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Haiti: Staff-Monitored Program

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HAITI

Staff-Monitored Program

Prepared by the Western Hemisphere Department

(In consultation with other departments)

Approved by Markus Rodlauer and Michael T. Hadjimichael

June 13, 2003

- **Discussions** on a staff-monitored program (SMP) with Haiti were held in Port-au-Prince during April 30–May 8, 2003. The mission met with President Aristide, Prime Minister Neptune, Economy and Finance Minister Gustave, Central Bank Governor Joseph, other senior officials, representatives of international organizations and bilateral donors, and various private sector representatives.

- **Mission** members included E. Verreydt (Head), O. Adedeji, M. T. Camilleri, and J. Toro (all WHD). M. Rodlauer (WHD), P. Gajdeczka (PDR), A. Macia (ED's office), and A. Kouame (World Bank) joined for final discussions. The mission was assisted by the resident representative, M. Rached.

- **Last Article IV Consultation**. In concluding the 2002 Article IV consultation on January 24, 2003, Executive Directors expressed deep concern about Haiti's worsening economic and social conditions. They urged the authorities to take early and decisive steps to restore political stability, avoid a further worsening of macroeconomic and social conditions, and re-establish a basis for growth and improved living standards. Directors stressed the importance of embarking on a sound and comprehensive medium-term economic program, possibly in the context of an SMP that could establish a track record of policy implementation and lead to a PRGF-supported program.

- **SMP**. In the attached Memorandum of Economic and Financial Policies (MEFP), the authorities have indicated their intention to implement a 12-month SMP covering April 2003–March 2004, with policies and indicative targets specified initially for the first six months.

- **Program objectives**. The program aims at consolidating the economic stabilization initiated earlier this year and initiating key structural reforms in the public and banking sectors. The authorities' goal is to establish a track record of policy implementation and clear external arrears, as a basis for a PRGF-supported program with full re-engagement of the donor community.

Contents

EXECUTIVE SUMMARY

BACKGROUND

- **Haiti's economy is in a critical situation.** Already marked by widespread poverty and declining real incomes over the past decade, the economy has worsened further in the last three years with negative GDP growth, rising inflation, and widening fiscal and external deficits. This deterioration reflected a difficult political situation, low private sector confidence and investment, and shrinking official external assistance other than humanitarian aid.
- **In early 2003, the authorities started to implement measures to stabilize the economy.** Domestic fuel prices were more than doubled to eliminate the subsidy on petroleum products and boost fiscal revenues, and a flexible pricing mechanism for petroleum products was implemented. The central bank tightened the stance of monetary policy, resulting in a sharp increase of market interest rates. As a result, the foreign exchange market stabilized and inflationary pressures started to ease.
- **Building on the progress achieved, the authorities intend to broaden their reform efforts over the coming year, under a staff-monitored program.** The goal is to consolidate the stabilization gains and establish an adequate track record toward a possible PRGF arrangement, with fully restored donor support.

THE PROGRAM FOR 2003/04

The program covers the period April 2003-March 2004, with policies specified initially for the first half year. Policies for the second half will be discussed at the first review.

- **Fiscal adjustment is at the core of the program.** The fiscal deficit is to be cut from 5.5 percent of GDP during October 2002–March 2003 to 2.7 percent of GDP in April–September 2003. A revised budget for FY 2002/03, consistent with this target, was approved by Parliament on June 3, 2003. The budget includes a number of revenue measures and a sizable cut in discretionary spending.
- **Monetary policy aims at reducing inflation and stabilizing the exchange rate in the context of the floating exchange rate system.** Sharply reducing the monetary financing of the budget will be essential, and an agreement between the Ministry of Finance and the Central Bank has been formalized to this effect.
- **Governance measures focus on strengthening transparency and accountability in the public sector, including the public enterprises.** Discretionary accounts in Ministries are to be gradually phased out, and five major public enterprises will be subject to external audits/evaluations. Banking reforms will initially focus on strengthening the legal framework, in line with international standards.
- **A plan for the clearance of external arrears (with donor support) is being developed.** The authorities envisage a sequenced process, with clearance first of arrears to the IDB, followed by the World Bank and bilateral creditors.

I. Overall Context

1. **Against the background of sharply declining real incomes over the past decade, the critical challenge for Haiti is to generate sustained economic growth and reduce widespread poverty.** Haiti is the poorest country in the Americas, with per capita GDP of US$400 and over 80 percent of the population in rural areas living in poverty. The economic situation has deteriorated further over the last three years (Figure 1), with negative growth, rising inflation, and widening external and fiscal deficits. This deterioration reflected a difficult political situation (Box 1), weak private sector confidence and investment, and shrinking official foreign assistance other than humanitarian aid.

2. **The authorities' goal is to develop a medium-term economic and structural reform program that could be supported by renewed donor support, including from the poverty reduction and growth facility (PRGF).** Putting together such a program and creating the conditions for full re-engagement of the donor community will require more time—in particular, a resolution to the current political stalemate will be important in providing a credible basis for the implementation of policies.

3. **In the meantime, the authorities have started to implement measures to stabilize the economy and initiate key reforms.** Following several important corrective actions in the fiscal and monetary areas, they have embarked on a one-year program that aims at consolidating the initial stabilization gains, clearing external payment arrears, and starting key structural reforms—thereby establishing a track record of economic policy implementation that could be a basis for a PRGF program.[1]

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[1] Appendix I summarizes performance under previous Fund-supported and staff-monitored programs.

Box 1. Political Situation

Since the late 1990s, Haiti has experienced a political stalemate that has adversely affected economic policymaking, growth and investment, as well as external donor support. The political crisis began with the resignation of the prime minister in June 1997, and the continuous rejection by parliament of candidates put forward by then-President Préval to head a new government. The crisis was compounded by the expiration of the term of parliament in January 1999, leaving the country without a parliament or effective government. A consensus was reached in March 1999 that brought about the nomination by decree of a cabinet and of a provisional electoral council (PEC) to conduct local and parliamentary elections.

The ensuing May 2000 parliamentary elections were besieged with reports of irregularities concerning the handling and counting of the ballots. The international community did not recognize their legitimacy, and foreign aid was suspended except for humanitarian aid channeled through NGOs. Notwithstanding attempts by the Organization of American States (OAS) to mediate the crisis, the ruling Lavalas party and the opposition were unable to agree on a process for holding new elections, and the opposition boycotted presidential elections that brought President Aristide a second five-year term in February 2001 (this election was recognized by the international community as legitimate). The political deadlock arising from the disputed elections led to a growing political polarization in Haiti, exacerbated by violent disturbances in December 2001.

In September 2002, the OAS decided to support the organization of new parliamentary elections, **contingent upon measures to improve security conditions and the formation of a representative PEC.** In addition, the OAS urged international finance institutions (IFIs) to resume lending to Haiti, once financial and technical obstacles were cleared. However, there was little progress on disarmament and a PEC could not be formed, with widespread concerns that Haiti's security conditions would not allow for safe elections. A high-level OAS delegation in March 2003 specified a number of steps geared toward putting in place the PEC by March 30. On April 3, the OAS permanent council expressed dissatisfaction at the failure of the authorities to take all the necessary actions. However, it confirmed its support to a re-engagement by IFIs. The OAS permanent council will meet in June 2003 to reexamine Haiti's situation.

II. Recent Economic Developments

4. **Financial conditions worsened further during the first semester of FY 2002/03 (October 2002–March 2003), fuelled by a widening fiscal deficit largely financed by the central bank.** The 12-month inflation rate rose from 10 percent in September 2002 to 37 percent in March 2003. Net international reserves (NIR) declined to about US$30 million by early March, with gross reserves covering only two weeks of imports. The gourde depreciated by over 60 percent between end-September 2002 and mid-February 2003.

5. **Sizeable expenditure overruns and revenue shortfalls resulted in a sharp widening of the budget deficit.** During the first half of FY 2002/03, budgetary expenditure increased to 13.6 percent of GDP on an annual basis (from 11.2 percent in FY 2001/02), while fiscal revenue stagnated at about 8 percent of GDP. The higher expenditure reflected increased outlays for operations (an area of weak expenditure control and transparency), and revenue was affected by shrinking oil taxation (retail prices were kept unchanged in the face of rising world oil prices). As a result, the overall fiscal deficit reached 5.5 percent of GDP, and with the absence of other sources of financing, it was covered mainly by credit from the central bank.

6. **The financial deterioration and continued political stalemate further weakened already low private sector confidence.** Fears of a possible forced conversion of bank dollar deposits to gourdes resulted in a run on dollar deposits during the first quarter of FY 2002/03, with outflows of about US$95 million (9 percent of total deposits, and 20 percent of U.S. dollar deposits). While public statements by the authorities succeeded in eventually stemming the outflow, private sector expectations remained subdued, dampening further the prospects for investment and growth.[2] The authorities were confident that no bank is in serious financial difficulty.

7. Faced with this deterioration, the authorities initiated corrective fiscal and monetary policy actions in early 2003:

- To eliminate the subsidy on petroleum products and boost fiscal revenue, domestic fuel prices were raised by over 130 percent in January and February. This measure was socially and politically very sensitive, but a strong public information campaign of the authorities appears to have succeeded in explaining its necessity.

- At the same time, a flexible pricing mechanism for petroleum products was put in place (based on a 1995 Law that had not been applied in practice). The mechanism

[2] Although available data through December 2002 suggests that the banking system has withstood the economic deterioration of recent years quite well, these data need to be interpreted with caution. They show an average nonperforming-loan ratio of 6.2 percent as of December 2002, with capital adequacy averaging 16 percent.

allowed domestic fuel prices to go down in March and April, in line with falling world oil prices.

- In mid-March, a protocol on cash management between the ministry of finance and the central bank was finalized that provides for ceilings on central bank financing of the government for remainder of the fiscal year. These ceilings were subsequently set in line with the program targets.

- The central bank raised the interest rate on the benchmark 91-day bond in several steps, from 10 percent in October 2002 to 28 percent in mid-March 2003. As bank liquidity became tighter, commercial banks' deposit and lending rates followed suit.

- A contract with a pre-shipment customs inspection firm was signed on May 5, 2003, which will allow for a better valuation of imports and a strengthening of customs administration.

8. **As a result of these measures, the exchange market stabilized and inflation pressures eased.** Since mid-February, the gourde has appreciated by 17 percent vis-à-vis the U.S. dollar and the central bank has been able to purchase small amounts in the foreign exchange market. Monthly inflation slowed from 13 percent in January to 3 percent in April.

III. Policy Discussions

9. **The authorities intend to build on the progress achieved and broaden their adjustment and reform efforts within the framework of a 12-month SMP.** In the attached MEFP, policies have initially been specified for the first six months of the program (the second half of FY 2003/04). Following a review with Fund staff in September, the program will be updated to cover the first half of FY 2003/04 (October 2003–March 2004). Performance under the program will be monitored using quarterly indicative targets, structural benchmarks, and reviews (paragraph 11, Tables 1 and 2 of the MEFP).

Box 2: 2002 Article IV Consultation—Main Policy Recommendations

At the conclusion of the 2002 Article IV consultation in January 2003, Directors urged the authorities to take steps to restore political stability and avoid a further worsening of macroeconomic and social conditions. They emphasized that action to reduce the fiscal deficit was key to achieving macroeconomic stability during FY 2002/03. Directors stressed that measures were needed to increase revenues, including the permanent adoption of a flexible domestic fuel pricing mechanism. In addition, they underscored the need for enhanced fiscal transparency and accountability. Regarding monetary policy, priority should be given to stabilizing reserves and containing inflation. Directors stressed the importance of full implementation of the anti-money laundering law, and of making the Financial Intelligence Unit operational. They also urged the establishment of a timetable for clearing external arrears. These steps could help establish a track record of policy implementation and form, together with the adoption of a comprehensive medium-term economic program, the basis for renewed donor support including from the PRGF.

While there has been a little progress so far on the political front, the authorities in early 2003 took fiscal and monetary policy actions and initiated some key structural reforms recommended by Directors. At this stage, the authorities' stated focus was on stabilizing the economy and addressing key governance concerns in the public sector. Important actions taken included a large increase in domestic fuel prices, implementation of a flexible mechanism for such prices, and a sharp tightening of monetary policy. Following these measures, reserves stabilized and inflationary pressures started to ease.

Building on the progress made, the authorities now intend to broaden their reform effort under the Staff-Monitored Program (SMP). In line with the recommendations of the Fund, the authorities intend to sustain the fiscal adjustment, with a view to further reducing the monetary financing of the budget deficit. Several steps are programmed to improve governance, with focus on enhancing transparency and accountability in public sector operations: in particular, discretionary ministerial current accounts are to be gradually phased out, and the five major public enterprises will be subjected to external audits. The authorities have also initiated work on a plan for the clearance of all external arrears, in close consultation with the staffs of the IMF, the World Bank, and the IDB. The authorities' goal is to establish, through successful implementation of the SMP, an adequate track record toward a possible PRGF arrangement, with full donor support.

10. **The program aims to further stabilize the economy and initiate key structural reforms. Key economic objectives are as follows:**

Haiti: Key Economic and Financial Indicators

	FY 2001/02	Est. I 1/	Prog. II 2/	Year 3/	Prel. Staff Proj. FY 2003/04
		FY 2002/03			
(Annual percentage change)					
GDP at constant prices	-0.9	..	..	0.0	1.0
Consumer prices (12-month, end-of-period)	10.1	36.9	41.8	41.8	10.0
(In percent of GDP, unless otherwise indicated)					
External current account balance 4/	-4.0	..	..	-5.3	-7.4
Usable gross international reserves (millions of U.S. dollars) 5/	96	68	68	68	90
Central government overall balance, excluding grants	-3.1	-5.5	-2.7	-4.0	-1.9
Central bank financing of the government	3.0	5.0	1.9	3.5	1.0

1/ October 2002–March 2003.
2/ Program for the second semester of FY 2002/03 (April–September 2003).
3/ Actuals for the first semester and program targets for the second semester.
4/ Excluding grants. For FY 2003/04, assumes a resumption of project aid.
5/ Excludes commercial banks' foreign currency deposits with the BRH.

These are some early signs of a recovery in the export sector, pointing to some upside potential to the growth outlook. However, the authorities preferred to base the program on conservative GDP growth assumptions, given the uncertain impact on domestic demand of the prospective large fiscal adjustment. To reduce inflation, the authorities intend to sharply reduce central bank financing of the fiscal deficit, and to raise interest rates if necessary to meet minimum foreign reserve targets without further exchange rate depreciation. In addition, the government is initiating important structural reforms focused on strengthening the finances and governance in the public sector, as a first step toward broad-based reforms under a PRGF.

A. Fiscal Policy

11. **Fiscal adjustment is at the core of the program.** The authorities agreed on the need to reduce significantly the fiscal deficit and, in particular, its monetary financing. At the same time, they noted the extremely tight resource constraint, with virtually no external donor support and the very limited domestic tax base—in the face of huge social and development needs.

12. **The program aims at cutting the fiscal deficit by about half, from 5.5 percent of GDP during October 2002–March 2003 to 2.7 percent of GDP in April–September 2003.** A revised annual budget in line with the program was approved by Parliament on

June 3 (prior action). In addition to the recent adjustments to domestic fuel prices, the budget law includes a number of revenue measures, including widening the base of the turnover tax, raising excise taxes on tobacco and alcohol, generalizing a 2 percent withholding tax at customs that now applies only to part of imports,[3] and increasing the verification fees on imported goods to 5 percent, as a temporary measure to be assessed after no more than one year. On the expenditure side, the budget envisages a sizable cut in discretionary spending items, an area of major spending overruns in recent years as well as governance problems (paragraph 14 below). Moreover, the authorities have decided not to grant any public sector wage increase at least through September 2003, to ensure enough resources to complete on-going domestically financed investment projects. The flexible petroleum pricing mechanism will continue and information on its operation published regularly (prior action).

B. Monetary and Exchange Rate Policy

13. **The authorities' monetary program for the second semester of FY 2002/03 is geared toward reducing inflation and stabilizing the exchange rate in the context of the floating exchange rate system.** The authorities agreed that preventing further large depreciation of the gourde and stabilizing international reserves was a pre-requisite to a recovery of private sector confidence, investment, and growth. Broad money growth is targeted to decelerate to 10 percent during April–September 2003, from 26 percent during October 2002–March 2003. To achieve this objective, containing the monetary financing of the budget will be essential, and an agreement between the Ministry of Finance and the central bank has been formalized to this effect (a prior action; paragraph 11 of the MEFP). Even so, assuming no change in net international reserves, this would be consistent with only about zero growth in real terms of banking system credit to the private sector—another indicator of the extremely tight resource constraint under which the economy is operating. Given the large uncertainty about the demand for money, the central bank is committed to raising interest rates on its bonds, if necessary, to stem renewed pressures on the exchange rate, until inflation has clearly declined to the targeted range.

C. Structural Reforms and Governance

14. **Program measures to improve governance focus on public sector transparency and accountability, including in the public enterprises.** The authorities intend to tighten the criteria for channeling outlays through discretionary ministerial accounts and to gradually restrict them to one account per ministry, earmarked for emergency outlays, by March 2004.[4] The authorities agreed with the staff that public enterprises needed to be subject to much

[3] Currently, importers formally registered with the tax authority pay a 1 percent withholding tax, while other importers pay a 2 percent withholding tax.

[4] The proliferation of such accounts has been a major concern for governance and spending control in recent years.

stricter control and accountability; they are committed to external audits/evaluations of the 5 major public enterprises during the next 12 months, starting with the 2 most important ones (EDH and Teleco).[5] The Office of the Auditor will be strengthened, and the transparency of fiscal operations enhanced (with IDB assistance). The budget law for FY 2003/04 will be submitted to Parliament before the start of the fiscal year (October 1), after consultation with the staff during the next program review.

15. **Banking sector reforms will initially focus on strengthening the legal framework.** The authorities intend to submit to Parliament a new banking law by end-2003, with the objective of bringing it into conformity with international standards. Work has also started on a new central bank law. The staff recommended that this law should, *inter alia*, provide for operational independence of the central bank. The authorities noted that a political consensus on this issue had yet to be formed. A Financial Intelligence Unit (UCREF) to intensify efforts to combat money laundering will become operational by end-July 2003.

D. External and Arrears Clearance

16. **The authorities intend to develop, in close consultation with the staff of the IMF and the World Bank, a plan for the clearance of external arrears.** External arrears reached about US$80 million as of end-May, with the IDB and the World Bank each accounting for about US$30 million. The authorities currently envisage a sequenced process of clearance of arrears, starting with the IDB (which is most advanced in the process of reactivating loans), followed by the World Bank and bilateral creditors. The authorities are aware that success in clearing arrears will depend on performance under the SMP, as donor assistance is needed.

E. Program Risks and Monitoring

17. **There is a risk that the continuing political difficulties may undermine the needed consensus for reforms.** Given the very difficult economic and social situation, the fiscal program represents a delicate balance between necessary adjustment and critical social and investment expenditures. Its implementation will be a difficult challenge, which will require a strengthening of the domestic consensus. In the absence of progress on the political front, external assistance to the budget could remain limited, possibly forestalling the process for clearing external arrears.

18. **In addition, Haiti's track record of policy implementation in previous programs is weak.** Although the authorities' recent policy actions indicate a strong commitment to the program, this commitment will be continuously tested in the coming months. In particular, the economy is vulnerable to a range of uncertainties and possible shocks (including from

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[5] The authorities have requested World Bank assistance in this area.

world oil prices, the demand for money and the exchange rate, and regional developments) that could require further policy adjustments.

19. **Because of these risks, the staff will closely monitor program execution,** using quarterly indicative targets, structural benchmarks, and quarterly reviews (Tables 1 and 2 of the MEFP). Specific policies and targets for FY 2003/04 will be discussed at the time of the first review (September 2003).

IV. Staff Appraisal

20. **Haiti is facing a very difficult economic situation.** Following years of declining per-capita incomes and rising poverty, economic conditions have deteriorated further over the last three years. The immense task before the authorities is to break the vicious circle of economic decline, political stalemate, weak economic policies and shrinking donor support, and instead put the economy on a path of sustained growth and declining poverty, with the renewed full support of the international community.

21. **An important start in the right direction has been made in early 2003.** The staff welcomes the significant corrective actions taken by the authorities, including the introduction of a flexible domestic fuel pricing system, a tightening of monetary policy, and the adoption of a revised budget for FY 2002/03. These measures have started to calm pressures in the exchange market, lower inflation, and stabilize the official reserve position.

22. **The staff welcomes the authorities' intention to continue and broaden its adjustment and reform effort under a one-year Staff-Monitored Program.** The goal is to consolidate the initial stabilization gains and establish an adequate track record toward a possible PRGF arrangement, with fully restored donor support. The staff welcomes this intention and supports the authorities' request for a Staff-Monitored Program.

23. **Fiscal adjustment is at the heart of the program, and the staff supports the objective of reducing the deficit by about half over the next six months.** This is necessary to contain inflation and stabilize the exchange rate, as the deficit is being financed mainly by the central bank. The staff urges the authorities to prioritize budget spending carefully, preserving essential social and investment programs while reducing discretionary "operational" spending—an area of major governance concerns.

24. **Monetary policy will need to be geared toward reducing inflation and stabilizing the exchange rate under the floating exchange rate system.** The staff encourages the central bank to raise interest rates if necessary to stem renewed pressures on the exchange rate, while intervention in the foreign exchange market should be limited to what is needed to satisfy the government's foreign currency needs.

25. **The staff urges early progress in developing a strategy to clear external arrears.** The authorities envisage a sequenced process with clearance first of arrears to the IDB (currently US$30 million), followed at a later stage by the World Bank and other donors. Success of this plan will depend on performance under the SMP since donor assistance is

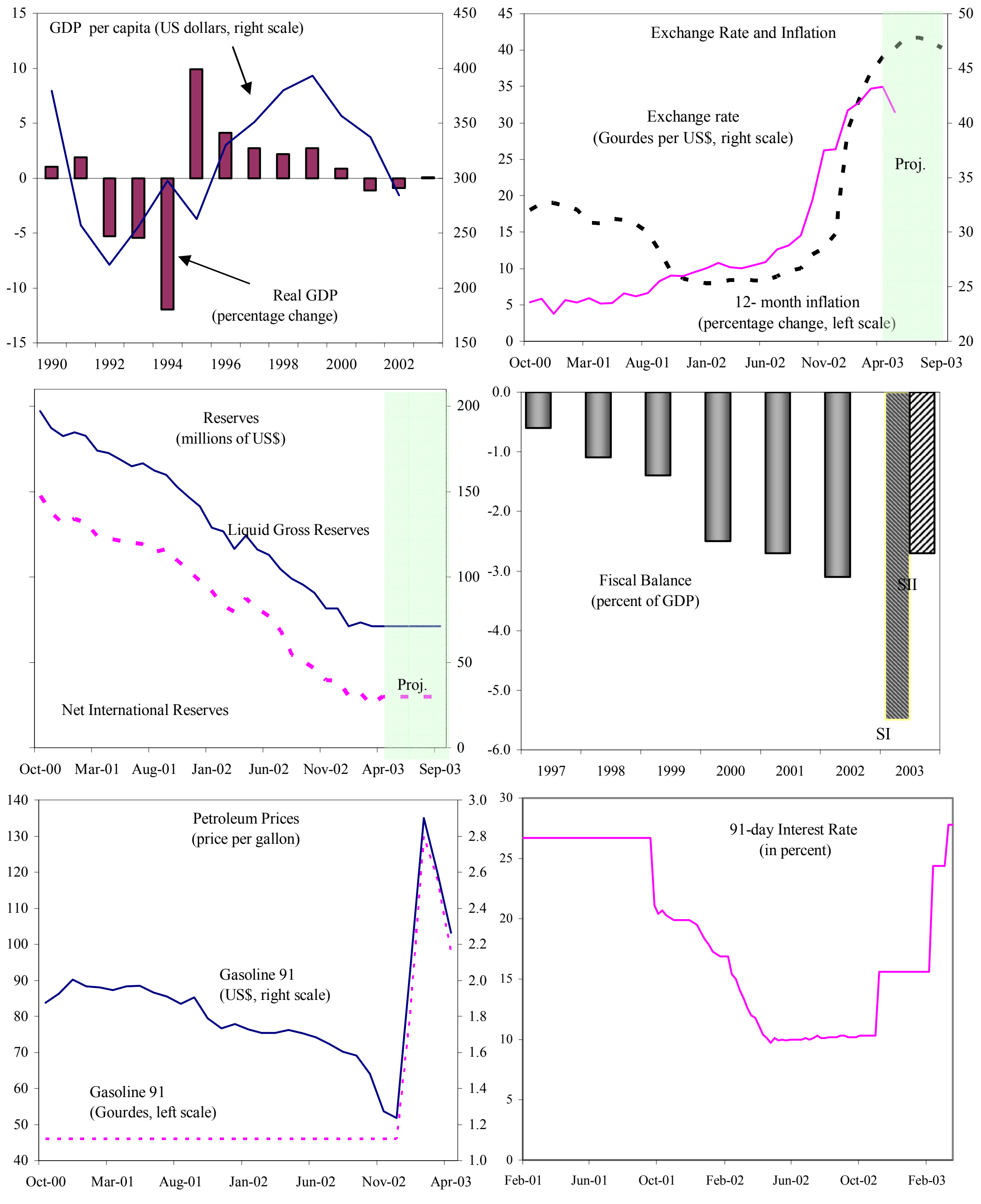
needed to clear the arrears. The full return of donor support and the transition to a PRGF-supported program will also depend on progress in resolving the domestic political situation.

26. **Measures to improve governance will initially focus on the public sector.** The gradual phasing-out of ministerial current accounts will be crucial to strengthen expenditure control and accountability. The planned external audits of the five major public enterprises are key first steps in strengthening their governance and performance.

27. **The staff welcomes the planned improvements in the legal framework of the banking sector.** The new banking law should meet international standards. The staff encourages the authorities, in preparing a new central bank law, to provide for appropriate independence of the monetary authorities.

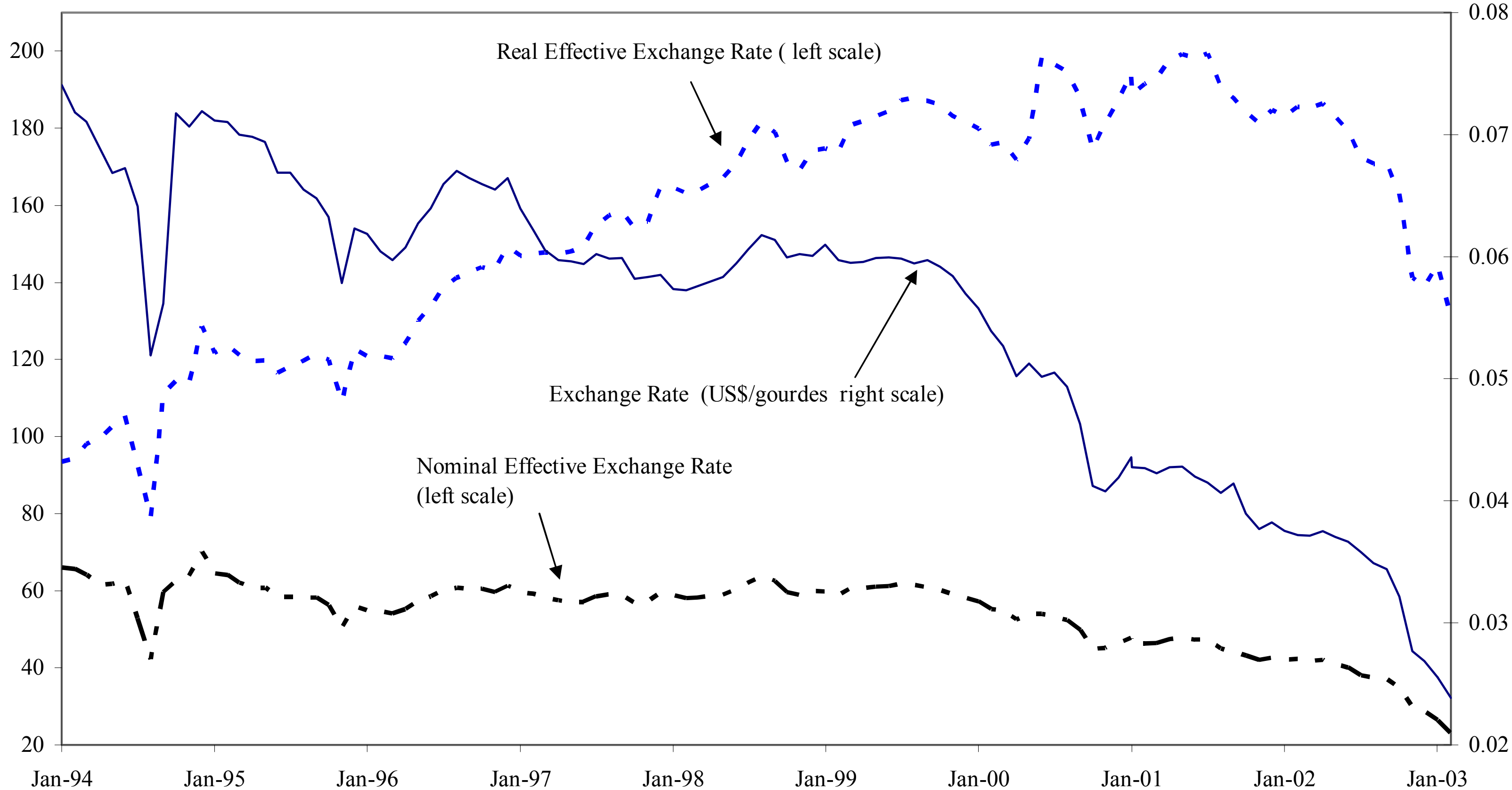
28. **Overall, the authorities' program represents a strong effort to stabilize the economy and start creating the condition for sustained recovery.** The authorities have shown a strong commitment to the program and have already taken some important measures. Even so, program implementation will be a challenge given the large adjustment need and the difficult economic, social, and political situation, and the staff urges the authorities to work on strengthening the domestic political consensus. Fund staff will closely monitor performance under the program, using quarterly reviews, indicative targets and structural benchmarks.

Figure 1. Haiti: Selected Economic Indicators, 1990-2003



Source: Central Bank of Haiti, and Fund Staff estimates.

Figure 2. Haiti: Exchange Rates 1/
1990 = 100



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

1/ An increase indicates an appreciation.

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Table 1. Haiti: Comparative Social Indicators

	Haiti	Guatemala	Nicaragua	Honduras	Dominican Republic	Average for Latin America and the Caribbean
Rank in UNDP Human Development Index (out of 173 countries) (2002)	146	120	118	116	94	…
GDP per capita in PPP, U.S. dollars (2000)	1,467	3,821	2,366	2,453	6,033	7,234
People not expected to survive to age 40 (in percent of population) (2000)	31.6	15.6	11.5	16.0	11.9	9.7
Life expectancy at birth (years) (2000)	52.6	64.8	68.4	65.7	67.1	70.0
Infant mortality (per 1,000 live births) (2000)	81	44	37	32	42	30
Population without access to safe water (in percent, 2000	54	8	21	10	21	22
Per capita health exp. in PPP, U.S. dollars (1998)	21	78	54	74	95	n.a.
Physicians per 100,000 people (1990–99)	8	93	86	83	216	n.a.
Adult illiteracy (in percent of age 15 and above, 2000)	50.2	31.4	33.5	25.4	16.4	11.7
Primary school net enrollment (in percent of relevant age of the population) 1/	80	73.8	78.6	87.5	87	93.3
Percentage of population below the poverty line 2/	65	57.9	50.3	53.0	16.0	n.a.

Source: UNDP Human Development Report 2002.

1/ For Haiti and the Dominican Republic, the information refers to 1998; for Guatemala, Nicaragua, and Honduras to 1997.
2/ For Haiti, the information refers to the percentage of population below the national poverty line.

Table 2. Haiti: Selected Economic and Financial Indicators

	Fiscal Year Ending September 30						
				I	II	Year	Prel.
				Oct.–Mar.	Apr.–Sep. 1/	Oct.–Sep. 2/	Proj.
	2000	2001	2002	2003			2004
(Percentage change vis-à-vis the preceeding period, unless otherwise indicated)							
National income and prices							
GDP at constant prices	0.9	-1.1	-0.9	0.0	0.0	0.0	1.0
GDP deflator	11.2	16.3	9.0	12.0	14.0	20.7	14.0
Consumer prices (period average)	11.5	16.8	8.7	16.9	23.6	32.3	20.2
Consumer prices (end-of-period)	15.3	12.3	10.1	29.1	9.9	41.8	10.0
External sector							
Exports (f.o.b.) 3/	-2.5	-7.8	-10.5	...	...	17.6	12.5
Imports (f.o.b.) 3/	6.8	-2.9	-6.9	...	...	4.6	11.8
Real effective exchange rate (+ appreciation)	-6.3	7.6	-9.1	...	...	...	....
Central government							
Total revenue 4/	-0.3	3.8	20.2	9.8	23.5	24.1	32.1
Total expenditure	13.4	8.7	23.4	22.6	-3.4	33.5	6.7
Money and credit							
Net domestic assets 5/	18.1	9.4	17.3	18.7	6.4	26.8	5.6
Credit to public sector (net) 5/	8.0	8.5	9.5	7.1	2.6	10.3	2.7
Credit to private sector 5/	16.9	-3.5	5.9	11.0	3.8	15.8	2.9
Broad money	36.2	5.2	17.3	26.3	9.8	38.7	9.7
Velocity (GDP relative to broad money)	2.6	2.8	2.6	2.3	2.5	2.5	2.4
Average interest rate on time deposits	12.7	13.5	7.6			...	..
(In percent of GDP, unless otherwise indicated)							
Gross domestic investment	27.3	22.8	20.4	...	...	20.0	20.5
Gross domestic savings (excluding grants)	20.8	16.7	16.3	...	...	14.7	13.0
Central government overall balance	-2.5	-2.7	-3.1	-5.5	-2.7	-4.0	-1.9
Central government overall balance including grants	-2.2	-2.3	-3.0	-5.5	-2.5	-3.9	-1.5
External current account balance	-6.6	-6.1	-4.1	...	...	-5.3	-7.5
External public debt (end-of-period)	28.9	31.2	33.0	...	...	40.3	44.6
External public debt service (in percent of exports of goods and services)	7.8	8.6	8.1	...	...	7.2	7.2
(In millions of U.S. dollars, unless otherwise indicated)							
Overall balance of payments	-52.0	-8.0	-71.0	...	...	-35.0	25.8
Gross international reserves (end-of-period)	272.0	277.0	227.7	188.0	212.0	212.0	226.0
Net international reserves 6/	162.9	108.8	50.5	30.0	30.0	30.0	50.0
Gross international reserves (in months of imports of goods and services, end-of-period) 7/	1.9	1.5	0.9	0.8	0.7	0.7	0.8
Exchange rate (end-of-period)	28.3	25.5	29.7	42.2	...	...	...

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

1/ Program (April–September 2003).
2/ Preliminary data for first semester of FY 2002/03 and targets for second semester as in the program.
3/ Revised data from the central bank.
4/ Excluding grants.
5/ In relation to broad money at the beginning of the period.
6/ Excludes commercial banks' foreign currency deposits with the BRH.
7/ Freely usable reserves.

Table 3. Haiti: Central Government Operations (Cont.) 1/

(In percent of GDP)

	Fiscal Year Ending September 30						
				Prel. Oct.–Mar. 3/	Prog. Apr.–Sep. 4/	Prog. Oct.–Sep. 5/	Prel. Oct.–.Sep.
	2000	2001	2002	2003 2/			2004
Total revenue	**6,272**	**6,509**	**7,828**	**4,346**	**5,369**	**9,715**	**12,829**
Current revenue	6,256	6,509	7,826	4,346	5,369	9,715	12,829
Internal	4,363	4,504	5,587	3,262	3,508	6,770	8,597
External	1,651	1,772	2,069	917	1,777	2,694	4,097
Other current revenue	242	233	170	167	84	251	134
Transfers from public enterprises	16	0	2	0	0	0	0
Total expenditure	**7,850**	**8,728**	**10,772**	**7,316**	**7,064**	**14,380**	**15,347**
Current expenditure	5,795	7,150	8,864	5,346	5,120	10,466	10,820
Wages and salaries	3,243	3,387	3,480	1,915	1,935	3,850	4,244
Net operations	1,632	2,627	3,888	2,175	1,979	4,154	4,017
Interest payments	628	767	729	515	600	1,115	1,086
External	323	436	353	301	360	661	666
Domestic	305	331	376	214	240	454	420
Transfers and subsidies	292	369	767	741	606	1,347	1,473
Capital expenditure	2,063	1,578	1,908	1,970	1,944	3,914	4,527
Net lending	-9	0	0	0	0	0	0
Current account balance	**461**	**-641**	**-1,038**	**-1,000**	**249**	**-751**	2,009
Overall balance excluding exceptional outlays	**-1,577**	**-2,219**	**-2,944**	**-2,970**	**-1,695**	**-4,665**	**-2,518**
Exceptional outlays	387	221	17	0	0	0	0
Structural reforms	31	6	0	0	0	0	0
Hurricane relief	4	0	0	0	0	0	0
Elections	352	215	17	0	0	0	0
Overall balance	**-1,964**	**-2,440**	**-2,961**	**-2,970**	**-1,695**	**-4,665**	**-2,518**
Financing	**1,964**	**2,440**	**2,961**	**2,970**	**1,695**	**4,665**	**2,518**
External net financing	**-26**	**175**	**399**	**370**	**495**	**865**	**-4,801**
Grants	265	370	113	0	135	135	473
Loans (net)	-291	-481	-482	-349	-587	-936	-1,181
Disbursements	139	50	102	113	0	113	0
Amortization	-429	-531	-584	-462	-587	-1,049	-1,181
Arreas (net)		286	768	719	947	1,666	-4,092
Accumulation		286	827	719	947	1,666	0
Reduction (-)		0	-59	0	0	0	-4,092
Internal net financing	**1,990**	**2,265**	**2,562**	**2,600**	**1,200**	**3,800**	**1,380**
Banking system	1,857	2,255	2,795	2,725	1,200	3,925	1,380
BRH 6/	1,951	2,248	2,898	2,700	1,200	3,900	1,380
Commercial banks 6/	-94	7	-103	25	0	25	0
Other	-11	-9	0	0	0	0	0
Arreas (net)	144	19	-233	-125	0	-125	0
Accumulation	827	465	55	84	0	84	0
Reduction	-683	-446	-288	-209	0	-209	0
Financing gap 7/	0	0	0	0	0	0	5,939

Table 3. Haiti: Central Government Operations (Concluded) 1/

(In percent of GDP)

Total revenue	**8.1**	**7.3**	**8.1**	**8.1**	**8.6**	**8.4**	**9.6**
Current revenue	8.1	7.3	8.1	8.1	8.6	8.4	9.6
Internal	5.6	5.0	5.8	6.0	5.6	5.8	6.4
External	2.1	2.0	2.1	1.7	2.9	2.3	3.1
Others	0.3	0.3	0.2	0.3	0.1	0.2	0.1
Transfers from public enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	**10.1**	**9.8**	**11.2**	**13.6**	**11.3**	**12.4**	**11.5**
Current expenditure	7.5	8.0	9.2	9.9	8.2	9.0	8.1
Wages and salaries	4.2	3.8	3.6	3.5	3.1	3.3	3.2
Net operations	2.1	2.9	4.0	4.0	3.2	3.6	3.0
Interest payments	0.8	0.9	0.8	1.0	1.0	1.0	0.8
External	0.4	0.5	0.4	0.6	0.6	0.6	0.5
Domestic	0.4	0.4	0.4	0.4	0.4	0.4	0.3
Transfers and subsidies	0.4	0.4	0.8	1.4	1.0	1.2	1.1
Capital expenditure	2.7	1.8	2.0	3.7	3.1	3.4	3.4
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current account balance	**0.6**	**-0.7**	**-1.1**	**-1.9**	**0.4**	**-0.6**	**1.5**
Overall balance excluding exceptional outlays	**-2.0**	**-2.5**	**-3.1**	**-5.5**	**-2.7**	**-4.0**	**-1.9**
Exceptional outlays	**0.5**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Structural reforms	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hurricane relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Elections	0.5	0.2	0.0	0.0	0.0	0.0	0.0
Overall balance	**-2.5**	**-2.7**	**-3.1**	**-5.5**	**-2.7**	**-4.0**	**-1.9**
Financing	**2.5**	**2.7**	**3.1**	**5.5**	**2.7**	**4.0**	**1.9**
External net financing	**0.0**	**0.2**	**0.4**	**0.7**	**0.8**	**0.7**	**-3.6**
Grants	0.3	0.4	0.1	0.0	0.2	0.1	0.4
Net loans	-0.4	-0.5	-0.5	-0.6	-0.9	-0.8	-0.9
Disbursements	0.2	0.1	0.1	0.2	0.0	0.1	0.0
Amortization	-0.6	-0.6	-0.6	-0.9	-0.9	-0.9	-0.9
Arreas (net)	0.0	0.3	0.8	1.3	1.5	1.4	-3.1
Accumulation	0.0	0.3	0.9	1.3	1.5	1.4	0.0
Reduction	0.0	0.0	-0.1	0.0	0.0	0.0	-3.1
Internal net financing	**2.6**	**2.5**	**2.7**	**4.8**	**1.9**	**3.3**	**1.0**
Banking System	2.4	2.5	2.9	5.1	1.9	3.4	1.0
BRH 6/	2.5	2.5	3.0	5.0	1.9	3.4	1.0
Commercial banks 6/	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arreas (net)	0.2	0.0	-0.2	-0.2	0.0	-0.1	0.0
Accumulation	1.1	0.5	0	0.2	0.0	0.1	0.0
Reduction	-0.9	-0.5	-0.3	-0.4	0.0	-0.2	0.0
Financing gap 7/	0.0	0.0	0	0.0	0.0	0.0	4.4
Memorandum item:							
Nominal GDP (millions of gourdes)	77580	89190	96342	107903	124674	116289	133895

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

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

2/ Revenues and Expenditures for 2003 are expressed on an annualized basis.

3/ Preliminary data for first semester.

4/ Program for second semester of FY 2002/03 (April–September 2003), after discussions with the authorities.

5/ Preliminary data for first semester with target for second semester as in the program.

6/ As reported by the Finance Ministry.

7/ To cover the clearance of external arrears and current debt service.

Table 4. Haiti: Summary Accounts of the Banking System

	Fiscal Year Ending September 30								
						Proj.	Prog. 1/		
						March	September		Prel. Proj.
	1998	1999	2000	2001	2002	2003			2004
	(In millions of gourdes)								
	I. Central Bank								
Net foreign assets 2/	**3,281**	**3,695**	**4,881**	**4,491**	**3,939**	**4,240**	**5,881**	**5,881**	**7,452**
(In millions of U.S. dollars)	195	218	172	176	133	100	131	131	151
Net international reserves (program)	189	209	163	109	50	30	30	30	50
Commercial bank deposits	5	9	9	67	82	70	101	101	100
Net domestic assets	**235**	**294**	**402**	**1,142**	**2,729**	**4,574**	**3,258**	**3,258**	**2,693**
Credit to the nonfinancial public sector 3/	6,687	7,861	9,676	12,169	15,244	17,923	19,123	19,123	20,503
Liabilities to commercial banks	-5,532	-7,029	-8,465	-10,468	-12,107	-13,035	-15,670	-15,670	-17,815
Of which									
Cash-in-vault and reserve deposits	-3,903	-3,924	-7,164	-7,691	-8,954	-10,748	-13,183	-13,183	-14,425
BRH bonds	-1,629	-3,105	-1,301	-2,777	-3,153	-2,287	-2,488	-2,488	-3,390
Other	-920	-538	-809	-560	-408	-314	-194	-194	5
Currency in circulation	**3,516**	**3,990**	**5,284**	**5,633**	**6,668**	**8,813**	**9,139**	**9,139**	**10,145**
	II. Consolidated Banking System								
Net foreign assets	**5,115**	**5,605**	**9,635**	**8,354**	**8,346**	**11,163**	**12,780**	**12,780**	**14,893**
(In millions of U.S. dollars)	304	331	340	328	281	264	284	284	301
Of which: commercial banks NFA	109	113	168	152	148	164	153	153	150
Net domestic assets	**13,709**	**16,552**	**20,554**	**23,400**	**28,899**	**35,879**	**38,884**	**38,884**	**41,783**
Credit to the nonfinancial public sector 3/	6,485	7,937	9,700	12,257	15,273	17,903	19,123	19,123	20,503
Credit to the private sector	9,124	9,946	13,685	12,636	14,512	18,598	20,387	20,387	21,906
In gourdes	6,455	6,135	7,406	7,414	8,085	9,863	10,937	10,937	12,366
In foreign currency	2,669	3,811	6,279	5,222	6,427	8,735	9,450	9,450	9,540
(In millions of U.S. dollars)	164	225	222	205	216	194	210	210	212
Other	-1,900	-1,331	-2,832	-1,493	-886	-621	-626	-626	-626
Broad money	**18,825**	**22,158**	**30,189**	**31,753**	**37,245**	**47,042**	**51,664**	**51,664**	**56,676**
Currency in circulation	3,516	3,990	5,284	5,633	6,668	8,813	9,139	9,139	10,145
Gourde deposits	10,816	12,443	14,084	15,395	16,810	19,422	21,645	21,645	23,625
Foreign currency deposits	4,492	5,725	10,821	10,725	13,766	18,807	20,880	20,880	22,906
(In millions of U.S. dollars)	276	338	382	421	464	445.5	464	464	463
	(Percentage change relative to broad money in the preceeding period)								
Net foreign assets	3.3	2.6	18.2	-4.2	0.0	7.6	3.4	11.9	4.1
Net domestic assets	11.4	15.1	18.1	9.4	17.3	18.7	6.4	26.8	5.6
Credit to the nonfinancial public sector 3/	3.4	7.7	8.0	8.5	9.5	7.1	2.6	10.3	2.7
Credit to the private sector	7.6	4.4	16.9	-3.5	5.9	11.0	3.8	15.8	2.9
	(12-month percentage change)					(6-month percentage change)		(12-month percentage change)	
Broad money	14.7	17.7	36.2	5.2	17.3	26.3	9.8	38.7	9.7
Currency in circulation	4.8	13.5	32.4	6.6	18.4	32.2	3.7	37.1	11.0
Gourde deposits	13.7	15.0	13.2	9.3	9.2	15.5	11.4	28.8	9.2
Foreign currency deposits	26.7	27.4	89.0	-0.9	28.4	36.6	11.0	51.7	9.7
Credit to the nonfinancial public sector 3/	9.4	22.4	22.2	26.4	24.6	17.2	6.8	25.2	7.2
Credit to the private sector	15.8	9.0	37.6	-7.7	14.8	28.2	9.6	40.5	7.5
Memorandum items:									
End-of-period gourdes per U.S. dollar	16.30	16.94	28.33	25.49	29.70	42.20	...	...	...
Net international reserves									
in percent of broad money	17.4	16.7	16.2	14.1	10.6	9.0	11.4	11.4	13.1
Percent in foreign currency									
Bank deposits	29.3	31.5	43.4	41.1	45.0	49.2	49.1	49.1	49.2
Credit to the private sector	29.3	38.3	45.9	41.3	44.3	47.0	46.4	46.4	43.5
Commercial Bank US$ loan/US$ deposits	59.4	66.6	58.0	48.7	46.7	43.6	45.3	45.3	45.8

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

1/ Program based on actuals for the first semester and program targets for the second semester.
2/ Includes commercial banks' foreign currency deposits. For program monitoring, they are excluded from net international reserves.
3/ Excludes special accounts.

Table 5. Haiti: Balance of Payments

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

	Fiscal Year Ending September 30					
				Prel.	Proj	
	1999	2000	2001	2002	2003	2004
Current account deficit (-)						
(excluding grants)	**-298.3**	**-258.8**	**-224.1**	**-144.7**	**-146.9**	**-217.2**
Trade balance (deficit -)	-678.2	-755.8	-750.2	-709.4	-706.5	-797.9
Exports, f.o.b.	339.4	331.0	305.2	273.2	321.3	351.0
Of which						
Assembly industry exports	263.9	257.7	251.2	220.8	264.9	291.4
Imports, f.o.b.	-1,017.6	-1,086.7	-1,055.4	-982.6	-1,027.8	-1,148.8
Services (net)	-48.8	-96.3	-108.1	-92.6	-121.9	-118.4
Receipts	188.8	172.0	137.4	163.7	161.8	180.4
Payments	-237.6	-268.3	-245.4	-256.3	-283.6	-298.8
Income (net)	6.6	15.2	10.6	8.2	8.5	13.7
Of which						
Interest payments	-20.2	-13.8	-10.7	-14.5	-14.7	-14.5
Private transfers (net) 1/	422.1	578.0	623.6	649.0	673.0	685.3
External grants 2/	**256.8**	**221.3**	**160.6**	**135.1**	**140.2**	**210.8**
Current account deficit (-)						
(including grants)	**-41.5**	**-37.6**	**-63.4**	**-9.6**	**-6.7**	**-6.5**
Capital and financial accounts (deficit -)	**65.0**	**-14.4**	**55.5**	**-61.4**	**-28.2**	**32.3**
Public sector capital flows (net)	57.9	41.3	0.8	-8.0	-0.9	4.3
Loan disbursements	82.4	66.9	28.3	13.0	19.3	29.3
Amortization	-24.5	-25.7	-27.5	-21.0	-20.2	-25.0
Banks (net)	-3.9	-55.1	16.0	3.4	-5.0	-2.0
Direct investment	30.0	8.0	2.0	4.7	20.0	30.0
Other 3/	-19.0	-8.6	36.7	-61.5	-42.3	0.0
Overall balance (deficit -)	**23.5**	**-52.0**	**-8.0**	**-71.0**	**-35.0**	**25.8**
Financing	**-23.5**	**52.0**	**8.0**	**71.0**	**35.0**	**-106.6**
Change in net international reserves						
(increase -)	-23.5	46.0	-3.9	43.5	2.0	-20.0
Change in arrears (reduction -)	0.0	6.0	11.8	27.4	33.0	-86.6
Rescheduling	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**80.8**
Memorandum items:						
Current account balance, excluding						
grants (in percent of GDP)	-7.2	-6.6	-6.1	-4.0	-5.3	-7.5
Current account balance, including						
grants (in percent of GDP)	-1.0	-1.0	-1.7	-0.3	-0.2	-0.2
Exports (f.o.b.) growth	13.4	-2.5	-7.8	-10.5	17.6	9.2
Import (f.o.b.) growth	23.8	6.8	-2.9	-6.9	4.6	11.8
External debt as percent of exports	216.3	226.8	260.6	268.3	230.9	222.7
Debt service as percent of exports	8.5	7.8	8.6	8.1	7.2	7.5
Gross official reserves (US$ million)	329.0	272.0	277.0	227.7	212.0	226.0
Net international reserve (US$ million) 4/	208.7	162.9	108.8	50.5	30.0	50.0
Gross international reserves (in months of imports						
of goods and services)	3.1	2.4	2.6	2.2	2.1	2.4

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

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

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

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

4/ Program definition, excluding dollar commercial bank deposits at the BRH.

Table 6. Haiti: Stock of External Arrears and Projected Debt Service

(In millions of U.S. dollars)

	Fiscal Year Ending September 30						
	1998	1999	2000	2001	2002	2003 1/	2004 1/
External arrears							
Total	**0.0**	**0.0**	**6.0**	**17.8**	**45.3**	**86.6**	**0.0**
Multilateral creditors	**0.0**	**0.0**	**2.1**	**11.3**	**33.4**	**65.6**	**0.0**
IDB	0.0	0.0	0.2	4.0	15.4	33.0	0.0
World Bank/IDA	0.0	0.0	0.8	6.1	17.6	30.3	0.0
IMF	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Other (OPEC and FIDA)	0.0	0.0	0.9	1.1	0.4	2.3	0.0
Bilateral creditors	**0.0**	**0.0**	**3.9**	**6.6**	**11.9**	**21.0**	**0.0**
Projected debt service 2/							
Total	**…**	**…**	**…**	**…**	**…**	**…**	**45.9**
Multilateral creditors	**…**	**…**	**…**	**…**	**…**	**…**	**38.2**
IDB	…	…	…	…	…	…	17.3
World Bank/IDA	…	…	…	…	…	…	12.5
IMF	…	…	…	…	…	…	6.9
Other (OPEC and FIDA)	…	…	…	…	…	…	1.5
Bilateral creditors	**…**	**…**	**…**	**…**	**…**	**…**	**7.8**

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

1/ Projections, assuming full clearance of arrears by end of FY 2004.
2/ Excluding arrears reduction.

Port-au-Prince, Haiti
June 10, 2003

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

Dear Mr. Köhler:

1. Haiti's critical challenge is to generate sustained economic growth and reduce widespread poverty. Unfortunately, economic conditions have deteriorated sharply over the last three years, reflecting a difficult political situation, weak private sector confidence and investment, and shrinking official foreign assistance other than humanitarian aid.

2. The government took significant corrective action in early 2003 to stabilize the economy. A flexible domestic fuel pricing system was adopted that entailed large price increases; the budget for FY 2002/03 adopted by parliament aims at lowering the fiscal deficit significantly; and the central bank tightened monetary policy. Based on these measures, inflationary pressures started to ease, and net international reserves and the foreign exchange market stabilized.

3. Building on the progress made, the government intends to continue and broaden its adjustment and reform effort, with a view to creating the conditions for sustained rapid growth and poverty reduction with broad support from the international community. To this end, and to establish an adequate track record toward a possible PRGF arrangement, we are pursuing a one-year economic and financial program that is summarized in the attached Memorandum of Economic and Financial Policies. The government requests that IMF staff monitor and follow up the execution of this program over the next twelve months.

4. The government will communicate to the IMF all the information needed to monitor progress in implementing the program. The authorities intend to review with IMF staff the progress made during the first six months of the program by September 2003 at the latest.

Sincerely yours,

/s/	/s/
Faubert Gustave Minister of Economy and Finance Haiti	Venel Joseph Governor Bank of the Republic of Hait

Attachments

HAITI—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR THE SECOND SEMESTER OF FY 2002/03

BACKGROUND

1. Haiti is facing a very difficult economic situation. Against the background of sharply declining real incomes over the past decade, the critical challenge for the country is to generate sustained economic growth and reduce widespread poverty. Unfortunately, the economic situation has deteriorated further over the last three years, reflecting a difficult political situation, weak private sector confidence and investment, and shrinking official foreign assistance other than humanitarian aid. Over this period, real GDP declined, the exchange rate depreciated markedly, and inflation accelerated. As fiscal deficits widened, international reserves were drawn down substantially, and external arrears accumulated vis-à-vis MDBs and bilaterals. As a result, the already precarious economic and social conditions of the population took a further turn for the worse.

2. Faced with this deterioration, the authorities in early 2003 took corrective action to stabilize the economy. To eliminate subsidies on consumption of petroleum products, the government decided to apply the law of March 1995 relating to petroleum excise duties and the implementation of a flexible mechanism for setting prices for petroleum products. Petroleum prices were thus raised by about 130 percent in January–February, a politically and socially difficult step. This fuelled popular demonstrations and a significant increase in the rate of inflation. The purchasing power of the least-affluent segments of society was eroded due to the impact of this measure on public transport prices and the cost of kerosene used by the poorest. At present, however, following information campaigns carried out by the government, the population overall seems to have understood the necessity of this measure. Moreover, as a result of the appreciation of the gourde in the first quarter of the fiscal year, domestic fuel prices went down in March and April, in line with decreasing landed costs. The budget for FY 2002/03 was submitted to parliament in February, designed to lower the fiscal deficit significantly. In mid-March, a protocol on cash management between the ministry of finance and the central bank was finalized; ceilings on central bank financing of the government for the third and fourth quarters of the fiscal year were subsequently set at G 1.2 billion. Regarding monetary policy, the central bank raised the interest rate on the benchmark 91-day bond in several steps to 28 percent in mid-March. As bank liquidity became tighter, commercial banks' deposit and lending rates followed suit. Based on these measures, inflationary pressures started to ease, and net international reserves and the foreign exchange market stabilized.

PROGRAM FOR 2003–04

3. Building on the progress made, the government intends to continue and broaden its adjustment and reform efforts in the period ahead. Our goal is to develop and implement a comprehensive medium-term program that will create the conditions for sustained rapid growth and poverty reduction with broad support from the international community including the IMF. Toward this goal, and to establish an adequate track record toward a possible PRGF

arrangement, we are pursuing a one-year economic and financial program, the implementation of which will be monitored by Fund staff. The key economic objectives of the program are as follows:

Haiti: Key Economic and Financial Indicators

	FY 2001/02	FY 2002/03 Est. I 1/	FY 2002/03 Prog. II 2/	FY 2002/03 Year 3/
(Annual percentage change)				
GDP at constant prices	-0.9	..	..	0.0
Consumer prices (12-month, end-of-period)	10.1	36.9	41.8	41.8
(In percent of GDP, unless otherwise indicated)				
External current account balance 4/	-4.0	..	..	-5.3
Usable gross international reserves (millions of U.S. dollars) 5/	96	68	68	68
Central government overall balance, excluding grants	-3.1	-5.5	-2.7	-4.0
Central bank financing of the government	3.0	5.0	1.9	3.5

1/ October 2002–March 2003.
2/ Program for the second semester of FY 2002/03 (April–September 2003).
3/ Actuals for the first semester and program targets for the second semester.
4/ Excluding grants.
5/ Excludes commercial banks' foreign currency deposits with the BRH.

4. While we envisage the staff-monitored program to cover one year, we have initially specified policies and quantitative targets for the first six months (covering the second half of the FY 2002/03). Following a review with Fund staff, the program will be updated to cover the first half of FY 2003/04 (October 2003–March 2004). Our program for the second semester of FY 2002/03 assumes flat real GDP and aims at lowering the inflation rate to about 10 percent during the period of April-September 2003 (from currently 29 percent, in the preceding 6-month period); this would contain the 12-month rate to about 42 percent. The main strategy to achieve this goal is to sharply reduce central bank financing of the fiscal deficit, and to raise interest rates if necessary to meet minimum foreign reserve targets without further exchange rate depreciation. In addition, we are initiating important structural reforms focused on strengthening the finances and governance in the public sector. These reforms include steps to raise fiscal revenues, curtail discretionary spending, reduce further central bank financing of the budget deficit, clear external arrears, enhance transparency of public sector operations including in the public enterprises, and reinforce the requirement of the latter to be accountable for their management.

Fiscal policy

5. The budget for FY 2002/03 that was submitted to parliament in February has been overtaken by events in several respects. External financing will likely be significantly lower than assumed and the level of expenditure during the first half of the fiscal year resulted in a much higher deficit than planned. As a result, central bank financing of the deficit (close to

5 percent of GDP on an annual basis) was more than double the budget target for the entire year. While the recent adjustments to petroleum prices will help narrow the budget gap, the original targets for revenue, expenditures, and central bank financing of the deficit have become unattainable. Our revised budget targets for FY 2002/03, adopted by parliament on June 3 are as follows:

Haiti: Central Government Budget 2002/03
(In percent of GDP)

	Original Budget	I Oct.–Mar. (Estimate)	II Apr.–Sep. (Program)	Year (Program)
Revenue	8.7	8.1	8.7	8.3
Of which: petroleum taxation	...	0.0	1.8	1.0
Expenditure	12.3	13.6	11.3	12.4
Wages and salaries	3.7	3.5	3.1	3.3
Net operations	2.5	4.0	3.2	3.6
Transfers and subsidies	1.2	1.4	1.0	1.2
Capital outlays	4.1	3.7	3.1	3.4
Elections	0.1	0.0	0.0	0.0
Deficit	-3.8	-5.5	-2.7	-4.1
(Central bank financing)	(2.3)	(5.0)	(1.9)	(3.5)

6. To achieve these targets, new revenue measures will be taken, including:

- Widening the tax base through: more stringent granting of tax exemptions to NGOs; generalizing a two-percent withholding tax at customs that now applies only to part of imports,[6] and including new sectors in the base of the turnover tax; and increasing the verification fees on imported goods to 5 percent, as a temporary measure to be assessed after no more than one year.
- Increasing excise taxes on alcohol and tobacco; and
- Strengthening tax and customs administration, with better coordination between domestic tax and customs directorates, and improved valuation of imports with the assistance of a pre-shipment inspection firm (a contract with the firm has been signed on May 5, 2003).

Expenditure will be reduced mainly by:

- Containing nonwage current expenditure, in particular outlays for operations, by way of improved prioritization in spending;

[6] Currently, importers formally registered with the tax authority pay a 1 percent withholding tax, while other importers pay a 2-percent withholding tax.

- Limiting non-essential capital spending, focusing outlays mainly on projects to improve the economic and social infrastructure; and

- Maintaining the civil service wage bill at its current level.

Monetary and exchange rate policy

7. The monetary program for the second semester of FY 2002/03 aims at reducing inflation, and stabilizing international reserves, in the context of the floating exchange rate system. Preventing further large depreciation of the gourde is essential in near-term to stabilize expectations and increase private sector confidence. While the central bank will refrain from interventions in the foreign exchange market (except for the purchases needed to service the government's foreign exchange needs), it will conduct monetary policy with a view to stemming significant depreciation pressures, until underlying inflation has declined to the targeted range. The central bank's main instrument for controlling gourde liquidity will remain the issuance of its bonds at market-determined interest rates. Given the considerable uncertainty about the inflation outlook, if necessary the central bank will further tighten monetary policy via higher interest rates and increased issuance of BRH bonds to absorb liquidity.

Structural reforms and governance

8. The focus of governance measures under the program will be on the public sector, including public enterprises. By September 2003, the criteria for channeling outlays through discretionary ministerial accounts will be tightened. Subsequently, their use (except for project accounts managed jointly with donors), will be gradually restricted to one account per ministry, earmarked for emergency outlays, by March 2004. Detailed data on the budget approved by parliament, fiscal developments, and the fuel pricing mechanism will be published on a regular basis on the finance ministry's web site (starting on May 31, 2003). The government will start preparing the budget law for FY 2003/04 early enough so that it can be submitted to parliament before the start of the fiscal year (October 1). The government will create legal and material conditions for effective auditing by the Office of Budget Control (CSCCA) by March 2004. During the program period, expenditure management, control and reporting/classification of outlays in ministries will be enhanced (and we are benefiting from technical assistance from the IDB in these areas). The government is committed to undertaking an external audit or evaluation of five major public enterprises (EDH, Teleco, Camep, Airport Authority, Harbor Authority) during the program period, starting with EDH and Teleco, for which it will be necessary to identify sources of finance. Thus, the government has requested the support of the World Bank and has invited it to send a mission to Haiti to determine the strategy for the audit/evaluation. The authorities will start discussions in the coming weeks with the World Bank on additional governance measures, with a view to developing an agenda of measures that could be supported by increased World Bank engagement. In parallel, they will start discussions with donors with respect to preparation for an Interim-Poverty Reduction Strategy Paper.

9. The authorities will submit to parliament a new banking law by December 2003 to bring bank regulations in line with international standards. In the first half year of FY 2003/04, they will prepare a new law of the central bank in consultation with the IMF to provide it an adequate degree of autonomy in the conduct of monetary policy. The Financial Intelligence Unit (UCREF) will become operational by end-July 2003, and the reform of the credit cooperatives sector will be continued.

Financing and arrears clearance

10. Over the program period, the government will develop a plan for the clearance of all of Haiti's external arrears in close consultation with the staff of the IMF and the World Bank. It intends to seek donor financing for arrears clearance, with a view to clearing all arrears to the World Bank and IDB by March 2004, thus facilitating the transition to a fully financed PRGF-supported program. Clearance of arrears will likely proceed sequentially, starting with the creditors that are the most advanced in the process of reactivating their loans.

Program monitoring

11. Performance under the program will be monitored using quarterly indicative targets, structural benchmarks, and quarterly reviews. Indicative targets for end-June 2003 and end-September 2003, as specified in Table 1, relate to net international reserves and net domestic assets of the central bank; net domestic banking sector credit to the nonfinancial public sector; net central bank credit to the central government; and domestic arrears of the central government. An understanding on policies and targets for FY 2003/04 will be reached in the context of the first review (by end-September 2003 at the latest). The main policy actions envisaged under the program are listed in Table 2, including those constituting structural benchmarks. Approval by the management of the IMF of the Letter of Intent and the Memorandum of Economic and Financial Policies (MEFP) and their transmission to the Executive Board are subject to the implementation of the following prior actions: (a) parliamentary approval of a budget for FY 2002/03 in line with the fiscal targets established in the program (paragraph 5 of this MEFP); (b) the signing of a protocol between the finance ministry and the BRH that stipulates ceilings on central bank financing of the government of no more than 1.9 percent of GDP on an annual basis during April–September 2003; and (c) starting publication of detailed data on the flexible fuel pricing mechanism on a monthly basis.

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

Table 1. Haiti: Indicative Targets, June–September 2003 1/

	Estimated Stock at end-March. 2003	Cumulative Flows since March 2003	
		June	September
Net central bank credit to the central government (in millions of gourdes) 2/	17,938	750	1,200
Net domestic banking sector credit to the nonfinancial public sector (in millions of gourdes) 2/	17,903	770	1,220
Net domestic assets of the central bank (in millions of gourdes) 2/	7,458	-200	350
Domestic arrears of the central government		0	0
Publicly contracted or guaranteed nonconcessional external loans (in millions of U.S. dollars)			
Up to one year	...	0	0
Over one-year maturity	...	0	0
Net international reserves of central bank (in millions of dollars) 2/	30	0	0
Memorandum items: 3/			
Government current revenue (in millions of gourdes)	…	2,700	5,350
Government total expenditure (in millions of gourdes) 4/	…	3,650	7,100

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

1/ Refer to technical memorandum for definitions of indicative targets.
2/ All disbursements of nonproject external budget support will be set aside to finance the clearance of arrears to MDBs.
3/ Not targets.
4/ Excluding the cost of elections.

Table 2. Haiti: Main Policy Actions under the SMP[1]

Fiscal policy

1. Parliament to agree on amendments to the draft budget for FY 2002/03, which would contain central bank financing of the deficit at G 1,200 million (1.9 percent of GDP) during April–September 2003 **(*prior action*).**

2. Implement a cash management system, with quarterly ceilings on central bank financing of the central government agreed with staff **(*prior action*).**

3. Pre-shipment inspection firm start operating by July 31, 2003 **(*structural benchmark*).**

4. Implement revenue measures aiming at a permanent increase in the revenue-to-GDP ratio, including the draft laws annexed to the budget law for FY 2002/03.

5. Continue with implementation of a flexible price-setting mechanism for petroleum prices based on the 1995 Law.

Monetary and exchange rate policies

1. Issue central bank bonds as necessary to sell a volume of bonds consistent with the monetary framework and containment of inflation.

2. Prevent a further decline in net international reserves; refrain from intervention in the foreign exchange market; and increase interest rates if necessary to prevent a significant nominal depreciation of the gourde.

Financial sector

1. Continue to refrain from bailing out failed credit cooperatives. Refrain from bailing out depositors unless it is socially justified, within the budgeted limit (G 50 million).

2. Submit to parliament the draft banking law by December 31, 2003 **(*structural benchmark*)**; start work on updating the central bank law; and make the Financial Intelligence Unit operational.

[1] The SMP covers the period April 1, 2003–March 31, 2004.

Program financing and arrears clearance

1. During the period of the SMP, present a plan for the comprehensive clearance of external arrears, agreed by the IMF and the World Bank. Identify financing for the clearance of arrears to MDBs during the SMP period.

Governance

1. Start to publish regularly (at least monthly) on the web and/or other media updated information on the operations of the flexible domestic fuel pricing mechanism by May 31, 2003 **(*prior action*).**

2. Gradually reduce the use of ministerial current accounts by September 2003, and maintain one account per ministry earmarked for small emergency outlays by March 2004, and encourage the use of requisition procedures for other outlays **(*structural benchmark*).**

3. Publish the budget approved by the parliament and regularly (at least monthly) publish budget execution data on the web **(*structural benchmark*).**

4. Submit to parliament the FY 2003/04 draft budget on a timely basis.

5. Strengthen the operational independence, operating budget, and institutional capacity of the Cour Superieure des Comptes et du Contentieux Administratif by March 2004.

6. Carry out an external financial audit of EDH, TELECO by September 2003, and of CAMEP, AAN, APN by March 2004 **(*structural benchmark*).**

HAITI—TECHNICAL MEMORANDUM OF UNDERSTANDING

Definition of cumulative targets and adjustments

The Ministry of Economy and Finance, the Bank of the Republic of Haiti (BRH), and Fund staff will use the following definitions of indicative targets and adjustments of the indicative targets to monitor the quarterly performance under the staff monitored program for April 2003–September 2003 (second semester of FY 2002/03).

I. DEFINITIONS

A. Net BRH Credit to the Central Government1

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-March 2003;

   b. Change in the stock of special accounts (EU, PL480, rice of Japan, and United States) according to Table "Comptes Spéciaux" of the BRH from the stock of end-March 2003 will be excluded from change in net domestic credit to the central government as defined above.[2]

2. Changes in any other special account (as defined in footnote 2) maintained or established at the BRH will be treated as in 1.b above.

3. The changes will be measured on a cumulative basis from the stock at end-March 2003.

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

June 2003	September 2003
750	1200

[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 accounts (comptes-courants).

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

B. Net Domestic Banking Sector Credit to the Nonfinancial Public Sector3

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-March 2003;

   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-March 2003;

   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 United States) according to Table "Comptes Spéciaux" of the BRH from the stock of end-March 2003 will be excluded from the definition of net domestic banking sector credit to the nonfinancial public sector.

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

3. The changes will be measured on a cumulative basis from the stock at end-March 2003.

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

June 2003	September 2003
770	1220

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-March 2003; and

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

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-March 2003.

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-March 2003.

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

June 2003	September 2003
0	0

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 45 per U.S. dollar for the period April 2003–September 2003.

3. The changes will be measured on a cumulative basis from the stock at end-March 2003.

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

June 2003	September 2003
-200	350

E. Nonconcessional Loans

1. The definition of debt comprises all instruments, including new financial instruments that share the characteristics of debt, as set forth in paragraph No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No.12274-(00/85), August 24, 2000).

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

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

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

II. Quarterly Adjustments

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

F. Adjustment for Domestic Arrears Accumulation (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 accumulation.

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

June 2003	September 2003
0	0

Haiti—Performance under Previous Programs

During the past eight years, Haiti has had five programs with the Fund; a Stand-By Arrangement during FY 1994/95, an ESAF program, covering the 1996/97—1998/99 period, and three Staff-Monitored Programs in 1997/98, 1998/99, and 2000/01. Performance under these programs was mixed.

Stand-By Arrangement. Following the return to constitutional rule in October 1994, the Government of Haiti put into effect an Emergency Economic Recovery Plan (EERP) that sought to achieve rapid macroeconomic stabilization and economic growth. These efforts were supported by the international community, including a Stand-By Arrangement. Performance under the program during the first half of FY 1994/95 was generally favorable. The recovery in economic activity gained momentum, inflation came down, the gourde remained relatively stable against the U.S. dollar, and the public finances were stronger than projected. All performance criteria for end-March 1995 from the Fund were met and the first review was concluded in July 1995. However, the second review, scheduled for December 1995, was not completed as fiscal performance deteriorated starting in the last quarter of FY 1994/95.

ESAF Program. Shortly after taking office in March 1996, the new government took action to regain control over the public finances. Among other measures, a procedure was put in place whereby government expenditure was limited to the revenue collected (the cash management system). A three-year ESAF arrangement was approved in October 1996. Performance under the first annual program, covering FY 1996/97, fell short of expectations as a deepening political crisis adversely affected the implementation of structural reforms, the disbursement of external aid flows, and the economic recovery. Thus, the first annual ESAF arrangement expired without the completion of the mid-term review. During FY 1996/97, output stagnated and inflation moderated slightly.

Staff-Monitored Program. Following the onset of the prolonged political crisis in June 1997, the Fund-supported efforts to maintain macroeconomic stability 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 international reserves increased. 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 FY 1999/2000, an SMP negotiated with the authorities could not be approved by the Fund's management because of significant fiscal slippages and the lack of progress on structural reforms. Performance under the SMP during FY 2000/01 was weak. Real GDP declined, inflation remained high during most of the year, and the overall central government deficit rose as budgetary revenue, as a ratio of GDP, declined to a historically low level. In the absence of budgetary aid, the deficit was financed mostly by the central bank.

Haiti—Fund Relations

As of April 30, 2003

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

II.	**General resources account**	**SDR Million**	**Percent of Quota**
	Quota	60.70	100.00
	Fund holdings of currency	66.32	109.26
	Reserve position in Fund	0.07	0.11

III.	**SDR department:**	**SDR Million**	**Percent of Allocation**
	Net cumulative allocation	13.70	100.00
	Holdings	1.84	13.42

IV.	**Outstanding purchases and loans:**	**SDR Million**	**Percent of Quota**
	ESAF arrangements	12.14	20.00
	First Credit Tranche	5.69	9.38

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):

	Forthcoming				
	2003	**2004**	**2005**	**2006**	**2007**
Principal	8.73	3.04	3.04	3.0	
Charges/interest	0.29	0.25	0.22	0.3	0.21
Total	**9.02**	**3.29**	**3.25**	**3.3**	**0.21**

VII. **Exchange arrangements**:

Haiti's exchange system is free of restrictions on the making of payments and transfers for current international transactions. Since September 1991 all transactions have taken place at the free (interbank) market rate.

VIII. **Article IV Consultation**

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

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

Technical assistance missions since 1997:

Department	**Dates**	**Purpose**
BTS	October 1997; February 1999	Information technology
FAD	March 1997–September 1998	Exemptions system and investment code
	November 1997	Direct taxation and exemption system
	October 1998	Large taxpayer unit
	June 1999	Industrial exemptions
MAE	October 1995–April 1998	Banking supervision
	January 1997	Role of the central bank
	August 1997	Banking law and monetary policy
	July 1998	Banking law
	August–October 1998; June-July 1999; October 2000	Banking supervision
	June 1999	Central bank organization
	January 2000	Dollarization and policy response
	October 2000	Banking supervision
	October 2000	Money laundering
	May 2001	Banking supervision
	January 2002	Banking supervision
	July-August 2002	Money laundering
STA	January 1996–October 1997; June 1996; July 1996; February 1999; March 2000	Real sector statistics
	February 1997; March 1998; August 1998	Money and banking statistics
	November 1996; March 2000	Balance of payments statistics

LEG	March, June, and September 2000	Banking and central bank laws
INS programming	April 2002	Course on financial

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

Haiti—Relations with the World Bank

The most recent Country Assistance Strategy (CAS) for Haiti was reviewed by the Board of the World Bank in 1996. Total World Bank commitments to Haiti peaked in fiscal year 1996, reaching US$293.6 million, after which no new IDA credits were presented to the Board. Disbursements to the Government of Haiti were suspended in January 2001 due to the accumulation of arrears to the World Bank. A health project closed in March 2001 as scheduled, and credit balance for a total of US$16.5 million for two remaining operations (road rehabilitation/maintenance and forest/parks protection technical assistance) were canceled in June 2001. Haiti was placed on non-accrual status in September 2001 and the two remaining operations closed on December 31, 2001.

A Country Assistance Evaluation (CAE) finalized in February 2002 by the Bank's Operations Evaluation Department (OED) concluded that the development impact of the Bank's assistance to Haiti had not been significant, and that the strategy was largely unsatisfactory. With weak institutional capacity and poor economic governance, the report noted, traditional development finance programs tended to have a limited impact on poverty reduction. OED, however, acknowledged the effectiveness of channeling assistance through NGOs and autonomous agencies, as well as the IFC's success with its investment in a micro-credit project. In January 2003 the Bank's Board discussed a program of activities in the country covering the coming months. This includes a small grants program of US$4.7 million to be implemented through international organizations and NGOs. The grants target urgent needs in health, economic governance and institution building, and community driven development. A program of analytical work, including an Institutional and Governance Review and advice on economic governance issues (notably in the area of public expenditure management), is also underway.

Looking ahead, the scaling up of IDA assistance to Haiti will depend on the government's demonstrated commitment to macroeconomic stability, good economic governance and progress on related reforms. To facilitate that process, the staff of the World Bank is providing assistance to the authorities to design a plan for comprehensive arrears clearance and improve economic governance outcomes.

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Haiti—Relations with the IDB

The focus of the IDB has been to eradicate poverty by investing in human capital, to promote growth through the development of the private sector, and to strengthen State institutions. Discussions with the authorities are underway for a clearance of IDB arrears based on the front loading of a first tranche of the IDB disbursement of US$30 million subject to an agreement with the IMF on an SMP. This would allow lending operations to resume after a one-year interruption, owing to the accumulation of arrears.

The last Country Programming Paper for Haiti was presented to the Board in November 1996, and many projects are now under discussion between the IDB and the government with a view to reactivating them. The activation of loans totaling US$360 million should thus restore positive net flows. In addition, grants of US$0.95million destined to improve efficiency in the Finance Ministry have been approved, while a US$2.45 million Technical Assistance Loan signed by the BRH is currently in execution to finance the restructuring of the financial sector.

In January 2003, the IDB Board reviewed a Country Program Evaluation that examined economic and technical assistance to Haiti in the period 1990–2000, at which time it was the first provider of aid to the country. It found, however, that the IDB failed to anticipate the resistance encountered by some projects due to a lack of country ownership and poor coordination between the executive and the legislature. The resistance was particularly marked in the areas of public enterprise reforms, decentralization and private sector participation. The pattern of disbursements in Haiti is below the average behavior of projects in the Bank and projects are perceived as being less efficient than the norm due to execution delays. Furthermore, project management suffered from weaknesses in the public sector execution capacity and limited participation of communities, while the sustainability of programs was undermined by the scarcity of resources for maintenance. Thus, one of the priorities is to improve the delivery mechanisms, by assisting Haiti to strengthen the capacity of the public sector and bringing in alternative vehicles that have a more effective executing capacity.