

**FOR
AGENDA**

SM/00/256
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

November 21, 2000

To: Members of the Executive Board
From: The Secretary
Subject: **Haiti—Selected Issues**

The following corrections have been made in SM/00/256 (11/16/00):

Page 35: table revised

Page 37: column headings revised

Page 44: column headings reordered

Page 47, Table 3: items footnoted “ 4/ ” corrected to read “ 3/ ”

Page 93, under stub Capital, row 2, column 4: for “13.1” read “9.4”

Corrected pages are attached.

Att: (5)

Other Distribution:
Department Heads

Table 1. Haiti: Indicators of Debt, Debt Service, and Resource Transfer

	Fiscal year ending September 30									
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
(In millions of US dollars)										
Public external debt	850.8	837	845.5	862.4	940.5	781.2	905.4	1029.5	1107.2	1165.6
to multilateral creditors	552.4	567.9	559.3	538.9	516	646.6	756.3	856.8	933.0	993.3
to bilateral creditors	298.4	269.1	286.2	323.5	424.5	134.6	149.1	172.7	174.2	172.3
Change of external debt stock	30.2	-13.8	8.5	16.9	78.1	-159.3	124.2	124.1	77.7	58.4
Public external debt service	51.8	29.5	23.1	37.8	38.3	28.8	26.3	33.6	43.4	55.9
Amortization	37.8	19.3	12.7	27.2	25.8	19.8	16.9	19.6	30.5	35.7
Interest payments	14.0	10.2	10.4	10.6	12.5	9.0	9.4	14.0	12.9	20.2
Loan disbursements	74.2	43.3	0.5	0.0	0.0	150.0	121.5	131.9	97.4	103.0
Net resource flows	166.7	190.3	80.0	104.3	112.0	644.0	388.3	320.2	276.6	303.8
External grants	131.9	164.7	85.0	100.0	113.3	409.9	293.1	221.9	222.6	256.8
Net lending 1/ 2/	34.8	25.6	-5.0	4.3	-1.3	121.2	95.2	98.3	54.0	47.1
Debt relief	0.0	0.0	0.0	0.0	0.0	112.9	0.0	0.0	0.0	0.0
(In percent of total debt)										
Multilateral debt	64.9	67.8	66.2	62.5	54.9	82.8	83.5	83.2	84.3	85.2
Debt service	6.1	3.5	2.7	4.4	4.1	3.7	2.9	3.3	3.9	4.8
(In percent of GDP)										
Public external debt	44.9	34.8	40.6	47.4	49.7	29.7	30.6	29.7	28.8	27.1
Public external debt service	2.7	1.2	1.1	2.1	2.0	1.1	0.9	1.0	1.1	1.3
Net resource flows	8.8	7.9	3.8	5.7	5.9	24.5	13.1	9.2	7.2	7.1
Net loan disbursements	1.9	1.0	-0.6	-1.5	-1.4	4.9	3.5	3.2	1.7	1.6
Loan disbursements	3.9	1.8	0.0	0.0	0.0	5.7	4.1	3.8	2.5	2.4
Amortization	-2.0	-0.8	-0.6	-1.5	-1.4	-0.8	-0.6	-0.6	-0.8	-0.8
Net arrears accumulation	0.7	0.5	0.9	2.3	2.0	0.0	0.0	0.0	0.0	0.0
Net debt relief from Paris Club creditors	...	...	...	...	...	4.3	...	...	...	...
Grants	7.0	6.8	4.1	5.5	6.0	15.6	9.9	6.4	5.8	6.0
Interest payments	-0.7	-0.4	-0.5	-0.6	-0.7	-0.3	-0.3	-0.4	-0.3	-0.5
(In percentage)										
Loan disbursement share of										
grants and loans	36.0	20.8	0.6	0.0	0.0	26.8	29.3	37.3	30.4	28.6
Debt to GDP	44.9	34.8	40.6	47.4	49.7	29.7	30.6	29.7	28.8	27.1
Debt to exports of GNFS	267.5	373.3	595.8	560.5	720.6	369.5	366.4	353.4	250.7	224.1
Debt service to exports of GNFS	16.3	13.2	16.3	24.6	29.3	13.6	10.6	11.5	9.8	10.7
Debt service net to international reserves 3/	...	...	...	...	...	15.5	19.5	20.7	22.3	25.6
Memorandum items:										
GDP (in US\$ million)	1895	2407	2084	1818	1891	2634	2955	3462	3839	4307
Exports of GNFS (in millions of US\$)	318.0	224.2	141.9	153.9	130.5	211.4	247.1	291.3	441.7	520.0
Current account to GDP (in percent) 4/	-4.7	-5.1	-2.0	-3.8	0.9	-1.2	-2.2	-0.6	-0.3	-1.4

Source: Bank of the Republic of Haiti, and Fund staff estimates.

1/ New loans, minus amortizations and interest payments

2/ Including, from 1990 to 1994, accumulation of external payment arrears

3/ In FY 1989/90 through 1994/94, net international reserves were negative

4/ Including grants

Table 2. Haiti: Comparative Debt Indicators 1/

(In millions of US dollars, unless indicated otherwise)

	Haiti	Bolivia 9/	Guyana	Honduras	Nicaragua	Malawi	Senegal	Tanzania	Uganda 9/	Zambia
	end-Sept 99	end-1998	end-1998	end-1999	end-1999	end-1999	end-1999	end-June 99	end-June 99	end-1999
Debt										
External public debt	1,166	4,467	1,383	4,373	6,358	2,597	3,763 10/	6,385	3,217	7,056
Share of bilateral debt (in percent)	13	34	28	34 10/	66	16	37	45	13	46
Share of Paris Club debt (in percent)	13	33	...	27 10/	26	13	21	31	9	40
Share of multilateral debt 3/	83	65	70	55 10/	34	84	63	54	86	54
External public debt service	56	372	130	382	323	82	216	413	134	328
NPV of debt 4/	589	3,521	1,078	3,220	5,487	1,479	2,495	4,613	1,748	5,075
Debt ratios (in percent)										
Debt to GDP	27	52	192	83	280	142	79	74	56	249
Debt to exports 5/	224	329	201	178	761	479	238	591	443	838
Debt to service to GDP	1	4	18	7	14	4	5	5	2	12
Debt service to exports 5/	11	27	19	16	39	15	14	38	18	39
Debt service to debt outstanding	5	8	9	9	5	3	6	6	4	5
NPV to GDP	14	41	150	61	242	81	52	54	30	179
NPV to Exports 5/	114	260	157	131	657	273	158	427	241	603
NPV to three-year average exports 5/ 6/	141	259	151	147	656	262	166	397	240	539
NPV to Revenue 7/	157	180	312	338	961	517	303	340	175	702
Memorandum items										
GDP	4,307	8,555	721	5,268	2,268	1,833	4,756	8,585	5,791	2,835
GDP per capita (in US\$)	552	1,051	848	852	459	172	513	262	268	272
Debt per capita (in US\$)	149	549	1,627	708	1287	244	405	195	149	678
Exports	520	1356	688	2,463	835	542	1,582	1,081	726	842
Three-year average exports 6/	418	1,361	715	2,184	837	565	1,505	1,162	728	942
Current account balance	-60	-675	-85	-504	-840	-99	166	-558	-240	-498
Current account balance to GDP (in percent)	-1.4	-7.9	-11.8	-9.6	-37.0	-5.4	3.5	-6.5	-4.1	-17.6
Revenue 7/	376	1,959	345	952	571	286	823	1,358	997	723
Revenue to GDP (in percent)	8.7	22.9	47.9	18.1	25.2	15.6	17.3	15.8	12.1	25.5
Exports to GDP (in percent) 6/	12.1	15.9	95.4	46.8	36.8	29.6	33.3	12.6	12.5	29.7
Concessionality 8/	49%	21%	22%	26%	14%	43%	34%	28%	46%	28%

Source: national data, IFS, and Fund staff estimates.

1/ Country sample includes all Western Hemisphere and some African HIPC countries.

2/ For all countries, except for Haiti and for Bolivia and Uganda (footnote 5): date before HIPC debt relief.

3/ Including IMF.

4/ As calculated in respective HIPC documentation.

5/ Exports of goods and non-factor services.

6/ Backward-looking three-year moving average.

7/ Central government revenue.

8/ Concessionality is the grant element consisting of the percentage difference between the nominal and the net present value of debt.

9/ Bolivia and Uganda: after first HIPC assistance.

10/ End-1998.

Table 3. Haiti: External Public Debt

(In millions of US Dollars)

	September 30, 1999	
	Stock of Debt outstanding	NPV of debt
Total	1,165.6	589.3
Bilateral	172.3	92.0
Paris Club	167.4	88.2
pre-cutoff	167.4	88.2
ODA	143.4	65.0
non-ODA	24.1	23.2
post-cutoff	0.0	0.0
Other official bilateral 1/	4.9	3.7
pre-cutoff	0.0	0.0
post-cutoff	4.9	3.7
Commercial	0.0	0.0
Multilateral	993.3	497.4
IMF	51.5	43.9
IDA	515.2	239.2
IDB/FSO	400.2	199.5
IFAD	22.4	11.7
OPEC Fund	4.0	3.0
Ratios		
Debt/GDP	27.1	13.7
Debt/Exports (in percent) 2/ 3/	279.1	141.1
Debt/Central government revenue (in percent)	309.6	165.5
Memorandum items:		
GDP	4,306.5	4,306.5
Exports 2/	520.0	520.0
Exports, three-year moving average 2/ 3/	417.7	417.7

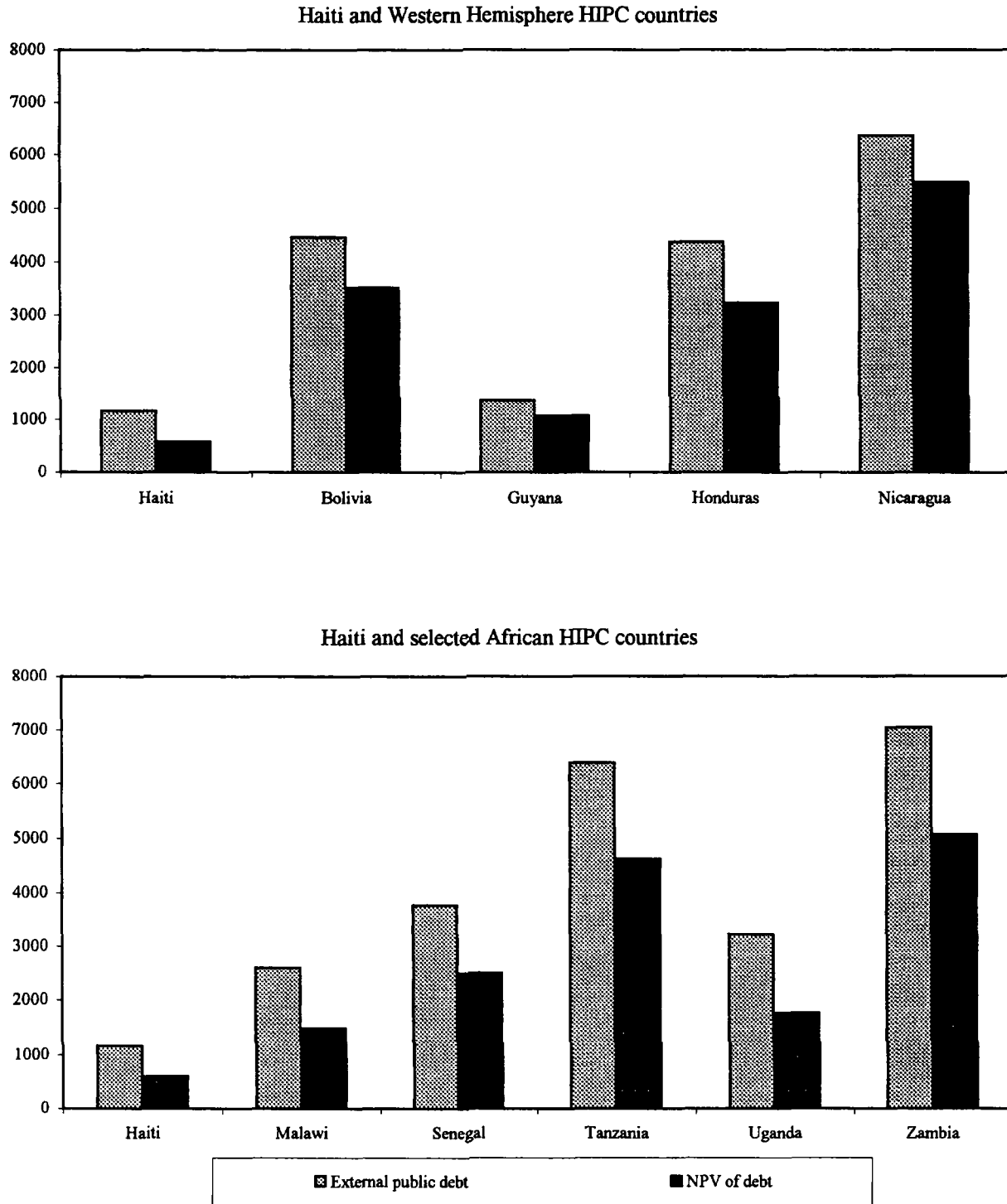
Source: Bank of the Republic of Haiti, and staff Fund estimates

1/ Taiwan, Argentina, and Venezuela.

2/ Exports of goods and non-factor services.

3/ Backward-looking three-year moving average of exports.

Figure 1. Haiti: Debt and NPV of Debt, 1999
(In millions of U.S. dollars)



Source: National data, IFS, and staff estimates.

C. Trade Policies 1994–95

76. Following the return to constitutional rule in October 1994, and the lifting of the embargoes imposed on most trade and financial transactions in 1991–94, the government of Haiti embarked on an economic recovery program, supported by the international community, as well as on a medium-term structural adjustment strategy. The latter included sweeping trade liberalization measures.

77. In FY 1994/95, all remaining import restrictions on agricultural commodities were eliminated. Under the tariff reform, approved in February 1995, imports were to be valued using the market exchange rate, as opposed to the fixed preferential rate of G 6.5 per U.S. dollar in effect since August 1989. The resulting large valuation increase was broadly offset by a reduction in tariffs rates. The tariff schedule adopted in February 1995, that is still in effect, reduced the maximum tariff rates from 40–50 percent to 15 percent and consolidated the 13-band rate structure into a four-band tariff structure (0, 5, 10, 15 percent). Specific rates (0–3 percent) were stipulated for certain basic products (rice, sugar, flour, cement). As rice and flour were previously subject to a rate of 50 percent, the reform entailed an actual lowering of the tax incidence on these basic products. However, gasoline remained taxed at 57.8 percent. Under the current tariff structure, the simple average tariff rate is 5 percent, and over half of the close to 1,600 tariff lines bear a zero rate. The tariff structure was notified as binding to the WTO, making it difficult to increase rates. In addition to customs duties, an import verification fee of 4 percent is applied on non-exempt imports, as well as a 2 percent advance income tax payment. The latter is deductible from income tax for registered businesses, and is final for businesses that do not file income tax returns, for example, small or informal businesses.

78. Including the numerous exemptions on imports by public sector entities, donor-funded projects and NGO's, the average total custom duty is currently around 8 percent.⁴⁰ The relatively low customs duties, the elimination of NTB's and of all economically relevant import and export licensing requirements, have put Haiti in the category of countries with the most liberal trade regime. In the Western Hemisphere, only Chile and Panama, countries that have a much larger GDP per capita, have a similarly liberal trade regime.⁴¹ A further lowering of custom tariffs to a maximum of 10 percent was to be implemented by end-1996 (some tariffs that are currently less than 10 percent, such as those for rice and sugar, would be raised somewhat). However, following the onset of the prolonged political crisis, this lowering has not been implemented to date pending parliamentary approval. It remains however on the government's agenda.

⁴⁰ Including the verification fee. An important exemption is gas oil supplied to the electricity company EDH.

⁴¹ According to the 1999 IMF's trade restrictiveness rating (Table 1).

Table 1: Index of Trade Restrictiveness (as of end-1999)

	Overall Index	NTB Index	Tariff Index
CARICOM countries			
Antigua and Barbuda	5	2	2
The Bahamas	5	1	5
Barbados	5	2	2
Belize	5	2	2
Dominica	5	2	2
Grenada	9	3	3
Guyana	2	1	2
Jamaica	5	2	2
St. Kitts and Nevis	2	1	2
St. Lucia	5	2	2
St. Vincent and the Grenadines	5	2	2
Trinidad and Tobago	4	2	1
HISPANIOLA countries			
Dominican Republic	6	2	3
Haiti	1	1	1
Source: IMF.			
See IMF: "Trade Liberalization in IMF-Supported Programs, Appendix 1," February 1998, for a description of the methodology used to build the index.			

has been slower than anticipated, and some member countries still maintain tariffs in excess of 20 percent. Moreover, members countries have generally retained NTB's.

82. Haiti's trade with CARICOM countries is very small (less than 2 percent of Haitian imports and less than 1 percent of exports). Implementing the CET without suspensions or temporary waivers would entail a large increase in Haiti's average tariff rate, as the higher rates on non-CARICOM imports would not be compensated by zero rates on intra-community trade. In negotiating the terms of Haiti's accession to the CARICOM, the authorities have taken considerable care in preventing a rate increase on the bulk of imports, including on food imports (Table 3). **Haiti negotiated therefore suspensions of the implementation of the CET for about 500 products.** With a view to safeguarding custom revenues, it also negotiated waivers ("*dérogations*") to the implementation of the intra-CARICOM free trade policy on a number of important products, including rice, pork, and gasoline, that could potentially be supplied in part by partner countries. The negotiated tariff, a five-band structure (0, 5, 10, 15, 20 percent) may enter into force after a transitional period following ratification. Estimates of the impact of the negotiated tariffs show an increase of about 2 percentage points in the average rate, as rates on many products, accounting for about one-third of the value of imports, will go up. With regard to the application of the full CET, CARICOM members have agreed to grant Haiti an adjustment period of five years after parliamentary ratification, postponing it until 2005 at the earliest. The adjustment period is renewable.

Table 3: Custom Duties on Selected Basic Food Items (in percent)			
	Current rate	CET rate 1/	Entry rate 2/
Rice	3	25	5
Flour	3	20	0
Sugar	3	40	5
Maize	15	40	15
Peas	5	20	5
Pork meat	5	40	15
Chicken meat 3/	5	"A" list	"A" list
Eggs	0	40	20
Milk 3/	0	"A" list	"A" list
Edible oil	0	40	0
Source : Haitian authorities.			
1/ Common external tariff of the CARICOM, at the time of negotiations (early 1999).			
2/ Rate negotiated by Haiti for membership into CARICOM, valid for five years.			
3/ "A" list: member states can set the custom duty rate, subject to a ceiling.			

83. In parallel to CARICOM negotiations, technical work has been completed in the ministry of finance to update the 1996 draft revised custom tariff law that will provide for a **maximum rate of 10 percent**. Once the current macroeconomic instability subsides the draft law will be submitted to parliament. There is an apparent contradiction between the draft customs law and the tariff structure negotiated with CARICOM, which implies rates above 10 percent for some products. The authorities are well aware of the possible conflict between the two tariff schedules. It is however the stated goal of the authorities to implement the lowest possible tariff over the medium-term. In this respect, the authorities are hopeful that the CET will have been lowered by the time it becomes binding, to avoid tariff increases in Haiti.

E. Conclusion

84. The swift liberalization of Haiti's external trade mainly benefited consumers and traders, at some cost to inward-looking agricultural and industrial sectors. However, the slow pace of structural reforms in other areas has so far prevented Haiti from reaping the full benefit of this policy in the areas of efficiency and growth. Trade reform in Haiti was implemented in two bold steps, that each coincided with historical breaks with past economic and political environments: the fall of the dictatorship in 1986 and the lifting of the embargoes after the return to constitutional rule in 1994. As a result, Haiti, ranks among the most open economies. The liberalization of the trade regime was carried out without a strong free-trade constituency within the private sector. One of the policy's main goal was securing access to affordable imports for consumers, in particular of food and basic commodities consumed by the poorest segments of the population. In the medium-term, a further reduction in custom tariff rates is envisaged, in parallel with Haiti's integration in the CARICOM.

85. Through effectively liberalizing trade, Haiti has put itself in a position to exploit its comparative advantages and reallocate its resources efficiently. However, important structural impediments remain, in the utilities sector, infrastructure, education and health, and the judiciary, that constrain growth and investment. Moreover, recently, rising inflation is taking a toll on the poorest elements of the population. The remaining impediments to growth will have to be removed and macroeconomic stability restored, for Haiti to be able to reap the full benefit of its liberal trade regime.

Table 27. Haiti: Summary Indicators of Commercial Banking Sector

	Fiscal Year Ending September 30				Dec.	2000	
	1996	1997	1998 1/	1999	1999	Mar.	Jun.
Capital							
Capital, reserves, undistributed profits/total assets	4.6	5.4	5.7	5.2	5.1	4.9	4.9
Capital/risk-weighted assets (capital adequacy ratio)	...	...	...	9.4	10.6	11.9	11.1
Nonperforming Loans							
Nonperforming loans/total loans	4.7	4.9	8.6	7.9	8.6	7.9	8.7
excluding BNC	...	3.2	6.7	6.5	6.7	6.3	7.1
Provisions/nonperforming loans	95.8	79.5	56.2	62.3	57.2	50.0	53.9
Nonperforming loans/capital, reserves, undistributed profits	1.7	8.5	30.3	24.7	30.6	40.7	33.3
excluding BNC	...	1.8	27.5	21.3	22.5	22.5	28.6
Profitability							
Return on assets (in percent)	1.2	1.4	0.6	1.0	1.1	1.7	1.7
excluding BNC	...	1.4	1.1	0.9	1.3	1.0	1.3
Return on equity (in percent)	25.9	28.1	10.1	18.5	21.5	34.9	33.8
Net interest income/gross interest income	55.6	59.3	55.8	60.2	64.0	61.5	59.9
Operating costs/net interest and noninterest income	75.0	75.5	78.4	77.2	78.3	69.8	73.4
excluding BNC	...	74.9	75.9	78	73.9	70.3	76.5
Net income/employee	427.8	634.4	594.6	606.5	667.1	756.9	757.7
Number of branches	58	68	82	99	105	110	112
Number of employees	2,032	2,234	2,591	2,659	2,712	2,799	2,880
Liquidity							
Total Loans/Total Deposits 2/	47.0	58.6	57.3	53.8	53.1	53.1	50.8
Foreign Currency Loans/Foreign Currency Deposits 3/	24.5	48.0	59.4	66.6	59.7	58.8	56.2
Foreign Currency Loans/Total Loans	12.1	21.6	29.3	38.3	37.3	38.9	40.8
Foreign Currency Deposits/Total Deposits	23.8	27.1	29.3	31.5	33.7	35.8	37.6
Intermediation							
Private Sector Bank Deposits/Broad Money	78.4	79.6	81.3	82.0	79.7	81.9	82.5
Private Sector Credit/GDP	10.8	11.9	13.1	13.2	...	...	...

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

1/ Criteria for loan classifications were tightened in March 1998.

2/ Denominated in gourdes and in foreign exchange.

3/ Foreign exchange operations of the private sector only.

Table 28. Haiti: Interest Rates

(In percent per annum)

	Gourde Denominated				Dollar Denominated			Memo:
	Deposits 1/		Lending 1/	91-day BRH Bonds	Deposits 1/		Lending 1/	Annual
	Time	Savings			Time	Savings		Inflation 2/
1996								
March	11.0	5.5	29.0	...	...	...	...	20.3
June	11.5	5.3	27.8	...	...	...	...	22.0
September	11.3	5.5	27.4	...	...	...	...	20.1
December	10.5	5.5	23.0	19.4	...	...	...	14.6
1997								
March	10.0	5.5	21.0	15.3	...	...	...	16.9
June	10.0	5.5	20.0	18.0	...	...	...	16.9
September	11.3	5.5	21.5	17.7	4.3	2.0	12.5	17.0
December	10.5	5.5	23.5	17.2	4.8	2.8	12.0	15.6
1998								
March	12.5	5.5	22.5	22.5	4.3	2.8	10.8	12.8
June	13.5	5.5	23.5	23.5	4.5	2.8	11.0	10.9
September	14.8	5.5	22.5	21.3	4.8	3.0	12.5	8.3
December	11.0	3.0	23.5	9.2	5.0	2.8	14.0	7.4
1999								
March	7.5	3.0	23.0	10.3	4.4	1.5	12.0	7.9
June	7.0	3.3	24.5	10.3	3.8	1.5	12.5	8.1
September	6.8	3.5	22.5	10.3	4.0	2.3	12.5	9.9
December	9.6	3.5	22.5	21.1	4.8	2.0	13.5	9.7
2000								
March	9.8	3.3	24.3	23.3	3.8	1.8	14.0	12.0
June	10.5	3.3	25.3	23.3	4.8	1.5	14.3	11.5

Source: Bank of the Republic of Haiti.

1/ Interest rates shown here are a simple average of the lowest and highest end-of-period deposit and lending rates reported by the commercial banks.

2/ Change in consumer prices compared to same period 12 months earlier.