INTERNATIONAL MONETARY FUND

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HAITI

April 2020

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR HAITI

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with Haiti, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 24, 2020 consideration of the staff report that concluded the Article IV consultation with Haiti.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration January 24, 2020, following discussions that ended on November 22, 2019 with the officials of Haiti on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 20, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Haiti.

The documents listed below will be separately released.

Selected Issues

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

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IMF Executive Board Concludes 2019 Article IV Consultation with Haiti

On January 24, 2020, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV 2019 consultation with Haiti.[1]

Since March 2019, Haiti has been experiencing a protracted political crisis and prolonged civil unrest that has at times shut down most economic activity in the country. The crisis has taken a toll on the economy and the already vulnerable population: inflation exceeded 20 percent year-on-year in September, output is estimated to have contracted by an estimated 1.2 percent in fiscal year 2019 (ending September 30), and the exchange rate depreciated by 25 percent over the same period. As fiscal revenues have plummeted and the cost of energy subsidies increased, the fiscal deficit widened to 3.8 percent of GDP in FY2019 and domestic arrears rose sharply. The public debt-to-GDP ratio jumped from 40 percent to 47 percent over the fiscal year.

The authorities are making considerable efforts to limit the deterioration. The ministry of finance is implementing measures to improve revenue collection and better control spending and, in November, signed a new agreement with the central bank to strengthen fiscal discipline and limit monetary financing of the government. The central bank has been adjusting its interest rates to contain inflation while at the same time trying to support the private sector through the recession.

Absent sustained implementation of good policies and comprehensive reforms, the outlook remains grim. Under the baseline assumption of some political stabilization in 2020 without major political or economic reforms, growth would improve but remain negative this year and below 1.5 percent over the medium term. Inflation is expected to decline slightly before eventually falling to below 10 percent by 2025. Risks to the outlook are primarily on the downside but political stability could bring important upsides. A resolution of the current crisis, appointment of a new government committed and able to implement reforms, and return of support from the international community could lead to higher investment and potential growth.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment [2]

Executive Directors agreed with the thrust of the staff appraisal. They expressed concern about the socio-political crisis in Haiti and stressed the urgency of restoring political and macroeconomic stability, addressing poverty and inequality, and tackling corruption. They called on all stakeholders to work toward a broad-based national dialogue to address the country's daunting challenges and realize the potential scope for much stronger and more inclusive growth. Directors encouraged continued close cooperation with donors and the Fund, including through technical assistance, and welcomed the Country Engagement Strategy as a basis for future Fund engagement.

Directors stressed that severe fiscal constraints necessitate shifting scarce resources away from non-priority spending toward social programs and investment. They underscored the importance of limiting monetary financing of fiscal deficits and preparing a notional budget for FY2020. Directors encouraged the authorities to focus on measures to boost domestic revenues and reduce exemptions in the near term, while working to strengthen tax administration, prepare a resolution plan for budget arrears, and bolster public financial management. Directors commended the authorities for progress on the new national plan for social protection, and stressed the need to advance its approval and focus on a limited number of cash transfer programs.

Directors underscored the urgency of updating the anti-corruption policy priorities, including setting up the steering committee envisioned in the 2009 anti-corruption strategy. They also stressed the need to enforce the asset declaration system and conduct regular audits of state-owned enterprises and other public entities.

Directors encouraged the authorities to allow the exchange rate to adjust in an orderly fashion. Looking ahead, they recommended setting a quantitative monetary target, and encouraged the monetary authorities to advance other institutional reforms. Directors supported the central bank's efforts to continue deepening financial intermediation and inclusion, including via fintech.

Directors emphasized that well-sequenced reform of the energy sector will be crucial for fiscal sustainability and higher growth and must be accompanied by clear communications and measures to offset the impact on vulnerable groups. They encouraged the authorities to overhaul the management and performance of EDH, work with stakeholders to reduce electricity costs, improve the reliability and efficiency of energy supply, and lower the related fiscal burden. Broader structural reforms are needed to improve the economy's competitiveness, including efforts to streamline regulations, remove infrastructure bottlenecks, strengthen property rights, and enhance governance. Building resilience to natural disasters is also a priority.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing ups can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors urged the authorities to take steps to improve the quality and timeliness of economic data, with the help of further Fund technical assistance.

Haiti: Selected Economic and Financial Indicators [1]

Nominal GDP (2018): US$9.7 billion — GDP per capita (2018): $890

Population (2016): 10.847 million — Percent of population below poverty line (2012): 58

		Estimated		Projections	
	2017	**2018**	**2019**	**2020**	**2021**
Output					
Real GDP growth (%)	1.2	1.5	-1.2	-0.4	0.9
Employment					
Unemployment (%)	…	…	…	…	…
Prices					
Inflation, (end of period) (%)	15.4	13.3	20.1	17.5	14.5
Central Government Finances	(In percent of GDP; unless otherwise indicated)				
Revenue and grants	17.7	17.3	13.6	13.4	14.2
Domestic Revenue	14.0	13.0	10.8	10.0	11.1
Grants	3.7	4.3	2.8	3.4	3.0
Expenditures	17.5	19.0	16.1	15.6	16.2
Current expenditures	12.2	12.7	12.5	11.5	11.4
Capital expenditures	5.3	6.2	3.6	4.1	4.8
Overall balance of the nonfinancial public sector, incl. grants[2]	-0.9	-2.9	-3.8	-3.4	-3.1
Total public sector debt	38.3	39.9	47.0	46.1	44.9
Money and Credit					
Broad money (% change)	12.9	13.7	18.9	18.6	17.0
Credit to private sector (% change)	4.5	12.5	9.9	14.6	17.0
3-month BRH bond interest rate (%)	12.0	12.0	22.0	19.4	16.4
Balance of Payments	(In percent of GDP; unless otherwise indicated)				
External current account balance (incl. official grants)	-1.0	-3.9	-2.0	-0.9	-1.1
External current account balance (excl. official grants)	-5.6	-7.9	-4.8	-3.2	-4.1
Foreign direct investment (FDI)	4.5	1.1	0.9	0.9	1.3
Reserves (in months of imports of the following year)	4.4	4.7	4.9	4.8	4.8
External public debt	24.2	23.5	27.4	25.4	24. 2
Exchange Rate					
Real effective exchange rate (% change) (+ appreciation)	12.7	2.8	-10.8	…	…
Nominal GDP (millions of gourdes)	551,911	631,829	732,545	868,582	1,015,809
Nominal GDP (millions of U.S. dollars)	8,409	9,658	8,708	8,533	8,842

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

1/ Fiscal years ending September 30.

2/ Includes transfers to the state-owned electricity company (EDH).

INTERNATIONAL MONETARY FUND

HAITI

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

December 20, 2019

Staff Report prepared by a staff team of the IMF for the Executive Board's consideration on January 24, 2020. The staff report reflects discussions with the Haiti authorities in November 2019 and is based on the information available as of December 20, 2019. It focuses on Haiti near and medium-term challenges and policy priorities and was prepared before COVID-19 became a global pandemic and resulted in unprecedented strains in global trade, commodity and financial markets. It, therefore, does not reflect the implications of these developments and related policy priorities. The outbreak has greatly amplified uncertainty and downside risks around the outlook. Staff is closely monitoring the situation and will continue to work on assessing its impact and the related policy response in Haiti and globally.

KEY ISSUES

- **Context:** Driven by popular frustration with high levels of corruption and inequality, Haiti has been experiencing a protracted political crisis and prolonged civil unrest. The crisis has taken a toll on the economy and an already vulnerable population: output contracted by an estimated 1.2 percent and the currency depreciated by 25 percent against the U.S. dollar during fiscal year 2019 while inflation exceeded 20 percent (y/y) in September. With activity weak, the external current account deficit is estimated to have shrunk to 2.0 percent of GDP while foreign capital inflows have dried up. The fiscal deficit worsened to 3.8 percent of GDP and domestic arrears rose.
- **Outlook and risks:** The baseline scenario assumes some stabilization in the political situation by early-2020 but no major political or economic reforms. This would allow growth to recover only gradually and in the absence of sustained implementation of good policies and structural reforms, potential growth would remain low at about 1.4 percent over the medium term. Downside risks, both domestic and external, remain elevated. A prolongation of political instability, extreme natural disaster, drop in remittances, and/or a contraction in exports because of trade tensions would worsen the outlook, particularly given the absence of buffers and fragile social conditions. On the other hand, political resolution and an appointed government able to implement fundamental reforms could attract international support and lead to higher investment and potential growth.
- **Main policy recommendations:** The challenge is to stabilize the macroeconomic situation in an unstable political context. Staff encourage the authorities to continue their efforts to contain the fiscal deficit and its monetary financing by the central

bank. Improving domestic revenue collection and redirecting current spending would help create space for much needed social and capital expenditures. Together with steps to strengthen the central bank's autonomy and legal framework, this would help reduce fiscal dominance. Other policy priorities include strengthening the social safety net, medium-term energy sector reform, and steps to tackle corruption and improve governance. Capacity development, enhanced cooperation with other development partners, and outreach with non-government stakeholders in Haiti would help raise ownership and support the implementation of staff's main recommendations.

Approved By
Patricia Alonso-Gamo (WHD) and Jeromin Zettelmeyer (SPR)

Discussions were held in Washington, D.C. and in Haiti during November 8-22, 2019. The IMF team comprised Nicole Laframboise (head), Frederic Lambert, Rand Ghayad, Paola Aliperti (all WHD), Matthieu Bellon (FAD), and Chiara Fratto (SPR). Ahmed Zorome (Resident Representative) and Gabriel Duvalsaint (local economist) assisted the team and participated in discussions in Haiti. Patricia Alonso-Gamo (WHD) joined the concluding meeting. Mr. Saraiva, Ms. Florestal, and Mr. Pierre (OED) also participated in the meetings. The IMF team met with central bank Governor Dubois and Minister of Finance Jouthe, and with senior officials, representatives of the private sector, civil society, other IFIs, and academics. Madina Toshmuhamedova (WHD) assisted the team with logistics and contributed to the preparation of this report.

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BACKGROUND—THE CHALLENGES OF A FRAGILE STATE

1. Haiti's recent history is marked by political instability, weak governance and widespread corruption. There have been 18 presidents and four *coups d'état* since the Duvalier dictatorship ended in 1986. Because of political instability and weak institutions, sustained implementation of policies has proved challenging. Since it disbanded its army in 1995, Haiti has relied heavily on UN peacekeeping forces to maintain order and train the police force, although the UN presence was downsized in October—as planned—to a smaller, mostly administrative office. The government recently moved to reconstitute its own military.

2. Poverty is widespread and inequality high. Over 58 percent of the population live below the national poverty line (US$2.41/day) and real per capita income has stagnated since 2015 at around US$870 (2018). Other indicators of human development remain at distressing levels, with life expectancy at 63 years, literacy at 62 percent, and only about 63 percent of the population with access to safe water (2015). As of 2012, about half of the country's income share was held by the top 20 percent and the lack of opportunity to improve living conditions has driven rising social discontent. The recent crisis has placed severe strains on the population given the burden of high inflation on the poor and shortages of basic goods and services

3. Natural disasters are frequent and environmental degradation contributes to fragility. Some 82 natural disasters hit Haiti during 1990-2017, including a devastating earthquake in 2010. Weak infrastructure, anarchic urban development, and deforestation aggravate the country's vulnerability to earthquakes and hurricanes. Environmental degradation hinders social and economic development, including causing lower agriculture yields, water pollution, and health epidemics.

4. Productivity growth and capital accumulation are low, and barriers to entry high. A low level of human capital, limited electricity supply, weak regulations, and an under-developed financial system have hindered private investment. Annual GDP growth averaged 1.4 percent from FY2015 through FY2018, near the rate of population growth and slightly below the average of 1.5 percent from 1996-2017.[1] Private sector resources and capital are highly concentrated among a relatively small but powerful group—much acquired during the Duvalier era through monopoly rights and exclusive import licenses.[2]

5. There are growth opportunities to be explored. Economic growth could come from several sectors, including construction, agriculture, environmental remediation, tourism, mining, telecom, light manufacturing, alternative energy, and services. Community-based social structures are strong, and the Haitian diaspora presents a potential source of skills, resources and positive

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[1] In this report, annual data refer to the fiscal year ending September 30th.

[2] World Bank Group, "Haiti: Towards a New Narrative," *Systematic Country Diagnostic*, May 2015.

influence. To develop this potential, however, some degree of political stability and policy continuity are needed.

RECENT DEVELOPMENTS

6. **Economic conditions have deteriorated significantly over the past year.** Following the 2018 Staff Monitored Program (SMP), staff responded to the authorities' request for support and agreed *ad referendum* on a program in March 2019 (Box 1). However, this could not proceed after the resignation of Prime Minister Céant and failure to ratify a replacement; subsequent attempts have also been unsuccessful. The political crisis has many elements, but poverty, inequality, and corruption—most recently the misuse of public funds under the *Petrocaribe* program—appear to be fueling unrest. The political crisis has prevented the government from passing budget laws for FY2019 and FY2020, impaired policy reforms, and adversely affected revenue collection and public spending. Output is estimated to have contracted by 1.2 percent in FY2019 while supply shortages and currency depreciation helped push inflation above 20 percent (y/y). External financial support has collapsed, with zero budget support in FY2019 and delayed project loans.

Box 1. Fund Relations and Policies Since the 2018 SMP

- **A series of on-off Fund-supported programs since 2015 led to repeated delays of Article IV consultations.** The Extended Credit Facility (ECF) arrangement approved in May 2015 terminated without completion of the first review. In November 2016, in the aftermath of Hurricane Matthew, the IMF approved SDR 30.715 million under the Rapid Credit Facility (RCF). An SMP agreed in 2018 aimed to pave the way for a possible upper credit tranche arrangement.
- **The 2018 SMP expired in August 2018 and achieved progress, though reforms in the energy sector were incomplete**. The billing rate of the state-owned company *Électricité d'Haiti* (*EDH*) rose but fell short of the 50 percent target and the shortlisting of bidders to replace expired electricity supply contracts was late. Moreover, the government eliminated fuel subsidies in July 2018 without implementing planned mitigating measures in advance. This was followed by riots, reversal of the decision, and resignation of the prime minister.
- **Macroeconomic management did improve.** A January 2019 agreement (*Pacte de Gouvernance Économique et Financière*) between the *Banque de la République d'Haiti* (BRH) and ministry of finance to limit BRH financing of the fiscal deficit was implemented, helping to slow the pace of international reserve decline. As recommended during program negotiations, the authorities also eliminated the oil import monopoly of the state *Bureau de Monétisation des Aides Publiques au Développement* (BMPAD). Efforts to draft a broad-based national plan on social policy (the *Politique Nationale de Protection et de Promotion Sociale—PNPPS*) and expand coverage of the beneficiary information system (*SIMAST)* have continued despite political turbulence.
- **Unfortunately, other policies were disrupted**. The budget for FY2019 was not approved by parliament and no budget has been submitted for FY2020. While liberalization of oil imports was a step forward, the government failed to pay fuel companies on time, which has led to fuel shortages and budget arrears and, as noted above, insufficient progress in the energy sector.

7. **As revenues collapsed and energy subsidies increased, the fiscal deficit widened.** The deficit of the non-financial public sector (NFPS) in FY2019 rose to an estimated 3.8 percent of GDP against 2.9 percent of GDP in FY2018, largely due to a 22 percent drop in revenues in real terms, an increase in fuel subsidies to maintain fixed prices in gourdes, and losses of the electricity company *EDH*. Estimates of total government support to the energy sector increased from 4.6 to

6.5 percent of GDP. In response, the government slashed domestically-financed capital spending by two-thirds and cut spending on goods and services by 10 percent in nominal terms. Despite the jump in energy-related transfers, government spending contracted by 3.0 percentage points of GDP. Domestic arrears though surged to 3.7 percent of GDP, fuel shortages occurred, and external arrears (to a foreign oil company) reached 0.4 percent of GDP at end-September.

Haiti: Annual Fiscal Losses from the Energy Sector

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Electricity losses (in millions of gourdes)	9,294	9,979	10,253	8,651	9,941	11,662	14,060
Fuel losses (in millions of gourdes)	6,892	7,862	395	4,297	10,469	17,222	33,331
Total losses of the energy sector (% of GDP)	**4.4**	**4.6**	**2.5**	**2.7**	**3.7**	**4.6**	**6.5**

Source: National Authorities and IMF staff calculations.

8. As a result of currency depreciation and arrears accumulation, public debt jumped by 7 percentage points to 47 percent of GDP at end-September.[3] About 58 percent of public debt is external and subject to exchange rate valuation effects. The debt sustainability analysis nonetheless shows that public debt is still sustainable, despite a high risk of debt distress related to institutional fragilities and exceptional vulnerability to natural disasters.

9. The authorities succeeded in partially containing monetary financing of the government in FY2019. In FY2018, the higher deficit and lower external financing pushed total financing by the BRH of the NFPS to 4.1 percent of GDP. In FY2019, BRH financing remained within the range set in the January 2019 *Pacte de Gouvernance* (henceforth "*Pacte*," Box 1) but inflation rose due to a lagged impact from the 2018 surge in BRH credit to the government as well as supply shortages (food). The BRH sterilized part of this financing by raising interest rates on BRH bonds by 400-1000 basis points in June (depending on the maturity) and reducing net foreign assets. Despite these efforts, base money grew by 26 percent during the fiscal year and net international reserves (NIR) fell to US$649 million in September.[4] The BRH cut rates on BRH bonds by 500–700 basis points on November 15th to support the private sector after a few months of "*peyi lock*" (nation-wide lock-down).

10. The external current account deficit has narrowed but the overall external balance has deteriorated. The current account deficit is estimated to have shrunk from 3.9 percent of GDP in FY2018 to 2.0 percent of GDP in FY2019 owing mostly to higher remittances but also to weak import growth. The tourism sector has been negatively affected by social unrest while net capital inflows and FDI have mostly dried up. The exchange rate depreciated by more than 25 percent in the first 9 months of FY2019 but was stable between June-November.

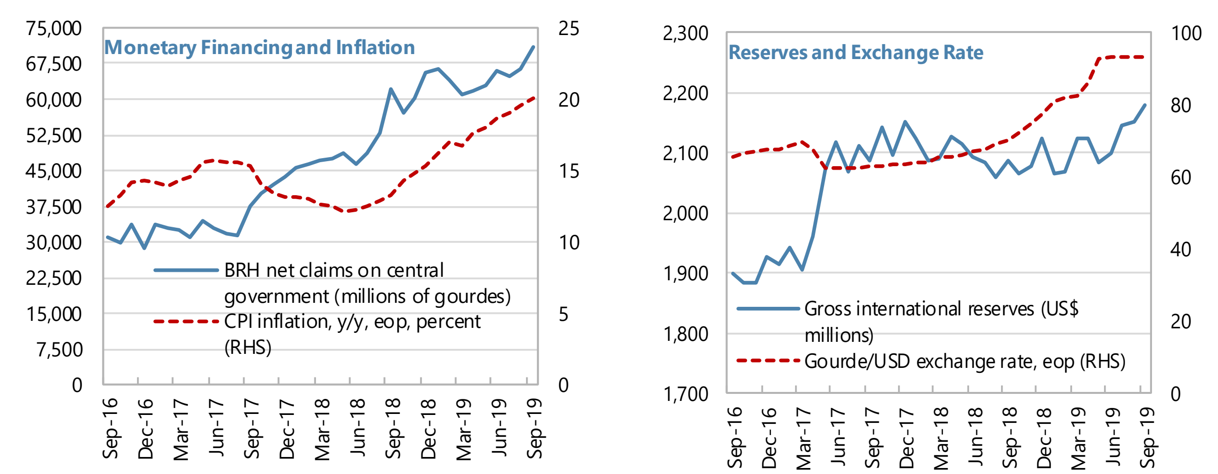
11. The authorities are making considerable efforts to limit the deterioration. The ministry of finance announced in October its intention to present a budget for 2020, despite the

[3] This includes the debt of the government to the central bank of 12.2 percent of GDP.

[4] A methodological change resulted in a downward revision of gross reserves by US$68 million at end-September 2018. Historical series were revised accordingly (Table 4) .

end of the parliamentary session, and reiterated its decision first announced in February to end most customs duties exemptions in order to boost revenue collection.[5] The ministry also proposed short-term measures to contain energy subsidies, such as a rise in the price of aviation gasoline, the conversion of public transportation vehicles to propane, the temporary suspension of subsidies to EDH, and collection of amounts allegedly due the government by power producers for over-invoicing. On November 27, the BRH and ministry of finance signed a new *Pacte* to limit financing of the deficit for FY2020 to 10 billion gourdes, about 1.2 percent of GDP.

12. Available data suggests that the banking system was negatively affected by high interest rates and weak domestic demand. Non-performing loans (NPLs) rose rapidly in 2019, which suggests the need for a cautious assessment of banking sector stability risks. Banks dominate the financial sector but play a limited role in the economy and financial inclusion. The ratio of private sector credit to GDP (in both gourdes and dollars) has stabilized at around 19.7 percent. Profitability assessed in local currency remains high on average, with return on equity declining from 23.9 percent in September 2018 to 21.1 percent in June 2019 as provisions have increased more slowly than NPLs. Regulatory capital to risk-weighted assets was 21.7 percent in June 2019, well above the regulatory minimum (12 percent). Risks from currency mismatches are limited as current prudential regulations limit banks' net open foreign exchange position to 2.0 percent of equity and the two systemic banks report more assets than liabilities in foreign currency. The main vulnerabilities come from the concentrated lending portfolios and relatively underdeveloped credit risk management practices.



Sources: National Authorities and IMF staff calculations.

OUTLOOK AND RISKS

13. Absent sustained implementation of good policies and comprehensive reforms, medium-term growth prospects remain grim. The baseline scenario assumes some political stabilization in FY2020 but not enough to deliver material progress. This would allow the formulation of a notional budget for FY2020 but growth would remain negative at -0.4 percent.

[5] In the absence of an annual budget, the law directs the state to implement the last legally approved Budget Law. As of October 1, the government had reverted to the 2017/18 Budget Law.

Without measures to boost productivity, potential growth under the baseline is projected to remain below 1.5 percent over the medium term.[6] External capital flows are expected to decrease further in 2020 before recovering in subsequent years and inflation would ease to 17.5 percent (y/y) by end-2020, falling to below 10 percent by 2025. Short-term measures to contain energy subsidies combined with further spending cuts would imply a reduction in the fiscal deficit to 3.1 percent of GDP by 2021 where it would stabilize thereafter. Fiscal policy remains severely constrained by a lack of financing and would need to rely on accumulation of arrears for several years to close the gap. Beyond 2020, tax revenues are expected to recover somewhat with a normalization of revenue collection and boost from recent measures such as suspension of all tax exemptions except for those covered by treaties and diplomats. Fiscal losses to the energy sector as a share of GDP would decline gradually in real terms in line with international fuel prices and modest measures to reduce EDH losses, but would remain above the long-term average of about 3.0 percent of GDP (Table 2). The external current account deficit would shrink to 0.9 percent of GDP in 2020 as demand and imports remain weak. The external sector assessment suggests that Haiti's external position at present is moderately weaker than medium-term fundamentals and desired policies (Annex III).[7]

14. Risks are on the downside, but stability could bring important upsides (Annex II). Internal risks include a continuation of political instability and security problems, little economic reform, and extreme natural disasters. On the upside, a resolution of the current crisis, appointment of a government committed to reform, and return of support from the international community could lead to higher investment and potential growth. Externally, Haiti is vulnerable to oil price shocks and a reduction in remittance flows, triggered possibly by the termination of "Temporary Protected Status" of Haitian nationals in the U.S. or a slowdown in the U.S. and Canada. In an adverse scenario, cancellation of trade preferences, for example the U.S. HOPE Act, would hurt Haitian exports and could lead to FDI outflows in the textile sector, the main thriving export sector.

Authorities' Views

15. The authorities broadly agreed with the staff's baseline growth projection and risk assessment. They indicated the report would benefit from the presentation of alternative, more positive macro scenarios. They emphasized the severity and unprecedented duration of the current crisis, which is forcing them to rethink existing plans. They indicated that the political crisis was a result of the relentless poverty and inequality in Haiti and could not be resolved independently of the latter, and which would require external support. A particularly worrying development is the deterioration of the security situation and growing role of armed gangs. That said, they agreed that a resolution to the political situation and resumption of activity in early-2020 could lead to a rebound and would support a higher growth trajectory than forecast by staff. They emphasized in

[6] This number accounts for the average cost of likely natural disasters. It is slightly above projected population growth, resulting in a modest increase in per capita GDP.

[7] The positive policy gap means, however, that desired policies would worsen, not improve, the current account deficit, suggesting significant structural competitiveness problems.

particular that creating jobs and boosting growth should be the priority objectives of any reform program.

POLICY DISCUSSIONS—MACROECONOMIC STABILITY

Discussions focused on: (i) immediate policies to limit the economic deterioration in the current environment and build capacity, strengthen governance, and tackle corruption; and (ii) medium-term policies that would require improvements in political stability. Staff recognize the serious challenges to implementation posed by the current political and security situation. As such, the emphasis was on short-term measures that would be feasible under the current circumstances, supported with capacity building technical assistance (TA) from the Fund. In addition to fiscal and monetary policy reforms, staff recommended the authorities also focus on strengthening the social safety net and reforming the energy sector.

A. Fiscal Policy

16. As an immediate priority, the authorities should prepare and publish a budget framework for FY2020. As a first step toward restoring fiscal stability, the government needs a notional budget with a deficit target consistent with financing constraints. The notional budget should include measures to stabilize domestic revenues by strengthening tax administration (¶19) and reducing tax expenditures. Exemptions under the three main taxes—income, sales (*taxe sur le chiffre d'affaires*), and import duties—amount to at least 2.6 percent of GDP.[8] The framework should also include a plan for the resolution of the stock of budget arrears. In the absence of budget guidance or obvious financing sources, staff project a deficit of the NFPS of 3.4 percent of GDP in FY2020. Gross financing needs, including debt amortization, would be met by domestic debt issuance, the central bank up to the limit under the *Pacte*, and further arrears accumulation (¶23-24, Tables 2a-b).

17. Over the medium-term, staff recommend a deficit target for the NFPS of 2.0 percent of GDP. This target is consistent with staff estimates that BRH financing of about 1.2 percent of GDP would not increase inflation in the medium term, assuming that the money base grows at the same rate as nominal GDP. Net project loans of about 0.8 percent of GDP per year would cover remaining financing needs under this framework. Staff estimate that a target of 2.0 percent of GDP would allow the debt ratio to decrease slightly over the medium term, leaving some room to accommodate adverse shocks.

18. Reaching even that goal will require significantly increasing domestic revenue collection. Staff recommend strengthening the capacity of the Directorate General of Taxes (DGI) and the Customs Administration (AGD), establishing a function-based organizational structure, enhancing their data exchange and use of third-party information to detect compliance risks, consolidating the registry of large taxpayers, and reducing tax expenditures. Efforts to advance

[8] *Évaluation de dépenses fiscales en Haïti* —European Union, France, Haiti (April 2019).

computerization of customs operations and increase the use of online tax payments should also continue (see Annex IV).

19. The authorities should continue modernizing tax policy. They should follow through with implementation of the tax reform roadmap adopted in March 2018. In addition to drafting and advancing adoption of the new Tax Code and Procedure Code, other measures needed include excise tax reform, improvement of the framework for municipal taxation and, as noted above, reductions in tax expenditures. These reforms, including eventually a transition from the current sales tax to a VAT, should increase revenues over the medium term if properly sequenced and implemented.

20. Current expenditures should be reallocated to growth-enhancing capital and social spending. The public-sector wage bill and spending on goods and services need to be rationalized, including by adjusting the public workforce with attrition, adopting a price reference list for procurement of goods and services, and better enforcing spending controls (¶22). Spending on goods and services represents 20 percent of total spending, above the regional average. Transfers to the loss-making energy sector will need to be eliminated over time after mitigating measures are taken to compensate the impact of reform on the poor (Section C).

21. Strengthening public finance management (PFM) would improve governance and reduce the scope for misuse of public funds. In line with TA recommendations, Haiti should continue expanding coverage of the Treasury Single Account (TSA) to all ministries, autonomous agencies, and public enterprises. Other TA recommendations could be implemented regardless of the political turmoil, including ending recourse to "exceptional" spending procedures that undermine cash management. The authorities should also adopt a medium-term fiscal framework (MTFF) with the NFPS deficit target as the main anchor. This would aid in annual budget formulation, impose stronger fiscal discipline, and allow the government to sustain a stronger pace of public investment while keeping the overall deficit in line with the medium-term goal of fiscal sustainability. The Fund stands ready to continue providing TA in these areas.

Authorities' Views

22. The authorities reiterated their determination to put in place an appropriate budget. However, given the technical difficulties they face to obtain parliamentary approval, they are formulating a budget framework that would be adopted by the government for the purposes of programming expenditures and cash management. They stressed that security problems and "*peyi lok*" seriously impeded taxpayers from physically delivering tax payments, and tax and customs officials from going to work. Progress on revenue reforms was also stopped. That said, they concurred with the need to raise domestic revenues and took note of staff's short-term suggestions to strengthen tax administration. They highlighted additional measures underway to reduce monetary financing of the NFPS deficit, including exploring options to reduce transfers to the energy sector that could generate more savings compared to staff's baseline projections, such as negotiating a temporary reduction in transfers to *EDH* and seeking refunds from independent power producers (IPPs) related to alleged *sur-facturation* (over-invoicing). They would prefer to set a range for the medium-term deficit target to account for the uncertainty surrounding growth and investment projections.

Box 2. Near-term Measures to Restore Macroeconomic Stability

Fiscal:

- Prepare and publish a notional budget for 2020, as announced in October.
- Remove customs duties exemptions and reduce tax exemptions.
- Further rationalize non-essential spending.
- Prepare a plan for the resolution of arrears.

Monetary:

- Enforce the new *Pacte de Gouvernance* between the BRH and the ministry of finance.
- Reduce base money growth.

Governance:

- Set up the steering committee envisaged under the 2009 National Anti-Corruption Strategy, with independent representatives from civil society.
- Strictly enforce the asset declaration system for senior public officials.

Social Protection:

- Formally adopt the *PNPPS*.
- Set up a robust cash-transfer distribution system.
- Design and launch a cash-transfer pilot-program (for families with young children).

Energy Sector Reform:

- Overhaul the management and performance of EDH, including billing and collection.
- Renegotiate contracts with independent producers in a transparent manner.

B. Monetary, Exchange Rate, and Financial Sector Policies

23. **While the *Pacte* aims to address fiscal dominance, a financing gap will persist.** Staff commend the renewal of the *Pacte* to maintain fiscal discipline and limit monetary financing of the deficit. Unfortunately, with the difficult economic situation, external financing support not available, and a shallow market for domestic debt, staff estimate there would remain a financing gap of 3.1 percent of GDP in 2020—met by arrears accumulation under the baseline (Table 2). Staff assessed the trade-off of different approaches and on balance, judged that this approach, compared to massive monetary financing of the deficit, was the least-worst option since it would imply lower inflation thereby less erosion of purchasing power of the poor, and would pose less risk to macro and financial stability. At the same time, the negative consequences of arrears accumulation are non-trivial and likely to involve shortages of goods like fuel, interruptions in public services like electricity, lower growth, and erosion of confidence in fiscal policy. In this regard, it will be critical for the fiscal authorities to mobilize revenues in the near-term and limit expenditures until policy reforms can occur.

24. **Looking further ahead, a quantitative monetary target should become the policy anchor as fiscal dominance declines.** This would help the BRH resist pressure to finance the government or support the exchange rate for reasons beyond those laid out in its policy framework. The BRH requested TA to help with the development of a secondary market for government debt securities but should also advance work on the transition to IFRS, amendments to the central bank law, improvements in foreign reserve management and foreign exchange

regulation, and development and strengthening of the quality of monetary statistics—with calculation of foreign exchange reserves consistent with IMF guidelines.

25. Foreign exchange interventions should be limited to instances of disorderly market conditions. In recent years, the BRH has allowed the exchange rate to adjust in an orderly fashion, selling reserves in response to external shocks like a drop in remittances while using prudential measures, including reserve requirements, to limit banks' vulnerability to forex liquidity risk. While the exchange rate has been remarkably stable during the second half of 2019, intervention should be limited to smoothing volatility or stabilizing market expectations in the short term, given the large and rapid exchange rate pass-through to consumer prices.

26. Improvements in financial intermediation are needed to support growth. Credit to the private sector represents about 19 percent of GDP, only 33 percent of the adult population has an account at a formal financial institution (Findex), and 75 percent of bank lending goes to only 20 borrowers. This reflects weaknesses in the legal and institutional framework, including contract enforcement, and limited competition between banks. With investment in infrastructure connectivity, developing fintech and mobile banking would be critical for raising access to finance and promoting financial inclusion. These efforts could be supported by the BRH as part of its 2015 National Financial Inclusion Strategy.

27. Safeguards assessment. An update safeguards assessment of the BRH was completed in 2019, noting that the central bank continues to face significant safeguards risks. Fiscal dominance has strained its financial position and legislative reforms are required to strengthen its autonomy and governance arrangements and curb financing of the government. While the BRH has taken steps to reduce delays in completion of its annual audits, measures are still needed to reinforce financial accountability and transparency, including by transitioning to International Financial Reporting Standards (IFRS), revamping foreign reserves management, and tightening controls over the reporting of monetary statistics. Steps towards transition to IFRS have been initiated and the BRH requested Fund TA to prepare legislative amendments to the central bank law.

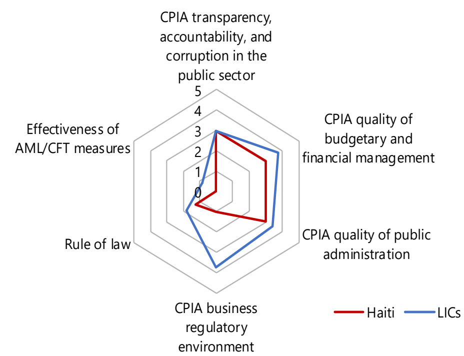
Authorities' Views

28. The authorities discussed the challenges faced in the conduct of monetary policy in the current environment. They concurred with staff's assumptions on the composition of deficit financing as they intend to keep BRH financing at levels agreed under the *Pacte* in order to avoid excess liquidity creation given the high pass-through and direct impact on the exchange rate and inflation. In their view, the financing gap would be smaller, and the risk of arrears addressed since they expect that efforts underway and controls in place would limit fiscal financing needs. Their medium-term strategy aims to crowd in domestic private financing by accelerating reforms to deepen the market for government securities. The BRH explained that its reaction function currently puts more weight on the exchange rate than on money supply as the high dollarization of deposits complicates quantitative money targeting. They continue to view excessive exchange rate fluctuations as undesirable and agreed with staff on the need to intervene in the market as needed to avoid excess volatility. With regards to banking supervision, the BRH is committed to continuing the transition to risk-based supervision and to advancing reforms to promote financial inclusion, particularly raising access to finance for small business and moving forward with Fintech innovations.

C. Governance and Transparency

29. Governance weaknesses continue to plague Haiti despite the authorities' prior commitments to combat corruption (Annex IV). Notwithstanding some progress enhancing accountability and transparency, notably with regard to PFM, the draft law aimed at strengthening the anti-corruption unit (*Unité de Lutte contre la Corruption*, or ULCC) was never submitted to parliament and the steering committee tasked with monitoring implementation of the 2009 anti-corruption strategy was never established. Overall, the anti-corruption framework is not adequately deterring corruption. Relevant agencies lack the legal powers and financial means to fulfill their mandates and the prosecution and sanction of corruption offenses is limited. Staff recommend revamping the anti-corruption priorities and setting up the steering committee with participation from independent members of civil society to monitor implementation. The asset declaration system for senior public officials should be implemented in line with international best practices, including by verifying the accuracy of the declaration, sanctioning omissions and false reporting, and ensuring public access to declarations. Anti-money laundering (AML) measures would support anticorruption efforts, particularly by strengthening banks' implementation of due diligence requirements on politically exposed persons and enhancing transparency by making related beneficial ownership information available.

Governance Issues in Haiti



Sources: World Bank, World Development Indicators; Worlwide Governance Indicators; FATF, Consolidated Asssessment Ratings; and IMF staff calculations.
Note: Variables have been normalized (0=lowest level/rank, 5=highest level/rank).
Low income countries (LIC) are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of $1,025 or less in 2018. For the effectiveness of AML/CFT measures, the average of LICs was calculated using available data from Burkina Faso, Ethiopia, Haiti, Madagascar, Tajikistan and Uganda.

30. Regulatory reforms should aim at reducing barriers to entry and rigidities that create opportunities for rent seeking and corruption. Reforms are needed to better guarantee property rights and reduce business and import monopoly powers. A more level-playing field is needed to stimulate competition, increase foreign investment, and promote private sector growth. These regulatory efforts should be accompanied by select infrastructure projects that tackle the worst physical bottlenecks and public investment to improve the power grid and telecommunications network.

Authorities' Views

31. The authorities agreed that rooting out corruption and long-standing governance problems is a priority and essential for ensuring sustainable growth. They highlighted the progress achieved since the 2009 national strategy, including the strengthening of the anti-corruption legal framework, although they recognized implementation challenges. They described the process underway to prepare a new strategy for the next decade. More generally, they agreed that Haiti would benefit from reforms to strengthen property rights, reduce red tape, and create a level playing field for all businesses.

D. The Social Safety Net

32. Staff commend the authorities for their progress on the new policy *PNPPS*, despite the political turmoil. The *PNPPS* is a national initiative led by the ministry of social affairs and labor (*MAST*), the ministry of planning and external cooperation, and involving the ministries of health, education, and women's' condition, and other public organizations. A draft was submitted for national consultation in June 2019 and a revised draft was expected to be presented for approval by the Council of Ministers by end-2019. This inclusive and comprehensive approach is a good starting point to prepare a home-grown, more effective social safety net—a prerequisite for the success of other structural reforms. Staff urge the authorities to follow through with the timetable for finalizing the *PNPPS*.

33. The goals of the *PNPPS* are to reduce program overlap and boost coverage, effectiveness, and ownership. The existing array of programs is complex and ineffective, with inadequate coverage, overlaps and weak delivery systems (see Selected Issues Papers (SIP) on social protection and inequality). Staff support the approach of eliminating some programs and giving *MAST* the primary coordination role but encourage the authorities to focus on a limited number of unconditional, quasi universal cash transfer programs that are simple in design and have proven effective in other low-income countries. In coordination with the World Bank, staff urge the authorities to design and launch a new pilot program as soon as possible. They should continue expanding the coverage of the beneficiary information system (*SIMAST*), which can be used to identify beneficiary groups and improve the delivery of health and education services. The *PNPPS* should be based on a sustainable funding strategy as external support is phased out: while external financial flows may launch a pilot program and complement the *PNPPS*, funding for social protection should come primarily from domestic budget resources.

34. Effective transfer programs require the development of a strong system for the distribution of benefits. Methods for the distribution of cash transfers should be clarified quickly by drawing on lessons learned from programs set up after Hurricane Matthew and successful examples in other countries, adapted to prevailing technological and financial infrastructures. Haiti could draw on expertise from the World Bank and other partners. The mechanism chosen should be subject to regular and transparent monitoring and evaluation involving independent, non-government representatives in order to reduce the risks of mismanagement.

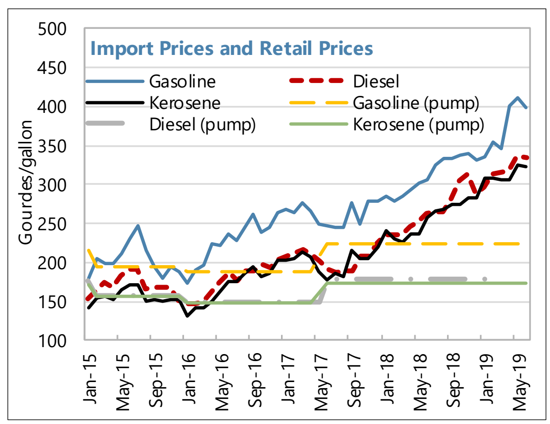
Authorities' Views

35. The authorities stated clearly that poverty reduction is the number one priority and a prerequisite for the success of any future reforms. They share staff's diagnostic that the lack of coordination between various programs and providers has led to overlap and inefficiencies. They stated that strengthening the social safety net should be accompanied by employment programs and stronger growth. They expressed concern that unconditional cash transfer programs could hinder their ability to target scarce resources and lead to unintended consequences. The BRH emphasized that the 2015 national financial inclusion strategy could play an important role in helping to reduce poverty by supporting job creation, raising access to credit for entrepreneurs, and facilitating payments between individuals with Fintech advances.

E. Reform of the Energy Sector

36. Achieving higher rates of economic growth will not be possible without comprehensive reform of the energy sector. Only 39 percent of Haitians have access to electricity. For those getting electricity from the grid (*EDH*), more than half are not billed. The rest of the population relies on diesel or charcoal-powered self-generation. Poor governance at *EDH* and flawed controls have led to large losses, including from theft at collection points, middlemen who intervene in the provision of electricity, non-payment by government entities, and illegal connections to the grid (see SIP). The fuel market is in flux with the end of the government import monopoly, while fixed retail fuel prices since early 2015, with one exception in 2017, have led to efficiency losses and resource misallocation.

37. Given the growing fiscal cost of energy subsidies, staff recommend initiating gradual and comprehensive reform of the sector. As a percent of GDP, direct fiscal losses are estimated at 4.5 percent in 2018 and 6.4 percent in 2019 (Box 3). Earlier progress under the SMP with respect to *EDH* accounting, billing, and contracting practices should be taken forward more aggressively. The management and oversight of *EDH* needs to be overhauled and costs, prices, and purchases from IPPs reviewed when their contracts expire. Any eventual approach to fuel subsidy reform should be well sequenced and differentiated to affect higher income groups, preceded by targeted measures to offset the impact on key groups, particularly the transportation sector, and include a clear communications plan that lays out in advance the rationale, timing and end-goals. It is essential that offsetting social programs be in place before engaging in reforms with redistributive implications.

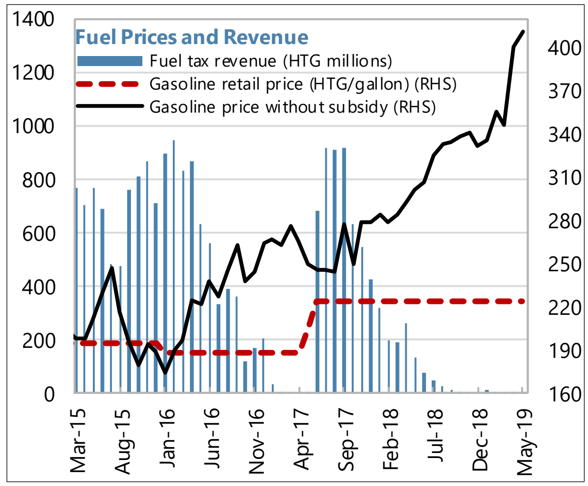


38. The transition to a cleaner energy mix and off-grid electricity offer opportunities for greater pluralism (a mix of private and public sector)[9]. The private sector can play a role in financing the investment required to increase the use of renewable energy sources, namely biomass, solar and wind, and complement the government's efforts to provide electricity to rural areas**.** Clean energy plans and energy sector reform would help alleviate the adverse social and economic impact of environmental degradation and move Haiti toward its climate change mitigation targets. An island country vulnerable to climate change and natural disasters, Haiti would in due course benefit from a Climate Change Policy Assessment which would help identify relevant adaptation, financing, and risk management strategies.

[9] Rethinking Power Sector Reform, World Bank (2019)

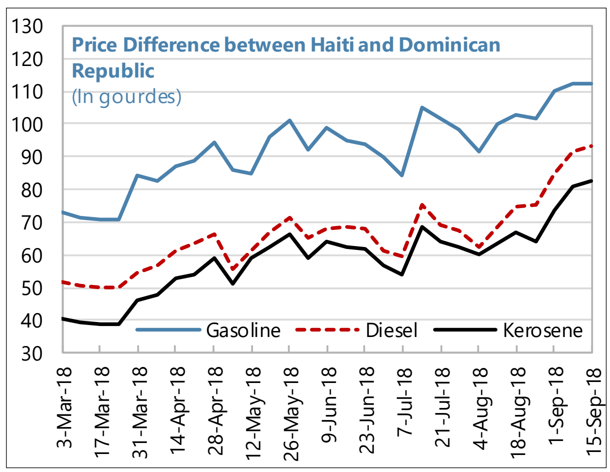
Box 3. The Fiscal Cost of Energy Subsidies

- **The energy sector in Haiti generates large fiscal and economic efficiency losses.** Direct fiscal losses from the fuel and electricity sectors are estimated at 4.6 and 6.5 percent of GDP in FY2018 and FY2019 respectively (SIP). In FY2018, these comprised foregone tax revenues and transfers to cover the *EDH* losses (1.8 percent of GDP) and fuel price subsidies (2.7 percent of GDP), among other things. Retail fuel prices have been administered since 2011, despite swings in international prices and gourde depreciation. When the fixed price was not sufficient to cover payments to suppliers, excise taxes and custom duties were waived. As the retail and import prices diverged further, the government provided direct transfers to distributors in addition to forgoing taxes and duties.



- **With administered fuel prices lower compared to prices in the region, smuggling has risen.** Retail fuel prices in Haiti are now about 50 percent lower than in neighboring Dominican Republic. This large difference has created an incentive to smuggle petroleum products to the DR, increasing the budgetary burden for Haiti.

- **Chronic losses at *EDH* have been covered by the budget.** The state subsidizes the electricity sector in four ways: (i) foregone tax revenues—collected by *EDH* but never transferred; (ii) the provision of free fuel to thermal plants; (iii) payment guarantees in the form of electricity purchases from IPPs on behalf of *EDH*; and (iv) the payment of fuel purchased by Sogener, supposedly in exchange for incomplete payments by *EDH* for electricity supplied. EDH routinely pays late charges on its billings from IPPs, continues to maintain unpaid debts to them, and in the past has borrowed from the state bank *Banque Nationale de Crédit* to fund operations. The financing of *EDH* (through transfers, arrears, and loans) is neither clear nor transparent.



FY2017/18 Subsidy Components	% of GDP
Fuel	**2.7**
EDH and others	**1.8**
(i) Sales tax collected by EDH but not transferred	0.1
(ii) Free fuel to EDH and PBM power plants	0.6
(iii) Electricity purchase from IPPs on behalf of EDH	1.0
Subtotal: EDH subsidy	1.7
(iv) Free fuel to Sogener power plants	0.1
Total Energy Sector	**4.6**

Sources: National Authorities and IMF staff calculations.

Authorities' Views

39. The authorities concurred with staff that energy sector reforms would improve the productivity of fiscal spending and remove an important constraint on growth. They agreed that the fiscal costs of the current system were unsustainable but noted that painstaking efforts were needed to prepare in advance for reform, including to offset its impact on the poor. They agreed that addressing high technical and commercial losses and weak management at *EDH,* and poor governance in the sector would reduce quasi-fiscal deficits

F. Statistical Issues

40. Improving the quality of economic data is essential given shortcomings that hamper surveillance. The biggest priorities relate to national accounts and labor indicators, while fiscal and external sector data need improvement in coverage and timeliness. With Fund-supported TA, the authorities should produce revised monetary statistics and reduce publication lags. In particular, improving the timeliness and quality of the Standard Reporting Forms (SRFs) for monetary statistics—with calculation of foreign exchange reserves consistent with IMF guidelines—is a priority.

STAFF APPRAISAL

41. The costs of the current political crisis are taking a heavy toll on the economy and an already vulnerable population. Growth is expected to be negative in 2019 and 2020 while inflation is running at about 20 percent. This has reduced the purchasing power of households, especially the poorest. External budgetary assistance has nearly dried up, domestic revenues have fallen sharply, and budget arrears have risen. Under the gloomy but realistic baseline assumption of only a stabilization in the political situation (but no fundamental reform), potential growth is estimated at 1.4 percent over the medium-term. Haiti has potential for much stronger and more inclusive growth, but its realization will require some political stability and sustained implementation of good policies.

42. While acknowledging the considerable challenges faced by the monetary and fiscal authorities in the current context, the immediate priority should be to stabilize the macroeconomic situation. In the absence of a formal budget approved by parliament, the fiscal authorities should implement a budgetary framework for 2020 that would include measures to boost domestic revenues and contain non-priority spending. Staff recommended implementing actions laid out in recent TA to develop tax administration capacity, including improving sharing of data, using third-party data to detect fraud, consolidating the register of large taxpayers, and continuing progress to computerize customs operations.

43. Under present circumstances, the authorities face a daunting challenge to close the financing gap. From this angle, the costs of the ongoing crisis stand in stark relief. With options limited, it will be critical for the monetary and fiscal authorities to continue to coordinate closely to manage risks, mobilize revenues in the near-term, and limit expenditures until reforms can be implemented. The IMF continues to provide policy advice and technical assistance and stands ready to help with more intensive support when political conditions permit.

44. **Looking further ahead, the fiscal authorities will need to shift resources away from non-priority spending toward social programs and investment**. Strengthening PFM should improve governance, including by adopting reference prices for the purchase of goods and services, tighter controls on spending, and gradually reducing transfers to the energy sector. The government should expand coverage of the TSA to all ministries and public entities, enforce proper accounting and audits, and prepare a resolution plan for arrears. It would be useful for Haiti to adopt a medium-term budget framework anchored around a target for the NFPS deficit. Staff stand ready to provide additional TA in the areas of tax administration and PFM.

45. **The central bank should continue to allow the exchange rate to adjust in an orderly fashion.** When the fiscal dominance issue is addressed in due course, monetary policy should set a quantitative growth target for the money supply so as to resist pressures to monetize the deficit or support the exchange rate for reasons other than to smooth excess volatility. The BRH should work to advance key institutional reforms in the areas of foreign reserve management, the transition of financial reporting to IFRS, amendment of the central bank law, and improvement in the quality of monetary statistics. The Fund stands ready to provide further TA in these areas. To deepen financial intermediation and access to financial products, staff urged the monetary authorities to accelerate efforts to develop financial technology. Over the longer term, reforms are needed to address weaknesses in the legal and institutional environment, in particular with regard to the enforcement of contracts.

46. **Corruption remains an obstacle to prosperity and key actions could be implemented in the short-term**. The authorities should update the anti-corruption strategy, set up the steering committee with independent representatives from civil society, and implement the asset declaration system in line with international best practices. AML measures should support the fight against corruption and include insisting on verification and 'know your customer' rules. Regular audits of public companies and administrations by the High Court of Auditors should be enforced and published. Staff also encourage the government to present a new draft law to parliament (when possible) to strengthen the anti-corruption framework.

47. **Existing resources devoted to social protection could be deployed more effectively.** IMF staff commend the authorities for their efforts to finalize the *PNPPS* and urge its adoption by the Council of Ministers. Within this framework, staff recommend the introduction of a limited number of cash transfer programs under the auspices of *MAST*. Existing programs not in line with the objectives of the *PNPPS* should be wound down. The information system *SIMAST* should serve as the basis for the identification of beneficiaries and its coverage expanded. The methods for the distribution of transfers should be clarified quickly and coordinated with the development of mobile and financial infrastructures.

48. Fundamental reform of the energy sector is needed for fiscal sustainability and higher growth. In the electricity sector, a drastic overhaul of the management and performance of *EDH* is the first priority, followed by the transparent renegotiation of contracts with independent producers. In the fuel sector, the original goal of fixing prices was to protect purchasing power, yet this logic has unraveled: subsidy costs and fiscal deficits led to monetary financing which contributed to inflation, depreciation and a vicious cycle of higher subsidy costs, deficits, monetary financing and inflation. Any reform must be developed in consultation with relevant stakeholders, be preceded by measures to offset the impact on vulnerable groups, and involve a strong communications plan *ex ante*. Staff discussed possible approaches with the authorities, including implementing reforms differentiated by product and phased over time, and accompanied by compensating measures, such as assistance to providers and users of public transport. The authorities are encouraged to include diversification of the energy matrix towards renewable, cleaner energy sources in their reform plan.

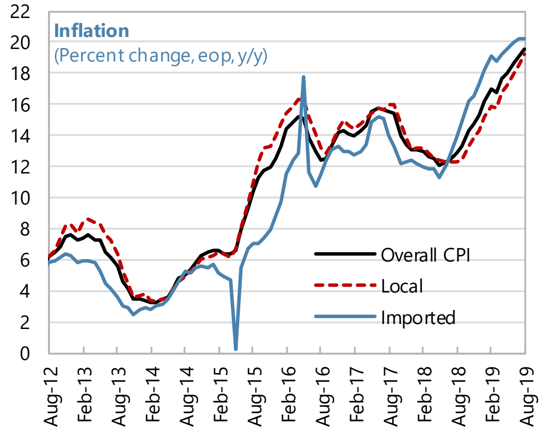
49. In the medium term, regulatory reforms are needed to open and level the playing field for private business. Haiti needs to ensure stronger property rights and remove import and industry monopolies to lower barriers to entry and raise investment. These regulatory efforts should be accompanied by infrastructure projects to address key bottlenecks and public investment to improve the electric power grid and the telecommunication network.

50. Staff urge the authorities to continue their efforts to improve the quality, coverage, and timeliness of statistical data.

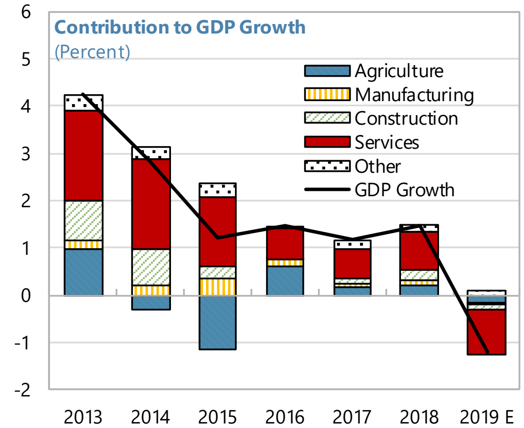
51. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Haiti: Real Sector Developments, 2013–19[1]

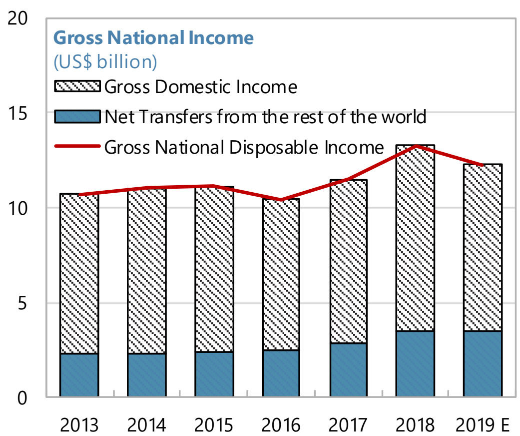
Inflation reached 20 percent in August (y/y).



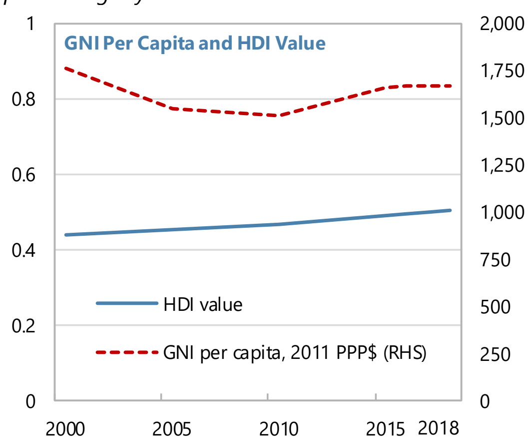
Services and agriculture accounted for most of the growth in recent years, but most sectors contracted in FY2019.



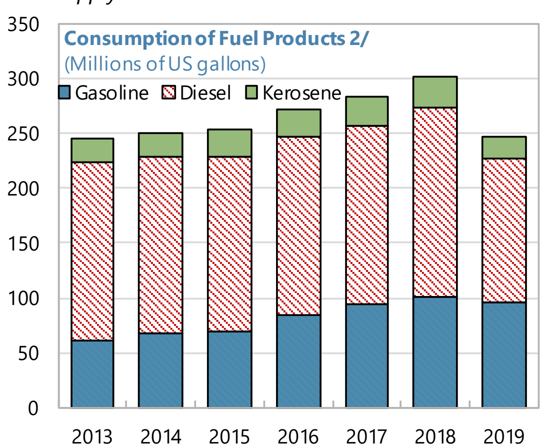
Net transfers, including remittances, reached 40 percent of GDP in FY2019.



GNI per capita has stagnated since 2000, though HDI has improved slightly.



Fuel consumption is projected to have declined in FY2019 due to supply and demand constraints.

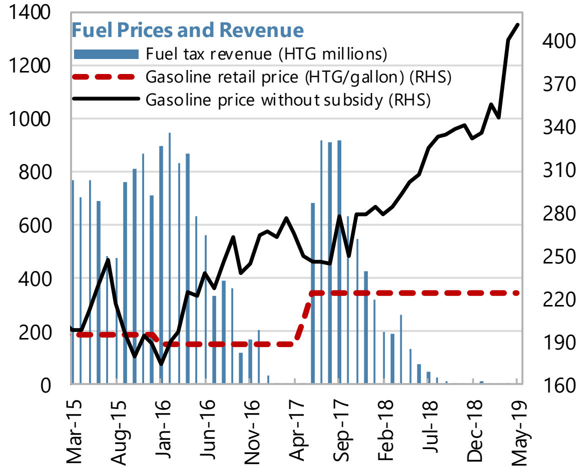


Unemployment is recorded at 13.5 percent.

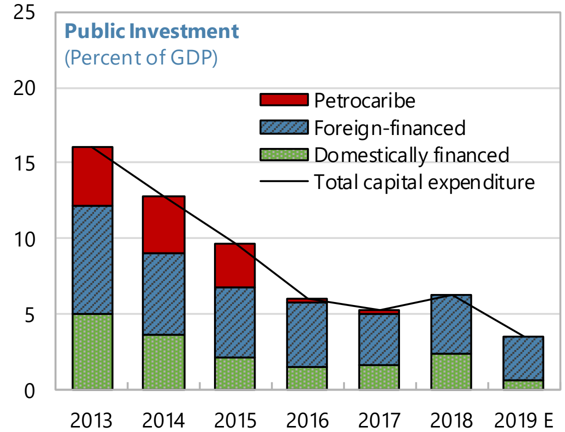
Sources: National Authorities; UNDP; World Bank; International Labour Organization (ILO) and IMF staff calculations.
1/ Data are in fiscal years, ending September 30.
2/ Data for 2019 is only available until August 2019.
3/ Modeled ILO estimate.

Figure 2. Haiti: Fiscal Sector Developments, 2013–19[1]

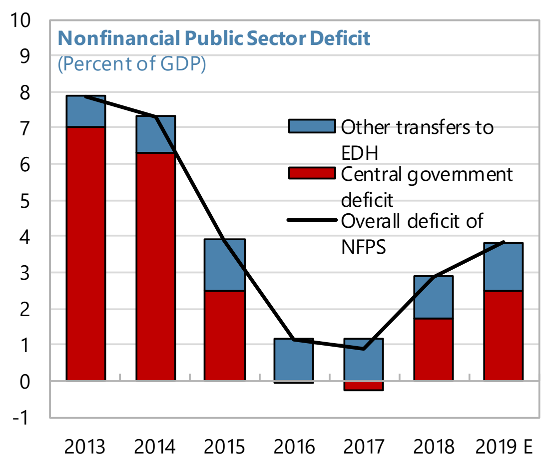
Fuel tax revenues have turned negative as the difference between world prices and fixed retail prices has widened.



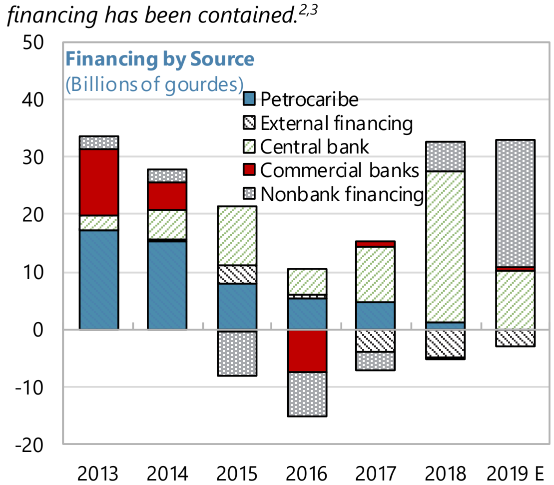
Public investment is projected to fall below 5 percent of GDP in FY2019.



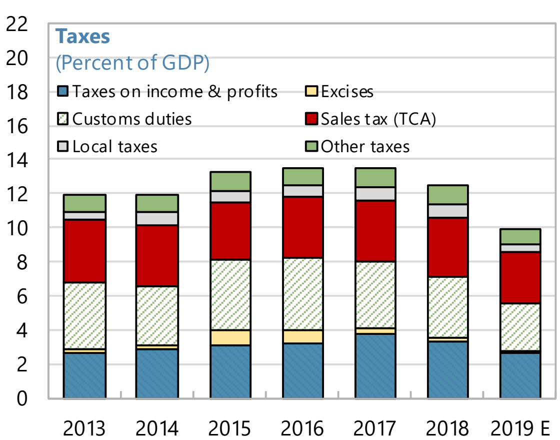
The NFPS deficit has deteriorated since FY2017…



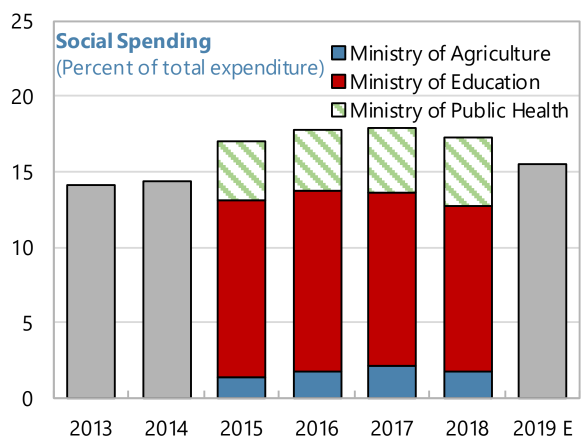
… accompanied by increasing domestic arears while BRH financing has been contained.[2,3]



Tax revenue collection is structurally low and has fallen…



… limiting the resources available for social spending.[4]



Sources: National Authorities and IMF staff calculations.

1/ Data are in fiscal years, ending September 30.

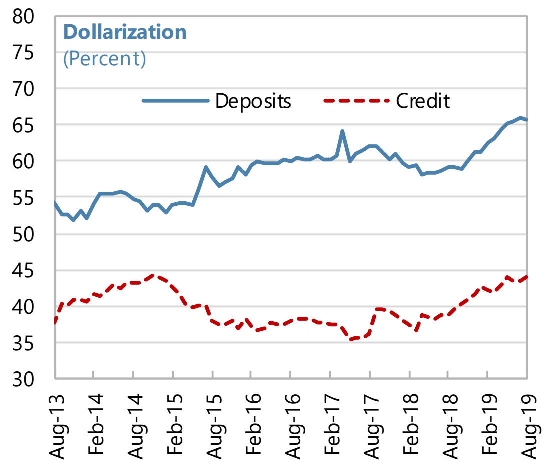
2/ External financing under Financing by Source includes project loan disbursements and external arrears net of amortization.

3/ Non bank financing under Financing by Source includes domestic supplier credits and domestic arrears.

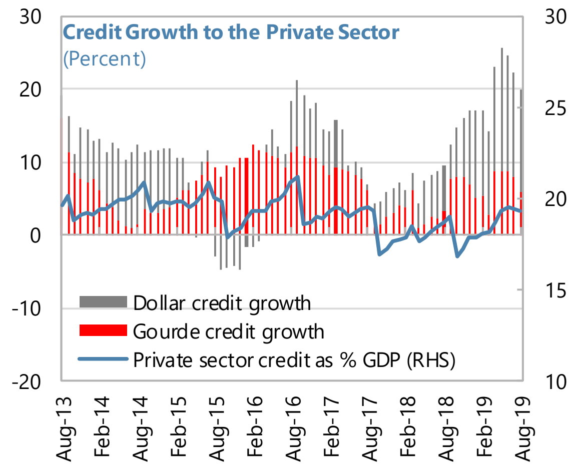
4/ Social spending includes health, education, and agriculture spending. No data breakdown between Ministries for years 2013-15 and 2019.

Figure 3. Haiti: Monetary Sector Developments, 2013–19[1]

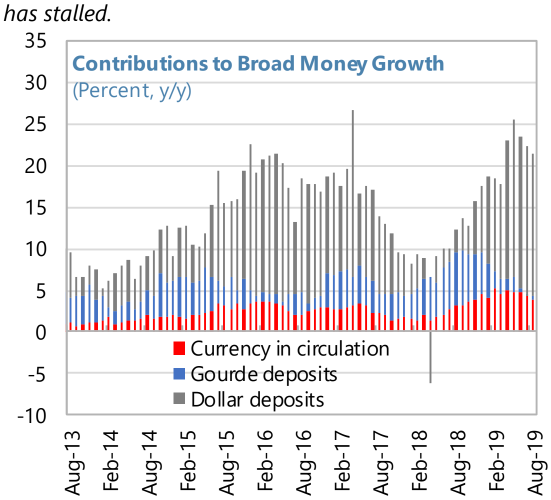
The dollarization of deposits is increasing…



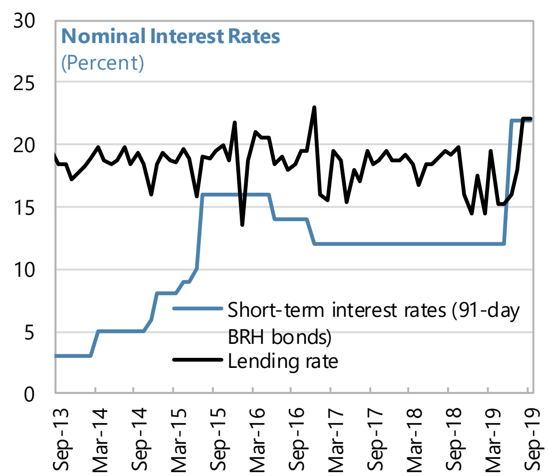
…fueled by the resumption of credit growth in dollars…



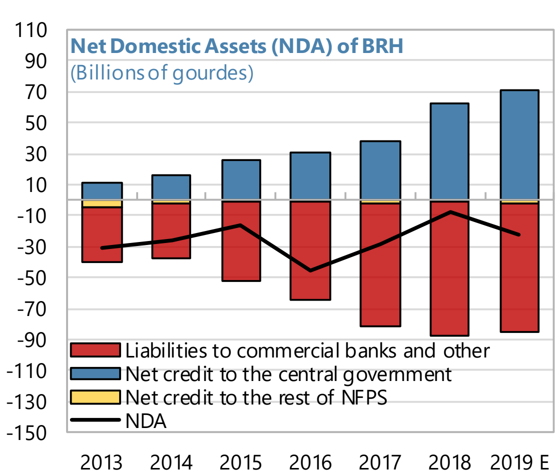
… and dollar deposit growth, while gourde deposit growth has stalled.



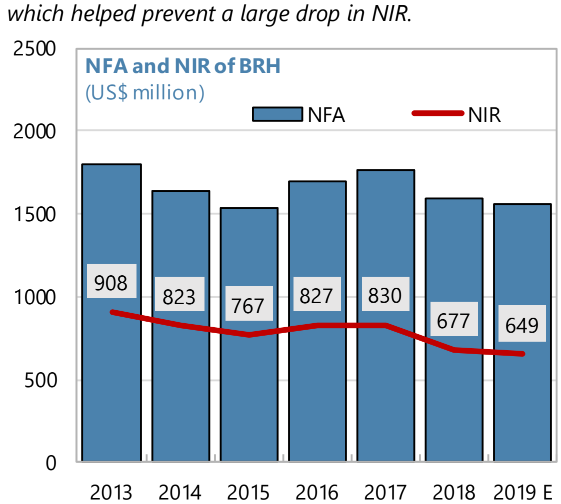
The BRH raised the rates on central bank CDs in June,…



…and has tried to contain NFPS financing…



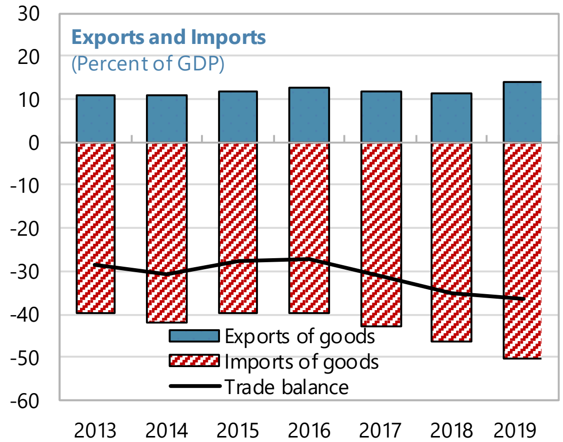
which helped prevent a large drop in NIR.



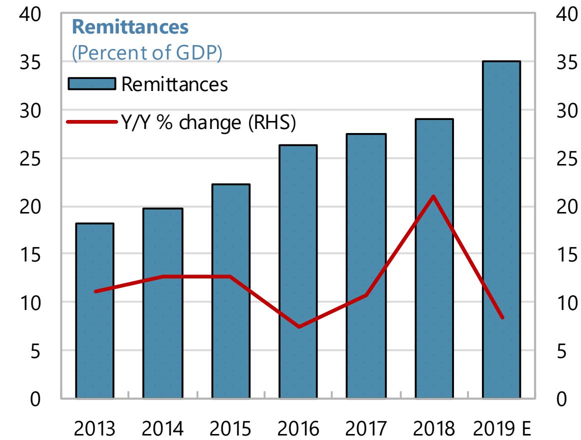
Sources: National Authorities and IMF staff calculations.
1/ Data are in fiscal years, ending September 30.

Figure 4. Haiti: External Sector Development, 2013–19[1]

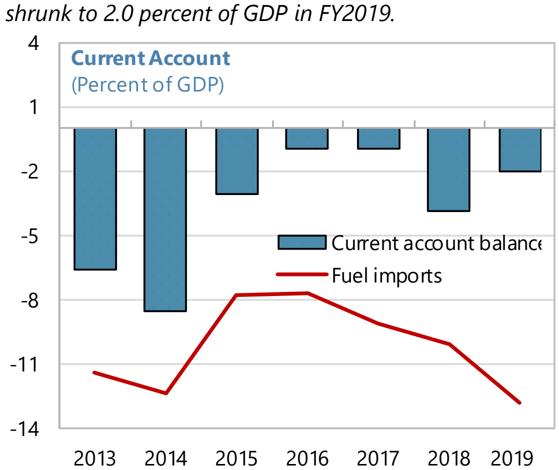
The trade balance as a share of GDP sank to its lowest point in 7 years...



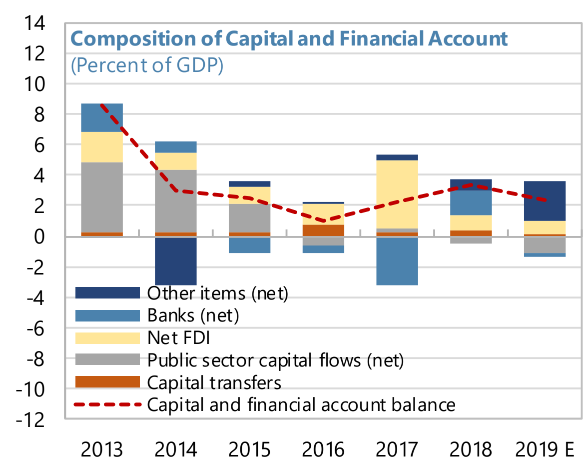
...partly offset by growth in remittances to an estimated 35 percent of GDP (US$ 3,043 millions) in FY2019.



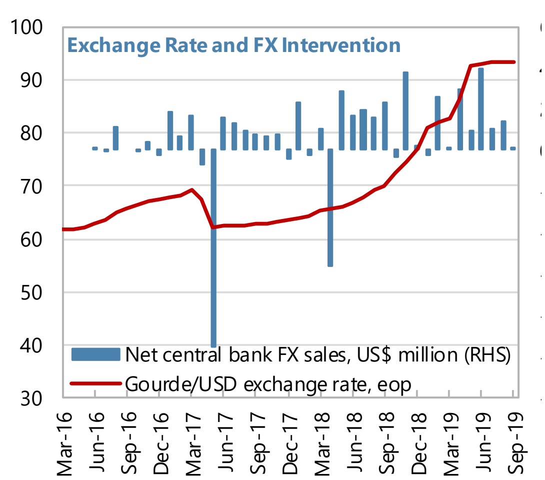
With weak imports, the current account deficit shrunk to 2.0 percent of GDP in FY2019.



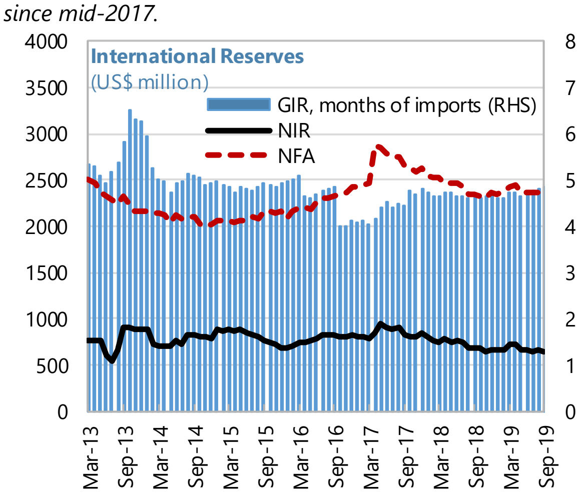
Led by a drop in FDI, net financial flows declined in FY 2019.



The gourde depreciated until June, then leveled off.



Import coverage by gross reserves has been largely stable since mid-2017.



Sources: National Authorities and IMF staff calculations.

1/ Data are in fiscal years, ending September 30.

Figure 5. Haiti: Social Indicators

Sources: UNICEF, WHO, World Bank, Global Poverty Working Group and IMF staff calculations.

1/ Latest available data. The poverty headcount ratio is the percentage of the given population living below the national poverty lines.

2/ HND, PAN, GTM, CRI, DOM,HTI and SLV denote respectively Honduras, Panama, Guatemala, Costa Rica, Dominican Republic, Haiti and El Salvador.

3/ Low income countries (LICs) are defined as those with a GNI per capita (calculated using the World Bank Atlas method) of $1,025 or less in 2018.

4/ Average for Central American countries was calculated based on 2016 data or latest available for each country.

5/ The HCI index score ranges from 0 to 1 and measures the amount of human capital that a child born today can expect to attain by age 18. It attempts to measure the productivity of the next generation of workers compared to workers with complete education and full health.

6/ For South America: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, Venezuela and Mexico.

Table 1. Haiti: Selected Economic and Financial Indicators, FY2017–24 [1]

(Fiscal year ending September 30)

(Fiscal year ending September 30)
Nominal GDP (2018): US$9.7 billion — GDP per capita (2018): $890
Population (2016): 10.847 million — Percent of population below poverty line (2012): 58

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
		Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Change over previous year; unless otherwise indicated)							
National income and prices								
GDP at constant prices	1.2	1.5	-1.2	-0.4	0.9	0.7	1.1	1.2
GDP deflator	13.4	12.8	17.3	19.0	15.9	13.1	11.4	10.4
Consumer prices (period average)	14.7	12.9	17.3	19.0	15.9	13.1	11.4	10.4
Consumer prices (end-of-period)	15.4	13.3	20.1	17.5	14.5	12.0	11.0	10.0
External Sector								
Exports (goods, valued in U.S. dollars, f.o.b.)	-0.9	8.8	11.3	3.7	2.2	2.8	3.4	4.3
Imports (goods, valued in U.S. dollars, f.o.b.)	13.6	24.0	-2.3	-2.3	1.7	3.3	4.1	4.3
Remittances (valued in U.S. dollars)	10.7	21.1	8.5	6.2	3.7	2.5	2.9	3.6
Real effective exchange rate (end of period; + appreciation)	12.7	2.8	-10.8	…	…	…	…	…
Money and credit (valued in gourdes)								
Credit to private sector (in U.S. dollars and gourdes)	4.5	12.5	9.9	14.6	17.0	14.0	12.6	11.8
Base money (currency in circulation and gourde deposits)	23.4	25.8	21.3	18.6	17.0	14.0	12.6	11.8
Broad money (excl. foreign currency deposits)	12.9	13.7	18.9	18.6	17.0	14.0	12.6	11.8
	(In percent of GDP; unless otherwise indicated)							
Central government								
Overall balance (including grants)	0.3	-1.7	-2.5	-2.2	-2.0	-1.7	-2.0	-2.0
Domestic revenue	14.0	13.0	10.8	10.0	11.1	12.1	12.5	12.9
Grants	3.7	4.3	2.8	3.4	3.0	3.0	3.0	3.0
Expenditures	17.5	19.0	16.1	15.6	16.2	16.8	17.5	17.9
Current expenditures	12.2	12.7	12.5	11.5	11.4	11.7	12.0	12.1
Capital expenditures	5.3	6.2	3.6	4.1	4.8	5.1	5.5	5.8
Overall balance of the nonfinancial public sector 1/	-0.9	-2.9	-3.8	-3.4	-3.1	-2.8	-3.1	-3.1
Savings and investment								
Gross investment	29.0	29.0	27.9	28.5	28.9	29.0	29.5	29.9
Of which: public investment	5.3	6.2	3.6	4.1	4.8	5.1	5.5	5.8
Gross national savings	28.0	25.1	25.9	27.7	27.8	27.5	27.3	27.6
External current account balance (including official grants)	-1.0	-3.9	-2.0	-0.9	-1.1	-1.5	-2.1	-2.4
External current account balance (excluding official grants)	-5.6	-7.9	-4.8	-3.2	-4.1	-4.5	-5.1	-5.4
Net fuel exports	-9.1	-10.1	-12.8	-12.5	-11.6	-11.2	-10.9	-10.8
Public debt								
External public debt (medium and long-term, end-of-period)	24.2	23.5	27.4	25.4	24.2	23.3	23.1	23.2
Total public sector debt (end-of-period)	38.3	39.9	47.0	46.1	44.9	44.1	43.9	43.7
External public debt service 2/	5.9	6.1	6.9	7.9	7.9	7.9	8.0	8.0
Memorandum items:	(In millions of dollars, unless otherwise indicated)							
Overall balance of payments	8	-72	9	-21	73	59	49	50
Net international reserves (program definition)	830	677	649	541	569	586	594	600
Gross international reserves	2,086	2,086	2,178	2,145	2,207	2,255	2,292	2,331
In months of imports of the following year	4.4	4.7	4.9	4.8	4.8	4.7	4.6	4.5
Nominal GDP (millions of gourdes)	551,911	631,829	732,545	868,582	1,015,809	1,157,591	1,303,813	1,458,023
Nominal GDP (millions of U.S. dollars)	8,409	9,658	8,708	8,533	8,842	9,135	9,454	9,798
Output gap (% of potential)	-0.2	-0.3	-3.2	-5.2	-4.4	-3.7	-3.2	-2.0

Sources: Ministry of Economy and Finance; Bank of the Republic of Haiti; World Bank; Fund staff estimates and projections.
1/ Includes state-owned electricity company (EDH).
2/ In percent of exports of goods and nonfactor services. Includes debt relief.

Table 2a. Haiti: Non-Financial Public Sector Operations, FY2017-24

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

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
		Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**97,906**	**109,107**	**99,931**	**116,654**	**144,212**	**174,553**	**202,057**	**231,485**
Domestic revenue	77,459	82,089	79,067	87,184	113,250	139,758	163,350	187,628
Domestic taxes	53,450	56,858	53,299	60,322	79,804	99,328	117,031	133,497
Customs duties	21,654	22,533	20,098	22,583	28,443	33,570	39,114	45,199
Other current revenue	2,355	2,698	5,670	4,279	5,004	6,860	7,205	8,932
Of which: FNE	1,902	2,105	2,068	2,345	2,743	3,125	3,520	3,937
Of which: FER	227	245	165	196	229	261	425	621
Grants	20,447	27,018	20,864	29,469	30,962	34,795	38,707	43,858
Budget support 1/	3,053	3,467	0	1,406	1,585	2,391	2,751	3,575
Project grants	17,394	23,551	20,864	28,063	29,377	32,404	35,955	40,282
Total expenditure 2/	**96,429**	**119,965**	**118,296**	**135,624**	**164,514**	**194,378**	**228,043**	**260,342**
Current expenditure	67,062	80,516	91,923	100,251	115,374	134,989	156,523	175,921
Wages and salaries	33,746	37,645	40,280	47,772	56,885	65,404	75,621	84,565
Goods and services	21,132	25,312	23,022	23,452	27,427	34,728	43,678	49,573
Interest payments	1,389	1,936	3,398	3,162	3,590	4,071	4,621	5,324
External	939	1,300	1,702	2,032	2,236	2,506	2,838	3,330
Domestic	450	635	1,696	1,130	1,354	1,565	1,783	1,994
Transfers and subsidies	10,796	15,623	25,222	25,865	27,472	30,787	32,603	36,459
Nonenergy sector	7,328	11,381	6,766	5,211	7,111	10,418	11,734	13,122
Energy sector 3/	3,467	4,243	18,456	20,653	20,361	20,369	20,869	23,337
Capital expenditure	29,367	39,449	26,374	35,374	49,140	59,388	71,520	84,421
Domestically financed	11,062	15,460	5,260	5,722	8,045	10,763	10,464	11,848
Of which: Treasury	11,062	15,460	5,260	5,722	8,045	10,763	10,464	11,848
Of which: related to Petrocaribe spending	1,648	0	0	0	0	0	0	0
Of which: FNE and FER related spending	2,857	1,994	1,397	2,541	2,972	3,387	3,945	4,558
Memo: Post-Hurricane Reconstruction Spending	*3,311*	*5,055*	0					
Foreign-financed	18,305	23,988	21,114	29,651	41,095	48,625	61,056	72,573
Central government balance including grants	1,477	-10,858	-18,365	-18,970	-20,302	-19,824	-25,987	-28,857
Excluding grants	-18,970	-37,877	-39,229	-48,440	-51,264	-54,620	-64,693	-72,714
Excluding grants and externally financed projects	-665	-13,888	-18,115	-18,789	-10,169	-5,995	-3,637	-141
Other transfers to EDH	-6,474	-7,419	-9,604	-10,401	-11,174	-12,733	-14,863	-16,038
Of which: receivables from the electricity sector	-792	-863	-550	-520	-559	-637	-743	-802
Of which: EDH letters of credit	-5,682	-6,556	-9,054	-9,881	-10,615	-12,097	-14,120	-15,236
Primary balance of NFPS, including grants	**-3,609**	**-16,341**	**-24,571**	**-26,210**	**-27,886**	**-28,487**	**-36,229**	**-39,571**
Overall balance of NFPS, including grants	**-4,997**	**-18,277**	**-27,969**	**-29,372**	**-31,476**	**-32,558**	**-40,850**	**-44,895**
Adjustment (unsettled payment obligations)	3,332	9,200	1,956	0	0	0	0	0
Financing, NFPS	**8,329**	**27,477**	**29,925**	**29,372**	**31,476**	**32,558**	**40,850**	**44,895**
External net financing	875	-3,379	-2,845	-7,680	-111	2,819	9,998	15,132
Loans (net)	875	-3,379	-6,799	-7,680	969	4,010	11,295	16,530
Disbursements	5,739	1,799	250	1,588	11,718	16,221	25,101	32,291
Of which: Petrocaribe	4,828	1,362	0	0	0	0	0	0
Project loans	911	437	250	1,588	11,718	16,221	25,101	32,291
Amortization	-4,864	-5,178	-7,049	-9,268	-10,749	-12,210	-13,806	-15,760
Arrears (net)	0	0	3,954	0	-1,080	-1,191	-1,296	-1,399
Internal net financing	7,454	30,856	32,770	37,052	31,587	29,739	30,852	29,763
Banking system	10,509	25,736	10,875	12,141	14,750	17,298	22,091	28,787
BRH	9,402	26,038	10,141	10,000	11,695	13,328	15,011	16,787
Of which: change in deposits	364	849	403	1,010	1,010	1,010	1,010	0
Of which: change in claims on the government	9,039	25,189	9,738	8,990	10,685	12,318	14,001	16,787
Of which: BRH lending related to hurr. Matthew (RCF)	2,608							
Of which: BRH on-lending of IMF funds to the government	0	0	-989	-1,149	0	0	0	0
Commercial banks	1,107	-302	734	2,141	3,054	3,971	7,080	12,000
Of which: change in deposits	1,341	0	0	0	0	0	0	0
Of which: change in government securities	-235	-302	734	2,141	3,054	3,971	7,080	12,000
Nonbank financing 4/	-3,054	5,120	21,895	24,910	16,837	12,440	8,760	977
Of which: change in government securities	-4,839	-2,409	-2,319	1,644	2,150	2,300	2,450	2,000
Of which: change in checks in circulation	1,784	2,027	-1,881	0	0	0	0	0
Of which: change in supplier credits	0	5,502	-698	-3,860	-4,573	0	0	0
Of which: domestic arrears	0	0	26,793	27,126	19,260	10,140	6,310	-1,023
Memorandum items								
Total costs of EDH to public sector	9,941	11,662	14,060	15,654	16,905	19,203	21,833	25,477
Forgone fuel taxes and fuel direct subsidies	10,469	17,222	33,331	39,903	39,133	38,401	38,401	38,401
Health, education and agriculture spending	17,317	20,744	18,314	17,372	23,364	27,782	32,595	37,909
Nominal GDP	551,911	631,829	732,545	868,582	1,015,809	1,157,591	1,303,813	1,458,023

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

1/ Includes previously-programmed multilateral budget support that could be delayed.

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

3/ Comprises payments on behalf of EDH for electricity generation, tax payments remitted to EDH and transfers to fuel distributors to maintain pump prices.

4/ Includes the net change in the stock of government securities held by non-banks, of checks that are not yet cashed, of supplier credits and of domestic arrears.

Table 2b. Haiti: Non-Financial Public Sector Operations, FY2017–24

(Fiscal year ending September 30; percent of GDP)

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
		Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**17.7**	**17.3**	**13.6**	**13.4**	**14.2**	**15.1**	**15.5**	**15.9**
Domestic revenue	14.0	13.0	10.8	10.0	11.1	12.1	12.5	12.9
Domestic taxes	9.7	9.0	7.3	6.9	7.9	8.6	9.0	9.2
Customs duties	3.9	3.6	2.7	2.6	2.8	2.9	3.0	3.1
Of which: fuel taxes	0.7	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Other current revenue	0.4	0.4	0.8	0.5	0.5	0.6	0.6	0.6
Of which: FNE	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Of which: FER	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	3.7	4.3	2.8	3.4	3.0	3.0	3.0	3.0
Budget support 1/	0.6	0.5	0.0	0.2	0.2	0.2	0.2	0.2
Project grants	3.2	3.7	2.8	3.2	2.9	2.8	2.8	2.8
Total expenditure 2/	**17.5**	**19.0**	**16.1**	**15.6**	**16.2**	**16.8**	**17.5**	**17.9**
Current expenditure	12.2	12.7	12.5	11.5	11.4	11.7	12.0	12.1
Wages and salaries	6.1	6.0	5.5	5.5	5.6	5.7	5.8	5.8
Goods and services	3.8	4.0	3.1	2.7	2.7	3.0	3.4	3.4
Interest payments	0.3	0.3	0.5	0.4	0.4	0.4	0.4	0.4
External	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Domestic	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Transfers and subsidies	2.0	2.5	3.4	3.0	2.7	2.7	2.5	2.5
Non-energy sector	1.3	1.8	0.9	0.6	0.7	0.9	0.9	0.9
Energy sector 3/	0.6	0.7	2.5	2.4	2.0	1.8	1.6	1.6
Capital expenditure	5.3	6.2	3.6	4.1	4.8	5.1	5.5	5.8
Domestically financed	2.0	2.4	0.7	0.7	0.8	0.9	0.8	0.8
Of which: Treasury	2.0	2.4	0.7	0.7	0.8	0.9	0.8	0.8
Of which: related to Petrocaribe spending	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: FNE and FER related spending	0.5	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Memo: Post-Hurricane Reconstruction Spending	*0.6*	*0.8*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Foreign-financed	3.3	3.8	2.9	3.4	4.0	4.2	4.7	5.0
Central government balance including grants	0.3	-1.7	-2.5	-2.2	-2.0	-1.7	-2.0	-2.0
Excluding grants	-3.4	-6.0	-5.4	-5.6	-5.0	-4.7	-5.0	-5.0
Excluding grants and externally financed projects	-0.1	-2.2	-2.5	-2.2	-1.0	-0.5	-0.3	0.0
Other transfers to EDH	-1.2	-1.2	-1.3	-1.2	-1.1	-1.1	-1.1	-1.1
Of which: receivables from the electricity sector	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Of which: EDH letters of credit	-1.0	-1.0	-1.2	-1.1	-1.0	-1.0	-1.1	-1.0
Primary balance of NFPS, including grants	**-0.7**	**-2.6**	**-3.4**	**-3.0**	**-2.7**	**-2.5**	**-2.8**	**-2.7**
Overall balance of NFPS, including grants	**-0.9**	**-2.9**	**-3.8**	**-3.4**	**-3.1**	**-2.8**	**-3.1**	**-3.1**
Adjustment (unsettled payment obligations)	0.6	1.5	0.3	0.0	0.0	0.0	0.0	0.0
Financing, NFPS	**1.5**	**4.3**	**4.1**	**3.4**	**3.1**	**2.8**	**3.1**	**3.1**
External net financing	0.2	-0.5	-0.4	-0.9	0.0	0.2	0.8	1.0
Loans (net)	0.2	-0.5	-0.9	-0.9	0.1	0.3	0.9	1.1
Disbursements	1.0	0.3	0.0	0.2	1.2	1.4	1.9	2.2
Of which: Petrocaribe	0.9	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	0.2	0.1	0.0	0.2	1.2	1.4	1.9	2.2
Amortization	-0.9	-0.8	-1.0	-1.1	-1.1	-1.1	-1.1	-1.1
Arrears (net)	0.0	0.0	0.5	0.0	-0.1	-0.1	-0.1	-0.1
Internal net financing	1.4	4.9	4.5	4.3	3.1	2.6	2.4	2.0
Banking system	1.9	4.1	1.5	1.4	1.5	1.5	1.7	2.0
BRH	1.7	4.1	1.4	1.2	1.2	1.2	1.2	1.2
Of which: change in deposits	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Of which: change in claims on the government	1.6	4.0	1.3	1.0	1.1	1.1	1.1	1.2
Of which: BRH lending related to hurr. Matthew (RCF)	0.5							
Of which: BRH on-lending of IMF funds to the government	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
Commercial banks	0.2	0.0	0.1	0.2	0.3	0.3	0.5	0.8
Of which: change in deposits	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: change in government securities	0.0	0.0	0.1	0.2	0.3	0.3	0.5	0.8
Nonbank financing 4/	-0.6	0.8	3.0	2.9	1.7	1.1	0.7	0.1
Of which: change in government securities	-0.9	-0.4	-0.3	0.2	0.2	0.2	0.2	0.1
Of which: change in checks in circulation	0.3	0.3	-0.3	0.0	0.0	0.0	0.0	0.0
Of which: change in supplier credits	0.0	0.9	-0.1	-0.4	-0.5	0.0	0.0	0.0
Of which: domestic arrears	0.0	0.0	3.7	3.1	1.9	0.9	0.5	-0.1
Memorandum items								
Total costs of EDH to public sector	1.8	1.8	1.9	1.8	1.7	1.7	1.7	1.7
Forgone fuel taxes and fuel direct subsidies	1.9	2.7	4.6	4.6	3.9	3.3	2.9	2.6
Health, education and agriculture spending	3.1	3.3	2.5	2.0	2.3	2.4	2.5	2.6
Nominal GDP (millions of gourdes)	551,911	631,829	724,757	868,582	1,015,809	1,157,591	1,303,813	1,458,023

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

1/ Includes previously-programmed multilateral budget support that could be delayed.

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

3/ Comprises payments on behalf of EDH for electricity generation, tax payments remitted to EDH and transfers to fuel distributors to maintain pump prices.

4/ Includes the net change in the stock of government securities held by non-banks, of checks that are not yet cashed, of supplier credits and of domestic arrears.

Table 3. Haiti: Summary Accounts of the Banking System, FY2017–24

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

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.
I. Central bank								
Net foreign assets	110,515	111,424	145,492	164,756	192,922	218,871	244,429	270,537
(In millions of U.S. dollars)	1,763	1,593	1,559	1,538	1,611	1,670	1,719	1,769
Net international reserves [1/]	830	677	649	541	569	586	594	600
Commercial bank forex deposits	951	929	913	1,000	1,045	1,088	1,129	1,174
Net domestic assets	-27,876	-7,904	-22,151	-18,510	-21,887	-23,963	-24,901	-25,044
Net credit to the nonfinancial public sector	35,964	60,690	68,708	78,708	90,404	103,731	118,743	135,530
Of which : Net credit to the central government	37,624	61,947	71,119	81,120	92,815	106,143	121,154	137,941
Claims on central government	64,377	89,566	107,087	116,077	126,762	139,080	153,082	169,868
Central government deposits	26,753	27,620	35,967	34,957	33,947	32,937	31,927	31,927
Of which : IMF PCDR debt relief	-6,058	-5,208	-4,773	0	0	0	0	0
Liabilities to commercial banks (excl gourde deposits)	71,851	77,597	86,961	108,944	127,016	144,421	162,370	181,300
BRH bonds/Open market operations	12,214	12,695	1,840	1,840	1,840	1,840	1,840	1,840
Commercial bank forex deposits	59,637	64,902	85,121	107,104	125,176	142,581	160,530	179,460
Other	8,011	9,004	-3,898	11,726	14,726	16,726	18,726	20,726
Base money	80,834	101,716	123,341	146,246	171,035	194,908	219,527	245,492
Currency in circulation	38,471	47,201	60,700	71,973	84,172	95,921	108,037	120,815
Commercial bank gourde deposits	42,364	54,514	62,641	74,273	86,863	98,987	111,490	124,677
II. Consolidated banking system								
Net foreign assets	166,185	164,520	218,722	247,159	282,636	315,083	348,810	382,802
(In millions of U.S. dollars)	2,651	2,351	2,344	2,307	2,360	2,405	2,454	2,504
Of which: Commercial banks NFA	888	759	785	769	749	734	734	734
Net domestic assets	104,058	142,507	144,187	183,144	220,604	258,397	297,110	339,515
Credit to the nonfinancial public sector	21,892	50,815	59,567	71,708	86,458	103,756	125,848	154,634
Of which : Net credit to the central government	26,485	61,079	70,986	83,127	97,877	115,175	137,267	166,053
Claims on central government	41,919	67,229	77,136	89,277	104,027	121,325	143,417	172,204
Central government deposits	15,435	6,150	6,150	6,150	6,150	6,150	6,150	6,150
Credit to the private sector	110,788	124,628	137,574	156,791	182,405	207,071	232,510	259,339
In gourdes	66,905	75,426	83,480	94,816	109,925	124,475	139,480	155,306
In foreign currency	43,883	49,203	54,094	61,975	72,480	82,597	93,030	104,033
In millions of U.S. dollars	670	785	773	664	677	690	710	732
Other	-28,622	-32,937	-52,954	-45,355	-48,259	-52,431	-61,248	-74,459
Broad money	268,438	305,222	362,909	430,303	503,240	573,480	645,919	722,316
Currency in circulation	38,471	47,201	60,700	71,973	84,172	95,921	108,037	120,815
Gourde deposits	79,933	97,211	115,584	137,048	160,278	182,649	205,721	230,053
Foreign currency deposits	150,034	160,810	186,624	221,282	258,789	294,910	332,161	371,448
In millions of U.S. dollars	2,393	2,298	2,000	2,066	2,161	2,251	2,337	2,429
(12-month percentage change)								
Currency in circulation	14.3	22.7	28.6	18.6	17.0	14.0	12.6	11.8
Base money	23.4	25.8	21.3	18.6	17.0	14.0	12.6	11.8
Gourde money (M2)	10.3	22.0	22.1	18.6	17.0	14.0	12.6	11.8
Broad money (M3)	12.9	13.7	18.9	18.6	17.0	14.0	12.6	11.8
Gourde deposits	8.5	21.6	18.9	18.6	17.0	14.0	12.6	11.8
Foreign currency deposits	15.1	7.2	16.1	18.6	17.0	14.0	12.6	11.8
Credit to the private sector	4.5	12.5	9.9	14.6	17.0	14.0	12.6	11.8
Credit in gourdes	2.0	12.8	9.9	14.6	17.0	14.0	12.6	11.8
Credit in foreign currency	8.3	12.1	9.9	14.6	17.0	14.0	12.6	11.8
Memorandum items:								
Foreign currency deposits (percent of total private deposits)	61.9	59.2	59.1	59.5	59.8	60.1	60.2	60.4
Foreign curr. credit to priv. sector (percent of total)	41.2	41.0	41.0	41.0	41.0	41.0	41.0	41.0
Commercial banks' credit to private sector (percent of GDP)	19.3	19.0	18.0	17.4	17.4	17.4	17.4	17.4

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

1/ Program definition. Excludes commercial bank forex deposits, letters of credit, guarantees, earmarked project accounts and US$ denominated bank reserves. The SDR allocation is not netted out of NIR.

Table 4a. Haiti: Balance of Payments, FY2017–24

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

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account (including grants)	**-84**	**-373**	**-174**	**-75**	**-93**	**-136**	**-200**	**-235**
Current account (excluding grants)	**-469**	**-759**	**-422**	**-274**	**-363**	**-410**	**-480**	**-530**
Trade balance	-2,626	-3,406	-3,180	-3,035	-3,079	-3,187	-3,329	-3,471
Exports of goods	991	1,078	1,200	1,244	1,272	1,307	1,351	1,408
Of which: Assembly industry	887	987	1,173	1,166	1,192	1,225	1,266	1,312
Imports of goods	-3,618	-4,484	-4,380	-4,279	-4,350	-4,494	-4,680	-4,880
Of which: Fossil fuels	-766	-972	-1,117	-1,066	-1,025	-1,019	-1,031	-1,055
Of which: Food products	-867	-910	-752	-785	-795	-807	-815	-826
Services (net)	-399	-486	-552	-660	-685	-709	-741	-779
Receipts	673	701	450	292	302	310	321	334
Payments	-1,072	-1,187	-1,002	-952	-987	-1,019	-1,061	-1,113
Income (net)	59	50	50	48	50	52	54	55
Of which: Interest payments	-14	-20	-20	-20	-19	-20	-21	-22
Current transfers (net)	2,883	3,469	3,509	3,572	3,621	3,709	3,816	3,959
Official transfers (net)	385	386	248	198	270	275	281	295
Of which: budget support 1/	47	53	0	14	14	19	20	24
Private transfers (net)	2,316	2,805	3,043	3,232	3,351	3,435	3,536	3,665
Other transfers (net)	181	278	218	142	0	0	0	0
Capital and financial accounts	**186**	**319**	**201**	**54**	**166**	**195**	**249**	**285**
Capital transfers	25	31	15	10	30	30	30	40
Public sector capital flows (net)	21	-44	-92	-86	-2	23	75	111
Loan disbursements	87	28	3	16	102	128	182	217
Amortization	-66	-71	-95	-102	-104	-105	-107	-106
Foreign direct investment (net)	375	105	75	75	114	136	152	162
Banks (net) 2/	-267	152	-26	16	20	15	0	0
Other items (net)	31	75	229	40	4	-9	-8	-27
Of which: repayment of arrears 5/	-	-	-	-	-9	-9	-8	-8
Errors and omissions	-93	-19	-17	0	0	0	0	0
Overall balance	**8**	**-72**	**9**	**-21**	**73**	**59**	**49**	**50**
Financing	**-8**	**72**	**-9**	**21**	**-73**	**-59**	**-49**	**-50**
Change in net foreign assets (+ is decrease)	-11	69	-12	21	-73	-59	-49	-50
o/w Change in gross reserves (+ is decrease)	-187	1	-92	33	-62	-48	-37	-39
o/w Liabilities (+ is increase)	176	69	80	-12	-11	-11	-12	-11
Utilization of Fund credit (net)	38	-12	-13	-10	-11	-11	-12	-11
Changes in arrears 3/	138	87	93	0	0	0	0	0
Other liabilities	0	-6	0	0	0	0	0	0
Debt rescheduling and debt relief	3	3	3	0	0	0	0	0
Memorandum items:								
Change in U.S. dollar-denominated reserve deposits at BRH (+ is decrease)	-52	22	16	-87	-46	-43	-41	-45
Change in NIR (program definition) (+ is decrease)	-3	153	28	108	-28	-17	-8	-6
Current account (in percent of GDP)	-1.0	-3.9	-2.0	-0.9	-1.1	-1.5	-2.1	-2.4
Excluding official transfers	-5.6	-7.9	-4.8	-3.2	-4.1	-4.5	-5.1	-5.4
Exports of goods, f.o.b (percent change)	-0.9	8.8	11.3	3.7	2.2	2.8	3.4	4.3
Imports of goods, f.o.b (percent change)	13.6	24.0	-2.3	-2.3	1.7	3.3	4.1	4.3
Increase in Arrears 5/	-	-	47	-	-	-	-	-
Projected average oil price (U.S. dollars per barrel, APSP)	52.8	68.3	60.6	58.0	55.3	54.6	54.7	55.2
Debt service (in percent of exports of goods and services)	5.9	6.1	6.9	7.9	7.9	7.9	8.0	8.0
Gross international reserves (in millions of U.S. dollars) 4/	2,086	2,086	2,178	2,145	2,207	2,255	2,292	2,331
(in months of next year's imports of goods and services)	4.4	4.7	4.9	4.8	4.8	4.7	4.6	4.5
Nominal GDP (millions of U.S. dollars)	8,409	9,658	8,708	8,533	8,842	9,135	9,454	9,798

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

1/ Includes previously-programmed multilateral budget support that could be delayed.

2/Change in net foreign assets of commercial banks.

3/ Includes debt to Venezuela for oil shipments already paid by the GOH in local currency but not yet cleared in U.S. dollars.

4/ Includes gold.

5/ Includes arrears on oil imports

Table 4b. Haiti: Balance of Payments, FY2017–24

(In percent of GDP on a fiscal year basis; unless otherwise indicated)

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account (including grants)	-1.0	-3.9	-2.0	-0.9	-1.1	-1.5	-2.1	-2.4
Current account (excluding grants)	-5.6	-7.9	-4.8	-3.2	-4.1	-4.5	-5.1	-5.4
Trade balance	-31.2	-35.3	-36.5	-35.6	-34.8	-34.9	-35.2	-35.4
Exports of goods	11.8	11.2	13.8	14.6	14.4	14.3	14.3	14.4
Of which: Assembly industry	10.6	10.2	13.5	13.7	13.5	13.4	13.4	13.4
Imports of goods	-43.0	-46.4	-50.3	-50.2	-49.2	-49.2	-49.5	-49.8
Of which: Fossil fuels	-9.1	-10.1	-12.8	-12.5	-11.6	-11.2	-10.9	-10.8
Of which: Food products	-10.3	-9.4	-8.6	-9.2	-9.0	-8.8	-8.6	-8.4
Services (net)	-4.7	-5.0	-6.3	-7.7	-7.7	-7.8	-7.8	-7.9
Receipts	8.0	7.3	5.2	3.4	3.4	3.4	3.4	3.4
Payments	-12.7	-12.3	-11.5	-11.2	-11.2	-11.2	-11.2	-11.4
Income (net)	0.7	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Of which: Interest payments	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Current transfers (net)	34.3	35.9	40.3	41.9	40.9	40.6	40.4	40.4
Official transfers (net)	4.6	4.0	2.8	2.3	3.0	3.0	3.0	3.0
Of which: budget support [1/]	0.6	0.5	0.0	0.2	0.2	0.2	0.2	0.2
Private transfers (net)	27.5	29.0	34.9	37.9	37.9	37.6	37.4	37.4
Other transfers (net)	2.2	2.9	2.5	1.7	0.0	0.0	0.0	0.0
Capital and financial accounts	2.2	3.3	2.3	0.6	1.9	2.1	2.6	2.9
Capital transfers	0.3	0.3	0.2	0.1	0.3	0.3	0.3	0.4
Public sector capital flows (net)	0.3	-0.5	-1.1	-1.0	0.0	0.3	0.8	1.1
Loan disbursements	1.0	0.3	0.0	0.2	1.2	1.4	1.9	2.2
Amortization	-0.8	-0.7	-1.1	-1.2	-1.2	-1.1	-1.1	-1.1
Foreign direct investment (net)	4.5	1.1	0.9	0.9	1.3	1.5	1.6	1.7
Banks (net) [2/]	-3.2	1.6	-0.3	0.2	0.2	0.2	0.0	0.0
Other items (net)	0.4	0.8	2.6	0.5	0.0	-0.1	-0.1	-0.3
Of which: repayment of arrears [5/]	-	-	-	-	-0.1	-0.1	-0.1	-0.1
Errors and omissions	-1.1	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0
Overall balance	0.1	-0.7	0.1	-0.2	0.8	0.6	0.5	0.5
Financing	-0.1	0.7	-0.1	0.2	-0.8	-0.6	-0.5	-0.5
Change in net foreign assets (+ is decrease)	-0.1	0.7	-0.1	0.2	-0.8	-0.6	-0.5	-0.5
Change in gross reserves (+ is decrease)	-2.2	0.0	-1.1	0.4	-0.7	-0.5	-0.4	-0.4
Liabilities (+ is increase)	2.1	0.7	0.9	-0.1	-0.1	-0.1	-0.1	-0.1
Utilization of Fund credit (net)	0.4	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Changes in arrears [3/]	1.6	0.9	1.1	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling and debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Exports of goods, f.o.b (percent change)	-0.9	8.8	11.3	3.7	2.2	2.8	3.4	4.3
Imports of goods, f.o.b (percent change)	13.6	24.0	-2.3	-2.3	1.7	3.3	4.1	4.3
Projected average oil price (U.S. dollars per barrel, APSP)	52.8	68.3	60.6	58.0	55.3	54.6	54.7	55.2
Increase in Arrears (in percent of GDP) [5/]	-	-	0.5	-	-	-	-	-
Debt service (in percent of exports of goods and services)	5.9	6.1	6.9	7.9	7.9	7.9	8.0	8.0
Nominal exchange rate	65.6	65.4	…	…	…	…	…	…
Gross international reserves (in millions of U.S. dollars) [4/]	2,086	2,086	2,178	2,145	2,207	2,255	2,292	2,331
(in months of next year's imports of goods and services)	4.4	4.7	4.9	4.8	4.8	4.7	4.6	4.5
Nominal GDP (millions of U.S. dollars)	8409	9658	8708	8533	8842	9135	9454	9798

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

1/ Includes previously-programmed multilateral budget support that could be delayed.

2/Change in net foreign assets of commercial banks.

3/ Includes debt to Venezuela for oil shipments already paid by the GOH in local currency but not yet cleared in U.S. dollars.

4/ Includes gold.

5/ Includes arrears on oil imports

Table 5. Haiti: Financial Soundness Indicators, June 2017–June 2019

(In percent; unless otherwise indicated)

	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Size and growth									
Asset volume (in US$ millions)	4828.1	4841.4	4878.0	4955.6	4838.5	4734.2	4646.8	4514.3	4218.5
Deposit volume (in US$ millions)	3858.9	3882.5	3868.2	3940.1	3881.5	3848.9	3764.5	3638.1	3412.1
Asset growth (in gourde terms) since beginning of fiscal year	10.7	11.9	2.0	5.7	5.9	8.3	7.8	13.0	18.9
Credit growth (net, in gourde terms) since beginning of fiscal year	2.7	9.7	4.6	10.5	12.1	17.3	9.5	11.4	19.8
Capital adequacy									
Regulatory capital to risk-weighted assets	29.3	25.3	25.5	24.9	23.0	23.4	22.5	22.27	21.71
Assets to regulatory capital	9.8	11.2	10.9	11.1	12.1	11.6	11.8	11.99	12.37
Asset quality and composition									
Loans (net) to assets	27.2	28.7	29.4	30.0	30.4	31.1	31.6	30.63	31.29
NPLs to gross loans	3.8	2.9	2.8	4.0	3.6	2.5	2.9	4.36	7.47
Provisions to gross loans	2.8	2.7	2.5	2.4	2.4	2.2	2.2	2.34	2.52
Provisions to gross NPLs	72.4	90.6	90.7	59.4	66.9	87.9	75.5	53.66	33.76
NPLs less provisions to net worth	2.9	0.9	0.8	5.4	4.4	1.1	2.6	7.31	18.99
Earnings and profitability (cumulative since beginning of fiscal year)									
Return on assets (ROA)	12.5	1.1	1.5	1.4	1.7	2.1	2.3	2.00	1.80
Return on equity (ROE)	130.5	11.8	15.9	14.8	19.7	23.9	25.5	22.96	21.11
Net interest income to gross interest income	75.7	76.9	79.0	78.8	77.3	78.3	79.5	78.48	76.21
Operating expenses to net profits	21.9	76.0	66.6	67.5	65.0	63.4	56.6	58.87	63.52
Efficiency									
Interest rate spread 1/	10.0	9.9	9.8	9.5	9.5	9.9	9.9	9.73	9.75
Liquidity									
Liquid assets to total assets 2/	45.0	44.5	44.8	44.1	45.8	45.3	45.2	44.38	44.47
Liquid assets to deposits 2/	56.3	55.5	56.5	55.5	57.1	55.8	55.8	55.07	54.98
Dollarization									
Foreign currency loans to total loans (net)	45.9	48.8	47.8	44.7	45.5	46.8	48.9	49.58	51.31
Foreign currency deposits to total deposits	63.1	63.9	63.3	61.5	60.5	61.3	63.5	65.46	68.41
Foreign currency loans to foreign currency deposits	24.7	27.3	28.0	27.4	28.5	29.1	30.0	28.79	29.02

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.

Annex I. Country Engagement Strategy

1. **The results of past Fund-supported arrangements with Haiti have been disappointing**. An ECF arrangement approved in 2015 lapsed because of failure to complete the first review and an SMP ended in August 2018 with incomplete progress. Despite other extensive international assistance and financial aid following the 2010 earthquake, foreign interventions have so far failed to deliver change. Moreover, the proliferation of development and humanitarian projects and partners has contributed to fragmentation of programs, uncoordinated and inefficient delivery of goods and services, and importantly, a loss of policy ownership.

2. **Haiti's fragility warrants a careful and tailored approach.** In addition to typical sources of fragility related to political instability and conflict, poverty, inequality, weak capacity and infrastructure, Haiti has other important sources of fragility: (i) high susceptibility to natural disasters; (ii) weak institutions and little national ownership of policies; (iii) weak business regulations and judiciary which have contributed to a concentration of economic power and encouraged rent-seeking activities among public officials; and (iv) insufficient means to maintain security and order.

3. **Several recurring factors underlie the cycle of failed reform efforts.** Based on a broad and objective stocktaking, including from the 2015 Ex-Post Assessment, the following issues undermined past efforts and must be addressed to break the cycle: (i) reform programs did not match in terms of scope and design Haiti's fragility and limited capacity to carry out the multiple and not always well-coordinated projects initiated by international partners; (ii) Haitian ownership of the relief and reform agenda was lacking; (iii) investment in, and empowerment of, all Haitians was inadequate (ISE 2014); and (iv) accountability and transparency in the use of public funds was weak or absent.

4. **Concept.** This engagement strategy (CES) aims to raise awareness and build consensus and commitment among internal stakeholders in Haiti for a set of basic economic principles that underpin the imperative of economic stability and policy continuity. Given the lack of effective institutional and political commitment for sustained reforms, the goal would be to develop an alternative 'commitment device' that effectively leverages communications by exploiting the strong Haitian culture of active civil society.

5. **Approach**. The strategy attempts to address the issues identified above in two steps.

<u>Step 1</u>. The first would be to start to build consensus around a basic set of generic economic principles and objectives, consistent with Haiti's limited capacity, that could attract universal support. This consensus would need to be owned by the government, endorsed by key stakeholders in Haiti (including the private sector, labor, civil society, and eventually the opposition) and supported by the international community.

<u>Step 2</u>. The second step would be to encourage policymakers (and stakeholders) to spell out their engagements in writing. An international forum or round table in Haiti could be an opportunity to initiate the dialogue and develop this as a form of 'commitment device'. Given the weakness of public institutions and the political system, a different national framework or tool could help to mobilize commitment, empower Haitians, and follow through on the most basic principles of macroeconomic management, at least until such time as national systems function more effectively. The formulation of a Poverty Reduction and Growth Strategy document could provide an opportunity for discussion among domestic stakeholders of more detailed reform proposals to implement those principles and achieve the basic objectives previously identified.

6. IMF role. The Fund is well placed to initiate a dialogue among stakeholders and to assemble foreign partners. Coordination between international financial institutions would be strengthened by formalizing the ongoing cooperation with the World bank and the IDB through the creation of a tripartite working group at the mission chief/country director level. The group could meet at least quarterly to discuss reform progress and future engagement plans.

7. Timing. Informal outreach in Haiti and with external partners should begin soon. Staff initiated discussions with stakeholders during the Article IV consultation on the broad concept and objectives of the proposed strategy. Preliminary feedback was positive, although many flagged the challenges. The Resident Representative would be critical in promoting the process on the ground.

8. Potential fund support. When a government is in place that is in a position to commit to and implement policies that would put Haiti on a path toward economic stability and sustainability, the Fund could consider financing support. Under those conditions, an RCF/SMP combination, contingent on the determination of an urgent balance of payments need, could provide a bridge to an ECF arrangement. The combination of facilities would need to be appropriately adapted to the Fragile and Conflict States guidelines and should include rapid implementation of broader social protection policies to alleviate social distress and bolster public support and ownership of reform.

9. Economic reform priorities. The reform strategy would focus on four key objectives: (i) restoring macroeconomic stability, (ii) strengthening governance and transparency, (iii) building a social safety net, and (iv) reforming the energy sector.

10. Capacity building. Fund TA is critical for ongoing capacity building, should support program conditions, and be informed by the experience and lessons from past TA. The provision of TA also allows for continuous IMF engagement with Haiti even during periods of political crisis when lending operations cannot move forward. Including efforts to monitor and trace resource use—addressing a disincentive to donors at present—could help mobilize development assistance (see Annex IV).

11. Outreach and communications will be key to advance the strategy and raise understanding of key issues. A coordinated approach with the government would be important. The Resident Representative will have a key role in outreach with stakeholders and to raise awareness and support among the broader public, particularly highlighting the purpose of the strategy—to build consensus on the need for macro stability and policy continuity—and focusing on the reforms that strengthen the social safety net and fight corruption. Haiti's active civil engagement and relatively free media are assets that could be leveraged to help gain traction for these goals and strengthen national ownership. It would be important in due course to harness the most effective modes of news transmission particular to Haiti, including radio and social media.

Annex II. Risk Assessment Matrix[1]

Source of Risk and Direction	Likelihood	Horizon	Expected Impact on the Economy	Policy Response
		Domestic Risks		
Absence of Reforms /Weak Macroeconomic Polices	**High**	Short- and Medium term	Can lead to lower revenues, slowdown in aid disbursements and lower FDI flows.	Focus on a few priorities. Proceed carefully to avoid reversals. Strengthen administrative capacity through technical assistance. Implement an effective communication strategy to build popular support. Implement mitigating measures to offset any effects on the most vulnerable.
Political Instability	**High**	Short- and Medium-term	Could impede the implementation of structural reforms, constrain growth, and weaken the business environment. Could delay the approval of key legislation and limit progress in the reform agenda.	Build a national political consensus on a sustainable growth reform agenda. Engage with all stakeholders to strengthen the business climate and enhance poverty reduction efforts.
Fuel Shortages	**High**	Short-term	Would negatively affect growth and social stability.	Resolve any arrears with fuel providers. In the medium-term, design a strategy to reduce the fiscal cost of fuel subsidies.
Extreme Natural Disasters (e.g., hurricanes, earthquakes and droughts)	**High**	Short- Medium- and Long-term	Can result in loss of human life and destruction of infrastructure. Can disrupt agriculture production and increase food inflation. Could also result in low growth prospects and delays in poverty reduction.	Develop a comprehensive disaster financing framework, including disaster-linked social protections and the buildup of financial buffers. Build physical infrastructure to cope with disasters.

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

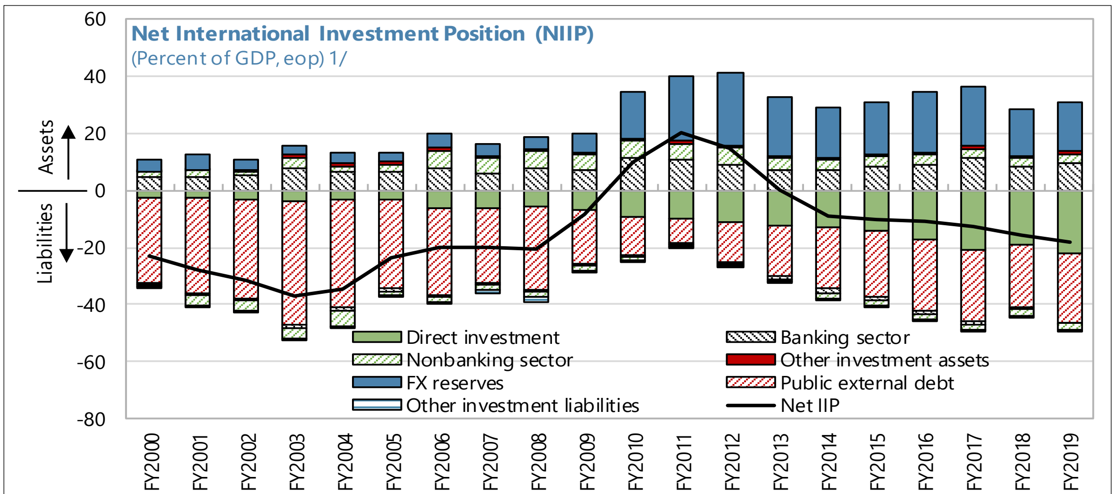
Source of Risk and Direction	Likelihood	Horizon	Expected Impact on the Economy	Policy Response
External Risks				
Rising Protectionism	**High**	Short- and Medium term	Escalating and unpredictable trade actions imperil the global trade system and international cooperation. In an adverse scenario, this could result in early cancellation of HOPE/HELP trade preferences, for example.	Improve business conditions for manufacturers currently benefiting from the HOPE/HELP preferences. Implement structural reforms to increase competitiveness.
Weaker-than-Expected Global Economic Growth	**Medium**	Short- and Medium-term	Low growth in the U.S. has significant spillovers which can undermine Haiti's medium-term growth and slowdown any reform process. Can result in lower remittances and exports.	Build buffers and increase flexibility in macroeconomic policies to help absorb shocks. Adopt structural reforms to increase competitiveness. Promote investments in tourism and agriculture.
Tighter Global Financial Conditions	**High**	Short- and Medium-term	An abrupt deterioration in market sentiment could result in sharp increases in interest rates and associated tightening of financial conditions. Higher debt service could add pressures to leveraged firms and increase refinancing risks.	Strengthen bank capital buffers to cover macro-financial risks. Ensure debt issuance is not indexed to global interest rates when possible.
Large Swings in Energy Prices	**Medium**	Short- and Medium-term	Given fuel regulated prices, elevated world energy price volatility poses higher risk to the budget.	Consider fuel subsidy reform. Build social safety net to offset any negative effects on the most vulnerable.

Annex III. External Sector Assessment

The external position of Haiti in FY2019 is assessed to be moderately weaker than medium-term fundamentals and desired macroeconomic policies. It should be noted that the assessment occurs in the recent context of output contraction, a decline in public spending by 3.0 percentage points of GDP, demand and import compression, and a surge in arrears, developments that larger external financing might have prevented.

A. External Balance Sheets

1. Haiti had net external liabilities of about 18 percent of GDP as of September 30, 2019. Gross external assets of 30.5 percent of GDP consisted primarily of the central bank's international reserves at 55 percent of the total and other investments by the banking sector at 32 percent of the total. Gross external liabilities stood at 48.7 percent of GDP, with foreign direct investment (FDI) accounting for 55 percent of these liabilities. Public external debt is all on concessional terms, mostly (82 percent) owed to Venezuela, and accounts for one-half of gross liabilities. After the devastating 2010 earthquake, large donor grant inflows contributed to a surge in foreign reserves, resulting in a positive net asset position during FY2010–2012. In subsequent years, both public external debt and FDI increased while foreign reserves declined.



Sources: Bank of the Republic of Haiti and IMF staff calculations.

1/ Data for FY2017–FY2019 are provisional.

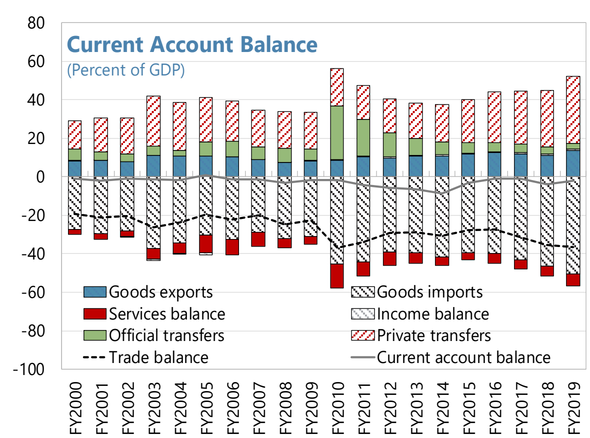
Assessment

2. Given persistent current account deficits, Haiti's NIIP/GDP ratio is projected to worsen over the medium term. Public external borrowing to finance capital expenditures is expected to remain weak under the baseline assumptions, leading to a gradual decline in the external debt-to-GDP ratio over the medium-term. FDI is projected to recover from its sharp drop and low base in 2019, rising from under 1.0 percent of GDP to about 1.8 percent of GDP by 2025, an improvement but low given the investment needs of the country.

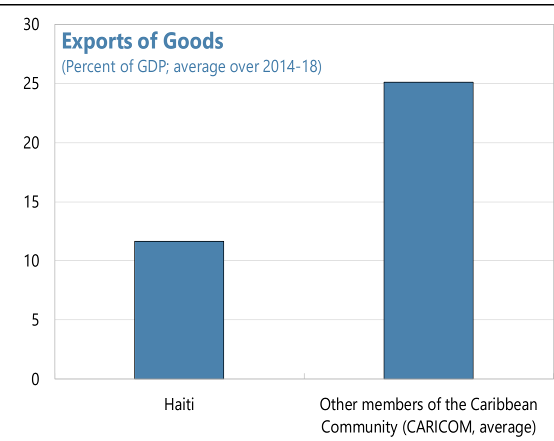
B. The Current Account

3. Haiti runs a current account (CA) deficit comprised of a large goods trade deficit that is mostly offset by private remittances. Remittances to Haiti amount to 35 percent of GDP, making it one of the largest recipients of remittances in the region.[1] The trade deficit has averaged about 38 percent of GDP over the past 10 years. Goods exports are low and Haiti depends heavily on food and fuel imports. The relatively low share of exports in GDP, averaging about 19 percent over the last decade, reflects long term structural weaknesses, including poor port and road infrastructure, limited availability of credit, insufficient and unreliable electricity, water shortages, and a weak legal and regulatory environment.[2] Haiti is ranked in the lowest decile of the World Bank's Doing Business index.[3] Goods exports are concentrated, with apparels accounting for more than three-quarters of goods exports of which the U.S. absorbs about 70 percent. Dependence on imports of basic essentials and frequent natural disasters exacerbate Haiti's vulnerabilities to exogenous shocks.

4. The current account deficit shrank to 2.0 percent of GDP in FY2019 from 3.9 percent of GDP a year earlier, largely due to a reduction in total imports and an increase in remittances. The modest rise in fuel imports due to higher global fuel prices was largely offset by strong private remittance flows at 34.9 percent of GDP—the highest level as a share of GDP in two decades. The CA deficit in FY2020 is projected to increase slowly to about 2.3 percent of GDP in spite of the continued growth in private remittances.



Sources: Bank of the Republic of Haiti and IMF staff calculations.



Sources: IMF, World Economic Outlook database and IMF staff calculations.

Assessment

5. Staff's assessment based on the refined EBA-lite model shows the FY2019 CA balance to be moderately weaker than what medium-term fundamentals and desired policies would suggest.

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[1] See IMF Working Paper No. WP/17/144, June 2017.

[2] See IMF Country Report No. 15/158, June 2015.

[3] Caution is needed in interpreting country rankings under the Doing Business Indicators as (i) they are not a comprehensive measure of business environment in most countries, (ii) there is no internationally accepted statistical standard for these indicators, (iii) they assess what the laws and regulations provide for rather than their implementation, and (iv) an external review is ongoing to assess recent changes in methodology.

The CA model's fit has significantly worsened over the last few years compared to the historical average. As noted above, the recent context of political crisis involves output contraction, demand-related import compression, and a rise in arrears, developments that complicate the model-based exercise. Accordingly, staff adjusted the CA norm downward to account for heightened uncertainty and the sizeable political shocks not captured by the model (Table 1). The size of the adjustment was calculated based on the difference between the model residual for 2019 and the average value of the residual in the last 5 years. As a result, the CA gap is -2.0 percent of GDP; the multilaterally-consistent cyclically-adjusted CA norm is -1.5 percent of GDP and the cyclically-adjusted CA balance is –3.5 percent of GDP. Policy gaps contribute about 2.8 percentage points of GDP to the model-estimated CA gap and the rest reflects unidentified country-specific factors and/or regression residuals.[4]

Annex Table 1. Haiti: Assessment of the Current Account Balance

	Model	***Adjusted***
CA-Actual	-3.3%	-3.3%
Cyclical Contributions (from model)	0.2%	0.2%
Cyclically adjusted CA	-3.5%	-3.5%
CA-Fitted	1.4%	0.7%
Residual	-4.7%	-4.0%
CA-Norm	**-1.2%**	**-1.9%**
Cyclically adjusted CA Norm	-1.4%	-2.1%
Multilaterally-Consistent Cyclically-adjusted CA Norm	-0.8%	-1.5%
CA-Gap	**-2.7%**	**-2.0%**
of/which Policy gap	2.8%	2.8%

Source: IMF staff estimates.

6. Structural reforms could help achieve fiscal sustainability while enhancing long-term growth. Measures are needed to increase productivity and lower private precautionary savings. This would involve policies to support improvement in social indicators and human capital, including higher spending on social protection, education and health, and increased access to finance.
A comprehensive review of the business environment and key reforms are needed to boost private investment and export competitiveness.

Real Exchange Rate

7. The real effective exchange rate (REER) depreciated by 10.8 percent in FY2019. This was due to depreciation in the nominal effective exchange rate (NEER) by 23.6 percent.

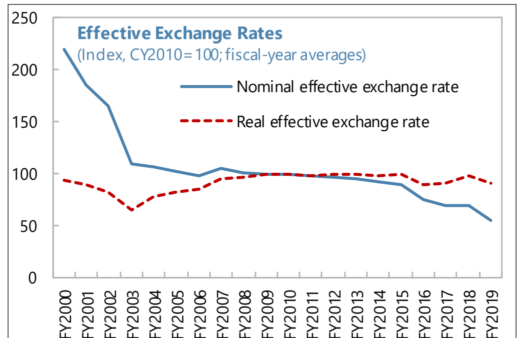
[4] The EBA-lite model considers the actual policy (P) and its desired level (P*) in the country under study relative to its trading partners. Thus, policy gap is defined as $(P - P_{world}) - (P^* - P^*_{world})$. The overall policy gap, as a share of GDP, is broken down into: fiscal policy 0.78 percent; public health expenditure 1.02 percent; changes in reserves -0.04 percent; private credit level -0.06 percent; private credit growth 0.16 percent; and capital controls when combined with relative productivity and global risk aversion 0.96 percent.

Annex Table 2. Haiti: Assessment of the Real Exchange Rate (In percent)	
	Gap
EBA-lite REER index model	-1.9
Of which: contributions from identified policy gaps	-1
contributions from natural disasters and conflicts	0.1
unexplained residual	-0.01

Source: IMF staff estimates.

Assessment

8. The EBA-lite REER model estimates the REER gap at -1.9 percent. On this basis, the position is assessed to be broadly consistent with fundamentals and desirable policy settings. Monetary policy should continue to strive for lower inflation, reduce direct financing of the government, and allow exchange rate flexibility.



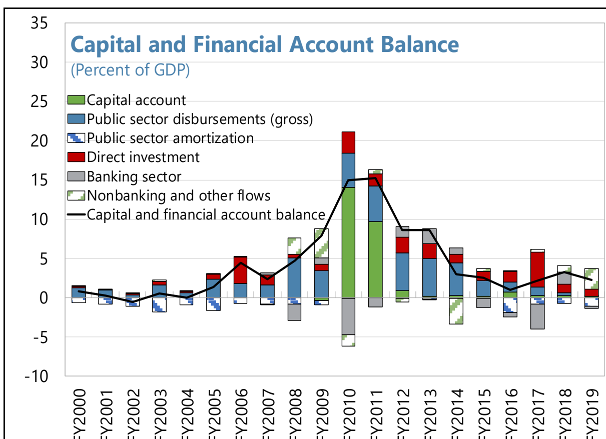
Sources: IMF, Information Notice System database and IMF staff calculations.

C. Capital and Financial Flows

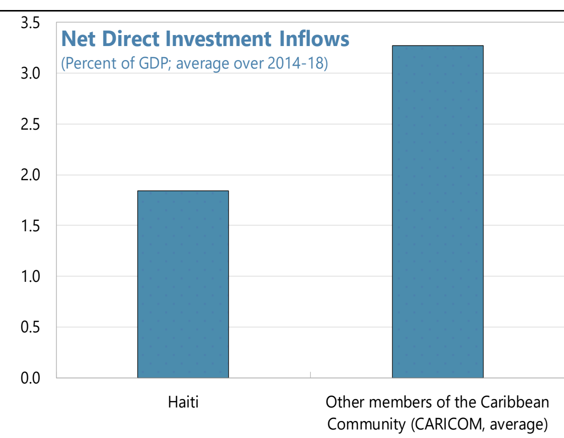
9. Haiti maintains an open financial account but receives limited portfolio inflows. At 1.7 percent of GDP average over the past ten years, FDI inflows to Haiti are lower than the regional average. In FY2019, financial flows remained largely stable as a share of GDP, reflecting lower disbursement for public projects and a rise in non-banking sector inflows.

Assessment

10. Over the medium term, the capital and financial accounts are expected to remain in modest surplus. Under the baseline, the political crisis would abate and FDI and external financing associated with public investment projects would recover somewhat. These flows, combined with a sustainable level of CA deficit, would support a modest improvement in the overall balance of payments.



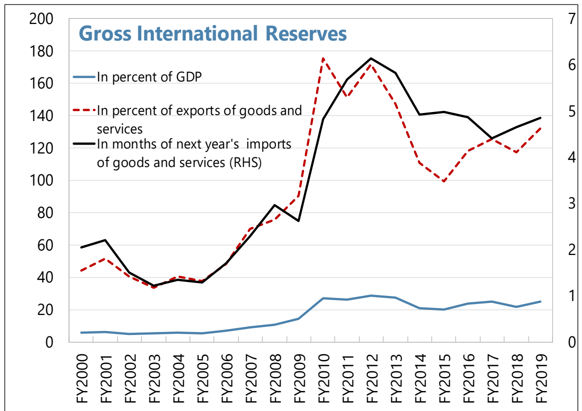
Sources: Bank of the Republic of Haiti and IMF staff calculations.



Sources: IMF, World Economic Outlook database and IMF staff calculations.

D. Foreign Reserves

11. As of September 2019, gross international reserves stood at about US$2.18 billion, equivalent to about 4.8 months of next years' projected imports of goods and services. Haiti's *de jure* exchange rate regime is floating, but *de facto* regime is classified as "crawl-like". The central bank tracks the developments in the exchange rate market given its high pass-through to domestic prices, implications for liquidity in the banking system, and impact on growth. BRH intervenes in the foreign exchange market mostly to manage volatility in the exchange rate, but also to provide market liquidity and build up reserves.



Sources: Bank of the Republic of Haiti and IMF staff calculations.

Assessment

12. Gross international reserves are at present adequate to finance more than 4 months of prospective imports of goods and services, although this adequacy level has steadily declined in recent years. The IMF's reserve adequacy estimate for low-income economies suggests that 2¾–4 months of current import coverage of reserves would be adequate.[5] At 4.8 months of prospective import coverage, gross reserves for FY2019 are assessed to be adequate under current assumptions. However, the above estimate is sensitive to assumptions of unconditional probability of a large shock affecting the economy. Thus, higher reserves would serve as an important buffer, but they are not substitutes for needed policy adjustments and structural reforms**.**

[5] These estimates consider the current *de facto* exchange rate regime, and assume (i) risk neutrality, (ii) opportunity cost of holding reserves at 4½–and 6¼ percent range, and (iii) an unconditional probability of a large shock at 50 percent. For more discussions, see IMF, 2016, *Guidance Note on the Assessment of Reserve Adequacy and Related Considerations*, June 2016.

Annex IV. Proposals for Governance Reform

The purpose of this annex is to assemble in an integrated manner the elements of reform that fall under the Fund's core competencies and that would contribute clearly to improving governance, transparency and accountability, and tackling corruption in Haiti.[1] *These draw on the framework of the March staff-level agreement, the 2019 safeguards assessment of the central bank (BRH), and ongoing TA.*

A. Context

1. Haiti faces severe governance vulnerabilities. Corruption is perceived as high and widespread. The existing anti-corruption legislation does not appear to be enforced. Out of 232 presidents and ministers over the period 2008-February 2018, less than half submitted an asset declaration at the beginning of their tenure and only 11 percent did so at the end of their tenure, as required by law. Of the tax controllers, 99 percent did not submit asset declarations, nor did 97 percent of senators and 93 percent of congressmen.[2] Since the creation of the Anti-Corruption Unit (*Unité de Lutte Contre la Corruption* or ULCC) in 2004, only 39 cases have been prosecuted by the justice system. In 2018, the UCREF (*Unité Centrale de Renseignements Financiers*), Haiti's financial intelligence agency, reported receiving about 400 reports of suspicious financial activity, but referred less than twelve to the judiciary. According to the Caribbean Financial Action Task Force (CFATF), Haiti has not recorded any successful prosecution or conviction for money-laundering offences for the past five years (2014–18).[3]

2. These vulnerabilities affect all categories of state functions and have significant negative effects on the economy. Fiscal governance, financial sector oversight, central bank governance and operations, the quality of market regulation, rule of law, and the AML-CFT framework all suffer from governance weaknesses that create vulnerability to corruption. Fiscal governance weaknesses have significant negative effects on tax revenue and customs collection, public spending effectiveness, and the fiscal position. The central bank's autonomy and accountability are compromised by a weak legal framework. Business confidence is hindered by weak property rights and contract enforcement. The rule of law, and capacity of the police are weak and undermine the enforcement of laws and prosecution of crimes, fueling popular resentment against the government. A recent report based on a broad-based national and sector-focused dialogue launched by President Moïse highlighted the following issues as the key impediments to Haiti's modernization: the lack of independence of the judiciary and interference by the executive and legislative powers in judicial affairs, the weaknesses of political parties, and economic monopolies.

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[1] The focus is in line with the Fund's enhanced governance framework "Review of 1997 Guidance Note on Governance—A proposed Framework for Enhanced Fund Engagement," April 2018.

[2] FJKL, *La loi portant déclaration de patrimoine, un engagement citoyen*, May 2019.

[3] CFTAF-GAFIC, *Anti-Money Laundering and Counter-Terrorist Financing Measures, Republic of Haiti, Mutual Evaluation Report*, July 2019.

3. Corruption has become a more serious issue since revelation of the misuse of *Petrocaribe* funds in the years following Haiti's 2010 earthquake. In two reports released in January and May 2019, the Superior Audit Court (*Court Supérieure des Comptes et du Contentieux Administratif* or CSCCA) presented details of its investigation into the use of 77 percent (US$1.6 billion) of the total funds received in the context of the *Petrocaribe* program, highlighting widespread mismanagement and misuse and calling for judiciary action against involved officials.[4] The *Petrocaribe* scandal triggered large demonstrations in October and November 2018, and again in February 2019, with protesters demanding better accounting of the use of funds and the replacement of officials involved.

B. Priorities for Reform

Strengthening the Anti-corruption Framework

4. Although elements of the legal and institutional framework to fight corruption are in place, its effective implementation is lacking. Control bodies and institutions involved in the fight against corruption lack the legal powers and resources. The ULCC employs only 130 people and is present in just half of the *départements* (administrative districts). Beyond the ULCC, the 2014 OAS report on the implementation of the Interamerican Convention against Corruption calls for the strengthening of the CSCCA, the Public Procurement Commission (*Commission Nationale des Marchés Publics* or CNMP), the Superior Judiciary Council (*Conseil Supérieur du Pouvoir Judiciare* or CSPJ), and the Finance Inspection (*Inspection Générale des Finances* or IGF).[5]

5. The prevention and enforcement against corruption should be enhanced. The appointment and employment rules of commissioners and the director general at the Steering Committee should better ensure their independence, with a greater role for representatives of civil society. Public reporting of the work of the commission should be guaranteed. The authorities should update the anti-corruption strategy and ensure its proper implementation. The draft anti-corruption legislation should be brought into line with the requirements of the United Nations Convention against Corruption by strengthening the independence and authority of the anti-corruption agency and increasing its transparency. The new office should be given the power to prosecute crimes in addition to investigating them. The asset declaration system for senior public officials should be properly implemented in line with international best practices, including by verifying the accuracy of the declaration, sanctioning the failure and false reporting, and having public access to the declarations.

6. Transparency is key to raising public accountability. The CSCCA should progressively audit and publish all annual consolidated financial statements made available by the ministry of finance. All reports by the CSCCA should be systematically published, as was the case for the reports

[4] CSCCA, *Audit Spécifique de Gestion du Fonds Petro Caribe,* Volume 1 and 2, January and May 2019.

[5] Mécanisme de Suivi de la Mise en Œuvre de la Convention Interaméricaine contre la Corruption, *République d'Haïti, Rapport Final*, September 2014.

on the use of Petrocaribe funds. The wages and benefits of all public officials and high civil servants should be publicly available. The asset declaration requirement for public officials and high-level civil servants should be better enforced.

Public Financial Management (PFM)

7. **Improvements in PFM would reduce the scope for misuse of public funds**. While Haiti has benefited from the support of several TA missions, the presence of a long-term expert in the ministry of Economy and Finance is key to ensure the implementation of the TA recommendations given the significant capacity constraints of the Haitian administration.

8. **The Treasury Single Account (TSA) is a major component of the PFM reform strategy**. By consolidating all state financial resources, the TSA can help to ease payments, strengthen cash management and prevent new expenditure payments arrears, reduce borrowing costs, and improve fiscal reporting and transparency. Since 2014, the TSA has been extended to 18 ministries—accounting for more than half of total public expenditure—by consolidating or linking existing individual bank accounts held by entities and agencies within the administrative jurisdiction of the state into or to a single account. However, as of March 2019, there remained over 900 accounts at the central bank (BRH) and at the Banque Nationale de Crédit. Specifically, there are about 74 accounts open at the BRH by various ministries and public institutions that could be merged rapidly in the TSA.

9. **Limiting the use of "exceptional spending procedures" and enforcing the timely reporting of financial accounts would raise transparency and accountability**. The use of *lettres de virement*, which bypass regular financial control procedures and spending authorization, to pay for government expenditures, have grown from 8.1 percent of total budget spending in 2015–16 to around 16 percent of total budget spending in early FY2019 and jeopardize the proper monitoring of public spending. The coverage and quality of financial accounts should be improved to facilitate public finances monitoring.

10. **A medium-term budget framework and investment plan is needed to improve fiscal management and spending prioritization**. Both reforms would strengthen the credibility of fiscal policy, impose greater fiscal discipline and aid in budget formulation while ensuring that the selected investment projects are properly financed. It would also allow proper monitoring and prioritizing of ongoing investment projects. Eventually a Public Investment Management Assessment would help guide the reform of the public investment process.

Customs Collection

11. **Current customs processes and valuation assessments allow for considerable discretion and uneven enforcement by customs officers**. There remain large revenue leakages at the customs agency (AGD). A prominent example is that AGD records imports from the Dominican Republic at one half of the level of exports to Haiti recorded by the Dominican Republic (see SIP). According to World Bank preliminary estimates, numerous customs duties exemptions (machinery,

spare parts, semi-finished products, materials needed for the development of specific sectors, imports by NGOs) may be costing the Haitian government the equivalent of 0.8 percent of GDP in customs duties.

12. Staff urges swift implementation of the measures recommended in 2018 to strengthen customs administration. This includes improving the interconnectivity of the information systems of the tax and customs administrations (DGI and AGD) to facilitate data sharing and verification and increasing the use of the ASYCUDA software to automatically input manifests for imported goods and manage goods in customs bond awaiting clearance.[6] Staff welcome the authorities' project to connect the Haitian and Dominican Republic customs administration (the latter also uses ASYCUDA). To further combat fraud, AGD should also establish a reference price list to be systematically used to assess customs duties. Given the very limited staff capacity of the AGD, the presence of a long-term or peripatetic expert is viewed as essential for the success of these reforms.

Governance of State-owned Enterprises (SOEs) and the Public Electricity Utility (*EDH*)

13. SOE governance is weak. The rules governing SOEs are spelled out in the *Décret du 17 mai 2005 portant Organisation de l'Administration Centrale de l'Etat*. Board members are appointed by the Council of Ministers after approval by the Senate. Reporting obligations are limited and often not enforced. SOE accounts are not consolidated in government financial statistics.

14. *EDH* losses amount to about 2 percent of GDP per year. This reflects a combination of weak management and governance. A large share of accounts is not billed, and payments not collected, administrative costs are high, and many users are reportedly informally connected to the grid but not registered. Purchase agreements with energy suppliers lack transparency and often include a "take-or-pay" clause that prevents *EDH* from optimizing across energy sources.[7] As a focus for reform under the 2018 SMP, *EDH* registered important gains, notably on transparency, with the publication of the utility's first full budget, on the billing rate, which rose from 40 to 50 percent, and on supply contracts, some of which are now being put out to public bid (see SIP).

15. Staff recommend the timely adoption and publication by *EDH* of an annual budget. The budget should have cash flow projections along with a multi-year plan to raise invoicing and collection rates. The staff-level agreement concluded in March 2019 set structural benchmarks to contracts with private electricity suppliers.

Business Regulations

16. Haiti needs to lower the costs of starting a business, improve the protection of minority investors, and reduce market dominance. According to the Doing Business and the Global Competitiveness Reports, Haiti is one of the weakest performers in the world on these three

[6] Partial implementation of ASYCUDA at ports, airports, border checkpoints, and industrial parks is a step towards automating customs processes and increasing revenue generation by reducing discretion in import valuation, providing real-time information, and reducing the risk of fraudulent import declarations.

[7] See Baum, Hackney, Medas and Sy (2019) for evidence on how corruption affects the performance of SOEs.

dimensions.[8] The lack of a level-playing field resulting from the absence of a legal framework for competition discourages investment and drives rent-extraction behavior. As a result, consumer prices, including for food products, are reported to be 40 to 50 percent higher in Haiti than in other countries in the region.

Tax Code and Administration

17. The draft tax code needs to be approved by parliament and published. This will clarify the tax rules and help to improve compliance. Future TA missions will focus on drafting the tax procedure code, building the capacity to enforce the tax policy (large taxpayers' unit), and reviewing derogatory regimes and tax exemptions.

18. Reorganization of the tax administration (DGI) is a prerequisite for future tax reforms, such as introduction of a VAT. The DGI's organizational structure is not aligned with key functions and the monitoring function is lacking. Day-to-day operations are not effectively controlled; for example, the taxpayers' register is unreliable while the stock of arrears is unknown. A draft organic law to reorganize the DGI still awaits submission to parliament.

Central Bank Governance and Operations

19. The 2019 safeguards assessment identified the need to reinforce the central bank's autonomy, accountability and governance framework. The report noted weaknesses with regard to the central bank's institutional and financial autonomy and governance arrangements, financial reporting practices, audit mechanisms, and reserves management. Improvements in these areas, including through comprehensive legal reforms and transition to International Financial Reporting Standards (IFRS) to increase transparency, are key priorities. First steps towards the transition to IFRS were initiated in 2019.

AML/CFT

20. The July 2019 Mutual Evaluation Report of AML/CFT measures published by the Caribbean Financial Action Task Force (CFATF) graded Haiti a low level of effectiveness of its AML/CFT regime and called for fundamental improvements.[9] The report noted that "Haiti has not conducted any ML/TF risk assessment that is geared towards identifying and understanding its ML/TF risks". As a result of the absence of any ML/TF risk assessment, the jurisdiction's authorities have not taken any measures to mitigate ML/TF risks. Technical compliance with FATF recommendations is weak: Haiti was found to have low effectiveness ratings for all immediate outcomes and to be partially compliant or non-compliant with 38 out of 40 FATF recommendations Further steps should be swiftly taken to ensure compliance with the FATF standards and their effective implementation into Haiti's framework, and to prevent pressure on correspondent banking relationships, which could increase financial intermediation costs, including for trade and remittances. The World Bank is advising the authorities in the AML/CFT area.

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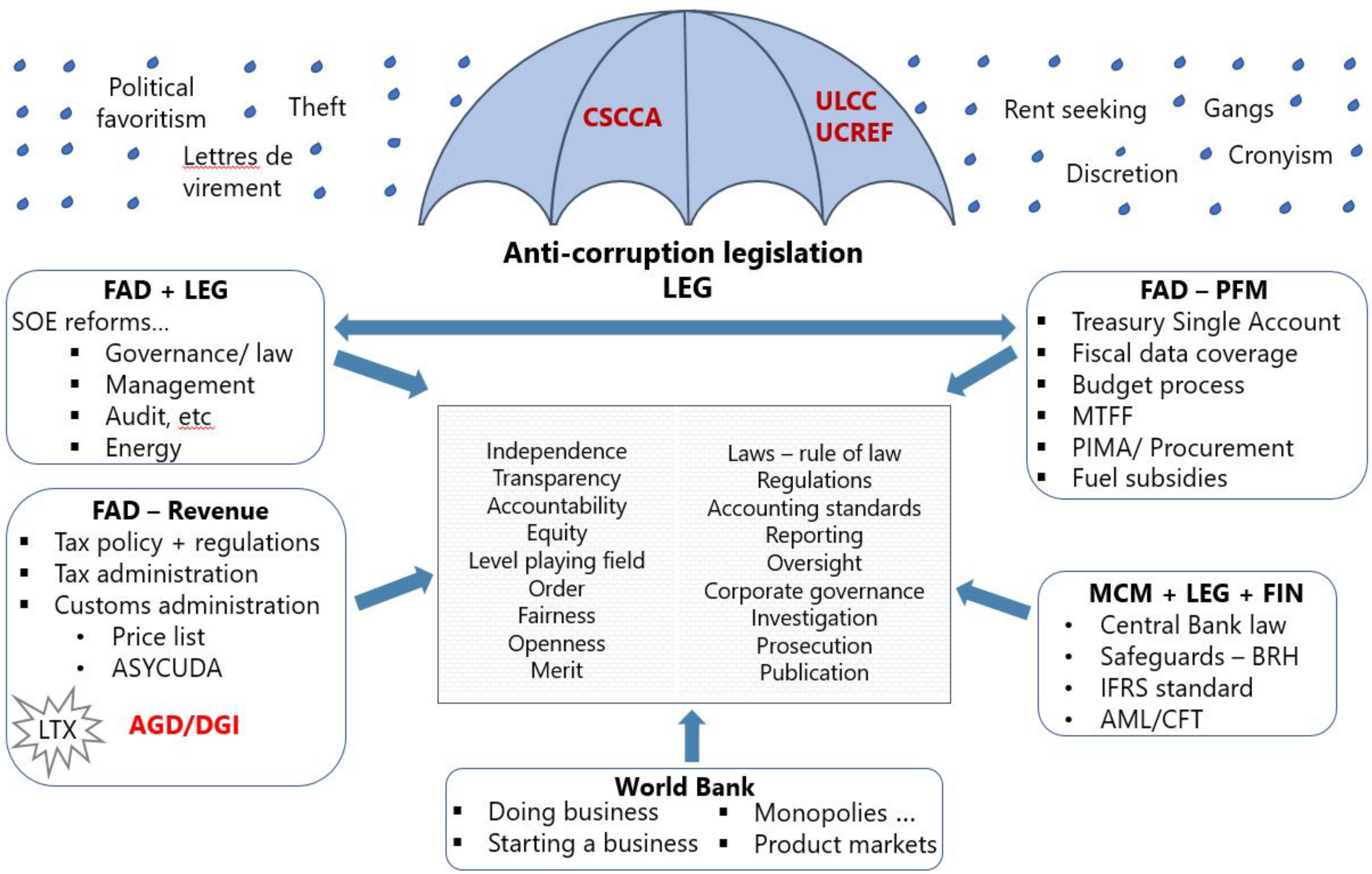
[8] World Bank, *Doing Business 2019, Haïti*, 16th edition; World Economic Forum, *Global Competitiveness Report 2018*.

[9] Caribbean Financial Action Task Force (CFATF), Anti-money laundering and counter-terrorist financing measures – Republic of Haiti, Mutual Evaluation Report, 2019.

Annex Figure 1. Haiti: IMF Contributions to Governance Reforms



Annex V. Capacity Development Strategy

1. The capacity of Haiti's institutions is low. Over the past two years, Haiti has received extensive TA from FAD, MCM, and CARTAC, on tax administration, tax policy, public financial management, banking supervision, and price and national accounts statistics. However, the implementation of TA recommendations has been relatively slow, in part due to acute capacity constraints and political instability. The establishment of a Treasury Single Account (TSA) has been ongoing since the first TA mission in June 2014 and is still not complete. Similarly, the reorganization of the tax administration, first proposed in 2014, has not progressed despite follow-up missions in 2015, 2017, and early 2019.

2. The presence of resident long-term experts and the preparation of roadmaps would improve ownership and make TA more effective. Past experience shows that resident long-term TA advisors can assist in the coordination of TA and the hands-on transfer of knowledge, and build capacity more intensively than mission-based support. Similarly, the preparation by the authorities of a roadmap (*note de cadrage* and *feuille de route*) ahead of any TA-supported reform has been found to improve traction with technical staff and facilitate the implementation of proposed changes. **Priorities**. The authorities indicated their priorities for TA are to: (i) reform tax policy with a new tax code; (ii) strengthen revenue collection; (iii) improve public financial management and fiscal accountability; (iv) develop and strengthen local markets for foreign exchange and government debt securities; and (v) improve data compilation and reporting (monetary, price, and national accounts statistics). To ensure maximum effectiveness, staff propose that Fund TA focus on tax and customs administration, public financial management including governance of state enterprises, reform of the energy sector and reduction in fiscal losses, and expenditure policy (including social spending). Capacity development in the areas of foreign reserve management, transition of the central bank's financial reporting to IFRS, amendments to the central bank law, foreign exchange regulation and development, anti-corruption legislation, and improving the timeliness and quality of the Standard Reporting Forms (SRFs) for monetary statistics—with calculation of foreign exchange reserves consistent with IMF guidelines—would be necessary in the event of approval of a new financing arrangement. Details about TA priorities by department are provided in the table next page.

3. Main partners. Many donors are financing capacity development or providing TA in Haiti. The main financial partners include Canada, the E.U. and the U.S. The main technical partners include USAID (social protection, electricity market, and oil import market), the World Bank (social protection, health, transport, AML-CFT, and resilience to natural disasters), the IDB (transport, water and sanitation) and the World Food Program (social protection). To strengthen coordination and improve the effectiveness of TA, a partnership framework (*cadre de partenariat*) has been in place since May 2017 with the Haitian government and the financial and technical partners in the areas of fiscal reform and public financial management. A similar type of partnership is being considered in the area of social protection.

Technical Assistance by Function

FAD

Area	Objectives	Progress-to-date	Risks
Tax and Customs Administration	1) Strengthen the tax (DGI) and customs (AGD) administrations' core functions with a view to improving their performance and contributing to meeting the government's revenue goals. 2) Improve performance management and governance (leadership, data integrity, transparency, accountability) 3) Prepare the groundwork to introduce a VAT.	No progress since 2017. Request for financing of a long-term expert by the Revenue Mobilization Trust Fund.	Weak and inadequate governance, inability to identify clear priorities and lack of political will in the absence of Fund program to implement relevant strategies
Public Financial Management	1) Fully implement the Treasury Single Account and improve cash management 2) Improve public accounting 3) Improve financial control over expenditure execution 4) Strengthen internal and external controls by Inspection Générale des Finances and Cour des Comptes (CSCCA) respectively 5) Introduce a medium-term budget framework 6) Introduce pluriannual investment programming	Mixed progress since departure of long-term expert in March 2018. Delays in reform implementation. Ground rules for the preparation and execution of the budget need to be improved and followed before introducing further reforms	Weak capacity and political instability hinder the implementation of Fund's recommendations
Tax Policy	1) Undertake consultations on the new tax code 2) Draft tax procedure code 3) Review derogatory regimes (investment code and SEZs)	The tax code draft is complete and needs to be submitted to parliament. Reform of derogatory regimes and of the tax-related funding of the *Fonds National d'Education* and *Fonds d'Entretien Routier* to be tackled separately.	Given the currently dysfunctional parliamentary process, implementation risk is high. Internal and external review process may lead to inconsistencies or changes in policy directions.
Energy Sector Reform	Prepare roadmap for the elimination of fuel price subsidies	Workshop organized in June 2018.	Complex reform. High risk of mismanagement and corruption. High reputational risk for the Fund in case of failure. Strong vested interests.
Public Investment Management	Conduct a public investment management assessment	Team proposal	
Expenditure Policy	1) Assess effectiveness of social spending 2) Identify measures to rationalize spending	Team proposal	

MCM

Area	Objectives	Progress-to-date	Risks
Transition to IFRS	Gap analysis and preparation of a roadmap for IFRS	Mission scheduled for July 2019	Low capacity may delay the implementation.
Debt Management and Market Development	1) Evaluate the current state of debt issuance 2) Identify and address existing gaps in the regulatory framework	Request by BRH	Political instability may hinder the necessary coordination with the ministry of finance
Monetary Operations and Liquidity Management	Diagnostic of the legal and operational frameworks	Request by BRH	
FX Market	Regulatory framework and dollarization pressures. Easing of supply pressures	Request by BRH	
Banking Supervision	Transition to risk-based supervision	Medium-term, donor-financed project.	Contingent on appointment of long-term expert

STA

Area	Objectives	Progress-to-date	Risks
Real Sector Statistics	GDP and price index rebasing	Rebased CPI was published in November 2018. Supply and use tables for 2011-12, a benchmark for the new base year, have been compiled.	
Monetary Statistics	1) Reconcile the current monetary statistics sent to the IMF for surveillance purpose with the information available in the standardized reporting forms 2) Review the computation of gross and net foreign reserves	The possibility for the Fund to provide TA was discussed with the authorities in March. Improving the timeliness and quality of the SRFs should be a prerequisite for approval of a new program.	

LEG and FIN

Area	Objectives	Progress-to-date	Risks
Anti-corruption	Provide advice on the draft of the new anti-corruption legislation	Comments sent by LEG on the draft law	Lack of traction with the authorities
AML-CFT	1) Clarify the roles and objectives of each actor of the AML regime 2) Prepare law on countering the financing of terrorism	CATF Mutual Evaluation report, prepared by the World Bank, was published in June 2018. Any TA needs to be coordinated with the World Bank.	
Safeguards	Follow through on recommendations of the 2019 Safeguards Assessment		Necessary for future Fund financing

INTERNATIONAL MONETARY FUND

HAITI

December 20, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of December 4, 2019)

Membership Status: Joined September 8, 1953; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	163.80	100.00
Fund holdings of currency	143.26	87.46
Reserve Tranche Position	20.54	12.54
SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	78.51	100.00
Holdings	33.04	42.09
Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
RCF Loans	30.71	18.75
ECF Arrangements	33.06	20.19

Latest Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF	May 18, 2015	November 17, 2016	49.14	7.02
ECF	July 21, 2010	December 24, 2014	40.95	40.95
ECF[1]/	November 20, 2006	January 29, 2010	180.18	180.18

1/ Formerly PRGF

Projected Payments to Fund

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

	2019	2020	2021	2022	2023
Principal	6.22	8.89	7.14	11.48	9.02
Charges/Interest	0.39	0.52	0.52	0.52	0.52
Total	6.61	9.41	7.66	12.00	9.54

Exchange Rate Arrangement and Exchange Restrictions:

Haiti's currency is the gourde. The *de jure* exchange rate regime is floating. The *de facto* exchange rate arrangement has been classified as a crawl-like arrangement since April 2008, except for a short period of post-earthquake disruption in the exchange rate market from January through February of 2010 and between March 2017 and June 2018, during which time the gourde was classified as

[1] As the arrangement fell off track shortly after, no reviews were completed and the ECF was cancelled in November 2016. As a result, no key reforms were implemented and the majority of the 2016 safeguards recommendations remains outstanding (see next page).

another managed arrangement. Haiti has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Safeguards Assessment:

The last assessment of the BRH was completed in August 2019 in connection with the request for an RCF arrangement in early-2019.[2] The assessment concluded that safeguards risks at the BRH remained high and made the recommendations to: complete amendments to the BRH Law to strengthen the central bank's autonomy, enhance its accountability, transparency and decision-making structure, and establish independent oversight by the Board; reinforce membership and operational modalities of the Audit Committee; strengthen financial reporting practices by implementing IFRS with IMF TA support; complete the modernization of the internal audit function; strengthen governance and accountability arrangements in reserve management, including regarding the Investment Committee composition and strict segregation of operational responsibilities; and prepare a medium-term plan for updating the BRH investment policy and transitioning to strategic asset allocation and portfolios that are consistent with the principles of safety and liquidity incumbent upon a central bank.

Initial advances were made on some recommendations, although progress stalled after the worsening of the political and security crisis in the country mid-2019. In this context, risks remain as to the adequacy of safeguards for Fund resources.

Article IV Consultations:

The last Article IV consultation was concluded on March 20, 2015 (IMF Country Report No. 13/90). The current Consultation discussions were held in Washington, D.C. and in Haiti during November 8-22, 2019. The IMF team comprised Nicole Laframboise (head), Frederic Lambert, Rand Ghayad, Paola Aliperti (all WHD), Matthieu Bellon (FAD), and Chiara Fratto (SPR). Ahmed Zorome (Resident Representative) and Gabriel Duvalsaint (local economist) assisted the team and participated in discussions in Haiti. Patricia Alonso-Gamo (WHD) joined the concluding meeting. The IMF team met with acting central bank Governor Jean Baden Dubois and Acting Minister of Finance Joseph Jouthe, and with senior officials, representatives of the private sector, civil society, other IFIs, and academics. Mr. Saraiva, Ms. Florestal, and Mr. Pierre (OED) also participated in the meetings.

It is recommended that the next Article IV consultation take place on the standard 12 month cycle.

Resident Representative:

Mr. Ahmed Zorome has been the Fund's Resident Representative since September 26, 2019, replacing Mr. Gaston Mpatswe.

[2] Following the 2018 SMP, staff responded to the authorities' request for support and agreed *ad referendum* on a program in March 2019. However, this could not proceed after the resignation of the prime minister and absence of a successor government.

Technical Assistance:

Haiti has received the following IMF technical assistance missions since November 2012:[3]

Department	Dates	Purpose
FAD	February 2019	Scoping mission on Revenue Administration
	January 2019	Strengthening the TSA
	January 2019	Consultation of new Tax Code
	February 2018	Tax Policy
	January 2018	Treasury Management
	July 2017	Tax Administration
	May 2017	Tax Administration
	April 2017	Treasury Single Account
	November 2016	Income Tax Reform
	December 2015	Cash and Debt Management
	October 2015	Tax Policy
	March 2015	Tax Administration
	November 2014	Tax Administration
	October2014	Tax Administration
	August 2014	Tax Administration
	July 2014	Energy Subsidy Reform
	June 2014	Mining Taxation
	April 2014	Cash and Treasury Management
	February 2014	Tax Administration
	November 2013	Tax Administration
	July 2013	Public Financial Management
	June 2013	Tax Administration
	April 2013	Cash and Treasury Management
	April 2013	Value-Added Tax
	March 2013	Public Accounting
	March 2013	Macro-fiscal
	January 2013	Tax Administration
FIN	March/April 2019	Safeguards Assessment Mission
MCM	July 2019	Develop program to transition to IFRS
	November 2018	Drafting a Banking Chart of Accounts
	November 2018	Banking Supervision & Regulation
	September 2018	Banking Supervision & Regulation
	July 2018	Banking Supervision & Regulation
	May 2018	Banking Supervision & Regulation

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

Department	Dates	Purpose
	March 2018	Banking Supervision & Regulation
	January 2018	Banking Supervision & Regulation
	October 2017	Banking Supervision & Regulation
	August 2017	Banking Supervision
	August 2016	Stress-Testing for the Banking System
	June 2016	Banking Supervision
	July 2015	Credit Union Supervision & Risk Based Supervision
	November 2014	Credit Union Supervision
	August 2014	Reserve Management Guidelines
	May 2014	Foreign Exchange Market
	February 2014	Credit Union Supervision
	April 2013	Macroprudential Policies
STA	April 2019	CARTAC: National Accounts-Review Progress on Rebasing GDP
	January 2019	Cash management and Fiscal Reporting
	May 2018	Government Finance Statistics
	February 2018	Consumer Price Index - Rebasing
	October 2017	National Accounts
	March 2018	Consumer Prices/Producer Prices
	November 2016	Balance of Payments Statistics and IIP
	July 2016	National Accounts
	June 2016	Development of Financial Health Indicators
	May 2016	Consumer Price Index
	April 2016	Remittances & Reserves
	May 2015	National Accounts Statistics
	November 2014	Automatic Data Exchange System for Customs
	June 2014	National Accounts Statistics
	June 2013	Consumer Price Index
	June 2013	National Accounts
LEG	June 2013	Drafting of a general tax code

STATISTICAL ISSUES

(as of December 9, 2019)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that significantly hamper surveillance. Most affected are the national accounts and labor indicators. Fiscal, monetary and external sector data are broadly adequate, but need improvements in coverage and timeliness.
National Accounts and Real Sector Data. The Haitian statistical system was severely affected by the January 2010 earthquake. The 1986/1987 base year of constant price GDP data does not adequately capture the structural shifts in the economy since then. The Caribbean Regional Technical Assistance Centre (CARTAC) has been providing TA on compiling the supply and use tables (SUTs) for 2012 and rebasing the GDP estimates, with six missions undertaken since 2013. In addition, the World Bank has funded a resident advisor over two years to assist with the SUTs and rebasing GDP, with the revised GDP estimates expected to be released around May or June 2020. Other shortcomings include incomplete and untimely reporting on performance in the agricultural sector and the lack of quarterly GDP data.
Price and Labor Statistics. The monthly CPI is compiled by the Haitian Institute of Statistics on information based on a 2012 Household Living Conditions Survey structure, using 2017/18 as the reference year. Four CARTAC missions from May 2016 to August 2018 helped finalize expenditure weights and compilation system, and provided training. The index follows a Laspeyres methodology and comprises 287 products. The statistical institute also produces estimates of inflation of local and imported goods, but these are not consistent with the headline survey, preventing an accurate estimation of the contributions to overall inflation from local and imported goods. The only labor statistic published is the employment index (December 2018 latest available).
Government Finance Statistics. Staff receive data from the Ministry of Finance in the form of a monthly "Table of Government Financial Operations" (TOFE) for program monitoring and surveillance. Data presentation is broadly adequate but has weaknesses including limited coverage, high aggregation, misclassifications, the non-reporting of major categories such as net lending, financing and *Petrocaribe*-related operations, and incomplete information on debt service. There is a need to improve the timeliness of publication of the accounts of autonomous agencies and public enterprises, particularly the electricity utility EDH, to establish the accounts of the nonfinancial public sector. The reporting of budgetary expenditures, especially on ministerial discretionary accounts, should be improved to increase transparency. The authorities are encouraged to establish a plan for migrating to the GFSM 2001/2014 framework for compiling fiscal statistics. Data on local governments and comprehensive gross public debt data, covering both domestic and external public debt of the non-financial public sector, is lacking
Monetary and Financial Statistics. The monthly accounts of the balance sheets of the central bank and the consolidated banking sector are broadly adequate for surveillance. However, there are some inconsistencies between the central bank and commercial bank accounts. There is also a need to expand institutional coverage of financial institutions to include credit unions and cooperatives into the survey of depository corporations, and to improve the timeliness of reported data to the Fund. Improving the timeliness of monetary statistics data reported through the Standard Reporting Forms—with calculation of foreign exchange reserves in line with IMF guidelines—should be a priority. Haiti reports data on several series indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
Financial Sector Surveillance. With regard to financial soundness indicators (FSIs), Haiti currently does not report data to the Fund for dissemination on the Fund website.

External Sector Statistics. Balance of payments data is broadly adequate for surveillance but suffers from some deficiencies in scope, source data, and timeliness. Large errors and omissions, as well as gaps between the data reported by Haiti and its partners indicate incomplete coverage of current and financial account transactions. Special attention should be given to customs data coverage and classification of official and private flows, as well as recording of the external assets and liabilities of the private sector. Data at the quarterly and annual frequencies should be consistent. The most recent mission from CARTAC (April 2018) noted some progress but highlighted important work ahead on improving trade data coverage and implementing the business survey (direct investment and private external debt).	
II. Data Standards and Quality	
Haiti participates in the Fund's General Data Dissemination System.	No data ROSC is available.
III. Reporting to STA	
Haiti currently does not report monthly or annual fiscal data to STA for publication in the International Financial Statistics (IFS) or in the Government Finance Statistics Year (GFSY), respectively. Haiti reports annual IIP and quarterly balance of payments to STA, although these suffer from a lack of consistency.	

Table 1. Haiti: Table of Common Indicators Required for Surveillance
(as of December 2019)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	November 2019	November 2019	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	September 2019	November 2019	M	M	I
Reserve/Base Money	September 2019	November 2019	M	M	I
Broad Money	August 2019	November 2019	M	M	I
Central Bank Balance Sheet	September 2019	November 2019	M	M	I
Consolidated Balance Sheet of the Banking System	August 2019	November 2019	M	M	I
Interest Rates[2]	November 2019	November 2019	W	W	M
Consumer Price Index	September 2019	November 2019	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	September 2019	November 2019	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	September 2019	November 2019	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	September 2019	November 2019	M	Q	I
External Current Account Balance	Q1 2019	July 2019	Q	Q	Q
Exports and Imports of Goods and Services	Q1 2019	July 2019	Q	Q	Q
GDP/GNP	2018	Dec 2018	A	A	A
Gross External Debt	September 2019	November 2019	M	M	I
International Investment Positions	2018	July 2019	A	A	A

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

INTERNATIONAL MONETARY FUND

HAITI

December 20, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Patricia Alonso-Gamo, Jeromin Zettelmeyer (IMF), and Marcello Estevão (IDA)

Prepared by staffs of the International Monetary Fund and the World Bank.

Haiti: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Debt is sustainable.
Application of judgment	Yes: High probability of protracted and substantial threshold breaches from FY2034.

The Debt Sustainability Analysis (DSA) was prepared in accordance with the revised joint Bank-Fund debt sustainability framework (DSF) for low-income countries (LICs).[1] Haiti's risk of debt distress is assessed to be high, despite a model-based risk rating for both external and overall public debt of "moderate." The application of judgement to change the rating from "moderate" to "high" is justified by the high probability of threshold breaches under the baseline scenario from FY2034, and by Haiti's institutional fragilities and exceptional vulnerability to natural disasters. Haiti is an FCV country (that is, a country affected by fragility, conflict, and violence as defined by the World Bank) and tailored stress tests suggest that its debt risk rating over FY2019-2029 is very vulnerable to large natural disaster shocks which are statistically very frequent. Nevertheless, the moderate level of public debt and broadly stable debt trajectory over the next ten years point to a sustainable public debt.

[1] Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-Income Countries (LIC-DSF), February 2018.

PUBLIC DEBT COVERAGE

1. Coverage. Gross public debt used for the DSA covers the central government, local governments, extrabudgetary autonomous organisms, the state-owned electricity company, *Electricité d'Haiti* (EDH), and advances by the central bank to the government. No data is available on guaranteed debt, including to other state-owned enterprises (SOE), and non-guaranteed SOE debt.

2. Gross domestic public debt is calculated as the sum of claims of the overall banking sector (including the central bank) to the non-financial public sector (NFPS) plus suppliers' credits and domestic arrears reported by the authorities. The banking claims data come from the 10R and 20R tables reported by the *Banque de la République d'Haiti (*BRH). The education fund *Programme de Scolarisation Universelle, Gratuite, et Obligatoire* (PSUGO) and social security funds (*Pension civile* and *Office Nationale d'Assurance-Vieillesse*—ONA) are consolidated with the rest of the NFPS. In the absence of data, the calculation for domestic public debt does not include T-bills and bonds held outside of the banking sector.

3. External debt data come from the BRH and include debt to multilateral and bilateral creditors and payment arrears to a foreign oil company. External debt is defined on a residency basis.

Haiti: Public Debt Coverage

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	X
3	Other elements in the general government	X
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	X
6	Guarantees (to other entities in the public and private sector, including to SOEs)	
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

	The country's coverage of public debt	The general government			
1		Default		Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4	PPP	35	percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			7.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND ON DEBT

4. At the end of the 2019 fiscal year, Haiti's stock of public sector debt totaled US$3.7 billion (47 percent of GDP).[2] External public debt accounts for 58.2 percent of total outstanding public debt (27.4 percent of GDP) of which 86 percent is debt arising from oil imports financed by Venezuela's Petrocaribe. The remainder is largely concessional debt from multilateral creditors, including the International Fund for Agricultural Development (IFAD) and the IMF. There is

[2] Annual data refer to the fiscal year ending September 30.

no publicly available information on private external debt. Domestic public debt amounts to US$1.5 billion, mostly in the form of central bank advances to the government. External technical arrears to Venezuela of about US$260 million (as of September 30, 2019) are in the process of being resolved.[3]

Haiti: Structure of Public Debt at end-2019
(Fiscal-year basis)

		in percent of	
	US$ millions	total debt	GDP
Total External Debt	**2147.9**	**58.2**	**27.4**
Multilateral creditors	**177.4**	**4.8**	**2.3**
o/w IMF	79.8	2.2	1.0
o/w OPEC	49.3	1.3	0.6
o/w IFAD	48.3	1.3	0.6
o/w IDA	0.0	0.0	0.0
Bilateral creditors	**1923.4**	**52.1**	**24.5**
Venezuela	1853.0	50.2	23.6
o/w PetroCaribe	1826.2	49.5	23.3
o/w BANDES	26.8	0.7	0.3
Taiwan, Province of China	70.4	1.9	0.9
Other borrowing	**47.0**	**1.3**	**0.6**
Total Domestic Debt	**1541.4**	**41.8**	**19.6**
BRH	**960.2**	**26.0**	**12.2**
Other creditors	**581.2**	**15.8**	**7.4**
Total Debt	**3689.3**	**100.0**	**47.0**

Sources: Haitian authorities, and Fund staff estimates.

5. **Debt has increased since the debt relief that followed the 2010 earthquake.** Haiti benefited from about US$1 billion in debt relief from international creditors after the earthquake, including US$268 million from the IMF (under the Post-Catastrophe Debt Relief Trust Fund) and US$36 million from the World Bank.[4] As a result, external public debt fell from 19 percent at end-FY2009 to less than 9.0 percent of GDP in FY2011. Since then, debt has increased steadily, mostly driven by disbursements related to the *PetroCaribe* agreement with Venezuela on the external side, and by unremunerated advances from the central bank on the domestic side. More recently, the government obtained funding from domestic suppliers (US$123 million) in FY2018 and signed a loan from Taiwan Province of China (US$150 million) in January 2019, although the latter has not been disbursed.[5]

6. **Fiscal policy and public borrowing have been more conservative than was projected in the last DSA of November 2016.** Fiscal policy proved more conservative than expected in FY2017, with the NFPS posting a primary deficit of only 0.7 percent of GDP compared to the 4.1 percent of GDP projected in the 2016 DSA. As a result, the present value of public debt stood at 30.4 percent of GDP in September 2018.[6]

BACKGROUND ON MACROECONOMIC FORECASTS

7. **The baseline scenario** assumes conservatively a low growth, sub-optimal equilibrium with enough resolution of the political crisis in the short-term to permit a degree of stability but not enough to implement ambitious reforms. This would allow for some resumption in activity and external financing.

[3] Haiti has attempted to pay some of these arrears but the authorities have encountered processing difficulties with financial institutions in making regular payments to Venezuela under the *Petrocaribe* agreement. Debt service payments to Venezuela are made into an escrow account in U.S. dollars at the central bank.

[4] In addition, following the earthquake, the World Bank provided US$508 million in grant financing from the IDA Crisis Response Window (CRW) to support reconstruction and long-term restoration of capacity in the country.

[5] The loan package, which includes grants from the government of Taiwan Province of China to compensate for the difference between a low fixed rate and the currently-higher variable rate applicable to the loan, is assessed to be concessional.

[6] This number cannot be compared to the present value of public debt reported in the 2016 DSA since the coverage of debt has changed to include the central bank's advances to the government.

- Real GDP is estimated to have dropped in FY2019 amidst a protracted political crisis. Growth for FY2020 is projected to stay negative at around -0.4 percent. Absent comprehensive reforms, medium-term growth prospects remain grim with potential growth reaching only 1.5 percent, taking the high probability of natural disasters and their effect on growth into account.[7] Revisions in the macroframework vis-à-vis the 2016 DSA reflect economic developments since then and staff's current baseline projections.

- After peaking above 20 percent y/y in 2019, inflation is expected to stabilize and gradually converge to a single digit over the medium term. A stable real exchange rate vis-à-vis the U.S. dollar is assumed over the longer term, so the nominal bilateral exchange rate is driven by the inflation differential vis-à-vis the United States.

- The deficit of the NFPS is estimated at 3.8 percent of GDP in FY2019, as domestic revenues dropped and currency depreciation pushed up the cost of fuel subsidies. The deficit is projected to contract to 3.1 percent of GDP by FY2025, constrained by the lack of financing and limited additional credit from the BRH. Beyond 2025, the deficit is projected to widen to 4.1 percent of GDP on average to account for the likely impact of natural disasters. Those would increase both current spending for emergency assistance to victims and capital spending for reconstruction purposes. The resulting deficit increase is expected to be mostly externally financed through concessional multilateral or bilateral financing.

- The current account deficit is estimated to have shrunk to 2 percent of GDP in FY2019 owing to weak import growth and higher remittances. The deficit is expected to widen in the longer term as remittance inflows normalize and the impact of natural disasters ensues.

Haiti: Macroeconomic Assumptions Compared to the Previous DSA

	2020		2021-24 Avg		2025-35 Avg	
	Previous DSA	Current DSA	Previous DSA	Current DSA	Previous DSA	Current DSA
(annual percentage change, unless otherwise indicated)						
Real GDP	3.0	-0.4	2.4	1.0	2.0	1.5
Consumer prices (period average)	5.0	19.0	5.0	12.7	5.0	9.4
(in percent of GDP, unless otherwise indicated)						
Total revenue and grants	19.7	13.4	19.5	15.2	19.0	17.5
Of which: Revenue	15.1	10.0	16.0	12.2	18.0	14.5
Total expenditure	22.5	15.6	22.6	17.1	21.9	20.4
Of which: Capital expenditure	11.0	4.1	10.8	5.3	12.2	8.3
Overall balance	-3.2	-3.4	-3.1	-3.0	-2.9	-3.1
Current account balance	-1.8	-0.9	-1.7	-1.8	-2.0	-3.5
Exports of goods and services	23.7	18.0	24.5	17.7	27.3	17.8
Imports of goods and services	-55.6	-61.3	-53.9	-60.7	-51.4	-61.6

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

[7] The 1.5 percent long-term growth projection is based on a growth accounting exercise, using a neoclassical production function with a labor share of 54 percent (Cicowiez and Filippo, 2018), assuming the same growth rate of labor and capital as during 1996-2018 and zero TFP growth, and subtracting about 1 percent to account for the average impact of natural disasters (Cantelmo, Melina, and Papageorgiou, 2019). Growth of 1.5 percent also corresponds to the average observed real rate over 1996-2018, a period during which 77 natural disasters were recorded in Haiti.

8. Future gross financing needs are assumed to be met both internally—by the rollover of central bank advances to the government—and externally. Central bank advances are not remunerated. Remaining internal financing takes the form of short-term treasury bills held by commercial banks. The share of internal financing coming from T-bills is assumed to increase in the long-term as the domestic financial market deepens.[8] External debt financing, contracted or guaranteed, is assumed to be mostly concessional. It is assumed that the IDA18 allocation to Haiti will be replenished to similar levels every IDA cycle.

9. The baseline assumptions are credible. The realism tool shows some differences between past and projected debt dynamics coming in part from the impact on external debt of a lower current account deficit and FDI balance and for total public debt from a lower primary deficit, suggesting that previous vintages were pessimistic (Figure 3). The current baseline scenario projects debt-creating flows above those actually observed in the past 5 years, but the latter may also reflect improvements in the coverage and measure of debt.

10. The projected fiscal adjustment is realistic. The planned adjustment falls outside the top quartile of the distribution of past adjustments of the primary fiscal deficit, suggesting a reasonable and credible pace of adjustment (Figure 4).

11. The growth forecast for 2020 and 2021 is driven by the assumed stabilization of the political situation unrelated to the projected fiscal adjustment. The baseline growth projection assumes near-zero growth in FY2020 as the political stabilization and ensuing reduction in uncertainty allow for a modest recovery in the second half of the year. Growth would further recover in 2021. This growth path is largely independent of the expected fiscal adjustment which would result from a resumption of activity supporting higher revenue collection (Figure 4).

COUNTRY CLASSIFICATION AND STRESS TESTS

12. The value of the composite indicator to assess debt carrying capacity is 2.86, resulting in a "medium" classification.[9] Haiti's debt carrying capacity would be classified as weak if remittances as a share of GDP were not so high. Remittances-to-GDP above the 15.5 percent cut-off (on average over 2013-22) brings the index above the 2.69 cutoff value (see Table Debt Carrying Capacity). Previous DSA vintages, using the average CPIA score instead of the composite indicator, had a weak debt carrying capacity.

13. This classification sets higher external and public debt thresholds to assess the risk of debt distress. The present value of external debt can go as high as 40 percent of GDP or 180 percent of exports of goods and services, and the present-value of public debt can reach 55 percent of GDP, before the model-based risk of distress increases. The benchmarks for external debt service are 15 percent of exports of goods and services and 18 percent of fiscal revenues.

14. In addition to the standard stress tests, the analysis considers the effects on debt of a one-off major natural disaster shock of a similar magnitude to Hurricane Matthew that hit Haiti in 2016. This

[8] Projected internal financing is assumed to be exclusively in domestic currency.

[9] The calculation of the composite index uses October 2019 WEO and 2018 CPIA data.

type of shock is particularly relevant since, during the past decade, Haiti has been struck by several major natural disasters. This shock assumes damages of 25 percent of GDP, similar to those caused by Hurricane Matthew. The damages and estimated losses following the 2010 earthquake were estimated at 120 percent of FY2009 GDP. However, this type of disaster is not as statistically frequent as hurricanes, thus considered a tail risk event.[10]

[10] See IMF Policy Paper, "Small States' Resilience to Natural Disasters and Climate Change – Role for the IMF," December 2016.

Haiti: Debt Carrying Capacity and Thresholds

Debt Carrying Capacity and Thresholds

Country	Haiti
Country Code	263

Debt Carrying Capacity	Medium

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium	Medium	Medium
	2.86	2.92	2.97

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.816	1.08	38%
Real growth rate (in percent)	2.719	1.391	0.04	1%
Import coverage of reserves (in percent)	4.052	37.187	1.51	53%
Import coverage of reserves^2 (in percent)	-3.990	13.829	-0.55	-19%
Remittances (in percent)	2.022	15.494	0.31	11%
World economic growth (in percent)	13.520	3.499	0.47	17%
CI Score			2.863	100%
CI rating			Medium	

New framework			
	Cut-off values		
Weak	CI <	2.69	
Medium	2.69	≤ CI ≤	3.05
Strong	CI >	3.05	

Reference: Thresholds by Classiciation

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

TOTAL public debt benchmark	Weak	Medium	Strong
PV of total public debt in percent of GDP	35	55	70

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

15. Under the baseline scenario, Haiti's external debt path is projected to breach the indicative threshold from FY2034 onward (Figure1). No threshold breaches are projected to take place under the standard 10-year projection period. However, Haiti's institutional fragility and its exceptional vulnerability to large natural disasters and the impact of climate change warrant consideration of the debt dynamics over a longer (20-year) horizon.[11] Within that period, two debt indicators show large and sustained breaches of the relevant threshold. The present value of external debt-to-GDP is projected to gradually increase from 15.8 percent in FY2020 to 21.8 percent in FY2030, and up to 44.2 percent in FY2040 on account of external borrowing to finance the (re)construction of infrastructure. Similarly, the present value of debt-to-exports gradually increases from 87.8 percent in FY2020 to up to 237.3 percent in 2040, breaching the 180 percent threshold in FY2034. The external debt service-to-revenue ratio remains one percentage point below the threshold of 18 percent in 2040 thanks to the large share of external debt on concessional terms.

16. The historical scenario highlights the realism of the baseline scenario. The path of debt that would result from key macroeconomic variables in the baseline projection being permanently replaced by their 10-year historical average would imply earlier and more prolonged threshold breaches for all the indicators of public and publicly guaranteed external debt considered.

17. Stress tests confirm the vulnerability of debt dynamics to a drop in remittances and natural disasters. A shock to non-debt flows (decline in both current transfers and FDI inflows by one standard deviation) would bring the present value of external debt persistently above the 180-percent-of-exports threshold, and the debt service-to-revenue ratio above the 18 percent threshold for more than 10 years. A natural disaster shock has the largest negative impact on the external debt trajectory, bringing the present value of debt-to-GDP to 54 percent by 2040 (Table 3).

B. Public Sector Debt Sustainability Analysis

18. Public debt is sustainable under the baseline scenario. Total public debt is projected to remain below 47 percent of GDP until 2025. In present value terms, public debt would reach 35.6 percent of GDP in FY2025, around 20 percentage points below the corresponding benchmark (Tables 2 and 4).

19. Stress test scenarios show debt crossing the public debt benchmark. Under the most extreme natural disaster scenario, the present value of the public-debt-to-GDP ratio would exceed 55 percent the year of the shock and after 2035 (Figure 2, Table 4).

[11] DSF guidance note, paragraph 87.

RISK RATING AND VULNERABILITIES

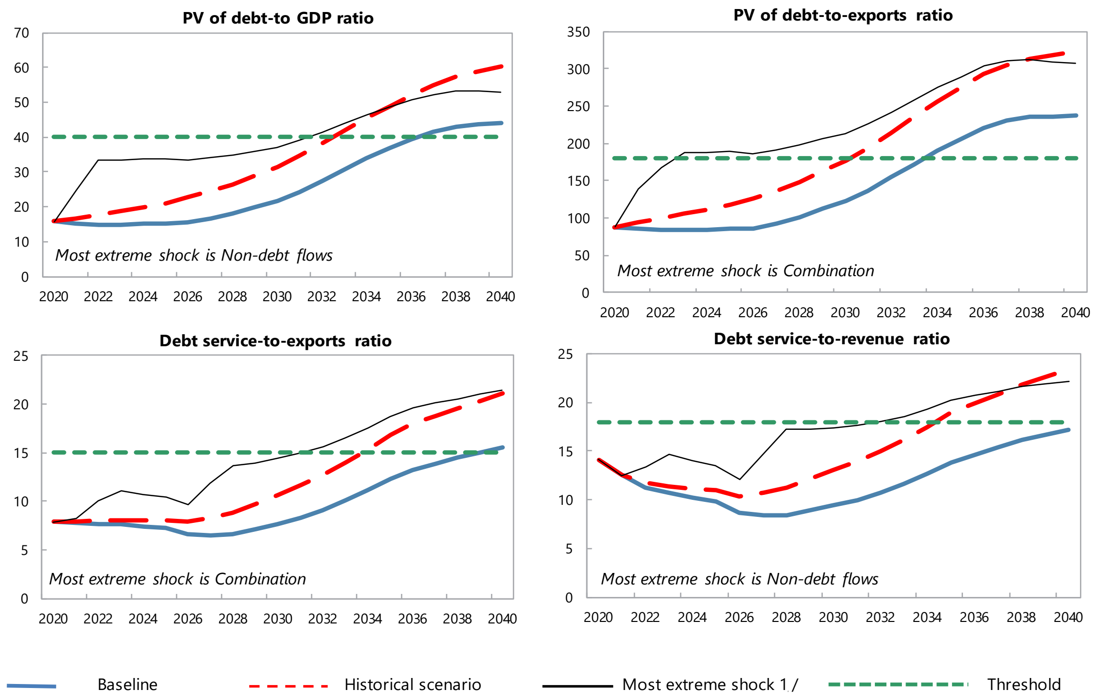
20. The debt outlook for Haiti is subject to several risks. Public debt is expected to grow as a share of GDP over the medium to long term, as potential growth, accounting for the average annual impact of natural disasters, remains weak and Haiti's financing needs decline marginally. The present values of the external public debt-to-GDP and debt-to-exports ratios are projected to breach their indicative benchmarks respectively in FY2036 and FY2034 under the baseline. A drop in remittances or a natural disaster shock similar in magnitude to Hurricane Matthew would imply earlier breaches of the thresholds, as would the historical scenario.

21. Haiti remains at high-risk of debt distress. Haiti is a country affected by fragility, conflict, and violence, and one of the countries in the world most exposed to natural hazards and climate change. Looking beyond the first 10 years of the projection horizon, the baseline, most likely scenario accounting for the high probability of natural disasters forecasts protracted and substantial breaches of the external debt burden indicator thresholds, while an additional major natural disaster or a decline in remittances would substantially aggravate these debt dynamics, even under a 10-year horizon. On this basis, judgment has been applied to the model-based rating of moderate risk for both external and overall public debt distress to an assessment of high risk for both measures.

AUTHORITIES' VIEWS

22. The authorities agreed with the debt sustainability analysis and the assessment. The BRH highlighted the implications of the transition to IFRS-9 for the accounting of the central bank's advances to the government as well as interest payments, and its efforts to develop the market for government debt securities which would help it progressively reduce its financing of the government. They indicated that IFRS-9 compliance would require a higher remuneration of BRH's claims on the government and the establishment of a timetable for domestic debt payments. They emphasized that achieving growth would require higher levels of investment, particularly in infrastructure. While high public investment can increase the stock of debt, if the associated investments are productive, they would have a positive impact on debt sustainability through higher growth, income and exports. While the authorities agreed that Haiti needs concessional funding, they were skeptical that sufficient concessional resources would be made available to finance productive investments that could generate a strong and inclusive growth.

Figure 1. Haiti: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2020–40



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	No	
Natural Disasters	Yes	No
Commodity Prices [2/]	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

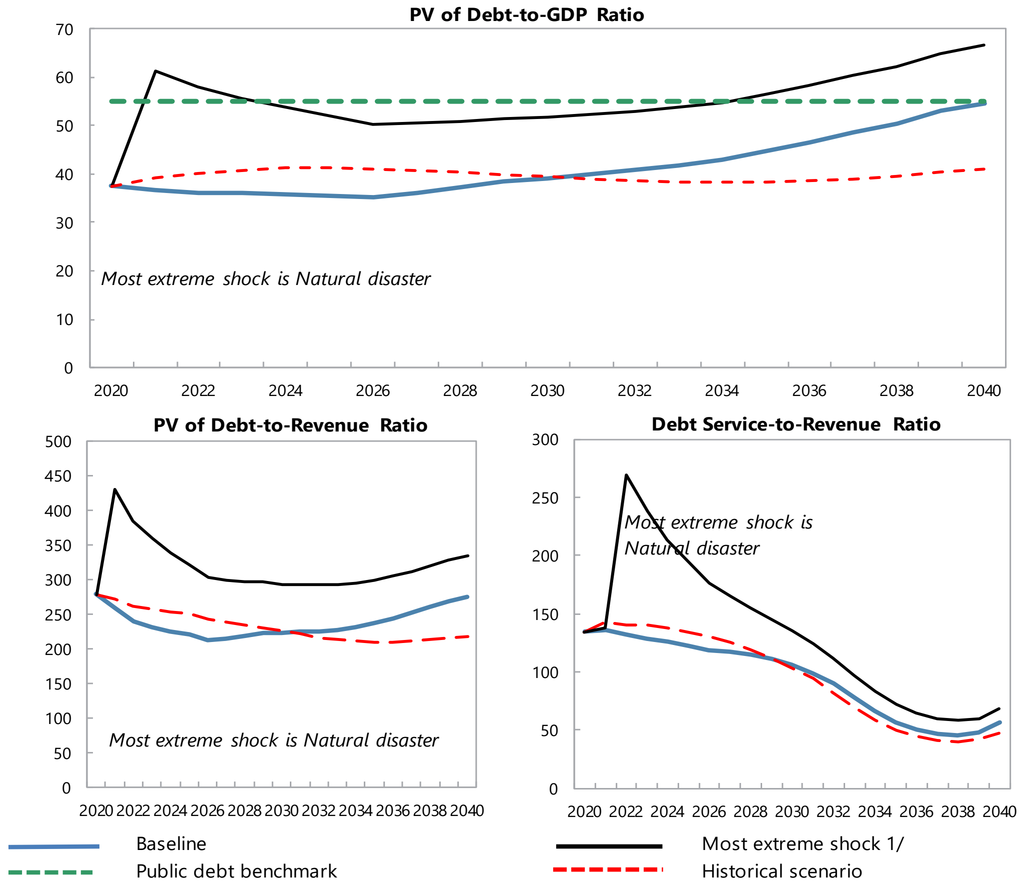
Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	33	33
Avg. grace period	5	5

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.
2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Haiti: Indicators of Public Debt Under Alternatives Scenarios, 2020–40



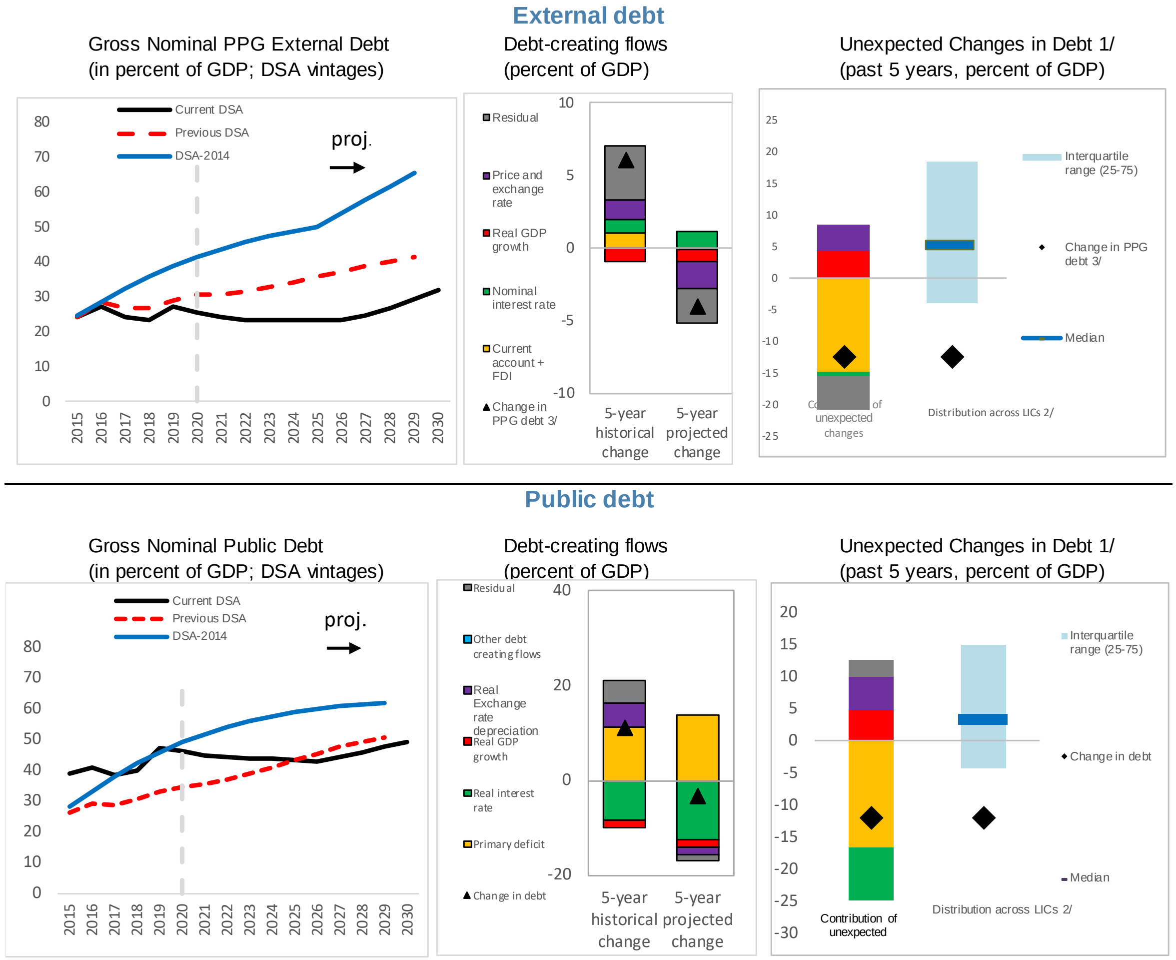
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	11%	11%
Domestic medium and long-term	0%	0%
Domestic short-term	89%	89%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
Avg. maturity (incl. grace period)	33	33
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-9.1%	-9.1%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Haiti: Drivers of Debt Dynamics-Baseline Scenario External Debt



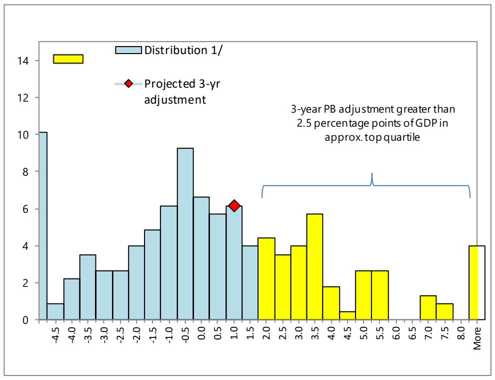
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

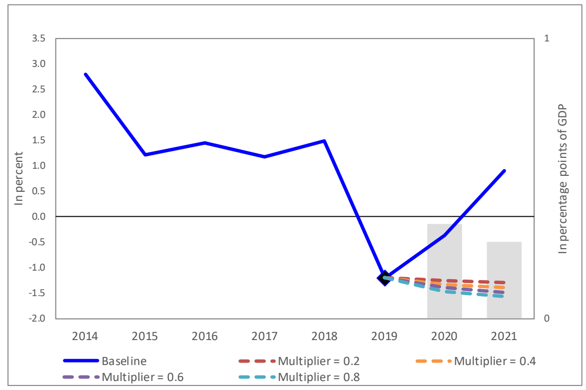
Figure 4. Haiti: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



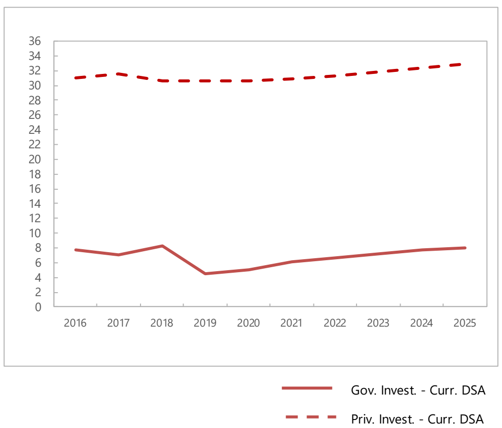
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

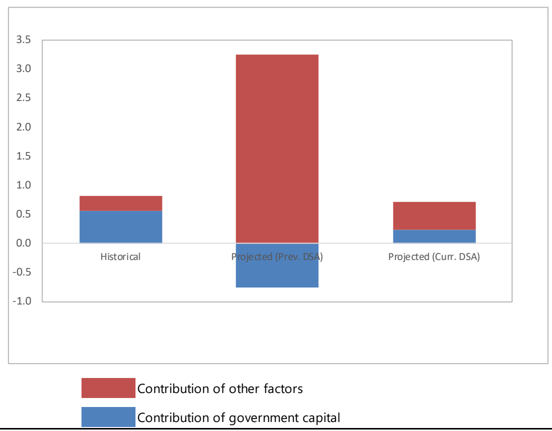
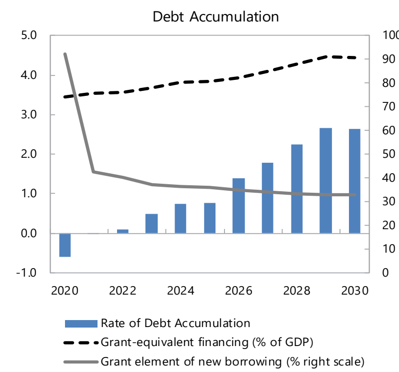


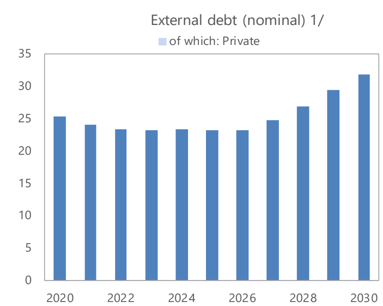
Table 1. Haiti: External Debt Sustainability Framework, Baseline Scenario, 2017–40

(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	24.2	23.5	27.4	25.3	24.1	23.3	23.2	23.3	23.2	31.8	60.3	20.1	25.3
of which: public and publicly guaranteed (PPG)	24.2	23.5	27.4	25.3	24.1	23.3	23.2	23.3	23.2	31.8	60.3	20.1	25.3
Change in external debt	-3.2	-0.7	3.9	-2.0	-1.2	-0.8	-0.1	0.2	-0.2	2.4	0.1		
Identified net debt-creating flows	-4.9	-0.4	3.7	0.1	-0.5	-0.2	0.3	0.5	0.4	0.8	0.5	1.6	0.4
Non-interest current account deficit	0.8	3.7	1.8	0.6	0.8	1.3	1.9	2.2	2.2	2.7	2.2	3.6	2.0
Deficit in balance of goods and services	36.0	40.3	42.9	43.3	42.6	42.7	43.0	43.4	43.5	43.9	43.5	38.0	43.4
Exports	19.8	18.4	18.9	18.0	17.8	17.7	17.7	17.8	17.7	17.8	18.6		
Imports	55.8	58.7	61.8	61.3	60.4	60.4	60.7	61.2	61.2	61.7	62.1		
Net current transfers (negative = inflow)	-34.3	-35.9	-40.3	-41.9	-40.9	-40.6	-40.4	-40.4	-40.5	-40.2	-39.6	-33.7	-40.5
of which: official	-4.6	-4.0	-2.8	-2.3	-3.0	-3.0	-3.0	-3.0	-3.1	-3.0	-3.0		
Other current account flows (negative = net inflow)	-0.9	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-1.0	-1.6	-0.6	-0.8
Net FDI (negative = inflow)	-4.5	-1.1	-0.9	-0.9	-1.3	-1.5	-1.6	-1.7	-1.7	-1.8	-1.9	-1.8	-1.6
Endogenous debt dynamics 2/	-1.2	-2.9	2.8	0.3	0.0	0.0	0.0	0.0	-0.1	0.0	0.2		
Contribution from nominal interest rate	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4	1.1		
Contribution from real GDP growth	-0.3	-0.3	0.3	0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.4	-0.9		
Contribution from price and exchange rate changes	-1.1	-2.8	2.3	...	...	...	...	...	...	...	...		
Residual 3/	1.7	-0.3	0.2	-2.2	-0.8	-0.6	-0.4	-0.3	-0.6	1.6	-0.4	-0.7	0.0
of which: exceptional financing	-1.7	-0.9	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	16.1	15.8	15.2	14.8	14.8	15.0	15.2	21.8	44.2		
PV of PPG external debt-to-exports ratio	...	...	85.0	87.8	85.6	83.9	83.8	84.5	85.6	122.4	237.3		
PPG debt service-to-exports ratio	5.7	6.1	6.9	7.9	7.8	7.7	7.6	7.4	7.2	7.7	15.5		
PPG debt service-to-revenue ratio	8.0	8.7	12.1	14.1	12.5	11.3	10.7	10.2	9.8	9.4	17.2		
Gross external financing need (Million of U.S. dollars)	-210.9	356.5	192.7	101.3	82.6	104.5	154.5	179.7	178.8	280.3	593.4		
Key macroeconomic assumptions													
Real GDP growth (in percent)	1.2	1.5	-1.2	-0.4	0.9	0.7	1.1	1.2	1.4	1.5	1.5	1.4	1.1
GDP deflator in US dollar terms (change in percent)	4.2	13.2	-8.7	-1.6	2.7	2.5	2.4	2.4	2.7	2.2	2.2	1.7	2.4
Effective interest rate (percent) 4/	0.7	1.0	0.9	0.8	0.9	0.9	1.0	1.0	1.1	1.5	1.8	0.5	1.1
Growth of exports of G&S (US dollar terms, in percent)	3.6	6.9	-7.3	-6.9	2.4	2.8	3.4	4.3	3.6	3.8	4.3	5.3	3.0
Growth of imports of G&S (US dollar terms, in percent)	11.7	20.9	-5.1	-2.8	2.0	3.3	4.1	4.4	4.1	3.8	3.9	7.9	3.6
Grant element of new public sector borrowing (in percent)	...	...	...		42.4	40.0	37.3	36.2	36.2	32.8	32.3	...	36.0
Government revenues (excluding grants, in percent of GDP)	14.0	13.0	10.8	10.0	11.1	12.1	12.5	12.9	13.0	14.6	16.8	12.9	12.9
Aid flows (in Million of US dollars) 5/	1186.1	-2965.9	-6550.8	305.1	321.5	326.6	332.7	346.7	364.8	435.2	606.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.5	3.5	3.6	3.7	3.8	3.8	4.4	4.3	...	3.9
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	99.9	84.2	80.9	75.3	73.0	73.7	60.0	61.0	...	73.1
Nominal GDP (Million of US dollars)	8,409	9,658	8,708	8,533	8,842	9,135	9,454	9,798	10,199	12,773	18,473		
Nominal dollar GDP growth	5.4	14.9	-9.8	-2.0	3.6	3.3	3.5	3.6	4.1	3.8	3.8	3.1	3.6
Memorandum items:													
PV of external debt 7/	...	...	16.1	15.8	15.2	14.8	14.8	15.0	15.2	21.8	44.2		
In percent of exports	...	...	85.0	87.8	85.6	83.9	83.8	84.5	85.6	122.4	237.3		
Total external debt service-to-exports ratio	5.7	6.1	6.9	7.9	7.8	7.7	7.6	7.4	7.2	7.7	15.5		
PV of PPG external debt (in Million of US dollars)			1401.4	1348.5	1347.5	1356.3	1401.2	1471.6	1545.8	2783.9	8156.3		
(PVt-PVt-1)/GDPt-1 (in percent)				-0.6	0.0	0.1	0.5	0.7	0.8	2.6	2.1		
Non-interest current account deficit that stabilizes debt ratio	4.0	4.4	-2.1	2.7	2.1	2.1	2.0	2.0	2.4	0.2	2.1		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

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

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

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

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

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

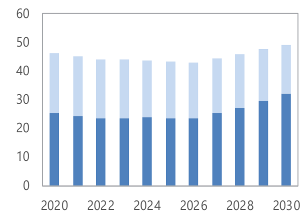
Table 2. Haiti: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017–40

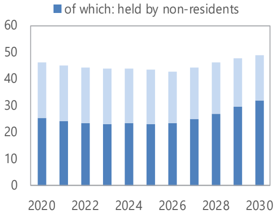
(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	38.3	39.9	47.0	46.1	44.9	44.1	43.9	43.7	43.4	49.0	70.3	35.5	45.1
of which: external debt	24.2	23.5	27.4	25.3	24.1	23.3	23.2	23.3	23.2	31.8	60.3	20.1	25.3
Change in public sector debt	-2.5	1.6	7.0	-0.9	-1.2	-0.8	-0.2	-0.2	-0.3	1.3	1.4		
Identified debt-creating flows	-5.4	0.5	5.1	-0.6	-0.9	-0.6	0.0	0.0	-0.2	1.3	1.4	2.2	0.3
Primary deficit	0.7	2.6	3.4	3.0	2.7	2.5	2.8	2.7	2.7	2.9	2.9	3.4	2.9
Revenue and grants	17.7	17.3	13.6	13.4	14.2	15.1	15.5	15.9	16.1	17.6	19.8	19.2	15.9
of which: grants	3.7	4.3	2.8	3.4	3.0	3.0	3.0	3.0	3.1	3.0	3.0		
Primary (noninterest) expenditure	18.4	19.9	17.0	16.4	16.9	17.5	18.3	18.6	18.8	20.5	22.7	22.6	18.9
Automatic debt dynamics	-6.0	-2.1	1.8	-3.6	-3.7	-3.1	-2.8	-2.7	-2.8	-1.7	-1.5		
Contribution from interest rate/growth differential	-2.1	-2.3	-2.1	-3.2	-3.3	-2.7	-2.6	-2.5	-2.4	-1.6	-1.3		
of which: contribution from average real interest rate	-1.6	-1.7	-2.5	-3.3	-2.9	-2.4	-2.1	-2.0	-1.8	-0.9	-0.3		
of which: contribution from real GDP growth	-0.5	-0.6	0.5	0.2	-0.4	-0.3	-0.5	-0.5	-0.6	-0.7	-1.0		
Contribution from real exchange rate depreciation	-4.0	0.2	3.8	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	2.9	1.1	1.9	-0.7	-0.7	-0.6	-0.4	-0.4	-0.7	-0.1	-0.2	-0.8	-0.4
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	37.5	37.4	36.8	36.2	36.0	35.8	35.6	39.2	54.6		
PV of public debt-to-revenue and grants ratio	...	...	274.8	278.8	258.9	240.0	232.4	225.6	220.8	223.2	275.4		
Debt service-to-revenue and grants ratio 3/	72.6	73.1	108.2	134.8	136.7	132.0	129.1	126.0	122.8	106.3	56.8		
Gross financing need 4/	13.5	15.2	18.1	21.1	22.1	22.4	22.8	22.7	22.5	21.6	14.1		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	1.2	1.5	-1.2	-0.4	0.9	0.7	1.1	1.2	1.4	1.5	1.5	1.4	1.1
Average nominal interest rate on external debt (in percent)	0.7	0.9	1.0	0.9	0.9	1.0	1.0	1.1	1.1	1.5	1.9	0.5	1.2
Average real interest rate on domestic debt (in percent)	-11.2	-10.6	-13.4	-15.3	-12.7	-10.5	-9.5	-8.7	-7.9	-4.1	-2.9	-6.7	-8.1
Real exchange rate depreciation (in percent, + indicates depreciation)	-14.7	0.8	16.3	...	...	...	...	...	...	...	...	1.3	...
Inflation rate (GDP deflator, in percent)	13.4	12.8	17.3	19.0	15.9	13.1	11.4	10.4	9.4	5.0	5.0	9.2	9.9
Growth of real primary spending (deflated by GDP deflator, in percent)	-4.8	9.5	-15.4	-3.6	3.9	4.3	5.3	3.0	2.6	0.4	-0.8	0.5	2.9
Primary deficit that stabilizes the debt-to-GDP ratio 5/	3.1	0.9	-3.7	3.9	3.9	3.3	3.0	2.9	3.0	1.6	1.5	0.1	2.7
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The general government. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Haiti: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–40

	Projections 1/																				
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
PV of debt-to GDP ratio																					
Baseline	16	15	15	15	15	15	15	17	18	20	22	24	27	31	34	37	39	**42**	**43**	**44**	**44**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2020-2030 2/	16	17	18	19	20	21	23	24	27	29	31	35	38	**42**	**45**	**49**	**52**	**55**	**57**	**59**	**60**
B. Bound Tests																					
B1. Real GDP growth	16	16	16	16	17	17	17	18	20	22	24	27	30	34	37	**40**	**43**	**46**	**48**	**48**	**49**
B2. Primary balance	16	15	15	16	16	17	17	18	20	22	23	26	29	32	35	38	**41**	**43**	**45**	**45**	**46**
B3. Exports	16	17	19	19	19	19	19	20	22	24	25	28	31	34	37	40	**43**	**45**	**46**	**47**	**47**
B4. Other flows 3/	16	25	33	33	34	34	33	34	35	36	37	39	**41**	**44**	**46**	**49**	**51**	**52**	**53**	**53**	**53**
B5. Depreciation	16	19	11	11	11	12	12	14	16	19	21	25	29	33	37	**41**	**45**	**48**	**50**	**51**	**52**
B6. Combination of B1-B5	16	24	31	31	32	32	31	32	33	35	36	38	**41**	**44**	**46**	**49**	**51**	**53**	**54**	**54**	**54**
C. Tailored Tests																					
C1. Combined contingent liabilities	16	16	16	16	16	17	17	18	20	22	24	26	30	33	36	39	**42**	**44**	**45**	**46**	**46**
C2. Natural disaster	16	17	18	19	20	21	22	23	25	28	30	33	36	39	**43**	**46**	**49**	**51**	**53**	**53**	**54**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio																					
Baseline	88	86	84	84	84	86	86	93	101	112	122	137	154	172	**190**	**206**	**221**	**231**	**235**	**236**	**237**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2020-2030 2/	88	94	100	105	111	118	127	137	149	163	176	**194**	**214**	**235**	**255**	**274**	**293**	**305**	**313**	**318**	**323**
B. Bound Tests																					
B1. Real GDP growth	88	86	84	84	84	86	86	93	101	112	122	137	154	172	**190**	**206**	**221**	**231**	**235**	**236**	**237**
B2. Primary balance	88	87	87	89	91	93	94	102	111	122	132	146	164	**182**	**199**	**215**	**230**	**240**	**243**	**244**	**245**
B3. Exports	88	104	131	131	132	133	133	141	151	163	175	**192**	**214**	**236**	**256**	**276**	**294**	**306**	**311**	**311**	**311**
B4. Other flows 3/	88	138	**189**	**189**	**190**	**191**	**187**	**192**	**196**	**203**	**209**	**219**	**233**	**247**	**260**	**272**	**284**	**290**	**290**	**287**	**284**
B5. Depreciation	88	86	51	51	51	52	54	61	71	83	94	110	129	148	167	**184**	**201**	**212**	**218**	**220**	**222**
B6. Combination of B1-B5	88	139	167	**188**	**188**	**190**	**186**	**192**	**198**	**206**	**214**	**226**	**242**	**259**	**275**	**290**	**304**	**311**	**312**	**310**	**307**
C. Tailored Tests																					
C1. Combined contingent liabilities	88	88	89	91	92	95	96	103	112	123	134	148	166	**184**	**202**	**218**	**233**	**244**	**248**	**248**	**249**
C2. Natural disaster	88	99	105	112	117	123	125	135	146	159	171	**187**	**206**	**226**	**244**	**262**	**278**	**289**	**293**	**294**	**295**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio																					
Baseline	8	8	8	8	7	7	7	7	7	7	8	8	9	10	11	12	13	14	14	15	16
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2020-2030 2/	8	8	8	8	8	8	8	8	9	10	11	12	13	14	15	17	18	19	20	20	21
B. Bound Tests																					
B1. Real GDP growth	8	8	8	8	7	7	7	7	7	7	8	8	9	10	11	12	13	14	14	15	16
B2. Primary balance	8	8	8	8	8	7	7	7	7	8	8	9	10	11	12	13	14	14	15	16	16
B3. Exports	8	9	10	10	10	10	9	9	10	11	11	12	13	14	15	17	18	19	19	20	21
B4. Other flows 3/	8	8	9	10	10	10	9	11	14	14	14	15	15	16	17	18	19	19	19	20	20
B5. Depreciation	8	8	8	7	7	6	6	6	4	5	6	6	7	8	9	11	11	12	13	13	14
B6. Combination of B1-B5	8	8	10	11	11	10	10	12	14	14	14	15	16	17	18	19	20	20	21	21	21
C. Tailored Tests																					
C1. Combined contingent liabilities	8	8	8	8	8	7	7	7	7	7	8	9	9	10	11	13	13	14	15	15	16
C2. Natural disaster	8	8	8	8	8	8	8	8	8	8	9	10	10	11	13	14	15	15	16	17	17
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio																					
Baseline	14	12	11	11	10	10	9	8	8	9	9	10	11	12	13	14	15	15	16	17	17
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2020-2030 2/	14	13	12	11	11	11	10	11	11	12	13	14	15	16	17	**19**	**20**	**21**	**22**	**23**	**23**
B. Bound Tests																					
B1. Real GDP growth	14	13	12	12	11	11	10	9	9	10	10	11	12	13	14	15	16	17	18	**18**	**19**
B2. Primary balance	14	12	11	11	10	10	9	9	9	9	10	11	11	12	13	15	15	16	17	17	18
B3. Exports	14	13	12	12	11	11	10	10	10	11	11	12	12	13	14	15	16	17	18	**18**	**19**
B4. Other flows 3/	14	12	13	15	14	13	12	15	17	17	17	18	**18**	**19**	**19**	**20**	**21**	**21**	**22**	**22**	**22**
B5. Depreciation	14	16	14	12	11	11	10	9	7	8	9	9	11	12	13	15	16	17	**18**	**19**	**20**
B6. Combination of B1-B5	14	13	14	15	14	13	12	14	16	16	17	17	18	**18**	**19**	**20**	**21**	**21**	**22**	**22**	**22**
C. Tailored Tests																					
C1. Combined contingent liabilities	14	12	11	11	10	10	9	9	9	9	10	10	11	12	13	14	15	16	16	17	17
C2. Natural disaster	14	12	12	11	11	11	10	10	10	10	11	11	12	13	14	15	16	16	17	18	**18**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Haiti: Sensitivity Analysis for Key Indicators of Public Debt, 2020–40

	Projections 1/																				
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**	**2038**	**2039**	**2040**
PV of Debt-to-GDP Ratio																					
Baseline	37	37	36	36	36	36	35	36	37	39	39	40	41	42	43	45	47	49	51	53	55
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2020-2030 2/	37	39	40	41	41	41	41	41	40	40	40	39	39	38	38	38	39	39	40	40	41
B. Bound Tests																					
B1. Real GDP growth	37	39	41	42	43	43	44	46	48	49	51	52	54	**56**	**58**	**60**	**63**	**66**	**68**	**72**	**74**
B2. Primary balance	37	40	42	41	40	40	39	40	40	41	42	43	43	44	45	47	49	51	52	55	**56**
B3. Exports	37	38	40	40	39	39	39	40	41	42	42	43	44	44	45	47	49	51	52	55	**56**
B4. Other flows 3/	37	47	**55**	**55**	**55**	54	53	54	54	55	55	55	**55**	**55**	**56**	**57**	**58**	**59**	**61**	**62**	**63**
B5. Depreciation	37	38	36	35	35	33	33	32	33	33	33	33	33	33	33	34	35	37	38	40	41
B6. Combination of B1-B5	37	38	38	35	35	35	35	36	37	38	39	39	40	41	42	44	46	48	50	52	54
C. Tailored Tests																					
C1. Combined contingent liabilities	37	43	42	41	41	40	39	40	41	42	42	43	44	45	46	47	49	51	53	**55**	**57**
C2. Natural disaster	37	**61**	**58**	**56**	54	52	50	50	51	51	52	52	53	54	55	**56**	**58**	**60**	**62**	**65**	**67**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio																					
Baseline	279	259	240	232	226	221	213	216	219	222	223	225	226	228	232	237	244	252	260	270	275
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2020-2030 2/	279	272	262	258	254	251	243	239	235	231	226	221	217	214	212	211	210	211	213	216	218
B. Bound Tests																					
B1. Real GDP growth	279	272	269	267	265	264	260	267	274	281	285	289	294	299	306	314	324	336	346	359	368
B2. Primary balance	279	279	278	265	254	246	235	236	237	239	239	239	240	241	244	249	255	263	270	279	284
B3. Exports	279	268	264	256	249	243	234	236	238	240	240	240	241	242	245	250	256	263	270	279	284
B4. Other flows 3/	279	328	367	356	347	338	323	322	319	316	312	307	304	301	300	301	304	308	312	318	320
B5. Depreciation	279	271	244	230	222	211	200	196	196	192	191	185	185	182	182	184	187	192	197	205	209
B6. Combination of B1-B5	279	268	252	229	223	218	210	213	216	220	220	222	223	225	229	234	241	249	257	267	272
C. Tailored Tests																					
C1. Combined contingent liabilities	279	306	279	266	255	247	236	237	238	240	240	240	241	243	246	251	257	265	272	282	287
C2. Natural disaster	279	431	384	359	338	322	304	300	298	297	294	293	292	292	294	299	305	313	320	329	335
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio																					
Baseline	135	137	132	129	126	123	118	117	115	112	106	99	90	78	66	57	51	46	45	48	57
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2020-2030 2/	135	143	141	140	138	135	130	125	120	112	104	94	83	70	58	50	44	41	40	42	47
B. Bound Tests																					
B1. Real GDP growth	135	142	145	148	149	149	147	148	148	146	141	135	126	114	103	93	87	84	84	87	97
B2. Primary balance	135	137	148	159	150	142	133	130	125	120	113	106	95	83	71	61	54	50	49	51	60
B3. Exports	135	137	132	130	127	123	119	118	117	113	108	101	91	79	67	58	51	47	46	49	58
B4. Other flows 3/	135	137	134	132	129	126	121	122	122	119	113	106	96	84	72	62	56	51	50	52	61
B5. Depreciation	135	130	126	121	115	117	109	111	106	106	97	94	82	74	63	55	48	45	44	46	54
B6. Combination of B1-B5	135	134	131	128	125	122	118	117	114	111	106	99	90	78	66	57	50	46	45	48	56
C. Tailored Tests																					
C1. Combined contingent liabilities	135	137	170	159	150	142	133	129	125	120	113	105	95	82	70	60	53	49	47	50	58
C2. Natural disaster	135	138	269	238	214	194	177	165	155	145	135	124	112	97	84	73	65	60	58	60	68
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by the Staff Representative on Haiti
Executive Board Meeting
January 24, 2020

This statement provides information that has become available since the staff report was finalized. This information does not alter the thrust of the staff appraisal.

1. **Dissolution of parliament**. It was not possible to hold parliamentary elections by end-October 2019 as programmed due to failure to approve a new electoral law, the absence of a budget, and no agreement on the composition of the Provisional Electoral Council. As a result, President Moïse announced that the mandates of all deputies in the legislature and two-thirds of the senate had formally expired on January 13th, leaving the country without a legislative body and creating what he called an "institutional void". However, there is disagreement regarding the number of departing senators and the term of their mandate as determined by the constitution. Pending acceptance by these departing senators that their mandate has ended, and based on precedent, it is understood that the president would rule by decree. The next presidential election is due in December 2021.

2. **Anti-government protests.** Public demonstrations waned towards the end of 2019 and schools and businesses have re-opened. Employees of the Haitian Institute of Statistics (IHSI) have been on strike since October 2019 to protest the dismissal of the head of the institution, halting its activities and the publication of economic indicators.

3. **Fiscal policy.** Staff have received no indication that the authorities have prepared or published a notional budget for FY2020, as recommended by staff (to guide fiscal policy and assist with programming expenditures and cash management). President Moïse announced on January 13th that he would allocate the 2020 salaries of the departed senators and deputies, which he valued at 1.16 billion gourdes (US$11.7 million), to build 10 schools.

4. **Food insecurity.** The WFP reports that 3.7 million people in Haiti (one in three) need food assistance, while the UN Humanitarian Affairs Office (OCHA) warned that this number could reach 4.2 million by March, with some 1.2 million likely to experience “emergency levels”. The deterioration in food security has been driven by supply disruptions related to social unrest during 2019, high inflation and depreciation of the gourd against the U.S. dollar, and a drought in 2018 that lasted until mid-2019 and led to a decline in agriculture production by about 12 percent in many parts of the country.

Statement by Mr. Bevilaqua, Executive Director for Haiti and Mr. Saraiva, Alternate Executive Director, and Ms. Florestal, Advisor to the Executive Director for Haiti January 24, 2020

The discussions for Haiti's 2019 Article IV consultation took place under exceptional circumstances and are an unequivocal testimony of the strong commitment of the authorities and the IMF team to complete the process. Given the unique circumstances that impeded mission travel to Haiti in November 2019, we commend WHD for making effectual use of the flexibility in Fund's guidance for completing Article IV consultations in FCS countries. Accordingly, the technical discussions were held mostly through teleconferencing, while the authorities consented to come to Washington for the policy discussions.

The comprehensive set of documents is evidence of the quality of the dialogue between Fund staff and their Haitian counterparts and of the wealth of information gathered during the past four years of continuous Fund engagement. Such engagement led to the adoption and largely successful implementation of the 2018 SMP and to the staff level agreement on an ECF in March 2019. Nonetheless, the repeated socio-political shocks that prevailed since 2015 had impeded the conclusion of program negotiations and Article IV consultations.

The recent socio-economic disruption, which culminated with several weeks of "peyi lok" (country lockdown) whereby all economic and social activities were severely halted, is deemed to have had very damaging and long-lasting impact. In November 2019, at the time of the Article IV discussions, Haiti was at its sixth week of "peyi lok" and at the height of uncertainty. The looming political and social crisis – ignited by the 2018 fuel price hikes – intensified after March 2019 and effectively brought the country to a standstill. For the first time since the devastating 2010 earthquake, GDP is estimated to have contracted, while inflation reached 20 percent yoy, pushed by a 32 percent depreciation of the currency. A humanitarian crisis led by shortages of food and social services has ensued and remains as a major challenge.

Currently, economic activity is gradually resuming, as the security situation has become less volatile and domestic stakeholders seem to tacitly agree that the country must avoid a downward spiral. Challenges abound but there are hopeful signs that the daily life may be starting to normalize, including the reopening of schools after several months. Indisputably, Haiti is at a decisive juncture. However, the complexity of the political situation should not be an impediment to immediately addressing the multiple challenges at hand. While a thorough assessment of the impact of the recent crisis is still pending, it is known that the tourism industry is facing severe challenges, including the closure of hotels. Likewise, with the plunging activity the banking sector and microfinance institutions (MFIs) are confronting the rapid increase of NPLs. In addition, anecdotal evidence of yet another wave of migration of skilled labor suggests that Haiti's dearth of human capital may become a more binding constraint to growth moving forward.

The Government has reaffirmed its commitment to undertake necessary reforms to reestablish macroeconomic stability and restore the conditions for economic growth. The Haitian authorities share staff's view that key priorities at this juncture are: curbing economic deterioration, reforming the energy sector, strengthening governance and developing social safety nets. Despite the challenging environment, measures were taken recently to stave off further deterioration of the fiscal balance and avert unsustainable monetary financing. Most notably, the "Pacte de Gouvernance" – a cash management agreement between the Ministry of Economy and Finance and the Central Bank – was renewed to cover the current fiscal year, in an effort to curb monetary financing. The authorities hope that the signing and observance of the governance pact will contribute to quell some of the uncertainty and reassure investors.

Measures have also been taken to rein in tax expenditures, **strengthen tax collection, control the accumulation of domestic arrears and improve public financial management.** The authorities seek to ensure that discretionarytax exemptions are effectively prohibited and to limit the abuse of this privilege by NGOs and other beneficiaries. Also, to facilitate tax collection, the payment of taxes through banks was recently tested in pilot form and will become effective once a few technical issues are solved. To quell leakages at the border with the Dominican Republic, in line with the protocol signed in 2017, the exchange of information between the custom offices of Haiti and the Dominican Republic has started in September 2019, while certain technical challenges still need to be ironed out. In addition, a training session for custom officers of both countries is scheduled for February 2020 mostly to enhance their coordinated approach in the management of the border.

Moreover, the authorities have drafted a framework – consistent with the Fund's baseline scenario of no external budget support – to dispel uncertainty and reestablish the budget as a binding fiscal constraint and a tool to promote equity and sustainable growth. The total FY20 budget envelope is to be shrunk by up to 20 percent in comparison to the preceding year due to the sharp drop in fiscal revenues linked to the contraction of economic activity. The details of the budget to be adopted by the new Government during the following few weeks are still being crafted along those lines. It is expected that a positive signaling from the Fund with a possible approval of a program could unleash a more optimistic outlook with further engagement from development partners.

The energy sector is the main source of fiscal imbalance and requires a multi-pronged approach to suppress the leaks and become more competitive, diversified and efficient. The authorities look forward to working with the Fund on fuel subsidy reform in synchrony with the building of appropriate social safety nets. We welcome the analytical chapters on fuel subsidies and the electricity sector and consider the recommendations key inputs for the efforts to be undertaken. As underscored in the staff report, the government has transferred the fuel purchasing responsibility to the private sector. To minimize the risk of fuel shortages, the administration has committed to make regular payments to suppliers of petroleum products in order to reduce arrears. Progress registered in billing and collection at EDH under the SMP continued until early 2019 but were reversed during the recent crisis, since billing and collection were severely hindered by the roadblocks and the interruption in the income flow among the population and businesses.

Currently EDH is taking forceful steps to improve its financial performance including by cutting clients in payment arrears off the grid, while being supported by the Ministry of Economy and Finance's directive instructing public entities to ensure timely payments of their electricity bill.

Strengthening governance and promoting greater transparency and accountability are indeed among the authorities' highest priorities. Within the framework of accelerating its fight against corruption, the authorities appointed, as the head of the anti-corruption unit (ULCC), a legal expert with a strong track record in previous high-profile functions in the legal system. On January 10, the anti-corruption unit issued a press release informing the rapid increase in compliance to the asset declaration by government officials and setting January 31st as the deadline to comply. Concurrently, the unit is moving forward with at least two high-profile investigations into fraudulent activities, the conclusions of which should be made public once it would not jeopardize its course. Also, this past week the ULCC organized an open-door day to promote a better understanding of its work and knowledge about what is considered acts of corruption.

The Central Bank continues to take steps towards reinvigorating financial markets, easing inflation pressures mainly from exchange rate volatility and maintaining an adequate level of international reserves. BRH officials are pursuing a stable macroeconomic environment, while addressing institutional weaknesses and the vast infrastructure gap to stimulate credit and growth. However, they also acknowledge that the tightening of monetary conditions in the last fiscal year may have impinged on credit in a context of already low credit growth and increased volatility of the exchange rate. Continuous disruptive conditions in the first three months of FY20 and ensuing decline in sales resulted in an increase in failure to service credit, threatening the profitability and stability of the financial system. In this context, with the combination of tighter monetary policy and plunging activity leading to a steadier exchange rate, the Central Bank decided to recalibrate its policy stance, while remaining cautious not to pose threats to price stability.

The Central Bank continues to see the exchange rate as a key policy indicator. The exchange rate severely affects residents' purchasing power, including the most vulnerable, who depend on imports for most of their basic-good needs. The monetary authority remains attentive to tensions on the foreign exchange market that may need to be contained considering the strong pass-through of exchange rate fluctuations to inflation. Notwithstanding the Central Bank foreign exchange interventions during the past year, the net international reserves remained above 700 million US dollars and gross reserves still represent over 5 months of imports.

The authorities are also actively working on the implementation of the national financial inclusion strategy adopted in 2015. Fintech use is being promoted to boost financial intermediation. The recent launching of a web-based platform for economic agents to access the different costs of financial services is expected to foster competition. The National Financial Education Plan is expected to be adopted in the near term, with a view to stimulate financial inclusion through financial education.

Significant progress has also been achieved in addressing issues raised in the Fund's safeguards assessment report. Haiti has received instrumental technical assistance for the legal and banking supervision aspects of IFRS compliance, as well as the drafting of modifications to the macro-prudential supervision framework. Relatedly, seven draft regulations have been shared with the banking sector for feedback before finalization and adoption. They cover capital requirements in relation to Basel II, internal control, governance, cross-ownership of capitals, as well as adequate level of equity shares of banks in non-financial institutions. The Central Bank will implement those measures and establish a risk-based supervision framework with the support of ongoing MCM TA.

With regards to AML/CFT, Haiti is working toward closing the gaps identified at the Fourth round of mutual evaluation undertaken in the summer of 2018. A comprehensive and risk-sensitive strategy has been adopted to address the absence of risk assessments, which is considered to have impeded achieving the international standards of effectiveness and technical compliance. The National Anti-Money Laundering Committee in collaboration with government officials and key stakeholders from the private sector are striving to fulfill all AML/CFT requirements for technical compliance of applicable legislation and regulations by the November 2020 progress report deadline. However, progress has been delayed because of the recent country lockdown and ensuing postponement of delivery of relevant TA by the World Bank.

To secure macroeconomic stability and put the economy back on the path of sustainable and inclusive growth, the adoption of a comprehensive recovery plan with wide-ranging domestic and external support is essential. In this regard, the IMF's unwavering and active engagement with Haiti has a crucial role. Strong domestic resource mobilization remains critical and will decisively pursued but will not be enough to address the sources of fragility, as well as social and infrastructure needs. Like most LICs, Haiti is particularly vulnerable to sharp swings in commodity prices, natural disasters, and the unpredictability of external financing flows. Without resuming support from development partners, progress made towards meeting the SDGs, may irremediably be reversed with the current economic crisis. Predictable, timely and effective donor support is needed to implement a sustainable program of economic growth and stability with critical measures to mitigate anticipated short-term negative impact of structural reforms on the most vulnerable.

Strengthening social safety nets need to be at the core of any macroeconomic and structural program. Programs initiated during the past couple of years contributed to filling the significant gaps in social safety nets. However, they represented dispersed efforts without a sustainable source of financing. During the past year, with support from the international community, a central registry of beneficiaries has been constructed within the Ministry of Social Affairs and is expected to play an instrumental role in ensuring that the upcoming cash transfer program effectively targets the neediest and is not prone to abuses. In line with Fund's guidance for work in countries in fragile situations, they see the creation of social safety nets to mitigate potential negative impact of reform measures as an essential prerequisite.

The authorities took note of the conclusion that Haiti was now assessed to be at moderate risk of debt distress but with a weak debt carrying capacity. They are hopeful that soon their efforts to mobilize domestic resources and implement targeted measures to reestablish macroeconomic stability will be supported by enough grant resources from international partners to take the path of sustainable and inclusive growth. In this regard, they are convinced that Fund's strong signaling through its technical and financial engagement will be paramount.

Our authorities welcome the framing of the Fund's engagement with countries in fragile situations in a medium-term perspective and stand ready to work with the Fund on Haiti's Country Engagement Strategy (CES). The draft CES presented in Annex I of the staff report clearly points to the damage caused by fragmentation of initiatives and lack of coordination among development partners leading to inefficient delivery of goods and services and, most importantly, loss of policy ownership. The strategic focus on four areas is welcome, namely, macroeconomic stability, governance and transparency, social safety net, and energy. That said, one of the main benefits of a CES would be to facilitate a strong engagement of the Fund throughout episodes of increased fragility, avoiding counterproductive stop and go approaches. In addition, it would be important for the CES to address key issues, such as: (i) the profile of country team members and their level of experience and turnover rates; (ii) the streamlining and realistic timing and sequencing of conditionality, to ensure they are more in line with the country institutional capacity; and (iii) the finetuning of the modalities of TA delivery to ensure effective transmission of knowledge and avoid undermining domestic ownership of reform.

Stronger IMF engagement will signal to other technical and financial partners that Haiti is in a position to make progress in adjusting and reforming its economy and needs urgent support now. Ideal conditions rarely exist in countries with multiple sources of fragility. Failure to effectively engage with Haiti may tip the country over into deeper fragility, instability and poverty.

BANQUE DE LA RÉPUBLIQUE D'HAÏTI

Réf. : CA # 11 – 2020

Port-Au-Prince, January 22, 2020

Executive Board

International Monetary Fund

Washington D.C.

Dear Members of the Executive Board,

As you know, per our unwavering valuation of the Fund's engagement with Haiti, this past December 2019, the discussions of the Article IV consultations were held under exceptional circumstances. We seize this opportunity to reiterate our appreciation to Fund management for the use of flexible logistical arrangements.

Our purpose herein is three-fold. First, we seek to reassure you even under the exceptional temporary circumstances of not having a functioning Legislative Branch the President is determined to uphold democratic principles of good governance. Second, we wish to complement the comprehensive Article IV reports and staff's update with noteworthy/important recent developments. Third, we want to formally reiterate our request for the Fund's timely technical and financial support.

The lack of an operational Parliament will not lead to a situation of unwarranted ruling by decree. The Executive branch intends to adopt two unavoidable decrees: one to ensure that that fiscal operations in 2020 are based on a realistic and appropriate budget and another to lay the rules for the organization of parliamentary elections by the end of 2020. We also plan to adopt five laws with high-growth impact potential which were submitted to but never voted by Parliament. They pertain to issues related to leasing, microfinance, incorporation, the credit bureau, insurance and land registry. Copies of these laws can be made available to the Fund although they were all drafted with TA from the Fund and other international partners.

Our near-term priority is to reestablish macro-stability. The renewal this past November/December 2019 of the "Pacte de Gouvernance", the cashflow agreement between the Central Bank and the Ministry of Economy and Finance is instrumental to fiscal consolidation while helping increase the efficiency of monetary policy and reduce exchange rate volatility as well as decrease the pass-through to inflation. The budget framework prepared for FY20 by the Ministry of Economy and Finance with the assumption of zero budget support is to be submitted to the New Government for consideration as well as consultations with the private sector, civil society and the donor community in order to make appropriate adjustments before adoption by the Council of Ministers and the President of the Republic.

It is our hope that this can be done within a few weeks after the inauguration of the new Government and that it would already include reliable external support commitments.

Our efforts to strengthen governance are multifold. In the energy sector we have already taken decisive actions to relieve the State from the onerous purchases of electricity from IPPs. We stand ready to launch a bid within this fiscal year for the recruitment of a domestic or international partner to overhaul the management of EDH with a view to reestablish financial viability. Already we are taking steps to reduce budget subsidies to EDH by ensuring that each public entity pays its electric bills. To avoid inefficiencies and fraud in personnel payments, with support from the IDB all personnel databases under the purview of the Ministry of Economy and Finance have been unified. In addition, to enhance transparency in public financial management, we are committed not only to publish the adopted national budget as was customary in the past but also publish periodically information on its execution. The fight against illicit financial flows and money laundering as well as against the illegal traffic of children are high in agenda of priorities. Therefore, the new Director of the anti-corruption unit (ULCC) is being given not only needed logistical support but also strong presidential backing to ensure that its investigations are followed up by judiciary action. All relevant parties, public and private, are thriving to address weaknesses identified at the last mutual evaluation of GAFIC and present a strong record by the November 2020 deadline.

The Central Bank has recently undergone an updated safeguards assessment and its Board values the ensuing recommendations as ***they help shape its work program***. Currently, we are giving urgent priority to addressing some of the weaknesses that the safeguards team suggested may subject the Central Bank to risks of compromising its accountability and autonomy. In particular, with regards to the Central Bank organic law we are awaiting TA from the IMF (LEG) to move forward with the new draft.

Designing a path towards inclusive and sustainable growth while addressing immediate socio-economic needs of the most vulnerable is our chief challenge. The socio-economic indicators have worsened dramatically with the "peyi lok" and the most vulnerable are severely impacted. In line with IMF recommendations we have worked towards a unified registry of beneficiaries and are at the final phases of preparing the logistics of an unconditional cash transfer program. The Fund for Social and Economic Assistance (FAES) in collaboration with the Ministry of Social Affairs and Labor is taking the lead in implementation.

As the President works towards the swift inauguration of a more politically diverse Government, one of National Unity, we call on the Fund to help Haiti seize the current window of opportunity to move out of fragility. Peace and social stability are essential prerequisites for the successful implementation of any economic program. The current situation gives us the opportunity to establish the legal framework that could be conducive to macroeconomic stability/fiscal consolidation and sustainable growth. Strong signaling from the Fund is indispensable for Haiti to deepen engagement with other international partners and receive the level of support it needs at this juncture.

Jean Baden DUBOIS
Governor

Joseph JOUTHE
Minister