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Haiti: 2005 Article IV Consultation and Review of the Program Supported by Emergency Post-Conflict Assistance—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Haiti

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2005 Article IV consultation with Haiti and review of the program supported by emergency post-conflict assistance, the following documents have been released and are included in this package:

- the staff report for the combined 2005 Article IV Consultation and Review of the Program Supported by Emergency Post-Conflict Assistance, prepared by a staff team of the IMF, following discussions that ended on March 16, 2005, 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 April 29, 2005. 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 Public Information Notice (PIN), **summarizing the views of the Executive Board as expressed during its May 16, 2005, discussion** of the staff report on issues related to the Article IV consultation.

- a statement by the Executive Director for Haiti.

The document listed below has been or will be separately released.

Selected Issues Paper

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

Staff Report for the 2005 Article IV Consultation and Review of the Program Supported by Emergency Post-Conflict Assistance

Prepared by the Staff Representatives for the 2005 Consultation with Haiti
(In consultation with other departments)

Approved by Christopher Towe and Mark Plant

April 29, 2005

- **Discussions covering the 2005 Article IV consultation and review of the program supported by Emergency Post-Conflict Assistance (EPCA) took place in Port-au-Prince during March 6–16, 2005**. The staff team comprised P. Gajdeczka (Head), G. Everaert, L. Jaramillo, C. Sancak (all WHD), J. Mathisen (PDR), M. Vimond (Senior Administrative Assistant, MCD), and was assisted by M. Rached (Resident Representative). K. Florestal (OED) and A. Kouame (World Bank) attended key meetings. The mission met with Economy and Finance Minister Bazin, Central Bank Governor Magloire, Planning Minister Pierre, other senior officials, and representatives of the private sector and donor community.

- **The last Article IV consultation was completed on January 24, 2003**. Executive Directors expressed deep concern about Haiti's worsening economic and social conditions. They called for a firm commitment to a sound medium-term economic program, backed by a track record of policy implementation, which could lead to a PRGF-supported program.

- **The EPCA-supported program is broadly on track**. On January 10, 2005, the Executive Board approved a purchase of 12.5 percent of quota under the Fund's EPCA policy and the authorities are expected to request a second EPCA purchase in July/August. All end-December 2004 quantitative targets were observed by wide margins and preliminary data indicate that end-March 2005 quantitative targets were also met. However, there have been delays in implementing some key structural measures.

- **Article IV consultation discussions** focused on the supplementary budget for April-September 2005, the 2005/06 budget framework, and the fiscal reform agenda. Consideration was also given to the policies needed to bring inflation to single digits and to strengthen the central bank's financial position. Although the transitional nature of the present government meant that specific medium-term policies could not be discussed, the authorities agreed, that increased fiscal effort and continued donor support are necessary to improve the provision of basic services and promote growth.

- **Publication**. The authorities expressed their intention to publish this staff report and accompanying papers on the IMF website.

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Executive Summary

Recent developments and performance under the EPCA

- Economic and political conditions in Haiti have been difficult. The political situation deteriorated in late 2003 and led to the resignation of President Aristide. A transition government that was formed in early 2004 has been charged with restoring security and economic stability, and preparing for national elections, which are now scheduled for October-November 2005.

- The recovery has been weaker than expected. Weak exports and fiscal revenue, stagnant private sector credit, and delays in donor disbursements suggest that economic activity has not rebounded. However, inflation has declined, the exchange rate has stabilized, and net international reserves have increased.

- Performance under the EPCA-supported program has been satisfactory. All end-December targets were observed, and preliminary data indicate that end-March targets were also met. While many structural measures were implemented as envisaged, key measures such as the census of public sector employment and domestic arrears have been delayed.

Policy discussions

- Revenue shortfalls and delays in donor funded projects have required revisions to the budget. In particular, while administrative steps are expected to allow the revenue targets to be met, expenditures will be re-prioritized to provide maximum support to economic recovery. The authorities are also seeking additional external financing to cover additional outlays on electricity, demobilization, and elections.

- The macroeconomic framework for 2005/06 envisages real GDP growth of 3 percent and inflation of 10 percent. The challenge, thereafter, will be to sustain growth of 4 percent and generate the government revenue needed to fund a substantial improvement in social services and the public sector's institutional capacity. Critical prerequisites will be successful elections, national reconciliation, and continued donor support.

- Monetary policy needs to be tightened to achieve the program's inflation and external targets. The large excess reserves in the banking system need to be absorbed at market-determined interest rates. Also, a plan to recapitalize the BRH needs to be introduced in the 2005/06 budget to strengthen its financial position.

- Haiti's external debt appears unsustainable and new external assistance should be provided on highly concessional terms.

I. Introduction

A. The Setting

1. **Economic and political conditions in Haiti have been very difficult in recent years**. The political deadlock following the disputed 2000 parliamentary elections undermined private sector confidence and dampened investment, and led to a sharp cutback in donor assistance. As a result, economic conditions in Haiti deteriorated significantly, with negative GDP growth, high inflation, and large fiscal and external deficits. The political polarization intensified, leading to street demonstrations and increasing violence that culminated in an armed conflict in early 2004, and President Aristide's resignation in February 2004 (Box 1).

2. **A transition government was formed in early 2004 to lead Haiti to national elections, which are now scheduled for October-November 2005**. A United Nations stabilization mission (MINUSTAH) has been deployed to help restore security and help prepare elections, but there have been recurrent episodes of escalation in violence.[1] Over the past year, financial stability has been restored but economic conditions remain difficult and business confidence is low.

3. **The economic consequences of the political turmoil in early 2004 and the devastating floods in May and September have been severe.** The property damage and the interruption to economic activity resulting from the armed conflict are estimated to have totaled 5½ percent of GDP. The floods also caused the loss of thousands of lives, extensive damage to housing, and destroyed crops in Haiti's most productive agricultural areas.

4. **Social conditions in Haiti are the most difficult in the Western Hemisphere**. An estimated 76 percent of the population lives below the poverty line (on less than US$2 a day) and 55 percent in extreme poverty (on less than US$1 a day). Haiti's income distribution is highly skewed, with the poorest 20 percent of the population accounting for 1.5 percent of incomes and the wealthiest 20 percent for 68 percent. The United Nations ranks Haiti 153rd on its Human Development Index (out of 177 countries), and the country is unlikely to achieve the Millennium Development Goals by 2015.[2]

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[1] MINUSTAH includes about 6,000 troops and 1,400 international police.

[2] See *A Common Vision of Sustainable Development: National Report on Millennium Development Goals, UNDP and Government of Haiti,* 2004.

Box 1. Haiti: Political Developments

1990 – Jean-Bertrand Aristide, a popular priest, is elected president.

1991 – President Aristide is overthrown in a military coup seven months after taking office. The United Nations approves sanctions.

1994 – Aristide is reinstalled in office with the help of a U.S.-led military intervention.

1995 – Aristide disbands the army. Aristide supporters win parliamentary elections. Since the constitution precludes the president from serving two consecutive terms, Aristide is succeeded by a close ally, René Préval.

1997–99 – Following a period of political deadlock, Préval dissolves parliament and rules by decree.

2000–01 – Aristide is reelected president, but the international community criticizes irregularities in parliamentary elections.

2002-03 – Dissatisfaction with the government grows amid deteriorating economic conditions and opposition becomes increasingly vocal.

January–February 2004 – Street demonstrations intensify and as a result of an armed rebellion, President Aristide resigns on February 29 and leaves the country.

March 2004 – As envisaged by the constitution, the chief of the Supreme Court, Boniface Alexandre, succeeds as president. A transition government, led by Gérard Latortue, is formed to lead the country to elections. A multinational interim force arrives.

June 2004 – U.N. stabilization force (MINUSTAH) arrives to replace the multinational interim force, and reaches full strength in December 2004.

October 2004 – Violence escalates on the anniversary of the coup that first overthrew Aristide in 1991.

January 2005 – The Electoral Council announces the schedule for national elections.

October 2005 – Municipal elections scheduled.

November 2005 – Parliamentary and presidential elections scheduled.

February 2006 – A newly-elected president and government to start their terms.

5. **At the July 2004 conference, donors pledged US$1.1 billion of new financing for the period July 2004–September 2006**.[3] This assistance is intended to help strengthen political and economic governance, promote economic recovery and job creation, improve access to basic services, reestablish security, and promote national dialogue ahead of 2005 elections. Through end-March 2005, disbursements of budgetary assistance to Haiti are estimated at US$163.5 million. Project disbursements, however, have been slow reflecting weak government capacity to prepare and implement projects, security concerns, as well as procedural delays on the part of donors.

B. Policy Advice and Performance

6. **The Fund has been actively engaged with Haiti in recent years and a track record of policy implementation is being established**. The Fund' s policy advice has focused on macroeconomic stabilization, improvement in fiscal transparency and accountability, and the need to clear external arrears and develop a medium-term strategy that could be supported by a PRGF arrangement. This approach–endorsed by the Executive Board at the conclusion of the 2002 Article IV consultation–guided two Staff-Monitored Programs (SMP) during 2003-04 and an EPCA-supported program approved on January 10, 2005 (Box 2).

C. Recent Economic Developments

7. **The EPCA program is broadly on track, but the economic recovery has been weaker than expected** (Text Table 1). According to the data provided by the authorities, all end-December and end-March targets were observed (Table 1). Many structural measures were implemented as envisaged, although key measures such as the census of public sector employment and domestic arrears have been delayed (Table 13). Financial stability has been maintained, but the weakness in exports and fiscal revenue, stagnant credit to the private sector, as well as slower-than-anticipated project disbursements by donors suggest that the recovery has fallen short.[4]

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[3] External assistance was pledged in support of a broad reform and development program (the Interim Cooperation Framework - ICF) prepared jointly by the authorities and donors. The pledges also included extensive technical assistance to address key institutional reforms necessary to support economic growth.

[4] There are no monthly statistics on production and Haiti does not produce quarterly GDP data.

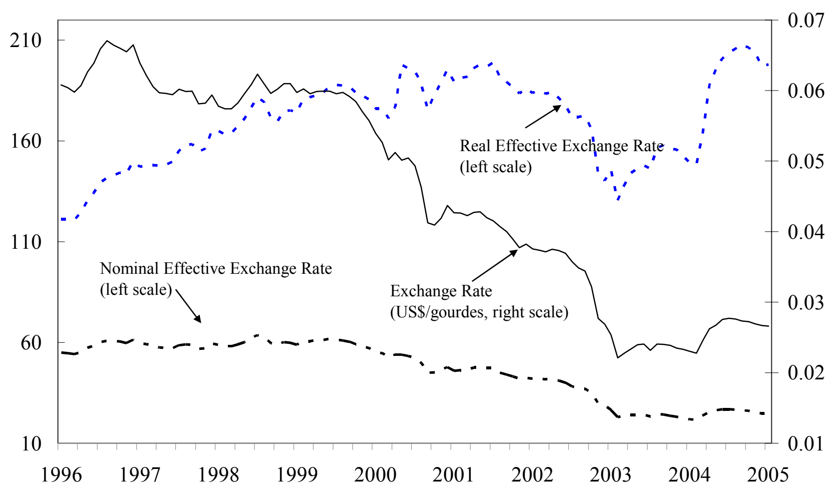
Text Table 1. Haiti: Performance under the EPCA

	2004/05			
	Oct.-March		Oct.-Sept.	
	Prog.	Prel.	Prog.	Proj.
(Annual percentage change)				
GDP at constant prices	...	...	2.5	2.5
Consumer prices (12-month, end-of-period)	...	...	12.0	12.0
(In percent of GDP, unless otherwise indicated)				
External current account balance (excluding grants)	...	...	-7.5	-8.6
Net international reserves (millions of U.S. dollars) 1/	57.6	63.7	83.6	83.6
Central government overall balance (including grants)	-0.4	0.3	-1.2	-1.5
Central government overall balance (excluding grants)	-2.2	-2.2	-6.0	-6.6
Central bank financing of the government	0.2	-0.1	0.0	0.0
Fiscal financing gap	0.0	0.0	0.0	0.4

1/ Excludes commercial banks' foreign currency deposits with the BRH. Projected end-September 2005 stock reflects the authorities' downward revision of the end-September 2004 stock.

8. **However, progress has been made in containing inflation, and the exchange rate has stabilized**. A significant tightening of financial policies in 2003 helped reduce inflation and stabilized the exchange rate (Figure 1). Inflation picked up again in early 2004, following renewed central bank financing of the budget and widespread supply constraints, and the gourde depreciated by 7 percent against the U.S. dollar during September 2003–February 2004. After budget discipline was restored in April 2004 and monetary financing of budget deficits was eliminated, inflation began to decline again and the gourde rebounded to the mid-2003 level (Text Figure 1). However, prices have been highly volatile on a month-to-month basis, as a result of supply disruptions caused by the September 2004 floods, and the pass-through of world prices of petroleum. Recent price developments are consistent with the program' s objective of bringing inflation down to 12 percent (12-month rate) by September 2005.

Text Figure 1. Haiti: Exchange Rate 1/
(1990=100)



Source: Central Bank of Haiti; and Fund staff estimates.
1/ An increase indicates an appreciation.

Box 2. Haiti: Fund Engagement in Haiti

At the 2002 Article IV consultation discussions, Executive Directors urged the authorities to re-establish a basis for growth and improved living standards and stressed the importance of embarking on a medium-term economic program, possibly in the context of a SMP that could establish a track-record of policy implementation and lead to a PRGF-supported program. This approach guided two SMPs that preceded an EPCA-supported program approved in January 2005.

SMP (April 2003–March 2004). A one-year SMP aimed at consolidating stabilization gains achieved since early 2003 and clearance of external arrears. The macroeconomic framework of the SMP was broadly maintained until December 2003, when the program went off-track, due to large expenditure overruns. The SMP provided a framework for the reengagement of the IDB, and in June 2003 Haiti cleared its arrears, thereby enabling the resumption of disbursements and development assistance.

SMP (April–September 2004). The new SMP, agreed in June 2004, sought to restore financial stability, provide a macroeconomic framework for donor assistance, and establish a track record of policy implementation that could build a basis for a possible future request for the use of Fund resources. Performance under the SMP was satisfactory; all quantitative targets were observed by wide margins and good progress was made on structural measures.

EPCA (October 2004–September 2005). The authorities requested a purchase under the Fund's EPCA policy to help address the impact of the conflict in early 2004. The EPCA-supported macroeconomic program was agreed in late 2004, and on January 10, 2005, the Executive Board approved the purchase of SDR10.23 million (12.5 percent of quota). The quantitative targets were observed (Table 1) and most of the structural measures agreed for end-December were implemented as envisaged (Table 13). The authorities indicated their intention to request an additional purchase under the EPCA. The macroeconomic program underpinning the ECPA facilitated the reengagement of the World Bank with Haiti. In early January, 2005, Haiti cleared its arrears to the World Bank; the Bank's Executive Board approved a fast-disbursing adjustment operation and an emergency recovery and disaster management project.

9. **With the decline in inflation and exchange rate stability, the BRH has relaxed monetary conditions in several steps**. During August–October 2004, interest rates were reduced to 7.6 percent from 13.6 percent, and the stock of excess reserves of the banking system increased sharply reaching 25 percent of required reserves by March 2005.[5] As a result, commercial bank prime lending rates declined somewhat, while average gourde deposit rates are now below dollar deposits rates. Nevertheless, private sector credit growth has remained stagnant, reflecting low business confidence and weak domestic demand (Figure 1).

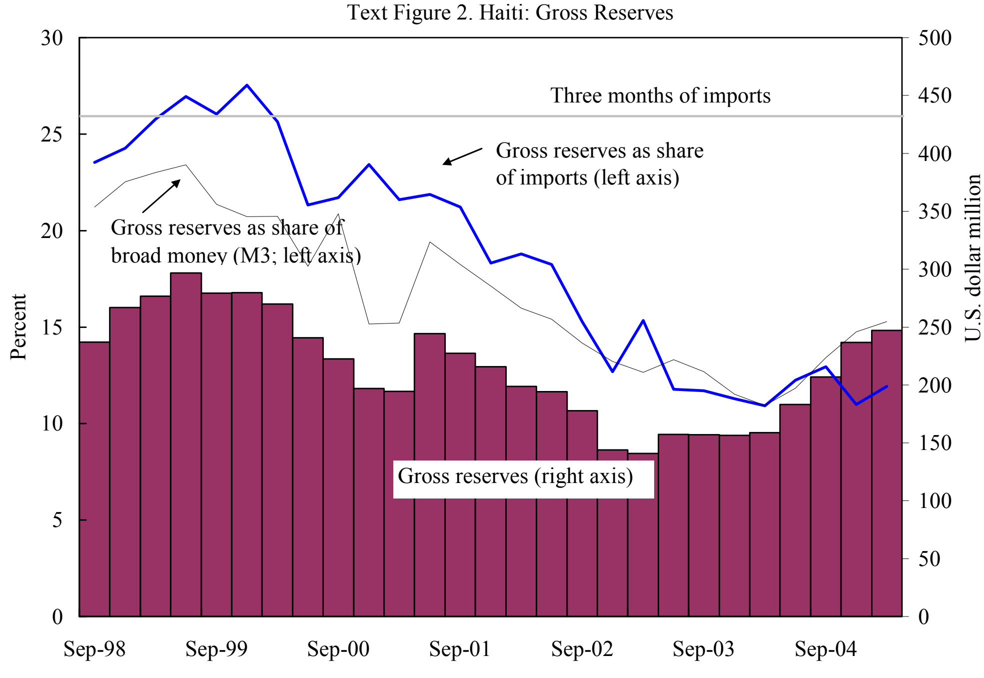
[5] Since June 2001, reserve requirements are 31 percent of gourde and dollar deposits at the commercial banks.

10. **Current expenditure was cut to protect the fiscal targets during October 2004–March 2005.** Tax receipts were below target by around 0.2 percent of GDP, as a result of the security situation and strikes by customs officials. Also, donor-financed capital outlays fell below the programmed levels by 0.2 percent of GDP. The authorities responded by delaying planned wage increases (by the equivalent of 0.3 percent of GDP), while increasing capital expenditures financed by domestic resources. As a result, the overall fiscal deficit (excluding grants) was in line with the program.

11. **The authorities are finalizing a supplementary budget for April–September 2005.** In the face of growing pressures to implement budgetary outlays and slower-than-expected disbursement of donor assistance, the authorities are planning to re-orient expenditure to help stimulate economic activity. Also, the overall level of spending will be increased by about 0.4 percent of GDP to cover the needed additional outlays on elections, demobilization, and support to the electricity sector. The overall fiscal deficit is expected to reach 6.6 percent of GDP (or 1.5 percent of GDP including grants)—above the target assumed in the EPCA program—and there remains a financing gap of 0.4 percent of GDP. Unless additional donor support is identified, the gap would need to be covered by central bank financing.

12. **Net international reserves (NIR) have stabilized at about US$65 million**. With continued strong inflows of private remittances, the BRH has been able to maintain NIR above the program floor, while meeting foreign exchange needs of the government (Figure 3). Nevertheless, reserve adequacy indicators suggest that gross reserves are still low by international standards (Text Figure 2).

Text Figure 2. Haiti: Gross Reserves



13. **Haiti has cleared arrears to the World Bank (US$52 million) and obtained deferral of debt-service obligations from three bilateral creditors.** On January 4, 2005, Haiti used US$46 million of its own reserves and a US$6.4 million grant from Canada to clear its external payments arrears to the World Bank. Following the Board approval on January 6, the World Bank disbursed US$46 million, enabling the replenishment of Haiti' s international reserves. In parallel, France, Italy, and Spain granted Haiti forbearance on the stock of arrears and informed that a formal comprehensive treatment of its debt-service obligations would take place after a PRGF-supported program is in place.

II. NEAR-TERM OUTLOOK AND RISKS

14. **Significant downside risks to the near-term outlook derive from the political situation, and the lifting of quotas under the Agreement on Textiles and Clothing (ATC)**. On the political front, security concerns and lack of government' s control over provinces may jeopardize prospects for fair and safe elections scheduled for late 2005. In addition, weak coordination of donor financing with the budget and likely delays in disbursement of donor assistance could further undermine private sector confidence and derail economic recovery. Finally, Haiti' s textile assembly export sector faces increasing competition in U.S. markets now that ATC quotas have been abolished, and its survival is in question.[6]

15. **Despite the increased risks to the near-term economic outlook, the staff agreed with the authorities to keep the 2004/05 macroeconomic framework unchanged**. The staff cautioned, in particular, that the GDP growth objective of 2½ percent would be difficult to achieve, given signs in the first two quarters that the economic recovery had been delayed. The authorities argued, however, that growth in the second half of the year would pick up strongly in response to accelerated external disbursements and improved allocation of expenditures in the supplementary budget to key development sectors, and that this year' s growth objectives could be achieved.[7] Also, taking into account projected disbursements and the inflow of private remittances, the end-September NIR target of the BRH is expected to be met.

III. POLICY DISCUSSIONS

16. **The authorities' key objectives are to consolidate the macroeconomic stabilization and to jump-start the economy**. Although the transition government is unable to commit to policies beyond 2005, it places a priority on ensuring that near-term economic policies provide a firm basis for medium-term growth, and on a reform agenda that will be formed after national elections in 2005. During the discussions, the staff stressed that

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[6] According to preliminary data for January–February 2005, Haiti's textile exports were not affected by the elimination of ATC quotas.

[7] At a March 2005 meeting in Cayenne (French Guyana) donors agreed on a list of projects that would be disbursed on an accelerated basis.

sustained growth would require political stability, a substantial strengthening of social and economic infrastructure, as well as institutional capacity, supported by continued donor engagement and commitment to combating corruption (Box 3). Continued expansion of Haiti' s national income will be essential to reduce poverty and help lessen dependency on foreign aid.

17. **The authorities noted Haiti's need for additional financing support from the Fund, including a second EPCA purchase**. They stated that continued assistance from the Fund would also provide a macroeconomic framework that could extend beyond national elections when negotiations could begin with a newly-elected government on a program that could be supported by the PRGF. The staff noted that a positive track record of policy implementation under the EPCA program could provide a basis for a future request for Fund resources.

A. Fiscal Policy and Reforms

18. **The authorities and staff agreed on the need for budget corrections to protect the fiscal objectives of the EPCA-supported program**. The authorities were confident that targets for budgetary revenues in the second half of the fiscal year could be met by strengthening tax administration, including by intensifying customs inspections and reestablishing controls over imports from the Dominican Republic. The staff observed that the main risk to revenue projections was a deterioration in security conditions, which would affect both domestic incomes and tax administration. On the expenditure side, the staff stressed the importance of safeguarding key social expenditures, especially in light of their importance for political cohesion and stability. The authorities stated that in consultation with donors, a package of projects was being prepared focusing on infrastructure and the provision of basic social services, which will be incorporated in the supplementary budget and implemented before the end of this fiscal year. Additional donor financing is being sought to cover the remaining financing gap.

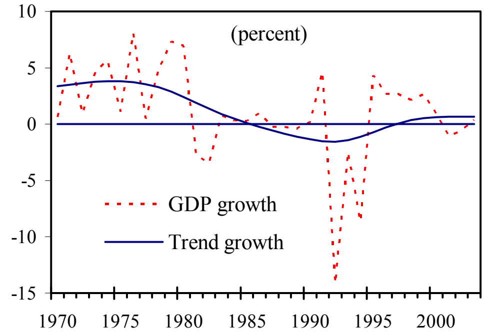
19. **The mission raised questions regarding the large budgetary transfers in support of electricity**. The authorities estimate that additional central government transfers to the Electricité d' Haïti (EDH) totaling G400 million (0.3 percent of GDP) will be needed through end-September 2005 to ensure the supply of electricity in Port-au-Prince. The staff noted that the EDH' s very difficult financial condition and lack of adequate internal expenditure control mechanisms represented a significant source of fiscal vulnerability and urged the authorities to establish an effective monitoring mechanism. The authorities agreed with the staff' s proposal, reiterating their commitment to full accountability and transparency in public sector operations. They noted that such a mechanism will be set up by end-April, and that all new contracts for electricity production would be subject to open and competitive bidding procedures.

Box 3. Haiti: GDP Growth, Medium-Term Projections, and Millennium Development Goals

GDP growth in Haiti has been on a declining trend during the past 20 years, but has fluctuated widely in response to political developments and external aid flows.

- **During the 1970s**, real GDP growth averaged 4.6 percent, fueled by expansion in light manufacturing, the garment assembly industry, tourism, as well as public investment financed by foreign aid.
- **In the 1980s**, growth turned negative, affected by a hurricane and drought, and a U.S. recession. The political instability after the fall of the Duvalier regime in 1986 led to further economic decline.
- **Following President Aristide's election in 1991**, growth recovered as macroeconomic conditions and relations with donors improved.
- **During 1992–94**, real GDP declined by a cumulative 25 percent, reflecting the effects of the military coup, the international economic and political embargo, and the cutoff of foreign aid. Agriculture suffered from shortages of inputs, the assembly sector contracted, and tourism ceased.
- **After President Aristide's return to Haiti in 1994**, substantial economic assistance helped re-invigorate growth, and activity expanded in construction and manufacturing. However, growth weakened subsequently due to growing political instability, declining foreign aid, and poor agricultural performance.

Figure 1. Haiti: Actual and Trend GDP growth 1970-2003



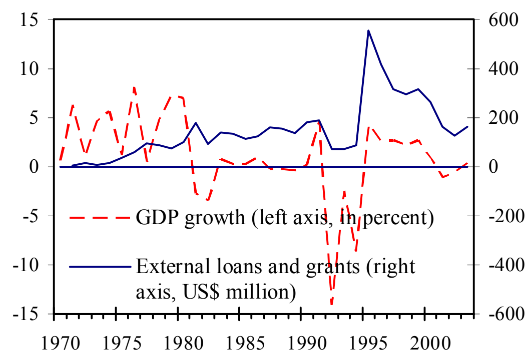
Sources: IFS and Fund staff estimates

- **During 2001–04**, real GDP growth averaged -1.2 percent, as the political impasse undermined business confidence and non-humanitarian aid was suspended. Political tensions culminated in an armed conflict and change of government in February 2004, with damage estimated at 5½ percent of GDP.

Over the medium-term, real GDP growth is expected to exceed its recent trend on the assumption of increased foreign aid flows and political stability. Recent trend growth is estimated at 0.7 percent, reflecting the dampening effect of the recent drop in activity.[1] With restored business confidence and the resumption of foreign assistance, GDP growth could revive more strongly to nearly 4 percent, a rate that is similar to that achieved during the 1970s. In the short term, large capital inflows are expected to boost growth mainly through construction. In the medium term, growth will be supported by public investment largely financed by foreign aid, private sector investment and productivity gains from structural reforms.

Haiti would need to double the average GDP growth rate currently projected at 4 percent per year to halve head-count poverty by 2015.[2] Haiti is ranked 153 on the Human Development Index—76 percent of the population, and 88 percent of the rural population, lives below the poverty line (US$2 per day income per person).

Figure 2. Haiti: GDP growth and external aid, 1970-2003



Sources: IFS and Fund staff estimates

[1] Trend output growth was calculated using a Hodrick-Prescott filter.

[2] Cutting headcount poverty in half between 2003 and 2015 would require annual growth of GDP per capita of 2.9 percent. See Human Development Report 2003, "Millennium Development Goals: A compact among nations to end human poverty."

20. **The staff stressed the need to bolster the budget execution process**. Weaknesses in expenditure monitoring coupled with very conservative budget management had contributed

to keeping spending well below the targets set under the last SMP and the EPCA program. The staff and authorities agreed that aid coordination and implementation of projects agreed under the Interim Coopeartion Framework needed to be accelerated as soon as possible to boost economic recovery, create employment, and expand provision of key social services.

21. **The mission and the authorities agreed on the broad parameters that would govern the 2005/06 budget**. The key macroeconomic assumptions for 2005/06 include real GDP growth of 3 percent, inflation of 10 percent, and an increase in NIR to US$114 million by end-September 2006. In order to increase key public services and, public investment, while eliminating BRH financing, domestic revenues and external financing would need to fully cover recurrent and capital expenditures. The overall deficit (excluding grants) of 7 percent of GDP would be fully covered by external concessional loans and grants.

22. **Aid coordination needs to be strengthened to ensure effective use of the pledged external assistance**. The authorities noted that they are seeking donor support in preparation of projects that were agreed under the ICF and are to be included in the public investment program. The total amount of external assistance for the 2005/06 central government budget is projected at US$328 million, mostly from Canada, the European Union, the IDB, the United States, and the World Bank (Table 11). However, the team noted that it projected a budget financing gap of about US$20 million (0.4 percent of GDP) and that external cash budget support would not be sufficient to even cover Haiti' s debt service obligations, and urged the authorities to work with donors to secure additional financing.

23. **The authorities are planning to prepare the 2005/06 budget soon enough to allow proper planning, coordination with donors, and consultation with civil society**. Accordingly, they committed to conveying indicative spending ceilings to ministries, as well as to transmitting project proposals for the public investment program, consistent with the priorities of the ICF and in time for Cabinet discussion in July. This would enable the budget' s submission for public consultation prior to its final approval in September.[8]

24. **The authorities are committed to improving budget management and expenditure control**. They emphasized that a broad strategy for reform of public financial management is needed, especially in view of governance weaknesses and increased donor funding. The authorities identified the following priority areas: (i) the budget formulation process, to enable identification of strategic spending priorities; (ii) the expenditure approval process, to limit discretionary recourse by ministries to current accounts; (iii) the preparation and execution of the public investment program, which is presently handicapped by inadequate institutional capacity; and (iv) budget monitoring, which is constrained by the absence of reliable, timely monthly fiscal data. The authorities welcomed the envisaged

[8] Two technical assistance missions from FAD—on revenue administration and tax policy, and on public expenditure management—are envisaged to help enhance the budget preparation process.

technical assistance from the Fund which they saw as instrumental in developing a fiscal reform agenda for the medium term.[9]

B. Monetary and Financial Sector Policies

25. **The staff underscored the importance of reducing inflation to single digit levels**. The team noted that exchange rate stability—boosted by inflows of private remittances—and the elimination of monetary financing of the budget deficit had played a key role in helping reduce inflation over the past year. At the same time, weak economic activity had also reduced pressures on domestic prices. However, interest rates on gourde deposits were now below those on dollar deposits and were highly negative in real terms, and the staff cautioned that, especially given the large excess reserves in the banking system, there was a risk that pressures on the exchange rate could emerge. Therefore, a tightening of the monetary policy stance was needed, both to avoid destabilizing the exchange rate and to support the program’s inflation objectives.

26. **The BRH officials responded that the monetary stimulus introduced last year was still needed to support economic recovery**. Moreover, they observed that BRH losses would have been exacerbated if the banking system’s excess reserves (estimated at 7.1 percent of gourde broad money) had been sterilized. Nevertheless, the officials underscored their commitment to containing inflation and agreed to a gradual absorption of the liquidity overhang in the coming year.

27. **The authorities are seeking to strengthen their monetary policy framework.** The BRH targets inflation with broad money as the operational target, while also taking into account the need to avoid exchange rate instability while maintaining a market-determined floating regime. The authorities recognized the need to upgrade their capacity to forecast liquidity, which would require better coordination between monetary and central government financial operations, and have requested technical assistance from the Fund. Also, markets for financial instruments need to be modernized to provide clear signals about market conditions. In the near term, the BRH will reinstate a conventional auction for a predetermined amount of BRH bonds, in line with the recommendations of the recent IMF technical assistance mission (Box 4).

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[9] Haiti’s fiscal performance and medium-term issues are discussed in the accompanying selected issues paper.

Box 4. Haiti: Recommendations on the Central Bank's Operations

- Reinstate a conventional auction for BRH bonds, with bids accepted for the pre-announced amount.
- Establish a formal targeting framework, with a macroeconomic forecast to link the bond auction to the targets on monetary policy.
- Convert outstanding BRH credit to the government into bonds that would provide the central bank with income sufficient to conduct monetary operations.
- Gradually reduce reserve requirements to internationally comparable levels (10 percent or less).
- Review the BRH' s regulations and guidelines relating to foreign currency exposure limits and the management of foreign currency risks.

28. **The authorities and staff agreed that the present floating exchange rate regime is appropriate in Haiti's circumstances**.[10] The authorities noted that the appreciation of the gourde over the past year reflected its recovery from a year before, and expressed the view that it did not have a significant impact on Haiti' s competitiveness, as wage costs remain very low and export performance does not appear to have been affected.[11] They suggested that political instability, weak infrastructure, and poor security conditions were more important factors weighing on competitiveness.[12] Also, since mid-2004 both nominal and real exchange rates have depreciated somewhat (Text Figure 1).

29. **The authorities agreed on the need to strengthen the BRH by addressing its losses and increasing its independence**. The legal, operational, and financial autonomy of the central bank needs to be bolstered by modernizing its legal basis and properly defining its role and relations with the government. The staff noted, however, that there was an even more urgent need to address the operational losses of the BRH and to develop a plan to strengthen

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[10] It is generally agreed that a flexible exchange rate is appropriate in situations with low level of international reserves, weak fiscal position and vulnerability to real shocks.

[11] Average daily wages in the assembly sector are estimated at US$4−5 (equivalent to monthly wages of about US$100).

[12] The HOPE Act, currently under consideration by the U.S. congress, is intended to provide limited duty-free access to certain Haitian exports of apparel products manufactured with components originating in the U.S. or countries to which the U.S. grants trade preferences. Last year, the HERO Act—a more favorable alternative for Haiti to the HOPE Act—lapsed without Congressional approval.

its financial position to enable it to conduct monetary operations effectively.[13] The authorities agreed to introduce in the 2005/06 budget a plan to recapitalize the BRH. This latter step is to be supported by IMF technical assistance.

30. **The authorities were confident that financial system vulnerabilities were modest**. Official data indicate that the financial system remains stable, an assessment also supported by banking supervisors and commercial banks' auditors. In particular, although nonperforming loans increased as a share of total loans from 7 percent in September to 8.3 percent in December 2004, the average risk-weighted capital adequacy ratio was 15.1 percent. The BRH continues to monitor the financial position of commercial banks, and it is working on a new banking law that would, *inter alia*, strengthen the supervisory role of the central bank. Also, the BRH has recently extended its supervision to credit cooperatives.

C. Structural Reforms and Governance

31. **The authorities stressed the importance they attach to enhancing public sector governance and transparency**. The staff agreed that considerable progress has been achieved in implementing structural reforms in the first half of the fiscal year (Table 13). The expenditure approval process has been streamlined and the discretionary use of ministerial current accounts has been sharply reduced. Also, the Anti-Corruption Unit became operational by end-2004, pre-audits of the state-owned telephone and electricity companies have been initiated, and requests for offers for audits of three other key public sector enterprises have been published. In the financial sector, the IMF safeguards assessment and the external audit of the BRH accounts have been largely completed.

32. **The staff welcomed the authorities' commitment to implement the remaining structural measures under the program**. The staff recommended completing the census of employment in order to reduce the number of "ghost workers" and release resources for priority areas in the 2005/06 budget, and also implementing the survey of domestic arrears. The authorities agreed, and indicated that the census of employment in education and the survey of domestic payment arrears were to begin in May. Also, they confirmed that the information on the execution of the budget and the list of beneficiaries of a government-supported program to compensate private businesses for damages suffered from the early 2004 conflict would be published in line with their earlier commitment. The authorities will also continue to limit discretionary spending through current ministerial accounts to below 10 percent of budgetary credits for nonwage current spending.

[13] The main sources of the BRH's financial losses are subsidized lending to the central government and high sterilization costs, resulting in losses estimated at 1 percent of GDP in 2003/04. See *Selected Issues paper* "Losses of Haiti's Central Bank."

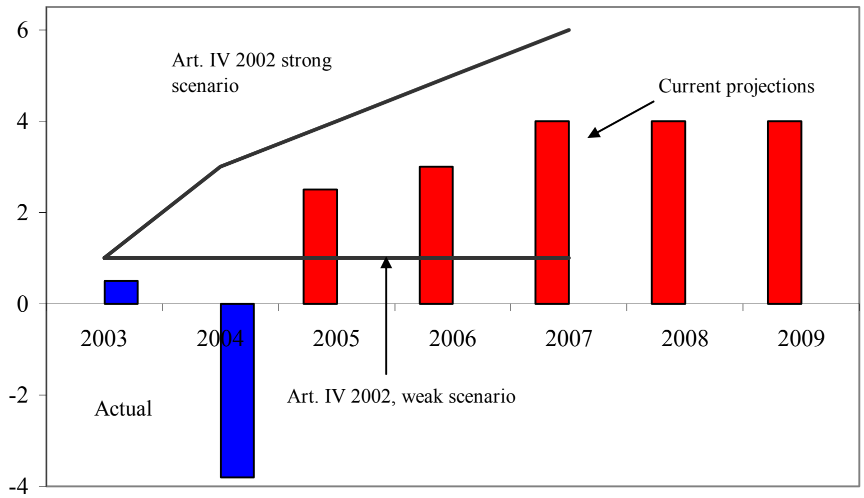
D. Medium-Term Outlook and Debt Sustainability

33. **The staff's medium-term GDP growth projection takes into account the trend output growth and increased foreign aid inflows** (Box 3 and Table 6). The projection assumes a continued inflow of external assistance of about 10 percent of GDP annually, to support extensive public investment program. Accordingly, growth would average 4 percent, the external current account deficit (excluding external grants) would stabilize at 7 percent of GDP by 2009, and gross international reserves would increase to the equivalent of three months of imports.

34. **To support increased provision of key social services and to underpin the strengthening of the public sector's institutional capacity, government domestic revenues need to increase by 3 percentage points of GDP over the medium term**. This would require reforms in the areas of tax policy and tax administration, and strengthened public sector governance and transparency. Strengthening essential public services would require selective wage increases to recruit and maintain quality staff in key security, education, and health sectors, and the wage bill as a share of GDP is projected to rise by 2009 to 5 percent of GDP, the levels observed in the mid-1990s. The authorities noted that improvements in tax administration, and its extension over the entire country, would likely bring large increases in government revenues. They agreed that the main risks to the medium-term outlook derive from potential delays in holding elections and achieving national reconciliation, which could undermine continued donor involvement and derail economic recovery.

35. **The authorities believe that stronger growth is possible with renewed donor support, sound macroeconomic policies, and a stable business climate**. They underscored the need to upgrade the country' s infrastructure, noting that unreliable provision of electricity, inadequate road networks, and difficult security conditions were the main impediments to growth and investment. The staff agreed that higher GDP growth would be desirable—along the lines of the projections prepared for the 2002 Article IV consultation (Text Figure 3)—to boost incomes and employment and enable Haiti to converge toward the Millennium Development Goals. However, such performance would require a pace of structural reforms and of investment that in the staff' s view could not be assumed under present conditions. Raising growth to high sustainable levels over the medium term would require achieving broad domestic consensus on the economic and social strategy and making substantial progress toward political stability and domestic security.

Text Figure 3. Haiti. Real GDP Growth



36. **The team cautioned that additional donor support of about US$50 million was needed to close the external financing gap projected for 2005/06**. Total external financing is projected at US$454 million, of which US$328 million is for the 2005/06 budget and the rest corresponds to humanitarian assistance and funding of elections. The bulk of this external financing is expected in the form of grants, but the existing commitments in support of the elections appear to fall short of the projected cost. The staff encouraged the authorities to seek additional financial support to help meet Haiti' s foreign exchange needs and the external reserves objectives.

37. **The authorities shared the staff's concerns about Haiti's debt sustainability**.[14] Based on end-2004 data, the debt-export ratio (in net present value (NPV) terms) of 187 percent suggests that Haiti' s debt may be unsustainable. The team noted that although on more favorable assumptions (higher export growth or concessionality of pledged assistance), the debt situation appeared less worrisome, the fiscal capacity to carry the present level of debt was weak, which illustrated the importance of ensuring that donor assistance was provided only on highly concessional terms and of establishing growth-oriented policies. The staffs of the IMF and World Bank will undertake a formal assessment of Haiti' s HIPC eligibility, and expect to present its results in a joint paper to their respective Boards later this year.

38. **The BRH stressed the importance of further accumulation of international reserves for strengthening Haiti's external position**. In this context, the BRH welcomed the staff' s analysis and discussion of the applicability of alternative benchmarks for establishing medium-term reserve accumulation targets. The BRH recognized that according to commonly used benchmarks the present level of international reserves was too low.

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[14] See Annex V—*Debt Sustainability Analysis.*

Officials stressed, however, that determining the appropriate level of reserves in Haiti would require consideration of qualitative factors such as the floating exchange regime, the high share of imports directly linked to private remittances and to the assembly export sector, and low debt-service obligations. Nevertheless, they noted that reserve coverage of about three months of imports could be a useful interim operational target that could provide sufficient protection against external vulnerabilities.

E. Other Issues

39. **The authorities welcomed technical assistance from the Fund**. In March 2005, a technical assistance mission from Fund' s Monetary and Financial Systems Department identified the technical assistance priorities of the BRH and advised the authorities on the appropriate instruments to upgrade the central bank monetary operations framework. A parallel mission from the Finance Department completed an on-site safeguards assessment of the BRH. Two technical assistance missions from the Fiscal Affairs Department are envisaged to recommend measures on revenue administration and tax policy, and public expenditure management. This expenditure management technical assistance mission has reviewed steps to strengthen the budget formulation process and the use of a new budget nomenclature. A technical assistance mission from the Statistics Department will recommend measures to strengthen the quality and timeliness of monetary data reported to the Fund.

40. **The staff underscored the urgency to improving the government's capacity to produce quality and timely fiscal and monetary data**. While the periodicity and coverage of economic statistics made available to the Fund are broadly adequate, problems exist with regard to their timeliness, which does not meet the standards stipulated in the Technical Memorandum of Understanding under the EPCA-supported program. The most severe problems exist with regard to data on Haiti' s international reserves, which largely reflect the excessive decentralization of accounting and financial reporting at the BRH. The staff welcomed the authorities' commitment to strengthen data reporting and reliability, especially for data required for the monitoring of performance under the program.

IV. Staff Appraisal

41. **The political transition initiated last year and the renewed donor support have created conditions for restoring growth and dealing with Haiti's acute social problems**. Over the past year, the transition government has restored financial stability, and good progress was made on the structural front. The EPCA program is broadly on track, the gourde has stabilized, inflation is on the decline, net international reserves have increased, and many structural measures were implemented as envisaged despite a difficult political and security environment. The international community pledged large resources at the July 2004 conference in Washington, and the Fund approved financial assistance in support of the EPCA program.

42. **The challenge ahead will be to raise growth over the medium term**. As a first step, it would be important to fully implement the social and economic agenda agreed with donors,

restore security, and establish conditions for fair and safe elections. Prerequisites for raising growth on a sustainable basis would include achieving broad domestic consensus on the economic and social strategy, prudent macroeconomic policies, and continued commitment to good governance. In that context, an important task of a new government to be formed in early 2006 would be to develop a medium-term development and poverty reduction strategy that could be supported by the international community.

43. **In the near term, however, the weaker-than-expected economic recovery will require policy adjustments and additional donor support**. The authorities are finalizing a supplementary budget for April−September 2005 that seeks to deal with revenue shortfalls and delays in project disbursements. Welcome steps have also been taken to strengthen tax administration to prevent further revenue shortfalls and protect priority outlays, including in areas where implementation of donor funded projects was slower than anticipated. Given the political and economic importance of sustaining electricity supply, the supplementary budget also provides additional resources needed to cover higher fuel costs and weaker hydro production. Additional outlays will also be needed to strengthen security and the government's control over provinces, which are essential for ensuring successful elections. The authorities have appropriately appealed to the international community to accelerate disbursement of pledged assistance, including for the additional financing needs of the budget, while the recourse to central bank financing should be minimized.

44. **The transition government's recognition of the importance of broad consultations with civil society and political parties on the 2005/06 budget is welcome**. Early initiation of this process will help align donor support with government priorities and the needs of all stakeholders, and will be especially important in view of the political transition that is envisaged to occur in the first half of next year. The staff welcomes the authorities' commitment to ensure that in the 2005/06 budget total government expenditure will be fully covered by domestic revenues and external donor financing, and there will not be any recourse to domestic financing.

45. **Monetary conditions need to be tightened to consolidate progress in reducing inflation and protect the program's external objectives**. The liquidity in the banking system appears excessive and needs to be absorbed and interest rates raised to positive levels in real terms. The authorities are committed to re-establishing price-based auctions for BRH bonds and to introducing in the 2005/06 budget a plan to strengthen the financial position of the central bank. The staff encourages publication of the interim audit of the BRH and welcomes the completion of the IMF safeguards assessment mission.

46. **The floating exchange rate regime has been appropriate in Haiti's circumstances**. The authorities' interventions in the foreign exchange market have been implemented judiciously, without disturbing market conditions while allowing an increase in international reserves to more comfortable levels. The staff supports the BRH's objective of increasing its net international reserves over the medium term.

47. **The authorities are encouraged to build on the progress that has been achieved on the structural front**. It will be important to carry forward the momentum for reforms, and in particular to complete the census of employment in the public sector, the survey of domestic arrears of the government, and to publish the list of beneficiaries of a government-supported program to compensate private businesses for damages suffered from the early 2004 conflict. The staff also encourages the authorities to strengthen the budget execution process, and welcomes the authorities' commitment to ensure that government transfers to the electricity sector are used as envisaged, and that all contracts on electricity production adhere to open and competitive bidding procedures.

48. **The staff supports the authorities' efforts to enhance aid coordination and mobilize additional donor financing**. It will be important to ensure that additional financial support that may be required for the supplementary budget be provided and external budget financing pledged for this year be fully disbursed, which will play a key role in reinvigorating the economy and restoring private sector confidence. For 2005/06, resources need to be identified to ensure full financing of the budget and elections. New financing needs to be provided on highly concessional terms to minimize Haiti's external debt burden, which could become a source of vulnerability. The staff welcomes the regularization of arrears to the World Bank and the agreement by some bilateral donors to defer debt-service payments and the treatment of arrears until a PRGF-supported program is in place.

49. **There is an urgent need to improve data reporting to the Fund for program monitoring and surveillance**. Serious problems continue with the delivery of timely fiscal and monetary data consistent with the standards agreed for program monitoring. These problems can be remedied by implementing the recommendations of the IMF safeguards assessment mission and technical assistance from the Fund.

50. **It is recommended that the next Article IV Consultation with Haiti be held on the standard 12-month cycle**.

Table 1. Haiti: Indicative Targets, September 2004–March 2005 1/

	EPCA										
	Actual stock at	Cumulative flows since September 2004									
	end-September 2004 2/	Prog.	Prog. with adjustor 3/	Actual	Prog.	Prog. with adjustor	Actual 4/	Prog.	Actual	Prog.	Actual
		Dec. 04			Mar. 05			June 05		Sept. 05	
Net central bank credit to the NFPS (in millions of gourdes)	21,581	-74	-330	-805	378	378	-169	339		0	
Of which:											
Central government	21,659	-74	-330	-773	378	378	-164	339		0	
Rest of NFPS	-79	0	0	-33	0	0	-5	0		0	
Net domestic banking sector credit to the nonfinancial public sector (in millions of gourdes)	21,097	-115	-370	-805	297	297	-178	217		-163	
Net domestic assets of the central bank (in millions of gourdes)	6,612	806	551	169	741	741	619	251		34	
Domestic arrears of the central government	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	
Over one-year maturity	0	0	...	0	0	0	0	0		0	
Net international reserves of central bank (in millions of U.S. dollars)	55	7	14	36	3	3	9	12		29	
Memorandum items: 5/											
Government total revenue (in millions of gourdes)	…	4,027	...	3,611	7,979	...	7,715	11,964		15,921	
Government total expenditure (in millions of gourdes)	…	5,893	...	5,562	11,764	...	11,429	18,732		26,084	

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

1/ Refer to technical memorandum for definitions of indicative targets.
2/ Stock at end-September has been updated with revised information provided by authorities.
3/ In December 2004, Haiti received additional cash budgetary support of US$12.7 million from Canada, which triggers the adjustor in section II.B of the TMU. Accordingly, the targets on BRH financing of the government and of the public sector and on BRH net domestic assets are adjusted downward by US$6.7 million, and the floor on the NIR is adjusted upward by the same amount.
4/ Monetary data is estimated from daily and weekly reports provided by the BRH as of March 25, 2005. Government revenue and expenditure figures reflects actual data through February and estimations for March.
5/ Not targets.

Table 2. Haiti: Selected Economic and Financial Indicators

Fiscal Year Ending September 30

	2000	2001	2002	2003	2004	2005		2006
						Prog.	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)								
National income and prices								
GDP at constant prices 1/	0.9	-1.0	-0.5	0.5	-3.8	2.5	2.5	3.0
GDP deflator	11.1	11.6	10.1	26.9	21.9	15.0	15.0	10.6
Consumer prices (period average)	11.5	16.8	8.7	32.5	27.1	16.6	16.6	9.6
Consumer prices (end-of-period)	15.3	12.3	10.1	42.5	22.5	12.0	12.0	10.0
External sector								
Exports (f.o.b.)	-2.5	-7.8	-10.5	21.0	12.8	4.8	8.6	4.4
Imports (f.o.b.)	6.8	-2.9	-6.9	13.6	6.0	24.4	31.6	5.4
Real effective exchange rate (+ appreciation)	-6.0	7.9	-8.9	-8.5	31.6	...	...	...
Central government								
Total revenue and grants	2.0	5.2	15.4	37.5	31.0		68.7	18.1
Total revenue 2/	-0.3	3.8	20.2	37.3	15.9	27.8	25.7	18.0
Total expenditure	13.4	8.7	20.6	39.8	17.5	46.5	49.8	19.4
Money and credit								
Net domestic assets 3/	18.1	9.4	17.0	26.2	10.6	6.9	6.2	7.7
Credit to public sector (net) 3/	7.9	8.5	9.4	9.3	4.6	-0.3	0.0	0.0
Credit to private sector 3/	16.9	-3.5	5.9	13.0	3.4	7.2	4.9	7.7
Broad money (including foreign currency deposits)	36.2	5.2	17.2	39.8	9.1	12.8	12.5	13.0
Velocity (GDP relative to broad money)	2.6	2.7	2.5	2.3	2.5	2.7	2.6	2.6
Average interest rate on time deposits	15.0	13.5	7.6	15.0	7.5	...	...	...
(In percent of GDP, unless otherwise indicated)								
Gross investment	27.3	25.9	24.9	30.7	27.3	27.5	29.1	29.3
Gross national savings	23.9	22.3	22.4	29.8	26.5	24.8	25.7	25.1
Of which: Public sector savings	0.7	-0.6	1.0	-0.3	1.0	0.2	-0.6	0.2
Savings-investment balance 4/	-3.5	-3.6	-2.5	-0.9	-0.8	-2.7	-3.4	-4.3
Central government overall balance (including grants)	-2.2	-2.4	-3.0	-3.5	-2.4	-1.2	-1.5	-1.7
Central government overall balance (excluding grants)	-2.5	-2.8	-3.2	-3.6	-3.7	-6.0	-6.6	-7.0
Central bank net credit to the central government	2.5	2.6	3.1	3.1	2.0	0.0	0.0	0.0
External current account balance (including official grants)	-1.0	-2.0	-1.0	-0.1	0.4	0.5	0.2	-1.0
External current account balance (excluding official grants)	-6.6	-6.5	-4.9	-4.8	-2.8	-7.5	-8.6	-9.1
External public debt (end-of-period)	29.9	33.6	36.1	44.4	37.2	30.7	31.2	30.7
Total public debt (end-of-period) 5/	31.3	36.8	39.4	48.2	39.5	32.6	34.1	33.2
External public debt service (in percent of exports of goods and nonfactor services)	7.9	8.7	7.9	8.5	9.2	9.2	9.3	7.8
(In millions of U.S. dollars, unless otherwise indicated)								
Overall balance of payments	-51.9	-7.9	-68.5	-10.9	33.0	80.1	64.0	6.1
Net international reserves 6/	162.9	108.8	53.0	38.8	54.5	85.4	83.6	113.6
Liquid gross reserves 7/	222.3	227.3	177.7	157.1	206.9	271.0	277.1	345.8
In months of imports of the following year	2.1	2.2	1.5	1.2	1.3	1.7	1.6	1.9
Exchange rate (gourdes per dollar, end-of-period)	28.3	25.5	29.7	42.0	36.8	...	...	...

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

1/ Based on the authorities' revised nominal GDP for 2000, 2001, and 2002.
2/ Excluding grants.
3/ In relation to broad money (including foreign currency deposits) at the beginning of the period.
4/ External current account balance excluding official capital grants.
5/ Includes external public sector debt, outstanding Central Bank bonds, and credit from commercial banks to the NFPS.
6/ Excludes commercial banks' foreign currency deposits with the BRH.
7/ Gross reserves excluding capital contributions to international organizations.

Table 3a: Central Government Operations

(In millions of gourdes)

	2003/04	2004/05								2005/06
	Oct-Sept.	Oct-Dec		Jan-Mar		April-Sept.		Oct-Sept.		Oct-Sept.
	Est.	Prog.	Prel. 4/	Prog.	Prel. 5/	Prog.	Proj.	Prog.	Proj.	Proj.
Total revenue and grants	**14,306**	**5,388**	**5,647**	**5,650**	**6,247**	**13,022**	**12,235**	**24,059**	**24,129**	**28,497**
Total revenue	12,457	4,027	3,611	3,952	4,104	7,942	7,942	15,921	15,657	18,477
Current revenue	12,457	4,027	3,611	3,952	4,104	7,942	7,942	15,921	15,657	18,477
Domestic taxes	8,769	3,021	2,596	2,855	2,598	5,474	5,474	11,351	10,668	…
Customs duties	3,481	1,003	917	1,094	1,112	2,463	2,463	4,560	4,491	…
Other current revenue	207	2	98	2	394	5	5	10	498	…
Grants	1,848	1,361	2,036	1,698	2,143	5,080	4,292	8,138	8,472	10,020
Budget support	476	350	1,129	350	970	700	757	1,400	2,855	529
Project grants	1,372	1,011	907	1,348	1,174	4,380	3,535	6,738	5,616	9,490
Total expenditure	**15,996**	**5,893**	**5,562**	**5,871**	**5,867**	**14,319**	**15,115**	**26,084**	**26,544**	**31,702**
Current expenditure	11,037	4,242	4,067	3,779	3,528	7,590	9,042	15,611	16,637	18,018
Wages and salaries	4,126	1,883	1,476	1,412	1,393	2,825	3,307	6,121	6,176	7,465
Net Operations	4,517	1,072	1,325	1,072	895	2,144	2,271	4,289	4,491	5,017
Operations	5,160	1,072	795	1,072	978	2,144	2,271	4,289	4,044	0
Other current expenditure 1/	-660	0	530	0	-83	0	0	0	447	0
Transfers to the central bank 2/	0	0	0	0	0	0	0	0	0	606
Interest payments	1,150	271	217	279	285	590	607	1,140	1,108	1,054
External	662	150	87	158	157	348	353	656	597	570
Domestic	488	121	129	121	128	242	255	484	512	484
Transfers and subsidies 3/	1,261	1,015	1,050	1,015	955	2,031	2,857	4,061	4,861	3,876
Capital expenditure	4,960	1,651	1,495	2,093	2,339	6,729	6,073	10,473	9,906	13,684
Domestically financed	3,031	454	348	496	991	1,542	1,184	2,492	2,523	1,061
Of which: counterpart funds	...	63		103		405	0	570	0	
Foreign-financed	1,929	1,197	1,147	1,596	1,348	5,188	4,889	7,981	7,384	12,623
Current account balance										
Including current grants	1,897	135	672	523	1,546	1,053	-343	1,711	1,875	989
Excluding grants	1,421	-215	-456	173	576	353	-1,100	311	-980	459
Overall balance exc. exceptional outlays	**-1,691**	**-1,866**	**85**	**-1,919**	**381**	**-6,377**	**-2,880**	**-10,162**	**-2,415**	**0**
Exceptional outlays	**1,722**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance										
Including grants	-3,413	-505	85	-222	381	-1,297	-2,880	-2,024	-2,415	-3,205
Excluding grants	-5,261	-1,866	-1,951	-1,919	-1,763	-6,377	-7,173	-10,162	-10,886	-13,225
Financing	**3,413**	**505**	**-85**	**222**	**-381**	**1,297**	**2,218**	**2,024**	**1,753**	**3,205**
External net financing	605	620	682	-190	-990	1,757	2,054	2,187	1,747	2,365
Loans (net)	-179	438	438	1,705	984	1,645	1,933	3,788	3,355	2,365
Disbursements	954	737	791	1,997	1,243	2,318	2,636	5,052	4,669	3,763
Budget support	397	551	551	1,748	1,068	1,511	1,283	3,810	2,902	630
Project loans	557	186	240	249	175	808	1,353	1,243	1,768	3,133
Amortization	-1,136	-300	-352	-291	-259	-673	-702	-1,264	-1,314	-1,398
Arrears (Net)	784	183	244	-1,896	-1,973	112	121	-1,601	-1,609	0
Accumulation	784	232	293	43	26	112	121	386	439	0
Reduction	0	-49	-49	-1,938	-1,999	0	0	-1,987	-2,048	0
Internal net financing	2,807	-115	-767	412	609	-460	164	-163	6	0
Banking system	2,789	-115	-767	412	609	-460	164	-163	6	0
BRH	2,821	-74	-773	453	609	-378	164	0	0	0
Commercial banks	-32	-41	6	-41	0	-82	0	-163	6	0
Arrears (Net)	18	0	0	0	0	0	0	0	0	0
Accumulation	800	0	0	0	0	0	0	0	0	0
Reduction	-783	0	0		0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	662	0	662	840

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

1/ Includes statistical discrepancy.
2/ To cover net operational losses of the central bank.
3/ Includes expenditures reclassified from operations to transfers and subsidies in 2004/05.
4/ Total external financing, including grants, was higher than programmed, primarily due to the disbursement of a US$12.7 million (G483 million) grant from Canada in late December.
5/ Foreign-financed capital expenditures include the disbursement of a US$2.8 million grant from Canada for Haiti's membership fee for the Caribbean Development Bank.
Grants were higher than programmed due to the increase in the grant component of World Bank financing.

Table 3b. Haiti: Central Government Operations

(In percent of GDP)

	2003/04	2004/05								2005/06
	Oct-Sept.	Oct-Dec		Jan-Mar		April-Sept.		Oct-Sept.		Oct-Sept.
	Est.	Prog.	Prel. 4/	Prog.	Prel. 5/	Prog.	Proj.	Prog. 6/	Proj.	Proj.
Total revenue and grants	**10.2**	**3.3**	**3.4**	**3.4**	**3.8**	**7.9**	**7.4**	**14.5**	**14.6**	**15.1**
Total revenue	8.9	2.4	2.2	2.4	2.5	4.8	4.8	9.6	9.5	9.8
Current revenue	8.9	2.4	2.2	2.4	2.5	4.8	4.8	9.6	9.5	9.8
Domestic taxes	6.2	1.8	1.6	1.7	1.6	3.3	3.3	6.9	6.4	0.0
Customs duties	2.5	0.6	0.6	0.7	0.7	1.5	1.5	2.8	2.7	0.0
Other current revenue	0.1	0.0	0.1	0.0	0.2	0.0	0.0	0.0	0.3	0.0
Grants	1.3	0.8	1.2	1.0	1.3	3.1	2.6	4.9	5.1	5.3
Budget support	0.3	0.2	0.7	0.2	0.6	0.4	0.5	0.8	1.7	0.3
Project grants	1.0	0.6	0.5	0.8	0.7	2.6	2.1	4.1	3.4	5.0
Total expenditure	**11.4**	**3.6**	**3.4**	**3.5**	**3.5**	**8.7**	**9.1**	**15.8**	**16.0**	**16.8**
Current expenditure	7.9	2.6	2.5	2.3	2.1	4.6	5.5	9.4	10.1	9.6
Wages and salaries	2.9	1.1	0.9	0.9	0.8	1.7	2.0	3.7	3.7	4.0
Net Operations	3.2	0.6	0.8	0.6	0.5	1.3	1.4	2.6	2.7	2.7
Operations	3.7	0.6	0.5	0.6	0.6	1.3	1.4	2.6	2.4	0.0
Other current expenditure 1/	-0.5	0.0	0.3	0.0	-0.1	0.0	0.0	0.0	0.3	0.0
Transfers to the central bank 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Interest payments	0.8	0.2	0.1	0.2	0.2	0.4	0.4	0.7	0.7	0.6
External	0.5	0.1	0.1	0.1	0.1	0.2	0.2	0.4	0.4	0.3
Domestic	0.3	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.3
Transfers and subsidies 3/	0.9	0.6	0.6	0.6	0.6	1.2	1.7	2.5	2.9	2.1
Capital expenditure	3.5	1.0	0.9	1.3	1.4	4.1	3.7	6.3	6.0	7.3
Domestically financed	2.2	0.3	0.2	0.3	0.6	0.9	0.7	1.5	1.5	0.6
Of which: counterpart funds	0.0	0.0	0.0	0.1	0.0	0.2	0.0	0.3	0.0	0.0
Foreign financed	1.4	0.7	0.7	1.0	0.8	3.1	3.0	4.8	4.5	6.7
Current account balance										
Including current grants	1.4	0.1	0.4	0.3	0.9	0.6	-0.2	1.0	1.1	0.5
Excluding grants	1.0	-0.1	-0.3	0.1	0.3	0.2	-0.7	0.2	-0.6	0.2
Overall balance excl. capital exceptional outlays	**-1.2**	**-1.1**	**0.1**	**-1.2**	**0.2**	**-3.9**	**-1.7**	**-6.1**	**-1.5**	**0.0**
Exceptional outlays	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance										
Including grants	-2.4	-0.3	0.1	-0.1	0.2	-0.8	-1.7	-1.2	-1.5	-1.7
Excluding grants	-3.7	-1.1	-1.2	-1.2	-1.1	-3.9	-4.3	-6.1	-6.6	-7.0
Financing	**2.4**	**0.3**	**-0.1**	**0.1**	**-0.2**	**0.8**	**1.3**	**1.2**	**1.1**	**1.7**
External net financing	0.4	0.4	0.4	-0.1	-0.6	1.1	1.2	1.3	1.1	1.3
Loans (net)	-0.1	0.3	0.3	1.0	0.6	1.0	1.2	2.3	2.0	1.3
Disbursements	0.7	0.4	0.5	1.2	0.8	1.4	1.6	3.1	2.8	2.0
Budget support	0.3	0.3	0.3	1.1	0.6	0.9	0.8	2.3	1.8	0.3
Project loans	0.4	0.1	0.1	0.2	0.1	0.5	0.8	0.8	1.1	1.7
Amortization	-0.8	-0.2	-0.2	-0.2	-0.2	-0.4	-0.4	-0.8	-0.8	-0.7
Arrears (net)	0.6	0.1	0.1	-1.1	-1.2	0.1	0.1	-1.0	-1.0	0.0
Accumulation	0.6	0.1	0.2	0.0	0.0	0.1	0.1	0.2	0.3	0.0
Reduction	0.0	0.0	0.0	-1.2	-1.2	0.0	0.0	-1.2	-1.2	0.0
Internal net financing	**2.0**	**-0.1**	**-0.5**	**0.2**	**0.4**	**-0.3**	**0.1**	**-0.1**	**0.0**	**0.0**
Banking system	2.0	-0.1	-0.5	0.2	0.4	-0.3	0.1	-0.1	0.0	0.0
BRH	2.0	0.0	-0.5	0.3	0.4	-0.2	0.1	0.0	0.0	0.0
Commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reduction	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.4	0.4
Memorandum item:										
Nominal GDP (millions of gourdes)	140,346	165,432	165,432	165,432	165,432	165,432	165,432	165,432	165,432	188,540

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

1/ Includes statistical discrepancy.
2/ To cover net operational losses of the central bank.
3/ Includes expenditures reclassified from operations to transfers and subsidies in 2004/05.
4/ Total external financing, including grants, was higher than programmed, primarily due to the disbursement of a US$12.7 million (G483 million) grant from Canada in late December.
5/ Foreign-financed capital expenditures include the disbursement of a US$2.8 million grant from Canada for Haiti's membership fee for the Caribbean Development Bank.
Grants were higher than programmed due to the increase in the grant component of World Bank financing.
6/ Program ratios differ slightly from those in Country Report No. 05/65 due to a minor revision in nominal GDP.

Table 4. Haiti: Summary Accounts of the Banking System

Fiscal Year Ending September 30

	2003/04		2004/05								
	Dec.	Sept.	Dec.		March		June		Sept.		2005/06
	Actual	Actual	Prog.	Prel.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Proj.
	(In millions of gourdes)										
	I. Central Bank										
Net foreign assets 1/	**5,430**	**6,564**	**6,823**	**7,917**	**6,751**	**7,475**	**7,163**	**7,557**	**7,920**	**8,300**	**10,658**
(In millions of U.S. dollars)	129	178	185	213	183	196	194	198	214	217	274
Net international reserves (program)	34	55	62	90	58	64	66	66	84	84	114
Commercial bank deposits	95	124	123	122	126	132	128	131	130	134	160
Net domestic assets	**4,413**	**2,121**	**2,936**	**2,301**	**2,790**	**2,176**	**2,221**	**1,779**	**1,902**	**1,469**	**476**
Credit to the nonfinancial public sector 2/	20,803	21,581	21,506	20,775	21,959	21,412	21,920	21,486	21,581	21,561	21,561
Of which: Credit to the central government	20,687	21,659	21,585	20,887	22,038	21,496	21,998	21,571	21,659	21,645	21,645
Liabilities to commercial banks	-18,619	-21,253	-20,427	-20,654	-21,027	-21,793	-21,555	-22,265	-21,536	-22,650	-23,644
Of which:											
Cash-in-vault and reserve deposits	-13,623	-17,708	-16,957	-17,110	-17,103	-18,250	-17,671	-18,026	-17,991	-17,519	-18,700
BRH bonds	-4,996	-3,545	-3,471	-3,544	-3,924	-3,543	-3,884	-4,240	-3,545	-5,131	-4,943
Other	2,229	1,793	1,857	2,179	1,857	2,558	1,857	2,558	1,857	2,558	2,558
Currency in circulation	**9,843**	**8,685**	**9,759**	**10,218**	**9,541**	**9,651**	**9,384**	**9,336**	**9,822**	**9,769**	**11,134**
	II. Consolidated Banking System										
Net foreign assets	**14,285**	**12,683**	**14,739**	**15,561**	**14,758**	**15,738**	**15,243**	**15,519**	**16,165**	**16,257**	**19,645**
(In millions of U.S. dollars)	339	344	399	418	399	412	412	406	436	426	506
Of which: Commercial banks NFA	210	166	213	205	216	216	218	208	222	208	233
Net domestic assets	**42,933**	**44,078**	**44,359**	**44,142**	**45,791**	**45,843**	**46,625**	**46,475**	**47,927**	**47,607**	**52,547**
Credit to the nonfinancial public sector 1/	20,339	21,097	21,023	20,292	21,476	20,919	21,436	20,994	21,097	21,069	21,069
Credit to the private sector	21,171	21,142	21,415	21,860	22,436	22,332	23,349	22,889	25,031	23,947	28,887
In gourdes	10,982	10,893	11,073	11,597	11,619	11,644	12,039	11,746	13,205	12,250	15,593
In foreign currency	10,189	10,249	10,341	10,263	10,816	10,688	11,310	11,144	11,827	11,697	13,294
In millions of U.S. dollars	242	278	280	276	293	280	306	292	320	306	344
Other	1,423	1,839	1,921	1,989	1,880	2,592	1,839	2,592	1,798	2,592	2,592
Broad money	**57,217**	**56,761**	**59,098**	**59,703**	**60,549**	**61,581**	**61,868**	**61,994**	**64,092**	**63,865**	**72,192**
Currency in circulation	9,843	8,685	9,759	10,218	9,541	9,651	9,384	9,336	9,822	9,769	11,134
Gourde deposits	23,372	25,824	26,584	26,227	27,607	27,275	28,436	28,390	29,440	29,386	33,491
Foreign currency deposits	24,002	22,252	22,755	23,257	23,401	24,655	24,047	24,268	24,831	24,709	27,567
In millions of U.S. dollars	570	604	617	625	634	645	651	657	672	669	737
	(Percentage change relative to broad money in the preceeding period) 3/										
Net foreign assets	1.6	-1.5	3.6	5.1	3.7	5.4	4.5	5.0	6.1	6.3	5.3
Net domestic assets	8.4	10.6	0.5	0.1	3.0	3.1	4.5	4.2	6.8	6.2	7.7
Credit to the nonfinancial public sector 2/	3.2	4.6	-0.1	-1.4	0.7	-0.3	0.6	-0.2	0.0	-0.1	0.0
Credit to the private sector	3.5	3.4	0.5	1.3	2.3	2.1	3.9	3.1	6.9	4.9	7.7
	(12-month percentage change)										
Broad money	39.8	9.1	3.3	4.3	3.6	5.4	11.9	12.1	12.9	12.5	13.0
Currency in circulation	13.3	2.9	-0.9	3.8	4.0	5.2	10.2	9.6	13.1	12.5	14.0
Gourde deposits	33.5	17.9	13.7	12.2	9.7	8.3	14.0	13.8	14.0	13.8	14.0
Foreign currency deposits	62.9	2.6	-5.2	-3.1	-2.8	2.4	10.1	11.1	11.6	11.0	11.6
Foreign currency deposits (U.S. dollars) 4/	45.5	17.1	8.3	9.5	6.0	7.8	6.6	7.6	11.2	10.7	10.2
Credit to the nonfinancial public sector 2/	23.9	12.8	3.4	-0.2	0.7	-1.9	6.2	4.0	0.0	-0.1	0.0
Credit to the private sector	22.1	9.2	1.2	3.3	7.5	7.0	12.7	10.5	18.4	13.3	20.6
Credit in gourdes	16.9	7.3	0.8	5.6	5.4	5.6	8.9	6.3	21.2	12.5	27.3
Credit in foreign currency	28.2	11.2	1.5	0.7	9.9	8.6	17.1	15.4	15.4	14.1	13.6
Credit in foreign currency (U.S. dollars) 4	14.6	26.9	15.8	13.9	19.7	14.3	13.2	7.9	14.8	10.1	12.4
Memorandum items:											
End-of-period gourdes per U.S. dollar	42	37	38	37	..	..		..		..	..
Net international reserves in percent of broad money	9.5	11.6	11.5	13.3	11.1	12.1	11.6	12.2	12.4	13.0	14.8
Share in foreign currency (in percent)											
Bank deposits	50.7	46.3	46.1	47.0	45.9	47.5	45.8	46.1	45.8	45.7	45.1
Credit to the private sector	48.1	48.5	48.3	46.9	48.2	47.9	48.4	48.7	47.2	48.8	46.0
Commercial Bank US$ loan / US$ deposits	42.4	46.1	45.4	44.1	46.2	43.3	47.0	44.4	47.5	45.8	46.7

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/ For all quarters, percentage change is calculated relative to the previous September.

4/ Percentage change calculated on US dollar values.

Table 5. Haiti: Balance of Payments

(In millions of U.S. dollars; unless otherwise indicated)

	2002	2003	2004	2005		2006
			Prel.	Prog.	Proj.	Proj.
Current account deficit (-) (excluding grants)	**-168.1**	**-141.0**	**-97.5**	**-333.0**	**-375.5**	**-409.8**
Trade balance (deficit -)	-709.4	-785.4	-809.9	-1,078.8	-1,151.1	-1,217.6
Exports, f.o.b.	273.2	330.4	372.7	390.7	404.8	422.7
Of which: Assembly industry exports	220.8	278.1	319.0	334.1	344.2	358.9
Imports, f.o.b.	-982.6	-1,115.8	-1,182.6	-1,469.5	-1,555.9	-1,640.3
Of which: Petroleum products	-157.3	-146.3	-218.0	-307.6	-273.8	-265.3
Services (net)	-92.6	-152.1	-204.9	-211.9	-216.8	-232.1
Receipts	163.7	130.9	131.7	159.2	159.8	176.5
Payments	-256.3	-283.0	-336.6	-371.0	-376.6	-408.6
Income (net)	-15.2	-14.3	-13.6	-22.2	-22.7	-25.9
Of which:						
Interest payments	-13.5	-14.7	-17.7	-17.6	-17.8	-13.6
Private transfers (net) 1/	649.0	810.8	931.0	979.9	1,015.1	1,065.8
External grants	135.1	137.2	113.1	357.5	385.9	364.1
Current account deficit (-) (including grants)	**-33.0**	**-3.7**	**15.6**	**24.5**	**10.4**	**-45.7**
Capital and financial accounts (deficit -)	**-35.4**	**-7.2**	**17.4**	**56.9**	**53.6**	**51.8**
Public sector capital flows (net)	-8.0	25.3	-4.6	99.7	88.3	56.3
Loan disbursements	13.0	49.6	24.0	133.0	122.9	89.6
Amortization	-21.0	-24.3	-28.6	-33.3	-34.6	-33.3
Banks (net) 2/	3.1	-46.8	29.0	-50.1	-42.1	-24.5
Direct investment	4.7	7.8	5.9	7.4	7.4	20.0
Other 3/	-35.3	6.5	-12.9	0.0	0.0	0.0
Overall balance (deficit -)	**-68.5**	**-10.9**	**33.0**	**81.4**	**64.0**	**6.1**
Financing	**68.5**	**10.9**	**-33.0**	**-81.4**	**-81.4**	**-56.1**
Change in net international reserves (increase -) 4/	41.0	9.7	-52.8	-38.0	-39.1	-56.1
Change in arrears (reduction -)	27.4	1.3	19.8	-43.4	-42.3	0.0
Rescheduling	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**17.4**	**50.0**
Memorandum items:						
Current account balance, excluding grants (in percent of GDP)	-4.9	-4.8	-2.8	-7.5	-8.6	-9.1
Current account balance, including grants (in percent of GDP)	-1.0	-0.1	0.4	0.5	0.2	-1.0
Exports (f.o.b) growth	-10.5	21.0	12.8	4.8	8.6	4.4
Import (f.o.b) growth	-6.9	13.6	6.0	24.3	31.6	5.4
External debt as percent of exports	286.1	284.7	261.0	248.9	240.4	230.0
NPV of external debt as percent of exports	200.9	195.9	186.8	...	173.3	...
Debt service as percent of exports	7.9	8.5	9.2	9.2	9.3	7.8
Net foreign assets of the central bank (US$ million)	135.1	125.5	178.3	215.8	217.4	273.5
Gross liquid international reserves (US$ million) 4/	177.7	157.0	206.9	277.1	277.1	345.8
Gross international reserves (in months of imports of goods and services)	2.2	1.8	2.0	2.0	1.9	2.3
Gross international reserves (in months of imports of goods and services) 5/	0.9	0.6	0.7	0.9	0.9	1.1
Gross liquid international reserves (in months of next year's imports of goods and services) 4/	1.5	1.2	1.3	1.7	1.6	1.9

Sources: Data provided by the central bank; and Fund staff estimates.

1/ Based on remittances transferred through authorized "transfer houses" and central bank, 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.

Table 6. Haiti: Medium-Term Scenario

				Prel.	Proj.				
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Real sector (annual percentage rate)									
Real GDP growth	-1.0	-0.5	0.5	-3.8	2.5	3.0	4.0	4.0	4.0
Inflation (CPI end-of-period)	12.3	10.1	42.5	22.5	12.0	10.0	8.0	7.0	6.0
Fiscal sector (in percent of GDP)									
Central government overall balance (including grants)	-2.4	-3.0	-3.5	-2.4	-1.5	-1.7	-1.6	-1.7	-1.6
Total revenue and grants	8.0	8.5	9.1	10.2	14.6	15.1	15.7	16.2	17.3
Central government revenue 1/	7.6	8.3	9.0	8.9	9.5	9.8	10.5	11.2	12.3
Central government expenditure 2/	10.4	11.5	12.6	12.6	16.0	16.8	17.3	17.9	18.9
Domestic financing	2.6	2.7	2.9	2.0	0.0	0.0	0.0	0.0	0.0
External financing	-0.2	0.3	0.6	0.4	1.5	1.7	1.6	1.7	1.6
Monetary sector									
Growth in Broad Money	5.2	17.2	39.8	9.1	12.5	13.0	13.6	11.7	10.9
External sector (in percent of GDP)									
Trade Balance	-20.9	-20.5	-26.6	-22.9	-26.4	-27.1	-26.4	-25.8	-24.5
Services (net)	-3.0	-2.7	-5.1	-5.8	-5.0	-5.2	-5.5	-5.8	-5.7
Income (net)	0.0	-0.4	-0.5	-0.4	-0.5	-0.6	-0.1	0.0	0.1
Private transfers (net)	17.3	18.7	27.4	26.3	23.3	23.8	23.7	23.2	23.0
External grants	4.5	3.9	4.6	3.2	8.9	8.1	7.7	8.2	7.8
Current account (incl. official transfers)	-2.0	-1.0	-0.1	0.4	0.2	-1.0	-0.7	-0.2	0.7
Current account (excl. official transfers)	-6.5	-4.9	-4.8	-2.8	-8.6	-9.1	-8.4	-8.4	-7.1
External financing gap	0.0	0.0	0.0	0.0	0.4	1.1	0.0	0.0	0.0
Of which : Central government	0.0	0.0	0.0	0.0	0.4	0.4	0.0	0.0	0.0
Liquid gross reserves (in millions of U.S. dollars)	227.3	177.7	157.1	206.9	277.1	345.8	380.3	476.3	603.7
In months of imports of the following year	2.2	1.5	1.2	1.3	1.6	1.9	2.0	2.5	3.0
Memorandum Items:									
Nominal GDP (millions of gourdes)	85,700	93,840	119,616	140,346	165,432	188,540	214,143	239,265	264,887

Sources: Haitian authorities; and Fund staff estimates.

1/ Includes current revenue and transfers from the BRH.
2/ Includes exceptional outlays.

Table 7: Haiti Indicators of Fund Credit, 2004-2009

(Fiscal year ending September 30)

	2004	2005	2006	2007	2008	2009
Outstanding Fund credit 1/						
In millions of SDRs	7.6	14.8	11.8	10.2	6.4	1.3
In millions of Gourde	446.0	855.5	751.5	700.1	461.4	96.4
In percent of quota	9.3	18.1	14.4	12.5	7.8	1.6
In percent of GDP	0.3	0.5	0.4	0.3	0.2	0.0
In percent of exports of goods and services	2.2	4.0	3.0	2.5	1.5	0.3
Debt service to the Fund 2/ 3/						
In millions of SDRs	5.0	3.5	3.5	2.0	4.2	5.5
In millions of Gourde	294.8	204.7	225.3	136.3	304.9	412.6
In percent of quota	6.1	4.3	4.3	2.4	5.2	6.7
In percent of GDP	0.2	0.1	0.1	0.1	0.1	0.2
In percent of exports of goods and services	1.5	1.0	0.9	0.5	1.0	1.2
In percent of debt service due	16.0	10.3	11.4	5.9	11.4	14.3
(In millions of SDRs)						
Net use of Fund credit	-4.9	7.2	-3.0	-1.5	-3.8	-5.1
Disbursements	0.0	10.2	0.0	0.0	0.0	0.0
Repayments	4.9	3.0	3.0	1.5	3.8	5.1

Sources: IMF, Finance Department, and staff projections.

1/ Includes the 12.5 percent of quota disbursement under the emergency post-conflict assistance.
2/ Including SDR charges.
3/ Before subsidization of GRA charges.

Table 8. Haiti: Indicators of External Vulnerability

(Units as indicated)

				Prel.	Proj.				
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Debt indicators									
Total external public debt in percent of GDP	33.6	36.1	44.4	37.2	31.2	30.7	30.6	30.6	30.5
Total external public debt in percent of exports 1/	273.3	286.1	284.7	261.0	240.4	230.0	235.4	238.1	233.8
External debt service in percent of GDP	1.1	1.0	1.3	1.3	1.2	1.0	1.1	1.1	1.1
Amortization	0.8	0.6	0.8	0.8	0.8	0.7	0.8	0.8	0.8
Interest	0.3	0.4	0.5	0.5	0.4	0.3	0.3	0.3	0.3
External debt service in percent of exports 1/	8.7	7.9	8.5	9.2	9.3	7.8	8.3	8.7	8.3
Amortization	6.2	4.8	5.3	5.7	6.1	5.6	6.0	6.4	6.4
Interest	2.5	3.1	3.2	3.5	3.1	2.3	2.2	2.2	2.0
External debt service in percent of current central government reve	15.1	13.1	15.3	13.7	12.7	11.1	10.5	10.2	9.1
Amortization	10.8	8.0	9.5	8.5	8.4	7.9	7.7	7.6	6.9
Interest	4.3	5.1	5.7	5.2	4.3	3.2	2.8	2.6	2.2
Other indicators									
Exports (percent change, 12-month basis in U.S. dollars)	-7.8	-10.5	21.0	12.8	8.6	4.4	4.3	5.3	5.4
Imports (percent change, 12-month basis in U.S. dollars)	-2.9	-6.9	13.6	6.0	31.6	5.4	3.6	3.8	1.9
Remittances and grants in percent of gross disposable income	18.6	19.1	25.3	23.4	26.2	25.9	25.4	25.5	25.0
Real effective exchange rate appreciation (+) (end of period)	7.9	-8.9	-8.5	31.6	...	...	...	...	...
Exchange rate (per U.S. dollar, period average)	23.8	27.1	40.5	39.7	...	...	...	...	...
Current account balance (US$ million) 2/	-72.5	-33.0	-3.7	15.6	10.4	-45.7	-32.7	-8.9	35.4
Capital and financial account balance (US$ million)	64.5	-35.4	-7.2	17.4	53.6	51.8	67.2	104.9	91.9
Public sector	0.8	-8.0	25.3	-4.6	88.3	56.3	77.0	88.2	85.7
Private sector 3/	63.8	-27.5	-32.5	22.0	-34.7	-4.5	-9.8	16.8	6.2
Liquid gross reserves (US$ million)	227.3	177.7	157.1	206.9	277.1	345.8	380.3	476.3	603.7
In months of imports of the following year 1/	2.2	1.5	1.2	1.3	1.6	1.9	2.0	2.5	3.0
In percent of amortizations due in the following year	1,084.5	730.6	548.6	598.3	833.0	923.4	909.4	1,074.6	1,361.8
In percent of base money	49.9	40.0	36.7	34.9	47.1	63.4	65.0	76.0	90.3

Sources: Central Bank of Haiti; and Fund staff estimates.

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

Table 9. Haiti: Stock of Arrears and Projected Debt Service, 2000–05

(Fiscal year ending September 30, in millions of U.S. dollars)

	2000	2001	2002	2003	2004 Est.	2005 Proj.
Total arrears	6.0	17.8	50.9	52.1	78.1	...
Multilateral Creditors	2.1	11.2	39.0	33.3	49.2	...
IDB	0.2	4.0	19.6	0.0	0.0	...
IDA-WORLD BANK	0.8	6.1	19.0	32.4	49.2	...
IMF	0.2	0.0	0.0	0.0	0.0	...
Other (OPEC and FIDA)	0.9	1.1	0.4	0.9	0.0	...
Bilateral Creditors	3.9	6.6	11.9	18.8	28.9	...
Projected debt service 1/	...	...	...	...	...	55.9
Multilateral creditors	...	...	...	...	...	45.8
IDB	...	...	...	...	...	21.6
IDA-WORLD BANK	...	...	...	...	...	16.5
IMF	...	...	...	...	...	4.8
Other (OPEC and FIDA)	...	...	...	...	...	3.0
Bilateral Creditors	...	...	...	...	...	10.1

Sources: BRH; and staff projections

1/ Excluding arrears reduction.

Table 10. Haiti: External Financing Requirements and Sources, 2000–05

(In millions of U.S. dollars; unless otherwise indicated)

	2000	2001	2002	2003	Prel. 2004	Proj. 2005
External resources (identified)	1,405.3	1,269.6	1,237.1	1,467.2	1,582.5	2,066.2
Exports of goods and services	503.0	442.6	436.9	461.3	504.4	564.6
Income (net)	28.2	12.5	-1.7	0.4	4.0	-4.9
Private transfers (net)	578.0	623.6	649.0	810.8	931.0	1,015.1
Official transfers (net)	221.3	160.6	135.1	137.2	113.1	385.4
Foreign Direct investment	8.0	2.0	4.7	7.8	5.9	7.4
Medium- and long-term official loans	66.9	28.3	13.0	49.6	24.0	98.7
Of which: IMF purchase	0.0	0.0	0.0	0.0	0.0	15.6
Use of resources	1,386.8	1,316.2	1,193.2	1,462.6	1,566.6	2,139.5
Imports of goods and services	1,355.0	1,300.8	1,238.9	1,398.8	1,519.2	1,932.5
Debt Service payments	32.6	25.6	6.4	37.5	26.4	94.3
Of which: net accumulation of arrears	6.0	11.8	27.4	1.3	19.8	-42.3
IMF repurchases and charges	4.0	1.0	14.3	15.1	7.4	5.0
Buildup of gross reserves	-59.9	4.9	-63.3	-35.6	42.6	65.6
Commerical banks buildup of reserves	55.1	-16.3	-3.1	46.8	-29.0	42.1
Other capital incl. errors and omissions	-18.6	46.6	-43.9	-4.6	-15.8	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	73.3
Program loans and grants	0.0	0.0	0.0	0.0	0.0	40.3
IMF purchase	0.0	0.0	0.0	0.0	0.0	15.6
Residual financing need	0.0	0.0	0.0	0.0	0.0	17.4

Sources: Data provided by the central bank; and Fund staff estimates.

Table 11. Haiti: External Assistance to the Government and Debt Service

(In millions of U.S. dollars)

	2003–04	2004–05	2005–06	Cumulative 2003–06
External assistance to the government 1/	**70.6**	**345.8**	**328.0**	**744.5**
Budgetary financing of projects	48.6	194.3	300.4	543.4
Bilateral creditors	33.2	94.1	157.2	284.5
United States	14.8	31.5	78.4	124.7
Canada	4.7	35.1	58.6	98.4
Taiwan	5.9	14.1	0.0	20.0
France	4.0	7.0	8.9	19.9
Others	3.8	6.3	11.2	21.4
Multilateral creditors	15.4	100.2	143.3	258.9
World Bank	0.0	6.7	21.0	27.7
IDB	9.5	40.0	56.7	106.2
EU	5.4	49.1	60.3	114.7
Other	0.5	4.5	5.3	10.3
Budget support	22.0	151.5	27.6	201.1
Bilateral creditors	12.0	50.4	12.6	75.0
United States	12.0	36.4	12.6	61.0
Canada	0.0	12.7	0.0	12.7
Taiwan	0.0	0.0	0.0	0.0
France	0.0	1.3	0.0	1.3
Others	0.0	0.0	0.0	0.0
Multilateral creditors	10.0	101.1	15.0	126.1
World Bank	0.0	61.8	0.0	61.8
IDB	10.0	39.3	15.0	64.3
EU	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Debt service	50.7	55.9	46.4	153.1
Bilateral creditors	10.2	10.1	9.0	29.2
Multilateral creditors	40.6	45.8	37.5	123.9
Net transfers	19.9	289.9	281.6	591.3
Bilateral creditors	35.1	134.4	160.8	330.3
Multilateral creditors	-15.2	155.5	120.8	261.1

Sources: Data provided by donors, the central bank, and staff projections.

1/ Includes only identified financing; excludes humanitarian assistance and election financing.

Table 12. Haiti: Millennium Development Goals (Cont.)

	1990	1995	2001	2002	2003	Target 2015
Goal 1. Eradicate Extreme Poverty and Hunger						
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.						
1. Population below US$1 a day (in percent)				76		
2. Poverty gap ratio at US$1 a day (in percent)				55		
3. Share of income or consumption held by poorest 20 percent (in percent)						
Target 2: Halve, between 1990 and 2015, the proportion of people suffering hunger						
4. Prevalence of child malnutrition (percent of children under 5)	26.8	27.5	17.3			13.4
5. Population below minimum level of dietary energy consumption (in percent)	65.0	60.0	49.0			32.5
Goal 2. Achieve Universal Primary Education						
Target 3. Ensure that, by 2015, children will be able to complete a full course of primary schooling.						
6. Net primary enrollment ratio (percent of relevant age group)	22.1	56.1				100
7. Percentage of cohort reaching grade 5						
8. Youth literary rate (percent ages 15-24) 2/	54.8	59.7	65.3	66.2	66.2	
Goal 3. Promote Gender Equality and Empower Women						
Target 4. Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015						
9. Ratio of girls to boys in primary and secondary education (percent)	94.6					100
10. Ratio of young literate females to males (percent ages 15-24)	96.3	98.6	100.8	101.1	101.1	100
11. Share of women employed in the nonagricultural sector (percent)	39.5					
12. Proportion of seats held by women in the national parliament (percent) 2/			4	4	4	
Goal 4. Reduce Child Mortality						
Target 5. Reduce by two-thirds, between 1990 and 2015, the under five mortality rate						
13. Under-five mortality rate (per 1,000)	150	137	125	123	118	50
14. Infant mortality rate (per 1,000 live births)	102	91	81	79	76	
15. Immunization against measles (percent of children under 12 months)	31	49	53	53	53	
Goal 5. Improve Maternal Health						
Target 6. Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.						
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,000	1,100	680			
17. Proportion of births attended by skilled health personnel	23	19.5	23.8			

Table 12. Haiti: Millennium Development Goals (Concl.)

	1990	1995	2001	2002	2003	Target 2015
Goal 6. Combat HIV/AIDS, Malaria, and Other Diseases						
Target 7. Halt by 2015, and begin to reverse, the spread of HIV/AIDS						
18. HIV prevalence among females (percent ages 15-24)			5.5		5.6	
19. Contraceptive prevalence rate (percent of women ages 15-49)	11	17.6	28.1			
20. Number of children orphaned by HIV/AIDS			200,000			
Target 8. Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases						
21. Prevalence of death associated with malaria						
22. Share of population in malaria risk areas using effective prevention and treatment						
23. Incidence of tuberculosis (per 100,000 people)	604		433	409	386	
24. Tuberculosis cases detected under DOTS (percent)		2	31	41.2	46	
Target 9. Integrate the principles of sustainable development into policies and programs. Reverse the loss of environment resources.						
25. Forest area (percent of total land area)	5.7		3.2			
26. Nationally protected areas (percent of total land area)		0.4	0.4	0.4		
27. GDP per unit of energy use (PPP $ per Kg oil equivalent)	7.7	6.2	6.4	6.4		
28. CO2 emissions (metric tons per capita)	0.2	0.1	0.2	0.2		
29. Proportion of population using solid fuels						
Target 10. Halve by 2015 proportion of people without access to safe drinking water						
30. Access to improved water source (percent of population)	53		46	71		76.5
Target 11. Achieve by 2020 significant improvement for at least 100 million slum dwellers						
31. Access to improved sanitation (percent of population)	23		28	34		
32. Access to secure tenure (percent of population)					66.2	
Goal 8. Develop a Global Partnership for Development 1/						
Target 16. Develop and implement strategies for productive work for youth						
45. Unemployment rate of population ages 15-24 (total)						
Female						
Male						
Target 17. Provide access to affordable essential drugs						
46. Proportion of population with access to affordable essential drugs						
Target 18. Make available new technologies, especially information and communications						
47. Fixed line and mobile telephones (per 1,000 people)	6.9	8.4	20.7	32.5	55.2	
48. Personal computers (per 1,000 people)						

Sources: World Bank; UN Statistics Division, and Fund staff estimates

1/ Targets 12-15 and indicators 33-44 are excluded because they cannot be measured on a country specific basis. These are related to official development assistance, market access, and HIPC initiative.

2/ Data for 2004 are the same as 2003 data.

Table 13. Haiti: Status of Main Policy Actions Under the EPCA

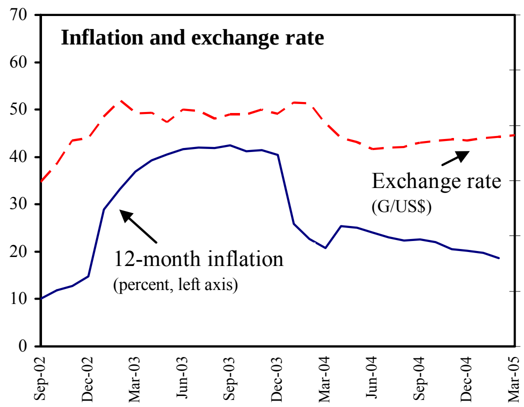
	Status
Fiscal Policy	
• Prepare the 2005/06 budget according to the new budget nomenclature for all revenue and expenditure by end-March 2005. In particular: ➢ Establish, by end-March 2005, a macro framework for the 2005/06 budget, and indicative ceilings for current and capital expenditures (inclusive of donor-financed spending) to be sent to spending ministries; and	To be completed by end-April 2005.
➢ Limit the amount budgeted for the "*interventions publiques*" post to 2 percent of domestically financed spending, and cease systematic internal control for normal expenditure by end-December 2004 by the Cour Supérieure des Comptes et du Contentieux Administratif (CSCCA), the external audit body established by the Constitution.	Decree ending the systematic internal control by the CSCCA has been approved by the Cabinet and will shortly be published in the next official journal.
• Complete a comprehensive survey to identify domestic payment arrears of the central government by end-March 2005; verify the authenticity of the reported arrears by the CSCCA and establish a strategy to clear past arrears by end-June 2005.	A consultant will be hired to assist with the survey, which is envisaged to be completed by end-June 2005.
• Finalize and publish the CSCCA's audit report on the annual accounts of the central government for 2001/02 and 2002/03 by end-September 2005.	
• CSCCA to launch an audit of the treasury accounts for 2003/04 by end-September 2005, with a view to completing and publishing the audit by December 2005.	
• Extend computerized data collection at customs.	Customs has been training personnel to enhance computerized data collection.
• Implement pre-shipment verification to all ports of entry and borders of Haiti by September 2005.	
• Establish a program for the reinforcement and use of the central tax payer file on the basis of tax payers' Fiscal Identification Number (NIF) by March 2005.	A program has been prepared.
Monetary and Financial Sector Policy	
• Continue monthly briefing sessions between the BRH and the banking sector and introduce quarterly briefings for the private sector to communicate the orientation of monetary policy and receive feedback.	Monthly briefing sessions for the banking sector have taken place regularly; however quarterly briefings for the private sector have not yet started.
• Strengthen surveillance of cooperatives, including by expanding on-site inspections.	A plan to strengthen surveillance of cooperatives is in place. On-site inspection started in November 2004.
• Revise by September 2005 a draft of a new central bank (BRH) law that would establish independence of the central bank.	

Table 13. Haiti: Status of Main Policy Actions Under the EPCA

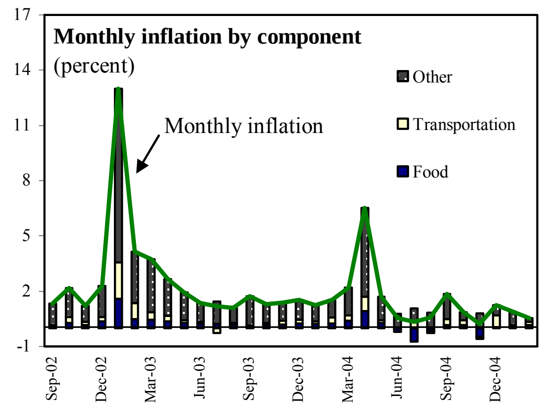
• Complete IMF safeguards assessment.	The on-site inspection was completed on March 18, 2005.
• Complete external audit of the 2003/04 BRH annual accounts by an international, reputable auditing firm.	An external audit firm has been hired.
Program financing and arrears clearance	
• Regularize arrears to the World Bank.	Completed.
• Contact Paris Club creditors to develop a plan for addressing arrears and start the data reconciliation process.	An informal standstill agreement on payments to selected Paris Club creditors has been reached for the program period. Data reconciliation process ongoing.
Governance	
• Anti-Corruption Unit to become operational by end-December 2004.	Completed.
• Complete pre-audit of Teleco and launch pre-audit of EDH by end-December 2004.	Pre-audits of Teleco and EDH have been initiated.
• Complete a census of employment by end-March 2005 of the ministries and key public enterprises (Teleco, EDH, CAMEP, AAN, and APN).	The census is envisaged to be completed by end-June 2005.
• Prepare by end-December terms of reference for hiring international financial auditing firms with a view to launching the audit of CAMEP, AAN, and APN before end-June 2005.	Requests for offers for audits of the three public sector enterprises have been published.
Other	
• Set up a working group of the Ministry of Economy and Finance and the BRH and establish meetings regularly to ensure quality and timeliness of fiscal and monetary data reporting.	Working group has been meeting twice a month since November 2004.
• Implement and publish new CPI by June 2005, with the August 2004 base.	Good progress has been made on the implementation of new CPI.

Figure 1. Haiti- Inflation and Monetary Developments 1/

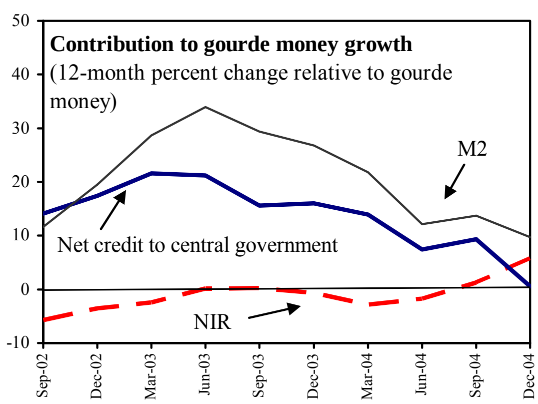
The exchange rate has stabilized, and CPI inflation has been declining...



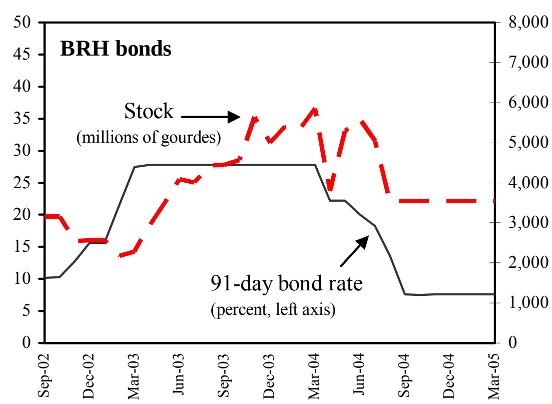
... helped by a reduction of monetary financing of the budget and low food price inflation, notwithstanding pressures from international fuel prices.



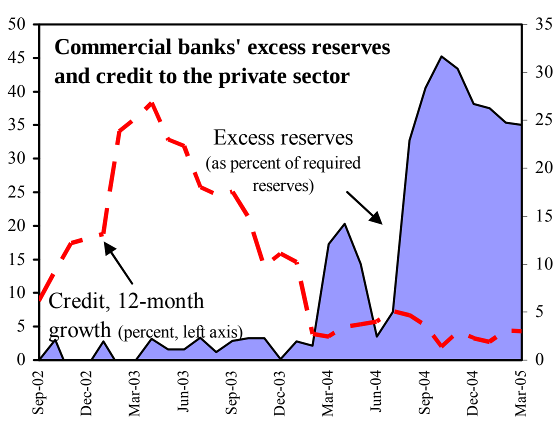
As credit to the central government has declined, monetary authorities have eased monetary conditions by accumulating net international reserves...



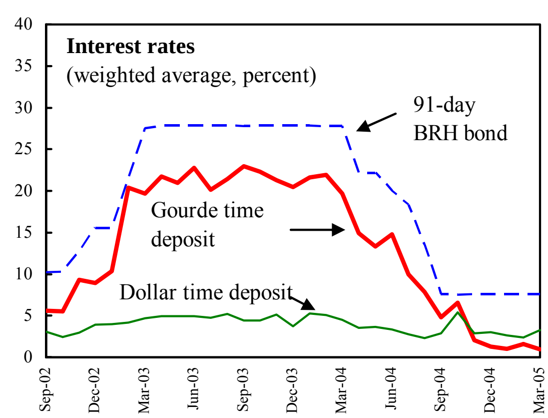
... and reducing the overall stock and interest rates on BRH bonds.



Commercial banks' excess reserves increased while recovery of credit to the private sector remains sluggish,



... and banks reduced interest rates on gourde deposits to below dollar deposit rates.



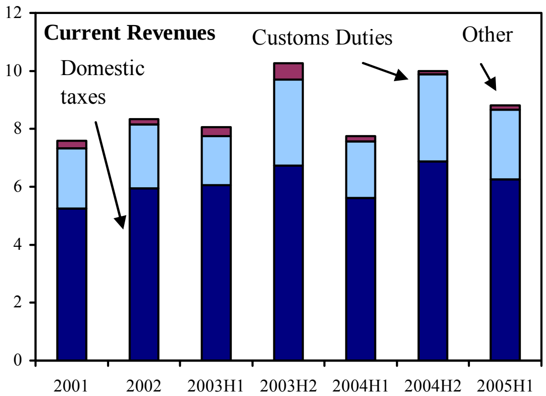
Sources: BRH, IHSI, and Fund staff estimates

1/ Data for March 2005 are estimated based on BRH weekly reports. Data available through March 25, 2005.

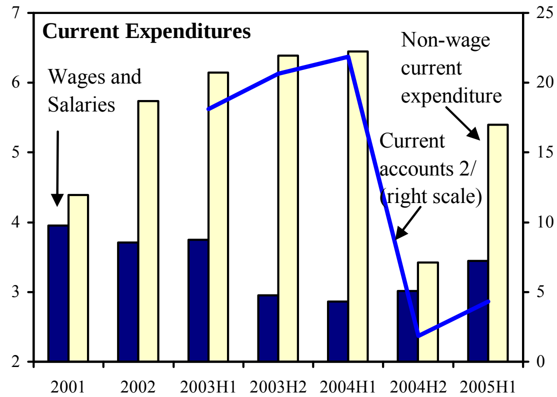
Figure 2. Haiti. Fiscal Developments 1/

(In percent of GDP; fiscal year ending September 30)

Government revenues increased due to improved customs administration,

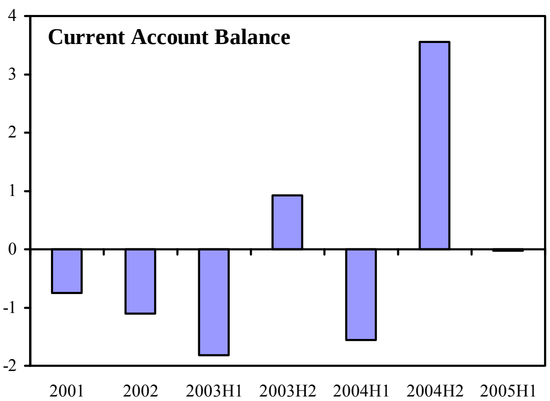


and while wages and salaries increased, non-wage current expenditures declined sharply as spending through current accounts was restrained...

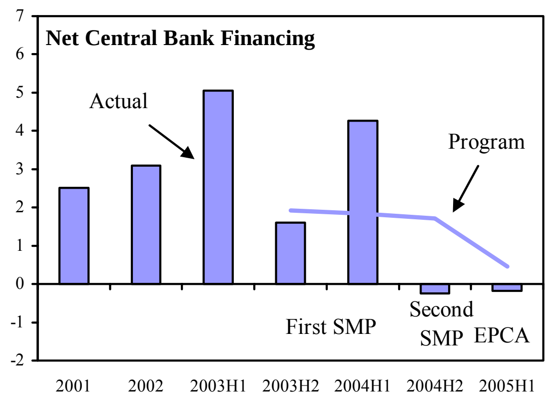


2/ Spending through current accounts in percent of budgetary credits for nonwage current spending.

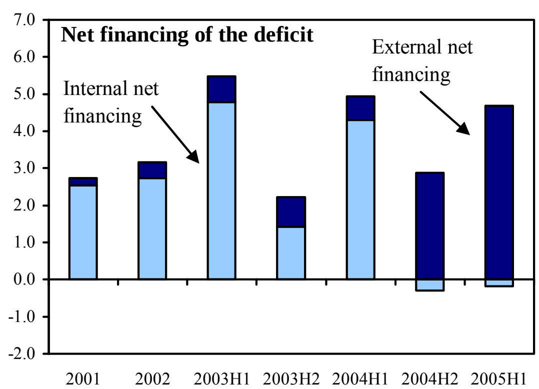
..helping improve the fiscal position.



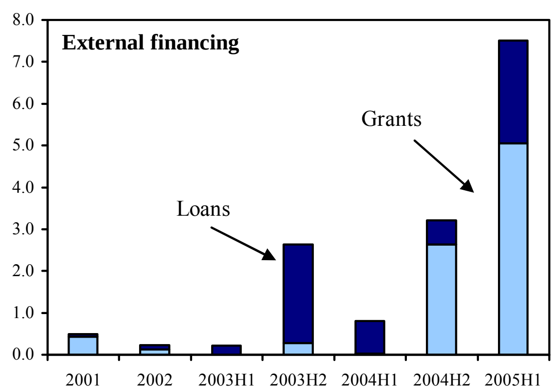
The fiscal program has remained broadly on track, except in the first half of 2004,...



...with a shift from domestic financing to external financing...



...and an increasing share of grant financing.

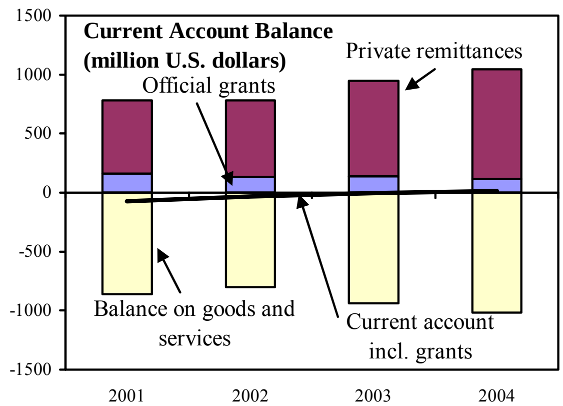


Sources: Ministry of Finance, BRH, and Fund staff estimates.

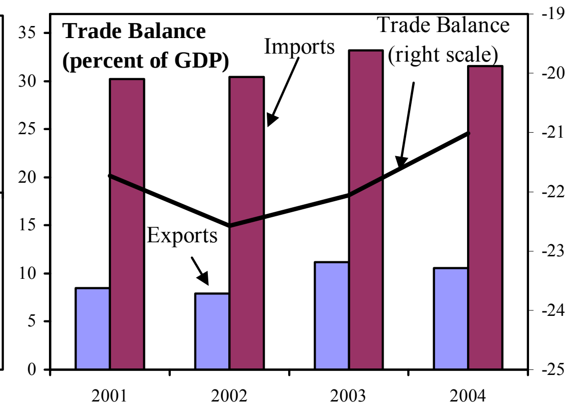
1/ Six-monthly data are annualized.

Figure 3. Haiti. External Developments

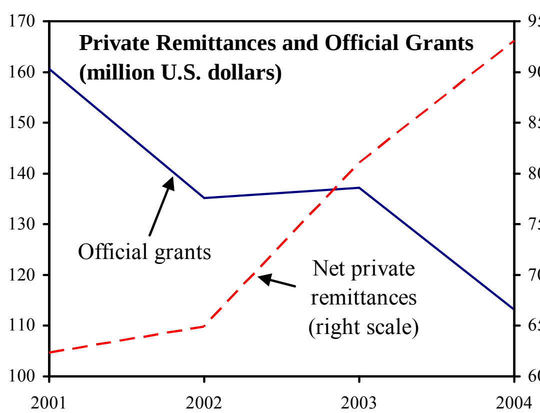
Private remittances and official grants have contributed to a balanced current account...



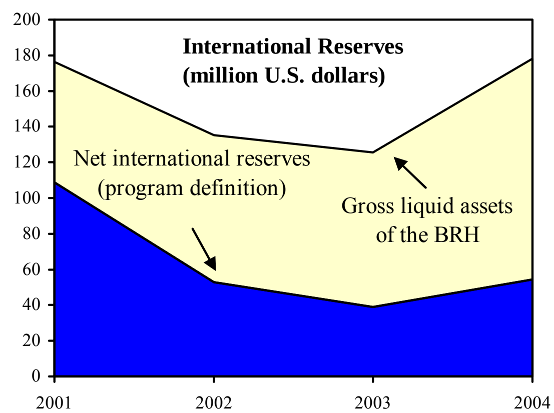
...while both exports and imports were largely unaffected by the developments in 2004.



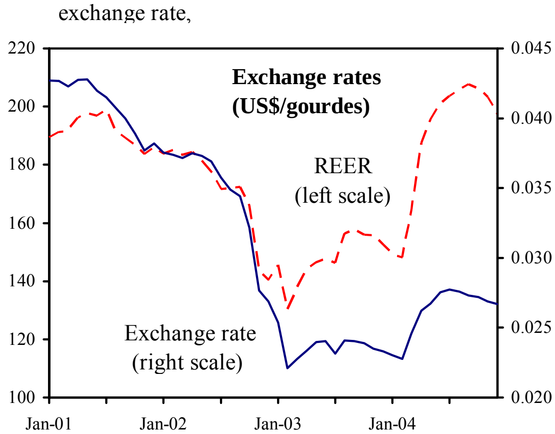
A sharp increase in private remittances...



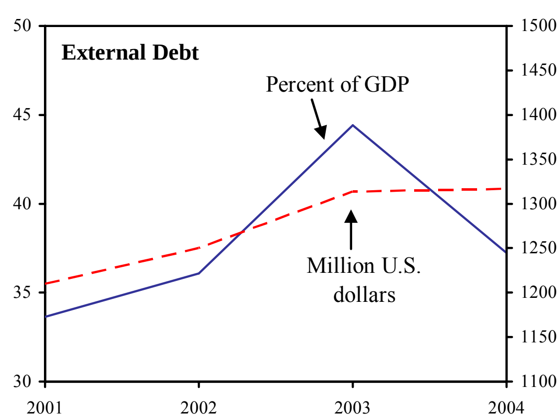
...helped boost international reserves...



...and contributed to a rebound in the real exchange rate,



...while exchange rate fluctuations strongly affected debt to GDP ratios.



Sources: BRH and Fund staff estimates

HAITI—FUND RELATIONS

As of March 31, 2005

I. **Membership status**: Joined September 8, 1953; Article VIII.

II. **General resources account**	**SDR Million**	**Percent of Quota**
Quota	81.90	100.00
Fund holdings of currency	92.06	112.41
Reserve position in Fund	0.07	0.08

III. **SDR department:**	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	13.70	100.00
Holdings	0.03	0.19

IV. **Outstanding purchases and loans:**	**SDR Million**	**Percent of Quota**
PRGF Arrangements	6.07	7.41
Emergency Post-Conflict Assistance	10.23	12.49

V. **Financial arrangements**:

Type of Arrangement	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR million)**
PRGF	10/18/96	10/17/99	91.05	15.18
Stand-by	03/08/95	03/07/96	20.00	16.40
Stand-by	09/18/89	12/31/90	21.00	15.00

VI. **Projected obligations to the Fund**: (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2005	**2006**	**2007**	**2008**	**2009**
Principal	3.04	3.04		3.84	5.12
Charges/interest	0.54	0.70	0.69	0.65	0.48
Total	**3.57**	**3.71**	**0.69**	**4.49**	**5.60**

VII. **Exchange arrangements**:

Managed floating with no predetermined path for the exchange rate. The change from a fixed to managed floating regime took place in January 1990. Haiti's exchange system is free of restrictions on the making of payments and transfers for current international transactions. Since September 1991 all transactions have taken place at the free (interbank) market rate.

VIII. **Article IV Consultation**

The last Article IV consultation was concluded by the Executive Board on January 24, 2003. Haiti is on the standard 12-month cycle.

IX. **Technical assistance**: A long-term macroeconomic advisor worked in the president' s office from May 1999 to February 2001.

Technical assistance missions since 1997:

Department	**Dates**	**Purpose**
TGS	October 1997; February 1999	Information technology
FAD	April 2005	Public expenditure management.
	August–September 2004	Public expenditure management
	June 1999	Industrial exemptions
	October 1998	Large taxpayer unit
	March 1997–September 1998	Exemptions system and investment code
	November 1997	Direct taxation and exemption system
MFD	March 2005	Monetary Operations
	July–August 2002	Money laundering
	January 2002	Banking supervision
	May 2001	Banking supervision
	October 2000	Money laundering
	October 2000	Banking supervision
	January 2000	Dollarization and policy response
	June 1999	Central bank organization
	August–October 1998; June–July 1999; October 2000	Banking supervision
	July 1998	Banking law
	January 1997	Role of the central bank
	August 1997	Banking law and monetary policy
	October 1995–April 1998	Banking supervision

STA	January 1996–October 1997; June 1996; July 1996; February 1999; March 2000	Real sector statistics
	February 1997; March 1998; August 1998	Money and banking statistics
	November 1996; March 2000	Balance of payments statistics
LEG	March, June, and September 2000	Banking and central bank laws
INS	April 2002	Course on financial programming

X. **Resident representative**: Mr. Mounir Rached has been the Fund' s Resident Representative since October 2002

Haiti—Relations with the World Bank Group

(Prepared by World Bank Staff)

Following the change of government in March 2004, the World Bank stepped up its engagement in Haiti as part of a broader Government/multi-donors partnership to respond to Haiti' s social, economic and institutional needs. In that context, a joint government-donors needs assessment carried out in May provided the basis for the Transitional Government' s two year Interim Cooperation Framework (ICF). The ICF was presented at an international donors conference on July 19–20, 2004 at World Bank Headquarters, where donor countries and international organizations pledged US$1.08 billion in fresh resources to support the implementation of the ICF. The Bank pledged to support the ICF with up to US$150 million in IDA grants and credits complemented with US$3.5 million in small grants from the Post-Conflict Fund and US$6.4 million in small grants from the trust for Low Income Countries Under Stress (LICUS).

The Bank and the Haitian authorities have since prepared a Transitional Support Strategy (TSS) to program the Bank' s support to Haiti for the period July 2004-June 2006. The TSS was reviewed by the Bank' s Board on January 6, 2004. On the same day, the Board approved a fast-disbursing Economic Governance Reform Operation (EGRO) for US$61 million and an emergency recovery and disaster management project for US$12 million. The approval of the IDA assistance followed the clearance of Haiti' s arrears to the World Bank on January 4, 2005. The Bank is also preparing a technical assistance project (US$2 million) to strengthen institutional capacity for the design and implementation of policies and help improve the institutional environment for increased donor financing in the future. During the second year of the implementation of the TSS, the Bank would provide up to an additional US$75 million in IDA assistance contingent on progress in the first year of the program**.** This additional assistance may help create economic and social opportunities in rural areas and small towns, including through community-driven development projects and a multi-sectoral investment program. In an effort to reduce Haiti' s debt burden, the Bank made maximum use of the grant provision under IDA 13 to convert into grants 51 percent of its fiscal year 2004/05 financing to Haiti. Under IDA 14, there will be room to convert into grants a similar and possibly a larger share of the Bank' s fiscal year 2005/06 financing to Haiti.

The Bank' s policy dialogue, financial and technical assistance span several thematic areas including: civil society monitoring of governance policy performance, strategic communication for development, donor coordination, public enterprise audit and management, rural development, budgetary management and financial control, public sector procurement, anti-corruption, management of road maintenance fund, school feeding and public-private partnership in education, solid waste management, disaster management and early warning systems, rural safe water provision and management, and energy.

Since July 2004, the Bank' s disbursements to Haiti have amounted to about US$50 million, of which nearly US$47 million in budget support on account of the EGRO.

The IFC' s priorities in Haiti include strengthening domestic financial institutions and job creation. The IFC currently has two investments in Haiti: (i) a US$400,000 equity investment in Micro Credit National; and (ii) a US$20 million investment in Grupo M – a Dominican textile company with an important investment in Haiti to finance the start-up of an industrial park/free trade zone located just across the border in Ouanaminthe, Haiti.

The most recent World Bank Country Assistance Strategy for Haiti was reviewed by the Bank' s Board in 1996.

Haiti—Relations with the IDB
(Prepared by IDB Staff)

The IDB' s portfolio of 10 projects under its ongoing transition strategy of re-engagement (2003–04), totaling US$400 million, is presently in full implementation, supporting Haiti' s reconstruction agenda. Since reactivation of its lending in July 2003, the IDB has disbursed over US$80 million of this amount through end-2004, leaving an available balance of US$320 million. These interventions, combining investment and policy-based loans, are complemented with a strong program of nonreimbursable technical assistance and nonfinancial products to underpin program and policy preparation and implementation and increase country knowledge.

In July 2004, the IDB pledged US$263 million in additional financing to support implementation of the Interim Cooperation Framework (ICF). To operationalize this pledge in full, the IDB' s Board of Executive Directors approved a new Transition Strategy (2005–06) on March 9, 2005, covering over 11 operations, totaling US$270 million, to continue financing Haiti' s transition agenda as well as longer-term actions. This strategy strengthens efforts to stabilize the economy, deepen governance reforms, alleviate pressing social needs, lay the foundation for pro-poor growth, strengthen natural disaster prevention and environmental management, and lead to an elected government in 2006.

The IDB' s growing involvement in Haiti thus supports longer-term economic governance reforms, particularly in the critical areas of fiscal management and tax reform and administration, and associated institutional development, in close coordination with the IMF and the World Bank. In parallel, the IDB provides financing for high impact investments to rehabilitate critical infrastructure, increase productivity, and increase provision of basic services to vulnerable groups and communities on a national level. As an overarching objective, IDB program execution builds on an implementation support and institution-building strategy based on a flexible approach. This approach includes special measures to strengthen local capacities to facilitate execution and speed up disbursements, and is also pursued through high-level special implementation and monitoring review missions.

The Bank supports all pillars of Haiti's short and medium term reconstruction agenda: (a) political governance and national dialogue with technical assistance to create rule-based mechanisms for alternative dispute resolution, and for dealing with gender issues; (b) economic governance and institutional development through fiscal and financial sector reform loans, and capacity building for public administration reform; (c) economic recovery through rebuilding infrastructure (roads, ports, airports) and private sector development; further assistance to agriculture intensification with a rural economy development program; and loans to reduce the impact of natural disasters and for watershed management; and (d) access to basic services through a vocational training program to increase opportunities for low income youth and meet private sector skill demands; improve living standards and income generation in urban areas of the capital and main cities and towns of the interior, through an urban rehabilitation loan.

HAITI—STATISTICAL ISSUES

Real sector: The Haitian Institute of Statistics (HIS) is publishing a harmonized CPI on a monthly basis, as recommended and facilitated by Fund technical assistance. The institute has made progress in implementing recommendations made by several Fund technical assistance mission to improve the quality of real sector statistics, and it has published national accounts for the period 1986/87 to 2003/2004 based on the interim base year 1986/87. The institute also publishes data on economic activity of the real sector on a quarterly basis, including indices of industrial production, energy, construction, and domestic and external trade. The March 2000 technical assistance STA mission had recommended that the HIS establish a new base year for national accounts and a revised CPI. The HIS will soon publish a new CPI which has been rebased to a more recent period (August 2004) using the weights of the 2000 household survey. The HIS carries out household budgetary surveys on a periodic basis; in the past, these have been complemented by studies on issues such as housing, education and employment. A further study on transport is underway. The Institute is currently engaged in the preparatory work for the fourth population and habitat census. Further technical assistance may be needed to address the outstanding deficiencies that continue to hinder the quality of real sector statistics.

Government finance: Haiti reports monthly and annual GFS data on a regular basis for publication in *IFS*. However, no GFS data have been published in the *GFS Yearbook* for the past 15 years. This is a disappointing given that the 1995 multisector mission recommended the establishment of a system of compilation and reporting of GFS data to the Fund. Progress is slow due to the lack of human and financial resources. Data provided in 2001 via the Central Bank of Haiti were not published in the 2001 *GFSY* owing to insufficient detail and consistency problems. Further work is required to extend coverage and breakdowns, to improve the link between the nonfinancial and the financial transactions as well as the outstanding debt, and to compile a functional breakdown of expenditure. These improvements require additional human and financial resources. The reporting of budgetary expenditures, especially on the ministerial discretionary accounts should be improved to increase transparency. There is a need to improve the timeliness of publication of accounts of public enterprises, as well as of the accounts of the nonfinancial public sector.

Monetary accounts: Continuous work on monetary statistics has helped to improve the sectorization and classification of accounts in the analytical balance sheets of the Bank of the Republic of Haiti (BRH) and commercial banks. Efforts have been undertaken to strengthen reporting requirements for commercial banks so as to strengthen bank supervision, enforce reporting according to Basel Core Principles, and step up the fight against illicit transactions. This has at times affected the timeliness of compilation and reporting of money and banking statistics.

Balance of payments: Progress has been made towards improving the reliability of balance of payments data. The implementation of several technical assistance mission recommendations has contributed to an improvement in the balance of payment data. Notwithstanding the progress, there is scope for improvement, most notably in the methodology for compiling trade data, collecting trade and services data and making more systematic use of existing sources, (such as customs, port and airport agencies, airlines, and oil companies).

HAITI: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

AS OF APRIL 29, 2005

	Date of latest observation	Date received	Frequency of Data 6/	Frequency of Reporting 6/	Frequency of Publication 6/
Exchange Rates	Apr. 2005	Apr. 2005	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities 1/	Apr. 2005	Apr. 2005	D	D	M
Reserve/Base Money	Feb. 2005	Apr. 2005	M	M	M
Broad Money	Feb. 2005	Apr. 2005	M	M	M
Central Bank Balance Sheet	Feb. 2005	Apr. 2005	M	M	M
Consolidated Balance Sheet of the Banking System	Feb. 2005	Apr. 2005	M	M	M
Interest Rates 2/	Apr. 2005	Apr. 2005	W	W	M
Consumer Price Index	Mar. 2005	Apr. 2005	M	M	M
Revenue, Expenditure, Balance and Composition of Financing 3/ – General Government 4/	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing 3/– Central Government	Mar. 2005	Apr. 2005	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt 5/	Sept. 2004	Apr. 2004	A	I	A
External Current Account Balance	Sept. 2004	Nov. 2004	A	I	A
Exports and Imports of Goods and Services	Sept. 2004	Nov. 2004	A	A	NA
GDP/GNP	2004	Jan. 2005	A	A	A
Gross External Debt	Sept. 2004	Apr. 2004	A	I	A

1/ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
3/ Foreign, domestic bank, and domestic nonbank financing.
4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
5/ Including currency and maturity composition.
6/ Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

HAITI—DEBT SUSTAINABILITY ANALYSIS

This note presents a debt sustainability analysis (DSA) prepared using the framework for low-income countries approved in early 2004 (Debt Sustainability in Low-Income Countries—Proposals for an Operational Framework and Policy Implications) (www.imf.org). This DSA will be updated jointly with World Bank staff based on a new framework considered by the Boards of the Fund and the Bank in April 2005 (Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations) (www.imf.org). The macroeconomic scenario underlying this DSA is the baseline scenario described in Section III.D of this Staff Report. The analysis is based on estimated end-2004 debt data and takes into account the pledges of financial assistance at the July19-20, 2004 donors' conference, updated in the context of the 2005 Article IV consultation discussions. A joint World Bank-IMF formal preliminary assessment of Haiti's HIPC eligibility is planned for later in 2005 and will be based on loan-by-loan reconciled data.

1. The results of the debt sustainability analysis presented in this paper suggest that Haiti's debt burden is high and could become a source of vulnerability. Under the baseline scenario, Haiti's debt-burden indicators will remain high over the medium term. In particular:

- **At end-2004, the NPV of external debt-to-exports ratio was well above levels considered to be sustainable**.[1] This result is robust to whether current year exports or the three-year average is used as a denominator. However, other key debt ratios—NPV of debt-to-GDP and debt service-to-exports—were at levels generally considered to be sustainable.

- **The NPV of external debt-to-export ratio is expected to only gradually decline during 2005–23**. Although exports are projected to grow faster than the economy as a whole, the ratio of NPV of debt-to-exports remains above 150 percent for the next five years and above 100 percent until 2020. The other key ratios—NPV of debt-to-GDP and debt service-to-exports—are projected to decline gradually to half their present levels over the next 20 years.

- **The debt sustainability analysis of the total public debt yields similar results**.[2] As domestic debt as a share of GDP is very small, and the NPV of total public debt-to-GDP ratio declines closely in line with the NPV of the external debt-to-GDP ratio.

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[1] Ratios are calculated relative to exports of goods and services.

[2] The stock of domestic debt consists of central bank short-term bonds held by commercial banks.

The NPV of total public debt-to-revenue ratio declines from about 200 percent in 2004, and remains above 150 percent until 2011, largely reflecting low revenue mobilization in Haiti. The debt service-to-revenue ratio declines from about 14 percent in 2004 to below 5 percent in 2015, reflecting in part the targeted increase in the revenue mobilization.

2. **Haiti's external debt and debt-service indicators are very sensitive to changes in the economic environment.** Indeed, plausible external shocks have a significant impact on the debt ratios (Box 1, and Figures 1 and 2). The results of the alternative scenarios used to assess Haiti' s vulnerability to shocks are as follows:

- **A worst-case scenario is generated as a combination of (one-half standard deviation) shocks to export growth, the GDP deflator, and private and official transfers**.[3] Under such an "extreme stress test," the NPV of debt-to-exports ratio would double relative to the baseline and remain above 150 percent for the entire projection period. Also, the other key debt ratios—NPV of debt-to-GDP and debt service-to-exports—would increase above the conventional sustainability thresholds for several years.

- **If key macroeconomic variables were to remain at their historical (1995–2003) averages, the decline in the debt ratios would be slower than in the baseline scenario**. The historical scenario attempts to replicate past macroeconomic performance under the previous cycle of external assistance to Haiti, and is less favorable than the baseline scenario.

- **An increase in international interest rates would reduce calculated NPV of Haiti's debt.** Under an alternative "variable discount rates" scenario, it is assumed that discount rates applied to estimate the NPV of future debt service would follow the WEO projected increase in U.S. dollar interest rates. This would result in Haiti' s debt levels in NPV terms falling below 150 percent of exports of goods and services in 2005.

- **An increase in the grant element of all future assistance would lower debt burden indicators**. For example, if half of the currently assumed concessional borrowing were provided in the form of grants, Haiti' s debt burden would decline to sustainable levels about five years faster than envisaged under the baseline scenario.

- **Two alternative scenarios for total public debt also indicate continued vulnerability**. The historical scenario, assuming real GDP growth and the primary

[3] Other shocks (scaled to historical levels) that were tested and found to produce less "extreme" results include: borrowing on less favorable terms, lower real GDP and export growth, as well as a sharp depreciation of the exchange rate.

deficit equal the historical 1995-2003 averages, only marginally differs from the baseline, as the impact of lower growth is offset by a lower primary deficit. Under the most extreme stress test (real GDP growth in 2005 and 2006 is assumed to be one standard deviation lower than the baseline growth rate), indicators of total public debt decline much less favorably than under the baseline, with the highest debt ratio in 2013.

3. **The analysis suggests that Haiti's debt burden will remain high for a considerable period.** Under the present financing mix, Haiti' s debt burden—in terms of NPV of debt-to-exports—would remain above 150 percent over the medium term. Moreover, Haiti' s debt burden is very sensitive to changes in the external environment and financing mix. Haiti' s debt indicators would remain above the sustainability thresholds for several years under the "most extreme stress" test, and would improve more slowly than under the baseline scenario if key variables were to remain at their historical averages.

4. **These conclusions are not intended to preempt the results of the planned preliminary HIPC DSA, which will be based on more detailed debt data and a different methodology.** The planned study will assess Haiti' s HIPC eligibility on the basis of NPV of debt-to-exports ratio, and is expected to be prepared jointly with World Bank staff in late 2005.[4]

[4] Haiti does not qualify under the "fiscal window," which requires a revenue-to-GDP ratio above 15 percent (as well as a 30 percent exports-to-GDP ratio).

Box 1. Key Assumptions and Scenarios

Key assumptions underlying the baseline scenario:

- **Current account**: Income elasticity of imports is assumed to be unity. Exports grow somewhat faster than GDP (reflecting their potential in manufacturing, agriculture, and tourism). Private remittances would stabilize as a share of GDP during 2005–09 and decline gradually thereafter.

- **Capital account**: Foreign direct investment is assumed to grow in line with GDP, net annual borrowing to remain positive in the long run (but fall as a share of GDP), and the terms of new borrowing to be highly concessional (based on the weighted average of the present financing mix) interest rate of 1.6 percent, grace period of 9.6 years, and a maturity of 38 years);

- External debt in **arrears** not addressed until 2007;

- **Public sector revenues and grants** as a percentage of GDP increase up from 13 to 23 percent over the projection period. Public sector expenditure increases in line with public sector revenues and grants.

- **The average real interest rate** on domestic short-term debt is 1 percent.

- Unless otherwise noted, a 5 percent **discount rate** is used for all years and all creditors.

Main alternative scenarios:

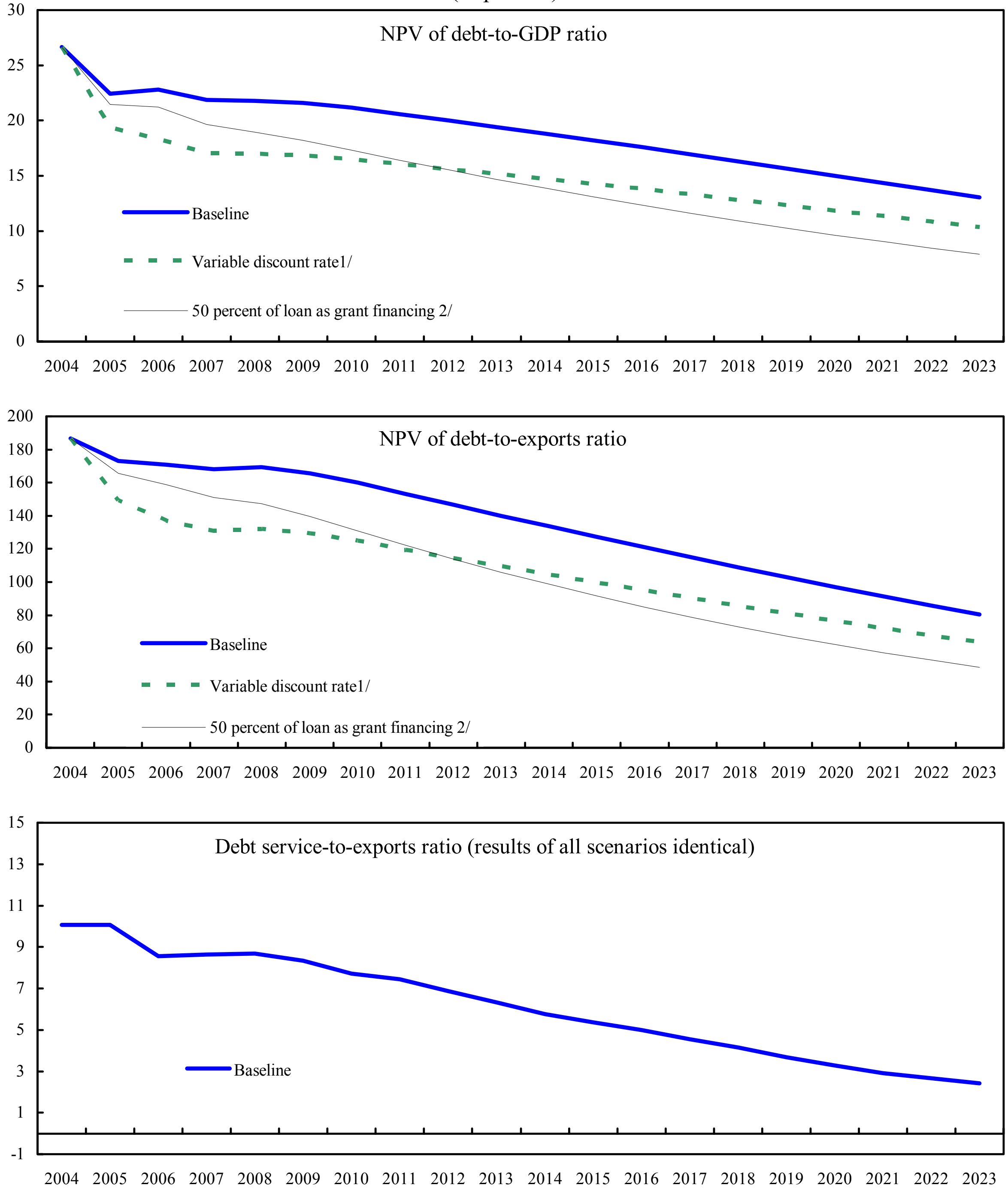
- **Historical scenario:** Key variables are assumed to remain at their historical (1995–03) averages in 2004–23. These variables include real GDP growth, CPI inflation (used as a proxy for GDP deflator due to data deficiencies), noninterest current account in percent of GDP, and non-debt creating flows (Table 1);

- The **most extreme stress** test is a combination of lowering growth of real GDP, export value, and private and official transfers by one-half standard deviation, and increasing the GDP deflator by the same magnitude;

- **Variable discount rate:** The discount rates are projected to move in lockstep with WEO projected U.S. dollar LIBOR rates i.e., 3.31 percent in 2005, 4.12 percent in 2006, and 4.35 for outer years;

- **The higher grant element** scenario assumes that half of current borrowing is provided in the form of grants.

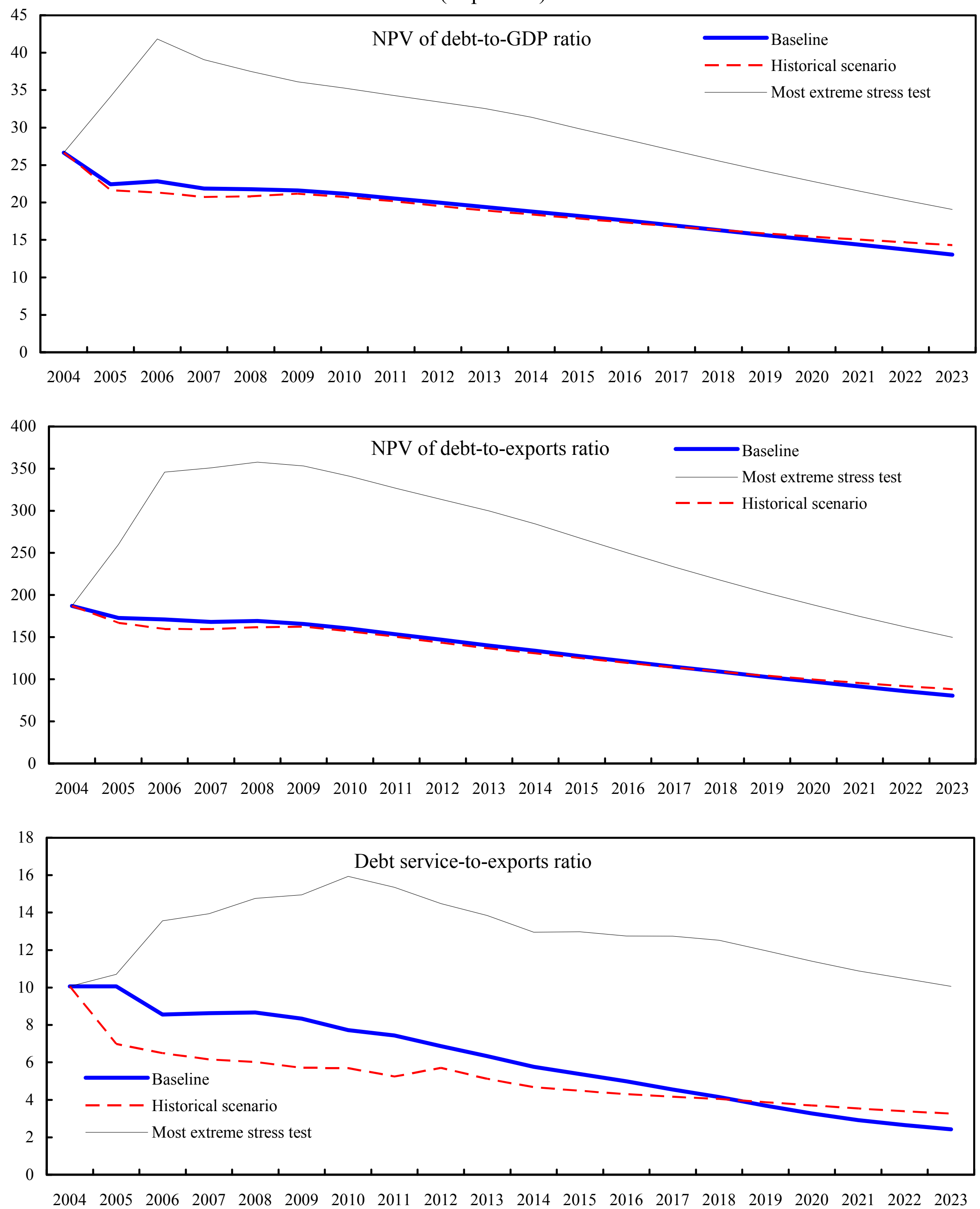
Figure 1. Haiti: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2004-2023
(In percent)



Source: Fund staff projections and simulations.

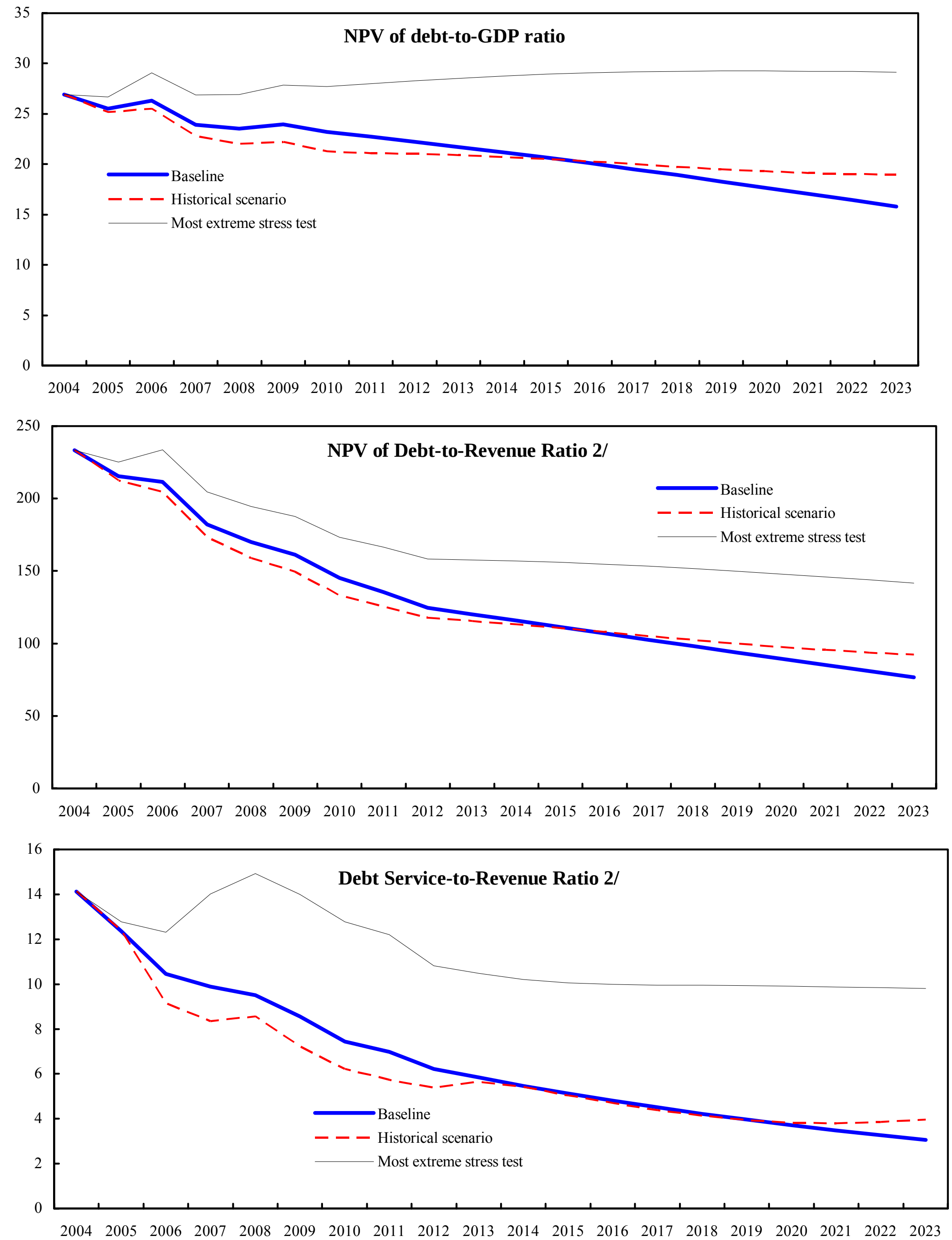
1/ The discount rates are projected to increase as in WEO.
2/ Assuming about half of current borrowing will be provided as grants.

Figure 2. Haiti. Indicators of Public and Publicly-Guaranteed External Debt
Under Alternative Scenarios, 2004-23
(In percent)



Source: Staff projections and simulations.

Figure 3. Haiti: Indicators of Total Public Debt Under Alternative Scenarios, 2004-2023 1/
(In percent)



Source: Fund staff projections and simulations.

1/ Most extreme stress test yields highest ratio in 2013. This test uses the baseline real GDP growth rate minus one standard deviation in 2005 and 2006.

2/ Reserves exclude grants.

Table 1. Haiti: External Debt Sustainability Framework, Baseline Scenario, 2003-23 1/
(In percent of GDP, unless otherwise indicated)

	Estimate		Historical	Standard	Projections									
	2003	2004	Average 6/	Deviation 6/	2005	2006	2007	2008	2009	2010	2005-010 Average	2013	2023	2011-23 Average
External debt (nominal) 1/	**44.4**	**37.2**			**31.2**	**30.7**	**30.6**	**30.6**	**30.5**	**30.1**		**28.0**	**20.4**	
o/w public and publicly guaranteed (PPG)	44.4	37.2			31.2	30.7	30.6	30.6	30.5	30.1		28.0	20.4	
Change in external debt	8.4	-7.2			-6.0	-0.5	-0.1	0.0	-0.1	-0.4		-0.7	-0.7	
Identified net debt-creating flows	-0.5	0.8			-1.2	-0.3	-1.1	-1.6	-2.5	-2.5		-2.2	-1.6	
Noninterest current account deficit	-0.4	-0.9	2.0	3.3	-0.6	0.7	0.4	-0.1	-0.9	-0.9	-0.2	-0.6	-0.2	-0.4
Deficit in balance of goods and services	31.7	28.7			31.4	32.3	31.9	31.5	30.2	29.7		29.0	26.6	
Exports	15.6	14.3			13.0	13.4	13.0	12.9	13.0	13.2		13.9	16.2	
Imports	47.3	43.0			44.4	45.7	44.9	44.4	43.2	42.9		42.9	42.9	
Net current transfers (negative = inflow)	-32.1	-29.5	-19.5	5.6	-32.2	-31.9	-31.4	-31.4	-30.7	-30.5	-31.3	-29.8	-27.5	-28.8
Other current account flows (negative = net inflow)	-0.1	-0.1			0.1	0.3	-0.2	-0.3	-0.4	0.0		0.1	0.7	
Net FDI (negative = inflow)	-0.3	-0.2	-0.2	0.2	-0.2	-0.4	-0.6	-0.7	-0.7	-0.7	-0.5	-0.7	-0.7	-0.7
Endogenous debt dynamics 2/	0.2	1.9			-0.4	-0.6	-0.8	-0.8	-0.9	-0.9		-0.9	-0.8	
Contribution from nominal interest rate	0.3	0.5			0.4	0.3	0.3	0.3	0.2	0.2		0.2	0.0	
Contribution from real GDP growth	-0.1	1.4			-0.8	-0.8	-1.1	-1.1	-1.1	-1.1		-1.1	-0.8	
Contribution from price and exchange rate changes	-10.8	-8.2			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**19.6**	**0.1**			**-4.9**	**-0.2**	**1.0**	**1.6**	**2.3**	**2.1**		**1.5**	**0.9**	
Of which: exceptional financing	0.0	-0.6			1.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 4/	30.6	26.6			22.4	22.8	21.9	21.8	21.6	21.2		19.4	13.1	
In percent of exports	195.9	186.8			172.9	170.9	168.0	169.3	165.7	160.1		140.1	80.4	
NPV of PPG external debt	**30.6**	**26.6**			**22.4**	**22.8**	**21.9**	**21.8**	**21.6**	**21.2**		**19.4**	**13.1**	
In percent of exports	195.9	186.8			172.9	170.9	168.0	169.3	165.7	160.1		140.1	80.4	
Debt service-to-exports ratio (in percent)	12.1	10.1			10.1	8.6	8.6	8.7	8.3	7.7		6.3	2.4	
PPG debt service-to-exports ratio (in percent)	12.1	10.1			10.1	8.6	8.6	8.7	8.3	7.7		6.3	2.4	
Total gross financing need (billions of U.S. dollars)	0.0	0.0			0.0	0.1	0.0	0.0	0.0	0.0		0.0	-0.1	
Noninterest current account deficit that stabilizes debt ratio	-8.8	6.3			5.4	1.2	0.5	-0.1	-0.8	-0.5		0.1	0.5	
Key macroeconomic assumptions														
Real GDP growth (in percent)	0.5	-3.8	2.4	5.5	2.5	3.0	4.0	4.0	4.0	4.0	3.6	4.0	4.0	4.0
Inflation (CPI end-of-period)	42.5	22.5	17.1	16.8	12.0	10.0	8.0	7.0	6.0	2.4	7.6	2.4	2.4	2.4
Effective interest rate (percent) 5/	1.3	1.3	1.4	0.7	1.4	1.0	1.0	1.0	0.9	0.8	1.0	0.6	0.2	0.4
Growth of exports of G&S (US dollar terms, in percent)	5.6	9.3	15.9	34.3	11.9	6.1	3.5	4.7	7.4	7.9	6.9	8.2	8.2	8.2
Growth of imports of G&S (US dollar terms, in percent)	12.9	8.6	25.0	50.6	27.2	6.0	4.5	4.7	3.1	5.7	8.5	6.5	6.5	6.5
Grant element of new public sector borrowing (in percent)	32.8	35.3	...	...	41.5	40.9	45.7	45.6	45.6	45.6	44.1	45.6	45.6	45.6
Memorandym item:														
Nominal GDP (billions of US dollars)	3.0	3.5			4.4	4.5	4.8	5.0	5.3	5.7		6.9	12.9	
NPV of external debt/3 year avg. of good and services	202.2	201.6			191.4	184.2	175.2	176.5	176.3	172.2		...	...	

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations for 1995-2003.

Table 2. Haiti: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2003-23

(In percent)

	Estimate		Projections			
	2003	2004	2005	2006	2013	2023
NPV of debt-to-GDP ratio						
Baseline	31	27	22	23	19	13
A. Alternative Scenarios						
A1. Key variables at their historical averages in 2004-23 1/	31	27	22	21	19	14
A2. New public sector loans on less favorable terms in 2004-23 2/	31	27	25	24	20	15
A3. Discount rates are 5 percent in 2004, and increase in lockstep with WEO 2/	31	27	19	18	15	10
A4. Half of new borrowing in 2005-2023 is assumed to be provided as grants 2/	31	27	21	21	15	8
B. Bound Tests						
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	31	27	23	24	20	13
B2. Export value growth at historical average minus one standard deviation in 2004-05 3/	31	27	24	23	20	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	31	27	24	24	20	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	31	27	24	24	19	13
B5. Combination of B1-B4 using one-half standard deviation shocks	31	27	34	42	33	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	31	27	31	31	25	17
NPV of debt-to-exports ratio						
Baseline	196	187	173	171	140	80
A. Alternative Scenarios						
A1. Key variables at their historical averages in 2004-23 1/	196	187	167	160	137	88
A2. New public sector loans on less favorable terms in 2004-23 2/	196	187	193	178	143	91
A3. Discount rates are 5 percent in 2004, and increase in lockstep with WEO 2/	196	187	149	137	109	64
A4. Half of new borrowing in 2005-2023 is assumed to be provided as grants 2/	196	187	166	159	106	49
B. Bound Tests						
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	196	187	163	173	157	88
B2. Export value growth at historical average minus one standard deviation in 2004-05 3/	196	187	208	254	239	138
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	196	187	163	173	157	88
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	196	187	173	182	165	91
B5. Combination of B1-B4 using one-half standard deviation shocks	196	187	260	346	300	150
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	196	187	163	173	157	88
Debt service ratio						
Baseline	12	10	10	9	6	2
A. Alternative Scenarios						
A1. Key variables at their historical averages in 2004-23 1/	12	10	7	7	5	3
A2. New public sector loans on less favorable terms in 2004-23 2/	12	10	9	10	10	8
A3. Discount rates are 5 percent in 2004, and increase in lockstep with WEO 2/	12	10	10	9	6	2
A4. Half of new borrowing in 2005-2023 is assumed to be provided as grants 2/	12	10	10	9	6	2
B. Bound Tests						
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	12	10	9	9	10	7
B2. Export value growth at historical average minus one standard deviation in 2004-05 3/	12	10	11	14	14	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	12	10	9	9	10	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	12	10	9	10	10	7
B5. Combination of B1-B4 using one-half standard deviation shocks	12	10	9	13	14	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	12	10	9	9	10	7
Memorandum item:						
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	43	43	43	43	43	43

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and nondebt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Haiti: Averages and Standard Deviations Used for Alternative Scenarios

	1995-2003 Average	Standard Deviation
Non-interest current account balance (in percent of GDP)	-2.0	3.3
Real GDP growth	2.4	3.3
CPI, end of period (proxy for GDP deflator in U.S. dollars)	17.1	10.4
Export growth (US dollar terms, in percent)	15.9	24.1
Net transfers to GDP ratio	19.5	5.6
Net non-debt creating flows (FDI) to GDP ratio	0.2	0.2

Source: Fund staff calculations.

Table 4. Haiti: Total Public Sector Debt Sustainability Framework, Baseline Scenario, 2003-2023
(In percent of GDP, unless otherwise indicated)

	Estimate													
	2003	2004	Historical Average 5/	Standard Deviation 5/	2005	2006	2007	2008	2009	2010	2005-10 Average	2013	2023	2011-23 Average
Public sector debt 1/	47.8	39.4			34.3	35.3	33.5	33.1	33.5	32.9		31.6	25.4	
o/w foreign-currency denominated	44.4	37.2			31.2	32.7	32.1	31.9	31.6	31.3		30.1	23.9	
Change in public sector debt	8.4	-8.4			-5.1	1.0	-1.8	-0.4	0.3	-0.6		-0.5	-0.7	
Identified debt-creating flows	7.0	-10.6			-3.5	1.6	-0.9	-0.3	-0.4	-0.4		-1.1	-1.5	
Primary deficit	2.6	0.4	0.3	1.3	0.8	1.1	1.1	1.3	1.2	1.1	1.1	0.3	-0.3	0.2
Revenue and grants	12.3	13.2			18.5	18.9	19.3	20.1	21.0	22.1		23.4	24.0	
of which : grants	0.7	1.7			6.6	6.4	6.2	6.3	6.1	6.1		5.3	3.4	
Primary (noninterest) expenditure	14.9	13.6			19.3	20.0	20.4	21.4	22.1	23.2		23.7	23.7	
Automatic debt dynamics	4.4	-11.0			-4.3	0.4	-2.0	-1.6	-1.6	-1.5		-1.5	-1.3	
Contribution from interest rate/growth differential	-0.5	1.2			-1.3	-1.3	-1.7	-1.5	-1.5	-1.6		-1.5	-1.3	
of which : contribution from average real interest rate	-0.3	-0.7			-0.4	-0.3	-0.3	-0.2	-0.2	-0.3		-0.3	-0.3	
of which : contribution from real GDP growth	-0.2	1.9			-1.0	-1.0	-1.4	-1.3	-1.3	-1.3		-1.2	-1.0	
Contribution from real exchange rate depreciation	4.9	-12.2			-3.0	1.8	-0.3	-0.1	-0.1	0.0		...	...	
Other identified debt-creating flows	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.4	2.2			-1.6	-0.6	-0.9	-0.1	0.8	-0.2		0.7	0.8	
NPV of public sector debt	35.2	26.9			25.5	26.3	23.9	23.5	23.9	23.2		21.7	15.8	
o/w foreign-currency denominated	31.8	24.7			22.4	23.7	22.5	22.3	22.0	21.7		20.2	14.2	
o/w external	31.8	24.7			22.4	23.7	22.5	22.3	22.0	21.7		20.2	14.2	
NPV of contingent liabilities (not included in public sector debt)	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Gross financing need 2/	4.3	3.3			2.3	2.1	1.9	2.1	2.0	2.0		1.4	0.4	
NPV of public sector debt-to-revenue ratio (in percent) 3/	285.7	203.2			138.2	139.4	123.7	117.0	114.2	105.0		92.9	65.8	
o/w external	258.0	186.8			121.4	125.5	116.2	110.9	105.1	98.0		86.2	59.3	
Debt service-to-revenue ratio (in percent) 3/ 4/	13.6	12.3			7.9	6.9	6.7	6.5	6.1	5.4		4.5	2.6	
Primary deficit that stabilizes the debt-to-GDP ratio	-5.8	8.8			5.9	0.1	2.9	1.6	0.8	1.7		0.8	0.4	
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	0.5	-3.8	2.4	3.3	2.5	3.0	4.0	4.0	4.0	4.0	3.6	4.0	4.0	4.0
Average nominal interest rate on forex debt (in percent)	2.0	1.3	1.4	0.7	1.3	1.1	1.0	1.0	0.9	0.9	1.0	1.0	1.0	1.0
Average real interest rate on domestic currency debt (in percent) 6/	-11.9	-9.0	6.1	12.2	-0.7	-1.1	0.5	7.7	9.4	3.4	3.2	2.6	-2.5	-0.3
Real exchange rate depreciation (in percent, + indicates depreciation)	13.6	...	2.5	21.7	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	26.9	21.9	13.3	5.7	15.0	10.6	9.3	7.4	6.4	6.0	9.1	6.0	6.0	6.0
Growth of real primary spending (deflated by GDP deflator, in percent) 6/	19.2	-12.0	0.4	12.0	44.9	6.8	6.3	8.8	7.7	9.1	13.9	4.0	4.0	4.0
Grant element of new external borrowing (in percent)	0.1	0.7	0.6	0.4	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	...

Sources: Country authorities; and Fund staff estimates and projections.
1/ Gross debt including domestic bonds issues by the central bank.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues including grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations based on 1995-2003.
6/ Historical average for 1998-2003.

Statement by Roberto Steiner, Alternate Executive Director for Haiti and Ketleen Florestal, Advisor to Executive Director May 16, 2005

On behalf of our authorities, we would like to thank management and staff for a fruitful policy dialogue. We would also like to express our appreciation for the recent technical assistance missions from MFD and FAD. The recommendations that resulted from the Safeguard Assessment are also appreciated. Fund assistance supports the interim government's efforts to restore the credibility of public institutions. We agree with the thrust of the papers, and would like to confirm that our authorities consent to their publication.

Haiti's overall good performance under the EPCA is underscored in the papers. While macroeconomic and financial stability have to a large extent been restored, the reports also note delays in implementing certain structural reforms. We wish to stress the authorities' determination to carry forward much needed institutional reforms, which for the most part have been delayed due to factors beyond their control. The government is faced with the daunting task of fostering financial stability and trying to re-build institutions that are critical for growth and poverty alleviation, in the context of an unstable security situation and with the political complexities that a transitional government inevitably confronts.

Recent developments in public finance

The supplementary budget for April-September 2005 has been voted by the Council of Ministers and is due to be published shortly. It aims mostly at re-orienting expenditures to stimulate economic activity, taking into account delayed disbursements of donor assistance and additional necessary expenditures. These relate mainly to the elections, the funding of the power company's (EDH) purchases of fuel, and the increased cost of the SGS service contract to cover the pre-shipment inspection of imports. Additional funds have been allocated to EDH to replace the concluded external funding of its purchases of fuel, which are indispensable to maintaining a minimum electricity supply of 12 hours per day. The costs of SGS inspections have quadrupled as more physical inspections have been requested, in addition to paper verifications in order to improve taxation at customs and discourage fraud, particularly in the case of imports through the border with the Dominican Republic.

The public sector is being depleted of a significant number of its skilled staff, who is either emigrating or being pulled by the private sector and international organizations in Haiti through more competitive salaries. This has further weakened the public sector's capacity to carry out reforms and execute projects. To halt the hemorrhage of qualified staff, two general wage increases were granted, cumulating to 45 percent. Nevertheless, this increase corrected only partially the significant reduction in real wages during the past decade.

The census of employment and payments arrears in public entities is a complex process, which is being completed. The methodology retained was to have an ad hoc committee do a census within each institution and to subsequently have the Ministry of Economy and Finance (MEF) carry a verification of the findings. The census at the National Police Force will be shortly completed by the MEF. The case of the Education Ministry is noteworthy as it is the single most important employer in the public sector, and a particularly problematic case given past disorderly hiring practices and accumulated arrears. Arrears in this Ministry are being reviewed by the MEF. The census for 43 public institutions is already complete. The ad hoc committee responsible for the census of employment for the 23 other public institutions has been reinstated after a temporary suspension of its work. The final report of the census of employment is scheduled for the end of June.

The government had projected zero financing from the central bank (BRH). With fiscal receipts lagging and in the absence of expected donor disbursements, important cuts in expenditures were operated and certain budgeted outlays delayed. Nevertheless, the government kept current with its debt service. The reduction in investment contributed to depressing further economic activity in the context of low business confidence. The government shared with Fund staff its concern that failure to invigorate the economy would have a significant impact on the democratic building process, and discussed the possibility of undertaking budget reallocations and of using BRH credit to cover exceptional outlays for the elections and to offset the end of USAID support to the electricity sector.

The government is redoubling efforts to increase tax collection. Revenues have picked up during the last three months, mostly due to the strengthened administrative controls and recovery of arrears by the internal revenue service. Customs receipts have also improved recently, even if the administration is having difficulties controlling fraud at the border with the Dominican Republic. With the support of the U.S. Treasury, the IADB, and the Fund, an improvement of tax administration is expected in the short term. The strengthening of the infrastructure of provincial custom offices is being undertaken with help from UNCTAD.

The interim government believes that improved budget management and expenditure control are paramount to sustainable fiscal consolidation. The expenditure approval process has been rationalized, allowing for observance of regular budget processes and a very significant reduction of current account use. Modernization efforts are being undertaken with the help of the IADB and the World Bank. The annuity of the budget process has been reinstated and preparation of the budget for FY 2005-06 is on track. Two weeks ago the budget process was officially launched with the publication by the Prime Minister of the broad orientations for its preparation, including the request for investment budgets from sector ministries. The draft budget will be ready for discussion with civil society in July. The pre-audit of TELECO, the state-owned communications company, has been completed and the modernization of its accounting system is underway. Terms of reference for the audit of EDH, the electricity company, are being drawn and the audit will be carried soon, with financial assistance from the World Bank and the Canadian government.

The motto behind public sector reforms is accountability, transparency and efficiency. The Table of Operations of the Central Government is distributed monthly by e-mail to a wide list of members of civil society, the private sector, international organizations, and to scholars and interested parties. The MEF has announced the launching at the end of this month of its website. It is to be an important medium for informing on budget execution and reform implementation. The anti-corruption unit created in September 2004 has been fully operational since December.

Monetary policy and the BRH's balance sheet

With the strengthened fiscal position, the BRH was able to reduce inflation sharply, enhance official reserves and ensure exchange rate stability. Nevertheless, challenges remain, in particular the high level of dollarization of the banking sector, the pass-through of international fuel prices, the limited scope for diversification of monetary policy instruments, and the vulnerability of the BRH's balance sheet.

During the past fiscal year interest paid by the government to service its debt to the BRH did not cover the cost of interest paid to commercial banks on central bank paper. Recently, however, the BRH has been able to decrease interest rates on bonds while still maintaining an adequate stock of bonds. Interest on government debt, which represents close to 60 percent of BRH receipts, now covers the cost of the central bank paper issued. In spite of this, the BRH feels that it needs more room to carry out its operations without endangering its balance sheet. An agreement has been reached with the MEF to raise the monthly interest payments to the BRH. The conversion of outstanding credit to the central government into interest-bearing bonds is being contemplated for the medium term and should significantly improve central bank revenue. Fund TA has been looking at the different functions of the central bank, particularly its fiscal role as collector of taxes for the government. While unusual and costly to the bank, the BRH cannot be alleviated of this function without taking into consideration the actual capacity of the fiscal administration, its needs to be modernized and strengthened, and the imperative necessity to raise fiscal revenue significantly.

Staff mentions problems of excess liquidity and suggests that interest rates on bonds be increased. Although sensible, this suggestion fails to fully take into account the operational framework of bond market operations. Since mid-August 2004 the BRH sold in its weekly auction just enough bonds to replace those coming due during that week, keeping thus the bond stock constant at around 3.5 billion gourdes. This meant that the BRH fixed both prices and quantities. In turn, banks started overbidding. Recently, the BRH issued an administrative order forbidding banks to bid beyond their excess liquidity. Simultaneously, because of signs of nervousness in the exchange rate market, the BRH has decided to increase weekly volumes sold. As a result, outstanding bonds now reach 4.8 billion gourdes. Without raising interest rates, the BRH was able to mop up an important portion of excess liquidity and stabilize the exchange rate market. The BRH stands ready to change posture if the situation so warrants.

The BRH is thankful for the Safeguard Assessment report, showing no imminent vulnerabilities. BRH officials consider the conclusions and recommendations of the assessment a useful tool in framing its reform agenda. The mission concluded that many elements of an adequate safeguard framework are present at the BRH, including a well-functioning external auditing mechanism, a legal framework that guarantees its operational independence, and well-managed operations and foreign reserves. However, the report underlined certain vulnerabilities, some of which the bank was already addressing. They

concerned a lack of written guidelines relative to the process of generating and exchanging information within and between departments and potentially conflicting functions of the internal audit department. The interim audit report will, as usual, be published on the BRH's web site and later in its annual report.
The banking sector has been under constant scrutiny and the BRH board is confident that the financial system's vulnerabilities are modest. The BRH does not intend to relax prudential regulations and reserve requirements on foreign currency deposits, given the vulnerability of the dollarized banking system to an external shock. The authorities believe that an FSAP would be beneficial and hope that the Fund will be able to attend to this request promptly.

Debt sustainability

The latest DSA suggests that Haiti could potentially be eligible for assistance under the HIPC Initiative. The ratio of NPV of debt to exports at end-September 2003 and 2004 after full use of traditional debt relief mechanisms was estimated to be 200 and 199 percent respectively. This ratio is projected to be around 189 percent this year, well beyond the threshold adopted under the operational framework. We are hopeful that the assessment of eligibility being carried out by the World Bank and the Fund will be concluded soon. Debt relief is urgently needed to break the cycle of low growth, poverty, and political instability. Given Haiti's large debt, our authorities hope that additional support will be provided primarily in the form of grants.

Conclusions

Looking forward, Haiti faces a number of challenges and downside risks. The recent elimination of the ATC quotas and the expiration of the benefits under the CBTPA (Caribbean Basin Trade Partnership Act) in 2008, will affect growth and employment. A compensating factor would be the passage of the HOPE bill by the United States Congress. The authorities are hopeful that this will in fact happen.

Donor commitment to timely disbursement of pledged resources and donor coordination are paramount for an efficient use of scarce resources. Staff has identified a US$50 million financing gap for FY06. Our authorities are convinced that once a new government is elected, the donor community will be able to move fast and the financing gap will be closed.

The development of a medium-term development and poverty reduction strategy I-PRSP in the course of the next twelve months is important in order to reduce delays in embarking on a PRGF arrangement, which will be instrumental in changing the long-standing negative trend of social and economic indicators and vital to mobilizing adequate funding for achieving the MDG goals.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 05/78
FOR IMMEDIATE RELEASE
June 17, 2005

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2005 Article IV Consultation with Haiti

On May 16, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Haiti.[1]

Background

Economic and social conditions in Haiti deteriorated significantly during the early 2000s as the continued political stalemate undermined external financial support and private investment, and structural reforms came to a halt. This resulted in economic stagnation, high inflation, and widespread unemployment. The political turmoil in early 2004 and the devastating floods in May and September compounded these difficulties and led to a contraction of real GDP by 3¾ percent in 2003/04.

The transition government that was formed in early 2004 prepared a broad social and economic strategy that gained support of the international community and substantial pledges of financial assistance during a July 2004 donors' conference. The government's macroeconomic policies were framed in the context of a Staff-Monitored Program (SMP) with the Fund covering the period April–September 2004, and from October 2004 were supported by the Fund's Emergency Post-Conflict Assistance (EPCA), which was approved by the Fund's Board on January 10, 2005.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The authorities' program for 2004/05 aims to: (i) strengthen security and the rule of law in preparation for national elections in 2005; (ii) create conditions for economic recovery and reconstruction of government and social infrastructure; (iii) enhance governance and the institutional and administrative capacity of the government; (iv) improve access to basic services; and (v) promote employment opportunities for the unskilled and for displaced populations.

Performance under the SMP and the EPCA-supported program has been satisfactory. Financial stability has been largely restored; the exchange rate has stabilized; inflation has declined; and net international reserves have increased. However, partly owing to slower-than-anticipated project disbursements by donors, economic recovery in the first two quarters of 2004/05 appears to have been weaker than expected, as indicated by exports and fiscal revenue performance, as well as stagnant credit to the private sector. This suggests a risk that the GDP growth objective of 2½ percent for 2004/05 may not be attained, especially in view of the still unsettled political situation and the lifting of quotas under the Agreement on Textiles and Clothing.

Progress has also been made in implementing structural reforms. The expenditure approval process has been streamlined and the discretionary use of ministerial current accounts was sharply reduced. In addition, the Anti-Corruption Unit became operational by end-2004, pre-audits of the state-owned telephone and electricity companies were initiated, and requests for offers for audits of three other key public sector enterprises were published. In the financial sector, the IMF safeguards assessment and the external audit of the Bank of the Republic of Haiti (BRH) accounts have been largely completed.

Executive Board Assessment

The Executive Directors welcomed the progress achieved by the Haitian authorities toward restoring macroeconomic stability and implementing structural reforms, and were encouraged by Haiti's performance under the program supported by the Fund's EPCA policy, which is broadly on track. They noted in particular that, despite difficult political and security conditions and the devastating floods in 2004, the authorities have been successful in stabilizing the exchange rate, bringing down inflation, and strengthening international reserves. Directors observed that the key challenge is to put in place policies that would promote faster growth and generate adequate fiscal revenues for improving social services, institutional capacity, and infrastructure, and for bringing down poverty.

Directors considered that the actions taken by the authorities to reengage donors, clear arrears to the World Bank, and increase the Fund's involvement in Haiti have been important steps toward a medium-term development program aimed at raising the rate of growth and reducing poverty.

Directors noted the urgency of reviving economic activity and restoring confidence ahead of the elections scheduled for November 2005. In this context, they recognized the need for a supplementary budget for April–September 2005 that would help safeguard social and security expenditures in the context of lower-than-envisaged revenues and donor disbursements. Directors supported the authorities' efforts to secure additional assistance from the international community to help close the financing gap in 2004/05 and to fully cover the cost of elections, noting that such assistance should be in the form of highly concessional loans or grants and be well-coordinated with the authorities' development strategy. They encouraged the Haitian authorities to continue to cooperate closely with donors, including through regular information sharing, on the implementation of the social and economic agenda agreed at last year's donor conference, and welcomed the steps being taken to accelerate donor disbursements and advance the preparation of projects for next year's budget.

Directors welcomed the authorities' intention to prepare the 2005/06 budget in time to allow for consultations with political parties and civil society, noting that a newly elected government would begin its term in the middle of the fiscal year, and the importance of aligning donor support with the budget priorities. Key objectives for the budget will be to strengthen revenue collection and administration, including through broadening the tax base, in order to help meet urgent expenditure demands. Directors welcomed the government's objective to avoid funding expenditures with central bank financing. They looked forward to the adoption of measures to improve budget management and expenditure control, and supported Fund technical assistance in this area.

Directors welcomed the staff's analysis of debt sustainability and agreed that Haiti's debt burden is high and could become a source of vulnerability. They noted the authorities' efforts to clear debt service arrears, and recommended that nonconcessional debt be avoided and new official assistance be provided either on highly concessional terms or through grants. Directors looked forward to a joint Fund-Bank preliminary analysis of Haiti's Heavily Indebted Poor Country (HIPC) eligibility to be undertaken later in 2005. A few Directors expressed their willingness to support initiatives toward granting debt relief under the HIPC Initiative if Haiti was found to be eligible.

Directors underscored the need to tighten monetary policy and absorb the excess liquidity in the banking system to safeguard the monetary and external objectives under the EPCA-supported program. They supported a rapid implementation of the intended change in the auctioning mechanism for auctioning central bank bonds, in line with the recommendations of the Fund's recent technical assistance mission. Directors expressed concern about the significant operational losses of the central bank, and welcomed the authorities' intentions to include a plan for strengthening its financial position in next year's budget. They also welcomed the completion of the IMF safeguards assessment mission, and encouraged the publication of the interim audit report of the central bank. Directors supported the authorities' request for a Financial Sector Assessment Program (FSAP) mission to assess the condition of the financial sector and identify remaining weaknesses. Directors agreed that a flexible exchange rate regime has served Haiti well, and supported the objective of increasing net international reserves over the medium term.

Directors welcomed the progress achieved in the first half of the fiscal year in implementing the structural reform agenda and stressed the importance of the authorities' completion of their remaining commitments as agreed under the program. In particular, Directors encouraged the authorities to complete the survey of domestic arrears, the census of government employment, and publish information on budget execution. While Directors acknowledged the importance of sustaining electricity supplies, they also underscored the need to ensure that government transfers to the state-owned electricity utility are used appropriately and carried out in a transparent manner. They called for strengthened expenditure control mechanisms in the electricity company, and for competitive bidding procedures for all energy-related contracts.

Directors noted the challenge of raising Haiti's economic growth rate over the medium term. This would require achieving broad domestic consensus on the social and economic strategy, progress toward national reconciliation, and actions to improve the security situation. In addition, it will be essential to maintain prudent macroeconomic policies, speed up the implementation of reforms, particularly those related to strengthening capacity in the public sector, and improving governance and transparency. Directors reiterated the Fund's readiness to continue its support to Haiti through a further drawing under the EPCA-supported program and continued technical assistance. A satisfactory track record of policy implementation under the EPCA program, and progress on a Poverty Reduction Strategy Paper (PRSP) would provide a basis for discussions on a future Poverty Reduction and Growth Facility (PRGF) supported program.

Directors urged the Haitian authorities to take decisive steps to improve the quality and timeliness of statistical data reporting to the Fund, and in particular to take advantage of further technical assistance in this respect.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The Staff Report for the 2005 Article IV Consultation is also available.

Haiti: Selected Economic and Financial Indicators

	Fiscal Year Ending September 30				
	2001	2002	2003	2004	2005 Proj.
(Annual percentage change, unless otherwise indicated)					
Domestic economy					
GDP at constant prices	-1.0	-0.5	0.5	-3.8	2.5
Consumer prices (end-of-period)	12.3	10.1	42.5	22.5	12.0
Gross domestic investment (in percent of GDP)	25.9	24.9	30.7	27.3	29.1
Gross national savings (in percent of GDP)	22.3	22.4	29.8	26.5	25.7
(In percent of GDP)					
Public finances					
Central government overall balance (including grants)	-2.4	-3.0	-3.5	-2.4	-1.5
Central government overall balance (excluding grants)	-2.8	-3.2	-3.6	-3.7	-6.6
Public sector savings	-0.6	1.0	-0.3	1.0	-0.6
(Changes in percent of beginning-of-period broad money)					
Money and credit					
Net domestic assets	9.4	17.0	26.2	10.6	6.2
Credit to the public sector (net)	8.5	9.4	9.3	4.6	0.0
Credit to the private sector	-3.5	5.9	13.0	3.4	4.9
Broad money (including foreign currency deposits)	5.2	17.2	39.8	9.1	12.5
(Annual percentage change, unless otherwise indicated)					
External sector					
Exports (f.o.b.)	-7.8	-10.5	21.0	12.8	8.6
Imports (f.o.b.)	-2.9	-6.9	13.6	6.0	31.6
Current account balance (including official grants, in percent of GDP)	-2.0	-1.0	-0.1	0.4	0.2
Current account balance (excluding official grants, in percent of GDP)	-6.5	-4.9	-4.8	-2.8	-8.6
External public debt (end-of-period, in percent of GDP)	33.6	36.1	44.4	37.2	31.2
External public debt service (in percent of exports of goods and nonfactor services)	8.7	7.9	8.5	9.2	9.3
Net international reserves (in millions of U.S. dollars) 1/	108.8	53.0	38.8	54.5	83.6
Liquid gross reserves (in millions of U.S. dollars) 2/	227.3	177.7	157.1	206.9	277.1
In months of imports of the following year	2.2	1.5	1.2	1.3	1.6
Real effective exchange rate (appreciation +)	7.9	-8.9	-8.5	31.6	...

Sources: Ministry of Economy and Finance; Bank of the Republic of Haiti; and Fund staff estimates.
1/ Excludes commercial banks' foreign currency deposits with the BRH.
2/ Gross reserves excluding capital contributions to international organizations.