5.3	5.3	3.8	3.6	3.2	2.8
Consumer prices (period average)	4.1	7.0	7.4	6.8	6.8	5.9	6.7	4.0	4.0	3.7	3.4
Consumer prices (end-of-period)	4.7	9.1	10.4	6.0	6.5	5.0	5.0	4.5	4.0	3.5	3.0
External sector											
Exports (f.o.b.)	2.2	10.7	36.3	0.0	2.2	22.8	20.1	12.0	11.5	11.0	10.0
Imports (f.o.b.)	38.3	7.2	7.3	0.0	-12.4	12.0	14.5	9.0	4.9	4.8	4.5
Real effective exchange rate (end of period; + appreciation)	0.8	...	1.6	...	...	...	... ..	...	...	...	...
Money and credit											
Credit to the nonfinancial public sector (net)	-122.7	-91.7	229.4	-0.2	41.6	-6.3	-13.2	-40.3	-32.0	3.8	2.9
Of which: Net credit to the central government	-104.3	...	930.9	8.0	44.7	-5.2	0.5	-49.7	-43.4	16.1	4.8
Credit to private sector	-5.6	21.6	24.5	18.6	29.8	18.0	21.6	18.0	17.5	17.0	16.5
Base money	31.2	15.2	6.0	9.0	-3.7	10.9	10.9	8.7	7.4	6.7	6.4
Broad money (incl. foreign currency deposits)	22.7	20.3	10.4	11.2	6.9	13.0	11.8	11.0	10.0	9.5	9.0
	(In percent of GDP; unless otherwise indicated)										
Central government											
Overall balance	2.4	-6.2	-3.7	-3.6	-5.9	-4.7	-5.3	-5.5	-4.6	-3.4	-3.1
Overall balance (excluding grants and externally-financed projects)	-5.0	-7.4	-4.7	-4.1	-5.9	-5.4	-6.1	-5.1	-4.3	-3.2	-2.9
Domestic revenue	11.9	11.8	13.1	13.5	12.8	13.9	14.1	14.5	14.6	14.9	15.0
Grants	16.5	16.3	16.8	14.4	10.6	13.0	10.4	8.7	7.6	6.7	5.9
Expenditures	26.0	33.8	33.5	31.5	29.3	31.7	29.8	28.6	26.7	25.0	24.0
Current expenditures	11.3	11.0	11.8	11.3	11.9	10.5	11.3	10.7	10.5	10.2	10.2
Capital expenditures	14.7	22.7	21.7	20.3	17.4	21.2	18.5	18.0	16.3	14.8	13.8
Savings and investment											
Gross investment	25.4	38.9	28.0	27.0	29.1	29.0	29.5	31.0	30.1	29.4	29.3
Of which: public investment	14.7	...	21.7	20.3	17.4	21.2	18.5	18.0	16.3	14.8	13.8
Gross national savings	12.9	34.6	23.8	22.7	25.1	23.7	23.9	25.7	24.9	24.4	24.5
Of which: central government savings	4.0	3.0	2.4	3.0	1.2	4.4	3.8	3.8	4.1	4.7	4.8
External current account balance (including official grants)	-12.5	-4.2	-4.6	-4.3	-4.0	-5.3	-5.6	-5.3	-5.2	-5.0	-4.8
External current account balance (excluding official grants)	-29.8	-23.3	-24.2	-21.2	-16.5	-21.0	-17.7	-16.1	-14.7	-13.5	-12.4
Public Debt											
External public debt (end-of-period)	13.2	8.8	8.9	13.1	13.0	16.4	16.8	19.8	21.6	22.9	23.8
Total government debt (end-of-period)	17.7	14.9	12.2	16.6	15.4	20.1	20.4	24.2	26.7	28.6	29.7
External public debt service 1/	1.6	0.9	0.6	0.8	0.8	1.4	1.5	2.5	4.1	5.1	5.9
	(In millions of U.S. dollars; unless otherwise indicated)										
Overall balance of payments	1,028	-273	167	38	177	-105	-290	-30.0	-70.0	-67.5	-63.6
Net international reserves (program definition) 2/	1,098	772	1,178	1,221	1,302	1,057	998	968	898	831	767
Liquid gross reserves	1,792	1,539	2,000	2,060	2,284	1,970	2,019	1,989	1,919	1,849	1,779
In months of imports of the following year	5.2	4.1	6.3	5.5	6.5	5.0	5.5	5.2	4.8	4.4	4.1
Nominal GDP (millions of Gourdes)	264,039	308,335	297,687	328,807	329,032	368,630	368,991	407,143	447,490	488,662	530,351
Nominal GDP (millions of US dollars)	6,551	7,620	7,388	7,895	7,902	8,529	8,535	9,253	10,170	11,106	12,053

Sources: Ministry of Economy and Finance; Bank of the Republic of Haiti; Fund staff estimates and projections; and World Bank estimates.
1/ In percent of exports of goods and nonfactor services. Includes HIPC, MDRI, and PCDR debt relief.
2/ SDR allocation (liability) is not netted out of NIR.

Table 2a. Haiti: Central Government Operations, 2009/10 - 2016/17

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

	2009/10	2010/11		2011/12		2012/13		2013/2014	2014/15	2015/16	2016/17
	Act.	Prog.	Est.	Prog.	Prov.	Prog.	Proj.			Proj.	
Total revenue and grants	75,004	86,794	88,801	91,786	76,802	99,386	90,197	94,115	99,146	105,326	110,980
Domestic revenue	31,425	36,459	38,893	44,516	41,970	51,411	52,002	58,848	65,200	72,663	79,560
Domestic taxes	19,393	22,133	24,460	29,387	28,076	33,861	34,032	38,743	43,644	49,941	55,422
Customs duties	11,394	13,512	13,672	15,000	13,721	16,908	17,337	19,407	20,789	21,884	23,229
Other current revenue	638	814	761	129	174	642	633	698	768	838	910
Grants	43,579	50,335	49,907	47,270	34,831	47,975	38,195	35,268	33,946	32,663	31,419
Budget support	8,966	6,875	3,492	2,291	1,124	3,458	3,458	0	0	0	0
Project grants	23,924	43,460	46,416	44,979	33,707	44,517	34,737	35,268	33,946	32,663	31,419
Total expenditure [1/]	68,704	104,100	99,811	103,677	96,292	116,861	109,838	116,488	119,650	121,987	127,386
Current expenditure	29,849	33,997	35,231	37,089	39,008	38,537	41,538	43,386	46,852	49,850	54,171
Wages and salaries	14,563	16,590	14,809	17,066	16,706	18,671	21,139	22,800	24,388	25,410	26,518
Net Operations [2/]	7,040	10,237	7,525	9,822	11,406	11,401	11,235	13,029	14,320	15,637	18,244
Other current expenditures	1,023	8,559	0	0	0	0	0	0	0	0	0
Interest payments	1,569	1,394	1,272	1,335	1,360	1,625	1,625	1,450	1,879	2,205	2,515
External	452	154	153	230	230	397	397	581	884	1,037	1,181
Domestic	1,118	1,241	1,119	1,105	1,130	1,223	1,228	869	995	1,168	1,334
Transfers and subsidies	6,677	7,454	11,626	8,866	9,534	6,840	7,539	6,107	6,265	6,597	6,895
Of which: energy sector 4/	3,793	3,945	8,232	4,492	4,844	1,843	2,600	2,036	1,790	1,710	2,600
Capital expenditure	38,855	70,103	64,579	66,588	57,285	78,324	68,300	73,102	72,798	72,137	73,214
Domestically financed	14,689	25,335	17,621	21,025	22,264	32,942	33,067	36,360	37,753	38,374	40,695
Of which: Treasury	13,475	24,102	16,431	21,025	22,264	32,942	32,705	34,731	35,963	36,419	38,574
Of which: related to PetroCaribe spending	2,991	9,874	7,479	9,500	9,276	14,442	14,442	14,817	14,808	15,407	15,981
Of which: Counterpart funds [3/]	1,214	1,233	1,190	0	0	0	362	1,629	1,790	1,955	2,121
Foreign-financed	24,166	44,767	46,958	45,563	35,020	45,382	35,233	36,743	35,046	33,763	32,519
Overall balance	6,299	-18,984	-11,010	-11,891	-19,491	-17,475	-19,641	-22,373	-20,504	-16,660	-16,406
Excluding grants	-37,279	-67,641	-60,918	-59,161	-54,322	-65,450	-57,836	-57,640	-54,449	-49,323	-47,825
Excluding grants and externally financed projects	-13,113	-22,873	-13,959	-13,599	-19,302	-20,068	-22,603	-20,898	-19,404	-15,560	-15,306
Adjustment (unidentified spending)	1,260	0	1,174	0	0	0	0	0	0	0	0
Financing	-5,546	18,984	12,187	11,891	19,491	17,475	19,641	22,373	20,504	16,660	16,406
External net financing	9,050	13,867	13,643	14,719	15,343	15,052	16,420	17,304	15,923	15,130	14,387
Loans (net)	9,050	13,867	13,644	14,719	15,343	15,052	16,420	17,304	15,923	15,130	14,387
Disbursements	9,356	14,079	13,721	14,743	15,470	15,560	17,110	18,384	18,009	18,009	18,009
Of which: Petrocaribe	9,114	12,747	13,214	14,160	14,157	14,695	16,613	16,909	16,909	16,909	16,909
Project loans	3,631	1,307	543	583	1,313	864	497	1,475	1,100	1,100	1,100
Amortization	-306	-212	-77	-24	-127	-508	-690	-1,080	-2,085	-2,878	-3,621
Arrears (net)	0	0	0	0	0		0	0	0	0	0
Internal net financing	-14,596	5,117	-1,456	-2,882	4,148	2,423	3,221	5,069	4,580	1,530	2,019
Banking system	-16,904	3,884	-5,383	-640	-2,734	447	-55	5,780	2,537	-532	-185
BRH	-11,248	2,782	-2,926	1,300	-224	2,116	2,116	2,704	2,360	0	0
Excluding Petrocaribe	-11,344	0	-2,926	1,300	-224	2,116	2,116	2,704	2,360	0	0
Net T-bills for recapitalization	0	4,000	0	0	0	0	0	0	0	0	0
From PCDR account	0	2,782	0	1,025	1,130	1,500	1,500	2,000	2,360	0	0
Commercial banks	-5,656	1,102	-2,457	-1,940	-2,510	-1,669	-2,171	3,076	177	-532	-185
excl. Petrocaribe	300	4,000	-300	1,416	0	-1,416	0	5,168	2,278	970	743
Net purchase of T-bills	300	4,000	-300	1,416	0	-1,416	0	5,168	2,278	970	743
Nonbank financing	2,308	1,233	3,927	-2,243	6,882	1,976	3,277	-712	2,043	2,062	2,204
Amortization	0	-300	-300	-2,400	0	-157	0	-2,915	-574	-827	-935
Counterpart funds [3/]	1,214	1,233	1,190	0	0	1,106	362	1,629	1,790	1,955	2,121
Net purchase of T-bills	0	0	0	157	0	870	2,915	-2,340	253	108	83
Arrears (net)	0	0	0	0	0	0	0	0	0	0	0
HIPC interim relief	0	0	0	0	0	0	0	0	0	0	0
Unidentified financing	-506	0	3	0	0	0	0	0	0	0	0
Financing gap (in U.S. dollars) 5/	12	0	0	0	0	0	0	0	0	0	0
Memorandum items											
Financing from Petrocaribe	9,113.9		13,214.3	14,160.2	14,157.2	16,613.2	16,613.2	16,908.7	16,908.7	16,908.7	16,908.7
Balance of PCDR account (in millions of U.S. dollars)	268	199	268	225	222	168	165	101	47	47	47
Stock of T-bills at end of year (in millions of Gourdes)	300	8,300	0	1,573	0	1,027	2,915	5,743	8,273	9,351	10,176
Transfers to EDH from Petrocaribe resources (million of Gour		n.a.	3,538	2,499	2,243	0	0	0	0	0	0

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

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

2/ Includes statistical discrepancy.

3/ Proceeds from sales of grants received in kind.

4/ Includes transfers from Petrocaribe resources in FY2011.

5/ The financing gap is expected to be covered by donor inflows, but no formal pledges have been made.

Table 2b. Haiti: Central Government Operations, 2009/10 - 2016/17

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

	2009/10	2010/11		2011/12		2012/13		2013/2014	2014/15	2015/16	2016/17
	Actual	Prog.	Est.	Prog.	Prov.	Prog.	Proj.	Proj.			
Total revenue and grants	28.4	28.1	29.8	27.9	23.3	27.0	24.4	23.1	22.2	21.6	20.9
Domestic revenue	11.9	11.8	13.1	13.5	12.8	13.9	14.1	14.5	14.6	14.9	15.0
Domestic taxes	7.3	7.2	8.2	8.9	8.5	9.2	9.2	9.5	9.8	10.2	10.5
Customs duties	4.3	4.4	4.6	4.6	4.2	4.6	4.7	4.8	4.6	4.5	4.4
Other current revenue	0.2	0.3	0.3	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Grants	16.5	16.3	16.8	14.4	10.6	13.0	10.4	8.7	7.6	6.7	5.9
Budget support	3.4	2.2	1.2	0.7	0.3	0.9	0.9	0.0	0.0	0.0	0.0
Project grants	9.1	14.1	15.6	13.7	10.2	12.1	9.4	8.7	7.6	6.7	5.9
Total expenditure [1/]	26.0	33.8	33.5	31.5	29.3	31.7	29.8	28.6	26.7	25.0	24.0
Current expenditure	11.3	11.0	11.8	11.3	11.9	10.5	11.3	10.7	10.5	10.2	10.2
Wages and salaries	5.5	5.4	5.0	5.2	5.1	5.1	5.7	5.6	5.5	5.2	5.0
Net Operations [2/]	2.7	3.3	2.5	3.0	3.5	3.1	3.0	3.2	3.2	3.2	3.4
Other current expenditures	0.4	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest payments	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5
External	0.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Domestic	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.3
Transfers and subsidies	2.5	2.4	3.9	2.7	2.9	1.9	2.0	1.5	1.4	1.4	1.3
Of which: energy sector 4/	1.4	1.3	2.8	1.4	1.5	0.5	0.7	0.5	0.4	0.3	0.5
Capital expenditure	14.7	22.7	21.7	20.3	17.4	21.2	18.5	18.0	16.3	14.8	13.8
Domestically financed	5.6	8.2	5.9	6.4	6.8	8.9	9.0	8.9	8.4	7.9	7.7
Of which: Treasury	5.1	7.8	5.5	6.4	6.8	8.9	8.9	8.5	8.0	7.5	7.3
Of which: related to PetroCaribe spending	1.1	3.2	2.5	2.9	2.8	4.6	3.9	3.6	3.3	3.2	3.0
Of which: Counterpart funds [3/]	0.5	0.4	0.4	0.0	0.0	0.0	0.1	0.4	0.4	0.4	0.4
Foreign-financed	9.2	14.5	15.8	13.9	10.6	12.3	9.5	9.0	7.8	6.9	6.1
Overall balance	2.4	-6.2	-3.7	-3.6	-5.9	-4.7	-5.3	-5.5	-4.6	-3.4	-3.1
Excluding grants	-14.1	-21.9	-20.5	-18.0	-16.5	-17.8	-15.7	-14.2	-12.2	-10.1	-9.0
Excluding grants and externally financed projects	-5.0	-7.4	-4.7	-4.1	-5.9	-5.4	-6.1	-5.1	-4.3	-3.2	-2.9
Adjustment (unidentified spending)	0.4	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-2.1	6.2	4.1	3.6	5.9	4.7	5.3	5.5	4.6	3.4	3.1
External net financing	3.4	4.5	4.6	4.5	4.7	4.1	4.4	4.3	3.6	3.1	2.7
Loans (net)	3.4	4.5	4.6	4.5	4.7	4.1	4.4	4.3	3.6	3.1	2.7
Disbursements	3.5	4.6	4.6	4.5	4.7	4.2	4.6	4.5	4.0	3.7	3.4
Of which: Petrocaribe	3.5	4.1	4.4	4.3	4.3	4.0	4.5	4.2	3.8	3.5	3.2
Project loans	1.4	0.4	0.2	0.2	0.4	0.2	0.1	0.4	0.2	0.2	0.2
Amortization	-0.1	-0.1	0.0	0.0	0.0	-0.1	-0.2	-0.3	-0.5	-0.6	-0.7
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internal net financing	-5.5	1.7	-0.5	-0.9	1.3	0.7	0.9	1.2	1.0	0.3	0.4
Banking system	-6.4	1.3	-1.8	-0.2	-0.8	0.1	0.0	1.4	0.6	-0.1	0.0
BRH	-4.3	0.9	-1.0	0.4	-0.1	0.6	0.6	0.7	0.5	0.0	0.0
Excluding Petrocaribe	-4.3	0.0	-1.0	0.4	-0.1	0.6	0.6	0.7	0.5	0.0	0.0
Net T-bills for recapitalization	0.0	1.3	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
From PCDR account	...	0.9	0.0	-0.7	0.3	...	...	...	...	...	...
Commercial banks	-2.1	0.4	-0.8	-0.7	-0.8	-0.5	-0.6	0.8	0.0	-0.1	0.0
Excluding Petrocaribe	0.1	1.3	-0.1	0.0	0.0	-0.4	0.0	1.3	0.5	0.2	0.1
Net purchase of T-bills	0.1	1.3	-0.1	0.0	0.0	-0.4	0.0	1.3	0.5	0.2	0.1
Nonbank financing	0.9	0.4	1.3	-0.7	2.1	0.5	0.9	-0.2	0.5	0.4	0.4
Amortization	0.0	-0.1	-0.1	-0.7	0.0	0.0	0.0	-0.7	-0.1	-0.2	-0.2
Counterpart funds [3/]	0.5	0.4	0.4	0.0	0.0	0.3	0.1	0.4	0.4	0.4	0.4
Net purchase of T-bills	0.0	0.0	0.0	0.0	0.0	0.2	0.8	-0.6	0.1	0.0	0.0
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC interim relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap 5/	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:											
Balance of PCDR account	4.1	2.6	3.6	2.8	2.8	2.0	1.9	1.1	0.5	0.4	0.4
Stock of T-bills at end of period	0.1	2.7	0.0	0.5	0.0	0.3	0.8	1.4	1.8	1.9	1.9
Transfers to EDH from Petrocaribe resources (million of Gourdes)			1.2	0.8	0.7	0.0	0.0	0.0	0.0	0.0	0.0

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

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

2/ Includes statistical discrepancy.

3/ Proceeds from sales of grants received in kind.

4/ Includes transfers from Petrocaribe resources in FY2011.

5/ The financing gap is expected to be covered by donor inflows, but no formal pledges have been made.

Table 3. Haiti: Summary Accounts of the Banking System, 2009/10- 2016/17

	2009/10	2010/11		2011/12			2012/13		2013/14	2014/15	2015/16	2016/17
	Act.	Prog.	Est.	Prog.	Prog.	Prov.	Prog.	Proj.	Proj.			
				I. Central Bank								
Net foreign assets	64,127	55,236	72,469	66,877	76,597	87,436	75,057	78,580	77,260	74,180	71,209	68,411
(In millions of U.S. dollars)	1,606	1,347	1,773	1,592	1,811	2,066	1,706	1,786	1,756	1,686	1,618	1,555
Net international reserves (program) 1/	1,098	772	1,178	979	1,221	1,302	1,057	998	968	898	831	767
Commercial bank forex deposits	618	689	706	725	702	874	761	897	897	897	897	897
Net domestic assets	-23,344	-8,254	-29,234	-18,669	-29,471	-45,795	-22,806	-32,400	-27,062	-20,252	-13,673	-7,193
Net credit to the nonfinancial public sector	9,520	11,811	5,276	9,049	7,244	3,685	9,693	8,161	11,199	13,915	14,215	14,215
Of which: Net credit to the central government	12,376	14,652	9,466	12,572	10,767	9,235	12,883	11,351	14,055	16,415	16,415	16,415
Of which: T-bills	0	4,000	0	0	0	0	0	0	0	0	0	0
Of which: IMF PCDR Debt Relief	-10,704	-8,200	-10,954	-7,572	-9,510	-9,410	-7,378	-7,270	-4,438	-2,079	-2,079	-2,079
Liabilities to commercial banks (excl gourde deposits)	-33,907	-36,756	-35,191	-37,677	-36,938	-42,736	-38,693	-44,668	-43,868	-42,968	-41,968	-41,968
BRH bonds/Open market operations	-9,210	-8,500	-6,328	-7,241	-7,241	-5,742	-5,200	-5,200	-4,400	-3,500	-2,500	-2,500
Counterpart of commercial bank forex deposits	-24,697	-28,256	-28,863	-30,437	-29,697	-36,994	-33,493	-39,468	-39,468	-39,468	-39,468	-39,468
Other	1,043	16,691	680	9,959	223	-6,745	6,194	4,106	5,607	8,801	14,080	20,560
Base Money	40,783	46,982	43,235	48,207	47,126	41,641	52,250	46,180	50,198	53,928	57,535	61,218
Currency in circulation	17,282	19,671	18,401	20,608	20,796	20,232	23,088	22,457	24,581	26,798	29,042	31,296
Commercial bank gourde deposits	23,501	27,311	24,834	27,599	26,330	21,410	29,163	23,723	25,616	27,130	28,494	29,921
				II. Consolidated Banking System								
Net foreign assets	92,209	86,810	104,581	101,132	111,097	115,977	112,264	109,572	109,132	106,932	104,401	102,043
(In millions of U.S. dollars)	2,309	2,117	2,559	2,408	2,626	2,740	2,551	2,490	2,480	2,430	2,373	2,319
Of which: Commercial banks NFA	703	770	786	816	816	674	846	704	724	744	754	764
Net domestic assets	33,942	64,954	34,744	60,615	43,862	32,961	62,780	56,945	75,701	96,385	118,231	140,626
Credit to the nonfinancial public sector	-3,745	-352	-12,336	912	-12,308	-17,466	-11,528	-15,161	-9,047	-6,154	-6,386	-6,571
Of which: Net credit to the central government	-776	n.a.	-7,996	n.a.	-8,636	-11,571	-8,189	-11,626	-5,846	-3,308	-3,841	-4,026
Credit to the private sector	40,585	49,370	50,526	59,028	59,929	65,573	70,705	79,736	94,089	110,555	129,349	150,691
In gourdes	21,708	25,472	28,086	32,196	35,358	38,048	40,541	47,191	56,799	68,074	81,240	96,537
In foreign currency	18,877	23,898	22,440	26,832	24,571	27,525	30,164	32,545	37,290	42,481	48,109	54,154
In millions of U.S. dollars	473	583	549	639	581	650	686	740	847	965	1,093	1,231
Other	-2,898	15,935	-3,446	675	-3,759	-15,145	3,602	-7,631	-9,340	-8,016	-4,732	-3,494
Broad money	126,151	151,763	139,324	161,747	154,960	148,938	175,043	166,517	184,834	203,317	222,632	242,669
Currency in circulation	17,282	19,671	18,401	20,608	20,796	20,232	23,088	22,457	24,581	26,798	29,042	31,296
Gourde deposits	48,513	57,221	52,164	60,405	55,392	54,933	64,124	61,250	67,731	74,323	80,979	87,650
Foreign currency deposits	60,355	74,871	68,760	80,733	78,772	73,774	92,058	82,809	92,522	102,196	112,612	123,722
In millions of U.S. dollars	1,511	1,826	1,682	1,922	1,862	1,743	2,092	1,882	2,103	2,323	2,559	2,812
				(12-month percentage change)								
Currency in circulation	28.5	13.8	6.5	12.0	13.0	9.9	11.0	11.0	9.4	9.0	8.4	7.8
Base money	31.2	15.2	6.0	11.2	9.0	-3.7	10.9	10.9	8.7	7.4	6.7	6.4
Gourde money (M2)	20.4	16.9	7.2	14.8	11.0	6.5	11.4	11.4	10.3	9.5	8.8	8.1
Broad money (M3)	22.7	20.3	10.4	16.1	11.2	6.9	13.0	11.8	11.0	10.0	9.5	9.0
Gourde deposits	17.8	25.0	7.5	15.8	10.2	5.3	11.5	11.5	10.6	9.7	9.0	8.2
Foreign currency deposits (U.S. dollars)	25.3	24.1	13.9	17.4	14.6	7.3	16.9	12.2	11.7	10.5	10.2	9.9
Credit to the nonfinancial public sector	-122.7	-91.7	229.4	-107.4	-0.2	41.6	-6.3	-13.2	-40.3	-32.0	3.8	2.9
Credit to the private sector	-5.6	21.6	24.5	16.8	18.6	29.8	18.0	21.6	18.0	17.5	17.0	16.5
Credit in gourdes	13.0	17.3	29.4	14.6	25.9	35.5	14.7	24.0	20.4	19.9	19.3	18.8
Credit in foreign currency (U.S. dollars)	-20.7	26.6	18.9	19.6	9.5	22.7	22.8	18.2	14.6	13.9	13.3	12.6
Memorandum items:												
Foreign currency bank deposits (percent of total)	55.4	56.7	56.9	57.2	58.7	57.3	58.9	57.5	57.7	57.9	58.2	58.5
Foreign curr. credit to priv. sector (percent of total)	46.5	48.4	44.4	45.5	41.0	42.0	42.7	41.6	41.1	40.7	40.2	39.8
Commercial Banks' Credit to Private Sector (percent of GDP) 2/	14.6	15.2	16.2	16.3	17.5	19.1	18.4	20.8	22.3	23.9	25.7	27.7

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 NIR definition has been changed relative to that of the previous program, with the SDR allocation no longer netted out as a liability. This table reports NIR under the new definition. The revised projection for 2009/10 reflects the IMF debt relief of SDR 178.1 million approved on July 21, 2010.

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

Table 4. Haiti: Balance of Payments, 2009/10 - 2016/17

(In millions of U.S. dollars on a fiscal year basis; unless otherwise indicated)

	2009/10	2010/11	2011/12			2012/13		2013/14	2014/15	2015/16	2016/17
	Act.	Est.	Prog.	Prog.	Prov.	Prog.	Proj.	Proj.			
Current account (including grants)	-821	-339	-375	-341	-316	-453	-479	-488	-528	-556	-576
Current account (excluding grants)	-1,953	-1,785	-1,905	-1,677	-1,303	-1,787	-1,512	-1,490	-1,499	-1,498	-1,490
Trade balance	-2,247	-2,246	-2,438	-2,246	-1,855	-2,433	-2,080	-2,237	-2,278	-2,314	-2,347
Exports of goods	563	768	943	768	785	943	943	1,056	1,178	1,307	1,438
Of which: Assembly industry	523	714	891	716	716	885	885	991	1,102	1,215	1,337
Imports of goods	-2,810	-3,014	-3,381	-3,014	-2,640	-3,376	-3,023	-3,293	-3,456	-3,621	-3,785
Of which: Petroleum products	-546	-770	-815	-815	-815	-871	-871	-912	-940	-967	-994
Services (net)	-1,035	-891	-864	-838	-897	-813	-890	-746	-759	-771	-782
Receipts	239	249	308	308	262	341	288	352	393	436	479
Payments	-1,274	-1,140	-1,172	-1,146	-1,158	-1,154	-1,178	-1,098	-1,152	-1,207	-1,262
Income (net)	22	41	33	43	68	40	56	35	22	10	0
Of which: Interest payments 1/	-7	-4	-6	-6	-6	-9	-9	-13	-20	-24	-27
Current transfers (net)	2,439	2,757	2,894	2,700	2,368	2,753	2,434	2,460	2,488	2,519	2,554
Official transfers (net)	1,132	1,446	1,530	1,336	988	1,334	1,033	1,002	971	942	914
Of which: budget support	225	87	114	55	27	80	80				
Private transfers (net)	1,307	1,311	1,364	1,364	1,380	1,419	1,402	1,458	1,516	1,577	1,640
Capital and financial accounts	991	594	194	379	559	348	189	458	458	488	512
Capital transfers (HIPC/MDRI/PCDR) 2/	1,360	656	3	3	0	3	3	3	4	4	4
Debt stock reduction (HIPC/MDRI) 2/	-334	-486	0	0	0	0	0	0	0	0	0
Public sector capital flows (net) 3/	218	340	351	351	366	351	383	396	365	347	331
Loan disbursements	224	341	354	354	372	360	396	418	409	409	409
Amortization 1/	-6	-2	-3	-3	-6	-9	-13	-21	-44	-62	-79
Foreign direct investment (net)	150	181	101	101	169	112	112	112	112	112	112
Banks (net) 4/	-307	-83	-30	-30	109	-30	-30	-20	-20	-10	-10
Other items (net)	-96	-14	-231	-46	-85	-88	-279	-33	-3	35	76
Errors and omissions	858	-88	0	0	-66	0	0	0	0	0	0
Overall balance	1,028	167	-181	38	177	-105	-290	-30	-70	-68	-64
Financing	-1,028	-167	181	-38	-177	105	290	30	70	68	64
Change in net foreign assets	-1,031	-167	181	-38	-293	105	280	30	70	68	64
Change in gross reserves	-828	-211	157	-60	-289	90	265	30	70	70	70
Liabilities	-203	43	24	23	-4	15	15	0	0	-2	-6
Utilization of Fund credits(net)	-146	13	23	23	23	15	15	0	0	-2	-6
Other liabilities	-57	30	1	0	-27	0	0	0	0	0	0
Debt rescheduling and debt relief	3	0	0	0	0	0	10	0	0	0	0
Memorandum items:											
Current account (in percent of GDP)	-12.5	-4.6	-4.5	-4.3	-4.0	-5.3	-5.6	-5.3	-5.2	-5.0	-4.8
Excluding official transfers	-29.8	-24.2	-22.9	-21.2	-16.5	-21.0	-17.7	-16.1	-14.7	-13.5	-12.4
Exports of goods, f.o.b (percent change)	2.2	36.3	23.9	0.0	2.2	22.8	20.1	12.0	11.5	11.0	10.0
Imports of goods, f.o.b (percent change)	38.3	7.3	15.1	0.0	-12.4	12.0	14.5	9.0	4.9	4.8	4.5
Debt service (in percent of exports of goods and services)	1.6	0.6	0.7	0.8	0.8	1.4	1.5	2.5	4.1	5.1	5.9
Gross liquid international reserves (in millions of U.S. dollars) 2/	1,792	2,000	1,843	2,060	2,284	1,970	2,019	1,989	1,919	1,849	1,779.1
(in months of next year's imports of goods and services)	5.2	6.3	4.7	5.5	6.5	5.0	5.5	5.2	4.8	4.4	4.1

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

1/ Includes HIPC/MDRI debt relief beginning in 2010. HIPC/MDRI interim debt relief in 2009 is reflected below the line.

2/ Includes operations under the HIPC/MDRI in 2009, PCDR in 2010, and debt cancellations by IDB, World Bank, and Venezuela in 2010-11.

3/ In 2009, including an SDR allocation of $101 million.

4/ Includes NIR and commercial banks' foreign currency deposits with the BRH.

Table 5. Haiti: Financial Soundness Indicators of Individual Banks, September 2010 - September 2012
(In percent; unless otherwise stated)

	Sep-10	Sep-11	Mar-12	Jun-12	Sep-12
Size and growth					
Asset volume (in US$ millions)	3453.6	3767.5	3858.0	3945.0	4029.9
Deposit volume (in US$ millions)	2985.8	3316.2	3394.2	3475.1	3469.5
Asset growth since beginning of fiscal year	27.8	11.6	4.2	7.5	10.8
Credit growth (net) since beginning of fiscal year	-11.7	31.5	11.2	21.5	34.0
Capital adequacy					
Regulatory capital to risk-weighted assets	13.4	16.5	16.7	16.7	16.8
Assets to regulatory capital	23.8	14.7	13.6	13.9	13.3
Asset quality and composition					
Loans (net) to assets	21.3	25.1	26.8	28.4	33.0
NPLs to gross loans	5.7	3.7	3.6	3.2	2.4
Provisions to gross loans	4.8	4.4	3.0	2.8	2.3
Provisions to gross NPLs	84.1	93.1	83.3	88.8	96.7
NPLs less provisions to net worth	3.2	1.1	2.6	1.7	0.4
Earnings and profitability (cumulative since beginning of fiscal year)					
Return on Assets (ROA)	1.2	1.4	1.4	1.3	1.5
Return on equity (ROE)	18.4	22.2	22.2	21.7	21.9
Net interest income to gross interest income	87.4	91.4	92.2	92.3	92.4
Operating expenses to net profits	69.2	67.8	65.6	66.1	66.7
Efficiency					
Interest rate spread [1/]	9.6	8.9	8.2	8.2	7.4
Liquidity					
Liquid assets to total assets [2/]	51.0	49.5	48.2	48.5	45.5
Liquid assets to deposits [2/]	59.0	56.3	54.7	55.0	52.8
Dollarization					
Foreign currency loans to total loans (net)	60.1	55.7	53.8	51.8	51.7
Foreign currency deposits to total deposits	44.1	62.3	63.9	64.5	62.9
Foreign currency loans to foreign currency deposits	31.3	32.6	34.6	35.7	37.3

Sources: BRH Banking System Financial Summary; and IMF estimates

[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 External Vulnerability, 2008/09 - 2012/13 [1/]

(Units as indicated)

	2008/09	2009/10	2010/11	2011/12	2012/13
			Est.	Proj.	
Debt indicators					
Total external public debt (in percent of GDP)	19.0	13.2	8.9	13.0	16.8
Total external public debt (in percent of exports) [2/]	133.7	107.6	64.6	98.2	116.5
External debt service (in percent of GDP)	0.6	0.2	0.1	0.1	0.2
Amortization	0.4	0.1	0.0	0.0	0.1
Interest					
External debt service (in percent of exports) [2/]	3.9	1.6	0.6	0.8	1.5
External debt service (in percent of current central govt. revenues)	4.9	1.7	0.6	0.9	1.5
Other indicators					
Exports (percent change, 12-month basis in U.S. dollars)	11.6	-13.7	26.8	2.9	17.6
Imports (percent change, 12-month basis in U.S. dollars)	-1.7	45.6	1.7	-8.6	10.6
Remittances and grants in percent of gross disposable income	19.9	27.1	27.1	22.9	22.1
Real effective exchange rate appreciation (+) (end of period)	2.1	0.8	1.6		
Exchange rate (per U.S. dollar, period average)	40.7	40.3	40.3	41.6	43.2
Current account balance (millions of US dollars) [3/]	-226.3	-820.7	-338.8	-315.8	-479.2
Capital and financial account balance (millions of US dollars) [4/]	501.2	991.5	594.3	559.2	188.9
Public sector	287.9	218.2	339.5	365.9	382.9
Private sector	213.3	773.3	254.8	193.3	-193.9
Liquid gross reserves (millions of US dollars)	947.5	1792.0	1999.7	2284.1	2019.1
In months of imports of the following year [2/]	2.8	5.2	6.3	6.5	5.5
In percent of debt service due in the following year	7283	30685	22988	12774	5800
In percent of base money	127.4	175.5	189.1	232.1	192.4

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

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

Table 7. Haiti: Indicators of Capacity to Repay the Fund, 2012/13-2022/23

(Units as indicated)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Fund obligations based on existing credit (in millions of SDRs)											
Principal	0.0	0.0	0.0	1.6	4.3	5.2	5.2	5.2	3.6	1.0	0.0
Interest	0.0	0.0	0.0	0.1	0.1	0.1	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	0.0	0.0	1.6	4.3	6.7	8.2	8.2	6.6	3.9	1.5
Interest	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit											
In millions of SDRs	0.0	0.0	0.0	1.7	4.4	6.8	8.3	8.2	6.6	3.9	1.5
In millions of U.S. dollars	0.0	0.0	0.0	2.6	6.6	10.3	12.5	12.5	10.0	6.0	2.2
In percent of											
exports	0.0	0.0	0.0	0.2	0.3	0.5	0.6	0.5	0.4	0.2	0.1
government revenues	0.0	0.0	0.0	0.2	0.33	0.4	0.4	0.3	0.2	0.1	0.0
reserves	0.0	0.0	0.0	0.1	0.4	0.6	0.7	0.7	0.5	0.3	0.1
debt service	0.0	0.0	0.0	3.0	5.9	7.6	7.9	7.0	5.1	2.8	1.0
quota	0.0	0.0	0.0	2.1	5.3	8.3	10.1	10.0	8.0	4.8	1.8
Outstanding Fund credit (end of period)											
In millions of SDRs	41.0	41.0	41.0	39.3	35.1	28.3	20.1	12.0	5.4	1.5	0.0
In millions of U.S. dollars	62.3	62.3	62.3	59.7	53.2	43.0	30.6	18.1	8.2	2.2	0.0
In percent of											
exports	5.1	4.4	4.0	3.4	2.8	2.1	1.4	0.8	0.3	0.1	0.0
government revenues	5.2	4.7	4.2	3.6	2.9	2.2	1.4	0.7	0.3	0.1	0.0
reserves	3.1	3.1	3.2	3.2	3.0	2.3	1.7	1.0	0.4	0.1	0.0
debt service	348.6	179.0	97.2	67.7	47.3	31.6	19.2	10.2	4.2	1.1	0.0
quota	50.0	50.0	50.0	48.0	42.8	34.6	24.6	14.6	6.6	1.8	0.0
Memorandum items:											
Exports 1/ 2/	1.2	1.4	1.6	1.7	1.9	2.1	2.2	2.4	2.6	2.8	3.0
Government revenues 1/ 3/	1.2	1.3	1.5	1.7	1.8	2.0	2.3	2.5	2.7	2.9	3.2
Reserves 1/ 4/	2.0	2.0	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Debt service 1/	0.0	0.0	0.1	0.1	0.1	0.1	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/	8.5	9.3	10.2	11.1	12.1	13.0	14.0	15.1	16.2	17.4	18.7

Sources: Haitian authorities; and Fund staff 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 8. Haiti: Proposed Schedule of Disbursements, 2010-2013

Amount	Availability Date	Conditions for Disbursement [1/]	Status
SDR 8,190,000	July 21, 2010	Executive Board approval of the three-year arrangement under the ECF.	Completed
SDR 8,190,000	January 15, 2011	Observance of performance criteria for September 2010 and completion of the first review under the ECF arrangement.	Completed
SDR 4,914,000	July 15, 2011	Observance of performance criteria for March 2011 and completion of the second review under the ECF arrangement. [2/]	Completed
SDR 4,914,000	January 15, 2012	Observance of performance criteria for September 2011 and completion of the third review under the ECF arrangement. [2/]	Completed
SDR 4,914,000	July 15, 2012	Observance of performance criteria for March 2012 and completion of the fourth review under the ECF arrangement.	Completed
SDR 4,914,000	January 15, 2013	Observance of performance criteria for September 2012 and completion of the fifth review under the ECF arrangement.	
SDR 4,914,000	July 15, 2013	Observance of performance criteria for March 2013 and completion of the sixth review under the ECF arrangement.	

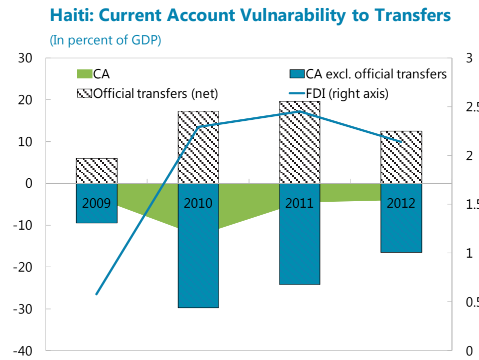
[1/] Other than the generally applicable conditions for the Extended Credit Facility (ECF) arrangement.
[2/] The second and third reviews were combined.

Table 9. 2008 FSAP Recommendations and Implementation Status

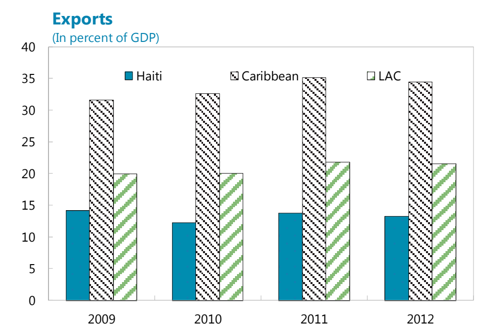
FSAP Recommendations	Implementation Status
BRH's financial sustainability: prepare for recapitalization and increase government transfers	BRH' s financial situation has strenghened because of the improved macroeconomic situation, the adoption of the new banking law, the absence of government deficit financing and the recent agreement on the debt between BRH and the MEF
Enhance competition in BRH bond auction system	Through development of the T-Bills market the competition in BRH bond auction system has been enhanced
Adopt and implement new banking law and upgrade regulations	Banking Law was passed recently
Conduct special inspections of the three largest banks, and prepare BNC restructuring strategy	Successful inspection was conducted
Broaden scope and set up centralized public registry of personal property collateral	Ongoing – Private Sector Development Project (WB)
Strengthen BRH's independence through recapitalization and legal reform	Significantly strengthened through the new banking law and improved capitalization
Develop treasury securities market	Treasury securities market will be further strenghend through the Public debt law expected to be submitted parliament by end-march 2013
Complete transition of BRH accounting toward IFRS and commission BRH audit by new audit firm	In progress BRH audit has been committed
Strengthen judicial capacity for contract enforcement	Reforms underway
Implement BNC restructuring strategy	Guarantee was executed by BNC in 2011
Reduce cost of establishing collateral	Ongoing with PCGF and movable collateral. Pillar one of the PCGF has been completed
Increase competition in audit sector	OCPAH working with French Accounting Board towards capacity Building
Improve framework for systemic liquidity forecasting	TA is being provided and exercises are being conducted
Improve regulation and supervision of credit unions	In progress
Establish basic transparency requirements and regulation for other nonbank financial institutions	Law for supervision of microfinance has been drafted
Set up working group to assess options for deposit insurance scheme	Currently under consideration
Start improving banks' accounting practices in line with long-term IFRS compliance goal	New Accounting Law and framework being drafted by OCPAH with TA of IFI's executed by French Accounting Board takes this into account
Require full publication of banks' annual accounts	Required under the New Banking Law
Upgrade IT infrastructure and increase risk focus of banking supervision	Being upgraded under the Payment System TA
Support orderly expansion of microfinance sector	New Law for microfinance has been drafted and is under consideration
Conduct actuarial assessments of all defined benefit pension schemes	Public DB scheme will be supervised by insurance regulator under the new insurance law
Facilitate establishment of a private credit bureau	Work is ongoing jointly with WB and IFC
Modernize insolvency legislation	A commercial court to be established
Develop strategy for the transition of bank accounting toward IFRS	New Accounting Law and framework being drafted by OCPAH with TA of IFI's executed by French Accounting Board takes this into account
Adopt simple and easily enforceable accounting system for private enterprises	New Accounting Law and framework being drafted by OCPAH with TA of IFI's executed by French Accounting Board takes this into account

Annex 1. External Stability and Competitiveness

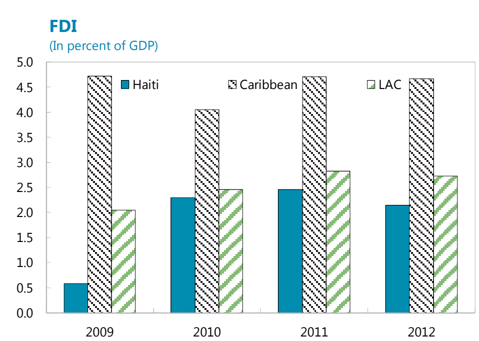
1. **Haiti's current account deficit has declined from 12.5 percent of GDP in 2010 to 4 percent in 2012.** The trade deficit remained high at 23.5 percent of GDP at end-September 2012, due to both high aid-related imports and low exports. Official transfers increased sharply after the earthquake from 6 percent of GDP in 2009 to 19.6 percent 2011. They have declined to 12.5 percent in 2012 reflecting the transition from the emergency situation, as well as weak execution and absorption capacities in Haiti. In the medium-term, official transfers are projected at 7 percent of GDP. Remittances remained relatively high and stable (about 18 percent in 2012).



2. **Haiti's level of exports at about 15 percent of GDP remains low compared both to the Caribbean and Latin America average.** Moreover, exports remain highly concentrated with textile exports accounting for about 95 percent of the total, almost entirely to the United States. Although its share of textiles in US textile imports has increased, mainly due to the HELP Act, Haiti would benefit from export diversification.



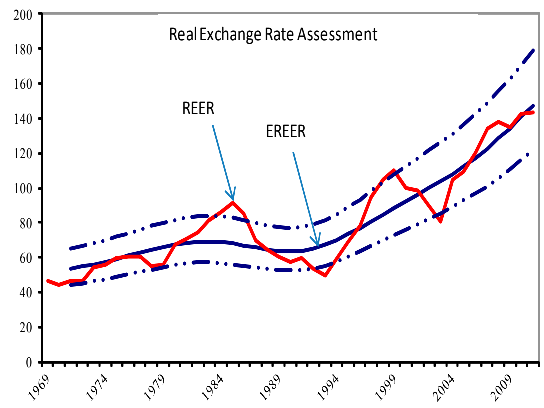
3. **Foreign Direct Investment in Haiti has increased in the last decade, but remains low compared to other countries in the region.** Improvements in the ease of doing business and the climate for private domestic and foreign direct investment are critical for competitiveness. Among the main sources of foreign technology, FDI often plays a key role and innovation is important for improving productivity and competitiveness. Haiti needs to continue developing a legal framework that harnesses entrepreneurship by promoting transparency and accountability in the rule of law and protecting property rights and continue investing in infrastructure to attract FDI.



4. **The real exchange rate in Haiti is assessed to be broadly in line with its medium-term fundamentals based on the standard CGER approach.** Haiti's real effective exchange rate (REER) has remained broadly stable since the 2010 earthquake. It has appreciated only by 7 percent despite the large inflows of remittances and

external aid. This reflects a moderate depreciation of the nominal effective exchange rate and relatively higher inflation compared to key partners.

5. According to the Equilibrium real effective exchange rate (EREER) approach, the current REER is close to the equilibrium value estimated from a set of fundamentals, including GDP per capita relative to trading partners, current transfers, terms of trade, and openness, the REER, and investment as a share of GDP. Results show a modest undervaluation as of end-September 2011; the recent appreciation of the REER reflects predominantly an equilibrium response to movements in fundamentals.



6. According to the Macroeconomic balance approach, improved exports, particularly textiles, and a gradual winding-down of reconstruction-related imports would reduce the current account balance deficit to about 4 percent of GDP by 2017. The underlying current account is slightly below the current account norm when this is estimated using the coefficients of the fixed effect regression, suggesting a small undervaluation of the REER of about 2.7 percent. The macroeconomic balance approach with coefficients from the hybrid pooled regression points instead to a slight overvaluation of 1.42 percent.

Macroeconomic Balance

Estimation Method	Fixed Effect	Hybrid Pooled
Current account (% GDP)		
Observed 2011	-4.59	-4.59
Projected M-T (2017)	-3.98	-3.98
Estimated "Norm"	-4.14	-3.89
Elasticity of CA to REER	-0.060	-0.060
Implied REER overvaluation (end-2011)	-2.74%	1.42%

7. Diversification and increase of exports as well as of FDI are critical for external sustainability and enhanced competitiveness in Haiti. Given the high dollarization and real exchange rate broadly aligned with the fundamentals, improving competitiveness in Haiti is predicated on structural reforms to boost productivity. In order to reduce supply-side bottlenecks, improve the business environment and promote export diversification, legal and regulatory reforms as well as significant improvements in infrastructure are needed.

Appendix I. Letter of Intent

February 14, 2013

Mrs. Christine Lagarde
Managing Director
International Monetary Fund
Washington D.C. 20431
United States of America

Dear Mrs. Lagarde:

1. The economic recovery process is slower than planned, as a result of several factors, including the passage of tropical storms Isaac and Sandy in August and October 2012, a drop in external aid, and weak administrative and absorptive capacities. Notwithstanding these adverse conditions, implementation of our program supported by an arrangement under the Extended Credit Facility (ECF) remains broadly on track.

2. We observed all end-June 2012 indicative targets and met all end-September 2012 performance criteria. In the structural area, we have implemented the end-June 2012 benchmark related to the closing of all dormant accounts of the central government at the central bank or commercial banks as well as the two end-September 2012 benchmarks on the creation of the fiscal policy unit with the MEF and the unit in charge of the medium and large enterprises. The third end-September benchmark related to the move to single-price foreign exchange auctions has not been implemented yet. Our objective is to start by expanding the number of participants in the FX markets. Also, two end-March 2012 structural benchmarks are not yet observed. The benchmark on strengthening the debt unit with fully operational middle and back offices is underway as it is linked to the passage of the organic law on the reorganization of the Ministry of Economy and Finance. The second benchmark is related to the public debt law. Both draft laws are being reviewed by the Prime Minister's office and will be submitted to the Parliament by end-March 2013.

3. The ECF-supported program will continue to play a pivotal role in supporting the reconstruction and recovery, maintaining macroeconomic stability and achieving broad-based and inclusive growth. In this context, the government is committed to creating more room for poverty-related and growth-enhancing spending; maintaining price stability and facilitating external adjustment through prudent and well-coordinated macroeconomic policies; and moving ahead with key structural reforms to boost productivity and competitiveness, and to support sustained growth.

4. To meet these objectives, we intend to make full use of all available technical assistance and financial resources, including those freed by the IMF PCDR, a share of which will be allocated to increase the domestic revenue intake through further reforms aimed at broadening the tax base and modernizing the revenue administration. In this vein, we have agreed on the need to improve customer service at DGI by launching and operating an electronic tax declaration system.

5. The reform agenda will also focus on enhancing public financial management, and economic governance, strengthening the financial sector, and creating the conditions for an appropriate environment for private investment. We will also strengthen the coordination with our partners and improve the efficiency of aid flows through the new mechanism for coordination and harmonization of aid. This mechanism provides for an alignment of international funds on national development goals and government investment programs, and relies on the national budget as the main vehicle for channeling all aid.

6. In support of these policies and in view of the progress made in implementing the program supported by the ECF arrangement, the government requests the completion of the fifth review and the approval of the sixth disbursement for an amount equivalent to SDR 4.914 million. The upcoming sixth review, which will assess performance based on end-March 2013 targets, is envisaged for July 2013.

7. We will regularly update the IMF on economic and policy developments and will provide the data needed for adequate monitoring of the program. The government will continue its policy dialogue with the IMF and is prepared to take any further measures as deemed appropriate to meet its program objectives. We will consult with the Fund ahead of the adoption of these measures and any revisions to the measures outlined in the MEFP, in accordance with the Fund's policies on such consultation.

8. The Government authorizes the IMF to publish this letter, the attached Memorandum of Economic and Financial Policies, and the related Staff Report, including the placement of these policy documents on the IMF website, following the IMF Executive Board's conclusion of the review.

Sincerely yours,

/s/
Marie Carmelle JEAN MARIE
Minister of Economy and Finance
Ministry of Economy and Finance

/s/
Charles CASTEL
Governor
Bank of the Republic of Haiti

ATTACHMENT 1. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Introduction

1. **This Memorandum of Economic and Financial Policies (MEFP) supplements and updates the MEFPs that have preceded it since July 2010**. It reviews recent economic developments and progress in implementing our macroeconomic and structural program under the Extended Credit Facility (ECF) arrangement, approved by the IMF Board on July 21, 2010. It also sets out macroeconomic policies and structural reforms that we will pursue during FY2012/2013.

Political background and recent economic developments

2. **Recent political developments are encouraging.** Prime Minister Lamothe and his reform-minded cabinet are pressing ahead with an agenda favoring an acceleration of the reconstruction and key reforms to improve economic management and governance. The current cabinet is forward-looking and reform-minded and is gaining support from large segments of the population. The recent publication of constitutional amendments opens the door for dual nationality and will pave the way for a greater involvement of the Haitian living abroad in the development of the country. Nonetheless, we also are aware of the need for the upcoming election cycle for the renewal of one third of the Senate and all municipal governments[1] to be organized in the best security conditions so as to lessen political tensions. The security situation remains our main priority.

3. **The economic recovery has been weaker-than-planned and 12-month inflation has risen.** Economic activity has been uneven across sectors. It remained buoyant in the manufacturing, energy, and commerce sectors. In contrast, agricultural output was weaker, as a result of the spring drought and the passage of Hurricane Isaac at the end of August. At the same time, activity in the construction sector and transportation has remained modest, due in part to the low execution rate of public investment caused by the political stalemate and the late approval of the budget. On balance, for the year as a whole, the economy has grown only by 2.8 percent, against a target of 4.5 percent. In contrast, inflationary pressures from international food prices have pushed headline inflation to 7.6 percent through end-December 2012, up 2.7 percentage points since June 2012.

4. **The fiscal deficit outcome for FY2012 is higher-than-programmed**. The overall fiscal deficit reached 5.9 percent of GDP, against a program target of 3.6 percent. This underperformance reflected lower-than-planned domestic revenue, a drop in grants, and slightly higher-than-planned spending. On the revenue side, the intake reached 12.8 percent of GDP, compared with a program objective of 13.5 percent, mainly on account of lower customs duties. Disbursement of budget support fell short of the 0.7 percent of GDP target by 0.4 percentage

[1] The new cycle seeks the renewal of 1/3 of the Senate (10 new senators), 142 municipal councils, 565 sector officers, and several city delegates.

points, partly because of slow progress in key structural areas, including procurement and governance, delays in some donors' disbursement process stemming from external aid conditionality and complexity, and the country's limited administrative and absorptive capacities. Current spending slightly exceeded the target by 0.6 percentage points of GDP, as a result of some additional spending for damages caused by Hurricane Isaac. Domestically-financed capital spending was slightly above the target of 6.4 percent of GDP.

5. **Monetary policy continued to aim at low and stable inflation**. Broad money growth has moderated to 6.9 percent, against a program target of 11.2 percent, due to a larger-than-programmed decline in bank net credit to government.

6. **While credit has grown at a fast pace, the banking sector remains sound.** Credit grew by 29.8 percent year-on-year through end-September, with demand boosted by short-term trade credits and long-term borrowing for investment projects weaker than planned given delays in adopting the budget and appointing a new Prime Minister during the first half of 2012. Work is ongoing on establishing credit bureaus and insurance law has been submitted to the Parliament. Key indicators suggest that the financial sector is relatively liquid and profitable.

7. **The overall balance of payments recorded a surplus in FY2012**. Consequently, gross international reserves rose to US$2.2 billion at end-December 2012 (6 months of imports of goods and services). Both merchandise exports and imports were below targets. Textile exports were negatively affected by the drop of the US demand and imports. At the same time, the current and capital and financial accounts outcome were better than programmed. Since April 2010, the gourde has depreciated gradually against the U.S. dollar by about 8 percent.

8. **Our program remains broadly on track.** We have met all end-June indicative targets and observed all end-September 2012 performance criteria. In the structural area, we have completed two out of the three end-September 2012 benchmarks. The implementation of the third end-September 2012 benchmark related to the implementation of a single auction system in the FX is underway. We have also made progress regarding the two outstanding end-March 2012 structural benchmarks on debt management. The benchmark on strengthening the debt unit with fully operational middle and back offices is underway as it is linked to the passage of the organic law on the reorganization of the Ministry of Economy and Finance. The second benchmark is related to the public debt law. Both draft laws are being reviewed by the Prime Minister's Office and will be submitted to the Parliament by end-March 2013. At the same time, we have continued our efforts in improving public financial management and making headway on improving the business environment.

The government program for 2013

9. **We are facing significant challenges in the period ahead.** Our overriding priority is to create jobs, increase spending linked to poverty reduction and provide housing to the 350,000 people still living in temporary shelters although more than 1 million people have been relocated, particularly in the context of the project 16/6. We must also pursue our efforts to

rebuild the country, maintain macroeconomic stability, while creating the conditions for sustainable (broad-based and inclusive) growth, and build resilience against shocks through appropriate macroeconomic policies and environmental consolidation. Our macroeconomic policies and structural and institutional reform agenda mirror these challenges, as we seek to enhance the country's resilience, particularly to natural disasters, protect long-term growth, reduce unemployment, and raise living standards. A significant shock to global growth is a major risk, which would have consequences for exports, foreign aid, and remittances, although the latter has displayed some resilience in the past. Other risks are higher food and energy prices, heightened political and social tensions that could delay public investment spending and the reform agenda.

10. Medium-term projections remain broadly unchanged compared with earlier estimates. Maturing ongoing agricultural projects, a rebound in public construction investment, and rising exports of textiles and other manufacturing goods assembled in emerging free zones are expected to sustain growth in the medium term supported by improvements in infrastructure and services as well as in the business environment. Domestic revenue collection should continue to improve, while donor support is expected to trend down. Tight control on current spending and appropriate and sustainable levels of capital outlays, and the promotion of innovative public-private partnerships are expected to improve the fiscal position in the medium term. The external account deficit would decline, associated with a gradual winding-down of reconstruction-related imports and improved exports.

11. Our long-term goal is to transform Haiti into an emerging country by 2030. For that purpose, we are committed to undertake appropriate reforms and investments aimed at enabling a business-friendly environment, developing small and medium enterprises and reinforcing the rule of law. To ensure a steady progress toward this long-term goal, a "Presidential Consultative Council for Economic Growth and Investment" has been set up.

A. Macroeconomic Policies

12. The recovery is expected to continue in FY2013. Real GDP growth is projected to reach 6.5 percent in FY2013, on the assumption of a rebound in public investment spending, the continued implementation of several projects to promote exports and tourism,[2] and a rebound in agriculture. Inflation should remain stable, in the mid-single digits. Higher reconstruction-related imports would widen the external account deficit, and reduce gross liquid reserves to 5.5 months of imports.

[2] Renovation and upgrade of the airports in Haiti's two largest cities are almost completed. The 128-room Royal Oasis five star hotel is open and the 106-room Best Western hotels is scheduled to open in FY 2013.

Fiscal policy

13. Within the framework of an expanded fiscal space, fiscal policy will aim at increasing poverty-related and growth-enhancing spending, while building cushions against future shocks. In this context, we will step up efforts to further increase domestic revenue, and improve the composition and the quality of public spending. We are targeting a fiscal deficit of 5.3 percent of GDP, only about 2 billion gourdes higher than the one projected at the time of the fourth ECF review, reflecting higher current spending outlays. The deficit is fully financed with external resources (4.4 percent of GDP) and domestic financing, including issuance of T-bills (0.9 percent of GDP). Given the high reconstruction-related needs, the government has the option of drawing down its deposits and issuing additional T-Bills in the event of a shortfall in domestic revenue, while ensuring medium-term debt sustainability and macroeconomic stability. We will also consider reducing some non-priority current spending or delaying some non-reconstruction-related domestically-financed capital spending.

14. In 2013, we will continue improving our tax-to-GDP ratio. Our revenue target is 14.1 percent of GDP, 1.3 percentage points above the 2012 outcome. The improvement will result from (i) the expected economic rebound; (ii) the full impact of the FY2012 measures (higher excise tax on alcoholic beverages, fees on casinos and house games); and (iii) tighter control on tax exemptions; and (iv) a set of new measures comprising tighter controls, improvements in tax collection made possible by the implementation of the e-declaration, and actions by the customs to strengthen valuation and inspect all imports into the country. In addition, the newly created tax payer unit for medium and large enterprises and unit for NGOs will be instrumental in expanding the taxpayer net, improving compliance, making headway in rationalizing exemptions and ensuring the strict application of those in effect, and strengthening our tax collection network. The appointment of a Secretary of State in charge of tax reform is also a step forward in improving coordination and ensuring a good command of the tax reform plan.

15. We will improve the composition of current public spending. As part of a cautious effort to keep current spending under control, we will offset the increase in the wage bill by limiting spending on goods and services to 3 percent of GDP, and further reducing subsidies to the electricity company to 0.7 percent of GDP, down from 1.5 percent of GDP in FY2012, in order to free resources that will be allocated to fund growth-enhancing projects and poverty-related spending. Lower electricity sector subsidies are anticipated to result from the pursuit of the restructuring plan seeking, with support from the World Bank, IDB and USAID, to improve the financial management of EDH, and reduce technical losses. We have made some progress on the social front through direct budgetary transfers, and we are planning to improve current transfer schemes and safety nets, notably to alleviate the effects of natural disasters on the poor segments of the population. Current spending is projected at 11.3 percent of GDP, against an outcome of 11.9 percent of GDP the year before.

16. We are upgrading the public investment framework to improve capacity and enhance project management, and maximize the impact on growth. In this context, domestically-financed capital spending is projected to increase to 9 percent of GDP, a 2.2 percent of GDP rise in FY2013. More funds will be allocated to social and growth-inducing projects. To boost capital spending efficiency, we will undertake a reform of the investment framework in two phases. The first phase will aim at (i) defining the mandate of the UEPs (Analytical and Programming Units) to include all phases of project management and strengthen them with adequate resources; (ii) enhancing the SYSGEP; (iii) increasing procurement capacity; (iv) clarifying the roles of the government agencies involved in project management; and (v) reforming capital expenditure procedures, in line with the introduction of the Treasury Single Account. The second phase will start in 2014 with the assignment of international experts to UEPs, and the introduction of new disbursement, execution and control procedures. This new framework will be supported by the new mechanism for coordination and harmonization of aid which provides for an alignment of international funds to national development goals and government investment programs, and relies on the national budget as the main vehicle for channeling all aid. As a result, the new investment framework will seek to unify the public investment projects into one coherent program.

Monetary and exchange rate policies

17. Our monetary policy will continue to aim at price stability. Consumer price inflation is expected to be in the 5-6 percent range in FY2013 as the shock from international food prices recedes and domestic food production recovers. Nevertheless, we will remain vigilant against second round effects and take appropriate steps should they materialize. We are also taking steps towards improving liquidity management, strengthening market-based operations and developing macroprudential regulatory mechanisms.

18. We will enhance our monetary framework through additional actions aimed at reducing excess liquidity and lessening dollarization. Measures in this context include developing a domestic T-bill market (the legal and operational market infrastructure is in place and two initial T-bill issuances were successful), securitizing the large government debt to the BRH to boost the T-Bill market, and improving liquidity management. We are also using reserve requirements to control liquidity in the system. On the reduction of dollarization, our agenda aims at establishing a longer positive track record of political and maintaining macroeconomic and financial stability, higher flexibility in the exchange rate, and deepening of domestic financial markets to provide alternative investment opportunities to foreign currency deposits.

19. We will allow greater exchange rate flexibility going forward. Our interventions in the market will continue to aim at smoothing out excess volatility, while not resisting fundamental trends. While on a declining trend over the past two years, our interventions in the FX market are conducted on an ad hoc basis through bilateral active or passive (via a window) transactions, Our main objective is to improve the functioning of the FX market. We are planning to introduce a system of single price foreign exchange auctions; as a first step, we will allow more participants and promote the development of the interbank foreign exchange market.

20. Further improvements in financial intermediation are needed to support the growth agenda. At about 19.1 percent of GDP, commercial banks' credit to the private sector in 2012 was well below the average for LICs. This reflects a broad range of factors, including the fragile security situation, and limited competition between banks. While the banking sector remains relatively sound and profitable, the recent uptrend in credit to the private sector signals the importance for updating financial legislation to improve regulation and supervision. We will establish a committee aimed at closely monitoring systemic risks and financial stability issues through macroprudential surveillance. A new insurance law is expected to contribute to improve business and protect consumers; and creation of credit bureaus will enable increasing lending to SMEs, a goal which is high on our agenda to sustain growth and diversify the economy.

B. Structural Reforms

Revenue administration and tax policy

21. For the medium-term, and with support from the newly-created Unit for the Analysis of Fiscal Policy, we will outline a broader reform of the tax system, including a shift to a VAT system and actions for streamlining tax expenditure. As a result, we are planning to raise the revenue-to-GDP ratio to 15 percent by 2017. Other actions will include improving the coverage for taxpayers; strengthening the efficiency and controls of revenue collection; putting together a more equitable and business-friendly tax system; and moving towards the CARICOM external tariff system.

Public financial management

22. We remain committed to continue improving the management of public finances. The rehabilitation of the budget remains a critical reform and we are taking steps toward strengthening budget formulation, execution, transparency and reporting, and improving internal and external controls. An update of the legal and regulatory framework has been prepared and is expected to be approved by the Government during the coming weeks and then transmitted to Parliament. This legal package includes a new organic law for the MEF that will enable the revamping of the Directorate General of Budget, the creation of a new Directorate General of Treasury and Public Accounting, which will include the Debt Unit, provisions to improve tax and customs administration, and the establishment of a central structure tasked with economic analysis, and oversight of economic developments. In doing so, we are guided by the principle that all public resources and spending are channeled through the budget with a view to preempt extra-budgetary outlays, including for pension and education purposes. Accordingly, we will ensure that the creation of the upcoming joint-venture between the Haitian and Venezuelan governments on public investment does not translate into fiscal risks. A MoU has been signed between the MEF and BRH to lock in the total amount of debt due by the Public Treasury to BRH and the modalities of payment, plus a set of provisions to ensure better cash management in order to fully implement the TSA. Regarding the introduction of a treasury single account, we have completed the first phase that called for closing all identified dormant government accounts in the banking system, training of public accountants, and drafting a manual of procedures. As a next step, we intend to introduce by January 2013 a first pilot of the TSA at the MEF before extending it to a first wave of ministries in June 2013 with adequate capacity for a rapid move. We will then gradually introduce multi-year budgeting and medium term expenditure frameworks as part of an ambitious budgetary reform, while we are taking steps to create Planning (UEP) and Studies units in every ministry. This measure is intended to improve public investment spending efficiency.

Other reforms

23. We remain committed to our reform agenda aimed at improving the business environment. Reforms in this area are crucial to raise productivity and competitiveness and lift constraints on growth. At the core of our agenda is the establishment of public-private partnerships in key areas, like infrastructure, utilities, export industries, and tourism. A special management unit for public-private partnership has been established within the MEF to ensure a steady implementation of those partnerships. In addition to putting in place the institutional framework to attract such investments, the Ministry of Commerce and Industry is also preparing a range of measures to reduce the cost and alleviate the burden of doing business. One of the key objectives is the creation of a "Guichet Unique Electronique" aimed at reducing the process of registration for new firms to a 10-day period through a simplification of procedures.

24. Another key area of action is the energy sector. We will vigorously implement the current plan seeking to stabilize and gradually upgrade the electricity company's technical, commercial and financial functions. We have already strengthened the management team and enhanced the legal and institutional framework. The next step is to adopt a comprehensive plan to enhance production and distribution of electricity to cover the needs of the country. In the interim, we will closely monitor the activities of the independent power producers to rationalize the budgetary transfers and increase access as well as the quality of electricity services through EDH and other supply chains. New investments are planned, including for the rehabilitation of Peligre dam and plant and the construction of a new water electricity plant in the southern region.

25. Strengthening the country's resilience to natural shocks is critical to protect growth and overcome poverty. We will work closely with the World Bank and other international partners to further strengthen our national risk and disaster management system (NRDMS).

Financial sector development

26. We will continue to improve financial intermediation in support of the growth agenda. With the credit-to-GDP ratio remaining low by regional standards, we anticipate credit to the private sector to grow faster than the economy in the coming years. While the banking sector is relatively sound and quite profitable, we will further strengthen its resilience through an update of the financial legislation on regulation and supervision. We are also exploring ways to increase lending to SMEs and to regulate the fast growing microfinance industry. Furthermore, the expected passage by Parliament of an insurance law and the setting up of a regulatory authority will provide the impetus for economic growth, trade and consumption. In relation to the latter, we are taking steps to create a private credit bureau. A continued strengthening of the operations of the Partial Credit Guarantee Fund will at the same time contribute to expand financial intermediation. In this connection, we welcome the selection of the country as a pilot case for enhanced surveillance of financial systems of LICs, as called for by the Executive Board of the IMF. This will help us outline a reform agenda to further develop Haiti's financial sector.

External debt management

27. We will continue our debt management reform agenda in 2013. Action will be taken on both the legal and institutional sides**.** The expected adoption in 2013 by Parliament of the law related to the administrative reorganization of the Ministry of Economy and Finance will open the way for the creation of a Directorate General of Treasury that will have authority over the new debt unit that will take over the authority of the current Directorate of Debt with fully operational middle and back office functions. On the legal side, we have completed the work on the draft public debt law which we intend to submit to Parliament when it reconvenes in January 2013. We will also complete work on a medium-term debt strategy. In the interim, we will continue exercising caution in the use of PetroCaribe resources to limit them to growth-enhancing investment projects and resort only to concessional financing to maintain debt sustainability.

Safeguard assessments and AML/CFT

28. We will continue to implement the recommendations of the January 2010 Safeguards assessment follow-up mission. Work is under way to (i) adopt the IFRS, including the establishment of a special committee to monitor its implementation and (ii) reconstitute the Investment Committee as an independent oversight body and appointing a compliance officer to monitor observation of investment guidelines.

29. We are committed to ensure compliance of our AML/CFT legal framework with FATF standards. We have submitted a revised draft law to Parliament for adoption. This law enhances compliance with the Caribbean Financial Action Task Force (CFATF) standards. We have also made headway in the implementation of critical aspects of the AML/CFT framework, particularly in the context of combating corruption, countering tax evasion, preventing financial sector abuse, and improving identification of citizens. These measures include the publication by the Central Bank of two decisions and guidelines that will establish mechanisms and procedures that are in line with the new law on banks and other financial institutions (passed by Parliament on May 14th, 2012), and help financial institutions (i) properly identify their customers and fund beneficiaries and (ii) prevent money laundering and the financing of terrorism.

Social policies

30. The government is continuing to make progress in strengthening its social policies and protection mechanisms of the vulnerable segments of the population. In the aftermath of recent ad hoc initiatives launched recently in the education and health sectors and in addition to the cash program to help women with children, we are now working on a comprehensive and a coherent institutional framework to protect the most vulnerable segments of the population and combat extreme poverty. This work will benefit from the ongoing social and demographic surveys, including two household surveys, a survey on living standards, a joint demographic and health survey, and a multi-indicator cluster survey. The completion of these surveys is expected for the first quarter of 2013, and this will pave the way for producing a comprehensive strategy by mid-2013. A census, supported by donors, is expected to be launched by IHSI.

Program monitoring

31. Our program will be monitored using the definitions, data sources, and frequency of monitoring set out in the accompanying revised TMU. The government will make available to Fund staff all data appropriately reconciled and on a timely basis, as specified in the TMU. Table 1 shows the quantitative performance criteria for monitoring program execution in 2011/12 and 2012/2013. Structural benchmarks, with corresponding dates and status of implementation are identified in Tables 2a and 2b. Structural conditionality for the remainder of the program, including new dates for the implementation of the four benchmarks outstanding are in Table 2c. It is proposed to reschedule to end-March 2013 (from End-March 2012) the two benchmarks on (i) strengthening the debt unit with fully operational middle and back offices functions; and (ii) submission to Parliament of a public debt law. The sixth review under the ECF arrangement, assessing end-March 2013 performance criteria, is expected to be completed by mid-July 2013.

Table 1. Haiti: Indicative Targets and Quantitative Performance Criteria, September 2011 - September 2013

(In millions of gourdes, unless otherwise indicated)

	Actual stock at end- Sept. 09	Cumulative Flows from September 2009							
		Sept. 2012		Dec. 2012	Dec. 2012	Dec. 2012	Mar. 2013	June 2013	Sept. 2013
		PC	Actual	Indicative target	Indicative targets adjusted for lower budgetary grants in Q1	Actual	PC	Indicative target	Indicative target
I. Quantitative performance criteria									
Net central bank credit to the non-financial public sector - ceiling	21,549	-12,090	-17,864	-13,776	-13,160	-15,823	-13,163	-12,551	-11,938
Central Government [2/]	23,118	-7,742	-13,883	-11,904	-11,289	-11,545	-11,375	-10,846	-10,317
Rest of non-financial public sector	-1,569	-1,954	-3,981	-1,871	-1,871	-4,278	-1,788	-1,704	-1,621
Net domestic assets of the central bank - ceiling [3/]	14,448	-5,383	-24,874	-13,251	-12,635	-13,988	-10,323	-7,395	-4,467
Net international reserves of central bank (in millions of U.S. dollars) - floor	416	563	886	764	749	636	723	682	641
II. Continuous performance criteria									
Domestic arrears accumulation of the central government	0	0	0	0	0	0	0	0	0
New contracting or guaranteeing by the public sector of nonconcessional external or foreign currency debt (In millions of U.S. dollars) [4/]	0	33	33	33	33	33	33	33	33
Up to and including one year	0	0	0	0	0	0	0	0	0
Over one-year maturity	0	33	33	33	33	33	33	33	33
Public sector external arrears accumulation (in millions of U.S. dollars)	0	0	0	0	0	0	0	0	0
III. Indicative targets									
Change in base money - ceiling	31,080	17,128	10,561	17,328	17,328	11,469	18,609	19,890	21,171
Net domestic credit to the central government - ceiling [5/]	19,540	-6,710	-22,532	-22,221	-21,605	-21,552	-21,615	-21,010	-20,404
Poverty reducing expenditures - floor [6/]		24,313	24,506	31,175	31,175	29,777	36,446	41,717	46,988
Memorandum items									
Change in currency in circulation	13,448	7,161	6,784	7,921	7,921	9,646	8,494	9,067	9,640
Net domestic credit to the rest of the non-financial public sector	-1,641	-2,032	-4,254	-1,948	-1,948	-4,157	-1,865	-1,782	-1,698
Government total revenue, excluding grants	29,881	117,269	112,289	127,253	127,253	122,643	139,283	151,969	166,245
Government total expenditure, excluding externally-financed investment	42,096	162,735	155,263	171,677	171,677	171,669	188,152	207,199	226,645

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

1/ For performance under the program prior to September 2011, please see the previous staff report.
2/ Excluding spending of resources freed by IMF PCDR debt relief.
3/ For program monitoring purposes, NDA is defined as monetary base minus program NIR in gourde terms. Program exchange rate of G40.0 per U.S. dollar for the period June 2010 - September 2013.
4/ Excludes guarantees granted to the electricity sector in the form of credit/guarantee letters.
5/This includes central bank, commercial bank, and non-bank financing to the government. It includes net T-bill issuance for government financing.
6/ Poverty reducing expenditures consist of domestically-financed spending in health, education, and agriculture.

Table 2a. Haiti: Status of Implementation of Structural Reform Measures in 2010

Macro-criticality	Objective		Structural Benchmarks	Status
Prior Actions				
Safeguards assessment	Improve reliability of program data		Completion of the audit of foreign reserves to confirm the levels of end-September 2009 and end-September 2010 level of unencumbered reserves.	Completed
End-September 2010				
1-Improve the tracking of poverty-reducing expenditures	Publish regular reports on poverty-reducing spending on the MEF website.	1a	Continue publishing quarterly reports on poverty-reducing expenditures on the MEF website, including domestically-financed health, education and agriculture spending.	Met
2-Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and cash management	Strengthen the transparency of expenditure policy.	2a	Start publishing central government monthly transfers to investment project accounts, project by project, including PetroCaribe projects.	Met with delay
		2b	Start publishing central government monthly transfers by beneficiary entity.	Met
	Improve control of budget execution and fiscal reporting.	2c	Start preparing monthly consolidated Treasury balances (TMU ¶38).	Met with delay
	Improve cash management.	2d	Prepare an inventory of all government and donor accounts at the BRH and BNC (TMU ¶39).	Met with delay
3-Raise government revenue	Strengthen operation of tax and customs administrations.	3a	Prepare quarterly reports with monthly data on the performances of the tax system and the tax administration, including the cost of exemptions and revenue collected in the provinces (TMU ¶40).	Met
	Enhance the transparency of the tax exemption policy.	3b	Start publishing a quarterly report that identifies all fiscal expenditure by beneficiary sectors.	Met
	Introduce a new tax code that would increase revenue and rationalize the tax system.	3c	Set up a working group that would be tasked to prepare a study to simplify the tax system, increase revenue, improve tax productivity, custom and fiscal administration, establish a work program with specific deadlines (TMU ¶37).	Met with delay
4-Improve the monetary policy framework and its effectiveness	Improve timeliness of external audits of the BRH; enforce rotation of external auditors.	4a	Completion and publication of externally audited financial statements for 2008/09.	Met

Table 2b.Haiti: Status of Implementation of Structural Reform Measures in 2011

Macro-criticality	Objective		Structural Benchmarks	Timing	Status
Continued benchmarks			Continue publishing reports listed under 1a, 2a, 2b, 2c, 3a, 3b	End-March 2011	Met
Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and cash management	Improve cash management.	2f	Start preparing and publishing monthly cash plans including PetroCaribe spending and financing needs.	End-March 2011	Met
	Improve the tracking of investment spending and improve ability to make multi-year investment projections.	2g	Start producing quarterly reports with monthly data of investment expenditure based on SYSGEP and publish them on the MEF website.	End-March 2011	Met.
Improve the monetary policy framework and its effectiveness	Enforce rotation of external auditors to audit BRH accounts.		Select an international firm to conduct ISA compliant external audit for the FY 2011 audit, for a period of 3 to 6 years.	End-July 2011	Met with delay
	Strengthen foreign exchange reserves management.		Adoption of a global reserves management policy by the investment committee, covering all foreign exchange reserves.	End-June 2011	Met
Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and cash management	Improve the transparency of government transfers to the energy sector	2h	Identify and consolidate all sources of transfers to EDH in regular monthly reports.	End-June 2011	Met
	Enhance the quality of spending of investment projects, including those financed with PetroCaribe resources and PCDR debt relief.	2i	Launch the bids for the selection and hiring of the international consulting agency that will assist UCP and other project implementation units in the government	End-June 2011	Met.
		2j	Prepare a plan of action / operational manual describing: a. Modalities to recruit staff with project management skills and responsibility for ordering payments for project work orders. b. A defined set of information, project lists and accounts to be regularly published online to ensure full transparency on project execution and planning. c. Clear practices to ensure the coordination between the UCP, the Procurement Commission (CNMP) and the Ministry of External Cooperation and Planning (MPCE), in full compliance with national budget execution rules.	End-September 2011	Met with delay.
Continued benchmarks			Continue publishing reports listed under 1a, 2a, 2b, 2c, 2h, 3a, 3b	End-September 2011	Met

Table 2c. Haiti: Status of Structural Conditionality through end-March 2012 and Proposed Measures Through End-March 2013

Macro-criticality	Objective	Structural Benchmarks	Timing	Status
Debt management	Complete the setting-up of the debt unit at the MEF and build capacity to prepare a medium-term debt strategy.	Strengthen the debt unit with fully operational middle and back office functions; Preparation of annual debt sustainability analyses.	Reprogrammed to End-March 2013 from End-March 2012	In progress
	Strengthen the legal framework for debt management.	Submit to Parliament a public debt law that would establish a sound legal and institutional framework for public debt management.	Reprogrammed to End-March 2013 from End-March 2012	In progress
Tax policy and revenue administration	Increase revenue	Increase the excise tax on cigarettes and alcohol	End-March 2012	Met
	Improve revenue collection	Put in place within the Directorate General of Taxes a unit in charge of medium & large enterprises	End-September 2012	Met
Macro fiscal management	Improve overall macroeconomic management	Put in place the fiscal policy unit within the MEF	End-September 2012	Met
Cash management	Improve cash management and enhance transparency in spending	Close all dormant accounts of the central government at the central bank or commercial banks andestablish the list of accounts used by public entities	End-June2012	Met
Accounting	Improve accounting procedures and enhance transparency	Reduce the number of domestically-funded imprest accounts to three by ministry or institutions (for revenue collection, capital spending, and other transactions) and deploy the network of public accounting offices at the line ministries level and gradually grant signature authority on these accounts to public accountants appointed by the Ministry of Economy and Finance	End-March 2013	In progress
	Enhance accounting for expenditure management	Roll out in all ministries the GL-software and start to record projects and imprest accounts expenditure when they are effectively paid, and no longer when the replenishment of the account is made.	End-March 2013	In progress
Continued benchmark	Improve coordination between fiscal and monetary policy	Start publishing on the BRH website reports 10R, 20R and 610R on a monthly basis	End-March 2012	Met
Exchange rate management	Improve the functioning of foreign exchange market	Establish unconstrained single price foreign exchange auctions	End-September 2012	Not met. The authorities intend to expand and modernize the foreign exchange market, taking into account local market specificities and constraints, before establishing the single price foreign exchange auctions.

ATTACHMENT 2. TECHNICAL MEMORANDUM OF UNDERSTANDING–UPDATE

1. Haiti's performance under the program supported by the Extended Credit Facility (ECF) will be assessed on the basis of the observance of quantitative performance criteria as well as compliance with structural benchmarks. This Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, specification of certain structural benchmarks, and indicative targets for the period September, 2010-September, 2013, specified in Tables 1 and 2 of the Memorandum on Economic and Financial Policies (MEFP). It also lays down the monitoring and reporting requirements.

Institutional Definitions

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

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

4. Total public sector. The total public sector comprises the non-financial public sector and the central bank, the Bank of the Republic of Haiti (BRH).

Quantitative targets

Net BRH Credit to the Non-Financial Public Sector

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

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

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

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

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

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

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

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

A. Net Domestic Financing to the Central Government

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

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

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

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

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

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

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

B. Net International Reserves

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

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

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

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

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

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

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

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

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

C. Net Domestic Assets of the BRH

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

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

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

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

16. The program definition of net domestic assets of the BRH will use a program exchange rate of G 40.0 per U.S. dollar for the period June 2010- March 2013.

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

D. PetroCaribe-Related Funds

18. As of October 2012, the outstanding balance of Petro Caribe funds totaled 334 million dollars held at the BNC state bank.

19. The authorities are planning to channel new PetroCaribe/ALBA-related inflows through a binational Venezuela-Haiti corporation, the creation of which is well advanced.4 Until the statutes of the new societé mixte are published in the "Journal Officiel" (Le Moniteur), PetroCaribe-related inflows will continue to constitute direct external debt of the central government. These resources are under the direct control of the central government, and, for program purposes, will be fully reflected in the fiscal tables underpinning the program. They will be treated as budget support loans, whose proceeds are partly or entirely deposited in government accounts in the banking system (PetroCaribe deposits). Spending from PetroCaribe resources (up to US$400 million in FY 2012), financed with a drawdown of PetroCaribe deposits in the banking system, will also be fully reflected in program tables.

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

E. Non Concessional Public Sector External and Foreign-Currency Denominated Debt

21. The definition of debt comprises all forms of debt, including loans, suppliers' credits, and leases, that constitute current, i.e. not contingent liabilities, which are created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which require the obligor to make one or more payments in the form of assets (including currency) or services, at some point in the future, as set forth in point 9 of IMF Executive Board Decision No. 6230-(79/140), as amended by Executive Board Decision No. 14416-(09/91) of August 31, 2009.

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

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

23. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind).

24. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt.5 The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt, based on the currency specific commercial interest reference rates (CIRRs) as laid out by the Organization for Economic Cooperation and Development (OECD).6 For a debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and hence, its grant element. For debt with maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margin for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than
15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for
30 years or more).

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

26. The ceilings for contracting and guaranteeing of non concessional debt by the total public sector (as defined in paragraph 4) will be set at US$ thirty-three million continuously throughout the program period.

F. Arrears of the Central Government

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

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

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

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

G. Base Money

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

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

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

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

H. Poverty-Reducing Expenditures

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

Quarterly Adjustments

32. The quarterly performance criteria and indicative targets will be adjusted as indicated below:

I. Adjustment for Domestic Arrears Accumulation

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

J. Adjustment for PetroCaribe-related Inflows

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

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

K. Adjustment for Budgetary Cash Grants in Second Half of FY2012

36. The performance criteria ceilings on BRH net credit to the central government, net domestic financing to the government, and on BRH net domestic assets, and the floor on NIR reflect expected budgetary donor grants of the equivalent of G4.7 billion (about $114 million) during FY2012 (USA, $13 million, France $22 million, Spain $22 million, World Bank $27 million, and IDB $25 million). For FY2013, expected budgetary donor grants total $80 million, including IDB $30 million, IDA$20 million, France $13 million, and Spain $7 million. If actual grant inflows are lower (higher) than programmed, these performance criteria ceilings will be adjusted upward (downward), and the performance criterion floor will be adjusted downward (upward), by the amount of the difference between actual and programmed inflows.

37. The adjuster will be calculated on a cumulative basis from October 1, 2009.

Clarification of Structural Conditionality

L. Fiscal Sector

38. As specified in Tables 2a and 2b, the publications of the following items related to benchmarks will continue over the program period: 1a, 2a, 2b, 2c, 3a, 3b, and 2h. Publication should occur on the specified regular basis (i.e. monthly or quarterly), with no gaps or unjustified delays.

39. The structural benchmark on raising government revenue will involve designing and implementing monitorable performance indicators for DGI and AGD (by end-December 2011). These should include detailed information by industry (AGD) and taxpayer segment (DGI) and a set of ratios to verify “tax effort” and efficiency, in line with TA recommendations. The reports should be published monthly on the MEF website.

40. The structural benchmark related to the establishment of a fiscal policy unit within the MEF (end-September 2012) will require the creation of a separate service within the MEF tasked exclusively with analyzing fiscal measures and simulating their impact on budget balances and the economy as a whole. The perimeter of this unit should be clearly delimited within the MEF, by appropriate written communication of the Minister or the Director General (to be shared with the IMF) nominating the officer in charge of the unit, its staffing and its duties.

41. The structural benchmark related to putting in place within the Directorate General of Taxes a unit in charge of medium enterprises (end-September 2012) will require an official act (to be shared with the IMF) setting up a separate unit within the DGI tasked with dealing with medium taxpayers, which will follow and streamline the administrative issues related to this segment of taxpayers. Adequate staffing and office space should be provided to this unit and the act establishing the unit should include the nomination of the person in charge of it and its immediate aides.

42. The structural benchmark related to the closing of dormant accounts and the establishing of a list of all account of used by public entities (end-June 2012) entails compiling a census of accounts both at the Central Bank and in commercial banks, and the creation of a permanent set of rules governing the closing of dormant accounts (both list and set of rules to be shared with the IMF). These would include time lags since last activity, threshold on balances and rules on how the sums should be transferred to the Treasury.

43. The structural benchmark on strengthening the debt unit (end-March 2013) will require permanently providing adequate office space and staffing to such unit; nominating the officer in charge of it and setting up its tasks with an official communication from the Minister or the Director General (to be shared with the IMF); the MEF should, by coordination of its services, produce annual debt sustainability analyses and make them available to the Fund, all MEF services, the BRH and the MPCE.

44. The structural benchmark on submitting a public debt law (end-March 2013) will require transmission to Parliament (and sharing with the IMF) of a draft debt law in line with international standards and with the recommendations of development partners' TA.

45. The new structural benchmark on reducing the number of domestically-funded imprest accounts to three by ministry or institutions (one for revenue collection, one for capital spending, one for other transactions, including current spending) and granting signature power on these accounts to public accountants appointed by the MEF (end-March 2013) will imply the identification of all the accounts as well as the names of the officials currently authorized to sign. On this basis, the authorities will reduce the number of accounts as specified in the benchmark and provide signature power to public accountants designated by the ministry of finance.

46. The new structural benchmark on rolling-out, for all ministries, the GL-software in the offices of the government accountants, and starting to record projects and imprest accounts expenditure when they are effectively paid and not any more when the replenishment of the account is made (end-March 2013) requires providing to all ministries a copy of the software and ensuring it is adequately installed. It also requires a follow up on the recording of expenditure at payment level.

M. Monetary Policy and Financial Sector

47. The benchmark on strengthening exchange rate management will involve the development of an exchange rate management strategy also encompassing reform of the foreign exchange market by end September 2012.

Provision of Information

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

N. Daily

The exchange rate.

O. Weekly

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

Haiti: Net International Reserves BRH, End-December 2012
(In millions of U.S. dollars)

A. Gross Foreign Exchange Reserves	2,185.2
B. Gross Liabilities	275.9
C. Net Foreign Assets (=A-B)	**1,909.3**
D. FX deposits of commercial banks and CAM transfer at the BRH	963.7
E. Project accounts	8.8
F. Special accounts in U.S. dollars and euros	3.1
G. Seized values	0.0
H. SDR allocation (liability)	118.5
J. NIR (=C-D-E-F-G+H)	**1,052.2**

Source: Haitian authorities; and Fund staff estimates.

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

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

P. Monthly

Monthly data

- Table 10 R and Table 20 R with a maximum 30-day lag for final data.
- Tableau on the comptes courants with a maximum 30-day lag for final data.

- “Project Accounts”, by donor, with a maximum 30-day lag for final data

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

- Tableau des Operations Financières de l’Etat (within 20 days after end of month).

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

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

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

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

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

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

Haiti. PetroCaribe Deposits

	September 2009	December 2009	March 2010	June 2010	September 2010	December 2010	March 2011	June 2011	September 2011	December 2011	March 2012	June 2012	September 2012	December 2012
Total deposits in government accounts in the banking system														
Cumulative flows (G mlns)	...	1804.3	1520.7	2309.4	3204.9	3779.8	3975.9	6144.0	5518.1	6145.6	6773.2	7400.7	8028.3	8373.6
in US dollars (US$ mlns)	...	42.4	43.2	62.4	84.3	99.0	102.1	155.6	137.9	153.0	163.3	180.5	193.1	198.7
Stocks (G mlns)	3713.2	5517.5	5233.9	6022.5	6918.1	7493.0	7689.1	9857.2	9231.3	9858.8	10486.4	11113.9	11741.5	12086.8
in US dollars (US$ mlns)	88.9	131.3	132.1	151.3	173.2	187.9	191.0	244.4	226.8	241.9	252.2	269.4	282.0	287.6
Deposits in government accounts at the BRH														
Cumulative flows (G mlns)	...	-90.3	-93.0	-96.1	-96.0	-96.0	-96.0	-96.0	-96.0	-96.0	-96.0	-96.0	-96.0	-96.0
in US dollars (US$ mlns)	...	-2.2	-2.1	-2.2	-2.2	-2.2	-2.2	-2.2	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3
Stocks (G mlns)	171.0	80.7	78.0	74.9	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0
in US dollars (US$mlns)	4.1	1.9	2.0	1.9	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.8
Deposits in government accounts in commercial banks														
Cumulative flows (G mlns)	...	1894.6	1613.7	2405.4	3300.9	3875.8	4071.9	6240.0	5614.1	6241.6	6869.2	7496.7	8124.3	8469.6
in US dollars (US$ mlns)	...	44.6	45.4	64.6	86.5	101.2	104.3	157.8	140.2	155.3	165.6	182.8	195.4	201.0
Stocks (G mlns)	3542.2	5436.8	5155.9	5947.6	6843.1	7418.0	7614.1	9782.1	9156.2	9783.8	10411.3	11038.9	11666.4	12011.8
in US dollars (US$ mlns)	84.8	129.4	130.1	149.4	171.3	186.0	189.1	242.6	224.9	240.1	250.4	267.6	280.2	285.8

Sources: Haitian Authorities and IMF Staff estimates and projections

Q. Quarterly

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

R. Other Information

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

INTERNATIONAL MONETARY FUND

HAITI

February 21, 2013

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION AND FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By | The Western Hemisphere Department (In collaboration with other departments)

CONTENTS

FUND RELATIONS

January 31, 2013

Membership Status: Joined: September 08, 1953; Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	81.90	100.00
Fund holdings of currency (Exchange Rate)	81.83	99.92
Reserve Tranche Position	0.07	0.08

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	78.51	100.00
Holdings	68.83	87.67

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	31.12	38.00

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jul 21, 2010	Jul 20, 2013	40.95	31.12
ECF [1/]	Nov 20, 2006	Jan 29, 2010	180.18	180.18
ECF [1/]	Oct 18, 1996	Oct 17, 1999	91.05	15.18

[1/] Formerly PRGF.

Projected Payments to Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2013	2014	2015	2016	2017
Principal				2.46	4.26
Charges/Interest	0.01	0.01	0.09	0.08	0.08
Total	0.01	0.01	0.09	2.54	4.33

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

Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Nov 2006
Assistance committed	
by all creditors (US$ Million) [1/]	140.30
Of which: IMF assistance (US$ million)	3.12
(SDR equivalent in millions)	2.10
Completion point date	Jun 2009
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	2.10
Interim assistance	0.29

Completion point balance	1.81
Additional disbursement of interest income [2/]	0.23
Total disbursements	2.34

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

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

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

Implementation of Post-Catastrophe Debt Relief (PCDR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
Jan 12, 2010	Jul 21, 2010	178.13	178.13

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Exchange Arrangement

Haiti's de jure exchange rate arrangement is floating. It was previously classified as "managed float" in the old classification system through end-April 2008, at which the new classification system became effective placing Haiti in the "floating" category. Prior to the earthquake, the gourde was on a depreciating trend against the US dollar and remained within a narrow band since April 1, 2008. Consequently, from April 1, 2008 to January 10, 2010, the de facto IMF classification has been retrospectively reclassified to a crawl-like arrangement, effective April 1, 2008. During the period after the earthquake, it was changed to "other managed" for a few months but then reclassified back to "crawl-like" again.

The change from a fixed to managed floating regime took place in January 1990. Haiti's exchange system is free of restrictions on the making of payments and transfers for current international transactions. Since September 1991, all transactions have taken place at the free (interbank) market rate.

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.

Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on July 21, 2010. Haiti is on a 24-month cycle. The political crisis triggered by the resignation of the prime minister in late February 2012 delayed the 2012 Article IV consultation.

Technical Assistance

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

Department	Dates	Purpose
FAD		
	October 2012	Macro-fiscal component (2/5)
	October 2012	Tax policy administration
	October 2012	Public accounting (3/4)
	September 2012	Revenue administration
	September 2012	Tax policy administration
	September 2012	Extension accounting resident advisor
	July 2012	Seminar on cash management
	July 2012	Improve cash and treasury management (5/8)
	July 2012	Macro-fiscal component (1/2)
	July 2012	Public accounting (2/4)
	July 2012	Tax policy administration
	May 2012	Public accounting (1/4)
	May 2012	Improve cash and treasury management
	April 2012	Tax administration organization – tax collection
	March 2012	Macro-fiscal framework (3/3)
	March 2012	Public accounting (2/5)
	March 2012	Public financial management
	March 2012	Improve cash and treasury management
	March 2012	Public accounting (1/5)
	January 2012	Macro-fiscal framework (1/3)
	January 2012	Macro-fiscal framework (4/5)
	January 2012	Tax policy administration
	January 2012	General tax policy
	October 2011	Seminar on public accounting
	October 2011	Macro-fiscal framework
	September 2011	Accounting resident advisor
	June 2011	Macro-fiscal framework
	May 2011	Macro-fiscal framework
	February 2011	Cash management and government accounting
	January 2011	Macro-fiscal framework
	October 2010	Macro-fiscal unit development
	July 2010	Tax policy aspects of recovery
	June 2010	Macro-fiscal unit development
	June 2010	Tax and customs administration

CARTAC		
	November 2010	Improving macro-fiscal framework
MCM		
	October 2012	Foreign exchange auction
	July 2011	Strengthening debt management
	June 2011	Modeling monetary transmission
	April 2011	Foreign exchange auction
STA		
	March 2011	National accounts
	February 2011	Monetary and Financial Statistics
LEG		
	June 2012	Fiscal law (review of fiscal procedure code)

Resident Representative

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

Haiti: Table of Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Jan. 11, 2013	Jan. 12, 2013	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec. 12, 2012	Dec. 20, 2012	M	M	M
Reserve/Base Money	Jan. 13, 2013	Feb 4, 2013	W	W	W
Broad Money	Oct, 2012	Dec 20, 2012	M	M	M
Central Bank Balance Sheet	Dec. 12, 2012	Dec. 20, 2012	M	M	M
Consolidated Balance Sheet of the Banking System	Dec. 12, 2012	Dec. 20, 2012	M	M	M
Interest Rates[2]	Dec 31, 2012	Jan. 7, 2013	W	W	W
Consumer Price Index	Oct. 2012	Nov. 20, 2012	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Dec. 2012	Jan. 15, 2013	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Dec. 2012	Jan. 15, 2013	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2012	Jan. 15, 2013	M	M	M
External Current Account Balance	2012	Nov. 28, 2012	Q	Q	Q
Exports and Imports of Goods and Services	2012	Nov. 28, 2012	Q	Q	Q
GDP/GNP	2012	Dec. 30, 2012	A	A	A
Gross External Debt	2012	Nov. 28, 2012	A	A	NA
International Investment Position[6]	2011	Mar. 31, 2012	A	A	A

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[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] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of October 2012)

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.

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 2010-2020 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, transport, water and sanitation, energy, agriculture, and private sector development. These are areas where the Bank has a track record in project design and implementation, established teams in the field and headquarters and where it can contribute greatest value-added and have solid relationships with relevant executing agencies.

Since the earthquake, the Bank has approved 22 operations totaling US$650 million as follows: US$30 million for temporary housing, US$15 million for emergency report to the cholera outbreak, $112 million in budget support, US$42 million for investments in the agriculture sector, US$15 million for water and sanitation for Port-au-Prince, US$31 million for private sector development, US$34 million for investment in the energy sector, US$105 million for the infrastructure of the Caracol Industrial Park, US$162 million for transport infrastructure, US$100 million for education, and US$3 million for an e-government platform.

The close collaboration of the Bank's enhanced field presence with Haitian executing agencies has improved absorptive capacity. In 2009 disbursements reached US$127 million. In 2010, despite the impact of the earthquake, disbursements reached a Bank record for Haiti of US$177 million, a level maintained in 2011 with US$175 million.

Portfolio Indicators

As of October 2012 the IDB's active portfolio consisted of 34 investment projects for a total of US$1.05 billion, of which 55% has already disbursed.

The IDB has a comprehensive program in key strategic sectors, such as transport (US$352 million or 34% of the portfolio), agriculture (US$181 million or 17%) water and sanitation (US$103 million or 10% of the portfolio), education (US$100 million or 10%), and private sector development (US$136 million or 13%).

The Technical Cooperation (TC) portfolio has been an important complement to the Bank's operational program. As of October 2012, the TC program consists of 52 operations totaling US$29 million.

Main Portfolio Indicators

	Projects	Bank-Administered Funds	Technical Cooperations
Number of Operations	34	22	52
Approved Amount	1,048	282	29
Available Balance	468	143	11

The IDB administers a total of US$282 million from other donors. This figure includes over US$126 million from CIDA for projects in transport and education, US$70 million from the Spanish Water Fund for water and sanitation and cholera containment, and nearly US$18 million in soft loans from OFID for projects in the transport and water and sanitation sectors.

RELATIONS WITH THE WORLD BANK GROUP

(As of December 2012)

The World Bank and the IFC have jointly prepared a FY2013-2014 Interim Strategy Note (ISN) aligned with Government priorities, as expressed in the 2010 Action Plan for National Recovery and Development of Haiti and the Government Program approved by Parliament in May 2012. The ISN was discussed by the Bank's Board on September 27, 2012. The strategy has four main pillars: (i) reducing vulnerability and increasing resilience; (ii) sustainable reconstruction; (iii) building human capital; and (iv) promoting inclusive growth. The strategy also aims to strengthen governance and government capacity. The resources and activities to be implemented in the context of the Interim Strategy support Haiti's transition from the immediate recovery following the 2010 earthquake to longer-term reconstruction and development.

Since 2010 the WBG has committed $378m million for Haiti under various projects and programs financed by the International Development Association (IDA) and more than $148 million from trust funds (including $90 million from the Haiti Reconstruction Fund, $22 million from the Education for All Fast-Track Initiative Catalytic Fund, and $10 million from the Global Agriculture and Food Security Program, to name the largest). In July 2011, IDA provided a special allocation of $500 million from its Crisis Response Window to Haiti for the FY2012-2014 period, $295 million of which has been made available to the Government of Haiti to date. All IDA and trust fund assistance has been provided to Haiti in grant form since 2005.

The World Bank portfolio consists of 15 active projects, with substantial investments in infrastructure, disaster risk management (DRM), education, energy, housing, community-driven development (CDD), and agriculture. In FY2013-2014 new IDA projects are envisioned to support regional development, invest in health service delivery and systems, and provide budget support in the framework of the IMF program. The World Bank collaborates with the IFC in Energy, Finance, and to develop Integrated Economic Zones for the facilitation of private sector investment. Further joint activities are planned in DRM, Mining, and Private Sector Development. The World Bank works closely with major donors including Canada, the United States, France, Spain, Brazil, the EU and IDB in many areas, including Public Sector Management, Education, Energy, Housing and Health.

Close collaboration with the IMF is critical to the World Bank Group's objective to help strengthen Haiti's public financial management systems, enhance public spending oversight, and improve the financial viability of the electricity sector, including the reduction of public transfers over time. These objectives are supported by IDA financial resources. End September 2012, the World Bank's Board of Executive Directors approved: (i) a $90 million Rebuilding Energy Infrastructure and Access project; and (ii) $35 million Additional Financing operation for the Infrastructure and Institutions Emergency Recovery project, aimed at strengthening public sector management, while continuing to support debris management, the rehabilitation of roads and the installation of aviation safety equipment. In late FY13 the Board of Directors is expected to consider a $20 million Development Policy Operation. This is expected to be co-financed by contributions from Spain and France to the Haiti

Reconstruction Fund in the amount of US$20 million, and aims to strengthen economic governance, the public procurement framework, and underpin reconstruction and growth.

In addition, since 2010, the Bank has provided technical assistance to improve accounting and auditing practices, nutritional security, and social safety nets, including support for the first comprehensive household income and expenditure survey since 2001. Over the FY2013-2014 period, the Bank will provide technical assistance on governance, poverty measurement, energy, gender, trade, insurance, education, social protection, and social safeguards.

With a committed portfolio of $55million to date, IFC has supported and made possible some of the flagship private sector investments of the last decade in Haiti, financing first-time access to mobile telephony in the country (DIGICEL), investing in the local financial sector (SOGEBANK) and financing E-Power, the first Independent Power Producer with an internationally tendered Purchase Power Agreement in Haiti. IFC has also helped the Government structure the partial privatization of the national telecom operator, which led to the largest private investment in the country, a US$100m investment over 3 years by Vietnamese company VIETTEL.

Since the earthquake, IFC has supported key job-creation activities in the garment (CODEVI, 6,500 workers today), mining (EURASIAN), hospitality (OASIS Hotel), and financial sectors (Capital Bank Trade Line). Recent catalytic investments include Private Equity (LEOPARD Capital) and Clean Water distribution (DLO Haiti). IFC has also significantly stepped-up its advisory effort in critical areas such as investment climate, access to finance, and access to skills.

STATISTICAL ISSUES

As of December 27, 2012	
I. Assessment of Data Adequacy for Surveillance	
General: Data provision has serious shortcomings that severely hamper surveillance. Most affected areas are: national accounts, fiscal data, and external sector statistics.	
National Accounts: Notwithstanding improvement in recent years, weaknesses remain in the quality of data. The Haitian statistical system was severely affected by the January 2010 earthquake and is still suffering from the aftermath of the earthquake with limited administrative capacity. As a result, limited progress has been made by the authorities in implementing the recommendations of the 2009 IMF-CARTAC mission. In particular, the rebasing of the national accounts—initially expected to be accomplished during 2011 as recommended by the 2009 mission–has been postponed. Constant price GDP data are, therefore, still being published using a base year of 1986/87, which does not reflect adequately the structural economic changes resulted from the various civil conflicts and natural disasters Haiti has experienced over the recent decades and thus introduced major uncertainty in policy analysis. Equally problematic are estimates of the informal sector (growing sector in Haiti). Also, the production of quarterly GDP data would be highly desirable for program monitoring purposes.	
Prices and Labor Statistics: CPI is compiled by the Haitian Institute of statistics on information which is based on the 2000 household survey structure, and using 2004 as the reference year. The index follows a Laspeyres methodology and comprises 287 products. No labor statistics are disseminated.	
Government Finance Statistics: Staff receives data from the Ministry of Finance in the format of a monthly "Table of Government Financial Operations" (TOFE) for program monitoring and surveillance. The national presentation of the data suffers from weaknesses, including limited coverage, high aggregation, misclassifications, and the non-reporting of major categories such as net lending, financing and debt. There is a need to improve the timeliness of publication of accounts of public enterprises, as well as of the accounts of the nonfinancial public sector. The reporting of budgetary expenditures, especially on the ministerial discretionary accounts should be improved to increase transparency.	
Monetary and Financial Statistics: Continuous work on monetary statistics has helped to improve the sectorization and classification of accounts in the analytical balance sheets of the Bank of the Republic of Haiti (BRH) and commercial banks. However, there is a need to both expand institutional coverage of MFS to include credit and saving unions into the depository corporations' survey, and improve the timeliness of the reported data to the Fund.	
External sector statistics: The compilation system suffers from deficiencies with the scope, source data, and timeliness of essential data. In addition, large errors and omissions over the recent periods suggest insufficient coverage of current and financial accounts transactions. Special attention should be given to customs data coverage as well as the coverage and classification of the large post-earthquake private inflows, including NGOs and official humanitarian aid. A staff of the Central Bank of Haiti attended the 2012 balance of payments statistics course in Washington.	
II. Data Standards and Quality	
Participant in the Fund's General Data Dissemination System (GDDS).	Participant in the Fund's General Data Dissemination System (GDDS).
III. 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 Yearbook* (*GFSY*) respectively. Haiti reports annual IIP and quarterly balance of payments data to STA. Currently, 2010 IIP data and Q3 2011 balance of payments data are disseminated in the *IFS*.	

HAITI

2012 ARTICLE IV CONSULTATION AND FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY–FINANCIAL SECTOR REVIEW

February 21, 2013

DEEPENING FINANCIAL SYSTEM IN HAITI FOR INCLUSIVE GROWTH

Prepared by | The Western Hemisphere Department (IMF) and the World Bank

Haiti has been selected to be one of the pilot cases for enhanced surveillance of financial systems, called for by the International Monetary Fund's (IMF) Executive Board in May 2012. *The Board stressed the need to widen the scope of financial sector surveillance in low-income countries (LICs) in Article IV consultations to better account for the interplay between financial deepening, macro-stability and the effectiveness of monetary policy, in line with the recommendation of the 2011 Triennial Surveillance Review.*

Haiti has a small financial sector with banks playing a dominant role, being highly concentrated. *Microfinance institutions (MFIs) and Financial Cooperatives (FCs) are growing fast and are key players in providing financial services to the lower to mid-income segment of the population, particularly in rural areas. The insurance industry is relatively small with penetration well below regional average. A deeper financial sector will be critical for a broad-based and inclusive growth*

This study has been undertaken as part of the 2012 Article IV consultation with Haiti.[1] *Following up on the last Financial Sector Assessment Program (FSAP) conducted in 2008, the current review presents a description of Haiti's financial system, assesses its soundness and vulnerabilities, and identifies some impediments to financial deepening. The note covers banks, financial cooperatives, microfinance institutions, insurance, housing and remittances. Other issues, such as consumer protection, financial literacy, as well as leasing, factoring and agricultural finance are topics for further research. The review lays the ground for an FSAP to be conducted, specifically with the need to look in depth into implementation of the recent reforms in the financial sector.*

The results of the study are limited by data availability*, particularly on financial cooperatives and microfinance institutions, insurance, and remittances, improving which is a prerequisite for the formulation of appropriate policies to consolidate and deepen the financial sector.*

[1] Prepared by Boileau Loko, Olga Sulla, Alain Brousseau, Nolvia Saca Saca (IMF), Juan Buchenau, Caroline Cerruti, Jane C. Hwang, and Karina Baba (World Bank). The authorities welcomed the review of the financial sector and the discussion of the issues in this report.

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Selected Abbreviations

ECF	Extended Credit Facility
FC	Financial Cooperative
FSAP	Financial Sector Assessment Program
IMF	International Monetary Fund
KNFP	Konsèy Nasyonal Finansman Popilè
LIC	Low-Income Country
MFI	Microfinance Institution
MSME	Micro, Small, and Medium-Size Enterprise
NPL	Nonperforming Loan
ROE	Rate of return

OVERVIEW OF THE FINANCIAL SYSTEM

1. **Haiti has a small financial sector with banks playing a dominant role.** The sector consists of commercial banks, credit unions, financial cooperatives (FCs), microfinance institutions (MFIs); and other nonbank financial institutions (insurance companies, pension funds) (Table 3). Banks dominate the financial sector in Haiti in terms of assets and volume of loans and deposits, but play a more limited role in financial inclusion. According to the WB Global Financial Inclusion Database (FINDEX) survey,[2] 22 percent of the persons over 15 years of age interviewed in Haiti's in 2011 had a deposit account with a formal financial institution. This level is comparable to the survey results of level of LIC countries, but about half of the level reached by the average Latin American country. About 8 percent of respondents to the FINDEX survey reported having a loan with a financial institution.

2. **Haiti's banking system is relatively concentrated and lacks competition.** The banking system includes nine banks, two public, five domestic private banks, and two foreign banks. Three banks control more than 80 percent of total assets as well as of total deposits. Most banks lend to less than three thousand clients, reflecting weaknesses in the legal framework, and a weak collateral system, with difficulty in obtaining land titles (Table 5). This reflects also the structure of the economy characterized by a few large well-known firms and a multitude of smaller firms, many of which operate in the informal sector, whose financial information is harder to obtain and credit risk harder to assess.

3. **Foreign banks play a very limited role In Haiti.** Their share of total lending was 7.3 percent in September 2012, much lower than the 50 percent market share generally observed in emerging markets and developing countries.[3] In comparison, in the ECCU, foreign banks provide about 60 percent of all loans to the private sector. Foreign banks in Haiti tend to be niche players, and have few spillovers to the development and efficiency of the domestic banking system, suggesting some threshold effect.[4]

4. **Microfinance institutions (MFIs) and Financial Cooperatives (FCs) are growing fast and are important players in providing financial services to the lower to mid-income segment of the population, particularly in rural areas.** These institutions are playing a key role in increasing financial inclusiveness in the country; they already serve a similar number of depositors as the banks, and provide loans to a much larger share of the population. Information about customers, as well as about the supply and demand of financial services to the lower to mid income segments is fragmented and scarce.

[2] See: http://datatopics.worldbank.org/financialinclusion/country/haiti.

[3] WP/12/10.

[4] Claessens and Lee, 2003.

Box 1. Haiti: Macroeconomic Challenges of a Shallow Financial System[1]

The transmission mechanism of monetary policy usually operates through four channels:

- The interest rate channel: through the impact on liquidity conditions and real interest rates.
- The assets channel: through the effect on stock market values and asset prices.
- The exchange rate channel: works through the impact of monetary developments on the exchange rate and aggregate demand and supply.
- The credit or banking lending channel: through the response of credit aggregates and lending rates to change in policy instruments

These four channels have been undermined in Haiti because of the country's low level of financial intermediation, the absence of both a stock market and a secondary market for government securities, high dollarization and limited flexibility in the exchange rate, and structural excess liquidity in the banking system.

The shallow domestic debt markets can constrain fiscal policy through several channels:

- *Increasing uncertainties and costs of funds.* Countries with shallow government securities markets are more vulnerable to changes in the availability of foreign financing and donor flows, which in turn makes formulation of government budget and financing more uncertain, particularly for long-run public investment projects. This is particularly costly for Haiti, given the need for infrastructure investment in energy, water, transportation. Also, the absence of a secondary market may increase government debt servicing costs and result in a higher liquidity premium for government securities.
- *Limiting scope for counter-cyclical fiscal policy.* Haiti, like other countries in the Caribbean, is highly vulnerable to external shocks and frequent natural disasters. Hence, counter-cyclical fiscal policy and the government's ability to finance large deficits in response to external shocks and/or natural disasters are very important. However, theoretical and empirical studies suggest that countries with shallow financial systems such as Haiti tend to have pro-cyclical fiscal policies. Calderon and Schmidt-Hebbel (2008), using a large sample of developed and developing countries, found that poor institutions or lack of access to international and domestic credit markets hinder the conduct of countercyclical fiscal policies.

  The lack of financial depth constrains fiscal policy in a way that can overturn standard Keynesian fiscal policy prescriptions. When a country faces quantitative financial constraints on its borrowing, higher government spending may crowd out private investment.

[1]This Box was prepared by Nolvia Saca Saca, Monetary and Capital Markets Department.

5. The insurance industry is relatively small and plays a very limited role. Until very recently, the insurance sector was largely unregulated and unsupervised and, therefore, financial information is not reported to the supervisor, making it difficult to assess its size and growth. The insurance sector currently comprises nine non-life insurers and two life insurers. Property and casualty policies are the most prevalent in the market, and life insurance products are very limited.

6. Overall, the financial system plays an increasing but limited role in supporting much needed economic growth. This reflects a broad range of development challenges, including significant weaknesses in the legal and institutional frameworks, the fragile security situation, and limited competition between banks, poor governance, and the absence of a functioning credit registry. The result has been a relatively low level of credit compared to other low and middle income countries and limited access to credit. The 2012-13 World Economic Forum report ranks Haiti's financial market development 141 out of 144 countries.

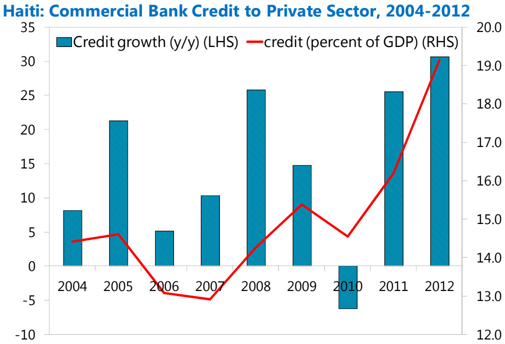
7. A deeper financial sector will be critical to sustain broad-based and inclusive growth and build a better Haiti. Sustainable credit growth and subsequent financial sector deepening increase long-term economic growth.[5] The transmission channels include improvement in the allocation of capital, better risk sharing, pooling of savings and raising the efficiency of financial intermediation. By easing financial constraints, increased bank lending can contribute to higher investment and consumption and ultimately a higher standard of living (Box 1).

BANKING SECTOR

A. Economic Relevance and Recent Trends

8. Banks are making an increasing contribution to Haiti's economic development, albeit starting from a low base. After dropping by 12 percent between December 2009 and April 2010 (because of the January 2010 earthquake), commercial banks' credit to the private sector rebounded strongly by more than 25 percent both in 2011 and 2012, among the highest growth rates in the Latin America and Caribbean region. This pace of growth, well above the real growth of the economy and inflation rate, reflects predominantly the impact of the reconstruction, large current transfers, and the increased liquidity in the banking system, as well as several measures, including the establishment of a partial guarantee fund. However, private sector credit to GDP remains well below the level in LICs.

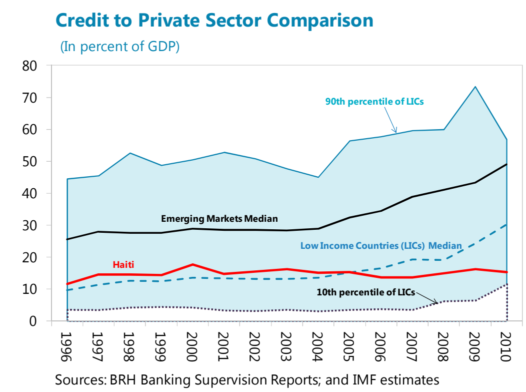
Haiti: Commercial Bank Credit to Private Sector, 2004-2012



Sources: BRH Table 20R; and IMF estimates

[5] "Finance for Growth: Policy Choices in a Volatile World," 2001, World Bank Policy Research Report.

9. Obstacles inherent to the business climate, in particular the lack of protection of creditors' rights, tend to reinforce banks' reluctance to take risks and increase lending. Banks' involvement in financing the economy is also constrained by delays in creating or operationalizing the necessary information databases, such as a credit bureau, a centralized registry of bad debts, and a central registry of corporate balance sheets. Other factors that hamper financial intermediation include the limited scope of mechanisms for guaranteeing collateral and delays in developing electronic financial services.



10. Removal of the impediments to the banking sector development is urgent to meet Haiti's large infrastructure and other development needs. On the demand side, the scale of infrastructure investment needed in Haiti is very significant. There is growing demand to replace or expand roads, ports, airports, electrical grids, and telecommunication networks, as well as housing, schools, hospitals, water supply, and sanitation. On the supply side, there is room for further increase in credit to the private sector. Credit to the private sector represents less than 50 percent of deposits and available liquidity in the banking system. With liquidity historically very high, especially excess reserves in the banking system, a key constraint to access to finance appears to be poor banking intermediation.

11. Nevertheless, a deeper banking system, while essential, could also pose a number of challenges for the economy. Boosting credit growth may entail risks that can be grouped into two categories: (i) the emergence or worsening of macroeconomic imbalances (macro risk); and (ii) risks to financial sector stability owing to deteriorating bank asset quality (credit risk). A rapid expansion of bank credit to the private sector affect macro stability by stimulating aggregate demand compared to potential output and by creating overheating pressures, as bank lending fuels consumption and import demand. In addition, during periods of rapid credit growth, risk assessment may also suffer due to the vast amount of new loans extended. Lending booms can facilitate "ever-greening", when new loans are used to service existing debt. At the same time, banks may neglect to further diversify their loan portfolios in an environment in which they can service existing clients. And finally, the perceived risk of loans may be underestimated during lending booms because the risk assessments are based on the current strong economy and rising values of underlying collateral.[6] Thus, any expansion in credit should be monitored closely to limit risks to the macroeconomic situation and financial system.

[6] Hoelscher, David S., and Marc Quintyn, 2003, "Managing Systemic Banking Crisis," IMF Occasional Paper 224 (Washington: International Monetary Fund).

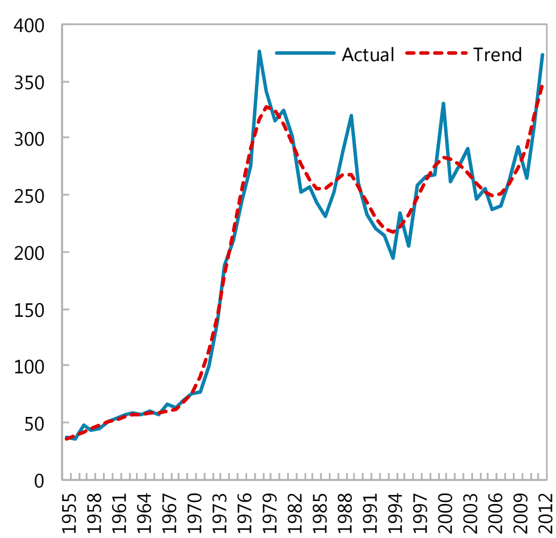
Box 2. Haiti: Credit Growth: Excessive or "Catching up?"

The ongoing rapid credit growth in Haiti reflects a mix of supply-and demand-side factors. On the supply side, domestic liquidity boosted banks' ability to fund loans while continued macroeconomic stability over recent years contributed to improve confidence and encourage a sharp increase in local currency loans. Econometric analysis aims at identifying whether there is an indication of excess credit growth in Haiti. We apply the methodology most widely used in the literature to identify a credit boom, namely examining deviations of credit-to-GDP from its statistically measured long-term trend.

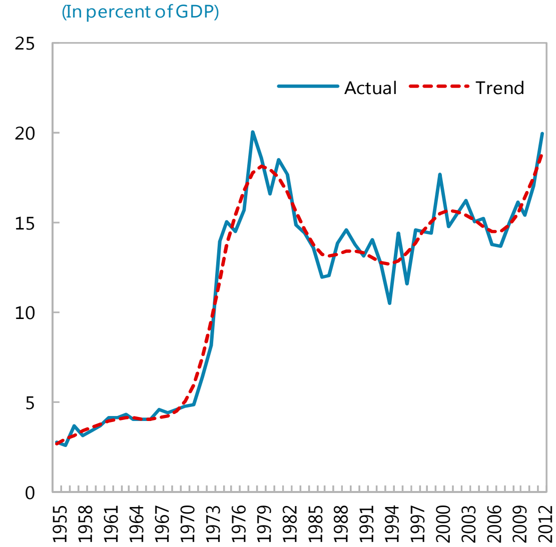
The long-term trend of credit in Haiti is identified by applying an HP filter on the level of credit-to-GDP and real credit. Once the trend is determined, the actual level of each series is compared to the trend and a "deviation" is derived. Next, this "deviation" is compared to a threshold of 1.5 standard errors of the "deviation", which covers 90 percent of the credit cycle episodes. A credit boom is then identified when the "deviation" is above the threshold. Our sample covers the data from 1955 to 2012 on an annual basis.

The results of the application of the long-term trend approach show that credit-to-GDP and real credit exhibit slight positive "deviation" of the actual series from their long-term trends starting in 2011 and are slightly above the thresholds in 2012. While the deviations are minor to date, they signal the possibility that credit growth could be becoming excessive. Although these results should be treated with caution given the limitations of the HP filter methodology, rapid credit growth in Haiti requires heightened attention to the credit market developments and financial indicators on the side of the policy makers.

Real Credit to Private Sector
(In millions of gourdes, constant terms of 2005)



Credit to Private Sector
(In percent of GDP)



B. Banking Sector Regulation and Supervision

12. A number of important improvements have taken place in the legal and regulatory environment in Haiti. The Haitian supervisory framework is based on the core principles of Basel I. The CAMEL (Capital, Asset, Management, Earning, and Liquidity) approach has been used to analyze and monitor the risk profile of the supervised institutions. The supervisory works are conducted through an on and off-site unit. The latter ensures that the banks are in compliance with the applicable rules and prudential norms analyzing on a regular basis the regulatory reports submitted by the banks and discussing relevant issues with their key personnel. The on-site unit performs a more detailed annual analysis of the financial information, management and compliance of the banks.

13. A new law on banking and other financial institutions was enacted in May 2012. The law makes provision for the Central Bank to regulate and supervise five new categories of financial institutions: investment corporations; factoring institutions; credit card companies; fiduciary institutions and development financial institutions. An ad hoc committee has been put in place to adapt the currently applicable prudential norms to the provisions of the new law and to put in place required rules and regulations for the newly regulated financial institutions. The new law has reinforced the power of the Central Bank to deal with problem banks by allowing direct intervention in case of a potential crisis or a bank run. The law also gives better protection to the bank supervisors while performing their duties. In addition, according to the new law foreign banks can no longer operate through their branches but through subsidiaries and must adopt the same fiscal year as local banks.

14. New circulars pertaining to money laundering were enacted by the Central Bank in June 2012. They require the banks to put in place prevention and compliance programs for anti-money laundering. These circulars are mainly inspired by the 40+9 recommendations of FATF and particularly take into account the recommendations of 2008 World Bank AML Evaluations of Haiti.

15. Leasing sector development has become of the areas of focus of the financial regulators. The Central Bank has been recently working with other authorities to create a legal and regulatory framework that can back up a strong leasing sector in Haiti in order to increase access to finance for SMEs considered to be the backbone of the Haitian economy.

16. Regulations on credit concentration have been significantly improved. Three limits have been placed on the loan portfolio of the banking system: (i) a maximum ratio of 10% is applied individually to loans granted to connected parties with regard to regulatory capital**;** (ii) a maximum ratio of 20% is applied to loans granted to each related party but not connected to the bank; (iii) a maximum ratio of 25 % of total banking loan portfolio is applied to loans granted to each sector.

C. Strengths and Vulnerabilities of the Banking System

17. Reported banking soundness indicators are currently favorable and banks' profitability remains high (Table 4)**.** The banking sector has strengthened its capital base. Banks had an average capital adequacy ratio of 16.8 percent at end September 2012, above the regulatory minimum (12 percent). Non-performing loans have been declining markedly. They reached 2.4 percent at end September 2012, while provisioning for NPLs increased to about 97 percent. Profitability of the banks remains high, with an average ROE of 22 percent. This level is more than double that of the largest 100 European banks and about 8 percentage points higher than the ECCU banking system.

Haiti: Financial Soundness Indicators of Individual Banks, September 2010 - September 2012
(In percent; unless otherwise stated)

	Sep-10	Sep-11	Mar-12	Jun-12	Sep-12
Capital adequacy					
Regulatory capital to risk-weighted assets	13.4	16.5	16.7	16.7	16.8
Asset quality and composition					
NPLs to gross loans	5.7	3.7	3.6	3.2	2.4
Provisions to gross NPLs	84.1	93.1	83.3	88.8	96.7
Earnings and profitability (cumulative since beginning of fiscal year)					
Return on Assets (ROA)	1.2	1.4	1.4	1.3	1.5
Return on equity (ROE)	18.4	22.2	22.2	21.7	21.9
Dollarization					
Foreign currency loans to total loans (net)	60.1	55.7	53.8	28.4	51.7
Foreign currency deposits to total deposits	44.1	62.3	63.9	64.5	62.9
Foreign currency loans to foreign currency deposits	31.3	32.6	34.6	35.7	37.3

Sources: BRH Banking System Financial Summary and Tables 10R and 20R; and IMF estimates

[1/] Defined as the difference between average lending rate and average fixed deposit rate in the banking system.

18. Vulnerabilities remain. They are particularly related to the concentrated lending portfolios, high financial dollarization, and in some cases relatively underdeveloped credit risk management practices and weak governance.

19. Credit growth has been rapid across all the sectors, however, credit remains concentrated in large businesses mostly involved in commercial activities. Overall, 25 percent of all credit goes to trade, followed by industry at 16 percent, and real estate at 14 percent. Few loans have been granted to the agricultural sector, although it represents a quarter of the economy. The banking system lends only to a few large and well-established firms and lending to SMEs is limited.

Haiti: Credit Sectoral Allocation, September 2008-September 2012
(in percentage)

	2008	2009	2010	2011	2012
Trade	28.6	27.1	24.6	27.4	24.7
Industries	15.3	16.7	16.2	15.7	16.0
Real estate	12.6	13.7	13.5	14.7	14.8
Services	18.0	17.1	18.1	14.9	13.3
Consumption	9.9	11.7	12.2	11.0	10.5
Telecommunications	2.2	1.8	1.7	3.9	4.0
Other	13.4	11.9	13.7	12.5	16.6

Source: BRH Risques Par Secteur D'activité

20. While declining, the share of credit in dollars remains high. The ratio of credit in dollars to total credit rose from 12 percent in 1996 to 57 percent in 2008. Despite a gradual reduction as the macroeconomy improved credit in dollars remains among the highest in Latin America, at 42 percent in 2012. The decline in dollar credit has been compensated by a strong rebound in gourde-denominated credit. Between 2008 and 2012, credit in dollars has increased by 22 percent while credit in local currency has more than doubled (up by 124 percent), reflecting continued macroeconomic stability and recent decisions by the Central Bank to eliminate the requirement to keep in gourdes 30 percent of the reserves for dollar deposits. However, liquidity and exchange rate risks related to the high financial dollarization appear manageable in the near-term. Current prudential regulations prevent banks' net open foreign exchange position from exceeding 2 percent of equity, and the three systemic banks in Haiti have more assets than liabilities in foreign currency. However, banks' potential exposures to indirect credit risk may require closer oversight, although anecdotal evidence suggests that commercial banks in Haiti tend to grant dollar loans mainly to larger commercial entities that derive most of their income in US dollars.

Box 3. Haiti: SME Financing

Resources potentially available for credit to SMEs are significant in Haiti. Existing sources of formal SME financing include commercial banks' SME credit departments; micro-finance institution (MFIs); financial cooperatives (FCs) IFIs and NGOs. Loans are extended up to 5 years, at rates varying between 12 to 50 percent per year. Overall local deposits in the banking system represent the equivalent of $ 3.5 billion, with loans at about $ 1.2 billion. Therefore there is ample liquidity in the banking sector which could be potentially allocated for SME financing. There are, nevertheless, several bottlenecks that need to be addressed.

Measures to enhance SME financing

The Government, financial system and development agencies need to work together, in order to advance the SME agenda and liberate SME financing in Haiti. Banks, FCs and MFIs need to continue putting emphasis and focus on SME financing, with more financial, organizational and human resources.

Policy Actions

Maintain monetary and fiscal policies conducive to economic growth and low inflation.

Maintain political stability and create economic policy certainty so that SMEs can plan over the short-medium term (1-3 years).

Information Provision

Introduce a fully functional Credit Registry.

Extend the National Identity program to facilitate access to credit as well as the implementation of compliance programs by financial institutions.

Conduct a national census of MSMEs, both urban and rural, and identify/formalize enterprises to map SME activity nation-wide and attack the issue of poor data availability.

Training

Organize short-term training seminars for both start-up entrepreneurs and established SMEs.

Introduce business/financial literacy and entrepreneurship courses in secondary and university curriculums.

Organize short and medium-term training programs for SME credit officers of banks, MFIs, and credit unions in both urban and rural segments (banks and MFIs should work on increasing core SME competencies, simplifying forms/applications, and reducing turnaround).

Guarantees

Promote the use of guarantee funds for co-insurance with insurance companies of SME stocks and equipment.

Reinforce access to insurance with the introduction of fire-fighting capacities in both Port-au-Prince and provincial cities.

Collateral

Continue work on the use of movable assets as collateral; accelerate secure transaction reforms and improve mechanisms of re-possession. Reduce the time required and fees for the registration of leased assets and equipment liens (collateral registry.

Take necessary measures to facilitate the use of land as collateral also for MSME loans (land titling, cadastre etc.)

Funding

Use donor funds to leverage local funds through guarantee mechanisms, particularly for start-up SMEs, for agricultural/rural lending and for quasi-equity and equity participations in SMEs; centralize donor efforts and avoid having various financing/guarantee programs that risk confusion and a loss of efficiency.

D. Banking System Policy Recommendations

21. A number of areas for improvement in the regulatory and supervisory framework have been identified.

a. Continuing making progress on the 2008 FSAP recommendations and ensure effective implementation of the new banking law.

b. Focusing on establishing a credit registry, a centralized registry of security collateral, a land registry and deposit insurance scheme.

c. Establishing explicit rules and regulation pertaining to corporate governance and consolidated supervision of financial groups and/or financial conglomerates require regulatory attention.

d. Improving risk focus of the supervision.

e. Upgrading IT infrastructure allowing for automated data collection and the production of key risk-focused statistics.

f. Continuing stimulating competition in the banking system.

This review did not assess in –depth quality of the banking regulations per se, including the conduct of stress testing and on-site supervision, an area of importance for the next FSAP.

FINANCIAL COOPERATIVES AND MICROFINANCE INSTITUTIONS[7]

A. Economic Relevance and Recent Trends

22. Financial Cooperatives (FCs) and Microfinance Institutions (MFIs) play a strategic role for economic growth and financial inclusiveness. According to market[8] estimates, the potential demand for microcredit in Haiti could reach up to 1.7 million households. In addition, the donor organizations estimated that there are approximately 375,000 microenterprises and 10,000 small and medium-sized

[7] Information about these institutions is limited and not fully reliable. This report took into consideration selected figures and general trends observed from the "*Recensement de L'Industrie de la Microfinance en Haiti – Anne 2010-2011*" (USAID / HIFIVE, 2012). It is important to note that there are significant differences between the numbers obtained from USAID and BRH for different reasons. For example, the results of the USAID study were obtained from a sampling and inference methodology, which had to use as a starting point an outdated census of institutions. Some of these institutions in this census might no longer exist. Secondly, BRH collects information from part of the sector (85 credit unions and 14 microfinance institutions), but there are other institutions that do not report to the financial authorities. In general, although the numbers should be analyzed with caution, the general trends of this report were confirmed by different stakeholders.

[8] Business plan prepared by Fonkoze Financial Services, one of the largest microfinance institutions in Haiti.

businesses.[9] Demand for microcredit contributes significantly to job creation and is not being fully served by the formal banking system, due to low and unstable incomes, lack of quality collateral and high levels of informality. In contrast, the authorities estimate that there are approximately 300 credit unions in the country, only 85 of which are formally licensed. In addition, only 14 microfinance institutions provide financial services to the MSMEs and unbanked population (bank subsidiaries and NGOs).

23. FCs and MFIs report rapid growth rates, reaching a similar number of depositors as banks, but with a significantly larger number of borrowers. Accounting for about 17.5 percent of banks' total gross loan portfolio, these organizations grew much faster than banks in 2011. The microcredit portfolio increased by 46 percent – 2.7 times the Latin American average - reaching gourds 10.6 billion in 2011. FCs and MFIs serve a similar number of depositors as the banks but a much larger number of borrowers (286,000 versus 12,500). The clear orientation of FCs and MFIs to serve low to mid income customers is reflected in the average size of loans and deposits, which are significantly smaller than those provided by banks.

24. FCs and MFIs play a particularly important role in rural areas. The formal banking system is concentrated in Port-au-Prince, where 57 percent of its 157 branches operate. In contrast, 80 percent of more than 400 branches of FCs and MFIs are located outside of Haiti's capital. FCs and MFIs operating in rural areas are in most cases small entities, often with only one branch.[10]

Haiti: Providers of Financial Services in 2011

	Non-Bank Financial Institutions				Banks
	NGOs	Banks' subsidiaries	Credit Unions	Total	Total
Number of depositors 1/	410,793	0.0	642,292	1,053,085	1,081,775
Percentage of active population with an account (age 15+)	7.5	0.0	11.7	19.2	19.7
Number of borrowers	206,890	22,956	56,570	286,416	12,500
Assets (billion of gourds) 2/	n.a.	n.a.	n.a.	10.6	154.0
Deposits (billion of gourds)	1.6	0.0	2.4	4.0	135.5
Gross Loans (billion of gourds)	3.6	1.5	2.0	7.0	40.1
Average deposits (thousands of gourds)	9.6	0.0	3.7	3.8	125.3
Average loan (thousands of gourds)	17.4	63.2	35.0	24.6	3,206.0
Return on Equity (ROE) (in percent)	n.a.	32.2	n.a.	16.6	22.2

Source: USAID *Recensement de l'industrie de la microfinance en Haiti* , 2010-11; and IMF estimates
1/ For banks, assuming two bank accounts per client.
2/ Without PetroCaribe account
Note that these data are based on statistics that may differ from those of by BRH.

[9] Microenterprise employs fewer than 10 workers and small and medium-sized enterprises have more than 10 but fewer than 100 employees.

[10] Figures based on findings of the "*Recensement de L'Industrie de la Microfinance en Haiti – Anne 2010-2011*" (USAID / HIFIVE, 2012). Estimates were inferred from a sampling methodology.

25. In contrast to the many small FCs and MFIs, the larger entities have better information and accounting systems and appear to be profitable and well capitalized. According to the USAID study,[11] thirteen larger FCs reported a ROE of 20.6 percent, while small FCs reported a negative ROE, driven by the lack of economies of scale, high cost of capital and low productivity ratios. A similar situation is found among the MFIs. In contrast to the many small and rural FCs and MFIs, larger entities also benefit from existing technical assistance programs.

B. Concerns and Challenges for the Growth of the Sector

26. MFIs are currently not regulated by financial authorities. The sector's outreach among lower income segments and rapid growth should be closely monitored by the authorities, as most of them have yet to achieve operational self-sufficiency. The absence of a regulatory framework for MFIs is particularly worrisome, as some of these institutions are taking deposits from large numbers of low-income customers, who could be severely hurt and left unprotected, if these institutions fail.

27. Although FCs are formally regulated, the existing legal framework needs to be revised to ensure proper oversight of a large number of heterogeneous entities. Following the collapse in 2001 of many so-called "credit cooperatives" that were disguised pyramid like schemes,[12] a Law for Savings and Credit Cooperatives was issued in July 2002. This Law established, for the first time the BRH as the prudential supervisor for cooperatives, while maintaining the prerogatives of the *Conseil National des Coopératives* (CNC) license these entities. However, the processes between these two agencies are not well coordinated, creating, according to BRH, significant delays for the registration of FCs. In addition, to certain extent, the collection of financial information is delegated to the existing federation, which also monitors non-licensed credit unions, but which does not have powers to intervene. In practice, BRH is obtaining financial information from a small number of FCs, members of the Le Levier and Desjardins networks, as the majority of these entities is not licensed(the total number is not known). BRH performs on-site supervision of the group of FCs known to have a delicate financial position.

28. The inadequate management of smaller cooperatives, in a context of rapid growth, increases the urgency for a stronger legal framework. In addition to poor financial ratios, a significant number of small FCs lack sound financial management and credit processes. According to the assessment conducted by USAID, 53 percent of the FCs required improvements in financial management, while 76 percent were categorized as having deficient loan origination and management processes.

C. Recent Developments in Regulation

29. A proposal to modernize the Law for Cooperatives has been developed as well as a draft Law for Microfinance, but they are yet to be submitted to Parliament. Over the last two years, the financial authorities, with technical support from the Canadian Development Agency (CIDA), have worked on a proposal to modernize the 2002 Law for Savings and Credit Cooperatives, which has not been presented to Parliament yet. In addition, a draft Law for Microfinance Institutions was prepared with

[11] BRH does not publish yet financial information of the FCs it oversees.

[12] It is estimated that depositors lost USD 200 million in fraudulent schemes that operated disguised as cooperatives.

support from the French Development Agency (AFD) to establish a regulatory framework, which is in the process of consultation. According to some MFIs, the current draft Law does not recognize joint-liability as a relevant guarantee for lending[13]. This gap should be addressed as joint – liability lending methodologies, such as solidarity, mutual and community groups (*banque communnautaire, groupe solidaire* and *mutual solidarite*) are common in Haiti.

D. Policy Recommendations

30. For the long-term development of the microfinance and cooperative sector, the Government of Haiti should consider:

a. Acceleration of the approval of the revised Law for Cooperatives, aiming to simplify the licensing process (by leaving it in the hands of BRH), improving the faculties of BRH to intervene in failing institutions,[14] establishing prudential and reporting requirements commensurate to the size of each FC[15] and increasing the transparency of information about the sector.

b. Acceleration of the approval process for the Law for MFIs and establish a regulatory framework, differentiating between deposit-taking institutions and those which do not mobilize deposits and including provisions on the use of joint-liability as a collateral and provisions for consumer protection.

c. Conducting a census of FCs and MFIs to better understand the sector. Develop an action plan to expand the collection and improve the quality of financial information about registered FCs and MFIs.

d. Conducting a study of options to promote the consolidation of small financial cooperatives, as a way to achieve scale and soundness that could translate into lower cost and a broader palette of services for the final client.

e. Facilitation of access of qualifying FCs and MFIs to the financial infrastructure. If minimum standards are met, at least the largest FCs and MFI should be able to participate in the payments system to be able to provide a wider range of services. Entities with qualifying information systems should also participate in the credit registry that is currently being set up by BRH. Their incorporation would contribute significantly to enhance the soundness and to deepen the financial system as a whole, especially as the vast majority of borrowers are currently served by FCs and MFIs.

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[13] The draft Microfinance Law was not available to the team.

[14] Currently, intervention and closure of a failing institution involves both BRH and CNC.

[15] The draft of the Cooperative Law was not available to the team. Given the heterogeneity of the FC sector, a revised Law should also ensure, following international best practice, that applicable regulations and reporting requirements are commensurate to the size of each cooperative and that supervision, especially of the smaller FCs, is properly delegated to qualified institutions, while larger FCs are supervised directly by the BRH.

INSURANCE

A. Economic Relevance and Recent Trends and Challenges

31. Until very recently, the insurance sector in Haiti was largely unregulated and unsupervised. The sector has been regulated by a 1981 law that does not contain any prudential requirements apart from licensing and reporting. Financial statements are not reported to the supervisor and are not published. As a result, it is difficult to assess the size of the insurance sector which currently comprises nine non-life insurers, and two life insurances. Axco reports estimate gross premiums at about 0.5 percent of GDP, which is low compared to an average of 2-3 percent in Latin America, suggesting the potential for growth. Property and casualty policies are the most prevalent in the market, and life insurance products are very limited.

32. The 2010 earthquake accelerated the need for reform. Although the Haitian insurance sector assumed the bulk of its obligations following the earthquake, mostly due to reinsurance (it is estimated that reinsurers covered 75 percent of claims), some claims have not been paid. The earthquake highlighted the lack of transparency of the sector, and the need to regulate and supervise it adequately to ensure that insurers will be able to meet their future obligations. The MEF has embarked on an extensive reform to overhaul the insurance regulatory framework, and has drafted two bills which are in the process of being submitted to Parliament (Loi Cadre sur l'Assurance and Loi sur l'Organisme Autonome de Supervision et de Controle des Assurances). The draft bills set up prudential requirements for insurance companies, in line with international standards, and establish a dedicated independent supervisor. A consultation process on the insurance bills has taken place involving the industry, under a specific working group supported by the Presidential Council (GTA – Groupe de Travail sur les Assurances).

33. Without insurance, the private sector cannot adequately develop. The 2010 earthquake increased the demand for insurance products, but at the same time, premiums have significantly increased (mostly under the cost of reinsurance), limiting the affordability of such products. The constrained development of the insurance market is a hindrance to private sector growth and the availability of credit. Most bank loans in Haiti require insurance prior to being granted. This is particularly the case for mortgage loans, which require both property and casualty insurance on the house, and life insurance on the borrower. Housing finance is a key area for reconstruction, but cannot develop without insurance. A proper regulation and supervision of the insurance sector would enhance transparency, attract new investments and increase competition in the sector, facilitating affordability and the provision of new services[16]. Initiatives are under way to develop new insurance products such as micro-insurance, which make the regulation and supervision of the sector an urgent priority to ensure a sound development.

34. The MEF has also taken steps to begin effective supervision of the insurance sector. In August 2012, a unit was set up to oversee insurance within the MEF. Four staff have been assigned to the

[16] It is important to note however that the current wording of the bills makes it very restrictive for foreign branches to provide services in Haiti, given that they would be required to post the same minimum capital (*cautionnement*) as local companies. International best practices usually do not have such requirements because branches are not standalone entities, and they usually provide niche services that cannot be provided by local firms.

unit, and have received training. In December 2012, a guideline on reporting was completed after consultation with the industry, and the MEF requested the industry to submit their financial statements by early 2013. These efforts are supported by a FIRST (Financial Sector Reform and Strengthening Initiative) Grant managed by the World Bank to strengthen insurance regulation and supervision, and support the establishment of the new insurance supervisor envisaged in the draft laws with the preparation of guidelines, examination manuals and training.

B. Policy Recommendations

35. For the long-term development of the insurance sector, the Government of Haiti should consider:

a. Working towards a rapid approval of the insurance bills by Parliament, to give legitimacy to the new insurance supervisor and clarify prudential rules for the industry;

b. Completing the reporting process in cooperation with the industry: the MEF has requested the financial statements of the industry by early January. This process is key to (i) assess the situation of the sector and its capacity to face future natural disasters, (ii) build up supervisory capacity on the analysis of financial statements, (iii) prepare new regulations, and (iv) define actions to strengthen and consolidate the sector. Cooperation of the industry will be essential in the process;

c. Building-up supervisory capacity and processes: this includes appointing the Board and Managing Director of the Supervisor once the law is approved, securing the increase in permanent staff for the unit and an office building, training the staff and drafting guidelines and manuals;

Once the supervisory authority (OASCA) is established, preparing an action plan to supervise public insurers such as ONA, OAVCT and OFATMA.

HOUSING FINANCE

A. Economic Relevance and Recent Trends and Challenges

36. The mortgage system in Haiti is very small, with residential mortgage loans accounting for roughly 1 percent of GDP,[17] the size of the housing finance system in Haiti is similar to those of countries within the same income range, such as Malawi (0.5 percent), Uganda (1.1 percent), and Kenya (2.5 percent). When compared to countries in the region, Haiti's housing finance system is however relatively small with the same indicator for the Dominican Republic's being 4.2 percent, for Guatemala 5.9 percent and for Bolivia 6.6 percent[18]. In 2011, it was estimated that the country had 650 outstanding mortgage loans. Financing for the development and construction of rental housing is similarly restricted.

[17] This figure would be 2.4 percent if commercial mortgage loans were to be included.

[18] Based on estimated averages, home mortgage loans accounted for 6.8 percent of GDP in Latin America and the Caribbean.

37. In January 2010, the 7.0 magnitude earthquake devastated the capital and economic center of Haiti, aggravating the long-existing housing deficit. According to the government, Haiti needs to build 500,000 new homes to address current housing needs and future demand over the next decade. Housing finance – whether mortgage or microfinance - should play a critical role in the country's long-term reconstruction. The Post Disaster Needs Assessment estimated damages to the housing sector in the order of USD 2.3 billion, while programmed contributions by donors are estimated at USD 200 million. The banking system, at the same time, holds USD 1.8 billion in liquid assets, which could be mobilized if the right conditions and incentives were available.

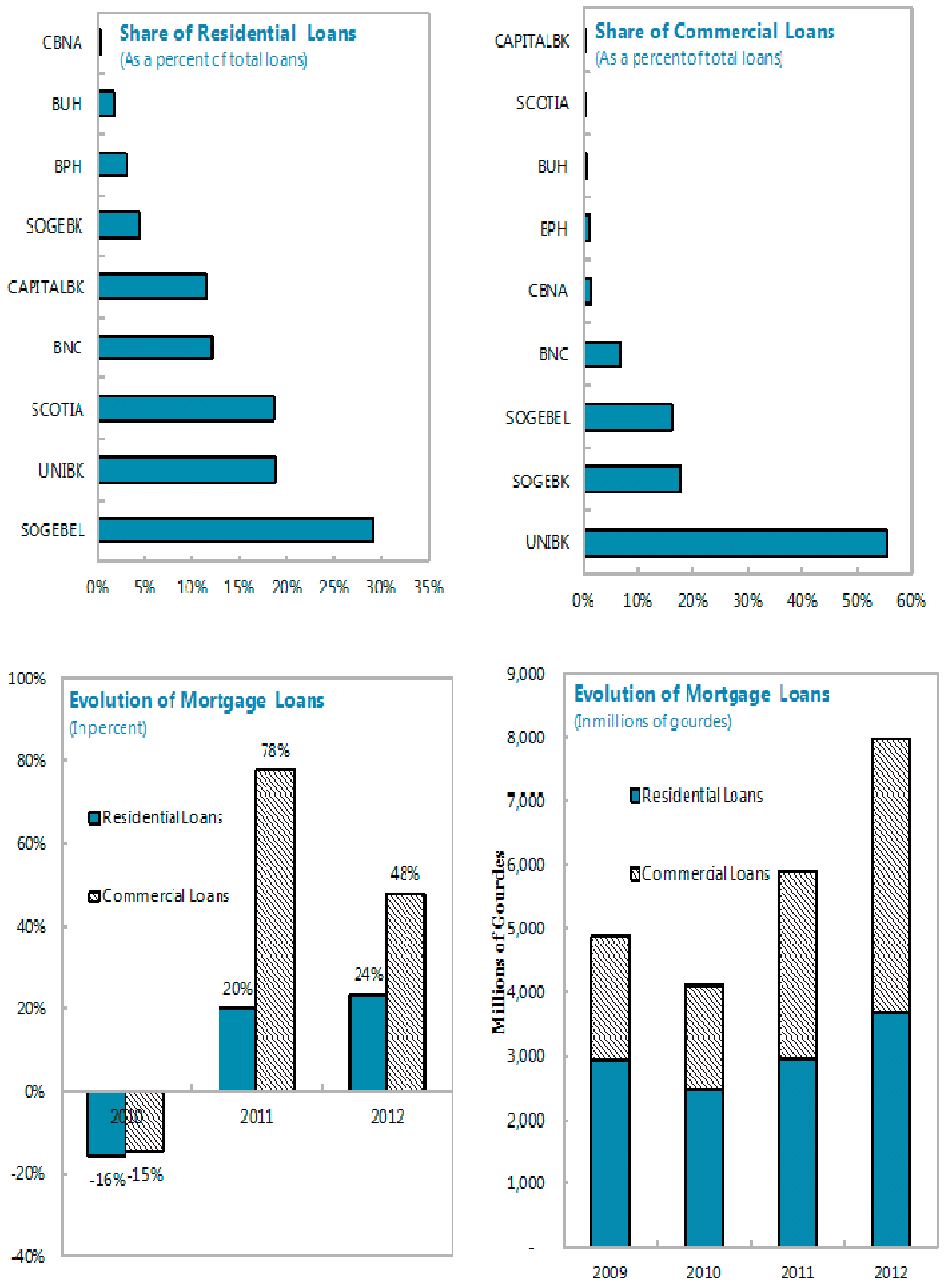
38. While all nine commercial banks offer mortgage products, the three largest providers hold roughly 67 percent of home mortgage loans. Sogebel, the only specialized mortgage bank in Haiti, had the largest market participation with 29 percent. In terms of commercial mortgage loans, three banks concentrate roughly 90 percent and the largest provider, Unibank, 56 percent.

39. Low and informal incomes, limited savings and lack of land titles are significant demand side constraints for the expansion of formal housing finance. Banks only serve households who have land and property titles and formal proof of income, which reduces the pool of qualifying borrowers significantly, as few properties have titles and informal employment is predominant.

40. On the other side, current loan terms limit the affordability of banks' mortgage loans to a small segment of the population. On average, down-payment requirements are 30 percent, interest rates on adjustable rate loans are 10 to 12 percent and maturities typically 7 to 10 years. Banks require a debt-to-income ratio of usually only up to 20 percent and households have to secure three monthly payments in advance, while upfront fees and mortgage costs (related to mortgage taxes, mortgage registration fees, insurance costs and bank fees) are relatively high[19].

[19] Mortgage taxes were recently reduced in the new Banking Law.

Figure 1. Haiti: Mortgage Loans



Source: BRH

41. MFIs and FCs are slowly introducing short-term housing microfinance products with flexible collateral requirements that are adequate to the needs of low to mid income customers. MFIs and FCs are challenged by the short-term nature of their funding base, the high credit risk and high transaction costs related to small size of the loans, which push interest rates up. In addition, these institutions lack the technical expertise needed for the sound provision of longer-term loans for housing and home improvements. More recently, IFC and USAID have provided technical assistance for the development of housing microfinance products as well as liquidity funding for some FCs and MFIs. Under these circumstances, FCs and MFIs can be expected to play in the short term a growing role in financing home improvements and expansion, before taking on, at a later stage, mortgage lending.

42. The Government and donor agencies have tried to increase the supply of housing loans through a variety of measures. In 2011, the Government launched a mortgage program, Kay Pam, targeting civil servants and other salaried workers. In 2012, the program had only 29 active clients with outstanding loans in the amount of USD 3.3 million, with an average loan size of USD 115,000. The small uptake is attributed to potential borrowers' lack of proper land titles, the structure of the subsidy program, as well as to the absence of adequate savings mechanisms for housing. In addition, right after the earthquake, the BRH eliminated reserve requirements on resources raised in Gourdes to finance housing and increased the allowable sector concentration ratio from 25 to 50 percent, as a way to encourage banks to increase mortgage lending. In the absence of a functioning supply of loans for housing, the Government of Haiti and donors have made available large amounts of grant funds to subsidize home reconstruction and repair. In addition, donors are providing technical assistance to financial institutions and supporting the emergence of partial credit guarantee schemes.[20]

43. While these measures have contributed to increasing the mortgage loan portfolios, such growth is from a very low level. Significant impediments to the expansion of mortgage portfolios remain. The participation of public banks has contributed to large part of the loan growth, with BPH and BNC focusing on the middle class. Besides the shortcomings mentioned above, mortgage lending is constrained by inadequate financial risk management tools i.e. by the absence of a credit bureau, lengthy foreclosure procedures, the absence of interest rate risk management tools (other than adjustable rate mortgages which place the risk on the client) which will hamper expansion of the sector.

B. Policy Recommendations

44. For the long-term development of the housing finance system, the Government of Haiti should consider:

a. Establishing the necessary conditions to guarantee property and land rights, such as: a modern property registration system and reforms of the legal framework to enforce property rights; the creation of a modern physical land cadastre; the development of an affordable system for

[20] The BRH has supported the establishment of a partial credit guarantee fund that is managed by FDI, which targets productive MSMEs and housing. In addition, USAID expanded the scope of DCA guarantees to include housing.

registration of titles and mortgages; and the definition of property valuation standards and methods.

b. More direct measures to stimulate mortgage lending by banks to unlock the available liquidity in the banking system for housing purposes.[21] Credit risk is one of the main deterrents to mortgage lending. Government could improve the credit information system, and stimulate the development of mortgage insurance for all or for a subgroup of loans or borrowers. Current general loan portfolio guarantees are an initial attempt, but may require adaptation. Additional measures should address existing shortcomings in foreclosure procedures and other mechanisms to manage risks.

c. Addressing high transaction costs of mortgage lending. These are another main constraint and the GOH should consider adjustments to mortgage taxes and fees to incentivize lending while broadening the base on which they are levied. In addition, taxes and controls on rental housing should be reviewed as they are significant constraints to the development of a rental market.

d. Developing well designed household subsidy system. If linked to credit, this could contribute to a more inclusive housing finance system by enhancing the affordability of households and increasing banks' interest in mortgage lending to middle and lower middle income households.[22] Down-payment and monthly mortgage payment assistance, could leverage both household and financial sector resources for the housing sector and reduce total subsidy amounts per housing solution. Such subsidy programs should be designed in such a way that lenders make the lending decisions and operate on market principles. Procedures should be simple and transparent and programs should be well monitored. Such programs could also contribute to expand the formal housing stock and improve disaster resilience. A review of experience gained in the implementation of the current subsidy programs on home reconstruction and repair could provide valuable lessons to develop and implement a modern incentive scheme for home improvement and acquisition are important.

e. Housing finance and micro mortgage products provided by FCs and MFIs could play an important role, but should be closely monitored. Unlike banks, FCs and MFIs are interested in expanding the provision of housing microfinance. However, their interest rates are rather high, ranging from 20 to 30 percent, and are not calculated in a standard way. While competition and economies of scale may help drive costs down, regulations are needed to establish a APR disclosure, as well as appropriate consumer protection programs. In addition, FCs and MFIs will require access to longer-term funds to be able to grant longer-term housing loans.

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[21] While the banking system is currently highly liquid, the authorities should also initiate activities to promote the development of capital markets in order to mobilize the resources for housing finance that will be needed in the longer term.

[22] Past experience has demonstrated that supply-side subsidies have been captured by housing suppliers and that other forms of subsidies, such as interest rates subsidies, negatively distort market prices. If well designed and market oriented, an incentive system could potentially unlock the market of home improvements and acquisitions of new houses for middle and lower income segments. In addition, the design of such system could help address other policy issues, such as disaster resilience and adherence to building codes.

REMITTANCES

A. Economic Relevance and Recent Trends and Challenges

45. Over the last decade, remittances have represented an important and consistent source of income for Haiti. According to the IMF's estimates, in 2012 the country received approximately USD 1.6 billion in remittances, which accounted roughly for 19 percent of the Haiti's GDP, surpassing the participation of other sources of incomes, such as foreign aid and foreign direct investment. This number could be considerably larger if the informal remittances were taken into account.[23] On average, between 2005 and 2010, the inflows of remittances represented 22 percent of GDP, which is the highest participation in the region. Similarly, the savings of the Haitian diaspora USD 3.7 billion or 57 percent of the GDP, is among the highest in the region and could be further leveraged to support the reconstruction of housing and infrastructure as well as social projects.[24]

46. Remittances could provide a substantial source for financial deepening if channeled through the financial system. If they increased savings rather than consumption, the deposit base would be strengthened and the maturities extended, therefore stimulating sustained credit growth. In addition, the development impact of remittances would increase if they were leveraged to increase access to additional financial services and to raise financing for infrastructure and other development projects.

47. Aside of being an important source of funding for the financial system, remittances are an important financial service for large segments of the population than can be leveraged to increase access to finance. Promoting dedicated financial products, that could, for instance, facilitate access to loans for housing by the senders and/or recipients of remittances could contribute to deepen the financial sector, while simultaneously spurring economic growth.

48. According to the IADB, more than a third of the Haiti's adults received regular remittance payments and the majority of recipients strongly rely on this source of income. It is estimated that, on average, remittances accounted for 60 percent of the income of households receiving remittances.[25] The World Bank estimated that 55 percent of remittance-receiving households do not have any other income and that 27 percent of recipient households earn less than USD 500 a year. Most Haitian remittance recipients spend the transfers to address basic needs, such as food and clothing. However, a significant amount of recipients also invest part of the remittances in education, savings, health care, housing and business, but are constrained by the limited offer of public and private services.[22]

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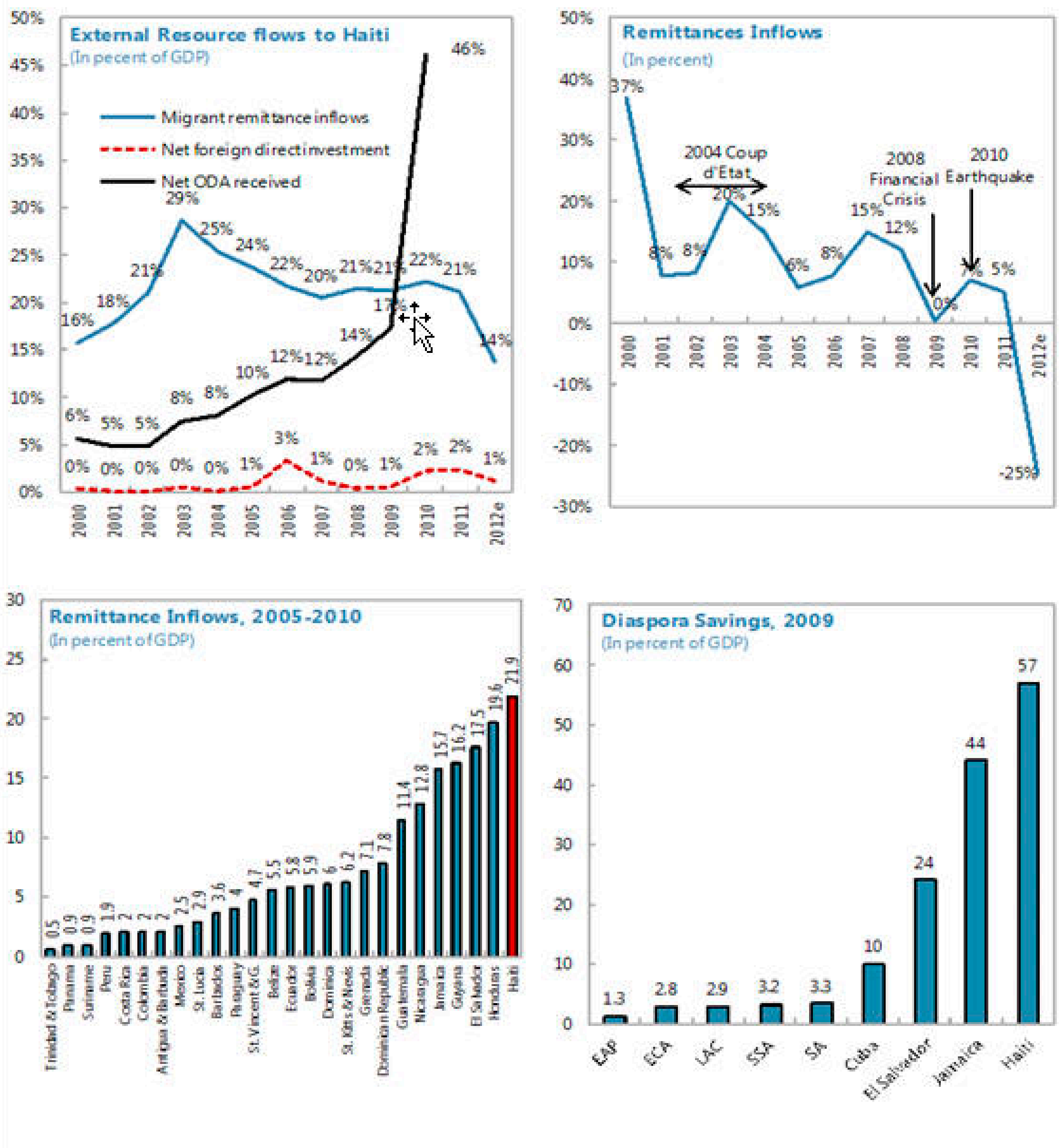
[23] It is estimated that informal remittances could account for roughly 30 percent of received remittances (Orozco, 2010).

[24] In 2010, the stock of Haitian emigrants reached one million. The top destinations are: USA (45 percent), DR (45 percent), Canada (5 percent), France (3 percent), and other (2 percent) (Orozco and Burgess,2010).

[25] Estimates prepared by Manuel Orozco (Inter-American Dialogue) for an internal Haiti Country Profile. Additional information from his published studies: "A commitment amidst shared hardship: Haitian transnational Migrants and Remittances"(Orozco and Burgess, 2010) and "Understanding the remittance economy in Haiti" (Orozco, 2006).

Figure 2. Haiti: Remittances



Source: IMF, World Development Indicators, World Bank Migration and Remittances Unit.

49. The United States - Haiti corridor is the largest remittances' corridor. In 2011, more than 77 percent of the inflows of remittances were sent from the United States, according to BRH's statistics. Thus, Haiti is vulnerable to the US economic situation, especially to its unemployment rate. In 2009, in the midst of the financial crisis, inflows of remittances flattened for the first time. Other corridors include: France (6 percent), Canada (6 percent), DR (2 percent), and others (8 percent).

50. The corridor Dominican Republic - Haiti is reported to provide only three percent of the reported remittance volume but it is likely to be considerably larger. With an estimated number of 450,000 migrants, the Dominican Republic is a significant destination for Haitian migrants. The total volume of remittances coming from the Dominican Republic is estimated to be considerably larger that the reported three percent, as it is responsible for most of the informal remittances that enter the country. It is estimated that nearly 54 percent of remittances inflows from the Dominican Republic are sent to rural areas, while roughly 23 percent are sent to the capital and other urban areas (23 percent each).[22]

51. The high level of informality in the Dominican Republic – Haiti corridor limits the availability of data, while raising concerns about the security of transactions and the protection of consumers. According to industry experts, the main reasons behind higher levels of informality in DR-Haiti corridor are geographic proximity, lower amounts per transaction, the undocumented status of migrants and the existence of informal networks in rural areas in the Dominican Republic -Haiti corridor. Informality is not as high in the US - Haiti corridor due to its nature and the number of companies in the market, which has helped push costs down. In addition, the average reported transaction amounts are lower in the Dominican Republic - Haiti corridor. According to the latest information available on formal remittance flows, the average remittance transaction from the US to Haiti was USD 120, and in the Dominican Republic - Haiti corridor, USD 70. Informal remittances from the Dominican Republic are likely to be smaller than this amount.

52. The differences between the corridors are explained by different migration patterns. The Haitian Diaspora in the Dominican Republic mainly consists by Haitians living in border areas, working predominantly in sugar cane, the service industry and in the informal economy.[26] The number of the mostly undocumented immigrants looking for work in the Dominican Republic increased significantly since the 2010 Earthquake. On the other hand, in general, the Haitian Diaspora in the US has a better financial situation due to the higher level of formal education of many of the Haitian emigrants and better income opportunities.[27.] Another difference between the US and the Dominican Republic corridors is the profile of the recipients: Haitians in the US are sending money to their dependents: husband/wife (30 percent), parents (22 percent) and children (24 percent); while the beneficiaries of remittances from the Dominican republic are largely the parents (52 percent).

[26] Of note, there are roughly 6,500 of Haitian students in the Dominican Republic who rely on remittances from Haiti to pay for tuition and living costs, see: "Encuesta sobre gastos de estudiantes extranjeros en la Republica Dominicana" (Banco Central de la Republica Dominicana, 2012).

[27] Initially, Haitian migrants into the US were mainly upper and middle class families, whose economic interests were at risk due to the uncertain political and economic scenario. After the 1970s, the demographic profile of emigrants has changed significantly with a substantial amount of poor and less educated refugees arriving.

53. Money transfer operators (MTOs) are the primary formal remittance service providers (RSPs). There are only seven RSPs partnering with 134 payout institutions to offer 411 payment locations. The market is highly concentrated with Western Union holding 48 percent of the payment points. With 30 percent of the payout locations, banks are the largest payer type. The network of MFIs (15 percent) is particularly important for reaching recipients living in more remote areas as 96 percent of their payout locations are located outside Port-au-Prince.

B. Policy Recommendations

a. Promoting competition in the market would be an important step to help reduce the costs of remittances and to improve the security of transactions. Over the last year, the average cost of sending funds to Haiti has decreased from USD 7.7 to 5.7 between the third quarter of 2011 and 2012. However, compared to other countries in the Caribbean and Central America, Haiti still has one of the highest remittance fees.

b. Assessing the impact of a recent remittance tax on remittances flows and considering alternatives to the current flat fee. A flat fee (such as the USD 1.5 tax on remittances from the Haitian Diaspora established in June 2011) could have negative implications for smaller transactions. In addition to reducing household income, a remittance tax usually reduces incentives to send remittances, drives resources underground and impedes efforts to link remittances to financial inclusion.

c. Studying in depth the structure and operation of the Haiti – Dominican Republic remittance corridor to better understand its characteristics and to design a strategy for its formalization. Based on the results on this analysis, the Government could establish mechanisms to issue licenses to sound providers and define appropriate policy measures and communication campaigns to deal with any problems.

d. Assessing the legal and regulatory framework of remittances in Haiti could contribute to improve transparency, competition and financial inclusion. The Law on Money Laundering, amended in 2008, and the new Banking Law of 2012 include provisions on AML, which improved the quality of information collected, IT systems and internal controls. However, the quality of information and transparency still need to be further improved. In addition, only recently, credit unions started providing remittance services.28 Given the broad branch network of credit unions and MFIs as well as the potential for financial inclusion, the Government should consider creating a mechanism to encourage credit unions and MFIs expand the offer of the remittance services. As done in many other countries, an in-depth review of all legal statutes concerning remittances (including AML/CFT), could help develop a coherent regulatory framework.

[28] In September 2011, 7 credit unions affiliated with Le Levier started a remittances pilot, through 15 service points, with the International Remittances Network (IRnet®), a platform owned and operated by the World Council of Credit Unions (WOCCU).

SUMMARY OF THE POLICY RECOMMENDATIONS

54. In summary, the main findings of the study are: (i) banks dominate the financial sector in Haiti in terms of assets and volume of loans and deposits, but play a limited role in financial inclusion, lending to few sectors and clients; (ii) a significant part of the nonbank system is not regulated and information on their activity is scarce; (iii) microfinance institutions (MFIs) and Financial Cooperatives (FCs) are growing fast and are playing a key role in increasing financial inclusiveness, particularly in the rural areas; and (iv) the insurance sector and the housing finance system are relatively limited. Accordingly, key recommendations are to: (i) assess that the existing banking legislation is up-to-date, implemented, and adequately enforced; (ii) put in place the needed legislation and framework for the nonbank system; (iii) and address the lack of information on the nonbank system. Several recommendations could be implemented through an update of the 2008 FSAP.

Table 1. Haiti: Recommendations

BANKING SECTOR
Re-assess the implementation of the reforms that have been put in place since 2008 FSAP
Establish a credit registry, a centralized registry of security collateral, a land registry and deposit insurance scheme
Develop explicit rules and regulation pertaining to corporate governance and consolidated supervision of financial groups and/or financial conglomerates
Upgrade IT infrastructure to allow the automated data collection and the production of key risk-focused statistics
Enhance bank supervsion through stress testing and on-site supervision
NON-BANKING FINANCIAL INSTITUTIONS
Establish systematic collection of supervisory data, particularly on insurance, financial cooperatives, microfinance institutions and remittances
FINANCIAL COOPERATIVES AND MICROFINANCE INSTITUTIONS
Accelerate the approval of the revised Law for Cooperatives, aiming at: the simplification of licensing and supervision, increased faculties of BRH to intervene, and transparency of the sector
Accelerate the approval of the Law for MFIs and establish a regulatory framework, differenting deposit and non-deposit taking institutions and incuding provisions on the use of joint-liability
Carry out a census of FCs and MFIs and develop an action plan to expand the availability and quality of financial information
Study options to promote the consolidation of small financial cooperatives
Facilitate access of qualying FCs and MFIs to the financial infrastructure (payment system and credit registry)
INSURANCE
Accelerate the approval of the Law for Insurance
Complete the reporting process in cooperation with the industry
Build-up servisory capacity and processes
Prepare an action plan to supervise public insurers
HOUSING FINANCE
Establish the necessary conditions to guarantee property, land and mortgage rights
Improve credit information system
Study the development of mortgage insurance and adjust existing guarantees mechanism
Address shortcomings in risk management of financial providers
Adjust of the structure of taxes and fees related to mortgage loans
Develop and establish a household subsidy system linked to credit
Strenghten disclosure requirements for housing microfinance loans, including interest rates, terms and conditions, redress mechanism if any
REMITTANCES
Develop policies to promote competition and transparency among remittance providers
Assess the impact of the tax on remittances and consider alternatives to the current flat fee.
Conduct a comprehensive assessment of the legal and regulatory framework of remittances industry
Study in depth the structure and operation of the informal remittance corridor Dominican Republic - Haiti

Table 2. Haiti: 2008 FSAP Recommendations and Implementation Status

FSAP Recommendations	Implementation Status
BRH's financial sustainability: prepare for recapitalization and increase government transfers	BRH' s financial situation has strenghened because of the improved macroeconomic situation, the adoption of the new banking law, the absence of government deficit financing and the recent agreement on the debt between BRH and the MEF
Enhance competition in BRH bond auction system	Through development of the T-Bills market the competition in BRH bond auction system has been enhanced
Adopt and implement new banking law and upgrade regulations	Banking Law was passed recently
Conduct special inspections of the three largest banks, and prepare BNC restructuring strategy	Successful inspection was conducted
Broaden scope and set up centralized public registry of personal property collateral	Ongoing – Private Sector Development Project (WB)
Strengthen BRH's independence through recapitalization and legal reform	Significantly strengthened through the new banking law and improved capitalization
Develop treasury securities market	Treasury securities market will be further strenghend through the Public debt law expected to be submitted parliament by end-March 2013
Complete transition of BRH accounting toward IFRS and commission BRH audit by new audit firm	In progress BRH audit has been committed
Strengthen judicial capacity for contract enforcement	Reforms underway
Implement BNC restructuring strategy	Guarantee was executed by BNC in 2011
Reduce cost of establishing collateral	Ongoing with PCGF and movable collateral. Pillar one of the PCGF has been completed
Increase competition in audit sector	OCPAH working with French Accounting Board towards capacity Building
Improve framework for systemic liquidity forecasting	TA is being provided and exercises are being conducted
Improve regulation and supervision of credit unions	In progress
Establish basic transparency requirements and regulation for other nonbank financial institutions	Law for supervision of microfinance has been drafted
Set up working group to assess options for deposit insurance scheme	Currently under consideration
Start improving banks' accounting practices in line with long-term IFRS compliance goal	New Accounting Law and framework being drafted by OCPAH with TA of IFI's executed by French Accounting Board takes this into account
Require full publication of banks' annual accounts	Required under the New Banking Law
Upgrade IT infrastructure and increase risk focus of banking supervision	Being upgraded under the Payment System TA
Support orderly expansion of microfinance sector	New Law for microfinance has been drafted and is under consideration
Conduct actuarial assessments of all defined benefit pension schemes	Public DB scheme will be supervised by insurance regulator under the new insurance law
Facilitate establishment of a private credit bureau	Work is ongoing jointly with WB and IFC
Modernize insolvency legislation	A commercial court to be established
Develop strategy for the transition of bank accounting toward IFRS	New Accounting Law and framework being drafted by OCPAH with TA of IFI's executed by French Accounting Board takes this into account
Adopt simple and easily enforceable accounting system for private enterprises	New Accounting Law and framework being drafted by OCPAH with TA of IFI's executed by French Accounting Board takes this into account

Table 3. Haiti: Financial System

9 Commercial Banks

2 state banks: Banque Nationale de Crédit (BNC),
Banque Populaire Haitienne (BPH)

4 private domestic banks: Unibank (UNIBK),
Sogebank (SOGEBK)
Banque de l'Union Haitïenne (BUH)
Capital Bank (CAPITALBK)

2 foreign banks: Citibank (CBNA)
Scotia Bank (Scotia)

1 saving and mortgage bank:
Société Générale Haïtienne de Banque d'Epargne et de Logement (SOGEBL)

85 Credit Unions

Of which : 46 supported by Desjardins
Of which: 25 being part of the federation Le Levier

14 Microfinances Institutions

Of which : Sogebank's microfinance subsidiaries (Sogesol, Sogefac, Sogecarte)

11 Insurance Companies

Of which : 2 life insurance companies

16 Exchange Bureaux accredited by the central bank

7 Money Tranfers Institutions

Sogexpress (Western Union)
Caribbean Center SA (CCSA) CAM
Unitransfer SA
Unibank/Moneygram
Capital Transfer (Western Union)
Caribbean World Trading (CWT/Rapid Transfè/Moneygram)
BUH/Moneygram

Source: Bank of the Republic of Haiti; and
Recensement de l'industrie de la microfinance en Haiti, année 2010-2011, USAID, September 2012.

Table 4. Haiti: Financial Soundness Indicators of Individual Banks, September 2010 - September 2012
(In percent; unless otherwise stated)

	Sep-10	Sep-11	Mar-12	Jun-12	Sep-12
Size and growth					
Asset volume (in US$ millions)	3453.6	3767.5	3858.0	3945.0	4029.9
Deposit volume (in US$ millions)	2985.8	3316.2	3394.2	3475.1	3469.5
Asset growth since beginning of fiscal year	27.8	11.6	4.2	7.5	10.8
Credit growth (net) since beginning of fiscal year	-11.7	31.5	11.2	21.5	34.0
Capital adequacy					
Regulatory capital to risk-weighted assets	13.4	16.5	16.7	16.7	16.8
Assets to regulatory capital	23.8	14.7	13.6	13.9	13.3
Asset quality and composition					
Loans (net) to assets	21.3	25.1	26.8	28.4	33.0
NPLs to gross loans	5.7	3.7	3.6	3.2	2.4
Provisions to gross loans	4.8	4.4	3.0	2.8	2.3
Provisions to gross NPLs	84.1	93.1	83.3	88.8	96.7
NPLs less provisions to net worth	3.2	1.1	2.6	1.7	0.4
Earnings and profitability (cumulative since beginning of fiscal year)					
Return on Assets (ROA)	1.2	1.4	1.4	1.3	1.5
Return on equity (ROE)	18.4	22.2	22.2	21.7	21.9
Net interest income to gross interest income	87.4	91.4	92.2	92.3	92.4
Operating expenses to net profits	69.2	67.8	65.6	66.1	66.7
Efficiency					
Interest rate spread [1/]	9.6	8.9	8.2	8.2	7.4
Liquidity					
Liquid assets to total assets [2/]	51.0	49.5	48.2	48.5	45.5
Liquid assets to deposits [2/]	59.0	56.3	54.7	55.0	52.8
Dollarization					
Foreign currency loans to total loans (net)	60.1	55.7	53.8	51.8	51.7
Foreign currency deposits to total deposits	44.1	62.3	63.9	64.5	62.9
Foreign currency loans to foreign currency deposits	31.3	32.6	34.6	35.7	37.3

Sources: BRH Banking System Financial Summary; and IMF estimates.

[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 5. Haiti: Banking System, September 2012

	Ownership	Share of total banking system assets	Share of total banking system deposits	Number of bank accounts	Number of loans	Percentage of total loans lent to large borrowers
Domestic bank		*91.3*	*91.7*	*2,142,069*	*34,685*	
UNIBK	Private	31.3	31.6	*879,506*	*2,745*	*36.6*
BNC	Public	24.4	24.9	*352,425*	*26,043*	*28.7*
SOGEBK	Private	26.9	26.3	*605,668*	*1,241*	*37.3*
CAPITALBK	Private	5.5	5.4	*96,400*	*1,125*	*26.9*
BUH	Private	1.9	2.2	*184,821*	*636*	*3.3*
BPH	Public	1.2	1.2	*23,249*	*2,895*	*51.5*
Mortgage bank		*2.5*	*2.2*	*10,844*	*457*	
SOGEBL	Private	2.5	2.2	*10,844*	*457*	*8.3*
Foreign banks		*6.2*	*6.1*	*24,964.0*	*1,708.0*	
CBNA	Private	3.3	3.2	*2,839*	*90*	*99.2*
SCOTIA	Private	2.9	2.8	*22,125*	*1,618*	*19.7*
Banking system		100.0	100.0	*2,177,877*	*36,850*	

Sources: BRH Banking Supervision Reports; and IMF estimates.
1/ Excludes loans made by microfinance subsidiaries.

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700 19th Street, NW
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IMF Executive Board Concludes 2012 Article IV Consultation with Haiti

On March 11, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Haiti.[1]

Background

Significant progress has been made since the January 2010 earthquake to safeguard macroeconomic stability. Inflation remains in the single digits, although it has picked up to 7.6 percent in December, reflecting primarily higher international food prices and reduced domestic food supply caused by Hurricanes Isaac and Sandy. The external position has strengthened, with gross international reserves reaching $2.2 billion (6 months of imports) at end-December 2012. Haiti's debt situation has significantly improved owing to additional debt relief from major partners (including the Fund) after the January 2010 earthquake.

However, the pace of the reconstruction and economic recovery has been slow, due to weak administrative and absorptive capacity, persistent socio-political tensions, difficult security situation, and a weak business environment. In addition, the country remains highly vulnerable to exogenous shocks. After contracting by 5.4 percent in FY2010 following the earthquake, economic activity expanded by 5.6 percent in real terms in FY2011. However real GDP growth slowed markedly to 2.8 percent in FY2012, reflecting a

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

spring drought, the impact of Hurricane Isaac, and delays in implementing key public investment projects.

The recovery is expected to be firmer in FY2013 and medium-term prospects are promising, albeit with serious downside risks. Growth is projected to accelerate to 6.5 percent in 2013, assuming a pickup in reconstruction and a rebound in agriculture. Inflation should remain stable, in the mid-single digits. In the medium term, maturing ongoing agricultural and industrial projects and persistence in efforts to improve the business environment will help sustain growth and strengthen the external position. However, a worsening in global economic conditions, continued weak capacity, heightened domestic political and social tensions- fueled by pervasive poverty and lack of progress in improving living standards- and natural disasters could impede the fragile recovery and constrain Haiti's growth prospects.

Executive Board Assessment

The Executive Directors commended the authorities' continued commitment to prudent policies despite the challenging domestic environment and exogenous shocks. Inflation has remained in single digits, the external position has strengthened, and the country's debt situation has improved. However, Haiti remains extremely vulnerable to natural disasters; reconstruction and economic recovery from the 2010 earthquake has been slow; and the country's growth and development challenges are daunting. Directors encouraged the authorities to take full advantage of external support to improve administrative and absorptive capacity, accelerate the reconstruction, and sustain the recovery while safeguarding macroeconomic stability.

Directors underscored that fiscal space for poverty-related and growth-enhancing spending should be secured through increasing revenue and containing current spending. They called for additional reforms to further strengthen revenue administration, reduce tax expenditures, and expand the tax base, including the adoption of a VAT system. Efforts are also needed to further strengthen social safety nets and to increase investment in health and education. Directors welcomed recent progress in enhancing public financial management, in particular towards the establishment of a treasury single account. They stressed the importance of continued efforts to strengthen budget formulation, execution, transparency and reporting, and improve controls.

Directors noted that improving the execution rate of public investment is critical to build the necessary infrastructure that would unlock the country's growth potential. They urged the authorities to work closely with donors to improve project preparation and management, while ensuring the overall quality of public investment. Many Directors also stressed the importance of better coordination and harmonization of procedures amongst donors, and closer alignment of external assistance with Haiti's domestic priorities. A few Directors considered that competition from NGOs in hiring experienced professionals could potentially negatively impact public sector capacity.

Directors endorsed the current neutral stance of monetary policy but encouraged the authorities to keep price inflation in check. Further improvements in liquidity management, financial market deepening, market-based operations, and reducing dollarization will help strengthen monetary transmission mechanisms. Directors also emphasized that moving towards greater exchange rate flexibility, together with efforts to deepen the foreign exchange market, would help absorb external shocks and increase monetary policy effectiveness. In this regard, they welcomed the authorities' commitment to move gradually to single price foreign exchange auctions after deepening the interbank foreign exchange market.

Directors underscored the importance of structural reforms to improve competitiveness, enhance the business environment, and foster higher and inclusive growth. Efforts should focus on streamlining regulations, removing infrastructure bottlenecks, strengthening human capital and deepening financial intermediation. Directors commended the planned energy sector reform. They looked forward to decisive implementation in order to lower the high cost of electricity, improve the reliability and efficiency of energy supply, and reduce the burden on the budget.

Directors noted that Haiti's banking sector remains relatively sound and profitable. Recent strong credit growth has been healthy, but will require close monitoring going forward. Directors were encouraged by progress in implementing the 2008 Financial Sector Assessment Program recommendations and regulating the microfinance and cooperative sectors, and underscored the need to further improve the regulatory and supervisory framework.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2012 Article IV Consultation with Haiti is also available.

Haiti: Selected Economic Indicators, 2010/11 - 2012/13

	2010/11	2011/12	2012/13 Proj.
Output			
Real GDP growth (%) 1/	5.6	2.8	6.5
Employment			
Unemployment (%)	…	…	…
Prices			
Inflation (%)	10.4	6.5	5.0
Central government finances			
Revenue and grants (% GDP)	29.8	23.3	24.4
Domestic revenue (% GDP)	13.1	12.8	14.1
Grants	16.8	10.6	10.4
Expenditures (% GDP)	33.5	29.3	29.8
Current expenditures	11.8	11.9	11.3
Capital expenditures	21.7	17.4	18.5
Overall balance (% GDP)	-3.7	-5.9	-5.3
Total government debt (% GDP)	12.2	15.4	20.4
Money and credit			
Broad money (incl. foreign currency deposits) (% change)	10.4	6.9	11.8
Credit to private sector (% change)	24.5	29.8	21.6
3-month BRH bond interest rate (%)	3.5	3.7	3.6
Balance of payments			
External current account balance (including official grants) (% GDP)	-4.6	-4.0	-5.6
External current account balance (excluding official grants) (% GDP)	-24.2	-16.5	-17.7
Foreign direct investment (FDI) (% GDP)	2.4	2.1	1.3
Reserves (months of imports of the following year)	6.3	6.5	5.5
External debt (% GDP)	8.9	13.0	16.8
Exchange rate			
Real effective exchange rate (% change) (+ appreciation)	1.6	…	…
Nominal GDP (millions of Gourdes)	297,687	329,032	368,991
Nominal GDP	7,388	7,902	8,535

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

1/ The projections for 2013 will be updated when more information is available about the impact of Hurricane Sandy.

Statement by Mr. Nogueira Batista, Executive Director for Haiti, Ms. Florestal, Government-Provided Advisor, and Mr. Robergeau, Government-Provided Advisor

March 11, 2013

1. During the period under review Haiti suffered two new natural disasters (a hurricane and a spring drought). Although there have been significant improvements in disaster preparedness and risk management, the country remains very vulnerable to these shocks. Scarce public resources had to be reallocated to emergency responses, including those related to spikes in cholera infection. Damages in the agricultural sector led to significant material losses with ensuing pressures on imports and prices. The deceleration of exports and the shrinking of agricultural output led to a slowdown in GDP growth.

2. GDP continued to grow, albeit modestly, in per capita terms. Inflation spiked but remained at single digits. Gross liquid international reserves were considerably strengthened and reached the equivalent of six months of imports at end 2012. The authorities have managed to maintain macroeconomic stability and meet all quantitative performance criteria under the ECF. Commendable progress was also achieved on the structural reform agenda.

3. On behalf of our authorities, we would like to thank IMF staff and management for the constructive dialogue and their continuous support particularly with the technical assistance missions. We also commend staff for the set of excellent reports. Our authorities are particularly pleased with the inclusion of Haiti in the pilot program of financial sector reviews which they find to be a helpful addition to the Article IV report.

Investment, growth and donor coordination

4. The authorities' medium and long term goal is to achieve sustainable and inclusive growth. In their strategy, the private sector needs to play a central role. Therefore, the Government is determined to improve the business climate both by targeted measures to remove bottlenecks and by maintaining a stable macroeconomic environment. Reforms initiated to strengthen institutional capacity, scale up investments in human capital, and build economic and social infrastructures should also have a positive impact on private sector initiatives.

5. Key challenges for the implementation of the national development agenda include securing reliable concessional resources and ensuring that donors' assistance is aligned with domestic priorities. A significant portion of the US$ 9.04 billion reported to have been disbursed by the donor community since the earthquake of 2010 did not go through Haiti's national budget. Moreover, much of the donor resources did go through the budget financed projects that were not originally part of

the national action plan presented by the Government after the 2010 earthquake. The channeling of donor resources through parallel structures that compete with public institutions for funding and qualified personnel adds to Haiti's development challenges.

6. Donor-financed projects constitute the bulk of the public investment program (PIP) and their alignment with national development goals remains crucial. This is one of the key mandates of the newly created structure under the leadership of the Minister of Planning and External Cooperation to replace the Interim Haiti Recovery Commission. Greater coordination and harmonization of procedures within the donor community would also be instrumental. Information on the sectoral distribution and geographic location of externally financed operations and disbursements of development partners needs to be made available to the Government on a timely basis. There is no other way to make sure that scarce development resources are efficiently allocated and integrated into the national development plan.

7. Haiti's absorptive capacity is also weakened by the heterogeneity of donors' procurement regulations and the multiplication of executing units. The time national institutions, including line and coordinating ministries, spend receiving missions from abroad, could have been more efficiently used in implementing the PIP and the structural reform agenda.

8. Our authorities look forward to the streamlining and harmonization of donor procedures and the increased reliance on Haiti's rules and institutions in the use of donor resources. At the same time, they are convinced that the difficulties faced by the public sector in hiring and retaining experienced professionals are amplified by the high salaries and fringe benefits offered by NGOs and international organizations. The public sector cannot compete with these institutions under its human resource management framework and financial constraints. With support from Canada and the IDB, an action plan for reforming the public service, including through changes in the salary scale, is being elaborated under the leadership of the Prime Minister's office.

Taxes and fiscal administration

9. The staff report and the issues note summarize well the assessments and recommendations of Fund technical assistance missions and other development partners. Strengthening the organizational structure and administrative capacities of the tax offices seems critical for attaining fiscal objectives and for improving the quality of services offered to taxpayers. A significant step forward in this direction was the launching of the e-declaration through which taxes can be declared online. It is expected that by the end of the year the electronic liquidation of taxes will also be possible. Also, an internationally renowned firm is being hired to support the Ministry of Economy and Finance (MEF) in its efforts to strengthen the organizational structure and administrative capacities of the tax offices.

10. The size of the informal economy in Haiti explains to a large extent the preponderance of indirect taxation and makes comparisons with regional peers that have mainly formal economies less relevant. Nonetheless, the authorities are determined to enlarge the income tax base. A medium tax payer unit was recently created to contribute to this end. Despite the comparatively low custom tariffs, fiscal revenues depend largely on trade and are thus vulnerable to international demand and price volatility. Reforms have been initiated to shift the burden of taxation to internal sources of revenue. The transformation of the TCA (Taxe sur le Chiffres d'Affaires) to a TVA (Taxe sur la Valeur Ajoutée) should also help. The timing of the official launching of the TVA and its success will however hinge on the speed at which the authorities are able to put in place an adequate information system in the fiscal administration.

11. As Haiti complies with the requirements of CARICOM membership, including adoption of the common external tariff (CET), increases in the average tariff rates are expected. Staff observes that the overall impact on revenues is uncertain, given that revenue losses would result from reduction or elimination of tariffs on imports from CARICOM countries. However, since most of Haiti's imports are presently coming from countries such as the US and the Dominican Republic, we expect that the net effect on fiscal revenues of aligning the country's tariffs with those of CARICOM will probably be positive, at least in the short-term.

12. Tax expenditures have reached alarming levels. The authorities started to tackle this problem through a two-pronged approach: first by ensuring that NGOs and international institutions comply with legislation and, second, by limiting or eliminating certain exemptions and exonerations, including to firms executing contracts for the public sector. The Executive Order of August 2012 underscores the obligations and duties of those who are granted tax exemptions and seeks to ensure that beneficiaries participate in the realization of national development plans.

Energy sector

13. The Haitian authorities remain mindful that an orderly reduction of the Treasury's subsidies to the public utility company Electricité d'Haïti (EDH) is imperative. With the ensuing savings, fiscal space will be generated for social expenditures and the funding of job creation and growth enhancing projects. However, they are also conscious that the strengthening of EDH's financial situation and production capacity will occur only gradually. Hence, the government adopted a set of measures to phase-out the subsidies and achieve sustainable financial soundness at EDH. The phasing out of budget transfers to EDH has been initiated with a target date of 2016 for complete elimination. An MOU was also signed between EDH and the MEF at end-2012. It includes a commitment by the management of the electric company to present a financial sustainability plan by end-March 2013 on which an agreement will have to be reached by the end of the year.

14. A delegate minister for energy was appointed with a specific mandate that includes the responsibility of overseeing the sector and preparing a financial recovery program and an investment master plan that addresses EDH’s financing needs. However, the Ministry of Public Works continues to be the lead oversight institution for the electricity sector.

15. Additionally, to enhance transparency, equity and control over the operations of the independent power producers (IPPs), long-distance power metersthat allow EDH to monitor the quantity of electricity produced and consumed, have been installed at five out of a total of six IPP plants. A standard contract is also being drafted by EDH management with a view of harmonizing the terms of the agreements with all six IPPs by the end of 2013.

16. The involvement of the external firm Tetratech in the reform of EDH, subsequent to an agreement with the development partners, represents a valuable step. Success depends on an effective cooperation between donors, EDH and the authorities.

Financial sector

17. Several reforms have already been initiated to enhance access to credit. Many challenges remain including completing legislative changes such as the Law on Financial Cooperatives (FCs) and the Bill for Microfinance Institutions (MFIs). A top priority of the BRH's regulatory agenda is the drafting of a law to cover financial leasing and factoring. In addition, with support from the World Bank and IDB, a credit bureau will be launched soon.

18. Our authorities welcome the policy recommendations for the long-term development of the microfinance and cooperative sectors. They are determined to establish a regulatory framework commensurate with the needs and diversity of the current players. The microfinance and cooperative sectors are preponderant in the rural areas. Their presence and active involvement in financing productive activities make them central to the financial inclusion agenda. FCs and MFIs meeting minimum IT and regulatory requirements will also have access to the credit bureau.

19. The authorities recognize the need to address the problem of insufficient information on the nonbank financial sector. They intend to hasten the process of drafting and approving regulation covering the sector. The informal sector of the economy relies mostly on microfinance provided by nonbank institutions. As informality is progressively reduced, the need for timely availability of quality data will become more pressing.

Remittances

20. The Haitian authorities are fully cognizant of the importance of remittances in providing a reliable source of income for the most vulnerable. They welcome recommendations to strengthen the regulatory framework, promote competition in the money transfer market, reduce costs and secure transactions. As mentioned in the staff report, a flat fee on remittance flows was introduced about a year ago. Preliminary data compiled by the Central Bank since the introduction of the measure do not show evidence of negative effects either on the number of transactions or on the total amount. Hence, suggestions to consider alternatives to the current flat fee appear somewhat premature.

21. The issues note on the financial sector also calls for an in-depth study of the structure and operation of the Haiti-Dominican Republic corridor in the flow of remittances. The Haitian authorities are of the view that such a project would gain from being conducted jointly by the central banks of the respective countries. In addition, given the importance of the US-Haiti and France-Haiti corridors, the authorities are more inclined to start with the assessment of these channels and derive adequate lessons to be applied to support financial inclusion.

Monetary, credit and exchange rate policy

22. The Central Bank has maintained the accommodative stance adopted since the earthquake, leaving interest rates on its paper unchanged since January 2011. However, with 12-month inflation above 7 percent, the Central Bank slightly tightened the monetary policy stance, raising banks' reserve requirement ratios by 5 percentage points to a maximum of 34 and 39 percent on liabilities in local and foreign currency, respectively. This measure became effective on February 1st, 2013.

23. The Central Bank is committed to move gradually towards greater exchange rate flexibility. Despite the recent increase in the volume of transactions, the foreign exchange market remains quite shallow and constrained, given the small number of players. The Central Bank considers the expansion and modernization of the foreign exchange market a prerequisite to the establishment of a single price foreign exchange auction system. Ongoing TA and the Fund’s support will be instrumental in deciding on the appropriate sequencing of measures for the change in auction type. NGOs and exporters already hold frequent free auctions to allocate foreign currency to local banks in a wholesale-like market.

Conclusion

24. The building and reconstruction of economic and social infrastructure offer enormous business opportunities which are being seized by some investors as attested by the continuation of growth in FDI last year. Going forward, domestically financed capital

investment is to be allocated primarily to projects that will upgrade the stock of infrastructure and foster private sector investments. Transformational projects, those that can change the dynamics of development in Haiti, require the mobilization of important resources. Thus, the use of Private Public Partnerships (PPP) is a useful complement to the conventional sources of development finance. Our authorities would welcome technical support for the finalization of a consistent framework for PPPs.