

**Haiti: 2001 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Haiti**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2001 Article IV consultation with Haiti, the following documents have been released and are included in this package:

- the staff report for the 2001 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **October 2, 2001**, 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 January 4, 2002.** 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 18, 2002** updating information on recent developments.
- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its January 18, 2002 discussion** of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for Haiti.

The document(s) listed below have been or will be separately released.

Selected Issues

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

**To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to [Publicationpolicy@imf.org](mailto:Publicationpolicy@imf.org).**

Copies of this report are available to the public from

International Monetary Fund • Publication Services  
700 19<sup>th</sup> Street, N.W. • Washington, D.C. 20431  
Telephone: (202) 623-7430 • Telefax: (202) 623-7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) Internet: <http://www.imf.org>

Price: \$15.00 a copy

**International Monetary Fund  
Washington, D.C.**

INTERNATIONAL MONETARY FUND

HAITI

**Staff Report for the 2001 Article IV Consultation**

Prepared by the Staff Representatives for the 2001 Consultation with Haiti

Approved by Miguel E. Bonangelino and M. T. Hadjimichael

January 4, 2002

|   | Contents | Page |
|---|----------|------|
| Executive Summary .....   |          | 3    |
| I. Introduction .....   |          | 4    |
| II. Background and Development During FY 2000/01 .....                                      |          | 5    |
| III. Policy Discussions .....   |          | 9    |
| A. Fiscal Policy .....  |          | 10   |
| B. Monetary Policy .....  |          | 12   |
| C. External Sector Policies .....   |          | 13   |
| D. Structural Reform and Poverty .....  |          | 14   |
| IV. Medium-Term Outlook .....   |          | 15   |
| V. Staff Appraisal .....  |          | 17   |
| Text Boxes  |          |      |
| 1. Reserves Requirement, Gourdes Liquidity, and Banks' Profitability .....                  |          | 7    |
| 2. Recent Health Indicators .....   |          | 16   |
| Figures   |          |      |
| I. Outstanding BRH Stock, Credit to the Central Government, and Reserves Requirements ..... |          | 6    |
| II. Exchange Rate Developments .....  |          | 9    |
| Tables  |          |      |
| 1. Quantitative Benchmarks and Actual Outcomes under the SMP .....                          |          | 20   |
| 2. Selected Economic and Financial Indicators .....   |          | 21   |
| 3. Central Government Operations .....  |          | 22   |
| 4. Summary Accounts of the Banking System .....   |          | 23   |
| 5. Summary Indicators of Commercial Banking Sector Soundness .....                          |          | 24   |
| 6. Balance of Payments .....  |          | 25   |

|     |   |    |
|-----|---|----|
| 7.  | Stock of External Arrears and Projected Debt Service .....  | 26 |
| 8.  | Structural Benchmarks, October 2000–September 2001 .....  | 27 |
| 9.  | Projection of the Impact on Prices and Revenues of Alternative Petroleum Pricing<br>Policies for 2002 ..... | 28 |
| 10. | Medium-Term Scenario .....  | 29 |
| 11. | Medium-Term Balance of Payments .....   | 30 |

#### Attachments

|      |  |    |
|------|--|----|
| I.   | Fund Relations .....                         | 31 |
| II.  | Relations with the World Bank Group.....     | 34 |
| III. | IDB Loan Commitments and Disbursements ..... | 35 |
| IV.  | Statistical Issues .....                     | 36 |

#### Table in Attachment IV

|    |                                   |    |
|----|-----------------------------------|----|
| 1. | Core Statistical Indicators ..... | 37 |
|----|-----------------------------------|----|

#### Appendix Boxes

|    |  |    |
|----|--|----|
| 1. | Haiti's New National Account.....  | 38 |
| 2. | The Operating Balance of the Banque de la Republique d'Haiti and Interest<br>Expenditure on BRH Bonds..... | 39 |
| 3. | Poverty Monitoring Indicators .....  | 40 |

## EXECUTIVE SUMMARY

### Recent developments

Haiti's continuing political crisis remains unresolved, with adverse effects on investment and economic growth. While still channeling humanitarian assistance through NGOs, the main donors have suspended budgetary aid pending the resolution of the political stalemate. Performance under the staff-monitored program (SMP) during FY 2000/01 (year ending September 30) was weak. Real GDP is estimated to have declined by around two percent. Inflation remained high during most of the year. The overall central government deficit rose as budgetary revenue, as a ratio of GDP, declined to a historically low level; in the absence of budgetary aid, the deficit was financed mostly by the central bank. While budgetary spending was broadly contained, major problems remain regarding the transparency and accountability of budget execution. Tight monetary conditions helped keep the gourde broadly stable relative to the U.S. dollar; however, together with continuing political uncertainty, this contributed to a sharp decline in credit to the private sector. The health of the banking system showed signs of weakening.

Net official reserves declined to the equivalent of 1 month of imports of goods and services through end-September 2001 while there was an accumulation of external arrears to multilateral and bilateral creditors. The IDB withheld new disbursements pending the payment of arrears, and the World Bank cancelled undisbursed loans.

### Policy discussions

The discussions centered on the need for a strong fiscal adjustment in the context of a scarce budgetary aid. Staff recommended a macroeconomic adjustment scenario, including increased central government revenue and enhanced control of expenditure. Staff also urged the authorities to start taking actions to address widespread concerns about governance. The authorities agreed that fiscal adjustment would reduce the pressure on interest rates and, in the context of an improved political climate, relieve growing economic and financial strains. However, agreement could not be reached on fiscal and monetary policies consistent with these objectives, with the authorities indicating that it would be difficult to take significant actions in the present weak economic environment and very tense political situation. As a result, the discussions on a possible new SMP were not concluded. Staff encouraged the authorities to formalize their macroeconomic framework and adopt policies along the lines recommended by the mission, and will continue to monitor closely economic developments in the country.

The resumption of growth over the medium term would critically depend on heightened private sector confidence and investment, as well as on increased public sector capital inflows following the resolution of the current political impasse. The instrument for achieving higher growth would be a medium-term program under the poverty reduction and growth facility (PRGF). Satisfactory performance under a possible new SMP would be a precondition to initiate discussions for an eventual PRGF arrangement.

## I. INTRODUCTION

1. Discussions for the 2001 Article IV consultation with Haiti were held in Port-au-Prince during September 5–19, 2001 and in Washington on October 2, 2001.<sup>1</sup> The mission met with Economy and Finance Minister Gustave, Central Bank Governor Joseph, other senior officials, various political and private sector representatives as well as representatives of international organizations and bilateral donors.

2. Haiti has experienced political instability during the past four and a half years with adverse economic consequences. A new parliament was installed in August 2000, but opposition political parties have questioned the legitimacy of the elections. The election of President Aristide in November 2000, which the opposition boycotted, added to the political tension. While still channeling humanitarian assistance through NGOs, the main bilateral and multilateral donors suspended budgetary aid pending the resolution of the political crisis; though some progress has been made under the auspices of OAS/CARICOM missions, the crisis essentially remains unresolved so far.

3. At the conclusion of the last Article IV consultation in November 2000, Directors expressed concern about the effects of the prolonged political impasse on the economic situation. While welcoming the increase in domestic petroleum product prices in September 2000 designed to bolster fiscal revenues, Directors noted the authorities' intention to adjust these prices regularly in line with the changes in world prices and the exchange rate. They called on the authorities to control budgetary expenditures, restrict the use of ministerial discretionary accounts and contain wage increases. They indicated that a track record of good performance under the staff-monitored program (SMP) during FY 2000/01 (year ending September 30) would be one precondition for beginning formal discussions on a Poverty Reduction and Growth Facility (PRGF) arrangement.

4. Economic and financial statistics are made available to Fund staff as they become available in Haiti. Improvements in the past two years have been achieved in some real sector statistics, particularly in the coverage of the national accounts (Appendix Box 1), and in balance of payments statistics. However, data problems remain in the public sector accounts and the balance of payments that affect surveillance, and program design and monitoring. Statistical issues are discussed in more detail in Appendix IV.

5. Regarding Haiti's consent to its quota increase under the Eleventh General Review of Quotas and the status of Haiti's acceptance of the Fourth Amendment to the Fund's Articles of Agreement (a special allocation of SDRs), the authorities indicated that parliamentary approval

---

<sup>1</sup> The staff team comprised Mr. Kalter (Head), Messrs. Verreydt (mission leader in Port-au-Prince), Melhado, and Adedeji, and Ms. Vera-Martín (all WHD). Mr. Auffret (World Bank) joined the mission for one week. The mission was assisted by Mr. La Pittus, the resident representative.

of these matters is required; they preferred to defer the proposals in view of the heavy agenda for the parliament.

6. Haiti has accepted the obligations of Article VIII, Sections 2, 3, and 4. Relations with the Fund are described in Appendix I. Relations with the World Bank and the IDB are described in Appendices II and III.

## II. BACKGROUND AND DEVELOPMENTS DURING FY 2000/01

7. The authorities' economic program for FY 2000/01, which was supported by an SMP, was predicated on a modest rebound in real GDP growth on the assumption that the presidential elections would give rise to increased private sector confidence and an improvement in external capital flows. The central government deficit was to be reduced to 1.3 percent of GDP, by way of a strong recovery in revenue and some curtailment of expenditure. Monetary policy was to be kept tight until the reduction in the fiscal deficit took hold and inflation was clearly on a downward path.

8. Performance under the SMP during FY 2000/01 was weak (Table 1). In the face of political instability and a decline in foreign financing, real GDP is estimated to have declined by around 2 percent (Table 2). Inflation (12-month) remained at around 16 percent during most of the year before decelerating during the last quarter to 12 percent in September 2001.<sup>2</sup>

9. Fiscal performance deteriorated. The overall central government deficit in FY 2000/01 rose to an estimated 2.7 percent of GDP, against 2.5 percent of GDP in FY 1999/2000<sup>3</sup> (Table 3). Central government revenue declined to an estimated 7.3 percent of GDP (8.1 percent of GDP in FY 1999/2000), in part because petroleum product prices were not adjusted in line with increased landed costs, as envisaged under the SMP. Total budgetary spending was held at an estimated 9.8 percent of GDP, against 10.1 percent of GDP in FY 1999/2000. While the wage bill was below program limits, outlays on nonwage current goods and services were well above target; capital outlays were substantially compressed. Major problems regarding transparency and accountability in budget execution were not addressed, as had been envisaged under the SMP, and no budget was approved by parliament.<sup>4</sup>

---

<sup>2</sup> The relatively high average 12-month inflation rate in the FY 2000/01 reflects the cumulative impact of the large monthly inflation rates in September and October 2000 in the wake of the increase in petroleum prices.

<sup>3</sup> The level of revised nominal GDP produced by the new national accounts is somewhat lower than the estimates of GDP previously used by staff (staff did not use the underestimated GDP series under the old accounts), and thus fiscal data relative to GDP are higher than in previous reports.

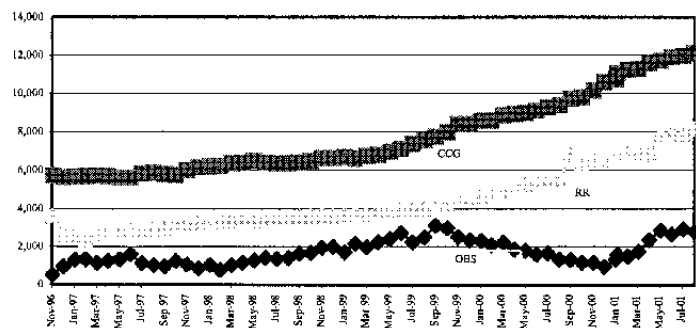
<sup>4</sup> A large portion of budgetary expenditure was channeled through mechanisms that should in principle be limited to unforeseen emergency outlays, hindering control by the Budget Auditing Office.

The deficit was financed mostly by the central bank (2.5 percent of GDP) as well as through arrears accumulation, including debt service arrears to the World Bank and the IDB.

10. Administrative measures implemented by the new government in the second-half year, including the collection of back taxes, led to some increase in internal and custom revenue during the last quarter. There was also some compression of expenditures other than on goods and services as well as the tailing-off of elections costs. As a result, the budgetary deficit and central bank financing in the second semester were less than in the first semester.

11. In June 2001, the central bank (BRH) modified the required reserves system including raising the ratio of required reserves on dollar deposits from 21 percent to 31 percent, the level prevailing on gourdes deposits (Box 1). However, the changes in the reserves system resulted in a net increase in the liquidity in gourdes, that was largely mopped up by a marked increase in the issuance of BRH bonds, at a substantial cost to the central bank (see Box 1, Appendix Box 2, and Figure 1). The BRH maintained interest rates on its 91-day bonds at 26.7 percent from August 2000<sup>5</sup> to September 2001. In October 2001, the BRH lowered interest rates on its bonds to 21 percent, associated with the deceleration of inflation during the last quarter of FY 2000/01, the decline in dollar interest rates, and the BRH's concern about the health of the banking system and its increasing quasi-fiscal deficit.

Figure 1: Outstanding BRH Stock (OBS), Credit to the Central Government (CCG), and Reserves Requirements (RR) (in millions of gourdes)



12. The high interest rates on loans (an average of 32 percent for gourde loans, and 14 percent for dollar loans at the end of September 2001), reflected crowding out by the public sector and continuing political uncertainty. This has contributed to a sharp decline in credit to the private sector, which decreased by 13.3 percent<sup>6</sup> in real terms in the 12 months ending September 2001; broad money in real terms declined by 2.7 percent during the same period (Table 4).<sup>7</sup>

<sup>5</sup> The interest rates on 91-day BRH bonds was 10.3 percent at end-September 1999, and was gradually increased in the course of the FY 1999/2000.

<sup>6</sup> U.S. dollar loans and deposits are measured at a constant exchange rate.

<sup>7</sup> See Selected Economic Issues chapter on the Evolution of Credit to the Private Sector for more details.

**Box 1: Reserves Requirement, Gourdes Liquidity, and Banks' Profitability**

The portion of the reserve requirement (RR) on U.S. dollar liabilities of the banking system to be held in gourdes was decreased from 70 percent in March 2001 to 30 percent in June 2001, with a view to allowing banks to better match their dollar assets and liabilities. Also, the ratio of required reserves on dollar liabilities was increased to 31 percent in June 2001 (previously 21 percent, the level prevailing since September 2000 on gourde deposits).

The commercial banks invested the gourde liquidity released by the change in RR regulation in BRH bonds. They satisfied the increase in dollar RRs on dollar liabilities by liquidating some of their foreign assets.

The change in the composition of and the increase in RRs on dollar liabilities produced a negative net impact on central bank profits, while they enhanced commercial bank revenues. As RRs are not remunerated, the commercial banks lost interest income on foreign assets repatriated to Haiti in order to meet the additional required dollar deposits with the central bank. However, investing the gourde liquidity released by the change in the composition of RR in BRH bonds enhanced their profitability. These measures, on the other hand, reduced the central bank's profit, because interest income derived from investing unremunerated RRs in dollar assets was lower than interest payments on additional bonds issued to mop up the increase in gourde liquidity.

13. The central bank continued to strengthen its supervisory capacity and the regulatory framework during FY 2000/01. Banks now generally follow internationally accepted practices regarding loan classification, provisioning, and disclosure of information.<sup>8</sup> Work on a new banking law (to bring the banking system in conformity with international standards, including the extension of the central bank's supervisory authority to nonbank financial institutions) and central bank law (to give it independence in the conduct of monetary policy) is in progress.

14. Available data suggests that the banking system is being affected negatively by the high interest rates and weak domestic demand. Nonperforming loans as a proportion of total loans rose from 6.8 percent in September 2000 to 8.9 percent in June 2001. Banks have increased provisions for nonperforming loans from 63 percent in September 2000 to 65 percent in June 2001 (Table 5). Indicators of profitability show a deterioration in June 2001 relative to September 2000.

---

<sup>8</sup> The BRH issued on August 1, 2000 a circular, to the effect that banks and nonbank financial institutions must have their customers fill out a declaration of source of funds form for any cash transaction in an amount equal to or exceeding US\$10,000.



15. During FY 2000/01 little progress was made toward privatizing the state-owned Banque Nationale de Credit (BNC) as envisaged under the SMP (BNC accounts for 7 percent of banks deposits). BNC credit to the private sector continued to be limited to the rolling over of maturing credit lines. BNC's financial situation remains fragile, based almost entirely on earnings from its portfolio of BRH bonds. The second state-owned bank, Banque Populaire d'Haiti (BPH), accounting for about 2 percent of banking system deposits, has continued to experience losses.

16. Parliament approved laws against money laundering and drug trafficking in February and August 2001. Haiti acceded to membership of the Caribbean Financial Action Task Force (CFATF) at the end of 2001. The ministry of justice has set up a Financial Intelligence Unit in charge of tracking illegal transactions.

17. The current account deficit (before grants) of the balance of payments is estimated to have declined in FY 2000/01 to about 4.8 percent of GDP (from 6.4 percent of GDP in FY 1999/2000) (Table 6). Exports declined by 3 percent in U.S. dollar terms. Exports of the light assembly sector (which represents 83 percent of total exports) grew only slightly as they were affected by the slowdown in orders from the U.S. market, while traditional exports shrank owing to the low international prices of cocoa and coffee. Imports declined by 3 percent in U.S. dollar terms, with a small increase in imports of petroleum products and inputs for the assembly industries more than offset by decreased imports of other products, largely on account of weakening economic activity. Private transfers are estimated to have continued their rising trend.

18. The capital and financial account of the balance of payments posted a small surplus in FY 2000/01, following a deficit in FY 1999/2000, reflecting mainly the repatriation of foreign assets by commercial banks to comply with the change in reserve requirements. The public sector net balance was almost nil, reflecting mainly the sharp reduction in loan disbursements from the IDB and World Bank. Net official reserves, excluding commercial banks' dollar deposits at the central bank, are estimated to have declined by about US\$50 million to US\$113 million (equivalent to 1 month of imports of goods and services and 22 percent of the monetary base).<sup>9</sup>

19. Haiti started to accumulate external arrears during FY 2000/01, rising to US\$17.8 million by end-September 2001. About half of the accumulated arrears were with the World Bank and the IDB<sup>10</sup> (Table 7). As a result of the arrears accumulation, the IDB withheld new disbursements in July 2001. In the same month, the World Bank cancelled its outstanding loans due to the negative impact of the arrears-related suspension of the portfolio on project

---

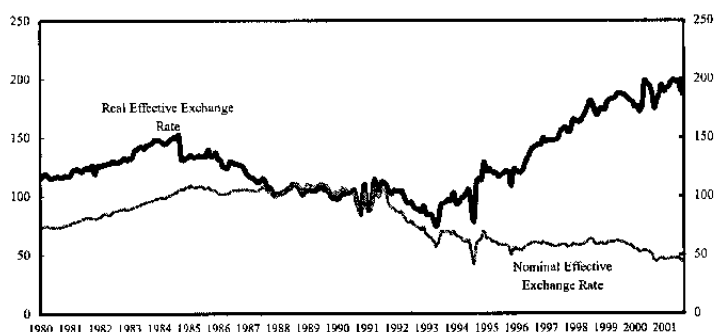
<sup>9</sup> The NIR under the program definition excludes deposits of commercial banks in the central bank. Including these deposits, reserves increased by US\$8 million.

<sup>10</sup> There are no overdue obligations with the IMF. The arrears result from governmental debt and do not evidence exchange restrictions.

implementation, and in order to save the government commitment fees for these inactive projects. At the end of FY 2000/01, Haiti's public external debt amounted to US\$1.2 billion, or about 30 percent of GDP and around 250 percent of exports of goods and services. The bulk of the debt is on concessional terms. In view of its low debt indicators relative to other low-income countries, Haiti is currently not eligible for HIPC debt relief.<sup>11</sup>

20. The authorities have maintained a managed floating exchange rate regime. While abstaining from intervening directly in the foreign exchange market, the central bank has intervened indirectly by selling U.S. dollars to petroleum importers at market rates (as well as by drawing down reserves to finance the construction of a new central bank headquarters and the printing abroad of bank bills meeting higher security standards). During the year, the gourde remained broadly stable relative to the U.S. dollar and the real effective exchange rate appreciated by about 6 percent between September 2000 and September 2001 (Figure 2), reflecting mainly the relatively high inflation in Haiti.

Figure 2. Haiti: Exchange Rate Developments (Index 1990=100)



21. No progress was achieved during FY 2000/01 toward restructuring/privatizing key public enterprises, including Electricité d'Haiti (EDH). The economic situation of EDH however is worrisome, with a deficit of 0.4 percent of GDP projected for FY 2001/02. Plans for privatizing the operations of the port, airport, and water company are on hold (Table 8).

### III. POLICY DISCUSSIONS

22. The policy discussions centered on the need for a strong fiscal adjustment in the context of a scarce budgetary aid, without which an unsustainably large central bank financing would jeopardize macroeconomic stability. There was agreement that fiscal adjustment would relieve the burden on monetary policy, reducing pressures on interest rates, and, in the context of an improved political climate, relieving growing strains on the private sector and the banking sector. However, agreement was not reached on fiscal and monetary policies consistent with these macroeconomic objectives. As a result, discussions on a possible new staff-monitored program could not be concluded. The staff encouraged the authorities to carry out economic

<sup>11</sup> The ratio of the net present value of external debt to exports of goods and nonfactor services (three-year average) was estimated at about 140 percent at end-September 2001, below the 150 percent established under the enhanced HIPC initiative.

policy and formalize their macroeconomic framework along the lines recommended by the mission, and will continue to monitor closely economic developments in Haiti.

23. Staff explained that an appropriate fiscal strategy and the supporting monetary and external sector policies could form the basis for discussions on a new staff monitored program for FY 2001/02. It also emphasized that demonstrating strong commitment to sound policies, through establishing a track record of good performance under a new SMP and assurances that donor financing is available following a political settlement, would be prerequisites for an eventual PRGF-supported program. However, staff recognized that the political situation was difficult, and a return to normalcy may take some time.

24. Staff recommended a macroeconomic adjustment scenario (discussed below) based on a real GDP projection of no growth, a moderate decline in inflation and a small increase in net international reserves (NIR). The proposed scenario included modest improvements in central government revenue performance and enhanced control over expenditure. During the discussions on the budget for FY 2001/02, the authorities broadly agreed with the staff's underlying macroeconomic assumptions and indicated their intention to reduce central bank financing through fiscal adjustment. However, they did not agree to cut back outlays for current operations from their present historically high level, and indicated that it would be difficult to take significant revenue measures in the present weak economic environment and tense political situation. Moreover, the authorities stressed the need to substantially raise capital outlays. Staff stressed the high risks involved in the authorities' strategy, noting that the attainment of the deficit reduction objective recommended by staff would require more determined fiscal measures than contemplated by the authorities.

#### **A. Fiscal Policy**

25. The budgetary framework recommended by staff would target a decline in the central government deficit to 1.4 percent of GDP in FY 2001/02 from 2.7 percent of GDP in FY 2000/01, consistent with central bank financing to the central government of 1.2 percent of GDP and expected net foreign financing of 0.3 percent of GDP.<sup>12</sup> Revenue would be targeted to increase by 0.6 percentage point of GDP to 7.9 percent of GDP in FY 2000/01, while a rigorous prioritization of expenditure would cut nonpriority outlays by about 1 percentage point of GDP (to 9 percent of GDP, excluding elections costs that are expected to be foreign-financed). Staff recommended that total spending and the overall central government deficit be allowed to increase in case external budgetary aid would be larger than assumed in the program.

26. Staff recommended a basket of revenue measures, including the widening of the tax base of the turnover tax (TCA) and the increase of the withholding tax at customs from 2 percent to 5 percent (*acompte*). As the withholding tax is deductible against income tax, this

---

<sup>12</sup> Including exceptional financing of about 0.4 percent of GDP (see the section on external sector policies).

would provide an incentive for a larger share of the informal sector to be registered as part of the tax system. Moreover, tax and customs administration should be improved, including through a strengthening of the recording and collection of taxes on petroleum. In addition, the staff urged the adoption of a flexible pricing mechanism for petroleum products as earlier recommended and as provided in the 1995 law on petroleum products, under which prices would be adjusted regularly in line with the changes in the gourde-converted landed cost. Kerosene—which is widely used for cooking by the poorest categories of the population—would, however, remain subsidized for social and environmental reasons.

27. The staff emphasized that, while keeping tight control over total budgetary expenditures, the composition of spending should be reoriented away from current expenditures on goods and services to capital expenditure. This would include raising public sector wages in line with targeted inflation and reducing outlays for goods and services to 2 percent of GDP (from an estimated 3 percent of GDP in FY 2000/01) by way of improved prioritization and reduced waste; also, some increase in capital spending to 2 percent of GDP would be warranted, mainly on basic infrastructure. Staff stressed that the government should make interest payments on the government's outstanding debt to the BRH, thus avoiding an increase in the quasi-fiscal deficit of the central bank.

28. The draft budget submitted to the lower house<sup>13</sup> at end-December 2001 set ambitious targets, with increased revenue collection (to 9.7 percent of GDP) and expenditure (to 13.0 percent of GDP, including an unrealistically high capital expenditure of about 5 percent of GDP). Central bank financing would be only slightly reduced to 2.0 percent of GDP. However, the authorities' budget does not include measures consistent with the ambitious revenue collection target. Increased revenue would be sought mainly through reducing the scope for exonerations of taxes and the expansion of the computerized monitoring systems, and enhanced auditing of tax returns.<sup>14</sup>

29. Staff expressed concern that the authorities' intended administrative revenue measures appear limited and of uncertain yield. In addition, it noted that any reversal in the recent downward trend of the international price of oil or a depreciation of the currency would lower revenue unless domestic oil prices are adjusted flexibly.<sup>15</sup> On the expenditure side, staff expressed concern that the authorities' budget does not control well outlays for operations or allocate sufficient funds to cover interest payments to the BRH, and seems to underestimate the amount of the subsidies that the central government would realistically need to grant to public

---

<sup>13</sup> The draft budget was submitted to the Chamber of Deputies pending submission to the Senate.

<sup>14</sup> Even though the drop in the dollar price of oil between September and November 2001 afforded the authorities an opportunity to introduce a flexible pricing scheme without raising domestic petroleum product prices, while maintaining about the same projected level of oil-based revenue, the authorities did not include this measure in the budget (Table 9).

<sup>15</sup> See chapter on "Petroleum Taxation" in the Selected Issues paper.

enterprises (in particular in the ailing electricity sector). Staff also expressed doubts about the realism and the affordability of the large budgeted capital spending. Staff stressed that the authorities' cash management system (under which actual outlays are limited to revenue collected and the ceiling on central bank financing) could, in principle, be instrumental in containing the deficit in the face of weak revenue. However, the staff expressed concern about past practices whereby the cash management system enabled excessive central bank financing and arrears accumulation.

30. Staff noted that progress in governance was critical for macroeconomic performance and the resumption of growth. By international standards the ratio of budgetary revenue and expenditure to GDP is low, owing to weak institutional capacity, large tax evasion and leakage of revenue. The staff urged the authorities to enhance governance through increased transparency and accountability in budget execution, as this would enhance donors' confidence in budgetary mechanisms and the confidence of the public. The authorities emphasized that the draft budget for FY 2001/02 would be the first official budget since 1996, presenting the opportunity to greatly enhance control and transparency in budget execution. In this regard, they indicated that they intend to restrict the use of discretionary ministerial accounts to emergency outlays, and will make detailed data on budget execution available on the web on a monthly basis. While welcoming these positive immediate steps, staff indicated that increased fiscal accountability is a long-term goal that would require a sustained and coordinated effort, possibly starting with the overhaul of budgetary control and procedures in a large pilot ministry with donor technical assistance.

## **B. Monetary Policy**

31. Staff presented a monetary framework for FY 2001/02 that assumes a constant broad money to GDP ratio, consistent with an average inflation rate of about 11 percent (compared to around 16 percent in FY 2000/01), as well as the fiscal framework and targeted NIR recommended by staff.

32. In this context, staff discussed with the authorities targets for the central bank's net domestic assets to be attained mainly through the placement of central bank bonds at market rates of interest. However, while agreeing to the targeted decline in inflation, the authorities stressed the need to further relax monetary policy in the course of FY 2001/02, by way of a further lowering of interest rates on BRH bonds. The staff stressed that interest rates should be lowered further only if inflation continues to decline, in the context of a broadly stable exchange rate and reduced budget deficit. The authorities also indicated that no change was likely to be made during the course of FY 2001/02 to the present reserves requirement system. Staff concurred that any change in the required reserves system should be carefully assessed in the context of the evolution of banks' liquidity, but noted that excessively high reserve requirements impose a heavy tax on commercial banks and should be addressed as conditions permit.

33. The authorities indicated their intention to further strengthen the banking system during FY 2001/02, supported by technical assistance from the Fund. They expect that the

Financial Intelligence Unit would become operational in the first quarter of FY 2001/02. They also indicated that a new banking law, as well as a new organic law of the central bank should be finalized in the course of FY 2001/02 with technical assistance from the Fund. Pending the restructuring of the government-owned commercial banks (BNC and BPH), staff cautioned the authorities against authorizing the resumption of new lending by these banks.

### C. External Sector Policies

34. The external current account deficit (before grants), is projected to remain at about US\$178 million in FY 2001/02 (US\$18 million including grants), equivalent to 4.6 percent of GDP (0.5 percent including grants). Exports are projected to increase slightly, while imports would pick up a little. Assuming the dollar price of oil stabilizes somewhat below US\$20 a barrel (in line with the latest WEO assumptions), imports of petroleum products are projected to decline by about US\$40 million. The growth of remittances would decelerate in line with the expected weaker U.S. economic activity. The capital account surplus would increase to about US\$39 million, assuming further net commercial bank inflows. Net public sector flows are estimated at about US\$10 million including US\$18 million from the IDB, assuming that the IDB resumes disbursements on existing project loans following the payment of arrears.<sup>16</sup> The staff advised the authorities to clear arrears to the international financial institutions to the extent possible and to seek exceptional financing for the overdue outstanding obligations and debt service to the main bilateral creditors (see Table 7).

35. The staff has made a preliminary analysis of the implications of a worse-case scenario for FY 2000/02, where remittances fall by 6 percent relative to FY 2000/01 (compared with an increase of 3 percent in the baseline scenario), petroleum imports increase by 3 percent (compared with a decline of 28 percent in the baseline scenario), and exports decline by 2 percent (against an increase of 4 percent in the baseline scenario).<sup>17</sup> The combined effect of these external shocks are estimated to widen the current account deficit to 6 percent of GDP, resulting in a financing gap of around US\$50 million (1.5 percent of GDP), compared to no

---

<sup>16</sup> Project loan disbursements from the IDB could potentially exceed the projected amount. There are four project loans recently ratified by parliament (for a total amount of US\$145 million). Moreover, budget support could be provided under the Investment Sectoral Loan of US\$50 million to be disbursed in two tranches in the framework of the SMP. In addition, it is estimated that more than US\$500 million in medium-term foreign aid from the IDB and the European Union were put on hold owing to the political impasse.

<sup>17</sup> The net impact of the September 11 events (which are included as part of the baseline scenario) on Haiti's external sector is projected to be small, as Haiti does not have a well-developed tourism sector and foreign direct investment is very low. According to staff's projections, the lower oil imports bill during FY 2001/02, resulting from the substantial decline in dollar oil prices, would be offset by a slowing down of remittances and exports, owing to the recession in the United States.

gap in the baseline scenario, which would put strong pressure on the exchange rate (see Table 6).

36. The staff urged the authorities to maintain the floating exchange rate regime. Although temporary pressures in the foreign exchange market may arise, the central bank should discontinue the practice of intervening (directly or indirectly) to support the gourde and, given its low level of reserves, give priority to strengthening its net reserve position. The authorities concurred that implementing sound financial policies would provide support to the currency. The appreciation of the real exchange rate since the lifting of the embargo in 1995 had little impact on export growth, owing to the large shift in the composition of exports away from traditional agricultural products to light manufacturing industries that were attracted to Haiti by the low wages and increasing labor productivity (data limitations do not allow these factors to be included in the calculation of the real effective exchange rate). Additional efforts to enhance competitiveness should be stepped up through structural reforms aimed at reducing domestic production costs and increasing productivity.

37. The authorities reaffirmed their intention to maintain Haiti's open trade policy.<sup>18</sup> Haiti's trade regime is among the most open in the Western Hemisphere, with a simple average tariff rate of about 5 percent and no nontariff barriers.<sup>19</sup> Tariffs are generally lower than the current tariff rates under the common external tariff (CET) of the Caribbean Community and Common market (CARICOM), of which Haiti is a member.<sup>20</sup> The Haitian authorities have negotiated a large number of suspensions of the CET to avoid tariff increases. These waivers are valid until 2005 and are renewable.

#### **D. Structural Reform and Poverty**

38. Technical work has been completed for the restructuring of five large public enterprises (airport, port, and the electricity, telephone, and water companies). However, the final steps toward privatization have been delayed, in part because of the existing political uncertainties. Negotiations with Trade Unions in connection with the privatization of the harbor of Port-au-Prince have come to a standstill while the planned reduction of the harbor's workforce has not taken place.

---

<sup>18</sup> A plan to increase tariff rates on some items particularly vehicles was under discussion at the time of the Art. IV consultations. Staff expressed concern that raising tariffs may be contrary to commitments made to the WTO and CARICOM. The authorities subsequently withdrew this option.

<sup>19</sup> The exceptions are gasoline (57.8 percent) and rice and cement (3 percent) and a 4 percent verification fee is levied by customs on all imports.

<sup>20</sup> Haiti acceded to membership in the Caribbean Common Market in July 1999.

39. With a per capita GDP of about US\$500, Haiti is the poorest country in the Western Hemisphere. More than 80 percent of the population in rural areas live in deep poverty. Social programs aimed at reducing poverty by improving basic education and health and infrastructure are mainly funded by donors and implemented directly by nongovernmental organizations. It is encouraging that there seems to have been some progress in reducing poverty during the past decade (Box 2); however, social indicators worsened again in the past year as a result of the continued economic deterioration. The Government will need to identify and monitor poverty indicators to measure the progress resulting from the implementation of an eventual Poverty Reduction Strategy (Appendix Box 3).

40. The Fund has continued to provide technical assistance to Haiti during FY 2000/01, mainly in the form of missions, short-term visits of experts and the resident representative office.<sup>21</sup> The staff commended the authorities for their efforts to implement the recommendations of Fund technical assistance in real sector statistics and the balance of payments, notwithstanding weaknesses in human resources. It encouraged the authorities to make full use of the resources that will become available through the recently established Caribbean Center for Technical Assistance (CARTAC), of which Haiti is a member. The staff welcomed the start of the publication of the results of the new household survey by the statistical institute, as well as the publication of a health survey (see Appendix Box 3).

#### IV. MEDIUM-TERM OUTLOOK

41. The medium-term scenario prepared by staff assumes a satisfactory resolution of the current political difficulties, as well as a track record of sound macroeconomic management in FY 2001/02, paving the way for the implementation of a poverty reduction strategy supported by a PRGF beginning in FY 2002/03. This would entail an accelerated implementation of structural reforms with a substantial increase in external support, raising productivity, enhancing external competitiveness and increasing domestic investment. As a result, output growth would reach around 6 percent a year with a sizeable increase in employment (Table 10). A steady strengthening of public sector saving, combined with a prudent monetary policy, would allow for the gradual reduction of inflation to industrial country levels. The alternative scenario consistent with the current political stalemate would entail a continued contraction of the economy, accelerating inflation, a further deterioration of economic and social infrastructure and a deepening of poverty.

---

<sup>21</sup> See Attachment I for a more complete listing of technical assistance provided in recent years.



## **Box 2: Recent Health Indicators**

### **General Social Characteristics of the Population**

A survey conducted in 2000 on Mortality, Morbidity and Utilization of Services (EMMUS-III) reveals among others that: about 34 percent of the households have electricity; 44 percent have access to potable water (faucet or well water); approximately 47 percent have a radio and 23 percent have television; only 4 percent own a car. About 29 percent of women and 17 percent of men aged 15 to 49 have no education; the school enrollment rate is 87 percent for women and for men. All these indicators showed improvements relative to 1994/95, for example, the access to electricity increased by 3 percentage points; access to potable water increased by 19 percentage points; and school enrollment rate increased by 13 percentage points for women and for men.

### **Health Indicators**

#### **Vaccination**

Only 30 percent of children aged 12–23 months have received the complete series of vaccinations recommended by the World Health Organization. While full immunization remained constant relative to 1994/95, the proportion of children under the age of 12, that have not received any of the recommended vaccination decreased by 20 percentage points. Three factors are established as hindering access to health care facilities: financial constraints, low level of education and the distance involved in visiting a health establishment.

#### **Nutritional status of the children**

Nearly 23 percent of the children under five suffer from chronic malnutrition and 8 percent are experiencing severe chronic malnutrition. About 17 percent of the children are underweight and 4 percent are severely underweight. Approximately 5 percent of children under the age of five suffer from acute undernutrition (these children are too thin for their height). There is evidence to some improvement in the nutritional status of children since 1994/95, as child malnutrition declined by 1 percentage point, the percentage of underweight children declined by 11 percentage points and acute undernutrition declined by 3 percentage points.

#### **Childhood mortality and causes of death**

In the five years preceding the survey, 80 of every 1,000 children born live died before their first birthday and 42 per 1,000 who were alive at their first birthday died before they reached the age of five. The under-five mortality rate in Haiti is 119 per 1,000 live births, which is the highest in the Western Hemisphere. Broadly speaking, these indicators point to improvement, as they showed significant decline compared with their levels in 1994/95.

42. Under the baseline scenario, tax measures (widening the tax base, reducing exemptions, tightening tax administration) and improved governance would be implemented to raise central government revenue by 3 percentage points of GDP by FY 2005/06. Investment would rise strongly as private investment responds to privatization. Increased fiscal revenue, external financing, and the elimination of subsidies to public enterprises would allow the government to

increase investment in infrastructure and social services. At the same time, a reduction in credit to the public sector would open up room for expanding credit to the private sector. Higher private savings would result from increased income and output growth led by private sector investment and exports and improvements in financial intermediation.

43. After an initial increase owing to the resumption of growth, the external current account deficit as a ratio to GDP would narrow gradually as exports and remittances expand (Table 11). Import growth would reflect the expansion of investment and output. Larger net public sector capital inflows, grants and foreign direct investment would finance the current account deficit while allowing for a buildup of net international reserves. The ratio of total public debt to GDP would decline to around 25 percent of GDP by FY 2005/06. Nevertheless, significant improvement in the level of per capita GDP would require sustained economic growth over the decade.

## V. STAFF APPRAISAL

44. Haiti continues to be in a very difficult economic situation: the political crisis has not been resolved, confidence has not returned, and foreign financing remains constrained. The fiscal deficit has widened, financed by central bank borrowing and external arrears accumulation, worsening the already negative investment climate. With a tight monetary policy, real interest rates are high, economic activity is weak, and the inflation rate has increased. Per capita GDP has further declined in a country that is already the poorest in the Western Hemisphere. There is general agreement that a political settlement acceptable to all interested parties is a pre-condition for restoring the momentum of economic development and poverty reduction, with strong support from the international community.

45. Pending the resolution of the political impasse, the macroeconomic adjustment scenario proposed by staff for FY 2001/02, that could form the basis for discussions of a new SMP, would be a holding operation to contain the deterioration of the economy. With foreign financing expected to remain tight, the strategy would focus on reducing the fiscal deficit and the recourse to central bank financing, containing inflation and stemming the loss in reserves. This could allow for a prudent lowering of interest rates. Although a strong response by the private sector to lower interest rates is unlikely until the political situation clears up and confidence returns, the staff is of the view that a more balanced policy mix would help prevent a further deterioration of the economy. However, discussions on a new SMP were not concluded as the authorities could not commit to a macroeconomic framework and policies consistent with its objectives.

46. The resumption of growth over the medium term would depend critically on heightened private sector confidence and investment, as well as on increased public sector capital inflows following the resolution of the current political impasse. The instrument for achieving higher growth would be a medium-term comprehensive program supported by a PRGF. Satisfactory performance under a new SMP would be a precondition to initiate discussions on an eventual PRGF arrangement.

47. The recommended fiscal program includes measures to increase central government revenue in FY 2001/02 while cutting nonpriority outlays. Revenue measures could include improving tax and customs administration, improving the recording and collection of petroleum-based revenue, widening the base of the turnover tax and including a larger part of the informal sector in the tax system. Moreover, the staff strongly recommends the adoption of an automatic price adjustment mechanism for petroleum products, with a view to shielding this important source of tax revenue from fluctuations on the international oil market. Regarding expenditure, the staff recommends raising public sector wages in line with targeted inflation and containing outlays on goods and services through enhanced prioritization, while raising capital spending somewhat, mainly on basic infrastructure.

48. The authorities submitted their budget for FY 2001/02 to the lower house at end-December 2001. The preparation of the official budget for FY 2001/02, the first operational budget since 1996, is a positive development. However, while the small budgeted reduction in domestic financing of the fiscal deficit is a step in the right direction, it falls short of what is required to stabilize the economy. Moreover, it would not be realistically attained without taking determined revenue measures. In particular, the authorities' proposed administrative measures at customs and at the directorate of domestic taxes would need to be substantially strengthened, as they appear limited and of uncertain yield. In addition, staff has strong doubts about the realism and affordability of the significantly larger capital budget than recommended by staff.

49. Staff urges the authorities to enforce a strong cash management system. In the staff's view, the system does not carry strong credibility in the absence of determined revenue efforts, as it has enabled excessive central bank financing and arrears accumulation in recent years. Further, staff is concerned that efforts to contain the budget deficit would be through an ad hoc compression of outlays with long-run economic costs, and that insufficient interest payments would be made by the central government on its outstanding debt to the central bank. In addition, budgeted subsidies to public enterprises seem underestimated, in particular in the ailing electricity sector.

50. The staff welcomes the authorities' intention to improve governance by way of enhancing transparency and accountability in budget execution, in particular through restricting the use of discretionary ministerial accounts for only emergency outlays and by reducing the discretionary element in and leakage from revenue collection. This would improve the confidence of donors and the public in government operations. Expenditure management, control, and reporting in ministries should be enhanced, and detailed fiscal data should be published on a monthly basis, with the aim of increasing transparency in budget execution. The staff urges increased fiscal accountability, requiring a sustained coordinated effort by the authorities, supplemented by donor's assistance.

51. Credit policy should continue to be restrained to facilitate attaining the inflation and the net international reserves targets. If the fiscal deficit were to be reduced as recommended by the staff, there could be some room for a further reduction in interest rates during the course of the year. This, together with a recovery of confidence, would help relieve strains that began to emerge in the banking system. The staff noted the risks for inflation and the exchange rate from a premature further loosening of monetary policy.

52. The staff welcomes the measures that have been taken during the past year to improve the supervision and health of the banking system, supported by technical assistance from the Fund. The authorities should continue phasing in financial sector regulations and continue with comprehensive audits of individual banks. Priority should be given to completing the draft texts for a new banking law and a new central bank law to bring them into conformity with international standards. Pending the adoption of a privatization plan for Banque Nationale de Credit, the current policy of putting a freeze on new lending by the bank should be maintained. It will be important that the authorities continue their efforts to combat money laundering and drug trafficking by making the recently created Financial Intelligence Unit operational.

53. The authorities' intention to maintain the floating exchange rate regime is welcome. Given the low level of reserves, the authorities are advised to refrain from foreign exchange intervention and allow the rate to be determined by market forces. Implementing sound fiscal and monetary policies would help reduce inflation, while stepping up structural reforms aimed at reducing domestic production costs and increasing productivity would strengthen competitiveness. Taking into consideration the shrinking net capital flows, the staff encourages the authorities to clear overdue financial obligations to the international financial institutions and service the debt to the extent possible, and to seek exceptional financing of overdue obligations and debt service to bilateral creditors in FY 2001/02.

54. Recent improvements in statistical data notwithstanding, Haiti's data problems in the public sector accounts and the balance of payments continue to hinder surveillance and program design and implementation. The authorities should continue the efforts underway to improve real sector statistics, to strengthen the technical and managerial capacity of the National Statistics Institute, and to improve external and public sector statistics. Further technical assistance from bilateral and multilateral agencies, including directly from the Fund and through Caribbean Technical Assistance Center, will be required to complement the efforts of the authorities to improve macroeconomic, fiscal and social sector data.

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

Table 1. Haiti: Quantitative Benchmarks and Actual Outcomes under the SMP 1/

|   | Stock at<br>end-Sep. 2000 | Quantitative Benchmarks, Dec. 2000-Sep. 2001        |       |       |           | Actual outcomes at end of             |       |       |           |
|---|---------------------------|---|-------|-------|-----------|---------------------------------------|-------|-------|-----------|
|   |                           | Program limits and guidelines for FY 2001 at end of |       |       |           |                                       |       |       |           |
|   |                           | December  | March | June  | September | December                              | March | June  | September |
|   |                           | (Maximum cumulative change from end-September 2000) |       |       |           | (Actual variation from end-September) |       |       |           |
| Net central bank credit to the central government (in millions of gourdes)                          | 9,885                     | 280   | 430   | 620   | 750       | 799                                   | 1,408 | 1,828 | 2,249     |
| <i>Adjusted for excess domestic arrears 3/</i>  |                           | 175   | 232   | 440   | 626       |                                       |       |       |           |
| Net domestic banking sector credit to the nonfinancial public sector 1/<br>(in millions of gourdes) | 9,707                     | 270   | 400   | 570   | 700       | 963                                   | 1,709 | 2,028 | 2,496     |
| <i>Adjusted for excess domestic arrears 3/</i>  |                           | 165   | 202   | 390   | 576       |                                       |       |       |           |
| Net domestic assets of the central bank (in millions of gourdes)                                    | 1,048                     | 590   | 300   | 110   | 320       | 1,351                                 | 1,177 | 1,201 | 1,667     |
| Arrears on external public debt (in millions of U.S. dollars)                                       | 6.0                       | 0   | 0     | 0     | 0         | 0.8                                   | 2.2   | 7.0   | 11.8      |
| Publicly contracted or guaranteed nonconcessional external loans<br>(in millions of U.S. dollars)   |                           |   |       |       |           |                                       |       |       |           |
| Up to one year  | ...                       | 0   | 0     | 0     | 0         | 0                                     | 0     | 0     | 0         |
| Over one-year maturity  | ...                       | 0   | 0     | 0     | 0         | 0                                     | 0     | 0     | 0         |
|   |                           | (Maximum level at end-period)                       |       |       |           | (Actual level at end-period)          |       |       |           |
| Domestic arrears of the central government (millions of gourdes) 3/                                 | 311                       | 186   | 61    | 31    | 0         | 291                                   | 259   | 211   | 124       |
|   |                           | (Minimum cumulative change from end-September 2000) |       |       |           | (Actual variation from end-September) |       |       |           |
| Net international reserves of central bank (in millions of dollars)                                 | 163                       | 0   | 8     | 16    | 16        | -31.8                                 | -39.2 | -42.9 | -50.0     |
| <b>Memorandum items:</b>  |                           |   |       |       |           |                                       |       |       |           |
| Government current revenue (in millions of gourdes) 2/  | ...                       | 2,168   | 4,209 | 6,142 | 8,009     | 1,656                                 | 3,213 | 4,762 | 6,509     |
|   |                           | (Maximum cumulative change from end-September 2000) |       |       |           |                                       |       |       |           |
| Government wage bill (in millions of gourdes) 2/  | ...                       | 1,103   | 1,931 | 2,840 | 3,670     | 903                                   | 1,808 | 2,581 | 3,387     |

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

1/ Refer to technical memorandum for definitions of quantitative benchmarks and adjusters.

2/ Not benchmarks.

3/ Wage arrears reported by the authorities.

Table 2. Haiti: Selected Economic and Financial Indicators

|   | Fiscal Year Ending September 30 |       |       |             |                  |                |
|---|---------------------------------|-------|-------|-------------|------------------|----------------|
|   | 1998                            | 1999  | 2000  | SMP<br>2001 | Estimate<br>2001 | IMF 1/<br>2002 |
| (Annual percentage change, unless otherwise indicated)                                    |                                 |       |       |             |                  |                |
| <b>National income and prices</b>   |                                 |       |       |             |                  |                |
| GDP at constant prices  | 3.1                             | 2.2   | 1.2   | 2.5         | -1.7             | 0.0            |
| GDP deflator  | 13.1                            | 7.6   | 11.2  | 13.3        | 16.8             | 11.6           |
| Consumer prices (period average)  | 12.7                            | 8.1   | 11.5  | 13.3        | 16.8             | 11.6           |
| Consumer prices (end-of-period)   | 8.3                             | 9.9   | 15.3  | 12.0        | 12.3             | 11.7           |
| <b>External sector</b>  |                                 |       |       |             |                  |                |
| Exports (f.o.b.) 2/   | 45.7                            | 16.5  | -6.2  | 12.5        | -3.0             | 3.7            |
| Imports (f.o.b.) 2/   | 16.9                            | 14.3  | 7.9   | 7.2         | -3.2             | 3.0            |
| Real effective exchange rate  | 8.2                             | 8.9   | -6.1  | ...         | 6.3              | ...            |
| <b>Central government</b>   |                                 |       |       |             |                  |                |
| Total revenue 3/  | 11.3                            | 17.1  | -0.3  | 26.2        | 3.8              | 20.0           |
| Total expenditure   | 18.1                            | 19.7  | 13.4  | 13.8        | 8.7              | 3.1            |
| <b>Money and credit</b>   |                                 |       |       |             |                  |                |
| Net domestic assets 4/  | 11.4                            | 15.1  | 18.1  | 11.6        | 9.2              | 10.5           |
| Credit to public sector (net) 4/  | 3.0                             | 7.3   | 7.9   | 2.9         | 8.3              | 3.8            |
| Credit to private sector 4/   | 7.6                             | 4.4   | 16.9  | 6.6         | -3.1             | 7.1            |
| Broad money   | 14.7                            | 17.7  | 36.2  | 15.6        | 5.3              | 11.7           |
| Velocity (GDP relative to broad money)  | 3.3                             | 3.1   | 2.6   | 2.7         | 2.8              | 2.8            |
| Average interest rate on time deposits<br>(end-of-period, in percent)                     | 14.8                            | 6.8   | 12.7  | ...         | 13.5             | ...            |
| (In percent of GDP, unless otherwise indicated)   |                                 |       |       |             |                  |                |
| Gross domestic investment   | 26.0                            | 27.7  | 27.3  | 11.3        | 22.8             | 22.8           |
| Gross domestic savings  | 20.5                            | 22.7  | 20.9  | 3.2         | 18.0             | 18.2           |
| <i>Of which</i>   |                                 |       |       |             |                  |                |
| Public sector savings   | 2.2                             | 2.3   | 0.8   | 2.6         | -0.6             | 0.9            |
| Central government overall balance  | -1.1                            | -1.4  | -2.5  | -1.4        | -2.7             | -1.4           |
| Central government overall balance including grants                                       | 0.2                             | -1.2  | -2.2  | -0.8        | -2.4             | -1.0           |
| Overall public sector balance   | -3.3                            | -3.7  | -5.2  | -3.5        | -3.6             | -2.4           |
| External current account balance  | -5.5                            | -5.0  | -6.4  | -8.2        | -4.8             | -4.6           |
| External public debt (end-of-period)  | 29.0                            | 26.4  | 29.9  | 35.2        | 29.9             | 28.9           |
| External public debt service (in percent of<br>exports of goods and nonfactor services)   | 8.0                             | 8.3   | 7.9   | 7.2         | 9.4              | 7.4            |
| (In millions of U.S. dollars, unless otherwise indicated)                                 |                                 |       |       |             |                  |                |
| Overall balance of payments   | 32.2                            | 23.5  | -51.6 | 16.0        | -3.8             | 20.1           |
| Gross international reserves (end-of-period)  | 292.7                           | 329.2 | 281.5 | 297.5       | 289.5            | 314.1          |
| Net international reserves (in months of<br>imports of goods and services, end-of-period) | 2.3                             | 2.2   | 1.6   | 1.8         | 1.8              | 2.0            |

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

1/ Adjustment scenario proposed by staff (October 2001–September 2002).

2/ Revised data from the central bank.

3/ Excluding grants.

4/ In relation to broad money at the beginning of the period.

Table 3. Haiti: Central Government Operations 1/  
(In percent of GDP)

|  | 1998        | 1999        | 2000        | Prog. 2/<br>2001 | Prov. 3/<br>2001 | IMF 4/<br>2002 |
|--|-------------|-------------|-------------|------------------|------------------|----------------|
| <b>Total revenue</b>   | <b>8.5</b>  | <b>9.1</b>  | <b>8.1</b>  | <b>8.5</b>       | <b>7.3</b>       | <b>7.9</b>     |
| Current revenue  | 8.3         | 8.8         | 8.1         | 8.5              | 7.3              | 7.9            |
| <i>Of which</i>  |             |             |             |                  |                  |                |
| Internal   | 6.6         | 6.8         | 5.6         | 6.2              | 5.1              | 5.4            |
| Customs  | 1.7         | 1.9         | 2.1         | 2.1              | 2.0              | 2.3            |
| Transfers from public enterprises  | 0.2         | 0.3         | 0.0         | 0.0              | 0.0              | 0.0            |
| <b>Total expenditure</b>   | <b>9.3</b>  | <b>9.9</b>  | <b>10.1</b> | <b>9.4</b>       | <b>9.8</b>       | <b>9.0</b>     |
| Current expenditure  | 7.4         | 7.7         | 7.5         | 7.1              | 8.0              | 6.9            |
| <i>Of which</i>  |             |             |             |                  |                  |                |
| Wages and salaries   | 4.5         | 4.2         | 4.2         | 3.9              | 3.8              | 3.6            |
| Interest   | 0.7         | 0.9         | 0.8         | 0.8              | 0.9              | 0.9            |
| Operations   | 2.3         | 2.5         | 2.3         | 1.9              | 3.0              | 2.1            |
| Transfers  | 0.4         | 0.5         | 0.4         | 0.5              | 0.4              | 0.4            |
| Unrecorded expenditure   | -0.4        | -0.4        | -0.2        | 0.0              | -0.1             | 0.0            |
| Capital expenditure  | 1.9         | 2.2         | 2.6         | 2.3              | 1.8              | 2.0            |
| <b>Current account balance</b>   | <b>0.9</b>  | <b>1.1</b>  | <b>0.6</b>  | <b>1.4</b>       | <b>-0.7</b>      | <b>0.9</b>     |
| <b>Overall balance, excluding cost of reforms<br/>and hurricane relief</b>             | <b>-0.8</b> | <b>-0.8</b> | <b>-2.0</b> | <b>-0.9</b>      | <b>-2.5</b>      | <b>-1.1</b>    |
| Cost of structural reforms   | 0.3         | 0.3         | 0.0         | 0.1              | 0.0              | 0.1            |
| Cost of hurricane relief and reconstruction  | 0.0         | 0.3         | 0.0         | 0.0              | 0.0              | 0.0            |
| Cost of elections  | 0.0         | 0.0         | 0.5         | 0.3              | 0.2              | 0.2            |
| <b>Overall balance, including cost of reforms,<br/>hurricane relief, and elections</b> | <b>-1.1</b> | <b>-1.4</b> | <b>-2.5</b> | <b>-1.3</b>      | <b>-2.7</b>      | <b>-1.4</b>    |
| <b>Financing</b>   | <b>1.1</b>  | <b>1.4</b>  | <b>2.5</b>  | <b>1.3</b>       | <b>2.7</b>       | <b>1.4</b>     |
| External (net) 5/  | 0.6         | -0.4        | -0.1        | 0.8              | 0.0              | 0.3            |
| Domestic 6/  | 0.5         | 1.8         | 2.6         | 0.5              | 2.7              | 1.1            |
| <i>Of which</i>  |             |             |             |                  |                  |                |
| Central bank   | 1.1         | 1.6         | 2.5         | 0.8              | 2.5              | 1.2            |
| Change in arrears (- net reduction)  | -0.4        | 0.1         | 0.2         | -0.3             | 0.2              | 0.0            |
| <b>Memorandum items:</b>   |             |             |             |                  |                  |                |
| Overall balance including grants   | 0.0         | -1.2        | -2.2        | -0.8             | -2.3             | -1.0           |
| Expenditures on education  | 2.2         | 1.8         | ...         | ...              | ...              | ...            |
| Expenditures on health   | 0.6         | 0.7         | ...         | ...              | ...              | ...            |
| Nominal GDP (millions of gourdes)  | 62,997      | 69,254      | 77,580      | 94,069           | 89,048           | 99,377         |

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

1/ Does not include most expenditures on projects and technical assistance financed with concessional loans and grants.

2/ Staff-monitored program (October 2000–September 2001).

3/ The ratios are not strictly comparable with program as the estimate of GDP was revised.

4/ Adjustment scenario proposed by staff (October 2001–September 2002).

5/ Includes external arrears and exceptional financing.

6/ Includes domestic arrears.

Table 4. Haiti: Summary Accounts of the Banking System

|  | Fiscal Year Ending September 30 |               |               |               |               |                |
|--|---------------------------------|---------------|---------------|---------------|---------------|----------------|
|  | 1997                            | 1998          | 1999          | 2000          | Prov.<br>2001 | IMF 1/<br>2002 |
| (In millions of gourdes)                                   |                                 |               |               |               |               |                |
| <b>I. Central Bank</b>                                     |                                 |               |               |               |               |                |
| <b>Net foreign assets 2/</b>                               | <b>2,754</b>                    | <b>3,281</b>  | <b>3,695</b>  | <b>4,881</b>  | <b>4,594</b>  | <b>5,574</b>   |
| (In millions of U.S. dollars)                              | 162                             | 195           | 218           | 172           | 180           | 214            |
| Net international reserves (program)                       | 155                             | 189           | 209           | 163           | 113           | 123            |
| Commercial bank deposits                                   | 8                               | 5             | 9             | 9             | 67            | 91             |
| <b>Net domestic assets</b>                                 | <b>600</b>                      | <b>235</b>    | <b>294</b>    | <b>402</b>    | <b>1,060</b>  | <b>992</b>     |
| Credit to the nonfinancial public sector 3/                | 6,059                           | 6,687         | 7,861         | 9,676         | 12,104        | 13,304         |
| Liabilities to commercial banks                            | -4,188                          | -5,532        | -7,029        | -8,465        | -10,447       | -11,591        |
| <i>Of which</i>  |                                 |               |               |               |               |                |
| Cash-in-vault and reserve deposits                         | -3,105                          | -3,811        | -3,764        | -6,899        | -7,670        | -8,967         |
| BRH bonds  | -954                            | -1,629        | -3,105        | -1,301        | -2,777        | -2,624         |
| Other  | -1,271                          | -920          | -538          | -809          | -597          | -721           |
| <b>Currency in circulation</b>                             | <b>3,355</b>                    | <b>3,516</b>  | <b>3,990</b>  | <b>5,284</b>  | <b>5,654</b>  | <b>6,566</b>   |
| <b>II. Consolidated Banking System</b>                     |                                 |               |               |               |               |                |
| <b>Net foreign assets</b>                                  | <b>4,570</b>                    | <b>5,115</b>  | <b>5,605</b>  | <b>9,635</b>  | <b>8,457</b>  | <b>8,824</b>   |
| (In millions of U.S. dollars)                              | 270                             | 304           | 331           | 340           | 332           | 339            |
| <b>Net domestic assets</b>                                 | <b>11,844</b>                   | <b>13,709</b> | <b>16,552</b> | <b>20,554</b> | <b>23,318</b> | <b>26,668</b>  |
| Credit to the nonfinancial public sector 3/                | 5,928                           | 6,485         | 7,944         | 9,707         | 12,203        | 13,407         |
| Credit to the private sector                               | 7,880                           | 9,124         | 9,946         | 13,685        | 12,736        | 14,978         |
| In gourdes   | 6,180                           | 6,455         | 6,135         | 7,406         | 7,515         | 9,648          |
| In foreign currency  | 1,700                           | 2,669         | 3,811         | 6,279         | 5,222         | 5,330          |
| (In millions of U.S. dollars)                              | 100                             | 164           | 225           | 222           | 205           | 205            |
| Other  | -1,964                          | -1,900        | -1,338        | -2,838        | -1,622        | -1,718         |
| <b>Broad money</b>   | <b>16,413</b>                   | <b>18,825</b> | <b>22,158</b> | <b>30,189</b> | <b>31,774</b> | <b>35,492</b>  |
| Currency in circulation                                    | 3,355                           | 3,516         | 3,990         | 5,284         | 5,654         | 6,566          |
| Gourde deposits  | 9,514                           | 10,816        | 12,443        | 14,084        | 15,395        | 17,980         |
| Foreign currency deposits                                  | 3,544                           | 4,492         | 5,725         | 10,821        | 10,725        | 10,946         |
| (In millions of U.S. dollars)                              | 209                             | 276           | 338           | 382           | 421           | 421            |
| (Percentage change relative to broad money a year earlier) |                                 |               |               |               |               |                |
| Net foreign assets   | 4.8                             | 3.3           | 2.6           | 18.2          | -3.9          | 1.2            |
| Net domestic assets  | 10.6                            | 11.4          | 15.1          | 18.1          | 9.2           | 10.5           |
| Credit to the nonfinancial public sector 3/                | -1.9                            | 3.4           | 7.7           | 8.0           | 8.3           | 3.8            |
| Credit to the private sector                               | 17.5                            | 7.6           | 4.4           | 16.9          | -3.1          | 7.1            |
| <b>Memorandum items:</b>                                   |                                 |               |               |               |               |                |
| Net international reserves in percent of broad money       | 16.8                            | 17.4          | 16.7          | 16.2          | 14.5          | 15.7           |
| BRH bonds interest rate 4/                                 | ...                             | 21.3          | 10.3          | 26.7          | 26.7          | ..             |
| Percent in foreign currency                                |                                 |               |               |               |               |                |
| Bank deposits  | 27.1                            | 29.3          | 31.5          | 43.4          | 41.1          | 37.8           |
| Credit to the private sector                               | 21.6                            | 29.3          | 38.3          | 45.9          | 41.0          | 35.6           |

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

1/ Adjustment scenario proposed by staff (October 2001–September 2002).

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

3/ Excludes special accounts.

4/ 91-day bonds.



Table 5. Haiti: Summary Indicators of Commercial Banking Sector Soundness

|  | Fiscal Year Ending September 30 |       |       |         |       |       |        |        |        |
|--|---------------------------------|-------|-------|---------|-------|-------|--------|--------|--------|
|  | 1995                            | 1996  | 1997  | 1998 1/ | 1999  | 2000  | Dec-00 | Mar-01 | Jun-01 |
| <b>Capital</b>   |                                 |       |       |         |       |       |        |        |        |
| Capital, reserves, undistributed profits/total assets        | 4.4                             | 4.6   | 5.4   | 5.7     | 5.2   | 5.1   | 5.7    | 5.5    | 5.8    |
| Capital/risk-weighted assets (capital adequacy ratio)        | ...                             | ...   | ...   | ...     | 9.4   | 12.1  | 13.5   | 13.3   | 14.1   |
| <b>Nonperforming loans</b>                                   |                                 |       |       |         |       |       |        |        |        |
| Nonperforming loans/total loans                              | 5.1                             | 4.7   | 4.9   | 8.6     | 7.9   | 6.8   | 9.1    | 7.8    | 8.9    |
| <i>excluding BNC</i>   | ...                             | ...   | 3.2   | 6.7     | 6.5   | 5.5   | 7.5    | 6.3    | 7.6    |
| Provisions/nonperforming loans                               | 93.3                            | 95.8  | 79.5  | 56.2    | 62.3  | 62.6  | 56.4   | 71     | 65     |
| Nonperforming loans/capital, reserves, undistributed profits | 2.8                             | 1.7   | 8.5   | 30.3    | 24.7  | 20.5  | 29.1   | 16.1   | 20.3   |
| <i>excluding BNC</i>   | ...                             | ...   | 1.8   | 27.5    | 21.3  | 17.7  | 25.7   | 13.4   | 19.8   |
| <b>Profitability</b>   |                                 |       |       |         |       |       |        |        |        |
| Return on assets   | 1.5                             | 1.2   | 1.4   | 0.6     | 1.0   | 1.7   | 0.8    | 1.9    | 1.4    |
| <i>excluding BNC</i>   | ...                             | ...   | 1.4   | 1.1     | 0.9   | 1.6   | 0.6    | 1.4    | 1.1    |
| Return on equity   | 31.5                            | 25.9  | 28.1  | 10.1    | 18.5  | 32.8  | 14.1   | 33.3   | 24.7   |
| Net interest income/gross interest income                    | 63.4                            | 55.6  | 59.3  | 55.8    | 60.2  | 60.2  | 53.4   | 54.6   | 55.4   |
| Operating costs/net interest and non-interest income         | 66.0                            | 75.0  | 75.5  | 78.4    | 77.2  | 69.4  | 76.3   | 70.32  | 74.9   |
| <i>excluding BNC</i>   | ...                             | ...   | 74.9  | 75.9    | 78.0  | 70.0  | 80.1   | 73.1   | 79.2   |
| Net income/employee  | 752.3                           | 427.8 | 634.4 | 594.6   | 606.5 | 793.4 | 830.7  | 873.5  | 756.9  |
| Number of branches   | 54                              | 58    | 68    | 82      | 99    | 115   | 116    | 118    | 121    |
| Number of employees  | 1,663                           | 2,032 | 2,234 | 2,591   | 2,659 | 2,989 | 2,991  | 3,179  | 3,077  |
| <b>Liquidity/dollarization</b>                               |                                 |       |       |         |       |       |        |        |        |
| Total loans/total deposits 2/                                | ...                             | 47.0  | 58.6  | 57.3    | 53.8  | 53.9  | 52.2   | 48.2   | 47.5   |
| Foreign currency loans/foreign currency deposits 3/          | ...                             | 24.5  | 48.0  | 59.4    | 66.6  | 58.0  | 53.1   | 47.4   | 48.2   |
| Foreign currency loans/total loans                           | ...                             | 12.1  | 21.6  | 29.3    | 38.3  | 45.9  | 38.9   | 38.1   | 38.1   |
| Foreign currency deposits/total deposits                     | ...                             | 23.8  | 27.1  | 29.3    | 31.5  | 43.4  | 38.9   | 39.9   | 39.8   |
| <b>Intermediation</b>  |                                 |       |       |         |       |       |        |        |        |
| Private sector bank deposits/broad money                     | 76.7                            | 78.4  | 79.6  | 81.3    | 82.0  | 82.5  | 80.1   | 82.2   | 82.5   |

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

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

2/ Denominated in gourdes and in foreign exchange.

3/ Foreign exchange operations of the private sector only.

Table 6. Haiti: Balance of Payments

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

|   | Fiscal Year Ending September 30 |               |               |               |                  |                           |
|---|---------------------------------|---------------|---------------|---------------|------------------|---------------------------|
|   | 1998                            | 1999          | 2000          | Est.<br>2001  | Baseline<br>2002 | Worse<br>Scenario<br>2002 |
| <b>Current account deficit (-)</b>  |                                 |               |               |               |                  |                           |
| (excluding grants)  | <b>-205.0</b>                   | <b>-205.2</b> | <b>-252.3</b> | <b>-176.9</b> | <b>-178.6</b>    | <b>-229.4</b>             |
| Trade balance (deficit -)   | -522.8                          | -591.3        | -687.3        | -664.2        | -681.8           | -708.0                    |
| Exports, f.o.b.   | 299.4                           | 348.7         | 327.1         | 317.4         | 329.1            | 310.0                     |
| <i>Of which</i>   |                                 |               |               |               |                  |                           |
| Assembly industry exports   | 211.2                           | 265.1         | 257.7         | 263.5         | 273.3            | 273.3                     |
| Imports, f.o.b.   | -822.2                          | -940.0        | -1,014.4      | -981.6        | -1,010.9         | -1018.0                   |
| Services (net)  | -19.6                           | -42.4         | -86.7         | -103.2        | -106.8           | -115.0                    |
| Receipts  | 180.0                           | 189.6         | 170.5         | 145.2         | 152.1            | 125.0                     |
| Payments  | -199.6                          | -232.0        | -257.2        | -248.4        | -258.9           | -240.0                    |
| Income (net)  | 10.1                            | 6.6           | 15.2          | 9.0           | 13.0             | 12.1                      |
| <i>Of which</i>   |                                 |               |               |               |                  |                           |
| Interest payments   | -12.9                           | -20.2         | -13.8         | -15.9         | -14.5            | -14.5                     |
| Private transfers (net) 1/  | 327.3                           | 421.9         | 506.4         | 581.5         | 597.0            | 581.5                     |
| <b>External grants 2/</b>   | <b>222.6</b>                    | <b>256.8</b>  | <b>221.3</b>  | <b>160.6</b>  | <b>159.5</b>     | <b>159.5</b>              |
| <b>Current account deficit (-)</b>  |                                 |               |               |               |                  |                           |
| (including grants)  | <b>17.6</b>                     | <b>51.6</b>   | <b>-31.0</b>  | <b>-16.3</b>  | <b>-19.1</b>     | <b>-69.9</b>              |
| <b>Capital and financial accounts (deficit -)</b>                         | <b>14.6</b>                     | <b>-28.1</b>  | <b>-20.8</b>  | <b>12.5</b>   | <b>39.2</b>      | <b>39.2</b>               |
| Public sector capital flows (net)   | 72.2                            | 57.9          | 44.3          | 1.6           | 10.1             | 10.1                      |
| Loan disbursements  | 97.4                            | 82.4          | 69.9          | 29.1          | 31.1             | 31.1                      |
| Amortization  | -25.2                           | -24.5         | -25.7         | -27.5         | -21.0            | -21.0                     |
| Banks (net)   | -1.7                            | -3.9          | -55.1         | 16.0          | 27.0             | 27.0                      |
| Direct investment   | 10.8                            | 30.0          | 8.0           | 2.0           | 2.0              | 2.0                       |
| Other 3/  | -66.6                           | -112.1        | -17.9         | -7.1          | 0.0              | 0.0                       |
| <b>Overall balance (deficit -)</b>  | <b>32.3</b>                     | <b>23.5</b>   | <b>-51.8</b>  | <b>-3.8</b>   | <b>20.1</b>      | <b>-30.7</b>              |
| <b>Financing</b>  | <b>-32.3</b>                    | <b>-23.5</b>  | <b>51.8</b>   | <b>3.8</b>    | <b>-20.1</b>     | <b>-20.1</b>              |
| Change in net international reserves                                      |                                 |               |               |               |                  |                           |
| (increase -)  | -32.3                           | -23.5         | 45.8          | -8.0          | -34.0            | -34.0                     |
| Change in arrears (reduction -)   | 0.0                             | 0.0           | 6.0           | 11.8          | -4.0             | -4.0                      |
| Rescheduling  | 0.0                             | 0.0           | 0.0           | 0.0           | 18.0             | 18.0                      |
| <b>Financing gap</b>  | <b>0.0</b>                      | <b>0.0</b>    | <b>0.0</b>    | <b>0.0</b>    | <b>0.0</b>       | <b>50.8</b>               |
| <b>Memorandum items:</b>  |                                 |               |               |               |                  |                           |
| Net international reserves (program, in US\$ million)                     | 189.3                           | 208.7         | 162.9         | 112.9         | 123.0            | 123.0                     |
| Current account balance, excluding grants (in percent of GDP)             | -5.5                            | -5.0          | -6.4          | -4.8          | -4.6             | -6.0                      |
| Current account balance, including grants (in percent of GDP)             | 0.5                             | 1.2           | -0.8          | -0.4          | -0.5             | -1.8                      |
| Exports (f.o.b.) growth   | 45.7                            | 16.5          | -6.2          | -3.0          | 3.7              | -2.3                      |
| Import (f.o.b.) growth  | 16.9                            | 14.3          | 7.9           | -3.2          | 3.0              | 3.7                       |
| External debt as percent of exports                                       | 226.5                           | 212.9         | 233.5         | 253.9         | 241.8            | 267.1                     |
| Debt service as percent of exports  | 8.0                             | 8.3           | 7.9           | 9.4           | 7.4              | 8.1                       |
| Net international reserves (US\$ million)                                 | 194.7                           | 218.1         | 172.3         | 180.3         | 214.3            | 214.3                     |
| Gross international reserves (in months of imports of goods and services) | 3.4                             | 3.4           | 2.6           | 2.8           | 2.9              | 3.0                       |
| Net international reserves (in months of imports of goods and services)   | 2.3                             | 2.2           | 1.6           | 1.8           | 2.0              | 2.0                       |
| Petroleum prices 4/   | 14.8                            | 15.2          | 26.7          | 27.0          | 19.4             | 30.0                      |

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/ World bank survey of donor-provided external financing, and staff estimates.

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

4/ Crude oil prices from the World Economic Outlook. Petroleum prices for Haiti are higher as Haiti imports only refined products.

Table 7. Haiti: Stock of External Arrears and Projected Debt Service

(In millions of U.S. dollars)

|  | September 30 |            |            |            |            |            |            |             |             |
|--|--------------|------------|------------|------------|------------|------------|------------|-------------|-------------|
|  | 1994         | 1995       | 1996       | 1997       | 1998       | 1999       | 2000       | 2001        | 2002 1/     |
| <b>External Arrears</b>                    |              |            |            |            |            |            |            |             |             |
| <b>Total</b>                               | <b>120.9</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>6.0</b> | <b>17.8</b> | ...         |
| <b>Multilateral creditors</b>              | <b>79.8</b>  | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>2.1</b> | <b>11.3</b> | ...         |
| IDB  | 27.4         | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.2        | 4.0         | ...         |
| World Bank/IDA                             | 15.1         | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.8        | 6.1         | ...         |
| IMF  | 34.4         | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.2        | 0.0         | ...         |
| Other (OPEC and FIDA)                      | 2.9          | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.9        | 1.1         | ...         |
| <b>Bilateral creditors</b>                 | <b>41.1</b>  | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>3.9</b> | <b>6.6</b>  | ...         |
| U.S. (AID, EXIMBANK, and DOD)              | 15.6         | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.1        | 0.7         | ...         |
| Canada (Wheat Board)                       | 5.4          | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.1        | 0.1         | ...         |
| France (Banque de France, CFD, and COFACE) | 0.0          | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 2.1        | 3.3         | ...         |
| Italy (SACE)                               | 0.0          | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.6        | 1.3         | ...         |
| Spain (CESCE)                              | 0.0          | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.6        | 1.3         | ...         |
| Others                                     | 20.1         | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0         | ...         |
| <b>Projected Debt Service</b>              |              |            |            |            |            |            |            |             |             |
| <b>Total</b>                               | ...          | ...        | ...        | ...        | ...        | ...        | ...        | ...         | <b>44.6</b> |
| <b>Multilateral creditors</b>              | ...          | ...        | ...        | ...        | ...        | ...        | ...        | ...         | <b>36.6</b> |
| IDB  | ...          | ...        | ...        | ...        | ...        | ...        | ...        | ...         | 11.8        |
| World Bank/IDA                             | ...          | ...        | ...        | ...        | ...        | ...        | ...        | ...         | 11.8        |
| IMF  | ...          | ...        | ...        | ...        | ...        | ...        | ...        | ...         | 10.7        |
| Other (OPEC and FIDA)                      | ...          | ...        | ...        | ...        | ...        | ...        | ...        | ...         | 2.3         |
| <b>Bilateral creditors</b>                 | ...          | ...        | ...        | ...        | ...        | ...        | ...        | ...         | <b>8.0</b>  |
| U.S. (AID, EXIMBANK, and DOD)              | ...          | ...        | ...        | ...        | ...        | ...        | ...        | ...         | 1.2         |
| Canada (Wheat Board)                       | ...          | ...        | ...        | ...        | ...        | ...        | ...        | ...         | 0.1         |
| France (Banque de France, CFD, and COFACE) | ...          | ...        | ...        | ...        | ...        | ...        | ...        | ...         | 4.0         |
| Italy (SACE)                               | ...          | ...        | ...        | ...        | ...        | ...        | ...        | ...         | 1.2         |
| Spain (CESCE)                              | ...          | ...        | ...        | ...        | ...        | ...        | ...        | ...         | 0.7         |
| Others                                     | ...          | ...        | ...        | ...        | ...        | ...        | ...        | ...         | 0.8         |

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

1/ Projections.

Table 8. Haiti: Structural Benchmarks, October 2000–September 2001

|   | Target Date        | Status                     |
|---|--------------------|----------------------------|
| <b>Strengthening tax revenue</b>  |                    |                            |
| 1. Reform petroleum product taxation and pricing.   | Continuous         | Not Implemented.           |
| 2. Place two tax inspectors each at CAMEP, EDH, and Teleco.   | November 1, 2000   | Implemented.               |
| 3. Tax verification office completes 60 off-site audits per quarter.  | Quarterly          | Implemented.               |
| 4. DGI audits 4,000 tax returns with temporary hired staff.   | End-February 2001  | Not Implemented.           |
| 5. Expand the computerized SYDONIA system to three provincial ports.  | June 2001          | In progress                |
| <b>Public expenditure management</b>  |                    |                            |
| 1. Continue weekly programming of expenditure.  | Continuous         | Implemented.               |
| 2. Return to the Treasury unused nonproject and inactive project current account balances.  | November 2000      | Not implemented.           |
| 3. Clear G250 million of central government arrears.  | March 2001         | Partly implemented.        |
| 4. Clear all central government arrears.  | September 2001     | Partly implemented.        |
| 5. Establish sectoral classification of capital expenditure financed by the central government and by the rest of the nonfinancial public sector through foreign financing. | December 2000      | Not implemented.           |
| 6. Increase budgetary allocation for the ministries of justice, health, and education.  | FY 2000/01 program | No data.                   |
| <b>Financial sector reform</b>  |                    |                            |
| 1. Secure parliamentary approval of anti-money laundering legislation and legislation against traffic in drugs.   | November 2000      | Implemented with delay.    |
| 2. Present the BRH law to parliament.   | March 2001         | Legislation being drafted. |
| 3. Present the Banking Sector law to parliament.  | March 2001         | Legislation being drafted. |
| 4. Complete the plan for privatization of the BNC.  | March 2001         | Not Implemented.           |
| 5. Complete a plan for privatization of BPH.  | March 2001         | Not Implemented.           |
| <b>Public enterprise reform</b>   |                    |                            |
| 1. Issue invitation to bid for a management contract for the port facility.   | November 2001      | Not implemented.           |
| 2. Start downsizing of employment at the port authority.  | January 2001       | Not implemented.           |
| 3. Complete downsizing of employment at the port authority by 1,000 persons.  | June 2001          | Not Implemented.           |
| 4. Submit draft regulatory framework for the telecommunications sector to parliament.   | November 2001      | Not implemented.           |

Sources: Ministry of Economy and Finance (MEF); and Bank of the Republic of Haiti (BRH).

Table 9. Haiti: Projection of the Impact on Prices and Revenues of Alternative Petroleum Pricing Policies for 2002

|                        | Gasoline<br>91 | Gasoline<br>95 | Gasoil | Kerosene | Total  |
|------------------------|----------------|----------------|--------|----------|--------|
| <b>Prices 1/</b>       |                |                |        |          |        |
| Present pricing policy | 46.0           | 56.0           | 30.5   | 26.0     | n.a.   |
| Case I                 |                |                |        |          |        |
| 1995 Law 2/            | 45.6           | 48.3           | 30.8   | 26.5     | n.a.   |
| Percent change         | -1.0           | -13.8          | +0.8   | +2.1     | n.a.   |
| Case II                |                |                |        |          |        |
| 1995 Law 2/            | 54.1           | 57.6           | 36.2   | 32.5     | n.a.   |
| Percent change         | +17.6          | +2.9           | +18.7  | +25.0    | n.a.   |
| <b>Tax Revenues 3/</b> |                |                |        |          |        |
| Case I                 |                |                |        |          |        |
| Present pricing policy | 589.6          | 165.8          | 428.6  | 67.5     | 1211.6 |
| 1995 Law 2/            | 538.4          | 122.9          | 442.8  | 81.4     | 1185.5 |
| Percent change         | -3.8           | -25.9          | +3.3   | +20.6    | -2.2   |
| Case II                |                |                |        |          |        |
| Present pricing policy | 422.0          | 137.5          | 138.5  | 80.0     | 618.0  |
| 1995 Law 2/            | 648.1          | 147.3          | 502.3  | 105.92   | 1403.6 |
| Percent change         | +53.6          | +7.1           | +262.8 | +32.5    | +127.1 |

Source: Fund staff estimates.

1/ Prices per gallon in gourdes.

2/ The law defines the level of the variable excise to be set at 6.8 gourdes for gasoline; 4 gourdes for gasoil; and 0.44 gourdes for kerosene. Domestic prices are adjusted when there is a 5 percent variation in the cost.

3/ In million of gourdes.

Note: This table shows that under present trends in future oil prices, the authorities would benefit from the implementation of the 1995 law without significant impact on domestic prices. Under the present pricing policy, petroleum prices at the pump in gourdes are set by the government at the level described in the table, with taxation per gallon fluctuating depending on dollar CIF costs and the exchange rate (assumed in this table to be constant at G26/US\$). Under the 1995 law, prices at the pump are to be adjusted flexibly taking into account variations in dollar CIF costs and the exchange rate. Revenues were estimated under two different future oil prices, those as of November 30, 2001 (Case I) and those as of September 10, 2001 (Case II). The main conclusions are as follows:

- (i) Prices would have changed little had the law been applied in November 2001 (on average, prices would have decreased by 3 percent). Would the law have been applied in September 2001, prices would have increased by 16 percent on average with a significant increase in the price of kerosene (25 percent).
- (ii) The decline in international oil prices between mid-September and end-November has enhanced the estimated revenue of petroleum taxation by almost G500 million (0.5 percent of GDP) under the present pricing policy. The application of the 1995 law would have decreased revenues only marginally (by 2 percent) but eliminated the uncertainty on government revenues from petroleum taxation, that exists under the present pricing policy.

Table 10. Haiti: Medium-Term Scenario

|  | Fiscal Year Ending September 30 |       |       |             |                     |                |                                       |       |       |       |
|--|---------------------------------|-------|-------|-------------|---------------------|----------------|---------------------------------------|-------|-------|-------|
|  | 1998                            | 1999  | 2000  | SMP<br>2001 | Actual Est.<br>2001 | IMF 1/<br>2002 | Projections 2/<br>2003 2004 2005 2006 |       |       |       |
| <b>Real sector</b>   |                                 |       |       |             |                     |                |                                       |       |       |       |
| (Annual percentage rate)   |                                 |       |       |             |                     |                |                                       |       |       |       |
| Real GDP growth  | 3.1                             | 2.2   | 1.2   | 2.5         | -1.7                | 0.0            | 2.5                                   | 5.0   | 6.0   | 6.0   |
| Inflation (CPI end-of-period)  | 8.3                             | 9.9   | 15.3  | 12.0        | 12.3                | 11.7           | 10.0                                  | 8.0   | 6.0   | 5.0   |
| <b>Savings and investment</b>  |                                 |       |       |             |                     |                |                                       |       |       |       |
| (In percent of GDP)  |                                 |       |       |             |                     |                |                                       |       |       |       |
| Gross investment   | 26.0                            | 27.7  | 27.3  | 11.3        | 22.8                | 22.8           | 27.6                                  | 26.4  | 26.6  | 26.5  |
| Public   | 5.2                             | 5.5   | 5.5   | 5.6         | 2.7                 | 3.0            | 4.3                                   | 3.6   | 4.2   | 4.5   |
| Private  | 20.8                            | 22.2  | 21.9  | 5.7         | 20.1                | 19.8           | 23.3                                  | 22.9  | 22.5  | 22.1  |
| Domestic saving  | 20.5                            | 22.7  | 20.9  | 3.2         | 18.0                | 18.9           | 22.4                                  | 21.0  | 21.2  | 21.3  |
| Public   | 2.2                             | 2.3   | 0.8   | 2.6         | -0.6                | 0.9            | 2.3                                   | 2.5   | 3.2   | 3.4   |
| Private  | 18.3                            | 20.4  | 20.2  | 0.5         | 18.6                | 17.2           | 20.1                                  | 18.5  | 18.0  | 17.9  |
| External savings   | 5.5                             | 5.0   | 6.4   | 8.2         | 4.8                 | 4.6            | 5.2                                   | 5.5   | 5.5   | 5.3   |
| <b>Fiscal sector</b>   |                                 |       |       |             |                     |                |                                       |       |       |       |
| Overall public sector balance 3/                                     | -3.3                            | -3.7  | -5.2  | -3.5        | -3.6                | -2.4           | -2.4                                  | -1.5  | -1.3  | -1.4  |
| Of which   |                                 |       |       |             |                     |                |                                       |       |       |       |
| Central government revenue   | 8.5                             | 9.1   | 8.1   | 8.9         | 7.3                 | 7.9            | 8.5                                   | 9.5   | 10.5  | 11.0  |
| Central government expenditure 4/                                    | 9.6                             | 10.5  | 10.6  | 10.3        | 10.0                | 9.3            | 9.5                                   | 10.4  | 10.8  | 11.2  |
| Total public sector debt   | 39.4                            | 37.9  | 40.4  | 44.9        | 43.6                | 42.4           | 39.7                                  | 36.6  | 33.8  | 31.5  |
| <b>Monetary sector</b>   |                                 |       |       |             |                     |                |                                       |       |       |       |
| (Growth in percent of broad money<br>at the beginning of the period) |                                 |       |       |             |                     |                |                                       |       |       |       |
| Credit to the nonfinancial public sector                             | 3.0                             | 7.3   | 7.9   | 2.9         | 8.3                 | 3.8            | 1.0                                   | 1.6   | 0.5   | 0.1   |
| Credit to the private sector   | 7.6                             | 4.4   | 16.9  | 6.6         | -3.1                | 7.1            | 12.5                                  | 14.1  | 15.0  | 9.9   |
| <b>External sector</b>   |                                 |       |       |             |                     |                |                                       |       |       |       |
| (in percent of GDP)  |                                 |       |       |             |                     |                |                                       |       |       |       |
| Exports  | 8.0                             | 8.4   | 8.3   | 11.2        | 8.6                 | 8.5            | 8.1                                   | 8.0   | 7.8   | 7.9   |
| Imports  | -22.1                           | -22.7 | -25.7 | -25.8       | -26.6               | -26.2          | -25.4                                 | -24.8 | -24.5 | -24.6 |
| Private transfers  | 8.8                             | 10.2  | 12.8  | 11.5        | 15.8                | 15.5           | 14.4                                  | 13.7  | 13.6  | 13.9  |
| Current account balance  | -5.5                            | -5.0  | -6.4  | -8.2        | -4.8                | -4.6           | -5.2                                  | -5.5  | -5.5  | -5.3  |
| External grants  | 6.0                             | 6.2   | 5.6   | 5.9         | 4.4                 | 4.1            | 4.2                                   | 5.3   | 4.9   | 4.5   |
| Foreign direct investment  | 0.3                             | 0.7   | 0.2   | 0.6         | 0.1                 | 0.1            | 0.3                                   | 0.4   | 0.5   | 0.5   |
| Official capital flows   | 1.9                             | 1.4   | 1.1   | 2.4         | 0.0                 | 0.3            | 1.5                                   | 0.5   | 0.6   | 0.8   |
| Overall balance of payments  | 2.4                             | 0.6   | -1.0  | 0.5         | -0.3                | 0.5            | 0.7                                   | 0.6   | 0.6   | 0.5   |
| External public sector debt  | 29.0                            | 26.4  | 27.9  | 35.2        | 29.9                | 28.9           | 27.5                                  | 25.5  | 23.8  | 22.5  |
| (in percent of exports of goods and services)                        | 224.6                           | 203.4 | 221.3 | 206.5       | 238.4               | 231.3          | 232.7                                 | 220.1 | 209.6 | 198.0 |
| Net international reserves   |                                 |       |       |             |                     |                |                                       |       |       |       |
| (in millions of U.S. dollars)  | 194.7                           | 218.1 | 172.3 | 188.3       | 180.4               | 214.4          | 244.4                                 | 274.4 | 304.4 | 334.4 |
| (in months of imports of goods and services)                         | 2.3                             | 2.2   | 1.6   | 1.8         | 1.8                 | 2.0            | 2.2                                   | 2.2   | 2.3   | 2.3   |

Sources: Haitian authorities; and Fund staff estimates.

1/ Adjustment scenario proposed by staff (October 2001–September 2002).

2/ Assumes a PRGF-supported program starting in 2003.

3/ Includes public enterprises and foreign-financed projects and technical assistance.

4/ Includes expenditure for structural measures, hurricane relief, and elections.

Table 11. Haiti: Medium-Term Balance of Payments

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

|   | Fiscal Year Ending September 30 |               |               |               |               |
|---|---------------------------------|---------------|---------------|---------------|---------------|
|   | Projections                     |               |               |               |               |
|   | 2002 1/                         | 2003          | 2004          | 2005          | 2006          |
| <b>Current account deficit (-)</b>                            |                                 |               |               |               |               |
| <b>(excluding grants)</b>                                     | <b>-178.6</b>                   | <b>-220.9</b> | <b>-257.2</b> | <b>-282.1</b> | <b>-297.7</b> |
| Trade balance (deficit -)                                     | -681.8                          | -736.3        | -792.1        | -862.1        | -943.3        |
| Exports, f.o.b.   | 329.1                           | 346.1         | 374.1         | 404.7         | 447.2         |
| Imports, f.o.b.   | -1,010.9                        | -1,082.4      | -1,166.2      | -1,266.8      | -1,390.5      |
| Services (net)  | -106.8                          | -117.2        | -129.9        | -145.3        | -151.0        |
| Income (net)  | 13.0                            | 17.3          | 21.8          | 22.4          | 11.0          |
| Private transfers (net) 2/                                    | 597.0                           | 615.3         | 643.0         | 702.9         | 785.6         |
| <b>External grants 3/</b>                                     | <b>159.5</b>                    | <b>181.0</b>  | <b>248.0</b>  | <b>255.0</b>  | <b>257.1</b>  |
| <b>Current account deficit (-)</b>                            |                                 |               |               |               |               |
| <b>(including grants)</b>                                     | <b>-19.1</b>                    | <b>-39.9</b>  | <b>-9.2</b>   | <b>-27.1</b>  | <b>-40.6</b>  |
| <b>Capital and financial accounts (deficit -)</b>             | <b>39.2</b>                     | <b>69.9</b>   | <b>39.2</b>   | <b>57.1</b>   | <b>70.6</b>   |
| Public sector capital flows (net)                             | 10.1                            | 62.6          | 22.0          | 33.3          | 43.3          |
| Banks (net)   | 27.0                            | -7.0          | 0.0           | 0.0           | 0.0           |
| Direct investment   | 2.0                             | 14.3          | 17.2          | 23.7          | 27.3          |
| Other 4/  | 0.0                             | 0.0           | 0.0           | 0.0           | 0.0           |
| <b>Overall balance (deficit -)</b>                            | <b>20.1</b>                     | <b>30.0</b>   | <b>30.0</b>   | <b>30.0</b>   | <b>30.0</b>   |
| <b>Financing</b>  | <b>-20.1</b>                    | <b>-30.0</b>  | <b>-30.0</b>  | <b>-30.0</b>  | <b>-30.0</b>  |
| Change in net international reserves                          |                                 |               |               |               |               |
| (increase -)  | -34.0                           | -30.0         | -30.0         | -30.0         | -30.0         |
| Change in arrears (reduction -)                               | -4.0                            | 0.0           | 0.0           | 0.0           | 0.0           |
| Rescheduling  | 18.0                            | 0.0           | 0.0           | 0.0           | 0.0           |
| <b>Financing gap</b>  | <b>0.0</b>                      | <b>0.0</b>    | <b>0.0</b>    | <b>0.0</b>    | <b>0.0</b>    |
| <b>Memorandum items:</b>                                      |                                 |               |               |               |               |
| Current account balance, excluding grants (in percent of GDP) | -4.6                            | -5.2          | -5.5          | -5.5          | -5.3          |
| Current account balance, including grants (in percent of GDP) | -0.5                            | -0.9          | -0.2          | -0.5          | -0.7          |
| Exports (fob) growth  | 3.7                             | 5.2           | 8.1           | 8.2           | 10.5          |
| Import (fob) growth   | 3.0                             | 7.1           | 7.7           | 8.6           | 9.8           |
| External debt as percent of exports                           | 241.8                           | 238.8         | 224.6         | 213.1         | 200.6         |
| Debt service as percent of exports                            | 7.4                             | 7.0           | 6.9           | 6.8           | 6.2           |
| Net international reserves (US\$ million)                     | 214.3                           | 244.3         | 274.3         | 304.3         | 334.3         |
| Net international reserves 5/ (US\$ million)                  | 123.0                           | n.a.          | n.a.          | n.a.          | n.a.          |
| Gross international reserves (in months                       |                                 |               |               |               |               |
| of imports of goods and services)                             | 2.9                             | 3.5           | 3.9           | 4.3           | 4.1           |
| Net international reserves (in months                         |                                 |               |               |               |               |
| of imports of goods and services)                             | 2.0                             | 2.2           | 2.2           | 2.3           | 2.3           |
| Petroleum prices 6/   | 19.4                            | 19.5          | 19.0          | 19.0          | 19.0          |

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

1/ Adjustment scenario proposed by staff (October 2001–September 2002).

2/ Based on remittances transferred through authorized "transfer houses" and central bank, estimates of such transfers channeled through other means.

3/ World bank survey of donor-provided external financing, and staff estimates.

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

5/ Program definition, excluding dollar commercial banks deposits at the BRH.

6/ Crude oil prices from the World Economic Outlook. Petroleum prices for Haiti are higher as Haiti imports only refined products.

**Haiti: Fund Relations**  
As of September 30, 2001

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

| II. <b>General resources account</b> | <b>SDR Million</b> | <b>Percent of Quota</b> |
|--------------------------------------|--------------------|-------------------------|
| Quota                                | 60.70              | 100.0                   |
| Fund holdings of currency            | 75.82              | 124.9                   |
| Reserve position in Fund             | 0.06               | 0.1                     |

| III. <b>SDR department:</b> | <b>SDR Million</b> | <b>Percent of Allocation</b> |
|-----------------------------|--------------------|------------------------------|
| Net cumulative allocation   | 13.70              | 100.0                        |
| Holdings                    | 0.09               | 0.7                          |

| IV. <b>Outstanding purchases and loans:</b> | <b>SDR Million</b> | <b>Percent of Quota</b> |
|---|--------------------|-------------------------|
| ESAF arrangements                           | 15.18              | 25.0                    |
| First Credit Tranche                        | 15.18              | 25.0                    |

V. **Financial arrangements:**

| <b>Type of Arrangement</b> | <b>Approval Date</b> | <b>Expiration Date</b> | <b>Amount Approved (SDR Million)</b> | <b>Amount Drawn (SDR Million)</b> |
|----------------------------|----------------------|------------------------|--------------------------------------|-----------------------------------|
| ESAF                       | 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):

|                  | <b>Overdue</b>  | <b>2001</b> | <b>Forthcoming</b> |             |             |             |
|------------------|-----------------|-------------|--------------------|-------------|-------------|-------------|
|                  | <b>06/30/01</b> |             | <b>2002</b>        | <b>2003</b> | <b>2004</b> | <b>2005</b> |
| Principal        | 0.0             | 0.0         | 10.6               | 10.6        | 3.0         | 3.0         |
| Charges/interest | 0.0             | 0.3         | 0.8                | 0.6         | 0.4         | 0.4         |
| <b>Total</b>     | <b>0.0</b>      | <b>0.3</b>  | <b>11.4</b>        | <b>11.2</b> | <b>3.4</b>  | <b>3.4</b>  |



**VII. Exchange Arrangements:**

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 November 8 2000. 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:

| <b>Department</b> | <b>Dates</b>                 | <b>Purpose</b>                        |
|-------------------|------------------------------|---------------------------------------|
| BTS               | October 1997; February 1999  | Information technology                |
| FAD               | March 1997–September 1998    | Exemptions system and investment code |
|                   | November 1997                | Direct taxation and exemption system  |
|                   | October 1998                 | Large taxpayer unit                   |
|                   | June 1999                    | Industrial exemptions                 |
| 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;         | Banking supervision                   |
|                   | June–July 1999; October 2000 |                                       |
|                   | June 1999                    | Central bank organization             |
|                   | January 2000                 | Dollarization and policy response     |
|                   | October 2000                 | Banking supervision                   |
|                   | October 2000                 | Money laundering                      |
|                   | May 2001                     | Banking supervision                   |
| STA               | January 1996–October 1997;   | Real sector statistics                |
|                   | June 1996; July 1996;        |                                       |
|                   | February 1999; March 2000    |                                       |
|                   | February 1997; March 1998;   | Money and banking statistics          |

|     |                                    |                                |
|-----|------------------------------------|--------------------------------|
|     | August 1998                        |                                |
|     | November 1996; March 2000          | Balance of payments statistics |
| LEG | March, June, and<br>September 2000 | Banking and central bank laws  |

X. **Resident representative:** Mr. Jerome La Pittus since December 2000.

## Haiti: Relations with the World Bank Group

(As of November 20, 2001; in millions of U.S. dollars)

|   | Commitments 1/<br>(Net of<br>Cancellations) | Disburse-<br>ments | Undis-<br>bursed<br>Amount |
|---|---|--------------------|----------------------------|
| A. IBRD and IDA Operations (from FY 1995 to date) |   |                    |                            |
| Total   | 251.24                                      | 222.11             | 27.42                      |
| First health project                              | 28.20                                       | 29.06              | 1.35                       |
| Road maintenance and rehabilitation 2/            | 50.00                                       | 25.12              | 21.43                      |
| Forest and parks TA                               | 21.50                                       | 15.28              | 4.65                       |
| Industrial restructuring                          | 8.43  | 9.55               | 0.00                       |
| Power V   | 23.22                                       | 25.55              | 0.00                       |
| Port-au-Prince water                              | 19.48                                       | 20.49              | 0.00                       |
| Economic and Social Fund                          | 11.30                                       | 11.01              | 0.00                       |
| Employment generation                             | 49.11                                       | 45.71              | 0.00                       |
| Emergency Economic Recovery I                     | 40.00                                       | 40.34              | 0.00                       |
| Tap II 3/   | 0.00  | 0.00               | 0.00                       |

## B. IFC Operations

| Year of<br>Approval | Project (Sector)                    | IFC Held |        |                |         | IFC Disbursed |        |                |         |
|---------------------|-------------------------------------|----------|--------|----------------|---------|---------------|--------|----------------|---------|
|                     |                                     | Loan     | Equity | Quasi-<br>Loan | Partic. | Loan          | Equity | Quasi-<br>Loan | Partic. |
| 1998                | Microcredit<br>(Financial Services) | 0.00     | 0.40   | 0.00           | 0.00    | 0.00          | 0.40   | 0.00           | 0.00    |

## C. IBRD and IDA Loan Transactions 4/

| FY                  | 1992   | 1993   | 1995   | 1996   | 1997   | 1998   | 1999   | 2000   |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Gross disbursements | 3.30   | -0.20  | 42.60  | 47.90  | 56.10  | 42.00  | 17.50  | 8.80   |
| Repayments          | 0.70   | 0.00   | 8.90   | 3.70   | 4.30   | 4.70   | 5.20   | 6.50   |
| Net disbursements   | 2.60   | -0.20  | 33.70  | 44.20  | 51.80  | 37.30  | 12.30  | 2.30   |
| Interest            | 1.10   | 0.00   | 9.70   | 2.90   | 3.20   | 3.40   | 3.60   | 3.70   |
| Net transfer        | 1.50   | -0.20  | 24.00  | 41.30  | 48.60  | 33.90  | 8.70   | -1.40  |
| Debt outstanding    | 339.50 | 334.60 | 397.42 | 416.79 | 457.00 | 477.38 | 491.29 | 490.68 |

Source: IBRD.

1/ IDA commitments/disbursements are calculated in Special Drawing Rights (SDRs) and converted to US\$ at varying exchange rates. This accounts for disbursed and undisbursed amounts exceeding or falling short of commitments.

2/ Original credit principal was equivalent to US\$50 million; undisbursed amount represents equivalent of US\$20.45 million cancelled (US\$8.16 million cancelled on 1/28/99 and US\$12.29 million cancelled on 6/29/01), and US\$98 remaining in account.

3/ Original credit principal was US\$12 million. TAP II was approved by the Board on September 17, 1996, but was terminated on June 30, 1998 due to lack of approval by the Haitian parliament.

4/ All years are World Bank fiscal years (ending June 30). No transfer took place in FY 1994.

## Haiti: IDB Loan Commitments and Disbursements

(As of December, 2001. In millions of U.S. dollars)

|  | Commitment    | Disbursements |              |              |              |              |             | Total         |
|--|---------------|---------------|--------------|--------------|--------------|--------------|-------------|---------------|
|  |               | 1995-96       | 1997         | 1998         | 1999         | 2000         | 2001        |               |
| <b>Reformulated projects</b>                   |               |               |              |              |              |              |             |               |
| Economic and social assistance fund            | 12.40         | 10.53         | 1.63         | 0.03         | 0.21         | 0.00         | 0.00        | 12.40         |
| Primary education                              | 3.60          | 3.59          | 0.02         | 0.00         | 0.00         | 0.00         | 0.00        | 3.61          |
| Rural portable water 1/                        | 8.63          | 7.70          | 0.71         | 0.20         | 0.00         | 0.00         | 0.00        | 8.61          |
| Irrigation Artibonite (2 projects)             | 13.30         | 0.70          | 1.20         | 2.86         | 2.38         | 3.76         | 1.18        | 12.08         |
| PAP Drainage Project (2 projects) 1/           | 51.80         | 30.40         | 8.64         | 5.25         | 2.50         | 3.65         | 0.27        | 50.70         |
| Road & Bridge Soudé-Mirabelais (2 projects)    | 48.50         | 8.98          | 5.96         | 12.81        | 11.24        | 7.61         | 0.36        | 46.96         |
| Swine repopulation 1/                          | 13.20         | 3.87          | 1.20         | 1.70         | 1.63         | 1.11         | 1.43        | 10.94         |
| <b>Subtotal</b>                                | <b>151.43</b> | <b>65.77</b>  | <b>19.36</b> | <b>22.85</b> | <b>17.96</b> | <b>16.11</b> | <b>3.24</b> | <b>145.29</b> |
| <b>New projects</b>                            |               |               |              |              |              |              |             |               |
| <b>1995</b>                                    |               |               |              |              |              |              |             |               |
| Emergency Economic Recovery Program (PURE I)-  |               |               |              |              |              |              |             |               |
| Sector Loan                                    | 40.00         | 40.00         | 0.00         | 0.00         | 0.00         | 0.00         | 0.00        | 40.00         |
| PURE I-Investment-Emergency Works              | 28.50         | 23.52         | 4.47         | 0.01         | 0.05         | 0.44         | 0.00        | 28.49         |
| National Road Rehabilitation Program           | 45.00         | 3.35          | 9.54         | 12.19        | 12.78        | 2.87         | 0.45        | 41.18         |
| Primary education                              | 17.60         | 1.80          | 4.78         | 7.32         | 3.06         | 0.52         | 0.12        | 17.61         |
| PURE II  | 50.00         | 0.00          | 5.25         | 9.19         | 15.67        | 12.60        | 3.77        | 46.48         |
| <b>Subtotal</b>                                | <b>181.10</b> | <b>68.67</b>  | <b>24.04</b> | <b>28.71</b> | <b>31.56</b> | <b>16.43</b> | <b>4.34</b> | <b>173.76</b> |
| <b>1996</b>                                    |               |               |              |              |              |              |             |               |
| Decentralization Technical Cooperation Loan 1/ | 3.00          | 0.00          | 0.00         | 0.00         | 0.00         | 0.00         | 0.00        | 0.00          |
| Social Investment Help Fund                    | 27.00         | 0.00          | 3.58         | 11.07        | 7.09         | 2.41         | 1.02        | 25.17         |
| Investment Sector Loan (ISL)                   | 50.00         | 0.00          | 0.00         | 0.00         | 0.00         | 0.00         | 0.00        | 0.00          |
| Investment Sector Loan (ISL)                   | 2.50          | 0.00          | 0.00         | 0.21         | 0.20         | 0.22         | 0.01        | 0.63          |
| <b>Subtotal</b>                                | <b>82.50</b>  | <b>0.00</b>   | <b>3.58</b>  | <b>11.28</b> | <b>7.29</b>  | <b>2.63</b>  | <b>1.03</b> | <b>25.80</b>  |
| <b>1997</b>                                    |               |               |              |              |              |              |             |               |
| Rural and secondary roads                      | 50.00         | 0.00          | 0.00         | 0.00         | 0.00         | 0.00         | 0.00        | 0.00          |
| <b>Subtotal</b>                                | <b>50.00</b>  | <b>0.00</b>   | <b>0.00</b>  | <b>0.00</b>  | <b>0.00</b>  | <b>0.00</b>  | <b>0.00</b> | <b>0.00</b>   |
| <b>1998</b>                                    |               |               |              |              |              |              |             |               |
| Health sector reorganization                   | 22.50         | 0.00          | 0.00         | 0.00         | 0.00         | 0.00         | 0.00        | 0.00          |
| Reform of the potable water sector             | 54.00         | 0.00          | 0.00         | 0.00         | 0.00         | 0.00         | 0.00        | 0.00          |
| Primary education program                      | 19.40         | 0.00          | 0.00         | 0.00         | 0.00         | 0.00         | 0.00        | 0.00          |
| <b>Subtotal</b>                                | <b>95.90</b>  | <b>0.00</b>   | <b>0.00</b>  | <b>0.00</b>  | <b>0.00</b>  | <b>0.00</b>  | <b>0.00</b> | <b>0.00</b>   |
| <b>Total</b>                                   | <b>560.93</b> | <b>134.44</b> | <b>46.98</b> | <b>62.84</b> | <b>56.81</b> | <b>35.18</b> | <b>8.60</b> | <b>344.85</b> |

Source: Inter-American Development Bank.

1/The disbursement for 1995-96 includes previous disbursements in the life of the project.

### Haiti—Statistical Issues

**Real sector:** The Haitian Institute of Statistics is publishing monthly a harmonized CPI, 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 1999/2000 based on the interim base year 1986/87. The institute also publishes data on economic activity of the real sector on a quarterly basis, by publishing indices of industrial production, energy, construction, and domestic and external trade. The March 2000 technical assistance STA mission recommended that work start to establish a new base year for national accounts, possibly 1999/2000, and a revised CPI. 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 the *IFS*. Haiti has recently resumed (via its Central Bank) reporting of GFS data for publication in the *GFS Yearbook*, after 14 years of interruption. This was noticeable improvement after the disappointing follow-up of the 1995 multisector mission whose recommendations for the establishment of a system of compilation and reporting of GFS data to the Fund were not initially actively pursued, due, in particular, to the lack of human and financial resources (No additional GFS TA mission was fielded). However, those data were not published in the 2001 *GFSY*. Further work is required to extend coverage and breakdowns, to improve the link between the non-financial and the financial transactions as well as the outstanding of debt, and to compile a functional breakdown of expenditure, which calls for 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 contributed 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 remains areas of improvements, including the methodology for compiling trade data and data collection in trade and services by making more systematic use of existing sources of data, such as customs, port and airport agencies, airlines, and oil companies.

**Haiti: Core Statistical Indicators**  
(As of December 3, 2001)

|                             | 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  | 11/16          | 11/13                  | Sept.                      | Sept.               | Sept.          | Oct. 26        | Sept. 01             | June             | June                    | Sept.                      | 2000            | Sept.                       |
| Date Received               | +1 day         | +7 days                | +1 month                   | +1 month            | +1 month       | +10 days       | Nov. 01              | +60/90 days      | +60/90 days             | August days                | July 01         | +30 days                    |
| 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 (Res.Rep.)   | O/E (Res.Rep.)         | O (Res.Rep.)               | O/E (Res.Rep.)      | O/E (Res.Rep.) | O (Res.Rep.)   | M 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.

### Box 1: Haiti's New National Accounts

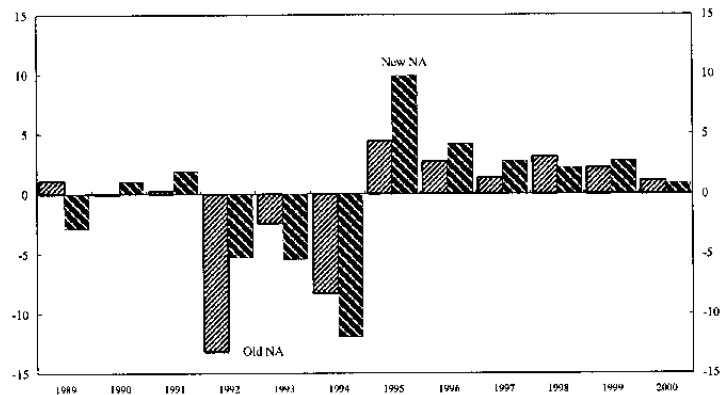
The Haitian Institute of Statistics (IHSI) published in April 2001 new national accounts with the base year 1986/87 for the period 1987/88–1999/2000. With technical assistance from STA the national accounts were compiled according to the United Nations 1993 system. The new national accounts eliminated previous inconsistencies and drew on hitherto underexploited data from certain statistical surveys (industrial survey (1983/84), population census (1982), and the household survey for 1986/87) and from fiscal, monetary and trade data sources. The IHSI is presently completing the accounts backwards from 1986/87 to 1975/76, so that the new national accounts will cover the same period as the previous ones. However, these new national accounts are an intermediate step toward the elaboration of accounts with a more recent base year, to be constructed when new statistical data from ongoing and planned surveys will become available.

The new national accounts have corrected the large underestimation of the level of nominal GDP in the old accounts, resulting in a series of GDP that is on average higher by almost 30 percent. While the average growth rate of nominal GDP over the observation period has been revised downward (from 19 percent to 16 percent), the average real GDP growth rate under the new accounts is somewhat less negative (-0.1 percent against -0.6 percent), reflecting a downward revision of the deflators. Figure 1 shows the evolution of real GDP growth rates over the last decade according to the two sets of national accounts. Owing to the sharply negative growth rates during the period of the embargo (1992–1994), followed by weak positive growth since 1996, real GDP in 2000 stood at about the same level as in 1988, implying a substantial decline in GDP per capita during the period.

The new national accounts show a substantially revised structure of the Haitian economy, both on the production side and on the demand side. On the supply side over the period 1988–2000 the share of the primary sector fall from 42 percent in the old national accounts to 32 percent in the new accounts, and the share of tertiary sector increased from 39 percent in the previous national accounts to 51 percent, while the share of the manufacturing sector has remained broadly unchanged at 18 percent. 1/

On the demand side, the average shares of consumption and exports are lower by 4 percentage points each, the share of investment is higher by 10 percentage points and that of imports is higher by about 3 percentage points. With respect to shares in real GDP, revisions appear in the investment and consumption series (with an upward revision of 4 percentage points), and in the exports and imports series (with a drop of 14 and 4 percentage points, respectively).

Haiti: Real GDP Growth Rates in New and Old National Accounts (NA) (1989-2000)



1/ Comparisons of GDP shares are in real terms.

**Box 2: The Operating Balance of the Banque de la Republique d’Haiti (BRH) and Interest Expenditure on BRH Bonds**

The BRH manages the liquidity impact of credit allocation to the government by issuing short-term bonds. While the BRH has been quite effective in carrying out this task, the sustainability of this policy in the context of large fiscal deficits and high interest rates is a cause for concern. The net operating balance of the BRH, as a ratio of GDP, worsened from 0.1 percent in FY 1997/98 to an estimated -0.2 percent in FY 2000/01. An important element behind the deteriorating net position of the BRH was the interest cost of the BRH bonds that rose from 0.4 percent of GDP in 1997/98 to an estimated 0.5 percent in FY 2000/01 (see Table below). In the absence of a strong fiscal adjustment, the interest expenditure on the BRH bonds will continue to increase and the net operating position of the BRH will continue to deteriorate.

The operating balance of the BRH and the interest expenditure on its bonds in FY 2001/02 will depend on the amount in interest the treasury will pay on its outstanding debt to the BRH. From a monetary point of view, payments of interest by the treasury to the BRH represent a reduction in liquidity that entails a smaller issuance of the BRH bonds. Nonpayment of interest to the BRH by the treasury leads to an increase in liquidity, by way of additional credit to the government, or higher operating losses of the BRH, and the BRH would have to issue additional bonds to mop up this liquidity. If the treasury continues with its past policy of compensating the BRH at a rate of G25 million a month, it is estimated that the net operating balance would rise to -0.4 percent of GDP, and interest expenditures on BRH bonds would reach almost 0.7 percent of GDP. In the event the treasury decides not to cover the monthly operating balance of the BRH at all, the expected interest payment on BRH bonds would reach more than 0.7 percent of GDP, and the operating balance about -0.8 percent of GDP. The policy recommended by staff, whereby the treasury exactly compensates the BRH for its net loss would result in an interest expenditure share of GDP of about 0.6 percent.

Haiti: BRH Net Operating Income (1998–2002)  
(In units as indicated)

|                                   | Fiscal Year Ending September 30 |         |         |          |            |            |            |
|-----------------------------------|---------------------------------|---------|---------|----------|------------|------------|------------|
|                                   | 1997/98                         | 1998/99 | 1999/00 | 2000/01  | 2001/02 1/ | 2001/02 2/ | 2001/02 3/ |
|                                   | (In thousands of gourdes)       |         |         |          |            |            |            |
| Net operating balance             | 67,879                          | 11,241  | -65,771 | -202,544 | 414,805    | 786,222    | 0          |
| Interest expenditure on BRH bonds | 246,526                         | 241,281 | 335,287 | 415,987  | 648,289    | 719,707    | 568,402    |
|                                   | (In percent of GDP)             |         |         |          |            |            |            |
| Net operating balance             | 0.11                            | 0.02    | -0.08   | -0.23    | -0.42      | -0.79      | 0.00       |
| Interest expenditure on BRH bonds | 0.39                            | 0.35    | 0.43    | 0.47     | 0.65       | 0.72       | 0.57       |

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

1/ The Ministry of Economy and Finance compensates the BRH at the rate of G25 million a month.

2/ The Ministry of Economy and Finance does not compensate the BRH.

3/ The Ministry of Economy and Finance fully compensates the BRH.



### Box 3: Poverty Monitoring Indicators

The Haitian Institute of Statistics (IHSI) is the main producer of population and economic data (See Table). It conducted the last Population Census in 1982 and an Income-Expenditure survey in 1986/87 (Enquete Budget Consommation des Menages, (EBCM)). In recent years, the IHSI has completed several major statistical undertakings including an EBCM in 1999/00 and a Living Condition Survey in 2001 (Enquete des Conditions de Vie en Haiti, (ECVH)), which is an on-going activity. The latter three surveys could be used to analyze poverty based on income/consumption including poverty levels, evolution and determinants of poverty, factors behind the evolution of poverty (such as growth and income distribution), poverty sensitivity to growth and the assets of the poor including labor and education. A new population census is expected to be conducted by the IHSI in late 2001.

The Institut Haitien de l'Enfance (IHE) with foreign technical assistance recently published the results of the "Enquete Mortalité, Morbidité et Utilisation des Services" (EMMUS-III). This survey based on the master sample recently developed by the IHSI is a comprehensive demographic and health survey. EMMUS-III could be used together with previous similar surveys (EMMUS-I, 1987/88 and EMMUS-II, 1994/95) to analyze the determinants and evolution of social indicators like education, health and access to basic infrastructure services.

Table: Census and Recent Household Surveys

| Survey                               | Date                          | Executing Agency and Funding                                | Purpose   | Sample Size  |
|--------------------------------------|-------------------------------|---|---|--|
| <b>Census</b>                        |                               |   |   |  |
| Population Census                    | 1982                          | Institut Haitien de Statistique et Informatique (IHSI)      | Population survey with limited data on economic activity.                                   |  |
| Population Census                    | 2001 (on-going)               | IHSI  | Population survey   |  |
| <b>Socio-Economics Surveys</b>       |                               |   |   |  |
| Households Survey (EBCM 1986/87)     | 1986-1987                     | IHSI with funding from USAID                                | Collect socioeconomic and household consumption and revenue data for the national accounts. | 3,120 households<br>2,080 urban<br>1,060 rural             |
| Households Survey (EBCM 1999/00)     | 1999-2000 (under publication) | IHSI  | Same as EBCM 1986-87  | 4,752 households   |
| Living Conditions Survey (ECVH 2001) | 2001 (on-going)               | IHSI/FAFO   | Collect socioeconomic and household consumption data.                                       | Approximately 7,000 households                             |
| <b>Health Surveys</b>                |                               |   |   |  |
| EMMUS-I                              | 1987-1988                     | Institut Haitien de l'Enfance (IHE) with funding from USAID | Demographic and health survey.  | 4,025 households   |
| EMMUS-II                             | 1994-1995                     | IHE with funding from USAID                                 | Comprehensive and nationwide demographic and health survey                                  | 4,800 households;<br>1,200 PAP<br>900 urban<br>2,700 rural |
| EMMUS-III                            | 2000                          | IHE with funding from USAID                                 | Comprehensive and nationwide demographic and health survey                                  | 9,595 households   |

**Statement by the IMF Staff Representative**  
**January 18, 2002**

1. The following information has become available since the staff report (SM/02/7) was circulated to Executive Directors and does not change the thrust of the staff appraisal.
2. An attack on the presidential palace on December 17, 2001 and the ensuing burning down of the opposition parties' offices have exacerbated a climate of insecurity and mutual mistrust between the government and the opposition parties and severely retarded the process of political negotiations. The Organization of American States (OAS) nonetheless has continued its efforts to help resolve the political crisis and called a special plenary session on January 15, 2002, to discuss the Haitian situation. CARICOM decided to urgently dispatch to Haiti a special high-level mission to evaluate the situation.
3. The Haitian Institute of Statistics published preliminary national accounts estimates for FY 2000/01 (FY starting October 1), that confirm earlier projections of a decline in real GDP of more than 1 percent, the first decline since 1995. The 12-month inflation rate (CPI) slowed to 8.6 percent in November 2001, reflecting continued weak economic activity.
4. Preliminary fiscal data for the first quarter of FY 2001/02 show that central bank financing of the central government was contained at 0.3 percent of annual GDP (against 0.9 percent of GDP in the first quarter of FY 2000/01). While revenue collection, at about 1.9 percent of GDP, continued to be weak, budgetary expenditure appears to have been compressed to an estimated 2.4 percent of GDP (against 3 percent in the first quarter of FY 2000/01). New arrears, mainly external, amounted to an estimated 0.2 percent of GDP (see below). The draft budget law for FY 2001/02 was sent to the senate on January 9, 2002.
5. The interest rate on 91-day BRH bonds was further lowered to about 18 percent in early January 2002. While the banks' average rate on gourde time deposits was reduced from about 14 percent in September 2001 to 11 percent in November 2001, the banks' lending rate (for domestic currency loans) fell from an average of about 32 percent to 30 percent during the same period. Despite the decline in nominal interest rates, real rates appear to have increased somewhat.
6. The government made a partial payment of arrears to the IDB in November 2001, thereby allowing IDB's disbursements on existing loans to resume. It is expected that the remaining amounts on existing loans will be fully disbursed by February-March 2002. Taking into account the payment to the IDB, the government's overdue external financial obligations to IFIS (mainly the IDB and the World Bank) and to bilateral creditors (mainly the French Development Agency) increased from US\$17.8 million at end-September 2001 to US\$26.2 million at end-November 2001, while net international reserves declined by US\$10 million to US\$103 million. The gourde depreciated by 3 percent between end-September 2001 and early January 2002.



INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Public Information Notice (PIN) No. 02/07  
FOR IMMEDIATE RELEASE  
February 8, 2002

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

**IMF Concludes 2001 Article IV Consultation with Haiti**

On January 18, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Haiti.<sup>1</sup>

**Background**

During FY 2000/01, the Fund monitored Haiti's economic policies through a staff-monitored program (SMP). The main purpose of the SMP was to assist in maintaining sound macro-economic policies and in implementing structural reforms that are important for the attainment of macro-economic stability, with the aim of establishing a positive track record. It was hoped that once the political crisis associated with the May 2000 parliamentary elections was resolved and following the presidential elections in November 2000, a satisfactory track record would facilitate intensified discussions for a Fund-supported arrangement under the Poverty Reduction and Growth Facility. To date, though some progress has been made under the auspices of OAS/CARICOM (Organization of American States/Caribbean Community), the political crisis essentially remains unresolved. While donors' humanitarian assistance continued to be channeled through NGOs, budgetary aid remained suspended throughout FY 2000/01 pending the resolution of the political crisis in a manner acceptable by all interested parties.

Performance under the SMP during FY 2000/01 was weak. Real GDP is estimated to have declined by around two percent, reflecting tight monetary conditions and the negative

---

<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the January 18, 2002 Executive Board discussion based on the staff report.

expectations raised by the continuing high fiscal imbalance and central bank financing. Inflation (12-month) remained broadly unchanged at around 16 percent during most of the year and decelerated during the last quarter to reach 12 percent in September 2001. Fiscal performance deteriorated, as the overall central government deficit rose to 2.7 percent of GDP (2.5 percent of GDP in FY 1999/2000). Central government revenue declined to an historically low level (7.3 percent of GDP, against 8.1 percent of GDP in FY 1999/2000). All categories of revenue were below target; in particular, petroleum taxation underperformed, partly as a result of a decision by the authorities not to adjust retail prices to increased landed costs (in contrast to the flexible pricing policy envisaged under the SMP). While total budgetary spending was held at an estimated 9.8 percent of GDP (10.1 percent of GDP in FY 1999/2000), outlays on non-wage current goods and services were well above target. Major problems remain regarding transparency and accountability in budget execution and the use of discretionary accounts remains extensive. The deficit was financed mostly by the central bank.

Tight monetary conditions and crowding out by the public sector combined with the weak economy and continuing political uncertainty all contributed to a sharp decline in credit to the private sector. Net official reserves (program definition) declined to the equivalent of 1 month of imports of goods and services. Faced with negative capital flows, Haiti accumulated external arrears. The IDB withheld new disbursements pending the payment of arrears, and the World Bank cancelled undisbursed loans. The gourde remained broadly stable relative to the U.S. dollar owing to the tightening of monetary policy, the decline in reserves and the accumulation of external arrears.

### **Executive Board Assessment**

Directors expressed deep concern about the continued decline in per capita income and persistence of widespread poverty, the increase in the fiscal deficit and central bank financing, and the accumulation of external debt arrears. Directors urged the government and all political parties to redouble efforts toward a settlement of the political crisis so as to pave the way for restoring the momentum of economic development and poverty reduction, with support from the international community, particularly in the social area.

Directors regretted that discussions on a new staff-monitored program (SMP) could not be concluded. They emphasized that, while continuing to work on the resolution of the political impasse, the authorities should implement a macroeconomic adjustment program aimed at reducing the fiscal deficit, containing inflation, and stemming the loss in reserves. If strictly adhered to, such a program could allow for a prudent lowering of interest rates, which would help prevent a further deterioration of the economy. Directors noted that satisfactory performance under a new SMP, along the lines just mentioned, would be important to initiate fruitful discussions on an eventual PRGF arrangement in support for a medium-term strategy for economic recovery.

Directors welcomed the recent submission of the budget for FY 2001/02 to parliament, the first official budget since 1996. However, they considered that the small reduction in domestic financing of the fiscal deficit will fall short of what is needed to stabilize the economy. Directors,

therefore, urged the authorities to take determined additional measures to increase the tax effort through improved tax and customs administration, broadening the tax base, and adoption of an automatic price adjustment mechanism for petroleum products. Budgetary spending should be tightly controlled, with its composition reoriented away from current to capital expenditure.

Directors welcomed the authorities' intention to improve governance by way of enhancing transparency and accountability in budget execution. They urged the authorities to restrict the use of discretionary ministerial accounts exclusively to emergency outlays and to eliminate the discretionary element in revenue collection. Directors also highlighted the importance of enforcing a strong cash management system that would effectively forestall excessive central bank financing and arrears accumulation.

On monetary policy, Directors emphasized the need to continue to restrain credit expansion to facilitate attaining the inflation and net international reserves targets. Noting the risks for inflation and the external value of the gourde from a premature loosening of monetary policy, they stressed that interest rates should be lowered further only if inflation remains under control, in the context of a broadly stable exchange rate and reduced budget deficit.

Directors welcomed the measures to improve the supervision and health of the banking system. They urged the authorities to complete the draft texts for a new banking law and a new central bank charter to bring them into conformity with international standards. The authorities' efforts to combat money laundering and drug trafficking are commendable and should be sustained by making the recently created Financial Intelligence Unit operational. Directors also highlighted the need for legal steps enabling the freezing of terrorist assets.

Directors welcomed the authorities' intention to maintain the floating exchange rate regime and, given the low level of reserves, urged them to refrain from foreign exchange intervention. They encouraged the authorities to step up structural reforms aimed at reducing domestic production costs, increasing productivity, and strengthening competitiveness, and, in this context, they looked forward to the restructuring and privatization of a number of large public enterprises as well as the adoption of a plan for privatizing the Banque Nationale de Credit. Haiti's commitment to an open trade policy was welcomed. Directors encouraged the authorities to clear overdue financial obligations to the international financial institutions.

Directors welcomed the authorities' efforts to improve statistics in the real, external, and public sectors. They emphasized the need to sustain these efforts, with technical assistance from bilateral and multilateral agencies, including directly from the Fund and through the Caribbean Technical Assistance Center.

**Public Information Notices (PINs)** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the (2001) Article IV Consultation with Haiti is also available.

**Haiti: Selected Economic Indicators**

|   | Fiscal Year Ending September 30 |      |      |      |           |
|---|---------------------------------|------|------|------|-----------|
|   | 1997                            | 1998 | 1999 | 2000 | Est. 2001 |
| <b>Domestic economy</b>   |                                 |      |      |      |           |
| Real GDP (annual percentage change)   | 1.4                             | 3.1  | 2.2  | 1.2  | -1.7      |
| Consumer prices (annual percentage change, end of period)                   | 17.0                            | 8.3  | 9.9  | 15.3 | 12.3      |
| Gross domestic investment (percent of GDP)                                  | 24.5                            | 26.0 | 27.7 | 27.3 | 22.8      |
| Gross national savings (percent of GDP)                                     | 17.6                            | 20.5 | 22.7 | 20.9 | 18.0      |
| (In percent of GDP)   |                                 |      |      |      |           |
| <b>Public finances</b>  |                                 |      |      |      |           |
| Central government balance  | -0.6                            | -1.1 | -1.4 | -2.5 | -2.7      |
| Overall public sector balance   | -3.0                            | -3.3 | -3.7 | -5.2 | -3.6      |
| Public sector savings   | 2.4                             | 2.2  | 2.3  | 0.8  | -0.6      |
| (Changes in percent of beginning period broad money)                        |                                 |      |      |      |           |
| <b>Money and credit</b>   |                                 |      |      |      |           |
| Net domestic assets   | 10.6                            | 11.4 | 15.1 | 18.1 | 9.2       |
| Credit to the nonfinancial public sector (net)                              | -1.9                            | 3.0  | 7.3  | 7.9  | 8.3       |
| Credit to the private sector  | 17.5                            | 7.6  | 4.4  | 16.9 | -3.1      |
| Broad money   | 15.4                            | 14.7 | 17.7 | 36.2 | 5.3       |
| (Annual percentage change unless otherwise indicated)                       |                                 |      |      |      |           |
| <b>External sector</b>  |                                 |      |      |      |           |
| Exports (f.o.b. in U.S. dollars)  | 20.9                            | 45.7 | 16.5 | -6.2 | -3.0      |
| Imports (f.o.b. in U.S. dollars)  | 9.9                             | 16.9 | 14.3 | 7.9  | -3.2      |
| External current account balance (percent of GDP)                           | -6.9                            | -5.5 | -5.0 | -6.4 | -4.8      |
| External public debt (end-period, percent of GDP)                           | 30.1                            | 29.0 | 26.4 | 29.9 | 28.9      |
| External public debt service (percent of exports of goods and services)     | 8.5                             | 8.0  | 8.3  | 7.9  | 9.4       |
| Net official reserves (end-period, months of imports of goods and services) | 2.2                             | 2.3  | 2.2  | 1.6  | 1.8       |
| Real effective exchange rate (appreciation +)                               | 11.0                            | 8.2  | 8.9  | -6.1 | 6.3       |

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

**Statement by Murilo Portugal, Executive Director and Anston Jwala Rambarran,  
Assistant to the Executive Director for Haiti  
January 18, 2002**

1. Our authorities express their appreciation to staff for their efforts to help Haiti, for the useful policy advice provided during the recent Article IV consultation, and for the technical assistance received from the Fund. They are aware of the daunting macroeconomic challenges they face in the context of continued political uncertainty and reduced assistance by the international community. For these reasons, since assuming office last February, our Haitian authorities have implemented several measures to help restore some degree of macroeconomic stability, and continue to demonstrate a strong resolve to steer Haiti to a firmer economic, social and political path.
2. Over the last four years, real GDP has on average increased at just over 1 percent per annum due to the adverse impact of political instability, low foreign financing, and a drought that sharply reduced agricultural and hydroelectric output. Inflation now appears to be on a downward path, falling to around 12 percent at the end of last year from almost 15 ½ percent in 2000, due to the substantial tightening of monetary policy and the attenuation of the impact of the past price increase of domestic petroleum products.
3. The domestic political and economic problems have been compounded by the significant deterioration of the international environment. Exports in dollar terms fell by 3 percent in FY 2000/01, largely reflecting a slowdown of orders for light assembly items in the U.S. market and low world prices for cocoa and coffee, two main agricultural commodities. But imports also declined on account of weaker economic activity. As a result, the current account deficit (before grants) of the balance of payments fell to just below 5 percent of GDP in FY 2000/01, from about 6 ½ percent of GDP in the past year. Notwithstanding the difficult external situation, the authorities maintained the managed floating exchange rate regime, abstaining from direct intervention in the foreign exchange market. This, in combination with the tighter monetary stance, helped maintain relative stability of the gourde. The hemorrhage of foreign reserves persisted, however, with net official reserves now equivalent to less than one month of import cover.
4. On the fiscal side, budgetary spending was broadly contained and capital expenditure was sharply compressed. Several administrative tax measures helped raise somewhat internal and custom revenues. As a result, the overall fiscal deficit and the use of central bank credit were far less in the second half of FY 2000/01 than in the first semester. Nonetheless, the overall central government deficit rose to an estimated 2.7 percent of GDP in FY 2000/01, from 2.5 percent of GDP in the previous year.
5. As regards structural reforms, further progress was made in strengthening the central bank's supervisory capacity and regulatory framework. Technical work relating to the privatization of the airport, port, and electricity, water and telephone utilities was completed, but the final privatization has been delayed in light of the political circumstances.

6. With a per capita GDP of about US\$500, Haiti is the poorest country in the Western Hemisphere. Based on the UNDP human development index (HDI), Haiti is in the range of the poorest African countries. More than 80 percent of the population lives below the poverty line. The authorities are aware that a sustained and higher growth rate over the course of the decade is required to effect a meaningful reduction in extreme poverty. While there has been some progress in reducing poverty, social programs aimed at improving basic education, health and infrastructure, mainly funded by donors have exhibited a recent decline, leading to worsening of social indicators.

7. Against this difficult backdrop, it is the intention of the authorities to formalize their macroeconomic framework and to improve policy implementation as a basis to receive Fund support under a PRGF arrangement. In this regard, the authorities are committed to maintain control over the budget as key to a successful stabilization effort, and are well aware that, due to the limited room for maneuver and scarce external budgetary resources, it becomes crucial to restrict expenditure and to diminish recourse to central bank financing of the deficit. They also recognize the necessity to reorient the composition of spending away from non-wage current expenditure to capital expenditure, mainly on basic infrastructure.

8. The draft budget for FY 2001/02 is the first official budget since 1996. It targets an estimated overall deficit of 2.8 percent of GDP, most of which would still to be financed by the central bank and the remainder by loans and grants. Our authorities wish to reiterate that they intend to enhance governance through greater transparency and accountability in budget execution. In particular, they will restrict the use of discretionary ministerial accounts and publish detailed data on budget execution on the web on a monthly basis.

9. The authorities recognize that monetary discipline will continue to be needed to foster the process of macroeconomic stability. They intend to control inflation through a limited expansion of the central bank's net domestic assets by placing central bank bonds at market rates of interest. They share the staff's view that any further change in the reserve requirements system must be carefully evaluated in the context of the likely evolution of liquidity conditions in the banking system.

10. The authorities intend to enhance regulation and supervision of commercial banks during the course of the year, with the support of Fund technical assistance. They expect to finalize a new banking law to bring practices relating to loan classification, provisioning, and disclosure of information in line with international standards, and to extend the supervisory authority of the central bank to non-bank financial institutions. A new organic law for the central bank would give it independence in the conduct of monetary policy. Following the approval by Parliament in February and August of last year of new laws to combat money laundering and drug trafficking, a Financial Intelligence Unit is expected to soon begin operations, helping the authorities to augment their capability in this area. Haiti is now a member of the Caribbean Financial Action Task Force.

11. Haiti regrets that it has been unable to fully honor its debt obligations, entering into significant arrears with several creditors, including the World Bank and IDB. The authorities



intend as early as possible to stabilize arrears to the international financial institutions, and to seek exceptional financing for the overdue outstanding obligations and debt service to their major bilateral creditors.

12. The authorities reaffirm their intention to maintain Haiti's open trade regime, which has a rating of one (the most open) in the Fund's trade restrictiveness system. There are no economically significant nontariff barriers, and tariff rates are generally lower than those under the common external tariff of the Caribbean Common market (CARICOM), of which Haiti is a member.

13. Progress has been achieved over the last two years in improving national accounts and balance of payments statistics, according to the Fund's recommendations. The authorities recognize, however, the weak condition of the statistical infrastructure and the need to improve further the economic dataset. They intend to make full use of Fund technical assistance, including the assistance available under the recently established Caribbean Center for Technical Assistance (CARTAC).

14. We acknowledge the good intentions of the baseline scenario of fiscal adjustment proposed by the staff. However, as the staff report recognizes, such scenario itself would not be sufficient to rekindle growth. It would just be a holding operation to contain further deterioration of the economy. Fiscal retrenchment is required due to lack of non-inflationary financing. But with a relatively modest overall deficit of 2.7 percent of GDP and with a level of public expenditures below 10 percent of GDP, such lack of financing is a very frustrating situation to a country that is the poorest in the continent.

15. A resumption of sustainable economic growth would also depend critically on increased official external capital inflows. The authorities alone cannot undertake the task of rebuilding Haiti. A comprehensive and more positive response is needed from the international community to eliminate Haiti's barriers to sustained economic growth and poverty alleviation. Despite the election and installation of both a new Parliament and a new President, substantial donor assistance continues to be withheld for political reasons. For more than four years now, the poor of Haiti are being held hostage to political developments over which they have little or no control.