EBS/83/222
Supplement 1

CONFIDENTIAL

November 8, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Haiti - Stand-By Arrangement

Attached for the records of the Executive Directors is the text of the stand-by arrangement for Haiti agreed at Executive Board Meeting 83/153, November 7, 1983.

Att: (1)

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 November 7, 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 guaranteing 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	51
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.