**Haiti supplemental budget FY21**

**Main Take-aways**

(Fiscal year Oct 1 – September 30)

**Summary:**

*The Government of Haiti (GoH) published a supplemental budget for FY21 as tax revenues will be lower than previously projected. The supplemental budget was approved by the Council of Ministers since the Parliament, the institution intended for this purpose, has been dysfunctional since January 13th, 2020 because no elections were held.*

*The authorities’ growth forecast in the FY21 supplemental budget of -0.9 percent contrasts with the 2.4 percent growth in the original budget but is now in line with the Bank forecast of -0.8 percent for the fiscal year. The supplemental budget features a fully financed budget with a deficit of 3.0 percent of GDP, financed via monetary financing from the central bank (BRH). Domestic revenue mobilization is more realistic in the supplemental budget and in line with the Bank at 6.3 percent of GDP, compared to the authorities’ previous forecast of 8.7 percent of GDP in the original FY21 budget. However, expenditures have not abated and if spending plans are maintained a probable budget deficit of 6.2 percent of GDP would arise, resulting in a financing gap of 3.2 percent of GDP.*

*After a welcome increase from 1.7 percent of GDP in the FY19 budget to 2.8 percent of GDP in the FY20 (planned), the health sector’s budget envelop is set to decline to 0.5 percent of GDP in the FY21 revised budget. The education sector’s budget will also decline from 2.4 percent of GDP in FY20 to 1.6 percent of GDP in the FY21 budget revision. Social protection through the Ministry of Social Affairs and Labor (MAST) continues its decline with a budget allocation of only 0.1 percent of GDP, from 0.2 percent of GDP in FY20. The drop of MAST’s budget allocation is even more telling, given the announced emergency spending by the authorities to help households affected by the August 14th earthquake and the August 16th tropical storm Grace that devastated the southern peninsula. Moreover, the Parliament, despite being dysfunctional with only ten Senators (out of thirty seats) and zero Deputies (for a total of 119), will still be allocated 2.1 percent of the budget envelop.*

**Macro-fiscal:**

The original FY21 government budget was overly optimistic in terms of revenue mobilization and available financing. The authorities projected an increase in fiscal revenues between FY20 and FY21 of 57.9 percent (or 41.9 percent in real terms), while no reforms were expected either at the internal revenue service (DGI) or the customs administration (AGD) to warrant such an increase in tax revenues. As economic activities remained subdued amid unabated political turmoil and violence from (allegedly) politically connected armed gangs, and partly due to a strong gourde policy adopted towards the end of fiscal year 2020, tax revenues have declined by 4.0 percent in real terms by mid-September 2021, two weeks before the end of the fiscal year. The authorities had projected GDP to expand by 2.4 percent in the original budget document, while Bank forecast at Q2 of the FY was already a 0.7 percent contraction. The supplemental FY21 government budget now forecasts a 0.9 GDP contraction, much in line with the Bank revised forecast of 0.8 GDP contraction for FY21.[[1]](#footnote-2)

Tax revenues are more realistic in the supplemental budget. However, should expenditures be implemented as planned the fiscal deficit could reach 6.2 percent of GDP instead of 3.0 percent of GDP projected by the authorities and would result in a financing gap of 3.2 percent of GDP, after accounting for the central bank financing, T-bills and Taiwan’s loan (see column 3 in Table 1 below). BRH financing was already at 3.6 percent of GDP at end August and we forecast it will likely reach 4.0 percent of GDP this fiscal year. BRH financing scheduled at 3.0 percent of GDP in the revised FY21 budget is well above the legal limit of 20 percent of previous year fiscal revenue according to the August 1979 law creating the BRH.[[2]](#footnote-3) As in previous years, as spending adjustments are allowed until October 31st ,[[3]](#footnote-4) there will likely be a retrenchment of capital and social spending, increased financing from the central bank, and greater arrears accumulation if additional resources are not forthcoming, with negative consequences on future growth and macroeconomic stability. The government planned fiscal expansion could thus create major disruptions in the domestic financial market for loanable funds, as the BRH will try to mop up liquidity in the system through the BRH bonds, crowding out the private sector and hiking interest rates, with attendant negative consequences for growth and long-run macroeconomic stability.

Planned expenditures would reach 13.8 percent of GDP in FY21, up from an estimated 10.3 percent in FY20. The budget will support fundamentally goods and services (G&S), the wage bill, and subsidies and transfers. G&S takes up 40.1 percent of the budget (or 80.2 percent of domestic revenues), the wage bill represents 31.0 percent of the budget (or 62.0 percent of domestic revenues), while subsidies, without accounting for the energy sector, are at 10.5 percent of the budget (or 21.0 percent of domestic revenues). The largest item of the revised budgetary envelop is Public Debt Service at 15.1 percent. Treasury-funded planned capital spending (i.e. excluding project grants) is set to rise to 1.3 percent of GDP, up from 1.0 percent of GDP in FY20. However, given past capital spending practices and absorption capacity, our best estimate is that treasury-funded capital spending would reach about 0.8 percent of GDP

**Table 1. Fiscal account**

|  |  |  |  |
| --- | --- | --- | --- |
| *(in percent of GDP)* | **2020e** | **Budget 2021** | **World Bank Forecast keeping spending plans unchanged**  **2021** |
| **Total revenues** | **7.3** | **7.7** | **7.6** |
| Domestic revenues | 6.0 | 6.2 | 6.3 |
| Grants | 1.3 | 1.5 | 1.3 |
| o/w budget support | 0.4 | 0.2 | 0.0 |
| Other (CCRIF indemnity)[[4]](#footnote-5) |  |  | 0.2 |
|  |  |  |  |
| **Total expenditures** | **10.3** | **10.7** | **13.8** |
| Current Expenditures | 8.2 | 7.8 | 11.7 |
| Salaries and wages | 3.3 | 3.8 | 4.3 |
| Goods and services | 2.2 | 2.4 | 4.4 |
| Transfers and subsides | 2.6 | 1.3 | 2.1 |
| o/w COVID-19 | 0.3 |  |  |
| o/w EdH | 0.4 | 0.6 | 0.6 |
| Interest payments | 0.1 | 0.2 | 0.2 |
|  |  |  |  |
| Capital Expenditures | 2.1 | 3.0 | 2.1 |
| o/w project grants | 0.9 | 1.3 | 1.3 |
|  |  |  |  |
|  |  |  |  |
| **Overall Balance** | **-3.0** | **-3.0** | **-6.2** |
|  |  |  |  |
| **Primary Balance** | **-2.9** | **-2.8** | **-6.0** |
|  |  |  |  |
| **Overall Balance (exc. Grants)** | **-3.9** | **-4.6** | **-7.3** |
|  |  |  |  |
| **Financing** | **3.0** | **3.0** | **6.2** |
| T-bills | 1.5 | 0.8 | 0.8 |
| BRH | 3.8 | 3.0 | 3.0 |
| Taiwan | -0.7 | 0.5 | 0.5 |
| Other | -1.2 | 0.3 | 0.3 |
| Amortization | -0.4 | -1.6 | -1.6 |
|  |  |  |  |
| Arrears (domestic) | 1.3 | n/a | 0.7 |
|  |  |  |  |
| **Financing gap** | **n/a** | **0.0** | **-3.2** |
| ***Pro memoria:***  Nominal GDP (HTG million) | **1,449,887** | **1,562,324** | **1,562,324** |
|  |  |  |  |

Source: Ministry of Economy Finance (MEF) and WB staff calculations

Domestic revenues are expected to be at 6.2 percent of GDP in the revised FY21 budget and is in line with the Bank’s forecast, compared to a previous target of 8.7 percent of GDP in the original FY21 budget. Besides the political turmoil, since most taxes are collected at the border, the strong gourde policy engineered by the authorities at the end of FY20 and beginning of FY21 has negatively impacted tax revenue. The strong gourde policy could have been an opportunity for the authorities to reintroduce 1995 law on automatic fuel price adjustment mechanism (AFPAM) to help eliminate fuel subsidies,[[5]](#footnote-6) boost revenue, and create fiscal space for growth-enhancing spending.

**Sectoral composition**

At the sectoral level, health sector budget allocation is set to decline substantially from 10.9 percent of FY20 budget (or 1.5 percent of GDP in FY20) to 3.8 percent of the supplemental FY21 budget (or 0.5 percent of FY21 GDP), while spending in the sector already represented a small fraction of the estimated needs to provide a package of basic services in order to achieve the health-related sustainable development goals (SDGs). The education sector is set to increase from 9.4 percent of the FY20 budget (or 1.3 percent of GDP) to 12.9 percent of the revised FY21 budget (or 1.9 percent of GDP). Despite this increase, spending on education is still very low in light of the GoH’s international commitment[[6]](#footnote-7) and stated priorities to guarantee free basic education for all. Along with health, education is key for future development prospects and should not be neglected, particularly considering the sector’s SDGs, such as investment in public school construction, vocational training, adult literacy, etc. The Ministry of Social Affairs’ (MAST) budget allocation will drop from 1.7 percent of the FY20 budget (or 0.2 percent of GDP) to 0.7 percent of the FY21 revised budget (or 0.1 percent of GDP). This is stark contrast with the government’s stated intentions to improve social protection coverage, especially after the august 14th earthquake followed by tropical storm Grace that devastated Haiti’s southern peninsula.

The Ministry of Environment budget allocations will plateau at 0.2 percent of GDP, despite Haiti’s increasing vulnerability to natural hazards and climate change shocks. Support to the agricultural sector is set to decline from 0.9 percent of GDP in FY20 to 0.4 percent of GDP in FY21 while more than forty of the labor force are working poor engaged in subsistence, low productivity agricultural activities.

Overall, the sectoral budget allocation indicates that the government’s priority spending for FY21 is 1) security (as crystallized in a 50 percent increase of the Ministry of Defense budget), while violent gangs control every day greater swathes of the territory; 2) Public Debt service, which takes up more than 15 percent of the budget envelop to pay back loans that have no proven impact on the well-being of the population, and; 3) electricity generation with an 11.0 percent increase of the Ministry of Public Works’ budget allocation to enhance EDH’s production capacity. Despite the mobilization of resources for EDH, electricity generation, a harbinger of future growth, has been declining. Electricity generation declined by 25 percent between FY19 and FY20, and dropped by almost 4.0 percent year on year in the first quarter of the current fiscal year.

Source: MEF and WB staff calculations. Note: “Others” represent 20 other ministries and budgeted entities.

**Annex**

**Table A1. Functional classification: Share of total budget, unless otherwise indicated**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2016** | **2017** | **2018** | **2019** | **2020** | **Original**  **2021** | **Supplemental 2021** | **Percent of GDP** |
| **Executive branch** | **94.6** | **93.3** | **91.6** | **93.1** | **94.8** | **95.6** | **95.1** | **11.8** |
| Economic sector | 37.9 | 32.5 | 34.4 | 33.1 | 23.5 | 28.4 | 26.2 | 3.2 |
| Social sector | 24.4 | 24.3 | 23.1 | 21.2 | 21.9 | 16.9 | 17.9 | 2.2 |
| Education | 16.9 | 18.0 | 15.9 | 11.6 | 9.4 | 11.4 | 12.9 | 1.6 |
| Health | 5.5 | 4.4 | 4.3 | 7.0 | 10.9 | 4.1 | 3.8 | 0.5 |
| Ministry of Social Affairs | 1.4 | 1.3 | 2.1 | 1.9 | 1.2 | 0.9 | 0.7 | 0.1 |
| Political sector | 16.1 | 16.6 | 15.2 | 14.8 | 13.8 | 15.2 | 16.7 | 2.1 |
| o/w President's Office | 1.0 | 1.0 | 1.1 | 0.9 | 0.9 | 0.8 | 1.2 | 0.2 |
| o/w Prime Minister's Office | 1.5 | 1.5 | 1.4 | 1.3 | 1.0 | 1.0 | 1.2 | 0.1 |
| Cultural sector | 1.4 | 1.4 | 1.3 | 1.5 | 1.0 | 1.3 | 1.8 | 0.2 |
| Unallocated resources | 7.8 | 9.7 | 7.7 | 10.0 | 11.6 | 8.2 | 12.8 | 1.6 |
| Public debt service | 6.9 | 8.9 | 9.8 | 12.5 | 10.1 | 19.3 | 15.1 | 1.9 |
| o/w External | 3.5 | 5.4 | 5.3 | 5.4 | 4.6 | 15.1 | 9.5 | 1.2 |
| o/w Internal | 3.5 | 3.5 | 4.6 | 7.1 | 5.5 | 4.2 | 5.7 | 0.7 |
| Energy subsidies |  |  |  |  | 12.9 | 6.3 | 4.7 | 0.6 |
| **Legislative branch** | **2.6** | **3.5** | **5.0** | **3.4** | **3.1** | **2.0** | **2.1** | **0.3** |
| **Judiciary Branch** | **0.8** | **0.9** | **0.8** | **1.0** | **0.8** | **0.9** | **1.2** | **0.1** |
| **Independent entities** | **2.0** | **2.1** | **2.6** | **2.5** | **1.3** | **1.5** | **1.6** | **0.2** |

Source: MEF and WB staff calculations

1. With a caveat that this 0.8 contraction does not fully factors in the effects of the August 14th earthquake and tropical storm Grace on August 16th in the southern peninsula. [↑](#footnote-ref-2)
2. The legal limit of BRH financing for FY21 would be equivalent to 1.1 percent of GDP. [↑](#footnote-ref-3)
3. February 1st, 2017 budget execution decree. [↑](#footnote-ref-4)
4. Post August 14th earthquake Caribbean Catastrophe Risk Insurance Facility indemnity. [↑](#footnote-ref-5)
5. Subsidies provision in the FY21 revised is set at 0.6 percent of GDP, but our forecast indicates that subsidies to the energy sector will likely reach 2.5 percent of GDP with the fuel sector only receiving about 1.9 percent of GDP. [↑](#footnote-ref-6)
6. Incheon (Korea) Declaration and Framework for Action, May 2015. SDG4: inclusive and equitable quality education and promote lifelong learning opportunities for all. [↑](#footnote-ref-7)