



JAMAICA

May 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JAMAICA

In the context of the Jamaica—Request for Purchase under the Rapid Financing Instrument (RFI), the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 15, 2020, following discussions that ended on May 1, 2020, with the officials of Jamaica on economic developments and policies underpinning the IMF arrangement under the RFI. Based on information available at the time of these discussions, the staff report was completed on May 10, 2020.
- A **Statement by the Executive Director** for Jamaica.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from
International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>
Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.



IMF Executive Board Approves a US\$ 520 Million Disbursement to Jamaica to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved Jamaica's request for emergency financial assistance of about US\$520 million to help meet the urgent balance-of-payments needs stemming from the COVID-19 pandemic.
- The Jamaican authorities have adopted timely and targeted measures to boost health spending and mitigate the economic impact of the pandemic, supporting jobs and vulnerable segments of the population.
- Jamaica's established track record of economic reforms has created buffers that are invaluable today in responding to the COVID-19 crisis.

Washington, DC – May 15, 2020. The Executive Board of the International Monetary Fund (IMF) approved a disbursement in the amount of SDR 382.9 million (about US\$520 million, 100 percent of quota) for Jamaica under the Rapid Financing Instrument (RFI). These resources will help meet the urgent balance of payment needs stemming from the COVID-19 pandemic, while catalyzing additional support from development partners.

The COVID-19 shock hit Jamaica only a few months after the successful completion of its precautionary Stand-By Arrangement with the IMF, which was underpinned by strong ownership and civil society oversight. Jamaica's established track record of economic reforms has created buffers that are invaluable today in responding to the COVID-19 crisis. Yet, despite the authorities' proactive mitigation strategies, the pandemic is significantly impacting Jamaica's economy. The Government of Jamaica has declared the entire island as a disaster area and established a special taskforce to coordinate the country's COVID-19 response and recovery efforts, with the paramount objectives of minimizing the loss of human life and protecting livelihoods.

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Chair, made the following statement:

"The Jamaican authorities have proactively responded to the COVID-19 pandemic. Nevertheless, despite the authorities' best efforts, the pandemic is severely impacting the Jamaican economy, as a sudden stop in tourism and falling remittances are generating a sizable balance-of-payments need. Moreover, the economic outlook remains subject to an unusually high degree of uncertainty. The disbursement under the RFI will strengthen reserves and help catalyze additional support from other international financial institutions and development partners.

"The authorities' policy response to the COVID-19 crisis is appropriate, including the timely adoption of targeted measures to support jobs and provide resources to vulnerable segments of the population. The COVID-19 emergency warrants a temporary reduction of the primary surplus and a modest delay in achieving the Fiscal Responsibility Law's goal of bringing debt

down to 60 percent of GDP. Notwithstanding the delay, the authorities' renewed commitment to debt sustainability, including their plan to accelerate debt reduction efforts should growth overperform over the medium term, is welcome.

“The Bank of Jamaica’s accommodative monetary policy stance and ongoing efforts to support systemic liquidity and ensure financial stability remain appropriate. Exchange rate flexibility should continue to act as a shock absorber, with FX intervention limited to stem excessive volatility.

“Once the crisis abates, building on their demonstrated commitment to reform and stability-oriented measures, the authorities should continue the implementation of their ambitious reform agenda to support the economic recovery and ensure strong and sustainable economic growth.”

For information on the emergency financing requests approved by the IMF Executive Board, please see a link to the IMF Lending Tracker: <https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker>

For upcoming discussions on the emergency financing requests, please see a link to the calendar of the IMF Executive Board meetings: <https://www.imf.org/external/NP/SEC/bc/eng/index.aspx>



JAMAICA

May 10, 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Summary. The COVID-19 shock hit Jamaica only a few months after the successful completion of its precautionary Stand-By Arrangement with the Fund, which was underpinned by strong ownership and civil society oversight. Jamaica's established track record of economic reforms has created buffers that are invaluable today in responding to the COVID-19 crisis. However, the domestic impact of the outbreak, increasing fiscal needs, falling remittances, and a sudden stop in tourism receipts are generating a sizable balance-of-payments need. The authorities are, therefore, requesting emergency financial support under the Rapid Financing Instrument (RFI) of 100 percent of quota (SDR 382.9 million or about US\$520 million).

Policy Response. The most pressing policy challenges are to minimize the loss of human life and protect livelihoods from the impact of this pandemic. The Government of Jamaica has declared the whole of Jamaica a disaster area and established a special taskforce to coordinate the country's COVID-19 response and recovery efforts. The authorities have introduced targeted measures to support jobs and provide resources to vulnerable segments of the population. They remain fully committed to continuing their medium-term debt reduction efforts, but recognize the national emergency warrants a temporary reduction of the primary surplus. This will, in turn, lead to a modest (two-year) delay in achieving the Fiscal Responsibility Law's goal of bringing debt down to 60 percent of GDP, although they are committed to accelerate these efforts, should growth overperform. The Bank of Jamaica (BOJ) has maintained an accommodative monetary policy stance and provided liquidity to ensure market functioning and avoid an undue tightening of credit conditions.

Staff Assessment. The RFI is the appropriate instrument for Jamaica at this juncture. The urgent balance-of-payments needs facing the country and the high degree of uncertainty regarding the duration and scale of the COVID-19 pandemic make it infeasible to put in place an upper-credit-tranche arrangement. Staff remains confident that the authorities will pursue appropriate policies based on their strong track record and policy commitments. The requested access under the RFI is within applicable limits under the GRA. Jamaica's debt remains sustainable over the medium term (albeit subject to risks) and, while the outlook remains highly uncertain, Jamaica maintains an adequate capacity to repay the Fund. Staff therefore recommends Board approval of Jamaica's request for a purchase under the RFI of 100 percent of quota (SDR 382.9 million).

Approved by:
Nigel Chalk (WHD)
and Maria Gonzalez
(SPR)

Discussions were held with Minister of Finance and the Public Service Nigel Clarke, Governor of Bank of Jamaica Richard Byles and other officials from April 28 to May 1, 2020. The team comprised Manuela Goretti (Mission Chief), Jeff Danforth and Aleksandra Babii (all WHD), Keiichi Nakatani (SPR), Justin Matz (STA), and Karim Youssef (Resident Representative), with assistance from Sheng Tibung and Tianle Zhu (all WHD). Garima Vasishtha (OED) joined the discussions.

CONTENTS

RECENT DEVELOPMENTS AND OUTLOOK	3
RISKS	4
AUTHORITIES' RESPONSE TO THE CRISIS	4
DEBT SUSTAINABILITY	6
POLICY RECOMMENDATIONS	7
MODALITIES OF SUPPORT	7
AUTHORITIES' VIEWS	8
STAFF APPRAISAL	9
TABLES	
1. Selected Economic Indicators	10
2a Summary of Central Government Operations (In millions of Jamaican dollars)	11
2b. Summary of Central Government Operations (In percent of GDP)	12
3. Summary Balance of Payments	13
4. Summary Accounts of the Bank of Jamaica	14
5. Summary Monetary Survey	15
6. Financial Sector Indicators	16
7. Indicators of Fund Credit, 2020–2027	17
ANNEX	
I. Debt Sustainability Analysis	18
APPENDIX	
I. Letter of Intent	25

RECENT DEVELOPMENTS AND OUTLOOK

1. Only a few months after Jamaica successfully completed its precautionary Stand-By Arrangement the COVID-19 shock hit the country. Over the last seven years, under the auspices of consecutive successful Fund arrangements, Jamaica institutionalized fiscal discipline through a Fiscal Responsibility Law and moved to inflation targeting with greater exchange rate flexibility. The country's reform efforts led to entrenched macroeconomic stability, lowered public debt, brought unemployment to an all-time low, and strengthened oversight of the financial system. However, the outbreak of COVID-19 has led to an unprecedented sudden stop in tourism, falling remittances, and economic contraction. The authorities reacted swiftly with public health measures and a stimulus package to support jobs and protect the most vulnerable segments of the population.

2. The COVID-19 pandemic is expected to lead to significantly weaker growth in the year ahead. Despite efforts to contain the spread of the disease, as of end-April 2020, 422 cases had been confirmed, with 8 fatalities. The Government of Jamaica has declared the whole of Jamaica a disaster area, closed air and sea borders to incoming passenger traffic, and restricted communal gatherings. Partly as a result of these containment efforts, the economy is expected to contract by 5.3 percent in FY2020/21. Tourist arrivals are expected to recover only gradually, the fall in remittances will weigh on domestic demand, and mining-sector weakness is expected to persist (in part due to delays in reopening the Alpart alumina refinery). The Jamaican dollar depreciated against the US dollar by 6 percentage points in April, offsetting the appreciation earlier in the year. As a result, the nominal effective exchange rate has remained broadly stable year to date. Banks remain well capitalized, with low levels of non-performing loans.

3. Jamaica faces a pronounced balance-of-payments shock. The current account deficit for FY2020/21 is projected to widen from 2.3 to 7.3 percent of GDP. Although lower oil prices will help the trade balance, the effects are expected to be more than offset by a sudden stop in tourist arrivals, weak mining exports, and a drop in remittances. On the financial account, FDI inflows are expected to decline. The combined effect is an urgent external financing need of nearly US\$1.2 billion (close to 8 percent of GDP). It is expected that financial support from the Fund and additional resources from IFIs, notably from the IDB, World Bank, and CDB, will be able

Jamaica: External Financing Requirements and Sources			
(In millions of US dollars)			
	2019/20	2020/21	
		Pre-COVID19	Post-COVID19
Financing requirements	1,616	885	1,674
Current account deficit	362	394	1,114
o/w: Travel receipts	3,113	3,108	995
Oil imports	1,423	1,396	656
Remittances	2,292	2,361	1,902
Capital account	11	-5	29
Government 1/	2,551	488	488
Other capital outflows	-1,308	9	43
Financing sources	1,699	939	496
FDI (net)	219	492	216
Government borrowing 1/	1,270	433	251
Other items (net)	210	14	29
Financing gap	-83	-53	1,177
Potential financing sources	-83	-53	1,177
RFI			529
IFIs			312
Other official support / reserves drawdown	-83	-53	337
Memorandum			
Current account (percent of GDP)	-2.3	-2.3	-7.3
Reserves	3,688	3,634	3,351
(In months of prospective imports of GNFS)	6.0	6.0	7.3
(In percent of ARA metric)	112	109	105

Sources: Jamaican authorities and IMF staff estimates.

1/ Large government repayments and borrowing in FY2019/20 are associated with a global bond buy back conducted in September 2019

to meet this financing need, limiting the drawdown of international reserves. Reserves are expected to decline to around US\$3.3 billion, although they would remain above 100 percent of the Fund's reserve adequacy metric.

RISKS

4. The principal risk facing Jamaica arises from the pandemic being more severe and long-lasting than is currently expected. Staff projections assume that the spread of the disease will be contained at moderate levels and activity will resume once the public health crisis and containment efforts recede domestically and in partner countries. However, the situation could evolve along a more adverse trajectory which would require additional actions to strengthen domestic healthcare services, support economic activity, and mitigate the impacts on people's livelihoods. These could in turn generate additional external and fiscal pressures, despite available buffers and contingency plans, weakening debt dynamics (see also ¶10 and Annex I). Regardless of the path of the public health crisis, it will be critically important to maintain social cohesion and protect the most vulnerable from the effects of the pandemic (particularly bearing in mind the long-standing issues with crime on the island).

AUTHORITIES' RESPONSE TO THE CRISIS

5. Fiscal policy has appropriately shifted its focus toward providing economic relief to mitigate the impact of the pandemic.

- The FY2019/20 primary balance was 7 percent of GDP (exceeding the 6.5 percent of GDP budget target). As part of the immediate response to the COVID-19 shock in March, this included an additional allocation of 0.1 percent of GDP for medical equipment and training for healthcare workers and an increase in the contingency reserve of 0.1 percent of GDP.

Jamaica: FY2020/21 Fiscal Impact of COVID						
	Pre-COVID		Post-COVID			
	Fiscal Policy Paper		Budget Speech		Projection	
	J\$ millions	% GDP	J\$ millions	% GDP	J\$ millions	% GDP
Revenue	675,885	29.7	660,885	29.0	579,584	27.3
o/w Tax Revenue	603,785	26.5	588,785	25.8	509,884	24.0
Expenditure	661,018	29.0	671,018	29.4	640,292	30.1
Programme	232,803	10.2	242,803	10.7	228,711	10.8
o/w CARE program	...	...	10,665	0.5	16,000	0.8
Compensation of Employees	221,368	9.7	221,368	9.7	221,426	10.4
Interest	132,645	5.8	132,645	5.8	135,983	6.4
Capital	74,203	3.3	74,203	3.3	54,171	2.5
Overall Balance	14,867	0.7	-10,133	-0.4	-60,708	-2.9
Primary Balance	147,512	6.5	122,512	5.4	75,275	3.5
Memo Items:						
Nominal GDP	2,278,800		2,278,800		2,126,404	

Sources: GOJ and IMF staff estimates.

- The budget in early March reset the primary surplus target for FY2020/21 and outer years from 6.5 to 5.4 percent of GDP benefiting from the fiscal space created by the authorities' asset divestment strategy and in line with the Fiscal Responsibility Law. This reduction comprised 0.6 percent of GDP in permanent tax cuts and, in the wake of the COVID-19 shock, additional spending of nearly 0.5 percent of GDP to support the COVID Allocation of Resources for Employees (CARE) program, aimed at providing temporary income support to workers, grants to businesses, and social assistance payments to vulnerable segments of the population.
- The authorities are further revising their primary surplus target for FY2020/21 to 3.5 percent of GDP. A supplementary budget will be submitted to Parliament in May, to account for the expected revenue shortfalls (notably in travel and accommodation taxes) and necessary spending reallocations to meet the urgent needs arising from the effects of the pandemic.
- To finance the increased fiscal needs, the government intends to redirect resources from delayed capital projects and less urgent programs toward essential spending priorities and rely on available cash buffers, built in part from the proceeds of recent divestment of public assets (including the Wigton Wind Farm and Trans-Jamaican Highway). The authorities are currently not envisaging drawing down RFI resources for budget financing, given their cash resources and additional financing available from other IFIs (mainly the IDB, WB, and CDB, including new loans and reprioritization of existing project financing). Nonetheless, given the uncertainties facing the country, the authorities are asking for RFI resources to be available for budget support, should the need arise (see ¶113).

Jamaica: COVID Allocation of Resources for Employees (CARE)	
Measure	Beneficiary
Supporting Employees with Transfer (SET) – of Cash	Employees in any sector who lost their job after March 10 (date of Jamaica's first COVID case)
COVID General Grant	Grants targeted at occupational groups that have been particularly affected by COVID measures including barbers, hairdressers, bar operators, market vendors, craft vendors, taxi and bus operators among other groups who are registered with the appropriate authority
COVID Compassionate Grant	Unconditional grants to the informally employed and unemployed who apply
Business Employee Support and Transfer (BEST) – of Cash	Businesses in the tourism sector that retain workers earning less than the lowest tax threshold of J\$1.5 million
COVID PATH Grants	PATH beneficiaries receive 50% increase in benefits for the Apr – Jun period
COVID Student Loan Relief	Deferral of student loan principal and interest payments for the months of April, May and June
COVID Special Grants	Additional funding to existing programmes that target the homeless, those in shelters and infirmaries as well as the disabled who may have difficulty applying for the Compassionate Grant
COVID Small Business Grants	MSME's with sales of J\$50 million or less who filed tax returns and payroll returns in 2019/20

Source: GOJ.

6. The authorities intend to continue to adhere to best practices in procurement and contract awards related to the pandemic. All public sector purchases are subject to the policies and guidelines under the Public Procurement Act of 2015, which adheres to the principles of transparency, fairness, integrity and ensuring public confidence in procurement processes, even for

emergency-related fast-track procedures. Both the Integrity Commission and the Auditor General's Department are empowered to undertake any audit of public procurement. Specifically, the authorities plan to make publicly available key information on procurement contracts, including beneficial ownership information of awarded companies, and request that the Auditor General's Department undertakes and publishes an ex-post audit of COVID-related spending. Moreover, the CARE program is subject to multiple verification processes that require beneficiaries to register using their tax identification numbers and through a transparent online portal with relevant authorities.

7. Monetary policy remains accommodative. The BOJ has kept the policy rate at its historic low (of 0.5 percent) and is boosting systemic liquidity by supporting deposit taking institutions and securities dealers. They are also undertaking secondary market purchases of Government of Jamaica bonds, redeeming certain BOJ securities early, undertaking repo operations under enhanced collateral rules, and removing limits and penalties on overnight borrowing by financial institutions. To support the anticipated increase in electronic payments during this period, the BOJ has temporarily waived their Real-Time-Gross-Settlement (RTGS) fees for customer transactions.

8. The BOJ is appropriately allowing the exchange rate to adjust flexibly in response to the shock. The central bank stands ready, however, to smooth undue FX volatility and counter disorderly market conditions through FX sales, FX swaps, and the sale of long-dated FX-linked central bank notes.

9. Efforts are underway to provide credit relief to borrowers amid the COVID-19 shock. The Development Bank of Jamaica is rescheduling SME loans for up to three months and offering loan moratoria and payment holidays to the Business Process Outsourcing (BPO) sector. In addition, the National Housing Trust has reduced rates on new and existing mortgage loans. Banks are also considering on a case-by-case basis loan moratoria, payment holidays, and changes in loan covenants for households and firms that have been hard hit by COVID-19.

DEBT SUSTAINABILITY

10. Despite the severe COVID-19 shock, Jamaica's public debt remains sustainable. Public debt has fallen from 114 percent of GDP in FY2016/17 to 93.5 percent in FY2019/20 as a result of large primary surpluses. The debt ratio is expected to increase to 97.6 percent of GDP in FY2020/21, given the severe economic contraction due to the COVID-19 shock and the temporary suspension of the annual fiscal target of 5.4 percent of GDP. The authorities remain committed to resuming their debt reduction efforts after the COVID-19 crisis wanes, although the medium-term debt target of 60 percent of GDP under the Fiscal Responsibility Law will need to be amended and modestly deferred from FY2025/26 to FY2027/28. The authorities have successfully extended maturities through proactive debt management so gross financing needs are modest. No international bond redemption is coming due over the next year and domestic debt rollovers are manageable. Nonetheless, the projected debt path remains vulnerable to a weaker economic outlook, exchange rate risks, the realization of contingent liabilities from public bodies, or the ever-present natural disaster risks.

POLICY RECOMMENDATIONS

11. Staff supports the measures taken by the authorities to address the pandemic. The authorities' fiscal response appears appropriate given the severity of the COVID-19 shock. Their renewed commitment to the medium-term debt target, despite the increased fiscal needs created by the ongoing pandemic, will be critical to anchor fiscal policy as the shock recedes. The BOJ should maintain an accommodative monetary policy stance, allow the exchange rate to move in line with market conditions (and be more effective in acting as a shock absorber), and deploy FX interventions to counter disorderly market conditions should they arise. Payment holidays and changes in loan covenants offered by financial institutions can help support businesses and households facing liquidity problems, provided they are introduced in a transparent, targeted and prudent manner in line with regulatory best practices. Supervisors should enhance their monitoring of emerging credit risks in banks and nonbanks and continue to cooperate closely with counterparts on possible cross-border spillovers from regional conglomerate structures.

MODALITIES OF SUPPORT

12. The RFI is the appropriate instrument for Jamaica at this juncture. Jamaica meets the qualification requirements for support under the RFI. It has an urgent balance-of-payments need, which, if not addressed promptly, would result in immediate and severe economic disruption. It is also not feasible at this stage to put in place an upper-credit-tranche arrangement due to the urgent needs facing Jamaica and the high degree of uncertainty regarding the duration and scale of the COVID-19 pandemic. On the basis of Jamaica's strong track record and policy statements, staff is confident that the authorities will continue to consult with the Fund to find solutions in response to the balance-of-payments shock and pursue policies appropriate to address the impact of COVID-19 and ensure macroeconomic stability over the medium-term.

13. Staff considers access of 100 percent of quota under the RFI to be appropriate. Jamaica does not currently have an IMF arrangement, and access of 100 percent of quota is within the applicable access limits under the GRA. The annual access of 100 percent of quota (SDR 382.9 million or about US\$520 million), together with financial assistance from other IFIs, would provide relief to the sizable BOP needs facing Jamaica, supporting the country's policy response to the COVID-19 shock. RFI resources will be initially disbursed to the BOJ in a dedicated account to bolster FX reserves, as fiscal financing needs are currently expected to be met through other sources, but can be drawn down by the government for budget support, should the need arise.¹ Remaining external financing needs are expected to be filled through other official sources and a modest drawdown of international reserves. Jamaica is assessed as having sustainable debt (Annex I) and,

¹ All repayments, costs, and charges related to the funds received from the Fund for budget financing will be the responsibility of the Ministry of Finance and the Public Service, with the BOJ handling these transactions as the fiscal agent of the Government.

while key external debt indicators will be at elevated levels in FY2020/21 after drawing on the RFI (Table 7), Jamaica's capacity to repay the Fund remains adequate, with risks mitigated by its strong track record of policy implementation and past use of Fund resources.²

14. The authorities commit to undergo a safeguards assessment. This would need to be completed before the Executive Board approval of any subsequent arrangement to which the safeguards policy applies. The authorities agree to provide Fund staff with the most recently completed external audit reports and to authorize the external auditors to hold discussions with staff. Given the potential for budget support, the authorities confirm in their Letter of Intent that they will establish a framework (e.g., through a memorandum of understanding) between the Bank of Jamaica and the Ministry of Finance and the Public Service, that clarifies the responsibilities for timely servicing of the financial obligations to the Fund.

AUTHORITIES' VIEWS

15. The authorities foresee a significant economic impact from the COVID-19 shock, which remains subject to a high degree of uncertainty. They envisage a sharp economic contraction, with a sudden stop in tourist arrivals and drop in remittances, acknowledging that possible confidence effects in source countries could further delay the recovery. The authorities emphasized the importance of preserving Jamaica's broad-based policy consensus to contain the pandemic as well as to fast-track the recovery efforts and welcomed ongoing discussions with the Fund and other IFIs to secure the necessary financial assistance. They noted how their ongoing work in developing a Natural Disaster Risk Management policy framework aided their ability to proactively respond to the COVID-19 shock.

16. The fiscal response is being directed to support Jamaica's health needs and protect livelihoods, while safeguarding debt sustainability. The authorities foresee a reduction in the primary balance for FY2020/21 to 3.5 percent of GDP to respond to the shock. While they currently expect to meet their additional fiscal financing needs with existing cash buffers, domestic borrowing, and support from other official creditors, they welcome the possibility of relying on the RFI for budget financing should the need arise, while safeguarding adequate reserve buffers at the BOJ. Despite the crisis-related delay, they are committed to maintaining a primary balance of 5.4 percent of GDP after the resolution of the pandemic and meeting the 60 percent of GDP debt target by FY2027/28. Should growth overperform, they will utilize the additional revenues to meet the debt target sooner.

17. The inflation targeting framework, under greater exchange rate flexibility, provided the central bank with the necessary room to respond to the shock. The BOJ highlighted the ongoing efforts to ensure system-wide liquidity, while allowing the exchange rate to respond to market conditions and intervening in the FX market to stem excessive volatility. The BOJ is cooperating closely with the Financial Services Commission and carefully monitoring the health of

² Fund credit outstanding will reach about 6½ percent of GDP or 31 percent of exports by the end of FY2020/21.

financial conglomerates. In the post-COVID-19 period, the authorities are committed to finalizing the amendments to the BOJ Act to enshrine the inflation targeting regime in law, while enhancing the functioning of the FX and debt markets, advancing the implementation of consolidated risk-based supervision and introducing a comprehensive resolution regime.

STAFF APPRAISAL

18. The COVID-19 pandemic is severely impacting the Jamaican economy. Despite the authorities' efforts to contain the spread of the disease, growth is expected to be significantly weaker in 2020 and there is an urgent balance-of-payments need. The economic outlook remains subject to an unusually high degree of uncertainty.

19. The authorities' policy response has been appropriate and is anchored by a robust monetary policy framework and a strong commitment to medium-term debt sustainability. The authorities have introduced targeted fiscal measures to support jobs and vulnerable segments of the population. The national emergency warrants a temporary reduction of the primary surplus and a modest delay in achieving the Fiscal Responsibility Law's goal of bringing debt down to 60 percent of GDP. Nevertheless, staff welcomes the authorities' renewed commitment to debt sustainability, including their plan to accelerate debt reduction efforts should growth overperform, given heightened uncertainty and associated risks to the economic outlook and debt dynamics. The BOJ's accommodative policy stance remains appropriate, supported by exchange rate flexibility, with FX intervention limited to stem excessive volatility and counter disorderly market conditions, in the event they arise.

20. Staff supports the authorities' request for an RFI in the amount of 100 percent of quota (SDR 382.9 million or about US\$520 million)] which is justified based on the severity of the COVID-19 crisis on Jamaica's economy and the resulting urgent balance-of-payments needs. Staff supports use of RFI resources for budget support, should the need arise. Jamaica's capacity to repay the Fund remains adequate.

Table 1. Jamaica: Selected Economic Indicators 1/

	Projections									
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Population (2018): 2.73 million	Per capita GDP (2018): US\$5733									
Quota (current; millions SDRs/% of total): 382.9/0.08%	Literacy rate (2015)/Poverty rate (2017): 87%/19.3%									
Main products and exports: Alumina, tourism, chemicals, mineral fuels, bauxite	Unemployment rate (Jan. 2020): 7.3%									
	(Annual percent change, unless otherwise indicated)									
GDP and prices										
Real GDP	1.4	1.0	2.0	0.1	-5.3	3.9	2.2	2.1	2.0	2.0
Nominal GDP	5.9	7.8	6.5	4.8	-1.2	9.4	7.4	7.2	7.1	7.1
Consumer price index (end of period)	4.1	3.9	3.4	4.8	4.4	5.3	5.0	5.0	5.0	5.0
Consumer price index (average)	2.4	4.6	3.3	4.6	4.7	4.9	5.0	5.0	5.0	5.0
Exchange rate (end of period, J\$/US\$)	128.7	126.0	126.5	135.3	...	...	...	...	...	...
Exchange rate (average, J\$/US\$)	126.5	128.0	130.6	135.8	...	...	...	...	...	...
Nominal depreciation (+), end-of-period	5.4	-2.1	0.4	7.0	...	...	...	...	...	...
End-of-period REER (appreciation +) (INS) 2/	-1.4	-1.5	6.6	...	...	...	...	...	...	...
Treasury bill rate (end-of-period, percent)	6.3	3.2	2.2	1.8	...	...	...	...	...	...
Treasury bill rate (average, percent)	6.1	5.1	2.2	1.8	...	...	...	...	...	...
Unemployment rate (percent)	12.7	9.7	8.0	...	...	...	...	...	...	...
	(In percent of GDP)									
Government operations										
Budgetary revenue	28.1	29.1	30.6	30.2	27.3	28.2	28.6	28.6	28.5	28.4
Of which: Tax revenue	25.7	25.8	26.4	26.9	24.0	25.3	25.8	25.9	25.9	26.0
Budgetary expenditure	28.2	28.6	29.5	29.3	30.1	28.5	28.6	28.1	28.0	27.6
Primary expenditure	20.4	21.6	23.2	23.2	23.7	22.7	23.1	23.1	23.0	23.0
Of which: Wages and salaries	9.3	9.2	8.9	9.1	9.6	9.2	9.0	8.8	8.7	8.7
Interest payments	7.8	7.0	6.3	6.1	6.4	5.8	5.5	5.0	4.9	4.6
Budget balance	-0.1	0.5	1.2	0.9	-2.9	-0.3	0.0	0.4	0.5	0.8
Of which: Central government primary balance	7.7	7.5	7.5	7.0	3.5	5.4	5.4	5.4	5.4	5.4
Public entities balance	2.0	0.6	0.6	0.1	-0.4	0.0	0.0	0.0	0.0	0.0
Public sector balance	1.9	1.1	1.8	1.0	-3.3	-0.3	0.0	0.4	0.5	0.8
Public debt (FRL definition) 3/	113.7	101.3	94.4	93.5	97.6	89.9	83.4	77.2	72.2	67.4
External sector										
Current account balance	-1.2	-3.0	-2.2	-2.3	-7.3	-4.1	-2.8	-2.6	-2.7	-3.0
Of which: Exports of goods, f.o.b.	8.8	9.9	12.4	9.0	7.6	8.5	8.9	9.8	9.8	9.9
... of services	23.0	24.0	25.2	26.4	13.9	22.5	25.5	25.3	25.3	25.2
Imports of goods, f.o.b.	30.1	33.8	35.6	33.9	24.0	30.4	32.0	32.1	31.9	32.0
... of services	15.6	15.9	16.3	16.7	15.2	15.9	15.9	15.8	15.7	15.5
Net international reserves (US\$ millions)	2,769	3,075	3,085	3,225	2,466	2,489	2,634	3,008	3,384	3,534
of which: non-borrowed	1,944	2,398	2,634	2,925	2,180	2,343	2,508	2,991	3,367	3,517
Gross international reserves (US\$ millions)	3,324	3,657	3,605	3,688	3,351	3,362	3,390	3,453	3,494	3,544
	(Changes in percent of beginning of period broad money)									
Money and credit										
Net foreign assets	3.4	12.1	0.3	9.8	-4.7	0.2	4.2	7.1	6.3	3.8
Net domestic assets	16.0	6.8	11.3	5.4	2.6	9.2	3.1	0.1	0.8	3.3
Of which: Credit to the private sector	26.2	14.8	12.3	13.6	-2.6	7.7	11.0	11.6	12.5	13.4
Credit to the central government	-0.4	5.6	4.7	-1.4	9.1	1.7	1.3	1.0	1.3	0.1
Broad money	19.5	18.9	11.6	15.2	-2.1	9.4	7.4	7.2	7.1	7.1
Memorandum item:										
Nominal GDP (J\$ billions)	1,788	1,927	2,053	2,151	2,126	2,327	2,498	2,678	2,868	3,071

Sources: Jamaican authorities; and Fund staff estimates and projections.

1/ Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.

2/ In line with standard WEO assumptions, the REER is assumed to remain constant in projection years.

3/ Consolidated central government and public bodies' debt, consistent with the Fiscal Responsibility Law.

Table 2a. Jamaica: Summary of Central Government Operations
(In millions of Jamaican dollars)

	2016/17	2017/18	2018/19	Projections						
				2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Budgetary revenue and grants	501,821	560,901	628,849	649,759	579,584	655,758	713,886	764,537	816,217	873,123
Tax	460,264	497,022	542,919	579,397	509,884	588,633	645,005	693,029	742,937	798,009
<i>Of which:</i>										
Income and profits	136,025	131,111	143,519	159,726	152,727	161,242	172,808	184,724	197,956	211,351
<i>Of which: Other companies</i>	51,791	61,507	61,323	68,283	64,487	71,266	76,887	82,839	88,720	95,019
PAYE	64,955	53,662	58,037	66,670	64,235	70,284	75,450	80,886	86,629	92,780
Production and consumption	147,937	175,339	190,846	200,644	186,895	200,109	215,350	231,670	249,069	268,268
<i>Of which: GCT (Local)</i>	78,175	90,817	100,695	109,304	103,338	109,364	117,777	127,233	137,072	147,672
International Trade	171,189	186,814	204,503	214,810	166,094	222,723	251,952	271,386	290,291	312,370
<i>Of which: GCT (Imports)</i>	73,735	78,925	87,202	92,498	72,107	98,987	111,855	120,297	128,161	137,671
Non-tax 1/	34,323	58,137	75,382	65,705	65,362	63,036	64,554	65,931	67,308	68,718
Grants	5,293	5,614	10,547	4,657	4,337	4,088	4,328	5,577	5,973	6,397
Budgetary expenditure	503,356	552,050	604,597	630,354	640,292	663,795	715,087	752,931	801,960	848,428
Primary expenditure	364,000	416,869	475,409	498,867	504,309	529,187	578,013	618,874	660,212	706,042
Compensation of employees	179,068	192,284	200,125	211,618	221,426	231,897	243,615	256,182	269,453	288,584
Wage and salaries	166,485	177,366	183,506	195,936	204,376	213,146	223,995	235,631	249,493	267,207
Employer contributions	12,583	14,917	16,620	15,681	17,050	18,752	19,620	20,551	19,959	21,377
Programme expenditure	142,976	177,779	209,080	216,857	228,711	231,510	253,975	274,330	296,124	316,103
Capital expenditure	41,955	46,806	66,204	70,393	54,171	65,780	80,423	88,362	94,635	101,355
Interest	139,356	135,181	129,188	131,487	135,983	134,607	137,074	134,057	141,748	142,386
Domestic	63,544	63,783	51,026	49,931	50,626	49,392	50,594	50,795	54,826	56,319
External	75,812	71,398	78,162	89,200	85,357	85,215	86,480	83,261	86,923	86,067
Budget balance	-1,535	8,851	24,251	19,405	-60,708	-8,037	-1,201	11,606	14,257	24,695
<i>Of which: Primary budget balance</i>	137,821	144,032	153,439	150,892	75,275	126,570	135,873	145,663	156,005	167,081
Public entities balance	36,263	11,394	12,441	1,123	-9,000	0	0	0	0	0
Public sector balance	34,728	20,245	36,692	20,528	-69,708	-8,037	-1,201	11,606	14,257	24,695
Principal repayments	75,390	232,290	132,990	273,561	184,495	164,518	138,040	188,788	184,552	271,263
Domestic	29,710	168,628	80,008	77,099	116,617	63,520	51,350	82,043	67,038	168,635
External	45,680	63,662	52,982	196,462	67,878	100,999	86,690	106,746	117,514	102,628
Gross financing needs 2/	76,925	223,439	140,139	276,656	254,204	172,555	139,241	177,182	170,296	246,568
Gross financing sources 2/	76,925	223,439	140,139	276,656	254,204	172,555	139,241	177,182	170,296	246,568
Domestic	69,542	115,641	101,415	79,096	116,549	96,057	79,031	104,466	98,005	172,342
External	34,157	133,383	33,424	159,101	49,155	76,498	60,210	72,716	72,291	74,226
Cash resources	-26,774	-25,584	5,300	38,459	88,500	0	0	0	0	0
Memorandum items:										
Nominal GDP (billion J\$)	1,788	1,927	2,053	2,151	2,126	2,327	2,498	2,678	2,868	3,071
Public sector debt (FRL definition, billion J\$) 3/	2,033	1,952	1,938	2,011	2,076	2,091	2,084	2,067	2,070	2,071

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ From 2015/16, includes interest receipts from the PetroCaribe Development Fund to reimburse funds from the PetroCaribe debt buyback.

2/ Gross financing needs and sources include a global bond debt buyback in FY2019/20 and the recapitalization of the Bank of Jamaica in FY2018/19 and FY2019/20.

3/ Consolidated central government and public bodies' debt, consistent with the Fiscal Responsibility Law.

Table 2b. Jamaica: Summary of Central Government Operations
(In percent of GDP)

	2016/17	2017/18	2018/19	Projections						
				2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Budgetary revenue and grants	28.1	29.1	30.6	30.2	27.3	28.2	28.6	28.6	28.5	28.4
Tax	25.7	25.8	26.4	26.9	24.0	25.3	25.8	25.9	25.9	26.0
<i>Of which:</i>										
Income and profits	7.6	6.8	7.0	7.4	7.2	6.9	6.9	6.9	6.9	6.9
<i>Of which: Other companies</i>	2.9	3.2	3.0	3.2	3.0	3.1	3.1	3.1	3.1	3.1
PAYE	3.6	2.8	2.8	3.1	3.0	3.0	3.0	3.0	3.0	3.0
Production and consumption	8.3	9.1	9.3	9.3	8.8	8.6	8.6	8.7	8.7	8.7
<i>Of which: GCT (Local)</i>	4.4	4.7	4.9	5.1	4.9	4.7	4.7	4.8	4.8	4.8
International Trade	9.6	9.7	10.0	10.0	7.8	9.6	10.1	10.1	10.1	10.2
<i>Of which: GCT (Imports)</i>	4.1	4.1	4.2	4.3	3.4	4.3	4.5	4.5	4.5	4.5
Non-tax ^{1/}	1.9	3.0	3.7	3.1	3.1	2.7	2.6	2.5	2.3	2.2
Grants	0.3	0.3	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Budgetary expenditure	28.2	28.6	29.5	29.3	30.1	28.5	28.6	28.1	28.0	27.6
Primary expenditure	20.4	21.6	23.2	23.2	23.7	22.7	23.1	23.1	23.0	23.0
Compensation of employees	10.0	10.0	9.7	9.8	10.4	10.0	9.8	9.6	9.4	9.4
Wage and salaries	9.3	9.2	8.9	9.1	9.6	9.2	9.0	8.8	8.7	8.7
Employer contribution	0.7	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.7	0.7
Programme expenditure	8.0	9.2	10.2	10.1	10.8	10.0	10.2	10.2	10.3	10.3
Capital expenditure	2.3	2.4	3.2	3.3	2.5	2.8	3.2	3.3	3.3	3.3
Interest	7.8	7.0	6.3	6.1	6.4	5.8	5.5	5.0	4.9	4.6
Domestic	3.6	3.3	2.5	2.3	2.4	2.1	2.0	1.9	1.9	1.8
External	4.2	3.7	3.8	4.1	4.0	3.7	3.5	3.1	3.0	2.8
Budget balance	-0.1	0.5	1.2	0.9	-2.9	-0.3	0.0	0.4	0.5	0.8
<i>Of which: Primary budget balance</i>	7.7	7.5	7.5	7.0	3.5	5.4	5.4	5.4	5.4	5.4
Public entities balance	2.0	0.6	0.6	0.1	-0.4	0.0	0.0	0.0	0.0	0.0
Public sector balance	1.9	1.1	1.8	1.0	-3.3	-0.3	0.0	0.4	0.5	0.8
Principal repayments	4.2	12.1	6.5	12.7	8.7	7.1	5.5	7.1	6.4	8.8
Domestic	1.7	8.7	3.9	3.6	5.5	2.7	2.1	3.1	2.3	5.5
External	2.6	3.3	2.6	9.1	3.2	4.3	3.5	4.0	4.1	3.3
Gross financing needs ^{2/}	4.3	11.6	6.8	12.9	12.0	7.4	5.6	6.6	5.9	8.0
Gross financing sources ^{2/}	4.3	11.6	6.8	12.9	12.0	7.4	5.6	6.6	5.9	8.0
Domestic	3.9	6.0	4.9	3.7	5.5	4.1	3.2	3.9	3.4	5.6
External	1.9	6.9	1.6	7.4	2.3	3.3	2.4	2.7	2.5	2.4
Cash resources	-1.5	-1.3	0.3	1.8	4.2	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (billion J\$)	1,788	1,927	2,053	2,151	2,126	2,327	2,498	2,678	2,868	3,071
Public sector debt (FRL definition, billion J\$) ^{3/}	2,033	1,952	1,938	2,011	2,076	2,091	2,084	2,067	2,070	2,071
Public sector debt (FRL definition, %GDP) ^{3/}	113.7	101.3	94.4	93.5	97.6	89.9	83.4	77.2	72.2	67.4

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ From 2015/16, includes interest receipts from the PetroCaribe Development Fund to reimburse funds from the PetroCaribe debt buyback.

2/ Gross financing needs and sources include a global bond debt buyback in FY2019/20 and the recapitalization of the Bank of Jamaica in FY2018/19 and FY2019/20.

3/ Consolidated central government and public bodies' debt, consistent with the Fiscal Responsibility Law.

Table 3. Jamaica: Summary Balance of Payments
(In millions of U.S. dollars)

	2016/17	2017/18	2018/19	Projections						
				2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Current account	-168	-451	-349	-362	-1,114	-663	-464	-454	-489	-572
Trade balance	-3,014	-3,601	-3,640	-3,937	-2,515	-3,515	-3,857	-3,899	-4,036	-4,217
Exports (f.o.b.)	1,246	1,494	1,953	1,429	1,158	1,361	1,498	1,715	1,789	1,876
Imports (f.o.b.)	4,260	5,095	5,594	5,366	3,673	4,876	5,354	5,614	5,826	6,093
o/w Fuel (cif)	1,084	1,444	1,669	1,423	656	1,096	1,071	1,077	1,102	1,124
o/w Consumer goods (cif)	1,459	1,633	1,730	1,849	1,393	1,821	2,025	2,126	2,211	2,322
o/w Raw materials (cif)	1,277	1,556	1,656	1,629	1,286	1,443	1,613	1,693	1,761	1,849
Services (net)	1,044	1,229	1,396	1,537	-204	1,069	1,598	1,669	1,752	1,840
Transportation (net)	-554	-640	-698	-656	-389	-535	-576	-590	-597	-609
Travel (net)	2,305	2,631	2,940	3,113	995	2,430	3,020	3,123	3,231	3,344
Business (net)	-464	-530	-615	-685	-583	-608	-635	-663	-692	-723
Primary income (net)	-594	-474	-560	-434	-481	-521	-562	-631	-658	-691
Secondary income (net)	2,396	2,396	2,455	2,472	2,086	2,304	2,356	2,407	2,454	2,496
Government (net)	174	178	208	180	185	185	187	189	185	186
Private (net)	2,222	2,217	2,247	2,292	1,902	2,119	2,169	2,218	2,269	2,310
Capital account (net)	27	16	-2	-11	-29	-14	-18	-20	-17	-18
Net lending(+)/borrowing(-) current and capital accounts	-141	-434	-351	-373	-1,143	-677	-482	-474	-506	-591
Financial account (net)	-627	-1,316	-928	-274	-1,143	-677	-482	-474	-506	-591
Direct investment (net)	-585	-908	-715	-219	-216	-623	-745	-787	-829	-873
Portfolio investment (net)	-367	-1,190	16	-445	-90	-367	-85	-225	-209	-87
Financial derivatives (net)	25	14	-32	-112	-29	-27	-37	-47	-40	-36
Other investment (net)	-54	444	-145	419	-470	329	358	522	532	356
Reserve assets (change)	354	324	-52	83	-337	11	28	63	41	50
Net errors and omissions 1/	-486	-882	-577	99	0	0	0	0	0	0
Memorandum items:										
Gross international reserves	3,324	3,657	3,605	3,688	3,351	3,362	3,390	3,453	3,494	3,544
(in weeks of prospective imports of GNFS)	26.7	25.4	23.0	24.0	29.0	23.6	22.0	21.4	20.9	20.4
Net international reserves (NIR)	2,769	3,075	3,085	3,225	2,466	2,489	2,634	3,008	3,384	3,534
of which: non-borrowed	1,944	2,398	2,634	2,925	2,180	2,343	2,508	2,991	3,367	3,517
Current account (percent of GDP)	-1.2	-3.0	-2.2	-2.3	-7.3	-4.1	-2.8	-2.6	-2.7	-3.0
Exports of goods (percent change)	5.7	19.9	30.8	-26.9	-19.0	17.6	10.0	14.5	4.3	4.8
Imports of goods (percent change)	0.1	19.6	9.8	-4.1	-31.5	32.8	9.8	4.8	3.8	4.6
Oil prices (composite, fiscal year basis)	47.9	55.7	67.3	58.6	36.2	38.6	41.5	43.6	45.4	46.4
GDP (US\$ millions)	14,129	15,061	15,720	15,842	...	...	...	...	...	...
Jamaican dollar/USD, period average	127	128	131	136	...	...	...	...	...	...

Sources: Jamaican authorities; and Fund staff estimates.

1/ Errors and omissions for FY2019/20 as of last available quarter.

Table 4. Jamaica: Summary Accounts of the Bank of Jamaica 1/

	2016/17	2017/18	2018/19	Projections						
				2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
(In billions of Jamaican dollars)										
End-of-period stocks 1/										
Net foreign assets	355	386	389	438	353	367	398	466	539	578
Net domestic assets	-215	-216	-175	-196	-116	-107	-120	-168	-219	-235
Net claims on public sector	37	56	44	34	127	136	134	136	134	133
Net claims on central government	4	29	53	44	132	132	132	132	132	132
Net claims on rest of public sector	25	24	-21	3	-8	0	-3	-2	-3	-2
Operating losses of the BOJ	9	3	12	-14	2	4	5	6	5	3
Net credit to commercial banks	-56	-62	-66	-73	-103	-96	-111	-125	-132	-146
<i>Of which</i> : foreign prudential reserve	-56	-62	-66	-73	-103	-96	-111	-125	-132	-146
Net credit to other financial institutions	-2	-1	-2	-4	-3	-4	-4	-4	-4	-4
Open market operations	-51	-93	-59	-42	-8	-6	7	-20	-51	-38
Other items net (incl. valuation adj.)	-144	-116	-93	-110	-129	-138	-146	-156	-167	-181
<i>Of which</i> : Valuation adjustment	-122	-114	-115	-147	-165	-174	-183	-192	-204	-217
Base money	139	170	214	242	237	259	278	298	320	342
Currency in circulation	78	91	99	124	121	131	137	143	149	155
Liabilities to commercial banks	62	79	115	118	116	128	141	156	171	188
Fiscal year flows 1/										
Net foreign assets	77.9	31.4	2.7	49.2	-85.5	13.9	31.4	68.5	72.4	39.0
Net domestic assets	-58.4	-0.8	41.2	-21.2	80.5	8.4	-12.3	-48.5	-51.2	-16.3
Net claims on public sector	-41.8	18.5	-11.5	-10.5	93.4	9.2	-2.8	2.6	-1.9	-1.1
Net claims on central government	-35.7	25.3	23.8	-9.2	88.5	0.0	0.0	0.0	0.0	0.0
Net credit to commercial banks	-27.4	-5.7	-4.0	-8.0	-29.6	7.2	-14.6	-14.0	-7.0	-14.1
Net credit to other financial institutions	0.5	0.9	-1.0	-2.4	1.2	-0.7	0.3	-0.2	0.0	-0.1
Open market operations	9.7	-42.0	34.8	16.6	34.1	1.6	13.2	-27.2	-30.6	12.3
Other items net (incl. valuation adj.)	0.6	27.5	22.8	-16.9	-18.6	-8.9	-8.3	-9.8	-11.7	-13.2
Base money	19.4	30.7	43.9	28.0	-5.0	22.3	19.1	20.1	21.2	22.7
Currency in circulation	7.5	12.9	8.7	25.1	-3.0	10.0	5.7	5.8	5.9	6.1
Liabilities to commercial banks	12.0	17.8	35.2	2.9	-1.9	12.3	13.3	14.3	15.3	16.6
(Change in percent of beginning-of-period Base Money)										
Net foreign assets	64.9	22.5	1.6	23.0	-35.3	5.9	12.1	24.6	24.2	12.2
Net domestic assets	-48.7	-0.5	24.2	-9.9	33.3	3.5	-4.7	-17.4	-17.1	-5.1
Net claims on public sector	-34.8	13.2	-6.7	-4.9	38.6	3.9	-1.1	0.9	-0.6	-0.3
Net credit to commercial banks	-22.8	-4.1	-2.3	-3.7	-12.2	3.0	-5.6	-5.0	-2.3	-4.4
Net credit to other financial institutions	0.4	0.6	-0.6	-1.1	0.5	-0.3	0.1	-0.1	0.0	0.0
Open market operations	8.1	-30.1	20.4	7.7	14.1	0.7	5.1	-9.8	-10.2	3.8
Other items net (incl. valuation adj.)	0.5	19.8	13.4	-7.9	-7.7	-3.8	-3.2	-3.5	-3.9	-4.1
Base money	16.2	22.0	25.8	13.1	-2.1	9.4	7.4	7.2	7.1	7.1
Currency in circulation	6.2	9.3	5.1	11.7	-1.3	4.2	2.2	2.1	2.0	1.9
Liabilities to commercial banks	10.0	12.7	20.7	1.4	-0.8	5.2	5.1	5.1	5.1	5.2
Memorandum items:										
Change in net claims on the central government (percent of GDP)	-2.0	1.3	1.2	-0.4	4.2	0.0	0.0	0.0	0.0	0.0
Net international reserves (US\$ millions)	2,769	3,075	3,085	3,225	2,466	2,489	2,634	3,008	3,384	3,534

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Fiscal year runs from April 1 to March 31. The authorities compile and disseminate monetary data on the basis of the 2000 MFS manual, which reflects a different methodology and coverage.

Table 5. Jamaica: Summary Monetary Survey 1/

	2016/17	2017/18	2018/19	Projections						
				2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
(In billions of Jamaican dollars)										
End-of-period stocks 1/										
Net foreign assets	354.0	430.7	433.0	515.8	470.1	471.8	515.9	595.7	671.2	720.1
Net domestic assets	282.4	325.7	411.4	456.8	482.6	570.7	603.1	604.0	613.7	655.9
Net claims on public sector	128.1	157.4	154.9	163.3	253.1	278.6	289.6	303.4	317.0	317.7
<i>Of which: Central government 2/</i>	131.8	167.3	203.2	191.6	280.1	296.4	310.2	321.4	336.9	338.8
Open market operations	-21.1	-53.1	-59.0	-67.2	-181.9	-204.0	-229.7	-276.6	-322.4	-342.6
Credit to private sector	515.6	609.7	702.5	816.9	791.9	865.0	979.4	1,109.1	1,258.6	1,430.8
<i>Of which: Foreign currency</i>	100.6	122.5	133.1	153.2	153.8	159.2	164.2	169.3	174.7	180.3
Other	-340.3	-388.4	-387.0	-456.2	-380.5	-369.0	-436.1	-531.9	-639.5	-750.1
<i>Of which: Valuation adjustment</i>	-122.5	-113.7	-114.9	-146.9	-155.6	-157.5	-159.3	-161.1	-163.6	-166.4
Liabilities to private sector (M3)	636.4	756.4	844.4	972.6	952.7	1,042.4	1,119.0	1,199.7	1,284.8	1,376.1
Money supply (M2)	385.1	479.5	542.1	621.9	420.7	547.4	548.4	557.0	606.0	624.3
Foreign currency deposits	251.2	276.9	302.3	350.7	532.0	495.0	570.6	642.7	678.9	751.8
Fiscal year flows 1/										
Net foreign assets	18.3	76.8	2.3	82.8	-45.7	1.6	44.2	79.7	75.5	48.9
Net domestic assets	85.4	43.3	85.7	45.4	25.7	88.1	32.4	0.9	9.7	42.3
Net claims on public sector	-23.9	29.3	-2.5	8.4	89.8	25.4	11.0	13.8	13.6	0.7
<i>Of which: Central government</i>	-1.9	35.5	35.9	-11.6	88.5	16.3	13.8	11.2	15.5	1.9
Open market operations	-33.1	-32.0	-5.9	-8.2	-114.7	-22.0	-25.8	-46.8	-45.8	-20.2
Credit to private sector	139.7	94.1	92.8	114.5	-25.1	73.2	114.3	129.7	149.5	172.3
<i>Of which: Foreign currency</i>	16.4	21.8	10.6	20.1	0.6	5.4	4.9	5.2	5.4	5.6
Other 2/	2.7	-48.2	1.4	-69.2	75.7	11.5	-67.2	-95.8	-107.6	-110.6
<i>Of which: Valuation adjustment</i>	-18.0	8.8	-1.2	-32.0	-8.7	-1.9	-1.9	-1.7	-2.5	-2.9
Liabilities to private sector (M3)	103.7	120.0	88.0	128.2	-19.9	89.7	76.6	80.6	85.2	91.2
Money supply (M2)	69.3	94.3	62.7	79.8	-201.3	126.7	1.0	8.6	49.0	18.3
Foreign currency deposits	34.4	25.7	25.3	48.4	181.3	-37.0	75.6	72.1	36.2	72.9
(Change in percent of beginning-of-period M3)										
Net foreign assets	3.4	12.1	0.3	9.8	-4.7	0.2	4.2	7.1	6.3	3.8
Net domestic assets	16.0	6.8	11.3	5.4	2.6	9.2	3.1	0.1	0.8	3.3
Net claims on public sector	-4.5	4.6	-0.3	1.0	9.2	2.7	1.1	1.2	1.1	0.1
<i>Of which: Central government</i>	-0.4	5.6	4.7	-1.4	9.1	1.7	1.3	1.0	1.3	0.1
Open market operations	-6.2	-5.0	-0.8	-1.0	-11.8	-2.3	-2.5	-4.2	-3.8	-1.6
Credit to private sector	26.2	14.8	12.3	13.6	-2.6	7.7	11.0	11.6	12.5	13.4
<i>Of which: Foreign currency</i>	3.1	3.4	1.4	2.4	0.1	0.6	0.5	0.5	0.4	0.4
Other 2/	0.5	-7.6	0.2	-8.2	7.8	1.2	-6.4	-8.6	-9.0	-8.6
<i>Of which: Valuation adjustment</i>	-3.4	1.4	-0.2	-3.8	-0.9	-0.2	-0.2	-0.2	-0.2	-0.2
Liabilities to private sector (M3)	19.5	18.9	11.6	15.2	-2.1	9.4	7.4	7.2	7.1	7.1
Memorandum items:										
M3/monetary base	4.6	4.4	3.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Net foreign assets (US\$ Millions)	2,751	3,419	3,424	3,811	3,288	3,203	3,415	3,841	4,215	4,404
M3 velocity	2.8	2.5	2.4	2.2	2.2	2.2	2.2	2.2	2.2	2.2

Sources: Bank of Jamaica; and Fund staff estimates and projections.

1/ Fiscal year runs from April 1 to March 31. The authorities compile and disseminate monetary data on the basis of the 2000 MFS manual, which reflects a different methodology and coverage.

2/ Includes net credit to nonbank financial institutions, capital accounts, valuation adjustment, securities sold under repurchase agreements and net unclassified assets.

Table 6. Jamaica: Financial Sector Indicators 1/

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Balance sheet growth (y/y)												
Capital	14.7	13.8	5.1	5.3	4.0	18.3	7.4	9.0	12.6	8.1	11.4	8.1
Loans	24.2	5.3	-1.4	4.8	12.9	14.1	6.6	9.3	18.3	7.2	14.8	17.2
NPLs	57.6	68.0	36.1	44.0	-10.8	-12.9	0.2	-11.6	-16.9	-2.6	10.1	4.1
Liquidity												
Domestic currency liquid assets 2/	30.3	31.3	36.2	30.5	26.7	26.3	31.5	26.5	27.4	31.5	28.0	24.0
Asset Quality												
Prov. for loan losses/NPLs	87.2	75.7	69.9	75.2	90.3	95.7	101.6	106.4	117.5	121.3	111.0	123.5
NPLs/loans	2.9	4.7	6.5	8.9	7.0	5.4	5.0	4.1	2.9	2.6	2.6	2.2
Capital Adequacy												
NPLs/Capital+Prov. for loan losses	12.3	17.7	20.2	28.4	24.1	18.6	17.4	14.5	11.0	10.0	11.1	9.5
Capital Adequacy Ratio (CAR)	15.2	18.8	18.2	16.1	14.1	15.1	15.9	14.9	14.7	15.3	14.5	14.3
Profitability (calendar year) 3/												
Pre-tax profit margin	26.3	21.4	21.1	30.8	21.4	19.0	18.9	19.8	26.8	24.9	27.2	25.4
Return on average assets	3.5	2.9	2.5	3.9	2.4	2.0	2.1	2.0	2.9	2.7	3.3	2.0

Source: Bank of Jamaica.

1/ Commercial banks, building societies, and merchant banks; series includes credit unions from 2018.

2/ Percent of prescribed liabilities.

3/ The significant increase in profitability for 2011 is due to an up-stream dividend from one insurance subsidiary to its parent bank. Without such dividend pre-tax profit margin and return on average assets would be 18.1 and 2.3 percent, respectively.

Table 7. Jamaica: Indicators of Fund Credit, 2020–2027

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Existing and prospective Fund arrangements (SDR million)							
Disbursements	382.9	...	...	...	...	...	...
Stock of existing and prospective Fund credit	729.9	636.8	542.0	318.4	78.5	7.1	0.0
Obligations	94.7	100.7	101.3	228.9	242.5	72.0	7.2
Principal (repayments/repurchases)	86.0	93.1	94.8	223.7	239.8	71.5	7.1
Charges and interest	8.6	7.6	6.5	5.2	2.6	0.5	0.2
Fund Obligations (Repurchases and Charges) as a percent of:							
Quota	24.7	26.3	26.5	59.8	63.3	18.8	1.9
GDP	0.9	0.9	0.8	1.8	1.9	0.5	0.1
Exports of goods and services	4.0	2.8	2.4	5.2	5.3	1.5	0.1
Gross international reserves	3.9	4.2	4.2	9.3	9.7	2.8	0.3
Government Revenue	3.2	3.1	3.0	6.4	6.6	1.9	0.2
External debt service	21.4	17.0	19.9	38.6	38.5	13.1	1.2
Fund Credit Outstanding as a percent of:							
Quota	190.6	166.3	141.6	83.1	20.5	1.8	0.0
GDP	6.6	5.5	4.5	2.5	0.6	0.1	0.0
Exports of goods and services	30.9	17.8	13.1	7.2	1.7	0.1	0.0
Gross international reserves	30.2	26.4	22.3	12.9	3.2	0.3	0.0
Government Revenue	24.5	19.8	15.9	9.0	2.1	0.2	0.0
External debt	11.1	9.9	8.6	5.2	1.3	0.1	0.0
Memorandum items:							
Quota (SDR million)	382.9	382.9	382.9	382.9	382.9	382.9	382.9
Exports of goods and services (USD million)	3,280	4,975	5,763	6,147	6,399	6,674	6,995
Gross international reserves (USD million)	3,351	3,362	3,390	3,453	3,494	3,544	3,594
External debt service (USD million)	613	823	710	829	882	772	828
Total external debt (USD million)	9,148	8,964	8,773	8,538	8,238	8,045	7,819

Source: IMF Staff calculations.

Annex I. Debt Sustainability Analysis

Jamaica's public debt has fallen from 114 percent of GDP in FY2016/17 to 93.5 percent in FY2019/20.¹ The debt-to-GDP ratio is expected to increase to 97.6 percent of GDP in FY2020/21 due to the impact of the ongoing pandemic, but resume its downward path thereafter to meet the Fiscal Responsibility Law debt target of 60 percent of GDP, with a modest lag, by FY2027/28. The authorities have been proactive in reducing near-term financing needs. Debt dynamics remain vulnerable to the uncertainties surrounding the COVID-19 outbreak, natural disasters, and the realization of contingent liabilities from public bodies.

1. Jamaica's debt has been on a steady downward trend as a result of impressive fiscal consolidation efforts under Fund-supported programs (the primary balance has exceeded 6.5 percent of GDP for 7 years in a row) and good debt management. Jamaica's public debt has fallen from 114 percent of GDP in FY2016/17 to 93.5 percent in FY2019/20. Major rating companies upgraded Jamaica's credit ratings in 2019. The primary surplus is expected to decline to 3.5 percent of GDP in FY2020/21 to accommodate the policy response to the COVID-19 crisis financed by a drawdown of cash balances, including from recent divestments and rationalization of government assets. Debt reduction efforts are expected to resume as the pandemic wanes. Despite the severe impact of the COVID-19 crisis, the authorities are committed to bringing public debt below 60 percent of GDP by FY2027/28, although with a modest (two-year) delay from the original FY2025/26 target date under the Fiscal Responsibility Law.

2. The public debt trajectory remains susceptible to macro-fiscal risks. All the standard shocks to key economic indicators and contingent liabilities embedded in the standard stress tests² are projected to alter the public debt adjustment path, with projections ranging between 69 and 84 percent of GDP by FY2025/26 depending on the shock scenario (Figure 5). In the near term, public debt could deviate from the baseline path by 1.4 to 17 percent of GDP in FY2022/23 under the standard stress tests, with relatively larger impacts under the foreign exchange shock, contingent liabilities shock, and the combined macro shock. Susceptibility to macro-fiscal shocks are also confirmed by fan charts around the baseline debt projections with the upper quartile of the confidence interval pointing to debt of 74 percent of GDP by FY2025/26 (Figure 1). Nevertheless, there are also upsides from potential asset divestments, which are not included under the baseline.

3. Jamaica faces modest near-term gross financing needs. The MAC DSA heatmap points to low liquidity risks with the gross financing needs-to-GDP ratio staying below the 15 percent threshold across standard stress tests. The debt-profile vulnerabilities tool suggests that Jamaica's

¹ The analysis refers to the consolidated public sector debt, which includes direct debt by the central government, guaranteed debt and net debt not guaranteed by the government of public bodies, excluding the central bank.

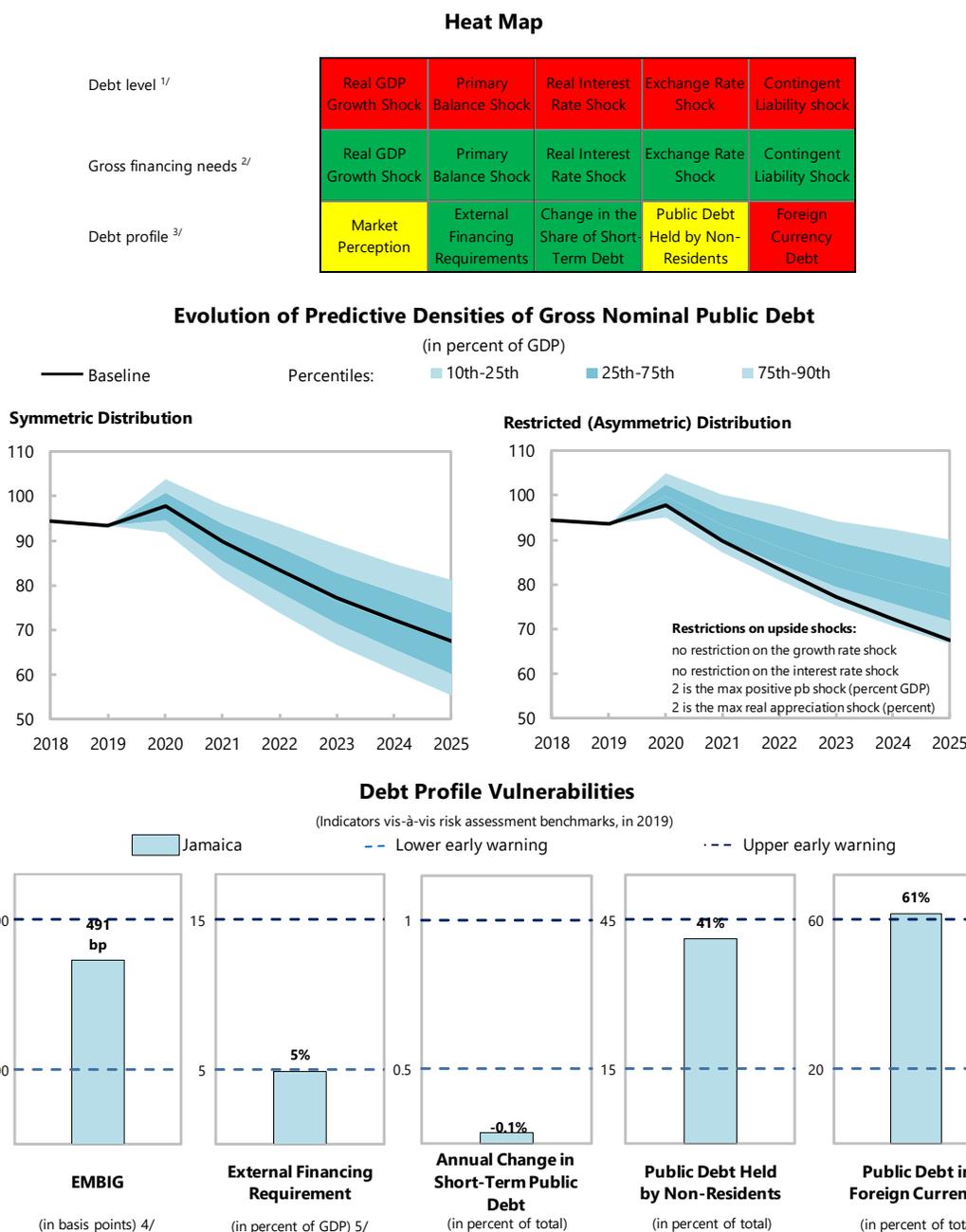
² Please see the guidance note on the MAC DSA for the designs of the standard stress tests used for the analysis (<https://www.imf.org/external/np/pp/eng/2013/050913.pdf>).

FX-denominated debt in percent of total public debt exceeds the 75th percentile of peers (62 percent) by a small margin, while other key indicators do not flag high-risk signals for now (Figure 1).

4. The authorities have been proactive in their debt management strategy to mitigate market-related costs and risks. In September 2019, the Government of Jamaica conducted buybacks of outstanding global bonds coming due in 2022, 2025, and 2028, totaling around US\$1 billion. These buybacks together with new bond issuances through the reopening of the global bond coming due in 2045 led to a substantial maturity extension. As part of their medium-term debt strategy up to FY2023/24, the authorities plan to continue to conduct opportunistic liability management operations (LMOs) to further mitigate costs and risks in public debt portfolio. The public debt risk profile would also benefit from plans to reduce reliance on FX-denominated borrowing, while further developing the local currency bond market over the medium term.

5. Jamaica's debt is assessed to be sustainable. The projected debt trajectory remains vulnerable to the high degree of uncertainty of the size and duration of the COVID-19 shock and the associated risks to growth, the exchange rate, and fiscal revenues. However, the strong policy track record, together with the authorities' commitment to meet the medium-term debt target sooner should growth overperform, and prudent debt management mitigate potential risks.

Figure 1. Jamaica: Public DSA Risk Assessment



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white. Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

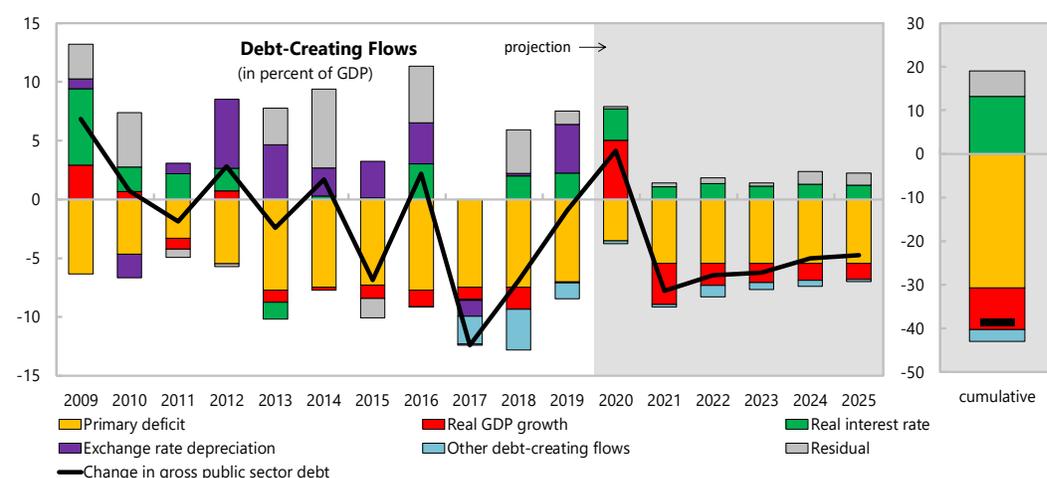
4/ EMBIG, an average over the last 3 months, 01-Feb-20 through 01-May-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 2. Jamaica: Public Sector Debt Sustainability (DSA)—Baseline Scenario

	Debt, Economic and Market Indicators ^{1/}										As of May 01, 2020		
	Actual			Projections									
	2009-2017 ^{2/}	2018	2019	2020	2021	2022	2023	2024	2025				
Nominal gross public debt	114.7	94.4	93.5	97.6	89.9	83.4	77.2	72.2	67.4	Sovereign Spreads			
o/w: Net public bodies & Fund credit	0.2	0.5	3.0	3.6	2.2	1.4	0.5	0.4	0.4	EMBIG (bp) ^{3/} 627			
Public gross financing needs	12.9	5.3	11.8	11.5	7.4	5.6	6.6	5.9	8.0	SY CDS (bp) n.a.			
Real GDP growth (in percent)	0.1	2.0	0.1	-5.3	3.9	2.2	2.1	2.0	2.0	Ratings Foreign Local			
Inflation (GDP deflator, in percent)	7.3	4.5	4.7	4.4	5.3	5.0	5.0	5.0	5.0	Moody's B2 B2			
Nominal GDP growth (in percent)	7.4	6.5	4.8	-1.2	9.4	7.4	7.2	7.1	7.1	S&Ps B+ B+			
Effective interest rate (in percent) ^{4/}	8.8	6.7	6.8	7.0	6.7	6.7	6.5	6.9	6.9	Fitch B+ B+			

	Contribution to Changes in Public Debt										cumulative	debt-stabilizing primary balance ^{10/}
	Actual			Projections								
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025			
Change in gross public sector debt	-1.0	-6.9	-0.9	4.1	-7.7	-6.4	-6.2	-5.0	-4.7	-26.0	-0.3	
Identified debt-creating flows	-3.2	-10.6	-2.1	3.9	-8.1	-6.9	-6.5	-6.1	-5.8	-29.4		
Primary deficit	-6.4	-7.5	-7.0	-3.5	-5.4	-5.4	-5.4	-5.4	-5.4	-30.7		
Primary (noninterest) revenue and grants	27.1	30.6	30.2	27.3	28.2	28.6	28.6	28.5	28.4	169.5		
Primary (noninterest) expenditure	20.7	23.2	23.2	23.7	22.7	23.1	23.1	23.0	23.0	138.7		
Automatic debt dynamics ^{5/}	3.4	0.4	6.3	7.7	-2.4	-0.5	-0.5	-0.1	-0.1	4.0		
Interest rate/growth differential ^{6/}	1.5	0.1	2.2	7.7	-2.4	-0.5	-0.5	-0.1	-0.1	4.0		
Of which: real interest rate	1.6	2.0	2.2	2.7	1.1	1.3	1.1	1.3	1.2	8.8		
Of which: real GDP growth	-0.2	-1.9	-0.1	5.0	-3.5	-1.9	-1.6	-1.4	-1.3	-4.7		
Exchange rate depreciation ^{7/}	2.0	0.2	4.1	...	...	...	...	...	...	...
Other identified debt-creating flows	-0.3	-3.5	-1.4	-0.2	-0.2	-1.0	-0.6	-0.5	-0.2	-2.7		
Compensatory flows from PCDF ^{8/}	-0.3	-2.2	-2.2	-0.2	-0.2	-1.0	-0.6	-0.5	-0.2	-2.7		
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Bank Recapitalization	0.0	-1.2	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual, including asset changes ^{9/}	2.2	3.7	1.2	0.2	0.3	0.5	0.3	1.1	1.0	3.4		



Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees, defined as Outstanding amount of loans guaranteed by the central government and Fund credit outstanding (budget support only).

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+g\pi)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

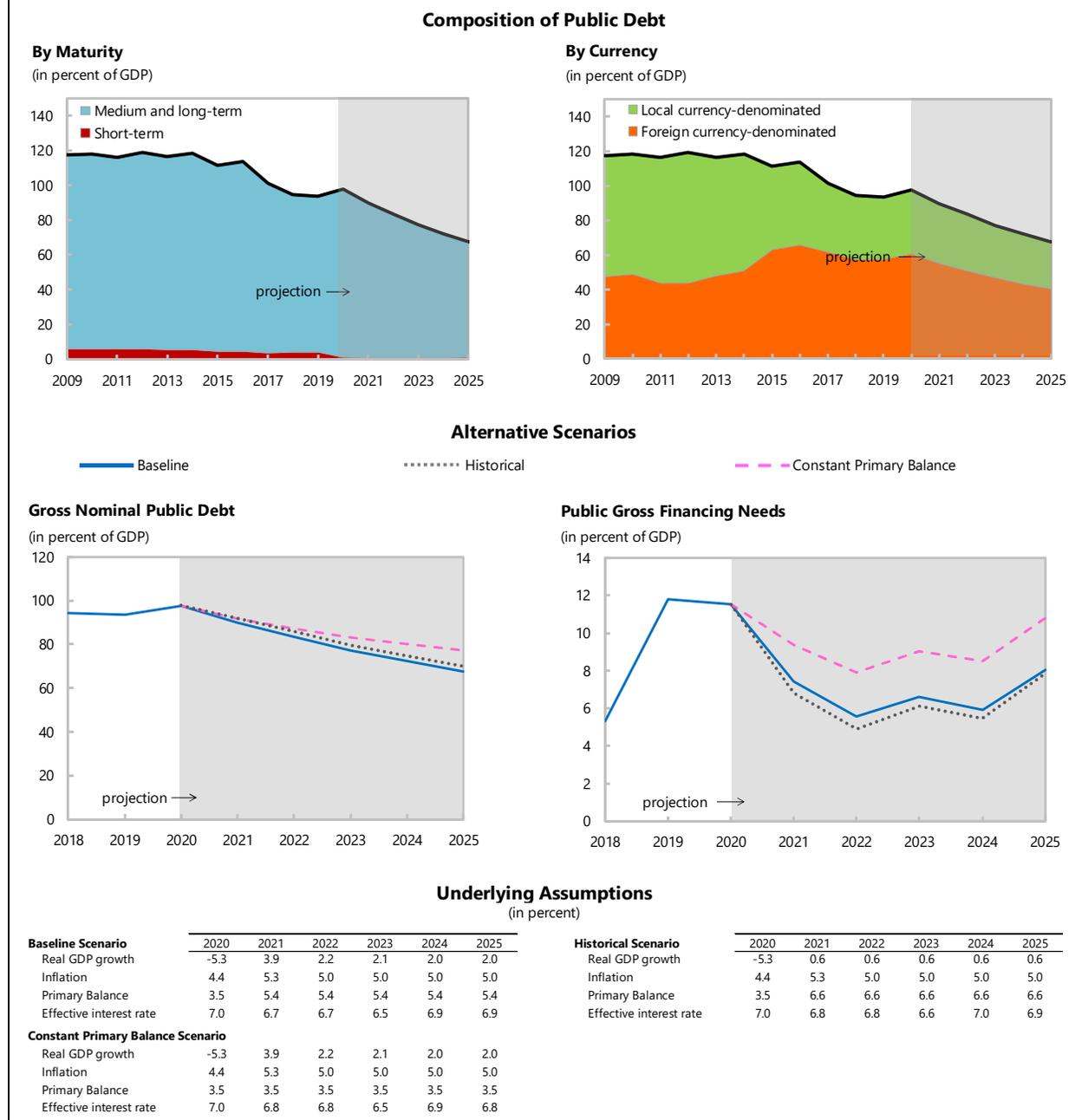
8/ The compensatory flows from Petrocaribe Development Fund (PCDF) arise from the estimated net revenue from PCDF assets that can be used by the government to repay debt.

9/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

For FY2020/21 includes asset sales as announced in GOJ's 2020/21 Budget.

10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 3. Jamaica: Public DSA—Composition of Public Debt and Alternative Scenarios



Source: IMF staff.

Figure 4. Jamaica Public DSA—Realism of Baseline Assumptions

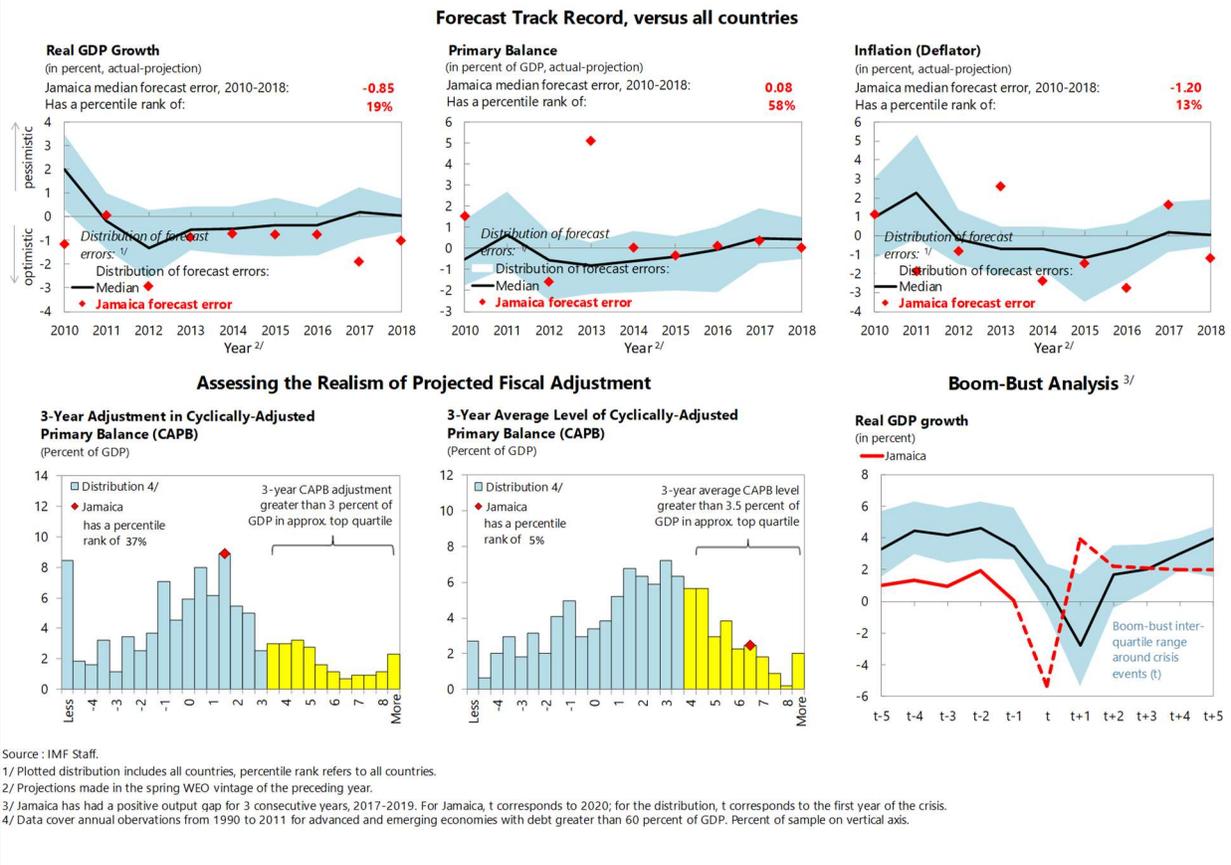
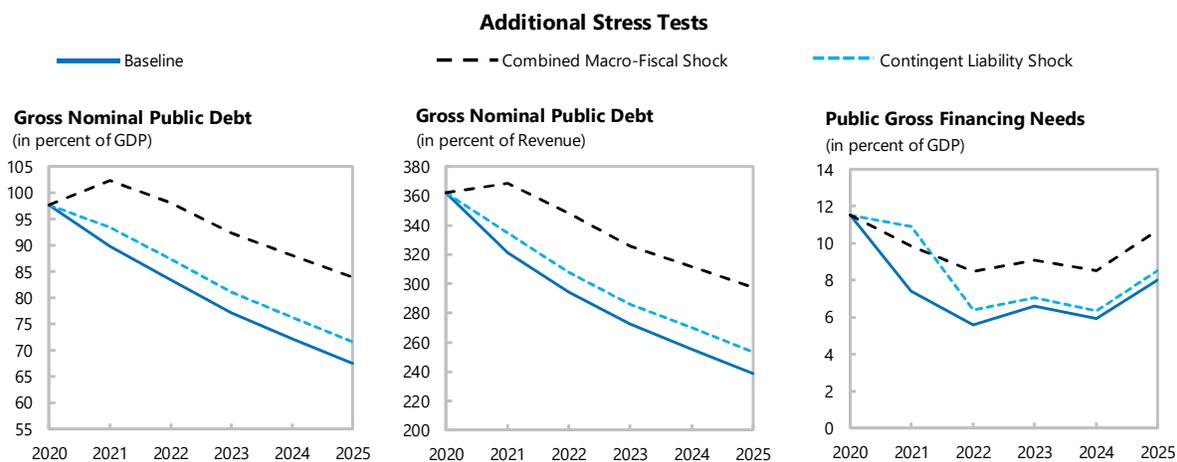
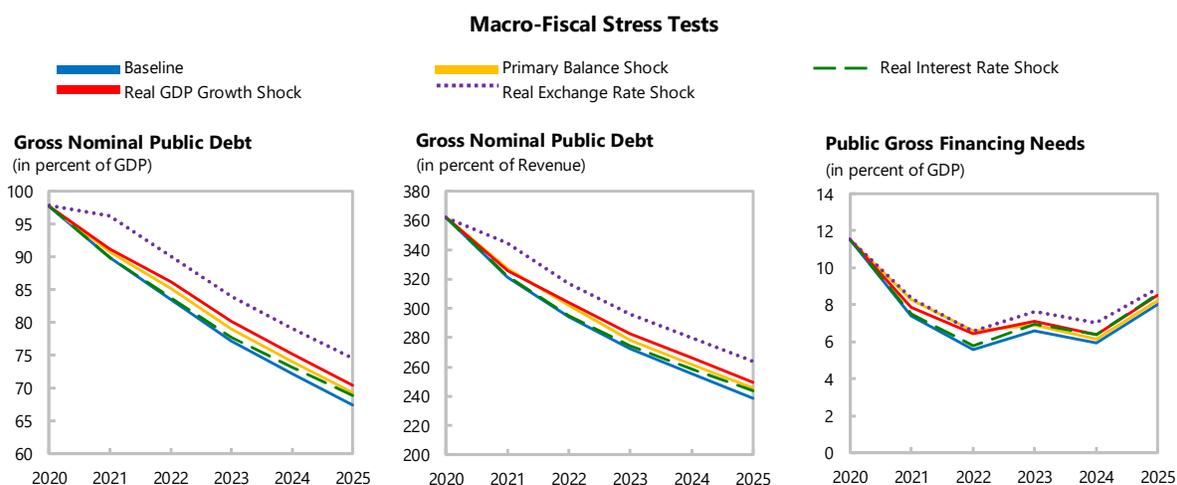


Figure 5. Jamaica Public DSA—Stress Tests



Underlying Assumptions

(in percent)

	2020	2021	2022	2023	2024	2025
Primary Balance Shock						
Real GDP growth	-5.3	3.9	2.2	2.1	2.0	2.0
Inflation	4.4	5.3	5.0	5.0	5.0	5.0
Primary balance	3.5	4.7	4.7	5.4	5.4	5.4
Effective interest rate	7.0	6.8	6.8	6.6	7.0	7.0
Real Interest Rate Shock						
Real GDP growth	-5.3	3.9	2.2	2.1	2.0	2.0
Inflation	4.4	5.3	5.0	5.0	5.0	5.0
Primary balance	3.5	5.4	5.4	5.4	5.4	5.4
Effective interest rate	7.0	6.8	7.0	6.9	7.4	7.5
Combined Shock						
Real GDP growth	-5.3	3.1	1.4	2.0	2.0	2.0
Inflation	4.4	5.1	4.8	5.0	5.0	5.0
Primary balance	3.5	4.7	4.7	5.4	5.4	5.4
Effective interest rate	7.0	7.6	7.0	6.9	7.4	7.5
Real GDP Growth Shock						
Real GDP growth	-5.3	3.1	1.4	2.0	2.0	2.0
Inflation	4.4	5.1	4.8	5.0	5.0	5.0
Primary balance	3.5	5.2	5.0	5.4	5.4	5.4
Effective interest rate	7.0	6.8	6.8	6.6	7.0	7.0
Real Exchange Rate Shock						
Real GDP growth	-5.3	3.9	2.2	2.1	2.0	2.0
Inflation	4.4	9.7	5.0	5.0	5.0	5.0
Primary balance	3.5	5.4	5.4	5.4	5.4	5.4
Effective interest rate	7.0	7.6	6.8	6.6	7.0	7.0
Contingent Liability Shock						
Real GDP growth	-5.3	3.7	2.1	2.1	2.0	2.0
Inflation	4.4	5.3	5.0	5.0	5.0	5.0
Primary balance	3.5	2.4	5.4	5.4	5.4	5.4
Effective interest rate	7.0	7.2	6.8	6.6	7.0	7.0

Source: IMF staff.

Appendix I. Letter of Intent

Kingston, Jamaica
May 8, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Georgieva,

Since early February, the Government of Jamaica has undertaken proactive measures to slow the spread of the COVID-19 pandemic. Despite these efforts, the number of Jamaicans with confirmed infections has been increasing, although with only a limited number of casualties to date. As part of our firm commitment to minimize the cost of the pandemic on the lives and livelihoods of the citizens of Jamaica, we continue to keep our borders closed and have enforced an island-wide daily curfew as well as lockdowns in areas with higher infection levels.

This emergency has severely affected our economy, bringing many businesses, including in our critical tourism industry, to a halt, and sending thousands of workers home without pay. Our preliminary projections suggest that real GDP growth could decline by over 5 percentage points in FY2020/21. With the sudden stop in tourism activity and sharp decline in remittances from our diaspora communities, our balance of payments is being severely impacted.

To protect our citizens and the economy, our government has undertaken various measures:

- To respond to increasing fiscal needs for health, social protection, and economic support amid declining revenues, we are revising our primary balance target to 3.5 percent of GDP in FY2020/21, while we remain committed to the medium-term debt target. To this end, we will recast the budget for Parliamentary approval in May to incorporate the projected impact of the pandemic. The additional spending under the COVID Allocation of Resources for Employees (CARE) programme will provide temporary income support to formal and informal workers in affected sectors and vulnerable segments of the population, as well as targeted relief to affected businesses. After the resolution of the pandemic, we are committed to continue our debt reduction efforts to meet the 60 percent of GDP debt target by FY2027/28. Should growth overperform, we plan to save the additional revenues to meet the debt target sooner.
- The Bank of Jamaica (BOJ) has taken actions to ensure uninterrupted systemic liquidity, including secondary market purchases of Government of Jamaica bonds from financial institutions and early redemption of BOJ securities, repo operations under enhanced collateral rules, and removal of limits and penalties on overnight borrowing by financial institutions. The BOJ will continue to rely on a flexible exchange rate, limiting FX interventions to stem excessive market volatility.

Against this background, the Government of Jamaica requests emergency financing from the IMF under the Rapid Financing Instrument (RFI) in the amount of SDR382.9 million, equivalent to 100 percent of quota, to proactively respond to these severe balance of payment needs. Coupled with our own reserves and available support from the World Bank and Inter-American Development Bank, this disbursement will help fill the external financing gaps in FY2020/21.

Despite the uncertain endpoint of the COVID-19 crisis, we are determined to protect Jamaica's hard-won reform gains and advance our structural agenda to support the recovery efforts. We will continue to develop our FX and debt markets and to upgrade our institutions, notably by enshrining BOJ independence in law and establishing a fiscal council, and further support strong and inclusive growth, by boosting access to finance, especially for SMEs, and reducing our skills gap, while also working to reduce crime. We also remain committed to improving the governance of public bodies, enhancing public financial management, advancing public sector transformation, addressing gaps in our AML/CFT framework, and ensuring long-term financial sector stability.

The Jamaican government will maintain its open dialogue with the IMF. We are committed to continued macroeconomic stability and will avoid any measures or policies that would exacerbate balance of payments difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement.

In line with the IMF safeguards policy, we commit to undergoing a safeguards assessment. We will provide IMF staff with the BOJ's most recently completed external audit reports and authorize our external auditors to hold discussions with IMF staff. Given that financing from the IMF could be on-lent to the government to meet potential additional fiscal needs, a framework agreement will be established between the Ministry of Finance and the Public Service and the BOJ on the respective responsibilities for servicing financing obligations to the IMF. We will continue to adhere to best practices in procurement and contract awards related to the pandemic, ensuring transparency and ease of tracking of COVID-19 expenditures in the budget. Key information on procurement contracts, including beneficial ownership information of awarded companies, will be publicly available. Moreover, the authorities will request that the Auditor General's Department undertakes and publishes an ex-post audit of COVID-related spending. We also commit to continue disseminating information among citizens, to educate them on the measures being taken by the government and the resources available to them.

We authorize the IMF to publish this Letter of Intent and the staff report for the request for disbursement under the RFI, in line with the commitment to transparency of our government.

Very truly yours,

/s/
Andrew Holness
Prime Minister

/s/
Nigel Clarke
Minister of Finance and
the Public Service

/s/
Richard Byles
Governor,
Bank of Jamaica

**Statement by Louise Levonian, Executive Director for Jamaica and
Garima Vasishtha, Senior Advisor to Executive Director
May 15, 2020**

Overview

Our Jamaican authorities highly appreciate the continued constructive engagements and policy dialogue with the Fund. They thank management and the mission team for the speedy response to the request for emergency financing during this exceptionally difficult period.

The Jamaican economy has entered this crisis on a relatively solid footing. Through a comprehensive seven-year reform effort encompassing two Fund-supported programs – the Precautionary SBA (2016-19) and its predecessor EFF (2013-16) – Jamaica has set an exemplary track record of strong program ownership and policy implementation. Macroeconomic stability has been entrenched and an unprecedented level of fiscal discipline was achieved, delivering a primary surplus of over 7 percent for six consecutive years until FY2019/20. Public debt has been on a declining trajectory, with the debt to GDP ratio dipping below 100 percent in FY2018/19, the first time since 2001. The unemployment rate hit a record low, inflation has been tamed, and international reserves have been replenished. Key structural reforms have advanced.

Like in other countries, the COVID-19 pandemic is exerting significant pressure on economic conditions in Jamaica and a sudden balance of payments need has emerged. The tourism sector has come to a standstill and the timing of reopening remains uncertain. Remittance inflows – a major source of foreign exchange – are also expected to be hit hard owing to unemployment and deteriorating economic conditions in diaspora markets. Moreover, the upcoming hurricane season poses additional risks.

The government has taken strong and decisive actions to slow the spread of COVID-19, to strengthen public health capacity, and to cushion the economic impact of the pandemic on vulnerable individuals and small businesses. Nevertheless, the unprecedented nature of the global shock and its economic impact pose considerable balance of payments risks that threaten Jamaica's hard-won economic gains.

In light of the foregoing, the government has requested emergency financing from the Fund under the Rapid Financing Instrument (RFI) in the amount of SDR 382.9 million, equivalent to 100 percent of quota. This assistance will help in meeting the urgent balance of payments needs associated with the massive drop in tourism and the increased requirements of the health sector.

The COVID-19 Pandemic and Policy Response

The first case of COVID-19 in Jamaica was reported on March 10. The total number of confirmed infections has reached 502, with 9 recorded deaths as of May 10. Early and proactive measures have been taken to contain the spread of the virus across the island, including social distancing measures, cancellation of all large public and private events, and quarantine of entire communities. Island-wide daily curfews, school closures, and closure of the island's borders to incoming visitors are in effect.

In order to support the most impacted segments of the population, the government has introduced targeted measures in the form of a J\$ 16 billion spending stimulus under the COVID-19 Allocation of Resources for Employees (CARE) Program. The Program includes (i) temporary cash transfers to registered businesses in targeted sectors based on the number of workers employed; (ii) transfers to individuals who lost their employment on or after March 10; and (iii) grants targeted at the most vulnerable segments of society.

Regarding monetary and macro-financial measures, the Bank of Jamaica (BOJ) has maintained its highly accommodative monetary policy stance by holding the policy rate unchanged at 0.5 percent. To ensure that orderly conditions are maintained, the BOJ has taken several pre-emptive measures to assure financial institutions and the public of adequate access to both foreign currency and Jamaican dollar liquidity. These measures include secondary market purchases of Government of Jamaica bonds from financial institutions and early redemption of BOJ securities, a broadening of the range of acceptable repo collateral, and removal of limits and penalties on overnight borrowing by financial institutions. Total liquidity injections by the BOJ via its short-term lending facilities and asset purchase program are estimated to be about J\$ 57 billion. The authorities are also encouraging the banking sector to conserve capital by postponing dividend payments to shareholders. Banks are also rescheduling loans and mortgages, in addition to mortgage rate cuts already announced by the National Housing Trust.

The Macroeconomic Outlook

The economic outlook is characterized by significant uncertainty relating to the spread of the virus and the associated severity and duration of the economic impact. Staff projections indicate that real GDP could contract by 5.3 percent in FY2020/21. The authorities are further revising down their primary surplus target for FY2020/21 to 3.5 percent of GDP considering the increased spending on health care, social protection, and economic support measures amid declining revenues. A supplementary budget will be tabled in the Parliament in May to incorporate the projected impact of the pandemic.

Despite the ongoing challenges, the authorities are cognizant that the debt/GDP ratio is high and are determined to safeguard fiscal and debt sustainability. Once the pandemic subsides, the authorities are committed to achieve the debt target of 60 percent of GDP enshrined in the

Fiscal Responsibility Law, albeit with a two-year delay to FY2027/28 owing to the impact of the pandemic. Our authorities also re-affirm their commitment to maintain the annual primary balance target of 5.4 percent of GDP. The Fiscal Responsibility law contains an escape clause that would allow for some temporary flexibility in meeting the fiscal targets should the economic situation deteriorate further.

The current account deficit is expected to widen from 2.3 percent in FY2019/20 to 7.3 percent in FY2020/21. The decline in domestic activity, sudden stop in tourist arrivals, drop in remittances, and weak mining exports are resulting in considerable external financing needs. The impact of these factors will be partially cushioned by a moderation in foreign exchange outflows due to the high import dependence of the tourism sector, lower oil prices, as well as lower consumer demand from the expected economic contraction. Jamaica also enjoys a reasonable stock of foreign reserves along with contingency financing options in the form of cash resources, domestic sources of financing, and untapped capacity available from other IFIs, including by redirecting existing projects. These mitigating factors notwithstanding, the unprecedented nature of the shock and the associated uncertainty around the severity and duration of its impacts pose acute balance of payments risks to Jamaica.

Overall, Jamaica's financial system remains sound and well capitalized. The inflation targeting framework combined with greater exchange rate flexibility have facilitated the BOJ's response to the shock. The liquidity assistance provided by the central bank since the onset of the pandemic will help facilitate the smooth functioning of credit markets, maintain inflation in the target range of 4.0 to 6.0 percent, and augment the fiscal measures implemented by the government. The BOJ will continue to rely on a flexible exchange rate, limiting FX interventions to stem excessive market volatility.

Jamaica fully acknowledges that much work lies ahead and is determined to protect its hard-won economic gains and advance reforms to safeguard macroeconomic stability. In addition to efforts to enhance public safety, measures to improve access to finance, upgrade physical infrastructure, and address the skills gap will remain top priorities. These will be accompanied by a continued focus on strengthening domestic institutions, including by establishing an independent Fiscal Council and enshrining the BOJ's independence in law. The authorities are also committed to enhancing the functioning of the FX and debt markets, ensuring the soundness of the financial sector, and strengthening their AML/CFT framework.

Safeguards

As outlined in the Letter of Intent, our authorities have committed to undergoing a safeguards assessment to ensure effective and transparent use of emergency funding. They have agreed to share with the Fund the BOJ's most recent external audit reports and authorize their external auditors to hold discussions with staff. They will also request the Auditor General to undertake and publish an ex-post audit of pandemic-related expenditures. In addition, our

authorities will publish key information on procurement contracts, including beneficial ownership information.

Conclusion

Our authorities highly value the engagement with the Fund and appreciate the work of the mission team and the Fund's responsiveness during this global crisis. The Jamaican economy entered this challenging period on sound foundations and an established track record of successful economic reforms. The authorities' fiscal stimulus and monetary policy measures are aimed at mitigating the impact of the pandemic and supporting a speedy recovery. Jamaica's continued commitment to reform together with support from international and bilateral partners should hold it in good stead for emerging from this crisis.