FOR AGENDA

EBS/07/82

July 9, 2007

To: Members of the Executive Board

From: The Secretary

Subject: **Haiti—Staff Report for the 2007 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Nonobservance and Modification of Performance Criteria**

Attached for consideration by the Executive Directors is the staff report for the 2007 Article IV consultation with Haiti, the first review under the three-year arrangement under the Poverty Reduction and Growth Facility, and Haiti's request for a waiver of nonobservance and modification of performance criteria, which is tentatively scheduled for discussion on **Monday, July 23, 2007.** At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Haiti indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Bauer (ext. 39455) and Ms. Redifer (ext. 36979) in WHD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Tuesday, July 17, 2007; and to the European Commission and the Inter-American Development Bank, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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HAITI

Staff Report for the 2007 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Nonobservance and Modification of Performance Criteria

Prepared by the Staff Representatives for the 2007 Consultation with Haiti

Approved by Caroline Atkinson and Mark Plant

July 9, 2007

- **Developments**. At the time of the last Article IV consultation in May 2005, Executive Directors welcomed progress toward restoring macroeconomic stability and implementing structural reforms, but underscored the need to tighten monetary policy and absorb excess liquidity. They also looked forward to measures to improve budget management and expenditure control. Many of these and other key recommendations were subsequently implemented. Moreover, the political and economic situation stabilized further, and the economy returned to positive—albeit still modest—growth. In November 2006, a new PRGF arrangement was approved, along with Haiti's decision point under the enhanced HIPC Initiative.
- **Discussions**. A team, comprising Messrs. Bauer (Head), El-Masry, Hartelius, and Ms. Redifer (all WHD), Mr. Sacasa (MCM), Ms. Funke (FAD), and Ms. Goretti (PDR), visited Haiti during May 2–16, 2007. Ms. Florestal (OED) participated in the policy discussions. The mission, which was supported by Mr. Fasano (Resident Representative), held discussions with Prime Minister Alexis, Minister of the Economy and Finance Dorsainvil, Minister of Planning Bellerive, Governor of the Bank of the Republic of Haiti (BRH) Magloire, and other members of the economic team. As part of its outreach activities, the mission also met with donor representatives, civil society, and the banking and business communities.
- **Exchange rate regime and Article VIII status**. Haiti has a managed float with no predetermined path for the exchange rate. Haiti has accepted the obligations of Art. VIII, Sections 2, 3, and 4, and its exchange system is free of restrictions on the making of payments and transfers for current transactions.
- **Statistics**. Haiti's economic statistics are broadly adequate for surveillance purposes, but further improvements in coverage, periodicity, quality and timeliness are desirable (Annex I).
- **Article IV cycle and publication**. The authorities have consented to the publication of the staff report and related documents. It is proposed that Haiti remain on the 24-month Article IV consultation cycle.

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EXECUTIVE SUMMARY

Background

- Haiti has made remarkable progress in stabilizing the economy and restoring political institutions. Inflation has declined, the currency has stabilized, and growth has resumed, albeit at a modest pace, thanks to the pursuit of prudent macroeconomic policies by the authorities.

- The PRGF-supported program is broadly on track. Quantitative PCs for the first review (test date end-March) were met with large margins, and most structural PCs and benchmarks were fulfilled on time. The authorities are requesting a waiver for nonobservance of one structural PC.

Focus of discussions

- Policy discussions centered around Haiti's challenge to consolidate stabilization gains and achieve higher growth, to underpin external stability and bring about significant improvement in social outcomes. Discussions focused on three policy issues relating to this challenge: (i) the mobilization of domestic revenues to scale up the provision of essential public goods and services, and reduce reliance on donor support; (ii) the transition toward a more coherent monetary policy framework to help entrench macroeconomic stability; and (iii) external competitiveness.

Main policy recommendations

- In the short term, the key priority is to step up the slow pace of budget execution, particularly in domestically financed investment, without compromising expenditure quality. In addition, the central bank should fully use the available room for base money growth under the indicative program targets, to avoid an overly tight monetary stance.

- In the medium term, strengthened domestic revenue efforts will be essential to provide stable funding for priority expenditures. This could be achieved through a carefully sequenced combination of improving revenue administration, broadening the tax base, and adjusting, in due course, tax rates and fees.

- To clarify the monetary policy framework, the authorities' near term focus should be on controlling inflation via the supply of base money. This would require modification of BRH bond auctions to set volumes in line with base money supply targets, while leaving interest rates to be market-determined through a competitive bidding process. The proposed focus on money supply would be an interim step, while conditions evolve in the longer term to allow for a transition to formal inflation targeting.

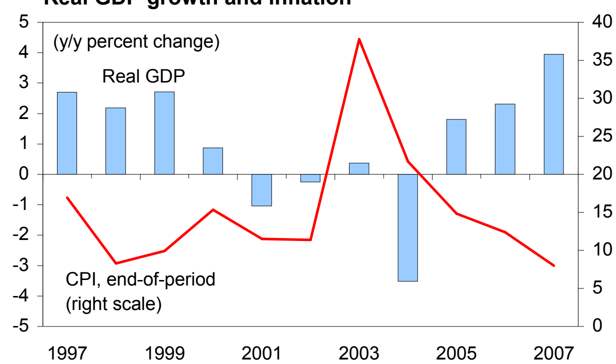
- Staff analysis does not suggest, on balance, that the Haitian gourde is misaligned. However, the economy experiences equilibrium real exchange rate appreciation from rising private remittances and other transfers. Resulting competitiveness pressures should be mainly countered through microeconomic interventions to address widespread non-price competitiveness problems. Attempts to resist the observed equilibrium appreciation would likely be costly and ineffective over time. The authorities should therefore maintain a floating exchange rate regime, limiting interventions to rebuilding reserves in line with PRGF program objectives, and smoothing out seasonal fluctuations.

I. Background: A Stabilizing Economy and Society

1. **Haiti has suffered from a long period of economic decline**. Over the past 40 years, real per capita GDP contracted on average by 0.7 percent per year. The country experienced considerable macroeconomic volatility, notably sharp growth swings, periodic episodes of balance of payments difficulties, disruptive exchange rate movements, and accelerating inflation, which resulted from a combination of extreme political strife (15 governments in the last 20 years), external shocks (including commodity price declines, aid volatility, and natural disasters), and unsound macroeconomic policies. Against this background, it is not surprising that Haiti remains the poorest country in the hemisphere, with 54 percent of the population living on less than one U.S. dollar a day.

2. **Encouragingly, there has been considerable progress in recent years in stabilizing the economy**. The transitional government that took over following President Aristide's departure in February 2004 and the government of President Préval that took office in early 2006, have implemented prudent fiscal and monetary policies. As a result, inflation has declined, the currency stabilized, and gross reserves increased. Most notably, real per capita GDP has begun to recover, although its growth rate still remains modest (¾ of a percentage point in fiscal year (FY) 2006).[1]

Real GDP growth and inflation[1]



1/ Fiscal years.
Sources: Ministry of Economy and Finance and Fund staff estimates

3. **Similarly, there have been positive steps toward restoring political institutions and improving governance and transparency in public sector operations**. President Préval has espoused good governance and the fight against corruption as central tenets of his administration. So far during his tenure, Haiti has witnessed the democratic election of a new parliament and municipal and local authorities, and experienced increased reliance on political compromise and coalition building. Stepped up operations to combat criminal gangs have also restored a sense of relative security in recent months, even though still occasionally interrupted by episodes of heightened crime.

[1] Haiti's fiscal year runs from October to September.

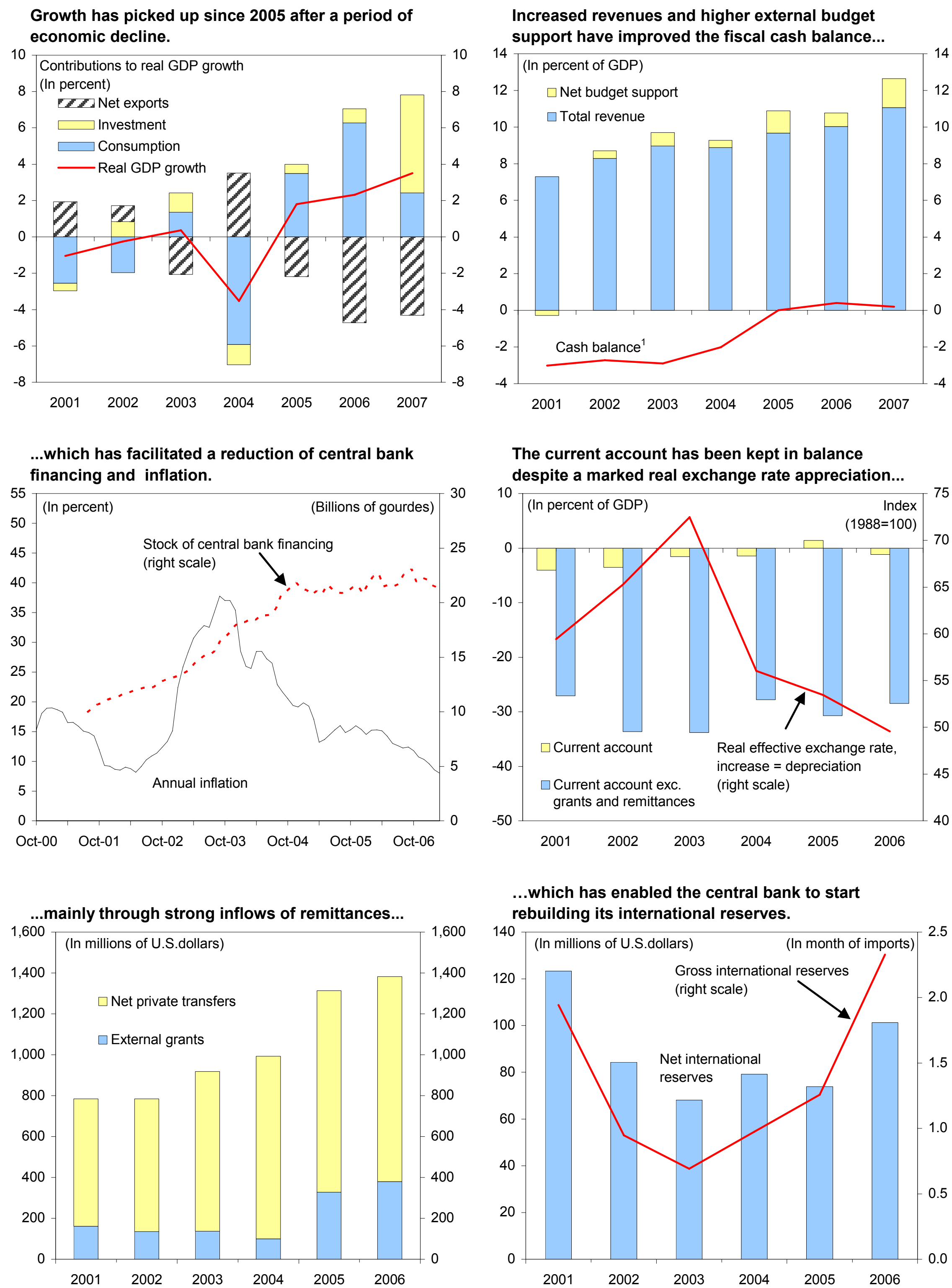
4. **On the basis of its performance, Haiti has received additional support from the international community**. After the early mobilization of donor support under an interim cooperation framework in 2004 and the clearance of arrears with multilateral lenders, Haiti reached its HIPC decision point in late 2006, and the Paris Club agreed to grant debt relief on its most generous terms. In addition, the United States extended preferential tariffs for Haiti's largest export sector, through the approval of the *Haitian Hemispheric Opportunity Partnership Encouragement (HOPE)* Act.

5. **The IMF supported Haiti's stabilization process through the sequenced use of different instruments and facilities**. After a 6-month staff monitored program, the IMF approved support under Emergency Post-Conflict Assistance (EPCA) for two successive programs, from September 2004 to September 2006. These programs provided a framework for economic stabilization and a track record leading to the new three-year PRGF arrangement and HIPC decision point, approved in November 2006.

Authorities' Response to Key Policy Recommendations of
Previous Article IV Consultations

Key IMF Recommendations	Authorities' Policy Response
• Prepare annual budget in close consultation with political parties and align donor support with budget priorities.	• The FY 2007 budget was approved within the constitutionally specified time frame by the newly elected Parliament. Donor financing was sought and obtained at an international conference held in Madrid in July 2006, in line with priorities set out in the draft budget.
• Improve budget management and expenditure control mechanisms.	• The authorities have kept spending from current accounts below 10 percent of nonwage current expenditure appropriations through March 2007.
• Avoid accumulation of nonconcessional debt and move toward grant- or highly concessional financing.	• New financing has been obtained as grants or on concessional terms, including from non-Paris Club donors.
• Tighten monetary policy with a view to absorbing excess liquidity in the banking system and avoiding central bank financing.	• The central bank has discontinued providing credit to government since the first EPCA program in September 2004. This and a concerted sterilization policy have helped reduce excess reserves from over 30 percent in September 2004 to about 1 percent currently.
• Rapid implementation of auctioning mechanism for the placement of central bank bonds.	• The authorities have indicated their interest in introducing and expanding the auction but taken no action so far.
• Improve fiscal transparency by completing the survey of domestic arrears and the census of government employees, and publishing data on budget execution.	• A census of government employees has been performed in FY 2005. A survey of wage arrears has been completed and plan for their clearance is being implemented. Inventory of nonwage arrears and a plan for their clearance is underway.
• Improve the quality and timeliness of economic statistics, including through the use of Fund technical assistance.	• The authorities have taken advantage of extensive technical assistance from the Fund's Statistics Department to improve their economic data, particularly in monetary and fiscal statistics. However, further improvements in data coverage, quality and timeliness are needed.

Figure 1. Haiti - Economic Situation at a Glance



[1]Cash balance equals revenues, budget support grants, budget loans, and change in arrears less current expenditure, domestically financed investment expenditure, and amortization of external loans.
Sources: Ministry of Economy and Finance; Bank of the Republic of Haiti; and Fund staff estimates.

II. Policy Discussions: Creating Conditions for Durable Growth

6. **With significant stabilization progress already achieved, the challenge for Haiti is to convert its incipient recovery into a sustainable economic expansion**. Economic growth is needed to underpin external stability and bring about significant improvement in social outcomes. Without tangible social progress, there is a risk that civil conflict will resurface and hard-won progress will be lost.

A. Medium-Term Outlook and Challenges

7. **The authorities and staff agreed that the current path could lead to an overall favorable outlook for growth**. There was a sense that the medium- and long-term growth projections determined in PRGF negotiations last year remained broadly appropriate. This framework envisaged an acceleration of real GDP growth to a rate of about 4 percent in the medium and longer term, similar to growth rates achieved during past periods of domestic and external stability (Box 1).

8. **However, there was also agreement that meeting the growth objectives would require overcoming significant and widespread obstacles**. Alleviating these constraints would create conditions for a crowding-in of private sector investment and support higher levels of productivity to underpin growth**:**

- In the short term, the still fragile **security situation** has to be improved further, so that recent successes in the combat of criminal gangs can take root across the country and help boost confidence.

- **Further consolidating economic stability** will be important to create a more predictable business environment and ensure continued donor and IFI support. However, by itself this will not yet be a sufficient condition for raising growth.

- In addition, medium-term growth is constrained by a number of **structural and institutional bottlenecks**, including supply shortages, notably in the construction sector; dilapidated infrastructure; inadequate and costly basic utility services, particularly electricity; poor coverage and quality of education and health services; low financial intermediation; and difficult enforcement of property rights. Moreover, spending and implementation capacity of the government remains limited, as evidenced by a significant underexecution of budgeted expenditures in the first half of FY 2007.

9. **The authorities were cognizant of these obstacles and noted that they are taking important steps to remove them**. To alleviate supply side bottlenecks, the authorities are seeking to broaden participation of domestic firms in public tenders, and facilitate entry of foreign suppliers, particularly in the area of public infrastructure projects. In addition, they are building up financial administration and project management capacity at line ministries to raise expenditure execution. The mission welcomed these steps, but noted it would likely take some time until their effects could play out in full. In terms of addressing microeconomic impediments to growth, the authorities pointed to the creation of the center for investment facilitation, a one-stop window for investors. They also intend to improve competitiveness of remaining state-owned enterprises through outright privatization or other modalities of private sector participation. Staff agreed these were steps in the right direction.

10. **There was agreement about the importance of donor assistance to overcome critical bottlenecks, including through technical assistance**. Coordination was deemed particularly important in this context, so that foreign aid and domestically financed government expenditures could be mutually reinforcing and have a stronger impact on economic and social outcomes. The authorities noted that they had recently taken steps to lead more effectively the coordination effort, including through more frequent and regular meetings of local donor representatives with the Prime Minister.

11. **Against this general backdrop, the Article IV discussions focused selectively on three policy issues that are important to support growth and stability over the medium term**:

- First, in the fiscal area, generating additional revenue to support higher spending on critical social and infrastructure needs and prepare the country for a transition to less dependence on volatile foreign assistance;
- Second, strengthening Haiti's monetary policy framework to provide for a stable low-inflation environment; and
- Third, assessing the evolution of external competitiveness, particularly in light of the real appreciation of the Haitian gourde in recent years and over the longer term.

Box 1. Growth Outlook in Haiti

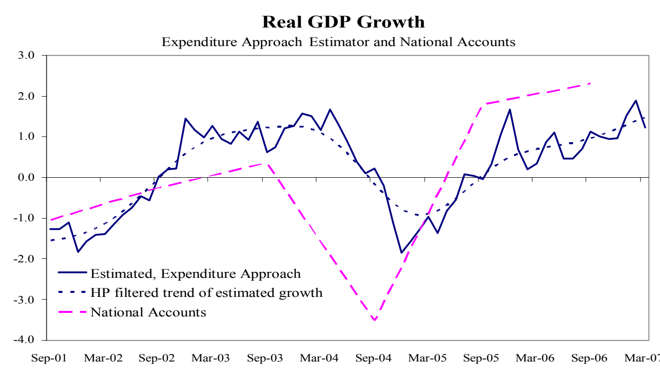
Haiti's real GDP growth could increase to 4 percent in the medium to long term, similar to growth rates achieved during past periods of domestic and external stability. This forecast assumes continued improvements in security conditions, sustained political and macroeconomic stability, and improvements in social and economic infrastructure. As infrastructure constraints are gradually removed, agricultural production and exports could pick up. The textile assembly industry is likely to benefit from the *Haitian Hemispheric Opportunity Partnership Encouragement (HOPE)* Act, which will extend preferential access to the U.S. market over the next three to five years. Over time, improvements in security and the rehabilitation of transport infrastructure would create favorable conditions for the tourism industry, which could initially cater to the Haitian Diaspora and cruise tourism, and later to broader international markets. Nevertheless, owing to the significant structural obstacles that need to be overcome, Haiti's growth performance is likely to remain for some time below the rates recorded by other low-income countries.

Average real GDP growth (in percent)

	1995-2000	2001-04	2005-06	2007-11
Haiti	3.8	-1.1	2.1	4.0
Low income countries/1	3.5	4.9	5.8	5.9
PRGF countries/2	5.1	7.8	7.7	6.9
Post-conflict countries/3	3.8	5.2	6.1	5.7

1/ PRGF eligible with 2005 GNI lower than US$1000
2/ PRGF countries as of April 2007.
3/ Country with EPCA between 1988 and 2007
Source: Staff estimates and WEO

Available indicators do not point to a significant acceleration of growth so far in FY 2007. Staff has developed a monthly expenditure approach GDP estimator, as well as activity indicators based on real credit, real money growth, construction activity, and total imports. These indicators suggest a continued expansion of the economy, but at rates only marginally higher than in 2006. As a consequence, staff has lowered its growth forecast for FY 2007 to 3.5 percent from 4 percent, with the balance of risks to this forecast still remaining tilted toward the downside.

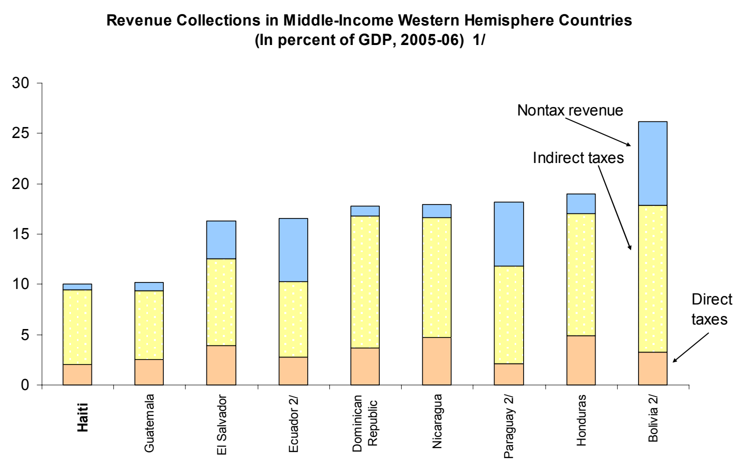


Source: Staff estimates

For FY 2008, on the other hand, staff anticipates the economy will benefit from an extra push from the HOPE Act. The HOPE Act is likely enter into force in July 2007, allowing Haiti to export garments made from third-country textiles free of duty to the United States. Orders from U.S. customers have begun to accumulate in anticipation of HOPE, and staff estimates that exports could increase by as much as US$150 million next year owing to the Act. Given a value added in the textile assembly industry of about 20 percent, growth could rise to 4.5 percent in FY2008, before returning to the projected long-term trend of about 4 percent in subsequent years.

B. Domestic Revenue Mobilization

12. **Increasing domestic revenue to fund higher levels of essential government expenditure is a key challenge for Haiti, particularly over the medium term**. The mission noted that at about 10 percent of GDP, Haiti's revenue effort is relatively low, possibly reflecting a large informal sector and weak administrative capacity. It underscored that more domestic revenues would provide fiscal space for higher levels of public spending on essential goods and services, while reducing dependence on volatile aid flows.[2]



1/ Haiti data for FY2005/06.
2/ Include substantial revenue from energy production (hydroelectric, oil, or gas).

13. **The authorities agreed with this assessment and stated their intention to raise domestic revenues to at least 15 percent of GDP**. They pointed to initial steps that had been taken, mainly on reforming the income tax system and improving revenue administration. These measures had helped boost revenues by 30 percent in the first half of the current fiscal year (y/y), and are on course to raise domestic revenues by more than 1 percent of GDP in FY 2007 as a whole.

14. **The mission welcomed the strong revenue performance so far and proposed actions to raise revenue in coming years to help attain the authorities' targeted level**. Staff noted that this could be achieved through a carefully sequenced combination of improvements in revenue administration, broadening of the tax base, and selective adjustments to tax rates:[3]

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[2] Because of the small size of the government, the scope to create fiscal space through expenditure re-allocation appears fairly limited at present. For example, security and defense outlays are very low in Haiti. Similarly, the wage bill—at about 3½ percent of GDP—is very low by international standards.

[3] A more detailed discussion of the challenges and opportunities in mobilizing domestic revenues in Haiti's post-conflict environment is presented in the companion Selected Issues Paper.

- **Strengthening revenue administration** should be the first step in this three-pronged strategy. Efforts should initially focus on strengthening basic functions and tax procedures, followed by more far-reaching modernization, such as, for the inland revenue authority (DGI), moving to a functional model of tax administration. For the customs authority (AGD), establishing effective controls in the provinces should be the first step, followed by the strengthening of procedures at all locations, including through introducing more risk management, shifting to post-release controls, and applying the WTO valuation system. Along these lines, the authorities have already prepared plans to strengthen customs and to modernize the DGI, which should be diligently implemented.

- **Broadening the tax base** will be important to distribute the tax burden more evenly. This requires, among other things, combating evasion through stronger controls at the border, bringing potentially large taxpayers currently operating informally into the tax net, and eliminating the turnover tax (i.e., VAT) exemption of export sector inputs, while introducing a tax refund system for excess credits.[4] In addition, investment incentives could be streamlined. Also, the potential of nontax revenues could be used more fully by adjusting fees and charges for past inflation and improving the profitability of state-owned enterprises. Finally, there is significant scope to rationalize the tax system and release tax administration resources for better uses, through a front-loaded elimination of "nuisance" taxes that deliver insignificant revenue.

- **Adjusting some of the tax rates that are low by international standards** should also be considered in due course. The taxation of diesel could be raised to narrow the gap and reduce the distortions vis-à-vis other petroleum products. Once revenue administration and customs controls have been sufficiently strengthened, the VAT rate—currently at 10 percent—and excise tax rates could be raised closer to average levels of the region.

15. **Staff estimates that the above-mentioned measures could raise revenues by at least 3 percent of GDP, phased in over a number of years**. Actions to strengthen the DGI and AGD could yield about 1 percentage point of GDP, and the proposed increases in selective tax rates could generate about 1½ percentage points of GDP in revenue, if the VAT rate were raised to the regional average of 14 percent. While the immediate impact of measures to broaden the tax base would be limited, these measures would likely increase tax buoyancy over time, and their progressive nature could help make the reforms more politically palatable.

[4] The turnover tax, officially known as "taxe sur le chiffre d'affaires" (TCA), is akin to a value-added tax (VAT).

Summary of revenue impact of tax administration and tax policy measures

	Expected additional revenue yield (percent of GDP)	Time frame of implementation (years)
Direct taxes		
Broaden tax base	1.00	1-3
Indirect taxes		
VAT: raise tax rate to 14%	1.00	2-3
Introducing VAT refund mechanism	Not determined	2-3
Petroleum: simplify taxation, increase government take on diesel to 25%	0.40	0.5-1
Adjust other excises (alcohol, etc.)	0.60	1-2
Eliminate nuisance taxes	Neutral	1-3
Strengthen tax and customs administration	1.00	1-3
Non-tax revenue		
Improve management of SOE	Not determined	3-4
Adjust fees and charges to inflation	Not determined	1-2

Source: IMF Staff estimates

16. **The authorities broadly agreed with the proposed approach, placing most emphasis on strengthening tax administration and broadening the tax base**. In this context they thought that the modernization experience of the large taxpayer unit could be usefully applied to other units. The authorities also expressed their intention to increase the use of income tax withholding, as a means of reducing evasion. The authorities cautioned that decisions to increase selected tax rates should be taken in the context of a comprehensive review of the tax system, among other things, to ensure that social implications of the envisaged changes are duly considered, a point that was well taken by staff. Another revenue source, not yet included in estimates, could be an increase in tariff revenue if Haiti adopts CARICOM's common external tariff.[5]

17. **There was agreement that together with measures to enhance revenue, public financial management and budget execution capacity would also need to be strengthened**. Otherwise, there could be a contractionary impulse on the economy. In addition, a higher revenue effort was likely to face less taxpayer resistance, and would thus be more sustainable over time, if accompanied by a visible increase in the provision and quality of public goods and services. Continuing the authorities' ongoing efforts to improve public financial management systems, which have been supported by IMF technical assistance, would therefore be important.[6]

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[5] Haiti rejoined CARICOM in June 2006.

[6] A joint IDB-World Bank Public Expenditure Management and Financial Accountability Review (PEMFAR) is currently underway, which is set to provide additional recommendations for longer-term public expenditure reform and institutional development.

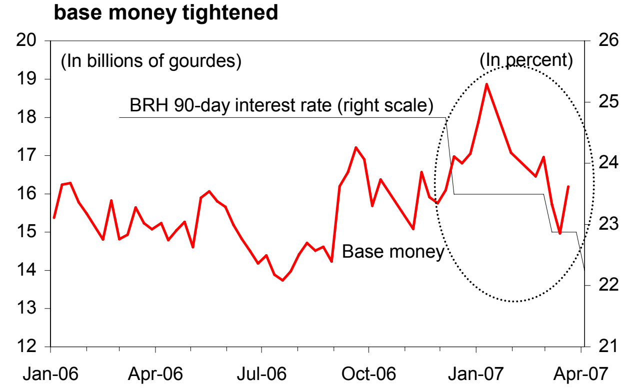
C. Monetary Policy Framework

18. **The Bank of the Republic of Haiti (BRH) conducts monetary policy in a challenging environment with limited policy tools**. The money supply is regulated by issuing BRH bonds, but with both volumes and prices for bond auctions fixed, the policy interest rate (91-day BRH bonds) has little impact on market interest rates, creating an ineffective transmission mechanism. Furthermore, dollarization is high and financial markets are shallow, with no interbank money market, secondary market for BRH bonds, nor standing facilities.

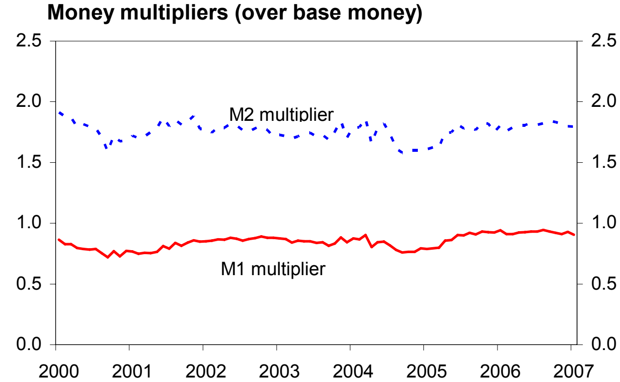
19. **Despite this environment, the BRH has made significant progress over the past three years in reducing inflation**. In 2003, inflation rose sharply to 38 percent at year-end, mainly as a consequence of increasing central bank borrowing by the government. Monetary control was later restored, primarily as a result of discontinuing central bank financing to the government and sterilizing excess liquidity, and inflation declined gradually to 8.3 percent in May 2007.

20. **The authorities and the mission agreed that the central bank's current approach to monetary management can result in inconsistent policy signals**. Under the current framework—which mixes elements of monetary and inflation targeting, and exchange rate management—monetary policy instruments are used sometimes in conflicting ways, making it difficult for market participants to infer the central bank's monetary stance. For example, in recent months, the BRH has lowered its key policy interest rate on several occasions, while at the same time allowing a slower pace of base money growth.

Policy conflict: policy interest rate reduced while base money tightened



Money multipliers (over base money)



21. **To clarify the monetary policy framework, the mission proposed a stronger near-term focus on controlling inflation via the supply of base money**. Empirical analysis points to a strong historical relationship between monetary aggregates and

inflation.[7] There is also evidence of a significant exchange rate pass-through to inflation, but little indication of an impact from interest rates. While broad money is most strongly related to inflation, the relationship between inflation and gourde money (M2) is also very significant, with the latter having the advantage of being under more direct control of the BRH. Given stable base money multipliers, these findings as a whole support the conclusion that monetary control can be an effective way of containing inflation in Haiti in the period immediately ahead.

22. **The mission advised the authorities to steer the money supply principally through the BRH bond auctions**. Under this approach, BRH bond auctions would be modified to set volumes in line with the central bank's base money supply targets, while interest rates would be market determined through a competitive bidding process, thereby ceasing to be an instrument of central bank policy.

23. **The mission stressed that the focus on money supply should be seen as an interim step toward a more advanced monetary policy regime in the future**. However, the proposed simple framework appears suitable for the current stage of development of Haiti's financial system. In the meantime, the BRH should take steps to encourage financial market deepening and strengthen the interest rate channel as a means of transitioning, over the longer term, to an inflation targeting regime.

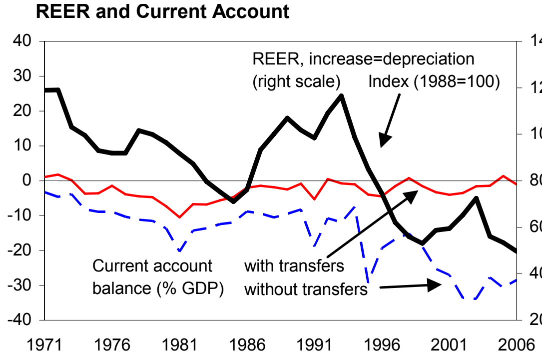
24. **The authorities generally supported the proposed framework, but pointed out implementation issues that would need to be addressed first**. They emphasized that widening participation in bond auctions would be essential to ensure competitive price-bidding, given that BRH bond holdings are concentrated in a few large banks. They also argued for a gradual introduction of competitive pricing, given that the market-clearing interest rate could be quite low, and banks holding large quantities of bonds would need to adjust to the resulting drop in earnings. Furthermore, the central bank would need to strengthen its liquidity forecasting, and the authorities requested technical assistance for this from the IMF. Staff acknowledged the importance of addressing these issues, but encouraged the authorities to move forward as quickly as possible.

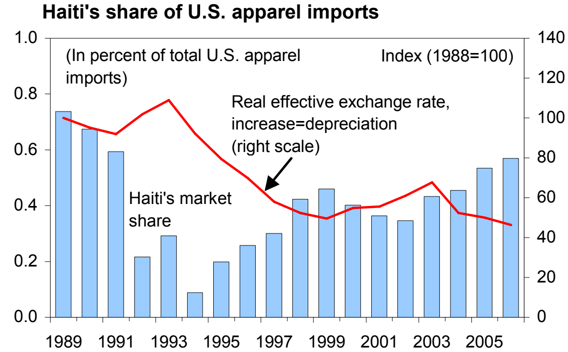
25. **There was agreement that strengthening central bank autonomy would also be important**. Rehabilitating the balance sheet of the BRH should help make monetary policy more independent of financial considerations, while establishing effective limits on central bank financing to the government should help preclude future fiscal dominance. In this context, development of a treasury securities market to enable the government to borrow directly from the private sector would serve the dual purposes of strengthening central bank independence and deepening financial markets.

[7] A more detailed analysis and discussion of inflation and the monetary transmission mechanism in Haiti is provided in the companion Selected Issues Paper.

D. Competitiveness

26. **Haiti's real exchange rate has appreciated substantially both recently and over the long term**. Despite this appreciation, the current account has remained relatively balanced, due to a strong inflow of private and public transfers financing an increasing trade deficit. The existing export sector, which is small and has become very concentrated, was able to recover partly from the collapse induced by the imposition of economic sanctions in the early 1990s, and competitor-based real effective exchange rates (REERs) for textiles and agricultural exports indicate that Haiti has lost less ground to competitors in these sectors than the overall REER would suggest.[8] Moreover, analysis of tradables vs. nontradables inflation does not provide clear evidence that the relative price of nontraded goods has been increasing over the past decade. However, this evidence by itself does not rule out the existence of a competitiveness problem, because high distribution costs render the distinction between tradables and nontradables difficult when using CPI data. In any case, there was agreement between the authorities and staff that the observed real appreciation exerts considerable competitive pressure on both the export and the import-substitution sectors.





27. **While equilibrium real exchange rate analysis suggests that the appreciation of the last few years has been somewhat stronger than implied by fundamentals, this evidence is not sufficient to conclude that the currency is misaligned**. First, binding limitations in data availability and quality call for a cautious interpretation of the results. Moreover, the utilized econometric model cannot adequately capture the impact on the equilibrium real exchange rate of recent structural changes, such as the macroeconomic stabilization and the arrival of a large UN support mission. Finally, a number of other indicators, including the evolution of export shares and the current account, do not provide clear evidence of a currency misalignment.

[8] A more detailed assessment of Haiti external competitiveness is provided in the companion Selected Issues Paper.

28. **Overall, both the authorities and the mission viewed the observed appreciation largely as an equilibrium phenomenon, with little scope for a macroeconomic policy response**. The staff's analysis suggests that Haiti's equilibrium REER exhibits a trend appreciation due to strongly increasing current transfers, mostly private remittances from Haiti's large and still growing diaspora. Seeking to offset this appreciation trend through market intervention would be costly and in all likelihood ineffective over time. The mission therefore advised the authorities to maintain a floating exchange rate regime, noting that it had supported disinflation. Intervention should continue to be limited to replenishing reserves in line with PRGF program objectives, and smoothing out seasonal fluctuations.

29. **There was agreement that competitiveness should be bolstered by addressing widespread non-price competitiveness problems**. While the level of the real exchange rate does not imply a problem for external sustainability, as long as transfers remain stable, the dependence of the economy on transfer flows and their impact on the exchange rate may hold back the development of more robust export and import-substitution sectors. To ease the burden on these sectors, the mission encouraged the authorities to improve Haiti's business environment, which imposes very high costs on firms, including as a result of unreliable and expensive utilities, insecurity, poor infrastructure, and legal uncertainties. Steps should also be taken to identify and address structural rigidities that contribute to the large intermediation margins of banks and to reduce borrowing costs in the economy. The authorities and the mission agreed that the ongoing FSAP exercise should study these issues in greater detail and advise on how to increase competition in the banking system and reduce intermediation spreads.

E. PRSP and HIPC

30. **A full PRSP is being developed under an ambitious timetable**. The authorities aim to complete the PRSP by end-September 2007. They have established a coordinating committee headed by the Prime Minister, involving representatives of civil society, the business community, and local governments. The committee has laid out a timetable for the consultation process, which has commenced with outreach workshops across the country. Staff welcomed the intention to advance quickly with the formulation of the PRSP, but encouraged the authorities to ensure that this would not come at the expense of the document's quality and a broad participatory process.

31. **First steps have been taken in implementing HIPC completion point triggers**. The authorities have completed the adoption of a mechanism to track poverty-reducing public expenditures on the basis of existing expenditure classifications, and are implementing a plan to extend customs control to the provinces.

III. PRGF-Supported Program: *First Review*

32. **Performance under the PRGF-supported program has been strong, although growth has fallen somewhat short of expectations**. In the attached letter and supplementary Memorandum of Economic and Financial Policies (MEFP), the authorities outline the progress under the program and request completion of the first review. All quantitative performance criteria (PCs) for the end-March test date were met with significant margins, and most structural conditionality was implemented on time:

- **Budget execution was significantly lower than anticipated, while domestic revenues exceeded expectations**. This led to a stock of central bank financing to the central government G1.8 billion lower than foreseen in the program.

- **The central bank used the opportunity of strong transfer inflows to step up their foreign exchange purchases,** resulting in an accumulation of net international reserves (NIR) far higher than programmed (US$218 million compared to an end-March PC of US$129 million). The large liquidity injection from the reserves purchases was more than compensated for by the contractionary impact of the fiscal overperformance, thus allowing the authorities to keep base money growth slightly below its indicative program target, without further issuing sterilization bonds.

- **Seven out of eight structural PCs and three out of six structural benchmarks were met for end-March**. Missed end-March benchmarks were subsequently implemented. The authorities are requesting a waiver of nonobservance of the PC on submission of a new banking law to Parliament by end-March, which was delayed to enable the draft law to benefit from IMF technical assistance and an internal consultation process. The draft law was submitted to Parliament in late June as a prior action for completing the first review. The authorities also met two structural PCs for end-June, which are conditions for the second program review.

- **While inflation has declined at a faster than anticipated pace, growth is below projections**. Available indicators suggest that economic activity continues to expand, but its pace is picking up less than expected. In the absence of significant stimulus from government spending, growth appears to have been mostly sustained by exports and private investment.

A. Macroeconomic Framework for Remainder of FY 2007

33. **Staff and the authorities agreed on some revisions to the macroeconomic framework for the current fiscal year**. In light of the weaker than expected performance so far, the growth estimate for FY 2007 was reduced from 4.0 percent to 3.5 percent. While there remains considerable downside risk to this forecast, the authorities are hopeful that accelerated government spending in the second half of the fiscal year will inject new stimulus for economic activity. Similarly, the inflation target for end-September 2007 was reduced from 9 percent to 8 percent, a level that was already achieved in March and April. Recent oil price increases are creating some inflation pressures, but this is likely to be offset by the impact of exchange rate appreciation on prices of imported goods.

34. **Program targets for the second review were modified to reflect better outcomes**. In light of the still low reserves coverage and the prospects for continued strength of remittances and scheduled budget support, the annual floor for NIR accumulation was raised from US$30 million to US$135 million.[9] With unchanged money growth targets, this NIR increase dictates a one-for-one decrease in the ceiling for net domestic assets, which would require the issuance of up to G2.5 billion (about US$65 million) in BRH bonds if the government budget is fully executed (i.e. government deposits accumulated so far are fully drawn down). Staff believes that the risk of private sector crowding out from this sterilization would be limited, because credit demand still remains significantly constrained by structural impediments. Also, reducing the potential volume of sterilization through an ex-ante limit on budget execution would not be desirable, given the country's substantial government spending needs.

35. **Accelerating budget execution will be the key challenge for the authorities in the remaining months of the fiscal year**. The supplementary budget provides for significantly higher expenditures, particularly public investment, which are mainly funded from higher-than-anticipated domestic revenue and debt relief. If the authorities can overcome spending constraints, total expenditure could increase by up to 3 percent of GDP for the fiscal year, leaving a deficit (excluding grants and externally financed projects) of 1.4 percent of GDP. This deficit is fully financed by identified external budget support, with no recourse to central bank financing on a year-over-year basis.

36. **Staff expressed concern about the unprogrammed tightening of the monetary stance and encouraged the authorities to fully use the available room under the program to expand base money**. While base money growth through end-March was broadly in line with expectations, it subsequently fell well below program targets, in anticipation of the pick up in government spending in the second half of the year. Under the

[9] At the same time, the ceiling on the program adjustor for budget support shortfalls was increased from US$20 million to US$50 million.

circumstances, staff urged the authorities to improve the flow of information between the BRH and the ministry of finance for purposes of liquidity planning, in order to avoid episodes of excessively restrictive monetary policy. In light of contained inflation risk, weak credit, and the general intention to shift the monetary policy focus on managing money supply, staff supported the authorities' policy of gradual reductions in administered BRH bond rates. Current interest rates remain high in real terms by historical standards, and still appear to be well above market equilibrium levels. However, for the rest of the fiscal year, the possible need for large-scale sterilization with BRH bonds justifies a cautious approach to further interest rate reduction.

37. **A number of adjustments to the program's structural conditionality were agreed**. In order to benefit from IMF technical assistance planned for the fall, the authorities requested to move the PC on developing a central bank recapitalization plan to March 2008. They also requested to align the timing of a plan to divest the BRH's ownership in Teleco, originally required by end-June 2007, with the development of a recapitalization strategy. These changes were approved by the Executive Board on a lapse-of-time basis in late June.[10] Two PCs will be added for end-September to further advance in the areas of revenue administration reform and safeguards implementation. The authorities will adopt a detailed implementation plan for modernizing the DGI, and complete a technical report on obstacles to implementing International Financial Reporting Standards (IFRS) at the central bank. In addition, they agreed on a structural benchmark to ensure stronger quality control of monthly monetary data.

Summary of Proposed Changes to Structural Performance Criteria and Benchmarks

Measures	Proposal
1. Structural performance criteria	
Prepare a plan to recapitalize the central bank.	Reset test date from September 2007 to March 2008 [1]
Adopt a strategy for discontinuing BRH involvement with TÉLÉCO.	Reset test date from June 2007 to March 2008 [1]
Commence an independent assessment of possible recapitalization needs and required financial and operational restructuring of BNC.	Modify the PC to commence rather than complete the assessment by end-September 2007
Adopt detailed implementation plan for modernization of the DGI.	Introduce as a new PC for the third disbursement (second review), with end-September 2007 test date
Review of the feasibility of IFRS implementation in line with the BRH action plan.	Introduce as a new PC for the third disbursement (second review), with end-September 2007 test date.
2. Structural benchmarks	
Monthly monetary program data to be signed off by the Central Bank's interdepartmental and steering committee.	Introduce as new monthly structural benchmark from August 2007.

1/ These PCs were approved by the Executive Board on a lapse-of-time basis (see EBS/07/68).

[10] See EBS/07/68.

38. **The plan to resolve weaknesses in the banking system is advancing, and the banking sector shows improved performance and solvency after its orderly consolidation in 2006 (Box 2)**. In early 2007, state-owned *Banque Nationale de Crédit* (BNC) absorbed all assets and liabilities of *Socabank*, which was under financial distress. As part of the authorities' plan to address financial sector weaknesses, a thorough assessment of the merged bank is to be undertaken to determine any needs for recapitalization, and financial and operational restructuring. Because the identification of a qualified international assessor has proven time consuming, the authorities are requesting that this assessment is being allowed to commence by end-September rather than being completed by that date, as required under the program. The authorities intend for this assessment to be completed no later than end-March 2008.

Box 2. Banking Sector Developments

Haiti's banking sector underwent further consolidation in 2006 and 2007. In this process, the number of banks declined from 13 to 9 and concentration increased, with the three largest banks now holding almost 80 percent of total assets.

In March 2007, BNC, a large state-owned bank, acquired the assets and liabilities of Socabank, previously Haiti's fourth-largest bank. This halted a prolonged period of distress for Socabank, which had significant negative capital, a nonperforming loan (NPL) ratio of close to 50 percent, and deposit outflows. The capital adequacy ratio (CAR) of BNC after the merger was reported to be 26 percent at end-March, while its liquid balances to deposits substantially exceeded the system's average.

Most banks report high solvency, strong liquidity, and good earnings, but NPLs are high. All but one bank reported CARs well above the 12 percent regulatory minimum as of March 2007. The aggregate ratio of liquid assets to deposits has been around 54 percent over the past few years. Aggregate annualized return on assets more than doubled during FY 2006, and rose to 2.0 percent in the first half of FY 2007. However, NPLs were also fairly high, representing on average 12 percent of total assets.

The systemic importance of the largest banks underscores the need for careful supervision. A joint Bank-Fund FSAP is currently ongoing, with a dual focus on the soundness of the financial sector and its developmental needs. The FSAP conclusions and recommendations will be presented to the IMF Executive Board at the time of the second program review.

B. Macroeconomic Framework for FY 2008

39. **The authorities and the mission discussed the broad outlines for the FY 2008 budget and macroeconomic framework**. The authorities' draft budget envisages an increase in domestic revenues by 0.9 percent of GDP from strengthened tax administration efforts, partly offset by somewhat lower budgetary grants. Expenditures (excluding foreign-financed projects) would rise by 0.6 percent of GDP, focused on education, health, justice, public security, agriculture, infrastructure and tourism development. As in the current fiscal year, the budget does not foresee any recourse to central bank financing. Firmly committed budget support already amounts to 1.2 percent of GDP, and, based on historical patterns, the authorities feel reasonably assured that additional donor commitments for a small remainder of 0.3 percent of GDP will be forthcoming (see further in the paragraph below). Other key assumptions of the preliminary macroeconomic framework are a real GDP growth rate of 4.5 percent; a further decline in inflation to 7.5 percent; NIR accumulation of US$70 million; and base money growth that is slightly lower that expected nominal GDP growth.

40. **Firm quantitative targets for FY 2008 will be finalized at the time of the second program review, since the outlined indicative framework is still subject to change**. For instance, the authorities intend to convene a donors meeting after the completion of the PRSP, presumably in early 2008, to realign spending priorities and discuss new pledges. Second, Haiti has ratified the Petrocaribe agreement with Venezuela and recently signed an agreement for benefits under ALBA terms, and could thus potentially receive substantial concessional financing for oil purchases under these initiatives.[11] These developments would have to be incorporated in due course into the framework, along with other relevant information that might become available. The authorities indicated their intention to invest the Petrocaribe funds and spend only the investment proceeds transparently through the budget. Staff welcomed the intention to channel the resulting investment spending through the budget, and noted that the authorities' approach would require strong safeguards.

[11] Under the Petrocaribe agreement, Haiti could import up to 14,000 barrels of crude oil and refined products from Venezuela per day. At current oil prices, up to 40 percent of each shipment could be financed by a bilateral 25-year loan at a 1 percent interest rate (the grant element of these loans amounts to about 50 percent). For Haiti, this would imply a loan volume of up to US$140 million per year (2.5 percent of FY 2007 GDP)

C. Capacity to Repay, Program Risks, and DSA

41. **Haiti's capacity to repay the Fund and the risks to the program are broadly unchanged from the time of the approval of the arrangement last November**. Credit outstanding to the Fund at end-May 2007 was SDR 28.1 million or 34.3 percent of quota. Outstanding obligations to the Fund will peak at SDR 74 million in 2010, or about 9 percent of exports of goods and services. The authorities have continued their good track record of timely debt service payment, and external indebtedness should continue to improve with time. The key risks to the program, which remain substantial, are the absence of a meaningful growth acceleration and improvements in social conditions, which could lead to domestic instability and put external support into question.

42. **A joint Bank-Fund low-income country debt sustainability analysis (LIC DSA) was conducted in November 2006, and will be updated for the second program review**.[12] It indicated that Haiti's risk of debt distress is high, even after full delivery of HIPC and bilateral debt relief, but would be significantly reduced by MDRI relief from IDA.[13] The forthcoming LIC DSA will reflect a number of developments that have taken place since last November:

- In early 2007, the IDB committed MDRI-type post-completion point debt relief and announced the move to grant-only financing for the next two years. Using unchanged assumptions from the November 2006 LIC DSA exercise, the relief provided by the IDB alone would reduce the NPV of debt-to-exports ratio by over 30 percentage points.
- As a consequence of the HOPE Act, exports of goods and non-factor services are projected to rise faster in coming years than assumed last November. This would reduce the NPV of debt-to-export ratio approximately by another 10 percentage points.
- Finally, the volume of the Petrocaribe agreement with Venezuela, which Haiti ratified in May 2007, was increased from 7,000 to 14,000 barrels of oil products per day. Thus, the agreement could provide concessional lending of up to 2.5 percent of GDP per year, putting upward pressure on the NPV of debt-to-export ratio.

The combined impact of these developments will likely result in a significant decline of Haiti's NPV of debt-to-exports ratio in the short and medium term in the updated LIC DSA. The longer-term impact is less certain, as it will depend on the intensity of use of the Petrocaribe facility.

[12] Applicable guidance indicates that a full LIC DSA should be produced once per year.

[13] See EBS/06/143.

IV. Staff Appraisal

43. **Haiti has achieved substantial economic and political stabilization over the past three years**. The authorities are to be commended for the implementation of sound monetary and fiscal policies, which have led to a sharp reduction in inflation, stabilization of the exchange rate, and resumption of growth. The restoration of political and constitutional order, exemplified by peaceful and transparent elections, the recent improvements in the security situation, and the government's drive to promote good governance are all welcome and encouraging.

44. **The PRGF-supported program is broadly on track, although growth is somewhat below projected levels**. Quantitative targets for the first review were met by large margins, partly because of slower-than-expected government spending. While inflation has declined more rapidly than expected, the absence of meaningful fiscal stimulus in the early part of the fiscal year has held back growth.

45. **Progress is also being made in the implementation of structural reforms**. Structural conditionality under the program in the areas of revenue administration, public financial management, and central bank reform has been implemented, mostly on time. The mission also welcomes steps that have been taken to address weaknesses in the banking system.

46. **Conditions are in place for continued strong implementation of the PRGF-supported program**. The program for the remainder of the current fiscal year is fully financed, including after the recently approved supplementary budget. In addition, two PCs for the second review have already been met. An indicative macroeconomic framework for the coming fiscal year has also been drawn up, consistent with program objectives.

47. **The key issue for economic management in the short term is to step up budget execution**. Staff supports the steps that are being taken by the authorities to overcome administrative capacity constraints and supply bottlenecks, although realistically their impact will take some time to fully materialize. The authorities have to be vigilant that efforts to accelerate spending do not affect either its quality or its allocation, which should remain in line with the priorities identified in the interim PRSP.

48. **The authorities also have to monitor liquidity conditions closely, to avoid an overly tight monetary policy stance**. Staff cautions about the recent deceleration in base money growth, and suggests that the BRH fully use the space provided for under the program to expand money supply. In light of the uncertainties about the timing of budget execution during the remainder of the fiscal year, close coordination between the monetary and fiscal authorities is advisable to avoid episodes of liquidity squeeze, which can also exacerbate exchange rate appreciation pressures.

49. **Looking toward the medium term, and beyond the consolidation of recent stabilization gains, Haiti's main challenge remains the achievement of higher, sustained growth**. Modest growth has resumed, but a more robust pick up in economic activity has yet to set in. A weak growth response caused by factors such as supply and government capacity bottlenecks, continued security problems, or exchange rate appreciation beginning to affect export and import-competing sectors, represents one of the main downside risks to the program, and to domestic and external stability more broadly.

50. **Avoiding a low-growth outcome will require overcoming many deep-seated structural bottlenecks**. Among them are the dilapidated infrastructure, inadequate supply of basic utility services, and poor quality and coverage of education and health services. It will be important for the authorities—with support from the international community—to focus on ways to address these issues, including through the ongoing PRSP process.

51. **Against this backdrop, the task of generating funding for priority expenditures through a strengthened domestic revenue effort becomes central**. Staff applauds the strong revenue performance so far this year and supports the authorities' intention to raise revenue over the medium term to at least 15 percent of GDP. Progress toward this goal could be achieved through a carefully sequenced combination of improving revenue administration, broadening the tax base and burden, and adjusting in due course tax rates and fees. Staff agrees with the authorities that decisions on adjusting tax rates could best be made in the context of a comprehensive tax policy review, and should take into account their social ramifications.

52. **The authorities should also strive to clarify their monetary policy framework, to help consolidate a stable low-inflation environment conducive to economic activity**. The current, somewhat eclectic, approach to monetary policy has successfully supported disinflation in recent years, but may not be most adequate to sustain further progress and enable needed deepening of financial markets.

53. **In light of Haiti's weak interest rate channel, staff encourages the authorities to focus on the control of base money supply for the time being**. This would require modifying central bank bond auctions to set volumes and allow interest rates to be competitively determined. Central bank independence should also be strengthened in due course through recapitalization and more effective limits on government borrowing. The authorities' view that some interim steps will be needed is well taken, but staff believes that these should not overly delay implementation of the proposed framework.

54. **The staff's analysis does not suggest, on balance, that the Haitian gourde is misaligned**. However, Haiti is facing an appreciating equilibrium real exchange rate, which is a reflection of its strong dependence on remittances and other external transfers to support consumption. While Haiti's small and concentrated export sector has so far held up, its further expansion and much needed diversification could be hampered by these real appreciation pressures.

55. **External competitiveness should mainly be fostered through microeconomic interventions, which offer significant scope for improvement**. Attempts to resist the observed equilibrium appreciation would likely be costly and ineffective over time. The authorities should therefore maintain a floating exchange rate regime, limiting intervention to replenishing reserves in line with PRGF program objectives and smoothing out seasonal fluctuations. They should also focus on addressing widespread non-price competitiveness problems, including the remaining insecurity, a generally difficult business environment, legal uncertainties, and the structural bottlenecks described above.

56. **In sum, while significant challenges and risks remain, staff is hopeful that the authorities can build on their accomplishments to bring about domestic and external stability, sustained growth, and improved standards of living**. This will require both continued strong policy implementation and well-coordinated support from the international community. Based on the authorities' solid track record and the prospects for continued implementation of the program, staff supports the requests for completion of the first review under the PRGF arrangement, waiver for non-observance, and modification of a structural PC.

57. It is proposed that the next Article IV consultation be conducted on the 24-month cycle, subject to the provisions of the decision on consultation cycles in program countries.

Table 1. Haiti: Indicative Targets and Quantitative Performance Criteria, FY 2007

	Actual stock at	Cumulative Flows since September 2006									
	end-September 2006	Prog. 1/	Prog. with adjustor 2/	Actual	Deviation from prog w/adjustor	Test date 1/	Prog. with adjustor 2/	Prel.	Deviation from prog w/adjustor	Ind. target	Test date
		Dec 06				Mar 07				Jun 07	Sept. 07
Performance criteria											
Net central bank credit to the NFPS (in millions of gourdes)	21,002	-50	211	-581	-792	-349	333	-1,855	-2,188	-1,274	0
Of which:											
Central Government	21,176	-50	211	-327	-538	-349	333	-1,457	-1,790	-876	0
Rest of NFPS	-174	0	0	-254	-254	0	0	-398	-397	-398	0
Net domestic banking sector credit to the nonfinancial public sector (in millions of gourdes)	20,118	-50	-50	-747	-697	-349	333	-1,998	-2,331	-1,559	0
Net domestic assets of the central bank (in millions of gourdes) - ceiling 3/	5,685	1,027	1,288	-891	-2,179	59	740	-3,919	-4,659	-3,587	-4,279
Domestic arrears accumulation of the central government 4/	0	0	0	0	0	0	0	0	0	0	0
New contracting or guaranteeing by the central government or the BRH of nonconcessional external debt 4/ 5/ 6/											
(In millions of U.S. dollars)											
Up to and including one year	0	0	0	0	0	0	0	0	0	0	0
Over one-year maturity	0	0	0	0	0	0	0	0	0	0	0
Net international reserves of central bank (in millions of U.S. dollars) - floor	130	10	4	50	46	15	-1	88	89	103	135
External arrears accumulation (in millions of U.S. dollars) 4/ 7/	0	0	0	0	0	0	0	0	0	0	0
Indicative target:											
Change in base money 8/ 9/	23,172	1,609		1,502	-107.0	1,164		922	-242.2	1,239	2,294
Memorandum items:											
Change in currency in circulation	11,159	1,451		1,213	-238.4	693		-242	-935.1	261	859
Government total revenue, excl. grants (in millions of gourdes) 9/	…	5,945		5,847	-97.9	11,364		11,745	381.8	18,318	25,000
Government total expenditure, excl. ext-fin investment (in millions of gourdes) 9/	…	6,534		5,812	-722.6	12,245		10,600	-1,644.8	18,988	28,078

Sources: Ministry of Finance, Central Bank of Haiti, and Fund staff estimates.

1/ From EBS/06/141.
2/ Dec adjusted by US$6.2 million and March by US$16.2 due to less-than-programmed external financing.
3/ For program monitoring purposes, NDA is defined as currency in circulation minus NIR in gourde terms. Program exchange rate of G42/$ through end-March and G40/$ through end-Sept.
4/ On a continuous basis.
5/ Excludes guarantees granted to the electricity sector in the form of credit/guarantee letters.
6/ Includes foreign currency denominated debt.
7/ An amount of US$30,000 due on a small investment loan from the IDB, originally granted to a state-owned millm was repaid with a delay in February 2007.
Since the central government's responsibility for the loan could not be identified, the late payment does not cause a nonobservance of the PC. Nevertheless, staff will confirm with the MEF whether, following the arrears payment in February, the loan will now be considered government's obligation for the purpose of the second program review.
8/ Includes recapitalization operation of a commercial bank.
9/ Accumulated flows over the program period.

Table 2. Haiti: Selected Economic and Financial Indicators

Fiscal year ending September 30

Nominal GDP (2006): US$ 4.8 billion
Population (2006): 9.1 million
Share of pop. living with less than $1 a day (2003): 54 percent

GDP per capita (2006): US$ 527
Adult literacy (2005): 53 percent
Unemployment rate (2003): 27 percent

		Prel.	Proj.		
	2005	2006	2007	2008	2009
	(change over previous year unless otherwise indicated)				
National income and prices					
GDP at constant prices	1.8	2.3	3.5	4.5	4.0
GDP deflator	17.6	16.6	9.0	7.8	7.3
Consumer prices (period average)	16.8	14.2	9.0	7.8	7.3
Consumer prices (end-of-period)	14.8	12.4	8.0	7.5	7.0
External sector					
Exports (f.o.b.)	21.3	7.7	11.9	26.1	12.7
Imports (f.o.b.)	8.0	18.3	5.9	17.6	13.0
Real effective exchange rate (+ appreciation)	-5.8	13.4	...	...	...
Central government					
Total revenue and grants 1/	54.2	23.1	39.0	16.7	3.1
Total revenue excl. grants	30.5	23.7	24.3	22.1	11.8
Current expenditure	46.4	12.3	23.2	16.4	15.7
Total expenditure	30.4	24.8	33.4	19.7	17.3
Money and credit					
Credit to public sector (net)	0.3	-4.9	0.0	0.0	0.0
Credit to private sector	21.1	5.5	5.1	10.0	13.7
Base money	0.6	5.5	9.9	8.1	10.0
Broad money (including foreign currency deposits)	20.3	10.0	9.7	10.0	11.1
	(percent of GDP, unless otherwise indicated)				
Central government					
Overall balance (including grants) 1/	-0.6	-0.8	-0.3	-0.8	-3.0
Overall balance (excluding grants)	-4.1	-4.4	-6.0	-6.1	-7.0
Overall balance (excluding grants and externally-financed projects)	-1.2	0.0	-1.4	-1.1	-1.6
Central bank net credit to the central government	0.0	-0.2	0.0	0.0	0.0
Savings and investment					
Gross investment	27.4	28.9	30.9	32.2	33.5
Gross national savings	30.1	28.9	32.1	32.0	31.3
Of which: Central government savings	1.5	1.6	2.7	3.0	1.4
External current account balance (incl. official grants)	2.6	0.0	1.2	-0.2	-2.2
External current account balance (excl. official grants)	-5.0	-7.9	-6.4	-7.2	-8.8
External public debt (end-of-period)	30.9	29.3	26.0	23.9	23.1
Total public debt (end-of-period) 2/	34.0	33.1	30.3	28.1	27.0
External public debt service (in percent of exports of goods and nonfactor services)	17.5	8.5	5.1	6.0	6.4
	(millions of US$, unless otherwise indicated)				
Overall balance of payments	56.2	87.7	156.8	76.5	-59.8
Net international reserves (program) 3/	70.4	130.3	265.3	335.3	410.3
Liquid gross reserves 4/	228.5	335.5	534.7	652.3	776.7
In months of imports of the following year	1.3	1.8	2.4	2.6	2.9
Exchange rate (gourdes per dollar, end-of-period)	43.0	39.1	...	...	...
Nominal GDP (millions of gourdes)	168,034	200,456	226,195	254,845	284,283
Nominal GDP (millions of dollars)	4,310	4,836	5,655	6,371	6,933

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

1/ From 2009 onward, budget grants are assumed zero until firm donor commitments are forthcoming.
2/ Includes external public sector debt, outstanding Central Bank bonds, and credit from commercial banks to the NFPS.
3/ Excludes commercial banks' foreign currency deposits with the BRH.
4/ Gross reserves excluding capital contributions to international organizations.

Table 3a: Central Government Operations

Fiscal year ending September 30, in millions of gourdes

		Prel.	EBS/06/141	Proj.		
	2005	2006	2007	2007	2008	2009
Total revenue and grants	**22,056**	**27,160**	**34,178**	**37,748**	**44,035**	**45,386**
Revenue	16,255	20,110	21,944	25,000	30,516	34,126
Domestic taxes	10,653	12,878	15,095	17,161	21,663	24,226
Customs duties	4,275	6,099	6,464	7,427	8,385	9,377
Other current revenue	1,328	1,133	386	412	468	523
Grants	5,800	7,051	12,234	12,748	13,519	11,260
Budget support 1/	2,361	1,253	3,030	3,457	3,274	...
Project grants	3,440	5,797	9,203	9,291	10,244	11,260
Total expenditure	**23,111**	**28,845**	**38,470**	**38,470**	**46,059**	**54,044**
Current expenditure	16,161	18,156	21,349	22,369	26,045	30,123
Wages and salaries	5,700	6,470	8,495	9,509	11,866	13,646
Net Operations 2/	4,306	4,505	5,962	7,356	7,461	9,041
Operations	3,388	4,505	5,962	7,356	7,461	9,041
Interest payments	1,132	1,627	1,799	739	1,717	1,751
Transfers and subsidies	5,023	5,553	4,462	4,764	5,001	5,686
Capital expenditure	6,949	10,689	17,122	16,101	20,014	23,921
Domestically financed	2,144	1,940	3,500	5,709	7,200	8,600
Foreign-financed	4,805	8,749	13,622	10,392	12,814	15,321
Overall balance						
Including grants	-1,055	-1,685	-4,292	-722	-2,024	-8,658
Excluding grants	-6,856	-8,735	-16,526	-13,470	-15,543	-19,918
Excluding grants and externally financed projects	-2,050	13	-2,904	-3,078	-2,729	-4,597
Financing	**1,055**	**1,685**	**4,292**	**722**	**2,024**	**2,053**
External net financing	**1,064**	**2,509**	**2,049**	**-1,528**	**1,311**	**2,053**
Loans (net)	2,737	2,123	3,908	210	1,311	2,053
Disbursements	4,010	3,729	5,673	1,701	3,170	4,061
Budget support	2,645	778	1,255	600	600	...
Project loans	1,365	2,951	4,418	1,101	2,570	4,061
Amortization	-1,274	-1,606	-1,765	-1,491	-1,858	-2,008
Arrears (net) 3/	-1,673	386	-1,859	-1,737	0	0
Internal net financing	**-9**	**-824**	**-294**	**-446**	**0**	**0**
Banking system	-50	-752	0	-446	0	0
BRH	-21	-462	0	0	0	0
Commercial banks	-29	-290	0	-446	0	0
Other nonbank financing	0	-120	-294	0	0	0
Arrears (net)	41	48	0	0	0	0
Prospective rescheduling 4/	0	0	1,978	1,879	313	323
HIPC 5/		0	559	817	400	0
Unidentified financing	**0**	**0**	**0**	**0**	**0**	**6,282**
Unidentified financing (in U.S. dollars)	0.0	0.0	0.0	0.0	0.0	153.2

Sources: Ministry of Finance and Economy; and Fund staff estimates

1/ Budget support 2006 and 2007 includes grants from Canada to cover debt service to the IDB.
2/ Includes statistical discrepancy.
3/ Arrears accumulation in 2005-06 reflects an informal deferral of debt service to France, Italy and Spain granted until the IMF arrangement was in place.
4/ Including clearance of arrears accumulated in agreement with Italy, France, and Spain.
5/ HIPC debt relief.

Table 3b: Central Government Operations

Fiscal year ending September 30, in percent of GDP

		Prel.	EBS/06/141	Proj.		
	2005	2006	2007	2007	2008	2009
Total revenue and grants	**13.1**	**13.5**	**15.1**	**16.7**	**17.3**	**16.0**
Revenue	9.7	10.0	9.7	11.1	12.0	12.0
Domestic taxes	6.3	6.4	6.7	7.6	8.5	8.5
Customs duties	2.5	3.0	2.9	3.3	3.3	3.3
Other current revenue	0.8	0.6	0.2	0.2	0.2	0.2
Grants	3.5	3.5	5.4	5.6	5.3	4.0
Budget support 1/	1.4	0.6	1.3	1.5	1.3	...
Project grants	2.0	2.9	4.1	4.1	4.0	4.0
Total expenditure	**13.8**	**14.4**	**17.0**	**17.0**	**18.1**	**19.0**
Current expenditure	9.6	9.1	9.4	9.9	10.2	10.6
Wages and salaries	3.4	3.2	3.8	4.2	4.7	4.8
Net Operations 2/	2.6	2.2	2.6	3.3	2.9	3.2
Operations	2.0	2.2	2.6	3.3	2.9	3.2
Interest payments	0.7	0.8	0.8	0.3	0.7	0.6
Transfers and subsidies	3.0	2.8	2.0	2.1	2.0	2.0
Capital expenditure	4.1	5.3	7.6	7.1	7.9	8.4
Domestically financed	1.3	1.0	1.5	2.5	2.8	3.0
Foreign-financed	2.9	4.4	6.0	4.6	5.0	5.4
Overall balance						
Including grants	-0.6	-0.8	-1.9	-0.3	-0.8	-3.0
Excluding grants	-4.1	-4.4	-7.3	-6.0	-6.1	-7.0
Excluding grants and externally financed projects	-1.2	0.0	-1.3	-1.4	-1.1	-1.6
Financing	**0.6**	**0.8**	**1.9**	**0.3**	**0.8**	**0.8**
External net financing	**0.6**	**1.3**	**0.9**	**-0.7**	**0.5**	**0.7**
Loans (net)	1.6	1.1	1.7	0.1	0.5	0.7
Disbursements	2.4	1.9	2.5	0.8	1.2	1.4
Budget support	1.6	0.4	0.6	0.3	0.2	...
Project loans	0.8	1.5	2.0	0.5	1.0	1.4
Amortization	-0.8	-0.8	-0.8	-0.7	-0.7	-0.7
Arrears (net) 3/	-1.0	0.2	-0.8	-0.8	0.0	0.0
Internal net financing	**0.0**	**-0.4**	**-0.1**	**-0.2**	**0.0**	**0.0**
Banking system	0.0	-0.4	0.0	-0.2	0.0	0.0
BRH	0.0	-0.2	0.0	0.0	0.0	0.0
Commercial banks	0.0	-0.1	0.0	-0.2	0.0	0.0
Other nonbank financing	0.0	-0.1	-0.1	0.0	0.0	0.0
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0
Prospective rescheduling 4/	0.0	0.0	0.9	0.8	0.1	0.1
HIPC 5/		0.0	0.2	0.4	0.2	0.0
Unidentified financing	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2.2**
Unidentified financing (in U.S. dollars)	0.0	0.0	0.0	0.0	0.0	153.2

Sources: Ministry of Finance and Economy; and Fund staff estimates

1/ Budget support 2006 and 2007 includes grant from Canada to cover debt service to the IDB.
2/ Includes statistical discrepancy.
3/ Arrears accumulation in 2005-06 reflects an informal deferral of debt service to France, Italy and Spain granted until the IMF arrangement was in place.
4/ Including clearance of arrears accumulated in agreement with Italy, France, and Spain.
5/ HIPC debt relief.

Table 4. Haiti: Summary Accounts of the Banking System

Fiscal year ending September 30, in millions of gourdes

	2005	Prel. 2006	EBS/06/141 2007	Proj. 2007	Proj. 2008	Proj. 2009
			I. Central Bank			
Net foreign assets	**8,226**	**11,276**	**14,001**	**17,680**	**21,462**	**25,717**
(In millions of U.S. dollars)	191	288	333	467	561	663
Net international reserves (program)	70	130	160	265	335	410
Commercial bank forex deposits	121	158	178	201	226	252
Net domestic assets 1/	**13,740**	**11,896**	**11,462**	**7,786**	**6,066**	**4,555**
Credit to the nonfinancial public sector	21,602	21,002	21,153	21,002	21,002	21,002
of which: Credit to the central government	21,638	21,176	21,325	21,176	21,176	21,176
Liabilities to commercial banks (excl gourde deposits)	-10,695	-13,986	-13,788	-17,322	-19,042	-20,553
BRH bonds	-5,501	-7,809	-6,327	-9,692	-10,429	-10,836
Counterpart of commercial bank forex deposits	-5,194	-6,177	-7,461	-7,630	-8,612	-9,716
Other	2,833	4,880	4,098	4,106	4,106	4,106
Base Money	**21,966**	**23,172**	**25,463**	**25,466**	**27,528**	**30,272**
Currency in circulation	10,547	11,159	12,151	12,018	12,982	14,285
Commercial bank gourde deposits	11,419	12,013	13,312	13,448	14,547	15,987
			II. Consolidated Banking System			
Net foreign assets	**18,630**	**24,000**	**26,884**	**30,493**	**35,866**	**41,660**
(In millions of U.S. dollars)	433	613	681	805	934	1,072
Of which: Commercial banks NFA	242	325	348	339	373	409
Net domestic assets	**49,660**	**51,091**	**55,359**	**51,895**	**54,737**	**59,016**
Credit to the nonfinancial public sector	21,159	20,118	20,616	20,118	20,118	20,118
Credit to the private sector	25,609	27,019	31,660	28,399	31,241	35,520
In gourdes	13,000	12,920	15,654	13,104	13,682	15,418
In foreign currency	12,609	14,099	16,007	15,295	17,559	20,102
Other	2,892	3,955	3,083	3,378	3,378	3,378
Broad money	**68,290**	**75,091**	**82,243**	**82,388**	**90,602**	**100,677**
Currency in circulation	10,547	11,159	12,151	12,018	12,982	14,285
Gourde deposits	28,292	31,533	33,584	33,962	36,685	40,369
Foreign currency deposits	29,451	32,399	36,508	36,408	40,936	46,022
In millions of U.S. dollars	684	828	926	928	1,041	1,163
			(12-month percentage change)			
Currency in circulation	21.4	5.8	8.9	7.7	8.0	10.0
Base money	0.6	5.5	9.9	9.9	8.1	10.0
Gourde money (M2)	12.5	9.9	7.1	10.4	8.0	10.0
Broad money (M3)	20.3	10.0	9.5	9.7	10.0	11.1
Gourde deposits	9.6	11.5	6.5	7.7	8.0	10.0
Foreign currency deposits (US dollars)	32.4	21.0	11.8	12.1	12.2	11.6
Credit to the nonfinancial public sector	0.3	-4.9	2.5	0.0	0.0	0.0
Credit to the private sector	21.1	5.5	17.2	5.1	10.0	13.7
Credit in gourdes	19.3	-0.6	21.2	1.4	4.4	12.7
Credit in foreign currency (US dollars)	23.0	23.0	-2.7	13.9	13.8	13.0
Memorandum items:						
Foreign currency bank deposits (percent of total)	51.0	50.7	52.1	51.7	52.7	53.3
Foreign curr. credit to priv. sector (percent of total)	49.2	52.2	50.6	53.9	56.2	56.6

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

1/ For program monitoring purposes, NDA is defined differently: as currency in circulation minus NIR at the program exchange rate.

Table 5. Haiti: Balance of Payments

Fiscal year ending September 30, in millions of US$

		Prel.	Proj.		
	2005	2006	2007	2008	2009
Current account	**114.0**	**-0.7**	**66.9**	**-12.0**	**-153.2**
Current account (excluding grants)	**-214.0**	**-380.7**	**-361.0**	**-460.2**	**-611.2**
Trade balance	-849.6	-1053.8	-1086.4	-1230.6	-1392.0
Exports of goods	458.9	494.4	553.5	698.0	786.3
of which: Assembly industry	396.8	435.0	491.1	631.0	713.1
Imports of goods	-1308.5	-1548.3	-1639.8	-1928.5	-2178.3
of which: Petroleum products	-313.5	-397.1	-399.6	-450.3	-466.6
Services (net)	-313.2	-335.7	-357.0	-400.2	-452.9
Receipts	138.3	197.2	230.0	290.1	326.8
Payments	-451.5	-532.8	-587.0	-690.3	-779.7
Income (net)	-36.5	6.6	1.3	-4.4	2.2
of which: Interest payments	-33.4	-19.4	-19.3	-22.4	-22.7
Current transfers (net)	1313.3	1382.2	1508.9	1623.2	1689.6
Official transfers (net)	328.0	380.0	427.9	448.2	458.0
Private transfers (net) 1/	985.3	1002.2	1081.0	1175.0	1231.6
Capital and financial accounts	**-57.8**	**88.4**	**89.9**	**88.5**	**93.4**
Public sector capital flows (net)	31.3	50.9	23.2	42.8	50.1
Loan disbursements	102.1	90.2	43.7	79.2	99.0
Amortization	-70.8	-39.2	-20.4	-36.4	-49.0
Banks (net) 2/	-75.5	-83.5	-13.3	-34.3	-36.7
Foreign direct investment	26.0	160.0	80.0	80.0	80.0
Errors and omissions 3/	-39.6	-39.1	0.0	0.0	0.0
Overall balance	**56.2**	**87.7**	**156.8**	**76.5**	**-59.8**
Financing	**-56.2**	**-87.7**	**-156.8**	**-76.5**	**-93.4**
Change in net foreign assets 4/	-12.9	-97.0	-178.5	-94.6	-101.3
Change in gross reserves	-22.1	-106.9	-199.2	-117.6	-124.4
Liabilities	9.2	9.9	20.7	23.1	23.1
Utilization of Fund credits, existing and prospective (net)	11.1	10.3	20.7	23.1	23.1
Purchases and loans 5/	15.6	14.8	53.9	23.1	23.1
Repayments	-4.5	-4.5	-33.2	0.0	0.0
Other liabilities	-1.9	-0.5	0.0	0.0	0.0
Change in arrears	-43.3	9.3	-44.7	0.0	0.0
Debt rescheduling 6/	0.0	0.0	49.7	7.8	7.9
HIPC interim assistance from multilateral creditors	0.0	0.0	16.7	10.2	0.0
Financing gap	0.0	0.0	0.0	0.0	153.2
Memorandum items:					
Current account balance (in percent of GDP)	2.6	0.0	1.2	-0.2	-2.2
Current account balance, excluding grants (in percent of GDP)	-5.0	-7.9	-6.4	-7.2	-8.8
Goods exports (f.o.b) growth	21.3	7.7	11.9	26.1	12.7
Goods import (f.o.b) growth	8.0	18.3	5.9	17.6	13.0
External debt as percent of exports	222.7	205.1	187.4	154.4	144.1
Debt service as percent of exports	17.5	8.5	5.1	6.0	6.4
Gross liquid international reserves (in millions of USD) 4/	228.5	335.5	534.7	652.3	776.7
Gross liquid international reserves (in months of following year's imports of goods and services) 4/	1.3	1.8	2.4	2.6	2.9

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

1/ Based on remittances transferred through authorized "transfer houses" and BRH estimates.
2/ Excludes commercial banks' foreign currency deposits with the BRH.
3/ Includes short-term capital and errors and omissions.
4/ Includes NIR and commercial banks' foreign currency deposits with the BRH.
5/ Includes current PRGF arrangement, with an upfront disbursement equivalent to 25 percent of quota used to repay EPCA purchases.
6/ In line with the Dec. 2006 Paris Club agreement, rescheduling of arrears and debt service to bilateral creditors during the PRGF arrangement.

Table 6. Haiti: Medium-Term Scenario

Fiscal year ending September 30

		Prel.	Proj.				
	2005	2006	2007	2008	2009	2010	2011
Real sector (annual percentage rate)							
Real GDP growth	1.8	2.3	3.5	4.5	4.0	4.0	4.0
Inflation (CPI end-of-period)	14.8	12.4	8.0	7.5	7.0	6.0	5.0
Fiscal sector (in percent of GDP)							
Central government overall balance (incl. grants)	-0.6	-0.8	-0.3	-0.8	-3.0	-3.5	-3.3
Total revenue and grants	13.1	13.5	16.7	17.3	16.0	16.6	17.2
Central government revenue	9.7	10.0	11.1	12.0	12.0	12.6	13.3
Central government expenditure	13.8	14.4	17.0	18.1	19.0	20.1	20.5
Domestic financing	0.0	-0.4	-0.2	0.0	0.0	0.0	0.0
External financing 1/	0.6	1.3	0.5	0.8	3.0	3.5	3.3
Monetary sector							
Growth in broad money	20.3	10.0	9.7	10.0	11.1	10.5	9.6
External sector (in percent of GDP)							
Trade balance	-19.7	-21.8	-19.2	-19.3	-20.1	-20.6	-20.5
Services (net)	-7.3	-6.9	-6.3	-6.3	-6.5	-6.7	-6.6
Income (net)	-0.8	0.1	0.0	-0.1	0.0	0.2	0.3
Private transfers (net)	22.9	20.7	19.1	18.4	17.8	17.8	17.8
External grants	7.6	7.9	7.6	7.0	6.6	6.6	6.6
Current account (incl. official transfers)	2.6	0.0	1.2	-0.2	-2.2	-2.7	-2.5
Current account (excl. official transfers)	-5.0	-7.9	-6.4	-7.2	-8.8	-9.3	-9.1
External financing gap	0.0	0.0	0.0	0.0	2.2	2.2	1.9
Of which: Central government	0.0	0.0	0.0	0.0	2.2	2.4	2.1
Liquid gross reserves (in millions of U.S. dollars)	228.5	335.5	534.7	652.3	776.7	890.4	993.2
In months of imports of the following year	1.3	1.8	2.4	2.6	2.9	3.1	3.2

Sources: Haitian authorities; and Fund staff estimates.

1/ Including prospective rescheduling, HIPC relief, and unidentified financing.

Table 7. Haiti: Indicators of Fund Credit
Fiscal year ending September 30

	2005	Prel. 2006	Proj. 2007	2008	2009
Outstanding Fund credit, existing and prospective					
In millions of SDRs	14.8	22.0	35.7	50.9	66.1
In millions of gourdes	852	1,359	2,264	3,243	4,226
In percent of quota	18.0	26.9	43.6	62.1	80.7
In percent of GDP	0.5	0.7	1.0	1.3	1.5
In percent of exports of goods and services	3.7	4.7	6.9	7.8	9.0
Debt service to the Fund 1/ 2/ 3/					
In millions of SDRs	3.3	3.9	22.6	0.5	0.5
In millions of gourdes	188.1	237.1	1,367.5	30.7	31
In percent of quota	4.0	4.7	27.6	0.6	0.6
In percent of GDP	0.1	0.1	0.6	0.0	0.0
In percent of exports of goods and services	0.8	0.8	4.4	0.1	0.1
In percent of debt service due	4.6	9.8	86.0	1.3	1.1
In percent of net international reserves	2.1	1.7	6.4	0.1	0.1
			(In millions of SDRs)		
Net use of Fund credit	7.2	7.2	13.7	15.2	15.2
Disbursements	10.2	10.2	35.7	15.2	15.2
Repayments	3.0	3.0	22.0	0.0	0.0

Sources: IMF Finance Department and staff projections.

1/ Debt service to the Fund in 2007 includes the repurchase of outstanding EPCA obligations using the upfront 25% of quota PRGF disbursement.
2/ Including SDR charges.
3/ After subsidization of GRA charges.

Table 8: Haiti: Budgetary Financing, by Donor and Type 1/

Fiscal year ending September 30, in millions of US dollars

	Cash Budget Support (A)		Debt Service Payments (B)		Paris Club (C)	HIPC (D)	Net Transfers Cash Basis (A+C+D-B)		Project Loans and Grants (E)		Net Overall Transfers (A+C+D+E-B)	
	2007 Proj.	2005-07 Total	2007 Proj.	2005-07 Total	2007 Proj.	2006/07 Proj.	2007 Proj.	2005-07 Total	2007 Proj.	2005-07 Total	2007 Proj.	2005-07 Total
Bilateral and multilateral	102.9	160.6	56.3	113.7	3.6	21.7	71.9	72.1	264.6	477.4	336.5	549.5
Bilateral creditors	32.3	65.1	10.9	21.5	3.6	5.0	30.0	52.2	165.4	302.7	195.4	354.9
Canada 2/	6.8	22.1	0.2	0.2	0.0	0.1	6.8	22.1	51.6	131.7	58.4	153.8
France	3.9	9.7	4.1	8.8	3.3	0.4	3.5	4.6	19.9	28.3	23.4	32.9
United States	10.0	17.0	1.3	2.3	0.0	1.6	10.2	16.3	53.7	76.6	63.9	92.9
Taiwan	0.0	0.0	2.7	5.4	0.0	0.0	-2.7	-5.4	12.1	25.6	9.4	20.3
Others	11.6	16.3	2.5	4.8	0.3	2.9	12.2	14.6	28.1	40.4	40.3	55.0
Multilateral creditors	70.6	95.4	45.4	92.2	0.0	16.7	41.9	19.9	99.2	174.7	141.1	194.6
IDB	27.5	37.5	24.9	51.9	0.0	10.0	12.6	-4.4	53.8	116.5	66.4	112.2
EU	33.1	33.1	0.0	0.0	0.0	0.0	33.1	33.1	17.7	17.7	50.8	50.8
World Bank 3/	10.0	24.8	17.8	35.1	0.0	6.7	-1.1	-3.6	17.8	27.4	16.7	23.8
of which												
Arrears clearance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0		0.0
Other	10.0	24.8	17.8	35.1	0.0	6.7	-1.1	-3.6		0.0		0.0
Other	0.0	0.0	2.7	5.3	0.0	0.0	-2.7	-5.3	9.9	13.0	7.1	7.8
Memorandum item:												
IMF	53.9	68.7	34.2	40.1	0.0	0.1	19.8	28.7	0.0	0.0	19.8	28.7

Sources: Haitian authorities; and Fund staff estimates.

1/ Excludes humanitarian assistance.
2/ Includes funds for clearance of arrears to the World Bank.
3/ Disbursements consist of 60 percent concessional loans and 40 percent grants in 2005 and 2006, and 100 percent grants in 2007 and 2008.

Table 9. Haiti: Millennium Development Goals

With selected targets to achieve between 1990 and 2015 estimate closest to date shown, +/- 2 years

	1990	1995	2000	2004	2005	2006
Goal 1: Halve share of people on less than $1 a day (PP, % of population)						
Poverty headcount ratio at national poverty line (% of population)	…	…	53.9	…	…	…
Poverty headcount ratio at national poverty line (% of population)	…	…	…	78.0	…	…
Share of income or consumption to the poorest quintile (%)	…	…	2.4	…	…	…
Prevalence of malnutrition (% of children under 5)	27	28	17	…	…	…
Goal 2: Ensure that children are able to complete primary schooling						
Primary school enrollment (net, %)	22	…	…	…	…	…
Primary completion rate (% of relevant age group)	28	…	…	…	…	…
Secondary school enrollment (gross, %)	21	…	…	…	…	…
Youth literacy rate (% of population ages 15-24)	55	…	…	…	…	…
Goal 3: Eliminate gender disparity in education and empower women						
Ratio of girls to boys in primary and secondary education (%)	95	…	…	…	…	…
Women employed in the nonagricultural sector (% of nonagricultural employment	40	…	…	…	…	…
Proportion of seats held by women in national parliament (%)	…	4.0	4.0	4.0	3.6	2.4
Goal 4: Reduce under-five mortality by two-thirds						
Under-five mortality rate (per 1,000)	150	137	125	117	120	…
Infant mortality rate (per 1,000 live births)	102	91	81	74	84	…
Measles immunization (proportion of one-year olds immunized, %)	31	49	54	54	54	…
Goal 5: Reduce maternal mortality by three-fourths						
Maternal mortality ratio (modeled estimate, per 100,000 live births)	…	…	680	…	…	…
Births attended by skilled health staff (% of total)	23	20	24	…	…	…
Goal 6: Halt and begin to reverse the spread of HIV/AIDS and other major diseases						
Prevalence of HIV (% of population ages 15-49)	…	…	…	3.8	3.8	…
Contraceptive prevalence (% of women, ages 15-49)	11	18	27	…	…	…
Incidence of tuberculosis (per 100,000 people)	484	…	…	306	305	…
Tuberculosis cases detected under DOTS (%)	…	2	22	49	57	…
Goal 7: Ensure environmental sustainability						
Access to an improved water source (% of population)	47	…	…	54	…	…
Access to improved sanitation facilities (% of population)	24	…	…	30	…	…
Forest area (% of total land area)	4.2	…	4.0	3.8	3.8	…
Protected areas (% of total land area)	…	…	…	0.4	…	…
CO2 emissions (metric tons per capital)	0.1	0.1	0.2	0.2	…	…
GDP per unit energy use (constant 2,000 PPP $ per kg of oil equivalent)	10.4	7.3	7.0	6.3	…	…
Goal 8: Develop a global partnership for development						
Fixed line and mobile phone subscribers (per 1,000 people)	7.0	8.0	16	64	…	…
Internet users (per 1,000 people)	0.0	0.0	3.0	59	70	…
Personal computers (per 1,000 people)	…	…	…	…	…	…
Youth unemployment (% of total labor force ages 15-24)	24	…	17	…	…	…

Source: World Bank

Table 10. Haiti: Proposed Schedule of Disbursements Under the PRGF arrangement, 2006-2009

Amount	Date	Conditions for Disbursement 1/
SDR 28,100,000	November 20, 2006	Executive Board approval of the three-year arrangement under the PRGF. Includes 25% of quota in access for repayment of EPCA purchases
SDR 7,600,000	July 23, 2007	Observance of performance criteria for March 2007 and completion of the first review under the PRGF arrangement.
SDR 7,600,000	December 15, 2007	Observance of performance criteria for September 2007 and completion of the second review under the PRGF arrangement.
SDR 7,600,000	July 23, 2008	Observance of performance criteria for March 2008 and completion of the third review under the PRGF arrangement.
SDR 7,600,000	December 15, 2008	Observance of performance criteria for September 2008 and completion of the fourth review under the PRGF arrangement.
SDR 7,600,000	July 23, 2009	Observance of performance criteria for March 2009 and completion of the fifth review under the PRGF arrangement.
SDR 7,610,000	December 15, 2009	Observance of performance criteria for September 2009 and completion of the sixth review under the PRGF arrangement.

Source: IMF
1/ Other than the generally applicable conditions for the Poverty Reduction and Growth Facility (PRGF)

Table 11. Haiti: Indicators of External Vulnerability
Fiscal year ending September 30, units as indicated

	2005	Prel. 2006	Proj. 2007	Proj. 2008	Proj. 2009
Debt indicators					
Total external public debt (in percent of GDP)	30.9	29.3	26.0	23.9	23.1
Total external public debt (in percent of exports 1/)	222.7	205.1	187.4	154.4	144.1
External debt service (in percent of GDP)	2.4	1.2	0.7	0.9	1.0
Amortization	1.6	0.8	0.4	0.6	0.7
Interest	0.8	0.4	0.3	0.4	0.3
External debt service (in percent of exports 1/)	17.5	8.5	5.1	6.0	6.4
Amortization	11.9	5.7	2.6	3.7	4.4
Interest	5.6	2.8	2.5	2.3	2.0
External debt service (in percent of current central gov. revenues)	27.6	11.4	6.4	7.7	8.8
Amortization	18.7	7.6	3.3	4.8	6.0
Interest	8.9	3.8	3.1	2.9	2.8
Other indicators					
Exports (percent change, 12-month basis in U.S. dollars)	21.3	7.7	11.9	26.1	12.7
Imports (percent change, 12-month basis in U.S. dollars)	8.0	18.3	5.9	17.6	13.0
Remittances and grants (in percent of gross disposable income)	25.0	23.6	22.4	21.5	20.7
Real effective exchange rate appreciation (+) (end of period)	-5.8	13.4	...	...	...
Exchange rate (per U.S. dollar, period average)	39.0	41.4	...	...	...
Current account balance (US$ million) 2/	114.0	-0.7	66.9	-12.0	-153.2
Capital and financial account balance (US$ million)	-57.8	88.4	89.9	88.5	93.4
Public sector	31.3	50.9	23.2	42.8	50.1
Private sector 3/	-89.1	37.4	66.7	45.7	43.3
Liquid gross reserves (US$ million)	228.5	335.5	534.7	652.3	776.7
In months of imports of the following year 1/	1.3	1.8	2.4	2.6	2.9
In percent of debt service due in the following year	390	844	909	910	1056
In percent of base money	44.8	56.6	84.0	94.8	107.8

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

1/ Goods and services.
2/ Includes grants.
3/ Includes short-term capital, errors and omissions.

Table 12. Haiti: Aggregate Financial Soundness Indicators of the Banking System, 2001-2007

	Year Ending September 30					Oct 2006-
	2002	2003	2004	2005	2006	Mar 2007
Size and growth						
Asset volume (in US$ millions, end of period) 1/	936.6	1,354.5	1,487.9	1,605.1	1,929.1	1,977.7
Credit/GDP (percent)	12.9	13.6	12.2	10.7	10.2	11.1
Deposits/GDP (percent)	32.1	35.9	34.2	31.1	30.6	31.1
Credit growth (net) from year before (percent)	15.1	33.7	5.1	5.6	13.7	6.6
Capital adequacy						
Regulatory capital to risk-weighted assets	...	...	...	16.5	14.3	18.1
Capital (net worth) to assets	5.8	5.4	5.3	5.0	5.3	7.0
Asset quality and composition						
Loans (net) to assets	34.5	31.9	30.5	31.5	29.9	29.8
NPLs to gross loans	6.5	5.5	7.4	12.4	10.5	11.7
Provisions to gross loans	5.5	5.4	6.2	6.1	9.4	7.5
Provisions to gross NPLs	84.4	97.2	82.9	49.1	88.8	64.6
NPL less provisions to net worth	6.4	1.0	7.8	42.2	6.6	19.2
Earnings and profitability (annualized)						
ROA	...	...	0.8	0.7	1.8	2.0
ROE	...	...	15.1	12.8	34.2	32.7
Net interest income to gross interest income	...	...	55.1	71.8	72.2	70.1
Administrative expenses to average assets	...	...	...	5.9	5.7	5.6
Liquidity						
Liquid assets to total assets 2/	47.4	44.8	46.5	43.6	45.2	44.4
Liquid assets to deposits 2/	55.3	53.0	54.1	50.5	54.5	53.0
Foreign currency loans to total loans (net)	...	...	...	59.3	66.0	69.2
Foreign currency deposits to total deposits	...	...	...	52.9	53.7	52.4

Source: Based on statistics published by the Banque de la Republique d'Haiti.

1/ The figures for all years were converted from gourdes at the same 12/31/06 exchange rate of 37.5914 G/US dollar.

2/ Liquid assets comprise cash and central bank bonds.

ANNEX I. SUMMARY OF ANNEXES[1]

Fund relations

Haiti's current outstanding obligations to the Fund are SDR 28.1 million, which originate from drawings under PRGF arrangements. Haiti's exchange rate regime is a managed float with no predetermined path for the exchange rate. The central bank has implemented priority recommendations of the update Safeguards assessment that was completed in March 2007, and is currently in the process of implementing other remaining recommendations. The last article IV consultation was concluded by the Executive Board on May 16, 2005 (SM/05/148).

Relations with the World Bank Group[2]

The World Bank Group's strategy and program in Haiti for FY 2007 and FY 2008 are set out in the Interim Strategy Note (ISN) reviewed by the Bank's Board on January 30, 2007. A full Country Assistance Strategy (CAS) will be prepared during FY 2008. Since January 2005, IDA has approved 11 projects for Haiti, for a total value of $199 million. This is in addition to $12 million of trust fund resources since 2004. All assistance has been provided entirely in grant form since July 2005. The IDA grants program for FY 2007 totals US$68 million. The Bank is involved mainly in such areas as institutional capacity strengthening, governance reforms, community driven development, education, or water and sanitation.

Relations with the Inter-American Development Bank[3]

Since 2003, the Bank has operationalized its presence in Haiti through two successive transition strategies. At the present time, the IDB has 20 loans under execution, totaling US$624.9 million. The balance available for disbursements is US$458 million, which represents 73 percent of the approved amount. The IDB is involved mainly in public finance reform, road rehabilitation, agriculture, education, or local development projects.

Statistical Issues

Haiti is currently working toward participation in the General Data Dissemination System. While data provision is broadly adequate for program purpose, there is a need to improve the coverage, periodicity, quality and timeliness of statistics. Further work is required to extend the coverage of government finance statistics, and improve the quality of real sector and balance of payments statistics, including external debt. Also, the production of quarterly GDP data would be highly desirable for program monitoring purposes.

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[1] The full annexes are available as a separate document.

[2] Adapted from text prepared by the staff of the World Bank in May 2007.

[3] Adapted from text prepared by the staff of the IDB in May 2007

INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

ANNEX II. DRAFT PUBLIC INFORMATION NOTICE

Public Information Notice (PIN) No. 07/__
FOR IMMEDIATE RELEASE
[July __, 2007]

IMF Executive Board Concludes 2007 Article IV Consultation with Haiti

On [July __, 2007], the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Haiti.[1]

Background

1. The transitional government that took over following President Aristide's departure in February 2004 implemented prudent fiscal and monetary policies, and significantly improved governance and transparency in public sector operations. These efforts were supported by a staff-monitored program and two successive arrangements under the Emergency Post Conflict Assistance (EPCA) facility between mid-2004 and late 2006. As a result, inflation was reduced to single digits, from almost 40 percent in 2003, the currency stabilized, and gross reserves more than doubled from US$157 million (1.2 months of imports) at end-2003 to US$335 million (1.8 months of imports) at end-2006. Most notably, real per capita GDP has begun to recover, albeit at a modest rate (¾ of a percentage point in FY 2005/06). Based on its strong macroeconomic track record, a new PRGF arrangement and the HIPC decision point were approved for Haiti in November, 2006.

2. There have also been significant efforts to restore political stability and improve governance and transparency in public sector operations. President Préval, who took office in May 2006, has espoused good governance and the fight against corruption as central tenets of his administration. The security situation in Port-au-Prince has improved markedly in the last few months, following joint operations by the United National Stabilization Mission in Haiti (MINUSTAH) and the National Police that

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

succeeded in arresting numerous suspected criminals and gang leaders. Notwithstanding these successes, the security remains fragile and continues to be a binding constraint to sustained political and social stability, holding back private sector investment and a pick-up in economic growth.

Executive Board Assessment

<Begin Typing Here>

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

ATTACHMENT I. LETTER OF INTENT

Port-au-Prince
July 4, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 20431
U.S.A.

Dear Mr. de Rato:

1. The IMF's Executive Board approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for Haiti in November 2006. The purpose of this letter is to inform you on the progress under the PRGF arrangement and to request that the second disbursement under the arrangement, in the amount of SDR 7.6 million, be made available to Haiti, following the completion of the first review.

2. The attached Supplementary Memorandum of Economic and Financial Policies (MEFP) reviews the progress under the PRGF, and updates the Government's polices and objectives for the period through September 2007. The MEFP also outlines the Government's preliminary macroeconomic framework for FY 2008 (October 2007–September 2008). Over the past years, Haiti has implemented macroeconomic policies that have contributed to stabilizing the economy. We have also made significant strides in strengthening security and reducing crime. Going forward, the key challenge will be to build on these gains and bring about strong and sustained economic growth that can substantially improve the living conditions of our population and reduce poverty in our country. We will continue to work together with the IMF and the international community to reach these goals.

3. All quantitative performance criteria and all but one structural performance criteria for the first review under the PRGF were observed with comfortable margins. The Government requests a waiver for the nonobservance of the performance criterion on submission to Parliament of a draft banking law by end-March 2007, because the delivery of technical assistance and the consultative process with stakeholders, including the banking community and the legislative branch, proved more time-consuming than originally anticipated. The Government submitted the draft banking law to Parliament on June 29, 2007 as a prior action ahead of the Executive Board's consideration of the first review.

4. The absorption of Socabank by BNC is well under way, and under our banking sector action plan an independent assessment of possible needs for recapitalization and financial and operational restructuring of BNC was to be conducted by end-September. However,

identifying and retaining international experts for this assessment has proven time consuming, and we therefore request a modification of the PC to allow for the commencement of the assessment by end-September 2007. We intend to complete this assessment no later than end-March 2008.

5. The Government is currently developing a full Poverty Reduction Strategy Paper (PRSP) in consultation with its development partners and civil society. We intend to finalize the PRSP in the coming months so it can be considered by the Executive Boards of the IMF and the World Bank during the last quarter of this year. We would like to underscore that a number of the priorities set forth in the interim PRSP will be integrated into the 2007/08 budget, and are already being implemented.

6. The Government believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. Haiti will consult with the Fund on the adoption of these measures, and in advance of any revision to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

7. In line with our demonstrated commitment to transparency, we agree to the publication of the PIN, selected issues papers, and combined staff report for the 2007 Article IV consultation and first review under the PRGF.

Sincerely yours,

/s/	/s/
Daniel Dorsainvil	Raymond Magloire
Minister of Economy and Finance	Governor
Haiti	Bank of the Republic of Haiti

Attachments

ATTACHMENT II. HAITI: SUPPLEMENTAL MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES

1. During the first half of FY 2007 (October 2006–September 2007), Haiti has made further progress on its path of institutional reconstruction and economic recovery. On the political front, the successful communal elections in late 2006 have further consolidated the return to constitutional order, while recent successes in the combat of gang-related violence have led to a tangible improvement in the security situation in Port-au-Prince, boosting confidence. Economic and financial stabilization has also been encouraging, as evidenced by our strong performance on several fronts in the first six months of the PRGF-supported program. Thus, while substantial challenges still lie ahead, we are confident that Haiti is slowly rising to the challenge of generating sustainable growth and development that will lead to poverty reduction and lasting improvements in the living conditions of our population.

2. This Memorandum of Economic and Financial Policies (MEFP) supplements that of November 3, 2006. It describes additional policy commitments and changes to the macroeconomic framework for the second half of FY 2007, and outlines the Government's preliminary macroeconomic framework for FY 2008. Unless explicitly noted, our policy commitments from the November 2006 MEFP remain valid.

A. Performance to Date Under the Program

3. Performance under the PRGF-supported program has been strong. Quantitative performance criteria (PCs) and indicative targets for end-December and end-March were met with significant margins (Table 1). Inflation declined from 12.4 percent in September 2006 to 8.3 percent in May 2007, a level that we now expect to be broadly maintained through the end of the current fiscal year. In addition, we have been able to accumulate substantially higher net international reserves (NIR) than originally programmed (US$218 million compared to an end-March PC of US$128 million, adjusted for shortfalls in budget support), as a result of significantly higher foreign exchange purchases made possible by the continued strength of remittances inflows, large foreign direct investments in the telecommunications sector, and lower imports during the first semester of FY 2007.

4. We have also made good progress on our ambitious structural reform agenda. All but one structural performance criteria (PC) for end-March were met on time (Table 2). The only missed structural PC—submission of a new banking law to Parliament—was implemented on June 29, 2007, as a prior action for this review. The submission of the law was delayed to benefit from additional technical assistance, and ensure a more inclusive and comprehensive review of the draft law within the Government and with relevant financial sector participants. A program waiver for nonobservance of this PC is being requested.

B. Objectives for the Remainder of FY 2007

5. Available indicators point to a continued expansion of the economy. However, it is not clear that the acceleration of growth expected for this year has already fully set in, in part because of supply-side bottlenecks in the private sector, and delays in central government budget execution and disbursements of external support (see ¶7). As a consequence, growth in FY 2007 could turn out at 3.5 percent, rather than the originally expected 4 percent.

Fiscal

6. We remain strongly committed to further strengthening our capacity to mobilize domestic revenue. Customs and tax revenue rose by more than 30 percent in the first half of FY06/07, partly due to stepped up efforts to combat evasion and smuggling. Our medium-term strategy to increase revenue focuses, as a first step, on further strengthening tax and customs administration. In this context, we have prepared and begun to implement a plan to extend customs control to the provinces (PCs for end-December 2006 and end-March 2007 respectively) and approved a strategic plan for the modernization of the DGI (benchmark for end-March 2007). We have also expanded the use of the central taxpayers file to include the tax centers of Delmas and Croix-des-Bouquets (PC for end-March 2007), and will extend its use further in the course of this year (floating HIPC completion point trigger). To further advance the modernization process of the DGI, we will prepare a detailed implementation plan (new PC for end-September 2007).

7. We intend to take actions to raise the central government's expenditure execution, which fell short of program expectations in the first half of the fiscal year. The slower expenditure execution was the consequence of both bottlenecks in the public administration and supply constraints of the private sector, most notably in construction and public works. To overcome these problems, we are deploying accountants to line ministries to strengthen financial management and support them in their compliance with procurement rules and documentation. We are also strengthening project formulation and implementation capacity through the strengthening of programming units in line ministries. To overcome private sector supply constraints, we are actively strengthening Haitian private firms and encouraging foreign participation in government tenders, which has already resulted in the entry of some new actors. Overall, we are confident that these constraints can be progressively overcome, and we are encouraged that expenditure execution has experienced a marked pick-up in March and April.

8. We have submitted to Parliament a supplementary budget to account for higher than expected revenues and to reallocate expenditures to sectors that reflect more closely the priorities of the Government, as established in the I-PRSP, including security, revenue generation and investment in infrastructure. The supplementary budget is consistent with the goals established under the program for FY 2007, notably the absence of central bank

financing to the central government. To further strengthen budget management and ensure a high quality of public expenditures, we have expanded the coverage of the TOFE to include the own resources and related expenditures of ministries and deconcentrated agencies and information about checks in circulation (benchmark for end-March 2007). We will continue to improve the quality of this information in forthcoming months. We have also adopted a mechanism for tracking expenditure allocated for poverty reduction (benchmark for end-March 2007 and HIPC completion point trigger) and begun to produce quarterly reports on the evolution of these expenditures. Finally, we have devised plans for the settlement of domestic wage and non-wage arrears (benchmark for end-March 2007), which are to be cleared by end-September 2007 (benchmark).

9. We intend to submit our FY 2008 budget shortly to Parliament, in line with Constitutional requirements. The budget foresees domestic revenues of 12 percent of GDP, current expenditures of 10.2 percent of GDP, and domestically financed investment of 2.8 percent of GDP. This budget is already fully financed, except for a small share (0.3 percent of GDP) for which we feel reasonably assured, based on historical patterns, that firm donor commitments will be forthcoming. The draft budget remains within the indicative framework set forth in the PRGF program document, both in terms of the overall deficit target (excluding grants and foreign financed projects) and the absence of recourse to central bank financing.

10. The recently ratified PetroCaribe agreement and its extension, the recently signed ALBA agreement with Venezuela promise to provide Haiti with significant amounts of concessional trade financing. The Government intends to create an investment fund for the financing components of these agreements, transferring only the income proceeds of the fund to the budget. The Government will put in place arrangements to ensure that the investment fund is run in a transparent manner, and to report regularly to Parliament on the flows, earnings, and uses of the investment fund.

Monetary and Financial Sector

11. Prudent fiscal and monetary policies during the first half of FY 2007 have helped reduce inflation to 8.3 percent by end-May. Since December 2006, the Bank of the Republic of Haiti (BRH) has reduced its main (90-day) interest rate on BRH bonds on four occasions. We expect these reductions to induce lower market interest rates on loans once lags are allowed to work out. The BRH remains committed to keep base money growth below nominal GDP growth, and will use the available space under the program's indicative target for a somewhat faster expansion of base money through the end of the fiscal year. The BRH remains committed to keeping interest rates positive in real terms and to maintaining a flexible exchange rate regime.

12. The BRH has made good progress in implementing its plan to relinquish involvement in non-essential activities. Draft laws to eliminate BRH participation in the

management of APN and SONAPI have been prepared (PC for end-March 2007) and were submitted to Parliament (PC for end-June 2007). The BRH has also adopted a strategy to discontinue its involvement in the management of BPH (PC for end-March 2007), and submitted a law to this effect to Parliament (PC for end-June 2007). We will adopt a strategy for discontinuing BRH involvement in TELECO together with a plan for central bank recapitalization by end-March 2008 (PCs).

13. We remain committed to fully implement the recommendations of the safeguards assessment. Key recommendations have already been implemented (PC for March 2007), including establishment of an external audit committee, formalization of an IFRS action plan, and a special external audit of monetary data submitted for program monitoring purposes. The BRH's audited financial statements for FY2006 (October 2005–September 2006) are being finalized, and we intend to post them on the BRH website before the Board meeting for the first review. As part of our action plan toward the implementation of IFRS, we will produce a review of implementation issues for the adoption of IFRS by the BRH (new PC for end-September 2007). We will also establish a monthly benchmark that will further improve quality control of monetary data that is submitted to the IMF for program monitoring purposes.

14. The banking sector shows improved performance and solvency after its orderly consolidation in 2006, and we remain committed to ensure the continued compliance of all banks with the requirements established by our prudential regulations. The absorption of Socabank by BNC is well underway. As part of our plan to carry out on-site inspections with the support of international experts for key banks, an independent assessment of possible recapitalization needs and required restructuring of BNC will be commenced by end-September, once the bank is fully integrated and an appropriate international assessor can be identified (modified PC). We intend to complete this assessment no later than end-March 2008. We look forward to the results of an in-depth assessment of financial sector soundness to be conducted by an upcoming joint Bank/Fund FSAP. The FSAP will also focus on how the domestic financial sector can be broadened and intermediation costs reduced, in order to support private sector activity and investment.

Macroeconomic framework

15. For the remainder of this fiscal year, we have agreed to revise the program's quantitative framework to reflect the better-than-expected performance so far in the fiscal year. In light of the strong NIR accumulation to date, we have agreed to increase the floor on NIR accumulation up to US$135 million from US$30 million. With unchanged indicative base money growth targets, this implies a reduction in the ceiling on NDA accumulation to—G4,279 million from—G273 million. Due to slower-than-expected expenditure execution, central bank financing has been strongly negative in the first half of the fiscal year. However, we are confident that spending can be accelerated in the second half of the program year,

without compromising on the quality of expenditures, and the target for zero central bank financing has therefore been left unchanged.

16. For FY 2008, we have agreed on an indicative macroeconomic framework, which builds on the forthcoming budget (¶9). This indicative framework foresees an annual NIR accumulation of at least US$70 million, and base money growth somewhat below nominal GDP growth. Quarterly quantitative PCs for FY 2008 will be agreed with the IMF at the time of the second program review later this year.

PRSP, HIPC completion point triggers

17. Progress is being made in the process of developing a full PRSP. The institutional framework for the process, which includes a preparatory commission and a technical secretariat, has been put in place and a broad participatory process is currently underway. We intend to move diligently forward in the process, and aim to complete the PRSP by end-September 2007. However, we will ensure that this ambitious timetable will not compromise the participatory process and the quality of the document. We are working toward the implementation of the HIPC completion point triggers, and have so far completed and put in place a mechanism to track poverty-related expenditures (¶8).

Table 1. Haiti: Indicative Targets and Quantitative Performance Criteria, FY 2007

	Actual stock at	Cumulative Flows since September 2006									
	end-September 2006	Prog. 1/	Prog. with adjustor 2/	Actual	Deviation from prog w/adjustor	Test date 1/	Prog. with adjustor 2/	Prel.	Deviation from prog w/adjustor	Ind. target	Test date
		Dec 06				Mar 07				Jun 07	Sept. 07
Performance criteria											
Net central bank credit to the NFPS (in millions of gourdes)	21,002	-50	211	-581	-792	-349	333	-1,855	-2,188	-1,274	0
Of which:											
Central Government	21,176	-50	211	-327	-538	-349	333	-1,457	-1,790	-876	0
Rest of NFPS	-174	0	0	-254	-254	0	0	-398	-397	-398	0
Net domestic banking sector credit to the nonfinancial public sector (in millions of gourdes)	20,118	-50	-50	-747	-697	-349	333	-1,998	-2,331	-1,559	0
Net domestic assets of the central bank (in millions of gourdes) - ceiling 3/	5,685	1,027	1,288	-891	-2,179	59	740	-3,919	-4,659	-3,587	-4,279
Domestic arrears accumulation of the central government 4/	0	0	0	0	0	0	0	0	0	0	0
New contracting or guaranteeing by the central government or the BRH of nonconcessional external debt 4/ 5/ 6/											
(In millions of U.S. dollars)											
Up to and including one year	0	0	0	0	0	0	0	0	0	0	0
Over one-year maturity	0	0	0	0	0	0	0	0	0	0	0
Net international reserves of central bank (in millions of U.S. dollars) - floor	130	10	4	50	46	15	-1	88	89	103	135
External arrears accumulation (in millions of U.S. dollars) 4/ 7/	0	0	0	0	0	0	0	0	0	0	0
Indicative target:											
Change in base money 8/ 9/	23,172	1,609		1,502	-107.0	1,164		922	-242.2	1,239	2,294
Memorandum items:											
Change in currency in circulation	11,159	1,451		1,213	-238.4	693		-242	-935.1	261	859
Government total revenue, excl. grants (in millions of gourdes) 9/	…	5,945		5,847	-97.9	11,364		11,745	381.8	18,318	25,000
Government total expenditure, excl. ext-fin investment (in millions of gourdes) 9/	…	6,534		5,812	-722.6	12,245		10,600	-1,644.8	18,988	28,078

Sources: Ministry of Finance, Central Bank of Haiti, and Fund staff estimates.

1/ From EBS/06/141.
2/ Dec adjusted by US$6.2 million and March by US$16.2 due to less-than-programmed external financing.
3/ For program monitoring purposes, NDA is defined as currency in circulation minus NIR in gourde terms. Program exchange rate of G42/$ through end-March and G40/$ through end-Sept.
4/ On a continuous basis.
5/ Excludes guarantees granted to the electricity sector in the form of credit/guarantee letters.
6/ Includes foreign currency denominated debt.
7/ An amount of US$30,000 due on a small investment loan from the IDB, originally granted to a state-owned millm was repaid with a delay in February 2007. Since the central government's responsibility for the loan could not be identified, the late payment does not cause a nonobservance of the PC. Nevertheless, staff will confirm with the MEF whether, following the arrears payment in February, the loan will now be considered government's obligation for the purpose of the second program review.
8/ Includes recapitalization operation of a commercial bank.
9/ Accumulated flows over the program period.

Table 2. Structural Performance Criteria and Benchmarks

Measures	Date (Month-end)	Status
1. Structural performance criteria		
• Approve a comprehensive plan to establish customs control in the provinces.	December 2006	Met
• Start implementing the plan based on an agreed timetable.	March 2007	Met
• Expand use of the central taxpayer file to include all taxpayers identified in the Delmas and Croix-des-Bouquets tax centers.	March 2007	Met
• Implementation on schedule of approved plan, referred to in prior actions, to deal with banking system weaknesses.	March 2007	Met
• Implement the key recommendations on safeguards in accordance with the action plan.	March 2007	Met
• Continue to limit spending executed through current accounts to below 10 percent of budget appropriations for nonwage current expenditures as defined in paragraph 18 of the TMU.	Quarterly	Met
• Submit to parliament a draft banking law consistent with international standards, as described in the TMU.	March 2007	Prior action[1]
• The BRH will cease certain nonessential activities related, in particular, to its participation in the management of and/or shareholding in the BPH, TÉLÉCO, and SONAPI, in the following phases:		
• Adopt a strategy for discontinuing BRH involvement in BPH management;	March 2007	Met
• Formulate draft laws amending the APN and SONAPI organic laws to, inter alia, change the composition of the Boards of both institutions;	March 2007	Met
• Submit to parliament for approval the draft law on the option adopted with respect to discontinuing involvement with the BPH;	June 2007	Met
• Adopt a strategy for discontinuing BRH involvement with TÉLÉCO;	March 2008	
• Submit to parliament for approval amendments to the laws on the APN and SONAPI changing the composition of the boards of both institutions.	June 2007	Met
• Begin independent assessment of possible recapitalization needs and required financial and operational restructuring of BNC.	September 2007	
• Complete a review of implementation issues for the adoption of IFRS by the BRH (by end-October 2007)	September 2007	
• Adopt detailed implementation plan for modernization of the DGI.	September 2007	
• Prepare a plan to recapitalize the central bank.	March 2008	

1/ Completed on June 29, 2007.

Measures	Date (Month-end)	Status
2. Structural benchmarks		
• Submit the new draft customs code to parliament.	March 2007	Met with delay
• The Minister of the Economy and Finance will approve a medium-term strategic plan for the DGI, setting out the corporate vision, mission, values, goals, and objectives.	March 2007	Met
• Based on the existing expenditure classification, adopt a mechanism for tracking expenditure allocated to poverty reduction and produce quarterly reports on these expenditures.	March 2007	Met
• Formulate a plan for the settlement of domestic arrears.	March 2007	Met with delay
• Expand the TOFE coverage by including in it the ministries' and deconcentrated agencies' own resources and related expenditure.	March 2007	Met
• Every three months, conduct an independent confirmation audit of the mechanism for monitoring the subsidy to the Ed'H.	March 2007	Met with delay
• Complete the payment of wage and nonwage arrears.	September 2007	
• Monthly monetary program data to be signed off by the Central Bank's interdepartmental and steering committee.	Monthly, starting August 2007	
• Set quarterly limits on the expenditure of each ministry and ensure, within the ministries, that all recruitment and promotion proposals are within budget appropriations.	September 2007	

ATTACHMENT III. HAITI—TECHNICAL MEMORANDUM OF UNDERSTANDING

1. Haiti's performance under the program (April 2007–September 2007) supported by the Poverty Reduction and Growth Facility (PRGF) will be assessed on the basis of the observance of quantitative performance criteria as well as compliance with structural performance criteria and benchmarks. This Technical Memorandum of Understanding (TMU) defines the quantitative and structural performance criteria and indicative targets, specified in Tables 1 and 2 of the Memorandum of Financial and Economic Policies (MEFP). It also lays down the monitoring and reporting requirements. The quantitative performance criteria under the program are set for end-September 2007, and the quarterly targets for end-June 2007 are indicative.

I. DEFINITIONS

A. Net BRH Credit to the Central Government[18]

2. The change in net BRH credit to the central government is defined as, and will be measured using:

   a. Change in net domestic credit to the central government from the BRH according to Table 10R of the BRH;

   b. Change in the stock of special accounts ("Comptes Spéciaux") and seized values (Valeurs saisies UCREF) included in Table 10R of the BRH will be excluded from change in net domestic credit to the central government as defined above.[19]

3. Changes in any other special account (as defined in footnote 2) maintained or established at the BRH will be treated as in 2.b above.

4. The changes will be measured on a cumulative basis from the stock at end-September 2006.

[18] The central government comprises the presidency, prime minister's office, parliament, national courts, treasury, line ministries and "organismes déconcentrés". It includes expenditures financed directly by foreign donors through ministerial accounts (comptes-courants).

[19] Special accounts are accounts of the government at the BRH which can only be used with the authorization of donors. If included, movements in these accounts would appear as BRH credit to the government.

B. Net Domestic Banking Sector Credit to the Nonfinancial Public Sector[20]

5. The change in net domestic banking sector credit to the nonfinancial public sector is defined as, and will be measured using:

a. Change in the stock of net domestic credit of the public sector from the BRH according to Table 10R of the BRH;

b. Change in the stock of net domestic credit of the public sector from the Banque Nationale de Crédit (BNC) and other domestic banks;

c. Change in the stock of special accounts according to Table "Comptes Spéciaux" of the BRH will be excluded from the definition of net domestic banking sector credit to the nonfinancial public sector.

6. Changes in any other special account (as defined in footnote 2) maintained or established in the BRH, BNC, or BPH will be excluded.

7. The changes will be measured on a cumulative basis from the stock at end-September 2006.

C. Net International Reserves

8. The change in net international reserves will be measured using:

a. Change in net foreign assets ("Réserves de change nettes" of the BRH Table 10R);

b. Minus the change in foreign currency deposits of commercial banks at the BRH ("Dépôts à vue en US$ et en EURO des bcm à la BRH" of the BRH Table 10R).

9. Data will be expressed in U.S. dollar terms and valued at the corresponding end-period market exchange rate.

10. For definition purposes, net international reserves are the difference between the BRH's gross foreign assets (comprising gold, special drawing rights, all claims on nonresidents, and BRH claims in foreign currency on domestic financial institutions) and reserve liabilities (including liabilities to nonresidents of one-year maturity or less, use of

[20] The NFPS includes the central government, the key public enterprises (Teleco, EDH, APN, AAN, and CAMEP), and foreign-financed projects.

Fund credit, and excluding trust funds). Swaps in foreign currency with domestic financial institutions and pledged or otherwise encumbered reserve assets are excluded from net international reserves; however, foreign exchange deposits held at the BRH for externally funded projects are included.

11. The changes will be measured on a cumulative basis from the stock at end-September 2006.

D. Net Domestic Assets of the BRH

12. The change in net domestic assets of the BRH is defined as, and will be measured using:

a. Change in currency in circulation ("Monnaie en circulation" of the BRH Table 10R);

b. Minus the change in the U.S. dollar amount of net international reserves (program definition according to section C above), converted into gourdes at the program exchange rate.

13. The program definition of net domestic assets of the BRH will use a program exchange rate of G40 per U.S. dollar for the period April 2007–September 2007. For the purposes of the June indicative target and the end-September test date only, the end-September 2006 stock of NIR will also be valued at the exchange rate of G40 per U.S. dollar.

14. The changes will be measured on a cumulative basis from the stock at end-September 2006.

E. Nonconcessional External and Foreign-Currency Denominated Debt

15. The definition of debt comprises all instruments, including new financial instruments that share the characteristics of debt, as set forth in paragraph No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No.12274-(00/85), August 24, 2000).

16. The concessional nature of debt will be determined on the basis of the commercial interest reference rates (CIRRs), as laid out by the Organization for Economic Cooperation and Development (OECD). A debt is defined as concessional if, on the date of signature, the ratio between the present value of the debt computed on the basis of reference interest rates and the face value of the debt is less than 65 percent (equivalent to a grant element of at least 35 percent).

17. Excluded from the ceiling are short-term import-related credits, rescheduling arrangements, borrowing from the Fund, and guarantees for the electricity sector in the form of letters of credit.

18. The ceilings for contracting and guaranteeing nonconcessional debt by the central government and the BRH will be set at zero continuously throughout the program period.

F. Government Current Accounts

19. Ministerial discretionary accounts are mechanisms for channeling expenditures. In principle, the use of these accounts should be limited to unforeseen emergency outlays. The BRH will provide monthly information on the stock of these current accounts for the central government (as defined in footnote 1).

G. Arrears

20. External payment arrears are defined as overdue payments (principal and interest) to non-residents on debt contracted and guaranteed by the central government, and will be defined according to the terms of indebtedness of each creditor. The criterion of zero accumulation of external arrears will be monitored on a continuous basis.

21. Domestic arrears are defined to include: (i) any bill that has been received by a spending ministry from a supplier for goods and services delivered (and verified) and for which payment has not been made within 45 days after the due date of payment; (ii) wage, salary, and other payment to government employees, including direct and indirect allowances, that were due to be paid in a given month but remained unpaid on the 30th of the following month; and (iii) interest or principal obligations which remain unpaid 30 days after the due date of payment. This definition excludes changes in the stock of arrears on account of interest, penalties and valuation changes.

H. Base money

22. The change in base money is defined as, and will be measured using:

a. Change in the stock of currency in circulation from Table 10R of the BRH

b. Change in the stock of reserve deposits of commercial banks at the BRH, from Table 10R, using gourde sight deposits of commercial banks (depots a vue gourdes des BCM a la BRH) and cash-in-vault of commercial banks (Encaisses des BCM).

23. The changes will be measured on a cumulative basis from the stock at end-September 2006.

II. Quarterly Adjustments

24. The quarterly performance criteria and indicative targets will be adjusted for the following amounts:

A. Adjustment for Domestic Arrears Accumulation

25. The ceilings for net BRH credit to the central government and the net domestic banking sector credit to the nonfinancial public sector will be adjusted downward for the amount of outstanding domestic arrears accumulation.

B. Adjustment for External Financing

26. The program ceilings on BRH credit to the government and the nonfinancial public sector, and on BRH net domestic assets and the floor on NIR reflect an assumed flow of external financing, defined as disbursements of cash budgetary assistance, exceptional financing (including rescheduled principal and interest) and debt relief. The adjuster will be calculated on a cumulative basis from October 1, 2006.

27. If actual external financing is lower than programmed external financing, the ceilings on BRH credit to the government and of the public sector and on BRH net domestic assets will be adjusted upward, and the floor on NIR will be adjusted downward, by the amount of the difference between actual and programmed external financing, converted into gourdes at the program exchange rate. The amount of this adjustment will be limited to US$50 million. Future disbursements under PetroCaribe to finance projects included in the domestic public investment program are not subject to this adjuster.

Program External Financing[21]
(In millions of U.S. dollars)

	December 2006	March 2007	June 2007	September 2007
Program net disbursements	9.9	20.7	23.4	63.5

[21] Actual program net disbursements for end-December and end-March were US$3.6 and US$4.5 million, respectively, causing program adjustments of US$6.2 million and $16.2 million, respectively.

III. Clarification of Structural Performance Criteria

A. Implementation plan for the modernization of the DGI

28. Adoption of a detailed implementation plan for the modernization of the DGI, as agreed under the program, would comprise approval by the Minister of Economy and Finance of a document containing at least the following elements:

a. Main strategic objectives and their order of priority;

b. Actions planned to reach each of the strategic objectives, in accordance with the outlined prioritization;

c. Expected results, both at the broad strategic level and detailed results from each planned action;

d. Implementation schedule, including milestones and checkpoints;

e. Technical assistance needs in specific areas (e.g., for organizational restructuring, auditing, and training);

f. Budget plan, presenting the required resources for the implementation plan, resources that have already been identified (e.g., budget allocations and available donor funding), and possible sources to cover remaining resource needs.

29. The document should also identify a project leader who will oversee and coordinate the implementation process, as well as a project team whose members will be responsible for actions in critical areas.

B. Implementation issues for IFRS

30. The review of implementation issues for the adoption of IFRS by the BRH involves the completion of a report (i) outlining current differences between BRH accounting practices and IFRS requirements; (ii) identifying any constraints to IFRS migration, legal or structural; (iii) establishing the legal feasibility of any technical solutions compatible with the legal obligations under the central bank charter and IFRS, and (iv) in the event that the technical solutions in (iii) are not feasible, outline for all other areas the specific changes to accounting policies and disclosures that will be required and can be pursued, irrespective of the result of the legal review. The report should be shared with Fund staff by end-September 2007.

C. Assessment of BNC

31. The independent assessment of BNC after absorbing Socabank shall be conducted by international experts, independent from local interests, though they could enlist local experts to assist. The procedures for the selection of the assessor(s) and the terms of reference for the assessment shall be agreed on with Fund staff. At the minimum, the assessment shall cover the following aspects:

a. the bank's current financial condition and sustainability, and potential needs of recapitalization and financial restructuring;

b. the adequacy and effectiveness of the bank's main organizational-operational structures and processes, including governance, with special emphasis on the management of credit risk and other relevant risks;

c. the formulation of a short-term action plan to address any identified capital shortfalls and urgent financial and operational restructuring needs; and

d. identification of any issues requiring further analysis and/or action over a longer-term horizon.

32. "Commencement" of the assessment will entail signing of a contract with the international assessor.

D. Monthly Benchmark for Program Monitoring Data

33. The interdepartmental and steering committees will review the monthly data reported to the IMF (NIR, NDA and net credit to government in the 10R report), including compliance with the TMU, and sign off on the data prior to its submission to the IMF.

IV. Provision of Information to IMF Staff

34. To ensure adequate monitoring of the program, the authorities will provide daily, weekly and monthly monetary and fiscal indicators to IMF staff, as well as other data upon request.

A. Daily

35. *Monetary Indicators:* (a) Exchange rate; (b) Volume of foreign exchange transactions, of which BRH sales and purchases; (c) Gross international reserves; and (d) Net international reserves.

36. These data will be reported with maximum two-day lag (14-day final).

B. Weekly

37. *Monetary Indicators*: (a) Stock of BRH bonds; (b) Deposits at commercial banks (in gourdes and U.S. dollars); (c) Credit to private sector (in gourdes and U.S. dollars); (d) Credit to central government and public sector (net); and (e) Currency in circulation.

38. *Fiscal Indicators*: (a) Revenues (internal, external, other) and (b) Expenditures on cash basis (wages and salaries, goods and services, external debt, current accounts).

39. These data will be reported with maximum five-day lag preliminary data (four weeks for final data).

C. Monthly

40. Table 10 R and Table 20 R.

41. Tableau on the comptes courants

42. Tableau de trésorerie de devises.

43. Tableau des Operations Financiere d'Etat (within 14 days).

44. Checks in cirulation

45. Analysis of internal revenue collection (DGI).

46. Analysis of external revenue collection (AGD)

D. Quarterly

Table track poverty-reducing expenditures.