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EBS/83/222

CONFIDENTIAL

October 11, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Haiti - Staff Report for the 1983 Article IV Consultation and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Haiti and a request from Haiti for a stand-by arrangement equivalent to SDR 60 million. A draft decision appears on page 25.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Pujol, ext. 73741.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

HAITI

# Staff Report for the 1983 Article IV Consultation and Request for Stand-By Arrangement

Prepared by the Western Hemisphere Department 1/

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by Eduardo Wiesner and Manuel Guitian

October 7, 1983

## I. Introduction

The 1983 Article IV consultation discussions and review of the current stand-by arrangement with Haiti were held in Port-au-Prince from July 17 to August 4, 1983.2/ Representatives of Haiti in the discussions included the Minister of State for Finance, Economic Affairs and Industry; the Ministers of Commerce, Agriculture and Natural Resources, and Planning; the Governor and other senior officials of the Bank of the Republic; the President of the National Credit Bank; and senior officials of various ministries, government agencies and state enterprises. Also during this period, a new program was negotiated in support of which Haiti is requesting a two-year stand-by arrangement from the Fund (see attached letter dated September 1, 1983 from the Minister of State for Finance, Economic Affairs and Industry and the Governor of the Bank of the Republic of Haiti requesting a stand-by arrangement in an amount equivalent to SDR 60 million).

The program in support of which the new stand-by arrangement is being requested would extend from October 1, 1983 through September 30, 1985. The new arrangement, which would be for an amount equivalent to 174 percent of Haiti's current quota of SDR 34.5 million, would consist of SDR 14.77 million from ordinary resources and SDR 45.23 million from borrowed resources. The phasing of purchases under the stand-by arrangement is set out in Table 1. A waiver of the limitations in Article V, Section 3(b)(iii) of the Articles of Agreement is required.

As of August 31, 1983 the Fund's holdings of Haitian gourdes amounted to SDR 90.1 million, equivalent to 261.2 percent of quota, of which 49.3 percent corresponded to purchases under the compensatory facility,

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1/ A staff team consisting of Mr. Pujol (Head), Mr. Linde, Mr. Hodjera, Mr. Incer and Mr. Brou (all WHD), and Ms. ffrench-Mullen (Secretary-WHD) visited Port-au-Prince from July 17 through August 4 to hold the discussions which provided the basis for this paper. The mission was assisted by Mr. Selby, the Fund resident representative in Haiti.

2/ Haiti has accepted the obligations of Article VIII, Sections 2, 3 and 4, of the Articles of Agreement.

Table 1. Haiti: Projected Purchases and Scheduled Repurchases, August 1, 1983-September 30, 1985

| | | | Operations During Period of Arrangement | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | First Program Year | | | | Second | |
| | Outstanding | Proj. | 1983 | 1984 | | | Program Year | Proj. |
| | August 31, | Sept. 30, | Oct.- | Jan.- | April- | July- | Oct. 1984/ | Sept. 30 |
| | 1983 | 1983 | Dec. | Mar. | June | Sept. | Sept. 1985 | 1985 |
| | | | (In millions of SDRs) | | | | | |
| Purchases | 55.65 | 65.15 | 7.00 | 7.00 | 7.00 | 7.00 | 32.00 | 115.72 |
| Under tranche policies | 38.65 | 48.15 | 7.00 | 7.00 | 7.00 | 7.00 | 32.00 | 105.09 |
| Credit tranches | (15.41) | (19.73) | (3.18) | (3.18) | (3.18) | (3.18) | (2.05) | (32.34) |
| Enlarged access | (12.46) | (17.64) | (3.82) | (3.82) | (3.82) | (3.82) | (29.95) | (62.87) |
| Extended facility | (10.78) | (10.78) | (--) | (--) | (--) | (--) | (--) | (9.88) |
| Compensatory financing | 17.00 | 17.00 | -- | -- | -- | -- | -- | 10.63 |
| Repurchases | | | -- | -- | -- | -- | 9.43 | |
| Under tranche policy | | | -- | -- | -- | -- | 3.06 | |
| Credit tranches | | | (--) | (--) | (--) | (--) | (2.16) | |
| Enlarged access | | | (--) | (--) | (--) | (--) | (--) | |
| Extended facility | | | (--) | (--) | (--) | (--) | (0.90) | |
| Compensatory financing | | | -- | -- | -- | -- | 6.37 | |
| Net purchases | | | 7.00 | 7.00 | 7.00 | 7.00 | 22.57 | |
| Memorandum items | | | | | | | | |
| Total holdings (end of period) | 90.10 | 99.60 | 106.60 | 113.60 | 120.60 | 127.60 | 150.17 | 150.17 |
| (Excluding compensatory facility) | (73.10) | (82.60) | (89.60) | (96.60) | (103.60) | (110.60) | (139.54) | (139.54) |
| (Under credit tranches) | (38.65) | (48.15) | (55.15) | (62.15) | (69.15) | (76.15) | (105.09) | (105.09) |
| Outstanding under Trust Fund (end of period) | 18.04 | 17.93 | 17.93 | 17.15 | 17.15 | 16.12 | 13.36 | 13.36 |
| | | | (In percent of current quota of SDR 34.5 million) 1/ | | | | | |
| Total holdings (end of period) | 261.17 | 288.71 | 308.99 | 329.27 | 349.56 | 369.85 | 435.28 | 435.28 |
| (Excluding compensatory facility) | (211.90) | (239.44) | (259.71) | (280.00) | (306.29) | (320.58) | (404.46) | (404.46) |
| (Under credit tranches) | (112.03) | (139.56) | (159.86) | (180.14) | (200.43) | (220.72) | (304.61) | (304.61) |

Source: International Monetary Fund.

1/ New proposed quota is SDR 44.1 million.

44.7 percent to purchases in the credit tranches, 31.2 percent to purchases under the extended facility, and 36.1 percent to purchases under the policy on enlarged access. Full use of the amounts still available under the current stand-by arrangement would raise the Fund holdings of gourdes to the equivalent of 288.7 percent of quota by September 30, 1983, when the current arrangement expires. The proposed new stand-by arrangement, if fully utilized and taking into account scheduled repurchases, would increase the Fund holdings of Haitian gourdes to 435 percent of quota by the conclusion of the period of the arrangement (404 percent of quota if purchases under the compensatory financing are excluded). Further information on Haiti's relations with the Fund is presented in Appendix I.

The last Article IV consultation with Haiti took place in August-September 1981 and the staff reports (SM/81/228 and SM/81/229) were discussed by the Executive Board on December 23, 1981 (EBM/81/161).

## II. Economic Background and Recent Developments

### 1. Background developments

The economic and financial conditions in Haiti started to deteriorate in FY 1979/80.1/ Despite a strong export performance--largely because of a bumper coffee crop accompanied by record prices in international markets--the deficit in current account of the balance of payments more than doubled and the overall balance of payments registered a deficit of US$12 million, after four years of continuous surpluses (Table 2). The rise in income of the coffee sector boosted tax revenues, but government expenditures rose more than revenue and the overall public sector deficit reached the equivalent of 5.6 percent of GDP, of which 3.3 percent of GDP had to be financed by means other than concessional external aid (Table 3).

Public sector outlays continued to expand at a brisk pace in FY 1980/81, both on current operations and on certain large industrial and commercial projects. But with international coffee prices falling and the coffee crop shrinking, government receipts contracted in absolute terms. As a result, the public sector deficit widened to an unprecedented G 721 million in FY 1980/81, the equivalent of 9-1/2 percent of GDP, of which 6 1/2 percentage points were financed by means other than concessional assistance. To finance this deficit the public sector contracted sizable loans abroad on commercial terms and heavy use was made of central bank credit.

The combination of domestic demand pressures and the weakening of the export sector--which was further aggravated by the world recession--led in FY 1980/81 to a depletion of the official international reserves

1/ The Haitian fiscal year extends from October 1 to September 30.

Table 2. Haiti: Summary Balance of Payments

(In millions of U.S. dollars)

| | Fiscal Year Ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | Est. 1983 | Proj. 1984 |
| Goods and services | -124.7 | -190.3 | -286.2 | -190.0 | -206.9 | -216.7 |
| Trade balance | -109.2 | -154.4 | -263.3 | -148.7 | -175.5 | -182.3 |
| Exports, f.o.b. | (143.9) | (217.9) | (156.2) | (182.0) | (189.4) | (199.2) |
| Coffee | /39.3/ | /90.9/ | /33.1/ | /35.9/ | /56.3/ | /44.8/ |
| Light assembly industry | /56.1/ | /68.0/ | /77.6/ | /84.8/ | /94.0/ | /113.0/ |
| Other | /48.5/ | /59.0/ | /45.5/ | /61.3/ | /39.1/ | /41.4/ |
| Imports, c.i.f. | (253.1) | (372.3) | (419.5) | (330.7) | (364.9) | (381.5) |
| Petroleum products | /34.5/ | /61.4/ | /64.7/ | /51.0/ | /66.3/ | /66.0/ |
| Other | /218.6/ | /310.9/ | /354.8/ | /279.7/ | /298.6/ | /315.5/ |
| Investment income | -13.3 | -14.3 | -13.1 | -14.0 | -15.0 | -18.6 |
| Interest on public debt 1/ | (-4.3) | (-5.6) | (-7.5) | (-10.6) | (-14.3) | (-16.9) |
| Other | (-9.0) | (-8.7) | (-5.6) | (-3.4) | (-0.7) | (-1.7) |
| Travel (net) | 32.2 | 35.9 | 43.8 | 39.5 | 46.1 | 47.8 |
| Other services (net) | -34.4 | -57.5 | -53.6 | -66.8 | -62.5 | -63.6 |
| Transfers | 75.8 | 82.4 | 120.3 | 113.9 | 125.3 | 131.0 |
| Private transfers | 34.1 | 52.0 | 64.8 | 49.7 | 49.7 | 53.0 |
| Public transfers | 41.7 | 30.4 | 55.5 | 64.2 | 75.6 | 78.0 |
| To private sector | (9.8) | (8.9) | (11.9) | (12.2) | (10.2) | (12.2) |
| To public sector | (31.9) | (37.1) | (43.6) | (52.0) | (65.4) | (65.8) |
| Current account balance | -48.9 | -107.9 | -165.9 | -76.1 | -81.6 | -85.7 |
| Capital movements (net) | 55.3 | 88.9 | 109.2 | 56.9 | 75.9 | 93.7 |
| Private sector | 19.3 | 29.9 | 19.5 | 22.0 | 31.7 | 39.2 |
| Direct investment | (12.0) | (13.0) | (8.3) | (13.6) | (13.0) | (15.3) |
| Other medium- and long-term | (9.5) | (19.5) | (12.5) | (16.5) | (19.5) | (21.5) |
| Short-term | (-2.2) | (-2.6) | (-1.3) | (-8.1) | (-0.8) | (2.4) |
| Official capital | 33.4 | 48.3 | 103.1 | 37.6 | 46.5 | 56.5 |
| Multilateral and bilateral | (29.1) | (31.7) | (44.6) | (46.3) | (44.0) | (58.6) |
| Drawings | /30.9/ | /34.0/ | /47.1/ | /49.6/ | /46.7/ | /62.2/ |
| Amortization | /-1.8/ | /-2.3/ | /-2.5/ | /-3.3/ | /-2.7/ | /-3.6/ |
| Commercial credits medium- and long-term | (4.3) | (13.8) | (56.8) | (-4.3) | (-8.2) | (-2.1) |
| Drawings | /8.8/ | /23.0/ | /65.0/ | /4.0/ | /5.5/ | /11.0/ |
| Amortization | /-4.5/ | /-9.2/ | /-8.2/ | /-8.3/ | /-13.7/ | /-13.1/ |
| Of which: changes in publicly guaranteed debt | (--) | (13.2) | (8.1) | (-0.8) | (-1.3) | (-2.1) |
| Changes in short-term commercial debt | (--) | (2.8) | (1.7) | (-4.4) | (10.7) | (--) |
| IMF Trust Fund | 5.8 | 8.0 | -- | -0.1 | -0.6 | -2.0 |
| Errors and omissions | -3.2 | 2.7 | -13.4 | -2.6 | -1.7 | -- |
| *Unrequited earnings* | 7.6 | 6.8 | 1.7 | -- | -- | -- |
| Overall balance (deficit -) | 14.0 | -12.2 | -55.0 | -19.2 | -5.7 | 8.0 |
| Change in net international reserves (increase -) | -14.0 | 12.2 | 34.5 | 18.8 | 26.6 | -8.0 |
| Net use of Fund resources (decrease -) | (-5.2) | (-2.9) | (16.9) | (28.4) 2/ | (26.1) | (29.9) |
| Other (net) (increase) | (-8.8) | (15.1) | (17.6) | (-9.6) | (0.5) | (-37.9) |
| External payments arrears (decrease -) | -- | -- | 20.5 | 0.4 | -20.9 | -- |
| Memoranda items | | | | | | |
| Current account balance as percent of GDP | -4.4 | -7.8 | -11.0 | -4.6 | -4.6 | -4.5 |
| Gross official reserves (end of period) | 54.7 | 40.0 | 19.4 | 35.3 | 25.2 | 60.4 |
| Net international reserves (end of period) | 44.7 | 32.5 | -2.0 | -20.8 | -47.4 | -39.4 |

Sources: Bank of the Republic of Haiti; and Fund staff estimates.

1/ Includes charges on use of Fund credit and interest on short-term debt.
2/ Includes purchase under the compensatory financing facility for SDR 17 million.

Table 3. Haiti: Public Sector Operations

| | Fiscal Year Ended September 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | 1982 | | 1983 | | 1984 |
| | 1979 | 1980 | 1981 | Prog. | Actual | Prog. | Est. | Program |
| | | | | (In millions of gourdes) | | | | |
| General government current account surplus or deficit (-) | 38.5 | -45.3 | -157.9 | -95.3 | -10.2 | -30.0 | 45.5 | 36.0 |
| Public enterprises current account surplus or deficit (-) | 61.2 | 62.1 | 97.2 | 120.0 | 71.0 | 130.0 | 114.0 | 154.0 |
| Operating surplus | (61.2) | (62.1) | (97.2) | (...) | (148.1) | (...) | (143.5) | (154.0) |
| Less: net transfers to general government | (--) | (--) | (--) | (...) | (-75.1) | (...) | (-29.5) | (--) |
| Public sector savings | 99.7 | 16.8 | -60.7 | 24.7 | 60.8 | 100.0 | 159.5 | 190.0 |
| Grants-in-aid | 159.5 | 185.5 | 218.0 | 210.0 | 260.0 | 250.0 | 327.0 | 329.0 |
| Capital expenditure | 480.2 | 572.0 | 886.3 | 654.7 | 733.7 | 775.0 | 797.9 | 872.0 |
| Nonconsolidated public sector | -6.2 | -19.0 | 7.8 | -- | -20.0 | -- | — | -- |
| Overall public sector deficit | -227.2 | -388.7 | -721.2 | -420.0 | -432.9 | -425.0 | -311.4 | -353.0 |
| Net external borrowing | 167.0 | 175.5 | 475.0 | 195.0 | 192.0 | 275.0 | 239.0 | 293.0 |
| Concessional | (145.5) | (158.5) | (223.0) | (195.0) | (231.5) | (275.0) | (220.0) | (293.0) |
| Commercial | (21.5) | (17.0) | (252.0) 1/ | (--) | (-39.5) | (--) | (19.0) | (--) |
| Net domestic borrowing | 60.2 | 213.2 | 246.2 | 225.0 | 240.9 | 150.0 | 72.4 | 60.0 |
| Consolidated Central Bank and BNC | (60.2) | (213.2) | (261.4) | (225.0) | (241.3) | (150.0) | (58.9) | (60.0) |
| Private banks | (--) | (--) | (-15.2) | (--) | (-0.4) | (--) | (13.5) | (--) |
| Memorandum item | | | | | | | | |
| Public sector deficit (program definition) | -81.7 | -230.2 | -498.2 | -225.0 | -201.4 | -150.0 | -91.4 | -60.0 |
| | | | | (In percent of GDP) | | | | |
| General government current account surplus or deficit (-) | 0.7 | -0.7 | -2.1 | -1.1 | -0.1 | -0.3 | 0.5 | 0.4 |
| Public enterprises current account surplus or deficit (-) | 1.1 | 0.9 | 1.3 | 1.4 | 0.9 | 1.2 | 1.3 | 1.6 |
| Public sector savings | 1.8 | 0.2 | -0.8 | 0.3 | 0.7 | 1.0 | 1.8 | 2.0 |
| Grants-in-aid | 2.8 | 2.7 | 2.9 | 2.4 | 3.2 | 2.6 | 3.7 | 3.5 |
| Capital expenditure | 8.6 | 8.2 | 11.7 | 7.4 | 9.0 | 8.0 | 9.0 | 9.5 |
| Overall public sector deficit (-) | -4.1 | -5.6 | -9.5 | -4.7 | -5.3 | -4.4 | -3.5 | -3.7 |
| Net external borrowing | 3.0 | 2.5 | 6.3 | 2.2 | 2.4 | 2.9 | 2.7 | 3.1 |
| Concessional | (2.6) | (2.3) | (3.0) | (2.2) | (2.8) | (2.9) | (2.5) | (3.1) |
| Commercial | (0.4) | (0.2) | (3.3) 1/ | (--) | (-0.4) | (--) | (0.2) | (--) |
| Net domestic borrowing | 1.1 | 3.1 | 3.2 | 2.5 | 2.9 | 1.5 | 0.8 | 0.6 |
| Consolidated central bank and BNC | (1.1) | (3.1) | (3.4) | (2.5) | (3.0) | (1.5) | (0.7) | (0.6) |
| Private banks | (--) | (--) | (-0.2) | (--) | (-0.1) | (--) | (0.1) | (--) |
| Domestic and nonconcessional external financing 2/ | -1.5 | -3.3 | -6.6 | -2.5 | -2.5 | -1.5 | -1.0 | -0.6 |

Sources: Ministry of Finance and Economic Affairs; Ministry of Planning; Bank of the Republic of Haiti; and Fund staff estimates.

1/ Includes G 209 million to finance construction of the Leogane sugar mill.
2/ Referred to as public sector deficit (program definition) in the Letter of Intent.

that had been accumulated in previous years, and as foreign exchange became scarce external payment arrears began to accumulate. In an effort to conserve the increasingly scarce foreign exchange for essential imports, the authorities imposed, for the first time in Haiti, surrender requirements on the export proceeds of certain basic commodities and on private remittances and introduced a number of administrative trade restrictions. As the financial imbalance became more acute, a parallel market for foreign exchange emerged with the gourde being discounted--at one point by as much as 10-12 percent. These developments contributed to a loss of confidence and there was an outflow of speculative capital. The overall balance of payments registered a deficit of US$55 million in FY 1980/81, including some US$20 million in external payment arrears. Economic activity, meanwhile, became quite depressed and Haiti's national income contracted in real terms.

In an attempt to redress this situation, during the course of FY 1981/82 the authorities adopted a stabilization program which was supported by the Fund with a stand-by arrangement in an amount equivalent to SDR 34.5 million (100 percent of quota) (EBS/82/120). This arrangement, which was approved by the Executive Board on August 9, 1982 (EBM/82/103, 8/9/82), extends through September 30, 1983.

This program focused on reducing that portion of the public sector deficit financed by means other than concessional assistance from the equivalent of 6-1/2 percent of GDP in FY 1980/81 to 2-1/2 percent in FY 1981/82 and 1-1/2 percent in FY 1982/83. Emphasis was placed on the portion of the public sector deficit financed by nonconcessional credit because the expenditures financed with concessional assistance involve mostly investment expenditures, whose rate of disbursement depends largely on the development agencies abroad, that are financed on such soft terms that the servicing of the resulting obligations generates relatively little pressure on the international reserves of the country. To help achieve its objectives, the program called for drastic cuts in government spending. Treasury expenditures were to be reduced by about 20 percent in FY 1981/82 from the levels of FY 1980/81, and by an additional 6 percent in the fiscal year ended September 30, 1983. To increase revenue, the Government introduced a 7 percent general sales tax. However, because of the weakness of the economy, the difficulties customarily faced in the introduction of a new tax, and the fact that this tax was to replace a number of existing excise taxes and specific duties, only a moderate increase in revenue was expected in the short run from this measure.

Improvement in the public finances was expected to increase the availability of credit to the private sector and to reduce pressures on the balance of payments. The objective was to lower the overall balance of payments deficit to US$25 million in FY 1981/82 and US$10 million in FY 1982/83, while completely eliminating external payment arrears by the end of the program period.

2. Performance under the current financial program

Haiti's performance under the current financial program has been quite satisfactory; the quantitative performance criteria under the stand-by arrangement were all being met as of the end of August 1983 (Table 4) and there has been a marked improvement in the fiscal position and the balance of payments. Haiti's purchases from the Fund under the arrangement have amounted to SDR 25 million to date, and an additional SDR 9.5 million is scheduled to be purchased in September 1983.

Fiscal performance has been particularly encouraging. The monthly ceilings that had been established on Treasury expenditure have been strictly adhered to since May 1982. The use of domestic and nonconcessional external financing by the public sector from the beginning of the current fiscal year (October 1982) through August 1983 was only G 108 million, compared with a program limit of G 129 million. For FY 1982/83 as a whole, the limit on the domestic and nonconcessional external borrowing had been set at G 150 million, and on present trends it is expected that it will remain considerably below this limit.

The better-than-expected fiscal outcome has been mainly related to a buoyant revenue performance. The implementation of the new sales tax and the efforts to improve overall tax administration seem to be paying off handsomely in terms of revenue growth. Government revenue, which had been projected to rise by less than 5 percent in FY 1982/83, is increasing at an annual rate of over 10 percent, and total government revenue may surpass budget projections by as much as G 80 million. The operations of the public enterprises also have developed favorably. The latest data available suggest that, excluding the new Leogane sugar mill, the public enterprises as a group are likely to be approximately in balance in their overall position in FY 1982/83.

The significant strengthening in the public finances has facilitated the achievement of the credit targets. The program had contemplated a 14 percent expansion in the net domestic assets of the monetary authorities in FY 1982/83. The increase through the first 11 months of the current fiscal year ran at about 13 percent on an annual basis and the program limit as of August 1983 was observed with a margin of G 4 million. The monetary authorities' net international reserves declined by some US$28 million in the first eleven months of FY 1982/83, but this reduction is largely related to the repayment of outstanding external payments arrears accumulated outside the banking system which, in accordance with the schedule agreed under the program, have been kept at no more than US$10 million since the end of March 1983.

The growth in banking system system liabilities to the private sector has been roughly on target. Earlier in the year, however, the private banks' credit expansion to the private sector was faster than expected, reflecting in part the rise in the demand for credit by the private sector associated with an incipient recovery in economic

Table 4. Haiti: Current Stand-By Arrangement Quantitative Performance Criteria

(In millions of gourdes; end of period)

| | FY 1981/82 | | | | | | | FY 1982/83 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. 1/ | Sept. |
| Treasury expenditure | 91 | 83 | 68 | 72 | 68 | 76 | 76 | 71 | 79 | 75 | 75 | 75 | 75 | 75 | 73 | 78 | 75 | 75 | |
| Cumulative from September 30 2/ | 519 | 602 | 670 | 742 | 810 | 886 | 962 | 71 | 150 | 225 | 300 | 375 | 450 | 525 | 598 | 676 | 751 | 826 | |
| Less: concessional financing (cumulative from September 30) 2/ | -10 | -10 | -10 | -14 | -14 | -14 | -14 | -- | -- | -- | -- | -2 | -2 | -2 | -2 | -2 | -2 | -2 | |
| Adjusted actuals | 509 | 592 | 660 | 728 | 796 | 872 | 948 | 71 | 150 | 225 | 300 | 373 | 448 | 523 | 596 | 674 | 748 | 824 | |
| Ceiling | ... | ... | 670 | 740 | 810 | 880 | 950 | 75 | 150 | 225 | 300 | 375 | 450 | 525 | 600 | 675 | 750 | 825 | 900 |
| Excess (-), or margin | | | 10 | 12 | 14 | 8 | 2 | 4 | -- | -- | -- | 2 | 2 | 2 | 4 | 1 | 1 | 1 | |
| *Use of domestic and nonconcessional external financing by the public sector (cumulative from September 30, 1981) 3/* | | | | | | | | | | | | | | | | | | | |
| Net domestic bank credit to the public sector | 138 | 174 | 186 | 182 | 194 | 199 | 241 | 232 | 221 | 263 | 245 | 256 | 245 | 222 | 258 | 261 | 261 | 294 | |
| Net foreign commercial borrowing (cumulative from September 30, 1981) | ... | -12 | -12 | -14 | -26 | -31 | -40 | -24 | -26 | -28 | -19 | 5 | -9 | 6 | 5 | 22 | 14 | 14 | |
| Public sector deficit (prog. definition) 2/ | | 162 | 174 | 168 | 168 | 168 | 201 | 208 | 195 | 235 | 226 | 261 | 236 | 228 | 263 | 283 | 295 | 308 | |
| Ceiling | ... | ... | ... | 190 | 195 | 211 | 225 | 229 | 244 | 248 | 261 | 275 | 288 | 294 | 306 | 318 | 330 | 354 | 375 |
| Excess (-), or margin | | | | 22 | 27 | 43 | 24 | 21 | 49 | 13 | 35 | 14 | 52 | 66 | 43 | 35 | 35 | 56 | |
| Net domestic assets of the monetary authorities (stock outstanding at end of period) 4/ | 1,203 | 1,234 | 1,256 | 1,253 | 1,268 | 1,278 | 1,323 | 1,310 | 1,330 | 1,373 | 1,339 | 1,357 | 1,350 | 1,361 | 1,366 | 1,404 | 1,416 | 1,454 | |
| Official arrears (change from (March 31, 1981) | | -- | 1 | 3 | 4 | -2 | -5 | -7 | -7 | -8 | -8 | -8 | -22 | -22 | -22 | -2 | 2 | 2 | |
| Adjusted actuals | | 1,230 | 1,257 | 1,250 | 1,272 | 1,276 | 1,318 | 1,303 | 1,323 | 1,365 | 1,331 | 1,349 | 1,328 | 1,339 | 1,344 | 1,402 | 1,418 | 1,456 | |
| Ceiling | ... | ... | ... | 1,240 | 1,260 | 1,290 | 1,310 | 1,315 | 1,335 | 1,345 | 1,350 | 1,365 | 1,380 | 1,385 | 1,400 | 1,415 | 1,430 | 1,460 | 1,490 |
| Excess (-), or margin | | | | -10 | -12 | 14 | -8 | 12 | 12 | -20 | 19 | 16 | 52 | 46 | 56 | 13 | 12 | 4 | |

Sources: Ministry of Finance and Economic Affairs; Bank of the Republic of Haiti; and Fund staff estimates.

1/ Preliminary.
2/ September 1981 for FY 1981/82 and September 1982 for FY 1982/83.
3/ This concept corresponds to the nonconcessional financing received by the public sector and is defined as the sum of (a) net credit from the domestic banking system to the public sector; (b) net foreign financing of the public sector on nonconcessional terms; and (c) domestic borrowing by the public sector outside the banking system.
4/ Defined as the difference between (a) the sum of the monetary authorities' liabilities to the private sector and their net liabilities to private commercial banks; and (b) the monetary authorities net international reserves, including foreign liabilities related to official external payment arrears.

activity. To finance this credit expansion, the private banks began to withdraw excess reserves maintained with the central bank. In April 1983, the authorities raised the legal reserve requirements by 4 percentage points to mop up some liquidity and to help assure achievement of the balance of payments target. In addition, the central bank called back advances granted to the National Credit Bank (the state-owned commercial bank which previously had been part of the central bank)1/ to curtail credit expansion.

It now appears that the overall balance of payment outcome in FY 1982/83 may be somewhat better than the US$10 million deficit originally targeted under the program, even after full elimination of external arrears. The improvement of the public finances together with the tightening of credit policies appear to have eased the pressures on the balance of payments, and the discount on the gourde in the parallel market has come down markedly in recent months. In the official market the Haitian gourde continues to be pegged to the U.S. dollar at the rate of G 5 per U.S. dollar.2/

Economic activity, which had declined over the past two years, is showing signs of recuperation and Haiti is likely to register some growth in FY 1982/83 (Table 5). The prospects for the next two years are for a continuation of this trend, as the U.S. recovery is likely to have a positive impact on activity in the light manufacturing assembly industry. Price movements in Haiti tend to follow fairly closely those in the United States, and the slowdown in inflation in the United States has been reflected in a reduction of inflation in Haiti in 1983.

## III. The Financial Program for 1984 and 1985

### 1. Outline of the new financial program

Although the Haitian authorities have reason to be pleased with the significant turnaround that the current program has brought about in the financial and balance of payments situation, they recognize that

---

1/ Work on the final separation of the accounts of these two banks has been progressing and a final audit of the accounts is planned for the end of this fiscal year (September 30, 1983).

2/ Real effective exchange rate calculations indicate that the gourde has appreciated in real terms against a trade-weighted package of currencies of Haiti's partners during the last four years (Chart 1 and Table 10). This appreciation, however, has been mostly a consequence of the appreciation of the U.S. dollar, to which the gourde has been pegged for the last 30 years, and reversed an equivalent real effective depreciation that had taken place from 1977 to 1979; in fact the index of the real effective exchange rate in mid 1983 was at about the same level as it was in late 1977, a period characterized by a balance of payments surplus.

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Table 5. Haiti: National Income Statistics

| | Fiscal Year Ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | Est. 1983 | Proj. 1984 |
| (In millions of gourdes, except as indicated) | | | | | | |
| GDP at current market prices | 5,597 | 6,939 | 7,557 | 8,161 | 8,820 | 9,500 |
| Rate of change in real GDP | 7.3 | 6.4 | -0.9 | -1.3 | 1.0 | 3.0 |
| Rate of change in GDP deflator | 4.3 | 16.5 | 9.9 | 9.4 | 7.0 | 4.6 |
| Rate of change in nominal GDP | 11.9 | 24.0 | 8.9 | 8.0 | 8.1 | 7.7 |
| Less: net factor payment abroad | -67 | -71 | -65 | -70 | -71 | -81 |
| GNP at market prices | 5,530 | 6,868 | 7,492 | 8,091 | 8,749 | 9,419 |
| Plus: net use of foreign savings (= current account deficit) | 245 | 539 | 830 | 381 | 408 | 428 |
| Of which: net official capital | (167) | (242) | (515) | (188) | (232) | (282) |
| Plus: net transfer receipts from abroad | 379 | 412 | 601 | 569 | 626 | 655 |
| Gross domestic expenditure | 6,154 | 7,819 | 8,923 | 9,041 | 9,783 | 10,502 |
| Consumption | 5,105 | 6,557 | 7,546 | 7,892 | 8,431 | 8,942 |
| General government | 532 | 736 | 817 | 835 | 814 | 914 |
| Private (residual) | 4,573 | 5,821 | 6,729 | 7,057 | 7,617 | 8,028 |
| Gross domestic investment | 1,049 | 1,262 | 1,377 | 1,149 | 1,352 | 1,560 |
| Public sector | 480 | 572 | 887 | 734 | 798 | 872 |
| Private sector and inventory changes | 569 | 690 | 490 | 415 | 554 | 688 |
| Gross national savings | 425 | 311 | -54 | 199 | 318 | 477 |
| Public sector | 100 | 17 | -61 | 61 | 159 | 190 |
| Private sector | 325 | 294 | 7 | 138 | 159 | 287 |
| (In percent of GDP) | | | | | | |
| Consumption | 91.2 | 94.5 | 99.8 | 96.7 | 95.6 | 95.2 |
| General Government | 9.5 | 10.6 | 10.8 | 10.2 | 9.2 | 9.6 |
| Private sector | 81.7 | 83.9 | 89.0 | 86.4 | 86.4 | 84.5 |
| Gross domestic investment | 18.7 | 18.1 | 18.2 | 14.1 | 15.3 | 16.4 |
| Public sector | 8.6 | 8.2 | 11.7 | 9.0 | 9.0 | 9.2 |
| Private sector and inventory changes | 10.1 | 9.9 | 6.5 | 5.1 | 6.3 | 7.2 |
| Net use of foreign savings | 4.3 | 7.7 | 11.0 | 4.7 | 4.6 | 4.5 |
| Of which: net official capital | 3.0 | 3.5 | 6.8 | 2.3 | 2.6 | 3.0 |
| Net transfer receipts from abroad | 6.8 | 5.9 | 7.9 | 7.0 | 7.1 | 6.9 |
| Gross national savings | 7.6 | 4.5 | -0.7 | 2.4 | 3.6 | 5.0 |
| Public sector | 1.8 | 0.2 | -0.8 | 0.7 | 1.8 | 2.0 |
| Private sector | 5.8 | 4.3 | 0.1 | 1.7 | 1.8 | 3.0 |

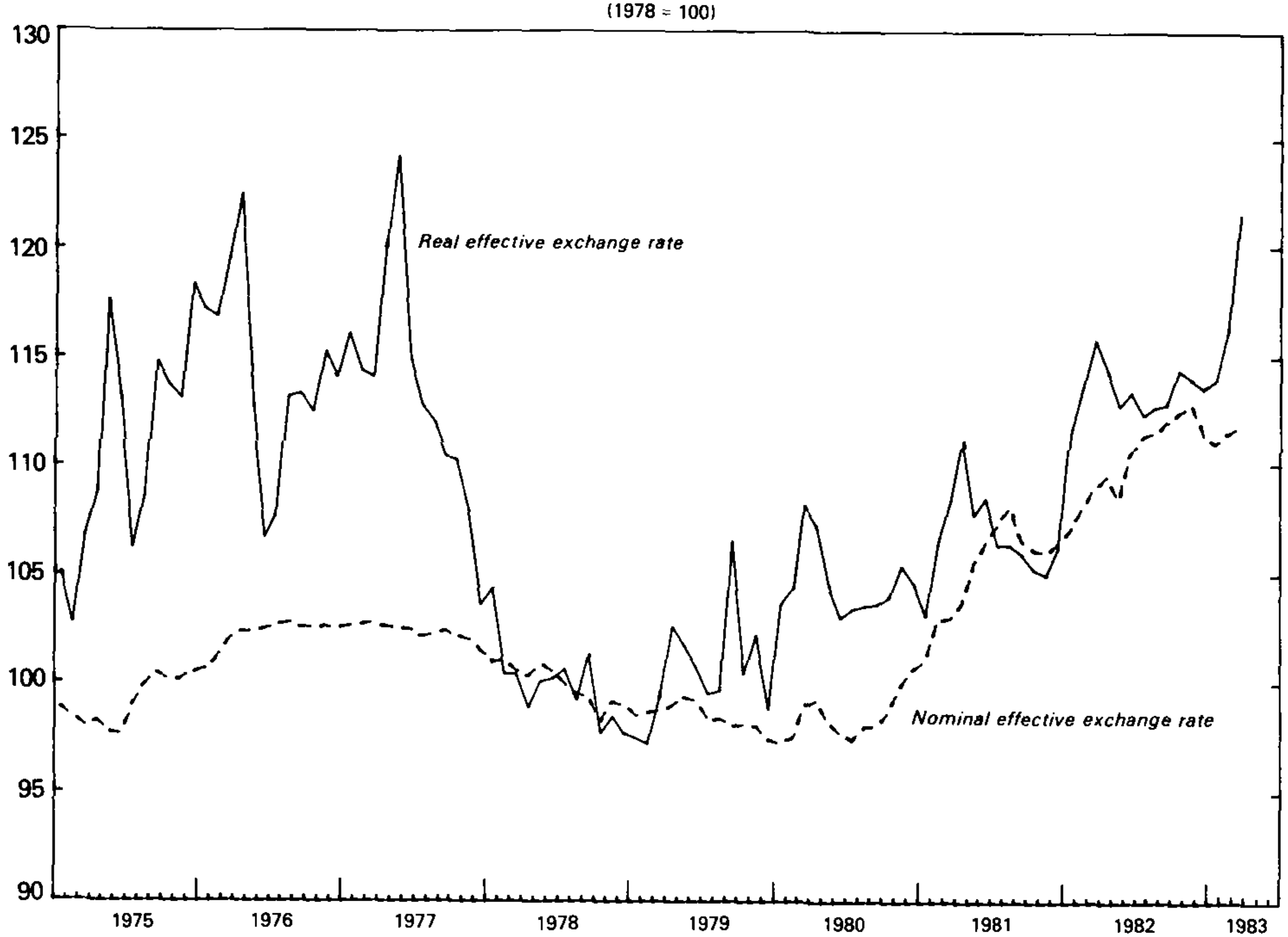
Sources: Bank of the Republic of Haiti; Institute of Statistics; and Fund staff estimates.

CHART 1

HAITI

## REAL AND NOMINAL EFFECTIVE EXCHANGE RATES[1]

(1978 = 100)




[1] Trade weighted indices. Increases reflects appreciation of the Haitian gourde.

Haiti's balance of payments remains very weak and highly vulnerable to adverse external developments and sudden changes in weather conditions. Currently, the level of gross official international reserves is equivalent to only some three weeks of imports. The authorities believe that there is a continued need for cautious financial policies in the period ahead in order to achieve the necessary strengthening of the economy, and would like to maintain a continuous financial relationship with the Fund while this effort is under way. The Haitian authorities have indicated their preference for a two-year stand-by arrangement because it would provide a more appropriate framework and firmer evidence of support for the type of administrative fiscal reforms that they are planning to implement under the new program.

Foreign donors, who for a time had considered to cut back sharply the flow of financial assistance to Haiti because of their concern with the poor economic management, are aware of the progress achieved in the past year and a half. Several of them have indicated their readiness to increase substantially their development assistance, provided that economic and financial policies are developed within the framework of a medium-term horizon and supported by a financial arrangement with the Fund. The increased concessional assistance from abroad will allow Haiti to increase its development expenditures next year without impinging on the overall balance of payments result. At the same time, there will be some need for increasing expenditures in connection with the maintenance of those development projects that come on stream, and the Haitian Government should be prepared to meet at least some of these additional expenditures out of the growth of tax revenues.

The new program seeks a strenghtening of Haiti's international reserve position, and its main thrust is the consolidation of the gains achieved in improving the public finances through full implementation of a number of fiscal reforms. These reforms, which have been suggested in the past by various Fund fiscal experts assigned to Haiti,1/ include the introduction of a comprehensive "fichier fiscal" information system to facilitate cross-checking among the new sales tax records, customs returns, and corporate and individual tax returns; the strengthening of the tax assessment procedures for various taxes; the simplification of the appeal procedures in cases of tax delinquency; and the reformulation of the accounting and expenditure control procedures of the Government. On the strength of the new sales tax introduced last year and the implementation of the above reforms, it is expected that government revenue will continue to show considerable buoyancy. This would permit to increase expenditures while maintaining domestic and nonconcessional external borrowing below 1 percent of GDP. The increase

1/ Currently the Fiscal Affairs Department has two experts in Haiti working with the authorities the in introduction of the new sales tax and the reform of the government accounting system. The authorities have indicated their desire that this technical assistance continue and be expanded in the future.

in expenditures contemplated under the new program would go mainly to cover maintenance costs and counterpart funds associated with the development projects.

The monetary program is designed to complement the fiscal program; it will include a set of ceilings on the net domestic assets of the consolidated accounts of the Central Bank and the National Credit Bank based on the target to increase the net international reserves by at least US$8 million in FY 1983/84 and by a similar amount in FY 1984/85. The Fund resources made available under this program may be used, to build up the gross foreign reserve position of the central bank, or be kept undrawn as a secondary line of reserves to strengthen confidence. By the end of the second program year it is expected that gross foreign reserves would be at a level equivalent to about two-and-one-half to three months of imports, a level similar to that maintained by Haiti before it experienced a deterioration in its balance of payments.

It is the aim of the new program to help foster a reactivation of economic activity. The authorities believe that this can best be achieved by concentrating the country's development efforts in the completion of ongoing investment projects that have received the support of multilateral development agencies. To this end the financial and fiscal policies in the years ahead are designed to achieve the mobilization of additional domestic savings and to channel more of the financial resources of the public sector towards covering the maintenance costs associated with such projects and providing the necessary counterpart funds for their completion.

2. Performance criteria

The new program will have as performance criteria: (1) a set of quarterly ceilings on the cumulative outlays of the Treasury (see paragraph 8 and Table 1 of the letter of intent); (2) a set of quarterly ceilings on the domestic and nonconcessional external financing received by the public sector (referred to as "public sector deficit" in paragraph 10 and Table 2 of the letter of intent); (3) a set of ceilings on the net domestic assets of the consolidated balance sheets of the central bank (BRH) and the National Credit Bank (BNC) (see paragraph 11 and Table 3 of the letter of intent); (4) a limit of US$12 million on public sector foreign borrowing with maturities of less than 12 years (paragraph 14 of the letter of intent); (5) a review before October 25, 1984 in order to reach understandings with the Fund on the financial policies to be followed in the second year of the arrangement (paragraph 17 of the letter of intent); and (6) the usual understandings regarding the exchange practices and restrictions on imports for balance of payments reasons (paragraph 16 of the letter of intent). The letter also includes the usual consultation clauses. Table 6 summarizes the program's quantitative performance criteria.

Table 6. Haiti: Proposed Stand-By Arrangement
Quantitative Performance Criteria

| | 1983 | 1984 | | |
|---|---|---|---|---|
| | Oct.1-Dec. 31 | Jan. 1-Mar. 31 | April 1-June 30 | July 1 - Sept. 30 |
| | (In millions of gourdes) | | | |
| Treasury outlays 1/ (cumulative from beginning of fiscal year) | 250 | 505 2/ | 760 2/ | 1,010 2/ |
| Domestic and nonconcessional external financing of the public sector 3/ (cumulative from the beginning of fiscal year) | 5 | 15 | 25 | 60 |
| Net domestic assets of the consolidated balance sheet of the central bank and the National Credit Bank (stock outstanding) | 1,510 | 1,525 | 1,540 | 1,575 |
| Net domestic assets of the National Credit Bank (cumulative change since the beginning of fiscal year)4/ | 31 | 26 | 31 | 35 |
| | (In millions of U.S. dollars) | | | |
| Contracting and/or guaranteeing commercial debt of less than 12 years maturity (cumulative from beginning of fiscal year) | 12 | 12 | 12 | 12 |

Sources: Haitian authorities; and Fund staff estimates.

1/ Excludes Treasury outlays financed with foreign concessional loans.

2/ The expenditure ceilings for these quarters may be increased, overall, by the equivalent of two thirds of the cumulative excess in collections from those targeted in the previous quarters, or, conversely, be reduced by an amount equivalent to the total cumulative shortfall in revenue in the previous quarters.

3/ Defined as the sum of: (a) net credit from the domestic banking system to the public sector; (b) net foreign financing of the public sector other than that covered by multilateral and bilateral development agencies; and (c) domestic borrowing by the public sector outside the banking system.

4/ Subject to consultation with the Managing Director. Defined as the difference between (a) the deposit liabilities to the private sector of the BNC plus its net claims on the central bank; and (b) the net foreign asset position of the BNC, including any unremitted collections abroad as a foreign liability.

In the case of the ceiling on the cumulative outlays of the Treasury, an element of flexibility has been introduced by allowing for an adjustment in the ceiling of the last three quarters of the program year to the extent that the cumulative revenue performance is different from the one projected under the program. Should revenue fall below projections, the expenditure ceilings for those quarters would be lowered by the full amount of the shortfall; should it exceed projections, the expenditure ceilings would be increased by two thirds of the cumulative excess in collections.

In addition to the performance criteria discussed above, the program introduces a new set of ceilings on the net domestic assets of the National Credit Bank (BNC) (see paragraph 12 and Table 4 of the letter of intent). The process of separating the operations of the BNC from those of the central bank has been a long and complicated one. The authorities are convinced of the importance of completing such separation and of transferring responsibility for public sector operations from the BNC to the central bank, except for those operations in which the BNC would clearly be acting as an agent for the central bank under specific instructions. Because there are still some accounts which have to be settled between the two banks, and the rules on the future financial relationships between the central bank and the BNC have yet to be completely defined, the authorities considered it useful to introduce a set of ceilings on the net domestic assets of the BNC to avoid pressures on the the central bank. In view of the lack of experience with the operations of the BNC under the new rules, it was decided that this particular ceiling should not be a performance criterion; its nonobservance would give rise to consulations between the Haitian authorities and the management of the Fund so as to find solutions to the problems that might arise in the event of departures from these ceilings.

## IV. Summary of Policy Discussions

### 1. Fiscal policy

The authorities emphasized the importance they attach to the achievement of a strenghtening of the public finances. They noted that the policies pursued since the middle of FY 1981/82 helped to arrest the deterioration of the country's financial situation. The new financial program was, therefore, designed to consolidate the gains achieved so far, while strengthening the administrative capacity of revenue of collecting units and expenditure controls.

The recovery of tax revenue has been an important element in the improvement of the public finances over the last year. Behind this strong performance were the various reforms introduced in the tax system over the past couple of years. These included the passage of a new income tax law, the adoption of a reference price system for the valuation of coffee export proceeds, the establishment of a valuation system in the customs service to allow for the assesment of import duties on an ad valorem basis, and the introduction of the new 7 percent general sales tax. This last measure, whose implementation only started during the course of FY 1982/83, is expected to give an important boost to government receipts in FY 1983/84.

In an effort to raise additional revenues in the next fiscal year, the Government intends to extend the general sales tax to certain services--such as local telephone calls and cable television--which had not been covered by the original sales tax legislation and has recently introduced a new tax on mining activities and adjusted several nontax fees. The Government is also engaged in a program to strengthen tax administration. In this regard, assistance is being provided by other countries for the training of 75 customs officers and 45 auditors, and for the introduction of electronic computing facilities. Also, steps have been taken to strengthen the hand of the Director of Internal Revenue in enforcing collections, including the passage of a new law which simplifies the procedures in establishing tax assessments and handling tax appeals. The new law gives the Internal Revenue Service the power to attach liens on the properties of delinquent taxpayers. In addition, a comprehensive tax information system is being developed to facilitate cross-checking among the sales tax records, the custom declarations, and the corporate and individual tax returns. On the basis of these reforms and of the expanded coverage of existing taxes, it is expected that Treasury receipts will reach G 950 million, or the equivalent of 10 percent of GDP, in FY 1983/84, compared with 9-1/2 percent in FY 1982/83 (Table 7).

The rise in government revenue in FY 1983/84 should both cover a moderate growth in current expenditures and increase the availability of funds required as counterpart for the investment projects financed with the assistance of multilateral and bilateral development agencies. The maintenance of the quarterly limits on Treasury outlays should assist in keeping total spending under adequate control. The authorities noted that in the past they had shown their willingness and ability to reduce government expenditures as necessary, and indicated that they would be prepared to do so again in the future if the need arose.

On the basis of the current revenue and expenditure projections, the authorities expect that the deficit of the Central Government to be financed out of central bank resources or from commercial credits will not exceed G 60 million in FY 1983/84. Since the authorities expect that the overall financial position of the public enterprises and the rest of the public sector will be in balance, they have decided to limit the access of the overall public sector to credit other than that covered by multilateral and bilateral concessional assistance to no more than G 60 million during FY 1983/84.

Table 7. Haiti: Treasury Operations 1/

(In millions of gourdes)

| | Fiscal Year Ended September 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | 1982 | | 1983 | | 1984 |
| | 1979 | 1980 | 1981 | Program | Actual | Program | Est. | Program |
| Treasury revenue | 570.1 | 691.1 | 659.8 | 725.0 | 749.3 | 750.0 | 830.0 | 950.0 |
| Income taxes | 78.4 | 88.0 | 115.8 | 122.0 | 123.3 | 132.0 | 144.0 | 159.0 |
| Excise taxes | 59.5 | 69.6 | 115.0 | ... | 151.1 | 143.0 | 158.0 | 178.0 |
| General sales tax | -- | -- | -- | -- | -- | -- | 90.0 | 150.0 |
| Coffee export tax | 50.3 | 116.3 | 42.5 | 45.0 | 45.6 | 57.5 | 62.0 | 48.0 |
| Tax on bauxite | 46.5 | 43.1 | 3.2 | 25.0 | 33.8 | -- | -- | -- |
| Import duties and fees | 195.9 | 239.4 | 236.7 | ... | 206.5 | 201.5 | 214.0 | 225.0 |
| Other | 139.5 | 134.7 | 146.6 | ... | 189.0 | 216.0 | 162.0 | 190.0 |
| Treasury outlays | 590.4 | 901.3 | 1,190.6 | 960.0 | 938.1 | 900.0 | 900.0 | 1,010.0 |
| Current | 531.6 | 736.4 | 817.7 | 811.1 | 834.6 | 780.0 | 814.0 | 914.0 |
| Capital | 58.8 | 164.9 | 372.9 | 148.9 | 103.5 | 120.0 | 86.0 | 96.0 |
| Treasury's surplus or deficit (-) | -20.3 | -210.2 | -530.8 | -235.0 | -188.8 | -150.0 | -70.0 | -60.0 |
| Concessional financing (net) 2/ | -- | -- | 27.5 | 10.0 | 14.0 | -- | 2.0 | -- |
| Nonconcessional financing 3/ | 20.3 | 210.2 | 503.3 | 225.0 | 174.8 | 150.0 | 68.0 | 60.0 |
| Domestic financing (net) | 22.3 | 214.7 | 282.3 | 225.0 | 182.3 | 150.0 | 62.5 | 60.0 |
| Consolidated Central Bank and BNC | (22.3) | (214.6) | (297.5) | (225.0) | (182.2) | (150.0) | (49.0) | (60.0) |
| Private banks | (--) | (0.1) | (-15.2) | (--) | (0.1) | (--) | (13.5) | (--) |
| External commercial borrowing (net) | -2.0 | -4.5 | 221.0 4/ | -- | -7.5 | -- | 5.5 | -- |
| Memorandum items | | | | | | | | |
| Treasury expenditure (program definition) 5/ | 590.4 | 901.3 | 1,163.1 | 950.0 | 924.1 | 900.0 | 899.0 | 1,010.0 |
| Nonconcessional financing as percent of GDP | 0.4 | 3.0 | 6.7 | 2.5 | 2.1 | 1.5 | 0.8 | 0.6 |
| Treasury's revenue as percent of GDP | 10.2 | 9.9 | 8.7 | 8.9 | 9.2 | 8.5 | 9.4 | 10.0 |

Sources: Ministry of Finance and Economic Affairs; central bank (Bank of the Republic of Haiti); and Fund staff estimates.

1/ The coverage of the Treasury's operations presented in this table excludes outlays financed with concessional assistance other than for budget support.
2/ For budget support only; excludes project financing from international development agencies, as well as the outlays associated with these credits.
3/ Program definition of Central Government deficit.
4/ Includes loan of G209 million to finance construction of the Leogane Sugar mill.
5/ Excludes Treasury outlays financed with concessional budget support loans.

## 2. Monetary policy

The limitation on the access of the public sector to domestic bank credit is expected to facilitate monetary management and to assure a reasonable availability of credit to the private sector, while providing for an increase in the net international reserves of the central bank of some US$8 million in FY 1983/84 (Table 8). To keep total credit expansion to a rate consistent with the balance of payments objective, the increase in net domestic assets of the combined operations of the central bank (BRH) and the National Credit Bank (BNC) has been subject to a set of ceilings. Moreover, for the operations of the banking system as a whole to remain consistent with the program, measures are being taken to ensure that all commercial banks, including the BNC, are in full compliance at all times with their legal reserve requirements.

For some time now, the authorities have been engaged in a project to separate the operations of the National Credit Bank (BNC) from those of the central bank. Prior to 1979 these two banks were a single institution. The process of separation of the accounts has as its ultimate goal the concentration of all public sector operations in the central bank, while leaving all commercial type operations to the BNC. Although several important steps already have been implemented in the process of separating the accounts, a review of balance sheets of these two banks by an independent auditing firm has revealed a large number of nonperforming assets in the BNC that weaken its capacity to act as an effective commercial bank.1/ Some of these assets stem from old operations with public sector related institutions, while others relate to loans to the private sector that have proven to be uncollectible. Similarly, the accounts of the central bank include under unclassified assets a number of old claims on the public sector which have never been properly regularized. The authorities are aware that, if a sound domestic financial market is to be preserved in Haiti and confidence is to be maintained among depositors, a state-owned commercial bank (such as the BNC) must have a strong balance sheet and its operations should be subject to the same rules and regulations as applied to other commercial banks operating in Haiti. To capitalize the BNC adequately and to regularize existing obligations, the Government will be issuing a special 20-year bond 2/ to replace a number of the bank's outstanding claims; in the future the BNC will not be authorized to extend credit to the public sector, and for any other commercial operation involving the public sector (such as the opening of letters of credit abroad) the BNC will act only under instructions from the central bank. The public sector debt to the central bank is to be

---

1/ An external audit of the BNC is to take place on the position as of September 30, 1983.

2/ These bonds will have a 10-year grace period and accordingly will have no immediate impact on public sector outlays or on the liquidity of the BNC, other than that arising from the payment of the interest that they earn.

Table 8. Haiti: Summary Accounts of the Banking System

(In millions of gourdes)

| | September 30 | | | | September 30 | | |
|---|---|---|---|---|---|---|---|
| | | | | | 1983 Proj. | | |
| | 1979 | 1980 | 1981 | 1982 | Before Bond Issue | After Bond Issue 1/ | 1984 Program |
| **I. Consolidated Accounts BRH-BNC** | | | | | | | |
| Net international reserves | 223.4 | 162.6 | -9.9 | -103.8 | -237.0 | -244.0 | -204.0 |
| Foreign assets | 273.5 | 199.8 | 96.8 | 176.4 | 133.0 | 126.0 1/ | 315.0 |
| Foreign liabilities | -50.1 | -37.2 | -106.7 | -280.2 | -370.0 | -370.0 | -519.0 |
| Net domestic assets | 571.9 | 785.7 | 1,101.7 | 1,348.0 | 1,468.0 | 1,475.0 | 1,575.0 |
| Net claims on public sector 2/ | 364.7 | 577.9 | 839.3 | 1,080.7 | 1,139.6 | 1,381.0 1/ | 1,441.0 |
| IMF Trust Fund | -81.6 | -120.3 | -105.9 | -104.3 | -97.0 | -97.0 | -87.0 |
| Credit to commercial banks | 42.4 | 22.7 | 34.4 | 24.9 | 39.0 | 39.0 | 39.0 |
| Credit to private sector and other unclassified accounts (net) | 246.4 | 305.4 | 333.9 | 346.8 | 386.4 | 152.0 1/ | 182.0 |
| Liabilities to private commercial banks | 209.3 | 327.1 | 369.9 | 418.8 | 341.0 | 341.0 | 366.0 |
| Cash in vaults | 18.3 | 32.1 | 33.7 | 28.9 | 32.0 | 32.0 | ... |
| Reserve deposits | 191.0 | 295.0 | 336.2 | 389.9 | 309.0 | 309.0 | ... |
| Of which: free reserves | (10.3) | (80.3) | (86.7) | (124.7) | (--) | (--) | (--) |
| Liabilities to private sector | 586.0 | 621.2 | 721.9 | 825.4 | 890.0 | 890.0 | 1,005.0 |
| Currency in circulation | 342.4 | 341.2 | 399.6 | 486.3 | 535.0 | 535.0 | 605.0 |
| Currency issue | (360.7) | (373.3) | (433.3) | (515.2) | (567.0) | (567.0) | (...) |
| Less: cash in vault | (-18.3) | (-32.1) | (-33.7) | (-28.9) | (-32.0) | (-32.0) | (...) |
| Total deposits | 243.6 | 280.0 | 322.3 | 339.1 | 355.0 | 355.0 | 400.0 |
| Demand deposits | (87.3) | (97.2) | (127.8) | (122.9) | (100.0) | (100.0) | (115.0) |
| Savings deposits | (99.5) | (116.9) | (118.5) | (125.3) | (139.0) | (139.0) | (...) |
| Time deposits and other | (61.8) | (65.9) | (76.0) | (90.0) | (116.0) | (116.0) | (...) |
| **II. Banking System** | | | | | | | |
| Net foreign assets | 195.1 | 147.3 | -18.8 | -72.3 | -202.0 | -209.0 1/ | -180.0 |
| Net domestic assets | 1,182.0 | 1,492.2 | 1,874.5 | 2,134.1 | 2,387.0 | 2,394.0 | 2,575.0 |
| Net claims on public sector (net) | 378.8 | 592.0 | 838.2 | 1,079.1 | 1,151.5 | 1,392.0 1/ | 1,452.0 |
| Credit to private sector and other net unclassified accounts (net) | 803.2 | 900.2 | 1,036.3 | 1,055.0 | 1,235.5 | 1,002.0 1/ | 1,123.0 |
| Liabilities to private sector | 1,377.1 | 1,639.5 | 1,855.7 | 2,061.9 | 2,185.0 | 2,185.0 | 2,395.0 |
| Money and quasi-money (M2) | 1,347.5 | 1,601.0 | 1,803.3 | 1,974.2 | 2,093.0 | 2,093.0 | 2,303.0 |
| Money (M1) | (606.9) | (675.2) | (817.7) | (909.9) | (955.0) | (955.0) | (1,050.0) |
| Quasi-money | (740.6) | (925.8) | (985.6) | 1,064.3 | (1,138.0) | (1,138.0) | (1,253.0) |
| Private capital and surplus | 29.6 | 38.5 | 52.4 | 87.7 | 92.0 | 92.0 | 92.0 |

Sources: Bank of the Republic of Haiti; and Fund staff estimates.

1/ Takes into account the absorption by the public sector of G 103 million in outstanding obligations to the BRH previously recorded as unclassified assets, G 131 million in obligations to the BNC, previously classified as credit to the private sector, and the write-off of G 7 million in uncollectible foreign assets of the BNC.

2/ Net of public sector deposits and medium- and long-term liabilities of the public sector that have been channeled through the BNC.

consolidated through the issuance of a special bond and allocations will be made in the Government's financial programing sufficient to pay interest on these bonds.

The credit operations of the BNC are to be limited to the resources it can acquire through its normal deposit operations, net of its reserve requirements with the central bank. To enforce control over the operations of the BNC, the authorities have introduced ceilings on the expansion of the net domestic assets of the BNC.

With regard to interest rate policy, the authorities recognize the need to maintain domestic interest rates competitive with those offered in foreign markets in order to encourage domestic financial savings and discourage capital flight. At present, it appears that interest paid on large certificates of deposit in Haiti are competitive with yields on equivalent financial instruments abroad. The authorities plan to keep the interest rate policy under review in the light of changes in the underlying circumstances.

3. External policies

Observance of the ceilings on the net domestic assets of the monetary authorities and the public sector deficit, together with maintenance of competitive interest rates, should help produce the programed improvement in Haiti's balance of payments performance. The global balance of payments objective is an increase in the net international reserve position of at least US$8 million in FY 1983/84, to be followed by a similar increase in FY 1984/85. Such an improvement in net international reserves, together with the purchases under the arrangegement with the Fund, would enable the central bank to attain gross foreign assets sufficient to cover the normal needs of the economy. External payments arrears of more than US$20 million had developed during FY 1980/81 and FY 1981/82, but they had been reduced to about US$10 million by March 1983. By the end of September 1983 only some US$2 million remained in outstanding arrears which the authorities intended to pay at the beginning of October. The authorities indicated that, as the foreign reserve position of the central bank improves, the existing exchange surrender requirements on exports of basic commodities and private remittances would become redundant and would be phased out, so as to return in due course to Haiti's tradition of complete freedom of exchange transactions.

The authorities indicated that the trade restrictions that had been imposed in early 1981 had been eased considerably. The outright ban on certain imports is no longer in place and those products whose importation had been prohibited are now subject to import quotas. Furthermore, the quota system is being administered with a great deal of flexibility. In principle, global annual quotas are applied to a number of products and these quotas are then allocated among importers on the basis of established market shares. In practice, however, quotas are only permanently in effect for milk and batteries, and the economy remains very open. The Ministry of Commerce will enforce specific quotas only when it becomes obvious that the local market is being affected greatly by particular import items, threatening a major displacement of local production. Moreover, if a local producer tries to take advantage of his privileged position in a protected market to raise prices or to hoard goods, import restrictions on the particular item will be eased so as to stabilize prices. The Government has a monopoly on imports of rice, vegetable oil, cement and sugar, but the private sector is permitted to import some high-quality rice and certain oil products subject to prior authorization.

Haiti's foreign financing traditionally has consisted almost exclusively of grants and long-term concessionary loans from international and bilateral development agencies, and therefore its debt service payments have been quite small (in FY 1980/81 the debt service ratio was 8.3 percent of exports of goods and services) (Table 9). During 1980-81, however, a large commercial debt (of about US$42 million) in the form of suppliers' credit was contracted for the construction of a new sugar mill. The service of this loan, which is to be amortized in the period from 1983 to 1993, has introduced an additional burden on the balance of payments with the debt service ratio rising to 11 percent of exports of goods and services in 1983. Public sector finances will also be unfavorably affected, since this mill has yet to start its operations and is unlikely to reach its full production capacity for some time. The Haitian authorities are attempting to renegotiate this loan to provide sufficient time for the mill to generate its own financial resources. Assuming this loan is not renegotiated, and taking into account repurchases from the Fund, the debt service ratio is likely to rise to 16 percent by 1986 and decline somewhat thereafter.

Meanwhile, in line with its objective of avoiding the generation of undue pressures on the balance of payments in the future, the Government intends to pursue a cautious external public borrowing policy, generally limiting such borrowing to long-term financing at concessionary terms from multilateral and bilateral development agencies. Other types of official foreign borrowing will be subject to careful scrutiny in order to avoid the incurrence of debt at unfavorable terms or unrelated to the country's development needs.

In line with this objective a limit of US$12 million has been placed for FY 1983/84 on the contracting (or guaranteeing) of official foreign debt with maturities of less than 12 years, except for the accomodation of self-liquidating short-term credits within the fiscal year. (This exception is made to accomodate possible short-term credit operations by the government-owned flour mill in connection with the importation of wheat.) Moreover, the Government of Haiti will refrain from extending guarantees on foreign credits to the private sector, and neither the central bank nor the BNC will guarantee any indebtedness to private foreign creditors or any foreign credits to the private sector.

Table 9. Haiti: External Public Debt Operations 1979-88

| | Fiscal Year Ending September 30 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Est. | Projected | | | | |
| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
| | (In millions of U.S. dollars) | | | | | | | | | |
| Total debt movements (net) | 34.0 | 53.4 | 120.0 | 65.9 | 72.0 | 84.4 | 82.9 | 56.3 | 60.6 | 65.3 |
| Public, medium-, and long-term debt 1/ | 33.4 | 45.5 | 101.4 | 42.0 | 35.8 | 56.5 | 61.9 | 78.6 | 83.3 | 87.7 |
| Disbursements | (39.7) | (57.0) | (112.1) | (53.6) | (52.2) | (73.2) | (80.0) | (91.3) | (96.6) | (101.7) |
| Amortizations | (6.3) | (11.5) | (10.7) | (11.6) | (16.4) | (16.7) | (18.1) | (12.7) | (13.3) | (14.0) |
| IMF | 0.6 | 5.1 | 16.9 | 28.3 | 25.5 | 27.9 | 21.0 | -22.3 | -22.7 | -22.4 |
| Trust Fund (net) | (5.8) | (8.0) | (--) | (-0.1) | (-0.6) | (-2.0) | (-3.0) | (-4.0) | (-3.9) | (-3.4) |
| Disbursements | /5.8/ | /8.0/ | /--/ | /--/ | /--/ | /--/ | /--/ | /--/ | /--/ | /--/ |
| Amortizations | /--/ | /--/ | /--/ | /0.1/ | /0.6/ | /2.0/ | /3.0/ | /4.0/ | /3.9/ | /3.4/ |
| Use of Fund resources (net) | (-5.2) | (-2.9) | (16.9) | (28.4) | (26.1) | (29.9) | (24.0) | (-18.3) | (-18.8) | (-19.0) |
| Purchases | /--/ | /--/ | /19.5/ | /29.9/ | /26.6/ | /29.9/ | /34.2/ | /--/ | /--/ | /--/ |
| Repurchases | /5.2/ | /2.9/ | /2.6/ | /1.5/ | /0.5/ | /--/ | /10.2/ | /18.3/ | /18.8/ | /19.0/ |
| Short term | -- | 2.8 | 1.7 | -4.4 | 10.7 | -- | -- | -- | -- | -- |
| Total interest payments | 4.3 | 5.0 | 7.5 | 10.6 | 14.3 | 16.9 | 20.5 | 23.5 | 23.9 | 24.1 |
| On medium- and long-term debt | 3.7 | 5.1 | 6.4 | 8.3 | 11.0 | 10.3 | 11.6 | 13.2 | 14.9 | 16.8 |
| On IMF | 0.6 | 0.5 | 0.8 | 1.8 | 3.3 | 5.6 | 7.9 | 9.3 | 8.0 | 6.3 |
| Trust Fund | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) | (--) | (--) |
| Use of Fund resources | (0.5) | (0.4) | (0.7) | (1.7) | (3.2) | (5.5) | (7.8) | (9.2) | (8.0) | (6.3) |
| On Short-term debt | -- | -- | 0.3 | 0.5 | -- | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Debt service payments 2/ | 15.8 | 20.0 | 20.8 | 23.8 | 31.8 | 35.6 | 51.8 | 58.5 | 59.9 | 60.5 |
| Amortizations | 11.5 | 14.4 | 13.3 | 13.2 | 17.5 | 18.7 | 31.3 | 35.0 | 36.0 | 36.4 |
| Interest | 4.3 | 5.6 | 7.5 | 10.6 | 14.3 | 16.9 | 20.5 | 23.5 | 23.9 | 24.1 |
| Total external debt (end of period) | 253.8 | 306.2 | 416.8 | 479.0 | 538.6 | 623.0 | 705.9 | 762.2 | 822.8 | 888.1 |
| Medium and long term 1/ | 229.3 | 274.8 | 372.8 | 413.2 | 439.0 | 495.5 | 557.4 | 636.0 | 719.3 | 807.0 |
| IMF | 24.5 | 28.6 | 39.5 | 65.7 | 88.8 | 116.7 | 137.7 | 115.4 | 92.7 | 70.3 |
| Short term | -- | 2.8 | 4.5 | 0.1 | 10.8 | 10.8 | 10.8 | 10.8 | 10.8 | 10.8 |
| Memorandum item | | | | | | | | | | |
| Gross foreign reserves (end of period) | 54.7 | 40.0 | 19.4 | 35.3 | 26.2 | 60.4 | 93.0 | 95.0 | 97.0 | 99.0 |
| | (In percent) | | | | | | | | | |
| Selected Indicators | | | | | | | | | | |
| Effective interest rate | 1.8 | 2.0 | 2.1 | 2.4 | 2.8 | 2.9 | 3.1 | 3.3 | 3.1 | 2.9 |
| Debt service ratios to: | | | | | | | | | | |
| GDP | 1.4 | 1.4 | 1.4 | 1.5 | 1.8 | 1.9 | 2.5 | 2.6 | 2.5 | 2.3 |
| Exports of goods and services | 7.1 | 6.4 | 8.3 | 8.4 | 10.7 | 11.4 | 15.4 | 16.1 | 15.2 | 14.2 |
| Exports of goods, services and private transfers | 5.1 | 4.8 | 5.5 | 6.2 | 8.0 | 7.2 | 9.8 | 10.2 | 9.6 | 8.9 |

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

1/ External public and publicly guaranteed debt with an original maturity of at least one year.
2/ Includes amortization on medium- and long-term debt, and interest payments on total debt outstanding.

Although the administrative reforms and other measures that the Government of Haiti is introducing are expected to make a significant contribution to the efforts to mobilize domestic resources for the development of the country, the authorities are conscious of the need for substantial support from bilateral donors and multilateral development agencies. They have indicated that it is their intention to seek an increase in such assistance in the future and to that effect they intend to make a presentation at the time of the next Caribbean Group for Economic Cooperation and Development, chaired by the World Bank, to indicate those projects that should be given priority.

## V. Staff Appraisal and Proposed Decision

The economic situation of Haiti started to deteriorate in FY 1979/80 as a surge in public sector spending gave rise to an excessively large public sector deficit. The increased reliance on central bank credit to finance this deficit, together with the weakening of export earnings, resulted in the depletion of the international reserves of the central bank, and in FY 1980/81 there was an accumulation of external payment arrears. As the payments situation grew progressively more difficult the viability of the official exchange rate came under question and capital flows were affected adversely.

In FY 1982/83 the Haitian authorities adopted a stabilization program which was supported by the Fund with a stand-by arrangement extending through September 1983. The implementation of this program has been satisfactory. The overall public sector deficit has been reduced substantially. Furthermore, the public sector deficit net of concessionary aid flows has dropped from the equivalent of 6-1/2 percent of GDP in FY 1980/81 to 2-1/2 percent of GDP in FY 1981/82, and it is expected to fall to about 1 percent of GDP in FY 1982/83. At the same time, the overall balance of payments deficit has been reduced from US$55 million in FY 1980/81 to US$19 million in FY 1981/82, and it is expected to be under US$10 million in FY 1982/83. External payments are being put on a current basis and pressures on the value of the gourde have eased.

The authorities have formulated a new two-year program designed to re-establish a satisfactory international reserve position and to consolidate the strengthening of the public finances, and thus establish the basis for sustained economic growth. In the attached letter, the Haitian authorities describe the policies they intend to follow in pursuit of these aims and request a stand-by arrangement for a period of two years in an amount equivalent to SDR 60 million in support of their program. The Fund resources provided under this program will build up the gross foreign reserve position of the central bank and provide a secondary line of reserves.

In the view of the staff the program correctly places major emphasis on the strengthening of the foreign reserve position of the central bank. Balance of payments surpluses will have to be registered over a period of several years if Haiti is to rebuild its international reserves to a level that would provide a cushion adequate to cope with fluctuations in its balance of payments. Restoration of confidence in the gourde through an improved reserve position should enhance Haiti's capacity to attract and retain private investment.

The staff welcomes the steps that have been taken to strengthen the public finances. The Haitian authorities recognize that fiscal policy is the cornerstone of the efforts to improve the country's overall financial and economic situation. Reduction of the reliance on domestic and nonconcessional external financing eases the pressures on the balance of payments. The efforts being made to improve tax collections are well placed, given the substantial tax evasion that has existed in the past. The introduction of a comprehensive "fichier fiscal," the strenghtening of tax assessment procedures, and the simplification of appeal procedures are fiscal reforms that should help correct this situation. The resources provided by these reforms and the new sales tax introduced last year should improve the capacity of the country to expand its development efforts in a framework of stability.

The staff agrees with the authorities on the importance of strengthening the various administrative and institutional units of the public sector. In this context, it is important that the National Credit Bank be managed as an efficient commercial bank and, thus, it should observe the same rules and regulations applicable to other banks. Much is being done to solidify the financial position of this bank, but the success of these efforts hinges on a major improvement in lending practices. The use of external auditors should help foster sound operating practices, while the ceiling introduced by the authorities on the net domestic assets of the National Credit Bank should help keep its expansion within prudent limits.

With respect to interest rate policy, the current structure of Haiti's interest rates appears appropriate, and the authorities have indicated that they will maintain a close check over the adequacy of such rates. In reviewing this policy from time to time, it will be important to avoid the introduction of interest rate subsidies and to ensure that domestic rates are competitive with those abroad.

The projected increase in concessional assistance from foreign donors should enable Haiti to expand its development expenditures without placing undue pressures on the overall balance of payments. The intention of the authorities to pursue a cautious external public borrowing policy, generally limiting such borrowing to long-term financing at concessionary terms from multinational and bilateral development agencies, should help achieve a sound evolution of the balance of payments in the medium to longer run. Meanwhile, with the strengthening of the international reserve position and the elimination of external payments arrears, confidence should return and the pressures on the value of the gourde should fade.

Summing up, in the view of the staff the program presented by the Haitian authorities correctly focusses on the need to strengthen Haiti's balance of payments and to consolidate the improvement of its public finances, so as to create an environment conducive to a sustained growth performance. The policies that the authorities propose to pursue are suitably designed to achieve these objectives.

Proposed Decision

Accordingly, the following draft decision is proposed for adoption by the Executive Board:

1. The Government of Haiti has requested a stand-by arrangement for the period from ______________, 1983 to September 30, 1985 for an amount equivalent to SDR 60 million.

2. The Fund approves the stand-by arrangement attached to EBS/83/222.

3. The Fund waives the limitation in Article V, Section 3(b)(iii), of the Articles of Agreement.

## Fund Relations with Haiti
(As of August 31, 1983)

Date of membership: September 8, 1953.

Status: Article VIII.

Quota: Current: SDR 34.5 million.
Proposed: SDR 44.1 million.

Fund holdings of Haitian gourdes:

| | Millions of SDRs | Percent of Quota |
|---|---|---|
| Total | 90.1 | 261.2 |
| Under tranche policies | 38.65 | 112.0 |
| Credit tranches | (15.41) | (44.7) |
| Extended facility | (12.46) | (31.2) |
| Enlarged access | (10.78) | (36.1) |
| Under compensatory financing facility | 17.0 | 49.3 |

SDR Department:

| | Millions of SDRs | Percent of Allocation |
|---|---|---|
| Net cumulative allocations | 13.70 | 100.0 |
| Holdings | 0.78 | 0.6 |

Trust Fund loan:

| | Millions of SDRs |
|---|---|
| Disbursements | 18.57 |
| Repayments | 0.53 |

Gold distribution: 16,260.997 fine ounces.

Direct distribution of profits from gold sales: US$3.02 million.

Subsidy account payment: SDR 0.98 million.

Exchange rate: The exchange value of the Haitian gourde remains pegged to the U.S. dollar at its historical rate of G 5 per U.S. dollar. The Fund's holdings of gourdes are valued on the basis of a representative exchange rate under Rule O-2, paragraph (b)(i).

Resident representative and technical assistance: A staff representative is stationed in Port-au-Prince. Long-term technical assistance is being provided by two fiscal experts for the implementation of a general sales tax and in the area of budgeting, accounting and expenditure control.

Last consultation: The last Article IV consultation discussions were held from August 24 to September 11, 1981 and the consultation procedure was completed at EBM/81/161 on December 23, 1981. The relevant staff reports were SM/81/228 on and SM/81/229.

## Haiti: Summary of Financial Programs 1/

### Targets

1. To achieve an increase in international reserves of at least US$8 million in each of the next two fiscal years.

2. To reduce the public sector deficit financed by means other than concessional aid in FY 1983/84 to G 60 million, or less than 1 percent of GDP.

3. To maintain a rate of inflation no higher than that of Haiti's main trading partners.

4. To provide a domestic environment which would contribute to the reactivation of domestic economic activity on a sustainable basis taking advantage of the more favorable external conditions. Current prospects are that the economy may expand at a rate of about 3 percent in FY 1983/84.

5. To limit the pressures on the balance of payments arising from the service of external debt.

6. To restore the financial viability of the National Credit Bank.

### Instruments

1. The placement of a set of quarterly ceilings on the net domestic assets of the consolidated balance sheet of the central bank and the National Credit Bank.

2. The adoption of a number of measures to increase Treasury revenues, including a comprehensive set of steps to strengthen tax administration, the widening of the coverage of the general sales tax, the introduction of the new mining tax, and the adjustment of several nontax fees.

3. The adoption of a set of quarterly ceilings on Treasury expenditures. These ceilings may be adjusted, upward or downward, depending on the actual behavior of revenue.

4. The adoption of a set of quarterly ceilings on the nonconcessional financing received by the public sector so as to ensure the availability of credit to the private sector.

5. The concentration of foreign borrowing for development purposes on loans from multilateral and bilateral development agencies at concessionary terms, and the limitation to US$12 million on the contracting

1/ Actual and projected data on selected economic and financial indicators for the fiscal years 1980-84 are shown in Table 10.

of new external debt with maturity of less than 12 years. Also, the prohibition to the central bank and the National Credit Bank to issue guarantees on any indebtedness to private foreign creditors or any foreign credits to the private sector.

6. The establishments of limits on the rate of expansion of the net domestic assets of the National Credit Bank, the application to this bank of the same rules and regulations that apply to other commercial banks, and the issuance of a special 20-year bond to consolidate outstanding obligations and capitalize this bank adequately.

## Main Assumptions

1. The coffee crop is projected to be some 25 per cent lower in volume than in FY 1982/83, but the unit price is expected to be 5 percent higher.

2. Haiti's exports of light manufactures are projected to increase by 20 percent on the assumption that the recovery of economic activity in the United States continues. A number of investments which are currently under consideration in the light assembly industry are expected to go through.

3. The flow of bilateral and multilateral financial assistance is expected to increase to US$58.6 million in FY 1983/84, compared with US$44 million in FY 1982/83.

4. Interest rates in Haiti are expected to remain competitive with those prevailing abroad.

Table 10. Haiti: Selected Economic and Financial Indicators

| | Fiscal Year Ended September 30 | | | | |
|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | Est. 1983 | Proj. 1984 |
| (Annual percentage changes, unless otherwise specified) | | | | | |
| National income and prices | | | | | |
| GDP at constant prices | 6.4 | -0.9 | -1.3 | 1.0 | 3.0 |
| GDP deflator | 16.5 | 9.9 | 9.4 | 7.0 | 4.6 |
| Consumer prices (average) | 18.1 | 8.2 | 8.2 | 6.5 | 4.5 |
| External sector (on the basis of U.S. dollars) | | | | | |
| Exports, f.o.b. | 51.4 | -28.3 | 16.5 | 4.1 | 5.2 |
| Imports, c.i.f. | 47.1 | 12.7 | -21.2 | 10.3 | 4.5 |
| Non-oil imports, c.i.f. | 42.2 | 14.1 | -21.2 | 6.7 | 5.7 |
| Export volume | 32.8 | -30.7 | 11.7 | 1.5 | 1.5 |
| Import volume | 30.3 | -4.6 | -22.4 | 10.3 | 2.6 |
| Terms of trade (deterioration -) | 1.0 | -4.0 | 2.7 | 2.5 | -- |
| Nominal effective exchange rate (depreciation -) | 0.7 | 5.8 | 5.0 | 4.1 | ... |
| Real effective exchange rate (depreciation -) | 3.7 | 2.9 | 4.5 | 5.0 | ... |
| Treasury | | | | | |
| Revenues | 21.2 | -4.5 | 13.6 | 10.8 | 14.4 |
| Expenditures | 52.6 | 32.1 | -21.2 | -4.1 | 12.2 |
| Money and credit (banking system) | | | | | |
| Net domestic assets 1/ | 22.5 | 23.3 | 14.0 | 12.3 | 8.3 |
| Public sector 1/ | (15.5) | (15.0) | (13.0) | (2.4) | (2.7) |
| Private sector 1/ | (7.0) | (8.3) | (1.0) | (9.9) | (5.5) |
| Money and quasi-money (M2) | 19.0 | 13.2 | 11.1 | 6.0 | 10.0 |
| Velocity (GDP relative to M2) | 4.2 | 4.1 | 4.0 | 4.0 | 4.0 |
| Interest rates (minimum annual yield on large denomination one-year certificates of deposit) | 12.0 | 11.0 | 13.0 | 12.0 | 12.0 |
| (In percent of GDP) | | | | | |
| Public sector | | | | | |
| Savings | 0.2 | -0.8 | 0.7 | 1.8 | 2.0 |
| Overall public sector deficit (-) | -5.6 | -9.5 | -4.7 | -3.5 | -3.7 |
| Foreign financing | (2.5) | (6.3) | (2.4) | (2.7) | (3.1) |
| Concessional | /2.3/ | /3.0/ | /2.8/ | /2.5/ | /3.1/ |
| Commercial | /0.2/ | /3.3/ | /-0.4/ | /0.2/ | /--/ |
| Domestic financing | (3.1) | (3.3) | (2.9) | (0.8) | (0.6) |
| Domestic and nonconcessional external financing 2/ | -3.3 | -6.6 | -2.5 | -1.0 | -0.6 |
| Gross domestic investment | 18.1 | 18.2 | 14.1 | 15.3 | 16.4 |
| Gross national savings | 4.5 | -0.7 | 2.4 | 3.6 | 5.0 |
| *Transfers from abroad* | 5.9 | 7.9 | 7.0 | 7.1 | 6.9 |
| Current account deficit | 7.7 | 11.0 | 4.7 | 4.6 | 4.5 |
| External debt (inclusive of use of Fund purchases (end of year) | 22.1 | 27.6 | 29.3 | 30.5 | 32.8 |
| (In percent of exports of goods and services) | | | | | |
| Debt service payments 3/ | 6.4 | 8.3 | 8.4 | 10.7 | 11.4 |
| Interest payments 4/ | 2.0 | 3.0 | 3.7 | 4.8 | 5.4 |
| (In millions of U.S. dollars) | | | | | |
| Overall balance of payments | -12.2 | -55.0 | -19.2 | -5.7 | 8.0 |
| Gross official reserves (months of imports) 5/ | 1.3 | 0.6 | 1.3 | 0.8 | 1.9 |
| External payments arrears | -- | 20.5 | 20.9 | -- | -- |

Sources: Ministry of Finance and Economic Affairs; Bank of the Republic of Haiti; and Fund staff estimates.

1/ Changes in relation to liabilities to the private sector at the beginning of the period.

2/ Referred to as public sector deficit in the Letter of Intent.

3/ Debt service on medium- and long-term external debt, includes use of Fund resources.

4/ Includes interest payments.

5/ Includes gross foreign reserves of both the Bank of the Republic of Haiti and the National Credit Bank.

Haiti: Stand-By Arrangement

Attached hereto is a letter, dated September 1, 1983, from the Minister of State for Finance, Economic Affairs, and Industry, and the Governor of the Bank of the Republic of Haiti requesting a stand-by arrangement and setting forth the objectives and policies that the Government of Haiti intends to pursue through September 1985. To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from 1983 to September 30, 1985, Haiti will have the right to make purchases from the Fund in an amount equivalent to SDR 60 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Until September 30, 1984 purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 28 million, provided that purchases shall not exceed SDR 7 million until January 31, 1984, the equivalent of SDR 14 million until April 30, 1984, and the equivalent of SDR 21 million until July 31, 1984.

(b) The right of Haiti to make purchases during the remaining period of this stand-by arrangement shall be subject to such phasing as shall be determined.

(c) None of the limits in (a) or (b) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Haiti's currency in the credit tranches beyond 25 percent of quota, or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1.2 until purchases under this arrangement reach the equivalent of SDR 32,487,500 and thereafter each purchase shall be made from borrowed resources only, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Haiti will not make purchases under this stand-by arrangement, other than the initial purchase in an amount equivalent to SDR 7 million that it may request within 15 days of the effective date of this arrangement, that would increase the Fund's holdings of Haiti's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

(a) through September 30, 1984

(i) during any period in which data at the end of the preceding quarter indicate that the ceiling on the cumulative Treasury outlays referred to in paragraph 8 and set forth in Table 1 of the attached letter; or

(ii) during any period in which data at the end of the preceding quarter indicate that the ceiling on the cumulative deficit of the public sector referred to in paragraph 10 and set forth in Table 2 of the attached letter; or

(iii) during any period in which the ceiling on the net domestic assets of the consolidated balance sheets *of the central bank (BRH) and the National Credit* Bank (BNC) referred to in paragraph 11 and set forth in Table 3 of the attached letter; or

(iv) if the ceiling on the contracting or guaranteeing of foreign debts of less than 12 years maturity as described in paragraph 14 of the attached letter; or

(v) if the intention regarding the guaranteeing of foreign credits referred to in the last sentence of paragraph 14 of the attached letter is not observed; or

(b) After September 30, 1984, if suitable performance clauses for the remaining period of the stand-by arrangement have not been established in consultation with the Fund as contemplated in paragraph 17 of the attached letter, or, if such clauses, having been established, are not being observed; or

(c) throughout the duration of the arrangement, if Haiti:

(i) imposes or intensifies restrictions on payments and transfers for current international transactions; or

(ii) introduces multiple currency practices; or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII; or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Haiti is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Haiti and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Haiti's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Haiti. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Haiti and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Haiti, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. Haiti will consult the Fund on the timing of purchases involving borrowed resources.

8. Haiti shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. (a) Haiti shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Haiti's balance of payments and reserve position improves.

(b) Any reductions in Haiti's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement Haiti shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Haiti or of representatives of Haiti to the Fund. Haiti shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Haiti in achieving the objectives and policies set forth in the attached letter.

11. In accordance with paragraph 17 of the attached letter, Haiti will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. Also, in the period through September 30, 1984 Haiti will consult with the Managing Director whenever there is evidence that the ceiling on the net domestic assets of the National Credit Bank referred to in paragraph 12 and set forth in Table 4 of the attached letter is not observed. In addition, after the period of the arrangement and while Haiti has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Haiti's balance of payments policies.

Port-au-Prince, Haiti
September 1, 1983

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Larosière:

1. The Haitian economy remains largely an agricultural society whose development has been hampered by relatively scarce physical natural resources, lack of adequate infrastructure, and a weak external sector. Also, the relatively large size of our population is a source of pressure on our limited resources. Haiti's export earnings have consisted largely of the proceeds of coffee exports, some tourism, and the sales of a still relatively small, albeit growing, light assembly industry. Our export earnings have, therefore, been largely dependent on the fluctuations in economic activity abroad and the international price of coffee. Efforts have been made in recent years to develop and diversify our economy with the assistance of friendly governments and the international development agencies, but progress has been slow and much still remains to be accomplished.

2. The sharp rise in international coffee prices in FY 1979/80 was accompanied by a bumper coffee harvest, boosting export receipts and tax revenues in that year and permitting an increase in the rate of Government spending of almost 50 percent. Public sector outlays continued to expand at a brisk pace in FY 1980/81, but with international coffee prices falling and a smaller coffee crop being harvested, government receipts contracted in absolute terms. As a result, the public sector deficit which had to be financed by nonconcessional external aid widened to the equivalent of 6-1/2 percent of GDP in FY 1980/81, a level unprecedented in the economic history of the country. Sizable credits were contracted abroad on commercial terms to finance some industrial investments and increasing reliance was placed on the central bank to finance the budget deficit. The combination of domestic demand pressures and the weakening of the export sector, because of deteriorating economic conditions abroad, led to a depletion of the official international reserves which had been accumulated in previous years. A foreign exchange shortage developed and external payment arrears accumulated. As the financial imbalance became more acute, a parallel market for foreign exchange emerged with the gourde selling at a rising discount. These developments contributed to a loss of confidence on the part of both private investors and foreign donors. There was a reduction of foreign capital inflows, economic activity became quite depressed and Haiti's national income contracted in real terms.

3. In an attempt to redress this situation, the Haitian Government adopted a stabilization program during the course of FY 1981/82. This program was supported by the International Monetary Fund with a stand-by arrangement extending through the end of FY 1982/83 in an amount equivalent to SDR 34.5 million. The program called for a reduction of that portion of the public sector deficit not financed by concessional external aid to the equivalent of no more than 2-1/2 percent of GDP in FY 1981/82 and 1-1/2 percent of GDP in FY 1982/83. To help achieve these objectives, the program called for very drastic cuts in the level of government spending, to bring it more in line with government revenue. To increase revenue, the Government decided to introduce a new general sales tax. However, because of the normal difficulties in the introduction of a new tax and the fact that this tax was to replace a number of existing excise taxes and specific import duties, relatively little relief was expected in the short run on the revenue side. The improvement in the public finances was expected to increase the availability of credit to the private sector and to reduce the pressures of government spending on the balance of payments, thereby facilitating the elimination of the external payments arrears. The objective was to lower the overall balance of payments deficit from US$55 million in FY 1980/81 to US$25 million in FY 1981/82 and US$10 million in FY 1982/83.

4. The stabilization program just described has been implemented as planned. As a result, the public finances have shown a significant strengthening and this has contributed to the improvement in the overall financial situation. Government outlays have been kept under tight control, in compliance with the limits established in the program, and the government revenues have shown a stronger performance than originally envisaged, partly in response to improvements in tax administration. As a consequence, nonconcessional borrowing requirements of the public sector have been held below the ceiling established in the program, making possible a greater availability of credit to the private sector and assisting the process of economic recovery. The results of this improvement in the public finances have been reflected in a strengthening of the balance of payments--with the overall external payments position approaching equilibrium once account is taken of the repayment of arrears. Confidence in the gourde is returning, as reflected by the drop in the discount offered in the parallel market, and signs can be seen of an incipient recovery in economic activity. Prospects for next year are for the economy to expand at a rate of about 3 percent, provided that the foreign exchange situation continues to improve and confidence is fully restored.

5. Despite the gains achieved, the underlying economic and financial conditions are still fragile and the country's international reserve position remains weak. Therefore, the Government of Haiti has prepared a new financial program to be implemented during the next two years for which we request the support of the International Monetary Fund in the form of a two-year stand-by arrangement for an amount equivalent to SDR 60 million. On the basis of current prospects and

the policies described in this letter, it would be our aim to keep a portion of the resources available under this arrangement as a secondary line of reserves.

6. The most important objective of this new program would be the restoration of the net international reserve position of the central bank, which we consider crucial to the full return of confidence. This would be accomplished by the implementation of a monetary and fiscal program consistent with the achievement of an overall balance of payments surplus of the order of US$8 million in each of the next two years. The foreign exchange resources obtained from the Fund would be used during this period to provide a necessary cushion to the gross reserve position of the central bank while the rebuilding of the net international reserve position is brought about. Another very important objective of the program would be the attainment of a sustained positive rate of economic growth. Although a reactivation of world economic activity will undoubtedly have a favorable impact on activity in Haiti, the Government realizes that in order to take full advantage of these circumstances it must consolidate the recent gains achieved in strengthening the public finances, so that the flow of foreign assistance for development purposes is not deterred by the lack of sufficient counterpart local funds. To this end, the financial and fiscal policies in the years ahead are designed to be consistent with the mobilization of additional domestic resources and the continued strengthening of the public finances, so as to achieve a higher rate of domestic savings and investment.

7. An important element in the recent improvement of the public finances has been a strong revenue performance. Behind this strong performance has been a series of reforms introduced in our tax system over the past years, some of which have been carried out with the technical assistance of the International Monetary Fund. These reforms have included the passage of a new income tax law, the adoption of a reference price system for the valuation of coffee export proceeds, the establishment of a valuation system in the customs service to allow for the assessment of import duties on an ad valorem basis, and the introduction of the new 7 percent general sales tax. This last measure, which was implemented only during the course of this last fiscal year, is expected to give an important boost to government receipts in FY 1983/84. In an effort to raise additional revenues in the next fiscal year, the Government has recently introduced a new tax on mining activities and adjusted several nontax fees, and it intends to extend the general sales tax to certain services--such as local telephone calls and cable television--which had not been covered by the original sales tax legislation. The Government is also engaged in a program to strengthen further tax administration. In this regard, assistance is being provided by friendly countries for the training of 75 additional customs officers and 45 auditors, and for the introduction of electronic computing facilities. Also, steps have been taken to strengthen the hand of the Director of Internal Revenue in enforcing collections,

including the passage of a new law which simplifies the procedures in establishing tax assessments and handling tax appeals. The new law also gives the Internal Revenue Service the power to attach liens on the properties of delinquent taxpayers. In addition, a comprehensive tax information system is being developed to facilitate cross-checking between the sales tax records and the corporate and individual tax returns. On the basis of these reforms and of the expanded coverage of existing taxes, it is expected that government receipts will reach G 950 million, or the equivalent of 10 percent of GDP in FY 1983/84, compared to an estimated 9.5 percent in FY 1982/83.

8. The rise in government revenues expected for FY 1983/84 should permit a moderate growth in current expenditures and increase the availability of funds needed as counterpart for the investment projects financed with the assistance of multilateral and bilateral development agencies. However, to ensure continuous discipline in government spending, a set of quarterly limits has been established on Treasury outlays as shown in Table 1. This limit on expenditures may be subject to an adjustment depending on the actual revenue performance. Should revenue, cumulative from the beginning of the fiscal year exceed the targets specified in Table 1, the expenditure ceiling for the subsequent quarters may be increased overall by the equivalent of two thirds of the cumulative excess in collections in the previous quarters. Conversely, should revenue collections fall short of targets, the expenditure ceiling for subsequent quarters will be reduced overall by an amount equivalent to the shortfall in revenue. On the basis of the current revenue and expenditure projections for the Treasury, the deficit of the Central Government to be financed with central bank resources or with commercial credit will not exceed G 60 million in FY 1983/84.

9. The administrative reforms which the Government of Haiti has been introducing over the past few years and those which are planned for the period ahead are expected to make a significant contribution to the authorities' efforts to mobilize domestic resources for the development of the country. Nonetheless, Haiti will still continue to need significant support from bilateral donors and multilateral development agencies. It is the authorities' intention to seek an increase of such assistance in the future, and to that effect they intend to make a presentation at the time of the next Caribbean Group for Economic Cooperation and Development chaired by the World Bank. In this context, as in the past, the additional assistance sought will be technical as well as financial. We feel that the performance achieved over the past year and a half shows the commitment of the Government to improve the management of our resources and deserves the support of the international community.

10. The public enterprises in Haiti have for a number of years enjoyed a relatively sound financial position as their pricing policies have been managed with sufficient flexibility to cover their costs and allow for a reasonable margin of profitability. Recently, the public

sector has expanded the scope of its activities through direct investments in a number of new industrial and commercial activities, such as a new sugar mill and cement plant. To the extent that some of these new activities may require some additional investment expenditures which cannot be covered from the enterprises' operating surpluses, other than those financed with foreign development assistance, the Government will make an appropriate allocation in the budget to cover such outlays, so that as a group the public enterprises will not require additional net financing from the central bank or commercial sources. Accordingly, the total financing of the overall public sector other than that covered by multilateral and bilateral assistance will be subject to the quarterly limits shown in Table 2.

11. The above limitation on the access of the public sector to domestic bank credit is expected to facilitate the management of monetary policy. Restraint in the use of credit by the public sector to the amounts established should permit a level of bank credit to the private sector consistent with the expected recovery in economic activity, while permitting the central bank to accumulate US$8 million in net international reserves in FY 1983/84. To keep total credit expansion of the banking system to a rate consistent with the balance of payments objective, the increase in the net domestic assets of the consolidated balance sheet of the central bank (BRH) and the National Credit Bank (BNC) will be subject to ceilings as specified in Table 3. Moreover, for the operations of the rest of the banking system to remain consistent with this credit program, measures will be taken to ensure that commercial banks, including the National Credit Bank (BNC), will be in full compliance with their legal reserve requirements at all times.

12. The process of separating the accounts of the National Credit Bank (BNC) from those of the central bank (BRH) has been in progress for some time, and the National Credit Bank is to undergo an audit at the end of the current fiscal year. The authorities are aware that, if a sound domestic financial market is to be preserved in Haiti and confidence is to be maintained among depositors, a stateowned commercial bank, such as the BNC, must have a healthy balance sheet and its operations be subject to the rules and regulations that apply to other commercial banks operating in Haiti. The special relationship that existed in the past between the BNC and the Government resulted in a number of obligations which are still pending settlement. In order to capitalize this bank adequately and to regularize the existing obligations, the Government will be issuing a special 20-year bond to consolidate outstanding obligations of the public sector with the BNC; furthermore, from now on the BNC will no longer extend credit to the public sector and, for other operations involving public sector transactions--such as the opening of letters of credit for the public sector--the BNC will only act under specific and previous instructions of the central bank (BRH). The government debt to the central bank (BRH) is also to be consolidated through the issuance of a bond. Appropriate allocation will be made in the Government's financial programing to pay interest

on these bonds on a monthly basis. The credit operations of the BNC will be limited to the resources that it can acquire through its normal deposit operations, without need for additional support from the central bank, and it will meet reserve requirements as do the other commercial banks. To ensure these results, a set of ceilings will be placed on net credit operations of the BNC as specified in Table 4.

13. The Haitian authorities recognize the need to maintain domestic interest rates competitive with those offered in foreign markets in order to encourage domestic financial savings and discourage capital flight. At present, interest rates in Haiti appear to be competitive with yields of equivalent financial instruments abroad. However, the interest rate policy will continue to be kept under review in the light of changes in the underlying circumstances, and adjustments will be made as needed in order to ensure the continued stimulation of savings and avoid the introduction of subsidies. In particular, we are prepared to consider any necessary modification in interest rates that may be required should the expansion in private financial savings lag behind the levels consistent with the attainment of the credit and balance of payments targets.

14. The Government intends to pursue cautious external public borrowing and debt management policies to avoid the generation of undue pressures on the balance of payments in the future. Consonant with its objective of accelerating the pace of Haiti's development, The Government will seek long-term foreign financing at concessionary terms, particularly from multilateral and bilateral development agencies. Other types of official foreign borrowing will be subject to careful scrutiny in order to prevent the incurrence of debt at unfavorable terms or unrelated to the country's development needs. In line with this objective, during FY 1983/84 the public sector, including public financial institutions, will neither contract nor guarantee foreign debts with maturity of less than 12 years for more than the equivalent of US$12 million, except for the accommodation of self-liquidating short-term credits within the fiscal year. Moreover, all foreign obligations incurred or guaranteed by the Government or any of its instrumentalities will have to be registered with the Ministry of Finance and the central bank (BRH). Finally, during the period of the program, neither the central bank (BRH), nor the National Credit Bank (BNC) will guarantee foreign credits to the private sector, and the Government of Haiti will not guarantee foreign credits to the private sector.

15. The official value of the gourde has remained fixed in relation to the U.S. dollar since 1919, and it is the intention of the authorities to maintain this relationship unchanged. During the past two years the pressures that developed in the balance of payments resulted in the accumulation of external payments arrears and a parallel market arose in which the gourde was sold at a discount. For the first time in its history, Haiti introduced partial surrender requirements on export proceeds. With the improvement in the financial situation, the payment arrears are being liquidated and the pressure on the value of the gourde has subsided. All payments arrears will have been repaid before

the new program becomes effective, and the new financial program is designed in such a way as to prevent demand pressures originating in the public sector from creating an imbalance between the demand and supply for foreign exchange, and to permit a restoration of the central bank's foreign exchange holdings so that the normal operating needs of the market can be covered without the recurrence of arrears. The authorities expect that as the foreign reserve position of the central bank improves the existing surrender requirements will become redundant, and they may be gradually phased out so as to return in due course to Haiti's tradition of complete freedom in exchange transactions which has so well served the country in the past.

16. During the period of the stand-by arrangement, the Haitian authorities do not intend to introduce any multiple currency practices or impose any restrictions on payments and transfers for current international transactions. Furthermore, during the period of the stand-by arrangement, the authorities do not intend to impose new or intensify existing restrictions on imports for balance of payments reasons or to conclude any bilateral payments agreements with any Fund member.

17. The Haitian authorities believe that the policies set forth in this letter are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. During the period of the requested arrangement, the Haitian authorities will periodically consult with the Fund, in accordance with the Fund's policies on such consultations about the progress being made in the implementation of the program described above and any policy adaptations judged to be appropriate for the achievement of its objectives. With respect to the program for FY 1984/85, the Government of Haiti will consult with the Fund before October 25, 1984 in order to reach understandings on the policies and measures for the remaining period of the stand-by arrangement.

Sincerely yours,

Allan M. Nolte
Governor
Bank of the Republic of Haiti

Frantz Merceron
Minister of State for Economy,
Finance and Industry

Haiti: Table 1. Summary Operations of the Treasury

(In millions of gourdes)

| | Targets for the Cumulative Treasury Revenues | Ceilings on the Cumulative Treasury Outlays |
|---|---|---|
| October 1, 1983 to December 31, 1983 | 245 | 250 |
| October 1, 1983 to March 31, 1984 | 490 | 505 1/ |
| October 1, 1983 to June 30, 1984 | 735 | 760 1/ |
| October 1, 1983 to September 30, 1984 | 950 | 1,010 1/ |

1/ The expenditure ceilings for these quarters may be increased, overall, by the equivalent of two thirds of the cumulative excess in collections from those targeted in the previous quarters, or, conversely, be reduced by an amount equivalent to the total cumulative shortfall in revenue in the previous quarters.

Haiti: Table 2. Deficit of the Public Sector 1/

(In millions of gourdes)

| | Ceiling on Cumulative Public Sector Deficit |
|---|---|
| October 1, 1983 to December 31, 1983 | -5 |
| October 1, 1983 to March 31, 1984 | -15 |
| October 1, 1983 to June 30, 1984 | -25 |
| October 1, 1983 to September 30, 1984 | -60 |

1/ Defined as the sum of: (a) net credit from the domestic banking system to the public sector; (b) net foreign financing of the public sector other than that covered by multilateral and bilateral development agencies; and (c) domestic borrowing by the public sector outside the banking system.

Haiti: Table 3. Net Domestic Assets of the Consolidated Balance Sheets of the Central Bank (BRH) and the National Credit Bank (BNC) 1/

(In millions of gourdes)

| | |
|---|---|
| June 30, 1983 (actual) | 1,440 |
| September 30, 1983 (estimated) | 1,475 |
| Limits during FY 1983/84 | |
| October 1 to December 31, 1983 | 1,510 |
| January 1 to March 31, 1984 | 1,525 |
| April 1 to June 30, 1984 | 1,540 |
| July 1 to September 30, 1984 | 1,575 |

1/ Defined as the difference between (a) the sum of their liabilities to the private sector and the reserve liabilities to private commercial banks; and (b) their net international reserves.

Haiti: Table 4. Net Domestic Assets of the National Credit Bank 1/

(In millions of gourdes)

| | |
|---|---|
| Position as of: | |
| September 30, 1982 (actual) | 237 |
| June 30, 1983 (actual) | 257 |
| September 30, 1983 (projected) | 229 |
| Limits on the cumulative change from the September 30, 1983 position | |
| October 1, 1983 to December 31, 1983 | 31 |
| January 1, 1984 to March 31, 1984 | 26 |
| April 1, 1984 to June 30, 1984 | 31 |
| July 1, 1984 to September 30, 1984 | 35 |

1/ Defined as the difference between (a) the deposit liabilities to the private sector of the BNC plus its net claims on the central bank (BRH); and (b) the net foreign asset position of the BNC, including any unremitted collections abroad as a foreign liability.