

Haiti: Use of Fund Resources—Request for Emergency Post-Conflict Assistance—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Haiti

In the context of the Use of Fund resources—Request for Emergency Post-Conflict Assistance by Haiti, the following documents have been released and are included in this package:

- the staff paper for the Use of Fund Resources—Request for Emergency Post-Conflict Assistance, prepared by a staff team of the IMF, following discussions that ended on September 25, 2005, with the officials of Haiti on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 5, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff supplement of October 14, 2005 updating information on recent developments.
- a Press Release summarizing the views of the Executive Board as expressed during its October 18, 2005 discussion of the staff report that completed the request and/or review.
- a statement by the Executive Director for Haiti.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Haiti*
Memorandum of Economic and Financial Policies by the authorities of Haiti*
Technical Memorandum of Understanding*

*May also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

HAITI

Use of Fund Resources—Request for Emergency Post-Conflict Assistance

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by Christopher Towe and Mark Plant

October 5, 2005

- **Haiti meets the conditions for further post-conflict financial assistance from the Fund.** The political conflict and an armed rebellion that led to a change in government in March 2004 continue to affect the economic, social and political situation in Haiti. While financial stability has been basically restored, Haiti's institutional and administrative capacity remains weak, hindering the rebuilding of the country's economic and social infrastructure, and external position remains vulnerable.
- **The discussions on the authorities' request for Emergency Post-Conflict Assistance (EPCA) took place at the Fund's headquarters during June 6–11 and September 19–25, and in Montreal during June 17–18, 2005.** The staff team comprised P. Gajdeczka (Head), L. Jaramillo, G. Everaert, C. Sancak (all WHD), and J. Mathisen (PDR). The team met with Economy and Finance Minister Bazin, BRH Governor Magloire, and other senior officials. M. Rached (Resident Representative) assisted the team from Port-au-Prince.
- **On January 10, 2005, the Executive Board approved SDR 10.23 million (12.5 percent of quota) in Emergency Post-Conflict Assistance to Haiti.** All end-December 2004 and March 2005 quantitative targets were met. However, most end-June quantitative benchmarks were missed, and there were delays in implementing key structural measures.
- **The 2005 Article IV consultation was concluded in May 2005.** Directors welcomed Haiti's satisfactory performance under the EPCA-supported program and expressed their willingness to support a second EPCA purchase.
- **The authorities are requesting another purchase of 12.5 percent of quota under the EPCA policy.** The authorities' policy commitments are stipulated in the attached Letter of Intent and Memorandum of Economic and Financial Policies (LOI/MEFP).
- **Publication.** The authorities intend to publish their LOI/MEFP and the staff report.

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I. BACKGROUND

1. **A transition government was formed in March 2004 and has received concerted international support to stabilize the political and economic situation and lead the country to national elections.** A United Nations stabilization mission (MINUSTAH) has been deployed in Haiti since June 2004, and in July 2004 donors pledged US\$1.1 billion of financial assistance through September 2006. The elections are scheduled to take place in November–December 2005.
2. **Following a successful completion of a Staff Monitored Program (SMP), the authorities requested an Emergency Post-Conflict Assistance (EPCA) from the Fund.** The SMP spanned the April–September 2004 period, and the EPCA-supported program—covering the period October 2004 to September 2005—was approved by the Executive Board on January 10, 2005. The program sought to consolidate macroeconomic stabilization that had been gained in the earlier six-month SMP and provide a framework for continued donor assistance.
3. **The EPCA-supported program was on track until May 2005.** All end-December and end-March targets were observed, inflation declined, the exchange rate stabilized, and net international reserves were increased. However, following expansionary fiscal and monetary policies during May–June, most end-June targets were missed. Also, while many structural measures were implemented as envisaged, progress on key structural measures—including the census of public employment and domestic arrears—was delayed.
4. **Despite progress in stabilizing the economy and restoring the government’s authority over the country, economic recovery has fallen short of expectations.** The impact of the conflict in early 2004 was initially compounded by the devastating floods in May and September, which caused the loss of thousands of lives and extensive material damage. Subsequently, the recovery has been hampered by disappointing progress in dealing with the security situation, slow external disbursements, and long-standing administrative and infrastructure constraints. As a result, activity has been sluggish and large portions of population continue to live well below the poverty line.
5. **More recently, there are signs that the political and security situation has improved.** MINUSTAH and the national police have succeeded in bringing down violent crime in Port-au-Prince and reducing the climate of insecurity. Also, prospects for holding safe and fair elections later this year have improved as all key political parties submitted their candidates to the electoral council. However, the slow pace of voter registration has delayed elections to November 20 and December 11, 2005.
6. **The Haitian authorities have requested a second purchase under the Fund’s EPCA policy.** The authorities would like the Fund to remain closely engaged in Haiti and have proposed a financial program that would cover October 2005–September 2006, with indicative targets set through March 2006, and which would be supported by the second EPCA purchase. The new government is expected to be in office in early 2006, at which time

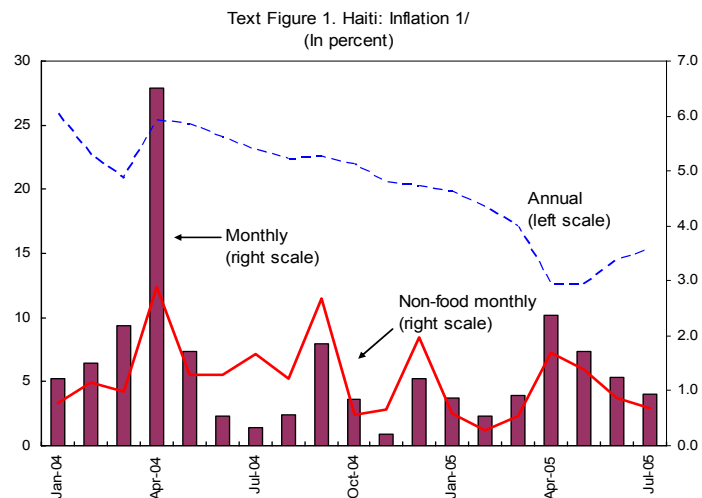
it could initiate discussions of a future PRGF arrangement, subject to a satisfactory performance under the second EPCA-supported program.

7. **Haiti continues to meet the conditions for post-conflict assistance from the Fund.**¹ In particular: (i) there remains an urgent balance of payments need; (ii) Haiti's institutional and administrative capacity has been disrupted, so that it cannot implement a program with upper-tranche conditionality; (iii) there is, nonetheless, capacity for policy planning and implementation, as well as demonstrated commitment on the part of the authorities; and (iv) Fund assistance would continue to be part of the international effort to address the aftermath of the conflict that includes assistance from the World Bank, the Inter-American Development Bank (IDB), the European Union (EU), the United States, Canada, and other donors.

II. RECENT ECONOMIC DEVELOPMENTS

8. **The macroeconomic situation and outlook have deteriorated in recent months.** Following a year of improvement, worsening security conditions, slower than anticipated donor disbursements, and rising oil prices began to weigh more heavily on confidence and key activity indicators such as tax revenues and credit growth. These factors also contributed to an unprogrammed fiscal expansion in mid-year and a slackening of monetary discipline. As a result:

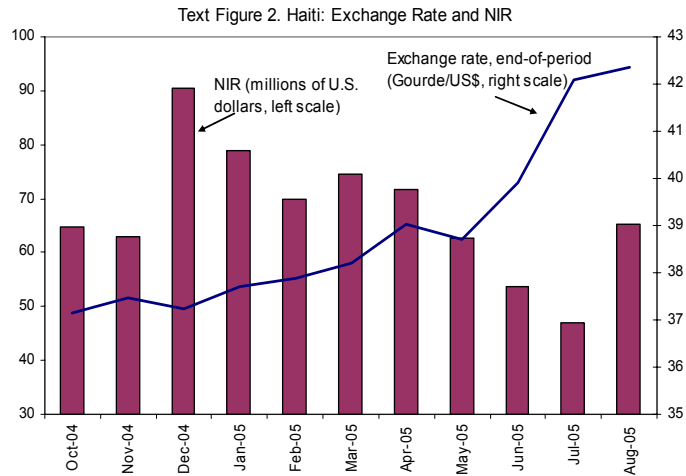
- **The growth projection for 2004/05 (October–September) has been lowered to 1½ percent.** There are downside risks to this projection, especially with a recent tightening of financial policies that has been needed to compensate for shortfalls in donor support, and political and security situation could deteriorate.
- **Inflation has picked up.** Consumer prices rose by about 6¼ percent during April–August, and the end-September objective of reducing the 12-month inflation rate to 15 percent is at risk (Text Figure 1).



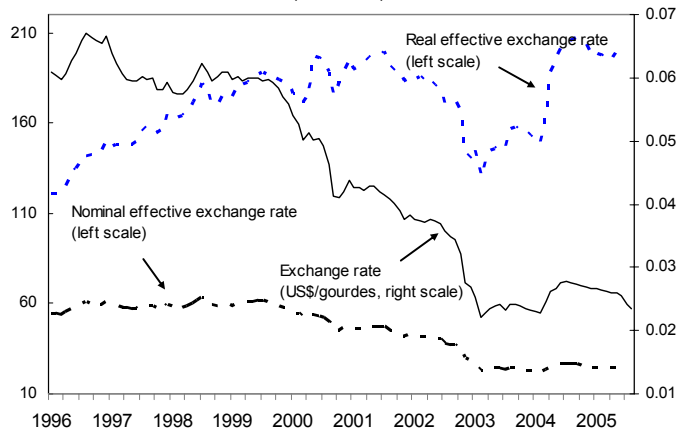
¹ See Haiti: Use of Fund Resources—Request for Emergency Post-Conflict Assistance (IMF Country Report No. 05/65).

- **The exchange rate has come under pressure.**

The increase in violent incidents over the summer reduced confidence and led to capital outflows, and drop in private remittances and visitors. As a result, following several months of stability, the gourde depreciated by about 10 percent during May-September 2005 (Text Figure 2). In real effective terms, however, the gourde remains 19 percent above the March 2004 level (Text Figure 3).



Text Figure 3. Haiti: Nominal and Real Effective Exchange Rates 1/ (1990=100)



- **The external position has remained vulnerable.**

The central bank has avoided purchasing foreign exchange since April to ease pressures on the gourde, and the government's foreign exchange needs caused net international reserves (NIR) to fall to US\$49 million by end-July, and gross reserves dropped to the equivalent of only two weeks of imports. Subsequently, two IDB disbursements have helped NIR to rebound to about US\$75 million in mid-September.²

- **The use of central bank financing of the budget is being eliminated.** Earlier in the year, the government borrowed from the central bank to cover higher outlays as well as revenue shortfalls caused by worsened security conditions and a strike by customs

² During August-September 2005, the IDB disbursed two budget support loans totaling about US\$25 million.

officials.³ However, stricter expenditure controls implemented since early July, strong revenue performance in August and recent IDB disbursements are expected to bring cumulative central bank financing to a surplus by the end of the fiscal year in September.

- **Liquidity growth has been excessive.** Gourde deposit rates have been negative in real terms and until mid-August were below dollar deposit rates, contributing to a decline in gourde term deposits and rapid growth in currency in circulation and dollar deposits.
- **Commercial banks' asset quality has continued to deteriorate.** Credit to the private sector has remained stagnant in real terms while the share of non-performing loans, increased from 8.3 percent in December 2004 to 9.6 percent in June 2005. Also, one of the largest banks experienced a deterioration in its portfolio and the central bank intensified supervision of its operations. However, according to official statistics the financial position of the banking system appears stable as capital adequacy ratio at end-June was 15.7 percent and banks' profitability has improved.
- **Most quantitative targets for end-June were missed.** Targets for end-June and end-September were to be confirmed in the context of the authorities' request for a second EPCA purchase that had been originally intended for Board consideration in early July 2005.⁴

9. **Fiscal policy discipline is being restored.** The authorities issued a supplementary budget for April-September 2005 in early June that would have required G1.5 billion of additional financing (0.9 percent of GDP) for April-September 2005. However, they subsequently responded by scaling back or canceling several programs, such as compensation to victims of cooperatives fraud, as well as a new program of government support to the private sector (0.3 percent of GDP).⁵ The fiscal position has strengthened further as revenue shortfalls in April-June were more than offset by a strong overall revenue performance and large unanticipated one-time tax payments (arrears and licenses) in August-September 2005.⁶

³ The program also allowed for temporary increases in BRH financing to cover debt-service payments until programmed disbursements in the following quarter.

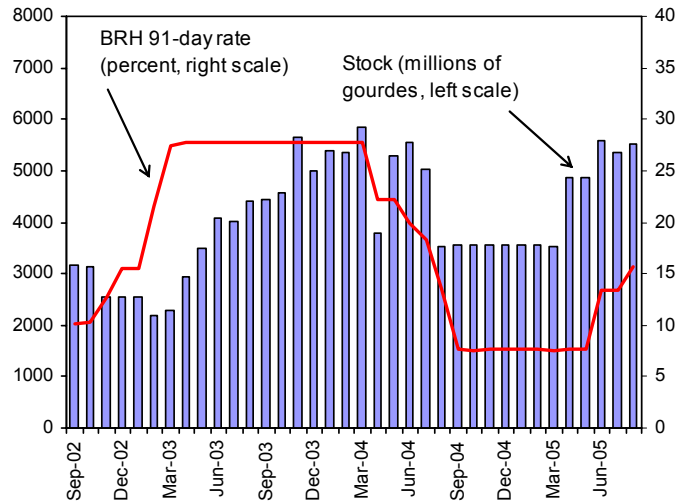
⁴ Information on performance under the previous EPCA-supported program was provided in IMF Country Report No. 05/206.

⁵ The program envisaged capital injections to support establishment of new small enterprises, tax cuts, and interest subsidies for private sector enterprises.

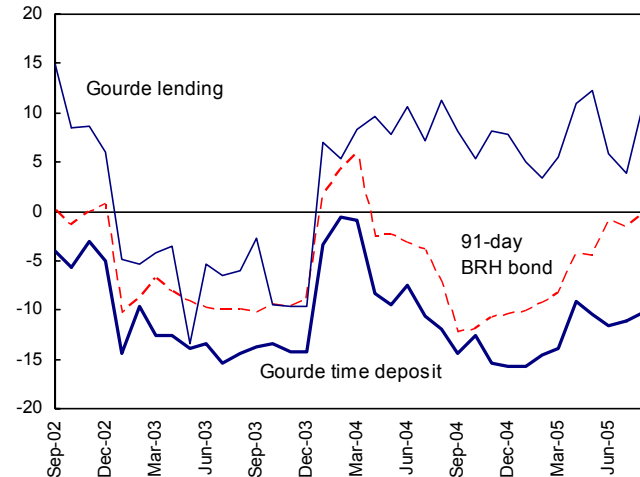
⁶ The exceptional revenues (0.5 percent of GDP) were payments for new licenses by cellular phone companies and petroleum and other tax arrears.

10. Monetary policy is being tightened, albeit haltingly. By end-March 2005, excess reserves of the banking system reached 25 percent of required reserves, while interest rates remained negative in real terms.⁷ The central bank's (BRH) initial steps to tighten monetary conditions in late April in response to emerging pressures on the exchange rate were reversed in May. However, in the face of continued exchange rate pressures by end-June, the BRH absorbed G2.1 billion of liquidity from the banking system, and raised interest rates on central bank 91-day bonds from 7 percent to 13 percent; interest rates were increased again to 15.6 percent in August (Text Figure 4). Interest rates are still negative in real terms (Text Figure 5), the BRH's net domestic assets substantially exceeded program ceilings and base money increased by 5¼ percent during July-September 2005 (Table 1).

Text Figure 4. Haiti: BRH bonds



Text Figure 5. Haiti: Real Interest rates 1/



11. Key structural measures have been implemented, although with some delays. For example, a census of employment in the police, education, and health sector was completed only in September, past the initial end-March due date and in a less comprehensive manner than expected.⁸ The authorities published three notifications of the registration of domestic arrears, but the initial notification provided only a short deadline for reporting claims to relevant ministries. Also, the list of beneficiaries of government-backed programs for the private sector were published much later than envisaged. On the positive side, spending through discretionary ministerial accounts has been limited to below

⁷ Since June 2001, reserve requirements are 31 percent of deposits at the commercial banks.

⁸ The census of employment was expected to address the issues of ghost workers and irregularities in the check distribution process. In view of the security situation, capacity constraints, and absence of donor technical support, the census was largely based on attendance lists rather than actual head count.

10 percent of budgetary credits, central government accounts for 2002/03 have been transmitted to the Cour Superieure des Comptes et du Contentieux Administratif (CSCCA) for audit, and systematic pre-audit of government spending was eliminated as of July 1.

12. **International donors reiterated their support for Haiti at conferences in Cayenne and Montreal but actual disbursements fell short of expectations.** During October 2004–June 2005, total donor budgetary financing (grants and loans) was US\$196 million, US\$44 million lower than programmed. The shortfall was mostly accounted for by lower project disbursements, reflecting delays in project preparation by donors and the authorities, and security concerns.

III. ECONOMIC AND POLITICAL RISKS

13. **Haiti continues to meet the conditions for post-conflict assistance, but there remain significant risks to macroeconomic stability and to the Fund's involvement.**

- **Security.** Despite continued deployment of the United Nations (U.N.) security forces, the government's authority is not fully established in some provinces and kidnappings and violent crime continue, in particular in the Port-au-Prince area.
- **Political process.** Security concerns, delays in the voter registration process, and low participation may undermine the success and legitimacy of the elections scheduled for late 2005.
- **External position.** Sluggish donor support, coupled with weaker foreign exchange inflows from remittances and visitors and the rise in world oil prices, have increased pressures on the exchange rate and have caused large financing gaps to emerge into the medium term.

IV. POLICY DISCUSSIONS

14. **The authorities re-iterated their commitment to maintaining financial stability through the period of political transition and to revive economic activity.** The proposed program for October 2005–September 2006 would be consistent with the authorities' pledge to avoid central bank financing of the budget over time and to strengthen Haiti's external position.⁹ However, the authorities noted that this task had been further complicated by continued insecurity, a slower-than-anticipated pace of donor disbursements, pressures on the exchange rate, and a sizable external financing gap.

⁹ The program for October 2005–March 2006 assumes the use of net BRH financing (corresponding to a cash surplus accumulated during 2004/05), while still leaving the end-March 2006 stock of BRH credit to the central government below its end-March 2004 level.

15. **The main focus of discussions was on the policy corrections needed in light of the more difficult macroeconomic and security situation and delays in donor disbursements.** The authorities emphasized their commitment to modify their fiscal plans for the 2005/06 budget in order to ensure these were consistent with available resources, and to also tighten the monetary policy stance in order to preserve macroeconomic stability. It was recognized, however, that the changed circumstances would require significant amendments to the quantitative objectives that had been set earlier.

16. **The authorities stressed the importance of a Fund-supported program during the coming political transition.** A second EPCA program would help discipline policies during the forthcoming political transition and provide a necessary framework for donors' support and would facilitate a move to a possible PRGF arrangement in 2006. Against this background, it was agreed to establish a financial program through September 2006, with indicative targets set through March.

A. Key Macroeconomic Policy Issues

Fiscal policy and reforms

17. **The mission welcomed that the supplementary budget for April–September 2005 had been implemented in a manner that avoided recourse to central bank financing.** The authorities agreed that the potential threat to financial stability outweighed the possible benefits of fiscal expansion in the present circumstances. Accordingly, central government outlays were limited to high priority areas—wage bill, interest payments, and necessary funding of public sector entities, as well as G220 million for domestically funded public investment. The budget also provided G178 million of transfers for fuel purchases for the electricity company (EDH) to ensure power supply in Port-au-Prince of maximum 12 hours a day. The authorities agreed with the staff that in particular in view of tight budget constraints, the new program of support to the private sector and the payments to the victims of the cooperatives fraud should be postponed.

18. **The authorities and staff agreed on a 2005/06 central government budget that would permit some increase in social services and infrastructure investment.** The budget is based on relatively conservative macroeconomic parameters—real GDP would grow by 2.5 percent, CPI inflation would decline to 10 percent, and the overall deficit (excluding grants) would be 6.3 percent of GDP, to be fully financed by external assistance. In addition:

- **Revenues are targeted at 9.3 percent of GDP.** The mission agreed that such a conservative revenue projection was appropriate, given the risks related to the security/political situation and donor support. The authorities viewed this target as consistent with historical trends and attainable, especially once customs controls were extended to all border points.
- **The expenditure ratio would rise to 15.6 percent of GDP, from 14.1 percent of GDP this year.** This would mainly reflect increases in externally-financed projects,

including in social sectors, and recent wage increases.¹⁰ The authorities agreed not to further increase wages and salaries during the next fiscal year until payrolls are adjusted according to the results of the census of public sector employment and adequate budgetary resources are available. The budget would also include resources to strengthen the position of the central bank (see below), and to prepare a strategy to address domestic arrears based on the survey to be completed by December 2005.

- **The authorities have requested additional donor support.** This support is needed to close the remaining financing gap for April–September 2006 which is estimated at US\$30.6 million or 0.7 percent of GDP.

19. **Measures are being taken to strengthen revenue performance and expenditure management.** In the area of tax policy and administration, pre-shipment verification will be extended to all ports of entry and borders of Haiti and the use of central taxpayer file on the basis of tax payers' Fiscal Identification Number will be introduced. On the expenditure side, the authorities are committed to: (i) ensuring that all new recruitment and promotions are within budget allocations of the spending ministries; (ii) limiting discretionary spending through ministerial current accounts to below 10 percent of budget non-wage credits; and (iii) completing by the Anti-Corruption Unit of their investigation of corruption in the check distribution process by December 2005.¹¹

Monetary and Financial Sector Policies.

20. **The mission urged the authorities to tighten monetary conditions.** In particular, base money growth appeared excessive and—coupled with interest rates that were negative in real terms—threatened the achievement of the program's inflation objective and exchange rate stability. Therefore, the mission recommended that the BRH absorb excess liquidity sufficiently to bring real interest rates to positive levels.

21. **The monetary authorities stated that they were committed to achieving the program's external and inflation objectives.** They explained that the earlier relatively lax policy stance had reflected a desire to support economic activity as well as concern that issuing central bank paper to withdraw liquidity would worsen the BRH's losses. However, the BRH had recognized the need to stem the growing pressures on the exchange rate and by end-June acted to absorb liquidity by issuing bonds and raised interest rates. During

¹⁰ The 2005/06 budget assumes a 26 percent increase in the government wage bill, of which 10 percentage points reflect the carry-over effect of the 2004/05 salary increase, and the remainder is for new hiring (police in particular) and inflation adjustments.

¹¹ These measures were recommended by the April 2005 FAD technical assistance mission on public financial management.

discussions, the authorities indicated their commitment to taking further steps, as needed, to raise interest rates to levels positive in real terms.

22. **The authorities requested Fund assistance in developing a strategy for financial sector reform.** In the near term, a price-based bond auction mechanism, as recommended by the MFD technical assistance mission, would be re-established to help provide clearer signals about market conditions and the stance of monetary policy. The authorities have revised drafts of a new central bank law that would establish independence of the central bank and of a banking law, and are working on a medium-term strategy to reduce reserve requirements and enable more efficient financial intermediation.

23. **The authorities are developing a strategy to address BRH losses.**¹² A MFD technical assistance mission recommended that the government convert its outstanding liabilities to the BRH into government bonds and that all future credit to the government bear a market based interest rate. A strategy for recapitalization of the central bank is being prepared and as a first step, increased payments by the Treasury to the BRH have been included in the 2005/06 budget. The Fund is providing technical assistance to develop a plan for a more fundamental recapitalization of the central bank over the medium term.

B. Governance and Transparency

24. **The authorities agreed with the staff that continued efforts are needed to achieve a lasting improvement in the management and transparency of the public sector.** These could build on the following actions implemented so far:

- **Census of public sector employment.** Census reports have been completed in 68 ministries and other public sector entities, including in the ministries of health and education, and the national police; and public sector payrolls are being adjusted accordingly. The authorities recognize that a full-fledged census should be implemented as soon as security conditions and resource availability permit;
- **Survey of domestic arrears.** Public announcements were issued for registration of unpaid claims on the central government and a program for their settlement will be developed during 2005/06;
- **Transparency of government operations.** The information on budget execution as well as the list of beneficiaries of a government-backed scheme for businesses that suffered losses during the early 2004 conflict and from the June 2004 fires will continue to be published in local newspapers and on the government's website;

¹² These losses reflect the fact that the interest rate on BRH credit to the central government is below the interest rate on the BRH's interest bearing liabilities.

- **Transfers to EDH.** A monitoring mechanism for the use of government transfers to the EDH has been put in place in consultation with World Bank staff, monthly reports on transfers and associated electricity output will be published, and independent audit of these reports will begin by end-October 2005. Furthermore, competitive acquisition procedures will be applied in the electricity sector;
- **Audits of public sector accounts.** The report for the central government accounts of 2002/03 will be published after their audit by CSCCA is completed. This will be followed by an audit of 2003/04 accounts;
- **Consumer price index.** A new price index was introduced in June 2005, to better capture price developments beyond the Port-au-Prince area.

25. **The mission urged the authorities to continue with implementation of a flexible price-setting mechanism for petroleum prices.** The authorities explained that less than full adjustment in petroleum prices in recent months reflected their intention to gradually phase in the recent sharp increases in international prices. However, they agreed with the staff that delaying adjustment would have negative fiscal and resource allocation effects and reiterated their commitment to implement this mechanism as envisaged.

26. **The authorities agreed with the staff on a plan to strengthen data reporting and reliability.** A committee established last May has met regularly and recommended steps to improve reporting of data required for program monitoring. Regarding the monetary data, the internal audit mechanism has been strengthened and a process established to improve the timeliness of reporting. A plan will be agreed with Fund staff based on a comprehensive review of fiscal and monetary data collection and reporting, leading to regular and automated data transmissions to the Fund.

C. External Sector

27. **The authorities and mission agreed on the need to revise downward the original NIR targets.** The authorities stressed that in the context of an unsettled security situation and rising international petroleum prices it would not be possible to make up for reserve losses to date without putting undue pressure on the gourde. For these reasons they could only commit to increasing NIR to US\$84 million by end-September 2006. Moreover, the external assistance that had been pledged to Haiti thus far would help cover Haiti's external debt-service obligations, fuel purchases for maintaining electricity supply, and other priority government needs, but would not allow any further increase in NIR during the period to March 2006. While recognizing these constraints, the mission stressed that this would leave NIR at low levels and that it would be essential for the BRH to maintain a steady pace of foreign exchange purchases to avoid any shortfall in the revised NIR targets.

28. **The staff recognized the importance of timely disbursements of budget assistance.** Two IDB loans (US\$24.5 million) have been recently disbursed, and conditions for disbursements from the World Bank (US\$14.5 million) and the IDB (US\$10 million) expected before end-2005 have been largely completed. The authorities agreed that it was important to work closely with donors to avoid procedural and other delays in disbursement of existing pledges, and also to seek additional assistance to fill the financing gap of US\$30.6 million that was estimated for the second half of the fiscal year¹³ In this context, the authorities have requested donor assistance in the preparation of capital investment projects for 2005/06, including to address capacity constraints in line ministries that hamper project preparation. Steps are also being taken to strengthen aid coordination with donors, including by improving the flow of information about on-going and planned projects.

D. Program Issues

Access and capacity to repay the Fund

29. **The proposed purchase under the Fund's EPCA policy is for SDR 10.245 million (12.5 percent of quota).** The rate of charge on the proposed purchase would be subsidized to an annual rate of 0.5 percent, consistent with Haiti's PRGF eligibility. The proposed access is consistent with the revised EPCA policy and with Haiti's financing needs during July 2005-March 2006, taking into account the resources pledged by other donors.

30. **Haiti is expected to meet its financial obligations to the Fund in a timely manner.** The country has been current on its debt-service obligations to the Fund since the early 1990s. Taking into account Haiti's purchase of 12.5 percent of quota under the EPCA in January 2005, the proposed purchase in October is consistent with the annual access limit under the EPCA (25 percent of quota); Fund credit outstanding would peak in 2006 at 27 percent of quota and 5¼ percent of exports of goods and services. Debt service to the Fund would remain below 2 percent of exports of goods and services.

Program monitoring

31. **The authorities' economic program would cover the fiscal year October 2005-September 2006.** However, the financial program and quarterly targets were agreed for December 2005 and March 2006. Targets for April-September 2006 would be confirmed with the new government by March 2006 either as interim targets in the context of PRGF negotiations or some alternative monitoring arrangement.

¹³ This gap could be covered from resources that would become available to Haiti from the European Union, the IDB, and the World Bank. Haiti will continue to accumulate arrears to some bilateral creditors until a PRGF program is in place, based on an informal agreement confirmed in the context of the first EPCA purchase in January 2005 (IMF Country Report No. 05/65).

32. **The staff will monitor program execution based on quarterly indicative targets, structural benchmarks, and quarterly staff visits.** Quarterly indicative targets for end-December 2005 and end-March 2006 will be set as presented in Table 1 of the MEFP. Attachment II presents policy actions to be implemented by March 2006, including those that would be introduced as structural benchmarks.

Technical assistance

33. **Haiti's institutional and administrative capacity has been adequate for program implementation under the policy on EPCA, but large technical assistance needs remain.** Recent Fund missions prepared summaries of the needs in areas of public finance and monetary management, and with the authorities' consent these have been shared with other donors to improve coordination and effectiveness of technical assistance to Haiti. The Fund is also preparing technical assistance to strengthen the financial position of the central bank, and a multi-topic statistical mission is planned later this year. This latter mission will be particularly helpful in improving data reporting to the Fund and for program monitoring.

Safeguard Assessment

34. **A safeguards assessment of the Banque de la République d'Haiti was completed in August 2005.** It identified a number of vulnerabilities, in particular in the areas of financial reporting, internal audit and controls. To address these vulnerabilities staff proposed various measures, including a strengthening of the accounting function of the bank and of procedures for the compilation, reporting, and verification of monetary data reported to the Fund, as well as improvements in the operations of the BRH's Internal Audit Unit. The BRH has indicated that it has already started to implement some of the recommendations and progress will be monitored by staff.

V. STAFF APPRAISAL

35. **Haiti is entering a crucial period in its political transition and in its economic stabilization and recovery program.** Considerable improvements in the security situation and in economic performance had been achieved last year and in early 2005. However, the deterioration in the security situation earlier this year has contributed to delays in the preparations for national elections scheduled later this year and this has also a negative impact on the economy, as well as on donor and other inflows of foreign exchange.

36. **Looking forward, there is a critical need to improve security conditions in Haiti.** This will be essential for ensuring fair and safe elections, and for implementing the social and economic agenda agreed with donors last year. In this context, the recent decision by the United Nations to increase its stabilization force in Haiti is a welcome development.

37. **Stringent fiscal discipline and good governance will be crucial for fostering private sector-based recovery and for assuring donors that external assistance will be used effectively.** It is encouraging, therefore, that the authorities have decided to implement fiscal policies consistent with the principle of avoiding central bank financing of the budget. This has required scaling back the outlays from the levels envisaged in the supplemental budget, and strictly limiting spending to high priority areas, including for basic social services, security, and domestically-funded investment. The staff also welcomes the authorities' and donors' commitments for the 2005/06 budget which would increase the provision of social services and public investment using external assistance while also avoiding central bank financing over time.

38. **The BRH needs to ensure that monetary conditions are tight enough to protect the program's inflation and external objectives.** Welcome steps have already been taken to absorb excess liquidity in the banking system and to raise interest rates. However, these were taken only after market pressures had already built and it will be important for the central bank to conduct its operations in a more forward-looking and pre-emptive manner. The authorities are also strongly encouraged to re-establish a price-based bond auction mechanism, since this would help provide clearer signals of the policy stance. The staff welcomes the authorities' intention to cover the losses of the BRH and to develop a plan to recapitalize the central bank, and encourages publication of the audit of the BRH's accounts.

39. **The staff welcomes the recent steps to improve transparency and governance in the public sector.** The recently completed census of employment in key ministries and public sector entities has helped demonstrate a commitment to strengthening good governance and should also yield budgetary savings by eliminating ghost workers from the government's payroll. A full-fledged census should be implemented once the security situation allows and resources are available. Also encouraging are the steps to address domestic arrears and the publication of information on budget execution and government programs of support to the private sector. The authorities' intention to publish the audits of the central government accounts for 2002/03 and the forthcoming audit of 2003/04 accounts are also welcome. Of critical importance is the establishment of a mechanism to ensure that government transfers to the EDH are linked to electricity supply targets, and that all new contracts on electricity production are based on open and competitive bids. As important is rapid progress in extending customs control to all border points of entry to further improve revenue performance.

40. **The staff supports the authorities' efforts to mobilize additional donor financing and to accelerate disbursement of the pledged assistance.** The first priority would be to make every effort to ensure that policies are consistent with agreements reached with donors so that budgetary assistance can be disbursed as envisaged. At the same time, donor support is needed to alleviate capacity constraints within the line ministries to prepare and implement capital investment projects. Nonetheless, a large

financing gap of US\$30.6 million remains for 2005/06 and the authorities and donors are encouraged to work together to fill this gap on a highly concessional basis.

41. **Further improvements are needed in data reporting to the Fund for program monitoring and surveillance.** The staff welcomes the establishment of the committee to strengthen data reporting, and the steps taken to improve the timeliness and integrity of monetary data, and supports the authorities' request for technical assistance to improve Haiti's economic statistics. The implementation of the new consumer price index is an important achievement of Haiti's statistical services.

42. **In the staff's view, Haiti continues to meet the conditions for post-conflict assistance.** Haiti's balance of payments needs remain urgent, while the present institutional and administrative capacity is not sufficient to implement a program that could be supported by a Fund arrangement. However, performance to date under the SMP and the EPCA-supported program demonstrates that the authorities have sufficient capacity and commitment to implement the program they are presenting as a basis for Fund support. The proposed purchase from the Fund would support a macroeconomic framework to underpin a broader international support to Haiti. Taking into account the authorities' commitment and the performance under the SMP and the EPCA, the catalytic role Fund resource would play, and notwithstanding the risks that arise in the present difficult political and security situation, the staff supports the authorities' request for Fund assistance under the post-conflict emergency assistance policy.

Table 1. Haiti: Indicative Targets, September 2004–September 2005 1/

	Actual stock at end-September 2004	Cumulative flows since September 2004											
		Dec. 04			Mar. 05			June 05			Sept 05		
		Prog.	Prog. with adjustor	Actual	Prog.	Prog. with adjustor	Actual	Prog.	Prog. with adjustor	Actual	Prog.	Prog. With adjustor	Actual 4/
		Actual			Actual			Actual			Actual		
Net central bank credit to the NFPS (in millions of gourdes)	21,581	-74	-330	-805	378	378	-136	339	494	731	0	280	-324
<i>Of which:</i>													
Central Government	21,659	-74	-330	-773	378	378	-95	339	494	737	0	280	-380
Rest of NFPS	-79	0	0	-33	0	0	-41	0	0	-6	0	1	56
Net domestic banking sector credit to the nonfinancial public sector (in millions of gourdes)	21,097	-115	-370	-807	297	297	-167	217	372	736	-163	117	-319
Net domestic assets of the central bank (in millions of gourdes)	6,612	806	551	169	741	741	515	251	406	1,218	34	314	1,766
Domestic arrears of the central government	0	0	...	0	0	0	0	0	0	0	0	0	0
Nonconcessional external loans contracted or guaranteed by the central government													
(in millions of U.S. dollars)													
Up to one year	0	0	...	0	0	0	0	0	0	0	0	0	0
Over one-year maturity	0	0	...	0	0	0	0	0	0	0	0	0	0
Net international reserves of central bank (in millions of U.S. dollars)	55	7	14	36	3	3	20	12	8	-1	29	22	10
External arrears accumulation (in millions of U.S. dollars) 2/	...	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items: 3/													
Government total revenue (in millions of gourdes)	...	4,027	...	3,611	7,979	...	7,774	11,964	...	11,202	15,921	...	16,103
Government total expenditure (in millions of gourdes)	...	5,893	...	5,553	11,764	...	11,303	18,732	...	16,891	26,084	...	23,118

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

1/ Refer to technical memorandum for definitions of indicative targets.

2/ To all creditors except those who agreed on debt service deferral.

3/ Not targets. Cumulative flows over the program period.

4/ Estimated from weekly data provided by authorities.

Table 2. Haiti: Selected Economic and Financial Indicators

Fiscal Year Ending September 30

	2001	2002	2003	2004	2005		2006
					Prog.	Revised Prog.	Prog.
(Annual percentage change, unless otherwise indicated)							
National income and prices							
GDP at constant prices	-1.0	-0.5	0.5	-3.8	2.5	1.5	2.5
GDP deflator	11.6	10.1	26.9	21.9	15.0	15.3	9.6
Consumer prices (period average)	16.8	8.7	32.5	27.1	16.6	16.7	13.3
Consumer prices (end-of-period)	12.3	10.1	42.5	22.5	12.0	15.0	10.0
External sector							
Exports (f.o.b.)	-7.8	-10.5	21.0	12.8	4.8	11.6	6.7
Imports (f.o.b.)	-2.9	-6.9	13.6	6.0	24.4	30.8	11.3
Real effective exchange rate (+ appreciation)	7.8	-9.0	-8.5	31.6	...	...	...
Central government							
Total revenue and grants	5.2	15.4	37.5	31.0	...	54.2	11.2
Total revenue 1/	3.8	20.2	37.3	15.9	27.8	29.3	7.0
Total expenditure	8.7	20.6	39.8	17.5	46.5	30.5	24.6
Money and credit							
Net domestic assets 2/	9.4	17.0	26.2	10.6	6.9	8.7	3.9
Credit to public sector (net) 2/	8.5	9.4	9.3	4.6	-0.3	-0.5	0.6
Credit to private sector 2/	-3.5	5.9	13.0	3.4	7.2	7.3	3.4
Broad money (including foreign currency deposits)	5.2	17.2	39.8	9.1	12.8	16.6	6.6
Velocity (GDP relative to broad money)	2.7	2.5	2.3	2.5	2.7	2.5	2.6
Average interest rate on time deposits	13.5	7.6	15.0	7.5	...	...	...
(In percent of GDP, unless otherwise indicated)							
Gross investment	25.9	24.9	30.7	27.3	27.5	27.3	29.8
Gross national savings	22.3	22.4	29.8	26.5	24.8	25.7	24.7
Of which: Public sector savings	-0.6	1.0	-0.3	1.0	0.2	-0.2	-0.2
Savings-investment balance 3/	-3.6	-2.5	-0.9	-0.8	-2.7	-1.6	-5.1
Central government overall balance (including grants)	-2.4	-3.0	-3.5	-2.4	-1.2	-0.6	-2.3
Central government overall balance (excluding grants)	-2.8	-3.2	-3.6	-3.7	-6.0	-4.3	-6.3
Central bank net credit to the central government	2.6	3.1	3.1	2.0	0.0	-0.2	0.2
External current account balance (including official grants)	-2.0	-1.0	-0.1	0.4	0.5	0.5	-1.5
External current account balance (excluding official grants)	-6.5	-4.9	-4.8	-2.8	-7.5	-7.5	-10.3
External public debt (end-of-period)	32.6	35.3	44.0	37.2	30.7	31.4	31.0
Total public debt (end-of-period) 4/	35.8	38.7	47.8	39.5	32.6	34.6	34.4
External public debt service (in percent of exports of goods and nonfactor services)	8.7	7.9	8.8	9.2	9.2	9.0	9.2
(In millions of U.S. dollars, unless otherwise indicated)							
Overall balance of payments	-7.9	-68.5	-10.9	33.0	80.1	50.7	-5.7
Net international reserves 5/	108.8	53.0	38.8	54.5	85.4	64.5	83.6
Liquid gross reserves 6/	227.3	177.7	157.1	206.9	271.0	223.6	264.7
In months of imports of the following year	2.2	1.5	1.2	1.3	1.7	1.3	1.4
Exchange Rate (gourdes per dollar, end-of-period)	25.5	29.7	42.0	36.8	...	...	...

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

1/ Excluding grants.

2/ In relation to broad money (including foreign currency deposits) at the beginning of the period.

3/ External current account balance excluding official capital grants.

4/ Includes external public sector debt, outstanding Central Bank bonds, and credit from commercial banks to the NFPS.

5/ Excludes commercial banks' foreign currency deposits with the BRH.

6/ Gross reserves excluding capital contributions to international organizations.

Table 3a: Central Government Operations

(in millions of gourdes)

	2004/05							
	Oct.-March		April-June		July-Sept		Oct.-Sept.	
	EPCA I	Prel.	EPCA I	Prel.	EPCA I	Proj.	EPCA I	Proj.
Total revenue and grants	11,037	11,660	6,357	4,479	6,666	5,925	24,059	22,065
Total revenue	7,979	7,774	3,985	3,428	3,957	4,901	15,921	16,103
Current revenue	7,979	7,774	3,985	3,428	3,957	4,901	15,921	16,103
Domestic taxes	5,877	5,254	2,751	2,297	2,723	3,127	11,351	10,677
Customs duties	2,098	2,048	1,231	943	1,231	1,093	4,560	4,084
Other current revenue	5	472	3	189	3	681	10	1,342
Transfers from public enterprises	0	0	0	0	0	0	0	0
Grants	3,058	3,886	2,371	1,051	2,708	1,024	8,138	5,961
Budget support	700	2,200	350	92	350	87	1,400	2,380
Project grants	2,358	1,686	2,021	959	2,358	937	6,738	3,582
Total expenditure	11,764	11,303	6,968	5,588	7,351	6,226	26,084	23,118
Current expenditure	8,021	7,790	3,800	3,654	3,790	4,357	15,611	15,801
Wages and salaries	3,296	2,871	1,412	1,414	1,412	1,380	6,121	5,665
Net Operations	2,144	2,438	1,072	917	1,072	477	4,289	3,832
Operations	2,144	1,774	1,072	873	1,072	477	4,289	3,123
Interest payments	550	494	300	329	290	304	1,140	1,128
External	308	237	179	207	169	169	656	613
Domestic	242	257	121	122	121	136	484	515
Transfers and subsidies	2,031	1,987	1,015	993	1,015	1,198	4,061	4,178
Expenditures on electoral process								
Other current expenditure (current account) 1/	0	664		45		998		1,706
Capital expenditure	3,744	3,513	3,168	1,934	3,561	1,870	10,473	7,317
Domestically financed	950	1,457	774	467	768	222	2,492	2,146
o/w counterpart funds	165	0	182		222	150	570	150
Foreign-financed	2,793	2,056	2,394	1,467	2,793	1,648	7,981	5,170
Current account balance								
Including current grants	658	2,184	535	-134	517	632	1,711	2,682
Excluding grants	-42	-16	185	-226	167	544	311	302
Overall balance exc. exceptional outlays	-3,785	357	-2,983	-1,109	-3,394	-301	-10,162	-1,053
Overall balance								
Including grants	-727	357	-611	-1,109	-686	-301	-2,024	-1,053
Excluding grants	-3,785	-3,529	-2,983	-2,160	-3,394	-1,325	-10,162	-7,014
Financing	727	-357	611	1,109	686	301	2,024	1,053
External net financing	430	-265	692	276	1,065	1,418	2,187	1,429
Loans (net)	2,143	1,447	623	181	1,022	1,393	3,788	3,021
Disbursements	2,734	1,989	933	507	1,385	1,651	5,052	4,148
Budget support	2,299	1,619	561	0	950	941	3,810	2,560
Project loans	435	370	373	507	435	711	1,243	1,589
Amortization	-591	-542	-310	-326	-363	-259	-1,264	-1,127
Arrears (Net)	-1,713	-1,712	68	95	44	26	-1,601	-1,591
Accumulation	274	335	68	95	44	26	386	456
Reduction	-1,987	-2,048	0	0	0	0	-1,987	-2,048
Internal net financing	297	-92	-80	833	-380	-1,117	-163	-376
Banking system	297	-92	-80	833	-380	-1,117	-163	-376
BRH	378	-95	-40	833	-339	-1,117	0	-380
Commercial banks	-82	4	-41	0	-41	0	-163	4
Other nonbank financing	0	0	0	0	0	0	0	0
Arrears (Net)	0	0	0	0	0	0	0	0
Accumulation	0	0	0	0	0	0	0	0
Reduction	0	0	0	0	0	0	0	0
Unidentified financing	0	0	0	0	0	0	0	0

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

1/ Includes statistical discrepancy.

Table 3b. Haiti: Central Government Operations
(in percent of GDP)

	2004/05							
	Oct.-March		April-June		July-Sept		Oct-Sept.	
	EPCA I	Prel.	EPCA I	Prel.	EPCA I	Proj.	EPCA I	Proj.
Total revenue and grants	6.7	7.1	3.9	2.7	4.1	3.6	14.7	13.4
Total revenue	4.9	4.7	2.4	2.1	2.4	3.0	9.7	9.8
Current revenue	4.9	4.7	2.4	2.1	2.4	3.0	9.7	9.8
Domestic taxes	3.6	3.2	1.7	1.4	1.7	1.9	6.9	6.5
Customs duties	1.3	1.2	0.7	0.6	0.7	0.7	2.8	2.5
Other current revenue	0.0	0.3	0.0	0.1	0.0	0.4	0.0	0.8
Grants	1.9	2.4	1.4	0.6	1.6	0.6	5.0	3.6
Budget support	0.4	1.3	0.2	0.1	0.2	0.1	0.9	1.4
Project grants	1.4	1.0	1.2	0.6	1.4	0.6	4.1	2.2
Total expenditure	7.2	6.9	4.2	3.4	4.5	3.8	15.9	14.1
Current expenditure	4.9	4.7	2.3	2.2	2.3	2.7	9.5	9.6
Wages and salaries	2.0	1.7	0.9	0.9	0.9	0.8	3.7	3.5
Net Operations	1.3	1.5	0.7	0.6	0.7	0.3	2.6	2.3
Interest payments	0.3	0.3	0.2	0.2	0.2	0.2	0.7	0.7
External	0.2	0.1	0.1	0.1	0.1	0.1	0.4	0.4
Domestic	0.1	0.2	0.1	0.1	0.1	0.1	0.3	0.3
Transfers and subsidies	1.2	1.2	0.6	0.6	0.6	0.7	2.5	2.5
Other current expenditure 1/	0.0	0.4	0.0	0.0	0.0	0.6	0.0	1.0
Capital expenditure	2.3	2.1	1.9	1.2	2.2	1.1	6.4	4.5
Domestically financed	0.6	0.9	0.5	0.3	0.5	0.1	1.5	1.3
Foreign financed	1.7	1.3	1.5	0.9	1.7	1.0	4.9	3.1
Current account balance								
Including current grants	0.4	1.3	0.3	-0.1	0.3	0.4	1.0	1.6
Excluding grants	0.0	0.0	0.1	-0.1	0.1	0.3	0.2	0.2
Overall balance excl. capital exceptional outlays	-2.3	0.2	-1.8	-0.7	-2.1	-0.2	-6.2	-0.6
Exceptional outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance								
Including grants	-0.4	0.2	-0.4	-0.7	-0.4	-0.2	-1.2	-0.6
Excluding grants	-2.3	-2.1	-1.8	-1.3	-2.1	-0.8	-6.2	-4.3
Financing	0.4	-0.2	0.4	0.7	0.4	0.2	1.2	0.6
External net financing	0.3	-0.2	0.4	0.2	0.6	0.9	1.3	0.9
Loans (net)	1.3	0.9	0.4	0.1	0.6	0.8	2.3	1.8
Disbursements	1.7	1.2	0.6	0.3	0.8	1.0	3.1	2.5
Budget support	1.4	1.0	0.3	0.0	0.6	0.6	2.3	1.6
Project loans	0.3	0.2	0.2	0.3	0.3	0.4	0.8	1.0
Amortization	-0.4	-0.3	-0.2	-0.2	-0.2	-0.2	-0.8	-0.7
Arrears (Net)	-1.0	-1.0	0.0	0.1	0.0	0.0	-1.0	-1.0
Accumulation	0.2	0.2	0.0	0.1	0.0	0.0	0.2	0.3
Reduction	-1.2	-1.2	0.0	0.0	0.0	0.0	-1.2	-1.2
Internal net financing	0.2	-0.1	0.0	0.5	-0.2	-0.7	-0.1	-0.2
o/w Banking system	0.2	-0.1	0.0	0.5	-0.2	-0.7	-0.1	-0.2
BRH	0.2	-0.1	0.0	0.5	-0.2	-0.7	0.0	-0.2
Commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Nominal GDP (millions of gourdes)	164,205	164,205	164,205	164,205	164,205	164,205	164,205	164,205

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

1/ Includes statistical discrepancy.

Table 3c: Central Government Operations
(in millions of gourdes)

	2003/04	2004/05	2005/06				
	Oct.-Sept.	Oct.-Sept. Proj.	Oct.-Dec. EPCA II	Jan.-March EPCA II	Apr.-June Proj.	July-Sept. Proj.	Oct.-Sept. Proj.
Total revenue and grants	14,306	22,065	6,239	5,949	6,141	6,197	24,526
Total revenue	12,457	16,103	4,192	4,299	4,345	4,400	17,236
Current revenue	12,457	16,103	4,192	4,299	4,345	4,400	17,236
Domestic taxes	8,769	10,677	3,095	3,120	3,114	3,106	12,435
Customs duties	3,481	4,084	1,078	1,160	1,211	1,232	4,681
Other current revenue	207	1,342	19	19	20	62	120
Transfers from public enterprises							
Grants	1,848	5,961	2,047	1,650	1,797	1,797	7,290
Budget support	476	2,380	397	0	147	147	691
Project grants	1,372	3,582	1,650	1,650	1,650	1,650	6,599
Total expenditure	15,996	23,118	7,367	6,602	7,559	7,272	28,800
Current expenditure	11,037	15,801	4,754	4,059	4,616	4,328	17,758
Wages and salaries	4,126	5,665	2,194	1,645	1,645	1,645	7,129
Net Operations	4,517	3,832	1,036	901	1,435	1,173	4,545
Operations	5,160	3,123					
Interest payments	1,150	1,128	428	416	438	414	1,696
External	662	613	198	187	209	184	778
Domestic	488	515	230	230	230	230	918
Transfers and subsidies	1,261	4,178	1,054	1,054	1,054	1,054	4,217
Expenditures on electoral process			43	43	43	43	170
Other current expenditure (current account) 1/	-660	1,706	0	0	0	0	
Capital expenditure	4,960	7,317	2,613	2,543	2,943	2,943	11,043
Domestically financed	3,031	2,146	284	214	614	614	1,726
o/w counterpart funds	...	150	...	...	...	...	...
Foreign-financed	1,929	5,170	2,329	2,329	2,329	2,329	9,317
Current account balance							
Including current grants	1,897	2,682	-165	240	-124	219	169
Excluding grants	1,421	302	-562	240	-271	72	-522
Overall balance exc. exceptional outlays	-1,691	-1,053	-1,129	-654	-1,417	-1,075	-4,274
Overall balance							
Including grants	-3,413	-1,053	-1,129	-654	-1,417	-1,075	-4,274
Excluding grants	-5,261	-7,014	-3,176	-2,303	-3,214	-2,872	-11,565
Financing	3,413	1,053	1,129	654	577	630	2,989
External net financing	605	1,429	1,148	340	295	970	2,752
Loans (net)	-179	3,021	1,064	311	190	941	2,506
Disbursements	954	4,148	1,467	679	679	1,309	4,135
Budget support	397	2,560	787	0	0	630	1,417
Project loans	557	1,589	679	679	679	679	2,718
Amortization	-1,136	-1,127	-403	-368	-489	-368	-1,629
Arrears (Net)	784	-1,591	84	28	105	28	246
Accumulation	784	456	84	28	105	28	246
Reduction	0	-2,048	0	0	0	0	0
Internal net financing	2,807	-376	-19	314	282	-340	237
Banking system	2,789	-376	0	380	315	-315	380
BRH 2/	2,821	-380	0	380	315	-315	380
Commercial banks	-32	4	0	0	0	0	0
Other nonbank financing	0	0	-19	-66	-33	-25	-143
Arrears (Net)	18	0	0	0	0	0	0
Accumulation	800	0	0	0	0	0	0
Reduction	-783	0	0	0	0	0	0
Unidentified financing	0	0	0	0	840	445	1,285
Unidentified financing (in U.S. dollars)	0.0	0.0	0.0	0.0	20.0	10.6	30.6

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

1/ Includes statistical discrepancy.

2/ Net BRH financing in 2005/06 is equal to central government's net savings accumulated at the BRH during 2004/05.

Table 3d. Haiti: Central Government Operations

(in percent of GDP)

	2003/04	2004/05	2005/06				
	Oct-Sept.	Oct-Sept. Proj.	Oct.-Dec. EPCA II	Jan.-March EPCA II	Apr.-June Proj.	July-Sept. Proj.	Oct-Sept. Proj.
Total revenue and grants	10.2	13.4	3.4	3.2	3.3	3.4	13.3
Total revenue	8.9	9.8	2.3	2.3	2.4	2.4	9.3
Current revenue	8.9	9.8	2.3	2.3	2.4	2.4	9.3
Domestic taxes	6.2	6.5	1.7	1.7	1.7	1.7	6.7
Customs duties	2.5	2.5	0.6	0.6	0.7	0.7	2.5
Other current revenue	0.1	0.8	0.0	0.0	0.0	0.0	0.1
Grants	1.3	3.6	1.1	0.9	1.0	1.0	4.0
Budget support	0.3	1.4	0.2	0.0	0.1	0.1	0.4
Project grants	1.0	2.2	0.9	0.9	0.9	0.9	3.6
Total expenditure	11.4	14.1	4.0	3.6	4.1	3.9	15.6
Current expenditure	7.9	9.6	2.6	2.2	2.5	2.3	9.6
Wages and salaries	2.9	3.5	1.2	0.9	0.9	0.9	3.9
Net Operations	3.2	2.3	0.6	0.5	0.8	0.6	2.5
Interest payments	0.8	0.7	0.2	0.2	0.2	0.2	0.9
External	0.5	0.4	0.1	0.1	0.1	0.1	0.4
Domestic	0.3	0.3	0.1	0.1	0.1	0.1	0.5
Transfers and subsidies	0.9	2.5	0.6	0.6	0.6	0.6	2.3
Other current expenditure 1/	-0.5	1.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	3.5	4.5	1.4	1.4	1.6	1.6	6.0
Domestically financed	2.2	1.3	0.2	0.1	0.3	0.3	0.9
Foreign financed	1.4	3.1	1.3	1.3	1.3	1.3	5.1
Current account balance							
Including current grants	1.4	1.6	-0.1	0.1	-0.1	0.1	0.1
Excluding grants	1.0	0.2	-0.3	0.1	-0.1	0.0	-0.3
Overall balance excl. capital exceptional outlays	-1.2	-0.6	-0.6	-0.4	-0.8	-0.6	-2.3
Exceptional outlays	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance							
Including grants	-2.4	-0.6	-0.6	-0.4	-0.8	-0.6	-2.3
Excluding grants	-3.7	-4.3	-1.7	-1.2	-1.7	-1.6	-6.3
Financing	2.4	0.6	0.6	0.4	0.3	0.3	1.6
External net financing	0.4	0.9	0.6	0.2	0.2	0.5	1.5
Loans (net)	-0.1	1.8	0.6	0.2	0.1	0.5	1.4
Disbursements	0.7	2.5	0.8	0.4	0.4	0.7	2.2
Budget support	0.3	1.6	0.4	0.0	0.0	0.3	0.8
Project loans	0.4	1.0	0.4	0.4	0.4	0.4	1.5
Amortization	-0.8	-0.7	-0.2	-0.2	-0.3	-0.2	-0.9
Arrears (Net)	0.6	-1.0	0.0	0.0	0.1	0.0	0.1
Accumulation	0.6	0.3	0.0	0.0	0.1	0.0	0.1
Reduction	0.0	-1.2	0.0	0.0	0.0	0.0	0.0
Internal net financing	2.0	-0.2	0.0	0.2	0.2	-0.2	0.1
o/w Banking system	2.0	-0.2	0.0	0.2	0.2	-0.2	0.2
BRH 2/	2.0	-0.2	0.0	0.2	0.2	-0.2	0.2
Commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.5	0.2	0.7
Memorandum items:							
Nominal GDP (millions of gourdes)	140,346	164,205	184,399	184,399	184,399	184,399	184,399

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

1/ Includes statistical discrepancy.

2/ Net BRH financing in 2005/06 is equal to central government's net savings accumulated at the BRH during 2004/05.

Table 4. Haiti: Summary Accounts of the Banking System

Fiscal Year Ending September 30

	2003/04	2004/05		2005/06			
	Sept.	June	Sept. Prog.	Dec. Prog. EPCAI	March Prog. EPCAI	June Proj.	Sept. Proj.
(In millions of gourdes)							
I. Central Bank							
Net foreign assets 1/	6,564	7,642	7,898	8,554	7,978	8,386	9,189
(In millions of U.S. dollars)	178	191	187	203	189	199	218
Net international reserves (program)	55	54	65	79	64	71	84
Commercial bank deposits	124	138	123	123	125	128	134
Net domestic assets	2,121	2,230	2,933	1,677	1,860	1,340	1,055
Credit to the nonfinancial public sector 2/	21,581	22,312	21,257	21,257	21,637	21,952	21,637
<i>Of which:</i> Credit to the central government	21,659	22,397	21,279	21,279	21,659	21,974	21,659
Liabilities to commercial banks	-21,253	-22,276	-21,542	-22,798	-22,995	-23,830	-23,800
<i>Of which:</i>							
Cash-in-vault and reserve deposits	-17,708	-16,680	-16,198	-16,321	-16,616	-16,993	-17,296
BRH bonds	-3,545	-5,596	-5,344	-6,478	-6,379	-6,837	-6,504
Other	1,793	2,195	3,218	3,218	3,218	3,218	3,218
Currency in circulation	8,685	9,872	10,831	10,231	9,838	9,726	10,244
II. Consolidated Banking System							
Net foreign assets	12,683	17,257	17,186	17,501	17,323	17,702	19,007
(In millions of U.S. dollars)	344	432	407	415	410	419	450
<i>Of which:</i> Commercial banks NFA	166	241	220	212	221	221	233
Net domestic assets	44,078	47,879	49,002	48,899	49,780	50,566	51,529
Credit to the nonfinancial public sector 1/	21,097	21,833	20,779	20,779	21,159	21,474	21,159
Credit to the private sector	21,142	23,812	25,199	25,096	25,597	26,068	27,346
In gourdes	10,893	12,768	13,058	12,849	13,183	13,338	13,907
In foreign currency	10,249	11,044	12,142	12,247	12,415	12,730	13,439
In millions of U.S. dollars	278	277	288	290	294	302	319
Other	1,839	2,234	3,024	3,024	3,024	3,024	3,024
Broad money	56,761	65,136	66,189	66,400	67,103	68,268	70,535
Currency in circulation	8,685	9,872	10,831	10,231	9,838	9,726	10,244
Gourde deposits	25,824	28,321	27,945	28,545	29,306	29,952	30,283
Foreign currency deposits	22,252	26,944	27,414	27,624	27,960	28,590	30,008
In millions of U.S. dollars	604	675	649	654	662	677	711
(Percentage change relative to broad money in the preceeding period) 3/							
Net foreign assets	-1.5	8.1	7.9	0.5	0.2	0.8	2.7
Net domestic assets	10.6	6.7	8.7	-0.2	1.2	2.4	3.8
Credit to the nonfinancial public sector 2/	4.6	1.3	-0.6	0.0	0.6	1.1	0.6
Credit to the private sector	3.4	4.7	7.1	-0.2	0.6	1.3	3.2
(12-month percentage change)							
Broad money	9.1	17.8	16.6	11.2	6.7	4.8	6.6
Currency in circulation	2.9	15.9	24.7	0.1	-1.2	-1.5	-5.4
Gourde deposits	17.9	13.6	8.2	8.8	6.1	5.8	8.4
Foreign currency deposits	2.6	23.4	23.2	18.8	10.4	6.1	9.5
Credit to the nonfinancial public sector 2/	12.8	8.2	-1.5	2.4	1.1	-1.6	1.8
Credit to the private sector	9.2	15.0	19.2	14.8	14.3	9.5	8.5
Credit in gourdes	7.3	15.5	19.9	10.8	9.7	4.5	6.5
Credit in foreign currency	11.2	14.3	18.5	19.3	19.7	15.3	10.7
Memorandum items:							
Base money (excl. BRH bonds)	21,837	21,055	21,856	21,339	21,178	21,325	21,878
12-month percent change	21.6	14.5	0.1	-6.3	-8.5	1.3	0.1
Gourde money (M2)	34,509	38,193	38,775	38,776	39,144	39,678	40,527
12-month percent change	13.7	14.2	12.4	6.4	4.2	3.9	4.5
End-of-period gourdes per U.S. dollar	37	..	..	..	..	..	..
Net international reserves in percent of broad money	11.6	11.7	11.9	12.9	11.9	12.3	13.0
Share in foreign currency (in percent)							
Bank deposits	46.3	48.8	49.5	49.2	48.8	48.8	49.8
Credit to the private sector	48.5	46.4	48.2	48.8	48.5	48.8	49.1
Commercial Bank USS loan / USS deposits	46.1	41.0	44.3	44.3	44.4	44.5	44.8

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

1/ Includes commercial banks' foreign currency deposits. For program monitoring, they are excluded from net international reserves.

2/ Excludes special accounts.

3/ For all quarters, percentage change is calculated relative to the previous September.

Table 5. Haiti: Balance of Payments

(In millions of U.S. dollars; unless otherwise indicated)

	2002	2003	Prel. 2004	Proj. 2005	Proj. 2006
Current account deficit (-) (excluding grants)	-168.1	-141.0	-97.9	-325.5	-453.5
Trade balance (deficit -)	-709.4	-785.4	-809.9	-1,131.0	-1,277.5
Exports, f.o.b.	273.2	330.4	372.7	415.9	443.7
<i>of which:</i> Assembly industry exports	220.8	278.1	319.0	349.6	373.0
Imports, f.o.b.	-982.6	-1,115.8	-1,182.6	-1,546.9	-1,721.2
<i>of which:</i> Petroleum products	-157.3	-146.3	-218.0	-329.0	-421.3
Services (net)	-92.6	-152.1	-204.9	-214.1	-239.6
Receipts	163.7	130.9	131.7	160.0	176.6
Payments	-256.3	-283.0	-336.6	-374.1	-416.2
Income (net)	-15.2	-14.3	-14.1	-23.3	-31.5
<i>of which</i>					
Interest payments	-13.5	-14.7	-17.7	-18.0	-18.5
Private transfers (net) 1/	649.0	810.8	931.0	1,042.9	1,095.0
External grants	135.1	137.2	113.1	348.0	388.8
Current account deficit (-) (including grants)	-33.0	-3.7	15.2	22.5	-64.7
Capital and financial accounts (deficit -)	-35.4	-7.2	17.9	28.2	59.0
Public sector capital flows (net)	-8.0	23.8	-4.6	74.6	50.9
Loan disbursements	13.0	49.6	24.0	108.4	89.7
Amortization	-21.0	-25.8	-28.6	-33.8	-38.8
Banks (net) 2/	3.1	-46.8	29.0	-53.7	-11.9
Direct investment	4.7	7.8	5.9	7.4	20.0
Other 3/	-35.3	8.0	-12.4	0.0	0.0
Overall balance (deficit -)	-68.5	-10.9	33.0	50.7	-5.7
Financing	68.5	10.9	-33.0	-50.7	-24.9
Change in net international reserves (increase -) 4/	41.0	9.7	-52.8	-8.8	-30.7
Change in arrears (reduction -)	27.4	1.3	19.8	-41.9	5.9
Rescheduling	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	30.6
Memorandum items:					
Current account balance, excluding grants (in percent of GDP)	-4.9	-4.8	-2.8	-7.5	-10.3
Current account balance, including grants (in percent of GDP)	-1.0	-0.1	0.4	0.5	-1.5
Exports (f.o.b) growth	-10.5	21.0	12.8	11.6	6.7
Import (f.o.b) growth	-6.9	13.6	6.0	30.8	11.3
External debt as percent of exports	280.0	281.8	261.0	235.9	219.1
NPV of external debt as percent of exports	200.9	195.9	186.8	169.9	...
Debt service as percent of exports	7.9	8.8	9.2	9.0	9.2
Net foreign assets of the central bank (US\$ million)	135.1	125.5	178.3	187.1	217.8
Gross liquid international reserves (US\$ million) 4/	177.7	157.0	206.9	223.6	264.7
Gross international reserves (in months					
of imports of goods and services)	2.2	1.8	2.0	1.6	1.7
Gross liquid international reserves (in months					
of next year's imports of goods and services) 4/	1.5	1.2	1.3	1.3	1.4

Sources: Data provided by the central bank; and Fund staff estimates.

1/ Based on remittances transferred through authorized "transfer houses" and central bank, estimates of such transfers channeled through

2/ Excludes commercial banks' foreign currency deposits with the BRH.

3/ Includes short-term capital and errors and omissions.

4/ Includes commercial banks' foreign currency deposits with the BRH.

Table 6. Haiti: Medium-Term Scenario

	Prel.									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	
Real sector (annual percentage rate)										
Real GDP growth	-1.0	-0.5	0.5	-3.8	1.5	2.5	4.0	4.0	4.0	4.0
Inflation (CPI end-of-period)	12.3	10.1	42.5	22.5	15.0	10.0	8.0	7.0	7.0	6.0
Fiscal sector (in percent of GDP)										
Central government overall balance (including grants)	-2.4	-3.0	-3.5	-2.4	-0.6	-2.3	-1.6	-1.7	-1.6	-1.6
Total revenue and grants	8.0	8.5	9.1	10.2	13.4	13.3	14.4	14.9	16.0	16.0
Central government revenue	7.6	8.3	9.0	8.9	9.8	9.3	10.5	11.2	12.2	12.2
Central government expenditure 1/	10.4	11.5	12.6	12.6	14.1	15.6	16.0	16.6	17.6	17.6
Domestic financing	2.6	2.7	2.9	2.0	-0.2	0.1	0.0	0.0	0.0	0.0
External financing	-0.2	0.3	0.6	0.4	0.9	2.2	1.6	1.7	1.6	1.6
Monetary sector										
Growth in broad money	5.2	17.2	39.8	9.1	16.6	6.6	17.9	11.0	10.3	10.3
External sector (in percent of GDP)										
Trade balance	-20.9	-20.5	-26.6	-22.9	-26.2	-29.1	-27.0	-26.1	-24.8	-24.8
Services (net)	-3.0	-2.7	-5.1	-5.8	-5.0	-5.4	-5.6	-5.8	-5.7	-5.7
Income (net)	0.0	-0.4	-0.5	-0.4	-0.5	-0.7	-0.2	-0.1	0.0	0.0
Private transfers (net)	17.3	18.7	27.4	26.3	24.1	24.9	23.9	23.3	23.0	23.0
External grants	4.5	3.9	4.6	3.2	8.1	8.9	8.0	8.4	7.9	7.9
Current account (incl. official transfers)	-2.0	-1.0	-0.1	0.4	0.5	-1.5	-0.9	-0.3	0.5	0.5
Current account (excl. official transfers)	-6.5	-4.9	-4.8	-2.8	-7.5	-10.3	-8.9	-8.7	-7.4	-7.4
External financing gap	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0
<i>Of which:</i> Central government	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0
Liquid gross reserves (in millions of U.S. dollars)	227.3	177.7	157.1	206.9	223.6	264.7	306.1	386.4	510.1	510.1
In months of imports of the following year	2.2	1.5	1.2	1.3	1.3	1.4	1.6	1.9	2.4	2.4
Memorandum Items:										
Nominal GDP (millions of gourdes)	85,700	93,840	119,616	140,346	164,205	184,399	210,474	235,570	260,957	260,957

Sources: Haitian authorities; and Fund staff estimates.

1/ Includes exceptional outlays.

Table 7. Haiti: Indicators of Fund Credit, 2004-2009
(In fiscal years ending September 30)

	2004	2005	2006	2007	2008	2009
Outstanding Fund credit 1/						
In millions of SDRs	7.6	14.8	22.0	20.5	17.9	12.8
In millions of gourde 2/	446.1	843.5	1377.8	1283.8	1123.5	802.5
In percent of quota	9.3	18.1	26.9	25.0	21.9	15.6
In percent of GDP	0.3	0.5	0.7	0.6	0.5	0.3
In percent of exports of goods and services	2.2	3.8	5.3	4.7	4.0	2.6
Debt service to the Fund 3/ 4/						
In millions of SDRs	5.0	3.3	3.4	1.9	2.9	5.5
In millions of gourde 2/	294.8	190.3	212.3	116.4	181.5	341.7
In percent of quota	6.1	4.1	4.1	2.3	3.5	6.7
In percent of GDP	0.2	0.1	0.1	0.1	0.1	0.1
In percent of exports of goods and services	1.5	0.9	0.8	0.4	0.6	1.1
In percent of debt service due	16.0	9.7	8.8	5.4	7.6	13.9
In percent of net international reserves	13.6	7.8	6.0	2.4	2.4	2.8
Net use of Fund credit						
Disbursements	-4.9	7.2	7.2	-1.5	-2.6	-5.1
Repayments	0.0	10.2	10.2	0.0	0.0	0.0
	4.9	3.0	3.0	1.5	2.6	5.1

(In millions of SDRs)

Sources: IMF, Finance Department, and staff projections.

1/ Includes the 12.5 percent of quota disbursement under the emergency post-conflict assistance.

2/ For 2006-09, converted at the program exchange rate (42 gourdes per U.S. dollar).

3/ Including SDR charges.

4/ After subsidization of GRA charges.

Table 8. Haiti: Stock of Arrears and Projected Debt Service, 2000-2005 1/
(Fiscal year ending September 30, in millions of U.S. dollars)

	2000	2001	2002	2003	2004 Est.	2005 Proj.
Total arrears	6.0	17.8	50.9	52.1	78.1	34.7
Multilateral Creditors	2.1	11.2	39.0	33.3	49.2	0.0
IDB	0.2	4.0	19.6	0.0	0.0	0.0
IDA-WORLD BANK	0.8	6.1	19.0	32.4	49.2	0.0
IMF	0.2	0.0	0.0	0.0	0.0	0.0
Other (OPEC and FIDA)	0.9	1.1	0.4	0.9	0.0	0.0
Bilateral Creditors	3.9	6.6	11.9	18.8	28.9	34.7
Projected debt service 2/	...	...	...	...	...	56.3
Multilateral creditors	...	...	...	...	...	46.2
IDB	...	...	...	...	...	21.6
IDA-WORLD BANK	...	...	...	...	...	16.8
IMF	...	...	...	...	...	4.8
Other (OPEC and FIDA)	...	...	...	...	...	3.0
Bilateral Creditors	...	...	...	...	...	10.1

Sources: BRH; and staff projections

1/ Data on the stock of arrears do not match the flow data as both are subject to data reconciliation.

2/ Excluding arrears reduction.

Table 9. Haiti: Donor Pledges and Disbursements, 2004-06
(In millions of US dollars) 1/

	Donor Pledges 2/	Jul-Sept. 2004 Estimate	FY 2004/05 Prov.	FY 2005/06 Proj.	Jul. 2004- Sept. 2006 Proj.
Donor support	1,084.6	54.2	270.0	307.8	632.0
Bilateral	366.4	39.3	107.9	123.1	270.3
Canada 3/	88.4	4.7	36.6	53.4	94.7
France	33.3	4.0	8.3	10.1	22.4
Germany	13.5	0.0	2.4	3.9	6.3
United States	206.6	26.8	39.4	37.7	103.9
Other	24.6	3.8	21.2	18.0	43.0
Multilateral	718.2	14.9	162.1	184.7	361.6
European Union	288.2	5.4	33.0	69.5	107.9
IDB	263.0	9.5	74.1	74.1	157.6
IFAD	12.0	0.0	1.5	5.3	6.8
World Bank	155.0	0.0	53.5	35.9	89.4
Memo items					
Budgetary support	...	12.0	130.0	50.2	192.2
European Union	...	0.0	0.0	0.0	0.0
IDB	...	0.0	39.3	25.0	64.3
World Bank	...	0.0	46.8	14.6	61.4
Canada	...	0.0	12.7	0.0	12.7
France	...	0.0	0.8	1.2	2.0
Spain	...	0.0	0.0	2.4	2.4
United States	...	12.0	30.4	7.0	49.4

Sources: Donors; and staff estimates and projections.

1/ Excluding humanitarian relief, financing of the United Nations contingent in Haiti, and deferred debt service to France, Italy, and Spain.

2/ Pledged at the July 2004 donor conference in Washington D.C.

3/ Subsequent to the July 2004 donors conference, Canada's pledge was increased to 180 million Canadian dollars.

Table 10. Haiti: Budgetary Financing, by Donor and Type 1/

	Cash Budget Support (A)		Debt Service Payments (B)		Net Transfers Cash Basis (A-B)		Project Loans and Grants (C)		Net overall transfers (A+C-B)											
	2003/04	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04	2004/05										
	(Jul-Sept.)	(Jul-Sept.)	(Jul-Sept.)	(Jul-Sept.)	(Jul-Sept.)	(Jul-Sept.)	(Jul-Sept.)	(Jul-Sept.)	(Jul-Sept.)	(Jul-Sept.)										
Bilateral and multilateral	20.1	136.4	55.0	211.5	32.4	101.5	56.8	190.6	-12.3	34.9	-1.8	20.9	48.6	136.1	221.8	406.5	36.3	171.0	220.1	427.3
Bilateral creditors	20.1	50.3	15.4	85.8	10.2	10.1	9.0	29.2	10.0	40.2	6.5	56.6	33.2	64.0	85.9	183.2	43.2	104.2	92.4	239.7
Canada 2/	0.0	12.7	0.0	12.7	0.1	0.1	0.0	0.2	-0.1	12.6	0.0	12.5	4.7	23.9	40.8	69.4	4.6	36.5	40.8	81.9
France 3/	5.5	5.4	4.8	15.7	5.5	4.7	3.6	13.7	0.0	0.8	1.2	2.0	4.0	7.5	8.9	20.4	4.0	8.3	10.1	22.4
United States	12.0	30.4	7.0	49.4	1.1	1.0	1.2	3.3	10.9	29.4	5.8	46.1	14.8	9.0	16.7	40.5	25.7	38.4	22.5	86.6
Taiwan	0.0	0.0	0.0	0.0	0.9	2.6	2.7	6.2	-0.9	-2.6	-2.7	-6.2	5.9	14.1	9.7	29.7	5.0	11.5	7.0	23.5
Others 3/	2.6	1.7	3.6	8.0	2.6	1.7	1.5	5.9	0.0	0.0	2.2	2.2	3.8	9.4	9.8	23.1	3.8	9.4	11.9	25.2
Multilateral creditors	0.0	86.1	39.6	125.7	22.2	91.4	47.8	161.4	-22.2	-5.3	-8.2	-35.7	15.4	72.0	135.9	223.3	-6.8	66.8	127.7	187.6
IDB	0.0	39.3	25.0	64.3	19.9	19.7	27.0	66.6	-19.9	19.6	-2.0	-2.3	9.5	34.8	49.1	93.4	-10.4	54.4	47.1	91.1
EU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.4	29.1	60.3	94.7	5.4	29.1	60.3	94.7
World Bank 4/ <i>of which</i>	0.0	46.8	14.6	61.4	0.0	68.7	17.7	86.4	0.0	-21.8	-3.2	-25.0	0.0	6.7	21.3	28.0	0.0	-15.2	18.1	3.0
Arrears clearance	0.0	46.8	0.0	46.8	0.0	52.6	0.0	52.6	0.0	-5.8	0.0	-5.8								
Other	0.0	0.0	14.6	14.6	0.0	16.1	17.7	33.8	0.0	-16.1	-3.2	-19.2								
Other	0.0	0.0	0.0	0.0	2.3	3.0	3.1	8.4	-2.3	-3.0	-3.1	-8.4	0.5	1.5	5.3	7.3	-1.8	-1.5	2.2	-1.2
Memorandum item:																				
IMF	0.0	15.1	14.9	30.1	4.8	4.8	5.1	14.7	-4.8	10.4	9.8	15.3	0.0	0.0	0.0	0.0	-4.8	10.4	9.8	15.3

Sources: Haitian authorities; and Fund staff estimates.

1/ In fiscal years (October- September), unless otherwise noted; excludes humanitarian assistance.

2/ Includes funds for clearance of arrears to the World Bank.

3/ Includes informal deferral of debt service to France, Italy, and Spain granted in early 2005 (until a PRGF program is in place).

4/ Disbursements consist of 60 percent concessional loans and 40 percent grants; does not include possible new financing that is not yet identified.

Table 11. Haiti: Millennium Development Goals

	1990	1995	2001	2002	2003	Target 2015
Goal 1. Eradicate Extreme Poverty and Hunger						
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.						
1. Population below US\$1 a day (in percent)						76
2. Poverty gap ratio at US\$1 a day (in percent)						55
3. Share of income or consumption held by poorest 20 percent (in percent)						
Target 2: Halve, between 1990 and 2015, the proportion of people suffering hunger.						
4. Prevalence of child malnutrition (percent of children under 5)	26.8	27.5	17.3			13.4
5. Population below minimum level of dietary energy consumption (in percent)	65.0	60.0	49.0			32.5
Goal 2. Achieve Universal Primary Education						
Target 3. Ensure that, by 2015, children will be able to complete a full course of primary schooling.						
6. Net primary enrollment ratio (percent of relevant age group)	22.1	56.1				100
7. Percentage of cohort reaching grade 5						
8. Youth literacy rate (percent ages 15-24) 1/	54.8	59.7	65.3	66.2	66.2	
Goal 3. Promote Gender Equality and Empower Women						
Target 4. Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015.						
9. Ratio of girls to boys in primary and secondary education (percent)	94.6					100
10. Ratio of young literate females to males (percent ages 15-24)	96.3	98.6	100.8	101.1	101.1	100
11. Share of women employed in the nonagricultural sector (percent)	39.5					
12. Proportion of seats held by women in the national parliament (percent) 1/			4	4	4	
Goal 4. Reduce Child Mortality						
Target 5. Reduce by two-thirds, between 1990 and 2015, the under five mortality rate.						
13. Under-five mortality rate (per 1,000)	150	137	125	123	118	50
14. Infant mortality rate (per 1,000 live births)	102	91	81	79	76	
15. Immunization against measles (percent of children under 12 months)	31	49	53	53	53	
Goal 5. Improve Maternal Health						
Target 6. Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.						
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,000	1,100	680			250
17. Proportion of births attended by skilled health personnel	23	19.5	23.8			

Table 11. Haiti: Millennium Development Goals

	1990	1995	2001	2002	2003	Target 2015
Goal 6. Combat HIV/AIDS, Malaria, and Other Diseases						
Target 7. Halt by 2015, and begin to reverse, the spread of HIV/AIDS.						
18. HIV prevalence among females (percent ages 15-24)			5.5			5.6
19. Contraceptive prevalence rate (percent of women ages 15-49)	11	17.6	28.1			
20. Number of children orphaned by HIV/AIDS			200,000			
Target 8. Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases.						
21. Prevalence of death associated with malaria						
22. Share of population in malaria risk areas using effective prevention and treatment						
23. Incidence of tuberculosis (per 100,000 people)	604		433	409		386
24. Tuberculosis cases detected under DOTS (percent)		2	31	41.2		46
Target 9. Integrate the principles of sustainable development into policies and programs. Reverse the loss of environment resources.						
25. Forest area (percent of total land area)	5.7		3.2			
26. Nationally protected areas (percent of total land area)		0.4	0.4	0.4		
27. GDP per unit of energy use (PPP \$ per Kg oil equivalent)	7.7	6.2	6.4	6.4		
28. CO2 emissions (metric tons per capita)	0.2	0.1	0.2	0.2		
29. Proportion of population using solid fuels						
Target 10. Halve by 2015 proportion of people without access to safe drinking water.						
30. Access to improved water source (percent of population)	53		46	71		76.5
Target 11. Achieve by 2020 significant improvement for at least 100 million slum dwellers.						
31. Access to improved sanitation (percent of population)	23		28	34		
32. Access to secure tenure (percent of population)						66.2
Goal 8. Develop a Global Partnership for Development 2/						
Target 16. Develop and implement strategies for productive work for youth.						
45. Unemployment rate of population ages 15-24 (total)						
Female						
Male						
Target 17. Provide access to affordable essential drugs.						
46. Proportion of population with access to affordable essential drugs						
Target 18. Make available new technologies, especially information and communications.						
47. Fixed line and mobile telephones (per 1,000 people)	6.9	8.4	20.7	32.5		55.2
48. Personal computers (per 1,000 people)						

Sources: World Bank; UN Statistics Division; and Fund staff estimates.

1/ Data for 2004 are the same as 2003 data.

2/ Targets 12-15 and indicators 33-44 are excluded because they cannot be measured on a country specific basis. These are related to official development assistance, market access, and HIPC initiative.

Port-au-Prince, Haiti
October 5, 2005

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

Dear Mr. de Rato:

1. During its first year in office, the transition government of Haiti implemented a prudent macroeconomic policy that helped to stabilize the economy and carried out several measures to strengthen key institutions and governance in order to address the aftermath of an armed political conflict in early 2004. In the period leading to the handover of power to the elected government, we remain committed to making progress toward restoring security and rebuilding administrative and institutional capacity. However, Haiti needs continued assistance from the international community if it is to consolidate the progress achieved so far and to continue to fully address the longstanding structural issues that have hampered sustained economic growth and to strengthen the still-vulnerable external position.
2. The government has worked with the international community to restore security and revive economic activity. The Haitian National Police and the United Nations Mission for the Stabilization of Haiti (MINUSTAH) have been working together to improve security and prepare the ground for fair and safe elections. On the economic front, over the period April 2004–March 2005 we have successfully implemented a Staff Monitored Program followed by an Emergency Post-Conflict Assistance (EPCA) supported program. During this period, we have met all quantitative targets under both programs and made progress on key structural measures. We expect to meet most of the program's objectives by end-September 2005. Also, progress has been achieved in implementing an Interim Cooperation Framework (ICF) for the period July 2004–September 2006, prepared jointly by the government and the international community. However, disbursements of donor assistance have been slower than anticipated, and although more recently the situation has improved, security remains a prime concern. These challenges required modifications in our macroeconomic policies, which are outlined in the attached Memorandum of Economic and Financial Policies (MEFP).
3. The government's program follows the principal objectives of the previous EPCA-supported program. In particular, it seeks to: (i) strengthen security and prepare national elections in late 2005; (ii) consolidate the stabilization gains and create conditions

for economic recovery and reconstruction of government and social infrastructure; (iii) enhance governance and institutional capacity of public administration; (iv) improve access to basic services; and (v) create employment for the unskilled and for displaced populations. The financial objectives of the proposed program are consistent with our firm resolve to avoid central bank financing of the government's budget and to strengthen Haiti's external position. The government believes that the policies outlined in the attached MEFP are adequate to achieve the objectives of its economic and financial program, but it will take any further measures that may become necessary for this purpose. Already, it has completed the key policy actions defined in its discussions with Fund staff, and it has decided to delay the consideration of any salary adjustments until the completion of the public employment census at the earliest.

4. In order to facilitate the implementation of the program and address the vulnerable balance of payments position, the government of Haiti requests assistance under the IMF's EPCA policy in an amount of SDR 10.245 million, equivalent to 12.5 percent of quota, consistent with our balance of payments needs and with the annual limit of access to EPCA of 25 percent of quota. This EPCA-supported macroeconomic program would extend until March 2006 when the newly-elected government will take office. At that time, the newly-elected government will be in a position to agree on a program that could be supported by the Fund's Poverty Reduction and Growth Facility (PRGF). We expect negotiations on a PRGF to begin in early 2006.

5. Haiti will consult with the Fund on the implementation of the program and any revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. The government will communicate to the IMF all the information needed to monitor progress in implementing the program.

Sincerely,

/s/

Henri Bazin
Minister of Economy and Finance
Haiti

/s/

Raymond Magloire
Governor
Bank of the Republic of Haiti

HAITI—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

FOR OCTOBER 2005—MARCH 2006

I. BACKGROUND

1. The extended political conflict that resulted in an armed rebellion and led to a change in government in March 2004 continues to affect the economic, social and political situation in Haiti. While substantial progress has been achieved in stabilizing the economy and the government's authority has essentially been restored throughout the country, Haiti's institutional and administrative capacity remains weak. Moreover, security concerns and low business confidence persist, hindering the rebuilding of the country's economic and social infrastructure, and large portions of Haiti's population remain in highly fragile conditions.

2. The transition government requested international assistance in stabilizing the economy and restoring security, with a view to creating conditions for fair and safe elections in late 2005. The international community responded by pledging US\$1.1 billion in new external assistance for the period July 2004–September 2006 to support a broad reform and development program, detailed in the Interim Cooperation Framework (ICF), aimed at restoring security and promoting national dialogue, strengthening key institutions and governance, promoting economic recovery, and improving access to basic services. A macroeconomic framework guiding our policies and enabling donor assistance was established by a six-month Staff Monitored Program (SMP) implemented during April–September 2004, followed by an Emergency Post-Conflict Assistance (EPCA) supported program covering the period October 2004–September 2005.

3. As the country prepares for national elections scheduled for November–December 2005 and for political transition in early 2006, the transition government seeks the continued support of the international community to build on the stabilization gains achieved to date, strengthen administrative and institutional capacity, and implement policies conducive to national reconciliation and economic recovery. A macroeconomic program supported by the IMF's Emergency Post-Conflict Assistance is a critical element in the recovery effort.

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

4. Economic recovery has been significantly weaker than expected, reflecting the delays in donor project disbursements and the impact of insecurity on business confidence. The prospects for growth were further constrained by the low availability of external resources. As a result, the macroeconomic framework for 2004/05 has been revised, reflecting economic recovery below expectations, rising international petroleum prices, and the original program's targets for inflation and NIR have had to be eased. Real GDP growth is now targeted at 1.5 percent, the decline in consumer price inflation at about 15 percent (end of period), and the increase in NIR at US\$65 million.

5. Following an extended period of falling inflation and broad exchange rate stability, consumer prices increased by 6.2 percent during April–August 2005, the gourde has come under pressure and net international reserves (NIR) of the central bank (BRH) declined to below US\$50 million in July. The increased balance of payments pressures stemmed largely from higher international prices for Haiti’s fuel imports, capital outflows, and negative net flows from tourism. However, aided by recent disbursements of budgetary assistance, NIR rebounded to about US\$73 million by mid-September 2005.

6. Against the backdrop of lagging economic recovery, lower-than-anticipated donor disbursements, and persistent security concerns, the government, seeking to address the country’s critical needs, released in June 2005 a supplementary budget that envisaged an increase and re-prioritization of expenditures during June–September 2005. However, in view of weak revenue performance and the absence of additional external financing, the government moved expeditiously to implement a set of budget adjustments, including reductions in capital expenditures in order to reduce the fiscal deficit to a level consistent with its commitment to avoid central bank financing.

7. Policy corrections have been introduced in recent months, and, together with a very strong revenue performance in August, have brought our fiscal program back on track. However, most of quantitative benchmarks of the EPCA-supported program were missed for end-June 2005, and several end-September targets are not expected to be met, in large part due to exogenous shocks affecting the economy. By contrast, all structural benchmarks under the EPCA-supported program have already been implemented. In particular:

- a census of employment has been completed in 68 ministries and public sector entities, resulting in the elimination of more than 1,000 workers from public sector payrolls;
- a survey of domestic arrears on wages and salaries, goods and services, and investment is underway, and the three notices inviting the public to register their claim on the government were published by July 2005;
- spending through discretionary current accounts has been limited to just 4 percent of budgetary credits for nonwage spending, well below the 10 percent program ceiling;
- the Anti-Corruption Unit has been operational since last November;
- the pre-audits of the state-owned telephone company, Teleco, and electricity company, EDH, have been initiated;
- requests for offers for audits of the remaining three public sector enterprises (the metropolitan Port-au-Prince water utility, CAMEP; the national airport authority, AAN; and the national seaport authority, APN) were published;
- arrears to the World Bank have been cleared, and selected Paris Club creditors have granted Haiti an informal deferral of debt-service obligations;

- an IMF safeguards assessment and the external audit of the BRH's accounts have been completed;
- surveillance of cooperatives by the BRH has been strengthened;
- the BRH has developed formal internal procedures for the compilation and reporting of monetary program data to the IMF consistent with the Technical Memorandum of Understanding;
- the central government accounts for 2002/03 have been submitted to the Cour Supérieure des Comptes et du Contentieux Administratif (CSCCA) for their audit;
- the executive order (*arrête*) ending systematic a priori controls by the CSCCA was prepared by the Minister of Economy and Finance and approved by the Council of Ministers in June 2005 and the controls were eliminated as of July 1, 2005;
- the MEF-BRH working group on program monitoring has met regularly since November 2004;
- the list of businesses and the financial benefits received by them from the Industrial Development Fund (FDI) and Banque National de Credit (BNC) have been published on the Ministry of Economy and Finance (MEF) website; and
- a new CPI (with August 2004 base) was introduced in June 2005.

III. THE POST-CONFLICT PROGRAM FOR OCTOBER 2005–MARCH 2006

8. The transition government's program for October 2005–March 2006 seeks to complete the political transition while consolidating the macroeconomic stabilization achieved to date. The key objectives of the program continue to be to reinforce security and prepare the national elections, create conditions for economic recovery, enhance governance and institutional capacity of the government, create employment and improve access to basic services for the unskilled and for displaced populations. These objectives have also guided the preparation of the budget for FY2005/06, which has been subject to consultations with political parties and the civil society. The transition government is determined to implement this program and requests continued support from the IMF under its EPCA policy. We are also seeking continued support from other development partners that pledged assistance in July 2004 under the ICF and reconfirmed their support at two donors' meetings, first in Cayenne, French Guyana, in March 2005, then in Montreal, Canada, in June 2005.

Objectives and Macroeconomic Framework

9. The macroeconomic framework for 2005/06 targets real GDP growth of 2.5 percent, inflation of 10 percent, and an increase in NIR to US\$84 million. The central government's

budget deficit in 2005/06 will be financed without any recourse to BRH credit. We are committed to prioritizing expenditures to support key social and investment programs and enhance transparency and accountability of public sector operations within a budget whose deficit will be financed fully by external resources.

10. The key economic objectives of the program are summarized below:

Haiti: Key Economic and Financial Indicators

	Fiscal Year Ending September 30			
	2004/05	2005/06		
	Prel.	Oct.-Dec. Prog.	Jan.-March Prog.	Oct.-Sept. Proj.
(Annual percentage change)				
GDP at constant prices	1.5	...	...	2.5
Consumer prices (12-month, end-of-period)	15.0	...	...	10.0
(In percent of GDP, unless otherwise indicated)				
External current account balance (excluding grants)	-7.6	...	...	-10.3
Net international reserves (millions of U.S. dollars) 1/	64.5	79.2	64.0	83.6
Central government overall balance (including grants)	-0.6	-0.6	-0.4	-2.3
Central government overall balance (excluding grants)	-4.3	-1.7	-1.2	-6.3
Central bank financing of the government	-0.2	0.0	0.2	0.2

1/ Excludes commercial banks' foreign currency deposits with the BRH.

11. The success of the government's macroeconomic stabilization policy in 2005/06 is highly dependent on the improvement of the security conditions, smooth political transition following the elections, and timely donor assistance.

Fiscal Policy

12. The macroeconomic framework for 2005/06 is based on a real GDP growth of 2.5 percent, and inflation of 10 percent. These growth and inflation objectives are consistent with the net external financing of the budget of 5.5 percent of GDP with domestic revenues—at 9.3 percent of GDP. A draft of the budget will be submitted for discussion by the Council of Ministers in time to enable its approval by end-September 2005.

13. Revenues are projected to increase to G17.2 billion (9.3 percent of GDP). To ensure that the projected revenue levels are achieved as envisaged, the income tax law and the vehicle registration tax will be updated, the authorities will also simplify customs procedures, strengthen tax administration, assure tighter control in the granting of fiscal exonerations, make operational the two customs control points along the national highways leading to Port-

au-Prince from the north (from the ports of Gonaïves and Saint-Marc) and from the south (from the ports of Miragoane and Petit-Goave), strengthen the customs inspection brigades, continue the fight against fiscal fraud and tax evasion, reinforce business tax verification and control procedures for the delivery of fiscal discharges (*quitus fiscal*), intensify the pursuit of tax delinquents, apply strictly the law dealing with the recovery of tax arrears, oblige taxpayers to produce their income tax returns as condition for all administrative formalities, and reinforce the administrative structures of the DGI and of the AGD.

Haiti: Central Government Budget
(In percent of GDP)

	Fiscal Year Ending September 30			
	2004/05	2005/06		
		Prel.	Oct.-Dec. Prog.	Jan.-March Prog.	Oct.-Sept. Proj.
Revenue	9.8	2.3	2.3	9.3
Expenditure	14.1	4.0	3.6	15.6
Wages and salaries	3.5	1.2	0.9	3.9
Net operations	2.3	0.6	0.5	2.5
Transfers and subsidies	2.5	0.6	0.6	2.3
Capital outlays	4.5	1.4	1.4	6.0
Overall balance, including grants	-0.6	-0.6	-0.4	-2.3
Overall balance, excluding grants	-4.3	-1.7	-1.2	-6.3
Central bank financing	-0.2	0.0	0.2	0.2
Financing gap	0.0	0.0	0.0	0.7

14. Key assumptions for budget expenditures in 2005/06 are as follows: (i) total central government expenditures will be contained at 28.8 billion (15.6 percent of GDP), without any recourse to central bank financing; (ii) wages and salaries will increase to G7.1 billion (3.9 percent of GDP, from 3.5 percent in 2004/05); goods and services (net operations) will increase to G4.5 billion; (iii) transfers and subsidies to public and non-profit entities will amount to G4.2 billion, allowing for a decline in real terms based on expected improvement in their efficiency; (iv) transfers to the EDH are programmed at G178 million per month to cover the supply of fuel consistent with planned electricity production; (v) capital expenditures will increase to G11.0 billion (6.0 percent of GDP from 4.5 percent in 2004/05), of which domestically-funded projects and counterpart funds for foreign-financed projects will amount to G1.7 billion. The budget will include resources to recapitalize the BRH, as discussed below.

15. The authorities are committed to improving public financial management and revenue administration. In this respect, they welcome the recommendations of the recent missions of

the IMF's Fiscal Affairs Department. To improve revenue collection, the government will ensure that each taxpayer has a unique Fiscal Identification Number (NIF), reinforce the use of central taxpayer file based on the NIF starting in October 2005 and agree on a strategy to monitor progress. The government will also start implementing in October 2005 an operational plan to implement pre-shipment verification to all ports of entry and borders of Haiti. To strengthen and unify the budget formulation process, the new budget nomenclature will be used for all revenues and for current expenditures. To ensure transparency of the budget and its execution, the post "autres interventions publiques" are being limited to 2 percent of domestically-financed spending, while discretionary spending through ministerial current accounts will remain below 10 percent of budget non-wage credits.

16. In managing the budget, the periodic daily programming has been abolished and the monthly Tableau des Opérations Financières de l'Etat (TOFE) will be used for making decisions on cash spending and approval of spending requisitions. The government will establish a list of priority and non-priority expenditures and rank expenditures within these categories. This list will be used for limiting expenditure approvals should short-term revenue collection under-perform relative to monthly targets. The authorities have been consulting with the IMF staff on significant modifications to budget implementation.

Monetary and Exchange Rate Policy

17. Our strategic objective is to bring inflation down to single-digit levels and to reduce external vulnerability by increasing net international reserves. Consistent with this objective:

- For 2005/06, we target a decline in inflation to 10 percent (end-of-period) and an increase in net international reserves of the BRH to US\$84 million.
- The BRH has established ceilings on its net domestic assets and to ensure that the program's external and inflation objectives can be met, it will adjust interest rates and issue its bonds, as appropriate, to control liquidity; interest rates will be raised to positive levels in real terms. In consultation with the IMF and with its technical assistance, the BRH will introduce a weekly price-based auction for its bonds tailored to specific institutional characteristics of Haiti and establish a formal quarterly macroeconomic forecasting model and weekly liquidity forecasts starting in December 2005.
- The BRH will avoid foreign exchange market intervention, except for meeting its quarterly program NIR target.
- The BRH will consult with the IMF staff on foreign exchange market developments and central bank policies.

18. The government recognizes the need to address BRH losses and increase its independence. Interest charges on outstanding BRH credit to the central government are below market levels and do not provide adequate return to cover the operational costs of the central bank. In the near term, the central government will agree with the BRH on monthly

payments for outstanding credit that would cover its operational costs. The government and BRH will finalize by end-December 2005 a recapitalization plan for the central bank. Specifically, if the central government budget cannot accommodate the full cost of recapitalization, the government will seek donor assistance or will implement the plan over 2-3 years, consistent with the available resources. As a first step, agreement has been reached on an increased level of payments by the Treasury to the BRH.

19. A revised draft of a new central bank law that would establish the independence of the central bank has been prepared. Also, a revised draft banking law has been submitted to commercial banks for their comments. It is envisaged that both drafts would be finalized by the time a new parliament is constituted. The BRH will consult with IMF staff and if needed, request technical assistance from the Fund.

20. The accounting function within the BRH is being strengthened by (i) BRH management adopting a decision to either centralize the accounting reconciliation function or make the accounting staff in all departments functionally responsible to the bank's Finance Department, (ii) instructing the bank's International Operations Department to record all off-balance sheet items in the BRH's accounting system, and (iii) developing a formal timetable and detailed instructions for the monthly financial closing process.

21. To communicate the orientation of monetary policy and receive feedback, the BRH will continue monthly briefing sessions between the BRH and the banking sector and introduce quarterly briefings for the private sector. The BRH Board approved in August 2005 the internal audit charter to enable the Internal Audit Unit to increase its effectiveness in performing its mission.

22. The BRH will continue to monitor the financial condition of commercial banks and will strengthen its oversight of certain banks whose financial position has weakened in recent weeks. The BRH will also strengthen surveillance of cooperatives, including by expanding on-site inspections.

Structural Reforms and Governance

23. The government remains committed to improving public sector governance and transparency, and addressing institutional weaknesses. Although the administrative and institutional capacity in certain ministries and in the provinces remains disrupted, key ministries and the central bank have largely preserved their capacity to conduct their work and we intend to continue to implement the structural measures in line with our past and present commitments. In particular:

- By end-December 2005, the authenticity of the identified domestic payment arrears of the central government will be verified and a definitive strategy to clear them will be prepared by March 2006.

- The government is committed to achieving full accountability and transparency in the electricity sector. Accordingly: (i) a mechanism for continuous monitoring of the use of budgetary transfers to the EDH consistent with the targets for electricity supply will become operational starting in October 2005, and information on government transfers and on associated electricity production will be published monthly and an independent audit of this mechanism will be put in place by end-October 2005; (ii) competitive acquisition procedures will be applied to existing contracts for electricity production upon their expiry, and for converting protocols for electricity supply into contracts by end-December 2005; and (iii) the pre-audit of EDH will be completed by end-December 2005, and the audit of the FY 2004/05 accounts, for which the request for manifestation of interest was launched on July 8, 2005, will begin by January 15, 2006 and be completed within three months.
- The 2003/04 pre-audit of Teleco will be completed by December 2005, and the 2004/05 audit of Teleco will be initiated by March 2006, with a projected completion date of June 2006.
- As for the three other public enterprises targeted for financial and management reviews, bids for the technical audit of CAMEP (Metropolitan Port-au-Prince Potable Water Authority) have been received and the requests for bids for the IDB-financed financial audit have been published in international press and the firm for technical and financial audit of CAMEP will be selected by mid-October 2005, and the audit initiated shortly thereafter. A firm for the financial audit of APN (Seaport Authority) will be selected by mid-October 2005. The financial audit of AAN (Airport Authority) is being carried out by a domestic firm for lack of donor financing for an international audit.
- The information on budget execution as well as the list of beneficiaries of government-backed programs for businesses that suffered losses during the early 2004 conflict and from June 2004 fires will continue to be published quarterly.
- A flexible price-setting mechanism for petroleum products (based on 1995 law and as reinstated in 2003) will continue to be implemented fully, to ensure that domestic prices move in line with international oil prices and to protect the central government revenue base.
- We will publish the audit report for the central government accounts of 2003/04 by December 2005. We will also publish the completed audits of the BRH for 2003/04.
- As in view of the present security situation and limited administrative capacity the census of employment has been completed largely based on attendance lists rather than actual head count, a full-fledged census will be implemented once the security situation allows and adequate resources are available.

24. We intend to publish the LOI and MEFP for this program to keep the public informed about the government's policies and objectives and to reaffirm our commitment to transparency and economic reform.

External Financing

25. Haiti continues to face substantial external financing needs as reconstruction of economic and social infrastructure requires a large volume of critical imports, while gross liquid official reserves of the BRH remain low. To help meet the projected financing requirements, while still increasing the BRH's official reserves, we are requesting a second purchase under the IMF's emergency assistance. We are also urgently seeking additional support from donors to meet the country's financing requirements, which cannot be met without additional external resources. In particular, we will:

- Seek support from donors especially for fuel supplies, and for elections. We will also seek to secure additional budgetary support to help cover Haiti's 2005/06 remaining external financing requirements.
- Request donor assistance in the preparation of capital investment projects for 2005/06. There are significant capacity constraints in line ministries that hamper preparation of projects that could be financed by donors. We will moreover work with the donor community to streamline and render more flexible their own procedures to assure a more rapid pace of disbursements.
- Strengthen aid coordination with donors. In particular, we are working with donors to improve the flow of information about on-going and planned projects to enhance aid coordination with the budget.

26. In consultation with IMF and World Bank staff, we have begun the external debt data reconciliation process.

Program Monitoring

27. Performance under the program will be monitored using quarterly indicative targets, structural indicative benchmarks and quarterly reviews. Indicative targets for end-December 2005, and end-March 2006, as specified in Table 1, relate to net international reserves and net domestic assets of the central bank; net domestic banking sector credit to the nonfinancial public sector; net central bank credit to the central government and total nonfinancial public sector; domestic arrears of the central government; external arrears accumulation; and nonconcessional external loans contracted or guaranteed by the central government. The definitions of these indicative targets are provided in the attached Technical Memorandum of Understanding (TMU). Data for program monitoring will be provided to Fund staff as stipulated in section III of the TMU. Given the uncertainty of the amount and timing of disbursement of budgetary assistance, our program includes two adjusters (see TMU). The

main policy actions envisaged under the program are listed in Table 2, including those constituting structural indicative benchmarks and prior actions.

28. The government will not impose restrictions on payments and transfers for international transactions, introduce new or intensify trade restrictions for balance of payments purposes, resort to multiple currency practices, or enter into bilateral payments agreements incorporating restrictive practices with other IMF members. Haiti will consult with the IMF periodically, in accordance with the IMF's policies on such consultations, concerning the progress made by Haiti in the implementation of policies and measures designed to address the country's balance of payments difficulties.

Table 1. Haiti: Indicative Targets, September 2005–March 2006 1/

	EPCA II 2/			
	Preliminary stock at end-September 2005	Cumulative flows since September 2005		
		Prog.	Actual	Prog.	Actual
		Dec. 05	March 06	
Net central bank credit to the NFPS (in millions of gourdes)	21,257	0	380	
<i>Of which:</i>				
Central Government	21,279	0	380	
Rest of NFPS	-23	0	0	
Net domestic banking sector credit to the nonfinancial public sector (in millions of gourdes)	20,779	0	380	
Net domestic assets of the central bank (in millions of gourdes)	8,120	-1,217	-970	
Domestic arrears of the central government	n.a.	0	0	
Nonconcessional external loans contracted or guaranteed by the central government				
(In millions of U.S. dollars)				
Up to one year	0	0	0	
Over one-year maturity	0	0	0	
Net international reserves of central bank (in millions of U.S. dollars)	65	15	-1	
External arrears accumulation (in millions of U.S. dollars) 3/	0	0	0	
Memorandum items: 4/				
Government total revenue (in millions of gourdes)	...	4,192	8,491	
Government total expenditure (in millions of gourdes)	...	7,367	13,970	

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

1/ Refer to technical memorandum for definitions of indicative targets.

2/ Program exchange rate of G42/US\$.

3/ To all creditors except those who agreed on debt service deferral.

4/ Not targets. Cumulative flows over the program period.

Table 2. Haiti: Prior Actions and Main Policy Actions Under the EPCA

Prior Actions	Status
Complete the census of employment in the National Police, Ministry of Health, and Ministry of Education for the Port-au-Prince metropolitan area.	Completed.
Publish in national newspapers an announcement giving to those with outstanding overdue claims on the government thirty (30) days to register with relevant ministries.	Completed. The three notices inviting the public to register their claim on the government were published by July 2005.
Publish quarterly information on budget execution and the list of beneficiaries of a government-backed program for businesses that suffered losses during the early 2004 conflict and from June 2004 fires.	Completed. The information is being published on the Ministry of Economy and Finance website.
Develop formal procedures within the BRH for the compilation and reporting of monetary program data to the IMF consistent with the Technical Memorandum of Understanding.	Completed.
Policy Actions	
Fiscal Policy	
Prepare the 2005/06 budget according to the new budget nomenclature for all revenues and for current expenditures.	Completed, with the exception of externally-financed projects, as these projects and their components were not readily available from donors.
Limit the amount budgeted for the "autres interventions publiques" post to 2 percent of domestically financed spending.	Completed.
Limit discretionary spending through ministerial current accounts to below 10 percent of budget non-wage credits.	This spending has been limited to just 4 percent of budgetary credits for non-wage spending.
Complete a comprehensive survey to identify domestic payment arrears of the central government (as of end-September 2004); verify, by end-December 2005, the authenticity of the reported arrears and establish, by end-March 2006, a strategy to clear past arrears.	The survey is underway.
CSCCA to launch an audit of the treasury accounts for 2003/04 by end-September 2005, with a view to completing and publishing the audit by December 2005.	CSCCA has started the audit of the Treasury accounts for 2003/04.
Extend computerized data collection at customs.	Ongoing.
Implement pre-shipment verification to all ports of entry and borders of Haiti by September 2005.	Ongoing. Implementation may be delayed due to insecurity.
Reinforce the use of central taxpayer file based on taxpayers' Fiscal Identification Number (NIF) by October 2005 and agree on a strategy to monitor progress.	A strategy has been worked out.

Table 2. Haiti: Prior Actions and Main Policy Actions Under the EPCA

Monetary and Financial Sector Policy	
Government and BRH to agree on broad parameters of a recapitalization plan for the bank by end-December 2005.	An ad hoc committee is working on the modalities. As a first step, payments to the BRH have been increased.
Reinstate conventional (price-based) auction for BRH bonds.	Timing of technical assistance is being finalized.
Strengthen surveillance of cooperatives, including by expanding on-site inspections.	Surveillance of cooperatives by the BRH has been strengthened.
Revise, by September 2005, a draft of a new central bank law that would establish independence of the central bank.	The draft has been revised.
Complete external audit of the 2003/04 BRH annual accounts by an international, reputable auditing firm by end-September 2005; the report to be subsequently published.	Completed. The report will be published in the BRH annual report.
The BRH Board to approve, by September 2005 the internal audit charter to enable the Internal Audit Unit to effectively perform its mission.	The BRH approved in August 2005 the internal audit charter.
Governance	
The Anti-Corruption Unit to launch investigation of the check distribution process by September 2005, and complete the investigation by March 2006.	A corruption investigation process has been launched by a private firm.
Complete the 2003/04 pre-audits of EDH and Teleco by December 2005; and initiate the 2004/05 audit of Teleco by March 2006.	Ongoing.
Launch the 2004/05 audits of CAMEP, AAN, and APN by end-December 2005.	The firm for technical and financial audit of CAMEP will be selected by mid-October 2005; the firm for the financial audit of APN will also be selected by mid-October 2005; and the financial audit of AAN is being carried out by a domestic firm.
Other	
Continue to implement a flexible price-setting mechanism for petroleum products.	Ongoing.
Implement and publish new CPI by June 2005, with August 2004 base.	Completed.
Continue progress on the data reconciliation process with Paris Club creditors.	Ongoing.
Publish on a monthly basis the list of donor disbursements provided by donors in line with the ICF by main category.	Ongoing.

Table 2. Haiti: Prior Actions and Main Policy Actions Under the EPCA

Continue regular meetings of the working group of the Ministry of Economy and Finance and the BRH to ensure quality and timeliness of fiscal and monetary data reporting.	Ongoing.
Prepare a plan to improve reporting of data required for program monitoring, in consultation with FIN, MFD and STA within one month after STA mission.	Timing of STA mission is being discussed.

HAITI—TECHNICAL MEMORANDUM OF UNDERSTANDING

Definition of cumulative targets and adjustments

The Ministry of Economy and Finance, the Bank of the Republic of Haiti (BRH), and Fund staff will use the following definitions of indicative targets and adjustments of the indicative targets to monitor the quarterly performance under the program for October 2005–March 2006.

I. DEFINITIONS

Net BRH Credit to the Central Government¹⁴

1. The change in net BRH credit to the central government is defined as, and will be measured using:
 - a. Change in net domestic credit to the central government from the BRH according to Table 10R of the BRH from the stock of end-September 2005;
 - b. Change in the stock of donor special accounts according to Table “Comptes Spéciaux” of the BRH from the stock of end-September 2005 will be excluded from change in net domestic credit to the central government as defined above.¹⁵
2. Changes in any other special account (as defined in footnote 2) maintained or established at the BRH will be treated as in 1.b above.
3. The changes will be measured on a cumulative basis from the stock at end-September 2005.

¹⁴ The central government comprises the presidency, prime minister’s office, parliament, national courts, treasury, and line ministries. It includes expenditures financed directly by foreign donors through ministerial accounts (comptes-courants).

¹⁵ Special accounts are transitory accounts of the central government for specific foreign-financed projects or external assistance.

Ceilings for the Cumulative BRH Credit to the Central
Government
(In millions of gourdes)

December 2005	March 2006
0	380

Net Domestic Banking Sector Credit to the Nonfinancial Public Sector¹⁶

4. The change in net domestic banking sector credit to the nonfinancial public sector is defined as, and will be measured using:
 - a. Change in the stock of net domestic credit of the public sector from the BRH according to Table 10R of the BRH from the stock of end-September 2005;
 - b. Change in the stock of net domestic credit of the public sector from the Banque Nationale de Crédit (BNC) and other domestic banks from the stock of end-September 2005;
 - c. Change in the stock of donor special accounts according to Table “Comptes Spéciaux” of the BRH from the stock of end-September 2005 will be excluded from the definition of net domestic banking sector credit to the nonfinancial public sector.

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

6. The changes will be measured on a cumulative basis from the stock at end-September 2005.

¹⁶ The NFPS includes the central government, the public enterprises (e.g., Teleco, EDH, APN, AAN, and CAMEP), and foreign-financed projects.

Ceilings for the Cumulative Net Domestic Banking Sector
Credit to the Nonfinancial Public Sector
(In millions of gourdes)

December 2005	March 2006
0	380

Net International Reserves

7. The change in net international reserves will be measured using:
 - a. Change in net international reserves (“Réserves de change nettes” of the BRH Table 10R) from the stock of end-September 2005; and
 - b. Minus the change in U.S. dollars deposits of commercial banks at the BRH (“Dépôts à vue US\$ des bcm à la BRH” and “Dépôts à vue en EURO des bcm à la BRH” of the BRH Table 10R) from the stock of end-September 2005.
8. Data will be valued at the corresponding end-period market exchange rate.
9. For definition purposes, net international reserves are the difference between the BRH’s gross foreign assets (comprising gold, special drawing rights, all claims on nonresidents, and claims in foreign currency on domestic financial institutions) and reserve liabilities (including liabilities to nonresidents of one-year maturity or less, use of Fund credit, excluding trust funds, and any revolving credit from external financial institutions). Swaps in foreign currency with domestic financial institutions and pledged or otherwise encumbered reserve assets are excluded from net international reserves.
10. The changes will be measured on a cumulative basis from the stock at end-September 2005.

Target for Cumulative Change in Net International Reserves
(In millions of dollars)

December 2005	March 2006
15	-1

Net Domestic Assets of the BRH

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

- a. Change in currency in circulation (“Monnaie en circulation” of the BRH Table 10R);
 - b. Minus the change in the U.S. dollar amount of net international reserves (program definition according to C above), converted into gourdes at the program exchange rate.
12. The program definition of net domestic assets of the BRH will use a program exchange rate of G42 per U.S. dollar for the period October 2005-March 2006.
13. The changes will be measured on a cumulative basis from the stock at end-September 2005.

Ceilings for Cumulative Change in Net Domestic Assets of the BRH
(In millions of gourdes)

December 2005	March 2006
-1217	-970

Nonconcessional Loans

14. The definition of debt comprises all instruments, including new financial instruments that share the characteristics of debt, as set forth in paragraph No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No.12274-(00/85), August 24, 2000).
15. Concessional loans are those loans that provide a grant element of at least 35 percent based on the corresponding OECD’s Commercial Interest Reference Rates (CIRRs).
16. The indicative target limits exclude conventional short-term import-related credits.
17. The ceilings for contracting nonconcessional loans by the central government will be set at zero throughout the program period.

Government Current Accounts

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

20. The Ministry of Economy and Finance will be providing monthly information to the Fund staff on transfers to these current accounts for the central government. Central government is as defined in footnote 1.

II. QUARTERLY ADJUSTMENTS

21. The quarterly indicative targets will be adjusted for the following amounts:

Adjustment for Domestic Arrears Accumulation

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

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

Programmed Flow of Domestic Arrears of the Central
Government
(In millions of gourdes)

December 2005	March 2006
0	0

Adjustment for External Cash Budgetary Support

24. The program ceilings on BRH credit to the government and the nonfinancial public sector, and on BRH net domestic assets and the floor on NIR reflect the assumed flow of net disbursements of cash budgetary assistance, defined as gross disbursements of cash budgetary assistance less debt service falling due to multilateral and some bilateral creditors (Canada and the U.S.).

25. If during October 2005–March 2006 actual net disbursements of cash budgetary assistance exceed programmed net disbursements by more than US\$5 million, the ceiling on net BRH credit to the government and of the public sector and on BRH net domestic assets

will be adjusted downward, and the floor on NIR will be adjusted upward, by the amount of the difference between actual and programmed net disbursements in excess of US\$5 million, converted into gourdes at the program exchange rate.

26. If actual net disbursements are lower than programmed net disbursements, the ceilings on BRH credit to the government and of the public sector and on BRH net domestic assets will be adjusted upward by 50 percent of the amount of this shortfall, and the floor on NIR will be adjusted downward, converted into gourdes at the program exchange rate. The amount of this adjustment will be limited to US\$5 million.

27. The adjuster will be calculated on a cumulative basis from October 1, 2005.

Program disbursements of cash budgetary assistance,
and debt service and arrears clearance 1/
(In millions of U.S. dollars)

	December 2005	March 2006
Program disbursements	28.2	28.2
Program debt service 1/	10.7	21.7
Program net disbursements	17.5	6.5

1/ Includes debt service to the World Bank, IDB, Canada, and the U.S.

III. PROVISION OF INFORMATION TO IMF STAFF

28. To ensure adequate monitoring of the program, the authorities will provide daily and weekly monetary and fiscal indicators to IMF staff.

Daily

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

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

B. Weekly

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

32. *Fiscal Indicators:* (a) Receipts and (b) Expenditures.

These data will be reported with maximum five-day lag (four-week final).

HAITI—FUND RELATIONS

As of August 31, 2005

I. **Membership status:** Joined September 8, 1953; Article VIII.

II. General resources account	SDR Million	Percent of Quota
Quota	81.90	100.00
Fund holdings of currency	92.06	112.41
Reserve position in Fund	0.07	0.08

III. SDR department:	SDR Million	Percent of Allocation
Net cumulative allocation	13.70	100.00
Holdings	0.05	0.34

IV. Outstanding purchases and loans:	SDR Million	Percent of Quota
PRGF Arrangements	4.55	5.56
Emergency Post-Conflict Assistance	10.23	12.49

V. **Financial arrangements:**

Type of Arrangement	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR million)
PRGF	10/18/96	10/17/99	91.05	15.18
Stand-by	03/08/95	03/07/96	20.00	16.40
Stand-by	09/18/89	12/31/90	21.00	15.00

VI. **Projected obligations to the Fund:** (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2005	2006	2007	2008	2009
Principal	1.52	3.04	0.00	3.84	5.12
Charges/interest	0.20	0.78	0.77	0.72	0.53
Total	1.72	3.81	0.77	4.56	5.65

VII. Exchange arrangements:

Managed floating with no predetermined path for the exchange rate. The change from a fixed to managed floating regime took place in January 1990. Haiti's exchange system is free of restrictions on the making of payments and transfers for current international transactions. Since September 1991 all transactions have taken place at the free (interbank) market rate.

VIII. Safeguards assessment

Under the Fund's safeguards assessment policy, the Banque de la République d'Haiti (BRH) was subject to a safeguards assessment in relation with drawings under the Emergency Post Conflict Assistance facility by Haiti. An assessment was completed on August 5, 2005, and identified a number of vulnerabilities in the safeguards framework of the Bank, in particular in the areas of financial reporting, internal audit, and controls. The BRH is in the process of implementing proposed measures to address the identified vulnerabilities.

IX. Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on May ,16 2005. Haiti is on the standard 12-month cycle.

X. Technical assistance: A long-term macroeconomic advisor worked in the president's office from May 1999 to February 2001.

Technical assistance missions since 1997:

Department	Dates	Purpose
TGS	October 1997; February 1999	Information technology
FAD	March 1997–September 1998	Exemptions system and investment code
	November 1997	Direct taxation and exemption system
	October 1998	Large taxpayer unit
	June 1999	Industrial exemptions
	August-September 2004	Public expenditure management
	April 2005	Public expenditure management
	May 2005	Tax policy and revenue administration

MFD	<p>October 1995–April 1998 January 1997 August 1997</p> <p>July 1998 August–October 1998; June– July 1999; October 2000 June 1999 January 2000</p> <p>October 2000 October 2000 May 2001 January 2002 July–August 2002 March 2005</p>	<p>Banking supervision Role of the central bank Banking law and monetary policy Banking law Banking supervision</p> <p>Central bank organization Dollarization and policy and response Banking supervision Money laundering Banking supervision Banking supervision Money laundering Monetary Operations</p>
STA	<p>January 1996–October 1997; June 1996; July 1996; February 1999; March 2000 February 1997; March 1998; August 1998 November 1996; March 2000</p>	<p>Real sector statistics</p> <p>Money and banking statistics</p> <p>Balance of payments statistics</p>
LEG	<p>March, June, and September 2000</p>	<p>Banking and central bank laws</p>
INS	<p>April 2002</p>	<p>Course on financial programming</p>

XI. **Resident representative:** Mr. Mounir Rached has been the Fund’s Resident Representative since October 2002.

Haiti—Relations with the World Bank Group

(Prepared by World Bank Staff)

Following the change of government in March 2004, the World Bank stepped up its engagement in Haiti as part of a broader Government/multi-donors partnership to respond to Haiti's social, economic and institutional needs. In that context, a joint government-donors needs assessment carried out in May 2004 provided the basis for the Transitional Government's two-year Interim Cooperation Framework (ICF). The ICF was presented at an international donors conference on July 19-20, 2004 at World Bank Headquarters, where donor countries and international organizations pledged US\$1.1 billion in fresh resources to support the implementation of the ICF. The Bank pledged to support the ICF with an exceptional IDA allocation complemented with \$3.5 million in small grants from the Post-Conflict Fund and \$6.4 million in small grants from the trust fund for Low Income Countries Under Stress (LICUS).

The Bank and the Haitian authorities have since prepared a Transitional Support Strategy (TSS) to program the Bank's support to Haiti for the period July 2004-June 2006. The TSS was discussed by the Bank's Board on January 6, 2004. On the same day, the Board approved a fast-disbursing Economic Governance Reform Operation (EGRO) for US\$61 million and an emergency recovery and disaster management project for US\$12 million. The approval of the IDA assistance followed the clearance of Haiti's arrears to the World Bank on January 3, 2005. The Bank has also approved a technical assistance grant of US\$2 million to strengthen institutional capacity for the design and implementation of policies and help improve the institutional environment for increased donor financing in the future. On July 28, the Bank Board approved a US\$38 million grant to support a Community Driven Development project aimed at creating economic and social opportunities for communities in rural areas and small towns. Later in this fiscal year, the Bank plans to provide another grant for US\$16 million aimed at supporting regional or communal-level multi-sectoral investment projects; a US\$6 million grant to support government's and other donors' efforts to solve the most critical problems in the electricity sector in the short to medium term; and another \$2 million technical assistance grant for institutional capacity building. In an effort to reduce Haiti's debt burden, the Bank made a maximum use of the grant provision under IDA 13 to convert in grant 51 percent of its US\$75 million fiscal year 2004/05 financing to Haiti. Under IDA 14, the Bank has converted in grant all its fiscal year 2005/06 financing to Haiti amounting to US\$62 million.

The Bank's policy dialogue, financial and technical assistance span several thematic areas including: civil society monitoring of governance policy performance, strategic communication for development, donor coordination, public enterprise audit and management, rural development, budgetary management and financial control, public sector procurement, anti-corruption, management of road maintenance fund, school feeding and public-private partnership in education, solid waste management, disaster management and early warning systems, rural safe water provision and management, and energy.

Since July 2004, the Bank's disbursements to Haiti have amounted to about \$52 million, of which more than \$46 million in budget support on account of the EGRO. The second tranche of the EGRO (about \$15 million) is scheduled for disbursement in the last quarter of calendar year 2005.

IFC's priorities in Haiti include strengthening domestic financial institutions and job creation. IFC currently has two investments in Haiti: (i) a US\$400,000 equity investment in Micro Credit National; and (ii) a US\$20 million investment in Grupo M – a Dominican textile company with an important investment in Haiti to finance the start-up of an industrial park/free trade zone located just across the border in Ouanaminthe, Haiti.

The most recent World Bank Country Assistance Strategy for Haiti was reviewed by the Bank's Board in 1996.

Haiti—Relations with the IDB

(Prepared by IDB Staff)

The IDB's activities supported by its Transition Strategy of Re-engagement (2003-2004), comprising 10 projects, totaling US\$400 million, is presently in full implementation, supporting Haiti's reconstruction, economic and social recovery and capacity building agenda. In addition, to help finance Haiti's transition agenda, in March 2005, the Bank approved a follow-up Transition Strategy (2005-2006), with 12 new operations totaling US\$270 million, to operationalize in full its pledge of US\$263 million (July 2004) in support of the Interim Cooperation Framework. Of these additional loans, 7 have already been approved, for a total of US\$202 million and the remaining operations are in advanced readiness for approval. Ongoing Bank interventions, combining investment and policy-based loans, are complemented with a strong program of non reimbursable technical assistance and non financial products to underpin program and policy preparation and implementation and increase country knowledge. The Bank program supports economic governance and anti-corruption measures, rehabilitation of basic infrastructure and services, agricultural intensification, water supply and sanitation, health, education and local development. The follow up 2005-2006 strategy, supporting the key ICF reconstruction priorities and beyond, strengthens these efforts with additional interventions to help stabilize the economy, deepen governance reforms, alleviate pressing social needs, lay the foundation for pro-poor growth, strengthen natural disaster prevention and environmental management, and lead to an elected government in 2006.

The Bank's program supported by the two successor Transition Strategies now translates into a portfolio of 15 active projects, totaling US\$532 million, and a TC program of about 38 operations amounting to about US\$14 million. Total Bank disbursements to date are over US\$110 million. The IDB's growing involvement in Haiti thus supports longer-term economic governance reforms, particularly in the critical areas of fiscal management and tax reform and administration, and associated institutional development, in close coordination with the IMF and the World Bank. In parallel, the IDB provides financing for high impact investments to rehabilitate critical infrastructure, in close coordination with the EC, increase productivity, and increase provision of basic services to vulnerable groups and communities on a national level, in coordination with Haiti's main international partners. As an overarching objective, IDB program execution and country dialogue build on an implementation support and institution-building strategy based on a flexible approach, a strengthened country office and a focus on results. This is underpinned by streamlining of Bank procedures and additional special measures and expertise to strengthen local capacities to facilitate project preparation and execution and speed up disbursements. The country dialogue on implementation is systematized in a mechanism of high-level special implementation and monitoring review missions which conduct regular joint reviews with the government to assess execution progress and identify specific action plans to address related issues and facilitate monitoring of results.

The Bank is substantively present in all pillars of Haiti's short and medium-term reconstruction agenda: (a) political governance and national dialogue with technical

assistance to create rule-based mechanisms for alternative dispute resolution, and for dealing with gender issues; (b) economic governance and institutional development through fiscal and financial sector reform loans, and capacity building for public administration reform; (c) economic recovery through rebuilding infrastructure (roads, ports, airports) and private sector development; further assistance to agriculture intensification with a rural economy development program; and loans to reduce the impact of natural disasters and for watershed management; and (d) access to basic services through a vocational training program to increase opportunities for low income youth and meet private sector skill demands; improve living standards and income generation in urban areas of the capital and main cities and towns of the interior, through an urban rehabilitation loan.

HAITI—STATISTICAL ISSUES

Real sector: The Haitian Institute of Statistics (HIS) is publishing a harmonized CPI on a monthly basis, as recommended and facilitated by Fund technical assistance. The institute has made progress in implementing recommendations made by several Fund technical assistance missions to improve the quality of real sector statistics, and it has published national accounts for the period 1986/87 to 2003/2004 based on the interim base year 1986/87. The institute also publishes data on economic activity of the real sector on a quarterly basis, including indices of industrial production, energy, construction, and domestic and external trade. The March 2000 technical assistance STA mission had recommended that the HIS establish a new base year for national accounts and a revised CPI. The HIS started publishing a new CPI which has been rebased to a more recent period (August 2004) using the weights of the 2000 household survey. The HIS carries out household budgetary surveys on a periodic basis; in the past, these have been complemented by studies on issues such as housing, education and employment. A further study on transport is underway. The Institute is currently engaged in the preparatory work for the fourth population and habitat census. Further technical assistance may be needed to address the outstanding deficiencies that continue to hinder the quality of real sector statistics.

Government finance: Haiti reports monthly and annual GFS data on a regular basis for publication in *IFS*. However, no GFS data have been published in the *GFS Yearbook* for the past 15 years. This is a disappointing given that the 1995 multisector mission recommended the establishment of a system of compilation and reporting of GFS data to the Fund. Progress is slow due to the lack of human and financial resources. Data provided in 2001 via its Central Bank were not published in the 2001 *GFSY* owing to insufficient detail and consistency problems. Further work is required to extend coverage and breakdowns, to improve the link between the nonfinancial and the financial transactions as well as the outstanding of debt, and to compile a functional breakdown of expenditure. These improvements require additional human and financial resources. The reporting of budgetary expenditures, especially on the ministerial discretionary accounts should be improved to increase transparency. There is a need to improve the timeliness of publication of accounts of public enterprises, as well as of the accounts of the nonfinancial public sector.

Monetary accounts: Continuous work on monetary statistics has helped to improve the sectorization and classification of accounts in the analytical balance sheets of the Bank of the Republic of Haiti (BRH) and commercial banks. Efforts have been undertaken to strengthen reporting requirements for commercial banks so as to strengthen bank supervision, enforce reporting according to Basel Core Principles, and step up the fight against illicit transactions. This has at times affected the timeliness of compilation and reporting of money and banking statistics.

Balance of payments: Progress has been made towards improving the reliability of balance of payments data. The implementation of several technical assistance mission recommendations has contributed to an improvement in the balance of payment data. Notwithstanding the progress, there is scope for improvement, most notably in the methodology for compiling trade data, collecting trade and services data and making more systematic use of existing sources, (such as customs, port and airport agencies, airlines, and oil companies).

Haiti: Table of Common Indicators Required for Surveillance
As of September 14, 2005

	Date of latest observation	Date received	Frequency of Data 6/	Frequency of Reporting 6/	Frequency of Publication 6/
Exchange Rates	Sept. 2005	Sept. 2005	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities 1/	Sept. 2005	Sept. 2005	D	D	M
Reserve/Base Money	Jul. 2005	Aug. 2005	M	M	M
Broad Money	Jul. 2005	Aug. 2005	M	M	M
Central Bank Balance Sheet	Jul. 2005	Aug. 2005	M	M	M
Consolidated Balance Sheet of the Banking System	Jul. 2005	Aug. 2005	M	M	M
Interest Rates 2/	Aug. 2005	Sept. 2005	W	W	M
Consumer Price Index	Jul. 2005	Aug. 2005	M	M	M
Revenue, Expenditure, Balance and Composition of Financing 3/ – General Government 4/	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing 3/ – Central Government	Aug. 2005	Sept. 2005	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt 5/	Sep. 2004	Nov. 2004	A	I	A
External Current Account Balance	Sep. 2004	Nov. 2004	A	I	A
Exports and Imports of Goods and Services	Sep. 2004	Nov. 2004	A	A	NA
GDP/GNP 7/	2004	Jan. 2005	A	A	A
Gross External Debt	Sep. 2004	Nov. 2004	A	I	A

1/ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

3/ Foreign, domestic bank, and domestic non-bank financing.

4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

5/ Including currency and maturity composition.

6/ Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

7/ Data collected for the fiscal year, ending September 30.

INTERNATIONAL MONETARY FUND

HAITI

Use of Fund Resources- Request for Emergency Post-Conflict Assistance

Supplementary Information

Prepared by the Western Hemisphere Department
(In collaboration with other Departments)

Approved by Anoop Singh and Juha Kähkönen

October 18, 2005

1. **This supplement provides additional information that has become available to the staff since issuance of the staff report.** A key development has been the weakening of the central government's position at end-September 2005 relative to earlier expectations. The authorities have committed to implement additional measures to ensure that the objectives of the program are met, and on that basis the thrust of the staff appraisal remains unchanged.

Fiscal developments

2. **Provisional data indicate a weakening of the fiscal position from that described in the staff report.** This mainly reflected expenditure overruns in late September that were not anticipated during discussions with the authorities at the time of Annual Meetings, including an exceptional bonus to public employees equivalent to 70 percent of monthly salaries (G284 million) and payments for road construction contracts (G60 million). As a result, the stock of net credit from the central bank (BRH) to the central government at end-September 2005 exceeded the level anticipated under the program by G348 million (0.2 percent of GDP).

3. **The authorities have committed to take corrective measures (Attachment).** In particular, expenditures in the first half of FY2005/06 will be reduced by about G300 million by delaying recruitment and limiting salary increases, reducing subsidies (in particular for electricity production), and eliminating low-priority outlays.

4. **The 2005/06 budget approved on September 30, 2005 is consistent with the understandings under the program.** However, the budget gap for April–September 2006—at US\$24 million—is US\$6.6 million lower than projected by the staff, largely reflecting higher revenue assumptions. Nonetheless, the staff still projects the external financing gap for April-September to be about US\$31 million.

Monetary developments

5. **Net international reserves are as programmed but the exchange rate has weakened.** Preliminary data indicate that NIR were about US\$68 million at end-September, slightly above estimates in the staff report. The gourde has depreciated to about G43/US\$, from about G42/US\$ since mid-September.

6. **Since early October, the central bank has taken steps to tighten monetary policy, in line with commitments under the program.** The BRH increased interest rates on its bonds by about 300 basis points on all maturities, thereby taking them to positive levels in real terms (adjusted by 12-month inflation). Concurrently, the BRH increased its stock of bonds to eliminate remaining excess liquidity in the banking system.

Political developments

7. **Elections have been slightly delayed.** According to a recent statement by Prime Minister Latortue, the presidential and legislative elections scheduled for November 20 and the local and municipal elections for December 11 will be delayed by three weeks due to logistical problems. In addition, there are indications that donor financing for the elections may fall short of earlier pledges, and unless this gap is closed by donors, the authorities may be forced to use domestic resources.

Revised tables

8. **The recent data necessitate amendments to the tables that had been contained in the main staff report.** In particular, indicative targets for December 2005 and March 2006 have been adjusted to take into account the slippages to end-September 2005 and the effects of the offsetting measures, and the monetary and fiscal projections have been amended accordingly (MEFP Table 1; and staff report Tables 3a-3d and 4).

Staff appraisal

9. **Recent fiscal developments do not alter the broad thrust of the staff appraisal.** However, the recent expenditure slippages and shortfall in the 2004/05 budget outturn relative to earlier estimates were unfortunate. Although the authorities have provided commitments to additional measures to help contain central bank financing of the budget, these will add to an already challenging fiscal situation and underscore the importance of more rigorous expenditure discipline and governance, as emphasized in the staff appraisal. Moreover, effective program implementation will require close consultation with Fund staff on economic developments and any revisions to the policies contained in the MEFP, as stated in the authorities' Letter of Intent. The staff continues to support the authorities' request for Fund assistance under the EPCA policy.

Table 1. Haiti: Indicative Targets, September 2005–March 2006 1/

	EPCA II 2/				
	Preliminary stock at end-September 2005	Cumulative flows since September 2005			Actual
		Prog.	Actual	Prog.	
		Dec. 2005		March 2006	
Net central bank credit to the NFPS (in millions of gourdes)	21,604	-348		32	
<i>Of which:</i>					
Central Government	21,627	-348		32	
Rest of NFPS	-23	0		0	
Net domestic banking sector credit to the nonfinancial public sector (in millions of gourdes)	21,126	-348		32	
Net domestic assets of the central bank (in millions of gourdes)	7,942	-1,039		-793	
Domestic arrears of the central government	n.a.	0		0	
Nonconcessional external loans contracted or guaranteed by the central government					
(In millions of U.S. dollars)					
Up to one year	0	0		0	
Over one-year maturity	0	0		0	
Net international reserves of central bank (in millions of U.S. dollars)	65	15		-1	
External arrears accumulation (in millions of U.S. dollars) 3/	0	0		0	
Memorandum items: 4/					
Government total revenue (in millions of gourdes)	...	4,235		8,534	
Government total expenditure (in millions of gourdes)	...	7,062		13,665	

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

1/ Refer to technical memorandum for definitions of indicative targets.

2/ Program exchange rate of G42/U\$S.

3/ To all creditors except those who agreed on debt service deferral.

4/ Not targets. Cumulative flows over the program period.

Table 3a: Central Government Operations

(in millions of gourdes)

	2004/05							
	Oct.-March		April-June		July-Sept		Oct.-Sept.	
	EPCA I	Est.	EPCA I	Est.	EPCA I	Prel.	EPCA I	Prel.
Total revenue and grants	11,037	11,660	6,357	4,479	6,666	6,090	24,059	22,230
Total revenue	7,979	7,774	3,985	3,428	3,957	5,066	15,921	16,268
Current revenue	7,979	7,774	3,985	3,428	3,957	5,066	15,921	16,268
Domestic taxes	5,877	5,254	2,751	2,297	2,723	3,215	11,351	10,765
Customs duties	2,098	2,048	1,231	943	1,231	1,170	4,560	4,161
Other current revenue	5	472	3	189	3	681	10	1,342
Grants	3,058	3,886	2,371	1,051	2,708	1,024	8,138	5,961
Budget support	700	2,200	350	92	350	87	1,400	2,380
Project grants	2,358	1,686	2,021	959	2,358	937	6,738	3,582
Total expenditure	11,764	11,303	6,968	5,588	7,351	6,739	26,084	23,630
Current expenditure	8,021	7,790	3,800	3,654	3,790	4,807	15,611	16,251
Wages and salaries	3,296	2,871	1,412	1,414	1,412	1,664	6,121	5,949
Net Operations	2,144	2,438	1,072	917	1,072	1,480	4,289	4,835
Operations	2,144	1,774	1,072	873	1,072	477	4,289	3,123
Interest payments	550	494	300	329	290	304	1,140	1,128
External	308	237	179	207	169	169	656	613
Domestic	242	257	121	122	121	136	484	515
Transfers and subsidies	2,031	1,987	1,015	993	1,015	1,358	4,061	4,338
Expenditures on electoral process								
Other current expenditure (current account) 1/	0	664		45		1,003		1,712
Capital expenditure	3,744	3,513	3,168	1,934	3,561	1,933	10,473	7,380
Domestically financed	950	1,457	774	467	768	285	2,492	2,209
o.w. counterpart funds	165	0	182		222	150	570	150
Foreign-financed	2,793	2,056	2,394	1,467	2,793	1,648	7,981	5,170
Current account balance								
Including current grants	658	2,184	535	-134	517	347	1,711	2,397
Excluding grants	-42	-16	185	-226	167	259	311	17
Overall balance exc. exceptional outlays	-3,785	357	-2,983	-1,109	-3,394	-649	-10,162	-1,401
Overall balance								
Including grants	-727	357	-611	-1,109	-686	-649	-2,024	-1,401
Excluding grants	-3,785	-3,529	-2,983	-2,160	-3,394	-1,673	-10,162	-7,362
Financing	727	-357	611	1,109	686	649	2,024	1,401
External net financing	430	-265	692	276	1,065	1,418	2,187	1,429
Loans (net)	2,143	1,447	623	181	1,022	1,393	3,788	3,021
Disbursements	2,734	1,989	933	507	1,385	1,651	5,052	4,148
Budget support	2,299	1,619	561	0	950	941	3,810	2,560
Project loans	435	370	373	507	435	711	1,243	1,589
Amortization	-591	-542	-310	-326	-363	-259	-1,264	-1,127
Arrears (Net)	-1,713	-1,712	68	95	44	26	-1,601	-1,591
Accumulation	274	335	68	95	44	26	386	456
Reduction	-1,987	-2,048	0	0	0	0	-1,987	-2,048
Internal net financing	297	-92	-80	833	-380	-770	-163	-29
Banking system	297	-92	-80	833	-380	-770	-163	-29
BRH	378	-95	-40	833	-339	-770	0	-32
Commercial banks	-82	4	-41	0	-41	0	-163	4
Other nonbank financing	0	0	0	0	0	0	0	0
Arrears (Net)	0	0	0	0	0	0	0	0
Accumulation	0	0	0	0	0	0	0	0
Reduction	0	0	0	0	0	0	0	0
Unidentified financing	0	0	0	0	0	0	0	0

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

1/ Includes statistical discrepancy.

Table 3b. Haiti: Central Government Operations
(in percent of GDP)

	2004/05							
	Oct.-March		April-June		July-Sept		Oct.-Sept.	
	EPCA I	Est.	EPCA I	Est.	EPCA I	Prel.	EPCA I	Prel.
Total revenue and grants	6.7	7.1	3.9	2.7	4.1	3.7	14.7	13.5
Total revenue	4.9	4.7	2.4	2.1	2.4	3.1	9.7	9.9
Current revenue	4.9	4.7	2.4	2.1	2.4	3.1	9.7	9.9
Domestic taxes	3.6	3.2	1.7	1.4	1.7	2.0	6.9	6.6
Customs duties	1.3	1.2	0.7	0.6	0.7	0.7	2.8	2.5
Other current revenue	0.0	0.3	0.0	0.1	0.0	0.4	0.0	0.8
Grants	1.9	2.4	1.4	0.6	1.6	0.6	5.0	3.6
Budget support	0.4	1.3	0.2	0.1	0.2	0.1	0.9	1.4
Project grants	1.4	1.0	1.2	0.6	1.4	0.6	4.1	2.2
Total expenditure	7.2	6.9	4.2	3.4	4.5	4.1	15.9	14.4
Current expenditure	4.9	4.7	2.3	2.2	2.3	2.9	9.5	9.9
Wages and salaries	2.0	1.7	0.9	0.9	0.9	1.0	3.7	3.6
Net Operations	1.3	1.5	0.7	0.6	0.7	0.9	2.6	2.9
Interest payments	0.3	0.3	0.2	0.2	0.2	0.2	0.7	0.7
External	0.2	0.1	0.1	0.1	0.1	0.1	0.4	0.4
Domestic	0.1	0.2	0.1	0.1	0.1	0.1	0.3	0.3
Transfers and subsidies	1.2	1.2	0.6	0.6	0.6	0.8	2.5	2.6
Other current expenditure 1/	0.0	0.4	0.0	0.0	0.0	0.6	0.0	1.0
Capital expenditure	2.3	2.1	1.9	1.2	2.2	1.2	6.4	4.5
Domestically financed	0.6	0.9	0.5	0.3	0.5	0.2	1.5	1.3
Foreign financed	1.7	1.3	1.5	0.9	1.7	1.0	4.9	3.1
Current account balance								
Including current grants	0.4	1.3	0.3	-0.1	0.3	0.2	1.0	1.5
Excluding grants	0.0	0.0	0.1	-0.1	0.1	0.2	0.2	0.0
Overall balance excl. capital exceptional outlays	-2.3	0.2	-1.8	-0.7	-2.1	-0.4	-6.2	-0.9
Exceptional outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance								
Including grants	-0.4	0.2	-0.4	-0.7	-0.4	-0.4	-1.2	-0.9
Excluding grants	-2.3	-2.1	-1.8	-1.3	-2.1	-1.0	-6.2	-4.5
Financing	0.4	-0.2	0.4	0.7	0.4	0.4	1.2	0.9
External net financing	0.3	-0.2	0.4	0.2	0.6	0.9	1.3	0.9
Loans (net)	1.3	0.9	0.4	0.1	0.6	0.8	2.3	1.8
Disbursements	1.7	1.2	0.6	0.3	0.8	1.0	3.1	2.5
Budget support	1.4	1.0	0.3	0.0	0.6	0.6	2.3	1.6
Project loans	0.3	0.2	0.2	0.3	0.3	0.4	0.8	1.0
Amortization	-0.4	-0.3	-0.2	-0.2	-0.2	-0.2	-0.8	-0.7
Arrears (Net)	-1.0	-1.0	0.0	0.1	0.0	0.0	-1.0	-1.0
Accumulation	0.2	0.2	0.0	0.1	0.0	0.0	0.2	0.3
Reduction	-1.2	-1.2	0.0	0.0	0.0	0.0	-1.2	-1.2
Internal net financing	0.2	-0.1	0.0	0.5	-0.2	-0.5	-0.1	0.0
o/w Banking system	0.2	-0.1	0.0	0.5	-0.2	-0.5	-0.1	0.0
BRH	0.2	-0.1	0.0	0.5	-0.2	-0.5	0.0	0.0
Commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Nominal GDP (millions of gourdes)	164,200	164,200	164,200	164,200	164,200	164,200	164,200	164,200

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

1/ Includes statistical discrepancy.

Table 3c: Central Government Operations

(in millions of gourdes)

	2003/04	2004/05	2005/06				
	Oct-Sept.	Oct-Sept. Prel.	Oct.-Dec. EPCA II	Jan.-March EPCA II	Apr.-June Proj.	July-Sept. Proj.	Oct-Sept. Proj.
Total revenue and grants	14,306	22,230	6,282	5,949	6,141	6,197	24,569
Total revenue	12,457	16,268	4,235	4,299	4,345	4,400	17,279
Current revenue	12,457	16,268	4,235	4,299	4,345	4,400	17,279
Domestic taxes	8769	10,765	3,138	3,120	3,114	3,106	12,478
Customs duties	3481	4,161	1,078	1,160	1,211	1,232	4,681
Other current revenue	207	1,342	19	19	20	62	120
Transfers from public enterprises							
Grants	1848	5,961	2,047	1,650	1,797	1,797	7,290
Budget support	476	2,380	397	0	147	147	691
Project grants	1372	3,582	1,650	1,650	1,650	1,650	6,599
Total expenditure	15996	23,630	7,062	6,602	7,559	7,272	28,495
Current expenditure	11037	16,251	4,449	4,059	4,615	4,328	17,452
Wages and salaries	4126	5,949	1,989	1,645	1,645	1,645	6,924
Net Operations	4517	4,835	1,036	901	1,435	1,173	4,545
Operations	5160	3,123					
Interest payments	1150	1,128	427	416	438	413	1,695
External	662	613	198	187	208	184	777
Domestic	488	515	230	230	230	230	918
Transfers and subsidies	1261	4,338	954	1,054	1,054	1,054	4,117
Expenditures on electoral process			43	43	43	43	170
Other current expenditure (current account) 1/	-660	1,712	0	0	0	0	
Capital expenditure	4960	7,380	2,613	2,543	2,943	2,943	11,043
Domestically financed	3031	2,209	284	214	614	614	1,726
o.w. counterpart funds	...	150	...	...	...	...	...
Foreign-financed	1929	5,170	2,329	2,329	2,329	2,329	9,317
Current account balance							
Including current grants	1897	2,397	183	240	-124	219	518
Excluding grants	1421	17	-214	240	-271	72	-173
Overall balance exc. exceptional outlays	-1691	-1,401	-780	-654	-1,417	-1,075	-3,926
Overall balance							
Including grants	-3413	-1,401	-780	-654	-1,417	-1,075	-3,926
Excluding grants	-5261	-7,362	-2,827	-2,303	-3,214	-2,871	-11,216
Financing	3413	1,401	781	654	577	630	2,641
External net financing	605	1,429	1,148	340	295	970	2,752
Loans (net)	-179	3,021	1,064	311	190	941	2,506
Disbursements	954	4,148	1,467	679	679	1,309	4,135
Budget support	397	2,560	787	0	0	630	1,417
Project loans	557	1,589	679	679	679	679	2,718
Amortization	-1136	-1,127	-403	-368	-489	-368	-1,629
Arrears (Net)	784	-1,591	84	28	105	28	246
Accumulation	784	456	84	28	105	28	246
Reduction	0	-2,048	0	0	0	0	0
Internal net financing	2807	-29	-367	314	282	-340	-111
Banking system	2789	-29	-348	380	315	-315	32
BRH 2/	2821	-32	-348	380	315	-315	32
Commercial banks	-32	4	0	0	0	0	0
Other nonbank financing	0	0	-19	-66	-33	-25	-143
Arrears (Net)	18	0	0	0	0	0	0
Accumulation	800	0	0	0	0	0	0
Reduction	-783	0	0	0	0	0	0
Unidentified financing	0	0	0	0	840	445	1,285
Unidentified financing (in U.S. dollars)	0.0	0.0	0.0	0.0	20.0	10.6	30.6

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

1/ Includes statistical discrepancy.

2/ Net BRH financing in 2005/06 is equal to central government's net savings accumulated at the BRH during 2004/05.

Table 3d. Haiti: Central Government Operations
(in percent of GDP)

	2003/04	2004/05	2005/06				
	Oct-Sept.	Oct-Sept. Prel.	Oct.-Dec. EPCA II	Jan.-March EPCA II	Apr.-June Proj.	July-Sept. Proj.	Oct-Sept. Proj.
Total revenue and grants	10.2	13.5	3.4	3.2	3.3	3.4	13.3
Total revenue	8.9	9.9	2.3	2.3	2.4	2.4	9.4
Current revenue	8.9	9.9	2.3	2.3	2.4	2.4	9.4
Domestic taxes	6.2	6.6	1.7	1.7	1.7	1.7	6.8
Customs duties	2.5	2.5	0.6	0.6	0.7	0.7	2.5
Other current revenue	0.1	0.8	0.0	0.0	0.0	0.0	0.1
Grants	1.3	3.6	1.1	0.9	1.0	1.0	4.0
Budget support	0.3	1.4	0.2	0.0	0.1	0.1	0.4
Project grants	1.0	2.2	0.9	0.9	0.9	0.9	3.6
Total expenditure	11.4	14.4	3.8	3.6	4.1	3.9	15.5
Current expenditure	7.9	9.9	2.4	2.2	2.5	2.3	9.5
Wages and salaries	2.9	3.6	1.1	0.9	0.9	0.9	3.8
Net Operations	3.2	2.9	0.6	0.5	0.8	0.6	2.5
Interest payments	0.8	0.7	0.2	0.2	0.2	0.2	0.9
External	0.5	0.4	0.1	0.1	0.1	0.1	0.4
Domestic	0.3	0.3	0.1	0.1	0.1	0.1	0.5
Transfers and subsidies	0.9	2.6	0.5	0.6	0.6	0.6	2.2
Other current expenditure 1/	-0.5	1.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	3.5	4.5	1.4	1.4	1.6	1.6	6.0
Domestically financed	2.2	1.3	0.2	0.1	0.3	0.3	0.9
Foreign financed	1.4	3.1	1.3	1.3	1.3	1.3	5.1
Current account balance							
Including current grants	1.4	1.5	0.1	0.1	-0.1	0.1	0.3
Excluding grants	1.0	0.0	-0.1	0.1	-0.1	0.0	-0.1
Overall balance excl. capital exceptional outlays	-1.2	-0.9	-0.4	-0.4	-0.8	-0.6	-2.1
Exceptional outlays	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance							
Including grants	-2.4	-0.9	-0.4	-0.4	-0.8	-0.6	-2.1
Excluding grants	-3.7	-4.5	-1.5	-1.2	-1.7	-1.6	-6.1
Financing	2.4	0.9	0.4	0.4	0.3	0.3	1.4
External net financing	0.4	0.9	0.6	0.2	0.2	0.5	1.5
Loans (net)	-0.1	1.8	0.6	0.2	0.1	0.5	1.4
Disbursements	0.7	2.5	0.8	0.4	0.4	0.7	2.2
Budget support	0.3	1.6	0.4	0.0	0.0	0.3	0.8
Project loans	0.4	1.0	0.4	0.4	0.4	0.4	1.5
Amortization	-0.8	-0.7	-0.2	-0.2	-0.3	-0.2	-0.9
Arrears (Net)	0.6	-1.0	0.0	0.0	0.1	0.0	0.1
Accumulation	0.6	0.3	0.0	0.0	0.1	0.0	0.1
Reduction	0.0	-1.2	0.0	0.0	0.0	0.0	0.0
Internal net financing	2.0	0.0	-0.2	0.2	0.2	-0.2	-0.1
o/w Banking system	2.0	0.0	-0.2	0.2	0.2	-0.2	0.0
BRH 2/	2.0	0.0	-0.2	0.2	0.2	-0.2	0.0
Commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.5	0.2	0.7
Memorandum items:							
Nominal GDP (millions of gourdes)	140,346	164,200	184,396	184,396	184,396	184,396	184,396

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

1/ Includes statistical discrepancy.

2/ Net BRH financing in 2005/06 is equal to central government's net savings accumulated at the BRH during 2004/05.

Table 4. Haiti: Summary Accounts of the Banking System

	Fiscal Year Ending September 30					
	2003/04	2004/05	2005/06			
	Sept.	Sept. Prel.	Dec. EPCA II	March EPCA II	June Proj.	Sept. Proj.
(In millions of gourdes)						
I. Central Bank						
Net foreign assets 1/	6,564	7,898	8,554	7,978	8,386	9,189
(In millions of U.S. dollars)	178	187	203	189	199	218
Net international reserves (program)	55	65	79	64	71	84
Commercial bank deposits	124	123	123	125	128	134
Net domestic assets	2,121	2,756	1,677	1,860	1,340	1,055
Credit to the nonfinancial public sector 2/	21,581	21,604	21,256	21,636	21,951	21,636
Of which: Credit to the central government	21,659	21,627	21,279	21,659	21,974	21,659
Liabilities to commercial banks	-21,253	-22,067	-22,798	-22,994	-23,829	-23,799
Of which:						
Cash-in-vault and reserve deposits	-17,708	-16,566	-16,321	-16,616	-16,993	-17,296
BRH bonds	-3,545	-5,501	-6,477	-6,378	-6,836	-6,503
Other	1,793	3,218	3,218	3,218	3,218	3,218
Currency in circulation	8,685	10,653	10,231	9,838	9,726	10,244
II. Consolidated Banking System						
Net foreign assets	12,683	17,186	17,501	17,323	17,702	19,006
(In millions of U.S. dollars)	344	407	415	410	419	450
Of which: Commercial banks NFA	166	220	212	221	221	233
Net domestic assets	44,078	49,351	48,899	49,781	50,566	51,528
Credit to the nonfinancial public sector 1/	21,097	21,126	20,778	21,158	21,473	21,158
Credit to the private sector	21,142	25,200	25,096	25,597	26,068	27,345
In gourdes	10,893	13,058	12,849	13,182	13,338	13,906
In foreign currency	10,249	12,142	12,247	12,415	12,730	13,439
In millions of U.S. dollars	278	288	290	294	302	319
Other	1,839	3,025	3,025	3,025	3,025	3,025
Broad money	56,761	66,537	66,400	67,104	68,268	70,535
Currency in circulation	8,685	10,653	10,231	9,838	9,726	10,244
Gourde deposits	25,824	28,470	28,545	29,306	29,952	30,282
Foreign currency deposits	22,252	27,414	27,624	27,960	28,590	30,008
In millions of U.S. dollars	604	649	654	662	677	711
(Percentage change relative to broad money in the preceeding period) 3/						
Net foreign assets	-1.5	7.9	0.5	0.2	0.8	2.7
Net domestic assets	10.6	9.3	-0.7	0.6	1.8	3.3
Credit to the nonfinancial public sector 2/	4.6	0.1	-0.5	0.0	0.5	0.0
Credit to the private sector	3.4	7.1	-0.2	0.6	1.3	3.2
(12-month percentage change)						
Broad money	9.1	17.2	11.2	6.7	4.8	6.0
Currency in circulation	2.9	22.7	0.1	-1.2	-1.5	-3.8
Gourde deposits	17.9	10.2	8.8	6.1	5.8	6.4
Foreign currency deposits	2.6	23.2	18.8	10.4	6.1	9.5
Credit to the nonfinancial public sector 2/	12.8	0.1	2.4	1.1	-1.6	0.2
Credit to the private sector	9.2	19.2	14.8	14.3	9.5	8.5
Credit in gourdes	7.3	19.9	10.8	9.7	4.5	6.5
Credit in foreign currency	11.2	18.5	19.3	19.7	15.3	10.7
Memorandum items:						
Base money (excl. BRH bonds)	21,837	22,046	21,339	21,178	21,325	21,878
12-month percent change	21.6	1.0	-6.3	-8.5	1.3	-0.8
Gourde money (M2)	34,509	39,123	38,776	39,144	39,678	40,527
12-month percent change	13.7	13.4	6.4	4.2	3.9	3.6
End-of-period gourdes per U.S. dollar	37	42	..	..	..	..
Net international reserves in percent of broad money	11.6	11.9	12.9	11.9	12.3	13.0
Share in foreign currency (in percent)						
Bank deposits	46.3	49.1	49.2	48.8	48.8	49.8
Credit to the private sector	48.5	48.2	48.8	48.5	48.8	49.1
Commercial Bank USS loan / USS deposits	46.1	44.3	44.3	44.4	44.5	44.8

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

1/ Includes commercial banks' foreign currency deposits. For program monitoring, they are excluded from net international reserves.

2/ Excludes special accounts.

3/ For all quarters, percentage change is calculated relative to the previous September.



REPUBLIQUE D'HAITI

**MINISTÈRE
DE L'ECONOMIE ET DES FINANCES**

Le Ministre

No..... DEE/BM/013-oct. 05

14 OCT. 2005
Port-au-Prince, le.....20.....

Mr. Rodrigo **DE RATO**
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Dear Mr. **DE RATO**:

It was with a certain surprise, and no small disappointment, that I learned yesterday afternoon of the decision by the Western Hemisphere Department to postpone consideration by the Fund's Board of the Emergency Post-Conflict Assistance (EPCA II) credit to Haiti, this despite the successful completion of consecutive financial programs between Haiti and the Fund – first the Staff-Monitored Program of April-September 2004, followed by the initial EPCA operation in FY 2004-05.

True, preliminary data issued by the central bank of Haiti at the beginning of this week indicated that we might have been very far from the expected net accumulation of G380 million for FY 2004-05 and that there may have been central bank financing on the order of G132 million through end-September 2005, However our more recent provisional data show a net accumulation of G32 million for the year, thereby respecting our commitment of no net financing from the central bank.

We are aware that if this shortfall of net accumulation of 348 million were to persist, it would pose difficulty for the program for which we are requesting financial support through a second EPCA. However, we wish to reassure you that we have already identified appropriate remedial measures. These include the reduction of the projected wage bill by postponing the recruitment of new personnel and salary increases which together will produce a savings of G205 million; and the reduction in subsidies to the electricity company for the purchase of fuel (G100million).

We understand that some are of the opinion that certain expenditures, such as the bonus to public employees, could have been postponed or curtailed. However, we proceeded with these expenditures at a time when we still anticipated closing out the fiscal year with a sizable net accumulation at the central bank, and based on the conclusion that the

expenditures could not be postponed. In the specific case of the bonus, the expenditure had been budgeted, engaged and made public since the beginning of September.

We think it important also to note that the data now before us confirm that September revenues, adjusted as is done with each month's preliminary figures to include late-reported revenues collected in cities and towns outside Port-au-Prince and at provincial ports, were significantly higher than the preliminary data on which yesterday's decision seems to have been based. These additional revenues include:

- G25 million in customs receipts at Malpasse (on the Haiti-Dominican Republic border)
- G52 million in partial payment of overdue petroleum duties and taxes
- G59 million in domestic tax receipts collected in the provinces
- G29 million in miscellaneous receipts.

You will find attached to this letter the central bank's revised "Tableau estimatif du Financement de la BRH de l'Administration Centrale," and the staffs of both my ministry and of the BRH will be at the disposal of the Fund's Resident Representative and of your headquarters for any further information or clarifications.

We fervently hope that, in the light of the tables referred to above and of the facts and clarifications provided in this letter, it may still be possible for Management to request Board consideration of Haiti's program before next week's Haiti follow-up meeting of donors in Brussels, a meeting obviously of critical importance to the political, social and economic future of Haiti.

Once again, it bears reiterating that the Transitional Government has respected its commitments to the Fund over the past two years, and that as spelled out so clearly in the Letter of Intent addressed to you on October 5, 2005: "(We have always stood ready to) take any further measures that may become necessary" to achieve the objectives of this latest program upon which we had expected to embark with the Fund as of today.

Sincerely,

Henri BAZIN

Attachment: Tableau estimatif du Financement de la BRH de l'Administration Centrale,
10/14/2005

cc.: Mr. Edouardo LOYO, Executive Director for Haiti
Mr. Anoop SINGH, Director, Western Hemisphere Department





Press Release No. 05/234
FOR IMMEDIATE RELEASE
October 19, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US\$14.7 Million in Additional Emergency Post-Conflict Assistance to Haiti

The Executive Board of the International Monetary Fund (IMF) today approved SDR 10.23 million (about US\$14.7 million) in Emergency Post-Conflict Assistance to Haiti, adding to the SDR 10.24 million (about \$US14.7 million) in IMF Emergency Post-Conflict Assistance provided to Haiti in January 2005 (see [Press Release No. 05/4](#)).

Emergency Post-Conflict Assistance (EPCA) is designed to help IMF member countries with urgent balance of payments financing needs in the wake of armed conflicts.¹ EPCA financing, which can play an important role in catalyzing donor support, is designed to be fast-disbursing but is coupled with IMF policy advice, covering the full range of macroeconomic policies and supporting structural measures, as well as technical assistance.

Following the Executive Board's discussion of Haiti, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, stated:

“The Haitian authorities have made progress toward restoring macroeconomic stability and implementing structural reforms under the program supported by the IMF’s Emergency Post-Conflict Assistance (EPCA), approved in January 2005. They implemented the 2004/05 budget without net recourse to central bank financing, and tightened monetary policy in the face of the difficult macroeconomic and security situation as well as delays in donor disbursements. Important structural measures implemented include the completion of a census of employment in key ministries and public sector entities, progress toward completing a survey of domestic arrears, and stricter control over discretionary ministerial accounts.

“The government’s program for 2005/06 adequately maintains the focus on preserving macroeconomic stability, enhancing governance and transparency, and increasing spending on infrastructure and social services. At the same time, continued international donor support will be critical for supporting the improvement in security necessary for safe and fair elections and economic recovery.

¹ <http://www.imf.org/external/np/exr/facts/conflict.htm>.

“The key objectives of the 2005/06 program are to strengthen the fiscal position, while avoiding central bank financing, to strengthen Haiti’s external position, and to advance key structural reforms. In particular, revenue performance and expenditure management will be strengthened, and monetary policy will be tightened, to stem pressures on domestic prices and help ensure that the program’s net international reserves target is met without undue pressure in the foreign exchange market. In support of these objectives, the authorities will take further measures to achieve a lasting improvement in the management and transparency of the public sector. These include: a more comprehensive census of public employees, based on a full headcount, once the security situation allows and resources become available; implementing a program to settle domestic arrears; continuing to publish the budget execution and the list of beneficiaries of government programs in support of the private sector; and moving ahead with the audit of public sector enterprises. The authorities are also committed to implementing a monitoring mechanism of fuel purchases and to ensure that new contracts on electricity production are based on open and competitive bids.

“Looking ahead, additional assistance from the international community will be required to support the authorities’ 2005/06 program, the ongoing electoral process, and Haiti’s longer-term development needs. In addition to providing a framework for donor support, it is anticipated that continued success in policy implementation under the EPCA-supported program will provide a basis for a possible PRGF-supported program and HIPC debt relief,” Mr. Carstens said.

**Statement by Eduardo Loyo, Executive Director for Haiti
and Ketleen Florestal, Advisor to Executive Director
October 14, 2005**

On behalf of our authorities, we wish to thank management and staff for their continuous engagement with Haiti and for their extraordinary efforts in catalyzing donor support for the country. Our authorities also appreciate the continued provision by the Fund of much valued technical assistance, in spite of security concerns. We would particularly like to thank the Statistics Department for trying its best to design a way to deliver on its promised assistance, undertaking a thorough assessment of needs in the real, monetary, BOP and fiscal sectors. We would also like to take this opportunity to reiterate our authorities' request for an FSAP.

1. Recent macroeconomic developments

Under the Emergency Post-Conflict Assistance (EPCA) covering the period from October 2004 until September 2005, the Haitian authorities made substantial progress in stabilizing the economy and strengthening institutions, notwithstanding adverse external shocks and a problematic security situation. Benchmarks and targets were largely met during the first two quarters of the program.

In the second quarter of 2005 (third quarter of the program and of the fiscal year), following low levels of revenue collection and lower than expected external financial assistance, the Government temporarily resorted to financing from the Central Bank. Concerns regarding the risks to the IMF program posed by such financing further delayed the disbursement of much-needed budget support and caused Haiti to deviate from the quantitative targets that had provisionally been agreed with the Fund for end-June. The authorities promptly took corrective measures, however, to reverse the situation. Expenditure controls and record tax revenues in August and September, due in particular to administrative efforts and to the collection of arrears from cellular phone companies, allowed the Government to reverse earlier Central Bank financing more than in full by the close of FY05, while at the same time postponing to the first quarter of the new fiscal year the disbursement of US\$ 15 million from a World Bank structural adjustment loan.

Monetary policy also had to be tightened to mop up excess liquidity and ease pressure on the exchange rate. That pressure was exacerbated by the sharp increase in oil prices and by delays in the disbursement of external assistance. The Central Bank progressively increased interest rates on its paper – first by 2, and then by 5 further percentage points, respectively, in June and in August this year. This past October 10th, the rate on its 91-day bond was raised from 15 to 18 percent per year, firmly in positive territory in real terms when compared to a consumer price inflation that is projected, under the program, to be 10 percent in the fiscal year extending from October 2005 to September 2006. Under the prevailing circumstances, however, the Central Bank found it difficult to intervene in the foreign exchange market to meet quarterly NIR targets, and during the last quarter of the program these targets had to be relaxed in consultation with the Fund. The observance of the modified program targets during

the last quarter of the fiscal year was achieved through fiscal adjustments and the disbursement of the second tranche of an IDB Policy-Based Loan.

2. Progress with structural reforms

On the structural front, all programmed measures have been implemented, including key policy actions that were delayed during the first two quarters of FY05. The authorities have completed a census of employment in the National Police, Ministry of Health and Ministry of Education for the Port-au-Prince metropolitan area. As for the census of domestic arrears, a significant amount of claims on the government have been registered in the Ministry of Economy and Finance following the publication in the newspapers of three notices inviting the public to make such registration. The authenticity of the claims is presently being verified by a Ministry task force. A strategy to deal with domestic arrears, including a payment schedule, will be laid out once their outstanding stock is officially determined.

In the electricity company EDH, a mechanism for continuous monitoring of the use of budgetary transfers has been put in place. It includes an independent audit to be carried out by a private firm. Furthermore, competitive acquisition procedures will be adopted to replace existing contracts at their expiration and to convert protocols for electricity supply into contracts by end-December 2005.

An Anti-Corruption Unit, created by ministerial decree and entrusted with corruption prevention and awareness, information dissemination and administrative investigation, has been operational since September 2004, with a clearly established work program and operational plan. Several corruption cases identified by the Unit have been referred to the judicial authorities for prosecution. The Unit has also recently completed, in partnership with IDA, a comprehensive diagnostic survey on corruption practices with a view at incorporating its conclusions into a medium term anti-corruption strategy.

A key element of the reform efforts is the strengthening of the central bank. The authorities have taken decisive measures to decrease the constraints on the BRH's ability to conduct monetary policy. The losses of the central bank, estimated at 1 percent of GDP in 2004, have been reduced by more than two thirds. Recognizing the heavy toll that subsidized credit to the central government has had on the central bank's balance sheet and the risks to the economy of the bank's deficit, the Ministry of Economy and Finance has agreed to begin making payments to the BRH on outstanding credits that will at least cover the bank's operational costs. A recapitalization plan, which includes the conversion of subsidized credit to the government into interest-bearing bonds, is to be implemented starting this fiscal year.

In line with the recommendations of the Fund's Safeguards Assessment report published last June, the board of the BRH approved in August 2005 the bank's internal audit charter, so as to increase the effectiveness of the Internal Audit Department. Simultaneously, the accounting function is being strengthened and the central bank continues its practice of publishing interim and annual audit reports. A new Central Bank Law with provisos consolidating central bank independence and reinforcing the bank's ability to supervise the financial system has also been drafted.

3. The new EPCA

The authorities seek Board approval, at this time, for a program under which they will continue to carry on the reforms initiated under the previous EPCA. It covers the six-month period ending in March 2006, when the next government is due to take office and will hopefully be in a position to agree to a program that could be supported by the Fund's Poverty Reduction and Growth Facility. During these six months, the authorities are determined to consolidate the institutional and macroeconomic framework established during the past two years. The underlying thread of the reforms is to improve transparency, accountability and efficiency in the management of public affairs.

The extensive reform agenda contemplates not only actions under the EPCA program but also with the World Bank and the IADB, through Structural Adjustment (EGRO) and Policy Based Loans (PBLs). On the fiscal and governance front, the reform agenda encompasses:

- continued reinforcement of budget management and expenditure controls, including a review of the computerized system of public expenditure management and return to the regular practice of producing an annual audit;
- reestablishing the annuity of the budget: for the second year in a row, the budget for FY05 was adopted by the Council of Ministers before the beginning of the fiscal year;
- eliminating recourse to central bank financing: notwithstanding the immense needs of the public sector to meet urgent and important social and political priorities, and the scarcity of resources, the interim government has insisted on establishing a tradition of fiscal discipline by fixing and observing a target of zero central bank financing;
- reinforcing customs controls and fighting fraud and corruption at the Internal Revenue Service (DGI) in order to bring tax collection closer to potential;
- substantially reducing the use of current accounts in the execution of public expenditures and making their residual use stringently regulated and transparent;
- involving the public in the budgeting process, with data dissemination through the internet and the press and consultations with civil society and donors;
- improving transparency and efficiency in procurement, with the creation of a National Procurement Board (CNMP) and publication of results of all tendered contracts;
- enhancing transparency in the management of public enterprises through financial and management audits and the reestablishment of sound accounting practices;
- safeguarding key social and investment expenditures and improving their efficiency: among other measures, a private/public partnership office was created with a mandate covering mechanisms of subsidization of private educational institutions in poor communities.

4. Donor support

Economic recovery has been significantly weaker than expected, reflecting the impact of insecurity on business confidence, delays in donor project disbursements, and weaknesses in institutional and administrative capacity. While the authorities are committed to continue with reform efforts, particularly those geared to improve revenue performance, governance and absorptive capacity, stronger budgetary assistance is crucial for the sustained improvement of social conditions in Haiti and for the fight against extreme poverty. Over time, increases in tax revenues should help decrease the dependency on donor funds.

The transition government is keenly aware that the new elected government will take office in the middle of the fiscal year and considers it most important that the financial means be readily available for the new administration to operate during the first six months of its term. The Haitian authorities have been forcefully seeking donor support to cover the remaining financing gap for FY06. A donors' meeting will be held in Brussels on October 20-21. Haiti is hopeful that donors will be sensitive to the necessity to commit early to ensure timely disbursement of budget support within the 2006 fiscal year.

Parliamentary and presidential elections are now scheduled to take place by mid-December 2005 and a new President is to be sworn into office on the constitutionally-mandated date of February 7, 2006. The Haitian National Police and the United Nations Mission for the Stabilization of Haiti have been working together to improve security and to prepare the ground for fair and safe elections. The electoral process could not take place without the support of the international community and they are a key step for Haiti's future.

Strengthening donor coordination, streamlining procedures and improving implementation support will be crucial for effective and timely disbursement of external assistance. In particular, efforts on the part of donors to strengthen local capacities to facilitate project preparation and execution would be welcome. Haiti is thankful to the European Union for its recent unblocking of a significant amount of funds, some of which, it is hoped, will go towards closing the financing gap of the second half of the fiscal year, estimated at present at more than US\$ 30 million. We wish to express the authorities' appreciation for the additional support that Canada, France and Spain have offered to close the financing gap of the first six months of FY06, allowing the conclusion of this EPCA, and also for the US\$7 million to be disbursed by the United States in the second half of the new fiscal year.

Haiti's track record of program implementation has greatly improved despite the complexity of the problems the country has to cope with. Going forward, it would be important to expedite as much as possible, with the collaboration of the Fund and the World Bank, the steps necessary for a PRGF program and leading to the decision point under HIPC. More immediately, this would imply renewed efforts in drafting the I-PRSP, which has been initiated by the Haitian authorities.