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SEVENTH REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND MODIFICATION OF PERFORMANCE CRITERIA—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR HAITI

In the context of the Seventh Review Under the Extended Credit Facility, Requests for Waiver of Nonobservance of Performance Criterion, and Modification of Performance Criteria, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 26, 2014, following discussions that ended on January 24' 2014, with the officials of Haiti on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on March 12, 2014.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Haiti

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

Letter of Intent sent to the IMF by the authorities of Haiti*
Technical Memorandum of Understanding *
Debt Sustainability Analysis*

*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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March 12, 2014

HAITI

SEVENTH REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND MODIFICATION OF PERFORMANCE CRITERIA

KEY ISSUES

Program. A three-year arrangement under the Extended Credit Facility (ECF) in an amount of SDR 40.95 million (50 percent of the quota) was approved on July 21, 2010. The arrangement was extended for one year on August 2, 2013, with no augmentation of access. The program expires on August 29, 2014.

Macroeconomic performance in FY2013 was favorable. GDP growth was 4.3 percent (vs. 3.4 percent in the program) and headline inflation fell from 6.5 percent to 4.5 percent (y/y), amid a modest depreciation of the gourde. International reserves remained at over five months of imports. However, the overall fiscal deficit widened, reflecting larger-than-programmed investment spending and subsidies to the electricity sector.

Performance under the ECF-supported program was broadly satisfactory. All but one performance criteria (PC) for end-September 2013 were met as well as one out of the three indicative targets, and progress was made in key structural reforms. A contracting of repos by the Central Bank led to the breaching of the continuous PC on the contracting or guaranteeing by the public sector of non-concessional external debt with maturities up to and including one year. Staff supports the granting of a waiver for the nonobservance of the PC.

The program for FY2014 aims at consolidating macroeconomic stability and sustaining progress in structural reform. GDP growth is expected to reach 3–4 percent, and inflation to remain in single digits, with gross official reserves covering more than five months of imports. Supporting policies include continued prudent monetary policy, the stabilization of the overall fiscal balance, and the continuation of structural reforms in the areas of public financial management, international reserve management, and the electricity sector.

Risks to the program stem from Haiti's dependence on remittances and foreign assistance, including increasing vulnerability to developments in Venezuela, as well as from the fragile socio-political environment.

In view of the program performance, staff recommend the completion of the seventh review under the ECF arrangement, the modification of performance criteria, and the granting of a waiver.

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

Discussions were held in Port-au-Prince during November 5-15 and during January 20-24. The staff team consisted of Messrs. Di Bella (head), Ntamatungiro, Norton (all WHD), Ms. Bova (FAD), Mr. Daan (STA), and Mr. Camard (resident representative). It met with Prime Minister Lamothe; Minister of Economy and Finance Laleau; Central Bank Governor Castel; other senior government officials; representatives of the private sector; and development partners. Ms. Florestal (OED) participated in the policy discussions.

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CONTEXT AND PROGRAM PERFORMANCE

1. **Four years after the earthquake some aspects of life are slowly returning to normal, against the backdrop of a stable security situation.** While the number of people living in camps has been sharply reduced, there remains an acute housing shortage, and many buildings have not yet been rebuilt. The national police is being staffed and trained by the U.N. stabilization force (MINUSTAH), whose mandate has been extended through October 2014.[1]

2. **Tensions in the political environment in the second half of 2013 have eased somewhat.** The draft budget for FY2014 was rejected by the Senate in September 2013, during a period of discussions between the President and the Parliament over long-delayed parliamentary elections. Political dialog resumed after the passing of a new electoral law in early December and the agreement to hold legislative elections in 2014. Budget discussions have resumed, with the aim to arrive at a consensus budget that would win rapid approval in Parliament by end-March 2014.

3. **Most quantitative performance criteria at end-September 2013 were observed.** The net international reserve (NIR) floor and the ceiling on net credit to the government from the central bank (BRH) were observed. The indicative target on net domestic financing to the central government was not observed, given the larger-than-programmed central government deficit.[2] The zero ceiling on the contracting or guaranteeing by the public sector of non-concessional external debt with maturities up to and including one year was breached in the context of the contracting by the BRH of repurchase operations (repos) for reserve management. Preliminary and incomplete information for December suggests that some indicative targets may not be observed, in particular due to some delays in the placement of treasury bills by the central government.

4. **Staff's view is that progress in the key structural areas targeted by the ECF is adequate to support the completion of the review.** Capacity constraints and inadequate physical infrastructure continue to pose significant challenges to structural reforms. The authorities are working to overcome crucial impediments, and the Fund is collaborating, including through technical assistance. Some actions of the structural agenda were implemented, including the allocation of office space to the medium-sized taxpayer office by the tax department (DGI), and the establishment of a task force to review the Public Investment Program (PIP) by the Ministry of Finance. Some progress was observed in strengthening debt management, and on Treasury Single Account (TSA) implementation, although not enough to meet the corresponding structural benchmarks. With respect to the latter, a prior action involving the establishment of Accounting Center No. 1 was successfully implemented (paragraph 21). The proposed modification of end-March 2014 performance criterion on BRH credit to the central government reflects updated projections of the timing of budget financing, including external grants and net Treasury bill

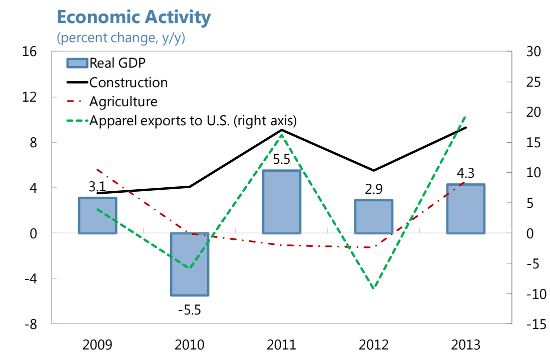
[1] MINUSTAH (in Haiti since 2004) remains one of the largest U.N. peace-keeping operations worldwide, though with plans to significantly reduce its size in the coming years.

[2] The indicative target on monetary base expansion was not observed given that the program did not reflect the effect of the increases in legal reserve requirements in February and June 2013 on bank reserves.

placement. In turn, the proposed modification of the performance criterion on BRH net domestic assets reflects updated monetary base projections.

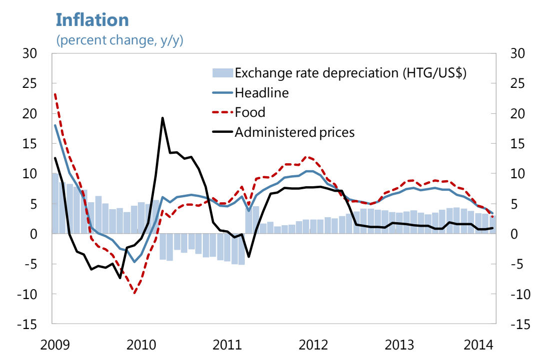
MACROECONOMIC DEVELOPMENTS, OUTLOOK, AND RISKS

5. Economic activity continued to advance in FY2013, despite negative weather events early in the fiscal year. Better-than-expected farm output pushed headline real GDP growth to 4.3 percent, higher than the 3.4 percent projected in the sixth review. Non-farm real output increased by 4.2 percent, as services saw strong growth, public investment continued to support construction, and increased apparel exports pushed manufacturing.



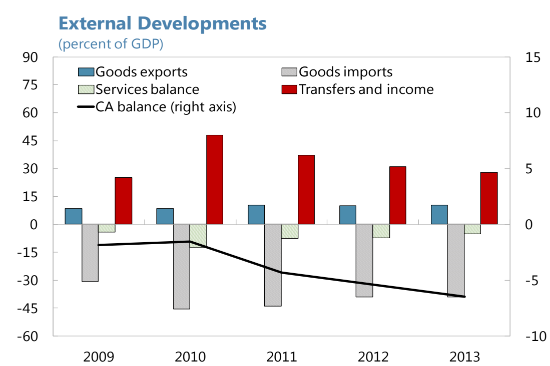
Sources: IHSI; Global Trade Atlas; and IMF staff estimates.

6. Inflation declined and the gourde depreciated moderately. Against the backdrop of controlled domestic oil prices and broadly stable international food prices, inflation decreased to 4.5 percent (y/y) at end-FY2013, from 6.5 percent at end-FY2012.[3] The gourde depreciated by 3.4 percent (y/y) against the U.S. dollar through September, in the context of increased intervention by the Central Bank.



Sources: IHSI; and IMF staff estimates.

7. The current account deficit deteriorated to 6.5 percent of GDP (from 5.4 percent in FY2012), and was financed mainly by inflows from Venezuela. Goods exports increased by 11 percent as apparel sales to the U.S. continued to grow in the context of the HELP/HOPE acts (Box 1). Imports increased by nearly 8 percent, mainly in oil and food.[4] Remittances increased significantly and the service balance improved. Net official transfers decreased, as post-earthquake humanitarian assistance declined (Box 2). The deficit continued to be mainly financed by inflows from Venezuela in the context of the Petrocaribe initiative (Box 3), as well as by some FDI flows and a



Sources: National Authorities; and IMF staff estimates.

[3] After reaching record highs in the first half of 2013, following various shocks (including Hurricanes Isaac and Sandy), food prices fell back to near five-year averages. Bean and maize prices are about 30 percent lower than in January 2013, due to good crop yields. This improved food availability in most of the country.

[4] Official import figures are significantly lower than those declared by partner countries. This likely explains part of the large errors and omissions in Haiti's balance of payments.

decrease in net foreign assets.

8. The fiscal deficit increased to 6.7 percent of GDP in FY2013 due to a gasoline price freeze that dented revenues and on transfers to the electricity sector. While domestic tax revenues were slightly below program targets, current spending was larger than programmed to finance the deficit of the state-owned electricity company (EDH). Larger-than-expected levels of domestically-financed public investment pushed capital spending up.

9. The BRH tightened monetary policy and increased intervention in the foreign exchange market in FY2013. In response to foreign exchange market pressures, the BRH increased net dollar sales in FY2013 to US$120 million (from US$72 million in FY2012). The BRH also tightened monetary policy through an increase in legal reserve requirements, although the return on Central Bank bonds remained negative in real terms. Pressures in the foreign exchange market were mainly the consequence of the larger-than-programmed fiscal deficit and rapid private sector credit growth. Compared with their level in FY2012, gross international reserves declined by US$262 million through end-FY2013, and at end-December 2013 they remain adequate at about 5 months of prospective imports.[5]

10. The evolution of monetary aggregates reflected government policies and some de-dollarization, while the banking system remained well capitalized and profitable. The monetary base grew by nearly 16 percent on account of a surge in reserve deposits, mainly reflecting higher legal requirements. Broad money grew by about 7 percent, with dollar deposits growing less than in gourdes. Credit to the private sector increased by 16 percent in FY2013 (y/y), down from 30 percent in FY2012. Non-performing loans remained low at less than 3 percent. Credit dollarization fell, but deposit dollarization remains high. According to the BRH, all banks maintain capital adequacy ratios above 12 percent, the regulatory minimum.

11. For FY2014, staff expect GDP growth, inflation, and the current account deficit to remain at levels similar to those observed last year. Non-farm real GDP is projected to grow by about 4 percent, supported by public investment, remittance-fueled consumption, and apparel exports, with headline GDP expected to rise by 3–4 percent. Given projected declines in international oil and food prices, modest exchange rate depreciation, and only a gradual liberalization of domestic oil prices, inflation would reach 5–6 percent (eop). The current account deficit (as a share of GDP) would decrease somewhat as a lower trade deficit would offset a continued decline in official transfers. Employment in the formal sector will continue to increase, in particular in the apparel sector. Credit to the private sector is expected to remain broadly stable as a share of GDP.[6]

12. The macroeconomic outlook and the conditions for policy implementation are subject to a number of downside risks (See Annex I-Risk Assessment Matrix). In particular,

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[5] This comparison of gross reserve levels excludes the effect of the contracting of repurchase operations for international reserve management purposes. The recording of repos has the effect of increasing gross international reserves.

[6] The budget for FY2014 that was rejected by the Senate incorporated a proposal to change a number of import tariffs. Staff is following ongoing discussions closely to assess the possible impact of any changes in domestic prices.

- *On the external front*, future aid flows are not assured as a number of donors are concerned at the slow progress in strengthening governance and transparency. Official flows and remittances could also suffer if the recovery in advanced economies falters. The macroeconomic situation in Venezuela remains challenging, casting doubts about Petrocaribe's sustainability. Finally, commodity price shocks could also stress the domestic economic environment.
- *On the domestic front*, reform momentum could suffer if political tensions resume. Tax revenues could be lower than programmed if progress in strengthening the Medium and Large Taxpayers Offices (MTO and LTO) slows, or if international oil prices increase while the domestic price freeze continues, which would lower excise and custom duties and potentially result in an increase in transfers. In addition, if the pace at which Petrocaribe support is spent remains at the levels of the second half of FY2013, the central government fiscal deficit could increase by 1 percent of GDP. This would reduce the government's room to maneuver in the face of shocks, as the size of fiscal buffers would be reduced. Ongoing budget discussions may result in a further accommodation of spending pressures. At the same time, failure to pass the FY2014 budget by end-March may result in under-execution of the Public Investment Program (PIP), with some downside risks to growth.

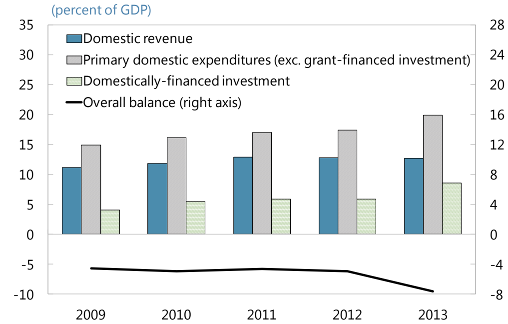
SEVENTH REVIEW DISCUSSIONS

The mission assessed end-September targets and progress in implementing structural measures, including on the Treasury Single Account, tax administration, public debt management and the public investment framework. It also agreed on fiscal and monetary policies for FY2014 and on an updated path for the structural reform agenda to achieve ECF objectives.

A. Fiscal Policy

13. The overall fiscal deficit increased to 6.7 percent of GDP in FY2013 (*vis-à-vis* 4.8 percent in FY2012 and 5.5 percent in the program), as changes in the oil-price mechanism dented revenues and significant subsidies kept current expenditure high. Domestic revenues (excluding those earmarked for the National Education Fund, NEF) were 12.2 percent of GDP in FY2013, slightly below the program target. This outcome reflected some over-performance of custom duties, which was more than offset by weaker income tax collection given delays in strengthening the LTO.[7] The domestic revenue shortfall *vis-à-vis* the program was offset by higher-than-programmed budget

Central Government
(percent of GDP)



Sources: MEF; and IMF staff estimates.

[7] IMF technical assistance indicates that more consistent implementation of recommendations (including the separation of operation and strategy units, the cleaning of the tax register at the LTO, and improving compliance to about 90 percent of tax payers within the LTO), could have resulted in revenue gains of about 0.3 – 0.4 percent of GDP.

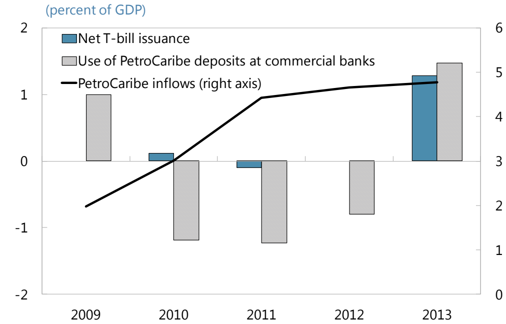
(continued)

support grants. Fixed prices of oil products at the pump combined with higher import prices have cost around 1 percent of GDP in foregone revenues compared with FY2012. In turn, current spending reached 11.8 percent of GDP (10. 9 percent in the program) on the back of larger-than-programmed transfers to EDH. Capital spending was higher than programmed by around 0.3 percent of GDP, given larger-than-expected levels of domestically-financed public investment.

14. The electricity sector's performance during FY2013 did not improve as expected. Financial support to EDH comprised on-budget transfers of around 0.6 percent of GDP, and off-budget transfers financed with Petrocaribe-related resources of 0.9 percent of GDP in the form of fuel provision for energy generation. In addition, the *Bureau de Monetisation* (BMPAD, an autonomous agency of the Ministry of Finance that manages Petrocaribe resources), accumulated claims of about 0.8 percent of GDP *vis-à-vis* independent power producers (IPPs) for unpaid oil bills (Box 4).[8]

15. The budget continued to be mainly financed by external grants and by concessional resources from Venezuela. The use of the latter to finance public investment and EDH's financing gap has resulted in rising external debt and a decrease in central government deposits in the banking system. In turn, net issuance of treasury bills in FY2013 amounted to 1.3 percent of GDP, of which 0.8 percent of GDP were placed at commercial banks. Staff estimates the central government's creditor position *vis-à-vis* the electricity sector increased by 0.9 percent of GDP.

Government Finance
(percent of GDP)



Sources: BRH; MEF; BMPAD; and IMF staff estimates.

16. The FY2014 budget has not yet been passed by Parliament, but the government is building consensus for approval by end-March. In the meantime, the Constitution maintains all ministries' expenditure limits the same as in the FY2013 budget (*Budget reconduit*). Staff urged the authorities to retain the budget envelope agreed at the sixth review, and stressed that delays in passing the budget will complicate spending execution, in particular of investment. The authorities explained that the revised FY2014 budget would be broadly similar to the original version. Reflecting NEF revenue and expenditures in FY2014, fiscal accounts will result in an overall deficit of 6.7 percent of GDP (0.2 percent of GDP lower than programmed).

17. Staff urged the authorities to increase domestic revenues. Revenues (both domestic and at customs) for the first quarter of FY2014 were broadly in line with expectations. Higher-than-programmed budgetary support grants (mainly from the European Union) and efforts in

[8] These unpaid oil bills were the counterpart of EDH's payment arrears with IPPs. Part of those arrears (about US$13 million, 0.2 percent of GDP), triggered government guarantees, and thus, were paid through a reduction of central government deposits at the BRH.

strengthening tax administration are expected to offset the loss (*vis-à-vis* the program) associated with the continuation of the price freeze of petroleum products (about 1 percent of GDP). In this regard, staff and the authorities agreed on the need for technical assistance to replace the current oil price mechanism with a framework that allows for more focused subsidies and gradual increases in fuel prices. The authorities expect to have a proposal ready (with assistance from the World Bank) by June 2014.

18. Staff argued that containing expenditure is essential to ensure that public debt remains sustainable and to preserve needed fiscal buffers. Staff urged the authorities to resist pressures to further increase the wage bill in the revised FY2014 budget as the original bill already accommodated a significant rise with respect to FY2013 (due to an increase in wages and the hiring of teachers, health service workers, and security forces).[9] In addition, staff emphasized the need to contain transfers and subsidies, in particular to the electricity sector. With respect to public investment, staff advised the authorities to keep investment plans in line with prospective resources. In particular, staff recommended setting Petrocaribe-financed capital spending at a level consistent with preserving Petrocaribe-related deposits at commercial banks, which has proved to be an effective buffer against shocks in recent years. This would help to contain fiscal risks, including those relating to weather events or a 'sudden-stop' of Venezuela-related concessional flows (see DSA Annex). The authorities explained that as MINUSTAH decreases its presence in the country, plans to expand the national police will likely result in renewed pressures on the wage bill; they agreed on the need to contain subsidies; and shared staff views on the importance of fiscal buffers. With respect to the latter, they however pointed out that Haiti's needs are so pervasive (in particular in infrastructure) that capital spending needs will continue to be significant through the medium-term.

19. Staff stressed the importance of monitoring and containing quasi-fiscal risks and contingent liabilities, particularly in the electricity sector. Staff discussed prospective transfers to the electricity sector and ways to contain them. Staff stressed that progress in tackling structural problems in the sector would create a better environment for growth and would free up resources for social spending. This will require setting clear, time-bound targets (in terms of theft reduction and improvements in collection, and as a result in the cash-recovery index) for EDH management, coupled with a progressive reduction in government transfers. The ministry of finance committed to strengthen the monitoring of the electricity sector, so as to have a better grasp on fiscal contingencies, as well as better information upon which to base consolidation plans. Staff also urged the authorities to monitor cross debts among participants in the sector, in order to better control the creation of contingent liabilities.

20. The overall deficit for FY2014 will be financed by Venezuela-related flows, Treasury bill net placements, and by decreases in deposits at the banking system. Net external financing will be around 4 percent of GDP, mostly in Petrocaribe flows. Domestic financing will include further issuance of treasury bills (0.9 percent of GDP), use of Post-Catastrophe Debt Relief (PCDR) resources (0.8 percent of GDP), and a decrease in central government deposits (1.7 percent of GDP). Staff

[9] As described in the sixth ECF review, part of the increase in the wage bill during FY2014 reflects the effect of an appropriate reclassification of spending.

cautioned that the short maturity of treasury bills (of about 3 months) could result in increasingly large roll-over needs unless further placements increase their average maturity. This, in turn, could create an additional source of fiscal vulnerability. The stock of treasury bills at end-January 2014 amounted to 1.3 percent of GDP.

21. Despite impediments to progress in the face of persistent capacity and infrastructure constraints, the authorities advanced the ECF structural agenda. Staff argued that strengthening governance and making the budget process more transparent could promote further donor flows. In this regard, staff urged the authorities to continue to strengthen tax administration, and the governance, transparency, and effectiveness of the public investment framework. In particular,

- **Strengthening Tax Administration.** In September, the tax department (DGI) allocated space to the medium-sized taxpayer office (end-September structural benchmark). The establishment of the new office should contribute to broadening the tax base and increase revenues. Work is also proceeding to strengthen the LTO to ensure better control and compliance, and to resolve some office space constraints. Staff argued that broadening the tax base would help offset the projected medium-term decline in aid flows.
- **Strengthening Debt Management.** The Debt Unit (DU) was relocated from the Budget Directorate to the Treasury, which now has a stronger mandate in designing the government's financing strategy. While the DU's Back Office is fully staffed, the Middle and Front offices are not yet functional, and thus the corresponding end-December benchmark was not met. A workshop on Debt Sustainability, co-hosted by the authorities and staff in January 2014, strengthened officials' capacity to deliver independent DSAs, and discussed the DU's work program. The U.S. Treasury's Office of Technical Assistance (OTA) and the World Bank are also assisting the authorities in this area.[10]
- **Setting up a task force to review the Public Investment Program (PIP).** A task force was set up at the Ministry of Finance to analyze the framework for implementing public investment decisions. The work of the task force will be complemented by the analysis of a group of international experts (financed by the French government), and will begin during the first quarter of 2014 (end-December structural benchmark). This analysis will help assess why the large investment budget of the past few years did not result in higher economic growth (Box 5).
- **Treasury Single Account (TSA).** Staff and the authorities revised the timetable for the implementation of the TSA, in order to have its first phase in place by end-FY2014, as envisaged at the sixth ECF review.[11] This requires a re-definition of the structural benchmark

[10] In February 2013, the President sent to Parliament a public debt law (which assigns debt management responsibilities to the Ministry of Finance), and a law reorganizing the Ministry of Finance (that elevates the Treasury Department to a general directorate in charge of cash and debt management). Approval of these laws is still pending.

[11] The timetable comprises three phases: (i) by end-2014, each government entity will be allowed to hold a maximum of three accounts, which will help reducing the total number of accounts to 200; (ii) from October 2014 onwards, the

(continued)

for end-March 2014, and a new structural benchmark for end-June 2014. Progress towards the TSA is quite advanced in a number of ministries, but is only at a preliminary stage in others. Staff agreed with the authorities that full TSA implementation in the more advanced ministries should proceed as soon as possible. TSA introduction in the remaining ministries should proceed in stages, with priority given to those ministries responsible for the largest share of spending (including the Ministries of Planning, Public Works, Education, and Health). Accordingly, key measures to fast-track TSA implementation in a number of ministries were implemented and Accounting Center No. 1 (comprising the Ministries of Finance, Tourism, Commerce, and Environment) is now fully operational (prior action). The Prime Minister has prioritized TSA implementation in all remaining ministries, although some delays are to be expected, in particular due to the (chronic post-earthquake) lack of office space for the additional Accounting Centers. By end-March, the authorities have committed to fully implement Accounting Center No. 2 (Ministries of Planning, Public Works and Agriculture), and to have around 80 percent of all expenditure covered by the TSA by end-June 2014.

B. Debt Sustainability

22. Haiti's risk of debt distress remains high. The country's main challenge is to balance the need for fiscal consolidation with large social and investment needs. While a stronger than warranted fiscal adjustment may compromise GDP growth and progress in addressing social needs, too large a primary deficit could affect macroeconomic stability. Following significant post-earthquake debt relief (including US$268 million by the Fund, 4 percent of FY2010 GDP), the DSA's baseline scenario suggests that Haiti will significantly build up debt over the medium-term, the sustainability of which will be challenged by Haiti's narrow export base and low revenue.[12] Alternatively, swift progress in the implementation of reforms should result in a stronger fiscal position, an environment more conducive to growth, and lower debt accumulation. While the debt profile in the baseline is vulnerable to shocks to borrowing conditions, to a decrease in the value of the gourde, and to a decline in growth rates, the risk of debt distress would be reduced and vulnerabilities contained in case progress in reform implementation is accelerated (DSA Annex).

23. In particular, a sudden stop of Petrocaribe-related inflows could jeopardize growth prospects and deteriorate public debt indicators in the medium term. A sudden stop of Petrocaribe flows would lead to a substantial fiscal adjustment and a decrease in GDP growth, as it would severely constrain financing of investment spending and of the electricity sector's deficit. Domestic tax revenues would fall below baseline projections, government deposits (and international reserves) would decrease to partially cushion the shock, and EDH's deficit would likely

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number of accounts will be reduced further to three per sector entity; and (iii) by end-September 2015, all government accounts will be consolidated under the main Treasury account at the central bank. The authorities will continue to receive assistance from the Fund, including through a resident advisor financed by Canada, as well as from the U.S. Treasury's OTA.

[12] Debt buildup in the baseline scenario during the next few years is mainly driven by further disbursements of Petrocaribe-related flows at current terms (Box 3).

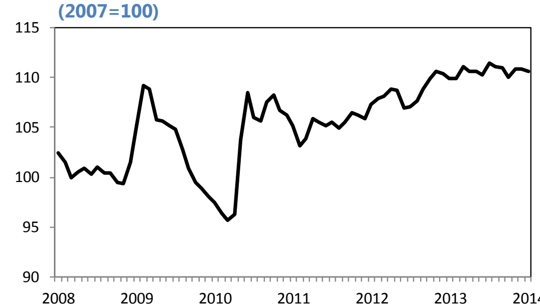
fall (through a combination of higher tariffs, longer blackouts, and collection improvements). Staff believe that it would be difficult to fully substitute Petrocaribe flows with other bilateral concessional resources, at least in the short-term. This would result in the accumulation of (relatively expensive) domestic debt, and thus, in worse public debt indicators through the medium term.

C. Monetary, Exchange Rate, and Financial Sector Policies

24. The real exchange rate has drifted slowly upwards during the last few years. In the last Article IV Consultation (March 2013) staff analysis suggested that after sharply appreciating in the immediate aftermath of the earthquake on a surge of aid flows, the gourde has depreciated against the dollar in nominal terms by around 3 percent per year over the past three years. Meanwhile a narrowing of inflation differentials has allowed the gourde to remain broadly unchanged in real effective terms during the last two years. Staff argued that the sustainability of the real exchange rate over the medium-term will depend on structural reforms to boost competitiveness.

25. Staff recommended that foreign exchange market intervention should aim at keeping the exchange rate aligned with economic fundamentals, while avoiding unwarranted volatility. Staff argued that the still-large fiscal deficit expected for FY2014 may result in renewed downward pressure on the exchange rate. Staff also noted that the supply of foreign exchange will likely be reduced as aid flows gradually decline. Against this backdrop, staff sees a need to balance the use of the exchange rate as a nominal anchor, and preserving international reserve buffers. Staff argued that the policy mix should be composed of a parsimonious use of foreign exchange reserves to relieve pressures, and if needed, further monetary policy tightening. This would strengthen the credibility of BRH's intervention in the foreign exchange market and of monetary policy more generally. Staff acknowledged that the increase in legal reserve requirements in FY2013 contributed to slowing private credit growth, and advised that as reserve requirements are already high, any further needed tightening in policies should occur through increases in rates of BRH bills, which remain negative in real terms.

Real Effective Exchange Rate (2007=100)



Source: IMF staff calculations

26. Staff recognized progress in a number of structural areas, but urged the authorities to speed up implementation of pending actions. In particular,

- **Strengthening the functioning of the Exchange Rate Market.** BRH staff explained that they are committed to increase the transparency, efficiency, and depth of the foreign exchange market. BRH staff also argued that the implementation of an electronic platform will contribute to that end, and have requested the Fund a technical expert that will assist the BRH in its design and implementation.

- **Implementation of Safeguard Assessment Recommendations.** Progress in the implementation of the safeguard assessment recommendations continues, although slowly in some areas. The BRH has published its FY2012 audited financial statements and will publish the FY2013 statements by end-July 2014. Staff encouraged the authorities to accelerate the full adoption of IFRS following steps that have been initiated between the BRH and the Ministry of Finance to set up a committee to monitor its implementation. Moreover, the mission urged the BRH to strengthen the Investment Committee's autonomy from investment operations, and to appoint a compliance officer to monitor foreign reserves policy and observation of investment guidelines.

- **Strengthening International Reserve Management.** Staff and authorities agreed that the BRH will request (before June 2014) Fund support to conduct an assessment of foreign reserve management guidelines. This assistance will result in recommendations tailored to Haiti's circumstances.
- **AML/CFT.** In November 2013, the President promulgated the AML/CFT law which addresses several outstanding Caribbean Financial Action Task Force (CFATF) recommendations, but further action on the part of the authorities will likely be needed. The sixth follow-up CFTAF report moved Haiti to the second stage of enhanced follow-up. Effective implementation of the AML/CFT framework would also help strengthening governance.
- **Laws on Financial Cooperatives, and on Microfinance Institutions (MFIs).** A Law on MFIs and another on Financial Cooperatives are still pending approval at Parliament. The Ministry of Finance has launched a campaign to win their enactment.

27. Staff underlined the need to strengthen bank supervision. In particular, staff suggested that stress testing should be implemented more systematically. Authorities noted that banks' portfolios were mainly allocated to commercial credit, with consumer and mortgage lending accounting for less than 20 percent of the total, and that risks were contained. Staff emphasized that credit concentration could represent a risk, and noted that the banking system also remains concentrated (with the top three banks accounting for about 80 percent of assets and deposits). Authorities underscored that banks remain profitable. Staff and authorities agreed that further financial deepening could be supportive of growth, but that careful monitoring of attendant risks was needed.

OTHER ISSUES

28. Poverty Reduction Strategy Paper (PRSP). The authorities have recently published a three-year investment program as part of the "Strategic Plan for the Development of Haiti" (PSDH), which establishes a framework for growth and poverty reduction. The Ministry of Social Affairs is finalizing a document that elaborates on the poverty reduction objectives laid out in the PSDH. A new PRSP progress report, based on the PSDH, was circulated to the Board. The last progress report had been circulated to the Board in early 2012.

29. Improving economic data remains essential. The government has requested technical assistance from the IMF to strengthen national accounts and external statistics. This would entail, *inter alia*, revising the base year and improving source data (including on the informal sector). Strengthening external accounts would require improving data collection for inward direct investment, trade, remittances, foreign aid, and services.

30. The authorities indicated interest in a follow-up Fund-supported program. They envisage that a follow-up program would permit them to consolidate gains in macroeconomic stabilization, while allowing them to pursue a structural reform agenda focused on lifting obstacles for growth. Staff indicated that the mission to discuss the eight (and final) ECF review would be a good opportunity to start discussing these issues. The current ECF expires in August 2014.

STAFF APPRAISAL

31. Program performance is broadly satisfactory. GDP growth in FY2013 was better than expected, inflation decreased, and external reserve buffers remained adequate. The breach of the performance criterion on the contracting of non-concessional debt by the public sector resulted from an unintentional oversight. Staff believe that the granting of a waiver of nonobservance is warranted given the implementation of timely corrective action. There has been progress on structural reforms since the sixth review, although its pace has been in part constrained by capacity and infrastructure limitations.

32. Speeding up the implementation of reforms should support higher growth. Consistent progress in the implementation of the structural agenda would contribute to debt sustainability, improve competitiveness and growth prospects, strengthen the control over fiscal policy, promote additional donor support, and lay the basis for more effective social and growth-enhancing spending. Sustained trade access to the U.S. should contribute to further job expansion and increased investment in export-related activities (Box 1). More readily-available information of effectiveness of investment projects (both government and donor-financed), should allow for better coordination, and a higher impact of public investment on growth (paragraph 39).

33. The macroeconomic outlook and the conditions for policy implementation are subject to significant downside risks. On the external front, slow progress in strengthening governance and transparency, a slower-than-expected recovery in advanced economies, or a further deterioration in the macroeconomic situation of Venezuela, could all result in lower external grants and concessional flows. Commodity price shocks could also be a source of stress, particularly to the energy bill. On the domestic front, reform fatigue in tax administration, and renewed spending pressures (including for Petrocaribe-related spending) could further worsen the fiscal picture. This would reduce fiscal buffers and the room to react in case of shocks. On the structural front, reform momentum could slow if political tensions resume.

34. In particular, a sudden stop of Venezuela-related flows would be detrimental to growth and debt sustainability. The shock would result in decreases in public investment and problems to finance the electricity sector's deficit, thereby jeopardizing growth prospects. The resulting lower concessionality in financing would also worsen Haiti's debt indicators. Mitigating this risk requires increasing domestic revenues (paragraph 36), containing expenditure growth (in particular of transfers) (paragraph 35), and advancing decisively in reducing EDH's deficit (paragraph 37).

35. Fiscal policy during FY2014 and in the next few years needs to slow debt accumulation. The DSA highlights that Haiti's external debt continues to be at a high risk of debt distress, but that vulnerabilities could be contained by swifter reform implementation. The challenge in the next few years will be to strike a balance between needed social and investment spending and the imperative of reducing the primary deficit to keep it consistent with debt sustainability. Against this backdrop, it is crucial that the revised FY2014 budget is in line with that agreed at the sixth ECF review, and that spending pressures remain contained. Increases in short-term domestic debt should be limited to those agreed within the ECF, and fiscal buffers should be preserved.

36. Increasing revenues is essential. About one half of central government expenditures were financed by external flows during the last three years, but some of these flows will decline in the medium term and some may be drastically reduced if risk events materialize. Enlarging the tax base through strengthened tax administration (in particular through an effective MTO and LTO), and combating evasion at customs are crucial to build a domestic revenue base that could offset expected decreases in external flows. Moreover, the continuation of the fuel price freeze has been too costly (around 1 percent of GDP), and its replacement with a framework that allows for more focused subsidies and a gradual increase in prices is urgent.

37. The electricity sector is a drag on the budget and poses contingent fiscal risks that need to be contained. Higher transfers (in particular to the electricity sector) explained most of the deviation *vis-à-vis* the program in the primary deficit for FY2013, and transfers are projected to remain elevated in FY2014. Progress in tackling structural problems in the sector, in particular in the state-owned EDH, would create a better environment for growth, and would free up resources for social spending. In this regard, clear, time-bound targets aimed at improving performance should be established for EDH management. Staff supports the efforts of the World Bank, the IDB and the U.S. in this area.

38. The TSA needs to be implemented. Centralization of government accounts is vital for spending control, and for more effective policy implementation. The authorities have made headway on TSA implementation, but efforts have sometimes been constrained by lack of capacity and adequate physical infrastructure. Pushing forward to include the larger line ministries (Planning, Public Works, Education, and Health) in the TSA will result in better coordination, stronger expenditure control, and more efficient cash and debt management. It will be important that the public debt law and the law reorganizing the ministry of finance are passed by Parliament.

39. Strengthening the governance and transparency of the budget process will increase the effectiveness of fiscal policy and could promote higher donor flows. Despite large increases in public investment during the past few years, growth has continued to be relatively modest. The analysis of public investment decisions and outcomes should shed light on the apparent low impact of the relatively large investment budget. In particular, given that about one half of public investment is composed of donor-managed and donor-financed projects, more readily-available information of project effectiveness and geographical location should contribute to improved coordination (among donors and with the government) and a higher impact of public investment on growth (Box 2).

40. Central Bank intervention in the foreign exchange market should focus on smoothing volatility while ensuring that the exchange rate remains aligned over time with fundamentals. The still-large fiscal deficit expected for FY2014, and a gradual decline in total external aid flows may result in renewed pressures on the exchange rate. Monetary policy implementation will need to balance the use of the exchange rate as nominal anchor with the need to preserve buffers that could be used in the face of shocks. The use of reserves to relieve pressures should take into consideration long-term trends in the exchange rate market, and if further tightening is needed, it should be implemented through interest rates as legal reserve requirements are already high. Strengthening the functioning of the exchange rate market will contribute to a faster transmission of policy signals.

41. Pending safeguard assessment recommendations should be implemented. Progress in this area has been observed; in particular, the Central Bank's FY2012 audited financial statements were published, and those corresponding to FY2013 will be published by July 2014. Accelerating IFRS adoption and strengthening the autonomy of the Investment Committee is important. An assessment of foreign reserve management guidelines will help staff and authorities identifying the parameters of optimal reserve levels and their composition. On bank supervision, staff believes that stress testing should be performed more systematically, in view of credit concentration.

42. Some pending financial issues will require action in the coming months. In particular, the CFTAF increased scrutiny over Haiti, and despite the fact that the AML/CFT law promulgated at end-2013 addresses some of the CFTAF recommendations it is likely that further action will be needed. Also the draft laws on Cooperatives and on Microfinance Institutions are still pending approval in Parliament.

43. Staff recommend the completion of the seventh review under the ECF arrangement, the modification of performance criteria, and the granting of a waiver of nonobservance of performance criterion

Table 1. Haiti: Selected Economic and Financial Indicators, 2009/10 - 2013/14

(Fiscal year ending September 30)

Nominal GDP (2013): US$8.5 billion — GDP per capita (2013): $820

Population (2013): 10.3 million — Percent of population below poverty line of US$1.25 per day (2006-2011): 62

	2009/10	2010/11	2011/12	2012/13		2013/14	
				Prog.		Prog.	
	Act.	Act.	Prov.	(EBS/13/100)	Est.	(EBS/13/100)	Proj.
	(Change over previous year; unless otherwise indicated)						
National income and prices 1/							
GDP at constant prices	-5.5	5.5	2.9	3.4	4.3	4.5	4.0
GDP deflator	5.5	7.5	5.3	5.3	6.6	3.8	5.1
Consumer prices (period average)	4.1	7.4	6.8	7.1	6.8	4.4	4.1
Consumer prices (end-of-period)	4.7	10.4	6.5	6.0	4.5	5.0	5.7
External sector							
Exports (goods, valued in dollars, f.o.b.)	2.2	36.3	2.2	17.1	11.4	14.8	7.5
Imports (goods, valued in dollars, f.o.b.)	48.1	6.8	-4.2	6.7	7.7	3.3	2.0
Real effective exchange rate (end of period; + appreciation)	7.9	2.1	2.4	...	0.7	...	n.a.
Money and credit (valued in gourdes)							
Credit to private sector (in dollars and gourdes)	-5.6	24.5	29.8	21.6	16.2	18.0	8.0
Base money (currency in circulation and gourde deposits)	31.2	6.0	-3.7	8.9	15.7	8.5	7.1
Broad money (incl. foreign currency deposits)	22.7	10.4	6.9	8.0	6.6	7.8	8.5
	(In percent of GDP; unless otherwise indicated)						
Central government 2/							
Overall balance (including grants)	2.2	-3.6	-4.8	-5.5	-6.7	-6.9	-6.7
Domestic revenue	11.8	12.8	12.8	12.3	12.7	13.0	13.2
Grants	12.1	9.1	10.6	8.4	8.1	6.8	7.4
Expenditures	21.7	25.5	28.2	26.2	27.5	26.7	27.3
Current expenditures	11.2	11.6	11.9	10.9	11.8	11.5	12.5
Capital expenditures	10.5	13.9	16.3	15.3	15.6	15.3	14.9
Savings and investment							
Gross investment	25.4	27.9	29.5	25.7	30.0	28.6	29.2
Of which: public investment	10.5	13.9	16.3	15.3	15.6	15.3	14.9
Gross national savings	23.9	23.6	24.1	19.9	23.6	22.9	23.3
Of which: central government savings	3.9	2.4	1.2	2.1	1.9	2.0	1.9
External current account balance (including official grants)	-1.5	-4.3	-5.4	-5.8	-6.5	-5.7	-5.8
External current account balance (excluding official grants)	-29.3	-23.5	-17.9	-16.0	-15.3	-14.3	-13.6
Public Debt 3/							
External public debt (medium and long-term, end-of-period)	13.0	8.7	13.5	17.3	17.4	20.7	19.8
Total public sector debt (end-of-period) 4/	13.0	8.7	14.4	20.4	19.5	24.5	22.9
External public debt service 5/	0.6	0.1	0.6	1.5	1.6	2.5	2.4
	(In millions of U.S. dollars; unless otherwise indicated)						
Overall balance of payments	1,027	159	288	-290	-281	-260	-68
Net international reserves (program definition) 6/	1,100	1,175	1,303	998	1,219	738	1,124
Liquid gross reserves 7/	1,792	2,000	2,184	2,019	2,242	1,759	1,940
In months of imports of the following year 8/	4.9	5.7	5.9	5.8	6.0	4.7	4.9
Nominal GDP (millions of Gourdes)	266,952	302,854	328,061	358,272	364,811	388,727	398,705
Nominal GDP (millions of US$)	6,620	7,516	7,890	8,287	8,458	8,835	8,980

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

1/ Staff assume a range of 3.0-4.0 percent for FY2014 growth; a point projection of 4.0 percent is assumed for FY2014.

2/ Figures for FY2014 are based on the draft budget.

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

4/ Excludes central bank repurchase operations in FY2013.

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

6/ Includes SDR allocation.

7/ Excludes gold; includes transactions related to BRH repurchase operations.

8/ The projected import coverage ratio for FY2014 would amount to 5.1 months of imports considering total gross reserves.

Table 2a. Haiti: Central Government Operations, 2009/10 - 2013/14
(Fiscal year ending September 30; in millions of gourdes)

	2009/10	2010/11	2011/12	2012/13		2013/2014	
	Act.	Act.	Prov.	Prog.	Est.	Prog.	Proj.
Total revenue and grants	63,822	66,321	76,774	74,254	75,855	77,254	82,249
Domestic revenue	31,425	38,893	41,970	44,000	46,475	50,642	52,679
Domestic taxes	19,393	24,460	28,076	29,987	29,242	34,597	34,597
Customs duties	11,394	13,672	13,721	13,398	14,230	15,378	15,378
Other current revenue 1/	638	761	174	615	3,002	667	2,704
Grants	32,397	27,428	34,803	30,254	29,380	26,612	29,570
Budget support	8,966	3,492	1,123	2,594	3,791	1,980	4,573
Project grants	12,742	23,935	33,681	27,660	25,589	24,632	24,997
Total expenditure 2/	58,002	77,352	92,490	93,915	100,208	103,976	109,036
Current expenditure	29,849	35,232	39,006	39,121	43,158	44,655	49,801
Wages and salaries	14,563	14,809	16,706	20,923	20,007	23,700	23,700
Goods and services	7,040	7,525	11,406	11,465	11,320	13,820	13,820
Interest payments	1,569	1,272	1,359	1,625	1,711	1,476	1,755
External	452	153	229	397	407	271	571
Domestic	1,118	1,119	1,130	1,228	1,304	1,205	1,184
Transfers and subsidies	6,677	11,626	9,534	5,108	10,120	5,659	10,526
Of which: energy sector 3/	3,793	8,233	4,844	2,600	5,652	2,500	5,741
Capital expenditure	28,153	42,120	53,484	54,794	57,051	59,321	59,234
Domestically financed	14,689	17,642	19,252	26,638	31,190	33,214	33,923
Of which: Treasury	13,475	16,431	19,252	26,286	31,190	33,214	33,923
Of which: related to PetroCaribe spending	2,991	7,479	9,264	14,442	14,450	14,442	15,151
Foreign-financed	13,464	24,478	34,232	28,157	25,861	26,107	25,312
Overall balance including grants	5,819	-11,031	-15,716	-19,661	-24,353	-26,722	-26,787
Excluding grants	-26,577	-38,458	-50,520	-49,915	-53,733	-53,334	-56,357
Excluding grants and externally financed projects	-13,113	-13,980	-16,288	-21,759	-27,873	-27,227	-31,045
Adjustment (unsettled payment obligations)	3,713	-35	145	0	-149	0	0
Financing	-2,107	10,996	15,861	19,661	24,204	26,722	26,787
External net financing	9,530	16,341	15,454	16,420	16,636	17,304	16,076
Loans (net)	9,530	16,341	15,454	16,420	16,636	17,304	16,076
Disbursements	9,836	16,419	15,581	17,110	17,425	18,384	17,214
Of which: Petrocaribe	9,114	13,216	15,029	16,613	17,153	16,909	16,899
Project loans	722	543	551	497	272	1,475	315
Amortization	-306	-77	-127	-690	-789	-1,080	-1,138
Arrears (net)	0	0	0	0	0	0	0
Internal net financing	-11,637	-5,345	407	3,241	7,568	9,418	10,711
Banking system	-13,945	-7,180	-3,474	1,787	10,489	7,743	11,537
BRH	-11,248	-2,929	-427	2,305	2,332	5,200	5,200
of which PCDR	0	0	1,130	1,729	1,587	3,000	3,000
Commercial banks	-2,697	-4,251	-3,048	-517	8,157	2,543	6,337
Of which: T-bills	300	-300	0	1,654	2,875	5,010	1,875
Nonbank financing 4/	2,308	1,835	3,882	1,454	-2,921	1,675	-825
Of which: T-bills	0	0	0	1,103	1,800	1,875	1,875
Arrears (net)	0	0	0	0	0	0	0
Memorandum items							
Balance of Petrocaribe deposits	6,539	10,490	13,538	15,709	8,555	18,176	4,900
at BRH	0	0	0	0	0	0	800
at commercial banks	6,539	10,490	13,538	15,709	8,555	18,176	4,100
Balance of PCDR account (in millions of US$)	268	268	243	202	211	133	138
Social spending (in millions of Gourdes)	2,638	9,700	13,774	14,150	14,350	15,500	15,500
Nominal GDP (millions of Gourdes)	266,952	302,854	328,061	358,272	364,811	388,727	398,705

Sources: Ministry of Finance and Economy; and Fund staff estimates and projections.
1/ The outturn for FY2013 and projections for FY2014 include revenues of the National Education Fund (NEF).
2/ Commitment basis, except for domestically financed spending, which is reported on the basis of project account replenishments.
3/ It includes transfers from Petrocaribe resources from FY2011 onwards.
4/ It includes Treasury bills, the increase in outstanding debt of IPPs vis-à-vis BMPAD, increases in central government claims vis-à-vis EDH, net checks in circulation, and payments of judiciary sentences and other domestic claims.

Table 2b. Haiti: Central Government Operations, 2009/10 - 2013/14

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

	2009/10	2010/11	2011/12	2012/13		2013/2014	
	Actual	Est.	Prov.	Prog.	Proj.	Prog.	Proj.
Total revenue and grants	23.9	21.9	23.4	20.7	20.8	19.9	20.6
Domestic revenue	11.8	12.8	12.8	12.3	12.7	13.0	13.2
Domestic taxes	7.3	8.1	8.6	8.4	8.0	8.9	8.7
Customs duties	4.3	4.5	4.2	3.7	3.9	4.0	3.9
Other current revenue[1/]	0.2	0.3	0.1	0.2	0.8	0.2	0.7
Grants	12.1	9.1	10.6	8.4	8.1	6.8	7.4
Budget support	3.4	1.2	0.3	0.7	1.0	0.5	1.1
Project grants	4.8	7.9	10.3	7.7	7.0	6.3	6.3
Total expenditure [2/]	21.7	25.5	28.2	26.2	27.5	26.7	27.3
Current expenditure	11.2	11.6	11.9	10.9	11.8	11.5	12.5
Wages and salaries	5.5	4.9	5.1	5.8	5.5	6.1	5.9
Goods and services	2.6	2.5	3.5	3.2	3.1	3.6	3.5
Interest payments	0.6	0.4	0.4	0.5	0.5	0.4	0.4
External	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Domestic	0.4	0.4	0.3	0.3	0.4	0.3	0.3
Transfers and subsidies	2.5	3.8	2.9	1.4	2.8	1.5	2.6
Of which: energy sector [3/]	1.4	2.7	1.5	0.7	1.5	0.6	1.4
Capital expenditure	10.5	13.9	16.3	15.3	15.6	15.3	14.9
Domestically financed	5.5	5.8	5.9	7.4	8.5	8.5	8.5
Of which: Treasury	5.0	5.4	5.9	7.3	8.5	8.5	8.5
Of which: related to PetroCaribe spending	1.1	2.5	2.8	4.0	4.0	3.7	3.8
Foreign-financed	5.0	8.1	10.4	7.9	7.1	6.7	6.3
Overall balance including grants	2.2	-3.6	-4.8	-5.5	-6.7	-6.9	-6.7
Excluding grants	-10.0	-12.7	-15.4	-13.9	-14.7	-13.7	-14.1
Excluding grants and externally financed projects	-4.9	-4.6	-5.0	-6.1	-7.6	-7.0	-7.8
Adjustment (unsettled payment obligations)	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-0.8	3.6	4.8	5.5	6.6	6.9	6.7
External net financing	3.6	5.4	4.7	4.6	4.6	4.5	4.0
Loans (net)	3.6	5.4	4.7	4.6	4.6	4.5	4.0
Disbursements	3.7	5.4	4.7	4.8	4.8	4.7	4.3
Of which: Petrocaribe	3.4	4.4	4.6	4.6	4.7	4.3	4.2
Project loans	0.3	0.2	0.2	0.1	0.1	0.4	0.1
Amortization	-0.1	0.0	0.0	-0.2	-0.2	-0.3	-0.3
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internal net financing	-4.4	-1.8	0.1	0.9	2.1	2.4	2.7
Banking system	-5.2	-2.4	-1.1	0.5	2.9	2.0	2.9
BRH	-4.2	-1.0	-0.1	0.6	0.6	1.3	1.3
of which PCDR	0.0	0.0	0.3	0.5	0.4	0.8	0.8
Commercial banks	-1.0	-1.4	-0.9	-0.1	2.2	0.7	1.6
Of which: T-bills	0.1	-0.1	0.0	0.5	0.8	1.3	0.5
Nonbank financing [4/]	0.9	0.6	1.2	0.4	-0.8	0.4	-0.2
Of which: T-bills	0.0	0.0	0.0	0.3	0.5	0.5	0.5
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:							
Balance of Petrocaribe deposits	2.4	3.5	4.1	4.4	2.3	4.7	1.2
from BRH	0.0	0.0	0.0	0.0	0.0	0.0	0.2
from commercial banks	2.4	3.5	4.1	4.4	2.3	4.7	1.0
Balance of PCDR account	4.0	3.6	3.1	3.2	2.5	2.3	1.4
Social spending	1.0	3.2	4.2	3.9	3.9	4.0	3.9

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

1/ The outturn for FY2013 and projections for FY2014 include revenues of the National Education Fund (NEF).

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

3/ It includes transfers from Petrocaribe resources from FY2011 onwards.

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

Table 3. Haiti: Summary Accounts of the Banking System, 2009/10- 2013/14

	2009/10	2010/11	2011/12	2012/13		2013/14	
				Prog.		Prog.	
	Act.	Est.	Prov.	(EBS/13/100)	Proj.	(EBS/13/100)	Proj.
			I. Central Bank				
Net foreign assets	64,169	72,470	87,474	78,576	78,484	67,136	77,929
(In millions of US$)	1,607	1,773	2,067	1,786	1,794	1,526	1,730
Net international reserves (program) 1/	1,100	1,175	1,303	998	1,219	738	1,124
Commercial bank forex deposits	618	706	874	897	686	897	718
Net domestic assets	-23,386	-29,235	-45,833	-33,234	-30,323	-17,940	-26,359
Net credit to the nonfinancial public sector	9,443	5,196	3,403	8,350	4,848	13,884	12,985
Of which: Net credit to the central government	12,299	9,386	8,953	11,540	11,285	16,740	16,485
Of which: T-bills	0	0	0	0	0	0	0
Of which: IMF PCDR Debt Relief	-10,704	-10,865	-10,086	-7,036	-8,498	-3,209	-5,498
Liabilities to commercial banks (excl gourde deposits)	-33,907	-35,191	-42,736	-44,668	-35,951	-43,868	-38,301
BRH bonds/Open market operations	-9,210	-6,328	-5,742	-5,200	-5,945	-4,400	-5,945
Counterpart of commercial bank forex deposits	-24,697	-28,863	-36,994	-39,468	-30,006	-39,468	-32,356
Other	1,078	759	-6,501	3,084	780	12,044	-1,042
Base Money	40,783	43,235	41,641	45,342	48,161	49,196	51,571
Currency in circulation	17,282	18,401	20,232	22,457	21,352	23,559	23,336
Commercial bank gourde deposits	23,501	24,834	21,410	22,885	26,809	25,637	28,235
			II. Consolidated Banking System				
Net foreign assets	92,251	104,581	116,015	109,568	101,122	99,008	98,204
(In millions of US$)	2,310	2,559	2,741	2,490	2,312	2,250	2,180
Of which: Commercial banks NFA	703	786	674	704	518	724	450
Net domestic assets	33,900	34,743	32,923	51,272	57,714	74,374	74,133
Credit to the nonfinancial public sector	-3,822	-12,415	-17,768	-13,318	-4,610	-5,242	9,863
Of which: Net credit to the central government	-853	-8,076	-11,873	-9,783	2,172	-2,041	13,709
Credit to the private sector	40,585	50,526	65,573	79,736	76,192	94,089	82,287
In gourdes	21,708	28,086	38,048	47,191	45,500	56,799	50,122
In foreign currency	18,877	22,440	27,525	32,545	30,692	37,290	32,165
In millions of US$	473	549	650	740	702	847	714
Other	-2,863	-3,367	-14,881	-15,146	-13,868	-14,473	-18,017
Broad money	126,151	139,324	148,938	160,840	158,836	173,382	172,337
Currency in circulation	17,282	18,401	20,232	22,457	21,352	23,559	23,336
Gourde deposits	48,513	52,164	54,933	61,250	60,307	67,731	66,036
Foreign currency deposits	60,355	68,760	73,774	77,133	77,177	82,092	82,965
In millions of US$	1,511	1,682	1,743	1,753	1,764	1,866	1,841
			(12-month percentage change)				
Currency in circulation	28.5	6.5	9.9	11.0	5.5	7.7	9.3
Base money	31.2	6.0	-3.7	8.9	15.7	8.5	7.1
Gourde money (M2)	20.4	7.2	6.5	11.4	8.6	9.1	9.4
Broad money (M3)	22.7	10.4	6.9	8.0	6.6	7.8	8.5
Gourde deposits	17.8	7.5	5.3	8.4	9.8	10.6	9.5
Foreign currency deposits	25.3	13.9	7.3	4.6	4.6	6.4	7.5
Credit to the private sector	-5.6	24.5	29.8	21.6	16.2	18.0	8.0
Credit in gourdes	13.0	29.4	35.5	24.0	19.6	20.4	10.2
Credit in foreign currency	-20.7	18.9	22.7	18.2	11.5	14.6	4.8
Memorandum items:							
Foreign currency bank deposits (percent of total)	55.4	56.9	57.3	55.7	56.1	54.8	55.7
Foreign curr. credit to priv. sector (percent of total)	46.5	44.4	42.0	41.6	40.3	41.2	39.8
Commercial Banks' Credit to Private Sector (percent of GDP)	14.4	15.9	19.2	21.5	20.1	23.4	19.9

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

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

Table 4. Haiti: Balance of Payments, 2009/10 - 2013/14

(In millions of US$ on a fiscal year basis; unless otherwise indicated)

	2009/10	2010/11	2011/12	2012/13		2013/14	
	Act.	Est.	Prov.	Prog. (EBS/13/100)	Proj.	Prog. (EBS/13/100)	Proj.
Current account (including grants)	-102	-323	-426	-480	-547	-507	-523
Current account (excluding grants)	-1,942	-1,769	-1,414	-1,329	-1,297	-1,267	-1,223
Trade balance	-2,447	-2,546	-2,294	-1,898	-2,444	-1,855	-2,443
Exports of goods	563	768	785	919	874	1,055	940
Of which: Assembly industry	523	714	730	861	828	991	890
Imports of goods	-3,010	-3,314	-3,079	-2,817	-3,318	-2,910	-3,383
Of which: Petroleum products	-546	-770	-820	-808	-910	-841	-909
Services (net)	-824	-575	-568	-929	-447	-954	-434
Receipts	453	544	549	304	648	348	696
Payments	-1,277	-1,119	-1,117	-1,233	-1,095	-1,302	-1,130
Income (net)	22	41	68	68	60	61	37
Of which: Interest payments	0	0	-6	-9	-9	-13	-13
Current transfers (net)	3,147	2,757	2,368	2,280	2,283	2,241	2,316
Official transfers (net)	1,840	1,446	988	849	750	760	700
Of which: budget support	225	87	27	60	88	45	103
Private transfers (net)	1,307	1,311	1,380	1,431	1,533	1,481	1,616
Capital and financial accounts	990	586	676	190	684	247	456
Capital transfers [1/]	1,360	656	76	3	20	3	65
Debt stock reduction [2/]	-431	-486	0	0	0	0	-65
Public sector capital flows (net)	286	340	369	383	391	396	362
Loan disbursements	219	341	375	396	404	418	388
Amortization	-6	-2	-6	-13	-15	-21	-26
Foreign direct investment (net)	178	119	156	112	118	112	150
Banks (net) [3/]	-307	-83	111	-30	157	-20	68
Other items (net)	-96	40	-36	-278	-2	-244	-124
Errors and omissions [4/]	139	-104	39	0	-417	0	0
Overall balance	1,027	159	288	-290	-281	-260	-68
Financing	-1,027	-159	-288	290	281	260	68
Change in net foreign assets	-1,032	-166	-294	280	273	260	65
Change in gross reserves	-829	-210	-290	265	-133	260	397
Liabilities	-203	43	-4	15	405	0	-332
Utilization of Fund credits(net)	-146	13	22	15	10	0	5
Other liabilities [5/]	-57	30	-26	0	395	0	-337
Debt rescheduling and debt relief	5	8	6	10	8	0	3
Memorandum items:							
Current account (in percent of GDP)	-1.5	-4.3	-5.4	-5.8	-6.5	-5.7	-5.8
Excluding official transfers	-29.3	-23.5	-17.9	-16.0	-15.3	-14.3	-13.6
Exports of goods, f.o.b (percent change)	2.2	36.3	2.2	17.1	11.4	14.8	7.5
Imports of goods, f.o.b (percent change)	48.1	6.8	-4.2	6.7	7.7	3.3	2.0
Debt service (in percent of exports of goods and services)	0.6	0.1	0.6	1.5	1.6	2.5	2.4
Gross liquid international reserves (in millions of US$) [6/]	1,792	2,000	2,184	2,019	2,242	1,759	1,940
(in months of next year's imports of goods and services)	4.9	5.7	5.9	5.8	6.0	4.7	4.9

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

1/ Includes IDB, IMF (PCDR), Venezuela, World Bank debt relief in 2010-2011; and assumption of IFAD debt cancellation in 2014.

2/ Debt relief by Venezuela, World Bank (2010), IDB (2011), projected cancellation of debt by IFAD (2014). IMF/PCDR debt relief in 2010 reflected below the line.

3/ Change in net foreign assets of commercial banks.

4/ Errors and omissions for FY2013 likely reflects underreported imports.

5/ Includes repurchase operations contracted in FY2013 and unwound in FY2014.

6/ Excludes gold; includes repurchase operations contracted in FY2013 and unwound in FY2014.

Table 5. Haiti: Financial Soundness Indicators of Individual Banks, September 2010 - September 2013

(In percent; unless otherwise stated)

	Sep-10	Sep-11	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
Size and growth							
Asset volume (in US$ millions)	3453.6	3767.5	4029.9	4173.8	4074.2	3968.6	4022.0
Deposit volume (in US$ millions)	2985.8	3316.2	3469.5	3487.3	3376.8	3331.9	3329.6
Asset growth (in gourde terms) since beginning of fiscal year	27.8	11.6	10.8	4.1	2.8	1.9	3.2
Credit growth (net, in gourde terms) since beginning of fiscal year	-11.7	31.5	34.0	5.7	8.9	13.4	19.9
Capital adequacy							
Regulatory capital to risk-weighted assets	13.4	16.5	16.8	16.3	15.5	17.1	17.3
Assets to Regulatory Capital	23.8	14.7	13.3	14.1	15.7	14.7	12.0
Asset quality and composition							
Loans (net) to assets	21.3	25.1	30.4	30.9	32.2	33.8	35.3
NPLs to gross loans	5.7	3.7	2.4	2.4	2.6	3.0	2.4
Provisions to gross loans	4.8	3.4	2.3	2.1	2.1	2.0	1.8
Provisions to gross NPLs	84.1	93.1	96.7	86.1	81.3	68.4	72.2
NPLs less provisions to net worth	3.2	1.1	0.4	1.6	2.5	4.7	3.3
Earnings and profitability (cumulative since beginning of fiscal year)							
Return on Assets (ROA)	1.2	1.4	1.4	1.2	1.4	1.8	1.5
Return on equity (ROE)	18.4	22.2	21.9	18.2	21.3	26.7	21.9
Net interest income to gross interest income	87.4	91.4	92.4	93.2	93.3	92.9	93.0
Operating expenses to net profits	69.2	67.8	66.7	67.2	64.4	61.0	65.1
Efficiency							
Interest rate spread [1/]	9.6	8.9	7.8	7.6	7.4	7.5	7.5
Liquidity							
Liquid assets to total assets [2/]	51.0	49.5	45.5	42.8	42.2	43.2	41.6
Liquid assets to deposits [2/]	59.0	56.3	52.8	51.3	50.9	51.4	50.2
Dollarization							
Foreign currency loans to total loans (net)	60.1	55.7	51.7	48.0	47.8	45.5	48.2
Foreign currency deposits to total deposits	60.3	62.3	62.9	62.8	59.1	58.5	55.1
Foreign currency loans to foreign currency deposits	24.6	25.5	29.0	28.2	31.4	31.3	37.3

Sources: BRH Banking System Financial Summary; and IMF estimates. These indicators refer only to the nine licensed banks in operation in Haiti; thus figures in this table may not exactly match the information in Table 3, which includes non-bank financial institutions.

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

[2/] Liquid assets comprise cash and central bank bonds.

Table 6. Haiti: Indicators of Public Debt and External Vulnerability, 2009/10 - 2013/14

(Units as indicated)

	2009/10	2010/11	2011/12	2012/13 Est.	2013/14 Proj.
Debt indicators					
Total external public debt (in percent of GDP) 1/	13.0	8.7	13.5	17.4	19.8
Total external public debt (in percent of exports) 2/	84.9	50.1	80.0	96.9	108.8
Total public debt (in percent of GDP)	13.0	8.7	14.4	19.5	22.9
Total public debt (in millions of US$)	1,171	887	1,270	1,778	2,158
o/w domestic debt	308	230	203	303	378
o/w Petrocaribe	134	462	841	1,235	1,595
o/w other external debt	729	195	226	240	185
External debt service (in percent of GDP)	0.1	0.0	0.1	0.3	0.4
Amortization	0.1	0.0	0.0	0.2	0.3
Interest	0.0	0.0	0.1	0.1	0.1
External debt service (in percent of exports) 2/	0.6	0.1	0.6	1.6	2.4
External debt service (in percent of current central govt. revenues)	0.7	0.2	0.9	2.3	3.2
Other indicators					
Exports (percent change, 12-month basis in US$)	-1.7	29.1	1.7	14.1	7.5
Imports (percent change, 12-month basis in US$)	52.9	1.1	-3.1	5.1	2.3
Remittances and grants in percent of gross disposable income	32.1	26.7	22.9	21.1	20.4
Exchange rate (per U.S. dollar, period average)	40.3	40.3	41.6	43.1	44.4
Current account balance (millions of US$) 3/	-102	-323	-426	-547	-523
Capital and financial account balance (millions of US$) 4/	990	586	676	684	456
Liquid gross reserves (millions of US$) 5/	1,792	2,000	2,184	2,242	1,940
In months of imports of the following year 2/	4.9	5.7	5.9	6.0	4.9
In percent of debt service due in the following year	93,334	23,209	8,854	5,823	3,015
In percent of base money	175.5	189.1	222.0	203.6	169.5

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

1/ Reflects debt relief. Debt ratios differ slightly from those in the DSA given the use of average, instead of end-of-period, exchange rates.
2/ Goods and services; excludes gold.
3/ Including grants.
4/ Includes in the private sector FDI, capital transfers, and errors and omissions in addition to bank flows.
5/ Includes the impact of central bank repurchase operations in FY2013.

Table 7. Haiti: Proposed Schedule of Disbursements, 2014 [1/]

Amount	Availability Date	Conditions for Disbursement [2/]
SDR 1,638,000	March 26, 2014	Observance of performance criteria for September 2013 and completion of the seventh review under the ECF arrangement.
SDR 1,638,000	August 10, 2014	Observance of performance criteria for March 2014 and completion of the eighth review under the ECF arrangement.
Memorandum		
Prospective Total Access under the ECF arrangement: SDR 40,950,000 [3/]		

[1/] The first six reviews of the program were sucessfully completed with total disbursements of 37.674 million SDR; the second and third reviews were combined.

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

[3/] The first two disbursements were each in the amount of SDR 8.19 million; the disbursements associated with the second through fifth reviews were each of SDR4.914 million; the disbursement associated with the sixth review was SDR1.638 million.

Table 8. Haiti: Indicators of Capacity to Repay the Fund, 2012/13-2023/2024

(Units as indicated)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/2024
Fund obligations based on existing credit (in millions of SDRs)											
Principal	0.0	0.0	1.6	4.3	6.7	7.5	7.5	5.9	4.1	0.0	0.0
Interest	0.0	0.1	0.1	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	1.6	4.3	6.7	7.5	8.2	6.6	4.8	0.7	0.7
Interest	0.0	0.1	0.1	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	0.1	1.7	4.4	6.8	7.6	8.2	6.6	4.8	0.7	0.7
In millions of US$	0.0	0.2	2.7	6.9	10.8	12.1	13.1	10.4	7.6	1.0	1.0
In percent of											
exports	0.0	0.0	0.1	0.3	0.5	0.5	0.5	0.4	0.3	0.0	0.0
government revenue	0.0	0.0	0.2	0.4	0.5	0.4	0.3	0.2	0.1	0.0	0.0
reserves	0.0	0.0	0.1	0.3	0.4	0.5	0.5	0.3	0.2	0.0	0.0
debt service	0.0	0.2	3.0	5.8	7.4	6.7	6.1	4.2	2.7	0.3	0.3
quota	0.0	0.1	2.1	5.3	8.3	9.3	10.1	8.0	5.8	0.8	0.8
Outstanding Fund credit (end of period)											
In millions of SDRs	41.0	41.0	39.3	35.1	28.3	20.8	12.6	6.1	1.3	0.7	0.0
In millions of US$	63.4	64.0	62.0	55.9	45.2	33.1	20.1	9.7	2.1	1.0	0.0
In percent of											
exports	3.9	3.6	3.3	2.8	2.1	1.4	0.8	0.4	0.1	0.0	0.0
government revenues	5.3	5.0	4.5	3.7	2.8	1.9	1.1	0.5	0.1	0.0	0.0
reserves	3.3	3.1	2.9	2.4	1.8	1.2	0.7	0.3	0.1	0.0	0.0
quota	50.0	50.0	48.0	42.8	34.6	25.4	15.4	7.4	1.6	0.8	0.0
Memorandum items:											
Exports [1/ 2/]	1.6	1.8	1.9	2.0	2.2	2.3	2.5	2.7	2.9	3.1	3.3
Government revenues [1/ 3/]	1.2	1.3	1.4	1.5	1.6	1.8	1.8	1.9	2.1	2.2	2.4
Reserves [1/ 4/]	1.9	2.0	2.1	2.3	2.5	2.7	2.8	3.0	3.2	3.4	3.6
Debt service [1/]	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.4
Quota (in millions of SDRs)	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9
GDP [1/]	9.0	9.5	10.1	10.7	11.3	12.0	12.7	13.4	14.1	14.9	15.7

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 9. Haiti: Indicative Targets and Quantitative Performance Criteria, September 2013 - June 2014

	Actual stock at end- Sept. 09	Cumulative Flows from September 2009									
		Sep. 2013			Dec. 2013			Mar. 2014		Jun. 2014	
		PC	Adjusted	Actual	Indicative target	Adjusted 5/	Estimate	PC	Proposed PC	Indicative target	Proposed Indicative target
(In millions of gourdes, unless otherwise indicated)											
I. Quantitative performance criteria											
Net central bank credit to the non-financial public sector - ceiling (including PCDR)	21,379	-13,199	-12,809	-16,530	-11,816	-10,184	-10,819	-10,432	-11,063	-9,049	-9,763
Central Government 1/	22,947	-11,578	-11,188	-11,663	-10,278	-8,646	-6,703	-8,978	-9,063	-7,678	-7,763
Rest of non-financial public sector	-1,569	-1,621	-1,621	-4,868	-1,538	-1,538	-4,116	-1,454	-2,000	-1,371	-2,000
Net domestic assets of the central bank - ceiling	14,447	-9,036	-10,152	-15,061	-5,472	-4,112	-10,431	-709	215	2,135	3,459
Net international reserves of central bank (in millions of U.S. dollars) - floor	416	582	610	804	517	483	735	422	422	375	375
II. Continuous performance criteria											
Domestic arrears accumulation of the central government	0	0	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) 2/	0	33	33	334	33	33	410	33	33	33	33
Up to and including one year 3/	0	0	0	301	0	0	377	0	0	0	0
Over one-year maturity	0	33	33	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	0	0
III. Indicative targets											
Change in base money - ceiling	31,080	14,262	14,262	17,082	15,225	15,225	18,955	16,189	17,095	17,153	18,459
Net domestic credit to the central government - ceiling 1/	19,370	-19,271	-18,881	-14,580	-16,917	-15,285	-13,695	-14,562	-10,830	-12,208	-8,210
Poverty reducing expenditures - floor 4/	…	38,656	38,656	38,856	42,531	42,531	42,731	46,406	46,606	50,281	50,481
Memorandum items											
Change in currency in circulation	13,448	9,009	9,009	7,904	9,285	9,285	11,569	9,560	9,456	9,836	9,284
Net domestic credit to the rest of the non-financial public sector	-1,641	-1,894	-1,894	-5,142	-1,811	-1,811	-4,597	-1,727	-2,500	-1,644	-2,500
Government total revenue, excluding grants	29,881	156,289	156,289	158,685	169,962	169,962	172,908	182,623	186,078	194,331	198,411
Government total expenditure, excluding externally-financed investment	42,096	218,739	218,739	226,618	235,944	235,944	247,677	248,752	268,193	265,156	287,587

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

1/ Adjusted targets exclude the use of IMF PCDR debt relief.

2/ Excludes guarantees to the electricity sector in the form of credit/guarantee letters. The US$33 million in non-concessional external lending of over one-year maturity refers to a BANDES (Venezuela) loan for airport construction.
3/ Figures for September 2013 and December 2013 reflect the contracting of repos for international reserve management; these operations were fully unwound by end-February 2014.
4/ Poverty reducing expenditures consist of domestically-financed spending in health, education, and agriculture.
5/ Adjusted figures for December 2013 are preliminary, based on available and incomplete information.

Table 10. Haiti: Prior Actions and Structural Benchmarks through June 2014 [1/]

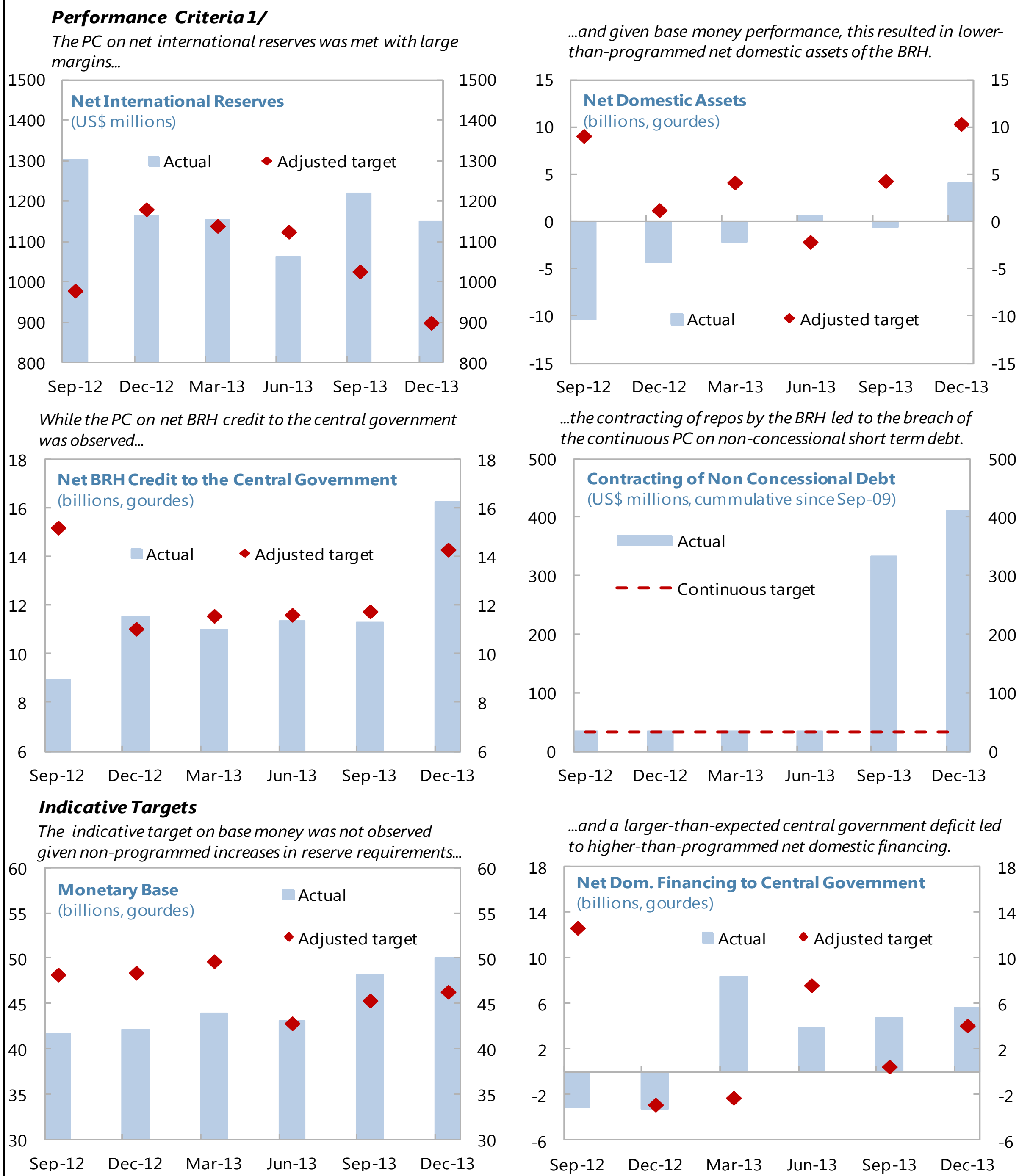
Measure		Timing	Status	Comments
Operationalize the first accounting center (*Poste Comptable No. 1)* comprising the Ministries of Finance, Commerce, Tourism, and Environment (TMU, paragraph 17)	PA		Met	
Allocate offices to the medium-sized taxpayer unit.	SB	End-September 2013	Met	
Strengthen the debt unit with fully operational middle and back office functions; Preparation of annual debt sustainability analyses.	SB	End-December 2013	Not met	Progress observed: debt unit moved to Treasury; back office operational.
Set up a a task force of experts to review the public investment framework.	SB	End-December 2013	Met	
Roll out in all ministries the general ledger (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. [2/]	SB	End-December 2013	Not met	Progress observed: first accounting center operational and advanced work towards operationalizing second accounting center
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 grant signature authority on these accounts to public accountants appointed by the Ministry of Economy and Finance. [2/]	SB	End-March 2014		
Operationalize the second accounting center comprising the Ministries of the Plan, Public Works, and Agriculture (TMU, paragraph 18) [3/]	SB	End-March 2014		
Operationalize the accounting centers so that at least 80 percent of budgetary expenses are collectively covered (TMU, paragraph 19) [3/]	SB	End-June 2014		

1/ PA: Prior Action; SB: Structural Benchmark

2/ These SBs were reformulated into a PA and two new SBs.

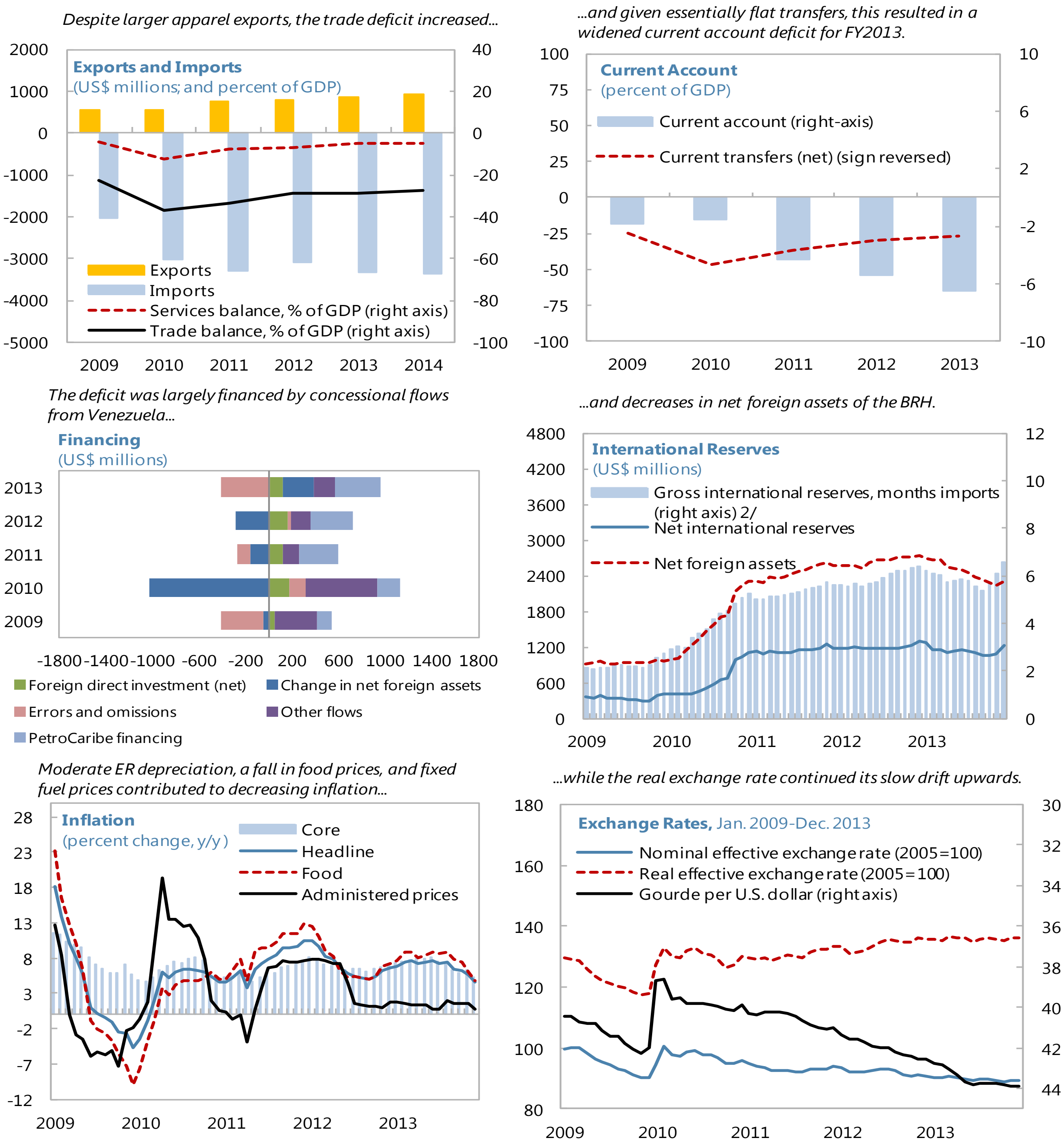
3/ New proposed SBs.

Figure 1. Haiti: Program Performance, 2012-13



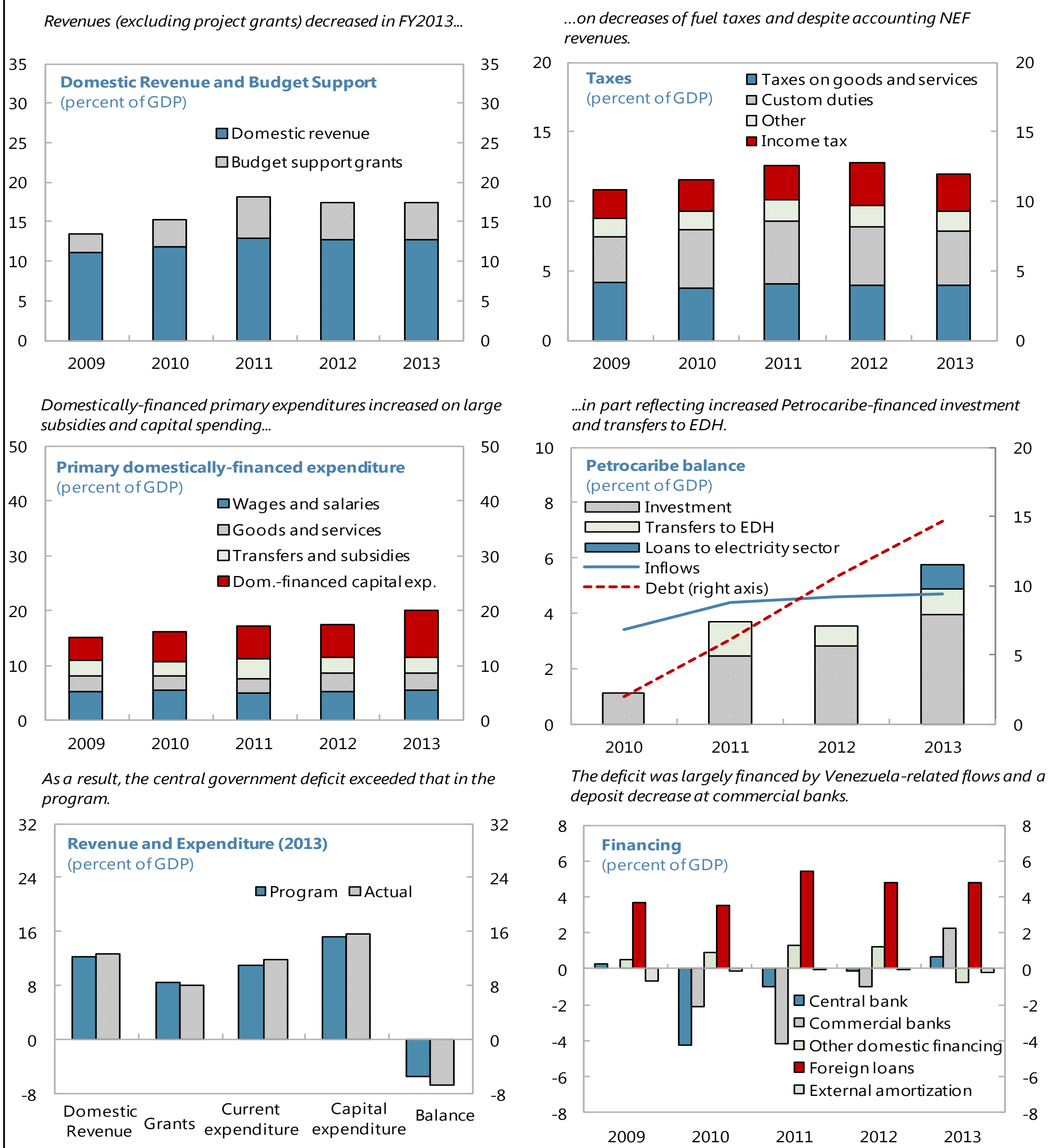
Source: National Authorities; and IMF staff estimates.
1/ June and December are indicative.

Figure 2. Haiti: Recent Economic Developments, 2009-13, 1/



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

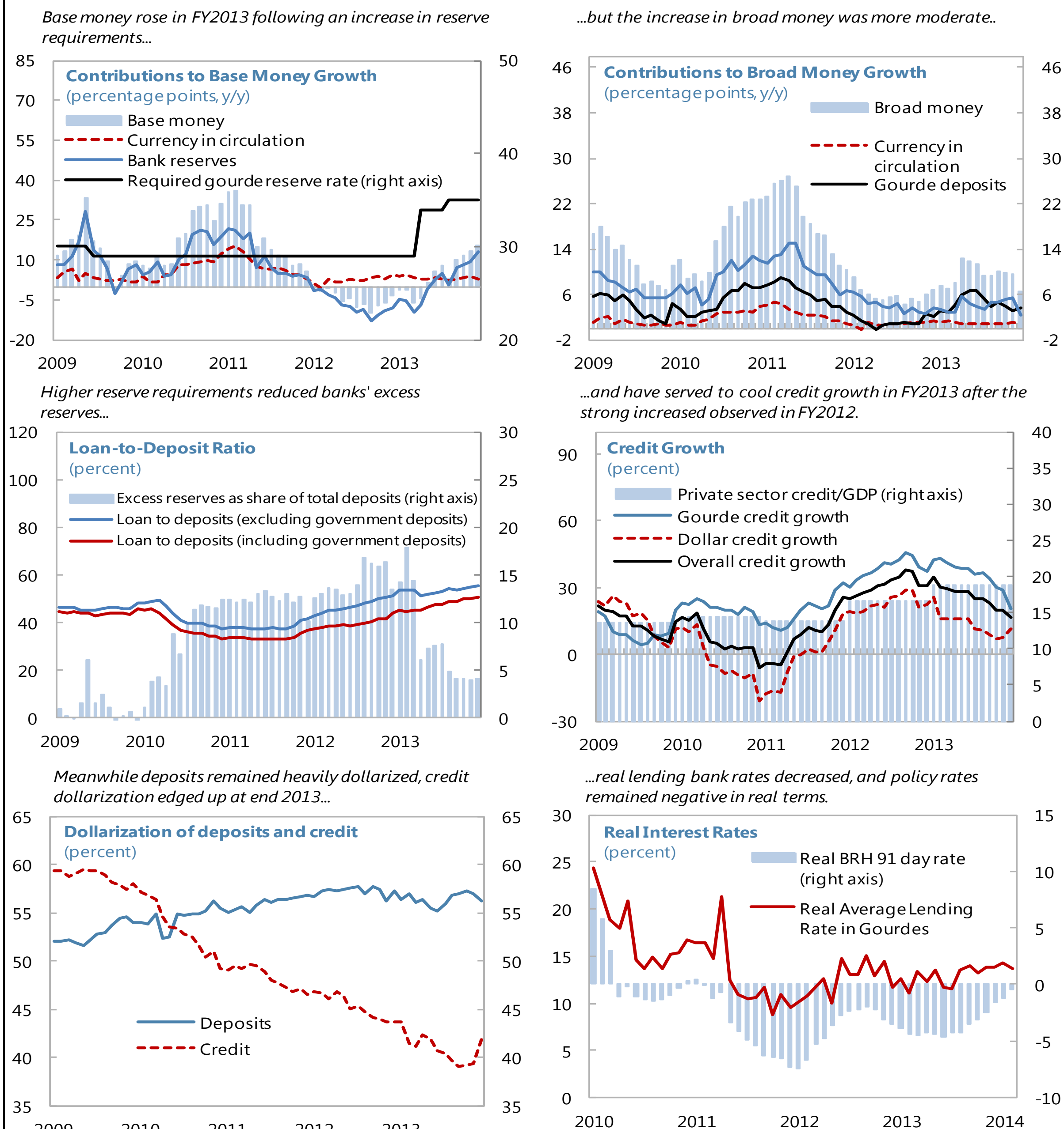
Figure 3. Haiti: Fiscal Developments, 2009-13 1/



Source: National Authorities; and IMF staff estimates.

1/ Data are in fiscal years unless noted otherwise.

Figure 4. Haiti: Monetary and Financial Market Developments, 2009-13 1/



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

Box 1. Apparel Exports to the U.S.

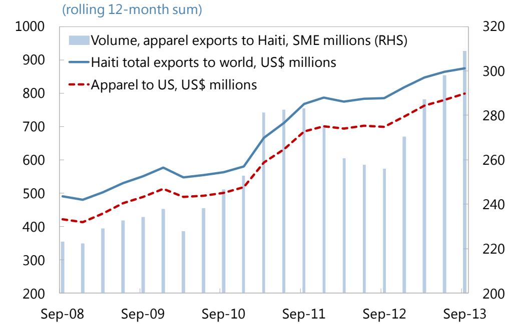
Haiti's labor supply is projected to expand briskly, in particular in urban areas. People aged 15–65 comprise 61 percent of the population, and increases in people of working age in the next 15 years will be the largest in Haitian history, with an average of 126 thousand people entering the labor market per year. Rapid urbanization will result in very rapid growth of labor supply in cities. An expanding production base will be crucial in generating employment opportunities for Haiti's young population.

The apparel industry has provided opportunities for formal employment for some time. Lundhal (2012) reports that employment in import processing activities (mainly apparel) peaked at over 45,000 in the early 1990s, but decreased strongly thereafter due to political instability.[1] Employment has recovered recently to about 33,000.

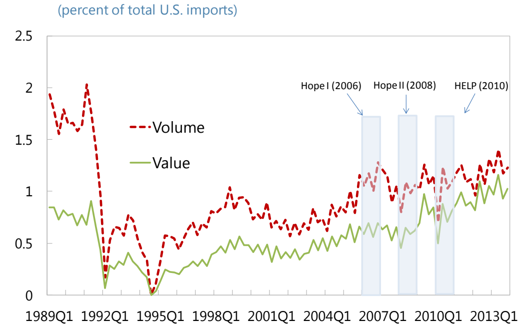
The industry is concentrated in Port-au-Prince, but two newer parks outside the capital explain most of the recent growth. The state-owned *Parc Industriel Metropolitain* (SONAPI, near Port-au-Prince's airport and port), together with smaller parks in Carrefour and Shodecosa, account for 70 percent of the industry's direct employment. However, the activity in two parks explain most of the expansion since the earthquake:

- **CODEVI** (*Compagnie de Développement Industriel*) at Ouanaminthe, on the Dominican border employs 7,000 people, and its location allows it to rely on Dominican infrastructure. The IFC provided US$13 million to finance its construction.
- **CARACOL** near Cap-Haïtien (Haiti's second largest city) was constructed with support from the U.S. and the IDB (which together may eventually invest US$350 million). Opened in late 2012, its major tenant is a Korean firm which employed 1,600 people last September, but with plans to expand employment to 3,500 by July 2014.

Haitian Apparel Exports to the United States
(rolling 12-month sum)



Haitian Apparel Exports to United States
(percent of total U.S. imports)



Sources: U.S. Department of Commerce (OTEXA); IMF staff estimates.

Apparel production is mainly exported to the U.S. About 90 percent of Haiti's goods exports consist of apparel items sold to the U.S. (Figure).[2] The industry is based on the processing for re-export of imported textiles. As it is concentrated in the low end of the market, Haiti benefits from only a narrow slice of the value-added chain.

Haiti has long benefitted from regional trade preferences, but political instability has set back the sector. Since 1983 Haiti and other Caribbean countries have benefitted from duty-free access to the U.S. market of certain apparel exports that are made of U.S. materials (most recently under the Caribbean Basin Trade Partnership Act of 2000). However, international sanctions against Haiti in the early 1990s cut exports almost to zero, and the

Box 1. Apparel Exports to the U.S. (concluded)

industry has not yet recovered its previous market share (Figure).

More recently, the U.S. has granted more flexible trade preferences specific to Haiti. These trade preferences are contained in the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act (as amended in 2008), and the 2010 Haiti Economic Lift Program (HELP) Act. These laws allow for duty-free import of most woven and knit apparel regardless of source (each subject to an annual quota of 70 million square meters equivalent, SME), and allow Haiti to export through Dominican ports. There are also separate quotas for apparel exports that have at least 50 percent value-added (later to rise to 60 percent) from Haiti, the U.S., or a third-country with which the U.S has a free-trade agreement or unilateral preferences. While the woven and knit apparel quotas extend through FY2020, the value-added quota extends through FY2018.

Apparel exports and employment grew significantly after the passing of the HOPE/HELP acts, and still-unused quotas may support growth going forward. Apparel exports to the U.S. increased by 21 percent (real terms) in FY2013, while direct employment rose by about 6 percent. Exports are still only a fraction of various quotas, what provides space for further growth (Table). There is also space to increase value added, as two-thirds of apparel exports (by volume) were in the categories of cotton t-shirts and underwear, instead of higher value items (such as wool suits).

Haiti's Use of U.S. Trade Preferences in FY2012, millions SME

	Program	Quota Limit	Exports	Fill Rate, %
Knit apparel from regional or U.S. fabric from U.S. yarn	CBTPA	970	128	13.2
T-shirts made of regional fabric from U.S. yarn	CBTPA	91	50	54.9
Knit Apparel (no source requirements)	HOPE	70	24	34.6
Woven Apparel (no source requirements	HOPE	70	30	42.2
Value-Added	HOPE	327	18	5.4
Other Trade Preference Quotas	HOPE	n.a.	22	n.a.
Total	**n.a**	**n.a.**	**271**	**n.a.**

Sustained trade access to the U.S. should contribute to further job expansion and increased investment. Although the extension of preferences under the HELP act strengthened incentives for investors, making these preferences more permanent would provide for stronger incentives to expand employment, with minimal effect on the U.S.[3] Access to the world's largest consumer market should contribute to increases in labor productivity and allow for higher wages. Supervision under the U.S. Department of Labor "Better Work" initiative should contribute to a gradual improvement in labor conditions and compliance with various laws, including on minimum wages. Increases in labor productivity should also allow Haiti to climb the value added chain. Macroeconomic policies can support the sector by ensuring that the real exchange rate remains close to equilibrium. Improving infrastructure and public service provision is also crucial, in particular of electricity at regionally competitive prices.

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[1] Lundhal, M. (2012), The Political Economy of Disaster, Chapter 8.

[2] Data sources include the U.S. Office of Textiles and Apparel (OTEXA); ADIH (a Haitian industry association), and Haitian authorities.

[3] "Rebuilding Haiti's Competitiveness and Private Sector", Testimony for the House Financial Services Subcommittee on International Policy and Trade by Nancy Birdsall, March 16, 2010.

Box 2. Foreign Assistance and Growth

Haiti received US$7.5 billion in official grants in the three years after the earthquake, around 95 percent of FY2012 GDP. Official donors disbursed US$2.4 billion in humanitarian aid and US$3.9 billion in recovery and development assistance. Donors also provided US$1.1 billion in debt relief (including by the IMF, World Bank, IDB, and Venezuela). Private donations (mostly channeled through NGOs) amounted to US$3 billion, according to UN estimates.[1]

Estimated Total Official Grants to Haiti, 2010-12, US$ millions

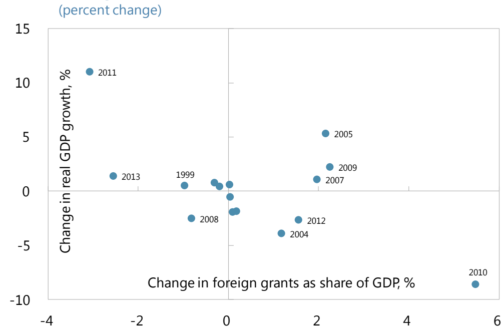
	2010	2011	2012	2010-2012
Debt Relief	1,185	0	n.a.	1,185
Humanitarian Aid	1,858	581	n.a.	2,439
Other (including project grants)	1,412	1,194	1,275	3,881
Total	4,455	1,776	1,275	7,506

Source: OECD, UN, Haiti Ministry of Planning, IMF Staff Calculations. Data presented in calendar years. Breakdown for 2012 aid not yet available but assumed to be overwhelmingly non-Humanitarian aid.

The impact on GDP growth of this effort has been below expectations. In particular, Haiti's current ECF arrangement originally foresaw a sharp rebound in economic activity after the earthquake, projecting annual average growth in FY2011-13 of around 8 percent. Actual growth over that period averaged 4 percent per year.

This performance may be partly explained by the composition of aid. Humanitarian aid (one-third of total aid) saved thousands of lives through the provision of food, medicine, and temporary shelter; from a macroeconomic perspective, however, most of these flows resulted in increases in consumption good imports. Anecdotal evidence suggests that private donations were also mostly for post-earthquake relief. In addition, debt relief (16 percent of total aid) increases fiscal space over many years, and its impact on growth depends on the type of public spending that will be financed by the forgone debt service. In turn, development assistance, which should hae a greater impact on growth as it includes financing for economic projects (as e.g. for infrastructure), represented about half of total aid. Aid commitments remained significant as of end-2012 (US$3.8 billion), almost all in development aid (including grants and budget support).[2, 3]

Foreign Grants and GDP Growth, 1998-2013
(percent change)



Sources: National Authorities; and IMF staff estimates.

Some problems in donor coordination and a low involvement of the Haitian government, firms and NGOs may have also played a role. Some analysts suggest that aid disbursed by some donors may have had to pass multiple layers of sub-contracts and sub-grants before reaching the intended groups. In addition, despite capacity problems, circumventing the public sector may have prolonged such problems weighing negatively on government effectiveness. In some cases, when aid was channeled through private corporations and foreign NGOs, involvement of Haitian firms and NGOs was low. The absence of readily available data on the impact evaluation and of the geographic location of a

Box 2. Foreign Assistance and Growth (concluded)

number of donor-funded programs made it difficult to assess what projects were working and what were not, as well as it complicated coordination.[4]

Strengthening planning, coordination, evaluation and transparency should contribute to increasing the impact of aid on growth. Increased transparency and more-readily available information of project-related spending (from both the government and donors) should allow for better coordination, including from a geographical perspective. More consistent project evaluation will help identifying what is working and what is not, and increase the impact of aid on growth. Although aid flows will decline in the medium term, they will keep up in the next couple of years. In this regard, while some donors are scaling back, other key donors are maintaining or even increasing their commitments. For instance, the U.S. increased its disbursements to Haiti in FY2013, and the government has requested to Congress a similar sum for FY2014.[5] The European Union has also recently made a significant commitment in project grants and budget support under the 11th European Development Fund.

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[1] Data on aid to Haiti remains challenging as there is no single current, reliable source on total official assistance. The Ministry of Planning maintains a project database that depends on donor reporting, but it is usually not up-to-date and includes some inconsistencies with data from donors. The website of the UN special envoy also tracks aid commitments and disbursements by donor, but it does not provide a breakdown by year and is not updated past 2012. Data in this box is from those sources, and from the OECD Development Assistance Committee.

[2] Clements, M., S. Radelet, and R. Bhavnani (2004), "Counting chickens when they hatch: The short-term effect of Aid on Growth", Working Paper No. 44, Center for Global Development.

[3] See website of the UN Secretary General's Special Advisor at http://www.lessonsfromhaiti.org/assistance-tracker/.

[4] Ramachandran, V., and J. Walz (2012), "Haiti: Where has all the money gone?" Policy Paper No. 4, Center for Global Development.

[5] The U.S. disbursed US$197 million to Haiti in FY2012, US$271 million in FY2013, and has made a budget request of US$300 million for FY2014 (http://www.foreignassistance.gov/web/default.aspx.).

Box 3. Petrocaribe in Haiti

Since 2007, Venezuela has provided concessional financing to Haiti in the context of the Petrocaribe Agreement. Financing inflows are calculated as a proportion of Haitian purchases of oil products from PDVSA (*Petroleos de Venezuela*, the state-owned Venezuela oil company). According to the terms of the agreement, at prices above US$100 per barrel (of imported oil products), 60 percent of the oil bill is financed with terms including 1 percent interest, 25-year maturity and 2-year grace.[1] The sale of these oil products in the domestic market creates considerable resources for the government. As of end-FY2013, the stock of Petrocaribe-related debt was US$ 1.2 billion (14.6 percent of GDP). This entire debt stock has been accumulated after the 2010 earthquake: Venezuela cancelled the pre-earthquake Petrocaribe debt stock of US$395 million in 2010.

An autonomous agency of the Ministry of Finance, (the *Bureau de Monétisation du Programme d'Aide au Développement*, BMPAD), manages these resources on behalf of the Haitian government. BMPAD plays an intermediary role between Haitian fuel purchasers and the Venezuelan supplier. The proceeds are deposited at BMPAD accounts at the state-owned commercial bank (BNC) and at the BRH.[2]

Petrocaribe resources have been used to finance investment projects and to support the electricity sector. Whenever the government decides that new projects will be financed using these resources, it publishes a resolution listing these projects and the amounts to be financed in the official gazette. Disbursements into the projects are reported in BMPAD's webpage on a regular basis.[3] Although the budget includes information about capital spending financed with these flows, their use does not follow the same rules applied for treasury resources, including on procurement.

Petrocaribe-financed spending has recently increased. While in the first years of the agreement disbursements resulted in a net increase in BMPAD deposits, the absorption of Petrocaribe flows has increased significantly over the past two years. This is due both to new investment projects (the pipeline of ongoing projects is about US$420 million), and also to transfers to the electricity sector (which in FY2013 amounted to about US$160 million). As a consequence, BMPAD deposits have decreased significantly and stood at US$195 million at end-FY2013 (2.2 percent of GDP), from US$300 million a year prior.

Petrocaribe flows have served as a crucial source of financing in post-earthquake Haiti and a sudden stop would lead to a substantial fiscal adjustment. A sudden stop of Petrocaribe flows would severely constrain investment spending and the financing of the electricity sector (See DSA Annex). The shock to growth would also impact domestic tax revenues. Both BMPAD deposits and international reserves would decline to partially cushion the shock. In particular, EDH's deficit would likely decrease given the lack of financing, through a combination of higher tariffs, longer blackouts, and collection improvements. Mitigating this risk requires increasing domestic revenues; contain expenditure growth (in particular of transfers); advance decisively in reducing EDH's deficit; and preserve fiscal buffers.

Box 3. Petrocaribe in Haiti (concluded)

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[1] The agreement allows for the financing of up to 14,000 barrels per day (on an annual basis). Haiti currently exceeds this level of imports. The portion that is paid in cash represents a suppliers' credit that must be settled ent allows for the financing of up to 14,000 barrels per day (on an annual basis). Haiti currently exceeds this level of imports. The portion that is paid in cash represents a suppliers' credit that must be settled within 90 days. Shipping charges are prepaid and the cash and loan portions are determined based on FOB prices on a shipment-by-shipment basis. Interest is capitalized during the grace period.

[2] Since November 2012, domestic oil purchasers are paid in gourds. This contributed to a decrease in the dollarization of commercial bank deposits.

[3] The BMPAD website containing information on the projects financed with Petrocaribe resources is available at http://www.bureaudegestion.gouv.ht/index.php

Box 4. The Electricity Sector: A Drag on the Budget and a Bottleneck to Growth

The electricity sector is a bottleneck to growth, a drag to the budget, and has set back efforts at poverty reduction. High electricity prices hurt Haiti's competitiveness, and limit the access of this essential service by the poor. Electricity reaches only 30 percent of the population and theft is widespread. Transfers to the electricity sector (either in the form of subsidies or loans) represented nearly 2.5 percent of GDP in FY2013, 20 percent of domestic revenues.

A state-owned company (EDH, *Electricite d'Haiti*) is the most important player in the sector. EDH is in charge of distribution, transmission, and some electricity generation. A number of private independent power producers (IPPs) generate a significant share of total supply. Electricity generation that includes the second largest city (Cap Haitien) is mostly provided by PBM, a joint-venture of Venezuela, Cuba and Haiti. Most of the electricity generation is based on oil-derivatives (either diesel or heavy fuel oil), what contributes to large generation costs. On top of this, contracts for the provision of electricity to EDH incorporate large markups over cost, which make electricity prices for the final consumer even more onerous. Haiti has potential for wind-based and hydro-electric generation. In particular, the government is repairing the largest dam in the country (in Peligre), so it becomes fully operational.

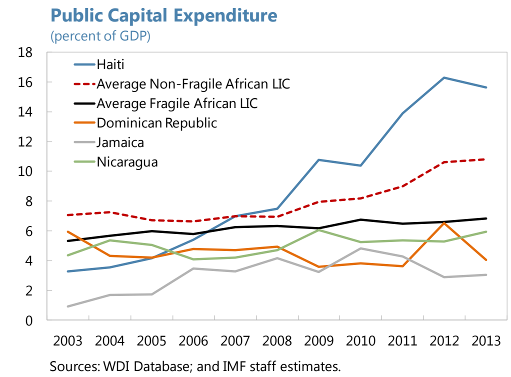
Financial sustainability problems originate in large technical and non-technical losses in distribution. The electricity system is organized in nine grids, the largest of which corresponds to that including Port-au-Prince. Electricity theft and collection rates vary by grid, but the largest financial losses originate in the grid including the capital. The cash-recovery index for FY2013 is estimated at [30] percent (i.e., 30 cents were recovered by EDH for every dollar of energy produced). Financial support from Venezuela (in the context of the Petrocaribe initiative) allowed increasing service hours and reducing blackouts, but given lack of progress in reducing non-technical losses, a sudden stop of these resources will likely result in increased blackouts (DSA Annex).

Transfers to the sector include on-budget and off-budget subsidies and loans. During FY2013, on-budget transfers to EDH amounted to 0.6 percent of GDP, while off-budget transfers (financed with Petrocaribe-related flows) reached 0.9 percent of GDP. Moreover, an IPP exercised guarantees against the central government for unpaid electricity sold to EDH for US$13 million (0.2 percent of GDP). In addition to that, EDH has run arrears against another private IPP (for 0.8 percent of GDP), which in turn stopped paying for fuel provided by BMPAD (an autonomous agency that manages the flows received in the context of Petrocaribe).

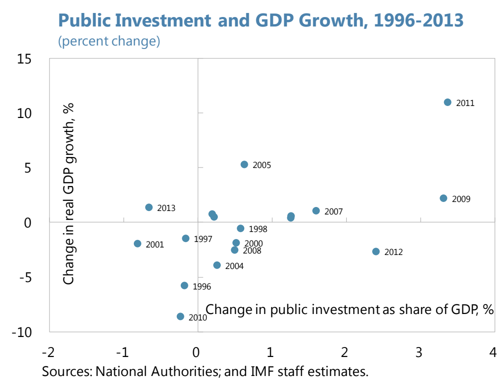
The government has targeted reforms in the electricity sector as a priority. Although some progress has been observed (e.g., the government has begun renegotiating electricity prices with some IPPs), faster progress is essential to regain sustainability. In particular clear, time-bound targets (in terms of theft reduction, improvements in collection and in the cash-recovery index) should be established for EDH management. The World Bank, the IDB and the U.S. have all been supporting the government's efforts in this regard.

Box 5. Public Investment and Growth

Public investment (as a share of GDP) rose significantly in Haiti over the past ten years. This is due in part to reconstruction in the aftermath of the 2010 earthquake (public investment was over 16 percent of GDP in FY2012), but the increase began earlier.



This acceleration in public investment is apparent when compared with the experience in other Low Income countries (LICs). The behavior of public sector gross fixed capital formation since 1980 across a set of comparator countries suggests that only a few countries experienced larger accelerations in public investment (in the 1980s-90s) than that observed in Haiti. More recently, public investment has been high in Ethiopia (over 20 percent of GDP), but without the acceleration. Rwanda also experienced large increases in public investment (from about 5 percent of GDP in the early 2000s to 10-13 percent over the past few years) what is still lower than in Haiti.



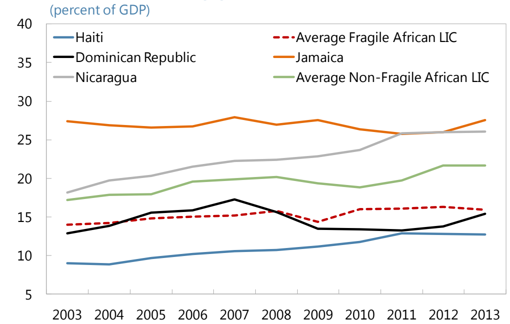
The increase in public investment was initially financed by a surge in grants, but began to increasingly rely on Petrocaribe financing since FY2011. Grants (excluding humanitarian aid) rose from almost zero in FY2003 to a peak of 12 percent of GDP in FY2010. Grants are projected to fall to around 7 percent of GDP in FY2014 (as the crisis response passes and non-traditional donors withdraw), but this level of grants would nonetheless be equal or higher than the 2013 level observed in all but four IDA-only African countries (namely, Burundi, Comoros, Malawi, and Rwanda). Moreover, net official external debt increased by 4.5 percent of GDP per year over FY2011-13 (almost all of which is related to Petrocaribe). This is a sharp contrast with comparator countries: fragile and IDA-only African countries have, until recently, contracted little new external official debt; in the region Nicaragua had the highest net official borrowing, but still well below Haiti).

Increasing the yield on growth of public investment will require advancing structural reforms, while sustaining it will involve further efforts at domestic revenue mobilization. Given that the implementation of public investment is not centralized (with about half managed by donors and half by the government), strengthening coordination remains essential to increase the impact on growth. Moreover, a more systematic ex-post evaluation of projects should allow identifying successes and correcting errors, while more readily-available data (including from donors) should support

Box 5. Public Investment and Growth (concluded)

analysis (Box 2). Moreover, Haiti's revenue mobilization remains low. Domestic revenue rose from about 9 percent of GDP a decade ago to about 12–13 percent of GDP in recent years. This puts Haiti at the lower end of its comparator groups. As external grants are likely to gradually decrease, sustaining the large levels of public investment will require expanding the tax base (including by focusing fuel subsidies), and strengthening tax and customs administration to combat evasion.

Revenue excluding grants
(percent of GDP)



Sources: WEO; WDI Database; and IMF staff estimates.

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[1] Haiti is compared with countries in the region (Nicaragua, Dominican Republic and Jamaica), and 30 IDA-only African LICs for which data is available. This latter group is divided between "fragile" and "non-fragile" LICs, as defined by the World Bank (http://siteresources.worldbank.org/EXTLICUS/Resources/511777-1269623894864/HarmonizedlistoffragilestatesFY14.pdf).

[2] The spike in grants to African LICs during the past decade reflects debt relief. The net debt series comprises Public and Publically Guaranteed Debt from Official Creditors, Net Debt Transfers on Debt, as reported in the World Development Indicators Database.

Annex I. Risk Assessment Matrix

	Nature/Source of Risk	Overall Level of Concern		Policy Response
		Likelihood of realization (High, Medium, or Low)	Expected Impact if Risk is Materialized (High, Medium, or Low)	
Short-Term Risks	**1. Weaker Recovery in the U.S.**	**Medium** The recovery in investment in the United States is more subdued than expected, reducing growth	**Medium** Remittance and apparel export growth would decline, hurting domestic demand and the growth outlook. Formal employment would stagnate.	Strengthen business climate to make full use of advantages in HOPE/HELP acts, including by enhancing the efficiency of electricity sector and of the PIP. Increase exchange rate flexibility.
Short-Term Risks	**2. Venezuela's macroeconomic situation worsens**	**High** Petrocaribe-related flows decrease significantly or their financial terms worsen.	**High** A sudden stop of Petrocaribe resources would likely cut GDP growth by at least 2.5 pp. Financing of the PIP and of EDH's deficit would be severely constrained.	Keep Petrocaribe-related deposits at adequate levels by adjusting spending plans to available resources. Promote domestic revenue mobilization. Achieving financial sustainability of EDH.
Short-Term Risks	**3. Discussions on the FY2014 budget stall**	**Medium** The Executive and Congress do not agree on a revised version for the FY2014 Budget, in particular due to election-related spending pressures.	**Medium** The PIP is under-executed with some effect on GDP growth. Budget discussions for FY2015 are delayed.	Resist spending pressures and stick to the general budget envelope agreed at the time of the sixth ECF review. Continue strengthening revenue administration, and enlarge revenue base.
Short-Term Risks	**4. Progress in strengthening transparency and governance falters**	**Medium** Reform fatigue and capacity and infrastructure constraints slows institutional strengthening.	**High** Donor flows decrease, opening a gap in fiscal and external accounts. Public investment decreases and the growth outlook deteriorates.	Broaden the tax base. Maintain financial buffers and increase flexibility of exchange rate policy to help absorb shocks. Build a national consensus on a sustainable reform agenda.
Short-Term Risks	**5. Commodity Prices Increase**	**Medium** Geopolitical or events of nature push up oil and food prices.	**High** Inflation would increase, and the current account and the growth outlook would deteriorate.	Maintain financial buffers and Increase flexibility of exchange rate policy. Eliminate blanket subsidies, focusing them on the poor. Enhance efficiency of the electricity sector.
Short-Term Risks	**6. Negative weather events**	Although weather events are unpredictable, Haiti's geographical location makes it prone to be affected by weather-related shocks.	**High** Negative weather events have resulted in loss of life, infrastructure destruction and disruption of production, in particular of agriculture.	Increase flexibility of exchange rate policy and maintain fiscal buffers. Strengthen the national and risk management system. Strengthen effectiveness of fiscal policy to reach the poor fast. Focus transfers and subsidies.
Medium-term Risks	**7. Donor Fatigue**	**Medium** Following the effort after the earthquake, donor flows gradually decrease, in particular from bilateral sources.	**High** Public investment decreases and the growth outlook deteriorates. Fiscal and external accounts also deteriorate.	Promote domestic revenue mobilization. Maintain financial buffers and increase flexibility of exchange rate policy. Continue implementation of structural reforms.
Medium-term Risks	**8. Reform Fatigue**	**Medium** Political tensions negatively affect the implementation of structural reforms and of fiscal consolidation.	**High** The implementation of structural reform falters, constrains to growth are not lifted with vulnerabilities remaining entrenched.	Promote inclusive political and economic institutions and open discussions on the reform agenda. Strengthen the business climate and enhance poverty reduction efforts.

Annex II. Debt Sustainability Analysis

This annex conducts a Debt Sustainability Analysis (DSA), in accordance with the revised joint Bank-Fund debt sustainability framework (DSF) for low-income countries (LICs).[1] Haiti's risk of debt distress remains high and the likelihood of some risks has recently increased.[2] The country's main challenge is to undertake needed fiscal adjustment while protecting social and investment needs. Policies under the baseline scenario lead to a significant build up of external and public debt, which highlights the need to a swifter implementation of structural reforms. The country's external debt profile is particularly vulnerable to shocks on borrowing conditions and the exchange rate, while declines in the rate of growth have major negative impacts on public debt. In particular, a sudden stop of Petrocaribe inflows could jeopardize growth prospects and deteriorate the indicators of public debt.

Background

1. **Haiti's external debt structure has undergone significant changes in recent years and borrowing terms have improved.** The share of debt owed to traditional development partners has dropped owing to debt relief, while the share of non-Paris Club bilateral debt has increased reflecting continued disbursements from Venezuela. After benefitting from HIPC and MDRI, Haiti received additional debt relief following the earthquake of 2010, including from the IMF (US$268 million)[3], the World Bank (US$36 million), the IDB (US$486 million), the IFAD (that established a debt relief account with sufficient funds to service debt through 2020), Venezuela (US$395 million), and Taiwan Province of China (that waived interest payments and postponed principal repayments by five years). Following the delivery of debt relief, Haiti's debt stock declined substantially, as major bilateral development partners and multilateral development banks have all shifted to providing assistance on a grants-only basis. Major new disbursements are those related to the concessional Petrocaribe agreement with Venezuela, which have recently led to a gradual increase in the debt stock.

2. **At end-2013, Haiti's stock of public sector debt amounted to US$1,627 million, (19.5 percent of GDP), composed almost exclusively by external debt on concessional**

[1] World Bank and IMF (2009). "Review of Some Aspects of the Low-Income Country Debt Sustainability Framework." (IDA/SecM2009-0397; SM/09/216; BUFF/09/146); World Bank and IMF (2012), "Revisiting the Debt Sustainability Framework for Low Income Countries," (SM/12/10). This full DSA was done jointly by IMF and World Bank staffs.

[2] Thresholds are set according to the country's CPIA ranking. Haiti is classified as a weak performer based on its three-year 2010-12 average score of 2.90 in the World Bank's Country Policy and Institutional Assessment (CPIA) framework. For weak performers (defined as those with three-year average CPIA ratings below 3.25), the indicative thresholds for external debt sustainability are PV debt-to-GDP ratio of 30 percent and 27 percent when remittances are included; PV debt-to-exports ratio of 100 percent and 80 percent when remittances are included, PV debt-to-revenue ratio of 200 percent, debt service-to-exports ratio of 15 percent and 12 percent with remittances; and debt service-to-revenue ratio of 25 percent.

[3] Established in June 2010, the Post-Catastrophe Debt Relief (PCDR) Trust allows the Fund to provide debt relief when LICs are hit by catastrophic natural disasters.

terms (Text Table 1). External debt amounted to US$1,475 million, of which US$136 million corresponded to multilateral debt, and US$1,339 million to bilateral debt, mainly to Venezuela (US$1,235 million of Petrocaribe debt). Domestic debt was about US$152 million, mostly in the form of treasury bills largely held by commercial banks and about US$45 million is a publicly guaranteed debt to a commercial bank contracted by the state-owned electricity company EDH (*Electricité d'Haïti*).

3. **Other outstanding creditor and debtor positions with the private sector appear in favor of the public sector.** The non-financial public sector remains a net creditor to the consolidated banking system, mainly reflecting Petrocaribe deposits with commercial banks (about US$200 million at end-2013). In addition, the public sector maintains a debtor position *vis-à-vis* independent power producers (IPPs), for arrears accumulated by EDH for about US$96 million; in turn the IPPs have accumulating arrears to the central government of US$80 million, for the provision of fuel.

Text Table 1. Haiti: Structure of External Public Debt at end-2013

		in percent of	
	US$ millions	total debt	GDP 1/
Total	**1474.8**	**100.0**	**17.4**
Multilateral creditors	**135.9**	**9.2**	**1.6**
IMF	57.8	3.9	0.7
World Bank	0.0	0.0	0.0
IFAD	64.5	4.4	0.8
IDB	0.1	0.0	0.0
OPEC	13.5	0.9	0.2
Official bilateral creditors	**1338.9**	**90.8**	**15.8**
Venezeula	1249.1	84.7	14.8
PetroCaribe	1235.0	83.7	14.6
BANDES	14.1	1.0	0.2
Taiwan, Province of China	89.8	6.1	1.1

Sources: Haitian authorities; and Fund staff estimates.

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

A. Macroeconomic Outlook, 2014-2034

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

- Projections include an annual average real GDP growth of about 3.5 percent, starting from 4 percent growth rate in 2014 and then declining progressively to 3 percent by 2034.
- A stable real exchange rate vis-à-vis the US dollar.
- Fiscal projections include a gradual increase in domestic revenues of the central government to 18 percent of GDP by 2034 (from nearly 13 percent in 2013), while foreign

grants will gradually decrease to about 2 percent of GDP (from 8 percent in 2013). Primary expenditure of the central government is projected to decline slowly from 27 percent of GDP in 2013 to about 22 percent in 2034, with capital expenditure (domestically and externally financed) also decreasing to stabilize at 10-11 percent of GDP by 2034. This would involve an adjustment in the primary balance of the central government of about 4.5 percentage points of GDP during the projection period, with the primary deficit decreasing from more than 6 percent of GDP in 2013 to nearly 2 percent in 2034. In turn, the deficit of EDH is assumed to gradually decrease from nearly 1 percent of GDP in 2013 to balance by 2022. The primary deficit in 2034 (about 2 percent of GDP) would be consistent with debt stabilization. This suggests that provided the value of other parameters is maintained (namely GDP growth of 5 percent –in US$ terms–and an average nominal interest rate of about 1.8 percent –in US$ terms– prevailing in 2034), the debt ratio would begin decreasing if fiscal consolidation continued beyond 2034, a reasonable assumption.

- For the external outlook, projections consider a gradually improving trade deficit (from 34 percent of GDP in 2013 to 16 percent in 2034), and gradually increasing FDI (from 1.4 percent of GDP in 2013 to 4.5 percent by 2034). The projections further assume Petrocaribe debt inflows that remain fairly steady in nominal terms but fall as a share of GDP (from 4.7 percent of GDP to 1.6 percent by 2034), at prevailing financing concessional terms. As the country develops, transfers (both official and remittances) would decline gradually, from 27 percent of GDP in 2013 to 11 percent in 2034.

5. Gross financing needs will be covered by a combination of external and domestic debt. Gross financing needs are projected to average about 8.5 percent of GDP per year, which will be financed by external debt flows (about 5.5 percent of GDP) and by domestic debt (about 3 percent of GDP). The DSA assumes that external borrowing would be composed by Petrocaribe flows (2.5 percent of GDP on average) and additional external bilateral borrowing at concessional terms (3.2 percent of GDP on average). Domestic borrowing would comprise only treasury bills with 1-5 year maturities, and 5 percent interest rate (in US$ terms). For 2014-16, withdrawals from the PCDR account are also projected, for a total amount of 2.5 percent of GDP.[4]

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

Text Table 2. DSA 2014 vs. DSA 2012

	2012		Average 2013-17		Average 2018-31	
	Previous DSA	Current DSA	Previous DSA	Current DSA	Previous DSA	Current DSA
(annual percentage change, unless otherwise indicated)						
Real GDP	7.8	2.8	5.9	4.1	4.5	3.5
Consumer prices (period average)	7.7	6.8	4.6	5.3	3.0	5.0
(in percent of GDP, unless otherwise indicated)						
Total revenue and grants	29.5	25.3	24.0	20.6	19.8	20.7
Of which: Revenue	13.6	12.8	14.6	13.4	16.6	16.0
Primary expenditure	36.9	28.0	28.5	26.6	22.4	24.2
Of which: Capital expenditure	25.9	16.3	18.5	14.6	12.2	11.5
Overall balance	-7.7	-5.1	-4.9	-6.5	-3.4	-4.5
Current account balance	-4.5	-5.4	-4.5	-5.9	-4.2	-5.0
Exports of goods and services	15.0	16.9	14.6	18.5	14.1	21.3
Imports of goods and services	-54.6	-53.2	-43.3	-49.8	-32.0	-44.6

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

6. **The DSA projects that public debt will grow from 19.5 percent of GDP in 2013 to about 63 percent of GDP in 2034.** In turn, external debt will grow from nearly 18 percent of GDP in 2013 to 53 percent of GDP in 2034. External debt would grow fairly rapidly in the near term but the pace of accumulation would fall to around 2 percent of GDP per year by the end of the projection period; the grant element of new borrowing will also decline gradually but will remain above 35 percent (Tables 1 to 3).

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

- GDP is assumed to grow at a slower pace (3.5 percent) as opposed to 4.5–5 percent in the previous DSA, on account of the country's historical growth trend and international experience (See Box 1 on growth projections). Inflation would be slightly higher.
- Government revenue increases would be more gradual on account of the recent performance in revenue collection, and capital spending levels in the short-term would be more moderate but would remain sustained.
- Exports would be higher given recent trends and would expand in the long-term in part due to the HELP and HOPE initiatives, which provide advantageous conditions for apparel exports to the U.S. Imports would also remain at higher levels for all the projection period reflecting the country's needs to rebuild infrastructure, as well as Haiti's status as a net oil and food importer.
- Other major differences relate to the use of a new discount rate (5 percent) to calculate the grant element, and the inclusion of remittances in the analysis; the latter stood at 21 percent of GDP (106 percent of exports of goods and services) in 2013 and are projected to decline to 10 percent of GDP in 2034.[5]

[5] See Board paper "Unification of Discount Rates Used in External Debt Analysis for Low-Income Countries," (SM/13/271).

B. Debt Sustainability Outlook, 2014-34

8. The risk of external debt distress remains high under the baseline scenario. Three thresholds for external debt would be breached starting from 2021-22, including the ratios of PV of debt to GDP, to exports and to revenue (Figure 1). The ratio of debt service to revenue would not breach the threshold but would reach the 10 percent band around the threshold at the end of the projection period. While the ratio of debt service to exports would remain below the threshold during the projection period, it would be on an upward trend.

9. Haiti's external position is vulnerable to changes in borrowing terms and in the exchange rate. An increase by 200bps in the interest rate over the entire projection period would cause the thresholds for the PV to exports, and the debt service ratios to exports and to revenue to be breached very rapidly. In case of a 30 percent nominal depreciation of the gourde occurred in 2015, the PV of debt-to-GDP and to revenue would breach the associated thresholds as early as 2017-18.

10. Public debt indicators would deteriorate over time and show sensitivity to growth shocks (Figure 2). The ratio of the PV of public debt to GDP would reach 46 percent by 2034. In turn, the ratio of the PV of public debt-to-revenue would be on an increasing trend, reaching 206 percent at the end of the projection period, while debt service-to-revenue ratio would reach 33 percent by 2034. All debt indicators would increase to very high levels in response to shocks to growth and to the primary balance.

C. A 'Sudden Stop' of Petrocaribe Inflows

11. A sudden stop of Petrocaribe flows would lead, in the short-term, to a substantial fiscal adjustment and a decrease in GDP growth. This scenario assumes a sudden stop of Petrocaribe flows starting in FY2014/15, which would severely impact investment spending and the financing of the electricity sector. In addition, the shock to growth would impact domestic tax revenues, which would decrease below the baseline. The impact on the economy would be cushioned by a decrease in domestic revenues, a drawdown of Petrocaribe deposits in 2015-16 (of about 2.2 percent of GDP) and international reserves, and assumed additional bilateral external borrowing (on concessional terms). In particular, the deficit of EDH would likely decrease, given the lack of financing, through a combination of higher tariffs, longer blackouts, and some improvement in collection.

12. The lower concessional flows will result in lower investment and higher debt costs, which will constrain GDP growth. The decrease in investment and the temporary shortages in the provision of electricity would cause GDP growth to fall sharply in 2015-16 (by 3 and 2.5 percent points below the baseline respectively), and to remain lower than the baseline over the medium term. With lower GDP growth, tax collection would also decline on impact, to recover gradually thereafter.

Text Table 3. Sudden-Stop of Venezuela Flows
(in percent of GDP, unless otherwise noted)

	2014	2015	2016	2017	2018	2019
Baseline						
Real GDP growth (percent)	4.0	4.0	4.0	4.0	4.0	4.0
Public Debt	22.9	28.2	33.1	38.0	42.3	45.9
Primary Deficit NFPS	7.1	6.8	6.5	6.1	5.7	5.2
Central Government Revenue (excl. grants)	13.2	13.5	13.8	14.1	14.4	14.7
Central Government Primary Spending	26.9	26.6	26.4	26.1	25.8	25.6
of which, Transfers to Electricity Sector	1.4	1.3	1.2	1.1	1.0	1.0
of which, Public Investment	14.9	14.4	14.1	13.9	13.5	13.0
Alternative Scenario: Sudden Stop						
Real GDP growth (percent)	4.0	1.0	1.5	3.0	3.5	3.5
Public Debt	22.9	26.7	30.5	34.5	37.5	40.4
Primary Deficit NFPS	7.1	5.3	5.0	4.5	4.1	4.1
Central Government Revenue (excl. grants)	13.2	12.8	13.0	13.3	13.6	13.8
Central Government Primary Spending	26.9	24.6	24.4	24.1	23.8	23.9
of which, Transfers to Electricity Sector	1.4	0.8	0.7	0.6	0.5	0.5
of which, Public Investment	14.9	12.9	12.6	12.4	12.0	11.8

Source: IMF staff estimates and projections

13. The stock of public debt would remain broadly unchanged, but its composition would change in favor of less concessional debt. By 2034, total public debt would reach about 63 percent of GDP (similar than in the baseline). However, it is assumed that external debt would be about 13 percentage points of GDP lower than in the baseline (as Petrocaribe flows would not be substituted 1-to-1 by other concessional debt), while domestic debt would be higher. Importantly, without a strong deepening of the domestic financial system, such increase in domestic debt may crowd out credit to the private sector, further constraining growth.

14. Under this scenario the risk of external debt distress would remain high. The ratios of PV of debt to exports and to revenue would breach their respective thresholds by the end of the projection period. In four cases out of five the thresholds would be breached in case of sharp depreciations and changes in the borrowing terms. Public debt indicators would be somehow worse than in the baseline given the higher content of non concessional domestic borrowing. In particular, the ratio of the PV of public debt to GDP would reach 59 percent by 2034 (as opposed to 54 percent under the baseline); the ratio of the PV of public debt to revenue and the debt service would also deteriorate significantly with respect to the baseline.

D. Stronger Policies, Lower Vulnerabilities

15. Swift progress in the implementation of reforms should result in a stronger fiscal position and in an environment more conducive to growth. This scenario assumes that (i) the deficit of the state-owned electricity company is reduced faster than in the baseline; (ii) the effectiveness and efficiency of public investment improves *vis-à-vis* the baseline; and (iii) domestic revenues are higher than in the baseline, in part due to the elimination of the fuel price freeze. This results in a decrease in the primary deficit of the NFPS with respect to the baseline of about 1.5 percent of GDP by 2017. The increased effectiveness of public investment and the better performance in the electricity sector are assumed to have a positive impact of GDP growth, which is assumed to increase by 0.2 percentage points through the medium term.

Text Table 4. Stronger Policies, Lower Vulnerabilities

(in percent of GDP, unless otherwise noted)

	2014	2015	2016	2017	2018	2019
Baseline						
Real GDP growth (percent)	4.0	4.0	4.0	4.0	4.0	4.0
Public Debt	22.9	28.2	33.1	38.0	42.3	45.9
Primary Deficit NFPS	7.1	6.8	6.5	6.1	5.7	5.2
Central Government Revenue (excl. grants)	13.2	13.5	13.8	14.1	14.4	14.7
Central Government Primary Spending	26.9	26.6	26.4	26.1	25.8	25.6
of which, Transfers to Electricity Sector	1.4	1.3	1.2	1.1	1.0	1.0
of which, Public Investment	14.9	14.4	14.1	13.9	13.5	13.0
Active Scenario						
Real GDP growth (percent)	4.0	4.0	4.2	4.2	4.2	4.2
Public Debt	22.9	27.6	31.2	34.2	36.8	38.9
Primary Deficit NFPS	7.1	6.2	5.3	4.2	3.9	3.6
Central Government Revenue (excl. grants)	13.2	13.6	14.0	14.4	14.7	15.0
Central Government Primary Spending	26.9	26.3	25.6	25.0	24.8	24.6
of which, Transfers to Electricity Sector	1.4	1.0	0.5	0.0	0.0	0.0
of which, Public Investment	14.9	13.9	13.6	13.4	13.0	12.5

Source: IMF staff estimates and projections

16. The stock of public debt would decrease considerably *vis-à-vis* the baseline scenario. By 2034, total public debt would reach nearly 43 percent of GDP (against 63 percent in the baseline). In turn, domestic debt would reach only 7 percent of GDP, implying better financing terms, on average, than in the baseline. Credit to the private sector would not be crowd out, lifting a possible constraint to growth.

17. The risk of debt distress in this scenario would be reduced and vulnerabilities contained. Both external and public debt would peak by 2025 and would decrease thereafter, with no thresholds breached by the end of the projection period.

E. Conclusions

18. The updated DSA suggests that Haiti's risk of debt distress remains high, and that the likelihood of some risks has recently increased. The debt is also vulnerable to shocks to growth, borrowing terms and the exchange rate. A sudden stop of Petrocaribe financing would jeopardize growth prospects and reduce the grant element of new borrowing, thereby worsening the indicators of public debt. A stronger and faster implementation of structural reforms (including improving the performance the electricity sector, the effectiveness of public investment, and the focusing of subsidies), would result in lower debt accumulation through the medium term, and in the containment of vulnerabilities. It is therefore crucial that Haiti maintains prudent macroeconomic policies; strengthens the effectiveness of public investment, debt management, and PFM more generally, improves the sustainability of the electricity sector, and continues the implementation of structural reforms to improve the investment climate, in order to boost exports and growth.

19. The authorities broadly concurred with the main findings of the DSA. Staff and the authorities discussed the main assumptions and conclusions of the updated DSA, as well as main risks affecting surrounding the baseline. The authorities agreed with the need to increase the yield on growth of public investment, and more generally to contain the primary deficit of the non-financial public sector. They agreed on the need to speed up the implementation of reforms, but highlighted that a number of constrains have slowed down the process.[6]

[6] Discussions were held on a Seminar on Debt Sustainability that was co-hosted by IMF staff and the Haitian authorities in Port-au-Prince, during January 2014.

Box 1. Per Capita GDP Growth Projections

Haiti's growth performance during the past two decades has been poor. In per capita terms, GDP growth in the twenty years through 2013 was actually negative, of about -0.9 percent. This situates Haiti's performance in the bottom 5th percentile of comparator groups, including countries of all levels of development, low-income countries (LICs), and non-resource rich LICs (See Table).[1] Political instability exacerbated problems with growth, but average per capita GDP growth was negative even excluding crisis years.

Average Per Capita GDP Growth, %, 1993-2012

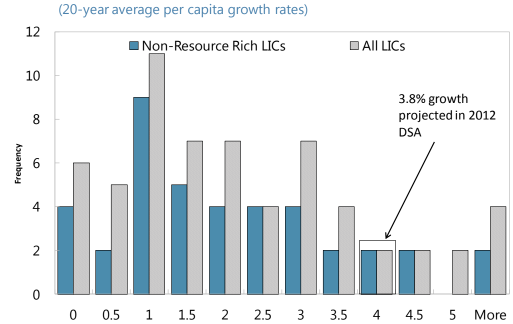
By percentile (number of observations)

Percentile	All Countries (164)	LICs (61)	Non-Resource Rich LICs (40)
Memo: Haiti 1993-2012			*-0.9*
5%	-0.2	-0.8	-0.8
10%	0.4	0.3	0.2
25%	1.1	0.7	0.7
50%	1.9	1.5	1.5
Memo: Haiti Proj. 2014-2034			*2.3*
75%	3.1	2.3	2.6
90%	4.4	4.4	3.9
95%	5.6	5.6	4.5

Data for 164 countries suggest that the median per capita GDP growth for all comparator groups fell in the 1.5 – 2.0 percent range during the past twenty years. While the median per capita GDP growth for all countries was 1.9 percent per year, the median rate was 1.5 percent for both LICs and non-resource rich LICs.

Per Capita Growth Performance Across LICs

(20-year average per capita growth rates)



Sources: IMF staff estimates.

This DSA assumes that Haiti will be able to sustain positive and significant per capita growth through the medium term. Concretely, average per-capita GDP growth for 2014-2034 is assumed at 2.3 percent, i.e., somewhat above the median growth observed for non-resource rich LICs during the past twenty years, but close to the median for all country groups. This would be the result of a projected average real GDP growth rate of 3.5 percent and population growth of 1.2 percent.[2] Although Haiti's achieving such growth rates would constitute a major shift from the past, the current growth baseline is nonetheless more conservative than that included in previous DSAs.[3]

This significant shift with respect to historical experience would be possible provided political and macroeconomic stability are maintained, inclusive institutions are strengthened, and the business climate is improved. Given the large space for catch-up growth, positive institutional change could generate large increases in total factor productivity, which combined with the increases projected in other factors, could easily generate growth rates of the magnitudes assumed. In this regard, baseline GDP growth rates are the result of expected population growth and increases in the capital stock (mainly on the back of relatively large levels of public investment), and low (but positive) contribution of total factor productivity. Stronger progress in structural reforms could yield larger increases in TFP (Section D). Relative large increases in TFP have been observed in LICs countries that significantly improve their policy performance.

Box 1. Per Capita GDP Growth Projections (concluded)

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[1] Data on per capita growth rates for 164 countries (including 61 LICs and 40 non-resource rich LICs) were obtained from the World Development Indicators database. The distinction between all LICs and non-resource rich LICs is based on "Macroeconomic Policy Frameworks for Resource-Rich Developing Countries" (IMF, 2012)

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

[3] The previous DSA (2012) assumed an average per capita GDP growth rate of 3.8 percent per year over 2012-2032.

Table 1a. Haiti: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011-2034

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2011	2012	2013	Average 6/	Standard Deviation 6/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	8.9	14.4	19.5			22.9	28.2	33.1	38.0	42.3	45.9		57.4	63.4	
o/w foreign-currency denominated	8.9	13.8	17.7			20.1	24.6	28.7	32.3	35.7	38.6		48.8	53.3	
Change in public sector debt	-4.2	5.5	5.1			3.4	5.3	4.9	4.9	4.3	3.6		1.6	0.0	
Identified debt-creating flows	3.6	1.4	5.4			5.4	5.2	4.7	4.3	3.7	3.2		1.6	-0.1	
Primary deficit	4.1	2.7	6.3	2.4	1.8	6.3	6.1	5.9	5.6	5.3	4.9	5.7	3.5	1.9	3.0
Revenue and grants	15.8	25.3	20.8			20.6	20.5	20.5	20.5	20.6	20.7		20.8	20.2	
of which: grants	5.9	12.5	8.1			7.4	7.0	6.7	6.4	6.2	6.0		4.8	2.0	
Primary (noninterest) expenditure	19.8	28.0	27.1			26.9	26.6	26.4	26.1	25.8	25.6		24.3	22.0	
Automatic debt dynamics	-0.5	-1.3	-0.9			-0.9	-1.0	-1.2	-1.4	-1.6	-1.7		-2.0	-1.9	
Contribution from interest rate/growth differential	-0.5	13.1	-0.7			-0.9	-1.0	-1.2	-1.4	-1.6	-1.7		-2.0	-1.9	
of which: contribution from average real interest rate	-0.1	13.4	-0.1			-0.2	-0.1	-0.1	-0.1	-0.1	-0.1		-0.1	-0.1	
of which: contribution from real GDP growth	-0.4	-0.2	-0.6			-0.8	-0.9	-1.1	-1.3	-1.5	-1.6		-1.9	-1.8	
Contribution from real exchange rate depreciation	0.0	-14.5	-0.2			0.0	0.0	0.0	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes 2/	-7.7	4.1	-0.2			-2.0	0.1	0.2	0.6	0.5	0.4		0.1	0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	12.4			15.5	19.2	22.7	26.4	29.5	32.2		40.8	46.1	
o/w foreign-currency denominated	...	...	10.6			12.7	15.6	18.3	20.7	22.9	24.9		32.1	36.0	
o/w external	...	...	10.6			12.7	15.6	18.3	20.7	22.9	24.9		32.1	36.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	4.1	3.2	8.1			9.1	12.2	12.0	13.6	14.9	15.1		17.0	18.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	59.8			75.3	93.8	110.9	128.8	143.6	155.7		196.3	228.9	
PV of public sector debt-to-revenue ratio (in percent)	...	...	97.9			117.5	142.4	165.0	187.5	205.6	219.4		255.9	254.1	
o/w external 4/	...	...	83.5			96.4	115.9	132.7	147.1	159.5	169.8		201.6	198.5	
Debt service-to-revenue and grants ratio (in percent) 5/	0.2	1.8	2.6			2.4	13.6	9.6	12.3	15.4	14.8		23.1	31.6	
Debt service-to-revenue ratio (in percent) 6/	0.3	3.6	4.2			3.7	20.6	14.2	17.9	22.0	20.9		30.1	35.1	
Primary deficit that stabilizes the debt-to-GDP ratio	8.2	-2.8	1.1			2.9	0.8	1.0	0.7	1.0	1.3		1.9	1.9	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.1	2.9	4.3	1.5	2.3	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.5	3.0	3.3
Average nominal interest rate on forex debt (in percent)	0.5	0.8	0.9	1.1	0.7	1.0	1.3	1.3	1.2	1.3	1.3	1.2	1.3	1.3	1.3
Average real interest rate on domestic debt (in percent)	...	...	...	...	...	-0.1	1.6	1.8	1.9	2.1	2.3	1.6	2.6	2.7	2.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.3	-65.7	-1.7	-10.0	22.9	0.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.7	19.4	6.6	14.1	7.3	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	28.5	14.5	1.5	11.7	16.0	3.3	3.0	3.0	3.0	3.0	3.0	3.0	2.5	2.0	2.3
Grant element of new external borrowing (in percent)	...	...	0.0	0.0	...	37.5	36.7	36.5	36.4	36.3	36.2	36.6	36.1	35.9	...

Sources: Haitian authorities; and staff estimates and projections.

1/ Public sector debt includes gross debt of the central government, the central bank and nonfinancial public sector institutions.

2/ Includes the primary deficit of nonfinancial public sector institutions (other than the central government), essentially the state-owned electricity company EDH.

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

4/ Revenues excluding grants.

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

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

Table 2. Haiti: Sensitivity Analysis for Key Indicators of Public Debt 2014-2034

		Projections						
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	16	19	23	26	30	32	41	46
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	18	19	21	23	24	26	31	40
A2. Primary balance is unchanged from 2014	17	22	26	31	35	39	57	86
A3. Permanently lower GDP growth 1/	17	24	30	36	42	47	70	105
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	17	25	34	41	48	54	79	111
B2. Primary balance is at historical average minus one standard deviations in 2015-201	17	19	21	28	33	38	58	82
B3. Combination of B1-B2 using one half standard deviation shocks	17	19	21	29	36	42	66	99
B4. One-time 30 percent real depreciation in 2015	17	29	33	38	43	47	63	88
B5. 10 percent of GDP increase in other debt-creating flows in 2015	17	30	36	42	47	52	69	90
PV of Debt-to-Revenue Ratio 2/								
Baseline	65	81	97	113	126	137	174	206
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	72	87	93	101	107	113	134	186
A2. Primary balance is unchanged from 2014	69	99	118	140	159	177	259	418
A3. Permanently lower GDP growth 1/	69	107	135	165	191	214	315	505
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	69	112	148	182	212	239	351	533
B2. Primary balance is at historical average minus one standard deviations in 2015-201	69	88	98	127	152	175	265	398
B3. Combination of B1-B2 using one half standard deviation shocks	69	87	95	129	159	186	298	475
B4. One-time 30 percent real depreciation in 2015	69	131	151	174	194	212	289	427
B5. 10 percent of GDP increase in other debt-creating flows in 2015	69	137	163	191	215	235	316	436
Debt Service-to-Revenue Ratio 2/								
Baseline	2	14	10	13	16	16	24	33
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	2	15	10	13	16	14	22	35
A2. Primary balance is unchanged from 2014	2	15	11	14	17	17	29	48
A3. Permanently lower GDP growth 1/	2	15	11	15	19	19	33	57
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	2	16	12	16	20	21	36	59
B2. Primary balance is at historical average minus one standard deviations in 2015-201	2	15	10	13	17	16	29	47
B3. Combination of B1-B2 using one half standard deviation shocks	2	16	10	13	17	17	32	54
B4. One-time 30 percent real depreciation in 2015	2	16	14	18	23	24	40	65
B5. 10 percent of GDP increase in other debt-creating flows in 2015	2	15	13	16	20	22	33	51

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

Table 3a. Haiti: External Debt Sustainability Framework, Baseline Scenario, 2011-2034 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**8.9**	**13.8**	**17.7**			**20.1**	**24.6**	**28.7**	**32.3**	**35.7**	**38.6**		**48.8**	**53.3**	
o/w public and publicly guaranteed (PPG)	8.9	13.8	17.7			20.1	24.6	28.7	32.3	35.7	38.6		48.8	53.3	
Change in external debt	-4.0	4.9	3.9			2.4	4.5	4.1	3.7	3.3	3.0		1.4	-0.1	
Identified net debt-creating flows	0.7	1.9	4.2			3.5	3.3	3.0	2.5	2.0	1.5		0.4	-0.7	
Non-interest current account deficit	**3.4**	**5.3**	**6.4**	**2.7**	**2.3**	**5.7**	**5.5**	**5.4**	**5.2**	**5.0**	**4.7**		**4.4**	**4.7**	4.4
Deficit in balance of goods and services	40.7	36.3	34.2			32.0	31.1	30.2	29.3	28.3	27.4		23.6	16.3	
Exports	13.4	16.9	18.0			18.2	18.5	18.7	19.0	19.2	19.5		21.2	25.0	
Imports	54.2	53.2	52.2			50.3	49.6	48.9	48.2	47.6	46.9		44.7	41.3	
Net current transfers (negative = inflow)	-36.7	-35.9	-32.9	-31.6	6.7	-29.4	-28.6	-27.8	-26.9	-26.1	-25.4		-21.4	-13.0	-18.9
o/w official	-19.2	-12.5	-8.9			-7.8	-7.0	-6.7	-6.4	-6.2	-6.0		-4.8	-2.0	
Other current account flows (negative = net inflow)	-0.6	4.9	5.0			3.0	3.0	3.0	2.9	2.8	2.7		2.3	1.4	
Net FDI (negative = inflow)	**-2.4**	**-2.0**	**-1.4**	**-1.4**	**1.0**	**-1.7**	**-1.7**	**-1.8**	**-2.0**	**-2.1**	**-2.3**		**-3.0**	**-4.5**	-3.5
Endogenous debt dynamics 2/	**-0.3**	**-1.4**	**-0.8**			**-0.5**	**-0.5**	**-0.6**	**-0.7**	**-0.8**	**-0.9**		**-1.0**	**-0.9**	
Contribution from nominal interest rate	0.1	0.1	0.1			0.2	0.2	0.3	0.3	0.4	0.4		0.6	0.7	
Contribution from real GDP growth	-0.7	-0.2	-0.6			-0.7	-0.8	-0.9	-1.1	-1.2	-1.3		-1.6	-1.5	
Contribution from price and exchange rate changes	0.3	-1.3	-0.4			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-4.8**	**3.0**	**-0.2**			**-1.1**	**1.2**	**1.1**	**1.2**	**1.3**	**1.4**		**1.0**	**0.6**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	11.4			13.6	16.6	19.4	21.9	24.3	26.4		34.1	38.2	
In percent of exports	...	...	63.1			74.4	89.9	103.5	115.6	126.3	135.7		161.3	153.0	
PV of PPG external debt	**...**	**...**	**11.4**			**13.6**	**16.6**	**19.4**	**21.9**	**24.3**	**26.4**		**34.1**	**38.2**	
In percent of exports	**...**	**...**	**63.1**			**74.4**	**89.9**	**103.5**	**115.6**	**126.3**	**135.7**		**161.3**	**153.0**	
In percent of government revenues	**...**	**...**	**89.3**			**102.6**	**123.0**	**140.8**	**156.0**	**169.2**	**180.2**		**213.8**	**210.6**	
Debt service-to-exports ratio (in percent)	**0.6**	**0.7**	**1.0**			**2.5**	**3.7**	**4.9**	**5.9**	**6.7**	**7.7**		**10.7**	**13.1**	
PPG debt service-to-exports ratio (in percent)	**0.6**	**0.7**	**1.0**			**2.5**	**3.7**	**4.9**	**5.9**	**6.7**	**7.7**		**10.7**	**13.1**	
PPG debt service-to-revenue ratio (in percent)	**0.8**	**0.9**	**1.4**			**3.4**	**5.0**	**6.6**	**7.9**	**9.0**	**10.2**		**14.2**	**18.0**	
Total gross financing need (Millions of U.S. dollars)	82.8	273.5	435.3			398.9	425.3	454.3	465.2	470.8	475.0		572.9	903.1	
Non-interest current account deficit that stabilizes debt ratio	7.5	0.4	2.4			3.2	1.0	1.4	1.6	1.7	1.8		3.0	4.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.5	2.9	4.3	1.5	3.4	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.5	3.0	3.3
GDP deflator in US dollar terms (change in percent)	-2.5	16.8	2.8	8.0	12.5	2.1	1.9	1.9	1.9	1.9	1.9	2.0	1.9	1.9	1.9
Effective interest rate (percent) 5/	0.5	0.8	0.9	1.1	0.7	1.0	1.3	1.3	1.2	1.3	1.3	1.2	1.3	1.3	1.3
Growth of exports of G&S (US dollar terms, in percent)	26.8	32.1	14.1	13.1	12.4	7.5	7.5	7.5	7.4	7.4	7.4	7.4	7.2	6.9	7.1
Growth of imports of G&S (US dollar terms, in percent)	-0.3	3.1	5.1	12.7	13.9	2.3	4.6	4.6	4.6	4.6	4.5	4.2	4.5	4.3	4.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	37.5	36.7	36.5	36.4	36.3	36.2	36.6	36.1	35.9	36.0
Government revenues (excluding grants, in percent of GDP)	11.2	12.8	12.7			13.2	13.5	13.8	14.1	14.4	14.7		16.0	18.2	16.6
Aid flows (in Millions of US dollars) 7/	663.2	1211.5	1064.7			1058.7	1237.7	1283.5	1326.9	1384.0	1443.2		1626.3	1836.3	
o/w Grants	438.4	987.5	685.1			666.0	666.4	677.9	684.8	703.3	721.6		761.4	524.7	
o/w Concessional loans	224.8	224.0	379.6			392.7	571.2	605.6	642.0	680.7	721.6		864.9	1311.6	
Grant-equivalent financing (in percent of GDP) 8/	5.8	12.5	8.1			9.1	9.2	8.9	8.6	8.4	8.2		6.8	3.8	5.9
Grant-equivalent financing (in percent of external financing) 8/	100.0	100.0	100.0			76.8	70.8	70.0	69.2	68.7	68.1		66.0	54.2	62.5
Memorandum items:															
Nominal GDP (Millions of US dollars)	7516.0	7889.7	8458.4			8980.0	9520.6	10093.6	10700.7	11344.3	12026.7		15725.1	26232.9	
Nominal dollar GDP growth	13.5	5.0	7.2			6.2	6.0	6.0	6.0	6.0	6.0	6.0	5.5	5.0	5.3
PV of PPG external debt (in Millions of US dollars)			947.5			1200.1	1557.4	1927.5	2312.7	2715.6	3132.5		5285.3	9881.4	
(PVt-PVt-1)/GDPt-1 (in percent)						3.0	4.0	3.9	3.8	3.8	3.7	3.7	2.9	1.8	2.6
Gross workers' remittances (Millions of US dollars)	1375.6	1473.8	1552.7			1612.3	1781.0	1778.0	1885.1	1947.1	2009.7		2293.1	2650.6	
PV of PPG external debt (in percent of GDP + remittances)	...	...	9.6			11.5	14.0	16.5	18.6	20.7	22.6		29.8	34.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	31.3			37.5	44.6	53.3	59.9	66.8	73.1		95.5	108.9	
Debt service of PPG external debt (in percent of exports + remittance	...	...	0.5			1.2	1.8	2.5	3.0	3.5	4.1		6.4	9.3	

Sources: Haitian authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 3b.Haiti: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034

(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to-GDP+remittances ratio								
Baseline	11	14	16	19	21	23	**30**	35
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	11	12	13	14	15	16	**20**	24
A2. New public sector loans on less favorable terms in 2014-2034 2	11	15	18	21	24	27	**39**	51
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	11	14	18	20	23	25	**32**	38
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	11	14	18	20	22	24	**30**	35
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	11	15	18	20	23	25	**33**	38
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	11	17	22	23	25	27	**32**	35
B5. Combination of B1-B4 using one-half standard deviation shocks	11	16	21	23	25	26	**33**	37
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	11	18	22	24	27	30	**39**	47
PV of debt-to-exports+remittances ratio								
Baseline	36	45	52	59	66	72	95	109
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	37	39	43	45	49	53	**72**	85
A2. New public sector loans on less favorable terms in 2014-2034 2	37	47	59	69	79	88	**124**	161
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	37	44	53	59	66	72	**94**	107
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	37	48	63	70	77	83	**105**	119
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	37	44	53	59	66	72	**94**	107
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	37	56	73	75	81	86	**104**	110
B5. Combination of B1-B4 using one-half standard deviation shocks	37	49	62	66	72	78	**97**	107
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	37	44	53	59	66	72	**94**	107
PV of debt-to-revenue ratio								
Baseline	103	123	141	156	169	180	**214**	211
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	103	106	109	113	117	122	**141**	138
A2. New public sector loans on less favorable terms in 2014-2034 2	103	130	156	179	199	217	**278**	311
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	103	129	156	173	187	200	**237**	233
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	103	127	155	169	182	191	**219**	209
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	103	129	158	175	190	202	**240**	236
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	103	145	182	196	206	213	**232**	213
B5. Combination of B1-B4 using one-half standard deviation shocks	103	139	179	194	207	216	**243**	229
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	103	172	197	218	236	251	**298**	294

Table 3b. Haiti: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034 (concluded)

(In percent)

Debt service-to-exports+remittances ratio								
Baseline	1	2	3	3	4	4	**6**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	1	2	2	3	3	3	**4**	6
A2. New public sector loans on less favorable terms in 2014-2034 2	1	2	3	4	5	6	**9**	15
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	1	2	3	3	4	4	**6**	9
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	1	2	3	3	4	5	**7**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	1	2	3	3	4	4	**6**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	1	2	3	3	4	5	**7**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	1	2	3	3	4	5	**7**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	1	2	3	3	4	4	**6**	9
Debt service-to-revenue ratio								
Baseline	3	5	7	8	9	10	**14**	18
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	3	5	6	7	7	7	**9**	10
A2. New public sector loans on less favorable terms in 2014-2034 2	3	5	7	10	12	14	**21**	29
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	3	5	7	9	10	11	**16**	20
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	3	5	7	8	10	11	**15**	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	3	5	8	9	10	12	**16**	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	3	5	7	9	11	13	**16**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	3	5	7	9	11	13	**17**	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	3	7	9	11	13	14	**20**	26
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	34	34	34	34	34	34	**34**	34

Sources: Haitian authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

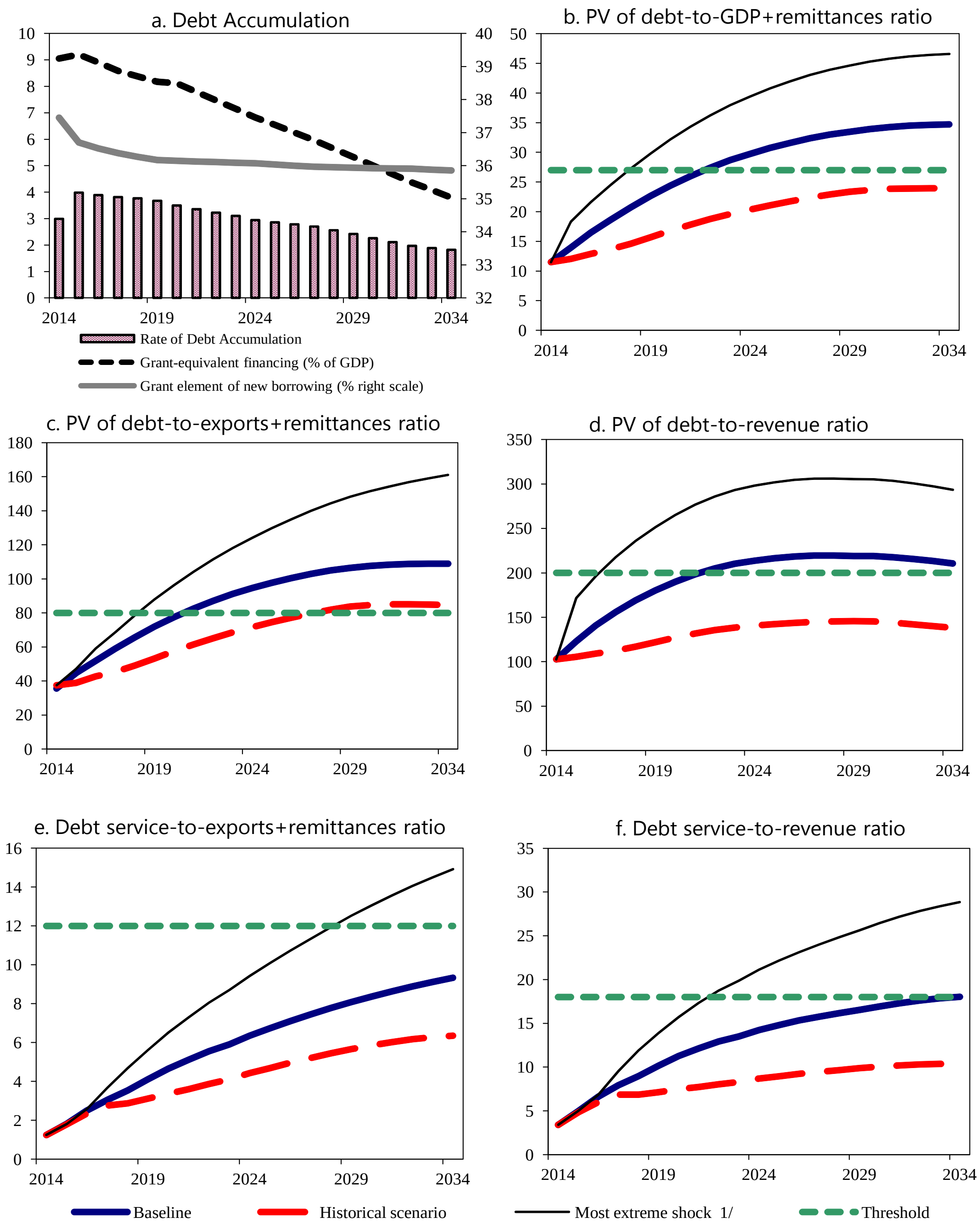
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

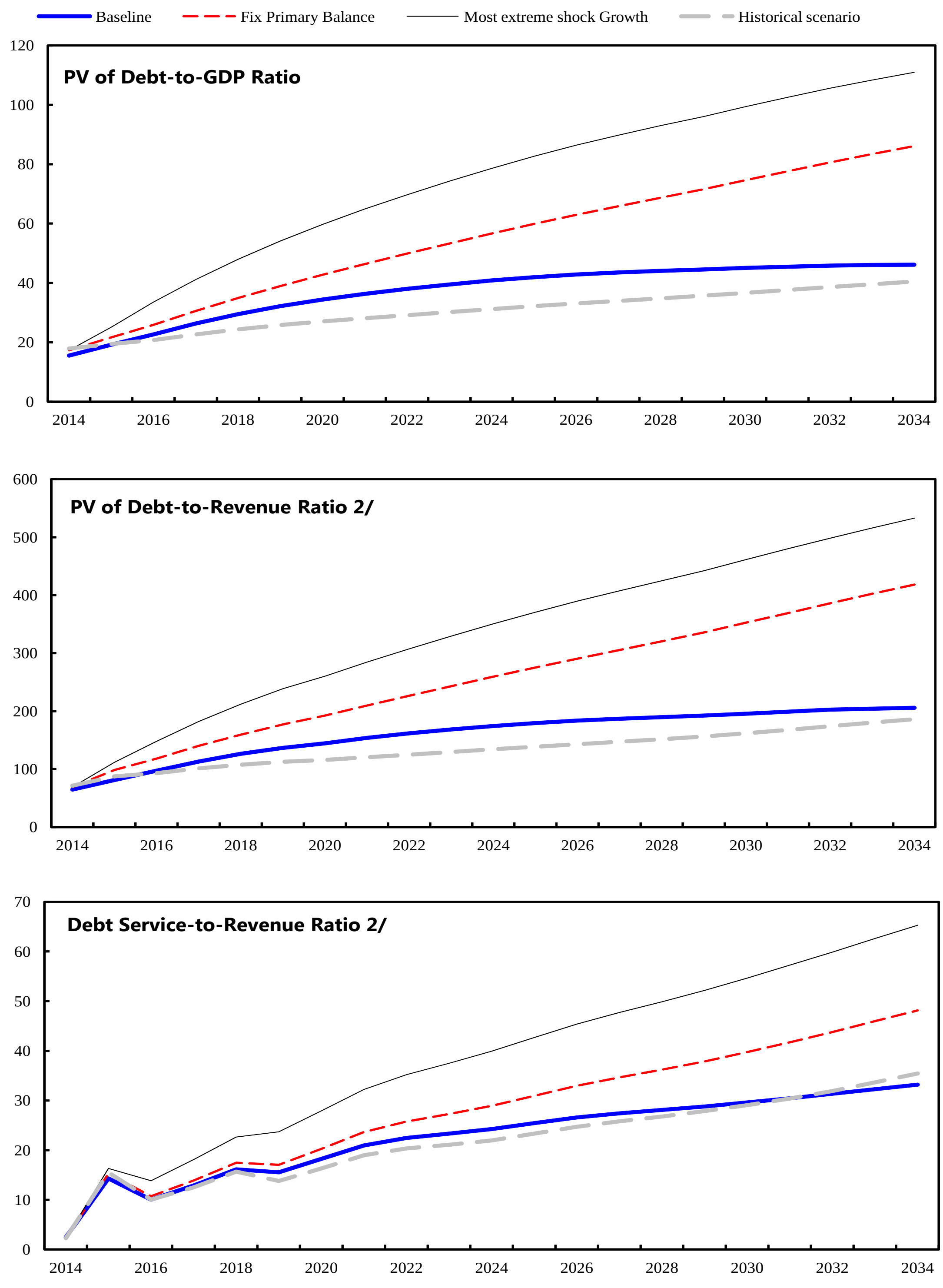
Figure 1. Haiti: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2014-2034 1/



Sources: Haitian authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2024. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Terms shock and in figure f. to a Terms shock

Figure 2. Haiti: Indicators of Public Debt Under Alternative Scenarios, 2014-2034 1/



Sources: Haitian authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2024.
2/ Revenues are defined inclusive of grants.

Appendix I. Letter of Intent

March 11, 2014

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

Mme Managing Director:

1. **The Haitian economy continued recovering over the past year, growth increased, and inflation fell.** Our commitment to preserving macroeconomic stability has been essential in providing an environment for reconstruction and sustainable economic growth. Implementation of the ECF-supported program remains broadly on track. All but one end-September 2013 performance criteria were met. Due to some repurchase operations conducted by the BRH in the context of reserve management, the continuous performance criterion on the contracting or guaranteeing by the public sector of non-concessional external debt with maturities up to and including one year was breached. These operations, which had no impact on debt sustainability, were fully unwound in February 2014. On this basis, we request a waiver for the breaching of this continuous performance criterion. Work on the structural agenda has advanced, with the one benchmark for end-September met on schedule and good progress observed in the implementation of end-December benchmarks. The Haitian government is committed to pursue the ongoing reforms under the program. Our utmost priority is to create sustainable jobs and to reduce poverty by fostering higher growth though appropriate macroeconomic and structural policies and adequate financing.

Recent Developments and Outlook for 2014

2. **Economic growth accelerated to 4.3 percent in FY2013 despite damage from Hurricane Sandy.**[1] The agricultural sector rebounded supported by emergency spending and favorable climatic conditions, and growth in apparel exports and construction was strong. Inflation fell to about 4.5 percent, against the backdrop of relatively stable commodity prices and a better-than-expected agricultural production. The depreciation of the gourde remained moderate (at 3.4 percent), in part helped by intervention in the exchange rate market by the Central Bank (BRH) which increased *vis-à-vis* FY2012. The current account deficit increased to 6.5 percent of GDP, mainly on the back of higher imports and lower official grants, which were

[1] The Haitian fiscal year runs October 1 to September 30. Unless otherwise noted, years refer to the fiscal year ending on September 30 of the calendar year in question.

partially offset by higher apparel exports. Financing came mainly in the form of Petrocaribe loans, some FDI and a decrease in net foreign assets of the BRH.

3. For FY2014 real GDP growth is projected to remain broadly unchanged at 3 – 4 percent, driven by continued growth of assembly exports and reconstruction spending. Inflation is expected to remain contained at under 6 percent (eop), while the external current account deficit should decline slightly to about 5.8 percent of GDP, which would allow gross reserves to remain above 5 months of imports. This would provide an adequate buffer against temporary shocks. In this context, the government acknowledges that the outlook is subject to downside risks, in particular on the external side. In addition, we believe domestic risks may come in the form of unexpected constraints in the implementation of the reform agenda and of growth supporting policies. Vulnerability to natural disasters remains a source of concern. We remain committed to strengthening preparedness to these shocks, and recognize the importance of buffers (in the form of government deposits at banking system), to remain at comfortable levels.

Fiscal Policy

4. The fiscal deficit increased to about 6.7 percent of GDP in FY2013 (vs. 5.5 percent projected in the program), mainly on the back of higher transfers and foregone revenue on fuel taxes. Transfers to the state-owned electricity company (EDH) almost doubled with respect to the program, (to G5.8 billion), and were largely financed with Petrocaribe-related funds. Fiscal performance in other budgetary lines was broadly as programmed in the sixth review. In particular, poverty related spending reached 3.9 percent of GDP (in line with the program), while public investment financed with domestic resources reached 8.5 percent of GDP (1.1 percentage points above the program). Financing included concessional flows from Venezuela, and the issuance of short-term treasury bills for 1.3 percent of GDP that were mostly placed at commercial banks, among other.

5. The program for FY2014 aims to contain the fiscal deficit to 6.7 percent of GDP. A draft budget for FY2014 was sent to Parliament in June 2013 but was rejected by the Senate. The government is confident that a revised budget, in line with the program, will be approved by Parliament around end-March 2014. The revenue shortfall in oil-related taxes (excises and customs duties) of about 1 percent of GDP will be offset with additional efforts in the collection of other domestic revenues and higher-than-programmed budget support grants. The government will monitor closely the evolution of domestic revenues over the course of the year, and it remains committed to implement any necessary measures to ensure that the fiscal deficit meets the program target. We would meanwhile maintain poverty-related spending at 3.9 percent of GDP. Moreover, the government will redouble its efforts to contain budgetary subsidies, particularly to the electricity company (EDH), while ensuring that electricity bills of government institutions remain current. Post-Catastrophe Debt Relief (PCDR) resources will continue to be used for the development of infrastructure. The deficit will be financed mostly by external concessional resources (4.0 percent of GDP) and the banking system (2.7 percent of GDP).

6. We remain committed to improving tax policy and revenue administration. The government understands that fighting evasion and broadening the tax base are essential for domestic revenue mobilization. This will allow us to pursue our development agenda, as post-earthquake assistance decreases. We will therefore adopt measures aimed at expanding the tax base, improving compliance, and enhancing control at the border, including through greater use of IT in both the customs and tax administrations. In particular, we will further strengthen the operations of the large taxpayers office, including with assistance from the IMF Fiscal Affairs Department. We will also strengthen the new medium-size taxpayers office, to which new office space has been provided, and we will open (by June 2014) a new facility for controlling trade at the most-used border post. We started to examine Haiti's mining potential and we are working together with donors to create an adequate legal framework for the sector.

7. The government recognizes that current pump prices of petroleum products generate revenue losses. This is not sustainable in the long-term, and we are committed to develop by end-June 2014, (with the help of the World Bank) a medium term plan to gradually increase domestic petroleum prices, while designing a social safety net that delivers targeted assistance to the most vulnerable. In the short-run, we are committed to curbing cash subsidies for oil products and securing the level of oil-related revenue envisaged in the program.

8. The government will redouble its efforts to gradually restore the financial sustainability of the electricity sector. A gradual reduction of transfers would free resources for infrastructure and priority spending, and would help build buffers. In this regard, the Ministry of Finance will begin producing (by end-March 2014), monthly reports describing the sector's performance. This action is expected to support the strong efforts of other multilateral and bilateral donors (in particular the World Bank and the IDB), to improve the sector's performance.

Financing

9. The program will be in part financed by external budget support grants. Budget support for FY2014 is projected at about US$103 million. Commitments include US$46 million from the European Union, US$27 million from the IDB, US$20 million from Spain, and US$10 million from France.

10. Petrocaribe-related resources will primarily finance investment spending and transfers to the electricity sector. We are committed to using these resources in a manner consistent with macroeconomic stability. Projects with high social return rates will be favored in the allocation of Petrocaribe resources.

Monetary and exchange rate policies

11. Monetary policy continues to be geared to maintaining price stability and adequate international reserve buffers. Given the larger-than-programmed fiscal deficit, and a somewhat significant increase in credit to the private sector through early 2013, the BRH increased (in February and June 2013) legal reserve requirements on deposits and expanded its intervention in the exchange rate market in order to avoid unwarranted fluctuations in the gourde. Given the strong pass-through between the exchange rate and domestic prices, the BRH stands ready to use all available tools and to adjust its policy stance as needed to ensure price stability. In order to strengthen the effectiveness of monetary policy, the BRH will continue to enhance the monetary policy framework, particularly by improving liquidity management, strengthening market-based operations, and by developing macro-prudential regulatory mechanisms. Further financial deepening (through e.g. the development of the domestic T-Bill market), will also provide an additional tool for managing liquidity.

12. We remain committed to strengthening the functioning of the exchange rate market. In this regard, the BRH intends to increase the number of participants in the market and to promote the development of the interbank foreign exchange market. To this end, the BRH will seek technical assistance from the IMF.

13. We will continue to implement the recommendations of the January 2010 Safeguards assessment follow-up mission. We will publish the FY2013 financial statements of the BRH by end-July 2014. Work is underway to accelerate adoption of the IFRS, including the establishment of a special committee to monitor its implementation. We will strengthen the autonomy of the Investment Committee, as an independent oversight body and appoint a compliance officer to monitor observation of investment guidelines. International reserve management will be strengthened with support from the IMF.

Financial sector developments

14. The banking sector remains sound. Credit to the private sector, which has nearly doubled since early 2010, slowed in recent months, following the tightening of monetary policy in February 2013. Broad money grew by about 7 percent (y/y) through end-September 2013. Financial soundness indicators of the banking system do not reveal potential weaknesses. The banking supervision department has strengthened the monitoring of the financial system (banks, transfer agencies and foreign exchange *bureaux*) by intensifying inspections, including with respect to the fight against money laundering. In this context, the BRH benefited from technical assistance from the U.S. Treasury's Office of Technical Assistance (OTA). Joint inspections are carried out by OTA experts and inspectors from the supervision department at the BRH. Moreover, training was provided to inspectors, as well as to employees of banks, transfer agencies and foreign exchange *bureaux*, especially to enforcing officers.

15. We will continue to promote financial intermediation while safeguarding financial stability. The BRH continues to boost its capacities in monitoring systemic risks and financial stability. The legal frameworks for microfinance institution (MFIs) and financial cooperatives are ready for submission to Parliament. In line with the recently conducted Financial Sector Assessment, the authorities plan to adopt a new legal framework for the operations and supervision of insurance companies, which will be submitted to Parliament during FY2014.

16. The Haitian Parliament has recently approved a new AML/CFT legal framework consistent with FATF standards. The law was promulgated by the executive in November 2013 and it addresses a number of recommendations by the Caribbean Financial Action Task Force (CFATF). Effective implementation of the AML/CFT framework would also help strengthening governance.

Poverty reduction

17. The government has recently finalized a new Strategic Plan for the Development of Haiti (PSDH) for the period 2014-2016. Implementation of this new strategy will be instrumental in attaining Haiti's economic potential, in particular by improving the living conditions of the Haitian people. The implementation of this strategy will need of high levels of public investment, which the government plans to increasingly finance with domestic resources as international aid gradually declines.

18. The government believes that poverty reduction requires adequate public services, in particular in education and health. Improvement in the living conditions of the Haitian people will require continued investment in economic infrastructure, the modernization of agriculture, the establishment of professional schools and the continued development of manufacturing. Increased competition in the service sector will help improve their quality and efficiency. We expect that these efforts will support the increase of formal employment and the emergence of small and medium enterprises. The Ministry of Commerce and Industry is developing tools to complement the work in this area.

19. The government will continue to provide relief to the most vulnerable segments of the population. Social policies emphasize the access to education to all, the provision of school canteens, and gender equality. These social safety nets are important for social stability, and are essential in promoting private investment and medium-term growth.

Structural reforms

20. The Minister of Finance established a steering committee, in October 2013, which will coordinate the implementation of reforms in public financial management and domestic revenue mobilization. We expect to have a detailed medium-term action plan (prioritizing measures likely to deliver prompt results) by end-April 2014. We recently completed a public finance IT master plan and associated action plan. These and other reform plans will be consolidated into a comprehensive strategy. We are reviewing pending measures, including the draft organic budget law recently sent to Parliament, for consistency with our new strategy. Nevertheless, the most urgent elements of existing reform program will be pursued in parallel with the preparation of the action plan.

21. The Haitian government is fully committed to steadfast implementation of a treasury single account (TSA). The Prime Minister has requested all line ministries and institutions to fast track the implementation of the TSA in order to improve the effectiveness of spending (in particular of investment), budgetary controls, and cash management. Unexpected constraints have slowed down the closing process of accounts and the roll-out of the general ledger (GL) software in a number of line ministries. However, the Treasury has identified and closed dormant accounts in a number of ministries. Moreover, the operations of the Ministries of Finance, Commerce, Tourism and Environment are under the control of the Accounting Center charged with the economic sector (*Poste Comptable No. 1*). This accounting center is fully operational since December 2013 (prior action). The BRH is also adapting its IT system to the

TSA. The process of identification and closing of dormant accounts will continue in line with the various steps planned for the full establishment of the TSA.

22. The government has updated its action plan to ensure that the TSA becomes operational by the end of FY2015. Under this action plan, the Accounting Center No. 2 (comprising the Ministry of the Plan, Public Works and Agriculture) will become operational by March 2014 (new structural benchmark). The government plans to have at least 80 percent of all spending under an accounting center by June 2014 (new structural benchmark). The government intends to start FY2015 with the second phase of the establishment of the TSA, namely (i) the reduction of the number of domestically-funded accounts to three in all remaining institutions (ministries or independent bodies); (ii) the full deployment of account centers at the institutional level and granting control over operational expenditure accounts to public accountants appointed by the Ministry of Economy and Finance; and, (iii) the release of a manual of procedures for public accountants. As all accounting centers must be appropriately housed, the government will identify appropriate locations for their deployment.

23. The TSA will also contribute to strengthened budget formulation, execution, transparency, and reporting. The implementation of GL software will allow the recording of project and imprest account expenditures when they are effectively paid, and not when the account is replenished. Until the TSA becomes fully operational, the Minister of Finance will monitor closely the supporting documentation submitted by line ministries with their request of project account replenishments. Expenditures will be executed in line with the existing normal procedures.

24. Improving debt and cash management remains a priority. Pending approval of the new organic law of the Ministry of Finance, the government has introduced organizational changes permitted under the existing law. This has enabled the Ministry of Finance to begin strengthening the debt unit, and to integrate debt and cash management within a single Directorate. We remain committed to further strengthening the Debt Unit and to staffing the middle and front offices during the rest of FY2014.

25. The Government intends to improve the public investment framework to increase the execution rate and quality of capital spending. A group of experts and officials from the Ministry of Finance and the Ministry of Planning established the Public Finance Reform Committee to lead reforms in this area. A review of public investment was launched with the assistance of the French government (structural benchmark for end-December 2013). Meanwhile we have required all ministries and public entities to submit draft procurement and execution plans for the new fiscal year. Technical assistance is urgently needed to help set up and strengthen project and program evaluation units (UEPs) in main spending ministries. Discussions on this with our development partners are well advanced.

Other reforms

26. The Haitian government believes that improving the business environment is essential to promote growth and job creation. Reforms in this area are needed to raise productivity and competitiveness and attract foreign direct investment. Efforts in 2014 include the establishment of a new institutional framework to attract foreign investment, including a clear framework for public-private partnerships. The government has also started preparing a new law on cadastre, and another on mining, with donor assistance, notably from the World Bank. The Ministry of Commerce and Industry is also preparing a range of measures to modernize the business environment and streamline administrative procedures. We remain committed to export promotion and diversification, investment in tourism, as well as the modernization and development of agricultural production.

27. **Strengthening the country's resilience to natural shocks is critical to protect growth**. Ahead of Hurricane Sandy, we put in place a stronger disaster managing system that helped alleviate its impact. We continue to work with our partners, including the World Bank, to further strengthen national risk and disaster management systems.

28. **We are fully committed to transparency.** To this end, we will continue to publish on the Ministry of Finance's website data on government operations, budget execution, and financing in line with the continuous structural benchmarks defined in the ECF, including spending financed with Petrocaribe resources. In addition, the Ministry of Finance will continue publishing data (on a monthly basis) on central government transfers by beneficiary entity. We will also publish transfers to investment project accounts, on a project by project basis. Also, we will continue to provide information on poverty-reducing expenditures on a quarterly basis, as well as reports describing the performances of the tax and customs administrations, including the cost of exemptions and revenue collected in the provinces.

29. **The government is convinced that better economic data will improve policy formulation.** We have therefore requested IMF technical assistance to strengthen national accounts and external statistics. We plan to implement a revision of the base year and improve source data (including on the informal sector), which would improve our estimates of annual GDP at current and constant prices. With respect to external accounts, we aim at improving data collection for inward direct investment, trade, remittances, foreign aid, and services.

Program monitoring

30. **Our program will be monitored using the definitions, data sources, and frequency of monitoring set out in the accompanying revised Technical Memorandum of Understanding (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 FY2013 and FY2014. Structural benchmarks for the remainder of the program, including a reformulation of the benchmark towards a single treasury account are in Table 2. The eighth review under the ECF arrangement, assessing end-March 2014 performance criteria, is expected to be completed by August 2014.

31. **In view of progress recorded in relation to the ECF and the framework for implementing the remaining policies, the government requests the approval of the seventh review of the program, the modification of end-March performance criteria, and the disbursement of SDR1.638 million.** We believe that the policies described in this letter are sufficient to meet the objectives of our program and we stand ready to take additional measures

that may be needed for that purpose. We will consult with the Fund in advance of any revisions to the policies described in this letter, as well as the adoption of additional measures, in accordance with IMF policies on such consultations.

Sincerely yours,

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

Table 1: Indicative Targets and Quantitative Performance Criteria, September 2013 - June 2014

	Actual stock at end- Sept. 09	Cumulative Flows from September 2009									
		Sep. 2013			Dec. 2013			Mar. 2014		Jun. 2014	
		PC	Adjusted	Actual	Indicative target	Adjusted 5/	Estimate	PC	Proposed PC	Indicative target	Proposed Indicative target
(In millions of gourdes, unless otherwise indicated)											
I. Quantitative performance criteria											
Net central bank credit to the non-financial public sector - ceiling (including PCDR)	21,379	-13,199	-12,809	-16,530	-11,816	-10,184	-10,819	-10,432	-11,063	-9,049	-9,763
Central Government 1/	22,947	-11,578	-11,188	-11,663	-10,278	-8,646	-6,703	-8,978	-9,063	-7,678	-7,763
Rest of non-financial public sector	-1,569	-1,621	-1,621	-4,868	-1,538	-1,538	-4,116	-1,454	-2,000	-1,371	-2,000
Net domestic assets of the central bank - ceiling	14,447	-9,036	-10,152	-15,061	-5,472	-4,112	-10,431	-709	215	2,135	3,459
Net international reserves of central bank (in millions of U.S. dollars) - floor	416	582	610	804	517	483	735	422	422	375	375
II. Continuous performance criteria											
Domestic arrears accumulation of the central government	0	0	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) 2/	0	33	33	334	33	33	410	33	33	33	33
Up to and including one year 3/	0	0	0	301	0	0	377	0	0	0	0
Over one-year maturity	0	33	33	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	0	0
III. Indicative targets											
Change in base money - ceiling	31,080	14,262	14,262	17,082	15,225	15,225	18,955	16,189	17,095	17,153	18,459
Net domestic credit to the central government - ceiling 1/	19,370	-19,271	-18,881	-14,580	-16,917	-15,285	-13,695	-14,562	-10,830	-12,208	-8,210
Poverty reducing expenditures - floor 4/	...	38,656	38,656	38,856	42,531	42,531	42,731	46,406	46,606	50,281	50,481
Memorandum items											
Change in currency in circulation	13,448	9,009	9,009	7,904	9,285	9,285	11,569	9,560	9,456	9,836	9,284
Net domestic credit to the rest of the non-financial public sector	-1,641	-1,894	-1,894	-5,142	-1,811	-1,811	-4,597	-1,727	-2,500	-1,644	-2,500
Government total revenue, excluding grants	29,881	156,289	156,289	158,685	169,962	169,962	172,908	182,623	186,078	194,331	198,411
Government total expenditure, excluding externally-financed investment	42,096	218,739	218,739	226,618	235,944	235,944	247,677	248,752	268,193	265,156	287,587

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

1/ Adjusted targets exclude the use of IMF PCDR debt relief.

2/ Excludes guarantees to the electricity sector in the form of credit/guarantee letters. The US$33 million in non-concessional external lending of over one-year maturity refers to a BANDES (Venezuela) loan for airport construction.
3/ Figures for September 2013 and December 2013 reflect the contracting of repos for international reserve management; these operations were fully unwound by end-February 2014.
4/ Poverty reducing expenditures consist of domestically-financed spending in health, education, and agriculture.
5/ Adjusted figures for December 2013 are preliminary, based on available and incomplete information.

Table 2: Prior Actions and Structural Benchmarks through 2014 [1/]

Measure		Timing	Status	Comments
Operationalize the first accounting center (*Poste Comptable No. 1)* comprising the Ministries of Finance, Commerce, Tourism, and Environment (TMU, paragraph 17)	PA		Met	
Allocate offices to the medium-sized taxpayer unit.	SB	End-September 2013	Met	
Strengthen the debt unit with fully operational middle and back office functions; Preparation of annual debt sustainability analyses.	SB	End-December 2013	Not met	Progress observed: debt unit moved to Treasury; back office operational.
Set up a a task force of experts to review the public investment framework.	SB	End-December 2013	Met	
Roll out in all ministries the general ledger (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. [2/]	SB	End-December 2013	Not met	Progress observed: first accounting center operational and advanced work towards operationalizing second accounting center
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 grant signature authority on these accounts to public accountants appointed by the Ministry of Economy and Finance. [2/]	SB	End-March 2014		
Operationalize the second accounting center comprising the Ministries of the Plan, Public Works, and Agriculture (TMU, paragraph 18) [3/]	SB	End-March 2014		
Operationalize the accounting centers so that at least 80 percent of budgetary expenses are collectively covered (TMU, paragraph 19) [3/]	SB	End-June 2014		

1/ PA: Prior Action; SB: Structural Benchmark

2/ These SBs were reformulated into a PA and two new SBs.

3/ New proposed SBs.

Attachment I. Technical Memorandum of Understanding—Update

1. All aspects of the Technical Memoranda of Understanding (EBS/10/139, Attachment III; EBS/11/63, Appendix III; EBS/12/22, Appendix III; EBS/12/93, Appendix III; EBS/13/14, Attachment 2; and EBS/13/100, Attachment 2) issued on August, 2010; May, 2011; April, 2012; August, 2012; March, 2013; and, August, 2013, respectively, remain valid, except for new revisions incorporated in the March 2014 Letter of Intent and those indicated below.

2. The program will be monitored by quantitative performance criteria and indicative targets as shown in Table 1 of the Letter of Intent. The quantitative performance criteria under the program are set for end-March 2014. The targets for end-June 2014 are indicative. The changes will be measured on a cumulative basis from the stock at end-September 2009. Structural benchmarks are shown in Table 2 of the Letter of Intent.

Definitions

3. Net domestic financing to the central government will comprise the change in net banking sector credit to the central government plus nonbank financing. Net domestic banking sector credit to the central government is defined as the sum of: (i) the change in the stock of net domestic credit to the central government from the BRH (as defined in paragraph 6 in EBS/13/100, Attachment 2); and (ii) the change in the stock of net domestic credit of the central government from domestic banks according to Table 20R of the BRH. The latter includes commercial bank lending to the central government (including through the net issuance of treasury bills and other government securities), net of the change in central government deposits (including Petrocaribe). Securities issued for the recapitalization of the BRH are excluded from this definition. Nonbank financing includes net issuance of Treasury bills and other government securities by the central government to non-banks, the net change in checks issued and not cashed, financing to the electricity sector, and any other net payments including for debt recognition.

Table 1: Net International Reserves, BRH, End-September 2013 [1/]

(In millions of U.S. dollars)

A. Gross Foreign Exchange Reserves	2,479.1
B. Gross Liabilities	685.5
C. Net Foreign Assets (=A-B)	**1,793.5**
D. FX deposits of commercial banks and CAM transfer at the BRH	686.3
E. Project accounts	5.6
F. Special accounts in U.S. dollars and euros	2.7
G. Seized values	0.0
H. SDR allocation (liability)	120.4
J. NIR (=C-D-E-F-G+H)	**1,219.4**

Source: Haitian authorities; and Fund staff estimates.

1/ Figures are still preliminary.

4. Net international reserves (NIR) are defined as in paragraph 11 in EBS/13/100, Attachment 2. Their stock at end-September 2013 is as included in Table 1.

5. The program exchange rate to calculate the change in net domestic assets of the BRH is G40.0 per U.S. dollar for the period June 2010 - September 2014.

6. Petrocaribe-related resources managed by the *Bureau de Monetisation* (BMPAD) are deposited at the Banque Nationale de Credit (BNC). Since September 2013, BMPAD has also accounts at the BRH. The payment of expenses associated with investment projects financed with Petrocaribe flows involves the transfer of resources from accounts at the BNC to the dollar-denominated account of the Treasury at the BRH. Given that most projects involve making payments in foreign currency, BMPAD accounts at the BRH are used as transitory accounts to exchange gourdes for dollars when needed, before the transfer reaches the Treasury account at the BRH. Transfers affect the balance of the dollar-denominated Treasury account at the BRH only temporarily, as they are only made when there is supporting documentation of service rendered concerning an investment project (i.e., whenever a transfer is made from a BMPAD account into the dollar-denominated treasury account at the BRH, there is a payment order that follows almost immediately after). Thus, any effect on NIR and NCG associated with such transfers are minor and of limited duration, and thus, not relevant for program monitoring purposes. On the other hand, NCG can be affected by changes in the stock of BMPAD deposits at the BRH. As of September 2013, the outstanding balance of all Petrocaribe deposits totaled US$197 million (Table 2).[1]

Table 2. PetroCaribe Deposits

	September 2009	September 2013	December 2013	March 2014	June 2014	September 2014
Total deposits in government accounts in the banking system						
Cumulative flows (G mlns)	…	4917	5112	4262	3262	1262
in US dollars (US$ mlns)	…	111	96	75	52	6
Stocks (G mlns)	3713	8630	8825	7975	6975	4975
in US dollars (US$ mlns)	89	197	200	180	156	110
Deposits in government accounts at the BRH						
Cumulative flows (G billion)	…	-96	704	704	704	704
Stocks (G mlns)	171	75	875	875	875	875
in US dollars (US$mlns)	4	2	20	20	20	19
Deposits in government accounts in commercial banks						
Cumulative flows (G mlns)	…	5013	4408	3558	2558	558
Stocks (G mlns)	3542	8555	7950	7100	6100	4100
in US dollars (US$ mlns)	85	196	180	160	136	91

Sources: Haitian Authorities and IMF Staff estimates and projections

[1]Gourde-denominated deposits are converted into US dollars at the market exchange rate. The authorities will provide information of transfers of Petrocaribe-related resources into the dollar-denominated Treasury account at the BRH. See paragraph 21.

7. For the duration of the program, Petrocaribe-related resources (either new inflows or those deposited at the banking system) will be considered to be under the direct control of the central government, and thus any related transactions are recorded in the budget, and reflected in program documentation. The program considers any inflows as budget support loans, and any spending of these resources (including through the drawdown of Petrocaribe deposits at the banking system) as central government spending or on-lending, as appropriate.

8. The definition of debt is set out in Executive Board Decision No.6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-09/91)[2]: Debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, according to a specific schedule; these payments will discharge the obligor of the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being loans[3], suppliers' credits[4], and leases.[5] Under the definition of debt set out above, arrears, penalties, and judicially-awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt.

9. Public sector external debt is defined as all debt that is contracted or guaranteed by the total public sector. This covers private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the total public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind).

10. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt.[6] The PV of debt at the time of its contracting is calculated by discounting the future stream

[2] Decision available at http://www.imf.org/external/pubs/ft/sd/index.asp?decision=6230-(79/140

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

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

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

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

of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent. The government undertakes to consult with IMF staff on the terms and concessionality of all proposed new loan agreements before contracting or guaranteeing any external debt.

11. This definition of non-concessional public sector external debt applies equally to debt of less than one year and to debt of one year or more. The quantitative performance criteria concerning nonconcessional public external debt exclude: (i) normal import-related commercial debts having a maturity of less than one year; (ii) rescheduling agreements; (iii) drawings on the IMF; (iv) non-resident purchases of treasury bills; and (v) and existing (as of end-September 2013) guarantees to the electricity sector in the form of letters of credit. The ceilings for contracting and guaranteeing of non concessional debt by the total public sector are set at zero continuously throughout the program period.[7]

Quarterly Adjustments

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

Adjustment for Domestic Arrears Accumulation

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

Adjustment for the use of Petrocaribe-related resources

14. The ceiling for net domestic credit to the central government reflects expected changes in Petrocaribe-related deposits in the banking system. The ceiling will thus be adjusted for the difference between the actual stock of Petrocaribe deposits in the banking system and the programmed stock of these deposits, as shown in Table 2. The ceiling for net BRH credit to the central government reflects projections in the change of Petrocaribe deposits at the BRH. Such targets will be adjusted for the difference between the actual stock of Petrocaribe deposits at the BRH and the programmed stock for these deposits, as shown in Table 2. The adjustor will be calculated on a cumulative basis from October 1, 2009. The upward adjustment during FY2014 will be limited to US$50million, calculated at the market exchange rate.

Adjustment for Budgetary Support Grants

15. The ceilings on BRH net credit to the central government, net domestic credit to the central government, and on BRH net domestic assets, and the floor on NIR reflect expected

[7] Excluding the debt of US$33 million contracted in 2009 with the Development Bank of Venezuela (BANDES) for airport construction.

budgetary donor grants of the equivalent of US$103 million during FY2014 (US$27 million from the IDB, US$46 million from the EU, US$20 million from Spain, and US$10 million from France, Table 3). If actual grant inflows are lower than programmed, these performance criteria ceilings will be adjusted upwards and the performance criterion floor will be adjusted downwards by the amount of the difference between actual and programmed inflows. This adjustor will be applied provided the deviations are temporary and only reflect delays in the disbursements of programmed, already identified, amounts. The adjustor will not be applied if the deviations are not temporary. Staff and the authorities will consult with donors to determine whether any deviations (in the timing of disbursements and in amounts) can be considered temporary. Staff will consider that deviations are temporary if amounts are to be disbursed within FY2014, or during the first quarter of FY2015, at the latest. The authorities will consult with Fund staff on the appropriateness to spend (or save) any budgetary support grants, including those arising from debt relief, in excess of those programmed.

Table 3: Projected Quarterly Budget Support Disbursements

(cummulative flows, in millions of U.S. dollars)

Donor	**Dec-13**	**Mar-14**	**Jun-14**	**Sep-14**
European Union	34	46	46	46
IDB	0	0	25	27
Spain	0	8	8	20
France	0	0	0	10
Total	**34**	**54**	**79**	**103**

Adjustment for Investment Spending financed with Post-Catastrophe Debt Relief (PCDR) resources

16. The ceilings on BRH net credit to the central government and net domestic financing to the central government reflect spending of PCDR resources for G3 billion on investment projects with the characteristics defined in EBS/10/141-Proposal for a Post Catastrophe Debt Relief Trust Fund. Quarterly spending is projected in four equal shares. The ceilings will be adjusted upwards (downwards) if cumulated spending is higher (lower) than programmed. The authorities will share with Fund staff the details of the expenditures financed with PCDR resources.

Clarification of Structural Conditionality

17. Prior Action on making operational the TSA's Accounting Center No. 1. The Accounting Center No. 1 (*Poste Comptable No. 1*) comprises the Ministries of Finance, Commerce, Tourism, and Environment. The prior action entails: (i) rolling-out GL-software in all ministries included in PC-1; (ii) begin recording projects and imprest accounts expenditure when they are effectively paid and no longer when the replenishment of the account is made; (iii) reduce domestically-funded imprest accounts to three in each ministry and by institutions that depend on such ministries, what requires the appropriate action of the BRH; (iv) granting signature authority on this accounts to public accountants appointed by the MEF. The MEF will share with Fund staff any dispositions or communications needed to confirm that the PC-1 is fully operational at least 5 business days prior to the Executive Board meeting that will discuss the seventh review. The authorities will also share with Fund staff written communication by the PM's Office to line Ministries specifying the intention to fast track the implementation of the TSA, and giving the MEF the role of coordinating body in this regard.

18. End-March 2014 Structural Benchmark on making operational the TSA's Accounting Center No. 2. The Accounting Center No. 2 (*Poste Comptable No. 2*) comprises the Ministry of Planning, Public Works, and Agriculture. The structural benchmark entails the same actions as described in paragraph 17, but applicable to PC-2.

19. End-June 2014 Structural Benchmark on extending the first phase of TSA implementation to cover at least 80 percent of total central government spending. The government will advance in the implementation of remaining Accounting Centers throughout FY2014, with a view of extending the coverage of the TSA to at least 80 percent of central government spending. To this end, the government will implement the actions specified in paragraph 17, to ministries not included in PC-1 and PC-2. The Ministry of Finance will communicate progress in this regard to IMF staff on a monthly basis.

Reports, Studies and Provision of Information

20. To ensure adequate monitoring of the program, the authorities will provide daily, weekly, and monthly monetary and fiscal indicators to IMF staff as described in EBS/10/139, Attachment III and its updates. As described in paragraph 10, the government undertakes to consult with IMF staff on the terms and concessionality of all proposed new loan agreements before contracting or guaranteeing any external debt.

21. Quarterly Report on Investment financed with treasury and Petrocaribe-related resources. The authorities will share with Fund staff a copy of a quarterly report on the implementation of the PIP that differentiates between effective implementation and cash advances to project accounts and provides a breakdown (by gourde amounts) of projects awarded by type of contract award (competitive bidding, sole-source procurement, amendment to existing contract, etc.). The report will closely monitor and inform on the percentage of total contracts and of contract amounts for which supporting documentation is made available to the Ministries of Finance. The Ministry of Finance will use this information as a device to require further information from spending ministries before authorizing a replenishment of project accounts, until the TSA is adopted. A similar procedure will be implemented *vis-à-vis* investment spending financed with Petrocaribe-related resources. The quarterly report will be shared with Fund staff one month after the end of the quarter. The first report (corresponding to the first quarter of FY2014) will be shared with staff at the end of March 2014. The report will begin to be posted at the MEF website, beginning in the third quarter of FY2014.

22. Monthly Report on EDH finances. The Minister of Finance (in collaboration with EDH), will share with Fund staff, on a monthly basis, a report on the electricity sector, that includes a monthly cash flow of EDH; and also, a monthly report describing the stock of cross debts between the different agents in the sector. The first of such reports will be shared with Fund staff at the end of March 2014, and will comprise FY2013 and the first quarter of FY2014.

23. Analysis on Fuel Price Subsidy. With assistance from the World Bank, the government is committed to develop by June 2014, a medium term plan to gradually increase the price of petroleum prices, while designing a social safety net that delivers targeted assistance to the poor. The study will be shared with Fund staff by end-July 2014.

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March 26, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF's Executive Board Completes Seventh Review under Haiti's ECF arrangement and Approved US$ 2.5 Million Disbursement

On March 26, the Executive Board of the International Monetary Fund (IMF) completed the seventh review of Haiti's performance under its program supported by the Extended Credit Facility (ECF) arrangement. Completion of the review will enable an immediate disbursement equivalent to SDR 1.638 million (about US$2.5 million), bringing total disbursements under the program to date to the equivalent of SDR 39.312 million (about US$60.7 million).

The Executive Board also approved requests for waivers of nonobservance of the continuous performance criterion on the contracting or guaranteeing of short-term non-concessional external debt and approved modifications to end-March performance criteria.
Haiti's ECF arrangement was approved on July 21, 2010 (see Press Release No. 10/299) together with the full relief of the country's outstanding debt to the Fund of about SDR 178 million (equivalent then to US$268 million).

Following the Executive Board's discussion on Haiti, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, said:

"Haiti's performance under the Fund-supported program has been satisfactory despite difficult circumstances. Reform measures and policies put in place have helped maintain macroeconomic stability and advance structural reforms. Growth has strengthened, headline inflation fell, and gross international reserves remained adequate. However, the overall fiscal deficit widened, reflecting larger-than-programmed investment spending and subsidies to the electricity sector. Progress was also made on reforming public financial management, in particular in the implementation of the Treasury Single Account.

"The program for FY2014 aims at consolidating macroeconomic stability and sustaining progress in structural reforms. These objectives will be supported by continued prudent monetary policy, the stabilization of the overall fiscal balance, and the continuation of structural reforms in the areas of public financial management, international reserve management, and the electricity sector. Advancing these reforms is essential to contain fiscal risks and address continuing vulnerabilities.

“The authorities have adopted a medium-term poverty reduction strategy, with special emphasis on job creation in manufacturing, tourism and agriculture, social inclusion, and improved governance. This would contribute to the establishment of an environment conducive to economic growth and to reducing Haiti’s dependence on foreign assistance.”

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

March 26, 2014

1. On behalf our Haitian authorities we would like to thank staff for maintaining a constructive dialogue. The staff's has made commendable efforts to understand the domestic post-earthquake context and ensuing constraints.

2. The staff report is relatively balanced and rich in information. Our authorities particularly appreciate the highlighting of the constraints inherent to the way foreign assistance is being delivered in Haiti. As we have stated on previous occasions, the fact that aid is provided largely outside the budget and often directly executed by NGOs and private firms weakens coordination and efficiency. After observing that "some analysts suggest that aid disbursed by some donors may have had to pass multiple layers of sub-contracts and sub-grants before reaching the intended group", staff rightly asserts that circumventing the public sector may have weighed negatively on government effectiveness. We welcome staff's recognition of a point the authorities have been making for some time and hope that this will contribute to a better coordinated delivery of aid.

3. The staff report covers extensively program performance and recent macroeconomic and financial developments. Hence, we will focus primarily on the structural agenda for achieving sustainable and inclusive growth.

Recent developments and outlook

4. Growth performance in FY13 was better than programmed in spite of the impact of several external shocks including the devastating cyclone Sandy that led to extensive damages in the agricultural sector. Macro stability was maintained with inflation subdued due to stable international prices of basic goods, the freezing of domestic petroleum prices and the measures taken by the central bank to limit the depreciation of the gourde. The supply of locally grown agricultural products quickly picked up as a result of the government's timely measures in support of the sector. Stronger exports also played an important part in keeping economic recovery on track.

5. Haiti's development requires substantial investments, public and private. However, external support which had been relatively abundant since the tragedy of 2010 is being phased out. PetroCaribe funds have been financing, on a concessional basis, an increasingly significant part of public investments during the past fiscal years. Our authorities are very

appreciative of the support they receive from Venezuela but are conscious of the need to diversify sources of financing and to carefully balance the use of loans with debt sustainability. Recently, they have explored with the Venezuelan government the possibility of repaying part of the PetroCaribe debt in kind through exports of goods.

6. Another constraining factor is the late approval of the FY14 budget that could prevent the government from fully implementing its growth and investment policies. That said, efforts to increase tax collection and combat fraud are redoubling and results at the level of customs receipts are already being felt.

7. The other binding aspect of the financing constraint may be the inability of the government to increase the maturity of treasury bills considering that the domestic market seems unresponsive to the issuance of instruments with tenors of six months or more.

Challenges in achieving sustainable structural change

8. As indicated in the staff report, performance under the program is broadly satisfactory although progress on structural reforms is constrained by capacity and infrastructure limitations. Some elements of the political context also need to be factored in to better project and understand future outcomes. For example, the FY14 budget is only approaching approval now – six months into the fiscal year – following a negative vote by Parliament in September 2013 and several subsequent negotiation rounds.

9. Some important structural reforms in public financial management depend on parliamentary approval of draft legislation. The new organic law for the Ministry of Economy and Finance is essential for the complete adoption of strengthened structures for debt management and the roll out of the Single Treasury Account (STA). A revision of the law creating the Directorate of Budget is also necessary. The revision will seek to rationalize expenditures and simplify procedures, increase transparency in the execution of the budget and strengthen the responsibility of accountants and managers.

10. Pending the adoption of new legislation, the Government is moving forward with public financial management reforms using all the flexibility offered by the existing administrative and legal framework. For example, ahead of the new organic law for the Ministry of Economy and Finance, commendable progress has been achieved towards adopting the single treasury account (STA), a complex endeavor that requires careful planning and strong coordination between the Ministry and all public sector entities. Beginning in April, the number of accounts per public sector entity will be reduced to only three: one for expenditure, one for resources and another one for investment. The entire process is projected to be completed by end of June 2014 at which time the number of accounts of public entities in local currency will shrink to 237 from 534, according to the Ministry of Economy and Finance.

Public private partnerships and the business environment

11. While efforts are being intensified to improve tax collection and reduce dependency on external assistance, the government knows that private investments need to play a crucial role and is continuing to devise ways to promote their participation. Hence, different models of public private partnerships are being formalized. These include the adoption of innovative schemes to encourage the creation of agricultural firms. One key challenge in the agricultural sector in Haiti is the limited number of sufficiently large parcels of land that can allow for some economies of scale and the production of competitive goods. Small farmers are being encouraged to constitute larger production units to facilitate access to credit as well as increase efficiency.

12. Another initiative is the promotion of micro-parks with mixed ownership (private/public) particularly in the government's chosen four priority sectors including agro-industry and manufacturing. The idea is to pool the supply of public services (e.g., water and electricity) as well as that of plants, machinery and administrative buildings. In this model, technical assistance to upgrade managerial and production skills will be provided by the government. Six such micro-parks in different regions of the country are in preparation.

13. The Haitian government is also planning a complete overhaul of the "doing business" legal apparatus to improve and modernize the business environment and promote entrepreneurship. Following an extensive dialogue with representatives of the private sector, the President of the Republic has designated a high level task force comprising renowned lawyers specializing in business and commercial law to review the code of commerce and all other legislation related to doing business. This task force also has to draft new legislative proposals. Simultaneously, legislation to create the appropriate framework for mining, a sector with recently discovered significant potential, is also being drafted with the support of donors.

Phasing out electricity and petroleum subsidies

14. As underlined in the staff report, subsidies to the electricity company and to the consumption of petroleum products have reached prohibitive levels. Forgone taxes from the freezing of domestic petroleum prices for the first six months of this fiscal year are estimated by the Ministry of Finance to have reached 2.8 billion gourdes representing more than half of the Treasury bonds to be issued during the fiscal year. To eliminate fully the subsidy to petroleum consumption, prices would have to be raised by substantial amounts. In practice, only a gradual adjustment with accompanying measures to attenuate the impact on the poor can be considered. With the technical support of the World Bank, the authorities are finalizing plans to establish targeted subsidies and start as soon as feasible a gradual increase of prices at the pump.

15. Subsidies to the public electricity company (Electricité d'Haïti - EDH) consume another significant part of budget resources (2.5 billion gourdes for this fiscal year). Even so, the supply of electricity is limited, unreliable and expensive. Hence, the government's objective is two-prong. On the one hand, it seeks to eliminate the heavy burden of EDH on the budget. On the other, it aims to ensure that energy no longer constrains growth and development. The goal is to arrive at a situation in which the private sector and the population at large have reliable access to electricity at a reasonable cost. The primary challenge in the short term is to bring EDH to financial soundness. This necessarily implies the renegotiation of contractual terms with the independent power producers (IPPs) – a point we believe could have been emphasized in the staff report. These contracts were negotiated under previous administrations and are perceived by the authorities to be very unfavorable to the State.

16. The Haitian authorities are convinced that for the longer term, a new strategic model is needed. It would have to be one in which the State no longer bears all the risks. One avenue is the decentralization of the production and distribution of electricity to increase competition in a sector now characterized by low efficiency and high concentration. A high level commission has recently been created by the Prime Minister to boost energy sector reform. This commission includes representatives of USAID, IDB, WB and IMF.

Exchange rate and monetary policy

17. The central bank has retained the accommodative stance adopted since 2011. Two factors have contributed to the continuation of this stance: first, the evolution of commodity prices on the international market and, second, quantitative easing and the low interest rates practiced by the Federal Reserve. However, circumstances have changed and in light of recent fluctuations in the foreign exchange market the central bank decided to begin tightening its stance with the tools at its disposal including interest rates and reserve requirements.

18. The central bank wishes to reaffirm its commitment to an improvement in the functioning of the foreign exchange market. However, the market's shallowness and the limited number of actors are barriers to the adoption of a single-price auction. To overcome these difficulties the Fund has agreed to provide technical assistance to determine the feasibility of an electronic platform that would favor the deepening of the foreign exchange market.

Financial Sector

19. The various measures initiated to improve access to credit are starting to bear fruit. The law against money laundering and the financing of terrorism has been adopted by Parliament and promulgated in November 2013. The authorities are confident that the new AML/CFT legal framework is consistent with FATF standards and will be a major step in strengthening governance in the financial sector. Its adoption in conjunction with a new legal framework for microfinance and credit unions offers better perspectives for the expansion of credit and financial deepening. The approval of the draft microfinance law and the new insurance law will also be instrumental in improving the management of risks and consumer protection.