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JAMAICA

December 2013

SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

In the context of the Second Review Under the Extended Arrangement Under the Extended Fund Facility and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- The **Staff Report** for the Second Review Under the Extended Arrangement Under the Extended Fund Facility and Request for Modification of Performance Criteria, prepared by a staff team of the IMF for the Executive Board's consideration on December 18, 2013, following discussions that ended on November 15, 2013, with the officials of Jamaica on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on December 4, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A **Staff Statement** of December 18, 2013, updating information on recent developments.
- A **Press Release**.
- A **Statement by the Executive Director** for Jamaica.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Jamaica*
Memorandum of Economic and Financial Policies by the authorities of Jamaica*
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

JAMAICA

December 4, 2013

SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Macroeconomic developments are broadly in line with program projections. There are signs of a gradual recovery from the effects of the global financial crisis and hurricane Sandy. Real GDP growth for 2013/14 is projected at just under 1 percent, supported by improved activity in the tourism, mining, and agricultural sectors. Inflation has increased due to the depreciation of the exchange rate as well as higher administered prices in the context of the recent fiscal package. International reserves are in line with program requirements, but remain low. The execution of the 2013/14 budget has remained broadly on track. Strong implementation of the program would lay the foundation for sustained economic growth.

Program performance is on track, in spite of the difficult economic environment. Jamaica's four-year, SDR 615 million (225 percent of quota) Extended Arrangement under the EFF was approved by the IMF Executive Board on May 1, 2013. All end-September quantitative performance criteria and structural benchmarks were met. The macroeconomic outlook and financing scenario remain broadly in line with earlier projections. The authorities are pressing ahead with the next round of reforms, including strengthening the fiscal policy framework, reforming the securities dealers sector, and enhancing public financial management.

Program risks. Risk to the program remains high, including possible external shocks, weak confidence and anemic external demand that could hamper the growth recovery, shortfalls in budget financing and revenue collection, and policy slippages.

Appraisal. Based on the performance to date and the authorities' updated policy intentions and commitments, staff recommends completion of the second review under the EFF.

Approved By
Gian Maria Milesi-Ferretti (WHD) and Peter Allum (SPR)

Discussions took place in Kingston during November 6–15, 2013. Staff representatives comprised J. Martijn (head), C. Amo-Yartey, M. Rodriguez (all WHD), C. Lonkeng Ngouana, A. Dizioli (both FAD), M. Opoku-Afari (SPR), P. Lohmus (MCM), and B. van Selm (Resident Representative). Mr. Lessard (OED) participated in the discussions.

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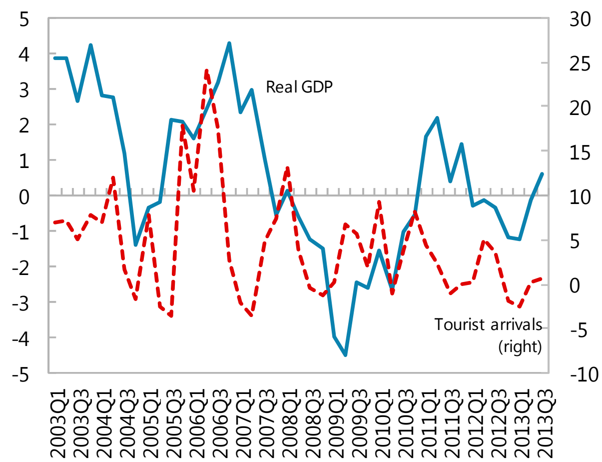
BACKGROUND AND RECENT DEVELOPMENTS

1. **Program performance is on track despite a difficult economic environment.** Jamaica's four-year, SDR 615 million (225 percent of quota) Extended Arrangement under the EFF was approved by the IMF Executive Board on May 1, 2013, and the first review was completed on September 30. The authorities' four-year program aims to reduce public debt, stem balance of payments risks, and create the conditions for sustained economic growth through a significant improvement in fiscal management and growth-enhancing structural reforms.

2. **There are signs of a gradual recovery from the effects of the global financial crisis and Hurricane Sandy, while inflation remains elevated**. A modest recovery is expected for 2013/14 (unchanged from previous projections) from the contraction in 2012/13. Preliminary data indicate that real GDP increased by 0.6 percent in the third quarter of calendar year 2013 (relative to the same period last year), mainly due to strong mining and agricultural activities, up from a decline by 0.1 percent in the second quarter and by 1.2 percent in the first quarter. Tourist arrivals also show a modest ongoing increase, and reported unemployment declined from 16.3 percent in April to 15.4 percent in July. Inflation has picked up and reached 10.3 percent (y-o-y) in October 2013 reflecting the pass-through of ongoing nominal depreciation into domestic prices and increased administered prices. The increased administered prices, in particular higher bus fares and water prices, together directly accounted for an increase by 1.9 percentage points, while the degree of exchange-rate pass-through was somewhat smaller than had been anticipated.

Real GDP and Tourist Arrivals Growth
(percent change)



3. **The external situation has improved somewhat but remains weak.** The current account deficit improved from 14.8 percent of GDP in 2011/12 to 11.9 in 2012/13 largely due to lower nonfuel imports and stronger-than-expected performance in non-traditional exports. Preliminary data for the first half of 2013/14 show a further contraction in imports of raw material and consumer goods, resulting in an additional compression of the current-account deficit. This ongoing decline in imports and the current account deficit, together with the weaker-than-expected exchange rate pass-through, are indicative of the weakening of domestic demand. The nominal exchange rate depreciated by about 19 percent between June 2012 and end-November 2013, which has helped improve competitiveness and supported reserve accumulation. The real effective depreciation is estimated at 4.8 percent from 2012 to 2013 (on average, for January through October), and at 4.5 percent from end-2012 to end-October 2013 (end-of period). The Bank of Jamaica (BOJ) has initiated the necessary recovery in reserves, although they remain at a low level, of US$836 million by end-November. In October, the BOJ briefly intervened to stem an accelerating exchange rate depreciation.

4. **Financial market conditions have tightened somewhat in recent months.** Excluding exchange-rate valuation effects, credit to the private sector increased by 14.5 percent (y-o-y) in September compared with 17.9 percent a year earlier. Notwithstanding the continued overall credit expansion, there are indications of tightening financial market conditions brought about by the combined effects of the restructuring in government debt-service payments, open-market operations (including active sterilization) by the Bank of Jamaica (BOJ), the introduction of CTMS, and the lack of activity in the secondary markets in government securities following the debt exchange. In particular, Treasury Bill rates have increased further, from 6.8 percent by end-June, to 7.6 percent by end-November for three-month instruments and the interbank rates for overnight funds were reaching 10–13 percent. Interest rates for private sector borrowing have also risen. Excluding exchange-rate valuation effects, (commercial bank) credit to the private sector increased by 5.3 percent from end-June to end-September, broadly in line with earlier growth rates. However, this credit expansion is reportedly increasingly concentrated in the retail sector, possibly reflecting some degree of consumption smoothing in the face of lower real incomes, while corporate borrowing is being compressed. To address the emerging liquidity shortages, the Bank of Jamaica started injecting liquidity into the financial system through the use of repos in mid-September 2013.

5. **Budget outcomes for the second quarter of FY2013/14 were broadly in line with expectations**. Revenues have been in line with the program floor, but have underperformed somewhat relative to the authorities' internal budget targets through end-September. The latter targets assume earlier receipts from the tax package for 2013/14 than is embedded in the program floor. The underperformance was mostly due to lower international trade taxes (reflecting the lower-than-projected imports) and lower withholding tax receipts on interest (reflecting lower-than-projected interest payments), as well as lower payroll tax receipts. With strict expenditure control, the primary balance amounted to about 3 percent of annual GDP over the first half of the fiscal year. The overall deficit of the central government was better than projected at 0.4 percent of annual GDP, supported by lower-than-projected interest payments. Both lower interest rates and lower government borrowing contributed to the reduced interest bill, as the new CTMS allowed for lower government cash balances (facilitating a drawdown of deposits and thereby reducing the need for borrowing).

6. **The financial system has been resilient with adequate profitability and capitalization**. Commercial banks' CAR improved from 12.6 percent at end-June 2013 to 13.9 percent at end-September, largely due to capital injections. Non-performing loans (NPLs) remained stable, at 5.8 percent of total loans in September 2013, with almost full provisioning, although the recent economic slowdown may have a delayed impact on loan quality. Stress test results for end-June from the Bank of Jamaica shows that while loan delinquency is expected to remain high under various macroeconomic stresses, banks' and security dealers' capital positions showed improving resilience to withstand hypothetical shocks—including a simultaneous impact of increases in interest rates, currency depreciation, credit quality deterioration and deposit outflow—compared with results in the previous quarter.

PERFORMANCE UNDER THE PROGRAM

7. **The EFF-supported program has remained on track and all quantitative performance criteria for end-September were met (Text Table 1).** The end-September targets for net international reserves (NIR) and net domestic assets (NDA) were met. The fiscal performance criteria—for the primary balance, the overall public sector, and debt and tax arrears—were also achieved, as were the indicative floors for social expenditure and tax revenue.

Text Table 1. Jamaica: Program Monitoring—Quantitative Performance Criteria under EFF 1/

(In billions of Jamaican dollars)

	2nd Review PC End-Sep.	Adjusted PCs End-Sep.	End-Sept. Actual	Difference	PC Status End-Sep. 2013
Fiscal targets					
1. Primary balance of the central government (floor) 2/	38.2	38.2	39.5	1.3	Met
2. Tax Revenues (floor) 2/ 7/	150.4	150.4	162.9	12.5	Met
3. Overall balance of the public sector (floor) 2/	-21.6	-21.6	-14.6	7.0	Met
4. Central government direct debt (ceiling) 2/ 3/	51.4	51.4	36.3	-15.1	Met
5. Central government guaranteed debt (ceiling) 2/	-13.1	-13.1	-13.4	-0.3	Met
6. Central government accumulation of domestic arrears (ceiling) 4/ 10/ 11/	0.0	0.0	-1.4	-1.4	Met
7. Central government accumulation of tax refund arrears (ceiling) 5/ 10/	0.0	0.0	-0.8	-0.8	Met
8. Consolidated government accumulation of external debt payment arrears (ceiling) 6/ 10/ 11/	0.0	0.0	0.0	0.0	Met
9. Social spending (floor) 7/ 8/	8.3	8.3	9.5	1.2	Met
Monetary targets					
10. Cumulative change in net international reserves (floor) 6/ 9/	-242.3	-302.6	-226.1	76.5	Met
11. Cummulative change in net domestic assets (ceiling) 9/	16.2	16.2	15.7	-0.5	Met

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Cumulative flows from April 1 through March 31.
3/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
4/ Includes debt payments, supplies and other committed spending as per contractual obligations.
5/ Includes tax refund arrears as stipulated by law.
6/ In millions of U.S. dollars.
7/ Indicative target.
8/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
9/ Cumulative change from end-December 2012.
10/ Continuous performance criterion.
11/ March 2013 numbers refer to stock outstanding as of end-March 2013.

8. **The government is making significant progress on the ambitious structural reform agenda**. All structural benchmarks through end-September were completed on schedule, with the exception of the benchmark on the tabling in parliament of the tax incentive legislation. The latter was met by-end October rather than end-September, without affecting the envisaged timetables for its effectiveness and for the broader tax reform. Furthermore:

- The government has continued to implement the Cabinet decision stipulating the strict curtailment of granting discretionary waivers.
- A Central Treasury Management System for all Ministries, Departments and Agencies (MDAs) has been completed ahead of schedule.
- A detailed budget calendar for 2014/15 was adopted in November (structural benchmark).
- Parliament has passed the Charities Bill, and the authorities have indicated that they have ceased the granting of tax waivers to charities other than under the new Charities Bill (end-November structural benchmark).
- The necessary regulations to implement a write-off program for tax arrears were put in place in October, 2013.

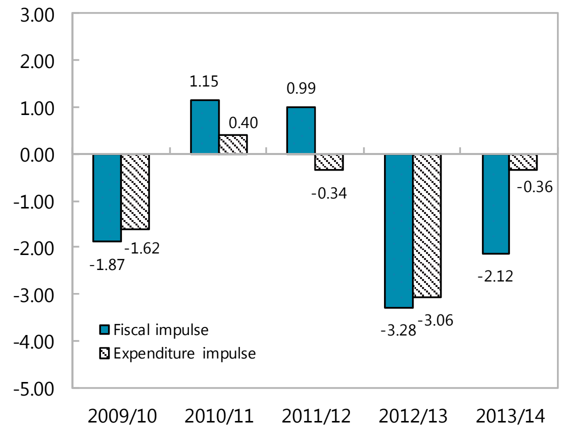
POLICY DISCUSSIONS

9. **Policy discussions focused on the implementation of the next phase of structural reforms, in particular to strengthen fiscal policy framework, reform the securities dealers sector, and improve public financial management.** The authorities emphasized their strong commitment to the program. The discussions covered the extension of conditionality through September 2014, some specific modifications to the program, and the preparation of next steps, including structural conditionality.

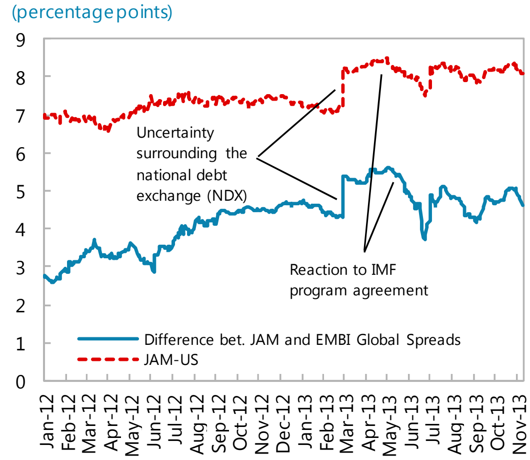
A. Macroeconomic Framework

10. **Macroeconomic developments and projections remain broadly in line with earlier program projections**. Strong implementation of the program is expected to support a gradual economic recovery and restore fiscal and debt sustainability over the medium term. Short-term indicators of economic activity are mixed, with tourist arrivals pointing to a recovery, whereas the third quarter business survey on future conditions worsened. Staff maintains its projection of a modest return of economic growth in 2013/14 at just under 1 percent, boosted by the gradual abatement of the impact of drought and hurricane Sandy on agriculture, some improvement in mining, and the hesitant restoration of investor confidence following the successful start of program implementation. On the demand side, the ongoing fiscal consolidation is projected to reduce aggregate demand growth by about 2 percentage points while private consumption is constrained by weak disposable income resulting from public sector wage restraint, higher inflation, and weak employment growth. Private investment is not expected to increase significantly until later in the program. On the other hand, net external demand is projected to contribute positively, improving the current account balance by about 2½ percentage points (one percentage point more than projected at the time of the first review). Inflation is projected at 10 percent (y-o-y), reflecting higher administered prices as well as the depreciation of the exchange rate.

Fiscal and Expenditure Impulses--Initial Contribution to Growth in AD
(percent of previous year's GDP)



Sovereign Spreads
(percentage points)



11. **The macroeconomic outlook remains subject to significant downside risks.** A perceived delay in the implementation of program-related reform agenda or in its effectiveness could harm investor confidence, which remains weak as illustrated by the still high sovereign spread (see chart). In addition, a slowdown in advanced economies would dampen the recovery and put additional

pressures on the macroeconomic situation. In particular, economic growth in Jamaica depends heavily on tourism demand from the United States, United Kingdom, and Canada. A possible reduction in external financing (including PetroCaribe financing by Venezuela, beyond the reduction based on projected oil prices and imports, that was already built into the initial program framework) could pose balance of payments risks. Shortfalls in external fiscal financing would also require tighter limits on public spending and would pose risks to the growth recovery.

B. The Fiscal Program and the Fiscal Reform Agenda

Fiscal Policy

12. **Ongoing strong efforts will be needed to keep budget policies on track**. The 2013/14 budget targets a central government primary surplus of 7½ percent of GDP to be achieved through a combination of revenue-enhancing and expenditure-reducing measures. While the revenue floor under the program has been met thus far, receipts have fallen behind the authorities' monthly budget projections, and a shortfall relative to the staff's earlier revenue projections is now expected to arise later in the budget year, due to the smaller tax base than foreseen in earlier staff projections (see above). In addition, the introduction of the new tax incentive regime at the start of 2014 poses risks to initial tax receipts as entities may tailor the timing of their transactions in a manner that limits their tax obligations. The authorities are seeking to limit these risks to the revenue targets for the end of the fiscal year by monitoring and strengthening tax collection. To accommodate, in part, the decline in the tax base, a minor reduction in the indicative revenue floor (by less than 0.2 percent of GDP) is proposed, without relaxing the primary balance target. On the expenditure side, strict control of recurrent expenditure remains in place and social expenditures are being executed in line with the program. In addition, the authorities have identified recurrent and capital expenditure contingencies equivalent to 0.5 percent of GDP, to address these risks on the revenue side. Staff underscored the critical importance of strengthening revenue forecasting as a critical aspect of the rules-based fiscal framework.

13. **The authorities were confident that the financing of the 2013/14 budget was assured.** Financing needs peak in the fourth quarter of the fiscal year (at 5 percent of GDP), including about 3 percentage points from maturing foreign-currency domestic debt in January and February. Against this background, the mission updated its understandings on the (already secured) PetroCaribe financing and the scheduled World Bank and IaDB budget support (IFI financing is projected at 2 percent of GDP in total during December 2013 through February 2014). Timely availability of these resources will be important to allow for regular budget execution and to bolster economic confidence as well as foreign exchange reserves. Based on these identified sources, and taking into account the seasonal peak in tax collection in the last months of the fiscal year, staff projects that the refinancing of the maturing bonds is realistic, including through a partial roll-over. Remaining financing needs would be sourced mostly through the domestic financial market, which could involve increased interest rates.

14. **The mission emphasized the importance of strict financial control over public bodies given the ambitious fiscal targets for 2013/14.**[1] In particular, meeting the end-March 2014 target for the overall balance will require greater cost recovery by the public bodies. In this context, the authorities pointed to the recent increases in transportation and water tariffs, and the increased cost-efficiency of the housing solutions offered by the National Housing Trust. They considered that, combined with strict monitoring and rationalization of public bodies' finances, these actions would be adequate for meeting the fiscal targets. The authorities and staff also discussed the outlook for the state-owned company Clarendon Aluminum Production (CAP), and the authorities reiterated their commitment to refrain from any further government financial support to CAP. Staff encouraged the authorities in their efforts to return CAP to profitability by working with its new partner, Noble Resources, on a durable energy solution that would help reduce CAP's operating costs and increase its market value.

15. **Jamaica's high public debt, though on a sustainable path under the program, remains vulnerable to key macro-fiscal and contingent liability shocks**. An updated debt sustainability analysis (DSA; see Annex 1), based on the new DSA template for countries with market access, confirmed that under the baseline scenario, with continued strong fiscal adjustment and some uptick in growth, public debt to GDP ratio is expected to fall to about 107 percent by 2018/19 from 146 percent in 2012/13. Subjecting the baseline to stress testing indicates that Jamaica's debt burden continues to exceed the benchmark for emerging market economies. In particular, the downward debt trajectory is vulnerable to all the key macro-fiscal and contingent liability shocks. The authorities received the new risk-based DSA analysis well and appreciated the seriousness of the risks to the outlook.

16. **Further direct debt reduction will likely be needed to achieve the program's debt target**. The program aims to reduce public debt to 96 percent of GDP by 2019/20 through the domestic debt exchange, fiscal consolidation and further direct debt reduction. In line with the program, the authorities have been preparing debt-asset swaps or asset sales to reduce debt by at least 1 percent of GDP. The authorities stressed their determination to ensure that these operations are well designed and consistent with sound public sector governance. They also confirmed their plans for the reduction in debt guarantees (equivalent to 1 percent of GDP) in line with the program. Staff estimates that, even with these measures, an additional reduction in debt by about 2 percentage points of GDP would be needed to achieve the 2019/20 debt target. The mission reiterated its advice to explore the scope for further direct debt reduction, including possible asset sales.

[1] To avoid possible breaches of the public sector balance due to timing uncertainties surrounding investments and the timing and sourcing of oil imports by the state-owned oil company, PetroJam, a small cushion is proposed to be included under the program, through a cumulative adjuster to the public sector balance of no more than 0.25 percent of GDP (over a 12-months period) linked to excesses or shortfalls of PetroJam overall balances (on a cash basis).

Tax Reforms

17. **The programmed comprehensive reform of the tax system is on track, and the authorities confirmed their determination to stick to its ambitious time table**. The tax reform aims to improve the efficiency of the tax system, while reducing economic distortions and supporting the business climate and competitiveness, through the simplification of the tax code, a broader tax base, and lower tax rates. It is programmed to result in a reduction of tax expenditures from around 6 percent of GDP in recent years to 2½ percent. In collaboration with IaDB staff and FAD, the mission confirmed the consistency of the authorities' detailed proposals with the understandings in the MEFP. The reform comprises several elements (MEFP, ¶6–12).

- The recently adopted Charities Bill has streamlined tax incentives for charitable donations, without ministerial discretion, and includes a process for establishing the validity and good governance of eligible charities.

- The fiscal incentives legislation, which is expected to be operational by the beginning of 2014 (existing structural benchmark) is at the heart of the tax incentives reform, as it foresees the replacement of the multiplicity of discretionary tax waivers and sectoral tax incentive schemes by limited rules-based and standardized incentives. In order to help ensure that the intended reduction in tax expenditures will materialize in a timely manner, the government committed to conduct a review by end-2014/15 of all entities whose existing tax incentives would be grandfathered (as a new structural benchmark for January 2015), that will offer a basis for discussions on speeding up the transition to the new regime.

- Amendments to the Customs Act have also been tabled in parliament, stipulating reductions in tariff dispersion and in the higher tariff rates, which will be capped at 20 percent in most cases, consistent with the September MEFP. In line with the regional CARICOM provisions, import duties on essential inputs can be zero-rated. The mission and the IaDB technical assistance providers warned that such zero-rating entailed risks of abuse, and stressed the importance of the strong administrative processes guided by IaDB support.

- Amendments to the General Consumption Tax are under preparation, including the elimination of the zero-rating of government purchases and reductions in exemptions.

- Forthcoming amendments to the Income Tax Act will introduce a minimum income tax for companies and amalgamate payroll deductions.

18. **The authorities committed to continued efforts to strengthen revenue administration** (MEFP, ¶13). While a number of reforms have been adopted in the context of the program, including the creation of a semi-autonomous revenue agency, a debt write-off policy for tax and customs arrears, and an expansion of the staffing of the Large Taxpayers Office (LTO), staff urged the authorities to accelerate actions to ensure their effectiveness. The authorities indicated that the debt write-off program had become operational as of October 2013, and they confirmed their

commitment to forthcoming actions to reduce bank charges for tax payments and make electronic filing mandatory for large taxpayers (as a new structural benchmark for end-March 2014).

Adopting an Effective Fiscal Rule

19. **The authorities confirmed their commitment to put in place an effective fiscal rule** (MEFP, ¶14–15)**.** The forthcoming fiscal rule (end-March 2014 structural benchmark) aims to entrench fiscal discipline and consolidate the gains of fiscal consolidation in the medium term, by constraining the annual budgets. The authorities and the mission discussed the next steps for establishing an effective fiscal rule based on the conceptual framework submitted in August 2013. The conceptual framework proposed a fiscal rule that is consistent with the program, and limits the annual budgeted overall fiscal deficits of the wider public sector, to achieve a reduction in public debt to no more than 60 percent of GDP by 2025/26. The mission encouraged the authorities to consult widely in preparing the specific elements of the new regime, and seek to bolster support for the new rule, which is to be enacted by end-March 2014. To support this process and help prepare the legislation, further FAD technical assistance is foreseen for early 2014. Important issues that need to be elaborated include the approach for incorporating the actual or contingent fiscal liabilities associated with PPPs (in consultation with other international financial institutions), the specifics on the escape clause in case of major adverse shocks, further elaboration on the automatic consolidation measures in case of major deviations from fiscal targets, and options for strengthening the sanctions regime.

Public Financial Management Reforms

20. **As planned at the time of the first review, the authorities have developed their next steps to strengthen public financial management (PFM) in coordination with development partners** (MEFP, ¶16–17). The Fund, the World Bank, the IaDB, and the European Union, among others, are supporting the authorities in this area. The authorities have taken the lead in coordinating these efforts through regular meetings, on the basis of their updated PFM action plan, to help ensure consistent planning and advice. Key areas of PFM reforms include strengthening budget preparation and the procedures for budget execution and cash management. The authorities have approved a detailed budget calendar for 2014/15 (structural benchmark for November 2013) and committed to tabling a budget consistent with the program and a comprehensive Public Sector Investment Program by end-April 2014 (proposed new structural benchmarks). Based on the authorities' PFM action plan, the authorities and the mission reached understandings on next steps, including a timetable for the establishment of a permanent binding budget calendar, early and accurate budget envelopes and priorities, and a policy to limit the use of virements. In the area of budget execution, a forthcoming TA project coordinated by FAD will focus on improving cash management and staff will update the program in due course based on the recommendations of this TA. In this context, the authorities confirmed their commitment to apply the purchase order and commitment planning and control modules in their automated financial management system by end-April 2014. Their PFM reform agenda also includes plans for enhancing the effectiveness of the CTMS (through the addition of the budget and expenditure tracking modules) and for strengthening the government procurement process.

21. **Staff emphasized that over the medium term the organization of the public sector and the pension system will need to be strengthened.** While the existing wage agreement will help reduce wage costs progressively over the program period, a durable reduction in these costs, combined with needed improvements in public services, hinges on the modernization of public sector operations (MEFP, ¶19). The authorities indicated that a review of public sector employment and remuneration had commenced, with IaDB support (unchanged structural benchmark for March 2014). The World Bank has been supporting the modernization of the public sector—to limit costs, enhance efficiency, and improve service delivery—including plans for establishing an up-to-date record ("e-Census") of the civil service. The World Bank is also supporting reform of the public sector pension system, to help avoid cost increases, including through parametric changes. Reforms of the broader pension system are expected to be addressed in the context of the forthcoming IaDB operations.

C. Monetary Policy and Exchange Rate Regime

Monetary Policy

22. **Staff stressed the need for continued exchange-rate flexibility to aid reserve accumulation and improve competitiveness.** As noted above, the depreciation of the nominal exchange rate between end-June 2012 and end-November 2013 amounted to about 19 percent. While this adjustment has helped to reduce the real overvaluation of the Jamaican dollar, it has also posed challenges for monetary policy management; in particular, minimizing the pass-through of exchange-rate adjustment into domestic prices and inflation expectations.

23. **In light of the serious risks to the balance of payments outlook, the authorities committed to a more rapid build-up of reserves over the medium term than earlier programmed.** The relevant risks include the adverse impact on tourism of lower-than-expected activity in the U.S., Canada, or the EU, oil price volatility, the possible impact of natural disasters, heightened risks to inflows from PetroCaribe, and possible delays in anticipated foreign investments. The additional reserve build up would amount to US$150 million over the program period, bringing the projected import coverage of gross reserves to 4½ months by the end of the program period. The mission also reiterated the importance of boosting international reserves beyond the current path for the program floors, to the extent possible.

24. **Staff encouraged the authorities to fine-tune monetary operations with a view to avoiding undue liquidity pressures.** Monetary policy remains anchored by the need for controlling inflation given exchange rate movements, including through sterilization of the necessary build-up of reserves. In this setting, controlling market liquidity is a difficult balancing act and banks have indicated that the tightening liquidity stance may unduly constrain the growth of private sector credit. The assessment of market conditions is complicated by the combination of illiquid secondary markets for government paper, the introduction of CTMS, and the continued lack of confidence. While welcoming the recent liquidity injection via repo operations by the BOJ, the mission stressed the need for continued close monitoring of market conditions and fine-tuning liquidity operations. Staff also welcomed the authorities' resolve to establish an overnight stand-by liquidity window for

the banking system, with an appropriate collateral policy, as a useful addition to the BOJ's toolkit that could help avoid undue risk aversion on the side of banks (MEFP, ¶25).

25. **The authorities announced their plans to further strengthen the governance of the Bank of Jamaica guided by the recommendations of the recent safeguards assessment mission** (MEFP, ¶27)**.** The safeguards assessment mission found that the BOJ has relatively strong safeguards and proposed steps to strengthen its governance arrangements further. The authorities indicated that possible amendments to the Central Bank Act to strengthen the institutional framework for the Bank of Jamaica were under consideration. Furthermore, the authorities presented their preparations of a memorandum of understanding for dealing with central bank losses, to be provided before the end of 2013.

D. Financial Sector Reform

26. **The authorities and the staff considered that close monitoring of the financial system was needed to address vulnerabilities**. While the immediate impact of the debt exchange on financial sector stability appears to have been modest, the resultant drying up of secondary markets in government paper, and the tightening of financial market liquidity more generally, have entailed heightened liquidity risks. Staff emphasized the need for frequent and in-depth monitoring of the financial system to make the sector more resilient. Staff encouraged the authorities to strengthen the cooperation between the supervisory agencies and urged them to push ahead with the programmed improvements in the supervisory framework (existing structural benchmark for March 2014).

Text Table 2. Jamaica: Financial Sector Indicators 1/

	2007	2008	2009	2010	2011	2012	Sep-13
Balance sheet growth (y/y)							
Capital	11.5	14.7	13.8	5.1	5.4	3.3	19.3
Loans	28.7	24.2	5.3	-1.4	4.8	12.9	14.9
NPLs	14.2	57.6	68.0	36.1	44.0	-13.2	-5.1
Liquidity							
Excess liquidity 2/	25.0	30.3	31.3	36.2	30.5	26.7	27.1
Asset Quality							
Prov. for loan losses/NPLs	103.4	87.2	75.7	69.9	75.2	92.8	95.3
NPLs/loans	2.3	2.9	4.7	6.5	8.9	6.8	5.8
Capital Adequacy							
NPLs/Capital+Prov. for loan losses	9.1	12.3	17.7	22.3	28.4	23.7	20.0
Capital Adequacy Ratio (CAR)	16.0	15.2	18.8	18.2	16.1	14.1	15.1
Profitability (calendar year) 2/3/							
Pre-tax profit margin	26.7	26.2	21.4	21.1	30.8	20.5	18.7
Return on average assets	3.4	3.5	2.9	2.5	3.9	2.3	0.5

Source: Bank of Jamaica.

1/ Commercial banks, building societies, and merchant banks.
2/ Figures are for the September calendar quarter.
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.

Box 1. Jamaica: Reforming the Securities Dealers Sector

Reforms to the securities dealer sector are a particular focus under the program due to the vulnerability the sector poses for the broader financial system. The sector grew rapidly in the past decade due to a shadow banking product linked to government securities, which currently forms the basis of the business model for securities dealers. The so-called "retail repo" product allows securities dealers to finance long-term, large-denomination government bonds with short-term, small-denomination deposit-like investments ("retail repos"). The customer, on the other hand, makes a short-term investment with a dealer and receives a guaranteed return, backed by government of Jamaica (GOJ) bonds. Unlike traditional repos—which entail the outright sale (and repurchase) of the underlying security—for the vast majority of retail repos, the securities dealer retains ownership of the underlying security.

The existence of the repo model has facilitated the large-scale placement of GOJ bonds with the domestic public. However, the risk of owning and intermediating a large portfolio of government securities—i.e., concentration, interest rate, and liquidity risks—has remained on the securities dealer's balance sheet. These risks should be backed by stronger capital and liquidity buffers to weather an adverse scenario. In addition, legal and operational practices that have developed with respect to the offering of the retail repo product should be strengthened (see below) in order to help safeguard financial sector stability.

The securities dealers sector is systemically important in Jamaica. With total assets of about 40 percent of GDP, the securities sector compares to the banking sector (50 percent of GDP). Furthermore, the prevalent ownership structures, and inter-linkages on the funding market between the securities dealers and banking sectors, create risks of contagion between the dealers and the banking system.

Strengthening the dealer business model will be a challenging but necessary endeavor. A three step process is now envisaged.

- First, before end-2013, sound alternative business models (in particular, collective investment schemes), will be made available to the sector.

- Next, the securities underlying the retail repo will be transferred to a trust that will be responsible for their custody and for taking appropriate actions if there were a transaction failure or default.

- Finally, a mixture of regulatory measures could be applied to help reduce the attractiveness of repos to retail investors seeking a deposit-like investment and contribute to the phase out of the "retail repo" business model. Those measures would ensure that the costs and risks associated with "retail repos" are borne by the providers and investors in this product.

27. **Guided by technical assistance provided by the Fund, the authorities have refined their strategy for reforming the securities dealers sector** (Box 1). The program aims to phase out the "repo instrument" that underpins the sector's existing business model, in light of the inherent risks to financial stability. The authorities are developing a concrete and comprehensive plan of action to reform the securities dealers sector, including a well-sequenced and coordinated transition with specific deadlines, guided by intensive Fund technical assistance. As a first step, the authorities confirmed their commitment to the actions under a structural benchmark for end-December, that aim to make less risky business models available to securities dealers (MEFP, ¶20). Subsequently, by March 2014, and in line with an existing structural benchmark under the program, the authorities plan to mitigate the risks to retail repos clients by establishing a Trust to hold the underlying securities on the clients' behalf during the transition period for the phasing out of the retail repo business model (MEFP, ¶21–23). The mission also stressed the need for enhancing supervision and contingency planning in the context of the illiquid government bond market and other market sensitivities.

E. Growth and Social Protection

28. **Achieving inclusive growth is a critical part of the authorities program** (Box 2; MEFP, ¶28–33). The growth agenda includes actions to enhance the business climate, increase access to credit, reform the labor market, and facilitate strategic investment in logistics. Scheduled reforms have been progressing steadily. The authorities have prepared proposals (in a White Paper) to facilitate flexible work arrangements. The next steps include the passage of an Insolvency Act (December 2013), streamlining the business registration process (December 2013), and creating a Port Community System (PCS) to electronically integrate and streamline export and import procedures (phased roll-out starting in March 2014).

29. **The mission strongly supported the envisaged strengthening of the agenda for promoting growth and structural competitiveness, in collaboration with the World Bank and the IaDB**. The mission stressed, in particular, the importance of speeding up structural reforms that reduce bureaucracy and improves the government's interface with the business community.

Box 2. Jamaica: The Agenda for Inclusive Growth

The growth strategy envisaged under the authorities' program would address each of the most critical impediments to private sector growth, as diagnosed in recent analyses:

- A new 360 Megawatt Plant—the centerpiece of the energy strategy—is estimated to **reduce electricity costs** by 25–40 percent. Construction is scheduled to begin in January 2014, and the plant is to start operation by early 2016. A new Electricity Act would facilitate further investments and increase energy efficiency.
- In collaboration with the World Bank, the authorities have adopted actions to speed up **construction permits** time (highlighted by the National Competitiveness Council as one of the most critical issues). Further World Bank sponsored reforms to enhance the business climate include initiatives to facilitate land titling and business registration. The World Bank will also support Government efforts to promote increased competition in select sectors such as ICT, Agribusiness and Logistics.
- To **reduce violent crime** further, a comprehensive revision of the national crime prevention strategy has been adopted.
- To **address the skills mismatch**, a World Bank operation supports national standardized curricula and the associated training of teachers. The World Bank will also support training, financing and innovation for SMEs.
- The Fund-supported program aims **to enhance firms' access to credit** by addressing the perennial crowding out problems. Supplementary reforms include legislation on the use of movable property as collateral, and establishing a central collateral registry (an end-December 2013 structural benchmark).
- **Improving the ease of paying taxes**—which has also been diagnosed as a major weakness for Jamaica—is being addressed through the tax reform supported by the Fund and the IaDB. This also includes steps to promote e-filing and e-payments. IFC of the World Bank Group plans to support business taxation simplification and transparency, particularly for Small and Medium Enterprises (SMEs), and legal and administrative changes for handling business tax appeals.
- The World Bank and the IDB are supporting the Government's efforts to promote greater private participation in **strategic investments** to establish Jamaica as a logistics hub, with World Bank support on trade facilitation.

30. **Enhancing the effectiveness of social protection programs remains a key priority of the authorities' program** (MEFP, ¶34). Recognizing the possible adverse impact of the authorities' fiscal consolidation on the most vulnerable, the government is committed to enhancing its social protection framework. The authorities have increased in real terms the transfers to PATH beneficiaries, and have maintained social spending in line with the floor on social spending. Recent reforms include efforts to move PATH recipients from welfare to work, through professional training and intermediation.

PROGRAM DESIGN AND FINANCING

31. **The program remains fully financed**. Updated projections of budget support and investment operations by the World Bank and the IaDB in 2013/14 are somewhat higher than previously programmed. The assumptions for bilateral financing in the current fiscal year, including from the PetroCaribe Facility, remain in line with those at the time of the first review under the arrangement.

32. **The preparations of new budget support and investment operations by the World Bank and the InterAmerican Development Bank (IaDB) are advancing.** The World Bank Board is expected to discuss a new US$130 million budget support operation in December. The IaDB is preparing budget support operations, that could be approved in January–March 2014 (totaling US$140 million). The start of these prospective operations is contingent on strong implementation of the Fund-supported program, and Fund staff has had regular coordination meetings with its World Bank and IaDB counterparts.

33. **New structural benchmarks are proposed as well as new quantitative PCs for September 2014 (Tables 8 and 9).** Furthermore, minor revisions are proposed to the December 2013 and March 2014 ceiling on direct government debt (reflecting adjustments in the timing of donor disbursements) and to the June 2014 floor on the primary balance (reflecting the expected timing of capital spending within the fiscal year), as well as a new adjuster to the overall balance (see footnote 1). The program will continue to be reviewed on a quarterly basis (Table 11), and the availability date for the purchase associated with the second review is proposed to be rephased to December 18, 2013, consistent with the expected timing of the Board discussion.

34. **Staff's assessment of Jamaica's capacity to repay the Fund remains broadly unchanged from the last review (Table 10)**. Debt service to the Fund and the disbursements profile remain unchanged, and in the absence of significant revisions to the macroeconomic outlook. Jamaica's capacity to repay the Fund will depend on the timely and strong implementation of the ambitious adjustment program.

STAFF APPRAISAL

35. **The macroeconomic outlook remains in line with program projections, and subject to downside risks.** The economy continues to recover from the effects of the global financial crisis and hurricane Sandy, and growth and employment are expected to remain tepid, and dependent on global economic conditions and resolute program implementation. Real GDP growth for 2013/14 is projected to be just under 1 percent supported by increased activity in tourism, mining and agriculture. Immediate balance of payments pressures have abated and investor confidence is gradually returning following the approval of the Fund supported program in May.

36. **Notwithstanding the difficult economic environment and heavy reform agenda, the authorities have made strong efforts to keep the program on track.** They have met all quantitative performance criteria and indicative targets, and structural reforms are proceeding

steadily, with minimal delay. Fiscal performance has also been line with the program. Given the weak economic environment, it will be essential for the government to maintain strict expenditure controls, prioritize the strengthening of tax administration, and be prepared to adjust budget execution further if necessary.

37. **Continued exchange rate flexibility will be needed to support reserve accumulation and improve competitiveness**. While the ongoing exchange rate depreciation has helped to reduce the real overvaluation of the Jamaican dollar, it has also posed challenges for monetary policy given the importance of containing inflation expectations. In this context, the current tight liquidity calls for close monitoring to minimize undue pressures on the provision of bank credit and on financial stability. The forthcoming creation of a standing liquidity window is expected to help reduce liquidity pressures. Ongoing efforts will be needed to ensure strong governance arrangements and manage central bank losses, building on the recommendations of the recent safeguards assessment mission.

38. **The authorities' determination to stick with the time table for a comprehensive tax reform is welcome.** Comprehensive tax reform is critical for improving the efficiency of the tax system and limiting economic distortions while supporting competitiveness through streamlined incentives and lower tax rates. In addition, the tax reform will need to be accompanied by further improvements in tax and customs administration.

39. **Finalizing preparations for an effective fiscal rule and beginning the process of public consultation should help strengthen the framework for fiscal policy.** The new fiscal rule aims to entrench fiscal discipline and consolidate the gains of fiscal consolidation in the medium term. While the conceptual framework proposed by the authorities is consistent with the program, timely public consultations would be important in preparing the specific elements of the new regime, and to bolster support for the new rule. The Fund stands ready to support this process with further TA from FAD. It is also essential to underpin an effective fiscal rule by the programmed next steps under the action plan to strengthen public financial management in coordination with developments partners.

40. **The financial system appears resilient following the 2013 national debt exchange but vulnerabilities within the system need to be closely monitored.** Stress test results from the Bank of Jamaica show that commercial banks would, under reasonable additional stress, remain adequately capitalized. At the same time liquidity remains tight and monitoring needs to be stepped up, and the FSSF continues to be important for underpinning the stability of the financial system. It is essential to ensure close cooperation between the supervisory agencies regarding the supervision of the securities dealers sector and to push ahead with programmed improvements in the supervisory framework.

41. **Advancing the reforms of the securities dealers sector is essential to strengthen financial stability.** Following the imminent actions to make less risky business models available to securities dealers, the authorities should implement the programmed legal reforms to strengthen the supervisory framework, and execute the next steps of the reform of the securities dealers sector in a prudent manner, in close coordination with ongoing Fund technical assistance.

42. **Improving the outlook for inclusive growth and enhancing social protection programs are critical to the success of the program.** Reducing the impediments to private sector investment will be critical for supporting growth over the medium given the nonexistence of fiscal space and limited scope for monetary expansion. Speeding up structural reforms that reduce bureaucracy and improve the government's interface with the business community will be especially important. Enhancing the effectiveness of social protection programs should remain high on the agenda. While recent efforts to enhance the effectiveness of social spending have been welcome, more needs to be done to promote social coherence. Continued efforts to move PATH recipients from welfare to work would be important.

43. **Notwithstanding the authorities' commitment to the program, risks to the program remain high.** Risks to the macroeconomic outlook remain elevated due to uncertainties in the global and regional environment, the challenge of keeping tax collection on a predictable path in the context of changing tax system, and possible ongoing delays in the investment response to the authorities' reform program. Delays in the envisaged growth response could, in turn, pose risks to the reform momentum. Against this background, the increased involvement of the World Bank and the IaDB should provide important support to the reform process.

44. **On the basis of reforms undertaken in the context of this review, and the government's policy commitments going forward, the staff supports the authorities' request for completion of the second review under the arrangement under the Extended Fund Facility, the proposed rephased availability date, and the proposed new and modified performance criteria.**

Figure 1. Jamaica: Recent Economic Developments

After contracting in 2012/13, there are signs of a modest recovery in economic activity.

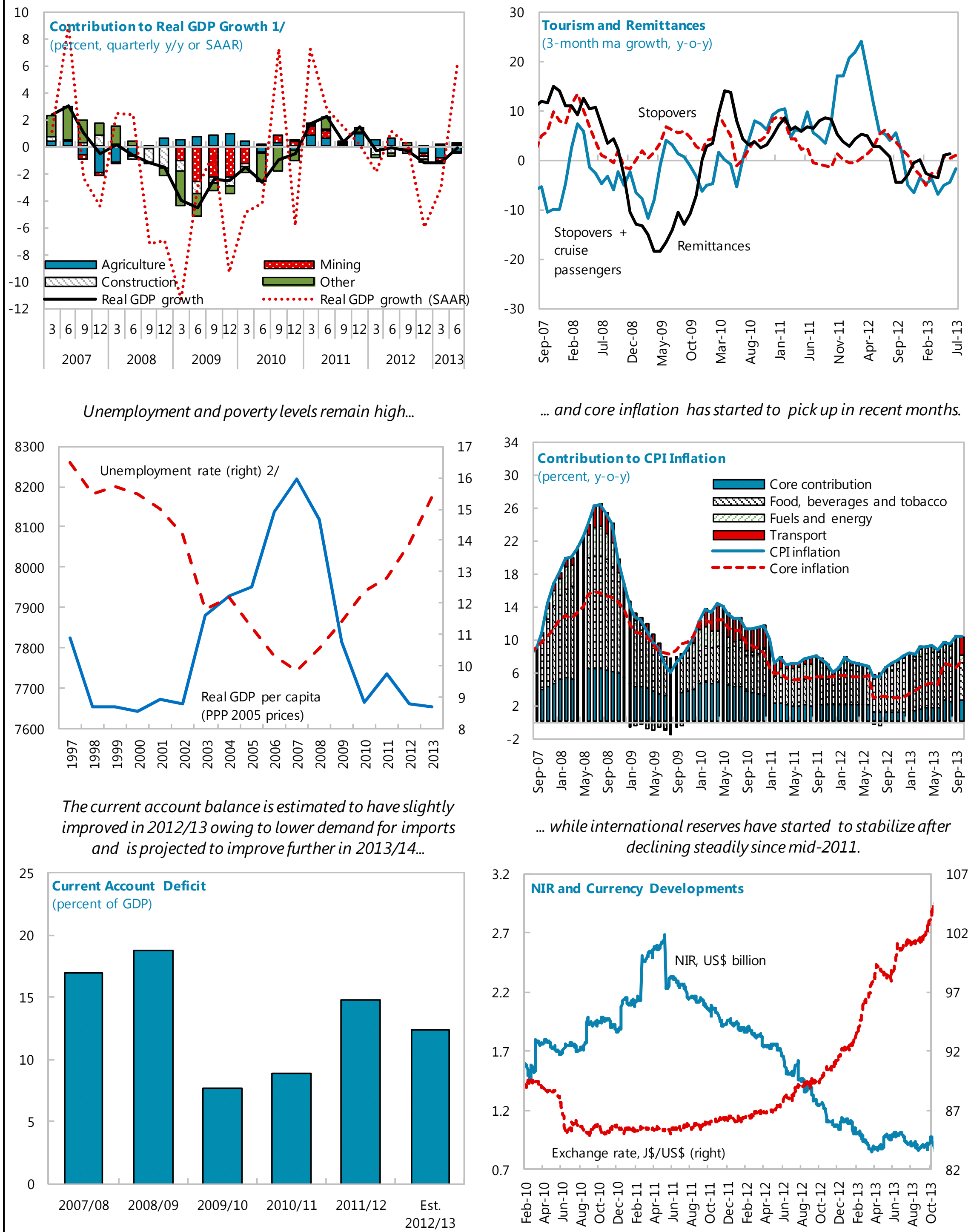
Tourism and remittances have picked up in recent months.

Unemployment and poverty levels remain high...

... and core inflation has started to pick up in recent months.

The current account balance is estimated to have slightly improved in 2012/13 owing to lower demand for imports and is projected to improve further in 2013/14...

... while international reserves have started to stabilize after declining steadily since mid-2011.

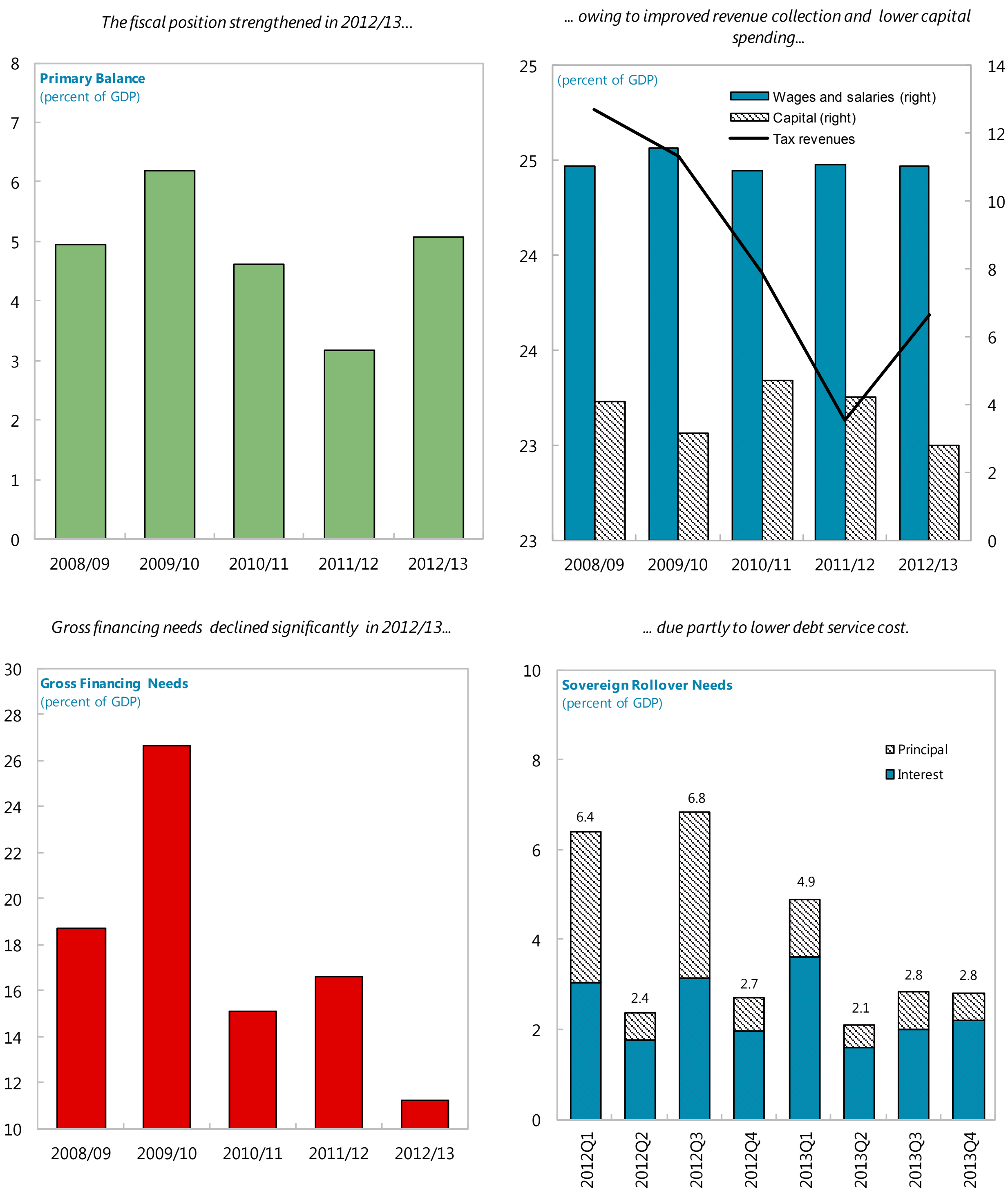


Sources: Bank of Jamaica; and Fund staff calculations.

1/ Seasonally-adjusted real GDP growth is in q/q annualized percent change.

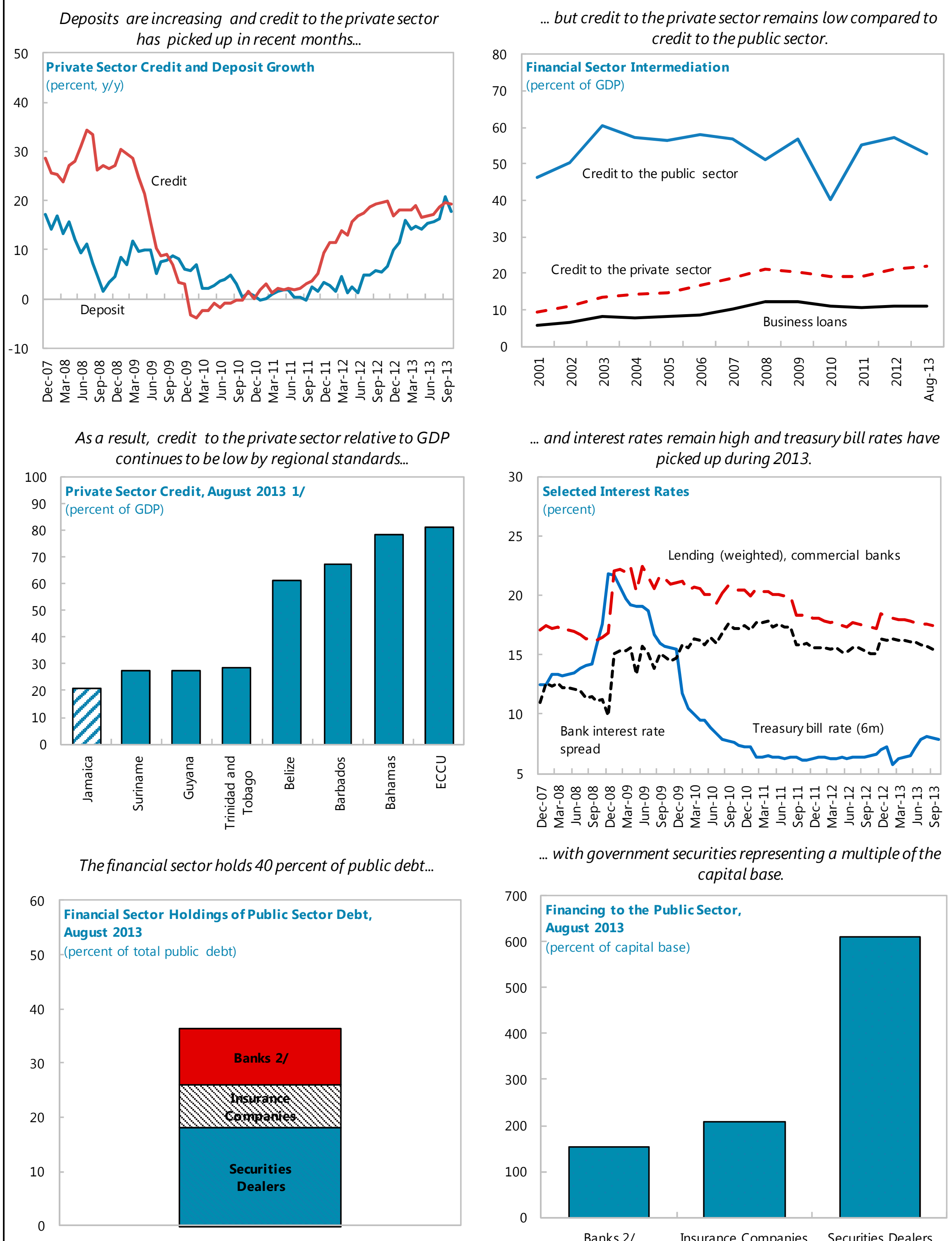
2/ Unemployment rate data for 2013 refers to July 2013.

Figure 2. Jamaica: Fiscal Developments



Sources: Bank of Jamaica; and Fund staff calculations.

Figure 3. Jamaica: Financial Sector Developments

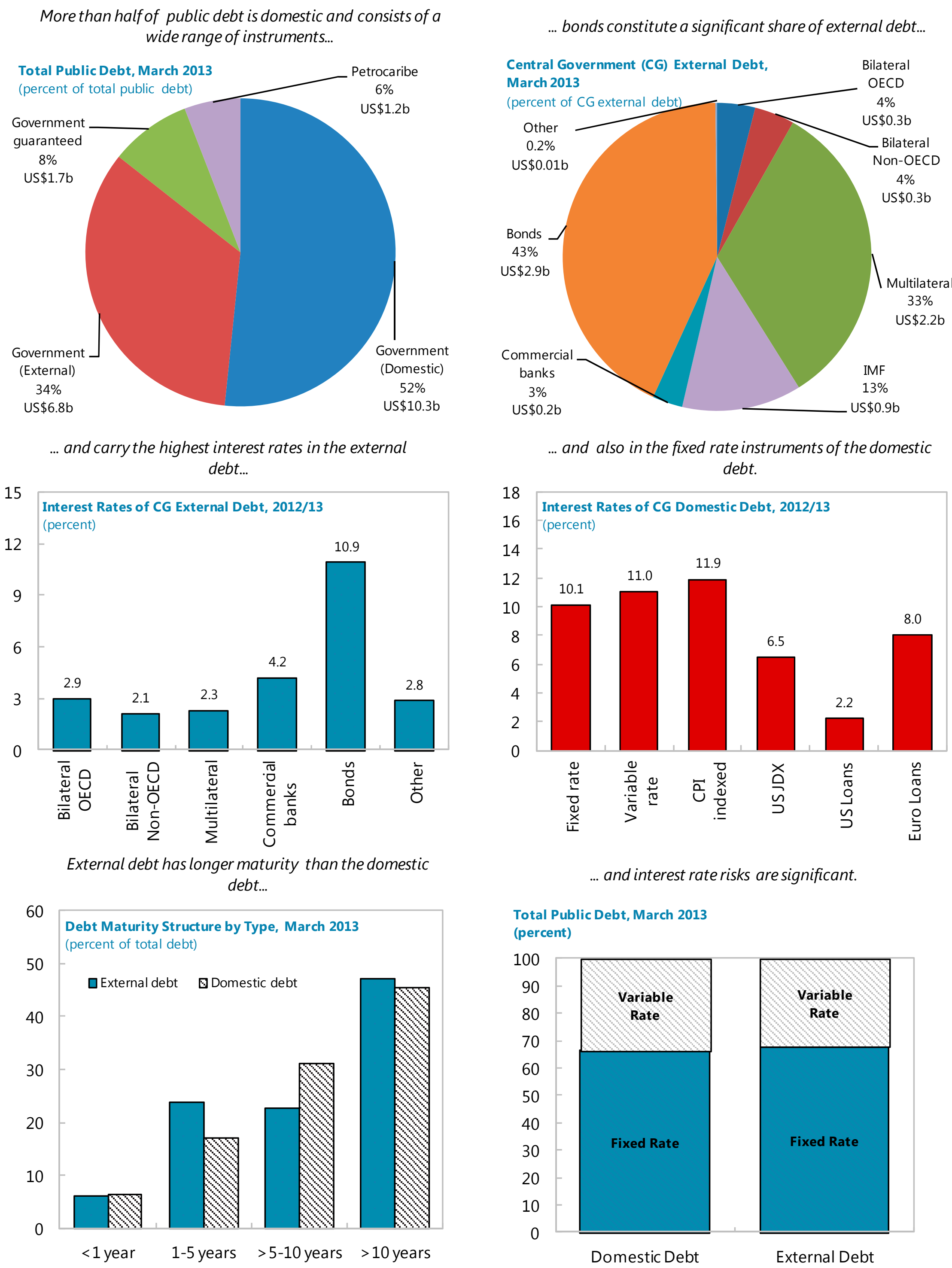


Sources: Bank of Jamaica; and Fund staff calculations.

1/ Latest available data.

2/ Banks refer to the aggregate of commercial and merchant banks and building societies.

Figure 4. Jamaica: Public Debt



Sources: Bank of Jamaica; and Fund staff calculations.

Table 1. Jamaica: Selected Economic Indicators 1/

Population (2012): 2.71 million
Quota (current; millions SDRs/% of total): 273.5/0.11%
Main products: Alumina, tourism, chemicals, mineral fuels, bauxite, coffee, sugar

Per capita GDP (2012): US$5,358
Literacy rate/Poverty rate: 86.4%/16.5%
Unemployment rate (July 2013): 15.4%

				Prog.	Projections						
	2010/11	2011/12	2012/13	2013/14	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	(Annual percent change, unless otherwise indicated)										
GDP and prices											
Real GDP	-0.6	0.9	-0.7	0.8	0.8	1.4	1.8	2.2	2.5	2.7	2.7
Nominal GDP	7.5	7.5	6.1	10.7	10.9	11.4	10.9	10.9	11.0	10.6	9.4
Consumer price index (end of period)	7.8	7.3	9.1	10.5	10.0	9.0	8.5	8.5	8.0	7.4	6.5
Consumer price index (average)	11.4	7.3	7.2	9.8	10.0	9.9	9.0	8.5	8.3	7.7	6.5
Exchange rate (end of period, J$/US$)	85.4	86.9	97.9	...	...	...	...	...	...	...	...
Exchange rate (average, J$/US$)	86.0	86.0	90.6	...	...	...	...	...	...	...	...
Nominal depreciation (+), end-of-period	-4.0	1.8	12.7	...	...	...	...	...	...	...	...
End-of-period REER (appreciation +)	6.0	4.4	-2.1	...	...	...	...	...	...	...	...
Treasury bill rate (end-of-period, percent)	6.6	6.5	6.2	...	...	...	...	...	...	...	...
	(In percent of GDP)										
Government operations											
Budgetary revenue	26.8	25.6	25.5	27.5	27.3	27.1	27.2	27.2	27.3	27.3	27.2
Of which: Tax revenue	23.9	23.1	23.7	24.6	24.3	24.4	24.5	24.6	24.7	24.7	24.7
Budgetary expenditure	33.2	32.0	29.9	28.0	27.2	27.3	27.0	26.3	26.1	25.7	25.2
Primary expenditure	22.2	22.4	20.4	20.0	19.7	19.6	19.7	19.7	20.3	20.3	20.2
Of which: Wage bill	10.9	11.1	11.0	10.6	10.6	9.8	9.1	9.0	8.9	8.8	8.6
Interest payments	10.9	9.6	9.5	8.0	7.5	7.7	7.3	6.6	5.8	5.4	5.0
Budget balance	-6.3	-6.4	-4.4	-0.5	0.1	-0.2	0.2	0.9	1.2	1.6	2.0
Of which: Central government primary balance	4.6	3.2	5.1	7.5	7.5	7.5	7.5	7.5	7.0	7.0	7.0
Public entities balance	-0.5	0.0	0.1	-0.1	-0.1	0.2	0.2	0.1	0.1	0.1	0.1
Public sector balance	-6.9	-6.4	-4.5	-0.6	-0.1	0.2	0.6	1.2	1.5	1.9	2.3
Public debt 2/	143.2	141.6	146.2	142.7	138.3	132.5	127.3	122.1	114.4	107.0	99.9
External sector											
Current account balance	-9.0	-14.8	-12.4	-11.0	-10.0	-8.8	-7.4	-6.2	-5.5	-5.5	-5.1
Of which: Exports of goods, f.o.b.	10.4	11.5	12.0	12.5	11.5	12.2	12.7	13.2	13.2	13.2	13.2
Imports of goods, f.o.b.	36.4	41.0	40.4	41.0	39.6	39.3	38.3	37.3	36.1	35.2	34.1
Net international reserves (US$ millions) 3/	2,553	1,777	884	1,225	1,246	1,451	1,605	1,761	1,919	2,021	2,176
	(Changes in percent of beginning of period broad money)										
Money and credit											
Net foreign assets	23.3	-15.7	-14.7	5.5	6.2	8.1	6.6	6.8	6.2	4.6	5.1
Net domestic assets	-21.6	20.9	28.0	5.2	4.7	3.3	4.3	4.1	4.8	6.0	4.3
Of which: Credit to the private sector	0.9	9.0	13.0	10.8	14.1	12.6	12.4	12.5	12.9	13.0	13.2
Credit to the central government	-11.7	9.9	7.4	3.8	3.8	4.9	4.7	4.3	4.7	5.0	4.5
Broad money	1.7	5.1	13.3	10.7	10.9	11.4	10.9	10.9	11.0	10.6	9.4
Memorandum item:											
Nominal GDP (J$ billions)	1,172	1,260	1,336	1,479	1,482	1,650	1,831	2,030	2,252	2,491	2,726

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/ Central government direct and guaranteed only, including PetroCaribe debt (net of its financing to the central government) and projected IMF disbursements and other IFIs.
3/ Excludes the part of gross reserves to address potential FSSF-related demand.

Table 2. Jamaica: Summary of Central Government Operations

(In millions of Jamaican dollars)

				Prog.	Budget	Projections						
	2010/11	2011/12	2012/13	2013/14	2013/14	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Budgetary revenue and grants	314,558	322,457	340,236	406,424	407,160	404,023	447,603	498,442	551,322	614,409	679,318	742,302
Tax 1/	280,295	291,407	316,496	363,633	362,058	360,684	402,923	448,886	498,359	555,668	614,167	672,480
Of which:												
Income and profits	105,119	106,423	115,877	...	...	...	...	...	...	...	...	...
Of which: Other companies	32,481	29,035	35,798	...	...	...	...	...	...	...	...	...
PAYE	51,553	60,165	60,876	...	...	...	...	...	...	...	...	...
Production and consumption	78,571	84,629	92,027	...	...	...	...	...	...	...	...	...
Of which: GCT (Local)	46,390	47,973	50,897	...	...	...	...	...	...	...	...	...
International Trade	94,144	96,512	105,306	...	...	...	...	...	...	...	...	...
Of which: GCT (Imports)	38,521	41,685	45,501	...	...	...	...	...	...	...	...	...
Non-tax	24,138	27,602	19,799	33,015	35,680	33,054	36,566	40,555	44,980	49,888	55,332	58,931
Grants	10,125	3,449	3,940	9,777	9,422	10,285	8,115	9,000	7,982	8,853	9,819	10,890
Budgetary expenditure	388,768	403,192	399,279	413,704	415,206	403,228	451,073	494,296	533,271	587,591	639,747	687,701
Primary expenditure	260,413	282,487	272,341	295,062	295,679	292,512	323,767	361,079	399,147	456,756	504,943	551,276
Wage and salaries	127,957	139,557	147,382	157,352	157,253	157,352	161,697	166,526	182,776	200,436	218,676	235,288
Programme expenditure	76,862	89,699	87,202	93,988	93,704	93,988	108,609	124,260	137,794	154,398	172,777	189,014
Capital expenditure	55,594	53,231	37,758	43,722	44,722	41,172	53,460	70,294	78,577	101,922	113,491	126,975
Interest	128,355	120,704	126,938	118,643	119,567	110,716	124,064	129,622	130,315	127,274	130,045	131,141
Domestic	88,049	81,617	87,729	76,702	75,523	68,776	78,513	82,493	81,153	80,720	79,071	77,236
External	40,305	39,087	39,209	41,941	44,044	41,941	45,552	47,129	49,162	46,554	50,974	53,905
Budget balance	-74,210	-80,734	-59,043	-7,280	-8,046	795	-3,469	4,146	18,051	26,818	39,570	54,601
Of which: Primary budget balance	54,145	39,970	67,895	111,363	111,521	111,511	120,595	133,768	148,366	154,092	169,615	185,742
Public entities balance	-5,755	-195	1,905	-1,601	...	-1,601	2,900	2,900	2,900	2,900	2,900	2,900
Public sector balance	-80,451	-81,069	-59,794	-8,881	...	-806	2,739	10,716	25,022	34,233	47,478	62,942
Principal repayments	102,315	128,186	88,280	103,730	105,680	103,703	59,501	160,638	67,442	240,686	180,065	223,591
Domestic	79,394	67,820	36,921	75,449	76,387	75,422	8,801	70,663	17,304	97,197	89,607	129,285
External	22,922	60,367	51,359	28,281	29,293	28,281	50,700	89,975	50,138	143,489	90,458	94,306
Gross financing needs	177,010	209,310	149,979	111,011	113,726	102,908	59,662	152,822	45,320	209,354	135,487	163,549
Gross financing sources 2/	177,010	209,310	149,979	111,011	103,280	102,908	59,662	152,822	45,320	209,354	135,487	163,549
Domestic	59,596	142,750	140,865	88,194	13,778	48,937	20,313	76,979	23,185	58,128	51,256	75,589
External	90,490	20,768	9,114	51,817	89,502	56,466	47,134	67,284	35,258	137,287	83,927	87,482
Of which: Official	51,003	29,899	9,114	51,817		56,466	39,636	44,827	35,258	29,602	37,619	40,602
Divestment + deposit drawdown	26,924	41,424	0	-29,000	10,447	-2,495	-7,785	8,559	-13,123	13,939	305	477
Memorandum items:												
Nominal GDP (billion J$)	1,172	1,260	1,336	1,479	1,494	1,482	1,650	1,831	2,030	2,252	2,491	2,726
Public sector debt (billion J$)	1,679	1,785	1,954	2,110	2,128	2,049	2,186	2,330	2,478	2,576	2,666	2,723
Of which: Direct debt	1,454	1,535	1,672	1,838	1,783	1,803	1,909	2,030	2,150	2,189	2,221	2,215

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ In the context of the tax reform, it is premature to project the exact composition of revenues.
2/ It is assumed that 70 percent of Petrocaribe's annual inflows are used for external commercial debt repayments.

Table 3. Jamaica: Summary of Central Government Operations

(In percent of GDP)

				Prog.	Budget	Projections						
	2010/11	2011/12	2012/13	2013/14	2013/14	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Budgetary revenue and grants	26.8	25.6	25.5	27.5	27.5	27.3	27.1	27.2	27.2	27.3	27.3	27.2
Tax 1/	23.9	23.1	23.7	24.6	24.4	24.3	24.4	24.5	24.6	24.7	24.7	24.7
Of which:												
Income and profits	9.0	8.4	8.7	...	...	...	...	...	...	...	...	...
Of which: Other companies	2.8	2.3	2.7	...	...	...	...	...	...	...	...	...
PAYE	4.4	4.8	4.6	...	...	...	...	...	...	...	...	...
Production and consumption	6.7	6.7	6.9	...	...	...	...	...	...	...	...	...
Of which: GCT (Local)	4.0	3.8	3.8	...	...	...	...	...	...	...	...	...
International Trade	8.0	7.7	7.9	...	...	...	...	...	...	...	...	...
Of which: GCT (Imports)	3.3	3.3	3.4	...	...	...	...	...	...	...	...	...
Non-tax	2.1	2.2	1.5	2.2	2.4	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Grants	0.9	0.3	0.3	0.7	0.6	0.7	0.5	0.5	0.4	0.4	0.4	0.4
Budgetary expenditure	33.2	32.0	29.9	28.0	28.0	27.2	27.3	27.0	26.3	26.1	25.7	25.2
Primary expenditure	22.2	22.4	20.4	20.0	20.0	19.7	19.6	19.7	19.7	20.3	20.3	20.2
Wage and salaries	10.9	11.1	11.0	10.6	10.6	10.6	9.8	9.1	9.0	8.9	8.8	8.6
Programme expenditure	6.6	7.1	6.5	6.4	6.3	6.3	6.6	6.8	6.8	6.9	6.9	6.9
Capital expenditure	4.7	4.2	2.8	3.0	3.0	2.8	3.2	3.8	3.9	4.5	4.6	4.7
Interest	10.9	9.6	9.5	8.0	8.1	7.5	7.5	7.1	6.4	5.7	5.2	4.8
Domestic	7.5	6.5	6.6	5.2	5.1	4.6	4.8	4.5	4.0	3.6	3.2	2.8
External	3.4	3.1	2.9	2.8	3.0	2.8	2.8	2.6	2.4	2.1	2.0	2.0
Budget balance	-6.3	-6.4	-4.4	-0.5	-0.5	0.1	-0.2	0.2	0.9	1.2	1.6	2.0
Of which: Primary budget balance	4.6	3.2	5.1	7.5	7.5	7.5	7.3	7.3	7.3	6.8	6.8	6.8
Public entities balance	-0.5	0.0	0.1	-0.1	...	-0.1	0.2	0.2	0.1	0.1	0.1	0.1
Public sector balance	-6.9	-6.4	-4.5	-0.6	...	-0.1	0.2	0.6	1.2	1.5	1.9	2.3
Principal repayments	8.7	10.2	6.6	7.0	7.1	7.0	3.6	8.8	3.3	10.7	7.2	8.2
Domestic	6.8	5.4	2.8	5.1	5.2	5.1	0.5	3.9	0.9	4.3	3.6	4.7
External	2.0	4.8	3.8	1.9	2.0	1.9	3.1	4.9	2.5	6.4	3.6	3.5
Gross financing needs	15.1	16.6	11.2	7.5	7.7	6.9	3.6	8.3	2.2	9.3	5.4	6.0
Gross financing sources 2/	15.1	16.6	11.2	7.5	7.0	6.9	3.6	8.3	2.2	9.3	5.4	6.0
Domestic	5.1	11.3	10.5	6.0	0.9	3.3	1.2	4.2	1.1	2.6	2.1	2.8
External	7.7	1.6	0.7	3.5	6.0	3.8	2.9	3.7	1.7	6.1	3.4	3.2
Of which: Official	4.4	2.4	0.7	3.5	0.0	3.8	2.4	2.4	1.7	1.3	1.5	1.5
Divestment + deposit drawdown	2.3	3.3	0.0	-2.0	0.7	-0.2	-0.5	0.5	-0.6	0.6	0.0	0.0
Memorandum items:												
Nominal GDP (billion J$)	1,172	1,260	1,336	1,479	1,482	1,482	1,650	1,831	2,030	2,252	2,491	2,726
Public sector debt	143.2	141.6	146.2	142.7	...	138.3	132.5	127.3	122.1	114.4	107.0	99.9
Of which: Direct debt	124.0	121.8	125.1	124.3	...	121.6	115.6	110.9	105.9	97.2	89.1	81.3

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ In the context of the tax reform, it is premature to project the exact composition of revenues.
2/ It is assumed that 70 percent of Petrocaribe's annual inflows are used for external commercial debt repayments.

Table 4. Jamaica: Operations of the Public Entities

	In billions of Jamaican dollars						In percent of GDP					
				Prog.						Prog.		
	2010/11	2011/12	2012/13	2013/14	2013/14	2014/15	2010/11	2011/12	2012/13	2013/14	2013/14	2014/15
Operating balance selected public entities 1/	**53.6**	**55.2**	**60.6**	**59.6**	**59.6**	**...**	**4.6**	**4.4**	**4.5**	**3.6**	**4.0**	**...**
Of which:												
Clarendon Aluminum	-4.2	-7.2	-1.1	-0.3	-0.3	...	-0.4	-0.6	-0.1	0.0	0.0	...
Petrojam	27.8	25.1	15.5	21.9	21.9	...	2.4	2.0	1.2	1.3	1.5	...
NROCC	-3.9	-0.6	-3.3	-4.3	-4.3	...	-0.3	0.0	-0.2	-0.3	-0.3	...
Urban Development Corporation	0.6	-0.8	-0.4	0.2	0.2	...	0.1	-0.1	0.0	0.0	0.0	...
National Water Commission	1.5	4.0	8.0	5.7	5.7	...	0.1	0.3	0.6	0.3	0.4	...
Port Authority of Jamaica	2.9	2.9	3.7	4.5	4.5	...	0.2	0.2	0.3	0.3	0.3	...
National Housing Trust	23.5	26.9	29.6	28.2	28.2	...	2.0	2.1	2.2	1.7	1.9	...
National Insurance Fund	2.8	1.7	4.8	0.2	0.2	...	0.2	0.1	0.4	0.0	0.0	...
Net current transfers from the central government	**-11.2**	**-11.8**	**-15.2**	**-22.8**	**-22.8**	**...**	**-1.0**	**-0.9**	**-1.1**	**-1.4**	**-1.5**	**...**
Of which:												
Clarendon Aluminum	1.5	7.5	3.4	0.3	0.3	...	0.1	0.6	0.3	0.0	0.0	...
Petrojam	-26.8	-19.2	-21.3	-18.8	-18.8	...	-2.3	-1.5	-1.6	-1.1	-1.3	...
NROCC	2.5	0.2	3.0	4.2	4.2	...	0.2	0.0	0.2	0.3	0.3	...
Urban Development Corporation	3.7	0.7	0.1	0.0	0.0	...	0.3	0.1	0.0	0.0	0.0	...
National Water Commission	1.6	0.0	1.0	0.5	0.5	...	0.1	0.0	0.1	0.0	0.0	...
Port Authority of Jamaica	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	...
National Housing Trust	0.0	-1.2	-4.0	-11.4	-11.4	...	0.0	-0.1	-0.3	-0.7	-0.8	...
National Insurance Fund	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	...
Gross capital expenditure selected public entities 2/	**50.7**	**39.5**	**41.6**	**48.2**	**48.2**	**...**	**4.3**	**3.1**	**3.1**	**2.9**	**3.3**	**...**
Of which:												
Clarendon Aluminum	1.7	-0.2	1.5	3.6	3.6	...	0.1	0.0	0.1	0.2	0.2	...
Petrojam	3.0	2.6	0.2	-0.2	-0.2	...	0.3	0.2	0.0	0.0	0.0	...
NROCC	0.4	0.6	0.3	0.5	0.5	...	0.0	0.1	0.0	0.0	0.0	...
Urban Development Corporation	3.5	0.7	0.2	0.7	0.7	...	0.3	0.1	0.0	0.0	0.0	...
National Water Commission	5.4	4.5	9.7	9.6	9.6	...	0.5	0.4	0.7	0.6	0.7	...
Port Authority of Jamaica	4.6	2.1	0.8	2.0	2.0	...	0.4	0.2	0.1	0.1	0.1	...
National Housing Trust	21.7	25.5	23.2	24.8	24.8	...	1.8	2.0	1.7	1.5	1.7	...
National Insurance Fund	0.0	0.1	0.0	0.1	0.1	...	0.0	0.0	0.0	0.0	0.0	...
Other net spending selected public entities 3/	0.5	0.0	0.0	0.6	0.6	...	0.0	0.0	0.0	0.0	0.0	...
Overall balance selected public entities	**-8.8**	**3.9**	**3.7**	**-11.9**	**-11.9**	**2.9**	**-0.7**	**0.3**	**0.3**	**-0.7**	**-0.8**	**0.2**
Of which:												
Clarendon Aluminum	-4.4	0.5	0.8	-3.6	-3.6	0.0	-0.4	0.0	0.1	-0.2	-0.2	0.0
Petrojam	-2.0	3.3	-5.9	3.3	3.3	3.3	-0.2	0.3	-0.4	0.2	0.2	0.2
NROCC	-1.8	-1.0	-0.5	-0.5	-0.5	0.5	-0.2	-0.1	0.0	0.0	0.0	0.0
Urban Development Corporation	0.7	-0.8	-0.5	-1.0	-1.0	0.3	0.1	-0.1	0.0	-0.1	-0.1	0.0
National Water Commission	-2.3	-0.5	-0.7	-3.5	-3.5	0.0	-0.2	0.0	-0.1	-0.2	-0.2	0.0
Port Authority of Jamaica	-1.8	0.8	3.0	2.4	2.4	1.5	-0.1	0.1	0.2	0.1	0.2	0.1
National Housing Trust	1.9	0.2	2.4	-8.0	-8.0	-6.5	0.2	0.0	0.2	-0.5	-0.5	-0.4
National Insurance Fund	2.8	1.6	4.7	0.1	0.1	1.5	0.2	0.1	0.4	0.0	0.0	0.1
Overall balance other public entities	**3.0**	**-4.1**	**-1.8**	**10.3**	**10.3**	**0.0**	**0.3**	**-0.3**	**-0.1**	**0.6**	**0.7**	**0.0**
Overall balance public entities	**-5.8**	**-0.2**	**1.9**	**-1.6**	**-1.6**	**2.9**	**-0.5**	**0.0**	**0.1**	**-0.1**	**-0.1**	**0.2**

Sources: Jamaican authorities; and Fund staff estimates.

1/ Selected public entities refer to a group of the most important 18 public bodies of which 8 are shown. The operating balance is defined as current revenues minus current expenditures after adjustments from accrual accounting to cash basis.

2/ Gross of the change in inventories.

3/ Other net spending items not captured in the operating balance or gross capital expenditures. Positive number means spending.

Table 5. Jamaica: Summary Balance of Payments

(In millions of U.S. dollars)

			Est.	Prog.	Projections				
	2010/11	2011/12	2012/13	2013/14	2013/14	2014/15	2015/16	2016/17	2017/18
Current account	-1,221	-2,168	-1,834	-1,569	-1,430	-1,261	-1,074	-920	-859
Trade balance	-3,537	-4,311	-4,194	-4,088	-4,029	-3,903	-3,719	-3,591	-3,576
Exports (f.o.b.)	1,418	1,691	1,770	1,786	1,655	1,758	1,842	1,964	2,049
Imports (f.o.b.)	4,955	6,002	5,964	5,875	5,685	5,662	5,561	5,555	5,624
Fuel (cif)	1,805	2,508	2,248	2,183	2,103	2,107	2,052	2,059	2,102
Exceptional imports (including FDI-related)	447	439	579	660	660	710	520	260	330
Other	2,704	3,055	3,136	3,031	2,922	2,845	2,989	3,236	3,193
Services (net)	777	615	686	846	835	926	973	975	1,016
Transportation	-465	-629	-781	-623	-601	-566	-585	-600	-613
Travel	1,819	1,863	1,883	1,897	1,892	1,960	2,035	2,054	2,108
Of which: Tourism receipts	2,007	2,029	2,046	2,054	2,047	2,121	2,200	2,225	2,286
Other services	-577	-619	-416	-428	-456	-468	-477	-480	-480
Income (net)	-486	-481	-390	-462	-370	-480	-529	-571	-588
Current transfers (net)	2,026	2,008	2,064	2,135	2,135	2,196	2,201	2,268	2,289
Government (net)	206	141	190	154	154	150	150	150	150
Private (net)	1,819	1,867	1,874	1,981	1,981	2,046	2,051	2,118	2,139
Capital and financial account	2,023	1,392	834	1,473	1,310	1,297	1,018	866	1,018
Capital account (net)	-24	-11	-5	-5	16	16	16	16	16
Financial account (net) 1/	2,047	1,403	839	1,479	1,294	1,281	1,002	850	1,002
Direct investment (net)	143	215	258	587	529	571	536	409	332
Central government (net)	732	-443	-557	-215	-208	-201	-390	-318	-43
Other official (net) 2/	239	698	552	624	553	484	442	345	327
Of which: PetroCaribe	258	492	462	336	324	253	267	243	223
Portfolio investment (net)	933	932	586	483	420	426	414	414	386
Overall balance	801	-776	-1,000	-96	-119	36	-56	-53	158
Financing	-801	776	1,000	96	119	-36	56	53	-158
Change in net reserves (- increase)	-801	776	893	-225	-246	-43	-280	-332	-138
Change in arrears	0	0	0	0	0	0	0	0	0
Financing gap	0	0	107	320	365	7	337	385	-20
IMF 3/	0	0	0	-26	-26	-163	127	176	-20
Disbursements	0	0	0	346	346	259	176	176	0
Repayments	0	0	0	-372	-372	-422	-50	0	-20
IFIs	0	0	107	346	391	170	210	209	0
Memorandum items:									
Gross international reserves	3,435	2,639	1,739	1,943	1,986	2,028	2,308	2,641	2,778
(in weeks of prospective imports of GNFS)	26.2	17.1	11.3	13.1	13.8	14.1	16.2	18.4	19.1
Net international reserves	2,553	1,777	884	1,225	1,246	1,451	1,605	1,761	1,919
Current account (percent of GDP)	-9.0	-14.8	-12.4	-11.0	-10.0	-8.8	-7.4	-6.2	-5.5
Exports of goods (percent change)	0.8	19.2	4.7	1.0	-6.5	6.2	4.8	6.6	4.3
Imports of goods (percent change)	11.4	21.1	-0.6	-1.5	-4.7	-0.4	-1.8	-0.1	1.3
Oil prices (composite, fiscal year basis)	85.3	104.3	104.9	101.4	103.7	99.8	94.3	90.6	88.0
Tourism receipts (percent change)	2.0	1.1	0.9	0.4	0.1	3.6	3.7	1.2	2.7
GDP (US$ millions)	13,631	14,653	14,758	...	...	...	...	...	...
Jamaican dollar/USD, period average	86	86	91	...	...	...	...	...	...

Sources: Jamaican authorities; and Fund staff estimates.

1/ Includes estimates of a partial payment for the sales of a rum company in 2008/09.
2/ Includes the new general SDR allocation in 2009/10.
3/ Negative indicates repayment to the IMF.

Table 6. Jamaica: Summary Accounts of the Bank of Jamaica 1/

	2010/11	2011/12	2012/13	Prog. 2013/14	Projections 2013/14	2014/15	2015/16	2016/17
	(In billions of Jamaican dollars)							
End-of-period stocks 1/								
Net international reserves	**228**	**158**	**83**	**133**	**135**	**175**	**211**	**248**
Net domestic assets	**-149**	**-74**	**8**	**-30**	**-32**	**-60**	**-84**	**-106**
Net claims on public sector	102	146	182	205	214	240	269	299
Net claims on central government 2/	39	75	90	90	90	92	95	98
Net claims on rest of public sector	50	71	92	109	118	138	164	190
Operating losses of the BOJ	13	0	0	6	6	11	11	11
Net credit to commercial banks	-14	-15	-20	-22	-22	-25	-27	-30
Of which : foreign prudential reserve	-14	-15	-20	-22	-22	-25	-27	-30
Net credit to other financial institutions	-2	-1	-1	-2	-2	-2	-2	-2
Open market operations	-144	-112	-54	-105	-109	-140	-170	-201
Other items net (incl. valuation adj.)	-92	-92	-98	-107	-114	-134	-154	-172
Valuation adjustment	-55	-55	-59	-70	-75	-95	-115	-133
Base money	**79**	**84**	**91**	**103**	**103**	**115**	**127**	**141**
Currency in circulation	43	47	51	56	56	63	70	77
Liabilities to commercial banks	36	36	41	47	47	52	58	64
Fiscal year flows 1/								
Net international reserves	**71.6**	**-70.5**	**-74.4**	**49.2**	**52.2**	**39.7**	**36.0**	**36.7**
Net domestic assets	-70.0	75.3	82.0	-37.5	-40.3	-28.0	-23.4	-22.8
Net claims on public sector	-43.9	44.3	36.1	30.2	32.0	26.3	28.9	29.7
Net claims on central government 2/	-43.5	35.9	15.3	0.0	0.0	1.7	3.2	3.2
Net credit to commercial banks	-3.7	-1.3	-4.7	-2.1	-2.2	-2.5	-2.7	-3.0
Net credit to other financial institutions	-0.1	0.1	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2
Open market operations	-22.3	32.1	57.3	-50.3	-54.6	-31.4	-29.5	-31.3
Other items net (incl. valuation adj.)	0.0	0.0	-6.6	-15.1	-15.4	-20.2	-20.0	-18.1
Base money	**1.6**	**4.8**	**7.6**	**11.7**	**11.9**	**11.7**	**12.5**	**13.9**
Currency in circulation	2.9	4.0	3.3	5.4	5.5	6.4	6.8	7.6
Liabilities to commercial banks	-1.3	0.7	4.3	6.3	6.3	5.3	5.7	6.3
	(Change in percent of beginning-of-period Base Money)							
Net international reserves	**92.6**	**-89.3**	**-88.9**	**53.9**	**57.2**	**38.5**	**31.3**	**28.8**
Net domestic assets	**-90.5**	**95.4**	**98.0**	**-41.1**	**-44.2**	**-27.1**	**-20.4**	**-17.9**
Net claims on public sector	-56.8	56.2	43.1	33.1	35.1	25.5	25.1	23.3
Net credit to commercial banks	-4.7	-1.6	-5.6	-2.3	-2.4	-2.4	-2.3	-2.3
Net credit to other financial institutions	-0.1	0.2	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1
Open market operations	-28.9	40.7	68.4	-55.1	-59.9	-30.4	-25.7	-24.5
Other items net (incl. valuation adj.)	0.0	0.0	-7.9	-16.5	-16.9	-19.6	-17.4	-14.2
Base money	**2.1**	**6.1**	**9.1**	**12.8**	**13.0**	**11.4**	**10.9**	**10.9**
Currency in circulation	3.7	5.1	4.0	5.9	6.0	6.2	6.0	5.9
Liabilities to commercial banks	-1.7	1.0	5.1	6.8	6.9	5.2	5.0	4.9
Memorandum items:								
Change in net claims on the central government (percent of GDP)	-3.7	2.9	1.1	0.0	0.0	0.1	0.2	0.2
Net international reserves (US$ millions)	2,553	1,777	884	1,225	1,246	1,451	1,605	1,761

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Fiscal year runs from April 1 to March 31.
2/ Includes net unclassified and BoJ operating loss from the previous fiscal year.

Table 7. Jamaica: Summary Monetary Survey 1/

				Prog.	Projections			
	2010/11	2011/12	2012/13	2013/14	2013/14	2014/15	2015/16	2016/17
	(In billions of Jamaican dollars)							
End-of-period stocks 1/								
Net foreign assets	**217**	**165**	**113**	**135**	**138**	**173**	**205**	**242**
Net domestic assets	**116**	**185**	**283**	**303**	**302**	**316**	**338**	**360**
Net claims on public sector	193	217	263	304	313	362	413	464
Of which: Central government 2/	135	168	194	209	209	230	254	277
Open market operations	-81	-63	-36	-90	-107	-178	-248	-327
Credit to private sector	219	249	294	337	350	405	466	534
Of which: Foreign currency	72	81	81	91	91	102	114	125
Other 3/	-214	-217	-237	-247	-254	-273	-292	-311
Of which: Valuation adjustment	-55	-55	-59	-65	-70	-83	-96	-108
Liabilities to private sector (M3)	**333**	**350**	**396**	**439**	**440**	**490**	**543**	**602**
Money supply (M2)	226	236	252	279	280	311	345	383
Foreign currency deposits	107	114	144	160	160	178	198	219
Fiscal year flows 1/								
Net foreign assets	**76.4**	**-52.4**	**-51.6**	**21.7**	**24.7**	**35.6**	**32.2**	**36.7**
Net domestic assets	**-70.6**	**69.5**	**98.1**	**20.7**	**18.5**	**14.5**	**21.2**	**22.4**
Net claims on public sector 2/	-47.9	24.7	45.9	48.3	50.1	48.8	50.9	51.3
Of which: Central government	-38.4	32.9	26.0	15.0	15.0	21.7	23.2	23.2
Open market operations	-8.9	17.9	27.3	-54.0	-71.2	-70.3	-70.8	-78.2
Credit to private sector	2.8	30.1	45.3	42.8	55.9	55.2	60.5	68.0
Of which: Foreign currency	-13.1	8.6	0.2	10.2	10.2	11.5	11.5	11.0
Other 3/	-16.6	-3.2	-20.4	-16.5	-16.3	-19.2	-19.4	-18.6
Of which: Valuation adjustment	0.0	0.0	-4.6	-10.3	-10.6	-13.1	-13.1	-12.0
Liabilities to private sector (M3)	**5.7**	**17.1**	**46.5**	**42.3**	**43.1**	**50.1**	**53.4**	**59.1**
Money supply (M2)	15.3	10.5	16.0	26.9	27.4	31.8	34.0	37.6
Foreign currency deposits	-9.6	6.6	30.6	15.4	15.7	18.2	19.4	21.5
	(Change in percent of beginning-of-period M3)							
Net foreign assets	**23.3**	**-15.7**	**-14.7**	**5.5**	**6.2**	**8.1**	**6.6**	**6.8**
Net domestic assets	**-21.6**	**20.9**	**28.0**	**5.2**	**4.7**	**3.3**	**4.3**	**4.1**
Net claims on public sector 2/	-14.7	7.4	13.1	12.2	12.6	11.1	10.4	9.4
Of which: Central government	-11.7	9.9	7.4	3.8	3.8	4.9	4.7	4.3
Open market operations	-2.7	5.4	7.8	-13.6	-18.0	-16.0	-14.5	-14.4
Credit to private sector	0.9	9.0	13.0	10.8	14.1	12.6	12.4	12.5
Of which: Foreign currency	-4.0	2.6	0.1	2.6	2.6	2.6	2.3	2.0
Other 3/	-5.1	-1.0	-5.8	-4.2	-4.1	-4.4	-4.0	-3.4
Of which: Valuation adjustment	0.0	0.0	-1.3	-2.6	-2.7	-3.0	-2.7	-2.2
Liabilities to private sector (M3)	**1.7**	**5.1**	**13.3**	**10.7**	**10.9**	**11.4**	**10.9**	**10.9**
Memorandum items:								
M3/monetary base	4.2	4.2	4.3	4.3	4.3	4.3	4.3	4.3
Net foreign assets (US$ Millions)	2,540	1,893	1,153	1,245	1,266	1,435	1,562	1,720
M3 velocity	3.5	3.6	3.4	3.4	3.4	3.4	3.4	3.4

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

1/ Fiscal year runs from April 1 to March 31.
2/ Includes Bank of Jamaica operating balance.
3/ Includes net credit to nonbank financial institutions, capital accounts, valuation adjustment, securities sold under repurchase agreements and net unclassified assets.

Table 8. Jamaica: Structural Program Conditionality

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1. Government to table in parliament a budget in line with program commitments.	April 30, 2013	Met
2. Government to introduce a 5-year public sector investment program (PSIP), beginning with FY2013/14, to be updated on an annual basis.	April 30, 2013	Met
3.a. Government to present to Fund staff a conceptual proposal for the design of a fiscal rule.	August 31, 2013	Met
3.b. Revise the relevant legislation for the adoption of a fiscal rule to ensure a sustainable budgetary balance, to be incorporated in the annual budgets starting with the 2014/15 budget.	March 31, 2014	
4. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	
5. Cabinet to approve a detailed budget calendar consistent with top-down expenditure ceilings, for the 2014/15 budget	November 30, 2013	Met
6. Government to ensure there is: (i) no financing of Clarendon Alimina Production (CAP) by the government or any public body, including Petro Caribe; and (ii) no new government guarantee for CAP or use of public assets (other than shares in CAP and assets owned by CAP) as collateral for third-party financing of CAP	Continuous	
7. Government to table in parliament a budget for 2014/15 consistent with the program	April 30, 2014	Proposed new structural benchmark
8. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17)	April 30, 2014	Proposed new structural benchmark
Tax Reform		
9. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as described in paragraph 34 of the April 17, 2013 MEFP.	Continuous	Met
10. Parliament to adopt amendments to the relevant tax acts to harmonize the tax treatment for charities across tax types and remove ministerial discretion to grant waivers for charities and charitable purposes as described in paragraph 34 of the April 17, 2013 MEFP.	May 31, 2013	Met
11.a. Government to table a Charities Bill in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff.	September 30, 2013	Met
11.b. Government to cease the granting of waivers to charities other than under the Charities Bill.	November 30, 2013	
12.a. Government to table Omnibus Tax Incentive Act in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff, to eliminate ministerial discretionary powers to grant or validate any tax relief, and put in place a transparent regime for limited tax incentives.	September 30, 2013	Met with delay
12.b. Government to cease the granting of tax incentives under the regime prior to the Fiscal Incentives Legislation.	December 31, 2013	
13. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (MEFP paragraphs 6, 7, 8, and 9).	March 31, 2014	
14. Government to conduct an entity by entity review of all grandfathered entities and of their specific tax incentives in the context of the new tax incentives legislation by end-2014/15	January 31, 2015	Proposed new structural benchmark
Tax Administration		
15. Parliament to adopt amendments to the Revenue Administration Act to (i) provide access to third-party information, to enhance compliance management, and (ii) empower the TAJ to require mandatory e-filing for groups of taxpayers and/or types of taxes.	June 30, 2013	Met
16. Government to increase the professional staff of Large Taxpayer Office (LTO) to 120 staff members.	June 30, 2013	Met
17. Government to make e-filing mandatory for LTO clients with respect to General Consumption Tax (GCT) and Corporate Income Tax (CIT)	March 31, 2014	Proposed new structural benchmark
Financial sector		
18. Government to Establish and Operate a Central Collateral Registry.	December 31, 2013	
19. Government to implement a legal and regulatory framework conducive to Collective Investment Schemes (Paragraph 45 of the MEFP of April 17, 2013) in consultation with Fund staff.	December 31, 2013	
20. Government to implement legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	
21. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (MEFP Paragraph 22) in consultation with Fund staff.	March 31, 2014	
22. Enact Omnibus Banking Law consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	

Table 9. Jamaica: Quantitative Performance Criteria 1/2/

(In billions of Jamaican dollars)

	2012	2013					2014		
	End-Dec.	End-Mar.	End-Jun.	End-Sep.	End-Sep.	End-Dec.	End-Mar.	End-Jun.	End-Sep.
	Actual	Actual	Actual	Prog.	Actual	PC	PC	PC	Proposed PC
Fiscal targets									
1. Primary balance of the central government (floor) 3/	39.1	37.8	17.1	38.2	39.5	61.6	111.5	15.5	38.4
2. Tax Revenues (floor) 3/8/	225.0	315.3	78.7	150.4	162.9	232.7	357.5	82.7	166.0
3. Overall balance of the public sector (floor) 3/	-47.6	-52.7	-12.4	-21.6	-14.6	-37.3	-6.7	-14.4	-30.2
4. Central government direct debt (ceiling) 3/4/	1558.7	29.1	4.9	51.4	36.3	92.9	70.3	-2.0	0.9
5. Central government guaranteed debt (ceiling) 3/	166.7	6.5	0.3	-13.1	-13.4	-13.0	-14.0	4.0	2.7
6. Central government accumulation of domestic arrears (ceiling) 5/11/12/	n.a.	21.6	-0.1	0.0	-1.4	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 6/11/12/	n.a.	24.6	-0.1	0.0	-0.8	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 7/11/12/	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9. Social spending (floor) 8/9/	...	18.2	4.1	8.3	9.5	14.4	20.1	4.2	8.9
Monetary targets									
10. Cumulative change in net international reserves (floor) 7/10/	1138.5	-240.7	-135.8	-242.3	-226.1	-220.5	101.1	121.5	114.5
11. Cummulative change in net domestic assets (ceiling) 10/	-9.5	16.3	5.4	16.2	15.7	26.4	-4.2	-7.3	-5.3

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Including modified performance criteria.
3/ Cumulative flows from April 1 through March 31.
4/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
5/ Includes debt payments, supplies and other committed spending as per contractual obligations.
6/ Includes tax refund arrears as stipulated by law.
7/ In millions of U.S. dollars.
8/ Indicative target.
9/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
10/ Cumulative change from end-December 2012.
11/ Continuous performance criterion.
12/ March 2013 numbers refer to stock outstanding as of end-March 2013.

Table 10. Jamaica: Indicators of Fund Credit, 2013-27

(In millions of SDRs, unless otherwise specified)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Prospective drawings (4-year EFF)	176.69	183.80	113.28	113.28	28.33	...	...	...	...	...	...	...	...	...	...
(in percent of quota)	64.60	67.20	41.42	41.42	10.36	...	...	...	...	...	...	...	...	...	...
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)															
Amortization	11.95	266.91	95.63	3.99	11.40	37.11	64.80	83.68	100.20	102.56	91.17	65.46	37.76	18.88	2.36
Amortization (SBA)	11.95	266.91	95.63	3.99	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Amortization (4-year EFF)	0.00	0.00	0.00	0.00	11.40	37.11	64.80	83.68	100.20	102.56	91.17	65.46	37.76	18.88	2.36
Interest and service charges	0.10	6.40	5.26	6.04	6.68	6.50	6.01	5.26	4.30	3.19	2.08	1.17	0.53	0.17	0.01
SDR charges and assessments	0.00	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Total debt service	12.05	273.37	100.95	10.09	18.14	43.67	70.88	89.01	104.56	105.82	93.31	66.69	38.36	19.11	2.44
(in percent of exports of G&S)	0.44	9.49	3.37	0.32	0.56	1.32	2.08								
(in percent of GDP)	0.13	2.96	1.08	0.11	0.18	0.42	0.64	0.78	0.87	0.84	0.71	0.48	0.26	0.13	0.02
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)															
Outstanding stock	543.22	460.10	477.76	587.05	603.98	566.88	502.08	418.39	318.19	215.63	124.46	59.00	21.24	2.36	0.00
(in percent of quota)	198.62	168.23	174.68	214.64	220.83	207.27	183.58	152.98	116.34	78.84	45.51	21.57	7.77	0.86	0.00
(in percent of GDP)	5.89	4.97	5.12	6.13	6.03	5.39	4.56	3.65	2.65	1.71	0.94	0.43	0.15	0.02	0.00
Memorandum items:															
Exports of goods and services (US$ millions)	4,302.52	4,482.37	4,667.42	4,836.83	5,005.59	5,154.34	5,296.17	...	...	...	...	...	...	...	...
US$/SDR exchange rate	1.56	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Quota	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50

Source: IMF staff projections.

Table 11. Jamaica: Schedule of Reviews and Purchases

Availability Date	Amount of Purchase		Conditions 1/
	Millions of SDR	Percent of Quota	
	Purchases 2/		
May 1, 2013	136.75	50	Approval of Arrangement
September 30, 2013	19.97	7	First Review and end-June 2013 performance criteria
December 18, 2013	19.97	7	Second Review and end-September 2013 performance criteria
March 20, 2014	45.95	17	Third Review and end-December 2013 performance criteria
June 20, 2014	45.95	17	Fourth Review and end-March 2014 performance criteria
September 22, 2014	45.95	17	Fifth Review and end-June 2014 performance criteria
December 22, 2014	45.95	17	Sixth Review and end-September 2014 performance criteria
March 23, 2015	28.32	10	Seventh Review and end-December 2014 performance criteria
June 22, 2015	28.32	10	Eigth Review and end-March 2015 performance criteria
September 21, 2015	28.32	10	Nineth Review and end-June 2015 performance criteria
December 21, 2015	28.32	10	Tenth Review and end-September 2015 performance criteria
March 21, 2016	28.32	10	Eleventh Review and end-December 2015 performance criteria
June 20, 2016	28.32	10	Twelfth Review and end-March 2016 performance criteria
September 22, 2016	28.32	10	Thirteenth Review and end-June 2016 performance criteria
December 22, 2016	28.32	10	Fourteenth Review and end-September 2016 performance criteria
March 20, 2017	28.33	10	Fifteenth Review and end-December 2016 performance criteria
Total	615.38	225.0	

1/ Apart from periodic performance criteria, conditions also include continuous performance criteria.
2/ The availability date for the second review has been rephased to December 18, 2013.

Annex I. Jamaica—Debt Sustainability Analysis

This annex presents an update of Jamaica's external and public debt sustainability analysis based on staff's medium-term macroeconomic framework.

Public Debt Sustainability Analysis[1]

Jamaica's public debt stood at 146.3 percent at the end of 2012/13. More than half of total public debt is domestic debt which is mostly held by domestic residents (mostly financial institutions). The introduction of the NDX in February 2013 extended the maturities of domestic debt and somewhat eased the mounting liquidity pressures.[2]

Risks to Jamaica's public debt sustainability remain unchanged from the analysis presented with the staff report on the request for the EFF arrangement in April 2012. Under the baseline scenario, with continued strong fiscal adjustment and some uptick in growth, public debt to GDP ratio is expected to fall to about 107 percent by 2018/19 from 146.3 percent in 2012/13. This downward trajectory is contingent upon sustained fiscal consolidation going forward, pick-up in growth and stability in the financial sector.

This public sector DSA is based on the Fund's new framework for market access countries.[3] The new framework expands the basic DSA to include a risk-based analysis, including vulnerabilities arising from the debt profile and financing needs. A heat map and debt profile vulnerability charts use standardized thresholds to enable cross-country comparison and provide early warning signals to debt sustainability.

The heat map and fan charts which summarize in a standardized way the risks to debt sustainability show that risks remain high (Figure 1). Subjecting the baseline to stress testing indicate that Jamaica's debt burden continues to exceed the benchmark for emerging market economies even after the NDX. In particular, the baseline debt is vulnerable to all the key macrofiscal and contingent liability shocks. The debt profile is also subject to high risks from external financing requirements (excluding debts of PetroCaribe) and large bond spreads should Jamaica regain access to the international capital market. Under the stress test, gross financing needs exceed the benchmark of 15 percent of GDP for shocks to growth, the exchange rate, and contingent liabilities. The fiscal adjustment program will be critical to maintaining the downward trajectory in the debt path, as are expected uptick in growth; real interest rate developments; and orderly exchange rate developments. The fan charts show the possible evolution of debt over the medium term under both symmetric and asymmetric distribution of risks. The asymmetric fan chart

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[1] All the tables and charts are on fiscal-year basis.

[2] See figure 4 of the report for further decomposition of Jamaica's total public debt.

[3] See Staff Guidance Note for Public Debt Sustainability Analysis in Market Access Countries.

(allowing zero maximum positive primary balance and real appreciation shocks) shows that risks to the debt outlook are on the upside.

There appears to be no systematic projection bias in the baseline macro assumptions (Figure 2). Jamaica's forecast track record is comparable with other Fund-supported program countries; however, real GDP growth and inflation (deflator) appear to show some signs of systematic bias in the projections due to relatively optimistic projections during 2005–08, driven in part by developments during the global crisis in 2008 where Jamaica was hit badly.

Jamaica's baseline debt path remains extremely vulnerable to a primary balance shock. The cyclically-adjusted primary balance is projected at 8 percent of GDP, on average, over the next three years, reflecting an adjustment by 4.5 percentage points, and both indicators are within the top quartile of those observed in other Fund-supported program countries (Figure 2). While past performance confirms the scope for achieving such a high primary balance, and the program includes a range of reforms supporting it, this remains a major source of risk to debt, as recognized in staff's assessments.

The downward trajectory of debt also continues to be sensitive to other macro shocks (Figure 5). Applying a one standard deviation shock to real GDP growth would increase the debt to GDP ratio to 137.8 percent in 2015/16 (compared to 129.7 percent in the baseline). A 15 percent real exchange rate shock would increase the debt ratio to over 152 percent in 2014/15 and limit its subsequent decline to 120 percent by 2018/19 (compared to a baseline of 107 percent by 2018/19). However, this standardized assessment does not incorporate the very significant offset through the pass through of depreciation into prices and nominal GDP. An interest rate shock would not pose any significant risk to the debt profile even with a 610 basis points increase on new borrowing (because of the long maturity of outstanding debt, and the limited new recourse to markets). Also, a one-off 10 percent contingent liabilities shock (that is a shock of 10 percent of banking sector assets) would put the debt at 115.1 percent of GDP by 2018/19 as against a baseline of 107 percent of GDP. Combining all the macro fiscal shocks (that is, if a slower growth in 2014/15 is combined with a temporary primary balance shock, an exchange rate shock and an interest rate shock), the debt ratio rises to about 168 percent of GDP in 2014/15 and settles at about 147 percent of GDP by 2018/19, compared to a baseline of 107 percent of GDP in 2018/19.

Further debt reduction measures to be taken by the authorities present an upside risk to the debt profile. The Jamaican authorities' plans to introduce additional measures to reduce debt, which include debt swaps and reduced guarantees, are not at the moment included in the baseline. The impact of these additional measures is programmed to be about 2 percent of GDP on the debt profile.

External Debt Sustainability Analysis

Jamaica's external public debt stood at 63.1 percent of GDP at the end of 2012/13 and continues to remain one of the highest in the Caribbean region (Table 1). The main source of risk to the external debt remains Jamaica's dependence on financing from PetroCaribe.

Under the baseline, gross external debt is projected to be stabilized over the medium term, but remains vulnerable to sharp movements in exchange rate and deterioration in the current account balance (Figure 6). Additional debt reduction measures by the authorities, especially in external debt, would further boost external debt sustainability. External debt to GDP ratio is expected to peak at about 64 percent in 2015/16 and then reduce further to about 61 percent in 2018/19.

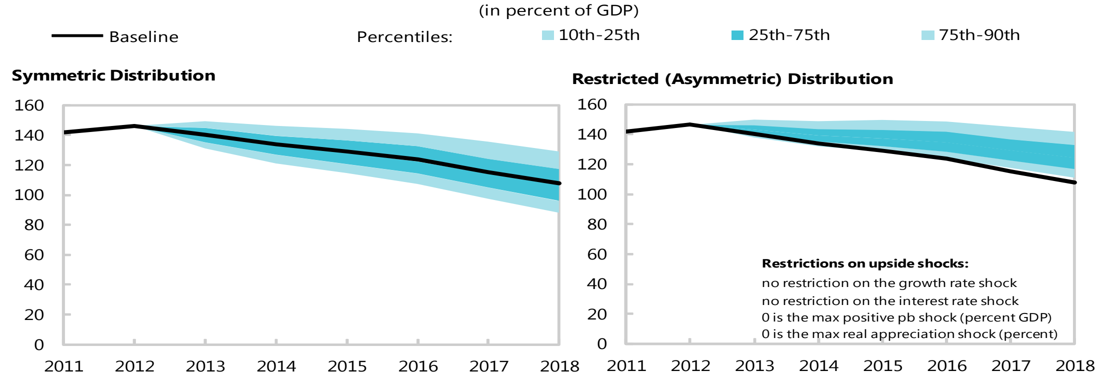
Annex I. Figure 1. Jamaica Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

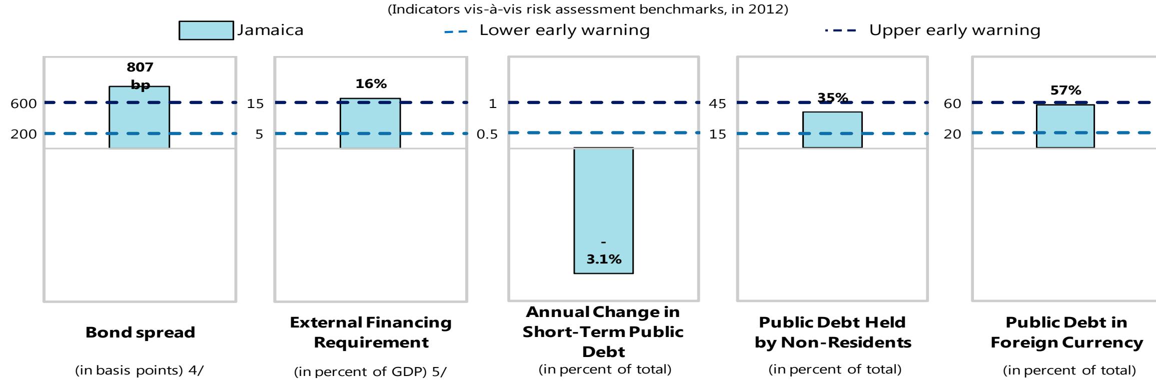
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2012)



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:

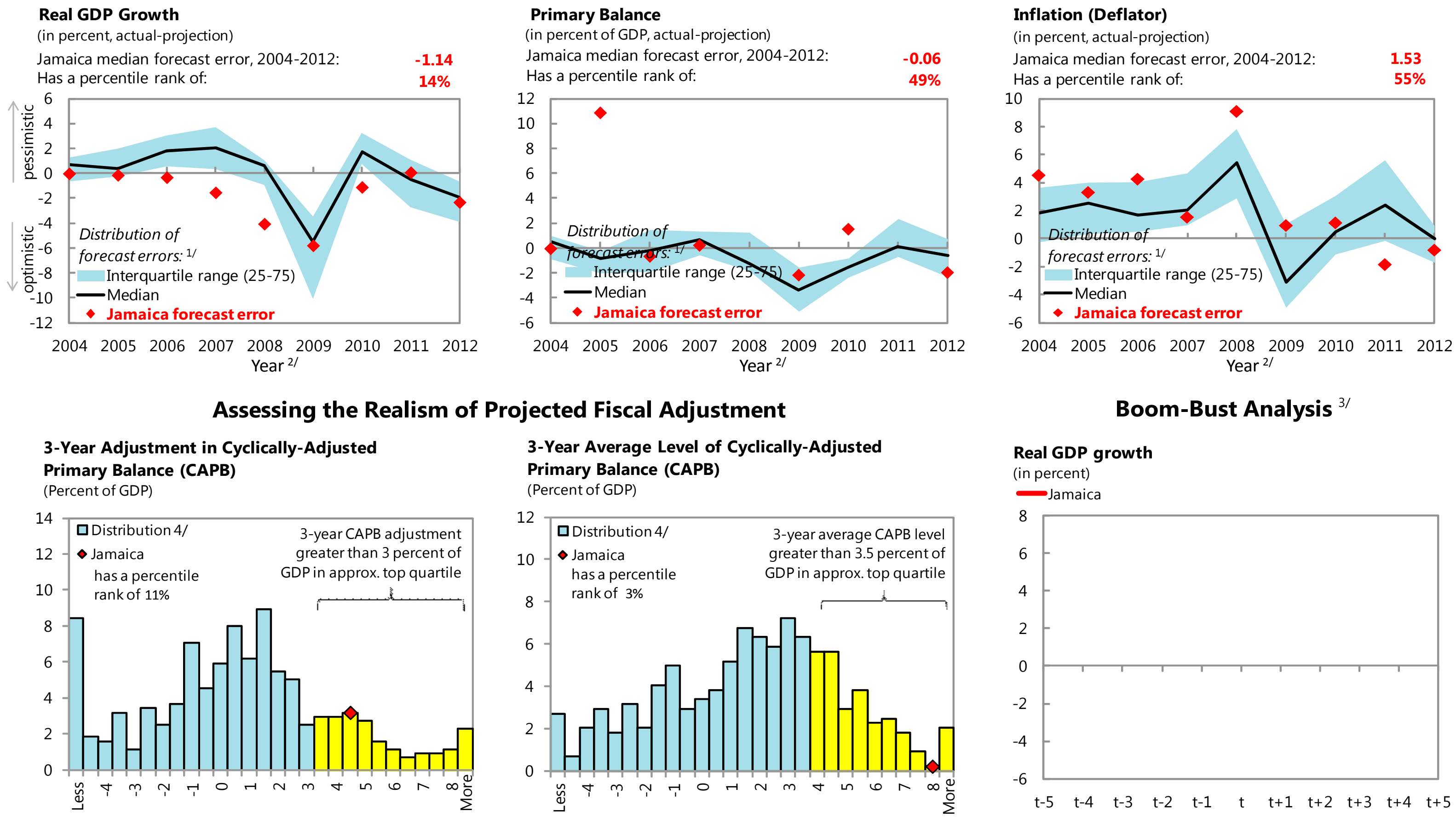
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 25-Jun-13 through 23-Sep-13.

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.

Annex I. Figure 2. Jamaica Public DSA – Realism of Baseline Assumptions

Forecast Track Record, versus program countries



Source : IMF Staff.

1/ Plotted distribution includes program countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Jamaica.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Annex I. Figure 3. Jamaica Public Sector DSA – Baseline Scenario

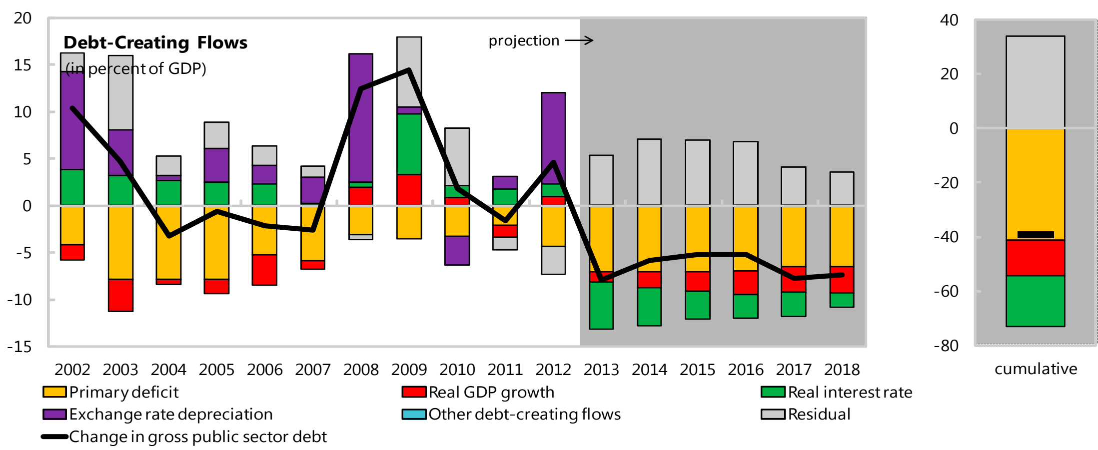
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of September 23, 2013		
	2002-2010 [2/]	2011	2012	2013	2014	2015	2016	2017	2018			
Nominal gross public debt	124.9	141.6	146.2	138.3	132.5	127.3	122.1	114.4	107.0	Sovereign Spreads		
Of which: guarantees	8.8	12.3	12.4	11.2	10.1	9.1	8.2	7.4	6.7	EMBIG (bp) 3/		811
Public gross financing needs	18.4	16.6	10.7	7.0	4.5	8.9	4.6	12.0	13.5	5Y CDS (bp)		n.a.
Real GDP growth (in percent)	0.6	0.9	-0.7	0.8	1.4	1.8	2.2	2.5	2.7	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	11.0	6.5	6.8	10.0	9.9	9.0	8.5	8.3	7.7	Moody's	Caa3	Caa3
Nominal GDP growth (in percent)	11.7	7.5	6.1	10.9	11.4	10.9	10.9	11.0	10.6	S&Ps	B-	B-
Effective interest rate (in percent) [4/]	13.4	7.8	7.8	6.2	6.7	6.6	6.5	6.1	6.4	Fitch	CCC	CCC

Contribution to Changes in Public Debt

	Actual			Projections							
	2002-2010	2011	2012	2013	2014	2015	2016	2017	2018	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	3.9	-1.6	4.6	-7.9	-5.8	-5.2	-5.2	-7.8	-7.3	-39.2	
Identified debt-creating flows	0.5	-0.3	7.6	-13.3	-12.9	-12.2	-12.0	-11.9	-10.9	-73.1	
Primary deficit [10/]	-5.5	-2.2	-4.4	-7.1	-7.0	-7.0	-7.0	-6.5	-6.6	-41.3	-4.3
Primary (noninterest) revenue and gra	24.5	24.6	24.8	26.8	26.7	26.8	26.7	26.8	26.8	160.6	
Primary (noninterest) expenditure	19.0	22.4	20.4	19.7	19.6	19.7	19.7	20.3	20.3	119.3	
Automatic debt dynamics [5/]	5.9	1.9	12.0	-6.2	-5.8	-5.1	-5.0	-5.3	-4.3	-31.8	
Interest rate/growth differential [6/]	1.9	0.5	2.3	-6.2	-5.8	-5.1	-5.0	-5.3	-4.3	-31.8	
Of which: real interest rate	2.5	1.7	1.4	-5.1	-4.1	-3.0	-2.5	-2.6	-1.5	-18.7	
Of which: real GDP growth	-0.6	-1.2	1.0	-1.1	-1.7	-2.2	-2.5	-2.8	-2.8	-13.0	
Exchange rate depreciation [7/]	4.0	1.4	9.7	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization Receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other debt flows (incl. ESM and Euro	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	3.5	-1.3	-3.0	5.3	7.1	7.0	6.8	4.1	3.5	33.9	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees, defined as .

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

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

5/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = 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 denominator in footnote 5 as r - π (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/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

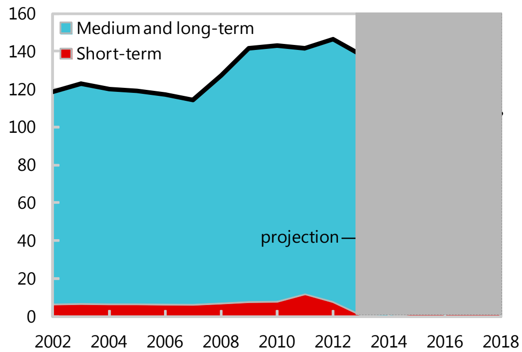
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

10/ Primary deficit in the DSA for Jamaica is lower compared to fiscal tables since the DSA excludes interest revenues.

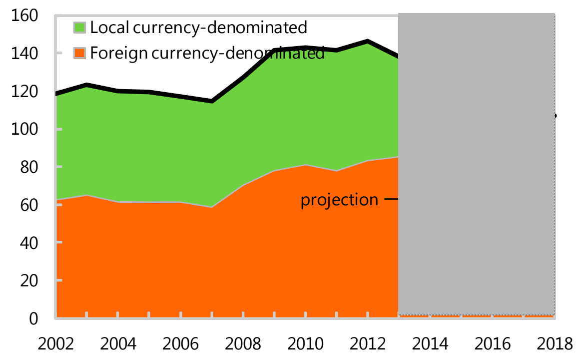
Annex I. Figure 4. Jamaica Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



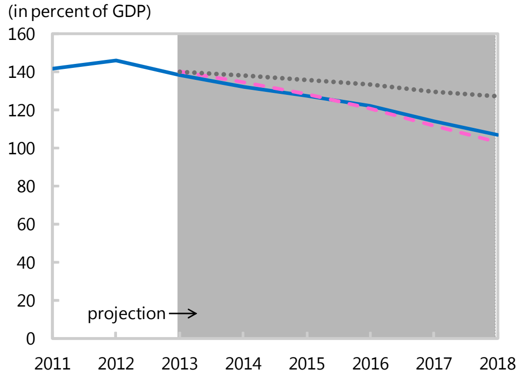
By Currency
(in percent of GDP)



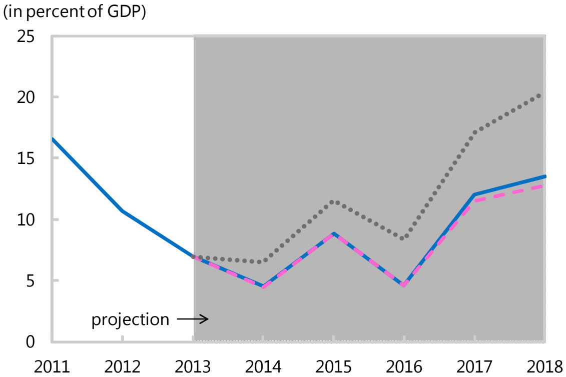
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

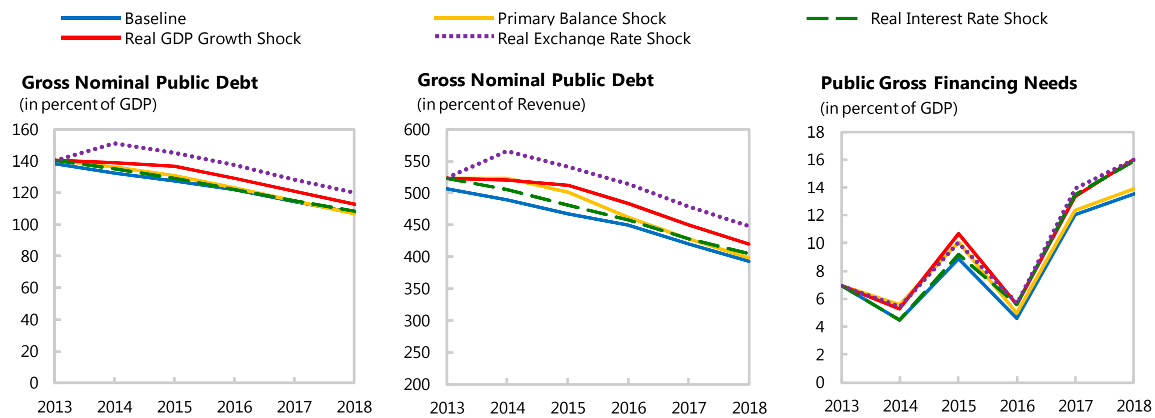
Baseline Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	0.8	1.4	1.8	2.2	2.5	2.7
Inflation	10.0	9.9	8.9	8.5	8.3	7.7
Primary Balance	7.1	7.0	7.0	7.0	6.5	6.6
Effective interest rate	6.2	6.7	6.6	6.5	6.1	6.4
Constant Primary Balance Scenario						
Real GDP growth	0.8	1.4	1.8	2.2	2.5	2.7
Inflation	10.0	9.9	8.9	8.5	8.3	7.7
Primary Balance	7.1	7.1	7.1	7.1	7.1	7.1
Effective interest rate	6.2	6.6	6.5	6.5	6.2	6.6

Historical Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	0.8	0.4	0.4	0.4	0.4	0.4
Inflation	10.0	9.9	8.9	8.5	8.3	7.7
Primary Balance	7.1	5.2	5.2	5.2	5.2	5.2
Effective interest rate	6.2	6.6	6.7	7.0	6.9	7.6

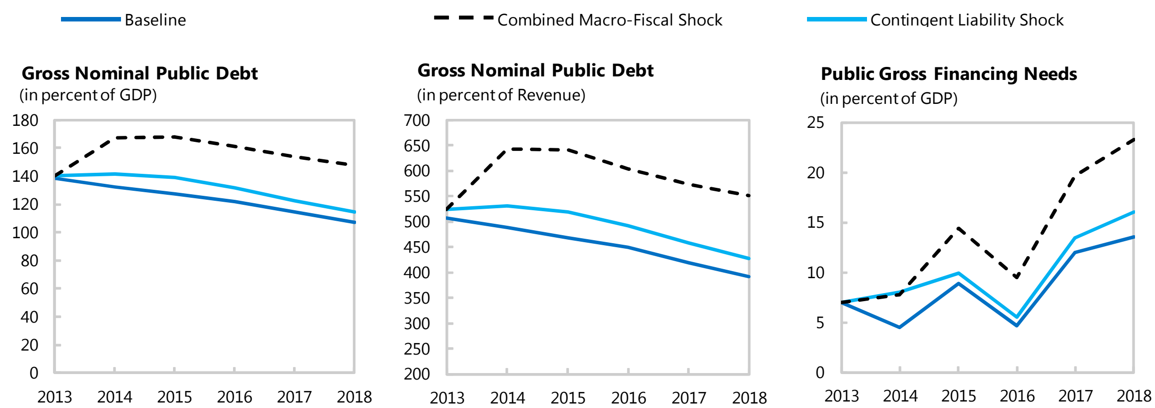
Source: IMF staff.

Annex I. Figure 5. Jamaica Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



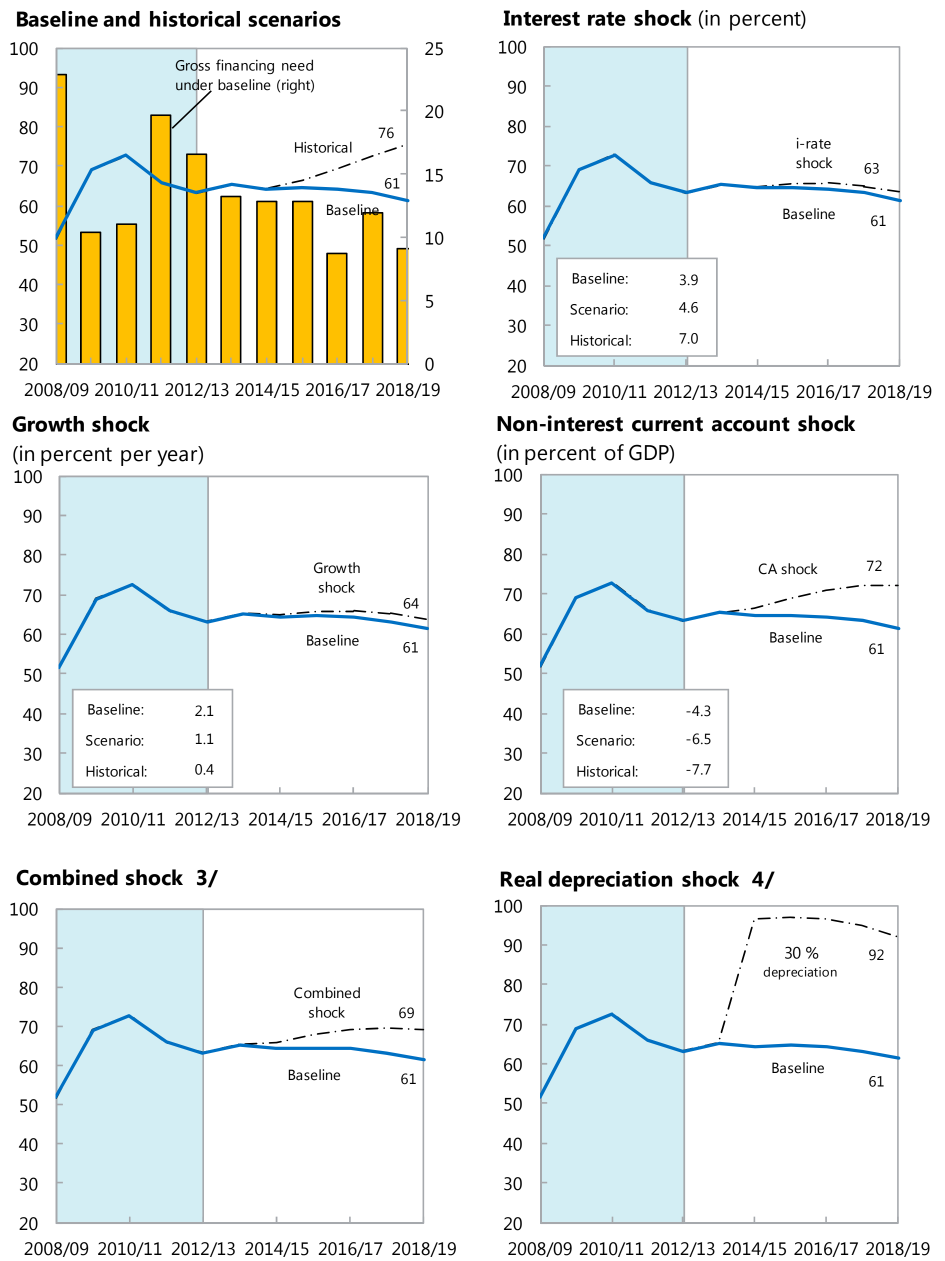
Underlying Assumptions
(in percent)

Primary Balance Shock	2013	2014	2015	2016	2017	2018
Real GDP growth	0.8	1.4	1.8	2.2	2.5	2.7
Inflation	10.0	9.9	8.9	8.5	8.3	7.7
Primary balance	7.1	6.0	6.0	7.0	6.5	6.6
Effective interest rate	6.2	6.6	6.5	6.5	6.2	6.5
Real Interest Rate Shock						
Real GDP growth	0.8	1.4	1.8	2.2	2.5	2.7
Inflation	10.0	9.9	8.9	8.5	8.3	7.7
Primary balance	7.1	7.0	7.0	7.0	6.5	6.6
Effective interest rate	6.2	6.6	6.8	7.3	7.2	8.3
Combined Shock						
Real GDP growth	0.8	-0.6	-0.2	2.2	2.5	2.7
Inflation	10.0	9.4	8.5	8.5	8.3	7.7
Primary balance	7.1	5.9	5.4	7.0	6.5	6.6
Effective interest rate	6.2	7.3	6.3	6.9	6.9	7.9

Real GDP Growth Shock	2013	2014	2015	2016	2017	2018
Real GDP growth	0.8	-0.6	-0.2	2.2	2.5	2.7
Inflation	10.0	9.4	8.5	8.5	8.3	7.7
Primary balance	7.1	6.6	6.1	7.0	6.5	6.6
Effective interest rate	6.2	6.6	6.5	6.5	6.2	6.5
Real Exchange Rate Shock						
Real GDP growth	0.8	1.4	1.8	2.2	2.5	2.7
Inflation	10.0	17.4	8.9	8.5	8.3	7.7
Primary balance	7.1	7.0	7.0	7.0	6.5	6.6
Effective interest rate	6.2	7.3	6.0	6.0	5.7	6.0
Contingent Liability Shock						
Real GDP growth	0.8	-0.6	-0.2	2.2	2.5	2.7
Inflation	10.0	9.4	8.5	8.5	8.3	7.7
Primary balance	7.1	4.1	7.0	7.0	6.5	6.6
Effective interest rate	6.2	6.9	6.4	6.4	6.1	6.4

Source: IMF staff.

Annex I. Figure 6. Jamaica: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2013/14.

Annex I. Table 1. Jamaica: External Debt Sustainability Framework, 2008/09-2018/19
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2008/09	2009/10	2010/11	2011/12	2012/13			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	51.7	69.0	72.7	65.9	63.3			**65.3**	**64.3**	**64.5**	**64.3**	**63.1**	**61.3**	**-2.8**
Change in external debt	1.1	17.3	3.6	-6.8	-2.6			2.0	-0.9	0.2	-0.3	-1.1	-1.9	
Identified external debt-creating flows (4+8+9)	13.0	8.6	1.0	8.3	10.2			6.3	4.0	2.8	1.8	1.6	1.7	
Current account deficit, excluding interest payments	15.0	3.6	5.4	11.6	9.3			7.9	6.6	5.0	3.5	3.1	3.1	
Deficit in balance of goods and services	30.1	18.1	20.3	25.2	23.8			22.6	21.3	19.2	17.4	16.2	15.6	
Exports	37.9	33.2	29.8	29.4	30.3			31.3	31.2	33.1	33.7	33.4	32.7	
Imports	68.0	51.3	50.0	54.6	54.0			53.9	52.6	52.3	51.1	49.6	48.3	
Net non-debt creating capital inflows (negative)	-5.3	-3.3	-1.0	-1.5	-1.7			-4.2	-4.5	-3.7	-2.7	-2.1	-1.9	
Automatic debt dynamics 1/	3.3	8.3	-3.3	-1.8	2.7			2.5	2.0	1.5	1.1	0.6	0.5	
Contribution from nominal interest rate	3.9	4.1	3.6	3.2	3.1			3.1	2.9	2.6	2.5	2.1	2.1	
Contribution from real GDP growth	0.9	1.6	0.4	-0.6	0.5			-0.5	-0.9	-1.1	-1.4	-1.5	-1.6	
Contribution from price and exchange rate changes 2/	-1.5	2.6	-7.3	-4.4	-0.9			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-11.9	8.7	2.6	-15.0	-12.9			-4.3	-5.0	-2.6	-2.1	-2.7	-3.5	
External debt-to-exports ratio (in percent)	136.4	208.2	244.1	224.1	209.1			208.3	205.9	195.3	190.7	189.1	187.6	
Gross external financing need (in billions of US dollars) 4/	3.0	1.3	1.5	2.9	2.4			1.9	1.8	1.9	1.3	1.9	1.5	
in percent of GDP	22.9	10.4	11.0	19.7	16.6			13.2	12.8	12.8	8.7	11.9	9.1	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**65.3**	**64.5**	**66.3**	**69.4**	**72.8**	**75.6**	**-2.8**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	-1.8	-2.8	-0.6	0.9	-0.7	0.4	2.0	0.8	1.4	1.8	2.2	2.5	2.7	
GDP deflator in US dollars (change in percent)	3.0	-4.8	11.8	6.5	1.4	3.9	5.6	-3.8	-0.9	-0.7	0.6	1.9	2.3	
Nominal external interest rate (in percent)	7.7	7.4	5.8	4.8	4.8	7.0	1.4	4.7	4.5	4.1	4.0	3.5	3.5	
Growth of exports (US dollar terms, in percent)	-5.9	-19.1	-0.3	6.2	3.6	3.5	10.1	0.4	0.2	7.0	4.8	3.5	2.8	
Growth of imports (US dollar terms, in percent)	0.5	-30.3	8.3	17.4	-0.4	6.0	15.2	-3.2	-2.1	0.5	0.5	1.5	2.3	
Current account balance, excluding interest payments	-15.0	-3.6	-5.4	-11.6	-9.3	-7.7	4.4	-7.9	-6.6	-5.0	-3.5	-3.1	-3.1	
Net non-debt creating capital inflows	5.3	3.3	1.0	1.5	1.7	4.7	2.8	4.2	4.5	3.7	2.7	2.1	1.9	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Appendix I. Letter of Intent

Kingston, Jamaica
December 3, 2013

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde,

Jamaica has made a strong start in implementing its EFF-supported economic reform programme aimed at overcoming the long-standing problems of low growth and high debt. All quantitative fiscal and monetary performance criteria at end-June and at end-September 2013 were met, as were the associated indicative targets. The government has also implemented all of the structural benchmarks that were included in the programme. While economic growth remains weak and unemployment much too high, we are confident that the benefits of our strategy will become increasingly evident over time, as a more stable macroeconomic environment, a credible return to debt sustainability, and an improved business climate will attract new investments and result in durable job creation and increased prosperity.

The Government remains fully committed to meeting the objectives of the programme, as well as the specific targets set out in the April 2013 Memorandum of Economic and Financial Policies (MEFP), and its September 2013 supplement. In the fiscal area, the government will press ahead with implementing comprehensive tax reform, prepare and legislate the fiscal rule, and adopt a range of measures to strengthen public financial management. In the financial sector, the government is moving forward with reforms to facilitate the transition by securities dealers towards a more robust business model.

Appendix 1 to this letter is a further supplement to the MEFP, presenting performance under the EFF-supported programme so far, and updates some specific policies to meet the programme's ultimate objectives, including the associated quantitative targets and structural benchmarks. Appendix 2 is the updated Technical Memorandum of Understanding.

On the basis of our performance under the programme thus far, as well as our sincere commitment to the continued implementation of the program, including its proposed revisions, the government requests that the Executive Board of the IMF complete the second review of the extended arrangement under the Extended Fund Facility, modify the availability date for the purchase associated with the second review to December 18, 2013, approve the proposed revisions of performance criteria as well as new performance criteria for September 2014, and approve the third purchase under the arrangement of SDR 19.97 million.

The government believes that the policies described in the MEFP of April 17, 2013, the MEFP supplement of September 13, 2013, and the attached supplement are adequate to achieve the programme's objectives. However, if necessary, the government stands ready to take any additional measures that may be required. The government will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

The government will also provide the Fund staff with all the relevant information required to complete programme reviews and monitor performance on a timely basis. The government will observe the standard performance criteria against imposing or intensifying exchange restrictions, introducing or modifying multiple currency practices, concluding bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement and imposing or intensifying import restrictions for balance of payments reasons.

As part of our communication policy, we intend to publish this letter on the websites of the Ministry of Finance and Planning and the Bank of Jamaica to keep domestic and international agents informed about our policy actions and intentions. In that regard, we authorize the Fund to publish this letter and its attachments.

Very truly yours,

/s/

Peter D. Phillips,
Minister of Finance and Planning
Jamaica

/s/

Brian Wynter
Governor, Bank of Jamaica
Jamaica

Attachment 1. Jamaica—Supplementary Memorandum of Economic and Financial Policies

BACKGROUND AND RECENT DEVELOPMENTS

1. On May 1, 2013 the Fund's Executive Board approved a four-year extended arrangement under the EFF in support of Jamaica's economic reform programme. This programme includes critical steps and policy reforms to significantly improve the fiscal and debt positions and growth-enhancing structural reforms. The First Review of the program was completed on September 30, 2013.

2. Economic performance during the first half year of the programme period has been mixed, reflecting a challenging economic environment.

- **Economic Growth.** Real GDP is estimated to have increased slightly in the first half of FY2013/14, with growth in the July to September quarter estimated at 0.6 percent, supported by growth in tourism, mining and agriculture. Growth for 2013/14 remains projected at 0.8 percent.
- **Inflation.** Consumer price inflation reached 10.3 percent (year-on-year) in October 2013, reflecting increased administered prices and the pass-through of nominal depreciation into domestic prices.
- **Balance of Payments.** The current account deficit is now projected at 10 percent of GDP in 2013/14, down from 12.5 percent in 2012/13, supported by nominal exchange rate depreciation. Net international reserves (NIR) declined to US$910 million by end-September 2013, largely reflecting seasonal effects, and in compliance with the program's NIR target. As of end-November, reserves amounted to US$836 million. A gradual increase in reserves is expected for the remainder of the fiscal year due to growth in multilateral inflows, as well as incremental improvements in net private capital flows.
- **Public Finances.** Fiscal performance in the first half of the year was mixed. Relative to the budget, revenues underperformed mainly due to lower imports and weak economic and labor market conditions. For the same reasons, the new tax measures implemented at the beginning of the fiscal year are not yielding the intended impacts. At the same time, both recurrent and capital expenditure have been contained. As a result, all fiscal performance criteria were met including the primary balance target, the overall public sector balance target, and the indicative targets on revenues and social expenditure.

PERFORMANCE UNDER THE PROGRAMME

3. Overall policy implementation under the programme remains strong and structural reforms are progressing. All quantitative performance targets and indicative targets for end-September were met (Table 1). All structural benchmarks to date have also been met in a timely manner, with one exception: the tabling of the fiscal incentives legislation, originally scheduled for end-September, was subject to a minor delay. This delay does not affect the effectiveness of the new incentive regime.

POLICIES FOR THE REMAINDER OF 2013/14 AND BEYOND

4. The government remains fully committed to the reform strategy and the supporting policies outlined in the April 2013 MEFP and its September 2013 supplement. Unless modified below, that strategy and those policies remain valid in full. The quantitative targets that serve as performance criteria and indicative targets under the programme have been updated, and extended through September 2014. These updated targets are presented in Table 1. The structural conditionality under the program, incorporating several modifications discussed below, is presented in Table 2.

5. The Government is committed to implementing the budget for 2013/14 and meeting the associated program conditions. Given the need to address possible shortfalls in revenue, we have identified expenditure contingencies equivalent to 0.5 percent of GDP, including a wide range of current and capital spending categories. The performance of the public bodies will be monitored closely to ensure that the overall balance of the public sector is met, and price adjustments and other measures will be implemented as needed to ensure cost-recovery. At the same time, given the inherent complexity of controlling the performance of Petrojam on a cash basis (with the timing and sourcing of oil purchases resulting in large swings), a new cumulative adjuster will be included for the performance criterion on the public sector balance of up to J$3.5 billion (over the year) that accommodates excesses or shortfalls of PetroJam overall balance relative to its projected path.

Tax Reforms

6. Comprehensive tax reform is a key plank of our economic reform programme. The tax system needs to become much more supportive of economic growth and employment creation. This will be done by simplifying the system, reducing economic distortions, eliminating ministerial discretion in the granting of incentives, broadening the tax base, and reducing rates, while keeping the overall tax reform revenue neutral. The tax reform measures will be based on these principles such that they will result in a reduction of tax expenditures from around 6 percent of GDP in recent years to 2½ percent by 2015/16. The new system should lead to a significant reduction in the cost of compliance, and will be effective at the start of FY2014/15. As first steps of the reform, a Charities Act was tabled in parliament in mid-September 2013; and Fiscal Incentive Legislative Instruments in October.[1] The government is also finalizing a blueprint of all the key elements of the reform.

7. The Charities Act establishes a new and strict registration process for charitable organizations. Effective 1 December 2013, all new applications (organizations/individuals) must be registered under the new regime, in order to be eligible for exemptions granted under the Act.

[1] These instruments comprise the Income Tax Relief (Large Scale Projects and Pioneer Industries) Act, 2013, and the Fiscal Incentives (Miscelleaneous Provision) Act, 2013.

A transitional period of six months has been provided under the Act to existing charities, to facilitate registration, at the end of which if not registered as per the new regime, these entities would no longer qualify to benefit from requisite exemptions.

8. The Fiscal Incentives Legislative Instruments will put in place a rule-based regime for limited tax incentives that will replace existing (mostly sectoral) schemes. Incentives outside the Fiscal Incentives Legislative Instruments will be explicitly cancelled by the Instruments, which will become the only source of such incentives, except in the instances stated below. New incentives will take the form of tax credits for personal and corporate income taxes only, and incentives will be defined as the amount credited against the CIT/PIT payable in any fiscal year. There will be no ministerial discretion in granting tax incentives. Incentives provided under the Urban Renewal Programme will be maintained at this stage, as will the existing incentives for venture capital investment under the income tax act. The existing incentives under the Bauxite and Alumina Industries Act will also be retained. For pioneer/"mega" projects that are growth-enhancing, specific tax credits could be provided in the context of the budget, with parliamentary approval, up to an overall annual cap of 0.25 percent GDP on this tax expenditure. The existing regime for the establishment and operation of Export Free Zones from which limited licensed activities can be conducted under strict conditions will be maintained at this stage. This regime will be subject to a review to ensure compliance with commitments to the WTO and to ensure that the covered enterprises will be subject to CIT on profits.

9. The main elements of the reform of the Corporate Income Tax (CIT) are:

- Regarding **tax rates**, the distinction between regulated and unregulated companies will be maintained for now. For regulated companies, the headline rate will remain at 33.33 percent. The headline CIT rate for unregulated entities will be harmonized at 25 percent, eliminating the 5 percent surcharge on specified unregulated entities.
- An across-the-board **Employment Tax Credit (ETC)** will apply to registered companies engaged in the conduct of a trade, based on a percentage of specified labour costs. The computation of the ETC will be transparent and verifiable, and based on payroll tax payments by registered companies. The ETC rate will be specified as the combined HEART, NIS, NHT and Education Tax payments, capped at 30 percent of income tax chargeable in respect of trading income (as adjusted for tax purposes) and net of tax losses carried forward claimed in the year of assessment (subject to the cap below). Income tax chargeable on non-trading income will not be eligible for reduction via use of ETC, and regulated companies will not be eligible for the ETC.
- Increased **Initial Capital Allowances (ICAs)** will apply to specified newly acquired (i.e. new and used) plant and equipment. ICAs on plant and equipment will be increased to 25 percent (from 20 percent), and their application will be broadened to a wider range of eligible plant and equipment. In addition, ICAs will be more broadly applied to buildings and structures to include a wider range of industrial buildings and structures (including hotels and hospitals). However, ICAs would be applicable only to new investment (i.e. original construction, refurbishing and renovation) in such industrial buildings and structures. A straight-line method of capital allowances will replace the reducing balance method.

- A cap of 50 percent of chargeable income (before deduction of tax losses) will be established on the amount of **losses** of previous years that can be used to offset taxable CIT and PIT income. This restriction shall not apply where (a) the period of assessment is less than 5 years after the year of incorporation and/or registration of the entity, or (b) the turnover of the entity is below J$3 million. Unused tax losses can be carried forward.

- Entities choosing **grandfathering** (i.e., using pre-existing incentive schemes) will not be entitled to new incentives until those grandfathered incentives have expired or until they opt out of their grandfathered regime, as per procedures described in the Fiscal Incentives Legislative Instruments. Moreover, the 10 percent non-standard GCT rate for tourism services will only be accessible under the new fiscal regime. Companies choosing grandfathering of their CIT incentives will be required to pay the standard GCT rate of 16.5 percent. The government will conduct an entity by entity review of all grandfathered entities and of their regime by end-2014/15 (*new structural benchmark for January 2015*), to serve as a basis for discussion to speed up transition to the new regime by mutual agreement between authorities and entities.

- If a tax audit determines that the company was not current on its obligations in any year, then in addition to the usually applicable penalties the new incentive regime will include provisions to allow for a claw back of tax incentive credits granted in that year, and a suspension of eligibility for future tax incentive credits until compliance is assessed to be satisfactory.

- A **Minimum Business Tax** (MBT) will be established, payable by locally registered companies equal to a flat nominal amount, periodically specified, and initially at J$60,000. The MBT will apply to every registered company, and every individual who operates as a business and who is registered or liable for registration for GCT purposes. The MBT payable will be creditable against income tax chargeable for the year of the assessment.

- The system of tax relief for companies listed on the **Junior Stock Exchange Market** (JSEM)—with market capitalization not exceeding US$5 million—will gradually be phased out. For companies listing from January 1, 2017, no special relief from CIT would be available. Companies that list on the JSEM from January 1, 2014 (the effective date of the new fiscal incentive legislation) until December 31, 2016 will be granted income tax relief for a maximum period of five years (with an income tax relief rate of 100 percent). Companies that are already listed or list prior to January 1, 2014 will be grandfathered for the remainder of their initial ten year concession period. Companies benefitting from the JSEM income tax relief would not be eligible for the Employment Tax Credit and specified incentives for pioneer activities until after the expiration of their concession period. However, firms may opt to forgo JSEM income tax relief to become eligible for the tax treatment under the new Fiscal Incentives Act. Tax expenditures associated with JSEM income tax relief granted to entities will be capped at a level to be prescribed by the Minister of Finance and Planning in consultation with Fund staff.

10. Further reforms to the Income Tax legislation include:

- The amalgamation of statutory payroll deductions.
- Over the medium term, a convergence of personal and corporate income tax rates to a uniform standard headline rate is envisaged, subject to available fiscal space and the attainment of revenue targets.

11. The main elements of the reform of the General Consumption Tax (GCT) are:

- The zero-rating for government purchases will be eliminated;
- Tax exemptions will be reduced;
- A study will be conducted by March 2014 on the scope for imposing GCT on petroleum products; its conclusions will guide possible implementation in FY2014/15;
- And startup companies will be allowed to claim GCT refunds for excess credit immediately.

12. An amendment to the Customs Act was tabled in parliament in November 2013. The main elements of the reform of foreign trade tariffs are:

- The tariff structure will be simplified by reducing import tariff dispersion, eliminating anomalies and opportunities for misclassification and substantially reducing higher rates;
- Import duties will be capped for non-agricultural imports, normally at 20 percent, and in exceptional cases at 40 percent. For agricultural imports, tariff rates at or below 40 percent will generally be reduced to the default rate of 20 percent, however, in exceptional cases, the CET rates above 50 percent will be maintained (poultry, milk and cream, including milk powder, and vegetables). In any case, these rates will be held compliant with CARICOM/CET agreements;
- The Government also intends to promote amendments to the CARICOM tariff regime with the objective of reducing tariff dispersion further;
- In addition, while maintaining compliance with the CARICOM tariff regime, import duties on essential inputs for domestic producers can be zero rated. The government will seek IDB support for strengthening the process to minimize abuse, through lists of eligible inputs, strong administrative controls, and appropriate penalties. The lists presenting such inputs will be subject to parliamentary review.

13. Reforms to strengthen tax and customs administration are proceeding. In October 2013, we put in place the necessary regulations to implement a write-off programme. Further steps to improve tax and customs administration will be guided by the Tax Reform action plan prepared in collaboration with the IDB. In this context, next steps include:

- Ensuring the effectiveness of the expanded LTO through training, infrastructure, and improved management.

- Further revisions to the Revenue Administration Act to strengthen the powers of the Tax Administration Jamaica (TAJ) and the Jamaica Customs Administration (JCA) to collect outstanding arrears (including powers to seize and sell taxpayers' property, harmonized penalties and fines, and mandatory income tax filing for every business), to be in place by March 2014.
- Concluding discussions with banks to reduce excessive charges for processing tax and customs revenue receipts. To achieve this, the government has established a high-level committee. New e–payment options will be introduced by end-December 2013.
- Establishing concrete steps to increase electronic filing, based on the recent amendment to the RAA. In particular, by end-March 2014, e-filing will be mandatory for LTO clients with respect to the GCT and CIT and for all clients with respect to payroll taxes (new structural benchmark).
- Actions regarding the TAJ integrated tax administration IT system: contracting the vendor for the product (December 2013), and commencing the customization of the software (February 2014) with phased implementation to be completed—for the GCT, SCT, income taxes, and PAYE—over 14 months. This timetable is consistent with an action plan developed in consultation with the IDB.
- Actions regarding the JCA integrated IT system, following the publication of the RFP. In particular, we will implement ASYCUDA, and reengineer the associated work processes in line with this system during 2014.
- Utilization of RTGS for payment of all duties and taxes on imports for all entries by March 2014. Phase I was implemented January 2013, for travel tax and passenger levy payments. Phase II is to include duties and other taxes, which is scheduled to begin March 2014.
- The continued improvement of JCA accounting and financial systems, through the introduction of ACCPAC (Accrual Accounting System) by March 2014, in compliance with the Executive Agency Regulatory Framework.
- Establish the Revenue Appeals Division as a separate, independent entity, with World Bank support.

A Fiscal Rule

14. The government has prepared a conceptual framework for a fiscal rule to enhance fiscal transparency, and lock in the gains of fiscal consolidation. The transparency and automaticity of fiscal adjustment will be enhanced by an explicit, time-bound adjustment path to sustainability. Key elements are:

- The framework aims to limit the annual budgeted overall fiscal deficits of the public sector (covering all fiscal activities), to achieve a reduction in public debt to no more than **60 percent of GDP by 2025/26**.

- The rule will establish an **automatic correction mechanism** that would be triggered by substantial cumulative deviations from the annual overall balance target. Ex post deviations from the fiscal balance target will be debited in a notional account. Once the cumulative deviations exceed a pre-specified threshold, additional fiscal adjustment would be required in subsequent fiscal years to correct for these deviations to bring fiscal performance back in line with the fiscal rule. The application of the automatic correction mechanism can exempt specified social spending from potential adjustment.

- The rule will also include an **escape clause**, limited to major adverse shocks and triggered only with parliamentary approval. The clause will pre-define a clear list of events or shocks that could have a serious adverse impact on public finances, and specify measurable conditions for triggering the clause, such as declines in GDP or fiscal revenues. Independent validation of the event or shock will be required before the escape clause can be initiated by the Ministry of Finance and Planning.

- **Coverage** of the fiscal rule will take into account all fiscal activities associated with the public sector, as well the fiscal implications of PPPs (capturing all associated actual or contingent fiscal liabilities and risks).

- The effectiveness of the current **enforcement and compliance regime** will be further enhanced to encourage greater ex ante compliance with the new rules-based framework. Measures will include transparency and accountability through parliamentary hearings and public statements by officials. The Minister of Finance and Planning will be required to explain deviations from the fiscal rule in a mid-term budget review in parliament, and outline corrective steps to get back on track with the annual fiscal rule target.

15. The next steps leading to implementation of the fiscal rule are now being put in place, to ensure that the fiscal rule can take effect starting with the next (2014/15) fiscal year:

- **The government will initiate a broad public information campaign on the objectives and features of a new fiscal rule before its legal implementation.**
- **The rule will be embedded in an effective legal framework.** The relevant existing legislation (in the Financial Administration and Audit (FAA) Act, the Public Bodies Management and Accountability (PBMA) Act, and the Public Debt Management Act (PDMA) will be amended to implement the fiscal rule. As experience is gained under the rules-based framework, consultations with public stakeholders will continue on possible steps for further strengthening the legal foundations of the fiscal rule.
- **Approval by Cabinet of the conceptual framework for the fiscal rule is foreseen by end-December, 2013.**
- **The government will develop mechanisms to closely monitor possible fiscal costs and contingencies associated with possible PPPs.** In particular, the Ministry of Finance will develop the capacity to: (i) analyze PPP contracts, which includes the proper identification of direct fiscal

impacts and valuation of contingent obligations to ensure consistency with the fiscal rule; (ii) disclose fiscal risks (both explicit and implicit); and (iii) conduct value-for-money analyses.

- **The capacity of the Office of the Auditor General (OAG) will be augmented**, to allow it to provide an independent assessment of the macroeconomic and budget forecasts underpinning the budget, as well as the quality of adjustment measures, and the proper treatment of PPPs. Additional resources will be provided to the OAG so that it can recruit additional experts in public finance and macroeconomics.
- **The government will also consider legal options for strengthening the sanctions regime to enhance the credibility of the fiscal rules.** Possible avenues include clarifying the legal possibility of the non-renewal or dismissal of public officials for non-compliance; strengthening the oversight role of Parliament in reviewing Ministerial actions on recommendations by the Attorney General and the Auditor General; reviewing the low cap on money penalties; and aligning the sanctions process for government departments and public bodies for a more equitable (and streamlined) process.

Reforms to Public Financial Management and the Budget Process

16. In line with the program, the government has updated its action plan for public financial management reform. The government is committed to its implementation, in collaboration with its development partners. In this context:

- The central treasury management system (CTMS), which has been established ahead of schedule (existing end-March 2014 structural benchmark), will be strengthened by including modules for the tracking of expenditures.
- The Accountant General's Department (AGD) will be the Treasurer of the single treasury account, and the process for transitioning of the AGD into a modern treasury department by March 2016 commenced in April 2013 with a consultancy to develop a strategy to guide the transition.
- The adjusted Chart of Accounts will be implemented by November 2014.
- The GOJ will strengthen the efficiency and quality of the GOJ procurement process thereby improving the ease of doing business and reducing costs by:
    - Implementing the Electronic Tendering System which will be procured by March 31, 2014 and be implemented in five pilot entities during the financial year 2014/15.
    - The publication of a GOJ Public Procurement Page in the print media by January 2014 which will enable procurement management through a centralized process.

17. In addition, the government will prioritize reforms that are needed to underpin the forthcoming fiscal rule:

- In October, the cabinet approved a detailed budget calendar for the 2014/15 budget, thereby meeting the structural benchmark in this area. A budget for FY2014/15 that is consistent with and supports our economic program will be tabled by end-April 2014 (*new structural benchmark*).

- To improve public investment planning, a more unified treatment of all public investments is envisaged, so that planning is done in a more managed and consistent manner, under the improved Public Investment Management System (PIMS), designed with World Bank support. A comprehensive Public Sector Investment Program (PSIP) will be tabled in parliament by end-April 2014 (*new structural benchmark*), as a rolling five-year plan, comprised of Cabinet-approved, prioritized investment projects, to be reviewed on a regular basis. The improved PIMS will be supported by a high-level Public Investment Management Committee, and the creation of a Project Data Bank.
- The government has prepared a work plan to strengthen budget preparation, guided by recent FAD TA on the fiscal rule. Key elements include establishing a permanent binding budget calendar (envisaging budget approval prior to the fiscal year, starting with the budget for FY2015/16, to be approved by Cabinet by May 2014), early and accurate budget envelopes and priorities, and a policy to limit the use of virements (authorizing the transfer of funds within the budget and of ex-post regularization of unbudgeted spending through supplementary budgets (to be completed and approved by June 2014). A further priority will be to strengthen the development of realistic budget apportionment plans.
- Improving the revenue forecasting to avoid continuous deficit bias will be a policy priority. For this purpose, we have requested technical assistance, with funding from CIDA.
- The government has also prepared a work plan to strengthen procedures for budget execution and cash management. In order to improve the Commitment Planning and Control system in central government, an automated Purchase Order Module will be added to the FinMan PFM system. In addition the Commitment Planning and Control Module will be activated. The Upgraded Commitment Control System and the Purchase Order Module are to be:
    - a) Developed and tested by December 31, 2013.
    - b) Piloted in the Ministry of Finance and Planning between January and February 2014.
    - c) Implemented in all MDAs by April 1, 2014.
- Improving cash and debt management is a priority and technical assistance will support reforms in these areas: a) improve cash flow forecasting techniques and develop reliable forecasts of cash flows and more timely monitoring through the Treasury Single Account (TSA) system; b) enhance the TSA in terms of coverage and procedures; c) develop debt management actions based on the established debt strategy, which is linked to fiscal strategy, and train staff in the middle office of the debt management branch.

Debt Reduction

18. The scheduled reduction in public debt through debt-asset swaps and asset sales and a reduction in guarantees has progressed in line with the programme. The government will establish the legal and administrative processes involved as well as a workplan for their completion. In June 2013, the GOJ completed a preliminary valuation of assets that will be used to reduce public debt by at least 1.0 percent of GDP. In designing these transactions, the government will seek to ensure sound public sector governance. A reduction in guaranteed debt by at least one percent of GDP will also be implemented. Furthermore, the government is committed to ensuring that any new debt guarantees will be consistent with the applicable limits under the Public Debt Management Act.

Public Sector Reform

19. The government remains committed to improving the efficiency, quality and cost effectiveness of the public sector. The Fiscal Responsibility Framework sets a target for reducing the size of the wage bill to 9 percent of GDP by March 2016. The terms of reference for technical assistance for the review of public sector employment and remuneration has now been completed and a consultant from the IDB has been contracted, and the review is expected to be finalized by end-March 2014 (*unchanged structural benchmark*). To support a rationalization of public sector employment, we will improve the public service databases in e-Census by ensuring that it is up to date and covers all Ministries, Departments and Agencies (MDAs) by end-March 2014. The procurement of the human resources software system (the enterprise HR system) is progressing and is expected to be contracted by end-May 2014. The implementation of the system is expected to be completed by end-September 2014 for the TAJ and the JCA. Public sector pension reform aimed at ensuring that the system is sustainable in the long run, with more efficient management of public pensions and improved monitoring arrangements, is underway with the support of the World Bank. The White Paper on pension reform was approved by cabinet in October and is expected to be tabled by end-December 2013. The new public sector pension system is expected to be implemented by 2016, with the support of the World Bank.

FINANCIAL SECTOR REFORMS

20. The government confirms its intention to phase out the retail repo model over time and allow the sector to provide a wider range of financing services, including collective investment schemes (CIS). To achieve this objective, as a first step, efforts will be accelerated to make less risky business models available to securities dealers. In particular, by end-December 2013, the authorities will: (i) amend the Securities Act and attendant regulations to establish a comprehensive framework for the regulation of CIS; (ii) amend the income tax law to remove double taxation of CIS; (iii) reform the Companies Act to eliminate (or exempt CIS from) the need to register unit-holders in the companies' registry; and (iv) publicly commit to a timetable for raising the cap on investments in foreign securities from 5 percent of assets to at least 25 percent by end-2015, and removing the cap by end-2016 unless extraordinary circumstances require a reassessment (*unchanged structural benchmark*).

21. Detailed steps for the securities dealers sector reforms are being prepared in collaboration with Fund staff, to reduce the risks of the retail repo product until it is phased out. We have developed a concrete and comprehensive plan of action with specific deadlines, covering: (i) legal and regulatory reforms (e.g. to the prudential framework for securities dealers and regulation for a master repo agreement, among others); (ii) effective monitoring and additional reporting to address post-NDX vulnerabilities by the Financial Services Commission (FSC), as well as enhanced stress testing by the FSC and Bank of Jamaica (BOJ); (iii) sequencing and timing of reforms; and (iv) in consultation with the Fund, contingency planning, including improving the insolvency regime that deals with failures of securities dealers.

22. In consultation with Fund staff, the government will establish a distinct treatment for retail repo client interests in the legal and regulatory framework in order to protect their interests prior to and in the event of the insolvency of a securities dealer, including a single, local master repurchase agreement for retail repo transactions that defines the parameters for client disclosure and for dealer substitution of underlying collateral (structural benchmark, March 2014). In line with the structural benchmark, we intend to mitigate the risks to retail repos clients by establishing a Trust to hold the underlying securities on their behalf during the transition period for the phasing out of the retail repo business model and will have the legal and regulatory framework in force by end-March 2014 to facilitate the migration of the retail repos to the Trust. The framework will comprise the (1) standardized legal documentation for the repo transactions, including a master repurchase agreement and trust deed; (2) reporting and other regulatory requirements for the securities dealers who are parties to retail repurchase agreement; (3) reporting and other regulatory requirements for the Jamaica Stock Exchange entities that will serve as custodian and trustee with respect to the trust arrangement; and (4) definitive legal treatment for the retail repo client interest in the event of a dealer's insolvency. The Trust will be responsible for the custody of the securities underlying retail repo transactions. It will also facilitate the taking of appropriate actions in the event of a transaction failure or default. A key function of the Trust arrangement will be to ensure that securities are allocated to retail repo clients on a one-to-one basis, and that such securities would be held apart from the dealer's estate in the event of its insolvency. The Trust arrangement is intended to ensure that funds and securities flow in accordance with the terms of the repo agreement. A high-level Steering Committee with representation of the Ministry of Finance and Planning, the BOJ, the FSC and the JSE has been set up to provide oversight in setting up the Trust arrangement.

23. A gradual tightening of prudential standards envisaged over the medium term will facilitate the phasing out of the retail repo model. This could include a gradual tapering of the intermediation ratio, as well as tightening of capital and leverage ratios, implementing a minimum transaction size of retail repos, and regulating the ability of investors to close down their repo positions early, prior to the contractual maturity date.

MONETARY AND EXCHANGE RATE POLICY

24. Monetary policy remains aimed at achieving single digit inflation within a flexible exchange rate regime. For FY2013/14, the BOJ's forecast for inflation remains in the range of 8.5 percent to 10.5 percent. Over the longer term, the objective is to achieve a gradual reduction of inflation to a rate that is consistent with that of our main trading partners.

25. The BOJ will continue to ensure that liquidity in the financial system is appropriate. Following the National Debt Exchange (NDX), the implementation of CTMS, and the BOJ's open market policies, the financial system faced liquidity pressures. To counter these developments, starting mid-September 2013, the BOJ has been conducting repo operations to inject liquidity into the financial system. Further, by end-December 2013, the Bank will establish a standing facility for overnight access to liquidity for commercial banks. The BOJ will continue monitoring developments in the money markets and take the necessary actions to ensure that financial institutions operate with appropriate levels of liquid resources.

26. The BOJ is developing an operational agenda to allow a move towards inflation targeting over the medium term. The BOJ will develop a timetable for establishing the basic requirements for implementing an inflation targeting regime. This agenda will be prepared by end-January 2014, and key actions are expected to be incorporated in future updates of the MEFP. In this context, the BOJ will, for example, identify specific policy actions to improve the operations of the foreign exchange market to facilitate better information discovery and deal more efficiently with volatility.

27. Key recommendations of the updated safeguards assessment are now being implemented. Amendments to the Bank of Jamaica Act to strengthen the governance and the autonomy of the Bank are currently being considered and a Cabinet decision on the way forward is envisaged by May 2014. This will strengthen the institutional framework for monetary policy. By end-December 2013, the government and the BOJ will prepare a Memorandum of Understanding to clarify the treatment of past BOJ losses, and to formalize the policy of not distributing unrealized valuation gains to the government.

Growth Enhancing Reforms

28. Actions for promoting growth by improving the business climate are on track. The National Competitiveness Council, established to improve the business climate, has identified a number of key reforms, addressing the most critical constraints facing the private sector. With the help of the World Bank, the government is addressing investment climate issues pertaining to construction permits, trading across borders, business registration, and paying taxes. A new tracking system (AMANDA) will allow the government to track approval of construction permits across all parish councils in Jamaica. With IDB support, land titling is being expanded under the Land Administration and Management Program (LAMP). Under this program, around 3,000 new titles were issued between 2011 and 2013. Legislation to create a secured interest in personal property will be passed in parliament in December, 2013. Preparations for establishing a central collateral registry (an end-December 2013 structural benchmark) are well underway. Actions toward parliamentary passage of an Insolvency Act are proceeding as planned, with the tabling of the Bill in parliament in December 2013. Steps have been taken to implement the use of a multi-purpose registration instrument that will streamline the business registration process (December 2013). Plans to establish a Port Community System (PCS) to electronically integrate and streamline export and import procedures are underway, with completion of negotiations with the preferred bidder by

January 2014. A phased roll-out of the PCS is expected to start in March 2014, with complete implementation by end-2015/16.

29. Strategic investments to establish Jamaica as a logistics hub are well underway. The 2015 expansion of the Panama Canal could result in vessels with significantly larger capacity entering the Caribbean and will create opportunities to establish Jamaica as a logistics hub. Several projects to support this initiative are moving forward, including (i) phased development of the Caymanas Economic Zone; (ii) privatization of the Kingston Container Terminal; and (iii) privatization of the Norman Manley International Airport, with IFC support.

30. Reducing the cost of electricity is critical to improve competitiveness. Costs are high owing to the dominance of oil in generating electricity, small-scale and aging equipment, and high losses. Several projects and initiatives to achieve fuel-source diversification, facilitate energy conservation, liberalize the electricity market and reduce the cost of energy are moving ahead, with construction of a new 360 Megawatt Plant—the centerpiece of the medium-term energy strategy—scheduled to begin in January 2014. Completion of this facility in early 2016 is expected to reduce the cost of electricity and thereby address a major obstacle to growth. In addition, with World Bank support, we have prepared updates to the Energy Act that clarify and codify the roles and responsibilities of the main actors in the sector, including the government, the regulator, the utilities, and the independent power producers. These are expected to be submitted to parliament by end-March 2014.

31. An increase in financing to and support for micro, small and medium-sized enterprises (MSMEs) will also support growth. The roll-out of the mobile money initiative, aimed at providing greater access to financial services to underserved entities including MSMEs is expected to be completed by September 2014. In addition, of the two credit bureaus that are licensed, one has commenced operations. The Development Bank of Jamaica is rapidly expanding its credit to MSMEs, and the Jamaica Business Development Corporation is increasing its business development support in various ways, including training and incubator services.

32. The new Agro Parks are now contributing to an increase in agricultural production. Three have already been established with the help of the European Union; four more will be in operation by March 2014 (with IDB support), with the remaining two expected to start production during FY2014/15. Establishing better links between the agricultural sector and the tourism industry is an important priority, and is actively supported by the Tourism Linkages Council.

33. Labor market reforms are progressing. Based on a White Paper that was tabled in September 2013, flexible work arrangements will be established by end-2013/14. Based on drafting instructions issued to the Chief Parliamentary Council (CPC), the necessary amendments to legislation will be enacted to remove impediments to the implementation of flexible work arrangements, and a public education campaign is planned to promote the use of these arrangements.

Reform of Social Spending

34. In line with the programme, the government is strengthening the social protection framework. Increases in the benefit amounts payable under PATH were effected in the August payment period, with an overall increase in PATH benefits of 15 percent, and a 67 percent increase to elderly beneficiaries. A graduation strategy for PATH households was defined by the government in July 2013 (and presented to Cabinet in November 2013). This strategy also covers the strengthening of agency networks and broad institutional strengthening to support the Steps-to-Work programme which is an integral part of the graduation strategy. A recertification exercise is being conducted on 38,000 PATH households, and field work for the recertification has been completed. Technical services are now being recruited to analyze the data and provide recommendations, with World Bank assistance. Within the context of Effective Social Protection articulated in Vision 2030 Jamaica—National Development Plan, progress continued towards the development of a comprehensive Social Protection Strategy. The final draft of this strategy is now being finalized following an extensive review during September and October 2013. The document is expected to be completed and submitted to the Cabinet by December 2013.

Table 1. Jamaica: Quantitative Performance Criteria 1/2/

(In billions of Jamaican dollars)

	2012	2013					2014		
	End-Dec.	End-Mar.	End-Jun.	End-Sep.	End-Sep.	End-Dec.	End-Mar.	End-Jun.	End-Sep.
	Actual	Actual	Actual	Prog.	Actual	PC	PC	PC	Proposed PC
Fiscal targets									
1. Primary balance of the central government (floor) 3/	39.1	37.8	17.1	38.2	39.5	61.6	111.5	15.5	38.4
2. Tax Revenues (floor) 3/8/	225.0	315.3	78.7	150.4	162.9	232.7	357.5	82.7	166.0
3. Overall balance of the public sector (floor) 3/	-47.6	-52.7	-12.4	-21.6	-14.6	-37.3	-6.7	-14.4	-30.2
4. Central government direct debt (ceiling) 3/4/	1558.7	29.1	4.9	51.4	36.3	92.9	70.3	-2.0	0.9
5. Central government guaranteed debt (ceiling) 3/	166.7	6.5	0.3	-13.1	-13.4	-13.0	-14.0	4.0	2.7
6. Central government accumulation of domestic arrears (ceiling) 5/11/12/	n.a.	21.6	-0.1	0.0	-1.4	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 6/11/12/	n.a.	24.6	-0.1	0.0	-0.8	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 7/11/12/	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9. Social spending (floor) 8/9/	…	18.2	4.1	8.3	9.5	14.4	20.1	4.2	8.9
Monetary targets									
10. Cumulative change in net international reserves (floor) 7/10/	1138.5	-240.7	-135.8	-242.3	-226.1	-220.5	101.1	121.5	114.5
11. Cummulative change in net domestic assets (ceiling) 10/	-9.5	16.3	5.4	16.2	15.7	26.4	-4.2	-7.3	-5.3

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Including modified performance criteria.
3/ Cumulative flows from April 1 through March 31.
4/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
5/ Includes debt payments, supplies and other committed spending as per contractual obligations.
6/ Includes tax refund arrears as stipulated by law.
7/ In millions of U.S. dollars.
8/ Indicative target.
9/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
10/ Cumulative change from end-December 2012.
11/ Continuous performance criterion.
12/ March 2013 numbers refer to stock outstanding as of end-March 2013.

Table 2. Jamaica: Structural Program Conditionality

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1. Government to table in parliament a budget in line with program commitments.	April 30, 2013	Met
2. Government to introduce a 5-year public sector investment program (PSIP), beginning with FY2013/14, to be updated on an annual basis.	April 30, 2013	Met
3.a. Government to present to Fund staff a conceptual proposal for the design of a fiscal rule.	August 31, 2013	Met
3.b. Revise the relevant legislation for the adoption of a fiscal rule to ensure a sustainable budgetary balance, to be incorporated in the annual budgets starting with the 2014/15 budget.	March 31, 2014	
4. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	
5. Cabinet to approve a detailed budget calendar consistent with top-down expenditure ceilings, for the 2014/15 budget	November 30, 2013	Met
6. Government to ensure there is: (i) no financing of Clarendon Alimina Production (CAP) by the government or any public body, including Petro Caribe; and (ii) no new government guarantee for CAP or use of public assets (other than shares in CAP and assets owned by CAP) as collateral for third-party financing of CAP	Continuous	
7. Government to table in parliament a budget for 2014/15 consistent with the program	April 30, 2014	Proposed new structural benchmark
8. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17)	April 30, 2014	Proposed new structural benchmark
Tax Reform		
9. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as described in paragraph 34 of the April 17, 2013 MEFP.	Continuous	Met
10. Parliament to adopt amendments to the relevant tax acts to harmonize the tax treatment for charities across tax types and remove ministerial discretion to grant waivers for charities and charitable purposes as described in paragraph 34 of the April 17, 2013 MEFP.	May 31, 2013	Met
11.a. Government to table a Charities Bill in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff.	September 30, 2013	Met
11.b. Government to cease the granting of waivers to charities other than under the Charities Bill.	November 30, 2013	
12.a. Government to table Omnibus Tax Incentive Act in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff, to eliminate ministerial discretionary powers to grant or validate any tax relief, and put in place a transparent regime for limited tax incentives.	September 30, 2013	Met with delay
12.b. Government to cease the granting of tax incentives under the regime prior to the Fiscal Incentives Legislation.	December 31, 2013	
13. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (MEFP paragraphs 6, 7, 8, and 9).	March 31, 2014	
14. Government to conduct an entity by entity review of all grandfathered entities and of their specific tax incentives in the context of the new tax incentives legislation by end-2014/15	January 31, 2015	Proposed new structural benchmark
Tax Administration		
15. Parliament to adopt amendments to the Revenue Administration Act to (i) provide access to third-party information, to enhance compliance management, and (ii) empower the TAJ to require mandatory e-filing for groups of taxpayers and/or types of taxes.	June 30, 2013	Met
16. Government to increase the professional staff of Large Taxpayer Office (LTO) to 120 staff members.	June 30, 2013	Met
17. Government to make e-filing mandatory for LTO clients with respect to General Consumption Tax (GCT) and Corporate Income Tax (CIT)	March 31, 2014	Proposed new structural benchmark
Financial sector		
18. Government to Establish and Operate a Central Collateral Registry.	December 31, 2013	
19. Government to implement a legal and regulatory framework conducive to Collective Investment Schemes (Paragraph 45 of the MEFP of April 17, 2013) in consultation with Fund staff.	December 31, 2013	
20. Government to implement legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	
21. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (MEFP Paragraph 22) in consultation with Fund staff.	March 31, 2014	
22. Enact Omnibus Banking Law consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	

Attachment 2. Jamaica—Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) sets out the understandings between the Jamaican authorities and the IMF regarding the definitions of quantitative performance criteria, and indicative targets for the programme supported by the arrangement under the EFF. It also describes the methods to be used in assessing the programme performance and the information requirements to ensure adequate monitoring of the targets. In addition, the TMU specifies the requirements under the prior action and the continuous structural benchmark concerning discretionary tax waivers.

For programme purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "programme exchange rates" as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates. The programme exchange rates are those that prevailed on January 31, 2013. Accordingly, the exchange rates for the purposes of the programme of the Jamaican dollar (J$) to the U.S. dollar is set at J$94.14 = US$1, to the Special Drawing Right (SDR) at J$144.92=SDR 1, to the euro at J$126.72 = €1, to the Canadian dollar at J$93.73 = CND$1, and to the British pound at J$149.22 =£1.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

Definitions: The central government for the purposes of the programme consists of the set of institutions currently covered under the state budget. The central government includes public bodies that are financed through the Consolidated Fund.

The fiscal year starts on April 1 in each calendar year and ends on March 31 of the following year.

A. Cumulative Floor of the Central Government Primary Balance

Definitions: The primary balance of the central government is defined as total revenues minus primary expenditure and covers non-interest government activities as specified in the budget.

Revenues are recorded when the funds are transferred to a government revenue account. Revenues will also include grants. Capital revenues will not include any revenues from asset sales proceeding from divestment operations. Central government primary expenditure is recorded on a cash basis, and includes compensation payments, other recurrent expenditures, and capital spending. Primary expenditure also includes transfers to other public bodies which are not self-financed. Costs associated with divestment operations or liquidation of public entities, such as cancellation of existing contracts or severance payments to workers will be allocated to current and capital expenditures, accordingly.

All primary expenditures directly settled with bonds or any other form of non-cash liability will be recorded as spending above-the-line, financed with debt issuance, and will therefore affect the primary balance.

Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.

B. Cumulative Floor on Overall Balance of the Public Sector

Definitions: The public sector consists of the central government and public bodies. Public bodies are institutional units that are themselves government units or are controlled, directly or indirectly, by one or more government units. Whether an institution belongs to the public or private sector is determined according to who controls the unit, as specified in the government Financial Statistics (GFS) Manual 2001—Coverage and Sectorization of the Public Sector. For the purposes of the programme, the assessment of whether an entity belongs to the public or the private sector will be based on the guidance provided by the GFS criteria.

Public bodies consist of all self-financed public bodies, including the 18 "Selected Public Bodies", and "Other Public Bodies". The 18 "Selected Public Bodies" include: Airport Authority of Jamaica (AAJ); Human Employment and Resource Training Trust (HEART); Jamaica Mortgage Bank (JMB); Housing Agency of Jamaica (HAJ); National Housing Trust (NHT); National Insurance Fund (NIF); Development Bank of Jamaica (DBJ); National Water Commission (NWC); Petrojam; Petroleum Corporation of Jamaica (PCJ); Ports Authority of Jamaica (PAJ); Urban Development Corporation (UDC); Jamaica Urban Transit Company Ltd. (JUTC); Caymanas Track Ltd. (CTL); Wallenford Coffee Company Ltd. (WCC); National Road Operating and Constructing Company Ltd. (NROCC); Petro-Ethanol; Clarendon Aluminum Production (CAP);. "Other Public Bodies" include: Bauxite and Alumina Trading Company of Jamaica Ltd. ; Road Maintenance Fund; Jamaica Bauxite Mining Ltd.; Jamaica Bauxite Institute; Petroleum Company of Jamaica Ltd. (Petcom); Wigton Windfarm Ltd.; Broadcasting Commission of Jamaica; The Office of Utilities Regulation; The Office of the Registrar of Companies, Runaway Bay Water Company, Jamaica National Agency for Accreditation, Spectrum Management Authority; Sports Development Foundation; Bureau of Standards Jamaica; Factories Corporation of Jamaica Ltd.; Kingston Freezone Company Ltd.; Micro Investment Development Agency Ltd.; Montego Bay Freezone Company Ltd.; Postal Corporation of Jamaica Ltd.; Self Start Fund; Betting Gaming and Lotteries Commission; Culture, Health, Arts, Sports and Education Fund; Financial Services Commission; Jamaica Deposit Insurance Corporation, Jamaica Racing Commission, National Export-Import Bank of Jamaica Ltd.; PetroCaribe Development Fund; Tourism Enhancement Fund, The Public Accountancy Board; Students' Loan Bureau; National Health Fund; Agricultural Development Corporation; Agricultural Marketing Corporation, Cocoa Industry Board; Coffee Industry Board; Sugar Industry Authority; Overseas Examination Commission; Aeronautical Telecommunications Ltd.; Jamaica Civil Aviation Authority; Jamaica Ultimate Tire Company Ltd.; Jamaica Railway Corporation Ltd.; The Firearm Licensing Authority; Ports Management Security Corps Ltd.; Transport Authority.

The overall balance of public bodies will be calculated from the Statement A's provided by the Public Enterprises Division of the Ministry of Finance and the Planning (MoFP) for each of the selected public bodies and the group of the other public bodies as defined above. The definition of overall balance used is operational balance, plus capital account net of revenues (investment returns, minus capital expenditure, plus change in inventories), minus dividends and corporate taxes transferred to government, plus net other transfers from government. For the particular case of the National

Housing Trust and the House Agency of Jamaica, capital account revenues will not be netted out since they do not refer to flows arising from assets sales but rather to contribution revenue, and therefore will be included among recurrent revenue such as is done for pension funds.

The definitions of "Selected Public Bodies" and "Other Public Bodies" will be adjusted as the process of public bodies' rationalization, including divestments and mergers, advances. However, this process will not affect the performance criterion unless specifically stated. All newly created entities, including from the merging of existing entities, will be incorporated in either of these two groups.

The overall balance of the public sector is calculated as the sum of central government overall balance and the overall balance of the public bodies.

Reporting: Data will be provided to the Fund with a lag of no more than 6 weeks after the test date.

Adjuster: The floor for the overall public sector balance will be adjusted downward (upward) by an amount equivalent to the shortfall (excess) of PetroJam's overall balance (relative to baseline projections in Table 1), with the cumulative value of the adjustments over four consecutive quarters capped at J$3.5 billion. The adjuster will be eligible for use beginning December 2013.

Table 1. Overall Balance of Petrojam (Baseline Projection)

	In billions of Jamaican dollars
End-December 2013	-3.0
End-March 2014	3.3
End-June 2014	…
End-September 2014	…

C. Ceiling on the Stock of Central Government Direct Debt

Definitions: Central government direct debt includes all domestic and external bonds and any other form of central government debt, such as supplier loans. It excludes IMF debt. It includes loan disbursements from the PetroCaribe Development Fund to finance central government operations. The target will be set in Jamaican dollars with foreign currency debt converted using the programme exchange rate. The change in the stock of debt will be measured "below the line" as all debt issuance minus repayments on all central government debt.

For the purposes of computing the debt target, debt inflows are to be recorded at the moment the funds are credited to any central government account.

Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.

Adjusters: The target will be adjusted upwards if explicit government guarantees (defined as the stock of existing guarantees as of end March 2012 plus new guarantees allowed to be issued under the programme) are called. The target will be adjusted downwards if net divestment revenues (i.e. net of divestment expenses) take place. The debt target will be adjusted for cross-currency parity changes; and pre-financing, as reflected by the increase in central government deposits.

The target will be adjusted downward by 20 percent of the value of the bonds converted through the February 2013 debt exchange into “Fixed Rate Accreting Bonds” (FRAN).

D. Ceiling on Net Increase in Central Government Guaranteed Debt

Definitions: Net increase in central government guaranteed debt is calculated as issuance minus repayments of central government guaranteed debt, in billions of Jamaican dollars, including domestic and external bonds, loans and all other types of debt. Foreign currency debt will be converted to Jamaican dollars at the programme exchange rate. Central government guaranteed debt does not cover loans to public entities from the PetroCaribe Development Fund. The cumulative targets are computed as the difference between the stock of government guaranteed debt as of end-March of each year and the stock of government guaranteed debt as of the target date.

The cumulative net increase in central government guaranteed debt will be monitored on a continuous basis.

Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.

Adjuster: In the case where the central government debt guarantees are called, the stock of central government guaranteed debt will be adjusted downwards to preserve the performance criteria.

E. Ceiling on Central Government Accumulation of Domestic Arrears

Definition: Domestic arrears are defined as payments to residents determined by contractual obligations that remain unpaid 90 days after the due date. Under this definition, the due date refers to the date in which domestic debt payments are due according to the relevant contractual agreement, taking into account any contractual grace periods. Central government domestic arrears include arrears on domestic central government direct debt, including to suppliers, and all recurrent and capital expenditure commitments.

The ceiling on central government accumulation of domestic arrears will be monitored on a continuous basis.

Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.

F. Performance Criterion on Non-Accumulation of External Debt Payments Arrears

Definitions: Consolidated government includes the central government and the public bodies, as defined in sections A and B, respectively.

Definitions: external debt is determined according to the residency criterion.

Definitions: The term "debt" [1] will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

i. Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

ii. Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

iii. Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property. For the purpose of the programme, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

Definitions: under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Definitions: Under this definition of debt set out above, external payments arrears consist of arrears of external debt obligations (principal and interest) falling due after March 29, 2013 that have not been paid at the time due, taking into account the grace periods specified in contractual agreements. Arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or rescheduling agreement is being sought are excluded from this definition.

The consolidated government and the BOJ will accumulate no external debt payment arrears during the programme period. For the purpose of this performance criterion, an external debt payment arrear will be defined as a payment by the consolidated government and the BOJ, which has not been made within seven days after falling due.

[1] As defined in Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, Decision No. 6230-(79/140), as amended.

The stock of external arrears of the consolidated government and the BOJ will be calculated based on the schedule of external payments obligations reported by the MoFP. Data on external arrears will be reconciled with the relevant creditors, and any necessary adjustments will be incorporated in these targets as they occur.

This performance criterion does not cover arrears on trade credits.

The performance criterion will apply on a continuous basis.

Reporting: The MoFP will provide the final data on the stock of external arrears of the consolidated government and the BOJ to the Fund, with a lag of not more than two weeks after the test date.

G. Ceiling on Central Government Accumulation of Tax Refund Arrears

Definition: Tax refund arrears are defined as obligations on tax refunds in accordance with tax legislation that remain unpaid 90 days after the due date.

The central government accumulation of tax refund arrears will be monitored on a continuous basis.

Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.

H. Floor on Accumulation of BOJ Net International Reserves

Definitions: Net international reserves (NIR) of the BOJ are defined as the U.S. dollar value of gross foreign assets of the BOJ minus gross foreign liabilities with maturity of less than one year. Non-U.S. dollar denominated foreign assets and liabilities will be converted into U.S. dollar at the programme exchange rates. Gross foreign assets are defined consistently with the Sixth Edition of the *Balance of Payments Manual and International Investment Position Manual (BPM6)* as readily available claims on nonresidents denominated in foreign convertible currencies. They include the BOJ's holdings of monetary gold, SDR holdings, foreign currency cash, foreign currency securities, liquid balances abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currency vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets.

Gross foreign liabilities are defined consistently with the definition of NIR for programme purposes and include all foreign exchange liabilities to nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), and all credit outstanding from the Fund (including credit used for financing of the FSSF, but excluding credit transferred by the Fund into a Treasury account to meet the government's financing needs directly. In deriving NIR, credit outstanding from the Fund is subtracted from foreign assets of the BOJ regardless of its maturity.

Reporting: Data will be provided by the BOJ to the Fund with a lag of no more than five days past the test date.

Adjusters: NIR targets will be adjusted upward (downward) by the surplus (shortfall) in programme loan disbursements from multilateral institutions (the IBRD, IDB, and CDB) relative to the baseline projection reported in Table 2. Programme loan disbursements are defined as external loan disbursements from official creditors that are usable for the financing of the consolidated government. NIR targets will also be adjusted upward (downward) by the surplus (shortfall) in disbursements of budget support grants relative to the baseline projection reported in Table 2.

Table 2. External Program Disbursements (baseline projection)

Cumulative flows from the beginning of the fiscal year	(In millions of US$)
External loans from multilateral sources	
End-June 2013	11
End-September 2013	30
End-December 2013	255
End-March 2014	426
End-June 2014	10
End-September 2014	46
Budget support grants	
End-June 2013	0
End-September 2013	9
End-December 2013	26
End-March 2014	67
End-June 2014	3
End-September 2014	14

The NIR target will be adjusted upwards (downwards) by the amount by which, at a test date, the cumulative changes from end-December 2012 in BOJ's foreign exchange liabilities to residents with a maturity of less than one year (including banks' foreign currency deposits in BOJ) are higher (lower) than the baseline projection for this change reported in Table 3.

Table 3. Reserve Liabilities Items for NIR Target Purposes

	(In millions of US$) 1/
1. BOJ's foreign liabilities to residents	
Outstanding stock	
End-December 2012	277.1
Cumulative change from end-December 2012	
End-March 2013	-30.4
End-June 2013	4.6
End-September 2013	16.8
End-December 2013	53.0
End-March 2014	36.6
End-June 2014	43.3
End-September 2014	50.0

1/ Converted at the programme exchange rates.

I. Ceiling on Net Domestic Assets of the Bank of Jamaica

Definition: The Bank of Jamaica's net domestic assets (NDA) are defined as the difference between the monetary base and NIR. The monetary base includes currency in the hands of the non-bank public plus vault cash held in the banking system, statutory cash reserve requirements against prescribed liabilities in Jamaica Dollars held by commercial banks at the Bank of Jamaica, and the current account of commercial banks comprising of credit balances held at the central bank.

Reporting: Data will be provided to the Fund with a lag of no more than three weeks after the test date.

QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

J. Cumulative Floor on Central Government Tax Revenues

Definition: Tax revenues refer to revenues from tax collection. It excludes all revenues from asset sales, grants, bauxite levy, and non tax revenues. To gauge the impact of the tax policy reforms and improvements in tax administration, the programme will have a floor on central government tax revenues (indicative target). The revenue target is calculated as the cumulative flow from the beginning to the end of the fiscal year (April 1 to March 31).

Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.

K. Floor on Central Government Social Spending

Definition: Social spending is computed as the sum of central government spending on social protection programs as articulated in the central government budget for a particular fiscal year. These programmes are funded by GOJ resources only and comprise conditional cash transfers to children 0–18 years and the elderly; youth employment programmes; the poor relief programme for both indoor and outdoor poor; the school feeding programme; and the basic school subsidy.

In particular, this target comprises spending on specific capital and recurrent programmes. On capital expenditure the following specific programmes must be included in the target:

- *Youth employment programmes* comprising on the job training, summer employment, and employment internship programme.
- *Conditional cash transfers* comprising children health grant, children education grants, tertiary level, pregnant and lactation grants, disabled adult grants, adult under 65 grants, and adults over 65 grants.
- *Poor relief programme.*

On recurrent expenditure, the following specific programmes must be included in the floor on social expenditure*:*

- School feeding programmes including operating costs;
- Poor relief (both indoor and outdoor) including operating costs;
- Golden Age Homes;
- Children's home, places of safety, and foster care including operating cost;
- Career Advancement Programme; and
- National Youth Service Programme.

Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.

CONDITIONALITY ON TAX WAIVER REFORM

Several aspects of the continuous structural benchmark regarding the application of discretionary tax waivers merit specification.

For the purposes of these conditions, discretionary waivers are defined as: any reduction in tax or customs duty payable, effected through the direct exercise by the Minister of Finance of his powers under the various tax statutes; in circumstances where there is no express provision for exemption in any statute.

The conditionality stipulates a 'de minimis cap' on granting new discretionary waivers that excludes waivers that are (i) granted to charitable organizations and for charitable purposes; (ii) required to satisfy the GoJ's already existing contractual or legal obligations; or (iii) specifically exempted in the Technical Memorandum of Understanding (TMU). These exceptions are specified below.

The GOJ already existing contractual or legal obligations (Ad (ii) above) comprise international treaties that have not yet been ratified, listed sector-specific arrangements, and existing contracts for government projects (as of the start of the arrangement period). International treaties that have not yet been ratified refers to CARICOM suspension for goods purchased outside of CARICOM. Sector specific arrangements on the basis of which waivers may be granted beyond the 'de minimis' cap are limited to the following:

- Attractions Initiative—approved list of items based on the type of attraction and the capital needs. Waivers from customs duties and GCT only, up to 10 percent.
- Tourism Ground Transportation/U-Drive—buses and cars for use in the tourism industry.
- JAMPRO—Motion Picture Industry Act—Directive that motor vehicles for the motion picture industry should be signed off by the Minister of finance and Planning.
- Jamaica Tourism Board—Conference materials for the sector, for re-export.
- Ministry of Agriculture—Motor vehicles and equipments for approved farmers. Waivers for SCT only.
- Existing contracts for government projects (as of the start of the arrangement period) comprise the following:

Contractor/Consultant	government/Construction Project
COMPLANT International Sugar Industry Co. Ltd.	Agreement for Sale and Purchase between SCJ Holdings Limited, Sugar Company of Jamaica Limited, The Minister of Housing, Commissioner of lands, National Sugar Company Limited, Sugar Industry Authority, Sugar Shipping Limited and COMPLANT
Stanley Consultants Inc.	Southern Coastal Highway Improvement Project Feasibility Study and Preliminary Design. Segment 1: Port Antonio to Harbour View Segment 2: Mandeville to Negril.
Kier Construction Limited	IDB Loan No. 2026/OC-JA Dry River Bridge, Harbour View, St. Andrew
Surrey Paving and Aggregate Company Limited	CDB Loan No. 16/SFR-OR-JAM Construction Contract No. WBIP/CDB/05/01—Fifth Road (Washington Boulevard Improvement) Project Vol. 1 – Contract Document
Surrey Paving and Aggregate Company Limited	CDB Loan No. 16/SFR-OR-JAM Construction Contract No. WBIP/CDB/05/01—Fifth Road (Washington Boulevard Improvement) Project Vol. 11 – Works Requirements
China Harbour Engineering Co. Ltd.	Jamaica Development Infrastructure Programme (JDIP) Island wide
China Harbour Engineering Co. Ltd.	Palisadoes Shoreline Protection and Rehabilitation Works

Contractor/Consultant	government/Construction Project
Golden Grove Sugar Company	Agreement for sale and Purchase (Duckenfield Estate, St. Thomas) SCJ Holdings Limited, National Sugar Company Limited, St. Thomas Sugar Company Limited
Vinci Construction Grands Project	Kingston Water & Sanitation Project–Rehabilitation of Mona & Hope Water Treatment Plants KSA/WI
Kier Construction Limited	Kingston Water Sanitation Project – Construction of New Waste Water Pump Station at Darling Street KSA/W2
M&M Jamaica Limited	Rehabilitation of the Negril Waste Water Treatment Plant
China Harbour Engineering Company	Jamaica North South Highway Project
Bouygues, Trans-Jamaican Highway, Jamaica Infrastructure Operators	Highway 2000
COMPLANT	Jamaica Economical Housing Project

- Additional waivers specifically exempted in the TMU (Ad (iii) above) are:
- Waivers from the CET for the procurement of oil outside of CARICOM; and
- Waivers related to financial sector restructuring required by the Supervisor pursuant to statutory provisions to enhance supervisory functions and facilitate supervision on a consolidated basis.

L. Information Requirements

To ensure adequate monitoring of economic variables and reforms, the authorities will provide the following information:

Daily

- Net international reserves; nominal exchange rates; interest rates on BOJ repurchase agreements; total currency issued by the BOJ, deposits held by financial institutions at the BOJ; required and excess reserves of the banking sector in local and foreign currency, total liquidity assistance to banks through normal BOJ operations, including overdrafts; overnight interest rates; GOJ bond yields.
- Disbursements from the Financial System Support Fund, by institutions.
- Liquidity assistance to institutions from the BOJ, by institution.
- Bank of Jamaica purchases and sales of foreign currency, by transaction type (surrenders, public sector entities facility, and outright purchases or sales including interventions).
- Amounts offered, demanded and placed in Bank of Jamaica open market operations, including rates on offer for each tenor and amounts maturing for each tenor.

- Amounts offered, demanded and placed in government of Jamaica auctions and primary issues; including minimum maximum and average bid rates.

- Daily foreign currency government of Jamaica debt payments (domestic and external).

Weekly

- Balance sheets of the core securities dealers (covering at least 70 percent of the market), including indicators of liquidity (net rollovers and rollover rate for repos and a 10 day maturity gap analysis), capital positions, details on sources of funding, including from external borrowing on margin, and clarity on the status of loans (secured vs. unsecured). Weekly reports will be submitted within 10 days of the end of the period. Deposits in the banking system and total currency in circulation.

Monthly

- Central government operations including monthly cash flow to the end of the current fiscal year, with a lag of no more than four weeks after the closing of each month.

- Public entities' Statement A: consolidated and by institution for the "Selected Public Bodies", and consolidated for the "Other Public Bodies" with a lag of no more than six weeks after the closing of each month.

- Central government debt amortization and repayments, by instrument (J$-denominated and US$-denominated bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans). Includes government direct, government guaranteed, and total. In the case of issuance of government guaranteed debt, include the name of the guaranteed individual/institution. The reporting lag should not exceed four weeks after the closing of each month.

- Balances of the Consolidated Fund and main revenue accounts needed to determine the cash position of the government.

- Stock of central government expenditure arrears.

- Stock of central government tax refund arrears.

- Stock of central government domestic and external debt arrears, and BOJ external debt arrears.

- Central government spending on social protection programmes as defined for the indicative target on social spending.

- Central government debt stock by currency, as at end month, including by (i) creditor (official, commercial domestic, commercial external; (ii) instrument (J$-denominated and US$-denominated bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans); (iii) direct and guaranteed. The reporting lag should not exceed four weeks after the closing of each month.

- The maturity structure of Government debt (domestic and external). The reporting lag should not exceed four weeks after the closing of each month. Legal measures that affect the revenue of the central government (tax rates, import tariffs, exemptions, etc.).

- Balance sheet of the Bank of Jamaica within three weeks of month end.

- A summary of monetary accounts providing detailed information on the accounts of the Bank of Jamaica, commercial banks, and the overall banking system. Including Bank of Jamaica outstanding open market operations by currency and maturity, and a detailed decomposition on Bank of Jamaica and commercial bank net claims on the central government, selected public bodies, and other public bodies.[2] This information should be received with a lag of no more than six weeks after the closing of each month.

- Profits of the Bank of Jamaica on a cash and accrual basis, including a detailed decomposition of cash profits and profits from foreign exchange operations with a lag of no more than three weeks from month end.

- Deposits in the banking system: current accounts, savings and time deposits within six weeks after month end. Average monthly interest rates on loans and deposits within two weeks of month end; weighted average deposit and loan rates within six weeks after month end.

- Financial statements of securities dealers and insurance companies within six weeks of month end.

- The maturity profile of assets and liabilities of core securities dealers in buckets within six weeks of month end.

- Data on reserve liabilities items for NIR target purposes (Table 9) within three weeks after month end.

- A full set of monthly FSIs regularly calculated by the BOJ, including liquidity ratios, within eight weeks of month end.

- Monthly balance sheet data of deposit taking institutions, as reported to the BOJ. within four weeks of month end.

- Imports and exports of goods, in US$ million within twelve weeks after month end. Tourism indicators within four weeks after month end. Remittances' flows within four weeks after month end.

[2]Selected public bodies and other public bodies are defined as outlined in Section IV (B).

- Consumer price inflation, including by sub-components of the CPI index within four weeks after month end.
- The balance sheet of the PetroCaribe Development Fund with a lag of no more than six weeks after the closing of each month.
- Data on discretionary waivers, specifying those under the 'de minimis' cap, those under the broader cap, and those covered by the exceptions from these caps.
- Data on tax waivers for charities and charitable giving.

Quarterly

- Holdings of government bonds (J$-denominated and US$-denominated) by holder category. The reporting lag should not exceed four weeks after the closing of each month (this would not be applicable to external and non-financial institutional holdings of GOJ global bonds as this information is not available to GOJ).
- Use of the PetroCaribe Development Fund, including loan portfolio by debtor and allocation of the liquidity funds in reserve within six weeks after month end.
- The stock of public entities non-guaranteed debt.
- Summary balance of payments within three months after quarter end. Revised outturn for the preceding quarters and quarterly projections for the forthcoming year, with a lag of no more than one month following receipt of the outturn for the quarter.
- Gross domestic product growth by sector, in real and nominal terms, including revised outturn for the preceding quarters within three months after quarter end; and projections for the next four quarters, with a lag no more than one month following receipt of the outturn for the quarter.
- Updated set of macroeconomic assumptions and programme indicators for the preceding and forthcoming four quarters within three months of quarter end. Main indicators to be included are: real/nominal GDP, inflation, interest rates, exchange rates, foreign reserves (gross and net), money (base money and M3), credit to the private sector, open market operations, and public sector financing (demand and identified financing).
- BOJ's Quarterly Financial Stability Report.
- Quarterly income statement data of deposit taking institutions, as reported to the BOJ within eight weeks of the quarter end.
- Summary review of the securities dealer sector, within eight weeks of quarter end.

- Summary report of the insurance sector (based on current FSC quarterly report), within eight weeks of quarter end.

- Capital adequacy and profitability ratios (against regulatory minima) for DTI's and non-bank financial institutions within eight weeks of quarter end.

- FSC status report detailing compliance (and any remedial measures introduced to address any non compliance) with the agreed guidelines for the operation of client holding accounts at the Jam Clear@ CSD and FSC independent verification of daily reconciliations using data provided by Jam Clear@ CSD. Reports are due within four weeks of end quarter.

Annual

- Financial statements of pension funds within six months of year end.

- Number of public sector workers paid by the consolidated fund by major categories.

Statement by the Staff Representative on Jamaica
December 18, 2013

1. **This statement provides an update on the information presented in the staff report**. This information does not alter the thrust of the staff appraisal.

2. **Net international reserves have recovered since end-November**, reaching US$897 million as of December 11—compared with an (unadjusted) end-December performance criterion of US$918 million.

3. **On December 12, the World Bank Board approved a US$130 million Development Policy Loan, as anticipated under the program.** This operation focuses on catalyzing growth and improving public financial management and, upon disbursement, will add to Jamaica's reserves.

4. **The Fiscal Incentives legislation has been approved by both houses of parliament,** and is expected to become effective at the start of 2014.

INTERNATIONAL MONETARY FUND
COM
COMMUNICATIONS DEPARTMENT

Press Release No. 13/523
FOR IMMEDIATE RELEASE
December 18, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Second Review under the Extended Fund Facility Arrangement with Jamaica and Approves US$30.8 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Jamaica's economic performance under a program supported by an Extended Fund Facility (EFF) arrangement. The completion of this review enables the disbursement of SDR 19.97 million (about US$30.8 million), which would bring total disbursements under the arrangement to SDR 176.69 million (about US$272.2 million).

The Executive Board approved the EFF arrangement for four years and a total of SDR 615.38 million (about US$948.1 million, the equivalent of 225 percent of Jamaica's quota in the IMF) (see Press Release No. 13/150) on May 1, 2013.

Following the Executive Board's discussion, Mr. Nayouki Shinohara, Deputy Managing Director and Acting Chair of the Board, said:

"Overall program implementation under the Extended Fund Facility remains strong, and there are tentative signs of a gradual economic recovery. All quantitative performance targets for end-September were met, including the floor on social spending, and structural reforms are proceeding steadily. The execution of the 2013/14 budget has remained broadly on track.

"The next phase of the program focuses on structural reforms to strengthen the fiscal policy framework. The main priorities include the adoption of an effective fiscal rule to entrench fiscal discipline and consolidate the gains of fiscal consolidation in the medium term, the implementation of a comprehensive tax reform, and PFM reforms including strengthening budget preparation and the procedures for budget execution and cash management.

"Advancing the reforms of the securities dealers sector is essential to strengthen financial stability. Frequent and in-depth monitoring of the financial system to make the sector more resilient is also essential.

"Achieving inclusive growth and enhancing the effectiveness of social protection are central components of the authorities' reform program. The growth agenda needs to be bolstered by speeding up structural reforms that reduce bureaucracy and improve the government's interface with the business community, in close collaboration with development partners."

Statement by Thomas Hockin, Executive Director for Jamaica
And Trevor Lessard, Alternate Executive Director
December 18, 2013

We thank the staff for preparing the 2nd Review of the Extended Arrangement for Jamaica. The Government of Jamaica is fully committed to its multi-year economic reform program that will restore economic stability, boost growth, improve competitiveness, and create an enabling environment for sustained job creation. The front-loaded nature of the program has led to progress on several fronts and the authorities continue to welcome the financial and technical assistance they have received from their international partners. Despite a challenging external and domestic economic environment the authorities have successfully met all of the conditionalities embedded in their EFF program with the Fund.

Economic Outlook and Government Finances

Staff rightly highlights potential risks to the program. Similar to other small open economies, Jamaica is not immune to changes in market sentiment or economic developments in its major trading partners. That said, there are reasons to be optimistic as the economy has finally returned to growth and confidence in the authorities' ability to deliver under the EFF program grows amongst economic agents. Moreover, as construction of strategic growth projects begins, most notably in electricity generation, and gains in competitiveness from structural reforms emerge, there is a real opportunity for improving confidence to translate into elevated levels of investment in the medium term.

Roughly half way through the fiscal year, the Government of Jamaica remains on track to achieve the targeted primary balance of 7.5 percent of GDP. Jamaica has, and will continue to meet, this objective while simultaneously expanding and improving social protections for the most vulnerable of society and funding growth-enhancing capital expenditures. On the revenue side, the Government of Jamaica is assiduously improving its revenue forecasting and collection procedures in advance of the adoption of a binding fiscal rule.

Staff highlights the challenges to revenue forecasting and collection in the short term due to several factors. Most notably are the closing of the current account deficit resulting from lower imports, thus lower customs revenue; uncertainty regarding the revenue effects of an efficiency improving realignment of customs and tariff rates; lower interest payments by the Government as a result of the National Debt Exchange (NDX), which overall has produced enormous savings for the Government and strengthened the overall balance, but negatively affects the primary balance through decreased tax revenue derived from taxes on interest income; and revenue volatility as the Government moves to the new, streamlined tax incentives regime. It is clear that many of these uncertainties are resulting from desirable economic reforms or improvements in the debt sustainability of Jamaica, but we recognize that they do pose threats to revenue in the short run despite their long-term benefits. Cognizant of this risk, the Government of Jamaica has identified contingencies equivalent to 0.5 percent of GDP that can be implemented, if necessary, to ensure it continues to meet its overall fiscal target.

Financial Sector and Monetary Policy

Monetary policy continues to target single digit inflation under a flexible, market determined, exchange rate regime. In a constrained environment the Bank of Jamaica is appropriately balancing the (sometimes competing) objectives of rebuilding net international reserves, lowering inflation, ensuring adequate liquidity in the financial system, and avoiding the harmful effects of excessive volatility in the exchange rate.

The financial sector remains stable, resilient, well capitalized and characterized by low NPLs and high provisioning rates. Liquidity conditions remain relatively tight as a result of the freezing up of the secondary market for government securities following the NDX. It is expected that liquidity conditions will improve over time as the market for government securities gradually unfreezes as confidence builds. That said, in order to ensure an orderly functioning of the financial system, and to expand the toolkit available to the central bank, the Bank of Jamaica has established an overnight stand-by liquidity window for the banking system, which supplements the fortnightly cycle of discretionary liquidity injection that has been in operation since September 2013.

Structural Reform

The overarching goal of the four-year reform program that Jamaica has embarked upon is the restoration of robust economic growth that will generate employment and meaningfully reduce poverty levels. Wide ranging structural reforms will be necessary to create the environment needed for sustained growth in Jamaica and the Government is making meaningful advances on several fronts.

A milestone reform was recently achieved with the passing of the Omnibus Tax Incentives Acts. The new tax incentive regime will provide a level playing field where all firms will have access to a streamlined list of automatic tax incentives that are consistent with international best practices, thus simplifying the tax system and eliminating the need for Ministerial discretion in the granting of tax waivers. This is the beginning of a larger plan to improve the tax system, reduce red tape, and improve the business climate of Jamaica.

Starting in 2014, construction will commence on a new 360 megawatt natural gas power plant that is estimated to reduce electricity costs by 25-40 percent. Given the extraordinarily high cost of electricity in Jamaica, and the effects it has on the competitiveness of Jamaican firms, such a large reduction in electricity costs is expected to be economically significant.

Gross financing needs have declined dramatically as a result of the NDX and fiscal consolidation. The current fiscal and debt trajectory, whose gains will be permanently locked in by the adoption of an additional binding fiscal rule, will result in a structural decline in the amount of resources that will be needed to finance the Government, thus eliminating the perennial crowding out effects high Government financing needs have had on firms' access to credit. To ensure these freed up savings are directed to the real economy, the Government of Jamaica will pass legislation that establishes a central collateral registry and broadens the scope of eligible collateral. Moreover, the Government is working cooperatively with the financial sector to fundamentally overhaul the securities dealer sector so that the sector can smoothly migrate to a new business model that improves the stability of the financial system and can better respond to the credit needs of the real economy.

Conclusion

The authorities are determined to build on the achievements to date by continuing to implement the fiscal, financial and structural reforms necessary to achieve sustainable growth and employment.

Finally, we would like to confirm the authorities' consent to publish the staff report.