**International Monetary Fund**

Haiti and the IMF

**Press Release**:
IMF Executive Board Approves US$109.5 Million PRGF Arrangement for Haiti
November 20, 2006

Country's Policy Intentions Documents

**E-Mail Notification**
Subscribe or Modify your subscription

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

November 3, 2006

Port-au-Prince
November 3, 2006

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

Dear Mr. de Rato:

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

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

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

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

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

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

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

Sincerely yours,

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

Attachments

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

## I. INTRODUCTION

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

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

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

## II. Recent Developments

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

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

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

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

---

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

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

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

## III. Program Objectives

### A. Medium-Term Strategy

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

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

## B. Objectives for FY 2006–07

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

**Fiscal policy**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Monetary policy**

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

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

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

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

**Financial Sector**

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

**Other structural reforms**

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

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

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

**HIPC initiative and debt management**

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

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

**External financing**

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

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

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

### C. Program Monitoring

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

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

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

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

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

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

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

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

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

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

## ATTACHMENT II—HAITI: TECHNICAL MEMORANDUM OF UNDERSTANDING

Haiti's performance under the program (October 2006–September 2007) supported by the Poverty Reduction and Growth Facility (PRGF) will be assessed on the basis of the observance of quantitative performance criteria as well as compliance with structural performance criteria and benchmarks. This Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria and indicative targets, specified in Tables 1 and 2 of the Memorandum of Financial and Economic Policies (MEFP). It also lays down the monitoring and reporting requirements. The quantitative performance criteria under the program are set for end-March and end-September 2007, and the quarterly targets for end-December 2006 and end-June 2007 are indicative.

### I. DEFINITIONS

### A. Net BRH Credit to the Central Government

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

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

   b. Change in the stock of special accounts ("Comptes Spéciaux") included in Table 10R of the BRH will be excluded from change in net domestic credit to the central government as defined above.[2]

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

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

---

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

[2] Special accounts are gourde accounts of the government at the BRH which can only be used with the authorization of donors. If included, movements in these accounts would appear as BRH credit to the government.

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

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

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

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

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

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

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

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

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

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

### C. Net International Reserves[4]

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

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

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

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

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

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

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

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

### D. Net Domestic Assets of the BRH

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

a. Change in currency in circulation ("Monnaie en circulation" of the BRH Table 10R);

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

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

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

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

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

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

15. The concessional nature of debt will be determined on the basis of the commercial interest reference rates (CIRRs), as laid out by the Organization for Economic Cooperation and Development (OECD). A debt is defined as concessional if, on the date of its initial disbursement, the ratio between the present value of the debt computed on the basis of reference interest rates and the face value of the debt is less than 65 percent (equivalent to a grant element of at least 35 percent).

16. Excluded from the ceiling are short-term import-related credits, rescheduling arrangements, borrowing from the Fund, and guarantees for the electricity sector in the form of letters of credit.

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

### F. Government Current Accounts

18. Ministerial discretionary accounts are mechanisms for channeling expenditures. In principle, the use of these accounts should be limited to unforeseen emergency outlays. The BRH will provide monthly information on the stock of these current accounts for the central government (as defined in footnote 1). The use of current accounts will be measured on a cumulative basis for each quarter during the fiscal year.

### G. Arrears

19. External payment arrears are defined as overdue payments (principal and interest) to non-residents on debt contracted and guaranteed by the central government, and will be defined according to the terms of indebtedness of each creditor. The criterion of zero accumulation of external arrears will be monitored on a continuous basis.

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

### H. Base money

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

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

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

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

## II. Quarterly Adjustments

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

### A. Adjustment for Domestic Arrears Accumulation

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

### B. Adjustment for Program External Financing

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

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

27. If actual external financing is lower than programmed external financing, the ceilings on BRH credit to the government and of the public sector and on BRH net domestic assets will be adjusted upward, and the floor on NIR will be adjusted downward, by the amount of the difference between actual and programmed external financing, converted into gourdes at the program exchange rate. The amount of this adjustment will be limited to US$20 million. Future disbursements under PetroCaribe to finance projects included in the domestic public investment program are not subject to this adjuster.

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

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

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

## III. Draft Banking Law

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

## IV. Provision of Information to IMF Staff

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

### A. Daily

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

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

### B. Weekly

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

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

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

### C. Monthly

35. Table 10 R and Table 20 R.

36. Table on the “comptes courants.”

37. Table “trésorerie de devises.”