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Haiti: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criteria—Staff Report; Staff Statement on the Executive Board Discussion; and Statement by the Executive Director for Haiti

In the context of the second review under the three-year arrangement under the Poverty Reduction and Growth Facility, and request for a waiver of nonobservance of performance criteria, the following documents have been released and are included in this package:

- The staff report for the Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on November 15, 2007, 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 February 5, 2008. 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 supplement on the joint IMF/Word Bank debt sustainability analysis.
- A staff statement of February 29, 2008 updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its February 29, 2008 discussion of the staff report that completed the request and review.
- A statement by the Executive Director for Haiti.

The documents listed below have been or will be separately released.

Joint Staff Advisory Note of the Poverty Reduction Strategy Paper
Letter of Intent sent to the IMF by the authorities of Haiti*
Memorandum of Economic and Financial Policies by the authorities of Haiti*
Poverty Reduction Strategy Paper
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

HAITI

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criteria

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by Caroline Atkinson and Mark Plant

February 5, 2008

- **Arrangement**. In November 2006, a three-year PRGF arrangement was approved in an amount of 90 percent of quota (SDR73.71 million), along with Haiti's decision point under the enhanced HIPC Initiative. The first program review was completed in July 2007. Upon completion of the second review a disbursement of SDR 7.6 million will become available to the authorities.

- **Discussions**. Second review discussions were held in Port-au-Prince from November 5-16, 2007. The mission consisted of Messrs. Bauer (Head), Martin, Callegari, and Ms. Redifer (all WHD), Ms. Funke (FAD), and Mr. Barnichon (PDR), and was supported by Mr. Fasano (Resident Representative). Ms. Florestal (OED) and World Bank staff participated in the policy discussions. Mr. Blancher (MCM) joined the mission briefly to discuss the FSAP aide-memoire. The mission met with Minister of the Economy and Finance Dorsainvil, Central Bank Governor Castel, Minister of Planning Bellerive, Minister of Public Works Verella, other government officials, and representatives of the donor, civil society, and business communities.

- **Program status**. The PRGF-supported program is on track. In the attached LOI and MEFP, the authorities describe their policies for the second year of the program and request completion of the second review and waivers for the nonobservance of two end-September PCs. The authorities intend to implement both PCs as prior actions for the review.

Contents Page

LIST OF ACRONYMS

BRH	Bank of the Republic of Haiti
DGI	General Tax Directorate
DSA	Debt Sustainability Analysis
EU	European Union
EUNIDA	European Network of Implementing Development Agencies
FAD	Fiscal Affairs Department
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
FY	Fiscal Year
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
HOPE	Haitian Hemispheric Opportunity through Partnership Encouragement Act
IDA	International Development Association
IDB	Inter-American Development Bank
IFRS	International Financial Reporting Standards
LIC	Low-income Country
LOI	Letter of Intent (Attachment II)
MCM	Monetary and Capital Markets Department
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies (Attachment III)
NDA	Net Domestic Assets
NIR	Net International Reserves
NPV	Net Present Value
OED	Office of the Executive Director
PC	Performance Criterion
PDR	Policy Development and Review Department
PEMFAR	Public Expenditure Management and Financial Accountability Review
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SDR	Special Drawing Rights
STA	Statistics Department
TA	Technical assistance
TMU	Technical Memorandum of Understanding (Attachment IV)
UN	United Nations
WHD	Western Hemisphere Department
Y-o-Y	Year-on-Year

Executive Summary

Background

- The macroeconomic goals of the first program year were largely met, although growth accelerated somewhat less than expected.

- Quantitative PCs and indicative targets for the second review were met with ample margins and most structural conditionality was implemented on time. Two PCs (a report on IFRS implementation by the BRH and commencement of an assessment of state bank BNC's recapitalization needs) are delayed because of difficulties in identifying and hiring foreign experts. The authorities intend to implement these as prior actions for the review.

- Key goals for the second program year (FY2008) are to create conditions for higher growth and consolidate stabilization gains achieved so far. The macroeconomic framework foresees real GDP growth of 3.7 percent and end-year inflation of 9 percent. Structural conditionality includes measures to strengthen revenue generation, increase budget execution capacity, enhance the monetary policy regime, and further develop the financial sector.

- A joint Bank-Fund external DSA indicates that Haiti's risk of debt distress remains high, but would decline substantially after the HIPC Initiative completion point.

Staff appraisal

- Macroeconomic performance and program implementation are on track.

- The key challenges for fiscal policy in the second program year will be to accelerate budget execution, while safeguarding expenditure quality and ensuring resource sufficiency.

- Monetary policy implementation will have to be cautious, given uncertainty about the extent of commodity price and other external shocks, and weak monetary policy transmission.

- Strong focus on implementing the PRSP and HIPC triggers in coming months will be important to achieve the HIPC Initiative completion point as soon as possible.

- Staff supports the requested conclusion of the second program review and two waivers, subject to implementation of the two outstanding structural PCs as prior actions.

I. Recent Developments and Performance Under the Program

1. **Security improved markedly throughout 2007**. In Port-au-Prince, a reduction in gang-related violence and crime has contributed to a visible increase in street activity and vehicle traffic. Still, the situation remains fragile, as illustrated by an uptick in kidnappings during the recent holiday season. In October 2007, the UN Security Council extended the mandate for its stabilization mission by one year, and widened it to enable UN troops to patrol borders. This should help combat arms and drug trafficking.

2. **Despite periodic political tension, democratic institutions are being strengthened**. Parliament has passed key legislation, including a supplementary budget for 2007, the 2008 budget, and judicial reforms. In December 2007, the government forged a difficult agreement to replace the provisional electoral council, which had been mired in internal disputes. It is hoped that this will allow delayed elections to proceed, to renew one-third of the Senate. President Preval has continued his forceful drive to improve governance and combat corruption.

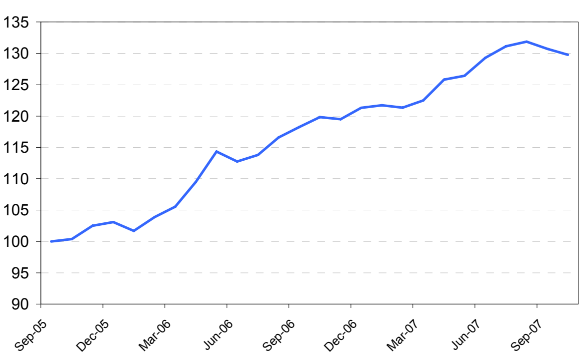
3. **The macroeconomic goals of the first program year were largely met, although growth accelerated somewhat less than expected**. Based on preliminary data, real GDP is estimated to have risen by 3.2 percent in FY2007 (October–September), almost one percentage point more than in FY2006 but below the original program objective of 4 percent (Figure 1). Growth was driven by private consumption, which benefited from the more stable environment and strong remittances. Public investment also contributed to growth, even though underexecution of the budget meant that fiscal stimulus was considerably less than originally envisaged. In contrast, private investment appears to have contracted, following a large investment in telecommunications in FY2006. Inflation declined to 7.9 percent, in line with the program, aided by 10 percent nominal appreciation of the gourde against the U.S. dollar.

Haiti - Real GDP growth, sectoral contribution (in percent)

	2006	2007		
		Prog.	Rev.Prog.	Prel.
Real GDP	**2.3**	**4.0**	**3.5**	**3.2**
Consumption	6.3	9.4	0.6	2.4
Private Consumption	5.7	9.3	4.4	2.2
Public Consumption	0.6	0.0	-3.8	0.2
Gross Domestic Investment	0.8	6.9	5.2	1.1
Private Investment	-0.6	2.6	2.4	-1.2
Public Investment	1.3	4.3	2.8	2.2
External Sector	-4.8	-12.4	-2.3	-0.2
Exports	1.1	2.4	2.8	-0.6
Imports	-5.9	-14.7	-5.1	0.4

Source: IMF Staff estimates based on data from the Haiti Statistical Institute and the Ministry of Economy and Finance

Haiti: Real Effective Exchange Rate Index



4. **Performance against targets under the PRGF-supported program was strong**. As in the first program review, quantitative PCs and indicative targets for the second review (end-September 2007 test date) were met with ample margins (Table 1).

- **Fiscal revenues performed well, but expenditure execution fell short of expectations (Table 4)**. Domestic revenues for FY2007 exceeded estimates at program approval (original budget) by 0.6 percent of GDP, reflecting the expansion of the economy and improved revenue administration. However, revenue did not reach the ambitious target set at the time of the first review (linked to the supplementary budget), partly because currency appreciation reduced revenues collected at the border. Public expenditures rose significantly, but execution on a cash basis was lower than both the ambitious supplementary budget and the original budget. As a result, the overall balance (excluding grants and foreign-financed projects) for FY 2007 was close to zero, compared with a deficit of 1.3–1.4 percent of GDP envisaged at program approval and the first review. Commitments for budget support were higher than expected, but in light of the underexecution of expenditure some grants were shifted from FY2007 to FY2008. Late passage of the supplementary budget resulted in a surge of expenditure commitments that were not executed before the end of the fiscal year.

- **Base money growth remained within the indicative program target (Table 5)**. The accumulation of government deposits—because of budget underexecution—facilitated base money control, together with sterilization of foreign exchange purchases through central bank (BRH) bond issuances. In July, the BRH took an important step toward a quantity-based policy framework, by allowing competitive bidding in its bond auction, which led benchmark interest rates to decline from 13 percent to less than 5 percent. However, this decline did not translate into much reduction of commercial bank lending rates, and credit growth in gourdes remained flat throughout FY2007, reflecting both structural factors constraining supply and weak demand from businesses. Growth of dollar-denominated credit was more dynamic, but reportedly concentrated in a few specific sectors (e.g., exports, telecommunications). Anecdotal evidence indicates activity in the microcredit sector has remained vibrant.

- **Improvements in both the current and capital account allowed for a strengthening of international reserves well beyond program targets (Table 6)**. The increase in reserves was made possible by robust inflows from transfers, net lending and FDI, along with debt relief and IMF net disbursements. Overall, NIR rose by US$162 million (including letters of credit, guarantees, and earmarked project accounts) against an original program floor of US$30 million.

5. **Following an orderly consolidation of the banking sector, financial soundness indicators remained broadly stable throughout FY2007 (Table 10)**. Most banks reported positive earnings and high capitalization. The absorption of ailing Socabank by the state commercial bank BNC took place ahead of schedule in mid-2007.

6. **Structural conditionality was met, except for two end-September PCs (Table 2)**. A detailed modernization plan for the DGI was prepared, domestic arrears were cleared, quarterly limits for budget allocations were observed, and oversight of program monitoring data was improved. However, the end-September PCs on commencing an assessment of BNC recapitalization needs and producing a report on IFRS implementation by the BRH were delayed because of difficulties in finding and hiring foreign experts for these tasks.[1] The authorities intend to complete these PCs as prior actions for the review and request waivers.

7. **The PRSP was completed through a participative process and formally submitted to the IMF and World Bank on November 30, 2007**.[2] It focuses on promoting growth through sectoral strategies for agriculture and rural development, tourism, infrastructure rehabilitation, and science and technology; and seeks to widen access to basic services such as electricity, water and sanitation, health and education. Improvements in institutional infrastructure, including a better functioning justice and penal system, are also planned. The PRSP's macroeconomic policy framework is broadly consistent with the PRGF-supported program. However, the aggregate costs of the sectoral strategies for the next three years go beyond what is foreseen in the macroeconomic framework, and far exceed historical rates of budget execution and financing. Consultations to develop the PRSP were extensive. The authorities intend to hold a donors' conference in the coming months to reprogram committed resources for FY2008 in line with PRSP spending priorities.

8. **Progress in implementing HIPC Initiative completion point triggers has been mixed**.[3] Several measures have been taken or are underway, such as tracking poverty-reducing spending; passing the public procurement law; extending customs control to the provinces; increasing immunization rates; extending use of the central taxpayer file; and establishing a national HIV/AIDS plan. However, progress on a number of other triggers is less advanced, including establishing a centralized debt database; passing a law on asset declaration; and submitting audits of government accounts within legally-established timeframes.

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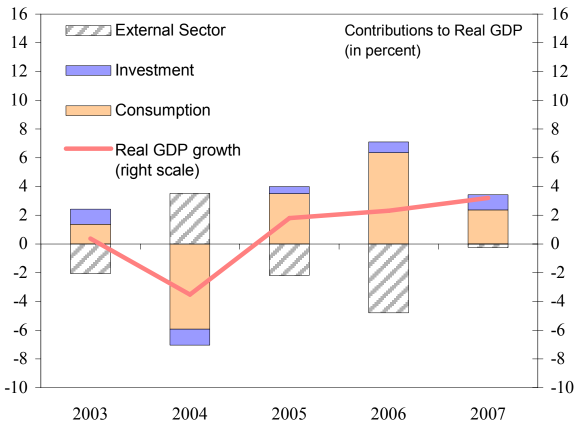
[1] The IFRS implementation report has two main components: a description of current accounting practices of the BRH, and a qualitative assessment of how these practices deviate from IFRS. The second component requires support from a foreign expert, since domestic audit firms are unfamiliar with IFRS.

[2] See www.imf.org for Haiti's "National Strategy for Growth and Poverty Reduction (in french: *Document de Stratégie Nationale pour la Croissance et la Réduction de la Pauvreté*—available at www.mpce.gouv.ht)) and www.imf.org for the IMF-World Bank Joint Staff Advisory Note (JSAN) of the PRSP.

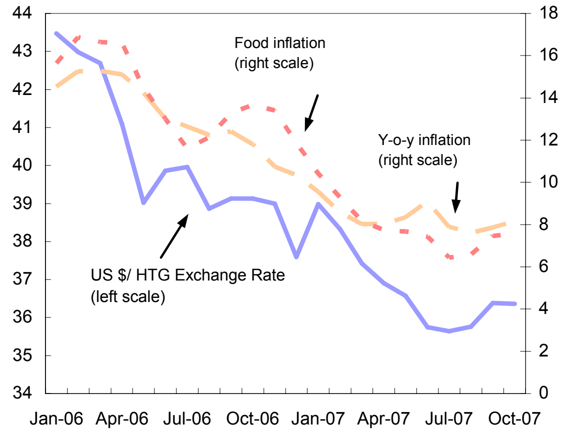
[3] See IMF Country Report No. 06/440 for a complete list of triggers.

Figure 1. Haiti - Economic Performance at a Glance

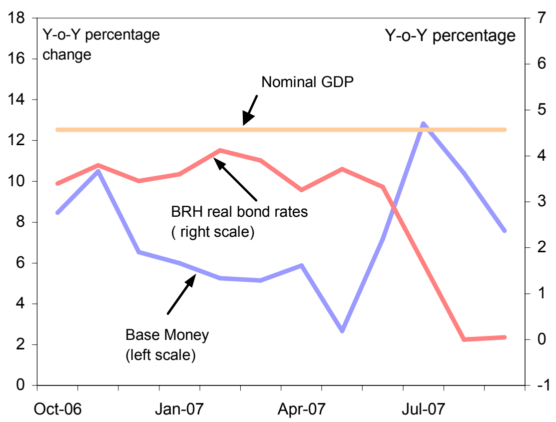
Growth reached 3.2 percent in FY 2007, sustained by private consumption and public investment.



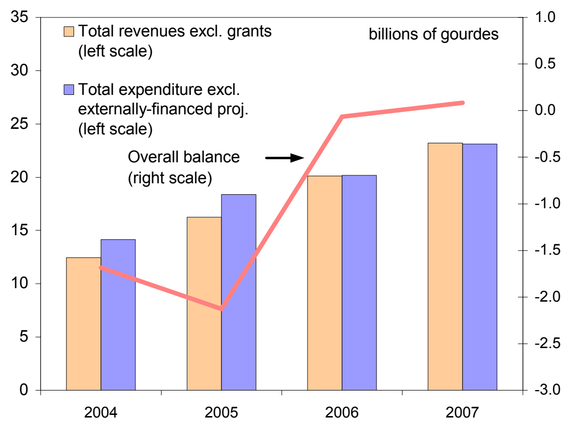
Inflation dropped to single digit levels, helped by exchange rate appreciation...



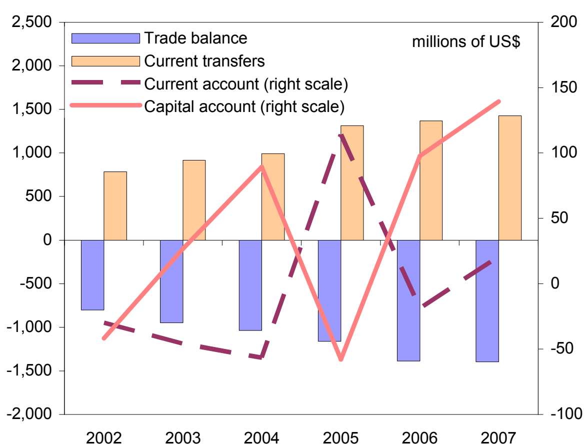
…and a cautious monetary stance, with base money growing less than nominal GDP.



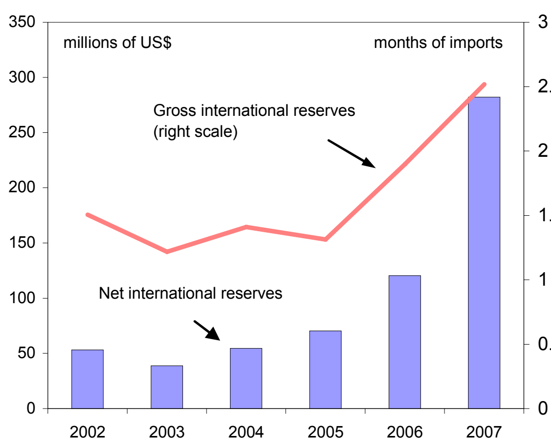
Higher than expected revenue and lower spending led to a fiscal surplus.



Both the current and capital account improved...



…contributing to faster than expected accumulation of official reserves.



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

II. Economic and Financial Policies for the Second Program Year

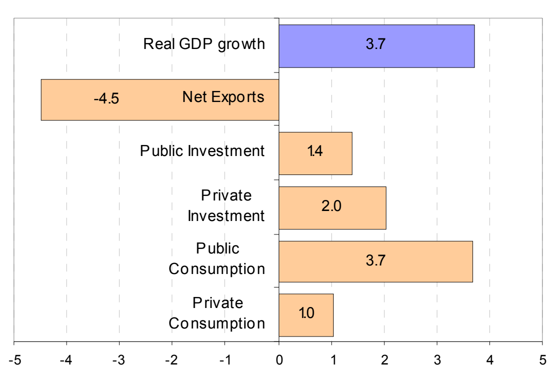
9. **Key goals for the second program year (FY2008) are to create conditions for higher growth and consolidate stabilization gains achieved so far**. Despite the progress already made, Haiti's economy remains in a state of transition. Large-scale investment in human and physical capital is needed for higher growth and employment creation, both vital for ensuring better living conditions and durable social peace. Maintaining a stable macroeconomic and financial environment remains important in this context, to bolster private sector confidence and ensure sustainability. The program balances the need for growth and stability through a macroeconomic framework that provides room to raise priority expenditures and absorb external price shocks, while still ensuring internal and external stability.

10. **Structural conditionality will be more parsimonious, acknowledging the need to focus limited capacity on implementation of the PRSP and HIPC Initiative completion point triggers**. The program includes measures to strengthen revenue generation and budget execution capacity, enhance the monetary policy regime, and further develop the financial sector (MEFP Table 2).

A. Macroeconomic Framework

11. **The macroeconomic framework for FY2008 foresees real GDP growth of 3.7 percent and end-year inflation of 9 percent**. Projected growth was lowered from 4.5 percent at the time of the first review, reflecting the adverse impact of Hurricane Noel on agricultural output, and reduced expectations of the likely impact of the HOPE Act on apparel export growth to the U.S.. The projection implies substantial stimulus from public consumption and investment, as reflected in the authorities' budget. Private investment is also expected to pick up as confidence rises. Haiti will face substantially higher international food and oil prices in FY2008. The inflation target was revised upward from an earlier goal of 7.5 percent to leave room for absorbing these price increases, but a cautious monetary stance should prevent them from translating into broader inflationary pressures. The program's monetary goals will continue to be supported by a zero annual ceiling on net central bank financing to the government. In light of the sizeable overperformance in FY2007, the floor for NIR accumulation for FY2008 was set at US$40 million, increasing gross reserves coverage slightly further to 2.7 months of imports.

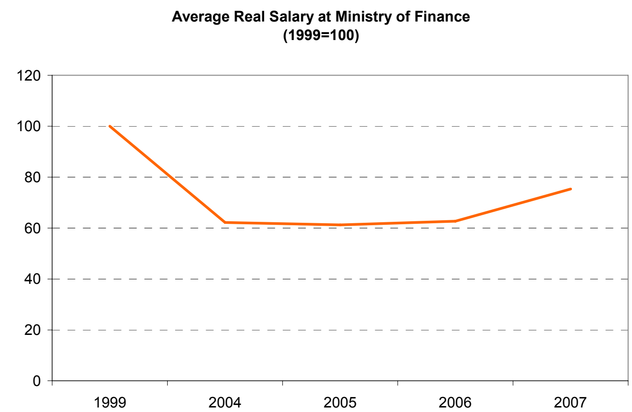
Haiti - Real GDP growth in 2008
(Contribution to growth, in percent)



B. Fiscal Policy

12. **The authorities' fiscal program focuses on further accelerating expenditure execution, supported by a substantial domestic revenue effort (Table 4)**. Expenditures (excluding foreign-financed projects) are budgeted to increase by 2.8 percent of GDP, while domestic revenues should rise 1.8 percent of GDP. This leaves an overall deficit (excluding grants and foreign-financed projects) of 1.1 percent of GDP, to be covered by external budget support.

- **Higher expenditures will be effected through almost doubling domestically-financed investment on basic infrastructure and substantially increasing the wage bill (MEFP para. 14)**. The FY 2008 budget accommodates civil service salary increases of 20–35 percent to allow partial recovery of past real-wage losses, as well as further hiring for social sectors and the police. Measures are underway to raise expenditure execution capacity, some of which are incorporated into program conditionality (Box 1 and MEFP para.15). The share of poverty-reducing spending in the FY2008 budget is estimated at 56 percent, up from 43 percent in FY2007.



- **Increased revenues are expected through implementing action plans to strengthen customs and tax administration (MEFP para. 12)**. Program conditionality contains elements of these plans, including collection of delinquent taxes and new customs posts (Benchmarks for end-March and end-September 2008). The projected further acceleration of growth and stepped up efforts to control the border should also help boost revenues.

13. **In light of higher-than-usual carryover of expenditure commitments from FY2007, the authorities are dedicated to careful budget implementation**. Expenditure commitments that carry over into FY2008 are estimated at 2.2 percent of GDP. To ensure resources are available, the government has identified 60 top priority investment projects for an amount of 3 billion gourdes, with lower priority project expenditures being only initiated as resources are realized (MEFP para. 11).

Box 1. Increasing Expenditure Execution Capacity

Budget execution was constrained by (i) limited project formulation and implementation capacity of spending ministries, (ii) lack of familiarity with the new procurement law; and (iii) limited capacity of local firms to handle larger construction projects.

Drawing on findings from the World Bank-IDB PEMFAR report and a EUNIDA diagnostic mission, the government is taking several steps:

- Programming units of key spending ministries will be strengthened through deploying trained experts in project formulation and implementation (PC for end-March, 2008);
- Internal control processes will be facilitated through the deployment of public accountants and budget comptrollers to key line ministries (Benchmark for end-March, 2008);
- Implementation of the procurement law will be reviewed and, if necessary, revised by a recently created working group; and
- Participation of foreign firms in public tenders is being encouraged.

C. Monetary and Financial Sector Policies

14. **Monetary policy will focus on quantity management, with a market-determined policy interest rate**. The indicative FY2008 target for base money growth (9.6 percent) remains below projected nominal GDP growth to help ensure that higher oil and food prices do not translate into broader inflation. The authorities remain committed to maintaining a flexible exchange rate regime, limiting exchange market intervention to smoothing operations (MEFP para. 17).

15. **The authorities plan to further strengthen their monetary policy framework (MEFP paras. 18–19)**. Participation in BRH bond auctions will be broadened to include non-bank financial institutions (PC for end-March 2008) and a plan developed to improve liquidity forecasting (Benchmark for end-September 2008). Moreover, the BRH will institute formal communications to convey its monetary policy intentions and actions to the public (Benchmark for end-September 2008). The authorities are developing—with Fund TA—a recapitalization plan for the BRH, and—with IFC support—a plan to divest BRH ownership in the state telecommunications company (PCs for end-March 2008). Implementation of these plans should further strengthen independence in monetary policy making, important given Haiti's history of fiscal dominance.

16. **Steps to foster financial sector stability and development are planned, following recommendations from the recently concluded FSAP (Box 2 and MEFP paras. 21–22).**[4] These include completing an independent assessment of an additional systemically important bank (PC for end-September 2008) and improving the regulatory framework and supervision of credit unions (Benchmark for end-September 2008). The authorities also intend to remove obstacles constraining credit and private sector activity, such as reducing fees on real estate transactions, allowing co-ownership of property, and expanding collateral guarantees.

Box 2. Key FSAP Findings and Recommendations

Haiti's financial system faces a number of stability and development challenges. Three banks hold almost 80 percent of all bank assets, and total credit represents 11 percent of GDP—well below other countries in the region. Key FSAP conclusions and recommendations include:

- Banking soundness: Indicators of bank soundness are relatively favorable, but concentrated loan portfolios remain vulnerable to a deterioration in credit quality. The capacity of the largest public bank to manage a newly-acquired, largely non-performing loan portfolio requires careful monitoring.
- Credit growth and access to credit: High intermediation spreads reflect primarily weaknesses in the legal and institutional frameworks, including the accounting and auditing, and insolvency and creditor rights regimes. The security situation, low competition among banks, poor governance, high reserve requirement ratios, absence of a credit registry, and crowding out by BRH bonds also weigh on the financial sector's ability to effectively support growth.
- Monetary policy: Effectiveness of monetary policy has been hampered by dollarization, excess liquidity, underdeveloped money markets, and uncompetitive BRH bond auctions. Allowing BRH bond interest rates to be market determined, opening up auction participation to nonbank institutions, and strengthening the framework for forecasting systemic liquidity are priorities.
- BRH financial independence: Accumulated quasi-fiscal deficits have eroded the BRH's capital base and need to be addressed to avoid risks for monetary control. A comprehensive plan to rehabilitate the BRH balance sheet is being developed under the PRGF-supported program.
- Financial regulation and supervision. The new draft banking law addresses the major weaknesses in banking supervision. Its implementation will require upgrading prudential regulations and enhancing BRH independence. Basic regulatory and supervisory frameworks for nonbank financial institutions need to be introduced or strengthened.

The authorities welcomed the FSAP findings and indicated that they intend to implement most of the recommendations, including partly as conditionality under the PRGF-supported program.

[4] See www.imf.org for the complete Financial Sector Stability Assessment (FSSA).

D. Program Financing and Monitoring

17. **The program for FY 2008 is fully financed**. Total external financing for the budget is projected at US$134.2 million or US$44.1 million after debt service payments (Table 9).[5] Potential resources from Venezuela's PetroCaribe initiative are not yet reflected in program financing, since oil deliveries continue to be delayed by logistical obstacles. If these are overcome, any use of the resulting financing will be transparently channeled through the budget (MEFP para.13).

Haiti - Budget Support in FY2008
(in millions of US dollars)

Total External Financing	**134.2**
Prospective Debt Rescheduling (incl. Paris Club)	**3.6**
Budget Support	**115.8**
IDB	32.5
WB	13.0
US	8.0
EU	27.5
France	2.7
Spain	13.7
Canada	6.7
Venezuela 1/	9.2
Other	2.4
Interim HIPC assistance	**14.8**

1/ Excluding potential financing under the PetroCaribe initiative

18. **The current program monitoring framework remains in place**. The program will be monitored on a quarterly basis, with test dates at end-March and end-September 2008 for NIR, NDA, central bank financing, concessionality of external debt, and arrears accumulation (MEFP Table 1). Minor definitional changes have been made to NIR and central bank financing (see the TMU).

III. Debt Sustainability, Capacity to Repay, and Program Risks

19. **A joint Bank-Fund external DSA indicates that Haiti's risk of debt distress remains high, but would decline substantially with a HIPC completion point**.[6] Under the baseline scenario (before post-completion point stock of debt relief), the NPV of external debt-to-exports ratio remains above the indicative threshold of 100 percent in the medium term, while other debt ratios do not surpass thresholds. However, after HIPC and MDRI stock reductions of debt (including from the IDB), the NPV of external debt-to-exports ratio would fall to 44 percent. Because of Haiti's very low level of domestic debt, these conclusions also hold for the fiscal DSA. Overall, the DSA suggests room for scaled-up external financing after HIPC/MDRI debt relief. However, a careful approach would still remain advisable, given that debt indicators deteriorate rapidly in scenarios with large volumes of additional concessional borrowing (for example through the PetroCaribe initiative) or financing on less concessional terms.

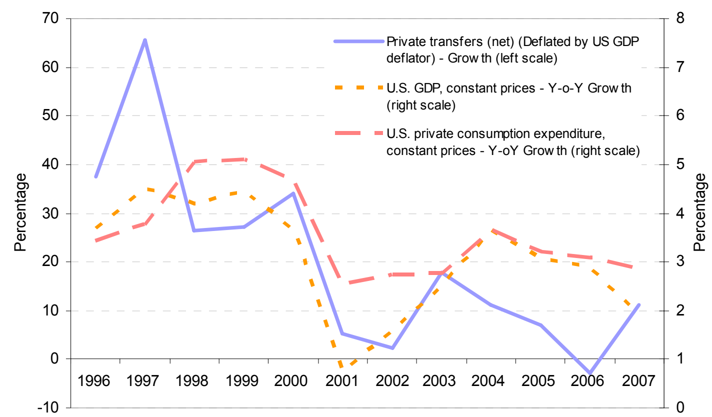
[5] Firm donor commitments have been received. A small remainder of $2.4 million (0.05 percent of GDP) is to be covered by miscellaneous budget support inflows, which staff fully expect to materialize in the course of the fiscal year in line with past experience (MEFP para.11).

[6] The DSA analysis can be found in Supplement 1 to this report.

20. **Haiti's capacity to repay the Fund has improved slightly since the arrangement was approved**. Higher-than-expected reserves accumulation, exports, and nominal GDP have helped lower indebtedness ratios (Table 8). Outstanding obligations to the Fund are projected to peak at SDR 74 million in 2010, or about 11 percent of exports of goods and services.

21. **Risks remain significant, but the authorities' evident commitment to the program and strong track record speak in their favor**. The growth outlook could weaken because of security backlashes, political tensions, continued budget underexecution, and negative consequences for exports and remittances from a U.S. economic slowdown. Shortfalls in revenue targets or programmed donor support could create pressure to resort to central bank financing, damaging private sector confidence, and undermining inflation objectives. Even with growth, employment creation, the restoration of basic services, and social progress may be painfully slow, and could trigger social conflict. While these are real risks, the likelihood of macroeconomic imbalances from policy shortcomings appears more limited, given the authorities demonstrated commitment to prudent fiscal and monetary policies, and their proven capacity to implement structural reforms under difficult conditions. Also, risks on the fiscal side appear relatively balanced, as shortfalls could occur on both the revenue and expenditure sides. While data limitations make program development and monitoring quite difficult, data provision has been improving, including as a result of IMF TA. The authorities have decided to participate in the GDDS, which could be achieved by end-March 2008.

Net private Transfers to Haiti and US business cycle indicators



IV. Staff Appraisal

22. **Macroeconomic performance and program implementation are on track**. Growth has accelerated for the third year in a row, albeit somewhat less than hoped for, and inflation has declined to single digits. Quantitative targets for the second review were again met by large margins, although this partly reflected slower-than-expected government spending. Implementation of structural reforms was also satisfactory, despite some delays. The authorities' program for FY2008 focuses appropriately on creating conditions for higher economic growth, while keeping inflation in check.

23. **The key challenges for fiscal policy in the second program year will be to accelerate budget execution, while safeguarding expenditure quality and ensuring resource sufficiency**. Improving the provision of basic public goods and services is essential to stimulate private sector activity and improve social conditions. Staff thus strongly supports the steps that are being taken to overcome existing bottlenecks in budget execution. At the same time, given the large carryover of expenditure commitments from the previous fiscal year, availability of resources will have to be monitored closely. Modernization plans for customs and the DGI should be diligently implemented to meet revenue targets, and donor conditions fulfilled in a timely manner to avoid delays in budget support disbursements.

24. **Monetary policy implementation will have to be cautious, given uncertainty about the impact of commodity price shocks and weak monetary policy transmission**. Staff welcomes the steps underway to strengthen the monetary policy framework, which include a stronger focus on quantity management and more policy communication with the public. The indicative target for base money growth, below nominal GDP growth, appears appropriate. However, the BRH will have to remain vigilant, monitoring liquidity conditions closely to ensure that international food and oil price increases do not lead to a broader acceleration of inflation. Staff welcomes the authorities' commitment to strengthen the financial health of the BRH, and implement key FSAP recommendations.

25. **Strong focus on implementing the PRSP and HIPC triggers in coming months will be important to achieve an early HIPC completion point**. Given the timing of the submission of the PRSP, a completion point could be reached by end-2008, provided that all conditions are met. However, progress on completion point triggers has been uneven, and their timely implementation will require a concerted and well-coordinated effort by all ministries involved.

26. **Staff supports the requested conclusion of the second program review and waivers, subject to the implementation of the two outstanding structural PCs as prior actions**. Macroeconomic policies contained in the program are consistent with the central objective to boost growth while maintaining economic stability, and committed structural reforms will help further solidify economic institutions. Program risks remain significant, as the multifaceted strategy to maintain security, build infrastructure, provide basic services, fight corruption and bring about sustained growth will strain Haiti's limited capacity. However, the authorities have shown extraordinary commitment to their program of reform, and established a track record for implementing difficult policies.

Table 1. Haiti: Indicative Targets and Quantitative Performance Criteria for FY 2007

	Actual stock at end-	Cumulative Flows since September 2006											
		Dec-06			Mar-07			Jun-07			Sep-07		
	Sep-06	Prog. with adjustor	Actual	Deviation from prog w/adjustor	Prog. with adjustor	Actual	Deviation from prog w/adjustor	Prog. with adjustor	Actual	Deviation from prog w/adjustor	Prog. with adjustor	Prel.	Deviation from prog w/adjustor
Performance criteria													
Net central bank credit to the NFPS (in millions of gourdes)	21,002	211	-581	-792	333	-1,845	-2,178	-1,031	-2,208	-1,177	1,446	-1,097	-2,542
Of which:													
Central Government	21,176	211	-327	-538	333	-1,452	-1,784	-634	-2,002	-1,368	1,446	-961	-2,407
Rest of NFPS	-174	0	-254	-254	0	-394	-394	-398	-206	191	0	-135	-135
Net domestic banking sector credit to the nonfinancial public sector (in millions of gourdes)	20,118	-50	-747	-697	333	-2,031	-2,363	-1,316	-2,394	-1,078	1,446	-1,403	-2,848
Net domestic assets of the central bank (in millions of gourdes) - ceiling 1/	5,685	1,288	-1,497	-2,785	740	-3,819	-4,559	-3,344	-5,258	-1,913	-2,833	-6,054	-3,221
Domestic arrears accumulation of the central government 2/	0	0	0	0	0	0	0	0	0	0	0	0	0
New contracting or guaranteeing by the central government or the BRH of nonconcessional external debt 2/ 3/ 4/													
(In millions of U.S. dollars)													
Up to and including one year	0	0	0	0	0	0	0	0	0	0	0	0	0
Over one-year maturity	0	0	0	0	0	0	0	0	0	0	0	0	0
Net international reserves of central bank (in millions of U.S. dollars) - floor 5/	130	4	65	61	-1	92	94	97	129	32	99	162	63
External arrears accumulation (in millions of U.S. dollars) 4/	0	0	0	0	0	0	0	0	0	0	0	0	0
Indicative target:													
Change in base money	23,172	1,609	1,502	-107	1,164	922	-242	1,239	1,278	39	2,294	1,758	-536
Memorandum items:													
Change in currency in circulation	11,159	1,451	1,213	-238	693	58	-635	261	-96	-357	859	412	-448
Government total revenue, excl. grants (in millions of gourdes)	…	5,945	5,847	-98	11,364	11,736	372	18,318	17,360	-957	25,000	23,197	-1,803
Government total expenditure, excl. ext-fin investment (in millions of gourdes)	…	6,534	5,694	-840	12,245	10,336	-1,908	18,988	16,411	-2,577	28,078	23,112	-4,966

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

1/ For program monitoring purposes, NDA is defined as currency in circulation minus NIR in gourde terms. Program exchange rate of G42/$ through end-March and G40/$ through end-Sept.

2/ On a continuous basis.

3/ Excludes guarantees granted to the electricity sector in the form of credit/guarantee letters.

4/ Includes foreign currency denominated debt.

5/ Including letters of credit, guarantees, and earmarked project accounts

Table 2. Haiti: Structural Performance Criteria and Benchmarks for the First and Second Program Reviews

Measures	Date (Month-end)	Status
1. Structural performance criteria		
• Approve a comprehensive plan to establish customs control in the provinces.	December 2006	Met
• Start implementing the plan based on an agreed timetable.	March 2007	Met
• Expand use of the central taxpayer file to include all taxpayers identified in the Delmas and Croix-des-Bouquets tax centers.	March 2007	Met
• Implementation on schedule of approved plan, referred to in prior actions, to deal with banking system weaknesses.	March 2007	Met
• Implement the key recommendations on safeguards in accordance with the action plan.	March 2007	Met
• Continue to limit spending executed through current accounts to below 10 percent of budget appropriations for nonwage current expenditures as defined in paragraph 18 of the TMU.	Quarterly	Met
• Submit to parliament a draft banking law consistent with international standards, as described in the TMU.	March 2007	Met with delay, waiver granted.
• The BRH will cease certain nonessential activities related, in particular, to its participation in the management of and/or shareholding in the BPH, TÉLÉCO, and SONAPI, in the following phases:		
• Adopt a strategy for discontinuing BRH involvement in BPH management;	March 2007	Met
• Formulate draft laws amending the APN and SONAPI organic laws to, inter alia, change the composition of the Boards of both institutions;	March 2007	Met
• Submit to parliament for approval the draft law on the option adopted with respect to discontinuing involvement with the BPH;	June 2007	Met
• Submit to parliament for approval amendments to the laws on the APN and SONAPI changing the composition of the boards of both institutions.	June 2007	Met
• Adopt a strategy for discontinuing BRH involvement with TÉLÉCO	June 2007	Moved to March 2008
• Prepare a plan to recapitalize the central bank.	September 2007	Moved to March 2008

Measures	Date (Month-end)	Status
• Begin independent assessment of possible recapitalization needs and required financial and operational restructuring of BNC.	September 2007	Not met, prior action for 2nd review
• Complete a review of implementation issues for the adoption of IFRS by the BRH	September 2007	Not met, prior action for 2nd review
• Adopt detailed implementation plan for modernization of the DGI.	September 2007	Met
2. Structural benchmarks		
• Submit the new draft customs code to parliament.	March 2007	Met with delay
• The Minister of the Economy and Finance will approve a medium-term strategic plan for the DGI, setting out the corporate vision, mission, values, goals, and objectives.	March 2007	Met
• Based on the existing expenditure classification, adopt a mechanism for tracking expenditure allocated to poverty reduction and produce quarterly reports on these expenditures.	March 2007	Met
• Formulate a plan for the settlement of domestic arrears.	March 2007	Met with delay
• Expand the TOFE coverage by including in it the ministries' and deconcentrated agencies' own resources and related expenditure.	March 2007	Met
• Every three months, conduct an independent confirmation audit of the mechanism for monitoring the subsidy to the Ed'H.	March 2007	Met with delay
• Complete the payment of wage and nonwage arrears.	September 2007	Met
• Set quarterly limits on the expenditure of each ministry and ensure, within the ministries, that all recruitment and promotion proposals are within budget appropriations.	September 2007	Met
• Monthly monetary program data to be signed off by the Central Bank's interdepartmental and steering committees	Monthly, starting August 2007	Met

Table 3. Haiti: Selected Economic and Financial Indicators

(Fiscal year ending September 30)

Nominal GDP (2006): US$ 4.8 billion
Population (2006): 9.1 million
Share of pop. living with less than $1 a day (2003): 54 percent

GDP per capita (2006): US$ 527
Adult literacy (2005): 53 percent
Unemployment rate (2003): 27 percent

	2006	2007			2008	2009
		Prog.	Rev.Prog.	Prel.	Proj.	Proj.
(change over previous year unless otherwise stated)						
National income and prices						
GDP at constant prices	2.3	4.0	3.5	3.2	3.7	4.0
GDP deflator	16.6	8.1	9.0	9.0	9.7	7.5
Consumer prices (period average)	14.2	9.2	9.0	9.0	9.7	7.5
Consumer prices (end-of-period)	12.4	9.0	8.0	7.9	9.0	7.0
External sector						
Exports (f.o.b.)	7.7	10.3	11.9	5.6	16.5	15.6
Imports (f.o.b.)	18.3	14.6	5.9	4.2	16.2	8.4
Real effective exchange rate (+ appreciation)	13.4	...	...	11.3	...	...
Central government						
Total revenue and grants 1/	22.8	28.4	39.0	25.8	27.0	6.4
Total revenue excl. grants	23.7	9.2	24.3	15.4	33.4	15.9
Current expenditure	12.3	9.5	23.2	9.3	33.3	19.4
Total expenditure	24.4	30.9	33.4	22.3	30.1	18.1
Money and credit						
Credit to the nonfinancial public sector (net)	-4.9	0.0	0.0	-7.0	0.0	0.0
Credit to private sector	5.5	16.8	5.1	10.9	13.2	13.2
Base money	5.5	9.9	9.9	7.6	9.6	10.5
Broad money (incl. foreign currency deposits)	10.0	10.4	9.7	4.8	10.8	11.5
(percent of GDP, unless otherwise stated)						
Central government						
Overall balance 1/	-0.9	-1.9	-0.3	-0.5	-1.0	-2.9
Overall balance (excl. grants)	-4.4	-7.3	-6.0	-5.4	-5.9	-6.4
Overall balance (excl. grants and externally-financed projects)	0.0	-1.3	-1.4	-0.1	-1.1	-1.7
Overall balance (excl. ext.-financed projects and project grants)	0.6	0.1	0.2	0.8	0.2	-1.7
Central bank net credit to the central government	-0.2	0.0	0.0	-0.4	0.0	0.0
Savings and investment						
Gross investment	28.9	31.0	30.9	28.3	29.6	30.9
Gross national savings	28.5	21.5	32.1	28.5	28.3	28.4
Of which: Central government savings	1.6	2.9	2.7	2.6	3.0	1.4
External current account balance (incl. official grants)	-0.4	-9.5	1.2	0.2	-1.3	-2.5
External current account balance (excl. official grants)	-8.2	-1.0	-6.4	-6.6	-7.5	-7.3
External public debt (end-of-period)	29.7	27.0	26.0	25.6	23.0	22.9
Total public debt (end-of-period) 2/	33.5	29.8	30.3	29.4	26.9	26.9
External public debt service (in percent of exports of goods and nonfactor services) 3/	7.5	9.3	5.1	8.9	8.4	6.7
(millions of US$, unless otherwise stated)						
Overall balance of payments	78.7	33.7	156.8	160.2	57.8	-102.4
Net international reserves (program) 4/	92.4	160.0	265.0	259.0	299.0	359.0
Liquid gross reserves 5/	336.6	401.2	534.7	544.7	644.1	740.0
In months of imports of the following year	1.8	2.0	2.4	2.5	2.7	2.9
Exchange rate (gourdes per dollar, end-of-period)	39.1	...	...	36.4	...	...
Nominal GDP (millions of gourdes)	200,456	196,266	226,195	225,560	256,594	286,872
Nominal GDP (millions of dollars)	4,836	4,736	5,655	6,031	7,128	7,572

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

1/ From 2009 onward, budget grants are assumed zero until firm donor commitments are forthcoming.
2/ Includes external public sector debt, outstanding Central Bank bonds, and credit from commercial banks to the NFPS.
It does not reflect possible completion point debt reduction in 2009.
3/ In line with actual debt service schedule.
4/ Excluding commercial bank forex deposits, letters of credit, guarantees, and earmarked project accounts
5/ Gross reserves excluding capital contributions to international organizations.

Table 4a. Haiti: Central Government Operations

(Fiscal year ending September 30; in millions of gourdes)

	2006	2007			2008	2009
	Prel.	Prog.	Rev.Prog.	Prel.	Proj.	Proj.
Total revenue and grants	27,123	34,178	37,748	34,120	43,325	46,088
Domestic revenue	20,110	21,944	25,000	23,197	30,935	35,859
Domestic taxes	12,878	15,095	17,161	15,740	20,422	23,672
Customs duties	6,099	6,464	7,427	6,828	9,260	10,733
Other current revenue	1,133	386	412	629	1,254	1,454
Grants	7,013	12,234	12,748	10,924	12,390	10,229
Budget support 1/	1,248	3,030	3,457	2,122	3,448	...
Project grants	5,765	9,203	9,291	8,801	8,942	10,229
Total expenditure 2/	28,884	38,470	38,470	35,322	45,970	54,279
Current expenditure	18,236	21,349	22,369	19,931	26,564	31,714
Wages and salaries	6,470	8,495	9,509	8,087	12,617	14,458
Net Operations 2/	4,588	6,593	7,356	4,123	7,515	9,316
Operations	4,505	6,593	7,356	6,322	7,515	9,316
Interest payments	1,625	1,799	739	2,391	825	1,830
Transfers and subsidies	5,553	4,462	4,764	5,330	5,607	6,110
Capital expenditure	10,648	17,122	16,101	15,391	19,406	22,565
Domestically financed	1,940	3,500	5,709	3,546	7,219	9,008
Foreign-financed	8,708	13,622	10,392	11,845	12,188	13,557
Overall balance	-1,761	-4,292	-722	-1,201	-2,645	-8,191
Excl. grants	-8,774	-16,526	-13,470	-12,125	-15,035	-18,420
Excl. grants and externally financed projects	-67	-2,904	-3,078	-280	-2,847	-4,863
Excl. project grants and ext. financed projects	1,182	126	379	1,842	601	-4,863
Financing	1,761	4,292	722	1,201	2,645	1,569
External net financing	2,578	2,049	-1,528	-16	2,235	1,569
Loans (net)	2,193	3,908	210	1,709	2,235	1,569
Disbursements	3,719	5,673	1,701	3,408	3,965	3,328
Budget support	776	1,255	600	364	720	...
Project loans	2,943	4,418	1,101	3,044	3,245	3,328
Amortization	-1,526	-1,765	-1,491	-1,698	-1,731	-1,759
Arrears (net) 3/	385	-1,859	-1,737	-1,726	0	0
Internal net financing	-817	-294	-446	-1,426	-250	0
Banking system	-745	0	-446	-1,426	0	0
BRH	-462	0	0	-961	0	0
Commercial banks	-282	0	-446	-465	0	0
Other nonbank financing	-120	-294	0	0	-250	0
Arrears (net)	48	0	0	0	0	0
Prospective rescheduling 4/	0	1,978	1,879	1,860	129	0
HIPC 5/	0	559	817	784	531	864
Unidentified financing (in U.S. dollars)	0.0	0.0	0.0	0.0	0.0	152.0

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

1/ Includes grants from Canada to cover debt service to the IDB.
2/ Commitment basis except for domestically financed capital expenditure, which is reported on cash basis from 2007 on.
3/ Arrears accumulation in 2005-06 reflects an informal deferral of debt service to France, Italy and Spain.
4/ Including clearance of arrears accumulated in agreement with Italy, France, and Spain.
5/ HIPC debt relief.

Table 4b. Haiti: Central Government Operations

(Fiscal year ending September 30; in percent of GDP)

	2006	2007			2008	2009
	Prel.	Prog. 1/	Rev.Prog. 1/	Prel.	Proj.	Proj.
Total revenue and grants	**13.5**	**15.2**	**16.7**	**15.1**	**16.9**	**16.1**
Total revenue	10.0	9.7	11.1	10.3	12.1	12.5
Domestic revenue	10.0	9.7	11.1	10.3	12.1	12.5
Domestic taxes	6.4	6.7	7.6	7.0	8.0	8.3
Customs duties	3.0	2.9	3.3	3.0	3.6	3.7
Other current revenue	0.6	0.2	0.2	0.3	0.5	0.5
Grants	3.5	5.4	5.7	4.8	4.8	3.6
Budget support 2/	0.6	1.3	1.5	0.9	1.3	...
Project grants	2.9	4.1	4.1	3.9	3.5	3.6
Total expenditure 3/	**14.4**	**17.1**	**17.1**	**15.7**	**17.9**	**18.9**
Current expenditure	9.1	9.5	9.9	8.8	10.4	11.1
Wages and salaries	3.2	3.8	4.2	3.6	4.9	5.0
Net Operations 4/	2.3	2.9	3.3	1.8	2.9	3.2
Operations	2.2	2.9	3.3	2.8	2.9	3.2
Interest payments	0.8	0.8	0.3	1.1	0.3	0.6
Transfers and subsidies	2.8	2.0	2.1	2.4	2.2	2.1
Capital expenditure	5.3	7.6	7.1	6.8	7.6	7.9
Domestically financed	1.0	1.6	2.5	1.6	2.8	3.1
Foreign-financed	4.3	6.0	4.6	5.3	4.7	4.7
Overall balance	-0.9	-1.9	-0.3	-0.5	-1.0	-2.9
Excl. grants	-4.4	-7.3	-6.0	-5.4	-5.9	-6.4
Excl. grants and externally financed projects	0.0	-1.3	-1.4	-0.1	-1.1	-1.7
Excl. project grants and ext. financed projects	0.6	0.1	0.2	0.8	0.2	-1.7
Financing	**0.9**	**1.9**	**0.3**	**0.5**	**1.0**	**0.8**
External net financing	1.3	0.9	-0.7	0.0	0.9	0.5
Loans (net)	1.1	1.7	0.1	0.8	0.9	0.5
Disbursements	1.9	2.5	0.8	1.5	1.5	1.2
Budget support	0.4	0.6	0.3	0.2	0.3	...
Project loans	1.5	2.0	0.5	1.3	1.3	1.2
Amortization	-0.8	-0.8	-0.7	-0.8	-0.7	-0.6
Arrears (net) 5/	0.2	-0.8	-0.8	-0.8	0.0	0.0
Internal net financing	-0.4	-0.1	-0.2	-0.6	-0.1	0.0
Banking system	-0.4	0.0	-0.2	-0.6	0.0	0.0
BRH	-0.2	0.0	0.0	-0.4	0.0	0.0
Commercial banks	-0.1	0.0	-0.2	-0.2	0.0	0.0
Other nonbank financing	-0.1	-0.1	0.0	0.0	-0.1	0.0
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0
Prospective rescheduling 6/	0.0	0.9	0.8	0.8	0.1	0.0
HIPC 7/	0.0	0.2	0.4	0.3	0.2	0.3
Unidentified financing	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2.0**

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

1/ GDP ratios based on most recent nominal GDP estimate.
2/ Includes grants from Canada to cover debt service to the IDB.
3/ Commitment basis except for domestically financed capital expenditure, which is reported on cash basis from 2007 on.
4/ Includes statistical discrepancy.
5/ Arrears accumulation in 2005-06 reflects an informal deferral of debt service to France, Italy and Spain.
6/ Including clearance of arrears accumulated in agreement with Italy, France, and Spain.
7/ HIPC debt relief.

Table 5. Haiti: Summary Accounts of the Banking System
(Fiscal year ending September 30; in millions of gourdes)

	2006	2007			2008	2009
		Prog.	Rev.Prog.	Prel.	Proj.	Proj.
			I. Central Bank			
Net foreign assets	10,893	14,001	17,680	16,849	19,411	23,241
(In millions of U.S. dollars)	278	333	467	463	539	612
Net international reserves (program) 1/	92	160	265	259	299	359
Commercial bank forex deposits	158	173	201	181	217	229
Net domestic assets	12,279	11,462	7,786	8,081	7,912	6,956
Credit to the nonfinancial public sector	21,002	21,153	21,002	19,905	19,905	19,905
of which: Credit to the central government	21,176	21,325	21,176	20,214	20,214	20,214
Liabilities to commercial banks (excl gourde deposits)	-13,986	-13,788	-17,322	-15,596	-18,064	-20,724
BRH bonds	-7,809	-6,327	-9,692	-9,013	-10,252	-12,007
Counterpart of commercial bank forex deposits	-6,177	-7,461	-7,630	-6,583	-7,812	-8,717
Other	5,262	4,098	4,106	3,771	6,071	7,774
Base Money	23,172	25,463	25,466	24,930	27,323	30,196
Currency in circulation	11,159	12,156	12,018	11,570	12,797	14,128
Commercial bank gourde deposits	12,013	13,307	13,448	13,359	14,526	16,069
			II. Consolidated Banking System			
Net foreign assets	23,617	26,884	30,493	28,154	30,176	34,267
(In millions of U.S. dollars)	604	681	805	774	838	902
Of which: Commercial banks NFA	325	348	339	311	299	290
Net domestic assets	51,474	55,375	51,895	50,538	57,034	62,973
Credit to the nonfinancial public sector	20,118	20,616	20,118	18,715	18,715	18,715
Credit to the private sector	27,019	31,676	28,399	29,972	33,924	38,416
In gourdes	12,920	15,669	13,104	13,375	15,130	17,134
In foreign currency	14,099	16,007	15,295	16,597	18,794	21,283
In millions of U.S. dollars	360	...	...	456	522	560
Other	4,337	3,083	3,378	1,850	4,394	5,842
Broad money	75,091	82,259	82,388	78,692	87,210	97,240
Currency in circulation	11,159	12,156	12,018	11,570	12,797	14,128
Gourde deposits	31,533	33,595	33,962	32,975	36,646	40,970
Foreign currency deposits	32,399	36,508	36,408	34,147	37,767	42,143
In millions of U.S. dollars	828	926	928	939	1,049	1,109
			(12-month percentage change)			
Currency in circulation	5.8	8.9	7.7	3.7	10.6	10.4
Base money	5.5	9.9	9.9	7.6	9.6	10.5
Gourde money (M2)	9.9	7.1	10.4	4.3	11.0	11.4
Broad money (M3)	10.0	10.4	9.7	4.8	10.8	11.5
Gourde deposits	11.5	8.5	7.7	4.6	11.1	11.8
Foreign currency deposits	10.0	11.5	12.1	5.4	10.6	11.6
Credit to the nonfinancial public sector	-4.9	0.0	0.0	-7.0	0.0	0.0
Credit to the private sector	5.5	16.8	5.1	10.9	13.2	13.2
Credit in gourdes	-0.6	19.3	1.4	3.5	13.1	13.2
Credit in foreign currency	11.8	13.4	13.9	17.7	13.2	13.2
Memorandum items:						
Foreign currency bank deposits (percent of total)	50.7	52.1	51.7	50.9	50.8	50.7
Foreign curr. credit to priv. sector (percent of total)	52.2	50.5	53.9	55.4	55.4	55.4

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

1/ Excluding commercial bank forex deposits, letters of credit, guarantees, and earmarked project accounts

Table 6. Haiti: Balance of Payments

(Fiscal year ending September 30; in millions of US$)

	2006	2007			2008	2009
		Prog.	Rev.Prog.	Prel.	Proj.	Proj.
Current account	-19.0	-52.9	66.9	10.1	-93.4	-186.3
Current account (excluding grants)	-399.0	-498.7	-361.0	-397.7	-537.6	-555.3
Trade balance	-1053.8	-1200.9	-1086.4	-1091.8	-1267.6	-1331.0
Exports of goods	494.4	531.6	553.5	522.1	608.1	703.0
of which: Assembly industry	435.0	463.7	491.1	463.1	546.2	638.0
Imports of goods	-1548.3	-1732.4	-1639.8	-1613.9	-1875.7	-2034.1
of which: Petroleum products	-397.1	-436.8	-399.6	-428.4	-557.2	-519.6
Services (net)	-334.3	-372.4	-357.0	-422.0	-490.5	-572.9
Receipts	203.9	159.6	230.0	206.7	244.7	275.1
Payments	-538.2	-532.0	-587.0	-628.6	-735.2	-848.0
Income (net)	1.8	-10.4	1.3	-9.5	-12.7	-0.9
of which: Interest payments	-16.9	-22.1	-19.3	-19.6	-23.4	-18.8
Current transfers (net)	1367.4	1530.9	1508.9	1533.3	1677.4	1718.5
Official transfers (net)	380.0	445.9	427.9	407.7	444.1	369.0
Private transfers (net) 1/	987.4	1085.0	1081.0	1125.6	1233.3	1349.5
Capital and financial accounts	97.7	86.6	89.9	150.1	151.2	83.9
Public sector capital flows (net)	49.3	93.1	23.2	46.1	62.1	41.4
Loan disbursements	84.5	135.1	43.7	91.6	110.2	87.9
Amortization	-35.3	-42.0	-20.4	-45.5	-48.1	-46.4
Banks (net) 2/	-83.5	-26.5	-13.3	14.4	11.7	8.9
Private sector capital flows	160.0	20.0	80.0	74.9	77.4	33.6
Of which						
Foreign direct investment	160.0	20.0	80.0	74.9	71.3	75.7
Errors and omissions 3/	-28.1	0.0	0.0	14.7	0.0	0.0
Overall balance	78.7	33.7	156.8	160.2	57.8	-102.4
Financing	-78.7	-33.7	-156.8	-160.2	-57.8	-49.6
Change in net foreign assets 4/	-87.3	-49.9	-178.5	-184.7	-76.1	-72.4
Change in gross reserves	-108.7	-70.4	-199.2	-208.4	-99.4	-95.9
Liabilities	21.5	20.5	20.7	23.7	23.4	23.5
Utilization of Fund credits, existing and prospective (net)	10.3	20.5	20.7	20.8	23.4	23.5
Purchases and loans 5/	14.8	53.4	53.9	54.2	23.4	23.5
Repayments	-4.5	-32.9	-33.2	-33.4	0.0	0.0
Other liabilities	11.1	0.0	0.0	2.9	0.0	0.0
Change in arrears	8.6	-44.3	-44.7	-45.0	0.0	0.0
Debt rescheduling 6/	0.0	47.1	49.7	52.7	8.0	7.9
HIPC assistance from multilateral creditors	0.0	13.3	16.7	16.9	10.3	14.9
Financing gap	0.0	0.0	0.0	0.0	0.0	152.0
Memorandum items:						
Current account balance (in percent of GDP)	-0.4	-9.5	1.2	0.2	-1.3	-2.5
Current account balance, excluding grants (in percent of GDP)	-8.2	-1.0	-6.4	-6.6	-7.5	-7.3
Goods exports (f.o.b) growth	7.7	10.3	11.9	5.6	16.5	15.6
Goods import (f.o.b) growth	18.3	14.6	5.9	4.2	16.2	8.4
External debt as percent of exports	205.9	205.5	187.4	211.5	186.2	169.0
Debt service as percent of exports	7.5	9.3	5.1	8.9	8.4	6.7
Gross liquid international reserves (in millions of USD) 4/	336.6	401.2	534.7	544.7	644.1	740.0
Gross liquid international reserves (in months of next year's imports of goods and services) 4/	1.8	2.0	2.4	2.5	2.7	2.9

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

1/ Based on remittances transferred through authorized "transfer houses" and BRH estimates.
2/ Excludes commercial banks' foreign currency deposits with the BRH.
3/ Includes short-term capital and errors and omissions for historical period.
4/ Includes NIR and commercial banks' foreign currency deposits with the BRH.
5/ Includes current PRGF arrangement, with an upfront disbursement of 25 percent of quota used to repay EPCA purchases.
6/ In line with the Dec. 2006 Paris Club agreement, rescheduling of arrears and debt service to bilateral creditors during PRGF arrangement.

Table 7. Haiti: Medium-Term Scenario

(Fiscal year ending September 30)

	2006	2007	2008	2009	2010	2011	2012
		Prel.	Proj.	Proj.	Proj.	Proj.	Proj.
Real sector (annual percentage rate)							
Real GDP growth	2.3	3.2	3.7	4.0	4.0	4.0	4.0
Inflation (CPI end-of-period)	12.4	7.9	9.0	7.0	6.0	5.0	5.0
Fiscal sector (in percent of GDP)							
Central government overall balance (incl. grants)	-0.9	-0.5	-1.0	-2.9	-3.1	-3.2	-3.3
Total revenue and grants	13.5	15.1	16.9	16.1	16.2	16.5	16.9
Central government revenue	10.0	10.3	12.1	12.5	12.7	13.2	13.6
Central government expenditure	14.4	15.7	17.9	18.9	19.3	19.7	20.1
Domestic financing	-0.4	-0.6	-0.1	0.0	0.0	0.0	0.0
External financing 1/	1.3	1.2	1.1	2.9	3.1	3.2	3.3
Monetary sector							
Growth in broad money	10.0	4.8	10.8	11.5	11.0	9.8	9.2
External sector (in percent of GDP)							
Trade balance	-21.8	-18.1	-17.8	-17.6	-18.0	-18.7	-19.3
Services (net)	-6.9	-7.0	-6.9	-7.6	-7.6	-7.4	-7.3
Income (net)	0.0	-0.2	-0.2	0.0	0.1	0.1	0.2
Private transfers (net)	20.4	18.7	17.3	17.8	18.2	18.6	18.6
External grants	7.9	6.8	6.2	4.9	4.7	4.6	4.8
Current account (incl. official transfers)	-0.4	0.2	-1.3	-2.5	-2.7	-2.8	-2.9
Current account (excl. official transfers)	-8.2	-6.6	-7.5	-7.3	-7.4	-7.4	-7.7
External financing gap for central government	0.0	0.0	0.0	2.0	2.5	2.8	2.9
Liquid gross reserves (in millions of U.S. dollars)	337	545	644	740	840	929	992
In months of imports of the following year	1.8	2.5	2.7	2.9	3.0	3.1	3.0

Sources: Haitian authorities; and Fund staff estimates.

1/ Including prospective rescheduling and HIPC relief. For 2009 includes the financing gap of 2.0 percent of GDP

Table 8. Haiti: Indicators of Fund Credit

(Fiscal year ending September 30)

	2006	2007	2008	2009	2010	2011
Outstanding Fund credit, existing and prospective 1/						
In millions of SDRs	22.0	35.7	50.9	66.1	73.7	73.7
In millions of gourdes	1,266.2	1,973.5	2,817.0	3,873.5	4,564.8	4,736.0
In percent of quota	26.9	43.6	62.1	80.7	90.0	90.0
In percent of GDP	0.6	0.9	1.1	1.4	1.4	1.4
In percent of exports of goods and services	4.6	7.4	9.2	10.4	10.7	9.9
Debt service to the Fund 1/						
In millions of SDRs	3.9	22.6	0.5	0.5	0.5	0.5
In millions of gourdes	237.1	1,287.0	28.6	30.1	31.7	32.9
In percent of quota	4.7	27.6	0.6	0.6	0.6	0.6
In percent of GDP	0.1	0.6	0.0	0.0	0.0	0.0
In percent of exports of goods and services	0.8	4.7	0.1	0.1	0.1	0.1
In percent of debt service due	14.2	43.3	1.7	1.7	1.6	1.6
In percent of net international reserves	1.7	6.3	0.1	0.1	0.1	0.1
(In millions of SDRs)						
Net use of Fund credit	7.2	13.7	15.2	15.2	7.6	0.0
Disbursements	10.2	35.7	15.2	15.2	7.6	0.0
Repayments	3.0	22.0	0.0	0.0	0.0	0.0

Sources: IMF, Finance Department, and staff projections.

1/ Before post-completion HIPC debt relief

Table 9: Haiti: Budgetary Financing, by Donor and Type 1/
(Fiscal years ending September 30, in millions of US dollars)

	Cash Budget Support (A)			Debt Service Payments (B)			Paris Club (C)	HIPC (D)	Net Transfers Cash Basis (A+C+D-B)			Project Loans and Grants (E)			Net Overall Transfers (A+C+D+E-B)		
	2007	2008 Proj.	2006-08 Average	2007	2008 Proj.	2006-08 Average	2008 Proj.	2008 Proj.	2007	2008 Proj.	2006-08 Average	2007	2008 Proj.	2006-08 Average	2007	2008 Proj.	2006-08 Average
Bilateral and multilateral	67.4	115.8	125.1	65.1	71.7	61.4	3.6	14.8	20.6	44.1	10.3	317.7	344.4	262.4	338.3	388.5	272.7
Bilateral creditors	22.1	42.8	54.9	10.2	11.4	10.4	3.6	4.2	19.7	31.4	20.9	165.6	170.7	151.4	185.2	202.0	172.4
Canada 2/	6.8	6.7	11.1	0.2	0.2	0.1	0.1	0.2	6.9	6.5	11.1	51.6	46.3	65.8	58.5	52.7	76.9
France	4.3	2.7	5.0	3.6	3.7	4.1	3.3	0.5	4.5	-1.0	2.8	19.6	12.8	14.0	24.0	11.8	16.8
United States	2.0	8.0	4.5	1.3	1.5	1.1	0.0	1.4	2.1	6.5	4.0	53.7	56.8	38.3	55.7	63.4	42.4
Taiwan	0.0	0.0	0.0	2.7	3.5	2.7	0.0	0.0	-2.7	-3.5	-2.7	12.1	51.4	12.8	9.4	47.9	10.2
Others	9.0	25.4	6.8	2.5	2.5	2.4	0.3	2.3	9.0	22.8	5.7	28.6	3.4	20.5	37.6	26.2	26.2
Multilateral creditors	45.3	73.0	35.1	54.9	60.2	51.0	0.0	10.5	0.9	12.7	-10.7	152.2	173.8	111.0	153.1	186.5	100.4
IDB	22.5	32.5	16.3	30.9	36.3	28.9	0.0	10.3	1.9	-3.8	-7.5	112.8	65.4	85.0	114.8	61.6	77.4
EU	12.8	27.5	6.4	0.0	0.2	0.0	0.0	0.2	13.0	27.3	6.5	17.7	60.2	8.9	30.7	87.5	15.3
World Bank 3/	10.0	13.0	12.4	21.6	21.2	19.5	0.0	0.0	-11.6	-8.2	-7.1	17.8	37.7	13.7	6.2	29.5	6.6
of which																	
Arrears clearance	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	10.0	13.0	12.4	21.6	20.2	19.5	0.0	0.0	-11.6	-7.2	-7.1	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	2.3	2.6	2.6	0.0	0.0	-2.3	-2.6	-2.6	3.8	10.5	3.5	1.5	7.9	0.9
Memorandum item:																	
IMF	54.2	23.4	34.5	34.0	0.9	19.9	0.0	0.0	20.3	22.5	14.6	0.0	0.0	0.0	20.3	22.5	14.6

Sources: Haitian authorities; and Fund staff estimates.

1/ In fiscal years (October- September), unless otherwise noted; excludes humanitarian assistance.
2/ Includes funds for clearance of arrears to the World Bank.
3/ Disbursements consist of 100 percent grants in 2007 and 2008.

Table 10. Haiti: Indicators of External Vulnerability

(Units as indicated)

	2006	2007	2008	2009
		Prel.	Proj.	Proj.
Debt indicators				
Total external public debt (in percent of GDP) 1/	29.7	25.6	22.3	21.8
Total external public debt (in percent of exports 2/)	205.9	211.5	186.2	169.0
External debt service (in percent of GDP)	1.1	1.1	1.0	0.9
Amortization	0.7	0.8	0.7	0.6
Interest	0.3	0.3	0.3	0.2
External debt service (in percent of exports 2/)	7.5	8.9	8.4	6.7
Amortization	5.0	6.2	5.6	4.7
Interest	2.4	2.7	2.7	1.9
External debt service (in percent of current central govt. revenues)	10.1	10.2	8.3	6.9
Amortization	6.9	7.1	5.6	4.9
Interest	3.3	3.1	2.7	2.0
Other indicators				
Exports (percent change, 12-month basis in U.S. dollars)	7.7	5.6	16.5	15.6
Imports (percent change, 12-month basis in U.S. dollars)	18.3	4.2	16.2	8.4
Remittances and grants in percent of gross disposable income	22.0	20.3	19.1	18.5
Real effective exchange rate appreciation (+) (end of period)	13.4	...	...	...
Exchange rate (per U.S. dollar, period average)	41.4	...	...	...
Current account balance (US$ million) 3/	-19.0	10.1	-93.4	-186.3
Capital and financial account balance (US$ million) 4/	97.7	164.8	151.2	83.9
Public sector	49.3	46.1	62.1	41.4
Private sector	48.4	104.0	89.1	42.5
Liquid gross reserves (US$ million)	336.6	544.7	644.1	740.0
In months of imports of the following year 2/	1.8	2.5	2.7	2.9
In percent of debt service due in the following year	517	762	987	1067
In percent of base money	56.8	79.5	84.9	93.1

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

1/ It does not reflect completion point debt reduction in 2009.
2/ Goods and services.
3/ Including grants.
4/ Includes in the private sector FDI, short-term capital, and errors and omissions in addition to bank flows.

Table 11. Haiti: Financial Soundess Indicators of the Banking System

(Fiscal year ending September 30; in percent unless otherwise indicated)

	2003	2004	2005	2006	2007
Size and Growth					
Total assets (in millions of Gourdes)	50,916	55,931	65,811	72,519	79,764
o/w central bank bonds	3,818	3,544	5,527	7,684	9,008
o/w total loans	17,146	18,179	22,065	22,750	24,670
Total assets (in US$ millions) 1/	1,348	1,488	1,751	1,929	2,192
Total Deposits (in millions of Gourdes)	43,029	48,057	56,771	61,311	66,031
Net Profits (loss) (in millions of Gourdes)	175.5	13.5	114.3	414.4	202.3
Credit/GDP	13.5	12.2	12.3	10.2	10.9
Deposits/GDP	35.8	34.2	33.8	30.6	29.2
Credit growth (net) from year before 2/	33.7	5.1	5.6	13.7	9.9
Capital adequacy					
Regulatory capital to risk-weighted assets 3/	…	….	16.5	14.3	19.0
Capital (net worth) to assets	5.4	5.3	5.0	5.3	7.0
Asset quality and composition					
Loans (net) to assets	31.9	30.5	31.5	28.2	28.3
NPLs to gross loans	5.5	7.4	12.4	11.1	10.0
Provisions to gross loans	5.4	6.2	6.1	9.9	8.5
Provisions to gross NPLs	96.8	82.9	49.1	89.3	85.5
NPL less provisions to net worth	1.1	7.8	42.2	7.0	6.4
Earnings and profitability (annualized)					
Net Earnings/Assets (ROA)	1.9	0.8	0.7	1.8	1.0
Net Earnings/Equity (ROE)	35.0	15.1	12.8	34.2	14.7
Net interest income to gross interest income	65.7	55.1	71.8	72.2	67.1
Operating expenses to net profits	69.4	79.9	80.5	70.7	86.0
Efficiency					
Interest rate spread in Gourdes 4/	18.0	25.5	18.6	21.8	26.8
Interest rate spread in US dollar 4/	12.1	10.5	7.8	7.3	8.9
Liquidity					
Liquid assets to total assets 5/	45.0	46.5	43.6	45.3	46.5
Liquid assets to deposits 5/	53.0	54.1	50.5	54.5	56.1
Market Risk					
Foreign currency loans to total loans (net)	…	57.2	59.3	66.0	70.1
Foreign currency deposit to total deposits	50.9	47.3	52.6	53.6	52.4

Source: Staff computation based on data from the Bank of the Republic of Haiti

1/ Data for all years converted from gourdes at 12/31/06 exchange rate of 37.5917 Gourdes /US dollar.
2/ Net credit equal to gross loans less non performing loans.
3/ The prudential requirement is 12 percent.
4/ Defined as the difference between average lending rate and average fixed deposit rate in the banking system.
5/ Liquid assets include cash and central bank bonds.

Table 12. Haiti: Proposed Schedule of Disbursements

Amount	Date	Conditions for Disbursement 1/
SDR 28,100,000	November 20, 2006	Executive Board approval of the three-year arrangement under the PRGF. Includes 25% of quota in access for repayment of EPCA purchases
SDR 7,600,000	July 23, 2007	Observance of performance criteria for March 2007 and completion of the first review under the PRGF arrangement.
SDR 7,600,000	February 20, 2008	Observance of performance criteria for September 2007 and completion of the second review under the PRGF arrangement.
SDR 7,600,000	July 23, 2008	Observance of performance criteria for March 2008 and completion of the third review under the PRGF arrangement.
SDR 7,600,000	January 9, 2009	Observance of performance criteria for September 2008 and completion of the fourth review under the PRGF arrangement.
SDR 7,600,000	July 23, 2009	Observance of performance criteria for March 2009 and completion of the fifth review under the PRGF arrangement.
SDR 7,610,000	January 9, 2010	Observance of performance criteria for September 2009 and completion of the sixth review under the PRGF arrangement.

1/ Other than the generally applicable conditions for the Poverty Reduction and Growth Facility (PRGF)

Table 13. Haiti: Millennium Development Goals

	1990	1995	2001	2002	2003	2004	2005
Goal 1. Eradicate Extreme Poverty and Hunger							
Population below US$1 a day (in percent)	...	...	53.9	...	...	...	...
Poverty gap ratio at US$1 a day (in percent)	...	...	26.6	...	...	...	...
Share of income or consumption held by poorest 20 percent (in percent)	...	...	2.4	...	...	...	...
Prevalence of child malnutrition (percent of children under 5)	26.8	27.5	17.2	...	...	...	...
Goal 2. Achieve Universal Primary Education							
School primary enrollment ratio (percent of relevant age group)	22.0	...	...	...	...	...	...
Youth literacy rate (percent ages 15-24)	54.8	...	...	...	...	...	...
Primary completion rate, total (% of relevant age group)	28.0	...	...	...	...	...	...
Goal 3. Promote Gender Equality and Empower Women							
Ratio of young literate females to males (percent ages 15-24)	96.3	...	...	...	...	...	...
Share of women employed in the nonagricultural sector (percent)	39.5	...	...	...	...	...	...
Proportion of seats held by women in the national parliament (percent) 1/	...	...	...	4.0	4.0	4.0	3.6
Goal 4. Reduce Child Mortality							
Under-five mortality rate (per 1,000)	150.0	137.0	126.0	...	...	...	120.0
Infant mortality rate (per 1,000 live births)	102.0	94.0	88.0	...	...	...	84.0
Immunization against measles (percent of children under 12 months)	31.0	49.0	54.0	54.0	54.0	54.0	54.0
Goal 5. Improve Maternal Health							
Proportion of births attended by skilled health personnel	23.0	20.0	24.0	...	...	...	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	680.0	...	...	...	...
Goal 6. Combat HIV/AIDS, Malaria, and Other Diseases							
Contraceptive prevalence rate (percent of women ages 15-49)	11.0	18.0	28.0	...	...	...	...
Incidence of tuberculosis (per 100,000 people)	470.4	407.4	342.8	333.0	323.6	314.4	305.5
Prevalence of HIV, total (% of population ages 15-49)	...	...	...	...	...	...	3.8
Tuberculosis cases detected under DOTS (percent)	...	2.0	29.0	38.9	45.0	46.7	57.4
Goal 7. Ensure environmental sustainability							
Forest area (percent of total land area)	4.2	...	4.0	...	...	...	3.8
Nationally protected areas (percent of total land area)	...	...	...	...	...	0.3	...
GDP per unit of energy use (PPP $ per Kg oil equivalent)	10.4	7.3	6.8	6.0	6.3	6.2	6.2
CO2 emissions (metric tons per capita)	0.1	0.1	0.2	0.2	0.2	...	...
Access to improved water source (percent of population)	47.0	...	...	...	...	54.0	...
Access to improved sanitation (percent of population)	24.0	...	...	...	...	30.0	...
Goal 8. Develop a Global Partnership for Development							
Unemployment rate of population ages 15-24 (total)	23.6	...	17.9	...	...	...	...
Female	24.4	...	21.1	...	...	...	...
Male	23.0	...	15.1	...	...	...	...
Internet users (per 1,000 people)	0.0	0.0	3.0	59.0			70.0
Fixed line and mobile telephones (per 1,000 people)	6.6	8.1	21.3	33.0	55.5	64.2	64.2

Sources: World Bank Millenium Development Goals online database.

Attachment I. Summary of Annexes[1]

Fund relations

1. Haiti's current outstanding obligations to the Fund are SDR 35.7 million, which originate from drawings under PRGF arrangements. Haiti's exchange rate regime is a managed float with no predetermined path for the exchange rate. The central bank has implemented priority recommendations of the update Safeguards assessment that was completed in March 2007, and is currently in the process of implementing other remaining recommendations. The last article IV consultation was concluded by the Executive Board on July 6, 2007 (IMF Country Report No. 07/293).

Relations with the World Bank Group[2]

2. The World Bank Group's strategy and program in Haiti for FY2007 and FY2008 are set out in the Interim Strategy Note (ISN) reviewed by the Bank's Board on January 30, 2007. A full Country Assistance Strategy (CAS) will be prepared during FY2008 on the basis of the authorities' newly-submitted PRSP. Since January 2005, IDA has approved 11 projects for Haiti, for a total value of $199 million, and provided $12 million of trust fund resources since 2004. All assistance has been provided entirely in grant form since July 2005. The Bank is involved mainly in such areas as institutional capacity strengthening, governance reforms, community driven development, education, or water and sanitation.

Relations with the Inter-American Development Bank[3]

3. Since 2003, the Bank has operationalized its presence in Haiti through two successive transition strategies. At the present time, the IDB has 23 loans under execution, totaling US$675 million. The balance available for disbursements is US$425 million, or 63 percent of the approved amount, underscoring portfolio implementation as a major challenge. The IDB is involved mainly in public finance reform, road rehabilitation, agriculture, education, or local development projects.

Statistical issues

4. Haiti is currently working toward participation in the General Data Dissemination System (GDDS), and it is expected that it could participate sometime in early 2008. Haiti's data provision is broadly adequate for program purpose, but there is a need to improve the coverage, periodicity, quality and timeliness of statistics, particularly in external debt statistics, the balance of payments, and the coverage of government finance statistics. Production of quarterly GDP data would be highly desirable for program monitoring purposes.

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[1] The full annexes are available in Supplement II to this report.

[2] Adapted from text prepared by the staff of the World Bank in January 2008.

[3] Adapted from text prepared by the staff of the IDB in January 2008.

Attachment II. Letter of Intent

Port-au-Prince
January 25, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC 20431
USA

Dear. Mr. Strauss-Kahn:

The purpose of this letter is to inform you on the progress under the PRGF-supported program and to request that the third disbursement under the arrangement, in the amount of SDR 7.6 million, be made available to Haiti following the completion of the second review.

The attached Supplementary Memorandum of Economic and Financial Policies (MEFP) reviews the progress under the PRGF, and outlines the Government's policies and objectives and macroeconomic framework for FY2008, the second program year. In the first year of the program, the Government implemented macroeconomic policies that further consolidated stability, raised domestic revenue, and significantly increased public sector spending, including for crucially-needed investment and poverty reduction. At the same time, we made strong progress in consolidating security, and deepening democratic institutions, including through establishing provincial governing structures.

Going forward, the key challenge will be setting a foundation for robust and sustainable growth and employment creation, led by private sector activity and investment, through further increases in public sector spending on infrastructure and basic services. The Government finalized on November 30, 2007 its national growth and poverty reduction strategy, DSNCRP (*Document de Stratégie Nationale pour la Croissance et la Réduction de la Pauvreté*) in wide consultation with civil society and the international community. The document lays out priority spending for infrastructure building, providing basic services, and promoting employment in key sectors of the economy.

For the second review, all quantitative performance criteria were met with large margins, and four out of six structural performance criteria and three benchmarks were met in time for the end-September test date. The Government requests two waivers for the nonobservance of delayed performance criteria:

- First, lack of locally available expertise delayed the completion of a review of implementation issues for the adoption of IFRS by the BRH. Consistent with advice from the IMF's Finance Department, the BRH is pursuing a gradual approach to adopt IFRS. As a first step, the review of implementation issues will provide a qualitative analysis of discrepancies between current accounting practices and IFRS. We intend to complete this report as a prior action for the second review.

- Second, the commencement of an independent assessment of possible recapitalization needs and required financial and operational restructuring of the BNC was not completed prior to end-September, due to additional time needed to find an assessor and get the contract approved. We will retain an assessor as a prior action for the first review, and intend to complete the assessment by end-March 2008.

The Government believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. Haiti will consult with the IMF on the adoption of these measures, and in advance of any revision to the policies contained in the MEFP, in accordance with the fund's policies on such consultation.

In line with our demonstrated commitment to transparency, we agree to the publication of the staff report for the second review under the PRGF.

Sincerely,

Daniel DORSAINVIL /s/
Minister of Economy and Finance
Haiti

Charles CASTEL /s/
Governor
Bank of the Republic of Haiti

Attachments

Attachment III. Memorandum of Economic and Financial Policies for Fiscal Year 2008

Introduction

1. Haiti is entering its fourth year of stabilization and economic recovery, turning around a long period of stagnant growth, political turmoil and a lack of security. Wide-ranging reforms have been implemented to restore growth and stabilize the economy. There have also been encouraging improvements in security and public sector institutions, and a national dialogue concerning growth and poverty reduction has been launched. These improvements provide a foundation, not only to reduce poverty and boost living standards, but to root democratic institutions, combat corruption and entrench political stability.

2. Despite the progress achieved so far, there are considerable challenges going forward. There is a critical need for increased public sector spending to repair infrastructure, and provide basic services such as clean water, reliable energy, functional transportation networks, as well as a minimum standard of health and education. However, this spending has to be effective in an environment of low absorptive capacity, with some supply constraints. Moreover, a number of legal reforms will be needed to combat corruption, strengthen the judiciary and penal systems, and deepen the financial sector, in order to promote private sector investment, social justice and peace. These are prerequisites for creating a higher level of sustained growth, and for promoting employment creation. Haiti's poverty reduction and growth strategy (DSNCRP) developed by a wide participatory process, lays out the priorities for achieving many of these crucial objectives.

3. The first year of Haiti's PRGF-supported program was very successful in its focus on consolidating macroeconomic stabilization gains. The second year of the program will focus squarely on macroeconomic policies that support growth objectives and the priorities of the DSNCRP, while maintaining stability. This will be achieved through even higher quality spending of the public sector, cautious monetary policy, and financial sector reform.

Recent developments

4. The past fiscal year (FY) saw a continuation and consolidation of the macroeconomic stabilization gains achieved during 2004–06. Most of the macroeconomic program goals were met or exceeded, with all quantitative conditionality attained for end-March and end-September 2007. Economic growth, however, is likely to have fallen somewhat short of expectations. Political turmoil and natural disasters led to a 3.5 percent decline in GDP in 2004; since that time, improvements in security and political and macroeconomic stability have led to a return to positive growth, but the acceleration has been slower than anticipated. For FY2007, preliminary data suggest real GDP growth of 3.2 percent, one percentage point more than in FY2006 but below the 4 percent originally envisaged. Somewhat weaker than expected private demand and constraints on government spending execution, particularly in the first three quarters of the year, accounted partly for the lower-than-expected growth

performance. Inflation declined significantly, in line with program objectives, from 12 percent at the end of FY2006 to 7.9 percent at end FY2007. The absence of domestic demand pressures and significant nominal appreciation of the gourde (10 percent)—reflecting increased stability and continued strong transfers—contributed to the reduction in inflation.

5. After a slow start, central government spending picked up strongly in the fourth quarter of FY2007. In the end, expenditure execution on a cash basis was not too far away from the original budget, but fell significantly short of the additional spending foreseen by the supplementary budget, approved by Parliament in August 2007. As a result of this and higher-than-projected tax revenues, the fiscal balance excluding grants and externally-financed projects was in balance, compared with a deficit of 1.3–1.4 percent of GDP projected at the time of program approval and the first review. There was no resort to net central bank financing to the public sector.

6. Base money growth (7.6 percent) was kept under the indicative target of the program (9.9 percent), by sterilizing significant NIR accrual with net issuance of BRH bonds. NIR increased by US$162 million, far exceeding the revised adjusted program floor of US$99 million, bringing gross reserve coverage to a level of 2.5 months of imports (up from 1.8 months at end-FY2006). At the same time, since July, interest rates in central bank auctions have been competitively determined, triggering a decline in the benchmark 91-day interest rate from 13 percent to less than 5 percent. However, the decline in the policy rate has not yet fully translated into lower private sector lending rates or increased gourde private credit growth, the latter being 3.5 percent in FY2007 as a whole.

7. Important structural reforms were implemented in FY2007. The program's extensive structural conditionality was mostly met. In the area of fiscal reform, action plans to modernize the internal revenue service (DGI) and customs (AGD) were developed, and the use of the central taxpayer file was extended. Domestic salary and non-salary arrears were surveyed and subsequently settled. Quarterly spending limits by ministry and limits on spending through ministerial current accounts were respected. TOFE coverage was expanded by including own resources and related spending, and a mechanism was adopted for tracking expenditures related to poverty reduction. The BRH implemented its plan to resolve a troubled commercial bank ahead of time, and implemented key recommendations from the 2006 safeguards assessment update. A new draft banking law, which is in line with international best practice, was submitted to Parliament, as well as legal amendments to discontinue BRH involvement with unrelated public entities (BPH, APN, and SONAPI). Two structural performance criteria (PCs) for end-September 2007—a report on implementation issues for the adoption of international financial reporting standards (IFRS) and commencement of an assessment of recapitalization needs of the state bank BNC—are still outstanding, but we intend to complete them as prior actions for the IMF Executive Board's consideration of the second program review.

Program objectives

Strategy for the remaining Two Years of the Program

8. The objectives through FY2009 remain broadly consistent with those at the time of program approval. Real GDP growth is targeted to accelerate to 4.0 percent in FY2009. This will be achieved through establishing a firmer foundation for private sector activity and investment through increased public sector spending on infrastructure and basic services, as well as measures to promote employment-creation in key sectors of the economy, as outlined in the newly finalized DSNCRP. In the next two years, growth should also benefit to some extent from the HOPE initiative, a scheme to provide U.S. trade preferences to Haitian garment imports, waiving rules of origin requirements. Inflation would be gradually reduced to 7 percent, anchored by prudent base money expansion, while gross international reserve coverage would rise to about three months of imports by FY2009.

9. To accommodate urgently needed spending increases, fiscal policy will aim at increasing Haiti's domestic revenue intake, from its current level of 10.3 percent of GDP to some 12.5 percent of GDP by FY2009. Monetary policy will focus on achieving inflation targets through quantity management, while financial sector reforms will aim at strengthening prudential regulation and supervision, and deepening financial intermediation. These measures will be reinforced by further strengthening central bank independence, including through the rehabilitation of the BRH's balance sheet.

Objectives for FY2008

10. Key macroeconomic objectives for FY2008 are to attain real GDP growth of 3.7 percent, end-period inflation of 9.0 percent, and increase NIR by US$40 million. Growth in the agricultural sector, which accounts for roughly one-quarter of GDP, is likely to be adversely affected by recent flooding. However, the secondary sector will benefit from improvements already well underway, including better and more reliable provision of electricity and improvement of the road networks. The acceleration of budget execution in the final quarter of FY2007 should continue in FY2008, supporting the growth objective, along with initial implementation of sectoral strategies of the DSNCRP.

Fiscal policy

11. The FY2008 budget envisages a deficit (excluding grants and foreign-financed projects) of 1.1 percent of GDP, to be fully financed by net external flows, including debt rescheduling and HIPC interim relief. We have received firm commitments from donors to cover our external financing needs. A small remainder (US$ 2.4 million) will be covered by miscellaneous donor inflows, which we expect to materialize during FY 2008 in line with the experience of past years. The envisaged deficit reflects strong increases in expenditures that will be met in part by ambitious increases in revenue collection. The government will continue to refrain from using BRH financing. To ensure that this is achieved, we are

prioritizing investment expenditures (some 60 projects for a total amount of G3 bn.), with lower priority expenditures being initiated only as projected revenues and external financing materialize.

12. A key objective of our program is to increase the domestic revenue effort, with emphasis on combating smuggling and tax fraud. Domestic revenues are projected to increase by about 1.8 percent of GDP in FY2008 to G30,935 million (including earmarked revenues for the road maintenance fund). To achieve this, we will make implementation of action plans to strengthen customs and tax administration a priority. In addition to diligent implementation of the action plans, we will implement the following measures in the context of program conditionality:

- Submit a new organic law for the DGI to Parliament (Benchmark for end-September 2008);
- Establish and begin implementation of a plan for the DGI to collect delinquent taxes (Benchmark for end-March 2008); and
- Establish three new customs control posts on major roads (Benchmark for end-September 2008).

Furthermore, we will increase the reliability of revenue data by reconciling weekly data of the BRH and BNC with that of the DGI and AGD, and continue to extend the use of the central taxpayer file to other DGI offices, especially in Carrefour and Tabarre. We will also prepare administrations procedures manuals for the DGI and AGD, and we expect parliamentary approval of the new customs code, submitted in spring 2007.

13. The Petrocaribe agreement has been ratified by Parliament, and the government is working to resolve a number of logistical issues to make it operational. The budget for FY2008 does not yet include any Petrocaribe resources. In any case, we continue to be fully committed to the transparent use of these resources, channeled through the budget.

14. The FY2008 budget envisages increasing public sector expenditures (excluding foreign-financed projects) by 2.8 percent of GDP to G33,783 million. This increase will accommodate further hiring for social sectors and the police, as well as salary increases to allow partial recovery of significant past real-wage losses, with a total increase in the wage bill of 1.3 percent of GDP. It will also facilitate almost a doubling (on a cash basis) of domestically-financed capital expenditures from the FY2007 outcome. The budget aims to increase poverty reducing expenditures from 43 percent in FY2007 to 56 percent of total expenditures in FY2008.

15. In order to boost absorptive capacity so that the budget envelope can be executed, without compromising the quality of expenditures, we are committed to undertake the following actions:

- Implement a program to strengthen programming units of key line ministries, involving hiring and training experts in project identification and implementation (PC for end-March 2008);
- Deploy fiscal accountants and financial comptrollers to key line ministries (Benchmark for end-March 2008); and
- Develop and implement module for investment spending for the public financial management system SYSDEP (Benchmark end-September 2008).

In addition, we intend to take steps to subject the management of government entities' "own resources" to the same scrutiny as fiscal revenues. We will also continue our efforts to obtain more timely and accurate data on the execution of foreign-financed projects; it will be important for donors to provide the needed information in a timely fashion.

16. Budget execution will continue to be carefully monitored to ensure that the large increase in spending is used as intended. In this context, we will continue to: (i) limit the use of ministerial current accounts to less than 10 percent of non-wage current expenditures (quarterly PC); (ii) adhere to quarterly ministerial allocations; (iii) publish the TOFE monthly; and (iv) prepare a quarterly report on tracking of poverty reduction expenditures—upgrading the existing presentation to enable a more detailed tracking of spending in priority areas—to ensure that interim HIPC relief has been used to finance additional priority spending.

Monetary policy

17. The program envisages attaining an inflation rate of 9.0 percent by end-September 2008. This rate slightly exceeds the FY2007 outcome, as a result of higher international prices for food and petrol. To ensure that these increases do not translate into broader inflationary pressures, base money growth will be kept slightly below that of nominal GDP, with an indicative target for the year of 9.6 percent. The bulk of monetary expansion will come from an increase in net international reserves, with a program floor of US$40 million. This will boost gross reserves coverage to 2.7 months' worth of imports. Recognizing that appreciation of the real exchange rate is a reflection mainly of changing fundamentals, the BRH will maintain exchange rate flexibility, limiting interventions to purchases for the achievement of the program NIR target and temporary smoothing of excessive market volatility.

18. To improve the transmission of monetary policy, the BRH has taken steps to make the bond auction more competitive, setting bond volumes and letting prices be determined through competitive bidding. The BRH will extend participation in the bond auctions to non-bank financial institutions (PC for end-March 2008) for the purposes of ensuring that bidding remains competitive and to promote financial market development. Coordination between the MEF and the BRH will be strengthened to improve liquidity forecasting. Moreover, the BRH

will institute more formal, albeit brief, communications to convey its policy intentions and monetary policy actions to the public (Benchmark for end-September 2008).

19. Building on the cessation of non-essential activities in the first program year, we will strengthen the institutional foundation for our monetary policy framework through further reinforcement of the independence of the BRH, including through strengthening its balance sheet. A strategy to divest the BRH's interest in the state telephone company, Teleco, is currently being prepared (PC for end-March 2008), with support from the IFC. Taking into account the expected proceeds from that operation, the BRH will, together with the MEF, devise a plan for the recapitalization of the central bank (PC for end-March 2008). The plan will contain steps to revert the BRH's quasi-fiscal losses, and put its balance sheet on a sound financial footing.

20. The BRH is committed to implement the remaining recommendations from the 2006 safeguards assessment update. Members of the Audit Committee have been selected and the committee has begun regular meetings. Because of very limited domestic auditing capacity and a number of structural and legal obstacles, implementation of IFRS will be a medium-term process, with the first step being a qualitative analysis of accounting discrepancies. This will be undertaken as a prior action to IMF Executive Board consideration of the second review. Subsequent steps will call for a quantification of the discrepancies, dual reporting, and finally, compliance with IFRS. During this time, we will identify and seek to deal with all legal and structural impediments to IFRS implementation. The BRH's monitoring committees will continue to examine and sign off on program monitoring data, and will consider possible options for rotating the BRH auditor.

Financial sector

21. The FSAP exercise suggests that Haiti's banking system is generally sound. At the same time, the FSAP documented a number of developmental and supervisory challenges that need to be addressed to provide a foundation for private sector activity and strengthen the resilience of the financial system. The BRH will implement key recommendations of the FSAP, and address a number of additional issues impeding effective functioning of financial markets, with a view to deepening financial intermediation. This would include approval of the draft banking law, which was submitted to Parliament in June 2007, and submission of legal initiatives to reduce mortgage fees and allow co-ownership of real estate. The BRH will support the creation of a Credit Information Bureau and a centralized public registry of personal property collateral, and is working on modernizing the payments system, through the implementation of a real time gross settlement system. To help reduce the costs of financial intermediation, the BRH intends to gradually lower the high reserve requirements. As a first step, in late October reserve requirements for commercial banks' gourde deposits were reduced, from 31 to 30 percent. Reserve requirements for deposits in foreign currencies remain at 31 percent, but the gourde component of the requirement was reduced, from 30 to 27.5 percent.

22. The first phase of an assessment of possible needs for operational and financial restructuring of the BNC is expected to be completed in the first half of 2008. Terms of reference for the assessment have been prepared and a contract with the selected assessor will be signed as a prior action for IMF Executive Board consideration of the second program review. The BRH also intends to conduct special inspections of two other large commercial banks to ensure the systemic health of Haiti's banking sector, one of them by September 2008 (PC). We will improve regulations on credit concentration and connected lending and their enforcement for banks, and strengthen the regulatory framework and supervision of credit unions (benchmark for end-September 2008). The BRH will also define basic requirements for transparency for other non-bank financial institutions. Finally, we have created a group to evaluate options for establishing a deposit insurance scheme.

PRSP, HIPC, and debt management

23. We have finalized our poverty reduction and growth strategy paper. It contains sectoral strategies, which are aimed at providing basic services and promoting job creation. A donors' conference is being convened to discuss the document and mobilize support for its implementation. As needed, we will submit a supplementary budget to align budgetary spending priorities with those of the DSNCRP and program any additional resources.

24. We are working to implement the conditions stipulated for reaching the floating completion point under the enhanced HIPC initiative, in order to benefit from irrevocable HIPC and MDRI relief as soon as possible. A mechanism to track poverty-related spending has been established, and progress is being made toward the establishment of a centralized database on domestic and external public debt. Strengthening of tax administration is also ongoing, through reinforcing customs control in the provinces and the extension of the use of the central taxpayers' file. The law on asset declaration has already been submitted to Parliament.

Program monitoring

25. The second year of the program will continue to be monitored using quarterly quantitative benchmarks and semi-annual quantitative performance criteria presented in Table 1. The test dates for the program will be end-March and end-September. Quantitative targets are set on net international reserves and net domestic assets of the central bank; net domestic banking sector credit to the central government; net central bank credit to the central government and to the nonfinancial public sector; base money (indicative benchmark); domestic arrears of the central government; external arrears accumulation; and nonconcessional external loans contracted or guaranteed by the central government. The definitions of these quantitative targets are provided in the attached Technical Memorandum of Understanding (TMU). Given the uncertainty of the amount and timing of disbursement of budgetary assistance, our program includes an adjustor for net external financing (see TMU). Quarterly structural performance criteria are listed in Table 2, as well as prior actions and

benchmarks. The PRGF monitoring committee, composed of officials from the MEF and BRH, will continue to monitor program implementation in the second year. We anticipate the third review of the program on or around July 23, 2008 and the fourth review to be completed in early 2009.

26. 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 and Quantitative Performance Criteria, FY 2008

	Actual stock	Cumulative Flows since September 2007			
	at end-	Dec-08	Mar-08	Jun-08	Sep-08
	Sep-07	Ind. target	Test date	Ind. target	Test date
Performance criteria					
Net central bank credit to the NFPS (in millions of gourdes)	19,905	522	293	168	0
Central Government	20,214	522	293	168	0
Rest of NFPS	-309	0	0	0	0
Net domestic banking sector credit to the central government	19,294	522	293	168	0
Net domestic assets of the central bank (in millions of gourdes) - ceiling 1/	15,605	690	1,290	1,030	953
Domestic arrears accumulation of the central government 2/	0	0	0	0	0
New contracting or guaranteeing by the central government or the BRH of nonconcessional external debt 2/ 3/					
(In millions of U.S. dollars)					
Up to and including one year	0	0	0	0	0
Over one-year maturity	0	0	0	0	0
Net international reserves of central bank (in millions of U.S. dollars) - floor 3/	259	10	20	30	40
External arrears accumulation (in millions of U.S. dollars) 2/	0	0	0	0	0
Indicative target:					
Change in base money	24,930	1,050	2,010	2,110	2,393
Memorandum items:					
Change in currency in circulation (in millions of gourdes)	11,570	1,150	1,750	1,350	1,226
Net domestic banking sector credit to the rest of the of the non-financial public sector (in millions of gourdes)	-579	90	190	90	0
Government total revenue, excl. grants (in millions of gourdes)	…	7,645	15,291	23,342	30,935
Government total expenditure, excl. ext-fin investment (in millions of gourdes)	…	9,071	17,179	25,284	33,782

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

1/ For program monitoring purposes, NDA is defined as monetary base minus NIR in gourde terms. Program exchange rate of G36/$ through end-Sept.
2/ On a continuous basis.
3/ Excludes letters of credit and guarantee, and earmarked projects.

Table 2: Structural PCs and Benchmarks for the Second Program Year

Prior actions

- Begin independent assessment of possible recapitalization need and required financial and operational restructuring of BNC; and
- Complete a review of implementation issues for the adoption of IFRS by the BRH.

Revenue administration

- Submit a new organic law for the DGI to Parliament (Benchmark for end-September, 2008);
- Establish and begin implementation of a plan for the DGI to collect delinquent taxes (Benchmark for end-March, 2008); and
- Establish three new customs control posts on major roads (Benchmark for end-September, 2008).

PFM

- Strengthen programming units of key line ministries (PC for end-March, 2008);
- Deploy fiscal accountants and financial comptrollers to key line ministries (Benchmark for end-March, 2008);
- Limit current account spending to no more than 10 percent of non-wage current expenditure (PC on quarterly basis); and
- Develop and implement modules on the investment program for the public financial management system SYSDEP (Benchmark for end-September, 2008).

Monetary policy framework

- Prepare a plan to recapitalize the central bank (PC for March, 2008);
- Adopt a strategy for discontinuing BRH involvement with TELECO (PC for March, 2008);
- Extend participation in bond auction to non-bank financial institutions (PC for March, 2008);
- Develop and begin implementation of a plan to improve systemic liquidity forecasting (Benchmark for end-September, 2008); and
- Initiate regular central bank reporting on monetary policy goals and implementation (Benchmark for end-September, 2008).

Financial sector

- Complete independent assessment of an additional systemically important bank (PC for end-September, 2008); and
- Improve regulatory framework and supervision of credit unions (Benchmark for end-September, 2008).

Attachment IV. Technical Memorandum of Understanding

1. Haiti's performance under the program supported by the Poverty Reduction and Growth Facility (PRGF) will be assessed on the basis of the observance of quantitative performance criteria as well as compliance with structural performance criteria and benchmarks. This Technical Memorandum of Understanding (TMU) defines the quantitative and structural performance criteria and indicative targets for the period October 2007–September 2008, specified in Table 1 and 2 of the Memorandum of Financial and Economic Policies (MEFP). It also lays down the monitoring and reporting requirements. The quantitative performance criteria under the program are set for end-March and end-September 2008. Targets for end-December 2007 and end-June 2008 are indicative.

Definitions

Net BRH credit to the central government[1]

2. 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 for end-December 2007. For end-March, end-June, and end-September 2008, Table 10R of the BRH will be replaced by its revised version as Table 1SR of the BRH .[2]

   b. Change in the stock of special accounts ("Comptes Spéciaux") and seized values (Valeurs saisies UCREF) included in Table 10R of the BRH will be excluded from change in net domestic credit to the central government as defined above.[3]

   c. Change in PetroCaribe accounts of the Bureau de Monetization will be excluded from change in net domestic credit to the central government as defined above.

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

[2] This replacement applies to all below references to Table 10R.

[3] Special accounts are accounts of the government at the BRH which can only be used with the authorization of donors. If included, movements in these accounts would appear as BRH credit to the government.

3. Changes in any other special account (as defined in footnote 3) maintained or established at the BRH will be treated as in 2.b above.

4. The changes will be measured on a cumulative basis from the stock at end-September 2007.

Net domestic banking sector credit to central Government

5. The change in net domestic banking sector credit to the central government 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;

   b. Change in the stock of net domestic credit of the central government from domestic banks;

   c. Change in the stock of special accounts according to Table "Comptes Spéciaux" of the BRH will be excluded from the definition of net domestic banking sector credit to the central government.

6. Changes in any other special account (as defined in footnote 3) maintained or established in the BRH, BNC, or BPH will be excluded.

7. The changes will be measured on a cumulative basis from the stock at end-September 2007.

Net international reserves

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

   a. Change in net foreign assets ("Réserves de change nettes" of the BRH Table 10R for 2007 and 2008);

   b. Minus the change in foreign currency deposits of commercial banks at the BRH ("Dépôts à vue en US$ et en EURO des bcm à la BRH" of the BRH Table 10R).

   c. Minus the change in earmarked project accounts and letters of credit and guarantee.

   d. Minus the change in PetroCaribe accounts of the Bureau de Monetization.

9. Data will be expressed in U.S. dollar terms and valued at the corresponding end-period market exchange rate.

10. 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 BRH 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, and excluding trust funds). Swaps in foreign currency with domestic financial institutions and pledged or otherwise encumbered reserve assets are excluded from net international reserves.

11. The changes will be measured on a cumulative basis from the stock at end-September 2007.

Net domestic assets of the BRH

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

a. Change in base money (program definition according to section H below);

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

13. The program definition of net domestic assets of the BRH will use a program exchange rate of G36 per U.S. dollar for the period October 2007–September 2008.

14. The changes will be measured on a cumulative basis from the stock at end-September 2007.

Nonconcessional external and foreign-currency denominated debt

15. 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).

16. The concessional nature of debt will be determined on the basis of the commercial interest reference rates (CIRRs), as laid out by the Organization for Economic Cooperation and Development (OECD). A debt is defined as concessional if, on the date of signature, the ratio between the present value of the debt computed on the basis of reference interest rates and the face value of the debt is less than 65 percent (equivalent to a grant element of at least 35 percent).

17. Excluded from the ceiling are short-term import-related credits, rescheduling arrangements, borrowing from the Fund, and guarantees for the electricity sector in the form of letters of credit.

18. The ceilings for contracting and guaranteeing nonconcessional debt by the central government and the BRH will be set at zero continuously throughout the program period.

Government current accounts

19. Ministerial current accounts are mechanisms for channeling expenditures. In principle, the use of these accounts should be limited to unforeseen emergency outlays. The BRH will provide monthly information on the stock of these current accounts for the central government (as defined in footnote 1).

20. The target is calculated on a cumulative basis. The ceiling on the use of current accounts will be met if year-to-date (starting on October 1st) expenditure executed through current accounts is less than 10 percent of nonwage budget appropriations at the end of each of the two quarters preceding the end-March and end-September test dates.

Arrears

21. External payment arrears are defined as overdue payments (principal and interest) to non-residents on debt contracted and guaranteed by the central government, and will be defined according to the terms of indebtedness of each creditor. The criterion of zero accumulation of external arrears will be monitored on a continuous basis.

22. Domestic arrears are defined to include: (i) any bill that has been received by a spending ministry from a supplier for goods and services delivered (and verified) and for which payment has not been made within 45 days after the due date of payment; (ii) wage, salary, and other payment to government employees, including direct and indirect allowances, that were due to be paid in a given month but remained unpaid on the 30th of the following month; and (iii) interest or principal obligations which remain unpaid 30 days after the due date of payment. This definition excludes changes in the stock of arrears on account of interest, penalties and valuation changes.

Base money

23. The change in base money is defined as, and will be measured using:

a. Change in the stock of currency in circulation from Table 10R of the BRH.

b. Change in the stock of reserve deposits of commercial banks at the BRH, from Table 10R, using gourde sight deposits of commercial banks (depots a vue gourdes des BCM a la BRH) and cash-in-vault of commercial banks (Encaisses des BCM).

24. The changes will be measured on a cumulative basis from the stock at end-September 2007.

Quarterly adjustments

25. The quarterly performance criteria and indicative targets will be adjusted for the following amounts:

Adjustment for domestic arrears accumulation

26. 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 downward for the amount of outstanding domestic arrears accumulation.

Adjustment for net program external financing

27. The program ceilings on BRH net credit to the central government , and on BRH net domestic assets and the floor on NIR reflect an assumed flow of net external financing, defined as disbursements of cash budgetary assistance, exceptional financing (including rescheduled principal and interest) and debt relief minus debt service.

28. If actual net external financing is lower than programmed net external financing, the ceilings on BRH credit to the government and on BRH net domestic assets will be adjusted upward, and the floor on NIR will be adjusted downward, by the amount of the difference between actual and programmed net external financing, converted into gourdes at the program exchange rate. The amount of this adjustment will be limited to US$40 million. The adjuster will be calculated on a cumulative basis from October 1, 2007.

Program Net External Financing
(In millions of U.S. dollars)

	December 2007	March 2008	June 2008	September 2008
Program net external financing	21.4	36.2	37.6	62.9

Clarification of structural performance criteria

Prior actions

29. To complete the review of implementation issues for the adoption of IFRS by the BRH, a gap analysis disclosing the main qualitative differences between the BRH's current accounting practices and IFRS should be undertaken, for inclusion in the next published financial statement.

30. To commence the assessment of the needed financial restructuring of the BNC, the contract with an expert assessor will be signed.

Public financial management

31. The criterion to strengthen programming units of key line ministries will involve the hiring, training, and procuring equipment for 3 experts in project planning and implementation for each of seven ministries. The seven ministries are: Public Works, Agriculture, Education, Health, Justice, Commerce, Women's Affairs, and Environment. The Ministry of Planning will produce a list of the individuals hired and equipment procured for them.

32. The criterion to deploy fiscal accountants and financial comptrollers to key ministries will involve hiring, training and procuring equipment for their operation in each of the following ministries: Public Works, Agriculture, Education, Health, Interior, Foreign Affairs, Primature, and the President's office.

33. The benchmark to develop and implement modules on the investment program for the public financial management system SYSDEP involves the installation of SYSDEP modules to record, and present on a monthly basis, domestically financed public investment expenditures. This reporting will be used to develop the monthly TOFE for at least September 2008.

Monetary policy and financial sector

34. The plan for improving systemic liquidity forecasting would include dates for implementing the following steps:

- Initiating regular exchange of information between the MEF and the BRH on in/outflows of the Treasury account;
- producing regularly the BRH's balance sheet;
- establishing liquidity forecasts for each autonomous factor for the coming week;
- based on the liquidity forecasts, adjusting the size of the BRH auction in line with monetary targets; and

- assessing and analyzing the forecast errors and finding possible corrections.

35. Completion of an independent assessment of an additional systemically important bank, would include a report on the on-site examination the bank, including an assessment of the financial condition, internal controls, and risk management practices, produced with the assistance of an independent foreign expert or team of experts, and signed and certified by the expert or experts, in accordance with terms of reference and procedures for the selection of experts that have been agreed between the BRH and the IDB.

36. As regards strengthening supervision of credit unions, the BRH should upgrade its prudential regulations and corresponding guidelines on supervisory practices regarding credit unions, and the government submit to Parliament a new draft law on credit unions. The draft law should address the following key concerns: (i) supervisory responsibilities should be limited; (ii) governance, transparency and self-regulation should be stressed; (iii) members' responsibility to monitor management, and possibly change it, should be upheld; and (iv) the risk to overwhelm the supervisor by directly assuming the control of credit unions should be minimized.

Provision of information to IMF staff

37. To ensure adequate monitoring of the program, the authorities will provide daily, weekly and monthly monetary and fiscal indicators to IMF staff, as well as other data upon request.

Daily

38. *Monetary Indicators:* (a) Exchange rate; (b) Volume of foreign exchange transactions, of which BRH sales and purchases; (c) Gross international reserves; and (d) Net international reserves.

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

Weekly

40. Monetary Indicators: (a) Stock of BRH bonds; (b) Deposits at commercial banks (in gourdes and U.S. dollars); (c) Credit to private sector (in gourdes and U.S. dollars); (d) Credit to central government and public sector (net); and (e) Currency in circulation.

41. *Fiscal Indicators*: (a) Revenues (internal, external, other) and (b) Expenditures on cash basis (wages and salaries, goods and services, external debt, current accounts).

42. These data will be reported with maximum five-day lag preliminary data (four weeks for final data).

Monthly

43. Table 10 R and Table 20 R with a maximum of 30-day lag final data.

44. Tableau on the comptes courants with a maximum of 30-day lag final data.

45. Tableau de trésorerie de devises with a maximum of 30-day lag final data.

46. Tableau des Operations Financiere d'Etat (within 14 days).

47. Table underlying the TOFE which enables the determination of checks in circulation and balance on investment project accounts.

48. Set of external debt tables with a maximum 30-day lag final data.

49. Report of revenue collection of DGI (*Rapport d'activités*).

50. Tables of revenue collection of AGD (Indicateurs d'activités aux ports, Rapport analytique des perceptions douanières à l'importation).

51. Balance of PetroCaribe accounts of the Bureau de Monetization.

Quarterly

52. Report on poverty-reducing expenditures.

INTERNATIONAL MONETARY FUND

HAITI

Staff Report for the Second Review of the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criteria

Informational Annex

Prepared by the Western Hemisphere Department

February 5, 2008

Contents

ANNEX I. FUND RELATIONS
(As of December 31, 2007)

I. Membership Status

Joined September 08, 1953; Article VIII member

II. General Resources Account

	SDR Million	%Quota
Quota	81.90	100.00
Fund holdings of currency	81.83	99.92
Reserve Position	0.07	0.08
Holdings Exchange Rate		

III. SDR Department

	SDR Million	%Allocation
Net cumulative allocation	13.70	100.00
Holdings	4.74	34.61

IV. Outstanding Purchases and Loans

	SDR Million	%Quota
PRGF Arrangements	35.70	43.59

V. Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Nov 20, 2006	Nov 19, 2009	73.71	35.70
PRGF	Oct 18, 1996	Oct 17, 1999	91.05	15.18
Stand-By	Mar 08, 1995	Mar 07, 1996	20.00	16.40

VI. Projected Payments to Fund [1/]
(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2008	2009	2010	2011	2012
Principal					5.62
Charges/Interest	0.49	0.49	0.49	0.49	0.48
Total	0.49	0.49	0.49	0.49	6.10

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative

I. Commitment of HIPC assistance	Enhanced framework
Decision point date	Nov 2006
Assistance committed by all creditors (US$ Million) [1/]	140.30
Of which: IMF assistance (US$ million)	3.12
(SDR equivalent in millions)	2.10
Completion point date	Floating
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	0.12
Interim assistance	0.12
Completion point balance	--
Additional disbursement of interest income [2/]	--
Total disbursements	0.12

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI)

Not Applicable

IX. Exchange Arrangement

Managed floating with no predetermined path for the exchange rate. The change from a fixed to managed floating regime took place in January 1990. Haiti's exchange system is free of restrictions on the making of payments and transfers for current international transactions. Since September 1991 all transactions have taken place at the free (interbank) market rate.

X. Safeguards Assessment

The updated safeguards assessment of the Banque de la République d'Haiti (BRH), completed on March 5, 2007, found slow progress in strengthening the BRH's safeguards framework since the 2005 assessment and made recommendations to address remaining vulnerabilities. Priority recommendations were subsequently implemented for completion of the first review. In line with the BRH's action plan to implement IFRS, a gap analysis was to be undertaken by end-September 2007 (PC for the second program review). Prior to Board consideration of the second program review, the IFRS analysis was undertaken and a recommended external audit committee was established.

XI. Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on July 9, 2007. Haiti is on a 24-month cycle.

XII. Technical Assistance

Haiti has benefited from the following IMF technical assistance missions since 2005:

Department	Dates	Purpose
FAD	April 2005	Public expenditure management
	May 2005	Tax policy and revenue administration
MCM	March 2005	Monetary operations
	November 2005	Implementation of a bond auction mechanism
	May 2006	Accounting of the central bank
	March 2007	Banking law (jointly with LEG)
	November 2007	BRH recapitalization plan
STA	November 2005 and May 2006	Multisector statistics
	May, October and December 2006, April-May and November 2007	Monetary and financial statistics
LEG	March 2007	Banking law

XI. Resident Representative

Mr. Ugo Fasano has been the Fund's Resident Representative since October 2005.

ANNEX II. RELATIONS WITH THE WORLD BANK GROUP
(As of December 31, 2007)

1. The World Bank stepped up its engagement in Haiti in March 2004, as part of a broader partnership between the Transitional Government and donors to address Haiti's social, economic and institutional needs. The government and donors conducted a needs assessment in May 2004 which provided the basis for the Interim Cooperation Framework (ICF). This established a two-year program for reform and recovery and the structures through which it would be pursued. The ICF was presented at an international donor conference in July 2004 at the World Bank headquarters, at which donor countries and international organizations pledged US$1.1 billion for Haiti. At a subsequent conference in July 2006 in Port-au-Prince, Haiti's new elected Government extended the ICF until September 2007 and revised it to reflect Government priorities. Donors pledged US$751 million for the period 2006–07. Additional budget support resources were mobilized during a follow-up Donors conference held in Madrid (Spain) in end-November 2006.

2. The World Bank Group's strategy and program in Haiti for FY 2007 and FY 2008 are set out in the Interim Strategy Note (ISN) reviewed by the Bank's Board on January 30, 2007. A full Country Assistance Strategy (CAS) for FY09-12 will be prepared during FY2008 on the basis of the full Poverty Reduction Strategy Paper (Document de Stratégie Nationale pour la Croissance et la Réduction de la Pauvreté, DSNCRP) that the Government has recently completed and submitted to the World Bank and the International Monetary Fund (IMF). World Bank and IMF staffs have prepared a Joint Staff Advisory Note (JSAN). The most recent full CAS was discussed by the Board in 1996.

3. Since January 2005, when Haiti cleared its arrears to the International Development Association (IDA), IDA has approved 11 projects for Haiti, for a total value of $199 million. This is in addition to $12 million of trust fund resources since 2004, primarily from the Post-Conflict Fund and the Low Income Countries Under Stress Trust Fund (LICUS). All assistance has been provided entirely in grant form since July 2005.

4. The IDA grants program for FY 2007 totals US$68 million. Of this, the first project (approved in July) was a US$6 million Electricity Loss Reduction Project, which aims to strengthen operational, financial, and customer management performance in key areas of the state electrical utility. A US$5 million Rural Water and Sanitation Project, to increase access to safe water and sanitation, and a US$23 million development policy grant linked to the government's economic governance reform program (Economic Governance Reform Operation II) were approved in January 2007. In addition, a US$9 million Catastrophe Risk Insurance Project, approved in March, will finance Haiti's entrance fee and participation for three years in the Caribbean Catastrophe Risk Insurance Facility, which will provide rapid payouts in the event of a major hurricane or earthquake. A US$25 million Education for All (EFA) Project, which aims to expand primary enrollment, was approved in April 26, 2007.

5. The three investment projects approved in FY 2005 and FY 2006 all remain active: (1) a US$12 million Emergency Recovery and Disaster Management Project (January 2005), which aims to support the rehabilitation of areas affected by recent disasters and strengthen capacity to manage disaster risks and respond to emergencies at both the national and community levels; (2) a US$38 million Community Driven Development (CDD) project (July 2005), which aims to improve access to basic social services and provide income-generating opportunities to poor people in rural and peri-urban areas; and (3) a US$16 million Transport and Territorial Development Project (April 2006), which pilots a territorial development approach in two micro-regions, through financing improvement of key roads and other infrastructure to promote rural development.

6. The Bank is also funding technical assistance, primarily through two US$2 million Economic Governance Technical Assistance Grants (ECTAG I and II, approved in June 2005 and June 2006). It has also provided support to the preparation of the PRSP. An earlier US$61 million development policy operation in support of economic governance reform (Economic Governance Reform Operation I) is now fully disbursed. A Second Economic Governance Reform Operation (EGRO II), a two-tranche US$23 million Development Policy Grant, was approved by the Board in January 2007. A first tranche of EGRO II in the amount of US$10 million has been disbursed in August 2007 in line with the Government's budget cycle.

7. IDA's portfolio of projects in implementation in Haiti has expanded dramatically. Since July 2007, when a resolution was reached to a year-long impasse with Haitian authorities over ratification processes for IDA grants, six projects have been declared effective. There are now 10 active projects for a total commitment of US$138 million. Of this, $33.5 million, or 24 percent, has been disbursed.

8. For FY08, two IDA projects are in preparation: a US$15 million Urban Community Driven Development Project and a US$6 million Teacher Training Project. In addition, the Bank has prepared a project for additional financing of US$7.4 million for the Emergency Recovery and Disaster Management Project to provide emergency assistance to support recovery efforts after Hurricane Noel, which caused severe flooding in Haiti in October; and is also exploring options to reallocate funds within the existing portfolio.

9. In addition, the Bank has completed seven major analytical works, including a Country Economic Memorandum (CEM), a Country Social Analysis, and a Social Protection Strategy, and a joint World Bank-IADB Public Expenditure Management and Financial Accountability Review (PEMFAR). The PEMFAR provides an analytical basis in support of the Government's medium and longer term public finance reform program. The PEMFAR examines the linkages between public finance, growth and poverty with a view to helping policymakers in Haiti design the new generation of public finance reforms centered on policy actions to promote sustained and equitable growth and reduce poverty. Following the

PEMFAR findings and policy recommendations, the Government prepared in November 2007 its action plan, which includes priorities to advancing public finance reforms in the short and medium terms. The action plan will be a unique policy matrix on which donors will base their support to the Government's public finance reforms in the next three to five years. The Bank has also undertaken a Financial Sector Assessment Program (FSAP) jointly with the IMF in FY 2008.

10. An Interim Poverty Reduction Strategy Paper was prepared by the Government and presented to the IMF and World Bank Boards, together with the Joint Staff Advisory Note (JSAN), in November 2006 at the time of discussion of the HIPC Decision Point Document. A Preliminary HIPC Document, prepared jointly by the Bank and IMF staff in collaboration with the Government, was discussed by the Boards of the IMF and the Bank in September 2006. The final HIPC Decision Point document was discussed by both boards in November 2006. Haiti is scheduled to reach the completion point under the Enhanced HIPC framework in September 2008. World Bank and IMF staffs are closely monitoring progress in implementing the HIPC triggers.

11. The International Finance Corporation (IFC) is working to identify specific actions to promote a sound business enabling environment, while investing in projects that support the development of a sustainable private sector and income-generating activities. Recent investments have been in cellular telecommunications (Digicel—US$15 million in each of FY 2006 and FY 2007), textiles (Grupo M—US$20 million in FY 2004), and microfinance (MicroCredit National—US$0.4 million in FY 2004). In May, the IFC approved a US$2.0 million trade finance line for Capital Bank. In addition, IFC is discussing with the Government the provision of advisory support in the design and implementation of private sector participation transactions for the airport of Port-au-Prince and for state-owned telecom TELECO. Additional support is envisaged through the IFC LAC Facility and the Foreign Investment Advisory Service (FIAS), possibly in the following areas: (1) business simplification; (2) improving access to finance; (3) investment facilitation (notably textiles); and (4) training, through the SME Toolkit and Business Edge.

ANNEX III. RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of December 31, 2007)

1. From 2003 to 2006 the Bank operationalized its development assistance to Haiti through two successive transition strategies. Currently, the Bank is operating under a new country strategy for the period 2007-2011, a multiyear approach to support the consolidation of Haiti's economic and social recovery.

2. As of December 2007, the IDB has 23 investment and policy-based operations for a total of US$674.9 million. The undisbursed balance, US$425 million, represents 63 percent of the portfolio total amount, underscoring portfolio implementation as a major challenge. Significant improvements have taken place, nonetheless. During the period 2004–2006 the Bank disbursed about US$163.7 million for ICF-related programs. During 2007, the Bank disbursed US$114.4 million, exceeding all disbursement target indicators. Revised projections for 2008 amount to US$ 127 million, out of which approximately US$27 million will be for budgetary support.

3. The IDB finances projects in three of the ICF's pillars: US$77.5 million for economic governance and institutional development, US$349.5 million for economic recovery, and US$247.9 million for access to basic services. All the loans of the total approved portfolio have been ratified. This package is complemented by US$48.8 million in IDB-administered co-financing, US$16.3 million in non-reimbursable technical cooperation funding (including Multilateral Investment Fund operations), and by non-financial products that underpin program and policy preparation and implementation.

4. In March 2007 the IDB approved debt relief for all of the country's debt with the Bank accumulated prior to Dec. 31, 2004, a total of US$525 million. This relief will be granted when the country reaches the HIPC completion point in 2009. Interim relief of US$10 million per year is effective for 2007 and 2008. As part of this debt-relief initiative, the Bank implemented the new Debt Sustainability Framework (DSF) and Performance Based Allocation System (PBA) for concessional financing, which allocates US$50 million in grants per year to Haiti from 2007 to 2009. After 2009 Haiti should be eligible to receive a mix of grants and concessional loans of which the grant element may be US$ 40 million, consistent with the DSF/PBA framework.

5. In the context of the new financial envelope granted to Haiti, the Bank and the Government jointly identified four sectors to focus the Bank's actions in support of the country's objectives: transport and energy infrastructure, agriculture, education and economic governance. To reduce transaction costs and obtain greater development impact, larger program interventions will be prioritized in the four sectors led by the Bank. For instance, in transport infrastructure, a top priority that the government has assigned to the Bank, an innovative program structure will be implemented through four annual contributions of US$25 million in order to secure funding over time. In terms of budgetary

support, one-fourth of the total yearly grant allocation, US$12.5 million, will be destined through a new Bank instrument, the Policy-Based Grant (PBG).

Table 1. IDB Operational Program 2007–09 (Grants)

Number	Name	US$ Million
	2007	
HA-L1017	Strengthening Public Resource Management I (PBG)	12.5
HA-L1019	Rehabilitation of Road Infrastructure for Productive Sector I	25.0
HA-L1021	Supplement to Agricultural Intensification Program Artibonite	12.5
	2008	
HA-L1023	Strengthening Public Resource Management II (PBG)	12.5
HA-L1024	Rehabilitation of Road Infrastructure for Productive Sector II	25.0
HA-L1032	Rehabilitation of Péligre Hydroelectric Central	12.5
	2009	
HA-L1029	Economic Governance Program I (PBG)	12.5
HA-L1028	Rehabilitation of Road Infrastructure for Productive Sector III	25.0
HA0033	National Watershed Program	12.5

6. To improve program implementation, the Bank has taken specific measures, such as special procurement procedures and delegation of authority to the Country Office Representative. These measures have contributed to the acceleration of the execution pace, yet challenges related to the country's weak institutional capacity, small local private market, saturation of national firms, and low level of foreign firms participation, remain. Along with these measures to expedite decision-making, the Bank's staff in the noted sectors will be increased at the Country Office to support the strengthening of the country's execution and absorption capacity. A financial scenario that takes into account the active portfolio, lending envelope, IDB debt relief, the country's absorptive capacity and the measures to accelerate execution, envisages disbursements of US$520 millions for the 2007-2011 period, ensuring positive net flows to the country of US$85 millions per year, on average.

7. The IDB is committed to provide a comprehensive support to the country and to the priorities set for the Bank by the authorities. The Bank's programming will be reviewed and updated each year to meet the development objectives and their prioritization in the PRSP.

ANNEX IV. STATISTICAL ISSUES

1. Haiti is currently working toward participation in the General Data Dissemination System (GDDS). A preparatory STA mission took place in late November, 2007, and the authorities are currently working to finalize the French version of the metadata and plans for improvement. It is expected that Haiti could participate in the GDDS by March 15, 2008. While data provision is broadly adequate for program purposes, there is a need to improve the coverage, periodicity, quality and timeliness of a number of the datasets. Further work is required to extend the coverage of government finance statistics, and improve the quality of real sector and balance of payments statistics, including trade and external debt. Also, the production of quarterly GDP data would be highly desirable for program monitoring purposes.

2. STA discussions are underway with the authorities on a medium-term statistical rehabilitation program that includes technical assistance and training, and will be reflected in the forthcoming plans for improvement in the GDDS. During the 2007 Annual Meetings, the authorities requested further technical assistance and training in government finance and monetary and financial statistics, including a short-term resident expert to assist the staff of the BRH in the implementation of recent MFS mission recommendations and the further development of Haiti's integrated monetary database. They subsequently communicated a request for further technical assistance in real sector statistics as well. Also, the authorities have requested UNCTAD and other donors to assist with their public debt data management. STA, CARTAC and INS sponsored the participation of two Haitian staff in the December 2007 external debt statistics seminar in Tunis.

3. In response to the requests in the area of monetary and financial statistics, STA fielded a follow-up mission in November 2007 and sought a resident expert in MFS. In the absence of a suitable expert, STA has proposed to the authorities a series of five to six three-week peripatetic missions. To address training needs, STA and INS are cooperating on exceptions to the standard admissions policy for joint courses in Washington and in Tunis, permitting several Haitian staff to participate in each course or seminar offered in French. In addition, four Haitians participated in an AFRITAC-sponsored GFS seminar in French in Togo in October 2007. Further assistance is also envisaged in national accounts statistics in 2008.

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

HAITI

Joint IMF-World Bank Debt Sustainability Analysis

Prepared by the Staffs of the International Monetary Fund and
the International Development Association

Approved by Caroline Atkinson and Mark Plant (IMF)
and Marcelo Giugale and Carlos Braga (IDA)

February 5, 2008

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DEBT SUSTAINABILITY ANALYSIS

The joint IMF-World Bank low-income country debt sustainability analysis (LIC DSA) indicates that Haiti's risk of debt distress remains classified as high. Under the baseline scenario, before post-completion point debt relief, the net present value (NPV) of debt-to-exports ratio remains above the indicative debt-burden threshold of 100 percent in the medium term, reflecting the country's weak export base. However, debt ratios do not exceed the thresholds for other indicators, even under stress tests. HIPC and MDRI-type debt relief would reduce debt burden indicators below indicative thresholds, suggesting scope for scaling up external financing once Haiti reaches its completion point under the HIPC initiative. However, a careful approach to additional external financing remains advisable, given that debt indicators deteriorate rapidly in the scenarios with large additional concessional borrowing or financing on less concessional terms. In addition, continued strengthening of Haiti's debt management capacity is needed. The inclusion of domestic debt does not alter the assessment of Haiti's risk of debt distress.

I. BACKGROUND

1. **The DSA presented in this appendix is based on the common standard framework for low-income countries approved by the IDA and IMF Boards in 2005**. It updates the previous LIC DSA, which was undertaken at the HIPC Initiative decision point approval in November 2006.[1]

2. **Haiti's public debt as of end-September 2007 amounted to 30 percent of GDP**. Most of the debt was owed to external creditors (26 percent of GDP), mainly the Inter-American Development Bank (44 percent), the World Bank (34 percent) and bilateral creditors (15 percent). Loans from external creditors had long maturities and were highly concessional. The small stock of domestic debt (4 percent of GDP) was composed of central bank bonds with maturities that did not exceed one year. Apart from the central bank bonds, which were held by the domestic banking system, the Haitian government had no other privately-held domestic or foreign debt.

3. **Haiti's debt management capacity remains weak, although steps are being taken to strengthen it**. The central bank (BRH) and the Ministry of Economy and Finances (MEF) are jointly responsible for debt management, but there is no centralized debt database, and information sharing between the BRH and the MEF is inadequate. This has resulted in differing accounting methodologies and conflicting data. However, Haiti is currently receiving technical assistance from UNCTAD to put together a single database on public

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[1] See *Republic of Haiti, Enhanced Heavily Indebted Poor Countries (HIPC) Initiative—Decision Point Document* (IMF Country Report 06/440 and IDA R2006–0206).

external debt.[2] In addition, the Center for Latin American Monetary Studies (CEMLA) provided in late 2007 technical assistance to the MEF to strengthen the institutional aspects of debt management and analysis, in particular debt sustainability analysis.

II. Assumptions

4. **The essence of the macroeconomic framework remains unchanged from the 2006 LIC DSA exercise, although a number of assumptions have been updated (Table A1):**

- Medium-term assumptions (through 2012) reflect actual outcomes in FY 2007 and forward-looking expectations under the PRGF-supported economic program. Key changes include a significantly more appreciated national currency than assumed in the 2006 LIC DSA (by around 20 percent), which raises the U.S. dollar value of GDP. Furthermore, projected exports are higher owing to the estimated impact in 2008 and 2009 of the HOPE Act, which came into effect in mid-2007.[3]

- Assumptions for 2013–27 are mostly unchanged, absent major developments that would have warranted changes to the long-term perspectives of the economy. Overall, the security situation and institutional environment are expected to stabilize further, while fiscal and monetary policies are projected to remain sound and supportive of foreign and domestic investment. Export activity is assumed to be a key driver of economic growth, with the recovery of domestic demand also playing a significant role. In terms of financing assumptions, international support is projected to persist in the long term, albeit declining as a share of GDP. Reflecting a somewhat more conservative assessment, assumptions regarding access to domestic financing have been lowered. Domestic bond issuances are projected to reach 1 percent of GDP per year by 2027, compared to 1.5 percent of GDP in the 2006 LIC DSA.

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[2] The establishment of a such a database is a floating completion point trigger for the HIPC decision point.

[3] The *Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act* provides for preferential access of Haitian apparel exports to the U.S. market.

Box 1. Macroeconomic Assumptions for the LIC DSA

Real GDP is projected to grow by 4.4 percent on average during the projection period (2007–27). Growth would initially rise to about 4 percent, as improvements in security and sustained political and macroeconomic stability provide for an environment that is more conducive to private activity and consumption. In the longer term, growth is projected to rise somewhat faster (4.5 percent), on the assumption that critical infrastructure and human capital bottlenecks that are currently holding the economy back will be gradually overcome.

Private investment is expected to be an important driver of growth, with the level of annual investment increasing by some 5 percentage points of GDP over the projection period. A significant portion of private investment is expected to materialize in the form of foreign direct investment (FDI). Public investment is also projected to rise, by around 2 percentage points of GDP.

Exports are expected to accelerate temporarily in the short term, as a consequence of the HOPE Act, and then rise steadily supported by FDI. Overall, this would translate into average growth rates of 9 percent (dollar value) in the first half of the period, and about 7 percent in the second half.

Imports are also projected to expand, fueled by inputs for the textile export sector and domestic demand from high investment and remittances-driven consumption. However, the pace of imports will be tempered to some extent by import substitution.

Inflation is expected to decline from 7.9 percent in 2007 to 5 percent in 2011 and beyond. This projection is based on an expectation of continued sound monetary policy and public sector financing, as well as gradually increasing domestic supply of goods and services.

The fiscal deficit is projected to stabilize at 2 percent of GDP from 2013 onward, reflecting rising budget execution capacity and a relative decline in grant support. Domestic revenues are projected to rise by about 4–5 percent of GDP as tax administration and tax policy reforms are implemented. However, these revenue gains are outpaced by rising expenditures needed to address critical infrastructure needs and restore the supply of essential social services. Budget financing would remain mostly external, as domestic financing is assumed to be introduced only very gradually in the medium term (it would reach about one percent of GDP in 2027).

The balance of payments is expected to weaken temporarily, as the projected expansion of investment would widen the current account deficit in the first half of the projection period. However, the solid export performance and expected moderation in import growth will help revert part of this deterioration in the long run. Grants are assumed to decline relative to the economy's size, while private remittances are estimated to grow in line with economic growth in the U.S. The current account deficits are expected to be financed largely by FDI and concessional lending.

III. External Debt Sustainability

Baseline

5. **The baseline scenario assumes interim HIPC debt relief in 2007 and 2008, but no completion point (Table A2 and Figure A1).**[4] In this scenario, external debt indicators remain below the indicative debt-burden thresholds during the entire projection period, with the exception of the NPV of debt-to-exports ratio, which remains above the indicative threshold of 100 percent until 2020 and only falls slightly below it afterwards.[5] Debt service payments do not display a smooth pattern throughout the projection period, partly because of PRGF repayments that are falling due from 2012 to 2015.

Alternative scenarios and stress tests

6. **The alternative scenario based on historical averages of key variables leads to a lower trajectory of debt indicators compared to the baseline scenario (Table A3)**. However, this does not indicate that the baseline projection is overly pessimistic. The historical scenario results in lower debt burden indicators because of exceptionally low levels of external financing in the past 10 years, when donors curbed their assistance in light of high levels of social and political conflict. Over this period, the current account posted an average deficit of only 0.2 percent of GDP, compared to an average deficit of 1.5 percent of GDP assumed in the baseline projection.

7. **Other bound tests confirm that Haiti's debt distress classification is largely a function of its small export sector**. Under the most extreme shock—a combined adverse shock to all key variables: real GDP growth, export growth, US dollar GDP deflator, and non-debt creating capital inflows—all external debt indicators still remain below the indicative debt burden thresholds except for the NPV of debt-to-exports ratio, which reaches 203 percent in 2010 before reverting to 130 percent in 2027.

8. **Large amounts of additional concessional external financing would worsen debt indicators**. For instance, fully spending and absorbing the financing that could potentially become available under the PetroCaribe agreement would keep the NPV of debt-to-exports ratio permanently above the indicative threshold, with a peak of 135 percent in 2014. However, as in the baseline scenario, the PetroCaribe financing would not lead to breaches of the indicative thresholds for other external debt indicators (Box 2).

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[4] See *Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries*, available at www.imf.org and www.worldbank.org.

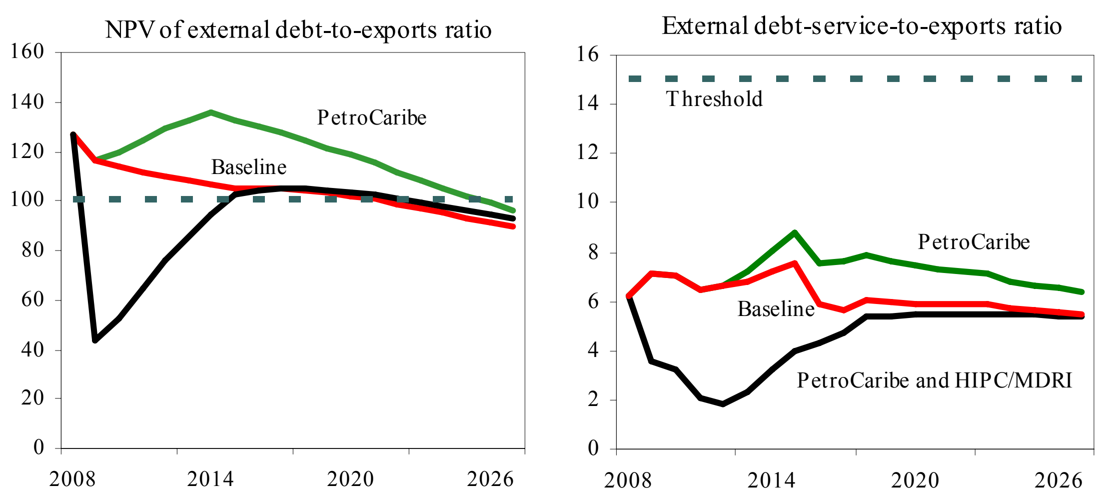
[5] The World Bank's Country Policy and Institutional Assessment (CPIA) rates Haiti as a poor performer. Under the joint IMF-World Bank debt sustainability framework, the corresponding indicative debt burden thresholds are 30 percent for the NPV of debt-to-GDP ratio, 100 percent for the NPV of debt-to-exports ratio, and 15 percent for the debt service-to-exports ratio. See *Operational Framework for Debt Sustainability Framework in Low-Income Countries—Further Considerations*, available at www.imf.org and www.worldbank.org.

9. **Debt relief at the HIPC completion point would substantially improve Haiti's debt situation**. Assuming HIPC and MDRI-type debt relief at the completion point would reduce the NPV of external debt-to-exports ratio well below Haiti's indicative debt burden threshold of 100 percent.[6] However, large scale borrowing, less concessional financing terms, and large adverse shocks could still raise Haiti's NPV of external debt-to-exports ratio above the indicative threshold in the longer term.

Box 2. The Impact of PetroCaribe on Debt Sustainability

Haiti could obtain substantial concessional external financing from Venezuela for its oil purchases under the PetroCaribe agreement. The agreement was ratified by Parliament in March 2007. The authorities are currently working to overcome logistical difficulties that have impeded oil deliveries under PetroCaribe terms so far. At current oil prices, the accord provides for the deferral of 40 percent of oil imports over a period of 25 years (with a two-year grace period), at 1 percent annual interest. The underlying grant element of this facility is estimated at almost 50 percent (using current U.S. dollar discount rates). The agreement specifies that up to a maximum of 14,400 barrels per day could be imported. Haiti's oil needs that could be covered through PetroCaribe deliveries are estimated to be around 10,500 barrels per day in 2008. For the present simulation, it is assumed that refined products imported by Haiti under PetroCaribe will grow in line with total oil imports and that deliveries under PetroCaribe terms will take place for a total of 5 years. This implies additional financing of about 1.6 percent of GDP on average per year.

The additional external borrowing through PetroCaribe could significantly increase external debt and debt service payments in the medium term, notwithstanding its high concessionality. Under a scenario with PetroCaribe financing, the NPV of debt-to-exports ratio would peak at 135 percent in 2014 before converging back to values below the threshold in 2025. In a scenario with completion point debt stock reduction and PetroCaribe financing, the NPV of debt-to-exports ratio would increase quickly to the point that by 2015 its trajectory would be no different from the baseline.



6 For this scenario the completion point is assumed to be reached in 2009.

IV. Public Sector Debt Sustainability

Baseline

10. **Under the baseline scenario, Haiti's public debt remains little changed throughout the projection period (Table B1 and Figure B1)**. The NPV of public debt-to-GDP ratio would remain broadly constant at about 19 percent. Public expenditure is expected to rise significantly through 2012, but stronger revenue efforts and external grants should contain the need for debt-creating financing. In the long term, the country's relatively low initial public debt burden and economic growth would allow primary deficits of 1.3 percent of GDP on average, without threatening sustainability. Since domestic indebtedness is projected to increase only slightly from 4 to 5 percent of GDP during the projection period, the trajectory of total public debt largely follows the dynamics of external debt.

Alternative scenarios and stress tests

11. **The evolution of public debt remains robust under most alternative scenarios and bound tests, although there is some vulnerability to lower-than-projected growth rates (Table B2)**. Permanently lower real GDP growth would lead to a substantial increase in the NPV of debt-to-GDP ratio between FY2008 and FY2027. Scenarios with macroeconomic assumptions based on historical averages also lead to a gradually rising debt burden, because they imply persistence of the relatively poor growth rates recorded in the past.

V. Main Differences from the 2006 LIC DSA

12. **The trajectories of key debt indicators are lower in the current DSA than at the time of the 2006 DSA exercise (Figure A2)**.[7] The more conservative assumption regarding domestic debt issuances with unchanged financing gaps leads to a faster increase in the NPV of external debt. However, the NPV of external debt ratio to both exports and GDP is significantly lower during most of the projection period because of upward revisions in projected exports and U.S. dollar GDP. These improvements are further enhanced in the post-completion point scenario because of some US$ 500 million in HIPC/MDRI-type post-completion point debt relief from the IDB, which was committed in 2007 and thus not included in the 2006 LIC DSA.

[7] The analysis in the 2006 DSA assumed a HIPC stock of debt reduction in the baseline scenario. In line with most recent guidance on the matter, the baseline in the present DSA includes only interim debt relief. To make both exercises comparable, Figure A2 replicates the 2006 DSA without a stock of debt reduction.

VI. Debt Distress Classification and Conclusion

13. **Haiti's risk of debt distress remains high**. Under the baseline scenario—which includes HIPC interim debt relief, but no irrevocable debt relief at the floating HIPC completion point or MDRI debt relief—the NPV of debt-to-exports ratio remains above the indicative debt burden threshold, and sensitivity analysis shows that Haiti's external debt situation is vulnerable to shocks. This result is partly a reflection of Haiti's small export sector, as other debt indicators are below critical thresholds. Moreover, it is worth noting that Haiti's very high and stable level of private remittances (about 19 percent of GDP in FY2007) provide a reliable inflow of foreign exchange to the country, which reduces its external vulnerability to some extent.

14. **Provision of irrevocable HIPC debt relief and MDRI at the floating completion point would result in a substantial reduction of Haiti's debt burden**. This suggests some scope for additional external borrowing in order to maximize the resource envelope available to achieve the Millennium Development Goals, while limiting the risk of debt distress. However, a careful approach to scaling up external financing would remain advisable, given that debt indicators deteriorate rapidly in scenarios with large additional concessional borrowing—such as the one that may become available under the PetroCaribe agreement—or less concessional financing terms.

15. **Looking ahead, there is a need to further strengthen debt management**. Strengthening debt management capacity will be important, among other things, to prepare for and adequately support the development of an active domestic debt market. Priorities in this area, beyond the establishment of a single debt database, include: (i) clarifying by law the debt management responsibility of the BRH and the MEF; (ii) improving information sharing, including frequent debt reconciliation exercises, between the BRH and the MEF; (iii) shortening the procedures for debt service payments; (iv) improving the tracking of disbursements; and (v) training of staff.

Table A1. Haiti: Long-Term Macroeconomic Assumptions, 2007-27
Fiscal Year Ending September 30

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Averages 2008-17	Averages 2018-27
	(Annual percentage change)																						
National income and prices																							
GDP at constant prices	3.2	3.7	4.0	4.0	4.0	4.0	4.0	4.0	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.1	4.5
GDP deflator	9.0	9.7	7.5	6.8	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	6.0	5.0
Real GDP per capita (local currency)	1.4	2.0	2.3	2.3	2.3	2.3	2.4	2.4	2.9	3.1	3.1	3.1	3.2	3.2	3.3	3.3	3.3	3.3	3.3	3.3	3.3	2.5	3.3
Consumer prices (end of period)	7.9	9.0	7.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.7	5.0
External sector																							
Exports of goods and non-factor services	5.4	17.0	14.7	8.6	8.6	8.2	8.2	7.7	6.9	6.9	6.9	6.9	7.1	7.1	7.3	7.4	7.5	7.5	7.6	7.6	7.6	9.4	7.4
Imports of goods and non-factor services	7.8	16.4	10.4	8.0	8.3	8.0	7.8	6.5	6.9	6.6	6.6	6.7	6.5	6.2	6.0	6.0	6.0	6.0	5.9	5.9	5.9	8.6	6.1
Central government																							
Total revenue and grants	25.8	26.8	16.3	11.9	11.7	10.8	9.3	9.7	10.2	9.7	10.3	10.3	9.7	10.2	9.8	9.8	10.2	9.8	10.2	10.8	9.6	12.7	10.0
Central government revenue 1/	15.4	33.4	15.9	13.3	13.4	12.9	12.5	10.6	11.1	10.3	11.1	11.0	10.3	11.0	11.3	11.3	11.0	11.2	10.9	11.5	10.0	14.4	11.0
Central government expenditure	22.1	30.1	18.1	13.3	12.2	11.5	10.0	9.5	10.4	9.7	10.0	10.2	9.8	10.0	9.8	9.8	10.1	9.8	10.3	10.8	9.9	13.5	10.1
	(In percent of GDP, unless otherwise indicated)																						
National income																							
Consumption	102.3	96.6	93.8	92.8	92.1	91.4	90.2	90.4	90.4	90.3	90.2	90.1	90.0	89.9	89.6	89.3	88.9	88.5	88.2	87.7	87.1	91.8	88.9
Private	93.4	86.2	82.8	81.4	80.4	79.2	78.0	78.3	78.2	78.1	78.1	78.0	77.9	77.8	77.5	77.2	76.8	76.4	76.0	75.5	74.9	80.1	76.8
Public	8.8	10.4	11.1	11.4	11.8	12.2	12.1	12.2	12.2	12.2	12.1	12.2	12.1	12.1	12.1	12.1	12.1	12.1	12.2	12.2	12.2	11.8	12.2
Investment	30.0	31.6	32.7	33.8	35.1	36.3	36.5	36.6	36.6	36.7	36.8	36.8	36.9	36.9	37.0	37.0	37.0	37.1	37.1	37.3	37.3	35.3	37.0
Private	23.2	24.0	24.8	25.9	27.2	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	27.2	28.4
Public	6.8	7.6	7.9	7.9	8.0	7.9	8.1	8.2	8.2	8.3	8.4	8.4	8.5	8.5	8.6	8.6	8.6	8.7	8.7	8.9	8.9	8.0	8.6
GDP per capita (US dollars)	660.3	767.3	801.8	835.8	871.2	908.2	948.6	990.8	1,040.1	1,093.9	1,150.7	1,210.6	1,273.9	1,340.7	1,412.3	1,487.8	1,567.6	1,652.0	1,741.0	1,834.5	1,933.3	940.8	1,545.4
External sector																							
Non-interest current account deficit	0.4	0.5	-1.0	-0.9	-1.0	-1.2	-1.4	-1.4	-1.6	-1.7	-1.8	-1.8	-1.7	-1.7	-1.6	-1.6	-1.5	-1.4	-1.3	-1.2	-1.1	-1.1	-1.5
Exports of goods and non-factor services	12.1	12.0	12.9	13.2	13.6	13.9	14.1	14.4	14.4	14.4	14.5	14.5	14.6	14.7	14.8	14.9	15.0	15.1	15.3	15.4	15.6	13.7	15.0
Imports of goods and non-factor services	-37.2	-36.6	-38.1	-38.8	-39.7	-40.4	-41.1	-41.2	-41.4	-41.4	-41.4	-41.4	-41.4	-41.2	-41.0	-40.8	-40.5	-40.3	-40.0	-39.8	-39.5	-40.0	-40.6
External current account balance 1/	-6.6	-7.5	-7.5	-7.4	-7.6	-7.9	-7.9	-7.9	-8.0	-7.6	-7.5	-7.2	-6.9	-6.7	-6.4	-6.2	-5.9	-5.7	-5.3	-5.2	-4.9	-7.7	-6.0
External current account balance 2/	0.2	-1.3	-1.2	-1.3	-1.5	-1.7	-1.7	-1.9	-2.0	-2.1	-2.1	-2.0	-2.0	-2.0	-1.9	-1.8	-1.7	-1.6	-1.5	-1.4	-1.3	-1.7	-1.7
Liquid gross reserves (in months of imports of goods and se	2.5	2.7	2.9	3.0	3.1	3.0	3.1	3.1	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.3	3.3	3.3	3.3	3.3	3.0	3.2
Central government																							
Central government overall balance 2/	-0.5	-1.0	-1.4	-1.6	-1.7	-1.9	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-1.8	-2.0
Total revenue and grants	15.2	16.9	17.6	17.7	18.0	18.3	18.3	18.4	18.4	18.4	18.5	18.6	18.6	18.7	18.7	18.7	18.8	18.8	18.9	19.1	19.1	18.0	18.8
Central government revenue 1/	10.3	12.1	12.5	12.7	13.2	13.6	14.0	14.2	14.4	14.4	14.6	14.8	14.9	15.0	15.3	15.5	15.7	15.9	16.0	16.3	16.3	13.6	15.6
Central government expenditure	15.7	17.9	18.9	19.3	19.7	20.1	20.3	20.3	20.4	20.4	20.5	20.6	20.6	20.7	20.7	20.7	20.8	20.8	20.9	21.1	21.1	19.8	20.8

1/ Excluding grants
2/ Including grants

Table A 2. Country: External Debt Sustainability Framework, Baseline Scenario, 2007-2027 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2007-12 Average	2018	2027	2013-27 Average
External debt (nominal) 1/	**31.0**	**29.7**	**25.6**			**23.0**	**23.0**	**23.3**	**23.6**	**24.0**	**24.3**		**24.8**	**23.3**	
o/w public and publicly guaranteed (PPG)	31.0	29.7	25.6			23.0	23.0	23.3	23.6	24.0	24.3		24.8	23.3	
Change in external debt	-6.2	-1.3	-4.1			-2.6	0.0	0.3	0.3	0.4	0.3		0.0	-0.2	
Identified net debt-creating flows	-9.9	-6.7	-7.4			-0.5	-0.7	-0.6	-0.4	-0.2	-0.1		0.2	-0.9	
Non-interest current account deficit	**-3.4**	**-0.3**	**-0.7**	**0.2**	**1.5**	**1.0**	**0.9**	**1.0**	**1.2**	**1.4**	**1.4**		**1.7**	**1.1**	1.5
Deficit in balance of goods and services	27.0	28.6	23.2			24.7	25.1	25.6	26.1	26.6	26.9		26.9	24.0	
Exports	13.9	14.4	12.1			12.0	12.9	13.2	13.6	13.9	14.1		14.5	15.6	
Imports	40.8	43.0	35.3			36.6	38.1	38.8	39.7	40.4	41.1		41.4	39.5	
Net current transfers (negative = inflow)	-30.5	-28.6	-23.7	-23.8	5.7	-23.5	-24.0	-24.3	-24.5	-24.7	-24.9		-24.7	-22.5	-23.9
o/w official	-7.6	-7.9	-5.4			-6.2	-6.4	-6.2	-6.1	-6.2	-6.2		-5.2	-3.6	
Other current account flows (negative = net inflow)	0.1	-0.3	-0.2			-0.1	-0.2	-0.3	-0.4	-0.4	-0.6		-0.5	-0.4	
Net FDI (negative = inflow)	**-0.6**	**-3.3**	**-1.2**	**-0.7**	**1.0**	**-1.0**	**-1.0**	**-1.0**	**-1.0**	**-1.0**	**-0.9**		**-0.8**	**-1.2**	-1.0
Endogenous debt dynamics 2/	**-5.9**	**-3.0**	**-5.5**			**-0.6**	**-0.6**	**-0.6**	**-0.6**	**-0.6**	**-0.6**		**-0.7**	**-0.7**	
Contribution from nominal interest rate	0.8	0.3	0.3			0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.2	
Contribution from real GDP growth	-0.6	-0.6	-0.7			-0.8	-0.9	-0.9	-0.9	-0.9	-0.9		-1.0	-1.0	
Contribution from price and exchange rate changes	-6.1	-2.7	-5.1			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**3.7**	**5.4**	**3.3**			**-2.0**	**0.7**	**0.9**	**0.7**	**0.6**	**0.4**		**-0.1**	**0.7**	
o/w exceptional financing	1.0	-0.2	0.7			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 4/	...	...	16.9			15.2	15.1	15.1	15.2	15.3	15.3		15.1	13.9	
In percent of exports	...	...	139.1			126.9	116.5	113.9	111.7	110.2	108.4		104.1	89.7	
NPV of PPG external debt	**...**	**...**	**16.9**			**15.2**	**15.1**	**15.1**	**15.2**	**15.3**	**15.3**		**15.1**	**13.9**	
In percent of exports	**...**	**...**	**139.1**			**126.9**	**116.5**	**113.9**	**111.7**	**110.2**	**108.4**		**104.1**	**89.7**	
In percent of government revenues	**...**	**...**	**159.5**			**125.9**	**120.8**	**119.1**	**116.2**	**112.3**	**109.4**		**102.2**	**85.3**	
Debt service-to-exports ratio (in percent)	**17.5**	**7.5**	**8.9**			**6.3**	**7.2**	**7.1**	**6.5**	**6.6**	**6.8**		**6.1**	**5.5**	
PPG debt service-to-exports ratio (in percent)	**17.5**	**7.5**	**8.9**			**6.3**	**7.2**	**7.1**	**6.5**	**6.6**	**6.8**		**6.1**	**5.5**	
PPG debt service-to-revenue ratio (in percent)	**27.6**	**10.2**	**10.2**			**6.2**	**7.4**	**7.4**	**6.7**	**6.7**	**6.8**		**6.0**	**5.2**	
Total gross financing need (billions of U.S. dollars)	-0.1	-0.1	0.0			0.1	0.1	0.1	0.1	0.1	0.1		0.2	0.2	
Non-interest current account deficit that stabilizes debt ratio	2.8	1.0	3.5			3.6	0.9	0.7	0.9	1.0	1.1		1.7	1.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.8	2.3	3.0	0.8	2.0	3.9	4.0	4.0	4.0	4.0	4.0	4.0	4.5	4.5	4.2
GDP deflator in US dollar terms (change in percent)	19.7	9.7	20.8	6.0	13.4	14.0	2.2	1.9	1.9	1.9	2.0	4.0	2.0	2.0	1.9
Effective interest rate (percent) 5/	2.5	1.3	1.4	1.3	0.6	1.3	1.2	1.3	1.2	1.2	1.2	1.3	1.4	1.1	1.2
Growth of exports of G&S (US dollar terms, in percent)	16.9	16.9	4.7	7.3	11.3	16.6	14.7	8.6	8.6	8.2	8.2	10.8	6.9	7.6	6.8
Growth of imports of G&S (US dollar terms, in percent)	13.7	18.2	2.2	9.6	9.3	22.7	10.4	8.0	8.3	8.0	7.8	10.9	6.7	5.9	5.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	50.7	50.7	50.7	50.7	50.7	50.7	50.7	50.7	50.7	50.7
Aid flows (in billions of US dollars) 7/	0.4	0.5	0.5			0.6	0.6	0.7	0.7	0.8	0.8		1.0	1.3	
o/w Grants	0.1	0.2	0.3			0.3	0.4	0.4	0.4	0.4	0.4		0.5	0.6	
o/w Concessional loans	0.1	0.1	0.1			0.1	0.1	0.2	0.2	0.2	0.2		0.3	0.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.8	6.1	6.0	5.9	5.9	5.5		4.9	3.7	4.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			86.2	86.1	84.7	84.4	83.4	82.3		82.4	79.9	81.5
Memorandum items:															
Nominal GDP (billions of US dollars)	4.3	4.8	6.0			7.1	7.6	8.0	8.5	9.0	9.6		13.1	23.2	
(NPVt-NPVt-1)/GDPt-1 (in percent)						1.1	0.8	0.9	1.0	1.0	1.0	1.0	0.9	0.8	0.9

Source: Staff simulations.

1/ Fiscal year ending September 30, includes both public and private sector external debt.

2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that NPV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the NPV of new debt).

Table A3. Country: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-27
Fiscal year ending September 30
(In percent)

	Projections							
	2008	2009	2010	2011	2012	2013	**2018**	2027
NPV of debt-to-GDP ratio								
Baseline	15	15	15	15	15	15	**15**	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-27 1/	15	15	14	14	13	13	**9**	6
A2. New public sector loans on less favorable terms in 2009-27 2/	15	16	16	17	18	18	**21**	22
A3. Petrocaribe agreement	15	15	16	17	18	19	**18**	15
A4. HIPC/MDRI	15	6	6	7	8	9	**12**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	15	16	17	17	17	17	**17**	15
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	15	16	18	18	18	18	**17**	15
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	15	17	18	18	19	19	**18**	17
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	15	19	22	22	22	22	**21**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	15	19	26	25	25	25	**24**	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	15	21	21	21	22	22	**21**	20
NPV of debt-to-exports ratio								
Baseline	127	117	114	112	110	108	**104**	90
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-27 1/	127	114	108	102	96	90	**62**	37
A2. New public sector loans on less favorable terms in 2009-27 2/	127	121	122	124	127	129	**141**	143
A3. Petrocaribe agreement	127	117	120	125	129	133	**124**	96
A4. HIPC/MDRI	127	44	47	52	57	61	**79**	85
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	127	117	114	112	110	108	**104**	90
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	127	149	182	178	175	172	**162**	131
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	127	117	114	112	110	108	**104**	90
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	127	145	170	165	162	158	**146**	109
B5. Combination of B1-B4 using one-half standard deviation shocks	127	158	203	197	193	189	**175**	130
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	127	117	114	112	110	108	**104**	90
NPV of debt-to-revenue ratio								
Baseline	126	121	119	116	112	109	**102**	85
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-27 1/	126	118	113	106	98	91	**61**	35
A2. New public sector loans on less favorable terms in 2009-27 2/	126	125	128	129	129	130	**139**	136
A3. Petrocaribe agreement	126	121	125	130	132	134	**122**	92
A4. HIPC/MDRI	126	45	49	54	58	62	**78**	121
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	126	127	132	129	124	121	**113**	95
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	126	129	141	137	132	128	**118**	92
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	126	133	145	141	136	133	**124**	104
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	126	150	178	172	165	159	**143**	103
B5. Combination of B1-B4 using one-half standard deviation shocks	126	156	202	195	187	181	**163**	118
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	126	171	169	164	159	155	**145**	121
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	49	0	0	0	0	0	**0**	0

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
3/ Exports are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

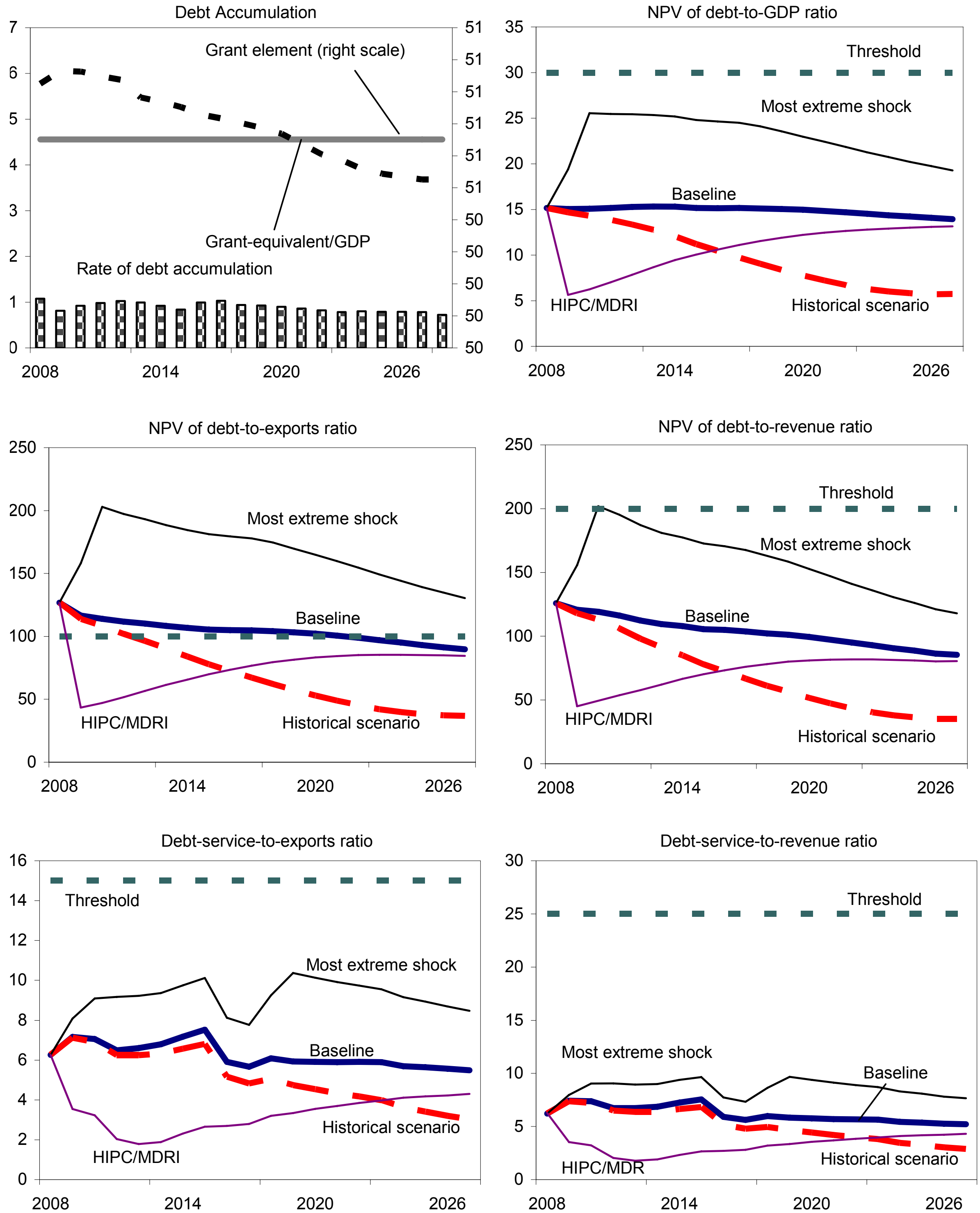
Table A3. Country: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-27 (cont.)
Fiscal year ending September 30
(In percent)

	Projections							
	2008	2009	2010	2011	2012	2013	**2018**	2027
Debt service-to-exports ratio								
Baseline	6	7	7	6	7	7	**6**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-27 1/	6	7	7	6	6	6	**5**	3
A2. New public sector loans on less favorable terms in 2009-27 2/	6	7	7	7	7	8	**8**	9
A3. Petrocaribe agreement	6	7	7	6	7	7	**8**	6
A4. HIPC/MDRI	6	4	3	2	2	2	**3**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	6	7	7	6	7	7	**6**	5
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	6	9	10	9	9	10	**9**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	6	7	7	6	7	7	**6**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	6	7	8	8	8	8	**8**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	6	8	9	9	9	9	**9**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	6	7	7	6	7	7	**6**	5
Debt service-to-revenue ratio								
Baseline	6	7	7	7	7	7	**6**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-27 1/	6	7	7	7	6	6	**5**	3
A2. New public sector loans on less favorable terms in 2009-27 2/	6	7	8	7	7	8	**8**	8
A3. Petrocaribe agreement	6	7	7	7	7	7	**8**	6
A4. HIPC/MDRI	6	4	3	2	2	2	**3**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	6	8	8	7	7	8	**7**	6
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	6	7	8	7	7	7	**7**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	6	8	9	8	8	8	**7**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	6	7	8	8	8	8	**8**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	6	8	9	9	9	9	**9**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	6	11	10	10	10	10	**8**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	49	49	49	49	49	49	**49**	49

Source: Staff projections and simulations.

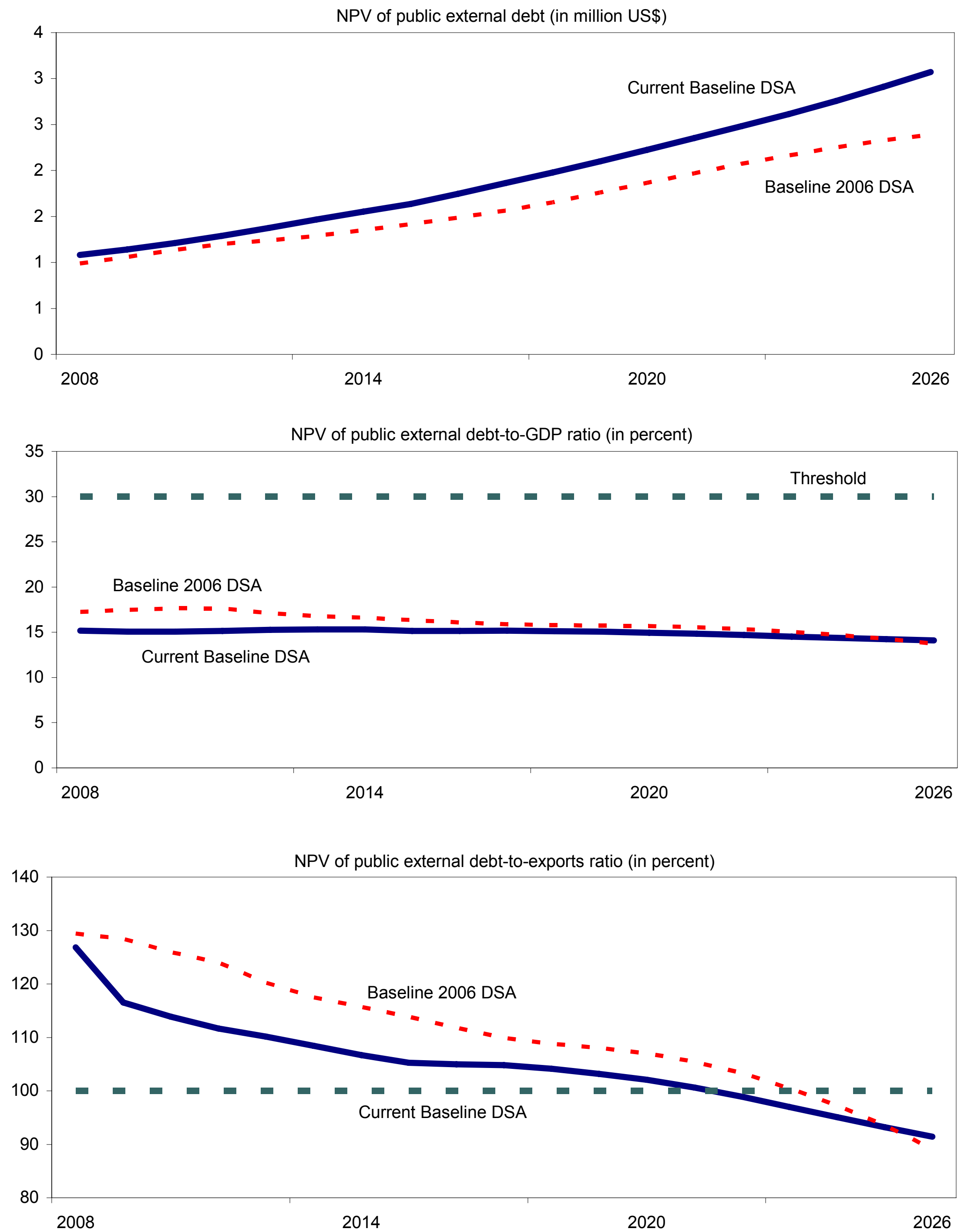
1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
3/ Exports are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure A1. Haiti: Indicators of Public and Publicly Guaranteed External Debt
(In percent)



Source: Staff projections and simulations.

Figure A2. Haiti: Public External Debt Indicators compared to 2006 DSA 1/



Source: Staff projections and simulations.
1/ Includes interim HIPC debt relief in 2007 and 2008 but no completion point.

Table B1. Haiti: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-2027
(In percent of GDP, unless otherwise indicated)

	Actual 1/					Estimate	Projections								
	2005	2006	2007	Historical Average 6/	Standard Deviation 6/	2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2027	2014-27 Average
Public sector debt 2/	34.3	33.6	29.6			27.0	27.2	27.5	27.6	27.7	28.5		29.0	28.3	
o/w foreign-currency denominated	31.0	29.7	25.6			23.0	23.0	23.3	23.6	24.0	24.3		24.8	23.3	
Change in public sector debt	-5.4	-0.7	-4.0			-2.6	0.2	0.4	0.0	0.2	0.8		-0.1	0.1	
Identified debt-creating flows	-0.5	-7.1	-5.4			-3.0	-0.6	-0.2	0.0	0.4	0.0		0.4	0.0	
Primary deficit	0.0	0.1	-0.5	0.9	1.1	0.2	0.6	0.9	1.1	1.3	1.3	0.9	1.2	1.3	1.3
Revenue and grants	13.1	13.5	15.1			16.9	17.6	17.7	18.0	18.3	18.3		18.6	19.1	
of which : grants	3.5	3.5	4.8			4.8	5.1	5.0	4.9	4.7	4.3		3.8	2.7	
Primary (noninterest) expenditure	13.1	13.6	14.6			17.1	18.2	18.6	19.1	19.6	19.6		19.9	20.4	
Automatic debt dynamics	-0.5	-7.1	-4.6			-3.0	-1.0	-0.9	-1.0	-0.8	-1.4		-0.9	-1.3	
Contribution from interest rate/growth differential	-1.4	-1.3	-1.0			-1.0	-1.0	-1.0	-1.1	-1.1	-1.0		-1.2	-1.1	
of which : contribution from average real interest rate	-0.7	-0.5	0.0			0.1	0.1	0.0	0.0	-0.1	0.0		0.1	0.1	
of which : contribution from real GDP growth	-0.7	-0.8	-1.0			-1.1	-1.0	-1.0	-1.1	-1.1	-1.1		-1.3	-1.2	
Contribution from real exchange rate depreciation	1.0	-5.8	-3.5			-2.0	0.0	0.1	0.0	0.3	-0.3		...	...	
Other identified debt-creating flows	0.0	0.0	-0.3			-0.2	-0.3	-0.2	-0.1	-0.1	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	-0.3			-0.2	-0.3	-0.2	-0.1	-0.1	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-4.9	6.4	1.4			0.4	0.8	0.5	0.1	-0.3	0.8		-0.5	0.2	
NPV of public sector debt	...	...	20.9			19.2	19.2	19.4	19.2	19.0	19.6		19.3	19.0	
o/w foreign-currency denominated	...	...	16.9			15.2	15.1	15.1	15.2	15.3	15.3		15.1	13.9	
o/w external	...	...	16.9			15.2	15.1	15.1	15.2	15.3	15.3		15.1	13.9	
NPV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Gross financing need 3/	2.2	1.6	1.3			1.7	2.0	2.2	2.3	2.4	2.7		2.6	2.9	
NPV of public sector debt-to-revenue ratio (in percent) 4/	...	...	137.9			113.6	109.5	109.4	106.5	104.2	107.0		103.7	99.6	
o/w external	...	...	111.5			89.9	85.7	85.2	84.2	83.6	83.9		81.2	73.1	
Debt service-to-revenue ratio (in percent) 4/ 5/	16.7	11.4	12.0			9.1	7.6	7.5	6.8	6.2	7.3		7.2	8.4	
Primary deficit that stabilizes the debt-to-GDP ratio	5.4	0.8	3.5			2.8	0.4	0.6	1.1	1.2	0.5		1.3	1.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.8	2.3	3.2	0.9	2.1	3.7	4.0	4.0	4.0	4.0	4.0	4.0	4.5	4.5	4.5
Average nominal interest rate on forex debt (in percent)	2.5	1.5	1.2	1.1	0.7	1.5	1.4	1.4	1.3	1.3	1.3	1.4	1.5	1.4	1.4
Average real interest rate on domestic currency debt (in percent)	-19.1	-1.4	11.2	3.3	13.4	5.0	4.5	3.8	2.9	2.4	5.6	4.0	4.9	5.4	5.1
Real exchange rate depreciation (in percent, + indicates depreciation)	2.6	-19.6	-12.4	-1.4	23.1	-8.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	17.6	16.6	9.0	14.5	6.2	9.7	7.5	6.8	5.6	5.0	5.0	6.6	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	26.5	5.8	10.8	7.7	11.4	21.1	11.0	6.3	6.8	6.6	4.2	9.3	4.8	4.5	4.7
Grant element of new external borrowing (in percent)	0.6	0.7	0.8	0.7	0.3	0.8	0.8	0.7	0.7	0.7	0.8	0.7	0.8	0.8	...

Sources: Country authorities; and Fund staff estimates and projections.

1/ Fiscal year ending September 30.

2/ Includes nonfinancial public sector and central bank.

3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

4/ Revenues including grants.

5/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

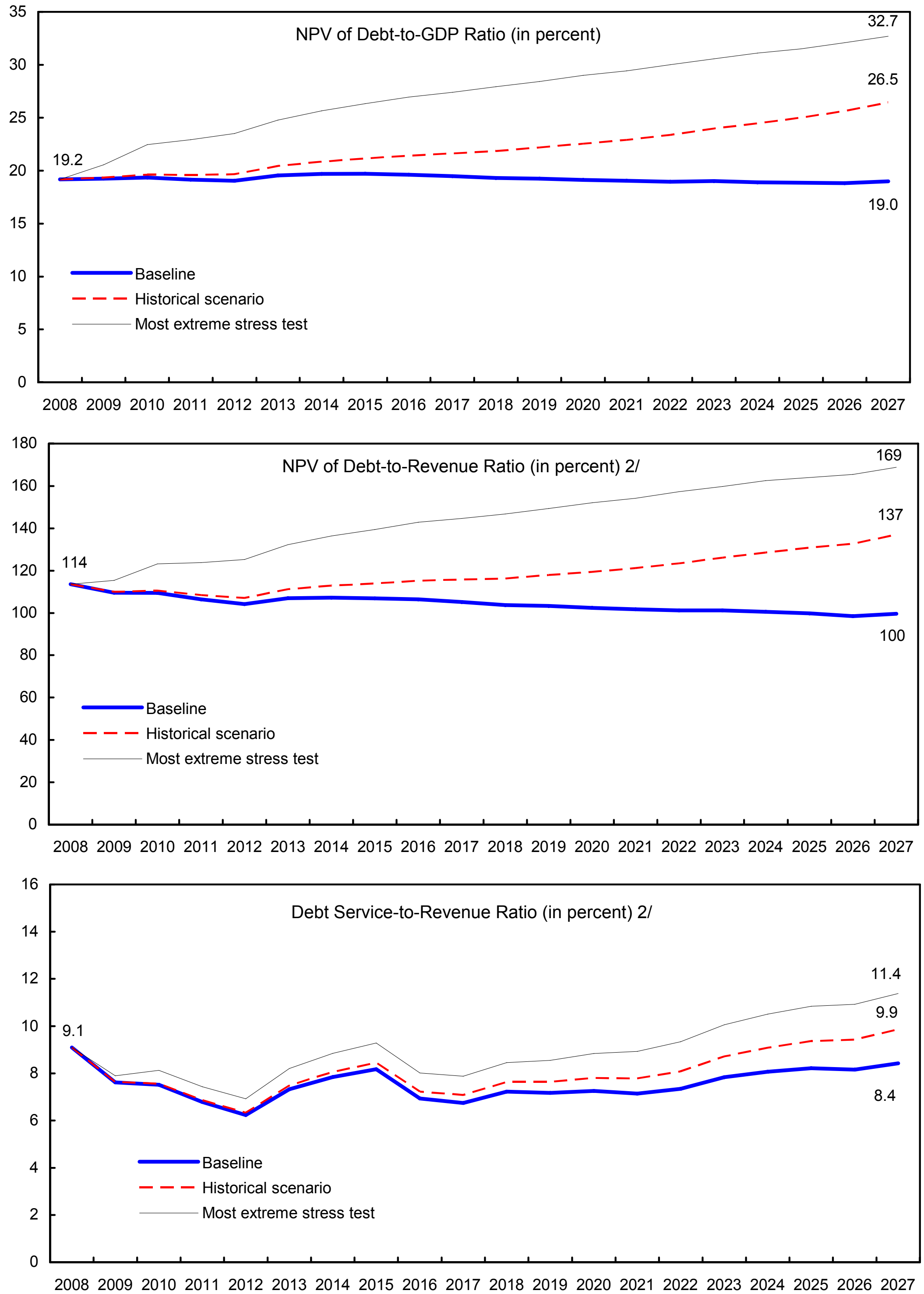
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table B2. Haiti: Sensitivity Analysis for Key Indicators of Public Debt 2008-2027
(Fiscal year ending September 30)

	Projections							
	2008	2009	2010	2011	2012	2013	2018	2027
NPV of Debt-to-GDP Ratio								
Baseline	19	19	19	19	19	20	19	19
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	19	20	20	20	20	21	22	24
A2. Primary balance is unchanged from 2008	19	19	19	18	17	17	15	11
A3. Permanently lower GDP growth 1/	19	19	20	20	20	20	22	26
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	19	21	22	23	24	25	28	33
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	19	20	20	20	20	20	20	20
B3. Combination of B1-B2 using one half standard deviation shocks	19	20	21	21	20	21	19	18
B4. One-time 30 percent real depreciation in 2009	19	26	25	25	24	24	22	20
B5. 10 percent of GDP increase in other debt-creating flows in 2009	19	24	24	24	24	24	24	22
NPV of Debt-to-Revenue Ratio 2/								
Baseline	114	110	109	106	104	107	104	100
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	114	112	113	110	108	111	110	111
A2. Primary balance is unchanged from 2008	114	108	106	101	95	95	79	59
A3. Permanently lower GDP growth 1/	114	110	111	108	107	111	116	137
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	114	115	123	124	125	132	147	169
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	114	113	115	112	109	112	108	102
B3. Combination of B1-B2 using one half standard deviation shocks	114	114	118	113	110	112	103	93
B4. One-time 30 percent real depreciation in 2009	114	147	143	137	132	131	119	107
B5. 10 percent of GDP increase in other debt-creating flows in 2009	114	138	137	133	130	132	126	114
Debt Service-to-Revenue Ratio 2/								
Baseline	9	8	8	7	6	7	7	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	8	8	7	7	8	9	12
A2. Primary balance is unchanged from 2008	9	8	7	7	6	7	7	7
A3. Permanently lower GDP growth 1/	9	8	8	7	6	7	8	10
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	9	8	8	7	7	8	8	11
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	9	8	8	7	6	7	7	9
B3. Combination of B1-B2 using one half standard deviation shocks	9	8	8	7	7	8	8	9
B4. One-time 30 percent real depreciation in 2009	9	8	8	8	7	8	8	9
B5. 10 percent of GDP increase in other debt-creating flows in 2009	9	8	8	7	7	8	8	9

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Revenues are defined inclusive of grants.

Figure B1. Haiti: Indicators of Public Debt Under Alternative Scenarios, 2008-2027 1/
(Fiscal year ending September 30)



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2018.
2/ Revenue including grants.

Statement by the IMF Staff Representative on Haiti
February 29, 2008

1. This statement provides additional information that has become available since the circulation of the staff report. It does not alter the thrust of the staff appraisal.

Prior actions

2. **Both prior actions for the review have been fulfilled.** On February 7, 2008, the authorities hired an international expert, who has commenced work on assessing possible recapitalization and restructuring needs of the state bank BNC. A review of implementation issues for the adoption of IFRS by the central bank (BRH) was submitted to staff on February 19, 2008.

Recent developments

3. **The program has remained broadly on track through the first quarter of FY2008 (September–December 2007).** Preliminary data show that quantitative indicative targets for end-December were observed, except for base money growth which rose slightly faster than programmed.

- **Inflation and activity.** Inflation rose from 7.9 percent in the year to September 2007 to 11 percent in January 2008, reflecting rising international prices for food and fuel. This increase remains broadly compatible with program projections, which have built in a temporary acceleration of inflation in the early part of the fiscal year. However, because of the importance of basic foodstuffs such as flour and rice in the Haitian diet, the observed price increases are causing considerable social hardship. Few indicators are available at this stage to assess economic growth during the first quarter of FY 2008, although preliminary trade and revenue data suggest that activity has continued to expand.

- **Fiscal sector.** Both government expenditure and revenue were lower than programmed during the first quarter, highlighting again the importance of swiftly implementing plans to modernize revenue agencies and increase capacity of spending ministries. According to preliminary data domestically-financed capital expenditure was broadly in line with expectations, but expenditures on wages, transfers, and operations fell significantly short of the program (23 percent). Revenue increased by 12 percent, but was still 14 percent below program projections. Budget support disbursements were in line with expectations. Altogether, these outcomes resulted in a first quarter fiscal deficit (excluding grants and foreign-financed projects) that was 0.3 percent of GDP smaller than projected.

- **Monetary sector and exchange rate.** Base money growth during the first quarter of the fiscal year exceeded the program target somewhat (7.4 percent actual vs. 5.3 percent programmed), but nonetheless remained well below estimated nominal GDP growth. The Haitian gourde has depreciated by about 3 percent in nominal terms against the US dollar since end-September 2007. In early February 2008, the BRH reduced the prudential limit on commercial bank net open foreign currency positions and increased the gourde component of the reserve requirement on foreign currency deposits. These changes, which reversed recent action in the opposite direction, followed an increase in banks' foreign exchange positions that the authorities considered unusual. Staff has encouraged the authorities to avoid frequent changes in direct monetary instruments, and instead focus on the use of BRH bonds and base money management.

- **Balance of payments.** The overall balance of payments during the first quarter was somewhat stronger than expected. The current account deficit reached 0.5 percent of GDP, unchanged from the previous quarter but as expected weaker than one year ago, mainly due to the higher import bill for food products and fuels. Capital flows were broadly in line with projections, albeit a large disbursement of official project financing allowed net international reserves to increase to US$308 million at the end-December 2007, significantly higher than programmed. As expected, this overperformance unwound during January as the project resources were drawn down, and NIR are presently about US$14 million above end-September 2007 levels.

Press Release No.08/40
FOR IMMEDIATE RELEASE
March 4, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves Second Review Under the PRGF Arrangement with Haiti and Approves US$12.2 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed on February 29, 2008 the second review of Haiti's economic program under the Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review allows for an immediate disbursement of SDR7.6 million (about US$12.2 million).

The Executive Board also approved Haiti's request for a waiver for non-observance of two end-September 2007 performance criteria related to the implementation of International Financial Reporting Standards by the central bank and the assessment of possible recapitalization and restructuring needs of state bank BNC. The authorities implemented both performance criteria prior to the Executive Board's consideration of the review.

The PRGF arrangement was approved on November 20, 2006 (see Press Release No. 06/258) in the amount equivalent to SDR73.7 million (currently about US$118.1 million).

Following the Executive Board discussion, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, said:

"Haiti has continued to perform remarkably well under its PRGF-supported program despite numerous challenges, including the devastating effects of Hurricane Noel late last year. During fiscal year 2007, growth accelerated for the third year in a row and inflation declined. The authorities are also to be commended for implementing the program's ambitious structural conditionality, and developing a poverty reduction and growth strategy that prioritizes needed reforms, with a focus on restoring basic public goods and services, targeting sectors for growth, and repairing infrastructure.

"Consistent with the authorities' strategy, the key goals for the second year of the PRGF-supported program are to create conditions for higher growth and to consolidate the stabilization gains achieved so far. One key element of the program is to accelerate the execution of public expenditures needed to improve the provision of public goods and services, as well as to upgrade infrastructure, while preserving the quality of spending. The planned improvements in revenue mobilization should be firmly pursued to help ensure a sufficient resource flow for accelerated spending. A strong focus on implementing the agreed policy actions will be important to achieve the Heavily Indebted Poor Countries Initiative completion point as soon as possible.

"Prudent monetary policy will remain important, in light of inflationary pressure from high international oil and food prices. The program's monetary targets will allow some accommodation of first-round effects of the commodity price increases, but the objective is to keep inflation in single digits. An ambitious plan to recapitalize the central bank is being embarked upon, in order to ensure the independence of monetary policy.

"The authorities' plans to foster financial sector stability and development will help support higher growth through increased intermediation. A recent joint IMF-World Bank Financial Sector Assessment found that indicators of bank soundness are relatively favorable, but suggested several important reforms, including: improving regulation and supervision; passage of a new banking law; and strengthening of insolvency and creditor rights, audit and accounting, and the payments system. The authorities have welcomed the assessment and are planning to implement most of its recommendations.

"Despite the many remaining challenges, the prospects for a further acceleration of growth and continued strong implementation of the PRGF-supported program are favorable. Haiti's resource and capacity constraints and the authorities' strong commitment to reform warrant continued technical and financial assistance from the international community," Mr. Kato said.

Statement by Paulo Nogueira Batista, Executive Director for Haiti
and Ketleen Florestal, Advisor to the Executive Director
February 29, 2008

On behalf of our authorities, we would like to thank staff for the constructive dialogue that has taken place during the last mission of November 2007 and that is being maintained as practical policy issues arise. We would also like to express our appreciation to the management and staff of the World Bank and the IMF for their continued support to the PRSP drafting process and their helpful comments on the Document de Stratégie Nationale pour la Croissance et la Réduction de la Pauvreté (DSNCRP) officially transmitted this past November.

The authorities have informed us that they have already taken steps to address some of the issues raised in the Joint Staff Advisory Note (JSAN). The budget and sector costing strategies are being revised with a view of ensuring consistency between these estimates and projected budget figures and in anticipation of the donors' meeting to be held in Port-au-Prince at the end of April. A detailed action plan has been prepared as well as an implementation framework. Both documents are being discussed with representatives of the donor community.

As far as the PRGF is concerned, just as it was the case at the time of the first review, Haiti has delivered a strong performance and the authorities remain committed to maintaining this good track record until completion of the agreement. Yet, notwithstanding the authorities' efforts with support from the IDB and the IMF, the experts needed to complete two structural performance criteria (the IFRS compliance gap report and the assessment of Banque Nationale de Crédit - BNC's recapitalization needs following the absorption of Socabank) could not be hired before the end-September 2007 test date. The experts have finally been found and hired thus allowing these performance criteria to be completed as prior actions to the holding of the Board meeting of the second review.

Capacity Constraints and Absorptive Capacity

Our authorities acknowledge that the speed of implementation of the investment budget remains a cause of concern despite its important pick up during the last quarter of 2007. They are working steadfast –with the assistance of donors— to remove bottlenecks that have constrained project execution and limited absorptive capacity. Nevertheless, the human capital constraint remains binding. It is reflected not only in the scarcity of needed skills in the domestic market but also in the difficulties of finding international experts (expatriates or foreign nationals) in a timely fashion.

The aforementioned capacity constraint has been particularly hurtful in the public works sector. Several projects have been delayed because local firms had reached maximum capacity and/or foreign firms did not find the bids profitable enough to justify a start-up investment in Haiti. Efforts to garner investors' interests and to reach out to non traditional investors have borne their fruits. New investors particularly from Latin America and the Caribbean have become increasingly interested in doing business in Haiti often in partnership with local firms. By the end of the last fiscal year, this had improved the pace of implementation of public investment projects, which are crucial in achieving growth and poverty reduction goals.

Improving coordination and efficiency on both the Government and donor side is also critical. Better knowledge by the international community of the administrative and legal constraints as well as enhanced efforts to encourage national ownership is important in increasing absorptive capacity. Had these conditions prevailed in 2007, Haiti could have better used the long time spent trying to accommodate the World Bank's and some donors' insistence to have grant agreements ratified by the Haitian Parliament despite the fact that the constitution does not bestow such authority upon Parliament.

Downside Risks

Responsible and prudent policies have helped maintain stabilization gains. The macroeconomic framework is continuously being strengthened, and measures to improve governance, maintain political stability and enhance security are designed to help restore investor confidence. An important reduction of inflation has been achieved in recent periods owing to the strong fiscal position and the appreciation of the national currency. However, more recently, international food and petroleum price hikes have led to considerable inflationary pressures in the domestic market. Despite growing political pressures, the authorities remain committed to maintaining macroeconomic stability and to refrain from taking short-term ad hoc measures to counter price inflation, as these measures may jeopardize fiscal consolidation and long-term growth. They are considering the adoption of policies that would allow the relaxation of the supply constraint in the medium and long run, such as investment in agriculture, while bringing some alleviation to the hardships of the most vulnerable sections of the population in the short run.

At the political level, the government is pursuing its efforts to garner consensus and encourage participation in finding solutions to Haiti's numerous problems. This spirit of consensus building has allowed them to reach an agreement on the roadmap to the renewal of a third of the Senate whose term expired the second Monday of January 2008. Reaching the consensus needed to form the new electoral council took more time than projected and elections could not be organized prior to the expiration date. Nonetheless, it has finally been agreed by all parties that the ten senators would leave office as soon as the new electoral decree is approved by Parliament. On February 21, 2008 a draft of the electoral decree has been officially transmitted to Parliament.

Strengthening the Central Bank's Financial Position

We thank the Fund for the support received to move forward with the plan to redress the Central Bank's financial situation. The strategies envisaged in the "fact finding" mission's report are a valued input in the authorities' decision-making process. The comparative advantage of the alternative strategies (front-loaded versus gradual approach and high versus low recapitalization schemes) are being assessed internally. The urgency of addressing the deteriorating position of the Central Bank, particularly in order to safeguard the effectiveness of monetary policy and maintain price stability, is being weighted against the fiscal effort implied for the short run and the time needed to make the appropriate administrative and legal changes to implement the recapitalization plan. This plan, in our authorities' view, is intrinsically linked to achieving complete financial independence of the Central Bank and thus implies the complete removal of the possibility of a return to fiscal dominance. Thus, as underscored in the aforementioned TA report, one of the most important elements of the action plan is the development by the Central Government of the permanent capacity to finance itself without recourse to monetary financing. This goal will be achieved through increased fiscal revenues, the creation of Treasury Bonds and the development of a local capital market.

The divestment by the central bank of the state telecom company (TELECO) is also instrumental in the recapitalization process. This divestment will also relieve the central bank of duties that take time away from the central bank in achieving its core functions. Our authorities are appreciative of the assistance of the IFC in this process.

On Growth and Poverty Reduction

Achieving positive real per capita GDP growth after several years of decline is definitely a step forward in the fight against poverty. Nevertheless, the actual pace of growth is insufficient to ensure a significant progress towards achieving the MDGs. To promote higher levels of growth and alleviate poverty, massive investments are needed particularly in infrastructure. However, both the resource and capacity constraints are binding. Thus, the key challenges the authorities face for the implementation of the PRSP include the ability to mobilize adequate levels of domestic and international resources and that of increasing absorptive capacity.

Efforts to increase fiscal revenues have already brought satisfactory results. The authorities are committed to maintaining the course and to enhancing further tax collection through sustained efforts to strengthen the fiscal administrations and curb smuggling and tax evasion. To decrease backlogs and improve the services offered by customs, starting this month, the working week of the customs office has been extended to Saturdays with the possibility of it being called upon to work on Sundays in case of an emergency.

Besides the lack of adequate availability of expert services, institutional weaknesses have also hampered a better implementation of investment projects. Personnel are being recruited to strengthen the programming units of line ministries particularly that of public works, agriculture, justice, education and health. Announcements have been launched to that effect and candidates' records are being reviewed. Public accountants and budget comptrollers are also being progressively deployed in all central government administrations to ensure the respect of transparent and efficient public management practices. The implementation and monitoring structures of the PRSP, which benefited considerably from inputs from the Public Expenditure Management and Financial Accountability Review (PEMFAR) exercise led with support from the World Bank and the IDB, will allow prompt identification of bottlenecks and other factors delaying project implementation.

The scarce supply and high cost of electricity represents an important impediment to business activity. The authorities are pleased to have been able to conclude a power generation and distribution contract with a new domestic firm that will both increase significantly electricity generation and reduce users' costs. In the meantime, with the support of several donors, efforts are being made to increase the efficiency of the state electricity company (EDH) through better controls, reduction in technical losses and the gradual modernization of the plant's equipment. The IDB is also preparing with the authorities a program for the financing of the hydroelectric dam of Peligre. The operation is scheduled to be approved by the IDB Board during the fall of 2008.

Monetary Policy and Financial Sector Strengthening

The authorities welcome the findings and recommendations of the FSAP report as they are helpful in their efforts to strengthen the financial sector, which has withstood well the risks caused by the three banks that had been in difficulty two years ago. Nevertheless, as underlined in the FSAP report, the financial system still faces a number of challenges. The authorities look forward to the approval by Parliament of the new banking law that addresses many of the shortcomings of the existing prudential regulation and supervision of the banking institutions particularly those pertaining to insolvency procedures. The authorities are also committed to moving promptly with the supervision and regulation of credit unions, microfinance institutions, insurance companies and pension funds.

On the monetary policy front to enhance the policy framework, the Central Bank has formally adopted a monetary aggregate target and top priorities include increasing competition in and the effectiveness of its bond auction system through the broadening of participants and the improvement of liquidity forecasting. In the long run, the Central Bank hopes to diversify the use of its instruments and reduce its reliance on reserve requirements.

Progress on this front has been temporarily upset by recent inflationary pressures and speculative behavior. Nonetheless, the significant recent reduction of interest rates on Central Bank paper should encourage in the medium run an upturn in private domestic credit.

Prudential regulations to reduce foreign exchange exposure have recently been tightened. The existing ceiling on the net open FX position of banks was not binding at 8 percent and has been reduced to 1 percent.

Completion Point Triggers and Debt Management

Progress has been made towards achieving completion point triggers particularly with the conclusion of the drafting of the PRSP and, more recently, with the voting of the law on asset declaration by both chambers of Parliament. The donors' meeting to be held in Port-au-Prince next April is crucial for the mobilization of additional resources for the implementation of the PRSP. Revisions introduced in the existing procurement law have been transmitted to the highest level of Government for review pending its submission to Parliament.

The debt management capacities of the Ministry of Economy and Finance and the Central Bank are being reinforced with the assistance of UNCTAD, which has recently produced the evaluation report for the implementation of the centralized debt management database with the adoption of SYGADE (Système de gestion et d'analyse de la dette) by both institutions. The TA from UNCTAD includes staff training and institutional strengthening of debt management structures.

The authorities are convinced of the need to give quasi exclusive preference to external support in the form of grants in order to safeguard debt sustainability, and Haiti is appreciative of the financial support that is being awarded through the HIPC, Paris Club and MDRI debt relief mechanisms. In view of the vast needs of the country, while the authorities are wary of any engagement, which would jeopardize long-term debt sustainability, they are thankful for the opportunities offered by the Petro Caribe agreement, which has a 50 percent grant element. They are committed to implementing the latter in a self-sustaining manner and are pleased that the first and second shipment of petroleum products are programmed to take place in March and April.

Conclusion

Haiti is still, and probably will be for a while longer, going through a difficult period and our authorities stand ready to acknowledge that the political and security situation could reasonably be perceived as lacking sufficient sturdiness even with the significant progress made on these fronts with the assistance of the United Nations Stabilization Mission in Haiti (MINUSTAH) and the international community at large. Nonetheless, the persistent categorization of Haiti with the most troubled post/in-conflict nations of the world by part of foreign media is unjustifiable, unfair and potentially very damaging to the work the Fund and other donors are trying to achieve with the Haitian authorities. This negative publicity is repeatedly being circulated even if often based on questionable facts. Hence, the Fund, the World Bank and other donors are encouraged to be ever more proactive in spreading the information they hold on Haiti's countless achievements notwithstanding the prevailing capacity constraints and recurring external shocks. Our colleagues at the Board are also invited to be the echo of the favorable assessment of Haiti's performance under the PRGF and, in the case of donor countries, of the accounts we presume they are receiving from their countries' representatives of the improved situation on the ground.

Finally, our authorities would like us to commend the management and staff of the IMF for understanding the need to keep conditionality under the program at a minimum and to focus on PRSP and HIPC Initiative completion point triggers. They look forward to the up scaling and timely delivery of technical and financial support from the international community for the achievement of the goals set out in the PRGF and PRSP.