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JAMAICA

May 2013

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

The following documents have been released and are included in this package:

- The staff report on the request for an Extended Arrangement under the Extended Fund Facility, prepared by a staff team of the IMF, following discussions that ended on February 15, 2013 with the officials of Jamaica on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 17, 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.

- Informational Annex.

- Press Release.

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
Washington, D.C.

JAMAICA

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

April 17, 2013

EXECUTIVE SUMMARY

Extended arrangement. The Jamaican authorities have requested a four-year Extended Arrangement in an amount of SDR 615.38 million (225 percent of quota) with a first purchase equal to 50 percent of quota.

Background. During most of the past three decades, Jamaica has suffered from very low growth, high public debt, and serious social challenges**.** A Stand-By Arrangement approved by the Fund Board in February 2010 soon went off-track, which eroded confidence, lowered economic growth, and resulted in acute balance of payments pressures. During 2012/13, the authorities began to tighten fiscal policy and prepared a comprehensive economic reform program.

Main elements of the program:

- The authorities' four-year economic program, for 2013/14 through 2016/17, seeks to avert immediate crisis risks and create the conditions for sustained growth through a significant improvement in the fiscal and debt positions and in competitiveness.
- The main pillars of the program are: (i) structural reforms to boost growth and employment; (ii) actions to improve price and non-price competitiveness; (iii) upfront fiscal adjustment, supported by extensive fiscal reforms; (iv) debt reduction, including a debt exchange, to place public debt on a sustainable path, while protecting financial system stability; and (v) improved social protection programs. To alleviate the possible adverse impacts of fiscal adjustment on the most vulnerable, the program includes measures to ensure adequate social spending and a strengthened social safety net. The program includes a floor on social spending that will help safeguard this spending category.
- The program includes a heavy and frontloaded reform agenda—to support an economic recovery as quickly as possible. The reform agenda is focused on actions to strengthen public financial management, introduce a fiscal rule, reform the tax system, improve the business climate, move towards inflation targeting, and reform the securities dealers sector. The fiscal reforms are essential for a sustained fiscal consolidation effort to put debt on a downward trajectory. Structural reforms to achieve higher and sustained growth are pivotal to long-term macroeconomic stability and increased welfare of the population.
- The staff supports the authorities' request for Fund support.

Risks. Risks to program are high, including from a delayed growth recovery, financial sector vulnerabilities, delays in or partial implementation of policies, and natural disasters.

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

Discussions took place in Kingston during September 24–October 5, 2012, and February 5–15, 2013. Staff representatives comprised J. Martijn (head), C. Amo-Yartey, L. Ocampos, M. Rodriguez (all WHD), A. Dizioli (FAD), M. Jarmuzek, M. Opoku-Afari (SPR), M. Dobler (MCM) and D. Knight (LEG), and G. Leon (Senior Resident Representative). Mr. Hockin and Mr. Lessard (both OED) participated in the discussions. Mr. Grigorian and Ms. Guscina (MCM) and Mr. Serra (SPR) provided technical assistance in Kingston (during October 1–5, 2012) and from headquarters.

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BACKGROUND AND RECENT DEVELOPMENTS

1. **During most of the past three decades, Jamaica has suffered from very low growth, high public debt, and serious social challenges**. This poor performance has been engrained in several adverse cycles. First, low growth has contributed to high fiscal deficits. The resulting borrowing needs have led to financial repression and crowded out private sector credit, investment, and growth. Second, the combination of ongoing public sector borrowing and low growth have led to high and unsustainable debt ratios, which are known to reduce growth further, through the resulting macroeconomic uncertainty. Furthermore, the high cost of servicing this debt has also greatly reduced the fiscal space to offer real services to the population and infrastructure for supporting growth. Finally, with a stabilized nominal exchange rate, low growth in productivity and rising domestic costs—including wage costs—have gradually undermined price competitiveness, This, in turn, has dampened growth further and led to a very weak external position. To be effective, a reform program needs to address all these factors in a credible manner.

2. **Repeated efforts to overcome these economic problems, often with Fund support, have failed to result in an enduring recovery**. Since 1978, Jamaica has entered into several Fund-supported arrangements, but program implementation has not been successful. In this regard, and as discussed in 2011 Article IV staff report, the 27-month Stand-By Arrangement approved by the Fund Board in February 2010 soon went off-track, and the third review in January 2011 was the last one that could be completed. The program aimed to ensure fiscal and debt sustainability, and reduce financial sector risks. It started off with a debt exchange—the JDX—to reduce central government interest costs and domestic public debt. However, the targeted fiscal consolidation, that was critical to a sustained improvement in debt sustainability, failed to materialize, starting with slippages in wage costs.

3. **The 2011 Article IV Consultation, completed in May 2012, presented a comprehensive package of measures to promote growth and lower fiscal imbalances**. It advocated strong and upfront fiscal adjustment to put debt on a decisive downward trajectory. To support growth, it called for measures to boost competitiveness, including structural reforms as well as greater exchange rate flexibility.

4. **During 2012/13 the authorities began to tighten fiscal policy**. The government that took office in January 2012, with a large majority in parliament, introduced a budget for fiscal year 2012/13 that aimed at raising the central government's primary surplus to 6 percent of GDP, from 3.2 percent in the previous year. A tax package, with a full-year effect estimated at 1.6 percent of GDP was enacted during the second quarter of the fiscal year, as the cornerstone of the budget measures. In addition, the government strengthened its Fiscal Responsibility Framework (FRF), including a sanctions regime for unbudgeted spending.

5. **Eroding confidence and weak external demand has lowered growth and resulted in acute balance of payments pressures**.

- Economic activity has remained very weak, and the economy is estimated to have contracted by 0.2 percent in FY 2012/13, as confidence has continued to wane. Unemployment has increased from 12 percent at end-October 2010 to 13.7 percent at end-October 2012. Price pressures have remained moderate, and inflation is estimated at 7¼ percent on average in FY 2012/13.

- The external position has deteriorated significantly, with the current account deficit estimated to have remained very large at around 12 percent of GDP. Sluggish foreign inflows, including from multilateral institutions, together with central bank foreign exchange sales and debt service payments, have contributed to a sharp drop in NIR to below US$0.9 billion (compared to US$1.9 billion at end-2011). Since late 2012, however, this downward trend has been contained while the exchange rate has been allowed to depreciate.

- Fiscal outcomes improved during 2012/13, but are estimated to have fallen short of budget targets. Preliminary estimates by staff put the central government primary surplus for 2012/13 at 5 ¼ percent of GDP, lower than the 6 percent of GDP target, due to weaker than anticipated revenues, and notwithstanding recent efforts to improve tax collection.

6. **Jamaica's unsustainable debt position, with public debt at almost 150 percent of GDP, is undermining investor confidence and increasing crisis risks**. At this level, it would be difficult also to foresee a return to international market financing. In addition, following the temporary relief from large rollover needs in the aftermath of the 2010 debt exchange, liquidity pressures resumed by mid-2012, and large amounts of domestic debt were scheduled to mature in 2013 (US$1.3 billion in February).

7. **While the financial system appears sound based on most headline indicators, its excessive exposure to public debt poses a serious weakness**. Banks' non-performing loans (NPLs) have stabilized at 6½ percent of total loans, from 9 percent a year ago, while provisioning has improved to around 96 percent of NPLs. Their holdings of government securities were close to 12 percent of GDP, which represented about 20 percent of their total assets. The securities dealers sector's assets are fully concentrated in government securities, and equivalent to about 22 percent of GDP and 64 percent of their total assets.

POLICY DISCUSSIONS

A. Overview

8. **Against the background of both urgent and engrained economic challenges, the Jamaican authorities have requested a Fund arrangement in support of their economic program**.

9. **The authorities' four-year economic program, for 2013/14 through 2016/17, seeks to avert immediate crisis risks and create the conditions for sustained growth through a significant improvement in the fiscal balance, debt position, and competitiveness**. The main pillars of the program are: (i) structural reforms to boost growth; (ii) actions to improve price and

non-price competitiveness; (iii) upfront fiscal adjustment, supported by extensive fiscal reforms; (iv) debt management operations that place public debt on a sustainable path, while protecting financial system stability; and (v) improved social protection programs to help the most vulnerable. The reform strategy also seeks to reduce policy uncertainty through "policy safeguards" aimed at preventing a return to unsustainable debt levels.

10. **In light of the momentous challenges, the program includes several major upfront policy undertakings**. The authorities and the mission agreed on the need for frontloading of the policy actions, and a focus on institutional change, in order to underpin the credibility of the strategy against the history of reform failure. First, to underpin the programmed immediate fiscal effort by about 2½ percent of GDP, the program includes a prior action on multiyear wage agreement and an upfront new tax package. Second, critical structural reforms to sustain the fiscal effort are concentrated in the first year of the program. Third, given that fiscal adjustment alone would not be sufficient for restoring debt sustainability, the authorities have implemented a debt exchange to secure a further reduction in the debt burden.

B. Macroeconomic Framework

11. **Successful implementation of the program is projected to lay the foundation for a gradual economic recovery and restoration of fiscal and debt sustainability over the medium term.**

- Economic growth is projected to remain subdued in the first two program years, as fiscal contraction dampens demand, and as a recovery of confidence is expected to take hold only gradually, based on demonstrated reforms. Jamaica has much potential for growth in logistics, agriculture and agro-processing, and information and communications technology (ICT). Growth is projected to rise to more than 2½ percent annually in the medium term as the benefits from the reform program materialize. A recovery in investment would be supported by foreign investors, including through Public Private Partnerships (PPPs), retained earnings (with the improvement in competitiveness), and the redirection of domestic savings to the private rather than the public sector.

- Inflation is projected to be kept to single-digit levels, and be reduced further towards the end of the program period with improvements in the monetary policy framework.

- Strong fiscal adjustment is at the heart of the program. The public sector balance is targeted to improve by almost 4.8 percent of GDP in 2013/14 (of which, 1.3 percentage points from lower interest costs), following a projected 1.2 percent of GDP improvement in 2012/13. The combination of fiscal adjustment and implemented or identified measures to lower the public debt burden directly would reduce public debt to about 125 percent of GDP by the end of the program and to 100 percent of GDP by end-March 2020. Based on a review of the debt outlook at end of the first program year, the government is committed to identifying and implementing any additional debt reduction measures needed to put public debt on a path to 96 percent of GDP by end-March 2020.

- The program envisages a sharp correction in the current account balance that broadly matches the improvement in the fiscal balance. An ongoing improvement in competitiveness would be critical to support the switch from domestic demand (including public sector demand) to net exports, reconciling the projected external adjustment with a pick-up in growth. During the first two program years, however, the projected reduction in the current account deficit is dampened by a recovery in investment. In turn, this reflects relatively high foreign direct investment, as the existing pipeline of investment projects that were on hold due to the increased economic uncertainty during 2012 materializes, as well as already identified new investments in ICT and mining. Export growth would peak in 2015/16 as these projects come on stream. Reserves, which have fallen to low levels in 2012, are envisaged to recover gradually and maintain import coverage at more than 12 weeks, rising to 15 weeks by the end of the program period with the strengthening of the current account.

- Downside risks to the outlook are significant. The implementation of Jamaica's growth strategy is only in its initial phase. Jamaica's tourism sector is dependent on an economic recovery in the United States, Canada, and the United Kingdom. Weak external demand would hamper investment in tourism as well as in the bauxite sector. Jamaica is also highly vulnerable to oil price shocks and weather-related natural disasters. Upside risks include a faster than projected decline in energy prices, and a more rapid global recovery.

C. Restoring Public Debt Sustainability and Strengthening the Public Finances

Fiscal Policy

12. **Upfront and sustained fiscal tightening is critical for reaching the program objectives**. The program targets annual central government primary surplus of 7½ percent of GDP and balanced budget for the public entities throughout the program period compared with a central government primary surplus of 5.2 percent and an overall deficit of public entities of 0.4 percent of GDP in FY 2012/13.

13. **In light of experience with the 2010 SBA, which was derailed as a result of fiscal slippages, program design is focused on the need to make the fiscal consolidation credible by frontloading structural reforms and entrenching fiscal discipline over the medium term**:

- Fiscal consolidation is implemented upfront, and the 2013/14 budget is underpinned by a range of concrete measures to achieve the upfront tightening. Submission of a budget in line with the agreed targets is a structural benchmark under the program. The government has also identified possible contingency measures, in particular increases in fees and charges for government services, that would be implemented if needed to keep the fiscal program on track.

- Maintaining the fiscal stance over time will be facilitated by the multiyear wage agreement, aimed at reducing the wage bill over time, and by the expected growth recovery. The resulting fiscal room in later program years would allow for a combination of higher social and capital spending, and lower tax rates.

- The first program year features fundamental structural reforms to entrench greater fiscal discipline, and help prevent a return to deficit spending. Strengthening fiscal institutions, improving public financial management, implementing tax policy reforms, and adopting of a binding fiscal rule are all critical for the success of the program. Subsequent reforms will focus on public sector rationalization and pension reform. Collaboration with other International Financial Institutions will be essential.

14. **The authorities have identified specific upfront fiscal measures to achieve a central government primary surplus of 7½ of GDP starting in FY 2013/14** through a combination of revenue enhancing and expenditure reduction measures (Text table 1; MEFP ¶20):

- **Revenues:** A new tax package is expected to generate 1.6 percent of GDP in revenues for the central government. It includes measures to broaden the tax base and equalize rates as well as ad hoc increases in rates and fees.[1] To allow for a full-fiscal year effect, the measures were announced in a supplementary budget in February 2013. In addition, the full-year effect of the tax package introduced during FY 2012/13 will boost revenues in FY 2013/14 by about 0.5 percentage points.

- **Expenditure:** In the draft 2013/14 expenditure budget, the authorities have proposed specific expenditure reductions of about 0.8 percent of GDP. A multiyear wage agreement limiting nominal wage increases to an annual average of not more than 5 percent has been reached with major unions as a prior action for the proposed arrangement (MEFP ¶21). This will reduce wage spending in FY 2013/14 by 0.4 percentage points of GDP (and by 2 percentage points by the end of the program period). Transfers to local governments will be curtailed (0.2 percent of GDP). Efficiency gains including from better tracking of medical supplies and higher cost recovery by subsidized agencies, and restructuring of the early retirement scheme, are expected to generate about 0.2 percent of GDP. Staff emphasized the need to avoid any reductions in capital expenditure, to the extent possible, as these could be detrimental to growth.

15. **The program includes measures to improve the overall financial position of public enterprises**. The finances of the public bodies are projected to be in balance throughout the program period. On the expenditure side, the expiration of a special infrastructure program of the Road Maintenance Fund will contain expenditure by about 0.6 percent of GDP. For the National Housing Trust (NHT), some cost savings are foreseen from reductions in administrative expenses, and measures to improve compliance. At the same time, the provision by the NHT of subsidized

[1] The measures also involve the legislated support by the National Housing Trust of the central government budget beginning in FY 2013/14. The adverse effect of this on the balance of the public bodies would be offset by higher fees and reductions in spending (MEFP ¶20). An increase in property taxes, which are payable to local governments, would improve the central government balance though a corresponding reduction in the transfers to local governments.

mortgages and housing to the lowest-income households will not be reduced. To enhance transparency of the public bodies, the government will mandate the completion of their audited annual reports within 6 months of the end of the fiscal year.

16. **Staff's assessment of the authorities' proposals is that the measures are sufficient to deliver the anticipated budgetary savings**. Based on the staff's assumptions, these measures would allow improving the primary balance to 7½ percent of GDP (Text table 1), with a small margin to cover possible setbacks. In addition, this calculation does not include any savings from the prior action on tax waiver reform (see below), which also provides a small buffer. While the proposed revenue measures would serve the need for an immediate improvement in the fiscal balance, staff would have preferred more emphasis on measures to expand the tax base rather than higher tax rates. However, these measures will be revisited in the context of the forthcoming tax reform.

Text Table 1. Contribution to Fiscal Improvements in FY2013/14

	Percent of GDP
Central government	
Primary balance in 2012/13	5.2
Adjustments including one off revenue items	-0.8
Change in 2013/14 revenues	1.9
Remaining impacts of 2012/13 revenue measures	0.5
New revenue measures in 2013/14	1.6
The impact of the debt restructuring on taxes on interest	-0.3
Change in grants	0.5
Change in primary expenditures	0.8
One off expenditure items in 2012/13	0.0
Reduction in wages	0.4
Expenditure reduction measures	0.2
Reduction in transfers via property taxes	0.2
Primary balance in 2013/14	7.5
Public bodies	
Overall balance in 2012/13	-0.4
Conversion of employer's contribution to the NHT	-0.8
Reduction in the capital programs of Road Maintenance Fund	0.6
Revenue enhancement measures	0.4
Adjustments including one off expenditure items	0.2
Overall balance of public entities in 2013/14	0.0

17. **The authorities agreed to urgent steps to strengthen revenue administration** (MEFP ¶33). Compliance management continues to be weak in both tax and customs administration, particularly in the areas of taxpayer registration, filing and payments, and collection enforcement. Immediate steps to improve revenue administration include filling key management positions at the Tax Administration Jamaica (TAJ). The government has prioritized upfront reforms to strengthen revenue administration including: (i) amending legislation to provide tax officials access to third-party information; (ii) increasing the resources of the Large Taxpayer Office; (iii) implementing a debt

write-off policy for tax and customs duties arrears; (iv) publishing the names of delinquent taxpayers; and (v) approving the Tax Administration Jamaica (TAJ) as a semi-autonomous revenue agency. The first two reforms are structural benchmarks under the program, while the latter three reforms were intended in the staff-level discussions to be proposed as structural benchmarks, and were already implemented in March 2013.[2]

18. **The program envisages the adoption of a binding fiscal rule to enhance fiscal transparency and lock in the gains of fiscal consolidation** (MEFP ¶30). The authorities agreed to design and adopt a legally binding fiscal rule to help ensure a sustainable fiscal balance, and preliminary technical assistance from FAD has already been provided. The authorities plan to present a first proposal to staff by end-August 2013, and the rule is to be adopted and incorporated in the annual budgets starting with the FY 2014/15 budget (structural benchmark). The program also aims to strengthen the budget framework process more generally, including through a structured multi-year budgeting process. Going forward, the annual budget should be guided by the new fiscal rule, which is expected to imply a pace of debt reduction that is at least as ambitious as the current program projections.

19. **The authorities' program includes far-reaching reforms of the tax system aimed at improving control over the budget, boosting the efficiency of the tax system, and enhancing the business climate**. The tax system is to become more broad-based, rules-based, and transparent, while supporting competitiveness through lower tax rates. Specifically:

- **As a prior action, the authorities have already announced that the granting of discretionary tax waivers will be greatly curtailed** (MEFP ¶34). Implementation of this regime, which includes strict monthly caps on remaining discretionary tax waivers (less than 0.1 percent of GDP, on an annualized basis) will be monitored as a continuous structural benchmark. Separately, tax waivers for charities will be maintained at 0.2 percent of GDP (annualized). The government has also committed to not approve any new waivers or renew any waiver category or other tax incentive and not amend existing legislation to generate further tax expenditures until an Omnibus Tax Incentive Law comes into effect by end-2013.

- **The authorities are committed to undertake fundamental tax reform during the first year of the program** (MEFP ¶34). The tax reform aims to modernize taxes on income and property, customs tariffs, and social security contributions, and reduce overall tax expenditures from more than 6 percent of GDP in 2010/11 to no more than 2½ percent of GDP by the end of 2015/16. The reform is to be effective by the start of FY 2014/15 (structural benchmark). To guide the reform process, an action plan has been prepared in consultation with Inter-American Development Bank (IDB) and Fund staff. As an interim measure, the authorities intend to provide

[2] Three other measures were also intended in the staff-level understandings to be set as structural benchmarks, and have been implemented already: initiating a Central Treasury Management System (MEFP ¶32), formulating an action plan for tax reform (MEFP ¶34), and improving balance of payments statistics (MEFP ¶42).

a statutory process for the tax treatment of charities by end-June 2013, and a broader Charities Act is to be tabled in Parliament by end-September 2013 (structural benchmark).

20. **Public sector rationalization is to be completed over the program period** (MEFP ¶35 & 37). Together with a planned net hiring freeze and pension reform, this effort is critical for sustaining wage bill moderation, beyond the relief provided by the wage agreement. The authorities plan to improve the efficiency, quality, and cost effectiveness of the public sector and have adopted a timetable for finalizing the review of the Public Sector Master Rationalization Plan. The plan aims at improving the financial oversight of public agencies and public bodies, introducing shared corporate services, undertaking the reallocation, merger, abolition, and privatization of units, and outsourcing of services.

21. **The government is keen to use Public-Private-Partnerships (PPPs) for developing and upgrading physical infrastructure and service delivery.** It has approved a PPP Policy (November 2012), developed with World Bank support, that aims to ensure that PPPs provide value for money, transfer risk optimally, and support fiscal consolidation (MEFP ¶14). PPPs are expected to be used in health, logistics and transport, agriculture, and information and communication technology, and technical assistance on project appraisal and integration within the national development plan is being sought from multilateral development partners. Staff cautioned the authorities that PPPs should not entail new financial obligations and risks. The program may need to address these aspects explicitly over time, including through the design of the fiscal rule.

22. **The authorities plan to reinvigorate implementation of the PFM agenda** (MEFP ¶32). Areas in need of improvement are the budgeting process and budget monitoring, spending controls, fiscal reporting, and public procurement. The government has committed to develop a fiscal management reform action plan, incorporating the findings of the 2013 PEFA report, by end-May 2013, and to seek support from development partners for its speedy implementation. One critical step will be the introduction of a five-year public investment program, in the context of the 2013/14 budget (structural benchmark), to strengthen the planning and scrutiny of capital spending. A Central Treasury Management System was ready for use by end-March 2013 in four ministries.

Direct Debt Reduction

23. **Addressing the debt overhang is a central pillar of the program, which envisages a sharp overall reduction in public debt to 96 percent of GDP by 2020**.[3] The combination of the fiscal targets of the program and the envisaged growth path alone would lower debt to about 111 percent of GDP by 2020, still well above estimates of maximum sustainable debt levels.[4] Hence, additional actions to reduce the debt burden directly were considered imperative in designing the program. In the context of the program's ambitious fiscal targets, the objective of reducing public debt to 96 percent of GDP by 2020 strikes a balance between the scope for action to reduce public debt directly (such as through asset swaps or a debt exchange—see below) and the associated risks to the financial sector.

Text Table 2. A Breakdown of the Decline in Public Debt by 2020
(In percent of GDP)

Public debt in 2012/13	147.0
Fiscal consolidation and growth	-36.4
Domestic debt exchange	-8.6
Debt swaps and guarantees	-2.0
Other measures	-4.0
Public debt in 2020	96.0

[3] This objective for debt reduction—referred to throughout this report—is set for March 2020, i.e., end-FY 2019/20. Of the steps listed in Text table 2, the 'debt swaps and guarantees' and the 'other measures' are not included in the baseline projections, given that these actions have not yet been implemented.

[4] Staff has estimated the maximum sustainable level of debt to be within an approximate 75–95 percent of GDP range, depending on the estimation methodology. The program is design to achieve a 96 percent public debt ratio by end-March 2020, with further reduction thereafter.

Box 1. Details of the Debt Exchange

On February 12, 2013, the authorities launched their second debt restructuring operation, coined "national debt exchange" (NDX), in over three years. The authorities designed the exchange aimed at delivering gross savings equivalent to at least 8.5 percent of GDP by 2020. The bonds targeted by the exchange include local currency (including fixed, variable and CPI-indexed bonds), as well as locally-issued U.S. dollar-denominated bonds amounting to approximately J$876bn, or 64 percent of GDP. The exchange did not include bonds issued in foreign jurisdictions or held by nonresidents.

The NDX was designed with an objective of maximizing the savings for the government, expressed in terms of reduction in debt-to-GDP by 2020, subject to an acceptable level of financial sector risk. Its design was an iterative process involving an in-depth analysis of both the asset and liability structures of the financial institutions holding government debt, and was aimed at reducing the adverse effects of restructuring while increasing the participation rate in the exchange.

The NDX significantly lengthened the maturity and reduced the interest payments on the government's domestic debt. The main features of NDX were to exchange locally issued bonds into new longer-maturity and lower-coupon bonds of the same type (e.g. fixed rate for fixed rate), or into one of two other types of options in certain cases:

<table>
<tr><th>Bonds</th><th>Coupons reduced by:</th><th>Maturity extended by:</th><th colspan="2">Options</th></tr>
<tr><td>Variable Rate</td><td>0.75–1.125 percentage points (ppt)</td><td>3 to 8 years, and in most cases callable at 3 to 5 years prior to maturity</td><td rowspan="3">A 2040 CPI bond with a stepped coupon (1–3%)</td><td rowspan="2">A fixed rate (10%) accreting bond (FRAN) [1]</td></tr>
<tr><td>Fixed Rate</td><td>1.0–5.0 ppt</td><td>3 to 10 years in most cases, non-callable</td></tr>
<tr><td>Locally Issued USD</td><td>1.5 to 2 ppt</td><td>4 to 7 years, non-callable</td><td></td></tr>
<tr><td>CPI-indexed</td><td>1.0 ppt</td><td>3 years, non-callable</td><td></td><td></td></tr>
</table>

As during the Jamaica Debt Exchange (JDX) launched in 2010, the NDX generated a high participation rate, as investors continued to have a strong vested interest in financial and macroeconomic stability. However, the savings from the exchange could be reduced by the costs of potential recapitalizations using public funds, should adverse scenarios unfold.

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1/ The FRAN has an opening principal of J$0.80 with a 10 percent coupon, which accretes to J$1 over 15 years, and is offered largely to State Owned Enterprises (SOEs). The exchange also included an offer targeted only at retail investors with short-term bonds.

24. **The government has successfully implemented an exchange of domestic public debt**. Including the impact of this operation, public debt is projected to decline to 102 percent of GDP by 2020.[5] The exchange was launched on February 12, and served the dual purpose of rolling over a large bunching of maturities at end-February 2013, and securing a gradual additional reduction in the stock of debt through lower coupon rates that will improve the overall fiscal balance (Box 1). The scope for debt reduction through a debt exchange was limited by its potential impact on financial stability (see below). In addition, the authorities explained that constitutional constraints regarding the primacy of debt obligations required a focus on maximizing creditor participation in the offer on a voluntary basis. At the original closing date of the exchange, on February 21, the participation rate stood at 97 percent; the authorities decided to extend the offer by one week and eventually 99 percent of creditors participated. In addition, a small second phase of the exchange was implemented in March 2013. In total, the exchange is projected to result in savings estimated at about 8.6 percent of GDP (in terms of 2020 GDP (prior action)).

25. **To help safeguard the stability of the financial sector in the context of the debt exchange, the authorities have established a new Financial Sector Support Fund (FSSF)**. Stress test analyses were conducted to assess the impact of the proposed debt exchange on financial system stability (Box 2). The results of these tests were used to design the debt exchange proposal so as to limit its adverse impact on the sector, and to put in place appropriate contingency plans. While the overall impact of the operation was deemed manageable, individual entities, in particular securities dealers, could face significant stress if adverse scenarios were to materialize. The exchange could also entail risks to confidence. Hence, the authorities have established an FSSF, to provide liquidity support and possibly recapitalization support to financial institutions (including securities dealers and insurance companies) participating in the NDX, similar to that established in the context of the 2010 restructuring (MEFP ¶24). The FSSF established for the 2010 JDX was not accessed. Given that the financial sector now has less scope than in 2010 for offsetting the loss of interest income arising from the debt exchange, it is expected that its potential impact on the sector could be larger, and the authorities envisage expanding the fund from US$650 million to US$760 million, following the first disbursement under the proposed arrangement.[6] Staff will closely monitor possible stress on the financial system, and any use of the FSSF.

[5] The restructuring (with 8.6 percent of GDP in debt reduction) has been incorporated in the program baseline projections, as this operation has been completed.

[6] The 2010 FSSF was described in Appendix II of Staff Report for the 2009 Article IV Consultation and Request for a Stand-By Arrangement. In this context, the government and the central bank will sign a memorandum of understanding defining their responsibilities for meeting Jamaica's payment obligation to the Fund.

Box 2. Financial Sector Impact of the Debt Exchange—Stress Testing Results

The Bank of Jamaica (BOJ) conducted stress tests to assess the potential impact of the debt exchange operation in a stress scenario.[1] The analysis was undertaken for deposit-taking institutions (DTIs), securities dealers (SDs), and insurance companies. It examined the direct income and fair value loss from the coupon cut and maturity extensions of the debt exchange combined with second-round effects if an adverse economic scenario were to unfold. This involved the following stress assumptions:

I. A non-parallel shift in the domestic yield curve when calculating second round fair value losses. Interest rates were assumed to rise by 5.5 percentage points at the short end (less than one year) of the yield curve and by 1 percentage point at 30 years (with intermediate rises between);

II. That net interest losses arising from the yield curve shift are maintained over a six-month window (before margins can readjust);

III. A further depreciation in the exchange rate;

IV. A 15 percent loss of deposits for DTIs and of repo creditors for SD's; and

V. One third of past due loans (less than 90 days overdue) migrating to nonperforming loans (greater than 90 days past due).

These additional stress factors to the direct impact of the exchange would represent in aggregate a significant adverse shock, distinctly different from the benign market response experienced at the time of the 2010 exchange.

The results suggest that the banking sector is robust to the direct impact of the exchange, but an adverse scenario would pose significant challenges to the securities dealers' sector. The results suggest that DTIs are capable of withstanding the combined impact of a debt exchange operation and second round effects. However, the securities dealers sector remains vulnerable in an adverse scenario due to the interest rate and liquidity risks on their balance sheets. A portion of the general insurance sector could also breach regulatory capital minima.

In light of these challenges, and as in 2010 a Financial System Support Fund has been established at the Bank of Jamaica to provide liquidity and if necessary capital support to participating financial institutions.

1/ Based on balance sheet data as at June 2012.

26. **The authorities have identified options for debt swaps and reduced domestic debt guarantees that are expected to be implemented during the first program year, to reduce public debt by about 2 percent of GDP** (MEFP ¶26). The combination of asset sales and debt-asset swaps based on land and buildings should amount to close to 1 percent of GDP. The government expects to complete a preliminary valuation of these assets by end-June 2013, and complete an action plan by September 2013 for implementing the operations. The withdrawal of guarantees

issued to underwrite private domestic loans to public entities would also be equivalent to 1 percent of GDP.

27. **To deliver the program's debt target of 96 percent of GDP by end-March 2020, further steps to reduce public debt will be incorporated as part of the program, if necessary**. In particular, the authorities have committed to review the medium-term debt outlook by May 2014 and identify what further measures might be needed to achieve the above debt target (MEFP ¶27),. These could include further asset sales or swaps and or other debt reduction measures. The latter could potentially include exceptional assistance committed by bilateral and multilateral development partners and, in this context, the authorities have approached the Paris Club to explore options for debt relief. Any additional debt reduction measures would be implemented by end-February 2015.

28. **Debt sustainability analysis confirms the importance of these supplementary measures in securing a sufficient reduction in debt, as well as the remaining risks** (Appendix II). The analysis underscores the vulnerability of external debt sustainability to large swings in real exchange rates and interest rates, or a worsening of the current account balance (for example, from a change in the terms of the PetroCaribe arrangement) or shortfall in non-debt creating flows. Similarly, public debt sustainability is highly vulnerable to slippages in the primary balance, lower growth, or higher interest rates.

29. **The authorities have committed to improving debt management** (MEFP ¶28). A debt law, which aimed at consolidating various debt-related legislations, was approved by parliament in November 2012 (prior action). The government intends to ensure greater use of auctions for debt placements over the program period. The authorities have also committed to expand their regular reporting on public debt to include PetroCaribe debt and domestic guarantees.

D. Financial Sector Stability

30. **Large holdings of government securities by the highly-interconnected financial institutions make them vulnerable**. The main immediate risk stems from the combined impact of the debt exchange and possible second-round effects if an adverse macroeconomic scenario were to develop. A key risk involves the securities dealer sector which grew rapidly in the last decade based primarily upon the so called "retail repo" product. These products are designed to finance long-term, large-denomination government bonds with short-term, small denomination retail investments. A key feature is that legal title of the securities remains with the securities dealers. Therefore, unlike the case of an outright purchase that transfers legal title of the underlying securities, the risks—concentration, interest rate, and liquidity—of holding the government bonds remain on the securities dealers' balance sheets but are not matched by sufficient capital and liquidity to weather an adverse scenario.[7] While the banking system is relatively well capitalized and

[7] This is partly because the risk weighting on domestic currency GoJ debt is zero percent. While consistent with international standards, this does not reflect the risks. The authorities did raise the weighting on foreign currency GoJ debt from 0 to 100 percent under the previous Fund-supported program.

profitable, the relative size of the securities dealer sector (with assets equivalent to 35 percent of GDP) and the inter-linkages within the financial conglomerates which dominate the financial system heighten the risk of spillovers.

31. **Against this backdrop, the program includes several measures to improve financial sector supervision** (MEFP ¶44 and 47), that serve as structural benchmarks under the program. The enactment of the Omnibus Banking Act would establish a new structure for holding companies of financial conglomerates and subject such entities to consolidated supervision by the central bank. In addition, the Omnibus Banking Act would harmonize prudential standards across deposit-taking institutions, strengthen the central bank's corrective action and resolution powers, and reinforce its operational independence for supervision. Further improvements to financial sector supervision include amendments to the Financial Services Commission (FSC) Act that would tighten the FSC's enforcement powers against non banks, as well as amendments to the Bank of Jamaica Act that would vest the central bank with the responsibility and power to conduct macro-prudential oversight. Finally, steps will be taken to strengthen the powers of the central bank and the FSC as well as the operational capacity to deal with unlawful financial organizations (such as Ponzi schemes). Most of these measures continue the reforms launched under the previous Fund-supported program, and their implementation will require adequate resources and training.

32. **Reforming the securities dealers sector is a critical objective to be attained over the program period** (MEFP ¶45). The program aims to achieve an orderly phase-out of the "retail repo" business model in the medium term by establishing conditions that would encourage securities dealers to pursue an alternative business model likely to pose less risk to financial stability (i.e. collective investment schemes, "CIS"). In this regard, the authorities have agreed to reform the tax laws to remove double taxation for the CIS, eliminate certain requirements under the Companies Act that pose administrative burdens to the CIS, and commit to a timetable that would result in fully lifting the cap on investments in foreign securities by the CIS (currently 5 percent of total assets) by end-2016. The authorities will also establish a suitable legal and regulatory framework for the FSC to supervise the CIS. Meanwhile, liquidity and other prudential standards for

Jamaica Financial Sector Indicators for Deposit Takers & Security Dealers[1/] (in percent)

	Dec-09	Dec-10	Dec-11	Sep-12
Capital adequacy ratio[2/]				
DTIs	18.8	18.2	16.1	14.3
SD's	-	59.2	29.3	24
Tier 1 ratio [3/]				
DTIs	19.2	19	16.7	14.9
SD's	-	38.2	21.8	17.5
Non-performing loan ratio[4/]				
DTIs	4.7	6.5	8.9	7.1
SD's	-	5.6	4.5	10.1
Return on equity[5/]				
DTIs	18.8	14.4	50.0	13.2
SD's	-	22.4	20.0	15.6
Liquid assets to total assets				
DTIs[6/]	23.5	26.6	23.1	22.1
SD's	-	20.0	12.0	13.4

Source: Bank of Jamaica and Financial Services Commission
1/Top 12 security dealers only.
2/Regulatory capital to risk weighted assets. The risk weighting for FX denominated GoJ debt from 0% to was increased in phases 100 % between Jun-10 and Jun-12. Domestic currency GoJ debt retains a 0% risk weighting (consistent with Basel).
3/Tier 1 capital to risk weighted assets.
4/Loans past due by 90 days to total loans.
5/Annualized returns. The return for DTIs in Dec. 11 was due to a one-off event for a large bank and trading profits on securities for the last quarter.
6/Average Liquid Assets as defined pursuant to the Banking Act, Financial (Building Institutions Act and Bank of Jamaica Societies) Regulation.

securities dealers that engage in retail repos will be tightened to better reflect risk. In the near term, to minimize risks of contagion in the event of the failure of a securities dealer, the government will develop a legal and regulatory framework for "retail repos" that is distinct from the framework for traditional repos in order to better protect retail client interests.

E. Monetary Policy and Exchange Rate Regime

33. **Monetary policy will focus on maintaining single-digit inflation in the context of a flexible exchange rate regime**. While weak demand, including further fiscal consolidation, will help keep inflationary pressures in check, the central bank (BOJ) will have to be alert to inflationary pressures coming from possible renewed foreign capital inflows, second-round effects of exchange rate adjustment, and oil price shocks. In this context, the BOJ intends to continue using the interest rate on its 30-day certificate of deposit as the main instrument of monetary policy in the near term and will adjust it according to the Bank's assessment of the risks to the inflation target. Monetary policy also needs to take into account the impact of the policy stance on the weakened financial system.

34. **A flexible exchange rate regime should play a central role in Jamaica's macroeconomic policy framework and its structural agenda going forward**. The recent nominal exchange rate depreciation has been useful, by reversing part of the overvaluation of the real exchange rate that has emerged in recent years, thus supporting price competitiveness (see Appendix I). There may still be a need at times for interventions in the foreign exchange market aimed at avoiding disorderly short-run movements. In this context, the program contains clear reserve targets to safeguard the adequacy of reserve coverage—a key policy priority under the program. Looking forward, and given the need to address the remaining overvaluation, structural reforms are expected to help in restoring external competitiveness, alongside exchange rate flexibility.

35. **The BOJ will gradually put in place the requirements for a full-fledged inflation targeting regime (FFIT)**. Supported by the gains from fiscal consolidation, the near-to medium-term policy strategy includes steps to strengthen BOJ governance, through enhanced independence and ensuring a solid financial structure (MEFP ¶43). In addition, the BOJ will introduce measures aimed at developing and improving the efficiency of the foreign exchange market. The BOJ will also develop mechanisms to enhance its communication strategy, and improve its data collection and monitoring capabilities.

F. The Growth and Social Protection Agenda

36. **The government is committed to implementing a growth strategy that integrates time-bound fiscal consolidation with structural reforms for reducing impediments to growth and facilitating strategic investments**. Other than the high public debt, key impediments to growth include low factor productivity and weak competitiveness, high energy costs, bureaucratic business processes, high crime, and inadequate legal enforcement. The program of structural reforms, which seeks to address these limiting factors, is wide ranging, sequenced to promote

institutional and capacity building over the program period, and will be supported by a close collaboration between the IMF, the World Bank, and the IDB.

37. **The growth strategy envisages an initial phase of reforms to improve efficiency.**

- To improve the business climate, the government intends to increase access to credit through a secured transactions framework (structural benchmark); reduce transaction costs of commercial dispute resolution; streamline business registration processes; modernize its insolvency framework; and utilize electronic platforms to enhance cross-border transactions (MEFP ¶12), as well as a range of measures to strengthen the MSME sector (MEFP ¶13).

- Planned labor market reforms are aimed at enhancing flexibility and addressing the mismatch between training and employment opportunities. Key reforms include: establishing flexible work arrangements; enhancing the social protection framework to reduce the impact of high separation costs; and implementing on-going and new programs of training and certification (MEFP ¶15).

- Improved efficiency in public sector operations is also expected to boost growth prospects. In that regard, the government envisages: a reduction in bureaucracy through public sector rationalization; fiscal reforms (specifically to address the very high cost of paying taxes); and enhancements to the court system.

- To lower progressively the cost of energy the government has adopted an energy policy to achieve fuel-source diversification, facilitate energy conservation, and promote liberalization in delivery (MEFP ¶17).

38. **The government views these first phase reforms as the foundation for specific strategic projects to catalyze growth** (MEFP ¶17)**.** Specifically, the government intends to establish Jamaica as a logistics hub, encompassing port, cargo, and maritime facilities and economic zones. Work is well-advanced at the design phase of this initiative. In addition, the government plans to develop the micro, small, and medium-enterprise sector. In the labor-intensive agricultural sector, nine Agro Parks are being created to help establish an agricultural supply chain. For small farmers, specific projects are aimed at increasing the resilience of rural communities vulnerable to risks from climate change and natural hazards.

39. **Social protection is a priority**. Given the possible adverse impact of adjustment on the most vulnerable, the government is committed to administering an effective and efficient social protection framework. Specifically, it intends to improve training and certification for labor market participants; enhance benefits and improve effectiveness of the targeting of beneficiaries under PATH; and implement welfare-to-work exit strategies for vulnerable households (MEFP ¶38).

40. **The economic program also includes reforms for improving the efficiency and effectiveness of social spending, to help ensure that the available resources truly assist those in need**, building on technical assistance provided by the Fiscal Affairs Department (MEFP ¶39–40).

In education, the government plans to rebalance student-teacher ratios within and between schools; restructure the scholarship programs; and institute greater cost recovery at the tertiary level. In health, greater efficiency and cost containment will be achieved through reducing duplication and increasing cost-sharing with third-party payers, while ensuring protection of the poor; strengthening the billing mechanism to maximize revenue from private insurance companies, and addressing inefficiencies in drugs procurement.

PROGRAM DESIGN, FINANCING, AND RISKS

G. Program Design

41. **In support of their program, the authorities have requested a 48-month extended arrangement under the Extended Fund Facility (EFF), in the amount of SDR 615.38 million (225 percent of quota)**. Use of the four-year arrangement under the EFF is appropriate given the structural nature of external imbalances and the extensive need for structural reform to support debt sustainability and competitiveness. As discussed above, immediate reforms to support fiscal consolidation and debt restructuring would have to be supplemented by a medium-term reform agenda to strengthen public financial management, create a more efficient public sector, improve the monetary regime, reform the securities dealers sector, and support growth and poverty alleviation. The authorities strongly agree with the imperative of these reforms. Fund support will help meet the balance of payments need. The authorities anticipate that Fund support would also help restore confidence by signaling sustainable macroeconomic policies, and would help unlock critical financing from other multilateral institutions. The arrangement will be subject to quarterly reviews. After the first program year, a shift to half-yearly reviews would be considered, conditional on strong reform implementation during the first program year.

42. **Access would be partly frontloaded to help buttress financial stability, and would include moderate Fund financing for the budget in 2013**. The necessary upfront expansion of the FSSF in the wake of the debt exchange, which is to be backed by sufficient reserves given the risks to depositor confidence, entails an immediate balance of payments need. In addition, Jamaica faces large remaining budgetary financing requirements in the near term, at a time when the scope for domestic capital market borrowing remains constrained, in the wake of the debt exchange. In addition, the established practice of very limited, if any, provision of direct credit by the central bank to the government, has been critical to the BOJ's operational independence. Hence, the first disbursement will amount to 50 percent of quota, consistent with increasing the FSSF to US$760 million upon approval of the arrangement, as well as one-off direct Fund financing for the budget of SDR 58 million (about US$90 million).[8] The provision of direct budget support by the

[8] This use of part of the first purchase to meet the government's financing needs directly is consistent with the Fund's legal framework given that it also meets a balance of payments need in the context of the program. It will require a separate memorandum of understanding between the central bank and the government on servicing obligations to the Fund. Within Jamaica, the Fund liability related to the provision of budget support is assumed by the government. The remaining liabilities (including amounts associated with the FSSF) are recorded upon disbursement as a liability on the books of the BOJ.

Fund would also support net international reserves (NIR), which remain very low, and on which the Jamaican financial market has focused. The phasing of the remainder of resources will be distributed more evenly, and the schedule of disbursements is presented in Table 11.

43. **Performance under the program will be monitored based on quarterly quantitative performance criteria (PCs), broadly in line with 2010 SBA, and extensive structural conditionality**. Compared with the 2010 arrangement, the current proposal includes a PC limiting the overall deficit of the wider public sector, that includes the activities of public bodies, which have at times boosted public investment through deficit spending. The program also includes an indicative target on tax revenues to underline the importance of improving tax administration and tax reform, and help avoid reliance on ad hoc spending cuts for meeting the fiscal targets. Social expenditures are protected directly through a floor on targeted social spending. The program includes extensive structural conditionality, in line with the reform ambition of the EFF and the critical frontloaded reform agenda. Strong prior actions provide up-front assurances on program implementation and support its credibility.

H. Program Financing

44. **Program financing from multilateral and bilateral creditors is critical**. Financing assurances are in place. Regular external program financing from multilateral institutions is envisaged to amount to US$1 billion over the program period, of which $344 million would be provided in 2013/14. Jamaica is also expected to receive bilateral budget grants, including from the European Union, and to continue to draw financing from the PetroCaribe facility. Furthermore, Canada has pledged to provide additional technical and bilateral assistance to support the program and its objectives. Remaining financing needs will be filled mostly through domestic financial market borrowing.

45. **Despite the debt burden and weak reserves position, implementation of the program should allow Jamaica to meet its obligations to the Fund under the proposed arrangement in a timely manner**. Under the baseline projection, Jamaica's capacity to repay is good. Jamaica has never had arrears to the Fund, and puts a high priority on meeting its financial obligations.

46. **The June 2010 safeguards assessment of the Bank of Jamaica carried out with respect to Jamaica's previous Stand-By Arrangement will be updated before the first review of the proposed arrangement**. The 2010 safeguards assessment found adequate external audit and financial reporting frameworks, but noted that the BOJ's legal structure required strengthening to increase its operational independence and autonomy. Furthermore, the assessment identified areas for improvement within the Internal Audit Division and in relation to the effectiveness of the bank's governance and oversight. The BOJ concurred with the recommendations of the 2010 assessment and has made good progress on implementation though amendments to the BOJ Act are still pending.

I. Risks to Program Implementation

47. **The program entails significant downside risks**.

- With a sustained fiscal effort required, the risks of policy slippage are high. The primary surplus targets in the authorities' program are high by international standards,[9] and their achievement is by no means assured. This challenge may be elevated by the absence of immediate financing constraints owing to the debt exchange. With a three-decade history of adjustment without visible and lasting progress, a high degree of social and political consensus will be needed to sustain fiscal adjustment over the medium to long term.

- Implementation of structural reforms, including the requisite legislation, is essential to an enduring fiscal effort, highlighting the risk from delays in or partial implementation of required reforms. Even as the country commits to changing course, potential limitations arising from capacity constraints or the social and political cost of the timely implementation of these reforms should not be underestimated.

- Even if the authorities are able to implement the program fully, the debt-to-GDP ratio at the end of the period would remain near the maximum sustainable levels. This outcome highlights starkly that the adverse repercussions of policy or implementation slippage could be very severe. Therefore, building buffers will be important as a contingency.

- Jamaica faces serious challenges to financial sector stability—from the debt exchange—should adverse scenarios unfold, even though the establishment of the FSSF should help contain financial risk for participating institutions.

- Finally, despite the anticipated positive impact on confidence, large fiscal consolidation could have an adverse effect on near-term growth prospects, which may be exacerbated by Jamaica's high vulnerability to external economic shocks, shifts in market confidence, and natural disasters. In addition, risks to PetroCaribe financing could endanger the envisaged external financing, and could require curtailing the projects based on this financing source.

- On the other hand, upside potential exists for stronger growth. Resolute implementation of the structural reforms, including the strengthening of the fiscal responsibility framework and tax reform, and material progress on strategic projects could boost confidence and increase domestic and foreign investment in foreign exchange-earning activities. These could help reduce the debt-to-GDP ratio quicker than projected, improving sustainability earlier and enabling the country to withstand exogenous shocks better.

[9] Across countries, the median sustained central government primary surplus (over five years) has been estimated at about 3 percent. Jamaica has known substantially larger primary surpluses, averaging 7.3 percent over the past two decades, even though these have at times been compromised by expanded off-budget activities

STAFF APPRAISAL

48. **Over the last three decades, the Jamaican economy has experienced very low economic growth, and repeated episodes of macroeconomic instability**. Important factors behind these problems have been Jamaica's unsustainable debt burden, competiveness problems, a weak business climate, and lack of policy credibility.

49. **The authorities' program seeks to address the long standing structural imbalances and implement an aggressive front-loaded and comprehensive reform agenda**. The program focuses on reforms that aim to sustain higher primary fiscal surpluses to help underpin debt sustainability and promote a stable macroeconomic environment; structural reforms to significantly strengthen Jamaica's external competitiveness and productivity (especially, in light of the remaining real exchange rate overvaluation); catalytic and strategic investments to boost growth prospects; and enhanced social protection for the most vulnerable to promote social cohesion. The authorities' target of a 7.5 percent of GDP primary surplus for each year of the program period is challenging, but essential to underpin debt sustainability. The focus of the revenue measures in the first year of the program is less reform-oriented than desirable, and staff welcomes the government's action plan for comprehensive tax reform and its commitment to formulating an action plan for public expenditure management reform in collaboration with development partners. Staff commends the authorities on programming efficiency and accountability in the public enterprise sector, leading to a zero budget balance starting in FY 2013/14, as well as the proposed divestment plans. Staff welcomes the government's commitment to take the necessary actions to ensure that public debt is on a path to 96 percent of GDP by end-March 2020.

50. **The programmed fiscal reforms are essential for a sustained consolidation effort**. The agreement between the government and the public sector unions for wage restraint over the first two years of the program is central to reducing the wage bill to 9 percent of GDP by 2015/16, and public sector wage moderation will also need to be maintained over the medium term. Moreover, broad public sector rationalization needs to be implemented urgently for achieving permanent savings. This includes rationalization of the size of the public sector, pension reform, and institutional capacity building to enhance efficiency**.** Critical reforms for entrenching the consolidation effort also include: the establishment of a legally binding fiscal rule; comprehensive tax policy and revenue administration reforms to enhance revenue; a rationalization of the incentives framework and the elimination of discretionary waivers to reduce revenue erosion; and a well-articulated 5-year public sector investment program to reflect national priorities. In this regard, close monitoring of the possible fiscal costs and contingencies associated with PPPs and other public sector projects will also be critical to ensure that they do not undermine the restoration of financial sustainability.

51. **The program includes a heavy reform agenda during the first year of the program, and the success of the program hinges on its resolute implementation**. Jamaica has embarked on many fiscal adjustment programs in the past, and skepticism about the integrity of implementation is widespread. In this context, the execution of the prior actions and submission of the tax package

are encouraging. In this regard, adequate demonstration of burden-sharing by domestic stakeholders will be important in rebuilding trust.

52. **Ongoing exchange rate flexibility will be needed to achieve the reserves targets and support competitiveness**. The BOJ intends to continue conducting monetary policy within the framework of a flexible exchange rate regime. While it may be appropriate to intervene in the foreign exchange market at times to avoid disorderly short-run movements, in the current context the key policy priorities should be to safeguard the adequacy of reserve coverage and price competitiveness. Going forward, staff encourages steps to strengthen BOJ governance, through enhanced independence, and to further improve operations of the foreign exchange market to facilitate better information discovery and deal more efficiently with volatility.

53. **Financial sector vulnerabilities need to be monitored closely**. Although the debt exchange was designed carefully to balance the need for fiscal savings with concerns about financial system stability, sufficient safeguards are needed to allow the sector to withstand shocks. The FSSF should help smooth financing difficulties that may emerge, and staff is encouraged that steps are in train to further protect the interest of "retail repo" clients. Noting that the retail repo business model will need to be replaced over time, staff strongly supports a legal and regulatory framework that is conducive for Collective Investment Schemes (CIS), and welcomes the authorities' commitment to a timetable for raising the cap on investments in foreign securities. Furthermore, regulatory reforms need to be completed to mitigate the risks inherent in Jamaica's interconnected financial system.

54. **Achieving higher and sustained growth is pivotal to long-term macroeconomic stability and increased welfare of the population**. Staff welcomes the broad thrust of the growth agenda, which integrates time-bound fiscal consolidation with structural reforms for reducing impediments to growth and facilitating strategic investments. The successful implementation of the growth agenda is contingent on a number of other reforms to improve efficiency, including access to credit, reducing bureaucracy and other limiting factors in the business environment, and improving conditions facilitating labor market flexibility.

55. **Adequate social spending, an improved social safety net, and employment growth are key priorities of the program**. Targeted reforms aim at improving the efficiency and effectiveness of social spending, while protecting the most vulnerable, and should benefit from close collaboration with development partners. Specifically, efforts to improve training and certification for labor market participants, enhance benefits and improve targeting of beneficiaries under PATH, and implement welfare-to-work exit strategies for vulnerable households are of great importance. Staff also welcomes the plans to rebalance student-teacher ratios within and between schools, and achieve greater cost containment in the health sector, while ensuring protection of the poor. Without these elements, reform is unlikely to be sustained.

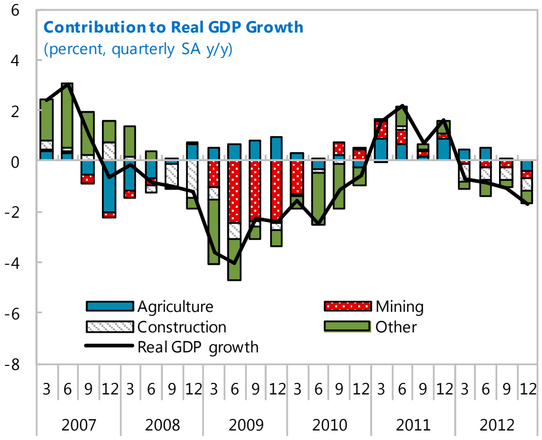
56. **While risks to the program are high, the authorities' ambition offers an opportunity to address Jamaica's long-standing challenges.** With full implementation of the authorities' program and the mobilization of the necessary external support, its objectives can realistically be achieved. The tasks are arduous, but there is no alternative route to restoring fiscal and external sustainability

to spur a sustained economic recovery. Risks to program are high, including from a delayed growth recovery, financial sector vulnerabilities, external shocks, delays in or partial implementation of policies, and natural disasters that could derail both external and public debt sustainability. However, the prior actions, frontloaded reform agenda, and collaboration with development partners should help contain some of these risks. Social and political consensus on a concerted national effort to reform will also be important in containing risks.

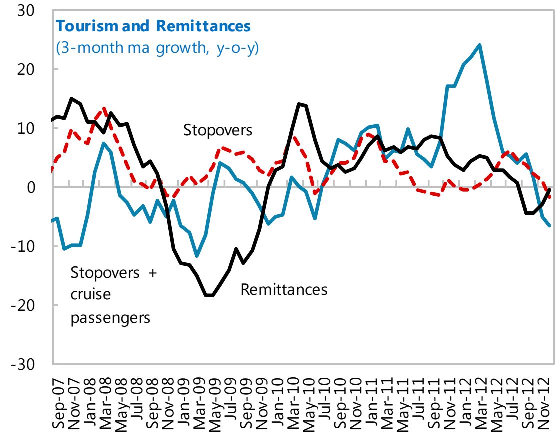
57. **In view of Jamaica's balance of payments needs and the comprehensive package of measures proposed by the authorities, the staff supports the authorities' request for a four-year extended arrangement under the Extended Fund Facility in the amount of 225 percent of quota**.

Figure 1. Jamaica: Recent Economic Developments

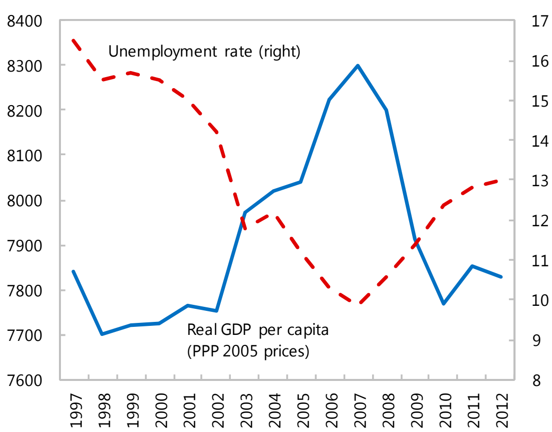
After expanding by 1.5 percent in 2011, the economy is estimated to have contracted in 2012.



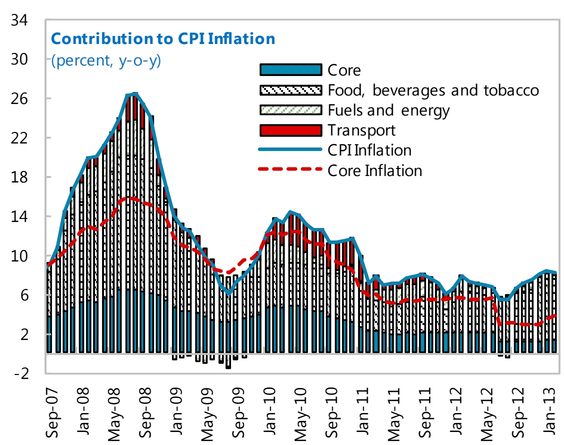
Tourism and remittances have performed relatively well until recently.



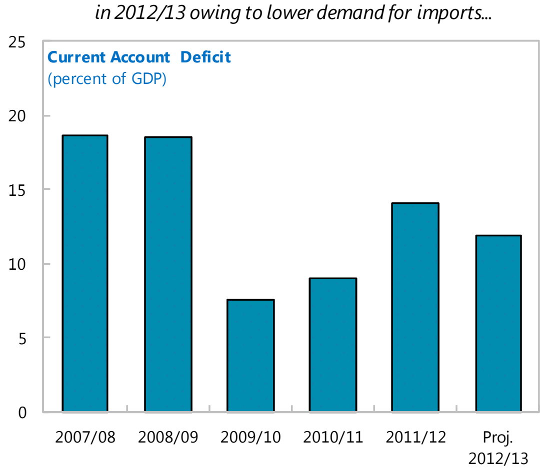
Unemployment and poverty levels remain high...



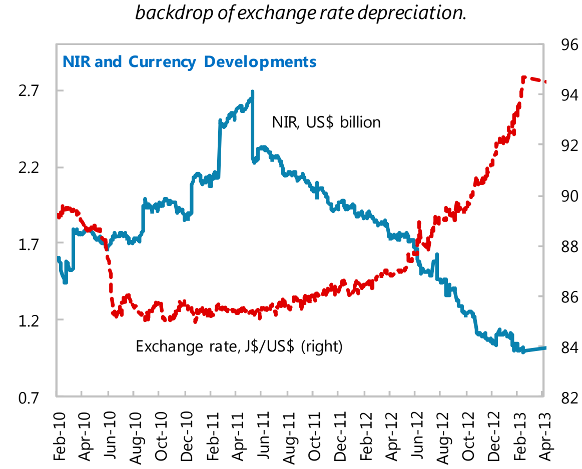
... and core inflation continues to decline.



The current account balance is expected to slightly improve in 2012/13 owing to lower demand for imports...

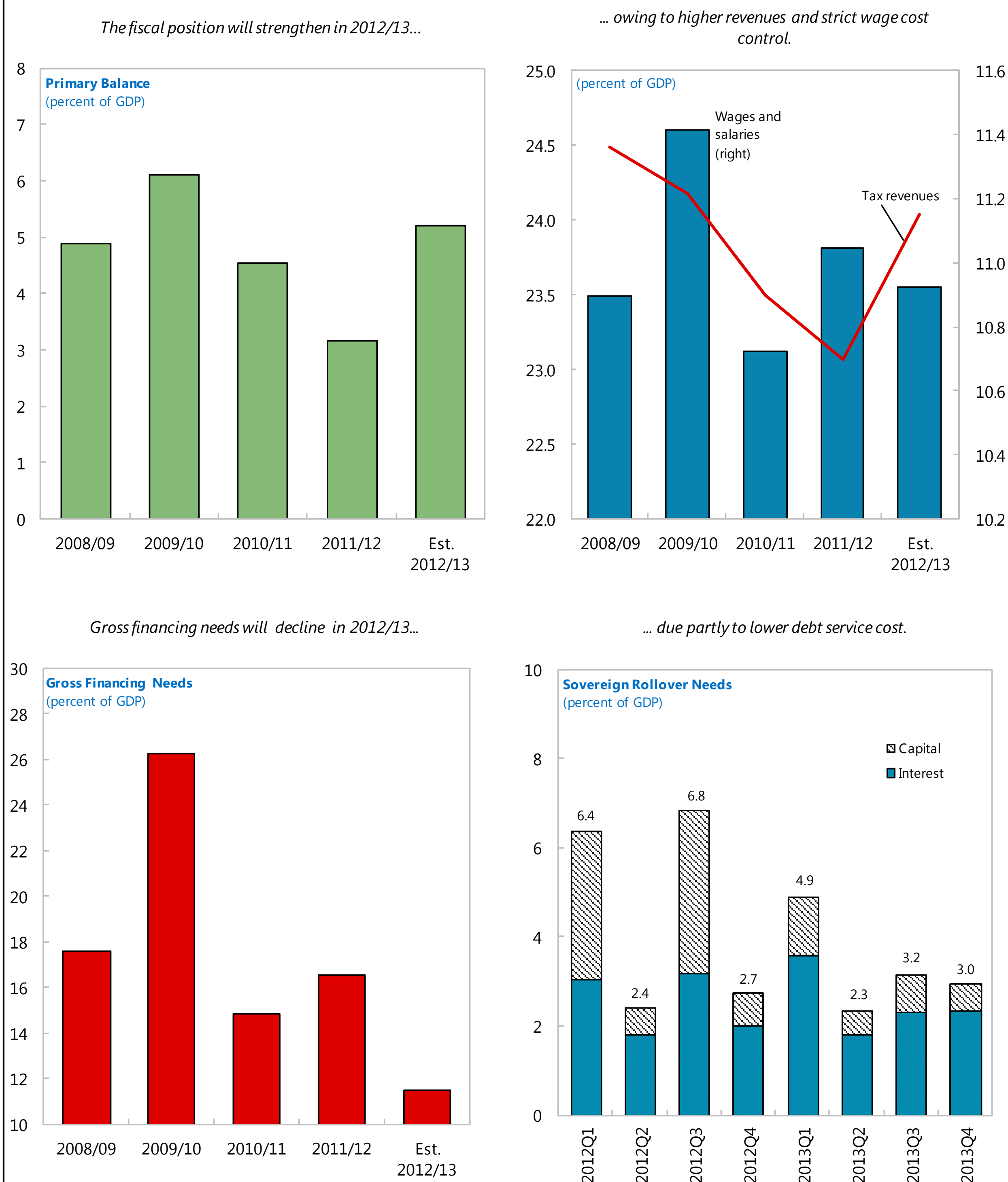


... while international reserves are falling against the backdrop of exchange rate depreciation.



Sources: Bank of Jamaica; and Fund staff calculations.

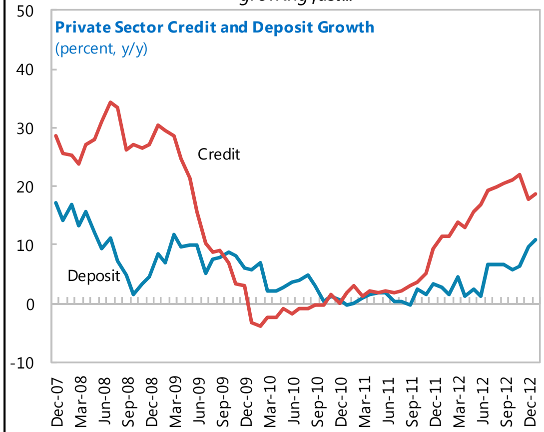
Figure 2. Jamaica: Fiscal Developments



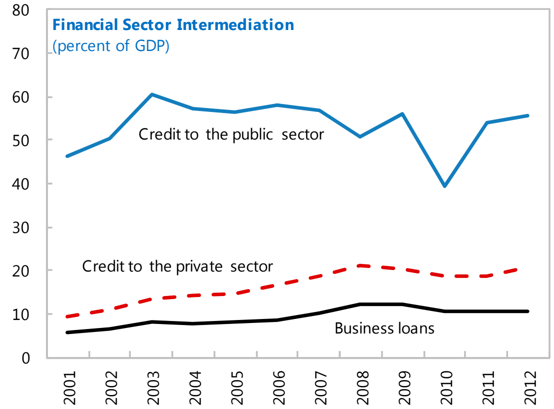
Sources: Bank of Jamaica; and Fund staff calculations.

Figure 3. Jamaica: Financial Sector Developments

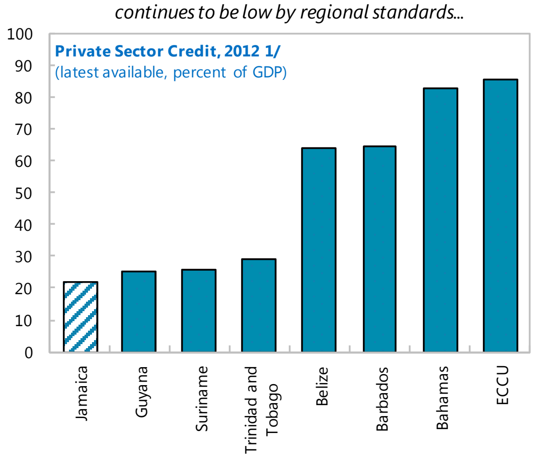
Deposits are picking up and credit to the private sector is growing fast...



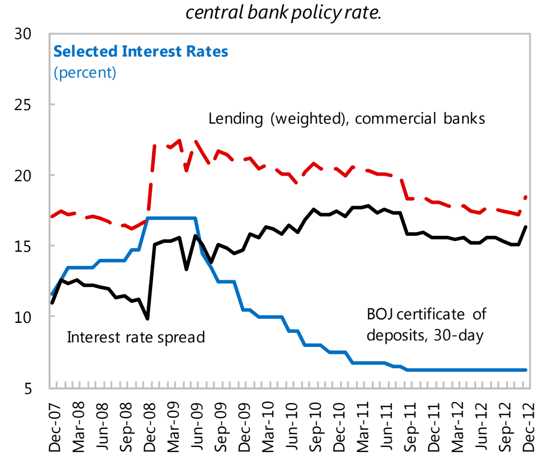
... but remains low compared to credit to the public sector.



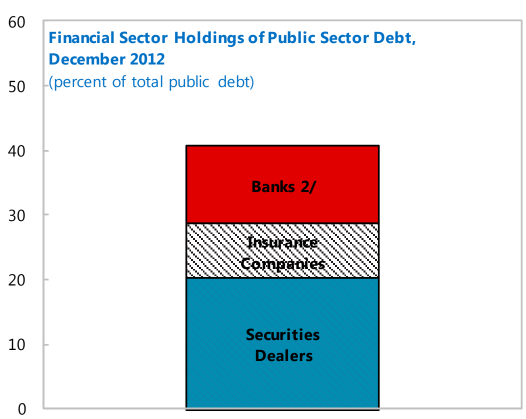
As a result, credit to the private sector relative to GDP continues to be low by regional standards...



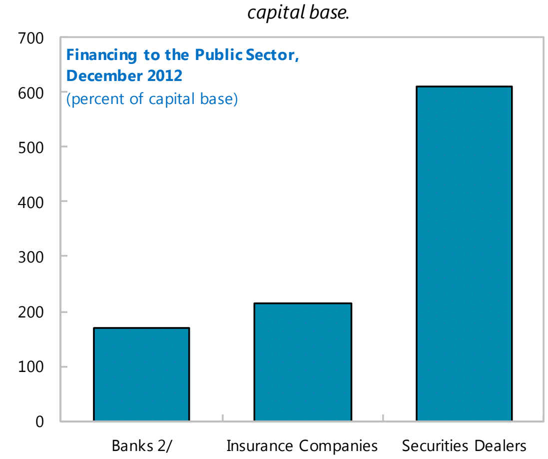
... and interest rates remain high despite the decline in the central bank policy rate.



The financial sector holds 40 percent of public debt...

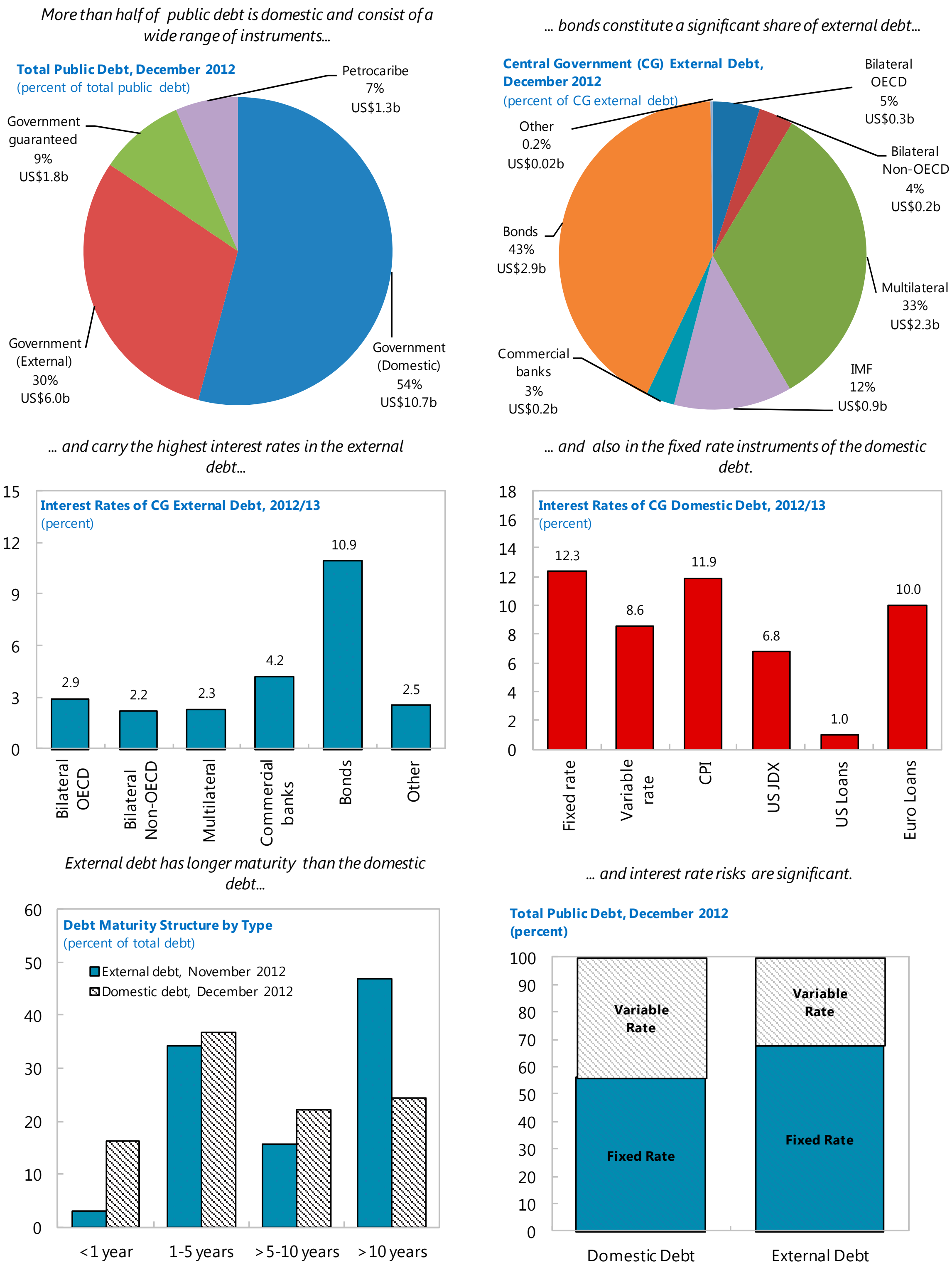


... with government securities representing a multiple of the capital base.



Sources: Bank of Jamaica; and Fund staff calculations.
1/ Latest available data.
2/ Banks refer to the aggregate of commercial, merchant and mortgage banks.

Figure 4. Jamaica: Public Debt



Sources: Bank of Jamaica; and Fund staff calculations.

Table 1. Jamaica: Selected Economic Indicators 1/

		Prel.	Projections							
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
			(Annual percent change)							
GDP, prices, and employment										
Real GDP	-0.6	0.9	-0.2	0.8	1.4	1.8	2.2	2.5	2.7	2.7
Nominal GDP	7.8	5.9	7.0	10.5	11.5	11.2	11.0	11.0	10.6	9.4
Consumer price index (end of period)	7.8	7.3	8.8	10.5	9.4	8.8	8.5	8.0	7.4	6.5
Consumer price index (average)	11.4	7.3	7.2	9.7	10.0	9.2	8.7	8.3	7.7	6.5
Exchange rate (end of period, J$/US$)	85.4	87.3	98.9	…	…	…	…	…	…	…
Exchange rate (average, J$/US$)	86.0	86.0	93.1	…	…	…	…	…	…	…
Nominal depreciation (+), end-of-period	-4.0	2.2	13.3	…	…	…	…	…	…	…
End-of-period REER (appreciation +)	6.0	3.7	-6.0	…	…	…	…	…	…	…
Treasury bill rate (end-of-period, percent)	6.6	6.5	8.0	…	…	…	…	…	…	…
			(In percent of GDP)							
Government operations										
Budgetary revenue	26.4	25.5	25.7	27.1	26.9	27.0	27.0	27.0	27.1	27.0
Of which: Tax revenue	23.5	23.1	24.0	24.3	24.3	24.4	24.5	24.5	24.6	24.6
Budgetary expenditure	32.6	31.9	30.4	27.4	27.0	26.4	25.8	25.5	25.0	24.5
Primary expenditure	21.8	22.4	20.5	19.6	19.3	19.5	19.5	20.0	20.1	20.0
Of which: Wage bill	10.7	11.0	10.9	10.5	9.7	9.0	8.9	8.8	8.7	8.6
Interest payments	10.8	9.6	9.9	7.8	7.6	7.0	6.3	5.4	4.9	4.5
Budget balance	-6.2	-6.4	-4.7	-0.4	-0.1	0.5	1.2	1.6	2.1	2.5
Of which: Central government primary balance	4.5	3.2	5.2	7.5	7.5	7.5	7.5	7.0	7.0	7.0
Public entities balance	-0.5	0.0	-0.4	-0.1	0.2	0.2	0.1	0.1	0.1	0.1
Public sector balance	-6.7	-6.4	-5.2	-0.4	0.1	0.7	1.4	1.7	2.2	2.6
Public debt 2/	140.8	141.5	147.0	142.5	136.7	131.7	126.5	117.6	109.7	101.9
External sector										
Current account balance	-9.0	-14.1	-11.9	-10.8	-9.6	-7.6	-6.5	-6.0	-6.0	-5.8
Of which: Exports of goods, f.o.b.	10.2	11.5	11.8	12.3	12.8	13.5	13.7	13.6	13.5	13.3
Imports of goods, f.o.b.	35.7	40.4	40.0	41.0	40.4	39.6	38.7	38.0	37.0	35.9
Net international reserves (US$ millions) 3/	2,592	1,796	855	1,217	1,432	1,547	1,653	1,777	1,848	1,949
			(Changes in percent of beginning of period broad money)							
Money and credit										
Net foreign assets	23.3	-15.7	-22.3	13.3	9.0	6.0	5.8	5.6	4.0	4.0
Net domestic assets	-21.6	20.9	28.1	-2.8	2.5	5.2	5.2	5.4	6.6	5.4
Of which: Credit to the private sector	0.9	9.0	7.3	7.7	7.9	7.7	8.2	8.0	8.2	8.3
Credit to the central government	-11.7	9.9	2.9	4.6	5.3	5.1	4.6	5.0	5.3	4.8
Broad money	1.7	5.1	5.8	10.5	11.5	11.2	11.0	11.0	10.6	9.4
Memorandum item:										
Nominal GDP (J$ billions)	1,193	1,263	1,352	1,494	1,665	1,851	2,056	2,281	2,523	2,760

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)

		Prel.	Projections							
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Budgetary revenue and grants	314,558	322,457	346,923	404,200	447,723	499,714	554,497	616,440	683,247	745,535
Tax	280,295	291,407	324,870	362,355	404,750	451,943	503,392	559,629	620,093	677,717
Non-tax	24,138	27,602	18,842	32,067	35,417	39,372	43,768	48,655	54,087	57,738
Grants	10,125	3,449	3,211	9,777	7,556	8,399	7,337	8,156	9,067	10,079
Budgetary expenditure	388,768	403,192	411,110	409,835	449,544	489,648	529,546	580,657	630,768	676,317
Primary expenditure	260,413	282,487	276,665	292,678	322,163	360,293	400,985	456,981	506,909	552,455
Wage and salaries	127,957	139,557	147,632	157,352	161,697	166,911	183,444	201,169	219,475	236,148
Programme expenditure	76,862	89,699	90,632	93,988	106,878	122,612	136,155	153,079	171,318	187,418
Capital expenditure	55,594	53,231	38,401	41,338	53,588	70,771	81,387	102,734	116,116	128,889
Interest	128,355	120,704	134,445	117,157	127,381	129,354	128,561	123,676	123,859	123,863
Domestic	88,049	81,617	92,921	77,212	84,538	86,837	84,209	82,004	77,846	74,609
External	40,305	39,087	41,524	39,944	42,843	42,518	44,352	41,671	46,013	49,254
Budget balance	-74,210	-80,734	-64,187	-5,635	-1,820	10,066	24,951	35,784	52,479	69,218
Of which: Primary budget balance	54,145	39,970	70,258	111,522	125,560	139,421	153,511	159,459	176,338	193,080
Public entities balance	-5,755	-195	-5,852	-1,050	2,900	2,900	2,900	2,900	2,900	2,900
Public sector balance	-80,444	-81,073	-70,039	-6,685	1,080	12,966	27,851	38,684	55,379	72,118
Principal repayments	102,312	128,192	91,444	105,773	63,316	162,715	62,925	238,751	173,428	215,075
Domestic	79,394	67,820	37,161	76,600	12,344	74,210	17,098	96,666	85,968	123,967
External	22,918	60,373	54,283	29,173	50,972	88,505	45,827	142,085	87,460	91,108
Gross financing needs	177,001	209,070	155,631	111,408	65,137	152,649	37,975	202,968	120,948	145,858
Gross financing sources	177,001	209,070	155,631	111,408	65,137	152,649	37,975	202,968	120,948	145,858
Domestic	122,479	142,750	140,976	60,706	24,060	85,264	23,611	35,816	37,150	58,415
External	90,490	20,768	14,655	50,702	41,513	66,904	41,510	138,315	83,491	86,961
Memorandum items:										
Nominal GDP (billion J$)	1,193	1,263	1,352	1,494	1,665	1,851	2,056	2,281	2,523	2,760
Public sector debt (billion J$)	1,679	1,788	1,986	2,128	2,278	2,438	2,601	2,682	2,769	2,812
Of which: Direct debt	1,454	1,537	1,687	1,783	1,878	2,003	2,127	2,142	2,160	2,140

Sources: Jamaican authorities and Fund staff estimates and projections.

Table 3. Jamaica: Summary of Central Government Operations

(In percent of GDP)

		Prel.	Projections							
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Budgetary revenue and grants	26.4	25.5	25.7	27.1	26.9	27.0	27.0	27.0	27.1	27.0
Tax	23.5	23.1	24.0	24.3	24.3	24.4	24.5	24.5	24.6	24.6
Non-tax	2.0	2.2	1.4	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Grants	0.8	0.3	0.2	0.7	0.5	0.5	0.4	0.4	0.4	0.4
Budgetary expenditure	32.6	31.9	30.4	27.4	27.0	26.4	25.8	25.5	25.0	24.5
Primary expenditure	21.8	22.4	20.5	19.6	19.3	19.5	19.5	20.0	20.1	20.0
Wage and salaries	10.7	11.0	10.9	10.5	9.7	9.0	8.9	8.8	8.7	8.6
Programme expenditure	6.4	7.1	6.7	6.3	6.4	6.6	6.6	6.7	6.8	6.8
Capital expenditure	4.7	4.2	2.8	2.8	3.2	3.8	4.0	4.5	4.6	4.7
Interest	10.8	9.6	9.9	7.8	7.6	7.0	6.3	5.4	4.9	4.5
Domestic	7.4	6.5	6.9	5.2	5.1	4.7	4.1	3.6	3.1	2.7
External	3.4	3.1	3.1	2.7	2.6	2.3	2.2	1.8	1.8	1.8
Budget balance	-6.2	-6.4	-4.7	-0.4	-0.1	0.5	1.2	1.6	2.1	2.5
Of which: Primary budget balance	4.5	3.2	5.2	7.5	7.5	7.5	7.5	7.0	7.0	7.0
Public entities balance	-0.5	0.0	-0.4	-0.1	0.2	0.2	0.1	0.1	0.1	0.1
Public sector balance	-6.7	-6.4	-5.2	-0.4	0.1	0.7	1.4	1.7	2.2	2.6
Principal repayments	8.6	10.1	6.8	7.1	3.8	8.8	3.1	10.5	6.9	7.8
Domestic	6.7	5.4	2.7	5.1	0.7	4.0	0.8	4.2	3.4	4.5
External	1.9	4.8	4.0	2.0	3.1	4.8	2.2	6.2	3.5	3.3
Gross financing needs	14.8	16.5	11.5	7.5	3.9	8.2	1.8	8.9	4.8	5.3
Gross financing sources	14.8	16.5	11.5	7.5	3.9	8.2	1.8	8.9	4.8	5.3
Domestic	10.3	11.3	10.4	4.1	1.4	4.6	1.1	1.6	1.5	2.1
External	7.6	1.6	1.1	3.4	2.5	3.6	2.0	6.1	3.3	3.2
Of which: Official	4.3	2.4	1.1	3.4	2.4	2.5	2.0	1.4	1.6	1.5
Memorandum items:										
Nominal GDP (billion J$)	1,193.0	1,263.3	1,351.6	1,493.8	1,665.5	1,851.4	2,055.9	2,281.3	2,523.3	2,760.4
Public sector debt	140.8	141.5	147.0	142.5	136.7	131.7	126.5	117.6	109.7	101.9
Of which: Direct debt	121.9	121.7	124.9	119.3	112.8	108.2	103.5	93.9	85.6	77.5

Sources: Jamaican authorities and Fund staff estimates and projections.

Table 4. Jamaica: Operations of the Public Entities

	In billions of Jamaican dollars				In percent of GDP			
	2010/11	2011/12	2012/13	2013/14	2010/11	2011/12	2012/13	2013/14
Operating balance selected public entities 1/	**53.6**	**55.2**	**62.4**	**63.7**	**4.5**	**4.1**	**4.2**	**3.8**
Of which:								
Clarendon Aluminum	-4.2	-7.2	0.2	-0.3	-0.4	-0.5	0.0	0.0
Petrojam	27.8	25.1	20.7	24.1	2.3	1.9	1.4	1.4
NROCC	-3.9	-0.6	-3.1	-4.3	-0.3	0.0	-0.2	-0.3
Urban Development Corporation	0.6	-0.8	0.4	0.2	0.1	-0.1	0.0	0.0
National Water Commission	1.5	4.0	7.7	6.7	0.1	0.3	0.5	0.4
Port Authority of Jamaica	2.9	2.9	4.0	4.4	0.2	0.2	0.3	0.3
National Housing Trust	23.5	26.9	27.8	29.4	2.0	2.0	1.9	1.8
National Insurance Fund	2.8	1.7	1.7	0.2	0.2	0.1	0.1	0.0
Net current transfers from the central government	**-11.2**	**-11.8**	**-13.0**	**-18.9**	**-0.9**	**-0.9**	**-0.9**	**-1.1**
Of which:								
Clarendon Aluminum	1.5	7.5	3.0	3.5	0.1	0.6	0.2	0.2
Petrojam	-26.8	-19.2	-18.4	-18.5	-2.3	-1.4	-1.2	-1.1
NROCC	2.5	0.2	2.9	4.2	0.2	0.0	0.2	0.3
Urban Development Corporation	3.7	0.7	0.1	0.0	0.3	0.1	0.0	0.0
National Water Commission	1.6	0.0	0.9	0.1	0.1	0.0	0.1	0.0
Port Authority of Jamaica	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Housing Trust	0.0	-1.2	-4.3	-11.5	0.0	-0.1	-0.3	-0.7
National Insurance Fund	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**	**49.1**	**49.7**	**4.2**	**2.9**	**3.3**	**3.0**
Of which:								
Clarendon Aluminum	1.7	-0.2	1.3	3.5	0.1	0.0	0.1	0.2
Petrojam	3.0	2.6	2.9	0.2	0.2	0.2	0.2	0.0
NROCC	0.4	0.6	0.6	0.5	0.0	0.0	0.0	0.0
Urban Development Corporation	3.5	0.7	0.8	1.2	0.3	0.1	0.1	0.1
National Water Commission	5.4	4.5	6.2	9.6	0.4	0.3	0.4	0.6
Port Authority of Jamaica	4.6	2.1	3.1	2.0	0.4	0.2	0.2	0.1
National Housing Trust	21.7	25.5	27.4	25.6	1.8	1.9	1.8	1.5
National Insurance Fund	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Other net spending selected public entities 3/	0.5	0.0	-0.2	3.3	0.0	0.0	0.0	0.2
Overall balance selected public entities	**-8.8**	**3.9**	**0.5**	**-8.3**	**-0.7**	**0.3**	**0.0**	**-0.5**
Of which:								
Clarendon Aluminum	-4.4	0.5	1.9	-3.6	-0.4	0.0	0.1	-0.2
Petrojam	-2.0	3.3	-0.5	5.5	-0.2	0.2	0.0	0.3
NROCC	-1.8	-1.0	-0.8	-0.6	-0.2	-0.1	-0.1	0.0
Urban Development Corporation	0.7	-0.8	-0.1	-1.0	0.1	-0.1	0.0	-0.1
National Water Commission	-2.3	-0.5	2.3	-2.8	-0.2	0.0	0.2	-0.2
Port Authority of Jamaica	-1.8	0.8	1.0	2.4	-0.1	0.1	0.1	0.1
National Housing Trust	1.9	0.2	-4.0	-7.7	0.2	0.0	-0.3	-0.5
National Insurance Fund	2.8	1.6	1.6	0.1	0.2	0.1	0.1	0.0
Overall balance other public entities	**3.0**	**-4.1**	**-6.4**	**7.2**	**0.3**	**-0.3**	**-0.4**	**0.4**
Overall balance public entities	**-5.8**	**-0.2**	**-5.9**	**-1.1**	**-0.5**	**0.0**	**-0.4**	**-0.1**

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)

	2010/11	Prel. 2011/12	Projections 2012/13	2013/14	2014/15	2015/16	2016/17
Current account	-1,248	-2,076	-1,730	-1,549	-1,386	-1,103	-977
Trade balance	-3,537	-4,242	-4,089	-4,111	-3,972	-3,798	-3,743
Exports (f.o.b.)	1,418	1,687	1,720	1,767	1,844	1,964	2,042
Imports (f.o.b.)	4,956	5,929	5,809	5,878	5,816	5,762	5,785
Fuel (cif)	1,805	2,423	2,354	2,290	2,296	2,282	2,314
Exceptional imports (including FDI-related)	346	320	426	561	750	520	260
Other	2,805	3,185	3,029	3,026	2,770	2,960	3,211
Services (net)	791	652	718	793	882	1,002	1,036
Transportation	-457	-600	-591	-580	-597	-632	-635
Travel	1,819	1,863	1,905	1,951	2,060	2,240	2,264
Of which: Tourism receipts	2,007	2,029	2,073	2,113	2,226	2,411	2,441
Other services	-571	-611	-596	-579	-581	-606	-593
Income (net)	-539	-489	-460	-463	-553	-606	-639
Current transfers (net)	2,037	2,003	2,101	2,232	2,256	2,299	2,369
Government (net)	201	133	172	192	150	150	150
Private (net)	1,836	1,870	1,929	2,039	2,106	2,149	2,219
Capital and financial account	2,033	1,284	682	1,475	1,395	1,000	831
Capital account (net)	-21	-12	-23	-23	-23	-23	-23
Financial account (net) 1/	2,055	1,297	705	1,498	1,419	1,023	854
Direct investment (net)	174	194	329	650	690	594	407
Central government (net)	732	-443	-533	-230	-288	-389	-283
Other official (net) 2/	239	698	472	614	601	454	367
Of which: PetroCaribe	249	479	339	326	297	266	245
Portfolio investment (net)	909	847	436	464	415	364	364
Overall balance	785	-792	-1,048	-74	9	-103	-146
Financing	-785	792	1,048	74	-9	103	146
Change in GIR (- increase)	-1,020	796	941	-246	-52	-242	-282
Change in arrears	0	0	0	0	0	0	0
Financing gap	235	0	107	320	43	346	428
IMF 3/	235	0	0	-26	-163	127	176
Disbursements	0	0	0	346	259	176	176
Repayments	0	0	0	-372	-422	-50	0
IFIs	0	0	107	346	206	219	252
Memorandum items:							
Gross international reserves	3,435	2,639	1,698	1,944	1,996	2,239	2,521
(in weeks of prospective imports of GNFS)	23	18	11	13	13	15	16
Net international reserves	2,592	1,796	855	1,217	1,432	1,547	1,653
Current account (in percent of GDP)	-9.0	-14.1	-11.9	-10.8	-9.6	-7.6	-6.5
Exports of goods (in percent change)	0.9	18.9	2.0	2.7	4.3	6.5	4.0
Imports of goods (in percent change)	11.4	19.6	-2.0	1.2	-1.1	-0.9	0.4
Oil prices (composite, fiscal year basis)	85	104	104	102	98	98	94
Tourism receipts (in percent change)	2.0	1.1	2.2	1.9	5.4	8.3	1.2
GDP (in millions of U.S. dollars)	13,873	14,690	14,518	…	…	…	…
Jamaican dollar/USD, period average	86	86	93	…	…	…	…
GDP (in billions of Jamaican dollars)	1,193	1,263	1,352	1,494	1,665	1,851	2,056

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/

			Projections				
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	(In billions of Jamaican dollars)						
End-of-period stocks 1/							
Net international reserves	**228**	**158**	**85**	**134**	**174**	**206**	**235**
Net domestic assets	**-149**	**-74**	**2**	**-37**	**-67**	**-86**	**-103**
Net claims on public sector	102	144	192	223	253	287	321
Net claims on central government 2/	39	75	75	77	79	82	85
Net claims on rest of public sector	50	70	110	140	163	193	224
Operating losses of the BOJ	13	0	7	6	11	11	11
Net credit to commercial banks	-14	-14	-15	-17	-19	-21	-23
Of which: foreign prudential reserve	-14	-14	-15	-17	-19	-21	-23
Net credit to other financial institutions	-2	-1	-2	-2	-2	-2	-2
Open market operations	-144	-112	-61	-115	-153	-184	-215
Other items net (incl. valuation adj.)	-92	-92	-112	-127	-147	-166	-184
Valuation adjustment	-55	-55	-75	-90	-110	-129	-147
Base money	**79**	**84**	**87**	**96**	**107**	**119**	**132**
Currency in circulation	43	47	49	54	61	67	75
Liabilities to commercial banks	36	36	38	42	46	52	57
Fiscal year flows 1/							
Net international reserves	**71.6**	**-70.5**	**-73.1**	**49.0**	**40.9**	**31.0**	**29.4**
Net domestic assets	-70.0	75.3	76.3	-39.9	-29.9	-19.1	-16.3
Net claims on public sector	-43.9	42.7	47.3	31.4	30.1	33.4	34.4
Net claims on central government 2/	-43.5	35.9	0.0	2.2	1.7	3.3	3.3
Net credit to commercial banks	-3.7	0.3	-1.6	-1.6	-1.9	-2.1	-2.3
Net credit to other financial institutions	-0.1	0.1	-0.1	-0.1	-0.2	-0.1	-0.2
Open market operations	-22.3	32.1	50.9	-54.4	-38.0	-30.7	-30.8
Other items net (incl. valuation adj.)	0.0	0.0	-20.1	-15.2	-19.9	-19.5	-17.4
Base money	**1.6**	**4.8**	**3.2**	**9.1**	**11.0**	**12.0**	**13.1**
Currency in circulation	2.9	4.0	1.8	5.2	6.3	6.8	7.5
Liabilities to commercial banks	-1.3	0.7	1.4	4.0	4.8	5.2	5.7
	(Change in percent of beginning-of-period Base Money)						
Net international reserves	**92.6**	**-89.3**	**-87.4**	**56.4**	**42.6**	**29.0**	**24.7**
Net domestic assets	**-90.5**	**95.4**	**91.2**	**-45.9**	**-31.1**	**-17.8**	**-13.7**
Net claims on public sector	-56.8	54.2	56.5	36.1	31.4	31.2	28.9
Net credit to commercial banks	-4.7	0.4	-1.9	-1.8	-2.0	-2.0	-1.9
Net credit to other financial institutions	-0.1	0.2	-0.2	-0.1	-0.2	-0.1	-0.1
Open market operations	-28.9	40.7	60.8	-62.6	-39.6	-28.7	-25.8
Other items net (incl. valuation adj.)	0.0	0.0	-24.0	-17.4	-20.7	-18.2	-14.6
Base money	**2.1**	**6.1**	**3.8**	**10.5**	**11.5**	**11.2**	**11.0**
Currency in circulation	3.7	5.1	2.2	6.0	6.5	6.3	6.3
Liabilities to commercial banks	-1.7	1.0	1.7	4.6	5.0	4.8	4.8
Memorandum items:							
Change in net claims on the central government (percent of GDP)	-3.6	2.8	0.0	0.1	0.1	0.2	0.2
Exchange rate (average)	86.0	86.0	93.1	…	…	…	…
Net international reserves (US$ millions)	2,592	1,796	855	1,217	1,432	1,547	1,653

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/

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
			Projections				
(In billions of Jamaican dollars)							
End-of-period stocks 1/							
Net foreign assets	**217**	**165**	**86**	**136**	**173**	**200**	**229**
Net domestic assets	**116**	**185**	**284**	**274**	**284**	**307**	**334**
Net claims on public sector	193	216	276	326	378	433	489
Of which: Central government 2/	135	168	178	195	217	240	263
Open market operations	-81	-62	-28	-97	-147	-189	-238
Credit to private sector	219	249	274	303	335	370	412
Of which: Foreign currency	72	81	92	104	117	130	143
Other 3/	-214	-217	-239	-258	-282	-306	-328
Of which: Valuation adjustment	-55	-55	-72	-85	-102	-119	-133
Liabilities to private sector (M3)	**333**	**350**	**370**	**409**	**456**	**507**	**563**
Money supply (M2)	226	236	251	277	309	343	381
Foreign currency deposits	107	114	120	132	147	164	182
Fiscal year flows 1/							
Net foreign assets	**76.4**	**-52.4**	**-78.0**	**49.2**	**36.8**	**27.3**	**29.4**
Net domestic assets	**-70.6**	**69.5**	**98.5**	**-10.3**	**10.3**	**23.6**	**26.6**
Net claims on public sector 2/	-47.9	23.1	60.7	49.1	52.3	55.1	55.8
Of which: Central government	-38.4	32.9	10.0	17.2	21.7	23.3	23.3
Open market operations	-8.9	19.4	34.0	-68.9	-50.0	-42.6	-48.6
Credit to private sector	2.8	30.1	25.4	28.6	32.2	35.1	41.8
Of which: Foreign currency	-13.1	8.6	11.6	11.7	13.1	13.1	12.6
Other 3/	-16.6	-3.2	-21.6	-19.0	-24.3	-24.0	-22.4
Of which: Valuation adjustment	0.0	0.0	-17.3	-12.8	-17.2	-16.8	-14.8
Liabilities to private sector (M3)	**5.7**	**17.1**	**20.4**	**39.0**	**47.0**	**50.9**	**56.0**
Money supply (M2)	15.3	10.5	14.5	26.4	31.8	34.5	37.9
Foreign currency deposits	-9.6	6.6	5.9	12.6	15.2	16.5	18.1
(Change in percent of beginning-of-period M3)							
Net foreign assets	**23.3**	**-15.7**	**-22.3**	**13.3**	**9.0**	**6.0**	**5.8**
Net domestic assets	**-21.6**	**20.9**	**28.1**	**-2.8**	**2.5**	**5.2**	**5.2**
Net claims on public sector 2/	-14.7	7.0	17.3	13.3	12.8	12.1	11.0
Of which: Central government	-11.7	9.9	2.9	4.6	5.3	5.1	4.6
Open market operations	-2.7	5.8	9.7	-18.6	-12.2	-9.3	-9.6
Credit to private sector	0.9	9.0	7.3	7.7	7.9	7.7	8.2
Of which: Foreign currency	-4.0	2.6	3.3	3.2	3.2	2.9	2.5
Other 3/	-5.1	-1.0	-6.2	-5.1	-5.9	-5.3	-4.4
Of which: Valuation adjustment	0.0	0.0	-4.9	-3.5	-4.2	-3.7	-2.9
Liabilities to private sector (M3)	**1.7**	**5.1**	**5.8**	**10.5**	**11.5**	**11.2**	**11.0**
Memorandum items:							
Net foreign assets (US$ Millions)	2,540	1,885	875	1,237	1,416	1,505	1,613
M3 velocity	3.6	3.6	3.7	3.7	3.7	3.7	3.7

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 Conditionalities

Measures	Status/Timing	
Prior Actions		**Implementation status**
Fiscal consolidation		
1. Cabinet to adopt a decision to:		Met
1. a. Cease the granting of discretionary waivers, excluding: (i) those granted to charitable organizations and for charitable purposes; (ii) those required to satisfy the GoJ's already existing contractual or legal obligations; and (iii) waivers up to a 'de minimis' cap of J$10 million per month (for any that are not covered by the exceptions under (i) or specifically exempted in the Technical Memorandum of Understanding (TMU).		
1.b. Cap total discretionary waivers, excluding those for charitable organizations and for charitable purposes at J$80 million per month. Waivers for charitable organizations and for charitable purposes will be capped at J$250 million on a monthy basis.		
1.c. Not approve any new waivers or renew any waiver category (unless required under existing legislation) or other tax incentive and not to amend existing legislation to generate further tax expenditures until the Omnibus Incentive Law has come into effect.		
2. Public sector wages: Conclude a multi year agreement with major unions (representing at least 70 percent of government workers) limiting nominal wage increases to zero for 2012/13 (and limiting merit increases to no more than 2.5 percent), and an annual average (including merit increases) of no more than 5 percent in the two subsequent years.		Met
Public debt management		
3. Approval by parliament of the Public Debt Law, which consolidates various debt related acts and helps strengthen debt management.		Met
4. Government to complete a debt exchange for domestic government bonds consistent with a reduction in the public debt-to-GDP ratio by 2020 equivalent to at least 8.5 percent of GDP.		Met
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1. Government to table in parliament a budget in line with program commitments.	April 30, 2013	
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	
3.a. Government to present to Fund staff a conceptual proposal for the design of a fiscal rule.	August 31, 2013	
3.b. Adoption of a legally binding 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. Government to finalize the divestment of CAP or implement an asset lease agreeement.	December 31, 2013	
Tax Reform		
6. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as described in paragraph 34 of the MEFP.	Continuous	
7. 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 MEFP.	May 31, 2013	
8.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	
8.b. Government to cease the granting of waivers to charities other than under the Charities Bill.	November 30, 2013	
9.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	
9.b. Government to cease the granting of tax incentives under the regime prior to the Omnibus Tax Incentive Act and of any discretionary tax waivers.	December 31, 2013	
10. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (MEFP paragraph 34).	March 31, 2014	

Table 8. Jamaica: Structural Program Conditionalities (continued)

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Tax Administration		
11. 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	
12. Government to increase the professional staff of Large Taxpayer Office (LTO) to 120 staff members.	June 30, 2013	
Financial sector		
13. Government to Establish and Operate a Central Collateral Registry.	December 31, 2013	
14. Government to implement a legal and regulatory framework conducive to Collective Investment Schemes (MEFP Paragraph 45) in consultation with Fund staff.	December 31, 2013	
15. Government to implement legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	
16. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (MEFP Paragraph 46) in consultation with Fund staff.	March 31, 2014	
17. 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/

(In billions of Jamaican dollars)

	2012	2013				2014
	end Dec.	end Mar. 2/	end Jun.	end Sep.	end Dec.	end Mar.
	Actual	Estimate	Performance Criteria			Performance criteria
Fiscal targets						
1. Primary balance of the central government (floor) 3/	39.1	70.3	14.0	38.2	61.6	111.5
2. Tax Revenues (floor) 3/ 8/	225.0	322.2	73.3	150.7	231.9	360.5
3. Overall balance of the public sector (floor) 3/	-52.1	-70.0	-14.3	-21.6	-30.7	-6.7
4. Central government direct debt (ceiling) 3/, 4/	1558.7	150.1	13.9	21.4	27.5	8.6
5. Central government guaranteed debt (ceiling) 3/	166.7	6.0	9.0	8.4	8.4	8.3
6. Central government accumulation of domestic arrears (ceiling) 5/, 11/	n.a.	0.0	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 6/, 11/	n.a.	0.0	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 7/,11/	...	0.0	0.0	0.0	0.0	0.0
9. Social spending (floor) 8/ 9/	...	18.2	4.1	8.3	14.4	20.1
Monetary targets						
10. Cumulative change in net international reserves (floor) 7/, 10/	1115.3	-260.7	-209.0	-242.3	-220.5	96.3
11. Cummulative change in net domestic assets (ceiling) 10/	-7.3	13.8	10.8	16.2	26.4	-10.7

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Preliminary estimates except for the floor on the cumulative change in net international reserves and for the ceiling on cummulative change in net domestic assets.
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.

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	175.28	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)	175.28	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	5.69	6.40	5.26	6.04	6.68	6.49	6.01	5.26	4.29	3.19	2.07	1.17	0.53	0.17	0.01
SDR charges and assessments	0.04	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Total debt service	181.01	273.36	100.94	10.08	18.13	43.65	70.86	88.99	104.55	105.80	93.29	66.68	38.35	19.11	2.43
(in percent of exports of G&S)	6.22	8.99	3.12	0.30	0.52	1.22	1.94								
(in percent of GDP)	1.95	2.93	1.07	0.10	0.18	0.41	0.64	0.76	0.86	0.83	0.69	0.47	0.26	0.12	0.01
(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)	5.84	4.94	5.07	6.07	5.99	5.36	4.54	3.59	2.61	1.68	0.93	0.42	0.14	0.02	0.00
Memorandum items:															
Exports of goods and services (US$ millions)	4,526.05	4,730.41	5,030.50	5,164.75	5,429.19	5,562.44	5,689.87								
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.

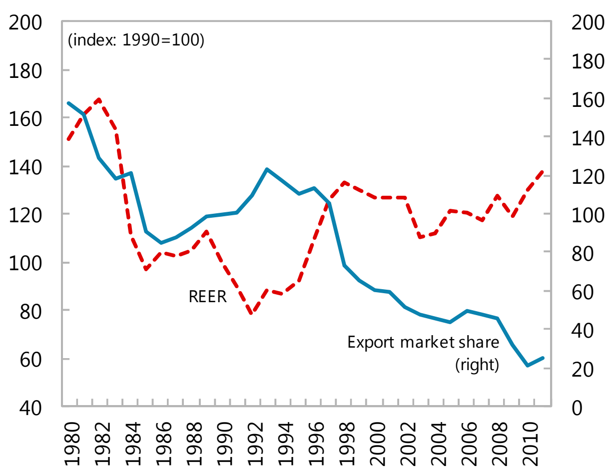
Table 11. Jamaica: Schedule of Reviews and Purchases

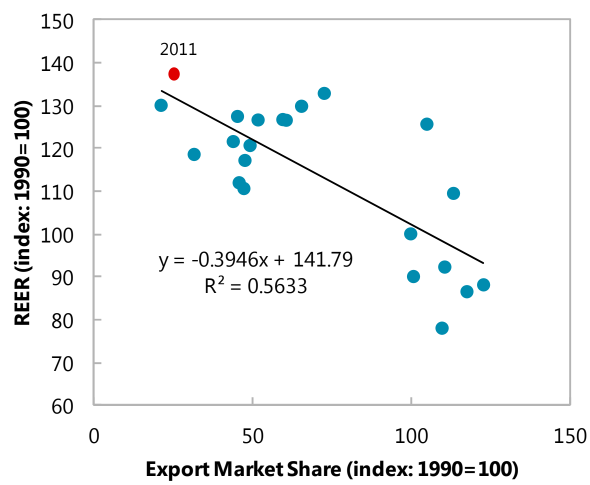
Date	Amount of Purchase: Millions of SDR	Amount of Purchase: Percent of Quota	Conditions 1/
	Purchases to be made		
May 1, 2013	137.75	50	Approval of Arrangement
September 20, 2013	19.97	7	First Review and end-June 2013 performance criteria
December 20, 2013	19.97	7	Second Review and end-September 2013 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	Twelveth 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	753.13	275.4	

1/ Apart from periodic performance criteria, conditions also include continuous performance criteria.

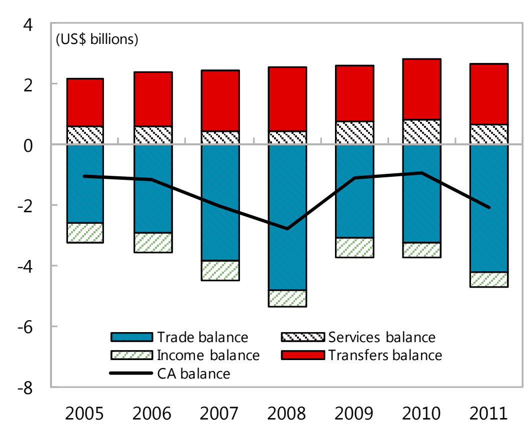
Annex I: Jamaica—Exchange Rate Assessment

Jamaica's external competitiveness has continued to deteriorate partly due to long periods of appreciating real exchange rate. The negative correlation between the REER and the export market share shows the importance of the exchange rate in restoring competitiveness and promoting growth over the medium to long term.[10] This requires a real effective exchange rate that moves in line with the underlying fundamentals. Other non-price factors have also played a role in Jamaica's loss of competitiveness. Jamaica's ranking in the global competitiveness index has deteriorated in recent years. The 2012 ranking placed Jamaica eighth among the Caribbean and Central American countries, after Barbados, Panama, Costa Rica, Trinidad and Tobago, Guatemala, Honduras, and El Salvador.





Current account deficits have remained high. A combination of falling exports and fiscal imbalances has resulted in persistently high current account deficits. Financing of these deficits have been mainly through official financing and volatile private capital flows, resulting in a high build-up of net indebtedness to the rest of the world. Net foreign liabilities (over 120 percent of GDP at end-2011) are way above the 60–70 percent of GDP level typically associated with higher probability of external distress[11], and remain a significant source of external vulnerability.



Exchange rate assessment. The different CGER methodologies, applied to Jamaica, show some recent improvement in the external competitiveness position, reflecting depreciation of the local

[10] See *Jamaica—Staff Report for the 2011 Article IV Consultation*, May 2012.

[11] Catao and Milesi-Ferretti (2011).

currency and policy initiatives to restore competitiveness. Estimations from these three approaches—while suggesting overvaluation of between 9–22 percent—has started to improve, owing to the actual real depreciation in the last year as well as the expected improvements in non-price competitiveness under the program.

CGER Macro Balance (World Sample)
(In percent)

CAB/GDP Norm	CAB/GDP Underlying	CAB/GDP Elasticity	REER (Overvaluation)
-6.0	-7.4	-0.16	8.8

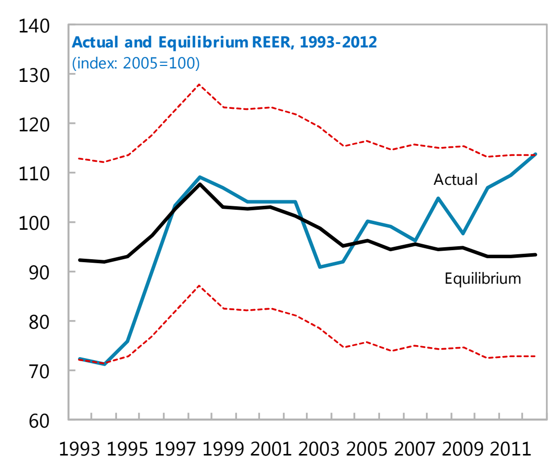
REER Deviation from Equilibrium
(In percent)

MB Approach	8.8
ES Approach	11.3
ERER Approach	21.9
Average	**14.0**

The Macro-Balance approach (MB) points to an overvaluation of about 8.8 percent. Using a world sample of about 111 countries, including the Caribbean countries, the MB method compares the current account balance with the savings-investment balance. Under this approach, the current account deficit norm is estimated as -6.0 percent of GDP against the underlying balance of -7.4 percent of GDP, requiring a depreciation of about 8.8 percent to close the gap between the norm and the underlying current account balance.

The External Sustainability approach (ES), using a stabilizing net IIP of 90 percent of GDP (higher than the standard 60–70 percent), suggests an overvaluation of about 11.3 percent of GDP. Similar to the MB approach, the ES used an underlying current account balance of -7.4 percent.

The Equilibrium Real Effective Exchange Rate (ERER) approach, which looks at the fundamentals believed to affect the equilibrium REER[12], suggests an overvaluation of about 22 percent over its long run equilibrium. This approach, however, does not take into account the real depreciation that has happened since the last observation in 2012—by about 5 percent—as well as recent policy initiatives to restore competitiveness.



[12] This estimation of the exchange rate takes into account productivity differential, terms of trade (including tourism), government consumption, net foreign assets, and remittances.

Annex II: Jamaica—External and Public Debt Sustainability

The debt sustainability analysis (DSA) indicates that Jamaica's high external debt, though on a sustainable path under the program, remains vulnerable to large movements in exchange and interest rates. Full implementation of the program can place public and publicly guaranteed debt on a downward and sustainable path—with strong fiscal adjustment (primary surplus above 7 percent of GDP and sustained over the medium term) and a comprehensive debt restructuring. In this context, the envisaged further debt reduction, through support by development partners, debt swaps, and reduced debt guarantees, would also be of great importance.

This appendix looks at the sustainability of Jamaica's external and public debt. The first part provides highlights of the overall macro policy assumptions based on the macroeconomic framework. This is followed by a section on sustainability of Jamaica's external debt; and then a section on public and publicly guaranteed debt. The debt trajectory under the program baseline for both external and public and publicly guaranteed debt is then examined. In addition, there is a section that looks at the sensitivities of the baseline debt trajectory to different stress tests—variations in macro policy, financing assumptions, and external shocks.

The DSA for Jamaica is underpinned by the following sets of inputs. These are the macroeconomic policy settings underpinning the 4-year arrangement under the EFF, the assumed financing path, and a comprehensive debt restructuring. These have been modeled jointly under the program with feedback from the macroeconomic policies. Below are the key assumptions:

Macroeconomic Assumptions

Real GDP growth. The continued negative growth in the last couple of years is expected to turn around during the program period. Growth is expected to recover in 2013/14 to 0.8 percent and thereafter increases to about 2.5 percent by 2016/17—in response to a set of policies to promote structural transformation and restore competitiveness.

Inflation. The current rising inflation is projected to peak at 10.5 percent by FY 2013/14, thereafter falling and stabilizing around 8 percent over the medium term.

External conditions. The growth strategy being introduced is expected to enhance competitiveness and improve exports over the medium term. The current account balance is projected to improve from a deficit of -14.1 percent of GDP in FY 2011/12 to stabilize around 6.5 percent of GDP over the medium term. Exports of goods and services, as a percent of GDP, is expected to increase from 11.8 percent in FY 2012/13 to about 13.6 percent of the medium term and imports are projected to decline from about 40 percent of GDP in FY 2012/13 to about 38 percent in FY 2016/17.

Fiscal adjustment. A combination of tax and revenue administration reforms is expected to raise the government's primary surplus from about 3.2 percent in FY 2011/12 to about 7.5 percent in 2013/14, and remain at that level over the medium term.

Debt exchange. The government of Jamaica has launched a national debt exchange (NDX) for Jamaica's domestic debt, which is expected to result in a savings of about 8.6 percent of GDP by end-March 2020. The savings from the NDX has been factored into the debt sustainability analysis. In addition to the NDX, the government is undertaking additional measures to reduce debt, in particular external debt, which would include debt swaps and guarantees and other measures. The impact of these additional debt reduction measures has not been factored into the baseline of DSA at this stage.

Fund program. As part of the arrangement under the EFF, Jamaica would make purchases totaling SDR615.4 million[13] (about US$957.6 million). The phasing of the program is indicated in Table 11.

Of the steps listed in Text table 2, the 'debt swaps and guarantees' and the 'other measures' are not included in the baseline projections, given that these actions have not yet been implemented.

[13] This is 225 percent of Jamaica's quota.

External Debt Sustainability Analysis: Bound Tests (Baseline)

Jamaica's external debt of 66 percent of GDP in FY 2011/12 is one of the highest in the Caribbean region. High fiscal imbalances, financed mainly by official borrowing (from PetroCaribe), continue to drive the rising external debt.

Under the baseline, Jamaica's gross external debt stabilizes over the medium term, but remains vulnerable to large exchange rate shock (Table 2). A non-interest current account deficit above the projected debt stabilizing level at the end of 2016/17 indicates the need for further adjustments to restore external debt stability. The government of Jamaica's effort to ensure an additional reduction in external debt, including with support from development partners, should help to restore external debt sustainability. Assuming a primary current account deficit of 4.2 percent, non-debt creating inflows of 2.7 percent, and nominal interest rate of 3.5 percent, the external debt-to-GDP ratio peaks at 67.5 percent in 2013/14 and averages 66 percent over the medium term to 2016/17.

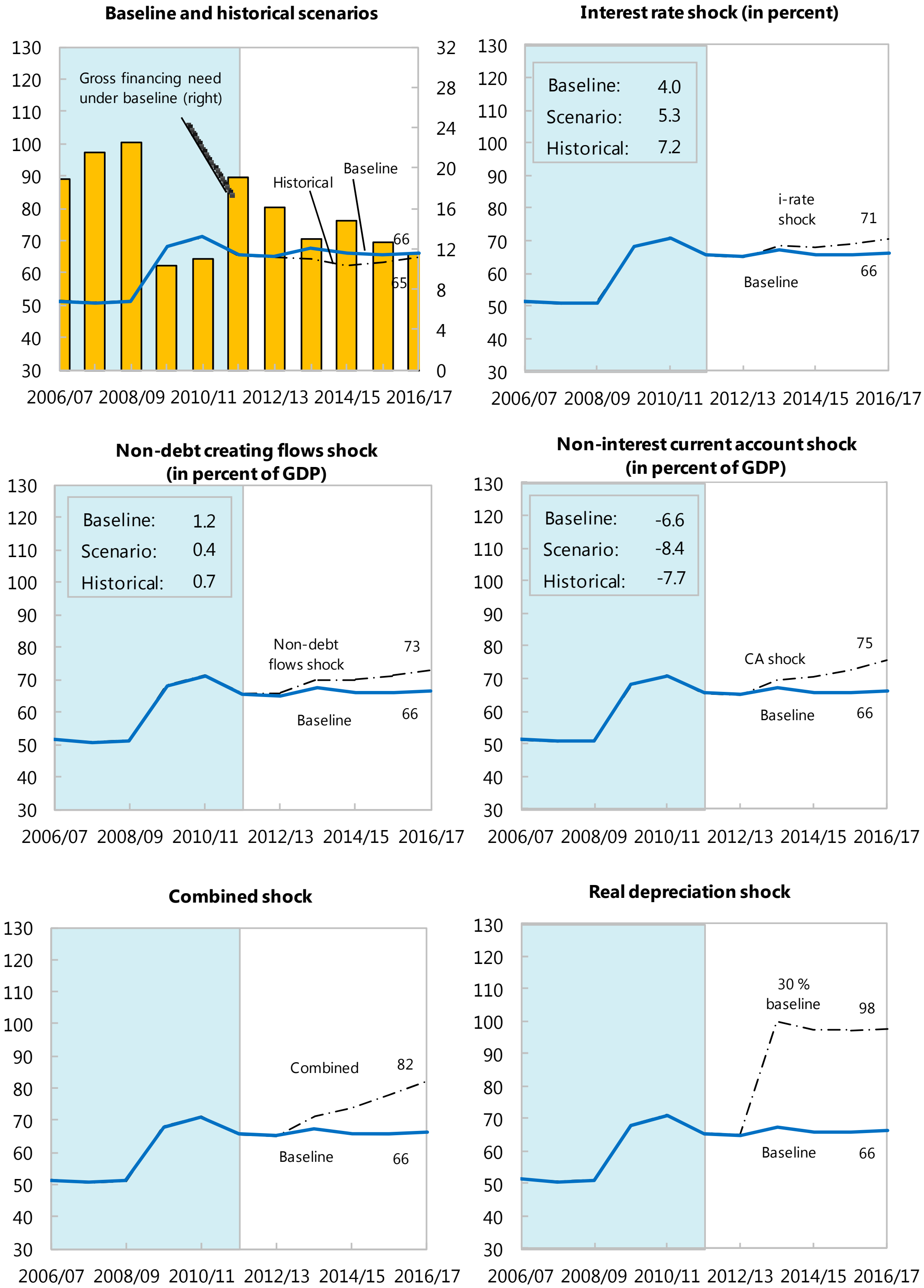
Stress tests point to a number of sensitivities with upside risks. Leaving key variables to continue at their historical trends leaves external debt unchanged at 65 percent by 2016/17. However, variations in macro and other policy parameters could reverse the baseline trajectory, and in some cases, to an explosive path in the absence of corrective measures. In particular, a one-off 30 percent real exchange rate depreciation shock would increase the debt-to-GDP ratio by 32 percentage points above the baseline by 2016/17, and a permanent 150 basis points increase in interest rate[14], above the baseline, increases the debt-to-GDP ratio by about 4.5 percentage points by 2016/17. Similarly, a permanent ½ standard deviation shock to the current account[15] would increase the debt-to-GDP ratio by 9.2 percentage points by 2016/17. And, shortfalls in non-debt creating flows[16] would increase external debt above the baseline trajectory by about 6.4 percentage points by 2016/17. A combined shock, looking separately at half of the magnitude of each shock to interest rate, non-debt creating flows, and the current account balance (excluding real depreciation shock) would increase the debt-to-GDP ratio by 15.6 percentage points above the baseline by 2016/17.

[14] The interest rate shock was calibrated to reflect the risk premium for market access.

[15] To capture possible shocks to remittances, tourism, and net exports.

[16] A shock to FDI flows similar to what was experienced during the FY 2009/10 crisis.

DSA Figure 1. Jamaica : External Debt Sustainability: Bound Tests (External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

DSA Table 1. Jamaica: External Debt Sustainability Framework, 2006/07-2016/17

(In percent of GDP, unless otherwise indicated)

	Actual								Projections					Debt-stabilizing non-interest current account 6/
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12			2012/13	2013/14	2014/15	2015/16	2016/17	
Baseline: External debt	51.3	50.7	51.1	68.1	71.0	65.5			**65.0**	**67.5**	**65.8**	**65.8**	**66.2**	**-3.0**
Change in external debt	2.2	-0.6	0.5	16.9	3.0	-5.5			-0.5	2.5	-1.6	0.0	0.4	
Identified external debt-creating flows (4+8+9)	-0.3	4.2	12.2	8.4	0.7	8.9			9.7	5.7	3.8	2.3	2.4	
Current account deficit, excluding interest payments	6.1	14.6	14.8	3.6	5.6	11.0			8.7	7.9	6.9	5.2	4.2	
Deficit in balance of goods and services	19.6	28.9	29.8	17.9	19.8	24.4			23.1	22.9	21.3	19.1	18.0	
Exports	40.1	39.7	37.5	32.7	29.3	29.2			30.0	31.0	32.3	34.2	34.1	
Imports	59.7	68.6	67.3	50.6	49.1	53.7			53.1	54.0	53.6	53.2	52.1	
Net non-debt creating capital inflows (negative)	-6.6	-11.0	-5.2	-3.2	-1.3	-1.3			-2.3	-4.5	-4.8	-4.1	-2.7	
Automatic debt dynamics 1/	0.1	0.6	2.7	8.0	-3.6	-0.8			3.3	2.2	1.7	1.2	0.8	
Contribution from nominal interest rate	3.7	4.0	3.8	4.0	3.4	3.1			3.2	2.8	2.6	2.4	2.3	
Contribution from real GDP growth	-1.4	-0.4	0.8	1.4	0.4	-0.6			0.1	-0.5	-0.9	-1.2	-1.4	
Contribution from price and exchange rate changes 2/	-2.1	-3.0	-2.0	2.6	-7.4	-3.3			...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.5	-4.8	-11.8	8.6	2.2	-14.4			-10.2	-3.2	-5.5	-2.3	-2.0	
External debt-to-exports ratio (in percent)	127.9	127.7	136.4	208.2	242.5	224.2			216.4	217.3	203.7	192.6	194.2	
Gross external financing need (in billions of US dollars) 4/	2.3	2.8	3.0	1.3	1.5	2.8			2.4	1.9	2.1	1.9	1.7	
in percent of GDP	18.9	21.5	22.6	10.2	11.0	19.0			16.2	13.0	14.8	12.7	11.5	
Scenario with key variables at their historical averages 5/							10-Year Historical Average	10-Year Standard Deviation	**65.0**	**64.2**	**62.0**	**63.0**	**65.0**	**-4.4**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	3.1	0.8	-1.7	-2.6	-0.6	0.9	0.7	1.9	-0.2	0.8	1.4	1.8	2.2	
GDP deflator in US dollars (change in percent)	4.6	6.3	4.1	-4.8	12.2	4.9	5.6	7.0	-0.4	-1.8	-1.2	-0.7	0.5	
Nominal external interest rate (in percent)	8.1	8.4	7.7	7.3	5.6	4.7	7.2	1.2	4.8	4.2	3.9	3.6	3.5	
Growth of exports (US dollar terms, in percent)	16.2	6.0	-3.3	-19.1	-0.1	5.6	3.3	9.7	2.2	2.4	4.3	6.9	2.5	
Growth of imports (US dollar terms, in percent)	16.0	23.2	0.3	-30.3	8.2	15.7	6.9	15.0	-1.6	0.6	-0.4	0.4	0.5	
Current account balance, excluding interest payments	-6.1	-14.6	-14.8	-3.6	-5.6	-11.0	-7.7	4.5	-8.7	-7.9	-6.9	-5.2	-4.2	
Net non-debt creating capital inflows	6.6	11.0	5.2	3.2	1.3	1.3	4.9	2.8	2.3	4.5	4.8	4.1	2.7	

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.

Public Debt Sustainability Analysis Under the Baseline (2006/7–20016/17)

Jamaica's public debt reached 148.2 percent of GDP at the end of 2012. More than half of the total public debt is domestic debt[17], held mainly by domestic residents with financial institutions holding close to 50 percent of total domestic debt.[18] Less than 15 percent of the total debt is held by nonresidents. The main risks to public debt are large exchange rate movements (as close to half of the domestic debt is linked to foreign currency) and lower than expected fiscal adjustment. The introduction of the NDX in February 2013 is expected to extend maturities of the domestic debt—easing the liquidity pressure that would have come with the large debt service payments falling due at the end of February 2013.

Under the baseline, a strong fiscal adjustment and savings from the debt exchange are expected to restore public debt to a downward trajectory toward a sustainable path (Table 1). With increasing primary surplus, steady increase in growth and savings from the debt exchange (NDX), the public debt-to-GDP ratio falls to about 124.4 percent by FY 2016/17.

However, subjecting the baseline trajectory to variety of stress tests reverses the downward trajectory of debt. Without the fiscal adjustment and the debt exchange, allowing the key variables to remain at their historical averages throughout the projection period would lead to the debt ratio stabilizing at around 149 percent over the projected period, instead of declining.

Fiscal adjustment is very critical to restoring Jamaica's debt on sustainable path. For example, significant slippages in fiscal adjustment—setting the primary balance to zero permanently—would increase the debt-to-GDP ratio to 156.2 percent by 2016/17. Similarly, maintaining the primary balance in line with current 2011/12 level of 3.7 percent of GDP would leave the debt-to-GDP ratio at 141 percent by 2016/17. A permanent shock reducing growth to zero over the projection period would also increase the debt-to-GDP ratio by 6 percentage points above the baseline by FY 2016/17.

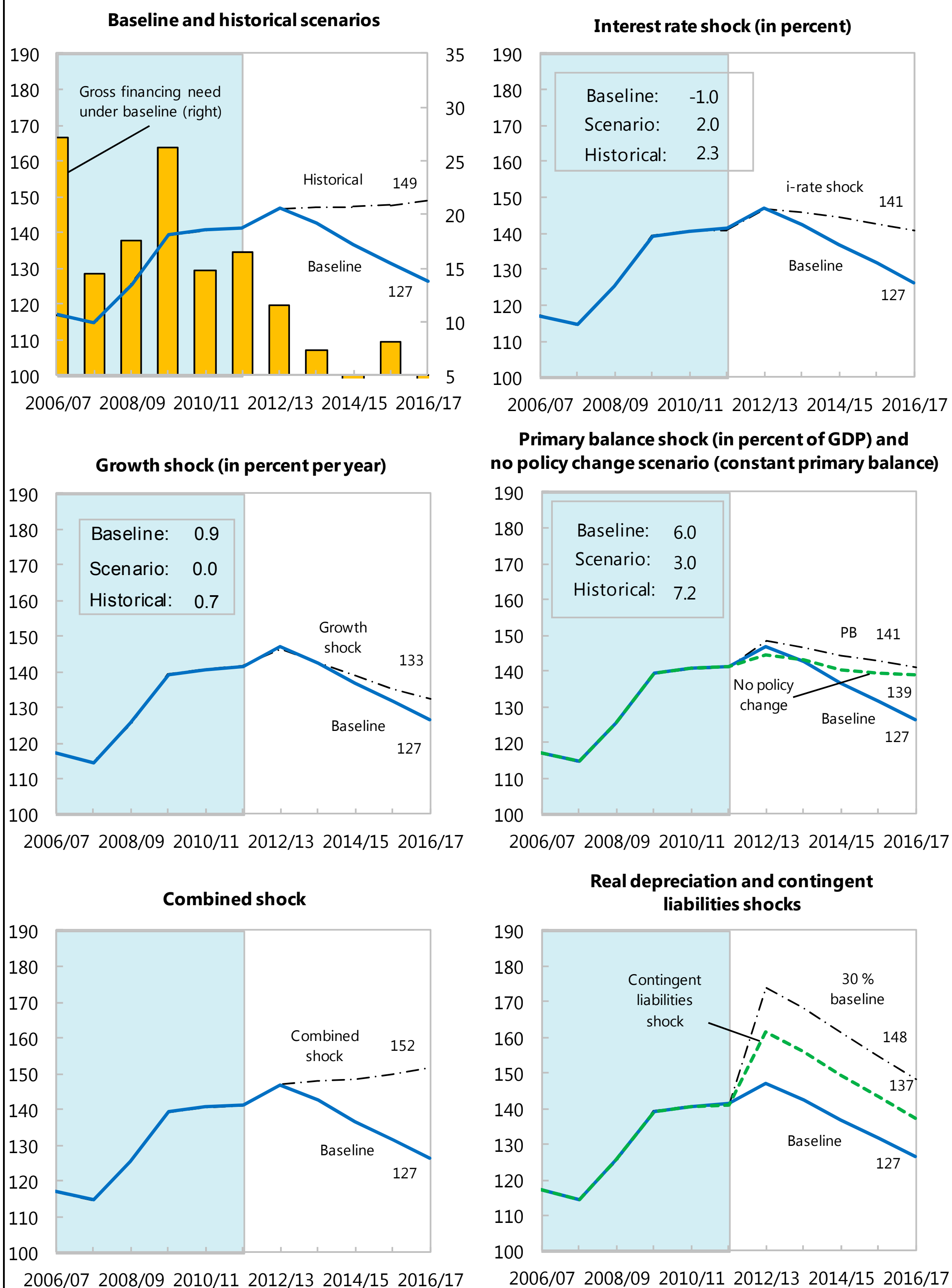
The downward debt trajectory is also sensitive to variations in macro and other policy parameters. A one-off 30 percent real exchange rate depreciation would leave the debt-to-GDP ratio at 148.3 percent by 2016/17. And a one-off 15 percent increase in contingent liabilities would put the debt at 137 percent of GDP by 2016/17. Similarly, a 200 basis point permanent interest rate shock, above the baseline, increases the debt-to-GDP ratio to 140.8 percent by FY 2016/17.[19] A combined shock, looking separately at a permanent shock of half of the magnitude to interest rate, growth, and the primary balance (but excluding exchange rate and contingent liability shock), increases the debt-to-GDP ratio above the baseline to 151.7 percent by 2016/17.

[17] Domestic debt is defined by jurisdiction (place where the debt is issued).

[18] More than half of the holdings by the financial sector are by the securities dealers.

[19] The rationale for this calibration is to capture the lingering risks of interest rate crisis after the experience of 2009/10 when real rates increased by 400 basis points.

DSA Figure 2. Jamaica: Public Debt Sustainability Analysis—Bound Tests
(Public debt in percent of GDP)



Sources: International Monetary Fund; Country desk data; and staff estimates.

DSA Table 2. Jamaica: Public Sector Debt Sustainability Framework, 2006/07-2016/17

(In percent of GDP, unless otherwise indicated)

	Actual								Projections					
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	10-Year Historical Average	10-Year Standard Deviation	2012/13	2013/14	2014/15	2015/16	2016/17	Debt-stabilizing primary balance 9/
Baseline: Public sector debt 1/	**117.1**	**114.6**	**125.6**	**139.4**	**140.8**	**141.5**			**147.0**	**142.5**	**136.7**	**131.7**	**126.5**	**-1.1**
Government debt 1/	106.8	102.1	109.3	120.5	121.9	121.7			124.9	119.3	112.7	108.2	103.5	
Of which : foreign-currency denominated	52.7	48.0	56.3	60.9	63.2	60.9			64.0	63.0	62.5	63.1	63.2	
Government guaranteed debt 1/	10.3	12.6	16.3	18.9	18.9	19.8			22.1	23.1	24.0	23.5	23.0	
Change in government debt	-4.4	-4.7	7.2	11.2	1.4	-0.2			3.2	-5.5	-6.6	-4.6	-4.7	
Identified debt-creating flows (4+7+12)	-6.1	-6.1	8.9	4.9	-5.1	-3.1			-3.2	-10.7	-12.2	-11.9	-12.0	
Primary deficit	-6.4	-7.8	-4.9	-6.1	-4.6	-3.2			-5.2	-6.6	-7.5	-7.5	-7.5	
Revenue and grants	26.1	27.6	27.0	27.1	26.4	25.5			25.7	27.1	26.9	27.0	27.0	
Primary (noninterest) expenditure	19.7	19.8	22.1	21.0	21.8	22.3			20.5	20.4	19.3	19.5	19.5	
Automatic debt dynamics 2/	0.2	2.2	14.3	11.0	-0.4	0.1			2.0	-4.0	-4.7	-4.3	-4.5	
Contribution from interest rate/growth differential 3/	-1.7	-0.4	1.5	10.2	2.4	0.1			2.0	-4.0	-4.7	-4.3	-4.5	
Of which contribution from real interest rate	1.5	0.4	-0.2	7.2	1.5	1.1			1.8	-3.1	-3.2	-2.5	-2.4	
Of which contribution from real GDP growth	-3.2	-0.8	1.7	3.0	0.8	-1.0			0.2	-0.9	-1.5	-1.8	-2.1	
Contribution from exchange rate depreciation 4/	2.0	2.7	12.8	0.8	-2.8	...			...	...	...	...	...	
Other identified debt-creating flows	0.0	-0.5	-0.6	0.0	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	-0.5	-0.6	0.0	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	1.7	1.3	-1.6	6.3	6.5	2.9			6.4	5.2	5.6	7.3	7.3	
Public sector debt-to-revenue ratio 1/	449.4	415.5	465.5	513.8	533.9	554.4			572.6	526.5	508.6	487.8	469.1	
Gross financing need 6/	27.2	14.5	17.6	26.3	14.8	16.5			11.5	7.5	3.9	8.2	1.8	
in billions of U.S. dollars	3.3	1.9	2.4	3.3	2.1	2.4			1.7	1.1	0.6	1.2	0.3	
Scenario with key variables at their historical averages 7/						**141.5**			**146.7**	**147.1**	**147.1**	**147.8**	**148.8**	**6.1**
Scenario with no policy change (constant primary balance) in 2012/13-2016/17						**141.5**			**144.6**	**143.1**	**140.6**	**139.4**	**139.0**	**0.7**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline														
Real GDP growth (in percent)	3.1	0.8	-1.7	-2.6	-0.6	0.9	0.7	1.9	-0.2	0.8	1.4	1.8	2.2	
Average nominal interest rate on public debt (in percent) 8/	11.4	12.2	13.5	16.9	9.7	8.3	13.1	2.1	8.7	6.9	7.1	6.9	6.4	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	1.7	0.4	-0.4	5.9	1.1	1.0	2.3	1.9	1.5	-2.7	-2.8	-2.3	-2.2	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-3.4	-4.6	-19.5	-1.1	4.2	...	-5.8	6.8	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	9.7	11.8	13.9	10.9	8.5	7.3	10.8	2.0	7.2	9.7	9.9	9.2	8.7	
Growth of real primary spending (deflated by GDP deflator, in percent)	25.4	1.3	9.8	-7.3	2.9	1.3	5.0	12.3	-8.6	0.6	-4.0	2.4	2.4	
Primary deficit	-6.4	-7.8	-4.9	-6.1	-4.6	-3.2	-7.2	2.3	-5.2	-6.6	-7.5	-7.5	-7.5	

1/ Central government and government guaranteed debt on gross basis. From FY 2002/03, includes debt issued to the BoJ to cover its cash losses and related capitalized interest. FY 2006/07 debt includes US$350 million in prefinancing. The primary balance includes budgetary primary balance and off-budget expenditure. Dynamics do not drive Guaranteed Debt.
2/ 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).
3/ The real interest rate contribution is derived from the numerator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP. Guaranteed debt added for presentational purposes.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
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.

Appendix I. Letter of Intent

Kingston, Jamaica
April 17, 2013

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

Dear Ms. Lagarde,

In recent decades, the Jamaican economy has been caught in a cycle of low growth and high debt that has resulted in sustained high unemployment rates, large-scale emigration of labor, and high poverty rates. Since the mid-1990s, real GDP growth averaged less than 1 percent per year. Public debt has risen to almost 150 percent of GDP, and market access has been greatly impaired.

The Jamaican government has embarked on a comprehensive economic programme aimed at progressively raising the rate of real GDP and per capita income growth. The strategy of accelerating growth centres on attracting significant new investment in areas such as agriculture, tourism, shipping, logistics and business process outsourcing. This growth agenda is driven by fiscal and monetary policy reforms aimed at creating a stable, predictable and resilient macroeconomic environment; structural reforms aimed at significantly strengthening Jamaica's external competitiveness and productivity; catalytic and strategic private and public investments; and social stability. Fiscal consolidation is a clear and critical ingredient to ensure macroeconomic stability. It will be supported by efforts to ensure on-going financial system safety and stability including reforms to strengthen the financial system oversight framework and improve access to credit.

With the strong, front-loaded macroeconomic adjustment, social protection initiatives are particularly important to maintain social cohesion, build capacity, and improve productivity. The focus of government's efforts is to support the most vulnerable while promoting and facilitating empowerment and self-agency among those who have the ability to become self-reliant and economically productive.

The Government of Jamaica is deeply committed to the objectives and measures underlying this programme and intends to pursue them regardless of any formal financing arrangement with the International Monetary Fund (Fund). In the current context, however, support from the Fund and other multilateral financial institutions should contain risks, boost investor confidence, including the provision of a liquidity cushion to avoid shortfalls in external inflows that could put the programme at risk. Given the structural nature of many of the sources of economic and financial vulnerability, and the extensive medium-term structural reform agenda for addressing these, sustained multilateral engagement over the medium term is essential, including through the provision of technical assistance in priority areas. To this end, the Government of Jamaica is requesting a 48-month arrangement under the Extended Fund Facility (EFF) in an amount equivalent to SDR 615.38 million or 225 percent of quota that will support the programme detailed in the attached Memorandum of Economic and Financial Policies (MEFP). In this context, we request that the equivalent of SDR 58 million (US$90 million) as part of the first purchase be used to help meet the government's financing needs directly.

The government believes that the policies described in the attached MEFP 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 (as established inter alia in the Technical Memorandum of Understanding) to complete programme reviews and monitor performance.

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.

The Fund is hereby authorized to publish this letter and the attached MEFP, to facilitate access to and review of Jamaica's policies both locally and internationally.

Very truly yours,

/s/	/s/
Peter D. Phillips,	Brian Wynter
Minister of Finance and Planning	Governor, Bank of Jamaica
Jamaica	Jamaica

Attachment 1. Jamaica—Memorandum of Economic and Financial Policies

BACKGROUND AND RECENT DEVELOPMENTS

1. **Jamaica faces severe economic challenges.** Since the mid-1990s, real GDP growth averaged less than 1 percent a year, which has contributed to sustained high unemployment rates and large-scale emigration of labor. Anemic growth and recurring bouts of financial market instability have been rooted in increasingly high levels of public debt, which reached 137 percent of GDP at the end of 2011, and is currently approaching 150 percent of GDP. Sustained high debt service obligations and large refinancing needs have resulted in costly risk premiums and helped crowd out private sector investment. The high debt levels have also exposed the country to adverse shifts in market sentiment. With interest payments alone accounting for approximately 37 percent of government revenues, the fiscal accounts are stretched too thin to pursue productivity-enhancing social and infrastructure investment.

2. **Despite initially positive developments, the objectives of Jamaica's 2010 economic programme, which was supported by the Fund, were not achieved.** For FY 2011/12, the central government ran a primary surplus equivalent to 3.2 percent of GDP, compared to a budgeted 5.2 percent of GDP.[1] The public sector fiscal deficit in this context amounted to 6.4 percent of GDP. At the end of that fiscal year, public debt stood at 142 percent of GDP, in excess of levels that could be considered sustainable. The government is well aware of the challenges faced by Jamaica and has prepared a comprehensive set of policies to address them.

3. **Fiscal performance has been under control in recent months, but economic growth has stalled and the economy remains fragile.** After expanding by 1.5 percent in 2011 real GDP slowed down in 2012 with unemployment reaching 13.75 percent by October. Inflation increased to 8 percent in December when compared to the similar month in 2011, while the banking sector remained stable and well-capitalized. The fiscal position is under pressure and external imbalances have risen with the widening of the external current account to 14.1 percent of GDP in FY 2011/12 owing in part to a higher oil bill. At the same time, the capital account weakened significantly, in part due to a sharp drop in external loan disbursements, in particular to the central government. Net international reserves fell to under US$0.9 billion at end-March 2013.

PROGRAMME OBJECTIVES AND STRATEGY

4. **The Jamaican government has embarked on a comprehensive economic programme aimed at significantly raising the rate of real GDP and per capita income growth**. The programme presented in this document covers the period through FY 2016/17 (i.e. through March 2017). It is underpinned by the understanding that fiscal and debt

[1] The fiscal year in Jamaica covers from April to March.

sustainability are necessary conditions for macroeconomic stability and economic growth. In particular, a sharp reduction in the debt burden will conduce to higher private sector led growth as government frees more of the available domestic resources. In addition, in this environment, government spending can be directed toward the catalytic development of infrastructure to support growth.

5. The GOJ's growth agenda will be driven by:

- Time bound fiscal consolidation, supported by fundamental fiscal and monetary policy reforms aimed at creating a stable, predictable and resilient macroeconomic environment conducive to high levels of long term foreign and domestic investment;

- Time bound structural reforms aimed at significantly strengthening Jamaica's external competitiveness and generating higher levels of factor productivity;

- Catalytic and strategic private/public investments; and

- Social stability.

6. To help soften any negative impact on the poor, the programme includes important measures to strengthen the social safety net. The government is well aware that adverse economic conditions are generating drastic socio-economic changes in Jamaica. The contraction in activity has led to a significant increase in layoffs, exacerbating the already high unemployment rate. The most vulnerable social groups are most affected by the decline in economic activity. The programme has been designed to ensure that the adjustment burden is effectively shared across society and economic agents. Safeguards have been included to ensure that the social safety net is not only preserved but broadened, with special attention being given to enhancing those social programmes that are well targeted and far-reaching.

MEDIUM-TERM MACROECONOMIC FRAMEWORK

7. Recognising that fiscal and debt unsustainability have been the main sources of external and macroeconomic vulnerability in Jamaica, the government's medium term strategy aims at virtually eliminating the fiscal deficit and substantially reducing the debt burden. As legislated under the Fiscal Responsibility Framework (FRF), the government is committed to the achievement of the following fiscal objectives by the end of FY 2015/16:

- A central government budget consistent with an overall fiscal balance of 0 per cent of GDP.

- A debt/GDP ratio of no more than 100 per cent by FY 2015/16. It should be noted that despite actions being taken in pursuit of this objective, current projections under the programme suggest that the target will not be achieved.[2] Within this context, and based on performance during the programme the government may amend the Financial Administration and Audit Act to be consistent with actions to achieve debt sustainability.

- A ratio of wages/GDP for the central government of no more than 9 percent of GDP.

Beyond 2015/16, these targets are to be maintained or—in particular, for the debt ratio—to be improved further. The long run objective is to reduce the debt ratios of the government to around 60 per cent of GDP.

8. The programme aims at yielding permanent growth dividends by raising growth to at least 2 percent by FY 2016/17, with significant upside potential as investment plans are implemented and structural reforms result in improvements in the business climate and productivity.

9. Inflation is estimated at 8.75 percent (end of period) for FY 2012/13, reflecting the impact of the revenue measures and a faster rate of depreciation, but it is expected to abate in later years and remain under effective control. Inflation is projected to fall to around 8 percent by 2016/17 supported by an effective monetary policy strategy.

10. In this context, reserves are projected to rise to adequate levels, as the balance of payments is expected to improve markedly over the medium term. The current account deficit of the balance of payments is estimated to have narrowed to 12 per cent of GDP in FY 2012/13, but remain elevated reflecting the impact of capital goods imports associated with a rebound in foreign direct investment as well as the assumption that crude oil prices will remain elevated. The current account deficit is projected to decline to more sustainable levels by FY 2015/16, supported by the fiscal consolidation as well as improved price and non-price competitiveness.

GROWTH STRATEGY

11. The government is committed to implementing a growth strategy built on time bound fiscal consolidation and structural reforms aimed at reducing impediments to growth, complemented by strategic investment facilitation. Among the main impediments to growth are high public debt (142 percent of GDP as of end 2011/12), low factor productivity and competitiveness, high energy cost, bureaucratic business processes, high crime and inadequate legal enforcement. The programme of structural reforms will require careful sequencing over the programme period, in particular across areas of public sector modernization, private-sector led growth, social protection, and public financial management. Noting different mandates and existing financial and technical assistance support, the government proposes a close

[2] This refers to debt excluding domestic public sector guarantees and PetroCaribe debt. Including projections for these two elements, debt would be about 15 percentage points larger.

collaboration among the IMF, the World Bank, and the Inter-American Development Bank (IDB) to support capacity building and implementation of structural reforms.

Enhancing the Business Environment

12. The growth strategy envisages an initial phase of reforms to improve dynamic efficiency. The government has made progress in facilitating the transfer/refinancing of existing loans, the process of probate, has approved licensees for establishing credit bureaus and increased the participation rate for electronic filing of taxes. The government commits to improving the business environment in the areas of enforcing contracts, registering a business, improving access to credit, especially for small and medium-size enterprises, and initiatives to reduce the cost of doing business in the MSME sector through innovation in digital technology. Specifically the government will undertake the following initiatives:

- Establish a **Secured Transactions Framework** to facilitate improved access to credit through the inclusion of movable property as allowable forms of collateral:
    - Submit a Secured Obligations Bill to the Legislative Committee of Cabinet (March 2013)
    - Table the Secured Obligations Bill in Parliament (August 2013)
    - Establish and operate the Central Collateral Registry (*Structural Benchmark,* December 2013)
- Increase the civil jurisdiction of the lower courts from J$250,000 to J$1,000,000 to reduce the case flow burden of minor claims in the Commercial Division of the Supreme Court and thereby improve the timely disposal of substantial commercial disputes
- Table an **Insolvency Act** in Parliament (December 2013)
- Streamline the **Business registration process** through the use of a multi-purpose registration instrument ("business registration superform" and associated IT platform) (December 2013)
- Establish a **Port Community System** (PCS) to electronically integrate and streamline export and import procedures:
    - Select preferred bidder and commence final negotiations (August 2013)
    - Phased roll-out of PCS starting in March 2014, with complete implementation by end-2015/16

- Implement Mobile Money initiative, which will harness ICT to facilitate greater access to financial services by the underserved such as the MSME.[3]

Enhancing Access to Credit and Private Sector Project Finance

13. The government will complement these initiatives with an increase in MSME-financing wholesaled through the Development Bank of Jamaica (targeting a doubling of available MSME financing by 2016/17 relative to 2013/14). It will also increase business development support through the Jamaica Business Development Corporation (JBDC), the establishment of a venture capital framework for promoting the incubation of ideas (end-2014), and the implementation of a divestment/strategic investment framework, including a public-private-partnership policy.

14. The government recognizes the significant benefits of using Public-Private-Partnerships (PPPs) for developing and upgrading physical infrastructure and service delivery. It intends to increase the use of PPPs in the construction of schools, port expansion and development, re-development of towns, agriculture and agro-processing, health and health-tourism, information and communication technology and logistics and transport. In this context, the government has already passed a PPP Policy (approved by Parliament in November 2012) that establishes principles, criteria, an institutional framework and processes for managing PPPs. The policy aims at ensuring PPPs provide value for money, optimal risk transfer and support for fiscal responsibility through adequate monitoring and management of contingent liabilities. Cognizant of fiscal risks, the government has formed two new operating units to manage and preserve the integrity of the PPP programme: (i) the Privatisation and PPP Unit within the Development Bank of Jamaica; and (ii) the PPP Node within the Ministry of Finance and Planning. These units are guided by a Strategy Committee and the Privatisation/PPP Committee of the Cabinet. Technical assistance and financing of training opportunities has been provided by multi-lateral development partners.

Labour Market Interventions and Reform

15. The government will continue to promote labour market reform centering among other things on:

- A review of labour legislation;

[3] The Development Bank of Jamaica (DBJ) launched a pilot project known as Mobile Money for Microfinance (M3) in February 2013 having received non objection from the BOJ in December 2012 to proceed. The project will allow the DBJ to work through the challenges of deploying Mobile Money services for the microfinance user in order to meet its economic development and financial objectives. A technology company and a major financial institution have partnered with the DBJ on this pilot M3 project with the expected duration being a year, across four phases with review and analysis at the end of each phase.

- Enhancing the social protection framework to reduce the impact of high separation costs; and

- Addressing the mismatch between training and employment through greater alignment of training with the manpower needs of strategic sectors.

Accordingly, during the programme period the government will pursue the following initiatives:

- Establish flexible work arrangements by the end of FY 2013/14;

- Establish HEART workforce colleges and three TVET Institutes by end FY 2013/14 with quality assurance for the programmes to be provided by the Council of Community Colleges of Jamaica (CCCJ);

- Implement on-going and new programmes of training and certification. HEART has engaged stakeholders in selected sectors such as transportation, logistics, manufacturing, ICT and tourism to design and implement sector-specific training and recruitment interventions to support the emerging skills requirement in strategic growth sectors.

On-going initiatives include:

- Development of a training initiative to support the logistics hub project within the areas of maritime, aviation, and logistics plus various supporting sectors;

- Provision of customized curriculum design, training and recruitment services to operators in the Business Process Outsourcing (BPO) sector (in partnership with JAMPRO); and

- Provision of customized training aimed at expanding the variety and quality of craft products available to the Tourism sector (in partnership with TPDCo).

New training initiatives for the Agriculture and Energy sectors include:

- Provision of training in Small Ruminants Husbandry (in partnership with the Ministry of Agriculture and Fisheries) in support of the government's drive to improve the small ruminant stock in Jamaica (beginning September 2013); and

- The Renewable Energy and Efficiency Technology Programme (in partnership with the CARICOM Education for Employment Programme) to create a skilled workforce to design, install and maintain Renewable Energy Systems (beginning January 2014).

16. A reduction in bureaucracy through public sector rationalization, coupled with other fiscal reforms (specifically on tax policy and tax and customs administration), is also expected to increase the efficiency of government operations and capital, boost the pace of commerce and provide upside potential to growth prospects**.**

Strategic Investments

17. The first phase reforms are expected to lay the foundation for specific growth projects in areas where Jamaica has a competitive advantage. These include logistics, shipping, tourism, agriculture and business process outsourcing and will be supported by initiatives in research and development, education and training, energy and the strengthening of the information and communications infrastructure to facilitate improved electronic-based transactions. Specifically, the government aims to:

- **Establish Jamaica as a logistics hub—including expanding port, cargo and maritime facilities and economic zones.** This initiative will involve the phased roll-out of several components targeted to be completed by 2015, including the development of the Caymanas Economic Zone, expansion (and privatisation) of the Kingston Container Terminal and the privatisation and upgrading of the Norman Manley International Airport. A Logistics Master Plan is to be prepared by the middle of FY 2013/14 and will seek to integrate all the elements of the project including the establishment of a Commodity Port, Dry Dock, and Vernamfield air cargo and passenger facility.

- **Implement energy sector initiatives to achieve fuel-source diversification, facilitate energy conservation and promote liberalization in delivery to achieve progressive reductions in the cost of energy.** Accordingly, the government will:

    - Diversify energy sources from oil to gas based and renewables.[4]

    - Increase efficiency in the public spaces, and promote conservation in the private sector through public education, technical assistance, and increased access to specialized credit for energy efficiency-enhancing investments.[5]

    - Promote liberalization in delivery through continued efforts to facilitate distributed generation networks.[6]

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[4] The construction and commissioning by the Jamaica Public Service Company (JPS) of a 360 Megawatt Combined Cycle plant by 2015 remains a centerpiece of the medium term energy sector strategy, as well as a build out of renewable energy capacity. With regard to the promotion of renewable energy, the JPS All Island Electricity Licence was amended to, among other things, establish a 25MW ceiling (previously 15MW) for renewable energy generation capacity to be installed and sold to the JPS grid without competitive tendering. In addition, in November 2012 the Office of Utilities regulation (OUR) issued a Request for Proposals for the supply of 115MW of electricity generation from Renewable Energy and the bid period was subsequently extended by two months to June 2013.

[5] Under a project financed by the IDB (The Energy Efficiency and Conservation Programme) which is slated for completion in 2015, the Government is seeking to implement energy efficiency and energy conservation cost saving measures in the public sector through investments in renewable energy installations and the retrofitting of Government facilities, including Lighting, Air conditioning and Building Envelopes.

[6] In 2011, the Government introduced Net Billing regulation, and in May 2012 issued licenses for the first eleven participants in the Net Billing initiative. The Government, through the Energy Security and Efficiency

(continued)

- Implement regulatory and legislative changes to improve the business environment, facilitate private sector investment in the energy sector and enhance consumer protection and safeguard standards.[7]

- **Strengthen the resilience of the country to natural disasters** through Climate Change Adaptation and Disaster Risk Reduction initiatives and targeted public infrastructure projects (with explicit incorporation in annual budgets of central government or public entities).

- **Measures to improve the business conditions for medium and small enterprises and small farmers** including, for the latter, specific projects aimed at increasing the resilience and adaptive capacity of rural communities that are vulnerable to risks from climate change and natural hazards. To this end, the government is committed to partnering with the private sector for the establishment of nine Agro Parks to stabilise the agricultural supply chain, deepen inter-industry linkages, increase competitive import substitution and activate unutilised rural land and labour. The parks, funded partly by the European Union, are to be complemented by improved inputs, including irrigation, transport infrastructure, and technical services. Three of the nine Agro parks (Amity Hall, Ebony Park and Plantain Garden) have already started productive activity.

Important milestones include:

- Finalization of discussions with the IDB on reallocating funds towards the establishment of the parks is expected by end May 2013

- Commencement of productive activity at four more of the nine parks by end FY 2013/14

- Establishment of all nine parks by end FY 2014/15

- Supporting resilience in the agricultural sector through four environmental-related projects:

Enhancement Project has provided resources for a US$4.6 million line of credit through the Development Bank of Jamaica for businesses to implement renewable energy and efficiency-enhancement projects. In addition, The Development Bank of Jamaica has instituted a J$100 million fund for residential energy loans to finance renewable energy solutions such as small wind turbines, solar panels or biogas ingesters, while the National Housing Trust has introduced two loan facilities to facilitate the installation of Solar Water Heaters and Solar Photovoltaic Panels.

[7] The regulatory and legislative reforms include: development of an Electric Power Sector Policy and the Modernization of the Electric Lighting Act (policy framework to be completed by September 2013); and the development of a Natural Gas Regulatory Framework (draft Natural Gas Act, Regulations and Policy by March 2014).

- ***Climate Change Adaptation and Disaster Risk Reduction Project***: To build resilience in the agriculture sector and install protective infrastructure along the Negril coastline, restoring some 2000–2500 meters of the shoreline.

- ***EPA Capacity Building Project***: To build capacity of the infrastructure and the facilities to support the export industry, promoting export competitiveness and food security.

- ***Climate Data and Information Management Project:*** To improve quality climate information for effective planning and action at the local and national levels. Benefits will include: (a) more accurate predictions and early warning of extreme weather events; (b) increased capacity to interpret climate change scenarios and effect planning processes for agro park projects; (c) increased awareness of the impact of climate change and the adoption of initiatives to improve resilience.

- ***Institutional, Mainstreaming and Sectoral Adaptation Project:*** To incorporate the impact of climate change into development plans for vulnerable sections of Rio Bueno and Rio Minho river basins. Adaptation options include: (a) Water Harvesting & Management; (b) Sustainable Land Management; and (c) Agriculture Risk Management.

- Renewing community infrastructures and promoting entrepreneurial development to foster self-agency and job creation.

MACROECONOMIC PROGRAMME

A. Fiscal Sustainability

18. The government is committed to improving the overall public sector deficit from 4.3 percent of GDP in FY 2012/13 to a surplus slightly above 1 percent of GDP by FY 2016/17, which involves improving the central government fiscal balance, in line with the FRF. Consistent with this, the central government's primary surplus would rise from 5.2 percent of GDP in 2012/13 to 7.5 percent in 2013/14 and in subsequent years during the programme period. The deficit of the public bodies is projected to be balanced by FY 2013/14 and in subsequent years during the programme period. Achieving these objectives requires a combination of corrective revenue and spending measures and structural reforms. The government is committed to pass a FY 2013/14 budget consistent with the programme outlined below and in the attached macro-framework tables and its recent tabling in parliament is a structural benchmark (April 2013).

Revenue and Spending Measures

19. To raise the primary surplus of the central government in FY 2012/13, the GOJ has implemented revenue enhancing measures for FY 2012/13 amounting to approximately 1.6 percent of GDP (annualized), complemented by a reduction in expenditure equivalent to

1.4 percent of GDP. The main element of the revenue package of June 2012 was a 1.0 percentage point reduction in the GCT rate while widening the GCT base such that some previously exempted and zero-rated items are now taxable. The projected intake for FY 2012/13 from this package amounts to about 1.2 percent of GDP due to the later than customary start of the budget presentation to allow for completion of the consultative process on tax reform.

20. In order to raise the primary surplus of the central government to 7.5 percent of GDP in FY 2013/14 and balance the budget of the public bodies, the government has committed to further measures that will be adopted in the context of the FY 2013/14 budget. At the level of the public sector as a whole:[8]

Central Government:

- On the revenue side, the changes in government taxes and fees listed in Text table 1, with an estimated positive revenue impact of J$27.3 billion, was tabled in Parliament in February 2013 to allow for a full fiscal-year effect. Among the changes is an increase in property taxes, which are payable to local government. This will help improve the central government balance though a corresponding reduction in the required transfers to local government by J$3.4 billion.

- Central government capital spending will increase marginally to 3.0 percent of GDP and recurrent non-debt spending will be lowered by at least 0.4 percent of GDP reflecting the wage agreement (see below), efficiency gains through improved tracking of medical supplies, and the introduction of health cards and better management of pharmacies, among other measures.

- The central government's primary surplus will be enhanced by the provision of financial support from the NHT. This change has been supported by legislation. The adverse impact of this on the balance of the public bodies will be offset by higher fees and spending adjustments (see below).

[8] Changes are relative to an unchanged policy scenario, unless indicated otherwise.

Text Table 1. Selected Reform Options and Associated Potential Revenue Effects

Reform measure	Revenue yield (J$ billion)
1. Apply a customs administration fee (CAF) on all imports except for charitable organizations and the bauxite sector.	1.2
2. Amendment to the fee structure and gross profit tax of betting, gaming, and lottery sector.	1.5
3. Increase property tax rates to take effect for fiscal year 2013/14 and initiate measures to improve the relatively low property tax compliance rate.	3.4
4. Include the special telephone call tax (TCT) as part of the GCT base.	1.3
5. Include all fees and taxes paid at the port (environmental level and customs administration fee) as part of the GCT base.	1.5
6. Increase the tax on divident to 15 percent.	0.8
7. Impose a surtax of 5 percent on large unregulated companies.	1.2
8. Telecom providers should account for GCT on the face value of prepaid vouchers/airtime.	0.2
9. Increase the Education tax rate by 0.5 percentage points for employers and 0.25 percentage points for employees.	2.8
10. Increase the Stamp duty and transfer tax rates (for properties) up from the current 3 and 4 percent rates to 4 and 5 percent, respectively.	2.0
11. Financial support from the National Housing Trust (NHT) for fiscal consolidation over the period April 1 2013 through March 31, 2017	11.4
Total	**27.3**

Public Bodies:

- On the expenditure side, the Road Maintenance Fund will reduce its spending by J$9 billion, in large part owing to the completion of the Jamaica Development Infrastructure Programme. PetroCaribe Development Fund will curtail its grants to the Central Government by J$1 billion. In addition, Petrojam expects to see savings of J$4 billion on trade credits. Capital expenditures by public bodies will be rationalized taking into account the capacity of each public entity to deliver projects. Furthermore, current expenditures will be capped in real terms for the public entities.

- Also, for several agencies, previously planned increases in expenditure will be controlled. The National Housing Trust (NHT) will continue to deliver on its core mandate, that of providing housing solutions for its contributors. Cost savings on its activities will result from cuts in administrative expenses, actions to increase compliance rates and reductions in current arrears. Capital expenditure will be contained at $29.0 billion, a reduction of $5.0 billion over a previously planned amount of $34.0 billion. Capital expenditure by the National Water Commission will be contained to $10.0 billion, a reduction of $5.0 billion over a previously planned amount of $15.0 billion. The Port Authority of Jamaica, through a public private partnership project, will transfer part of its cost to the private counterpart, thereby containing capital expenditure to $1.9 billion representing an $8.0 billion reduction on previous plans.

21. Beyond these immediate measures, the government will contain expenditure growth over the programme period.

- **Wages and salaries.** The government has signed a no-increase agreement with public sector unions for FYs 2010/11 and 2011/12, and concluded discussions on a compensation agreement for FYs 2012/13 through 2014/15. These discussions have resulted in a labor agreement that is consistent with lowering the wage bill to 9 percent of GDP by 2015/16. In particular, an agreement has been reached with major unions (representing 81 percent of government workers) as a prior action on: (i) foregoing wage increases for FY 2012/13 (and limiting performance increments to no more than 2.5 percent); and (ii) limiting the sum of wage increases and performance increments to an annual average of no more than 5.0 percent for the period FY 2013/14–FY 2014/15. In this context, the government is committed to annual targets for the wage bill for interim years, of 10.6 percent of GDP in 2013/14 and 9.7 percent of GDP for 2014/15.

  During the programme period the government will also ensure implementation of a comprehensive reform of the public sector to enhance efficiency and support containment of the wage bill in a durable manner. In that regard, the government commits to not undertaking any new reclassification exercises during the programme period that may result in additional wage or salary costs or impact an entire occupational grouping. The government may however, within the context of the public sector rationalisation or other streamlining operations, undertake reorganisations as necessary, in consultation with Fund staff, to support efficient and effective performance of core activities. Any such reorganisation will be limited in scope and undertaken within the framework of achieving the 2015/16 legislated wage/GDP target of 9.0 percent.

- **Civil Service Positions**. The GOJ will reduce the size of the public sector over the next two years through the elimination of some posts and an attrition programme. Following the permanent removal of 3000 posts from the Civil Service in September 2012 and the elimination of an additional 3000 posts in the wider public sector in early 2013, an additional 1000 positions that will become vacant due to natural attrition by end-2013 will not be filled. There will be no net hiring of workers by the government in any year during the programme period. More generally, in order to ensure that the GOJ's overall wage ceiling of 9 percent of GDP by 2015/16 is met, the filling of vacant positions will be constrained as needed.

- **Social spending**. Expenditure rationalisation with respect to social spending will be implemented with a view to effecting savings through enhanced targeting and efficiency without impairing, and possibly improving, social services (see below). The programme includes a floor on social spending (indicative target) that signifies the priority attached to it, and that will help safeguard this spending category. For this purpose, the floor on social spending is defined as a minimum annual expenditure on specified social protection initiatives and programmes.[9] These programmes are funded by GOJ resources only and comprise: conditional cash transfers to children 0–18 years and the elderly; youth employment programme;[10] the poor relief programme for both indoor and outdoor poor; the school feeding programme and the basic school subsidy; basic education including early childhood, primary and secondary education; provision of assistance for persons with disabilities; and targeted components of primary health care. The floor will be quantified at a level that is the equivalent of the FY 2012/13 budget allocations, in real terms.

- **Capital expenditure**. Capital spending will be guided by national priorities aimed at supporting the growth agenda and social protection, while ensuring fiscal prudence. In order to ensure the maximum impact of public investment on growth and equity, the government will introduce a 5-year public sector investment programme (PSIP), beginning with FY 2013/14, to be updated on an annual basis (s*tructural benchmark,* April 2013). All capital investments by central government and all State-owned Enterprises will be governed by the PSIP. These investments will be selected according to efficiency criteria and consistency with the growth and equity goals; they will be subject to transparent procurement procedures; and their financing, in each case, will be cleared by the Debt Management Branch. Each annual programme of investments will be included in the fiscal budget approved by Parliament, which will include a report on the alignment of capital investments in the previous fiscal year with the corresponding programme for that year.

- Furthermore, to help safeguard attainment of the budget target for 2013/14, the government has identified **contingency measures** which could include but are not limited to increases in fees and charges for government services. Implementation of contingency measures will be enacted by the government, in consultation with Fund staff, as soon as a monthly review of budget implementation indicates that the target is at significant risk.

- **In the area of public bodies, improvement is to be achieved**. The sector's overall balance is projected to be in balance by end FY 2013/14 and to remain in balance for all programme years. To enhance transparency, the annual reports (including audited statements) for public bodies will be completed within six months of the end of the FY; this is to be achieved by end-2014 for self-financing public bodies and by September 2015 for all other public bodies. Monitoring of public bodies will be strengthened by (1) enforcing a time limit for submission of public bodies' financial statements to the Auditor General; and (2) bolstering capacity within the Auditor General's office for more in-depth and frequent reviews of these statements.

[9] The social spending floor covers only a subset of the GOJ's social protection framework

[10] Youth Employment programmes defined to include: On the job training; Summer Employment; and Employment Internship programmes under the Citizens Security & Justice Programme (CSJP). Programme

Public Debt Management Strategy

22. The government is committed to sharply reducing public debt. Sustained debt reduction will be driven by a strong fiscal programme, generating large primary surpluses. However, while the budgetary measures outlined above should bring about a sharp improvement in the fiscal accounts, they would not by themselves close the financing gaps and put public debt on a sustainable path, even with a fiscal rule. Therefore, fiscal consolidation will be complemented by debt restructuring, improved debt management practices and support from official external partners. The programme assumes that the total contribution of all measures to reduce public debt will deliver a debt ratio of not more than 96 percent of GDP by end-March 2020. It is recognized that a successful completion of the debt exchange and official external support are essential to the programme and securing these is necessary for financing assurances. For purposes of the IMF-supported programme, reporting on public debt will be expanded to also include domestically guaranteed debt and PetroCaribe debt.

23. The Government has engaged its creditors in a debt exchange aimed at securing fiscal savings by exchanging existing debt for new instruments that have lower coupons and longer maturities. The debt exchange was launched on February 12, 2013 with a settlement date of February 22, 2013 and a second phase in March 2013. With the assistance of debt advisors, a strategy was developed that emphasized information transparency and dialogue with creditor groups. The success of the exchange is an essential element of closing the government's financing gap, reducing the rollover risk and improving the maturity structure of government debt. The key elements of the debt exchange were as follows:

- Objectives. The exchange was explicitly targeted at achieving a reduction of public debt-to-GDP ratio by at least 8.5 percent by 2020. The completion of the debt exchange consistent with a reduction in the public debt-to-GDP ratio by at least 8.5 percent by 2020 was set as a prior action. The exchange was successful in achieving the targeted reduction in the public debt-to-GDP ratio by at least 8.5 percent of GDP by 2020.

- A mix of fixed and variable interest rate instruments were offered, with the aim of maintaining a range of benchmark securities along the yield curve.

24. The debt exchange was designed carefully, taking into account financial sector stability concerns. Development of contingent measures is an important aspect of this design. A contingency planning framework is in place with the Financial Regulatory Council (FRC) taking the lead role in ensuring appropriate coordination and communications. FRC is an interagency policy level group, chaired by the BOJ. Funds from the multilateral institutions will be devoted to re-establishing a Financial Sector Support Fund (FSSF) as a backstopping mechanism primarily to provide temporary assistance to solvent financial institutions, in the amount of approximately US$760 million. This fund was established by the government and administered by the BOJ, as was the case in 2010.

25. Licensed deposit taking institutions, securities dealers and insurance companies will again be eligible for access to the FSSF provided the institution and the group to which the institution belongs tender in the debt exchange at least 97 percent of their holdings of eligible assets. The government will authorize access to the FSSF, informed by the assessment and recommendation of the FRC. The FRC will use the existing technical working group (TWG), also chaired by BOJ staff, to assess applications from institutions seeking financial assistance. Assessments will be made of the liquidity needs of the system and the financial condition of the institution requesting support. The work of the TWG will be ongoing and it will provide periodic reports to the FRC. The FRC will monitor specific thresholds, which will trigger further evaluation and action by the primary supervisor. The disbursement of liquidity will be secured by eligible collateral, which would be Government of Jamaica (GOJ) instruments excluding Old Notes subject to the offer. Institutions will be required to repay liquidity support extended under the FSSF as quickly as possible. Higher penalty rates will apply if liquidity advances are not repaid within the agreed repayment period and in any event will be subject to a punitive interest rate after six months at the latest. A framework for supervisory action has been developed based on the level of liquidity support provided as a percentage of total funding (excluding funds for on-lending). If the stock of liquidity accessed by an institution and/or the group to which the institution belongs reaches certain levels, institutions will be subject to escalating supervisory response including inspections, intensive monitoring and intervention. Any institution receiving support for recapitalization will be required to submit an agreed plan of recapitalization and operational restructuring, be subject to stringent viability assessment taking into account stress tests and an independent asset quality review, restrictions on dividend payments and other measures as determined by the authorities. The authorities will consult with the Fund once 50 percent of the FSSF resources have been disbursed.

26. The government will reduce public debt further through a combination of debt-asset swaps and reductions in government-guaranteed domestic debt.

- The government is committed to a reduction in public debt through debt-asset swaps (based on land, buildings, etc.) by at least 1 percent of GDP over the programme period. A preliminary valuation of these assets will be completed by end-June 2013. The legal and administrative processes involved in the exchange of these assets will be fully elaborated, an action plan for their completion developed by September 2013 and the specific operations will be executed before end-2013/14;

- The government is committed to the withdrawal of guarantees issued to underwrite private domestic loans to public entities, equivalent to at least 1 percent of GDP. The government will establish the modalities and legal requirements to effect the reduction in guarantees and execute the specific operations before end-2013/14.

27. The government is committed to adopting further measures, as needed, to deliver the target debt ratio of 96 percent of GDP by end-March 2020. With the policies mentioned above, public debt is projected to decline to less than 100 percent of GDP by March 2020. By end-May 2014, the authorities will collaborate with Fund staff to assess the scale of any remaining efforts that may be needed to reduce public debt to the end-March 2020 target of 96 percent of GDP, or less. If necessary to achieve this objective, the government will identify at that time further measures as part of the programme, that could include, for example, further asset sales or swaps and/or other debt reduction measures. The latter could possibly include using exceptional assistance by development partners, and, in this context, the government has approached the Paris Club to explore options for debt relief. The implementation of these measures would be completed no later than end-February 2015.

28. The government will further strengthen its debt management strategy. The efficiency of the Debt Management Branch will be strengthened through increased staffing of the middle office, skills training and effecting improvements to securities operations, including greater use of auctions for debt placements over the programme period. Approval by Parliament of the Public Debt Law, which is aimed at consolidating various debt related acts, was attained in November 2012 as a prior action, and will contribute to strengthening debt management.

B. Structural Fiscal Reforms

29. The programme prioritizes a set of structural fiscal reforms that aim at entrenching fiscal discipline and bolstering transparency. These reforms also seek to ensure that the gains achieved during the programme period will be sustained and deepened over the medium term.

Public Financial Management

30. Fiscal rules will be strengthened further in order to bolster the credibility and predictability of sustained fiscal consolidation. Important improvements to the fiscal responsibility framework (FRF) were introduced in the context of the 2012/13 budget, including the codification of sanctions for off-budget spending. During the first year under the programme the government commits to the design and adoption of a legally binding fiscal rule to take effect with the FY 2014/15 budget (*structural benchmark*). The rule will provide guidance to policy makers and the public by ensuring a sustainable budgetary balance, taking into account transient factors that are to be incorporated in the annual budgets. A first, conceptual proposal for the design of this rule will be presented to Fund staff by end-August 2013 (structural benchmark). Technical assistance has been requested from FAD for the design of this rule. The government also aims to strengthen the implementation of a structured multiyear budgeting process within the programme period.

31. Strengthening of fiscal responsibility framework (FRF). The Minister will table a half-yearly report in December on the performance of the economy as required under the FRF. The Public Administration and Accountability Committee (PAAC) will consider this, and report on the status of the medium-term economic programme; the progress on meeting specified fiscal targets; and the implications for the specified targets for the ensuing fiscal year and the medium term. The PAAC will report to Parliament its view on spending priorities, borrowing and revenue needs within the context of the medium-term targets no later than March 1 of each year.

32. The Government of Jamaica is committed to improving public financial management. In this direction, the government will take stock of recent assessments, including the February 2013 PEFA report, and, on that basis, develop an action plan for financial management reform by end-May 2013. The action plan will cover a range of areas, including: public procurement; the process of budget preparation, execution, and reporting (in particular the integration of the presentation and discussion of estimates of expenditure and revenue measures consistent with the medium-term budget framework, and the above-mentioned five-year investment programme); and completion of the Central Treasury Management System (CTMS). The government will seek support from development partners concerning the various elements of this plan. A CTMS, with a single treasury account at the Bank of Jamaica has been tested and was fully operational for the Ministries of Finance, Education, and Transport and Works, and the Accountant General's Department as of end-March 2013 (intended in the staff-level understandings to be set as a structural benchmark, and already implemented). CTMS for the remaining Ministries, Departments, and Agencies will be operational by March 2014.

Tax Reform and Tax Administration

33. The government will prioritize upfront reforms to strengthen tax administration. These reforms include:

- The appointment, by end-April 2013, of a regular Commissioner General of the Tax Administration Jamaica, after the appointment of an Acting Chief Executive Officer in September 2012.

- Parliamentary approval of the legislation to establish Tax Administration Jamaica as a semi-autonomous authority, realized in March 2013 (intended in the staff-level understandings to be set as a structural benchmark, and already implemented).

- Parliamentary approval of the legislation for the introduction of a write-off policy for tax and customs duties arrears inclusive of interest, penalty and surcharge consistent with FAD advice, realized in March 2013 (intended in the staff-level understandings to be set as a structural benchmark, and already implemented).

- Fast-tracking parliamentary approval of amendments to the Revenue Administration Act that (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 (*structural benchmark*, June 2013). Subsequent improvements to this Act will aim at strengthening, in particular, tax and customs enforcement and collection powers. It is anticipated that parliamentary approval will be received prior to the parliamentary summer recess during FY 2013/14.

- Publication, without delay, of delinquent tax payers and traders upon the initiation of court action ((intended in the staff-level understandings to be set as a structural benchmark, and already implemented).

- Increasing the resources of the Large Taxpayer Office (LTO) by June 2013, to 120 staff members (structural benchmark). In addition, the government moved the responsibility of managing domestic excises to the LTO at the end of February 2013.

- Improving risk management in the context of SEMCAR, by end-2013/14. Furthermore, the government will formulate a plan with specific targets and timelines for expanding filing according to taxpayer types.

- Expanding the automated waiver system, to fully track tax waivers.

- Measures to encourage the payment of tax obligations through financial institutions, in line with FAD and IDB advice. In this context, the government will negotiate with financial institutions to reduce their transaction fees towards international standards for receiving tax payments directly or through the e-payment system.

- Jamaica Customs Department is in the process of transforming to an Executive Agency (EA) within the Ministry of Finance by the end of FY 2013/14.

34. Key tax policy reforms will also be undertaken. The government is committed to a comprehensive tax policy reform that includes a significant cutback in the system of tax incentives, exemptions and zero rates. The tax reform will be targeted to significantly broaden the tax base, simplify the tax system, reduce economic distortions in the system and allow for a phased reduction in tax rates to a competitive level.

- The GOJ commits to adopting a decision (as a prior action) and ensuring (under a continuous structural benchmark) that:

    a) Discretionary waivers, excluding those granted to charitable organizations and for charitable purposes, will no longer be granted except when this is required to satisfy the GoJ's contractual or other legal obligations. These contractual or other legal obligations comprise: (i) those related to international treaties that have not yet been ratified, (ii) existing contracts for government projects (as of the start of the arrangement period), (iii) existing sector-specific arrangements implemented by way of a letter or contract. All exceptions are spelled out in the TMU.

    b) Any new discretionary waivers that are not covered by the exceptions mentioned above in point (a) and for which a statutory solution cannot be put in place in time may be granted only up to a *de minimis* cap (this excludes specific discretionary waivers agreed in advance and listed in the TMU). This *de minimis* cap will amount to J$10 million per month.[11] In addition, total discretionary waivers, excluding those to charitable

[11] This cap, and the other two caps on waivers mentioned below, are not cumulative, i.e., unused amounts in any month do not raise the cap in subsequent months.

organizations will be capped at J$80 million per month. Waivers to charitable organizations and for charitable purposes will be capped at a level equivalent to the average of the last three years. This cap is determined at J$250 million on a monthly basis.

c) No new or renewed waiver category or other tax incentive will be approved (unless required under existing legislation) and no amendment to existing legislation which could generate further tax expenditures will be undertaken until the passage and coming into effect of the new Omnibus Incentive Law.

- The process to amend the tax acts (Income Tax Act, General Consumption Tax Act, Transfer Tax Act, Property Tax Act, and Customs Act) to harmonize the tax treatment for charities across tax types will be concluded by end-May 2013 (*structural Benchmark*), guided by TA provided by the IDB and in consultation with Fund staff. The amendments to the tax acts will provide clear guidelines for the tax treatment of charities until the Charities Act is ratified by parliament. These amendments will: (a) define charitable purposes; (b) clearly define what a charity is for tax purposes; (c) define and outline the tax treatment for donations to charities (e.g. whether in money or in kind); (d) outline the tax treatment according to each tax type; (e) remove ministerial discretion to grant tax waivers for charitable institutions and for charitable purposes; and (f) outline the administrative process to be followed by the TAJ. Amendments to the tax acts will become effective immediately upon approval. Subsequent changes in these provisions during the programme period may be introduced only with prior joint agreement with Fund staff. Subsequently, a Charities Bill will be tabled in the House of Representatives by September 2013 (*structural benchmark*), guided by TA provided by the IDB and in consultation with Fund staff. Charitable organizations will need to apply for eligibility under the Charities Bill as of end-November 2013, after which date they will no longer be eligible for exemptions granted under the tax acts (*structural benchmark*).

- An action plan for tax reform was prepared in consultation with IDB and IMF staff in March 2013 (intended in the staff-level understandings to be set as a structural benchmark, and already implemented). The action plan provides a specific timeline for the implementation of each tax reform milestone as well as the correspondent indicators that will measure progress towards approving and implementing the tax reform.

- The Omnibus Tax Incentive Act, guided by TA provided by the IDB and in consultation with Fund staff will be tabled in Parliament by September 2013 (*structural benchmark*). As of end-December 2013 (*structural benchmark*), the GOJ will no longer consider new applications under existing tax incentive regimes. After December 31, 2013, new applicants will only be considered under the Omnibus regime, and will need to meet the associated new criteria. A first draft of the legislation will be shared with IMF staff by July 2013. The Act will eliminate ministerial discretionary powers to grant or validate any tax relief, and put in place a transparent regime for limited tax incentives. Any new tax incentives, based on the new Act, will be implemented administratively, without any ministerial discretion in its validation, based on a contract signed regarding the specific project (under the umbrella of the Omnibus Tax Incentive Act). Furthermore, any incentives will be published promptly.

- The broader tax reform, to be prepared in consultation with Fund staff and guided by TA provided by the IDB, which will become effective with the start of the FY 2014/15 (*structural Benchmark*), will include legislation to (i) modernize income tax, property tax, customs tariffs and social security contributions; (ii) greatly reduce tax and tariff exemptions in all major taxes (except for a limited range of specific goods and services);
(iii) remove zero rating (except for exports in the case of the GCT); and (iv) establish an initial prudent reduction in tax rates.

- A further phased reduction of statutory rates on GCT, SCT, and taxes on international trade will be considered at a later stage depending on the improvement in revenue performance associated with these reforms. The tax reform will be tailored to reduce overall tax expenditures, from more than 6 percent of GDP in recent years to no more than 2.5 percent of projected GDP by the end of 2015/16 (excluding any possible changes in the measurement of GDP). Achievement of this objective will be reviewed in consultation with IMF and IDB staff, and this assessment will correct for unforeseen significant shifts in economic structure.

Public Sector Reform

35. The government is committed to improving the efficiency, quality, and cost effectiveness of the public sector. It has adopted a timetable for finalizing its review of the Public Sector Master Rationalisation Plan, and for implementing its adapted plan, which aims at, inter alia, improving the financial oversight of public agencies and public bodies, the introduction of shared corporate services, the reallocation, merger, abolition and divestment/privatization of units, and outsourcing of services. According to this timetable, the following actions will be taken:

- Shared Corporate Services**.** Consultants have been engaged to produce a Strategic Implementation Strategy by April 2013. Implementation of the strategy will commence with the establishment of a 6-month pilot programme by June 2013, the approval of a roll-out plan by early 2014 and full implementation across ministries during 2014/15. The commencement of the pilot phase will be contingent on procurement and implementation of a human resources software system for the public sector (the Enterprise HR System), commencing with the transactional aspects of human resources. A request for proposals for the software procurement is currently being prepared by Fiscal Services Limited.

- The Strategic Human Resources Management Section of the Office of the Cabinet will be fully staffed by September 2013. The recently completed web-based Employee Census System (E-Census) application will be used to update census data through 2012 by July 2013, and action will be taken to expand the share of MDAs that utilize the service by end-2013/14.

- Further examination of funded public bodies to determine suitability for transformation into Executive Agencies will be undertaken during FY 2013/14. Future programme conditionality will be guided by the results of this examination.

As part of this initiative, a review of public sector employment and remuneration will be initiated shortly, to be completed by March 2014 (*structural benchmark*), with technical assistance from international development partners, to guide the subsequent rationalization of the modalities and terms of employment, while maintaining the wage bill within 9 percent of GDP.

36. The pension system for the central government will be reformed to make the system more actuarially sound and contain pension costs to the government. The government of Jamaica is committed to a reform that will reduce the government's pension costs over the medium and long term, and not increase them during any programme year, compared with a no-reform scenario, as well as establish sustainability of pension payments. Initial reforms include: (i) a gradual increase in the retirement age to 65 years and; (ii) a contribution rate of 5 per cent by new employees. The forthcoming White Paper (end-March 2013) will also cover the accrual rate, commutation rules, possible pension indexation, and other aspects of the system. Legislative amendments are expected to be submitted by end FY 2013/14. A timetable for implementation of the new system by FY 2015/16 will also be formulated that can guide future programme conditionality.

37. The ongoing rationalisation and reform of Jamaica's public bodies will continue over the medium term. The government's three-pronged plan aims at: (i) divesting commercial entities; (ii) merging entities when feasible to bolster efficiencies; and (iii) winding-up inactive entities. In particular, concerning Clarendon Alumina Production Ltd, the government is committed to finalizing its divestment or implementing an asset lease agreement, with option of purchase, by December 2013 (*structural benchmark*). In addition, negotiations towards the divestment of Wallenford Coffee Company (WCC) are underway and should be concluded by December 2013. Efforts are also being made with World Bank support to enter a public private partnership for the operations of the Kingston Container Terminal, the Norman Manley International Airport, and the Jamaica Railway Corporation.

Reform of Social Spending

38. The Government of Jamaica is committed to administering a social protection framework that supports the most vulnerable while promoting and facilitating empowerment and self-agency among those who have the ability to become self-reliant and economically productive. These social protection initiatives include:

- Improved training and certification for labour market participants.

- Enhanced benefits for households under PATH—a conditional cash transfer programme. In particular, individual PATH benefits will be increased to maintain real value, in accordance with the Benefit Review Mechanism.

- Enhanced welfare-to-work (WTW) exit strategies for vulnerable households.

- Increasing the effectiveness of the targeting of beneficiaries under PATH, through a process of re-certification. Actions to determine how best to graduate beneficiaries from PATH, and to consolidate existing employment programmes, are also being considered. In addition to WTW, initiatives to enhance exit strategies from PATH include:

    - By September 2013, defining a national strategy, improving and expanding agency networks, strengthening appropriate administrative systems, and preparing human resources, in anticipation of a scaling-up of the Steps-to-Work (STW) programme island-wide;

    - By July 2013, defining a graduation strategy for PATH households;

    - By October 2013, completing the re-certification exercise for PATH households.

- Continued implementation and progressive scaling up of the Community Renewal Programme and the Steps-to-Work (STW) Programme.

39. Spending on education will also be made more efficient and effective. There will be a balancing of student-teacher ratio within and between schools. This will be achieved through, among other things:

- Structured attrition e.g. a freeze on the hiring of new teachers in schools that are overstaffed, to allow the number of existing teachers to decline by attrition.

- Mandatory retirement at the normal retirement age (schools with teachers beyond retirement age will be notified to regularize by September 2013).

- Standardization of the student/teacher ratios at the secondary level (to begin 2013).

- Establishing a clear accountability mechanism enabling the Central Government to set policies that grant schools more autonomy particularly with respect to greater flexibility in the deployment and redeployment of teachers.

- The process of voluntary reallocation of staff will continue over the medium term pending the enabling legislation for mandatory redeployment (enactment by FY 2015/16).

Other measures include reforming the current study leave policies to take account of the new hiring policy; restructuring the current scholarship programmes into separate need-based and merit-based components (review and design of the scholarship mechanism in the 2013/14 academic year with full implementation in 2014); instituting greater cost recovery at the tertiary level and improving the funding structure of the student loan scheme to facilitate increased access to tertiary level training.

40. The provision of health care will be improved by creating greater efficiency and cost containment through the reduction of programme duplication and increased cost-sharing with third party payers while protecting the poor and vulnerable population. To help achieve this, the government will among other things: (i) expand the benefit coverage of the National Health Fund through a review of the list of NCDs covered and drugs offered in addition to improved procurement and management of pharmaceuticals; (ii) revitalize primary health care (PHC) by establishing regional centers of excellence and improving health centers island wide; and (iii) establish a referral system to reduce unnecessary costs at the secondary and tertiary level. Additional measures will be considered, including strengthening the billing mechanism to maximize revenue from payments by private insurance companies, addressing inefficiencies in drugs procurement and distribution, and developing a mechanism to institute 24 hour per day service delivery.

C. Monetary and Exchange Rate Policy

41. Monetary policy will focus on maintaining single digit inflation. The interest rate on the BOJ's 30-day certificate of deposit will continue to be the main instrument of monetary policy in the near term and will be adjusted according to the Bank's assessment of the risks to the inflation target. The monetary base (and broad monetary aggregates) will continue to be the leading indicators monitored by the BOJ and in this regard the Bank will manage its balance sheet so as to attain the programme targets for the BOJ's net domestic assets.

42. The BOJ will continue to conduct monetary policy within the framework of a managed floating exchange rate regime, in which the rate is allowed to adjust in an orderly manner, according to fundamentals. The authorities are committed to exchange rate flexibility and supporting adequate price competitiveness. It may still be necessary at times to intervene in the foreign exchange market to avoid disorderly short-run movements. In this context, the programme contains clear reserve targets that serve to safeguard the adequacy of reserve coverage—a key policy priority in the current context. The BOJ has made significant progress in improving the quality of balance of payments statistics and will continue the development work in accordance with the programme and targets agreed to with the IMF Statistics Mission of October 2011. Specifically, quarterly reporting on the balance of payments and international investment position, including sectoral and instrument disaggregation, on a timely basis and consistent with BPM6 was introduced in March 2013 (intended in the staff-level understandings to be set as a structural benchmark, and already implemented).

43. The BOJ aims to progressively put in place the requirements for full-fledged inflation targeting (FFIT) for implementation once the issue of fiscal dominance has been successfully resolved by the medium term economic programme. The near-to medium-term policy strategy includes steps to strengthen BOJ governance, through enhanced independence and commensurate adjustment to the treatment of BOJ profit and loss transfers to and from the government. Measures to further develop the foreign exchange market will be aimed at enabling the market to intermediate lumpy flows and efficiently deal with volatility. This process will commence with measures for strengthening the operations of the foreign exchange market in order to facilitate a better information and price discovery process, including through the planned development of an electronic platform for foreign exchange trading. The BOJ will also develop mechanisms to enhance its communication and education strategy and improve its data collection and monitoring capabilities.

D. Financial System

44. Important work needs to be completed to mitigate the risks inherent in Jamaica's highly interconnected financial system. To allow for more effective supervision of the financial sector, the government will enact an Omnibus Banking Law, consistent with Fund staff advice, that will harmonize the prudential standards across deposit takers, facilitate consolidated supervision of financial conglomerates, strengthen the corrective, sanctioning and resolution regime and ensure that the Bank of Jamaica (BOJ) has operational independence for supervision (*structural benchmark*, March 2014). In addition, the government will amend the Financial Services Commission Act in order to strengthen the Financial Services Commission's (FSC) enforcement powers and the BOJ Act in order to vest the BOJ with overall responsibility for financial stability.

45. The government will reform the securities dealer sector in order to strengthen the sector's ability to withstand shocks and provide a wider range of financial services going forward, by phasing out the "retail repo" business model over time. To ensure that less risky business models are available for securities dealers, the government will implement a legal and regulatory framework conducive for collective investment schemes (CIS). In this regard, and in consultation with Fund staff, the government will amend the Securities Act and attendant regulations to establish a comprehensive framework for the regulation of CIS; amend the income tax law to remove double taxation of CIS; reform the Companies Act to eliminate (or exempt CIS from) the need to register unit-holders in the companies' registry; and 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 (*structural benchmark*, December 2013). In conjunction with these reforms, we will seek technical assistance from the Fund to tighten the liquidity regulations and assess further prudential reforms (e.g., capital requirements, margin rules, and concentration and minimum transaction size limits) which could be applied to the retail repo sector over time.

46. The government will take steps without delay to further protect the interest of retail repo clients. We will phase out licenses issued to individuals who are securities dealers and continue the freeze on issuing new licenses to securities dealers whose business model is based on retail repos (except those resulting from mergers and/or acquisitions of existing firms) and the application of enhanced reporting and oversight by the FSC for existing licensees who are eligible to conduct this business. By May 2013 we will require daily reconciliation of Client Holding Accounts held at Jamclear and the FSC will regularly verify these independently using data provided by Jamclear. 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).

47. The government commits to remain vigilant to protect the integrity of the financial sector as it undergoes this transition. The government will seize the opportunity presented by pursuing broader legislative reforms to the BOJ Act, FSC Act, Securities Act and the adoption of the Omnibus Banking Law, to incorporate the legislative changes outlined in the technical assistance advice previously provided by Fund staff (*structural benchmark*, March 2014). This will enable the BOJ and the FSC to investigate and impose administrative and civil remedies on unlawful financial organizations that engage in fraudulent or otherwise unlawful activities (for example, Ponzi schemes). Going forward, the government will develop plans to operationalize the institutional reforms, including providing adequate resourcing, necessary to effectively carry out these new powers.

E. Financing Under the Programme

48. In support of the economic programme, the government envisages the need for financing from multilateral sources of at least US$1 billion over the next 4 years. Total funding from the IMF is expected to be SDR 615.4 million or 225 percent of quota. The first disbursement, available upon approval of the arrangement, amounts to SDR136.8 million. In addition, Jamaica will continue to draw financing from the PetroCaribe facility and to strategically access external commercial markets and bilateral loans, where possible. Remaining fiscal financing needs will be filled through domestic financial sector borrowing.

F. Safeguards Assessment

49. The government fully recognizes the importance of completing a safeguards assessment of BOJ before the first review of the EFF. To facilitate such an assessment, the central bank's external auditors have been authorized to hold discussions directly with Fund staff. An IMF mission to conduct the safeguards assessment is scheduled for before the completion of the first review and the BOJ will provide Fund staff with all necessary information in preparation for that mission.

G. Programme Monitoring

50. The 4-year programme will be monitored through quantitative performance criteria, indicative targets, and structural benchmarks. Programme reviews will be conducted quarterly and the phasing of access under the arrangement and the review schedule are set out in Table 1 of this memorandum. The quantitative performance criteria and indicative targets through end-2013 are set out in Table 2. Broad fiscal performance is monitored through performance criteria on both the primary balance of the central government and the overall balance of the broader public sector, including the self-financing public bodies. For the purposes of this programme the broader public sector is defined as: the central government and the self-financing public bodies.[12] Programme reviews will assess the achievement of the quantitative targets and focus on progress in key structural reforms. In this context, the first programme review will consider in particular the FY 2013/14 budget and progress in structural fiscal reforms. The second review will focus on progress in improving competitiveness. Structural benchmarks are set out in Table 3. Programme conditionality and reporting requirements are further specified in the accompanying Technical Memorandum of Understanding.

[12] Non-self financing public bodies are captured in the Central Government data.

Table 1. Jamaica: Schedule of Reviews and Purchases

	Amount of Purchase		
Date	Millions of SDR	Percent of Quota	Conditions 1/
	Purchases to be made		
May 1, 2013	136.75	50	Approval of Arrangement
September 20, 2013	19.97	7	First Review and end-June 2013 performance criteria
December 20, 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	Twelveth 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.

Table 2. Jamaica: Quantitative Performance Criteria 1/

(In billions of Jamaican dollars)

	2012	2013				2014
	end Dec.	end Mar. 2/	end Jun.	end Sep.	end Dec.	end Mar.
	Actual	Estimate	Performance Criteria			Performance criteria
Fiscal targets						
1. Primary balance of the central government (floor) 3/	39.1	70.3	14.0	38.2	61.6	111.5
2. Tax Revenues (floor) 3/ 8/	225.0	322.2	73.3	150.7	231.9	360.5
3. Overall balance of the public sector (floor) 3/	-52.1	-70.0	-14.3	-21.6	-30.7	-6.7
4. Central government direct debt (ceiling) 3/, 4/	1558.7	150.1	13.9	21.4	27.5	8.6
5. Central government guaranteed debt (ceiling) 3/	166.7	6.0	9.0	8.4	8.4	8.3
6. Central government accumulation of domestic arrears (ceiling) 5/, 11/	n.a.	0.0	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 6/, 11/	n.a.	0.0	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 7/,11/	...	0.0	0.0	0.0	0.0	0.0
9. Social spending (floor) 8/ 9/	...	18.2	4.1	8.3	14.4	20.1
Monetary targets						
10. Cumulative change in net international reserves (floor) 7/, 10/	1115.3	-260.7	-209.0	-242.3	-220.5	96.3
11. Cummulative change in net domestic assets (ceiling) 10/	-7.3	13.8	10.8	16.2	26.4	-10.7

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Preliminary estimates except for the floor on the cumulative change in net international reserves and for the ceiling on cummulative change in net domestic assets.
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.

Table 3. Jamaica: Structural Program Conditionalities

Measures	Status/Timing	
Prior Actions		**Implementation status**
Fiscal consolidation		
1. Cabinet to adopt a decision to:		Met
1. a. Cease the granting of discretionary waivers, excluding: (i) those granted to charitable organizations and for charitable purposes; (ii) those required to satisfy the GoJ's already existing contractual or legal obligations; and (iii) waivers up to a 'de minimis' cap of J$10 million per month (for any that are not covered by the exceptions under (i) or specifically exempted in the Technical Memorandum of Understanding (TMU).		
1.b. Cap total discretionary waivers, excluding those for charitable organizations and for charitable purposes at J$80 million per month. Waivers for charitable organizations and for charitable purposes will be capped at J$250 million on a monthy basis.		
1.c. Not approve any new waivers or renew any waiver category (unless required under existing legislation) or other tax incentive and not to amend existing legislation to generate further tax expenditures until the Omnibus Incentive Law has come into effect.		
2. Public sector wages: Conclude a multi year agreement with major unions (representing at least 70 percent of government workers) limiting nominal wage increases to zero for 2012/13 (and limiting merit increases to no more than 2.5 percent), and an annual average (including merit increases) of no more than 5 percent in the two subsequent years.		Met
Public debt management		
3. Approval by parliament of the Public Debt Law, which consolidates various debt related acts and helps strengthen debt management.		Met
4. Government to complete a debt exchange for domestic government bonds consistent with a reduction in the public debt-to-GDP ratio by 2020 equivalent to at least 8.5 percent of GDP.		Met
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1. Government to table in parliament a budget in line with program commitments.	April 30, 2013	
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	
3.a. Government to present to Fund staff a conceptual proposal for the design of a fiscal rule.	August 31, 2013	
3.b. Adoption of a legally binding 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. Government to finalize the divestment of CAP or implement an asset lease agreeement.	December 31, 2013	
Tax Reform		
6. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as described in paragraph 34 of the MEFP.	Continuous	
7. 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 MEFP.	May 31, 2013	
8.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	
8.b. Government to cease the granting of waivers to charities other than under the Charities Bill.	November 30, 2013	
9.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	
9.b. Government to cease the granting of tax incentives under the regime prior to the Omnibus Tax Incentive Act and of any discretionary tax waivers.	December 31, 2013	
10. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (MEFP paragraph 34).	March 31, 2014	

Table 3. Jamaica: Structural Program Conditionalities (continued)

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Tax Administration		
11. 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	
12. Government to increase the professional staff of Large Taxpayer Office (LTO) to 120 staff members.	June 30, 2013	
Financial sector		
13. Government to Establish and Operate a Central Collateral Registry.	December 31, 2013	
14. Government to implement a legal and regulatory framework conducive to Collective Investment Schemes (MEFP Paragraph 45) in consultation with Fund staff.	December 31, 2013	
15. Government to implement legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	
16. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (MEFP Paragraph 46) in consultation with Fund staff.	March 31, 2014	
17. 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 program 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. As is standard under all Fund arrangements, we will consult with the Fund before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the programme, and provide the Fund with the necessary information for programme monitoring.

For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program exchange rates" as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates. The program 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.

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

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

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.

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 MoFPS. 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 MoFPS 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).

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 1. 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 1.

Table 1. 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	15
End-September 2013	101
End-December 2013	126
End-March 2014	346
Budget support grants	
End-June 2013	0
End-September 2013	10
End-December 2013	27
End-March 2014	67

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 (including banks' foreign currency deposits in BOJ against reserve requirements) are higher (lower) than the baseline projection for this change reported in Table 2.

Table 2. 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	40.0
End-June 2013	45.0
End-September 2013	50.0
End-December 2013	53.0
End-March 2014	56.0

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 *only* the following specific programmes will be part of 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, *only* the following specific programmes will be part of the floor on social expenditure:

- School feeding programme operating costs;
- Operating cost of poor relief (both indoor and outdoor);
- 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 prior action and 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
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.

INFORMATION REQUIREMENTS

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

L. 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.

- Deposits and liquidity assistance to institutions, by institution.

- Bank of Jamaica purchases and sales of foreign currency.

- Amounts offered, demanded and placed in Bank of Jamaica open market operations, including rates on offer for each tenor.

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

M. Weekly

- Balance sheets of the core securities dealers, 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.

N. Monthly

- Central government operations, 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.

- Stock of public external and domestic debt, by creditor and by currency, as at end month. Data is to be provided within four weeks of month end.

- 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, 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.

- Holdings of domestic bonds (J$-denominated and US$-denominated) by holder category. 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. Include 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 other (non-bank) deposit taking institutions 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.

- Monthly balance sheet data of deposit taking institutions, as reported to the BOJ 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 capital adequacy, profitability and liquidity ratios, within six weeks of month end.

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

- Consumer price inflation, including by sub-components of the CPI index within four weeks after month end.

- Use of the PetroCaribe Development Fund, including loan portfolio by debtor and allocation of the liquidity funds in reserve within four weeks after month end.

- The balance sheet of the PetroCaribe Development fund.

- 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.

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

O. Quarterly

- 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 liquidity ratios (against regulatory minima) for DTI's and non-bank financial institutions within four 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 CSD and FSC independent verification of daily reconciliations using data provided by Jamclear. Reports are due within four weeks of end quarter.

P. 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.

INTERNATIONAL MONETARY FUND

JAMAICA

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—INFORMATIONAL ANNEX

April 17, 2013

Prepared By Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of February 28, 2013)

Membership Status: Joined February 21, 1963; Article VIII.

General Resources Account:	**SDR Million**	**% Quota**
Quota	273.50	100.00
Fund holdings of currency	815.35	298.12
Reserve position	0.00	0.00
Holdings exchange rate		

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	261.64	100.00
Holdings	197.96	75.66

Outstanding Purchases and Loans:

Stand-By Arrangements	541.80	198.10

Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Feb. 04, 2010	May 03, 2012	820.50	541.80
EFF	Dec. 11, 1992	Mar. 16, 1996	109.13	77.75
Stand-By	Jun. 28, 1991	Sep. 30, 1992	43.65	43.65

Projected Payments to Fund:[1]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2013	2014	2015	2016	2017
Principal	175.28	266.91	95.63	3.99	
Charges/Interest	4.16	3.19	0.59	0.08	0.07
Total	**179.43**	**270.10**	**96.21**	**4.07**	**0.07**

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Exchange Rate Arrangements:

The external value of the Jamaican dollar has been determined in an interbank market operated by commercial banks beginning September 17, 1990. The Jamaican dollar has depreciated significantly since that time. On March 13, 2013 it was trading at around J$97.38 to the U.S. dollar.

Last Article IV Consultation and Program Relations:

The last Article IV consultation was completed by the Executive Board on May 30, 2012. The Executive Board approved a 27-month SBA in an amount equivalent to SDR 820.5 million (about US$1.27 billion) on February 4, 2010 for which the Third Review was completed on January 14, 2011 (Country Report No. 11/49).

Technical Assistance:

Fiscal Affairs Department

March 2013	Public Financial Management
March 2013	Tax and Customs Administration
February 2013	Tax and Customs Administration
February 2013	Public Financial Management
January 2013	Tax and Customs Administration
January 2013	Public Financial Management
December 2012	Tax and Customs Administration
November 2012	Tax and Customs Administration
November 2012	Public Financial Management
October 2012	Public Financial Management
October 2012	Liability Management
September 2012	Expenditure Policy
September 2012	Public Financial Management
September 2012	Tax and Customs Administration
August 2012	Public Financial Management
July 2012	Tax and Customs Administration
June 2012	Expenditure Policy
June 2012	Tax and Customs Administration
June 2012	Tax Administration
December 2009	Tax Policy
September 2006	Tax and Customs Administration

Legal/ Monetary and Capital Markets Departments

February 2008	Financial Sector Regulatory and Supervisory Frameworks

Monetary and Capital Markets Department

February 2013	Bank supervision and regulation
February 2013	Capital Market Development
January 2013	Consolidated Supervision
January 2013	Bank supervision and regulation
August 2012	Bank supervision and regulation
July 2012	Capital Market Development
June 2012	Banking supervision
July 2012	Bank supervision and regulation

Statistics Department

March 2013	Balance of payments Statistics
January 2013	Balance of payments Statistics
January 2013	National Accounts Statistics
March 2013	Balance of payments Statistics
November 2012	National Accounts Statistics
September 2012	Balance of payments Statistics
August 2012	National Accounts Statistics
May 2012	National Accounts Statistics

Resident Representative:

The post of the resident representative, which was closed in August 1997, was reopened in May 2010. Mr. Gene Leon is currently the Senior Resident Representative.

RELATIONS WITH THE WORLD BANK

(As of March 15, 2013)

A new Jamaica-World Bank Group Country Partnership Strategy (CPS) is being prepared for Board presentation in the summer of 2013, following extensive consultations with key stakeholders. This CPS, which will guide support from the Bank Group during 2013–2017, supersedes the Country Assistance Program that ends in July 2013. The new strategy is fully aligned with the government's outcome-oriented medium-term framework and broadens potential Bank support compared with the last country strategy. The current CPS focuses on three Results Areas (Supporting Economic Stability, Promoting Inclusive Growth, Promoting Sustained Growth), and one cross-cutting Area (Strengthening Governance). The Bank considers it important to continue this focus, in addition to the work it has started on fiscal and debt sustainability issues in 2009, and to address more directly the growth agenda through approaches to improve growth and competitiveness. The IFC will continue its work with the private sector including strengthening the PPPs framework and the regulatory environment that would increase the overall World Bank Group synergies in Jamaica.

A. Projects

The **Second Jamaica HIV/AIDS Project** was approved in May 2008 for US$10 million. The project development objective is to assist in the implementation of the government's National HIV/AIDS Program by: (a) supporting the deepening of prevention interventions targeted at high risk groups and the general population; (b) increasing of access to treatment, care, and support services for infected and affected individuals; and (c) strengthening the program management and analysis to identify priorities for building the capacity of the health sector to respond to the HIV/AIDS epidemic and other priority health problems. Specifically, the principal project is designed to: (i) support the scaling up of HIV/AIDS prevention interventions so as to halt and reverse the spread of HIV/AIDS; (ii) provide financing to strengthen the diagnostic capacity, enhance services (HIV/AIDS, sexually transmitted infections, tuberculosis, and prevention of mother-to-child transmission of HIV) and support for those infected and affected by HIV/AIDS; (iii) strengthen institutional capacity in supporting policy formulation for an enabling legal and regulatory environment, program management and monitoring and evaluation; and (iv) support health sector development through the strengthening of biomedical waste management and capacity assessment.

The **Jamaica Social Protection Project** (SPP) was approved in May 2008 for US$40 million. The Jamaica Social Protection Project will: (i) further improve the effectiveness of the Program of Advancement through Health and Education (PATH) in order to foster investment by poor families in human capital accumulation; (ii) develop a structured system for assisting working-age members of PATH eligible households seek and retain employment; (iii) enable the formulation of a reform program for the public sector pension schemes; and (iv) develop a holistic social protection strategy. The first component, improving effectiveness of the PATH, will support the PATH through: (a) co-financing for conditional cash transfers to children 0 to 19 years-old (child grants); and (b) technical improvements to the program. The second component, building capacity for the Steps-to-Work (StW) program, will support capacity building within the Ministry of Labor and Social

Security (MLSS) to implement a new initiative. The StW program will target working age members of PATH eligible households for referral to the relevant support services to enable them to seek and retain employment. The third component, improving the public sector pension system administration and building capacity for reform, will support two core sets of activities focused on the schemes for public sector workers: (i) preparation of a reform program; and (ii) improving administration and information systems. The final component is the development of a holistic social protection strategy. This component will support the government in developing a holistic social protection strategy to inform decision making on the appropriate policies and programs to address social risks and vulnerabilities within the population.

The **Jamaica Hurricane Dean Recovery Project** was approved in December 2008 for US$10 million. The objective of the project is to provide funding to support the restoration of levels of service in selected community infrastructure. Specifically, basic, primary and all-age schools, health clinics and critical feeder roads would, at a minimum, be restored to pre-hurricane levels, and to increase the government's ability to respond to natural hazards. The proposed loan incorporates three project components: (1) repair and reconstruction of basic infrastructure; (2) capacity building for hazard risk reduction; and
(3) project management. Component one has four subcomponents: basic school finance restoration of early childhood schools infrastructure; restoration of primary and all-age schools infrastructure; finance restoration of community clinics including type I, II and III facilities; and finance restoration of feeder roads. Component two has two subcomponents which include financing support for training on disaster preparedness and mitigation for local government and relevant stakeholders and financing studies and activities to strengthen the capacity to better respond to natural hazards taking into account lessons learned from past events.

The **Jamaica Rural Education Transformation Development Initiative (REDI)** was approved in September 2009 for US$15 million. The objective of REDI is to improve market access for rural micro and small-scale producers of agriculture and tourism products, as well as other service providers. There are three components to the project. The first component, which is support for rural subprojects in agriculture and tourism, will see the Bank financing two types of subprojects: type A will support revenue generating activities in agriculture and tourism, and type B will support provision of critical infrastructure, marketing, and management in the agriculture and tourism sectors. The second component of the project gives support through national technical assistance and capacity building. The main goal of this component is to strengthen relevant national organizations to enhance their capacity to continue assisting the rural enterprises and other project partners and ensure the sustainability of the rural enterprises. Hence, the component will finance technical assistance and capacity building for key organizations and agencies that deliver support services in agriculture and rural tourism at the local level. The third component of the project is project management. This component will finance project management, technical expertise (tourism and agricultural specialists, monitoring and evaluation) staff training, the annual audit, vehicles, office equipment, and other operating costs. This component will also ensure that effective fiduciary arrangements are in place during implementation.

The Jamaica **Early Childhood Development Project** was approved in May 2008 for US$15 million. The objectives are to: (i) improve the monitoring of children's development, the screening of household-level risks affecting such development, and early intervention systems of the borrower to promote such development (ii) enhance the quality of early childhood schools and care facilities; and (iii) strengthen early childhood organizations and institutions. There are two components to the project. The first component is co-financing the implementation of the National Strategic Plan under Sector-Wide Approach modalities. This component area foresees the strengthening of the Early Childhood Commissions (ECC's) parenting sub-committee, the development and implementation of a national Early Childhood Development parenting education and support sub-strategy, and a public awareness campaign. It includes the creation of an accreditation system for early childhood parenting education and support programs and a grant facility to support service providers in meeting accreditation standards. This component area also includes the development of a national policy for screening, referral, and early intervention. The development of a screening system for household-level risks and its application to all households enrolled in the government of Jamaica's income support program is also provided for under this component. The second component will finance selected consultant services critical to achieve the project development objective. This component will support the development of a national policy on screening, referral and early intervention, including the design of a screening system for risks at the household level, and the development of a public education strategy about risks for children. It will finance development of sub-strategies for parenting of children aged of 0–3 and 4–6 years, including the mapping of existing parenting education and support programs, the development of an accreditation system for parenting programs, and awareness and advocacy strategies for parenting support programs. It will finance the development of service delivery models for nutritional programs, targeted at different age groups and a strategy for the reorganization and strengthening of well-child clinics.

The **Jamaica Education Transformation Capacity Building** project was approved in November 2009 for US$15 million. The objective of the Education Transformation Capacity Building Project for Jamaica is to build the capacity of the emerging key agencies (National Education Inspectorate (NEI), Jamaica Teaching Council (JTC), Regional Education Authorities (REA), and National Education Trust (NET) that are being established to support the national Education System Transformation Program (ESTP). There are three components to the project. The first component is the enhanced performance and accountability. Enhanced performance and accountability will contribute to the implementation of the government of Jamaica ESTP by making operational the following key agencies to form a coherent system to monitor progress and improve accountability and quality: NEI, JTC, and REA. The second component is the mechanisms to mobilize resources to the NET. The NET will be the vehicle through which the Ministry of Education (MoE) will secure a consistent and reliable source of funds to support capital programs in education with a particular focus on, but not limited to, infrastructure. Mechanisms will be established to attract funding from the diaspora, the private sector, and other sources. Finally, the third component is the communications, project management, and monitoring and evaluation. This component will support the implementation of a strategic communications strategy; provision of staffing, training, purchase of necessary equipment and materials, and operating costs for the MoE change management unit, responsible for overseeing implementation of the ESTP; and support to carry out evaluations of the ESTP, and annual external audits of project financing.

The **Jamaica Inner City Basic Services for the Poor Project** was approved in March 2006 for US$29.3 million. The project development objective is to improve quality of life in 12 Jamaican inner-city areas and poor urban informal settlements through improved access to basic urban infrastructure, financial services, land tenure regularization, enhanced community capacity, and improvements in public safety. Specifically, the project will: (a) increase access and improve the quality of water, sanitation, solid waste collection systems, electricity, roads, drainage, and related community infrastructure for over 60,000 residents of poor urban informal settlements through capital investments and innovative arrangements for operations and maintenance; (b) facilitate access to microfinance for enterprise development and incremental home improvement for entrepreneurs and residents in project areas; (c) increase security of tenure for eligible households in project areas; and (d) enhance public safety through mediation services, community capacity building, skills training, and related social services. In addition, the Bank has number of technical assistance initiatives focused on statistics, crime and violence, and disaster risk reduction and management.

The Energy Security and Energy Efficiency Project

The Project's overarching objective is to support the implementation of the Government Energy Policy, particularly the goals of enhancing Jamaica's energy security and efficiency by: (i) reducing energy costs; and (ii) reducing the country's high dependence on imported petroleum products. The proposed project will focus on: (i) increasing the contribution of renewable energies in electricity generation; (ii) improving energy efficiency in key economic sectors; and (iii) effecting fuel diversification through development of the gas strategy. In doing so, the project will strengthen institutional capacity in energy policy and strategy formulation, planning and implementation. The project will also lead to a reduction in emissions of GHG and other gases and ensure that Jamaica's efforts are consistent with its global environmental commitments including the Montreal Protocol on Ozone Depleting Substances, the UN Framework of Climate Change Convention, and others. The operation comprises four components and is structured around the following three axes:
(i) strengthening the regulatory and incentive frameworks to improve energy efficiency, developing renewable energy, developing the new natural gas strategy, strengthening institutions, and building capacity; (ii) financing and implementing energy efficiency investments; and (iii) financing and implementing renewable energy investments. The project supports Jamaica's transition towards renewable and low carbon energy, and Jamaica's international commitments. It is not expected to entail significant impacts on the environment, forests, or other natural resources.

The Jamaica Climate Data and Information Management Project

The Project seeks to improve the quality and use of climate related information for effective planning and action at local and national levels. The Project has components that deal with the supply of climate information and its demand. It draws lessons of development from elsewhere which reveal that the mere supply of data does not automatically induce its use. There is thus a need to both provide information and demonstrate its utility for building climate resilience. On the supply side two components are involved with the generation of data and climate information and on the demand side there are components that deal with the use of this information in priority areas. These are the prerequisites to building climate resilience in the economy.

Specific areas include: upgrading of the data collection, processing and forecasting system of the Meteorological Services; Risk Information Platform and Vulnerability Assessment; and Climate Change Education and Awareness.

Youth Empowerment via ICT Solutions and Creative Industries

The overall objective of the initiative is to reduce unemployment among young Jamaicans by taking advantage of opportunities in the virtual global economy (microwork, free-lancing), start-up business development in the app economy, and the digitalization of government. The project supports: expansion of Digital Jam and promotion of digital literacy at regional level to include the entire Caribbean region, and at sub-national level in Jamaica to reach young people residing outside of the Kingston metropolitan area; supporting the development of start-up technology companies with the establishment of incubator(s) specifically designed to develop businesses in the app economy and the creative industries; promotion of digital employment in the virtual global economy through the establishment of four microwork aggregator hubs initially in Jamaica and later in other parts of the Caribbean; and promotion of citizen-centric digital governance, by supporting a move towards paperless governance, paperless administrations, and a cashless economy.

Japan Social Development Fund (JSDF) Grant on "Community Crime and Violence Prevention" in Jamaica

The objective of the JSDF Grant for "Community Crime and Violence Prevention" in Jamaica (awarded in February 2009) is to support the Jamaica Social Investment Fund (the Recipient and Implementing Agency) in the reduction of the incidence of crime and violence in high-risk and vulnerable inner city communities. The support focuses on: Integrated Crime and Violence Information System; JAVA (Jamaica Violence Action) Fund; and Technical Assistance for Grant Management, Communications, Monitoring and Evaluation.

Jamaica: FBS Payments System Technical Advisory Service

The overall objective of the technical assistance is to support the BOJ in the design and implementation of specific aspects of the national payments and securities settlement systems reform. More specifically the goal is two-fold: (i) the development of the regulatory framework to meet current international standards and best practices for regulating retail payment systems including card and mobile payment systems, and (ii) further strengthening the securities market infrastructure through the addition of a trading platform for fixed income securities to meet current international standards and best practices. The technical advisory service supports the development of the Retail Payment System Regulatory Framework and analyzes the possible development of a fixed income securities trading platform.

Diaspora Bond

The Government of Jamaica (GOJ), in collaboration with the World Bank (WB), is seeking to develop a Diaspora Bond programme to engage the Diaspora in Jamaica's development. It is estimated that Jamaican migrants save about $5.4 billion per year and remittances account for approximately 15 percent of GDP in Jamaica. In addition to the emotional bond that migrants feel for their country, they also have a deep interest in participating in the development of their country. Diaspora bonds could provide a financial instrument to the diaspora overseas to begin an active and tangible engagement in Jamaica's development. Once this link is established, it can be harnessed for a longer-term strategy of diaspora engagement—through remittances, investments, skill and technology transfer, and trade promotion. The Bank has been providing technical assistance to the government in developing a strategy for a diaspora bond and on how the government can inform and engage with the Jamaican potential investors.

Public Debt Management (DFID Grant)

The Bank has made various contributions to the government's reform agenda through its ongoing operations and knowledge services. The Financial Advisory and Banking Department team has an ongoing project with the Debt Management Branch (DMB) of Jamaica, centered on the implementation of a Reform Plan for Strengthening Public Debt Management in close coordination with the Region and financed by a DIFD grant.

FAB has assisted in the drafting of the Public Debt Management bill, and the organizational restructuring of the DMB. The Bank contracted a Reform Change Advisor to work directly with the Director of DMB on a series of modules. Specific training was provided on cost-risk modeling of debt and the design of a medium-term debt management strategy, and the result was the latest MTDS 2012–2014. Training Plans were designed both for the unit and for individual staff. Consensus was reached within DMB on a Business Plan for the unit. A Change Management Workshop recently took place. Other reform modules will address operational risk, the design of procedures manuals, and tailored seminars on public debt management for the appropriate members of parliament.

Supporting Economic Management in the Caribbean (SEMCAR) (TF071579)

The higher level strategic objective is to improve economic management, regional integration, and competitiveness in 12 Caribbean countries[2], through more efficient, effective and accountable public institutions, policies, processes, and Information and Communication Technology systems. Within this strategic context, the program objective is to contribute to more efficient, effective, accountable, and regionally integrated Tax, Customs and Public Financial Management institutions, policies, processes, and ICT systems. SEMCAR is a Canadian International Development Agency (CIDA) financed program, managed by the World Bank and jointly implemented with the International

[2] Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago

Monetary Fund. The Program supports: *Enhancing Regional Tax Administrations; Enhancing Regional Customs Administrations; Enhancing Regional Public Financial Management; Establishment of a Regional Training and ICT Support Center; and Project Management*.

B. Economic and Sector Work (Analytical and Advisory Services?)

The Bank prepared a Country Economic Memorandum (CEM) focused on growth obstacles in Jamaica. The study highlighted some "binding constraints" to growth—namely the prevalence of high crime, fiscal and tax distortions, and deficient human capital. Combined with other contributing factors, this made for a difficult environment to do business, and a situation of low productivity. The report recommended, among other things, a targeted focus on crime prevention, initiatives to encourage vocational training while strengthening school systems, and a comprehensive overhaul of the tax policy regime including a streamlining of tax incentives. Many of these reforms are well underway in Jamaica, and the Bank Group is working with the government in multiple initiatives to address these constraints. The forthcoming Caribbean Growth Forum event, which will convene a number of stakeholders to further indentify growth constraints and agree on an agenda to address them, will continue this process. The Bank also recently completed a Poverty and Social Impact Analysis (PSIA) of the reforms that were undertaken over the period 2009–11, including changes to the tax regime and the divestment of some SOEs.

C. Financial Relations[3]

Table 1. Current Lending Portfolio for Jamaica

(In millions of U.S. dollars)

Projects	Net Comm Amounts	Total Disbursed	Total Undisbursed Balance
JM–Inner City Basic Services Project	29.3	23.1	6.2
JM–Early Childhood Development Project–SWAP	15.0	10.7	4.3
JM–Social Protection	40.0	37.5	2.5
JM–Rural Economic Development Initiative	15.0	4.4	10.6
JM-Education Transformation Capacity Building	16.0	9.5	6.5
Energy Security & Efficiency Enhancement	15.0	4.0	11.0

Table 2. Disbursements and Debt Service (Fiscal Year Ending June 30)

(In millions of U.S. dollars)

	Actual										Projections
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Total disbursements	85.0	11.3	8.5	21.7	17.3	16.0	118.7	222.0	22.2	129.9	12.6
Repayments	44.9	47.4	43.4	39.7	45.8	47.9	48.4	46.7	36.2	35.8	35.2
Net disbursements	40.1	-36.1	-34.9	-17.9	-28.5	-31.9	70.3	175.3	-14.0	94.1	-22.7
Interest and fees	21.9	18.9	17.5	20.5	22.4	21.6	16.6	12.6	10.8	10.7	9.5

*As of March 31, 2013

**Total Disbursement Estimates for FY 13 are US$20M

[3] Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

Jamaica joined the Inter-American Development Bank (IDB) in 1969. IDB financial assistance has supported a wide range of infrastructural, environmental, and social sector projects with a view to enhancing Jamaica's human resource and absorptive capacity and strengthening the foundation for private sector-led growth. In addition, the IDB has supported reforms aimed at strengthening the institutional and regulatory environment.

The IDB is the most active multilateral agency in Jamaica. In terms of financing it is the largest lender (with over US$1.0 billion in approvals over the last six years). The IDB currently accounts for 17 percent of external public debt and 53 percent of multilateral debt. The Bank's support to the country is concentrated in the public sector and includes a broad spectrum of sectors and activities. Its current support is through implementation of its existing portfolio of investment projects and technical assistance. The scope of new IDB financial support is limited as the 2013 lending program consists of a $14 million investment loan. As of end-February 2013, Jamaica's outstanding debt to the IDB stood at US$ 1.68 billion, of which US$1623 million were public sector loans and US$61.1 million were loans to the private sector.

Table 1. IDB Outstanding Debt

Type	Amount (US$ mn.)
Public Sector	1,623.8
Private Sector	61.1
Total Debt Outstanding	1,684.9

The Bank's previous Country Strategy (CS) with Jamaica, which initially covered the period 2006–2009, focused on improving public sector performance and financial management, increasing economic growth, and reducing vulnerability to natural disasters. The prospect was for little new lending until portfolio performance improved and the policy context was more consistent with reducing the debt build up. In fact, there was a lending hiatus from 2005 to 2008 while important analytical work was done by the Bank to support the eventual reforms. In addition, an intensified focus on the performance of the investment project portfolio yielded notable positive results from 2006 to 2008. This was an important consideration when the Bank was asked to resume lending.

In 2008, and in response to the government's decision to launch the macroeconomic stabilization program, the Bank decided to update the scope of the CS (extending it to 2010) and shifted its focus to support the economic stabilization program and complementary social protection programs. In close coordination with other multilateral development agencies, the Bank provided unprecedented technical and financial support for the reform program that was underpinned by a SBA with the IMF. The analytical work led by the Bank was an important input for the stabilization program. This included work on tax reform, waiver rationalization, central treasury management, budget management, and social safety net development.

The IDB's financial support to Jamaica in 2010 was the largest (as a percentage of GDP and on a per capita basis) in the history of the Bank to any borrowing member. This formed part of a closely coordinated engagement by a consortium of development partners, including the IMF, World Bank, Caribbean Development Bank (CDB), European Union (EU), and the IDB. Many of the reforms supported by the Bank remain in place and have even been advanced.

The 2013–2014 Country Strategy with Jamaica, which was approved on March 5, 2013, will maintain strict consistency with the GOJ macroeconomic stabilization program. As such, the strategic intent of the CS is to support the GOJ in mitigating the challenging economic and fiscal situation, while simultaneously maintaining social stability and positioning the economy for growth. This will be realized through lending and technical assistance in the following priority areas: (i) Fiscal Sustainability; (ii) Social Protection and Safety; and (iii) Financial Sector & Business Climate. To mitigate fiscal and social impacts posed by extreme climatic events, Disaster Risk Management and Climate Change Adaptation will be a cross-cutting theme. The financing envelope for the new Country Strategy has yet to be approved.

The active loan portfolio as of December 31, 2012 consists of 15 investment loans valued at US$492.6 million, with an undisbursed balance of US$347.2 million. Key sectors addressed by the current investment loan portfolio include: Water (37 percent), Fiscal (15 percent), Transport (14 percent), Education (9 percent), Social Protection (8 percent), Agriculture (7 percent), Citizen Security and Justice (5 percent), and Energy (5 percent). Almost half of the projects were approved in 2011, with two approved in 2012, and the remainder approved between 2008 and 2010. Of those operations, there is only one non-sovereign guaranteed (SCF) for a total of US$54 million.

Table 2. Major Ongoing Projects

Project Category	Number	Amount (US$ mn.)	Percent Disbursed
Projects in execution	15	492.6	30
Private sector loans	1	6.8	0
IIC loans	9	17.1	67
TCs in execution	40	18.1	46

The lending volume and modalities of IDB financing during the new Country Strategy period will be determined in the Bank's yearly programming exercises and will take into consideration the evolution of macroeconomic policy and the economy's performance. The resulting support will be fully coordinated with the multilateral development institutions supporting the macroeconomic stabilization program; and will seek to maintain proportionality with these development partners, particularly the World Bank.

Table 3. Net Flow of IDB Convertible Currencies

(US$ million)

		2010	2011	2012	2013(p)
a.	Loan Disbursements	626.4	131.4	52.3	53.9
	PBL Disbursements	600.0	50.0	0.0	0.0
b.	Repayments (principal)	69.6	58.3	99.5	100.1
c.	Net Loan Flow (a-b)	556.8	73.1	-47.2	-46.2
d.	Subscriptions and Contributions	0.0	5.6	0.0	0.0
e.	Interest and Charges	23.7	28.6	29.7	23.4
f.	Net Cash Flow (c-d-e)	533.1	38.9	-76.9	-69.6

(p) Projected

In line with efforts to improve execution during this CS period, and consistent with the Bank's strategy for expanded use of country systems, the IDB is currently relying on the following financial management subsystems in Jamaica: Budget and External Control. During CS implementation, the Bank will continue to support further strengthening of these subsystems. In addition, the Bank will support the government in strengthening the following financial management and procurement subsystems: Treasury, Accounting and Reporting, National Informative System, Shopping, and Contracting of Individual Consultants in order to enable their use in Bank´s financed operations which will greatly facilitate the execution of the Bank's portfolio.

Table 4. Total Projected Debt Service, 2010–2014

(Millions of U.S. dollars equivalent)

	2013	2014	2015	2016	2017
Principal	100.1	60.7	63.6	94.6	105.1
Interest	22.2	19.5	19.0	18.0	16.4
Total	**122.3**	**80.2**	**82.5**	**112.6**	**121.5**

STATISTICAL ISSUES

Effective surveillance is hampered by data gaps for the financial sector outside of commercial banks, and for public entities outside of the central government. In early 2003, Jamaica started participating in the Fund's General Data Dissemination System (GDDS), which provides participants with a framework for the development of the statistical system. Jamaica should now focus its efforts on improving its data and dissemination practices by moving towards the goal of subscribing to the Special Data Dissemination Standard (SDDS) over the medium term. No data on industrial production, wholesale or producer prices, import volumes, or export and import prices have been reported for publication in the *International Financial Statistics (IFS)* in recent years.

Key websites for statistics on Jamaica:

Bank of Jamaica:	**http://www.boj.org.jm/**
Ministry of Finance and Planning:	**http://www.mof.gov.jm/**
Planning Institute of Jamaica:	**http://www.pioj.gov.jm/**
Statistical Institute of Jamaica:	**http://www.statinja.com/**

There are significant weaknesses in the national accounts and other real sector data. In regard to GDP estimates, concerns relate both to level and growth rate. Addressing these shortcomings has been hindered, inter alia, by insufficient legal authority granted to the Statistical Institute of Jamaica (STATIN) to collect source data, as well as by institutional weaknesses, and a lack of resources. However, efforts are being made to improve the national accounts, including through a revision of the national accounts in 2008. This included implementing the 1993 System of National Accounts (*SNA93*) and updating the base year, initially to 2003, and subsequently to 2007. Assistance, on the revision, was provided by Sweden Statistics, and, on national accounts methodology, by Statistics Canada and STA. The first publication of quarterly national accounts took place in August 2002, also with assistance provided by Statistics Canada.

Prices

Jamaica (with assistance from the IMF Caribbean Regional Technical Assistance Center, CARTAC) revised its consumer price index (CPI) series in 2007. The CPI revision updated expenditure weights of the CPI that had dated from 1984. The new CPI weights were updated to 2006, based on a household survey conducted in 2004–05.

Government finance statistics

Central government operations and debt data are updated on a monthly basis. Some expenditures, however, are not recorded during the period they actually occur, making it difficult to assess the fiscal policy stance. Also, data on public entities outside the central government, although regularly published, are not reported consistently across entities and in a way that is amenable to assessing and formulating the overall direction of fiscal policy.

There is a paucity of data on the external debt stocks and maturities falling due for the nonfinancial public sector.

Government finance statistics are available at:
Debt: http://www.mof.gov.jm/dmu/
Budget: http://www.mof.gov.jm/programmes/em/fpmu/default.shtml

However, fiscal data are not currently reported for publication in the *IFS*. In 2007, the authorities reported data for 2006, in *GFSM 2001* format, for publication in the 2007 GFS *Yearbook*.

Monetary and financial statistics

Monetary statistics published by the Bank of Jamaica (BOJ) are sectorized, classified, and valued in accordance with international standards, and are provided to the Fund in a timely manner. Currently, information on deposit money banks and monetary authorities is being reported on a regular basis. The BOJ initiated the submission of monetary and financial statistics based on standardized report forms in March 2007. Financial sector statistics outside of the banking system are weak. The absence of adequate data on security dealers is particularly problematic, as dealers' liabilities to the public are larger than those of banks. Consequently, related systemic implications are difficult to assess without timely and comprehensive statistics.

Balance of payments

The BOJ compiles and disseminates balance of payments statistics on a monthly and annual basis. Detailed annual balance of payments and international investment position (IIP) data are reported by the BOJ for publication in the *Balance of Payments Statistics Yearbook (BOPSY)* and the *IFS*. In September 2007, Jamaica reported for the first time IIP data to STA; annual IIP data since 2005 are now available in *BOPSY* and *IFS*.

Jamaica: Table of Common Indicators Required for Surveillance
As of March 31, 2013

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	03/13	03/13	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	03/13	01/13	M	M	M
Reserve/Base Money	03/13	01/13	M	M	M
Broad Money	03/13	01/13	M	M	M
Central Bank Balance Sheet	03/13	01/13	M	M	M
Consolidated Balance Sheet of the Banking System	03/13	01/13	M	M	M
Interest Rates[2]	03/13	03/13	D	D	D
Consumer Price Index	03/13	02/13	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	01/13	03/13	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	01/13	03/13	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/13	02/13	M	M	M
External Current Account Balance	2012	02/13	M	M	M
Exports and Imports of Goods and Services	2012	02/13	M	M	M
GDP/GNP	Q3/12	02/13	Q	Q	Q
Gross External Debt	12/13	02/13	M	M	M

[1]Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds), and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

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FOR IMMEDIATE RELEASE
May 1, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$932.3 Million Arrangement under the Extended Fund Facility for Jamaica

The Executive Board of the International Monetary Fund (IMF) today approved a four-year Extended Fund Facility (EFF) arrangement for Jamaica to support the authorities' comprehensive economic reform agenda. The EFF arrangement amounts to SDR 615.38 million (about US$932.3 million), the equivalent of 225 percent of Jamaica's quota in the IMF. The financing arrangement forms a critical part of a total funding package of US$2 billion from Jamaica's multilateral partners including the World Bank and the Inter-American Development Bank, with each having preliminarily agreed to allocate US$510 million over the next four years. The Executive Board approval enables an initial disbursement by the IMF of an amount equivalent to SDR 136.75 million (about US$207.2 million).

Following the Executive Board's discussion, Mr. David Lipton First Deputy Managing Director and Acting Chair of the Board, stated:

"For most of the past three decades, Jamaica has suffered from very low growth, high public debt, and serious social challenges. Key factors behind these problems have been Jamaica's unsustainable debt burden, low competiveness, a weak business climate, and lack of policy credibility. During 2012/13, the authorities started to tighten fiscal policy and prepared a comprehensive four-year economic reform program to address these challenges.

"The main objective of the program is to put public debt on a firmly downward trajectory and thereby create a virtuous cycle of debt sustainability and higher economic growth. The authorities' multi-layered reform agenda comprises ambitious fiscal consolidation, improvement in competitiveness, debt reduction, and improved social protection programs.

"Achieving higher and sustained growth is key to increase the welfare of Jamaicans and ensure the country's long-term macroeconomic stability. The authorities' growth agenda integrates ambitious fiscal consolidation with structural reforms to reduce impediments to growth and facilitate strategic investments.

"While the full benefits of the reform agenda may take time to materialize, the reforms are urgently needed to ensure a more prosperous future for Jamaica. To enhance sustainability of the reform agenda, fair burden sharing of the reform effort is essential. A central component of the program is the authorities' package of measures to promote social coherence that includes a floor on social spending, an improved social safety net, and programs to increase employment.

"The authorities recognize that safeguarding the financial sector is also critical. They have established a Financial Sector Support Fund to offer assistance, if needed, to financial institutions participating in the recent debt exchange.

"Although the risks to the program are high, the implementation of the prior actions, the frontloaded nature of the reform agenda, and the envisaged collaboration with development partners should help foster the successful implementation of the program."

ANNEX

Recent Developments

During 2012/13 the authorities began to tighten fiscal policy. The government which took office in January 2012 attained an improvement in the central government's primary surplus for the fiscal year 2012/13(April-March) to 5.2 percent of GDP from 3.2 percent the previous year. As the cornerstone of the budget measures, a tax package with a full-year effect estimated at 1.6 percent of GDP was enacted during the third quarter of the fiscal year. In addition, the government strengthened its Fiscal Responsibility Framework, including a sanctions regime for unbudgeted spending.

Economic activity has remained very weak, and the economy is estimated to have contracted by 0.2 percent in FY2012/13, as confidence has continued to wane. Unemployment has increased from 12 percent at end-October 2010 to 13.7 percent at end-October 2012. Price pressures have remained moderate, and inflation is estimated at about 7.3 percent on average in FY 2012/13.

The external position has deteriorated significantly, with the current account deficit estimated at around 12 percent of GDP. Sluggish foreign inflows, including from multilateral institutions, together with central bank foreign exchange sales and debt service payments, have contributed to a sharp drop in Net International Reserves to below US$900 million (compared to US$1.9 billion at end-2011). Since late 2012, however, this downward trend has been contained while the exchange rate has been allowed to depreciate.

Program Objectives

The Jamaican authorities' four-year economic program for FY2013/14 through FY2016/17, seeks to avert immediate crisis risks and create the conditions for sustained growth through a significant improvement in the fiscal and debt positions and competitiveness.

The main pillars of the program are: (i) structural reforms to boost growth and employment; (ii) actions to improve price and non-price competitiveness; (iii) upfront fiscal adjustment, supported by extensive fiscal reforms; (iv) debt reduction including a debt exchange to place public debt on a sustainable path, while protecting financial system stability; and (v) improved social protection programs. To alleviate the possible adverse impacts of fiscal adjustment on the most vulnerable, the program includes measures to ensure adequate social spending and a strengthened social safety net. The program sets a floor on social spending that will help safeguard this spending category.

The program includes a heavy and frontloaded reform agenda to help the economy recover as quickly as possible. The reform agenda seeks to ensure fair burden sharing and is focused on actions to strengthen public financial management, introduce a fiscal rule, reform the tax system, improve the business climate, move towards inflation targeting, and reform the securities dealers sector. The fiscal reforms are essential for a sustained fiscal consolidation effort to put debt on a downward trajectory. Structural reforms to achieve higher and sustained growth are pivotal to long-term economic stability and increased welfare of the population.