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Haiti: Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Augmentation of Access and Waiver of Nonobservance of Performance Criteria, and Request for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Haiti

In the context of the third review under the three-year arrangement under the Poverty Reduction and Growth Facility, requests for augmentation of access and waiver of nonobservance of performance criteria, and request for additional interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries, the following documents have been released and are included in this package:

- The staff report for the Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Augmentation of Access and Waiver of Nonobservance of Performance Criteria, and Request for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, prepared by a staff team of the IMF, following discussions that ended on May 23, 2008, 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 June 11, 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 Press Release summarizing the views of the Executive Board as expressed during its June 20, 2008 discussion of the staff report that completed the review.

- A statement by the Executive Director for Haiti.

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

Letter of Intent sent to the IMF by the authorities of Haiti*
Supplemental Memorandum of Economic and Financial Policies by the authorities of Haiti*
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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HAITI

Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Augmentation of Access and Waiver of Nonobservance of Performance Criteria, and Request for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries

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

Approved by Caroline Atkinson and G. Russell Kincaid

June 11, 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 and second program reviews were completed in July 2007 and February 2008, respectively. If the request to augment access under the arrangement is approved, SDR23.98 million will become available to the authorities upon completion of the third review.

- **Discussions:** Third review discussions were held in Port-au-Prince from May 19-23, 2008. The mission consisted of Messrs. Bauer (Head) Martin (WHD), and Cauchi (FIN), and Ms. Redifer (WHD) and Funke (FAD). The mission was supported by Mr. Fasano (Resident Representative). Ms Florestal (OED) participated in the policy discussions. The mission met with Minister of Economy and Finance Dorsainvil, Central Bank Governor Castel, Minister of Planning Bellerive, other government officials, and the donor community.

- **Program status:** The PRGF-supported program remained on track through end-March. In light of the exogenous shocks, mainly high international food and fuel prices, the program and its targets were modified for the remainder of the fiscal year to reflect a macroeconomic policy response that strikes a balance between additional financing and adjustment. In the attached LOI and MEFP, the authorities describe their policies for the second half of the year, and request completion of the third review and waivers for the nonobservance of three end-March performance criteria. The authorities are also requesting an augmentation of access under the arrangement, in the amount of 20 percent of quota (SDR 16.38 million), due to a larger balance of payments need created by the exogenous shocks.

- **HIPC interim assistance:** The authorities request an increase in HIPC interim assistance by SDR 33,000 to cover all debt service obligations on eligible debt falling due to the IMF in June 2008.

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Executive Summary

Background

- As a large net importer of food and fuels, Haiti has experienced sharply rising inflation, a deteriorating trade balance, and a depreciating gourde. In early April, protests against higher food prices led to the resignation of the Prime Minister and his cabinet, but they remain in a caretaking function until a new Prime Minister is confirmed by Parliament.

- The government has implemented temporary crisis measures to subsidize rice prices and suspend the automatic fuel pricing mechanism, and donors will help it to step up targeted social assistance programs and implement measures to boost agricultural output.

- Despite external shocks, program performance was solid in the first half of FY2008, with all but one quantitative PC met. Most structural conditionality was also met on time, although two PCs require waivers.

- The authorities' revised program through end-September is based on a policy response that balances adjustment and financing, and safeguards macroeconomic stability. Adjustment will be effected through both monetary and fiscal policies, although the program allows additional social spending to deal with the food emergency, and includes an augmentation of access under the PRGF and upfront disbursement in the amount of 20% of quota (US$26.6 million), to support the balance of payments.

Staff appraisal

- Staff supports the authorities' response to the shocks. The revised PRGF-supported program strikes a reasonable balance between adjustment and financing.

- However, the fiscal program has less margin than in previous years and therefore requires cautious implementation. Similarly, containing inflationary pressure in the face of the adverse commodity price shock will need to be the central focus of monetary policy.

- Managing the macroeconomic and social impact of recent shocks should not weaken the implementation of medium term policies needed to stimulate growth and employment, and obtain debt relief.

- Program risks have risen as high food and fuel prices are stressing the fragile social and political situation. Staff nonetheless believes that the program remains manageable and that staying engaged with Haiti is essential to help the country adjust to the external shocks and safeguard achieved stability gains. The authorities remain firmly committed to the program, and have a strong track record of delivering on their commitments.

I. RECENT DEVELOPMENTS

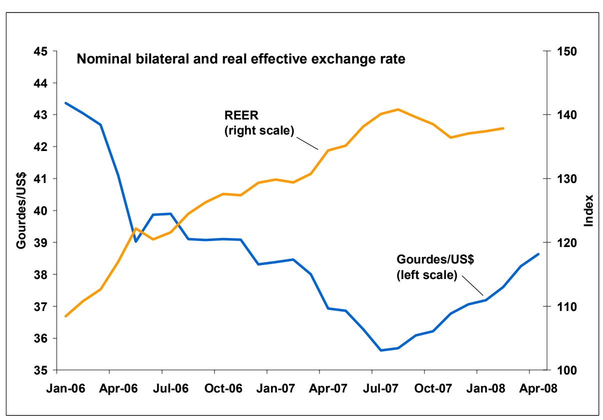
1. **Haiti has experienced a series of exogenous shocks, which have posed a threat to the hard-won stability of the past years.** In late 2007, Hurricane Noel and flooding wiped out much of the fall harvest. This domestic supply shock was followed by sharply rising international commodity prices, especially in food and fuel. In early April, the higher cost of living fueled popular and political discontent that turned into violent protests. The protests caused considerable damage to property, and triggered a no-confidence vote by the Parliament against Prime Minister (PM) Alexis, who subsequently resigned. In early May, Mr. Ericq Pierre, the first candidate nominated by President Preval to become the new PM, did not garner sufficient support in Parliament to be ratified. Subsequently, President Preval nominated his political advisor, Mr. Robert Manuel, for the PM position. The process to confirm Mr. Manuel is currently ongoing. In the meantime, government affairs are being conducted by the outgoing PM and his cabinet.

2. **As a large net importer of food and fuels, Haiti has experienced a severe deterioration in its terms of trade since end-September 2007.** High food and fuel prices have manifested themselves in sharply rising inflation, a deteriorating trade balance, and a depreciating gourde.

- Inflation rose to 16.5 percent in April 2008, from 7.9 percent in September 2007. This jump was explained by higher prices for food, fuel, and public transportation, which together account for two-thirds of Haiti's CPI (see Box 1). Core inflation remained broadly stable through end-February, but has begun to rise somewhat in March and April.

- At the same time, the trade deficit widened by $185 million (2.5% of annual GDP) in the first half of FY2008 (October 07-March 08) compared to the previous year, largely because of higher import bills for food and fuels. The current account deteriorated somewhat less, aided by private remittances, which continued to grow albeit somewhat less vigorously than one year ago.

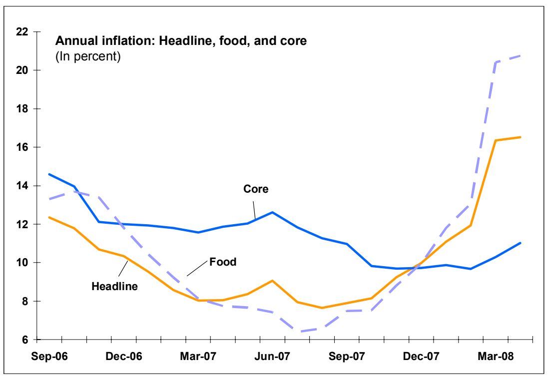
- The gourde reversed its nominal appreciation trend and weakened by about 10 percent against the dollar from end-September 2007. Because of Haiti's relatively strong exchange rate pass through, the weakness of the gourde will likely add to inflation pressure.

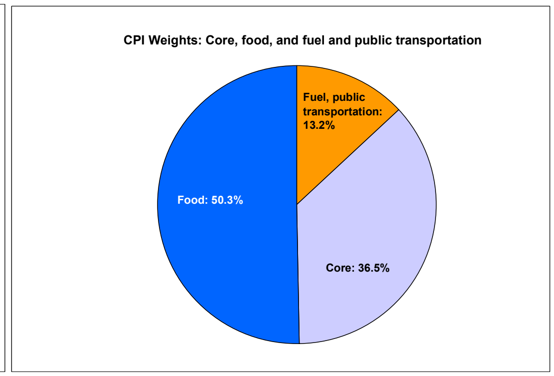


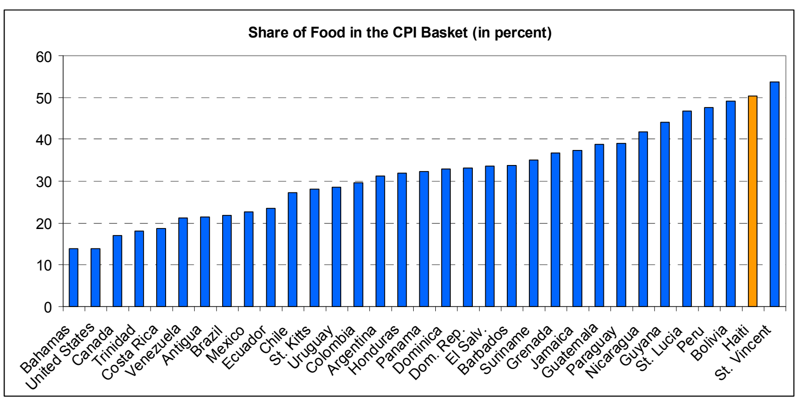
Box 1. Why has Inflation Risen so Rapidly in Haiti?

Haiti is a large net importer of food and fuel and has a CPI basket that puts heavy weight on food, fuel, and public transportation. Because of Haiti's low per-capita income, the food basket in the CPI includes many products that are unprocessed or have little value added. All this facilitates a high pass though of international commodity prices to the CPI. For example, rice makes up 7 percent of Haiti's CPI basket. With price increases for rice running at about 40% y-o-y, this product alone explains almost 3 percentage points of Haiti's current inflation.

Core inflation (excluding food, fuel, and transport) has so far remained relatively stable, hovering around 10.5 percent in the last several months, although with up-ticks in March and April 2008. The key challenge in the short term is to limit to the extent possible the spill-over of commodity price increases and the weaker exchange rate into this category. Once the base effect of the sharp rise in commodity prices subsides, the policy focus will have to shift to bring the pace of core inflation down to single digit levels.







3. **The government has initiated a two-step response to alleviate the hardship caused by higher food and fuel prices and maintain the fragile social peace.**

- The first step was the announcement of a temporary subsidy to achieve an immediate reduction in the price of rice through end September. The subsidy, which costs about 0.4 percent of GDP, is intended to ease immediate social pressures and buy time for the implementation of more sustainable relief programs. The authorities also suspended the automatic pricing mechanism for two oil shipments that arrived around the time of the food riots, at a revenue cost of 0.2 percent of GDP so far.[1]

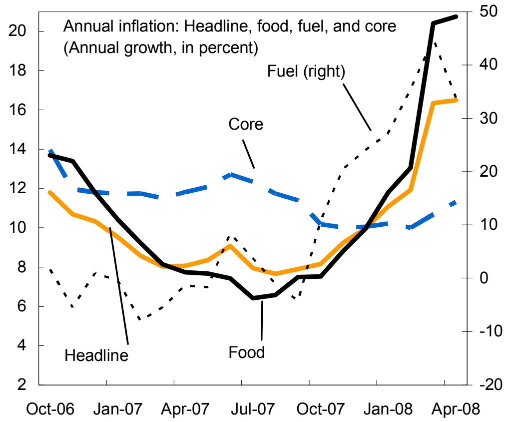
- In a second step, the authorities intend to step up targeted social assistance programs and implement measures to boost agricultural output during the fall harvest and in the medium term.

4. **Donors have pledged financial resources to support the authorities, mostly in the form of project grants and humanitarian aid.** The U.S. has pledged additional project grants of US$53 million including to finance school feeding and food-for-work programs. Other bilateral donors, including Brazil, Canada, France, Japan, Spain and Venezuela, have also increased project support and in-kind donations. Additional budget support pledged to date amounts to $10 million each from the Caricom and the World Bank, while the IDB has accelerated disbursement of already pledged funding for the budget. On a separate note, the U.S. Congress passed legislation in May (referred to as the HOPE II Act), which extends the preferential treatment of Haitian textiles by five years (to a total of ten) and provides less stringent rules of origin requirements. If signed into law, these provisions could provide a welcome boost to Haiti's export sector in the medium term.

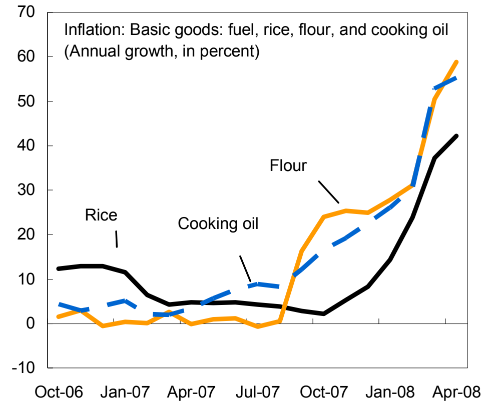
[1] The authorities intend to resume the upward adjustment of local petroleum prices gradually with the next two shipments.

Haiti: Recent Economic Developments

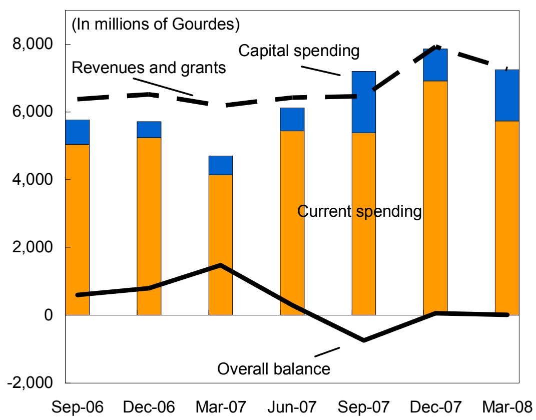
Headline inflation has increased rapidly driven by rising food and fuel prices...



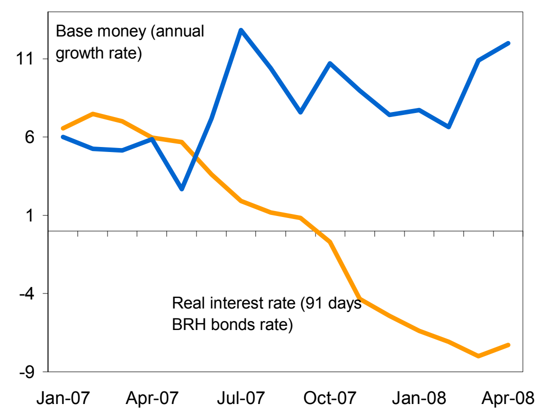
... notably, prices for rice, flour, and cooking oil have increased sharply



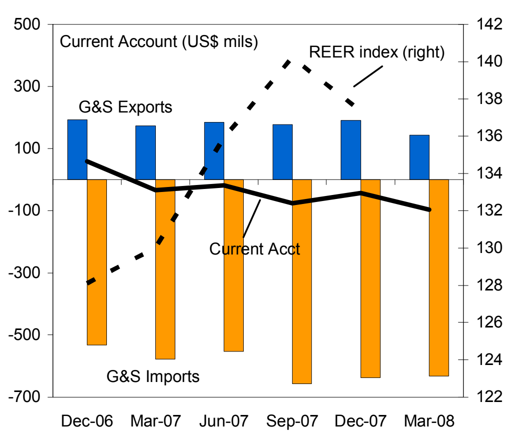
Expenditure execution, including capital spending, is on the rise.



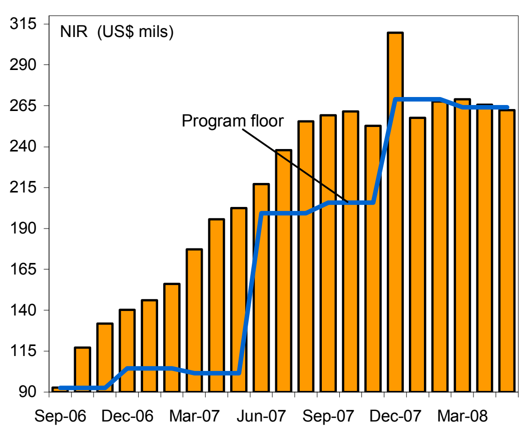
Real interest rates and base money growth suggest scope for tighter monetary policy.



A deteriorating current account balance has reversed real exchange rate appreciation...



... and NIR program targets are becoming more binding.



Source: National authorities and IMF staff calculations.

II. Performance under the Program

5. **Despite the shocks, program performance was solid in the first half of FY 2008 (Table 1).**

- **All but one of the end-March quantitative PCs were met.** NIR accumulation and central bank (BRH) financing to the central government were met with margins, after adjusting for a US$11.8 million shortfall in net external financing. However, the zero ceiling of net BRH financing to the non-financial public sector was breached by a small amount (US$2 million or less than 0.05 percent of GDP). The breach reflected credit extended to the public telephone company TELECO to support operational restructuring in preparation for private sector participation, in line with the strategy to discontinue BRH involvement.[2]

- **Expenditure execution picked up and exceeded revenue growth.** Domestic revenues rose 18 percent during the first half of FY2008, below the ambitious budget target of 30 percent. The shortfall reflected slower economic activity and less-than-expected revenue gains from intensified controls and the modernization of customs and the internal revenue service. Expenditures also fell short of budget targets, but nonetheless experienced a sharp acceleration. Domestically financed capital spending rose almost 140 percent compared to the first half of FY2007, and the wage bill increased by about 50 percent, reflecting salary increases to recover past real wage losses and new hiring for priority sectors. Overall, these outcomes left the fiscal balance (excluding foreign financed projects and project grants) broadly in balance.

- **Base money growth remained within the indicative targets of the program.** However, with rising inflation, real interest rates in the BRH bond auctions became sharply negative. Starting in mid-March, the BRH reacted to this with a gradual increase of bond interest rates from 4 percent to 8 percent (90-day benchmark). Despite the increase, bond interest rates remain negative in real terms.

6. **Significant progress was made in implementing the program's structural conditions for end-March, although waivers are being requested for two PCs that have not been fully met (Table 2).**

- **Implemented conditions.** The BRH broadened participation in its bond auction to include non-bank financial institutions, and submitted a plan to divest its ownership of the state telephone company TELECO (PCs). Financial comptrollers and fiscal accountants were placed in line ministries, and the DGI prepared a plan to recover delinquent taxes (Benchmarks).

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[2] Credit extended to TELECO amounted to US$6 million (0.1 percent of GDP), but was partly compensated by deposit accumulation of other public enterprises.

- **Requested waivers.** (1) A draft BRH recapitalization plan was submitted to Fund staff with a short delay in early April, requiring a waiver. While the draft constituted important progress, it lacked some important features, including specifics on the recapitalization instruments and full simulations of the BRH's financial statements to determine the robustness of the plan. Staff supports granting the waiver on the basis that the authorities have agreed to strengthen and finalize the recapitalization plan, and to add a new end-September PC covering this. (2) Only one-half of the experts needed to strengthen programming units of line ministries have so far been hired; despite several calls there were not enough qualified applicants. Staff supports granting a waiver on this PC on the basis that programming units in three key ministries (health, education, and agriculture) have already been strengthened and complementary measures have been taken to help other ministries improve budget execution.[3] The authorities will still continue their efforts to fill the vacant positions.

- **Other reforms.** Progress has also been made in a number of areas that are outside program conditionality, notably the operational restructuring of TELECO and the Port Authority. However, due to the political stalemate, Parliament has not yet approved important legislation submitted previously in the context of the program, including a new banking law, a new customs code, and various pieces of legislation that disengage the BRH from non-monetary activities.

III. Program Modifications for the Remainder of FY 2008

7. **Haiti is confronting a severe exogenous shock that calls for a policy response which balances adjustment and financing, and safeguards macroeconomic stability.** Some macroeconomic adjustment is necessary for a small open economy like Haiti, in the face of international commodity prices that are expected to remain high for some time. But new financing can help smooth the transition. Gradual adjustment appears appropriate both from a macroeconomic perspective, since a sharp exchange rate adjustment would have a high cost in terms of inflation and Haiti has limited scope to substitute away from imports, and from a social and political perspective, given the large vulnerable population.

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[3] Specialized staff from the Ministry of Planning has provided direct support to these ministries in the formulation and implementation of investment projects.

8. **Adjustment will be effected through both monetary and fiscal policies, although the program allows additional social spending to deal with the food emergency.** Emergency spending can be accommodated through some expenditure switching (including of donor project financing), but there is limited room in the program in light of the need for large scale investment and improved social services, consistent with PRSP implementation this year. The mobilization of additional financing from donors—on highly concessional terms to avoid debt sustainability problems—is therefore a key element of the program.

A. Macroeconomic Framework

9. **Adjustments have been made to the authorities' macroeconomic framework for the second half of the fiscal year to reflect the shocks and their aftereffects (see Table 3).**

- **The growth estimate for FY2008 was lowered from 3.7 percent to 2.5 percent.** An acceleration of government spending should provide positive stimulus, while remittances will support private consumption. However, recent riots have shaken private sector confidence, such that lower levels of FDI and domestic investment are expected. Net exports are also projected to be significantly more negative than previously assumed, reflecting a higher import bill (using the most recent WEO commodity price projections) and lower exports (because of retooling of textile operations to comply with changed buyer demands).

- **The inflation target for end-September 2008 was increased from 9 percent to 16 percent to reflect first round inflation effects of the combined exogenous shocks.** Achieving even this rate is ambitious given the magnitude of the commodity price shock; it implies that: food prices stabilize at current levels (helped by the rice subsidy); fuel prices rise 50 percent y-o-y (broadly in line with WEO forecasts); and core inflation is contained roughly at current levels (10.5 percent).

10. **Based on outcomes for the first half of FY2008, projected revenues for the second half have been revised downward (Tables 4a and 4b).** While the authorities will continue with revenue administration reforms and strive to achieve the originally budgeted targets, expectations of slower economic growth, revenue costs from the implicit temporary subsidy on fuel, and experience of lower-than-forecast revenue gains from administrative improvements suggested that a more conservative revenue target would be prudent.

11. **Budgeted expenditures for the second half of FY2008 will be largely maintained as envisaged, reflecting a continued acceleration in spending execution.** Part of the shortfall in expenditure execution in the first half will not be restored for the second half, such that some categories of spending will be lower than in the original program. However, as a result mainly of emergency spending through foreign-financed projects to address the food crisis, total expenditures are expected to rise slightly from 17.9 percent of GDP in the original program to 18.4 percent of GDP.

12. **Emergency expenditures will be financed with new support by donors and reallocation of existing budgeted amounts.**

- **Spending for programs to provide targeted assistance and stimulate agriculture will be covered by donors reallocating and expanding existing project aid and humanitarian assistance.** So far, pledges for additional bilateral assistance are estimated at US$ 77 million (1.2 percent of GDP), including some in-kind aid.

- **Additional on-budget costs of emergency measures are US$30 million (0.4 percent of GDP) for the rice subsidy, which is not yet fully financed.** Additional budget support received so far totals $20 million, provided in equal parts by Caricom and the World Bank.[4] The remaining US$10 million (0.2 percent of GDP) in spending is not yet financed, but the authorities are committed to seek additional budget support pledges before the end of the fiscal year in September.

13. **If donor commitments cannot be immediately secured to fill the $ 10 million residual fiscal financing need, the program allows for interim BRH financing.** While the program maintains a zero ceiling on BRH credit to the central government, program adjustors would increase this ceiling and reduce the floor for NIR accrual for the shortfall in donor support.[5] This could occur because donors may have to await confirmation of the new PM and face rigidities in their own appropriation processes (e.g., multiyear allocations, funding cycles in line with budget cycles at home). However, in this case, staff would advise additional adjustment next year to reverse interim central bank financing. This would be needed to preserve the central tenet of the PRGF-supported program, which is to avoid the destabilizing fiscal dominance of the past. The program also leaves room for modest net BRH financing to the rest of the non-financial public sector, reflecting the advance granted to TELECO for its operational restructuring.[6]

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[4] The fiscal program does not include concessional financing provided since March 2008 by Venezuela through the Petrocaribe agreement. The authorities are planning to incorporate these resources into the FY2009 budget, after establishing a mechanism for their sustainable and transparent use. However, estimated Petrocaribe financing of US$65 million for FY2008 is reflected in the balance of payments as loan inflows. These funds are being held by the autonomous public agency that manages the Petrocaribe program in a separate domestic bank account, for the time being.

[5] The adjustors are capped at US$30 million, US$10 million less than previously, given that the program's end-September NIR accrual targets are also being significantly lowered (see paragraph 17).

[6] The end-September target is somewhat higher than the end-March outcome, reflecting the anticipated withdrawal of some deposits that were accumulated during the first half of FY2008 by public enterprises other than TELECO.

14. **Monetary policy will be tightened to help contain inflationary pressure from the sharp rise in commodity prices (Table 5).** The indicative target for base money growth, controlled through placements of BRH bonds, was reduced from 9.6 percent to 7.9 percent for FY2008. While the authorities believe that it is too early to sustain a fully competitive auction of its BRH bonds, they are committed to raising interest rates as necessary to avoid an increase in dollarization and resulting depreciation pressure on the gourde. The authorities intend to support their monetary operations with a clear communication strategy to avoid higher headline inflation becoming entrenched in inflation expectations (end-September benchmark).

B. Structural Conditionality

15. **Except for the additional PC on finalizing and approving a strengthened central bank recapitalization plan, structural conditionality for end-September 2008 remains unchanged from the second review (MEFP, Table 2).** Conditions include completing the assessment of one additional systemically important bank (PC); limiting spending through discretionary current accounts (PC); establishing new customs control posts; developing and implementing investment modules for the public financial management system; developing and begin implementing a plan to improve systemic liquidity forecasting; initiating regular central bank communications on monetary policy; improving regulation and supervision of credit unions; and submitting to parliament a new organic law for the DGI (all benchmarks).

C. Augmentation of Access Under the Arrangement

16. **Balance of payments needs have increased as a result of the commodity price shock (Table 6).** Based on the trends from the first half of the fiscal year and WEO forecasts for oil and food prices, the current account deficit for FY2008 is expected to widen to 3 percent of GDP, from 1.3 percent previously estimated. In addition, FDI is projected to be significantly lower, as a result of the political uncertainties. Overall, the balance of payments is expected to post a deficit of 0.7 percent of GDP, compared with earlier projections of a surplus of about 0.8 percent of GDP.

17. **To help cover the balance of payments shortfall, the authorities are requesting an augmentation of access by 20 percent of quota (about $26.6 million), to be disbursed upon approval of the third review.** The floor for NIR accrual through end-September will be reduced by a similar amount from the end-March actual (MEFP, Table 1)**.** This is intended to smooth the adjustment process by taking some pressure off the exchange rate for correcting the external imbalance. Gross reserve coverage would remain at 2.4 months' worth of next year's imports of goods and services, still above the target set at the time of program approval. The authorities' request for augmentation, which would bring total access to 110 percent of quota, and upfront disbursement are justified by [7]: the immediacy of the

[7] The original program was approved in an amount of 65 percent of quota (the norm for a second time PRGF user), plus 25 percent of quota to repay previous EPCA purchases with more concessional resources.

balance of payments need; low outstanding use of Fund credit (see Table 7); Haiti's strong track record for repayment; the strength of the program, which includes accompanying policy adjustment in the form of monetary tightening and lesser than planned non-emergency spending; and the strong implementation of the program to date.

D. Other Issues

18. **The authorities have made progress in implementing safeguard assessment recommendations, but improvements are still needed in a number of areas.** Since the last safeguards assessment of the BRH in March 2007, a key accomplishment has been the completion of a qualitative analysis of the main differences between currently used accounting principles and IFRS. This analysis did not reveal major differences and suggests that a gradual adoption of IFRS by the BRH is feasible. Another significant step was the adoption of the Audit Committee Charter in March 2007, followed by its constitution in February 2008. Vulnerabilities remain in the areas of foreign reserves management, the timely conduct of external audits, and timely production of audited financial statements. In light of the proposed augmentation of the program, an update assessment was initiated and conducted at the time of the third review mission. This assessment should be finalized in the coming weeks.

19. **Implementation of the HIPC completion point triggers has so far been mixed; the authorities will need to redouble efforts in order to complete them so that the completion point can be reached in the first half of 2009**. The authorities are hopeful that the completion point can be reached shortly after the one year minimum period of satisfactory PRSP implementation (November 2008), although this will require implementing several other completion point triggers that are currently outstanding (Table 10).

20. **The authorities are requesting an increase in HIPC interim assistance by SDR 33,000 to fully cover their debt service obligations on eligible debt falling due to the Fund in June 2008.** On December 27, 2007, the Board approved interim assistance of SDR 74,000 to cover 52.5 percent of each PRGF-ESF Trust interest obligation falling due in the 12-month period to December 26, 2008. Staff supports the request, in light of the exceptional difficulties caused by the recent external shocks and satisfactory policy performance under the program. With the requested increase, interim HIPC assistance for the current 12-month period would be 5.1 percent of the total assistance committed by the Fund at the HIPC decision point, well below the annual limit of 20 percent. Satisfactory assurances regarding assistance to be provided under the enhanced HIPC Initiative by Haiti's other creditors continue to be in place.

IV. Risks to the Program Strategy

21. **Main short-term risks are renewed social and political upheaval that could hinder program implementation, and further rising inflation.** The program accommodates additional expenditures to ease social pressures from the food crisis, but the government's capacity to deliver needed support could be insufficient to achieve immediate

results on the ground. On the political front, there is a risk that the process to appoint a new PM will be protracted. This could delay the implementation of structural reforms and the presentation of a budget for FY2009, because the mandate of the outgoing caretaker government is limited.[8] Also, the needed focus on dealing with the immediate crisis could stretch the authorities beyond their capacity, and prevent them from making sufficient headway in implementing structural reforms, the PRSP, and other HIPC triggers. Despite the tightening of monetary policy, food and fuel inflation could still ignite broader inflationary pressures. In this case, and or if donor support turns out to be less forthcoming than programmed, additional adjustment may be necessary in the final program year. Finally, natural disasters remain a threat, both to the inflation and growth outlook.

V. Staff Appraisal

22. **Program implementation has been satisfactory, despite large external shocks and their aftermath.** The authorities have continued implementing coherent macroeconomic and structural policies, notwithstanding the impact of hurricanes and flooding, sharply higher international commodity prices, and protests against the high cost of living. Most quantitative and structural performance criteria for the end-March test date were met, and progress has also been made in some areas of reform that are not directly covered by the program, most notably operational restructuring of the Port Authority and TELECO.

23. **Staff supports the authorities' response to the shocks.** The revised PRGF-supported program strikes a reasonable balance between adjustment and financing. It enables the government to implement crisis response measures, as well as continuing implementation of the PRSP, while at the same time maintaining macroeconomic stability. Looking ahead, it will be important to prepare the transition from the rice subsidy, implemented as a short-term measure to lessen the impact of the commodity price shock, toward more narrowly targeted social assistance programs.

24. **Budget implementation during the remainder of FY2008 will have to be managed with caution to avoid recourse to central bank financing.** The fiscal program has less margin than in previous years. The authorities have substantially increased their spending capacity, which is welcome. However, together with the need for additional outlays to address the food emergency and risks that budgeted revenue targets may not be fully realized, this creates the need to control and prioritize expenditures carefully. Diligent implementation of donor conditionalities will also be important, both to avoid unexpected shortfalls in budget support and to help mobilize additional resources that are still needed to fully finance the program.

25. **Containing inflationary pressure in the face of the adverse commodity price shock will be challenging and should be the central focus of monetary policy.** The

[8] For example, the caretaker government cannot present new legal initiatives to parliament.

program includes further tightening of the base money supply to limit the spill-over of commodity price increases and the weaker exchange rate into core inflation. Staff welcomes the broadening of participation in the BRH bond auctions, an important step in the process to consolidate over time a fully competitive auction process. Supporting monetary operations with a clear communication strategy will also be important to help guide inflation expectations. This will require explaining the exogenous nature of the price shock, the central bank's efforts to contain core inflation, and the authorities' expectation that inflation should abate relatively quickly once the impact of the commodity price shock has fed through.

26. **The focus on managing the macroeconomic and social impact of recent shocks should not weaken the implementation of medium term policies needed to stimulate growth and employment, and obtain debt relief.** Satisfactory implementation of the PRSP and implementation of other HIPC triggers will be key for reaching an early completion point. Their implementation is also more fundamentally important for increasing public sector spending on needed infrastructure and social services, and cultivating potential areas for growth and job creation. Overcoming remaining bottlenecks for private sector activity will be particularly important to reap the potential benefits that expanded U.S. trade preferences could provide for textile exports. Moreover, it is crucial that Parliament pass already submitted reform legislation in the economic area, including the new banking law and the new customs code.

27. **Risks to the program have risen.** Rising food and fuel prices are stressing Haiti's fragile political and social situation. Further commodity price increases could lead to renewed unrest, especially if there is no effective relief to the most affected population. This in turn would erode confidence and undermine economic activity. Protracted negotiations on a new PM could lead to an unsettled political situation that may not allow much progress on structural reforms and could jeopardize continued financial support from donors. Also, transitioning in due course from subsidizing rice prices to more targeted social support will be key to avoid overstressing the budget.

28. **Despite heightened risks, staff believes that the program remains manageable and therefore supports completion of the review, the requested augmentation, and granting the requested program waivers.** The authorities remain firmly committed to the program and its macroeconomic and structural objectives. While program risks have risen, a proactive commitment to stay engaged with Haiti through this difficult period is important to help the country adjust to the external shocks and safeguard stability gains. Performance to date under the program has been strong, and from the perspective of near-term continuation of the PRGF-supported program and the challenge of maintaining macroeconomic stability in the coming months, the authorities—under the leadership of President Preval—have a track record of delivering on their commitments.

Table 1. Haiti: Indicative Targets and Quantitative Performance Criteria, FY 2008

	Actual stock at end-	Cumulative Flows since September 2007									
		Dec-07				Mar-08				Jun-08	Sep-08
	Sep-07	Indicative target	Prog. with adjustor 3/	Actual	Deviation from prog w/adjustor	Test date	Prog. with adjustor 3/	Actual	Deviation from prog w/adjustor	Indicative target	Test date
Performance criteria											
Net central bank credit to the NFPS (in millions of gourdes)	20,041	522	522	340	-182	293	720	2	-718	576	150
Central Government	20,487	522	522	333	-189	293	720	-68	-787	426	0
Rest of NFPS 1/	-445	0	0	7	7	0	0	69	69	150	150
Net domestic banking sector credit to the central government	19,566	522	522	264	-258	293	720	-139	-858	426	0
Net domestic assets of the central bank (in millions of gourdes) - ceiling 2/	15,602	690	690	-194	-884	1,290	1,717	1,431	-286	1,307	2,527
Domestic arrears accumulation of the central government 3/	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 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
Over one-year maturity	0	0	0	0	0	0	0	0	0	0	0
Net international reserves of central bank (in millions of U.S. dollars) - floor 4/	259	10	10	49	39	20	8	10	2	0	-14
External arrears accumulation (in millions of U.S. dollars) 3/	0	0	0	0	0	0	0	0	0	0	0
Indicative target:											
Change in base money	24,930	1,050	1,050	1,577	527	2,010	2,010	1,789	-221	1,307	1,979
Memorandum items:											
Change in currency in circulation	11,570	1,150	1,150	2,064	914	1,750	1,750	1,002	-748	377	960
Net domestic banking sector credit to the rest of the of the non-financial public sector	-715	90	90	48	-42	190	190	-251	-441	-90	0
Government total revenue, excl. grants (in millions of gourdes)	…	7,645	7,645	6,557	-1,087	15,291	15,291	13,820	-1,471	20,851	28,146
Government total expenditure, excl. ext-fin investment (in millions of gourdes)	…	9,071	9,071	7,756	-1,314	17,179	17,179	14,820	-2,359	24,026	32,639

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

1/ Includes non-budgeted autonomous organizations, local governments, and public enterprises.
2/ For program monitoring purposes, NDA is defined as monetary base minus Program NIR in gourde terms. Program exchange rate of G36/$ through end-March, and of G38/$ through end-September.
3/ On a continuous basis.
4/ Excludes letters of credit and guarantee, and earmarked projects.

Table 2. Structural Performance Criteria and Benchmarks for Third and Fourth Program Reviews

Measures	Date (Month-end)	Status
1. Structural performance criteria		
• Strengthen programming units of key line ministries	March 2008	Partially met. Waiver proposed.
• Limit current account spending to no more than 10 percent of non-wage current expenditure	Quarterly	Met
• Prepare a plan to recapitalize the central bank	March 2008	Submitted with delay. Waiver proposed. To be reset for September 2008.
• Adopt a strategy for discontinuing BRH involvement with TELECO	March 2008	Met
• Extend participation in bond auction to non-bank financial institutions	March 2008	Met
• Complete independent assessment of an additional systemically important bank	September 2008	
2. Structural benchmarks		
• Establish and begin implementation of a plan for the DGI to collect delinquent taxes	March 2008	Met
• Deploy fiscal accountants and financial comptrollers to key line ministries	March 2008	Met
• Establish three new customs control posts on major roads	September 2008	
• Develop and implement modules on the investment program for the public financial management system SYSDEP	September 2008	
• Develop and begin implementation of a plan to improve systemic liquidity forecasting	September 2008	
• Initiate regular central bank reporting on monetary policy goals and implementation	September 2008	
• Improve regulatory framework and supervision of credit unions	September 2008	
• Submit a new organic law for the DGI to Parliament	September 2008	

Table 3. Haiti: Selected Economic and Financial Indicators

(Fiscal year ending September 30)

Nominal GDP (2007): US$ 6.0 billion
Population (2006): 9.1 million
Share of pop. living with less than $1 a day (2003): 54 percent

GDP per capita (2007): US$ 660
Adult literacy (2005): 53 percent
Unemployment rate (2003): 27 percent

	2006	2007	2008		2009
		Prel.	Prog. EBS/08/117	Revised Prog.	Proj.
(change over previous year unless otherwise stated)					
National income and prices					
GDP at constant prices	2.3	3.2	3.7	2.5	4.0
GDP deflator	16.6	9.0	9.7	14.5	11.5
Consumer prices (period average)	14.2	9.0	9.7	14.5	11.5
Consumer prices (end-of-period)	12.4	7.9	9.0	16.0	9.5
External sector					
Exports (f.o.b.)	7.7	5.6	16.5	-6.0	19.9
Imports (f.o.b.)	18.3	4.5	16.2	24.3	3.1
Real effective exchange rate (+ appreciation)	10.5	14.9	...	...	...
Central government					
Total revenue and grants 1/	22.8	26.0	27.0	29.9	1.4
Total revenue excl. grants	23.7	15.4	33.4	21.3	20.0
Current expenditure	12.4	-0.1	33.3	54.5	14.7
Total expenditure	24.4	16.3	30.1	44.4	10.1
Money and credit					
Credit to the nonfinancial public sector (net)	-4.9	-6.9	0.0	0.0	0.0
Credit to private sector	5.5	10.8	13.2	12.3	12.6
Base money	5.5	7.6	9.6	7.9	10.3
Broad money (incl. foreign currency deposits)	10.0	4.8	10.8	10.6	8.7
(percent of GDP, unless otherwise stated)					
Central government					
Overall balance 1/	-0.9	0.2	-1.0	-1.6	-2.8
Overall balance (excl. grants)	-4.4	-4.7	-5.9	-7.8	-6.5
Overall balance (excl. grants and externally-financed projects)	-0.1	0.6	-1.1	-1.7	-1.6
Overall balance (excl. ext.-financed projects and project grants)	0.5	1.5	0.2	0.0	-1.6
Central bank net credit to the central government	-0.2	-0.4	0.0	0.0	0.0
Savings and investment					
Gross investment	28.9	28.3	29.6	27.7	28.4
Gross national savings	27.4	27.2	28.3	24.7	25.5
Of which: Central government savings	1.5	3.1	3.0	1.7	0.4
External current account balance (incl. official grants)	-1.4	-1.1	-1.3	-3.0	-2.9
External current account balance (excl. official grants)	-9.3	-7.6	-7.5	-10.0	-7.9
External public debt (end-of-period)	29.7	25.6	23.0	23.6	23.3
Total public debt (end-of-period) 2/	33.5	29.4	26.9	27.0	25.7
External public debt service (in percent of exports of goods and nonfactor services) 3/	7.5	8.9	8.4	9.4	7.8
(millions of US$, unless otherwise stated)					
Overall balance of payments	79.1	163.4	57.8	-49.9	-140.2
Net international reserves (program) 4/	92.7	259.1	299.0	244.7	284.7
Liquid gross reserves 5/	337.1	544.7	644.1	578.1	628.8
In months of imports of the following year	1.7	2.3	2.7	2.4	2.5
Exchange rate (gourdes per dollar, end-of-period)	39.1	36.4	...	...	...
Nominal GDP (millions of gourdes)	200,456	225,560	256,594	264,722	306,972
Nominal GDP (millions of dollars)	4,836	6,031	7,128	6,966	7,382

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. EBS/08/117	Revised Prog.	Proj.
Total revenue and grants	27,123	34,165	43,325	44,386	45,003
Domestic revenue	20,110	23,197	30,935	28,146	33,775
Domestic taxes	12,878	15,740	20,422	18,788	22,546
Customs duties	6,099	6,828	9,260	8,622	10,346
Other current revenue	1,133	629	1,254	736	883
Grants	7,013	10,968	12,390	16,240	11,228
Budget support 1/	1,248	2,171	3,448	4,600	...
Project grants	5,765	8,797	8,942	11,640	11,228
Total expenditure 2/	28,995	33,714	45,970	48,695	53,595
Current expenditure	18,347	18,329	26,564	28,325	32,491
Wages and salaries	6,470	8,087	12,617	12,566	15,074
Net Operations 2/	4,699	2,493	7,515	8,022	8,446
Operations	4,505	6,322	7,515	6,754	8,446
Interest payments	1,625	2,420	825	1,141	1,630
Transfers and subsidies	5,553	5,330	5,607	6,596	7,341
o/w Rice subsidy	...	...	...	1,140	...
o/w Other emergency programs	...	...	...	0	...
Capital expenditure	10,648	15,385	19,406	20,370	21,103
Domestically financed	1,940	3,546	7,219	4,314	6,222
Foreign-financed	8,708	11,839	12,188	16,056	14,881
Overall balance	-1,872	451	-2,645	-4,309	-8,592
Excl. grants	-8,885	-10,517	-15,035	-20,549	-19,819
Excl. grants and externally financed projects	-178	1,321	-2,847	-4,492	-4,938
Excl. project grants and ext. financed projects	1,071	3,492	601	107	-4,938
Financing	1,872	-451	2,645	4,309	2,671
External net financing	2,578	-106	2,235	3,743	1,723
Loans (net)	2,193	1,620	2,235	3,363	1,723
Disbursements	3,719	3,406	3,965	5,156	3,654
Budget support	776	364	720	739	0
o/w Petrocaribe	...	...	...	...	...
Project loans	2,943	3,042	3,245	4,416	3,654
Amortization	-1,526	-1,786	-1,731	-1,793	-1,931
External financing to be comitted	...	...	...	380	0
Arrears (net) 3/	385	-1,726	0	0	0
Internal net financing	-706	-1,264	-250	-335	0
Banking system	-634	-1,264	0	0	0
BRH	-344	-949	0	0	0
Commercial banks	-290	-315	0	0	0
Other nonbank financing	-120	0	-250	-335	0
Arrears (net)	48	0	0	0	0
Prospective rescheduling 4/	0	134	129	158	328
HIPC 5/	0	785	531	743	620
Unidentified financing (in U.S. dollars)	0	0	0	0	142.4

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. EBS/08/117	Revised Prog.	Proj.
Total revenue and grants	**13.5**	**15.1**	**16.9**	**16.8**	**14.7**
Total revenue	10.0	10.3	12.1	10.6	11.0
Domestic taxes	6.4	7.0	8.0	7.1	7.3
Customs duties	3.0	3.0	3.6	3.3	3.4
Other current revenue	0.6	0.3	0.5	0.3	0.3
Grants	3.5	4.9	4.8	6.1	3.7
Budget support 2/	0.6	1.0	1.3	1.7	...
Project grants	2.9	3.9	3.5	4.4	3.7
Total expenditure 3/	**14.5**	**14.9**	**17.9**	**18.4**	**17.5**
Current expenditure	9.2	8.1	10.4	10.7	10.6
Wages and salaries	3.2	3.6	4.9	4.7	4.9
Net Operations 4/	2.3	1.1	2.9	3.0	2.8
Operations	2.2	2.8	2.9	2.6	2.8
Interest payments	0.8	1.1	0.3	0.4	0.5
Transfers and subsidies	2.8	2.4	2.2	2.5	2.4
o/w Rice subsidy	...	...	...	0.4	...
o/w Other emergency programs	...	...	...	0.0	...
Capital expenditure	5.3	6.8	7.6	7.7	6.9
Domestically financed	1.0	1.6	2.8	1.6	2.0
Foreign-financed	4.3	5.2	4.7	6.1	4.8
Overall balance	**-0.9**	**0.2**	**-1.0**	**-1.6**	**-2.8**
Excl. grants	-4.4	-4.7	-5.9	-7.8	-6.5
Excl. grants and externally financed projects	-0.1	0.6	-1.1	-1.7	-1.6
Excl. project grants and ext. financed projects	0.5	1.5	0.2	0.0	-1.6
Financing	**0.9**	**-0.2**	**1.0**	**1.6**	**0.9**
External net financing	1.3	0.0	0.9	1.4	0.6
Loans (net)	1.1	0.7	0.9	1.3	0.6
Disbursements	1.9	1.5	1.5	1.9	1.2
Budget support	0.4	0.2	0.3	0.3	0.0
o/w Petrocaribe	...	...	...	...	...
Project loans	1.5	1.3	1.3	1.7	1.2
Amortization	-0.8	-0.8	-0.7	-0.7	-0.6
External financing to be comitted	...	...	...	0.1	...
Arrears (net) 5/	0.2	-0.8	0.0	0.0	0.0
Internal net financing	-0.4	-0.6	-0.1	-0.1	0.0
Banking system	-0.3	-0.6	0.0	0.0	0.0
BRH	-0.2	-0.4	0.0	0.0	0.0
Commercial banks	-0.1	-0.1	0.0	0.0	0.0
Other nonbank financing	-0.1	0.0	-0.1	-0.1	0.0
Arrears (net)	0.0	0.0	0.0	0.0	0.0
Prospective rescheduling 6/	0.0	0.1	0.1	0.1	0.1
HIPC 7/	0.0	0.3	0.2	0.3	0.2
Unidentified financing	**0.0**	**0.0**	**0.0**	**0.0**	1.9

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
		Prel.	Prog.	Prog.	Proj.
I. Central Bank					
Net foreign assets	10,893	16,849	19,411	18,000	21,066
(In millions of U.S. dollars)	279	463	539	474	507
Net international reserves (program) 1/	93	259	299	245	285
Commercial bank forex deposits	158	181	217	206	199
Net domestic assets	12,279	8,081	7,912	8,909	8,618
Credit to the nonfinancial public sector	21,002	19,905	19,905	20,041	20,041
of which: Credit to the central government	21,436	20,487	20,214	20,487	20,487
Liabilities to commercial banks (excl gourde deposits)	-13,986	-15,596	-18,064	-17,204	-15,762
BRH bonds	-7,809	-9,013	-10,252	-9,384	-7,500
Counterpart of commercial bank forex deposits	-6,177	-6,583	-7,812	-7,820	-8,262
Other	5,262	3,771	6,071	6,071	4,339
Base Money	23,172	24,930	27,323	26,909	29,684
Currency in circulation	11,159	11,570	12,797	12,531	13,933
Commercial bank gourde deposits	12,013	13,359	14,526	14,378	15,752
II. Consolidated Banking System					
Net foreign assets	23,617	28,106	30,176	30,540	35,956
(In millions of U.S. dollars)	604	773	838	804	865
Of which: Commercial banks NFA	326	309	299	330	358
Net domestic assets	51,474	50,557	57,034	56,469	58,594
Credit to the nonfinancial public sector	20,248	18,852	18,715	18,852	18,852
Credit to the private sector	27,019	29,946	33,924	33,639	37,862
In gourdes	12,920	13,284	15,130	14,458	15,928
In foreign currency	14,099	16,663	18,794	19,181	21,934
In millions of U.S. dollars	360	458	522	505	527
Other	4,207	1,760	4,394	3,979	1,880
Broad money	75,091	78,664	87,210	87,009	94,550
Currency in circulation	11,159	11,570	12,797	12,531	13,933
Gourde deposits	31,533	32,974	36,646	35,940	39,899
Foreign currency deposits	32,399	34,120	37,767	38,539	40,718
In millions of U.S. dollars	828	938	1,049	1,014	979
(12-month percentage change)					
Currency in circulation	5.8	3.7	10.6	8.3	11.2
Base money	5.5	7.6	9.6	7.9	10.3
Gourde money (M2)	9.9	4.3	11.0	8.8	11.1
Broad money (M3)	10.0	4.8	10.8	10.6	8.7
Gourde deposits	11.5	4.6	11.1	9.0	11.0
Foreign currency deposits	10.0	5.3	10.6	13.0	5.7
Credit to the nonfinancial public sector	-4.9	-6.9	0.0	0.0	0.0
Credit to the private sector	5.5	10.8	13.2	12.3	12.6
Credit in gourdes	-0.6	2.8	13.1	8.8	10.2
Credit in foreign currency	11.8	18.2	13.2	15.1	14.4
Memorandum items:					
Foreign currency bank deposits (percent of total)	50.7	50.9	50.8	51.7	50.5
Foreign curr. credit to priv. sector (percent of total)	52.2	55.6	55.4	57.0	57.9

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
		Prel.	Prog.	Prog.	Proj.
			EBS/08/117		
Current account	**-69.0**	**-68.7**	**-93.4**	**-208.5**	**-213.9**
Current account (excluding grants)	**-449.0**	**-459.7**	**-537.6**	**-696.2**	**-582.9**
Trade balance	-1,053.8	-1,096.1	-1,267.6	-1,519.7	-1,484.6
Exports of goods	494.4	522.0	608.1	490.9	588.8
of which: Assembly industry	435.0	462.6	546.2	430.7	525.7
Imports of goods	-1,548.3	-1,618.1	-1,875.7	-2,010.6	-2,073.4
of which: Petroleum products	-397.1	-415.0	-557.2	-655.8	-702.3
Services (net)	-384.3	-496.6	-490.5	-552.2	-542.5
Receipts	203.3	206.7	244.7	227.7	246.7
Payments	-587.6	-703.2	-735.2	-779.9	-789.2
Income (net)	1.8	7.3	-12.7	14.4	8.4
of which: Interest payments	-16.9	-19.6	-23.4	-19.7	-18.7
Current transfers (net)	1,367.4	1,516.6	1,677.4	1,849.1	1,804.9
Official transfers (net)	380.0	390.9	444.1	487.7	369.0
Private transfers (net)	987.4	1,125.7	1,233.3	1,361.3	1,435.9
Capital and financial accounts	**148.0**	**232.1**	**151.2**	**158.5**	**73.7**
Public sector capital flows (net)	49.3	46.1	62.1	152.6	41.4
Loan disbursements	84.5	91.6	110.2	200.7	87.9
Amortization	-35.3	-45.5	-48.1	-48.1	-46.4
Banks (net) 1/	-80.2	16.2	11.7	-20.6	-28.1
Private sector capital flows	163.0	73.0	77.4	26.4	60.4
of which: Foreign direct investment	160.0	74.5	71.3	26.4	60.4
Errors and omissions 2/	16.0	96.9	0.0	0.0	0.0
Overall balance	**79.1**	**163.4**	**57.8**	**-49.9**	**-140.2**
Financing	**-79.1**	**-163.4**	**-57.8**	**49.9**	**-2.2**
Change in net foreign assets 3/	-87.6	-184.3	-76.1	-10.6	-32.9
Change in gross reserves	-109.3	-207.9	-99.4	-33.4	-50.6
Liabilities	21.6	23.5	23.4	22.9	17.8
Utilization of Fund credits(net)	10.3	20.9	23.4	22.9	22.9
Purchases and loans	14.8	54.6	23.4	22.9	22.9
Repayments	-4.5	-33.6	0.0	0.0	0.0
Other liabilities	11.3	2.6	0.0	0.0	-5.2
Change in arrears	8.6	-45.0	0.0	0.0	0.0
Debt rescheduling 4/	0.0	37.9	8.0	4.2	7.9
Debt relief (incl. HIPC interim asst.)	0.0	28.1	10.3	19.7	22.8
External financing to be committed	0.0	0.0	0.0	10.0	0.0
Prospective PRGF augmentation	0.0	0.0	0.0	26.6	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**142.4**
Memorandum items:					
Current account balance (in percent of GDP)	-1.4	-1.1	-1.3	-3.0	-2.9
Current account balance, excl. grants (in percent of GDP)	-9.3	-7.6	-7.5	-10.0	-7.9
Goods exports (f.o.b) growth	7.7	5.6	16.5	-6.0	19.9
Goods import (f.o.b) growth	18.3	4.5	16.2	24.3	3.1
External debt as percent of exports	206.1	211.5	186.2	228.5	206.1
Debt service as percent of exports	7.5	8.9	8.4	9.4	7.8
Gross liquid international reserves (in millions of USD)	337.1	544.7	644.1	578.1	628.8
Gross liquid international reserves (in months of next year's imports of goods and services)	1.7	2.3	2.7	2.4	2.5

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

1/ Excludes commercial banks' foreign currency deposits with the BRH.

2/ Includes short-term capital and errors and omissions for historical period.

3/ Includes NIR and commercial banks' foreign currency deposits with the BRH.

4/ As per Dec. 2006 Paris Club agreement, rescheduling of arrears and debt service to bilateral creditors during PRGF arrangement.

Table 7: Haiti Indicators of Capacity to Repay the Fund, 2007-2013

(In fiscal year ending September 30)

		Projections					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Fund obligations based on existing credit							
(in millions of SDRs)							
Principal	1.52	0.00	0.00	0.00	0.00	5.62	7.90
Charges and interest	0.13	0.48	0.45	0.45	0.45	0.45	0.43
Fund obligations based on existing and prospective credit 1/							
(in millions of SDRs)							
Principal	1.52	0.00	0.00	0.00	0.00	5.62	10.30
Charges and interest	0.13	0.54	0.63	0.68	0.68	0.68	0.66
Total obligations based on existing and prospective credit 1/							
In millions of SDRs	1.64	0.54	0.63	0.68	0.68	6.30	10.96
In millions of U.S. dollars	2.52	0.81	0.96	1.04	1.04	9.67	16.91
In percent of exports of goods and services	0.35	0.11	0.11	0.11	0.11	0.92	1.49
In percent of debt service 2/	2.77	1.15	1.68	1.56	1.58	12.36	24.30
In percent of quota	3.07	0.99	1.17	1.27	1.27	11.81	20.65
In percent of gross international reserves	0.28	0.09	0.09	0.09	0.08	0.68	1.12
Outstanding Fund credit							
In millions of SDRs	35.7	67.3	82.5	90.1	90.1	84.5	74.2
In millions of U.S. dollars	54.6	101.2	124.5	136.6	137.4	129.5	114.4
In percent of exports of goods and services	4.9	9.4	9.9	9.9	9.2	8.0	6.5
In percent of debt service 2/	39.2	94.9	144.9	135.6	136.1	108.0	106.6
In percent of quota	43.6	82.1	100.7	110.0	110.0	103.1	90.5
In percent of gross international reserves	6.0	10.7	12.1	11.6	10.4	9.1	7.6
Memorandum items:							
Exports of goods and services (millions of U.S. dollars)	728.6	718.6	835.5	909.5	979.1	1052.7	1136.0
Debt service (millions of U.S. dollars) 2/	91.0	70.9	56.9	66.4	66.2	78.2	69.6
Quota (millions of SDRs)	81.9	81.9	81.9	81.9	81.9	81.9	81.9
Gross international reserves (millions of U.S. dollars)	595.9	629.3	679.9	776.8	864.7	924.5	979.7
GDP (millions of U.S. dollars)	6031.0	6966.4	7381.9	7822.8	8288.8	8783.8	9309.5

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

1/ Assumes augmentation of SDR 16.38 million is disbursed in July 2008; excluding EPCA repurchase with PRGF resources in FY07.
2/ Net of interim HIPC assistance, including proposed increase in assistance of SDR 33,000.

Table 8. 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	23.6	23.3
Total external public debt (in percent of exports 2/)	206.1	211.5	228.5	206.1
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	0.3
External debt service (in percent of exports 2/)	7.5	8.9	9.4	7.8
Amortization	5.1	6.3	6.7	5.6
Interest	2.4	2.7	2.7	2.2
External debt service (in percent of current central govt. revenues)	10.1	10.2	9.1	8.0
Amortization	6.9	7.1	6.5	5.7
Interest	3.3	3.1	2.7	2.3
Other indicators				
Exports (percent change, 12-month basis in U.S. dollars)	7.7	5.6	-6.0	19.9
Imports (percent change, 12-month basis in U.S. dollars)	18.3	4.5	24.3	3.1
Remittances and grants in percent of gross disposable income	22.0	20.1	20.9	19.6
Real effective exchange rate appreciation (+) (end of period)	10.5	14.9	...	...
Exchange rate (per U.S. dollar, period average)	41.4	37.4	...	...
Current account balance (US$ million) 3/	-69.0	-68.7	-208.5	-213.9
Capital and financial account balance (US$ million) 4/	148.0	232.1	158.5	73.7
Public sector	49.3	46.1	152.6	41.4
Private sector	98.8	186.0	5.9	32.3
Liquid gross reserves (US$ million)	337.1	544.7	578.1	628.8
In months of imports of the following year 2/	1.7	2.3	2.4	2.5
In percent of debt service due in the following year	517	804	888	907
In percent of base money	56.9	79.5	81.6	88.1

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 9. 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 23,980,000	June 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 10: Status of HIPC Completion Point Triggers

Completion point trigger	State of play	Expected fulfillment
PRSP	Submitted November 2007; implementation underway.	First half of 2009.
Macroeconomic stability	Performance under PRGF-supported program strong through 3rd review.	
PFM and Governance		
a. Tracking poverty-reducing spending and publishing quarterly reports at least 6 months prior to CP.	Poverty-reducing spending being tracked based on existing classifications. Quarterly reports completed, simply to be published.	Realized.
b. Align public spending priorities with PRSP.	FY08 budget is aligned partly, FY09 budget will align further.	Together with FY09 budget, end-Sept 2008.
c. Submit government account audits to the Court of Accounts and to parliament, in conformity with legally mandated calendar.	Audit was submitted to Court well in advance of end-June deadline. Once Court issues opinion, the audit and opinion will be submitted to Parliament.	Together with FY09 budget, end-Sept 2008.
d. Adopt and implement a new law for public procurement, in line with international best practice. Audits for all contracts over US$1 m and random audits of other contracts for six months prior to the CP.	The draft procurement law is finished, can be submitted once a new PM is approved. Auditing process already underway in advance of passage of new law.	Once law is submitted, it will take about 3 months to be passed by Parliament, and another 8 months to do audits.
e. Adoption of a law on asset declaration and submission of one annual compliance report on monitoring of asset declarations covering the preceding year.	Law was passed by the parliament. The report will be submitted to the Court of Accounts and Parliament next year.	Mostly realized; the submission of report is straightforward.
Structural Reforms		
a. Reinforcing and establishing customs control in Cap Haitien, Gonaives, St. Marc, Miragoane, Malpasse, Ouanaminthe and Belladere, including by installing ASYCUDA.	Underway: installation of SYDONIA World will be finished shortly in Port-au-Prince, and thereafter to provinces. Still some technical problems with enough computers and working the software.	Unclear.
b. Extending use of central taxpayer file to all taxpayers in PaP and registering all the taxpayers identified in the tax centers of Cayes, Miragoane, St. Marc, Port de Paix, Cap Haitien, and Fort Liberte.	The central taxpayer file is being used for all taxes throughout Port-au-Prince and has had a large impact on tax revenues. Already being used for four largest taxes in the provinces.	Realized.
Education		
a. Public financing mechanism to get 50,000 children into primary school, verified by independent audit.	Program is underway and more than 35,000 children already benefiting. The process for an independent audit underway.	Authorities estimate that 50,000 children will be in the program by end-Sept 2008.
b. Spending for education reaches at least 21% of actual total recurrent spending, of which 50% on primary education over the year prior to CP and training of 2,500 new teachers and two visits per year of all primary schools by inspectors.	Spending for education is at 19.4% and 51% is already spent on primary education. 2750 teachers will be in training by September, 2008. The number of inspectors has been doubled, and achievement of goal of two visits per school on average is underway.	Probably achievable by end of 2008, with support of World Bank fast track initiative.
Health		
a. Increase by 10 % points immunization rates for DPT3, BCG and measles.	Starting point was 54% coverage, and has been increased by more than 10 points. 98% coverage for measles.	Realized.
b. Approval by Government of National Policy, Strategic Plan and Scale Up Operational Plan for HIV/AIDS prevention and treatment.	PM approved the Strategic Plan and an integrated operational plan.	Realized.
Debt management		
a. Centralize all info on public external and domestic foreign currency denominated debt in a single database.	UNCTAD is helping MEF implement SYGADE software for centralized database, but contract has only just been signed.	Summer-Fall 2008.
b. Publication of two quarterly reports on external debt data prior to CP.	Once centralized database has been established, can generate reports.	6 months after establishment of database.

ATTACHMENT I. HAITI: LETTER OF INTENT

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 20431
U.S.A.

Port-au-Prince
June 9, 2008

Dear Mr. Strauss-Kahn:

The purpose of this letter is to inform you on the progress made under the 3-year Poverty Reduction and Growth Facility (PRGF) arrangement approved by the IMF's Executive Board in November 2006, and to request the fourth disbursement under the arrangement in the amount of SDR 7.6 million, following the completion of the third review. In light of the severe external shock that Haiti has recently experienced, we are requesting an augmentation of access under the arrangement by SDR 16.38 million, also to be made available following the completion of the third review. We also request an increase in HIPC interim assistance by SDR 33,000 to fully cover interest obligations on eligible debt falling due to the Fund in June 2008.

The attached Supplementary Memorandum of Economic and Financial Policies (MEFP) reviews the progress under the PRGF-supported program, and updates the government's polices and objectives for the period through the end of the current fiscal year in September 2008.

Over the past years, Haiti has implemented macroeconomic policies that have contributed to stabilizing the economy, and the country has made significant strides in strengthening security. We are working to build on these gains and bring about strong and sustained economic growth that can substantially improve the living conditions of our population and reduce poverty in our country. However, as a large net importer of food and fuel, Haiti has been severely hit by rising commodity prices, and the agricultural sector has suffered from the impact of hurricanes and flooding. Despite these unexpected shocks, the government remains committed to preserve the stabilization gains achieved so far, as President Préval has expressed on several occasions in the past months. We are responding to the difficult situation with policies that balance adjustment and financing and safeguard macroeconomic stability. In particular, our program provides room for additional emergency spending to support the most vulnerable population from the effects of higher food and fuel prices, while ensuring that these expenditures are financed in an orderly way. The requested augmentation of access will help smooth the large balance of payments pressures created by the sharp rise in our import bill.

Most quantitative and structural performance criteria for the third review under the PRGF-supported program were observed. The Government requests a waiver for the nonobservance of the end-March quantitative performance criterion on central bank financing to the non-financial public sector, which was missed by small margin, as well as waivers for nonobservance of the structural performance criteria on the preparation of a central bank recapitalization plan and the strengthening of programming units in line ministries. A first draft of the recapitalization plan was submitted to staff a few days after the end-March test date, and we intend to strengthen it in coming months, relying upon technical assistance from the IMF. Finalization and approval by the Ministry of Economy and Finance and the BRH of a the strengthened recapitalization plan will therefore be added as a structural performance criterion for end-September. Regarding the strengthening of programming units in spending ministries, we have found it difficult to identify and hire local experts with the required qualifications. So far, nine experts have been hired and placed in three key ministries, and three more candidates are under evaluation. We remain committed to continue filling the remaining vacancies in coming months. At the same time, expenditure execution has been improved significantly through complementary measures.

The Government is committed to implement the Poverty Reduction Strategy Paper (PRSP) that was developed in consultation with the civil society and development partners and submitted to the World Bank and the IMF in November 2007. Our existing budget already covers some of the spending priorities set forth in the PRSP, and we are working with donors to reorient existing projects and focus new projects in line with our PRSP objectives. We are also working on the implementation of HIPC triggers to achieve the completion point as early as possible.

The Government believes that the policies set forth in the attached 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 Fund 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 third review under the PRGF.

Sincerely yours,

/s/	/s/
Daniel Dorsainvil	Charles Castel
Minister of Economy and Finance	Governor
Haiti	Bank of the Republic of Haiti

Attachments

ATTACHMENT II. HAITI: SUPPLEMENTAL MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES

1. During the first half of FY 2008 (October–March), Haiti made further progress in implementing its economic and social program. However, the country also had to deal with a severe shock arising from an unexpected increase in world commodity prices and the impact of hurricanes and flooding on the agricultural sector. Despite these shocks, we have been able to comply for most part with our commitments under the PRGF-supported program. While substantial challenges still lie ahead and will require a concerted effort by the government and our development partners, we remain confident that Haiti will be able to generate sustainable growth and development that will be conducive to poverty reduction and bring lasting improvements in the living conditions of our population.

2. This Memorandum of Economic and Financial Policies (MEFP) supplements that of January 2008. It describes additional policy commitments and changes to the macroeconomic framework for the second half of FY 2008 (April-September). Unless explicitly noted, our policy commitments from the January 2008 MEFP remain valid.

A. Performance to Date under the Program

3. Performance under the PRGF-supported program during the first half of FY2008 remained strong. Most indicative targets for end-December and quantitative performance criteria (PCs) for end-March were met (Table 1). We are requesting a waiver for exceeding by a small margin the zero ceiling on net financing of the central bank (BRH) to the non-financial public sector. The breach reflected an extraordinary credit of G229 million extended to the public phone company TELECO, which is owned by the central bank (BRH), to cover restructuring costs as the company is being modernized through private sector participation.

4. Further progress was made in implementing our structural reform agenda. All structural benchmarks and three of five structural performance criteria (PC) for end-March were met on time (Table 2). Waivers of nonobservance are being requested for two PCs that were not fully met despite important progress made. A first draft of a plan to recapitalize the central bank (BRH) was submitted to staff for comment, but shortly after the end-March deadline. We will strengthen and finalize this plan in coming months, possibly with additional technical advice from the IMF's Monetary and Capital Markets department, and therefore a new structural PC on adopting a strengthened recapitalization plan for end-September 2008 has been added to the program. Regarding the strengthening of programming units of line ministries, we have found it difficult to identify and hire local experts with the required qualifications. So far, nine experts have been hired and placed in three key ministries (agriculture, education, and health), and three more candidates are under consideration. We remain committed to continue filling the remaining vacancies in coming

months. In the meantime, expenditure execution has been improved through complementary measures, such as strengthening of project evaluation and payment procedures.

5. Haiti has been one of the countries most affected by the world commodity price crisis. Inflation rose to 16.3 percent in March 2008, from 7.9 percent in September 2007, driven exclusively by higher prices for food, fuel, and public transportation. The trade deficit widened by $185 million (2.5% of annual GDP) in the first half of FY2008 compared to the previous year. The current account deficit widened somewhat less, aided by private remittances, which have continued to grow albeit at a lower pace than in the previous year owing to the downturn in the U.S. economy. With demand for foreign currency rising, the gourde reversed its nominal appreciation trend and weakened by about 10 percent against the dollar between September 2007 and March 2008.

B. Objectives for the Remainder of FY2007/08

6. We have adjusted our program to respond to the severe exogenous shocks with policies that strike a balance between adjustment and financing, while safeguarding macroeconomic stability. In conformity with the recently completed PRSP, our medium and long-term objective is to promote agricultural sector development and increase access to basic social services. To achieve this, large scale investment is needed. The revised program protects domestic resources earmarked for investment in infrastructure, public enterprise reform, and other projects essential for growth enhancement and poverty reduction, and builds on additional donor support to finance emergency measures to ease the impact on the most vulnerable population while actions to boost production bear fruit.

Growth and inflation

7. Available indicators provide a mixed picture of economic activity so far in FY2008. For the remainder of the year, the acceleration of government spending should provide a positive stimulus, and remittances will support private consumption. However, recent social and political developments have likely affected private sector confidence, and we therefore expect a temporary slowdown in FDI and domestic investment. Net exports are also projected to be significantly more negative than previously assumed, given sharply higher commodity prices. In light of these considerations, we have revised growth prospects for FY2008 down to 2.5 percent. Inflation is expected to reach 16 percent by end-September 2008. While substantially higher than originally programmed, this rate is ambitious given the high pass-through that international commodity price increases have on Haiti’s inflation because of the very high weight of food, fuel and public transportation in the CPI.

Fiscal

8. Domestic revenues reached G13.8 billion during the first half of FY2008. While this represented a respectable increase of 18 percent from one year ago, the outcome was G1.5 billion below the budget target, despite some progress made in implementing modernization plans for customs and the internal revenue service, in part because economic activity was lower than expected. We remain committed to continue strengthening our capacity to mobilize domestic revenue and to strive for our initial budget target. However, in light of the outcome in the first half of the year and the projected growth slowdown, we are programming revenue more conservatively at G28.1 billion for FY2008, G2.8 billion lower than budgeted.

9. Expenditure execution, a weak point in the past, improved during the first half of FY2008, exceeding revenue growth. Domestically financed capital spending rose almost 140 percent compared to the first half of FY2007 (cash basis), and the wage bill increased by about 50 percent owing to higher wages and new hiring. In addition, a substantial portion of expenditures that were committed in the last month of FY2007 were executed. We expect that spending will continue to accelerate as implementation capacity in line ministries is further strengthened, and we project expenditures (excluding foreign financed projects) to reach G32.6 billion for the entire FY2008.

10. Beyond the original budget, the government has initiated a two-step response to alleviate the hardship caused by higher food and fuel prices and maintain the fragile social peace that has been restored after the protests in early April. The first step involved the implementation of a 6-month subsidy program to stabilize the price of rice beginning in April. Although rice importers have agreed to reduce their profit margin, this program requires additional expenditures of about US$30 million. In addition, the government temporarily suspended the automatic upward adjustment of local petroleum prices to rising world market prices for a period of two months, resulting so far in an implicit subsidy of about US$10 million. We intend to resume the upward adjustment of local petroleum prices gradually with the next two shipments. These subsidies seek to ease the immediate social pressure and buy time, in a second step, for the implementation of more sustainable relief programs, including targeted social assistance programs and measures to boost agricultural output during the fall harvest.

11. The government intends to finance its emergency response with additional support from donors and budget reallocations that reprogram existing spending. A number of bilateral donors have pledged aid in the amount of US$77 million for targeted assistance through projects, including through the World Food Program, and the World Bank and Caricom have committed US$10 million each in additional budget aid for the current fiscal year. In addition, the program includes US$10 million in yet unconfirmed donor support,

which we intend to mobilize before the end of September. The program maintains a zero ceiling on net central bank financing.

12. Haiti has started to receive oil deliveries from Venezuela under the Petrocaribe agreement since March 2008. The agreement will provide Haiti with a substantial amount of concessional trade financing. The Government is committed to use these resources in a sustainable way and ensure fully transparent accounting. We plan to spend resources from Petrocaribe starting in FY2009 primarily on investment to boost the country's productive capacity, taking into account absorptive capacity and the need to maintain a sustainable debt burden. We will record loan amounts received through Petrocaribe as central government debt. Resources (loan proceeds and earned interest) from the Petrocaribe account will be withdrawn only to pay for debt service or transfers to the central government budget.

13. Because of our efforts to address the domestic food emergency and the unsettled political situation, preparation of the FY2008/09 budget has been delayed. However, we are committed to submit the budget to Parliament as quickly as possible. The coming fiscal year will be challenging in light of the significant demand for resources for continued emergency expenditures and PRSP implementation. However, we remain fully committed to avoiding recourse to central bank credit, as has been the case since 2004, to maintain macroeconomic stability in support of continued growth and investment.

Monetary and Financial Sector

14. Monetary policy implementation during the first half of FY2008 remained cautious, with base money rising 10.9 percent y-o-y as of end-March, below the program's indicative target. In addition, interest rates in BRH bond auctions have been increasing by 4 percentage points since mid-March to 8 percent. In recent weeks, we have seen the first participation of non-bank financial institutions in BRH bond auctions. This is an important step in our efforts to encourage broader participation in our bond auctions that may allow over time a move toward a fully competitive process. In light of the inflation shock, we intend to tighten monetary policy somewhat during the second half of FY2008. The indicative target for base money growth for end-September will be reduced from 9.6 percent to 7.9 percent. This should help contain the transmission of higher food and fuel prices to core inflation, and set the stage for a rapid disinflation process once world commodity prices stabilize. The BRH remains committed to maintaining a flexible exchange rate regime, which will allow the economy to adjust the world commodity price shock.

15. The BRH has made further progress in implementing its plan to relinquish involvement in non-essential activities. A strategy for discontinuing BRH involvement in TELECO has been adopted (end-March PC), which provides for divestiture of the BRH stake in the company either through an outright share sale or sale of the company's assets. We are working closely with the International Finance Corporation on moving this process forward,

and a number of actions have been taken, including a reduction in the workforce by two-thirds, to prepare TELECO for its sale. We are hopeful that this process can be completed within the next 18 months.

16. Prudential indicators suggest that the banking sector remains sound. The banking system's aggregate level of capitalization remains well above prudential requirements, even as profits have declined in a number of banks as a consequence of the lower interest paid by the BRH on its bonds (a small loss-making bank is being closely monitored). In addition, the quality of credit has improved somewhat, with non-performing loans reaching 9.6 percent by end-December 2007, down from 10.5 percent a year earlier. However, in light of the more challenging economic environment, the BRH will have to remain vigilant and monitor developments closely to ensure the continued health of the banking system. The assessment of BNC by an independent expert is being finalized, and we envisage to conclude the assessment of a second systemically important bank by end-September.

Program targets

17. Quantitative program targets for the second half of FY2008 have been revised to reflect the impact of the exogenous shocks on the economy. To allow for some smoothing of the balance of payments adjustment, the program now provides for a reduction of NIR of $14 million during FY 2008. To ensure that this will not unduly reduce gross reserves coverage, we are requesting an augmentation of access under the program of 20 percent of quota (about US$ 26.6 million). With somewhat lower indicative base money growth, the revised NIR floor implies an increase in the end-September 2008 ceiling on NDA accumulation to G2,527 million from G953 million. The ceiling on net BRH financing to the central government will remain at zero for end-September 2008. However, to avoid the interruption of essential fiscal programs, in particular emergency measures to address the food crisis, the program continues to allow compensation of shortfalls in budget support from donors up to a limit of US$30 million, through an adjustor.

PRSP, HIPC completion point triggers

18. After completing the PRSP in November 2007, we have begun implementing it. We will protect budgeted spending in PRSP priority areas from reallocations needed to respond to the food crisis. Despite postponing the donor conference in late April, we are working to align already programmed aid with PRSP priorities, through individual consultations with our bilateral and multilateral donors. Implementation of the HIPC triggers is ongoing, and we hope to achieve the completion point as quickly as possible.

Table 1. Haiti: Indicative Targets and Quantitative Performance Criteria, FY 2008

	Actual stock at end-	Cumulative Flows since September 2007									
		Dec-08				Mar-08				Jun-08	Sep-08
	Sep-07	Indicative target	Prog. with adjustor 3/	Actual	Deviation from prog w/adjustor	Test date	Prog. with adjustor 3/	Actual	Deviation from prog w/adjustor	Indicative target	Test date
Performance criteria											
Net central bank credit to the NFPS (in millions of gourdes)	20,041	522	522	340	-182	293	720	2	-718	576	150
Central Government	20,487	522	522	333	-189	293	720	-68	-787	426	0
Rest of NFPS 1/	-445	0	0	7	7	0	0	69	69	150	150
Net domestic banking sector credit to the central government	19,566	522	522	264	-258	293	720	-139	-858	426	0
Net domestic assets of the central bank (in millions of gourdes) - ceiling 2/	15,602	690	690	-194	-884	1,290	1,717	1,431	-286	1,307	2,527
Domestic arrears accumulation of the central government 3/	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 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
Over one-year maturity	0	0	0	0	0	0	0	0	0	0	0
Net international reserves of central bank (in millions of U.S. dollars) - floor 4/	259	10	10	49	39	20	8	10	2	0	-14
External arrears accumulation (in millions of U.S. dollars) 3/	0	0	0	0	0	0	0	0	0	0	0
Indicative target:											
Change in base money	24,930	1,050	1,050	1,577	527	2,010	2,010	1,789	-221	1,307	1,979
Memorandum items:											
Change in currency in circulation	11,570	1,150	1,150	2,064	914	1,750	1,750	1,002	-748	377	960
Net domestic banking sector credit to the rest of the of the non-financial public sector	-715	90	90	48	-42	190	190	-251	-441	-90	0
Government total revenue, excl. grants (in millions of gourdes)	…	7,645	7,645	6,557	-1,087	15,291	15,291	13,820	-1,471	20,851	28,146
Government total expenditure, excl. ext-fin investment (in millions of gourdes)	…	9,071	9,071	7,756	-1,314	17,179	17,179	14,820	-2,359	24,026	32,639

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

1/ Includes non-budgeted autonomous organizations, local governments, and public enterprises.
2/ For program monitoring purposes, NDA is defined as monetary base minus Program NIR in gourde terms. Program exchange rate of G36/$ through end-March, and of G38/$ through end-September.
3/ On a continuous basis.
4/ Excludes letters of credit and guarantee, and earmarked projects.

Table 2: Structural Performance Criteria and Benchmarks for the Fourth Program Review

Measures	Date (Month-end)
1. Structural performance criteria	
• Limit current account spending to no more than 10 percent of non-wage current expenditure	Quarterly
• Finalization and approval of a strengthened plan to recapitalize the central bank	September 2008
• Complete independent assessment of an additional systemically important bank	September 2008
2. Structural benchmarks	
• Establish three new customs control posts on major roads	September 2008
• Develop and implement modules on the investment program for the public financial management system SYSDEP	September 2008
• Develop and begin implementation of a plan to improve systemic liquidity forecasting	September 2008
• Initiate regular central bank reporting on monetary policy goals and implementation	September 2008
• Improve regulatory framework and supervision of credit unions	September 2008
• Submit a new organic law for the DGI to Parliament	September 2008

ATTACHMENT III. HAITI—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 April – 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-September 2008. Targets for end-June 2008 are indicative.

I. DEFINITIONS

C. Net BRH Credit to the Central Government[9]

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.

   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.[10]

   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.

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.

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[9] 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).

[10] 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.

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

D. 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.

E. 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.

F. 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 G38 per U.S. dollar for the period April–September 2008.

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

G. 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.

H. 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.

I. 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.

J. 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.

VI. Quarterly Adjustments

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

A. 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.

B. 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$30 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	54.7	97.0

VII. Clarification of Structural Performance Criteria

A. Public Financial Management

29. 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.

B. Monetary policy and financial sector

30. Finalization and approval by the Ministry of Economy and Finance (MEF) and the BRH of a strengthened recapitalization plan for the central bank, which should include, inter alia, a plan to convert the MEF's outstanding obligations to the BRH into marketable government securities over the medium term, in line with the government's fiscal resources. Implementation of the plan should provide the BRH a sufficiently robust balance sheet to support independent monetary policy implementation.

31. 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.

32. 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.

33. As regards strengthening supervision of credit unions, the BRH should upgrade its prudential regulations and corresponding guidelines on supervisory practices regarding credit unions, and prepare 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.

VIII. Provision of Information

34. 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.

A. Daily

35. *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.

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

B. Weekly

37. *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.

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

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

C. Monthly

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

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

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

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

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

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

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

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

48. Balance of PetroCaribe accounts of the Bureau de Monetization

D. Quarterly

49. Report on poverty-reducing expenditures.

INTERNATIONAL MONETARY FUND

HAITI

Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Augmentation of Access and Waiver of Nonobservance of Performance Criteria, and Request for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries

Informational Annex

Prepared by the Western Hemisphere Department

June 11, 2008

Contents

ANNEX I. FUND RELATIONS
(As of March 31, 2008)

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 safeguards assessment of the Banque de la République d'Haiti (BRH) is in the process of being updated, with recommendations to address remaining vulnerabilities. Some vulnerability remains in the areas of IFRS adoption and implementation, foreign reserves management, the timely conduct of external audits, and timely production of audited financial statements. Priority recommendations from the 2005 assessment were implemented for completion of the first review. Prior to Board consideration of the second program review, a gap analysis comparing BRH accounting and IFRS 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 financial management
	May 2005	Tax policy and revenue administration
	June 2006	Public financial management
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, Government finance statistics, and General Data Dissemination System.
LEG	March 2007	Banking law

XIII. Resident Representative

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

ANNEX II. RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of May 31, 2008)

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 May 2008, the IDB has 23 investment and policy-based operations for a total of US$674.9 million. The undisbursed balance, US$365 million, represents 54 percent of the portfolio total amount, underscoring portfolio implementation as an important 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$114.4 million, exceeding all disbursement target indicators. Revised projections for 2008 amount to US$ 133 million, out of which US$31.5 million have been already disbursed in the form of budgetary support.

3. The IDB finances projects in three key areas: 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$124 million in IDB-administered co-financing, a US$22.5 million active portfolio in non-reimbursable technical cooperation (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. 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).

6. On April 30th, the IDB's Board of Executive Directors approved the US$12.5 million Strengthening Public Resource Management II Policy Based Grant, and authorized the disbursement of US$14.5 million from a previously approved Financial Sector Policy Based Loan, in recognition of Haiti's progress in fiscal and financial sector reforms, as well as to support the Haitian government's efforts to pursue poverty reduction in the face of soaring global food prices. In this context, the IDB

and Haitian authorities are also taking steps to accelerate the execution of a portfolio of almost US$100 million in projects to boost agricultural production.

7. 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 firm participation, remain. Along with these measures to expedite decision-making, the Bank's staff in the noted sectors has been 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.

8. The IDB is committed to provide 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.

Table 1. IDB Operational Program 2008–09 (Grants)

Number	Name	US$ Million
	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

ANNEX III. RELATIONS WITH THE WORLD BANK GROUP
(As of June, 2008)

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 is being prepared and is scheduled for completion in FY2009 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). A Joint Staff Advisory Note (JSAN) of the DSNCRP was discussed by the Boards of the IMF and the World Bank in January and March 2008, respectively. The most recent full CAS was discussed by the Board in 1996.

3. Since Haiti's arrears were cleared in January 2005, IDA has approved 12 projects for U$212 million. These comprise: two development policy operations and two technical assistance grants in support of economic governance reform; 7 investment projects (for disaster response and management, community-driven development, transport and territorial development, electricity, rural water and sanitation; and education); and a catastrophe risk insurance grant. Since FY06 all assistance has been in grant form. All projects but one remain active. In addition, more than US$13 million of trust fund grants, mostly from the LICUS and Post-Conflict trust funds have been awarded, since 2004.

4. In FY08, in the context of a declining IDA envelope, the Bank has narrowed its (non-emergency) assistance to three main areas in Haiti: education, community-driven development and economic governance. The Bank expects this focus to continue, but will determine the scope of future assistance in discussions with authorities and other stakeholders through the preparation of a new CAS for FY09-12. The strategy will align Bank assistance behind Haiti's PRSP. The country has tapped the maximum of three exceptional allocations allowed for re-engaging countries under IDA 14, having received US$75 million in FY05, US$63 million in FY06 and US$62 million in FY07. In FY08, the total has dropped to around $41 million, including US$17 million of additional emergency assistance (with a post-Tropical Strom Noel grant of US$7.4 million). Under new IDA rules the country will qualify for two more years of special allocations (FY09 and FY10), but this will be a reduced, phased-out amount.

5. 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.

6. 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 early 2009. World Bank and IMF staffs are closely monitoring progress in implementing the HIPC triggers. Bank and Fund staffs are also monitoring closely Haiti's debt situation. In this regard, the staffs of the two institutions prepared a new Debt Sustainability Analysis in February 2008.

7. 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.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 08/145
FOR IMMEDIATE RELEASE
June 20, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review under the PRGF Arrangement with Haiti, Increases Financial Assistance to Mitigate the Food and Fuel Price Impact, and Approves Disbursement of US$38.7 Million

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Haiti's economic performance under the Poverty Reduction and Growth Facility (PRGF) arrangement and approved SDR 16.38 million (about US$26.5 million) in additional financial assistance to help Haiti cope with the impact of rising food and fuel prices. The completion of the review will enable the immediate disbursement of SDR 23.98 million (about US$38.7 million).

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$119 million).

The Executive Board also approved Haiti's request for a waiver for non-observance of two performance criteria, related to the preparation of a plan to recapitalize the Central Bank of Haiti, and to hiring of experts to strengthening program units in key ministries.

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

"Despite numerous external shocks, including rising international commodity prices and inclement weather, as well as political difficulties, Haiti's performance under its PRGF-supported program and progress in structural reform have been commendable. However, sharply rising inflation, largely attributable to increases in international food and fuel prices, has been a challenge and is creating additional hardship for Haiti's large vulnerable population. In response, the authorities have appropriately put into place immediate measures to stabilize food prices, and are stepping up targeted measures to, among other things, expand school feeding programs, create jobs through public works programs, and boost domestic agricultural production.

“The PRGF-supported program has been modified for the remainder of FY2008 to reflect the more challenging macroeconomic situation, while allowing for a gradual adjustment of the economy to the external shock. Growth will likely be lower at about 2.5 percent. With the sharp acceleration of inflation, the authorities will attempt to contain its second round effects to hold end-September inflation at 16 percent. Along with additional pledges of external support, the program permits the use of some international reserves to help finance the costs of the shock. The PRGF arrangement has also been augmented to provide additional balance of payments support of SDR16.38 million (about US$26.5 million).

“The program accommodates spending on social assistance programs and measures to soften the impact of higher food prices on the population, much of it financed by additional donor support. However, with the welcome rise in spending capacity and somewhat lower revenues than expected, there is a need to prioritize and cautiously manage budget execution during the remainder of the fiscal year. A continued strong focus on modernizing customs and tax administration to raise revenues, and meeting donor conditionality to receive pledged budgetary support will also be important.

“Meanwhile, monetary policy will need to focus on containing the spill-over of imported prices on core inflation. To achieve this, the authorities have increased interest rates, and are planning to reduce base money growth somewhat further. If needed, the program also provides room for the use of international reserves to take some pressure off the exchange rate adjustment. Clear communication by the central bank of its anti-inflation strategy and the external nature of the price shock, through regular reporting, will also be important to help anchor inflation expectations.

“In addition to dealing with the shocks and the current political difficulties in Haiti, continued implementation of medium-term policies outlined in the PRSP to improve social services, rehabilitate infrastructure, and support potential growth industries will be critical. Prompt implementation of the PRSP and other triggers is also important to obtain debt relief under the enhanced HIPC and Multilateral Debt Relief Initiatives. Reform legislation in the economic area now in Parliament, such as the new banking law, the customs code, and a number of legal amendments to disengage the central bank from non-essential activities, should be swiftly passed.

“Although risks have increased, the Haitian government has displayed its ability and commitment to maintaining macroeconomic stability in the face of adversity. It is important that the international community stay firmly engaged to help Haiti through the current difficult period, to both help safeguard the gains already achieved and set the course going forward to boost growth and employment prospects, and improve living standards,” Mr. Kato said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in the country's Poverty Reduction Strategy Paper. This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½ -year grace period on principal payments.

Statement by Paulo Nogueira Batista, Executive Director for Haiti
and Ketleen Florestal, Alternate Executive Director
June 20, 2008

Several unexpected shocks have threatened to upset, during this first half of 2008, the socio-political situation in Haiti. Natural disasters (hurricane and floods) and the recent surge of world commodity prices, particularly that of basic foodstuffs (rice, cooking oil and flour) and petroleum products, have exacerbated inflationary pressures. The CPI, which the authorities had managed to reduce to single digits in late 2007, jumped from around 10 percent to more than 16 percent within the first three months of 2008. As staff indicated in its Report, core inflation (defined as headline inflation excluding food, fuel, and transport) has remained relatively stable. Above all, the sharp increase of the price of rice – the basic staple of the average Haitian's diet - during the month of March has worsened the situation of the most vulnerable segments of the population and led in early April to food riots and a non-confidence in Parliament that forced the resignation of the Prime Minister.

In the wake of the crisis, the Government quickly adopted short-term emergency measures that included a temporary subsidy for the price of rice and the suspension of the automatic adjustment of petroleum prices at the pump. Our authorities are very cognizant of the limited efficiency and unsustainable nature of these measures and already at the beginning of this week the President of the Republic has officially announced the Government's decision to discontinue in the next few days the petroleum price subsidy, which has already cost more than half a billion gourdes of fiscal receipts forgone for the months of March to April.

As a response to the food crisis, the Government has simultaneously sought to put in place better targeted and longer-term programs with durable impact on agricultural production and poverty reduction. They are thankful that several donors have quickly responded to their call for assistance mostly through the advanced disbursement or reallocation of already pledged funds and through humanitarian assistance but also, in some cases, through direct budget support. Nevertheless, the total envelope pledged so far remains short of the amounts needed to topple the difficulties engendered by the food and oil price hikes. The authorities have increased their efforts to raise fiscal revenues and intensified their dialogues with donors. They strongly prefer to refrain from central bank financing and are wary about the longer-term implications on growth and poverty reduction of diverting resources away from investments in the social and economic sectors.

The representatives of the donor community on the ground have explained to the authorities that they (particularly the bilateral donors) were limited in their capacity to offer budget support either because of new policy guidelines in their capitals or headquarters or because of their budget cycles, which made it hard to commit new funds in any form in the short run. Our authorities also understood that some donors were in fact hesitant to supply additional financial support before a new government was in place. With respect to this concern, our authorities have asked us to stress that several measures have been taken to ensure that public administration continues to carry out its functions and that the caretaker government is able, through the leadership of the President and with the support of several political parties and Parliament members, to take decisions of a more permanent nature that are needed to ensure continuity in their policy engagements and to face the numerous challenges at hand. The signing of the Letter of Intent and of the supplementary Memorandum of Economic and Financial Policies by the Minister of Finance after being given power of attorney by the President serves as an illustration of the exceptional procedures available within the Haitian legislation during this interim period.

The successive rejection by Parliament of two persons chosen by the President to occupy the function of Prime Minister may be puzzling. The apparent stalemate around this nomination is indeed a cause of concern. It delays the settling in of a government with full powers to present legislation to Parliament and to engage the State fully and directly without recourse to burdensome procedures. Nevertheless, these events should be considered as part of the democratic process adopted by Haiti through the Constitution of 1987. It should also be noticed that the vetting process is being done peacefully.

Effectively, the ratification of the choice of the Prime Minister in Haiti is a multi-step process that is completed separately by each chamber of Parliament. First, each chamber has to determine if the candidate designated by the President of the Republic has the credentials stipulated by the Constitution. Within each chamber of Parliament, a committee is assigned the responsibility of determining this eligibility and of presenting a favorable or adverse report to the assembly of deputies or of senators. This report – favorable or not – is in turn put to vote. If the vote is positive the President can formally nominate the designated candidate and then he/she would be invited by Parliament to present his/her cabinet members and general policy statement for approval.

Again, we must emphasize that the Haitian legislation offers the tools to ensure the smooth working of government in the interim. It is also worth noting that a consensus has been reached with the political parties and members of Parliament for the adoption of the PRSP as the chief guideline for short- and long-term strategic policy choices. Within the same mindframe and through specific delegation of the President, the caretaker government was able to reach an agreement on budget appropriations for the rest of the fiscal year ahead of the adoption of a budget rectification law.

Under very difficult circumstances, the Haitian authorities are managing to preserve the stabilization gains of the past couple of years. They are determined to continue implementing prudent macroeconomic management measures including, if warranted, further tightening of monetary policy to rein in inflation. Already inflation seems to have been somewhat subdued as the monthly variation of the CPI was 1.1 percent in April and 0.5 percent in May compared to 4.5 percent in March. Also the depreciation of the exchange rate, which had been more than 2.5 percent during the month of March, has more or less stabilized since then, with the exchange rate remaining below 39 gourdes per dollar. With the increased costs of food and oil, the authorities remain concerned about the financing of the current account and the possibility of the recent exchange rate depreciation feeding in further inflation. The elimination of the oil price subsidy will also have its impact on inflation. Fortunately, despite the global deceleration of growth, particularly that of the US economy, remittances have only shown a modest slow-down. Another positive factor is the passing of the HOPE II Act by the US Congress, which should encourage the maintenance or even increase of investments in the textile export sector. The additional access the authorities are requesting under the PRGF is meant to help ease the Central Bank's adjustment efforts, to contribute to finance the widening current account deficit and to help safeguard a comfortable level of net international reserves.

Despite the severe shocks that hit the economy, and the social and economic difficulties that the food crisis has entailed, the authorities continued to honor their engagement under the PRGF. All but one performance criteria were observed during the period under review and most structural benchmarks were met. As staff notes, the breach at end-March of the zero ceiling of net central bank financing to the non-financial public sector was small (less than 0.05 percent of GDP) and due to credit extended to the public telecom company TELECO to support its restructuring costs ahead of the central bank's disengagement. These costs include severance pays for the separation of thousands of TELECO's employees.

On the structural front, the delay in strengthening the programming units of line ministries is exclusively due to the scarcity of qualified human capital on the domestic market and the Government's determination to hire professionals with the needed level of expertise and experience instead of settling for junior professionals who would have to be trained and would not have the immediate impact sought. As far as the central bank's recapitalization plan is concerned, our Haitian authorities have asked us to take this opportunity to thank the staff of MCM for their valuable initial comments on the draft plan submitted as they look forward to taking full benefit of additional IMF TA ahead of the new September 2008 test date.

We, therefore, ask your support for our authorities' request of approval of the third review and fourth disbursement under the PRGF as well as the augmentation of access and increased interim assistance under the HIPC initiative.

The challenges Haiti faces for the remainder of this fiscal year are well summarized in the MEFP and the staff report. However, in view of staff's assessment of downside risks to the program it may be important to affirm the following:

1. The approval of key legislation (e.g. the banking law, custom code, FY09 budget) may be further delayed by the protracted process of approval of a new Prime Minister. However, certain dispositions can be adopted by presidential decree. For instance, this procedure can be used for additional grants targeted to the financing of projects not originally in the budget.

2. Under the program only one structural measure for end of September 2008, i.e., the submission of a new organic law for the DGI (Internal Revenue Administration) to Parliament, is dependent upon the existence of a new government.