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Haiti: Use of Fund Resources—Request for Emergency Post-Conflict Assistance—Staff Report; Staff Statement; Press Release; 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 report 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 November 16, 2004, 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 December 28, 2004. 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 statement of January 10, 2005 updating information on recent developments.

- a Press Release summarizing the views of the Executive Board as expressed during its January 10, 2005 discussion of the staff report that completed the request.

- 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*

*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 Carlos Muñiz

December 28, 2004

- **Haiti has experienced an extended political conflict that led to an armed rebellion in early 2004 and a change in government in mid-March**. In the period preceding the political transition, several hundred people were killed and many more injured, there were extensive property losses (5½ percent of GDP) and damage to Haiti's institutional and administrative capacity.

- **Additional losses resulted from devastating flooding in May and September 2004**. Nearly 5,000 persons lost their lives or were missing, and the property losses are estimated at 3½ percent of GDP.

- **The discussions on the authorities' request for emergency assistance took place at the Fund's headquarters during November 8–12 and in Port-au-Prince during November 15–16, 2004**. Article IV consultation discussions were not completed during this mission due to the security situation and will be concluded in early 2005. The staff team comprised P. Gajdeczka (Head), G. Everaert, L. Jaramillo, C. Sancak (all WHD), D. Simard (FAD), and J. Mathisen (PDR). It was assisted by M. Rached (Resident Representative). The mission met with Finance Minister Bazin, BRH Governor Magloire and other senior officials.

- **The objectives of the Staff Monitored Program, which expired last September, were largely met**. All end-June and end-September quantitative targets were observed by wide margins, with NIR significantly above the program floor and overall budget deficit well below target, and good progress was made on structural measures.

- **Request for emergency assistance from the Fund**. In the attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP), the Haitian authorities request a purchase of 12.5 percent of quota under the Fund's Emergency Post-Conflict Assistance (EPCA) policy. The authorities indicated their intention to request an additional purchase under the EPCA.

- **Publication**. The authorities expressed their intention to publish their LOI/MEFP and the staff report on the IMF website.

EXECUTIVE SUMMARY

Recent developments and performance under the SMP

- Political and security conditions remain difficult. The former ruling party refuses to participate in the elections scheduled for late 2005, armed rebel groups challenge the transition government's authority in the provinces, and gang-related crime and kidnappings have increased. Poverty indicators have deteriorated over the past year.

- The authorities have made good progress toward restoring financial and economic stability. Real GDP contracted in 2003/04, but external trade has returned to the pre-crisis levels, the gourde remains stable at around G37/US$, and monthly inflation has declined.

- Performance under the SMP was satisfactory. All quantitative targets were observed by wide margins, with the overall budget deficit significantly below the SMP target due to higher-than-expected revenues and slow implementation of emergency outlays.

- Although administrative capacity constraints resulted in delays in the implementation of some structural commitments, the authorities have demonstrated commendable determination to improve public sector governance and transparency.

Program for 2004/05

- The authorities' program draws on a broad reform and development program prepared in collaboration with the international community. The principal objectives of the program are to strengthen key institutions and governance, promote economic recovery, improve access to basic services, restore security, and promote national dialogue.

- The macroeconomic framework targets real GDP growth at 2.5 percent, a decline in consumer price inflation to about 12 percent (end of period), and an increase in NIR to US$85 million. The 2004/05 budget envisages increased provision of key public services and investment, and would avoid the need for domestic financing.

- Structural measures aim to enhance public sector governance and transparency. In particular, the authorities are committed to: (i) continue to limit the use of ministerial discretionary accounts; (ii) complete the census of employment of the ministries and key public enterprises; (iii) carry out a survey of central government arrears; (iv) prepare and publish audits of government accounts; (v) take steps to complete audits of key public sector enterprises; and (vii) make the anti-corruption unit operational.

- In the staff's view, Haiti meets the criteria for Fund assistance under EPCA. The proposed purchase under the Fund's EPCA policy is for SDR 10.23 million (12.5 percent of quota).

Although there are risks to political and macroeconomic stability, the strength of the authorities' performance under the SMP demonstrates a strong commitment to proceed with reforms in a difficult environment.

Contents

Annexes

I. INTRODUCTION

1. **The extended political conflict in Haiti culminated in an armed rebellion that led to a change in government in March 2004**. The rebellion resulted in substantial casualties, widespread destruction, and weakened public administration. The political and security situation stabilized following the arrival of a multilateral interim force—succeeded on June 1 by a United Nations stabilization mission—and the formation of a transition government in March 2004. To restore financial stability and support economic recovery, the transition government implemented a six-month Staff Monitored Program (SMP), and the international community pledged substantial economic assistance at a July 2004 donor conference.

2. **Since the 2002 Article IV consultation Haiti has implemented two SMPs**. In concluding the 2002 Article IV consultation, Executive Directors urged the authorities to restore political stability and establish a track record of policy implementation that could lead to a PRGF-supported program. A one-year SMP—covering the period April 2003–March 2004—sought to consolidate the stabilization gains made since early 2003 and clear external arrears. However, the program began to go off-track in December 2003, due to large expenditure overruns. The new SMP, which was agreed in June 2004, sought to restore financial stability and establish a track record of policy implementation that could build a basis for a possible future request for the use of Fund resources; performance under the program was satisfactory and its key objectives were achieved.

3. **Prospects for economic and political stabilization have been weakened by the climate of insecurity and floods**. Economic and social conditions have deteriorated as a result of massive floods in May and September 2004 which caused high casualties and extensive property damage. Since October, strikes and demonstrations have intensified and there has been an upsurge in violence, threatening the already fragile stabilization process.

4. **The Haitian authorities have requested a purchase under the Fund's Emergency Post-Conflict Assistance (EPCA) policy to help address the impact of the conflict**. The financial program underpinning the EPCA would cover October 2004–September 2005. Elections are envisaged to take place in late 2005, and the authorities believe that a new government would request support under a PRGF arrangement.

5. **Haiti meets the conditions for post-conflict financial assistance from the Fund** (Attachment IV). In particular: (i) there is 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 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. Background and Recent Developments

A. Political, Security, and Social Situation

6. **The transition government was formed to lead the country to regional, parliamentary and presidential elections scheduled for 2005**. After the term of the last Parliament expired in January 2004 and following President Aristide's resignation in February, there is no elected government in Haiti.[1] Therefore, a key task for the transition government is to seek national reconciliation and to create conditions for safe and fair elections.

7. **However, the political climate and domestic security conditions remain difficult**. The former ruling political party—Lavalas—refuses to participate in the election process; the former rebel groups remain armed and openly challenge the government's authority in the provinces; and preparations for the elections have not yet begun. Deployment of the United Nation's (U.N.) stabilization force was slower than anticipated, and Haiti's National Police is widely acknowledged to be undermanned and not well equipped.[2] Moreover, the government's authority in the provinces has not been fully restored. Since October, gun-related crime and kidnappings have increased, and some pro-Aristide demonstrations turned violent. The activities of armed gangs and the rise in crime have hampered the delivery of humanitarian assistance to flood-afflicted areas.

8. **Social conditions in Haiti have also deteriorated further during the past year**. Haiti is the poorest country in the Western Hemisphere and one of the poorest in the world. During 1980–2004, real GDP per capita declined by nearly 50 percent,[3] and about 76 percent of Haiti's population now lives under US$2 per day. Life expectancy is 53 years, half the population lives below the minimum level of dietary energy consumption, and HIV/AIDS affects 5 percent of the population. These indicators are likely to have worsened following a decline in real GDP last year, and disruptions in the supply of basic commodities and in the delivery of social services in the areas affected by the flooding and civil disorder. The destruction to the public service infrastructure, poor road conditions, and continued security problems hamper the reconstruction and social services rehabilitation efforts.

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[1] However, consistent with Haiti's constitution, the Chief Justice of the Supreme Court was sworn in as interim president and a transition government was formed.

[2] The U.N. stabilization force reached near its full strength of 8,300 in December 2004 from about 4,300 three months earlier.

[3] In terms of constant 1995 U.S. dollars.

B. Recent Economic Developments

9. **Significant economic losses have resulted from the political turmoil in early 2004 and from devastating floods in May and September**. The property damage and lost output resulting from the armed conflict are estimated at 5½ percent of GDP. Additional losses—including thousands of deaths, extensive damage to housing, and destruction of crops in Haiti's most productive agricultural areas—resulted from massive flooding (Box 1).

Box 1. Haiti: Losses from the Political Conflict and Natural Disasters

The impact on Haiti of the political conflict and the ensuing two tropical storms has been devastating, resulting in extensive loss of life and major property damage.

- The prolonged political conflict culminated in civil disorder in early 2004 claiming numerous lives and leaving many more injured. Property damage in the public and private sectors is estimated at 5½ percent of GDP.

- Massive floods in late May in the southeastern part of Haiti swept away hundreds of houses and resulted in a death toll close to 2,000. Haiti is highly prone to flooding as a result of extensive deforestation.

- Tropical Storm Jeanne hit Haiti's northwest province in September resulting in devastating floods. The number of dead is reported at close to 2,000 with another 1,000 people missing and tens of thousands left homeless. While the majority of victims and the greatest economic damage were in the city of Gonaives, damage in rural areas has also been severe as flooding destroyed crops and livestock, as well as economic and social infrastructure; property damage is estimated at 3½ percent of GDP.

10. **Performance under the SMP—which expired in September—was satisfactory**.[4] End-June and end-September quantitative targets were observed by wide margins (Attachment II, Table 1), with the fiscal position substantially tighter than envisaged under the program. Although administrative capacity constraints contributed to delays in the execution of some structural commitments—e.g., the census of public sector employment, audits of public sector enterprises, and the new budget nomenclature—most measures were implemented (Table 9).

11. **Progress has been made toward restoring financial and economic stability**. Real GDP is estimated to have declined by 3½ percent in 2003/04 (October–September), reflecting disruptions in economic activity in early 2004, and the effect on business confidence of the security situation and uncertainty about government policies. However, external trade has returned to the pre-crisis levels, as the export sector (mostly garments assembly) was left largely unscathed by the conflict, while imports are mostly financed by private remittances. The gourde remains stable at around G37/US$ (Figure 1).

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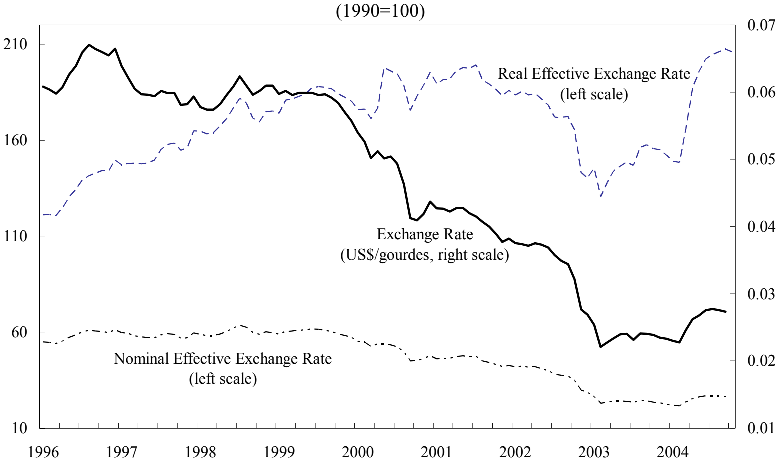
[4] The SMP covered April–September 2004 (Country Report 04/216).

Figure 1. Haiti: Exchange Rate 1/

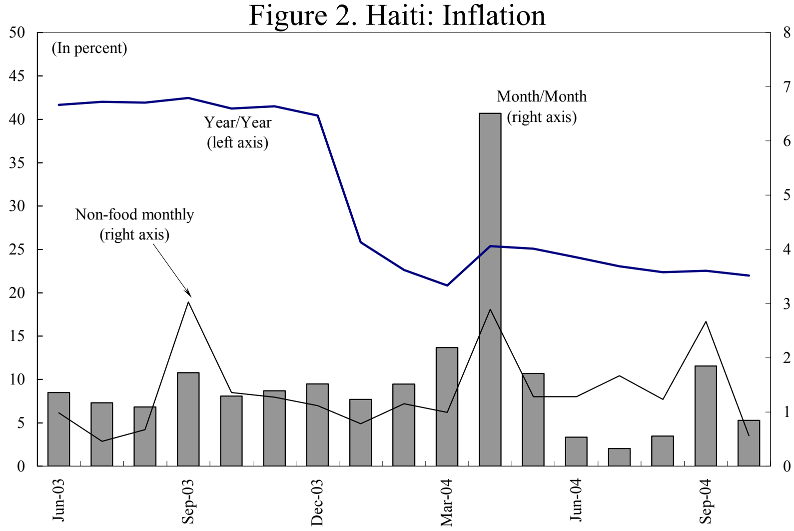
(1990=100)



Source: Central Bank of Haiti; and Fund staff estimates.
1/ An increase indicates an appreciation.

12. **CPI inflation has declined in recent months**. Immediately following the period of civil disorder, prices surged in March and April by 2.2 percent and 6.5 percent, respectively, largely reflecting disruptions in the supply system. During June–October, monthly CPI inflation remained below 1 percent, except for September when the CPI rose by 1.8 percent in part reflecting seasonal factors and supply shortages caused by the floods (Figure 2).

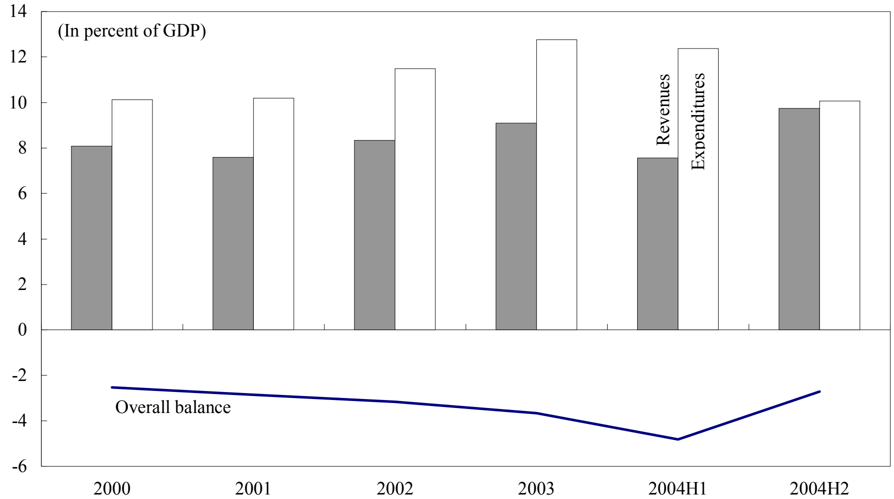
Figure 2. Haiti: Inflation



13. **The 2003/04 overall budget deficit was significantly below expectations** (Table 3). Revenues were substantially above target because of strengthened collection of arrears as well as a rebound in tax revenues. Expenditures were also above target on account of large outlays not envisaged under the SMP and despite slow implementation of emergency outlays. As a result, a budget deficit of 1.3 percent of GDP is now estimated for the second half of the fiscal year (Figure 3), compared with a deficit of 2.7 percent of GDP envisaged under the

SMP.[5] The overall budget deficit for the full fiscal year is estimated to have been at around 3¾ percent of GDP, compared with 5 percent of GDP expected under the SMP.

Figure 3. Haiti: Revenues, Expenditures, and Overall Balance 1/



1/ Revenues, expenditures, and overall balance for the first and second half of 2004 are annualized.

14. **The authorities have eased monetary conditions substantially in response to the decline in inflation and output and the strong budget position**. The central bank (BRH) reduced interest rates on its 91-day bonds in several steps to 7.5 percent in September (from 26 percent at end-March) and in August injected liquidity equivalent to 7 percent of base money (Figure 4). Despite these measures, commercial bank credit to the private sector remains stagnant, and banks widened intermediation spreads in response to a rise in nonperforming loans and broader concerns regarding the impact of the political and economic uncertainty on credit quality. Nonetheless, available indicators suggest that the financial condition of the banking system is relatively stable, with the average risk-weighted capital adequacy ratio of 15.5 percent at end-September 2004.[6]

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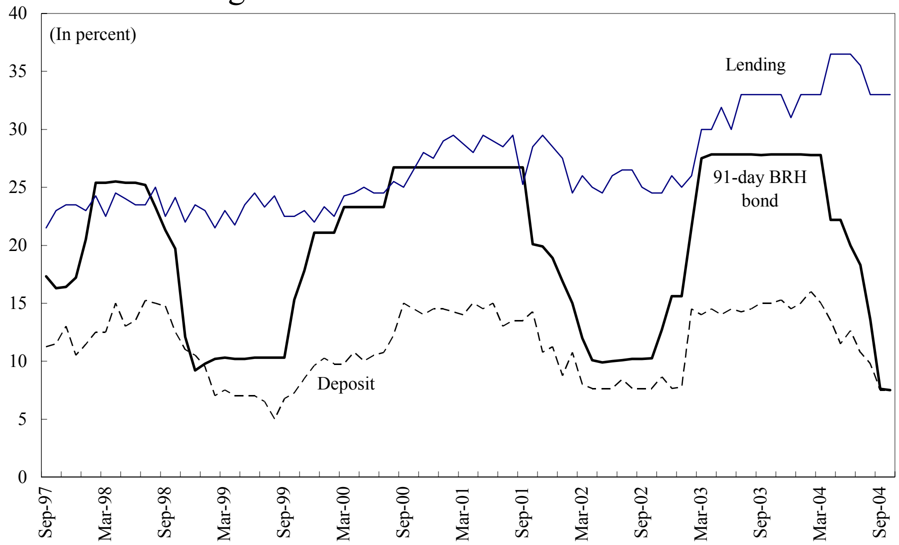
[5] The April–September 2004 budget deficit would have been in a surplus of 0.25 percent of GDP excluding outlays not envisaged under the SMP. These include: (i) unprogrammed foreign grant-financed outlays of G1,844 million; and (ii) two transfers by the government in September 2004, to recapitalize the Industrial Development Fund to enable it to support economic recovery in the conflict-affected areas (G360 million), and to provide guarantees for small businesses that suffered from arson in June 2004 (G50 million).

[6] Nonperforming loans were 7 percent of total loans at end-September 2004, compared with 5.5 percent in September 2003.

Figure 4. Haiti: Gourde Interest Rates



Source: BRH

15. **The external position has strengthened**. A surge of remittances during April–June 2004 caused some upward pressure on the gourde, and the BRH took the opportunity to intervene in the exchange market to build its NIR to US$56 million by end-September, US$34 million above the program floor. Since then, NIR increased to about US$72 million by mid-December.

16. **At the July 2004 conference, donors pledged US$1.1 billion of new financing (Text Table 1) for the period July 2004–September 2006**. This amount is expected to provide sufficient financing to reinvigorate Haiti's development program and support reconstruction of the infrastructure and key government facilities. Total disbursements of budget assistance during July–September were US$50 million, largely through direct donor intervention on behalf of the government. Based on consultations with donors, disbursements of grants and loans to the 2004/05 budget are projected at about US$350 million. In addition, the international community is expected to provide about US$140 million largely to NGOs as part of the humanitarian response to the crisis.

Text Table 1

Haiti: Pledges at July 2004 Donor's Conference
(In millions of U.S. dollars)

Type of Support	July 19–20, 2004
Total pledges	1,085
Grants	663
EC	288
France	33
Germany	14
World Bank	5
IDB	3
Sweden	2
Canada	88
United States	207
Other countries/agencies	23
Concessional loans	422
World Bank	150
IDB	260
IFAD	12

Source: World Bank.

III. Policy Discussions

17. **Building on the macroeconomic stability that has been achieved, the authorities' key objectives under the program are now to strengthen institutional capacity and revive growth**. The program for 2004/05 draws on a broad reform and development

program—the Interim Cooperation Framework (ICF)—prepared in collaboration with the international community. The ICF aims at strengthening key institutions and governance, promoting economic recovery, improving access to basic services, restoring security, and promoting national dialogue.

18. **The macroeconomic framework of the 2004/05 program targets real GDP growth at 2½ percent, a decline in consumer price inflation to about 12 percent (end of period), and an increase in NIR to US$85 million**. The prospects for growth have been clouded by the political uncertainties, the security situation, delays in implementing the public investment program agreed with donors, and by the impact of floods on agricultural output. Regarding the balance of payments, the external current account including grants is projected to remain broadly in balance. The projected increase in imports is linked to the public investment program to be financed largely by official grants, while part of the increase in private remittances is expected to be deposited in the domestic banking system and contribute to the increase in foreign assets.

19. **The authorities agreed with the staff that, even with sound macroeconomic policies and renewed donor support, near-term prospects for raising growth are limited**. Key impediments include deep-rooted political and economic difficulties, severe underinvestment in human and physical capital, and persistent security concerns. They were confident, however, that notwithstanding these constraints, their sustained efforts and successful elections next year, combined with strong donor support, will manage to set the economy on a path of sustainable growth. Box 2 presents key objectives and policies under the EPCA.

A. Fiscal Policy

20. **The authorities' fiscal strategy aims at increasing the provision of key public services, boosting public investment, while eliminating new BRH financing**. Consistent with this approach, the 2004/05 central government budget targets a deficit of 6 percent of GDP to be fully financed by external assistance; government revenue is projected to more than cover current expenditures, while public investment would be largely financed by external resources (Table 2). Given the availability of external financing, the authorities emphasized their commitment to avoid central bank financing, and were ready to take additional measures as appropriate to achieve their budget targets (¶12, MEFP).

Box 2. Haiti: Objectives and Policies under the EPCA

The authorities' economic program seeks to promote macroeconomic stability and enhance administrative and institutional capacity, in order to sustain economic recovery and reduce poverty.

- **Fiscal policy.** The provision of key public services and investment will be increased, using available government revenues and external assistance. In line with this approach, the 2004/05 budget envisages an overall deficit of 6 percent of GDP to be financed by external resources.
- **Monetary policy.** The monetary program aims to reduce inflation to 12 percent in 2004/05 by tightening monetary conditions to lower inflation expectations. To reduce vulnerability to external shocks, the program also targets an increase in official reserves to the equivalent of 1.7 months of imports of goods and services by end-2004/05.
- **External policies.** The authorities will regularize arrears to the World Bank and initiate discussions with bilateral creditors on the options for addressing arrears. An effective aid coordination mechanism will be established.
- **Structural measures**. The key elements will include the census of employment of the ministries and key public enterprises by end-March 2005; audit of key public sector enterprises; and survey of central government arrears. The central bank will undergo a safeguards assessment by the Fund.

21. **The program adopts a conservative projection for government revenue, which is expected to rise somewhat to 9.4 percent of GDP in 2004/05**. Taking into account governance improvements in Customs since April, the planned increase in excises on tobacco and alcohol and introduction of excise stamp duties, and the anticipated recovery in economic activity, the authorities were confident that their revenue target is achievable, despite the security situation and limited administrative capacity in the provinces.[7]

22. **The 2004/05 budget provides room to expand social services, improve domestic security, and significantly expand public investment**. The programmed increase in government expenditure to 15.3 percent of GDP (from 12.4 percent in 2003/04) reflects the government's priorities and financing agreed with donors. In particular: (i) a higher wage bill will provide for recruiting and maintaining quality staff in the key sectors, including health and education,[8] (ii) about 1.3 percent of GDP in current and capital outlays has been allocated for the police force, equipment and facilities; and (iii) the increase in public investment targets reconstruction work and infrastructure projects. In addition, the budget includes emergency outlays (0.3 percent of GDP) for reconstruction and job creation that were programmed but not implemented in 2003/04.[9] The staff expressed regret that public

[7] During April–September 2004, government revenue increased to 9.7 percent of GDP (annual basis), in part reflecting the collection of tax arrears.

[8] The wage bill rises by 48 percent, owing to the full-year impact of the wage adjustment of last June, and a new wage adjustment to compensate for past declines in real wages, and new hiring. This would bring the wage bill closer to levels experienced in Haiti in the past. The wage increase has been incorporated in the macroeconomic framework for 2004/05.

[9] In addition to the external resources, the budget has allocated a part of the emergency outlays and above G200 million of domestically-financed expenditure to address the impact of the floods.

investment projects and emergency outlays had been delayed last fiscal year, and stressed the importance of avoiding further shortfalls, especially on projects that could have high social impact and help generate employment. The authorities reiterated their commitment to accelerate project implementation, in particular with regards to projects financed by the government's own resources.

23. **The authorities are committed to strengthening budget management and expenditure control**. With regard to this year's budget, the authorities are improving the expenditure approval process, including by eliminating the recourse to ministerial discretionary accounts, except for small emergency oulays.[10] The authorities agreed on the need to promptly complete a comprehensive survey of domestic payment arrears and to formulate a strategy to clear them in order to demonstrate the government's commitment to transparency and financial responsibility. To enhance the execution of public investment, the authorities have established—with donors collaboration—a coordination mechanism for the externally-financed projects and are strengthening the institutional capacity of the relevant ministries (¶14, MEFP).

24. **The staff supported the authorities' intention to strengthen and unify the budget process**. The new budget nomenclature, providing the capacity to identify spending priorities, was viewed as particularly helpful. The staff cautioned that to allow proper planning and coordination with donors, the budget preparation process of 2005/06 needs to begin in the first quarter of 2005, with the objective of completing the draft budget by end-June. The authorities have requested technical assistance from the Fund in developing a broad strategy for reforming public financial management, especially in view of governance weaknesses and increased donor funding.

B. Monetary and Financial Sector Policies

25. **Monetary conditions need to be carefully managed to achieve the program's objective of reducing inflation to 12 percent during 2004/05**. The staff cautioned that the BRH's interest rates remain negative in real terms, excess reserves are at historical highs, and the September–October CPI was higher than in the previous months.[11] In response, the BRH noted that in view of declining inflation, a stable exchange rate, and the sluggish economy there was no immediate need to tighten monetary conditions, but agreed to adjust interest rates and issue central bank bonds as needed to achieve the program's inflation and external objectives (¶16, MEFP).

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[10] Spending through current accounts reflects the inefficiencies in the requisition process, mainly due to administrative capacity constraints.

[11] The program includes a NDA target consistent with inflation and NIR objectives. The BRH targets inflation with broad money as the operational target. A MFD Technical Assistance mission envisaged for early 2005 will review the monetary policy framework and assess the financial condition of the central bank.

26. **To reduce vulnerability to external shocks, the program targets an increase in gross official reserves to US$271 million by end-September 2005 (1.7 months of imports)**. At the same time, however, the BRH will avoid foreign exchange market intervention, except for meeting its NIR target. The BRH will continue to monitor the financial condition of commercial banks and will strengthen surveillance of savings cooperatives, including by increasing the number of on-site inspections. The authorities will publish an interim audit of the BRH and an IMF safeguards assessment of the BRH will be completed by May 2005.

C. External Financing and Arrears Clearance

27. **The authorities are keenly aware of the need to use rapidly and effectively the pledged external assistance**. The staff urged the authorities to advance preparation of investment projects and programs that were agreed under the ICF and in particular to speed up the implementation of rehabilitation projects in areas affected by the developments in early 2004 and the floods. The authorities noted that an effective aid-coordination mechanism is being put in place to facilitate full disbursement of external financing (grants and loans) of the central government 2004/05 budget projected at US$350 million.[12] Most of this assistance is in the form of project grants and loans from Canada, the European Union, the United States, the World Bank, and the IDB.

28. **The authorities are strongly committed to engage in discussions with their external creditors to address the outstanding payments arrears** (¶22, MEFP). They are working with World Bank staff to finalize an operation—including US$61 million reform-based financing—to support a number of reform measures included in the ICF.[13] To clear the way for Bank financing, in early January 2005 Haiti will clear arrears to the World Bank (US$52 million) using a combination of grant financing (US$6.4 million from Canada) and a bridge loan. The World Bank is expected to disburse US$46 million after Board approval and arrears clearance, thereby allowing Haiti to repay the bridge loan.[14] The Bank recently approved seven LICUS grants for a total of US$6.4 million. The mission urged the authorities to promptly finalize discussions on a bridge loan that will be needed to clear the arrears to the World Bank, and contact their bilateral creditors to initiate discussions on options to address the outstanding arrears and start the process of data reconciliation.

[12] Donor-government meetings are convened regularly to facilitate aid coordination and monitor project disbursements.

[13] The Bank-supported operation, which will have a grant component of 40 percent and a concessional loan component of 60 percent, is to be considered by the Bank's Board in early January 2005.

[14] In addition, the Bank is preparing a US$12 million grant to assist in building institutional capacity for disaster management and rehabilitation of the areas affected by the recent floods.

D. Structural Reforms and Governance

29. **The authorities are determined to enhance public sector governance and address institutional weaknesses**. The measures under the EPCA, some of which had been initiated under the recently completed SMP, focus on government expenditure and the audits of public sector enterprises (paragraphs 19–20, MEFP). In particular, the authorities will: (i) complete the census of employment in the public sector by end-March 2005; (ii) complete the survey of central government arrears; (iii) reduce the number of current accounts to one per ministry and per government agency by March 2005 and limit outlays through these accounts; (iv) prepare and publish the audits of the central government accounts of 2001–04; (v) extend pre-shipment verification to all ports of entry to Haiti by September 2005; (vi) establish by March 2005 a program to reinforce and use the central taxpayer file on the basis of taxpayers' Fiscal Identification Number; (vii) conduct external financial and management audits of key public sector enterprises; (viii) make the anti-corruption unit operational by end-December 2004; and (ix) implement the new CPI by June 2005. The authorities agreed to publish information on the implementation of the two financing and guarantee schemes (Industrial Development Fund and the victims of arson fund) that were recently established to assist the private sector in dealing with the losses incurred during early 2004 (¶13 and 19, MEFP).

30. **Data weaknesses hamper surveillance and create risks for program monitoring**. While the periodicity and coverage of economic statistics made available to the Fund are broadly adequate, problems exist with regard to their timeliness. The staff welcomed the authorities' commitment to strengthen data reporting and reliability, especially for data required for the monitoring of performance under the program, but emphasized that consistent efforts will be needed to achieve lasting improvement in this area.

E. Program Issues

Access and capacity to repay the Fund

31. **The proposed purchase under the Fund's EPCA policy is for SDR 10.23 million (12.5 percent of quota)**. The rate of charges on the proposed purchase would be subsidized to an annual rate of 0.5 percent, consistent with Haiti's PRGF eligibility. With the disbursement of the EPCA resources at 12.5 percent of quota, Haiti's obligations to the Fund would peak in 2009 at 1.2 percent of exports of goods and services. The proposed access is consistent with the revised EPCA policy and with Haiti's financing needs during October 2004-March 2005, taking into account the resources pledged by other donors.

32. **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 despite the challenges it has faced. Since Haiti's current obligations to the Fund are almost fully discharged, Haiti's purchase of 12.5 percent of quota under the EPCA would take its Fund credit outstanding to a peak in 2005 of 18 percent of quota and 4 percent of exports of goods and services. Debt service to the Fund would remain about 1 percent of exports of goods and services.

External financing

33. **Haiti has received pledges of external assistance sufficient to cover its financing needs in 2004/05.** The program assumes clearance of external arrears and debt service to the World Bank through September 2005 and that, pending future agreements, Haiti would continue to accumulate arrears to some bilateral creditors.[15] In addition to the initial purchase of 12.5 percent of quota, the authorities noted their intention to request another purchase under this facility—possibly within six months—in view of the balance of payments need to support the policy framework and the importance of catalyzing concessional assistance from donors.[16] The authorities agreed to save most of the external budgetary assistance exceeding program projections to build up official international reserves.

Risks and monitoring

34. **There remain significant risks to political and macroeconomic stability and Fund involvement**. On the political front, security concerns and the lack of government control over provinces may jeopardize prospects for fair and safe elections scheduled for 2005. In addition, private sector confidence, investment and economic recovery could be undermined by weak coordination of donor financing with the budget, delays in disbursement of donor assistance, and continued violence and the presence of armed groups throughout the country. On the external side, risks may emanate from instability in the flow of private remittances, and from the export sector.[17]

35. **The program underpinning the EPCA will be monitored on the basis of quarterly indicative targets and structural benchmarks**. The MEFP includes quarterly indicative targets for December 2004 and March 2005 (Attachment II, Table 1). Targets for the second half of the fiscal year (April–September 2005) are to be confirmed in May when the authorities are expected to request another purchase under the EPCA. The main policy actions under the program are listed in Attachment II, Table 2.

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[15] Staff has had informal contacts with the Paris Club secretariat and representatives of other bilateral creditors. These creditors recognize that contractual debt service arrears may arise, but have indicated that they do not object to the Fund proceeding to extend emergency assistance. Haiti's government has no liabilities to external private creditors and, therefore, the issue of arrears does not arise. Against this background, staff considers that an EPCA purchase would not be inconsistent with the Fund's arrears policy.

[16] The authorities decided not to request emergency disaster assistance from the Fund in view of this facility's nonconcessional nature.

[17] The potential negative impact of the end of the multi-fiber agreement on Haiti's export sector could be partly mitigated by the Haiti Economic Recovery Opportunity (HERO) Act of 2004 that was considered but not passed by the U.S. Congress. This bill sought to grant limited duty-free entry to apparel articles assembled in Haiti without regard to the country of origin of the components. The bill is expected to be considered by the next U.S. Congress.

IV. STAFF APPRAISAL

36. **Haiti is emerging from an extended period of political conflict and poor economic performance**. The armed rebellion in early 2004 resulted in extensive damage to the economy and to government infrastructure, which was compounded by the devastating floods in May and September. The transition government that was formed in March 2004 has taken on the difficult task of restoring security and the rule of law, seeking national reconciliation, stabilizing the economy, and leading the country to national elections in 2005. The international community has pledged its support at the donor conference in July in Washington and, following the successful completion of the SMP in September, the authorities are now requesting financial assistance from the Fund. Going forward, the key challenge for the authorities will be to ensure that the envisaged substantial international support is used to implement the social and economic agenda agreed with donors, strengthen security, and ensure safe and timely elections.

37. **The macroeconomic stabilization and policy performance under the SMP provide a strong basis for the coming year**. The authorities' economic policies under the six-month SMP helped stabilize the exchange rate, bring down inflation, and create conditions for economic recovery. The authorities are to be commended for meeting all quantitative SMP targets, and for making good progress in implementing key structural measures, in particular approving the budget before the start of the fiscal year, reducing the use of discretionary ministerial accounts, and advancing the audit of key public sector enterprises and the census of public sector employment. The authorities' intention to implement during this fiscal year all the outstanding structural measures agreed under the SMP year demonstrates their determination to fully carry out their reform agenda.

38. **The 2004/05 program should provide sufficient resources for meeting Haiti's immediate reconstruction needs and for increasing the provision of basic services**. In particular, the budget allows for increasing the wage bill to enable recruiting and maintaining quality staff in the key security, education, and health sectors, to complete the emergency outlays for reconstruction and job creation from 2003/04, and to double public investment in line with the priorities agreed with donors. The substantial donor financing has enabled the authorities to commit to eliminating budget deficit financing by the BRH. In view of the weak implementation capacity, the authorities need to adopt measures to improve budget management and expenditure control and to take advantage of technical assistance offered in this area by the Fund and other donors.

39. **The BRH needs to stand ready to tighten monetary conditions as appropriate to achieve the inflation and external objectives**. Monetary conditions need to be managed carefully to achieve the program's targets, and protect financial stability. The authorities will also need to continue to intensify supervision of savings cooperatives, including by expanding on-site inspections. The staff encourages publication of the interim audit of the BRH and welcomes the BRH's willingness to complete the IMF safeguards assessment.

40. **The authorities have shown commendable determination to make further progress on public sector governance and transparency**. Going forward, it will be important to complete without further delay the census of employment in the ministries and key public sector entities, the survey of central government arrears, and to prepare and publish audits of government accounts. In this context, the staff welcomes the authorities' strong commitment to combat corruption, including by establishing an Anti-Corruption Unit, and to ensure the full transparency and audit of the financing schemes that have recently been made available to the private sector.

41. **The staff welcomes the generous external donor support for Haiti**. The authorities are urged to work with donors to ensure that the resources pledged for meeting Haiti's most urgent needs, including for reconstruction in flood-afflicted areas, are released as quickly as possible. Indeed, mechanisms are still needed to ensure the timely disbursement of external aid, including by advancing the preparation of investment projects and programs that could be supported by renewed lending from the World Bank and other donors. If additional disaster assistance is needed, the authorities are encouraged to seek additional support on concessional terms from donors. The staff welcomes progress toward clearing arrears to the World Bank and urges the authorities to promptly finalize the needed bridge financing. Progress is also needed in engaging Haiti's bilateral creditors to address the outstanding arrears.

42. **The staff supports the steps being taken to ensure quality and timeliness of fiscal and monetary data reporting**. In particular, the authorities are urged to strengthen the timeliness of reporting of daily and weekly indicators required for program monitoring. The staff welcomes the planned implementation of the new consumer price index, and supports the authorities' request for technical assistance to improve Haiti's economic statistics.

43. **In the staff's view, Haiti meets the conditions for post-conflict assistance**. Haiti is facing urgent balance of payments needs, and the disruption to the country's institutional and administrative capacity prevents the possibility of implementing a program that could be supported by a Fund arrangement. However, the authorities have demonstrated under the recently completed SMP that they have been building sufficient capacity and commitment to implement the policy framework they are presenting as a basis for Fund support. The proposed resources from the Fund would provide an important contribution to the broad international support for Haiti and will help provide macroeconomic underpinning for the authorities' reform agenda. Taking into account the strength of the authorities' performance under the SMP and their commitment, and notwithstanding the risks emanating from the difficult political and security situation, the staff supports the authorities' request for Fund support under the post-conflict emergency assistance policy.

Table 1. Haiti: Selected Economic and Financial Indicators

Fiscal Year Ending September 30

	2000	2001	2002	2003	Prel. 2004	Proj. 2005
(Annual percentage change, unless otherwise indicated)						
National income and prices						
GDP at constant prices 1/	0.9	-1.0	-0.5	0.4	-3.5	2.5
GDP deflator	11.1	11.6	10.1	25.5	26.2	15.0
Consumer prices (period average)	11.5	16.8	8.7	32.5	27.1	16.6
Consumer prices (end-of-period)	15.3	12.3	10.1	42.5	22.5	12.0
External sector						
Exports (f.o.b.)	-2.5	-7.8	-10.5	21.0	12.8	4.8
Imports (f.o.b.)	6.8	-2.9	-6.9	13.6	6.0	24.4
Real effective exchange rate (+ appreciation)	-6.0	7.8	-8.9	-8.5	31.6	...
Central government						
Total revenue 2/	-0.3	3.8	20.2	37.3	15.9	27.8
Total expenditure	13.4	8.7	20.6	39.8	18.1	46.5
Money and credit						
Net domestic assets 3/	18.1	9.4	17.0	26.2	10.3	6.9
Credit to public sector (net) 3/	7.9	8.5	9.4	9.3	4.9	-0.3
Credit to private sector 3/	16.9	-3.5	5.9	13.0	3.1	7.2
Broad money (including foreign currency deposits)	36.2	5.2	17.2	39.8	9.1	12.8
Velocity (GDP relative to broad money)	2.6	2.7	2.5	2.3	2.5	2.7
Average interest rate on time deposits	15.0	13.5	7.6	15.0	7.5	...
(In percent of GDP, unless otherwise indicated)						
Gross investment	27.3	25.9	25.0	31.1	22.8	27.5
Gross national savings	23.9	22.3	22.5	29.0	22.0	24.8
Of which: Public sector savings	0.7	-0.6	1.0	-0.3	0.9	0.2
Savings-investment balance 4/	-3.5	-3.6	-2.5	-2.0	-0.8	-2.7
Central government overall balance	-2.5	-2.8	-3.2	-3.7	-3.7	-6.0
Central government overall balance including grants	-2.2	-2.4	-3.0	-3.5	-2.4	-1.2
External current account balance (including official grants)	-1.0	-2.0	-1.0	-0.1	0.4	0.5
External current account balance (excluding official grants)	-6.6	-6.5	-4.9	-4.8	-2.7	-7.5
External public debt (end-of-period)	29.9	33.6	36.1	45.0	36.6	30.7
Total public debt (end-of-period) 5/	31.3	36.8	39.4	48.8	38.9	32.6
External public debt service (in percent of exports of goods and nonfactor services)	7.9	8.7	7.9	8.5	9.2	9.2
(In millions of U.S. dollars, unless otherwise indicated)						
Overall balance of payments	-51.9	-7.9	-68.5	-11.6	33.2	80.1
Net international reserves 6/	162.9	108.8	53.0	38.8	56.4	85.4
Liquid gross reserves 7/	222.3	227.3	177.7	157.1	202.9	271.0
In months of imports of the following year	2.1	2.2	1.5	1.2	1.3	1.7
Exchange Rate (gourdes per dollar, end-of-period)	28.3	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/ Based on the authorities' revised nominal GDP for 2000, 2001, and 2002.
2/ Excluding grants.
3/ In relation to broad money (including foreign currency deposits) at the beginning of the period.
4/ External current account balance excluding official capital grants.
5/ Includes external public sector debt, outstanding Central Bank bonds, and credit from commercial banks to the NFPS.
6/ Excludes commercial banks' foreign currency deposits with the BRH.
7/ Gross reserves excluding capital contributions to international organizations.

Table 2a: Central Government Operations

(In millions of gourdes)

	2002/03 Oct-Sept. Act.	2003/04 April-Sept. Prog.	2003/04 April-Sept. Prel.	2003/04 Oct-Sept. Prog.	2003/04 Oct-Sept. Prel.	2004/05 Oct-Dec Prog.	2004/05 Jan-Mar Prog.	2004/05 April-June Prog.	2004/05 July-Sept Prog.	2004/05 Oct-Sept. Prog.
Total revenue	**10746**	**6179**	**7015**	**11621**	**12457**	**4027**	**3952**	**3985**	**3957**	**15921**
Current revenue	10746	6179	7015	11621	12457	4027	3952	3985	3957	15921
Domestic taxes	7462	4135	4828	8076	8769	3021	2855	2751	2723	11351
Customs duties	2762	2026	2111	3396	3481	1003	1094	1231	1231	4560
Other current revenue	526	18	76	150	207	2	2	3	3	10
Total expenditure	**15084**	**6750**	**7178**	**15480**	**16086**	**5893**	**5871**	**6968**	**7351**	**26084**
Current expenditure	11156	5311	4590	11669	11126	4242	3779	3800	3790	15611
Wages and salaries	3862	2151	2117	4159	4126	1883	1412	1412	1412	6121
Net Operations	4845	1952	1268	5091	4585	1072	1072	1072	1072	4289
Operations	5456	1789	2581	4369	5160	1072	1072	1072	1072	4289
Other current expenditure 1/	-611	163	-1314	723	-576					0
Interest payments	1050	586	550	1191	1155	271	279	300	290	1140
External	561	345	309	703	667	150	158	179	169	656
Domestic	489	241	242	487	488	121	121	121	121	484
Transfers and subsidies 2/	1399	622	655	1228	1261	1015	1015	1015	1015	4061
Other current expenditure (current account)	-611	163	-1314	723	-576					
Capital expenditure	3928	1438	2587	3811	4960	1651	2093	3168	3561	10473
Domestically financed		...	...	...	3015	454	496	774	768	2492
Of which: Counterpart funds		...	...	...	...	63	103	182	222	570
Foreign-financed		...	...	...	1944	1197	1596	2394	2793	7981
Current account balance	**-410**	**867**	**2424**	**-48**	**1331**	**-215**	**173**	**185**	**167**	**311**
Overall balance exc. exceptional outlays	**-4338**	**-571**	**-163**	**-3858**	**-3629**	**-1866**	**-1919**	**-2983**	**-3394**	**-10162**
Exceptional outlays	**0**	**3387**	**1720**	**3389**	1722	0	0	0	0	0
Overall balance	**-4338**	**-3958**	**-1883**	**-7247**	**-5351**	**-1866**	**-1919**	**-2983**	**-3394**	**-10162**
Financing	**4338**	**3958**	**1883**	**7247**	**5351**	**1,866**	**1,919**	**2,983**	**3,394**	**10,162**
External net financing	868	-1988	2018	-1718	2472	1981	1507	3063	3774	10326
Grants	171	0	1844	21	1863	1361	1698	2371	2708	8138
Budget support		...	...	...	480	350	350	350	350	1400
Project grants		...	...	...	1383	1011	1348	2021	2358	6738
Loans (net)	630	-566	-166	-735	-184	438	1705	623	1022	3788
Disbursements	1583	0	409	400	961	737	1997	933	1385	5052
Budget support		...	...	...	400	551	1748	561	950	3810
Project loans		...	...	...	561	186	249	373	435	1243
Amortization	-953	-566	-576	-1135	-1145	-300	-291	-310	-363	-1264
		0			0					
Arrears (Net)	67	-1423	340	-1004	790	183	-1896	68	44	-1601
Accumulation	1411	453	340	872	790	232	43	68	44	386
Reduction	-1344	-1876	0	-1876	0	-49	-1938	0	0	-1987
Internal net financing	3470	1226	-134	4245	2879	-115	412	-80	-380	-163
Banking system	3612	1212	-93	4172	2861	-115	412	-80	-380	-163
BRH	3720	1200	-99	4197	2892	-74	453	-40	-339	0
Commercial banks	-108	12	6	-25	-31	-41	-41	-41	-41	-163
Other	0	0	0	0						0
Arrears (Net)	-142	14	-41	73	18					0
Accumulation	239	109	574	335	800	0	0	0	0	0
Reduction	-381	-95	-615	-262	-783					0
Financing gap		4720	0	4720	0	0.0	0.0	0.0	0.0	0.0

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

1/ Includes statistical discrepancy.

2/ Includes expenditures reclassified from operations to transfers and subsidies in 2004/05.

Table 2b. Haiti: Central Government Operations

(in percent of GDP)

	2002/03 Oct-Sept. Act.	2003/04 April-Sept. Prog.	2003/04 April-Sept. Prel.	2003/04 Oct-Sept. Prog.	2003/04 Oct-Sept. Prel.	2004/05 Oct-Dec Prog.	2004/05 Jan-Mar Prog.	2004/05 April-June Prog.	2004/05 July-Sept Prog.	2004/05 Oct-Sept. Prog.
Total revenue	**9.1**	**4.3**	**4.9**	**8.0**	**8.7**	**2.4**	**2.3**	**2.3**	**2.3**	**9.4**
Current revenue	9.1	4.3	4.9	8.0	8.7	2.4	2.3	2.3	2.3	9.4
Domestic taxes	6.3	2.9	3.4	5.6	6.1	1.8	1.7	1.6	1.6	6.7
Customs duties	2.3	1.4	1.5	2.3	2.4	0.6	0.6	0.7	0.7	2.7
Other current revenue	0.4	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Total expenditure	**12.8**	**4.7**	**5.0**	**10.7**	**11.2**	**3.5**	**3.5**	**4.1**	**4.3**	**15.4**
Current expenditure	9.4	3.7	3.2	8.1	7.7	2.5	2.2	2.2	2.2	9.2
Wages and salaries	3.3	1.5	1.5	2.9	2.9	1.1	0.8	0.8	0.8	3.6
Net Operations	4.1	1.4	0.9	3.5	3.2	0.6	0.6	0.6	0.6	2.5
Operations	4.6	1.2	1.8	3.0	3.6	0.6	0.6	0.6	0.6	2.5
Other current expenditure 1/	-0.5	0.1	-0.9	0.5	-0.4	0.0	0.0	0.0	0.0	0.0
Interest payments	0.9	0.4	0.4	0.8	0.8	0.2	0.2	0.2	0.2	0.7
External	0.5	0.2	0.2	0.5	0.5	0.1	0.1	0.1	0.1	0.4
Domestic	0.4	0.2	0.2	0.3	0.3	0.1	0.1	0.1	0.1	0.3
Transfers and subsidies 2/	1.2	0.4	0.5	0.8	0.9	0.6	0.6	0.6	0.6	2.4
Other current expenditure	-0.5	0.1	-0.9	0.5	-0.4	0.0	0.0	0.0	0.0	0.0
Capital expenditure	3.3	1.0	1.8	2.6	3.4	1.0	1.2	1.9	2.1	6.2
Domestically financed	...	...	...	...	2.1	0.3	0.3	0.5	0.5	1.5
Of which : Counterpart funds	...	...	...	...		0.0	0.1	0.1	0.1	0.3
Foreign financed	...	...	...	...	1.4	0.7	0.9	1.4	1.6	4.7
Current account balance	**-0.3**	**0.6**	**1.7**	**0.0**	**0.9**	**-0.1**	**0.1**	**0.1**	**0.1**	**0.2**
Overall balance excl. capital exceptional outlays	**-3.7**	**-0.4**	**-0.1**	**-2.7**	**-2.5**	**-1.1**	**-1.1**	**-1.8**	**-2.0**	**-6.0**
Exceptional outlays	**0.0**	2.4	1.2	2.3	1.2	0.0	0.0	0.0	0.0	0.0
Overall balance	**-3.7**	**-2.7**	**-1.3**	**-5.0**	**-3.7**	**-1.1**	**-1.1**	**-1.8**	**-2.0**	**-6.0**
Financing	**3.7**	**2.7**	**1.3**	**5.0**	**3.7**	**1.1**	**1.1**	**1.8**	**2.0**	**6.0**
External net financing	0.7	-1.4	1.4	-1.2	1.7	1.2	0.9	1.8	2.2	6.1
Grants	0.1	0.0	1.3	0.0	1.3	0.8	1.0	1.4	1.6	4.8
Budget support	...	...	...	...	0.3	0.2	0.2	0.2	0.2	0.8
Project grants	...	...	...	...	1.0	0.6	0.8	1.2	1.4	4.0
Loans (net)	0.5	-0.4	-0.1	-0.5	-0.1	0.3	1.0	0.4	0.6	2.2
Disbursements	1.3	0.0	0.3	0.3	0.7	0.4	1.2	0.6	0.8	3.0
Budget support	...	...	...	...	0.3	0.3	1.0	0.3	0.6	2.2
Project loans	...	...	...	...	0.4	0.1	0.1	0.2	0.3	0.7
Amortization	-0.8	-0.4	-0.4	-0.8	-0.8	-0.2	-0.2	-0.2	-0.2	-0.7
Arrears (Net)	0.1	-1.0	0.2	-0.7	0.5	0.1	-1.1	0.0	0.0	-0.9
Accumulation	1.2	0.3	0.2	0.6	0.5	0.1	0.0	0.0	0.0	0.2
Reduction	-1.1	-1.3	0.0	-1.3	0.0	0.0	-1.1	0.0	0.0	-1.2
Internal net financing	2.9	0.9	-0.1	2.9	2.0	-0.1	0.2	0.0	-0.2	-0.1
Banking system	3.1	0.8	-0.1	2.9	2.0	-0.1	0.2	0.0	-0.2	-0.1
BRH	3.1	0.8	-0.07	2.9	2.0	0.0	0.3	0.0	-0.2	0.0
Commercial banks	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears (Net)	-0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation	0.2	0.1	0.4	0.2	0.6	0.0	0.0	0.0	0.0	0.0
Reduction	-0.3	-0.1	-0.4	-0.2	-0.5	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	3.3	0.0	3.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (millions of gourdes)	118,169.0	143,951.0	143,951.0	144,643.4	143,951.0	169,682.2	169,682.2	169,682.2	169,682.2	169,682.2

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

1/ Includes statistical discrepancy

2/ Includes expenditures reclassified from operations to transfers and subsidies in 2004/05.

Table 3. Haiti: Summary Accounts of the Banking System

Fiscal Year Ending September 30	Actual Dec. 2003/04	Actual March 2003/04	Actual June 2003/04	Prel. Sept. 2003/04	Prog. Dec. 2004/05	Prog. March 2004/05	Proj. June 2004/05	Proj. Sept. 2004/05
(In millions of gourdes)								
I. Central Bank								
Net foreign assets 1/	**5,430**	**5,269**	**5,640**	**6,545**	**6,893**	**6,821**	**7,238**	**7,990**
(In millions of U.S. dollars)	129	131	158	178	187	185	196	216
Net international reserves (program)	34	17	38	56	63	59	68	85
Commercial bank deposits	95	114	120	121	123	126	128	130
Net domestic assets	**4,413**	**3,909**	**2,879**	**2,192**	**2,805**	**2,659**	**2,085**	**1,771**
Credit to the nonfinancial public sector 2/	20,803	21,794	20,704	21,757	21,683	22,135	22,096	21,757
Of which: Credit to the central government	20,687	21,829	20,732	21,730	21,656	22,108	22,069	21,730
Liabilities to commercial banks	-18,619	-19,725	-19,733	-21,115	-20,427	-21,027	-21,561	-21,536
Of which:								
Cash-in-vault and reserve deposits	-13,623	-13,870	-14,168	-17,570	-16,957	-17,103	-17,677	-17,991
BRH bonds	-4,996	-5,855	-5,566	-3,545	-3,471	-3,924	-3,884	-3,545
Other	2,229	1,840	1,908	1,550	1,550	1,550	1,550	1,550
Currency in circulation	**9,843**	**9,178**	**8,518**	**8,737**	**9,698**	**9,480**	**9,323**	**9,761**
II. Consolidated Banking System								
Net foreign assets	**14,285**	**14,005**	**12,749**	**12,877**	**14,802**	**14,821**	**15,312**	**16,228**
(In millions of U.S. dollars)	339	348	357	350	400	401	414	438
Of which: Commercial banks NFA	210	217	199	172	213	216	218	222
Net domestic assets	**42,933**	**44,423**	**42,543**	**43,887**	**44,235**	**45,667**	**46,495**	**47,803**
Credit to the nonfinancial public sector 1/	20,339	21,324	20,188	21,254	21,139	21,551	21,471	21,091
Credit to the private sector	21,171	20,870	20,714	20,952	21,415	22,436	23,343	25,031
In gourdes	10,982	11,029	11,054	11,064	11,073	11,619	12,033	13,205
In foreign currency	10,189	9,842	9,660	9,889	10,341	10,816	11,310	11,827
In millions of U.S. dollars	242	245	270	269	280	293	306	320
Other	1,423	2,229	1,642	1,681	1,681	1,681	1,681	1,681
Broad money	**57,217**	**58,428**	**55,292**	**56,765**	**59,037**	**60,488**	**61,807**	**64,031**
Currency in circulation	9,843	9,178	8,518	8,737	9,698	9,480	9,323	9,761
Gourde deposits	23,372	25,173	24,937	25,919	26,584	27,607	28,436	29,440
Foreign currency deposits	24,002	24,077	21,837	22,109	22,755	23,401	24,047	24,831
In millions of U.S. dollars	570	599	611	600	617	634	651	672
(Percentage change relative to broad money in the preceeding period) 3/								
Net foreign assets	1.6	1.0	-1.4	-1.1	3.4	3.4	4.3	5.9
Net domestic assets	8.4	11.3	7.7	10.3	0.6	3.1	4.6	6.9
Credit to the nonfinancial public sector 2/	3.2	5.0	2.9	4.9	-0.2	0.5	0.4	-0.3
Credit to the private sector	3.5	2.9	2.6	3.1	0.8	2.6	4.2	7.2
(12-month percentage change)								
Broad money	39.8	24.3	9.1	9.1	3.2	3.5	11.8	12.8
Currency in circulation	13.3	4.5	-1.8	3.5	-1.5	3.3	9.4	11.7
Gourde deposits	33.5	29.6	17.9	18.3	13.7	9.7	14.0	13.6
Foreign currency deposits	62.9	28.1	4.8	2.0	-5.2	-2.8	10.1	12.3
Credit to the nonfinancial public sector 2/	23.9	19.5	9.7	13.7	3.9	1.1	6.4	-0.8
Credit to the private sector	22.1	12.1	7.2	8.2	1.2	7.5	12.7	19.5
Credit in gourdes	16.9	5.8	7.9	9.0	0.8	5.4	8.9	19.4
Credit in foreign currency	28.2	20.1	6.5	7.3	1.5	9.9	17.1	19.6
Memorandum items:								
End-of-period gourdes per U.S. dollar	42	40	36	37	..	..	..	..
Net international reserves in percent of broad money	9.5	9.0	10.2	11.5	11.7	11.3	11.7	12.5
Share in foreign currency (in percent)								
Bank deposits	50.7	48.9	46.7	46.0	46.1	45.9	45.8	45.8
Credit to the private sector	48.1	47.2	46.6	47.2	48.3	48.2	48.5	47.2
Commercial Bank US$ loan / US$ deposits	42.4	40.9	44.2	44.7	45.4	46.2	47.0	47.5

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 4. Haiti: Balance of Payments

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

	2000	2001	2002	Prel. 2003	Prel. 2004	Proj. 2005
Current account deficit (-) (excluding grants)	**-259.9**	**-233.1**	**-168.1**	**-141.0**	**-98.0**	**-334.3**
Trade balance (deficit -)	-755.8	-750.2	-709.4	-785.4	-809.9	-1,080.0
Exports, f.o.b.	331.0	305.2	273.2	330.4	372.7	390.7
Of which: Assembly industry exports	257.7	251.2	220.8	278.1	319.0	334.1
Imports, f.o.b.	-1,086.7	-1,055.4	-982.6	-1,115.8	-1,182.6	-1,470.7
Of which: Petroleum products	-44.2	-163.8	-157.3	-146.3	-218.0	-307.8
Services (net)	-96.3	-108.1	-92.6	-152.1	-204.9	-211.9
Receipts	172.0	137.4	163.7	130.9	131.7	159.2
Payments	-268.3	-245.4	-256.3	-283.0	-336.6	-371.1
Income (net)	14.1	1.5	-15.1	-14.3	-14.1	-22.2
Private transfers (net) 1/	578.0	623.6	649.0	810.8	931.0	979.9
External grants	221.3	160.6	135.1	137.2	113.1	357.5
Current account deficit (-) (including grants)	**-38.7**	**-72.5**	**-33.0**	**-3.7**	**15.1**	**23.2**
Capital and financial accounts (deficit -)	**-13.4**	**64.5**	**-35.5**	**-7.9**	**18.1**	**56.9**
Public sector capital flows (net)	41.2	0.8	-8.0	25.3	-4.6	99.7
Loan disbursements	66.9	28.3	13.0	49.6	24.0	133.0
Amortization	-25.7	-27.5	-21.0	-24.4	-28.6	-33.3
Banks (net) 2/	-55.1	16.3	3.1	-46.8	23.2	-50.1
Direct investment	8.0	2.0	4.7	7.8	5.9	7.4
Other 3/	-7.5	45.5	-35.4	5.8	-6.4	0.0
Overall balance (deficit -)	**-51.9**	**-7.9**	**-68.5**	**-11.6**	**33.2**	**80.1**
Financing	**51.9**	**7.9**	**68.5**	**11.6**	**-33.2**	**-80.1**
Change in net international reserves (increase -) 4/	45.9	-3.9	41.0	10.3	-53.0	-38.0
Change in arrears (reduction -)	6.0	11.8	27.4	1.3	19.8	-42.1
Rescheduling	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:						
Current account balance, excluding grants (in percent of GDP)	-6.6	-6.5	-4.9	-4.8	-2.7	-7.5
Current account balance, including grants (in percent of GDP)	-1.0	-2.0	-1.0	-0.1	0.4	0.5
Exports (f.o.b) growth	-2.5	-7.8	-10.5	21.0	12.8	4.8
Import (f.o.b) growth	6.8	-2.9	-6.9	13.6	6.0	24.4
External debt as percent of exports	234.7	273.3	286.1	284.7	261.0	248.9
NPV of external debt as percent of exports	...	...	200.9	195.9	186.8	177.9
Debt service as percent of exports	7.9	8.7	7.9	8.5	9.2	9.2
Net foreign assets of the central bank (US$ million)	172.3	176.2	135.1	125.5	177.8	215.8
Gross liquid international reserves (US$ million) 4/	222.3	227.3	177.7	157.0	202.9	271.0
Gross liquid international reserves (in months of next year's imports of goods and services) 4/	2.1	2.2	1.5	1.2	1.3	1.7

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 other means.

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 5. Haiti: Medium-Term Scenario

	2001	2002	2003	2004 Program	Prel. 2004	Proj. 2005	2006
Real sector (annual percentage rate)							
Real GDP growth	-1.0	-0.5	0.4	1.0	-3.5	2.5	3.0
Inflation (CPI end-of-period)	12.3	10.1	42.5	12.0	22.5	12.0	10.0
Fiscal sector (in percent of GDP)							
Central government overall balance	-2.8	-3.2	-3.7	-2.4	-3.7	-6.0	-7.8
Central government revenue1/	7.6	8.3	9.1	9.8	8.7	9.4	9.8
Central government expenditure 2/	10.4	11.5	12.8	12.1	12.4	15.3	17.6
Domestic financing	2.6	2.7	2.9	1.8	2.0	-0.1	0.0
External financing	0.2	0.4	0.7	0.6	1.7	6.1	7.8
Monetary sector							
Growth in Broad Money	5.2	17.2	39.8	13.1	9.1	12.8	13.8
External sector (in percent of GDP)							
Trade Balance	-20.9	-20.5	-26.9	-26.3	-22.5	-24.2	-24.9
Services (net)	-3.0	-2.7	-5.2	-6.7	-5.7	-4.7	-5.7
Income (net)	0.0	-0.4	-0.5	-0.5	-0.4	-0.5	-0.4
Private transfers (net)	17.3	18.7	27.8	30.3	25.9	21.9	22.2
External grants	4.5	3.9	4.7	3.7	3.1	8.0	7.8
Current account (incl. official transfers)	-2.0	-1.0	-0.1	0.5	0.4	0.5	-0.9
External financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which : Central government	0.0	0.0	0.0	2.5	0.0	0.0	0.0
Liquid gross reserves (in millions of U.S. dollars)	227.3	177.7	157.1	0.0	202.9	271.0	339.5
In months of imports of the following year	2.2	1.5	1.2	--	1.3	1.7	2.0
Memorandum Items:							
Nominal GDP (millions of gourdes)	85,700	93,840	118,169	133,895	143,951	169,682	193,123

Sources: Haitian authorities; and Fund staff estimates.

1/ Includes exceptional outlays.

2/ Includes current revenue and transfers from the BRH.

Table 6: Haiti Indicators of Fund Credit, 2004-2009
(In financial years ending September 30)

	2004	2005	2006	2007	2008	2009
Outstanding Fund credit 1/						
In millions of SDRs	7.5	14.7	11.7	10.2	6.3	1.2
In millions of Gourde	442.6	821.5	717.7	668.5	438.8	86.9
In percent of quota	9.2	18.0	14.3	12.4	7.7	1.5
In percent of GDP	0.3	0.5	0.4	0.3	0.2	0.0
In percent of exports of goods and services	2.2	3.9	3.1	2.6	1.5	0.3
Debt service to the Fund 2/ 3/						
In millions of SDRs	5.0	3.5	3.5	2.0	4.2	5.5
In millions of Gourde	295.7	197.7	216.7	131.2	293.8	397.7
In percent of quota	6.1	4.3	4.3	2.4	5.2	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	0.9	0.5	1.0	1.2
In percent of debt service due	16.0	10.2	11.1	5.7	11.1	13.9
(In millions of SDRs)						
Net use of Fund credit	-4.9	7.2	-3.0	-1.5	-3.8	-5.1
Disbursements	0.0	10.2	0.0	0.0	0.0	0.0
Repayments	4.9	3.0	3.0	1.5	3.8	5.1

Sources: IMF, Finance Department, and staff projections.

1/ Includes the 12.5 percent of quota prospective disbursement under the emergency post-conflict assistance.
2/ Including SDR charges.
3/ Before subsidization of GRA charges.

Table 7. Haiti: Stock of Arrears and Projected Debt Service, 2000-05

(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	...
Multilateral Creditors	2.1	11.2	39.0	33.3	49.2	...
IDB	0.2	4.0	19.6	0.0	0.0	...
IDA-WORLD BANK	0.8	6.1	19.0	32.4	49.2	...
IMF	0.2	0.0	0.0	0.0	0.0	...
Other (OPEC and FIDA)	0.9	1.1	0.4	0.9	0.0	...
Bilateral Creditors	3.9	6.6	11.9	18.8	28.9	...
Projected debt service 1/	...	...	...	...	...	55.3
Multilateral creditors	...	...	...	...	...	45.6
IDB	...	...	...	...	...	21.6
IDA-WORLD BANK	...	...	...	...	...	16.5
IMF	...	...	...	...	...	4.8
Other (OPEC and FIDA)	...	...	...	...	...	2.8
Bilateral Creditors	...	...	...	...	...	9.7

Sources: BRH; and staff projections

1/ Excluding arrears reduction.

Table 8. Haiti: Millennium Development Goals (Cont.)

	1990	1995	2001	2002	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)					
2. Poverty gap ratio at US$1 a day (in percent)					
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 literary rate (percent ages 15-24)	54.8	59.7	65.3	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	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)					
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	50
14. Infant mortality rate (per 1,000 live births)	102	91	81	79	
15. Immunization against measles (percent of childern under 12-months)	31	49	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)			680		
17. Proportionof births attended by skilled health personnel	23	19.5	23.8		

Table 8. Haiti: Millennium Development Goals (Concl.)

	1990	1995	2001	2002	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		
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)			328	319.1	
24. Tuberculosis cases detected under DOTS (percent)		2	31	41.2	
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		
28. CO2 emissions (metric tons per capita)	0.2	0.1	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		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		
32. Access to secure tenure (percent of population)					
Goal 8. Develop a global Partnership for Development 1/					
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	
48. Personal computers (per 1,000 people)					

Sources: World Bank; and Fund staff estimates

1/ Targets 12-15 and indicators 33-34 are excluded because they cannot be measured on a country specific basis. These are related to official development assistance, market access, and HIPC initiative.

Table 9. Haiti: Status of Main Policy Actions under the SMP

	Timetable	Status
Prior action		
Produce fiscal and monetary indicators as stipulated in the Technical Memorandum of Understanding.	One week	Completed.
Fiscal Policy		
1. Agree with Fund staff on an interim budget from April–September 2004, which would contain central bank financing of the deficit to G1.2 billion.		Interim budget approved and published in July 2004, in line with the limit on domestic financing of G1.2 billion.
2. Agree with the pre-shipment inspection firm (SGS) by end-July 2004 on an action plan to extend the operations of the SGS to ports of entry outside of Port-au-Prince and to the border with the Dominican Republic.	End-July 2004	Customs Directorate has informed SGS and all customs directors that, as of October 1st, all imports entering Haiti should have pre-shipment certification by SGS.
3. Establish a program for the reinforcement and use of the central taxpayer file on the basis of taxpayers' Fiscal Identification Number (NIF).	End-September 2004	In progress. To be completed by March 2005.
4. Implement revenue and expenditure nomenclature for the 2004/05 budget.		Nomenclature was implemented in 2004/05 budget. However, it is difficult to assess the implementation of the nomenclature for capital expenditures as the projects and their components are not readily available.
5. Prepare draft budget for FY 2004/05 before the start of the fiscal year.	End-September 2004	2004/05 budget was approved in September 2004 and published in October 2004.
Monetary and Financial Sector Policy		
1. Issue central bank bonds as necessary consistent with the monetary framework.		Ongoing
2. Refrain from intervention in the foreign exchange market except for transactions aimed at smoothing excessive exchange rate fluctuations, and meeting the NIR target.		Ongoing.
3. Undertake an interim external audit of the BRH.	End-September 2004	An external auditing firm was hired in June. Audit to be completed by December 2004.
4. Initiate preparations for the IMF safeguards assessment.		Initiated in October 2004.

	Timetable	Status
Program Financing and Arrears Clearance		
Develop a plan for the comprehensive clearance of external arrears, in consultation with the staffs of the IMF and World Bank, and present a plan for clearance of arrears to the World Bank during the period covered by this SMP.		World Bank arrears clearance plan agreed; contacts with bilateral creditors to be initiated before end-2004.
Governance		
1. Reduce the number of current accounts to one per Ministry and per government agency by end-June 2004, earmarked for small emergency outlays.	End-June 2004	In progress. Government has closed about 100 accounts. However, there remain more than one account per agency. To be completed by March 2005.
2. Limit outlays through current accounts to 15 percent of budgetary credits for nonwage current spending by June 2004 and to 10 percent by September 2004.		Completed.
3. Prepare the accounts of the electricity company, EDH and telecommunications company, Teleco, for international audits, and launch international audits of AAN (Airport Authority), APN (Seaport Authority), and CAMEP (Metropolitan Port-au-Prince Potable Water Authority) once external financing is identified.		The pre-audit of Teleco was completed. Pre-audit of EDH to be launched by end-December 2004. The audits of other public sector enterprises to be launched by end-June 2005.
4. Carry out census of employment in government ministries and public sector enterprises to eliminate “ghost workers”.	End-July 2004	Census completed in 14 ministries and 29 autonomous public sector entities. Census of remaining entities to be completed by end-March 2005.
5. Establish an anti-corruption unit within the Ministry of Finance.	End-September 2004	Inaugurated on September 30. To become fully operational by end-December 2004.
6. Publish the interim budget and regularly (at least quarterly) publish budget execution on the web and/or other media.		The interim budget was published in the Official Journal on July 23. The quarterly budget execution will be published on the BRH website by end-December 2004.

Port-au-Prince, Haiti
December 22, 2004

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. The transition government of Haiti has already made significant progress in stabilizing the economy and restoring law and order, following an internal armed conflict in early 2004. However, major challenges remain in addressing the effects of the conflict, and our efforts toward normalizing the social and economic situation have been frustrated by the devastating floods of May and September. Full restoration of security and rebuilding of administrative and institutional capacity will take time, the balance of payments position remains vulnerable, and there are many longstanding structural issues needing immediate attention.

2. Since March 2004, the government's efforts centered on the restoration of security and on re-starting the economy. A United Nations stabilization mission has been deployed since June to assist in restoring security and the respect of law and order. Its forces should reach the full strength of 8,200 officers before end of this year. We believe that their efforts, in conjunction with the Haitian National Police, will bring about a visible and lasting improvement in security, progress toward disarmament, and restoration of the government's control over Haitian territory. Considerable improvement has been achieved on the economic front. We have implemented a Staff Monitored Program that covered the period April-September 2004, observed all of its quantitative targets, and made substantial progress on key structural measures. Also, the government has designed, together with the donor community, an Interim Cooperation Framework (ICF) to restore security, strengthen political and economic governance and promote national dialogue, and rebuild administrative and institutional capacity. In particular, the government is committed to strengthening economic governance, including dealing with endemic corruption. At the conference in July 2004, donors pledged US$1.1 billion of new assistance in support of the ICF for the period July 2004–September 2006.

3. The attached memorandum describes the government's economic and financial program for FY2004/05. The government's principal objectives are to: (i) strengthen security and the rule of law and prepare national elections in 2005; (ii) consolidate the stabilization gains and create conditions for economic recovery and reconstruction of government and social infrastructure; (iii) enhance governance and institutional and administrative capacity of public administration; (iv) improve access to basic services; and (v) create employment for the unskilled and for displaced populations. The government believes that the policies outlined in the attached MEFP

are adequate to achieve the objectives of its economic program, but it will take any further measures that may become appropriate for this purpose.

4. In order to facilitate the implementation of the program, the government of Haiti requests assistance under the IMF's Emergency Post-Conflict Assistance policy in an amount of SDR 10.23 million, equivalent to 12.5 percent of quota, and we strongly hope that Haiti may benefit from an interest rate subsidy on the purchase. We intend to request additional purchases under the IMF's emergency post-conflict assistance within the next twelve months, consistent with our balance of payments needs and with the annual limit of access to EPCA of 25 percent of quota. Requests for these later purchases would also provide a macroeconomic framework that could extend to the time when a program could be prepared that could be supported under the Fund's Poverty Reduction and Growth Facility, on which negotiations could be expected to begin sometime following the national elections that are planned for late 2005.

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 yours,

/s/	/s/
Henri Bazin Minister of Economy and Finance Haiti	Raymond Magloire Governor Bank of the Republic of Haiti

Attachments

HAITI—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR FY 2004/05

I. BACKGROUND

1. In recent years, Haiti has suffered from an extended political conflict that led to intensifying civil unrest, an armed uprising in early 2004, and a change in government in mid-March. During the months preceding the political changeover, hundreds of people were killed and many injured. Haiti's institutional and administrative capacity was damaged, and the political and military strife resulted in an increased lack of security, looting and destruction of public and private property. In addition, the massive floods in May and September caused further human and property losses, while recent strikes and political demonstrations threatened the already fragile stabilization process.

2. The economic impact of these developments has been severe. Property damage and the cost of disruption in economic activity resulting from the political turmoil in early 2004 are estimated at 5.5 percent of GDP. For the fiscal year 2003/04 as a whole, real GDP is estimated to have declined by 3.5 percent. In addition, the September floods in the north-western provinces caused extensive damage to economic and social infrastructure, as well as crops and livestock, estimated at about 3.5 percent of GDP. The floods and the demonstrations and violence in October resulted in output losses estimated at 0.5 percent of GDP. In this setting, the overall poverty situation in the country deteriorated, as low-income households suffered from disruptions in the supply of basic commodities and services.

3. In light of the critical security, economic and social situation, the transition government requested international assistance to support its efforts to stabilize the country. A United Nations stabilization mission (MINUSTAH) has been deployed in Haiti to assist the government in restoring security and the respect of law and order. To stabilize the economy and provide a framework for economic assistance by the international community, the government successfully implemented a six-month Staff Monitored Program (SMP), covering the period April–September 2004. In collaboration with the international community, the government has prepared 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. Based on the ICF, donors have pledged US$1.1 billion in new external assistance for July 2004–September 2006.

4. With the support of the international community, the government intends to build on the stabilization gains achieved to date and to implement policies conducive to national reconciliation and sustained economic recovery. A macroeconomic program supported by the IMF under the Emergency Post-Conflict Assistance (EPCA) policy will be a critical element of the recovery effort.

II. Recent Economic Developments and Performance under the SMP

5. The economy has stabilized in recent months, private sector activity has begun to recover and external trade is returning to pre-crisis levels. Inflation has shown signs of abating and the gourde remains stable at around G37/US$.

- Our prudent fiscal policy ensured that the overall budget deficit was significantly below the SMP target. Improved tax and customs administration helped raise revenues above target which together with delays in implementing emergency outlays resulted in a budget deficit (1.3 percent of GDP) that was about half of the SMP target for April–September 2004. As a result, the overall deficit for 2003/04 was about 1.3 percent of GDP below the SMP target of 5 percent of GDP.

- Monetary conditions were eased in response to the decline in inflation and the stronger than envisaged budget. The BRH gradually reduced interest rates on its 91-day bonds to 7.5 percent in September (from 26 percent at end-March) and in August injected liquidity equivalent to 7 percent of base money, to create conditions for private credit expansion. However, the commercial banks have so far been slow to increase their credit due to uncertainty and real interest rates on bank credit remain high.

- The external position has strengthened and the net international reserves of the central bank (BRH) increased to US$56 million at end-September 2004. However, external disbursements have to date proceeded at a slower pace than was anticipated.

6. In line with our commitments, all quantitative objectives of the SMP have been observed. We have met both end-June and end-September quantitative targets by wide margins (Table 1). The government reduced its BRH debt by G99 million (0.1 percent of GDP) during April–September 2004, while the program allowed for BRH lending of G1.2 billion (0.8 percent of GDP). By end-September, NIR was US$34 million above the program floor.

7. The key structural benchmarks agreed under the SMP that were implemented include: (i) the interim budget for April–September 2004 was approved by the government and published in the Official Journal in July 2004; (ii) the 2004/05 budget was approved by the government in September 2004, before the beginning of the fiscal year, and published in October 2004; (iii) outlays through current accounts were kept under 10 percent of budgetary credits for nonwage current spending by September 2004; (iv) the pre-shipment inspection firm (SGS) and all customs directors were informed that, as of October 1st, all imports entering Haiti require pre-shipment certification by SGS; and (v) the Anti-Corruption Unit was established in the Ministry of Economy and Finance in September 2004.

8. The ongoing structural commitments include: (i) the census of public sector employment was completed in 14 ministries and 29 autonomous public sector entities; however, the census of the remaining ministries and public sector enterprises was delayed due to limited administrative capacity and the security situation; (ii) the pre-audit of the telecommunications company, Teleco, has been completed; however, the audits of the remaining public sector enterprises could not proceed until external donor financing was identified; (iii) nomenclature for tax revenues and current expenditures was implemented in the 2004/05 budget; however, we were not able to

implement the nomenclature for capital expenditures as the externally-financed projects and their components were not readily available.

III. The Post-Conflict Program for 2004/05

9. The government's program for 2004/05 focuses on addressing Haiti's economic and financial difficulties and laying the basis for a sustained improvement in living conditions. The principal objectives of the program are to: (i) strengthen security and the rule of law and prepare national elections in 2005; (ii) consolidate the stabilization gains and create conditions for economic recovery and reconstruction of government and social infrastructure; (iii) enhance governance and institutional and administrative capacity of the government; and (iv) improve access to basic services; and (v) create employment for the unskilled and for displaced populations. These objectives have guided the preparation of the central government budget for FY2004/05 that was approved last September. The government is determined to implement this program and requests support from the IMF under its emergency post-conflict assistance policy, as well as support from other development partners that pledged assistance in July under the ICF.

A. Objectives and Macroeconomic Framework

10. The key objectives of our economic program underpinning the EPCA are to promote macroeconomic stability and strengthen administrative and institutional capacity, which are necessary to sustain economic recovery and reduce poverty. Our macroeconomic framework for 2004/05 targets real GDP growth at 2.5 percent, a decline in consumer price inflation to about 12 percent (end of period), and NIR increasing to US$85 million. To achieve these targets, budget discipline will be essential to ease the burden on monetary policy and thereby make room for a decline in interest rates and the recovery of credit to the private sector. Accordingly, we are committed to raising fiscal revenues, prioritizing budget spending to support key social and investment programs, and enhancing transparency and accountability of public sector operations, including those of the public sector enterprises. The key economic objectives of the program are as follows:

Haiti: Key Economic and Financial Indicators

	Prel.	Oct-Mar	Apr-Sept	Prog.
	FY 2003/04	FY 2004/05		FY2004/05
(Annual percentage change)				
GDP at constant prices	-3.5	...	...	2.5
Consumer prices (12-month, end-of-period)	22.5	...	...	12.0
(In percent of GDP, unless otherwise indicated)				
External current account balance (excluding grants)	-2.7	...	…	-7.5
Net international reserves (millions of U.S. dollars) 3/	56.4	59.4	85.4	85.4
Central government overall balance (excluding grants)	-3.7	-2.2	-3.8	-6.0
Central bank financing of the government	2.0	0.2	-0.2	0.0

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

11. Macroeconomic stabilization in 2004/05 and sustained growth over the medium term will require that security conditions are significantly improved, fair and safe elections are held on schedule, and donor assistance is disbursed as envisaged.

B. Fiscal Policy

12. The 2004/05 budget, which was approved by the cabinet in September 2004, targets an overall deficit of 6 percent of GDP to be financed by external resources. Government revenues and external assistance will permit to increase the provision of key public services and boost public investment, while eliminating the need for central bank financing.

- Revenues are projected to increase to G15.9 billion (9.4 percent of GDP) in 2004/05 from 8.7 percent of GDP in 2003/04, reflecting primarily a broader tax base, better tax and customs enforcement, and a recovery of economic activity. With the exception of the excise tax adjustment on tobacco products and on alcoholic and malt beverages, no new tax measures are envisaged, and no new tax exemptions will be introduced.

- Central government expenditures will be contained at G26.0 billion (15.4 percent of GDP). The wage bill will increase to G6.1 billion, to provide for recruiting and maintaining quality staff and increasing employment in such key sectors as security, education and health. Given the importance of establishing security throughout the country, G2.3 billion have been allocated for the police force, equipment and facilities. Capital outlays are programmed to increase to G10.5 billion, drawing on the priorities and financing agreed in the context of the ICF.

Haiti: Central Government Budget 2004/05
(In percent of GDP)

	FY 2003/04 Prel.	I Oct.–Mar. FY 2004/05 Prog.	II Apr.–Sep. FY 2004/05 Prog.	Year FY 2004/05 Prog.
Revenue	8.7	4.7	4.7	9.4
Expenditure	11.2	6.9	8.4	15.4
Wages and salaries	2.9	1.9	1.7	3.6
Net operations	3.2	1.3	1.3	2.5
Transfers and subsidies	0.9	1.2	1.2	2.4
Capital outlays	3.4	2.2	4.0	6.2
Overall balance, excluding exceptional outlays	-2.5	-2.2	-3.8	-6.0
Exceptional outlays	1.2	...	...	...
Overall balance, including exceptional outlays	-3.7	-2.2	-3.8	-6.0
(Central bank financing)	(2.0)	(0.2)	(-0.2)	(-0.0)
Financing gap	0.0	0.0	0.0	0.0

13. Last September, the government allocated resources for addressing the impact of the conflict in early 2004 and for promoting economic activity and employment creation. In particular, G360 million were transferred to recapitalize the Industrial Development Fund and enable it to support economic recovery in the conflict affected areas, and G50 million were allocated to provide guarantees for small businesses that suffered from arson in June 2004. The government is committed to ensuring full transparency and accountability of these operations and has published the regulations regarding the eligibility and the implementation mechanism; the government will also make public any additional resources transferred to these operations and any new financing schemes made available to the private sector. The government will also publish monthly listings of all entities and the financial benefits they received from these resources. In addition, the government intends to implement during 2004/05 the emergency projects (largely reconstruction and job creation) totaling G445 million that were included in the 2003/04 supplementary budget but not executed during the last fiscal year.

14. The government is committed to improving budget management and expenditure control and has requested technical assistance from the IMF in this area. We intend to strengthen and unify the budget formulation process using the new budget nomenclature, with clear identification of strategic spending priorities. To allow proper planning and coordination with donors, the budget preparation process for 2005/06 will begin in the first quarter of CY2005, with a view to completing the draft budget by end-June. We will strengthen our capacity to produce quality and timely monthly fiscal data to track specific expenditures, especially those that reduce poverty. To limit recourse to ministerial current accounts, we will also improve the expenditure approval process. Finally, we will enhance the execution of public investment activities by providing adequate financial resources and strengthening the institutional capacity of governmental agencies and through a newly established mechanism for coordination with donors of externally financed budget expenditures.

15. During the fiscal year, the government will consult with IMF staff on measures to offset revenue shortfalls, including through expenditure cuts (primarily lowest-priority current expenditure on goods and services, transfers to public sector entities), and by deferring wage increases and new hiring. We will use revenue in excess of the programmed levels to increase high-priority investment, maintenance and social projects. Any additional external project financing exceeding the programmed levels will be incorporated into the budget.

C. Monetary and Exchange Rate Policy

16. Our monetary program targets a decline in inflation to 12 percent (end of period) in 2004/05 from 22.5 percent in 2003/04. The BRH has established ceilings on its net domestic assets and it will adjust interest rates and issue its bonds, as appropriate, to control liquidity consistent with this objective. To reduce vulnerability to external shocks, the program targets an increase in official reserves to US$271 million by end-September 2005. However, this will still leave our gross official reserves at only 1.7 months of imports. The BRH will avoid foreign exchange market intervention, except for meeting its NIR target. The BRH will consult with IMF staff on foreign exchange market developments and central bank policies.

17. The government's strategic objective is to strengthen the BRH by addressing its losses and increasing its independence. In order to prepare for future reinforcement of the legal,

operational, and financial autonomy of the central bank, its legal basis will be modernized and its role and relations with the government properly defined. To this end, a draft of a new central bank law that would establish the independence of the central bank would be revised by September 2005. A new code will be introduced to transform the status of the insurance companies into financial institutions. Markets for financial instruments, in particular those of monetary control, also need to be modernized to provide clear signals about market conditions. We have requested an MFD Technical Assistance mission, which will review the monetary policy framework (including the appropriateness of broad money as the operational target) and assess the financial condition of the central bank. We also plan to complete an IMF safeguards assessment and will publish the interim audit of the BRH.

18. To communicate the orientation of monetary policy and receive feedback, the BRH has since July 2004 introduced monthly briefing sessions between the BRH and the banking system, and similar quarterly briefings for the rest of the private sector will begin shortly. We intend to complete the draft of a new banking law and the above-mentioned central bank law by October 2005 so that they can be considered once a new parliament is constituted. The BRH will continue to monitor the financial condition of commercial banks and will strengthen surveillance of cooperatives, including by expanding on-site inspections.

D. Structural Reforms and Governance

19. We are determined to take forceful steps to improve public sector governance and transparency, and address institutional weaknesses. While several ministries and the central bank have largely preserved their capacity to conduct their work, the administrative and institutional capacity in other ministries and in the provinces has been disrupted, and we expect it to recover gradually as the government asserts control over the country. Nevertheless, we are committed to implementing the following structural measures, some of which had been initiated under the recently completed SMP:

- The census of employment in the ministries and other public sector entities will be completed by end-March 2005.

- A comprehensive survey will be completed by end-March 2005 to identify domestic payments arrears of all ministries and key public sector entities. The authenticity of the reported arrears will be verified and a strategy to clear past arrears will be established by end-June 2005.

- The number of current accounts (as defined in the Technical Memorandum of Understanding, section I.F) will be reduced to one per ministry and per government agency by March 2005, and outlays through current accounts will be limited to 10 percent of budgetary credits for nonwage current spending throughout the fiscal year.

- A program for the reinforcement and use of the central taxpayer file on the basis of taxpayers' Fiscal Identification Number will be established by March 2005.

- Pre-shipment inspection will be implemented in all ports of entry to Haiti by September 2005.

- To enhance transparency of government operations, the audit report for the central government accounts of 2001–03 will be prepared and published by September-2005. This will be followed by an audit and publication of 2003/04 accounts by end-December 2005. The budget documents and monthly data on budget execution will be published on a regular basis.

- We have identified donor financing for external financial and management audits of key public sector enterprises and, with donor support, we plan to develop a program for strengthening the regulatory framework and improving the enterprises' financial performance. To this end, pre-audit of Teleco has been completed and pre-audit of the electricity company (EDH) will be launched by end-December 2004. By end-December 2004, terms of reference for hiring international financial auditing firms will be prepared, with a view to launching the audit of CAMEP (Metropolitan Port-au-Prince Potable Water Authority), AAN (Airport Authority), and APN (Seaport Authority) before end-June 2005.

- The anti-corruption unit, established in September 2004, will become operational by end-December 2004.

- A working group comprising representatives of the Ministry of Economy and Finance and the BRH will be set up and hold regular meetings to ensure quality and timeliness of fiscal and monetary data reporting. In this regard, technical assistance from the IMF has been requested.

- The new CPI will be implemented by June 2005.

20. 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.

E. Financing and Arrears Clearance

21. Haiti's external position has become even more vulnerable after Tropical Storm Jeanne. The disaster assistance and reconstruction of economic and social infrastructure will require a large volume of critical imports, while our gross liquid official reserves are at a precariously low level (six weeks of imports). To meet the projected financing requirements, including increasing the BRH's official reserves, we are requesting financial assistance from the IMF, and are urgently seeking additional support from donors for disaster assistance.

22. We intend to finalize arrangements for regularizing arrears to the World Bank, which are projected at US$52 million as of end-December 2004. Bank staff is preparing an operation with a US$61 million policy-based financing to support a number of reform measures included in our Interim Cooperation Framework. The expected financing from this operation would compensate for the resources we will have used to pay our arrears to the World Bank as well as meeting our remaining financing needs for this fiscal year. It is envisaged that the first tranche of this loan will be disbursed in early January 2005. We expect to finalize arrangements for the needed bridge financing before the loan is submitted for consideration by the Executive Board of the

World Bank. We are working to advance preparation of investment projects and programs that could be supported by renewed lending from the World Bank and other donors.

23. In consultation with IMF and World Bank staff, we are developing a comprehensive plan to regularize external payments arrears. Moreover, we have initiated discussions with Paris Club creditors on how to address the outstanding arrears and to start the data reconciliation process.

F. Program Monitoring

24. Performance under the program will be monitored using quarterly indicative targets, structural indicative benchmarks and quarterly reviews. Indicative targets for end-December 2004 and end-March 2005, 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; 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. 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.

25. 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, March 2004–March 2005 1/

	SMP					EPCA								
	Actual stock at end-March 2004	Cumulative flows since March 2004				Preliminary stock at end-September 2004	Cumulative flows since September 2004							
		Prog.	Actual	Prog.	Prel.		Prog.	Actual	Prog.	Actual	Prog.	Actual	Prog.	Actual
		June 04		Sept. 04			Dec. 04		Mar. 05		June 05		Sept. 05	
Net central bank credit to the NFPS (in millions of gourdes)						21,757	-74		378		339		0	
Of which:														
Central Government	21,829	400	-1,097	1,200	-99	21,730	-74		378		339		0	
Rest of NFPS						27	0		0		0		0	
Net domestic banking sector credit to the nonfinancial public sector (in millions of gourdes)	21,324	400	-1,136	1,200	-70	21,254	-115		297		217		-163	
Net domestic assets of the central bank (in millions of gourdes)	8,502	212	-1,494	99	-2,020	6,482	806		741		251		34	
Domestic arrears of the central government		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	
Over one-year maturity	...	0	0	0	0	0	0		0		0		0	
Net international reserves of central bank (in millions of U.S. dollars) 2/	17	5	21	11	39	56	7		3		12		29	
Memorandum items: 3/														
Government total revenue (in millions of gourdes)	…	3,218	3,853	6,179	7,015	…	4,027		7,979		11,964		15,921	
Government total expenditure (in millions of gourdes) 4/	…	3,024	2,740	6,750	7,242	…	5,942		11,764		18,732		26,084	

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

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

2/ The floor on NIR under the Staff Monitored Program is set at US$22 million.

3/ Not targets.

4/ Total expenditures do not include exceptional outlays in 2003/04.

Table 2. Haiti: Proposed Policy Actions Under the EPCA

Fiscal Policy	• Prepare the 2005/06 budget according to the new budget nomenclature for all revenue and expenditure by end-March 2005. In particular: ➢ Establish, by end-March 2005, a macro framework for the 2005/06 budget, and indicative ceilings for current and capital expenditures (inclusive of donor-financed spending) to be sent to spending ministries; and ➢ Limit the amount budgeted for the "*interventions publiques*" post to 2 percent of domestically financed spending and cease systematic internal control for normal expenditures by end-December 2004 by the Cour Supérieure des Comptes et du Contentieux Administratif (CSCCA), the external audit body established by the Constitution.	
	• Complete a comprehensive survey to identify domestic payment arrears of the central government by end-March 2005; verify the authenticity of the reported arrears by the CSCCA and establish a strategy to clear past arrears by end-June 2005.	
	• Finalize and publish the CSCCA's audit report on the annual accounts of the central government for 2001/02 and 2002/03 by end-September 2005.	
	• 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.	
	• Extend computerized data collection at customs.	
	• Implement pre-shipment verification to all ports of entry and borders of Haiti by September 2005.	
	• Establish a program for the reinforcement and use of the central tax payer file on the basis of tax payers' Fiscal Identification Number (NIF) by March 2005.	
Monetary and Financial Sector Policy	• Continue monthly briefing sessions between the BRH and the banking sector and introduce quarterly briefings for the private sector to communicate the orientation of monetary policy and receive feedback.	
	• Strengthen surveillance of cooperatives, including by expanding on-site inspections.	
	• Revise a draft of a new central bank (BRH) law that would establish independence of the central bank by September 2005.	
	• Complete IMF safeguards assessment.	
	• Complete external audit of the 2003/04 BRH annual accounts by an international, reputable auditing firm.	

Table 2. Haiti: Proposed Policy Actions Under the EPCA

Program financing and arrears clearance	• Regularize arrears to the World Bank.	
	• Contact Paris Club creditors to develop a plan for addressing arrears and start the data reconciliation process.	
Governance	• Anti-Corruption Unit to become operational by end-December 2004.	
	• Complete pre-audit of Teleco and launch pre-audit of EDH by end-December 2004. • Complete a census of employment by end-March 2005 of the ministries and key public enterprises (Teleco, EDH, CAMEP, AAN, and APN).	
	• Prepare by end-December terms of reference for hiring international financial auditing firms with a view to launching the audit of CAMEP, AAN, and APN before end-June 2005.	
Other	• Set up a working group of the Ministry of Economy and Finance and the BRH and establish meetings regularly to ensure quality and timeliness of fiscal and monetary data reporting.	
	• Implement and publish new CPI by June 2005, with the August 2004 base.	

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 2004–September 2005.

I. DEFINITIONS

A. Net BRH Credit to the Central Government[1]

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 2004;

   b. Change in the stock of donor special accounts according to Table "Comptes Spéciaux" of the BRH from the stock of end-September 2004 will be excluded from change in net domestic credit to the central government as defined above.[2]

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 2004.

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

December 2004	March 2005
-74	378

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

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

B. Net Domestic Banking Sector Credit to the Nonfinancial Public Sector[3]

1. 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 2004;

   b. Change in the stock of net domestic credit of the public sector from the Banque Nationale de Credit (BNC) according to Table 610 of the BRH from the stock of end-September 2004;

   c. Change in the stock of net domestic credit of the public sector at other domestic banks; and

   d. Change in the stock of donor special accounts according to Table “Comptes Spéciaux” of the BRH from the stock of end-September 2004 will be excluded from the definition of net domestic banking sector credit to the nonfinancial public sector.

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

3. The changes will be measured on a cumulative basis from the stock at end-September 2004.

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

December 2004	March 2005
-115	297

C. Net International Reserves

1. 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 2004; and

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

b. Minus the change in U.S. dollars deposits of commercial banks at the BRH ("Dépôts à vue US$ des bcm à la BRH" of the BRH Table 10R) from the stock of end-September 2004.

2. Data will be valued at the corresponding end-period market exchange rate.

3. 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.

4. The changes will be measured on a cumulative basis from the stock at end-September 2004.

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

December 2004	March 2005
7	3

D. Net Domestic Assets of the BRH

1. 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.

2. The program definition of net domestic assets of the BRH will use a program exchange rate of G38 per U.S. dollar for the period October 2004–March 2005.

3. The changes will be measured on a cumulative basis from the stock at end-September 2004.

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

December 2004	March 2005
806	741

E. Nonconcessional Loans

1. 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).

2. 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).

3. The indicative target limits exclude conventional short-term import-related credits.

4. The ceilings for contracting nonconcessional loans by the central government will be set at zero throughout the program period.

F. Government Current Accounts

1. Ministerial discretionary accounts are mechanisms for channeling expenditures. In principle, the use of these accounts should be limited to unforeseen emergency outlays.

2. 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.

3. 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

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

A. Adjustment for Domestic Arrears Accumulation

1. 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 downwards for the amount of domestic arrears accumulation.

2. 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 2004	March 2005
0	0

B. Adjustment for External Cash Budgetary Support

1. 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 program financing, defined as gross disbursements of cash budgetary assistance less the stock of arrears to the World Bank and debt service falling due to multilateral and some bilateral creditors (Canada and the U.S.). Cumulative net program financing by quarter is presented in the table below.

2. If there is a shortfall in cash budgetary assistance, the floor on the NIR will be adjusted downward and the ceilings on BRH credit to the government, the nonfinancial public sector and BRH net domestic assets will be adjusted upward by the amount of this shortfall; the amount of adjustment will not exceed the amount of net program financing, converted into gourdes at the program exchange rate. The adjuster will be calculated on a cumulative basis from October 1, 2004.

3. If external disbursements for cash budgetary support exceed the level of financing assumed in the program by more than US$5 million, the ceilings on BRH financing of the government and of the public sector and on BRH net domestic assets will be adjusted downward, and, accordingly, the floor on the NIR will be adjusted upward, by the amount of excess financing, converted into gourdes at the program exchange rate. The adjuster will be calculated on a cumulative basis from October 1, 2004.

4. The projected external cash budgetary support on a cumulative basis from end-September 2004 is as follows:

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

	December 2004	March 2005	June 2005	September 2005
Program disbursements	14.5	67.8	82.5	107.5
Program debt service and arrears clearance 1/	8.7	68.7	78.5	89.6
Net program financing	5.8	-0.9	4.1	17.9

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

III. Provision of Information to IMF Staff

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

A. Daily

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.

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

B. Weekly

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.

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

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

HAITI—ELIGIBILITY FOR EMERGENCY POST-CONFLICT ASSISTANCE FROM THE FUND

Impact of the conflict. In early 2004, the escalating civil unrest and political turmoil intensified and culminated in an open armed rebellion that led to the resignation of President Aristide. In the fighting and civil disorder that followed, numerous people were killed and many more injured, and major property damage took place (about 5.5 percent of GDP). The security and political situation has stabilized following the arrival of a 3,600 strong multilateral interim force and the swearing in of a transition government in early March. On June 1, United Nations security forces took over peacekeeping operations.

Urgent balance of payments need. Official reserves remain at precariously low levels, and the forthcoming external assistance is not expected to contribute to raising reserves. Haiti continues to accumulate arrears to external creditors, and the country's capacity to meet other external payments obligations has been significantly weakened.

Disruption in the country's institutional and administrative capacity precluding a Fund-supported program. The conflict has required postponement of elections and the absence of a legislative body and elected government and has constrained the scope for policymaking. The transition government will remain in place until local, parliamentary, and presidential elections, which are expected to be completed by late 2005. The absence of a parliament and of conditions for a broad participatory process precludes a PRGF-supported program as well as reforms requiring legislative action. Moreover, the country's administrative capacity has been disrupted in the provinces and is expected to recover only gradually as the transition government—with the support of international peacekeeping forces—ascertains full control over the country. Finally, the transition government has only just began establishing a track record of policy implementation.

Sufficient capacity for policy planning and implementation. The key ministries and the central bank have largely preserved their capacity to conduct normal government business. The transition government has displayed strong commitment to prudent macroeconomic policies—which provides an adequate safeguard to Fund resources—and to strengthening governance in the public sector. Satisfactory implementation of the SMP has reinforced this assessment, and the government has requested technical assistance to strengthen its capacity for planning and policy implementation.

Fund support to be a part of a concerted international effort. The July 19–20, 2004 donors' conference confirmed the international support for Haiti's transitional reconstruction program; donors pledged US$1,085 million of new financing, about US$160 million above the targeted amount. In that context, the World Bank is preparing an operation in support of economic governance reforms and to help meet Haiti's financing needs. The resources pledged by donors appear adequate to comprehensively address the fallout of the conflict, in particular restore security, rebuild key institutions, and rehabilitate infrastructure in Haiti.

Haiti—Fund Relations

As of October 31, 2004

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	81.83	99.92
Reserve position in Fund	0.07	0.08

III. **SDR department:**	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	13.70	100.00
Holdings	1.72	12.56

IV. **Outstanding purchases and loans:**	**SDR Million**	**Percent of Quota**
PRGF arrangements	7.59	9.26

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				
	2004	**2005**	**2006**	**2007**	**2008**
Principal	1.52	3.04	3.04		
Charges/interest	0.08	0.27	0.26	0.25	0.25
Total	**1.60**	**3.31**	**3.29**	**0.25**	**0.25**

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. **Article IV Consultation**

The last Article IV consultation was concluded by the Executive Board on January 24, 2003. Haiti is on the standard 12-month cycle.

IX. **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
BTS	October 1997; February 1999	Information technology
FAD	August–September 2004	Public expenditure management
	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
MAE	October 1995–April 1998	Banking supervision
	January 1997	Role of the central bank
	August 1997	Banking law and monetary policy
	July 1998	Banking law
	August–October 1998; June–July 1999; October 2000	Banking supervision
	June 1999	Central bank organization
	January 2000	Dollarization and policy response
	October 2000	Banking supervision
	October 2000	Money laundering
	May 2001	Banking supervision
	January 2002	Banking supervision
	July–August 2002	Money laundering

STA	January 1996–October 1997; June 1996; July 1996; February 1999; March 2000	Real sector statistics
	February 1997; March 1998; August 1998	Money and banking statistics
	November 1996; March 2000	Balance of payments statistics
LEG	March, June, and September 2000	Banking and central bank laws
INS	April 2002	Course on financial programming

X. **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 has 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. The conference helped mobilize US$1.08 billion in new pledges to support the implementation of the ICF.

The Bank has pledged to support the ICF with up to US$150 million in IDA assistance, and has prepared a Transitional Support Strategy (TSS) to program this financing. The TSS is scheduled to be reviewed by the Bank's Board on January 6, 2004, along with a fast-disbursing adjustment operation (US$61 million) and an emergency recovery and disaster management project (US$12 million) which constitute the bulk of the proposed IDA financing for the first year of the implementation of the TSS. This IDA assistance is contingent upon the clearance of the arrears to IDA prior to Board presentation. The Bank is also preparing a technical assistance project (US$2 million) to support the Government's economic governance reform agenda as well as to improve the policy and institutional environment for increased Bank lending and future donor financing. During the second year of the implementation of the TSS, the Bank would provide up to an additional US$75 million in IDA assistance contingent on progress in the first year of the program. The Bank is discussing with the authorities the options for focusing this additional assistance on helping to create economic and social opportunities in rural areas and small towns, including through community-driven development projects and multi-sectoral investment programs.

On September 14, 2004, the Bank approved a US$6.4 million grant package for Haiti from the LICUS Trust Fund. The new grant package includes a US$1 million disaster rehabilitation sub-component for the areas affected by the May 2004 floods, as well as sub-components to provide technical assistance to support initial reforms in economic governance, to strengthen school nutrition, support rapid job creation, improve rural water services and solid waste disposal. In January 2003, a Country Reengagement Note (the Haiti Country Brief) outlining the Bank's approach to Haiti in 2003/04 was presented at an informal Board discussion. In March 2003, the Bank approved US$3.5 million in grants from its Post Conflict Fund to finance emergency health interventions, school nutrition and sanitation project, and a community-driven development pilot project. 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. Total World Bank commitments to Haiti peaked in fiscal year 1996, reaching US$294 million. IDA disbursements to the Government of Haiti were suspended on January 29, 2001 due to the accumulation of arrears to IDA. Haiti was placed on nonaccrual status on September 17, 2001 and two remaining operations were closed on December 31, 2001.

Haiti—Relations with the IDB
(Prepared by IDB Staff)

The process of re-engagement between Haiti and the Bank was further bolstered by economic reform measures taken in early 2003, and the approval of the Staff Monitored Program (SMP) with the IMF in June 2003. Shortly thereafter, Haiti cleared its arrears to the IDB, thereby enabling the Bank to resume disbursements on the balance of the remaining old loan in the portfolio, launch the reactivation of its pending loans and renew its development assistance to the country in the context of a Transition Strategy 2003/2004 (September 2003-September 2004) leading to full re-engagement. The maintenance by the Haitian authorities of an adequate macroeconomic framework, including satisfactory performance under the SMP, has been one of the key conditions for policy-based lending (PBL) support by the IDB.

Following the clearance of arrears on July 9, 2003, the IDB resumed disbursements on the balance of the remaining Economic and Social Investment Fund (FAES II) loan (US$1.6 million), reactivated its four investment loans in priority sectors (education, health, water and sanitation and road infrastructure), all currently disbursing, and approved the reformulation of the pending Investment Sector Loan (ISL) supporting financial reform and enhanced public sector accountability. On July 24, the Bank disbursed the first tranche of US$35 million of this loan; the second tranche of US$15 million was disbursed on October 4, 2004.

Building on these reactivated operations, new investment loans for 2003, within the context of the above Transition Strategy, totaling US$201.7 million, were approved by the IDB Board of Executive Directors in November 2003, and ratified by the Haitian Parliament in December 2003. These operations support priority high impact investments in basic social services, rehabilitation of productive capacity and poverty reduction at the local level (rehabilitation of basic economic infrastructure, local development program/FAES III, and agricultural intensification). In addition, a fast disbursing PBL (Public Finance Reform) of US$25 million, was also approved by the IDB Board, to deepen the governance reforms initiated under the ISL by improving capacity to report and control expenditures, assisting the implementation of a new budget nomenclature, and further supporting the implementation of the systems plan expenditure module.

The combined reactivated (6) loans and new loans approved in 2003 (4), conform the IDB's ongoing portfolio of 10 projects, presently in full implementation. Since reactivation of its lending activities in July 2003, the IDB has disbursed over US$72 million through October 2004. On July 20, 2004, the IDB pledged US$260 million in new financing to support implementation of the Interim Cooperation Framework. To operationalize this pledge, the IDB has prepared a Transition Strategy for 2005/2006, to be considered by its Board of Executive Directors before end-2004, and which represents the IDB's short term response within the ICF implementation timeline. This strategy has built-in special measures to strengthen further local capacities for implementation of its ongoing and planned program of operations geared towards the current low-capacity and fragile country environment. In addition, the IDB is continuing to work closely with the IMF in critical areas of fiscal management and tax reform and administration, as well as with other major partners in Haiti within the context of the ICF.

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 mission to improve the quality of real sector statistics, and it has published national accounts for the period 1986/87 to 2002/2003 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 will soon publish 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: Core Statistical Indicators
(As of December 2, 2004)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of Latest Observation	Nov. 2004	Nov. 2004	Sept. 2004	Sept. 2004	Sept. 2004	Oct. 2004	Oct. 2004	Sept. 2004	Sept. 2004	Oct 2004	2003	Sept. 2004
Date Received	Nov. 04	Nov. 04	Nov. 04	Nov. 04	Nov. 04	Nov. 04	Nov. 04	Nov. 04	Nov. 04	Nov. 04	Nov. 04	Nov. 04
Frequency of Data 1/	D	D	M	M	M	W	M	M	A	M	A	M
Frequency of Reporting 2/	D	D	M	M	M	W	M	M	V	M	A	M
Source of Data 3/	A	A	A	A	A	A	A	A	A	A	A	A
Mode of Reporting 4/	O/E (Res.Rep.)	O/E (Res.Rep.)	O/E (Res.Rep.)	O/E (Res.Rep.)	O/E (Res.Rep.)	O/E (Res.Rep.)	E Report to IFS	M Report to IFS	O (Res.Rep.)	O/E (Res.Rep.)	M Report to IFS	O (Res.Rep.)
Confidentiality 5/	C	C	C	C	C	C	C	C	C	C	C	C
Frequency of Publication 2/	M	M	M	M	M	M	M	M	A	Q	A	M

1/ D-daily, W-weekly, M-monthly, Q-quarterly, A-annual, O-other.
2/ D-daily, W-weekly, M-monthly, Q-quarterly, A-annual, V-irregularly in conjunction with staff visits, O-other irregular basis.
3/ A-direct reporting by central bank, ministry of finance, or other official agency, N-official publication and press release.
4/ E-electronic data transfer, C-facsimile, M-mail, V-staff visits, O-other.
5/ A-for use by staff only, B-for use by staff and Board, C-unrestricted.

Statement by the IMF Staff Representative
January 10, 2005

This statement provides additional information that has become available since the issuance of the staff report for Haiti. This information does not alter the thrust of the staff appraisal.

Macroeconomic indicators. CPI inflation declined from 0.84 percent (on a month-over-month basis) in October to 0.21 percent in November 2004. The gourde has remained stable at about G37/US$. Preliminary data indicate that NIR was at about US$97 million at end-December, significantly above the program floor of US$63 million; this included US$12.7 million of Canada's contribution for the clearance of arrears to the World Bank.

Relations with the World Bank. Arrears to the World Bank (US$52.6 million) were cleared on January 4, 2005, using a combination of grant financing from Canada and Haiti's international reserves. Following the Board approval on January 6, the World Bank disbursed US$46 million, allowing the reconstitution of Haiti's international reserves.

Policy performance. As noted in the Memorandum of Economic and Financial Policies, (Attachment II, Table 2; Staff Report), several actions were to have been implemented by end-December.

- The pre-audit of Teleco has been completed, and the request for bids for the pre-audit of the electricity company (EDH) has been launched.
- The terms of reference for hiring international financial auditing firms for the audit of the Metropolitan Port-au-Prince Potable Water Authority, Airport Authority, and Seaport Authority have been prepared and the request for bids has been launched.
- The anti-corruption unit has been set up to become operational in 2005. The action plan is being implemented and 25 employees have been nominated.
- Decree to end the systematic internal control for normal expenditures by the Cour Supérieure des Comptes et du Contentieux Administratif (CSCCA), the external audit body established by the Constitution is awaiting approval by the Cabinet.
- Publication of information on quarterly budget execution on the website of the BRH to be initiated by mid-January 2005.
- The interim audit of the BRH has been finalized.
- The listings of entities and the financial benefits they received from the Industrial Development Fund and the guarantee fund for small businesses that suffered from arson in June 2004 are being compiled and will be published by end-January.
- Outlays through current accounts have been limited to 10 percent of budgetary credits for nonwage current spending throughout the fiscal year.

Press Release No. 05/4
FOR IMMEDIATE RELEASE
January 10, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$15.6 Million in Emergency Post-Conflict Assistance to Haiti

The Executive Board of the International Monetary Fund (IMF) today approved SDR 10.23 million (about US$15.6 million) in Emergency Post-Conflict Assistance to Haiti. The assistance is intended to help Haiti's recovery from an extended period of political conflict and will support the interim government's efforts to strengthen key institutions and governance, promote economic recovery, improve access to basic services, and restore security.

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. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

"Haiti is emerging from an extended period of political conflict and poor economic performance. Financial and economic stability has been restored under the six-month Staff Monitored Program (SMP) implemented in 2004. The exchange rate has stabilized, inflation is declining, and official international reserves have increased. In addition, good progress has been made in implementing key structural measures, in particular the steps to improve public sector governance and transparency.

"The key challenge for the authorities will be to use the pledged international support effectively to implement the social and economic agenda agreed with donors, strengthen security, and ensure safe and timely elections.

"The authorities' program for fiscal year 2004/05, which will be supported by the Fund's Emergency Post-Conflict Assistance, focuses on maintaining financial stability, strengthening institutional capacity, and reviving economic growth, drawing on the Interim Cooperation Framework that has been prepared in collaboration with the international community. Substantial

[1] http://www.imf.org/external/np/exr/facts/conflict.htm

resources are allocated for Haiti's immediate reconstruction needs and for increasing the provision of basic services while eliminating budget deficit financing by the central bank. In particular, the budget allows for recruiting and maintaining quality staff in the key security, education, and health sectors, and for doubling of public investment in line with the priorities agreed with donors.

"The recent decline in inflation is welcome. The authorities appropriately stand ready to tighten monetary conditions if necessary to achieve the program's targets and protect financial stability.

"The authorities have demonstrated strong commitment to improving public sector governance and transparency. Particularly welcome is the establishment of an Anti-Corruption Unit, publication of the central government budget, and commitment to full transparency of the financing schemes that have recently been made available to the private sector. It will be important to complete without further delay the census of employment in ministries and key public sector entities, the survey of central government arrears, and to prepare and publish audits of government accounts.

"The authorities are working with donors to accelerate the disbursement of external assistance. Haiti has regularized its arrears to the World Bank, and the Bank has resumed its lending program. The authorities' debt service during the program period to bilateral creditors to which Haiti remains in payment arrears has been deferred to ensure that the resources at the disposal of the Government of Haiti can be used to the maximum extent possible for emergency and reconstruction assistance. Good performance under the EPCA will help pave the way for a Fund program that could be supported by the Poverty Reduction and Growth Facility. The EPCA will facilitate continuous Fund engagement, while still catalyzing other, more concessional, donor support," Mr. Kato said.

**Statement by Murilo Portugal, Executive Director for Haiti
and Ketleen Florestal, Advisor to Executive Director
January 10, 2005**

1. During the past year, political crisis and devastating floods have resulted in weakened institutional capacity, repeated disruptions in Government services and economic activity, and extensive losses of property in Haiti valued at more than 5.5 percent of GDP and more than 5,600 lives. Nevertheless, the authorities' resolve to apply sound macroeconomic policies and to undertake long-needed structural reforms has led to financial stability, improved macro indicators, and good performance under the SMP - the first one that has been fully completed after several unsuccessful trials (in 1997, 1998, 2001 and 2003).

2. Quantitative benchmarks were met in both quarters of the SMP by wide margins, with the overall budget deficit remaining significantly below program ceilings and net international reserves well above target. These results were achieved with significant short-term costs given the slackness of economic activity. Good progress was also made on the structural front. This Emergency Post Conflict Assistance (EPCA), together with the emergency assistance purchase of 1998 following Hurricane Georges, is the first financial assistance from the Fund that Haiti will be receiving since 1997-1998. The arrangement will help implement the Government's economic and financial program whose main objectives include (i) consolidating the stabilization gains and creating conditions for economic recovery and reconstruction of physical and social infrastructure and (ii) enhancing governance and institutional and administrative capacity of the public administration.

3. Haiti would have expected a larger access, and fully intends to present a second request upon successful completion of the program under this first EPCA. To shorten the time for obtaining subsequently a PRGF arrangement, the interim Government will prepare a participatory Poverty Reduction Strategy Paper (PRSP). The draft PRSP will be presented by the Interim Government to the new Government emerging from the 2005 elections for finalization and approval.

4. Our Haitian authorities strongly believe that efficient macroeconomic management coupled with coordinated financial assistance from the donor community are central to achieve stability and to pave the way to economic recovery and growth. They trust that improving, in the short run, the social and economic conditions is a critical factor to increased participation and improved national dialogue, and therefore a key element in the successful organization of elections in 2005, in fighting poverty, and in achieving medium-term growth.

5. The interim Government is very conscious of the importance of reinstating security and long-lasting socio-political stability to restore private sector confidence. The efforts of the strengthened Haitian National Police in conjunction with the extended deployment of UN forces at the end of 2004 will contribute to the reestablishment of the rule of law. The completed formation of the electoral council, the publication of the draft electoral decree, the continuous dialogue with stakeholders, and the significant advances made on governance issues further contribute to a reassuring outlook.

Economic Governance

6. Since assuming office, the transitional Government has set about to implement high-impact reforms to strengthen institutions and promote transparency. The aim is to put in place practices and policies not likely to be rolled back by any new administration. Strenuous efforts have been made to strengthen budget management and expenditure control, to make the bidding and award process in public contracts transparent and fair, to fight corruption, to increase financial sector surveillance (particularly by strengthening the supervision of cooperatives and stepping up the fight against illicit transactions), to achieve greater decentralization and deconcentration of public services, and to address environmental issues.

7. Transparency and accountability in public finances have been enhanced through several key reforms including the use of a new nomenclature allowing detailed information on both expenditures and receipts, the closing of more than one hundred discretionary current accounts, and limiting the use of the remaining ones to strictly approved emergency expenditures. The annuity of the budget was also reinstated and data on its execution are published regularly. To limit fraud and deter misuse of public funds, the use of pre-shipment inspections to strengthen custom control was extended and an anti-corruption unit was set up at the Ministry of Economy and Finance. The Financial Intelligence Unit (UCREF), which had been created by decree about two years ago as part of the anti-money laundering dispositions, has become fully operational and is issuing its first reports on suspected illicit transactions.

8. Until recently, public procurements had been conducted by ministries without coordination, efficient control mechanisms and limited use of internationally-recognized transparent system of calls for bids. A credible and effective system has now been put in place and a decree is being drafted to establish an Interim Procurement Commission as part of the efforts being made to strengthen the public procurement process.

9. In the state-owned enterprises (SOEs), after the appointment of new managers, external audits of the five major enterprises are well on the way, with the help of the World Bank. The financial accounts of three SOEs have already been prepared according to international standards in order for them to undergo international financial audits.

10. During the past decade, the continuous erosion of the purchasing power of public servants by inflation and depreciation of the national currency has had a noticeable impact on performance in both the Central Government and SOEs. To maintain and recruit quality staff, a long-overdue general wage increase was granted to Central Government employees at the beginning of the last quarter of this fiscal year. Concurrently, the census of public sector employees was completed in 14 ministries and 29 autonomous public sector entities and will be concluded for all public entities during the next few months. The principal objective is to ensure that salaries are being paid only to those effectively working.

11. The authorities are committed to continue implementing measures already initiated under the SMP to improve public sector governance and transparency and to strengthen institutional capacity. To this end, grants and loans are being secured from donors and IFIs (mainly the Inter-American Development Bank and the World Bank). Technical assistance is

also being sought from the Fund. Legislation governing the Central Bank and the financial sector is also to be modernized with a view to reinforce the Central Bank autonomy from the Government and to assert its rule over insurance companies.

Fiscal Policy and Monetary Issues

12. Under the SMP, quantitative targets were attained by eliminating all non-essential expenditures and increasing revenue mobilization. A cash management system was also implemented. It implied the synchronizing of expenditure outlays with the cashing of receipts.

13. In 2004-05, a significant portion of the budget is being financed externally (in the form of grants and concessional loans to avoid increasing further the debt burden), allowing a substantial increase in capital outlays (close to a 100 percent) and eliminating the need for Central Bank financing. The Haitian authorities strongly believe that increased Central Bank autonomy presupposes increased accountability. The interim audit of the BRH, covering the period of September 2003 to March -2004, has been completed, and the BRH has already contracted for the audit for the second half of FY 2003/04. Since October 2004, an IMF safeguards assessment has been initiated at the request of the authorities.

External Financing and Arrears Clearance

14. Haiti urgently needs external capital inflows to ensure the recovery of its economy. Haiti appreciates the generous response of the donor community for the financing of the Interim Cooperation Framework (ICF). During the past fiscal year some delays in implementation of the investment program were observed because of many factors including the postponement of several international missions due to security concerns and limited financial capacity for the Government to hire high level human resources. Also, given the prolonged absence of the international community, there was a general lack of familiarity with donors' procedures at the level of the public sector. To speed up implementation of the ICF investment program, a high- level committee chaired by the Prime Minister and with participation of the donor community has been set up. Haiti is grateful to donors who have taken the decisive steps to eliminate national counterpart funds, reinforce local representation, and accelerate disbursement procedures.

15. Notwithstanding Haiti's extreme difficulties and weak external position, it has always kept current with the Fund and most of its active creditors. However, Haiti has been unable to fully honor all its debt obligations and entered in significant arrears with certain creditors, notably the World Bank. Thus, it found itself locked in a vicious cycle: without arrears clearance no new disbursements were possible and complete debt service would entail significant pressure on reserves and, in some cases, negative net flows endangering the fragile stability realized in the past few months.

16. The Canadian Government has generously offered to cover US$12.7 million of a total of US$52.6 million outstanding arrears due to the World Bank. Different options including a bridge loan were considered for covering the remaining US$40 million. However, they all entailed non negligible financial costs, administrative red tape, and possible delays in

implementation. Finally, with the guarantee that a first tranche of US$46 million of the adjustment credit and grant for the Governance Reform Operation with the World Bank would become available within 48 hours of being effective, Haiti decided to cover the remaining US$40 million with Central Bank reserves. On January 4, 2005, all arrears with the World Bank were cleared and for the first time since 1996, a project presented to the World Bank Board for IDA financing was approved today.

17. Projected debt service and the stock of arrears were estimated respectively at US$55.3 million and US$77.1 million at the end of FY 2004, while net reserves were US$56 million with a targeted increase of US$29 million under the EPCA. Even with the projected significant increase in external budget support, net flows will represent less than 17 percent of gross disbursements. A correspondence has been addressed to the Paris Club Secretariat asking creditors to apply an informal deferral of debt service due until the date when an agreement with the Paris Club is reached.

Conclusion

18. Haiti is very grateful for the decisive support of the international community pledged at the July 2004 donors' conference in Washington, as well as additional support for humanitarian assistance following the tragic floods. On behalf of our Haitian authorities, we would like to thank Haiti's friends for their continuous support and Fund staff for their comprehensive assessment of the macroeconomic situation. Haiti welcomes the continuous dialogue with the Fund and the constructive policy advice and looks forward to the concretization of awaited Fund technical assistance, particularly for revenue administration and speedy improvement of monetary and financial statistics.