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EIGHTH REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR HAITI

In the context of the eighth review under the Extended Credit Facility and request for waiver of nonobservance of performance criterion, 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 December 17, 2014, following discussions that ended on November 7, 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 December 2, 2014.
- A **Staff Statement** of December 17, 2014 updating information on recent developments.
- 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*
Ex-Post Assessment of Longer-Term Program Engagement

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

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HAITI

December 2, 2014

EIGHTH REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION

EXECUTIVE SUMMARY

This is the final review under the Extended Credit Facility (ECF) arrangement. The program contributed to maintaining macroeconomic stability, and there was progress on structural reforms. The authorities intend to request a successor arrangement under the ECF. A new finance minister was appointed in April; uncertainly remains on the timing of elections. Preliminary data suggest that GDP in FY2014 grew by 3.5–4 percent, while inflation increased slightly to about 5 percent. An increase in fuel prices (in October) should result in fiscal savings of at least 1 percent of GDP during FY2015. The March performance criterion on net international reserves (NIR) was met, but although the deficit was lower than projected, the performance criterion on net central bank credit to the central government was missed. Downside risks are significant and include a pull-back of Venezuela-related flows, a resumption of political tensions, and vulnerability to weather events. A total of SDR 1.638 million will become available upon completion of this review, bringing total disbursements under the ECF to SDR 40.950 million.

Key Policy Recommendations:

- The policy mix, in particular the adjustment going forward, should come from a lower fiscal deficit rather than from a tighter monetary policy. The FY2015 fiscal deficit should be reduced to mitigate financing risks as part of a medium-term plan to restore fiscal sustainability.

- The central bank should let the exchange rate adjust more to market pressures. Intervention should be parsimonious, geared at avoiding excess volatility and disorderly movements in the exchange rate; it should be guided by fundamentals in the medium term.

- Progress on structural reforms (including on the energy sector and on public financial management) should catalyze more donor support and is essential for supporting growth. A possible new ECF arrangement would entrench macroeconomic stability and promote policies to generate sustained GDP growth.

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

Discussions were held in Port-au-Prince during May 14–23, August 4–8, and November 3–7, 2014. The staff team consisted of Messrs. Di Bella (head), Ntamatungiro, Norton, and Ms. Yang (all WHD), Mses. Bova and Hanedar (FAD), Mr. Daan (STA), and Mr. Camard (resident representative). It met with President Martelly, Prime Minister Lamothe; Minister of Economy and Finance Jean-Marie; 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. **The political situation remains challenging.** The budget for FY2014 was passed only in May; the FY2015 budget passed the Chamber of Deputies, but not the Senate.[1] Against this backdrop, the government will execute the budget through an order *(arrêté*) rather than a law. In addition, the terms for the Chamber of Deputies and half the Senate expire next January, but mid-term elections (which had been announced for October 2014 after the 'El Rancho' agreement in March) have been again postponed. Presidential elections are scheduled for late 2015.

2. **Economic growth and inflation evolved as expected during FY2014.** GDP growth was around 3.5–4 percent in FY2014, consistent with projections, supported by construction, industry and commerce, despite slow-growing exports and tighter monetary conditions mid-year. Employment in the apparel sector rose by almost 20 percent, although formal employment remains low. Inflation increased to 5.3 percent, y/y, through September, due to pass-through from increased exchange rate depreciation.

3. **The current account deficit decreased by 1 percent of GDP in FY2014 and continued to be mainly financed by Petrocaribe inflows.** The deficit was 5.7 percent of GDP. Exports increased by 3 percent y/y, as apparel sales to the U.S. (90 percent of exports) grew only modestly. Imports rose by 2 percent, as projected. Private transfers remained the main source of foreign exchange, with remittances growing by close to 12 percent. The services account improved on increased tourist arrivals. Petrocaribe flows were almost 4 percent of GDP, while FDI was 1 percent of GDP. The exchange rate depreciated by 4 percent in FY2014, somewhat faster than in recent years. Central Bank (BRH) net FX intervention was only US$21 million in FY2014 versus US$120 million in FY2013. Both gross reserves and NIR declined by nearly US$200 million, as the government drew down deposits at the BRH. Reserve coverage decreased to below 5 months of prospective imports but remains broadly adequate.

4. **The fiscal deficit for FY2014 was lower than anticipated.** Domestic revenues (including National Education Fund resources) reached 12.3 percent of GDP, below program projections, due to forgone revenues caused by the fuel price freeze. This revenue shortfall was more than offset by lower spending. Although the budget adopted in May included increased wage bill allocations for teachers and the police, the Ministry of Finance applied (since April) measures to reduce the pace of spending in goods and services (including on travel and automobiles). The late adoption of the budget led to a short-fall in investment execution by about 1 percent of GDP, and as a result, the fiscal deficit for FY2014 reached 6.3 percent of GDP (0.4 percent of GDP below program projections). The deficit was financed by Petrocaribe inflows and deposits. Use of deposits was larger than expected as T-bill placements were lower than programmed, in part explained by delays in setting up the debt management unit at the Minister of Finance.

[1] The fiscal year runs from October to September.

5. Monetary policy, which had been tightened in mid-FY2014, was loosened somewhat towards the end of the fiscal year. The BRH responded to downward pressures in the foreign exchange market by increasing (in April) legal reserve requirements on gourde deposits by 2 percentage points, to 37 percent. In addition, it increased the 90-day bond rate (BRH's policy rate) by 200 basis points and required commercial banks to fulfill 10 percent of their reserve requirements on foreign currency deposits in gourdes. This tightening (in addition to tightening in February and June 2013), reduced excess reserves and may have contributed to increased dollarization. Bank lending growth decreased to 9.4 percent y/y in September 2014, from 16.4 percent in September 2013. Given this deceleration, the BRH loosened monetary policy (in September) by allowing commercial banks to count gourde-denominated government bonds towards reserve requirements (i.e., equivalent to a reduction of requirements on gourde deposits of 2 percentage points). In addition it reversed (in July) the obligation to fulfill 10 percent of reserve requirements on foreign currency deposits in gourdes, and raised the reserve requirement on foreign currency deposits by one percentage point, to 40 percent. Intervention through open market and other operations was expansionary overall during FY2014.[2]

6. Commercial banks remain healthy despite a recent increase in non-performing loans (NPLs). Base money (program definition) was almost unchanged in FY2014, as increases in currency in circulation were offset by decreases in gourde deposits at the BRH following the loosening in monetary policy at the end of the fiscal year. In turn, broad money grew by 8.8 percent y/y through September (below nominal GDP growth) on moderate deposit growth. NPLs increased to 3.3 percent in June 2014 from 2.4 percent in September 2013, but banks remain well-capitalized and profitable.[3]

7. All but one quantitative performance criteria for end-March 2014 were observed. While the floor on NIR was met with a significant margin, the ceiling on net BRH credit to the central government was not observed, given lower-than-programmed placements of treasury bills. A waiver is justified as the deviation was minor and the fiscal deficit lower than envisaged. The zero ceiling on the contracting or guaranteeing of public sector non-concessional external debt with maturities up to and including one year was observed.

8. Despite delays, the authorities made progress on structural reforms. The ECF arrangement was extended in August to late December 2014 to provide time to (i) establish the basic infrastructure for the Treasury Single Account (TSA) at the central bank and (ii) make operational the accounting centers under a revised configuration that takes into consideration the ministries' locations, as well as an equitable workload distribution (thus meeting with delay the relevant end-March and end-June Structural Benchmarks). Further, the authorities began implementing deficit reduction measures (including raising fuel prices in October, Box 1) to improve

[2] The BRH purchased government debt with public suppliers for about G 2.9 billion. (0.7 percent of GDP); these will be used for open market operations together with existing BRH bonds. The stock of BRH bonds decreased from G 6.2 billion at end-FY2013 to G 4.9 billion at end-FY2014.

[3] The small increase in NPLs was mainly concentrated in commerce, restaurants, and hotels.

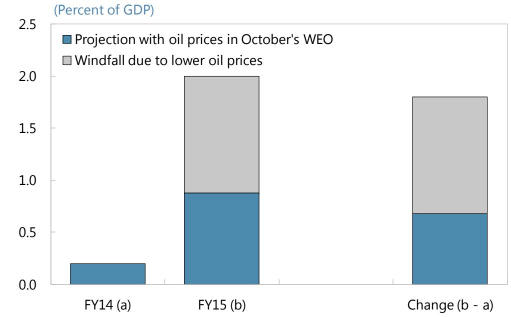
the fiscal balance by at least 1 percent of GDP in FY2015; and the authorities shared with staff the financial flows of the state-owned electricity company (EDH).[4]

Box 1. Haiti: Upside and Downside Risks from International Oil Prices

Recent declines in international oil prices improve Haiti's terms of trade. The WEO oil price baseline has been recently revised to reflect lower international prices. Oil price projections for 2015 are now about 15 percent lower than those in October's WEO projections (a decline from US$99 to US$85/barrel). These prices would reduce Haiti's oil deficit by US$140 million (1.5 percent of GDP).

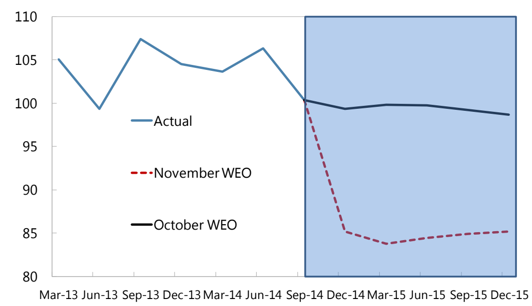
This positive terms-of-trade shock supports fiscal revenue. With the intention of realigning domestic and international prices, and as part of fiscal consolidation efforts, the authorities increased fuel prices last October (7.5 percent for gasoline, 9.3 percent for diesel and 6.2 percent for kerosene). The price freeze (in place since March 2011) had resulted in foregone revenues of about 2 percent of GDP. While the increases in domestic fuel prices were originally expected to yield 0.7 percent of GDP in fiscal revenues, the projected decrease in oil prices may result in additional revenues of 0.8–1.0 percent of GDP (see chart).

Fiscal Revenues from Fuel Taxation
(Percent of GDP)



Sources: Haitian Authorities; and IMF staff calculations.

Oil Prices: Orginal vs. Revised WEO Projections
(APSP, US dollars per barrel, quarterly average)



Source: IMF staff calculations.

However, the decrease in oil prices may compound Haiti's external vulnerabilities. Decreases in the oil bill would result in lower Petrocaribe financing inflows of about US$50 million (0.5 percent of GDP) as these are related to fuel purchases from Venezuela. Indeed, the fall in oil prices could prompt a stop of Petrocaribe financing (projected at about 3 percent of GDP in FY2015). As it is unlikely that these resources will be offset fully by other flows, the financing shortfall would require significant adjustment in investment and transfers to the electricity sector. To mitigate this risk, the authorities are targeting a decrease in fiscal deficit of around 2.5 percent of GDP during FY2015, in part by improving billing and collection by EDH.

Considering all risks, the authorities should save any revenue windfall so as to maintain external buffers. In case international prices continue to fall, pump prices should not be adjusted downwards until domestic and international prices are aligned, and foregone revenue costs are eliminated. The authorities stressed that windfall revenues from lower oil prices will be saved.

9. **Downside risks are significant.** The decrease in international oil prices is a positive terms of trade shock, but this could lead to a pull-back of Petrocaribe financing inflows (Box 1).[5] Domestically, reforms could suffer and expectations deteriorate if political tensions continue given uncertainties

[4] The information on EDH suggests that its FY2014 deficit was 2.5 percent of GDP.

[5] The impact of a stop of Venezuela-related flows was analyzed in the DSA that was produced for the seventh ECF review. Mitigating this risk requires increasing domestic revenues (including by streamlining fuel subsidies), containing expenditure (in particular transfers), and reducing EDH's deficit. See Appendix II.

on the timing of (repeatedly postponed) parliamentary elections. The authorities should resist spending pressures related to oil price decreases that may not be permanent. Haiti's twin deficits may pressure the exchange rate and require more monetary policy tightening, thus constraining growth. Weather events continue to pose risks, although mitigating mechanisms have improved, and the country remains vulnerable to commodity price shocks.

EIGHTH REVIEW DISCUSSIONS

Discussions centered on developments in FY2014 and the outlook and risks for FY2015[6] *Staff and authorities discussed measures to decrease the fiscal deficit, to focus transfers, and make investments more productive. This should allow changing the policy mix towards a sustainable fiscal position, with less restrictive monetary policy. There were also discussions on the need to ensure TSA implementation, improve the finances of EDH, preserve international reserve buffers, and on the main elements of a possible new ECF arrangement taking into account the Ex Post Assessment (EPA) recommendations.*

A. Economic Outlook for FY2015

10. Growth is expected at 3.0–3.5 percent in FY2015, but projections are subject to downside risks. The positive impact of remittance increases, and lower oil prices will partially offset the negative fiscal impulse. Inflation is projected to reach 6.5 percent (eop). The external current account deficit would decrease to 4.5 percent of GDP, on the back of a lower fiscal deficit and a decreased oil bill. Staff cautioned on how dependent projections were on volatile oil prices.

B. Fiscal Issues

11. Staff urged the authorities to reduce the fiscal deficit to sustainable levels over the medium term, starting in FY2015. Haiti's risk of debt distress remains high.[7] A gradual reduction of the deficit would allow a progressive loosening of monetary policy, in line with the authorities' intention to crowd in private sector credit to boost growth and job creation.[8] It would also help maintain adequate international reserve buffers as a cushion to withstand shocks. This rebalancing between fiscal and monetary policies should be an objective over the next 18–24 months.

12. In line with staff advice, the budget for FY2015 reduces the deficit. The deficit (program definition) is targeted to decrease to 3.6 percent of GDP (from 6.3 percent of GDP in FY2014). The budget passed the Chamber of Deputies, but not the Senate. Therefore, the government decided to implement the budget through an order *(arrêté*) rather than a law, a decision that some members of

[6] A Joint Staff Advisory Note (JSAN) on the PRSP (IMF Country Report No. 14/154) was issued on July 30.

[7] As concluded in the recent DSA (IMF Country Report No. 14/105). Haiti is classified as a weak performer based on its three-year average score in the World Bank's Country Policy and Institutional Assessment (CPIA).

[8] Staff had useful discussions about the institutional framework and the financial situation of the municipalities, the state-owned enterprises, and the social security system. Staff advised that a future program may enlarge the definition of the fiscal targets to include some (or all) of these entities.

Congress claim was unconstitutional. However, the authorities argued that the implementation of the budget as envisaged is consistent with the organic budget law.

13. Projected revenue increases are mainly due to fuel price adjustments. Domestic revenues are expected to reach 14.1 percent of GDP (1.8 percent of GDP more than in FY2014). The authorities raised fuel prices by 8.4 percent on average, in October, and if necessary, plan other price increases to reduce forgone revenues by about 1.7 percent of GDP. This might not be needed given current oil price projections. Staff welcomed this decision, but underscored the need for mitigating measures to protect the most vulnerable. The authorities indicated that given capacity constraints, they increased budget allocations for public health and universal education (which in Haiti benefit the most vulnerable), among others, for a combined cost of 0.6 percent of GDP, and contained increases in the price of public transportation.[9] Staff stressed the need for domestic fuel prices to reflect international prices, while ensuring that foregone fiscal revenues are gradually eliminated over 12–15 months (Box 1).

14. Staff and the authorities agreed on the need to boost revenues by expanding the tax base and modernizing the tax system. The authorities expect revenue increases (of about 0.3 percent of GDP) from the strengthening of customs and tax administration. In addition, fiscal measures adopted in the FY2014 budget law (a tourist tax, adjustments to excise rates on alcoholic beverages, and environmental protection taxes) are projected to yield 0.2 percent of GDP. Staff stressed that increasing domestic revenues is essential given that budget support is expected to decline to 0.8 percent of GDP in FY2015 (from 1.2 percent of GDP in FY2014).

15. Public spending is projected to decrease as a share of GDP. A decision to increase wages for teachers and other civil servants in the second half of FY2014 will have an impact on the wage bill in FY2015 of about 0.5 percent of GDP. The wage bill will continue growing over the next few years as the national police and new primary schools are staffed.[10] Mitigating measures following fuel price increases will raise spending on health and education. The fiscal program also includes allocations for the cost of public lighting (formerly the responsibility of municipalities) of 0.2 percent of GDP.[11] Other transfers, including to EDH, are expected to decline relative to FY2014 by 0.3 percent of GDP. The interest bill will increase by 0.1 percent of GDP, in part to cover the cost of servicing domestic debt issued to clear obligations outstanding to suppliers. The authorities will mitigate the risk of a decline of Petrocaribe flows by only funding ongoing investment projects in FY2015, bringing capital expenditures down to more sustainable levels.

16. The budget deficit will continue to be mainly financed with Petrocaribe resources. The decrease in the fiscal deficit will allow government deposits to be largely preserved, which is essential as insurance against negative shocks. The stock of treasury bills is expected to increase by

[9] Fuel subsidies are largely regressive from an income distribution perspective. A recent World Bank study found that 90 percent of fuel subsidies accrued to the richest 20 percent of the population.

[10] Increases in current spending are essential to improve the quality of health and education, and strengthen the security situation as MINUSTAH forces are gradually reduced.

[11] The municipalities' spending is partly financed by earmarked national taxes of about 0.5 percent of GDP in FY2014.

0.4 percent of GDP. Staff emphasized that TSA implementation should allow for better cash and debt management and result in predictable lags in the payment for suppliers, therefore avoiding any emergence of arrears.

17. Progress in the implementation of structural reforms was broadly appropriate, but renewed efforts are needed in some areas.[12] In particular,

- **Tax Administration.** Staff reiterated that efforts should be geared at expanding the tax base, including through increasing compliance rates. The authorities explained that work to strengthen the capacity and operation of the medium (MTO) and large-tax payer (LTO) offices (including the transfer of files from the LTO and other local tax offices to the MTO) is ongoing (with support from the Fund and Canada). Work also continued to improve compliance and enforce collection but the absence of a legal framework for e-payments and the limited use of commercial banks for tax payments continue to represent major sources of inefficiency. In addition, tax collection is hampered by the lack of a nationally integrated IT network for tax filing. To increase customs revenue and to counter smuggling, more customs officers were deployed, measures were implemented to strengthen *ex post* controls, and work continued to expand border posts from six to over thirty.[13]

- **Tax Policy.** The authorities have completed a new mining code that will be submitted for parliamentary adoption. The tax department has prepared a work plan that includes amendments to the tax code and a review of numerous burdensome small taxes. The authorities also aim at reducing tax exemptions.

- **Fuel Pricing.** The authorities received IMF technical assistance on fuel product pricing (in July). Staff argued that prices should be set according to an automatic formula tracking international prices, with some built-in buffer mechanism. Such a formula should be implemented following the elimination of foregone revenues. The authorities agreed that fuel prices need to track international prices, and are analyzing staff proposals.

- **Treasury Single Account and Debt Management**. The Fund has posted (with Canadian financing) a long-term resident expert to provide advice on debt and cash management (in June). Two orders by the Prime Minister (*arrêtés*) establishing reconfigured accounting centers and granting the Ministry of Finance control over their organization and functioning, were published in the official gazette by end-November. Public accountants were redeployed beginning in FY2015 and financial controls over investment implementation have resumed. In parallel, the Treasury's main account and revenue accounts at the BRH were opened (with the latter leveled daily). Most importantly, expenditure accounts (for investment and current spending) held at BRH are in the process of being transformed into sub-accounts while specific

[12] A strategic commission led by the Minister of Finance and comprising high-level representatives of key stakeholders including donors, is meeting every three months to take decisions on public financial management.

[13] Working conditions for the Tax Department remain difficult as evidenced by the recent resignation of its Director General.

revenue accounts will be transformed into secondary accounts at BRH. Strengthening the debt unit advanced more slowly, including due to the fact that Congress has not yet passed the corresponding law.

- **Public Investment Program (PIP).** The authorities stressed that a PIP review under the World Bank's Public Expenditure Review is ongoing. This analysis will inform the work of a task force at the Ministry of Finance to assess the public investment framework. The authorities intend to create a unified investment framework for both the Finance and Planning Ministries to enhance the efficiency of public investment and boosting growth.

- **Electricity Sector.** In March, the Prime Minister established a joint working group (with the World Bank, IDB, U.S., and the Fund) to track the sector's performance and implementation of IFI-sponsored improvement plans. Slow progress in improving billing and collection resulted in a decision (in September) to place EDH under a private management contract. In parallel, the Prime Minister is seeking to reduce the cost of electricity in contracts with independent power providers (IPPs). The IDB and Germany are rehabilitating the only hydroelectric generation plant, to decrease generation costs. Staff emphasized the need to strengthen monitoring and reporting, and argued that reducing the sector's imbalance would be a key objective of a possible future ECF arrangement to support fiscal sustainability and growth.

C. Monetary and Financial Policies

18. Staff discussed the challenges facing monetary policy in a context of lower official inflows.[14] Monetary policy should remain tight given still-large fiscal imbalances. Staff expressed the view that authorizing banks to use government bonds in the computation of legal reserve requirements should not be repeated as it would represent an unwarranted loosening of monetary conditions. As legal reserve requirements are very high, staff noted that if further tightening is needed, it should be implemented through open market operations. Staff urged the BRH to keep monetary policy tight until the fiscal deficit is effectively reduced and pressures in the exchange rate market subside. This would help anchor monetary policy expectations.

19. The strong pass-through of exchange rate changes to inflation poses additional challenges. Staff argued that Haiti's use of the exchange rate as a nominal anchor, its vulnerability to weather shocks, and the risks to Petrocaribe flows justify maintaining international reserves between 4–5 months of prospective imports. In line with previous advice, staff stressed that foreign exchange market intervention should be parsimonious and geared at avoiding unwarranted short-term volatility. This would allow continued alignment of the real exchange rate with fundamentals. Appropriate communication of monetary policy objectives should further anchor inflation expectations. Fiscal consolidation is crucial to preserve buffers and would allow the exchange rate to continue its role as a nominal anchor.

[14] See Section A of Annex II ("Debt Sustainability Analysis") in the Staff Report for the Seventh ECF Review.

20. Staff discussed the appropriateness of the real exchange rate level in advance of next year's Article IV consultation. Although the real exchange rate has drifted slowly upwards in recent years, preliminary staff calculations suggest that its level continues to be broadly appropriate. Strengthening competitiveness will require advancing structural reforms to increase productivity. This in turn will allow increases in real wages and in the equilibrium real exchange rate.[15]

21. Haiti's level of financial intermediation remains low and high reserve requirements constrain banks. Net loans reached 43 percent of assets at end-2014 after a steady increase from 25 percent in 2010, but they appear to have reached a plateau. Monetary policy tightening in FY2013 and FY2014 (despite the recent loosening) has reduced excess reserves, and thus, further credit growth will be tightly linked to expansions of the deposit base. Staff argued that the application of identical legal reserve requirement rates on private and public sector deposits may constrain private sector credit, as public banks normally maintain larger liquidity buffers. Staff suggested that going forward marginal changes in reserve requirements may justify some rebalancing, but the authorities contended that this would penalize state-owned banks. Meanwhile, NPLs remain low despite a recent increase, but staff consider that the high levels of credit concentration and related-party lending could be a source of vulnerability. Staff reiterated that stress testing should be implemented systematically.

22. Staff discussed progress in improving monetary policy implementation, financial sector deepening, and the implementation of the anti-money laundering framework.

- **Strengthening the exchange rate market.** An electronic platform is being established to increase the transparency, efficiency, and depth of the foreign exchange market.

- **International reserve management.** Fund technical assistance (in August) conducted an assessment of reserve management at the BRH, and catalogued current practices.[16] Staff and the authorities discussed the findings and agreed on a work program to implement recommendations, including in the context of a possible new ECF.

- **Safeguard assessment recommendations.** The mission enquired about progress with the FY2013 audit of the BRH, and urged the authorities to publish audited financial statements before end-November 2014. The implementation of the 2010 update safeguards assessment continues, albeit slowly. Progress in strengthening the investment committee's autonomy, and appointing a compliance officer to monitor foreign reserves management was mixed, and the

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[15] The latest "Global Competitiveness Report" ranked Haiti as 143rd (out of 148 countries), underlining inadequate infrastructure and access to financing, restrictive labor regulations and low productivity, poor governance and political instability as the most problematic factors for doing business. The World Bank's "Doing Business" also ranked Haiti among the lowest in the survey (177 out of 189).

[16] The mission concluded that the BRH had implemented most recommendations on reserve management included in the 2010 update safeguards assessment. However, it also noted that the risk framework for reserve management could be strengthened; that reserve management decisions could be better documented; and that there could be a better alignment of portfolio management decisions to the recently established internal guidelines.

full adoption of IFRS remains outstanding. An updated safeguards assessment will be needed in case of a successor arrangement.[17]

- **Laws on Financial Cooperatives and Microfinance institutions (MFIs).** The related draft laws are still awaiting parliamentary adoption.

- **AML/CFT.** In its latest report, the Caribbean Financial Action Task Force (CFATF) recognizes that the new AML/CFT law (promulgated in November 2013) addresses a number of its recommendations. Staff urged the authorities to redouble efforts to address remaining issues.

EX POST ASSESSMENT AND DISCUSSIONS ON A POSSIBLE NEW ECF ARRANGEMENT

23. In line with the conclusions of the Ex Post Assessment, staff argued that a new ECF arrangement could help consolidate gains in macroeconomic stability and support needed structural reforms. The authorities intend to request a successor arrangement, expect it to focus on employment and growth policies, and argued that it would help anchor expectations in the context of heightened risks. Staff agreed and stressed that a new program should recognize from the outset what role it will play in case downside risks materialize. In particular, the authorities' program of reforms under a possible new ECF arrangement should,

- **Entrench macroeconomic stability.** This will require reducing the fiscal deficit to ensure debt sustainability. Fuel subsidies should be phased out, tax collection improved, and transfers to the electricity sector reduced. This should crowd-in private credit, help rebuild buffers, and enhance the central bank's credibility in using the exchange rate as a nominal anchor. Improving international reserve management and the conduct of monetary policy more generally should also contribute to better macroeconomic outcomes.

- **Remove bottlenecks to growth and poverty reduction.** A fundamental objective will be to strengthen growth and job creation. This should allow a fuller use of the benefits (in terms of access of Haitian apparel exports to the U.S. market) afforded by U.S. trade legislation (HOPE/HELP acts) to promote job creation, and higher labor productivity. Increases in competitiveness will progressively increase the value added of Haiti's exports. A new program should address government processes to promote the private sector (including by developing a comprehensive tax code and strengthening the cadastre). A new program should aim at improving the operations of the electricity sector, which constitutes a significant bottleneck to growth and fiscal sustainability. Improved donor coordination and transparency of donor-financed spending should promote effectiveness in public investment and boost growth and poverty reduction.

[17] In line with IMF safeguards policy.

- **Strengthen the governance and transparency of the budget process.** This would increase the effectiveness and efficiency of fiscal policy (including for poverty reduction) and could unlock further donor flows. This will require finalizing the implementation of the TSA; improving cash and debt management; and enhancing the transparency and effectiveness of the public investment framework.

- **Improve economic statistics.** The poor quality of economic data complicates policy design, implementation, and ex post analysis. A possible new ECF arrangement would catalyze technical assistance mainly on national accounts and employment statistics. There is also room to improve balance of payments statistics.

STAFF APPRAISAL

24. This is the final review under the ECF arrangement for Haiti. Over the past 4½ years, the program contributed to macroeconomic stability and provided an anchor after the devastating earthquake of January 2010. Progress on the structural front has been steady but slow. Both unforeseen shocks and Haiti's continued fragility inhibited the pace of reforms, as highlighted in the EPA. Addressing capacity, infrastructure, and governance constraints will be needed to achieve sustained growth and reduce poverty.

25. Progress since the seventh review has been broadly satisfactory. Economic growth and inflation during FY2014 were similar to projections. All but one quantitative performance criteria were observed and prior actions on the fiscal and structural fronts took longer than expected, but were implemented, ensuring the observance of structural benchmarks.

26. Downside risks are significant. Decreased oil prices are a positive terms-of-trade shock but increase the likelihood of a sudden stop of Petrocaribe flows. The authorities should resist pressures for unsustainable fiscal spending in response to the price decreases, particularly as they may not be permanent. Reform momentum and economic expectations could be negatively affected if political tensions deepen, and Haiti remains vulnerable to social tensions in the event of a commodity price shock. Weather events also pose significant risks. Renewed reform efforts should support higher growth, contain risks, and promote additional donor support.

27. Fiscal consolidation should begin in FY2015 and continue through the medium term. Lower fiscal deficits are essential to restore debt sustainability, protect external buffers, and achieve a policy mix more conducive to growth. To this end, focusing subsidies, enlarging the tax base, and combating evasion are crucial to offset expected decreases in external flows. The authorities should be commended for ending the fuel price freeze. A gradual convergence of domestic fuel prices to international prices should eliminate forgone revenues (of at least 2 percent of GDP). The current environment of lower international oil prices provides a unique opportunity in that regard. The implementation of mitigating measures should protect the most vulnerable.

28. Strengthening the performance of the electricity sector will contribute to improving government finances and support growth. Government transfers to EDH remained large in FY2014, in a context of still-weak performance. A recent decision by the Prime Minister to place EDH under a management contract is expected to result in improvements in billing and collection. Strengthening monitoring, reporting and performance of the electricity sector would constitute a cornerstone of a new ECF arrangement.

29. Reforms in public financial management advanced, but will need to be deepened to have lasting results. TSA implementation progressed despite delays mainly rooted in capacity and infrastructure constraints. Strengthening the governance and transparency of the budget process should promote higher donor flows. Pushing forward in these areas will gradually result in a more effective fiscal policy. In particular, improving the public investment framework (currently under analysis in the context of the World Bank's PER) should facilitate growth. The public debt law and the law reorganizing the ministry of finance need to be passed by Parliament.

30. Fiscal consolidation is a pre-condition for loosening monetary policy. High legal reserve requirements imply that any needed further tightening should be implemented through open market operations. The strong pass-through of exchange rate changes to inflation and the use of the exchange rate as nominal anchor require sufficient international reserves to anchor expectations. These considerations, together with Haiti's vulnerability to weather shocks and the possibility of a sudden stop of Petrocaribe flows justify keeping international reserves between 4–5 months of prospective imports. Appropriate communication of policy objectives should further anchor expectations.

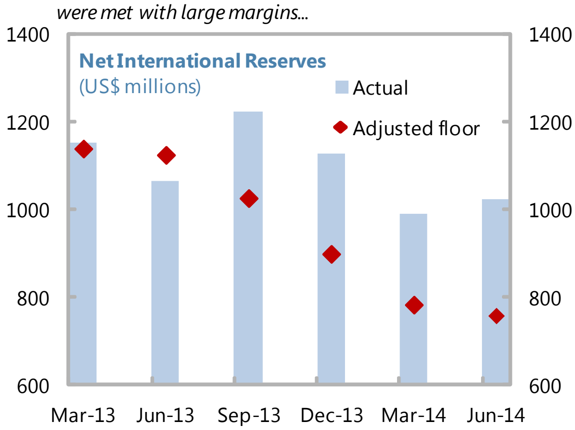
31. Pending safeguard assessment recommendations should be implemented. The Central Bank's FY2013 audited financial statements are expected to be published with delays, by end-November 2014. Accelerating the implementation of outstanding safeguards recommendations, including IFRS adoption and strengthening the autonomy of the Investment Committee, remains important. An assessment of foreign reserve management guidelines identified areas that need strengthening, including through further technical assistance by the Fund. On bank supervision, stress testing should be performed systematically to address existing risks. Many CFATF recommendations were addressed by the promulgation of the AML/CFT law, but further action is needed. Laws on insurance companies and on financial cooperatives and on microfinance institutions need to be passed by Parliament.

32. Staff recommend the completion of the eighth review under the ECF arrangement and the granting of a waiver of nonobservance of performance criterion.

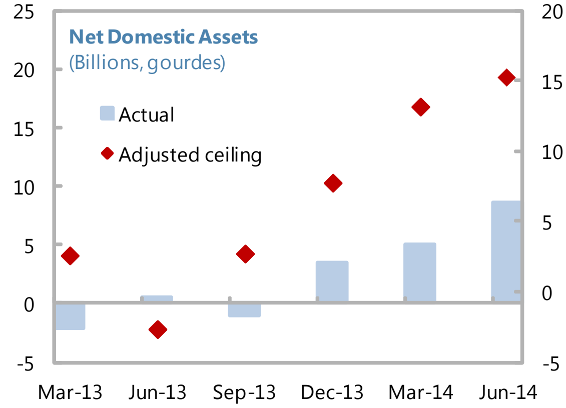
Figure 1. Haiti: Program Performance 2013–14 1/

Performance Criteria

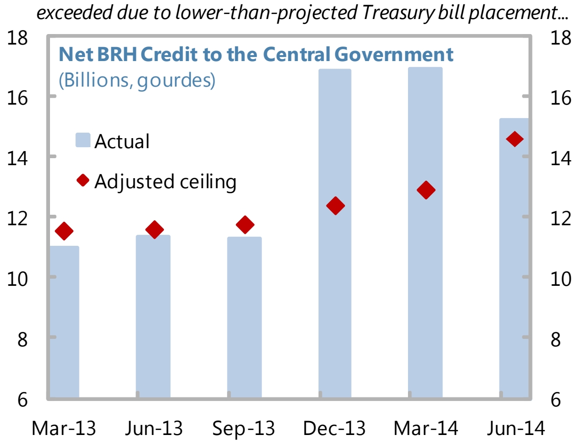
The March PC and June IT on net international reserves were met with large margins...



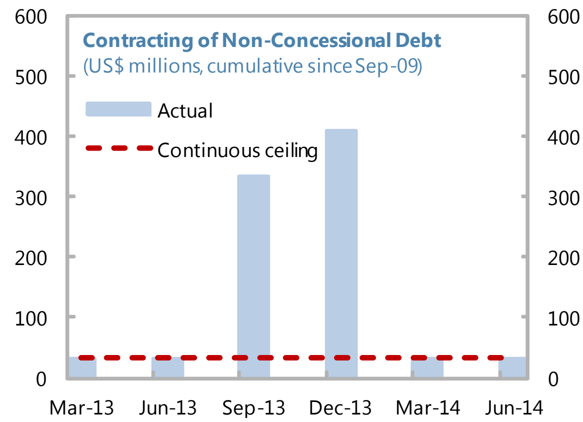
...and given base money performance, this resulted in lower-than-programmed net domestic assets of the BRH.



The March PC on net BRH credit to the government was exceeded due to lower-than-projected Treasury bill placement...

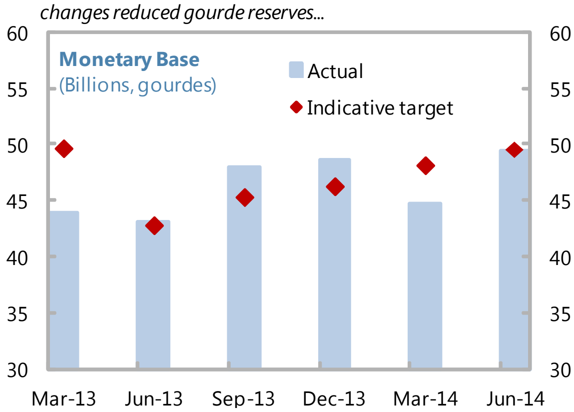


...and the repos that led to non-observance of the continuous PC on non-concessional debt were unwound.

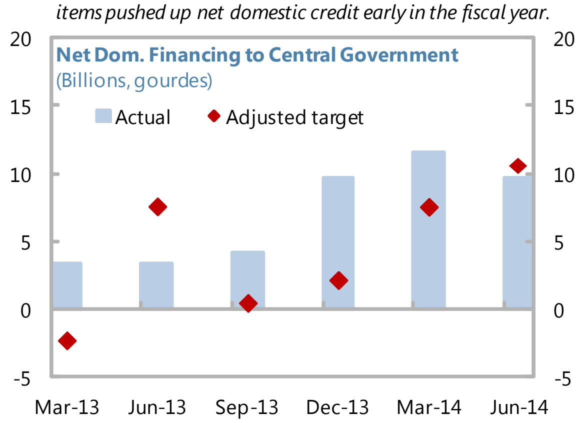


Indicative Targets

Base money was lower than projected as monetary policy changes reduced gourde reserves...

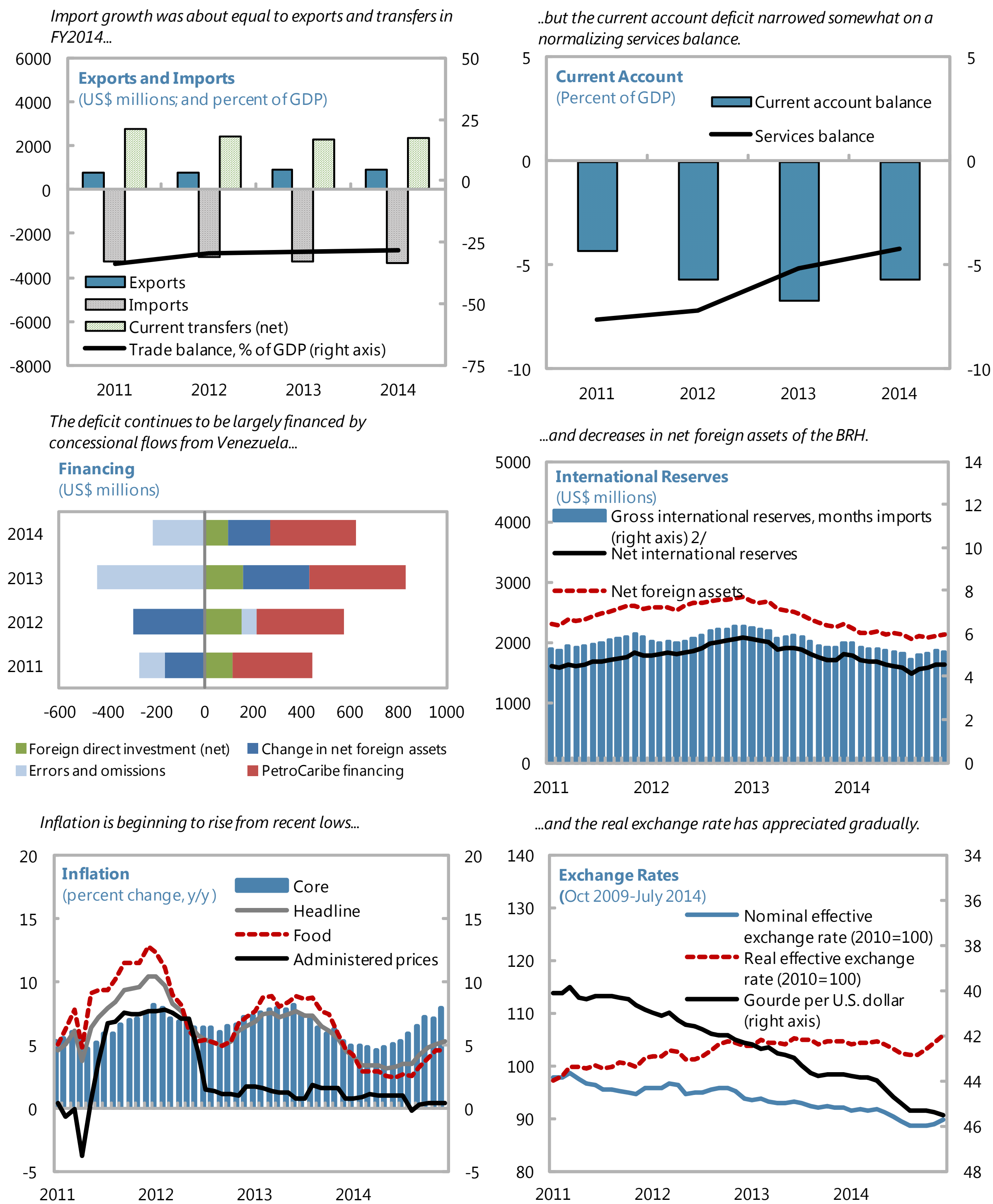


...and increases in checks in circulation and other financing items pushed up net domestic credit early in the fiscal year.



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

Figure 2. Haiti: Recent Economic Developments, 2011–14 1/

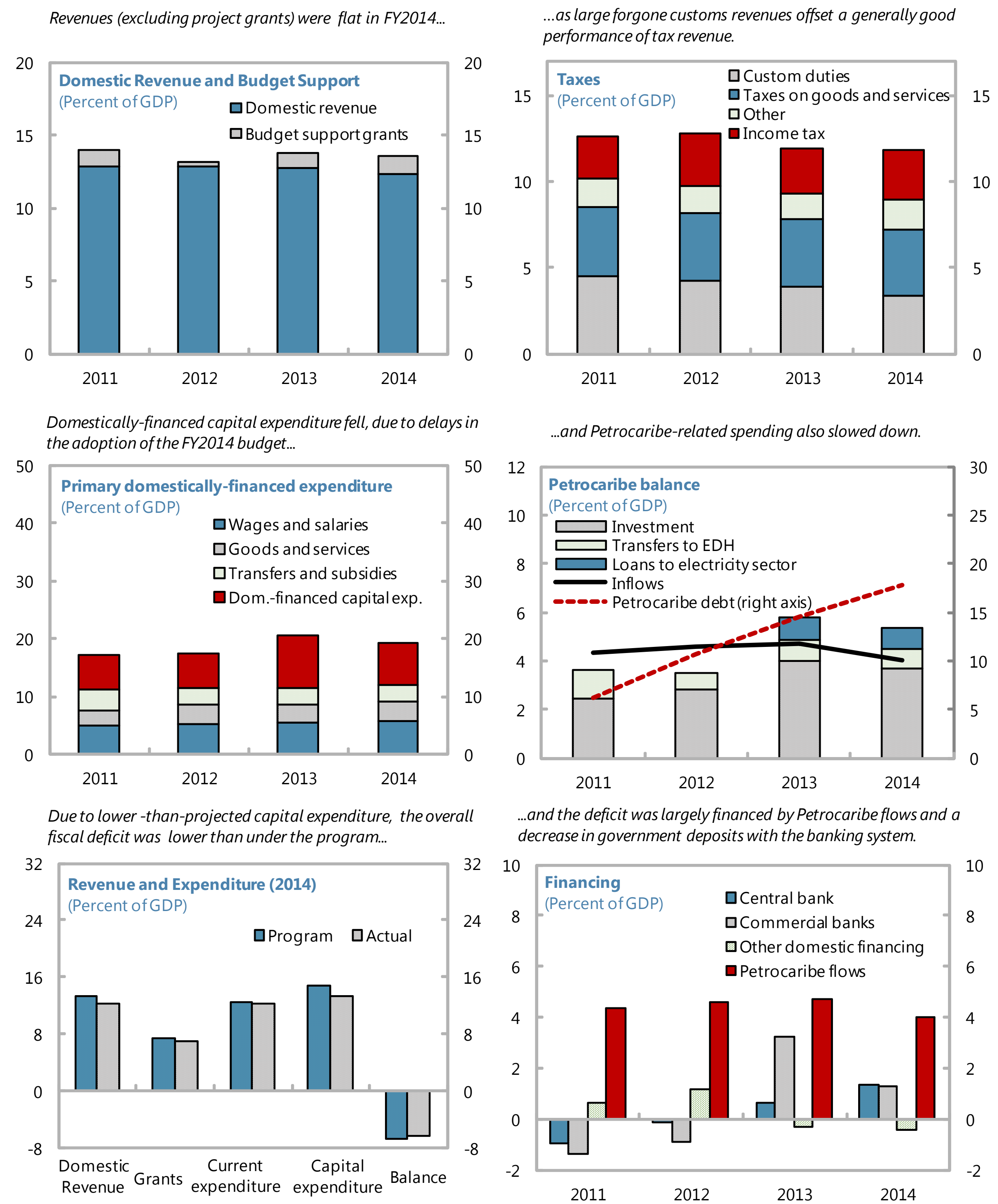


Source: National Authorities; and IMF staff estimates.

1/ Data are in fiscal years.

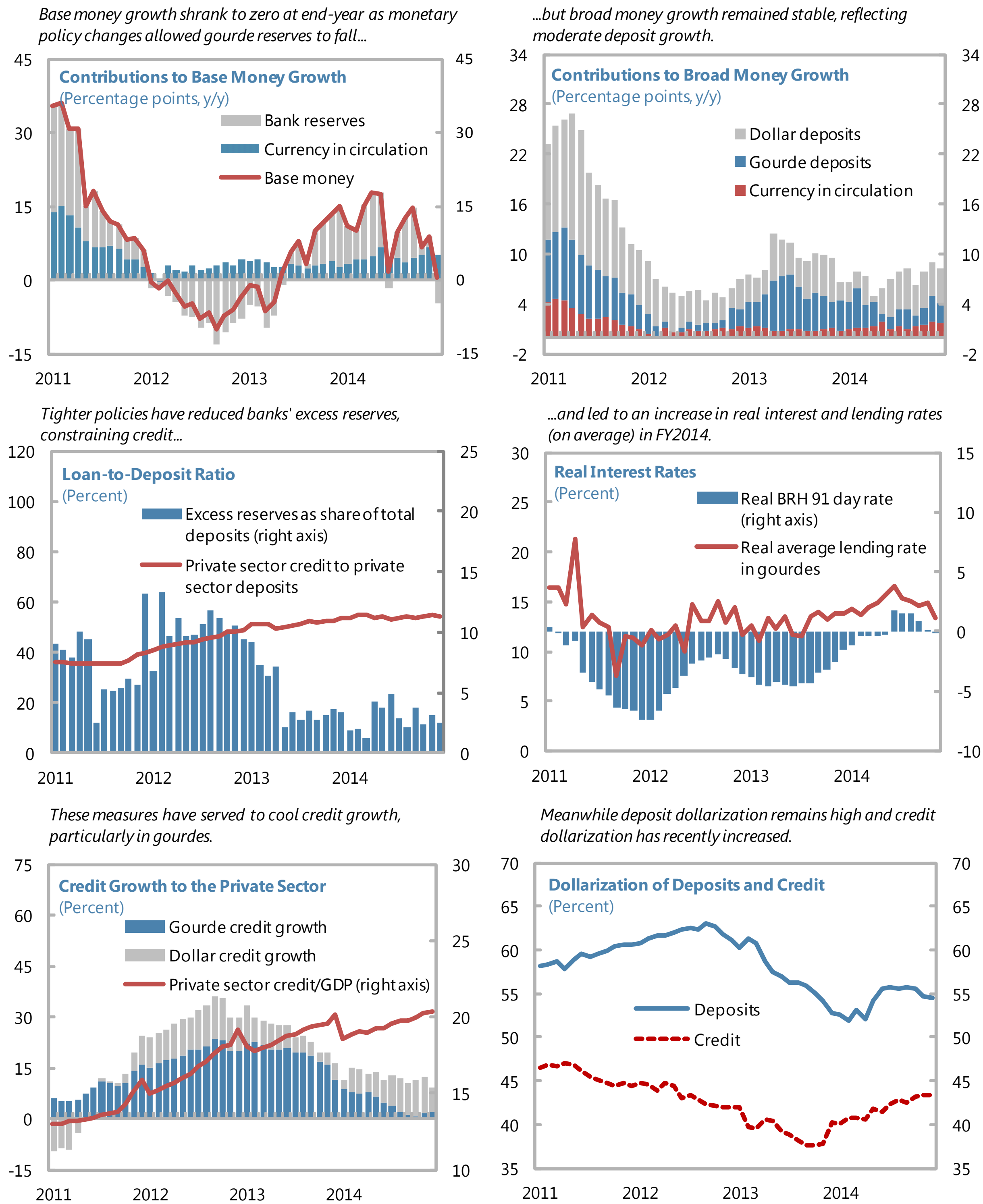
2/ Gross international reserves exclude central bank repurchase operations in 2013.

Figure 3. Haiti: Fiscal Developments, 2011–14 1/



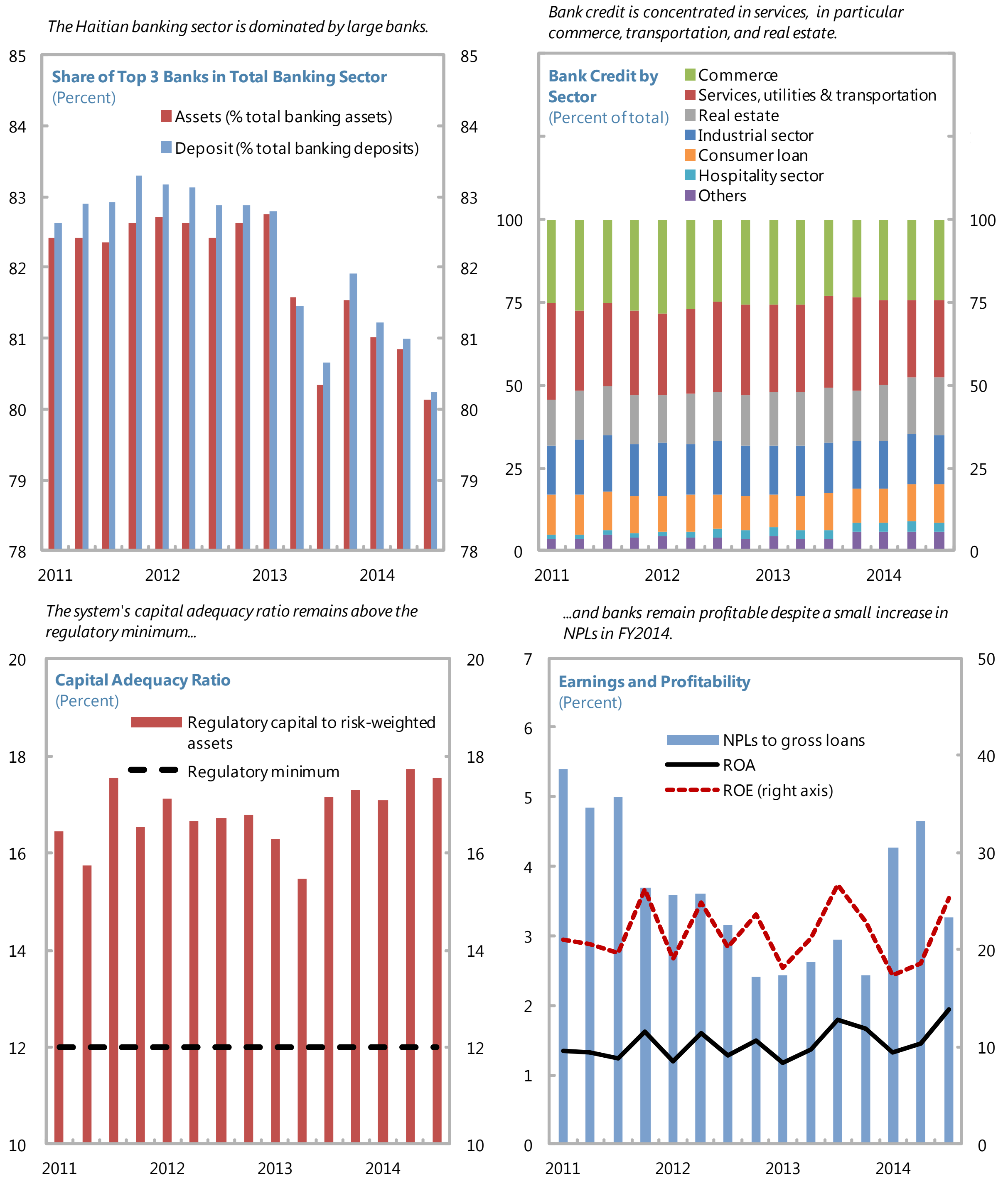
Source: National Authorities; and IMF staff estimates.
1/ Data are in fiscal years unless noted otherwise.

Figure 4. Haiti: Monetary and Financial Market Developments, 2011–14 1/



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

Figure 5. Haiti: Banking Sector, 2011–14 1/



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

Table 1. Haiti: Selected Economic and Financial Indicators, 2010/11–2014/15

(Fiscal Year Ending September 30)

Nominal GDP (2013): US$8.5 billion
Population (2013): 10.3 million
GDP per capita (2013): $820

GDP per capita (2013): $820
Percent of population below poverty line (2012): 58

	2010/11	2011/2012	2012/2013	2013/14		2014/15
	Act.	Act.	Prov.	Prog. (IMF Country Report No. 14/105)	Est. 2/	Proj.
	(Change over previous year; unless otherwise indicated)					
National income and prices 1/						
GDP at constant prices	5.5	2.9	4.3	4.0	3.5-4	3.0-3.5
GDP deflator	7.5	5.3	6.6	5.1	4.6	6.5
Consumer prices (period average)	7.4	6.8	6.8	4.1	3.9	6.7
Consumer prices (end-of-period)	10.4	6.5	4.5	5.7	5.3	6.5
External sector						
Exports (goods, valued in dollars, f.o.b.)	36.3	1.0	13.9	7.5	3.2	4.5
Imports (goods, valued in dollars, f.o.b.)	10.1	-7.1	8.1	2.0	1.9	-1.5
Real effective exchange rate (end of period; + appreciation)	2.0	2.3	0.7	n.a.	n.a.	n.a.
Money and credit (valued in gourdes)						
Credit to private sector (in dollars and gourdes)	24.5	29.8	16.4	8.0	9.4	7.4
Base money (currency in circulation and gourde deposits)	6.0	-3.7	15.1	7.1	0.5	8.0
Broad money (incl. foreign currency deposits)	10.4	6.9	6.6	8.5	8.8	8.2
	(In percent of GDP; unless otherwise indicated)					
Central government						
Overall balance (including grants)	-3.6	-4.8	-7.1	-6.7	-6.3	-3.6
Domestic revenue	12.8	12.8	12.7	13.2	12.3	14.1
Grants	9.1	10.6	8.1	7.4	6.9	5.9
Expenditures	25.5	28.2	27.9	27.3	25.5	23.5
Current expenditures	11.6	11.9	11.8	12.5	12.2	12.9
Capital expenditures	13.9	16.3	16.1	14.9	13.2	10.6
Savings and investment						
Gross investment	27.9	29.5	30.0	29.2	27.2	24.5
Of which: public investment	13.9	16.3	16.1	14.9	13.2	10.6
Gross national savings	23.5	23.9	23.3	23.3	21.5	20.0
Of which: central government savings	2.4	1.2	1.9	1.9	1.3	2.0
External current account balance (including official grants)	-4.3	-5.7	-6.7	-5.8	-5.7	-4.5
External current account balance (excluding official grants)	-23.6	-18.2	-15.6	-13.6	-12.6	-10.4
Public Debt 3/						
External public debt (medium and long-term, end-of-period)	8.7	13.5	17.4	19.8	20.6	22.2
Total public sector debt (end-of-period) 4/	8.7	14.4	19.5	22.9	23.7	26.1
External public debt service 5/	0.1	0.7	1.6	2.4	2.4	4.0
	(In millions of dollars, unless otherwise indicated)					
Overall balance of payments	159	288	-282	-68	-178	-33
Net international reserves (program definition) 6/	1,180	1,305	1,222	1,124	1,007	952
Liquid gross reserves 7/	2,000	2,184	2,242	1,940	1,782	1,754
In months of imports of the following year	5.7	5.9	6.0	4.9	4.8	4.5
Nominal GDP (millions of Gourdes)	302,854	328,061	364,811	398,705	395,902	435,183
Nominal GDP (millions of US$)	7,516	7,890	8,458	8,980	8,867	9,365

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

1/ Staff assume a range of 3.5-4 percent and a point projection of 3.75 percent for growth in FY2014; and a range of 3-3.5 percent and a point projection of 3.25 percent for FY2015.
2/ Figures for FY2014 are preliminary and based on incomplete information.
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 as both an asset and liability.
7/ Excludes gold; includes transactions related to BRH repurchase operations.

Table 2a. Haiti: Central Government Operations, 2010/11–2014/15

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

	2010/2011	2011/2012	2012/13	2013/2014		2014/15
	Act.	Act.	Prov.	Prog. (IMF Country Report No. 14/105)	Est.	Proj.
Total revenue and grants	66,321	76,774	75,855	82,249	76,085	86,987
Domestic revenue	38,893	41,970	46,475	52,679	48,669	61,429
Domestic taxes	24,460	28,076	29,242	34,597	33,380	38,291
Customs duties	13,672	13,721	14,230	15,378	13,401	18,128
Of which: fuel taxes	1,573	1,877	1,028	...	820	7,989
Other current revenue 1/	761	174	3,002	2,704	1,888	5,010
Of which: FNE	n.a.	1,350	1,954	...	1,562	1,500
Of which: FER	n.a.	0	0	...	0	1,300
Grants	27,428	34,803	29,380	29,570	27,415	25,558
Budget support	3,492	1,123	3,791	4,573	5,001	3,324
Project grants	23,935	33,681	25,589	24,997	22,414	22,234
Total expenditure 2/	77,352	92,490	101,888	109,036	100,894	102,481
Current expenditure	35,232	39,006	43,158	49,801	48,473	56,185
Wages and salaries	14,809	16,706	20,007	23,700	22,625	27,000
Goods and services	7,525	11,406	11,320	13,820	13,175	14,643
Interest payments	1,272	1,359	1,711	1,755	1,774	2,348
External	153	229	407	571	575	1,048
Domestic	1,119	1,130	1,304	1,184	1,200	1,300
Transfers and subsidies	11,626	9,534	10,120	10,526	10,898	12,195
Of which: energy sector 3/	8,233	4,844	5,652	5,741	5,331	5,100
Of which: mitigating measures (fuel)	0	0	0	...	0	2,781
Capital expenditure	42,120	53,484	58,730	59,234	52,421	46,296
Domestically financed 4/	17,642	19,252	32,870	33,923	29,209	23,581
Of which: Treasury	16,431	19,252	32,870	33,923	29,209	23,581
Of which: related to PetroCaribe spending	7,479	9,264	14,450	15,151	14,596	11,500
Of which: PCDR	0	1,130	1,587	...	1,404	3,010
Of which: FNE and FER related spending	0	0	1,704	...	1,748	2,800
Foreign-financed	24,478	34,232	25,861	25,312	23,212	22,716
Overall balance including grants	-11,031	-15,716	-26,033	-26,787	-24,809	-15,494
Excluding grants	-38,458	-50,520	-55,413	-56,357	-52,224	-41,052
Excluding grants and externally financed projects	-13,980	-16,288	-29,552	-31,045	-29,013	-18,337
Adjustment (unsettled payment obligations)	-18	139	3,388	0	-410	0
Financing	11,013	15,855	29,421	26,787	24,399	15,494
External net financing	16,341	15,454	16,636	16,076	15,601	12,110
Loans (net)	16,341	15,454	16,636	16,076	15,601	12,110
Disbursements	16,419	15,581	17,425	17,214	16,730	14,218
Of which: Petrocaribe	13,216	15,029	17,153	16,899	15,933	13,736
Project loans	543	551	272	315	797	481
Amortization	-77	-127	-789	-1,138	-1,129	-2,108
Arrears (net)	0	0	0	0	0	0
Internal net financing	-5,328	402	12,785	10,711	8,798	3,384
Banking system	-7,163	-3,480	14,026	11,537	10,442	13,505
BRH	-2,912	-433	2,332	5,200	5,272	7,505
of which PCDR	0	1,130	1,587	3,000	1,097	3,010
Of which: government bonds	0	0	0		2,869	-574
Commercial banks	-4,251	-3,048	11,694	6,337	5,171	6,000
Of which: T-bills	-300	0	2,875	1,875	1,105	1,053
Of which: government bonds	0	0	0	...	2,869	-574
Nonbank financing 5/	1,835	3,882	-1,241	-825	-1,645	-10,121
Of which: T-bills	0	0	1,800	1,875	-250	1,000
Of which: Amort. Long-term obligations	0	0	-1,800	...	-1,845	-1,883
Of which: Receivables from the electricity sector	0	0	-3,366	...	-2,541	-2,500
Of which: EDH letters of credit	0	0	0	...	-1,004	-1,000
Of which: Checks in circulation	0	0	445	...	-63	0
Of which: Post-Sandy government obligations 6/	0	0	1,680	0	4,058	-5,738
Memorandum items						
Balance of Petrocaribe deposits	10,490	13,538	8,555	4,900	5,389	3,889
at BRH	0	0	0	800	2	2
at commercial banks	10,490	13,538	8,555	4,100	5,387	3,887
Balance of PCDR account (in millions of US$)	266	238	194	138	162	93
Social spending (in millions of Gourdes)	9,700	13,774	14,350	15,500	14,197.0	16,977.6
Nominal GDP (millions of Gourdes)	302,854	328,061	364,811	398,705	395,902	435,183

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

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

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

3/ Includes transfers from Petrocaribe resources from FY2011 onwards.

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

5/ 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.

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

Table 2b. Haiti: Central Government Operations, 2010/11–2014/15

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

	2010/2011	2011/2012	2012/13	2013/2014		2014/15
	Act.	Act.	Prov.	Prog. (IMF Country Report No. 14/105)	Est.	Proj.
Total revenue and grants	21.9	23.4	20.8	20.6	19.2	20.0
Domestic revenue	12.8	12.8	12.7	13.2	12.3	14.1
Domestic taxes	8.1	8.6	8.0	8.7	8.4	8.8
Customs duties	4.5	4.2	3.9	3.9	3.4	4.2
Of which: fuel taxes	0.5	0.6	0.3	…	0.2	1.8
Other current revenue 1/	0.3	0.1	0.8	0.7	0.5	1.2
Of which: FNE	0.0	0.4	0.5	…	0.4	0.3
Of which: FER	0.0	0.0	0.0	…	0.0	0.3
Grants	9.1	10.6	8.1	7.4	6.9	5.9
Budget support	1.2	0.3	1.0	1.1	1.3	0.8
Project grants	7.9	10.3	7.0	6.3	5.7	5.1
Total expenditure 2/	25.5	28.2	27.9	27.3	25.5	23.5
Current expenditure	11.6	11.9	11.8	12.5	12.2	12.9
Wages and salaries	4.9	5.1	5.5	5.9	5.7	6.2
Goods and services	2.5	3.5	3.1	3.5	3.3	3.4
Interest payments	0.4	0.4	0.5	0.4	0.4	0.5
External	0.1	0.1	0.1	0.1	0.1	0.2
Domestic	0.4	0.3	0.4	0.3	0.3	0.3
Transfers and subsidies	3.8	2.9	2.8	2.6	2.8	2.8
Of which: energy sector 3/	2.7	1.5	1.5	1.4	1.3	1.2
Of which: mitigating measures (fuel)	0.0	0.0	0.0	…	0.0	0.6
Capital expenditure	13.9	16.3	16.1	14.9	13.2	10.6
Domestically financed 4/	5.8	5.9	9.0	8.5	7.4	5.4
Of which: Treasury	5.4	5.9	9.0	8.5	7.4	5.4
Of which: related to PetroCaribe spending	2.5	2.8	4.0	3.8	3.7	2.6
Of which: PCDR	0.0	0.3	0.4	…	0.4	0.7
Of which: FNE and FER related spending			0.5	…	0.4	0.6
Foreign-financed	8.1	10.4	7.1	6.3	5.9	5.2
Overall balance including grants	-3.6	-4.8	-7.1	-6.7	-6.3	-3.6
Excluding grants	-12.7	-15.4	-15.2	-14.1	-13.2	-9.4
Excluding grants and externally financed projects	-4.6	-5.0	-8.1	-7.8	-7.3	-4.2
Adjustment (unsettled payment obligations)	0.0	0.0	0.9	0.0	-0.1	0.0
Financing	3.6	4.8	8.1	6.7	6.2	3.6
External net financing	5.4	4.7	4.6	4.0	3.9	2.8
Loans (net)	5.4	4.7	4.6	4.0	3.9	2.8
Disbursements	5.4	4.7	4.8	4.3	4.2	3.3
Of which: Petrocaribe	4.4	4.6	4.7	4.2	4.0	3.2
Project loans	0.2	0.2	0.1	0.1	0.2	0.1
Amortization	0.0	0.0	-0.2	-0.3	-0.3	-0.5
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0
Internal net financing	-1.8	0.1	3.5	2.7	2.2	0.8
Banking system	-2.4	-1.1	3.8	2.9	2.6	3.1
BRH	-1.0	-0.1	0.6	1.3	1.3	1.7
of which PCDR	0.0	0.3	0.4	0.8	0.3	0.7
Of which: government bonds	0.0	0.0	0.0	0.0	0.7	-0.1
Commercial banks	-1.4	-0.9	3.2	1.6	1.3	1.4
Of which: T-bills	-0.1	0.0	0.8	0.5	0.3	0.2
Of which: government bonds	0.0	0.0	0.0	…	0.7	-0.1
Nonbank financing 5/	0.6	1.2	-0.3	-0.2	-0.4	-2.3
Of which: T-bills	0.0	0.0	0.5	0.5	-0.1	0.2
Of which: Amort. Long-term obligations	0.0	0.0	-0.5	…	-0.5	-0.4
Of which: receivables from the electricity sector	0.0	0.0	-0.9	…	-0.6	-0.6
Of which: EDH letters of credit	0.0	0.0	0.0	…	-0.3	-0.2
Of which: Checks in circulation	0.0	0.0	0.1	…	0.0	0.0
Of which: Post-Sandy government obligations 6/	0.0	0.0	0.5	0.0	1.0	-1.3
Balance of Petrocaribe deposits	3.5	4.1	2.3	1.2	1.4	0.9
at BRH	0.0	0.0	0.0	0.2	0.0	0.0
at commercial banks	3.5	4.1	2.3	1.0	1.4	0.9
Balance of PCDR account	3.6	3.1	2.3	1.6	1.6	1.0
Social spending	3.2	4.2	3.9	3.9	3.6	3.9

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

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

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

3/ Includes transfers from Petrocaribe resources from FY2011 onwards.

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

5/ 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.

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

Table 3. Haiti: Summary Accounts of the Banking System, 2010/11–2014/15

(Fiscal year ending September 30; in millions of gourds, unless otherwise indicated)

	2010/2011	2011/12	2012/13	2013/14		2014/15
	Act.	Act.	Prov.	Prog. (IMF Country Report No. 14/105)	Est.	Proj.
			I. Central Bank			
Net foreign assets	72,470	87,474	78,456	77,929	73,940	75,421
(In millions of US$)	1,773	2,067	1,793	1,730	1,622	1,592
Net international reserves (program) [1/]	1,180	1,305	1,222	1,124	1,007	952
Commercial bank forex deposits	707	874	686	718	731	756
Net domestic assets	-29,235	-45,833	-30,534	-26,359	-25,788	-23,435
Net credit to the nonfinancial public sector	5,196	3,424	4,848	12,985	12,767	20,986
Of which: Net credit to the central government	9,408	8,975	11,308	16,485	16,579	24,084
Of which: T-bills	0	0	0	0	0	0
Of which: IMF PCDR Debt Relief	-10,865	-10,086	-8,498	-5,498	-7,401	-4,391
Liabilities to commercial banks (excl gourde deposits)	-35,191	-42,736	-35,918	-38,301	-38,022	-40,816
BRH bonds/Open market operations	-6,328	-5,742	-5,945	-5,945	-4,709	-5,000
Counterpart of commercial bank forex deposits	-28,863	-36,994	-29,973	-32,356	-33,313	-35,816
Other	760	-6,522	537	-1,042	-532	-3,605
Base Money	43,235	41,641	47,922	51,571	48,153	51,987
Currency in circulation	18,401	20,232	21,352	23,336	23,865	26,233
Commercial bank gourde deposits	24,834	21,410	26,570	28,235	24,288	25,754
			II. Consolidated Banking System			
Net foreign assets	104,581	116,015	100,972	98,204	94,514	96,269
(In millions of US$)	2,559	2,741	2,308	2,180	2,075	2,032
Of which: Commercial banks NFA	786	674	515	450	452	440
Net domestic assets	34,743	32,923	57,800	74,133	78,228	90,639
Credit to the nonfinancial public sector	-12,416	-17,727	-4,583	9,863	8,540	22,760
Of which: Net credit to the central government	-8,055	-11,831	2,195	13,709	12,638	26,143
Credit to the private sector	50,526	65,573	76,350	82,287	83,494	89,686
In gourdes	28,086	38,048	45,597	50,122	47,263	50,946
In foreign currency	22,440	27,525	30,753	32,165	36,231	38,740
In millions of US$	549	650	703	714	795	818
Other	-3,366	-14,922	-13,967	-18,017	-13,806	-21,807
Broad money	139,324	148,938	158,772	172,337	172,742	186,907
Currency in circulation	18,401	20,232	21,352	23,336	23,865	26,233
Gourde deposits	52,164	54,933	60,277	66,036	64,017	69,459
Foreign currency deposits	68,760	73,774	77,142	82,965	84,860	91,216
In millions of US$	1,682	1,743	1,764	1,841	1,863	1,925
			(12-month percentage change)			
Currency in circulation	6.5	9.9	5.5	9.3	11.8	9.9
Base money	6.0	-3.7	15.1	7.1	0.5	8.0
Gourde money (M2)	7.2	6.5	8.6	9.4	7.7	8.9
Broad money (M3)	10.4	6.9	6.6	8.5	8.8	8.2
Gourde deposits	7.5	5.3	9.7	9.5	6.2	8.5
Foreign currency deposits	13.9	7.3	4.6	7.5	10.0	7.5
Credit to the private sector	24.5	29.8	16.4	8.0	9.4	7.4
Credit in gourdes	29.4	35.5	19.8	10.2	3.7	7.8
Credit in foreign currency	18.9	22.7	11.7	4.8	17.8	6.9
Memorandum items:						
Foreign currency deposits (percent of total private deposits)	56.9	57.3	56.1	55.7	57.0	56.8
Foreign curr. credit to priv. sector (percent of total)	44.4	42.0	40.3	39.8	43.4	43.2
Commercial Banks' Credit to Private Sector (percent of GDP)	15.9	19.2	20.2	19.9	20.3	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 4a. Haiti: Balance of Payments, 2010/2011–2014/15

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

	2010/11	2011/12	2012/13	2013/2014		2014/2015
	Act.	Act.	Prov.	Prog. (IMF Country Report No. 14/105)	Est.	Proj.
Current account (including grants)	-326	-448	-569	-523	-502	-420
Current account (excluding grants)	-1,772	-1,436	-1,319	-1,223	-1,116	-970
Trade balance	-2,546	-2,304	-2,446	-2,443	-2,479	-2,388
Exports of goods	768	776	884	940	912	953
Of which: Assembly industry	714	730	837	890	862	901
Imports of goods	-3,314	-3,079	-3,329	-3,383	-3,392	-3,341
Of which: Petroleum products	-770	-820	-951	-909	-968	-834
Services (net)	-575	-567	-438	-434	-377	-362
Receipts	544	549	652	696	701	733
Payments	-1,119	-1,116	-1,090	-1,130	-1,079	-1,095
Income (net)	38	55	32	37	12	-7
Of which: Interest payments	0	-6	-9	-13	-13	-23
Current transfers (net)	2,757	2,368	2,283	2,316	2,342	2,337
Official transfers (net)	1,446	988	750	700	614	550
Of which: budget support	87	27	88	103	112	72
Private transfers (net)	1,311	1,380	1,533	1,616	1,728	1,787
Capital and financial accounts	588	676	732	456	537	386
Capital transfers 1/	656	76	20	65	26	0
Debt stock reduction 2/	-486	0	0	-65	0	0
Public sector capital flows (net)	340	369	391	362	349	261
Loan disbursements	341	375	404	388	375	306
Amortization	-2	-6	-15	-26	-25	-45
Foreign direct investment (net)	119	156	160	150	99	114
Banks (net) 3/	-83	111	160	68	63	12
Other items (net)	42	-36	1	-124	0	0
Errors and omissions 4/	-103	60	-445	0	-213	0
Overall balance	159	288	-282	-68	-178	-33
Financing	-159	-288	282	68	178	33
Change in net foreign assets	-166	-293	274	65	171	31
Change in gross reserves	-210	-290	-38	397	471	28
Liabilities	43	-4	311	-332	-300	3
Utilization of Fund credits(net)	13	22	10	5	2	3
Other liabilities 5/	30	-26	301	-337	-302	1
Debt rescheduling and debt relief	8	6	8	3	7	2
Memorandum items:						
Current account (in percent of GDP)	-4.3	-5.7	-6.7	-5.8	-5.7	-4.5
Excluding official transfers	-23.6	-18.2	-15.6	-13.6	-12.6	-10.4
Exports of goods, f.o.b (percent change)	36.3	1.0	13.9	7.5	3.2	4.5
Imports of goods, f.o.b (percent change)	10.1	-7.1	8.1	2.0	1.9	-1.5
Debt service (in percent of exports of goods and services)	0.1	0.7	1.6	2.4	2.4	4.0
Gross liquid international reserves (in millions of US$) 6/	2,000	2,184	2,242	1,940	1,782	1,754
(in months of next year's imports of goods and services)	5.7	5.9	6.0	4.9	4.8	4.5

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 4b. Haiti: Balance of Payments, 2010/2011–2014/15

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

	2010/11	2011/12	2012/2013	2013/2014		2014/2015
	Act.	Act.	Prov.	Prog. (IMF Country Report No. 14/105)	Est.	Proj.
Current account (including grants)	-4.3	-5.7	-6.7	-5.8	-5.7	-4.5
Current account (excluding grants)	-23.6	-18.2	-15.6	-13.6	-12.6	-10.4
Trade balance	-33.9	-29.2	-28.9	-27.2	-28.0	-25.5
Exports of goods	10.2	9.8	10.4	10.5	10.3	10.2
Of which: Assembly industry	9.5	9.3	9.9	9.9	9.7	9.6
Imports of goods	-44.1	-39.0	-39.4	-37.7	-38.3	-35.7
Of which: Petroleum products	-10.2	-10.4	-11.2	-10.1	-10.9	-8.9
Services (net)	-7.7	-7.2	-5.2	-4.8	-4.3	-3.9
Receipts	7.2	7.0	7.7	7.8	7.9	7.8
Payments	-14.9	-14.1	-12.9	-12.6	-12.2	-11.7
Income (net)	0.5	0.7	0.4	0.4	0.1	-0.1
Of which: Interest payments	0.0	-0.1	-0.1	-0.1	-0.1	-0.2
Current transfers (net)	36.7	30.0	27.0	25.8	26.4	25.0
Official transfers (net)	19.2	12.5	8.9	7.8	6.9	5.9
Of which: budget support	1.2	0.3	1.0	1.1	1.3	0.8
Private transfers (net)	17.4	17.5	18.1	18.0	19.5	19.1
Capital and financial accounts	7.8	8.6	8.7	5.1	6.1	4.1
Capital transfers 1/	8.7	1.0	0.2	0.7	0.3	0.0
Debt stock reduction 2/	-6.5	0.0	0.0	-0.7	0.0	0.0
Public sector capital flows (net)	4.5	4.7	4.6	4.0	3.9	2.8
Loan disbursements	4.5	4.7	4.8	4.3	4.2	3.3
Amortization	0.0	-0.1	-0.2	-0.3	-0.3	-0.5
Foreign direct investment (net)	1.6	2.0	1.9	1.7	1.1	1.2
Banks (net) 3/	-1.1	1.4	1.9	0.8	0.7	0.1
Other items (net)	0.6	-0.5	0.0	-1.4	0.0	0.0
Errors and omissions 4/	-1.4	0.8	-5.3	0.0	-2.4	0.0
Overall balance	2.1	3.6	-3.3	-0.8	-2.0	-0.4
Financing	-2.1	-3.6	3.3	0.8	2.0	0.4
Change in net foreign assets	-2.2	-3.7	3.2	0.7	1.9	0.3
Change in gross reserves	-2.8	-3.7	-0.4	4.4	5.3	0.3
Liabilities	0.6	-0.1	3.7	-3.7	-3.4	0.0
Utilization of Fund credits(net)	0.2	0.3	0.1	0.1	0.0	0.0
Other liabilities 5/	0.4	-0.3	3.6	-3.8	-3.4	0.0
Debt rescheduling and debt relief	0.1	0.1	0.1	0.0	0.1	0.0
Memorandum items:						
Exports of goods, f.o.b (percent change)	36.3	1.0	13.9	7.5	3.2	4.5
Imports of goods, f.o.b (percent change)	10.1	-7.1	8.1	2.0	1.9	-1.5
Debt service (in percent of exports of goods and services)	0.1	0.7	1.6	2.4	2.4	4.0
Gross liquid international reserves (in millions of US$) 6/	2,000	2,184	2,242	1,940	1,782	1,754
(in months of next year's imports of goods and services)	5.7	5.9	6.0	4.9	4.8	4.5

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, September 2011–June 2014

(In percent; unless otherwise indicated)

	Sep-11	Sep-12	Sep-13	Dec-13	Mar-14	Jun-14
Size and growth						
Asset volume (in US$ millions)	3778.0	4036.1	4020.5	4004.3	4068.2	4046.3
Deposit volume (in US$ millions)	3325.4	3474.9	3328.4	3303.5	3386.9	3328.9
Asset growth (in gourde terms) since beginning of fiscal year	11.6	10.8	3.2	-0.1	2.9	4.3
Credit growth (net, in gourde terms) since beginning of fiscal year	31.5	34.0	19.9	2.3	3.0	3.3
Capital adequacy						
Regulatory capital to risk-weighted assets	16.5	16.8	17.3	17.1	17.7	17.5
Assets to Regulatory Capital	14.7	13.3	12.0	9.3	13.5	13.6
Asset quality and composition						
Loans (net) to assets	25.1	30.4	35.3	36.2	35.4	35.0
NPLs to gross loans	3.7	2.4	2.4	4.3	4.6	3.3
Provisions to gross loans	3.4	2.3	1.8	1.8	2.2	2.3
Provisions to gross NPLs	93.1	96.7	72.2	41.5	46.5	69.3
NPLs less provisions to net worth	1.1	0.4	3.3	11.7	11.7	4.7
Earnings and profitability (cumulative since beginning of fiscal year)						
Return on Assets (ROA)	1.6	1.5	1.7	1.3	1.4	1.9
Return on equity (ROE)	26.3	23.6	22.9	17.4	18.6	25.3
Net interest income to gross interest income	91.7	92.7	92.5	91.3	90.4	87.9
Operating expenses to net profits	67.6	68.5	67.6	67.0	65.9	59.9
Efficiency						
Interest rate spread [1/]	8.6	7.4	7.5	7.4	7.2	8.1
Liquidity						
Liquid assets to total assets [2/]	49.5	45.5	41.6	40.5	41.5	39.4
Liquid assets to deposits [2/]	56.3	52.8	50.2	49.1	49.8	47.9
Dollarization						
Foreign currency loans to total loans (net)	55.7	51.7	48.2	48.8	49.7	51.9
Foreign currency deposits to total deposits	62.3	62.9	55.1	55.4	58.1	58.5
Foreign currency loans to foreign currency deposits	25.5	29.0	37.3	38.6	36.4	37.8

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

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

2/ Liquid assets comprise cash and central bank bonds.

Table 6. Haiti: Indicators of Public Debt and External Vulnerability, 2010/11–2014/15

(Units as indicated)

	2010/11 Act.	2011/12 Act.	2012/13 Prov.	2013/14 Est.	2014/15 Proj.
Debt indicators					
Total external public debt (in percent of GDP) 1/	8.7	13.5	17.4	20.6	22.2
Total external public debt (in percent of exports) 2/	50.1	80.6	96.0	113.3	123.5
Total public debt (in percent of GDP)	8.7	14.4	19.5	23.7	26.1
Total public debt (in millions of US$)	887	1,270	1,777	2,263	2,588
o/w domestic debt	230	203	303	436	507
o/w Petrocaribe	462	841	1,235	1,574	1,833
o/w other external debt	195	226	238	253	248
External debt service (in percent of GDP)	0.0	0.1	0.3	0.4	0.7
Amortization	0.0	0.0	0.2	0.3	0.5
Interest	0.0	0.1	0.1	0.1	0.2
External debt service (in percent of exports) 2/	0.1	0.7	1.6	2.4	4.0
External debt service (in percent of current central govt. revenues)	0.2	0.9	2.3	3.5	5.1
Other indicators					
Exports of goods and services (percent change, 12-month basis in US$)	29.1	1.0	15.9	5.1	4.5
Imports of goods and services (percent change, 12-month basis in US$)	3.4	-5.4	5.3	1.1	-0.8
Remittances and grants in percent of gross disposable income	26.7	23.0	21.2	20.9	20.0
Exchange rate (per U.S. dollar, period average)	40.3	41.6	43.1	44.7	…
Current account balance (millions of US$) 3/	-326	-448	-569	-502	-420
Capital and financial account balance (millions of US$) 4/	588	676	732	537	386
Liquid gross reserves (millions of US$) 5/	2,000	2,184	2,242	1,782	1,754
In months of imports of the following year 2/	5.7	5.9	6.0	4.8	4.5
In percent of debt service due in the following year	23,209	8,854	5,876	2,618	1,923
In percent of base money	189.1	222.0	204.7	168.6	159.9

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

Amount	Availability Date	Conditions for Disbursement [1/]	
SDR 8,190,000	July 21, 2010	Executive Board approval of the three-year arrangement under the ECF.	Completed
SDR 8,190,000	January 15, 2011	Observance of performance criteria for September 2010 and completion of the first review under the ECF arrangement.	Completed
SDR 4,914,000	July 15, 2011	Observance of performance criteria for March 2011 and completion of the second review under the ECF arrangement. [2/]	Completed
SDR 4,914,000	January 15, 2012	Observance of performance criteria for September 2011 and completion of the third review under the ECF arrangement. [2/]	Completed
SDR 4,914,000	July 15, 2012	Observance of performance criteria for March 2012 and completion of the fourth review under the ECF arrangement.	Completed
SDR 4,914,000	January 15, 2013	Observance of performance criteria for September 2012 and completion of the fifth review under the ECF arrangement.	Completed
SDR 1,638,000	August 7, 2013	Observance of performance criteria for March 2013 and completion of the sixth review under the ECF arrangement.	Completed
SDR 1,638,000	March 26, 2014	Observance of performance criteria for September 2013 and completion of the seventh review under the ECF arrangement.	Completed
SDR 1,638,000	December 17, 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			

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

Table 8. Haiti: Indicators of Capacity to Repay the Fund, 2014/15–2024/25

(Units as indicated)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fund obligations based on existing credit (in millions of SDRs)											
Principal	0.0	1.6	4.3	6.7	7.5	7.9	6.2	3.6	1.2	0.3	0.0
Interest	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit (in millions of SDRs)											
Principal	0.0	1.6	4.3	6.7	7.5	8.0	6.6	3.9	1.5	0.7	0.2
Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit											
In millions of SDRs	0.1	1.7	4.4	6.8	7.6	8.1	6.6	3.9	1.5	0.7	0.2
In millions of US$	0.2	2.7	6.7	10.5	11.8	12.5	10.2	6.1	2.3	1.0	0.2
In percent of											
exports	0.0	0.2	0.4	0.5	0.6	0.6	0.4	0.2	0.1	0.0	0.0
government revenue	0.0	0.2	0.3	0.4	0.3	0.3	0.2	0.1	0.0	0.0	0.0
reserves	0.0	0.1	0.3	0.5	0.5	0.5	0.4	0.2	0.1	0.0	0.0
debt service	0.2	2.9	5.8	7.5	6.9	6.2	4.4	2.3	0.8	0.3	0.1
quota	0.1	2.1	5.3	8.3	9.3	9.9	8.0	4.8	1.8	0.8	0.2
Outstanding Fund credit (end of period)											
In millions of SDRs	41.0	39.3	35.1	28.3	20.8	12.8	6.2	2.3	0.8	0.2	0.0
In millions of US$	62.9	60.6	54.3	43.9	32.2	19.8	9.7	3.6	1.3	0.2	0.0
In percent of											
exports	3.7	3.4	2.9	2.2	1.5	0.9	0.4	0.1	0.0	0.0	0.0
government revenues	4.8	4.1	3.2	2.4	1.6	0.9	0.4	0.1	0.0	0.0	0.0
reserves	3.6	3.3	2.8	2.1	1.4	0.8	0.4	0.1	0.0	0.0	0.0
quota	50.0	48.0	42.8	34.6	25.4	15.6	7.6	2.8	1.0	0.2	0.0
Memorandum items:											
Exports 1/ 2/	1.7	1.8	1.9	2.0	2.1	2.3	2.4	2.6	2.8	3.0	3.3
Government revenues 1/ 3/	1.3	1.5	1.7	1.8	2.0	2.1	2.3	2.4	2.6	2.8	3.1
Reserves 1/ 4/	1.8	1.8	1.9	2.1	2.3	2.4	2.5	2.7	2.9	3.2	3.4
Debt service 1/	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.3	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/	9.4	10.0	10.8	11.6	12.4	13.3	14.2	15.2	16.3	17.4	18.6

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

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

1/ In billions of U.S. dollars.

2/ Exports of goods and services.

3/ Central government domestic revenues.

4/ Gross liquid international reserves, end of period.

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

(In millions of gourds, unless otherwise indicated)

	Actual stock at end-Sept. 09	Cumulative Flows Since September 2009															
		September 2013				December 2013				March 2014				June 2014			
		PC	Adjusted	Actual	Status 1/	Indicative target	Adjusted	Actual	Status	PC	Adjusted	Actual	Status	Indicative target	Adjusted	Actual	Status
I. Quantitative performance criteria																	
Net central bank credit to the non-financial public sector - ceiling	21,378	-13,199	-12,809	-16,531		-11,816	-12,095	-10,260		-11,063	-12,036	-9,079		-9,763	-10,352	-10,206	
Central Government 2/	22,969	-11,578	-11,188	-11,662	M	-10,278	-10,557	-6,129	NM	-9,063	-10,036	-6,058	NM	-7,763	-8,352	-7,763	NM
Rest of non-financial public sector	-1,591	-1,621	-1,621	-4,869	M	-1,538	-1,538	-4,131	M	-2,000	-2,000	-3,022	M	-2,000	-2,000	-2,443	M
Net domestic assets of the central bank - ceiling	14,447	-9,036	-10,152	-15,410	M	-5,472	-4,112	-10,959	M	215	2,375	-9,427	M	3,459	4,769	-5,883	M
Net international reserves of central bank (in millions of U.S. dollars) - floor	416	582	610	806	M	517	483	712	M	422	368	575	M	375	342	605	M
II. Continuous performance criteria																	
Domestic arrears accumulation of the central government	0	0	0	0	M	0	0	0	M	0	0	0	M	0	0	0	M
New contracting or guaranteeing by the public sector of nonconcessional external or foreign currency debt (In millions of U.S. dollars) 3/	0	33	33	334	NM	33	33	410	NM	33	33	33	M	33	33	33	M
Up to and including one year 4/	0	0	0	301	NM	0	0	377	NM	0	0	0	M	0	0	0	M
Over one-year maturity	0	33	33	33	M	33	33	33	M	33	33	33	M	33	33	33	M
Public sector external arrears accumulation (in millions of U.S. dollars)	0	0	0	0	M	0	0	0	M	0	0	0	M	0	0	0	M
III. Indicative targets																	
Change in base money - ceiling	31,080	14,262	14,262	16,842	NM	15,225	15,225	17,514	NM	17,095	17,095	13,584	M	18,459	18,459	18,309	M
Net domestic credit to the central government - ceiling 2/	19,392	-19,271	-18,881	-15,151	NM	-16,917	-17,196	-9,634	NM	-10,830	-11,803	-7,841	NM	-8,210	-8,799	-9,680	M
Poverty reducing expenditures - floor 5/	n.a.	38,656	45,718	45,918	M	42,531	49,593	48,923	NM	46,606	53,668	51,467	NM	50,481	50,481	54,497	M
Memorandum items																	
Change in currency in circulation	13,448	9,009	9,009	7,904	...	9,285	9,285	11,574	...	9,456	9,456	9,023	...	9,284	9,284	9,263	...
Net domestic credit to the rest of the non-financial public sector	-1,663	-1,894	-1,894	-5,115	...	-1,811	-1,811	-4,433	...	-2,500	-2,500	-3,370	...	-2,500	-2,500	-2,815	...
Government total revenue, excluding grants	29,881	156,289	156,289	158,764	..	169,962	169,962	170,920	..	186,078	186,078	183,585	..	198,411	198,411	195,670	..
Government total expenditure, excluding externally-financed investment	42,099	218,739	218,739	228,298	...	235,944	235,944	245,673	...	268,193	268,193	264,450	...	287,587	287,587	280,844	...

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

1/ M = Met; NM = Not Met.

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

3/ 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.

4/ 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.

5/ Poverty reducing expenditures consist of domestically-financed spending in health, education, and agriculture. The revised targets reflect data revisions.

Table 10. Haiti: Prior Actions and Structural Benchmarks through June 2014

Measure		Timing	Status	Rationale
Make operational the Treasury Single Account (TSA) by implementing the agreements between the Ministry of Finance and BRH (minutes of May 14, 2014 and the memorandum of understanding on the TSA between the Ministry of Finance and BRH of July 2013) as clarified in paragraph 3 of the TMU.	PA	Before completion of the review	Met	Improve cash management
Establish accounting centers ensuring rapidity and efficiency of controls on the implementation of investment projects as clarified in paragraph 4 of the TMU.	PA	Before completion of the review	Met	Improve cash management and controls
Take fiscal measures to reduce the fiscal deficit by at least 1 percent of GDP in FY2015 as clarified in paragraph 5 of the TMU.	PA	Before completion of the review	Met	Fiscal sustainability, buffers against external shocks
The Minister of Finance (in collaboration with EDH) will share with Fund staff a report on the electricity sector, as clarified in paragraph 6 of the TMU.	PA	Before completion of the review	Met	Improve financial transparency in the public sector
Operationalize the second accounting center comprising the Ministries of the Plan, Public Works, and Agriculture [2/]	SB	End-March 2014	Observed	Improve cash management and controls
Operationalize the accounting centers so that at least 80 percent of budgetary expenses are collectively covered	SB	End-June 2014	Observed	Improve cash management and controls

1/ PA: Prior Action; SB: Structural Benchmark

2/ Accounting centers 1 and 2 were subsequently split into 4 accounting centers to address operational concerns by some spending ministries.

Appendix I. Letter of Intent

November 28, 2014

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

Madam Managing Director:

1. **In this last review under the ECF, the Haitian government reaffirms its commitment to macroeconomic stability and to implement growth-oriented structural reforms.** All the end-March 2014 performance criteria under the program were met, except the criterion on net central bank credit to the central government, which was missed due to delays in the placement of treasury bills. We request a waiver as the deviation was minor, the fiscal deficit lower than envisaged, and the overall macroeconomic objectives of the program were met. Similarly, progress was made in the implementation of the structural agenda, and all the structural benchmarks for end-March and end-June 2014 were met (Tables 1–2). We are committed to implementing appropriate macroeconomic policies and to deepening structural reforms to reach the objectives of our new 2014–2016 framework of the Strategic Plan for the Development of Haiti (PSDH), namely high and sustainable growth, job creation, and poverty reduction. We are determined to tackle the structural imbalances and vulnerabilities underlying the Haitian economy and to realize Haiti's growth potential to significantly improve the living conditions of the Haitian people. We count on the continued support of our development partners, including the IMF.

Economic Developments in 2014

2. **Economic growth decelerated slightly in FY2014, but remained positive in per-capita terms.** Some delays in the execution of the investment budget and the impact of drought in parts of the country affected growth, which is estimated in the 3.5–4 percent range, compared with 4 percent projected under the program. Inflation, which declined to 3.2 percent in March, edged up to 5.3 percent in September. The depreciation of the gourde remained moderate at 4.1 percent y/y at end-year, following actions by Central Bank (BRH) including intervention in the foreign exchange market, though reduced relative to FY2013. Due to favorable developments in remittances, import fuel prices and budget support, the external position remained strong and by year-end gross reserves covered almost 5 months of imports.

3. **Fiscal performance was consistent with the program.** The FY2014 budget adopted in May was broadly in line with the program. The April wage increases to teachers and the police were compensated by lower allocations for other outlays. A revenue shortfall of 0.9 percent of

GDP was recorded, mainly because fuel tax revenue was lower than budgeted and the late adoption of the budget law deferred the implementation of the revenue measures included in the budget law, notably a new tourist tax of US$10, the adjustment of excises rates on domestically-produced and imported alcoholic beverages, and taxes aimed at protecting the environment and road infrastructure. As the revenue shortfall was more than compensated by lower expenditure, particularly on investment, budget execution resulted in an overall fiscal deficit lower than programmed by 0.4 percentage points of GDP. The indicative target on poverty-reducing expenditure was reached in the second half of the year. The fiscal deficit was financed mainly by concessional Petrocaribe resources. Because the T-bill placement was lower than projected, there was a larger drawdown on government deposits. As a result, the quantitative target for end-March on net central bank credit to the government was not observed.

4. **The budget for FY2015 entails a reduction in the deficit.** The deficit (program definition) would decrease to about 3.6 percent of GDP (from 6.3 percent of GDP in FY2014). Projected revenue increases are mainly due to the fuel price adjustment, the expansion of the tax base and the modernization of tax and customs administrations. Domestic revenues are expected to reach 14.1 percent of GDP (1.8 pp more than in FY2014). To mitigate the effect of the price increase, we have increased budget allocations for health and education and contained increases in the price of public transportation. Public spending is projected to remain broadly stable relative to FY2014. The wage increase in the second half of FY2014, in particular for teachers and police, will have a full-year impact on the wage bill in FY2015. The deficit will continue to be mainly financed with Petrocaribe resources. Budget support from the IDB and the European Union is programmed to reach US$71.5 million.

Monetary and Exchange Rate Policies

5. **Monetary policy remained focused on maintaining price stability and adequate international reserves.** Effective April 1, 2014, the BRH tightened monetary policy by raising the policy rates on central bank bills by 200 basis points (from 3 to 5 percent on 91-day bills) and by raising the legal reserve requirements on gourde deposits from 35 to 37 percent. It also required banks to constitute 10 percent of their required reserves on foreign-currency deposits with gourdes. In July, the BRH increased reserve requirements on foreign-currency deposits from 39 to 40 percent. Moreover, the modality for the constitution of these reserves was returned to 100 percent foreign currency. The gourde depreciated moderately during FY2014, helping keep inflation expectations anchored despite reduced intervention in the exchange rate market. The growth of bank credit to the private sector decelerated from 16.4 percent in FY2013 to 9.4 percent during FY 2014, with credit in gourdes increasing only by 3.7 percent. The deceleration in private sector credit prompted the Central Bank (in September) to allow some government bonds to count towards legal reserve requirements, loosening monetary policy somewhat. This exceptional measure will be progressively wound down as these bonds fall due.[1]

[1] During September, 2014, the government cleared debts with domestic contractors for G5.7 billion (1.4 percent of GDP). Clearing this debt involved the issuance of 5-year government bonds with monthly amortizations.

(continued)

To keep the exchange rate as a nominal anchor, the BRH remains committed to maintaining an adequate level of foreign reserves to shield the economy from shocks.

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

Structural Reforms

7. **Progress was made towards the treasury single account (TSA).** The Treasury continued the identification and closure of dormant accounts and implementation of the general ledger (GL) software accelerated. By end-September, the number of accounts in gourdes and in dollars was reduced to 548 and 303, respectively. Consistent with agreements between the Ministry of Finance and the BRH (see Technical Memorandum of Understanding), the following actions were implemented: (i) four Treasury accounts were opened at the BRH, the Treasury's main account and three accounts dedicated to revenue from the Tax Department, Customs, and other revenues, respectively; (ii) balances in the three revenue accounts began to be transferred daily to the Treasury's main account; and (iii) the Treasury began to have real-time access to these accounts and the BRH started communicating to the Treasury the balances of all its government accounts with the BRH, including the Treasury's main account (for accounting and cash management purposes). Pending the full establishment of the TSA at end-FY2015, the Ministry of Finance will continue to require supporting documentation from government institutions together with requests for payment or project account replenishments.

8. **There were significant advances with establishing accounting centers.** The accounting centers for the economic and socio-cultural sectors and for the Tax department were established as planned. The two orders ("*arrêtés*") of the Prime Minister establishing accounting centers and granting the Minister of Finance authority over their organization and functioning were published in the national gazette in October and November, respectively. The configuration of the accounting centers ensures proximity with corresponding ministries and an equitable workload distribution. In particular, the two accounting centers for the economic sector ministries were split into four accounting centers (ACES I, II, III, and IV).[2] Public accountants were

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Commercial banks were allowed to count G2.8 billion of these bonds towards meeting reserve requirements. The Central Bank will use these bonds for open market operations.

[2] ACES I includes the Ministries of Finance, Tourism and Trade and Industry; ACES II includes the Ministries of Planning and Environment; ACES III includes the Ministry of Public Works; and ACES IV includes the Ministry of Agriculture.

redeployed on October 1, 2014 and the accounting centers resumed normal operations following these actions. These actions ensured the observance of the structural benchmarks for end-March and end-June.

9. Efforts continued in strengthening the debt unit and improving the public investment framework. The Ministry of Finance initiated staffing of the middle and front offices as well as of the cash management and debt unit. Regarding public investment, the government is working on increasing the execution rate and quality of capital spending. By end-May 2014, all ministries and public entities had submitted their procurement and execution plans for FY2014. The recommendations of the World Bank's public investment review (completed at end-September) will help improve the quality of government spending.

10. The Government recognizes the need to increase domestic revenue. The tax department is implementing measures focused on expanding the tax base; facilitating the filing and payment of taxes by tax-payers, including through electronic means; and capacity building. Enhancing the compliance rate, including through a greater use of cross-checks between customs and tax departments, will enable reaching these objectives. The large taxpayer office (LTO) and the medium taxpayer office (MTO) will be strengthened. The new office charged with monitoring exempted entities will help reduce tax evasion. Revenue collection results are monitored and published on a regular basis. Regarding customs revenue, we will combat smuggling through a revamping of controls at busy border posts.

11. The government is implementing a plan to gradually reduce subsidies on petroleum products. The plan was developed with World Bank, IMF, and UNDP assistance and is supported by strengthening the social safety net that delivers assistance to the most vulnerable. The authorities are committed to phasing out fuel subsidies over a 12-15-month period and to implement afterwards a price adjustment formula that reflects changes in international oil prices.

12. A framework was established to restore the financial sustainability of the electricity sector. The Prime Minister chairs an energy committee *(Commission Energie*) charged with ensuring timely implementation of electricity sector reforms; the committee includes representatives of the government and of development partners. The government has decided to place some functions of *Electricité d'Haïti* (EDH) under a private management contract and preparatory work is underway. Meanwhile, the *Peligre* dam and the *Carrefour* thermal power station are being rehabilitated, and discussions with three independent power producers continue with a view to reaching agreements to reduce electricity prices. Monthly reports on the sector's performance will be transmitted to the Ministry of Finance which will share them with IMF staff.

Medium-Term Policies and a Possible Successor ECF Arrangement

13. We are determined to pursue and accelerate reforms and intend to request IMF support under a new ECF arrangement. The overarching objective of the reform agenda is to support sustained growth by ensuring an efficient allocation of domestic and foreign resources. A new IMF-supported program would be geared at such objective, including by helping to address the economy's structural imbalances. Reforms and policies will help developing capacities by facilitating the mobilization of domestic and foreign direct investment and foreign aid. These measures would tackle the economy's vulnerabilities and help build buffers. In turn, they would support the central bank in the conduct of an adequate and prudent monetary policy and crowd in private credit. A new Fund-supported program would help us consolidate the reforms implemented in recent years.

14. Improving the business environment is essential for private investment and to transform Haiti into an emerging economy. Reforms in this area are urgently needed to raise productivity and competitiveness, so as to increase domestic and foreign direct investment. The government intends to remove investment bottlenecks, through the simplification of administrative procedures, combating corruption, infrastructure improvements (including energy access), and the protection of property rights (in part through strengthening the cadastre and simplifying real estate transfer procedures). Improving the functioning and sustainability of the electricity sector is essential for growth, fiscal sustainability, and poverty reduction. The creation of an investment fund could help reduce reliance on external assistance.

15. Wide-ranging projects and reform initiatives have begun to promote growth. Reforms of the business environment are underway with the review of the investment code, the law on industrial zones, and the strengthening of the Investment Facilitation Center (CFI). A new electronic window allows online registration of companies and considerably reduces delays. Programs to support smaller enterprises, the creation of micro industrial parks, and the establishment of basic infrastructure facilitate the restructuring of economic activity and the development of regional zones in line with the goal of balanced regional development. Following the construction of the industrial park of Caracol, the Northern region has inaugurated an airport and receives significant investment. In the south, key investments should enable the development of tourism and agriculture. Investment protection agreements were signed notably with Spain and the Bahamas; others are being negotiated. The Investment Fund will be the main mechanism replacing Haiti's Reconstruction Fund. Its establishment will help improve the financing of the economy and support investments in sectors with high growth potential. Implementation of a financial inclusion policy will permit a comprehensive understanding of obstacles to financial deepening across sectors.

16. In view of progress recorded under the ECF arrangement, the government requests the approval of the eighth and final review of the arrangement, the granting of waiver of non-observance of performance criterion, and the disbursement of SDR 1.638 million. We consent to the publication of the Staff Report subject to the provisions on the deletions policy.

Sincerely yours,

/s/	/s/
Charles Castel,	Marie Carmelle Jean-Marie
Governor, Central Bank of Haiti	Minister of Economy and Finance

Table 1. Haiti: Indicative Targets and Quantitative Performance Criteria, September 2013–June 2014

(In millions of gourds, unless otherwise indicated)

	Actual stock at end- Sept. 09	Cumulative Flows Since September 2009															
		September 2013				December 2013				March 2014				June 2014			
		PC	Adjusted	Actual	Status [1/]	Indicative target	Adjusted	Actual	Status	PC	Adjusted	Actual	Status	Indicative target	Adjusted	Actual	Status
I. Quantitative performance criteria																	
Net central bank credit to the non-financial public sector - ceiling	21,378	-13,199	-12,809	-16,531		-11,816	-12,095	-10,260		-11,063	-12,036	-9,079		-9,763	-10,352	-10,206	
Central Government [2/]	22,969	-11,578	-11,188	-11,662	M	-10,278	-10,557	-6,129	NM	-9,063	-10,036	-6,058	NM	-7,763	-8,352	-7,763	NM
Rest of non-financial public sector	-1,591	-1,621	-1,621	-4,869	M	-1,538	-1,538	-4,131	M	-2,000	-2,000	-3,022	M	-2,000	-2,000	-2,443	M
Net domestic assets of the central bank - ceiling	14,447	-9,036	-10,152	-15,410	M	-5,472	-4,112	-10,959	M	215	2,375	-9,427	M	3,459	4,769	-5,883	M
Net international reserves of central bank (in millions of U.S. dollars) - floor	416	582	610	806	M	517	483	712	M	422	368	575	M	375	342	605	M
II. Continuous performance criteria																	
Domestic arrears accumulation of the central government	0	0	0	0	M	0	0	0	M	0	0	0	M	0	0	0	M
New contracting or guaranteeing by the public sector of nonconcessional external or foreign currency debt (In millions of U.S. dollars) [3/]	0	33	33	334	NM	33	33	410	NM	33	33	33	M	33	33	33	M
Up to and including one year [4/]	0	0	0	301	NM	0	0	377	NM	0	0	0	M	0	0	0	M
Over one-year maturity	0	33	33	33	M	33	33	33	M	33	33	33	M	33	33	33	M
Public sector external arrears accumulation (in millions of U.S. dollars)	0	0	0	0	M	0	0	0	M	0	0	0	M	0	0	0	M
III. Indicative targets																	
Change in base money - ceiling	31,080	14,262	14,262	16,842	NM	15,225	15,225	17,514	NM	17,095	17,095	13,584	M	18,459	18,459	18,309	M
Net domestic credit to the central government - ceiling [2/]	19,392	-19,271	-18,881	-15,151	NM	-16,917	-17,196	-9,634	NM	-10,830	-11,803	-7,841	NM	-8,210	-8,799	-9,680	M
Poverty reducing expenditures - floor [5/]	n.a.	38,656	45,718	45,918	M	42,531	49,593	48,923	NM	46,606	53,668	51,467	NM	50,481	50,481	54,497	M
Memorandum items																	
Change in currency in circulation	13,448	9,009	9,009	7,904	...	9,285	9,285	11,574	...	9,456	9,456	9,023	...	9,284	9,284	9,263	...
Net domestic credit to the rest of the non-financial public sector	-1,663	-1,894	-1,894	-5,115	...	-1,811	-1,811	-4,433	...	-2,500	-2,500	-3,370	...	-2,500	-2,500	-2,815	...
Government total revenue, excluding grants	29,881	156,289	156,289	158,764	..	169,962	169,962	170,920	..	186,078	186,078	183,585	..	198,411	198,411	195,670	..
Government total expenditure, excluding externally-financed investment	42,099	218,739	218,739	228,298	...	235,944	235,944	245,673	...	268,193	268,193	264,450	...	287,587	287,587	280,844	...

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

1/ M = Met; NM = Not Met.

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

3/ 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.

4/ 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.

5/ Poverty reducing expenditures consist of domestically-financed spending in health, education, and agriculture. The revised targets reflect data revisions.

Table 2. Haiti: Prior Actions and Structural Benchmarks through June 2014 1/

Measure		Timing	Status	Rationale
Make operational the Treasury Single Account (TSA) by implementing the agreements between the Ministry of Finance and BRH (minutes of May 14, 2014 and the memorandum of understanding on the TSA between the Ministry of Finance and BRH of July 2013) as clarified in paragraph 3 of the TMU.	PA	Before completion of the review	Met	Improve cash management
Establish accounting centers ensuring rapidity and efficiency of controls on the implementation of investment projects as clarified in paragraph 4 of the TMU.	PA	Before completion of the review	Met	Improve cash management and controls
Take fiscal measures to reduce the fiscal deficit by at least 1 percent of GDP in FY2015 as clarified in paragraph 5 of the TMU.	PA	Before completion of the review	Met	Fiscal sustainability, buffers against external shocks
The Minister of Finance (in collaboration with EDH) will share with Fund staff a report on the electricity sector, as clarified in paragraph 6 of the TMU.	PA	Before completion of the review	Met	Improve financial transparency in the public sector
Operationalize the second accounting center comprising the Ministries of the Plan, Public Works, and Agriculture [2/]	SB	End-March 2014	Observed	Improve cash management and controls
Operationalize the accounting centers so that at least 80 percent of budgetary expenses are collectively covered	SB	End-June 2014	Observed	Improve cash management and controls

1/ PA: Prior Action; SB: Structural Benchmark

2/ Accounting centers 1 and 2 were subsequently split into 4 accounting centers to address operational concerns by some spending ministries.

Attachment I. Technical Memorandum of Understanding

1. All aspects of the Technical Memoranda of Understanding (IMF Country Report No. 10/263, Attachment III; IMF Country Report No. 11/106, Appendix III; IMF Country Report No. 12/74 , Appendix III; IMF Country Report No.12/220, Appendix III; IMF Country Report No. 13/90, Attachment 2; IMF Country Report No.13/260, Attachment 2; and IMF Country Report No. 14/105, Attachment 1) issued on August, 2010; May, 2011; April, 2012; August, 2012; March, 2013; August, 2013; and March 2014, respectively, remain valid, except for new revisions incorporated in the November 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 targets for end-June 2014 are indicative. The changes will be measured on a cumulative basis from the stock at end-September 2009. Prior actions and structural benchmarks are shown in Table 2 of the letter of intent.

Clarification of Structural Conditionality

3. Prior Action on making operational the Treasury Single Account (TSA). The authorities will implement the agreements between the Ministry of Finance and the BRH (minutes of May 14, 2014 and the memorandum of understanding on the TSA between the Ministry of Finance and the BRH of July 2013) including the following actions: (i) opening the Treasury's main account and revenue accounts for the Tax department (DGI), the Customs department (AGD) and other revenue, as well as the daily leveling of revenue accounts; (ii) the Treasury's real time access to these accounts. As the banker of the Treasury, as of June 2014, the BRH will communicate to the Treasury the balances of all government accounts with the BRH, including the Treasury's main account, for accounting purposes and cash management. In preparation for the work of the weekly cash management committee and of the strategic pilot committee chaired by the Minister of Finance, beginning in June 2014 the Treasury will prepare weekly and monthly reports on the cash position reconciled with the account balances and other data provided by the BRH. In the context of the conversion of spending accounts (current and investment spending) into sub-accounts of the Treasury and of specific revenue accounts into secondary accounts, the Treasury will transmit to the BRH the technical specifications for development. The BRH will produce the IT solution for the pilot site of "Accounting center Economic sector I". The Treasury, in consultation with the BRH, will continue the overhaul of the accounts (reduction of the number of sub-accounts to 3 per ministry (all entities): 2 sub-accounts for current and investment spending and 1 secondary account for specific revenues.

4. Prior action on the establishment of accounting centers. To ensure rapidity and efficiency of controls on the implementation of investment projects, accounting centers 1 and 2 of the economic sector were split into four accounting centers (Accounting Center Economic Sector –

ACES I, II, III, and IV).[1] All established accounting centers are operational since the first half of FY2014. The plan to set up other accounting centers continues in line with the already established timetable. To this effect, the two orders (*arrêtés*) of the Prime Minister establishing the central accounting center and the ministerial accounting centers were published in the official gazette (*Le Moniteur*) by end-November 2014. Nomination letters for public accountants have been signed by the Minister of Finance.

5. Prior Action on the fiscal deficit for 2014-2015. The draft budget law for 2014–15 submitted to parliament for adoption is in line with discussions for the eighth review under the ECF. In this regard, the authorities took measures to decrease the fiscal deficit for at least 1 percent of GDP by end-November 2014. The overall fiscal deficit is defined as under the ECF arrangement, namely the difference between, on the one hand, revenue (including revenues of special funds such as FNE and FER) and grants, and on the other hand expenditure, comprising current outlays (including Petrocaribe transfers to the electricity sector) and investment spending (including projects financed by Petrocaribe resources, by resources from IMF post-catastrophe debt relief, as well as spending of special funds such as FNE and FER).

6. Monthly Report on the finances of the state-owned electricity company (EDH). The Ministry of Finance (in collaboration with the Ministry of Public Works and EDH), have shared with Fund staff, before end-November 2014, 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 reports cover FY2013 and FY2014.

Reports, Studies and Provision of Information

7. 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 IMF Country Report No. 10/263, Attachment III and its updates. As described in paragraph 10 of the letter of March 2014, 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.

8. 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 by type of contract award (competitive bidding, sole-source procurement, amendment to contract, etc.). The report will allow a close monitoring of contracts and of contract amounts for which supporting documentation is made available to the Ministry of Finance. The Ministry of Finance will use this information to determine if further information is required before authorizing a replenishment of project accounts,

[1] ACES I includes the Ministries of Finance, Tourism and Trade and Industry; ACES II includes the Ministries of Planning and Environment; ACES III includes the Ministry of Public Works; and ACES IV includes the Ministry of Agriculture.

until the TSA is operational. 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 reports corresponding to FY2014 have been communicated before end-November 2014.

9. Analysis on Fuel Price Subsidies. The government will gradually reduce fuel subsidies, while designing, with assistance from the World Bank, a social safety net that delivers assistance to the most vulnerable. In this connection, the government increased fuel prices, effective October 10, 2014. The government has communicated to Fund staff the associated study before end-November 2014. The government remains committed to achieving the fuel revenue target in the budget for FY2015. In this regard, declines in international oil market prices will not be reflected in domestic fuel prices before the gap between domestic prices and international reference prices is eliminated.

Appendix II. Short-Term Impact of a Possible Stop of Petrocaribe Financing

Petrocaribe flows are the main financing item in the fiscal and external accounts. While the decrease in international oil prices is a positive external shock for Haiti it also increases the risk that Venezuela will no longer be able to sustain Petrocaribe-related flows. Staff currently project that these flows would reach about 3 percent of GDP in FY2015, somewhat lower than observed in recent years (when they averaged 4–4.5 percent of GDP). Petrocaribe financing would nonetheless remain the main financing item in the fiscal and external accounts.[1] These flows have been used to finance government infrastructure projects and the deficit of the state-owned electricity company (EDH).

A stop in Petrocaribe flows will require a substantial fiscal adjustment and lead, in the short term, to a decrease in GDP growth. The authorities would need to cut domestically-financed investment spending, about half of which drew on Petrocaribe-related resources in FY2014. Moreover, transfers to the electricity sector would also need to be reduced, which would result in longer blackouts. EDH performance would likely also be strengthened, including through better billing and collection. If not offset by other flows, a sudden stop of these inflows could subtract 2–3 percentage points from GDP growth.

It is unlikely that the government could fully offset the reduction in Petrocaribe inflows. Haiti has limited alternative financing sources: the country has no access to international financial markets and its domestic financial market remains shallow. To some extent, the government could cushion the impact on the economy through a drawdown of government deposits at the banking system (including of Petrocaribe-related deposits at commercial banks, which represented 1.4 percent of GDP at end-FY2014). However, the role of the exchange rate as nominal anchor (given the large pass-through of exchange rate depreciation to inflation), limits the extent to which government deposits can be used without negatively affecting depreciation expectations. Moreover, monetary policy is already tight, and further tightening may prove difficult.

The need to cut the fiscal deficit will also depend on the mobilization of additional donor flows. Additional budget support would be important to keep expectations anchored, contain the negative impact on growth, and limit the erosion of external buffers. Haiti's commitment to the continued implementation of a program of structural reforms (in particular with respect to strengthening public financial management, and a reduction of the deficit of EDH) will be important to mobilizing further donor support.

[1] The fall in net Petrocaribe financing projected for FY2015 is based on current oil price forecasts, as the level of Petrocaribe financing is a function of the oil price. This fall (to about 3 percent of GDP) assumes no disruption or change in the Petrocaribe terms.

Statement by IMF Staff Representative on Haiti
December 17, 2014

1. This is an update of the political situation since the Staff Report was issued to the Executive Board on December 3, 2014. This update does not change the thrust of staff appraisal.

2. Prime Minister Lamothe stepped down on December 13. Mr. Lamothe's resignation, to allow the formation of a new consensus government, was one of a number of recommendations issued by a "Consultative Commission" created by President Martelly at end-November. The purpose of these recommendations is to resolve the political crisis that has resulted from the repeated postponement of mid-term parliamentary elections.[1] In order to ensure the continuity of the administration the current ministers remain in office until replaced.

3. To pave the way to new elections, the Commission also recommended a wide range of political reforms, including possible changes to the Constitution. It envisages the dissolution of the legislature on January 12, leaving President Martelly to govern—subject to the protections for the constitutional prerogatives reserved for Parliament.[2] The Commission further recommended that before such date, the Parliament should approve the appointment of a new consensus Prime Minister who would form a unity government. In addition, a political agreement should be forged and legislation passed on the organization of parliamentary and presidential elections that should be held later in 2015. These recommendations are currently being analyzed by both the government and the political opposition and negotiations are expected to continue through early January.

[1] The last such postponement occurred in October 2014. The terms of the representatives to the Chamber of Deputies as well as those of half of the remaining Senators expire on January 12, 2015. This will prevent the legislature to have the *quorum* needed to function.

[2] "*Recommandations de la Commission Consultative*", December 8, 2014.

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December 19, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF's Executive Board Completes Eight and Final Review under Haiti's ECF Arrangement and Approves US$2.4 Million Disbursement

On December 17, the Executive Board of the International Monetary Fund (IMF) completed the eighth and final 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 (US$2.4 million), bringing total disbursements to SDR 40.95 million (US$60 million) under the ECF arrangement.

The Executive Board also approved a request for a waiver of non observance on performance criterion on net central bank credit to the central government, which was missed due to delays in the placement of treasury bills, and despite a lower-than-programmed fiscal deficit.

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 satisfactory performance and successful completion of the program supported by the ECF is commendable, particularly given the exceptionally difficult circumstances that followed the 2010 earthquake. Growth in FY2014 was in line with projections and headline inflation remained moderate, although fiscal imbalances remain high. Progress was also made in advancing the structural reform agenda, most notably regarding the implementation of the Treasury Single Account, strengthening the public accounting system, and an initial reduction in fuel subsidies.

"Fiscal consolidation remains essential to reduce vulnerabilities, and the Haitian authorities have taken steps to reduce the fiscal deficit and address external financing risks in FY2015. The ongoing effort to strengthen tax and customs administration will help to mobilize additional revenues, in tandem with continued streamlining of expenditures, while safeguarding priority social spending. To this end, the authorities have reduced fuel subsidies, together with mitigating measures, and are planning to restructure the electricity sector, which has become a large drain on the budget. Reforms are also ongoing in the areas of public financial and international reserve management.

"Monetary restraint in support of a tightened fiscal stance will help to curb inflationary pressures and reduce exchange rate pressures. Efforts will also be made to strengthen the financial sector's supervisory and regulatory framework, with a view to enhancing financial stability. Greater exchange rate flexibility—with foreign exchange interventions limited primarily to smoothing large fluctuations—will contribute to strengthening reserve buffers.

"As stressed by the Ex-Post Assessment of Longer-Term Program Engagement (EPA), Fund-supported programs since 2006 have helped Haiti promote macroeconomic stability and encouraged structural reforms, given Haiti's domestic and external vulnerabilities. However, while growth after the 2010 earthquake has been positive, it has been below original projections in the context of weaknesses in aid effectiveness; and fiscal deficits and public debt stocks have risen.

"The authorities intend to deepen implementation of key reforms, possibly under a new medium-term program to be negotiated with the Fund. Such a program would help in consolidating macroeconomic stability and removing remaining bottlenecks to sustained growth and poverty reduction."

Statement by Paulo Nogueira Batista, Executive Director for Haiti,
Héctor Torres, Alternate Executive Director, and
Ketleen Florestal and Carlo Hubert Janvier, Advisors to the Executive Director
December 17, 2014

1. On behalf of our Haitian authorities, we thank staff and management for the reports and the constructive dialogue. This last review of the 2010 Extended Credit Facility (ECF) marks the closure of an era when policies were guided by the urgent need to reconstruct infrastructure, render functional public institutions and avoid a humanitarian crisis after the devastating earthquake of 2010. On the macroeconomic front, the key objective was to ensure robust growth through public investments that were to be mostly externally financed. Exchange rate volatility was to be restrained in a context where the authorities had minimum control over the timing, uses and volumes of inflows of foreign exchange. On the structural front, the 2010 program aimed at strengthening financial public management with an emphasis on increasing expenditure controls and transparency mainly through the implementation of the Single Treasury Account. It also sought to improve tax administration and debt management.

2. Although generally below projections, economic growth has been steadily increasing. While commendable progress was achieved on the structural front, several important issues linger and need to be addressed head-on in the period ahead. Among these our authorities consider as priorities: the improvement in the performance of the electricity sector; the enhancement of transparency and efficiency in public expenditure management systems, in particular through the full implementation of the Single Treasury Account; and the phasing-out of the fuel subsidy. Natural disasters (e.g.: floods, hurricanes, droughts) remain a key risk that needs to be taken into account in all public planning and programming. But new challenges are emerging, including the recent resignation of the Prime Minister and impending formation of a Government, the beginning of an electoral year and the decreased availability of donor grants and of PetroCaribe financing for Haiti. Such challenges make the strengthening of tax collection and the rationalizing of tax administration even more pressing.

3. Maintaining macroeconomic stability is indispensable to achieve robust and sustainable growth, eradicate extreme poverty and achieve greater social cohesion. A successor ECF would help safeguard the progress achieved thus far and entice additional concessional financing and private investment as well as more effective and efficient aid.

Private sector initiative

4. The Haitian authorities count on the participation of the private sector (domestic and foreign) in the construction of public and social infrastructures and the creation of new jobs. Several initiatives have already been taken to encourage private investment. A Public Private Partnership (PPP) unit created within the Ministry of Economy and

Finance is entrusted with the preparation of the institutional framework for PPPs in infrastructure projects. Management contracts are among the options being considered to improve the delivery of public services such as electricity. Simultaneously, the Ministry of Economy and Finance is spearheading the creation of an investment fund.

5. Measures to strengthen the legal framework for doing business are also considered essential. Reforms in the energy sector are one among several initiatives that will require changes in the legal framework. A presidential commission is revising the regulations that the business community has identified as outdated or excessively cumbersome. The commission has already made available a number of draft laws to the public and some of them have been submitted to Parliament.

6. Credit scarcity is one of the main factor depressing private activities. With technical assistance from the World Bank and the Inter-American Development Bank (IDB), a credit bureau was opened in July 2014 with the remit of reducing information asymmetries that have been identified as one of the obstacles to the provision of credit for commercially viable projects. The authorities are also developing projects and preparing legislation to support the SME sector. A new legal framework to regulate and strengthen microfinance is under parliamentary consideration. Last September, the central bank launched an ambitious financial inclusion strategy to ensure that even the most humble Haitians can have access to credit and financial services.

Donor engagement

7. The authorities acknowledge the need to address weaknesses in absorptive capacity but also call on donors to facilitate their task by (i) better aligning their cooperation programs with national priorities; (ii) avoiding the creation of parallel structures that weaken public institutions by stripping ministries of their experienced and most valued staff with compensation packages that cannot be matched by the public sector; (iii) harmonizing procurement rules; and (iv) ensuring that funds pledged are disbursed in a timely and predictable manner. Regarding the latter, the authorities believe that it is counterproductive to condition disbursements to the approval of legislation as this leverages parliamentarians and forces the government into horse-trading with lawmakers.

8. Technical assistance (TA) deserves to be revisited. In order to strengthen institutional capacity and increase the efficiency of TA, a critical mass of public servants with specific skills needs to be formed and this can only be achieved in a reasonable timeframe through in-country training initiatives and the more frequent use of resident advisors. Delivering TA through short-term expert visits or participation of officials in external forums (courses, seminar or conferences) can only reinforce the government's institutional capacity in the long run and in a limited fashion. Additionally, more

coordination among donors is warranted, particularly when financing sector specific TA, in order to avoid duplication of efforts and conflicting recommendations.

Fiscal and public financial management

9. As highlighted in the staff report, progress since the seventh review has been broadly satisfactory. The implementation of the Single Treasury Account was particularly challenging. Difficulties included finding office space to host the accounting centers *("postes comptables")*, organizing outreach and training sessions for relevant personnel in sector ministries and ensuring a smooth transition to the new system. After a bumpy start, the Single Treasury Account is now well underway towards full implementation.

10. The subsidization of the electricity company (EDH) and low petroleum prices at the pump have overburdened public finances. A gradual convergence of domestic fuel prices to international prices will increase fiscal revenues. Contracts with independent power producers (IPPs) in the electricity sector need to be revised to improve government finances and support growth. To decrease non-technical losses of the electricity company, the authorities are considering several new measures including the use of pre-paid meters and transforming small private illegal distributors of electricity into formal entrepreneurs who would buy pre-paid electricity from EDH and sell it retail to their clients, mostly those with low purchasing power.

Money, credit and the financial sector

11. T-bill placement was lower than envisaged and the gap in financing the fiscal deficit was filled by a larger drawdown on government deposits at the central bank (BRH). Hence, the performance criterion on BRH credit to the central government was missed. However, broad money grew moderately, below nominal GDP growth. The BRH tightened monetary policy during the second half of the fiscal year by increasing interest rates and reserve requirements. The central bank also sought with the combination of these instruments to contain the dollarization of deposits and credit. With the exchange rate depreciating only moderately, the effect of exchange rate pass-through on inflation was limited. Inflation stayed at a low single digit level (5.3 percent) in FY14. In light of the deceleration of credit to the private sector, the authorities decided in September 2014 to lower liquidity constraints on commercial banks by allowing them to include treasury bills as part of reserve requirements. International reserves were maintained between 4 to 5 months of imports, higher than the stipulated under the program.

12. The financial system remains healthy. Most banks are well capitalized and profitable and there has been a steady increase in the level of financial intermediation. The reduction of policy rates initiated in 2011 reduced incentives to hold BRH bonds; accordingly, they account for only 2.8 percent of banks' assets in 2014 compared to 6.7 percent in 2010.

13. Financial cooperatives and microfinance institutions have a fundamental role in promoting growth and fighting poverty given their extensive presence in both urban and rural areas. Parliament has committed to approve legislation to regulate them. However, given recent political developments and the number of laws awaiting approval, it is not anticipated that the legislation will be promulgated in the very short term.

The Ex Post Assessment and future engagement

14. The first Ex Post Assessment mission's role was to assess the Fund's engagement in Haiti under the two most recent arrangements of 2006 and 2010 with a view to drawing lessons for the future. Our authorities have already issued a comprehensive written comment[1] on the draft report they had received ahead of the discussions with the mission chief. They have requested us to convey the following additional comments:

- They agree with staff that planned reforms should not be overly ambitious; nevertheless, change processes do not have to be as protracted as the experiences mentioned in paragraph 38 of the EPA report where, based on a Paul Collier study "an average time of 59 years to transition from fragility" is estimated. With determined leadership and national consensus, Haiti can become a middle income country within the next decade.
- They also agree that in fixing targets for fiscal policy, "the challenge is to balance the need for fiscal consolidation with Haiti's large social and infrastructure needs and to determine a feasible pace of adjustment consistent with the social and political context" (ref. paragraph 41, second bullet point).
- Full domestic ownership of an arrangement with the Fund requires that the authorities remain in the driver's seat while the Fund helps them marshal political consensus in support for the program's objectives.

15. Finally, since the EPA report refers to the missed performance criterion on account of the repos, the authorities have asked us to come back to the issue. With the repos transaction, the BRH simply sought to diversify the central bank's portfolio by investing funds in safe securities with higher returns. In the authorities' view, reserve management should not be unduly constrained, given that capital preservation plays a key role in the central bank's investment policy. Limits to routine reserve management operations like repos should not be imposed under a Fund program. This point has been clearly made by the authorities and by this chair in previous discussions. The slowness of the Fund's response is yet another indication of the bureaucratic and inflexible approach that often sets the tone in this institution.

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[1] Haiti-Ex Post Assessment of Longer-Term Program Engagement (SM/14/319), Appendix 1 pages 31-33.