

**Statement by Murilo Portugal, Executive Director
and Vishnu Dhanpaul, Assistant,
for Haiti
September 3, 1999**

1. My Haitian authorities are in broad agreement with the comments and analysis contained in the staff report. They would like to express their appreciation to staff for providing such a comprehensive and well written report. They would also like to thank the staff and management of the Fund for their usual helpful advice emanating from the recent policy discussions and for the technical assistance and continued support given to Haiti.

2. My authorities are firmly committed to further strengthening the implementation of policies and reforms to maintain the growth momentum and to make a sustainable impact on the level of poverty. The staff report on Haiti's performance clearly indicates that the economy continues to perform well despite the unforeseen domestic and external setbacks. Haiti has made significant progress towards achieving sustainable growth and reducing domestic and external imbalances in the face of a deteriorating economic and social infrastructure; unacceptable unemployment and underemployment levels; economic dislocation among the most vulnerable in the society; declining disbursements from international donors; the impact of Hurricane Georges in September 1998; political instability; and social unrest. Haiti remains the poorest country in the Western Hemisphere, and continued support from the international community is essential to ensure its economic stability.

3. My authorities would like to assure the Board that strengthening the democratic process in Haiti is a main priority. In this regard, they have recently published a decree which envisions elections by the end of this year. With this timetable, the new parliament will be convened in January 1999.

Recent Economic Developments

4. Despite severe political and economic difficulties, my Haitian authorities have managed to maintain macroeconomic stability. In fiscal year (FY) 1997/98 real output grew by 3.1 percent fueled by strong export growth especially from the assembly sector. Inflation declined from 17 percent in FY 1996/97 to 8.3 percent in FY 1997/98 and further to 7.6 percent in the 12 months ending last May. The central government's fiscal deficit stood at 1.3 percent of GDP at the end of FY 1997/98, slightly higher than programmed. Credit conditions were tightened substantially when the authorities raised the interest rate on central bank bills from 18 percent to 24 percent in 1998. The external current account deficit, which narrowed to 5.9 percent of GDP largely as a result of the surge in exports and private remittances, was offset somewhat by significant levels of external grants and official capital flows. As a result, the overall balance of payments recorded a surplus of a little less than 1 percent of GDP.

5. Significant progress was made in the downsizing of the civil service and the implementation of administrative reforms and institutional strengthening of the public sector;

acceleration of the logistics of the privatization program; and the introduction of technical support for the restructuring of the state-owned Banque Nationale de Crédit (BNC). The downsizing affected 6,360 employees or approximately 12 percent of government employment. However, further structural reforms were hampered by the political situation, specifically, the inability to obtain parliamentary approval of critical legislation.

6. In FY 1998/99, real GDP is expected to grow by 2.2 percent based mainly on continued export growth. Inflation is targeted to reach 8 percent by the end of the year. All quantitative benchmarks for March 1999 were met with significant margins. At the end of the first half of FY 1998/99, the central government deficit stood at 0.3 percent of GDP, or 0.4 percentage point less than programmed and is targeted to amount to 1.7 percent of GDP by the end of the year. Over the same period, net international reserves reached US\$209 million or approximately US\$20 million more than programmed and are targeted at US\$218 million or 2.3 months of imports by the end of the year. The Haitian gourde is expected to remain stable.

7. For the remainder of FY 1998/99 and the medium term, my authorities will respond to the need to increase the revenue to GDP ratio by implementing measures aimed at maximizing tax collections and enhancing the administrative capacity of the revenue collecting agencies. Additionally, efforts will be made to control budgetary expenditure, to better target capital expenditure, and to avoid unbudgeted wage increases and hirings. External budget support and project assistance are expected to fall short of the programmed level in FY 1998/99 due to the existing political scenario, but are projected to increase substantially over the medium term as parliamentary ratification is obtained prior to the disbursement of loans from the World Bank and the Inter-American Development Bank.

8. My authorities have stressed the importance of spending an estimated US\$33 million to finance the preparation of the electoral process. They view successful parliamentary elections as a critical step in regaining the confidence of the international financial community and crucial for the resumption of external aid and the implementation of structural reforms. My authorities would like to assure the Board that election spending would be carefully controlled and monitored to avoid derailing the economic program. It should be noted that the government has allocated G150 million (approximately US\$9 million) for election financing in this year's budget. The total cost of the elections is disaggregated as follows: US\$17 million for voter registration, US\$6 million for publicity and communication, and US\$10 million for security. A significant proportion of the additional US\$24 million is expected to be funded by the international donors.

9. Monetary policy will continue to focus on controlling inflation and strengthening the balance of payments. The authorities will use open market operations if necessary to control the money supply. However, for the reasons indicated in the staff report, they consider difficult at this time to harmonize the reserve requirement on foreign-currency denominated deposits and gourde-denominated deposits. Credit to the private sector will continue to be

restrained and liquidity will be controlled mainly through the placement of central bank bonds with interest rates that would remain positive in real terms.

10. Haiti's banking system has remained strong, and the authorities are committed to further strengthening bank supervision and prudential regulations that are consistent with international standards. The authorities will also undertake a comprehensive audit of individual banks and are scheduled to complete a new banking law early in the new fiscal year.

11. On structural reform issues in FY 1998/99, some progress was made on the measures to increase tax revenues, including the strengthening of the large taxpayer unit. The implementation of prudential norms for the banking system was also completed. However, my authorities acknowledge that progress in the restructuring of the BNC has been slower than envisaged. They agree with staff that the problems of the BNC are linked to the inappropriate and multiple functions which it is expected to fulfill. Plans are well underway to complete the downsizing of the bank, including the number of branches, and to strengthen its managerial and operational capability in preparation for its eventual privatization. A Fund-sponsored expert is currently giving support for designing the restructuring plan, assisting in the preparation of options for downsizing, and for maximizing the nonfinancial assets of the bank.

12. Structural reforms have been progressing in the education sector but have been slower than expected in the health and justice sectors owing to the need for parliamentary approval of the relevant legislation. However, the authorities intend to continue making progress in all structural areas, including trade reform, taxation policy, restructuring and privatization of public enterprises, and the investment and commercial codes. Additionally, my authorities are currently reviewing the Environmental Action Plan presented by the Inter-Ministerial Environment Commission with a view to implementing measures, where financially feasible, to appropriately manage the natural resources of Haiti and to prevent further environmental degradation.

13. My Haitian authorities are fully aware that macroeconomic stability and the implementation of the reform agenda are critical for promoting sustainable growth and reducing the high level of poverty that stifles progress in the country. In this regard, they have requested that the Fund hold follow-up discussions in October 1999 on the staff monitored program with a view to assisting them in maintaining fiscal and monetary discipline during the period of the election campaign. My authorities view the successful implementation of the current program as a critical step towards initiating discussions on a new ESAF immediately following parliamentary elections. My authorities have also agreed that the staff report for the Article IV Consultation be published as part of the pilot project.