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Haiti: Fourth Review Under the Extended Credit Facility—Staff Report and Press Release

In the context of the fourth review under the Extended Credit Facility, the following documents have been released and are included in this package:

- The staff report for the Fourth Review Under the Extended Credit Facility, prepared by a staff team of the IMF, following discussions that ended on June 8, 2012, 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 July 5, 2012. 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.

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

Letter of Intent sent to the IMF by the authorities of Haiti*
Updated Memorandum of Economic and Financial Policies by the authorities of Haiti*
Technical Memorandum of Understanding-Update*

*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
Washington, D.C.

INTERNATIONAL MONETARY FUND

HAITI

Fourth Review Under the Extended Credit Facility

Prepared by the Western Hemisphere Department
(In consultation with Other Departments)

Approved by Gilbert Terrier (WHD) and Taline Koranchelian (SPR)

July 5, 2012

Background. The political crisis triggered by the resignation of Prime Minister Conille in February has now been resolved. A new government, under the leadership of Prime Minister Lamothe, took office on May 15. Economic activity is recovering, albeit at a slower pace than anticipated, and inflation has decelerated. The fiscal deficit has been well below program target, reflecting a strong revenue performance and lower-than-planned domestically-financed capital spending. The external position has continued to strengthen, with gross international reserves above 5 months of imports at end-March.

Discussions. The team comprised B. Loko (Head), A. Bessaha, and A. Brousseau (all WHD); E. Bova (FAD); L. Nielsen (SPR). J. Bouhga-Hagbe (Resident Representative) also assisted the mission, and K. Florestal (OED) joined the discussions. A parallel mission comprising E. Mathias and B. Feys (all LEG) was also in Port-au-Prince to work on anti money laundering and combating the financing of terrorism (AML/CFT) issues. The mission met with Prime Minister Lamothe, Minister of Economy and Finance Jean Marie, Minister delegate in charge of Human Rights and the Fight against Extreme Poverty Auguste, Governor of the Bank of the Republic of Haiti Castel, other senior officials, banking sector executives, and development partners.

Program performance. All end-March 2012 performance criteria were met. Implementation of structural reforms has also continued, although two out of three end-March 2012 structural benchmarks were not observed. SDR 4,914 million will be made available to Haiti upon completion of the fourth review under the ECF-supported arrangement, bringing the total amount disbursed this far to SDR 31,122 million.

Policies for the remainder of FY2012 and for FY2013. The stance of macroeconomic policy and the reform agenda remain broadly unchanged, and will continue to focus on consolidating macroeconomic stability, mobilizing higher revenue to allow increased spending in critical areas, enhancing spending efficiency, and strengthening cash management. Structural reforms will also seek to modernize the financial sector and improve the business environment.

Publication. The authorities have consented to the publication of the Staff Report, Letter of Intent, and Memorandum of Economic and Financial Policies for the fourth ECF review.

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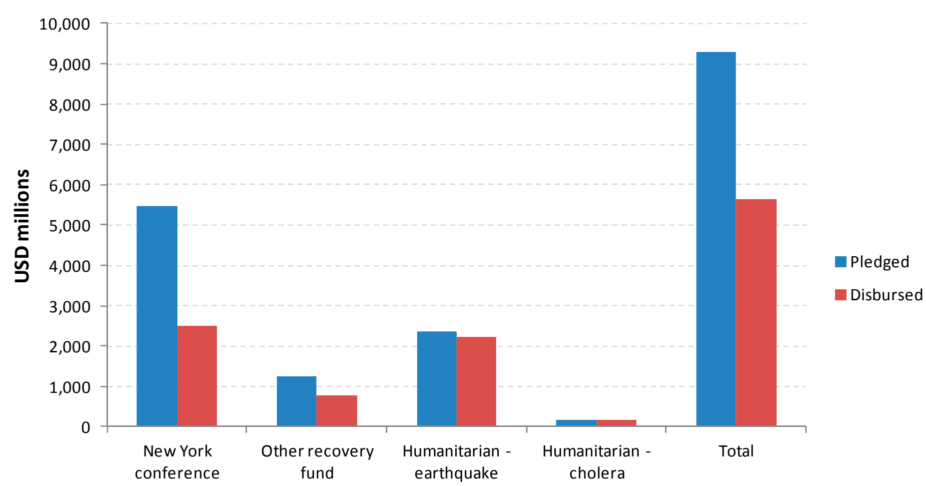
I. Economic Context

A. Background and Program Implementation

1. **The political outlook remains challenging.** A new government under the leadership of Prime Minister Lamothe, who also remains Minister of Foreign Affairs, was formed on May 15. In the policy statement delivered at the time of his inauguration, the new Prime Minister highlighted continuity and commitment to the program and the associated reform agenda. He underscored the high priority that the new government attaches to accelerating the reconstruction and establishing a business environment conducive to investment and private sector-led growth. Passage of key legislation in support of reforms can, however, be expected to remain protracted, given the President's lack of a majority in Parliament and the busy upcoming electoral cycle.[1] The overall security situation remains fragile.

2. **Haiti's post-earthquake reconstruction is continuing, albeit slowly on account primarily of weak capacity and political uncertainty.** Tangible progress include the reduction by more than half of the 1.3 million of people leaving in camps, the removal of more than 50 percent of earthquake-related debris, and the reconstruction of several schools. However, donors' disbursements, particularly with respect to pledges made at the March 2010 New York conference, remain slow, reflecting the political transition and Haiti's limited administrative and absorptive capacity (Figure 1).

Text Figure 1. 2010-12 contributions to relief and recovery efforts as of march 2012 (excl. debt relief)



Source: UN Office of the Special Envoy for Haiti: www.haitispecialenvoy.org/

3. **Program performance has been sound**. All end-December 2011 indicative targets were met, with the exception of the floor on poverty-related spending, which was impacted by the overall under-execution of public spending. End-March 2012 quantitative

[1] Originally scheduled to begin in November 2011, the new electoral cycle is now expected to start in November 2012, It will cover the elections of 1/3 of the Senate (10 new senators), and the renewal of 142 municipality councils, 565 sector officers, and several city delegates.

performance criteria were observed, but the floor on poverty-related spending still was not met. All structural benchmarks from the previous reviews were met, except two. For the structural benchmarks related to the fourth review, two out of three were not met (Tables 2b and 2c of the MEFP). However, implementation of the four remaining structural benchmarks is well advanced (Text table). The final version of the public debt law is ready and is expected to be sent to parliament at the latest by mid-August, after the submission of the draft FY2013 budget. The structural benchmark related to the creation of a debt unit was not observed because its completion is predicated on the reorganization of the Ministry of Economy and Finance, which has been delayed by the political transition. The new government has indicated that steps will be taken to accelerate submission to parliament of the legislation needed for the reorganization of the Ministry of Economy and Finance by mid-summer.

Haiti: Status of Implementation of Delayed Structural Reform Measures in 2011 and 2012

Structural Benchmarks	Timing	Status
Launch the bids for the selection and hiring of the international consulting agency that will assist UCP and other project implementation units in the government	End-June 2011	Not met. The firm has been selected and the contract is being finalized.
Prepare a plan of action / operational manual describing: a. Modalities to recruit staff with project management skills and responsibility for ordering payments for project work orders. b. A defined set of information, project lists and accounts to be regularly published online to ensure full transparency on project execution and planning. c. Clear practices to ensure the coordination between the UCP, the Procurement Commission (CNMP) and the Ministry of External Cooperation and Planning (MPCE), in full compliance with national budget execution rules.	End-September 2011	Not met. The final version is ready.
Strengthen the debt unit with fully operational middle and back office functions; Preparation of annual debt sustainability analyses.	End-March 2012	Not met. Because of the delayed creation of the Directorate General of Treasury, under which this new unit is expected to operate. The creation of such unit is part of the project to reorganize the Ministry of Economy and Finance (MEF). The reorganization decree of the MEF is expected to be submitted to Parliament during mid-summer.
Submit to Parliament a public debt law that would establish a sound legal and institutional framework for public debt management.	End-March 2012	Not met. Draft finalized and expected to be sent to Parliament by mid-August.

B. Recent Economic Developments

4. **The economic recovery has been uneven, in the context of a tighter-than-projected fiscal stance and strong bank credit growth**:

- ***Growth***. Despite the rebound in agriculture (accounting for about 25 percent of GDP) from last year's contraction and buoyancy in manufacturing, commerce and services, economic activity has been weaker than anticipated notably in construction as the recent political crisis has slowed the pace of execution of public investment spending significantly.

- ***Inflation.*** Reflecting a deceleration in international food prices and the recovery in agriculture, consumer price inflation receded to 5.2 percent in May 2012 (down from a peak of 10.4 percent in September 2011).

- ***Fiscal position***. The fiscal outcome was better than programmed. This reflects continued strong revenue mobilization and under-execution of domestically-financed investment spending owing to a range of factors, including weak capacity and institutions, and political uncertainty. In contrast, current spending was in line with program targets.

- ***External position***. The balance of payments outcome for the first semester of 2012 was broadly in line with expectations. A small overall balance of payment surplus allowed for a US$0.1 billion increase in gross international reserves, to US$2.1 billion (5.5 months of imports) by end-March 2012.

- ***Credit and banking sector.*** Year-on-year credit to the private sector grew by close to 30 percent through end-March. This expansion was mainly fueled by a rising demand for short-term trade credits, as political uncertainty continue to adversely affect long-term private sector investment. Deposit and credit dollarization remain high. At the same time, nonperforming loans are low, and key stability indicators suggest that the financial sector is relatively liquid and profitable. On a 12-month basis, the Gourde depreciated slightly against the dollar (4.1 percent through end-May 2012).

C. Outlook and Risks

5. **The recent political stalemate has impacted economic growth but the outlook for the rest of 2012 remains relatively favorable.** Domestic demand is expected to continue driving activity in manufacturing, commerce, and services. However, the envisaged acceleration in public investment during the last quarter of FY2012 is unlikely to offset the loss of value added recorded in construction and other associated sectors during the first half of the year. On balance, staff and the authorities agreed to revise the growth target to 4.5 percent in 2012, down from 7.8 percent. On the inflation side, the downward trend in international food and energy prices and the recovery in agriculture have eased pressures on domestic food prices. Barring any trend reversal, staff and the authorities concurred on the need to adjust the twelve-month inflation objective for end-FY 2012 (September 2012) to 6 percent. The external current account deficit will likely be somewhat larger than programmed on account of a slump in exports observed at the beginning of this year because of the loss of a textile order from a U.S. retailer. However, given over-compliance at end-March, the gross international reserves target for FY 2012 remains well within reach.

6. **The outlook for 2013 remains generally positive and broadly unchanged from the last ECF review.** An expected pickup in the reconstruction efforts and the planned acceleration in the implementation of several major projects, particularly in transportation and services, would boost real GDP growth to 6.5 percent. Inflation would remain in the low single digits. Exports, particularly textiles, are projected to rebound but higher reconstruction-related imports would widen the external account deficit by about one percentage point of GDP to about 5.3 percent. Gross official reserves would decline slightly,

to about 5 months of imports. The authorities broadly agreed with staff's outlook but were somewhat more optimistic about real GDP growth and the investment forecast.

7. **Risks facing Haiti are diverse.** Persistent weaknesses in administrative and absorptive capacities, continued political instability with a new round of elections, and delays in implementing critical reforms to enhance transparency, governance, and public financial management could reduce international support, complicate program execution, and put the reconstruction and economic recovery at risk. Additionally, Haiti continues to be vulnerable to natural disasters and to global downside risks which could reduce grants from donors, exports, and remittances. Finally, debt vulnerabilities remain a risk, as the last DSA (IMF Country Repot 12/74) concluded that Haiti's debt continues to be assessed as high risk. However, the current level of official reserves which is relatively high, covering more than five months of imports, could provide a reasonable buffer. Moreover, a further pick up in the reconstruction effort, together with a steady implementation of the public investment program and ongoing structural reforms, could pave the way for higher growth.

II. Policy Discussions

8. **Sustaining high and inclusive economic growth, while building resilience to natural and external vulnerabilities, remain Haiti's main challenges**. Against this background, discussions focused on policies and structural reforms to maintain macroeconomic stability, boost revenue mobilization to increase spending in social sectors and infrastructure, strengthen economic governance, improve the quality of public spending, and enhance the business environment to promote private investment.

A. Fiscal Policy and Reforms

9. **The 2012 fiscal deficit is likely to be about half as high as programmed, at 3½ percent of GDP.** Domestic revenues are slightly below projections on account of lower custom duties; similarly, current spending is also less than forecast, mainly due to lower transfers. Regards capital spending, staff and the authorities agreed that, notwithstanding any effort to accelerate disbursement, the level of domestically-financed capital expenditure would not exceed 2/3 of the initially budgeted amount, or 6.4 percent of GDP. Budget support has been revised to US$55 million, down from US$114 million, as a result of the protracted political situation and associated delays both in the passage by parliament of the FY2012 budget, and in implementing disbursement-related prior actions.[2]

10. **The fiscal stance for FY2013 will continue to be supportive of the reconstruction in a context of medium-term sustainability.** Continued efforts to strenghen tax and customs administration would boost domestic revenue to 13.9 percent of GDP (up from 13.5 percent in FY2012). On the spending side, the wage bill is projected to decline slightly,

[2] Disbursement of Spain and World Bank support which are linked (US$13 million and US$30 million, respectively) has been delayed. This is attributable to both non implementation of prior actions (mostly on procurement and electricity sector) as well as ongoing discussions to redefine the contents of the World Bank development policy grant.

to 5.1 percent of GDP, notwithstanding new hiring to improve absorptive and administrative capacity and the delivery of basic public services (MEFP, ¶9). Transfers and subsidies to the energy sector (mostly to the electricity company EDH) are expected to be curtailed to 1.9 percent of GDP, down from 2.7 percent of GDP in FY2012. As a result, total current spending would fall by 0.8 percentage points of GDP, to 10.5 percent. Domestically-financed capital spending is forecast to rise to 8.9 percent of GDP, up from 6.4 percent in FY2012, on the assumption of higher PetroCaribe- and PCDR-related project spending.[3] The first tranche of the latter will cover the initial phase of the revenue administration reform, including acquisition of equipment and space as well as training of staff. Reflecting these parameters, the overall deficit target would reach 4.7 percent of GDP, to be financed primarily by foreign resources.[4] In the event of a shortfall in external budgetary support, the authorities could slow down some domestically-financed capital spending (without affecting the overall execution and the consistency of the investment program) and/or issue additional Treasury bills.

11. **Efforts to strengthen project implementation capacity are crucial.** Staff reiterated the need to move faster to enhance project management within the implementation units in line ministries; improve coordination between government agencies in charge of project design and implementation; and finalize the recruitment of an international firm to assist in project management. These efforts are critical to ensure that public investment targets are met, especially in those priority sectors emphasized by the authorities- infrastructure (including reconstruction of public buildings), education, agriculture, health, and energy- to sustain broad-based growth and poverty reduction.

12. **The authorities and staff agreed on the importance of protecting and ramping up social spending.** They have launched major initiatives that could quickly have a significant impact on the most vulnerable groups of the population (Box 1 and MEFP, ¶21). Staff welcomed these initiatives as they pave the way for a more coherent institutional framework to help the poor but underscored at the same time the need for closer coordination with NGOs and other stakeholders to help better target social spending, and make inroads in poverty alleviation. The authorities pointed out that, while NGOs provide acutely needed services to large segments of the poor population, they also tend to complicate macroeconomic management and, at times, slow down the process of reconstruction. They argued that large financial flows linked to ONG activities bypass government institutions, in some cases undermining government actions and institutions. Moreover, most striking to the authorities is that many NGOs do not coordinate their actions with them and are often in direct competition with the government and the local private sector in the domestic labor and goods and services markets. Hence, the authorities are exploring initiatives to improve their work with NGOs and ensure that their projects are consistent with the sectoral priorities and long-term developments needs of the country.

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[3] Resources freed by debt stock relief under the PCDR trust amounting to US$268 million have remained largely unused because of the protracted political transition since the presidential elections.

[4] Budget support for FY2013 is projected to reach US$80 million, including US$27 million from the IDB, US$30 million from IDA, €8 million from the EU, and US$13 million from Spain.

Box 1. New Poverty Reduction Initiatives and Coordination with NGOs

Government efforts to protect the poor have been recently stepped up, as evidenced by (i) the creation of a new Ministry delegate in charge of Human Rights and the Fight against Extreme Poverty; and (ii) the launching of three key programs, together with an action plan to develop in close coordination with civil society.

Three new initiatives to help the most vulnerable groups of the population:

- **Education** (*Programme de Scolarisation Universel Gratuit et Obligatoire or PSUGO*). The objective is to bring about 508,000 children aged 6-12 to school for free, over a period of four years (about 25 percent each year). Forty percent of these children will be sent to public schools, and the remaining ones to private schools, which will receive government subsidies. During 2011-12, about 165,500 children have been sent to school under this initiative. For each child enrolled under this program, the government gives about US$90 to private schools and about US$6 dollar to public schools. The program is expected to cost about US$43 million a year.

- **Conditional cash transfer** ("*Ti-manman-cheri*"). The objective is to help women in very poor neighborhoods in the Port-au-Prince area. Under this pilot project, which will be extended to the whole country if successful, every month the government will transfer about US$10 to each woman who sends one child to school, US$15 for two children, and US$20 for three children or more. The program would reach about 100,000 mothers and cost around US$15 million.

- **Food production and distribution** ("*Aba grangou*"). This multisectoral program aims at helping poor neighborhoods better deal with natural risks and at promoting agricultural projects as well as food distribution programs. It would also provide better educational and health services in these neighborhoods. It is expected to cost about US$15 million.

Initiatives for greater coordination with NGOs are under way:

- There are more than 10,000 NGOs in Haiti today, reflecting in part the international response to the January 2010 earthquake. These NGOs: (i) provide acutely needed services to large segments of the poor populations; (ii) account for more about than 2/3 of the country's total expenditure on economic and social development; (iii) supply close to 50 percent of the foreign exchange; and (iv) employ large numbers of local staff.

- Recent data suggest, however, that only 5 percent of NGOs are officially registered with the Ministry of Planning, and very few share their progress reports with the authorities. Initiatives under consideration to ensure that NGOs' actions and operations strengthen capacity building and contribute effectively to the development of the country include:

  - Launching a survey to record the NGOs in operation and work under ***monitoring systems*** put in place by the government.

  - Channeling the actions of the NGOs in the context of ***sector programs*** defined by the government and in line with a platform that will lead the national government to be in a position to provide services to its own citizens.

  - Enhancing the ***regular reporting*** of all NGOs that are registered.

13. **The government's medium-term fiscal strategy hinges on a further increase in the domestic revenue intake**. Reforms toward more robust tax and customs administrations include: (i) the adoption of an electronic system for tax declaration (e-declaration); (ii) a tightening in controls of revenue collections; and (iii) the establishment of two tax units, in charge of NGOs and SMEs, respectively (MEFP, ¶14). On tax policy, the authorities plan (i) to establish a unit to coordinate related reforms; (ii) reduce and eliminate tax expenditure in line with current laws and regulations and thorough analysis of their impact and motivation; and (iii) initiate work to overhaul the legal framework for taxation. Staff and the authorities look forward to the upcoming tax strategy mission (September) that will assess ways to rationalize tax exemptions and expand revenue. The authorities also intend to modernize and strengthen customs administration, particularly through actions that include the full implementation and use of the ASYCUDA WORLD system in major customs offices all over the country, improvements in import valuation processes and risk management, and the reinforcement of customs controls.

14. **To improve the quality of public sector spending, further efforts are needed in the areas of public financial management and economic governance**. The transition to a Treasury Single Account (TSA) to improve cash management is well on track, as the execution of the first phase, related to the closing of all identified government's dormant accounts in the banking system, is moving on schedule (MEFP, ¶16). Also, the introduction of the new tracking and reporting mechanism for capital spending execution (SYSGEP) is an important step towards enhancing administrative and absorptive capacity to improve investment budgeting, spending, and execution (MEFP, ¶15). However, continued diligence and strong political commitment will be needed to make the system fully operational and effective. In particular, staff stressed the importance of reinforcing the network of units in charge of projects assessment and programming (UEP) and of technical execution (UTE) in line ministries, as they form the backbone of the whole reporting system. Staff also strongly encouraged the authorities to apply current regulations that tie disbursements of subsequent tranches of a project to properly documenting and reporting on the execution of the initial ones.

15. **The authorities expressed their determination to combating corruption and improving transparency in the use of public resources**. They agreed with staff that a speedy resolution of the issue involving several contracts signed[5] after the earthquake (that did not meet the provisions of the procurement code) will send a strong signal of their commitment to better governance. To that effect, in a letter sent to the World Bank and the donors' community early June, Prime Minister Lamothe expressed his commitment to cancelling all contracts that would be confirmed unlawful by the Haitian High Audit Court

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[5] An audit launched by former Prime Minister Gary Conille has concluded that 41 contracts (amounting to about US$450 million) were unlawfully awarded by the previous administration under Haiti's post-earthquake emergency law in 2010/11.

(Cour des Comptes).[6] Looking forward, there is an urgent need to improve public procurement and enhance external and internal supervisory and control institutions. In that respect, it will be critical to strengthen the authority, capacity, and resources of the Commission Nationale des Marchés Publics (CNMP) with technical and financial assistance from donors. It is also important to ensure that the bulk of public contracts is submitted in a timely fashion to the scrutiny of the CNMP, in line with a national procurement plan.

16. **The restructuring of the electricity company EDH is critical to reducing budgetary transfers and improving electricity supply**. A Memorandum of Understanding to strengthen the electrical sector was agreed between the government and key partners, including the U.S., IDB, and the World Bank. In addition, a managing director and four directors were appointed at EDH to improve management of the company, reduce production and distribution losses, and raise bill payments proceeds (MEFP, ¶18). Progress has so far remained slow. However, the Council of Ministers announced recently that it will soon agree on a strategy and policy paper for the electricity sector, which will be discussed with donors (including US, IADB, WB) in July. Staff strongly encouraged the government to accelerate efforts to fully restructure the company and bring it back to financial sustainability over the medium term while gradually allowing for a reliable supply of energy.

17. **Efforts are underway to strengthen debt management.** The new public debt law still needs to be supplemented by a medium-term strategy. There was a common view on the importance of an early creation of the debt unit with operational middle and back-office functions. Staff noted that, until this reform is in place, the focus should be on strengthening the capacity of the current Debt Directorate, including by providing adequate training to staff, conducting front and back office operations (MEFP, ¶19), and enhancing capacity to conduct debt sustainability analyses.

B. Monetary, Exchange Rate, and Financial Sector Policies

18. **Price stability remains the main objective of monetary policy**. Monetary policy has been neutral in recent months, with no change in the policy rate since early 2011. Looking forward, the authorities and staff agreed that the BRH should be ready to adjust monetary policy stance to contain inflationary pressures and achieve its inflation target for 2013, barring any commodity prices spikes. Both parties concurred that relatively high financial dollarization and structural excess bank liquidity weaken the effectiveness of the monetary transmission mechanism. Successful dedollarization will ultimately hinge on continued implementation of appropriate policies to maintain macroeconomic and price stability. Staff welcomed the recent measures (MEFP, ¶10) taken by the BRH to contain dollarization and encouraged close monitoring of risks from the rise in dollar-denominated loans, including tightening of prudential regulations as deemed necessary to preserve financial stability. The authorities intend to step up their capacity to conduct stress testing and have requested further TA from the IMF to improve their methodology while developing a credit model using loan-by-loan information. Developing domestic financial markets will

[6] The final report has been submitted to the High Audit Court in June 2012.

also help improve liquidity management and strengthen market-based monetary operations. In this context, close coordination between the fiscal and monetary authorities, including through systematic information-sharing on planned fiscal and monetary operations, would enhance monetary management.

19. **The BRH reaffirmed its commitment to exchange rate flexibility**. The authorities continue to view exchange rate flexibility as an important instrument of external adjustment and remain committed to improving, deepening, and modernizing the FX market (MEFP, ¶11). Accordingly, they plan to request TA from the Fund to help gradually introduce a system of single price foreign exchange auctions. A first step toward deepening the FX market would be to allow more participants, including exporters. The authorities reiterated that the BRH intervention in the FX market will continue to aim at smoothing excessive temporary volatility and not at resisting fundamental developments.

20. **The authorities are committed to further improving the stability of the financial sector.** To that effect, they intend to: (i) strengthen the operations of the Partial Credit Guarantee Fund, including with the launching of a second pillar aimed at boosting lending to investors; (ii) update the financial legislation and improve regulation and supervision; and (iii) reinforce the insurance sector, notably through the submission of an insurance law to Parliament and the setting up of a regulatory authority (MEFP, ¶20).

21. **The authorities will continue to implement the recommendations of the January 2010 Safeguards Assessment follow up mission**. In addition to completing the FY 2011 audit, which is progressing albeit with some delays, a package of measures aims at strengthening the accounting, financial reporting, and auditing capacities of the central bank (MEFP, ¶12) including: (i) the disposition of all BRH subsidiaries; (ii) the conversion of central bank credit to the Haitian government into securities; (iii) the full adoption of IFRS along with the establishment of a special committee to monitor its implementation; and (iv) the reconstitution of the Investment Committee as an independent oversight body and the appointment of an officer to monitor compliance with investment guidelines.

22. **The authorities are committed to further improving compliance of the anti-money laundering and combating the financing of terrorism (AML/CFT) framework with the financial action task force (FATF) standards, and to follow a risk-based approach to ensure its effective implementation.** Discussions centered on an action plan to: (i) amend the AML/CFT legal framework in line with FATF standards; (ii) focus the implementation of the AML/CFT regime on elements critical for program performance (e.g., enhance revenue collection, increase the transparency of the procurement system, prevent financial sector abuse). In this respect, a number of critical measures have been identified, namely the creation of a reliable system for the identification of citizens, the enhancement of the anti-corruption legal framework, and the improvement of the capacity of law enforcement authorities.

C. Other Structural Reforms

23. **Continuing structural reforms are critical for sustaining economic growth, reducing poverty and unemployment, and addressing imbalances**. The action plan to implement “Doing Business” reforms is underway with major initiatives to streamline Haiti’s

numerous, complex, and cumbersome regulations over the next two years. Staff and the authorities concurred that further progress would also be needed, including through measures aimed at uplifting the legal regime for collateral and establishing a registry for the use of movable assets as collateral. Preparing a new law aimed at strengthening microfinance (MEFP, ¶17) will also be a critical element of the authorities' program. Staff underscored that, while mostly outside the core area of expertise of the Fund, these reforms were critical to boosting private sector growth and reducing poverty.

III. PROGRAM MONITORING

24. **Program design and monitoring remain broadly unchanged**. Quarterly quantitative benchmarks and semi-annual quantitative performance criteria (PCs) in place since the inception of the program will continue to be used to monitor program implementation. Understandings were reached on revised end-December 2012 indicative targets, end-March 2013 quantitative performance criteria, and new indicative targets for the remainder of FY2013 (Table 1 attached to the MEFP). In the structural area, the authorities proposed to include two critical new benchmarks seeking to improve cash management and transparency in accounting (Table 2c attached to the MEFP). In particular, the authorities intend to: (i) reduce the number of domestically-funded imprest accounts to three by ministry or institutions (for revenue collection, capital spending, and other transactions, respectively), deploy the network of public accounting offices at the line ministries level and gradually grant signature authority on these accounts to public accountants appointed by the MEF (end-March 2013); and (ii) roll-out in all ministries the GL-software and start to record projects and imprest accounts expenditure when they are effectively paid, and no longer when the replenishment of the account is made (end-March 2013).

IV. STAFF APPRAISAL

25. **Despite political instability, the steady implementation of appropriate policies has continued to deliver on program objectives**. Economic activity has picked up, albeit at lower-than-planned pace, and inflation has decelerated. Credit growth has continued, and banking sector indicators remain sound. The fiscal adjustment is in line with medium-term sustainability. Business environment reforms are underway, although the current pace is slower-than-anticipated and structural challenges remain in the way of higher growth and poverty reduction.

26. **Recent tax revenue performance suggests that revenue administration reforms are paying off**. The positive results registered in recent years should not, however, give rise to complacency. There is ample scope for improving collections through reforms aimed at broadening the tax base, reducing tax expenditures, and further improving the efficiency of tax and customs administration.

27. **Going forward, there remains a pressing need to provide additional fiscal space for priority spending to boost growth and reduce poverty.** The ramping up of capital spending must be accompanied by further improvements in public expenditure management. Staff encourages the authorities to take all steps to ensure that the recently-introduced tracking system SYSGEP is populated at all times with timely and credible data so as to

make the best use of it and enhance transparency. Staff would also caution that ongoing efforts to improve public financial management will be of little effect if the procurement system, typically a major source of corruption, is not durably improved. These actions, together with other steps to enhance cooperation with NGOs, would help make headway in improving implementation capacity. **The restructuring of the public electricity company EDH will be critical to reducing budgetary transfers and improving electricity supply.** So far, progress in reform efforts has remained slow and disappointing. Staff therefore strongly encourages the authorities to accelerate those efforts to fully restructure the company and bring it back to financial sustainability and allow for an efficient provision of electricity.

28. **The monetary policy stance is broadly appropriate**. Its effectiveness, however, continues to be constrained by relatively high financial dollarization and excess liquidity in the banking system. In this context, staff welcomes measures to gradually promote dedollarization in the banking system and improve liquidity management. Developing the domestic financial market and making greater use o**f market-based monetary operations would also help.**

29. **Sound macroeconomic policies will need to be accompanied by structural reforms to achieve the competitiveness gains needed for sustained economic growth and job creation.** There are still large pockets of potential growth in the economy. Government initiatives to address structural impediments to private investment, reduce excessive regulation, improve transparency, and frame those actions in an overall strategy are welcome.

30. Staff recommends completion of the fourth review under the ECF arrangement in view of the good performance so far and the authorities' commitment to the rest of the program.

Table 1. Haiti: Selected Economic and Financial Indicators, 2008/09 - 2012/13

(Fiscal year ending September 30)

Nominal GDP (2011): US$7.4 billion
Population (2009): 9.9 million

	2008/09	2009/10	2010/11		2011/12		2012/13
	Act.	Act.	Prog. (EBS/11/63)	Rev. Proj.	Prog. (EBS/12/22)	Rev. Proj.	Prog.
	(Change over previous year; unless otherwise indicated)						
National income and prices							
GDP at constant prices	2.9	-5.4	8.6	5.6	7.8	4.5	6.5
GDP deflator	3.4	4.7	6.2	5.9	7.2	5.7	5.3
Consumer prices (period average)	3.4	4.1	7.0	7.4	7.7	6.8	5.9
Consumer prices (end-of-period)	-4.7	4.7	9.1	10.4	8.0	6.0	5.0
External sector							
Exports (f.o.b.)	12.4	2.2	10.7	36.3	23.9	0.0	22.8
Imports (f.o.b.)	-3.6	38.3	7.2	7.3	15.1	0.0	12.0
Real effective exchange rate (end of period; + appreciation)	2.1	0.8	...	1.6	...	n.a.	n.a.
Money and credit							
Credit to the nonfinancial public sector (net)	24.5	-122.7	-91.7	229.4	-107.4	-0.2	-6.3
Of which: Net credit to the central government	35.7	-104.3	...	930.9	-157.3	8.0	-5.2
Credit to private sector	14.7	-5.6	21.6	24.5	16.8	18.6	18.0
Base money	9.5	31.2	15.2	6.0	11.2	9.0	10.9
Broad money (incl. foreign currency deposits)	11.0	22.7	20.3	10.4	16.1	11.2	13.0
	(In percent of GDP; unless otherwise indicated)						
Central government							
Overall balance	-4.6	2.4	-6.2	-3.7	-7.7	-3.6	-4.7
Overall balance (excluding grants and externally-financed projects)	-4.6	-5.0	-7.4	-4.7	-8.8	-4.1	-5.4
Domestic revenue	11.2	11.9	11.8	13.1	13.6	13.5	13.9
Grants	6.7	16.5	16.3	16.8	15.9	14.4	13.0
Expenditures	22.5	26.0	33.8	33.5	37.3	31.5	31.7
Current expenditures	11.7	11.3	11.0	11.8	11.4	11.3	10.5
Capital expenditures	10.8	14.7	22.7	21.7	25.9	20.3	21.2
Savings and investment							
Gross investment	27.4	25.4	38.9	28.0	32.6	27.0	29.0
Of which: public investment	10.8	14.7	...	21.7	25.9	20.3	21.2
Gross national savings	24.0	22.9	34.6	23.8	28.1	22.7	23.7
Of which: central government savings	1.0	4.0	3.0	2.4	3.5	3.0	4.4
External current account balance (including official grants)	-3.5	-2.5	-4.2	-4.6	-4.5	-4.3	-5.3
External current account balance (excluding official grants)	-9.5	-29.8	-23.3	-24.2	-22.9	-21.2	-21.0
Public Debt							
External public debt (end-of-period)	19.0	13.2	8.8	8.9	12.4	13.1	16.4
Total government debt (end-of-period)	27.7	17.3	14.9	11.7	15.1	16.6	20.1
External public debt service 1/	3.9	1.6	0.9	0.6	0.7	0.8	1.4
	(In millions of U.S. dollars; unless otherwise indicated)						
Overall balance of payments	-109	1,028	-273	167	-181	38	-105
Net international reserves (program) 2/	416	1,095	772	1,177	979	1,221	1,057
Liquid gross reserves	948	1,792	1,539	2,000	1,843	2,060	1,970
In months of imports of the following year	2.8	5.2	4.1	5.8	4.7	5.5	5.0
Nominal GDP (millions of Gourdes)	266,559	264,039	308,335	297,687	345,680	328,807	368,630
Nominal GDP	6,552	6,551	7,620	7,388	8,335	7,895	8,529

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

1/ In percent of exports of goods and nonfactor services. Includes HIPC, MDRI, and PCDR debt relief.
2/ SDR allocation (liability) is not netted out of NIR.

Table 2a. Haiti: Central Government Operations, 2008/09 - 2012/13

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

	2008/09	2009/10	2010/11		2011/12		2012/13
	Act.	Act.	Prog. (EBS/11/63)	Prov.	Prog. (EBS/12/22)	Rev. Proj.	Prog.
Total revenue and grants	47,717	75,004	86,794	88,801	102,066	91,786	99,386
Domestic revenue	29,881	31,425	36,459	38,893	46,950	44,516	51,411
Domestic taxes	19,954	19,393	22,133	24,460	28,810	29,387	33,861
Customs duties	8,958	11,394	13,512	13,672	16,190	15,000	16,908
Other current revenue	970	638	814	761	1,950	129	642
Grants	17,836	43,579	50,335	49,907	55,116	47,270	47,975
Budget support	3,873	8,966	6,875	3,492	4,728	2,291	3,458
Project grants	13,962	23,924	43,460	46,416	50,388	44,979	44,517
Total expenditure [1/]	60,030	68,704	104,100	99,811	128,847	103,677	116,861
Current expenditure	31,136	29,849	33,997	35,231	39,452	37,089	38,537
Wages and salaries	13,396	14,563	16,590	14,809	18,027	17,066	18,671
Net Operations [2/]	7,655	7,040	10,237	7,525	10,454	9,822	11,401
Other current expenditures	0	1,023	8,559	0	0	0	0
Interest payments	2,242	1,569	1,394	1,272	1,394	1,335	1,625
External	1,106	452	154	153	229	230	397
Domestic	1,136	1,118	1,241	1,119	1,165	1,105	1,228
Transfers and subsidies	7,844	6,677	7,454	11,626	9,576	8,866	6,840
Of which: energy sector 4/	0	3,793	3,945	8,232	4,583	4,492	1,843
Capital expenditure	28,894	38,855	70,103	64,579	89,395	66,588	78,324
Domestically financed	10,959	14,689	25,335	17,621	38,007	21,025	32,942
Of which: Treasury	2,225	13,475	24,102	16,431	36,859	21,025	32,942
Of which: not related to PetroCaribe spending	2,225	9,390	11,215	8,027	16,000	10,500	17,000
Of which: related to PetroCaribe spending	0	2,991	9,874	7,479	16,113	9,500	14,442
Of which: Counterpart funds [3/]	1,899	1,214	1,233	1,190	1,148	0	0
Foreign-financed	17,934	24,166	44,767	46,958	51,388	45,563	45,382
Overall balance	-12,313	6,299	-18,984	-11,010	-26,781	-11,891	-17,475
Excluding grants	-30,149	-37,279	-67,641	-60,918	-81,897	-59,161	-65,450
Excluding grants and externally financed projects	-12,214	-13,113	-22,873	-13,959	-30,509	-13,599	-20,068
Adjustment (unidentified spending)	-565	1,260	0	1,174	0	0	0
Financing	11,749	-5,040	18,984	12,184	26,781	11,836	17,475
External net financing	8,141	9,050	13,867	13,548	14,661	14,719	15,052
Loans (net)	8,141	9,050	13,867	13,548	14,661	14,719	15,052
Disbursements	9,935	9,356	14,079	13,625	14,685	14,743	15,560
Budget support	5,963	9,114	12,772	13,082	13,686	14,160	14,695
Of whic h: Petrocaribe	5,963	9,114	12,747	13,214	13,686	14,160	14,695
Project loans	3,980	3,631	1,307	543	999	583	864
Amortization	-1,794	-306	-212	-77	-24	-24	-508
Arrears (net)	0	0	0	0	0	0	0
Internal net financing	2,082	-14,090	5,117	-1,363	12,120	-2,882	2,423
Banking system	644	-16,398	3,884	-5,290	12,580	-640	447
BRH	644	-10,679	2,782	-2,926	3,106	1,300	2,116
Excluding Petrocaribe	0	-10,837	0	-2,926	3,106	1,300	2,116
Net T-bills for recapitalization	0	0	4,000	0	0	0	0
From PCDR account	0	0	2,782	0	2,370	1,025	1,500
Commercial banks	0	-5,719	1,102	-2,364	9,474	-1,940	-1,669
excl. Petrocaribe	0	300	4,000	-300	4,534	1,416	-1,416
Net purchase of T-bills	0	300	4,000	-300	4,534	1,416	-1,416
Nonbank financing	1,439	2,308	1,233	3,927	-460	-2,243	1,976
Amortization	-460	0	-300	-300	-2,112	-2,400	-157
Counterpart funds [3/]	1,899	1,214	1,233	1,190	1,148	0	1,106
Net purchase of T-bills	0	0	0	0	504	157	870
Arrears (net)	0	0	0	0	0	0	0
HIPC interim relief	1,383	0	0	0	0	0	0
Memorandum items							
Balance of PCDR account (in millions of U.S. dollars)	0	268	199	268	180	225	168
Stock of T-bills at end of year (in millions of Gourdes)	0	300	8,300	0	5,038	1,573	1,027
Transfers to EDH from Petrocaribe resources (million of Go	n.a.	n.a.	n.a.	3,538	2,488	2,499	0

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

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.

4/ Includes transfers from Petrocaribe resources in FY2011.

5/ The financing gap is expected to be covered by donor inflows, but no formal pledges have been made.

Table 2b. Haiti: Central Government Operations, 2008/09 - 2012/13

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

	2008/09	2009/10	2010/11		2011/12		2012/13
	Act.	Prel.	Prog. (EBS/11/63)	Prov.	Prog. (EBS/12/22)	Rev. Proj.	Prog.
Total revenue and grants	17.9	28.4	28.1	29.8	29.5	27.9	27.0
Domestic revenue	11.2	11.9	11.8	13.1	13.6	13.5	13.9
Domestic taxes	7.5	7.3	7.2	8.2	8.3	8.9	9.2
Customs duties	3.4	4.3	4.4	4.6	4.7	4.6	4.6
Other current revenue	0.4	0.2	0.3	0.3	0.6	0.0	0.2
Grants	6.7	16.5	16.3	16.8	15.9	14.4	13.0
Budget support	1.5	3.4	2.2	1.2	1.4	0.7	0.9
Project grants	5.2	9.1	14.1	15.6	14.6	13.7	12.1
Total expenditure 1/	22.5	26.0	33.8	33.5	37.3	31.5	31.7
Current expenditure	11.7	11.3	11.0	11.8	11.4	11.3	10.5
Wages and salaries	5.0	5.5	5.4	5.0	5.2	5.2	5.1
Net Operations 2/	2.9	2.7	3.3	2.5	3.0	3.0	3.1
Other current expenditures	0.0	0.4	2.7	0.0	0.0	0.0	0.0
Interest payments	0.8	0.6	0.5	0.4	0.4	0.4	0.4
External	0.4	0.2	0.0	0.1	0.1	0.1	0.1
Domestic	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Transfers and subsidies	2.9	2.5	2.4	3.9	2.8	2.7	1.9
Of which: energy sector 4/	0.0	1.4	1.3	2.8	1.3	1.4	0.5
Capital expenditure	10.8	14.7	22.7	21.7	25.9	20.3	21.2
Domestically financed	4.1	5.6	8.2	5.9	11.0	6.4	8.9
Of which: Treasury	0.8	5.1	7.8	5.5	10.7	6.4	8.9
Of which: not related to PetroCaribe spending	0.8	3.6	3.6	2.7	4.6	3.2	4.6
Of which: related to PetroCaribe spending	0.0	1.1	3.2	2.5	4.7	2.9	3.9
Of which: Counterpart funds 3/	0.7	0.5	0.4	0.4	0.3	0.0	0.0
Foreign-financed	6.7	9.2	14.5	15.8	14.9	13.9	12.3
Overall balance	-4.6	2.4	-6.2	-3.7	-7.7	-3.6	-4.7
Excluding grants	-11.3	-14.1	-21.9	-20.5	-23.7	-18.0	-17.8
Excluding grants and externally financed projects	-4.6	-5.0	-7.4	-4.7	-8.8	-4.1	-5.4
Adjustment (unidentified spending)	-0.2	0.4	0.0	0.4	0.0	0.0	0.0
Financing	4.4	-1.9	6.2	4.1	7.7	3.6	4.7
External net financing	3.1	3.4	4.5	4.6	4.2	4.5	4.1
Loans (net)	3.1	3.4	4.5	4.6	4.2	4.5	4.1
Disbursements	3.7	3.5	4.6	4.6	4.2	4.5	4.2
Budget support	2.2	3.5	4.1	4.4	4.0	4.3	4.0
Of which: Petrocaribe	2.2	3.5	4.1	4.4	4.0	4.3	4.0
Project loans	1.5	1.4	0.4	0.2	0.3	0.2	0.2
Amortization	-0.7	-0.1	-0.1	0.0	0.0	0.0	-0.1
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internal net financing	0.8	-5.3	1.7	-0.5	3.5	-0.9	0.7
Banking system	0.2	-6.2	1.3	-1.8	3.6	-0.2	0.1
BRH	0.2	-4.0	0.9	-1.0	0.9	0.4	0.6
Excluding Petrocaribe	0.0	-4.1	0.0	-1.0	0.9	0.4	0.6
Net T-bills for recapitalization	0.0	0.0	1.3	0.0	0.0	0.0	0.0
From PCDR account	0.0	...	0.9	0.0	0.7	0.3	...
Commercial banks	0.0	-2.2	0.4	-0.8	2.7	-0.6	-0.5
Excluding Petrocaribe	0.0	0.1	1.3	-0.1	1.3	0.4	-0.4
Net purchase of T-bills	0.0	0.1	1.3	-0.1	1.3	0.4	-0.4
Nonbank financing	0.5	0.9	0.4	1.3	-0.1	-0.7	0.5
Amortization	-0.2	0.0	-0.1	-0.1	-0.6	-0.7	0.0
Counterpart funds 3/	0.7	0.5	0.4	0.4	0.3	0.0	0.3
Net purchase of T-bills	0.0	0.0	0.0	0.0	0.1	0.0	0.2
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC interim relief	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:							
Balance of PCDR account	0.0	4.1	2.6	3.6	2.2	2.8	2.0
Stock of T-bills at end of period	0.0	0.1	2.7	0.0	1.5	0.5	0.3
Transfers to EDH from Petrocaribe resources (million of Gourdes)				1.2	0.7	0.8	0.0

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

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.

4/ Includes transfers from Petrocaribe resources in FY2011.

5/ The financing gap is expected to be covered by donor inflows, but no formal pledges have been made.

Table 3. Haiti: Summary Accounts of the Banking System, 2008/09 - 2012/13

(Fiscal year ending September 30; in millions of gourdes, unless otherwise indicated)

	2008/09	2009/10	2010/11		2011/12		2012/13
	Act.	Act.	Prog. (EBS/11/63)	Prov.	Prog. (EBS/12/22)	Rev. Proj.	Prog.
			I. Central Bank				
Net foreign assets	24,000	64,127	55,236	72,464	66,877	76,597	75,057
(In millions of U.S. dollars)	575	1,606	1,347	1,773	1,592	1,811	1,706
Net international reserves (program) 1/	416	1,095	772	1,177	979	1,221	1,057
Commercial bank forex deposits	268	621	689	707	725	702	761
Net domestic assets	7,080	-23,344	-8,254	-29,229	-18,669	-29,471	-22,806
Net credit to the nonfinancial public sector	21,549	9,520	11,811	5,276	9,049	7,244	9,693
Of which: Net credit to the central government	23,118	12,376	14,652	9,466	12,572	10,767	12,883
Of which: T-bills	0	0	4,000	0	0	0	0
Of which: IMF PCDR Debt Relief	0	-10,704	-8,200	-10,954	-7,572	-9,510	-7,378
Liabilities to commercial banks (excl gourde deposits)	-20,711	-33,907	-36,756	-35,191	-37,677	-36,938	-38,693
BRH bonds/Open market operations	-9,552	-9,210	-8,500	-6,328	-7,241	-7,241	-5,200
Counterpart of commercial bank forex deposits	-11,159	-24,697	-28,256	-28,863	-30,437	-29,697	-33,493
Other	6,242	1,043	16,691	686	9,959	223	6,194
Base Money	31,080	40,783	46,982	43,235	48,207	47,126	52,250
Currency in circulation	13,448	17,282	19,671	18,400	20,608	20,796	23,088
Commercial bank gourde deposits	17,632	23,501	27,311	24,835	27,599	26,330	29,163
			II. Consolidated Banking System				
Net foreign assets	40,537	92,209	86,810	104,575	101,132	111,097	112,264
(In millions of U.S. dollars)	970	2,309	2,117	2,558	2,408	2,626	2,551
Of which: Commercial banks NFA	396	703	770	786	816	816	846
Net domestic assets	62,257	33,942	64,954	34,749	60,615	43,862	62,780
Credit to the nonfinancial public sector	16,461	-3,745	-352	-12,336	912	-12,308	-11,528
Of which: Net credit to the central government	18,101	-776	n.a.	-7,996	n.a.	-8,636	-8,189
Credit to the private sector	43,002	40,585	49,370	50,526	59,028	59,929	70,705
In gourdes	19,206	21,708	25,472	28,086	32,196	35,358	40,541
In foreign currency	23,796	18,877	23,898	22,440	26,832	24,571	30,164
In millions of U.S. dollars	570	473	583	549	639	581	686
Other	2,794	-2,898	15,935	-3,442	675	-3,759	3,602
Broad money	102,794	126,151	151,763	139,324	161,747	154,960	175,043
Currency in circulation	13,448	17,282	19,671	18,400	20,608	20,796	23,088
Gourde deposits	41,182	48,513	57,221	52,164	60,405	55,392	64,124
Foreign currency deposits	48,165	60,355	74,871	68,760	80,733	78,772	92,058
In millions of U.S. dollars	1,153	1,511	1,826	1,682	1,922	1,862	2,092
			(12-month percentage change)				
Currency in circulation	3.2	28.5	13.8	6.5	12.0	13.0	11.0
Base money	9.5	31.2	15.2	6.0	11.2	9.0	10.9
Gourde money (M2)	9.1	20.4	16.9	7.2	14.8	11.0	11.4
Broad money (M3)	11.0	22.7	20.3	10.4	16.1	11.2	13.0
Gourde deposits	11.2	17.8	25.0	7.5	15.8	10.2	11.5
Foreign currency deposits (U.S. dollars)	13.3	25.3	24.1	13.9	17.4	14.6	16.9
Credit to the nonfinancial public sector	24.5	-122.7	-91.7	229.4	-107.4	-0.2	-6.3
Credit to the private sector	14.7	-5.6	21.6	24.5	16.8	18.6	18.0
Credit in gourdes	19.2	13.0	17.3	29.4	14.6	25.9	14.7
Credit in foreign currency (U.S. dollars)	11.3	-20.7	26.6	18.9	19.6	9.5	22.8
Memorandum items:							
Foreign currency bank deposits (percent of total)	53.9	55.4	56.7	56.9	57.2	58.7	58.9
Foreign curr. credit to priv. sector (percent of total)	55.3	46.5	48.4	44.4	45.5	41.0	42.7
Commercial Banks' Credit to Private Sector (percent of GDP) 2/	15.4	14.6	15.2	16.2	16.3	17.5	18.4

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

1/ Excluding commercial bank forex deposits, letters of credit, guarantees, earmarked project accounts and U.S.dollar-denominated bank reserves. The NIR definition has been changed relative to that of the previous program, with the SDR allocation no longer netted out as a liability. This table reports NIR under the new definition. The revised projection for 2009/10 reflects the IMF debt relief of SDR 178.1 million approved on July 21, 2010.

2/ GDP ratio calculated using nominal program figure for 2009 (numerator) and actual nominal GDP (denominator).

Table 4. Haiti: Balance of Payments, 2008/09 - 2012/13

(In millions of U.S. dollars on a fiscal year basis; unless otherwise indicated)

	2008/09	2009/10	2010/11		2011/12		2012/13
	Act.	Act.	Prog. (EBS/11/63)	Prov.	Prog. (EBS/12/22)	Rev. Proj.	Prog.
Current account (including grants)	-226	-163	-323	-339	-375	-341	-453
Current account (excluding grants)	-621	-1,953	-1,773	-1,785	-1,905	-1,677	-1,787
Trade balance	-1,481	-2,247	-2,384	-2,246	-2,438	-2,246	-2,433
Exports of goods	551	563	626	768	943	768	943
Of which: Assembly industry	511	523	583	714	891	716	885
Imports of goods	-2,032	-2,810	-3,010	-3,014	-3,381	-3,014	-3,376
Of which: Petroleum products	-385	-546	-630	-770	-815	-815	-871
Services (net)	-393	-1,035	-793	-891	-864	-838	-813
Receipts	379	239	340	249	308	308	341
Payments	-772	-1,274	-1,133	-1,140	-1,172	-1,146	-1,154
Income (net)	13	22	29	41	33	43	40
Of which: Interest payments 1/	-18	-7	-4	-4	-6	-6	-9
Current transfers (net)	1,635	3,097	2,826	2,757	2,894	2,700	2,753
Official transfers (net)	395	1,790	1,450	1,446	1,530	1,336	1,334
Of which: budget support	94	225	169	87	114	55	80
Private transfers (net)	1,241	1,307	1,376	1,311	1,364	1,364	1,419
Capital and financial accounts	501	1,003	50	592	194	379	348
Capital transfers (HIPC/MDRI/PCDR) 2/	1,069	1,360	486	656	3	3	3
Debt stock reduction (HIPC/MDRI) 2/	-1,092	-334	-486	-486	0	0	0
Public sector capital flows (net) 3/	288	218	342	340	351	351	351
Loan disbursements	225	224	347	341	354	354	360
Amortization 1/	-38	-6	-5	-2	-3	-3	-9
Foreign direct investment (net)	38	150	107	181	101	101	112
Banks (net) 4/	57	-307	-67	-83	-30	-30	-30
Other items (net)	142	-84	-333	-16	-231	-46	-88
Errors and omissions	-384	188	0	-86	0	0	0
Overall balance	-109	1,028	-273	167	-181	38	-105
Financing	109	-1,028	273	-167	181	-38	105
Change in net foreign assets	-48	-1,031	273	-167	181	-38	105
Change in gross reserves	-259	-828	253	-211	157	-60	90
Liabilities	211	-203	20	44	24	23	15
Utilization of Fund credits(net)	61	-146	21	13	23	23	15
Other liabilities	149	-57	0	31	1	0	0
Debt rescheduling and debt relief	157	3	n.a.	0	0	0	0
Memorandum items:							
Current account (in percent of GDP)	-3.5	-2.5	-4.2	-4.6	-4.5	-4.3	-5.3
Excluding official transfers	-9.5	-29.8	-22.8	-24.2	-22.9	-21.2	-21.0
Exports of goods, f.o.b (percent change)	12.4	2.2	10.7	36.3	23.9	0.0	22.8
Imports of goods, f.o.b (percent change)	-3.6	38.3	7.2	7.3	15.1	0.0	12.0
Debt service (in percent of exports of goods and services)	3.9	1.6	0.9	0.6	0.7	0.8	1.4
Gross liquid international reserves (in millions of U.S. dollars) 2/	948	1,792	1,539	2,000	1,843	2,060	1,970
(in months of next year's imports of goods and services)	2.8	5.2	4.1	5.8	4.7	5.5	5.0

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

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

2/ Includes operations under the HIPC/MDRI in 2009, PCDR in 2010, and debt cancellations by IDB, World Bank, and Venezuela in 2010-11.

3/ In 2009, including an SDR allocation of $101 million.

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

Table 5. Haiti: Aggregate Financial Soundess Indicators of the Banking System, 2008/09-2010/11

(In percent unless otherwise indicated)

	Year Ending September 30		End-December	End-March	End-June	End-September
	2008/09	2009/10	2010/11			
Size and Growth						
Total assets (in millions of Gourdes)	107,913	137,937	140,814	146,247	149,851	153,995
o/w central bank bonds	9,552	9,249	9,099	9,120	8,294	6,328
o/w total loans	35,405	30,901	32,457	32,877	34,659	40,076
Total assets (in US$ millions) 1/	2,583	3,454	3,531	3,656	3,746	3,850
Total Deposits (in millions of Gourdes)	92,460	119,253	122,261	127,149	131,099	135,549
Net Profits (loss) (in millions of Gourdes)	359.8	862.7	465.8	474.8	455.3	612.1
Credit/GDP	13.3	11.6	12.2	12.3	13.0	15.0
Deposits/GDP	37.8	44.7	45.8	47.6	49.1	50.8
Credit growth (net) from year before 2/	14.2	-12.7	-9.5	7.3	15.8	31.5
Capital adequacy						
Regulatory capital to risk-weighted assets 3/	16.4	13.4	16.4	...	...	...
Capital (net worth) to assets	6.7	6.2	6.5	6.4	6.1	6.2
Asset quality and composition						
Loans (net) to assets	30.9	21.3	22.1	21.6	22.3	25.1
NPLs to gross loans	8.5	5.7	5.4	4.8	5.0	3.7
Provisions to gross loans	5.9	4.8	4.2	3.9	3.8	3.4
Provisions to gross NPLs	69.6	84.1	77.5	80.0	76.5	93.1
NPL less provisions to net worth	12.6	3.2	4.3	3.4	4.5	1.1
Earnings and profitability (annualized)						
Net Earnings/Assets (ROA)	1.4	2.6	1.3	1.3	1.2	1.6
Net Earnings/Equity (ROE)	20.5	41.9	21.0	20.5	19.7	26.3
Net interest income to gross interest income	87.3	86.6	90.9	91.3	91.5	91.7
Operating expenses to net profits	74.1	57.7	68.0	67.0	68.5	67.6
Efficiency						
Interest rate spread in Gourdes 4/	19.5	20.0	20.0	...	...	...
Interest rate spread in US dollar 4/	10.9	11.4	11.4	...	...	...
Liquidity						
Liquid assets to total assets 5/	46.9	51.0	51.1	51.1	50.2	49.5
Liquid assets to deposits 5/	44.4	51.3	51.5	...	...	...
Market Risk						
Foreign currency loans to total loans (net)	68.9	60.1	59.7	59.0	56.8	55.7
Foreign currency deposit to total deposits	56.9	60.3	60.5	61.3	61.7	62.3

Source: Banque de la Republique d'Haiti (BRH); and Fund staff estimates.

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

Table 6. Haiti: Indicators of External Vulnerability, 2008/09 - 2012/13 [1/]

(Units as indicated)

	2008/09	2009/10	2010/11	2011/12	2012/13
			Prov.	Proj.	
Debt indicators					
Total external public debt (in percent of GDP)	19.0	13.2	8.9	13.1	16.4
Total external public debt (in percent of exports) [2/]	133.7	107.6	64.6	95.8	108.9
External debt service (in percent of GDP)	0.6	0.2	0.1	0.1	0.2
Amortization	0.4	0.1	0.0	0.0	0.1
Interest					
External debt service (in percent of exports) [2/]	3.9	1.6	0.6	0.8	1.4
External debt service (in percent of current central govt. revenues)	4.9	1.7	0.6	0.8	1.5
Other indicators					
Exports (percent change, 12-month basis in U.S. dollars)	11.6	-13.7	26.8	5.8	19.3
Imports (percent change, 12-month basis in U.S. dollars)	-1.7	45.6	1.7	0.1	8.9
Remittances and grants in percent of gross disposable income	19.9	32.0	27.1	25.4	24.3
Real effective exchange rate appreciation (+) (end of period)	2.1	0.8	1.6	n.a.	n.a.
Exchange rate (per U.S. dollar, period average)	40.7	40.3	40.3	41.6	43.2
Current account balance (millions of US dollars) [3/]	-226.3	-162.7	-338.8	-341.0	-453.0
Capital and financial account balance (millions of US dollars) [4/]	501.2	1003.5	592.3	379.0	348.0
Public sector	287.9	218.2	339.5	350.8	351.3
Private sector	213.3	785.3	252.8	28.1	-3.3
Liquid gross reserves (millions of US dollars)	947.5	1792.0	1999.7	2060.0	1970.0
In months of imports of the following year [2/]	2.8	5.2	5.8	5.5	5.0
In percent of debt service due in the following year	7283	30685	22988	11521	5694
In percent of base money	127.4	175.5	189.1	184.9	165.9

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

1/ Reflects HIPC/MDRI relief.

2/ Goods and services.

3/ Including grants.

4/ Includes in the private sector FDI, short-term capital, and errors and omissions in addition to bank flows.

Table 7. Haiti: Indicators of Capacity to Repay the Fund, 2012/13-2022/23

(Units as indicated)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Fund obligations based on existing credit (in millions of SDRs)											
Principal	0.0	0.0	0.0	1.6	4.3	5.2	5.2	5.2	3.6	1.0	0.0
Interest	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit (in millions of SDRs)											
Principal	0.0	0.0	0.0	1.6	4.3	6.7	8.2	8.2	6.6	3.9	1.5
Interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit											
In millions of SDRs	0.0	0.1	0.1	1.7	4.4	6.8	8.3	8.2	6.6	3.9	1.5
In millions of U.S. dollars	0.0	0.2	0.2	2.6	6.6	10.3	12.5	12.5	10.0	6.0	2.2
In percent of											
exports	0.0	0.0	0.0	0.2	0.3	0.5	0.6	0.5	0.4	0.2	0.1
government revenues	0.0	0.0	0.0	0.2	0.33	0.4	0.4	0.3	0.2	0.1	0.0
reserves	0.0	0.0	0.0	0.1	0.3	0.5	0.6	0.6	0.5	0.3	0.1
debt service	0.0	0.5	0.2	3.1	6.2	8.1	8.4	7.6	5.5	3.1	1.1
quota	0.0	0.1	0.1	2.1	5.3	8.3	10.1	10.0	8.0	4.8	1.8
Outstanding Fund credit (end of period)											
In millions of SDRs	41.0	41.0	41.0	39.3	35.1	28.3	20.1	12.0	5.4	1.5	0.0
In millions of U.S. dollars	62.3	62.3	62.3	59.7	53.2	43.0	30.6	18.1	8.2	2.2	0.0
In percent of											
exports	4.9	4.4	4.0	3.5	2.8	2.1	1.4	0.8	0.3	0.1	0.0
government revenues	5.2	4.5	3.9	3.4	2.8	2.1	1.4	0.8	0.3	0.1	0.0
reserves	3.2	3.2	3.2	3.0	2.7	2.2	1.6	0.9	0.4	0.1	0.0
debt service	348.6	180.1	98.6	70.3	49.8	33.6	20.6	11.0	4.6	1.2	0.0
quota	50.0	50.0	50.0	48.0	42.8	34.6	24.6	14.6	6.6	1.8	0.0
Memorandum items:											
Exports 1/ 2/	1.3	1.4	1.6	1.7	1.9	2.1	2.2	2.4	2.5	2.7	2.9
Government revenues 1/ 3/	1.2	1.4	1.6	1.7	1.9	2.0	2.2	2.4	2.6	2.8	3.1
Reserves 1/ 4/	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Debt service 1/	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Quota (in 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
GDP 1/	8.5	9.2	10.2	11.1	12.0	12.9	13.9	14.9	15.9	17.0	18.2

Sources: Haitian authorities; and Fund staff projections.

1/ In billions of U.S. dollars.
2/ Exports of goods and services
3/ Central government domestic revenues.
4/ Gross liquid international reserves, end of period.

Table 8. Haiti: Proposed Schedule of Disbursements, 2010-2013

Amount	Availability Date	Conditions for Disbursement [1/]	Status
SDR 8,190,000	July 15, 2010	Executive Board approval of the three-year arrangement under the ECF.	Completed
SDR 8,190,000	January 15, 2011	Observance of performance criteria for September 2010 and completion of the first review under the ECF arrangement.	Completed
SDR 4,914,000	July 15, 2011	Observance of performance criteria for March 2011 and completion of the second review under the ECF arrangement. [2/]	Completed
SDR 4,914,000	January 15, 2012	Observance of performance criteria for September 2011 and completion of the third review under the ECF arrangement. [2/]	Completed
SDR 4,914,000	July 15, 2012	Observance of performance criteria for March 2012 and completion of the fourth review under the ECF arrangement.	
SDR 4,914,000	January 15, 2013	Observance of performance criteria for September 2012 and completion of the fifth review under the ECF arrangement.	
SDR 4,914,000	July 15, 2013	Observance of performance criteria for March 2013 and completion of the sixth review under the ECF arrangement.	

[1/] Other than the generally applicable conditions for the Extended Credit Facility (ECF) arrangement.
[2/] The second and third reviews were combined.

APPENDIX I. LETTER OF INTENT

June 25, 2012

Mrs. Christine Lagarde
Managing Director
International Monetary Fund
Washington D.C. 20431
United States of America

Dear Mrs. Lagarde:

1. Implementation of the program supported by an arrangement under the Extended Credit Facility (ECF) has been broadly satisfactory, and all end-March 2012 performance criteria were met. Structural reforms have also been progressing, albeit with some delays. We have completed most of the structural benchmarks not met at the time of the second and third reviews, and made significant progress in implementing the end-March 2012 benchmarks. Tax and customs administrations have been strengthened, resulting in more buoyant revenue mobilization. Public financial management reforms are underway to improve budget transparency and economic governance.

2. The aforementioned delays in the structural reforms were linked to the political transition following the resignation of the former Prime Minister. The uncertainty of the transition period contributed to the under-execution of the domestically-financed capital spending program which was compounded by the lower disbursement of international assistance. Reflecting these unfavorable developments, our growth performance for FY2012 will be lower-than-anticipated.

3. In early May, the new government was formed and the FY 2012 budget approved by Parliament. Going forward, we intend to step up the reconstruction and continue implementing a coherent set of macroeconomic policies in support of inclusive and sustained growth and poverty reduction. In this context, we will make use of all available resources, including those freed by the PCDR, which have remained largely unused because of the political transition. Most importantly, we intend to sustain the good performance of domestic revenue through reforms to further broaden the tax base and strengthen the tax and customs administrations. The structural reform agenda will also focus on enhancing public financial management and economic governance, strengthening the financial sector, and improving the business environment.

4. In support of these policies and in view of the progress made in implementing the program supported by the ECF arrangement, the government requests the conclusion of the fourth review and the approval of the fifth disbursement for an amount equivalent to

SDR 4.914 million. The upcoming fifth review, which will assess performance based on end-September 2012 targets, is scheduled for January 2013. The sixth review, assessing performance based on end-March 2013 targets, is envisaged for July 2013.

5. We will regularly update the IMF on economic and policy developments and will provide the data needed for adequate monitoring of the program. The government will continue its policy dialogue with the IMF and is prepared to take any further measures as deemed appropriate to meet its program objectives. We will consult with the Fund ahead of any revisions to the measures outlined in the MEFP, in accordance with the Fund's policies on such consultation.

6. The Government authorizes the IMF to publish this letter, the attached Memorandum of Economic and Financial Policies, and the related Staff Report, including the placement of these policy documents on the IMF website, following the IMF Executive Board's conclusion of the review.

Sincerely yours,

/s/
Marie Carmelle Jean-Marie
Minister of Economy and Finance
Ministry of Economy and Finance

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

Appendix II. Updated Memorandum of Economic and Financial Policies

I. Introduction

1. **This Memorandum of Economic and Financial Policies (MEFP) supplements and updates the MEFPs that have preceded it since July 2010**. It reviews recent economic developments and progress in implementing the macroeconomic and structural program of the Government of Haiti (GoH) under the Extended Credit Facility (ECF) arrangement, approved by the IMF Board on July 10, 2010. It also sets out macroeconomic policies and structural reforms that the GoH will pursue for the remainder of FY2012 (fiscal year ending in September) and during FY2013.

II. Political Background and Recent Economic Developments

2. **The recent political crisis, which has now been resolved, has extracted a toll on the country.** Mr. Lamothe, the former Minister of Foreign Affairs was appointed Prime Minister after winning approval from the Senate in early April and the Chamber of Deputies in early May. The new cabinet took office on May 15. Similar in that respect to the 2011 episode, the recent domestic crisis gave rise to another round of uncertainty that slowed down public investment and, hence, the reconstruction and recovery.

3. **The economic recovery has been weak and 12-month inflation has declined.** Economic activity has remained buoyant in the manufacturing, services, and commerce sectors. In addition, agricultural output picked up significantly during the main crop season, suggesting a return to normal harvest conditions. In contrast, activity in the construction sector and transportation has remained modest, due in part to the low execution rate of public investment mainly caused by the late approval of the budget. For the year as a whole, the economy is expected to grow by 4.5 percent, against a program target of 7.8 percent. Inflationary pressures from international food prices have receded sharply, and headline inflation declined from a peak of 10.4 percent in September 2011 to 5.2 percent in May 2012. For FY2012, we now expect consumer price inflation to reach 6 percent, compared with an initial target of 8 percent.

4. **Fiscal performance is broadly in line with program projections.** Revenue collections have remained strong, with domestic revenue up by about 9 percent from the first half of FY2011 and the first half of FY2012. At G 21 billion in the first half of FY2012, revenue, however, was slightly lower than the program target (G 22 billion), reflecting lower-than-projected custom revenues due predominantly to lower imports. Current spending is in line with program targets, but domestically-financed investment spending remains low. Poverty-related expenditure is below the target.

5. **The overall balance of payments recorded a surplus in the first semester of 2012.** Consequently, gross international reserves rose to US$2.1 billion at end-March (5.5 months of imports). The current and capital accounts outcomes were broadly in line with

expectations; however, both merchandise exports and imports were significantly lower than programmed. Textile exports were negatively affected by the loss of a major order from a large U.S. retailer and imports were lower owing to lackluster investment-related demand. On a 12-months basis, the Gourde depreciated by 4.1 percent against the U.S. dollar through end-May 2012.

III. PERFORMANCE UNDER THE PROGRAM

6. **We have kept the program broadly on track.** We have observed all end-March 2012 performance criteria. We have met all end-December 2011 indicative targets, with the exception of the floor on poverty-related spending, which was impacted by the overall under-execution of public spending. We have also made progress in implementing the end-March 2012 structural benchmarks. We have met the benchmark related to the increase in excise tax on tobacco and alcohols, a measure which we included in the recently approved FY2012 budget. We have finalized the public debt law, which will be submitted to parliament at the latest by mid-August. Also, we have not been able to complete yet the third end-March 2012 benchmark, related to the creation of a debt unit, due to a lack of progress in the reorganization of the Ministry of Economy and Finance (which requires Parliament's approval). In the interval, we are taking all necessary steps to strengthen the current Directorate of Debt and complete the benchmark by 2013.

IV. GOVERNMENT PROGRAM FOR THE REMAINDER OF 2012 AND 2013

7. **We are determined to addressing the multiple challenges facing Haiti, including sustaining inclusive high growth, reducing poverty, and strengthening the country's resilience to external and natural shocks**. In this connection, we will continue implementing a set of coherent macroeconomic policies and a reform program aimed at keeping inflation in single digits, increasing the domestic revenue intake, enhancing the quality of spending, and improving governance to attract more investment and promote private sector-led growth. We are, however, aware that some risks remain. On the upside, we note the reversal of the recently rising trend in international food and energy prices; on the downside, we are faced with the possibility of delays in disbursements of international assistance; continued sanitary challenges, notably those associated with the cholera epidemic; the challenging security and political environment; natural disasters; and our weak administrative capacity.

A. Macroeconomic Policies

Fiscal policy

8. **Based on performance through May, the 2012 fiscal deficit is now projected at 3.6 percent of GDP, against an initial target of 7.7 percent**. This reflects significantly lower than projected domestically-financed capital spending, taking into account the low

execution rate observed in the first half of this year. Domestic revenue and current spending in Gourdes are expected to remain broadly in line with the forecasts.

9. **The draft 2013 budget, which we plan to submit to Parliament in June, strikes a balance between supporting the reconstruction and ensuring medium-term debt sustainability**. On the revenue side, we will implement a set of revenue administration measures to boost our tax-to-GDP ratio to 13.9 percent of GDP (from 13.5 percent in FY2012). We will continue to contain non priority current spending to make more room for poverty-related and infrastructure spending. The wage bill is expected to decline slightly (by 0.1 percentage points of GDP), notwithstanding new hiring in areas such as education, health, agriculture, and security. Transfers and subsidies to the energy sector will be reduced by 0.8 percentage points of GDP. Consequently, overall current spending will be brought down to 10.5 percent of GDP, from 11.3 percent of GDP in FY2012. We also plan to ramp up domestically-financed capital spending to 8.9 percent of GDP, up from 6.4 percent of GDP in FY2012, on the assumption of higher PCDR- and PetroCaribe-related project spending. Reflecting these parameters, the overall deficit target will be 4.7 percent of GDP, to be financed by domestic (0.7 percent of GDP) and external resources (4 percent of GDP). In the event of a shortfall in external budgetary support, we would delay some domestically-financed capital spending (without affecting the overall execution and consistency of the investment program) and/or alternatively issue additional T-bills.

Monetary and exchange rate policies

10. **Our monetary policy will continue to aim at price stability.** As inflationary pressures are subsiding, we do not see any need for action on the policy rate. We remain, however, vigilant against both upside and downside risks to the economy and stand ready to adjust the monetary policy stance. We are committed to improving the effectiveness of the monetary transmission mechanism, which is currently hindered by structural excess liquidity and high financial dollarization, through stepped up efforts toward improving liquidity management, deepening domestic financial market, and strengthening market-based monetary operations. In an effort to promote de-dollarization, we have, since the beginning of the year, steadily increased the portion of the reserve requirement on foreign currency deposits to be held in dollars up to 100 percent by May 16. We also plan to further safeguard the stability of the banking system and, to that effect, will resume implementation of the 2008 FSAP measures in the near future.

11. **We recognize that greater exchange rate flexibility will also help improve the effectiveness of monetary policy.** In the short term, we want to exercise caution in view of the exchange rate pass through and accordingly, we intend to take advantage of the current situation characterized by a comfortable level of reserves to initiate a number of reforms with a view to enhancing existing market mechanisms and developing the foreign exchange market. In particular, we will work closely with IMF staff to increase the number of participants in the FX market to allow a gradual and smooth transition to a weekly auction

system. Our interventions in the foreign exchange market will continue to aim at smoothing large exchange rate movements, while not resisting fundamental trends.

Safeguard assessments and AML/CFT

12. **We remain committed to our reform agenda, consistent with the recommendations of the January 2010 Safeguards Assessment follow up mission.** With a view to strengthening the independence and integrity of the central bank, work is underway to complete the FY2011 audit and execute the BRH's plan to dispose of all subsidiaries. We are also taking steps to: (i) finalize the intended conversion of central bank credit to the government into securities; (ii) adopt IFRS, including with the creation of a special committee to monitor its implementation; and (iv) reconstitute the Investment Committee and appoint a compliance officer to monitor compliance with investment guidelines.

13. **We will further improve the compliance of our AML/CFT legal framework with FATF standards, and follow a risk-based approach to its effective implementation.** To further strengthen the AML/CFT law, we have prepared a number of amendments consistent with the recommendations contained in the 2007 CFATF assessment and the current FATF standards. These amendments will be submitted to Parliament by end-2012. In addition, we are working on an action plan prioritizing the implementation of certain elements of the AML/CFT framework to address risks faced by our economy, particularly with regard to corruption, tax evasion, financial sector abuse, and the absence of reliable identification of citizens. Technical assistance will be critical in supporting our efforts in that area.

B. Structural Reforms

Revenue administration

14. **We remain committed to implementing our comprehensive reform program in the budget area, notably tax and custom administrations reforms, and public expenditure management**. To enhance revenue collection, we are planning to implement a set of critical measures that will include: (i) the adoption of an electronic system for tax declaration (e-declaration); (ii) a tightening of controls in revenue collection; and (iii) the establishment of two tax units, one in charge of NGOs and the second responsible for SMEs. Following a review of the progress made in implementing the 2010 action plan and with support from donors, we will introduce corrective measures to improve customs administration, strengthen import valuation, and enhance customs collections. As regards tax policy, we plan to put in place a tax policy unit to coordinate reforms in revenue administration, and help address the issue of tax expenditure, with a view to expand the tax base. We will also move to launch the much-needed work to modernize the legal framework with technical assistance from our partners.

Public financial management (PFM) and economic governance

15. **We have put in place SYSGEP, a modern tracking and reporting mechanism for capital spending execution.** We are aware that its successful operation requires accompanying measures. Accordingly, we are preparing an action plan to: (i) ensure a regular feed of updated information by all project managers; and (ii) reinforce the units in charge of projects assessment and programming (UEP) and of technical execution (UTE) in the line ministries, as they form the backbone of the whole reporting system. These measures, together with the planned introduction of an advanced version of the SYSGEP WORLD and further training of staff, are strongly dependent upon additional budget resources. Additionally, we will reiterate the need for all users of the system to provide appropriate documentation for the use of the initial tranches of disbursement. Noncompliance with this basic rule will trigger the legal dispositions that suspend disbursement of subsequent project tranches. More broadly, we intend to strengthen project implementation capacity by finalizing both the contract with the international consulting firm already selected and the manual on project management.

16. **Progress is also being made in the area of public financial management.** The first phase leading to the creation of the treasury single account (TSA), notably the closing inactive accounts, is being conducted in a timely fashion. The timetable for the implementation of the subsequent phases of this project is to be agreed upon by September 2012. In particular, we will: (i) reduce the number of domestically-funded imprest accounts to three by ministry or institutions (one for revenue collection, one for capital spending, one for other transactions, including current spending) and deploy the network of public accounting offices at the line ministries level and gradually grant signature on these accounts to public accountants appointed by the MEF (end-March 2013 structural benchmark); and (ii) roll-out in all ministries the GL-software in the offices of the government accountants and start to record projects and imprest accounts expenditure when they are effectively paid and not any more when the replenishment of the account is made (end-March 2013 structural benchmark).

17. **We will pursue our reform agenda to improve the business climate.** We are moving forward on our action plan seeking to establish a robust legal framework for Public-Private Partnerships, notably in the key areas of infrastructure, public utilities, export industries, and tourism. We also are working toward a simplification of the legal and regulatory framework for investment. A key aim of our strategy is to resolve the current land title issues facing investors, while uplifting the legal regime for collateral and establishing a registry for the use of movable assets as collateral. We will take further steps to prepare a new law aimed at strengthening microfinance.

18. **Another key area of our reform agenda is the electricity sector, to which we attach the utmost importance**. Accordingly, we have signed a memorandum of understanding with key partners, including the U.S., IDB, and the World Bank to reform the sector. As a first step towards this goal, we have hired an international firm with a view to modernizing and improving the management of EDH. Simultaneously, a plan is being developed with support of other partners to bring EDH back to financial soundness, including

reducing production leakages, improving the distribution network, enhancing bill collection, and strengthening energy supply.

External debt management

19. **We remain determined to strengthen debt management.** With the political crisis resolved, we will accelerate the administrative reorganization of the Ministry of Economy and Finance, including the creation of a Directorate General of Treasury that will have authority on the new debt unit (end-March 2012 structural benchmark). We are planning to send to Parliament the draft law reorganizing the MEF by mid-summer. In the interim, we will strengthen the current Directorate of Debt to include fully operational middle and back office functions. We have completed work on the draft public debt law and will send it to parliament by mid-August after the transmission of the draft FY2013 budget law. We are also moving to complete a medium-term debt strategy.

Financial sector

20. **We will seek to deepen further the stability of the financial sector.** To that effect, we plan to: (i) strengthen the operations of the Partial Credit Guarantee Fund, including with the launching of the second pillar aimed at boosting new loans to investors; (ii) accompany the recently-adopted banking law by Parliament, with additional steps to update the financial legislation and improve regulation and supervision; and (iii) step up work to reinforce the insurance sector, notably through the submission of an insurance law to Parliament and the setting up of a regulatory authority. We will also continue our work aimed at creating a private credit bureau.

Social policies

21. **The protection of the poor remains a central objective of our policies**. The government has launched three new initiatives to help the most vulnerable groups of the population and create a coherent institutional framework:

- ***Education*** (*Programme de Scolarisation Universel Gratuit et Obligatoire or PSUGO*). It is estimated that about 508,000 children aged 6 to 12 were out of school in 2011 mainly for financial reasons. In line with a constitutional requirement, we have launched a major initiative to bring them all to school for free over a period of four years (about 25 percent each year). Forty percent of these children will be sent to public schools, and the remaining ones to private schools, which will receive government subsidies. During 2011-12, about 165,500 children have been sent to school under this initiative, new teachers have been hired, and new public schools have been built to receive some of them. For each child enrolled under this program, the government gives about US$90 to private schools, and about US$6 to public schools. The program is expected to cost about US$43 million each year.

- ***Conditional cash transfer*** ("*Ti-manman-cheri*"). We have also launched a conditional cash transfer program in favor of women in very poor neighborhoods in the Port-au-Prince area. Under the pilot project, which will be extended to the whole country if successful, the government will transfer every month G 400 (about US$10) to each woman who sends one of her children to school. She will receive G 600 for two children sent to school, and G 800 for three or more children sent to school. This program is expected to relieve poor families from the financial burden created by the education of their children. The pilot program will last from May 2012 to May 2013. It is expected to reach about 100,000 mothers and cost about US$15 million.

- ***Food production and distribution*** ("*Aba grangou*"). The government has also launched a multisectoral program to combat poverty. This program aims at developing poor neighborhoods in way that help them better deal with natural risks and promotes agricultural projects as well as food distribution programs. The program also includes components that would provide better educational and health services in these neighborhoods. It is expected to cost about US$15 million.

22. **We will improve coordination with NGOs and other stakeholders to better target social spending, and effectively alleviate poverty**. The presence of international NGOs in Haiti is extensive, with particular involvement in the provision of basic services, including access to health care, education, food, and potable water. While NGOs provide needed services to large segments of the poor populations, the government will put in place a better coordination and supervision of their activities. Some issues have been identified as the direct competition of NGOs with the government and the private sector in the domestic labor and goods and services markets and the low level of coordination with public entities. Hence, we are exploring several initiatives to enable NGOs to operate lawfully within guidelines to ensure that their actions and operations strengthen capacity building effectively and are consistent with the long-term developments needs of the country.

V. PROGRAM MONITORING

23. **Our program will be monitored using the definitions, data sources, and frequency of monitoring set out in the accompanying revised TMU**. The government will make available to Fund staff all data appropriately reconciled and on a timely basis, as specified in the TMU. Table 1 shows the quantitative performance criteria for monitoring program execution in 2011/12 and 2012/2013. Structural benchmarks, with corresponding dates and status of implementation are identified in Tables 2a and 2b. Structural conditionality for the remainder of the program, including two new benchmarks which are critical to improving cash management transparency in accounting are in Table 2c. In particular, we are committed to: (i) reducing the number of domestically-funded imprest accounts to three by ministry or institutions (one for revenue collection, one for capital spending, one for other transactions, including current spending), deploy the network of public accounting offices at the line ministry level and gradually grant signature on these

accounts to public accountants appointed by the MEF (end-March 2013); and (ii) rolling-out for all ministries, the GL-software in the offices of the government accountants and start to record projects and imprest accounts expenditure when they are effectively paid and not any more when the replenishment of the account is made (end-March 2013). The fifth review under the ECF arrangement, assessing end-September 2012 performance criteria, is expected to be completed by January 2013. The sixth review under the ECF arrangement, assessing end-March 2013 performance criteria, is expected to be completed by mid-July 2013.

Table 1. Haiti: Indicative Targets and Quantitative Performance Criteria, September 2011 - September 2013

(In millions of gourdes, unless otherwise indicated)

	Actual stock at end- Sept. 09	Cumulative Flows from September 2009												
		Sept. 2011	Dec. 2011		Mar. 2012		June 2012	Sept. 2012	Dec. 2012		Mar. 2013		June 2013	Sept. 2013
		Actual 1/	Indicative target (EBS/12/22)	Actual	PC (EBS/12/22)	Actual	Indicative target	PC	Indicative target (EBS/12/22)	Proposed new indicative target	Indicative target (EBS/12/22)	Proposed PC	Proposed new indicative target	Proposed new indicative target
I. Quantitative performance criteria														
Net central bank credit to the non-financial public sector - ceiling	21,549	-16,273	-8,525	-17,318	-7,309	-19,578	-15,926	-12,090	-11,331	-13,776	-10,572	-13,163	-12,551	-11,938
Central Government 2/	23,118	-13,652	-7,291	-14,127	-6,076	-15,786	-13,434	-7,742	-5,504	-11,904	-2,955	-11,375	-10,846	-10,317
Rest of non-financial public sector	-1,569	-2,621	-1,233	-3,191	-1,233	-3,792	-2,697	-1,954	-1,871	-1,871	-1,788	-1,788	-1,704	-1,621
Net domestic assets of the central bank - ceiling 3/	14,448	-18,309	-15,784	-17,883	-17,448	-20,381	-11,488	-5,383	-3,014	-13,251	-645	-10,323	-7,395	-4,467
Net international reserves of central bank (in millions of U.S. dollars) - floor	416	762	370	786	384	772	683	563	538	764	513	723	682	641
II. Continuous performance criteria														
Domestic arrears accumulation of the central government	0	0	0	0	0	0	0	0	0	0	0	0	0	0
New contracting or guaranteeing by the public sector of nonconcessional external or foreign currency debt (In millions of U.S. dollars) 4/	0	33	33	33	33	33	33	33	33	33	33	33	33	33
Up to and including one year	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Over one-year maturity	0	33	33	33	33	33	33	33	33	33	33	33	33	33
Public sector external arrears accumulation (in millions of U.S. dollars)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
III. Indicative targets														
Change in base money - ceiling	31,080	12,156	21,352	14,005	20,027	10,481	15,843	17,128	18,497	17,328	19,866	18,609	19,890	21,171
Net domestic credit to the central government - ceiling 5/	19,540	-19,863	-6,067	-22,785	-6,585	-28,647	-11,361	-6,710	-1,698	-22,221	-509	-21,615	-21,010	-20,404
Poverty reducing expenditures - floor 6/	n.a.	17,794	23,689	17,915	26,808	22,309	20,258	24,313	29,584	31,175	34,855	36,446	41,717	46,988
Memorandum items														
Change in currency in circulation	13,448	4,953	12,117	8,254	9,728	6,221	6,626	7,161	7,764	7,921	8,368	8,494	9,067	9,640
Net domestic credit to the rest of the non-financial public sector	-1,641	-2,688	-17,582	-2,619	-20,539	-4,014	-2,775	-2,032	-1,948	-1,948	-1,865	-1,865	-1,782	-1,698
Government total revenue, excluding grants	29,881	70,319	78,402	81,181	89,649	91,475	104,203	117,269	171,180	127,253	234,025	139,283	151,969	166,245
Government total expenditure, excluding externally-financed investment	42,096	97,390	117,637	111,445	134,584	124,633	167,343	162,735	167,343	171,677	162,735	188,152	207,199	226,645

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

1/ For performance under the program prior to September 2011, please see the previous staff report (EBS/12/22).

2/ Excluding spending of resources freed by IMF PCDR debt relief.

3/ For program monitoring purposes, NDA is defined as monetary base minus program NIR in gourde terms. Program exchange rate of G40.0 per U.S. dollar for the period June 2010 - September 2013.

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

5/This includes central bank, commercial bank, and non-bank financing to the government. It includes net T-bill issuance for government financing.

6/ Poverty reducing expenditures consist of domestically-financed spending in health, education, and agriculture.

Table 2a. Haiti: Status of Implementation of Structural Reform Measures in 2010

Macro-criticality	Objective		Structural Benchmarks	Status
Prior Actions				
Safeguards assessment	Improve reliability of program data		Completion of the audit of foreign reserves to confirm the levels of end-September 2009 and end-September 2010 level of unencumbered reserves.	Completed
End-September 2010				
1-Improve the tracking of poverty-reducing expenditures	Publish regular reports on poverty-reducing spending on the MEF website.	1a	Continue publishing quarterly reports on poverty-reducing expenditures on the MEF website, including domestically-financed health, education and agriculture spending.	Met
2-Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and cash management	Strengthen the transparency of expenditure policy.	2a	Start publishing central government monthly transfers to investment project accounts, project by project, including PetroCaribe projects.	Met with delay
		2b	Start publishing central government monthly transfers by beneficiary entity.	Met
	Improve control of budget execution and fiscal reporting.	2c	Start preparing monthly consolidated Treasury balances (TMU ¶38).	Met with delay
	Improve cash management.	2d	Prepare an inventory of all government and donor accounts at the BRH and BNC (TMU ¶39).	Met with delay
3-Raise government revenue	Strengthen operation of tax and customs administrations.	3a	Prepare quarterly reports with monthly data on the performances of the tax system and the tax administration, including the cost of exemptions and revenue collected in the provinces (TMU ¶40).	Met
	Enhance the transparency of the tax exemption policy.	3b	Start publishing a quarterly report that identifies all fiscal expenditure by beneficiary sectors.	Met
	Introduce a new tax code that would increase revenue and rationalize the tax system.	3c	Set up a working group that would be tasked to prepare a study to simplify the tax system, increase revenue, improve tax productivity, custom and fiscal administration, establish a work program with specific deadlines (TMU ¶37).	Met with delay
4-Improve the monetary policy framework and its effectiveness	Improve timeliness of external audits of the BRH; enforce rotation of external auditors.	4a	Completion and publication of externally audited financial statements for 2008/09.	Met

Table 2b.Haiti: Status of Implementation of Structural Reform Measures in 2011

Macro-criticality	Objective		Structural Benchmarks	Timing	Status
Continued benchmarks			Continue publishing reports listed under 1a, 2a, 2b, 2c, 3a, 3b	End-March 2011	Met
Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and cash management	Improve cash management.	2f	Start preparing and publishing monthly cash plans including PetroCaribe spending and financing needs.	End-March 2011	Met
	Improve the tracking of investment spending and improve ability to make multi-year investment projections.	2g	Start producing quarterly reports with monthly data of investment expenditure based on SYSGEP and publish them on the MEF website.	End-March 2011	Met.
Improve the monetary policy framework and its effectiveness	Enforce rotation of external auditors to audit BRH accounts.		Select an international firm to conduct ISA compliant external audit for the FY 2011 audit, for a period of 3 to 6 years.	End-July 2011	Met with delay
	Strengthen foreign exchange reserves management.		Adoption of a global reserves management policy by the investment committee, covering all foreign exchange reserves.	End-June 2011	Met
Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and cash management	Improve the transparency of government transfers to the energy sector	2h	Identify and consolidate all sources of transfers to EDH in regular monthly reports.	End-June 2011	Met
	Enhance the quality of spending of investment projects, including those financed with PetroCaribe resources and PCDR debt relief.	2i	Launch the bids for the selection and hiring of the international consulting agency that will assist UCP and other project implementation units in the government	End-June 2011	Met.
		2j	Prepare a plan of action / operational manual describing: a. Modalities to recruit staff with project management skills and responsibility for ordering payments for project work orders. b. A defined set of information, project lists and accounts to be regularly published online to ensure full transparency on project execution and planning. c. Clear practices to ensure the coordination between the UCP, the Procurement Commission (CNMP) and the Ministry of External Cooperation and Planning (MPCE), in full compliance with national budget execution rules.	End-September 2011	Not met. Work on the draft manual is very well advanced.
Continued benchmarks			Continue publishing reports listed under 1a, 2a, 2b, 2c, 2h, 3a, 3b	End-September 2011	Met

Table 2c. Haiti: Status of Structural Conditionality through end-March 2012 and Proposed Measures Through End-March 2013

Macro-criticality	Objective	Structural Benchmarks	Timing	Status
Debt management	Complete the setting-up of the debt unit at the MEF and build capacity to prepare a medium-term debt strategy.	Strengthen the debt unit with fully operational middle and back office functions; Preparation of annual debt sustainability analyses.	End-March 2012	Not met. Because of the delayed creation of the Directorate General of Treasury under which the new unti would operate.
	Strengthen the legal framework for debt management.	Submit to Parliament a public debt law that would establish a sound legal and institutional framework for public debt management.	End-March 2012	Not met. Draft being finalized.
Tax policy and revenue administration	Increase revenue	Increase the excise tax on cigarettes and alcohol	End-March 2012	Met
	Improve revenue collection	Put in place within the Directorate General of Taxes a unit in charge of medium & large enterprises	End-September 2012	
Macro fiscal management	Improve overall macroeconomic management	Put in place the fiscal policy unit within the MEF	End-September 2012	
Cash management	Improve cash management and enhance transparency in spending	Close all dormant accounts of the central government at the central bank or commercial banks andestablish the list of accounts used by public entities	End-June2012	
	Improve accounting procedures and enhance transparency	Reduce the number of domestically-funded imprest accounts to three by ministry or institutions (for revenue collection, capital spending, and other transactions) and deploy the network of public accounting offices at the line ministries level and gradually grant signature authority on these accounts to public accountants appointed by the Ministry of Economy and Finance	End-March 2013	
	Enhance accounting for expenditure management	Roll out in all ministries the GL-software and start to record projects and imprest accounts expenditure when they are effectively paid, and no longer when the replenishment of the account is made.	End-March 2013	
Continued benchmark	Improve coordination between fiscal and monetary policy	Start publishing on the BRH website reports 10R, 20R and 610R on a monthly basis	End-March 2012	
Exchange rate management	Improve the functioning of foreign exchange market	Establish unconstrained single price foreign exchange auctions	End-September 2012	

APPENDIX III: HAITI: TECHNICAL MEMORANDUM OF UNDERSTANDING–UPDATE

1. **Haiti's performance under the program supported by the Extended Credit Facility (ECF) 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, specification of certain structural benchmarks, and indicative targets for the period July 1, 2010-March 30, 2013, specified in Tables 1 and 2 of the Memorandum on Economic and Financial Policies (MEFP). It also lays down the monitoring and reporting requirements. Performance criteria for end-March 2013 and quantitative indicative targets for end-December 2012 and end-June 2012 have been set."

I. INSTITUTIONAL DEFINITIONS

2. **Central government.** 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).

3. **Non-financial public sector**. The non-financial public sector includes the central government plus non-budgetary autonomous organizations, local governments and public sector enterprises (enterprises and agencies in which the government holds a controlling stake of more than 50 percent of the shares).

4. **Total public sector**. The total public sector comprises the non-financial public sector and the central bank, the Bank of the Republic of Haiti (BRH).

II. QUANTITATIVE TARGETS

A. Net BRH Credit to the Non-Financial Public Sector

5. Net BRH credit to the non-financial public sector equals net central bank credit to the central government plus net central bank credit to the rest of the non-financial public sector.

6. 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.

c. Change in the stock of Special Accounts ("Comptes spéciaux") and seized values ("Valeurs saisies UCREF") included in Table 10R of the BRH will be excluded from the change in net domestic credit to the central government as defined above. [1]

7. The change in net central bank credit to the rest of the non-financial public sector, is defined as, and will be measured using:

a. Change 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.

8. The changes will be measured on a cumulative basis from the stock at end September 2009.

B. Net Domestic Financing to the Central Government

9. Net domestic financing to the central government will comprise the change in net banking sector credit to the central government (defined below) plus the change in nonbank financing which includes amortization, counterpart funds,[2] and the net issuance of Treasury bills and other government securities by the central government to non-banks. Net domestic banking sector credit to the central government is defined as, and will be measured, using:

a. The 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, which will include the net issuance of treasury bills and other government securities by the central government for government financing purposes. Securities issued for the recapitalization of the BRH are excluded from this definition.

b. The change in the stock of project accounts ("Comptes de projets"), as defined in 6.b above, will be excluded from the change in net domestic banking sector to the Central Government.

c. The change in the total stock of Special Accounts ("Comptes Spéciaux") and seized values ("Valeurs Saisies UCREF"), as defined in 6.c above, will be excluded from the change in net domestic banking sector to the Central Government.

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[1] Special Accounts ("Comptes Spéciaux") refer to U.S. dollar-denominated central government sight deposits at the BRH. The balance of these accounts increases 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.

[2] Counterpart funds are proceeds from sales of grants received in kind.

10. The changes will be measured on a cumulative basis from the stock at end-September 2009.

C. Net International Reserves

11. 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);[3]

b. Minus the change in foreign currency deposits of commercial banks at the BRH ("Dépôts à vue en dollars U.S. et en Euros des BCM à la BRH", and the "CAM transfer" of the BRH Table 10R).

c. Minus the change in the stock of project accounts ("Comptes de projets") as defined in 6.b above.

d. Minus the change in the stock of Special Accounts ("Comptes Spéciaux") in dollars and Euros (and excluding gourdes), and seized values ("Valeurs Saisies UCREF"), the latter as defined in 6.c above.

e. Plus the change in the stock of the Special Drawing Rights (SDR) allocation ("Allocations DTS") from the BRH Table 10R.

12. Data will be expressed in U.S. dollar terms and valued at the corresponding end-period market exchange rate from the BRH Table 10R.

13. For definition purposes, net international reserves (NIR) are the difference between the BRH's gross foreign assets (comprising monetary gold, all claims on nonresidents, SDR holdings, 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 the full SDR allocation, and trust funds).[4] Swaps in foreign currency with domestic financial institutions and pledged or otherwise encumbered reserve assets are excluded from NIR.

14. The changes will be measured on a cumulative basis from the stock at end-September 2009.

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[3] 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.

[4] Program NIR does not net out the full SDR allocation on the liability side since it is a long-term liability to the SDR Department (and not the Fund).

D. Net Domestic Assets of the BRH

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

a. The 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.

16. The program definition of net domestic assets of the BRH will use a program exchange rate of G 40.0 per U.S. dollar for the period June 2010- March 2013.

17. The changes will be measured on a cumulative basis from the stock at end-September 2009.

E. PetroCaribe-Related Funds

18. As of March 2012, the outstanding balance of Petro Caribe funds totaled $263 million, with US$1.5 million held in U.S. dollar-denominated sight deposits of the central government at the BRH, and the remaining US$262 million in U.S. dollar-denominated deposits of the central government at domestic commercial banks.

19. The authorities indicated that they were exploring options to channel new PetroCaribe/ALBA-related inflows through a binational Venezuela-Haiti corporation.[5] Until new institutional arrangements are finalized and the statutes of the new societé mixte are published in the "Journal Officiel" (Le Moniteur), PetroCaribe-related inflows will continue to constitute direct external debt of the central government. These resources are under the direct control of the central government, and, for program purposes, will be fully reflected in the fiscal tables underpinning the program. They will be treated as budget support loans, whose proceeds are partly or entirely deposited in government accounts in the banking system (Petro Caribe deposits). Spending from Petro Caribe resources (up to US$400 million in FY 2012), financed with a drawdown of Petro Caribe deposits in the banking system, will also be fully reflected in program tables.

20. Following ratification of the societé mixte, the annual budgets of the company will be published on the MEF website before the beginning of the fiscal year. Audited annual financial statements will be published within six months of the end of each financial year.

F. Non Concessional Public Sector External and Foreign-Currency Denominated Debt

21. The definition of debt comprises all forms of debt, including loans, suppliers' credits, and leases, that constitute current, i.e. not contingent, liabilities, which are created under a

[5] ALBA refers to "Alternativa Boliviarana de las Americas".

contractual arrangement through the provision of value in the form of assets (including currency) or services, and which require the obligor to make one or more payments in the form of assets (including currency) or services, at some point in the future, as set forth in Executive Board Decision No. 6230-(79/140),as revised on August 31, 2009 (Decision No. 14416-(09/01)).

22. A ceiling applies to the contracting and guaranteeing by the public sector of new non concessional debt with nonresidents with original maturities of one year of more. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This covers private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector.

23. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind).

24. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt.[6] The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt, based on the currency specific commercial interest reference rates (CIRRs) as laid out by the Organization for Economic Cooperation and Development (OECD).[7] For a debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and hence, its grant element. For debt with maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margin for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

25. Excluded from the ceiling are short-term import-related credits, rescheduling arrangements, borrowing from the Fund, non-resident purchases of treasury bills, and guarantees for the electricity sector in the form of letters of credit.

26. The ceilings for contracting and guaranteeing of non concessional debt by the total public sector (as defined in paragraph 4) will be set at zero continuously throughout the program period. A waiver was granted during the previous ECF arrangement for the US$33 million nonconcessional loan contracted with the Development Bank of Venezuela (BANDES) in the last quarter of 2009.

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[6] The grant element calculator can be found at http://www.imf.org/external/np/pdr/conc/calculator/default.aspx.

[7] The grant element calculations will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

G. Arrears of the Central Government

27. 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.

28. Domestic arrears of the central government 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 90 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.

H. Base Money

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

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

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

30. The changes will be measured on a cumulative basis from the stock at end-September 2009.

I. Poverty-Reducing Expenditures

31. The growth in poverty reducing expenditure will be measured as the sum of domestically-financed spending for the Ministries in charge of agriculture, health, and education. This will be a flow measured on a cumulative basis from end-September 2009.

III. Quarterly Adjustments

32. The quarterly performance criteria and indicative targets will be adjusted for as indicated below:

A. Adjustment for Domestic Arrears Accumulation

33. 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 Petro Caribe-related Inflows

34. Until the bi-national company expected to administer Petro Caribe-related funds is legally established, any drawdown of Petro Caribe-related deposits will be considered as central government spending for program purposes.

35. The ceiling for net domestic credit to the central government will include movements in Petro Caribe accounts in the banking system and will be adjusted for the difference between the actual stock of Petro Caribe deposits in the banking system and programmed stock of these deposits in the banking system. The ceilings for net BRH credit to the central government, on BRH net domestic assets, and the floor for NIR will also include movements in Petro Caribe accounts at the BRH. They will be will be adjusted for the difference between the actual stock of Petro Caribe deposits at the BRH and the programmed stock of these deposits at the BRH. The adjustor will be calculated on a cumulative basis from October 1, 2009.

C. Adjustment for Budgetary Cash Grants in second half of FY2013

36. The performance criteria ceilings on BRH net credit to the central government, net domestic financing to the government, and on BRH net domestic assets, and the floor on NIR reflect expected budgetary donor grants of the equivalent of G3.5billion (about $80 million), including IDB US$27 million, IDA US$30 million, EU €8 million, and Spain US$13 million. If actual grant inflows are lower (higher) than programmed, these performance criteria ceilings will be adjusted upward (downward), and the performance criterion floor will be adjusted downward (upward), by the amount of the difference between actual and programmed inflows."

37. The adjuster will be calculated on a cumulative basis from October 1, 2009.

VI. Clarification of Structural Conditionality

A. Fiscal Sector

38. As specified in Tables 2a and 2b, the publications of the following items related to benchmarks will continue over the program period: 1a, 2a, 2b, 2c, 3a, 3b, and 2h. Publication should occur on the specified regular basis (i.e. monthly or quarterly), with no gaps or unjustified delays.

39. The structural benchmark on raising government revenue will involve designing and implementing monitorable performance indicators for DGI and AGD (by end-December 2011). These should include detailed information by industry (AGD) and taxpayer segment (DGI) and a set of ratios to verify "tax effort" and efficiency, in line with TA recommendations. The reports should be published monthly on the MEF website.

40. The structural benchmark related to the increase in the excise tax on cigarettes and alcohol will entail the application of stamps ("vignettes") on tobacco and alcoholic beverages

in order to strengthen inspection and fiscal controls, and an upward revision of specific or ad valorem excises, as appropriate, to such product, in order to approach excise duties to the international average for these products.

41. The structural benchmark related to the establishment of a fiscal policy unit within the MEF will require the creation of a separate service within the MEF tasked exclusively with analyzing fiscal measures and simulating their impact on budget balances and the economy as a whole. The perimeter of such unit should be clearly delimited within the MEF, by appropriate written communication of the Minister or the Director General (to be shared with the IMF) nominating the officer in charge of the unit, its staffing and its duties.

42. The structural benchmark related to putting in place within the Directorate General of Taxes a unit in charge of small and medium enterprises will require an official act (to be shared with the IMF) setting up a separate unit within the DGI tasked with dealing with medium taxpayers, follow and streamline the administrative issues related to such taxpayers segment. Adequate staffing and office space should be provided to this unit and the act establishing the unit should include the nomination of the person in charge of it and its immediate aides.

43. The structural benchmark related to the closing of dormant accounts and the establishing of a list of all account of used by public entities entails compiling a census of accounts both at the Central Bank and in commercial banks, and the creation of a permanent set of rules governing the closing of dormant accounts (both list and set of rules to be shared with the IMF). These would include time lags since last activity, threshold on balances and rules on how the sums should be transferred to the Treasury.

44. The structural benchmark on strengthening the debt unit will require permanently providing adequate office space and staffing to such unit; nominating the officer in charge of it and setting up its tasks with an official communication from the Minister or the Director General (to be shared with the IMF); the MEF should, by coordination of its services, produce annual debt sustainability analyses and make them available to the Fund, all MEF services, the BRH and the MPCE.

45. The structural benchmark on submitting a public debt law will require transmission to Parliament (and sharing with the IMF) of a draft debt law in line with international standards and with the recommendations of development partners TA.

46. The new structural benchmark on reducing the number of domestically-funded imprest accounts to three by ministry or institutions (one for revenue collection, one for capital spending, one for other transactions, including current spending) and deploy the network of public accountants offices at the line ministries level and gradually grant signature on these accounts to public accountants appointed by the MEF will imply the identification of all the accounts as well as the names of the officials currently authorized to sign. On this basis, the authorities will reduce the number of accounts as specified in the

benchmark and provide signature power to public accountants designated by the ministry of finance.

47. The new structural benchmark on rolling-out for all ministries, the GL-software in the offices of the government accountants and start to record projects and imprest accounts expenditure when they are effectively paid and not any more when the replenishment of the account is made requires providing to all ministries a copy of the software and ensuring it is adequately installed. It also requires a follow up on the recording of expenditure at payment level.

B. Monetary Policy and Financial Sector

48. The benchmark on strengthening exchange rate management will involve the development of an exchange rate management strategy also encompassing reform of the foreign exchange market (end-December 2011).

IV. Provision of Information

49. To ensure adequate monitoring of the program, the authorities will provide daily, weekly and monthly monetary and fiscal indicators to IMF staff, details of any loan contract or guarantee to be ratified by a non-financial public sector entity, including public enterprises, before signature, as well as other data upon request.

A. Daily

50. The exchange rate.

B. Weekly

51. *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); (e) Currency in circulation, (f) base money, (g) details of inflows and outflows of gross foreign exchange reserves, (h) volume of foreign exchange transactions, of which BRH sales and purchases; (i) gross international reserves; and (d) net international reserves (NIR). The NIR data will be reported using the following table format.

Haiti: Net International Reserves BRH, End-April 2012
(In millions of U.S. dollars)

A. Gross Foreign Exchange Reserves	2,172.9
B. Gross Liabilities	268.8
C. Net Foreign Assets (=A-B)	**1,904.1**
D. FX deposits of commercial banks and CAM transfer at the BRH	843.6
E. Project accounts	7.0
F. Special accounts in U.S. dollars and euros	3.3
G. Seized values	0.0
H. SDR allocation (liability)	121.7
J. NIR (=C-D-E-F-G+H)	**1,171.9**

Source: Haitian authorities; and Fund staff estimates.

52. *Fiscal Indicators*: (a) Revenues (internal, external, other) and (b) Expenditures on cash basis (wages and salaries, goods and services, external debt, current accounts). These data will be reported with maximum five-day lag preliminary data (four weeks for final data).

C. Monthly

53. **Monthly data**

- Table 10 R and Table 20 R with a maximum of 30-day lag for final data.
- Tableau on the current accounts with a maximum of 30-day lag for final data.
- "Project Accounts", by donor, with a maximum of 30-day lag for final data
- Table on foreign currency treasury flows with a maximum of 30-day lag for final data.
- Tableau des Operations Financières de l'Etat (within 20 days).
- Table underlying the TOFE which enables the determination of checks in circulation and balance on investment project accounts (TOFE-extension).
- Set of external debt tables with a maximum 30-day lag for final data.
- Report of revenue collection of DGI (Rapport d'activités), with a maximum 30-day lag for final data.
- The aide memoire table, which includes monetary policy indicators (foreign exchange interventions, Gourde and foreign currency credit and deposits, monetary financing).

- 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 for final data.

- Balance of Bureau de Monetization accounts, including spending from "fonds de contrepartie" those movements related with flows linked to the ALBA-PetroCaribe agreement. Balance of PetroCaribe/ALBA-related deposits at commercial banks and the BRH, with a maximum 30-day lag for final data.

Haiti. PetroCaribe Deposits

	September 2009	December 2009	March 2010	June 2010	September 2010	December 2010	March 2011	June 2011	September 2011	December 2011	March 2012	June 2012	September 2012
Total deposits in government accounts in the banking system													
Cumulative flows (G mlns)	...	1804.3	1520.7	2309.4	3204.9	3623.7	3819.8	5945.3	5269.1	6153.3	7037.5	7921.7	8805.9
in US dollars (US$ mlns)	...	42.4	43.2	62.4	84.3	95.1	98.2	150.6	131.8	153.2	174.6	195.9	217.2
Stocks (G mlns)	3713.2	5517.5	5233.9	6022.5	6918.1	7336.9	7533.0	9658.4	8982.2	9866.5	10750.7	11634.9	12519.1
in US dollars (US$ mlns)	88.9	131.3	132.1	151.3	173.2	184.0	187.1	239.5	220.7	242.1	263.5	284.8	306.1
Deposits in government accounts at the BRH													
Cumulative flows (G mlns)	...	-90.3	-93.0	-107.2	-109.8	-109.8	-109.8	-109.8	-109.8	-109.8	-109.8	-109.8	-109.8
in US dollars (US$ mlns)	...	-2.2	-2.1	-2.5	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Stocks (G mlns)	171.0	80.7	78.0	63.8	61.2	61.2	61.2	61.2	61.2	61.2	61.2	61.2	61.2
in US dollars (US$mlns)	4.1	1.9	2.0	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Deposits in government accounts in commercial banks													
Cumulative flows (G mlns)	...	1894.6	1613.7	2416.5	3314.8	3733.5	3929.6	6055.1	5378.9	6263.1	7147.3	8031.6	8915.8
in US dollars (US$ mlns)	...	44.6	45.4	64.9	86.9	97.6	100.8	153.2	134.4	155.8	177.2	198.5	219.8
Stocks (G mlns)	3542.2	5436.8	5155.9	5958.7	6856.9	7275.7	7471.8	9597.3	8921.1	9805.3	10689.5	11573.7	12457.9
in US dollars (US$ mlns)	84.8	129.4	130.1	149.7	171.7	182.4	185.6	238.0	219.2	240.6	262.0	283.3	304.6

Sources: Haitian Authorities and IMF Staff estimates and projections

D. Quarterly

54. Report on poverty-reducing expenditures, with a maximum 30-day lag for 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 funds 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
EXTERNAL RELATIONS DEPARTMENT

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IMF's Executive Board Completes Fourth Review Under Haiti's ECF Arrangement and Approves US$7.4 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed the fourth review of Haiti's performance under the Extended Credit Facility (ECF) arrangement on July 20, 2012. The Board's decision was taken on a lapse of time basis[1]. Completion of the review will enable an immediate disbursement of SDR 4.914 million (about US$7.4 million), bringing total disbursements under the program to date to SDR 31.122 million (about US$46.9 million).

Haiti's ECF arrangement was approved on July 21, 2010 (see Press Release No. 10/299) together with the full relief on the country's outstanding debt to the Fund of about SDR 178 million (equivalent to US$268 million). The debt relief, financed by the Post-Catastrophe Debt Relief (PCDR) Trust Fund and IMF financing are part of a broad international strategy to support Haiti's longer-term economic reconstruction plans, following the devastating earthquake of January 12, 2010.

[1] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.