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November 4, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Haiti - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Haiti which will be brought to the agenda for discussion on a date to be announced.

Mr. Linde (ext. 6692) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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HAITI

Staff Report for the 1985 Article IV Consultation

Prepared by the Western Hemisphere Department

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

Approved by Marcello Caiola and Manuel Guitián

November 1, 1985

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I. Introduction

The 1985 Article IV consultation discussions with Haiti were held in Port-au-Prince during August 13-29, 1985. Representatives of Haiti in the discussions included the Minister of State for Economy, Finance and Industry; the Ministers of Commerce; Agriculture; Planning; and Labor; the Secretary of State for Finance and Budget; the Governor of the Bank of the Republic; the President of the National Credit Bank; and senior officials of various ministries, government agencies, and state enterprises. In addition, the mission met with representatives of the business and financial community. The mission reviewed its findings with the President of the Republic. The staff that participated in these discussions included Messrs. A. Linde (Head), P. Ewenczyk, and E. Kumah (all-WHD), J. Felman (ETR), M. Vaez-Zadeh (CBD), and Mr. A. Sharma (Secretary-ETR). The mission was assisted by Mr. Hodjera, the Fund Resident Representative in Haiti. Haiti has accepted the obligations of the Article IV Sections 2, 3, and 4 of the Articles of Agreement.

On November 7, 1983, the Fund approved a two-year stand-by arrangement with Haiti in an amount equivalent to SDR 60 million (136 percent of quota). Through April 1984, Haiti made three purchases totaling SDR 21 million, but no further drawings were made because of failure to observe performance criteria. In September 1984, the authorities adopted an interim financial program which included a set of performance guidelines for the remainder of the period of the arrangement. 1/ It was agreed that this program would not be formally presented to the Executive Board until an assessment could be made of the extent to which the program was succeeding in reversing the departures that occurred in the first year of the arrangement. The authorities, however, were not able to achieve the degree of adjustment that had been sought, and they later acknowledged that the interim program was no longer viable.

The previous Article IV consultation with Haiti was held in July 1984 and September 1984, and was discussed at EBM/85/18 on February 8, 1985. In concluding the consultation, Executive Directors expressed disappointment about the weakening of Haiti's financial situation in 1983/84 2/ and in the first quarter of 1984/85, which had erased earlier gains and adversely affected the already fragile balance of payments situation and confidence. They cautioned that the continued deterioration in the official international reserve position, in contrast to a programmed improvement, eventually could lead to a recurrence of payments arrears and impair Haiti's capacity to preserve the longstanding exchange rate relationship between the gourde and the U.S. dollar. Directors made reference to the effective appreciation of the gourde in recent years, but they also took note of the strong export performance of the labor intensive enclave industry which continued to benefit from low labor costs.

1/ These guidelines were described in EBS/85/2 (8/4/85).
2/ The fiscal year ends September 30.

Although earlier in the year Haiti experienced frequent delays in discharging its obligations to the Fund, in more recent months payments have been made, with few exceptions, on time. In 1984/85, Haiti made repurchases for the equivalent of SDR 9.5 million and its outstanding use of Fund credit declined to SDR 77.0 million at the end of the fiscal year. Scheduled repurchases in 1985/86 and 1986/87 amount to SDR 16.5 million and SDR 18.7 million, respectively (Table 1). Further information on Haiti's relations with the Fund is presented in Appendix II.

II. Background and Recent Developments

1. Background

After making some progress in 1982 and 1983 in reducing financial imbalances that first developed in the late 1970s, in the last two years Haiti again has been confronted with serious balance of payments problems mainly because of lax fiscal policies. On balance, the economy has not expanded since the coffee boom of 1980, and the Central Bank has lost net international reserves in each of the last six years.

In early 1982, the authorities adopted a stabilization program which was supported by a stand-by arrangement with the Fund extending through September 1983. The program was successfully implemented and the overall public sector deficit declined from 10 percent of GDP in 1980/81 to an annual average of less than 6 percent in 1981/82 and 1982/83 (Table 2). Most of the deficit was financed with highly concessional foreign assistance, and financing from central bank credit and commercial borrowing declined to less than 2 percent of GDP in 1982/83, from some 7 percent two years earlier. The overall balance of payments deficit was reduced from US$55 million in 1980/81 to US$13.5 million and US$12 million, respectively, in the next two years, and the external payments arrears and a discount on the value of the gourde that had emerged in the parallel market at the turn of the 1980s virtually disappeared by the end of 1983.

Despite the progress achieved, however, Haiti's balance of payments and external debt position remained weak and needed to be strengthened through a continuation of tight fiscal and credit policies for several years into the future. To this end, the authorities framed a financial program that centered on fiscal policies and called for an increase of US$8 million in the country's net international reserves in 1983/84 to be followed by a similar increase the following year, and requested a two-year stand-by arrangement with the Fund for the equivalent of SDR 60 million covering the period through September 30, 1985.

2. Performance under the stand-by arrangement

As indicated above, after some initial success Haiti's financial performance deviated from the programmed course particularly in the aftermath of civil disturbances in two of the country's main provincial

Table 1. Haiti: IMF Position and Scheduled Repurchases

	Position	Operations	Projections		
	Sept. 30, 1984	Oct. 1, 1984–Sept. 30, 1985	Oct. 1, 1985–Sept. 30, 1986	Oct. 1, 1986–Sept. 30, 1987	Oct. 1, 1987 Sept. 30, 1988
		(In millions of SDR's)			
Repurchases		9.43	16.45	18.66	20.68
Under tranche policies		3.06	7.95	16.53	20.68
Ordinary resources		(2.16)	(4.94)	(10.49)	(9.29)
Enlarged access		(--)	(1.21)	(4.24)	(9.59)
Extended facility		(0.90)	(1.80)	(1.80)	(1.80)
Compensatory financing		6.37	8.50	2.13	--
Total Fund credit outstanding (end of period)	86.15	76.72	60.27	41.61	20.93
Under tranche policies	69.15	66.09	58.14	41.61	20.93
Ordinary resources	(29.91)	(27.75)	(22.81)	(12.32)	(3.03)
Enlarged access	(28.46)	(28.46)	(27.25)	(23.01)	(13.42)
Extended facility	(10.78)	(9.88)	(8.28)	(6.28)	(4.48)
Under compensatory financing	17.00	10.63	2.13	--	
		(In percent of quota of SDR 44.1 million)			
Total Fund credit outstanding (end of period)	195.35	173.97	136.67	94.35	47.5
Under tranche policies	156.80	149.86	131.84	94.35	47.5
Under compensatory financing	38.5	24.11	4.83	--	--

Source: International Monetary Fund.

Table 2. Haiti: Public Sector Operations

	Fiscal Year Ended September 30					
	1981	1982	1983	1984	Est. 1985	Budget 1986
	(In millions of gourdes)					
Total receipts	756.8	895.5	1,035.6	1,171.2	1,397.9	1,508.9
Treasury revenue	659.6	749.3	846.5	914.1	1,120.0	1,200.0
Current surplus of public enterprises before transfers to the Treasury	97.2	146.1	189.1	257.1	277.9	308.9
Total expenditure	1,708.5	1,577.3	1,798.5	2,099.7	2,030.3	2,000.9
Current expenditure	825.6	829.3	950.0	1,122.8	1,259.2	1,151.4
Capital expenditure	882.9	747.9	848.5	976.9	771.1	849.5
Of which: financed with foreign aid	(453.5)	(480.5)	(609.3)	(620.0)	(528.1)	(532.9)
Grants-in-aid	236.5	285.0	280.5	310.0	263.1	307.9 1/
Overall deficit	-715.2	-396.8	-482.4	-618.5	-369.3	-184.1
Financing						
Foreign concessional financing (net)	217.0	195.5	328.8	310.0	265.0	225.0 2/
Nonconcessional financing (net) 3/	498.2	201.4	153.6	308.5	104.3	-40.9
Foreign commercial loans	(252.0)	(-39.5)	(56.8)	(-8.6)	(-65.0)	(-85.9)
Domestic bank credit	(246.2)	(240.9)	(96.8)	(317.1)	(169.3)	(45.0)
Memorandum item						
Public sector savings	-68.8	66.0	85.6	48.4	138.7	357.5
	(In percent of GDP)					
Total receipts	10.4	12.1	12.6	12.9	13.9	14.0
Total expenditure	23.4	21.4	22.0	23.0	20.2	18.5
Current expenditure	11.3	11.2	11.6	12.3	12.5	10.5
Capital expenditure	12.1	10.2	10.4	10.7	7.7	7.9
Of which: financed with foreign aid	(6.2)	(6.5)	(7.5)	(6.8)	(5.2)	(4.9)
Grants-in-aid	3.2	3.9	3.4	3.4	2.6	2.8 1/
Overall deficit	-9.8	-5.4	-6.0	-6.7	-3.7	-1.7
Financing						
Foreign concessional financing (net)	3.0	2.6	4.1	3.4	2.6	2.1 2/
Nonconcessional financing (net) 3/	6.8	2.8	1.9	3.3	1.1	-0.4
Foreign commercial loans	(3.4)	(-0.5)	(0.7)	(-0.2)	(-0.6)	(-0.8)
Domestic bank credit	(3.4)	(3.3)	(1.2)	(3.5)	(1.7)	(0.4)
Memorandum item						
Public sector savings	-0.9	0.9	1.0	0.6	1.5	3.4

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

1/ Includes G 85 million in U.S. assistance under PL-480 Title III.
2/ Projection based on information provided by bilateral and multilateral lenders.
3/ Definition used in financial programs.

cities in May 1984. In an effort to balance the Treasury accounts and thereby regain control of the fiscal situation, the authorities introduced in July 1984 a tax package featuring increases in the taxes on gasoline, diesel fuel, beer and other alcoholic beverages, cigarettes, and travel insurance; a new tax on sales of lottery tickets; a doubling of the registration fees for private vehicles; a 40 percent increase in the permit fee for operating business establishment; and an extension of the general sales tax to cement and telecommunication services. In the meantime, however, extrabudgetary spending escalated, particularly for free food distributed in the riot areas, employment-intensive public works and defense. All together, public sector expenditure exclusive of outlays financed with foreign grants, actually rose by 17 1/2 percent, instead of declining slightly as had been programmed, while public sector receipts grew by 13 percent, exceeding projections by only a small margin. As a result, the overall public sector deficit, which had been programmed to fall to 4 percent of GDP, widened to more than 6 1/2 percent of GDP in 1983/84. Disbursement of foreign concessional loans was in line with expectations and covered about one half of the deficit. The remainder was financed basically with central bank credit amounting to G 317 million (3 1/2 percent of GDP), or more than five times the limit established under the program (see Table 2).

The fiscal outturn together with a large increase in credit to the private sector by the state-owned National Credit Bank led to substantial departures from the credit ceilings as well. The consolidated net domestic assets of the Bank of the Republic (the Central Bank) and the National Credit Bank increased by more than 20 percent and exceeded the program ceiling by some 14 percent. The liabilities of these two banks to the private sector grew by 15 percent or about as projected and their net international reserve loss amounted to US$22 million. An improvement in the net foreign reserves of the rest of the banking system and a reduction in external payments arrears limited the overall external deficit to US$12 million, compared with a programmed surplus of US$8 million.

The interim program for 1984/85 aimed at a net international reserve gain of at least US$14 million. Attainment of that target was predicated on minimal domestic bank credit expansion to the public sector and, in the fiscal area, a compression in government outlays, other than those financed with foreign concessional aid, and new revenue measures.

The fiscal situation showed some improvement in 1984/85, compared to developments in the previous year, mainly as a result of a strong revenue performance. The improvement, however, was not as substantial as had been deemed necessary in view of the country's weak external position, because the restraint in spending that had been sought did not materialize. The overall public sector deficit was reduced but only to 3 3/4 percent of GDP, compared with a program target of 2 3/4 percent, and as expected financing for the equivalent of 2 1/2 percent of GDP was secured from bilateral and multilateral development agencies. Central bank lending to the public sector, including advances for the net repayment of public commercial debt, amounted to 1 3/4 percent of GDP, whereas the program had called for virtually no recourse to domestic bank credit.

The strong growth in revenue benefitted from the full year effect of the tax package introduced in July 1984 and from new revenue measures. In October 1984 the rate of sales tax was raised from 7 percent to 10 percent, and in March 1985 another package of revenue measures was passed including an increase of G 25 in the airport departure tax; a further 33 percent increase in the excise tax on cigarettes; and a new US$0.60 per gallon tax on diesel fuel which brought the retail price to US$2.25 per gallon, the same price charged for gasoline. These measures were instrumental in boosting treasury revenue by more than one fifth, and although the operating surplus of the public enterprises did not improve as much as expected, total public sector receipts rose by one percentage point of GDP to 14 percent.

As regards expenditure, the authorities had planned to balance the treasury budget in 1984/85, and to do so, budgetary appropriations were set at the level of projected revenue, which implied a reduction of some 6 percent with respect to the high spending levels authorized by the Treasury in the previous year. As it developed, the authorities were not able to stamp out the recurring problem of spending outside the budget, with the result that Treasury outlays actually rose by about 7 percent (Table 3). Most of the extrabudgetary spending was related to a national referendum on major constitutional changes that took place in July 1985 and to government campaigning before the vote. There were also outlays for the cash purchase of military jet aircraft, and an unbudgeted 7 1/2 percent increase in the government payroll. Cutbacks in capital expenditure by the public enterprises helped to offset the resulting 12 percent rise in current expenditure and, as a result, total spending by the public sector barely changed and it remained unsustainably high.

On the assumption that the public sector financing needs from the Central Bank would be small, the financial program for 1984/85 allowed for an increase of 3 1/2 percent in the net domestic assets of the monetary authorities, mainly to accommodate some credit expansion to the private sector by the National Credit Bank. In the event, the net domestic assets rose by 14 percent and the net international reserve position of the monetary authorities deteriorated by another US$10 million (Table 4 and 5).

Excessive credit expansion by the Central Bank to satisfy the financing needs of the public sector exerted heavy pressure on the balance of payments in 1984/85, and external payments arrears also reemerged. Including these arrears, which rose by almost US$10 million (and stood at US$12 million at the end of the fiscal year) as well as a US$5 million decline in the net foreign reserves of the commercial

Table 3. Haiti: Treasury Operations

	Fiscal Year Ended September 30					
	1981	1982	1983	1984	Est. 1985	Budget 1986
	(In millions of gourdes)					
Treasury receipts	659.8	824.5	920.9	1,005.0	1,193.2	1,285.0
Domestic tax revenue	611.5	666.0	773.2	857.2	1,055.9	1,140.0
Export taxes	48.3	83.3	73.4	56.9	64.1	60.0
Transfers from public enterprises	--	75.2	74.4	90.9	73.2	85.0
Total expenditure	1,190.4	1,002.7	1,065.2	1,305.7	1,399.2	1,287.4
Current expenditure	825.6	829.4	950.0	1,122.8	1,259.2	1,151.4
Wages and salaries	(351.7)	(400.0)	(407.1)	(491.5)	(529.1)	(530.4)
Interest payments	(38.6)	(51.5)	(72.0)	(122.6)	(121.7)	(114.3)
Other current outlays	(435.3)	(377.9)	(470.9)	(508.7)	(608.4)	(506.8)1/
Capital expenditure	364.8	173.3	115.2	182.9	140.0	136.0
Overall surplus or deficit (-) of the Treasury	-530.8	-178.2	-144.3	-300.7	-206.0	-2.4
Financing						
Foreign concessional financing (net)	27.5	3.4	-12.6	-23.1	-24.5	-20.2
Nonconcessional financing (net)2/	503.3	174.8	156.9	323.8	230.5	22.6
Foreign commercial loans	(221.0)	(-7.5)	(-3.2)	(18.4)	(-5.5)	(-22.4)
Domestic bank credit	(282.3)	(182.3)	(160.1)	(305.4)	(236.0)	(45.0)
Memorandum items						
Expenditure authorized by the Treasury	876.9	961.4	902.0	1,004.7	1,160.0	1,330.0 3/
Current account surplus	-166.0	-4.9	-29.1	-117.8	-66.0	133.6
	(In percent of GDP)					
Treasury receipt	9.0	11.2	11.2	11.0	11.9	11.9
Of which: domestic tax revenue 4/	(8.3)	(9.0)	(9.5)	(9.4)	(10.5)	(10.6)
Total expenditure	16.2	13.6	13.0	14.3	13.9	11.9
Overall surplus or deficit (-) of the Treasury	-7.2	-2.4	-1.8	-3.3	-2.0	--

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

1/ Includes payment of outstanding obligations to domestic suppliers amounting to G 48.6 million.
2/ Definition used in financial programs.
3/ Includes amortization payments.
4/ Ratio in 1980 was 7.2 percent.

Table 4. Haiti: Performance Under the Financial Programs for 1983/84 and 1984/85

(In millions of gourdes or as otherwise indicated)

	Position as of Sept. 30, 1984	FY 1984/85 Dec.	Mar.	June	Prel. Sept
I. Treasury Operations					
Cumulative treasury revenue 1/	914.1	292.5	586.7	874.1	1,120.0
Target	950.0	300.0	573.0	849.0	1,080.0
Excess or shortfall (-)	-35.9	-7.5	13.7	25.1	40.0
Cumulative expenditures authorized by the Treasury 1/	1,004.7	269.8	562.8	852.8	1,160.0
Ceiling	1,010.0	260.0	526.0	801.0	1,080.0
Adjustment 2/	-20.8	--	7.5	9.1	16.7
Adjusted ceiling	989.2	260.0	518.5	810.1	1,096.7
Margin or excess (-)	-15.5	-9.8	-44.3	-42.7	-63.3
II. Financing of the Public Sector					
Cumulative public sector deficit (program definition)	308.5	67.5	48.0	52.7	104.3
Domestic bank credit (net)	317.1	80.0	73.0	90.2	169.3
Foreign commercial borrowing (net)	-8.6	-12.5	-25.0	-37.5	-65.0
Ceiling	60.0	-20.0	-24.0	-19.9	15.0
Margin, or excess (-)	-248.5	-87.5	-72.0	-71.7	-89.3
III. Net Domestic Assets of the Monetary Authorities					
Actual	1,801.4	1,836.2	1,874.6	1,921.8	2,029.9
Ceiling 3/	1,730.0 4/	1,745.0	1,729.0	1,761.0	1,790.0
Margin or excess (-)	-71.4	-91.2	-145.6	-160.8	-239.9
IV. Credit to the Private Sector of the National Credit Bank					
Actual	291.1	297.0	308.6	316.9	293.5
Ceiling	270.0	278.0	289.0	296.0	305.0
Margin or excess (-)	-21.0	-19.0	-19.6	-20.9	-11.5
V. Net Foreign Commercial Financing (In millions of U.S. dollars)					
Actual	-5.4	-2.5	-5.0	-7.5	-10.8
Ceiling	12.0	8.0	8.0	8.0	8.0
Margin or excess (-)	15.4	10.5	13.0	15.5	18.8

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

1/ Includes only budgetary operations of the Treasury. Expenditures outside the budget, such as those financed with transfers from public enterprises or the Central Bank, are not reflected here; these outlays are shown in Table 3.

2/ The expenditure ceilings are adjusted by the equivalent of two thirds of the cumulative excess in revenue collections above target in the previous quarters or, conversely, reduced by an amount equivalent to the total cumulative shortfall in revenue in the previous quarters.

3/ Includes deposits of the petroleum companies with the Bank of the Republic of Haiti.

4/ Estimated position at the end of the fiscal year for programming purposes.

Table 5. Haiti: Summary Accounts of the Banking System

(In millions of gourdes)

	Fiscal Year Ended September 30					
			1983			
	1981	1982	Before Bond Issue	After Bond Issue	1984	Prel. 1985
I. Consolidated Accounts BRH - BNC						
Net international reserves	-9.9	-103.8	-246.6	-246.3	-357.9	-403.5
Foreign assets	96.8	176.4	139.7	139.7	134.3	101.4
Foreign liabilities	106.7	-280.2	-386.3	-386.0	-492.2	-504.9
Of which: use of Fund credit	(-88.7)	(-220.9)	(-343.0)	(-343.0)	(-430.1)	(-406.1)
Net domestic assets 1/	1,101.7	1,348.0	1,531.3	1,532.3	1,822.1	2,060.1
Net claims on public sector 2/	839.3	1,080.6	1,155.2	1,514.5	1.825.7	2,000.0
IMF Trust Fund	-105.9	-104.3	-97.0	-97.0	-84.4	-66.2
Credit to commercial banks	34.4	24.9	33.2	33.2	23.5	16.6
Credit to private sector	353.6	338.6	336.7	213.5	291.1	293.5
Official capital and surplus	-193.4	-174.5	-185.5	-125.6	-158.4	-158.8
Counterpart unrequited foreign exchange	-82.1	-77.4	-74.1	-74.1	-71.7	-67.8
Other accounts (net)	255.8	260.1	362.8	67.8	-3.7	42.9
Deposits of petroleum companies	--	--	43.8	43.8	20.7	30.2
Liabilities to commercial banks	369.9	418.8	387.0	379.6	449.9	552.4
Of which: free reserves	(86.7)	(124.7)	(56.8)	(56.8)	(62.8)	(90.0)
Liabilities to private sector	721.9	825.4	853.9	862.6	993.5	1,074.0
Currency outside banks	399.6	486.3	519.9	527.3	610.4	647.2
Deposits	322.3	339.1	334.0	335.3	383.1	426.8
II. Banking System						
Net foreign assets	-18.8	-72.3	-187.0	-186.7	-257.5	-332.5
Net domestic asset	1,874.5	2,134.2	2,341.1	2,349.5	2,669.5	2,964.5
Net claims on public sector	838.2	1,079.1	1,175.8	1,535.1	1,852.2	2,021.5
Credit to private sector	1,118.4	1,102.8	1,150.9	1,027.7	1,113.6	1,187.5
Other accounts (net)	-82.1	-47.7	14.4	-213.3	-296.3	-244.5
Liabilities to private sector	1,855.7	2,061.9	2,154.1	2,162.8	2,411.9	2,632.0
Monetary liabilities	817.7	909.9	923.5	931.8	1,099.2	1,210.2
Currency outside banks	(399.6)	(486.3)	(519.9)	(527.3)	(610.4)	(647.2)
Demand deposit	(418.1)	(423.6)	(403.6)	(404.5)	(488.8)	(563.0)
Quasi-money	985.6	1,064.3	1,152.1	1,152.5	1,240.7	1,348.8
Private capital and surplus	52.4	87.7	78.5	78.5	72.0	73.0

Source: Bank of the Republic of Haiti (BRH).

1/ The deposits of the petroleum companies with the BRH have been reclassified as a separate item outside net domestic assets.

2/ Net of public sector deposits and medium- and long-term foreign liabilities of the public sector that have been channeled through the BRH.

banks, the balance of payments registered an overall deficit of US$25 million, compared with the US$14 million surplus that had been envisaged (Table 6). Fiscal developments also had an adverse effect on the parallel exchange rate. In the early 1980s, the gourde began to sell at a discount which at one point reached 15 percent before receding to less than 5 percent as fiscal pressures eased. In recent months, the discount in the parallel exchange market has gone up again and it is reported to be hovering at present in the 14-16 percent range.

3. Relations with the World Bank Group

The Bank Group began its operations in Haiti in 1956. Since then the International Development Association (IDA) has approved 22 credits for a total of US$258.9 million, and as of June 30, 1985 a total of US$167.8 million had been disbursed. IDA lending has been spread over the following sectors: Transport (6 projects); Power (4 projects); Education (4 projects); Rural Development (2 projects); and one project each Water Supply, Industrial Credit, Agricultural Development, Port Development, Urban Development, and Forestry.

The last two credits (Power IV - US$22.1 million and Education IV - US$10 million) were approved in November 1984 and May 1985, respectively. It is expected that a seventh transport project (US$24 million) will be presented to the Bank Board for approval in May 1986. The Bank is also considering the possibility of extending a sectoral credit for agriculture. According to Bank staff this loan would be conditioned on the existence of appropriate macroeconomic policies within the context of a financial program supported by use of Fund resources. The Bank's current lending program for 1985/89 amounts to US$154.2 million.

The last economic mission to Haiti took place in January 1985. The mission concluded that sustained growth would require not only major macro-policy changes, but also a substantial reallocation of public expenditure to favor productive projects with higher economic returns and with less emphasis on defense, public industrial and extrabudgetary spending. Agriculture was identified as one specific area that will require additional budgetary resources. The mission also called for improved planning and budgeting procedures. As a follow up to the economic mission, a World Bank team visited Haiti in October 1985 to conduct an in-depth review of public expenditures with a view to presenting its findings to a special Subgroup Meeting of the Caribbean Group in Spring 1986. The mission was to assess present and proposed expenditures against the following criteria: that they supported output expansion in those areas of the economy with the highest productive potential, that they were efficient and cost-effective, that their recurrent costs implications were fully taken into account and financeable, that they reflected appropriate relative roles of the private and public sectors, and that aid coordination was maximized.

Table 6. Haiti: Summary Balance of Payments

(In millions of U.S. dollars)

	Fiscal Year Ended September 30				
	1981	1982	1983	1984	Prel. 1985
Current account	-108.7	-50.0	-82.4	-60.8	-56.4
Trade balance	-215.1	-123.6	-139.6	-122.5	-105.9
Exports, f.o.b.	(158.2)	(195.3)	(195.0)	(229.5)	(228.0)
Coffee	/33.1/	/35.9/	/52.5/	/54.0/	/48.0/
Light assembly industry	/79.6/	/98.9/	/100.4/	/124.6/	/132.9/
Other	/45.5/	/60.5/	/42.1/	/50.9/	/47.1/
Imports, c.i.f.	(373.3)	(318.9)	(334.6)	(352.0)	(333.9)
Services, net	-24.4	-44.3	-54.6	-61.5	-66.5
Of which: travel	(43.8)	(39.5)	(33.3)	(28.0)	(25.1)
interest	(-9.4)	(-13.4)	(-16.4)	(-18.3)	(-14.8)
Transfers	130.9	118.9	111.8	123.2	116.1
Private	(64.8)	(49.7)	(42.5)	(45.0)	(48.1)
Official	(66.1)	(69.2)	(69.3)	(78.2)	(68.0)
To private sector	/18.8/	/12.2/	/13.2/	/16.2/	/15.4/
To public sector	/47.3/	/57.0/	/56.1/	/62.0/	/52.6/
Capital account	53.5	35.4	70.3	48.5	31.2
Official capital, net	103.7	30.3	75.9	55.3	37.3
Multilateral and bilateral	(43.4)	(39.1)	(65.7)	(62.0)	(53.0)
Commercial	(50.4)	(-7.9)	(11.3)	(-1.7)	(-13.0)
Publicly guaranteed debt and other official	(9.9)	(0.9)	(-1.1)	(-5.0)	(-2.7)
Private capital, and errors and omissions	-50.2	5.1	-5.6	-6.8	-6.1
Overall balance	-55.2	-13.6	-12.1	-12.3	-25.2
Financing:					
Monetary capital (increase -)	-1.3	-8.1	-5.6	-8.1	5.0
Arrears (decrease -)	20.5	0.4	-12.2	-6.3	9.6
Change in net international reserves (increase -)	36.0	21.3	29.8	26.7	10.6
Net use of Fund resources (decrease -)	(13.8)	(28.9)	(25.8)	(21.8)	(-9.4)
Other, net (increase -)	(22.2)	(-7.6)	(4.1)	(4.9)	(20.0)

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

III. Summary of Policy Discussions

As the previous discussion suggests, the serious balance of payments problems that Haiti continues to face can be readily traced to large and recurrent fiscal imbalances. The Haitian authorities have stated that some of the outlays incurred outside the budget in the last two years were motivated by special circumstances, but they also acknowledged that by and large expenditure restraint did not receive the attention that it deserved.

The relaxed fiscal stance also has contributed to a rise in domestic prices in the last three years that was twice as rapid as those in Haiti's principal trading partners. As a consequence, pressures for wage increases have emerged, but the authorities have managed thus far to resist calls for compensatory wage awards, taking the position that wage increases would tend to perpetuate Haiti's grave unemployment problem. In the last four years there has been only one relatively large minimum wage increase (13 percent in October 1984), and it has been announced that there will be no further wage adjustment in the next two years.

Moderate wage policies have made it possible for the labor intensive light assembly industry to continue to outperform the rest of the economy. In the last ten years export earnings from these activities have gone up from almost none to US$133 million (calculated as value added); and in the last five years, these earnings have almost doubled, outdistancing in the process traditional mainstays of the economy such as coffee and other agricultural products, and accounting now for almost 60 percent of total merchandise exports (see Table 6).

The performance of this industry has been particularly welcome because, in other respects, the external environment has not been propitious to a reactivation of the domestic economy. Tourism has suffered in recent years because of the adverse publicity regarding the AIDS disease, and the economy has not fully recovered from the termination of bauxite mining operations in 1982 and the consequent loss of jobs, export earnings, and government revenue.

The authorities realize that the maintenance of a competitive cost structure will become increasingly untenable if present financial imbalances are allowed to prevail much longer. Accordingly, they have developed fiscal and monetary policies for 1985/86 aimed at reversing the financial slide of the last two years and to move the overall balance of payments into surplus for the first time since 1979.

1. Fiscal policies

The financial program for 1985/86 calls for a reduction in the deficit of the overall public sector of 2 percentage points of GDP to 1 3/4 percent, and to achieve that target the operations of the Treasury will need to be brought into balance. The borrowing requirement of the rest of the general government should be fully funded with soft loans from bilateral and multilateral development agencies and, as in 1984/85, the public enterprises are expected to generate a small overall surplus.

The imbalances in the operations of the Treasury in recent years have come about despite revenue actions by the authorities on a number of fronts. In 1982 they introduced (with Fund technical assistance) a new 7 percent general sales tax, which replaced a large number of specific taxes, surcharges, and other levies, and the rate was later raised to 10 percent. They have also adopted a new reference price system for the valuation of coffee export proceeds, a new income tax law, and a new customs tariff to facilitate the assessment of import duties on an ad valorem basis. In addition, the rate of taxation on imported petroleum products has been raised significantly, and there have been periodic adjustments on a number of excises and other taxes and fees that are still assessed on a specific basis.

As a result, revenue from taxes other than export taxes on coffee and bauxite has gone from 7 percent of GDP in 1979/80 to more than 10 1/2 percent last year. Over the same period, however, total receipts of the Treasury rose only from 9 1/2 percent to 12 percent of GDP because of the revenue loss when bauxite mining operations were discontinued in 1982, and because U.S. AID has been making substantial financial assistance available to Haiti under the PL-480 program conditioned on reductions in export taxes and income tax rates to stimulate production and investment. The export tax rate on coffee was lowered by 10 percent last year and another final reduction of 15 percent is to go into effect in 1985/86. 1/

Although some of the changes referred to above have made the tax system more responsive to movements in income, about one half of Treasury revenue is still derived from taxes assessed on a specific basis. For that reason and because the tax burden still remains comparatively low, the authorities believed that additional revenue measures would need to be taken to achieve the Government's fiscal objectives. At Haiti's request the Fiscal Affairs Department is presently conducting an assessment of the need for long-term technical assistance in the customs service. The authorities have expressed an interest in throughly reorganizing the Customs Administration and indicated their willingness to pass and implement any legislation that might be required to strengthen duty collections.

1/ The authorities have said that the problems faced by the coffee sector are quite complex and their resolution might require a whole revamping of production and marketing patterns that goes beyond a simple change in tax rates. More details on this subject were provided in SM/84/275, Appendix I.

In the meantime, the budget for 1985/86 has been built around the assumption that public sector revenue will rise by 8 percent, or at about the same rate as the projected growth in nominal income. On the expectation that there will be little real economic growth, new revenue measures were introduced in October 1985 to ensure attainment of the revenue forecast. The main components of the latest revenue package are a doubling of the tax on airline tickets purchased by Haitians to yield an estimated G 10 million, and further tax increases on petroleum derivatives to provide another G 33 million. The retail price of kerosene was raised by US$0.60 per gallon to US$1.77 per gallon to bring it more in line with that of gasoline and diesel fuel, and the savings from recent declines in international oil prices was being passed on to the Treasury through tax increases.

In an effort to achieve better control on public spending the authorities have made drastic changes in budgetary procedures; for the first time a unified budget has been adopted which incorporates all receipts and expenditures of the public sector. Under this formula certain expenditures that in the past were incurred outside budget channels and were financed with transfers from public enterprises are now subject to budgetary control. The budget also broke new ground in making specific provisions for all debt service payments instead of allocating global sums solely on the basis of estimates. The authorities felt that these changes should make it possible to use the budget as a more effective instrument of financial policy. In this regard, they have asked for additional Fund technical assistance in the area of expenditure and budget control, and the Fiscal Affairs Department is reviewing needs in this area as well.

To balance the treasury accounts the budget calls for a reduction of 2 percentage points of GDP in treasury expenditure. This reduction reflects in part the nonrecurrent nature of some of the outlays that took place in the last two years outside the budget. The authorities were of the view that some of the problems that led to heavy spending to ease political tensions were not likely to recur. The wage bill has been kept flat, and the current account has been projected to swing from a large deficit in 1984/85 to a surplus that would be sufficient to cover development expenditures of the Treasury.

The foreign financial assistance available to Haiti has been declining steadily in recent years and will amount to an estimated 5 percent of GDP in 1985/86, compared with 7 1/2 percent three years ago. There are indications however, that these aid flows could resume on a larger scale if Haiti provided evidence of its willingness to address the imbalances in the economy and reorient its spending priorities towards sound development projects.

In this connection, the World Bank intends to step up its involvement in Haiti as indicated above while the Inter-American Development Bank has recently taken a decision to extend Haiti's access to concessional financing (under its Special Funds window) for agriculture, rural development and urban development. Hitherto, IDB financing from Special Funds was limited to social sectors such as health, water, education and social housing where a number of projects already have been completed. An IDB mission recently visited Haiti to identify new projects that would qualify under the new decision. The amount of new commitments remains as yet undetermined, but it is likely that IDB will expand lending to Haiti, although new disbursements might not start in the current fiscal year.

2. Monetary and credit policies

The growth of banking system liabilities to the private sector during the last two years conformed closely to programmed targets, and there has been no changes in either interest rates or legal reserve policies over this period. While the authorities are committed to a policy of flexibility as regards interest rates, they saw no need to match the decline in international rates. As a result, the premium that large depositors in Haiti have been receiving in relation to rates paid abroad has widened.

Reacting to growing uncertainty as to the direction of economic policy, the private commercial banks have assumed a conservative lending posture in recent years. During the three-year period ended in September 1984 private bank credit to the private sector rose by only 7 1/2 percent, while their deposit base expanded by one fourth and their foreign position turned from debtor to relatively large creditor. This swing involved a net capital outflow of US$22 million over that period. In a situation of balance of payments weakness, the banks also have found it profitable to concentrate more on trade related transactions as opposed to domestic lending and in the case of the larger foreign banks their share of income derived from fees and charges has increased to 40 percent. These trends ended in 1984/85 and, for the first time in three years, the expansion of the banks' private loan portfolio exceeded the growth in their liabilities to the private sector; their net foreign assets declined by US$5 million.

The operations of the state-owned National Credit Bank (BNC) in the last two years have been an important cause of financial instability. In 1983/84 BNC's credit to the private sector jumped by more than one third, a much faster rate than the growth in its liabilities to the private sector. To halt this credit expansion the authorities gradually transferred deposits of the public sector (which the BNC had been using as a source of loanable funds) to the Central Bank and imposed ceilings on the BNC's outstanding credit to the private sector. In 1984/85 the BNC observed credit restraint with regards to the private sector, but at the same time it undermined central bank efforts to control overall credit expansion by extending what amounted to overdraft privileges to ministries and government agencies by cashing checks which the Central Bank had returned because of insufficient funds. Steps have now been taken to put an end to this practice as well.

By far the combined credit expansion of the BNC and the Central Bank to the public sector has been the main source of balance of payments pressure in the last two years. In 1983/84 the financing needs of the public sector accounted fully for the increase in the net domestic assets of the banking system, and last year the public sector share reached almost two thirds of total bank credit.

An important element of the financial plan for the current year is the avoidance of any net recourse to central bank credit. This might prove difficult to achieve and is dependent on the authorities' success in obtaining new foreign commercial credits to permit a planned reduction in external payments arrears to foreign grain suppliers by US$9 million. The authorities have acknowledged that it might be difficult to secure the necessary foreign credits and accordingly have assumed that central bank financing of about G 45 million would in fact be necessary. The mission reminded the authorities that the financial programs for the last two years had also limited domestic bank credit to the public sector to relatively small amounts, but the limits established eventually were widely exceeded. The authorities were urged to tighten fiscal and credit controls so as to adhere to the budgeted targets. The mission also noted that, given the central bank's low foreign reserve position, any slippages in the fiscal stance was likely to compound the external arrearages problem and put further pressure on the exchange rate.

3. External policies

The continued growth of the light assembly industry has been one bright spot of Haiti's economic performance in recent years. Most of the output of this industry is directed to the United States, and the appreciation of the U.S. dollar in the 1980s therefore has had little effect on the sector (Chart 1). Similarly, the industry appears to have been unaffected by the steady increase in the real effective value of the gourde over the same period mainly because the wage structure has been kept highly competitive, and the exchange and trade system generally free of restrictions (see Chart 1).

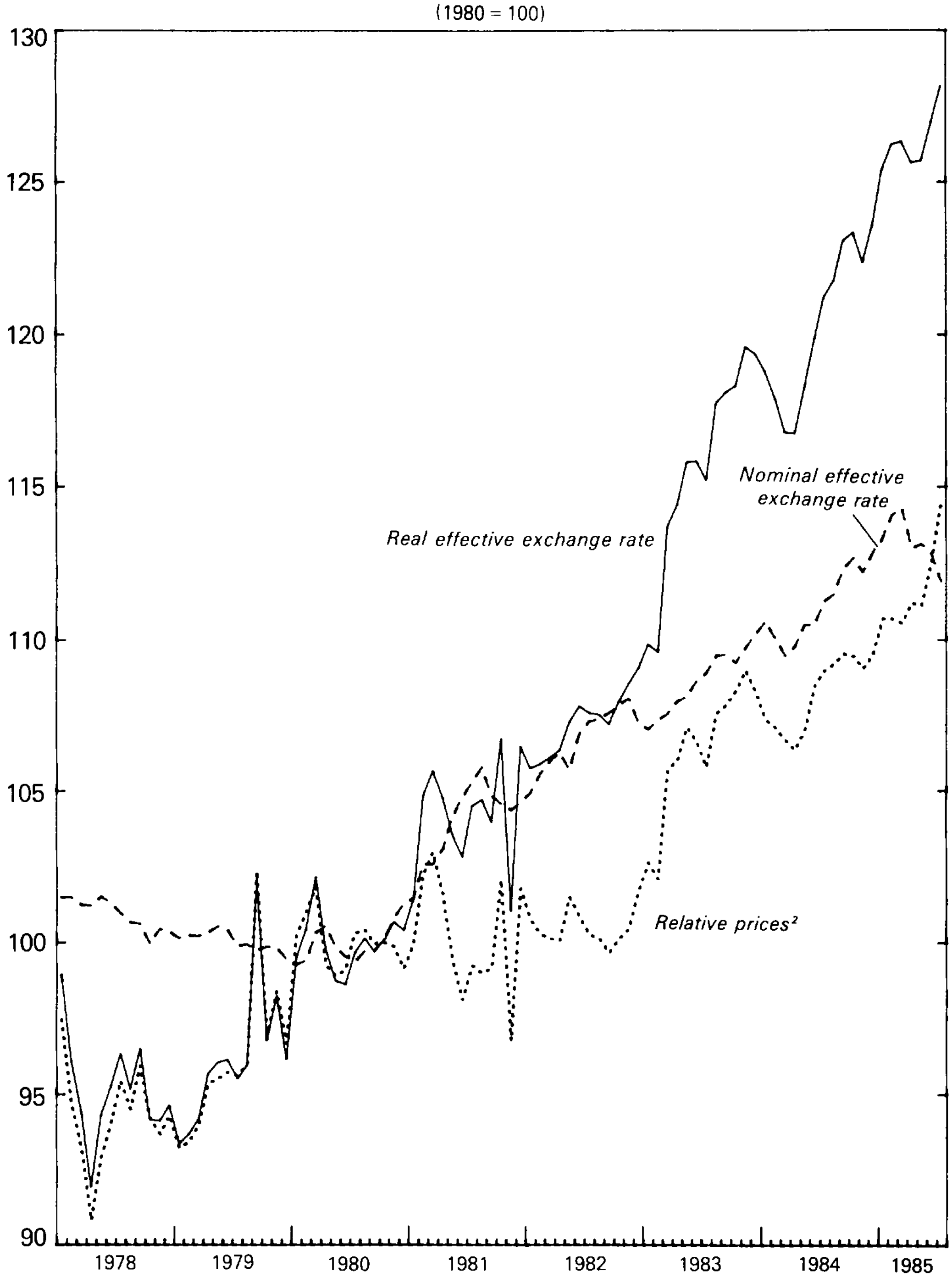
The authorities realize that a return to a situation of price and exchange rate stability becomes all the more difficult with each passing year that adjustment is postponed. They believe, however, that despite the ground lost in the last two years, the economy still can be restored to a financially viable position without fundamental modifications of the exchange rate regime that has been in existence since 1919. In this regard, the authorities recalled that the discount of the gourde that first developed in 1981 was quickly eliminated with the implementation of adjustment measures in 1982 and 1983, and they believe that the current discount could be similarly rolled back. The mission pointed out that in 1982/83 the official international reserve position, although weak, was less precarious than at present, and the country's

CHART 1

HAITI

REAL AND NOMINAL EFFECTIVE EXCHANGE RATES[1]

(1980 = 100)



[1] Trade weighted index, increases reflect an appreciation of the gourde.
[2] Increases represent faster growth in domestic prices.

debt position also was currently more pressing than it was two years ago because of heavy repayment schedules on outstanding Fund credit and commercial debt.

The fiscal and credit policies for 1985/86, if successfully implemented, should contribute to a major improvement in the balance of payments, from a US$25 million deficit last year to an overall balance of payments surplus of about US$18 million. While recognizing that this balance of payments outcome would be an important first step in reestablishing a more stable financial climate, the staff cautioned that the surplus envisaged would not be sufficient to allow for any build up of the central bank's gross foreign assets. At present the official gross international reserves amount to the equivalent of only three weeks of current imports. Given the importance attached to the prompt settlement of external payments, the staff urged the authorities to consider taking additional adjustment measures to provide the Central Bank with a more comfortable foreign reserve cushion. Reduction in the government wage bill was mentioned as one action that could generate additional savings.

The emergence of external arrears referred to above involves mainly overdue obligations of the Edible Oil Company (ENAOL). Until February 1985, the Government had only a minority interest in this company but was the guarantor of all its debts. When the company began to fall behind in payments, the Government assumed full ownership. In August 1985 the ex-refinery price of edible oil was raised by 9 percent, and to further improve profit margins, the authorities plan to reduce the importation of oil seeds for full processing at the plant and concentrate more on processing only imported semi-refined oil, reportedly a more profitable activity.

Haiti also has been in arrears to petroleum companies from time to time, and this led to occasional interruptions in the oil supply. In an effort to regularize the provision of foreign exchange for oil imports, Haiti introduced in 1981 partial surrender requirements of foreign exchange proceed from exports of traditional products. In July 1984 the Central Bank accepted the commercial banks proposed modification of these requirements whereby the commercial banks would set aside up to 50 percent of the foreign exchange received by them from all merchandise exports to cover the oil import bill and some debt-service payments. Monthly reports are submitted to the Central Bank for purposes of monitoring these transactions. The authorities believe that this new arrangement has not only facilitated prompt payment for oil imports, but has also made it possible for the commercial banks to overcome problems that had arisen because of the segmentation of the foreign exchange market between banks which concentrated their business with traditional exporters and those which did most of their operations with the expanding assembly industry.

As regards debt management, the authorities restated their intention to continue to rely on available grants and long-term concessionary loans from international and bilateral development agencies and to keep to a minimum the use of foreign commercial borrowing. In the last two years Haiti reduced its foreign commercial indebtedness by US$15 million, and a similar amount is payable in 1985/86, including the external arrears of ENAOL. As indicated above the authorities have been trying to obtain new foreign commercial credits to ease somewhat the burden of these debt repayments, but their goal is to continue to reduce over time the stock of external debt contracted at commercial terms.

4. Medium-term prospects

The prospects for the balance of payments over the medium-term are set out in Tables 7 and 8. On the expectation of further expansion in the light assembly sector and taking account of the biennial coffee production cycle, exports are projected to rise by about 9 percent in 1985/86. Imports would decline marginally and the current account deficit would narrow by about 2 1/4 percent of GDP. The capital account shows the concessional aid flows that have been identified and scheduled commercial debt repayments. Because arrangements on new commercial credits have yet to be finalized the forecast contains an unfinanced gap of US$9 million.

Underlying the scenario for the years through 1990 is the assumption that prudent financial policies will continue to be pursued to restore the balance of payments to a sustainable position that would enable the country to fulfill its external obligations, including repayments of outstanding Fund credit. The value of exports have been conservatively estimated to grow at an annual average rate of 7 1/2 percent while import growth would be contained to within 7 percent annually. Foreign aid has been projected on the basis of existing commitments and approved lending programs. The base scenario will need to be revised at a later date to reflect a possible expansion in the financial assistance provided by donor countries and international development agencies. In this regard the staff is maintaining a close working relationship with its World Bank counterpart to harmonize a common policy approach to Haiti's balance of payments and development needs.

Under the base scenario the ratio of the current account deficit to GDP would remain in the 1-1/2 percent range from 1987 to 1990, and the overall balance of payments would be in surplus each of those years. There would still be unfinanced gaps in the period 1987-90 of a similar order of magnitude as the scheduled amortization of foreign commercial debt. This would suggest that some additional external financing might be required in the period ahead. On the other hand, no monetary capital inflows have been assumed, but as confidence is restored as the adjustment takes hold, there might be justification for some relaxation of this assumption later on.

These results naturally are quite sensitive to assumptions regarding export and import growth. The base scenario incorporates an 8 1/2 percent growth in the value of light assembly exports, implying some deceleration from the very high rate of expansion observed in

Table 7. Haiti: Summary Balance of Payments Medium-Term Outlook

(In millions of U.S. dollars)

	Fiscal Year Ended September 30					
	Prel.	Projections				
	1985	1986	1987	1988	1989	1990
Current account	-56.3	-11.4	-23.2	-25.5	-36.8	-39.4
Trade balance	-105.9	-74.1	-83.9	-85.3	-96.1	-97.8
Exports, f.o.b.	(228.0)	(248.4)	(261.5)	(284.7)	(300.3)	(326.8)
Coffee	/48.0/	/54.2/	/52.1/	/58.7/	/56.3/	/63.5/
Light assembly	/132.9/	/144.2/	/156.4/	/169.8/	/184.3/	/200.1/
Other	/47.1/	/50.0/	/53.0/	/56.3/	/59.7/	/63.3/
Imports, c.i.f.	(333.9)	(322.5)	(345.4)	(370.0)	(396.4)	(424.6)
Services (net)	-66.5	-68.3	-75.2	-81.2	-87.1	-93.6
Of which: travel	(25.1)	(26.4)	(26.9)	(27.4)	(28.0)	(28.5)
interest	(-14.8)	(-13.6)	(-15.3)	(-15.7)	(-15.6)	(-15.6)
Transfers	116.2	131.0	135.9	141.1	146.4	152.0
Private transfers	(48.2)	(50.1)	(52.6)	(55.3)	(58.0)	(61.0)
Official transfers	(68.0)	(80.9)	(83.3)	(85.8)	(88.4)	(91.0)
Capital account	31.2	28.9	36.3	39.5	43.6	47.4
Official capital, net	37.3	23.9	36.3	39.5	43.6	47.4
Multilateral and bilateral	(53.0)	(45.0)	(46.8)	(48.9)	(51.1)	(53.4)
Commercial	(-13.0)	(-17.2)	(-6.9)	(-6.2)	(-5.6)	(-5.1)
Trust Fund	(-2.8)	(-4.0)	(-3.6)	(-3.2)	(-1.9)	(-0.9)
Private capital and errors and omissions	-6.1	5.0	--	--	--	--
Overall balance	-25.2	17.5	13.1	14.1	6.8	8.0
Financing	25.2	-17.5	-13.1	-14.1	-6.8	-8.0
Monetary capital (increase -)	5.0	--	--	--	--	--
External payments arrears (decrease -)	9.6	-9.0	-3.0	--	--	--
Changes in net international reserves (increase -)	10.6	-17.5	-20.0	-19.5	-12.8	-8.9
Fund repurchases	-9.4	-17.5	-20.0	-19.5	-12.8	-8.9
Other (net) (increase -)	(20.0)	(--)	(--)	(--)	(--)	(--)
Financing gap	--	9.1	9.9	5.4	5.9	0.9
Current account balance as percent of GDP	-2.8	-0.5	-1.0	-1.0	-1.4	-1.4

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

Table 8. Haiti: A Medium-Term External Debt and Debt Service Payments Scenario, 1985-90 1/

	Fiscal Year Ended September 30					
	Prel.	Projections				
	1985	1986	1987	1988	1989	1990
	(In millions of U.S. dollars)					
External debt outstanding	670.1	667.4	676.7	695.6	722.0	758.5
Of which: concessional	(479.5)	(524.6)	(571.4)	(620.3)	(671.4)	(724.8)
IMF 2/	(81.3)	(63.7)	(43.7)	(24.3)	(11.5)	(2.5)
Trust Fund	(14.1)	(10.2)	(6.6)	(3.4)	(1.5)	(0.6)
commercial 3/	(95.1)	(78.0)	(67.0)	(57.7)	(49.6)	(42.6)
Loan disbursements	61.0	51.6	54.2	56.9	59.8	62.8
Debt service	40.1	67.9	60.1	55.7	47.0	41.8
Amortization 4/	25.2	54.3	44.8	40.0	31.4	26.2
Of which: IMF	(9.4)	(17.6)	(20.0)	(19.5)	(12.8)	(9.0)
Interest payments	14.8	13.6	15.3	15.7	15.6	15.6
Of which: IMF	(7.0)	(6.2)	(4.8)	(3.2)	(1.8)	(1.1)
	(In percent)					
External debt outstanding as percent of GDP	33.4	30.9	29.3	28.0	27.3	26.8
Of which: IMF	(4.0)	(2.9)	(1.9)	(1.0)	(0.4)	(0.1)
Debt service payments as percent of exports of goods and services	12.4	19.6	16.6	14.3	11.5	9.5
Of which: IMF	(5.1)	(6.9)	(6.9)	(5.8)	(3.6)	(2.3)
Debt service payments as percent of exports of goods, services, and private transfers	9.6	15.2	12.9	11.2	9.0	7.5
Of which: IMF	(3.9)	(5.3)	(5.3)	(4.5)	(2.8)	(1.8)

Sources: Data provided by Haitian authorities; and staff estimates.

1/ Government and government-guaranteed external debt, use of Fund credit and external payments arrears, including rescheduled amounts; end of period.

2/ Use of Fund credit outstanding at end of period; no drawings from the Fund are assumed for the period 1986-90.

3/ Medium- and long-term debt only. Includes debt of the Bank of the Republic of Haiti and government-guaranteed debt.

4/ Including repayments of external payments arrears.

recent years. However, should these exports continue to grow at the same rates as in the recent past in a context of prudent financial management, Haiti's growth prospects would be considerably enhanced, provided that developments in the coffee sector do not take an adverse turn.

IV. Staff Appraisal

The Haitian economy has been stagnant since 1980 and the country's external position has weakened considerably over this period with overall balance of payments deficits having been recorded in each of the last six years. These problems stem primarily from severe financial imbalances in the public sector, particularly at the Treasury level. Large public sector deficits have been incurred in recent years and reliance on central bank financing has been high.

The authorities made a successful attempt to stabilize the economy in 1982/83 but the gains were subsequently eroded when public spending surged in the second half of 1983/84. Towards the end of that year and early in 1984/85 efforts were made to get the stand-by program back on course. Significant strides were made on the revenue front, but the authorities were not able to curtail public spending and the stand-by arrangement could not be revived.

Excessive credit expansion by the Central Bank to meet the financing needs of the public sector weakened further the Bank's foreign reserve position and led to the reemergence of external payment arrears in 1984/85. The overall balance of payments registered a deficit of US$25 million, compared with the US$14 million surplus that had been envisaged, and for the second time in recent years the gourde came under pressure and sold at a discount in the parallel exchange market.

The lack of fiscal discipline exhibited in recent years and the related high rate of inflation have raised questions regarding the authorities' capacity to preserve the fixed parity between the gourde and the U.S. dollar. As prices continue to increase at double the rate in the U.S., demands for compensatory wage awards have been strong. The performance of the light assembly industry, however, attests to the authorities' success in keeping labor costs under control. Nonetheless, the maintenance of a competitive cost structure will become increasingly difficult if present financial imbalances are allowed to prevail much longer and, therefore, it is all the more important that these imbalances be eliminated promptly.

The budget for 1985/86 calls for a reduction in the overall public sector deficit of 2 percentage points of GDP to 1 3/4 percent. The operations of the Treasury would need to be brought into balance if this reduction is to be achieved. To this end, a new revenue package has been passed and expenditure authorizations have been set at a level

8 percent lower than last year, while taking into account the nonrecurring nature of some of the outlays incurred in 1984/85. A hiring freeze is in place and there will be no increase in remunerations to public employees. Despite this the staff believes that the government wage bill is too high and some reduction in this area would free resources that are badly needed to make basic services more available, and to provide better for the maintenance of the capital stock.

Some central bank financing may be required to cover commercial debt repayments, including overdue obligations, but the amount involved would not exceed G 45 million, compared with G 170 million in 1984/85, and G 317 million in 1983/84. The staff would urge the authorities to prevent a recurrence of earlier events when domestic bank credit was initially set at prudent levels that eventually were widely exceeded. Fiscal and credit controls should be tightened and the authorities should especially guard against spending outside the budget. It was noted that any slippages in the fiscal stance would work at cross purposes with the objective of strengthening the balance of payments and easing pressures on the exchange rate. The adoption of a unified budget is a welcome development. The new budgetary procedures should facilitate debt management and a closer monitoring of the operation of the public enterprises. It would now be important that the Budget Office be given the freedom to fully enforce these new procedures.

The staff agrees with the authorities that the fiscal and credit policies for 1985/86, if fully implemented, should enable the economy to run a balance of payments surplus for the first time since 1979. The staff cautioned, however, that the surplus envisaged probably would not allow for any replenishment of the central bank's gross foreign assets. It is the view of the staff that these reserves are inadequate and that the authorities might consider additional streamlining of public expenditure, perhaps in connection with the ongoing discussions with the World Bank, to further reduce the public sector financing needs.

Apart from the recent incurrance of external payments arrears, Haiti maintains a generally open exchange and trade system. The staff encourages Haiti to adopt policies, leading to restoration of external competitiveness that would permit the elimination of the exchange restriction. In the meantime, Executive Board approval for the maintenance of the exchange restriction is not recommended.

It is recommended that the next Article IV consultation with Haiti be held on the standard 12-month cycle.

Haiti: Selected Economic and Financial Indicators

	Fiscal Year ended September 30					
					1985	
	1981	1982	1983	1984	Prog.	Est.
(Annual percentage changes, unless otherwise specified)						
National income and prices						
GDP at constant prices	-2.7	-3.9	0.3	0.3	[illegible]	1.7
GDP deflator	3.9	4.6	10.0	8.	5.3	9.4
Consumer prices (average)	9.7	9.0	7.6	6.4	5.0	9.7
External sector (on the basis of U.S. dollars)						
Exports, f.o.b.	-24.2	3.4	-4.1	17.7	11.8	-0.7
Imports, c.i.f.	13.7	-15.6	1.9	5.2	6.3	-5.1
Non-oil imports, c.i.f.	14.4	-13.6	4.4	1.9	...	-6.8
Export volume	-12.8	27.0	1.8	11.5	9.4	-4.1
Import volume	5.4	-17.3	1.7	4.2	-1.9	-8.9
Terms of trade (deterioration -)	-11.1	-9.3	-5.5	-1.4	--	6.5
Nominal effective exchange rate (depreciation -)	5.7	2.0	1.8	2.2	...	1.1
Real effective exchange rate (depreciation -)	4.6	2.9	8.9	4.3	...	-4.3
Treasury						
Revenues	-4.6	25.0	11.7	9.1	18.1	18.7
Expenditures	32.1	-15.8	6.5	22.6	-5.7	7.2
Money and credit (banking system)						
Net domestic assets 1/	23.3	14.0	12.6	14.7	5.7	10.5
Public sector 1/	(15.0)	(13.0)	(22.1)	(14.7)	(1.4)	(5.7)
Private sector 1/	(9.3)	(-0.8)	(-3.6)	(3.0)	(7.1)	(5.5)
Money and quasi-money (M2)	12.6	9.5	5.6	12.3	(8.6)	9.1
Velocity (GDP relative to M2)	4.1	3.7	3.9	3.9	3.9	3.9
Interest rates (minimum annual yield on large denomination one-year certificates of deposit)	11.0	13.0	12.0	12.0	12.0	12.0
(In percent of GDP)						
Public sector savings	-0.9	0.7	1.0	0.5	4.2	1.4
Overall public sector deficit (-)	-9.8	-5.4	-6.0	-6.7	-2.7	-4.7
Foreign financing	(6.4)	(2.1)	(4.8)	(3.2)	(2.5)	(2.0)
Concessional	[3.0]	[2.6]	[4.1]	[3.4]	[2.7]	[2.6]
Commercial	3.4	[-0.5]	[0.7]	[-0.2]	[-0.2]	[-0.6]
Domestic financing	(3.4)	(3.3)	(1.2)	(3.5)	(0.2)	(1.7)
Domestic and nonconcessional external financing 2/	6.8	2.8	1.9	3.3	--	3.1
Gross domestic investment	19.1	16.7	16.7	15.8	16.6	14.7
Gross national savings	2.8	5.3	4.4	5.7	7.7	6.1
Transfers from abroad	8.9	8.1	6.9	6.6	6.6	5.8
Current account deficit (-)	-7.4	-3.3	-5.0	-4.3	-2.3	-2.8
External debt inclusive of use of Fund purchases (end of year)	29.1	32.9	33.8	35.5	36.8	34.5
(In percent of exports of goods and services)						
Debt service payments 3/	9.0	8.9	10.5	13.1	15.2	12.4
Interest payments 4/	3.7	4.5	5.7	5.7	6.0	4.6
(In millions of U.S. dollars)						
Overall balance of payments	-55.1	-13.6	-12.0	-12.1	16.4	-25.2
Gross official reserves (weeks of imports) 5/	2.6	5.8	4.4	3.9	4.3	3.0
External payments arrears	20.5	20.9	8.8	2.4	--	12.0

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

1/ Changes in relation to liabilities to the private sector at the beginning of the period.
2/ Program definition.
3/ Debt service on medium- and long-term external debt, includes use of Fund resources.
4/ Includes payments of charges to the Fund and interest to the Trust Fund.
5/ Includes gross foreign reserves of both the Bank of the Republic of Haiti and the National Credit Bank.

Fund Relations with Haiti
(As of September 30, 1985)

I. Membership Status

(a) Date of membership - September 8, 1953
(b) Status - Article VIII

A. Financial Relations

II. General Department (General Resources Account)

(a) Quota: SDR 44.1 million

(b) Total Fund holdings of Haitian gourdes: SDR 120.9 million or 274.3 percent of quota

(c) Fund credit: SDR 77.0 million or 174.4 percent of quota
Of which: SDR 27.8 million or 63.0 percent of quota under credit tranche
SDR 9.9 million or 22.4 percent of quota under EFF
SDR 28.5 million or 64.5 percent of quota under EAR
SDR 10.8 million or 24.5 percent of quota under CFF

(d) Reserve tranche position: SDR 69,779

(e) Current Operational Budget: Not applicable

(f) Lending to the Fund: Not applicable

(g) Overdue payment: None

II. Current Stand-By or Extended Arrangement and Special Facilities

(a) Current stand-by arrangement
(i) *Duration:* November 7, 1983 to September 30, 1985
(ii) Amount: SDR 60.0 million
(iii) Utilization: SDR 21.0 million
(iv) Undrawn balance: SDR 39.0 million.

(b) Previous stand-by arrangement
(i) Duration: August 1982 to September 1983
(ii) Amount: SDR 34.5 million
(iii) Utilization: SDR 34.5 million

(c) In addition, from August 1974 to July 1982, four stand-by arrangements and one extended arrangement were approved, for a total amount of SDR 54.7 million, of which SDR 21 million was utilized.

(d) Special facilities: CFF
(i) Year approved: 1981
(ii) Amount: SDR 17.0 million

IV. SDR Department

(a) Net cumulative allocation: SDR 13.7 million
(b) Holdings: 3,373
(c) Current Designation Plan: not applicable

V. Administered Accounts (amounts)

(a) Trust Fund Loans: Disbursed SDR 18.6 million
Outstanding SDR 13.4 million

(b) SFF Subsidy Account
Payment: 0

B. Nonfinancial Relations

VI. Exchange rate: The Haitian gourde remains pegged to the per U.S. dollar. The Fund's holdings of gourdes are valued on the basis of a representative exchange rate under Rule O-2, paragraph (b)(i). (Since 1981 an informal parallel market developed with the gourde trading at a small discount. During FY 1984 the discount has been in the range of 5 to 8 percent.)

VII. Last Article IV consultation: The last Article IV consultation discussions were held during July 6-25, 1984; September 10-18; and September 27, 1984, and were concluded at EBM/85/18 (2/8/85). The report prepared for the Board discussions were SM/84/275 and EBS/85/2. For consultation purposes, Haiti is on a 12-month cycle.

VIII. Technical assistance: Long-term technical assistance is being provided by two fiscal experts in the fields of government revenue, including the implementation of a general sales tax, and of budgeting, accounting and expenditure control.

IX. Resident respresentative: A Fund resident representative is stationed in Port-au-Prince.

Haiti--Statistical Issues

1. Outstanding statistical issues

a. Real sector

The data for prices and external trade are uncurrent and no data for production are reported.

b. Government finance

The 1984 GFS Yearbook includes data on revenue through 1983 and on the economic classification of expenditure for the years 1981 and 1982 for the consolidated central government. Data on revenue, expenditure, capital expenditure and outstanding debt for 1984 have now been received for publication in the 1985 Yearbook. Data for local governments have never been supplied.

The data in IFS are reported directly by the IFS correspondent and there appear to be substantial coverage differences between these data and those published in the GFS Yearbook which need to be reconciled.

c. Monetary accounts

Data for the monetary authorities and deposit money banks differ substantially from those reported to the Western Hemisphere Department. In both cases there are differences which cannot be explained on the basis of information sent separately in Report Forms 10R and 20R and data reported to the area department.

d. Balance of payments

The official balance of payments statistics suffer from conceptual shortcomings as well as from deficiencies in the basic sources of information that are utilized in the compilation data. In June 1984, a technical assistance mission visited Haiti and reviewed the sources and methods used in the compilation of balance of payments statistics. The mission report, transmitted to the authorities in October 1984, stressed the need for remedial action in several areas including: (a) an improvement in the quality of external trade statistics; (b) the implementation of new benchmark surveys; and (c) the use of financial statements, submitted to the tax administration, in estimating the data on the transactions of the private sector (including direct investment enterprises).

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page of Haiti in the August 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Banque de le Republique d'Haiti, which during the past year have been provided on an irregular basis, and the coverage and currentness of the data are generally inadequate.

Status of IFS Data

		Latest Data in August 1985 IFS
Real Sector	- National Accounts	1983
	- Prices	September 1984
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	Q2 1984
	- Financing	Q2 1984
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	December 1984
	- Deposit Money Banks	December 1984
	- Other Financial Institutions	December 1984
External Sector	- Merchandise Trade: Value -	
	(Exports)	September 1984
	(Imports)	1981
	Prices	n.a.
	- Balance of Payments	1983
	- International Reserves	June 1985
	- Exchange Rates	June 1985

Haiti: Financial Relations with the World Bank Group

(In millions of U.S. dollars)

	Commitment (Net of Cancelations)	Disbursements	Undisbursed Amount
I. IDA Operations (As of September 30, 1985)			
Sector			
Transportation	70.4	62.1	4.9
Power	80.6	53.2	25.5
Education	34.5	21.1	13.1
Industrial credit	7.0	5.0	1.0
Water supply	6.6	6.6	--
Rural development	29.1	15.4	13.0
Agricultural development	3.2	2.8	--
Urban development	21.0	5.4	14.5
Forestry	4.0	1.0	2.8
Total	256.4	172.6	74.8 1/
Repayments	0.18		
Total outstanding	256.22 2/		
II. IBRD Operations (As of September 30, 1985)			
Sector			
Transportation	2.6	2.6	--

Source: World Bank.

1/ Difference due to SDR exchange rate.
2/ May vary due to exchange rate.