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INTERNATIONAL MONETARY FUND

HAITI

STAFF-MONITORED PROGRAM

May 3, 2018

EXECUTIVE SUMMARY

Haiti is recovering from policy stagnation and natural disaster. Following a long period of political uncertainty, characterized by real exchange rate depreciation, low growth, double-digit inflation, and loss of some international reserves, Haiti was struck by Hurricane Matthew on October 4, 2016. With the help of donors and support from the Rapid Credit Facility loan approved in November 2016, the authorities are addressing the destruction wrought by Hurricane Matthew. Elected soon after the hurricane, the government of President Jovenel Moïse has shown its commitment to reform by undertaking some difficult but necessary measures, such as increasing the retail price of fuel. Both the currency and the central bank's stock of international reserves have maintained relative stability during the administration's first year in office.

Structural challenges remain formidable. Haiti is a fragile state suffering from widespread poverty and facing many structural challenges. The public electricity utility (EDH) is constrained to purchase inputs at elevated prices and is unable to recover payments for electricity supplied, leading to large losses that weigh heavily on the public deficit. The sale of fuel at an administered price – which the new government has begun to address – represents another significant fiscal drain. Public investment is low, despite extensive unmet needs, and the efficiency of investment remains poor. Concerns over physical security and property rights have generally limited private investment, including foreign direct investment, although the period following President Moïse's election did see a brief burst of inward investment

The Staff-Monitored Program addresses urgent reforms and prepares the way for a possible upper credit tranche arrangement. Under the Staff-Monitored Program (SMP), the government's overarching objective is to strengthen fiscal policy, improve fiscal controls, and accelerate structural reform, thereby permitting the deployment of resources for post-hurricane reconstruction and public investment. The SMP incorporates measures designed to bring the economy back on track and prepare the way for a possible new program supported by a UCT arrangement. Three key reforms at the heart of the program are the full elimination of fuel tax revenue losses by end-June 2018, an increase in EDH's billing rate by end-June 2018, and the implementation of new EDH contracting procedures by end-August 2018. The program emphasizes prudent fiscal management, as expressed by a nonfinancial public sector deficit target that is consistent with medium-term debt sustainability. Other important measures aim to reinforce safeguards, increase tax revenue, and promote spending for post-hurricane reconstruction.

There are some risks associated with the program. Risks over the short term are mainly related to the possibilities of political resistance to reforms, sharper-than-expected increases in global oil prices, shortfalls in donor flows, and the threat of natural disasters.

This staff report is submitted to the Board for information only. In keeping with standard policy and practice with regard to staff-monitored programs, the SMP for Haiti has been adopted with its approval by Management.

Approved By
R. Rennhack (WHD) and G. Gray (SPR)

Discussions took place in Port-au-Prince during February 20–25, 2018. The mission comprised C. Walker (head), G. Mpatswe (Resident Representative), M. Rousset, D. Singh (all WHD), and G. Duvalsaint (local economist). WHD Director A. Werner joined the mission for high-level meetings and concluding statement.

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BACKGROUND AND RECENT DEVELOPMENTS

1. Haiti is a fragile state, highly vulnerable to external shocks and domestic upheaval. Since May 2015, the economy has been battered by drought, political uncertainty resulting from a protracted election cycle, a decline in external flows, and a major hurricane. These developments, and some policy slippages, prevented completion of any reviews of the ECF-supported program approved at that time. That program was allowed to lapse in November 2016.[1] In November 2016, the Board approved an SDR 30.7125 million (18.75 percent of quota) disbursement to Haiti under the Rapid Credit Facility to support the recovery from Hurricane Matthew, which struck the nation in October.

2. Hurricane Matthew was a humanitarian disaster with considerable economic costs. A joint assessment by the government and the World Bank estimated total damage and losses from the Category 4 storm at US$2 billion, or 23 percent of GDP. Matthew left an estimated 1.4 million people, more than 10 percent of the population, in urgent need of humanitarian assistance. On the basis of the damage assessment, it was estimated that recovery spending, broadly matched by increased imports, equivalent to 6–7 percent of GDP would be needed for the 2016/17 fiscal year. However, subsequent import and agricultural production statistics suggest that initial damage estimates may have somewhat overstated the economic loss associated with the humanitarian disaster of Hurricane Matthew, while reconstruction spending has fallen well short of initial projections.

3. Haiti has recently emerged from a period of political instability. Presidential elections held in October 2015 provoked widespread street demonstrations and allegations of fraud. Those elections were subsequently annulled, the electoral commission revamped, and a provisional president put in place in February 2016. A rerun of the election in November 2016 led to a first-round majority for Jovenel Moïse, who took office on February 7. The accession of a new cabinet in late March 2017, following President Moïse's inauguration, has brought some political stability. The President, Prime Minister (Jack Lafontant), and Finance Minister (Jude Salomon) have emphasized the need to enhance fiscal revenues in order to increase public investment. They have also engaged in public outreach to further this agenda through visits to rural areas and in discussions with unions and members of Parliament.

4. Real growth is expected to rise moderately in FY 2017/18. Real GDP growth is expected to rise to 2.0 percent in FY 2017/18, up from 1.2 percent in FY 2016/17 and 1.4 percent in FY 2015/16, as the economy benefits from greater political stability and a boost in public investment. With its population growing by 2 percent a year, Haiti has yet to register significant gains in per capita income, which is only one-third that of other low-income countries in the region. Structural

[1] The ECF was approved by the Board on May 18, 2015, in the amount of SDR 49.14 million (60 percent of old quota, 30 percent of new quota). See EBS/15/47, 5/7/2015. The ECF arrangement terminated automatically on November 17, 2016, given that a period of 18 months had lapsed without completion of the first review.

factors that have constrained growth over the longer term include a continuing squeeze on public investment, slow progress on reform, and frequent drought conditions.

5. **Inflation is expected to decline from its September 2017 peak of 15.4 percent y/y, as the impact of Hurricane Matthew on domestic food production recedes**. Prices for domestic food, accounting for one-fourth of the CPI consumption basket, rose 16.4 percent in FY 2016/17, following the loss of a large share of the fall harvest due to the hurricane. The 18 percent increase in retail fuel prices implemented in May 2017 also exerted upward pressure on the CPI, increasing it by an estimated 1 percent. For FY 2017/18, staff project a year-end CPI inflation rate of 8.0 percent, down from the most recent inflation reading of 13.4 percent y/y on January 2018, but this is subject to some uncertainty, particularly if the pass-through from fuel price adjustments in June 2018 turns out to be greater than anticipated.

6. **After two years of relative austerity, public investment and the public sector deficit are expected to increase in FY 2017/18.** Haiti held the deficit of the nonfinancial public sector (NFPS) below 2 percent of GDP in FY 2015/16 and just above 2 percent in FY 2016/17, well below the 5 – 8 percent deficits that characterized the period after the 2010 earthquake. Excluding government expenditures for hurricane relief and reconstruction, the budget deficit in FY 2016/17 was 1.5 percent of GDP. Fiscal reform efforts – notably those directed at the public electricity company EDH (Box 2) – made little progress during this period, forcing the government to rely on cuts to public investment as the primary means of achieving its deficit goals.

7. **Fuel price increases announced in May 2017 signaled the new government's willingness to undertake difficult reforms, but domestic political pressures prevented subsequent planned price hikes.** After more than a year of absorbing large losses in fuel tax revenue due to its inability to increase prices, the government announced with immediate effect a 17-20 percent increase in retail fuel prices on May 15. The action was to be followed by a series of more incremental hikes until the price at the pump reached the market price (Box 1). However, the large price increase provoked mass protests and a sharp drop in the President's popularity, and the follow-up price adjustments were not executed.

8. **Expenditure on hurricane relief and reconstruction in FY 2016/17 fell well short of projections.** Realized reconstruction spending was about 2.0 percent of GDP, compared with the estimate presented in the RCF staff report (EBS/16/113) of 6.5 percent of GDP. Direct government reconstruction spending was 0.6 percent of GDP, corresponding to the RCF disbursement in the amount of 0.5 percent of GDP. In addition, 0.5 percent of GDP represented humanitarian aid provided directly from donors to the affected population, and 0.9 percent of GDP consisted of project grants that did not pass through Treasury accounts. Staff assess that the shortfall in reconstruction expenditure largely reflected limitations in the government's absorption and implementation capacity, which in turn slowed donor project grant disbursements. Some of expected post-hurricane capital investment was deferred to FY 2017/18, when public expenditure on hurricane reconstruction is projected to be 0.8 percent of GDP.

9. The overall monetary stance remained broadly appropriate in FY 2016/17. Net domestic assets, which incorporate the central bank's dollar liabilities to domestic banks, rose from -45.9 billion gourdes to -29.7 billion gourdes in FY 2016/17, reflecting an HTG 6.4 billion increase in credit to the NFPS, and a 4.8 billion HTG increase in credit to deposit banks and other financial institutions. While the resulting increase in base money, of HTG 15.3 billion, or 23.4 percent, in FY 2016/17, was significant, money demand appeared to keep pace. Boosted in part by an increase in investor confidence associated with the election and inauguration of a new government, the gourde appreciated by 4.5 percent in nominal terms (17 percent in real terms) against the dollar during the fiscal year, while net international reserves rose from US$906 million to US$923 million. Average nominal lending rates in gourdes remained in the 18-20 percent range, little changed from the previous year, entailing positive real rates of 3 to 6 percent. While maintaining required reserve ratios at historically high levels of 44 percent for gourdes and 48 percent for dollars throughout FY 2016/17, the BRH carried out a larger increase in base money than was earlier anticipated, in response to the rise in money demand.

10. Remittances and FDI flows increased post-Matthew and post-election. The trade balance deteriorated following Matthew, as imports arrived for reconstruction and humanitarian relief, while export growth was negative. However, private transfers (remittances), which in recent years have been the equivalent of about 20 percent of GDP, registered a US$332 million increase to US$2.4 billion in FY 2016/17, helping to hold the current account deficit to 2.9 percent of GDP, wider than in the previous year, but narrower than the historical average. On the financial account, improved investor confidence following the election contributed to a large increase in FDI in FY 2016/17 to US$374 million (bolstered by the purchase of local fuel distributor Dinasa by the French firm Rubis Énergie in May 2017).

11. Pressures on reserves and on the currency have risen since the beginning of FY 2017/18. Concerns in the private sector over the delay in SMP negotiations have contributed to a moderation in net inflows and some increase in dollarization. At the same time, increased government investment expenditure is exerting some widening pressure on the current account. Thus far in the fiscal year, net international reserves have declined from US$923 million at end-September to US$893 million by end-February 2018, with an increase in spot BRH interventions. The gourde has ended its nominal appreciation trend, but depreciation has been relatively limited, at 3 percent from September 2017 through February 2018. Base money growth has slowed to less than half the rate recorded in FY 2016/17.

12. Arrears increased due to the situation with Venezuela. Haiti accumulated US$126 million in arrears to Venezuela for fuel imports in calendar years 2016 and 2017, but no further arrears have been accrued since the PetroCaribe program was suspended in January 2018. Haiti has also accumulated USD 98.5 million in arrears for interest and amortization payments on its stock of debt to Venezuela. The authorities report that they have tried to pay these obligations but financial sanctions on Venezuela prevented the payments from being completed. The BRH has provisioned against payment of the arrears on the debt, excluding this amount (USD 98.5 million) from the calculation of NIR. Haiti has held to its commitment, made in the letter of intent associated with the RCF loan in November, not to undertake any nonconcessional borrowing.

PROPOSED STAFF MONITORED PROGRAM

13. The Staff Monitored Program will cover March-August 2018 and is intended to help to establish a policy implementation track record for a possible future Fund financial arrangement. The SMP meets the joint challenges of observing financing constraints, promoting public investment, and retaining adequate reserves. It supports a focused package of reforms that is critical to reinforce fiscal sustainability and support growth. Staff assess that continuing adherence to the fiscal and structural commitments of the SMP would raise the GDP growth rate to 3 percent over the medium term while bringing inflation down into the single digits, as fiscal tightening would allow the BRH to relax monetary conditions to encourage private investment, while structural reforms would improve the quality of public investment. The political juncture appears favorable, with the government still near the beginning of its constitutional five-year term, which may provide it with some flexibility to implement necessary but politically difficult reforms.

14. The SMP will aim at reinforcing fiscal sustainability. A key tenet of the SMP, based on the experience from the now-expired ECF adopted in May 2015, is that the maximum sustainable deficit for Haiti's nonfinancial public sector (NFPS) over the medium term is 2 to 2½ percent of GDP. In staff's assessment, this figure corresponds to the likely availability of financing to the government over the medium term, including recurring concessional donor financing, but ruling out inflationary monetary financing from the central bank[2]. In the longer term, the debt sustainability framework indicates a sustainable average primary balance of -2.3 percent of GDP during the period 2022–36, bringing the ratio of the present value of external public debt to GDP to a peak of 34.8 percent in 2032, before it begins to decline, making the path sustainable, although at a high risk of debt distress.[3] [4]

15. The authorities will keep the NFPS deficit on a sustainable path, while creating space for increased investment. For FY 2017/18, the SMP target ceiling for the combined public sector (NFPS) deficit is 2.4 percent of GDP, excluding hurricane spending. The deficit ceiling will be adjusted upward to accommodate spending for extraordinary hurricane reconstruction, projected at 0.8 percent of GDP. The anticipated increase in domestic revenues in FY 2017/18, of 1.0 percent of GDP relative to FY 2016/17, reflects the joint effect of the fuel price increase and some reforms in public financial management, and is expected to provide some of the resources needed for the

[2] Staff analysis indicates that financing requirements in excess of 2.0–2.5 percent of GDP would lead either to unsustainable monetization of the public deficit, prompting depreciation and inflation, or to an unsustainable decline in foreign reserves.

[3] See EBS/16/113/Supplement 1, November 11, 2016; Haiti – Request for Disbursement under the RCF - DSA

[4] An unanticipated decline in external financing since 2016 has resulted in a lower stock of external public sector debt than was projected at the time of the last DSA, and preliminary estimates point to lower trajectories for public and external debt ratios than were shown in the DSA. Staff will provide an updated DSA for Haiti as a component of the upcoming Article IV review.

projected increase in domestically financed public investment (including spending for hurricane reconstruction) from 2.5 to 5.6 percent of GDP, bringing public investment slightly above the pre-FY 2015/16 historical average. Most of the rest of the increase in public investment is to be financed from domestically sourced supplier credits for the purchase of agricultural and construction equipment, amounting to US$123 million (1.3 percent of GDP), with a term of four years. A large share of the additional public investment, of about 2 percent of GDP in FY 2017/18, falls under the rubric of President Moïse's rural public works campaign ("Caravane de Changement"), focused on improving agricultural infrastructure such as irrigation, and hurricane reconstruction.

Contributors to the Change in NFPS Balance 1/

(In percent of GDP)

	FY 2016/17	FY 2017/18	FY 2018/19
Fuel taxes	-1.0	0.6	0.5
Other revenue	0.1	2.1	-1.2
Current spending	0.2	-0.3	0.1
Capital spending	-0.2	-3.9	1.7
Transfers to EDH	0.0	0.4	0.2
Total change in NPFS balance	-0.9	-1.1	1.3

1/ A positive change indicates an improvement: an increase in revenue and a reduction in spending, transfers, and NFPS balance.

16. Fuel price reforms are a major component of the SMP. As a structural benchmark under the SMP, fuel prices are to be fully adjusted to reach market prices by the end of June 2018, which will eliminate all budgetary costs to the Treasury arising from fuel subsidies going forward. If global fuel prices and exchange rates remain at current levels, this will entail a retail fuel price increase of approximately 30 percent in June, sufficient to increase fiscal revenues by 0.2 percent of GDP per month. The SMP target floor for the fuel stabilization fund of HTG -23.220 billion at end-June 2018 is calculated on the assumption that prices are adjusted as planned, and the elimination of flow losses going forward would maintain the stabilization fund balance at the end-June target level. After the June price adjustment, Haiti should begin a transition to a flexible fuel pricing mechanism, and such a mechanism should be incorporated in a follow-up program. Additional measures to be considered could include a reassessment of the compensations system for oil importers ("Caribbean posting" system), an outdated standard that often results in substantial premiums paid to suppliers.

17. In conjunction with the fuel price increases the authorities expect to put in place a package of mitigating measures. These steps would counter the impact of the fuel price increases on transporters' operating costs and compensate laborers for higher transport prices, at an estimated fiscal cost of about 0.6 percent of GDP in FY 2017/18. For the transport providers, the measures will include road improvements and support for modernizing the transport fleets, while laborers are to benefit from publicly supported canteens at factories and work sites.

18. The SMP includes three structural benchmarks for EDH, of which two represent major reforms in the electricity sector. EDH reforms under the program will center on strenthening revenue flows through higher billing rates, and laying the groundwork for meaningful cost reductions through changes in contracting practices. As a structural benchmark under the SMP, EDH will increase its billing rate from 40 percent to 50 percent by end-June 2018, an improvement expected to yield revenue gains of 0.7 percent of GDP on an annualized basis. EDH will also work to further raise the billing rate to its medium-term goal of 75 percent. As an additional structural benchmark, for all expired electricity supply contracts, the government will complete public tenders for contractors to produce, distribute, and sell electricity, and will prepare lists of all contractors qualified through the tender process, by end-August 2018. Two such contracts have expired, including a large contract for the provision of electricity to the southern city of Les Cayes. As a further structural benchmark related to EDH, the authorities commit to publishing a comprehensive EDH budget including a projected cash flow statement for FY 2017/18.

19. SMP electricity sector reforms will figure into the government's plans to rationalize and expand the electricity grid. The authorities indicate that EDH reforms contained in the SMP will form part of their widely-publicized initiative to accelerate the provision of electricity to Haiti's population while making the sector much more efficient. In that effort, they expect to launch by May 2018 a request for bids to strengthen and expand the grid in the country's 16 largest cities. EDH reforms to be considered in a future arrangement would center on eliminating take-or-pay arrangements with power suppliers, liberalizing the energy sector, encouraging renewable energy use, and protecting the most vulnerable consumers.

20. The program promotes reform of public finance and taxation. Under the SMP, Haiti will continue to pursue reforms in public financial management (PFM), to improve fiscal accountability and transparency, and tax reform, to boost its low domestic-revenue-to-GDP ratio of 13 percent. PFM reforms center on expanding the coverage of the Treasury Single Account (TSA), to include, by FY 2019/20, the accounts of all ministries, autonomous agencies, public enterprises and donor accounts. Haiti also reaffirms its commitment to publish quarterly reports on hurricane expenditures (structural benchmark) and to channel all financial support for hurricane relief through the TSA. In order to broaden its revenue base, under the SMP Haiti will develop a roadmap (structural benchmark) for tax reform, to include an eventual transition to a value-added tax and reform of tax exemptions.

21. The monetary framework is designed to bring inflation into the single digits. The monetary framework will be aimed at shifting inflationary expectations towards the BRH's broad objective of price stability over the medium term, while supporting hurricane reconstruction. The SMP stipulates that the BRH will reduce inflation from its current rate into the single digits over the medium term. This is to be achieved by maintaining reserve requirements at the current high levels, while managing the central bank balance sheet to avoid monetization of government debt, with total central bank financing of the NFPS in FY 2017/18 limited to 2.4 percent of GDP.[5] Base money growth will match the expected growth in nominal GDP. The central bank will aim to identify an appropriate quantitative inflation in the medium term.

22. Reserves and exchange rate policy will accommodate reforms while maintaining a safe cushion. A reserves floor of US$825 million is adopted as a quantitative target in March and June, to

[5] The ECF-supported program approved by the Board in May 2015 placed a target ceiling on net domestic assets (NDA). However, NDA, which incorporates dollar deposits of commercial banks at the BRH as well as net credit to the public sector, is heavily affected by the reserve ratio for dollar deposits. Consequently, the SMP monetary program focuses on net credit to the public sector, the level of reserve requirements, and net international reserves.

accommodate the possibility of short-term outflows related to extraordinary government expenditures. At the equivalent of 4.9 months of imports, the reserves-to-imports ratio at the floor would still be well above the calculated optimal ratio of 3.4 months for a low-income resource-poor country derived from ARA-LIC framework. Under the MEFP, the BRH is committed to maintain exchange rate flexibility, intervening as necessary to calm disorderly market conditions.

23. Safeguards will be further strengthened. The SMP follows the 2016 update assessment of the BRH in identifying several safeguards issues as reform priorities. These include safeguarding the central bank's autonomy, strengthening controls and oversight over reserves management, resolving delays in finalizing external audits, and aligning financial reporting with international practice. Completion and publication of the BRH audit for FY 2016/17 by end-June 2018 (which would represent an improvement in lag time from recent audits) constitutes a program structural benchmark. Any future program would stress the importance of amending the central bank laws and addressing reserves management and other safeguards issues.

24. Haiti will work towards elimination of arrears and avoid nonconcessional external debt. The SMP includes quantitative targets that exclude both the contracting and guaranteeing of external debt on nonconcessional terms (including the provision of guarantees to public corporations or other debtors), and the accumulation of new external arrears. The debt commitment, which reflects Haiti's high risk of debt distress, does not affect the availability of resources for hurricane recovery, as virtually all pledged multilateral and bilateral assistance is either in the form of concessional loans or outright grants. The SMP does not limit the use of concessional financing for desired infrastructure projects. Staff projections suggest that, based on the Fund's debt limits policy, Haiti should not engage in nonconcessional borrowing over the medium term. Venezuela is the only known external creditor to which Haiti owes arrears. The government also has a contested amount of domestic arrears, of approximately 0.5 percent of GDP, arising from apparent commitments made by line ministries – notably the ministries of education and health – that have not been endorsed or recognized by the Treasury. The authorities are working to assess and resolve any such obligations, and to eliminate the problem going forward through the universal application of the single treasury account ("Compte Unique du Trésor").

25. The SMP faces a number of risks. The structural reforms in the SMP carry substantial political risk, particularly if fuel price increases are put into effect without adequate preparation, or if opposition political leaders succeed in mobilizing large street demonstrations against the price adjustments. An unexpected rise in global oil prices would also pose difficulties for the SMP, not only by widening the gap between market prices and the fixed price at the pump, but also by raising electricity costs. Other risks to the program include the continuing threat of natural disasters, and the risk that other major donors may not provide anticipated levels of budget support.

26. Quantitative targets. The SMP limits quantitative targets to (i) a ceiling on the NFPS deficit; (ii) the balance of the fuel stabilization fund which provides a quantitative reference point that will oblige the government to raise the retail fuel price in order to limit tax revenue losses; (iii) a floor on net international reserves; (iv) a zero ceiling on nonconcessional borrowing, and (v) a zero ceiling on the accumulation of external arrears accumulation from the beginning of the program in March 2018.

27. Structural benchmarks. To ensure that the goals of the SMP remain achievable within the short timeframe of the SMP and in light of Haiti's constrained implementation capacity, the number of structural benchmarks is limited. Regarding safeguards, the audit for FY 2016/17 should be published by end-June. With respect to tax policy, where substantial work has been done under Fund TA, a roadmap for implementation of VAT and other tax reforms should be developed by end-March. By end-June, fuel prices must be adjusted to eliminate fuel subsidies. Also by end-June, EDH must raise its billing rate to at least 50 percent. By end-August, the authorities must complete the short-listing of qualified bidders to replace all expired EDH electricity supply contracts. To further enhance financial transparency of the public sector, budget and cash flow estimates for EDH should be published by end-March, and quarterly post-Matthew hurricane recovery expenditure reports should be disseminated by end-March and end-June.

28. Program monitoring. A first review based on end-March test dates and applicable structural benchmarks is expected to take place after a mission in May or June 2018, in conjunction with an Article IV mission. The second review, based on end-June test dates and applicable structural benchmarks, is expected to take place after a mission in August 2018.

STAFF APPRAISAL

29. Haiti confronts important challenges as it works to raise growth and reduce poverty. In committing to a sustained economic development program, the newly installed government of President Moïse seeks to escape a cycle of political instability and low growth that has held the country back in the past. At the same time the government wishes to reduce the vulnerability to natural disasters made evident by the humanitarian catastrophe and substantial economic loss wrought by Hurricane Matthew in October 2016. The Fund provided resources for hurricane reconstruction in the form of a loan in the amount of 18.75 percent of quota (SDR30.71 million; US$42 million) in November 2016, under the Rapid Credit Facility. Now, to increase growth and alleviate poverty, Haiti wishes to accelerate both public and private investment, including continued post-hurricane reconstruction. To this end, the authorities have requested a Staff-Monitored Program containing structural reforms and fiscal strengthening.

30. The authorities have assured staff of their readiness to achieve program objectives. Haiti's new government has already demonstrated its commitment to reform by taking the politically difficult step of raising retail fuel prices in May 2017, and by adopting a fiscally prudent revised budget for FY 2016/17. The authorities have requested an SMP, covering the period March – August 2018, as a means of securing reforms, reassuring markets, and maintaining macroeconomic stability. They have expressed their desire for an upper credit tranche arrangement following successful implementation of the SMP.

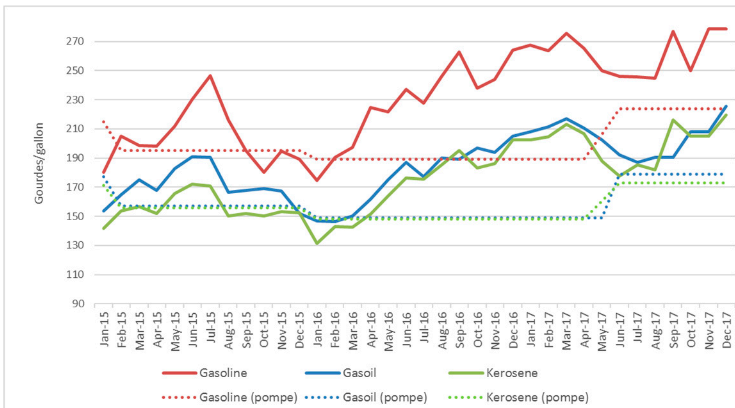
31. The SMP emphasizes fiscal management and structural reforms. The SMP is designed to support a package of key government reform initiatives in requiring full adjustment of fuel prices to eliminate the tax revenue losses pressuring government finances, and in implementing significant reforms in the electricity sector. The SMP fiscal deficit target of 2.4 percent of GDP (excluding hurricane reconstruction spending) is consistent with medium-term fiscal sustainability, while encouraging higher spending for hurricane reconstruction. The program contains several other crucial measures regarding safeguards, minimum net international reserve levels, tax reform, non-accumulation of arrears, and a prohibition on the contracting of nonconcessional debt. Risks to the program include political resistance to reforms, natural disasters, an unexpected increase in global fuel prices, and an unexpected shortfall in donor budget support.

32. Staff endorses the SMP. Haiti continues to have a clear need for external assistance from the Fund and other donors, including technical assistance. The SMP will reinforce cooperation between Haiti and the Fund, while providing a road map for putting the economy back on track, and laying the groundwork for possible future engagement under an upper credit tranche arrangement.

Box 1. Fuel Revenue and the Stabilization Fund

Retail fuel prices set by the Haitian government have frequently fallen below the real cost of supply (that is, the CIF import price plus charges for transport, distribution, and companies' profit, plus government taxes). The Stabilization Fund (SF) is a mechanism put in place by the government that tracks the fuel subsidy and the associated fiscal loss that occurs when there is a gap between the administered price at the pump and the market price. Under the 2015 ECF-supported program with the IMF, domestic prices were to be adjusted as soon as the SF balance, calculated on a cumulative basis since January 2015, reached a deficit of HTG 1 billion, in order to prevent losses in government revenue. Although this floor was hit in April 2016, corrective action could not be taken immediately, and an effort to raise fuel prices in September 2016 also failed.

Evolution of Pump Prices Compared to Full Pass-Through



The widening price differential resulted in a loss of 90 percent of budgeted fuel tax revenues during the first 7 months of FY 2016/17. The balance of the Stabilization Fund turned sharply negative and fell below HTG 13 billion at end-April 2017, bringing cumulative losses from the start of the fiscal year to HTG 9 billion, or 1.7 percent of GDP. (Losses for the fiscal year 2016/17 eventually reached HTG 10.5 billion, or 1.9 percent of GDP.)

In May 2017, the newly-elected government took a major step to address the large revenue loss by implementing significant price increases. Following an agreement with transport unions on May 13, the gasoline price was increased by 19 percent (HTG35 per gallon), diesel by 20 percent (HTG30 per gallon), and kerosene by 17 percent (HTG25 per gallon). Although full pass-through parity was not achieved with these price increases, the agreement also provided for further price adjustments with the goal of achieving full parity. Unfortunately, the political fallout from the May price increases proved too costly, and the follow-up price adjustments were not implemented.

Despite the one-time price increase in May 2017, the balance of the SF dropped to below HTG 15.5 billion at end-September 2017, and to below HTG 17.5 billion at end-December 2017, as increasing international oil prices coupled with a nominal depreciation of the gourde again led to an increasing gap between the price at the pump and the supply price of fuel. By the end of December 2017, pass-through prices for gasoline, diesel, and kerosene were surpassing regulated prices by 25 percent (Figure 1).

Under the SMP, the government will implement full pass-through parity of fuel prices by end-June 2018. Implementation of this measure will ensure that revenue losses are eliminated, but its success will also critically hinge on putting in place measures to mitigate the effect of price increases on the most vulnerable. Subsequently, the SMP requires that the balance of the Stabilization Fund not fall below its projected end-June level.

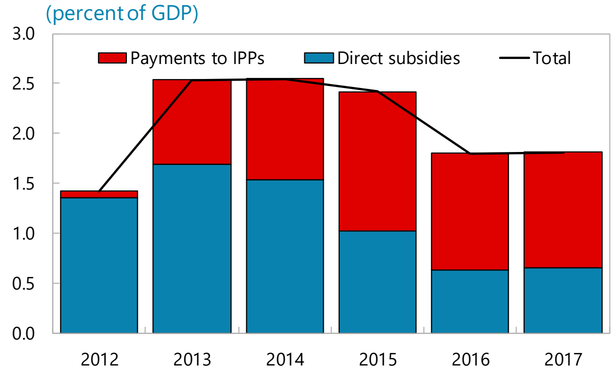
Box 2. The Fiscal Cost of EDH

Electricité d'Haïti (EDH) chronically generates large fiscal losses, due to inefficient revenue collection, high expenditures, and excessive administrative costs. Founded as a state-owned enterprise in 1971, EDH benefits from a 1989 decree granting it a legal monopoly for production, transport, distribution, and commercialization of electricity in Haiti. While self-generation of electricity is permitted, only EDH has the right to sell electricity to end-users. Nevertheless, EDH generates only a small fraction of its electricity needs (7 percent in 2017) and has to rely on independent power producers (IPPs) for much of the rest. Weak governance, high technical losses, low billing and recovery rates, high administrative costs, rent-seeking by IPPs, and a lack of investment have become deeply embedded.

- The ability of EDH to collect revenue has been severely limited for many years: only about 40 percent of energy supplied to customers is billed, and about 75 percent of billings are collected. This represents a cost-recovery index of about 30 percent, little changed in recent years.
- Despite growing availability of low-cost hydropower, much of EDH's budget is dedicated to purchasing fossil-fuel-based electricity from IPPs, often at high fixed prices through "take-or-pay" contracts.
- The firm is grossly overstaffed at nearly 3,000 employees.

EDH was responsible for most of Haiti's fiscal deficit last year. The utility's true operational deficit is difficult to calculate; EDH produces no cost projections in its budget, and some financing items are accounted for off-budget and ex-post. The Treasury supports EDH through direct subsidies, such as monthly transfers and tax forgiveness, which together amounted to 0.6 percent of GDP in FY 2016/17, as well as indirect subsidies, amounting to 1.2 percent of GDP, paid by the central government to the independent power providers on behalf of EDH. The total cost of EDH to the public sector, although declining slightly from its peak in FY 2014/15, remained high at 1.8 percent of GDP last fiscal year, comprising 85 percent of the overall NFPS deficit.

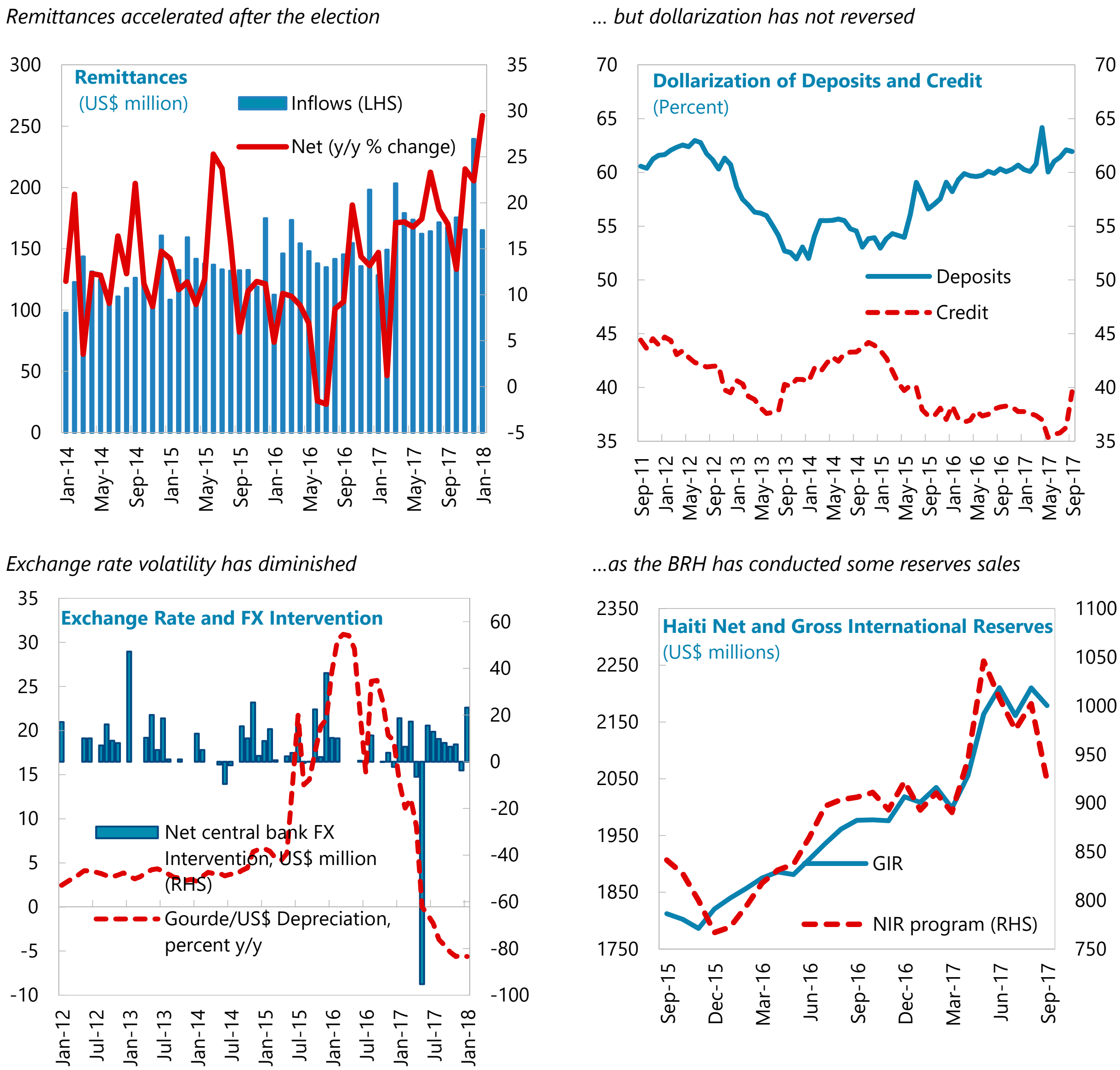
Haiti: Cost of EDH to Public Sector[1]
(percent of GDP)



Sources: Ministry of Finance, BMPAD, and staff calculations.
1/ Data in fiscal years (October – September).

Improving EDH's performance will require comprehensive reform. Donors have devoted substantial funds to improving Haiti's electricity sector, financing new power plants, renovating the country's principal hydropower dam, and maintaining transmission lines. Donor funding to the central government has often included explicit conditions requiring improved electricity-sector performance. This has yielded some advances, including greater transparency, some reduction in energy prices charged by the IPPs, and some trimming of EDH's staffing. However, putting EDH on a sustainable financial footing will require continued efforts to improve its revenue stream and lower its costs.

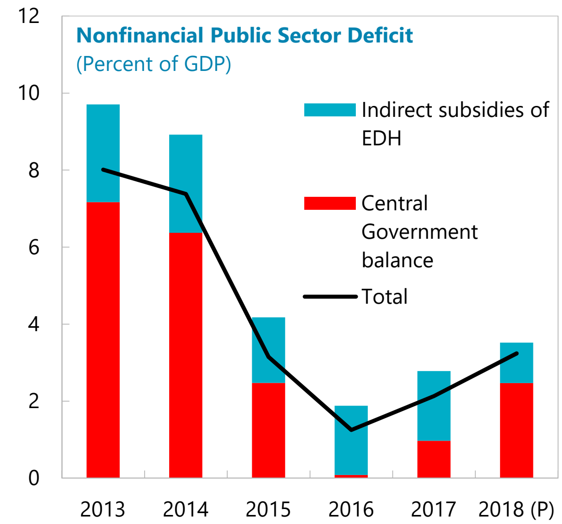
Figure 1. Haiti: Monetary and Financial-Sector Developments



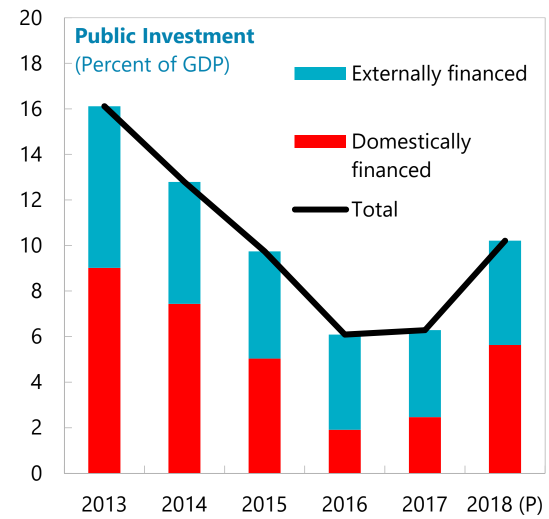
Sources: Banque de la Republique d'Haiti ; and IMF staff calculations.

Figure 2. Haiti: Fiscal Developments, 2013–18 1/

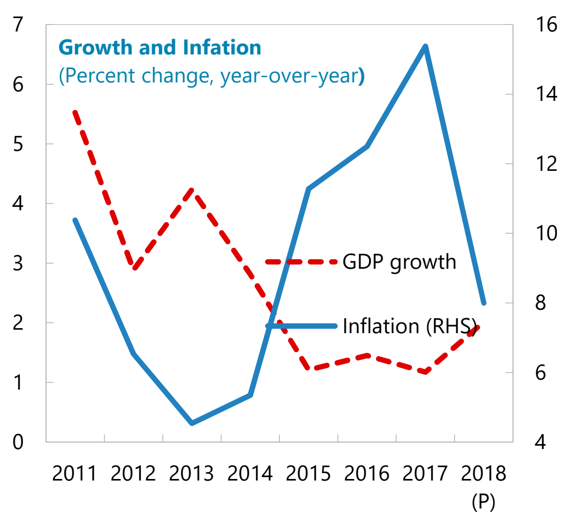
Haiti's fiscal deficit will increase after recent consolidation.



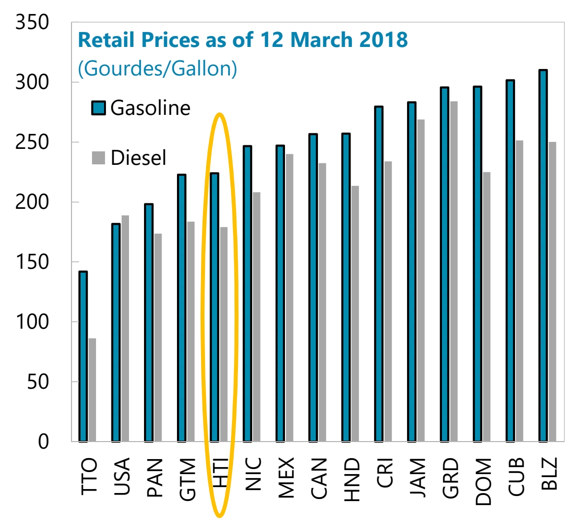
... largely due to increased public investment



Inflation is expected to decline as supply shock recede



Fuel prices are still low, particularly for a fuel importer



Sources: Ministry of Finance; GlobalPetrolPrices.com;, and IMF staff calculations.

1. Data are fiscal years (October through September)

Table 1. Haiti: Structural Benchmarks for Staff-Monitored Program

Measure	Timing	Rationale
Publish quarterly post-hurricane expenditure reports	End-March 2018	Improve financial transparency in the public sector
"	End-June 2018	
Complete and publish FY 2016/17 audit of the BRH	End-June 2018	Improve financial transparency
Develop a roadmap for submission of new VAT tax law and reform of tax exemptions to Parliament.	End-March 2018	Improve revenue collection
Publish EDH budget for FY 2017/18, including a projected cash flow statement for 2017/18	End-March 2018	Improve financial transparency in the public sector
Improve EDH's billing rate from 40% to 50%	End-June 2018	Improve electricity sector performance
Shortlist contractors with viable offers for the provision of electricity, including production, distribution, and sales, in order to replace all expired electricity supply contracts.	End-August 2018	Improve electricity sector performance
Increase retail fuel prices by the full amount needed to align them with market prices	End-June 2018	Improve revenue collection

Table 2. Haiti: Quantitative and Indicative Targets, March–September 2018
(In millions of gourdes, unless otherwise indicated)

	March 2018	June 2018	September 2018
	Quantitative target	Quantitative target	Indicative target
I. Quantitative targets			
Deficit of the nonfinancial public sector – ceiling (excluding hurricane expenditure) 1/	-13,378	-13,986	-14,594
(in percent of GDP)	*-2.2*	*-2.3*	*-2.4*
Fuel stabilization fund – floor	-20,670	-23,220	-23,220
(in millions of U.S. dollars; measured in absolute terms)			
Net international reserves of central bank – floor	825	825	910
II. Continuous quantitative targets			
(in millions of U.S. dollars)			
New contracting or guaranteeing by the public sector of nonconcessional external debt	0	0	0
External arrears accumulation	0	0	0
Memorandum item			
Expected expenditure for reconstruction from Hurricane Matthew 1/	3,648	4,256	4,865
(in percent of GDP)	*0.6*	*0.7*	*0.8*

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

1/ Cumulative from the start of the fiscal year (since October 2017).

Table 3. Haiti: Selected Economic and Financial Indicators, 2014/15–2021/22 1/

(Fiscal year ending September 30)

Nominal GDP (2016): US$8.2 billion
Population (2016): 10.847 million

GDP per capita (2016): $759
Percent of population below poverty line (2012): 58

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Act.	Act.	Act.	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	2.0	3.0	3.0	3.0	3.0
GDP deflator	6.9	12.0	13.4	8.0	5.0	5.0	5.0	5.0
Consumer prices (period average)	7.5	13.4	14.7	11.1	6.0	5.0	5.0	5.0
Consumer prices (end-of-period)	11.3	12.5	15.4	8.0	5.0	5.0	5.0	5.0
External Sector								
Exports (goods, valued in dollars, f.o.b.)	6.3	-2.9	-1.5	2.0	2.0	2.4	3.0	3.0
Imports (goods, valued in dollars, f.o.b.)	-5.9	-7.7	14.9	9.5	-2.3	-0.6	1.1	1.3
Remittances (valued in dollars)	12.7	7.4	15.9	3.0	1.0	-1.7	2.8	3.2
Real effective exchange rate (end of period; + appreciation)	4.8	-12.9	16.3	n.a.	n.a.	n.a.	n.a.	n.a.
Money and credit (valued in gourdes)								
Credit to private sector (in dollars and gourdes)	3.2	21.1	4.4	13.9	11.9	10.9	9.9	10.3
Base money (currency in circulation and gourde deposits)	31.5	3.2	23.4	10.2	8.2	8.2	8.2	8.2
Broad money (excl. foreign currency deposits)	15.7	17.8	12.9	10.2	8.2	8.2	8.2	8.2
Foreign Currency Deposits	10.8	2.8	8.5	10.0	10.0	10.2	10.4	9.0
	(In percent of GDP; unless otherwise indicated)							
Central government								
Overall balance (including grants)	-2.5	-0.1	-1.0	-2.5	-1.4	-1.3	-1.0	-0.8
Domestic revenue	13.9	14.2	14.1	15.1	15.7	15.8	16.1	16.4
Grants 2/	5.5	4.4	3.6	5.2	3.9	3.5	3.2	2.7
Expenditures	21.9	18.7	18.6	22.8	21.0	20.6	20.2	19.9
Current expenditures	12.1	12.6	12.4	12.6	12.5	12.4	12.4	12.2
Capital expenditures	9.7	6.1	6.3	10.2	8.5	8.1	7.8	7.7
Overall Balance of Total Non-Financial Public Sector 2/	-3.1	-1.3	-2.1	-3.2	-2.0	-1.8	-1.4	-1.1
Savings and investment								
Gross investment	32.4	30.5	29.0	32.6	31.1	31.0	30.8	30.8
Of which: public investment	9.7	6.1	6.3	10.2	8.5	8.1	7.8	7.7
Gross national savings	29.3	29.5	26.1	28.4	28.1	27.5	27.7	27.7
External current account balance (including official grants)	-3.1	-1.0	-2.9	-4.1	-3.0	-3.6	-3.1	-3.1
External current account balance (excluding official grants)	-8.7	-5.6	-7.4	-9.4	-6.9	-7.1	-6.2	-5.8
External Balance: Fossil Fuels	-7.8	-7.5	-9.4	-11.0	-9.9	-9.0	-8.4	-7.9
Public Debt								
External public debt (medium and long-term, end-of-period) 3/	23.0	24.9	23.8	26.2	28.8	30.5	31.1	31.2
Total public sector debt (end-of-period) 4/	26.4	29.0	24.7	28.4	30.9	32.7	33.2	34.1
External public debt service 5/	2.5	4.3	1.2	5.1	5.3	5.4	5.4	5.0
	(In millions of dollars, unless otherwise indicated)							
Overall balance of payments	-145	106	-61	-55	35	38	75	115
Net international reserves (program definition) 6/	841	906	923	912	901	894	899	924
Gross International Reserves 7/	1,812	1,977	2,179	2,171	2,178	2,192	2,230	2,284
In months of imports of the following year	5.2	5.0	5.2	5.3	5.3	5.2	5.2	5.2
Nominal GDP (millions of gourdes)	423,644	481,212	551,911	608,070	657,710	711,406	769,491	832,323
Nominal GDP (millions of US$)	8,672	8,178	8,608	9,417	9,751	10,240	10,754	11,293

Sources: Ministry of Economy and Finance; Bank of the Republic of Haiti; World Bank; Fund staff estimates and projections.
1/ All data is for internal discussion purposes with the Haitian authorities only.
2/ Includes state-owned electricity company (EDH).
3/ An update will be available during the next Article IV cycle.
4/ Excludes central bank repurchase operations in FY2013.
5/ In percent of exports of goods and nonfactor services. Includes debt relief.
6/ Includes SDR allocation as both an asset and a liability.
7/ Includes gold; includes transactions related to BRH repurchase operations; corresponds to BPM6 definition of reserves.

Table 4a. Haiti: Nonfinancial Public Sector Operations, 2014/15–2021/22

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

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Est.	Est.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	82,092	89,526	97,549	123,751	129,097	137,231	148,010	159,356
Domestic revenue	58,927	68,512	77,577	91,918	103,466	112,221	123,681	136,508
Domestic taxes	39,016	45,319	53,568	62,330	70,980	76,994	84,944	93,652
Customs duties	17,577	20,240	21,654	27,210	28,599	31,022	33,804	37,104
Of which: fuel taxes	7,546	8,217	3,989	8,050	11,839	13,161	14,236	16,646
Other current revenue 1/	2,334	2,954	2,355	2,378	3,888	4,205	4,933	5,752
Of which: FNE	1,485	1,810	1,902	1,216	1,973	2,134	2,308	2,497
Of which: FER	197	210	227	554	599	648	701	758
Grants	23,165	21,014	19,972	31,833	25,630	25,010	24,329	22,848
Budget support 2/	3,625	1,632	2,982	6,005	0	0	0	0
Project grants	19,540	19,382	16,990	25,828	25,630	25,010	24,329	22,848
Total expenditure 3/	92,567	89,919	102,900	138,754	137,981	146,367	155,816	165,899
Current expenditure	51,309	60,622	68,215	76,690	82,361	88,476	95,509	101,692
Wages and salaries	27,632	31,243	33,746	38,916	42,357	45,815	49,555	53,602
Goods and services	14,922	19,158	21,132	21,265	26,308	28,456	30,780	34,458
Interest payments	1,339	1,504	1,824	2,869	3,366	3,616	4,329	4,735
External	1,034	1,167	1,374	1,348	1,564	1,684	1,816	1,855
Domestic	305	337	450	1,520	1,803	1,932	2,513	2,880
Transfers and subsidies	7,416	8,716	10,914	10,190	9,329	9,590	9,845	7,897
Of which: energy sector 4/	4,347	3,027	3,585	1,677	1,437	1,409	1,380	1,238
Of which: mitigating measures related to fuel price reforms	0	0	600	3,450	1,000	1,000	1,000	1,000
Capital expenditure	41,258	29,298	34,685	62,063	55,620	57,891	60,307	64,207
Domestically financed 5/	21,326	9,167	13,593	34,240	27,967	30,103	32,400	39,148
Of which: Treasury	21,326	9,167	13,593	34,240	27,967	30,103	32,400	39,148
Of which: related to Petrocaribe spending	12,371	1,204	1,648	2,856	3,338	3,546	3,757	4,087
Of which: PCDR	1,380	1,227	601	1,010	1,010	1,010	1,010	1,010
Of which: FNE and FER related spending	1,356	805	5,388	1,770	2,572	2,782	3,009	3,255
Memo: Post-Hurricane Reconstruction Spending			*3,311*	*4,865*				
Foreign-financed	19,932	20,131	21,092	27,823	27,653	27,789	27,907	25,059
Central Government balance including grants	-10,475	-393	-5,351	-15,002	-8,884	-9,137	-7,805	-6,543
Excluding grants	-33,640	-21,407	-25,323	-46,836	-34,515	-34,147	-32,134	-29,391
Excluding grants and externally financed projects	-13,708	-1,276	-4,231	-19,012	-6,861	-6,358	-4,227	-4,332
Overall balance of NFPS, including grants	**-13,338**	**-6,017**	**-11,752**	**-19,707**	**-12,939**	**-12,642**	**-10,860**	**-9,148**
Memo: Total Costs of EDH to Public Sector	*-7,209*	*-8,651*	*-9,986*	*-6,382*	*-5,492*	*-4,914*	*-4,435*	*-3,843*
Adjustment (unsettled payment obligations)	630	-13,397	-2,866	0	0	0	0	0
Financing, NFPS	13,968	-7,380	8,886	19,707	12,939	12,642	10,860	9,148
External net financing	11,981	1,005	4,040	9,813	1,175	2,149	3,076	3,279
Loans (net)	7,975	-2,821	4,040	9,813	1,175	2,149	3,076	3,279
Disbursements	8,430	5,968	11,425	16,433	8,372	10,049	11,820	12,950
Of which: Petrocaribe	8,038	5,219	4,716	4,752	4,964	5,113	5,267	5,424
Project loans	392	749	4,102	11,681	3,408	4,936	6,553	7,525
Amortization	-455	-8,789	-7,386	-6,620	-7,197	-7,900	-8,743	-9,671
Arrears (net)	4,005	3,826	0	0	0	0	0	0
Internal net financing	1,987	-8,384	4,847	9,894	11,764	10,492	7,784	5,869
Banking system	9,821	-2,964	7,901	7,683	17,037	13,969	12,620	10,609
BRH	10,141	4,563	6,794	8,757	8,010	7,010	6,010	5,010
Of which: deposits	4,098	1,935	-1,112	5,500	4,500	3,500	2,500	1,500
Of which: PCDR	478	-491	1,385	1,010	1,010	1,010	1,010	1,010
Of which : government bonds	5,565	3,119	6,521	2,247	2,500	2,500	2,500	2,500
Commercial banks	-320	-7,527	1,107	-1,074	9,027	6,960	6,610	5,600
Of which: deposits Petrocaribe	3,314	-2,655	1,652	0	0	0	0	0
Of which: deposits, excluding Petrocaribe	-2,200	-4,361	-311	0	4,101	500	500	0
Of which : T-bills	-3,069	563	839	0	6,000	6,668	6,110	5,600
Of which: government bonds	1,635	-1,074	-1,074	-1,074	-1,074	-208	0	0
Nonbank financing 6/	-7,834	-5,420	-3,054	2,211	-5,273	-3,477	-4,836	-4,741
Of which: T-bills	-1,061	-563	-839	-1,232	1,113	2,758	1,249	1,195
Of which: Amort. Long-term obligations	-2,381	-3,959	-4,000	-4,500	-4,400	-4,250	-4,100	-3,950
Of which: Supplier credits				7,942				
Of which: Receivables from the electricity sector	-1,725	-1,230	-719	-669	-619	-569	-519	-469
Of which: EDH letters of credit	-4,180	-4,394	-5,682	-4,036	-3,436	-2,936	-2,536	-2,136
Of which: Checks in circulation	1,346	-898	1,784	0	0	0	0	0
Of which: Other Net Arrears 7/	-5,738	0	0	0	0	0	0	0
Other EDH financing	5,905	5,624	6,401	4,705	4,055	3,505	3,055	2,605
Memorandum items								
Balance of Petrocaribe deposits	2,073	4,681	3,076	3,076	3,076	3,076	3,076	3,076
at BRH	0	-48	0	0	0	0	0	0
at commercial banks	2,073	4,729	3,076	3,076	3,076	3,076	3,076	3,076
Gross Financing Needs	28,489	32,472	39,263	49,142	44,853	46,860	47,274	47,592
Balance of PCDR account (in millions of US$)	133	114	97	76	59	43	28	13
Social spending (in millions of gourdes)	15,622	16,011	17,317	23,107	24,993	27,033	29,241	31,628
Nominal GDP (millions of gourdes)	423,644	481,212	551,911	608,070	657,710	711,406	769,491	832,323

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

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

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

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

4/ Comprises payments on behalf of EDH for electricity generation, tax payments remitted to EDH, and mitigating measures for fuel price adjustment.

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

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

7/ The government placed bonds for G 5.7 billion in the banking system at end-FY2014 to clear post-Sandy obligations during FY2015; and incurred external and domestic arrears in FY2015 and FY2016.

Table 4b. Haiti: Nonfinancial Public Sector Operations, 2014/15–2021/22

(Fiscal year September 30; in percent of GDP)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Est.	Est.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	19.4	18.6	17.7	19.8	19.6	19.2	19.2	19.1
Domestic revenue	13.9	14.2	14.1	14.7	15.7	15.8	16.1	16.4
Domestic taxes	9.2	9.4	9.7	10.1	10.8	10.8	11.0	11.2
Customs duties	4.1	4.2	3.9	4.2	4.3	4.4	4.4	4.5
Of which: fuel taxes	1.78	1.7	0.7	1.0	1.8	1.9	1.9	2.0
Other current revenue [1/]	0.6	0.6	0.4	0.4	0.6	0.6	0.6	0.7
Of which: FNE	0.4	0.4	0.3	0.2	0.3	0.3	0.3	0.3
Of which: FER	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Grants	5.5	4.4	3.6	5.1	3.8	3.5	3.1	2.7
Budget support [2/]	0.9	0.3	0.5	1.0	0.0	0.0	0.0	0.0
Project grants	4.6	4.0	3.1	4.2	3.8	3.5	3.1	2.7
Total expenditure [3/]	21.9	18.7	18.2	22.3	20.9	20.5	20.2	19.9
Current expenditure	12.1	12.6	12.4	12.6	12.5	12.4	12.4	12.2
Wages and salaries	6.5	6.5	6.1	6.4	6.4	6.4	6.4	6.4
Goods and services	3.5	4.0	3.8	3.5	4.0	4.0	4.0	4.1
Interest payments	0.3	0.3	0.3	0.5	0.5	0.5	0.6	0.6
External	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Domestic	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3
Transfers and subsidies	1.8	1.8	2.0	1.7	1.4	1.3	1.3	0.9
Of which: energy sector [4/]	1.0	0.6	0.6	0.3	0.2	0.2	0.2	0.1
Of which: mitigating measures related to fuel price reforms	0.0	0.0	0.1	0.6	0.1	0.1	0.1	0.1
Capital expenditure	9.7	6.1	5.8	9.7	8.4	8.1	7.8	7.6
Domestically financed [5/]	5.0	1.9	2.0	5.2	4.2	4.2	4.2	4.7
Of which: Treasury	5.0	1.9	2.0	5.2	4.2	4.2	4.2	4.7
Of which: related to Petrocaribe spending	2.9	0.3	0.3	0.5	0.5	0.5	0.5	0.5
Of which: PCDR	0.3	0.3	0.1	0.2	0.2	0.1	0.1	0.1
Of which: FNE and FER related spending	0.3	0.1	0.5	0.3	0.4	0.4	0.4	0.4
Memo: Post-Hurricane Reconstruction Spending			*0.6*	*0.8*				
Foreign-financed	4.7	4.2	3.8	4.5	4.1	3.8	3.6	3.0
Central Government balance including grants	-2.5	-0.1	-0.5	-2.5	-1.3	-1.3	-1.0	-0.8
Excluding grants	-7.9	-4.4	-4.1	-7.6	-5.2	-4.7	-4.1	-3.5
Excluding grants and externally financed projects	-3.2	-0.2	-0.3	-3.1	-1.0	-0.9	-0.5	-0.5
Overall balance of NFPS, including grants	**-3.9**	**-1.2**	**-1.7**	**-3.2**	**-1.9**	**-1.7**	**-1.4**	**-1.1**
Memo: Total Costs of EDH to Public Sector	*-2.4*	*-1.8*	*-1.8*	*-1.0*	*-0.8*	*-0.7*	*-0.6*	*-0.5*
Adjustment (unsettled payment obligations)	-0.6	-2.8	-0.1	0.0	0.0	0.0	0.0	0.0
Financing, NFPS	3.3	-1.5	1.6	3.2	1.9	1.7	1.4	1.1
External net financing	2.8	0.2	0.3	1.6	0.2	0.3	0.4	0.4
Loans (net)	1.9	-0.6	0.3	1.6	0.2	0.3	0.4	0.4
Disbursements	2.0	1.2	1.6	2.7	1.2	1.4	1.5	1.5
Of which: Petrocaribe	1.9	1.1	0.9	0.8	0.7	0.7	0.7	0.6
Project loans	0.1	0.2	0.7	1.9	0.5	0.7	0.8	0.9
Amortization	-0.1	-1.8	-1.3	-1.1	-1.1	-1.1	-1.1	-1.1
Arrears (net)	0.9	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Internal net financing	0.5	-1.7	1.4	1.6	1.8	1.4	1.0	0.7
Banking system	2.3	-0.6	1.9	1.2	2.5	1.9	1.6	1.3
BRH	2.4	0.9	1.7	1.4	1.2	1.0	0.8	0.6
Of which: deposits, excluding Petrocaribe	1.0	0.4	0.3	0.9	0.7	0.5	0.3	0.2
Of which: PCDR	0.1	-0.1	0.3	0.2	0.2	0.1	0.1	0.1
Of which : government bonds	1.3	0.6	1.2	0.4	0.4	0.3	0.3	0.3
Of which : BRH lending related to hurr. Matthew (RCF)			0.5					
Commercial banks	-0.1	-1.6	0.2	-0.2	1.3	1.0	0.8	0.7
Of which: deposits Petrocaribe	0.8	-0.6	0.3	0.0	0.0	0.0	0.0	0.0
Of which: deposits, excluding Petrocaribe	-0.5	-0.9	-0.1	0.0	0.6	0.1	0.1	0.0
Of which: T-bills	-0.7	0.1	0.2	0.0	0.9	0.9	0.8	0.7
Of which: government bonds	0.4	-0.2	-0.2	-0.2	-0.2	0.0	0.0	0.0
Nonbank financing [6/]	-1.8	-1.1	-0.6	0.4	-0.8	-0.5	-0.6	-0.6
Of which: T-bills	-0.3	-0.1	-0.2	-0.2	0.2	0.4	0.1	0.1
Of which: Amort. Long-term obligations	-0.6	-0.8	-0.7	-0.7	-0.7	-0.6	-0.5	-0.5
Of which: Supplier credits				1.3				
Of which: Receivables from the electricity sector	-0.4	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Of which: EDH letters of credit	-1.0	-0.9	-1.0	-0.7	-0.5	-0.4	-0.3	-0.3
Of which: Checks in circulation	0.3	-0.2	0.3	0.0	0.0	0.0	0.0	0.0
Of which: Post-Sandy and FNE obligations [7/]	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other EDH financing	1.4	1.2	1.2	0.8	0.6	0.5	0.4	0.3
Memorandum items								
Balance of Petrocaribe deposits	0.5	1.0	0.6	0.5	0.5	0.4	0.4	0.4
at BRH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
at commercial banks	0.5	1.0	0.6	0.5	0.5	0.4	0.4	0.4
Gross Financing Needs	7.4	6.7	6.7	8.0	6.7	6.5	6.0	5.6
Balance of PCDR account (in millions of US$)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social spending (in millions of gourdes)	3.7	3.3	3.1	3.8	3.8	3.8	3.8	3.8
Nominal GDP (millions of gourdes)	423,644	481,212	551,911	619,330	669,889	724,580	783,740	847,736

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

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

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

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

4/ Comprises payments on behalf of EDH for electricity generation, tax payments remitted to EDH, and mitigating measures for fuel price adjustment.

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

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

7/ The government placed bonds for G 5.7 billion in the banking system at end-FY2014 to clear post-Sandy obligations during FY2015; and incurred external and domestic arrears in FY2015 and FY2016.

Table 5. Haiti: Summary Accounts of the Banking System, 2014/15–2021/22
(Fiscal year ending September 30; in millions of gourdes unless otherwise indicated)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Est.	Est.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
			I. Central Bank					
Net foreign assets	79,788	111,112	110,564	113,741	118,386	123,825	131,036	140,194
(In millions of US$)	1,530	1,695	1,764	1,712	1,730	1,756	1,805	1,874
Net international reserves [1/]	841	906	923	912	901	894	899	924
Commercial bank forex deposits	799	899	951	911	939	973	1,016	1,062
Net domestic assets	-16,276	-45,599	-29,730	-24,682	-22,056	-19,630	-18,334	-18,290
Net credit to the nonfinancial public sector	23,941	27,905	34,277	43,034	51,044	58,053	64,063	69,073
Of which: Net credit to the central government	26,267	30,829	37,624	46,381	54,391	61,400	67,410	72,420
Claims on central government	54,828	57,947	64,468	73,225	81,235	88,244	94,254	99,264
Central government deposits	28,561	27,117	26,844	26,844	26,844	26,844	26,844	26,844
Of which: IMF PCDR Debt Relief	-6,952	-7,443	-6,058	-5,048	-4,039	-3,029	-2,019	-1,010
Liabilities to commercial banks (excl gourde deposits)	-46,586	-69,559	-70,909	-69,376	-73,126	-77,471	-82,630	-88,241
BRH bonds/Open market operations	-4,975	-10,648	-11,272	-8,844	-8,844	-8,844	-8,844	-8,844
Commercial bank forex deposits	-41,611	-58,910	-59,637	-60,532	-64,282	-68,627	-73,786	-79,397
Other	6,369	-3,945	6,902	1,660	26	-213	233	879
Base Money	63,512	65,513	80,834	89,059	96,330	104,194	112,702	121,904
Currency in circulation	28,618	33,642	38,425	42,335	45,791	49,530	53,574	57,948
Commercial bank gourde deposits	34,894	31,871	42,409	46,724	50,539	54,665	59,128	63,956
			II. Consolidated Banking System					
Net foreign assets	112,558	153,007	166,234	172,752	179,167	186,428	195,518	206,610
(In millions of US$)	2,162	2,335	2,652	2,600	2,618	2,644	2,693	2,762
Of which: Commercial banks NFA	628	639	888	888	888	888	888	888
Net domestic assets	89,212	84,690	102,159	122,951	140,676	159,527	178,684	198,146
Credit to the nonfinancial public sector	18,572	12,571	20,205	27,889	44,925	58,895	71,515	82,124
Of which: Net credit to the central government	21,548	18,584	26,492	34,168	51,205	65,174	77,794	88,403
Claims on central government	31,308	35,360	41,927	49,603	62,539	76,008	88,128	98,737
Central government deposits	9,760	16,776	15,435	15,435	11,334	10,834	10,334	10,334
Credit to the private sector	87,624	106,114	110,783	126,133	141,093	156,472	172,021	189,781
In gourdes	54,887	65,601	66,900	76,107	85,064	94,280	103,609	114,255
In foreign currency	32,737	40,512	43,883	50,026	56,029	62,193	68,412	75,527
In millions of US$	628	618	700	753	819	882	942	1,010
Other	-16,984	-33,995	-28,829	-31,071	-45,342	-55,841	-64,852	-73,759
Broad money	201,770	237,696	268,393	295,703	319,843	345,955	374,202	404,757
Currency in circulation	28,618	33,642	38,425	42,335	45,791	49,530	53,574	57,948
Gourde deposits	71,706	73,690	79,933	87,927	96,895	106,972	116,600	127,094
Foreign currency deposits	101,446	130,364	150,034	165,441	177,156	189,453	204,028	219,714
In millions of US$	1,946	1,989	2,393	2,490	2,588	2,687	2,810	2,938
			(12-month percentage change)					
Currency in circulation	19.5	17.6	14.2	10.2	8.2	8.2	8.2	8.2
Base money	31.5	3.2	23.4	10.2	8.2	8.2	8.2	8.2
Gourde money (M2)	13.2	7.0	10.3	10.1	9.5	9.7	8.7	8.7
Broad money (M3)	15.7	17.8	12.9	10.2	8.2	8.2	8.2	8.2
Gourde deposits	10.8	2.8	8.5	10.0	10.2	10.4	9.0	9.0
Foreign currency deposits	18.2	28.5	15.1	10.3	7.1	6.9	7.7	7.7
Credit to the private sector	3.2	21.1	4.4	13.9	11.9	10.9	9.9	10.3
Credit in gourdes	14.0	19.5	2.0	13.8	11.8	10.8	9.9	10.3
Credit in foreign currency	-11.0	23.8	8.3	14.0	12.0	11.0	10.0	10.4
Memorandum items:								
Foreign currency deposits (percent of total private deposits)	58.6	63.9	65.2	65.3	64.6	63.9	63.6	63.4
Foreign curr. credit to priv. sector (percent of total)	37.4	38.2	39.6	39.7	39.7	39.7	39.8	39.8
Commercial Banks' Credit to Private Sector (percent of GDP)	19.9	21.2	19.3	20.0	20.7	21.2	21.6	22.0

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 U.S. dollar-denominated bank reserves. The SDR allocation is not netted out of NIR.

Table 6a. Haiti: Balance of Payments, 2014/15–2021/22

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

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Est.	Est.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account (including grants)	-265	-83	-246	-389	-291	-364	-331	-347
Current account (excluding grants)	-754	-455	-634	-882	-671	-724	-671	-657
Trade balance	-2,425	-2,188	-2,676	-3,003	-2,830	-2,845	-2,855	-2,921
Exports of goods	1,024	995	980	1,000	1,020	1,044	1,075	1,107
Of which: Assembly industry	943	920	875	893	911	932	960	989
Imports of goods	-3,449	-3,183	-3,656	-4,003	-3,850	-3,888	-3,930	-4,029
Of which: Fossil Fuels	-676	-613	-808	-1,035	-965	-921	-898	-893
Of which: Food Products	-955	-751	-867	-895	-859	-843	-870	-904
Services (net)	-318	-407	-431	-412	-403	-399	-406	-407
Receipts	724	607	613	643	656	671	691	712
Payments	-1,042	-1,013	-1,044	-1,055	-1,059	-1,070	-1,097	-1,119
Income (net)	41	48	50	37	40	41	42	43
Of which: Interest payments	-21	-20	-22	-21	-23	-24	-26	-25
Current transfers (net)	2,437	2,464	2,811	2,990	2,902	2,838	2,889	2,939
Official transfers (net)	489	372	387	493	380	360	340	310
Of which: budget support 1/	64	28	47	93	0	0	0	0
Private transfers (net)	1,948	2,092	2,424	2,497	2,522	2,478	2,549	2,629
Capital and financial accounts	143	106	168	333	326	402	406	462
Capital transfers	18	59	20	20	10	0	0	0
Public sector capital flows (net)	163	-48	23	152	17	31	43	44
Loan disbursements	173	101	138	254	124	145	165	176
Amortization	-9	-149	-115	-103	-107	-114	-122	-131
Foreign direct investment (net)	106	105	374	111	200	200	200	200
Banks (net) 2/	-162	-11	-249	0	0	0	0	0
Other items (net)	18	0	0	50	98	171	163	217
Errors and omissions	-23	83	17	0	0	0	0	0
Overall balance	-145	106	-61	-55	35	38	75	115
Financing	145	-106	61	55	-15	-24	-45	-67
Change in net foreign assets (+ is decrease)	101	-166	-68	52	-18	-27	-48	-70
o/w Change in gross reserves	107	-165	-202	8	-7	-14	-38	-53
o/w Liabilities	-6	-1	134	44	-11	-13	-10	-17
Utilization of Fund credits(net)	12	-1	37	-10	-11	-13	-10	-17
Other liabilities 3/	-18	0	97	54	0	0	0	0
Debt rescheduling and debt relief	6	3	4	3	3	3	3	3
Change in arrears 4/	39	57	126	0	0	0	0	0
Memorandum items:								
Change in US$-denominated reserve deposits at BRH (+ is decrease)	-69	-100	-52	40	-28	-34	-43	-45
Change in NIR (NFA - US$ reserve deposits + SDR) (+ is decrease)	175	-65	-17	12	10	8	-5	-24
Current account (in percent of GDP)	-3.1	-1.0	-2.9	-4.1	-3.0	-3.6	-3.1	-3.1
Excluding official transfers	-8.7	-5.6	-7.4	-9.4	-6.9	-7.1	-6.2	-5.8
Exports of goods, f.o.b (percent change)	6.3	-2.9	-1.5	2.0	2.0	2.4	3.0	3.0
Imports of goods, f.o.b (percent change)	-5.9	-7.7	14.9	9.5	-2.3	-0.6	1.1	1.3
Projected average oil price (US$ per barrel, APSP)	50.8	42.8	52.8	65.2	61.3	58.5	57.0	56.4
Debt service (in percent of exports of goods and services)	1.7	4.7	6.5	6.9	7.0	7.4	7.3	7.0
Gross International reserves (in millions of US$) 5/	1,812	1,977	2,179	2,171	2,178	2,192	2,230	2,284
(in months of next year's imports of goods and services)	5.2	5.0	5.2	5.3	5.3	5.2	5.2	5.2

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 repurchase operations contracted in FY2013 and unwound in FY2014.
4/ Includes debt to Venezuela for oil shipments already paid by the GOH in local currency but not yet cleared in U.S. dollars.
5/ Includes gold; reflects unwinding of repurchase operations in FY2014.

Table 6b. Haiti: Balance of Payments, 2014/15–2021/22
(In percent of GDP on a fiscal-year basis, unless otherwise indicated)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Est.	Est.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account (including grants)	-3.1	-1.0	-2.9	-4.1	-3.0	-3.6	-3.1	-3.1
Current account (excluding grants)	-8.7	-5.6	-7.4	-9.4	-6.9	-7.1	-6.2	-5.8
Trade balance	-28.0	-26.8	-31.1	-31.9	-29.0	-27.8	-26.6	-25.9
Exports of goods	11.8	12.2	11.4	10.6	10.5	10.2	10.0	9.8
Of which: Assembly industry	10.9	11.2	10.2	9.5	9.3	9.1	8.9	8.8
Imports of goods	-39.8	-38.9	-42.5	-42.5	-39.5	-38.0	-36.5	-35.7
Of which: Fossil Fuels	-7.8	-7.5	-9.4	-11.0	-9.9	-9.0	-8.4	-7.9
Of which: Food Products	-11.0	-9.2	-10.1	-9.5	-8.8	-8.2	-8.1	-8.0
Services (net)	-3.7	-5.0	-5.0	-4.4	-4.1	-3.9	-3.8	-3.6
Receipts	8.3	7.4	7.1	6.8	6.7	6.6	6.4	6.3
Payments	-12.0	-12.4	-12.1	-11.2	-10.9	-10.4	-10.2	-9.9
Income (net)	0.5	0.6	0.6	0.4	0.4	0.4	0.4	0.4
Of which: Interest payments	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Current transfers (net)	28.1	30.1	32.7	31.7	29.8	27.7	26.9	26.0
Official transfers (net)	5.6	4.5	4.5	5.2	3.9	3.5	3.2	2.7
Of which: budget support	0.7	0.3	0.5	1.0	0.0	0.0	0.0	0.0
Private transfers (net)	22.5	25.6	28.2	26.5	25.9	24.2	23.7	23.3
Capital and financial accounts	1.6	1.3	2.0	3.5	3.3	3.9	3.8	4.1
Capital transfers	0.2	0.7	0.2	0.2	0.1	0.0	0.0	0.0
Public sector capital flows (net)	1.9	-0.6	0.3	1.6	0.2	0.3	0.4	0.4
Loan disbursements	2.0	1.2	1.6	2.7	1.3	1.4	1.5	1.6
Amortization	-0.1	-1.8	-1.3	-1.1	-1.1	-1.1	-1.1	-1.2
Foreign direct investment (net)	1.2	1.3	4.3	1.2	2.1	2.0	1.9	1.8
Banks (net) 1/	-1.9	-0.1	-2.9	0.0	0.0	0.0	0.0	0.0
Other items (net)	0.2	0.0	0.0	0.5	1.0	1.7	1.5	1.9
Errors and omissions 2/	-0.3	1.0	0.2	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.7	1.3	-0.7	-0.6	0.4	0.4	0.7	1.0
Financing	1.7	-1.3	0.7	0.6	-0.2	-0.2	-0.4	-0.6
Change in net foreign assets	1.2	-2.0	-0.8	0.6	-0.2	-0.3	-0.4	-0.6
Change in gross reserves	1.2	-2.0	-2.3	0.1	-0.1	-0.1	-0.4	-0.5
Liabilities	-0.1	0.0	1.6	0.5	-0.1	-0.1	-0.1	-0.1
Utilization of Fund credits(net)	0.1	0.0	0.4	-0.1	-0.1	-0.1	-0.1	-0.1
Other liabilities 3/	-0.2	0.0	1.1	0.6	0.0	0.0	0.0	0.0
Debt rescheduling and debt relief	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears 4/	0.9	0.8	0.5	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Exports of goods, f.o.b (percent change)	6.3	-2.9	-1.5	2.0	2.0	2.4	3.0	3.0
Imports of goods, f.o.b (percent change)	-5.9	-7.7	14.9	9.5	-2.3	-0.6	1.1	1.3
Projected average oil price (US$ per barrel, APSP)	50.8	42.8	52.8	65.2	61.3	58.5	57.0	56.4
Debt service (in percent of exports of goods and services)	1.7	4.7	6.5	6.9	7.0	7.4	7.3	7.0
Gross liquid international reserves (in millions of US$) 5/	1,812	1,977	2,179	2,171	2,178	2,192	2,230	2,283.7
(in months of next year's imports of goods and services)	5.2	5.0	5.2	5.3	5.3	5.2	5.2	5.2

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 repurchase operations contracted in FY2013 and unwound in FY2014.
4/ Includes debt to Venezuela for oil shipments already paid by the GOH in local currency but not yet cleared in U.S. dollars.
5/ Includes gold; reflects unwinding of repurchase operations in FY2014.

Appendix I. Letter of Intent

February 25, 2018

Mme. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Madame Managing Director,

1. **In November 2016, Haiti requested emergency financial assistance under the IMF's Rapid Credit Facility (RCF), to address the urgent balance of payments needs associated with the recovery from Hurricane Matthew.** The IMF's financial assistance has played a catalytic role in helping our nation recover from the devastating effects of the hurricane, and in signaling to other donors our readiness to move forward with prudent policies and necessary reforms. In requesting the RCF disbursement, we indicated our desire to deepen collaboration with the Fund through a staff-monitored program (SMP). The Government of Haiti now formally requests such a program.

2. **The new program will provide a strong basis for macroeconomic stability while laying the groundwork for necessary reforms over the medium term.** The attached Memorandum of Economic and Financial Policies (MEFP) outlines the objectives of our program. We are committed to enhance domestic revenues and to rationalize expenditures, to enable us to fund public investment while increasing expenditure on poverty alleviation and raising social welfare. We anticipate that, over the medium term, this approach will allow us to raise Haiti's growth rate and thereby significantly reduce the incidence of extreme poverty. Successful completion of the SMP could pave the way for follow-up engagement with the IMF in the form of an upper credit tranche arrangement.

3. **The transitional six-month period of the SMP offers the opportunity to stabilize public finances while establishing a track record that will facilitate deeper engagement with the Fund and other donors.** We have already begun to do so, by implementing a significant increase in fuel prices in May 2017. This is to be followed by further fuel price adjustments under the SMP, accompanied by mitigating measures to protect the most vulnerable, so that the shortfall in fuel revenues arising from subsidies will be eliminated by the end of June 2018. Additionally, over the period of the program, we will strive to reduce the substantial losses generated by the public utility Electricité d'Haiti (EDH). Under the SMP, we will publish a comprehensive budget for EDH, increase EDH's billing rate from 40 to 50 percent, and before end-August 2018, we will shortlist contractors with viable offers for the provision of electricity, including production, distribution and sales, in order to replace all expired electricity supply contracts.

4. **Under the SMP, our overall nonfinancial public sector budget deficit for fiscal year 2016–17 will be limited to 2.4 percent of GDP, not including expenditures specifically**

designated for reconstruction from the effects of Hurricane Matthew. Combined with the zero ceilings on the contracting or guaranteeing of new non-concessional external debt and on the accumulation of new external payment arrears, these commitments will help to ensure that our debt burden remains sustainable over the medium term.

5. **We have identified several measures to broaden fiscal revenue sources and to improve the efficiency of tax collection, building on extensive technical assistance from the IMF and others.** These include simplifying the current TCA, and putting in place a road map for its eventual replacement by a broad-based VAT system; streamlining excise and small taxes; reforming tax exemptions; and reforming personal, corporate and property tax regimes. We will continue to strengthen the capacity of the Directorate General of Taxes (DGI) and the Customs Administration (AGD), to mobilize domestic receipts, and to ensure the coordination of public financial management systems, notably by consolidating public financial flows in the Treasury Single Account.

6. **Monetary policies will be directed at bringing down inflation and maintaining orderly conditions in the foreign exchange market.** The BRH will maintain a floor on net international reserves sufficient to preserve a buffer to protect against speculative pressures. We are taking steps to address concerns over safeguards risks to the use of Fund resources, including in the areas of BRH autonomy, governance and external audit, the management of foreign reserves, and the adoption of international accounting standards. The BRH will continue to monitor closely the health of financial institutions, and to strengthen the AML/CFT framework.

7. **The policies set forth in the attached MEFP are aligned with the objectives of our social and economic program.** We stand ready to undertake further measures as needed and will consult with the Fund on the adoption of such measures, and in advance of any revision to the policies contained in the MEFP, in accordance with the Fund's policies. We will discuss with Fund staff any unexpected developments that could affect the economic program to jointly analyze their impact and best courses of action, without compromising the program's objectives. We will provide timely information necessary for monitoring economic developments and the implementation of policies defined in the program, as agreed under the attached Technical Memorandum of Understanding, or upon request.

Sincerely yours

/s/	/s/
Jean Baden Dubois	**Jude Alix Patrick Salomon**
Governor, Central Bank of Haiti	Minister of Economy and Finance

Attachment I. Memorandum of Economic and Financial Policies 2017–18

Introduction

1. **In the wake of the loss of life and extensive destruction wrought by Hurricane Matthew on October 4, 2016, the government of Haiti requested emergency financing from the IMF for recovery and reconstruction.** On November 18, 2016, the Executive Board approved a disbursement in the amount of SDR 30.7125 million (about US$42 million) under the Rapid Credit Facility (RCF), equivalent to 18.75 percent of quota. At the time of the RCF request, the government of Haiti noted its intention to adopt a solid policy framework aimed at promoting macroeconomic stability and growth, and to seek further IMF policy support in the form of a Staff Monitored Program (SMP).

2. **This Memorandum of Economic and Financial Policies (MEFP) presents recent economic developments, as well as the economic and structural policies that Haiti will pursue through its program of economic recovery under the SMP.** The SMP reflects the shared view of the government of Haiti and IMF staff about the best way forward for Haiti to achieve higher economic growth while maintaining macroeconomic stability. It aims to create the conditions necessary for sustainable development that protects the most vulnerable in society.

3. **The government's overarching objective under the program is to strengthen fiscal policy, improve fiscal controls, and accelerate structural reform, thereby permitting the deployment of resources for necessary post-hurricane reconstruction and public investment.** The policy framework is also designed to raise Haiti's private sector-led growth potential, and to make meaningful progress in poverty reduction in Haiti. Key reforms of the program aim to improve efficiency in the electricity sector, notably with regard to the public electricity utility, EDH, pursue the adjustment of retail fuel prices until consumption subsidies are eliminated and the market price is reached, broaden revenue sources, and ensure long-term fiscal sustainability. In setting near-term macroeconomic targets and reform benchmarks, the new government intends to establish a solid track record that will pave the way for discussions with the IMF on an upper credit tranche arrangement.

The 2015 ECF Arrangement

4. **In May 2015, the IMF Board approved a three-year SDR 49 million (about US$69 million, 60 percent of Haiti's quota at the time) arrangement under the Extended Credit Facility (ECF).** The arrangement aimed to raise Haiti's growth potential to 3-4 percent over the medium term and to reduce vulnerabilities to shocks, while entrenching macroeconomic stability. Sustainability of public finances was to be attained through a reduction in the deficit of the non-financial public sector (NFPS) from 7.5 percent of GDP in FY2013/14 to 3.3 percent in FY2014/15 and 2.5 percent over the medium term. It was anticipated that lower oil prices would facilitate fiscal

consolidation, and allow the government to increase fuel taxes and reduce electricity subsidies, while preserving spending for poverty reduction. The program also incorporated an automatic fuel pricing mechanism, based in a 1995 law, which mandates the adjustment of domestic fuel prices to reflect international oil prices. The monetary policy stance was to remain as tight as needed, reflecting progress on fiscal consolidation, while maintaining gross international reserves at an appropriate level of more than 4.5 months of imports.

5. Macroeconomic policy management registered some significant improvements during the program (May 2015 through end-November 2016), even though some goals were not met. The NFPS deficit of 1.2 percent of GDP in FY 2015/16 came in well under the program ceiling of 2.3 percent of GDP, although this was accompanied by an accumulation of arrears, including an accumulation of external arrears of around 0.8 percent of GDP. Monetary policy remained tight throughout, even as drought conditions triggered a major supply shock that increased food prices to 17 percent. Progress on reforms was slower than expected, as fuel tax revenues declined, and progress in reducing the large losses of EDH was limited. Political uncertainty contributed to a 26 percent depreciation of the gourde against the dollar over the period, despite the monetary restraint. However, after declining at the end of FY 2014/15 to US$841 million, net international reserves began to recover, ending FY 2015/16 at US$906 million, exceeding the program floor of US$890 million.

The Rapid Credit Facility and FY 2016/17

6. Initial estimates put the total material damage and loss from Hurricane Matthew at US$1.9 billion or approximately 23 percent of Haiti's GDP. With recovery certain to be a multi-year process, public sector recovery and reconstruction costs in FY 2016/17 were initially estimated at about a quarter of that total, or US$556 million.

7. Financial assistance from the IMF through the RCF disbursement helped meet the urgent foreign exchange needs and to ease the pressure on the government accounts and on Haiti's balance of payments arising from the hurricane. The IMF's rapid approval of this loan was expected to facilitate the unlocking of additional grants and concessional loans from other donors.

8. Growth in FY 2016/17 remained weak at 1.2 percent, reflecting the extensive damage to infrastructure and the agricultural sector from Hurricane Matthew. Expenditure on hurricane relief fell short of initial projections at 2.0 percent of GDP, or US$180 million, of which 0.6 percent of GDP passed through the government budget. The NFPS deficit widened moderately to 2.0 percent of GDP, as the losses of EDH increased. Imports increased by 13 percent, largely due to emergency humanitarian and post-hurricane reconstruction needs, prompting a widening in the current account deficit to 2.9 percent of GDP. This deficit was financed by increased capital inflows, including the IMF disbursement under the RCF and higher FDI. These inflows helped support the value of the gourde, allowing the exchange rate to stabilize at the end of the fiscal year. After some fluctuations, net international reserves rose to US$923 million at the end of the fiscal year. At the same time, there was an accumulation of arrears to Venezuela for oil shipments of US$126 million. Monetary conditions remained generally tight, with the BRH maintaining high reserve requirements on deposits denominated in both the U.S. dollar (48 percent) and the gourde (44 percent). Nonetheless, inflation rose, finishing the year at 15.4 percent, partly due to the hurricane's impact on food prices.

Macroeconomic Framework for FY 2017/18

9. Growth in FY 2017/18 is expected to rise to between 2-and 3 percent, due to an expected boost from public investment. Over the long term, the government's policies and reforms should stimulate growth to a sustainable level beyond 3 percent, with tangible progress in increasing employment and reducing poverty. Implementation of the macroeconomic framework envisaged in the program would bring inflation to below 10 percent in the medium term.

10. The external current account deficit (including grants) is projected to widen to 4.1 percent of GDP in FY 2017/18, as higher oil prices and a surge in public investment lead to a 10 percent increase in the import bill. Gross reserves should nonetheless remain above 5 months of imports. Subsequent stabilization of the fuel import bill and an increase in private remittances will help to reduce the current account deficit to an average of 3 percent of GDP over the medium term. This will allow the BRH to stabilize its official reserves in FY 2018/19, and, subsequently, to begin to build up reserves.

11. The NFPS budget deficit is projected at 2.4 percent of GDP in FY 2017/18, not including designated expenditures for hurricane reconstruction. This budget deficit reflects the financing constraints of the public sector and the requirement for debt sustainability. It will be achieved by a combination of elimination of fuel subsidies, enhancement of other revenue sources, rationalization and control of current expenditures, and reduction of losses by EDH. The budget allows for a substantial increase in public investment that is well-aligned with the administration's policy priorities.

12. Monetary policy will continue to focus on bringing inflation below 10 percent over the medium term. In this context, the BRH will seek to contain inflationary pressures while maintaining an adequate level of reserves. Given the wide range of risks that Haiti faces, it is crucial to maintain a reserve cushion of a minimum of 4-5 months of imports. Private sector credit growth in gourdes will remain positive, but monetary policy will remain ready to counter disorderly market conditions.

Economic and Financial Policies for FY 2017/18

Structural Reforms

13. The Haitian government is committed to increasing accountability and transparency in its budgetary processes. As indicated in the government's Letter of Intent appended to the RCF, all financial support from donors and lenders will be channeled through the treasury single account (*compte unique du Trésor*, TSA) and will be closely coordinated with the annual budget process. During the period of the SMP, the government will close all remaining bank accounts that fall within the coverage of the TSA. In the medium term, and in line with the recommendations of the recent technical assistance (TA) mission of IMF's Fiscal Affairs Department, the TSA will be expanded to include the accounts of autonomous agencies, public enterprises, and donor accounts. At the same time, the government will develop, in consultation with its development partners, a plan to strengthen control of investment expenditures.

14. The BRH will continue to maintain close vigilance over the financial services sector (especially savings and credit cooperatives located in the hurricane-affected southern regions of the country), in light of the risks to the solvency and profitability of farmers and agricultural and industrial enterprises after the storm. The central bank will continue to monitor adoption of, and compliance with, international standards, particularly with respect to the AML/CFT framework, and ensure that financial institutions respect laws and regulations in force. In this regard, it should be noted that Haiti faces a CFATF assessment of its anti-money-laundering initiatives in 2018.

15. BRH staff are working to improve internal controls and procedures. The BRH finalized and published its FY 2014/15 audited statements in early June 2017, and its FY 2015/16 audited statements were published in February 2018. To bring its audit schedule into conformity with standard international practice, the BRH will finalize its FY 2016/17 audit by the end of June 2018. BRH staff will strengthen controls and oversight over the management of official reserves to align these with best practice. They will develop a new central bank law with a view to defining the bank's mission while increasing its independence, improving its financial transparency, and advancing its transition to International Financial Reporting Standards (IFRS) in the presentation of its financial statements.

16. Broadening fiscal revenue sources is a crucial medium-term priority. Supported by extensive technical assistance, the country will follow a five-pronged strategy , which will: (1) initiate a transformation and simplification of the *Taxe sur le Chiffre d'Affaires* with the intention to adopt, within a few years, a VAT especially adapted to the Haitian context; (2) streamline excise taxes and small taxes; (3) reform exemptions regimes to significantly reduce expenses and rationalize incentives; (4) standardize personal and corporate income tax law; (5) introduce a tax regime appropriate to small and medium enterprises; and (6) simplify local taxation and focus it on property taxes. In addition, all existing texts with revenue implications will be included in a new *Code général des impôts*. A road map for tax reform including these elements, with a timeline for the submission to parliament of draft laws introducing VAT and reforming tax exemptions, and proposing a first pass at excises and small taxes reform for the revised 2017/18 budget will be adopted by the government by end-March 2018.

17. The accelerated implementation of the road map for tax reform, supported by strengthening of the capacities of Tax and Customs Administrations (DGI and AGD, respectively), will help to raise the ratio of domestic revenue to GDP to the levels prevalent in countries at comparable income levels. Initiatives are underway to improve the integration of the information systems of the DGI and AGD, to accelerate the computerization of customs operations, to increase the use of the SYDONIA World software in order to improve control of tax expenditures, to expand online payments, and to increase efforts against customs fraud and border smuggling. In line with recommendations made by IMF technical assistance missions, the authorities pledge to accelerate the review of laws governing the operations of AGD and DGI, with the intention of submitting the proposed revisions to Parliament by end-June 2018. They also pledge to improve the tracking of taxpayers by requiring the use of a unique fiscal identification number (NIF) that would be referenced by all fiscal agencies (DGI, AGD, Treasury).

18. The government is committed to a set of reforms to improve the management of public resources and raise the quality of public services. It has launched the "Caravane de Changement," which pulls together resources from different line ministries to accelerate priority public investments, particularly in agriculture, road construction, and hurricane reconstruction. The provision of US$123 million in domestic supplier credits has enabled the purchase of heavy equipment needed to carry out the work of the Caravane across the country. Key to the reform package is the application of the Presidential decree, adopted in May 2017, on reducing incidental government expenditures. This is expected to lead to significant reductions in the expenditures of certain ministries and agencies, to savings on government purchases of goods and services, and to rationalization of investment expenditures. In collaboration with its development partners, the government is working to modernize and increase the efficiency of public administration. These efforts should lead to a reorganization of public administration, a reduction in the average age of the public-sector work force, and closer alignment with Haiti's long-term development goals.

19. The government will accelerate reforms to improve the business climate and competitiveness. To encourage private investment, both domestic and foreign, the inter-ministerial commission on land management will continue its efforts to strengthen the legal framework for a functioning cadaster, which will encourage private investment and support greater access to credit by clarifying private title to collateral. The legislative agenda will include proposals, to be submitted to Parliament, for laws to facilitate the founding of private companies and the creation of public-private partnerships. At the same time, and in line with the recommendations of the Recent Forum on Competitiveness and Investment, mechanisms for consultation between public and private sectors will be strengthened to promote private sector development and employment creation.

Fiscal Policy and Reforms

20. The NFPS deficit ceiling for FY 2017/18 is set at 2.4 percent of GDP, a level that is determined by the availability of non-inflationary financing to the public sector and by debt sustainability. The ceiling on the NFPS deficit may be adjusted upward by the amount of government expenditure disbursed for hurricane reconstruction. To maintain the deficit under this ceiling, while at the same providing for much-needed increases in public investment, the government will control current expenditures and enhance domestic revenue collection.

21. Fuel taxes, including both excise and customs taxes, are a key source of revenue for the government. Increases in international oil prices, combined with the nominal depreciation of the gourde, substantially lowered these revenues, since domestic fuel prices were not allowed to rise over a period of almost two years. In the first few months of 2017, this resulted in a shortfall of as much as 90 percent of budgeted fuel tax revenues. The balance of the Fuel Stabilization Fund turned sharply negative, falling below -12 billion gourdes as of end-March 2017. On May 15, 2017, the government took a major step towards addressing this shortfall, implementing significant fuel price increases, to be followed by a series of incremental increases, per the agreement reached with transport unions on May 13, 2017 to adjust fuel prices to progressively eliminate revenue losses from the sector. Fuel prices will be fully adjusted in line with market prices, and all budgetary costs to the Treasury arising from fuel subsidies will be eliminated, by the end of June 2018. Subsequently, fuel prices will be adjusted as necessary in order to prevent further revenue losses, consistent with the quantitative targets for the Fuel Stabilization Fund contained in this memorandum.

22. To accompany these adjustments, the government, with the assistance of its development partners, will put in place mitigating measures to protect the most vulnerable members of society. These measures will include hiring members of low-income households for public works, strengthening existing social programs, giving public transport providers access to a social safety net, and establishing a guarantee fund to help transport providers renew their vehicle fleets.

23. The public electricity company EDH is a huge drain on Haiti's public finances, and remains a top priority for reform. The government is committed to increasing the efficiency and reducing the budgetary cost of EDH. The authorities will ensure that EDH is placed firmly on a path towards financial improvement, and that measures are taken immediately to improve its billing rates and recovery rates, and to reduce administrative costs and fiscal losses. As a structural benchmark under the SMP, EDH will increase its billing rate from 40 percent to 50 percent by end-June 2018. In the succeeding months, EDH will work to further raise the billing rate to its medium-term goal of 75 percent. As an additional structural benchmark, the authorities commit to publishing a comprehensive EDH budget including a projected cash flow statement for FY 2017/18 which reflects the impact of measures envisaged in the action plan. The budget will be accompanied by a cash flow statement and performance indicators produced in FY 2016/17 as a basis to evaluate future performance.

24. The government created the National Energy Sector Regulatory Authority (ANARSE) in November 2017 to ensure the promotion and the development of the energy sector through the regulation of electricity production, transportation, distribution and sales activities throughout the country. To promote competition and participation of the private sector, ANARSE launched a request for bids in January 2018 to increase access to electricity though mini-grids based on renewable energy resources (solar, wind, hydro and biomass). Within this framework and with support from development partners, ANARSE will establish institutional mechanisms and regulatory tools to enable bidding for electricity supply contracts. A request for bids to strengthen and expand the grid in the country's 16 largest cities will be launched by May 2018. As a structural benchmark within the SMP, for all expired electricity supply contracts, the short-listing of contractors qualified to produce, distribute, and sell electricity will be done before the end of August 2018. In the medium term, the government will implement an operational and financial restructuring of EDH and, in collaboration with donors and different sector stakeholders, will draft a development plan which will include less expensive alternative energy sources to reduce the sector's high production costs.

25. The aid inflows related to Hurricane Matthew will be subject to careful monitoring. As noted in the LOI associated with the RCF request, all budget support from donors will be channeled through the Treasury Single Account, and monthly and quarterly reports on hurricane recovery spending that are comprehensive and timely will be published and shared with all stakeholders.

26. The program recognizes the need to devote resources to reconstruction, public investment, and poverty reduction, while maintaining macroeconomic stability. In light of these constraints, it is crucial that the government exercise tight control over domestic and external borrowing, consistent with a formal borrowing plan aligned with the budget and consistent with long-term debt sustainability. In this regard, Haiti reaffirms its commitment not to take on any non-concessional debt during the period of the SMP. Subject to these commitments, the government may explore securing concessional financing, preferably in the form of grants, for infrastructure projects. Haiti will avoid any accumulation of public sector external arrears under the program.

27. The authorities are committed to confronting the problem of arrears incurred by line ministries, notably the ministries of education and health. Under the SMP, measures to better administer the education sector will include the regularization of teachers, an evaluation of the stock of arrears and a plan for their elimination, and the adoption of a development strategy for the sector.

Monetary and Financial Reforms

28. The focus of monetary policy will be to contain domestic inflationary pressures while maintaining orderly conditions in the foreign exchange market. Domestic food price increases are to be expected in the short term, but with a view to bringing inflation below 10 percent in the medium term, in line with the central bank's key objective of preserving price stability. BRH financing of government operations will be limited to 1.6 percent of GDP, plus the amount of the hurricane adjustor.

29. Due in part to a rise in inward remittances from Haitians overseas and to dollar purchases by the BRH, official net international reserves have held up well, increasing from US$906 million at end FY 2015/16 to US$923 million at end FY 2016/17. While recognizing that reserves may decline due to hurricane spending or unanticipated shocks, the BRH will set a floor on net international reserves at US$825 million in March and June 2018, to maintain an external buffer sufficient to counter speculative pressures. Exchange rate flexibility will be maintained, and intervention limited to smoothing temporary swings while maintaining consistency with the floor on reserves. Domestic monetary expansion will permit growth in private sector credit consistent with the program's medium-term growth objective.

30. The BRH will strengthen efforts to address concerns over safeguards risks that have been identified in the context of the recent RCF. The FY 2014/15 audited report was published in June 2017, and the FY 2015/16 audited report was published in February 2018. The FY 2016/17 audited report will be published by end-June 2018. Progress will continue towards the adoption of IFRS accounting standards and on enhancing controls and oversight over foreign reserves management. Interim measures to safeguard the central bank's autonomy and governance will be agreed with the government, in advance of the preparation, in consultation with IMF staff, of draft legislation that will enshrine permanent changes to the central bank legislation.

Program Monitoring

31. The government intends to take all the necessary measures agreed in the context of the SMP, as indicated in Tables 1 and 2 of this Memorandum. A committee dedicated to program monitoring, chaired by the State Secretary of Finance, with participation of representatives of the BRH, EDH, as well as relevant units of the Ministry of Finance (including the Economic Studies, Budget and Treasury Directorates), has been set up. The program will be monitored based on end-March and end-June quantitative targets, and on end-March, end-June, and end-August structural benchmarks. These are defined in the technical memorandum of understanding (TMU, Attachment 2), which also defines the scope and frequency of data to be reported for program monitoring purposes.

Attachment I. Table 1. Haiti: Structural Benchmarks for Staff-Monitored Program

Measure	Timing	Rationale
Publish quarterly post-hurricane expenditure reports	End-March 2018	Improve financial transparency in the public sector
"	End-June 2018	
Complete and publish FY 2016/17 audit of the BRH	End-May 2018	Improve financial transparency
Develop a roadmap for submission of new VAT tax law and reform of tax exemptions to Parliament, and for inclusion of reforms to petty and excise taxes in the revised budget for FY 2017/18 [1/]	End-March 2018	Improve revenue collection
Publish EDH budget for FY 2017/18, including a projected cash flow statement for 2017/18	End-March 2018	Improve financial transparency in the public sector
Improve EDH's billing rate from 40% to 50%	End-June 2018	Improve electricity sector performance
Shortlist contractors with viable offers for the provision of electricity, including production, distribution, and sales, in order to replace all expired electricity supply contracts.	End-August 2018	Improve electricity sector performance
Increase retail fuel prices by the full amount needed to align them with market prices	End-June 2018	Improve revenue collection

1/ A roadmap would describe proposed measures and develop a timeline for their implementation.

Attachment I. Table 2. Haiti: Quantitative and Indicative Targets, March through End-September 2018

(In millions of gourdes, unless otherwise indicated)

	March 2018	June 2018	September 2018
	Quantitative target	Quantitative target	Indicative target
I. Quantitative targets			
Deficit of the nonfinancial public sector – ceiling (excluding hurricane expenditure) 1/	-13,378	-13,986	-14,594
(in percent of GDP)	*-2.2*	*-2.3*	*-2.4*
Fuel stabilization fund – floor	-20,670	-23,220	-23,220
(in millions of U.S. dollars; measured in absolute terms)			
Net international reserves of central bank – floor	825	825	910
II. Continuous quantitative targets			
(in millions of U.S. dollars)			
New contracting or guaranteeing by the public sector of nonconcessional external debt	0	0	0
External arrears accumulation	0	0	0
Memorandum item			
Expected expenditure for reconstruction from Hurricane Matthew 1/	3,648	4,256	4,865
(in percent of GDP)	*0.6*	*0.7*	*0.8*

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

1/ Cumulative from the start of the fiscal year (since October 2017).

Attachment II. Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) defines quantitative targets (QTs) and structural benchmarks (SBs) for Haiti's Staff Monitored Program (SMP) from February through August 2018. It also establishes the framework for monitoring the implementation of such a program.

Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16. Debt. The definition of debt is set out in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107). Based on these guidelines, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point in time; these payments will discharge the obligor of the principal and/or interest liabilities incurred under the contract. Debts can take several forms, the primary ones being loans[1], suppliers' credits[2], and leases.[3] Under the definition of debt set out above, judicially-awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g. payment on delivery) will not give rise to debt.

17. Debt guarantees by the PS. For the purposes of the quantitative target on the contracting or guaranteeing of nonconcessional external debt, a guarantee by the public sector of a debt means an explicit legal obligation to service a debt in the event of non-payment by the borrower (through payment in cash or in kind).

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

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

20. External arrears are defined as debt-service obligations (principal and interest) on loans contracted or guaranteed by the PS falling due but not paid on the due date as set out in the contractual agreements (including any specified grace periods), excluding those arising from obligations being renegotiated with external creditors.

21. Program exchange rate. The program exchange rate for FY2017/18 is 64.57 gourdes per dollar.

22. Gross international reserves (GIR) of the BRH. Reserve assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing). Reserve assets must be foreign currency assets and assets that actually exist. Potential assets are excluded. Underlying the concept of reserve assets are the

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

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

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

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

notions of "control," and "availability for use," by the monetary authorities. For further details, please refer to the IMF's sixth edition of the *Balance of Payments and International Investment Position Manual* and the *Guidelines for a Data Template: International Reserves and Foreign Currency Liquidity*.[5] GIR as reported by the BRH in Table 10R should conform to this definition. Swaps in foreign currency with domestic financial institutions and pledged or otherwise encumbered reserve assets are excluded from GIR.

23. Net international reserves (NIR) of the BRH. They are defined as BRH's gross foreign exchange assets (comprising monetary gold, all claims on nonresidents, Special Drawing Rights – SDR – holdings, and BRH claims in foreign currency on domestic financial institutions); minus, gross short-term reserve-related liabilities, minus, foreign currency deposits of commercial banks at the BRH (*Dépôts à vue en dollars U.S. et en Euros des BCM à la BRH, and the CAM transfer*); all from Table 10R (Text Table).

Haiti: Net International Reserves of BRH, End-November 2017[1]
(In millions of U.S. dollars)

A. Gross Foreign Exchange Reserves	2167.3
B. Gross Liabilities	412.0
C. Net Foreign Assets (=A-B)	**1755.3**
D. FX deposits of commercial banks and CAM transfer at the BRH	968.5
E. SDR allocation (liability)	109.9
F. NIR (=C-D+E)	**896.6**

Source: Haitian authorities; and Fund staff estimates.
1/ Figures are preliminary.

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

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

26. Fuel Stabilization Fund. The Stabilization Fund captures monthly flows associated with the revenue differential between the theoretical price structure for refined fuel products (i.e., gasoline 95, diesel, and kerosene products) and the prices charged to customers. The theoretical price, calculated according to the law of 1995 establishing the automatic price mechanism, is derived from the CIF import price and includes applicable tax charges (customs duties, verification fees, and fixed and variable excises) as well as components such as the importer and distributor margins. A

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

negative flow into the Stabilization Fund corresponds to the negative differential between the automatic price and the pump price, or a net subsidy to the sector. A positive flow into the Stabilization Fund corresponds to net fuel revenues to the government. The cumulative value of the Stabilization Fund at end-September 2017 was -15.5 billion gourdes (i.e., a deficit).

Quantitative Targets (QTs)

27. The SMP will be monitored based on end-March and end-June QTs. These include (i) a ceiling on the deficit of the NFPS (paragraph 13); (ii) a floor on the Fuel Stabilization Fund; and (iii) a floor on the net international reserves of the central bank. The SMP also comprises two continuous quantitative targets that are to be monitored and observed continuously: (i) a zero ceiling on the accumulation of new external arrears by the public sector from the start of the program (i.e., from March 1, 2018); and (ii) a zero ceiling on the contracting or guaranteeing by the public sector of new non-concessional external debt from the start of the program (i.e., from March 1, 2018). The public sector undertakes not to contract or guarantee any non-concessional external debt. This quantitative target applies to external debt as defined in paragraphs 16 and 19, with concessionality being defined in paragraph 18. This QT also applies to any debt guaranteed by the public sector that constitutes a contingent government liability as defined in paragraph 17. Excluded from the ceiling are short-term import-related credits having a term of one year or less, rescheduling arrangements, borrowing from the Fund, non-resident purchases of treasury bills, and gourde-denominated BRH bills that are indexed to the gourde-US dollar exchange rate. This quantitative target is to be observed continuously.

Adjustment

28. The ceiling on the deficit of the NFPS will be adjusted upwards in line with the central government's post-Hurricane-Matthew recovery expenditures, as reported by end-March and end-June by the Ministry of Finance to the Fund and other donors (see para 29).

Structural Benchmarks (SBs)

29. Post-hurricane expenditure reports. As promised in their Letter of Intent accompanying the request for disbursement under the Rapid Credit Facility (RCF), to improve capital budget monitoring and execution, the authorities will continue to publish quarterly reports on post-hurricane recovery expenditures (end-March 2018 and end-June 2018).

30. Audited financial reports of the BRH. The latest annual report for the BRH for FY 2015/16 was published in February 2018. The central bank will complete and publish its audited financial statements for FY 2016/17 by end-June 2018.

31. Tax Reforms. The Ministry of the Economy and Finance will develop by end-March 2018 a roadmap for tax reform, with a timeline for submission to Parliament of draft tax reform legislation that will include the implementation of a broad-based Value-Added Tax (TVA, *Taxe sur la valeur ajoutée*), and a reform of tax exemptions. The roadmap will also include a proposal for the reform of excise and petty taxes, for adoption in the FY 2017/18 revised budget. The TVA is to replace the current Business Turnover Tax (TCA, *Taxe sur le chiffre d'affaires*).

32. EDH FY 2017/18 budget. EDH commits to publish its budget for FY 2017/18, including a projected cash flow statement, by end-March 2018 to improve transparency and increase the momentum for much-needed reform of the sector.

33. EDH billing rate. The authorities commit to increasing the billing rate of EDH to at least 50 percent by end-June 2018, in order to reduce operating losses and thereby lower the fiscal cost of supporting EDH. Subsequently, the authorities will work to further raise EDH's billing rate to a medium-term goal of 75 percent.

34. Public tender of electricity supply contracts. The Ministry of the Economy and Finance commits to complete the shortlisting of contractors with viable offers for the provision of electricity, including production, distribution, and sales, in order to replace all expired electricity supply contracts, by end-August 2018.

35. Align fuel prices at the pump with market prices. The Ministry of the Economy and Finance will increase retail fuel prices (gasoline, diesel and kerosene) by the full amount needed to align them with market prices by end-June 2018 to improve revenue collection.

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

Data Provision for Program Monitoring

37. To facilitate program monitoring, the government will report the information indicated in electronic format in the following summary table to IMF staff (Table 1). For the continuous quantitative targets, the government will monitor the targets continuously and notify any non-observance to Fund staff immediately.

Attachment II. Table 1. Summary of Reporting Requirements

Sector	Type of Data	Frequency	Reporting Deadline
Real Sector	National Accounts	Annual	Year-end + 3 months
	Quarterly Economic Indicators (Conjoncture Economique)	Quarterly	Quarter-End + 2 months
	Consumer Price Index Breakdowns	Monthly	Month-End + 3 weeks
Public Finance	Fiscal Revenues (internal, external, other)	Weekly	Week-end + 1 week (4 weeks final data)
	Expenditures on Cash Basis (wages and salaries, goods and services, external debt, current accounts)	Weekly	Week-end + 1 week (4 weeks final data)
	Central Government TOFE (Tableau des Operations Financières de l'Etat)	Montly	Month-end + 2 weeks
	Table on Current Accounts (Balance des Comptes Courants et de Fonctionment des Projets)	Montly	Month-end + one month
	Table Underlying TOFE, which enables the determination of checks in circulation and balance on invesmtent project accounts	Montly	Month-end + one month
	Report of Revenue Collection of DGI (Rapport d'activités)	Monthly	Month-end + one month
	Tables of revenue collection of AGD (Indicateurs d'activités aux ports, Rapport analytique des perceptions douanières à l'importation)	Monthly	Month-end + one month
	Balance of BMPAD accounts, including (i) financing under the Petrocaribe agreement by shipment and terms therof; (ii) transfers to project accounts; (ii) transfers to IPPs; and (iv) transfers to EDH.	Monthly	Month-end + one month
	Balance of PetroCaribe/ALBA-related deposits at commercial banks and the BRH, in gourdes and in foreign currency.	Monthly	Month-end + one month
	Report on Poverty-Reducing Expenditures	Quarterly	30-day lag (final data)
	Table on the implementation of the PSUGO program	Quarterly	30-day lag (final data)
	Tableau de Bord of the the state electricity utility EDH showing monthly information on the production of electricity, making explicit the composition of production by IPP, EDH, and by region	Monthly	30-day lag (final data)
	Information of any off-budget claims presented for payment	Monthly	Month-end + one month
	Stock of unpaid off-budget CG commitments.	Monthly	Month-end + one month
	Data on all fuel shipments per product giving the CIF import price, the full price structure (including "marge de stabilization") and import and consumption quantities. Data on actual collections for each month with a decomposition per product and tax type.	Monthly	Month-end + one week
	Balance of the stock of the Stabilization Fund for fuel products	Monthly	Month-end + one week
Monetary and Financial Data	Exchange Rate	Daily	Day-end + one day
	Monetary base and sources thereof under the program definition, broad definition (sens large), and currency in circulation.	Weekly	Week-end + one week
	Aide Memoire Table containing, inter alia: (i) Stock of BRH bonds; (ii) Deposits at commercial banks; (iii) credit to private sector (in gourdes and U.S. dollars; (iv) details of inflows and outflows of foreign exchange reserves including budget support received; (v) volume of FX transactions including BRH sales and purchases; (vi) gross and net international reserves; and (vii) net BRH credit to the central government and non-financial public sector.	Weekly	Week-end + one week
	Statistiques monétaires tables showing, inter alia, the balance sheet of the BRH (Table 10R) and the consolidated banking sector (Table 20R)	Monthly	Month-end + one month
	FMI Weekly Tables showing, inter alia, the average and weighted interest rates on gourde and U.S. dollar-denominated deposits and credit; and excess reserves in the banking system.	Monthly	Month-end + one month
	Information on the composition of gross reserves; based on the template provided by STA expert in March 2015.	Monthly	Month-end + one month
	Banking supervision statistics and financial indicators on commerical banks	Quarterly	Quarter-end + one month
	The calendar and planned placements of BRH bills including to banks and non banks, including in gourdes and in dollar indexed bonds	Quarterly	Quarter-end + one month
	Audited Financial Statements of the BRH	Yearly	Year-end + three months
Balance of Payments	Balance of Payments	Quarterly	Quarter-end + one month
	Revised Balance of Payments	Quarterly	3 months after original submission
	BRH FX cash flow table (Tableau de tresorerie de devises); quarterly projections through end of fiscal year.	Quarterly	Quarter-end + one month
External Debt	External debt report (Rapport Dette Externe) prepared by the BRH showing monthly disbursements; debt service, debt forgiveness and rescheduling, arrears, and debt stocks.	Monthly	Month-end + one month
	Details on any nonconcessional external public debt and debt guaranteed by the government, including those excluded from the ceiling as described in paragraph 16.	Monthly	Month-end + one month
	Data on outstanding balances, accumulation, and repayment of external arrears will be forwarded within six weeks after the end of each month.	Monthly	Month-end + six weeks