International Monetary Fund

Haiti and the IMF

Press Release:
IMF Executive Board Completes Fourth Review under PRGF Arrangement with Haiti and Approves US$36.6 Million Augmentation and US$35.8 Million Disbursement
February 13, 2009

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

February 2, 2009

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
February 2nd, 2009

Dear Mr. Strauss-Kahn:

1. The purpose of this letter and attached memorandum is to inform you of the progress made under the PRGF-supported program, and to request that the fifth disbursement under the arrangement, in the amount of SDR 7.6 million, be made available to Haiti following the completion of the fourth review. In addition, given the damage caused by recent natural disasters and its expected negative impact on Haiti's external position, we are requesting an augmentation of access under the arrangement of SDR 24.57 million (30 percent of quota). Of this total amount, SDR 16.38 million (20 percent of quota) are to be made available following completion of the fourth review and SDR 8.19 million upon completion of the fifth review.

2. The attached Supplementary Memorandum of Economic and Financial Policies (MEFP) reviews progress under the PRGF and outlines the government's polices, objectives, and macroeconomic framework for FY 2008–09 (October 2008–September 2009). Haiti's performance during the first two years of the PRGF-supported program has been strong. We have carried out a reform program that has improved fiscal discipline, expenditure execution, and transparency, as well as strengthened the banking system. This has contributed to stabilizing the economy, improving private sector confidence, and accelerating economic growth, though slower than anticipated.

3. For the fourth review, all but one quantitative performance criteria (PC), all three structural PCs, and one of six structural benchmarks were fully implemented prior to the end-September 2008 test date. The Government requests a waiver for the nonobservance of the end-September quantitative PC on central bank credit to the non-financial public sector, which was missed by a small margin (less than 0.1 percent of GDP). Three of the five remaining end-September structural benchmarks were completed by end-January, and we request that the other two benchmarks be reset for end-March 2009.

4. During the third program year, despite the serious difficulties that we are facing because of recent shocks, we will raise domestic revenue through the implementation of new tax measures and strengthened fiscal revenue administration to support higher public investment and poverty-reducing expenditures, reduce inflation, and promote private sector-led growth and job creation.

5. Four back-to-back hurricanes and tropical storms in August and September caused flooding and mudslides, which devastated the country's infrastructure and wiped out about 60 percent of the summer-fall food harvest. The damage caused by the natural disasters has been estimated at about 15 percent of GDP. Substantial imports of staples and construction services will be necessary to rebuild infrastructure, which would lead to a deterioration of our external position in spite of the recent fall in commodity prices. Moreover, private remittances, which support domestic private consumption, have begun to decelerate since the onset of the sub-prime crisis in the U.S. We anticipate that remittances will continue to decline with the economic downturn in the U.S. and Canada, as will demand in our main export markets, including for tourism services. The government has decided to use saved PetroCaribe resources to address part of the initial emergency spending for reconstruction and other needs, and is working to strengthen revenue administration. We have also received additional support from our development partners, but much more is needed to address the difficult humanitarian situation and to rebuild and develop our country.

6. To help smooth the needed adjustment to the deteriorating external position, we are requesting additional access under the PRGF arrangement. We understand that it is unusual to request two consecutive program augmentations and that this would bring us to the maximum normal PRGF access level.[1] This request is justified by the dire circumstances and the multiple exogenous shocks, and is consistent with our effort to scale back our spending plans and generate new domestic revenues, as well as with additional commitments being made by other multilaterals. Moreover, a strong signal by the Fund is expected to help catalyze additional support from our other development partners.

7. The Government remains committed to implementing the Poverty Reduction Strategy Paper (PRSP), but its implementation will be affected by the challenges arising from recent shocks. We are also working on the remaining outstanding structural measures needed to achieve the floating completion point for HIPC, which we hope to reach in mid-2009.

8. 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 consultations.

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[1] As a large importer of food and fuel, our external position deteriorated significantly earlier in the year, and we requested a PRGF augmentation at the time of the third review.

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

Sincerely yours,

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

Attachments

Haiti—Memorandum on Economic and Financial Policies for Fiscal Year 2009

1. Haiti has recently experienced a series of devastating shocks that have fueled inflation and hindered economic growth. Rising food and fuel prices prompted civil unrest and a political stalemate that severely constrained government operations. In addition, a series of tropical storms and hurricanes in August and September caused a substantial loss of lives and extensive damage to homes, agricultural production, and the country's infrastructure. Estimates by the UN/EU/World Bank put the economic damage at as much as 15 percent of GDP. In addition, the downturn in the U.S. and Canadian economies triggered by the global financial crisis has caused a deceleration in remittances inflows that is expected to intensify and continue for several months.

2. Despite these shocks, we were able to comply with most of our commitments under the PRGF-supported program and maintain fiscal and monetary discipline. The impact of the shocks will endure through the current fiscal year and possibly beyond, and substantial resources will be required to cover humanitarian and reconstruction needs in addition to the financing required to implement the PRSP development strategy. Although the shocks have shaken some of the advances made in the past four years, we will continue to make the utmost effort to maintain macroeconomic stability in the current challenging environment. We are determined to continue working with our development partners to restore infrastructure damaged by the hurricanes and to deepen implementation of our home-grown development strategy, as laid out in the PRSP. This strategy aims to put Haiti in a position to generate sustainable, job-creating growth that will be conducive to poverty reduction and a lasting improvement in the living conditions of our population.

3. This Memorandum of Economic and Financial Policies (MEFP) reviews the progress under the PRGF-supported program and outlines the government's policies, objectives, and macroframework for the third and final year of the PRGF program covering FY 2009 (October 2008─September 2009).

Recent Developments

4. Program objectives, particularly inflation, were amended at the time of the third review to reflect increased food and fuel prices in the first half of the fiscal year. However, continued high international food prices, supply side effects of the hurricanes, and annual gourde depreciation of close to 10 percent caused 12-month inflation to peak at 19.8 percent in September 2008, compared to 7.9 percent a year earlier. After declining slightly in October, annual inflation fell to 10.1 percent in December, reflecting sharp decreases in international food and fuel prices.

5. Growth for FY 2008 is now estimated at 1.3 percent (lower than expected), compared to 3.4 percent in FY 2007. Decelerating remittances and the impact of the hurricanes had a

negative impact on private consumption, while public spending provided some positive stimulus, due to improved budget execution capacity. The deficit in the balance of goods and services is estimated to have widened by US$521 million (7.3 percent of GDP) in FY 2008, largely because of higher import bills for food and fuels.

6. The overall fiscal deficit (excluding grants and foreign-financed investment) in FY 2008 reached 2 percent of GDP, compared with 1.7 percent in the program, reflecting spending in line with projections (excluding foreign-financed investment) and revenues somewhat lower than projected. Domestically-financed capital expenditures exceeded program expectations as a result of improved budget execution procedures, as well as additional spending for public works and in support of agricultural production. Temporary subsidies were instated to respond to the social tension caused by the commodity price crisis, and these increases were partly offset by reductions in the wage bill and purchases of goods and services. Domestic revenues were 9.9 percent of GDP, compared with 10.6 percent programmed, with the shortfall reflecting mainly losses from the suspension of fuel price adjustments in early April 2008.[2] However, the rice subsidy was phased out in August and the automatic fuel price adjustment mechanism was reinstated in mid-October.

7. Delays in donor disbursements resulted in significant reliance on temporary central bank (BRH) credit to the government during the second half of FY 2008, including to finance outlays for the start of the school year, while investment expenditures were curtailed to stay within reach of the adjusted end-September program ceiling. However, as the impact of the hurricanes required additional outlays, US$51 million in accumulated PetroCaribe resources was transferred to the BRH (one of the components of net credit to the government), resulting in compliance with the program criterion to have no new BRH financing to the central government.

8. Our monetary policy was aimed at containing core inflation from second round effects derived from the commodity price shock and smoothing out the exchange rate path. In the context of higher headline inflation, we doubled the nominal interest rate for BRH bonds, we sterilized temporary central bank financing to the government through the placement of BRH bonds (G 1.5 billion) and net foreign exchange sales (US$52.2 million). Despite these efforts, base money growth by end-September (14 percent) remained above its program target (7.9 percent), but still well below nominal GDP growth. With the objective of progressively extending the yield curve beyond 91 days, a new 182-day bond was introduced. Although participation in weekly central bank bond auctions was opened up to nonbank financial institutions, participation remains concentrated to a few large commercial banks.

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[2] Real and nominal GDP for FY 2007 and FY 2008 have been revised since the program was agreed. When using the original program nominal GDP, tax revenue in FY 2008 was 10.3 percent of GDP, compared to 10.6 percent of GDP in the program.

9. End-September data indicate that key quantitative performance criteria of the program, including zero central bank financing to the central government and the floor on NIR accrual, were met. The criterion on BRH credit to the rest of the nonfinancial public sector was breached by less than 0.1 percent of GDP.

10. The three end-September structural PCs were met. The MEF and BRH submitted a strengthened central bank recapitalization plan, audits were conducted on two other systemically-important commercial banks, and spending from current accounts was contained to well below 10 percent of non-wage current expenditures. We also made progress in the implementation of the six program benchmarks, although only one benchmark was completed by end-September (the BRH updated its prudential regulations and corresponding guidelines on the supervision of credit unions and prepared a draft law to improve the regulatory framework and supervision of credit unions). We request that two benchmarks be reset for end-March 2009: a new organic law for the DGI will be submitted to Parliament (the draft law has been approved by cabined and reviewed by the IMF's Fiscal Affairs Department); and we will start publishing regular reports on inflation and monetary policy. Regarding the latter, we have already stepped up our communication efforts on monetary policy goals and implementation through speeches and occasional press interviews. Two of the remaining three benchmarks were implemented by end-December: (i) the three customs posts are operational; and (ii) we are now recording investment spending in our financial management software (SYSDEP). We have improved the coordination between the central bank and the Ministry of Economy and Finance to strengthen systemic liquidity forecasting, and a formal plan to reinforce this was finalized in January.

Program Objectives for FY 2009

11. Our priorities for FY 2009, the final year of the PRGF-supported program, will be to increase spending for infrastructure rehabilitation, humanitarian needs and PRSP implementation, while maintaining the principle of sound financing. We are committed to continued adherence to the program to maintain stability, set the stage for recovery of the economy, and complete structural reforms initiated over the course of the three-year PRGF-supported program. We are also committed to implementing all remaining measures needed to reach the HIPC completion point in mid-2009. This will be a challenge given the deteriorating external environment and the need to recover from the severe external shocks.

Growth and Inflation

12. Growth in FY 2009 is projected at 2.5 percent, reflecting significant public sector spending on restoring infrastructure, including the beginning of operations of three new power plants. Negative supply-side effects of the hurricane damage to road infrastructure and the agricultural sector are likely to hinder a faster recovery. From the demand side, this reflects a reduction in private consumption from declining remittances, as well as lower FDI and net exports due to the economic downturn in the U.S. and Canada. Lower net exports

also reflect slowing U.S. demand for Haiti's exports and a need to import basic food products, higher volumes of fuel to operate the new power plants, and goods and services for the reconstruction of infrastructure. In light of the worsening global environment, downside risks to the growth outlook are significant, notably through possibly even lower remittances and export demand than anticipated.

13. End-September 12-month inflation peaked at 19.8 percent and further declined to 10.1 percent at end-December. However, although international commodity prices are declining rapidly, rigidities such as supply shortages, long purchasing contracts, and price gouging, together with faster exchange rate depreciation may slow the impact on headline inflation, which is projected to remain relatively high at 9.5 percent by end-September 2009. In light of weak demand from other sectors of the economy, higher fiscal spending to address hurricane damages is unlikely to contribute substantially to inflationary pressures, and we will ensure that any temporary central bank financing is limited and sterilized.

Fiscal

14. The fiscal program will seek to balance large spending needs for emergency, reconstruction and PRSP implementation with sound financing principles to maintain stability. As a result, fiscal policy in FY 2009 will be more expansionary than in previous years under the program.

15. The submission of the FY 2009 budget has been delayed, but a supplemental budget was approved at the end of FY 2008 that provides ongoing spending authority until a new budget can be submitted to Parliament. We have submitted the FY 2009 budget to Parliament on December 19, 2008 and expect its approval by end-January, 2009. The FY 2009 budget includes a modest increase in current spending: wages increase by 0.6 percentage points reflecting hirings of teachers and police, payment of a one-off 14^{th} salary to civil servants, granted in lieu of a general salary increase, and higher salaries for judges, and transfers increase by 0.4 percentage points to support increased electricity production, while other current spending is reduced by 0.3 percentage points of GDP. The budged also features an ambitious program of domestically-financed expenditures (an increase of 1.8 percentage points of GDP over FY 2008), that aims at stimulating growth, at increasing the availability of animal products through the promotion of rearing, fishing and aquaculture, at protecting the population against floods, at improving sanitary conditions, and improving formal and education supply, in line with the PRSP priorities. Almost 35 percent of domestically-financed capital spending is allocated to the Ministry of Public Works, 5 percent to Health and Education, 4 percent to Agriculture, and 3 percent to Public Security.

16. The government is in the process of executing G 9.1 billion in off-budget reconstruction spending (2.9 percent of GDP), authorized by Parliament in late September by passage of a law for emergency spending which, during a state of emergency, grants the government extended powers to reallocate budgetary funds, execute off-budget spending and

award public contracts through expedited procedures. For the purposes of the PRGF-supported program, on-budget and off-budget spending will be consolidated. Total programmed expenditures for FY 2009, including foreign-financed investment, are projected at G 61.1 billion.

17. Our program features an increase in domestic revenue to the equivalent of 10.5 percent of GDP. The projection reflects lower fuel prices and the resumption since mid-October 2008 of automatic fuel price adjustments, mitigated by: the impact of the new customs control posts established in major roads; the full-year impact of the new centralized taxpayer database; and continued implementation of the income tax law approved in FY 2007. In addition, ongoing and upcoming technical assistance from a number of donors will contribute to strengthened tax and customs administration in the months ahead. However, low growth and low oil prices will necessarily limit the overall amount that can be collected. Should revenue collection fall below our objectives, we are committed to reducing non-priority spending commitments accordingly. The total resource envelope, including budget support grants and project grants, is estimated at G 48.8 billion.

18. These estimates leave a projected overall deficit for FY 2009 (excluding project grants and foreign-financed investment) of G 8.8 billion (2.8 percent of GDP), including off-budget emergency spending. To finance the deficit and Haiti's debt service, we have so far identified new budget support of G 6 billion, which mostly consists of accumulated PetroCaribe resources, as well as debt relief and debt rescheduling of G 0.9 billion, and a drawdown of G 0.3 billion in accumulated government deposits at the BRH. In addition, we expect to mobilize additional donor support of at least G 2.0 billion to cover our remaining financing needs, in part at the occasion of a donor conference during the first quarter of 2009. If this amount does not materialize, the program adjustor will allow new central bank financing of up to G 2 billion (US$50 million) to cover the shortfall. If such central bank financing is needed, in keeping with our central program commitment, we will budget resources for its repayment in the following fiscal year.

19. The government's off-budget emergency spending program will be financed by use of saved PetroCaribe resources. We are committed to monitoring this off-budget spending very closely. We will record the execution of emergency spending using normal budget classification procedures, request detailed spending plans and reports from spending units, and submit to Parliament and publish detailed quarterly execution reports until all such spending is executed. Finally, all off-budget spending will be audited in line with normal audit procedures for on-budget spending.

20. For FY 2009, net external financing under the program does not include any new PetroCaribe/ALBA resources. In case they materialize, any new PetroCaribe resources that constitute public debt and/or are spent by the central government in FY 2009 will be treated

as budget support or as project account resources for program purposes, as specified in the attached Technical Memorandum of Understanding (¶¶2, 27–28). [3]

21. We are committed to keeping up-to-date the detailed reporting table on transfers to the electricity company EdH, which was developed earlier on under the program. Close monitoring of these transfers is essential to ensuring continued fiscal soundness. This oversight will be complemented by ongoing efforts to improve the operational efficiency of EdH, which are being undertaken with support from the World Bank and other donors. Improving the provision of electricity and bringing down energy costs are critical improvements needed to ensuring strengthened growth prospects for Haiti.

Monetary and Financial Sector

22. Monetary policy will remain geared to keeping core inflation reined-in, as the impact of high commodity prices wanes**.** To this end, the annual rate of base money growth will be kept at around 9.3 percent during FY 2009, or below nominal GDP growth. With this objective in mind, the BRH will sterilize temporary central bank financing through open market operations and foreign exchange sales. While the BRH may undertake foreign exchange operations to smooth out exchange rate adjustment, including in response to shocks, it remains committed to its flexible exchange rate regime, which will continue to be an important instrument to help the economy adjust to shocks. To help guide inflation expectations, we commit to publishing, beginning in early 2009, regular reports on monetary policy goals and outcomes. We will ensure close coordination between the Ministry of Economy and Finance and the BRH to assess upcoming liquidity needs, including for foreign exchange. We will also continue to encourage broader participation in the weekly central bank bond auctions, as our medium-term objective remains to create a competitively-determined policy interest rate that can serve as a better transmission mechanism for monetary policy objectives.

23. Prudential indicators through end-September 2008 suggest that the banking sector has remained in broadly sound condition. Liquidity and capitalization remain solid. Net profits of the banking system doubled from a year ago, and non-performing loans declined below 10 percent. The assessments by independent experts of the BNC and the two other large banks in the system were finalized and are broadly satisfactory. The BNC will require an increase in its capital base to accommodate the absorption of Socabank in 2006, and a review of its operational structure, to which we are committed. The BRH will remain vigilant and monitor developments closely to ensure the continued health of the banking system. The BRH has drafted a new law to improve the supervision of credit unions and is working on

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[3] The nature of these resources will be determined by their originating contract and the definitions in the attached Technical Memorandum of Understanding (¶¶2, 27–28).

other key recommendations suggested by the IMF-World Bank financial sector assessment carried out in late 2007, and by the Fund's safeguards assessment.

Quantitative Program Targets

24. The third year of the program will be monitored using quarterly quantitative indicative targets and semi-annual quantitative PCs as presented in Table 2. The test dates for the program will be end-March and end-September 2009. It is anticipated that the fifth program review will be completed on or around June 29, 2009, and that the sixth review will be completed on, or around, November 16, 2009. With the exception of the drawing down of government deposits accumulated at end-September 2008 (G 349 million), new central bank financing to the non-financial public sector will be zero. The proposed program provides some room for BRH credit to the government in the first two quarters, which are likely to be the most critical from a humanitarian and reconstruction perspective, but this credit is programmed to be reversed by end-September 2009, in the absence of use of the program adjustor. To allow for some smoothing of the balance of payments adjustment, the program provides for a reduction in NIR of US$50 million during FY 2009. To ensure that this will not reduce reserve coverage, we are requesting an augmentation of access under the program of 30 percent of quota (US$37 million), of which 20 percent of quota would be disbursed upon completion of the fourth review under the PRGF. The remainder would become available upon completion of the fifth review. The definitions of the quantitative targets are provided in the attached Technical Memorandum of Understanding (TMU). To avoid the interruption of essential fiscal programs, in particular emergency measures to address the food crisis, the program continues to allow for the compensation of shortfalls in budget support from donors up to a limit of US$50 million, through a program adjustor. The program allows full spending of any additional external support above and beyond the net amounts projected.

Program Structural Measures

25. Structural reforms will center on measures initiated earlier on in the program but still outstanding as well as newly-relevant measures, particularly in the areas of strengthening financial governance and reinforcing monetary policy independence (Table 3). To this end, we will seek prompt parliamentary approval of key laws tabled in mid-2007, including the banking law and a new customs code. We will begin implementing the new agreed recapitalization plan for the BRH: in particular, we will (i) increase interest payments by the MEF in line with the stipulations in the plan, (ii) establish a calendar for the replacement of the current unsecuritzed stock of central government debt to the BRH with the issuance of Treasury Bills (TB), with the first issuance of TB (in the amount of G 4.9 bn) to occur during FY 2010; (iii) establish, jointly by the MEF and BRH, the magnitude of government debt to the BRH to be treated under the recapitalization plan, and approve its consolidation by end-September 2009; and (iv) produce a memorandum of understanding between MEF and BRH on the financial terms of the TB to be issued, their tradability, and any other operational

matters relevant for the implementation of the swap, consistent with the BRH recapitalization plan. We will continue to limit spending under ministerial current accounts and plan to monitor execution of off-budget spending under the emergency law as described in paragraph 18. The debt management unit in the Ministry of Economy and Finance will be reinforced, in preparation for issuance of MEF bonds and to ensure continued debt sustainability after the HIPC completion point. We intend to submit the draft organic DGI law to Parliament and publish regular reporting on our monetary policy goals and request that these benchmarks be reset for end-March. Finally, the cessation of BRH non-essential activities has been implemented: the laws relating to the disengagement of the BRH from APN and SONAPI were approved by Parliament in late 2007 (originally structural benchmark for September 2009) and that relating to BRH disengagement from BPH was voted in November 2008. The approved laws will be published in the official journal "Le Moniteur" by end-March-2009. These measures are laid out in more detail in the attached Technical Memorandum of Understanding.

Implementation of HIPC Triggers

26. We are working to implement the outstanding conditions for reaching the HIPC floating completion point, in order to benefit from HIPC and MDRI debt stock reductions by mid-2009. We have agreed with the IMF and World Bank staffs on an indicative timeframe for completing the steps needed to reach the completion point, including completion of an annual progress report on the first year of PRSP implementation, data reconciliation for the HIPC DSA analysis, and a timeframe for implementing the outstanding HIPC triggers. The most challenging of these is parliamentary passage of a new procurement law, and six months' of auditing consistent with the new law. We will make every effort to ensure that the law is submitted to Parliament and passed very soon.

Table 1. Haiti: Proposed Schedule of Disbursements

Amount	Date	Conditions for Disbursement 1/
SDR 28,100,000	November 20, 2006	Executive Board approval of the three-year arrangement under the PRGF. Includes 25% of quota in access for repayment of EPCA purchases
SDR 7,600,000	July 23, 2007	Observance of performance criteria for March 2007 and completion of the first review under the PRGF arrangement.
SDR 7,600,000	February 20, 2008	Observance of performance criteria for September 2007 and completion of the second review under the PRGF arrangement.
SDR 23,980,000	June 23, 2008	Observance of performance criteria for March 2008 and completion of the third review under the PRGF arrangement.
SDR 23,980,000 2/	February 11, 2009	Observance of performance criteria for September 2008 and completion of the fourth review under the PRGF arrangement.
SDR 15,790,000 2/	June 29, 2009	Observance of performance criteria for March 2009 and completion of the fifth review under the PRGF arrangement.
SDR 7,610,000 3/	November 16, 2009	Observance of performance criteria for September 2009 and completion of the sixth review under the PRGF arrangement.

1/ Other than the generally applicable conditions for the Poverty Reduction and Growth Facility (PRGF).
2/ At the time of the fourth review, a program augmentation of 30 percent of the quota (SDR 24.57 million) is proposed for the Board's consideration. This table incorporates the proposed phasing of the augmentation (20 percent of quota to be disbursed upon completion of the fourth review, and 10 percent of quota to be disbursed at the time of completion of the fifth review).
3/ An extension of the program beyond its expiration date (November 19, 2009) could be considered if additional time is needed to complete the sixth review.

Table 2. Haiti: Indicative Targets and Quantitative Performance Criteria, FY 2009

	Actual stock at end-Sep-08	Cumulative Flows since September 2008			
		Dec 08 Ind. Target	Mar 09 Test Date	Jun 09 Ind. Target	Sept. 09 Test Date
Performance criteria					
Net central bank credit to the NFPS (in millions of gourdes)	20,541	1,915	3,500	3,400	349
Central Government	20,607	2,100	3,500	3,400	349
Rest of NFPS 1/	-67	-185	0	0	0
Net domestic banking sector credit to the central government 2/	13,336	5,115	9,530	9,430	6,379
Net domestic assets of the central bank (in millions of gourdes) - ceiling 3/	16,607	2,100	3,690	3,940	4,700
Gross Credit from Commercial Banks to the Central Government (in millions of gourdes) - ceiling 4/	0	0	0	0	0
Domestic arrears accumulation of the central government 4/		0	0	0	0
New contracting or guaranteeing by the central government or the BRH					
of nonconcessional external debt (In millions of U.S. dollars) 4/ 5/					
Up to and including one year		0	0	0	0
Over one-year maturity		0	0	0	0
Net international reserves of central bank (in millions of U.S. dollars) - floor	287	0	-40	-40	-50
External arrears accumulation (in millions of U.S. dollars) 4/					
Indicative target					
Change in base money	28,392	2,100	2,050	2,300	2,650
Memorandum items:					
Change in currency in circulation	13,030	1,800	950	1,100	1,250
Net domestic banking sector credit to the rest of the of the non-financial public sector	-112	-185	0	0	0
Government total revenue, excl. grants (in millions of gourdes)	--	7,209	15,477	24,387	32,781
Government total expenditure, excl. ext-fin investment (in millions of gourdes)	--	12,251	27,043	36,685	45,398

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

1/ It includes non-budgetary autonomous organizations, local governments and public entities. It will be measured as the change, from September 2008, in *Créances nettes sur le Secteur Public* (i.e, Net Credit to the Non Financial Public Sector) minus the change in *Créances nettes sur état* (i.e, Net Credit to the Central Government), according to Table 10R of the BRH.

2/ It includes a reduction of government deposits in commercial banks, that were originated in Petrocaribe-related disbursements during FY2008. As of end-FY08, the balance of these deposits amounted to US$ 150 million. The program includes a zero ceiling on commercial banks' gross credit to the central government, on a continuous basis. The disaccumulation of deposits mainly finances hurricane-related reconstruction spending. See TMU.

3/ For program monitoring purposes, NDA is defined as monetary base minus Program NIR in gourde terms. Program exchange rate of G41 per US$.

4/ On a continuous basis.

5/ Excludes guarantees granted to the electricity sector in the form of credit/guarantee letters.

Table 3. Structural Measures for FY 2009

Performance criteria	
Provide, along with normal monthly budget execution tables, execution of emergency spending, by normal budget classification.	Quarterly during the arrangement period, starting on March 31, 2009 and until all off-budget emergency spending is executed
Limit to 10 percent nonwage current spending through current accounts.	Quarterly (evaluated at end-March and end-September 2009)
Legislative passage of new banking law.	End-September 2009
Implement first stage of BRH recapitalization plan.	End-September 2009
Benchmarks	
Set up and train debt management unit in MEF – both to use centralized external debt database, but also to manage domestic Treasury debt in context of BRH recapitalization.	End-September 2009
Legislative passage of customs code.	End-September 2009
Publication of the laws relating to the disengagement of the BRH from APN, SONAPI and BPH approved by Parliament in the official journal "Le Moniteur".	End-March 2009
Submit the organic DGI law to Parliament (reset from September 2008).	End-March 2009
Initiate regular central bank reporting on monetary policy goals and implementation (reset from September 2008.	End-March 2009

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 October 2008–September 2009, specified in Tables 1 and 2 of the Memorandum on Economic and Financial Policies (MEFP). It also lays down the monitoring and reporting requirements. The quantitative performance criteria under the program are set for end-March 2009 and end-September 2009. Targets for end-December 2008 and end-June 2009 are indicative.

I. Definitions

A. Net BRH Credit To The Central Government[4]

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-September 2008.

b. Change in the stock of project accounts ("Comptes de projets") included in Table 10R of the BRH will be excluded from change in net domestic credit to the central government as defined above.[5]

c. Change in the stock of Special Accounts ("Comptes Speciaux") and seized values ("Valeurs Saisies UCREF") included in Table 10R of the BRH will be excluded from the change in net domestic credit to the central government as defined above.[6]

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[4] 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).

[5] Project accounts ("Comptes de projets") refer to government accounts at the BRH which can only be used with the authorization of donors (similar to escrow accounts), i.e., their use is beyond the control of the central government. If included, movements in these accounts would appear as BRH credit to the government. See Section E for the treatment of PetroCaribe-related resources.

[6] Special Accounts ("Comptes Speciaux") refer to US$-denominated central government sight deposits at the BRH. The balance of these accounts increase with the proceeds of the sales of in-kind aid (in the form of wheat, maize, rice, etc.) received by the Haitian government; these proceeds are earmarked to finance specific projects and cannot be used by the Central Government without the explicit authorization of respective donors. Thus, resources under the direct control of the government do not form part of 2.b and/or 2.c as defined above.

(continued)

3. The changes will be measured on a cumulative basis from the stock at end-September 2008.

B. Net Domestic Banking Sector Credit to Central Government

4. 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 to the central government from the BRH according to Table 10R of the BRH; plus, the change in the stock of net domestic credit to the central government from domestic banks according to Table 20R of the BRH.

   b. The change in the stock of project accounts ("Comptes de projets"), as defined in 2.b above, will be excluded from the change in net domestic banking sector to the Central Government.

   c. The change in the stock of Special Accounts ("Comptes Speciaux") and seized values ("Valeurs Saisies UCREF"), as defined in 2.c above, will be excluded from the change in net domestic banking sector to the Central Government.

In addition, the ceiling for the change in gross credit from domestic banks to the central government will be set at zero continuously throughout the program period.

5. The changes will be measured on a cumulative basis from the stock at end-September 2008.

C. Net International Reserves

6. 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 2008 and 2009);[7]

   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).

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[7] Letters of credit and guarantee ("Lettres de crédit" and "Lettres de garantie") are reported in Table 10R as part of BRH foreign liabilities ("Engagements exterieurs"), and therefore are already netted out of NIR.

c. Minus the change in the stock of project accounts ("Comptes de projets") as defined in 2.b above.

d. Minus the change in the stock of Special Accounts ("Comptes Speciaux") and seized values ("Valeurs Saisies UCREF") as defined in 2.c above.

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

8. 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.

9. The changes will be measured on a cumulative basis from the stock at end-September 2008.

D. Net Domestic Assets of the BRH

10. 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 I. 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.

11. The program definition of net domestic assets of the BRH will use a program exchange rate of G 41 per U.S. dollar for the period October 2008–September 2009.

12. The changes will be measured on a cumulative basis from the stock at end-September 2008.

E. PetroCaribe-Related Inflows in FY 2008 and FY 2009

13. PetroCaribe-related inflows during FY 2008 amounted to US$201 million. These inflows constitute direct external debt of the central government and will be spent during FY 2009, mainly in post-hurricane reconstruction projects, and hurricane-related relief. As of end-September 2008, US$51.0 million of such inflows were held in US$-denominated sight deposits of the central government at the BRH, and the remaining US$149 million in US$-denominated deposits of the central government at domestic commercial banks. These resources are under the direct control of the central government, for program purposes.

14. Any new PetroCaribe inflows occurring in FY 2009 will continue to be held in central government accounts in the banking system until new institutional arrangements are finalized.[8] The nature of these resources will be determined by their originating contract and the definition of debt in ¶15 below. Debt will be public if the debtor is the public sector, as defined by GFS-2001 (Chapter 2-Section D).

F. 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.

G. 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-March and end-September test dates.

[8] ALBA refers to "Alternativa Boliviarana de las Americas".

H. 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.

I. 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 (Dépôts a vue en 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 2008.

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 central government will be adjusted downwards for the amount of outstanding domestic arrears accumulation.

B. Adjustment for PetroCaribe-Related Inflows in FY 2009

27. The ceiling for net domestic banking sector credit to the central government will be adjusted downwards for any (new) PetroCaribe/ALBA-related inflows during FY 2009 into

central government deposits in the domestic banking sector (which comprises domestic banks and the BRH), while the ceiling for net BRH credit to the central government will be adjusted downwards for the portion of such flows deposited at the BRH. Correspondingly, the floor for Net International Reserves of the BRH will be adjusted upwards for any portion of such new inflows that are deposited at government accounts at the BRH.[9]

28. In case all or/any portion of such new inflows were to constitute public debt (direct and/or contingent) of any form, such inflows will count as “Program Net External Financing” as defined and referred to in paragraphs 29 and 30. Any spending of any form (within or outside the budget) financed with such new inflows during FY 2009 will be considered as central government spending for program purposes.[10] In this case, a similar adjustment to that described in paragraph 27 will apply: The ceiling for net domestic banking sector credit to the central government will be adjusted downwards for the difference between any (new) PetroCaribe/ALBA-related inflows during FY09 and any spending financed with such flows. The ceiling for net BRH credit to the central government will be adjusted downwards (and the floor for Net International Reserves upwards), for the portion of unspent inflows deposited at the BRH.

C. Adjustment for Net Program External Financing

29. 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.

30. If actual net external financing is lower than programmed net external financing, the ceilings on net BRH credit to the central government and on net BRH 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$50 million. The adjuster will be calculated on a cumulative basis from October 1, 2008.

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

	December 2008	March 2009	June 2009	September 2009
Program net external financing	20.3	40.3	37.6	88.8

[9] In other words, the baseline program assumes these flows to be zero.

[10] Net program external financing in the form of inflows from PetroCaribe/ALBA during FY 09 are assumed to be zero.

D. Adjustment for Lower Utilization of FY 2008-Related PetroCaribe Inflows

31. Under the program, all PetroCaribe-related inflows received in FY 2008 are projected to be spent during FY 2009, mainly in reconstruction-related investment projects and hurricane-related relief. In case such inflows are not used completely during FY 2009, (and to ensure that these projects remain adequately financed), (i) the quarterly FY 2009 ceiling for net domestic banking sector credit to the central government will be adjusted downwards for any unspent amount deposited at the domestic banking system, while the ceiling for net BRH credit to the central government will adjusted downwards for any portion of such unspent resources deposited at the BRH; and (ii) for the respective amount deposited at the BRH, the net international reserve floor will be adjusted upwards. The structural performance criterion to fully report emergency spending applies on a quarterly basis until full utilization of PetroCaribe-related inflows received in 2008.

III. Clarification of Structural Performance Criteria

A. Public Financial Management

32. The performance criterion to monitor the use and accounting of the emergency off-budget public spending involves the provision, at end-March 2009 and quarterly afterwards (until all off-budget emergency spending is executed), of tables reporting the emergency spending according to normal budget classification (alongside with the standard monthly execution tables). These tables will be posted in the Ministry of the Economy and Finance's (MEF) website as is currently the practice with TOFE tables.

33. The benchmark for the setting up of a Debt Management Unit (DMU) at the MEF involves the (i) the definition of the function to be performed by the DMU as well as its location within the MEF organizational chart, by means of a MEF internal regulation; (ii) the assignment of personnel to comply with its basic functions; (iii) the adoption of a debt management software that could be linked to SYSDEP, as well as the training of relevant (*Back Office*) DMU staff in its operation; (iv) the centralization of the recording and storage of all public debt data at the DMU; (v) the production of a draft operations manual; (vi) the drafting of memoranda of understanding between the MEF and other ministries and the BRH to clearly establish responsibilities and avoid overlappings.

34. Regarding the benchmark for the legislative passage of the customs code, we will inform staff in case substantial changes to the draft law are proposed by Parliament. Regarding the benchmark for submission to Parliament of the organic DGI law, the proposed law will reflect international best practices as reflected in comments by IMF experts, as relevant for Haiti.

B. Monetary Policy and Financial Sector

35. The performance criterion to implement the first stage of the BRH recapitalization plan involves: (i) increasing interest payments on the stock of central government debt to the BRH to G1.1 billion in FY 2009; (ii) establishing a calendar for the replacement of the

current unsecuritzed stock of central government debt to the BRH with the issuance of Treasury Bills (TB): the first such issuance (in the amount of G4.9 bn) is scheduled to occur during FY 2010; (iii) establishing, jointly by the MEF and BRH, the magnitude of government debt to the BRH to be treated under the recapitalization plan, and approving its consolidation by end-September 2009; and (iv) producing a memorandum of understanding between MEF and BRH on the financial terms of the TB to be issued, their tradability, and any other operational matters relevant for the implementation of the swap, consistent with the BRH recapitalization plan.

36. The performance criterion for legislative passage of the new banking law involves, as agreed, the approval by Parliament of a law consistent with Basel Core Principles. The approved law shall provide the BRH with adequate powers and legal protection for regulating and supervising bank operations; and 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

37. 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

38. *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.

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

B. Weekly

40. *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.

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

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

C. Monthly

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

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

45. “Project Accounts”, by donor, with a maximum of 30-day lag final data

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

47. Tableau des Operations Financières de l’Etat, including attached tables reporting the execution of off-budget emergency spending (within 14 days).

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

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

50. Report of revenue collection of DGI (*Rapport d'activités*), with a maximum 30-day lag final data.

51. Tables of revenue collection of AGD (Indicateurs d’activités aux ports, Rapport analytique des perceptions douanières à l'importation), with a maximum 30-day lag final data.

52. Balance of Bureau de Monetization accounts, including those movements related with flows linked to the ALBA-PetroCaribe agreement. Balance of PetroCaribe/ALBA-related deposits at commercial banks and/or the BRH, with a maximum 30-day lag final data, including those related with the *Fonds d’Urgence* at the BRH (both gourde-denominated and foreign currency-denominated).

D. Quarterly

53. Report on poverty-reducing expenditures, with a maximum 30-day lag final data.

E. Other Information

54. The authorities will share with staff the by-laws of the new binational (Venezuela-Haiti) entity (as soon as they are enacted), including any and all needed information to assess the nature of such new entity; the authorities will also share with staff the financing terms of any financing received by such entity, including any and all information needed to assess whether any financing flows received by such new entity constitute public debt (direct and/or contingent) of any form.