FOR AGENDA

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SM/89/92
Supplement 1

CONTAINS CONFIDENTIAL
INFORMATION

June 21, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Haiti- Staff Report for the 1989 Article IV Consultation

The attached supplement to the staff report for the 1989 Article IV consultation with Haiti has been prepared on the basis of additional information.

Mr. Bonvicini (ext. 8482) or Mr. Gronlie (ext. 8628) is available to answer technical or factual questions relating to this paper prior to the Board discussion which is tentatively scheduled for Monday, June 26, 1989.

Att: (1)

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CONTAINS CONFIDENTIAL
INFORMATION

INTERNATIONAL MONETARY FUND

HAITI

Staff Report for the 1989 Article IV Consultation--
Supplementary Information

Prepared by the Western Hemisphere Department

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

Approved by S.T. Beza and S. Kanesa-Thasan

June 21, 1989

I. Introduction

The 1989 Article IV consultation discussions with Haiti were held in Port-au-Prince in the period March 3-18, 1989. The staff report on these discussions was circulated to Executive Directors on May 18, 1989 (SM/89/92). At the request of the Haitian authorities, a staff mission returned to Port-au-Prince during May 29-June 8, 1989 to assist the authorities in elaborating policies that could, as a minimum, enable Haiti to meet its obligations to the Fund during the period June-September 1989 and help lay the basis for a comprehensive adjustment program for FY 1989/90 (which starts October 1). Meetings were held with the Minister of Economy and Finance, the Governor of the Bank of the Republic of Haiti, and other senior officials. 1/ This supplement includes a description of the policies that the authorities intend to implement in the remainder of the current fiscal year, as well as indicative benchmarks for fiscal and credit variables for the period June-September 1989.

Haiti's overdue obligations to the Fund outstanding at the end of May 1989 amounted to SDR 9.4 million (21.3 percent of quota). Scheduled payments to the Fund (including repurchases, Trust Fund repayments, interest and charges) amount to about SDR 3.5 million in the period June-September 1989, and average nearly SDR 1 million a month during FY 1989/90. A separate paper is being issued to discuss these overdue payments in more detail.

1/ The staff representatives were Messrs. Bonvicini (Head), Gronlie (both WHD), de la Piedra (EP-WHD), and Mrs. Frolia (Secretary-WHD). The mission was assisted by Mr. Ewenczyk, the Fund resident representative in Haiti.

World Bank management informed the Haitian authorities in May 1989 that consideration by its Executive Board of two project-related IDA credits for the equivalent of about US$45 million had been postponed, and urged the authorities to reach understandings with the Fund on a program that would help address the issue of Haiti's arrears to the Fund. Consideration of these two credits by the Bank's Executive Board now has been scheduled for June 27, 1989.

II. Background and Policy Discussions

Economic developments in Haiti were discussed in the Staff Report for the 1989 Article IV consultation (SM/89/92, 5/18/89). Since the time of the consultation discussions, the financial position of Haiti has continued to be extremely weak; political events which took place in early April had negative effects on the treasury budget and contributed to a further deterioration of the financial position of the public enterprises.

Implementation of the program of action which had been launched in March to improve tax collection by subjecting large taxpayers to intensified audits and control was delayed, and the plans to strengthen the authority of the Customs Administration at ports of entry have yet to be implemented fully. Treasury expenditure has continued to be within budgetary allocations. The financial position of the public enterprises deteriorated in March and April, reflecting in large part the impact of wage and employment increases which had been taking place since late 1988, as well as higher costs of imports and increases in other nonwage outlays, including for maintenance. In addition, the telecommunications company has been adversely affected since March by a reduction in receipts generated by calls from abroad and the cement company suffered an important, albeit temporary, loss of sales because of technical problems and the disruption of economic activity in the first half of April.

To increase tax revenue, in late May the authorities raised the retail price of gasoline by 13 percent (from US$1.95 to US$2.20 per gallon in terms of the official exchange rate). This measure made possible the re-establishment of the level of taxation in effect at the beginning of the fiscal year, which had been subsequently eroded as the Government absorbed the increased import cost of gasoline through the lowering of the excise tax. In addition, the program of intensified audits has been put into operation, and a start has been made in strengthening control over the state enterprises.

In the period June-September 1989 the authorities intend to implement policies aimed at reducing prevailing financial imbalances and setting conditions conducive to the implementation of a comprehensive

adjustment program in FY 1989/90 that, together with increased external assistance, would improve growth prospects and enable Haiti to meet fully its external payments obligations to the Fund and other creditors in this period.

The central policy objective of the authorities is the strengthening of the public finances. Within the Treasury, in the period through September 1989 measures will be taken to strengthen the revenue performance, including a broadening of the coverage of the value added tax and the elimination of deductions currently allowed for income tax purposes for certain investments. The authorities also intend to complete the project launched in late 1987 to set up a central taxpayers' filing system that will facilitate cross-checking of returns for the major taxes. This, together with continuing efforts to improve procedures for auditing large taxpayers' declarations, should strengthen the collection of income and value added taxes. Action also will be taken to secure the full benefit of efforts initiated in the second half of FY 1987/88 to improve revenue collection at the level of the Customs Administration, including tighter control of exonerations from payment of custom duties granted to firms or individuals under current legislation. In support of their effort to improve tax administration, the authorities have requested technical assistance from the Fund. In addition, with the aim of strengthening control over government spending, efforts will continue to ensure that all treasury expenditures are recorded within the framework of the established budget.

With regard to the public enterprises, immediate action will be taken to reduce the payroll and streamline the cost structure in a manner so as not to affect the level of production. To ensure appropriate financial accountability, all public enterprises will be placed under the authority of the Ministry of Economy and Finance. A high-level committee will be set up within the Ministry of Economy and Finance, with participation of the Bank of the Republic, to monitor the financial operations of the state enterprises on the basis of monthly cash flows that the enterprises will be required to submit in a timely manner. Starting in FY 1989/90, the global annual budgets of all public enterprises will be incorporated into the treasury budget document and will be subject to the same procedures for approval. All foreign and domestic borrowing operations of public enterprises will be subject to the prior approval of the Ministry of Economy and Finance and the Bank of the Republic of Haiti.

To cover increases in costs which cannot be absorbed by improvements in the enterprises' operating efficiency and to attend to needed investment and maintenance requirements, price increases for goods and services sold by the public sector will be enacted before the end of the current fiscal year. In this context, work already is under way to set up a new tariff schedule for domestic telephone service and the authorities are reviewing mechanisms designed to reduce the profit margins currently absorbed by private intermediaries in the commercialization of some goods produced by the state-owned flour mill.

On the basis of performance up to April 1989 and implementation of measures to increase revenue and tighten control over spending, the overall public sector deficit in FY 1988/89 would amount to about 4.7 percent of GDP, with domestic borrowing needs equivalent to 1.3 percent of GDP, or G 150 million (Table 1). Although the latter amount is slightly higher than that foreseen at the time of the consultation, it includes G 59 million of net lending from the monetary authorities to the state-owned flour mill for wheat imports financed by short-term external commercial credit with a U.S. Government guarantee that had not been envisaged previously. For the period October 1988-June 1989, the net domestic borrowing requirement would not exceed G 115 million. As the measures to be implemented in the next few months take their full effect, the public sector's savings performance should improve considerably in FY 1989/90. This, together with a recovery of concessional aid flows, would make possible some recovery in public investment while reducing the public sector's domestic borrowing needs.

Credit policies are designed to be consistent with the anti-inflation and balance of payments objectives of the authorities and are to provide room for a reasonable increase in bank credit to the private sector. Interest rates will continue to be managed in a flexible manner, and compliance by commercial banks with the legal reserve requirement will be enforced. The operations of the National Credit Bank will be monitored closely to ensure that expansion of credit from the bank to the private sector is in line with its ability to capture private sector deposits. For end-June and end-September 1989, the authorities intend to limit the net domestic assets of the monetary authorities (which includes the Bank of the Republic and the National Credit Bank) to G 1,777 million and G 1,837 million, respectively, as compared with G 1,656 million at the end of September 1988 (Table 2).

The authorities expect that the rate of increase in the monetary aggregates will come down to a pace in line with nominal GDP growth. Accordingly, money and quasi-money is projected to increase by 10 percent over the 12-month period ending September 30, 1989, as against 12 percent during the equivalent period ended April 30, 1989. On this basis, fiscal and credit policies would be consistent with virtually no decline in net official international reserves in the period July-September 1989 and a loss of about US$8 1/2 million in FY 1988/89 (Table 3).

The authorities expressed their intention to make payments to the Fund to the fullest extent possible in the period through the end of September 1989, and committed themselves, as a minimum, to prevent an increase in overdue financial obligations to the Fund in the period June-September 1989. Taking into account full settlement of obligations to the Fund falling due in the period June-September 1989, the gross international reserves of the monetary authorities would decline by about US$5 million in the current fiscal year. At the end of September 1989, disposable gross official reserves would stand at the equivalent of about 2 1/2 weeks of imports.

Table 1. Haiti: Public Sector Operations

	Fiscal Years Ended September 30					
	1984	1985	1986	1987	1988	Proj. 1989
	(In millions of gourdes)					
Total receipts	1,171.2	1,382.5	1,325.2	1,213.5	1,260.5	1,302.9
Total expenditure	2,129.7	2,105.0	1,915.0	2,042.7	1,836.6	1,860.4
Public sector capital expenditure	1,014.9	823.6	643.5	780.1	624.3	615.0
Public sector deficit (-)	-958.4	-722.5	-589.8	-829.2	-576.2	-557.5
Grants-in-aid	310.0	359.5	470.0	497.0	289.5	255.0
Overall public sector deficit (after grants-in-aid)	-648.4	-363.0	-119.8	-332.2	-286.7	-302.5
External financing (net)	313.9	146.7	156.5	246.4	162.0	152.5
Domestic financing (net)	334.6	216.3	-36.7	85.8	124.7	150.0
Memorandum items						
Nonconcessional financing (net)	309.4	138.3	-46.6	43.0	94.5	133.0
Concessional financing and grants	649.1	584.3	636.4	786.2	481.6	424.5
	(In percent of GDP)					
Total receipts	12.9	13.8	11.8	11.2	11.4	10.9
Total expenditure	23.4	21.0	17.1	18.9	16.6	15.6
Public sector capital expenditure	11.2	8.2	5.7	7.2	5.6	5.2
Public sector deficit (-)	-10.6	-7.2	-5.3	-7.7	-5.2	-4.7
Grants-in-aid	3.4	3.6	4.2	4.6	2.6	2.1
Overall public sector deficit (after grants-in-aid)	-7.1	-3.6	-1.1	-3.1	-2.6	-2.6
External financing (net)	3.5	1.5	1.4	2.3	1.5	1.3
Domestic financing (net)	3.7	2.2	-0.3	0.8	1.1	1.3
Memorandum items						
Nonconcessional financing (net)	3.4	1.4	-0.4	0.4	0.9	1.1
Concessional financing and grants	7.1	5.8	5.7	7.3	4.4	3.6

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

Table 2. Haiti: Accounts of the Banking System

(In millions of gourdes)

	September 30				June 30	Sept. 30
	1985	1986	1987	1988	1989	1989
I. Monetary Authorities						
Net international official reserves	-464.4	-368.1	-225.2	-146.4	-184.4	-186.2
Assets	100.2	117.5	200.0	207.4	195.0	184.0
Of which: Bank of the Republic, excluding gold	38.1	24.8	91.7	94.1	100.5	89.5
Foreign liabilities	-564.6	-485.6	-425.2	-353.8	-379.4	-370.2
Arrears	-60.0	-72.0	-69.6	-84.2	-138.2	-138.2
Liabilities to the Fund	-406.1	-367.1	-322.6	-207.9	-135.7	-128.8
Other	-98.5	-46.5	-33.0	-61.7	-105.5	-103.2
Net domestic assets	1,514.9	1,567.0	1,545.5	1,656.4	1,776.9	1,836.7
Credit to the public sector	2,080.8	2,084.0	2,183.9	2,305.9	2,410.9	2,445.9
Credit to the private sector	293.9	287.9	284.6	219.9	244.7	254.0
Net liabilities to private banks	-598.1	-673.4	-819.3	-816.7	-823.7	-814.9
Of which: free reserves	-171.2	-97.4	-136.0	97.0	20.0	15.0
Counterpart external arrears	60.0	72.0	69.6	74.7	83.6	83.6
SDR allocation	-67.9	-80.5	-89.5	-94.8	-94.8	-94.8
Trust fund	-66.2	-56.8	-39.6	-18.6	-9.4	-6.4
Capital and surplus	-161.9	-208.7	-242.0	-245.7	-243.9	-245.0
Valuation adjustment	-78.7	1.2	21.5	27.6	24.4	24.4
Other (net)	53.0	141.3	176.3	204.2	185.0	190.0
Liabilities to private sector	1,050.5	1,198.9	1,320.3	1,510.0	1,592.5	1,650.5
Currency in circulation	639.1	749.1	822.9	981.9	1,054.7	1,090.0
Deposits	411.4	449.8	497.4	528.1	537.8	560.5
II. Banking System						
Net international reserves	-432.2	-300.2	-126.7	-31.7	-97.0	-98.9
Net domestic assets	3,065.8	3,222.0	3,353.9	3,604.8	3,984.0	4,028.5
Credit to public sector	2,150.2	2,113.5	2,199.3	2,324.1	2,439.1	2,474.1
Credit to private sector	1,164.7	1,172.4	1,185.0	1,279.6	1,560.0	1,557.8
Other	-249.1	-63.9	-30.4	1.5	-15.1	-3.4
Liabilities to private sector	2,633.6	2,921.8	3,227.2	3,573.1	3,886.9	3,929.6

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

Table 3. Haiti: Balance of Payments

(In millions of U.S. dollars)

	Fiscal Years Ended September 30				
	1985	1986	1987	1988	Proj. 1989
Current account	-130.8	-96.4	-126.8	-103.4	-130.1
Trade balance	-116.7	-82.2	-117.3	-93.5	-108.1
Exports (f.o.b.)	217.2	216.2	200.5	206.6	210.5
Coffee	48.0	57.5	36.5	39.4	37.0
Light assembly industry	126.9	130.1	131.8	138.1	144.1
Other	42.3	28.6	32.2	29.1	29.4
Imports (c.i.f.)	333.9	298.4	317.7	300.1	318.6
Services (net)	-62.2	-66.2	-65.8	-73.3	-79.0
Of which: travel	25.1	19.6	19.0	15.6	12.0
interest	-13.1	-15.1	-12.8	-13.8	-13.6
Private transfers	48.2	52.0	56.2	63.4	57.0
Capital account 1/	116.5	126.6	159.4	120.4	121.5
Official grants	87.3	106.7	121.8	96.1	93.0
To private sector	15.4	12.7	22.4	38.2	42.0
To public sector	71.9	94.0	99.4	57.9	51.0
Official capital	17.0	24.9	45.1	29.3	28.0
Multilateral and bilateral 2/	42.2	29.3	53.2	36.3	31.5
Commercial 3/	-25.2	-4.4	-8.1	-7.0	-3.5
Monetary capital 4/	13.6	-7.1	-6.1	-3.2	5.5
Private capital and errors and omissions	-1.4	2.1	-1.4	-1.8	-5.0
Overall balance	-14.3	30.2	32.6	17.0	-8.6
Change in net international reserves (increase -)	14.3	-30.2	-32.6	-17.0	8.6
Net use of Fund resources (decrease -) 5/	-9.4	-18.7	-12.9	-24.2	-15.3
Gross assets (increase -)	6.8	-3.5	-16.5	-1.5	4.7
Other liabilities (decr. -)	7.3	-10.4	-2.7	5.8	8.3
Arrears (decrease -) 6/	9.6	2.4	-0.5	2.9	10.9 7/

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

1/ Official grants are treated as a capital account item because their effect on the current account is similar, in the case of Haiti, to that of official loans which contain a very high grant element.
2/ Includes Trust Fund.
3/ Includes changes in publicly guaranteed debt.
4/ Change in private banks' net foreign assets.
5/ On an accrual basis.
6/ Includes overdue obligations to the Fund.
7/ Reflects increase in arrears through the end of May 1989, including overdue obligations to the Fund as of that same date.

The authorities intend to pursue wage, trade, and exchange policies aimed at promoting efficient resource allocation and appropriate competitiveness for Haiti's exports. To prevent recent wage increases in some public enterprises from spilling over to other sectors of the economy, they will avoid any increase in the minimum wage or general salary increases for central government employees, and will impose strict controls on wage decisions in the public enterprises. In the area of exchange policy, the authorities will refrain from carrying out their previous plan to increase the portion of the surrender requirement on export receipts which is channeled through the Bank of the Republic of Haiti.

Together with the pursuit of financial restraint, the authorities intend to undertake institutional and administrative reforms aimed at stimulating a shift of resources toward export activities and removing obstacles to investment and growth in the economy. In this regard, work is advancing within a consultative committee made up of representatives of the Government and the private sector to modify the Investment Code so as to harmonize the structure of investment incentives with the more liberal trade regime in place since 1987. In addition, progress is being made to complete the reform of the official agricultural credit agencies.

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The recent increase in gasoline prices and the authorities' decision to step back from the intention to force an increased channeling of foreign exchange earnings into the official market indicate a renewed commitment by the authorities to pursue policies that would help tackle the sources of financial imbalances. In addition, it is essential that the authorities implement fully the expenditure control and revenue measures they are contemplating for the next few months, including increases in prices and tariffs charged by public enterprises and a return to wage restraint in these enterprises. The resulting strengthening of the public finances would create the basis for addressing the problem of arrears to the Fund, and would be a central component of a comprehensive adjustment program which could be supported by the use of Fund resources once arrears to the Fund are settled.