January 2001
IMF Country Report No. 01/06

Haiti: 2000 Article IV Consultation and Staff-Monitored Program for FY 2000/01--Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion

As required under Article IV of its Articles of Agreement, the International Monetary Fund conducts periodic consultations with its member countries. In the context of a combined discussion of the Staff Report for the 2000 Article IV consultation with Haiti and Staff-Monitored Program (SMP) for FY 2000/01, the following documents have been released and are included in this package:

- the staff report for the combined 2000Article IV consultation and Staff-Monitored Program (SMP) for FY 2000/01 prepared by a staff team of the IMF, following discussions that ended on **September 21, 2000,** 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 November 8, 2000.** 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 **November 22, 2000,** updating information on recent economic developments;

- the Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its November 22, 2000, discussion** of the staff report on issues related to the Article IV consultation and the SMP.

The document listed below has been separately released; consult the IMF website for subsequent document releases.

Selected Issues paper

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.

Copies of this report are available to the public from
International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623 7430 • Telefax: (202) 623 7201
E-mail: 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 2000 Article IV Consultation and for a Staff-Monitored Program (SMP) for FY 2000/01

Prepared by the Staff Representatives for the 2000 Consultation with Haiti

Approved by Claudio M. Loser and Jesús Seade

November 8, 2000

Contents Page

Tables in Attachment II

Figures

Appendices

Attachments

Executive Summary

Recent Developments

Haiti has suffered for the past three and a half years from a political impasse that has led to the loss of external assistance, low investment, postponement of structural reforms, and insufficient growth to reduce the high rate of poverty. A new parliament was installed in August 2000, but opposition political parties and international organizations have called into question the legitimacy of the elections. The country faces a continued election period, with the presidential election scheduled for November 26, 2000, along with that of eight senators. The new administration would take office in February 2001.

Macroeconomic performance deteriorated during FY 1999/2000 (year ending September 30). Investment declined and real GDP growth slowed to 1.2 percent, implying a decline in real GDP per capita. The fiscal deficit increased as a result of excessive fiscal spending in the run-up to parliamentary elections and a drop in revenue related to declining excise tax collections on petroleum products. The expansion in domestic credit to the government to finance the deficit, continuing political uncertainties, and the rise in the world price of oil (Haiti imports all of its petroleum products) led to recurrent pressures on the exchange rate, domestic prices, and official reserves. To combat these pressures, the central bank steadily tightened monetary policy.

Policy discussions and staff appraisal

The authorities have formulated an economic program for FY 2000/01, which they have requested Fund staff to monitor. The program aims at restoring macroeconomic stability during the political transition, putting inflation on a downward path by the second half of the year, and achieving a small increase in official reserves. The fiscal program provides for a reduction of the deficit, largely the result of an increase in revenue stemming from the substantial increase in administered prices of petroleum products in September 2000. Monetary policy will be kept tight until inflation subsides. The program also provides for further progress in financial sector reform, improving fiscal management, strengthening tax revenue, restructuring/privatizing public enterprises and increasing services in education, health, and justice.

The staff encourages the government and all political parties to make strenuous efforts to resolve the political crisis, so that the momentum of economic development can be restored, with strong support from the international community. At the same time, establishment of a track record of good performance under the SMP would help pave the way for intensified discussions for a program that could be supported by an arrangement under the Poverty Reduction and Growth Facility.

I. Introduction

1. Discussions for the 2000 Article IV consultation and for a staff-monitored program (SMP) for FY 2000/01 (year beginning October 1) with Haiti were held in Port-au-Prince during September 6–21, 2000.[1] The mission met with President Préval, former President Aristide, Economy and Finance Minister Joseph, Central Bank Governor Jean, other senior officials, and representatives of international organizations and bilateral donors, as well as various political and private sector representatives.

2. At the conclusion of the 1999 Article IV consultation, the Executive Board commended Haiti for maintaining macroeconomic stability during FY 1998/99, notwithstanding a very difficult political environment and economic damage inflicted by Hurricane Georges. Executive Directors voiced concern about the effects of the political impasse on external assistance, investment, and the implementation of structural reforms, which had constrained growth and poverty reduction. They stressed that maintaining macroeconomic stability prior to elections would require resisting wage pressures and adhering strictly to the cash management system to control expenditure as well as improving tax administration. Directors strongly supported the government's intention to carry out transparent and democratic parliamentary elections as an urgent priority. They noted that structural reform and privatization, the approval of key social sector legislation, and the reform of direct taxes, tax exemptions, and the investment and commercial codes were important for increasing investment, especially in the priority social sectors.

3. Haiti has suffered for the past three and a half years from a political impasse that has led to the loss of external assistance, low investment, postponement of important structural reforms, and insufficient growth to reduce the high rate of poverty. A new parliament was installed in August 2000, but international organizations and opposition political parties have called into question the legitimacy of the elections, and some donors have either suspended or reduced aid flows (Box 1).

4. The Fund has supported efforts to maintain macroeconomic stability and secure some external budgetary support in the context of successive SMPs covering FY 1997/98 and FY 1998/99. During this period, the fiscal deficit was kept under control, inflation was reduced, and official net international reserves rose, but real GDP per capita stagnated. Some progress was made on structural reforms, including downsizing and streamlining the civil service and, in the financial sector, improving the supervisory capacity of the central bank and strengthening the regulatory framework of the banking system. However, important structural reforms in many crucial areas were not possible because of the difficulties in securing parliamentary approval, including those to improve security and the judicial system; tax reform to raise the low level of public revenue; and the restructuring/privatization of major public enterprises (the telephone and electricity companies, port and airport).

[1] The staff team comprised Ms. Brenner (Head), Messrs. Fritz-Krockow and W. Keller, and Miss Sab (all WHD). Mr. Kalter joined the mission for the final day of meetings. The mission was assisted by the resident representative, Mr. Verreydt.

Box 1. Haiti: Political Developments

A three-year ESAF arrangement for Haiti was approved in October 1996. The program went off course in June 1997 when the prime minister resigned in the face of widespread popular opposition. During the next year and a half, parliament rejected several candidates proposed by President Préval to head a new government. In January 1999, the term of parliament expired, leaving the country without a parliament or effective government. A political agreement was reached in March 1999 that led to the nomination by decree of a cabinet (headed by Mr. Alexis, the minister of education in the previous cabinet) and of an electoral council to conduct local and parliamentary elections (all local posts, all 83 lower house seats, and 19 of 27 Senate seats).

After several delays, the first round of elections was held in May 2000, with a high voter participation rate of 50 to 60 percent of those registered. (This followed a successful massive campaign, supported by donors, to register some 3½ million voters.) However, following the vote there were numerous reports of irregular activities in handling and counting the ballots, and claims of stuffing the ballot boxes with multiple votes. The observation mission of the Organization of American States (OAS) issued a statement questioning the method used to tabulate the votes for purposes of determining which posts would have to be decided in a second round. Mr. Aristide's party (Fanmi Lavalas) claimed victory outright in 18 of 19 senate posts, without the need for a second round. The second round of voting for local and lower house posts took place in July with little voter participation. Since July, several international organizations, led by the OAS, as well as opposition parties have called for a reconsideration of the first-round vote computation. The presidential election is scheduled for November 26, along with eight remaining senate seats. However, the major opposition parties have chosen to boycott the elections. A recognized parliament is essential, inter alia, to approve loans from international organizations. External financing to the budget and for projects has been curtailed owing to the political crisis and to the absence of parliamentary approval of loans already negotiated with international organizations. Currently, about US$200 million in loans have been approved by the IDB, but not by the Haitian parliament. The World Bank has a much smaller pipeline of loans because of a slowdown in the processing of loans owing to the absence of parliament to ratify IDA credits, and because of poor project implementation (Appendices II and III).

5. Missions to Haiti in November 1999 and again in February 2000 reached understandings, ad referendum, on an SMP for FY 1999/2000. However, the SMP could not be approved by management because of significant fiscal slippages following each mission, and the lack of progress on structural reforms.

6. Economic and financial statistics are made available to Fund staff as they become available in Haiti. Despite improvements in recent years, some real sector statistics, particularly the national accounts, lack the timeliness and frequency needed for policy analysis. Although problems remain concerning the quality and reliability of the national accounts, new series are being compiled with technical assistance of STA and other donors. However, data problems remain (especially in the balance of payments) that could affect surveillance, policy analysis, and program design and monitoring (Appendix IV).

7. Haiti has accepted the obligations of Article VIII, Sections 2, 3, and 4. Relations with the Fund are described in Appendix I.

II. BACKGROUND AND DEVELOPMENTS DURING FY 1999/2000

8. **Economic performance weakened during FY 1999/2000.** Investment declined, and economic growth is estimated by the authorities to have decelerated to 1.2 percent (2.2 percent in FY 1998/99) (Table 1).[2] Agricultural and hydroelectric output suffered from the effects of a drought, while the main sectors with positive growth were public construction and investment in private telecommunications activity. The fiscal deficit increased and, with no net external financing, was financed by an expansion of domestic credit. The increase in the fiscal deficit, continuing political uncertainties, and the rise in the world price of oil (Haiti imports all of its petroleum products) led to recurrent pressure on the exchange rate, domestic prices, and official reserves. To combat this pressure, the central bank tightened monetary policy and interest rates rose.

9. **The overall central government deficit is estimated to have increased to 2.2 percent of GDP in FY 1999/2000, up from 1.3 percent of GDP in FY 1998/99 (Table 3).** Government revenue declined by almost 1 percent of GDP to 7.8 percent of GDP. This mainly reflected the sharp increase in the world price of oil, and the resulting decline in excise tax collections on gasoline, diesel, and kerosene (administered domestic retail prices for these products were left unchanged until September 2000).[3] Direct income tax revenue increased, as self-employed professionals were required to submit tax returns for the first time, while customs revenue also rose owing to the depreciation of the gourde. Total spending remained at about 10 percent of GDP; higher capital expenditure, especially on public works projects, was offset by lower spending on goods and services and a decline in the wage bill, as no general wage increases were granted during the year.[4] The deficit was financed by credit from the central bank and by an accumulation of domestic arrears (0.2 percent of GDP).

10. **To address the decline in fiscal revenue, the government raised administered domestic prices of gasoline, diesel, and kerosene by about 45 percent in early September 2000.** These were the first increases since 1996, and brought prices to levels comparable to those in the Dominican Republic (which also raised domestic prices about the same time).[5]

---

[2] The staff estimates that, taking into account population growth and depreciation of the exchange rate, GDP per capita in U.S. dollar terms fell by 7 percent during FY 1999/2000 to about US$525.

[3] With prices fixed at the pump, the government's margin (fixed and variable excises) declines when the c.i.f. price increases.

[4] Public works projects, such as improvements to roads and public parks were undertaken, including to help create a favorable environment for the elections. While the government paid all wages related to the elections, foreign donors provided substantial off-budget direct support, including voter registration material, ballots, and vehicles for improved security.

[5] The authorities were concerned about the impact of these price increases on the poorest groups. Accordingly, they chose to maintain a subsidy for kerosene (used disproportionately by the poor for cooking). The price of kerosene is now equivalent to about US$1.04 a gallon while premium gasoline is US$2.24 a gallon.

In addition, the government announced that the prices of these products would be adjusted in line with changes in the c.i.f. cost (converted to gourdes), whenever the accounting price changes by more than 5 percent.[6] The September 2000 price increases together with application of the price adjustment mechanism are projected to yield about 0.7 percent of GDP in petroleum excise tax revenue on an annual basis.

11. **During FY 1999/2000, the central bank sought to slow the depreciation of the gourde by tightening monetary policy and by occasional intervention in the foreign exchange market.** Nevertheless, the gourde depreciated by about 32 percent with respect to the U.S. dollar from end-September 1999 to mid-September 2000. Inflation so far (twelve-month increase in the CPI) rose only moderately (owing to the tightening of monetary policy and weakening economic activity) from 9.9 percent in September 1999 to 12.5 percent in August 2000, but is expected to increase further in the next two or three months because of the lagged effect of the depreciation and the increase in domestic petroleum product prices. Net official reserves are estimated to have declined by about US$40 million to a level of US$170 million (equivalent to 1.8 months of imports of goods and services and 15 percent of broad money).[7] The decline in reserves included about US$7 million in payments for the construction of a new central bank headquarters and a regional branch office in Cap-Haitien, deemed essential for reasons of safety and security.

12. **The central bank raised interest rates** on its 91-day bonds from about 11 percent in September 1999 to 23 percent in April 2000 and 27 percent in September 2000. In addition, the central bank raised the reserve requirement on gourde deposits from 26.5 percent to 28 percent in April 2000 and to 31 percent in September 2000. The reserve requirement on U.S.-dollar denominated deposits was raised from 12.5 percent in November 1999 to 17 percent in April 2000 and to 21 percent in September 2000. The growth of broad money in real terms decelerated to 4.6 percent in the twelve months ending August 2000 (with dollar deposits measured at a constant exchange rate), from 7.3 percent a year earlier. At the same time, growth of banking system credit to the private sector weakened further to negative 1.6 percent (also with dollar-denominated credit measured at a constant exchange rate) in the context of rising interest rates. Bank deposits denominated in U.S. dollars rose from 31.5 percent of total deposits at end-September 1999 to 38.4 percent at end-August 2000 (Table 4).

13. **Since 1996, the authorities have maintained a managed floating exchange rate regime.** During FY 1998/99, the gourde was virtually unchanged with respect to the U.S. dollar, but appreciated by about 9 percent in real effective terms, as average inflation declined in Haiti but remained above that in trading partners (Figure 1). During January–July 2000 the authorities sought to relieve pressure on the gourde (stemming from increased central bank financing of the fiscal deficit, mounting political uncertainties, and the rising cost of oil

[6] The accounting price is the c.i.f. price, converted to gourdes at the current exchange rate, plus the margins for importers and distributors and all taxes except the variable excise tax.

[7] Haiti has no official short-term external debt. Thus the ratio of short-term debt to reserves is nil.

imports) by occasional intervention in the foreign exchange market.[8] Since July, the central bank has refrained from intervention in the market. In the twelve months ended August 2000, the gourde depreciated by about 22 percent with respect to the U.S. dollar, and by 10 percent in real effective terms, reversing the appreciation of the previous year (Figure 1).

14. **The current account deficit (before grants) of the balance of payments declined slightly in FY 1999/2000, mainly as a result of a rise in private transfers, to about US$295 million (7.1 percent of GDP) (Table 5).** After more than doubling from 1996 to 1999, exports from the light assembly sector (which account for about three-quarters of total exports) stagnated during FY 1999/2000, reflecting a slowdown in orders because of the political situation and fears by buyers about the reliability of shipments.[9] Imports rose by about 4 percent in U.S. dollar terms, largely on account of a doubling in the cost of petroleum product imports to US$137 million, while non-oil imports declined owing to weakening economic activity. Disbursements of official grants and loans, mainly channeled through nongovernmental organizations, declined from about US$340 million in FY 1998/99 to about US$310 million in FY 1999/2000. Project-related grants, provided by the United States, the European Union, and other bilateral donors, amounted to about US$235 million, while concessional lending by the Inter-American Development Bank (IDB) and the World Bank was about US$50 million.

15. **In the financial sector, the central bank's supervisory capacity and the regulatory framework continued to be strengthened.** Additional specialized staff were assigned to the banking supervision department of the central bank, and general inspection of four banks was carried out during FY 1999/2000, as well as evaluations of assets and verification of the quality of capital in several other banks. The minimum capital to risk-weighted assets requirement was raised from 8 percent to 10 percent, effective September 30, 2000.[10] The central bank has also revised prudential regulations concerning risk concentration ratios for related and sectoral lending, while extending the transition period for gradually reducing risk concentration. This was necessary because of the weak demand for credit, which made it difficult for banks to diversify their loan portfolios.

16. **Despite improved bank supervision, some strains emerged in the banking system as a result of higher interest rates, higher reserve requirements, and the depreciation of**

---

[8] Intervention amounted to about US$32 million during FY 1999/2000, including US$16 million in direct sales to oil importers during April–July 2000. The latter took place at the market exchange rate and does not constitute a multiple currency practice or exchange restriction, but represents an indirect form of exchange market intervention in support of the gourde.

[9] The light assembly export sector—especially textiles, foodstuffs, and footwear—grew rapidly following the lifting of the trade embargo in 1995, based on an ample supply of labor and close proximity to the United States, Haiti's major trading partner.

[10] All but one private bank was in compliance; the remaining bank is in the process of raising capital.

the gourde. The proportion of nonperforming to total loans for the banking system as a whole rose from about 8 percent in September 1999 to 8.7 percent in June 2000 (Table 6). Return on equity improved during the same period, in part because banks were obtaining relatively high rates of return from central bank bonds.

17. **The central bank has become concerned about the growth in U.S. dollar-denominated loans during the past few years.** Although banks do not take on open foreign exchange positions, some of these loans were being made to borrowers with no regular source of income in foreign currency. During FY 1999/2000, the depreciation of the gourde led to continued strong growth of deposits denominated in dollars, while lending in dollars rose only slightly. As a result, the ratio of dollar loans to dollar deposits for the banking system as a whole declined from 67 percent in September 1999 to 57 percent in August 2000.[11] The banking supervision department issued a regulation in September 2000 requiring that all banks meet a limit of 50 percent in the ratio of nonguaranteed dollar loans to dollar deposits by January 1, 2001.[12]

18. **Progress was made in restructuring the troubled state-owned bank, Banque Nationale de Credit (BNC).** Downsizing of the bank's employment by about one half (224 employees) was completed in June 2000, with associated severance benefits equivalent to about 0.1 percent of GDP (included in the fiscal accounts). The bank's operating results improved, mainly as a result of the placement of government bonds in exchange for nonperforming loans of BNC to civil servants and quasi-public enterprises that had been guaranteed by the government, and receipts of about 0.1 percent of GDP from asset recovery. However, the second state-owned bank, Banque Populaire d'Haiti (BPH), accounting for about 4 percent of banking system deposits, has continued to experience losses, and the initial interest of a foreign buyer did not materialize.[13] A senior advisor has been placed in charge of strengthening management and new lending has been curtailed, pending the development of a plan for restructuring/privatization of the bank.

19. **The authorities have undertaken significant additional preventive steps to combat money laundering and drug trafficking.** In March 2000, Haiti was certified as cooperating with United States' drug interdiction efforts, and has not been named by the OECD or its Financial Action Task Force as noncooperating in international efforts to combat illicit transactions. Also, Haiti is not an offshore financial center. The ministry of justice has prepared draft laws against money laundering and drug trafficking, and central bank officials have consulted with staff of the Fund, the United States Treasury, and the Caribbean Financial

---

[11] However the ratio of dollar-denominated loans to total loans rose from 38 to 42 percent during the same period, because of the depreciation of the gourde.

[12] The two foreign commercial banks are allowed to exclude dollar loans guaranteed by the parent bank for purposes of reporting the ratio.

[13] The combined remaining losses of BNC and BPH are estimated to amount to about 0.5 percent of GDP with an annual carrying cost of less than 0.1 percent of GDP, included in the fiscal accounts for FY 2000/01.

Action Task Force (CFATF) concerning best practices and measures to prevent money laundering. The government has officially requested to become a member of CFATF. The central bank has also issued reporting forms to strengthen the "know-your-customer" requirements.

20. **Owing to the political impasse, virtually no progress was achieved during FY 1999/2000 toward restructuring/privatizing key public enterprises.[14] As a result, crucial infrastructure continued to deteriorate.** In the **electricity** sector, the output of hydroelectricity declined to less than 20 percent of capacity because of the drought, forcing increased pressure on thermoelectric generators fueled with imported (and increasingly costly) diesel. Consequently, financial losses of the electricity company emerged even while power outages became more chronic. (Because of the unreliability of supply, most enterprises and many residences have to rely on their own generators to assure a reliable but costly source of power.) The operating profits of the state-owned **telecommunications** company, TELECO, declined as it lost considerable business to two recently established competing private telephone companies. Plans for privatizing the operations of the port, airport, and water company are still on hold.

III. Policy Discussions

21. ***Hopes for an end to the political impasse and the establishment of a more favorable environment for economic reforms have not yet materialized. The country faces a continued election period, with the presidential election scheduled for November 26, 2000.***

22. In the attached Memorandum of Economic and Financial Policies (MEFP), the authorities have indicated their intention to implement an economic program covering FY 2000/01, which they have requested Fund staff to monitor (Attachment II). The SMP is intended to help restore macroeconomic stability during the political transition and secure some disbursements from bilateral and multilateral sources. Satisfactory performance under the SMP would be one precondition to initiate discussions for a poverty reduction and growth facility (PRGF) arrangement.

23. **The program is based on a modest rebound of output growth to about 2½ percent during the year, reflecting some return of confidence and recovery in investment, assuming more settled political conditions, following the presidential elections.** The program aims to contain inflation in a range from 12 percent to 14 percent in September 2001, and to secure a small increase (US$16 million) in official net international reserves. To help achieve these objectives, the overall central government deficit is targeted to decline to 1.3 percent of GDP in FY 2000/01, which will allow a substantial decline in central bank financing of the deficit. The SMP also envisages continued progress in financial sector

---

[14] Nearly all of the technical work for preparing the state electricity, telephone, and water companies, port, and airport for privatization was completed more than a year ago, with assistance from the World Bank, IDB, and USAID.

reforms, improving fiscal management, strengthening tax revenue, restructuring public enterprises, and increasing the quality and quantity of services in education, health, and justice.

24. **The government agreed with the staff that the fiscal deficit needed to be reduced during FY 2000/01 to relieve pressure on the exchange rate and prices, and allow some relaxation of the tight monetary policy stance during the second half of the fiscal year.** The authorities were concerned that monetary policy had already been pushed to the limit, and further tightening risked causing problems for the banking system and further slowing private economic activity.

A. Fiscal Policy

25. **Given the already low level of public revenue and the need to increase spending on education, justice, and health, the fiscal program focuses on achieving a substantial increase in revenue.** Most of the recovery of revenue (0.7 percent of GDP) would come from the full-year effects of the increase in petroleum product prices in September 2000 and the regular adjustment of prices to reflect changes in the world market price of oil and the exchange rate. Customs and sales tax revenue are also projected to increase as a result of exchange rate depreciation.

26. **Total expenditure** is programmed to be about unchanged in terms of GDP for all expenditure categories except capital expenditure, which would be reduced by about 0.2 percent of GDP as public works projects are completed.[15] The expenditure plan includes the costs of conducting presidential and senate elections and for severance payments to workers at the port, equivalent to about 0.4 percent of GDP. The wage bill would increase in line with GDP, while new hiring would be limited to some 300 new police officers and magistrates to improve security. The program provides for increased monthly interest payments by the central government on its debt to the central bank sufficient to eliminate the quasi-fiscal deficit in FY 2000/01.[16]

27. **Domestic financing of the deficit is projected to decline from 2.3 percent of GDP in FY 1999/2000 to 0.5 percent of GDP in FY 2000/01.** Central bank financing of the deficit, which is subject to benchmarks (ceilings) under the SMP, is programmed to decline to 0.8 percent of GDP. Domestic financing will also include the elimination of about 0.3 percent of GDP of domestic arrears to suppliers and for wages, through cash payments and the issuance of treasury bonds. Net external financing is projected at 0.8 percent of GDP, primarily

---

[15] Overall public sector investment would increase slightly to 3.4 percent of GDP because of an increase in foreign financed projects, not channeled through the central government budget.

[16] There was a small quasi-fiscal deficit (0.1 percent of GDP) in FY 1998/99 because of increased central bank interest payments on its bonds.

US$30 million in concessional loans from the Venezuelan government under a new San José agreement for the import of oil products.[17]

28. The authorities are committed to the oil price adjustment mechanism to achieve the program's revenue target, but were concerned about the social and inflationary consequences if world oil prices continue to rise. The program provides for discussions with Fund staff on appropriate measures and possible adjustments in quantitative benchmarks if the average world price of oil relevant for Haiti (West Texas Intermediate) rises above US$35 a barrel for more than three consecutive months.

29. **The program envisages continued implementation of the cash management procedures and tightened procedures for the use of the ministerial discretionary accounts.**[18] During FY 1999/2000 some ministries exceeded their budget spending allocations by drawing down their discretionary accounts. To better control these accounts, all unused nonproject and inactive project current account balances will be returned to the Treasury by end-November 2000. **The revenue office will continue with efforts to improve tax and customs administration,** including through additional tax audits and expanding the computerized monitoring system for customs (MEFP, para. 15).

B. Monetary Policy

30. The authorities' **monetary program** for FY 2000/01 assumes a constant broad money to GDP ratio, and takes into account the fiscal program and the projected external budget support. In this context, money and credit policies will be set in line with the program's inflation and external objectives. In accordance with the program's performance indicators on the central bank's net domestic assets and net international reserves, the authorities will adjust credit conditions mainly through the placement of central bank bonds at market rates of interest. If performance under the program is satisfactory and the government requires less financing, the central bank expects to be able to lower reserve requirements and lower interest rates during the second half of the year. The program provides room for growth of credit to the private sector in line with GDP.

31. **High unremunerated reserve requirements have contributed to a high spread between lending and deposit rates and discouraged financial intermediation.** Also the lower reserve requirement on foreign currency deposits has contributed to a large spread between foreign currency-denominated and gourde-denominated lending rates.[19] The staff, as it

---

[17] The loans are available to finance up to one-quarter of Haiti's oil imports from Venezuela, at an interest rate of 2 percent, with one year of grace and fifteen years' maturity.

[18] This includes a budget allocation system that limits monthly government outlays to monthly revenue collection, realized external financing, and programmed financing from the central bank. A protocol formalizing these arrangements for FY 2000/01 was signed by the ministry of economy and finance and the Bank of the Republic of Haiti on September 20, 2000.

[19] In August 2000, interest rates on loans denominated in gourdes were around 25 percent, while those on dollar loans were around 13.5 percent.

has for some time, continued to recommend that the authorities reduce the difference between reserve requirements on gourde and dollar deposits, in order to reduce the cost disadvantage of intermediation in local currency.

32. **The authorities stressed that the need to tighten monetary policy had taken precedence over harmonizing reserve requirements during the past year.** Moreover, it had been necessary to raise reserve requirements because raising rates on central bank bonds to absorb liquidity had negative effects on the central bank's operating balance. The central bank hopes to lower reserve requirements during the course of FY 2000/01.

33. **The authorities will continue with efforts to further strengthen the banking system during FY 2000/01,** supported by technical assistance from the Fund (MEFP, para. 20). The program envisages the continued inspection of banks, the application of new prudential regulations, and improvements in offsite assessments of banks. The Commission for the Modernization of Public Enterprises (CMEP) will prepare a plan for the privatization of BNC by March 2001, and an action plan will be prepared for restructuring the other government-owned commercial bank, BPH. The authorities expect to secure parliamentary approval of the legislation to combat money laundering and drug trafficking by end-November 2000. Legislation to modernize the financial system and bring it into conformity with international standards will be presented to parliament by March 2001.

C. External Sector Policies

34. **The external current account deficit (before grants) is projected to remain at about US$290 million in FY 2000/01, but would increase to 7.8 percent of GDP because of the depreciation of the gourde.** Exports are projected to increase by 13 percent, based on recent agreement by the United States and Central American and Caribbean countries on duty-free quota increases for textiles and clothing. Imports and investment would pick up a little with economic recovery. Imports of petroleum products are projected to increase by about 13 percent in U.S. dollar terms, assuming an increase in the average world price relevant for Haiti of about 10 percent.[20] The capital account surplus would improve to about US$95 million, owing mainly to larger public loan disbursements, including US$30 million from the special loan facility for oil imports from Venezuela. Project loan disbursements from the World Bank and IDB are projected at around US$70 million, assuming ratification of loans by the new parliament.

35. **The staff advised the authorities to refrain from any further sales of foreign exchange and to allow the rate to float.**[21] It will be important to implement the monetary and

[20] Equivalent to US$29.50 a barrel in the latest WEO projection for Haiti's fiscal year.

[21] The staff believes the level of the exchange rate is adequate for competitiveness, assuming inflation is contained as projected. Exports more than doubled from FY 1995/96 to FY 1998/99. During the past two years, representatives of the export sector indicated that the level of the exchange rate was adequate to support expansion of their output. What was most needed was improved provision of infrastructure (e.g., port facilities, roads, and power).

fiscal programs as agreed under the SMP so as to reduce inflation and ensure that the nominal exchange rate depreciation experienced during the past year is reflected in a sustained real exchange rate depreciation. It is also essential to remove political uncertainties so that export orders can be filled without delay. Additional efforts to enhance competitiveness should be stepped up through the implementation of structural reforms aiming at reducing domestic production costs and increasing productivity, especially the privatization of public enterprises, increased investment in transportation infrastructure, improved financial intermediation, and progress in basic health and education services. Also, to attract foreign investment, measures are needed to improve justice and security and to update the commercial and investment codes.

36. **The authorities reaffirmed their intention to maintain Haiti's open trade policy.** Haiti's trade regime is among the most open in the Western Hemisphere, with a rating of one (most open) on a scale of one to ten in the Fund's trade restrictiveness rating system. Haiti maintains no economically significant nontariff barriers, while tariff rates under a four-band structure carry rates of zero, 5, 10, or 15 percent on most products,[22] These 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 soon to become a full member.[23] Although CARICOM has scheduled to reduce tariffs to a maximum of 20 percent, some member states still maintain tariffs in excess of that rate. 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. Meanwhile the authorities hope that by 2005 tariffs under the CET will have come down substantially, in anticipation of the establishment of the free trade area of the Americas. Once pressure on the exchange rate subsides, the authorities expect to submit a revised tariff law to parliament, that will provide for a three-band tariff (zero, 5, 10 percent). The authorities stressed that reducing tariff rates was an instrument to lower domestic prices to the benefit of the majority of the population.

D. Structural Reform, Poverty, and Other Issues

37. As indicated above, technical work has been completed for the restructuring of five large public enterprises (airport, port, and the electricity, telephone, and water companies). However, **carrying out the final steps toward privatization** has been delayed, mainly because the government does not expect that privatization through sale of shares can be carried out successfully under present political circumstances. Progress is most advanced toward **privatization of the port;** the government intends to issue an invitation to bid for management of the port by end-November 2000. Downsizing of redundant workers at the port authority will be completed by June 2001, with severance payments of less than 0.1 percent of GDP. The government will also submit a draft regulatory framework for the telecommunications sector to parliament by end-November 2000. A more comprehensive and aggressive program for

[22] The exceptions are gasoline (57.8 percent) and rice and cement (3 percent). The simple average tariff rate is 5 percent, and in addition a 4 percent verification fee is levied by customs on all imports.

[23] Haiti acceded to membership in the Caribbean Common Market in July 1999. Membership will become effective after parliamentary ratification.

privatization of the electricity, telecommunications, and water companies and the airport, developed in consultation with the new government, the World Bank, and IDB, will constitute an important part of discussions for a PRGF.

38. With a per capita GDP of about US$525 in FY 1999/2000, and based on the UNDP human development index (HDI), **Haiti is the poorest country in the Western Hemisphere.**[24] More than 80 percent of the population falls below the poverty line in rural areas, where about two-thirds of Haitians live.[25] Malnutrition affects about half of children under age five, and less than half the population has access to safe water. Primary school enrollment has increased during the past ten years, and adult illiteracy has declined, but more than half of adults are illiterate and only one of seven adolescents attend secondary school (Table 7). The **causes of poverty** are political instability, poor governance, and corruption; inadequate levels of investment; poor institutional capacity; underinvestment in human capital and poor quality of social spending; high fertility; and domestic insecurity. 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. These programs have seen a decline in the past year because of political instability. The main programs are described in Box 2.

39. **Haiti suffers from severe environmental problems, resulting from high incidence of poverty, demographic pressures, and political instability.** Environmental risks have increased recently as a result of migration from the countryside to urban areas, which is exerting pressure on water and sanitation facilities. (It is estimated that 82 percent of the springs supplying water to Port-au-Prince exhibit marked pollution.) Paucity of arable land and widespread use of firewood for cooking and commercial purposes has led to almost complete deforestation. The problem is aggravated by the production of charcoal in rural areas and agricultural pressures on steep slopes. An Environment Action Plan (EAP), prepared by the Inter-Ministerial Environment Commission, was approved by the government in December 1999. The EAP was prepared with technical and financial support from donors and provides a comprehensive framework of priority areas to be addressed during the next 15 years. The EAP addresses virtually every aspect of environmental protection, proposes numerous institutional and legal changes, and seeks donor support for a broad range of priorities and programs. However, project implementation has been severely limited by lack of financing.

---

[24] Ranked by the HDI, which measures a country's achievement in terms of life expectancy, educational attainment, and adjusted real income, Haiti scores an index of 0.44 on a scale of 0 to 1, putting it in the range of the poorest African countries (UNDP Human Development Report 2000).

[25] There are no consistent time series on rural or overall poverty in Haiti. The 1987 household survey estimated an overall poverty rate of 65 percent.

Box 2. Haiti: Social Sectors

The government intends to strengthen its efforts to improve the delivery of services in the areas of justice, education, and health during FY 2000/01. The fiscal program provides for increases in spending on health and justice and for maintaining spending on education relative to GDP. Actions in justice, besides those related to anti-money laundering, will include efforts to reduce the maximum length between imprisonment and trial to six months (as a result of the increase in the number and training of magistrates and judges) and to provide for regular visits to prisons by special inspectors. In education, the government will seek to obtain parliamentary approval for legislation to set the standards for public subsidies to private schools and for licensing private schools. In health, 60 local health units are to be established to deliver basic services, including prevention and immunization; the training of midwives will be increased; and new treatment centers for resistant tuberculosis will be established. A much more comprehensive program of reforms with a substantially larger amount of donor financing in these areas would be mobilized in the context of discussions for a PRGF.

Education

The main education indicators (illiteracy rate and school enrollment rates) in Haiti are weaker than the average of the low income countries (see Table 7). After many years of weak government involvement in education, the private sector and NGOs have stepped in to fill the void. The private sector now accounts for around 89 percent of schools and 76 percent of students. Gross school enrollment rates are estimated at only 64 percent for primary school and 15 percent for secondary school, with much lower rates in rural areas. Almost two-thirds of children drop out of primary school without finishing the six-year course.

In December 1997, the government finalized a National Education Plan (NEP) for the next ten years. The main objectives of the plan are enhancing the quality of the education system while increasing the supply of educational services; establishing a system and standards of professional training for teachers and administrators; and strengthening the ministry of education and the NEP secretariat. A National Commission of Partnership, with representation of the ministry of education, private schools, and donors was created in December 1999, which helped to draft the legislation pertaining to government support for and licensing of public schools. Tentative discussions have taken place for a basic education program, amounting to US$50–60 million, to be supported by the World Bank and the IDB, that would aim at supporting primary education by financing school construction, teacher training, and the purchase of materials.

Health

Basic health indicators (life expectancy at birth and infant mortality rate) in Haiti are poor, although they have improved somewhat during the past ten years. Rates of access to safe water and sanitation are extremely low and considerably below those of low income countries. Child and infant immunization rates have also improved, but fewer than 50 percent of children are vaccinated for diphtheria, tetanus, whooping cough, and polio. The government, with the potential support of the IDB and other donors, has proposed a program for the reorganization of the national health system, which would be implemented over a six-year period. (The IDB has already approved health sector and drinking water reform loans for a total of US$76 million, but those loans have not been approved by the Haitian parliament.) During FY 2000/01, the ministry of health expects to extend its cooperation with the private sector in providing health services, and to analyze and develop an action plan for the next five years regarding the need for basic drugs and vaccines.

40. **The Fund has continued to provide substantial amounts of technical assistance to Haiti during FY 1999/2000, mainly in the form of missions and short-term visits of experts.**[26] STA has provide technical assistance to the National Statistics Institute on the national accounts and to the central bank on balance of payments statistics. MAE has provided assistance on banking regulation, and LEG has provided an expert to help in the drafting of the commercial bank law and the central bank law. The staff urged the authorities to implement the recommendations of Fund technical assistance, keeping in mind that the effectiveness of such assistance is likely to continue to be hampered by weaknesses in human resources and institutional areas. The staff welcomed the efforts of the statistics institute to proceed with the publication of the results of new household and industrial surveys, and encouraged it to give increased attention to social indicators that could be monitored under a PRGF-supported program.

41. The mission inquired about progress toward Haiti's consent to its quota increase under the Eleventh General Review of Quotas and about the status of Haiti's acceptance of the Fourth Amendment to the Fund's Articles of Agreement (a new allocation of SDRs). The authorities indicated that parliamentary approval of these matters is required. They may draft the proposal for consent to the quota increase by the end of the year. However, they prefer to defer the SDR proposal in view of the heavy agenda for the new parliament.

IV. Medium-Term Outlook

42. **The staff has developed alternative medium-term scenarios to underline the need for successful implementation of a medium-term adjustment program:** an illustrative low-growth scenario assumes the completion of the SMP during FY 2000/01, and minimum necessary efforts to maintain macroeconomic stability and weak support for structural reforms thereafter. An alternative high-growth scenario assumes the completion of the SMP during FY 2000/01 and a strong political consensus for the implementation of structural reforms in the framework of a poverty reduction strategy supported by arrangements under the PRGF during FY 2000/01–FY 2003/04.

43. **The low-growth scenario** sees no growth in public saving in the absence of tax measures (Table 8). Government spending on poverty reduction programs and infrastructure would be constrained by limited revenue, increasing need to support ailing public enterprises, and limited external budget support due to the slow implementation of structural reforms. Fiscal deficits would be financed mostly by central bank credit. Combined with continued low business confidence, output growth would remain at or below the rate of population growth (2 percent), implying no improvement in living standards, and inflation would remain at 12–14 percent (Figure 2). Gross domestic investment would stagnate at around 10–10½ percent of GDP, financed in large part by external saving. Export receipts would continue to provide the basis for slow growth, but would be constrained by infrastructure bottlenecks. Private transfers from Haitians living abroad would grow in line with projected inflation and output growth in North America. Import growth would slow, reflecting limited opportunity for private investment, and the sluggish implementation of externally financed projects. Official grants

[26] See Appendix I for a more complete listing of technical assistance provided in recent years.

and loans would grow only marginally in nominal terms, and direct investment flows would remain subdued. The import cover of net international reserves would remain at less than two months of goods and services. The external debt/GDP ratio would remain at around 35 percent while total public debt would decline only marginally.

44. **There are risks to the low growth scenario and to financing, especially if the SMP is not implemented as planned and confidence deteriorates further.** Further pressures on the exchange rate cannot be ruled out if the political impasse is not resolved, and the structural measures foreseen in the SMP may not be carried out as planned. In addition, there is danger of resumed spending in the presidential election period not foreseen in the SMP.

45. **The normative high-growth scenario** assumes satisfactory resolution of the current political difficulties, paving the way for the implementation of a poverty reduction strategy supported by a PRGF beginning later in FY 2000/01. This would entail an accelerated implementation of structural reforms (particularly privatization, improvements in economic infrastructure, and tax and customs reform) with a substantial increase in external support, raising productivity, enhancing external competitiveness, increasing domestic investment, and boosting employment and output growth to around 5 percent a year (Table 9). A steady strengthening of public sector saving, combined with a prudent monetary policy, would allow the gradual reduction of inflation to industrial country levels.

46. Under the high-growth scenario, tax measures (widening the tax base, reducing exemptions, tightening tax administration) would be implemented to raise central government revenue by 3 percentage points of GDP by FY 2004/05. Domestic investment would rise strongly as private investment responds to privatization, including new investment in telecommunications, transportation, and electricity services. Increased fiscal revenue, external financing, and the elimination of subsidies to ailing public enterprises would allow the government to increase investment in infrastructure and social services (roads, security, schools, and public health facilities). At the same time, a reduction in credit to the public sector would open up space for a faster expansion of credit to the private sector. Higher private savings would result from the transfer of major public enterprises, and hence their savings, from the public to the private sector; increased income and output growth led by private sector investment and exports; and improvements in financial intermediation and deepening of the domestic capital market.

47. The external current account deficit/GDP ratio would widen somewhat initially, as import growth would pick up reflecting the expansion of investment and output, while exports would continue to expand rapidly in the outer years. Strong capital inflows, including higher foreign direct investment, would more than cover the external current account deficits and a buildup in the import cover of net international reserves. The external debt to GDP ratio would gradually fall to around 33 percent of GDP, while the ratio of total public debt to GDP would decline to around 42 percent of GDP in FY 2003/04.

V. Staff Appraisal

48. **Haiti's economic performance deteriorated during the past year as a result of continuing political crisis.** Real GDP growth slumped, and per capita GDP declined in a country that is already the poorest in the Western Hemisphere. There was only limited progress on structural reforms in crucial areas such as justice and security, and privatization of public enterprises that are essential to support higher sustained growth. An increase in the fiscal deficit, the political uncertainties, and the rise in the world price of oil led to pressures on the exchange rate and inflation.

49. **The ongoing political crisis has continued to adversely affect private sector confidence and investment, and has impeded the implementation of a comprehensive, donor-backed effort to remove Haiti's serious structural impediments to sustained economic development and poverty alleviation.** The staff urges the government and all political parties to make strenuous efforts toward a political settlement so that the momentum of economic development can be restored and living standards substantially improved, with strong support from the international community.

50. **The authorities' economic program for FY 2000/01, which will be monitored by the staff, seeks to help the authorities reestablish macroeconomic stability during the political transition, alleviate pressure on the exchange rate, and restore inflation to a downward path by the second half of the year.** The program is intended to serve as a vehicle for maintenance of a close dialogue with the Fund staff. The program also provides for further progress in financial sector reform, improving fiscal management, strengthening tax revenue, restructuring public enterprises, and in the areas of health, education, and justice.

51. **There are risks to the program and its financing, especially in light of the policy slippages that occurred during FY 1999/2000.** The staff urges the authorities to implement the program resolutely and notes that the establishment of a track record of good performance under the SMP would be one precondition for intensified discussions for a PRGF arrangement.

52. **The authorities have prepared a fiscal program that aims at reducing the central government deficit to 1.3 percent of GDP in FY 2000/01 and a substantial reduction in central bank financing of the deficit.** Given the already low level of public revenue and the need to at least maintain government spending by the ministries of education, justice, and health, the fiscal program targets a strong recovery in revenue and a small curtailment of expenditure. Most of this increase in revenue is expected to come from the effects of substantial increases in administered petroleum product prices in September 2000 and resulting increase in excise tax revenue. The authorities will also need to adjust petroleum product prices regularly in line with changes in world prices and the exchange rate and to continue to improve tax and customs administration to achieve the targeted fiscal revenue.

53. **To control the fiscal deficit, the authorities should strictly implement procedures to limit government outlays to revenue collections, realized external financing, and programmed domestic financing.** Efforts to reduce spending through the ministerial discretionary accounts should be stepped up, including the return of unused balances to the Treasury. The government will also need to resist pressures for unbudgeted wage increases and hiring in the electoral period.

54. **Credit policy should continue to be restrained through open market operations.** If the fiscal program is implemented as planned, there should be some room for a reduction in interest rates on central bank intervention instruments and in required reserve ratios during the course of the year. This, together with a recovery of confidence, should help relieve strains that began to emerge in a few banks as a result of rising interest rates and currency depreciation.

55. **The staff welcomes important 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. The authorities have taken important measures to combat money laundering and drug trafficking during the past few months, and it will be important to secure prompt parliamentary approval of new legislation to strengthen detection and prosecution of these illegal activities.

56. **The staff supports the maintenance of a floating exchange rate regime.** It will be important to implement the fiscal and monetary program as planned to reduce inflation and ensure that the nominal exchange rate depreciation experienced during the past year is reflected in a sustained gain in competitiveness. 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. Additional efforts to enhance competitiveness should be stepped up through structural reforms aiming at reducing domestic production costs and increasing productivity, especially improvements in justice and security, the privatization of public enterprises, increased investment in transportation infrastructure, and progress in basic health and education services. The staff welcomes the authorities' intention to maintain a relatively open trade regime and their efforts toward trade liberalization with their CARICOM partners.

57. Haiti's data problems hinder surveillance and program design and implementation. The staff encourages the authorities to continue efforts underway to improve real sector statistics and strengthen the technical and managerial capacity of the National Statistics Institute. Closer attention to following up on previous technical assistance recommendations should improve external sector statistics. Further technical assistance from bilateral and multilateral agencies, including from the Fund, will be required to complement the efforts of the authorities to improve macroeconomic and social sector data.

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

Table 1. Haiti: Selected Economic and Financial Indicators

	Fiscal Year Ending September 30				
				Est.	Prog.
	1997	1998	1999	2000	2001
(Annual percentage change, unless otherwise indicated)					
National income and prices					
GDP at constant prices	1.4	3.1	2.2	1.2	2.5
GDP deflator	16.3	12.7	8.3	11.2	13.3
Consumer prices (period average)	16.2	12.7	8.1	11.1	13.3
Consumer prices (end-of-period)	17.0	8.3	9.9	12.6	12.0
External sector					
Exports (f.o.b.)	32.4	45.4	23.8	-0.2	12.5
Imports (f.o.b.)	4.4	12.1	23.0	3.5	7.2
Real effective exchange rate 1/	11.1	14.2	8.9	-10.2	...
Central government					
Total revenue (excluding grants)	41.3	11.3	17.1	0.9	26.2
Total expenditure	11.6	18.8	16.8	12.3	13.8
Money and credit					
Net domestic assets 2/	10.6	11.4	15.1	18.9	11.6
Credit to public sector (net) 2/	-1.9	7.0	7.7	7.1	2.9
Credit to private sector 2/	17.5	8.5	4.4	11.4	6.6
Broad money	15.4	14.7	17.7	30.9	15.6
Velocity (GDP relative to broad money)	3.4	3.5	3.2	2.8	2.8
Average interest rate on time deposits (end-of-period, in percent) 3/	11.3	14.8	6.8	12.7	...
(In percent of GDP, unless otherwise indicated)					
Gross domestic investment	10.1	10.4	11.0	10.7	11.1
Gross national savings	3.2	4.5	3.7	3.6	3.3
Of which					
Public sector savings	1.9	2.0	2.6	1.8	2.5
Central government overall balance	-0.6	-1.3	-1.3	-2.2	-1.3
Central government overall balance including grants	0.5	0.0	-1.2	-1.9	-0.8
External current account balance 4/	-6.9	-5.9	-7.3	-7.1	-7.8
External public debt (end-of-period)	30.0	28.9	27.1	29.5	35.2
External public debt service (in percent of exports of goods and nonfactor services) 5/	11.9	8.0	8.6	6.9	7.2
(In millions of U.S. dollars, unless otherwise indicated)					
Overall balance of payments	27.6	32.4	23.5	-40.0	16.0
Gross international reserves (end-of-period)	265.7	292.7	329.2	281.5	297.5
Net international reserves (in months of imports of goods and services, end-of-period) 6/	2.4	2.4	2.2	1.8	1.8

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

1/ End-August for fiscal year 2000.
2/ In relation to broad money at the beginning of the period.
3/ End-August for fiscal year 2000.
4/ Excluding grants.
5/ Historical data and projections are based on revised export figures using U.S. government trade statistics.
6/ Haiti has no official short-term debt; thus the ratio of short-term debt to reserves is nil.

Table 2. Haiti: Summary Operations of the Nonfinancial Public Sector

	Fiscal Year Ending September 30				
	1997	1998	1999	Est. 2000	Prog. 1/ 2001
	(In millions of gourdes)				
Central government current balance	**553**	**571**	**783**	**223**	**876**
Current revenue	4,770	5,252	6,292	6,346	8,009
Current expenditure	4,217	4,680	5,509	6,123	7,133
Public enterprises current balance 2/	**488**	**842**	**901**	**891**	**1,035**
Current revenue	2,529	2,718	2,654	2,690	2,970
Current expenditure	2,041	1,876	1,753	1,799	1,935
Public sector savings	**1,041**	**1,413**	**1,684**	**1,114**	**1,911**
Public sector investment	**3,172**	**3,586**	**3,781**	**4,332**	**5,078**
Central government	2,745	2,869	3,130	3,441	4,044
Budgeted capital expenditure	874	1,219	1,517	2,026	2,143
Structural measures	55	--	236	4	--
Foreign-financed projects	1,816	1,650	1,377	1,411	1,900
Public enterprises	427	717	651	891	1,035
Overall balance	**-2,131**	**-2,172**	**-2,097**	**-3,218**	**-3,168**
Financing	**2,131**	**2,172**	**2,097**	**3,218**	**3,168**
External 3/	2,242	1,724	917	1,509	2,674
Central government	2,110	2,040	1,097	1,365	2,673
Budgeted expenditure	294	390	-280	-46	773
Foreign-financed projects	1,816	1,650	1,377	1,411	1,900
Public enterprises	132	-316	-181	144	–
Domestic 4/	-111	448	1,180	1,709	494
Central government	18	456	1,249	1,853	494
Of which					
Central bank	-38	687	1,090	1,800	750
Public enterprises	-129	-8	-69	-144	--
Of which					
Central bank	-126	1	–	-144	--
	(In percent of GDP)				
Central government current balance	1.0	0.9	1.1	0.3	0.9
Public enterprises current balance 2/	0.9	1.3	1.3	1.1	1.1
Public sector savings	1.9	2.2	2.3	1.4	2.0
Public sector investment	5.7	5.5	5.3	5.3	5.4
Overall balance	-3.8	-3.3	-2.9	-4.0	-3.4
Financing	3.8	3.3	2.9	4.0	3.4
External 3/	4.0	2.7	1.3	1.9	2.8
Domestic 4/	-0.2	0.7	1.6	2.1	0.5
Memorandum item:					
GDP (millions of gourdes)	55,969	65,032	71,979	81,001	94,069

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

1/ Staff-monitored program.
2/ Data provided by public enterprises. Cash basis.
3/ Grants and concessional loans.
4/ Includes changes in arrears.

Table 3. Haiti: Central Government Operations 1/

	Fiscal Year Ending September 30				
	1997	1998	1999	Est. 2000	Prog.2/ 2001
	(In percent of GDP)				
Total revenue	**8.6**	**8.3**	**8.7**	**7.8**	**8.5**
Current revenue	8.5	8.1	8.5	7.8	8.5
Internal	6.5	6.4	6.5	5.4	6.2
Customs	1.9	1.7	1.8	2.1	2.1
Transfers from public enterprises	0.1	0.2	0.3	0.0	0.0
Total expenditure	**9.1**	**9.1**	**9.5**	**9.7**	**9.4**
Current expenditure	7.8	7.2	7.4	7.2	7.1
Of which					
Wages and salaries	4.8	4.3	4.1	3.9	3.9
Interest	0.7	0.7	0.9	0.8	0.8
Operations	2.6	2.2	2.4	2.1	1.9
Capital expenditure 3/	1.3	1.9	2.1	2.5	2.3
Current account balance	**0.7**	**0.9**	**1.1**	**0.7**	**1.4**
Overall balance, excluding cost of reforms, and hurricane relief	**-0.5**	**-0.8**	**-0.7**	**-1.8**	**-0.9**
Cost of structural reforms	0.1	0.3	0.2	0.0	0.1
Cost of hurricane relief and reconstruction	0.0	0.0	0.3	0.0	0.0
Cost of elections	0.0	0.0	0.0	0.4	0.3
Overall balance, including cost of reforms, hurricane relief, and elections	**-0.6**	**-1.1**	**-1.3**	**-2.2**	**-1.3**
Financing	**0.6**	**1.1**	**1.3**	**2.2**	**1.3**
External (net)	0.5	0.6	-0.4	-0.1	0.8
Domestic 4/	0.0	0.5	1.7	2.3	0.5
Of which					
Central bank	-0.1	1.1	1.5	2.2	0.8
Memorandum items:					
Overall balance including grants	0.5	0.0	-1.2	-1.9	-0.8
Expenditures on education	1.9	2.1	1.8	1.8	1.8
Expenditures on health	0.7	0.6	0.7	0.6	0.7
Expenditures on justice	...	...	1.1	1.3	1.4

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

1/ Does not include expenditures on projects and technical assistance financed with concessional loans and grants.
2/ Staff-monitored program.
3/ May include outlays on goods and services and other current outlays.
4/ Includes changes in domestic arrears.

Table 4. Haiti: Summary Accounts of the Banking System

	Fiscal Year Ending September 30				
	1997	1998	1999	Est. 2000	Prog. 2001
	(In millions of gourdes)				
	I. Central Bank				
Net foreign assets 1/	**2,754**	**3,281**	**3,695**	**4,450**	**5,044**
(In millions of US$)	162	195	218	178	194
Net international reserves (program definition)	155	189	209	169	185
Commercial bank deposits	8	5	9	9	9
Net domestic assets	**600**	**235**	**294**	**550**	**688**
Credit to the nonfinancial public sector 2/	6,059	6,687	7,861	9,583	10,333
Liabilities to commercial banks	-4,188	-5,532	-7,029	-7,775	-8,638
Of which					
Cash-in-vault and reserve deposits	-3,105	-3,811	-3,764	-6,440	-6,634
BRH bonds	-954	-1,629	-3,105	-1,100	-1,769
Other	-1,271	-920	-538	-1,258	-1,007
Currency in circulation	**3,355**	**3,516**	**3,990**	**5,000**	**5,732**
	II. Consolidated Banking System				
Net foreign assets	**4,570**	**5,115**	**5,605**	**8,250**	**9,386**
(In millions of US$)	270	304	331	330	361
Net domestic assets	**11,844**	**13,709**	**16,552**	**20,750**	**24,126**
Credit to the nonfinancial public sector 2/	5,928	6,485	7,944	9,511	10,206
Credit to the private sector	7,880	9,124	9,946	12,481	14,533
In gourdes	6,180	6,455	6,135	6,881	8,449
In foreign currency	1,700	2,669	3,811	5,600	6,084
Other	-1,964	-1,900	-1,338	-1,242	-613
Broad money	**16,413**	**18,825**	**22,158**	**29,000**	**33,512**
Currency in circulation	3,355	3,516	3,990	5,000	5,732
Gourde deposits	9,514	10,816	12,443	14,000	16,008
Foreign currency deposits	3,544	4,492	5,725	10,000	11,772
	(Percentage change relative to broad money a year earlier)				
Net foreign assets	4.8	3.3	2.6	11.9	3.9
Net domestic assets	10.6	11.4	15.1	18.9	11.6
Credit to the nonfinancial public sector 2/	-1.9	3.4	7.7	7.1	2.4
Credit to the private sector	17.5	7.6	4.4	11.4	7.1
Memorandum items:					
Net international reserves					
In percent of currency in circulation	82.1	93.3	92.6	89.0	88.0
In percent of broad money	16.8	17.4	16.7	15.3	15.1
Interest rate on central bank bonds 3/	...	21.3	10.6	26.7	...
Percent in foreign currency					
Bank deposits	27.1	29.3	31.5	41.7	42.4
Credit to the private sector	21.6	29.3	38.3	44.9	41.9

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

1/ Includes commercial banks' foreign currency deposits. For program monitoring, they are excluded from net international reserves.
2/ Excludes special accounts.
3/ 91-day bonds, 2000 data as of end-August.

Table 5. Haiti: Balance of Payments

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

	Fiscal Year Ending September 30				
	1997	1998	1999	Est. 2000	Prog. 2001
Current account (deficit -) (excluding grants)	**-240.9**	**-235.7**	**-316.4**	**-294.4**	**-288.4**
Trade balance (deficit -)	-393.3	-383.5	-469.7	-498.8	-516.0
Exports, f.o.b.	195.5	284.3	351.9	351.2	395.0
Of which					
Assembly industry exports	135.4	211.2	261.0	261.0	304.0
Imports, f.o.b.	-588.8	-667.7	-821.6	-850.0	-911.0
Services (net)	-116.6	-148.5	-185.7	-182.1	-192.1
Income (net)	13.0	10.1	5.4	12.9	12.1
Of which					
Interest payments	-14.0	-12.9	-20.2	-13.8	-15.9
Private transfers (net) 1/	256.0	286.1	333.6	373.5	407.5
External grants 2/	**221.9**	**222.6**	**256.8**	**236.8**	**208.5**
Current account (deficit -) (including grants)	**-19.1**	**-13.1**	**-59.6**	**-57.6**	**-80.0**
Capital account (deficit -)	**46.1**	**45.4**	**83.1**	**17.6**	**96.0**
Public sector capital flows (net)	93.9	72.2	57.9	45.2	85.9
Loan disbursements	112.2	97.4	82.4	70.8	112.3
Amortization	-18.3	-25.2	-24.5	-25.7	-26.4
Banks (net)	15.9	-1.7	-3.9	-40.0	-25.0
Direct investment	5.0	10.8	30.0	8.0	20.0
Other 3/	-68.7	-35.8	-0.9	4.5	15.0
Overall balance (deficit -)	**27.1**	**32.3**	**23.5**	**-40.0**	**16.0**
Financing	**-27.1**	**-32.3**	**-23.5**	**40.0**	**-16.0**
Change in net international reserves (increase -)	-27.1	-32.3	-23.5	40.0	-16.0
Memorandum items:					
Current account balance, excluding grants (in percent of GDP)	-7.0	-6.1	-7.3	-7.1	-7.8
Current account balance, including grants (in percent of GDP)	-0.6	-0.3	-1.4	-1.4	-2.2
Exports (fob) growth (in percent)	32.3	45.4	23.8	-0.2	12.5
Import (fob) growth (in percent)	4.4	13.4	23.0	3.5	7.2
External debt as percent of exports 4/	353.4	250.7	224.1	230.8	225.4
Debt service as percent of exports 4/	11.1	8.6	8.6	7.5	7.4
Net international reserves (US$ million)	162.5	194.7	218.1	178.1	194.1
Net international reserves (in months of imports of goods and services) 5/	2.4	2.4	2.2	1.8	1.8

Sources: Bank of the Republic of Haiti, 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/ Exports of goods and nonfactor services

5/ Haiti has no official short-term debt; thus the ratio of short-term debt to reserves is nil.

Table 6. Haiti: Summary Indicators of Commercial Banking Sector

(In percent unless otherwise indicated)

	Fiscal Year Ending September 30			Dec.	1999				2000	
	1997	1998 1/	1999	1998	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Capital										
Capital, reserves, undistributed profits/total assets	5.4	5.7	5.2	6.1	5.9	5.2	5.2	5.1	4.9	4.9
Capital/risk-weighted assets (capital adequacy ratio)	...	...	9.4	...	...	...	9.4	10.6	11.9	11.1
Nonperforming Loans										
Nonperforming loans/total loans	4.9	8.6	7.9	8.1	7.9	8.8	7.9	8.6	7.9	8.7
excluding BNC	3.2	6.7	6.5	6.5	6.1	7.9	6.5	6.7	6.3	7.1
Provisions/nonperforming loans	79.5	56.2	62.3	57.0	58.6	54.2	62.3	57.2	50.0	53.9
Nonperforming loans/capital, reserves, undistributed profits	8.5	30.3	24.7	26.5	24.9	31.1	24.7	30.6	40.7	33.3
excluding BNC	1.8	27.5	21.3	25.3	21.9	24.7	21.3	22.5	22.5	28.6
Profitability										
Return on assets (in percent)	1.4	0.6	1.0	0.3	0.8	1.1	1.7	1.1	1.7	1.7
excluding BNC	1.4	1.1	0.9	0.7	1.0	1.1	0.4	1.3	1.0	1.3
Return on equity (in percent)	28.1	10.1	18.5	5.7	13.5	19.1	33.1	21.5	34.9	33.8
Net interest income/gross interest income	59.3	55.8	60.2	51.7	56.9	63.9	66.9	64.0	61.5	59.9
Operating costs/net interest and noninterest income	75.5	78.4	77.2	87.1	80.2	73.9	73.2	78.3	69.8	73.4
excluding BNC	74.9	75.9	77.8	82.4	77.6	70.3	77.8	73.9	70.3	76.5
Net income/employee	634.4	594.6	606.5	565.3	561.9	597.3	784.5	667.1	756.9	757.7
Number of branches	68	82	99	86	90	95	99	105	110	112
Number of employees	2,234	2,591	2,659	2,591	2,670	2,654	2,659	2,712	2,799	2,880
Liquidity										
Total Loans/Total Deposits 2/	58.6	57.3	53.8	58.2	56.9	54.7	53.8	53.1	53.1	50.8
Foreign Currency Loans/Foreign Currency Deposits	48.0	59.4	66.6	58.8	62.1	65.0	66.6	59.7	58.8	56.2
Foreign Currency Loans/Total Loans	21.6	29.3	38.3	29.9	32.9	35.4	38.3	37.3	38.9	40.8
Foreign Currency Deposits/Total Deposits	27.1	29.3	31.5	30.5	31.3	30.8	31.5	33.7	35.8	37.6
Intermediation										
Private Sector Bank Deposits/Broad Money	79.6	81.3	82.0	81.4	81.4	82.1	82.0	79.7	81.9	82.5
Private Sector Credit/GDP	11.9	13.1	13.2	...	...	...	...	...	...	...

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

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

2/ Denominated in gourdes and in foreign exchange.

Table 7. Haiti: Social Indicators 1/ 2/

(In percent)

	1980		1985		1990		1995		1998	
	Haiti	Low-Income Countries	Haiti	Low-Income Countries	Haiti	Low-Income Countries	Haiti	Low-Income Countries	Haiti	Low-Income Countries
Illiteracy rate 3/	69.4	47.3	64.9	41.9	60.3	37.3	55.2	33.4	52.2	31.3
Primary school enrollment 4/	...	94.3	52.9	101.8	47.8	102.6	51.4	104.9	64.0	106.9
Secondary school enrollment 4/	13.5	33.6	28.1	34.8	20.9	40.1	12.8	52.8	15.0	55.9
Life expectancy at birth (years)	51.0	59.1	52.6	60.7	53.1	61.5	53.7	63.0	53.6	63.1
Infant mortality rate (per 1,000 live births) 5/	122.8	97.2	101.0	82.1	85.4	74.4	71.1	68.5	70.5	67.6
Percent of population with access to										
Safe water 6/	...	...	38.0	...	42.0	...	39.0	...	43.0	70.0
Sanitation 6/	...	...	19.0	...	22.0	...	26.0	...	27.0	33.0
Immunization rates 7/										
BCG	...	...	66.8	...	...	...	73.0	...	71.0	...
DPT3	...	...	21.7	44.1	...	82.7	41.0	80.2	42.9	81.6
Polio	...	...	22.7	...	...	...	41.0	...	42.9	...
Measles	...	...	25.8	34.7	...	81.0	48.0	78.3	53.9	80.4

Source: World Development Indicators, 2000, World Bank, unless otherwise indicated.

1/ Low income countries comprise 38 countries in sub-Saharan Africa, 15 in Asia (including China and India), 6 in Europe and Central Asia, 1 in the Middle East and North Africa, and 3 in Western Hemisphere.

2/ In some cases, data are not available for the year indicated. In those cases, the reported data refers to a range of +/- 2 years around the year indicated.

3/ Percentage of population age 15 and above.

4/ The source for the data on Haiti is Annuaire Statistique des Ecoles Fondamentales et Secondaires d' Haiti.

5/ Number of infants who die before reaching one year of age, per 1,000 live births.

6/ The source for 1998 data: Pan American Health Organization, Improving the Health of the Peoples of the America, 1998, and UNDP, World Development Report, 2000.

7/ Children age 12-23 months for Haiti. The source for Haiti data: Survey on Mortality, Morbidity and Utilization of Services, Institut Haitien de l'Enfance, 1987, 1994/1995, and 2000. For the low-income country average, immunization rate measures the rate of vaccination coverage of children under one year of age.

Table 8. Haiti: Low Growth Medium-Term Scenario

	1998	1999	Est. 2000	Projections 2001	2002	2003	2004	2005
	(Annual percentage rate)							
Real sector								
Real GDP growth	3.1	2.2	1.2	2.5	2.0	2.0	2.0	2.0
Inflation (CPI end-of-period)	8.3	9.9	12.6	12.0	12.3	13.3	14.4	14.8
	(In percent of GDP)							
Savings and investment								
Gross investment	10.4	11.0	10.7	11.1	10.3	10.1	10.1	10.0
Public	5.5	5.3	5.3	5.4	4.7	4.6	4.6	4.5
Private	4.9	5.7	5.4	5.7	5.6	5.5	5.5	5.5
Domestic saving	4.3	3.7	3.6	3.3	2.9	3.1	3.2	3.2
Public	1.9	2.6	1.8	2.5	1.7	1.7	1.8	1.9
Private	2.3	1.0	1.8	0.8	1.2	1.3	1.5	1.3
External savings	6.1	7.3	7.1	7.8	7.4	7.1	6.9	6.8
Fiscal sector								
Overall public sector balance 1/	-3.8	-3.2	-4.0	-3.4	-3.1	-3.0	-2.9	-2.6
Of which								
Central government revenue	8.3	8.7	7.8	8.5	8.5	8.6	8.5	8.5
Central government expenditure 2/	9.6	10.1	10.1	9.9	9.5	9.6	9.6	9.6
Total public sector debt	38.9	38.2	41.2	46.2	45.5	45.4	44.9	44.2
	(Growth in percent of broad money at the beginning of the period)							
Monetary sector								
Credit to the nonfinancial public sector	3.4	7.7	7.1	2.9	3.7	3.8	3.7	3.4
Credit to the private sector	7.6	4.4	11.4	6.6	5.7	6.8	7.6	6.6
	(In percent of GDP)							
External sector								
Exports	7.4	8.2	8.5	10.7	11.1	11.9	12.5	13.2
Imports	-17.4	-19.1	-20.6	-24.7	-25.0	-25.4	-26.0	-26.4
Private transfers	7.5	7.7	9.1	11.0	11.0	11.1	11.2	11.3
Current account balance	-6.1	-7.3	-7.1	-7.8	-7.4	-7.1	-6.9	-6.8
External grants	5.8	6.0	5.8	5.7	5.4	5.3	5.3	5.3
Foreign direct investment	0.3	0.7	0.2	0.5	0.5	0.4	0.4	0.4
Official capital flows	1.9	1.3	1.1	2.3	1.4	1.2	1.2	1.1
Overall balance of payments	0.8	0.5	-1.0	0.4	-0.1	-0.2	-0.1	-0.1
External public sector debt	28.9	27.1	29.5	35.2	34.7	34.9	34.7	34.5
(in percent of exports of goods and services)	251.5	224.8	231.4	226.0	205.1	199.9	191.2	183.9
Net international reserves								
(in millions of U.S. dollars)	194.7	218.1	178.1	194.1	191.1	184.8	178.9	175.3
(in months of imports of goods and services)	2.4	2.2	1.8	1.8	1.6	1.5	1.4	1.3

Sources: Haitian authorities; and Fund staff estimates.

1/ Includes public enterprises and foreign-financed projects and technical assistance.
2/ Includes expenditure for structural measures, hurricane relief, and elections.

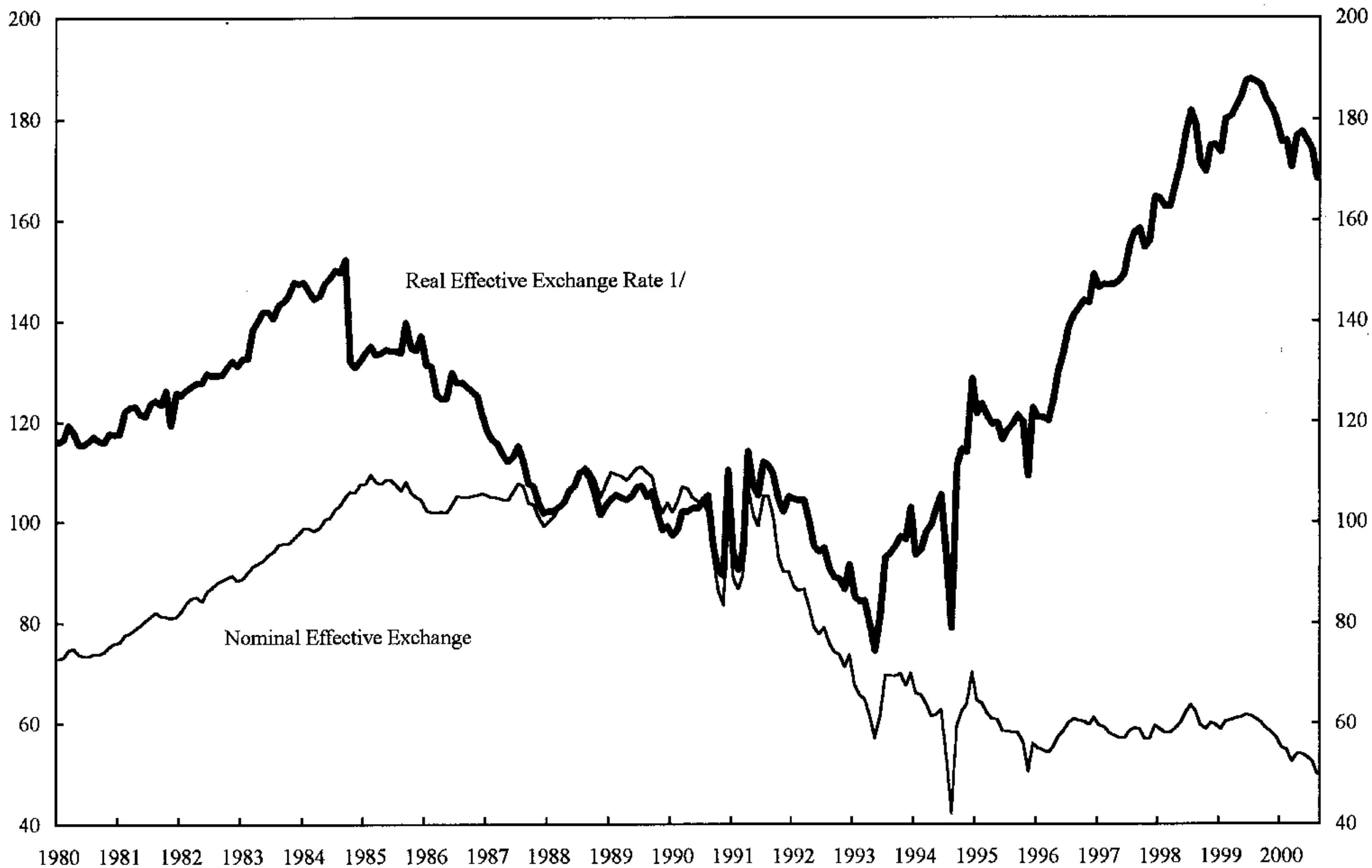
Table 9. Haiti: High Growth Medium-Term Scenario

			Est.	Projections				
	1998	1999	2000	2001	2002	2003	2004	2005
	(Annual percentage rate)							
Real sector								
Real GDP growth	3.1	2.2	1.2	2.5	4.5	5.0	5.0	5.0
Inflation (CPI end-of-period)	8.3	9.9	12.6	12.0	8.0	6.0	4.0	3.5
	(In percent of GDP)							
Savings and investment								
Gross investment	10.4	11.0	10.7	11.1	12.7	14.3	15.1	15.4
Public	5.5	5.3	5.3	5.4	6.1	6.2	6.2	6.2
Private	4.9	5.7	5.4	5.7	6.6	8.1	8.9	9.2
Domestic saving	4.3	3.7	3.6	3.3	4.2	6.2	7.6	8.3
Public	1.9	2.6	1.8	2.5	2.5	2.9	3.6	3.9
Private	2.3	1.0	1.8	0.8	1.8	3.3	4.0	4.4
External savings	6.1	7.3	7.1	7.8	8.5	8.0	7.5	7.1
Fiscal sector								
Overall public sector balance 1/	-3.8	-3.2	-4.0	-3.4	-4.0	-3.6	-2.9	-2.6
Of which								
Central government revenue	8.3	8.7	7.8	8.5	9.2	10.2	11.0	11.3
Central government expenditure 2/	9.6	10.1	10.1	9.9	10.2	11.0	11.3	11.5
Total public sector debt	38.9	38.2	41.2	46.2	44.5	42.9	41.6	40.5
	(Growth in percent of broad money at the beginning of the period)							
Monetary sector								
Credit to the nonfinancial public sector	3.4	7.7	7.1	2.9	1.7	1.3	0.2	0.1
Credit to the private sector	7.6	4.4	11.4	6.6	9.0	8.6	8.8	8.8
	(In percent of GDP)							
External sector								
Exports	7.4	8.2	8.5	10.7	11.1	11.6	12.4	13.5
Imports	-17.4	-19.1	-20.6	-24.7	-25.0	-25.2	-25.6	-25.9
Private transfers	7.5	7.7	9.1	11.0	10.8	10.5	10.4	10.1
Current account balance	-6.1	-7.3	-7.1	-7.8	-8.5	-8.0	-7.5	-7.1
External grants	5.8	6.0	5.8	5.7	6.0	5.8	5.4	5.3
Foreign direct investment	0.3	0.7	0.2	0.5	0.6	0.8	0.8	0.8
Official capital flows	1.9	1.3	1.1	2.3	3.1	2.9	2.6	2.3
Overall balance of payments	0.8	0.5	-1.0	0.4	1.0	1.2	1.1	1.1
External public sector debt	28.9	27.1	29.5	35.2	34.4	33.5	33.0	32.6
(in percent of exports of goods and services)	251.5	224.8	231.4	226.0	214.2	199.4	186.9	176.0
Net international reserves								
(in millions of U.S. dollars)	194.7	218.1	178.1	194.1	234.1	292.1	350.4	413.4
(in months of imports of goods and services)	2.4	2.2	1.8	1.8	1.9	2.1	2.3	2.4

Sources: Haitian authorities; and Fund staff estimates.

1/ Includes public enterprises and foreign-financed projects and technical assistance.
2/ Includes expenditure for structural measures, hurricane relief, and elections.

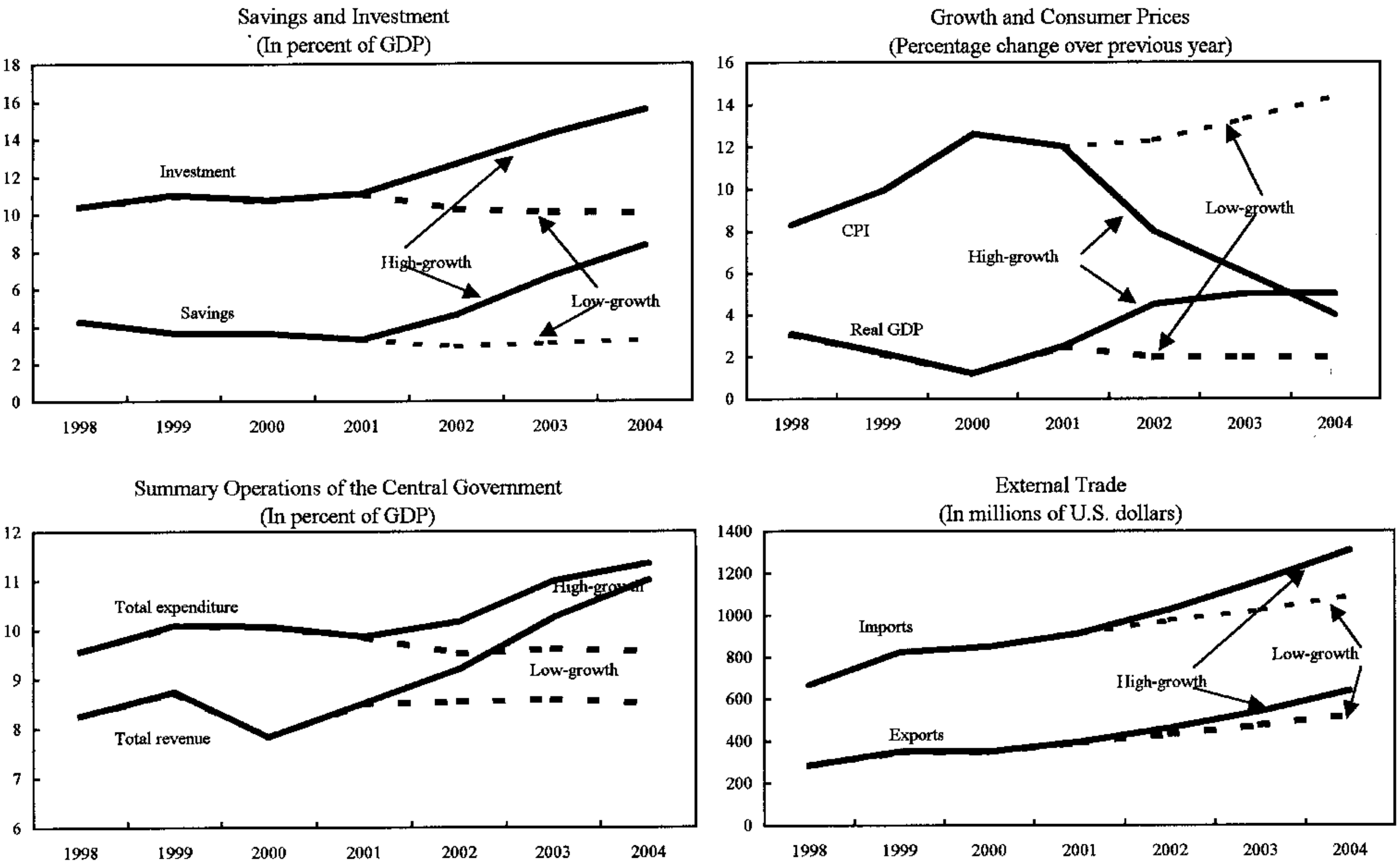
Figure 1. Haiti: Exchange Rate Developments
(Index 1990=100)



Source: IMF Information Notice System.

1/ The real effective exchange rate estimated as a trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices. An increase means an appreciation.

Figure 2. Haiti: Medium-Term Scenarios, 1998-2004 1/



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

1/ Fiscal years ending September 30. Estimate for 2000, SMP for 2001.

Haiti: Fund Relations
(As of September 30, 2000)

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

II.	**General resources account**	**SDR Million**	**Percent of Quota**
	Quota	60.70	100.0
	Fund holdings of currency	75.83	124.9
	Reserve position in Fund	0.05	0.1

III.	**SDR department:**	**SDR Million**	**Percent of Allocation**
	Net cumulative allocation	13.70	100.0
	Holdings	0.07	0.5

IV.	**Outstanding purchases and loans:**	**SDR Million**	**Percent of Quota**
	ESAF arrangements	15.18	25.0
	First Credit Tranche	15.18	25.0

V. **Financial arrangements**:

Type of Arrangement	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
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):

	Overdue		**Forthcoming**			
	09/30/00	**2000**	**2001**	**2002**	**2003**	**2004**
Principal	0.0	0.0	0.0	10.6	10.6	3.0
Charges/interest	0.0	0.4	1.6	1.4	1.0	0.7
Total	**0.0**	**0.4**	**1.6**	**12.0**	**11.6**	**3.7**

VII. **Exchange rate**: 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. **Consultation with the Executive Board**: The last Article IV consultation was concluded by the Executive Board on September 3, 1999. Haiti is on the standard 12-month cycle.

IX. **Resident representative**: Mr. Verreydt completed his assignment as resident representative in October 2000. The appointment of a new resident representative is pending.

X. **Technical assistance**: A long-term macroeconomic advisor has been working in the president's office since 1999.
Technical assistance missions since 1997:

Department	Dates	Purpose
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; June-July 1999; October 2000	Banking supervision
	June 1999	Central bank organization
	January 2000	Dollarization and policy response
STA	January 1996–October 1997; June 1996; July 1996; February 1999; March 2000	Real sector statistics
	February 1997; March 1998; August 1998	Money and banking statistics
	November 1996; March 2000	Balance of payments statistics
LEG	March, June, and September 2000	Banking and central bank laws

Haiti: Relations with the World Bank Group

(As of September 30, 2000; in millions of U.S. dollars)

	Commitments (Net of Cancellations)	Disburse-ments	Undis-bursed Amount
A. IBRD and IDA Operations (from FY 1995 to date)			
Total	243.08	217.64	24.79
First health project	28.20	27.12	3.36
Road maintenance and rehabilitation 1/	41.84	23.39	15.76
Forest and parks TA	21.50	14.42	5.66
Industrial restructuring	8.43	9.62	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 2/	0.00	0.00	0.00

B. IFC Operations

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

C. IBRD and IDA Loan Transactions 3/

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/ Original credit principal was US$50 million, but US$8.16 million was cancelled on January 28, 1999.

2/ 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.

3/ 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 September 30, 2000. All amounts in millions of U.S. dollars)

	Commitment	Disbursements 1995-96	1997	1998	1999	2000	Total
Reformulated projects							
Irrigation Artibonite	4.80	2.00	2.83	0.00	0.00	0.00	4.83
Porcine Project	10.90	2.00	1.20	1.70	1.63	0.90	7.43
Primary Education	3.60	3.59	0.02	0.00	0.00	0.00	3.61
Cul de Sac Irrigation	0.60	0.58	0.00	0.00	0.00	0.00	0.58
Rural Potable Water	4.40	3.29	0.70	0.20	0.00	0.00	4.19
Irrigation L'Asile	1.70	0.87	0.87	0.00	0.00	0.00	1.74
PAP Drainage Project	37.80	16.39	8.64	5.25	2.47	3.24	35.99
Pond Sondé-Mirabelais	44.50	8.33	4.97	12.76	11.24	5.68	42.98
Irrigation Artibonite II	11.50	0.69	1.20	2.86	2.37	3.14	10.26
Economic and Social Assistance Fund	12.40	10.53	1.63	0.03	0.21	0.00	12.40
Subtotal	**132.20**	**48.27**	**22.06**	**22.80**	**17.92**	**12.96**	**124.01**
New Projects							
1995							
Emergency Economic Recovery Program (PURE I) Sector Loan	40.00	40.00	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	28.49
National Road Rehabilitation Program	45.00	3.35	9.54	12.19	12.78	2.65	40.51
Primary Education	17.60	1.80	4.78	7.32	3.06	0.52	17.48
PURE II	50.00	0.00	5.25	9.19	15.67	9.84	39.95
Subtotal	**181.10**	**68.67**	**24.04**	**28.71**	**31.56**	**13.45**	**166.43**
1996							
Decentralization Technical Cooperation Loan	3.00	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	2.29	24.03
Investment Sector Loan (ISL) 1/	50.00	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	0.02	0.43
Subtotal	**82.50**	**0.00**	**3.58**	**11.28**	**7.29**	**2.31**	**24.46**
1997							
Rural and Secondary Roads 1/	50.00	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal	**50.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
1998 2/							
Health Sector Reorganization	22.50	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
Primary Education Program	19.40	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal	**95.90**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Total	**541.70**	**116.94**	**49.68**	**62.79**	**56.77**	**28.72**	**314.90**

Source: Inter-American Development Bank.

1/ Presented to, but not approved by, the Haitian Parliament.

2/ The 1998 loan projects have not been presented to the Haitian Parliament.

Haiti—Statistical Issues

Real sector: The Haitian Institute of Statistics is publishing a harmonized CPI, as recommended and facilitated by Fund technical assistance. It has made progress in implementing recommendations made by several Fund technical assistance missions to improve the quality of real sector statistics. Following the recommendations of the March 2000 STA real sector statistics mission, the national accounts staff completed GDP estimates for the period 1986/87–1997/98 using the new compilation methodology and 1986/87 as an interim base year for estimates at constant prices. The March 2000 STA mission also recommended that work start to establish a new base year for national accounts, possibly 1999/2000. 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*. However, GFS data for publication in the *GFS Yearbook* has not been reported since 1987. The multisector mission made recommendations for the establishment of a system of compilation and reporting of GFS data to the Fund; however, little progress has been made in this area due, in particular, to the lack of 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 slow in improving the reliability of balance of payments reporting. The March 2000 technical assistance mission, following up on 1996 recommendations which focussed on strengthening the International Economic Services (SEI) of the BRH, found that weaknesses in quality were numerous and that resource constraints and reluctance to report made the collection of consistent and timely information difficult. An enterprise survey questionnaire was abandoned. Recommendations covered the need to improve trade and services by making more systematic use of existing sources for data, such as customs, port and airport agencies, airlines, and oil companies, and seeking advice in examining the methodology for compiling trade data. The mission noted that the international investment position was of good quality.

Haiti: Core Statistical Indicators
(As of October 19, 2000)

	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	9/30/00	8/31/00	8/31/00	8/31/00	8/31/000	8/31/00	8/00	06/00	1998/99 (Oct.-Sep.)	8/00	1998/99 (Oct.-Sep.)	8/00
Date Received	9/30/00	10/19/00	10/12/00	10/12/00	10/19/00	10/12/00	10/16/00	10/16/00	6/14/00	10/18/00	6/14/00	9/22/00
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.

Port-au-Prince, Haiti
November 7, 2000

Mr. Horst Köhler
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431
USA

Dear Mr. Köhler:

1. During FY 1999/2000 (year ending September 30) the Haitian economy suffered from the effects of a political crisis that contributed to a slowdown in external assistance and economic growth. After several delays, parliamentary and municipal elections were carried out in May and July (second round), and the new parliament took office in August 2000. The presidential election is scheduled for November 26, 2000.

2. During the pre-electoral period, government spending increased significantly, while fiscal revenue declined in relation to GDP, because of the sharp increase in the world price of oil, and resulting decline in excise taxes on gasoline, diesel, and kerosene. Despite a considerable tightening of monetary policy, the gourde depreciated with respect to the U.S. dollar, inflation rose, and official reserves declined.

3. The government is committed to re-establishing macroeconomic stability during FY 2000/01 and to restoring inflation to a downward path. The attached memorandum of economic and financial policies, tables, and technical memorandum of understanding present the government's macroeconomic objectives and policies as well as structural measures to be carried out during FY 2000/01. In support of these objectives, the government requests that IMF staff monitor and follow up execution of its program.

4. The government will communicate to the IMF all the information needed to monitor its progress in implementing its economic and financial policies and the measures required to achieve the program objectives. The authorities intend to review with IMF staff the progress made in implementing the program in February, May, and August 2001.

5. Following the presidential election and the installation of a new cabinet, the government intends to initiate discussions with IMF staff later in the fiscal year for an economic program that could be supported by a three-year arrangement under the Poverty Reduction and Growth Facility.

Sincerely yours,

/s/	/s/
Fred Joseph Minister of Economy and Finance Haiti	Fritz Jean Governor Bank of the Republic of Haiti

Attachments

Haiti—Memorandum of Economic and Financial Policies for FY 2000/01

I. Economic Performance in FY 1999/2000

1. During FY 1999/2000 the Haitian economy suffered from the effects of a political crisis that has contributed to a slowdown in external assistance and economic growth. The first round of parliamentary and municipal elections was carried out on May 21, 2000, with a high voter participation rate of 55–60 percent of those registered. The second round of elections to decide those posts not won by a majority in the first round took place in July, and the new parliament was sworn into office on August 28, 2000. The presidential election is scheduled for November 26, 2000 along with election of eight senators.

2. Economic performance weakened during FY 1999/2000 in the run-up to the elections. The fiscal deficit increased and, with limited external support, was financed entirely by an expansion of domestic credit. The increase in the fiscal deficit, continuing political uncertainties, and the increase in the world price of oil (Haiti imports all of its petroleum products) led to pressures on the exchange rate, domestic prices and official reserves. To combat these pressures, the central bank tightened monetary policy, and interest rates rose markedly. Investment declined, and economic growth is estimated to have decelerated to 1.2 percent (2.2 percent in FY 1998/99).

3. The central government deficit increased to 2.2 percent of GDP in FY 1999/2000, compared with 1.3 percent of GDP in FY 1998/99. Government revenue declined by almost 1 percent of GDP to 7.8 percent of GDP, mainly reflecting the sharp increase in the world price of oil and the depreciation of the gourde, and the resulting decline in excise tax collections on gasoline, diesel and kerosene. Domestic prices for petroleum products were raised in September 2000 to stem the drain on fiscal revenue. Non-oil tax revenue performed well as a result of successful efforts to improve tax administration, and customs revenue also increased owing to the depreciation of the gourde. Direct income tax revenue increased due to the expansion of the tax base, as self-employed professionals were required to submit income tax returns for the first time, while efforts to increase tax revenue from the provinces led to modest revenue increases. Total spending rose slightly, mostly on account of an increase in capital spending including on special public works projects intended to help create a favorable environment for the elections. This included increased spending on roads, construction of schools, and improving transport services. The wage bill declined slightly to 3.9 percent of GDP, with no general wage increase during the year.

4. The central bank sought to slow the depreciation of the gourde by tightening monetary policy and by intervening in the foreign exchange market by about US$32 million during FY 1999/2000, including US$16 million in direct sales of dollars to oil importers. Nevertheless, the gourde depreciated by 32 percent with respect to the U.S. dollar from end-September 1999 to mid-September 2000. Inflation rose only moderately because of the sharp tightening of monetary policy and weakening economic activity. Twelve-month inflation (CPI) rose from 9.9 percent in September 1999 to 12.5 percent in August 2000. Net official reserves are estimated to have declined by about US$40 million during FY 1999/2000 to US$170 million or 1.8 months of imports of goods and services (15 percent of broad money).

5. The central bank tightened monetary policy throughout the year, raising interest rates on its 91-day bonds from about 11 percent in September 1999 to 23 percent in April 2000 and 27 percent in September 2000. In addition, the central bank raised the reserve requirement on gourde deposits from 26.5 percent to 28 percent in April 2000 and 31 percent in September 2000. It also raised the reserve requirement on U.S.-dollar denominated deposits from 12.5 percent in November 1999 to 17 percent in April 2000 and to 21 percent in September 2000.

6. The external current account deficit of the balance of payments (before grants) is estimated to have declined slightly in FY 1999/2000 to US$295 million (7.1 percent of GDP), despite a doubling in the cost of petroleum product imports to US$137 million. Non-oil imports in U.S. dollar terms declined owing to the slowdown in the economy. Export growth (three-quarters of exports come from the light assembly sector) slowed significantly on account of orders being held up because of the political situation, fears by buyers about the reliability of shipments, and a slowdown in sales to the United States. The capital account surplus declined by about US$65 million to a level of US$17 million as a result of an increase in banking sector deposits abroad, a decline in direct investment, and lower project loan disbursements to the public sector.

7. In the financial sector, the central bank's supervisory capacity and the regulatory framework continued to be strengthened. Six additional specialized staff were assigned to the banking supervision department, and general inspection of four banks was carried out during FY 1999/2000, as well as specific evaluations of assets and verification of the quality of capital in several other banks. The minimum capital to risk-weighted assets ratio was raised as planned, from 8 percent to 10 percent effective September 30, 2000, and all but one private bank had met the requirement as of that date. However, some private commercial banks experienced an increase in their nonperforming loans to total loans ratio as a result of the increase in interest rates and the depreciation of the gourde, and, for the banking system as a whole, the capital to risk-weighted assets ratio declined from 11.9 percent in March 2000 to 11.1 percent in June 2000. The central bank has also revised prudential regulations concerning risk concentration ratios for lending to related and to nonrelated borrowers.

8. In July 1999, the central bank, concerned by the growth of U.S. dollar-denominated loans relative to dollar-denominated deposits, suggested in a letter to commercial banks to reduce the ratio of their U.S. dollar loans to U.S. dollar deposits to no more than 50 percent. In practice, lending in dollars was already slowing, while deposits in dollars continued to increase, owing to the depreciation of the gourde; the ratio of dollar loans to dollar deposits declined from 67 percent in September 1999 to 57 percent in July 2000. The banking supervision department issued a regulation in September 2000 requiring that all banks meet a limit of 50 percent in the ratio of nonguaranteed dollar loans to dollar liabilities by January 1, 2001.

9. Progress was made in the restructuring of the troubled state-owned bank, Banque Nationale de Credit (BNC). Downsizing of the bank's employment by about half (224 employees) was completed in June 2000, with associated severance benefits of about G 70 million (0.1 percent of GDP), and one branch office was closed in June 2000. The bank's capitalization and operating results improved mainly as a result of the placement of government

bonds in exchange for nonperforming loans of BNC that had been guaranteed by the government, and receipts of about G 70 million from asset recovery.

10. The government continues to fully support international efforts against money laundering and trafficking in drugs, and has taken significant additional preventive steps since July 2000. The ministry of justice has prepared draft laws against money laundering (which, inter alia makes money laundering a crime subject to incarceration and/or fines), and trafficking in drugs, respectively. Central bank officials have consulted with staff of the International Monetary Fund, the United States Treasury, and the Caribbean Financial Action Task Force (CFATF) concerning best practices and measures in preventing money laundering. The government of the Republic of Haiti has formally requested to become a member of CFATF. The central bank has also developed and promulgated new reporting forms to strengthen the "know-your-customer" provisions for deposits. A special anti-money laundering unit has been established at the justice ministry, which will use electronic data processing to scrutinize the declarations of banks about the origin of funds.

11. Improvements were made in tax administration during FY 1999/2000. Direct income taxes were collected from self-employed professionals and all candidates for the recent elections were required to submit income tax returns. The large-taxpayer unit carried out 66 on-site audits during the year and has begun to audit oil importers and commercial banks. Emphasis was also placed on improving revenue collection from the provinces, and tax inspectors were assigned to provincial offices.

12. The increase in the world price of oil and the depreciation of the gourde made it essential to raise domestic prices of gasoline, diesel, and kerosene, which had not been changed since 1996. The government raised prices of these products by an average of about 45 percent in early September 2000. Pricing of these products will be adjusted regularly in line with the changes in the gourde-converted landed cost, whenever this cost changes on a cumulative basis by more than five percent, and with a maximum delay of six weeks. The price of liquid gas will remain freely determined in the market.

II. Program for FY 2000/01

13. The government is committed to reducing the fiscal deficit in FY 2000/01 so as to eliminate pressure on the exchange rate and to restore inflation to a downward path by the second half of the year. Monetary policy will be kept tight until the reduction in the fiscal deficit begins to take hold. The program aims to contain 12-month inflation in a range from 12 percent to 14 percent in September 2001, and to achieve an increase in official net international reserves of US$16 million. The program assumes a modest rebound in real GDP growth to about 2.5 percent during the year, reflecting some return of confidence and increase in investment following the presidential elections. At the same time the government will continue with structural reforms, including in the financial sector, in improving public expenditure management, in strengthening tax revenue, in restructuring public enterprises, and in health, education, and justice.

14. The fiscal program aims at reducing the central government budget deficit (including spending for the presidential and senate elections and severance payments to workers at the port) to 1.3 percent of GDP in FY 2000/01. Financing by the central bank to the central government would be reduced to about 0.8 percent of GDP, compared with 2.2 percent of GDP in FY 1999/2000. The government intends to eliminate the stock of domestic arrears (which amounted to about 0.3 percent of GDP as of October 1, 2000) during the course of the year by cash payments and the issuance of bonds to the private sector. Net external financing is projected at 0.8 percent of GDP, including US$30 million in concessional loans from a special oil facility agreed with the government of Venezuela. Given the already low level of public revenue and the need to at least maintain government spending by the ministries of education, justice, and health, the fiscal program will target a recovery in central government revenue by 0.7 percent of GDP in FY 2000/01. Most of this increase would come from the full-year effects of the increase in petroleum product prices in September 2000 and the maintenance of the system for regular adjustments of these prices whenever cumulative economic costs change by at least five percent. Customs and sales tax revenue are also projected to increase as a result of the depreciation of the gourde.

15. The program envisages continued implementation of the cash management and monthly budget allocation system so as to limit monthly government outlays to monthly revenue collections, realized external financing, and programmed financing from the central bank. The program incorporates monthly interest payments of G 25 million by the government on its debt to the central bank. A protocol formalizing these arrangements for FY 2000/01 was signed by the Ministry of Economy and Finance and the Bank of the Republic of Haiti on September 20, 2000. The program incorporates hiring of 300 police officers and magistrates to improve security; there will be no other increase in the number of civil servants. The government will abstain from granting wage increases in FY 2000/01 in order to keep the wage bill under control. Steps will be taken to reduce the use of the ministerial discretionary accounts ("comptes courants"), including returning to the Treasury all unused non-project and inactive project current account balances by November 2000. For this purpose, the central bank and the ministry of finance will classify existing current accounts into categories to separate operational from inactive current accounts and project from ministerial or other current accounts.

16. The program is particularly sensitive to the price of oil, over which Haiti has no control. In the event the world price of oil (West Texas Intermediate) rises above US$35 a barrel on average for more than three consecutive months, the government will request a consultation with Fund staff to discuss the appropriate measures and to agree on adjustments to the quantitative benchmarks of the program.

17. The program envisages that the deficit of the combined nonfinancial public sector will be limited to 3.4 percent of GDP in FY 2000/01. The public enterprises are expected to restrain their capital spending so as to refrain from using domestic financing, as was the case in FY 1999/2000. It is expected that about US$73 million of project loans will be disbursed in FY 2000/01, mostly for road rehabilitation and the social investment fund.

18. The government intends to maintain the floating exchange regime. In this context, monetary and credit policies will be set in line with the program's inflation and reserves objectives during FY 2000/01. Accordingly, and consistent with the program's performance indicators on the central bank's net domestic assets and net international reserves, liquidity will be controlled mainly through required reserves and the placement of central bank bonds at market rates of interest. Assuming that government financing needs ease in line with the fiscal program, interest rates and required reserves ratios could decline from present levels later in 2001.

19. The current account deficit (before grants) of the balance of payments is projected to remain at about US$290 million in FY 2000/01, but would increase to 7.8 percent of GDP because of the depreciation of the gourde. Exports are projected to increase by 13 percent, based on recent agreement by the United States and Central American and Caribbean countries on textiles and clothing quota increases. Imports and investment would pick up with economic recovery. Imports of petroleum are projected to increase in U.S. dollar terms by about 13 percent, assuming an increase in the average world price relevant for Haiti of about 10 percent. The capital account surplus would improve to about US$95 million, mostly from public loan disbursements, including US$30 million from the special loan facility for oil imports under the San José agreement.

20. The program envisages the further strengthening of the financial sector through: continued general inspection of banks on a rotating basis; the application of penalties for nonobservance of the new prudential regulations on loan concentration and on dollar-denominated loans to total liabilities; and improvements in offsite assessments of banks. The restructuring committee for BNC will complete the first stage of its work by December 2000 and the Commission for the Modernization of Public Enterprises (CMEP) will prepare a plan for its privatization by March 2001. Also, an action plan will be prepared to restructure the other government-owned commercial bank, BPH, and an actuarial audit of pension liabilities at the Central Bank, BNC, and BPH will be carried out by June 2001. Legislation to modernize the banking system and bring the system into conformity with international standards will be presented to parliament by March 2001. This will include a new banking law which will, inter alia, make other financial institutions such as credit unions and exchange bureaus subject to the prudential regulations applying to the commercial banks; and a new organic law of the central bank to give it independence in the conduct of monetary policy.

21. Virtually all of the technical work has been completed toward the modernization/privatization of the main public enterprises (the electricity, telephone, and water companies, port, and airport), with assistance from the World Bank, the Inter-American Development Bank, and USAID. However, carrying out the final steps toward privatization has been delayed, mainly because the government does not expect that privatization (either through management contract or sale of shares through capitalization) can be carried out successfully under present political circumstances. Progress is most advanced toward privatization of the port, where the administration of port facilities has been separated from the port authority, the latter being temporarily responsible for large excess employment. The government intends to issue an invitation to bid for management of the port by November 2000. Downsizing of redundant workers at the port authority will be completed by June 2001, with severance

payments of about 0.1 percent of GDP, as provided in the fiscal program. The government will submit a draft regulatory framework for the telecommunications sector to parliament by November 2000.

22. The government will strengthen its efforts to improve the delivery of services in the areas of justice, education and health. To this end, the program for FY 2000/01 provides for increases in spending on health and justice and for maintaining spending on education relative to GDP. Actions in justice will include securing parliamentary approval of the anti-money-laundering and anti-drug-trafficking legislation that have already been prepared in draft form. The special anti-money-laundering unit will become fully operational. In addition, continued efforts will be undertaken to reduce the maximum length between imprisonment and trial to six months and to provide for regular visits to prisons by special *commissaires du gouvernment*. In education, the government will seek to obtain parliamentary approval for legislation to set the standards for public subsidies to private schools and for licensing private schools. In health, as part of the government's agreement with the European Union in January 2000 to improve basic health, some measures have been taken but others are awaiting parliamentary or prime-ministerial approval, or are in need of technical assistance from international donors. Also, data from the survey on mortality, morbidity and use of services (EMMUS-III), which was published in September 2000, will be analyzed and used as part of the basis for establishing benchmarks for improvements in these basic indicators in the development of an eventual poverty reduction strategy.

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

24. To help monitor performance under the program, the government has established quarterly performance indicators for end-December 2000 and end-March, end-June, and end-September 2001, as specified in Table 1, on net international reserves and net domestic assets of the central bank; net domestic credit to the nonfinancial public sector; net domestic credit to the central government; arrears on external public debt; and the contracting and guaranteeing of nonconcessional external loans. Also the government has established structural benchmarks in the following areas: strengthening tax revenue; public expenditure management; financial sector reform; and public enterprise reform; as specified in Table 2.

Table 1. Haiti: Quantitative Benchmarks, December 2000–September 2001 1/

	Stock at end-Sept. 2000	Prog. 2001 December	March	June	September
		(Maximum cumulative change from end-September 2000)			
Net central bank credit to the central government (in millions of gourdes)	9,583	280	430	620	750
Net domestic banking sector credit to the nonfinancial public sector (in millions of gourdes)	9,667	270	400	570	700
Net domestic assets of the central bank (in millions of gourdes)	606	590	300	110	320
Arrears on external public debt	0	0	0	0	0
Publicly contracted or guaranteed nonconcessional external loans (in millions of U.S. dollars)					
Up to one year	...	0	0	0	0
Over one-year maturity	...	0	0	0	0
		(Maximum level at end period)			
Domestic arrears of the central government (in millions of gourdes)	311	186	61	31	0
		(Minimum cumulative change from end-September 2000)			
Net international reserves of central bank (in millions of dollars)	169	0	8	16	16
Memorandum items:					
Government current revenue (in millions of gourdes) 2/	...	2,168	4,209	6,142	8,009
		(Maximum cumulative change from end-September 2000)			
Government wage bill (in millions of gourdes) 2/	...	1,103	1,931	2,840	3,670

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.

Table 2. Haiti: Structural Benchmarks, October 2000–September 2001		
	Timetable	Status 1/
Strengthening tax revenue		
1. Reform petroleum product taxation and pricing.	Continuous	
2. Place two tax inspectors each at CAMEP, EDH, and Teleco.	November 1, 2000	
3. Tax verification office completes 60 off-site audits per quarter.	Quarterly	
4. DGI audits 4,000 tax returns with temporary hired staff.	End-February 2001	
5. Expand the computerized SYDONIA system to three provincial ports.	June 2001	
Public expenditure management		
1. Continue weekly programming of expenditure.	Continuous	
2. Return to the Treasury unused nonproject and inactive project current account balances.	November 2000	
3. Clear G250 million of central government arrears.	March 2001	
4. Clear all central government arrears.	September 2001	
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	
6. Increase budgetary allocation for the ministries of justice, health, and education.	FY 2000/01 program	

Table 2. Haiti: Structural Benchmarks, October 2000–September 2001		
	Timetable	Status 1/
Financial sector reform		
1. Secure parliamentary approval of anti-money laundering legislation and legislation against traffic in drugs.	November 2000	Legislation drafted.
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	
5. Complete a plan for privatization of BPH.	March 2001	
Public enterprise reform		
1. Issue invitation to bid for a management contract for the port facility.	November 2000	
2. Start downsizing of employment at the port authority.	January 2001	Negotiations with trade unions for downsizing under way.
3. Complete downsizing of employment at the port authority by 1,000 persons.	June 2001	
4. Submit draft regulatory framework for the telecommunications sector to parliament.	November 2000	

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

1/ As of September 15, 2000.

HAITI—TECHNICAL MEMORANDUM OF UNDERSTANDING

Definition of quantitative benchmarks and adjustments:

The Ministry of Economy and Finance, the Bank of the Republic of Haiti (BRH), and Fund staff will use the following definitions of quantitative benchmarks and adjustments of the quantitative benchmarks to monitor the quarterly performance under the staff monitored program for October 2000–September 2001 (FY 2000/01).

I. DEFINITIONS

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

1. The change in net BRH credit to the central government is defined as, and will be measured using:

   a. Change in net domestic credit to the central government from the BRH according to Table 10R of the BRH from the stock of end-September 2000;

   b. Change in the stock of special accounts (EU, PL480, rice of Japan, and U.S.) according to Table "Comptes Spéciaux" of the BRH from the stock of end-September 2000.[2]

2. Changes in any other special account maintained or established at the BRH will be taken into account.

3. The changes will be measured on a cumulative basis from the stock at end-September 2000.

Ceilings for the Cumulative BRH Credit to the Central Government (In millions of gourdes)			
		2001	
December 2000	March	June	September
280	430	620	750

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

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

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

1. The change in net domestic banking sector credit to the nonfinancial public sector is defined as, and will be measured using:

    a. Change in the stock of net domestic credit of the public sector from the BRH according to Table 10R of the BRH from the stock of end-September 2000;

    b. Change in the stock of net domestic credit of the public sector from the BNC according to Table 610 of the BRH from the stock of end-September 2000;

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

    d. Change in the stock of special accounts (EU, PL480, STABEX, rice of Japan, and U.S.) according to Table "Comptes Spéciaux" of the BRH from the stock of end-September 2000.

2. Changes in any other special account maintained or established in the BRH, BNC, or BPH will be included.

3. The changes will be measured on a cumulative basis from the stock at end-September 2000.

Ceilings for the Cumulative Net Domestic Banking Sector Credit to the Nonfinancial Public Sector

(In millions of gourdes)

	2001		
December 2000	March	June	September
270	400	570	700

C. Net International Reserves

1. The change in net international reserves will be measured using:

    a. Change in net international reserves ("Réserves de change nettes" of the BRH Table 10R) from the stock of end-September 2000; and

    b. Minus the change in U.S. dollars deposits of commercial banks at the BRH ("Dépôts a vue US$ des bcm à la BRH" of the BRH Table 10R) from the stock of end-September 2000.

[3] The NFPS includes the central government, the public enterprises (Teleco, EDH, APN, APP, and Camep), and foreign-financed projects.

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

3. For definition purposes, net international reserves are the difference between the BRH's gross foreign assets (comprising gold, special drawing rights, all claims on nonresidents, and claims in foreign currency on domestic financial institutions) and reserve liabilities (including liabilities to nonresidents of one-year maturity or less, use of Fund credit, excluding trust funds, and any revolving credit from external financial institutions). Swaps in foreign currency with domestic financial institutions and pledged or otherwise encumbered reserve assets are excluded from net international reserves.

4. The changes will be measured on a cumulative basis from the stock at end-September 2000.

Floor for Cumulative Change in Net International Reserves

(In millions of dollars)

	2001		
December 2000	March	June	September
0	8	16	16

D. Net Domestic Assets of the BRH

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

   a. Change in currency in circulation ("Monnaie en circulation" of the BRH Table 10R); and

   b. Minus the change in the U.S. dollar amount of net international reserves (program definition according to C above), converted into gourdes at the program exchange rate.

2. The program definition of net domestic assets of the BRH will use a program exchange rate of G 26.00 per U.S. dollar for the period September 2000–September 2001.

3. The changes will be measured on a cumulative basis from the stock at end-September 2000.

Ceilings for the Cumulative Change in Net Domestic Assets of the BRH

(In millions of gourdes)

	2001		
December 2000	March	June	September
590	300	110	320

E. External Arrears

1. External arrears are defined as interest and principal payment obligations to external creditors that are overdue by more than 30 days and are not formally disputed.

2. The ceiling will be set at zero throughout the program period.

F. Nonconcessional Loans

1. Concessional loans are those loans that provide a grant element of at least 35 percent based on the corresponding OECD's Commercial Interest Reference Rates (CIRRs) as of September 2000.

2. The benchmark limits exclude conventional short-term import-related credits.

3. The ceilings for contracting nonconcessional loans will be set at zero throughout the program period.

II. Quarterly Adjustments

The quarterly benchmarks will be adjusted for the following amounts:

Adjustment for Shortfall in the Reduction of Domestic Arrears (BRH Credit to CG and NFPS)

The ceilings for net BRH credit to the central government and the net domestic banking sector credit to the nonfinancial public sector will be adjusted downwards for the amount of domestic arrears that exceed the programmed stock of end-of-quarter arrears specified in tabulation below.

Programmed Stock of End-Period Domestic Arrears of the Central Government

(In millions of gourdes)

	2001		
December 2000	March	June	September
186	61	31	0

Statement by the IMF Staff Representative
November 22, 2000

1. The following information has become available since the staff report for the 2000 Article IV consultation and staff-monitored program for FY 2000/01 (EBS/00/221) was issued. It does not change the thrust of the staff appraisal.

2. Revised data for the central government accounts for FY 1999/00 (year ending September 30), indicate that the deficit was equivalent to 2.4 percent of GDP, compared with 2.2 percent of GDP estimated in the staff report, reflecting mainly somewhat lower revenue. Preliminary data also indicate that revenue in October was weaker than projected. On the basis of the import cost of recent shipments of petroleum products, the authorities will need to raise administered prices of these products, as envisaged in the SMP, to avoid subsidies and help protect fiscal revenue.

3. The currency depreciated sharply during the last days of September from G 24 per U.S. dollar, to slightly above G 28 per U.S. dollar. However, it strengthened to about G 24 per U.S. dollar in early October, and has since stabilized around that level. Net international reserves are estimated to have declined by US$5 million in October, compared with no change projected during October-December 2000.

4. Prices rose markedly in September, reflecting the currency depreciation as well as the domestic petroleum price increases at the beginning of the month. The 12-month increase in the CPI rose from 12.5 percent in August to 15.3 percent in September. This underscores the need to strengthen fiscal policy and maintain tight monetary policy as envisaged in the SMP, to put inflation back on a downward trend.

INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 01/01
FOR IMMEDIATE RELEASE
January 5, 2001

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes Article IV Consultation with Haiti

On November 22, 2000, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Haiti.[1]

Background

Since the onset of a prolonged political crisis in the spring of 1997, the Fund has been monitoring Haiti's economic policies through staff-monitored programs (SMPs). The main purpose of the SMP's are to assist in maintaining sound macro-economic policies and in implementing structural reforms, with the aim of facilitating the disbursement of some external budget support as well as establishing a track record. The latter would help starting intensified discussions for a Fund-supported arrangement under the Poverty Reduction and Growth Facility, once the political crisis has been resolved and following the presidential elections and the installation of a new cabinet.

During SMPs covering FY 1997/98 and FY 1998/99, the fiscal deficit was kept under control, inflation was reduced, and official net international reserves rose, but real GDP per capita stagnated. Some progress was made on structural reforms, including downsizing and streamlining the civil service and, in the financial sector, improving the supervisory capacity of the central bank and strengthening the regulatory framework of the banking system. During FY1999/00, the SMP negotiated with the Haitian authorities could not be approved by the Fund's management because of significant fiscal slippages and the lack of progress on structural reforms.

[1] 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. In this PIN, the main features of the Board's discussion are described.

Economic performance weakened during FY 1999/2000. The overall central government deficit increased to 2.2 percent of GDP, up from 1.3 percent of GDP in FY 1998/99. With no net external financing, the deficit was financed by an expansion of credit from the central bank. The increase in the fiscal deficit, continuing political uncertainties, and the rise in the world price of oil led to recurrent pressure on the exchange rate, domestic prices, and official reserves. Government revenue declined by almost 1 percent of GDP to 7.8 percent of GDP. This mainly reflected the sharp increase in the world price of oil, and the resulting decline in excise tax collections on gasoline, diesel, and kerosene. To address the decline in fiscal revenue, the government raised administered domestic prices of gasoline, diesel, and kerosene by about 45 percent in early September 2000. Total spending remained at about 10 percent of GDP; higher capital expenditure, especially on public works projects, was offset by a decline in the wage bill. During FY 1999/2000, the central bank sought to slow the depreciation of the gourde by tightening monetary policy and by occasional intervention in the foreign exchange market. Nevertheless, the gourde depreciated by about 32 percent with respect to the U.S. dollar from end-September 1999 to mid-September 2000. Owing to the tightening of monetary policy and weakening economic activity, inflation (twelve-month increase in the CPI) rose only moderately from 9.9 percent in September 1999 to 12.5 percent in August 2000. Net official reserves declined by about US$40 million to a level of US$170 million (equivalent to 1.8 months of imports of goods and services and 15 percent of broad money).

Progress was achieved in the financial sector. The central bank's supervisory capacity and the regulatory framework continued to be strengthened. Advances were made in restructuring the troubled state-owned bank, Banque Nationale de Credit (BNC). Significant additional preventive steps to combat money laundering and drug trafficking were undertaken. Virtually no progress was achieved during FY 1999/2000 toward restructuring/privatizing key public enterprises. As a result, crucial infrastructure continued to deteriorate.

Executive Board Assessment

Directors expressed concern that economic performance had deteriorated during the past year owing to external and internal shocks, with falling real GDP growth, an increase in the fiscal deficit, rising inflation, and recurrent pressure on the currency, against the backdrop of continued political uncertainties. Directors also noted that there was little progress on structural reforms in crucial areas such as justice and security, and privatization of public enterprises.

Directors expressed concern about the effects of the prolonged political impasse on external assistance, investment, and the implementation of structural reforms. They urged the government and all political parties to make strenuous efforts toward a political settlement so that the momentum of economic development can be restored and living standards substantially improved, with support from the international community.

Directors welcomed the government's intention to redouble efforts to implement an economic program during fiscal year 2000/01 (to be monitored by the Fund staff) that would be designed to reestablish macroeconomic stability during the political transition. They urged the authorities to implement the program resolutely, and noted that the establishment of a track record of good performance under the staff-monitored program would be one precondition for beginning formal discussions on a PRGF arrangement.

Directors endorsed the authorities' intention to reduce the fiscal deficit during fiscal year 2000/01, permitting a substantial reduction in domestic financing to the public sector. They welcomed the decision in September 2000 to increase administered petroleum product prices, and the intention to adjust these prices regularly in line with the changes in world prices and the exchange rate, to protect this important source of excise tax revenue. Directors called on the authorities to contain expenditures by restricting use of the ministerial discretionary accounts, while containing wage increases. This would help to make room for increased spending on basic education and health, and justice and security.

On monetary policy, Directors welcomed the authorities' intention to continue adjusting credit conditions mainly through the placement of central bank bonds at market rates of interest. If there were clear signs that fiscal adjustment was taking place and inflation had been restored to a declining path, there should be some room for a reduction in interest rates and in required reserve ratios.

Directors welcomed measures that had been taken during the past year to improve the supervision of the banking system, and they encouraged the authorities to continue phasing in new and strengthened prudential regulations. They urged the authorities to accelerate the preparation and passage of new banking and central bank laws to bring them into conformity with international standards. Directors welcomed the steps taken to strengthen detection and prosecution of money laundering and drug trafficking.

Given current uncertainties, Directors emphasized the importance of maintaining a floating exchange rate regime, under which the rate would be determined by market forces. They stressed that additional efforts to enhance competitiveness should be stepped up through the implementation of structural reforms aimed at reducing domestic production costs, increasing productivity, and attracting foreign investment. Directors emphasized that a comprehensive program for privatization of the state-owned port, airport, electricity, telecommunication, and water companies, developed in consultation with the new government, would constitute a crucial advance toward higher investment and provision of services in these vital sectors. They welcomed the authorities' intention to maintain Haiti's open trade policy and their recent entry into CARICOM.

Directors commended the authorities' efforts to address weaknesses in macroeconomic and social sector data, but stressed that efforts needed to be intensified. In view of Haiti's severe resource constraints, they emphasized the need to mobilize technical assistance from the Fund and other sources, both to upgrade the quality of statistics and, more generally, to help with the implementation of structural reforms.

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.

Haiti: Selected Economic Indicators

	Fiscal Year Ending September 30					
	1995	1996	1997	1998	1999	Est. 2000
Domestic economy						
Real GDP (annual percentage change)	4.4	2.7	1.4	3.1	2.2	1.2
Consumer prices (annual percentage change, end of period)	18.2	20.1	17	8.3	9.9	15.3
Gross domestic investment (percent of GDP)	8.7	9.5	10.1	10.4	11.0	10.7
Gross national savings (percent of GDP)	-7.9	-2.7	3.2	4.5	3.7	3.6
(In percent of GDP)						
Public finances						
Central government balance	-4.3	-2.5	-0.6	-1.3	-1.3	-2.4
Overall public sector balance	-8.3	-7.6	-3.8	-3.3	-2.9	-4.2
Public sector savings	-2.3	-2.1	1.9	1.9	2.6	1.6
(Changes in percent of beginning period broad money)						
Money and credit						
Net domestic assets	-12.5	13.7	10.6	11.4	15.1	18.9
Credit to the nonfinancial public sector (net)	-4.6	9.5	-1.9	3.4	7.7	7.1
Credit to the private sector	16.6	8.3	17.5	8.5	4.4	11.4
Broad money	29.2	10.2	15.4	14.7	17.7	30.9
(Annual percentage change unless otherwise indicated)						
External sector						
Exports (f.o.b. in U.S. dollars)	27.3	7.6	32.4	45.4	23.8	-0.2
Imports (f.o.b. in U.S. dollars)	152.2	-0.9	4.4	12.1	23	3.5
External current account balance (percent of GDP)	-16.7	-12.1	-6.9	-5.9	-7.3	-7.1
External public debt (end period-percent of GDP)	29.7	30.6	30.0	28.9	27.1	29.5
External public debt service (percent of exports of goods and services)	12.3	9.7	11.9	8.0	8.6	6.9
Net official reserves (end period-months of imports of goods and services)	2.8	2.1	2.4	2.4	2.2	1.8
Real effective exchange rate (appreciation +) 1/	17.8	15.3	11.1	14.2	8.9	-10.2

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

1/ End-August for 2000.