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Haiti: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Press Release on the Executive Board Discussion; and Statement by the Executive Director for Haiti

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

- the staff report for the Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on November 5, 2006, 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 November 6, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;

- a Press Release summarizing the views of the Executive Board as expressed during its November 20, 2006 discussion of the staff report that completed the request; and

- a statement by the Executive Director for Haiti.

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

HIPC Document
Letter of Intent sent to the IMF by the authorities of Haiti*
Memorandum of Economic and Financial Policies by the authorities of Haiti*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

HAITI

Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility

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

Approved by Ranjit Teja and Mark Plant

November 6, 2006

- **Background**. After a prolonged period of turmoil, Haiti began a transition to political and economic stability in 2004. This effort was supported by the Fund with two consecutive Emergency Post-Conflict Assistance (EPCA) programs, which were successfully implemented. These programs, which ended in September, set the stage for the PRGF arrangement proposed here.

- **Arrangement**. The authorities are requesting a three-year PRGF arrangement for SDR 73.71 million or 90 percent of quota; of which 25 percent of quota will refinance, on more concessional terms, the obligations outstanding under the EPCA.

- **Summary**. The key objective is a sustainable economic growth of 4 percent to increase living standards and reduce poverty. Macroeconomic stability will be anchored by fiscal and monetary discipline, and structural reforms to increase revenues, improve financial management and governance, strengthen the financial system, and create conditions for private-sector led growth. The authorities are committed to maintaining a flexible exchange rate regime.

- **PRSP/HIPC**. The Interim Poverty Reduction Strategy Paper (I-PRSP), the Joint Staff Advisory Note (JSAN) and the HIPC Decision Points are being circulated simultaneously to the Executive Board. The authorities have agreed to the publication of these program-related documents.

- **Discussions**. The mission met with President Préval, Prime Minister Alexis, Finance and Economy Minister Dorsainvil, BRH Governor Magloire, senior legislators and officials, and representatives of the business community and civil society, during staff visits in June–August 2006. The staff team comprised P. Gajdeczka (Head), B. Monfort, L. Redifer, C. Sancak (all WHD), K. Funke (FAD), N. Sacasa (MFD), B. Barkbu (PDR) and U. Fasano (Resident Representative). Ms. Florestal (OED) attended key policy meetings.

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I. Background

1. **Decline**. Real income per capita has been declining by 2 percent annually over the past twenty years, with more that one half of the population now subsisting on less than one dollar a day. The proximate causes have been political and economic instability, with the macroeconomic impact of protracted political conflict, withdrawal of economic support, natural disasters, and weak infrastructure and institutions quite severe.

2. **Stabilization**. Since mid-2004, important progress has been made toward stabilizing the economy and improving governance and transparency in public sector operations. The Fund has supported Haiti by providing policy advice and financial assistance, initially in the context of a six-month staff monitored program (SMP), and subsequently with two consecutive annual programs with the Fund's Emergency Post-Conflict Assistance. The programs' key objectives were to restore macroeconomic stability and create conditions for economic growth.

3. **A new start**. After years of political deadlock following the disputed 2000 parliamentary elections and a two-year period of political transition, Haiti held successful presidential and parliamentary elections in February and April 2006; local and municipal elections are scheduled for December 2006. This offers the hope of boosting private sector confidence and investment, and re-energizing donor support for the hemisphere's poorest country.

4. **PRGF**. In the attached Letter of Intent (LOI), the authorities request a new PRGF arrangement in support of their three-year economic program. The proposed program will provide a macroeconomic framework for the authorities' poverty reduction strategy and for needed accompanying international assistance.

II. Economic and Policy Performance

5. **Macroeconomic performance**. Considering the starting point, Haiti's performance under the SMP and the EPCA-supported programs has been very strong (Box 1). Policies implemented since mid-2004 helped restart economic growth, reestablish fiscal discipline, reduce inflation, and increase international reserves.

- ***Economic activity***. In FY2006, which ended last September, real GDP is estimated to have risen by 2½ percent, helped by macroeconomic stability, international economic assistance, and exports. This is an improvement over growth of 1¾ percent in the previous year, and comes despite the volatile security and political situation in an election year.

Box 1. Haiti: Track Record of Policy Implementation, 2004–06

Overall, Haiti's track record of macroeconomic stabilization and structural reforms since mid-2004 has been favorable. This track record has been established under the two comprehensive EPCA-supported programs (October 2004–September 2006), as well as under a Staff Monitored Program (April–September 2004).

Macroeconomic performance has improved during 2004–06. The economy has gradually recovered from the political turmoil and severe floods experienced in 2004, and GDP growth is estimated at 2.5 percent in FY2006. With increased revenues and tightened spending, the central government overall deficit (including grants) was reduced from 3.5 percent of GDP in FY2003 to a projected 1.5 percent in FY2006. This substantial adjustment has eliminated recourse to central bank financing of the central government deficit, and helped reduce end-of-period inflation from 38 percent in FY2003 to a projected 12 percent in FY2006. Net international reserves (NIR) have increased, raising import coverage from 1.2 months of imports of goods and services in FY2003 to a projected 1.8 months in FY2006. Preliminary data suggest that key end-September quantitative targets were observed.

Selected Economic and Financial Indicators
(Fiscal Year Ending September 30)

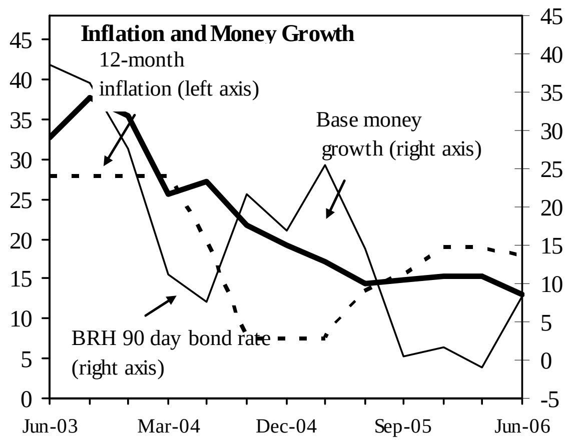
	2003	2004	2005	2006
				Proj.
(Annual percentage change, unless otherwise indicated)				
GDP at constant prices	0.4	-3.5	1.8	2.5
Consumer prices (end-of-period)	37.8	21.7	14.8	12.4
(In percent of GDP)				
Central government overall balance (including grants)	-3.5	-2.4	-0.7	-1.4
Central bank net credit to the central government	3.1	2.0	0.0	-0.2
(In millions of U.S. dollars, unless otherwise indicated)				
Net international reserves (program definitions)	38.8	54.5	70.6	125.0
Liquid gross reserves	157.1	207.4	228.5	330.2
In months of imports of the following year	1.2	1.4	1.4	1.8

Key structural and economic governance reforms have been implemented. Regarding public financial management, key achievements included (i) approval of budgets before the start of fiscal year and their publication in the official journal; (ii) publication of information on budget execution on a monthly basis; (iii) limiting of discretionary spending through ministerial current accounts to below 10 percent of budget non-wage credits; and (iv) civil service employment verification based on attendance lists and elimination of ghost workers. To improve revenue collection, (i) information is being collected on all taxpayers in a computerized central taxpayer file; (ii) a computerized data collection system is being installed in five provincial ports; and (iii) a flexible price-setting mechanism for petroleum products has continued to be implemented, despite public pressures for price control. Financial audits of APN, TELECO, and EDH and an accounting rehabilitation of TELECO and EDH were completed. In the monetary and financial sector, (i) the external audit of the BRH accounts for FY2004 was completed and the report was published; and (ii) surveillance of cooperatives has been strengthened, including by expanding on-site inspections.

Some outstanding measures will need to be addressed during FY2007: (i) a survey of domestic payments arrears of the central government has been completed but not yet verified, and a strategy to address them has not been formulated; (ii) a mechanism for monitoring budgetary transfers to the electricity sector has been established but is not yet effective, and an independent audit of transfers has not taken place; and (iii) the audit of the Treasury accounts for FY2004 has not been completed.

- ***Fiscal performance***. One of the key achievements under the EPCA-supported programs was the elimination of central bank financing of budget deficits, for the first time since 1999. This was brought about by a significant improvement in the government revenue effort and spending discipline. In the first half of FY2006, some expenditure overruns (mostly electricity-related transfers) pushed central bank financing of the budget slightly above target. Subsequently, the new authorities amended the budget to contain expenditures while revenue performance was significantly above expectations.

- ***Money and inflation***. The central bank's policies aimed at reducing inflation, which had averaged 27 percent during 2003–04. Fiscal adjustment facilitated a strong reduction in base money growth and, combined with nominal exchange rate appreciation, contributed to a halving of inflation to about 12 percent by end-FY 2006 (Table 4). With inflation down, real interest rates on BRH bonds have reached five percent.



- ***Remittances and external sector***. The external current account, including grants, is estimated to have been broadly in balance in FY2006. After three years of rapid expansion, export growth slowed, but private remittances exceeded US$1 billion (21 percent of GDP), more than double the amount of international aid. Donor disbursements and foreign direct investment in the telecom sector also contributed to a balance of payments surplus and a moderate build-up of gross international reserves (to 1.8 months of imports). Thus, by August 2006, the gourde had appreciated in real effective terms to about 8 percentage points above its 1999 peak (Table 5).

- ***Banking sector problems***. Since June 2005, two banks, accounting for 11 percent of banking assets, have lost about a third of their deposits. In order to stabilize the situation, the BRH has acquired a majority stake in the larger bank, and injected about US$43 million (1 percent of GDP), mostly in liquidity support. The smaller bank has been sold to a large local bank.

- ***Electricity sector.*** The performance of this sector, significant to both the economy and the budget, remains weak. Over the past six years, central government transfers to EDH, the electricity parastatal, have increased to 1.3 percent of GDP, or 9 percent of total government expenditure. During FY 2006, with rising international petroleum prices electricity production in Port-au-Prince declined by about a third, while fiscal transfers remained broadly unchanged. The government also provides guarantees to the EDH to facilitate its purchases of fuel.

6. **Structural reforms**. Key reforms implemented under the EPCA-supported programs included:

- Approval of budgets before the start of the fiscal year, and publication of information on their execution.
- Passage of a new Organic Budget law and adoption of a new budget classification and chart of accounts, and preparation of the 2006 draft budget under new procedures.
- Reduction in the use of ministerial current accounts, to below 10 percent of nonwage current expenditure credits.
- Accounting rehabilitation and financial audits of key public sector enterprises.
- Audits and publication of financial statements of the BRH

Other reforms, some which have not yet been fully completed, partly due to capacity constraints and the changing security situation, include the establishment of a monitoring mechanism for budgetary transfers to the electricity sector, and a survey of domestic payments arrears.

7. **External assistance**. Haiti's economic and social recovery efforts have received broad international support. In July 2004, donors pledged US$1.2 billion for a two year period, and a further US$180 million in response to natural disasters, for humanitarian assistance, for elections, and to boost security. According to staff estimates, some US$960 million has been disbursed so far, of which about 20 percent has been as budget support. At the July 25, 2006 conference, donors pledged new assistance of US$750 million (16 percent of GDP) for the next fiscal year, mostly in the form of project aid.

III. THE 2007–09 PROGRAM

8. **Goals**. The main objective of the PRGF is to set the country on a path to economic growth, rising living standards, and lower poverty. The authorities have identified infrastructure and energy, education, health, and security as priority areas. The PRGF-supported program is based on the strategy the authorities present in their I-PRSP.

9. **Macroeconomic framework**. The authorities' macroeconomic goals for 2007–09 include higher per capita growth, lower inflation, and increased Haiti's international reserves.

Selected Economic and Financial Indicators
(Fiscal Year Ending September 30)

	2005	2006	2007	2008	2009
		Prel.	Proj.	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)					
GDP at constant prices	1.8	2.5	4.0	4.0	4.0
Consumer prices (end-of-period)	14.8	12.4	9.0	8.0	7.0
(In percent of GDP)					
Central government overall balance (including grants)	-0.7	-1.4	-1.9	-2.9	-2.9
Central bank net credit to the central government	0.0	-0.2	0.0	0.0	0.0
(In millions of U.S. dollars, unless otherwise indicated)					
Net international reserves (program definition)	71	126	156	206	266
Liquid gross reserves	229	331	401	494	599
In months of imports of the following year	1.4	1.8	2.0	2.3	2.6

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

- ***Growth***. The medium-term GDP growth objective is conservatively set at 4 percent, a rate similar to that achieved during past periods of stability, but lower than in many other countries emerging from conflict (Box 2). Growth is expected to pick up in agriculture, assembly exports, and tourism, boosted by public and private investment, sustained efforts to improve governance, strengthen institutional capacity and human capital creation, and higher and more effective social spending.

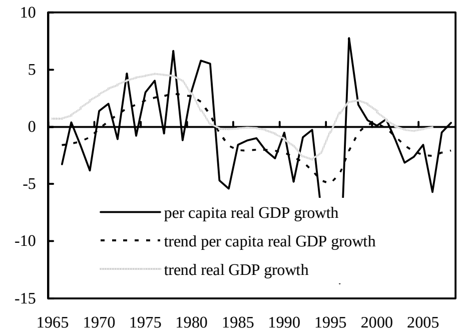
- ***Inflation***. The authorities' objective is to reduce inflation to around 6 percent by FY2009, slightly below the average performance in post-conflict countries.

- ***Balance of payments***. The external current account deficit (excluding external grants) would stabilize at about 7–8 percent of GDP, while external grants would remain broadly unchanged and private remittances would continue to increase moderately. Donor support is expected to be largely in the form of grants, and increased foreign direct investment would reflect new investment opportunities.

- ***International reserves***. Gross official reserves would rise to about US$600 million, covering about 2½ months of imports by end-September 2009.

Box 2. Haiti: Growth, Poverty, and Millennium Development Goals

Per capita real GDP growth, 1965-2006



Over the past 40 years, Haiti's per capita real GDP has declined by 30 percent, reflecting several episodes of political instability. Following high growth in the 1970s (annual average of about 5 percent), fueled by investment in the assembly industries and tourism, Haiti has experienced a persistent decline of per capita real GDP. However, poverty has not significantly worsened over the past 15 years, possibly due to increased remittances from abroad. At present, half of the population lives on less than one dollar a day, and three quarters on less than two dollars a day.

Over the long term, real output growth could increase to 4–4.5 percent, assuming improved security conditions, sustained political and macroeconomic stability, progress on economic governance, and improvements in social and economic infrastructure. For example, as infrastructure constraints, such as poor road conditions and low storage capacity, are gradually removed, agricultural production and exports could pick up. Assembly industries could benefit from the HOPE Act, which would extend preferential access to the U.S. market. However, these industries at present face a shortfall of skilled labor and high production costs. Improvements in hotel infrastructure would create favorable conditions for the tourism industry, which could initially cater to the large Haitian diaspora and later to broader international market. Even so, Haiti's growth is likely to be insufficient for reaching the Millennium Development Goal of eradicating extreme poverty by 2015.

Average Real GDP Growth (in percent)

	1995-2000	2001-04	2005-06	2007-11
Haiti	3.8	-1.1	2.2	4.0
Low income countries	3.5	4.9	5.7	5.5
PRGF countries	5.4	7.5	7.4	6.1
Post-conflict countries	3.6	5.2	5.9	5.5

Progress toward the Millennium Development Goals

	Target by 2015	Current situation	Outlook
Goals and quantitative targets within reach			
Goal 2: Achieve Universal Primary Education			
Net primary enrollment ratio (age 6-12)	100%	55%	Possible with sustained external support
Goal 3: Promote Gender Equality and Empower Women			
Ratio of girls to boys in primary and secondary schooling	100%	>100%	Achieved in schooling, rest of society still not there
Goal 6: Combat HIV/AIDS, Malaria, and Other Diseases			
HIV prevalence (ages 15-49)	halt and reverse	3.8%	Possible, with sustained external support
Goals and quantitative targets unlikely to be achieved			
Goal 1: Eradicate Extreme Poverty and Hunger			
Population below US $1 a day	27%	54%	Not likely, GDP per capita would need to grow 3.5% annually[1]
Goal 4: Reduce Child Mortality			
Under-five mortality rate (per 1,000)	50	117	Not likely with current trends
Goal 5: Improve Maternal Health			
Maternal mortality ratio (per 100,000 live births)	250	680	Very unlikely due to severe lack of obstetricians
Goal 7: Ensure environmental sustainability			
Forest area (share of total land area)	reverse losses	3.8%	Difficult, trend in last decade is negative, and policies are weak

Source: World Bank data; and the UNDP report "A Common Vision for Sustainable Development," available at www.ht.undp.org/OMD/

[1] It is estimated that the poverty rate declines by two percent for each one percent increase in average per capita income, holding constant the distribution of income, in accordance with the UNDP Human Development Report 2003.

10. **Fiscal strategy**. The authorities' medium-term fiscal strategy boosts revenues and enhances budgetary management, to allow for more poverty-reducing spending and investment, and institutional development of central and local governments (MEFP ¶12, 14-15). The authorities' poverty reduction strategy is discussed in greater depth in the I-PRSP and the accompanying HIPC discussion point document. The aim is to reform comprehensively the procedures for budget preparation and execution, and establish a three-year framework for budget projections, consistent with medium-term poverty-reducing expenditures.

- ***Revenues***. Direct and indirect tax revenues will be gradually increased to raise yields closer to levels in other low-income countries. The authorities' strategy will initially focus on establishing effective customs control through ports of entry other than Port-au-Prince, and a comprehensive reform plan for revenue administration will be prepared later (MEFP ¶11–12).

- ***Expenditure policy***. Government expenditure will be re-oriented from transfers and subsidies to public sector enterprises toward spending in key areas such as health, education, and security. The public investment program will center on the supporting infrastructure and will be coordinated with external donor assistance (MEFP ¶11, 14).

- ***PetroCaribe***. The resources from the agreement with Venezuela will be used transparently and exclusively to boost public investment and social projects (MEFP ¶11).

11. **Financial sector reforms** (MEFP ¶17-19). The authorities' program will modernize markets for instruments of monetary control, and strengthen the central bank by addressing its losses and modernizing the banking law. In parallel, the central bank will divest its stake in the telecom company and other non-core operations. The financial sector reform strategy will be further developed after the FSAP in early 2007.

12. **Other structural reforms and poverty reduction**. The reform program will also focus on improving public financial management, public enterprise restructuring and strengthening transparency of public sector operations.

- ***Public financial management***. The authorities' action plan focuses on strengthening: (i) management of government financial operations and public debt; (ii) the expenditure approval process to further reduce the use of ministerial current accounts; (iii) reporting of fiscal data to track specific expenditures, especially those that reduce poverty; (iv) the capacity to execute public investment activities; and (v) clearing the outstanding domestic payments arrears (MEFP ¶14–15).

- ***Transparency of public sector operations***. Audits of the central government accounts and the BRH will be completed as prescribed by the law, and the results subsequently published. Financial and management audits of key public sector enterprises will be completed this fiscal year, and there are steps to reform the electricity sector (MEFP ¶21).

- ***Electricity sector***. The authorities are finalizing the monitoring mechanism for transfers to the electricity sector (prior action) and competitive procedures for setting contracts for electricity production are now in place A strategy to increase electricity supply, and to increase revenues of EDH will be developed and implemented with the support of the IDB and the World Bank (MEFP ¶20).

- ***Poverty reduction***. Increased budgetary expenditure on education and health will be targeted to primarily benefit the poor, to improve the quality and access to the education system (e.g., more teacher training and broader access to elementary schools), and to improve access to health services (e.g., more health units and essential medication at the commune level, and introducing free access to health services for the poorest Haitians). (MEFP ¶13-14)

A. Program for FY 2007

13. **Key targets**. The macroeconomic framework for FY 2007 targets real GDP growth of 4 percent, inflation of 9 percent or less, and an increase in gross international reserves to nearly two months of imports by end-September 2007.

14. **Budget**. The fiscal strategy aims at balancing the need to avoid domestic financing while providing adequate resources for investment and poverty reduction (MEFP 11–13). In view of the risks ahead and uncertainties regarding disbursement of donor assistance, the authorities' budget has conservative revenue assumptions. Accordingly, to strengthen revenue performance, the authorities will build on tax administration improvements, measures to combat tax evasion, and better customs enforcement. Total central government expenditure is budgeted to increase by 2½ percent of GDP, owing mostly to higher public investment, and the central government budget deficit (excluding grants) will be fully financed by external assistance. Current expenditure will expand to allow for an increase in government real wages, in part to compensate for past inflation, and new hiring for security and social services. The budget also provides 0.2 percent of GDP for a social needs program, including small investment projects in all 140 communes of Haiti, indemnity to workers laid off outside of the regular process, and payments of recently-identified wage arrears.

15. **Monetary program** (MEFP ¶16–17). The authorities aim to hold inflation below 9 percent in FY2007, which, given the inertia (inflation declined only moderately in the absence of central bank financing of budget deficits), is ambitious. In order to reduce inflationary expectations, the BRH will keep base money growth (indicative target) below the growth rate of nominal GDP, with net international reserves accumulation as the main source of monetary expansion. In addition, the central bank will keep its key policy interest

rate (90-day bonds) positive in real terms. The BRH will enhance its mechanisms of monetary control by extending participation in the auctions to non-banking institutions, and by improving the auction mechanism for its bonds, as at present both volumes and prices are being set. The authorities have confirmed their commitment to maintain a flexible exchange rate regime. It may be noted that Haiti maintains a highly open trade regime and a capital account without significant exchange restrictions.

16. **Banking issues**. Since the central bank's takeover of the larger troubled bank, its financial condition has broadly stabilized. The authorities agreed that the strategy should include an independent assessment of the financial condition of the troubled bank. They are finalizing a resolution strategy and contingency plan for this bank and plan to divest its control through a sale or merger after its management and finances are strengthened. The BRH pointed out that its handling of the bank was hampered by the legal constraints and stressed that in Haiti's circumstances the least risky approach was of negotiated acquisition and recapitalization. The BRH agreed that the issue of conflict of interest (acting as owner and supervisor) created by its acquisition of the troubled bank should be resolved as soon as possible, in line with the resolution strategy. The authorities will also seek a thorough independent evaluation of all remaining banks, perhaps with the assistance of foreign expert examiners.

IV. Program Financing

17. **External financing requirements**. Haiti's requirements are expected to remain substantial, but the already identified assistance appears adequate to close the gap over the first year of the program. Although gross financing is US$184 million, net cash support, after debt service payments, is estimated to be only US$73 million, including the Fund (Table 10). The European Union is expected to provide about half of this, and the Fund and bilateral creditors to provide the remaining half. Future financing requirements will be addressed at a donor's conference in 2008.

External Financing, 2007
Fiscal year ending September 30, in millions of US dollars

Total External Financing	184.1
PRGF Arrangement	53.4
Repayment of EPCA	-30.6
Prospective Debt Rescheduling (including Paris Club)	47.1
Budget Support	100.9
IDB	29.9
WB	10.0
US	10.0
EU	37.8
France	3.8
Spain	7.6
Belgium	1.9
Possible HIPC Debt Relief	13.3

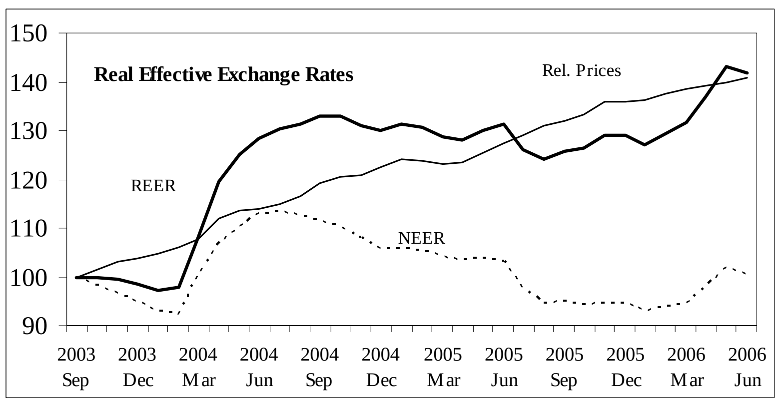
- **Multilaterals**. Total program disbursements from multilateral institutions are projected at US$119 million, with the Fund, the IDB (largely from PBL Financial Sector Loans), and the European Union being the largest providers of new financing.

- **Paris Club rescheduling**. Paris Club creditors expressed their willingness to provide debt relief to Haiti, after reaching the decision point. About US$46 million in arrears under an informal payment deferral during the EPCA-supported programs would be also rescheduled.

- **HIPC**. Once approved, interim assistance would start at the decision point, and is now estimated at US$13.3 million, including from Paris Club creditors.

V. External Inflows and Macroeconomic Stability

18. **Aid inflows and absorption**. In FY 2007, private remittances are projected at US$1.1 billion and donor assistance at US$0.6 billion, together equivalent to 28 percent of GDP. Most of these inflows will be offset by imports and a build-up in the banking system's foreign assets. Private remittances are the main source of import financing and resident foreign currency deposits. The domestic impact of external inflows is attenuated by several factors. For example, consistent with prudential regulations, only half of these deposits may be lent domestically, 31 percent must be held as required reserves at the central bank, and the remainder must be placed in foreign assets. More than 80 percent of foreign aid is project loans and grants financing imports, while budgetary assistance is generally used to cover official debt service and government imports. Nevertheless, these inflows may have contributed to appreciation of the real exchange rate which is currently at an all-time high, but does not yet appear to have had a significant negative impact on the tradables sector. In recent years Haiti's exports have gained market share relative to that of competitors.



19. **Aid coordination**. The authorities are keen to improve aid coordination, to increase the accountability of donors and improve the predictability of aid and its effectiveness. Toward this end, the headline public investment budget includes the total amount of resources committed by donors for the next fiscal year, including for projects and social services delivered through NGOs. However, staff expects that, in line with past experience, less than half of this amount will be disbursed in FY 2007.

VI. Program Risks

20. **Dimensions of risk**. Although the track record established under the SMP and EPCA-supported program and the authorities' commitment to prudent macroeconomic policies are a good basis for program implementation, important risks remain. Indeed, the new government's ability to implement a multi-faceted development program will be tested when implementing its legislative agenda, dealing with severe administrative capacity constraints, political pressures, and variability of external assistance.

- **Security**. Slow progress in addressing the most pressing social and economic problems could lead to instability in volatile areas and adversely affect security conditions, the business climate, and macroeconomic management.

- **Political risks**. Expectations for rapid change need to be reconciled with the reality that the government's policies can bring improvements only gradually. Fiscal consolidation could be jeopardized by revenue shortfalls or spending pressures to address social problems more rapidly, resulting in renewed central bank financing. Delays in approval of key legislation by parliament also are a risk.

- **External support**. The authorities will need to mobilize adequate donor support for their medium-term strategy to be embodied in a full PRSP. Additional risks could arise from weak coordination of donor financing with the budget, which could undermine private sector confidence in the government and derail economic recovery.

- **Upside potential**. In the near term, economic growth could be boosted if substantial improvements in political stability and security conditions elicit a strong investor response. In the longer term, growth potential could be enhanced by improvements in public infrastructure and expanding access to education.

VII. Access and Program Monitoring

21. **Access**. The authorities request access equivalent to SDR 73.71 million, or 90 percent of quota, over the three-year arrangement. The proposed access includes an upfront disbursement equivalent to 25 percent of quota, to be included in the first disbursement to be made available upon approval of the program, that the authorities intend to use to repay the amount outstanding under the less concessional EPCA. The remaining amounts will be evenly split into seven equal disbursements over the period of the arrangements, with the first scheduled after the approval (Table 12). The proposed access, which (including the refinancing component) is the norm for second-time PRGF use, is based on the balance of payments need, reflecting the weak gross reserves position; the strength of the fiscal program; and the comprehensive plan of structural measures.

22. **Monitoring**. The first-year program would cover the fiscal year October 2006-September 2007. To strengthen the likelihood of the program's success, prior actions—relating to budget, management of banking problems, and safeguards recommendations—will be implemented before the Executive Board meeting (Table 2, MEFP). The program will be monitored by quantitative, quarterly benchmarks and semi-annual performance criteria. Conditionality has been set through September 2007, with the first test date set for end-March 2007. The staff believe that structural benchmarks and performance criteria are in the areas that are critical for macroeconomic stability. Conditionality for FY 2008 will be proposed to the Executive Board at the time of the second review under the arrangement, based on end-September 2007 performance criteria.

23. **Capacity to repay the Fund**. Credit outstanding to the Fund was SDR 22 million (27 percent of quota) at end-September 2006. With the proposed PRGF arrangement, obligations to the Fund will peak at SDR 74 million at end-September 2010, representing 12 percent of exports of goods and services (Table 7). Although Haiti will continue to need external financing for a number of years, its external position is set to improve over time with the provision of debt relief. The authorities' track record of timely debt service payments has generally been very good, and the performance under the EPCA-supported programs has been favorable compared to other post-conflict countries.

24. **External debt sustainability**. The staff's analysis presented in the accompanying HIPC decision point document shows that Haiti is eligible for HIPC debt relief based on end-September 2005 data. At that point, Haiti's debt in net present value terms corresponded to 176 percent of exports of goods and services, which exceeded the HIPC Initiative's export window's threshold of 150 percent. External debt sustainability is expected to improve in the medium term, with delivery of HIPC interim debt relief starting at the decision point, and debt relief under the MDRI, starting at the completion point.

25. **Adjusters**. Given the uncertainties regarding the amount and timing of disbursements of cash budgetary assistance, two adjusters would be introduced (MEFP ¶26). The excess of external financing above the program level will reduce the ceilings on net BRH credit to the government and on BRH net domestic assets, and increase the floor on NIR. If this financing is delayed, the ceilings on BRH financing of the government, the public sector and on BRH net domestic assets will be adjusted upward and the floor on the NIR downward by the amount of the shortfall. Adjustments due to shortfalls in external financing will not exceed US$20 million.

VIII. Other Issues

26. **Safeguards assessment**. The program includes the authorities' commitment to implement the key outstanding recommendations of the August 2005 safeguard assessment by the time of the first program review. These include verification of data reported for program monitoring, strengthening of internal and external audit procedures, and

improvements in accounting operations, including by adopting International Financial Reporting Standard.

27. **Technical assistance**. The authorities have requested technical assistance from the Fund to help develop their macroeconomic program in the following areas: (i) public financial management, including for tracking of HIPC-related expenditures; (ii) reform of tax and customs codes; (iii) recapitalization of the BRH; (iv) improvement of monetary management; (v) drafts of central bank and banking law; (vi) FSAP; and (vii) quality and timeliness of data provision—particularly monetary data—to the Fund.

IX. Staff Appraisal

28. **Progress**. Haiti has made an impressive start in its transition away from political conflict and economic instability. The economy has been largely stabilized and significant advances were made toward creating conditions for sustainable economic growth and poverty reduction. On the political front, successful elections earlier this year offer hope for national reconciliation and lasting political stability. The international community has been strongly supporting Haiti by providing large economic and humanitarian assistance, and by helping to restore security through deployment of a U.N. stabilization force. As a result, economic growth has resumed, inflation has been significantly reduced, net international reserves have been substantially built up, and important measures have been implemented to strengthen fiscal discipline and improve governance and transparency. Nonetheless, as Haiti is only now emerging from a period of political and economic instability, the range of problems, and solutions to them, will gradually need to be found.

29. **PRSP**. The authorities' new program is comprehensive and in staff's view its objectives are realistic and consistent with the priorities set out in the I-PRSP. The program seeks to further bolster macroeconomic stability, strengthen institutions and economic governance, and accelerate reforms in the financial sector. Progress in these areas would help address some of the key impediments to Haiti's development, breaking the vicious circle of low growth and declining per capita income experienced over the past twenty years. It would also help Haiti to reach the HIPC completion point within the program's horizon, which, among other things, will require the authorities to further flesh out their poverty-reduction and growth strategy in a consultative process and to include it in the PRSP.

30. **Fiscal policy**. The authorities' commitment to fiscal discipline anchored by zero central bank financing of budget deficits, is welcome. The budget approved by parliament allows for a significant increase in social services and domestically-financed public investment. In particular, the budget allows for new recruitment in key areas such as education and security, and increasing government wages to partly compensate for inflation of the past two years. Also, the allocation of resources for the social needs program, including for investment projects in all communes of Haiti is an important step toward more balanced regional development. The authorities need to further strengthen budget

management and expenditure control, including for monitoring HIPC-related expenditures. Related technical assistance pledged by donors is welcomed.

31. **Monetary policy**. To reduce inflationary expectations, the authorities' program appropriately targets growth in base money lower than of nominal GDP, with net international reserves accumulation as the main source of monetary expansion. The BRH needs to maintain its key policy rate on 90-day bonds positive in real terms and stand ready to absorb excess liquidity from the banking system. The staff supports the continuation of the floating exchange rate, welcomes the BRH's intention to modernize the mechanisms of monetary control, its legal framework, its income position, and to relinquish non-core activities. It will also be important to implement all safeguards recommendations in a timely manner.

32. **Structural reform**. Building on recent progress, the reform agenda appropriately concentrates on raising fiscal revenues, improving public financial management, public enterprise restructuring, and financial sector reform. Higher tax collections are necessary to safeguard fiscal sustainability, to achieve sustainable strengthening of Haiti's state, to increase delivery of public services, and create room for growth-enhancing public investment. Equally important will be full implementation of measures to strengthen public financial management, further reduce the use of ministerial current accounts, and strengthen capacity to manage public debt. The staff welcomes the authorities' commitment to use concessional resources from the PetroCaribe agreement in a transparent manner and to allocate them to public investment projects. In the financial sector, key reforms include enacting of a new banking law, modernization of instruments of monetary control, and strengthening of the financial position of the central bank. Going forward, the government should complete the outstanding commitments from EPCA programs without further delay, in particular to establish a strategy to address domestic arrears, fully implement and audit a monitoring mechanism of budgetary transfers to the electricity sector, and complete the audits of the Treasury accounts and of the BRH.

33. **Banks**. The steps taken by the BRH to address problems in the weak banks are welcome. Given the legal constraints, the central bank's decision to take over control of the larger problem bank through negotiated acquisition was appropriate. However, it will be important to promptly establish a strategy for final resolution of the weak bank, and to address the conflict of interest facing the central bank which acts as owner and supervisor of the bank under its control. The staff recommends completing as soon as possible a thorough evaluation of all remaining banks with the assistance of independent expert examiners.

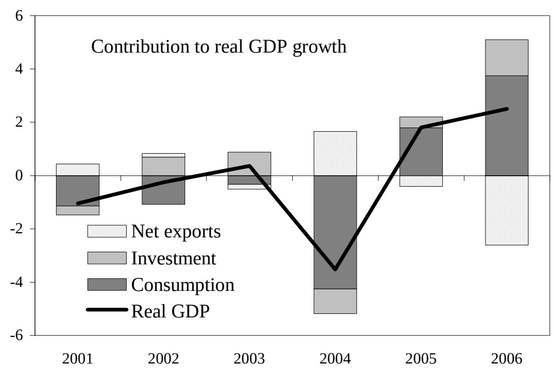
34. **Aid**. The pledges of assistance announced at the July 2006 donor conference are crucial to the success of the program. The authorities should work with donors to ensure the timely disbursement of external aid, in particular in the areas most critical for reducing poverty and creating opportunities for investment and employment. Equally important is the authorities' intention to improve aid coordination and to enhance the accountability of the

government and donors for implementing the committed resources in line with Haiti’s economic and social priorities.

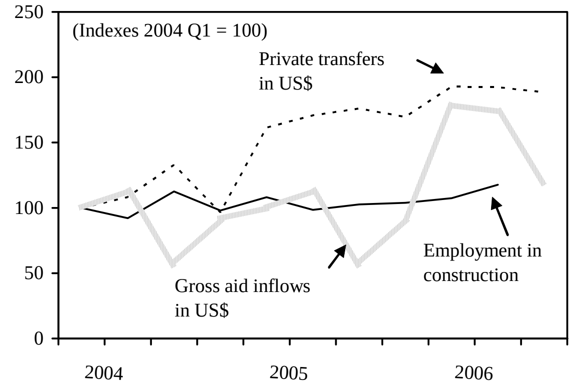
35. **Conclusion**. Based on Haiti’s overall satisfactory track record and the strength of the program, the staff supports the authorities’ request for a new three-year arrangement under the PRGF. The authorities’ demonstrated political commitment and high degree of ownership will be critical to secure durable success of Haiti’s economic reform strategy.

Haiti: Real Sector

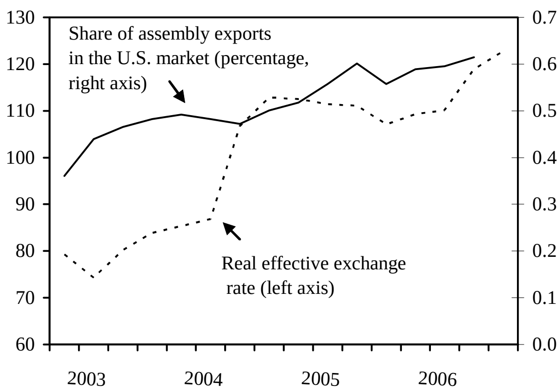
Economic recovery continued in 2006...



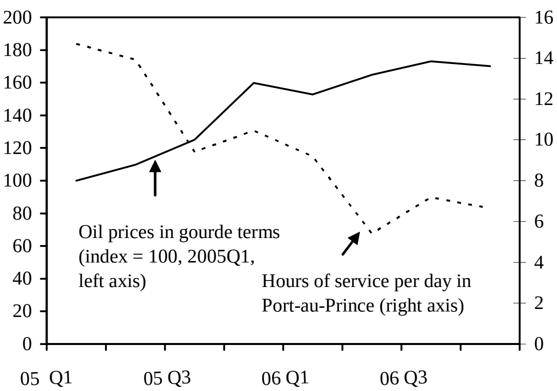
... as activity was driven by domestic demand supported by private remittances and aid inflows.



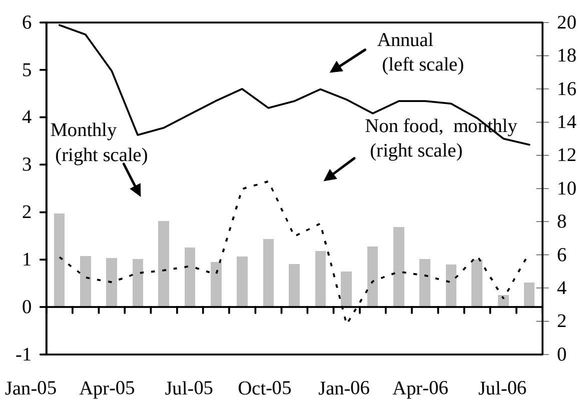
Exports growth continues despite the real exchange rate appreciation.



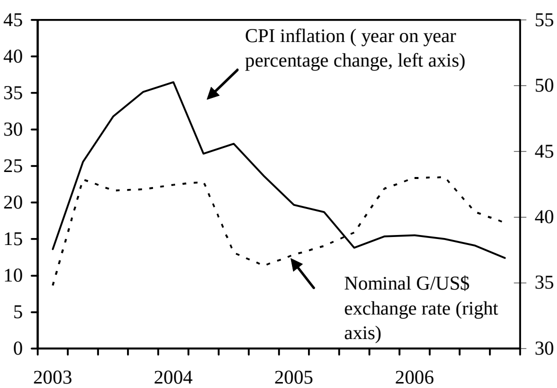
Energy costs increased, and private power generation increased to offset the decline in the public supply.



Inflation has been broady stable for about a year....

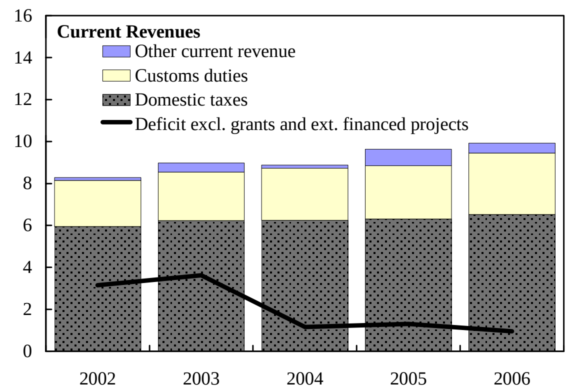


... but it recently resumed its decline, partly helped by nominal exchange rate appreciation.

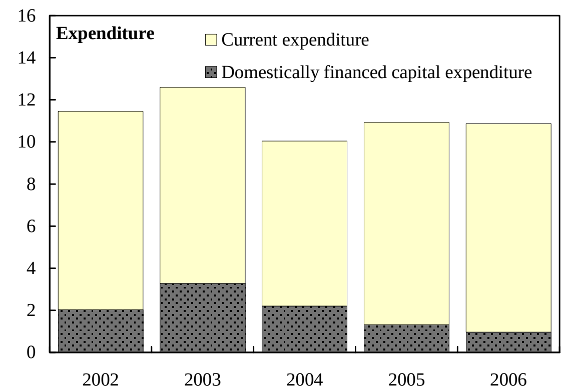


Haiti: Fiscal Developments 1/
(in percent of GDP)

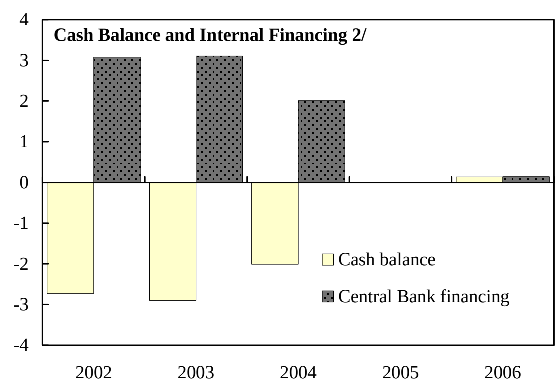
Fiscal consolidation was achieved by strengthened revenue efforts ...



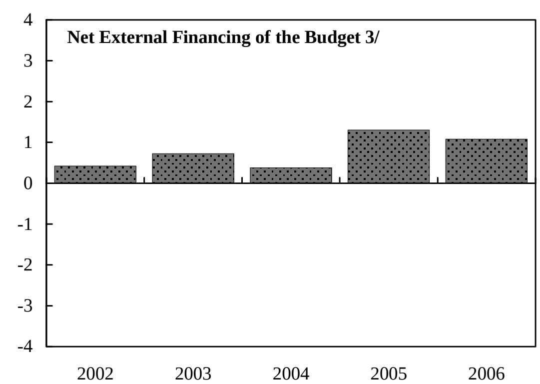
... and reduction in domestically financed investment.



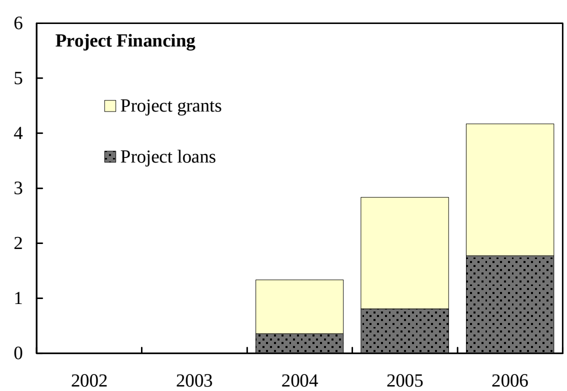
This helped to improve the cash balance and eliminated central bank financing.



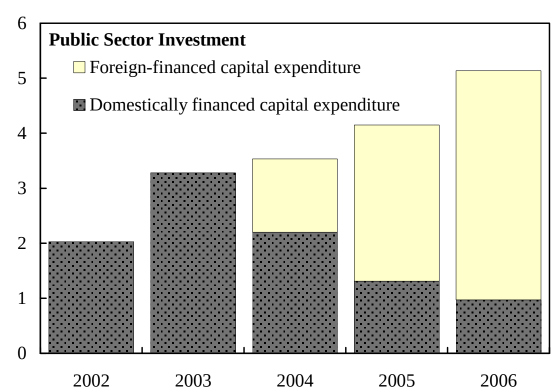
At the same time, external financing of the budget increased ...



... and a surge in project financing ...



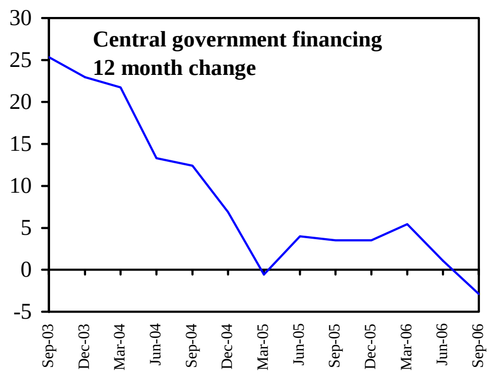
... more than offset a decline in domestically financed capital expenditure.



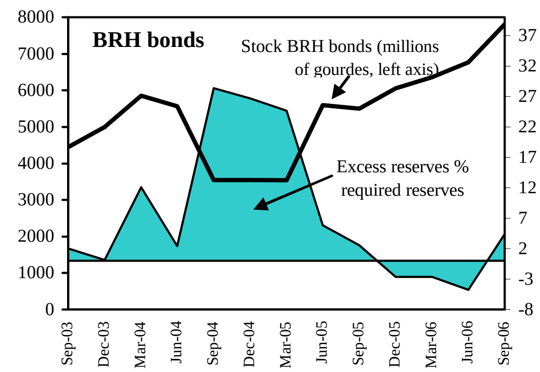
Source: Ministry of Finance; and Fund staff.
1/ Six-month data are annualized. 2006 reflects Fund staff projections.
2/ Cash balance equals revenues, budget support grants, budget loans, and change in arrears less current expenditure, domestically financed investment expenditure, and amortization of external loans.
3/ Net external financing of the budget includes budget support grants, budget loans, and change in arrears less amortization of external loans.

Haiti: Monetary Developments

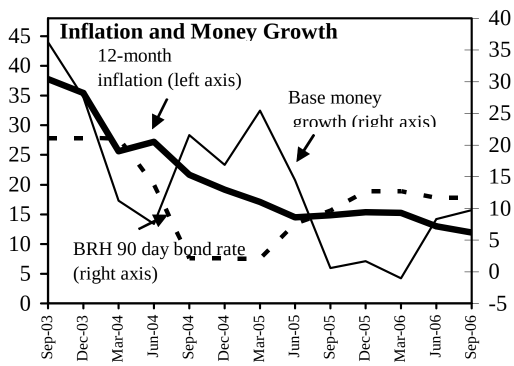
BRH financing of the central government was virtually ceased....



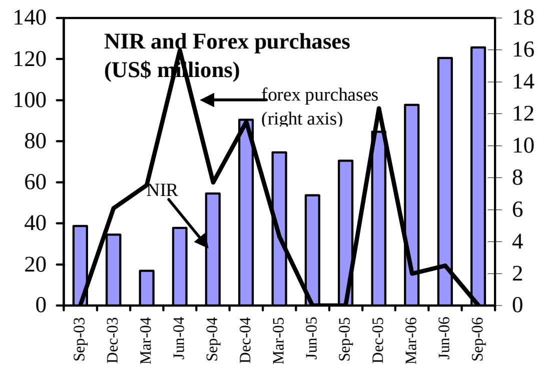
...while increased issuance of BRH bonds helped reduce liqudity in the banking system.



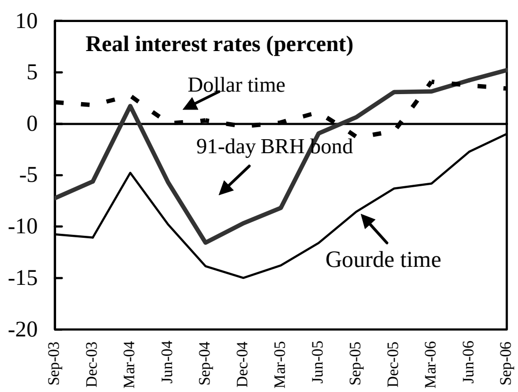
Base money growth has been reduced, and inflation has been gradually falling.....



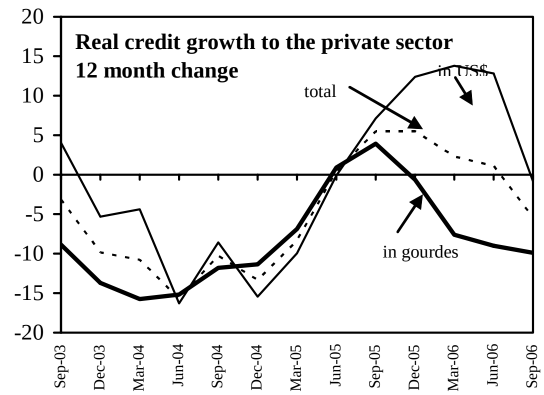
....while continued forex purchases have helped build up NIR.



Real interest rates on gourde deposits are still negative...

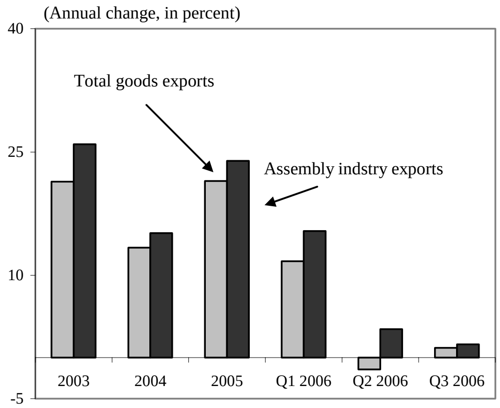


and credit growth to the private sector remains disappointing

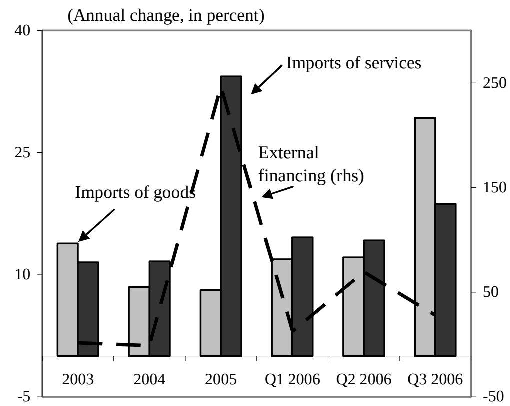


Haiti: External Sector Developments
(in percent of GDP)

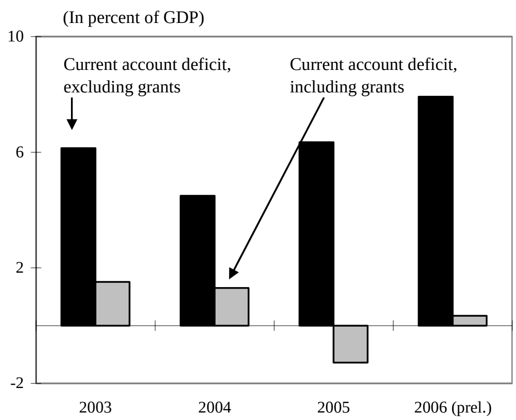
Export growth, driven by the assembly industry, slowed in 2006 ...



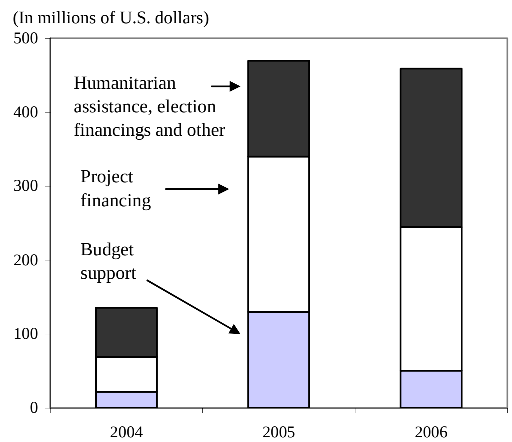
.. and import growth has picked up with aid inflows.



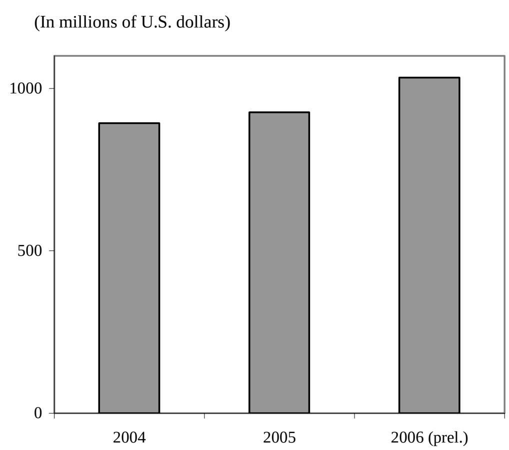
As a result, the current account deficit, excluding grants, has deteriorated.



Aid inflows have increased considerably, but budget support is a small percentage.



Remittances remain the most important source of capital inflow.



Reserve adequacy has improved.

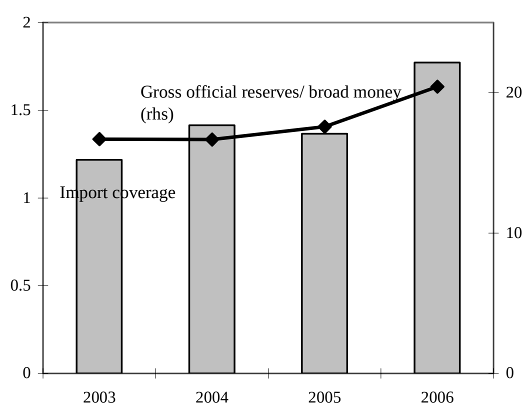


Table 1. Haiti: Indicative Targets, September 2005–September 2006 1/

	Actual stock at	Cumulative flows since September 2005									
	end-September 2005	Prog. 2/	Prog. with adjustor 3/	Actual	Deviation from prog	Prog. 2/	Actual	Deviation from prog	Prog. 2/	Prelim	Deviation from prog
		Mar. 06				June 06			Sept 06		
Net central bank credit to the NFPS (in millions of gourdes)	21,602	32	-26	229	255	347	-283	-630	32	-450	-482
Of which:											
Central Government	21,638	32	-26	273	300	347	-67	-414	32	-314	-346
Rest of NFPS	-36	0	0	-45	-45	0	-216	-216	0	-136	-136
Net domestic banking sector credit to the NFPS (in millions of gourdes)	21,159	32	-26	99	125	347	-136	-483	32	-543	-575
Net domestic assets of the central bank (in millions of gourdes)	7,583	-793	-851	-493	358	-1,194	-1,309	-115	-1,211	-1,699	-488
Domestic arrears of the central government	0	0	0	0	0	0	0	0	0	0	0
Nonconcessional external loans contracted or guaranteed by the central government (In millions of U.S. dollars)											
Up to one year	0	0	0	0	0	0	0	0	0	0	0
Over one-year maturity	0	0	0	0	0	0	0	0	0	0	0
Net international reserves of central bank (in millions of U.S. dollars)	71	-1	1	27	26	6	46	39	19	55	36
External arrears accumulation (in millions of U.S. dollars) 4/	0	0	0	0	0	0	0	0	0	0	0
Memorandum items: 5/											
Government total revenue, excl. grants (in millions of gourdes) 6/	…	8,534		8,941		12,836	14,245		17,236	20,103	
Government total expenditure, incl. ext-fin investment (in millions of gourdes)	…	13,665		13,721		21,528	20,869		28,800	29,397	

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

1/ For program monitoring purposes, NDA is defined as currency in circulation minus NIR accrual in gourde terms. Program exchange rate of G42/US$.
2/ Program numbers included in IMF Country Report No. 05/404.
3/ Adjusted by US$1.4 million due to greater-than-programmed external financing
4/ To all creditors except those who agreed on debt service deferral.
5/ Not targets. Cumulative flows over the program period.
6/ Fiscal revenue projections were revised upward in the supplementary budget to G18,012 million.

Table 2: Haiti: Selected Economic and Financial Indicators
Fiscal Year Ending September 30

Nominal GDP (2005): US$ 4.3 billion | GDP per capita (2005): US$ 490
Population (2005): 8.8 million | Adult literacy (2005): 53 percent
Share of pop. living with less than $1 a day (2003): 54 percent | Unemployment rate (2003): 27 percent

	2004	2005	2006		2007	2008	2009
			Prog.	Est.	Proj.	Proj.	Proj.
	change over previous year unless otherwise indicatec						
National income and prices							
GDP at constant prices	-3.5	1.8	2.5	2.5	4.0	4.0	4.0
GDP deflator	21.5	17.6	9.6	13.9	8.1	8.0	7.3
Consumer prices (period average)	28.3	16.8	13.3	14.2	9.2	8.0	7.5
Consumer prices (end-of-period)	21.7	14.8	10.0	12.4	9.0	8.0	7.0
External sector							
Exports (f.o.b.)	13.4	21.5	6.7	5.0	10.3	10.0	6.6
Imports (f.o.b.)	8.6	8.0	11.4	15.6	14.6	5.5	5.8
Real effective exchange rate (+ appreciation)	32.4	-5.7	...	...	...	...	...
Central government							
Total revenue and grants	31.0	54.5	11.2	20.5	28.4	6.1	14.6
Total revenue 1/	15.9	30.5	7.0	23.7	9.2	18.0	16.9
Current expenditure	-1.4	48.1	23.6	19.6	9.5	16.6	15.6
Total expenditure	17.3	31.2	24.6	26.7	30.9	12.9	14.3
Money and credit							
Net domestic assets 2/	10.6	9.8	3.9	1.7	6.1	7.0	6.2
Credit to public sector (net) 2/	4.6	0.1	0.6	-0.8	0.0	0.0	0.0
Credit to private sector 2/	3.4	7.9	3.4	2.2	6.1	7.0	6.2
Broad money (including foreign currency deposits)	9.1	20.3	3.3	9.1	10.4	12.3	11.5
Velocity (GDP relative to broad money)	2.5	2.5	2.6	2.6	2.7	2.7	2.7
Average interest rate on time deposits	7.5	4.5	...	...	...	...	...
	(percent of GDP, unless otherwise indicated)						
Gross investment	27.3	27.4	29.8	28.0	31.0	31.0	31.3
Gross national savings	24.8	25.7	24.8	24.4	27.6	28.4	28.8
Of which: Public sector savings	1.0	2.6	-0.2	3.0	2.9	3.0	3.2
Savings-investment balance 3/	-2.6	-1.8	-5.1	-3.6	-3.4	-2.6	-2.6
Central government overall balance (including grants)	-2.4	-0.7	-2.3	-1.4	-1.9	-2.9	-2.9
Central government overall balance (excluding grants)	-3.7	-4.1	-6.3	-4.7	-7.5	-7.1	-7.0
Excluding grants and externally-financed projects 4/	-1.2	-1.3	...	-0.6	-1.3	-1.6	-1.8
Central bank net credit to the central government	2.0	0.0	0.2	-0.2	0.0	0.0	0.0
External current account balance (incl. grants)	-1.3	1.3	-1.5	-0.1	-1.0	-1.5	-1.5
External current account balance (excl. official grants)	-4.5	-6.3	-10.3	-7.5	-9.5	-8.0	-7.9
External public debt (end-of-period) 5/	38.3	31.0	31.0	29.4	27.0	26.8	27.3
Total public debt (end-of-period) 6/	40.6	34.2	34.4	33.3	29.8	29.0	28.9
External public debt service (in percent of exports of goods and nonfactor services)	9.1	8.5	9.2	8.4	9.3	8.4	8.0
Overall balance of payments	32.7	54.1	-5.7	84.4	33.7	-64.4	-72.2
Net international reserves 7/	54.5	70.6	83.6	125.7	155.7	205.7	265.7
Liquid gross reserves 8/	207.4	228.5	264.7	330.8	401.2	494.3	598.6
In months of imports of the following year	1.4	1.4	1.4	1.8	2.0	2.3	2.6
Exchange rate (gourdes per dollar, end-of-period)	36.8	43.0	...	39.1	...	...	...

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

1/ Excluding grants.
2/ In relation to broad money (including foreign currency deposits) at the beginning of the period.
3/ External current account balance excluding official capital grants.
4/ Excludes donor-funded projects.
5/ External debt could decline to about 16 percent at the expected HIPC completion point in 2008, including MDRI relief and additional assistance beyond HIPC from Paris Club creditors.
6/ Includes external public sector debt, outstanding Central Bank bonds, and credit from commercial banks to the NFPS.
7/ Excludes commercial banks' foreign currency deposits with the BRH.
8/ Gross reserves excluding capital contributions to international organizations.

Table 3a. Haiti: Central Government Operations

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

	2006	2007				2007	2008	2009
	Oct-Sep Prel.	Oct-Dec Proj.	Jan-Mar Proj.	Apr-Jun Proj.	Jul-Sep Proj.	Oct-Sep Proj.	Oct-Sep Proj.	Oct-Sep Proj.
Total revenue and grants	**26,624**	**8,924**	**8,376**	**8,307**	**8,571**	**34,178**	**36,252**	**41,541**
Total revenue	20,103	5,945	5,418	5,475	5,106	21,944	25,887	30,261
Current revenue	20,103	5,945	5,418	5,475	5,106	21,944	25,887	30,261
Domestic taxes	12,878	4,222	3,748	3,744	3,381	15,095	17,807	20,816
Customs duties	6,099	1,626	1,574	1,635	1,629	6,464	7,625	8,913
Other current revenue	1,126	96	96	96	96	386	455	532
Transfers from public enterprises	0	0	0	0	0	0	0	0
Grants	6,521	2,979	2,958	2,832	3,465	12,234	10,365	11,281
Budget support 1/	1,909	678	657	531	1,164	3,030	...	...
Project grants	4,613	2,301	2,301	2,301	2,301	9,203	10,365	11,281
Total expenditure	**29,397**	**9,940**	**9,116**	**9,095**	**10,320**	**38,470**	**43,441**	**49,673**
Current expenditure	19,495	5,434	4,911	4,889	6,114	21,349	24,896	28,774
Wages and salaries	6,543	2,519	1,992	1,992	1,992	8,495	10,561	12,627
Equipment	...					610	746	982
Net Operations 2/	5,432	1,478	1,533	1,473	1,478	5,962	6,983	8,070
Operations	4,603	1,478	1,533	1,473	1,478	5,962	6,983	8,070
Interest payments	1,615	458	427	465	449	1,799	1,751	1,844
External	772	241	209	248	231	929	881	974
Domestic	844	217	217	217	217	870	870	870
Transfers and subsidies	5,904	806	806	806	2,043	4,462	4,854	5,251
Expenditures on electoral process	0	20	0	0	0	20	0	0
Capital expenditure	9,903	4,505	4,205	4,205	4,205	17,122	18,544	20,899
Domestically financed	1,869	1,100	800	800	800	3,500	4,935	6,455
Foreign-financed	8,034	3,405	3,405	3,405	3,405	13,622	13,610	14,444
Current account balance								
Including current grants	2,517	1,189	1,165	1,117	156	3,626	991	1,487
Excluding grants	608	511	508	585	-1,008	596	991	1,487
Overall balance								
Including grants	-2,774	-1,016	-740	-788	-1,749	-4,292	-7,188	-8,131
Excluding grants	-9,295	-3,994	-3,698	-3,620	-5,214	-16,526	-17,554	-19,412
Excluding grants and externally financed projects	-1,261	-589	-292	-215	-1,808	-2,904	-3,944	-4,968
Financing	**2,774**	**-846**	**517**	**557**	**1,527**	**1,755**	**1,365**	**1,123**
External net financing	**3,152**	**-733**	**889**	**648**	**1,244**	**2,049**	**1,365**	**1,123**
Loans (net)	2,828	1,127	889	648	1,244	3,908	1,365	1,123
Disbursements	4,205	1,525	1,309	1,105	1,735	5,673	3,244	3,163
Budget support	783	420	205	0	630	1,255	...	...
Project loans	3,422	1,105	1,105	1,105	1,105	4,418	3,244	3,163
Amortization	-1,377	-398	-420	-457	-490	-1,765	-1,880	-2,040
Arrears (net)	324	-1,859	0	0	0	-1,859	0	0
Accumulation 3/	324	0	0	0	0	0	0	0
Reduction	0	-1,859	0	0	0	-1,859	0	0
Internal net financing	**-378**	**-113**	**-373**	**-90**	**282**	**-294**	**0**	**0**
Banking system	-254	-50	-299	-12	361	0	0	0
BRH	-314	-50	-299	-12	361	0	0	0
Commercial banks	59	0	0	0	0	0	0	0
Other nonbank financing	-131	-64	-74	-79	-79	-294	0	0
Arrears (net)	7	0	0	0	0	0	0	0
Accumulation	191	0	0	0	0	0	0	0
Reduction	-184	0	0	0	0	0	0	0
Prospective rescheduling 4/	0	1,861	36	44	36	1,978	124	112
HIPC 5/	0	0	186	186	186	559	279	690
Unidentified financing	**0**	**0**	**0**	**0**	**0**	**0.0**	**5,421**	**6,206**
Unidentified financing (in U.S. dollars)	0.0	0.0	0.0	0.0	0.0	0.0	125.3	136.0

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

1/ Budget support 2006 and 2007 includes grant from Canada to cover debt service to the IDB.
2/ Includes statistical discrepancy.
3/ Arrears accumulation in 2005-06 reflects an informal deferral of debt service to France, Italy and Spain granted until an IMF arrangement is in place.
4/ Including clearance of arrears accumulated in agreement with Italy, France, and Spain.
5/ HIPC debt relief.

Table 3b: Central Government Operations

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

	2006	2007				2007	2008	2009
	Oct-Sep Prel.	Oct-Dec Proj.	Jan-Mar Proj.	Apr-Jun Proj.	Jul-Sep Proj.	Oct-Sep Proj.	Oct-Sep Proj.	Oct-Sep Proj.
Total revenue and grants	**13.6**	**4.0**	**3.8**	**3.8**	**3.9**	**15.5**	**14.6**	**15.0**
Total revenue	10.2	2.7	2.5	2.5	2.3	10.0	10.5	11.0
Current revenue	10.2	2.7	2.5	2.5	2.3	10.0	10.5	11.0
Domestic taxes	6.6	1.9	1.7	1.7	1.5	6.8	7.2	7.5
Customs duties	3.1	0.7	0.7	0.7	0.7	2.9	3.1	3.2
Other current revenue	0.6	0.0	0.0	0.0	0.0	0.2	0.2	0.2
Transfers from public enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	3.3	1.4	1.3	1.3	1.6	5.5	4.2	4.1
Budget support 1/	1.0	0.3	0.3	0.2	0.5	1.4	...	...
Project grants	2.4	1.0	1.0	1.0	1.0	4.2	4.2	4.1
Total expenditure	**15.0**	**4.5**	**4.1**	**4.1**	**4.7**	**17.4**	**17.5**	**18.0**
Current expenditure	9.9	2.5	2.2	2.2	2.8	9.7	10.1	10.4
Wages and salaries	3.3	1.1	0.9	0.9	0.9	3.9	4.3	4.6
Equipment	...	0.0	0.0	0.0	0.0	0.3	0.3	0.4
Net Operations 2/	2.8	0.7	0.7	0.7	0.7	2.7	2.8	2.9
Operations	2.3	0.7	0.7	0.7	0.7	2.7	2.8	2.9
Interest payments	0.8	0.2	0.2	0.2	0.2	0.8	0.7	0.7
External	0.4	0.1	0.1	0.1	0.1	0.4	0.4	0.4
Domestic	0.4	0.1	0.1	0.1	0.1	0.4	0.4	0.3
Transfers and subsidies	3.0	0.4	0.4	0.4	0.9	2.0	2.0	1.9
Expenditures on electoral process	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	5.0	2.0	1.9	1.9	1.9	7.8	7.5	7.6
Domestically financed	1.0	0.5	0.4	0.4	0.4	1.6	2.0	2.3
Foreign-financed	4.1	1.5	1.5	1.5	1.5	6.2	5.5	5.2
Current account balance								
Including current grants	1.3	0.5	0.5	0.5	0.1	1.6	0.4	0.5
Excluding grants	0.3	0.2	0.2	0.3	-0.5	0.3	0.4	0.5
Overall balance								
Including grants	-1.4	-0.5	-0.3	-0.4	-0.8	-1.9	-2.9	-2.9
Excluding grants	-4.7	-1.8	-1.7	-1.6	-2.4	-7.5	-7.1	-7.0
Excluding grants and externally financed projects	-0.6	-0.3	-0.1	-0.1	-0.8	-1.3	-1.6	-1.8
Financing	**1.4**	**-0.4**	**0.2**	**0.3**	**0.7**	**0.8**	**0.6**	**0.4**
External net financing	**1.6**	**-0.3**	**0.4**	**0.3**	**0.6**	**0.9**	**0.6**	**0.4**
Loans (net)	1.4	0.5	0.4	0.3	0.6	1.8	0.6	0.4
Disbursements	2.1	0.7	0.6	0.5	0.8	2.6	1.3	1.1
Budget support	0.4	0.2	0.1	0.0	0.3	0.6	...	...
Project loans	1.7	0.5	0.5	0.5	0.5	2.0	1.3	1.1
Amortization	-0.7	-0.2	-0.2	-0.2	-0.2	-0.8	-0.8	-0.7
Arrears (net)	0.2	-0.8	0.0	0.0	0.0	-0.8	0.0	0.0
Accumulation 3/	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reduction	0.0	-0.8	0.0	0.0	0.0	-0.8	0.0	0.0
Internal net financing	**-0.2**	**-0.1**	**-0.2**	**0.0**	**0.1**	**-0.1**	**0.0**	**0.0**
Banking system	-0.1	0.0	-0.1	0.0	0.2	0.0	0.0	0.0
BRH	-0.2	-0.02	-0.14	-0.01	0.16	0.0	0.0	0.0
Commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other nonbank financing	-0.1	-0.03	-0.03	-0.04	-0.04	-0.1	0.0	0.0
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reduction	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prospective rescheduling 4/	**0.0**	**0.8**	**0.0**	**0.0**	**0.0**	**0.9**	**0.0**	**0.0**
HIPC 5/	**0.0**	**0.0**	**0.1**	**0.1**	**0.1**	**0.3**	**0.1**	**0.2**
Unidentified financing	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2.2**	**2.2**
Unidentified financing (in U.S. dollars)	0.0	0.0	0.0	0.0	0.0	0.0	125.3	136.0

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

1/ Budget support 2006 and 2007 includes grant from Canada to cover debt service to the IDB.
2/ Includes statistical discrepancy.
3/ Arrears accumulation in 2005-06 reflects an informal deferral of debt service to France, Italy and Spain granted until an IMF arrangement is in place.
4/ Including clearance of arrears accumulated in agreement with Italy, France, and Spain.
5/ HIPC debt relief.

Table 4. Haiti: Summary Accounts of the Banking System

Fiscal year ending September 30, in millions of gourdes

	2005	2006				2007			
	Sept.	March	June	Sept. Prog	Sept. Est.	Dec. Proj	March Proj	June Proj	Sept Proj
					I. Central Bank				
Net foreign assets 1/	**8,232**	**9,688**	**11,151**	**9,995**	**11,907**	**12,501**	**12,904**	**13,307**	**14,001**
(In millions of U.S. dollars)	191	231	265	238	283	298	307	317	333
Net international reserves (program)	71	98	116	90	126	136	141	146	156
Commercial bank deposits	121	133	149	148	158	162	167	171	178
Net domestic assets	**2,315**	**1,507**	**10**	**1,256**	**-742**	**114**	**-1,048**	**-1,414**	**-1,846**
Credit to the nonfinancial public sector 2/	21,602	21,831	21,319	21,831	21,153	21,103	20,804	20,792	21,153
Of which: Credit to the central government	21,638	21,912	21,571	21,912	21,325	21,275	20,976	20,964	21,325
Liabilities to commercial banks	-22,115	-23,756	-24,365	-24,107	-25,993	-25,087	-25,949	-26,304	-27,096
Of which:									
Cash-in-vault and reserve deposits	-16,614	-17,396	-17,596	-18,193	-18,184	-18,973	-19,481	-20,093	-20,777
BRH bonds	-5,501	-6,360	-6,769	-5,914	-7,809	-6,114	-6,468	-6,211	-6,320
Other	2,827	3,431	3,056	3,532	4,098	4,098	4,098	4,098	4,098
Currency in circulation	**10,547**	**11,195**	**11,160**	**11,251**	**11,164**	**12,615**	**11,857**	**11,893**	**12,156**
					II. Consolidated Banking System				
Net foreign assets	**18,635**	**21,663**	**22,717**	**21,428**	**23,678**	**23,676**	**24,737**	**25,376**	**26,884**
(In millions of U.S. dollars)	433	507	570	502	605	605	630	645	681
Of which: Commercial banks NFA	242	277	304	264	321	307	323	328	348
Net domestic assets	**49,654**	**50,850**	**50,919**	**53,186**	**50,830**	**53,083**	**53,252**	**54,422**	**55,375**
Credit to the nonfinancial public sector 1/	21,159	21,258	21,022	21,261	20,616	20,566	20,267	20,255	20,616
Credit to the private sector	25,609	26,409	27,210	28,327	27,131	29,433	29,902	31,084	31,676
In gourdes	13,000	12,802	13,130	14,056	13,135	14,521	14,826	15,427	15,669
In foreign currency	12,609	13,607	14,081	14,271	13,996	14,913	15,077	15,656	16,007
In millions of U.S. dollars	293	319	353	335	358	379	383	397	405
Other	2,886	3,183	2,687	3,599	3,083	3,083	3,083	3,083	3,083
Broad money	**68,290**	**72,513**	**73,636**	**74,614**	**74,508**	**76,759**	**77,990**	**79,798**	**82,259**
Currency in circulation	10,547	11,195	11,160	11,251	11,164	12,615	11,857	11,893	12,156
Gourde deposits	28,292	29,782	30,425	30,384	30,856	31,071	32,055	32,823	33,595
Foreign currency deposits	29,451	31,536	32,051	32,979	32,488	33,073	34,078	35,083	36,508
In millions of U.S. dollars	684	739	804	768	830	844	868	892	926
					(Percentage change relative to broad money in September of the preceding fiscal year)				
Net foreign assets	10.5	4.4	6.0	4.1	7.4	7.4	8.9	9.9	4.3
Net domestic assets	9.8	1.8	1.9	5.2	1.7	5.0	5.3	7.0	6.1
Credit to the nonfinancial public sector 2/	0.1	0.1	-0.2	0.1	-0.8	-0.9	-1.3	-1.3	0.0
Credit to the private sector	7.9	1.2	2.3	4.0	2.2	5.6	6.3	8.0	6.1
					(12-month percentage change)				
Broad money	20.3	15.3	13.0	9.3	9.1	8.5	7.6	8.4	10.4
Currency in circulation	21.4	12.4	13.1	6.7	5.9	3.2	5.9	6.6	8.9
Base money 3/	0.6	-1.0	8.3	10.0	5.5	7.0	6.2	8.7	9.9
Gourde deposits	9.6	7.9	7.4	7.4	9.1	9.9	7.6	7.9	8.9
Foreign currency deposits (US dollars)	32.4	24.5	19.1	12.3	21.3	19.9	17.5	10.9	11.5
Credit to the nonfinancial public sector 2/	0.3	1.6	-3.7	0.5	-2.6	-5.2	-4.7	-3.7	0.0
Credit to the private sector	21.1	17.9	14.3	10.6	5.9	10.7	13.2	14.2	16.8
Credit in gourdes	19.3	6.5	2.8	8.1	1.0	9.2	15.8	17.5	19.3
Credit in foreign currency (US dollars)	23.0	17.4	27.7	14.3	22.0	22.6	20.2	12.4	13.4
Memorandum items:									
Share in foreign currency (in percent)									
Bank deposits	51.0	51.4	51.3	52.0	51.3	51.6	51.5	51.7	52.1
Credit to the private sector	49.2	51.5	51.7	50.4	51.6	50.7	50.4	50.4	50.5

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

1/ Includes commercial banks' foreign currency deposits.
For program monitoring, they are excluded from net international reserves.

2/ Excludes special accounts.

3/ Excl. troubled bank recapitalization by the BRH, estimates of base money growth would be 9.7 and 8.6 percent, at end-Sept FY2006 and FY 2007, respectively.

Table 5. Haiti: Balance of Payments

(Fiscal year ending September 30, in millions of U.S. dollars; unless otherwise indicated)

	2005	2006	2007	2008	2009
		Est.		Proj.	
Current account deficit (-) (excluding grants)	**-273.2**	**-357.5**	**-498.7**	**-458.1**	**-480.2**
Trade balance (deficit -)	-849.6	-1,030.3	-1,200.9	-1,242.6	-1,310.2
Exports, f.o.b.	458.85	481.9	531.6	584.9	623.8
of which: Assembly industry exports	396.8	418.7	463.7	509.9	544.6
Imports, f.o.b.	-1,308.5	-1,512.2	-1,732.4	-1,827.4	-1,934.0
of which: Petroleum products	-313.5	-400.7	-436.8	-446.2	-457.2
Services (net)	-313.1	-345.0	-372.4	-385.0	-405.0
Receipts	138.43	149.5	159.6	179.0	201.1
Payments	-451.5	-494.4	-532.0	-563.9	-606.1
Income (net)	-36.4	-15.5	-10.4	-2.4	4.6
of which					
Interest payments	-18.1	-19.6	-22.1	-21.1	-22.7
Private transfers (net) 1/	925.9	1,033.3	1,085.0	1,171.8	1,230.4
External grants	328.8	352.8	445.9	370.4	388.4
Current account deficit (-) (including grants)	**55.6**	**-4.7**	**-52.9**	**-87.7**	**-91.8**
Capital and financial accounts (deficit -)	**-1.5**	**89.1**	**86.6**	**23.4**	**19.6**
Public sector capital flows (net)	66.7	70.1	93.1	31.5	24.6
Loan disbursements	99.4	103.4	135.1	75.0	69.3
Amortization	-32.7	-33.2	-42.0	-43.5	-44.7
Banks (net) 2/	-75.5	-79.6	-26.5	-33.1	-35.0
Direct investment	9.5	45.0	20.0	25.0	30.0
Other 3/	-2.2	53.6	0.0	0.0	0.0
Overall balance (deficit -)	**54.1**	**84.4**	**33.7**	**-64.3**	**-72.2**
Financing	**-54.1**	**-84.4**	**-33.7**	**-61.0**	**-63.8**
Change in net international reserves (increase -) 4/	-13.0	-92.3	-49.9	-70.3	-81.4
Change in gross reserves	-22.0	-102.2	-70.4	-93.2	-104.3
Liabilities	9.0	10.0	20.5	22.9	22.9
Utilization of Fund credits, existing and prospective (net)	11.1	10.3	20.5	22.9	22.9
Purchases and loans 5/	15.6	14.8	53.4	22.9	22.9
Repayments 5/	-4.5	-4.5	-32.9	0.0	0.0
Other liabilities	-2.1	-0.3	0.0	0.0	0.0
Change in arrears (reduction -) 6/ 7/	-41.1	7.8	-44.3	0.0	0.0
Prospective rescheduling 7/	0.0	0.0	47.1	2.9	2.5
Prospective HIPC debt relief	..	..	13.3	6.5	15.1
Financing gap	**0.0**	**0.0**	**0.0**	**125.3**	**136.0**
Memorandum items:					
Current account balance, excluding grants (in percent of GDP)	-6.3	-7.5	-9.5	-8.0	-7.9
Current account balance, including grants (in percent of GDP)	1.3	-0.1	-1.0	-1.5	-1.5
Exports (f.o.b) growth	21.5	5.0	10.3	10.0	6.6
Import (f.o.b) growth	8.0	15.6	14.6	5.5	5.8
External debt as percent of exports 8/	223.7	220.8	205.5	201.3	200.3
NPV of external debt as percent of exports	149.9	147.1	137.1	117.2	117.8
Debt service as percent of exports	8.5	8.4	9.3	8.4	8.2
Gross liquid international reserves (US$ million) 4/	228.5	330.8	401.2	494.3	598.6
Gross liquid international reserves (in months of next year's imports of goods and services) 4/	1.4	1.8	2.0	2.3	2.6

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

1/ Based on remittances transferred through authorized "transfer houses" and the BRH, estimates of such transfers channeled through other means.
2/ Excludes commercial banks' foreign currency deposits with the BRH.
3/ Includes short-term capital and errors and omissions.
4/ Includes commercial banks' foreign currency deposits with the BRH.
5/ Including the prospective PRGF arrangement, and assuming an upfront disbursement equivalent to 25 percent of quota to repay the less concessional purchase outstanding under EPCA.
6/ Arrears accumulation in 2005-06 reflects an informal deferral of debt service to France, Italy and Spain granted until an IMF arrangement is in plac
7/ Assuming traditional debt relief from bilateral creditors, with rescheduling of arrears and debt service on pre-cut off date debt to bilateral creditors.
8/ External debt could decline to about 118 percent of exports at the expected completion point in 2008 as a result of irrevocable HIPC debt relief, debt relief under the MDRI, and additional assistance beyond HIPC from Paris Club creditors.

Table 6. Haiti: Medium-Term Scenario
Fiscal year ending September 30

	2001	2002	2003	2004	2005	2006	2007	2008	2009
						Est.		Proj.	
Real sector (annual percentage rate)									
Real GDP growth	-1.0	-0.3	0.4	-3.5	1.8	2.5	4.0	4.0	4.0
Inflation (CPI end-of-period)	11.5	11.4	37.8	21.7	14.8	12.4	9.0	8.0	7.0
Fiscal sector (in percent of GDP)									
Central government overall balance (incl. grants)	-2.4	-3.0	-3.5	-2.4	-0.7	-1.4	-1.9	-2.9	-2.9
Total revenue and grants	8.0	8.4	9.1	10.2	13.2	13.6	15.5	14.6	15.0
Central government revenue	7.6	8.3	9.0	8.9	9.7	10.2	9.9	10.4	10.9
Central government expenditure	10.4	11.5	12.6	12.6	13.8	15.0	17.4	17.5	18.0
Domestic financing	2.6	2.7	2.9	2.0	0.0	-0.2	-0.1	0.0	0.0
External financing 1/	-0.2	0.3	0.6	0.4	0.7	1.6	2.1	2.9	2.9
Monetary sector									
Growth in broad money	5.2	17.2	39.8	9.1	20.3	9.1	10.4	12.3	11.5
External sector (in percent of GDP)									
Trade balance	-20.9	-20.4	-26.4	-23.6	-19.7	-21.8	-22.9	-21.7	-21.6
Services (net)	-3.0	-2.7	-5.6	-5.8	-7.3	-7.3	-7.1	-6.7	-6.7
Income (net)	0.0	-0.4	-0.5	-0.4	-0.8	-0.3	-0.2	0.0	0.1
Private transfers (net)	17.3	18.7	26.4	25.2	21.5	21.8	20.7	20.5	20.3
External grants	4.5	3.9	4.6	3.2	7.6	7.4	8.5	6.5	6.4
Current account (incl. official transfers)	-2.0	-1.0	-1.5	-1.3	1.3	-0.1	-1.0	-1.5	-1.5
Current account (excl. official transfers)	-6.5	-4.8	-6.1	-4.5	-6.3	-7.5	-9.5	-8.0	-7.9
External financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.2	2.2
Of which : Central government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.2	2.2
Liquid gross reserves (in millions of U.S. dollars)	227.3	177.7	157.1	207.4	228.5	330.8	401.2	494.3	598.6
In months of imports of the following year	2.2	1.5	1.2	1.4	1.4	1.8	2.0	2.3	2.6
Memorandum Items:									
Nominal GDP (millions of gourdes)	85,700	94,028	119,758	140,387	168,034	196,266	220,594	247,766	276,403
Nominal GDP (millions of dollars)	3,596	3,472	2,960	3,538	4,310	4,736	5,252	5,727	6,057

Sources: Haitian authorities; and Fund staff estimates.

1/ Including prospective rescheduling, HIPC relief, and unidentified financing.

Table 7. Haiti: Indicators of Fund Credit, 2004–2009 1/

(In fiscal year ending September 30)

	2004	2005	2006	2007	2008	2009
Outstanding Fund credit, existing and prospective						
In millions of SDRs	7.6	14.8	22.0	35.7	50.9	66.1
In millions of gourdes	446.1	852	1,363	2,243	3,211	4,183
In percent of quota	9.3	18.0	26.9	43.6	62.1	80.7
In percent of GDP	0.3	0.5	0.7	1.0	1.3	1.5
In percent of exports of goods and services	2.2	3.7	5.1	7.7	10.0	12.1
Debt service to the Fund 2/ 3/ 4/						
In millions of SDRs	5.0	3.3	3.9	22.3	0.4	0.5
In millions of gourdes	293.6	188.1	241.3	1,402.7	29.2	36
In percent of quota	6.1	4.0	4.8	27.2	0.5	0.6
In percent of GDP	0.2	0.1	0.1	0.6	0.0	0.0
In percent of exports of goods and services	1.5	0.8	0.9	4.8	0.1	0.1
In percent of debt service due	16.0	9.5	11.0	52.1	1.1	1.2
In percent of net international reserves	13.6	6.8	4.6	21.4	0.3	0.3
			(In millions of SDRs)			
Net use of Fund credit	-4.9	7.2	7.2	13.7	15.2	15.2
Disbursements	0.0	10.2	10.2	35.7	15.2	15.2
Repayments	4.9	3.0	3.0	22.0	0.0	0.0

Sources: IMF, Finance Department, and staff projections.

1/ Includes the prospective drawing under the PRGF, with replacement of amounts outstanding under the EPCA.
2/ Debt service to the Fund in 2007 includes the repayment using PRGF disbursements of amounts outstanding under the EPCA.
3/ Including SDR charges.
4/ After subsidization of GRA charges.

Table 8. Haiti: Stock of Arrears and Projected Debt Service, 2000–2006 1/
(Fiscal year ending September 30, in millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006 Prel.
Total arrears	6.0	17.8	50.9	52.1	79.0	35.4	44.3
Multilateral Creditors	2.1	11.2	39.0	33.3	49.2	0.0	0.0
IDB	0.2	4.0	19.6	0.0	0.0	0.0	0.0
IDA-WORLD BANK	0.8	6.1	19.0	32.4	49.2	0.0	0.0
IMF	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other (OPEC and FIDA)	0.9	1.1	0.4	0.9	0.0	0.0	0.0
Bilateral Creditors	3.9	6.6	11.9	18.8	29.8	35.4	44.3
US	0.5	0.7	0.8	0.6	0.0	0.0	0.0
Mexico (PEMEX)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Venezuela (FIV)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Canada (Wheat Board)	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Taiwan	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Argentina	0.0	0.0	0.0	0.0	0.0	0.0	0.0
France	2.1	3.3	6.1	10.8	19.8	23.3	29.9
Italy (SACE)	0.6	1.3	3.3	4.7	6.2	7.8	9.3
Spain (CESCE)	0.6	1.3	1.6	2.7	3.9	4.3	5.1
ICDF (CHINE)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Projected debt service	...	...	...	...	...	...	63.9
Multilateral creditors	...	...	...	...	...	...	53.3
IDB	...	...	...	...	...	...	27.0
IDA-WORLD BANK	...	...	...	...	...	...	17.3
IMF	...	...	...	...	...	...	6.0
Other (OPEC and FIDA)	...	...	...	...	...	...	3.1
Bilateral Creditors	...	...	...	...	...	...	10.6

Sources: BRH; and staff projections

1/ Arrears accumulation in 2005 and 2006 reflects an informal deferral of debt service to France Italy, and Spain granted in early 2005 (until a PRGF is in place).

Table 9. Haiti: Donor Pledges 2006–07
(In millions of US dollars) 1/

	Donor pledges 2/	Of which: Budget support
Donor support	707.3	77.7
Bilateral	390.7	17.5
Canada	107.2	0.0
France	28.8	5.0
United States	192.5	10.0
Spain	25.3	2.5
Other	37.0	0.0
Multilateral	316.6	60.2
European Union	58.1	25.2
IDB	150.0	25.0
World Bank	61.0	10.0
IMF	23.0	0.0
Other	24.5	0.0

Sources: Donors; and staff estimates and projections.

1/ Excluding humanitarian relief and financing of the United Nations contingent in Haiti.
2/ Pledged at the July 2006 donor conference in Port-au-Prince.

Table 10. Haiti: Budgetary Financing, by Donor and Type 1/
(In millions of US dollars)

	Cash Budget Support (A)				Debt Service Payments (B)				Paris Club (C)	HIPC (D)	Net Transfers Cash Basis (A+C+D-B)				Project Loans and Grants (E)				Net Overall Transfers (A+C+D+E-B)			
	2004/05	2005/06 Proj.	2006/07 Proj.	2004-07	2004/05	2005/06 Proj.	2006/07 Proj.	2004-07	2006/07 Proj.	2006/07 Proj.	2004/05	2005/06 Proj.	2006/07 Proj.	2004-07	2004/05	2005/06 Proj.	2006/07	2004-07	2004/05	2005/06	2006/07 Proj.	2004-07
Bilateral and multilateral	136.6	57.7	100.9	295.2	104.2	58.0	64.0	226.2	2.9	13.3	32.4	-0.3	53.0	85.1	122.2	193.8	324.3	640.4	154.6	193.6	377.4	725.5
Bilateral creditors	50.5	32.8	23.2	106.6	10.3	10.6	10.0	31.0	2.9	3.8	40.2	22.2	19.9	82.3	57.4	85.6	178.9	321.9	97.6	107.8	198.8	404.2
Canada 2/	12.7	15.3	0.0	28.0	0.1	0.1	0.1	0.3	0.0	0.0	12.6	15.2	-0.1	27.7	17.6	50.4	75.8	143.8	30.2	65.7	75.7	171.5
France 3/	5.6	5.8	3.8	15.2	4.8	4.6	3.7	13.1	2.0	1.0	0.8	1.2	3.1	5.0	9.5	0.9	19.2	29.5	10.2	2.0	22.3	34.6
United States	30.4	7.0	10.0	47.4	1.0	1.0	1.2	3.2	0.6	0.3	29.4	6.0	9.7	45.1	9.0	16.7	51.3	77.1	38.4	22.7	61.1	122.2
Taiwan	0.0	0.0	0.0	0.0	2.6	2.6	2.7	7.9	0.0	0.4	-2.6	-2.6	-2.3	-7.5	14.5	15.2	10.0	39.7	11.9	12.6	7.7	32.2
Others 3/	1.8	4.7	9.4	16.0	1.8	2.3	2.2	6.4	0.3	2.0	0.0	2.4	9.5	11.9	6.8	2.4	22.6	31.8	6.8	4.8	32.1	43.7
Multilateral creditors	86.1	24.8	77.7	188.6	93.9	47.3	54.0	195.2	0.0	9.4	-7.8	-22.5	33.1	2.8	64.8	108.2	145.4	318.5	57.0	85.7	178.5	321.3
IDB	39.3	10.0	29.9	79.1	21.6	27.0	32.7	81.3	0.0	2.7	17.6	-17.0	-0.1	0.6	28.3	72.7	99.7	200.7	45.9	55.8	99.6	201.2
EU	0.0	0.0	37.8	37.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	37.8	37.8	29.1	22.9	21.0	73.0	29.1	22.9	58.9	110.8
World Bank 4/	46.8	14.8	10.0	71.7	69.2	17.3	18.6	105.1	0.0	6.7	-22.4	-2.5	-1.9	-26.7	4.4	9.6	21.7	35.7	-17.9	7.1	19.8	9.0
of which																						
Arrears clearance	46.8	0.0	0.0	46.8	52.6	0.0	0.0	52.6	0.0	0.0	-5.8	0.0	0.0	-5.8								
Other	0.0	14.8	10.0	24.8	16.6	17.3	18.6	52.5	0.0	6.7	-16.6	-2.5	-1.9	-21.0								
Other	0.0	0.0	0.0	0.0	3.0	3.1	2.7	8.8	0.0	0.0	-3.0	-3.1	-2.7	-8.8	3.1	3.0	3.0	9.1	0.0	-0.1	0.3	0.2
Memorandum item:																						
IMF	15.6	14.8	53.4	83.8	4.8	6.0	33.4	44.1	0.0	0.1	10.8	8.8	20.1	39.8	0.0	0.0	0.0	0.0	10.8	8.8	20.1	39.8

Sources: Haitian authorities; and Fund staff estimates.

1/ In fiscal years (October- September), unless otherwise noted; excludes humanitarian assistance.
2/ Includes funds for clearance of arrears to the World Bank.
3/ Includes informal deferral of debt service to France, Italy, and Spain granted in early 2005 (until a PRGF program is in place).
4/ Disbursements consist of 60 percent concessional loans and 40 percent grants in 2004/05 and 2005/06, and 100 percent grants in 2006/07.

Table 11. Haiti: Millennium Development Goals

With selected targets to achieve between 1990 and 2015 estimate closest to date shown, +/- 2 years

	1990	1995	2000	2004
Goal 1: halve the rate for $1 a day (PP, % of population				
Poverty headcount ratio at national poverty line (% of population	...	...	53.9	...
Poverty headcount ratio at national poverty line (% of population)	...	...	...	78.0
Share of income or consumption to the poorest qunitile (%)	...	...	2.4	...
Prevalence of malnutrition (% of children under 5)	27	28	17	...
Goal 2: ensure that children are ale to complete primary schooling				
Primary school enrollment (net, %)	22	...	...	...
Primary completion rate (% of relevant age group)	28	...	...	...
Secondary school enrollment (gross, %)	21	...	...	...
Youth literacy rate (% of people ages 15-24)	55	...	...	...
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	95	...	...	...
Women employed in the nonagricultural sector (% of nonagricultural employment	40	...	...	...
Proportion of seats held by women in national parliament (%)	...	4.0	4.0	4.0
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	150	137	125	117
Infant mortality rate (per 1,000 live births)	102	91	81	74
Measles immunization (proportion of one-year olds immunized, %)	31	49	54	54
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	680	...
Births attended by skilled health staff (% of total)	23	20	24	...
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	...	...	...	3.8
Contraceptive prevalence (% of women, ages 15-49)	11	18	27	...
Incidence of tuberculosis (per 100,000 people)	484	...	...	306
Tuberculosis cases detected under DOTS (%)	...	2	22	49
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	47	...	...	54
Access to improved sanitation facilities (% of population)	24	...	...	30
Forest area (% of total land area)	4.2	...	4.0	3.8
Nationality protected areas (% of total land area)	...	...	...	0.4
CO2 emissions (metric tons per capital)	0.1	0.1	0.2	0.2
GDP per unit energy use (constant 2,000 PPP $ per kg of oil equivalent)	10.4	7.3	7.0	6.3
Goal 8: develop a global partnership for development				
Fixed line and mobile phone subscribers (per 1,000 people)	7.0	8.0	16	64
Internet users (per 1,000 people)	0.0	0.0	3.0	59
Personal computers (per 1,000 people)	...	...	...	...
Youth unemployment (% of total labor force ages 15-24	24	...	17	...

Source: World Bank

Table 12. Haiti: Proposed Schedule of Disbursements Under the
the PRGF arrangement, 2006–2009

Amount	Date	Conditions for Disbursement 1/
SDR 28,100,000	November 20, 2006	Executive Board approval of the three-year arrangement under the PRGF. Includes 25% of quota in access for repayment of EPCA purchases
SDR 7,600,000	May 15, 2007	Observance of performance criteria for March 2007 and completion of the first review under the PRGF arrangement.
SDR 7,600,000	November 15, 2007	Observance of performance criteria for September 2007 and completion of the second review under the PRGF arrangeme
SDR 7,600,000	May 15, 2008	Observance of performance criteria for March 2008 and completion of the third review under the PRGF arrangement.
SDR 7,600,000	November 15, 2008	Observance of performance criteria for September 2008 and completion of the fourth review under the PRGF arrangemen
SDR 7,600,000	May 15, 2009	Observance of performance criteria for March 2009 and completion of the fifth review under the PRGF arrangement.
SDR 7,610,000	November 15, 2009	Observance of performance criteria for September 2009 and completion of the sixth review under the PRGF arrangement.

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

Table 13. Haiti: Indicators of External Vulnerability

(Units as indicated)

	2004	2005	2006	2007	2008	2009
		Prel.		Proj.		
Debt indicators						
Total external public debt (in percent of GDP)	38.3	31.0	29.5	27.0	26.9	27.3
Total external public debt (in percent of exports 1/)	265.4	223.7	220.8	205.5	201.3	200.3
External debt service (in percent of GDP)	1.3	1.2	1.1	1.2	1.1	1.1
Amortization	0.8	0.8	0.7	0.8	0.8	0.7
Interest	0.5	0.4	0.4	0.4	0.4	0.4
External debt service (in percent of exports 1/)	9.1	8.5	8.4	9.3	8.4	8.0
Amortization	5.6	5.5	5.3	6.1	5.7	5.4
Interest	3.5	3.0	3.1	3.2	2.7	2.6
External debt service (in percent of current central governme	13.7	13.4	10.3	12.3	11.0	10.2
Amortization	8.5	8.7	6.5	8.0	7.5	6.9
Interest	5.2	4.8	3.8	4.2	3.5	3.3
Other indicators						
Exports (percent change, 12-month basis in U.S. dollars)	13.4	21.5	5.0	10.3	10.0	6.6
Imports (percent change, 12-month basis in U.S. dollars)	8.6	8.0	15.6	14.6	5.5	5.8
Remittances and grants in percent of gross disposable incom	22.8	24.1	24.1	24.2	22.4	22.2
Real effective exchange rate appreciation (+) (end of period)	32.4	-5.7	...	...	...	...
Exchange rate (per U.S. dollar, period average)	39.7	39.0	...	...	...	...
Current account balance (US$ million) 2/	-46.1	55.6	-4.7	-52.9	-87.7	-91.8
Capital and financial account balance (US$ million)	78.8	-1.5	89.1	86.6	23.4	19.6
Public sector	-6.0	66.7	70.1	93.1	31.5	24.6
Private sector 3/	84.8	-68.2	18.9	-6.5	-8.1	-5.0
Liquid gross reserves (US$ million)	207.4	228.5	330.8	401.2	494.3	598.6
In months of imports of the following year 1/	1.4	1.4	1.8	2.0	2.3	2.6
In percent of debt service due in the following year	408	433	516	629	748	867
In percent of base money	35.0	44.8	55.9	66.2	77.8	88.5

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

1/ Goods and services.
2/ Including grants.
3/ Includes short-term capital, errors and omissions.

SUMMARY OF ANNEXES

Fund relations

Haiti's current outstanding obligations to the Fund are SDR 22.0 million, mostly on account of two Emergency Post-Conflict Assistance (EPCA) disbursements in January and October 2005. Haiti's exchange rate regime is a managed float with no predetermined path for the exchange rate. The central bank is in the process of implementing measures to address the vulnerabilities identified in the 2006 updated Safeguards assessment. The last article IV consultation was concluded by the Executive Board on May 16, 2005 (IMF Country Report No. 05/404).

Relations with the World Bank Group[1]

As part of the Interim Cooperation Framework (ICF) between the transition government and donors, the Bank pledged US$147 million out of a total of US$1.1 billion. Since July 2004, the Bank's disbursements have amounted to US$71 million. In a follow-up donor's conference on July 25, 2006, the Bank pledged US$61 million for FY2007 out of US$751 million. A Transitional Support Strategy (TSS) was prepared in early 2004. The Bank is involved mainly in such areas as institutional capacity strengthening, governance reforms, community driven development, education, or water and sanitation.

Relations with the Inter-American Development Bank[2]

As part of the ICF, the IDB pledged $525 million, of which US$122 million have been disbursed. At the July 2006 donor conference, the Bank pledged US$150 million in additional assistance with the possibility of reaching up to US$225 million for the next 18 months. The IDB is involved mainly in public finance reform, road rehabilitation, agriculture, education, or local development projects.

Statistical Issues

Haiti is currently discussing its participation to the General Data Dissemination System. While data provision is broadly adequate for program purpose, there is a need to improve the timeliness and accurate reporting of statistics. Further work is required to extend the coverage of government finance statistics. Reporting requirements for commercial banks need to be improved to strengthen central bank supervision.

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[1] Adapted from text prepared by the staff of the World Bank in September, 2006.

[2] Adapted from text prepared by the staff of the IDB in September, 2006

Port-au-Prince
November 3, 2006

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

Dear Mr. de Rato:

1. Over the past two years, Haiti has implemented macroeconomic policies supported by the IMF's Emergency Post-Conflict Assistance (EPCA) that helped stabilize the economy and has carried out a reform program that contributed to improved fiscal discipline, lower inflation, and transparency. Our aim is to work together with the IMF and the rest of the international community to bring a much hoped-for new beginning for Haiti. Our ultimate objective is to boost growth on a sustainable basis, including through renewed private sector confidence and investment, as a means for improving living conditions and substantially reducing poverty in our country. We believe that the policies implemented to date and the program outlined in the attached memorandum provide a sound basis for our request for a PRGF arrangement and the decision point under the enhanced HIPC Initiative.

2. The new program (October 2006–September 2009) for which we are requesting support under a PRGF arrangement will provide a macroeconomic anchor for the needed intensive involvement of the international community in this effort. The attached Memorandum of Economic and Financial Policies outlines the medium-term and first year objectives of Haiti's proposed program to be supported by the PRGF. Our program seeks to strengthen fiscal revenues to support more public investment and higher poverty-reducing expenditures; reduce inflation to low single digit levels; strengthen banking stability; and lay the groundwork for stronger economic growth based on private sector investment.

3. Concurrent with approval of a new PRGF arrangement, we are also requesting approval of the IMF and World Bank Executive Boards of Haiti's decision point under the enhanced HIPC Initiative. The PRGF-supported program will provide a framework for meeting a number of the triggers needed to reach the completion point of the Initiative. We are committed to use debt relief obtained under the HIPC Initiative to boost expenditures for poverty reduction.

4. In order to facilitate the implementation of our program and address the vulnerable balance of payments position, the Government of Haiti requests assistance under the IMF's Poverty Reduction and Growth Facility in the amount of SDR 73.71 million, or 90 percent of

its quota, to be disbursed over three years. Approval of this request would result in a disbursement of SDR 28.1 million, of which SDR 20.475 million will be used for an early repurchase of past purchases under the ECPA.

5. 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.

6. In line with our commitment to transparency in government operations, we agree to the publication of PRGF and HIPC-related documents circulated to the IMF Executive Board.

Sincerely yours,

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

Attachments

ATTACHMENT I—HAITI: MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES FOR FISCAL YEAR 2006–07

I. INTRODUCTION

1. Haiti is facing a historical challenge of generating sustainable economic growth that should lead to lasting improvements in the living conditions of its people. The political instability of the past two decades and the recurring security problems experienced over the past three years have contributed to low growth and worsening poverty. Haiti's social indicators, which are well below the regional averages, reflect these trends: real per capita GDP has declined by 2 percent a year on average during the period, the illiteracy rate remains high despite the efforts made to raise enrollment ratios, and access to health care, education, potable water, and electricity is very limited. Restoring growth and reducing poverty are thus among the most important tasks ahead that will require substantial efforts on our part and on the part of the international community. The reconstruction of infrastructures and the strengthening of public institutions are equally important prerequisites for resuming economic growth, improving the quality of services necessary for raising living standards, and increasing the productivity of the economy.

2. The successful presidential and parliamentary elections held earlier this year have provided our government with a strong mandate to move forward with an ambitious reform agenda to modernize the state, restore security, combat corruption, and create conditions conducive to sustainable economic growth driven by private sector investment. We intend to build on the results obtained by the transition government in the area of stabilizing the economy and improving governance and transparency in public sector operations.

3. The government's economic and social policies will be formulated in the Poverty Reduction Strategy Paper (PRSP) that will present the principal objectives to be achieved and the various activities to be undertaken in the medium term. The Interim PRSP (I-PRSP) sets out the key components of this program that will be the subject of broad consultations with parliament, civil society, and the international partners. We intend to conclude this process at the end of the first half of fiscal year 2006–07. A three-year program supported by the IMF under the Poverty Reduction and Growth Facility (PRGF) will provide a macroeconomic anchor, critical for our strategy.

II. Recent Developments

4. During 2004–06, macroeconomic stability was significantly strengthened (see Table), and the programs supported by Emergency Post-Conflict Assistance (EPCA) have been largely on track. The cost of the destruction from the shocks experienced in 2004 (political turmoil and severe floods) has been estimated at about 5.5 percent of GDP. Those shocks contributed considerably to the 3.5 percent decline in GDP in 2004. As a result of the measures taken to reverse this decline and improve the security climate[1] (fiscal consolidation, control of the fiscal deficit, stabilization of the exchange rate and payment of compensation to enterprises that had fallen victim to vandalism and looting), evidence of economic recovery was seen in the 1.8 percent increase in real GDP in FY2005. According to available estimates, growth of real GDP should continue at the rate of 2.5 percent in FY2006.

5. As a result of increased revenues and stronger expenditure controls, the central government overall deficit (including grants) is estimated to have been reduced from 3.5 percent to 1.4 percent of GDP between 2003 and 2006, and monetary financing of the fiscal deficit could therefore be curtailed. This substantial fiscal adjustment has contributed to significant reduction of the end-of-period inflation, which is expected to decline from 38 percent in 2003 to less than 12 percent in 2006. At the same time, net international reserves (NIR) increased between March 2004 and September 2006, from US$17.5 million to US$126 million. In terms of coverage of imports of goods and services, however, coverage of the gross international reserves rose slightly, from 1.3 months at the end of FY2003 to 1.8 months at the end of FY 2006.

6. In the past six months, economic and financial indicators have been favorable. Annual inflation continues to decline, the gourde has remained stable since June, and NIR are well above the target set under the EPCA-supported program. Total revenues have been higher than expected, which should allow execution of government expenditures largely as budgeted, despite shortfalls in disbursements of foreign assistance, without recourse to central bank financing. It is expected that key end-September 2006 quantitative benchmarks will be observed.

7. Structural measures have been taken over the past two years to correct the serious weaknesses identified in the areas of fiscal management and economic governance. These deficiencies impeded the efficient use of both domestic resources and external assistance. In the area of budget preparation and execution, the government recently took the following measures: (i) passage of a new law on budget preparation and execution, as well as a new budget classification and chart of accounts; (ii) approval of the 2005 and 2006 budgets before the start of the fiscal year as well as regular publication of information on the budget and its

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[1] In particular, in the commercial and industrial areas of the capital.

execution; (iii) preparation of the FY2006 budget according to the new budget classification; (iv) a drastic reduction of spending executed through ministerial current accounts; and (v) strengthening the external audit function through the publication of a new decree on the functioning and organization of the Supreme Audit Institution (CSCCA). Public procurement procedures were improved through: the adoption of a new decree; the creation of the National Public Procurement Commission (CNMP); the publication of government contracts; and the establishment of a supplier database. To improve financial practices and operating rules for large public enterprises, financial audits of the Ports Authority (APN), telecommunications company (TÉLÉCO), and electricity utility (Ed'H), and a rehabilitation of the accounts of TÉLÉCO and Ed'H were initiated and are largely completed. In the financial sector, the central bank (BRH) has published its financial statements for FY2004 and has already prepared the FY2005 statement, which it is preparing to publish. In addition, it has strengthened its surveillance of credit unions.

8. In addition to the results obtained over the past two years in the implementation of these structural measures, further measures were adopted and implemented over the past six months, thus strengthening the case for a PRGF-supported program. The parliament has approved a 2006/07 budget consistent with the proposed program. The government has prepared an I-PRSP and submitted it to parliament, the IMF, and the World Bank. A mechanism for monitoring subsidies to the Ed'H for electricity production has been put into place and will be operational starting October 2006. The BRH has improved its accounting methods and data reporting procedures to improve program monitoring and to strengthen the control mechanisms. For the sake of enhancing its credibility in the fight against inflation, the BRH has also prepared a note on monetary policy, aimed at informing the public about its policy formulation process. This note will be shortly published in its entirety on the BRH website.

III. PROGRAM OBJECTIVES

A. Medium-Term Strategy

9. Our program for the next three years aims at achieving annual real GDP growth of 4 percent on average (from an annual average rate of 0.3 percent for the first half of the decade), and an average inflation rate of 8.2 percent (from 14.2 percent in 2006). It also seeks to build international reserves covering 2.6 months of imports (from 1.8 months in 2006), and hold the central government overall deficit (excluding grants and externally-financed projects) to under 2 percent of GDP. In fiscal policy, our priority will be to build the capacity to collect fees and taxes, to increase poverty-reducing spending, and further improve fiscal transparency to encourage private sector investment. The BRH will conduct monetary policy so as to reduce inflation, and will at the same time strengthen banking supervision. We will pursue the reforms to improve economic governance with a view to creating conditions more

apt to stimulate economic growth. Such an approach will lead to the restoration of private investor confidence, as it will be accompanied by, on the one hand, determined efforts to improve the security climate and, on the other hand, measures aimed at building on previous gains in the area of macroeconomic stability, and facilitating investment in construction and rehabilitation of the basic infrastructure.

B. Objectives for FY 2006–07

10. The objectives of the government's program for FY 2006–07 are to attain real GDP growth of 4 percent, reduce inflation in the range of 8–9 percent (end of period), and bring NIR to US$156 million.

Fiscal policy

11. The 2006/07 budget approved by parliament at the end of September 2006 envisages an overall deficit of 1.9 percent of GDP, to be financed from external resources. On the expenditure side, priority is given to spending needed for the recovery of economic activity, notably security, job creation, provision of basic social services, energy production, and organization of local elections. We are committed to limiting government expenditure, within the framework of this budget, to the amount of revenue to be collected and external financing already identified, without recourse to BRH financing by the public treasury.

- Projected domestic revenues total G 21,944 million (10 percent of GDP), of which G 3,358 million (1.5 percent of GDP) are taxes on petroleum products. To achieve this objective, in addition to the measures aimed at strengthening the tax administration, and combating fraud, underinvoicing, and tax evasion, we are committed to implementing the following administrative and tax measures:

    a. Strengthening of the measures for surprise inspection of certain indirect taxes such as the turnover tax (TCA) and excise tax;

    b. Launching of an intensive campaign to broaden the tax base through information crosschecking and sharing with the Ministry of Economy and Finance, and certain partner administrations such as customs administration (AGD), Ministry of Commerce and Industry, etc.;

    c. Installation of the Automated Systems for Customs Data (ASYCUDA) in five provincial ports;

    d. Strengthening of the two customs control posts, situated at the entry to Port-au-Prince;

    e. Fighting against smuggling at border posts, in particular by improving their physical infrastructure and strengthening customs inspection patrols;

f. Widespread application of the procedure for filing final declarations and the requirement for the pertinent certificate to be submitted with any application made at the tax administration;

g. Circulation of new fiscal stamps for excise taxes on cigarettes and alcohol, as required by the new decree;

h. Enforcement of the latest measures described in the new decree on income tax (ISR), such as the inclusion of certain revenue sources that have been insufficiently used previously (attendance vouchers, royalties, dividends), the application of stricter sanctions, the application of the single rate of 30 percent in the calculation of corporate tax, an increase in the lump-sum tax, elimination of tax withholding, application of estimated tax withholding upon the conclusion of government contracts;

i. Strengthening of the process of auditing declarations within the framework of tax clearance applications;

j. Requirement for tax clearance as a prerequisite for all applications to the tax administration; and

k. Implementation of the new decree on vehicle registration and the delivery of new registration plates.

- Total expenditures are estimated at G 60,675 million, of which G 21,944 million will be executed using domestic resources. Current expenditure is projected to reach G 21,273 million. Of this total, it is envisaged that G 8,495 million will go to the wage bill, G 4,462 million to transfers and subsidies, of which G 1,748 million for Ed'H. To make up for civil servants' loss of purchasing power as a result of the inflation in the past two years, it is envisaged to increase their nominal wages by 17 percent. About 10.5 percent of the wage bill will be set aside for recruitment, promotion, and wage adjustments. Given the magnitude of the security problem and its impact on the confidence of economic agents, G 4,531 million will be allocated to the National Police (PNH) to enable it to increase its staffing and purchase certain materials and equipment. An additional G 125 million is envisaged for initial steps for setting up a new public security force. Domestically financed capital expenditure will be doubled, to G 3.5 billion, including spending to be executed under the program for social needs (*Programme d'apaisement social*—(PAS)). Taking into account the external financing of projects that is expected to reach G 35,883 million, capital expenditure will total G 39,383 million. The resources provided by the PetroCaribe agreement will finance capital spending and they will be managed in a transparent manner by the "Office of Monetization of Overseas Development Assistance

Programs." These amounts will be clearly identified in the budget in the same manner as external budgetary support.

12. At the end of FY 2006, we have experienced a large increase in fiscal revenues which thus reached 10.2 percent of GDP by September 2006, compared with the projections of 9.7 percent of GDP. An unexpected element of this increase, corresponding to 0.3 percent of GDP, largely reflects such factors as a strong increase in petroleum prices in the second half of the fiscal year, and a strong surge in activity in the telecommunications sector, in particular after a launch of a new mobile telephone company. One of the key objectives of the program is to maintain revenue effort (revenue/GDP), at about 10 percent, and gradually increase it in the following years. To achieve this goal, we are committed to implementing the following measures: (i) expand the use of the central taxpayer file to include all taxpayers identified in the tax centers of Delmas and la Croix-des-Bouquets; (ii) approve and implement a comprehensive customs control plan in the provinces; (iii) strengthening of the two customs checkpoints at the entry to Port-au-Prince to deter underinvoicing and combat the illegal importing of goods; (iv) submit to parliament and implement a new customs code; (v) maintain strict control over the granting of tax exemptions; (vi) continue full implementation of the flexible mechanism for setting petroleum product prices at the pump to ensure that they move in line with corresponding prices on the international market; and (vii) approve a draft strategic plan for the Internal Revenue Service (DGI). During the following fiscal year, all the amendments made to the tax legislation will be consolidated and published in a manual for use by tax collectors and taxpayers.

13. Improvement in the security situation and bring immediate relief to vulnerable areas is one of the priority objectives of the Public Investment Program for FY 2007. In that framework, a package of projects and interventions addressing social issues has been included in the budget, in particular addressing the following areas: (i) compensation for public sector employees improperly dismissed since February 2004 and payment of wage arrears to public sector employees (G 330 million); (iii) disarmament and demobilization of armed groups (G 50 million); and (iv) execution of investment projects aimed at improving the delivery of services in Haiti's 140 communes.

14. In the context of 2006–07 budget execution, we are committed to keep spending within budgetary limits, in particular by: (i) setting quarterly limits on the expenditure of each ministry; (ii) strictly limiting the use of ministerial current accounts; and (iii) continuing to publish the fiscal reporting table (TOFE) monthly and budget execution information quarterly. Consistent with the program's emphasis on poverty reduction, we will ensure that the medium-term expenditure framework is aligned with the public spending priorities identified in the I-PRSP and, eventually, in the PRSP. We will use the expenditure classification for budget preparation and execution, including for spending allocated to poverty reduction, and a quarterly report will be prepared to facilitate tracking. The tracking mechanism will permit verification whether resources released under the HIPC Initiative have been used to finance additional spending as intended.

15. Under the medium-term program, the government intends to reform comprehensively the procedures for budget preparation and execution. The MEF jointly with the BRH will implement a macroeconomic framework and budget projections for the medium-term (three-year) consistent with medium-term poverty-reducing expenditures (September 2007). Macroeconomic policy coordination will be further reinforced through the preparation of monthly liquidity projections by the Treasury and BRH for joint review, and the Ministry of Economy and Finance will implement a monthly cash plan that it will share with the BRH to improve liquidity management (March 2007). In addition, to monitor fiscal and monetary policy trends, we will establish a set of indicators monthly meetings. The government also plans to: (i) submit to parliament the draft Tax and Customs Codes to ensure uniform implementation of the existing tax laws and revision of the customs laws; (ii) prepare a plan for modernizing the information technology system of the DGI and the AGD and seek donor support to implement it; and (iii) reorganize the tax administration along functional lines, in accordance with its strategic plan.

Monetary policy

16. The BRH will strive to bring down inflation, taking into account its adverse effects on the poor and its potentially negative impact on economic growth. The monetary program for the next fiscal year envisages year-end inflation of 9 percent and an increase in NIR of US$30 million. Base money growth will be stabilized below the growth rate of nominal GDP. The program assumes that the NIR increase will be the main source of monetary expansion, with net domestic assets (as defined under the program) largely unchanged. This monetary stance will enable us to reduce the excess liquidity in the banking system and dampen inflationary expectations without an undue impact on economic recovery. To that end, the BRH will keep its key interest rate (90-day bonds) positive in real terms. The BRH remains committed to maintaining a flexible exchange rate regime.

17. To improve the transmission of monetary policy, the BRH will take action to make the weekly bond auctions more competitive. We will update the study on extending participation in the auctions to non-banking institutions, and then initiate reforms to establish auction volumes according to weekly liquidity targets, with prices to be determined according to a bidding process (currently both volumes and prices are set). We will also propose a schedule to eliminate gradually the gourde component of reserves requirements on dollar deposits; we will seek to progressively reduce the level of reserve requirements on all deposits in the following years.

18. The BRH has enhanced its accounting procedures to reduce data revision and transmission lags of final data, in line with international standards. Recommendations of the 2005 safeguards assessment will be implemented. Given the cumulative losses incurred by the central bank primarily from providing financing to the central government and its sterilization, we will prepare a plan to recapitalize the central bank. The central bank will implement a plan for a progressive elimination of its involvement in nonessential activities,

in particular those related to its participation in the management and/or shareholding of certain public enterprises and institutions (see Table 2). Moreover, we will submit to parliament a new draft law aimed particularly at increasing the independence of the central bank.

Financial Sector

19. We will make every effort to solve the problems of any bank in difficulty and intensify supervision of the banking system. We will submit to parliament a draft banking law consistent with international standards, strengthening the central bank's powers as regards corrective measures and the enforcement of prudential rules. We will request technical assistance from the IMF for updating the surveillance framework, for training the staff that are to carry out both off-site and on-site inspections. As part of the training program, we envisage participation of international experts in carrying out on-site inspections of key banks, in the context of the IDB's financial sector loan. Additional measures will be included in the program following the Financial Sector Assessment to be conducted by the IMF and World Bank in early 2007.

Other structural reforms

20. The government of Haiti is working with donors and lenders on a program to establish a viable program for the supply of electric power, which is essential for promoting economic activity and private sector investment. Rising international petroleum prices have worsened the financial problems of the state-owned electricity company, EDH, and increased pressure on the national budget. As one of key steps toward restoring its financial equilibrium, we will ensure that public institutions pay their electricity bills to the EDH, by including an expenditure line for electricity in their budget, while seeking to limit the subsidy paid to the EDH. We will also put in place a plan to increase bill payment by private consumers. The subsidy to the EDH will now be the subject of a monitoring mechanism that will be audited by an independent firm. We will also establish a bidding system for the supply of fuel to the EDH.

21. We are determined to strengthen key state institutions, improving economic governance, and continue to enhance transparency of government financial operations. In addition to improving budgetary management, public expenditure control, and public procurement practices, we will develop a strategy to streamline the functions and operations of government ministries and key public institutions. In addition, the management of public sector enterprises will be improved and their financial reports audited, and human resource management will be substantially strengthened. Successive annual audits of the general accounts of the Public Treasury by the CSCCA will be submitted to parliament and published; the financial statements of the BRH will continue to be the subject of annual audits and their results published. Our anti-corruption unit will submit for government approval a strategic plan to combat corruption.

22. We propose to publish the LOI and MEFP for this program to keep the public informed about the government's policies and objectives and to reaffirm our commitment to transparency and economic reform.

HIPC initiative and debt management

23. We have agreed with World Bank and IMF staff on a set of triggers for the floating completion point under the enhanced HIPC Initiative. Most of these triggers are in the sphere of fiscal management and economic governance, focusing on implementation of the legal and institutional framework introduced in the last two years. We have also submitted for IMF and World Bank Board endorsement the I-PRSP, which will serve as the basis for formulation of the PRSP and its participatory process. The objectives of the I-PRSP have been embedded in the 2006–07 budget as well as in the medium-term projections and the PAS. We will conduct broad consultations on the government's main objectives to be formulated in the PRSP that we will complete by the second program review.

24. We will continue to adhere to the program condition that prohibits external borrowing on nonconcessional terms and the accumulation of payment arrears on external debt. Neither the government nor the central bank will guarantee nonconcessional loans with grant element of less than 35 percent (in domestic and foreign currency). This commitment excludes guarantees for the electricity sector through letters of credit/guarantee. In addition, we will improve the management of external debt and of domestic debt denominated in foreign currency, by: (i) centralizing all information on external and domestic debt in foreign currency in a single database; (ii) reconciling MEF and BRH debt data; and (iii) publishing external debt data on the MEF website. The debt data will include information by creditor of the stock, debt service due and paid.

External financing

25. Haiti faces substantial external financing needs, as reconstruction of the economic and social infrastructure requires a large volume of critical imports, whereas our gross official reserves are low (1.8 months of imports). At the July 25, 2006 conference, donors pledged new assistance totaling US$750 million over the next fiscal year, and we agreed with them on how this assistance was to be incorporated in the budget and disbursed. Most of these commitments will help meet the projected financing requirements for imports of goods and services. We are urgently seeking additional support from donors and lenders to fully finance local and legislative elections of December 2006, and the local democratic structures which will result from them. We have received assurances from Paris Club creditors of their willingness to consider our request for debt rescheduling after the IMF Executive Board meeting. In addition, we will seek to strengthen assistance coordination with the donors and lenders.

26. However, that assistance is insufficient to achieve the targeted official gross international reserves in the program. Therefore, we are requesting from the IMF financial assistance under the PRGF for the next three fiscal years. The government of Haiti requests

approval of its program supported by that facility and access to assistance totaling SDR 73.71 million or 90 percent of its quota, to be disbursed over three years. Approval of this request is expected to result in a disbursement of SDR 28.1 million, of which SDR 20.475 million will be used for an early repurchase of the outstanding balances under the EPCA.

C. Program Monitoring

27. The first-year of a PRGF-supported program would cover the fiscal year 2006–07. The program will be monitored using the quarterly quantitative benchmarks and semi-annual quantitative and structural performance criteria presented in Tables 1 and 2. The formal test dates will be end-March and end-September. Quantitative targets are set on net international reserves and net domestic assets of the central bank; net domestic banking sector credit to the nonfinancial public sector; net central bank credit to the central government and to the entire nonfinancial public sector; base money (indicative benchmark); domestic arrears of the central government; external arrears accumulation; and nonconcessional external loans contracted or guaranteed by the central government. The definitions of these quantitative targets are provided in the attached Technical Memorandum of Understanding (TMU). Given the uncertainty of the amount and timing of disbursement of budgetary assistance, our program includes two adjusters (see TMU). Similarly, structural performance criteria are set for end-March and end-September and are listed in Table 3, including those constituting prior actions and indicative benchmarks. A monitoring committee composed of high-lever officials from the BRH and MEF and of the IMF resident representative in Haiti, will be created by end-November to monitor program implementation. We expect the first review of the program to be completed by May 15, 2007 and the second review to be completed by November 15, 2007.

28. The authorities will not impose restrictions on payments and transfers for international transactions, introduce new or intensify trade restrictions for balance of payments purposes, resort to multiple currency practices, or enter into bilateral payments agreements incorporating restrictive practices with other IMF members. Haiti will consult with the IMF periodically, in accordance with the IMF's policies on such consultations, concerning the progress made by Haiti in the implementation of policies and measures designed to address the country's balance of payments difficulties.

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

	Actual stock at	Cumulative Flows since September 2006			
	end-September 2006	Ind. target	Perf. criterion	Ind. target	Perf. criterion
		Dec 06	Mar 07	Jun 07	Sept. 07
Net central bank credit to the NFPS (in millions of gourdes)	21,153	-50	-349	-361	0
Of which:					
Central Government	21,325	-50	-349	-361	0
Rest of NFPS	-172	0	0	0	0
Net domestic banking sector credit to the nonfinancial public sector (in millions of gourdes)	20,616	-50	-349	-361	0
Net domestic assets of the central bank (in millions of gourdes) - ceiling 1/	5,884	1,027	59	-115	-273
Domestic arrears accumulation of the central government 2/	0	0	0	0	0
New contracting or guaranteeing by the central government or the BRH of nonconcessional external debt 2/ 3/ 4/ (In millions of U.S. dollars)					
Up to and including one year	0	0	0	0	0
Over one-year maturity	0	0	0	0	0
Net international reserves of central bank (in millions of U.S. dollars) - floor	126	10	15	20	30
External arrears accumulation (in millions of U.S. dollars) 2/ 5/	0	0	0	0	0
Memorandum items: 6/					
Base money growth - indicative target 7/	23,172	1,609	1,164	1,619	2,292
Government total revenue, excl. grants (in millions of gourdes) 8/	…	5,945	11,364	16,838	21,944
Government total expenditure, excl. ext-fin investment (in millions of gourdes) 8/	…	6,534	12,245	17,934	24,849

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

1/ For program monitoring purposes, NDA is defined as currency in circulation minus NIR accrual in gourde terms. Program exchange rate of G42/US$.
2/ On a continuous basis.
3/ Excludes guarantees granted to the electricity sector in the form of credit/guarantee letters.
4/ Includes foreign currency denominated debt.
5/ To all creditors except those who agreed on debt service deferral.
6/ Not program targets.
7/ Includes recapitalization operation of a commercial bank.
8/ Accumulated flows over the program period.

Table 2. Prior Actions and Structural Performance Criteria and Benchmarks, 2006/07

Measures	Date (Month-end)
1. Prior actions	
• Parliamentary approval of the 2006/07 budget in line with the program by end-September 2006 and its publication in the official journal one week before the meeting of the Executive Board to discuss the PRGF program.	Published in the Official Journal on September 29, 2006
• Complete the I-PRSP.	Formally transmitted to the IMF and World Bank on September 29, 2006
• Implement a monitoring mechanism for fiscal transfers to the Ed'H consistent with the electricity supply targets. Provide monthly data to the Minister of Economy and Finance and publish the amount of transfers on the Ministry's website.	Monthly data provided to MEF, table on transfers published on October 27, 2006
• Adoption by the BRH and MEF of a plan to deal with banking system weaknesses.	Approved on November 6, 2006
• Strengthen the consistency of the TOFE by isolating, in the calculation of monetary financing based on Table 10R, the operations of autonomous bodies (list to be defined).	The list of agencies and the balance of each for end-September was provided on October 31, 2006. Regular reporting using the Table 10R will begin for end-October.
• The BRH will establish procedures to communicate reliable data for program monitoring in line with the recommendations on safeguards.	The BRH established committees to review the data and its compilation process, and procedures for reporting of commercial banks were strengthened. These actions were confirmed on or prior to October 30, 2006.
• The BRH will prepare and adopt an action plan to ensure that the key recommendations on safeguards are implemented before the first review of the program.	The BRH provided a plan on October 30.

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

Measures	Date (Month-end)
• Submit the new draft customs code to parliament.	March 2007
• The Minister of the Economy and Finance will approve a medium-term strategic plan for the DGI, setting out the corporate vision, mission, values, goals, and objectives.	March 2007
• Based on the existing expenditure classification, adopt a mechanism for tracking expenditure allocated to poverty reduction and produce quarterly reports on these expenditures.	March 2007
• Formulate a plan for the settlement of domestic arrears.	March 2007
• Complete the payment of wage and nonwage arrears.	September 2007
• Expand the TOFE coverage by including in it the ministries' and deconcentrated agencies' own resources and related expenditure.	March 2007
• Every three months, conduct an independent confirmation audit of the mechanism for monitoring the subsidy to the Ed'H.	March 2007

ATTACHMENT II—HAITI: TECHNICAL MEMORANDUM OF UNDERSTANDING

Haiti's performance under the program (October 2006–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 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-March and end-September 2007, and the quarterly targets for end-December 2006 and end-June 2007 are indicative.

I. DEFINITIONS

A. Net BRH Credit to the Central Government

1. The change in net BRH credit to the central government is defined as, and will be measured using:[1]

   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") included in Table 10R of the BRH will be excluded from change in net domestic credit to the central government as defined above.[2]

2. Changes in any other special account (as defined in footnote 2) maintained or established at the BRH will be treated as in 1.b above.

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

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[1] The central government comprises the presidency, prime minister's office, parliament, national courts, treasury, line ministries, and 10 autonomous governmental agencies. It includes expenditures financed directly by foreign donors through ministerial accounts (comptes courants).

[2] Special accounts are gourde 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.

Ceilings for the Cumulative BRH Credit to the Central Government (In millions of gourdes)			
December 2006	March 2007	June 2007	September 2007
-50	-349	-361	0

B. Net Domestic Banking Sector Credit to the Nonfinancial Public Sector[3]

4. 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.

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

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

Ceilings for the Cumulative Net Domestic Banking Sector Credit to the Nonfinancial Public Sector (In millions of gourdes)			
December 2006	March 2007	June 2007	September 2007
-50	-349	-361	0

[3] The NFPS includes the central government, the key public enterprises (Teleco, EDH, APN, AAN, and CAMEP), and foreign-financed projects.

C. Net International Reserves[4]

7. 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); and

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

9. For definition purposes, net international reserves are the difference between the BRH's gross foreign assets (comprising gold, special drawing rights, all claims on nonresidents, and BRH claims in foreign currency on domestic financial institutions) and reserve liabilities (including liabilities to nonresidents of one-year maturity or less, use of Fund credit, and excluding trust funds). Swaps in foreign currency with domestic financial institutions and pledged or otherwise encumbered reserve assets (including foreign currency deposits of commercial banks at the BRH) are excluded from net international reserves; however, foreign exchange deposits held at the BRH for externally funded projects are included

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

Floor for Cumulative Change in Net International Reserves (In millions of dollars)			
December 2006	March 2007	June 2007	September 2007
10	15	20	30

[4] The NFPS includes the central government, the key public enterprises (Teleco, EDH, APN, AAN, and CAMEP), and foreign-financed projects.

D. Net Domestic Assets of the BRH

11. 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.

12. The program definition of net domestic assets of the BRH will use a program exchange rate of G42 per U.S. dollar for the period October 2006–September 2007.

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

Ceilings for Cumulative Change in Net Domestic Assets of the BRH (In millions of gourdes)			
December 2006	March 2007	June 2007	September 2007
1027	59	-115	-273

E. Nonconcessional External and Foreign-Currency Denominated Debt

14. 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).

15. 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 its initial disbursement, 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).

16. 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.

17. 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

18. 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). The use of current accounts will be measured on a cumulative basis for each quarter during the fiscal year.

G. Arrears

19. 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.

20. 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

21. 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).

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

II. Quarterly Adjustments

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

A. Adjustment for Domestic Arrears Accumulation

24. 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 Program External Financing

25. 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 the assumed flow of net external financing, defined as disbursements of cash budgetary assistance, exceptional financing (including rescheduled principal and interest) and debt relief minus debt service. The adjuster will be calculated on a cumulative basis from October 1, 2006.

26. If during October 2006–September 2007 actual net external financing exceeds net programmed total external financing by more than US$5 million, the ceiling on net BRH credit to the government and of the public sector and on BRH net domestic assets will be adjusted downward, and the floor on NIR will be adjusted upward, by the amount of the difference between actual and programmed external financing in excess of US$5 million, converted into gourdes at the program exchange rate.

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$20 million. Future disbursements under PetroCaribe to finance projects included in the domestic public investment program are not subject to this adjuster.

28. The adjuster will be calculated on a cumulative basis from October 1, 2006.

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

	December 2006	March 2007	June 2007	September 2007
Program net disbursements	9.9	20.7	22.1	52.9

III. Draft Banking Law

29. Submit to Parliament a draft banking law in accordance with Basel Core Principles. At a minimum, the draft law shall: (i) determine clear procedures and criteria for processing applications for bank licensing; (ii) grant the BRH enforceable powers to refuse the initial or downstream acquisition of significant ownership holdings in banks if the solvency and integrity of the acquirers is not sufficiently documented; (iii) determine basic standards of bank governance and give the BRH veto powers for the appointment of board members and key managers; (iv) determine minimum capital adequacy requirements in accordance with Basel I principles while leaving flexibility for upgrading to Basel II standards; (v) provide limits on large exposures and connected lending; (vi) provide for adequate supervision of financial conglomerates on a consolidated basis; (vii) determine basic risk management standards and limits; (viii) provide the BRH with a set of specific measures for applying prompt corrective action according to the seriousness of capital insufficiency or other bank weaknesses or unsound banking practices; (ix) provide the BRH with adequate powers and legal protection for regulating and supervising bank operations; and (x) establish a framework that allows the BRH to impose reorganization and liquidation measures on banks in a timely and forceful way.

IV. Provision of Information to IMF Staff

30. 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

31. *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.

These data will be reported with maximum two-day lag.

B. Weekly

32. *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.

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

34. These data will be reported with maximum five-day lag (four-week final).

C. Monthly

35. Table 10 R and Table 20 R.

36. Table on the "comptes courants."

37. Table "trésorerie de devises."

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 06/258
FOR IMMEDIATE RELEASE
November 20, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$109.5 Million PRGF Arrangement for Haiti

The Executive Board of the International Monetary Fund (IMF) approved today a three-year arrangement for Haiti under the Poverty Reduction and Growth Facility (PRGF) in a total amount equivalent to SDR73.7 million (about US$109.5 million) to support the government's economic program. An initial disbursement of SDR 28.1 million (about US$41.7 million) will become available immediately. The Haitian authorities announced their intention to use SDR20.5 million (about US$30.4 million) of the first disbursement to repay outstanding credit drawn under the Fund's Emergency Post-Conflict Assistance (see Press Release 05/234).

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

"Haiti has made an important start in its transition away from political and economic instability. Under two successive programs supported by the Fund's Emergency Post-Conflict Assistance, the authorities were able to restore macroeconomic stability through fiscal discipline and improved economic governance. As a result, economic growth resumed, the currency stabilized, inflation was halved, and international reserves were significantly increased. Following successful presidential and parliamentary elections in the first half of this year, the new authorities have made concerted efforts to maintain macroeconomic stability, improve security, and develop home-grown strategies to increase growth and improve living conditions for the poor.

"The new PRGF-supported program will focus on consolidating these gains through actions to increase fiscal revenues, improve public financial management, make public enterprise operations more transparent, and reform the financial sector. An anchor of macroeconomic stability is the pledge to continue zero central bank financing of the budget. The FY2007 budget allows for a significant reorientation of spending to social services and domestically-financed public investment.

"The program calls for a further reduction in inflation and continued steady increase of international reserves. To achieve this, the authorities' program targets growth in base money to a rate lower than that of nominal GDP, and the central bank (BRH) will maintain its key policy interest rate positive in real terms. The steps taken by the BRH to stabilize weak banks should facilitate further efforts to strengthen the banking sector.

“The recently prepared Interim Poverty Reduction Strategy Paper (I-PRSP) is comprehensive and ambitious, yet realistic. Implementation of the I-PRSP and the PRGF-supported macroeconomic program should provide Haiti a basis for sustained investment-led growth, and increased poverty-related spending. Especially important, however, will be the continued involvement of the international community in providing predictable aid, which should be well coordinated with national budget priorities, in support of Haiti’s development strategy.

“A final decision on Haiti's debt relief under the enhanced HIPC Initiative is pending action this week by the World Bank's Executive Board. A press release will be issued jointly with the Bank following those deliberations,” Mr. Kato said.

Statement by Eduardo Loyo, Executive Director for Haiti and Ketleen Florestal, Advisor to Executive Director November 20, 2006

1. On behalf of our Haitian authorities, we thank staff, Management and the Executive Board for the continued support provided to Haiti, including technical assistance, throughout the past two years. Lots of hard work and fruitful dialogue between the authorities and the IMF and the World Bank have gone into the preparation of the PRGF, HIPC Initiative Decision Point and Interim PRSP documents. They mark an important achievement and are a testimony to the effective engagement of the international community in Haiti since 2004. Nevertheless, as all parties are fully aware, even more daunting challenges lie ahead.

2. By requesting a PRGF arrangement and approval of the decision point under the HIPC Initiative, the Government of Haiti is reiterating its strong commitment to sound macroeconomic management, promotion of sustainable growth, and poverty reduction. Between 2004 and 2006, the economy has been stabilized and a good track record of macroeconomic management has been established with the successful implementation of two EPCA programs. With support from multilateral and bilateral donors, reforms were undertaken to strengthen economic governance, particularly the financial management capacity of the public sector. The improvements already obtained in budget preparation and execution, public procurement, and the financial practices of the public enterprises deserve emphasis. Examples include the avoidance of central bank financing of budget deficits, the substantial reduction of the use of current accounts in the execution of public expenditures, the reestablishment of the annuity of the budget, and the approval of the budget before the beginning of the fiscal year. Preliminary data indicate that the quantitative targets and benchmarks set in the EPCA for end-September 2006 have been attained or surpassed.

3. While acknowledging that it will continue to rely greatly on external assistance, the Government is striving to mobilize a larger amount of domestic resources and to ensure that they are put to the best use. In the tax area, the priorities are a total overhaul of the Internal Revenue Agency (DGI) and putting in place effective controls in customs offices, which will also be modernized. On the expenditure side, the medium-term program includes a comprehensive reform of public financial management, with the objective of creating permanent structures to ensure that public resources are at all times used transparently, efficiently and equitably, in a manner that reflects government priorities as set out in the budget, the I-PRSP and other official documents.

4. Enhanced transparency and accountability will help prevent misappropriation and waste of public resources. For the first time, detailed information on all aspects of the approved budget (FY06-07) has been posted on the website of the Ministry of Economy and Finance (MEF). It includes subsidy allocations per beneficiary, financing sources and

geographical coverage of both the operations budget and the PIP, and a detailed wage bill per entity with salary and headcount of public servants on each grade level for the entire country. The authorities are now using competitive bids for the purchase of fuel for electricity production. They have also instituted a mechanism to monitor the use of Treasury's subsidies to the electric company (EDH) and are committed to conduct quarterly independent audits of this mechanism. Data on the Treasury's subsidies to the electricity sector have actually been posted on the MEF's website and are updated monthly, accompanied by the corresponding data on electricity generation.

5. Still aiming for greater transparency and accountability in the use of public resources, all ministers and other high level public officials were advised, upon taking office, that they would be required to comply with regulations regarding the formal registry of personal assets. Before the end of the fiscal year, new legislation will be adopted with exact provisos on asset declaration, compliance and continuous monitoring of the personal wealth of public officials. Also, in accordance with 2005 legislation on budget preparation and execution, a new body of public accountants is being created with nine members already nominated and dispatched to several public institutions including the Prime Minister's office and the Presidency. Thirty additional public accountants are to be deployed in Ministries and other public entities during the course of this fiscal year. Public accountants are now personally liable for the propriety of the expenditures they execute.

6. The authorities' efforts also aim at containing the parafiscal deficit and improving the delivery of public services. In the recent past, public enterprises have too often played the role of social assistance agencies and were not, in general, managed with the objectives of efficiency and maximizing results. As a consequence, most of them have fallen into bankruptcy and became incapable of covering operating costs and offering reliable services at competitive prices. Financial audits and accounting rehabilitations of main public utility companies (the telecom and the electric company) and of the Port Authority were completed during the past year. Further restructuring is ongoing and individually tailored solutions for the government's withdrawal from the management of the public enterprises are being considered. These include management or leasing contracts and the sale of assets to foreign and local investors.

7. Expanding and improving social and economic infrastructure is fundamental in the fight against poverty. In effect, lack of public and social infrastructure has constituted an important impediment to growth and severely eroded the quality of life of Haitian citizens. In order to effectively reach the poorest segments of the population, policies bearing on the distribution of basic services are being structured around the smallest operational administrative unit (the municipalities). Similarly, the budget has been designed to reflect the geographic distribution of public interventions.

8. Security and social and political stability are also crucial prerequisites for making sustainable progress in all other areas. The disarmament program with the assistance of MINUSTAH has been intensified. Nevertheless, long lasting peace and stability will depend on the expansion and professionalization of the Haitian National Police and on a thorough reform of the justice system.

9. The banking sector's stability has been a topic of great concern for the central bank (BRH) this past year. Three banks holding roughly 13 percent of total assets were in difficulty. The BRH took several measures to avoid a weakening of the banking sector as a whole and to ensure that depositors' interests were preserved. These included, in the case of one troubled bank, encouraging its acquisition by one of the larger local banks, and, in another, promoting the injection of fresh capital by local and foreign investors. In the case of the largest troubled bank, the BRH acquired a majority stake and subsequently changed the board of governors of the bank. A timetable of specific steps to be taken for the complete withdrawal of BRH's financial involvement in this commercial bank has been drawn, together with a contingency plan in case things do not evolve as envisaged.

10. The BRH will seek to strengthen its supervisory capacity, ensure its financial viability and strengthen its administrative and financial autonomy. Accordingly, a timetable has been established to implement by March 2007 the recommendations of the Safeguard Assessment, which were adopted by the central bank's board. The measures to be implemented include those necessary to guarantee the production of reliable data for program monitoring, such as the revision by internal and external auditors of the processes involved in the production of monetary statistics and the automation of such processes. There is also a timetable to relieve the central bank of most of its non-core functions, including the divestiture of the telecom company TELECO and the public commercial bank BPH. Recapitalization of the BRH should be achieved primarily through the securitization of claims on the Treasury. The conclusions of the FSAP planned for early 2007 are expected to help the authorities finalize reform measures such as the draft banking and central bank laws.

11. The BRH will maintain its prudent management of monetary aggregates and non-involvement in the foreign exchange market. It will also take steps to increase the efficiency and diversity of monetary policy instruments and to promote a healthy growth of credit to productive activities. In time, the BRH intends to decrease statutory reserve requirements and the relative share of the gourde component of required reserves against foreign currency deposits, while endeavoring to expand the market for its paper (BRH bonds). In addition to technical assistance from the IMF, the authorities are counting on a policy based loan from the IADB to move ahead with their reform efforts. The strengthening of the central bank's capacity in the supervision of the financial sector, including savings and loans institutions, and the creation of a credit bureau to improve the detection and management of default risks are also supported by the IADB loan.

12. A number of objectives set out in the Government's program can be considered ambitious and the self-imposed calendar is very tight. The authorities recognize that there is no room for complacency and that significant risks are present. Even with the application of the flexible pricing system for petroleum products, the budget remains extremely vulnerable to external shocks while the pace of growth of monetary aggregates (therefore the level of inflation) and the path of the exchange rate are still strongly impacted by the timing, size and use of dollar inflows from remittances and external assistance. The authorities are cognizant of their capacity constraints, which are especially binding as far as human resources are concerned. They are aware of the level of effort required to achieve the goals of the medium-term program, in particular with regard to the implementation, in the course of FY06/07, of the structures necessary for the timely attainment of the completion point triggers. Such sense of urgency is underscored by the requirement of a whole year of implementation of the full PRSP before completion point, and that of proven compliance for a full year with the law to be adopted on asset reporting by public officials.

13. Yet, the Government is convinced that the social and economic reforms set forth in the LOI, in the MEFP and in the I-PRSP are essential to improve the lives of the Haitian people. Their expectation of success in implementing such an ambitious agenda is grounded on their faith in maintaining a broad-based national consensus and a long-term partnership with the international community. Strong ownership of the PRSP and of the PRGF program by government entities, interest groups and stakeholders will be a determining factor in their successful implementation.

14. The Government is thankful for the important bilateral support being given to Haiti by the international community, which has pledged in this past July US$750 million in external assistance for FY07 and is largely committed to participating in the debt relief effort within the framework of the HIPC initiative. The authorities stress that a key determinant for the successful implementation of their medium-term program will be donors' timely disbursement of committed funds and prompt delivery of promised technical assistance. The lack of financing for the local and legislative elections of December 2006 and for the resulting democratic structures at the local level remains a source of concern.

15. The authorities have taken important steps in improving efficiency and transparency in the use of donor funds and in enabling them to exercise leadership in the allocation of external assistance. A committee for the coordination and monitoring of external assistance has been established with the Prime Minister as chair, and a transparent mechanism to keep track of poverty reducing expenditures has been put in place in the MEF. In the run-up to the November 30th donors' meeting in Spain, multiple assessments of external assistance projects and programs have been undertaken in collaboration with multilateral and bilateral cooperation agencies. Going forward, the authorities would hope to see simplification and greater harmonization of procedures and enhanced coordination and predictability in the

delivery of assistance, in conformity with the spirit of the Paris Declaration and the conclusions of the last donor conference of July 2006.

16. The authorities wish to reassure donors that they are putting in place new measures to ensure the non-accumulation of domestic debt and the adequate management of domestic and external debt. These measures include tighter controls on expenditures to prevent the emergence of domestic arrears and the drafting of new legislation designating a single entity to become responsible for borrowing decisions within pre-established ceilings and for the monitoring of debt service. Furthermore, the requirement that grants be sought to finance government activities before having recourse to borrowing will be consistently observed.

17. In conclusion, our authorities wish to take this opportunity to call for assistance and support in the ongoing efforts to extend the benefits of the MDRI to the debt owed by Haiti to the Inter-American Development Bank. The IADB holds no less than 40 percent of Haiti's external debt. Governors and Executive Directors of FSO/HIPC countries at the IADB visited Haiti this past 8 and 9th of November, in an effort to garner international support for the prompt adoption of an MDRI framework at their institution, with particular attention to the interests of Haiti. Relieving Haiti from IADB debt with a cutoff date of end-2004 would significantly change the perspective for the attainment of the MDGs, which are currently bleak.