International Monetary Fund

Haiti and the IMF

Press Release:
IMF Executive Board Completes Third Review under the PRGF Arrangement with Haiti, Increases Financial Assistance to Mitigate the Food and Fuel Price Impact, and Approves Disbursement of US$38.7 Million
June 20, 2008

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

June 9, 2008

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

HAITI: LETTER OF INTENT

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 20431
U.S.A.

Port-au-Prince
June 9, 2008

Dear Mr. Strauss-Kahn:

The purpose of this letter is to inform you on the progress made under the 3-year Poverty Reduction and Growth Facility (PRGF) arrangement approved by the IMF's Executive Board in November 2006, and to request the fourth disbursement under the arrangement in the amount of SDR 7.6 million, following the completion of the third review. In light of the severe external shock that Haiti has recently experienced, we are requesting an augmentation of access under the arrangement by SDR 16.38 million, also to be made available following the completion of the third review. We also request an increase in HIPC interim assistance by SDR 33,000 to fully cover interest obligations on eligible debt falling due to the Fund in June 2008.

The attached Supplementary Memorandum of Economic and Financial Policies (MEFP) reviews the progress under the PRGF-supported program, and updates the government's polices and objectives for the period through the end of the current fiscal year in September 2008.

Over the past years, Haiti has implemented macroeconomic policies that have contributed to stabilizing the economy, and the country has made significant strides in strengthening security. We are working to build on these gains and bring about strong and sustained economic growth that can substantially improve the living conditions of our population and reduce poverty in our country. However, as a large net importer of food and fuel, Haiti has been severely hit by rising commodity prices, and the agricultural sector has suffered from the impact of hurricanes and flooding. Despite these unexpected shocks, the government remains committed to preserve the stabilization gains achieved so far, as President Préval has expressed on several occasions in the past months. We are responding to the difficult situation with policies that balance adjustment and financing and safeguard macroeconomic stability. In particular, our program provides room for additional emergency spending to support the most vulnerable population from the effects of higher food and fuel prices, while ensuring that these expenditures are financed in an orderly way. The requested augmentation of access will help smooth the large balance of payments pressures created by the sharp rise in our import bill.

Most quantitative and structural performance criteria for the third review under the PRGF-supported program were observed. The Government requests a waiver for the nonobservance of the end-March quantitative performance criterion on central bank financing to the non-financial public sector, which was missed by small margin, as well as waivers for nonobservance of the structural performance criteria on the preparation of a central bank recapitalization plan and the strengthening of programming units in line ministries. A first draft of the recapitalization plan was submitted to staff a few days after the end-March test date, and we intend to strengthen it in coming months, relying upon technical assistance from the IMF. Finalization and approval by the Ministry of Economy and Finance and the BRH of a the strengthened recapitalization plan will therefore be added as a structural performance criterion for end-September. Regarding the strengthening of programming units in spending ministries, we have found it difficult to identify and hire local experts with the required qualifications. So far, nine experts have been hired and placed in three key ministries, and three more candidates are under evaluation. We remain committed to continue filling the remaining vacancies in coming months. At the same time, expenditure execution has been improved significantly through complementary measures.

The Government is committed to implement the Poverty Reduction Strategy Paper (PRSP) that was developed in consultation with the civil society and development partners and submitted to the World Bank and the IMF in November 2007. Our existing budget already covers some of the spending priorities set forth in the PRSP, and we are working with donors to reorient existing projects and focus new projects in line with our PRSP objectives. We are also working on the implementation of HIPC triggers to achieve the completion point as early as possible.

The Government believes that the policies set forth in the attached 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.

In line with our demonstrated commitment to transparency, we agree to the publication of the staff report for third review under the PRGF.

Sincerely yours,

/s/	/s/
Daniel Dorsainvil	Charles Castel
Minister of Economy and Finance	Governor
Haiti	Bank of the Republic of Haiti

Attachments

HAITI: SUPPLEMENTAL MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES

1. During the first half of FY 2008 (October–March), Haiti made further progress in implementing its economic and social program. However, the country also had to deal with a severe shock arising from an unexpected increase in world commodity prices and the impact of hurricanes and flooding on the agricultural sector. Despite these shocks, we have been able to comply for most part with our commitments under the PRGF-supported program. While substantial challenges still lie ahead and will require a concerted effort by the government and our development partners, we remain confident that Haiti will be able to generate sustainable growth and development that will be conducive to poverty reduction and bring lasting improvements in the living conditions of our population.

2. This Memorandum of Economic and Financial Policies (MEFP) supplements that of January 2008. It describes additional policy commitments and changes to the macroeconomic framework for the second half of FY 2008 (April-September). Unless explicitly noted, our policy commitments from the January 2008 MEFP remain valid.

A. Performance to Date under the Program

3. Performance under the PRGF-supported program during the first half of FY2008 remained strong. Most indicative targets for end-December and quantitative performance criteria (PCs) for end-March were met (Table 1). We are requesting a waiver for exceeding by a small margin the zero ceiling on net financing of the central bank (BRH) to the non-financial public sector. The breach reflected an extraordinary credit of G229 million extended to the public phone company TELECO, which is owned by the central bank (BRH), to cover restructuring costs as the company is being modernized through private sector participation.

4. Further progress was made in implementing our structural reform agenda. All structural benchmarks and three of five structural performance criteria (PC) for end-March were met on time (Table 2). Waivers of nonobservance are being requested for two PCs that were not fully met despite important progress made. A first draft of a plan to recapitalize the central bank (BRH) was submitted to staff for comment, but shortly after the end-March deadline. We will strengthen and finalize this plan in coming months, possibly with additional technical advice from the IMF's Monetary and Capital Markets department, and therefore a new structural PC on adopting a strengthened recapitalization plan for end-September 2008 has been added to the program. Regarding the strengthening of programming units of line ministries, we have found it difficult to identify and hire local experts with the required qualifications. So far, nine experts have been hired and placed in three key ministries (agriculture, education, and health), and three more candidates are under consideration. We remain committed to continue filling the remaining vacancies in coming

months. In the meantime, expenditure execution has been improved through complementary measures, such as strengthening of project evaluation and payment procedures.

5. Haiti has been one of the countries most affected by the world commodity price crisis. Inflation rose to 16.3 percent in March 2008, from 7.9 percent in September 2007, driven exclusively by higher prices for food, fuel, and public transportation. The trade deficit widened by $185 million (2.5% of annual GDP) in the first half of FY2008 compared to the previous year. The current account deficit widened somewhat less, aided by private remittances, which have continued to grow albeit at a lower pace than in the previous year owing to the downturn in the U.S. economy. With demand for foreign currency rising, the gourde reversed its nominal appreciation trend and weakened by about 10 percent against the dollar between September 2007 and March 2008.

B. Objectives for the Remainder of FY2007/08

6. We have adjusted our program to respond to the severe exogenous shocks with policies that strike a balance between adjustment and financing, while safeguarding macroeconomic stability. In conformity with the recently completed PRSP, our medium and long-term objective is to promote agricultural sector development and increase access to basic social services. To achieve this, large scale investment is needed. The revised program protects domestic resources earmarked for investment in infrastructure, public enterprise reform, and other projects essential for growth enhancement and poverty reduction, and builds on additional donor support to finance emergency measures to ease the impact on the most vulnerable population while actions to boost production bear fruit.

Growth and inflation

7. Available indicators provide a mixed picture of economic activity so far in FY2008. For the remainder of the year, the acceleration of government spending should provide a positive stimulus, and remittances will support private consumption. However, recent social and political developments have likely affected private sector confidence, and we therefore expect a temporary slowdown in FDI and domestic investment. Net exports are also projected to be significantly more negative than previously assumed, given sharply higher commodity prices. In light of these considerations, we have revised growth prospects for FY2008 down to 2.5 percent. Inflation is expected to reach 16 percent by end-September 2008. While substantially higher than originally programmed, this rate is ambitious given the high pass-through that international commodity price increases have on Haiti’s inflation because of the very high weight of food, fuel and public transportation in the CPI.

Fiscal

8. Domestic revenues reached G13.8 billion during the first half of FY2008. While this represented a respectable increase of 18 percent from one year ago, the outcome was G1.5 billion below the budget target, despite some progress made in implementing modernization plans for customs and the internal revenue service, in part because economic activity was lower than expected. We remain committed to continue strengthening our capacity to mobilize domestic revenue and to strive for our initial budget target. However, in light of the outcome in the first half of the year and the projected growth slowdown, we are programming revenue more conservatively at G28.1 billion for FY2008, G2.8 billion lower than budgeted.

9. Expenditure execution, a weak point in the past, improved during the first half of FY2008, exceeding revenue growth. Domestically financed capital spending rose almost 140 percent compared to the first half of FY2007 (cash basis), and the wage bill increased by about 50 percent owing to higher wages and new hiring. In addition, a substantial portion of expenditures that were committed in the last month of FY2007 were executed. We expect that spending will continue to accelerate as implementation capacity in line ministries is further strengthened, and we project expenditures (excluding foreign financed projects) to reach G32.6 billion for the entire FY2008.

10. Beyond the original budget, the government has initiated a two-step response to alleviate the hardship caused by higher food and fuel prices and maintain the fragile social peace that has been restored after the protests in early April. The first step involved the implementation of a 6-month subsidy program to stabilize the price of rice beginning in April. Although rice importers have agreed to reduce their profit margin, this program requires additional expenditures of about US$30 million. In addition, the government temporarily suspended the automatic upward adjustment of local petroleum prices to rising world market prices for a period of two months, resulting so far in an implicit subsidy of about US$10 million. We intend to resume the upward adjustment of local petroleum prices gradually with the next two shipments. These subsidies seek to ease the immediate social pressure and buy time, in a second step, for the implementation of more sustainable relief programs, including targeted social assistance programs and measures to boost agricultural output during the fall harvest.

11. The government intends to finance its emergency response with additional support from donors and budget reallocations that reprogram existing spending. A number of bilateral donors have pledged aid in the amount of US$77 million for targeted assistance through projects, including through the World Food Program, and the World Bank and Caricom have committed US$10 million each in additional budget aid for the current fiscal year. In addition, the program includes US$10 million in yet unconfirmed donor support,

which we intend to mobilize before the end of September. The program maintains a zero ceiling on net central bank financing.

12. Haiti has started to receive oil deliveries from Venezuela under the Petrocaribe agreement since March 2008. The agreement will provide Haiti with a substantial amount of concessional trade financing. The Government is committed to use these resources in a sustainable way and ensure fully transparent accounting. We plan to spend resources from Petrocaribe starting in FY2009 primarily on investment to boost the country's productive capacity, taking into account absorptive capacity and the need to maintain a sustainable debt burden. We will record loan amounts received through Petrocaribe as central government debt. Resources (loan proceeds and earned interest) from the Petrocaribe account will be withdrawn only to pay for debt service or transfers to the central government budget.

13. Because of our efforts to address the domestic food emergency and the unsettled political situation, preparation of the FY2008/09 budget has been delayed. However, we are committed to submit the budget to Parliament as quickly as possible. The coming fiscal year will be challenging in light of the significant demand for resources for continued emergency expenditures and PRSP implementation. However, we remain fully committed to avoiding recourse to central bank credit, as has been the case since 2004, to maintain macroeconomic stability in support of continued growth and investment.

Monetary and Financial Sector

14. Monetary policy implementation during the first half of FY2008 remained cautious, with base money rising 10.9 percent y-o-y as of end-March, below the program's indicative target. In addition, interest rates in BRH bond auctions have been increasing by 4 percentage points since mid-March to 8 percent. In recent weeks, we have seen the first participation of non-bank financial institutions in BRH bond auctions. This is an important step in our efforts to encourage broader participation in our bond auctions that may allow over time a move toward a fully competitive process. In light of the inflation shock, we intend to tighten monetary policy somewhat during the second half of FY2008. The indicative target for base money growth for end-September will be reduced from 9.6 percent to 7.9 percent. This should help contain the transmission of higher food and fuel prices to core inflation, and set the stage for a rapid disinflation process once world commodity prices stabilize. The BRH remains committed to maintaining a flexible exchange rate regime, which will allow the economy to adjust the world commodity price shock.

15. The BRH has made further progress in implementing its plan to relinquish involvement in non-essential activities. A strategy for discontinuing BRH involvement in TELECO has been adopted (end-March PC), which provides for divestiture of the BRH stake in the company either through an outright share sale or sale of the company's assets. We are working closely with the International Finance Corporation on moving this process forward,

and a number of actions have been taken, including a reduction in the workforce by two-thirds, to prepare TELECO for its sale. We are hopeful that this process can be completed within the next 18 months.

16. Prudential indicators suggest that the banking sector remains sound. The banking system's aggregate level of capitalization remains well above prudential requirements, even as profits have declined in a number of banks as a consequence of the lower interest paid by the BRH on its bonds (a small loss-making bank is being closely monitored). In addition, the quality of credit has improved somewhat, with non-performing loans reaching 9.6 percent by end-December 2007, down from 10.5 percent a year earlier. However, in light of the more challenging economic environment, the BRH will have to remain vigilant and monitor developments closely to ensure the continued health of the banking system. The assessment of BNC by an independent expert is being finalized, and we envisage to conclude the assessment of a second systemically important bank by end-September.

Program targets

17. Quantitative program targets for the second half of FY2008 have been revised to reflect the impact of the exogenous shocks on the economy. To allow for some smoothing of the balance of payments adjustment, the program now provides for a reduction of NIR of $14 million during FY 2008. To ensure that this will not unduly reduce gross reserves coverage, we are requesting an augmentation of access under the program of 20 percent of quota (about US$ 26.6 million). With somewhat lower indicative base money growth, the revised NIR floor implies an increase in the end-September 2008 ceiling on NDA accumulation to G2,527 million from G953 million. The ceiling on net BRH financing to the central government will remain at zero for end-September 2008. However, to avoid the interruption of essential fiscal programs, in particular emergency measures to address the food crisis, the program continues to allow compensation of shortfalls in budget support from donors up to a limit of US$30 million, through an adjustor.

PRSP, HIPC completion point triggers

18. After completing the PRSP in November 2007, we have begun implementing it. We will protect budgeted spending in PRSP priority areas from reallocations needed to respond to the food crisis. Despite postponing the donor conference in late April, we are working to align already programmed aid with PRSP priorities, through individual consultations with our bilateral and multilateral donors. Implementation of the HIPC triggers is ongoing, and we hope to achieve the completion point as quickly as possible.

Table 1. Haiti: Indicative Targets and Quantitative Performance Criteria, FY 2008

	Actual stock at end-	Cumulative Flows since September 2007									
		Dec-08				Mar-08				Jun-08	Sep-08
	Sep-07	Indicative target	Prog. with adjustor 3/	Actual	Deviation from prog w/adjustor	Test date	Prog. with adjustor 3/	Actual	Deviation from prog w/adjustor	Indicative target	Test date
Performance criteria											
Net central bank credit to the NFPS (in millions of gourdes)	20,041	522	522	340	-182	293	720	2	-718	576	150
Central Government	20,487	522	522	333	-189	293	720	-68	-787	426	0
Rest of NFPS 1/	-445	0	0	7	7	0	0	69	69	150	150
Net domestic banking sector credit to the central government	19,566	522	522	264	-258	293	720	-139	-858	426	0
Net domestic assets of the central bank (in millions of gourdes) - ceiling 2/	15,602	690	690	-194	-884	1,290	1,717	1,431	-286	1,307	2,527
Domestic arrears accumulation of the central government 3/	0	0	0	0	0	0	0	0	0	0	0
New contracting or guaranteeing by the central government or the BRH of nonconcessional external debt 3/ 4/											
(In millions of U.S. dollars)											
Up to and including one year	0	0	0	0	0	0	0	0	0	0	0
Over one-year maturity	0	0	0	0	0	0	0	0	0	0	0
Net international reserves of central bank (in millions of U.S. dollars) - floor 4/	259	10	10	49	39	20	8	10	2	0	-14
External arrears accumulation (in millions of U.S. dollars) 3/	0	0	0	0	0	0	0	0	0	0	0
Indicative target:											
Change in base money	24,930	1,050	1,050	1,577	527	2,010	2,010	1,789	-221	1,307	1,979
Memorandum items:											
Change in currency in circulation	11,570	1,150	1,150	2,064	914	1,750	1,750	1,002	-748	377	960
Net domestic banking sector credit to the rest of the of the non-financial public sector	-715	90	90	48	-42	190	190	-251	-441	-90	0
Government total revenue, excl. grants (in millions of gourdes)	…	7,645	7,645	6,557	-1,087	15,291	15,291	13,820	-1,471	20,851	28,146
Government total expenditure, excl. ext-fin investment (in millions of gourdes)	…	9,071	9,071	7,756	-1,314	17,179	17,179	14,820	-2,359	24,026	32,639

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

1/ Includes non-budgeted autonomous organizations, local governments, and public enterprises.
2/ For program monitoring purposes, NDA is defined as monetary base minus Program NIR in gourde terms. Program exchange rate of G36/$ through end-March, and of G38/$ through end-September.
3/ On a continuous basis.
4/ Excludes letters of credit and guarantee, and earmarked projects.

Table 2: Structural Performance Criteria and Benchmarks for the Fourth Program Review

Measures	Date (Month-end)
1. Structural performance criteria	
• Limit current account spending to no more than 10 percent of non-wage current expenditure	Quarterly
• Finalization and approval of a strengthened plan to recapitalize the central bank	September 2008
• Complete independent assessment of an additional systemically important bank	September 2008
2. Structural benchmarks	
• Establish three new customs control posts on major roads	September 2008
• Develop and implement modules on the investment program for the public financial management system SYSDEP	September 2008
• Develop and begin implementation of a plan to improve systemic liquidity forecasting	September 2008
• Initiate regular central bank reporting on monetary policy goals and implementation	September 2008
• Improve regulatory framework and supervision of credit unions	September 2008
• Submit a new organic law for the DGI to Parliament	September 2008

HAITI—TECHNICAL MEMORANDUM OF UNDERSTANDING

1. Haiti's performance under the program supported by the Poverty Reduction and Growth Facility (PRGF) will be assessed on the basis of the observance of quantitative performance criteria as well as compliance with structural performance criteria and benchmarks. This Technical Memorandum of Understanding (TMU) defines the quantitative and structural performance criteria and indicative targets for the period April – September 2008, specified in Table 1 and 2 of the Memorandum of Financial and Economic Policies (MEFP). It also lays down the monitoring and reporting requirements. The quantitative performance criteria under the program are set for end-September 2008. Targets for end-June 2008 are indicative.

I. DEFINITIONS

C. Net BRH Credit to the Central Government[1]

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

a. Change in net domestic credit to the central government from the BRH according to Table 10R of the BRH for end-December 2007.

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

c. Change in PetroCaribe accounts of the Bureau de Monetization will be excluded from change in net domestic credit to the central government as defined above.

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

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

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

4. The changes will be measured on a cumulative basis from the stock at end-September 2007.

D. Net Domestic Banking Sector Credit to central government

5. The change in net domestic banking sector credit to the central government 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 central government from 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 central government.

6. Changes in any other special account (as defined in footnote 3) maintained or established in the BRH, BNC, or BPH will be excluded.

7. The changes will be measured on a cumulative basis from the stock at end-September 2007.

E. Net International Reserves

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

   a. Change in net foreign assets ("Réserves de change nettes" of the BRH Table 10R for 2007 and 2008);

   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).

   c. Minus the change in earmarked project accounts and letters of credit and guarantee.

   d. Minus the change in PetroCaribe accounts of the Bureau de Monetization.

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

10. For definition purposes, net international reserves are the difference between the BRH's gross foreign assets (comprising gold, special drawing rights, all claims on nonresidents, and BRH claims in foreign currency on domestic financial institutions) and reserve liabilities (including liabilities to nonresidents of one-year maturity or less, use of Fund credit, and excluding trust funds). Swaps in foreign currency with domestic financial institutions and pledged or otherwise encumbered reserve assets are excluded from net international reserves.

11. The changes will be measured on a cumulative basis from the stock at end-September 2007.

F. Net Domestic Assets of the BRH

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

a. Change in base money (program definition according to section H below);

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

13. The program definition of net domestic assets of the BRH will use a program exchange rate of G38 per U.S. dollar for the period April–September 2008.

14. The changes will be measured on a cumulative basis from the stock at end-September 2007.

G. Nonconcessional External and Foreign-Currency Denominated Debt

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

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

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

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

H. Government Current Accounts

19. Ministerial current 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).

20. The target is calculated on a cumulative basis. The ceiling on the use of current accounts will be met if year-to-date (starting on October 1st) expenditure executed through current accounts is less than 10 percent of nonwage budget appropriations at the end of each of the two quarters preceding the end-March and end-September test dates.

I. Arrears

21. 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.

22. 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.

J. Base money

23. 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).

24. The changes will be measured on a cumulative basis from the stock at end-September 2007.

II. Quarterly Adjustments

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

A. Adjustment for Domestic Arrears Accumulation

26. 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 Net Program External Financing

27. The program ceilings on BRH net credit to the central government , and on BRH net domestic assets and the floor on NIR reflect an 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.

28. If actual net external financing is lower than programmed net external financing, the ceilings on BRH credit to the government 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 net external financing, converted into gourdes at the program exchange rate. The amount of this adjustment will be limited to US$30 million. The adjuster will be calculated on a cumulative basis from October 1, 2007.

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

	December 2007	March 2008	June 2008	September 2008
Program net external financing	21.4	36.2	54.7	97.0

III. Clarification of Structural Performance Criteria

A. Public Financial Management

29. The benchmark to develop and implement modules on the investment program for the public financial management system SYSDEP involves the installation of SYSDEP modules to record, and present on a monthly basis, domestically financed public investment expenditures. This reporting will be used to develop the monthly TOFE for at least September 2008.

B. Monetary policy and financial sector

30. Finalization and approval by the Ministry of Economy and Finance (MEF) and the BRH of a strengthened recapitalization plan for the central bank, which should include, inter alia, a plan to convert the MEF's outstanding obligations to the BRH into marketable government securities over the medium term, in line with the government's fiscal resources. Implementation of the plan should provide the BRH a sufficiently robust balance sheet to support independent monetary policy implementation.

31. The plan for improving systemic liquidity forecasting would include dates for implementing the following steps:

- Initiating regular exchange of information between the MEF and the BRH on in/outflows of the Treasury account;
- producing regularly the BRH's balance sheet;
- establishing liquidity forecasts for each autonomous factor for the coming week;
- based on the liquidity forecasts, adjusting the size of the BRH auction in line with monetary targets; and
- assessing and analyzing the forecast errors and finding possible corrections.

32. Completion of an independent assessment of an additional systemically important bank, would include a report on the on-site examination the bank, including an assessment of the financial condition, internal controls, and risk management practices, produced with the assistance of an independent foreign expert or team of experts, and signed and certified by the expert or experts, in accordance with terms of reference and procedures for the selection of experts that have been agreed between the BRH and the IDB.

33. As regards strengthening supervision of credit unions, the BRH should upgrade its prudential regulations and corresponding guidelines on supervisory practices regarding credit unions, and prepare a new draft law on credit unions. The draft law should address the following key concerns: (i) supervisory responsibilities should be limited; (ii) governance, transparency and self-regulation should be stressed; (iii) members' responsibility to monitor

management, and possibly change it, should be upheld; and (iv) the risk to overwhelm the supervisor by directly assuming the control of credit unions should be minimized.

IV. Provision of Information

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

A. Daily

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

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

B. Weekly

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

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

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

C. Monthly

40. Table 10 R and Table 20 R with a maximum of 30-day lag final data.

41. Tableau on the comptes courants with a maximum of 30-day lag final data.

42. Tableau de trésorerie de devises with a maximum of 30-day lag final data.

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

44. Table underlying the TOFE which enables the determination of checks in circulation and balance on investment project accounts.

45. Set of external debt tables with a maximum 30-day lag final data

46. Report of revenue collection of DGI (*Rapport d'activités*)

47. Tables of revenue collection of AGD (Indicateurs d’activités aux ports, Rapport analytique des perceptions douanières à l'importation)

48. Balance of PetroCaribe accounts of the Bureau de Monetization

D. Quarterly

49. Report on poverty-reducing expenditures.