

**Haiti: Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criterion, Modification of Performance Criteria, and Extension of the Arrangement—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Haiti.**

In the context of the fifth review under the three-year arrangement under the poverty reduction and growth facility, request for waiver of performance criterion, modification of performance criteria, and extension of the arrangement, the following documents have been released and are included in this package:

- The staff report for the Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criterion, Modification of Performance Criteria, and Extension of the Arrangement, prepared by a staff team of the IMF, following discussions that ended on May 15, 2009, 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 15, 2009. 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 29, 2009 discussion of the staff report that completed the request and/or review.
- A statement by the Executive Director for Haiti.

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

HIPC Completion Point Document  
Letter of Intent sent to the IMF by the authorities of Haiti\*  
Memorandum of Economic and Financial Policies by the authorities of Haiti\*  
Poverty Reduction Strategy Paper—Progress Report  
Joint Staff Advisory Note of the Poverty Reduction Strategy Paper Progress Report  
Technical Memorandum of Understanding\*

\*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

HAITI

**Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Performance Criterion, Modification of Performance Criteria, and Extension of the Arrangement**

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

Approved by Gilbert Terrier and Dominique Desruelle

June 15, 2009

**PRGF arrangement.** In November 2006 the IMF Executive Board approved a three-year PRGF arrangement equivalent to 90 percent of quota (SDR 73.71 million), and agreed that Haiti had reached the decision point under the enhanced HIPC Initiative. The fourth program review was completed on February 11, 2009, including a second augmentation of access under the arrangement of 30 percent of quota (SDR 24.57 million) which raised total access to 140 percent of quota.

**Discussions.** A mission comprising Ms. Deléchat (head), Ms. Medina Cas, and Ms. Touré (all WHD), Mr. John (SPR) and Mr. Bouhga-Hagbe (FAD) visited Port-au-Prince during May 7–15 to conduct the fifth review of the PRGF-supported program. Mr. Fasano, Resident Representative, assisted the mission. Mr. Perez (OED) participated in the policy discussions. The team and a World Bank mission also held discussions on the HIPC completion point. Staff met with President Préval, Prime Minister Pierre-Louis, Finance Minister Dorsainvil, Central Bank Governor Castel, other government officials, parliamentarians, and representatives of donors and the private sector.

**Economic program.** The program seeks to protect critical spending for infrastructure rehabilitation and PRSP implementation in light of significant revenue shortfalls, thus maintaining growth and reducing the impact of the global crisis on the population. The structural reform agenda aims at preserving fiscal sustainability and strengthening central bank independence and debt management. The authorities have consented to the publication of the staff report and program documents.

**Program review.** All end-March quantitative criteria, structural benchmarks, and all but one structural performance criteria were met. The latter was implemented with a small delay. Staff supports the authorities' request for a waiver and recommends completion of the review.

**HIPC completion point.** Board consideration of the HIPC completion point is scheduled along with the fifth review of the PRGF-supported program.

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## I. BACKGROUND

1. **Despite a succession of severe shocks, the authorities have maintained macroeconomic stability, but the global downturn is presenting new challenges.** As the economy begins to recover from last year's hurricanes and the food and fuel price spikes, Haiti is being hit by the global crisis. The decline in international commodity prices is reducing inflation, but low import prices and weak economic activity are also causing a shortfall in fiscal revenue. The April donor conference in Washington generated high-level political support, but additional resources committed so far will not suffice to finance the authorities' Economic Recovery Program (Text Table 1). To help close the fiscal gap and avoid cuts in priority spending, modifications to the PRGF-supported program are proposed to allow exceptional central bank financing.

2. **The political situation remains volatile.** After first round senatorial elections, which were marked by some violence, the second round is scheduled for June 21.

Following the second round, there may be a window during which key economic legislation and necessary constitutional reforms could be passed in the last 18 months of President Preval's term. However, elections in November 2009 for another third of the senate and the full chamber of deputies, plus local and presidential elections in November 2010, point to a period of rising political campaigning and uncertainty.

	Additional Amounts Sought	Additional Amounts Pledged
Total	1046	333
Budget Support <sup>2/</sup>	125	50
Project Support <sup>3/</sup>	921	283

Sources: Inter-American Development Bank; and Fund staff estimates.  
<sup>1/</sup> Compared to assumptions in IMF Country Report No. 09/77.  
<sup>2/</sup> Request is for FY 2009.  
<sup>3/</sup> Request is for fiscal years 2009 through 2011.

## II. RECENT ECONOMIC DEVELOPMENTS

3. **In the first half of fiscal year 2009, macroeconomic performance was affected by the global downturn, particularly declining international food and fuel prices (Figure 1):**

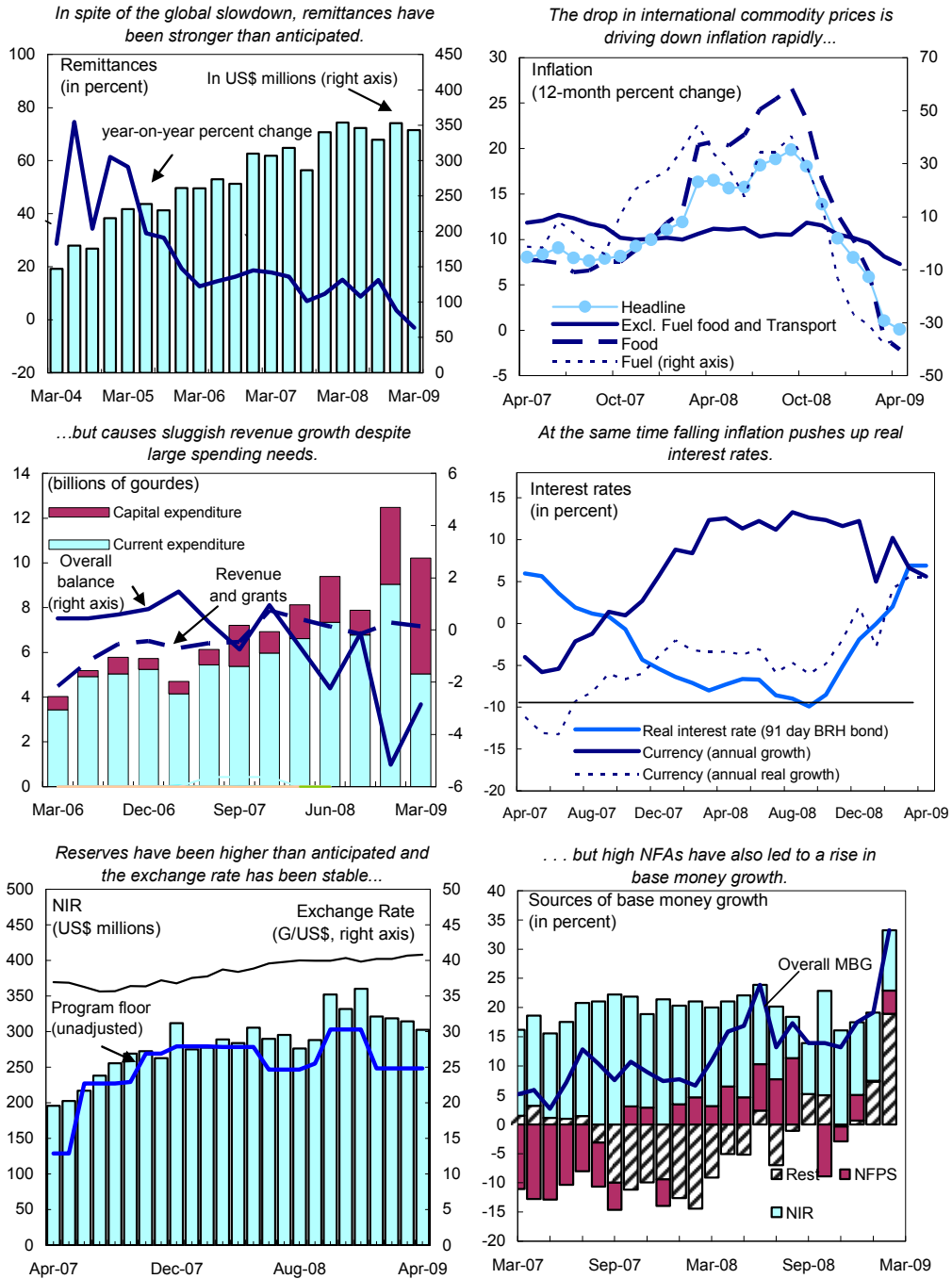
- *Twelve-month inflation fell to 0.1 percent in April, while core inflation reached a low of 7.1 percent, compared to 10.4 percent in September (Table 1).*
- *Despite a fiscal revenue shortfall of 0.3 percent of GDP, the fiscal deficit was contained at 2.8 percent of GDP (4 percent in the program) during*

	Program	Estimate
Total revenue and grants	8.0	7.0
Revenue	5.4	5.0
Grants	2.7	2.0
Budget support	0.6	0.1
Project grants	2.1	1.9
Total expenditure	12.1	10.4
Current expenditure	6.3	4.9
Capital expenditure	5.7	5.5
Domestically financed	3.1	3.0
Foreign-financed	2.7	2.5
Overall balance	-4.0	-3.4
Excl. grants and ext. financed projects	-4.0	-2.8
Financing	4.0	3.4
External net financing	2.6	2.3
Internal net financing	1.3	0.9
Debt relief	0.1	0.2

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

(4 percent in the program) during October 2008–March 2009, as public spending was about 1.5 percent of GDP below programmed amounts due to delays in approving the FY 2009 budget (Text Table 2 and Tables 2a and 2b).

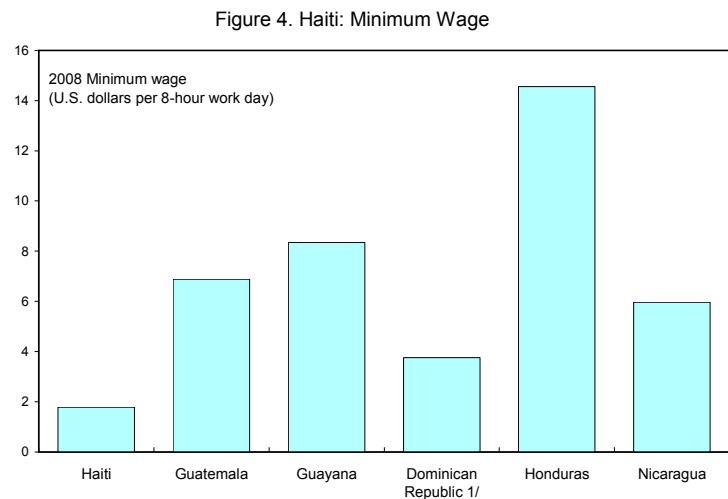
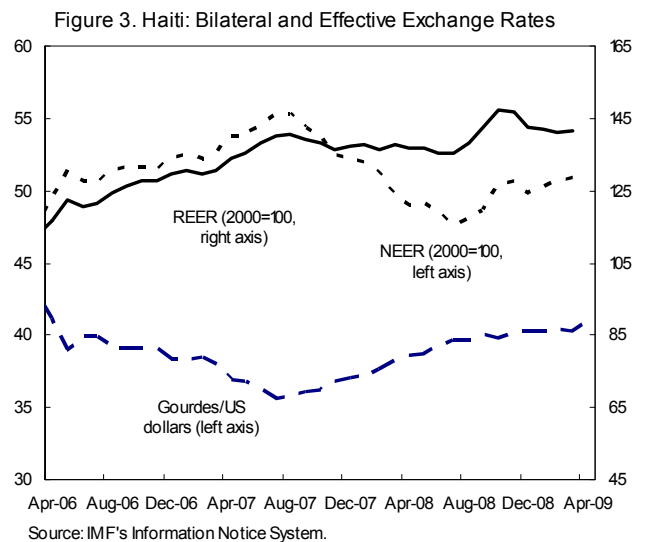
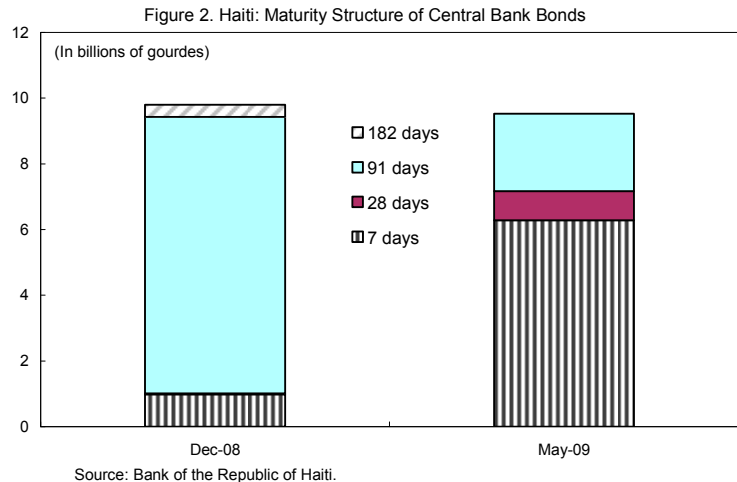
Figure 1. Haiti: Recent Economic Developments



Sources: Haitian authorities; and Fund staff calculations.

- The central bank partly sterilized—mainly through foreign exchange sales—higher monetary financing caused by delays in the disbursement of external budget support. As of end-May, net central bank financing reached G 2.5 billion (0.9 percent of GDP). Aided by the recent decline in net foreign assets, base money growth slowed to 7.4 percent. The BRH cut nominal interest rates by a total of 300 basis points in April–June, and tilted the composition of its stock of bonds toward the shortest maturities (Figure 2 and Table 3).*
- The external current account deficit was smaller than anticipated at the time of the fourth review. Remittances have been quite resilient (roughly flat during October–April compared with the same period last year) and lower import prices have more than offset the impact of the increase in reconstruction-related imports and the decline in services exports on the trade balance. Gross liquid reserves reached US\$769 million at end-April (3.1 months of imports) and the gourde remained relatively stable against the U.S. dollar (Figure 3 and Table 4).*

4. **Parliament approved a tripling of the minimum wage in May.** The minimum daily wage (excluding agriculture) was raised from the equivalent of less than US\$2 to about US\$5, the first adjustment

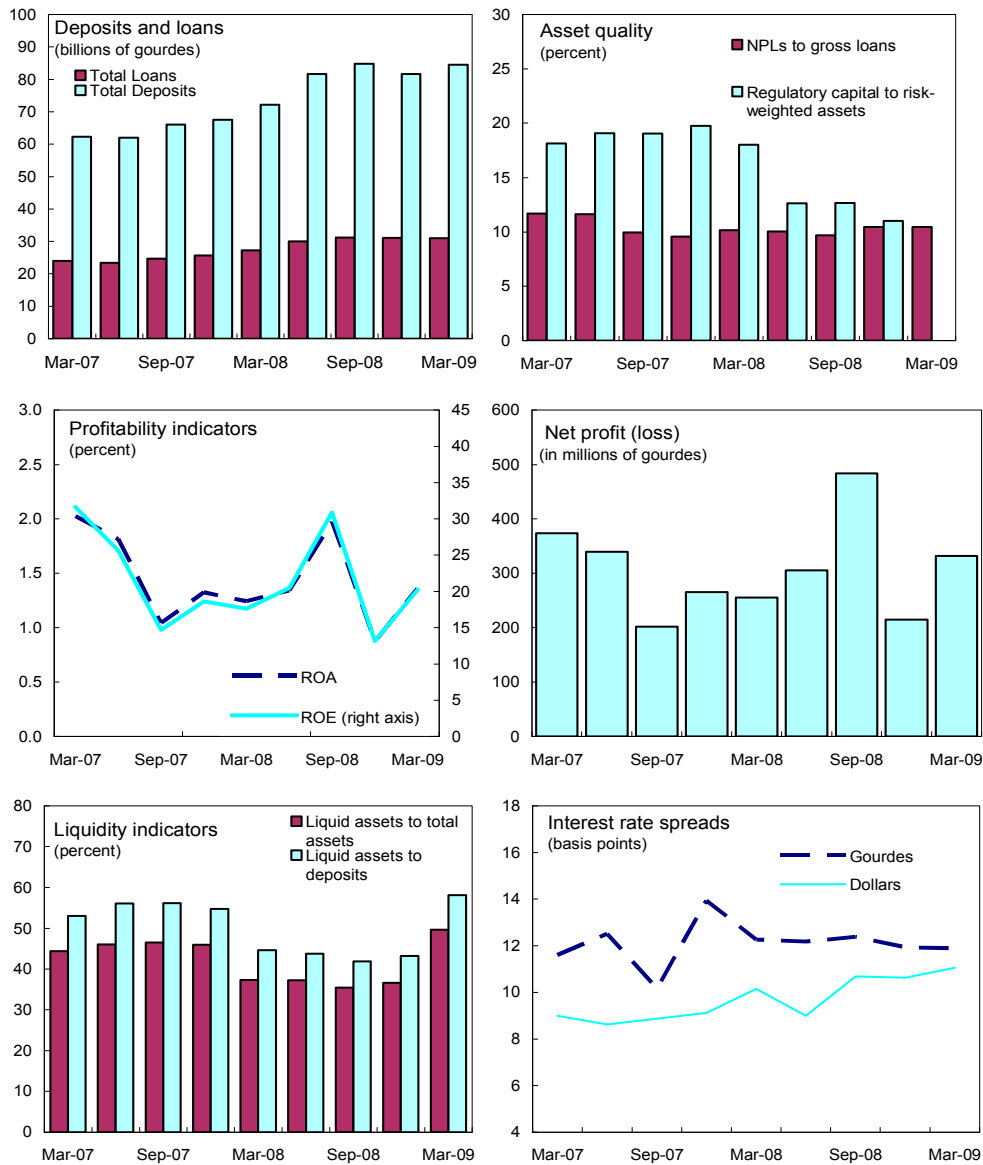


Sources: Haitian authorities; and Fund staff calculations.  
1/ Public sector only.

since 2003, but it is not yet clear when the measure will come into force (Figure 4).

**5. The financial sector remains sound and adequately capitalized, but dollarization is high.** Preliminary end-March data indicate that credit and net profits increased by 13 percent and 30 percent, respectively from a year ago. Non-performing loans have remained stable at 10.5 percent of total loans. However, deposits and credit in foreign currency remain high at about 55 and 70 percent of total deposits and loans, respectively (Figure 5 and Table 5). As a temporary prudential measure, the BRH announced in March an increase in the reserve requirement on U.S. dollar-denominated deposits from 31 to 34 percent while the reserve requirement on gourde deposits was cut slightly.

Figure 5. Haiti: Recent Financial Developments



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



### III. PROGRAM PERFORMANCE

6. **All end-March quantitative performance criteria were met comfortably.** Net central bank financing to the government reached G 2.3 billion at end-March, below the adjusted program ceiling of G 4.3 billion (Table 6, MEFP ¶7). However, higher net foreign assets led to somewhat faster base money growth than envisaged in the program (16.9 percent year-on-year at end-March, compared with an indicative target of 13.9 percent).

7. **All but one end-March structural conditions were met.** The report on emergency spending, a performance criterion, was communicated to staff on April 2. As the delay was short and the report was presented according to the required normal budget classification, staff supports the authorities' request for a waiver (Table 7, MEFP ¶8).

### IV. ECONOMIC AND FINANCIAL POLICIES FOR THE SECOND HALF OF FY 2009

8. **The authorities reiterated their commitment to maintaining macroeconomic stability and further addressing poverty-reduction and post-hurricane reconstruction priorities.** HIPC and MDRI debt relief would significantly reduce the debt burden and increase fiscal space for poverty-reducing spending, but the risk of debt distress remains high. The authorities are committed to maintaining prudent fiscal and monetary policies, and to seeking principally grants and concessional loans to meet external financing requirements. It will also be essential to strengthen revenue mobilization and develop alternative sources of domestic financing, such as Treasury bills, to meet the significant development needs (MEFP ¶9).

#### A. Macroeconomic Outlook

9. **Staff and the authorities agreed that the macroeconomic outlook for the remainder of FY 2009 and FY 2010 had worsened.** In particular:

- *Weak economic activity, due to somewhat lower public spending in the first half of the fiscal year and a leveling off of remittances, will lead to lower GDP growth in FY 2009 (2 percent compared to 2.5 percent at the time of the fourth PRGF review). For FY 2010, growth was also revised down to 2.4 percent (compared with 2.7 percent initially). Risks to the growth outlook remain significant, notably through lower remittances, exports, and public investment, with additional uncertainty associated with the upcoming elections.*
- *Annual inflation is now projected at 1 percent at end-September 2009, compared with 9.5 percent in the program, due to the drop in world food and fuel prices. Inflation would rise to 5 percent (year-on-year) at end-September 2010, as the base effect vanishes and world fuel prices increase in line with WEO projections (MEFP ¶10–11).*

## B. Fiscal Policy

10. **The larger-than-anticipated revenue shortfall complicated discussions on the program framework for the rest of the fiscal year.** Revenue could fall short of the fourth review projections by as much as G 3.7 billion (1.3 percent of GDP) in FY 2009. The authorities indicated that they remained committed to implementing new tax measures, but that building political support would take time. Although government spending has been well below original projections, it is expected to catch up in the remainder of this fiscal year, particularly after parliamentary approval of the FY 2009 budget on June 2. The fiscal program involves a reduced spending envelope from the authorities' initial plans. Staff and the authorities agreed that further cuts in the minimum domestic investment spending program should be avoided, to support growth and preserve social peace (MEFP ¶12–13).

11. **Staff and the authorities agreed on a combination of measures to address the revenue shortfall.** The overall fiscal deficit (excluding grants and foreign-financed projects) would increase to 5.3 percent of GDP, compared to 4.4 percent in the program and 2.1 percent in FY 2008. The shortfall in government revenue would be partly offset by lower spending (0.4 percent of GDP). Delays in passing the FY 2009 budget will contribute to savings on wages and goods and services, and the authorities will limit new domestic investments to a reduced list of priority projects for the rest of the year (Text Table 3). Updated debt relief estimates also point to lower external debt service than previously envisaged (MEFP ¶14).

Text Table 3. Haiti: Composition of Treasury-Financed Investment Spending for the Second Half of FY 2009	
(Millions of gourdes)	
Agriculture	800
Disaster Preparedness	400
Schools (preparedness for new school year)	800
Sources: Haitian authorities; and Fund staff estimates.	

12. **The authorities are committed to increasing electricity tariffs to cost-recovery levels by end-September 2009, while protecting poor households.** This would reduce growing fiscal costs from the energy sector and place public finances on a sounder footing (new benchmark, MEFP ¶14 and Box 1). Transfers for recurrent expenditures of the electricity company would drop sharply, but the authorities plan to support investments to increase supply and production quality and efficiency.

13. **Given limited sources of financing, staff proposes raising the performance criterion on net central bank financing.** With all but US\$0.4 million in external financing under the program adjutor of US\$50 million identified, total new net central bank financing for the year would be capped at or close to US\$50 million. Given the deflationary environment and the reserves cushion, staff foresees low risks to macroeconomic stability due to higher monetary financing. In addition, the authorities are committed to sterilizing any new central government financing from the central bank as needed. The government will cover additional losses incurred by the central bank by exchanging government debt for marketable securities in FY 2010–11 as part of the central bank recapitalization plan.

### **Box 1. Haiti: Fiscal Risks from the Energy Sector**

**Energy transfers due to subsidized electricity prices and inefficiencies are unsustainable.**

Electricity tariffs (about G 6.5/Kwh) have not been adjusted since 2005 and are no longer in line with costs (about G 13/Kwh at current oil prices). The public electricity company's losses are covered by government transfers aimed at paying for oil and other operating costs. Despite efforts to enhance efficiency, only about 50 percent of the electricity produced is billed, and transfers are likely to increase rapidly: three new power plants have recently begun operations, and 70 percent of electricity produced is from oil, with production costs highly sensitive to changes in oil prices.

**Transfers to the energy sector are increasing rapidly and will likely exceed Treasury-financed investment in FY 2009.** During the first two quarters of this fiscal year, transfers to the sector reached US\$62 million or 73 percent of the budget allocation (US\$86 million). At current supply levels and oil prices, they could reach US\$104 million for the fiscal year, compared to Treasury-financed investment of US\$74 million.

14. **Staff held preliminary discussions on the draft budget for FY 2010, which the authorities intend to send to Parliament by end-June, a constitutional requirement.** The budget foresees a smaller deficit than in FY 2009, partly owing to a significant increase in domestic revenue. Revenue administration is to be strengthened through implementation of a long-term donor-supported project to modernize tax and customs administration and continued implementation of a new customs management system (about 0.2 percent of GDP). New revenue measures, including a revision of the external tariff and telecoms taxes (about 0.7 percent of GDP), are expected to be adopted. The fiscal space created by HIPC/MDRI debt relief will be used for critical social and infrastructure spending, in line with the authorities' poverty reduction strategy, while current spending will remain contained. The authorities estimate that, as a result of the anticipated increase in the minimum wage, a proportional increase in all wage scales could raise the public sector wage bill by up to 0.4 percent of GDP. Staff urged the authorities to limit any rise in public sector wages for employees earning more than the minimum wage.

### **C. Monetary and Exchange Rate Policies**

15. **The central bank will continue to monitor core inflation developments closely and improve its base money growth targeting.** Risks to the inflation outlook have increased as fuel prices have been rising since January and projected increases in the minimum wage could lead to renewed wage and price pressure. The central bank estimates that inflation expectations might be affected, but the large informal sector (almost half of the active population) may mitigate the inflationary impact of the increase.<sup>1</sup> The authorities are committed to sterilizing any new net central bank financing to the government as needed,

<sup>1</sup> Data constraints make it difficult to quantify the impact of the rise in minimum wage on inflation in FY 2010.

through the issuance of central bank bonds and foreign exchange sales. However, they consider that the link between base money growth and inflation is very weak, and that price developments are dominated by changes in international prices and exchange rate movements. Continued publication of the BRH's quarterly report on monetary policy goals and outcomes is expected to help shape inflation expectations (MEFP ¶16).

16. **The authorities will continue to strengthen market-based monetary operations.** The BRH agreed that a diversified portfolio of maturities is important since it would help pave the way for the introduction of Treasury bills during next fiscal year. Staff welcomed recent plans to allow individuals to participate in bond auctions through certified brokers, and encouraged further efforts to enhance competition in BRH bond auctions and improve liquidity forecasting (MEFP ¶17).

17. **The authorities reiterated their commitment to maintaining a flexible exchange rate regime.** Exchange rate policy would continue to be aimed at smoothing excessive volatility while allowing the exchange rate to help absorb shocks. Staff acknowledged that weak economic activity and low import prices had contained demand for foreign exchange but also advised the central bank against resisting depreciation pressures should the external position deteriorate (MEFP ¶16).

#### **D. External Sector Policies**

18. **The global crisis is expected to have a muted impact on the external accounts.** The external current account deficit (in U.S. dollars, excluding grants) should widen less than expected in 2009 relative to 2008, as the impact of lower international prices on imports is expected to dominate. Remittances are now projected to decline by 4 percent, compared to 11 percent earlier. An improved trade balance, higher external support, and delivery of HIPC/MDRI relief should help raise gross reserves in 2009 to 3 months of import cover.

19. **An updated debt sustainability analysis, using the standard low-income country framework and assuming HIPC and MDRI relief, shows a substantial improvement in debt ratios although Haiti remains at high risk of debt distress.**<sup>2</sup> Although most indicators remain below the relevant thresholds in both the baseline and alternative/shock scenarios, the NPV of debt-to-exports ratio crosses the threshold in the baseline scenario in the medium-term, due in part to the fiscal impact of the current crisis and higher financing needs as past domestic borrowing is unwound. Nonetheless, Haiti's capacity to repay the Fund will remain adequate (Table 8). The high debt-to-exports ratio underscores the importance of seeking grants or highly concessional loans, reforms to develop a stronger

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<sup>2</sup> The debt sustainability analysis is included as an appendix to the completion point document.

export base, and further efforts to improve debt management, particularly given Haiti's high vulnerability to external shocks (Table 9).

### E. Program Monitoring

20. **Quantitative targets for the second half of FY 2009 are revised to accommodate the weaker fiscal outlook.** The ceiling for net central bank financing to the government is raised by the equivalent of US\$50 million. NIR program targets are kept unchanged, in order to leave the authorities room to sterilize new central bank financing as needed. The other PCs and indicative targets for end-September are unchanged (MEFP ¶19-20 and MEFP Table 2).

21. **In line with the recent change in the Fund's conditionality policy, the authorities have requested that the end-September structural performance criteria be changed to benchmarks** (MEFP Table 3). Implementation of the central bank recapitalization plan and the new benchmark on increasing electricity tariffs will be particularly important for completion of the next review (MEFP ¶21 and MEFP Table 3).

22. **The authorities have requested an extension of the current PRGF and indicated that they plan to request a new arrangement when the current one expires.** Given the end-September 2009 test date, the expiration of the current PRGF arrangement in November 2009 would not allow sufficient time to complete the sixth review. The authorities are thus requesting an extension of the current PRGF through end-January 2010 (Table 10).

### V. PROGRAM RISKS

23. **Program risks remain high.** The authorities have succeeded in maintaining satisfactory performance under the PRGF despite a series of adverse shocks, but completing remaining structural reforms will be a challenge. The heavy election agenda may cause further delays to key reforms. In addition, the fiscal situation remains under pressure as external and domestic resources continue to fall short of reconstruction and poverty-reduction needs, and the decline in fiscal revenue may be more pronounced than anticipated.

### VI. STAFF APPRAISAL

24. **The authorities have succeeded in maintaining macroeconomic stability amid severe external shocks, but important challenges remain.** Prudent policies have allowed performance under the PRGF-supported program to remain satisfactory. However, in part due to Haiti's vulnerability to shocks, growth remains too low to make real inroads in poverty reduction, and key economic reforms need to be passed into law and consolidated. A decisive push to strengthen governance would help increase private sector confidence and investment.

25. **The global downturn is affecting Haiti mostly through the effect of lower commodity prices on fiscal revenue.** Given limited alternative sources of financing and an

already reduced spending envelope, the program would be revised to allow for exceptional central bank financing, in order to preserve priority investment aimed at supporting growth through infrastructure rehabilitation and job creation. Staff believes that macroeconomic stability will not be at risk given low inflation and sufficient reserves. The authorities are committed to preventing further deterioration in the central bank's balance sheet by repaying government debt or exchanging it for marketable securities.

26. **Monetary policy should continue to focus on containing inflation risks.** Core inflation has been declining but remains relatively high, and inflation risks have increased as oil prices are projected to rise and implementation of the new minimum wage law could raise inflation expectations. The central bank should sterilize as needed any central bank financing of the government and continue to improve the effectiveness of its instruments.

27. **HIPC and MDRI debt relief will open up fiscal space for needed poverty-related spending, but the debt-to-exports ratio will remain close to the relevant threshold for some time.** The authorities are encouraged to take advantage of donor support to strengthen debt management and tax and customs administration, and to raise domestic revenue mobilization through the implementation of new tax measures next fiscal year. The impact of the new minimum wage on the public sector wage bill should be limited to wages that are currently at the minimum level. The authorities should also continue to strengthen public financial management, through better tracking of poverty-reducing expenditures, since this would help mobilize new budget support. The introduction of a Treasury bill market would provide a viable alternative to monetary financing.

28. **Staff supports the conclusion of the fifth review and waiver of the missed structural performance criterion, as the deviation was minor, as well as the extension of the arrangement through end-January 2010 to allow time to conclude the sixth review.** Despite high program risks, the authorities' efforts to preserve the progress achieved during the first two years warrant support from the Fund and Haiti's development partners. Looking ahead, the authorities have expressed interest in a new three-year PRGF arrangement which could help consolidate macroeconomic stabilization, structural reforms, and support further advances.

**Table 1. Haiti: Selected Economic and Financial Indicators**

(Fiscal year ending September 30)

Nominal GDP (2008): US\$ 6.95 billion

GDP per capita (2008): US\$ 712

Population (2008): 9.76 million

Adult literacy (2008): 53 percent

Share of pop. living with less than US\$1 a day (2003): 54 percent

Unemployment rate (2003): 27 percent

	2008			2009			Proj. 2010
	2007	Prog. Third Review	Prel.	Prog. Fourth PRGF Review		Rev. Prog.	
		Actual GDP 1/		Prog. GDP	Actual GDP 1/		
(change over previous year unless otherwise stated)							
<b>National income and prices</b>							
GDP at constant prices	3.4	2.5	1.2	2.5	2.5	2.0	2.4
GDP deflator	10.7	14.5	14.4	12.0	12.0	6.3	8.3
Consumer prices (period average)	9.0	14.5	14.4	12.8	12.8	5.1	7.7
Consumer prices (end-of-period)	7.9	16.0	19.8	9.5	9.5	1.0	5.0
<b>External sector</b>							
Exports (f.o.b.)	5.7	-6.0	-6.2	1.8	1.8	0.1	10.5
Imports (f.o.b.)	4.5	24.3	30.2	1.7	1.7	-0.8	6.3
Real effective exchange rate (+ appreciation)	15.3	...	2.9	...	...	...	...
<b>Central government</b>							
Total revenue and grants	30.7	29.9	9.2	29.1	29.1	29.4	19.9
Total revenue excl. grants	15.4	21.3	15.7	22.1	22.1	8.2	20.3
Current expenditure	-2.0	54.5	41.8	24.3	24.3	21.8	1.6
Total expenditure	14.6	44.4	32.9	34.5	34.5	37.4	7.8
<b>Money and credit</b>							
Credit to the nonfinancial public sector (net) 2/	-6.9	0.0	-29.8	48.2	48.2	63.7	-2.8
Credit to private sector	10.8	12.3	25.2	15.4	15.4	12.8	15.1
Base money	7.6	7.9	13.9	9.3	9.3	9.3	10.9
Broad money (incl. foreign currency deposits)	4.8	10.6	17.7	11.6	11.6	10.0	11.4
(in percent of GDP, unless otherwise stated)							
<b>Central government</b>							
Overall balance	0.2	-1.6	-2.9	-3.9	-4.3	-4.7	-2.7
Overall balance (excl. grants)	-4.8	-7.7	-7.0	-9.1	-9.8	-11.6	-10.2
Overall balance (excl. grants and externally-financed projects)	0.3	-1.7	-2.1	-4.0	-4.4	-5.3	-2.1
Overall balance (excl. ext.-financed projects and project grants)	1.5	0.0	-0.8	-2.8	-3.1	-3.3	-1.2
Central bank net credit to the central government	-0.4	0.0	0.0	0.1	0.1	0.8	-1.9
<b>Savings and investment</b>							
Gross investment	27.7	27.6	26.0	31.0	33.6	35.4	39.9
Gross national savings	27.5	24.6	21.8	26.5	28.7	32.4	36.9
Of which: Central government savings	3.1	1.7	1.3	1.1	1.2	0.8	1.4
External current account balance (incl. official grants)	-0.2	-3.0	-4.2	-4.4	-4.8	-3.0	-3.0
External current account balance (excl. official grants)	-6.6	-10.0	-11.0	-11.9	-12.9	-12.4	-12.0
External public debt (end-of-period) 3/	29.1	23.5	26.7	25.5	27.7	12.8	14.8
Total public debt (end-of-period) 4/	33.4	...	35.6	...	...	21.5	22.7
External public debt service (in percent of exports of goods and nonfactor services) 5/	8.3	9.4	8.2	9.6	10.5	9.3	2.0
(in millions of U.S. dollars, unless otherwise stated)							
Overall balance of payments	163.4	-49.9	41.5	-158.3	-158.3	-57.4	-44.7
Net international reserves (program) 6/	269.1	244.7	288.1	238.1	238.1	238.1	228.6
Liquid gross reserves	544.7	578.1	707.8	696.0	696.0	754.7	772.3
In months of imports of the following year	2.3	2.4	3.0	2.8	2.8	3.0	3.0
Exchange rate (gourdes per dollar, end-of-period)	36.4	...	40.0	...	...	...	...
Nominal GDP (millions of gourdes)	229,538	265,639	265,639	312,222	288,022	288,022	319,291
Nominal GDP (millions of U.S. dollars)	6,137	6,943	6,943	7,589	7,040	7,040	7,270

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

1/ GDP ratios are calculated using nominal program figures for FY09 (numerator) and actual nominal GDP (denominator).

2/ In FY2008 it reflects accumulation of Petrocaribe-related resources; in FY2009, it reflects the use of Petrocaribe-related resources accumulated in FY2008.

3/ Revised program figure for 2009 reflects HIPC/MDRI debt reduction

4/ Coverage has been modified since Fourth PRGF Program Review. Includes external public sector debt and domestic debt of the central government, but excludes BRH bonds issued for monetary purposes. Reflects HIPC/MDRI debt reduction in 2009.

5/ Includes HIPC/MDRI relief beginning in 2010.

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

**Table 2a. Haiti: Central Government Operations**

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

	2009				
	Act. 2007	Est. 2008	Prog. Fourth PRGF Review	Prog. Rev.	Proj. 2010
<b>Total revenue and grants</b>	34,713	37,901	48,840	49,062	58,809
Domestic revenue	23,197	26,849	32,781	29,041	34,925
Domestic taxes	15,740	18,026	22,035	19,663	23,384
Customs duties	6,828	7,917	10,463	8,939	11,056
Other current revenue	629	906	284	438	486
Grants	11,517	11,052	16,060	20,021	23,884
Budget support	2,720	3,485	3,814	5,956	2,762
Project grants	8,797	7,568	12,245	14,065	21,122
<b>Total expenditure 1/</b>	34,248	45,501	61,141	62,497	67,363
Current expenditure	18,864	26,756	33,173	32,595	33,115
Wages and salaries	8,087	11,716	15,438	13,997	15,400
Net Operations 2/	3,027	8,237	8,362	7,671	8,100
Operations 2/	6,322	7,350	8,362	7,671	8,100
Interest payments	2,420	1,768	2,235	2,259	1,815
External	720	928	1,046	1,064	420
Domestic	1,700	840	1,189	1,194	1,395
Transfers and subsidies	5,330	5,035	7,138	8,669	7,800
<i>Of which: energy sector</i>	...	...	...	4,258	3,831
Capital expenditure	15,385	18,745	27,967	29,902	34,247
Domestically financed	3,546	5,611	12,225	11,839	8,416
<i>Of which: Treasury</i>	3,546	5,611	3,367	3,021	6,500
<i>Of which: Counterpart funds 3/</i>	...	...	1,901	1,899	1,916
Foreign-financed	11,839	13,134	15,742	18,063	25,832
<b>Overall balance</b>	465	-7,599	-12,300	-13,435	-8,553
Excl. grants	-11,052	-18,652	-28,360	-33,456	-32,437
Excl. grants and externally financed projects	787	-5,518	-12,617	-15,394	-6,606
Excl. project grants and ext. financed projects	3,507	-2,033	-8,803	-9,437	-8,843
<b>Financing</b>	-465	7,599	12,300	13,435	6,324
External net financing	-106	6,607	9,793	8,298	4,425
Loans (net)	1,620	6,607	7,736	8,281	4,425
Disbursements	3,406	8,283	9,547	10,015	4,710
Budget support	364	2,716	6,050	6,017	0
<i>Of which: Petrocaribe</i>	...	1,772	6,030	5,996	0
Project loans	3,042	5,566	3,497	3,997	4,710
Amortization	-1,786	-1,676	-1,811	-1,734	-285
External financing to be committed	...	...	2,057	17	0
Arrears (net)	-1,726	0	0	0	0
Internal net financing	-1,264	83	1,559	3,603	1,899
Banking system	-1,264	-229	349	2,395	-607
BRH	-949	121	349	2,395	-5,917
Commercial banks	-315	-349	0	0	5,310
Nonbank financing	0	312	1,210	1,208	2,506
Amortization	...	...	...	-690	0
Counterpart funds 3/	...	...	...	1,899	1,916
Arrears (net)	0	0	0	0	0
Debt rescheduling	134	163	161	143	0
HIPC interim relief	771	747	787	1,391	0
Unidentified financing (in U.S. dollars)	0	0	0	0	51

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

1/ Commitment basis except for domestically financed capital expenditure, which is reported on cash basis from 2007 onwards.

2/ Includes statistical discrepancy.

3/ Proceeds from sales of grants received in kind.



**Table 2b. Haiti: Central Government Operations**

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

	2009				
	Act. 2007	Est. 2008	Prog. Fourth PRGF Review Actual GDP 1/ Rev. Prog.	Proj. 2010	
<b>Total revenue and grants</b>	15.1	14.3	17.0	17.0	18.4
Total revenue	10.1	10.1	11.4	10.1	10.9
Domestic taxes	6.9	6.8	7.7	6.8	7.3
Customs duties	3.0	3.0	3.6	3.1	3.5
Other current revenue	0.3	0.3	0.1	0.2	0.2
Grants	5.0	4.2	5.6	7.0	7.5
Budget support	1.2	1.3	1.3	2.1	0.9
Project grants	3.8	2.8	4.3	4.9	6.6
<b>Total expenditure 2/</b>	14.9	17.1	21.2	21.7	21.1
Current expenditure	8.2	10.1	11.5	11.3	10.4
Wages and salaries	3.5	4.4	5.4	4.9	4.8
Net Operations 3/	1.3	3.1	2.9	2.7	2.5
Operations 3/	2.8	2.8	2.9	2.7	2.5
Interest payments	1.1	0.7	0.8	0.8	0.6
Transfers and subsidies	2.3	1.9	2.5	3.0	2.4
<i>Of which: energy sector</i>	...	...	...	1.5	1.2
Capital expenditure	6.7	7.1	9.7	10.4	10.7
Domestically financed	1.5	2.1	4.2	4.1	2.6
<i>Of which: Treasury</i>	1.5	2.1	1.2	1.0	2.0
<i>Of which: Counterpart funds 4/</i>	0.0	0.0	0.7	0.7	0.6
Foreign-financed	5.2	4.9	5.5	6.3	8.1
<b>Overall balance</b>	0.2	-2.9	-4.3	-4.7	-2.7
Excl. grants	-4.8	-7.0	-9.8	-11.6	-10.2
Excl. grants and externally financed projects	0.3	-2.1	-4.4	-5.3	-2.1
Excl. project grants and ext. financed projects	1.5	-0.8	-3.1	-3.3	-1.2
<b>Financing</b>	-0.2	2.9	4.3	4.7	2.0
External net financing	0.0	2.5	3.4	2.9	1.4
Loans (net)	0.7	2.5	2.7	2.9	1.4
Disbursements	1.5	3.1	3.3	3.5	1.5
Budget support	0.2	1.0	2.1	2.1	0.0
<i>Of which: Petrocaribe</i>	...	0.7	2.1	2.1	0.0
Project loans	1.3	2.1	1.2	1.4	1.5
Amortization	-0.8	-0.6	-0.6	-0.6	-0.1
External financing to be committed	...	0.0	0.7	0.0	0.0
Arrears (net)	-0.8	0.0	0.0	0.0	0.0
Internal net financing	-0.6	0.0	0.5	1.3	0.6
Banking system	-0.6	-0.1	0.1	0.8	-0.2
BRH	-0.4	0.0	0.1	0.8	-1.9
Commercial banks	-0.1	-0.1	0.0	0.0	1.7
Other nonbank financing	0.0	0.1	0.4	0.4	0.8
Amortization	...	...	...	-0.2	0.0
Counterpart funds 4/	...	...	...	0.7	0.6
Arrears (net)	0.0	0.0	0.0	0.0	0.0
Rescheduling	0.1	0.1	0.1	0.0	0.0
HIPC interim relief	0.3	0.3	0.3	0.5	0.0
<b>Unidentified financing</b>	0.0	0.0	0.0	0.0	0.7

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

1/ GDP ratios are calculated using nominal program figures for FY08 (numerator) and actual nominal GDP (denominator).

2/ Commitment basis except for domestically financed capital expenditure, which is reported on cash basis from 2007 onwards.

3/ Includes statistical discrepancy.

4/ Proceeds from sales of grants received in kind.

**Table 3. Haiti: Summary Accounts of the Banking System**  
(Fiscal year ending September 30; in millions of gourdes)

	Act.	Est.	2009		Proj.
			Prog.	Rev.	
			Fourth PRGF		
	2007	2008	Review	Prog.	2010
I. Central Bank					
<b>Net foreign assets</b>	16,849	21,035	20,255	21,522	23,304
(In millions of U.S. dollars)	463	526	478	507	513
Net international reserves (program) 1/	269	288	238	238	229
Commercial bank forex deposits	181	221	221	250	265
<b>Net domestic assets</b>	8,081	7,356	10,772	9,522	11,111
Credit to the nonfinancial public sector	19,905	20,541	20,890	22,936	17,019
of which: Credit to the central government	20,487	20,607	20,956	23,002	17,086
Liabilities to commercial banks (excl gourde deposits)	-15,596	-18,431	-15,037	-20,777	-16,162
BRH bonds	-9,013	-9,601	-5,677	-10,161	-4,115
Counterpart of commercial bank forex deposits	-6,583	-8,830	-9,360	-10,616	-12,046
Other	3,771	5,247	4,919	7,363	10,253
<b>Base Money</b>	24,930	28,392	31,027	31,043	34,414
Currency in circulation	11,570	13,030	14,268	14,271	15,835
Commercial bank gourde deposits	13,359	15,362	16,759	16,773	18,579
II. Consolidated Banking System					
<b>Net foreign assets</b>	28,106	39,111	37,297	38,603	42,035
(In millions of U.S. dollars)	773	979	881	909	925
Of which: Commercial banks NFA	309	452	402	402	412
<b>Net domestic assets</b>	50,557	53,469	66,057	63,196	71,389
Credit to the nonfinancial public sector	18,852	13,224	19,603	21,649	21,043
Credit to the private sector	29,946	37,496	43,274	42,291	48,678
In gourdes	13,284	16,117	18,325	17,284	19,414
In foreign currency	16,663	21,380	24,949	25,007	29,264
In millions of U.S. dollars	458	535	589	589	644
Other	1,760	2,748	3,179	-744	1,669
<b>Broad money</b>	78,664	92,580	103,355	101,800	113,424
Currency in circulation	11,570	13,030	14,268	14,271	15,835
Gourde deposits	32,974	37,050	41,496	39,829	43,461
Foreign currency deposits	34,120	42,500	47,591	47,700	54,128
In millions of U.S. dollars	938	1,064	1,124	1,124	1,192
(12-month percentage change)					
Currency in circulation	3.7	12.6	9.5	9.5	11.0
Base money	7.6	13.9	9.3	9.3	10.9
Gourde money (M2)	4.3	12.4	11.3	8.0	9.6
Broad money (M3)	4.8	17.7	11.6	10.0	11.4
Gourde deposits	4.6	12.4	12.0	7.5	9.1
Foreign currency deposits (U.S. dollars)	5.3	24.6	12.0	12.2	13.5
Credit to the nonfinancial public sector	-6.9	-29.8	48.2	63.7	-2.8
Credit to the private sector	10.8	25.2	15.4	12.8	15.1
Credit in gourdes	2.8	21.3	13.7	7.2	12.3
Credit in foreign currency (U.S. dollars)	18.2	28.3	16.7	17.0	17.0
<b>Memorandum items:</b>					
Foreign currency bank deposits (percent of total)	50.9	53.4	53.4	54.5	55.5
Foreign curr. credit to priv. sector (percent of total)	55.6	57.0	57.7	59.1	60.1
Commercial Banks' Credit to Private Sector (% GDP)	12.4	13.5	13.3	14.0	14.6

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

1/ Excluding commercial bank forex deposits, letters of credit, guarantees, earmarked project accounts and U.S. dollar-denominated bank reserves.

**Table 4. Haiti: Balance of Payments**  
(Fiscal year ending September 30; in millions of U.S. dollars)

	2007	Est. 2008	2009		Proj. 2010
			Prog. Fourth Review	Rev. Prog.	
<b>Current account</b>	-15.2	-289.9	-334.6	-213.9	-216.3
<b>Current account (excluding grants)</b>	-406.8	-763.7	-904.6	-875.4	-870.0
Trade balance	-1,096.0	-1,617.0	-1,643.3	-1,600.1	-1,679.4
Exports of goods	522.5	490.2	498.9	490.8	542.3
<i>Of which: Assembly industry</i>	463.1	423.3	438.0	432.1	478.3
Imports of goods	-1,618.4	-2,107.2	-2,142.2	-2,090.9	-2,221.7
<i>Of which: Petroleum products</i>	-415.0	-602.2	-426.4	-425.0	-526.1
Services (net)	-443.6	-420.6	-474.1	-451.5	-438.6
Receipts	259.6	343.1	304.5	319.9	324.8
Payments	-703.2	-763.7	-778.5	-771.4	-763.4
Income (net)	7.3	21.3	-2.5	-12.8	4.8
<i>Of which: Interest payments 1/</i>	-19.6	-24.6	-26.2	-26.8	-10.5
Current transfers (net)	1,517.1	1,726.4	1,785.3	1,850.5	1,896.9
Official transfers (net)	391.6	473.7	570.0	661.5	653.6
Private transfers (net)	1,125.5	1,252.7	1,215.3	1,189.0	1,243.3
<b>Capital and financial accounts</b>	178.6	331.4	176.2	156.6	171.7
Capital transfers (HIPC/MDRI)				1,069.0	
Public sector capital flows (net)	46.1	319.7	34.2	49.6	100.8
Loan disbursements	91.6	363.5	85.5	98.0	107.3
Amortization 1/	-45.5	-43.8	-51.3	-48.4	-6.5
Debt stock reduction (HIPC/MDRI)				-1,092.0	
Banks (net) 2/	16.2	-143.0	50.0	50.0	-10.0
Private sector capital flows 2/	73.0	115.8	92.0	57.0	80.9
<i>Of which: Foreign direct investment</i>	74.5	29.8	20.0	20.0	50.9
Errors and omissions 3/	43.3	39.0	0.0	0.0	0.0
<b>Overall balance</b>	163.4	41.5	-158.3	-57.4	-44.7
<b>Financing</b>	-163.4	-41.5	158.3	57.4	-6.1
Change in net foreign assets 4/	-184.3	-63.4	48.2	19.5	-6.1
Change in gross reserves	-207.9	-163.0	49.0	-46.7	-17.6
Liabilities	23.5	99.6	-2.8	66.2	11.5
Utilization of Fund credits (net)	21.0	49.9	23.3	60.3	11.5
Purchases and loans	54.7	49.9	23.3	60.3	11.5
Repayments	-33.7	0.0	0.0	0.0	0.0
Other liabilities	2.5	49.7	-26.2	5.9	0.0
Change in arrears	-45.0	0.0	0.0	0.0	0.0
Debt rescheduling	37.9	3.6	3.9	3.5	0.0
HIPC interim assistance	28.1	18.3	19.1	34.0	0.0
External financing to be committed	0.0	0.0	50.0	0.4	0.0
PRGF augmentation	0.0	0.0	37.0	0.0	0.0
<b>Financing gap</b>	0.0	0.0	0.0	0.0	50.8
<b>Memorandum items:</b>					
Current account balance (in percent of GDP)	-0.2	-4.2	-4.4	-3.0	-3.0
Current account balance, excl. grants (in percent of GDP)	-6.6	-11.0	-11.9	-12.4	-12.0
Goods exports (f.o.b) growth	5.7	-6.2	1.8	0.1	10.5
Goods import (f.o.b) growth	4.5	30.2	1.7	-0.8	6.3
External debt as percent of exports	197.1	222.6	241.0	110.8	123.8
Debt service as percent of exports	8.3	8.2	9.6	9.3	2.0
Gross liquid international reserves (in millions of U.S. dollars)	544.7	707.8	696.0	754.7	772.3
Gross liquid international reserves (in months of next year's imports of goods and services)	2.3	3.0	2.8	3.0	3.0

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

1/ Includes HIPC/MDRI debt relief beginning in 2010 (2009 HIPC/MDRI debt relief is reflected below-the-line).

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

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

4/ Petrocaribe resources for FY09 are recorded as private capital inflows and outflows of banks' NFA.

**Table 5. Haiti: Financial Soundness Indicators of the Banking System**

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

	2006	2007	2008	2009	
				end-Dec.	end-March
<b>Size and Growth</b>					
Total assets (in millions of gourdes)	72,519	79,764	100,302	96,289	98,873
<i>Of which: central bank bonds</i>	7,684	9,008	9,397	9,791	9,851
<i>Of which: total loans</i>	22,750	24,670	31,187	31,138	30,980
Total assets (in U.S. dollar millions) 1/	1,929	2,192	2,510	2,410	2,429
Total Deposits (in millions of gourdes)	61,311	66,031	84,725	81,653	84,526
Net Profits (loss) (in millions of gourdes)	414.4	202.3	483.7	214.8	331.5
Credit/GDP	10.2	10.9	10.8	10.0	9.9
Deposits/GDP	30.6	29.2	34.6	33.2	27.1
Credit growth (net) from year before 2/	13.7	9.9	29.3	22.6	14.0
<b>Capital adequacy</b>					
Regulatory capital to risk-weighted assets 3/	14.3	19.0	12.6	11.0	n.a.
Capital (net worth) to assets	5.3	7.0	6.1	7.3	6.6
<b>Asset quality and composition</b>					
Loans (net) to assets	28.2	28.3	29.1	30.2	29.1
NPLs to gross loans	11.1	10.0	9.7	10.5	10.5
Provisions to gross loans	9.9	8.5	6.4	6.6	7.2
Provisions to gross NPLs	89.3	85.5	66.4	63.4	69.2
NPL less provisions to net worth	7.0	6.4	15.6	18.2	15.2
<b>Earnings and profitability (annualized)</b>					
Net Earnings/Assets (ROA)	1.8	1.0	2.0	0.9	1.4
Net Earnings/Equity (ROE)	34.2	14.7	30.9	13.2	20.3
Net interest income to gross interest income	72.2	67.1	80.0	81.6	84.7
Operating expenses to net profits	70.7	86.0	73.5	73.5	71.6
<b>Efficiency</b>					
Interest rate spread in gourdes 4/	11.7	10.2	12.4	11.9	11.9
Interest rate spread in U.S. dollars 4/	7.8	8.9	10.7	10.6	11.1
<b>Liquidity</b>					
Liquid assets to total assets 5/	45.3	46.5	35.4	36.7	49.7
Liquid assets to deposits 5/	54.5	56.1	41.9	43.2	58.1
<b>Market Risk</b>					
Foreign currency loans to total loans (net)	66.0	70.1	69.3	68.6	70.1
Foreign currency deposit to total deposits	53.6	52.4	58.2	54.9	54.9

Source: Fund staff computations based on data from the Bank of the Republic of Haiti.

1/ Data for all years converted from gourdes.

2/ Net credit equal to gross loans less non performing loans.

3/ The prudential requirement is 12 percent. End-December capitalization fell as data for the second-largest bank (traditionally with a capital-to-asset ratio well-above the requirement) were unavailable and as the ratio for the BNC is still negative under the waiver from the BRH following its absorption of SOCABANK.

4/ Defined as the difference between average lending rate and average fixed deposit rate in the banking system.

5/ Liquid assets include cash and central bank bonds.

Table 6. Haiti: Indicative Targets and Quantitative Performance Criteria, FY 2009

	Actual stock at end-	Cumulative Flows since September 2008									
		Dec 08				Mar 09				Jun 09	Sep 09
		Sep 08	Ind. target	Prog. with adjustor 3/	Actual	Deviation from prog w/adjustor	Test date	Prog. with adjustor 3/	Actual	Deviation from prog w/adjustor	Ind. target
<b>Performance criteria</b>											
Net central bank credit to the NFPS (in millions of gourdes)	20,541	1,915	1,034	672	-363	3,500	4,316	1,718	-2,598	3,400	349
Central Government	20,607	2,100	1,219	984	-236	3,500	4,316	2,265	-2,052	3,400	349
Rest of NFPS 1/	-67	-185	-185	-312	-127	0	0	-546	-546	0	0
Net domestic banking sector credit to the central government 2/	13,336	5,115	4,806	4,459	-347	9,530	7,953	5,803	-2,150	9,430	6,379
Net domestic assets of the central bank (in millions of gourdes) - ceiling 3/	16,579	2,100	1,148	-205	-1,353	3,690	4,494	1,772	-2,723	3,940	4,700
Gross Credit from Commercial Banks to the Central Government (in millions of gourdes) - ceiling 4/	0	0	0	0	0	0	0	0	0	0	0
Domestic arrears accumulation of the central government 4/	0	0	0	0	0	0	0	0	0	0	0
New contracting or guaranteeing by the central government or the BRH	0	0	0	0	0	0	0	0	0	0	0
of nonconcessional external debt (In millions of U.S. dollars) 4/ 5/	0	0	0	0	0	0	0	0	0	0	0
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	288	0	23	72	49	-40	-60	26	86	-40	-50
External arrears accumulation (in millions of U.S. dollars) 4/											
<b>Indicative target:</b>											
Change in base money	28,392	2,100	2,100	2,749	649	2,050	2,050	2,847	797	2,300	2,650
<b>Memorandum items:</b>											
Change in currency in circulation	13,030	1,800	1,800	2,275	475	950	950	375	-575	1,100	1,250
Net domestic banking sector credit to the rest of the of the non-financial public sector	-112	-185	-185	-311	-126	0	0	-586	-586	0	0
Government total revenue, excl. grants (in millions of gourdes)	--	7,209	7,209	7,329	119	15,477	15,477	14,493	-984	24,387	32,781
Government total expenditure, excl. ext-fin investment (in millions of gourdes)	--	12,251	12,251	12,489	238	27,043	27,043	22,698	-4,345	36,685	45,398

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

1/ It includes non-budgetary autonomous organizations, local governments and public entities. It will be measured as the change, from September 2008, in *créances nettes sur le secteur public* (i.e. net credit to the non financial public sector) minus the change in *créances nettes sur l'état* (i.e. net credit to the central government), according to table 10R of the BRH.

2/ It includes a reduction of government deposits in commercial banks, that were originated in Petrocaribe-related disbursements during FY2008. As of end-FY08, the balance of these deposits amounted to US\$150 million. The program includes a zero ceiling on commercial banks' gross credit to the central government, on a continuous basis. The disaccumulation of deposits mainly finances hurricane-related reconstruction spending (see TMU).

3/ For program monitoring purposes, NDA is defined as monetary base minus program NIR in gourde terms. Program exchange rate of G41 per U.S. dollar.

4/ On a continuous basis.

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

Table 7. Haiti: Structural Performance Criteria and Benchmarks for the Fifth Review

Performance Criteria	Test Date	Status
Provide, along with normal monthly budget execution tables, execution of emergency spending, by normal budget classification.	Quarterly during the arrangement period, starting on March 31, 2009 and until all off-budget emergency spending is executed	Met on April 2, 2009
Limit to 10 percent nonwage current spending through current accounts.	Quarterly (evaluated at end-March and end-September 2009)	Met
Legislative passage of new banking law.	End-September 2009	
Implement first stage of BRH recapitalization plan.	End-September 2009	
<b>Benchmarks</b>		
Publication of the laws relating to the disengagement of the BRH from APN, SONAPI and BPH approved by Parliament in the official journal "Le Moniteur".	End-March 2009	Met
Submit the organic DGI law to Parliament (reset from September 2008).	End-March 2009	Met
Initiate regular central bank reporting on monetary policy goals and implementation (reset from September 2008).	End-March 2009	Met
Set up and train debt management unit in MEF – both to use centralized external debt database, but also to manage domestic Treasury debt in context of BRH recapitalization.	End-September 2009	
Legislative passage of customs code.	End-September 2009	

**Table 8. Haiti: Indicators of Capacity to Repay the Fund, 2007-20 1/**  
(In fiscal year ending September 30)

	2007	Projections										2020		
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		2018	2019
<b>Fund obligations based on existing credit</b>														
(in millions of SDRs)														
Principal	1.52	0.00	0.00	0.00	0.00	0.77	7.90	15.86	18.26	18.26	15.45	10.36	2.40	0.00
Charges and interest	0.46	0.19	0.34	0.49	0.49	0.49	0.47	0.42	0.34	0.25	0.16	0.09	0.05	0.04
<b>Fund obligations based on existing and prospective credit 2/</b>														
(in millions of SDRs)														
Principal	1.52	0.00	0.00	0.00	0.00	0.77	7.90	15.86	22.18	22.94	20.13	15.04	7.08	0.76
Charges and interest	0.46	0.19	0.34	0.59	0.61	0.61	0.59	0.54	0.45	0.34	0.23	0.14	0.07	0.04
<b>Total obligations based on existing and prospective credit 2/</b>														
In millions of SDRs	1.97	0.19	0.34	0.59	0.61	1.38	8.49	16.40	22.63	23.28	20.36	15.18	7.15	0.80
In millions of U.S. dollars	3.03	0.30	0.52	0.90	0.92	2.10	12.90	24.97	34.46	35.45	31.00	23.11	10.89	1.22
In percent of exports of goods and services	0.39	0.04	0.06	0.10	0.10	0.21	1.21	2.20	2.79	2.64	2.12	1.45	0.64	0.07
In percent of debt service	3.29	0.64	1.37	5.29	3.71	5.95	27.23	40.44	42.70	39.69	34.77	26.34	12.87	1.55
In percent of government domestic revenues	0.49	0.04	0.07	0.11	0.11	0.23	1.31	2.33	2.98	2.84	2.29	1.57	0.68	0.07
In percent of quota	2.41	0.23	0.42	0.72	0.74	1.69	10.37	20.02	27.63	28.42	24.86	18.53	8.73	0.98
In percent of gross international reserves	0.51	0.04	0.06	0.11	0.11	0.25	1.39	2.57	3.37	3.31	2.75	1.95	0.88	0.09
<b>Outstanding Fund credit 2/</b>														
In millions of SDRs	35.7	67.3	105.0	112.7	112.7	111.9	104.0	88.1	66.0	43.0	22.9	7.8	0.8	0.0
In millions of U.S. dollars	55.6	104.8	160.0	171.0	170.7	169.8	158.2	134.3	100.5	65.5	34.9	11.9	1.2	0.0
In percent of exports of goods and services	7.1	12.6	19.7	19.7	18.2	17.0	14.9	11.8	8.1	4.9	2.4	0.8	0.1	0.0
In percent of debt service	60.4	225.1	424.1	1008.5	685.2	481.2	333.8	217.5	124.5	73.4	39.1	13.6	1.4	0.0
In percent of government domestic revenues	9.0	14.9	22.5	21.5	20.4	18.8	16.1	12.5	8.7	5.2	2.6	0.8	0.1	0.0
In percent of quota	43.6	82.1	128.3	137.6	137.6	136.6	127.0	107.6	80.5	52.5	27.9	9.6	0.9	0.0
In percent of gross international reserves	9.3	13.8	19.9	20.8	21.2	20.1	17.1	13.8	9.8	6.1	3.1	1.0	0.1	0.0
<b>Memorandum items:</b>														
Exports of goods and services (millions of U.S. dollars)	782.1	833.3	810.7	867.1	938.6	998.1	1,064.0	1,134.7	1,234.2	1,342.6	1,460.4	1,588.7	1,712.5	1,828.9
Debt service (millions of U.S. dollars)	91.9	46.5	37.7	17.0	24.9	35.3	47.4	61.7	80.7	89.3	89.2	87.7	84.6	78.6
Domestic Revenues (millions of U.S. dollars)	620.2	701.7	709.8	795.2	837.3	903.4	982.5	1,072.1	1,156.4	1,249.2	1,351.9	1,473.9	1,606.1	1,749.2
Quota (millions of SDRs)	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9
Gross international reserves (millions of U.S. dollars)	595.9	758.9	805.6	823.2	804.7	845.8	926.4	972.7	1,021.3	1,072.4	1,126.0	1,182.3	1,241.4	1,303.5
GDP (millions of U.S. dollars)	6,137.4	6,942.8	7,039.8	7,270.3	7,522.7	7,879.5	8,301.5	8,789.9	9,327.6	9,916.2	10,563.7	11,253.4	11,988.1	12,770.8

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

1/ Assumes HIPC completion point reached in June 2009.

2/ Assumes disbursements of SDR 15.8 million in June 2009 and SDR 7.6 million in January 2010.

**Table 9. Haiti: Indicators of External Vulnerability 1/**

(Units as indicated)

	2006	2007	Prel. 2008	Proj. 2009	Proj. 2010	2011
<b>Debt indicators</b>						
Total external public debt (in percent of GDP)	29.7	29.1	26.7	12.8	14.8	16.3
Total external public debt (in percent of exports 2/)	206.1	197.0	222.6	110.8	123.8	130.5
External debt service (in percent of GDP)	1.2	1.2	0.7	0.5	0.2	0.3
Amortization	0.8	0.9	0.4	0.3	0.1	0.2
Interest	0.3	0.3	0.3	0.2	0.1	0.2
External debt service (in percent of exports 2/)	8.2	9.5	5.7	4.7	2.0	2.7
Amortization	5.8	7.4	3.5	2.8	0.7	1.3
Interest	2.4	2.1	2.2	1.9	1.2	1.4
External debt service (in percent of current central govt. revenues)	11.8	12.0	6.8	5.3	2.1	3.0
Amortization	8.3	9.3	4.1	3.2	0.8	1.4
Interest	3.5	2.7	2.6	2.1	1.3	1.5
<b>Other indicators</b>						
Exports (percent change, 12-month basis in U.S. dollars)	7.7	5.7	-6.2	0.1	10.5	8.8
Imports (percent change, 12-month basis in U.S. dollars)	18.3	4.5	30.2	-0.8	6.3	4.7
Remittances and grants in percent of gross disposable income	22.0	19.8	19.9	20.8	20.7	20.2
Real effective exchange rate appreciation (+) (end of period)	5.0	15.3	2.9	...	...	...
Exchange rate (per U.S. dollar, period average)	41.4	37.4	38.3	...	...	...
Current account balance (in U.S. dollar millions) 3/	-68.8	-15.2	-289.9	-213.9	-216.3	-209.2
Capital and financial account balance (in U.S. dollar millions) 4/	147.8	178.6	331.4	156.6	171.7	30.6
Public sector	49.3	46.1	319.7	49.6	100.8	-12.1
Private sector	98.6	132.5	11.7	107.0	70.9	42.7
Liquid gross reserves (in U.S. dollar millions)	337.1	544.7	707.8	754.7	772.3	753.9
In months of imports of the following year 2/	1.7	2.3	3.0	3.0	3.0	2.8
In percent of debt service due in the following year	452	1147	1876	4452	3100	2136
In percent of base money	56.9	79.5	99.6	103.2	101.9	102.4

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

1/ Reflects HIPC/MDRI relief.

2/ Exports of 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 10. 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 23,980,000	February 11, 2009	Observance of performance criteria for September 2008 and completion of the fourth review under the PRGF arrangement.
SDR 15,790,000	June 29, 2009	Observance of performance criteria for March 2009 and completion of the fifth review under the PRGF arrangement.
SDR 7,610,000	January 20, 2010 2/	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).

2/ An extension of the program beyond its expiration date (November 19, 2009) is being requested at the time of the fifth review to allow additional time to complete the sixth review.

**ATTACHMENT I. HAITI: LETTER OF INTENT**

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

Port-au-Prince  
June 15, 2009

Dear Mr. Strauss-Kahn:

1. The purpose of this letter and the attached memorandum is to inform you of the progress made under the PRGF-supported program and to request that the sixth disbursement under the arrangement, in the amount of SDR 15.79 million, be made available to Haiti following the completion of the fifth review, that the structural performance criteria for end-September be converted to structural benchmarks, and that the PRGF-supported program be extended to allow for completion of the sixth review.
2. The attached Memorandum of Economic and Financial Policies (MEFP) reviews progress under the PRGF and outlines the government's policies, objectives, and macroeconomic framework for the remainder of FY 2009 (April–September). Over the past two years, implementation of our reform program has improved fiscal discipline, expenditure execution, and transparency, and helped strengthen the banking system. This has contributed to economic stabilization, improved private sector confidence, and stronger economic growth.
3. Despite the serious difficulties we are facing because of recent shocks, we have maintained strong performance under the PRGF-supported program. For the fifth review, all quantitative performance criteria (PC) were met, and one out of two structural PCs and all three structural benchmarks were fully implemented prior to the end-March 2009 test date. The Government requests a waiver for the nonobservance of the end-March structural PC on providing monthly tables on execution of emergency spending, according to normal budget classification, which was met in full on April 2.
4. We are also making inroads in the area of poverty reduction. In spite of numerous challenges and limited financing, we launched our PRSP in January 2008 and have finalized the first annual progress report on its implementation. Accomplishments include agreeing on priorities and results, establishing a participatory monitoring framework, and aligning the FY 2009 budget with those priorities. We are making good progress on the remaining

outstanding structural measures needed to achieve completion point under the Enhanced HIPC Initiative, which we hope to reach in June 2009.

5. At the same time, we face critical challenges in the second half of this fiscal year. As the economy is barely recovering from the unprecedented hurricane destruction in the summer of 2008, Haiti is being hit by the global crisis. Rapidly falling international commodity prices and weak economic activity due in part to a leveling off of remittances are causing a shortfall in revenue for the year. This shortfall comes on top of an existing scarcity of available resources to finance critical poverty-reduction and reconstruction spending.

6. At an international donor conference held in Washington in April, Haiti's development partners endorsed our 18-month economic recovery program and committed additional resources for its implementation. Framed within the PRSP and the Emergency Post Disaster Assessment carried out after the 2008 hurricanes, the economic recovery program seeks to safeguard stability and ensure that Haiti continues on a path toward economic security and social development. In particular, our program proposes immediate measures to rehabilitate infrastructure while stimulating the economy through job creation, as part of our on-budget investment spending. While generous, the resources committed at the conference fell short of our expectations. Additional budget support committed at and since the conference totals US\$49.6 million, which remains just below the US\$50 million in donor support to be committed included in the PRGF-supported program.

7. We are concerned by the economic outlook for the second half of this year. Further reductions in a spending program that is already significantly scaled-back would have adverse consequences on growth, employment, and the living conditions of our population, at the risk of renewed social unrest. We are fully committed to raising domestic revenue to provide additional resources for investment spending in FY 2010 and beyond. However, it will take some time to build support for new tax measures and to reap the benefits of ongoing efforts to strengthen revenue administration. We continue to seek additional donor support but we recognize that it may not materialize following the Washington donor conference. Therefore, on an exceptional basis, part of the expected fiscal deficit for the rest of the year could be covered by central bank financing in order to maintain overall spending close to the level envisaged at the time of the fourth PRGF review.

8. 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 consultations.

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

Sincerely yours,

/s/

Daniel Dorsainvil  
Minister of Economy and Finance  
Haiti

/s/

Charles Castel  
Governor  
Bank of the Republic of Haiti

Attachments

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

1. During the first half of FY 2009 (October–March), Haiti made further progress in implementing its economic and social program, despite severe shocks. We have been able to comply with most of our commitments under the PRGF-supported program. The substantial challenges that lie ahead will require a concerted effort by the government and our development partners to preserve the hard-won gains and progress made so far, and keep Haiti on a path toward economic security and social development.
2. This Memorandum of Economic and Financial Policies (MEFP) supplements that of February 2009. It updates and revises policy objectives and commitments and the macroeconomic framework for the second half of FY 2009 (April–September). Unless explicitly noted, our policy commitments from the February 2009 MEFP remain valid.

**A. Recent Developments**

3. The growth outlook is weaker than anticipated and inflation is dropping quickly. Public spending proceeded at a slower pace than anticipated in the first half of the fiscal year due to low revenue and delays in approving the FY 2009 budget, and private demand remained subdued. Reflecting rapidly falling international commodity prices, inflation fell from 19.8 percent in September 2008 to 0.1 percent in April (year-on-year), after five consecutive months of deflation. The deceleration in core inflation has been less dramatic, falling from 10.4 percent to 7.1 percent over the same period.
4. As of end-March 2009, the fiscal deficit was contained at 2.8 percent of GDP, compared with 4 percent of GDP in the program.<sup>1</sup> Revenue during the first half of FY 2009 amounted to 5 percent of GDP, compared with 5.4 percent of GDP in the program (using the latest annual GDP figures), as low international prices and weaker domestic activity depressed both customs revenues and domestic tax receipts. However, domestic spending was also well below program targets, at only 7.9 percent of GDP compared a programmed level of 9.4 percent of GDP. This reflected mostly lower on-budget investment spending, although transfers to the energy sector were higher-than-budgeted due to an increase in installed capacity. In the same period, the government executed US\$147.4 million (2.1 percent of GDP) in off-budget reconstruction spending out of the amount of US\$197.5 million (2.8 percent of GDP) authorized by Parliament.
5. So far the impact of the global slowdown on Haiti's external accounts has been smaller than anticipated. In October-April, migrants' remittances were roughly flat compared with the same period last year. Based on preliminary data, lower-than-programmed exports

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<sup>1</sup> Including off-budget spending, excluding grants and foreign-financed investment spending.

and services receipts as well as higher reconstruction costs are being more than offset by lower imports, owing to reduced fuel and food prices. As a result, at end-April, gross liquid reserves reached US\$769 million (3.1 months of next year's imports) and the gourde remained relatively stable at G 40-41 per U.S. dollar.

6. In the context of rapidly falling inflation, the rise in liquidity due to net central bank financing to the government (G 2.5 billion or US\$60 million) between October and end-May was only partly offset by net foreign exchange sales (US\$39 million). With suddenly high real interest rates, we reduced the nominal interest rate on BRH bonds by a total of 300 basis points, and temporarily stopped issuing high-rate 182-day bonds as well as shifted the composition of BRH bonds toward the shortest maturity (7 days), while maintaining its stock relatively stable. Declining net foreign assets contributed to reduce growth in base money to 7.4 percent at end-May (year-on-year).

### **B. Performance to Date Under the Program**

7. End-March data indicate that all quantitative performance criteria were met, some by wide margins. In particular, at US\$314 million, net international reserves (NIRs) were well above the program floor (US\$248 million), although pressures may emerge later this year if remittances fall further and commodity prices start picking up. Net central bank financing to the government reached G 2.3 billion at end-March, below the adjusted program ceiling of G 4.3 billion.

8. End-March structural conditionality was met, with only one exception. The report on emergency spending was communicated to staff a few days after the end-March test date. Spending by ministries on discretionary current accounts was kept at about 3 percent of total non-wage current spending for the first half of FY 2009, well below the 10 percent ceiling. The laws relating to the disengagement of the BRH from APN, SONAPI and the BPH were approved by Parliament and published in the official journal "Le Moniteur". Also, the BRH posted on its website a note on monetary policy goals and implementation. The organic tax administration law that was submitted to Parliament reflects best international practices.

### **C. Economic and Financial Policies for the Second Half of FY 2009 (April–September)**

#### **Program Objectives**

9. Our priority for the second half of FY 2009 will be to preserve critical spending for infrastructure rehabilitation and PRSP implementation in light of scarce available resources. This will be essential to preserve growth and reduce the impact of the global crisis on the population. We will do our utmost to continue adherence to the program to safeguard economic stability, support growth and poverty-reduction, and complete structural reforms initiated over the course of the three-year PRGF-supported program. We have also made good progress in implementing the HIPC completion point triggers.

## **Growth and Inflation**

10. Growth in FY 2009 is projected at 2 percent compared to 2.5 percent at the time of the fourth PRGF review. In spite of the worsening external environment and the slow recovery in agricultural output, growth is supported by rising public investment (including off-budget spending), better-than-anticipated remittance flows, and somewhat improved net exports compared to earlier projections. For FY 2010, we anticipate a moderate recovery in real GDP growth to 2.4 percent, as the impact of the 2008 hurricanes on the economy fades and remittances recover gradually in the context of improving global conditions.

11. Annual inflation is projected at 1 percent at end-September 2009, compared with 9.5 percent in the program. Although international prices for Haiti's imports are projected to decline by 28 percent through end-year, remaining disruptions in local distribution networks should keep local food prices and core inflation at a much higher level than overall inflation. For FY 2010, the statistical impact of the 2008 peak in inflation will fully unwind, import prices are expected to increase, and core inflation should remain high, so that end-year inflation should increase to 5 percent.

## **Fiscal**

12. A revised FY 2009 budget was submitted to Parliament in March 2009 and was approved on June 2. Adjusting mainly for differences in foreign-financed capital spending, the budget is broadly in line with the fourth PRGF review targets. The budget aims at supporting growth through preserving critical spending for infrastructure rehabilitation and PRSP implementation. Budgeted revenue (G 32.8 billion) is in line with the fourth PRGF review target. Including off-budget spending and foreign-financed projects, the expenditure envelope agreed at the time of the fourth review amounts to G 61.1 billion.

13. However, domestic revenue is now projected to be G 29 billion, lower than anticipated under the program. The projection reflects lower customs revenue (G 1.5 billion) as well as lower domestic tax revenue including import-related domestic tax revenue (G 2.4 billion). Other domestic revenues are performing well and are now projected to be higher by about G 0.2 billion for the year. We are striving to avoid further revenue losses and the completion of measures underway is expected to enhance revenue administration. In particular, the domestic tax administration (DGI) and the customs administration (AGD) will soon be able to share information on import-related activities on a real time basis, and the recent installation of the customs management software SYDONIA in our provinces (one of the conditions to reach the HIPC completion point) should also help support revenue collection in the second half of the fiscal year. Nonetheless, critical technical assistance from Canada to modernize tax and customs administration has only recently started and is unlikely to have an impact on revenue this fiscal year. We are fully committed to increasing domestic

revenue collection and are planning to implement new tax measures during the next fiscal year.

14. Before the envisaged tax measures are implemented and take their full effect, the revenue shortfall could be covered by a combination of adjustments in spending and increased central bank financing. In light of the fragile social and political situation, our primary objective is to preserve the implementation of priority investment projects through the rest of the fiscal year in order to support growth, create jobs and thus improve the living conditions of the population. We will continue to seek additional donor support to help meet significant outstanding needs, but we recognize that it may not materialize following the Washington donor conference.<sup>2</sup>

- Delays in passing the FY 2009 budget will contribute to savings on the wage bill and goods and services, and domestic investment will be limited to implementation of a minimum level of priority projects through the end of the fiscal year.
- We propose using up to a maximum of G 2 billion (US\$50 million) in new central bank financing in order to cover part of the new fiscal gap caused by the shortfall in revenue and not covered by donor support. This amount would allow us to maintain overall spending close to the already compressed level envisaged at the time of the fourth review of our PRGF-supported program, thus preventing further cuts in priority expenditure. Given the strongly deflationary environment, we believe that macroeconomic stability would not be at risk. In order to avoid a further deterioration of the central bank balance sheet, we commit to include the totality of new net central bank financing in the consolidated amount of government obligations to be securitized under the BRH recapitalization plan, and to increase the initial amount of treasury bills to be issued under this plan in FY 2010.
- We are committed to contain unsustainable transfers to the energy sector that arise because of subsidized electricity prices. The recent coming on stream of three new power plants has significantly increased installed capacity and improved the supply of electricity in Cap Haitien, Carrefour and Gonaïves. However, since electricity prices charged to users do not cover production costs, fiscal transfers to the energy sector

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<sup>2</sup> For FY 2009, net external financing under the program does not include any new PetroCaribe/ALBA resources, although, aside from the funds allocated to the Emergency Program, a total of US\$42 million in new available funds from PetroCaribe have been accumulated in commercial banks as of end-April (in addition to PetroCaribe flows from 2008 that have been allocated to the Emergency Program). In case they constitute public debt and/or are spent by the central government in FY 2009, these resources will be treated as budget support or as project account resources for program purposes, as specified in the attached Technical Memorandum of Understanding. The nature of these resources will be determined by their originating contract and the definitions in the attached Technical Memorandum of Understanding (¶¶2, 27–28 ).



have increased at a fast pace since the beginning of the fiscal year and could significantly exceed the budgeted amount of G 3.5 billion. In addition to ongoing efforts to reduce losses and improve the quality and reliability of the energy supply, we intend to publish and implement by end-September 2009 at the latest, a new electricity tariff structure that would increase and maintain electricity prices at cost-recovery levels, while protecting poorer households.

15. This approach would leave a revised overall deficit for FY 2009 (excluding grants and foreign-financed investment, but including off-budget emergency spending) of G 15.4 billion (5.3 percent of GDP), compared to G 12.6 billion (4.4 percent of GDP) in the original program.

### **Monetary and Financial Sector**

16. Monetary policy will remain geared toward containing core inflation, as the impact of high commodity prices wanes. To this end, the annual rate of base money growth will be kept unchanged at 9.3 percent during FY 2009, close to that of nominal GDP growth (8.3 percent). With this objective in mind, the BRH will seek to sterilize new net central bank financing through open market operations and foreign exchange sales. While the BRH may undertake foreign exchange operations to smooth out disruptive exchange rate volatility, it remains committed to its flexible exchange rate regime, which will continue to be an important instrument to help the economy adjust to shocks. To help guide inflation expectations, we will continue to publish regular reports on monetary policy goals and outcomes, at least on a quarterly basis. We will continue to improve liquidity management, including through ensuring close coordination between the Ministry of Economy and Finance and the BRH to assess upcoming liquidity needs, including for foreign exchange.

17. We are actively seeking alternatives to contain sterilization costs while preserving a well-defined yield curve through a balanced mix of available maturities for our BRH bonds. In particular, we stand ready to use all available instruments, including 182-day bonds, in order to facilitate the development of a government securities market during the next fiscal year. Our medium-term objective remains to create a competitively-determined policy interest rate that can serve as a better transmission mechanism for monetary policy objectives. We will also continue to encourage broader participation in the weekly central bank bond auctions, and have plans to encourage participation by individuals through certified brokers.

18. Preliminary prudential indicators through end-March 2009 suggest that the banking sector remains sound, adequately capitalized, and profitable despite weak economic activity. Credit and net profits increased by 13 percent and 30 percent, respectively, from a year ago, contributing to a sharp improvement in earning indicators. NPLs have remained stable at 10.5 percent. However, credit in foreign currency rose further to about 70 percent. Thus, as a temporary prudential measure to discourage excessive lending in foreign currency, we

announced in March an increase from 31 percent to 34 percent in the reserve requirement on U.S. dollar-denominated deposits, and we cut (from 30 percent to 29 percent) the requirement on gourde deposits.<sup>3</sup> We will implement additional measures if needed and will monitor developments closely to ensure the continued health of the banking system. Approval by Parliament of the banking law by end-September 2009 will give us enhanced legal and administrative tools to intervene promptly and forcefully should banking sector problems develop.

### **Quantitative Program Targets**

19. The last six months of the program will be monitored using quantitative indicative targets for end-June and quantitative PCs for end-September as presented in Table 2. The next and last test date for the program will be end-September 2009. The PRGF-supported program is set to expire on November 16, 2009, but end-September data will not be available in time to complete the review by November 16. We therefore request an extension of the current PRGF-supported arrangement until January 31, 2010 to allow time to complete the sixth review.

20. It is anticipated that the fifth program review will be completed on or around June 29, 2009, and that the sixth review will be completed on, or around, January 20, 2009. For end-September 2009, new central bank financing to the non-financial public sector will be set at G 2.395 billion, including the drawing down of G 349 million in accumulated deposits at end-September 2008. The programmed reduction in NIR of US\$50 million during FY 2009 should provide sufficient room to preserve reserve coverage in case of a sudden deterioration in the external accounts and to sterilize central government financing as needed. The definitions of the quantitative targets are provided in the attached Technical Memorandum of Understanding (TMU). Out of the original amount of US\$50 million in donor support to be committed, a total of US\$49.6 million has now been identified, so that the expected maximum amount of central financing allowed under the program adjustor is now US\$0.4million. If, however, the expected budget support does not materialize, the program adjustor will allow central bank financing to cover the shortfall as outlined in the TMU. In keeping with our central program commitment, we will budget resources for repayment of central bank financing in the following fiscal year. The program allows full spending of any additional external support above and beyond the net amounts projected.

### **Program Structural Measures**

21. Structural reforms will center on measures initiated earlier in the program but still outstanding, as well as newly-relevant measures in the areas of strengthening financial

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<sup>3</sup> Seventy percent of the reserve requirement on U.S. dollar deposits has to be complied with in U.S. dollars.

governance and reinforcing monetary policy independence. In line with the recent change in the Fund's conditionality policy, we request that the end-September structural performance criteria be changed to benchmarks (Table 3). These measures are laid out in more detail in the attached Technical Memorandum of Understanding.

- We will seek prompt parliamentary approval of key laws tabled in mid-2007, including the banking law and a new customs code.
- We will begin implementing the newly agreed recapitalization plan for the BRH. In particular, we will: (i) increase interest payments by the MEF in line with the plan, (ii) establish a calendar for the replacement of the current unsecuritized stock of central government debt to the BRH with the issuance of Treasury Bills (T-Bills), with the first issuance of T-Bills (in the amount of G 5.9 billion) to occur during FY 2010; (iii) jointly establish the magnitude of government debt to the BRH to be treated under the recapitalization plan, and approve its consolidation by end-September 2009; and (iv) produce a memorandum of understanding between MEF and BRH on the financial terms of the T-Bills to be issued, their tradability, and any other operational matters relevant for the implementation of the swap, consistent with the BRH recapitalization plan.
- With technical assistance already under way, the debt management unit in the Ministry of Economy and Finance will be reinforced, in preparation for issuance of T-Bills and to ensure continued debt sustainability after the HIPC completion point.
- We will continue to limit spending under ministerial current accounts.
- Regarding the emergency off-budget spending, we have provided detailed reports to Parliament and the Fund on implementation to date, and we are committed to continue to monitor the remaining US\$50 million in emergency off-budget spending very closely and to provide monthly tables of execution based on normal budget execution on a quarterly basis. We reiterate our commitment to audit all off-budget spending in line with normal audit procedures for on-budget spending.
- The current pace of transfers to the energy sector is unsustainable and we are committed to containing further increases through the implementation of a new electricity tariff structure that will increase and maintain prices at cost-recovery levels, effective at the latest by end-September 2009.

### **Progress Toward the HIPC Completion Point**

22. Despite difficult circumstances in Haiti in the past year, including the lack of a cabinet for five months and the hurricanes, we have made significant progress on outstanding conditions for reaching the HIPC completion point and benefiting from HIPC and MDRI debt

stock reductions by mid-2009. In particular, we have maintained macroeconomic stability and performance under our PRGF-supported program has remained strong. Haiti's PRSP has been implemented for one year and an annual progress report on implementation has been submitted to the IMF and the World Bank. We have strengthened public financial management, including by ensuring that budgeted spending is aligned with PRSP priorities and better tracking poverty-reducing outlays, auditing government accounts and submitting them to Parliament, and enhancing customs controls through the installation of the SYDONIA customs management software at the main provincial customs posts in addition to Port-au-Prince. Debt management capacity has been improved through the installation of software for a centralized external debt database, and the second of two quarterly external debt reports was finalized in June 2009. Building on decrees issued in 1989 and 2003, a procurement law was approved by Parliament on June 10 and we are prepared to move quickly on its implementation.

**Table 1. 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 23,980,000	February 11, 2009	Observance of performance criteria for September 2008 and completion of the fourth review under the PRGF arrangement.
SDR 15,790,000	June 29, 2009	Observance of performance criteria for March 2009 and completion of the fifth review under the PRGF arrangement.
SDR 7,610,000	January 20, 2010 2/	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).

2/ An extension of the program beyond its expiration date (November 19, 2009) is being requested at the time of the fifth review to allow additional time to complete the sixth review.

Table 2. Haiti: Indicative Targets and Quantitative Performance Criteria, FY 2009

	Actual stock at end-	Cumulative Flows since September 2008									
		Dec 08				Mar 09				Jun 09	Sep 09
		Sep 08	Ind. target	Prog. with adjustor 3/	Actual	Deviation from prog w/adjustor	Test date PC	Prog. with adjustor 3/	Actual	Deviation from prog w/adjustor	Revised ind. target
<b>Performance criteria</b>											
Net central bank credit to the NFPS (in millions of gourdes)	20,541	1,915	1,034	672	-363	3,500	4,316	1,718	-2,598	2,765	2,395
Central Government	20,607	2,100	1,219	984	-236	3,500	4,316	2,265	-2,052	2,765	2,395
Rest of NFPS 1/	-67	-185	-185	-312	-127	0	0	-546	-546	0	0
Net domestic banking sector credit to the central government 2/	13,336	5,115	4,806	4,459	-347	9,530	7,953	5,803	-2,150	8,795	8,425
Net domestic assets of the central bank (in millions of gourdes) - ceiling 3/	16,579	2,100	1,148	-205	-1,353	3,690	4,494	1,772	-2,723	4,367	4,702
Gross Credit from Commercial Banks to the Central Government (in millions of gourdes) - ceiling 4/	0	0	0	0	0	0	0	0	0	0	0
Domestic arrears accumulation of the central government 4/		0				0	0	0		0	0
New contracting or guaranteeing by the central government or the BRH											
of nonconcessional external debt (in millions of U.S. dollars) 4/ 5/		0				0	0	0		0	0
Up to and including one year		0				0	0	0		0	0
Over one-year maturity		0				0	0	0		0	0
Net international reserves of central bank (in millions of U.S. dollars) - floor	288	0	23	72	49	-40	-60	26	86	-40	-50
External arrears accumulation (in millions of U.S. dollars) 4/		0				0	0	0		0	0
<b>Indicative target:</b>											
Change in base money (in millions of gourdes) - ceiling	28,392	2,100	2,100	2,749	649	2,050	2,050	2,847	797	2,727	2,652
<b>Memorandum items:</b>											
Change in currency in circulation	13,030	1,800	1,800	2,275	475	950	950	375	-575	1,098	1,241
Net domestic banking sector credit to the rest of the of the non-financial public sector	-112	-185	-185	-311	-126	0	0	-586	-586	0	0
Government total revenue, excl. grants (in millions of gourdes)	--	7,209	7,209	7,329	120	15,477	15,477	14,493	-984	21,721	29,041
Government total expenditure, excl. ext-fin investment (in millions of gourdes)	--	12,251	12,251	12,489	238	27,043	27,043	22,698	-4,345	31,476	44,435

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

1/ It includes non-budgetary autonomous organizations, local governments and public entities. It will be measured as the change, from September 2008, in *créances nettes sur le secteur public* (i.e. net credit to the non financial public sector) minus the change in *créances nettes sur l'état* (i.e. net credit to the central government), according to table 10R of the BRH.

2/ It includes a reduction of government deposits in commercial banks, that were originated in Petrocaribe-related disbursements during FY2008. As of end-FY08, the balance of these deposits amounted to US\$ 150 million.

The program includes a zero ceiling on commercial banks' gross credit to the central government, on a continuous basis. The disaccumulation of deposits mainly finances hurricane-related reconstruction spending (see TMU).

3/ For program monitoring purposes, NDA is defined as monetary base minus program NIR in gourde terms. Program exchange rate of G41 per U.S. dollar.

4/ On a continuous basis.

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

Table 3. Haiti: End-September 2009 Structural Conditionality Measures

Benchmarks	Test Date	Macroeconomic Rationale
Provide, along with normal monthly budget execution tables, execution of emergency spending, by normal budget classification.	Quarterly during the arrangement period, starting on March 31, 2009 and until all off-budget emergency spending is executed	Strengthen fiscal governance and accountability.
Limit to 10 percent nonwage current spending through current accounts.	Quarterly (evaluated at end-March and end-September 2009)	Strengthen fiscal governance.
Legislative passage of new banking law.	End-September 2009	Reinforce financial sector stability.
Implement first stage of BRH recapitalization plan.	End-September 2009	Strengthen monetary policy independence.
Set up and train debt management unit in MEF – both to use centralized external debt database, but also to manage domestic Treasury debt in context of BRH recapitalization.	End-September 2009	Promote debt management capacity.
Legislative passage of customs code.	End-September 2009	Modernize customs administration and improve tax collection.
Publish and implement a new electricity tariff structure that would increase and maintain electricity prices at cost-recovery levels.	End-September 2009	Improve fiscal discipline and sustainability.

### 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 benchmarks. This Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, structural benchmarks, and indicative targets for the period April–September 2009, specified in Tables 1 and 2 of the Memorandum on Economic and Financial Policies (MEFP). It also lays down the monitoring and reporting requirements. The quantitative performance criteria under the program are set for end-September 2009. Targets for end-June 2009 are indicative.

#### I. DEFINITIONS

##### A. Net BRH Credit to the Central Government<sup>1</sup>

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.
  - b. Change in the stock of project accounts (“Comptes de projets”) included in Table 10R of the BRH will be excluded from change in net domestic credit to the central government as defined above.<sup>2</sup>
  - c. Change in the stock of Special Accounts (“Comptes Speciaux”) and seized values (“Valeurs Saisies UCREF”) included in Table 10R of the BRH will be excluded from the change in net domestic credit to the central government as defined above.<sup>3</sup>

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<sup>1</sup> 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).

<sup>2</sup> Project accounts (“Comptes de projets”) refer to government accounts at the BRH which can only be used with the authorization of donors (similar to escrow accounts), i.e., their use is beyond the control of the central government. If included, movements in these accounts would appear as BRH credit to the government. See Section E for the treatment of PetroCaribe-related resources.

<sup>3</sup> Special Accounts (“Comptes Speciaux”) refer to US\$-denominated central government sight deposits at the BRH. The balance of these accounts increase with the proceeds of the sales of in-kind aid (in the form of wheat, maize, rice, etc.) received by the Haitian government; these proceeds are earmarked to finance specific projects and cannot be used by the Central Government without the explicit authorization of respective donors.



3. The changes will be measured on a cumulative basis from the stock at end-September 2008.

### **B. Net Domestic Banking Sector Credit to Central Government**

4. 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 to the central government from the BRH according to Table 10R of the BRH; plus, the change in the stock of net domestic credit of the central government from domestic banks according to Table 20R of the BRH;
- b. The change in the stock of project accounts (“Comptes de projets”), as defined in 2.b above, will be excluded from the change in net domestic banking sector to the Central Government.
- c. The change in the stock of Special Accounts (“Comptes Speciaux”) and seized values (“Valeurs Saisies UCREF”), as defined in 2.c above, will be excluded from the change in net domestic banking sector to the Central Government.

In addition, the ceiling for the change in gross credit from domestic banks to the central government will be set at zero continuously throughout the program period.

5. The changes will be measured on a cumulative basis from the stock at end-September 2008.

### **C. Net International Reserves**

6. 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 2008 and 2009);<sup>4</sup>
- 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 the stock of project accounts (“Comptes de projets”) as defined in 2.b above.

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<sup>4</sup> Letters of credit and guarantee (“Lettres de crédit” and “Lettres de garantie”) are reported in Table 10R as part of BRH foreign liabilities (“Engagements extérieurs”), and therefore are already netted out of NIR.

- d. Minus the change in the stock of Special Accounts (“Comptes Speciaux”) and seized values (“Valeurs Saisies UCREF”) as defined in 2.c above.
7. Data will be expressed in U.S. dollar terms and valued at the corresponding end-period market exchange rate.
8. 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. For the purposes of the program any new SDR allocation would be included in reserve liabilities.
9. The changes will be measured on a cumulative basis from the stock at end-September 2008.

#### **D. Net Domestic Assets of the BRH**

10. 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 I. 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.
11. The program definition of net domestic assets of the BRH will use a program exchange rate of G 41 per U.S. dollar for the period April-September 2009.
12. The changes will be measured on a cumulative basis from the stock at end-September 2008.

#### **E. PetroCaribe-Related Inflows in FY 2008 and FY 2009**

13. The authorities indicated that PetroCaribe-related inflows during FY 2008 amounted to US\$201 million. These inflows constitute direct external debt of the central government and will be spent during FY 2009, mainly in post-hurricane reconstruction projects, and hurricane-related relief. As of end-September 2008, US\$51.0 million of such inflows were held in U.S. dollar-denominated sight deposits of the central government at the BRH, and the remaining US\$149 million in U.S. dollar-denominated deposits of the central government at

domestic commercial banks. These resources are under the direct control of the central government, for program purposes.

14. The authorities indicated that they were exploring options to channel new Petrocaribe/ALBA-related inflows during FY 2009 through a binational Venezuela-Haiti corporation.<sup>5</sup> Until new institutional arrangements are finalized, these inflows will continue to be held in central government accounts at a commercial bank.

#### **F. 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.

#### **G. 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 1<sup>st</sup> 2008) if expenditure executed through current accounts is less than 10 percent of nonwage budget appropriations at the end-March and end-September test dates.

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<sup>5</sup> ALBA refers to “Alternativa Bolivariana de las Americas”.

## **H. 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.

## **I. 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 (Dépôts à vue en gourdes des BCM à 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 2008.

## **II. 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 central government will be adjusted downwards for the amount of outstanding domestic arrears accumulation.

### **B. Adjustment for PetroCaribe-related Inflows in FY 2009**

27. The ceiling for net domestic banking sector credit to the central government will be adjusted downwards for any (new) PetroCaribe/ALBA-related inflows during FY 2009 into

central government deposits in the domestic banking sector (which comprises domestic banks and the BRH), while the ceiling for net BRH credit to the central government will be adjusted downwards for the portion of such flows deposited at the BRH. Correspondingly, the floor for Net International Reserves of the BRH will be adjusted upwards for any portion of such new inflows that are transitorily deposited at government accounts at the BRH.<sup>6</sup>

28. In case all or/any portion of such new inflows were to constitute public debt (direct and/or contingent) of any form, such inflows will count as “Program Net External Financing” as defined and referred to in paragraphs 29 and 30. Any spending of any form (within or outside the budget) financed with such new inflows during FY 2009 will be considered as central government spending for program purposes.<sup>7</sup> In this case, a similar adjustment to that described in paragraph 27 will apply: the ceiling for net domestic banking sector credit to the central government will be adjusted downwards for the difference between any (new) PetroCaribe/ALBA-related inflows during FY 2009 and any spending financed with such flows. The ceiling for net BRH credit to the central government will be adjusted downwards (and the floor for Net International Reserves upwards), for the portion of unspent inflows deposited at the BRH.

### C. Adjustment for Net Program External Financing

29. 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.

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

	June 2009	September 2009
Program net external financing	-12.6	108.7

30. If actual net external financing is lower than programmed net external financing, the ceilings on net BRH credit to the central government and on net BRH 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\$50 million. The adjuster will be calculated on a cumulative basis from October 1, 2008.

<sup>6</sup> In other words, the baseline program assumes these flows to be zero.

<sup>7</sup> Net program external financing in the form of inflows from PetroCaribe/ALBA during FY 2009 are assumed to be zero.

#### **D. Adjustment for Lower Utilization of FY 2008-Related PetroCaribe Inflows**

31. Under the program, all PetroCaribe-related inflows received in FY 2008 are projected to be spent in FY 2009, mainly in reconstruction-related investment projects and hurricane-related relief. Since these inflows were not used completely by end-March 2009, (and to ensure that these projects remain adequately financed), (i) the quarterly FY 2009 ceiling for net domestic banking sector credit to the central government will be adjusted downwards for any unspent amount deposited at the domestic banking system, while the ceiling for net BRH credit to the central government will be adjusted downwards for any portion of such unspent resources deposited at the BRH; and (ii) for the respective amount deposited at the BRH, the net international reserve floor will be adjusted upwards. The structural benchmark to fully report emergency spending will apply on a quarterly basis in FY 2009 until full utilization of PetroCaribe-related inflows received in 2008.

### **III. CLARIFICATION OF STRUCTURAL CONDITIONALITY**

#### **A. Public Financial Management**

32. The structural benchmark to monitor the use and accounting of the emergency off-budget public spending involves the provision, alongside the standard monthly execution tables, of tables reporting the emergency spending according to normal budget classification that will be posted in the Ministry of the Economy and Finance's (MEF) website as is currently the practice with TOFE tables.

33. The benchmark for the setting up of a Debt Management Unit at the MEF involves the (i) the definition of the function to be performed by the DMU as well as its location within the MEF organizational chart, by means of a MEF internal regulation; (ii) the assignment of personnel to comply with its basic functions; (iii) the adoption of a debt management software that could be linked to SYSDEP, as well as the training of relevant (*Back Office*) DMU staff in its operation; (iv) the centralization of the recording and storage of all public debt data at the DMU; (v) the production of a draft operations manual; (vi) the drafting of memoranda of understanding between the MEF and other ministries and the BRH to clearly establish responsibilities and avoid overlappings.

34. Regarding the benchmark for the legislative passage of the customs code, we will inform staff in case substantial changes to the draft law are proposed by Parliament.

35. Regarding the benchmark for adjustment in electricity tariffs, the cost-recovery level of electricity tariffs is the minimum level of electricity tariffs that will allow EDH to recover the costs incurred in producing and/or distributing electricity.

#### **B. Monetary Policy and Financial Sector**

36. The performance criterion to implement the first stage of the BRH recapitalization plan involves, (i) increasing interest payments on the stock of central government debt to the

BRH to G1.1 billion in FY 2009; (ii) establishing a calendar for the replacement of the current unsecuritized stock of central government debt to the BRH with the issuance of Treasury Bills (TB): the first such issuance (in the amount of G5.9 bn) is scheduled to occur during FY2010; (iii) preparing and approving the consolidation of BRH debt at the end-September 09; and (iv) producing a memorandum of understanding between MEF and BRH on the financial terms of the TB to be issued, their tradability, and any other operational matters relevant for the implementation of the swap, consistent with the BRH recapitalization plan.

37. The performance criterion for legislative passage of the new banking law involves, as agreed, the approval by Parliament of a law consistent with international best practice.

#### IV. PROVISION OF INFORMATION

38. 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

39. *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.

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

##### B. Weekly

41. *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.

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

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

##### C. Monthly

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

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

46. "Project Accounts", by donor, with a maximum of 30-day lag final data

47. Tableau de trésorerie de devises with a maximum of 30-day lag final data.
48. Tableau des Operations Financières de l'Etat, including attached tables reporting the execution of off-budget emergency spending (within 14 days).
49. Table underlying the TOFE which enables the determination of checks in circulation and balance on investment project accounts.
50. Set of external debt tables with a maximum 30-day lag final data.
51. Report of revenue collection of DGI (*Rapport d'activités*), with a maximum 30-day lag final data.
52. Tables of revenue collection of AGD (Indicateurs d'activités aux ports, Rapport analytique des perceptions douanières à l'importation), with a maximum 30-day lag final data.
53. Balance of Bureau de Monetization accounts, including those movements related with flows linked to the ALBA-PetroCaribe agreement. Balance of PetroCaribe/ALBA-related deposits at commercial banks and/or the BRH, with a maximum 30-day lag final data.

#### **D. Quarterly**

54. Report on poverty-reducing expenditures, with a maximum 30-day lag final data.

#### **E. Other Information**

55. The authorities will share with staff the by-laws of the new binational (Venezuela-Haiti) entity (as soon as they are enacted), including any and all needed information to assess the nature of such new entity; the authorities will also share with staff the financing terms of any financing received by such entity, including any and all information needed to assess whether any financing flows received by such new entity constitute public debt (direct and/or contingent) of any form.



INTERNATIONAL MONETARY FUND

HAITI

**Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Performance Criterion, Modification of Performance Criteria, and Extension of the Arrangement**

**Informational Annex**

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

June 15, 2009

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## Annex I. Fund Relations

(As of April 30, 2009)

### 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	4.54	33.11

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
PRGF Arrangements	91.26	111.43

### 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	114.66	91.26
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 (without HIPC Assistance)<sup>1/</sup>

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Principal				5.62	10.30
Charges/Interest	0.47	0.50	0.50	0.49	0.45
<b>Total</b>	<b>0.47</b>	<b>0.50</b>	<b>0.50</b>	<b>6.11</b>	<b>10.75</b>

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

### Projected Payments to Fund: (with Board-approved HIPC Assistance)

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Principal				5.62	10.30
Charges/Interest	0.40	0.50	0.50	0.49	0.45
<b>Total</b>	<b>0.40</b>	<b>0.50</b>	<b>0.50</b>	<b>6.11</b>	<b>10.75</b>

**VII. Implementation of HIPC Initiative:**

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Nov 2006
Assistance committed by all creditors (US\$ Million) <sup>1/</sup>	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	0.29
Interim assistance	0.29
Completion point balance	--
Additional disbursement of interest income <sup>2/</sup>	--
<b>Total disbursements</b>	<b>0.29</b>

<sup>1/</sup> 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.

<sup>2/</sup> 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.

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**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 update assessment of the Banque de la République d'Haiti (BRH) was concluded in September 2008. The authorities have made progress in implementing safeguards recommendations, but improvements are still needed in a number of areas. The 2007 audit has been completed, but has yet to be published. The qualitative analysis of the main

differences between currently used accounting principles and IFRS 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. However, the capacity of this Committee needs to be strengthened. Vulnerabilities remain in the areas of foreign reserves management, the timely conduct of external audits, and timely production of audited financial statements.

## **XI. Article IV Consultation**

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

## **XII. Technical Assistance**

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

Department	Dates	Purpose
FAD	April 2005	Public expenditure management
	May 2005	Tax policy and revenue administration
CARTAC	April 2008	Customs administration
MCM	March 2005	Monetary operations
	November 2005	Implementation of a bond auction mechanism
	May 2006	Accounting of the central bank
	March 2007	Banking law (jointly with LEG)
	November 2007	BRH recapitalization plan
STA	March 2008	FSAP and ROSC on Banking Supervision
	November 2005 and May 2006	Multisector statistics
	May, October and December 2006,	Monetary and financial statistics, Government Finance statistics
	April-May and November 2007	GDPS workshop
LEG	March 2007	Banking law

## **XIII. Resident Representative**

Mr. Ugo Fasano has been the Fund's Resident Representative since October 2005 and will be replaced by Mr. Graeme Justice on July 1, 2009.

**ANNEX II. RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK**  
(As of May 2009)

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 2007–11, a multi-year approach to support the consolidation of Haiti's economic and social recovery.

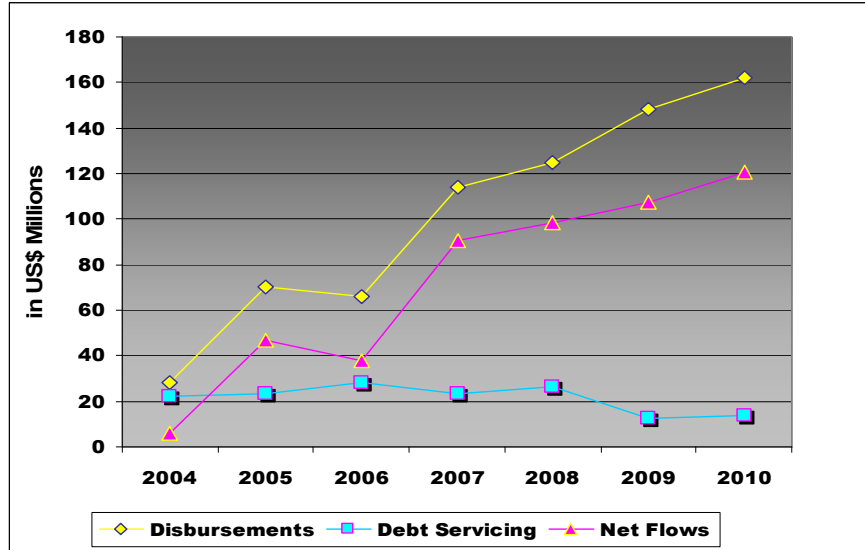
As of May 2009, the IDB's active portfolio has 22 investment operations for a total of US\$675 million. The available balance, US\$334 million, represents 49 percent of the total portfolio amount, underscoring portfolio implementation as an important challenge.

The IDB administers a total of US\$126 million from other donors. This figure includes a US\$5 million grant from the CDB to support the Bank's vocational training program and a US\$15 million loan from OFID to rehabilitate the Péligré hydroelectric power plant. Both operations are expected to be approved in 2009.

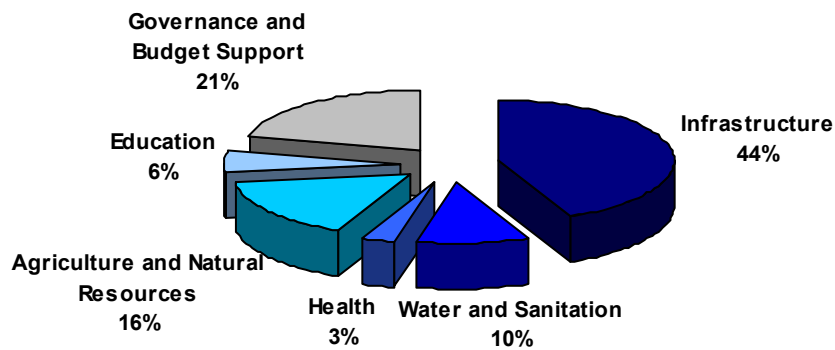
	<b>Projects</b>	<b>Multilateral Investment Fund</b>	<b>Bank Administered Funds</b>	<b>Technical Cooperation</b>
Number of Operations	22	18	10	24
Approved Amount (US\$m)	675	6	126	10
Available Balance (US\$m)	334	4	105	4

\* The Bank currently administers funds from CDB, CIDA, EC and OFID.

The close collaboration of the Bank's enhanced field presence with Haitian executing agencies has improved absorptive capacity. In 2008, disbursements reached US\$125 million even with the multiple shocks and are projected to be about US\$150 million for 2009. These levels are well over double those registered in 2005 and 2006. Such a trend will ensure that net cash flows to the country remain positive, as shown below.



The IDB has active investment projects in four key areas: a total of US\$141 million or 21 percent of the active portfolio for economic governance and budget support, US\$297 million or 44 percent for infrastructure (energy and transport), US\$108 million for agriculture and the environment, and US\$128 million for access to basic services (water, health, and education). These investment projects are complemented by a US\$10 million active portfolio in non-reimbursable technical cooperation and another US\$6 million in grants from the Multilateral Investment Fund, and by nonfinancial products that underpin program and policy support.



In March 2007, the IDB approved debt relief for all of Haiti's debt with the Bank accumulated prior to December 31, 2004, a total of US\$525 million. Although this relief will come into effect when the country reaches the HIPC completion point, the IDB has already provided US\$34.15 million in interim debt relief since 2007.

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 allocated US\$50 million in grants per year to Haiti in 2007 and 2008.

In December 2008, amid the devastation caused by four back-to-back storms that hit the country in August and September and a deteriorating global economic context, the IDB Board of Governors approved the doubling of Haiti's grant allocation in 2009, from US\$50 million to US\$100 million. In May 2009, the Board of Directors again confirmed its support to the country by forwarding to the Governors for consideration a proposal to increase the grant allocation to US\$120 million in 2010, thereby tripling the allocation envisioned in the Country Strategy. Both of these measures were considered vital in order to help Haiti face the aftermath of 2008's devastating shocks, to cover part of its financing needs, and to support the government's Economic Recovery Plan), launched during the Donors Conference in April.

The Bank's current program as articulated in the Country Strategy is aligned with the government's Plan. Looking ahead to the Bank's program covered by the government's next two fiscal years shows continued alignment:

Area of Focus from Government Economic Recovery Plan	Bank Pipeline		TOTAL
	2009	2010	
Strategic Infrastructure (Roads, electricity)	25.0	37.5	62.5
Access to Basic Services (water/sanitation, education, nutrition, civil registration for CCT)	37.5	35.0	72.5
Environmental Sustainability (watershed management)	12.5	17.5	30.0
Economic Governance (budget support)	25.0	30.0	55.0
<b>Total</b>	<b>100.0</b>	<b>120.0</b>	<b>220.0</b>

On April 14, 2009, the IDB hosted a Donors' Conference where an agreement was reached on a common strategy focusing on infrastructure, the provision of basic services, agriculture, disaster preparedness and private sector development. The Donors' Conference marks the beginning of a new partnership between Haiti and donors as well as between Haiti and other stakeholders (e.g., the private sector, NGOs, and other civil society).

The Donors Conference helped to reaffirm the IDB and the International Community's commitment to providing comprehensive support to the country. The Bank's programming will be reviewed and updated each year to meet the development objectives and their prioritization in the government's Economic Recovery Plan and the broader PRSP.

### **ANNEX III. RELATIONS WITH THE WORLD BANK GROUP** (As of June, 2009)

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. Recently, during the April 2009 Donor's Conference in Washington, DC, donors pledged US\$331 million in support of the government's Economic Recovery Program.

The World Bank and the IFC have jointly prepared a Country Assistance Strategy (CAS) for Haiti for FY 2009-2012, to align their assistance with the country's National Growth and Poverty Reduction Strategy Paper (the DSNCRP), released in November 2007. The CAS also reflects the strategic imperatives of recovery, reconstruction, and risk mitigation, in the aftermath of the devastating 2008 hurricane season. The CAS was approved by the Bank's Board on June 2, 2009.

Total IDA allocations for FY 2009-FY 2012 are projected at roughly US\$121 million, or an average of US\$30 million a year. The basic indicative IDA 15 envelope (FY 2009-FY 2011) is approximately SDR 48.3 million, or roughly US\$72 million. In addition, Haiti has in FY2009 received an additional US\$1.6 million reallocation (from earlier cancelled IDA funds) for Avian Flu prevention and control, and an additional US\$20 million under an IDA provision allowing for further funding to respond to major natural disasters. A further proposed US\$20 million allocation under this provision was announced on April 14.

This new US\$20 million of IDA funding is expected to be used primarily for additional budget support (US\$9 million, raising a planned operation to US\$12.5 million) and activities in support of the government's 18-month priority program (up to US\$11 million), through additional financing for existing projects. These operations are expected early in FY 2010.

No firm estimate is available for FY 2012, the first year of IDA 16. The program for FY 2012 is expected to include a budget support operation and additional financing for one or more investment projects already underway. It will be more fully developed in the CAS progress report scheduled for FY 2011.



IDA allocations have fallen sharply from FY 2005–FY 2007, when Haiti received more than US\$60 million per year. The country tapped the maximum of three exceptional allocations permitted under IDA 14 for nonpost-conflict countries re-engaging with IDA in those years. FY 2009 and FY 2010 include a small phase-out allocation (introduced in IDA 15). New allocations are further reduced by the netting out of MDRI relief from new IDA allocations, required by IDA rules.<sup>1</sup> The projections included here assume that MDRI will trigger at the start of FY 2010, following expected HIPC completion point in end-June 2009.

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.

A Poverty Reduction Strategy Paper (*Rapport Annuel de la Mise en Oeuvre du Document de Stratégie Nationale pour la Croissance et la Réduction de la Pauvreté, RA-DSNCRP*) was prepared by the Government of Haiti, through a participatory process consisting of consultations with civil society, government officials, and development partners. The DSNCRP was approved by the government and submitted to the International Development Association (IDA) and the International Monetary Fund (IMF) on November 30, 2007. The annual progress report was submitted to IDA and the IMF on April 27, 2009. The DSNCRP was prepared through a participatory process consisting of consultations with civil society, government officials, and development partners. A Joint Staff Advisory Note (JSAN) of one year implementation of the DSNCRP is scheduled for discussions by the Boards of the IMF and the World Bank on June 29 and 30, respectively. A HIPC Completion Point Document is being prepared jointly by the Bank and IMF staff in collaboration with the government, and is scheduled for discussions by the Boards of the IMF and the Bank on June 29 and 30, respectively. World Bank and IMF staffs have closely monitored progress in implementing the HIPC Completion Point triggers. Bank and Fund staffs have also monitored closely

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<sup>1</sup> While MDRI relief will reduce new IDA allocations, it is important to note that it will free up considerable budget resources that the government will be able to apply to priority areas and is thus an implicit form of budget support.

Haiti's debt situation. In this regard, the staffs of the two institutions prepared a new Debt Sustainability Analysis in June 2009.

The International Finance Corporation (IFC) has supported the government's priorities of promoting economic growth and improving access to quality basic services, particularly for the most vulnerable groups. IFC has expanded its activities in Haiti over the past two years and established a full-time presence in the country, with three staff in its office, co-located in the World Bank office.

IFC's activities have focused on four key areas: (i) the financial sector; (ii) infrastructure; (iii) textiles; and (iv) investment climate. IFC made five investments in Haiti during FY 2000-07 for a total of US\$47 million:

- **Digicel I & II.** In FY 2006 and FY 2007 IFC provided two loans of US\$15 million each to support the establishment and expansion of Digicel's infrastructure and services in the country. This investment has resulted in significant impacts (e.g. an increase in mobile penetration from 375,000 in 2006 prior to Digicel's entry to over 3 million in 2009).
- **Capital Bank, S.A.** IFC approved in early May 2007 a US\$3.0 million trade finance line to Capital Bank, Haiti's third largest bank.
- **CODEVI Textile Park (Grupo M).** IFC provided a US\$14 million loan in FY 2004 to Grupo M, a garment manufacturer in neighboring Dominican Republic, to establish the CODEVI textiles industrial park in Ouanaminthe, Haiti. Today, CODEVI employs around 3,500 Haitian workers and is expected to continue to grow.

**Micro Credit National (MCN).** IFC invested equity with private sector partners to establish Micro Credit National (MCN), Haiti's first private sector microfinance institution.

In the financial sector, IFC addresses challenges including banks' risk aversion through investment and advisory activities, strengthening financial institutions and improving access to finance, particularly for micro entrepreneurs and SMEs. For example, IFC is providing advisory services to Haiti's largest bank, Sogebank, S.A., to create a dedicated SME unit. It is also providing ongoing advisory support to the central bank to establish a credit bureau.

To improve Haiti's inadequate infrastructure, IFC focused on enhancing private sector participation, attracting foreign direct investment and "know-how," and assisting the Government in improving capacity. IFC has two advisory mandates to: (i) assist in developing a private sector participation solution for the main airports; and (ii) structure and implement the privatization of the state-owned fixed line telecom operator TELECO. In addition, IFC has started training and capacity building for SMEs.



Press Release No. 09/243  
FOR IMMEDIATE RELEASE  
July 1, 2009

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF and World Bank Approve US\$1.2 Billion Debt Relief for Haiti**

Haiti was granted US\$1.2 billion of debt relief by reaching the completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative approved by the Boards of the International Development Association (IDA) and the International Monetary Fund (IMF). Haiti is now the 26<sup>th</sup> country to reach the completion point under the Initiative. Debt service savings result from the HIPC Initiative (US\$265 million) and the Multilateral Debt Relief Initiative (MDRI) (US\$972.7 million).

To reach the completion point, Haiti carried out a number of reforms despite a challenging environment marked by major natural disasters, a food and fuel crisis, difficult political conditions, and the impact of the global economic downturn. These reforms were aimed at establishing a more stable macroeconomic environment and at implementing its national poverty reduction strategy. Haiti strengthened public expenditure management by better focusing poverty reduction spending, producing audited government accounts, ensuring commitment to an asset declaration law, and adopting a law on public procurement.

In addition, Haiti strengthened tax and customs administration and improved debt management and reporting. In education, Haiti established a financing mechanism to allow over 50,000 children to attend school, allocated over 20 percent of recurrent spending to education, and made progress toward implementing the teacher training program. In health, Haiti approved an HIV/AIDS prevention and treatment plan and improved immunization rates for measles and DPT3.

“We are very pleased that the Boards of the Bank and the Fund have granted Haiti debt relief. This will significantly reduce Haiti’s debt burden and effectively free resources for growth and poverty reduction” said Yvonne Tsikata, the World Bank’s Director for the Caribbean. “We congratulate the Haitian authorities on this achievement. Going forward, Haiti must take advantage of this opportunity by managing future borrowing prudently, and continuing its efforts and progress towards stronger public expenditure management and public procurement,” Tsikata added.

Debt relief under the Enhanced HIPC Initiative amounts to US\$140.3 million in end-September 2005 net present value (NPV) terms<sup>1</sup>. Haiti is expected to receive the equivalent of US\$265 million of debt relief in nominal terms<sup>2</sup> under the HIPC Initiative and expected additional bilateral relief. Haiti's public debt as of end-September 2008 amounted to 36 percent of GDP, most of which—about 28 percent of GDP—is owed to external creditors. The largest share of Haiti's external debt is owed to the Inter-American Development Bank (41 percent of total external debt), the World Bank (27 percent), and bilateral creditors (24 percent).

By reaching the HIPC completion point, Haiti now is eligible under the MDRI for further debt relief from IDA and the Inter-American Development Bank (IADB). MDRI relief would save Haiti US\$972.7 million in debt service of which US\$486.7 million owed to IDA and US\$486 million to the IADB. While the IMF is a participant in the MDRI, Haiti does not have any MDRI-eligible debt to the IMF.

“This is a very positive development for Haiti”, said Finance Minister Daniel Dorsainvil. “The debt relief will help us invest in growth and poverty reduction programs. Haiti has demonstrated over the past four to five years that it can commit itself to a menu of reforms and respect this commitment.”

“To reach the completion point under the Enhanced HIPC Initiative is a key milestone, and the authorities are to be commended for this important achievement amid severe external shocks,” said Corinne Deléchat, mission chief for Haiti in the IMF's Western Hemisphere Department. “Debt relief will significantly reduce Haiti's debt burden and make it possible to increase poverty-reducing spending, allowing further progress toward the Millennium Development Goals. In spite of the debt relief, Haiti's vulnerability to shocks remains high. A major challenge ahead will be to lock in the gains of debt relief through prudent fiscal policy, improved quality and efficiency of public spending, strengthened domestic revenue mobilization, and donor grant financing.”

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<sup>1</sup> Net present value of debt is the discounted sum of all future debt service obligations (interest and principal).

<sup>2</sup> Nominal terms refer to the actual dollar value of debt service forgiven over a period of time.

## ANNEX

### IMF and Haiti

The IMF approved a first three-year Poverty Reduction and Growth Facility in November 2006 in the amount of SDR 73.71 million (about US\$114.4 million); In June 2008, an augmentation of SDR 16.38 million (about US\$25.4 million) was approved to help Haiti cope with the impact of high international food and fuel prices.

A second increase in financial assistance, of SDR 24.57 million (about US\$38.1 million), was approved by the Executive Board in February 2009 to help mitigate the negative effects caused by a series of hurricanes in 2008 as well as the global downturn.

### World Bank and Haiti

Beyond debt relief, the World Bank approved a disbursement of US\$13 million in June 2009 as the second installment of a US\$23 million Economic Governance Reform Operation program. The grant, which was approved on January 30, 2007, supports Haiti's efforts to increase transparency and efficiency in the use of public resources and external assistance.

Since January 2005, the World Bank has provided a total of US\$278 million in grants for Haiti. In addition, approximately US\$20 million have been granted from trust funds.

### The Heavily Indebted Poor Countries Initiative

In 1996, the World Bank and IMF launched the Heavily Indebted Poor Countries (HIPC) Initiative to create a framework in which all creditors, including multilateral creditors, could provide debt relief to the world's poorest and most heavily indebted countries, and thereby reduce the constraints on economic growth and poverty reduction imposed by the debt-service burdens in these countries. The Initiative was modified in 1999 to provide three key enhancements:

- **Deeper and Broader Relief.** External debt thresholds were lowered from the original framework. As a result, more countries have become eligible for debt relief and some countries have become eligible for greater relief;
- **Faster Relief.** A number of creditors began to provide interim debt relief immediately at the decision point. Also, the new framework permitted countries to reach the completion point faster; and
- **Stronger Link between Debt Relief and Poverty Reduction.** Freed resources were to be used to support poverty reduction strategies developed by national governments through a broad consultative process.

To date, 35 HIPC countries have reached their decision points, of which 26 (including Haiti) have reached the completion point.

### **The Multilateral Debt Relief Initiative**

At the July 2005 G8 Summit in Gleneagles, Scotland, G8 leaders pledged to cancel the debt of the world's most indebted countries, most of which are located in Africa. The aim of this Multilateral Debt Relief Initiative was to reduce further the debt of HIPCs and provide additional resource to help them reach the Millennium Development Goals.

The MDRI is separate from the HIPC Initiative but linked to it operationally. Under the MDRI, three multilateral institutions — the World Bank's International Development Association, the International Monetary Fund, and the African Development Fund — provide 100 percent debt relief on eligible debts to countries having reached the HIPC completion point. Unlike the HIPC Initiative, the MDRI is not comprehensive in its creditor coverage. It does not involve participation of official bilateral or commercial creditors, or of multilateral institutions other than the above-mentioned three. The IMF also provided MDRI debt relief to non-HIPCs whose income per capita is below US\$380 in order to ensure uniformity of treatment in the use of IMF resources.

**Statement by Paulo Nogueira Batista, Executive Director for Haiti  
and Renato Perez, Senior Advisor to Executive Director  
June 29, 2009**

On behalf of our authorities, we would like to thank staff for the constructive dialogue during the mission to Port-au-Prince in May 2009. This mission was particularly important, as it comprised the fifth review under the PRGF and the completion point under the Enhanced HIPC initiative and the MDRI. The Haitian government has remained strongly committed to the PRGF and the HIPC Initiative, despite the severe shocks that the country has suffered in the recent past.

The progress achieved by the authorities has been significant and is in line with the PRSP. The maintenance of macroeconomic stability and the improvements in economic governance and social sector policies are noteworthy. Headline inflation is close to zero, partly reflecting the fall in international commodity prices. Core inflation is also down. Economic growth continues, however, to be very low. For FY 2009, GDP is expected to increase only 2 percent, after having grown only 1.2 percent in FY 2008. As staff observes, this is well below what would be required to reduce high unemployment rates and widespread poverty.

Despite low growth, the fiscal accounts improved. In the first half of FY 2009, the deficit was much lower than the 4 percent estimated in the program. This was the result of more efficiency in the management of public finances, lower public expenditure, and an increase in grants by donors, although these are still insufficient. The current account deficit was also much lower than projected, as remittances proved more resilient to the global crisis than expected by staff at the time of the fourth review. The external accounts were also helped by lower import prices. Reserves increased considerably and the exchange rate has been stable. Furthermore, the financial sector remains sound and adequately capitalized with liquidity and asset quality being closely monitored, although the authorities are concerned with the high level of dollarization in the banking sector.

The program is on track. All end-March quantitative performance criteria, structural benchmarks and all but one structural performance criteria were met. The criterion that was missed (the presentation of a report on emergency spending) was implemented with a delay of only a few days.

As to the completion point under the HIPC Initiative, eleven out of fifteen triggers have been reached. Moreover, the government has made important advances towards meeting the four triggers that were not fully implemented, as staff recognizes. For instance, the recent approval by Parliament of the procurement law is a demonstration of Haiti's commitment to increasing transparency and adopting internationally accepted best practices in this area. The new law is an additional step in the effort to improve the procurement framework and to fight against corruption.

Haiti's faces major challenges, as the Board knows. Growth is projected to remain low in 2010. The economy continues to be vulnerable to exogenous shocks. Donor support has increased but is still insufficient, as explained in the staff report. The Washington donor conference in April was a political success. However, it has not yet produced the desired results in terms of resource mobilization.

Inflation prospects seem to be favorable. In May, the Parliament approved an increase in the daily minimum wage (excluding the agricultural sector) from less than US\$ 2 to about US\$ 5 per day. The fiscal impact of this measure may not be significant, given that the majority of public servants have a higher remuneration than the minimum wage. Moreover, most the country's workforce does not have formal employment. It is not anticipated that the increase in the minimum wage will lead to higher inflation.

As a response to the revenue shortfall, the authorities have decided to increase electricity tariffs at the end of September 2009, a tough decision that shows their commitment to the program. Additionally, they will establish strict priorities for public expenditure in 2010. Debt service is expected to fall because of the HIPC and the MDRI, further helping to reduce the fiscal deficit. During the last Fund mission, our authorities mentioned that there was an urgent financing requirement of US\$ 50 million from the central bank for the second semester of FY 2009. They are confident that this financing will not have an effect on inflation.

We would like reiterate our call to the donor community to support Haiti in overcoming its fiscal constraints. We again urge Directors to step up the dialogue with their respective governments to secure maximum support for Haiti. This is not an easy task, given the growing donor fatigue and the severe impact of the current global crisis on donor resources. It cannot be forgotten, however, that Haiti has repeatedly shown its capacity to preserve economic stability in the face of a series of major shocks. The country needs and deserves international support. The authorities have implemented the PRGF with great determination, although the level of financial support provided by the Fund is relatively limited. Nevertheless, relations with the Fund have been beneficial to the country and the authorities have expressed interest in negotiating a new three-year PRGF arrangement. They consider that a new program could be instrumental in helping them promote growth, consolidate macroeconomic stability and make further progress in terms of structural reform.