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Staff Country Reports

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Haiti: Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criterion and Augmentation of Access—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Haiti

In the context of the fourth review under the three-year arrangement under the Poverty Reduction and Growth Facility, and request for a waiver of performance criterion and augmentation of access, the following documents have been released and are included in this package:

- The staff report for the Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criterion and Augmentation of Access, prepared by a staff team of the IMF, following discussions that ended on November 14, 2008, with the officials of Haiti on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 2, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A Press Release summarizing the views of the Executive Board as expressed during its February 11, 2009 discussion of the staff report that completed the review.

- A statement by the Executive Director for Haiti.

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

Letter of Intent sent to the IMF by the authorities of Haiti*
Memorandum of Economic and Financial Policies by the authorities of Haiti*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

HAITI

Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criterion and Augmentation of Access

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by Gilbert Terrier and Dominique Desruelle

February 2, 2009

PRGF Arrangement

The IMF Executive Board approved in November 2006 a three-year PRGF arrangement in an amount of 90 percent of quota (SDR 73.71 million), and Haiti's HIPC decision point. The third program review, completed on June 20, 2008, included an access augmentation of 20 percent of quota (equivalent to SDR 16.38 million) in response to the food and fuel price shocks. The authorities are requesting a second augmentation of access under the arrangement equivalent to 30 percent of quota (SDR 24.57 million), to mitigate the significant deterioration in the external position caused by a series of hurricanes and flooding in August and September 2008, and the negative impact of the global downturn on remittances and exports of goods and services.

Discussions

A mission visited Port-au-Prince during November 10–14, 2008 and met with Finance Minister Dorsainvil, Central Bank Governor Castel, other government officials and development partners. The mission consisted of Ms. Redifer (Head), Mr. Di Bella (both WHD), and Messrs. John (PDR) and Bouhga-Hagbe (FAD), and was assisted by Mr. Fasano, Resident Representative. Mr. Bauer (outgoing Mission Chief) and Ms. Florestal (OED) participated in the policy discussions. Given difficulties in identifying financing for higher spending needs, discussions continued through January from headquarters, led by Ms. Deléchat (Mission Chief).

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Executive Summary

Macroeconomic outcomes in the second year of the PRGF arrangement (FY 2008) were weaker than anticipated at the time of the third review. A prolonged political stalemate constrained government operations, while severe natural disasters caused damages estimated at about 15 percent of GDP. Economic growth slowed to 1.3 percent, and end-period inflation picked up to almost 20 percent. Despite these shocks, program performance through end-September 2008 remained satisfactory, avoiding a significant deterioration in macroeconomic stability.

The authorities are confronting difficult challenges in FY 2009. Responding to the humanitarian crisis and rebuilding infrastructure will require substantial resources, in addition to already large PRSP spending needs. Growth is expected to remain modest, at 2.5 percent, driven by public sector spending.

Haiti's external position is expected to deteriorate further in FY 2009, prompting the authorities to request a second program augmentation of 30 percent of quota. Given the exceptional magnitude of the shocks, limited reserve coverage, and the policy response of the authorities to maintain stability in extremely challenging circumstances, staff supports the request. The proposed augmentation, to be phased in two disbursements, would raise access to the PRGF ceiling of 140 percent of quota.

Priorities for the third and final program year are: (i) safeguarding macroeconomic stability in the face of large spending needs; (ii) finalizing outstanding structural reforms; and (iii) facilitating Haiti's timely progression to the HIPC completion point. Containing central bank financing to the government remains the main anchor of the program. In light of the large spending needs and limited pledged budget support, discussions on the macroeconomic framework for the last program year were more difficult than in previous years. In order to close the fiscal financing gap, the authorities had to scale back their spending plans significantly. Accumulated PetroCaribe resources were used to finance emergency reconstruction spending. Although off-budget, PetroCaribe spending is included in program parameters and will be strictly monitored by the authorities. The overall fiscal deficit is expected to widen from 2 percent of GDP in FY 2008 to 4 percent in FY 2009.

Program risks remain significant. Additional donor support to finance PRSP priorities and reconstruction would be crucial to alleviating spending pressures in an increasingly difficult political environment. Parliamentary elections in April 2009 could delay the approval of laws included in program conditionality and HIPC triggers. However, the authorities have demonstrated their commitment to maintaining macroeconomic stability and implementing their reform agenda, even in the face of great challenges.

I. INTRODUCTION

1. **Haiti recently experienced a series of devastating shocks that threatened macroeconomic stabililty and hindered growth**. Riots over rising food and fuel prices prompted the resignation of the Prime Minister in April, leading to a five-month political stalemate that severely constrained government operations.[1] Haiti was also hit by four back-to-back hurricanes and tropical storms in August/September, which have caused extensive food shortages and damages to infrastructure estimated at about 15 percent of GDP (Box 1).

Box 1. Impact of Hurricanes in 2008

Four back-to-back storms in August/September caused damages and losses across the country estimated at close to US$900 million (15 percent of GDP), the worst humanitarian disaster to hit Haiti over 100 years. Most affected were agriculture, housing, and transportation infrastructure. Post-disaster needs are about US$763 million, including one-third (US$269 million) needed for immediate relief, with the rest financing recovery of agricultural output and reconstruction of housing and physical infrastructure (Table).

The country's food security situation worsened substantially. A total of 3.3 million people are estimated to be food insecure, with pockets of acute food insecurity in some areas (about 210,000 people). The World Food Program is currently reaching 646,926 direct beneficiaries across the country, and donors are also increasing existing food-for-work and cash-for-work activities. The United Nations launched a flash appeal for humanitarian aid needs amounting to US$127.5 million, for which donors have pledged/disbursed only about 45 percent to date.

Sector	Damages & Losses (US$ mn)
Total	**898**
Productive Sectors	**443**
Agriculture	198
Industry	104
Commerce	119
Tourism	21
Infrastructure	**151**
Roads	130
Water & Sanitation	18
Social Sectors	**222**
Housing	178
Health & Education	44

Source: United Nations.

2. **The impact of the international financial crisis represents another shock in the making**. Haiti has extremely shallow financial markets and, thus, has not experienced capital account effects. However, the slowdown in the United States and Canada is already affecting Haiti through lower export demand and fewer remittances. While Haiti's export sector is relatively small (less than 10 percent of GDP), private consumption is highly dependent on remittances (about 19 percent of GDP in 2008).

3. **The easing of international food and fuel prices only partly mitigates these new shocks**. Food prices and import needs are still high, with distribution networks impaired by the hurricanes and 60 percent of the fall harvest destroyed. Three new power plants are beginning operations, increasing volumes of fuel imports.

[1] The political crisis ended in early September, when Parliament ratified President Préval's third proposed candidate for Prime Minister, Ms. Michele Pierre-Louis, and her coalition government.

II. Recent Economic Developments

4. **As a result of the shocks, macroeconomic outcomes in FY 2008 (October 2007-September 2008) were weaker than anticipated at the time of the third review**. Official estimates indicate that real GDP growth slowed to 1.3 percent from 3.4 percent in FY 2007, turning negative in per capita terms (after three consecutive years of positive growth). Twelve-month inflation peaked at 19.8 percent in September 2008, up from 7.9 percent a year earlier, but declined to 10.1 percent by end-December, owing to rapidly falling international food and fuel prices (Table 1 and Figure 1). After some small depreciation earlier in the year, the real effective exchange rate appreciated by about 5 percent during the last quarter of FY 2008, while the Gourde remained broadly stable against the U.S. dollar (Figure 2).

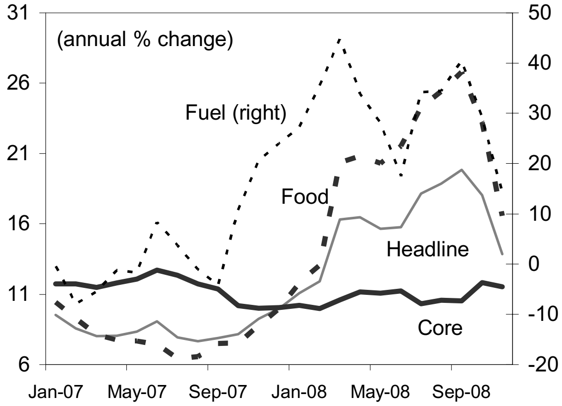
5. **Budget execution in FY 2008 was satisfactory**. Tax revenue was slightly below target (9.9 percent of GDP vs. 10.6 percent programmed), mostly owing to revenue losses (0.7 percent of GDP) from the temporary suspension of fuel price adjustments in response to rising commodity prices.[2] Food and fuel price subsidies were however discontinued in August-October 2008. Spending capacity improved, with domestically-financed investment outlays exceeding expectations. The overall fiscal deficit (excluding grants and foreign-financed projects) exceeded program projections somewhat (2 percent of GDP instead of 1.7 percent), and was fully financed with external resources (Tables 2a, 2b).

6. **Despite sterilization operations, base money increased more than targeted**. Base money growth was 14 percent (y/y) by end-September 2008 (compared with 7.9 percent in the program), due to larger than programmed demand for currency (consequence of the higher than programmed inflation rate), as well as an increase in bank reserves that reflected, in part, the PetroCaribe-fueled accumulation of government deposits in commercial banks. In order to sterilize the increase in credit to the government during most of the second part of the fiscal year, and to smooth out exchange rate fluctuations, the BRH sold foreign exchange (about US$52 million), stepped up the placements of bonds by more than G 1.5 billion (almost 20 percent) and doubled nominal interest rates. Credit to the private sector, which expanded in part due to the importers' increased credit demand to finance rising commodity prices, remained relatively low, at 13.1 percent of GDP (Table 3).

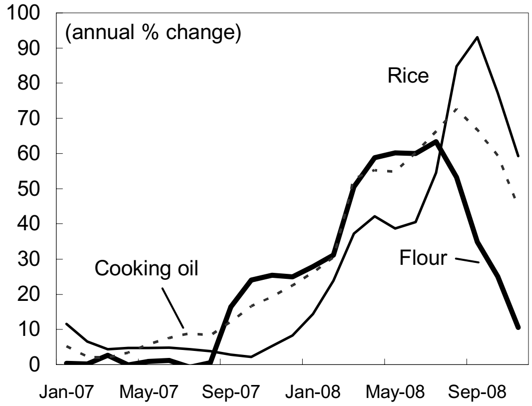
[2] The authorities revised real and nominal GDP for FY 2007 and FY 2008, complicating comparisons between the FY 2008 program and preliminary outcomes. Using the program's nominal GDP, tax revenue in FY 2008 was 10.3 percent of GDP (Table 2b).

Figure 1. Haiti: Recent Economic Developments

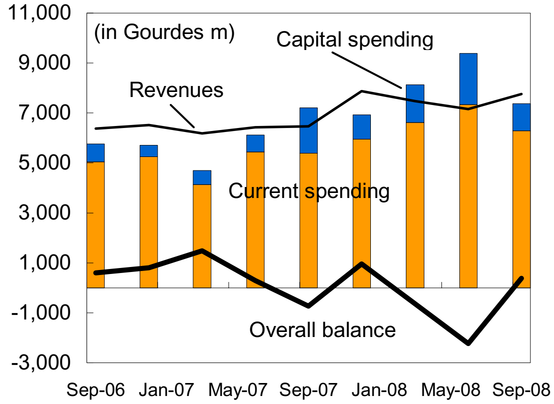
After peaking in September, headline inflation declined, driven by food and fuel prices...



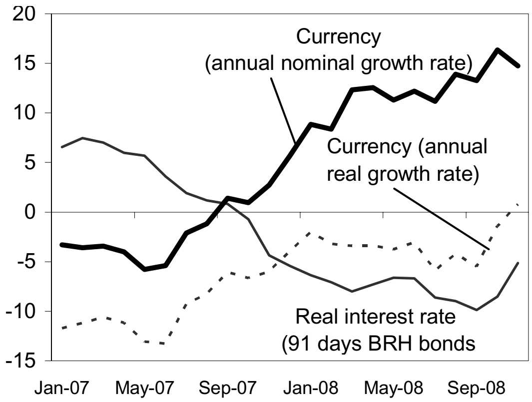
...as lower international prices are passed-through to domestic prices.



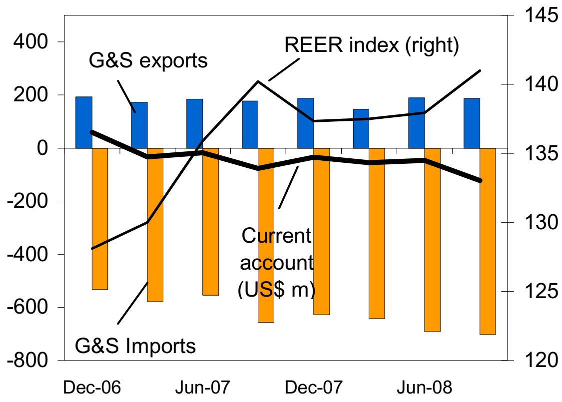
Expenditure execution, including capital spending, is on the rise.



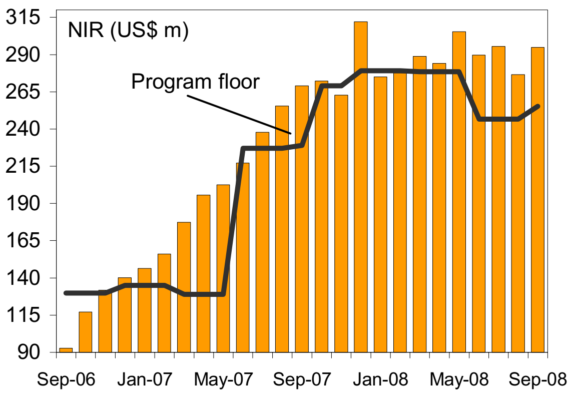
Nominal interest rates and currency growth have not kept up with inflation.



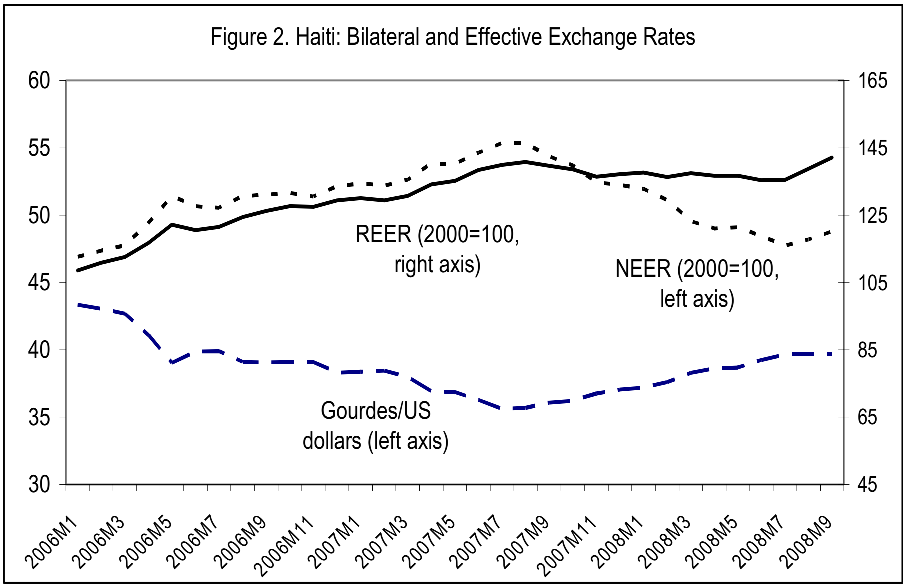
Although the current account balance has deteriorated due to the recent price shock...



... NIR targets have been met comfortably, due in part to Petrocaribe-related flows



Sources: Haitian Authorities and IMF staff calculations.



Source: IMF's Information Notice System.

7. **Haiti's current account deficit widened to 2.6 percent of GDP**. The trade deficit deteriorated by 7.5 percentage points of 2007 GDP ($463 million), largely because of higher food and fuel imports (up by $434 million). The improved services balance was offset by lower current transfers than anticipated. The overall balance of payments remained in surplus (US$41.5 million), due in part to PetroCaribe inflows used as budgetary support, but reserve coverage remained below 3 months of imports (Table 4).

8. **The financial system, which has not been significantly affected by the financial crisis, remains sound**. External credit lines are small and mostly trade-related. Indicators of banking sector soundness remained broadly satisfactory at end-September 2008, with increased net profits and declining non-performing loans, although the financial position of two small banks had weakened further (Table 5). An independent assessment indicated that the BNC (Banque Nationale de Crédit) will need to be recapitalized to accommodate the absorption of Socabank in 2006, and its operational structure reviewed (MEFP ¶23).

9. **Preliminary data for the first quarter of FY 2009 have been relatively positive**. The exchange rate remained stable at about G 40 per U.S. dollar. Unadjusted NIR increased to about US$350 mllion, largely reflecting transfers of PetroCaribe-related resources out of commercial banks and into the BRH. Gourde monetary base increased by about 15 percent at end-December (y-o-y), reflecting a fairly constant velocity (as cumulated annual inflation through December reached 10.1 percent while real GDP increased in FY 2008 by about 1.3 percent, as indicated above). Domestic tax collections for the first quarter were in line with expectations, while spending was boosted by higher reconstruction spending, payment

of the traditional 13th salary to civil servants, and higher transfers to the electricity company reflecting higher electricity production.

III. Program Performance Through End-September 2008

10. **Performance against PRGF program targets at end-September was generally satisfactory, but maintaining macroeconomic stability in the face of severe shocks was particularly challenging:**

- **All but one quantitative performance criteria were met**. The target for net BRH credit to the rest of the non-financial public sector was missed by G 229 million (about 0.5 percent of end-of-period BRH assets, or less than 0.1 percent of GDP). Staff supports a request for a waiver of this breached quantitative PC, as the deviation was minor and temporary. Preliminary information for Q1 FY 2009 indicates that this deviation is being reversed through a combination of increased deposits and some gross credit repayment. Performance criteria for net central bank credit to the central government, net domestic assets, and net international reserves were met, primarily due to the transfer of about US$51 million in accrued PetroCaribe resources from commercial banks to the BRH toward the end of the fiscal year (MEFP ¶9, Table 6).

- **All structural PCs were met, but implementation of end-September benchmarks was mixed**. The authorities prepared a strengthened plan to recapitalize the central bank and completed independent assessments of two systemically important commercial banks. Although progress was made on all program benchmarks, only one out of six benchmarks was fully completed (improving the regulatory framework and supervision of credit unions). Two benchmarks are being reset for end-March: (a) the publication of regular reports by the central bank (which has, however, stepped up monetary policy communications through speeches and interviews); and (b) a new organic law for the tax administration agency (DGI) which, although already drafted, has not yet been submitted to Parliament. The remaining benchmarks have been now completed: (i) three customs posts have become operational by end-December; (ii) a plan to improve systemic liquidity forecasting was finalized in January; and (iii) investment spending has been included in the public financial management system SYSDEP (MEFP ¶10 and Table 7).

IV. Economic and Financial Policies for FY 2009

11. **Discussions on the FY 2009 program were protracted, in light of significant spending needs and limited resources, including budget support**. Already large spending needs to intensify implementation of the PRSP have increased substantially following the natural disasters. With donor support committed so far insufficient to meet Haiti's needs, the authorities were forced to scale back their original spending plans significantly, and rely on accumulated PetroCaribe funds. A donors' conference, tentatively planned for early April

2009, could help mobilize further resources, but prospects for significant additional commitments are uncertain. Key goals for the third program year will be to support public investment and poverty-reducing spending through increased domestic resources, while safeguarding macroeconomic stability and supporting progress to the HIPC completion point, tentatively scheduled for end-June 2009. Structural conditionality focuses on completing fiscal and financial sector reforms (MEFP ¶11).

A. Macroeconomic Outlook

12. **The program framework includes revised goals for inflation and growth**. End-period inflation has been set at 9.5 percent, and the growth projection has been revised downward from 4 percent to 2.5 percent. The recent drop in world commodity prices has begun to affect headline inflation, but the authorities consider that exchange rate depreciation, market rigidities and the damage to agriculture and to the distribution networks will likely prevent a faster decline (the original program goal was 7 percent). Growth should be boosted by increased public sector spending and investment. A faster pace would be impeded by the damage to infrastructure and agriculture, weaker private consumption reflecting lower remittances, and lower net exports related to the global downturn (MEFP ¶12–13).

B. Fiscal Policy

13. **The fiscal program focuses on balancing large spending needs with principles of sound financing**. The program overall fiscal deficit (excluding grants and foreign-financed projects) is projected to increase by 2 percentage points of GDP to 4 percent compared to FY 2008, with higher investment outlays financed by PetroCaribe resources, lower current spending and strengthened tax administration. For transparency, the program framework combines both on- and off-budget spending (Text Table 1 and MEFP ¶14).

14. **Higher projected spending in FY 2009 addresses reconstruction needs as well as PRSP implementation, which should continue to guide fiscal policy in the medium term**. However, the fiscal deficit (including grants) should start declining next year toward its more sustainable medium-term level of about 1.5 percent of GDP. Expenditure (excluding foreign-financed projects) is programmed to increase by 2.7 percentage points of GDP to 14.6 percent. This includes 2.9 percent of GDP in off-budget emergency spending (Box 2). Current spending growth is limited. The 0.6 percentage point of GDP increase in the wage bill reflecting hirings of teachers and police, higher salaries for judges, and a one-off 14th salary payment to civil servants, which was granted in lieu of a generalized salary increase for FY 2009, and transfers increase by 0.4 percentage point of GDP. Domestically-financed capital spending is projected to increase by 1.8 percentage points of GDP, to 3.9 percent (MEFP ¶15). The FY 2009 budget allocates substantial resources to social sectors and infrastructure. In line with PRSP priorities, total investment outlays focus on transport, lodging, employment, health, and food security.

Box 2. Haiti: Emergency Law and Use of PetroCaribe Resources

Under an emergency law adopted following the hurricanes' devastation, the authorities decided to use US$197.5 million in accumulated PetroCaribe resources to finance new off-budget emergency spending (US$220.4 million including the one-off 14th month salary payment to civil servants). While this spending is to be executed in FY 2009, the authorities already transferred in late September US$51 million of PetroCaribe resources to the government accounts at the BRH to repay outstanding credit. The rest will be transferred in the course of FY 2009. Roughly 75 percent of the emergency spending will be on capital projects (2.2 percent of GDP), with the remainder for current expenditure (0.7 percent of GDP). Under the program, staff and the authorities agreed on specific measures to ensure transparency and oversight of the emergency spending.

Purpose	% of total
Restoring agricultural production (investment)	16.7
Spending for schools (50% investment, 50% transfers)	12.4
Health (investment)	2.4
Support to provinces (investment)	8.1
Purchase of equipment (investment)	36.3
Other investment (roads, sanitation, food, hydraulic and electricity infrastructure, rehabilitation of prisons and police)	7.1
14th month salary to civil servants (wages and salaries)	10.4
Other transfers	0.8
Administration (operations)	5.9

Sources: Haitian authorities and IMF staff calculations.

15. **The budget proposes to finance higher expenditures through a combination of strengthened customs and tax administration, and external support**. Total revenue is projected to increase to 10.5 percent of GDP (from 9.9 percent of GDP in FY 2008). The introduction of the SYDONIA WORLD system to strengthen customs controls in the first half of FY 2009 (operational since December 1, 2008 in Port-au-Prince) and technical assistance from Canada and other development partners are projected to have a partial year effect in improving tax and customs administration (MEFP ¶17). Following widespread opposition by telecommunication companies, parliamentarians and the public, the authorities withdrew proposals for new telecommunications taxes and an increase in imports tariffs from the FY 2009 budget law, that would have increased revenue by an additional G 3 billion (almost 1 percent of GDP).[3] The automatic fuel price adjustments to international prices were restored in October 2008. This was reflected in revenue projections for FY 2009, but lower world oil prices would result in a net decrease in the intake. Already committed budget

[3] The authorities intend to propose a revised package of tax measures as part of a supplementary budget in late Spring, following further studies and extensive consultations with stakeholders.

support amounts to 3.1 percent of GDP (including PetroCaribe resources accumulated during FY 2008), and external project financing is projected at 5 percent of GDP.

16. **The program includes US$50 million in external budget support still to be identified, possibly in a donor's conference tentatively scheduled for early April**. This will allow needed spending to get underway, while the authorities work to mobilize additional resources. If some or this entire amount does not materialize, a program adjustor of the same size would allow for limited and temporary new central bank financing to cover the shortfall. The authorities have committed to repay in FY 2010 any new central bank financing arising from shortfalls in budget support in FY 2009. As in the past, the program allows the authorities to spend any additional external resources received (MEFP ¶18).

17. **The authorities are committed to strictly monitoring off-budget emergency spending**. The off-budget spending will be reported to Parliament and subjected to the same auditing procedures by the national court of accounts. The authorities indicated that they were exploring options to channel new PetroCaribe/ALBA-related inflows during FY 2009 through a private binational Venezuela-Haiti corporation, but that discussions with Venezuela were still at a preliminary stage. In this light, and given uncertainties as to whether such flows will be continued, the program assumes no new PetroCaribe resources for the central government in FY 2009, but the TMU includes new adjusters to net international reserves, net BRH credit to the central government and net banking sector credit to the central government, should such new resources materialize (TMU ¶¶27–28 and MEFP ¶20).

C. Monetary Policy

18. **Monetary policy will focus on keeping core inflation reined in, as the impact of higher commodity prices wanes**. To this end, the indicative FY 2009 target for base money growth was set at 9.3 percent, below projected nominal GDP growth. To help guide inflation expectations, the central bank will publish a quarterly report on monetary policy goals and outcomes beginning in early 2009. The BRH will continue to seek broader participation in the weekly central bank bond auctions and ensure close coordination with the Ministry of Economy and Finance to determine upcoming liquidity needs. The authorities may use reserves in order to smooth out exchange rate adjustment to equilibrate external imbalances caused by the shocks and to sterilize new temporary central bank financing if needed, but they are committed to maintaining a flexible exchange rate regime (MEFP ¶22).

19. **Central bank independence is being strengthened**. Implementation of the first stage of the central bank recapitalization plan, including higher interest payments by the government on the existing stock of central bank credit, should help increase the independence of monetary policy. Recently, legislation was passed to eliminate the central bank's legislatively-mandated involvement with SONAPI (industrial parks), APN (the port authority), and BPH, a small state-owned bank (MEFP ¶34).

D. External Sector and Debt Sustainability

20. **Haiti's overall balance of payments is expected to turn negative in FY 2009 for the first time since FY 2003**. The projected deficit of about 2.2 percent of GDP reflects in part a worsening current account deficit (from 2.6 percent of GDP to 4.4 percent), as lower commodity prices are expected to be offset by a sharp increase in imports to address food shortages, infrastructure rehabilitation, and reconstruction needs. The economic downturn in the U.S. and Canada is expected to affect remittance and export receipts (Text Table 1 provides a detailed breakdown of key current account items from 2007 through 2009 while Table 4 shows how the balance of payments has deteriorated relative to projections at the time of the third review). The capital and financial account is also assumed to weaken, primarily due to lower projected public sector loan disbursements.[4] Private investment is expected to be very low, because of the global environment and the more uncertain domestic and external situation of the country. Under the program, the authorities would be allowed to use up to US$50 million in NIR to sterilize central bank financing in the event of delays in external budget support.

Text Table 1. Haiti: Natural Disaster and Global Slowdown Impact on Key Balance of Payments Items

(In million U.S. dollars unless noted otherwise)

	2007	2008 (a)	2009 (b)	2009 vs. 2008 (b) - (a)
Fuel Imports	-415.0	-602.2	-426.4	175.8
% of GDP	-6.8	-8.5	-5.6	
Food Imports	-369.8	-616.9	-588.7	28.1
% of GDP	-6.0	-8.7	-7.8	
Machinery and Transport Imports	-234.8	-187.7	-393.3	-205.6
% of GDP	-3.8	-2.6	-5.2	
Net Services	-443.6	-385.3	-474.1	-88.8
% of GDP	-7.2	-5.4	-6.2	
Assembly Exports	180.6	165.1	168.5	3.4
% of GDP	2.9	2.3	2.2	
Remittances	1,125.7	1,369.7	1,215.3	-154.4
% of GDP	18.3	19.3	16.0	
Total Current Account Impact				-241.4
% of 2009 GDP				-3.2

Sources: Haitian authorities; and Fund staff estimates.

21. **To help cover the projected balance of payments gap, the authorities are requesting a second program augmentation equivalent to 30 percent of quota (SDR 25 million)**. Reserve coverage, which reached 2.9 months of imports in 2008, would fall to 2.6 months in the absence of the additional assistance requested from the Fund, and to 2.5 months without the Fund augmentation and the additional budget support highlighted in Text table 2. The Fund augmentation and this additional budget support would bring reserve coverage to 2.8 months of imports in 2009. The proposed augmentation would be provided in two tranches: 20 percent of quota upon completion of the current review, and the rest upon completion of the fifth review (Table 8). These purchases would bring Haiti to the normal maximum PRGF access level of 140 percent of quota.

[4] The sharp drop in public sector loan disbursements shown in Table 4 is partly explained by the absence of PetroCaribe flows to the government in 2009. There has also been a shift in external support from loans to grans, but the increase in official transfers in 2009 only partly offsets lower levels of official lending.

22. **The proposed augmentation would complement the budget support, project financing, and humanitarian assistance already committed by other stakeholders, although pledges remain well below estimated needs** (Text Table 2). In response to the hurricanes, the IDB and the European Union intend to increase their budget support for 2009.[5] The World Bank has committed additional grants of US$25 million (of which US$5 million in budget support), and bilateral donors have committed substantial aid, mainly for humanitarian relief.

Text table 2. Haiti–Burdensharing by Donors
(In million U.S. dollars)

	Additional Support Pledged	Total FY2009 support
Total Pledges	**193.5**	**654.4**
Budget support 1/	36.4	92.4
Project financing and humanitarian aid	157.1	562.1

1/ Petrocaribe budget support is booked in the BOP in FY2008.

23. **Haiti's capacity to repay the Fund will remain adequate despite the proposed increase in access**. Debt service to the Fund will equal 0.23 percent and 0.20 percent of domestic revenues and exports of goods and services, respectively, on average over the next four years, and should remain manageable through 2020 (Table 9).

24. **An update of the LIC debt sustainability analysis suggests that the PetroCaribe resources received in FY 2008 and the proposed augmentation of the PRGF arrangement will adversely affect the debt trajectory, but not alter the main conclusions of the last LIC DSA**. The NPV of debt-to-exports ratio remains over the threshold in the baseline and shock scenarios, but all other indicators remain below their respective thresholds. This reflects Haiti's relatively small export sector: the current account is generally financed through transfers. The NPV of debt-to-exports ratio remains below the relevant threshold when HIPC/MDRI relief is assumed, but with little cushion in the likely event of future shocks.

E. Structural Policies

25. **The structural agenda in the final program year will focus on finalizing pending reforms initiated earlier in the program**. The proposed four structural PCs and five benchmarks are critical for achieving the program objectives of strengthening fiscal governance and soundness, fostering banking sector stability, and increasing the independence of monetary policy (MEFP Table 3).

26. **The authorities are working on completing a few remaining HIPC triggers to reach the completion point by mid-2009** (Table 10). The main challenge will be to secure

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[5] The IDB will provide additional interim debt relief of close to US$15 million in 2009. The debt relief estimate in the balance of payments remains roughly unchanged from the last review, because the World Bank cannot provide further interim relief in FY 2009. Haiti already benefited from an increase of the limitation of World Bank interim relief from one third to 50 percent of the maximum NPV amount following satisfactory progress in completion point triggers' implementation.

prompt approval of the new procurement law, which will be submitted to Parliament in January 2009, as a six-month implementation period of the approved law is needed to meet the trigger. Staff anticipates that all other triggers will be met.

F. Program Monitoring

27. **The program monitoring framework has been altered to take into account the use of PetroCaribe resources**. Part of the PetroCaribe resources received in FY 2008 (about US$200 million) were transferred in FY 2008 (US$51 million) and the remainder will be transferred in FY 2009 (US$149 million). In both years, the transferred resources are treated as external budget support for program purposes. The TMU has been revised to ensure that any such future use for central government spending (on- or off-budget) is treated as budget support, and thus counts as part of the adjustment for net program external financing (TMU ¶29–30). Furthermore, the performance criteria on NIR and net domestic banking sector credit to the government are adjusted to take into account the drawdown in PetroCaribe deposits at the Central Bank (TMU ¶27–28–31).

28. **The FY 2009 program will use the same quantitative performance criteria as in the first two program years** (MEFP, Table 2). The program will be monitored on a quarterly basis, with test dates at end-March and end-September 2009 for NIR, NDA, central bank financing to the public sector, concessionality of external debt, and domestic and external arrears accumulation. The program provides some room for BRH credit to the government in the first two quarters, which are likely to be the most critical from a humanitarian and reconstruction perspective. The BRH credit is programmed to be reversed by end-September. Similarly, use of NIR for the fiscal year will be frontloaded to allow flexibility for the BRH in addressing volatility in the foreign exchange market and sterilize—if needed—temporary BRH financing.

V. Program Risks

29. **Despite the authorities' strong track record and commitment to prudent macroeconomic policies, program risks are substantial and have increased since the last review**. Safeguarding the significant macroeconomic gains of the past four years will not be easy amid high external vulnerability (Table 11). The main risks are:

- ***Political and social instability*** and ***weather-related shocks***, that are ever-looming. In particular, parliamentary elections in April 2009 and an ongoing constitutional debate during the year may cause further delays in approval of key reform legislation;
- the ***uncommitted budget support*** may not be forthcoming;
- the ***downturn in the United States and Canada*** could lead to a sharper decline in exports and transfers; and

- ***spending pressures*** may emerge if programmed spending is insufficient to cover needs, and/or in the run-up to parliamentary elections in April 2009. The early withdrawal of the proposed new taxes sets an unfavorable precedent in terms of the authorities' capacity to introduce further revenue measures.

VI. Staff Appraisal

30. **Performance in the second program year was satisfactory, but maintaining macroeconomic stability was difficult amid the severe shocks**. Economic growth has been weaker than expected, challenging the authorities' ability to implement prudent fiscal and monetary policies. Nevertheless, spending and core inflation were kept broadly under control. Implementation of structural measures slowed as a result of the shocks, although progress was made in all areas.

31. **The recent devastating natural disasters compounded by the global slowdown present numerous challenges for macroeconomic policies**. The program is pragmatic in terms of safeguarding economic stability while maintaining a focus on continued economic and social progress in Haiti. The authorities are encouraged to make the most of the donor support for strengthening tax administration, and should work closely with donors to mobilize additional external assistance. Higher projected spending in FY 2009 addresses reconstruction needs as well as intensified PRSP implementation. Staff urges the authorities to ensure full transparency and close monitoring of off-budget emergency spending, and to resist pressures for further spending unless additional domestic revenue or external financing becomes available.

32. **Monetary policy should focus on containing core inflation and preventing excessive exchange rate volatility**. Headline inflation could decline fairly rapidly if WEO commodity price forecasts materialize, but the authorities will need to monitor closely developments in core inflation. They should also be prepared to sterilize temporary central bank financing to the government as needed. The banking sector appears generally sound, but the impact of recent natural disasters and slowdown of the economy pose risks to the quality of credit portfolios that need to be closely monitored.

33. **Further efforts will be needed to safeguard debt sustainability**. Given the limited margin below the threshold even after anticipated debt relief, maintaining debt sustainability over the medium-term will require that the authorities take a prudent approach to borrowing, even on concessional terms, and adopt policies to promote growth and export diversification.

34. **Program risks have risen, but continued Fund involvement is justified by the authorities' commitment and will help safeguard the hard-won and significant gains of the past four years**. The proposed augmentation and additional commitments from other institutions can help the country get through the exceptionally difficult current circumstances,

and reach its HIPC completion point. Staff urges the authorities to ensure a timely implementation of remaining completion point triggers.

35. **Staff supports the requested conclusion of the fourth review, waiver, and augmentation of access under the arrangement**. Performance has been satisfactory, and the deviation under the performance criterion has been minor. Given pressure on the balance of payments caused by the devastating natural disasters and the global slowdown, low reserve coverage, the government's past strong performance and commitment to the program, the manageable level of outstanding Fund credit, and Haiti's track record of repayment, the staff believes that an augmentation of access under the PRGF arrangement by 30 percent of quota is appropriate.

Table 1. Haiti: Selected Economic and Financial Indicators

(Fiscal year ending September 30)

Nominal GDP (2008): US$ 7.11 billion
Population (2008): 9.76 million
Share of pop. living with less than $1 a day (2003): 54 percent

GDP per capita (2008): US$728
Adult literacy (2008): 53 percent
Unemployment rate (2003): 27 percent

	2006	2007	2008 Prog. (Third PRGF Review)	2008 Prog. w/Rev. GDP	2008 Prel.	Prog. 2009
	(change over previous year unless otherwise stated)					
National income and prices						
GDP at constant prices	2.3	3.4	2.5	2.5	1.3	2.5
GDP deflator	16.6	10.7	14.5	14.5	17.0	12.0
Consumer prices (period average)	14.2	9.0	14.5	14.5	14.4	12.8
Consumer prices (end-of-period)	12.4	7.9	16.0	16.0	19.8	9.5
External sector						
Exports (f.o.b.)	7.7	5.7	-6.0	-6.0	-6.2	1.8
Imports (f.o.b.)	18.3	4.5	24.3	24.3	30.2	1.7
Real effective exchange rate (+ appreciation)	10.5	14.9	...	...	...	...
Central government						
Total revenue and grants	20.2	30.7	29.9	29.9	9.0	29.1
Total revenue excl. grants	23.7	15.4	21.3	21.3	15.7	22.1
Current expenditure	-0.7	-2.0	54.5	54.5	41.5	24.3
Total expenditure	13.4	14.6	44.4	44.4	32.7	34.5
Money and credit						
Credit to the nonfinancial public sector (net) 1/	-4.9	-6.9	0.0	0.0	-29.8	48.2
Credit to private sector	5.5	10.8	12.3	12.3	25.2	15.4
Base money	5.5	7.6	7.9	7.9	13.9	9.3
Broad money (incl. foreign currency deposits)	10.0	4.8	10.6	10.6	17.7	11.6
	(in percent of GDP, unless otherwise stated)					
Central government						
Overall balance	-1.7	0.2	-1.6	-1.6	-2.8	-3.9
Overall balance (excl. grants)	-4.9	-4.8	-7.8	-7.6	-6.8	-9.1
Overall balance (excl. grants and externally-financed projects)	-0.5	0.3	-1.7	-1.7	-2.0	-4.0
Overall balance (excl. ext.-financed projects and project grants)	-0.2	1.5	0.0	0.0	-0.7	-2.8
Central bank net credit to the central government	-0.2	-0.4	0.0	0.0	0.0	0.1
Savings and investment						
Gross investment	28.9	27.7	27.7	26.9	26.0	31.0
Gross national savings	27.4	27.4	24.7	24.0	23.4	26.5
Of which: Central government savings	0.8	3.1	1.7	1.6	1.3	1.1
External current account balance (incl. official grants)	-1.4	-0.3	-3.0	-2.9	-2.6	-4.4
External current account balance (excl. official grants)	-9.3	-6.6	-10.0	-9.7	-8.6	-11.9
External public debt (end-of-period)	29.7	29.1	23.6	22.9	26.7	25.5
Total public debt (end-of-period) 2/	33.5	32.9	27.0	26.3	30.2	27.3
External public debt service (in percent of exports of goods and nonfactor services) 3/	7.5	8.3	9.4	9.2	8.2	9.6
	(in millions of US$, unless otherwise stated)					
Overall balance of payments	79.1	163.4	-49.9	-49.9	41.5	-158.3
Net international reserves (program) 4/	92.7	269.1	244.7	244.7	287.4	237.4
Liquid gross reserves 5/	337.1	544.7	578.1	578.1	707.8	696.0
In months of imports of the following year	1.7	2.3	2.4	2.4	2.9	2.8
Exchange rate (gourdes per dollar, end-of-period)	39.1	36.4	...	...	...	...
Nominal GDP (millions of gourdes)	200,456	229,538	264,722	271,971	271,971	312,222
Nominal GDP (millions of U.S. dollars)	4,836	6,137	6,966	7,108	7,108	7,589

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

1/ In FY2008 it reflects accumulation of Petrocaribe-related resources; in FY2009, it reflects the use of Petrocaribe-related resources accumulated in FY2008.
2/ Includes external public sector debt, outstanding central bank bonds, and credit from commercial banks to the NFPS. It does not reflect possible completion point debt reduction in 2009.
3/ Based on originally scheduled debt service, not incl debt relief.
4/ Excluding commercial bank forex deposits, letters of credit, guarantees, and earmarked project accounts.
5/ Gross Liquid International Reserves for FY2009 assume the disbursement of the proposed US$ 37 million augmentation.
6/ GDP ratios are calculated using Nominal Program Figures for FY08 (numerator) and actual nominal GDP.