

**EXECUTIVE
BOARD
MEETING**

EBS/20/55
Correction 1

April 16, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Haiti—Request for Disbursement Under the Rapid Credit Facility**

Board Action: The attached corrections to EBS/20/55 (4/13/20) have been provided by the staff:

Evident Ambiguity: Pages 13 and 14

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views Pages 4 and 8

Questions: Ms. Laframboise, WHD (ext. 36572)
Mr. Lambert, WHD (ext. 34166)

IMPACT OF COVID-19 AND RESPONSE

4. **While Haiti has significant fiscal imbalances and deep-seated structural weaknesses, the COVID-19 pandemic has contributed to an urgent balance of payments need.** With the arrival of this pandemic, Haiti will likely see a major hit to its external accounts, including: (i) a drop in remittances estimated at about US\$557 million compared to the previous fiscal year, based on estimated elasticities—a key channel since remittances exceeded US\$3 billion; (ii) a decline in textile exports to the U.S. of about US\$178 million, or 2.0 percent of GDP and 17 percent of total goods exports; and (iii) a drop in foreign direct investment (FDI) of about 0.4 percent of GDP. On the fiscal front, the country would encounter: (iv) additional direct health, medical, security, and social expenditures to address the virus impact; and (v) an expected decline in fiscal revenues as a share of GDP by 0.6 percentage points, to a level 3.0 percent of GDP below the FY2016-FY2018 average. Real GDP is forecast to contract by 4.0 percent in FY2020 compared to a 1.2 percent drop in FY2019, due to the combined supply and demand shocks of COVID-19. While the fiscal and external sectors would benefit from the drop-in oil prices expected in 2020, these gains are mitigated by the depreciation in the exchange rate (see text chart). While there is always uncertainty regarding projections of the amount and timing of external assistance (17), this is expected to widen the balance of payments shortfall to an estimated US\$338 million from US\$190 million in FY2019. Compared to staff's previous projections (SM/19/283), external financing needs for FY2020 are US\$317 million larger (Text Table 1).

Text Table 1. Impact of COVID-19 on Balance of Payments^{1/}
(In millions of US\$ on a fiscal year basis; unless otherwise indicated)

	FY2020		Difference
	SM/19/283	RCF request	
Current account	-75.2	-316.0	-240.7
Trade Balance	-3,695.0	-3,175.9	519.1
of which textile exports	1,166.1	955.3	-210.8
of which tourism	292.3	258.0	-34.3
of which oil imports	-1,065.6	-619.2	446.4
Remittances	3,231.7	2,485.2	-746.5
Capital and financial accounts	54.1	-21.6	-75.7
of which FDI	75.0	44.7	-30.3
Official Disbursements	214.0	253.1	39.1
Overall Balance	-21.1	-337.8	-316.7
Financing	21.1	337.6	316.5
RCF		111.2	111.2
Other incl. decline in reserves	21.1	226.3	205.2

Sources: Authorities' data; and IMF staff estimates and projections.

1/ The Article IV 2019 Consultation (SM/19/283) was concluded on January 24, 2020.

Text Table 2. Additional Expenditures Related to COVID-19

Measures	Millions of	
	HTG	Share of GDP (%)
Goods and services		
Health-related expenditures	3,432.9	0.4
Security	1,000.0	0.1
Transfers (non-energy)		
Dry food rations	1,800.0	0.2
Transfers to poor families	4,000.0	0.5
Transfers to teachers	2,000.0	0.2
Transfers to textile workers	412.5	0.0
Other transfers	233.6	0.0
Capital expenditures (University hospital)	500.0	0.1
Total	13,379.0	1.6

Sources: Authorities' data; and IMF staff estimates and projections.

5. **The government has moved quickly to respond to the appearance of COVID-19.** The last country in the Americas to report a COVID-19 case (March 20), Haiti had already formulated a national response strategy—*Plan de Préparation et de Réponse*—for containment and treatment. The government moved to Phase 2 of the plan on March 20 launching a communication campaign to

including allowing the president-government to circumvent public procurement rules and reviving the state fuel import monopoly that had been disbanded. Under the current special circumstances, and given limited capacity and the need to promote sustainable reforms, staff stressed the importance of enforcing standard budget execution procedures and reporting regarding the spending chain, starting with COVID-19 expenditures. This would support the general improvement of standard budget procedures and also help the administration keep track, record, and publish monthly all expenditures incurred on an emergency basis so as to limit the risk of misuse of public funds. The authorities agreed to prepare monthly budget execution reports on all COVID-19 expenditures and also to undertake a thorough *ex-post* financial and operational audit of COVID-19-related operations. This would strengthen sustainable reforms of budget processes, provide assurances on the use of external financing, and help the authorities improve the operational efficiency of emergency responses in the future.

16. **Efforts to strengthen the policy framework are expected to continue with the support of an SMP.** The government's program would focus on: (i) restoring macroeconomic stability and the seeds of growth and employment; (ii) building a better social safety net; and (iii) improving governance and combatting corruption. To reduce fiscal dominance and the negative feedback loop of monetary financing of the deficit on inflation and exchange rate depreciation, policies would aim to limit public sector deficits, including the significant fiscal losses related to the fuel sector and the public electricity company (EDH). On social policies, the SMP should support implementation of the new national plan PNPPS (not yet approved), continue to expand coverage of the social registry (SIMAST), establish an effective governance structure for social spending, and advance Fintech reforms to help distribute cash transfers and deepen financial inclusion. Finally, a key pillar of the program would include measures to strengthen implementation of the 2009 Anti-Corruption Strategy, advance governance reforms across the public service and the central bank, and support efforts to increase the transparency of public spending. With government ownership and buy-in across a broader set of stakeholders, an SMP-supported program is expected to unlock further donor support to help close the residual financing gap.

MODALITIES OF SUPPORT UNDER THE RCF

17. **Staff propose to provide support of 50 percent of quota (SDR 81.9 million) under the RCF under the exogenous shock window.** Haiti meets the eligibility requirements for support under the RCF. It faces an urgent balance of payments need, which, if not addressed would result in immediate and severe economic and humanitarian disruption. It is not feasible to implement an upper credit tranche (UCT)-quality Fund-supported program due to the recent history of political instability and social disruption which has resulted in an erosion in administrative capacity and weakening in policy frameworks. In addition, there is a high degree of uncertainty regarding the duration and scale of the COVID-19 impact, practical difficulties related to the no-travel environment, including in Haiti, and the need for more comprehensive policy discussions, including with non-government stakeholders, to advance to a UCT level program under an ECF.

18. **Staff considers access of 50 percent of quota under the RCF to be appropriate.** Haiti

Table 2a. Haiti: Non-Financial Public Sector Operations, FY2018–25
(Fiscal year ending September 30; In millions of gourdes)

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
		Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	109,107	88,998	106,170	159,930	200,379	252,891	313,700	363,480
Domestic revenue	82,089	79,071	87,630	120,110	162,359	197,462	235,839	271,049
Domestic taxes	56,858	53,299	60,422	84,314	117,059	145,231	175,158	198,849
Customs duties	22,533	20,098	20,850	29,539	37,823	44,101	50,384	60,432
<i>Of which: fuel taxes</i>	2,884	52	0	0	0	0	0	0
Other current revenue	2,698	5,674	6,357	6,257	7,478	8,131	10,297	11,767
<i>Of which: FNE</i>	2,105	2,068	2,320	2,848	3,404	3,969	4,535	5,099
<i>Of which: FER</i>	245	169	199	244	291	487	724	1,003
Grants	27,018	9,927	18,541	39,820	38,020	55,428	77,860	92,431
Budget support ^{1/}	3,467	0	1,681	10,084	2,330	11,264	12,553	13,756
Project grants	23,551	9,927	16,860	29,736	35,690	44,164	65,308	78,675
Total expenditure ^{2/}	119,965	106,345	150,533	190,020	235,607	287,959	356,374	412,458
Current expenditure	80,516	90,896	114,627	135,513	171,762	195,002	223,292	247,379
Wages and salaries	37,645	40,280	45,774	58,024	71,864	83,792	95,730	107,645
Goods and services	25,312	23,022	32,905	37,979	44,127	51,451	58,781	66,098
Interest payments	1,936	3,398	2,662	3,933	4,612	5,125	6,044	7,194
External	1,300	1,702	1,748	2,440	2,707	2,881	3,432	4,200
Domestic	635	1,696	915	1,493	1,905	2,244	2,612	2,994
Transfers and subsidies	15,623	24,195	33,286	35,577	51,159	54,634	62,737	66,442
Nonenergy sector	11,381	6,766	21,130	15,825	19,164	22,639	26,200	29,838
Energy sector ^{3/}	4,243	17,430	12,156	19,753	31,996	31,996	36,537	36,604
Capital expenditure	39,449	15,449	35,905	54,507	63,844	92,957	133,082	165,079
Domestically financed	15,460	5,264	12,302	19,421	23,013	28,743	39,723	48,634
Foreign-financed	23,988	10,186	23,604	35,085	40,831	64,215	93,359	116,445
Central government balance including grants	-10,858	-17,347	-44,362	-30,089	-35,228	-35,069	-42,674	-48,978
Excluding grants	-37,877	-27,274	-62,903	-69,909	-73,247	-90,497	-120,535	-141,409
Excluding grants and externally financed projects	-13,888	-17,089	-39,299	-34,824	-32,416	-26,282	-27,176	-24,964
Other transfers to EDH	-7,419	-8,094	-10,290	-11,605	-13,868	-16,758	-18,474	-20,018
Primary balance of NFPS, including grants	-16,341	-22,044	-51,990	-37,761	-44,484	-46,702	-55,104	-61,802
Overall balance of NFPS, including grants	-18,277	-25,442	-54,652	-41,694	-49,096	-51,827	-61,148	-68,996
Adjustment (unsettled payment obligations)	16,764	0	0	0	0	0	0	0
Financing gap			12,893	0	0	0	0	0
Financing, NFPS ^{5/}	35,041	25,442	41,759	41,694	49,096	51,827	61,148	68,996
External net financing	-3,379	-2,836	-2,353	-6,890	-9,084	3,926	9,257	15,088
Loans (net)	-3,379	-6,790	-2,353	-5,773	-7,795	5,376	10,855	16,819
Disbursements	1,799	259	6,744	5,349	5,141	20,051	28,051	37,770
Amortization	-5,178	-7,049	-9,097	-11,122	-12,936	-14,675	-17,196	-20,951
Arrears (net)	0	3,954	0	-1,117	-1,289	-1,450	-1,598	-1,731
Internal net financing	38,420	28,278	44,112	48,584	58,180	47,901	51,891	53,908
Banking system	34,590	14,665	54,231	63,942	68,814	58,385	59,566	61,583
BRH ^{4/}	24,318	9,591	37,114	12,251	14,640	17,070	19,502	21,930
Commercial banks	10,272	5,074	17,117	51,691	54,174	41,315	40,064	39,653
Nonbank financing ^{45/}	3,831	13,613	-10,119	-15,358	-10,634	-10,484	-7,675	-7,675
<i>Of which: domestic arrears</i>	0	23,376	0	-4,675	-4,675	-4,675	-4,675	-4,675
Memorandum items								
Total costs of EDH to public sector	11,662	12,550	15,543	18,075	20,338	23,228	25,011	26,622
Forgone fuel taxes and fuel direct subsidies	17,222	45,728	31,277	44,702	72,279	87,537	106,301	119,612
Health, education and agriculture spending	20,744	18,314	17,186	24,264	30,258	36,751	43,666	50,990
Nominal GDP	631,829	732,545	859,287	1,054,976	1,260,768	1,470,033	1,679,466	1,888,510

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

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

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

3/ Comprises payments on behalf of EDH for electricity generation, tax payments remitted to EDH and transfers to fuel distributors to maintain pump Reform of the energy sector is assumed in the outer years.

4/ Amounts already include the RCF financing for FY2020 and the full two-year debt-relief under the CCRT.

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

5/ For FY2020, amount already includes the RCF financing.

Table 2b. Haiti: Non-Financial Public Sector Operations, FY2018–25
(Fiscal year ending September 30; percent of GDP)

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
		Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	17.3	12.1	12.4	15.2	15.9	17.2	18.7	19.2
Domestic revenue	13.0	10.8	10.2	11.4	12.9	13.4	14.0	14.4
Domestic taxes	9.0	7.3	7.0	8.0	9.3	9.9	10.4	10.5
Customs duties	3.6	2.7	2.4	2.8	3.0	3.0	3.0	3.2
<i>Of which: fuel taxes</i>	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current revenue	0.4	0.8	0.7	0.6	0.6	0.6	0.6	0.6
<i>Of which: FNE</i>	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
<i>Of which: FER</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Grants	4.3	1.4	2.2	3.8	3.0	3.8	4.6	4.9
Budget support ^{1/}	0.5	0.0	0.2	1.0	0.2	0.8	0.7	0.7
Project grants	3.7	1.4	2.0	2.8	2.8	3.0	3.9	4.2
Total expenditure ^{2/}	19.0	14.5	17.5	18.0	18.7	19.6	21.2	21.8
Current expenditure	12.7	12.4	13.3	12.8	13.6	13.3	13.3	13.1
Wages and salaries	6.0	5.5	5.3	5.5	5.7	5.7	5.7	5.7
Goods and services	4.0	3.1	3.8	3.6	3.5	3.5	3.5	3.5
Interest payments	0.3	0.5	0.3	0.4	0.4	0.3	0.4	0.4
External	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Domestic	0.1	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Transfers and subsidies	2.5	3.3	3.9	3.4	4.1	3.7	3.7	3.5
Non-energy sector	1.8	0.9	2.5	1.5	1.5	1.5	1.6	1.6
Energy sector ^{3/}	0.7	2.4	1.4	1.9	2.5	2.2	2.2	1.9
Capital expenditure	6.2	2.1	4.2	5.2	5.1	6.3	7.9	8.7
Domestically financed	2.4	0.7	1.4	1.8	1.8	2.0	2.4	2.6
Foreign-financed	3.8	1.4	2.7	3.3	3.2	4.4	5.6	6.2
Central government balance including grants	-1.7	-2.4	-5.2	-2.9	-2.8	-2.4	-2.5	-2.6
Excluding grants	-6.0	-3.7	-7.3	-6.6	-5.8	-6.2	-7.2	-7.5
Excluding grants and externally financed projects	-2.2	-2.3	-4.6	-3.3	-2.6	-1.8	-1.6	-1.3
Other transfers to EDH	-1.2	-1.1	-1.2	-1.1	-1.1	-1.1	-1.1	-1.1
Primary balance of NFPS, including grants	-2.6	-3.0	-6.1	-3.6	-3.5	-3.2	-3.3	-3.3
Overall balance of NFPS, including grants	-2.9	-3.5	-6.4	-4.0	-3.9	-3.5	-3.6	-3.7
Adjustment (unsettled payment obligations)	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap			1.5	0.0	0.0	0.0	0.0	0.0
Financing, NFPS ^{4/}	5.5	3.5	4.9	4.0	3.9	3.5	3.6	3.7
External net financing	-0.5	-0.4	-0.3	-0.7	-0.7	0.3	0.6	0.8
Loans (net)	-0.5	-0.9	-0.3	-0.5	-0.6	0.4	0.6	0.9
Disbursements	0.3	0.0	0.8	0.5	0.4	1.4	1.7	2.0
Amortization	-0.8	-1.0	-1.1	-1.1	-1.0	-1.0	-1.0	-1.1
Arrears (net)	0.0	0.5	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Internal net financing	6.1	3.9	5.1	4.6	4.6	3.3	3.1	2.9
Banking system	5.5	2.0	6.3	6.1	5.5	4.0	3.5	3.3
BRH ^{4/}	3.8	1.3	4.3	1.2	1.2	1.2	1.2	1.2
Commercial banks	1.6	0.7	2.0	4.9	4.3	2.8	2.4	2.1
Nonbank financing ^{4.5/}	0.6	1.9	-1.2	-1.5	-0.8	-0.7	-0.5	-0.4
Of which: domestic arrears	0.0	3.2	0.0	-0.4	-0.4	-0.3	-0.3	-0.2
Memorandum items								
Total costs of EDH to public sector	1.8	1.7	1.8	1.7	1.6	1.6	1.5	1.4
Forgone fuel taxes and fuel direct subsidies	2.7	6.2	3.6	4.2	5.7	6.0	6.3	6.3
Health, education and agriculture spending	3.3	2.5	2.0	2.3	2.4	2.5	2.6	2.7
Nominal GDP (millions of gourdes)	631,829	724,757	859,287	1,054,976	1,260,768	1,470,033	1,679,466	1,888,510

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

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4/ Amounts already include the RCF financing for FY2020 and the full two-year debt-relief under the CCRT.

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

5/ For FY2020, amount already includes the RCF financing.