

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**FOR
AGENDA**

EBS/86/257
Correction 1

CONFIDENTIAL

December 3, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Haiti - Staff Report for the 1986 Article IV Consultation
and Request for Arrangements Under the Structural Adjustment
Facility

The following corrections have been made in EBS/86/257 (11/21/86):

Page 2, last para., line 8: for "US\$110 million" read "US\$125 million"

Page 30, para No. 6, line 5: for "consultation. These conditions"
read "consultation because he...desirable.
These consultations"

Corrected pages are attached.

Att: (2)

I. Introduction

The 1986 Article IV consultation discussions with Haiti were held in Port-au-Prince during September 1-12, 1986. Representatives of Haiti in the discussions included the Minister of Economy and Finance; the Governor of the Bank of the Republic of Haiti; the Ministers of Commerce and Industry, Agriculture, Planning, and Labor; the Secretary of State for Finance and Budget; the President of the National Credit Bank; and senior officials of various ministries, government agencies, and state enterprises. The mission was received by the President of the Republic. The staff representatives were Messrs. Linde (Head), Andrews, Ewencyk (all-WHD), Masson (RES), and Mentini (ETR), and Ms. Archer (Secretary-WHD). Mr. N. Burnett (IBRD) participated in the mission. The mission was assisted by Mr. Hodjera, the Fund resident representative in Port-au-Prince.

Following discussions with the Fund and World Bank staff, the Haitian authorities have developed, and begun to implement, a program of adjustment and structural reform for the three-year period extending from October 1, 1986 to September 30, 1989. The talks on this medium-term program were concluded at headquarters during a visit by a Haitian delegation headed by the Minister of Economy and Finance in late October 1986. The Haitian authorities have transmitted to the Managing Director a policy framework paper containing a description of their medium-term plans (Attachment I). This paper also has been sent to the World Bank and is to be considered by the Bank's Executive Board on November 18, 1986. In support of the policies outlined therein, the Haitian authorities have requested in a letter dated November 21, 1986 to which is annexed a memorandum of economic policies for the three-year period ending September 1989 (Attachment II), a three-year arrangement from the Fund under the Structural Adjustment Facility (SAF) and the first year arrangement thereunder. The proposed three-year arrangement would be in the amount of SDR 20.727 million (47 percent of Haiti's quota of SDR 44.1 million), and the first disbursement thereunder would be for the equivalent of SDR 8.82 million, or 20 percent of quota.

The Haitian authorities also have requested a structural adjustment credit from the World Bank. On September 30, 1986, the Bank's Loan Committee authorized an appraisal mission for an initial "Economic Recovery Credit" operation in Haiti in the amount of at least US\$30 million to be disbursed over 1986/87 and 1987/88. 1/ The appraisal mission took place in October 1986. The President's report is now being prepared and it is expected to be presented to the Bank's Executive Board by March 1987. In addition, a US\$20 million transport project credit has been appraised by Bank staff and negotiations with the Haitian authorities are in their final stages. This credit is expected to be disbursed over the next three years.

1/ The Haitian fiscal year runs from October to September.

Since August 1974, Haiti has had six stand-by arrangements and one extended arrangement from the Fund. The last stand-by arrangement was approved by the Executive Board on November 7, 1983 in an amount equivalent to SDR 60 million. Haiti was able to make only three purchases for the equivalent of SDR 21 million under that arrangement because of failure to observe performance criteria. Haiti's outstanding use of Fund credit reached SDR 86.2 million (or 195.5 percent of quota) at the beginning of calendar 1985, and as of October 31, 1986 it had been reduced to SDR 59.9 million (or 135.9 percent of quota). Over the 12-month period ending October 1986, Haiti discharged obligations to the Fund totalling SDR 29 million, equivalent to 66 percent of quota. Over this period, Haiti was almost continuously in arrears to the Fund, but managed to keep the amount of arrears from rising and to avoid any obligations remaining overdue for longer than two months. There are no overdue payments at present. Over the next two fiscal years, Haiti faces repurchase obligations amounting to some SDR 18.5 million a year, and Trust Fund loan repayments of SDR 7 million will be falling due over the same period. Scheduled payments to the Fund decline substantially in the third and final year of the proposed three-year SAF arrangement. By the end of the period of the arrangement, Haiti's outstanding use of Fund credit from the General Resource Account will have been reduced to SDR 11.9 million, or 26 percent of quota (Table 1).

II. Background and Recent Economic Developments

1. Background

Following a period of moderate growth and financial stability in the second half of the 1970s, the Haitian economy stagnated after 1980 and domestic and external imbalances emerged (Table 2). However, the financial situation improved in 1985/86.

The scope of the public sector expanded in the 1980s through higher rates of taxation and even higher levels of public expenditure, including the use of public funds for new state enterprises and other money-losing ventures. Resort to nonconcessional financing, mostly from the Central Bank, increased to more than 3 percent of GDP on average in the period 1980-1985. The balance of payments came under pressure; in the five-year period through September 1985, the net official international reserves declined by US\$125 million, external arrears were incurred, and a parallel market developed where the gourde sold at a discount which at times exceeded 20 percent. From mid-1982 to mid-1984, the situation improved somewhat, but financial problems re-emerged as policy implementation weakened in the aftermath of civil disturbances in May-June 1984. Total output has not grown since 1980, but the assembly industry, which became established in Haiti in the preceding decade, has continued to expand, though at a slower pace than in the 1970s. By the mid-1980s, exports of this sector had surpassed coffee and other agricultural products as the main earner of foreign exchange.

Haiti-Structural Adjustment Facility:
Three-Year and First Annual Arrangements

Attached hereto is a letter with an annexed policy framework paper and a letter with an annexed memorandum of economic policies dated November --, 1986 from the Minister of Economy and Finance of Haiti, requesting from the Fund a three-year structural adjustment arrangement and the first annual arrangement thereunder, and setting forth:

(i) the objectives and policies of the program to be supported by the three-year arrangement, and

(ii) the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the International Monetary Fund grants the requested arrangements in accordance with the following provisions and subject to the regulations for the administration of the structural adjustment facility:

1. For a period of three years from , 1986 Haiti will have the right to obtain three successive loans from the Fund under the structural adjustment facility in a total amount equivalent to SDR 20.727 million.

2. The first loan, in an amount equivalent to SDR 8.82 million, is available for disbursement at the request of Haiti.

3. The second and third loans will be available upon approval by the Fund of the corresponding annual arrangements and will be disbursed at the request of Haiti. The amount of the second loan will be equivalent to SDR 5.9535 million, and the amount of the third loan will be equivalent to SDR 5.9535 million.

4. Before approving the second annual arrangement, the Fund will appraise the progress of Haiti in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, taking into account primarily the following:

(a) the indicators described in paragraphs 16, 23, and 25, and Tables 1 through 4 of the Memorandum of Economic and Financial Policy, October 1986-September 1989 (EBS/86/), Attachment II (Annex).

(b) the indicators described in Table 9 of EBS/86/ ,

(c) imposition or intensification of restrictions on payments and transfers for current international transactions,

(d) introduction of multiple currency practices,

(e) conclusion of bilateral payments agreements which are inconsistent with Article VIII,

(f) imposition or intensification of import restrictions for balance of payments reasons.

5. In accordance with paragraph 8 of the attached letter transmitting the memorandum of economic policies, Haiti will provide the Fund with such information as the Fund requests in connection with the progress of Haiti in implementing the policies and reaching the objectives supported by the first annual arrangement.

6. In accordance with paragraph 9 of the attached letter transmitting the memorandum of economic policies, Haiti will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests such consultation because he considers that consultation on the program is desirable. These consultations may include correspondence and visits of officials of the Fund to Haiti or of representatives of Haiti to the Fund.