International Monetary Fund

Haiti and the IMF

Haiti: Letter of Intent, and Technical Memorandum of Understanding

Press Release:
IMF's Executive Board Completes Eight and Final Review under Haiti's ECF Arrangement and Approves US$2.4 Million Disbursement
December 19, 2014

November 28, 2014

The following item is a Letter of Intent of the government of Haiti, which describes the policies that Haiti intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Haiti, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

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Letter of Intent

November 28, 2014

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

Madam Managing Director:

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

Economic Developments in 2014

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

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

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

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

Monetary and Exchange Rate Policies

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

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

(continued)

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

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

Structural Reforms

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

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

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

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

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

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

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

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

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

Medium-Term Policies and a Possible Successor ECF Arrangement

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

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

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

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

Sincerely yours,

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

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

(In millions of gourds, unless otherwise indicated)

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

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

1/ M = Met; NM = Not Met.

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

3/ Excludes guarantees to the electricity sector in the form of credit/guarantee letters. The US$33 million in non-concessional external lending of over one-year maturity refers to a BANDES (Venezuela) loan for airport construction.

4/ Figures for September 2013 and December 2013 reflect the contracting of repos for international reserve management; these operations were fully unwound by end-February 2014.

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

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

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

1/ PA: Prior Action; SB: Structural Benchmark

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