Haiti and the IMF

Press Release:
IMF Executive Board approves First Review Under Haiti's PRGF agreement and approves US$ 11.7 million disbursement
July 24, 2007

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Haiti: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

July 4, 2007

The following item is a Letter of Intent of the government of Haiti, which describes the policies that Haiti intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Haiti, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
LETTER OF INTENT

Port-au-Prince
July 4, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 20431
U.S.A.

Dear Mr. de Rato:

1. The IMF’s Executive Board approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for Haiti in November 2006. The purpose of this letter is to inform you on the progress under the PRGF arrangement and to request that the second disbursement under the arrangement, in the amount of SDR 7.6 million, be made available to Haiti, following the completion of the first review.

2. The attached Supplementary Memorandum of Economic and Financial Policies (MEFP) reviews the progress under the PRGF, and updates the Government’s policies and objectives for the period through September 2007. The MEFP also outlines the Government’s preliminary macroeconomic framework for FY 2008 (October 2007–September 2008). Over the past years, Haiti has implemented macroeconomic policies that have contributed to stabilizing the economy. We have also made significant strides in strengthening security and reducing crime. Going forward, the key challenge will be to build on these gains and bring about strong and sustained economic growth that can substantially improve the living conditions of our population and reduce poverty in our country. We will continue to work together with the IMF and the international community to reach these goals.

3. All quantitative performance criteria and all but one structural performance criteria for the first review under the PRGF were observed with comfortable margins. The Government requests a waiver for the nonobservance of the performance criterion on submission to Parliament of a draft banking law by end-March 2007, because the delivery of technical assistance and the consultative process with stakeholders, including the banking community and the legislative branch, proved more time-consuming than originally anticipated. The Government submitted the draft banking law to Parliament on June 29, 2007 as a prior action ahead of the Executive Board’s consideration of the first review.

4. The absorption of Socabank by BNC is well under way, and under our banking sector action plan an independent assessment of possible needs for recapitalization and financial and operational restructuring of BNC was to be conducted by end-September. However,
identifying and retaining international experts for this assessment has proven time consuming, and we therefore request a modification of the PC to allow for the commencement of the assessment by end-September 2007. We intend to complete this assessment no later than end-March 2008.

5. The Government is currently developing a full Poverty Reduction Strategy Paper (PRSP) in consultation with its development partners and civil society. We intend to finalize the PRSP in the coming months so it can be considered by the Executive Boards of the IMF and the World Bank during the last quarter of this year. We would like to underscore that a number of the priorities set forth in the interim PRSP will be integrated into the 2007/08 budget, and are already being implemented.

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

7. In line with our demonstrated commitment to transparency, we agree to the publication of the PIN, selected issues papers, and combined staff report for the 2007 Article IV consultation and first review under the PRGF.

Sincerely yours,

/s/ Daniel Dorsainvil /s/ Raymond Magloire
Minister of Economy and Finance Governor
Haiti Bank of the Republic of Haiti

Attachments
HAITI: SUPPLEMENTAL MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES

1. During the first half of FY 2007 (October 2006–September 2007), Haiti has made further progress on its path of institutional reconstruction and economic recovery. On the political front, the successful communal elections in late 2006 have further consolidated the return to constitutional order, while recent successes in the combat of gang-related violence have led to a tangible improvement in the security situation in Port-au-Prince, boosting confidence. Economic and financial stabilization has also been encouraging, as evidenced by our strong performance on several fronts in the first six months of the PRGF-supported program. Thus, while substantial challenges still lie ahead, we are confident that Haiti is slowly rising to the challenge of generating sustainable growth and development that will lead to poverty reduction and lasting improvements in the living conditions of our population.

2. This Memorandum of Economic and Financial Policies (MEFP) supplements that of November 3, 2006. It describes additional policy commitments and changes to the macroeconomic framework for the second half of FY 2007, and outlines the Government’s preliminary macroeconomic framework for FY 2008. Unless explicitly noted, our policy commitments from the November 2006 MEFP remain valid.

A. Performance to Date Under the Program

3. Performance under the PRGF-supported program has been strong. Quantitative performance criteria (PCs) and indicative targets for end-December and end-March were met with significant margins (Table 1). Inflation declined from 12.4 percent in September 2006 to 8.3 percent in May 2007, a level that we now expect to be broadly maintained through the end of the current fiscal year. In addition, we have been able to accumulate substantially higher net international reserves (NIR) than originally programmed (US$218 million compared to an end-March PC of US$128 million, adjusted for shortfalls in budget support), as a result of significantly higher foreign exchange purchases made possible by the continued strength of remittances inflows, large foreign direct investments in the telecommunications sector, and lower imports during the first semester of FY 2007.

4. We have also made good progress on our ambitious structural reform agenda. All but one structural performance criteria (PC) for end-March were met on time (Table 2). The only missed structural PC—submission of a new banking law to Parliament—was implemented on June 29, 2007, as a prior action for this review. The submission of the law was delayed to benefit from additional technical assistance, and ensure a more inclusive and comprehensive review of the draft law within the Government and with relevant financial sector participants. A program waiver for nonobservance of this PC is being requested.
B. Objectives for the Remainder of FY 2007

5. Available indicators point to a continued expansion of the economy. However, it is not clear that the acceleration of growth expected for this year has already fully set in, in part because of supply-side bottlenecks in the private sector, and delays in central government budget execution and disbursements of external support (see ¶7). As a consequence, growth in FY 2007 could turn out at 3.5 percent, rather than the originally expected 4 percent.

Fiscal

6. We remain strongly committed to further strengthening our capacity to mobilize domestic revenue. Customs and tax revenue rose by more than 30 percent in the first half of FY06/07, partly due to stepped up efforts to combat evasion and smuggling. Our medium-term strategy to increase revenue focuses, as a first step, on further strengthening tax and customs administration. In this context, we have prepared and begun to implement a plan to extend customs control to the provinces (PCs for end-December 2006 and end-March 2007 respectively) and approved a strategic plan for the modernization of the DGI (benchmark for end-March 2007). We have also expanded the use of the central taxpayers file to include the tax centers of Delmas and Croix-des-Bouquets (PC for end-March 2007), and will extend its use further in the course of this year (floating HIPC completion point trigger). To further advance the modernization process of the DGI, we will prepare a detailed implementation plan (new PC for end-September 2007).

7. We intend to take actions to raise the central government’s expenditure execution, which fell short of program expectations in the first half of the fiscal year. The slower expenditure execution was the consequence of both bottlenecks in the public administration and supply constraints of the private sector, most notably in construction and public works. To overcome these problems, we are deploying accountants to line ministries to strengthen financial management and support them in their compliance with procurement rules and documentation. We are also strengthening project formulation and implementation capacity through the strengthening of programming units in line ministries. To overcome private sector supply constraints, we are actively strengthening Haitian private firms and encouraging foreign participation in government tenders, which has already resulted in the entry of some new actors. Overall, we are confident that these constraints can be progressively overcome, and we are encouraged that expenditure execution has experienced a marked pick-up in March and April.

8. We have submitted to Parliament a supplementary budget to account for higher than expected revenues and to reallocate expenditures to sectors that reflect more closely the priorities of the Government, as established in the I-PRSP, including security, revenue generation and investment in infrastructure. The supplementary budget is consistent with the goals established under the program for FY 2007, notably the absence of central bank
financing to the central government. To further strengthen budget management and ensure a high quality of public expenditures, we have expanded the coverage of the TOFE to include the own resources and related expenditures of ministries and deconcentrated agencies and information about checks in circulation (benchmark for end-March 2007). We will continue to improve the quality of this information in forthcoming months. We have also adopted a mechanism for tracking expenditure allocated for poverty reduction (benchmark for end-March 2007 and HIPC completion point trigger) and begun to produce quarterly reports on the evolution of these expenditures. Finally, we have devised plans for the settlement of domestic wage and non-wage arrears (benchmark for end-March 2007), which are to be cleared by end-September 2007 (benchmark).

9. We intend to submit our FY 2008 budget shortly to Parliament, in line with Constitutional requirements. The budget foresees domestic revenues of 12 percent of GDP, current expenditures of 10.2 percent of GDP, and domestically financed investment of 2.8 percent of GDP. This budget is already fully financed, except for a small share (0.3 percent of GDP) for which we feel reasonably assured, based on historical patterns, that firm donor commitments will be forthcoming. The draft budget remains within the indicative framework set forth in the PRGF program document, both in terms of the overall deficit target (excluding grants and foreign financed projects) and the absence of recourse to central bank financing.

10. The recently ratified PetroCaribe agreement and its extension, the recently signed ALBA agreement with Venezuela promise to provide Haiti with significant amounts of concessional trade financing. The Government intends to create an investment fund for the financing components of these agreements, transferring only the income proceeds of the fund to the budget. The Government will put in place arrangements to ensure that the investment fund is run in a transparent manner, and to report regularly to Parliament on the flows, earnings, and uses of the investment fund.

**Monetary and Financial Sector**

11. Prudent fiscal and monetary policies during the first half of FY 2007 have helped reduce inflation to 8.3 percent by end-May. Since December 2006, the Bank of the Republic of Haiti (BRH) has reduced its main (90-day) interest rate on BRH bonds on four occasions. We expect these reductions to induce lower market interest rates on loans once lags are allowed to work out. The BRH remains committed to keep base money growth below nominal GDP growth, and will use the available space under the program’s indicative target for a somewhat faster expansion of base money through the end of the fiscal year. The BRH remains committed to keeping interest rates positive in real terms and to maintaining a flexible exchange rate regime.

12. The BRH has made good progress in implementing its plan to relinquish involvement in non-essential activities. Draft laws to eliminate BRH participation in the
management of APN and SONAPI have been prepared (PC for end-March 2007) and were submitted to Parliament (PC for end-June 2007). The BRH has also adopted a strategy to discontinue its involvement in the management of BPH (PC for end-March 2007), and submitted a law to this effect to Parliament (PC for end-June 2007). We will adopt a strategy for discontinuing BRH involvement in TELECO together with a plan for central bank recapitalization by end-March 2008 (PCs).

13. We remain committed to fully implement the recommendations of the safeguards assessment. Key recommendations have already been implemented (PC for March 2007), including establishment of an external audit committee, formalization of an IFRS action plan, and a special external audit of monetary data submitted for program monitoring purposes. The BRH’s audited financial statements for FY2006 (October 2005–September 2006) are being finalized, and we intend to post them on the BRH website before the Board meeting for the first review. As part of our action plan toward the implementation of IFRS, we will produce a review of implementation issues for the adoption of IFRS by the BRH (new PC for end-September 2007). We will also establish a monthly benchmark that will further improve quality control of monetary data that is submitted to the IMF for program monitoring purposes.

14. The banking sector shows improved performance and solvency after its orderly consolidation in 2006, and we remain committed to ensure the continued compliance of all banks with the requirements established by our prudential regulations. The absorption of Socabank by BNC is well underway. As part of our plan to carry out on-site inspections with the support of international experts for key banks, an independent assessment of possible recapitalization needs and required restructuring of BNC will be commenced by end-September, once the bank is fully integrated and an appropriate international assessor can be identified (modified PC). We intend to complete this assessment no later than end-March 2008. We look forward to the results of an in-depth assessment of financial sector soundness to be conducted by an upcoming joint Bank/Fund FSAP. The FSAP will also focus on how the domestic financial sector can be broadened and intermediation costs reduced, in order to support private sector activity and investment.

**Macroeconomic framework**

15. For the remainder of this fiscal year, we have agreed to revise the program’s quantitative framework to reflect the better-than-expected performance so far in the fiscal year. In light of the strong NIR accumulation to date, we have agreed to increase the floor on NIR accumulation up to US$135 million from US$30 million. With unchanged indicative base money growth targets, this implies a reduction in the ceiling on NDA accumulation to—G4,279 million from—G273 million. Due to slower-than-expected expenditure execution, central bank financing has been strongly negative in the first half of the fiscal year. However, we are confident that spending can be accelerated in the second half of the program year,
without compromising on the quality of expenditures, and the target for zero central bank financing has therefore been left unchanged.

16. For FY 2008, we have agreed on an indicative macroeconomic framework, which builds on the forthcoming budget (¶9). This indicative framework foresees an annual NIR accumulation of at least US$70 million, and base money growth somewhat below nominal GDP growth. Quarterly quantitative PCs for FY 2008 will be agreed with the IMF at the time of the second program review later this year.

**PRSP, HIPC completion point triggers**

17. Progress is being made in the process of developing a full PRSP. The institutional framework for the process, which includes a preparatory commission and a technical secretariat, has been put in place and a broad participatory process is currently underway. We intend to move diligently forward in the process, and aim to complete the PRSP by end-September 2007. However, we will ensure that this ambitious timetable will not compromise the participatory process and the quality of the document. We are working toward the implementation of the HIPC completion point triggers, and have so far completed and put in place a mechanism to track poverty-related expenditures (¶8).
Table 1. Haiti: Indicative Targets and Quantitative Performance Criteria, FY 2007

<table>
<thead>
<tr>
<th>Performance criteria</th>
<th>Actual stock at end-September 2006</th>
<th>Cumulative Flows since September 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec 06</td>
<td>Mar 07</td>
</tr>
<tr>
<td></td>
<td>Test date 1/</td>
<td>Actual Deviation from prog w/adjustor</td>
</tr>
<tr>
<td></td>
<td>1/</td>
<td>Prog. with adjustor 2/</td>
</tr>
<tr>
<td>Net central bank credit to the NFPS (in millions of gourdes)</td>
<td>21,002</td>
<td>-50</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Government</td>
<td>21,176</td>
<td>-50</td>
</tr>
<tr>
<td>Rest of NFPS</td>
<td>-174</td>
<td>0</td>
</tr>
<tr>
<td>Net domestic banking sector credit to the nonfinancial public sector (in millions of gourdes)</td>
<td>20,118</td>
<td>-50</td>
</tr>
<tr>
<td>Net domestic assets of the central bank (in millions of gourdes) - ceiling 3/</td>
<td>5,685</td>
<td>1,027</td>
</tr>
<tr>
<td>Domestic arrears accumulation of the central government 4/</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>New contracting or guaranteeing by the central government or the BRH of nonconcessional external debt 4/ 5/ 6/ (in millions of U.S. dollars)</td>
<td>1,609</td>
<td>1,502</td>
</tr>
<tr>
<td>Up to and including one year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Over one-year maturity</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net international reserves of central bank (in millions of U.S. dollars) - floor</td>
<td>130</td>
<td>10</td>
</tr>
<tr>
<td>External arrears accumulation (in millions of U.S. dollars) 4/ 7/</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Indicative target:

| Change in base money 8/ 9/ | 23,172 | 1,609 | 1,502 | -107.0 | 1,164 | 922 | -242.2 | 1,239 | 2,294 |

Memorandum items:

| Change in currency in circulation | 11,159 | 1,451 | 1,213 | -238.4 | 693 | -242 | -935.1 | 261 | 859 |
| Government total revenue, excl. grants (in millions of gourdes) 9/ | … | 5,945 | 5,847 | -97.9 | 11,364 | 11,745 | 381.8 | 18,318 | 25,000 |
| Government total expenditure, excl. ext-fin investment (in millions of gourdes) 9/ | … | 6,534 | 5,812 | -722.6 | 12,245 | 10,600 | -1,644.8 | 18,988 | 28,078 |

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

1/ From EBS/06/141.
2/ Including external financing.
3/ For program monitoring purposes, NDA is defined as currency in circulation minus NIR in gourde terms. Program exchange rate of G42/$ through end-March and G40/$ through end-Sept.
4/ On a continuous basis.
5/ Excludes guarantees granted to the electricity sector in the form of credit/guarantee letters.
6/ Includes foreign currency denominated debt.
7/ An amount of US$30,000 due on a small investment loan from the IDB, originally granted to a state-owned millm was repaid with a delay in February 2007. Since the central government's responsibility for the loan could not be identified, the late payment does not cause a nonobservance of the PC. Nevertheless, staff will confirm with the MEF whether, following the arrears payment in February, the loan will now be considered government's obligation for the purpose of the second program review.
8/ Includes recapitalization operation of a commercial bank.
9/ Accumulated flows over the program period.
Table 2. Structural Performance Criteria and Benchmarks

<table>
<thead>
<tr>
<th>Measures</th>
<th>Date (Month-end)</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. <strong>Structural performance criteria</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Approve a comprehensive plan to establish customs control in the provinces.</td>
<td>December 2006</td>
<td>Met</td>
</tr>
<tr>
<td>• Start implementing the plan based on an agreed timetable.</td>
<td>March 2007</td>
<td>Met</td>
</tr>
<tr>
<td>• Expand use of the central taxpayer file to include all taxpayers identified in the Delmas and Croix-des-Bouquets tax centers.</td>
<td>March 2007</td>
<td>Met</td>
</tr>
<tr>
<td>• Implementation on schedule of approved plan, referred to in prior actions, to deal with banking system weaknesses.</td>
<td>March 2007</td>
<td>Met</td>
</tr>
<tr>
<td>• Implement the key recommendations on safeguards in accordance with the action plan.</td>
<td>March 2007</td>
<td>Met</td>
</tr>
<tr>
<td>• Continue to limit spending executed through current accounts to below 10 percent of budget appropriations for nonwage current expenditures as defined in paragraph 18 of the TMU.</td>
<td>Quarterly</td>
<td>Met</td>
</tr>
<tr>
<td>• Submit to parliament a draft banking law consistent with international standards, as described in the TMU.</td>
<td>March 2007</td>
<td>Prior action¹</td>
</tr>
<tr>
<td>• The BRH will cease certain nonessential activities related, in particular, to its participation in the management of and/or shareholding in the BPH, TÉLÉCO, and SONAPI, in the following phases:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Adopt a strategy for discontinuing BRH involvement in BPH management;</td>
<td>March 2007</td>
<td>Met</td>
</tr>
<tr>
<td>• Formulate draft laws amending the APN and SONAPI organic laws to, inter alia, change the composition of the Boards of both institutions;</td>
<td>March 2007</td>
<td>Met</td>
</tr>
<tr>
<td>• Submit to parliament for approval the draft law on the option adopted with respect to discontinuing involvement with the BPH;</td>
<td>June 2007</td>
<td>Met</td>
</tr>
<tr>
<td>• Adopt a strategy for discontinuing BRH involvement with TÉLÉCO;</td>
<td>March 2008</td>
<td>Met</td>
</tr>
<tr>
<td>• Submit to parliament for approval amendments to the laws on the APN and SONAPI changing the composition of the boards of both institutions.</td>
<td>June 2007</td>
<td>Met</td>
</tr>
<tr>
<td>• Begin independent assessment of possible recapitalization needs and required financial and operational restructuring of BNC.</td>
<td>September 2007</td>
<td></td>
</tr>
<tr>
<td>• Complete a review of implementation issues for the adoption of IFRS by the BRH</td>
<td>September 2007</td>
<td></td>
</tr>
<tr>
<td>• Adopt detailed implementation plan for modernization of the DGI.</td>
<td>September 2007</td>
<td></td>
</tr>
<tr>
<td>• Prepare a plan to recapitalize the central bank.</td>
<td>March 2008</td>
<td></td>
</tr>
</tbody>
</table>

¹/ Completed on June 29, 2007.
<table>
<thead>
<tr>
<th>Measures</th>
<th>Date (Month-end)</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Structural benchmarks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Submit the new draft customs code to parliament.</td>
<td>March 2007</td>
<td>Met with delay</td>
</tr>
<tr>
<td>• The Minister of the Economy and Finance will approve a medium-term</td>
<td>March 2007</td>
<td>Met</td>
</tr>
<tr>
<td>strategic plan for the DGI, setting out the corporate vision, mission,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>values, goals, and objectives.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Based on the existing expenditure classification, adopt a mechanism</td>
<td>March 2007</td>
<td>Met</td>
</tr>
<tr>
<td>for tracking expenditure allocated to poverty reduction and produce</td>
<td></td>
<td></td>
</tr>
<tr>
<td>quarterly reports on these expenditures.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Formulate a plan for the settlement of domestic arrears.</td>
<td>March 2007</td>
<td>Met with delay</td>
</tr>
<tr>
<td>• Expand the TOFE coverage by including in it the ministries’ and</td>
<td>March 2007</td>
<td>Met</td>
</tr>
<tr>
<td>deconcentrated agencies’ own resources and related expenditure.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Every three months, conduct an independent confirmation audit of the</td>
<td>March 2007</td>
<td>Met with delay</td>
</tr>
<tr>
<td>mechanism for monitoring the subsidy to the Ed’H.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Complete the payment of wage and nonwage arrears.</td>
<td>September 2007</td>
<td></td>
</tr>
<tr>
<td>• Monthly monetary program data to be signed off by the Central Bank’s</td>
<td>Monthly, starting</td>
<td></td>
</tr>
<tr>
<td>interdepartmental and steering committee.</td>
<td>August 2007</td>
<td></td>
</tr>
<tr>
<td>• Set quarterly limits on the expenditure of each ministry and ensure,</td>
<td>September 2007</td>
<td></td>
</tr>
<tr>
<td>within the ministries, that all recruitment and promotion proposals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>are within budget appropriations.</td>
<td></td>
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</tbody>
</table>
HAITI—TECHNICAL MEMORANDUM OF UNDERSTANDING

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

II. Definitions

A. Net BRH Credit to the Central Government

2. The change in net BRH credit to the central government is defined as, and will be measured using:

   a. Change in net domestic credit to the central government from the BRH according to Table 10R of the BRH;

   b. Change in the stock of special accounts (“Comptes Spéciaux”) and seized values (Valeurs saisies UCREF) included in Table 10R of the BRH will be excluded from change in net domestic credit to the central government as defined above.¹

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

4. The changes will be measured on a cumulative basis from the stock at end-September 2006.

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

² Special accounts are accounts of the government at the BRH which can only be used with the authorization of donors. If included, movements in these accounts would appear as BRH credit to the government.
B. Net Domestic Banking Sector Credit to the Nonfinancial Public Sector³

5. The change in net domestic banking sector credit to the nonfinancial public sector is defined as, and will be measured using:

a. Change in the stock of net domestic credit of the public sector from the BRH according to Table 10R of the BRH;

b. Change in the stock of net domestic credit of the public sector from the Banque Nationale de Crédit (BNC) and other domestic banks;

c. Change in the stock of special accounts according to Table “Comptes Spéciaux” of the BRH will be excluded from the definition of net domestic banking sector credit to the nonfinancial public sector.

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

7. The changes will be measured on a cumulative basis from the stock at end-September 2006.

C. Net International Reserves

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

a. Change in net foreign assets (“Réserves de change nettes” of the BRH Table 10R);

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

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

10. For definition purposes, net international reserves are the difference between the BRH’s gross foreign assets (comprising gold, special drawing rights, all claims on nonresidents, and BRH claims in foreign currency on domestic financial institutions) and reserve liabilities (including liabilities to nonresidents of one-year maturity or less, use of

³ The NFPS includes the central government, the key public enterprises (Teleco, EDH, APN, AAN, and CAMEP), and foreign-financed projects.
Fund credit, and excluding trust funds). Swaps in foreign currency with domestic financial institutions and pledged or otherwise encumbered reserve assets are excluded from net international reserves; however, foreign exchange deposits held at the BRH for externally funded projects are included.

11. The changes will be measured on a cumulative basis from the stock at end-September 2006.

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

12. The change in net domestic assets of the BRH is defined as, and will be measured using:
   
a. Change in currency in circulation (“Monnaie en circulation” of the BRH Table 10R);

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

13. The program definition of net domestic assets of the BRH will use a program exchange rate of G40 per U.S. dollar for the period April 2007–September 2007. For the purposes of the June indicative target and the end-September test date only, the end-September 2006 stock of NIR will also be valued at the exchange rate of G40 per U.S. dollar.

14. The changes will be measured on a cumulative basis from the stock at end-September 2006.

**E. Nonconcessional External and Foreign-Currency Denominated Debt**

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

16. The concessional nature of debt will be determined on the basis of the commercial interest reference rates (CIRRs), as laid out by the Organization for Economic Cooperation and Development (OECD). A debt is defined as concessional if, on the date of signature, the ratio between the present value of the debt computed on the basis of reference interest rates and the face value of the debt is less than 65 percent (equivalent to a grant element of at least 35 percent).
17. Excluded from the ceiling are short-term import-related credits, rescheduling arrangements, borrowing from the Fund, and guarantees for the electricity sector in the form of letters of credit.

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

F. Government Current Accounts

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

G. Arrears

20. 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.

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

H. Base money

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

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

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

23. The changes will be measured on a cumulative basis from the stock at end-September 2006.
III. II. QUARTERLY ADJUSTMENTS

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

   A. Adjustment for Domestic Arrears Accumulation

25. The ceilings for net BRH credit to the central government and the net domestic banking sector credit to the nonfinancial public sector will be adjusted downward for the amount of outstanding domestic arrears accumulation.

   B. Adjustment for External Financing

26. The program ceilings on BRH credit to the government and the nonfinancial public sector, and on BRH net domestic assets and the floor on NIR reflect an assumed flow of external financing, defined as disbursements of cash budgetary assistance, exceptional financing (including rescheduled principal and interest) and debt relief. The adjuster will be calculated on a cumulative basis from October 1, 2006.

27. If actual external financing is lower than programmed external financing, the ceilings on BRH credit to the government and of the public sector and on BRH net domestic assets will be adjusted upward, and the floor on NIR will be adjusted downward, by the amount of the difference between actual and programmed external financing, converted into gourdes at the program exchange rate. The amount of this adjustment will be limited to US$50 million. Future disbursements under PetroCaribe to finance projects included in the domestic public investment program are not subject to this adjuster.

Program External Financing\(^4\)
(In millions of U.S. dollars)

<table>
<thead>
<tr>
<th></th>
<th>December 2006</th>
<th>March 2007</th>
<th>June 2007</th>
<th>September 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program net disbursements</td>
<td>9.9</td>
<td>20.7</td>
<td>23.4</td>
<td>63.5</td>
</tr>
</tbody>
</table>

\(^4\) Actual program net disbursements for end-December and end-March were US$3.6 and US$4.5 million, respectively, causing program adjustments of US$6.2 million and $16.2 million, respectively.
IV. III. CLARIFICATION OF STRUCTURAL PERFORMANCE CRITERIA

A. Implementation plan for the modernization of the DGI

28. Adoption of a detailed implementation plan for the modernization of the DGI, as agreed under the program, would comprise approval by the Minister of Economy and Finance of a document containing at least the following elements:

a. Main strategic objectives and their order of priority;

b. Actions planned to reach each of the strategic objectives, in accordance with the outlined prioritization;

c. Expected results, both at the broad strategic level and detailed results from each planned action;

d. Implementation schedule, including milestones and checkpoints;

e. Technical assistance needs in specific areas (e.g., for organizational restructuring, auditing, and training);

f. Budget plan, presenting the required resources for the implementation plan, resources that have already been identified (e.g., budget allocations and available donor funding), and possible sources to cover remaining resource needs.

29. The document should also identify a project leader who will oversee and coordinate the implementation process, as well as a project team whose members will be responsible for actions in critical areas.

B. Implementation issues for IFRS

30. The review of implementation issues for the adoption of IFRS by the BRH involves the completion of a report (i) outlining current differences between BRH accounting practices and IFRS requirements; (ii) identifying any constraints to IFRS migration, legal or structural; (iii) establishing the legal feasibility of any technical solutions compatible with the legal obligations under the central bank charter and IFRS, and (iv) in the event that the technical solutions in (iii) are not feasible, outline for all other areas the specific changes to accounting policies and disclosures that will be required and can be pursued, irrespective of the result of the legal review. The report should be shared with Fund staff by end-September 2007.
C. Assessment of BNC

31. The independent assessment of BNC after absorbing Socabank shall be conducted by international experts, independent from local interests, though they could enlist local experts to assist. The procedures for the selection of the assessor(s) and the terms of reference for the assessment shall be agreed on with Fund staff. At the minimum, the assessment shall cover the following aspects:

- a. the bank’s current financial condition and sustainability, and potential needs of recapitalization and financial restructuring;
- b. the adequacy and effectiveness of the bank’s main organizational-operational structures and processes, including governance, with special emphasis on the management of credit risk and other relevant risks;
- c. the formulation of a short-term action plan to address any identified capital shortfalls and urgent financial and operational restructuring needs; and
- d. identification of any issues requiring further analysis and/or action over a longer-term horizon.

32. “Commencement” of the assessment will entail signing of a contract with the international assessor.

D. Monthly Benchmark for Program Monitoring Data

33. The interdepartmental and steering committees will review the monthly data reported to the IMF (NIR, NDA and net credit to government in the 10R report), including compliance with the TMU, and sign off on the data prior to its submission to the IMF.

V. IV. Provision of Information to IMF Staff

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

A. Daily

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

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

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

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

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

C. Monthly

40. Table 10 R and Table 20 R.

41. Tableau on the comptes courants

42. Tableau de trésorerie de devises.

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

44. Checks in circulation.

45. Analysis of internal revenue collection (DGI).

46. Analysis of external revenue collection (AGD).

D. Quarterly

47. Table tracking poverty-reducing expenditures.