International Monetary Fund

Haiti and the IMF

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November 18, 2016

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Haiti: Letter of Intent

November 11, 2016

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.

Letter of Intent

Port-au-Prince, Haïti

November 11, 2016

Ms. Christine Lagarde

Managing Director

International Monetary Fund

Washington, D.C. 20431

Dear Ms. Lagarde,

On October 4, 2016, Hurricane Matthew struck Haiti with strong Category 4 winds of 230 km/h, killing more than 500 people and causing widespread destruction, notably in the southwestern *départements* of Grand Anse, Sud, and Nippes. Many towns in the storm's path sustained extensive damage, with most structures destroyed or requiring major repairs. More than 175,000 people were forced into temporary shelters, and over 1.4 million required humanitarian assistance.

The draft Rapid Damage and Impact Assessment Report prepared by the Government of Haiti with support from the World Bank and the Interamerican Development Bank estimates total damage and loss at US$1.9 billion, (approximately 125 billion gourdes, or 23 percent of Haiti's GDP). This includes not only the damage to roads, bridges, hospitals, churches, schools, and houses, but also the loss of private sector productive assets, such as fruit trees and livestock, and other losses from widespread environmental destruction.

A full recovery will take more than one year. While real GDP growth is still projected to be positive in FY 2016/17, the forecast has been lowered by 0.7 percent of GDP relative to the pre-hurricane outlook reflecting both the negative impact of the hurricane damage on production, and the expected positive impact on the economy of substantial recovery investment, much of which will be funded from donor resources. The recovery effort will necessitate a significant increase in imports, so that the external current account deficit (excluding grants) is projected to widen substantially, by as much as 7 percent of GDP, depending in part on the availability of grant and concessional loans for reconstruction. As crops are replanted, recovery efforts advance, and normal activities resume, output is expected to recover in FY 2017/18. Reconstruction activities will boost growth in the near term.

Our fiscal situation has been fundamentally changed by the storm. Cleanup and reconstruction expenditures, and lower tax revenue as a result of the hurricane-related shock to economic activity are putting pressure on the fiscal accounts.

Total public sector recovery and reconstruction costs for roads and bridges, airports, water and sanitation infrastructure, and health and education facilities, plus humanitarian assistance provided through the budget, are preliminarily estimated at US$556 million (about 37 billion gourdes) in the current fiscal year. However, we intend to remain prudent in mobilizing financial resources and avoid excessive debt accumulation, in order to ensure long-term debt sustainability. Accordingly, we will seek to fund the reconstruction costs via external grants, concessional loans, and budget support.

The FY 2016/17 (October-September) overall budget deficit is now projected at around 5.3 percent of GDP, including external grants. It is expected that financing for the recovery will be achieved through grants from key bilateral and multilateral development partners. Despite the anticipated funding from donors this year, the extent of damage to infrastructure and private property will necessitate a multiyear recovery effort.

Against this background, the Government of Haiti requests emergency financing from the IMF in the equivalent of SDR 30.7125 million (about US$42 million), equivalent to a disbursement of 18.75 percent of quota under the Rapid Credit Facility (RCF). The IMF assistance will help meet the urgent foreign exchange needs stemming from the disaster and ease the immediate pressure on our government accounts and balance of payments. It may also facilitate unlocking of additional grants and concessional loans. We anticipate that our net international reserves may decline by as much as US$100 million to accommodate government recovery spending, but that NIR will nonetheless remain above US$700 million, and that gross reserves will remain adequate to cover at least 4 months of imports. We are committed to establishing a strong track record of adequate macroeconomic policies and maintaining close dialogue with the Fund on the appropriate modalities for supporting Haiti in addressing its balance-of-payments problems going forward.

To speed up and increase transparency of the reconstruction effort, all financial support from donors and lenders will be channeled through the single treasury account (*compte unique du Trésor*) and will be closely coordinated with the annual budget process. In addition, as part of a broader effort to improve capital budget monitoring and execution, we will publish monthly and quarterly reports on post-hurricane recovery expenditures. In this regard, Haiti intends to take advantage of the continued provision of technical assistance in public financial management from the IMF's Fiscal Affairs Department and other donors.

Even as we contemplate the large increase in government spending needed to carry out this reconstruction effort, we are aware of the urgent need to contain risks that existed before Hurricane Matthew and that would jeopardize our development gains. In particular, fiscal policy settings will need to be held tight in order to prevent public debt from climbing rapidly as a share of GDP. Accordingly, we affirm our determination to limit the non-hurricane budget deficit to the level provided in the government's FY 2016/17 budget, of approximately 2.3 percent of GDP.

Recognizing that our risk of debt distress has increased, due in part to the need to increase expenditure for hurricane recovery, we reaffirm our commitment, made under previous Fund arrangements, not to take on any nonconcessional debt. We affirm that we will not contract nonconcessional loans during FY 2016/17. Regarding our existing financial obligations, we affirm that we will not permit the accumulation of arrears on public sector foreign debts. Furthermore, we will endeavor to avoid the accumulation of public sector domestic arrears.

Haiti commits to undergo a safeguard assessment, provide Fund staff with access to its central bank's most recently completed external audit reports and authorize its external auditors to hold discussions with Fund staff.

We will revise our strategy for growth and social protection to ensure that recovery from the storm will not interrupt our efforts to reduce poverty and strengthen growth. We also will continue with efforts to boost private sector development, improve efficiency in the electricity sector, and increase the share of poverty-reducing expenditures in the government budget.

We will implement policies that strengthen the resilience of the financial sector. With the damages and losses from the storm, NPLs in financial institutions – including microfinance institutions - could rise and this situation will have to be monitored closely. We will further strengthen our compliance with international standards, particularly with the AML/CFT framework.

The fiscal program for hurricane recovery will be included in a supplementary budget for FY 2016/17. At present, our immediate focus is on emergency rehabilitation and reconstruction activities to restore normalcy to the lives of our citizens as soon as possible. However, we will subsequently start work on the formulation of next year's budget and the specification of a medium-term macroeconomic plan, including policies to achieve fiscal consolidation over the medium term, in order to reverse the trend increase in the ratio of public sector debt to GDP. We are strongly committed to adopting prudent policies to guide our recovery efforts in the aftermath of Hurricane

Matthew. In this context, we would welcome Fund staff to visit in upcoming months to assist us in this effort, and with the formulation of a staff-monitored program.

The Banque de la République d'Haïti (BRH) affirms that it will support the recovery efforts, in its capacity as the counterparty for Fund lending to Haiti. The local currency counterpart of resources provided under the RCF will be lent to the Treasury, and expenditure of these resources will, in general, be sterilized. The BRH will avoid monetary financing of government credit operations, while maintaining exchange rate flexibility.

The Government of Haiti values its cooperation with the IMF. We do not intend to introduce measures or policies that would exacerbate balance-of-payments difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance-of-payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement.

The challenge before us is great but we are determined to succeed. We hope that the international community will support our efforts to restore our economy and accelerate the recovery from the terrible effects of Hurricane Matthew. We look forward to an early approval of financial assistance by the IMF.

We authorize the Fund to publish this Letter of Intent and the staff report for the request for disbursement under the RCF.

Sincerely yours,

/s/
Yves Romain Bastien
Minister of Finance

/s/
Jean-Baden Dubois
Governor, Banque de la République d'Haïti