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2014 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JAMAICA

In the context of the 2014 Article IV Consultation and fourth review under the Extended Fund Facility and request for modification of performance criteria, the following documents have been released and are included in this package:

- The **Staff Report**, prepared by a staff team of the IMF for the Executive Board's consideration on June 20, 2014, following discussions that ended on May 16, 2014, with the officials of Jamaica on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on June 5, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** including a statement by the Chair of the Executive Board, and summarizing the views of the Executive Board as expressed during its June 20, 2014 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- A **Statement by the Executive Director** for Jamaica.

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

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

*Also included in Staff Report

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

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Washington, D.C.

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JAMAICA

June 5, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Addressing imbalances. For decades, Jamaica has been stuck in a negative spiral of low growth, high unemployment, high debt, and precarious fiscal finances. In an attempt to break with the past, in 2013 the authorities embarked on an ambitious reform program, supported by the Fund through the Extended Fund Facility.

A fragile recovery is underway. Growth is slowly picking up, there has been a sizeable contraction of the current account deficit, and inflation is falling (although remains in the high single digits). The 2014/15 budget targets an ambitious 7½ percent of GDP primary surplus.

The reform agenda remains complex and challenging. A large fiscal adjustment has been put in place, important tax reforms and a fiscal rule have been introduced, and the exchange rate has been allowed to adjust in an effort to restore competitiveness. However, investor confidence remains tentative and tangible signs of a growth and job creation dividend from the painful reform efforts are urgently needed. Future policy priorities include improving tax collection, creating a smaller and more efficient public sector, and removing red tape to boost growth. Vulnerabilities within the financial system need to be proactively addressed, including through an overhaul of the securities dealers industry.

The program is on track. Jamaica's four-year, SDR 615.38 million (225 percent of quota) Extended Arrangement under the EFF was approved by the IMF Executive Board on May 1, 2013, and the first three reviews under the program were completed on schedule. All end-March 2014 quantitative performance criteria were met. The structural benchmarks for end-March and April were also met, except that the Banking Services Bill required fine-tuning after it had been tabled in March. Based on the strong performance to date and the authorities' updated policy intentions and commitments, staff recommends completion of the fourth review under the extended arrangement.

But risks continue to be high. A delayed growth recovery could undermine social support for the reform efforts, financial sector vulnerabilities could become more pressing, or risks to external financing (including from PetroCaribe) could crystallize.

Approved By
Nigel Chalk (WHD) and Peter Allum (SPR)

Discussions took place in Kingston during May 5–16, 2014. Staff representatives comprised J. Martijn (head), D. Simard, and J. Schmittmann (all WHD), C. Lonkeng Ngouana (FAD), M. Opoku-Afari (SPR), A. Arda and P. Lohmus (MCM), and B. van Selm (Resident Representative). They were assisted at headquarters by G. Lindow, E. Kapijimpanga, and I. Sirbu, and at the Resident Representative office by R. Longmore and N. Thompson. Mr. Lessard (OED) participated in the discussions.

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CONTEXT: A STRATEGY FOR SUSTAINED AND EQUITABLE GROWTH

1. **For decades, Jamaica has been stuck in a negative spiral of low growth, high unemployment, and precarious fiscal finances.** Since the mid-1990s, annual economic growth has averaged less than 1 percent and unemployment has been high (especially for the young). Weak fiscal discipline, the materialization of contingent fiscal risks, and low growth have kept public debt above 100 percent of GDP since the early 2000s, depressing investor sentiment and crowding out private sector investment.

2. **Jamaica was hit hard by the global recession of 2008–10**. Negative growth and its consequences for labor markets caused poverty rates to nearly double (from 9.9 percent in 2007 to 17.6 percent by 2010). Declining receipts from exports, tourism, and remittances caused the current account deficit to surge, triggering a sharp depreciation of the exchange rate and a spike in inflation. A reform program, supported by the Fund, was put in place in 2010, predicated on a gradual fiscal adjustment, an upfront debt exchange, and front-loaded financial support from the international community. However, fiscal slippages and delays in structural reforms caused the program to go off track within the first year. As a consequence, Jamaica's external position eroded further, debt rose to almost 150 percent of GDP, and international reserves were rapidly depleted.

3. **In 2013 the Jamaican authorities decided to redouble their reform efforts, narrowly avoiding a full-blown balance of payments, banking and fiscal crisis.** The authorities' program, which has been supported by the Fund since May 2013 through an extended arrangement under the EFF, tackles head-on the challenges of low growth and high debt. The reform effort has significant political support from the current government (which holds a two-thirds majority in parliament) and has performed well despite the complexity and difficulty of the reform agenda.

4. **The authorities' program tackles key shortcomings that were repeatedly highlighted by Fund surveillance.** The strategy comprises several, mutually reinforcing areas:

- Boosting private sector-led growth.
- Protecting social spending and fortifying the safety net.
- Putting the public debt on a sustainable downward trajectory.
- Restoring competitiveness through productivity improvements and allowing the exchange rate to adjust as a means to reduce the reliance on imports and create jobs.
- Securing funding for private investment through strengthening the financial system and lessening the crowding out from government borrowing.

Critical reforms were frontloaded during the first year of the program, including a comprehensive public sector wage agreement, a debt exchange, a sweeping tax reform, and a difficult fiscal adjustment (Box 1).

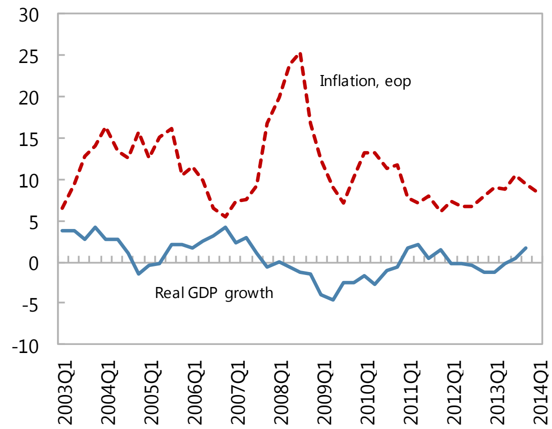
Box 1. Achievements in the First Program Year

During the first year of implementation of the Fund-supported program, important policy adjustments and structural reforms were implemented:

- To help restore debt sustainability, as prior actions, the Debt Law was adopted, and future debt service was reduced through a February 2013 debt exchange for domestic government debt.
- The primary surplus of the central government was increased to 7.5 percent of GDP in 2013/14, with near balance for the overall public sector. A draft 2014/15 budget, consistent with the program, and a comprehensive public sector investment program have been tabled.
- A fiscal rule was adopted in March 2014, putting limits on the annual overall public sector balance, anchored on a reduction in public debt to 60 percent of GDP by 2025/26. This legislation also established a new permanent budget calendar, under which the budget is to be adopted before the start of the fiscal year.
- Fiscal consolidation was supported by a multi-year wage agreement, as a prior action.
- Wide-ranging tax reform has been implemented, including a Charities Act, the replacement of discretionary tax waivers and many sectoral tax incentives by transparent and standardized incentives, and import duty reform to reduce tariff dispersion. The elimination of the zero rating of government purchases under the General Consumption Tax has been delayed to June 2014 (MEFP ¶12).
- Tax administration was strengthened by increasing staffing of the Large Taxpayers Office, and legislation to increase the powers of the tax administration.
- Reform of the securities dealers sector was started, making less risky business models (collective investments schemes) available to securities dealers, and preparing a legal and regulatory framework to mitigate risks posed by the retail repo business model (MEFP ¶28 and ¶29).
- Legislation was adopted or tabled in parliament to address unlawful financial operations and strengthen financial sector supervision.
- Reforms to improve the business climate included streamlining of the business registration process, and progress in reducing the backlog in construction permits. A new Bankruptcy Act has been tabled in parliament.

5. **These reforms have undoubtedly been painful but have benefited from broad societal and international support.** Domestic stakeholders have organized to support, monitor, and help shape the reforms, which involved burden-sharing across all parts of society. A broad partnership agreement was signed in the summer of 2013 between civil society organizations and the government. Stakeholders have also created the Economic Policy Oversight Committee (made up of representatives from financial institutions, private sector organizations, and unions), to monitor and contribute to the design of the program. The World Bank, the Inter American Development Bank, and several bilateral development partners have collaborated with the Fund to provide financial support, intensive technical input, and investments in capacity building to support the program.

Real GDP Growth and Inflation
(percent change)



AN EMERGING RECOVERY AMID SHRINKING FISCAL AND EXTERNAL IMBALANCES

6. **Recent data suggest a gradual economic recovery is underway.** The economy is estimated to have grown by 1.6 percent (y/y) in the first quarter of 2014, and by 0.9 percent over 2013/14 as a whole, with improving performance in mining, agriculture, and tourism. Recorded unemployment remains high, but is declining (from 16.0 percent to 13.5 percent in seasonally adjusted terms between April 2013 and January 2014). Domestic demand has been very weak due to both fiscal consolidation and real income losses from the growth slowdown. Despite this, the ongoing depreciation has lead to rising import prices which has fed through to CPI inflation which was 7.6 percent at end-April.

7. **The central government primary fiscal surplus was 7½ percent of GDP in 2013/14.** This adjustment—from 5¼ percent of GDP in 2012/13, and 3½ percent in 2011/12—was borne largely by expenditure compression as tax revenues fell short (by about 1 percent of GDP), reflecting lower imports and weak employment. This was even with a tax package that was introduced with the 2013/14 budget. The overall balance of the public bodies has neared zero, but performance has remained uneven, with continued shortfalls for the oil company Petrojam and Clarendon Alumina Production (CAP). The overall balance of the combined public sector has overperformed relative to the projections made at the start of the program owing to lower interest costs.

8. **The current account deficit remains substantial but has improved sharply.** The ongoing fiscal consolidation, weak domestic demand, and an 8 percent adjustment in the real exchange rate (since mid-2012) have all contributed to the external adjustment. The current account deficit was 9.5 percent of GDP in 2013/14 (a reduction of 2 percentage points relative to the previous year) and gross international reserves have started to recover (standing at US$1.8 billion at end-May),

covering about 3 months of next year's imports of goods and services. There has, however, been a switch towards borrowed reserves since late 2013, as Jamaican banks have invested in longer-term FX deposits at the central bank.[1]

9. **Financial market conditions have tightened, slowing credit growth.** Reserve money growth has fallen below program projections. The liquidity of the financial system has also been tighter than expected, mainly due to liquidity sterilization by the Bank of Jamaica (BOJ) and ongoing inactivity of the secondary markets in government bonds since the February 2013 debt exchange. This lack of trading likely stems from a higher risk premium on these instruments after the second debt exchange in three years, a lingering apprehension about the sustainability of the reform effort, and market participants' reluctance to restart trading at overly discounted prices. The BOJ has responded since late 2013 by stepping up open market operations and providing liquidity through an overnight window, two-week repos and, in early 2014, six month repos. Through these actions, most of the earlier liquidity contraction had effectively been reversed by the end of the fiscal year. Despite these efforts, interbank rates for overnight funds have risen (peaking at 14–16 percent by mid-February) and credit to the private sector has decelerated to 7 percent (y/y) in March 2014. Moreover, new credit is increasingly concentrated in retail credit with banks reluctant to extend credit at longer maturities to fund corporate investment.

10. **Standard indicators of the soundness of the financial system remain broadly positive, but may not fully reflect underlying vulnerabilities.** Commercial banks' capital adequacy ratios remained stable, at 14 percent at end-December, while non-performing loans (NPLs) declined to 5.2 percent of total loans from 5.8 percent at end-September, with almost full provisioning. Stress test results for end-March 2014 from the BoJ confirmed that while loan delinquency is expected to stay high under various macroeconomic stresses, banks' capital positions largely remained in compliance with capital requirements under a range of hypothetical shocks—including a simultaneous impact of increases in interest rates, currency depreciation, credit quality deterioration and deposit outflow. Securities dealers also meet the applicable capital and leverage requirements at 10 percent of risk weighted assets and 6 percent of total assets, respectively. However, the financial system remains heavily exposed to government debt holdings, and a decline in the market value of government bonds could have a sizeable negative impact on financial institutions' capital.

AN IMPROVING OUTLOOK

11. **The steadfast implementation of planned policies will support a gradual economic recovery**. The broad macroeconomic framework that underpinned the authorities' program request one year ago still seems realistic.

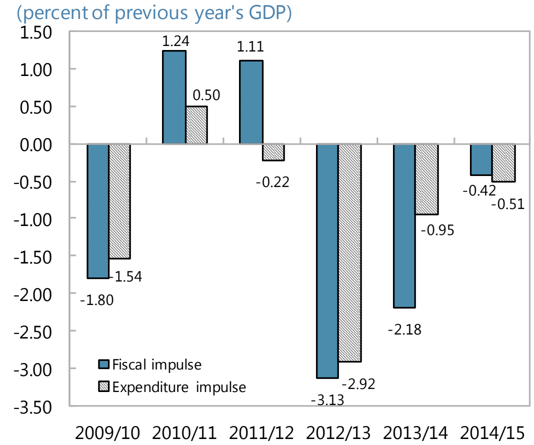
- **Growth.** As the negative fiscal impulse comes to an end, the backlog in construction permits is reduced (MEFP ¶35), and the U.S. economy strengthens, growth is projected to exceed one

[1] The BOJ has offered U.S. dollar certificates of deposit to banks and primary dealers, with maturities from 2 to 5 years which are counted as part of gross and net reserves.

percent in 2014/15. This trend is confirmed by recent surveys pointing to rising business confidence (see Annex V). Going forward, production is expected to benefit from improved competitiveness, and construction of the first of the authorities' strategic investments projects (see below). The gradual impact of various supply side efforts and rising confidence is expected to raise growth to more than two percent over the medium term, which is well above the average of 0.6 percent over the past two decades.

- **Inflation.** For FY2014/15 inflation has been revised down to 8 percent, and a gradual further reduction is projected over the program period and beyond, with changes in the monetary regime (see below). The pass through of the currency depreciation has been smaller than in previous episodes of exchange rate adjustment, probably as a result of the weakness of domestic demand, caused in part by the relatively tight liquidity conditions.

Fiscal and Expenditure Impulses: Initial Contributions to Growth in Aggregate Demand
(percent of previous year's GDP)



- **External Position.** Import compression has been the principal factor in driving the recent correction of the current account. However, in the coming years, increased domestic production is expected to reduce reliance on imports, and the current account deficit should continue to adjust downwards. The identified pipeline of foreign direct investment inflows, attracted by improving confidence and competitiveness, will help finance the current account over the medium term.

BUT WITH SALIENT DOWNSIDE RISKS

12. **Risks remain high (Annex I).** Investor confidence is frail as doubts remain about the efficacy of the various adjustment efforts, financing constraints, and possible reform fatigue. The slow recovery of economic confidence risks also delaying the return of liquidity to the debt market. On the fiscal side, weak revenues, a deteriorating performance by the public bodies, or a disruption in external financing (including PetroCaribe financing by Venezuela), all represent risks that could strain public finances and derail debt reduction. The debt outlook could also worsen as a result of less favorable financing terms. Finally, Jamaica remains vulnerable to natural disasters, lower partner-country growth, and oil price shocks, as well as the economic drag of pervasive crime.

13. **Failure of Jamaica's reform effort could have serious adverse regional repercussions, including through financial linkages**. The main economic channels would be through financial sector entities that are also located in other Caribbean islands, and through holdings of Jamaican government bonds. Trade linkages are limited. Failure of Jamaica's program could also undermine traction within the region of fundamental economic reform.

14. **The authorities broadly shared the staff's view on the economic outlook and risks.** They saw upside potential for growth over the medium term as large (privately financed) strategic

investments are implemented and transform the economy. At the same time, and notwitstanding their unwavering comittment to implementing the program, officials were concerned about the society's capacity to absorb ongoing painful reforms, including exchange rate depreciation, without tangible benefits becoming manifest in the form of jobs and income growth. They also highlighted the administrative and legislative capacity constraints to reform, which had already resulted in minor delays. Finally, they stressed the difficult trade-offs between the pace of fiscal and external adjustment and the space for supporting domestic demand, particularly through delaying needed public investment.

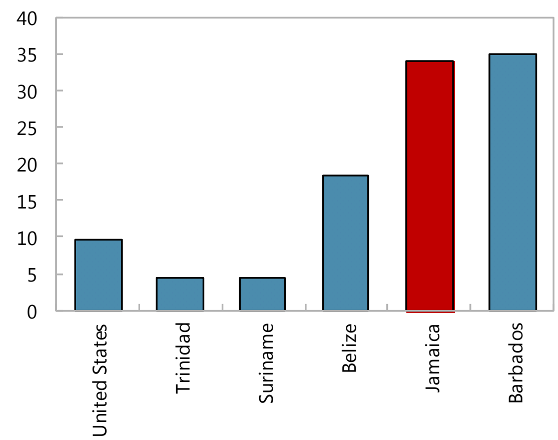
THE GOALS OF THE REFORM AGENDA

A. A Path Toward Sustained Growth and Competitiveness

15. **A comprehensive growth strategy** (MEFP ¶35–41)**.** Reinforcing the credibility of the macroeconomic reforms is key to support investment and growth. Key supply side impediments to overcome are:

- ***High electricity costs***. Several projects and initiatives to achieve fuel-source diversification, facilitate energy conservation, liberalize the electricity market and reduce the cost of energy are moving ahead. A forthcoming 381 Megawatt Plant—the centerpiece of the energy strategy—is estimated to cut electricity costs by a third, from their current very high levels (about 300 percent higher than in the U.S.). This would alleviate a perennial investor concern. Construction has been delayed from early 2014 but the authorities indicated their commitment to its operation in 2016. A new Electricity Act, developed with World Bank assistance, should strengthen governance in the sector and facilitate access to the grid by new power producers.

Domestic Electricity Tariffs, 2012
(US ₵/kWh)



Source: CARILEC.

- ***Bureaucratic red tape.*** A tracking system for the approval of construction permits—which has been a source of extensive investment delays—is being implemented during 2014, in collaboration with the World Bank. Further reforms to enhance the business climate aim to extend land titling (with Inter-American Development Bank (IaDB) support) and create an on-line process for business registration (delayed from June 2014 to early 2015). In addition, the authorities plan to streamline cumbersome import-export requirements through a Port Community System that would build on the ASYCUDA system for automating customs procedures (to be introduced gradually from end-2014).
- ***Governance.*** In mid-March, the authorities tabled the Integrity Commission Act to establish a single anti-corruption agency.

- ***Labor market impediments***. The authorities plan to enhance the job training component of the social protection programs. Recently tabled legislation will introduce flexible work arrangements, allowing more continuous use of machinery and more varied opening hours. There is also a need to enhance labor market flexibility (including by tackling high separation costs) to facilitate the needed adjustment of labor from nontradeable to tradeable sectors.
- ***Limited access to credit***. The authorities noted the BOJ's efforts to address this important bottleneck by addressing liquidity constraints and highlighted their current campaign to encourage the use of recent legislation on the use of movable property as collateral. Further actions will be aided by a developmental FSAP undertaken by the World Bank.
- ***Tax compliance costs.*** Ongoing efforts to improve the ease of paying taxes include steps to promote e-filing and e-payments. The authorities also pointed to plans to support business taxation simplification and transparency, particularly for Small and Medium Enterprises (SMEs), and legal and administrative changes for handling business tax appeals.
- ***Crime***. Violence in Jamaica has deterred investment, affected capital formation, and discouraged business development. Corporate surveys consistently identify crime as a key constraint to doing business in Jamaica. Recent government initiatives to reduce crime include the development of the National Crime Prevention and Community Safety Strategy (NCPCSS), and a Community Renewal Program (CRP).
- ***Infrastructure shortcomings.*** The government is pursuing strategic investments, in particular to finalize a network of critical highways and establish Jamaica as a logistics hub. The latter initiative comprises the privatization of the Kingston Terminal Port (before end-2014) and the Norman-Manley Airport, and the establishment of a transshipment port. The recent creation of Agroparks (sponsored by the IaDB and the European Union), in which land is prepared for farming and then leased to private entrepreneurs, has started to increase agricultural production.

16. **The authorities were encouraged by the progress to-date on policies to enhance growth and job creation.** They emphasized that a very large number of legislative measures had been adopted during the past year including the fiscal incentives regime, which had lowered the effective tax rate for business operators. They pointed also to initiatives that were underway to promote delivery of government services to support investment, including through more expeditious provision of services such as water and electricity.

17. **The real depreciation of the exchange rate since mid-2012 opens up an essential but contentious path to restoring Jamaican competitiveness.** The depreciation of the exchange rate has been highly unpopular domestically and there has been little apparent recognition of the job-creating benefits of currency adjustment. This is in part fueled by the slow responsiveness of exports (other than tourism) to the weaker currency and the clear near-term costs through imported inflation. It is also a product of historical experience whereby past depreciations led to bursts of inflation with little benefit for the real economy. However, there are now promising signs that domestic production is beginning to replace imports for some agricultural goods and the impact on net exports (in particular in agriculture and agro-processing) should continue to grow.

18. **Following the substantial adjustment that has taken place, the remaining overvaluation of the Jamaican dollar appears modest.** Staff judge this overvaluation to be around 3–15 percent relative to medium-term fundamentals and planned policies. This is less than the 8–22 percent assessed in April 2013 (see Annex III) but ongoing depreciation of the nominal exchange rate will be needed, particularly given the sizable inflation differential with Jamaica's main trading partners. Policies to raise productivity and remove obstacles to investment and trade will be essential to complement exchange rate adjustment in restoring external competitiveness and lower the current account deficit toward its longer-term equilibrium (of around 5 percent of GDP).

19. **The authorities agreed on the merits of exchange rate flexibility, and noted the emerging shift to domestic production in response to the recent depreciation.** At the same time, they pointed to the economic uncertainty and adverse social implications generated by rapid exchange rate depreciation. Accordingly, they emphasized the case for limiting the need for nominal exchange rate changes through supply-side measures to improve external competitiveness and through a further reduction in inflation to more moderate levels.

B. Creating Jobs and Addressing Social Inequalities

20. **Targeted actions are needed to leverage the impact of the growth strategy on employment prospects, especially for young people, the low skilled, and women.** Skills development will be critical to address Jamaica's very high unemployment among youth (which stood at 33.3 percent in January 2014). In 2013, approximately 1,400 people received training for entering the workforce through the HEART (Human Employment And Resource Training Trust) workforce colleges. To help address chronic unemployment, especially among low-skilled labor and persons with special needs, about 40,000 Jamaicans were employed under the Jamaica Emergency Employment Program (JEEP) by end-2013. Women have been hit particularly hard by the downturn since 2008, as female unemployment has increased by 3.6 percentage points, to 17.4 percent (male unemployment rose by 2.8 percentage points, to 10.1 percent). Programs should address the risk of marginalization and lack of opportunities including through access to basic health and education services for young children from poor households. Education systems need to be reoriented to the changing economic demands, with more emphasis on technical and ICT skills.

21. **The government has put significant weight on strengthening social protection programs** (MEFP ¶41,42)**.** In the past, the fiscal room for social programs has been crowded out by Jamaica's high interest costs. Despite the significant fiscal adjustment that has taken place, the government has underscored the importance of reversing this erosion and is committed to, as a minimum, maintaining the real value of social spending over the next 3 years. The existing conditional cash transfer program (PATH), a vital component of that social safety net, is being strengthened with repeated increases in the transfer amounts (well beyond inflation), and with World Bank and IaDB assistance. A recertification exercise has been initiated to ensure it remains well targeted. There is also some scope to expand support for the training of program participants and addressing areas of duplication and overlap with programs outside of PATH.

C. Entrenching Fiscal and Debt Sustainability

22. **Upfront and sustained adjustment of the primary balance is at the heart of the authorities' fiscal strategy.** Experience across smaller countries offers support for the proposition that important debt reduction can be implemented through sustained increases in the primary balance as long as the emphasis is on structurally reducing the wage bill and boosting tax revenues (Box 2). Given the high debt and its effect on confidence and activity, Jamaica will unfortunately need to sustain its high primary surplus for many years and will, as a result, not be in a position to smooth economic volatility through countercyclical policies.[2] Such an effort will require a significant social and political commitment over the course of several years. The authorities confirmed their determination to maintain the primary surplus of the central government at 7½ percent of GDP, and the balance of the combined public bodies at zero, during the program period (MEFP ¶26).

23. **The 2014/15 budget remains aligned with program targets**. The ongoing reduction in the government wage bill owing to the multiyear wage agreement allows for the maintenance of capital spending, despite a return of nontax revenues to previous (lower) levels. Given a lack of buoyancy in tax revenues, new tax policy measures were needed to maintain the tax revenue ratio (MEFP ¶9), and the room for new spending initiatives remains constrained.[3] In addition, recent history suggests a possibility of revenues continuing to fall short which underscores the imperative of efforts to strengthen revenue collection (see below) and puts a premium on identifying spending contingencies early on which can be deployed if needed to safeguard achievement of the overall fiscal target without a further contraction in critical capital expenditures.

24. **Accelerating improvements in revenue collection will be key to the success of the government's fiscal strategy.** The recent elimination of discretionary tax waivers and the replacement of sector-specific tax incentives with a more standardized approach should reduce rent seeking and create a broader and more reliable revenue base (MEFP ¶11–14). However, the objective of broadening the revenue base to create room for lower tax rates has been only partly achieved and more could be done (e.g. by including electricity consumption in the Generalized Consumption Tax above a consumption threshold to protect the poor). The IaDB is providing technical assistance to help gauge the scope for such further efforts. On the administration side, taxpayer registration is relatively low and high compliance costs discourage filing and payment. Furthermore, the audit program pursues relatively few cases to completion. Under a new action plan, developed with FAD/IaDB TA, the government is prioritizing: (i) establishing a tax administration modernization program with a dedicated manager and staff; (ii) developing a set of productivity indicators to judge performance; (iii) implementing new IT systems for both tax and customs administration;

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[2] Even so, an exceptionally large adverse shock could necessitate a temporary deviation from the debt reduction path, and for this purpose an escape clause was built into the fiscal rule.

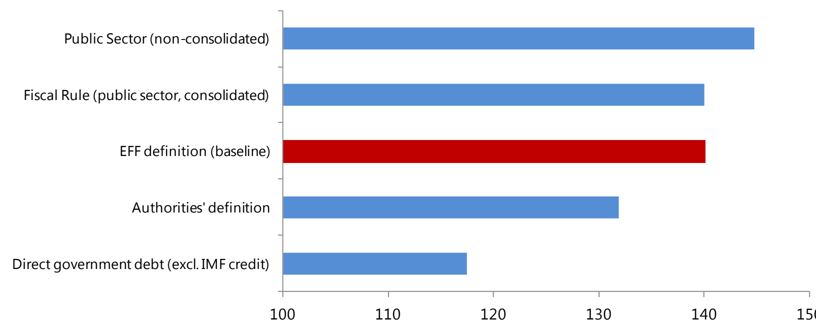
[3] Tax revenue as a share of GDP is expected to effectively increase by 0.1 percent of GDP from 2013/14. The larger increase shown in the tables reflects the extension of the General Consumption Tax to government purchases which will raise recorded revenues and expenditures by the same amount. Other new tax measures include broadening the base of the excise and consumption taxes, along with raising taxes on financial entities' assets.

(iv) strengthening the Large Taxpayer Office (LTO), with increased audit coverage, and mandatory electronic filing and electronic payment; and (v) introducing new enforcement powers (e.g., to seize and sell property) through additional legislation (MEFP ¶15, 16).

25. **Getting greater control over the financial performance of the public bodies is critical.** Repeated slippages in the balance of the many public bodies have highlighted the vulnerability of the government's goals for the overall balance of the public sector. Lessening this vulnerability would involve strict government oversight to control the finances of public bodies, adjusting regulated prices on a timely basis to promote cost-recovery, and addressing overdue payments to public utility companies, including by local governments. The authorities broadly agreed with these measures but also argued for excluding large commercial entities, in particular, Petrojam, from the overall public sector balance, given that its operations were determined by commercial considerations and were outside the direct control of government.

26. **A range of reforms are underway to strengthen fiscal institutions:**

Alternative Public Debt Indicators, End-March 2014
(in percent of GDP)



The coverage options are defined as follows:
-Public sector: provides the widest coverage of debt (captures central government debt and all public bodies' debt).
-Fiscal Rule (public sector, consolidated): Nets-out cross-holdings of debt among public bodies and the central government.
-EFF definition (baseline) : Includes government direct debt and debt of public bodies that is guaranteed by the central government, and PetroCaribe debt.
Authorities' definition: Includes central government direct debt and external guaranteed debt.

- **Fiscal Rule**. Legislation was recently adopted to establish a fiscal rule that will constrain annual budgets by a goal for public sector debt—excluding the central bank and commercially-oriented public entities—of no more than 60 percent of GDP by 2025/26. This new regime signals the authorities' determination to maintain strict fiscal discipline anchored on an ambitious target for debt reduction. While no particular definition of public debt is unequivocally superior, the shift that is foreseen under the fiscal rule (after the program period) to a more broad measure of public debt—beyond that defined in the Fund-supported program—is warranted (see text figure). In this regard, work is ongoing to define which public entities are considered to be commercially-oriented, and to entrench the rule into public expectations so that future governments are held accountable for deviations from the rule (MEFP ¶17, 18).

- **Contingent Liabilities**. Much of the past build up of debt occurred as fiscal risks materialized. Preventing a repeat requires much stronger controls over guarantees and other contingent liabilities. To address this, the government is planning to incorporate a comprehensive fiscal risks statement in the annual budget and has put a cap on the cumulative value of loans for PPPs, at 3 percent of GDP for the next three years. In addition, the government is committed to refrain from any further government financial support for the state-owned Clarendon Aluminum Production (CAP) company.

- **Public Financial Management**. The authorities' have an extensive agenda for PFM reform, supported by the World Bank and IaDB (MEFP ¶19, 20). Several actions are worth highlighting that will support the effectiveness of the fiscal rule. These include developing early and accurate budget envelopes and priorities; increasing the reliability of revenue projections; fully implementing the central treasury management system; enhancing the capacity to assess and report fiscal risks and contingencies associated with PPPs; and implementing the newly created Public Investment Management System to improve investment planning.

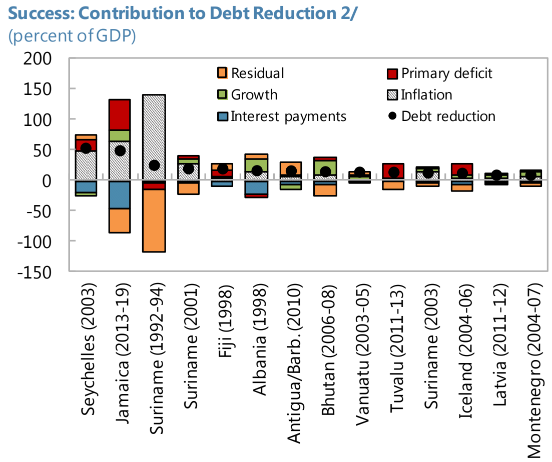
27. **A sustained reduction in the wage bill depends critically on accelerating reforms to modernize the public sector** (MEFP ¶24). The multi-year agreement that limits public sector wages, and aims to help reduce the wage bill to 9 percent of GDP, has been vital to achieving the near-term fiscal adjustment. However, such a compression in real wages is not sustainable over a longer horizon and will need to be replaced by deeper reforms that:

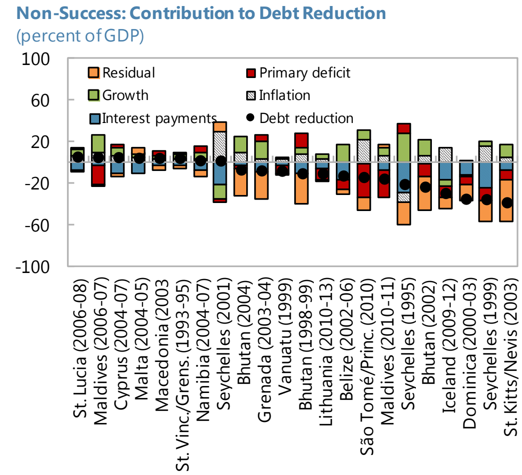
- Address duplication and inefficiencies in public employment;
- Close, streamline and divest public entities;
- Align remuneration with job requirements;
- Automate the systems for remuneration and human resource management;
- Strengthen control systems and accountability (including in auditing, and procurement).

While some of these steps have started, the pace of reform needs to be accelerated and given a higher priority, with an ambitious action plan and strict timelines. This would allow the government to have ready a more comprehensive approach to personnel management and control of the wage bill once the wage agreement expires (in early 2015).

Box 2. Episodes of Large Debt Reduction in Smaller States—Benchmarking the Ongoing Debt Reduction in Jamaica

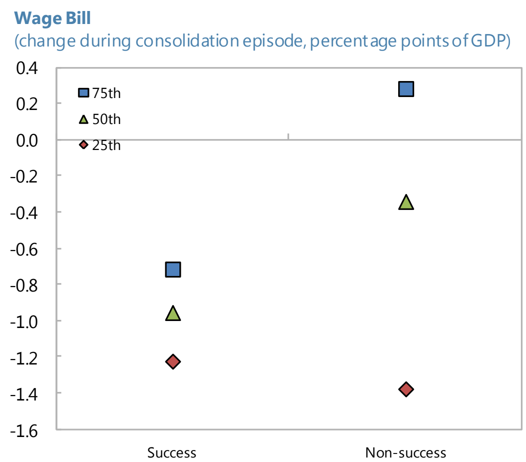
Experience from successful debt reduction episodes underscores the importance of adhering to strong primary fiscal surplus objectives to achieve lasting gains in debt reduction. Jamaica's public debt reduction goal (50 pp of GDP from 2012/13 to 2019/20) would place it near the top of smaller countries which successfully reduced their debt through a large fiscal consolidation.[1] *Out of 35 cases in which countries started to improve their primary fiscal balance, 14 successfully reduced their debt ratio 4 years out and 11 of these cases featured a cumulative improvement in the primary balance over the 5-year period.*

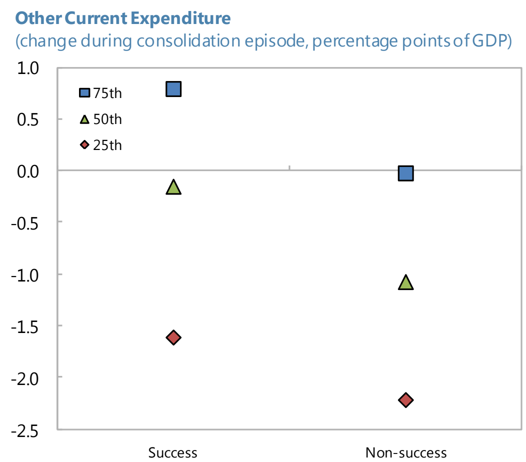




While most countries in the successful and unsuccessful groups raised their tax revenue during the adjustment period, successful episodes tended to be linked to a larger reduction in the wage bill…

…combined with less compression in the non-wage current primary spending, confirming results for a wider set of countries (Tsibouris et al. (2006)).





References: Amo-Yartey, C. and T. Turner-Jones (2014)), Caribbean Renewal: Tackling Fiscal and Debt Challenges, International Monetary Fund, Washington D.C., Tsibouris, G., Horton, M., Flanagan, M. and W. Maliszewski (2006) "Experience with Large Fiscal Adjustments", Occasional Paper No. 246, International Monetary Fund, World Economic Outlook.

1/ The full sample covers all cases in which an episode of fiscal consolidation is defined to start with an improvement of the primary fiscal balance by one percentage point of GDP or more and last as long as the primary fiscal balance does not deteriorate from the previous year. Fiscal consolidation is deemed successful if a country's debt to GDP ratio remains lower four years following the year preceding the fiscal consolidation episode. The analysis focuses on the 30 percent largest episodes of fiscal consolidation, abstracting from resource exporters. The focus is on countries no larger than Jamaica, as smaller economies tend to be more open and with smaller fiscal multipliers (Amo-Yartey and Turner-Jones (2014)), which would lessen the output cost of adjustment.
2/ The case of Jamaica is as currently projected under the program. It is benchmarked against the successful episodes in the sample given the envisaged size of the debt reduction.

28. **Significant unfunded liabilities make public sector pension reform a priority.** Spending on pensions has risen from 2 percent of GDP to 3 percent over the past decade. The authorities have tabled a White Paper on public sector pension reform that proposes parametric changes, including a gradual increase in the normal retirement age from 60 to 65 years (MEFP ¶25). The reforms were expected to be implemented by 2016 and would limit the rise in pension fund deficits to about 0.5 percent of GDP over the coming decade. However, the general public pension system remains financially unsustainable and steps will be needed to assess and close the emerging gap.

29. **Under the program, Jamaica's public debt has been put onto a sustainable path.** Over the past year, significant progress has been made in identifying and implementing policies to ensure the government's goal—of public debt at 96 percent of GDP by March 2020—becomes a reality. At end-March 2014 estimated debt stood at 140 percent of GDP and it is expected to fall by 5–8 percentage points per year into the medium term. While there are significant uncertainties surrounding any debt forecast, under currently identified policies the debt level is expected at 99 percent of GDP by March 2020. However, the authorities continue working to identifying additional debt-asset swaps, asset sales and the withdrawal of existing guarantees so as to achieve the 96 percent of GDP goal by March 2020 (MEFP ¶22).

30. **Nevertheless, Jamaica's public debt trajectory remains vulnerable to a range of macroeconomic, fiscal and contingent liability shocks** (Annex II). There was general recognition of these vulnerabilities and there is an ongoing effort to mitigate them through the range of fiscal reforms discussed above and efforts to strengthen debt management and improve debt recording and monitoring. The authorities are in the process of preparing an enhanced debt management strategy, as well as a plan for Jamaica's return to international markets.

D. Fortifying the Framework for Monetary Policy

31. **Since late 2012, monetary policy has been successfully geared toward rebuilding reserves and containing inflation.** The BOJ has pursued a tight monetary policy to contain inflation, weaken the pass through from the currency depreciation into domestic prices, avoid the entrenchment of inflation expectations, and support some accumulation of international reserves. The results of these efforts are becoming more visible with both declining inflation and a steady build-up of reserves. Going forward further reserve accumulation is still warranted (Annex IV) and efforts should be made to shift the composition of reserves away from the recent reliance on borrowed reserves. The authorities explained that to avoid possible refinancing pressures, an early rollover and a gradual return to owned reserves would be sought.

32. **Implementation of monetary policy has been challenging, aimed at shielding credit to the economy despite the tight overall policy stance**. With the continued lack of activity on the secondary market in government bonds, the resulting loss of market liquidity, and the coincident decline in interbank market activity and in credit to the private sector, the BOJ has been forced to help banks' manage their liquidity through intensified open market operations (including, at times, simultaneously injecting and withdrawing liquidity at different maturities). This increased role for the BOJ in compensating for the lack of market functioning has increased the urgency of improving the

BOJ's instruments to achieve its targets for inflation and reserves. Specifically, the BOJ should move from a policy of managing quantities to an increased reliance on interest rates through the creation of a corridor for short-term market interest rates. This would help both to provide clearer signals of the monetary policy stance and to improve the pricing of short-term liquidity. Consistency between policy interest rates and the monetary stance should also help limit the dollarization pressures that currently complicate attainment of the BOJ's reserves targets. Furthermore, the provision of liquidity to banks on a more predictable and consistent basis could help address undue risk aversion on the side of banks in providing credit. The authorities broadly concurred with a cautious reorientation along these lines and were planning an initial step of making the overnight stand-by liquidity window available to banks with more certainty and at a price consistent with its policy goals (MEFP ¶33).

33. **Although the targets for NIR and NDA (combined with a flexible exchange rate) provide appropriate intermediate monetary anchors at the current juncture, over the medium term the BOJ plans to put in place the operational tools for an inflation targeting framework** (MEFP ¶34)**.** For many years now Jamaica has struggled with both substantial inflation and reluctance to allow for needed exchange rate flexibility. This has led over time to a chronic problem of currency overvaluation, suppressing growth and raising vulnerabilities. A commitment to a managed floating regime will be a critical buffer for an economy with little diversification that is subject to significant external shocks. The monetary anchor would then need to be squarely based on price stability through an inflation targeting framework. While such a shift is some years away, the building blocks for an eventual move should be steadily put in place by improving the functioning of the foreign exchange market, upgrading statistics, building technical (modeling and forecasting) capacity within the BOJ, and amending the BOJ law to strengthen its independence. A well-functioning credit channel and active money markets are also important building blocks for inflation targeting.

E. Institutionalizing Sound Financial Intermediation

34. **For sustained long-term growth, a sound financial system that is squarely focused on intermediating savings to productive private sector uses will be essential.** Over the past decades, the financial system has focused too much on diverting resources to the public sector. This has come at the cost of crowding out financing for productive, growth enhancing investment as illustrated by a stock of credit to the private sector that is low, at 22 percent of GDP, and well below regional comparators (Figure 3). Beyond the planned fiscal consolidation, the recent establishment of two credit bureaus and the creation of a central collateral registry should help develop the credit market over the medium term.

35. **The draft Banking Services legislation marks an important step forward in creating a safer banking system** (MEFP ¶27).[4] The bill harmonizes prudential standards across deposit-taking

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[4] Referred to as the Omnibus Banking Act in Country Report No. 14/85.

institutions, facilitates the consolidated supervision of financial conglomerates, strengthens the corrective action and sanctioning regime, and promotes the BOJ's operational independence in its supervision function. However, further steps are still needed, to put in place a comprehensive crisis management and resolution framework for banks (and other financial firms) as well as create full operational independence of the supervisors.

36. **Heavy exposure to sovereign debt remains the central risk for the financial system.** Government instruments accounted for less than 20 percent of banks' assets at end-2013**,** and the 2013 debt exchange imposed direct income and fair value losses on banks, through cuts in coupons and maturity extensions. Such risks are even more apparent for the securities dealers, which hold about 58 percent of their assets in the form of government bonds. Furthermore, there are important linkages between banks and securities dealers that create channels for contagion. The drying up of secondary markets in government paper and the tightening of financial market liquidity more generally, have heightened systemic liquidity risks. At the same time, once the bond market re-liquefies, there is a good chance that the sovereign yield curve will shift upwards and lead to capital losses for a range of financial companies.

Jamaica: Financial Sector Indicators 1/
(In percent)

	2007	2008	2009	2010	2011	2012	2013	Feb-14
Balance sheet growth (y/y)								
Capital	11.5	14.7	13.8	5.1	5.4	4.2	17.1	19.9
Loans	28.7	24.2	5.3	-1.4	4.8	12.9	14.1	11.9
NPLs	14.2	57.6	68.0	36.1	44.0	-10.8	-12.9	-16.2
Liquidity								
Excess liquidity 2/	25.0	30.3	31.3	36.2	30.5	26.7	25.3	26.2
Asset Quality								
Prov. for loan losses/NPLs	103.4	87.2	75.7	69.9	75.2	90.3	95.7	97.7
NPLs/loans	2.3	2.9	4.7	6.5	8.9	7.0	5.4	4.8
Capital Adequacy								
NPLs/Capital+Prov. for loan losses	9.1	12.3	17.7	22.3	28.4	24.1	18.8	16.7
Capital Adequacy Ratio (CAR) 3/	16.0	15.2	18.8	18.2	16.1	14.1	15.1	15.1
Profitability (calendar year) 4/								
Pre-tax profit margin	26.7	26.2	21.4	21.1	30.8	21.4	19.0	...
Return on average assets	3.4	3.5	2.9	2.5	3.9	2.4	2.0	...

Source: Bank of Jamaica.

1/ Commercial banks, building societies, and merchant banks.
2/ Statutory liquid assets/prescribed liabilities.
3/ If not end-quarter, data corresponds to last quarter.
4/ The significant increase in profitability for 2011 is due to an up-stream dividend from one insurance subsidiary to its parent bank. Without such dividend pre-tax profit margin and return on average assets would be 18.1 and 2.3 percent, respectively.

37. **Careful sequencing will, therefore, be needed to unfreeze the secondary bond market.** Beyond the impact on financial sector risks, the lack of liquidity has added to the government's cash management and overall financing constraints, undermined effective monetary transmission, and reduced the provision of credit to the private sector. The market may restart naturally as confidence in the success of the program deepens. However, in the absence of a market-driven unfreezing of the secondary bond market, options for restarting the bond market through policy actions should still be considered. The BOJ could, for example, start to offer to purchase securities via open market operations through variable rate auctions (with a minimum bid price) that would begin with shorter maturity bonds and then gradually moving further out the curve. This would help with price discovery and perhaps catalyze activity between financial institutions in the secondary market.

38. **Reform of the securities dealers is essential for financial stability.** Securities dealers, with total assets of about 40 percent of GDP, finance long-term government bonds with short-term, deposit-like investments ("retail repos"). This model entails significant interest rate, liquidity, and concentration risks, which are not matched by either capital or liquidity buffers. To mitigate these risks and provide better protection to retail investors, a multi-step reform process has commenced (MEFP ¶28–31). First, at end-2013, collective investment schemes (CIS) were made available, in which

valuation risks are borne by the investor. Second, by end-2014 the government intends to introduce a new legal and regulatory framework to better protect clients' interests through standardized and more transparent retail repo instruments. This new framework will be implemented over time. The final phase of this reform will involve a gradual tightening of prudential requirements to reflect underlying risks and incentivize a market-based shift to alternative, better regulated, and legally sound investment products. Implementing this reform will need to be done carefully and will need to be preconditioned on: (i) the introduction of credible exceptional financial backstops, at the discretion of the BOJ, to bolster financial sector stability and (ii) a detailed assessments of securities dealers' readiness to move to a new framework; while also taking into account the liquidity conditions of the secondary government bond market.

AN ON-TRACK PROGRAM

39. **All quantitative performance criteria for end-March 2014, continuous quantitative program targets, and structural benchmarks were met,** albeit that the Banking Services Bill was tabled, it required subsequent and still ongoing fine-tuning in collaboration with Fund staff. The March indicative target for tax collection was, however, missed (Text Table 1).

Jamaica: Program Monitoring—Quantitative Performance Criteria under EFF 1/
(In billions of Jamaican dollars)

	4th Review PC End-Mar. 2014	Adjusted PCs End-Mar.	End-Mar. Actual	Difference	PC Status End-Mar. 2014
Fiscal targets					
1. Primary balance of the central government (floor) 2/	111.5	111.5	111.7	0.2	Met
2. Tax Revenues (floor) 2/ 7/	357.5	357.5	343.8	-13.7	Not Met
3. Overall balance of the public sector (floor) 2/	-7.4	-10.9	1.1	12.0	Met
4. Central government direct debt (ceiling) 2/ 3/	70.3	70.3	20.4	-49.9	Met
5. Central government guaranteed debt (ceiling) 2/	-14.0	-14.0	-14.5	-0.5	Met
6. Central government accumulation of domestic arrears (ceiling) 4/ 10/ 11/	0.0	0.0	0.0	0.0	Met
7. Central government accumulation of tax refund arrears (ceiling) 5/ 10/11/	0.0	0.0	-1.5	-1.5	Met
8. Consolidated government accumulation of external debt payment arrears (ceiling) 6/ 10/ 11/	0.0	0.0	0.0	0.0	Met
9. Social spending (floor) 7/ 8/	20.1	20.1	20.7	0.6	Met
Monetary targets					
10. Cumulative change in net international reserves (floor) 6/ 9/	194.4	12.0	264.7	252.7	Met
11. Cummulative change in net domestic assets (ceiling) 9/	-21.4	-21.4	-37.4	-16.0	Met

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

40. **Several new and revised structural benchmarks are proposed as well as modified quantitative PCs for June to December 2014 and new ones for March 2015 (Tables 8 and 9).** Revisions to the existing performance criteria on the cumulative changes in net international reserves and net domestic assets are proposed, to reflect the direct impact of Fund budget support (see below) on the monetary targets. On the structural side, new benchmarks are proposed to:

- Ensure adherence to the cumulative ceiling on the value of new PPPs (of 3 percent of GDP) consistent with the fiscal rule law (a continuous structural benchmark).
- Implement pilot projects for the new information systems at the customs and tax administration (by end-December 2014, and February 2015, respectively), and set targets for strengthening the Large Taxpayers Office (March 2015).
- Finalize an update of the e-Census database for all government employees (September 2014), and prepare an action plan for public sector transformation (September 2014).
- Table in parliament the revised legislation on public sector pensions (June 2015).

The structural benchmark on putting in place the legal and regulatory framework for the securities dealers sector is proposed to be moved from end-June to end-December 2014, given that the complexity of the reform, which is designed with extensive technical assistance, demands further preparation.

41. **The program remains fully financed and staff's assessment of Jamaica's capacity to repay the Fund remains broadly unchanged from the last review (Table 10)**. Jamaica's capacity to repay the Fund will continue to depend on the timely and strong implementation of the ambitious program. External financing has remained broadly in line with earlier program assumptions, with IFI disbursements expected to be relatively backloaded in the current fiscal year. However, the shift in the outlook for cash flows will create a timing problem for the budget in the first half of the fiscal year (with cash flow deficits expected until October—including with a US$200 million Eurobond payment due in October—and cash surpluses expected thereafter). At the same time, the ability to smooth out the financing need is severely limited by the constraints on domestic borrowing imposed by illiquidity in the government bond market (alongside the inactive secondary market). To handle this temporary near-term cash-flow need, staff propose that the scheduled June and September 2014 purchases under the extended arrangement should now be provided in the form of direct budget support.[5] Such budget support would help avoid or limit the need to borrow at expensive rates on international markets or defer budget spending, and help prevent the unwelcome precedent of the central bank offering direct credit to the government (the absence of which has been a critical feature in the BOJ's operational independence). Debt service to the Fund and the purchase profile remain unchanged in the absence of significant revisions to the macroeconomic outlook.

STATISTICS

42. **Notwitstanding important and ongoing improvements in statistics, shortcomings remain to be addressed.** The development of data on the components of GDP on the demand side has started and the first data have recently been released. As a next step, STATIN is preparing these indicators on a quarterly basis. The assessment of competitiveness could be enhanced through the

[5] As a safeguard, the authorities have agreed to establish a separate memorandum of understanding between the central bank and the government on servicing obligations to the Fund.

preparation of unit labor cost data to supplement existing wage data. STATIN considered updating the—10 year old––CPI weights a priority, and was in discussion with the IaDB on a study of the informal sector to improve GDP estimates.

STAFF APPRAISAL

43. **Jamaica's economic transformation program offers a path from decades of stagnation to a future of sustained and vibrant growth.** Emerging from the engrained trap of low-growth and high debt requires a fundamental reorientation of policies. This will not happen overnight but will take several years of concerted economic restructuring. This is a marathon effort and there are no shortcuts. The government's program is appropriately centered on a sustained fiscal consolidation supported by wide-ranging supply side reforms to kick-start growth. Reducing debt to a sustainable level is expected to take a decade of fiscal restraint and multiple years of productivity-enhancing policies.

44. **There has been significant progress in implementing the needed reforms.** A large fiscal adjustment has been put in place, achieving a primary surplus that is exceptional by international standards. Important steps to sustain that adjustment have been made in the areas of tax reform and in institutionalizing an effective fiscal rule. The framework for financial system oversight has been fortified, monetary policy has been restrained, and the exchange rate has helped restore a good deal of Jamaica's lost competitiveness.

45. **But the economic and social costs of this effort has been substantial.** It is impossible to ignore the near-term costs of the adjustment effort in terms of lost growth, weak job creation, and socioeconomic pain. However, the alternative of continuing on Jamaica's previous course was simply untenable and would have inevitably ended in a fiscal and balance-of-payments crisis.

46. **With a significant downpayment on the adjustment effort already made, there are emerging signs of the dividends from reform**. Investor confidence remains tentative and signs of a revival in growth, job creation, and improving social welfare are still too limited and too tentative. Nevertheless, crisis risks are receding, net exports are unambiguously stronger, inflation has been wrestled under control, and reserves are starting to recover. With continued commitment to the government's economic strategy, the substantial economic and social benefits to these efforts should become increasingly evident in the coming year.

47. **However, the risks ahead are considerable.** First and foremost, there is a risk that the social cost from the wide-ranging changes that have been made over the past year could start to undermine societal support for the reform effort and derail the gains that have been already made. In this context, an ongoing emphasis on safeguarding social spending and increasing the social safety net is critical. Second, there are important risks to the fiscal position. The weakness of domestic demand has undermined revenue collection and growth-enhancing public investment spending has been squeezed. A failure to stem the recent revenue decline will inevitably add to fiscal risks. Third, potential financing shortfalls, including withdrawal of PetroCaribe inflows, would create important downsides to both the fiscal and balance-of-payments positions. Fourth, a lack of

liquidity of the government bond market and the necessary reform of the securities' dealers business model entail risks to financial stability. However, it is important to emphasize that there are important mitigants to these risks including from the ambitious upfront policy effort that has already been undertaken, the visible support for the government's strategy from domestic stakeholders and international partners, and the demonstrated and unwavering commitment to the program at the highest levels of government. As the program has strained Jamaica's administrative and legislative capacity, careful sequencing of the ongoing reform agenda will be important to ensure its feasibility and allow for careful policy design.

48. **A reorientation of fiscal policy remains at the core of the adjustment effort.** The immediate weakness of fiscal revenues calls for the prompt and steadfast implementation of the action plan to improve tax collection. Public sector reform needs to be stepped up without delay; a lasting fiscal consolidation, that supports rather than hinders private sector growth, will require a smaller and more efficient public sector. The growth impact of scarce public investment spending needs to be maximized through structured investment planning, prioritization and budgeting. Finally, fiscal risks need to be carefully managed through tackling public sector waste, lessening unfunded pension obligations, commercializing loss-making public enterprises, and putting in place well-structured public-private partnerships.

49. **Removing red tape and boosting competitiveness will bolster growth and job creation.** The return to a flexible exchange-rate has resulted in important improvements in price competitiveness, and should be maintained. Reducing the price of electricity and training focused on critical skills will also be key to competitiveness. Confidence in the coherence of policies will be critical for boosting investor sentiment but private investment will only return if efforts are also focused on removing pervasive red tape and bureaucracy.

50. **While the overall stance of monetary policy has been broadly appropriate, policy should shift toward a greater reliance on interest rate channels.** Containing inflationary pressures in face of exchange rate depreciation, and restoring an adequate level of reserves, necessitate a cautious monetary policy stance. This, however, needs to be weighed against the risk of excessively tight liquidity conditions undermining investment and creating risks in the financial system. To help balance these competing demands a greater focus on interest rate control would be beneficial, by providing more assured access to liquidity but at interest rates that are consistent with the need to rebuild reserves. The recent creation of a standing liquidity window and the expansion of repo instruments are welcome steps, but their design should be improved.

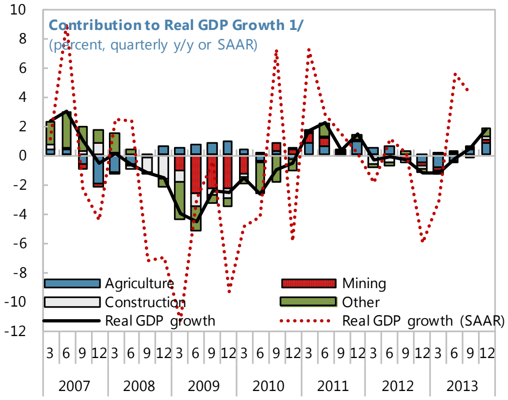
51. **Vulnerabilities within the financial system need to be proactively addressed.** The business model of the securities dealers needs to be reoriented. Timely completion of this reform is important, and the next steps of the reform of the "retail repo" model should be implemented as soon as adequate safeguards have been put in place, including an adequate understanding of the preparedness of the sector and creating a temporary backstop, on a discretionary basis, for possible exceptional financing needs. Following the adoption of new legislation on bank supervision, supervisors should move towards consolidated supervision, and the resolution framework remains to be strengthened.

52. **While risks are high, continued strong implementation of the government's economic strategy, combined with the full support of the international community, are expected to enable a return to growth, job creation, and a decline in poverty.** At the same time, such policies would deliver the ambitious adjustment in public debt that is targeted under the program and ensure that the government is able to honor in full its debt obligations. The staff, therefore, supports the authorities' request for completion of the fourth review under the arrangement under the Extended Fund Facility, and the proposed establishment and modification of performance criteria.

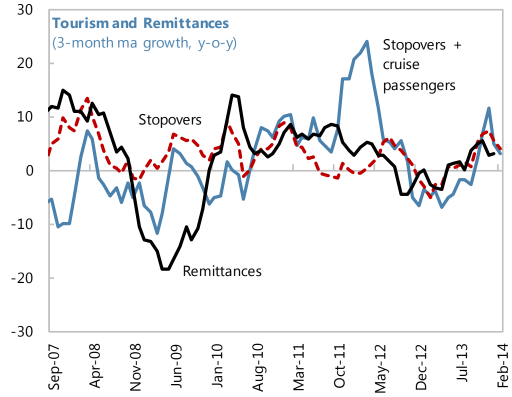
53. **The next Article IV Consultation is expected to be held on a 24-month cycle** in accordance with the *Decision on Article IV Consultation Cycles* (Decision No. 14747-(10/96) (9/28/2010)).

Figure 1. Jamaica: Recent Economic Developments

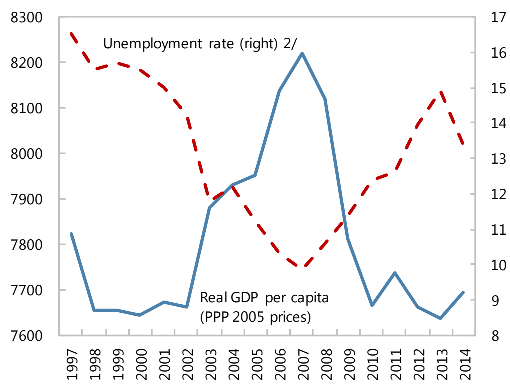
After contracting in 2012/13, there are signs of a modest recovery in economic activity.



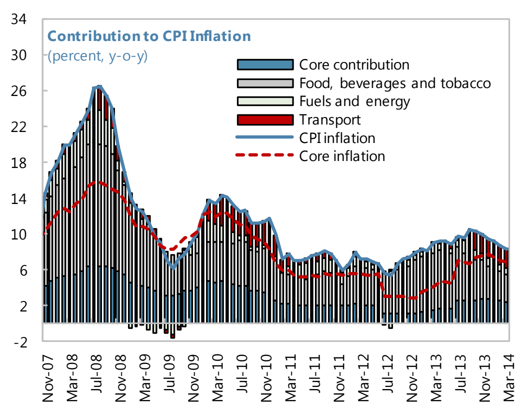
Tourism and remittances have picked up in recent months.



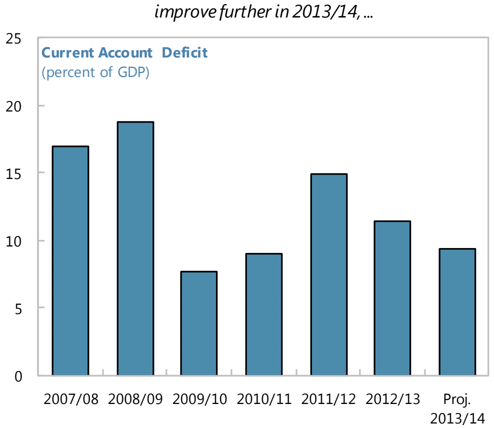
Unemployment and poverty levels remain high, ...



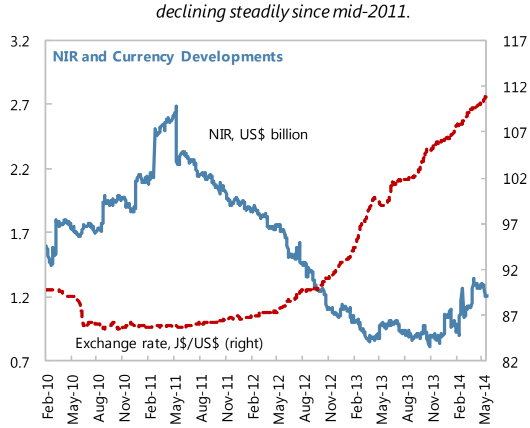
... but inflation has started to decline in recent months.



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

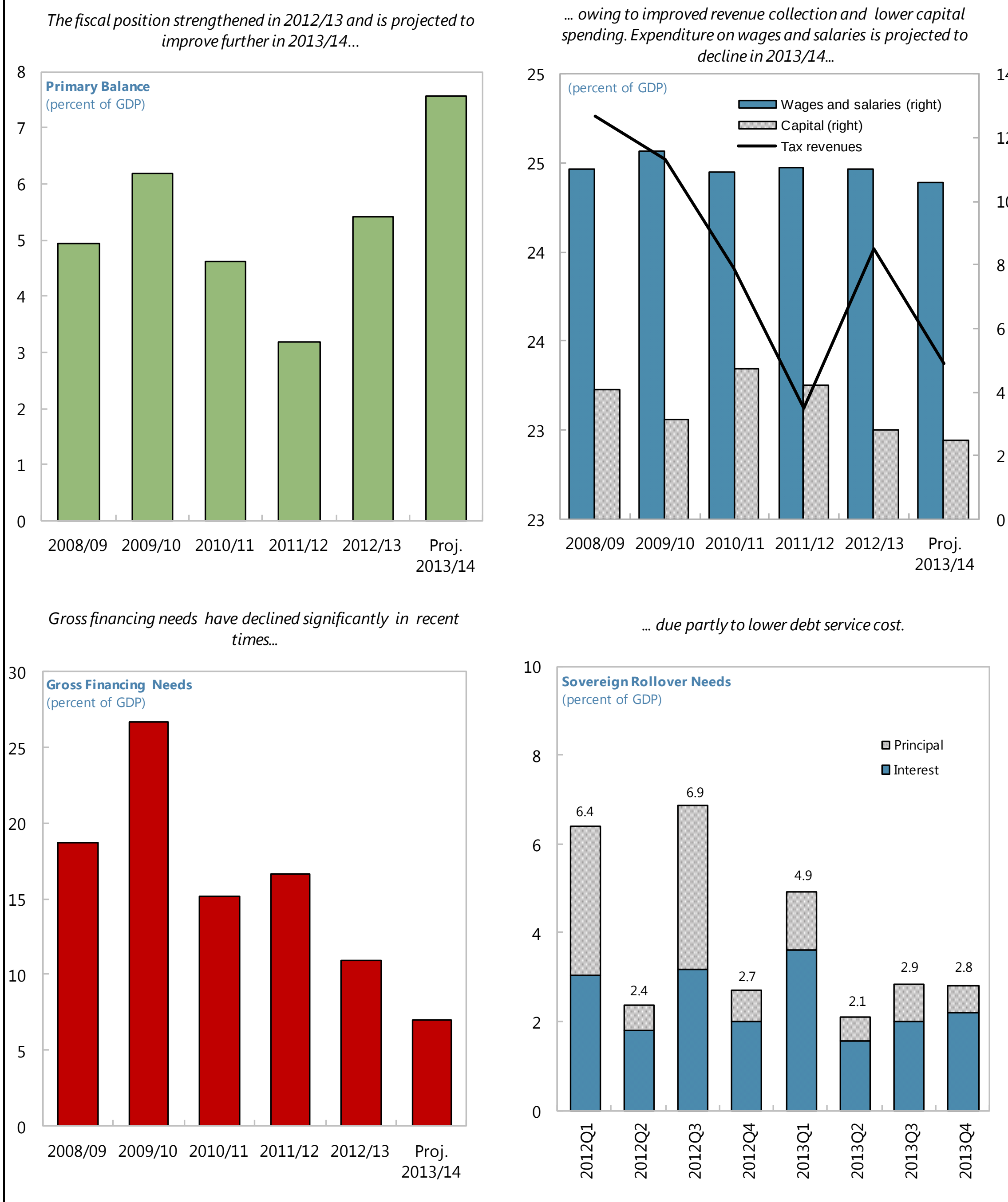


... while international reserves have started to increase after declining steadily since mid-2011.



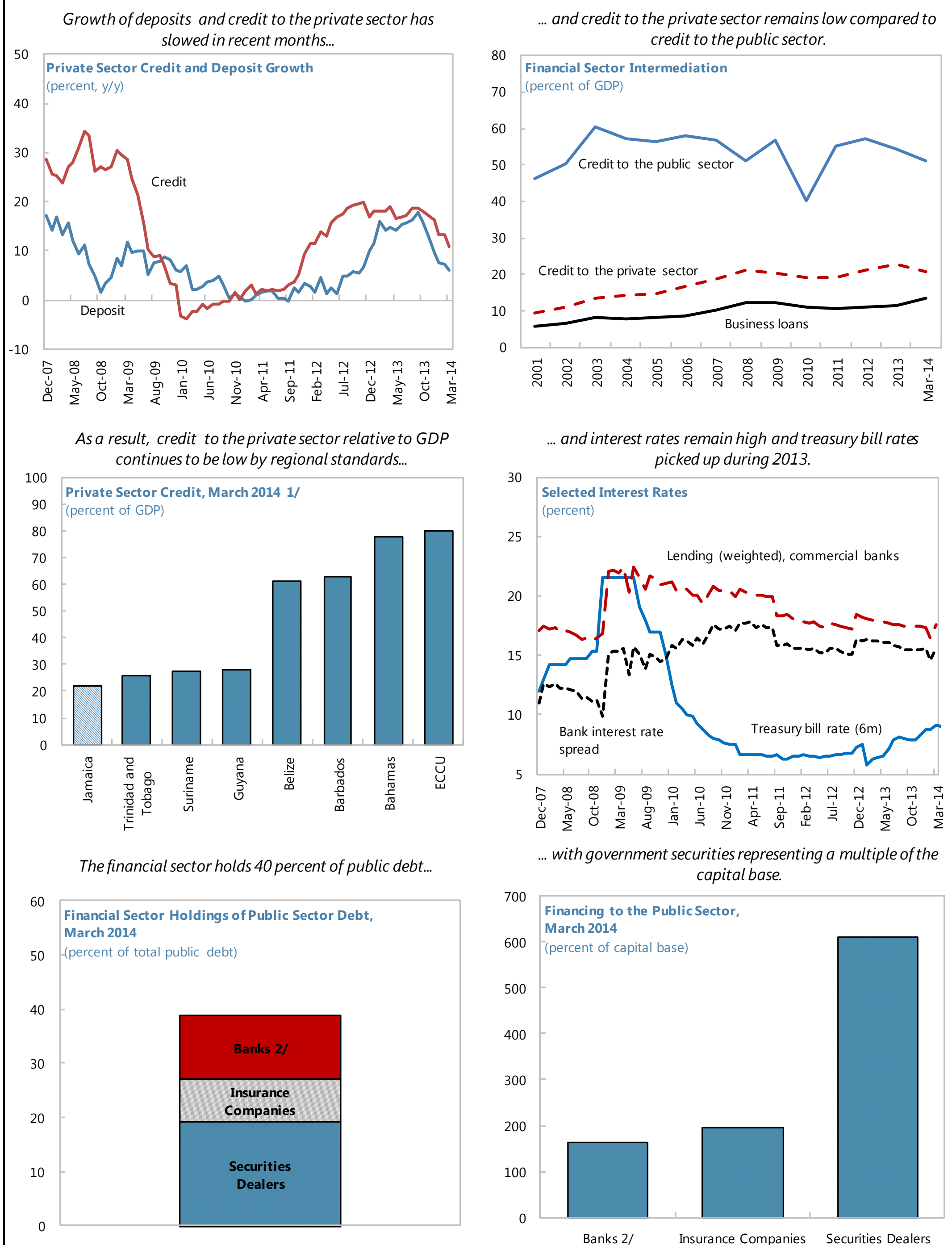
Sources: Bank of Jamaica; and Fund staff calculations.
1/ Seasonally-adjusted real GDP growth is in q/q annualized percent change.
2/ Unemployment rate data for 2014 refers to January 2014.

Figure 2. Jamaica: Fiscal Developments



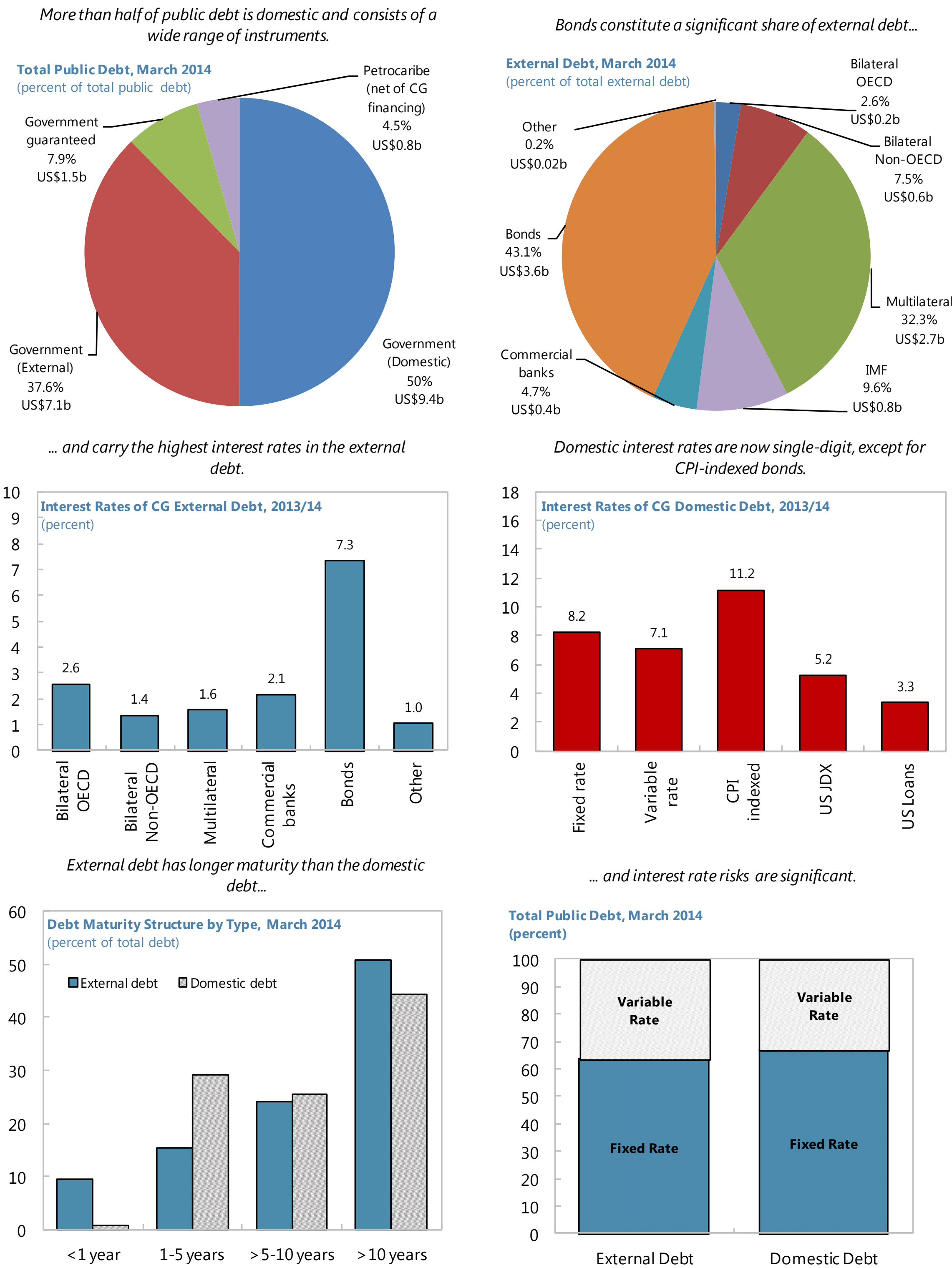
Sources: Bank of Jamaica; and Fund staff calculations.

Figure 3. Jamaica: Financial Sector Developments



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

Figure 4. Jamaica: Public Debt



Sources: Bank of Jamaica; Ministry of Finance; and Fund staff calculations.

Table 1. Jamaica: Selected Economic Indicators 1/

Population (2012): 2.8 million
Quota (current; millions SDRs/% of total): 273.5/0.11%
Main products: Alumina, tourism, chemicals, mineral fuels, bauxite, coffee, sugar

Per capita GDP (2012): US$5294
Literacy rate/Poverty rate: 86.4%/17.6%
Unemployment rate (Jan. 2014): 13.4%

				Prog.	Prel.	Projections					
	2010/11	2011/12	2012/13	2013/14	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
(Annual percent change, unless otherwise indicated)											
GDP and prices											
Real GDP	-0.6	0.9	-0.7	0.9	0.9	1.4	1.7	2.3	2.5	2.7	2.7
Nominal GDP	7.5	7.5	6.1	10.6	10.4	9.7	9.7	10.1	9.9	9.6	9.1
Consumer price index (end of period)	7.8	7.3	9.1	9.5	8.3	8.0	7.8	7.5	7.0	6.5	6.0
Consumer price index (average)	11.4	7.3	7.2	9.6	9.4	8.2	7.9	7.7	7.3	6.8	6.3
Exchange rate (end of period, J$/US$)	85.7	87.3	98.9	...	109.6	...	...	...	...	...	...
Exchange rate (average, J$/US$)	86.4	86.4	91.2	...	103.9	...	...	...	...	...	...
Nominal depreciation (+), end-of-period	-4.2	1.8	13.3	...	10.8	...	...	...	...	...	...
End-of-period REER (appreciation +) (INS)	6.0	4.4	-2.1	...	-3.4	...	...	...	...	...	...
End-of-period REER (appreciation +) (new methodology) 2/	7.0	3.1	-3.4	...	-4.3	...	...	...	...	...	...
Treasury bill rate (end-of-period, percent)	6.6	6.5	6.2	...	9.1	...	...	...	...	...	...
Treasury bill rate (average, percent)	8.2	6.5	6.6	...	7.1	...	...	...	...	...	...
Unemployment rate (percent)	13.1	14.4	16.3	...	...	...	...	...	...	...	...
(In percent of GDP)											
Government operations											
Budgetary revenue	26.8	25.6	25.8	26.9	26.9	26.4	26.5	26.6	26.8	26.8	26.9
Of which: Tax revenue	23.9	23.1	24.0	23.9	23.4	23.8	23.9	23.9	24.1	24.1	24.2
Budgetary expenditure	33.2	32.0	29.9	26.9	26.8	26.9	26.5	25.8	25.7	25.3	25.0
Primary expenditure	22.2	22.4	20.4	19.4	19.3	18.9	19.0	19.1	19.8	19.8	19.9
Of which: Wage bill	10.9	11.1	11.0	10.6	10.6	10.0	9.0	9.0	9.0	9.0	9.0
Interest payments	10.9	9.6	9.5	7.5	7.5	8.0	7.5	6.7	5.9	5.4	5.1
Budget balance	-6.3	-6.4	-4.1	0.1	0.1	-0.5	0.0	0.8	1.1	1.6	1.9
Of which: Central government primary balance	4.6	3.2	5.4	7.5	7.6	7.5	7.5	7.5	7.0	7.0	7.0
Public entities balance	-0.5	0.0	0.1	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	-6.9	-6.4	-4.2	-0.4	0.1	-0.5	0.0	0.8	1.1	1.6	1.9
Public debt 3/	143.5	141.9	146.9	138.9	140.2	135.6	130.1	123.9	115.6	107.4	99.3
External sector											
Current account balance	-9.0	-14.9	-11.5	-9.6	-9.5	-8.0	-7.0	-6.2	-5.4	-5.3	-5.0
Of which: Exports of goods, f.o.b.	10.5	11.6	12.1	11.8	11.1	11.5	11.9	12.4	12.3	12.6	12.3
Imports of goods, f.o.b.	36.5	41.1	40.8	38.7	38.7	38.1	37.7	37.3	35.5	34.8	33.6
Net international reserves (US$ millions)	2,553	1,777	884	1,248	1,303	1,594	1,758	1,907	2,067	2,174	2,352
(Changes in percent of beginning of period broad money)											
Money and credit											
Net foreign assets	23.3	-15.7	-14.7	6.4	18.7	12.2	7.9	6.6	6.2	4.6	5.7
Net domestic assets	-21.6	20.9	28.0	4.2	-12.6	-2.3	1.8	3.6	3.7	5.0	3.4
Of which: Credit to the private sector	0.9	9.0	13.0	10.1	8.2	6.6	8.9	10.5	11.0	11.2	11.2
Credit to the central government	-11.7	9.9	7.4	3.8	-5.1	0.5	1.8	1.6	1.5	1.3	1.2
Broad money	1.7	5.1	13.3	10.6	6.1	9.9	9.7	10.1	9.9	9.6	9.1
Memorandum item:											
Nominal GDP (J$ billions) 4/	1,172	1,260	1,336	1,478	1,475	1,618	1,775	1,955	2,149	2,356	2,571

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/ The new methodology uses trade weights for Jamaica that also incorporate trade in services especially tourism.
3/ Central government direct and guaranteed only, including PetroCaribe debt (net of its financing to the central government) and projected IMF disbursements and other IFIs.
4/ Historical revisions to GDP data has lowered nominal GDP for 2012/13 by 1 percent relative to the April 2013 staff report.

Table 2. Jamaica: Summary of Central Government Operations

(In millions of Jamaican dollars)

				Prog.	Budget	Est.	Projections					
	2010/11	2011/12	2012/13	2013/14	2013/14	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Budgetary revenue and grants	314,558	322,457	344,668	398,149	407,160	396,982	427,889	471,359	519,907	575,541	632,301	691,959
Tax 1/	280,295	291,407	320,929	353,217	362,058	344,848	384,304	423,713	467,437	517,859	569,064	622,956
Of which:												
Income and profits	105,119	106,423	115,877	...	119,154	112,648	122,481	...	...	...	...	...
Of which: Other companies	32,481	29,035	35,798	...	37,008	35,155	42,366	...	...	...	...	...
PAYE	51,553	60,165	60,876	...	66,044	62,811	64,112	...	...	...	...	...
Production and consumption	78,571	84,629	96,460	...	117,090	115,214	130,665	...	...	...	...	...
Of which: GCT (Local) 2/	46,390	47,973	50,897	...	59,553	61,265	70,664	...	...	...	...	...
International Trade	94,144	96,512	105,306	...	121,928	113,892	128,807	...	...	...	...	...
Of which: GCT (Imports) 2/	38,521	41,685	45,501	...	53,893	51,238	60,392	...	...	...	...	...
Non-tax	24,138	27,602	19,799	33,840	35,680	41,705	34,940	38,159	42,023	46,197	50,647	55,265
Grants	10,125	3,449	3,940	11,092	9,422	10,429	8,645	9,486	10,447	11,484	12,591	13,739
Budgetary expenditure	388,768	403,192	399,279	397,275	415,206	395,887	435,374	470,567	503,912	551,608	595,771	642,204
Primary expenditure	260,413	282,487	272,341	286,648	295,679	285,322	305,908	338,200	373,265	425,082	467,350	511,967
Wage and salaries	127,957	139,557	147,382	156,230	157,253	156,362	161,704	159,790	175,971	193,447	212,080	231,419
Programme expenditure 3/	76,862	89,699	87,202	93,688	93,704	91,972	110,281	135,860	145,707	171,999	183,854	200,619
Capital expenditure 3/	55,594	53,231	37,758	36,731	44,722	36,989	33,923	42,550	51,588	59,636	71,417	79,929
Interest	128,355	120,704	126,938	110,627	119,567	110,565	129,466	132,367	130,647	126,526	128,421	130,237
Domestic	88,049	81,617	87,729	68,420	75,523	68,409	80,862	82,740	78,933	77,475	76,126	75,633
External	40,305	39,087	39,209	42,207	44,044	42,156	48,604	49,626	51,713	49,051	52,294	54,604
Budget balance	-74,210	-80,734	-54,610	874	-8,046	1,095	-7,485	792	15,996	23,933	36,531	49,755
Of which: Primary budget balance	54,145	39,970	72,327	111,500	111,521	111,659	121,981	133,159	146,642	150,459	164,951	179,993
Public entities balance	-5,755	-195	1,905	-7,401	...	106	0	0	0	0	0	0
Public sector balance	-80,658	-81,243	-55,661	-6,528	...	1,200	-7,485	792	15,996	23,933	36,531	49,755
Principal repayments	102,432	128,455	88,681	104,222	105,680	104,122	65,328	165,133	69,157	238,738	180,516	221,517
Domestic	79,394	67,820	36,976	75,760	76,387	75,695	8,791	71,079	16,592	96,439	89,828	126,865
External	23,038	60,635	51,705	28,461	29,293	28,427	56,537	94,054	52,565	142,299	90,688	94,652
Gross financing needs	177,334	209,753	146,248	103,348	113,726	103,027	72,813	164,342	53,161	214,805	143,985	171,762
Gross financing sources 4/	177,334	209,753	146,248	103,348	103,280	103,027	72,813	164,342	53,161	214,805	143,985	171,762
Domestic	59,920	142,750	137,072	52,253	13,778	52,211	30,099	67,203	16,640	79,062	67,468	87,968
External	90,490	20,768	9,175	57,657	89,502	57,587	70,754	66,720	34,361	124,066	76,227	83,341
Of which: Official	51,262	30,032	9,175	57,657		57,587	45,015	42,816	34,361	32,445	40,155	43,634
Divestment + deposit drawdown	26,924	41,424	0	-6,860	10,447	-6,772	-28,039	30,419	2,160	11,678	291	453
Memorandum items:												
Nominal GDP (billion J$)	1,172	1,260	1,336	1,478	1,494	1,475	1,618	1,775	1,955	2,149	2,356	2,571
Public sector debt (billion J$)	1,682	1,788	1,964	2,053	2,128	2,068	2,194	2,310	2,423	2,485	2,532	2,554
Of which: Direct debt	1,457	1,537	1,678	1,808	1,783	1,812	1,911	2,007	2,099	2,132	2,154	2,146

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ In the context of the tax reform, it is premature to project the exact composition of revenues.
2/ in 2014/15, reflects the extension of the CGT to government purchases, with projected total yield of J$6 billion
3/ in 2014/15, projections reflect a reclassification of J$8.8 billion from capital outlays to programme expenditures.
4/ It is assumed that 70 percent of Petrocaribe's annual inflows are used for external commercial debt repayments.

Table 3. Jamaica: Summary of Central Government Operations

(In percent of GDP)

				Prog.	Budget	Est.	Projections					
	2010/11	2011/12	2012/13	2013/14	2013/14	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Budgetary revenue and grants	26.8	25.6	25.8	26.9	27.6	26.9	26.4	26.5	26.6	26.8	26.8	26.9
Tax 1/	23.9	23.1	24.0	23.9	24.5	23.4	23.8	23.9	23.9	24.1	24.1	24.2
Of which:												
Income and profits	9.0	8.4	8.7	...	8.1	7.6	7.6	...	...	...	...	...
Of which: Other companies	2.8	2.3	2.7	...	2.5	2.4	2.6	...	...	...	...	...
PAYE	4.4	4.8	4.6	...	4.5	4.3	4.0	...	...	...	...	...
Production and consumption	6.7	6.7	7.2	...	7.9	7.8	8.1	...	...	...	...	...
Of which: GCT (Local) 2/	4.0	3.8	3.8	...	4.0	4.2	4.4	...	...	...	...	...
International Trade	8.0	7.7	7.9	...	8.3	7.7	8.0	...	...	...	...	...
Of which: GCT (Imports) 2/	3.3	3.3	3.4	...	3.7	3.5	3.7	...	...	...	...	...
Non-tax	2.1	2.2	1.5	2.3	2.4	2.8	2.2	2.1	2.1	2.1	2.1	2.1
Grants	0.9	0.3	0.3	0.8	0.6	0.7	0.5	0.5	0.5	0.5	0.5	0.5
Budgetary expenditure	33.2	32.0	29.9	26.9	28.1	26.8	26.9	26.5	25.8	25.7	25.3	25.0
Primary expenditure	22.2	22.4	20.4	19.4	20.0	19.3	18.9	19.0	19.1	19.8	19.8	19.9
Wage and salaries	10.9	11.1	11.0	10.6	10.7	10.6	10.0	9.0	9.0	9.0	9.0	9.0
Programme expenditure 3/	6.6	7.1	6.5	6.3	6.4	6.2	6.8	7.7	7.5	8.0	7.8	7.8
Capital expenditure 3/	4.7	4.2	2.8	2.5	3.0	2.5	2.1	2.4	2.6	2.8	3.0	3.1
Interest	10.9	9.6	9.5	7.5	8.1	7.5	8.0	7.5	6.7	5.9	5.4	5.1
Domestic	7.5	6.5	6.6	4.6	5.1	4.6	5.0	4.7	4.0	3.6	3.2	2.9
External	3.4	3.1	2.9	2.9	3.0	2.9	3.0	2.8	2.6	2.3	2.2	2.1
Budget balance	-6.3	-6.4	-4.1	0.1	-0.5	0.1	-0.5	0.0	0.8	1.1	1.6	1.9
Of which: Primary budget balance	4.6	3.2	5.4	7.5	7.6	7.6	7.5	7.5	7.5	7.0	7.0	7.0
Public entities balance	-0.5	0.0	0.1	-0.5	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	-6.9	-6.4	-4.2	-0.4	...	0.1	-0.5	0.0	0.8	1.1	1.6	1.9
Principal repayments	8.7	10.2	6.6	7.1	7.2	7.1	4.0	9.3	3.5	11.1	7.7	8.6
Domestic	6.8	5.4	2.8	5.1	5.2	5.1	0.5	4.0	0.8	4.5	3.8	4.9
External	2.0	4.8	3.9	1.9	2.0	1.9	3.5	5.3	2.7	6.6	3.8	3.7
Gross financing needs	15.1	16.6	10.9	7.0	7.7	7.0	4.5	9.3	2.7	10.0	6.1	6.7
Gross financing sources 4/	15.1	16.6	10.9	7.0	7.0	7.0	4.5	9.3	2.7	10.0	6.1	6.7
Domestic	5.1	11.3	10.3	3.5	0.9	3.5	1.9	3.8	0.9	3.7	2.9	3.4
External	7.7	1.6	0.7	3.9	6.1	3.9	4.4	3.8	1.8	5.8	3.2	3.2
Of which: Official	4.4	2.4	0.7	3.9	0.0	3.9	2.8	2.4	1.8	1.5	1.7	1.7
Divestment + deposit drawdown	2.3	3.3	0.0	-0.5	0.7	-0.5	-1.7	1.7	0.1	0.5	0.0	0.0
Memorandum items:												
Nominal GDP (billion J$)	1,172	1,260	1,336	1,478	1,475	1,475	1,618	1,775	1,955	2,149	2,356	2,571
Public sector debt	143.5	141.9	146.9	138.9	...	140.2	135.6	130.1	123.9	115.6	107.4	99.3
Of which: Direct debt	124.3	122.0	125.6	122.3	...	122.9	118.1	113.1	107.3	99.2	91.4	83.5

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ In the context of the tax reform, it is premature to project the exact composition of revenues.
2/ in 2014/15, reflects the extension of the CGT to government purchases, with projected total yield of 0.4 percent of GDP.
3/ in 2014/15, projections reflect a reclassification of 0.5 percent of GDP from capital outlays to programme expenditures.
4/ It is assumed that 70 percent of Petrocaribe's annual inflows are used for external commercial debt repayments.

Table 4. Jamaica: Operations of the Public Entities

	In billions of Jamaican dollars						In percent of GDP					
				Prog.						Prog.		
	2010/11	2011/12	2012/13	2013/14	2013/14	2014/15	2010/11	2011/12	2012/13	2013/14	2013/14	2014/15
Operating balance selected public entities 1/	**53.6**	**55.2**	**60.6**	**53.8**	**16.6**	**...**	**4.6**	**4.4**	**4.5**	**3.6**	**1.1**	**...**
Of which:												
Clarendon Aluminum	-4.2	-7.2	-1.1	...	...	...	-0.4	-0.6	-0.1	...	...	...
Petrojam	27.8	25.1	15.5	...	...	...	2.4	2.0	1.2	...	...	...
NROCC	-3.9	-0.6	-3.3	...	...	...	-0.3	0.0	-0.2	...	...	...
Urban Development Corporation	0.6	-0.8	-0.4	...	...	...	0.1	-0.1	0.0	...	...	...
National Water Commission	1.5	4.0	8.0	...	...	...	0.1	0.3	0.6	...	...	...
Port Authority of Jamaica	2.9	2.9	3.7	...	...	...	0.2	0.2	0.3	...	...	...
National Housing Trust	23.5	26.9	29.6	...	...	...	2.0	2.1	2.2	...	...	...
National Insurance Fund	2.8	1.7	4.8	...	...	...	0.2	0.1	0.4	...	...	...
Net current transfers from the central government	**-11.2**	**-11.8**	**-15.2**	**-22.8**	**-19.1**	**...**	**-1.0**	**-0.9**	**-1.1**	**-1.5**	**-1.3**	**...**
Of which:												
Clarendon Aluminum	1.5	7.5	3.4	...	...	...	0.1	0.6	0.3	...	...	...
Petrojam	-26.8	-19.2	-21.3	...	...	...	-2.3	-1.5	-1.6	...	...	...
NROCC	2.5	0.2	3.0	...	...	...	0.2	0.0	0.2	...	...	...
Urban Development Corporation	3.7	0.7	0.1	...	...	...	0.3	0.1	0.0	...	...	...
National Water Commission	1.6	0.0	1.0	...	...	...	0.1	0.0	0.1	...	...	...
Port Authority of Jamaica	0.0	0.0	0.0	...	...	...	0.0	0.0	0.0	...	...	...
National Housing Trust	0.0	-1.2	-4.0	...	...	...	0.0	-0.1	-0.3	...	...	...
National Insurance Fund	0.0	0.0	0.0	...	...	...	0.0	0.0	0.0	...	...	...
Gross capital expenditure selected public entities 2/	**50.7**	**39.5**	**41.6**	**48.2**	**39.6**	**...**	**4.3**	**3.1**	**3.1**	**3.3**	**2.7**	**...**
Of which:												
Clarendon Aluminum	1.7	-0.2	1.5	...	...	...	0.1	0.0	0.1	...	...	...
Petrojam	3.0	2.6	0.2	...	...	...	0.3	0.2	0.0	...	...	...
NROCC	0.4	0.6	0.3	...	...	...	0.0	0.1	0.0	...	...	...
Urban Development Corporation	3.5	0.7	0.2	...	...	...	0.3	0.1	0.0	...	...	...
National Water Commission	5.4	4.5	9.7	...	...	...	0.5	0.4	0.7	...	...	...
Port Authority of Jamaica	4.6	2.1	0.8	...	...	...	0.4	0.2	0.1	...	...	...
National Housing Trust	21.7	25.5	23.2	...	...	...	1.8	2.0	1.7	...	...	...
National Insurance Fund	0.0	0.1	0.0	...	...	...	0.0	0.0	0.0	...	...	...
Other net spending selected public entities 3/	0.5	0.0	0.0	0.6	-27.9	0.0	0.0	0.0	0.0	0.0	-1.9	0.0
Overall balance selected public entities	**-8.8**	**3.9**	**3.7**	**-17.7**	**-14.2**	**-10.3**	**-0.7**	**0.3**	**0.3**	**-1.2**	**-1.0**	**-0.6**
Of which:												
Clarendon Aluminum	-4.4	0.5	0.8	...	...	...	-0.4	0.0	0.1	...	...	...
Petrojam	-2.0	3.3	-5.9	...	...	...	-0.2	0.3	-0.4	...	...	...
NROCC	-1.8	-1.0	-0.5	...	...	...	-0.2	-0.1	0.0	...	...	...
Urban Development Corporation	0.7	-0.8	-0.5	...	...	...	0.1	-0.1	0.0	...	...	...
National Water Commission	-2.3	-0.5	-0.7	...	...	...	-0.2	0.0	-0.1	...	...	...
Port Authority of Jamaica	-1.8	0.8	3.0	...	...	...	-0.1	0.1	0.2	...	...	...
National Housing Trust	1.9	0.2	2.4	...	...	...	0.2	0.0	0.2	...	...	...
National Insurance Fund	2.8	1.6	4.7	...	...	...	0.2	0.1	0.4	...	...	...
Overall balance other public entities	**3.0**	**-4.1**	**-1.8**	**10.3**	**14.3**	**10.3**	**0.3**	**-0.3**	**-0.1**	**0.7**	**1.0**	**0.6**
Overall balance public entities	**-5.8**	**-0.2**	**1.9**	**-7.4**	**0.1**	**0.0**	**-0.5**	**0.0**	**0.1**	**-0.5**	**0.0**	**0.0**

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	2011/12	Est. 2012/13	Prog. 2013/14	Projections 2013/14	2014/15	2015/16	2016/17	2017/18
Current account	-1,221	-2,173	-1,685	-1,371	-1,344	-1,125	-996	-917	-830
Trade balance	-3,537	-4,311	-4,202	-3,816	-3,929	-3,767	-3,680	-3,668	-3,583
Exports (f.o.b.)	1,418	1,691	1,779	1,681	1,570	1,624	1,709	1,826	1,894
Imports (f.o.b.)	4,955	6,002	5,981	5,497	5,499	5,391	5,390	5,494	5,478
Fuel (cif)	1,805	2,508	2,321	2,141	2,276	2,269	2,212	2,209	2,270
Exceptional imports (including FDI-related)	447	476	585	560	560	650	550	310	310
Other	2,704	3,018	3,074	2,795	2,663	2,472	2,628	2,975	2,898
Services (net)	777	602	619	753	639	783	858	937	939
Transportation	-465	-629	-775	-681	-662	-681	-653	-692	-689
Travel	1,819	1,863	1,900	1,919	1,837	2,009	2,020	2,113	2,149
Of which: Tourism receipts	2,007	2,029	2,059	2,076	1,990	2,165	2,181	2,280	2,322
Other services	-577	-632	-505	-485	-536	-545	-509	-535	-521
Income (net)	-486	-473	-165	-442	-322	-398	-466	-547	-569
Current transfers (net)	2,026	2,008	2,063	2,135	2,269	2,257	2,293	2,361	2,383
Government (net)	206	141	190	154	194	190	190	190	190
Private (net)	1,819	1,867	1,873	1,981	2,075	2,067	2,103	2,171	2,193
Capital and financial account	2,023	1,397	685	1,253	1,282	1,064	950	857	991
Capital account (net)	-24	-11	-14	16	16	16	16	16	16
Financial account (net) 1/	2,047	1,408	699	1,237	1,266	1,048	934	841	974
Direct investment (net)	143	201	310	435	429	387	542	506	476
Central government (net)	732	-443	-555	-200	-200	-227	-430	-346	-131
Other official (net) 2/	239	698	552	632	637	558	421	281	229
Of which: PetroCaribe	258	492	462	403	407	327	246	179	125
Portfolio investment (net)	933	952	391	370	400	330	400	400	400
Overall balance	801	-776	-1,000	-117	-62	-60	-47	-60	160
Financing	-801	776	1,000	117	62	60	47	60	-160
Change in net reserves (- increase)	-801	776	893	-248	-419	-291	-163	-149	-160
Change in arrears	0	0	0	0	0	0	0	0	0
Financing gap	0	0	107	365	365	46	337	385	-18
IMF 3/	0	0	0	-26	-26	-163	127	176	-18
Disbursements	0	0	0	346	346	259	176	176	0
Repayments	0	0	0	-372	-372	-422	-50	0	-18
IFIs	0	0	107	391	391	210	210	209	0
Memorandum items:									
Gross international reserves	3,435	2,639	1,718	1,967	2,022	2,008	2,298	2,624	2,767
(in weeks of prospective imports of GNFS)	26.2	17.1	11.1	13.8	14.2	14.3	16.4	18.4	19.3
Net international reserves	2,553	1,777	884	1,248	1,303	1,594	1,758	1,907	2,067
Current account (percent of GDP)	-9.0	-14.9	-11.5	-9.6	-9.5	-8.0	-7.0	-6.2	-5.4
Exports of goods (percent change)	0.8	19.2	5.2	-5.5	-11.8	3.5	5.3	6.8	3.7
Imports of goods (percent change)	11.4	21.1	-0.3	-7.9	-8.1	-2.0	0.0	1.9	-0.3
Oil prices (composite, fiscal year basis)	85.3	104.3	104.8	102.9	104.1	102.6	96.7	92.3	89.5
Tourism receipts (percent change)	2.0	1.1	1.5	0.8	-3.4	8.8	0.7	4.5	1.9
GDP (US$ millions)	13,562	14,588	14,659	…	…	…	…	…	…
Jamaican dollar/USD, period average	86	86	91	…	…	…	…	…	…

Sources: Jamaican authorities; and Fund staff estimates.

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

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

	2010/11	2011/12	2012/13	Prog. 2013/14	2013/14	Projections 2014/15	2015/16	2016/17
	(In billions of Jamaican dollars)							
End-of-period stocks 1/								
Net international reserves	**228**	**158**	**83**	**136**	**139**	**190**	**227**	**260**
Net domestic assets	**-149**	**-74**	**8**	**-33**	**-44**	**-86**	**-113**	**-135**
Net claims on public sector	102	146	182	204	87	106	111	115
Net claims on central government 2/	39	75	90	90	75	72	75	78
Net claims on rest of public sector	50	71	92	108	23	24	25	27
Operating losses of the BOJ	13	0	0	6	-10	11	11	11
Net credit to commercial banks	-14	-15	-20	-22	-21	-25	-28	-31
Of which : foreign prudential reserve	-14	-15	-20	-22	-21	-25	-28	-31
Net credit to other financial institutions	-2	-1	-1	-2	-2	-2	-2	-2
Open market operations	-144	-112	-54	-100	3	-37	-44	-53
Other items net (incl. valuation adj.)	-92	-92	-98	-113	-111	-129	-149	-165
Valuation adjustment	-55	-55	-59	-74	-67	-84	-104	-120
Base money	**79**	**84**	**91**	**103**	**94**	**104**	**114**	**125**
Currency in circulation	43	47	51	56	54	59	65	71
Liabilities to commercial banks	36	36	41	47	41	45	49	54
Fiscal year flows 1/								
Net international reserves	**71.6**	**-70.5**	**-74.4**	**52.9**	**55.4**	**51.4**	**36.7**	**33.3**
Net domestic assets	-70.0	75.3	82.0	-41.3	-52.3	-42.0	-26.6	-21.8
Net claims on public sector	-43.9	44.3	36.1	21.5	-94.8	18.7	4.5	4.6
Net claims on central government 2/	-43.5	35.9	15.3	0.0	-15.4	-3.0	3.2	3.2
Net credit to commercial banks	-3.7	-1.3	-4.7	-2.1	-1.6	-3.8	-3.2	-2.2
Net credit to other financial institutions	-0.1	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Open market operations	-22.3	32.1	57.3	-46.0	57.0	-39.3	-7.9	-8.1
Other items net (incl. valuation adj.)	0.0	0.0	-6.6	-14.5	-12.8	-17.5	-19.9	-15.9
Base money	**1.6**	**4.8**	**7.6**	**11.6**	**3.1**	**9.4**	**10.1**	**11.5**
Currency in circulation	2.9	4.0	3.3	5.4	3.0	5.2	5.7	6.5
Liabilities to commercial banks	-1.3	0.7	4.3	6.2	0.2	4.2	4.4	5.0
	(Change in percent of beginning-of-period Base Money)							
Net international reserves	**92.6**	**-89.3**	**-88.9**	**57.9**	**60.7**	**54.4**	**35.3**	**29.2**
Net domestic assets	**-90.5**	**95.4**	**98.0**	**-45.2**	**-57.3**	**-44.5**	**-25.6**	**-19.1**
Net claims on public sector	-56.8	56.2	43.1	23.5	-103.9	19.8	4.4	4.0
Net credit to commercial banks	-4.7	-1.6	-5.6	-2.3	-1.7	-4.0	-3.1	-2.0
Net credit to other financial institutions	-0.1	0.2	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1
Open market operations	-28.9	40.7	68.4	-50.4	62.4	-41.6	-7.6	-7.1
Other items net (incl. valuation adj.)	0.0	0.0	-7.9	-15.9	-14.0	-18.6	-19.1	-14.0
Base money	**2.1**	**6.1**	**9.1**	**12.7**	**3.4**	**9.9**	**9.7**	**10.1**
Currency in circulation	3.7	5.1	4.0	5.9	3.3	5.5	5.5	5.7
Liabilities to commercial banks	-1.7	1.0	5.1	6.8	0.2	4.4	4.2	4.4
Memorandum items:								
Change in net claims on the central government (percent of GDP)	-3.7	2.9	1.1	0.0	-1.0	-0.2	0.2	0.2

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	Prog. 2013/14	2013/14	Projections 2014/15	2015/16	2016/17
(In billions of Jamaican dollars)								
End-of-period stocks 1/								
Net foreign assets	**217**	**165**	**113**	**138**	**187**	**238**	**275**	**308**
Net domestic assets	**116**	**185**	**283**	**300**	**233**	**224**	**232**	**250**
Net claims on public sector	193	217	263	303	161	190	205	218
Of which: Central government 2/	135	168	194	209	173	175	184	192
Open market operations	-81	-63	-36	-84	51	4	-23	-55
Credit to private sector	219	249	294	334	326	354	395	448
Of which: Foreign currency	72	81	81	87	82	77	80	85
Other 3/	-214	-217	-237	-253	-305	-324	-344	-361
Of which: Valuation adjustment	-55	-55	-59	-69	-67	-81	-95	-106
Liabilities to private sector (M3)	**333**	**350**	**396**	**438**	**421**	**462**	**507**	**559**
Money supply (M2)	226	236	252	279	261	274	295	330
Foreign currency deposits	107	114	144	160	160	188	212	229
Fiscal year flows 1/								
Net foreign assets	**76.4**	**-52.4**	**-51.6**	**25.3**	**74.1**	**51.4**	**36.7**	**33.3**
Net domestic assets	**-70.6**	**69.5**	**98.1**	**16.7**	**-50.0**	**-9.6**	**8.3**	**18.1**
Net claims on public sector 2/	-47.9	24.7	45.9	39.6	-102.6	29.7	14.3	13.4
Of which: Central government	-38.4	32.9	26.0	15.0	-20.4	2.0	8.2	8.2
Open market operations	-8.9	17.9	27.3	-47.6	87.6	-47.8	-27.0	-31.3
Credit to private sector	2.8	30.1	45.3	40.1	32.3	27.8	41.1	53.3
Of which: Foreign currency	-13.1	8.6	0.2	6.5	0.9	-4.4	3.0	4.6
Other 3/	-16.6	-3.2	-20.4	-15.4	-67.4	-19.3	-20.1	-17.3
Of which: Valuation adjustment	0.0	0.0	-4.6	-9.8	-7.7	-14.0	-14.4	-11.2
Liabilities to private sector (M3)	**5.7**	**17.1**	**46.5**	**42.1**	**24.1**	**41.8**	**45.0**	**51.4**
Money supply (M2)	15.3	10.5	16.0	26.8	8.4	13.4	20.9	34.7
Foreign currency deposits	-9.6	6.6	30.6	15.3	15.7	28.4	24.1	16.6
(Change in percent of beginning-of-period M3)								
Net foreign assets	**23.3**	**-15.7**	**-14.7**	**6.4**	**18.7**	**12.2**	**7.9**	**6.6**
Net domestic assets	**-21.6**	**20.9**	**28.0**	**4.2**	**-12.6**	**-2.3**	**1.8**	**3.6**
Net claims on public sector 2/	-14.7	7.4	13.1	10.0	-25.9	7.1	3.1	2.6
Of which: Central government	-11.7	9.9	7.4	3.8	-5.1	0.5	1.8	1.6
Open market operations	-2.7	5.4	7.8	-12.0	22.1	-11.4	-5.8	-6.2
Credit to private sector	0.9	9.0	13.0	10.1	8.2	6.6	8.9	10.5
Of which: Foreign currency	-4.0	2.6	0.1	1.6	0.2	-1.0	0.6	0.9
Other 3/	-5.1	-1.0	-5.8	-3.9	-17.0	-4.6	-4.3	-3.4
Of which: Valuation adjustment	0.0	0.0	-1.3	-2.5	-2.0	-3.3	-3.1	-2.2
Liabilities to private sector (M3)	**1.7**	**5.1**	**13.3**	**10.6**	**6.1**	**9.9**	**9.7**	**10.1**
Memorandum items:								
M3/monetary base	4.2	4.2	4.3	4.3	4.5	4.5	4.5	4.5
M3 velocity	3.5	3.6	3.4	3.4	3.5	3.5	3.5	3.5

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

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

Table 8. Jamaica: Structural Program Conditionality

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1.a. Government to present to Fund staff a conceptual proposal for the design of a fiscal rule.	August 31, 2013	Met
1.b. Revise the relevant legislation for the adoption of a fiscal rule to ensure a sustainable budgetary balance, to be incorporated in the annual budgets starting with the 2014/15 budget.	March 31, 2014	Met
2. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	Met
3. Cabinet to approve a detailed budget calendar consistent with top-down expenditure ceilings, for the 2014/15 budget.	November 30, 2013	Met
4. Government to ensure there is: (i) no financing of Clarendon Alimina Production (CAP) by the government or any public body, including Petro Caribe; and (ii) no new government guarantee for CAP or use of public assets (other than shares in CAP and assets owned by CAP) as collateral for third-party financing of CAP.	Continuous	Met
5. Government to table in parliament a budget for 2014/15 consistent with the program.	April 30, 2014	Met
6. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17, Country Report No. 13/378).	April 30, 2014	Met
7. Cap the total loan value of all new user-funded PPPs at 3 percent of GDP on a cumulative basis over the program period.	Continuous	Proposed
8. Ensure that the public service database e-census is up to date and covers all Ministries, Departments and Agencies.	September 10, 2014	Proposed
9. Develop an action plan for public sector transformation to cover the following areas: (1) the introduction of shared corporate services, (2) the reallocation, merger, abolition and divestment/privatization of departments and agencies, (3) outsourcing of services, (4) strengthening control systems and accountability (including in auditing and procurement), and (5) aligning remuneration with job requirements.	September 30, 2014	Proposed
10. Table changes in legislation for the new public sector pension system expected to be implemented by April 2016 (MEFP paragraph 25).	June 30, 2015	Proposed
Tax Reform		
11. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as stipulated in the TMU.	Continuous	Met
12. Parliament to adopt amendments to the relevant tax acts to harmonize the tax treatment for charities across tax types and remove ministerial discretion to grant waivers for charities and charitable purposes as described in paragraph 34 of the April 17, 2013 MEFP.	May 31, 2013	Met
13.a. Government to table a Charities Bill in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff.	September 30, 2013	Met
13.b. Government to cease the granting of waivers to charities other than under the Charities Bill.	November 30, 2013	Met
14.a. Government to table Omnibus Tax Incentive Act in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff, to eliminate ministerial discretionary powers to grant or validate any tax relief, and put in place a transparent regime for limited tax incentives.	September 30, 2013	Met with delay
14.b. Government to cease the granting of tax incentives under the regime prior to the Fiscal Incentives Legislation.	December 31, 2013	Met
15. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (paragraphs 6, 7, 8, and 9 of the MEFP for Country Report 13/378) and as stipulated in par. 13 of the March 2014 MEFP.	March 31, 2014	Met
16. Government to table in parliament amendments to the GCT as stipulated in paragraph 12 of the MEFP.	June 30, 2014	
17. Government to conduct an entity by entity review of all grandfathered entities and of their specific tax incentives in the context of the new tax incentives legislation by end-2014/15.	January 31, 2015	

Table 8. Jamaica: Structural Program Conditionality (concluded)

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Tax Administration		
18. Government to make e-filing mandatory for LTO clients with respect to General Consumption Tax (GCT) and Corporate Income Tax (CIT).	March 31, 2014	Met
19. Implement ASYCUDA World for the Kingston Port as a pilot site.	December 31, 2014	Proposed
20. (i) Increase the number of staff by a further 50 auditors (from March 2014 to March 2015); (ii) increase the number of (full plus issue) audits completed in the large taxpayers office (LTO) by 100 percent (from FY 2013/14 to FY 2014/15); (iii) achieve 95 percent take up rate of e-filing and e-payment in the LTO.	March 31, 2015	Proposed
21. Implement Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package.	February 28, 2015	Proposed
Financial sector		
22. Government to Establish and Operate a Central Collateral Registry.	December 31, 2013	Met
23. Government to implement a legal and regulatory framework conducive to Collective Investment Schemes (Paragraph 45 of the MEFP of April 17, 2013) in consultation with Fund staff.	December 31, 2013	Met
24. Government to table legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	Met
25. Government to submit proposals for a distinct treatment for retail repo client interests in the legal and regulatory framework to the relevant financial industry for consultation (MEFP March 2014 Paragraph 25) in consultation with Fund staff.	March 31, 2014	Met
26. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (MEFP Paragraph 29) in consultation with Fund staff.	December 30, 2014	Proposed revision
27. Government to table the Omnibus Banking Law [1/] consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	Tabled in March with subsequent ongoing fine-tuning.
Growth enhancing structural reforms		
28. Government to implement a new (AMANDA) tracking system to track approval of contruction permits across all parish councils.	December 30, 2014	
29. Government to table in parliament the Electricity Act.	September 30, 2014	

1/ Currently referred to as the Banking Services Bill.

Table 9. Jamaica: Quantitative Performance Criteria 1/2/3/

(In billions of Jamaican dollars)

	2013	2014						2015
	End-Dec.	End-Mar.	End-Mar.	End-Mar.	End-Jun.	End-Sep.	End-Dec.	End-Mar.
	Stock	Prog.	Adjusted	Act.	PC	PC	PC	Proposed PC
Fiscal targets								
1. Primary balance of the central government (floor) 4/	...	111.5	111.5	111.7	15.5	37.8	76.0	122.0
2. Tax Revenues (floor) 4/9/	...	357.5	357.5	343.8	80.0	166.0	253.4	384.0
3. Overall balance of the public sector (floor) 4/	...	-7.4	-10.9	1.1	-19.3	-30.2	-37.0	-7.5
4. Central government direct debt (ceiling) 4/5/	1672.0	70.3	70.3	20.4	15.7	23.2	26.5	35.3
5. Central government guaranteed debt (ceiling) 4/	...	-14.0	-14.0	-14.5	4.0	2.7	0.1	-1.8
6. Central government accumulation of domestic arrears (ceiling) 6/12/13/	21.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 7/12/13/	24.6	0.0	0.0	-1.5	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 6/12/	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9. Social spending (floor) 9/10/	...	20.1	20.1	20.7	4.2	8.9	14.8	21.7
Monetary targets								
10. Cumulative change in net international reserves (floor) 8/11/14/	1045.1	194.4	12.0	264.7	265.5	258.6	351.9	529.4
11. Cumulative change in net domestic assets (ceiling) 11/14/	-7.5	-21.4	-21.4	-37.4	-29.1	-24.7	-27.0	-55.1

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Including proposed modified performance criteria for the net international reserves and the net domestic assets.
3/ Based on program exchange rates defined in the March 2014 TMU.
4/ Cumulative flows from April 1 through March 31.
5/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
6/ Includes debt payments, supplies and other committed spending as per contractual obligations.
7/ Includes tax refund arrears as stipulated by law.
8/ In millions of U.S. dollars.
9/ Indicative target.
10/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
11/ Cumulative change from end-December 2013.
12/ Continuous performance criterion.
13/ This accumulation is measured as the change in the stock of arrears relative to the stock at end-March 2013. The latter stock is listed in the column for the stock at end-December 2013.
14/ The end-December 2012 NIR and NDA were US$1138.5 million and J$-9.5 billion respectively.

Table 10. Jamaica: Indicators of Fund Credit, 2014-25
(In millions of SDRs, unless otherwise specified)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Prospective drawings (4-year EFF)	137.85	113.28	113.28	28.33	...	...	...	...	...	...	...	...
(in percent of quota)	50.40	41.42	41.42	10.36	...	...	...	...	...	...	...	...
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)												
Amortization	147.40	95.63	3.99	11.40	37.11	64.80	83.68	100.20	102.56	91.17	65.46	37.76
Amortization (SBA)	147.40	95.63	3.99	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	11.40	37.11	64.80	83.68	100.20	102.56	91.17	65.46	37.76
Interest and service charges	3.38	5.38	6.16	6.81	6.62	6.12	5.35	4.36	3.24	2.10	1.18	0.54
SDR charges and assessments	0.04	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
Total debt service	150.82	101.08	10.23	18.29	43.81	71.00	89.11	104.65	105.89	93.35	66.72	38.38
(in percent of exports of G&S)	5.42	3.54	0.34	0.59	1.37	2.17						
(in percent of GDP)	1.66	1.10	0.11	0.18	0.42	0.65	0.79	0.89	0.86	0.72	0.49	0.27
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)												
Outstanding stock	460.10	477.76	587.05	603.98	566.88	502.08	418.39	318.19	215.63	124.46	59.00	21.24
(in percent of quota)	168.23	174.68	214.64	220.83	207.27	183.58	152.98	116.34	78.84	45.51	21.57	7.77
(in percent of GDP)	5.06	5.20	6.20	6.10	5.45	4.59	3.69	2.70	1.75	0.96	0.44	0.15
Memorandum items:												
Exports of goods and services (US$ millions)	4,328.86	4,449.26	4,683.70	4,814.07	4,981.07	5,086.66	...	...	...	...	...	...
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

Source: IMF staff projections.

Table 11. Jamaica: Schedule of Reviews and Purchases

Availability Date	Amount of Purchase Millions of SDR	Amount of Purchase Percent of Quota	Conditions 1/
	Purchases		
May 1, 2013	136.75	50	Approval of Arrangement
September 30, 2013	19.97	7	First Review and end-June 2013 performance criteria
December 18, 2013	19.97	7	Second Review and end-September 2013 performance criteria
March 19, 2014	45.95	17	Third Review and end-December 2013 performance criteria
June 15, 2014	45.95	17	Fourth Review and end-March 2014 performance criteria
September 15, 2014	45.95	17	Fifth Review and end-June 2014 performance criteria
December 15, 2014	45.95	17	Sixth Review and end-September 2014 performance criteria
March 15, 2015	28.32	10	Seventh Review and end-December 2014 performance criteria
June 15, 2015	28.32	10	Eighth Review and end-March 2015 performance criteria
September 15, 2015	28.32	10	Ninth Review and end-June 2015 performance criteria
December 15, 2015	28.32	10	Tenth Review and end-September 2015 performance criteria
March 15, 2016	28.32	10	Eleventh Review and end-December 2015 performance criteria
June 15, 2016	28.32	10	Twelfth Review and end-March 2016 performance criteria
September 15, 2016	28.32	10	Thirteenth Review and end-June 2016 performance criteria
December 15, 2016	28.32	10	Fourteenth Review and end-September 2016 performance criteria
March 15, 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.

Annex I. Jamaica—Risk Assessment Matrix[1]

Main Threats	Likelihood of Realization of the Threat	Expected Impact if Threat is Realized
Capacity constraints to the implementation of the reform agenda.	**Medium** The recent reforms, in particular those involving legislation, have already tested capacity limits. However, risks are being addressed through intensive TA, resident advisors, and ongoing fine-tuning of the pace and sequencing of reforms.	**Medium** For many reforms, a modest delay could be accommodated without serious repercussions. Others, in particular those related to budget implementation, are both critical and highly time sensitive.
A continued lack of confidence that the reforms will be maintained.	**Medium-Low** The authorities have demonstrated their commitment to the reform program. However, against a history of reform failure, many investors, both in financial markets and in companies will need a longer track record to be convinced.	**High** The return of confidence is imperative for investment and growth. Furthermore, it is critical for restoring a liquid government bond market (see below). Policy slippage would have severe repercussions as the strategy hinges on sustained fiscal consolidation.
Continued inactivity of the secondary market in government bonds.	**Medium** The lack of secondary market activity reflects the above-mentioned confidence gap as well as the perception (after the second debt exchange) that a debt restructuring could be repeated. Both concerns should diminish over time as the program is implemented.	**High** Restoring secondary bond market activity is important given the associated risks to the financial sector, and for the provision of credit to firms. Moreover, it implies a lack of access to market financing by the government.
Acute fiscal and/or external financing pressures.	**Medium-High** Domestic demand for government paper is minimal. External financing includes PetroCaribe inflows. Financing from development partners is contingent on program implementation.	**High** While the impact is limited by the absence of net financing needs, refinancing needs are expected to rise over the coming years. A rise in financing pressures would compress the scope for fiscal spending or lead to monetization of the deficit.
A decline in tourism and exports related to a protracted period of slower growth in advanced economies, and in particular in the U.S.	**Medium** The U.S. is Jamaica's main market, and weaker U.S. growth would affect Jamaica largely through tourism flows.	**High** A decline in tourism demand would lead to reserve losses, and pressure on the current account.
Other risks, including weather-related natural disasters and a possible increase in crime.	**Medium** Weather related disasters are prevalent in Jamaica. Crime is high.	**Medium** Strong storms can cause serious damage and entail important fiscal costs. Crime already poses high social costs, disincentives to invest, and costs to business.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non mutually exclusive risks may interact and materialize jointly.

Annex II. Jamaica—Debt Sustainability Analysis[1]

The debt sustainability analysis (DSA), based on the program's medium-term macroeconomic framework, indicates that Jamaica's high public debt, though on a sustainable path, remains vulnerable to macro-fiscal and contingent liability shocks.

Public DSA[2]

Jamaica's public debt is now estimated to have fallen to 140 percent of GDP at the end of 2013/14. This mainly reflects ongoing fiscal consolidation efforts under the authorities' Fund-supported program as well as gains from the debt exchange in February 2013.

The underlying macro assumptions have not changed materially from last assessment during the second review (Figure 2). Jamaica's forecast track record remains comparable with other Fund-supported program countries, without any systematic projection bias.

Under the program, debt is on a downward trajectory but remains vulnerable to key macro-fiscal and contingent liability shocks. This is in line with the assessment made during the second review of the Fund-supported program. With continued fiscal consolidation and modest growth recovery, the public debt to GDP ratio is estimated to fall to 99.3 percent by 2019/20.

The baseline debt path remains highly vulnerable to slippages in the fiscal consolidation program. The three-year average underlying cyclically adjusted primary balance, taking 2012/13 as the starting point, is estimated to be above 8 percent of GDP, with an implied adjustment of about 5 percent of GDP (Figure 2). This adjustment is estimated to have been realized in the 2013/14 fiscal year with a primary balance outturn of about 7.5 percent of GDP. This implied fiscal adjustment appears exceptional relative to the distribution of other Fund-supported program countries.[3] This underscores the extreme dependence of the debt reduction path on a successful sustained fiscal consolidation program, and the importance of the frontloaded structural reforms under the program that aim to strengthen fiscal policy.

Risks remain high (Figure 1). One year into the Fund-supported program, Jamaica's debt burden, though declining, continues to remain higher than in comparable emerging market economies. The baseline debt remains vulnerable to macrofiscal and contingent liability shocks. The debt profile also remains subject to high risks from external financing requirements (excluding PetroCaribe debt) and

[1] This assessment is an update of the full DSA during the second EFF review which was approved by the Board in December 2013. See staff assessment in the staff report of the second review under the Fund-supported EFF arrangement (Jamaica: Second Review Under the Extended Arrangement Under the Extended Fund Facility and Request for Modification of Performance Criteria).

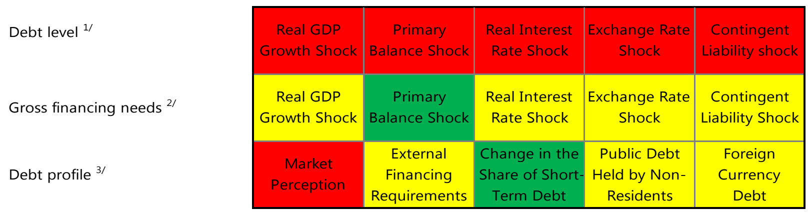
[2] All tables and charts are on fiscal-year basis (from April 1 through March 31).

[3] With a relatively small multiplier, the implication for growth is also relatively small (Annex II, Figure 3).

potential large bond spreads should Jamaica return to the capital market. Indeed, after maturities were extended through the debt exchange, both domestic and foreign refinancing needs are expected to rise over the coming years, and meeting these will require that the ability to access both domestic and foreign markets is restored. Medium-term financing needs are expected to be met through a fairly balanced mix of domestic and external sources. There is also a moderate elevation in real interest rate risks (this was not identified as a source of concern in the last assessment) as interest rates have not adjusted downwards with declining inflation. As was the case in the last assessment, risks to the debt outlook remain on the upside as indicated by both the symmetric and asymmetric (allowing for zero maximum positive primary balance and real appreciation shocks) fan charts.

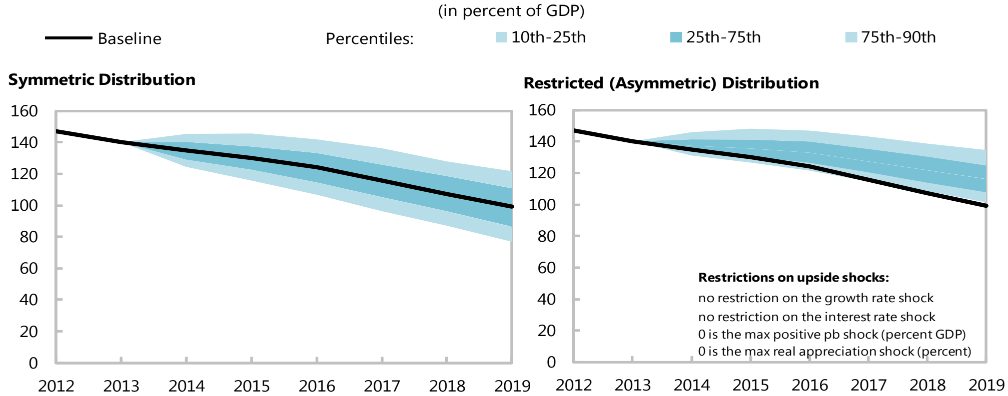
Annex II. Figure 1. Jamaica Public DSA Risk Assessment

Heat Map



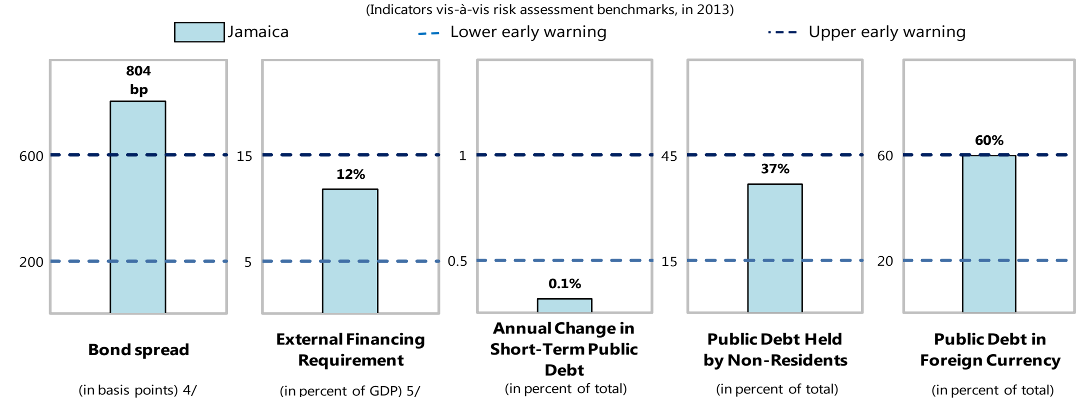
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2013)



Source: IMF staff.

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

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

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

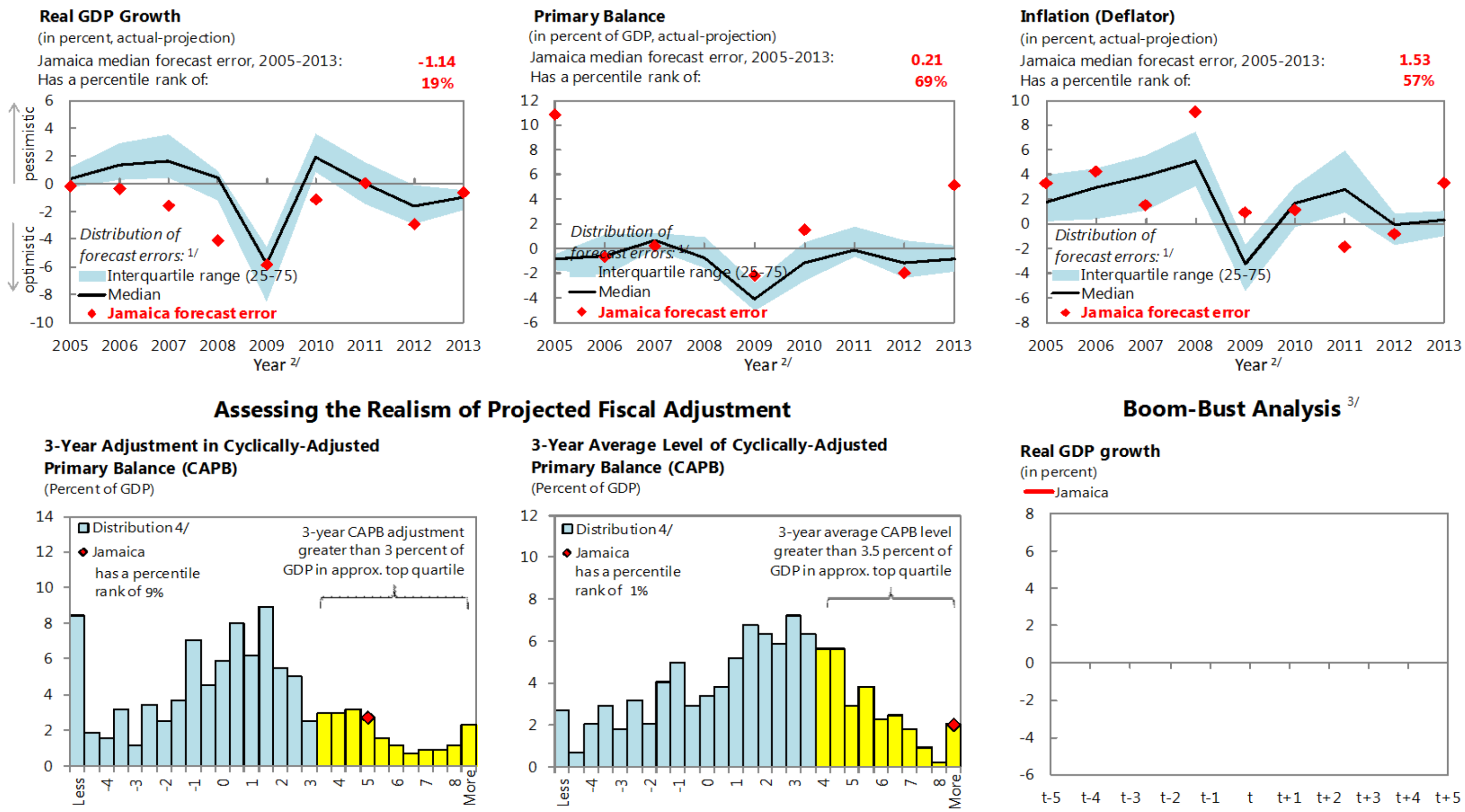
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 05-Dec-13 through 05-Mar-14.

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

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

Forecast Track Record, versus program countries



Source : IMF Staff.

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

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

3/ Not applicable for Jamaica.

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

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

(in percent of GDP unless otherwise indicated)

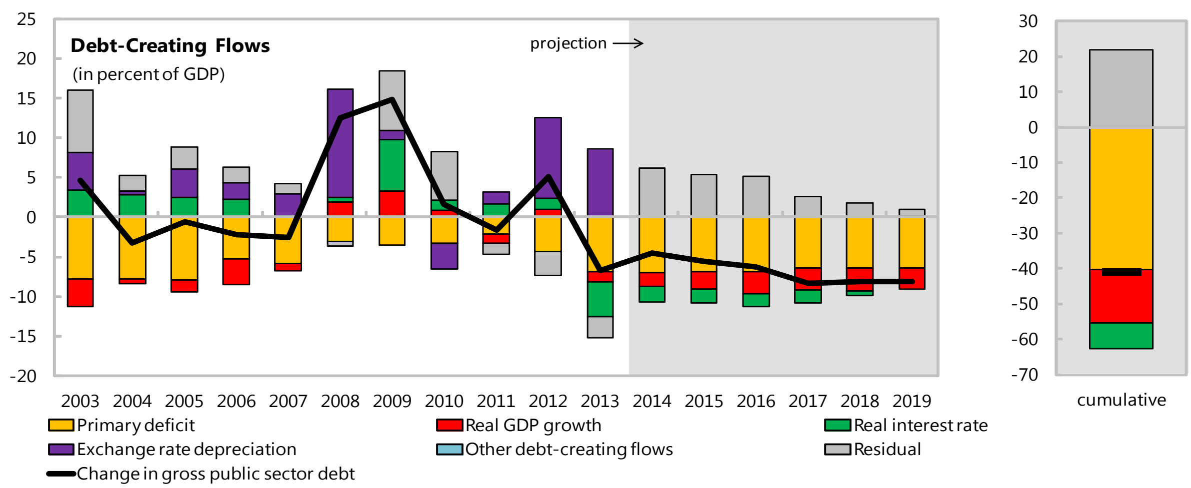
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2003-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	127.6	146.9	140.2	135.6	130.1	123.9	115.6	107.4	99.3
Of which: guarantees	9.4	12.6	11.1	10.1	9.2	8.4	7.6	6.9	6.4
Public gross financing needs	20.9	10.7	6.9	4.5	9.3	2.7	10.0	6.1	6.7
Real GDP growth (in percent)	0.5	-0.7	0.9	1.4	1.7	2.3	2.5	2.7	2.7
Inflation (GDP deflator, in percent)	10.6	6.8	9.4	8.2	7.9	7.7	7.2	6.7	6.3
Nominal GDP growth (in percent)	11.2	6.1	10.4	9.7	9.7	10.1	9.9	9.6	9.1
Effective interest rate (in percent) [4/]	12.7	7.8	6.1	6.8	6.6	6.5	6.0	6.4	6.5

As of March 05, 2014		
Sovereign Spreads		
EMBIG (bp) 3/		813
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Caa3	Caa3
S&Ps	B-	B-
Fitch	B-	B-

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.6	5.1	-6.8	-4.5	-5.5	-6.2	-8.3	-8.2	-8.2	-40.9	
Identified debt-creating flows	-0.5	8.1	-4.0	-10.7	-10.9	-11.3	-10.9	-9.9	-9.0	-62.8	
Primary deficit [10/]	-5.2	-4.4	-7.0	-7.0	-7.0	-7.0	-6.5	-6.5	-6.5	-40.4	-2.6
Primary (noninterest) revenue and gra	24.7	24.8	26.3	25.9	26.0	26.1	26.3	26.3	26.4	157.0	
Primary (noninterest) expenditure	19.5	20.4	19.3	18.9	19.0	19.1	19.8	19.8	19.9	116.6	
Automatic debt dynamics [5/]	4.8	12.5	2.9	-3.7	-3.9	-4.3	-4.5	-3.4	-2.6	-22.4	
Interest rate/growth differential [6/]	1.8	2.3	-5.6	-3.7	-3.9	-4.3	-4.5	-3.4	-2.6	-22.4	
Of which: real interest rate	2.3	1.3	-4.4	-1.9	-1.8	-1.6	-1.6	-0.6	0.1	-7.5	
Of which: real GDP growth	-0.5	1.0	-1.2	-1.8	-2.1	-2.7	-2.8	-2.8	-2.7	-14.9	
Exchange rate depreciation [7/]	3.0	10.2	8.5	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization Receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other debt flows (incl. ESM and Euro	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	3.1	-3.0	-2.7	6.2	5.4	5.1	2.6	1.8	0.9	21.9	



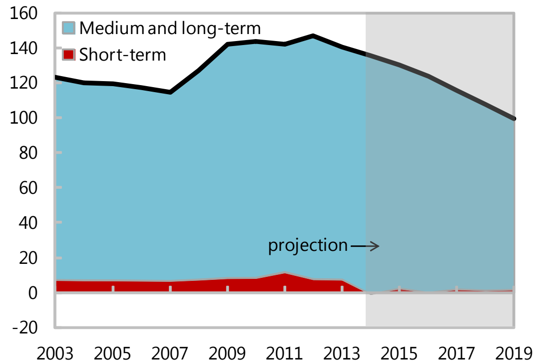
Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees .
2/ Based on available data.
3/ Long-term bond spread over U.S. bonds.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the denominator in footnote 5 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.
10/ Primary deficit in the DSA for Jamaica is lower compared to fiscall tables since the DSA excludes interest revenues.

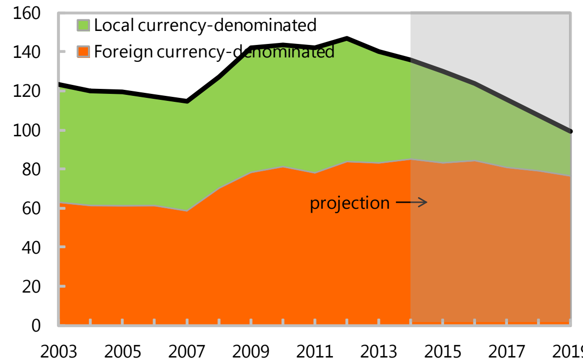
Annex II. Figure 4. Jamaica Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



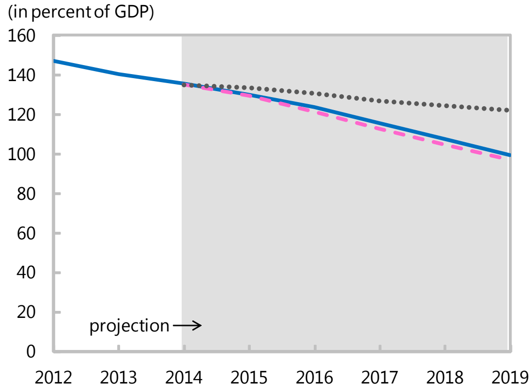
By Currency
(in percent of GDP)



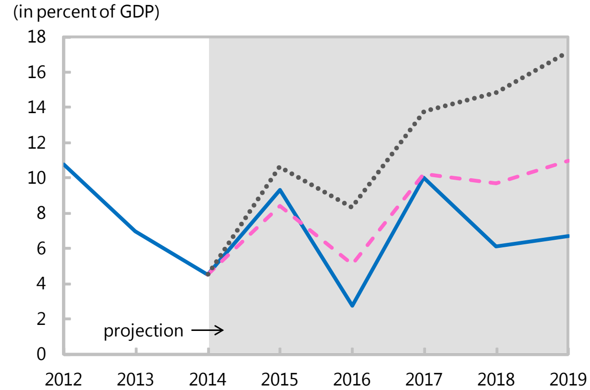
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

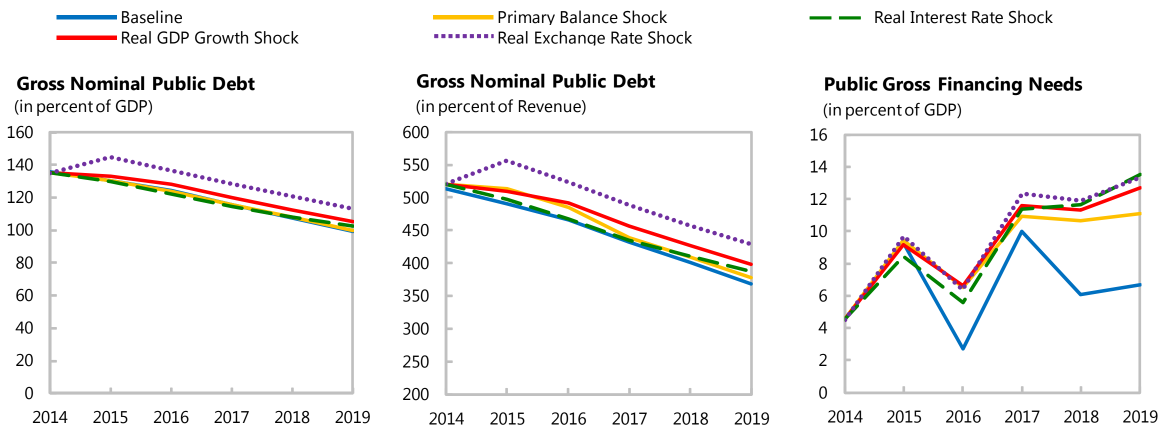
Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	1.4	1.7	2.3	2.5	2.7	2.7
Inflation	8.2	7.9	7.6	7.2	6.7	6.3
Primary Balance	7.0	7.0	7.0	6.5	6.5	6.5
Effective interest rate	6.8	6.6	6.5	6.0	6.4	6.5
Constant Primary Balance Scenario						
Real GDP growth	1.4	1.7	2.3	2.5	2.7	2.7
Inflation	8.2	7.9	7.6	7.2	6.7	6.3
Primary Balance	7.0	7.0	7.0	7.0	7.0	7.0
Effective interest rate	6.8	6.6	6.5	6.2	6.6	7.0

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	1.4	0.2	0.2	0.2	0.2	0.2
Inflation	8.2	7.9	7.6	7.2	6.7	6.3
Primary Balance	7.0	5.1	5.1	5.1	5.1	5.1
Effective interest rate	6.8	6.6	6.6	6.3	7.0	7.4

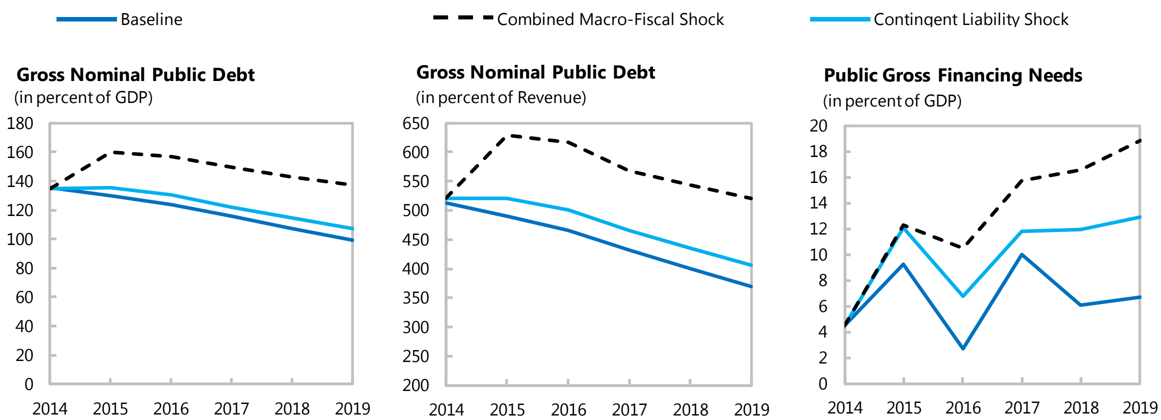
Source: IMF staff.

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

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2014	2015	2016	2017	2018	2019
Real GDP growth	1.4	1.7	2.3	2.5	2.7	2.7
Inflation	8.2	7.9	7.6	7.2	6.7	6.3
Primary balance	7.0	6.0	5.9	6.5	6.5	6.5
Effective interest rate	6.8	6.6	6.5	6.1	6.6	6.9
Real Interest Rate Shock						
Real GDP growth	1.4	1.7	2.3	2.5	2.7	2.7
Inflation	8.2	7.9	7.6	7.2	6.7	6.3
Primary balance	7.0	7.0	7.0	6.5	6.5	6.5
Effective interest rate	6.8	6.6	6.9	6.7	7.7	8.5
Combined Shock						
Real GDP growth	1.4	0.0	0.6	2.5	2.7	2.7
Inflation	8.2	7.5	7.2	7.2	6.7	6.3
Primary balance	7.0	6.0	5.6	6.5	6.5	6.5
Effective interest rate	6.8	7.3	6.4	6.4	7.4	8.1

Real GDP Growth Shock	2014	2015	2016	2017	2018	2019
Real GDP growth	1.4	0.0	0.6	2.5	2.7	2.7
Inflation	8.2	7.5	7.2	7.2	6.7	6.3
Primary balance	7.0	6.6	6.2	6.5	6.5	6.5
Effective interest rate	6.8	6.6	6.5	6.1	6.6	6.9
Real Exchange Rate Shock						
Real GDP growth	1.4	1.7	2.3	2.5	2.7	2.7
Inflation	8.2	15.4	7.6	7.2	6.7	6.3
Primary balance	7.0	7.0	7.0	6.5	6.5	6.5
Effective interest rate	6.8	7.3	6.0	5.7	6.1	6.5
Contingent Liability Shock						
Real GDP growth	1.4	0.0	0.6	2.5	2.7	2.7
Inflation	8.2	7.5	7.2	7.2	6.7	6.3
Primary balance	7.0	4.0	7.0	6.5	6.5	6.5
Effective interest rate	6.8	6.9	6.5	6.1	6.6	6.9

Source: IMF staff.

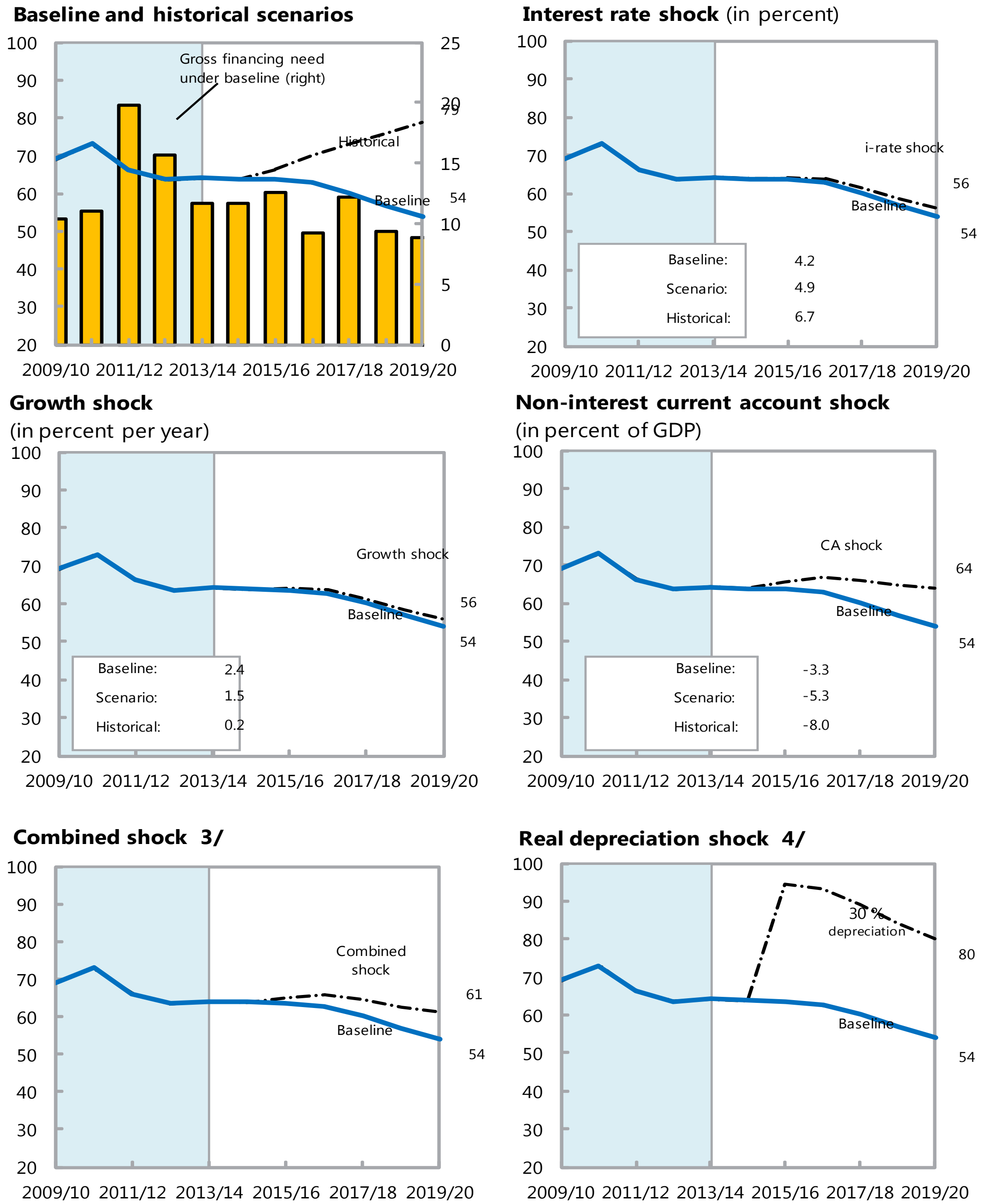
External DSA

Jamaica's external public debt is expected to remain stable over the medium term, but some vulnerability remains (Table 1). The current uncertainty about the continuity of the PetroCaribe arrangement has elevated the risks to the external debt due to Jamaica's dependence on financing from PetroCaribe. Aside from the elevated risks from the sustainability of the PetroCaribe financing, the external debt outlook also remains vulnerable to sharp movements in the exchange rate and current account shocks (Figure 6). The total external debt is now projected to drop to about 57 percent of GDP by 2018/19 compared to a projection of 61 percent in the last assessment, mainly as a result of a shift to PetroCaribe financing which is currently considered as domestic financing.[4]

[4] While all the liabilities under the PetroCaribe arrangement are from a foreign source (Venezuela) and accounted for in Jamaica's public debt, the convention under the EFF program is to record PetroCaribe financing of the central government under domestic debt, partly because the operation occurs among two domestic parties, including the sovereign (the central government and the PetroCaribe Development Fund (PDF), a Jamaica-based public body). As a consequence, only PetroCaribe debt that flows to entities outside the central government is recorded as external debt. These entities, though also domestic, borrow from Petro Caribe mostly on the strength of their own balance sheets—such liabilities are considered part of domestic debt only when they are explicitly guaranteed by the central government.

Annex II. Figure 6. Jamaica External DSA: Bound Tests 1/ 2/

(External debt in percent of GDP)



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

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2013/14.

Annex II. Table 1. Jamaica External DSA, 2008/09–2018/19

(in percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2009/10	2010/11	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	**Debt-stabilizing non-interest current account 6/**
1 **Baseline: External debt**	69.1	73.0	66.2	63.5	64.1			**63.8**	**63.5**	**62.8**	**60.0**	**56.9**	**54.0**	**-3.4**
2 Change in external debt	17.4	3.9	-6.8	-2.7	0.6			-0.3	-0.3	-0.7	-2.8	-3.2	-2.9	
3 Identified external debt-creating flows (4+8+9)	8.7	1.3	8.4	9.1	8.5			4.3	2.1	1.4	0.8	0.9	0.6	
4 Current account deficit, excluding interest payments	3.6	5.4	11.6	8.3	6.4			4.8	4.1	3.5	3.0	3.0	2.8	
5 Deficit in balance of goods and services	18.1	20.4	25.4	24.4	23.2			21.1	19.7	18.5	17.2	16.5	15.8	
6 Exports	33.2	29.9	29.5	30.4	29.1			30.6	31.1	31.8	31.2	30.8	29.9	
7 Imports	51.3	50.3	55.0	54.8	52.2			51.7	50.8	50.3	48.4	47.3	45.7	
8 Net non-debt creating capital inflows (negative)	-3.3	-1.1	-1.4	-2.1	-3.0			-2.7	-3.8	-3.4	-3.1	-2.9	-2.9	
9 Automatic debt dynamics 1/	8.4	-3.0	-1.9	2.8	5.1			2.3	1.8	1.3	0.9	0.7	0.7	
10 Contribution from nominal interest rate	4.1	3.6	3.3	3.1	3.1			3.2	2.8	2.7	2.4	2.3	2.2	
11 Contribution from real GDP growth	1.6	0.4	-0.6	0.5	-0.6			-0.9	-1.1	-1.4	-1.5	-1.5	-1.5	
12 Contribution from price and exchange rate changes 2/	2.7	-7.0	-4.5	-0.8	2.6			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	8.7	2.6	-15.2	-11.7	-7.9			-4.6	-2.4	-2.1	-3.6	-4.1	-3.5	
External debt-to-exports ratio (in percent)	208.2	244.0	224.0	209.0	220.7			208.5	204.2	197.6	192.1	184.7	180.5	
Gross external financing need (in billions of US dollars) 4/	1.3	1.5	2.9	2.3	1.7			1.7	1.8	1.4	1.9	1.5	1.5	
in percent of GDP	10.4	11.0	19.8	15.7	11.7			11.7	12.5	9.2	12.2	9.4	8.8	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**63.8**	**66.3**	**69.9**	**73.0**	**75.7**	**78.9**	**-2.5**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	-2.8	-0.6	0.9	-0.7	0.9	0.2	1.7	1.4	1.7	2.3	2.5	2.7	2.7	
GDP deflator in US dollars (change in percent)	-4.9	11.3	6.6	1.2	-4.0	4.0	5.3	-1.8	-0.5	0.7	2.0	2.3	2.4	
Nominal external interest rate (in percent)	7.4	5.8	4.8	4.8	4.7	6.7	1.5	4.9	4.5	4.4	3.9	4.0	4.0	
Growth of exports (US dollar terms, in percent)	-19.1	-0.3	6.2	3.4	-7.3	1.7	10.3	4.9	2.8	5.3	2.8	3.5	2.1	
Growth of imports (US dollar terms, in percent)	-30.3	8.3	17.6	0.2	-7.7	5.4	15.7	-1.4	-0.6	2.0	0.6	2.7	1.5	
Current account balance, excluding interest payments	-3.6	-5.4	-11.6	-8.3	-6.4	-8.0	4.0	-4.8	-4.1	-3.5	-3.0	-3.0	-2.8	
Net non-debt creating capital inflows	3.3	1.1	1.4	2.1	3.0	4.4	2.8	2.7	3.8	3.4	3.1	2.9	2.9	

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

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

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

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

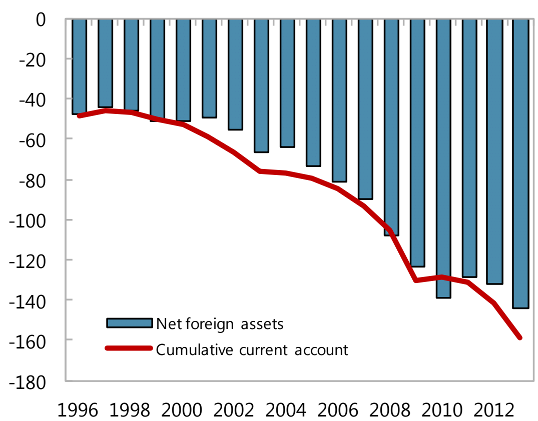
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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

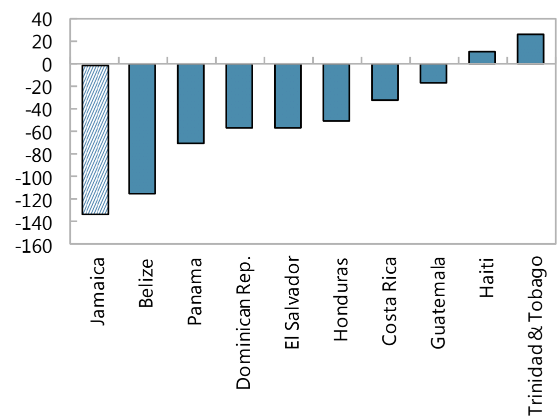
Annex III. Jamaica's External Stability, Exchange Rate, and Competitiveness Assessment[1]

Jamaica's external position has begun to improve. The government's policies under the Fund-supported program have started to yield results. Imports have compressed sharply as a result of the ongoing fiscal consolidation and exchange rate depreciation, resulting in sharp improvements in the current account. The Bank of Jamaica has begun rebuilding international reserves even though net international reserves have not yet returned to pre-crisis levels. Jamaica's net indebtedness to the rest of the world has improve marginally, reflecting the initial gains from the government's policy reforms in the last year, but still remains high compared to peers in the region. The program includes measures that are projected to restore competitiveness and reduce external imbalances.

Net Foreign Assets
(percent of GDP)

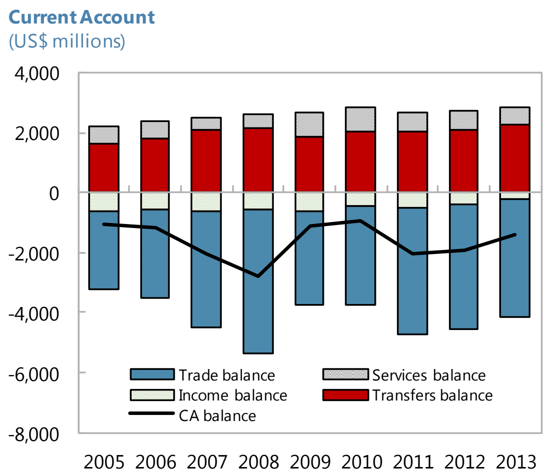


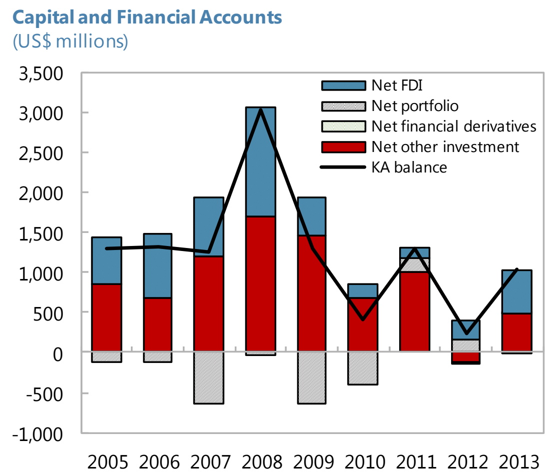
CAC Region: Net Foreign Assets, 2012
(percent of GDP)



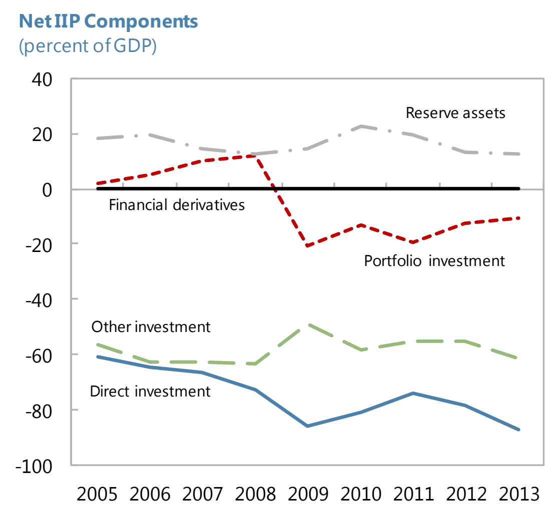
Jamaica's current account balance is improving and projected to return to sustainable levels over the medium term. The large negative contribution of the trade balance is beginning to reduce, largely due to import compression (as firms, mostly agro-based industries, continue to look for local alternatives to some imported inputs) as a result of the ongoing fiscal consolidation and the depreciation of the currency. However, the expected recovery of exports has delayed. The current account balance continues to be financed mainly through official financing (driving net other investments) and some recovery in foreign direct investment.

[1] Prepared by Maxwell Opoku-Afari and Nadine Thompson (Resident Representative's office).





External vulnerabilities remain as Jamaica continues to accumulate large negative net international investment position (IIP). The main sources, as at the end of 2012, are negative foreign direct investment (mainly investment in mining and construction), other investments (mainly general government loans) and to some extent, portfolio investments. Preliminary data as at December 2013 indicate slowdown in direct and portfolio investment, and reserve assets are projected to increase over the medium-term based on the government's planned policies. These should help to improve the medium-term net IIP projection even though it will continue to remain high.



Following the substantial adjustment that has already taken place, the remaining overvaluation of the Jamaican dollar appears modest.[2] In May 2013, the exchange rate was assessed to be overvalued by 9–22 percent, but the current assessment, consistent with medium-term fundamentals and planned policies, indicates overvaluation of 3–15 percent.

	Current Account/GDP			2014 REER Over(+)/Under (-1)	May 2013 Assessment Over(+)/Under (-1)
	Norm	Underlying	Elasticity	Valuation	Valuation
Macroeconomic balance	-5.0	-5.5	-0.16	3.1	8.8
External sustainability	-5.0	-5.5	-0.16	3.0	11.3
Equilibrium real exchange rate	…	…	…	15.1	21.9

[2] In the 2013 AREAER, the exchange rate was classified as a de facto craw-like regime. Since mid-2012, there has been significant progress toward exchange rate flexibility. The authorities are concerned about the economic uncertainty and adverse social implications generated by rapid exchange rate depreciation (see paragraphs 17–19).

The macroeconomic balance (MB) approach which compares the underlying current account balance (i.e., the actual medium-term balance stripped off cyclical influences) with a norm derived from fundamentals (such as oil balance, demographic/income status, fiscal position, net external position, remittances, and aid inflows) and suggests an overvaluation of 3 percent (lower than the 8 percent overvaluation found in the 2011 Article IV consultation). The current account balance norm is estimated at a deficit of 5.0 percent of GDP against an underlying current account deficit of 5.5 percent of GDP.

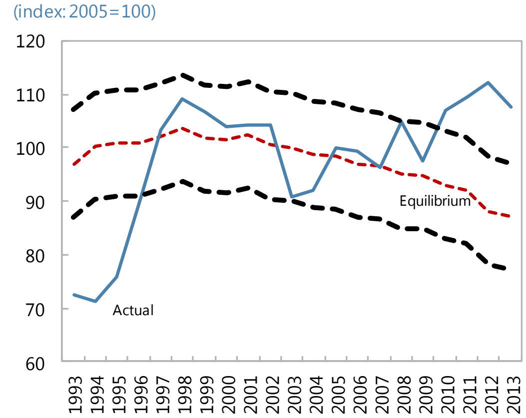
The external sustainability (ES) approach which is anchored on a norm for the current account balance that would stabilize the net international investment position (IIP) of 90 percent of GDP (and applying the same underlying current account balance as was in the MB approach), also indicates a reduction in overvaluation to 3 percent (lower than the 10 percent found in the 2011 Article IV consultation). This assessment is quite sensitive to the assumption of what would be the stabilizing IIP (see text table below). The choice of a stabilizing IIP of 90 percent of GDP is consistent with the 2013 assessment and with trends prior to the crisis but still above the standard assessment of between 60 and 70 percent of GDP.

Sensitivity Analysis: External Sustainability Estimates

Stabilizing NFA Ratio	Implied CAB/GDP Norm	Underlying CAB/GDP	Gap= Underlying-Norm	CAB/GDP Elasticity	REER Over/Under Valuation
-100	-5.6	-5.5	0.1	-0.16	-0.45
-90	***-5.0***	***-5.5***	***-0.5***	***-0.16***	***3.04***
-80	-4.5	-5.5	-1.0	-0.16	6.52
-70	-3.9	-5.5	-1.6	-0.16	10.00
-60	-3.3	-5.5	-2.2	-0.16	13.48

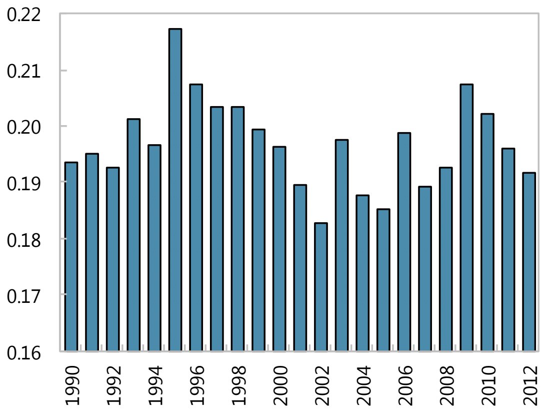
The equilibrium real exchange rate (ERER) approach, which looks at the fundamentals affecting the equilibrium RER, in this case adjusting for the impact of tourism, also suggests a correction in the overvaluation from 22 percent in May 2013 to about 15 percent now. It is important to note, however, that this approach is purely backward looking and does not incorporate the programmed policy adjustments over the medium-term.

Actual and Equilirium REER, 1993-2013
(index: 2005=100)

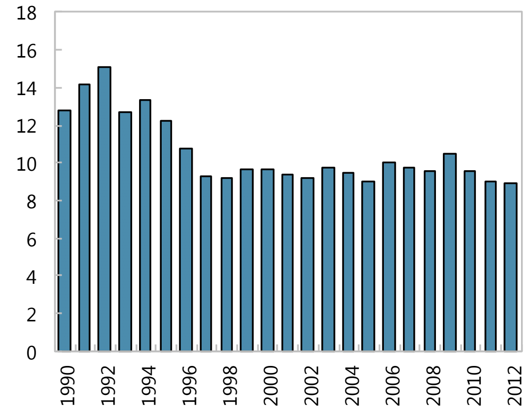


Jamaica's market share in the tourism sector has not recovered yet to pre-crisis levels. The market share of overnight visitor arrivals has continued to decline compared to the level in 2009; similar trends are visible in market share of tourist expenditure.

Stayover Arrivals
(percent share to World)



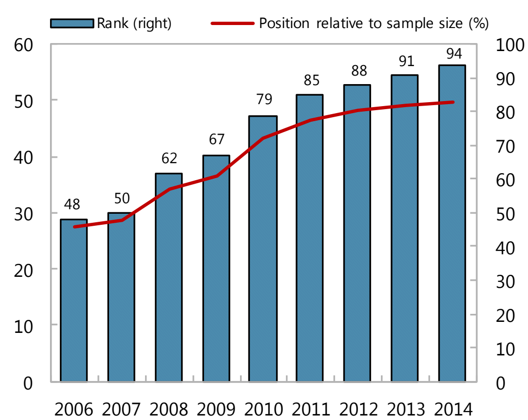
Inbound Tourism Expenditure
(percent share to Caribbean)



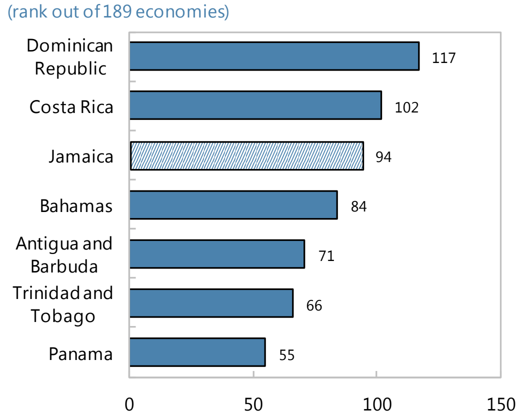
While the government has started to introduce reforms to reduce the cost of doing business in Jamaica, these are yet to translate into measured improvements in the business environment, which could also help explain the delayed improvement in export market shares.

Jamaica's ranking in the Doing Business indicators has deteriorated continuously in the last decade. This is an indication that past policies have failed to address constraints to doing business in Jamaica, and implies a strong case for re-focusing reforms toward enhancing the business environment to support growth. The most recent Doing Business report (2014) shows a further decline by three places compared to the performance in 2013, with Jamaica now ranked 94 out of 189 countries globally and behind most of its peers within the Caribbean and Central America (Columbia, Panama, St Lucia, Trinidad and Tobago, Antigua and Barbuda, Dominica, Guatemala, St Vincent and Grenadines, The Bahamas, and Barbados).

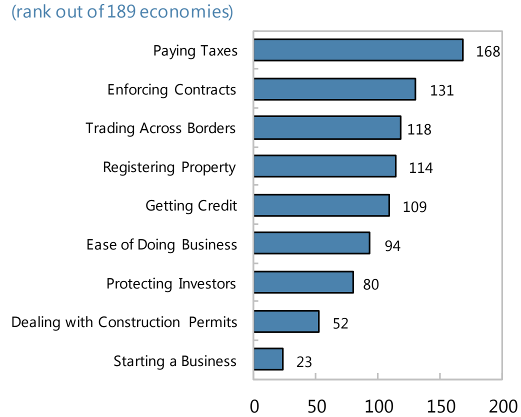
Jamaica: Doing Business Ranking



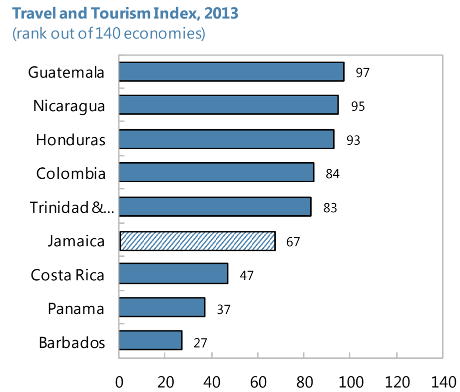
Ease of Doing Business, 2014
(rank out of 189 economies)

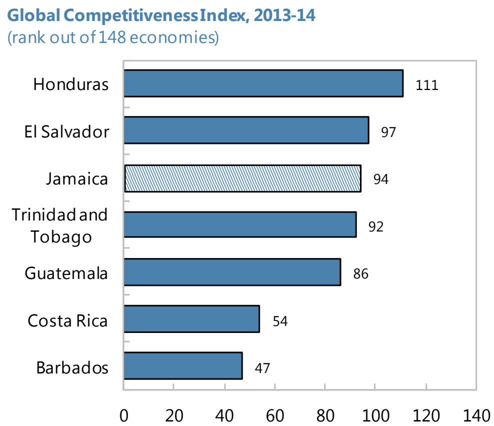


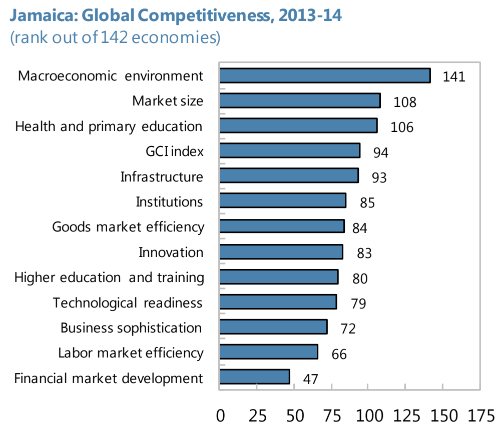
Jamaica: Doing Business, 2014
(rank out of 189 economies)



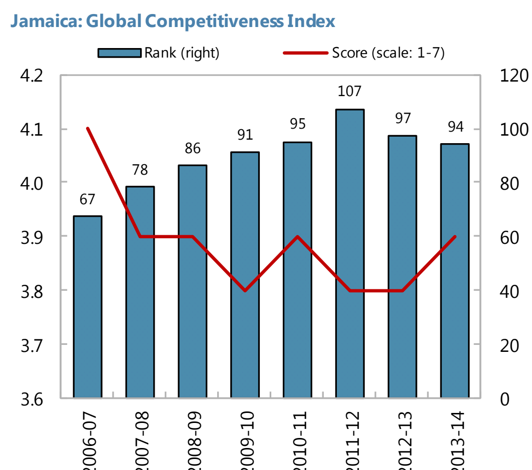
Similarly, Jamaica's ranking in the Travel and Tourism (T&T) Competitiveness Index weakened further in 2013. Jamaica ranked 67th on the T&T Competitiveness Index in 2013 out of the 140 countries surveyed[3], a further deterioration from the 65th and 60th ranks in 2011 and 2009 respectively. Jamaica continues to rank behind its key tourism competitors in the region (Barbados, Panama, and Costa Rica). Jamaica was assessed to be less competitive in cultural resources availability, general environmental sustainability, and price.







However, after several years of decline, Jamaica's ranking in the Global Competitiveness Index (GCI) has improved somewhat in the last two years. Jamaica ranked 94 out of 148 countries, placing it within the top 64 percent of the countries surveyed, down from the top 67 per cent in the 2012/13 ranking, even though the overall score has remained at an average of 3.9 for the last two years.[4] The 2013–14 report ranked Jamaica's macroeconomic environment poorly, an assessment that is expected to improve once the full benefits of the current Fund-supported program begin to impact. However, as has been the case in the past, Jamaica's business environment also continued to be constrained by inefficient government bureaucracy; corruption; and crime and theft, which top the list of the most negative factors affecting the cost of doing business in Jamaica. Jamaica continues to lag behind its peers in the region (Panama, Barbados, Costa Rica, Colombia, Guatemala, and Trinidad and Tobago).



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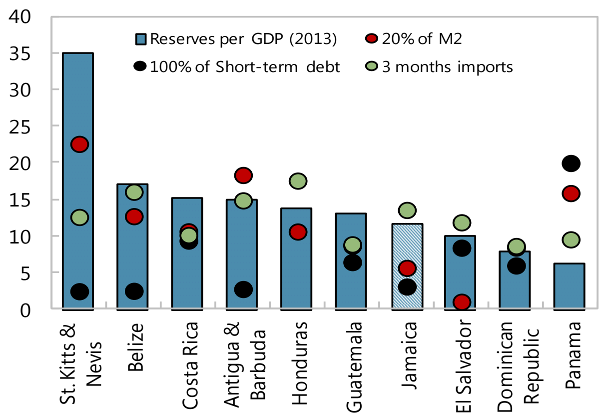
[3] According to the World Economic Forum Report published in 2013.

[4] WEF survey questions are graded on a scale of 1 to 7, where 1 and 7corrsponds to the worst and best outcomes, respectively.

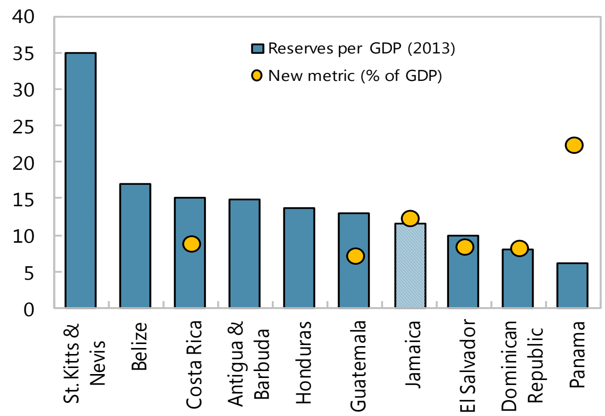
Annex IV. Assessing Reserve Adequacy

A tighter monetary policy (higher interest rates) and targeted operations have boosted the pace of accumulation of international reserves. The international reserves position, though improving (estimated at US$1.8 billion at the end of May 2014), is not back to pre-crisis levels. The non risk-weighted measures of international reserves adequacy suggest reserves were about equal to the standard measure of three months of import cover, and a new risk-weighted metric[5], that assesses adequacy by looking at balance of payments pressure, also indicates that reserves adequacy thresholds were barely met. Though, current reserves levels are not comfortably above the standard metrics, Jamaica has made significant progress in building reserves and is well positioned to withstand various external shocks.

Reserves Adequacy
(percent)

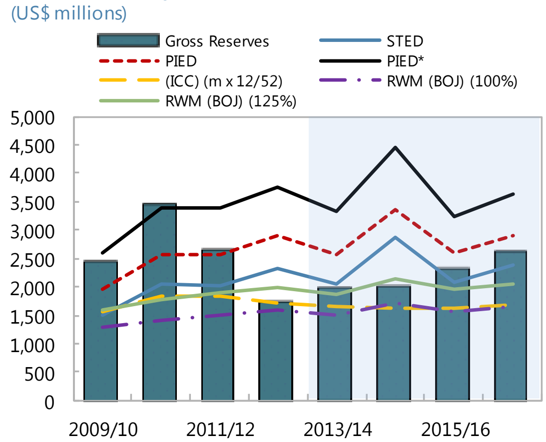


Reserves Adequacy: New Metric
(percent)



A forward looking assessment shows some prospects for the build-up of a reserves margin over the medium term. Based on the government's economic program, reserves are projected to rise to levels somewhat above both traditional and new measures of adequacy.

Reserve Adequacy: All Measures
(US$ millions)



[5] The new metric (risk-weighted) is broad-based and comprehensively captures potential sources of balance of payments pressures in both the current and capital accounts, unlike the traditional measures which were somehow ad hoc. See IMF (2011) for detail discussion.

Annex V. Constructing a High-Frequency Economic Growth Indicator for Jamaica[1]

An assessment of the current state of the business cycle is of crucial importance to policy makers. Jamaica publishes quarterly GDP with about a quarter lag. Accordingly, towards the end of a quarter the latest GDP data-point is about half a year old. This annex presents a simple econometric model that closely approximates GDP over the last decade. Model estimates are used for constructing a monthly indicator of economic activity for Jamaica. The indicator provides information about the pace of economic activity close to real time, typically with a two month lag.

Data constraints complicate the construction of a timely indicator of economic activity. Data inputs for the indicator need to be available on a monthly basis with a sufficiently long time series, released on a timely basis, and have a close relation to GDP. In addition, structural breaks in Jamaica's macroeconomic environment, for example related to Fund programs, decrease the value of using very long time series. More than 35 variables have been used in the analysis.

A parsimonious model including credit, import duties, aluminum prices, and U.S. unemployment describes real GDP growth since 2003 well. The model explains about 76 percent of the variation in real GDP (adjusted R-squared). The explanatory variables are significant at the 1 percent level and have the expected sign. The model specification is:

$$(1)\quad rGDP_t = \alpha + \beta * credit_t + \gamma * import\_duty_t + \delta * alu\_p_t + \varepsilon * us\_unempl_t$$

where $rGDP_t$ is real GDP growth, $credit_t$ is real valuation adjusted credit growth, $import\_duty_t$ is growth in import duties in U.S. dollar terms, alu_p_t are changes in the world market price of aluminum, and us_unempl_t is growth in U.S. unemployment. All variables are in year-on-year terms. The model is estimated through OLS.

The impact of variables in the model is in line with intuition. Credit growth affects GDP through the financing of consumption and investment. We find that real valuation adjusted credit growth is indeed positively related to economic growth in Jamaica. Import duties are a good proxy for imports and duties are available with a shorter time lag than imports themselves.[2] In the regression import duties enter with a negative sign. Higher imports mean a lower contribution of the external sector to growth (outweighing the impact of imports as a proxy for domestic demand). The price of aluminum has a positive relation with economic growth over the last decade. This is surprising given that the mining sector directly contributes little more than 2 percent to GDP. Possible explanations are secondary effects through related manufacturing or that the aluminum price proxies for omitted variables. Indeed, the aluminum price fell by more than 50 percent during the global financial crisis, however, more direct measures of global financial and economic conditions such as the VIX do not

[1] Prepared by Jochen Schmittmann.

[2] Import duties enter in U.S. dollar terms to avoid confounding effects of exchange-rate movements.

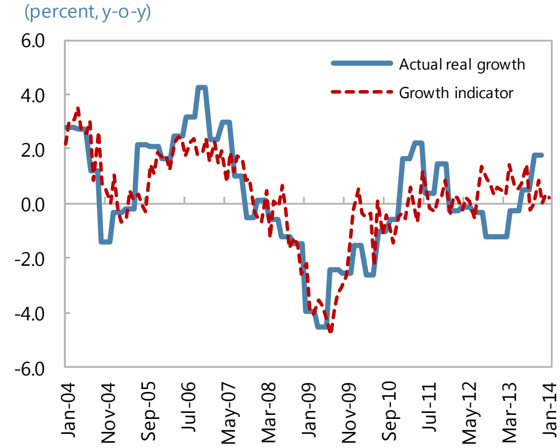
reduce the significance of the aluminum price in the regression. Finally, U.S. unemployment is negatively related to growth in Jamaica. U.S. unemployment reflects the overall health of the U.S. economy to which Jamaica is connected through various channels including trade, remittances, and tourism.

Tourist arrivals do not appear significantly related to GDP growth, presumably reflecting their stability. With more than 2 million tourist arrivals in 2013, Jamaica is the third largest tourist destination in the Caribbean. Directly, hotels and restaurants contributed about 5.5 percent to real GDP in 2012. However, variation in changes in tourist arrivals is almost entirely explained by trend and seasonality. The text figure shows plots of regression residuals from regressing real GDP growth and tourist arrivals on quarter dummy variables. Once seasonality is accounted for there is very little variation in visitor arrival growth rates. As a result the variable contributes little to explaining seasonally-adjusted or y-o-y GDP growth. In contrast to visitor arrivals, U.S. unemployment, which is significantly negatively related to growth in Jamaica, may capture some of the contribution of tourism through the amount spent per visitor.

To obtain the monthly economic activity indicator, the coefficients from equation (1) are applied to monthly y-o-y credit, import duties, aluminum prices, and U.S. unemployment. The use of y-o-y variables as opposed to higher frequency has the advantage of smoothing out some variability. It also allows some lagged effects to be captured.

Over the last 18 months, the model does not describe GDP growth well, in large part due to extraordinary effects related to hurricane Sandy. The hurricane hit Jamaica in October 2012 and led to disruptions particularly in agriculture and mining. Accordingly, the economic growth indicator over-predicts growth in the aftermath of the hurricane and under-predicts the rebound at end-2013. For December 2013, the indicator suggests growth of 0 percent y-o-y, compared to actual growth of 1.8 percent. The low predicted value for December is driven by falling aluminum prices and slowing credit growth. Falling U.S. unemployment counterbalances some of the negative contributions of these variables. The effect of import duties is neutral. The low value of predicted growth may underestimate growth excluding rebound effects from Sandy for several reasons. First, growth dynamics may have changed with the implementation of the Fund

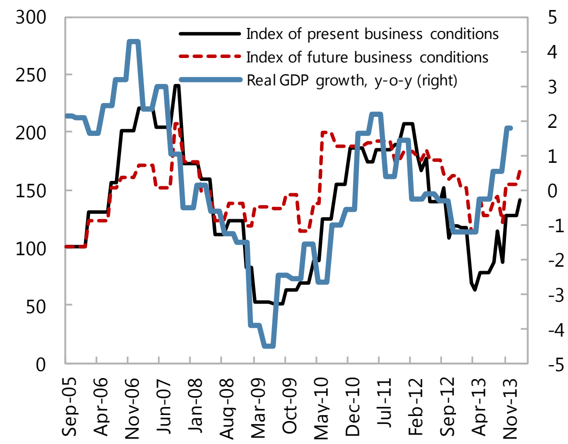
Economic Growth Indicator and Actual GDP Growth
(percent, y-o-y)



program. Second, with the ongoing depreciation the link between import duties and growth may have changed. Third, the BoJ's business conditions survey suggests a sizeable improvement in business sentiment over the last year (next paragraph).

The BoJ's business conditions survey provides a good indicator of GDP growth. The BoJ compiles indices of future and present business conditions. Survey participants are asked whether future/present business conditions are expected to be 'better', 'about the same', 'worse', or 'don't know.' The indices alone explain about 60 percent of the variation in GDP, but do not add additional explanatory power to the model in equation (1). Before 2008 the indices were compiled irregularly, which reduces their usefulness in the model estimation. In addition, the indices are only available with a greater time lag than the variables used in equation (1).

Business Conditions and Real GDP Growth



An overall assessment of growth in Jamaica should rely on a range of indicators. Both the economic growth indicator and the BoJ's business conditions survey are valuable in this context. The economic activity indicator can be further refined as longer time series and new data on activity measures become available.

Appendix I. Letter of Intent

Kingston, Jamaica
June 5, 2014

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

Dear Ms. Lagarde,

Jamaica has made a strong start in implementing its Fund-supported economic reform programme aimed at overcoming the long-standing problems of low growth and high debt. All quantitative fiscal and monetary performance criteria at end-June, September and December 2013 and at end-March 2014 were met, as were the associated indicative targets, with the exception of the end-March 2014 indicative target on tax collection, that remained out of reach as a result of the weak economy. The government has also implemented all of the structural benchmarks that were included in the programme, albeit with some minor delays. While economic growth remains weak and unemployment much too high, we are confident that the benefits of our strategy will become increasingly evident over time, as a more stable macroeconomic environment, a credible return to debt sustainability and an improved business climate will attract new investments and result in durable job creation and increased prosperity.

The Government remains fully committed to meeting the objectives of the programme, as well as the specific targets set out in the April 2013 Memorandum of Economic and Financial Policies (MEFP), and its September 2013, December 2013, and March 2014 supplements. In the fiscal area, the government will press ahead with implementing comprehensive tax reform and the enhanced fiscal rule, and adopt a range of measures to strengthen public financial management. In the financial sector, the government is moving forward with reforms to facilitate the transition by securities dealers towards a more robust business model.

Attachment I to this letter is a new comprehensive MEFP, presenting performance under the programme, and updating some specific policies to meet the programme's ultimate objectives, including the associated quantitative targets and structural benchmarks. Attachment II is the updated Technical Memorandum of Understanding.

On the basis of our performance under the programme thus far, as well as our sincere commitment to the continued implementation of the programme, including its proposed revisions, the government requests that the Executive Board of the IMF complete the fourth review of the extended arrangement under the Extended Fund Facility, approve the proposed modifications of performance criteria as well as new performance criteria for March 2015, and approve the fifth purchase under the arrangement of SDR 45.95 million. In this context, we request that this 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 to complete programme reviews and monitor performance on a timely basis. The government will observe the standard performance criteria against imposing or intensifying exchange restrictions, introducing or modifying multiple currency practices, concluding bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement and imposing or intensifying import restrictions for balance of payments reasons.

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

Very truly yours,

/s/

Peter D. Phillips,
Minister of Finance and Planning
Jamaica

/s/

Brian Wynter
Governor, Bank of Jamaica
Jamaica

Attachment I. Memorandum of Economic and Financial Policies

PROGRAMME OBJECTIVES AND GROWTH STRATEGY

1. **The Jamaican government has embarked on a comprehensive reform programme aimed at raising economic growth**. The programme is underpinned by the understanding that fiscal and debt sustainability are necessary conditions for macroeconomic stability and economic growth. A sharp reduction in the debt burden will be conducive to higher private sector-led growth as the government frees more of the available domestic resources and as economic confidence is bolstered. In addition, in this environment, government spending can be directed toward the catalytic development of infrastructure to support growth. The programme also includes key measures to improve the business climate and is supported by major strategic investments, such as the North-South highway, which will link the northern and southern sides of the island, new power plants, and logistics infrastructure. The programme aims at raising GDP growth to more than 2 percent by FY 2016/17.

2. **To help soften any negative impact on the poor, the programme includes important measures to strengthen the social safety net.** 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 to enhancing those social programmes that are well targeted and far-reaching.

3. **Broad agreement on the need to reform the economy is critical for the success of the programme**. The programme continues to benefit from the support of the Partnership for Jamaica Agreement, and from the active involvement of private stakeholders such as through the Economic Programme Oversight Committee (EPOC).

4. **While significant progress has been made in the first year of the programme, much remains to be done.** Importantly, debt has now firmly been put on a downward trajectory: debt-to-GDP declined from 147 percent of GDP in March 2013 to 140 percent of GDP by March 2014. Key reforms that were adopted in the first year of the programme include the December 2013 tax incentive legislation, and the adoption of a fiscal rule in March 2014. Major reforms to be taken forward in the second year of the programme include public sector transformation, public pension reform, reform of the securities dealers sector, and streamlining of the process for construction permits, while also maintaining a prudent fiscal stance.

5. **On May 1, 2013 the Fund's Executive Board approved a four-year extended arrangement under the EFF in support of Jamaica's economic reform programme.** The First Review of the program was completed on September 30, 2013, the Second Review on December 18, 2013, and the Third Review on March 19, 2014. Program reviews will continue to be conducted on a quarterly basis.

RECENT ECONOMIC DEVELOPMENTS

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

- **Economic Growth.** Real GDP is estimated to have increased by 0.9 percent in FY2013/14, with growth in the January to March quarter estimated at 1.6 percent, supported by growth in tourism, mining and agriculture.
- **Inflation.** Consumer price inflation decreased to 7.6 percent (year-on-year) in April 2014, reflecting increased administered prices and the pass-through of nominal depreciation into domestic prices.
- **Balance of Payments.** The current account deficit is now estimated at 9.5 percent of GDP in 2013/14, down from 11.5 percent in 2012/13, supported by nominal exchange rate depreciation and fiscal consolidation. Net international reserves (NIR) increased to US$1,309.75 million (at programme exchange rates) by end-March 2014, in compliance with the programme's NIR target. As of end-May, reserves amounted to US$1,166.79 million.
- **Public Finances.** Fiscal performance in FY 2013/14 was broadly satisfactory. Tax revenues were weaker than budgeted by about 4.8 percent due to lower international trade taxes and PAYE receipts. However, higher than budgeted grant receipts and non-tax revenues mitigated the impact of the lower tax collection, reducing the overall revenue shortfall relative to the budget to 2.5 percent. Total expenditures were about 5 percent below the amount budgeted, with capital expenditure and savings on the interest bill contributing most of the containment in spending. The primary balance was slightly over the target while the central government fiscal balance recorded a surplus of J$1 billion instead of the budgeted deficit of J$8 billion due to lower interest payments. The overall balance of the public sector exceeded target, on account of a stronger performance of public bodies as a group, despite uneven performance across the sub-group of "Selected Public Bodies".

PERFORMANCE UNDER THE PROGRAMME

7. Overall policy implementation under the programme remains strong and structural reforms are progressing. All quantitative performance targets and indicative targets for end-March were met, with the exception of the end-March 2014 indicative target for tax collection (Table 1). Structural benchmarks due in the first quarter of calendar year 2014 were also met, albeit that the Banking Services Bill[1], tabled in March, required subsequent and still ongoing fine-tuning in collaboration with Fund staff.. In addition, the elimination of the zero-rating under the GCT for government purchases will commence in July 2014 rather than in April.

[1] Referred to in the previous MEFP as the Omnibus Banking Act.

POLICIES FOR 2014/15 AND BEYOND

8. The government remains fully committed to the reform strategy and the supporting policies outlined in the April 2013 MEFP and its supplements. This new MEFP builds on these and provides a comprehensive overview of our reform programme. The quantitative targets that serve as performance criteria and indicative targets under the programme have been updated and extended through March 2015. These updated targets are presented in Table 1. The structural conditionality under the programme, incorporating several modifications discussed below, is presented in Table 2.

9. A budget for 2014/15 that is consistent with and supports our economic programme was tabled, discussed and approved in April 2014 (*structural benchmark*) and adopted by parliament in May 2014. It envisages a reduction of the wage bill by 0.6 percentage point of GDP supported by the wage freeze and through attrition and redeployment of tasks, along with an increase in programme outlays reflecting a reclassification of items previously in the capital budget, such as maintenance, along with an allocation to cover the GCT to be levied on government purchases. Additional tax measures include broadening the base for excise duties on alcohol, extending the GCT to the import of services, and additional levies on financial sector entities and services. Furthermore, the threshold of the Personal Income Tax has been raised and customs duties on certain vehicles were reduced to alleviate the tax burden. The budget also provides for speedier tax refunds. After adjusting for the reclassification (0.5 percent of GDP), capital expenditure is projected to remain about constant in percent of GDP. The budget also provides for higher interest payments than in the last four years to settle accrued interest obligations. The primary balance will be maintained at its target of 7.5 percent of GDP and the budget deficit is projected to be 0.4 percent of GDP.

Tax Reforms

10. A blueprint of the key elements of the reform that have been defined thus far was tabled and approved by a sub-committee of parliament in February 2014.

11. Major elements of the reformed tax system are now in effect:

- The **Fiscal Incentives Legislative Instruments** adopted by Parliament in December 2013 have put in place a rule-based regime for limited tax incentives to replace the existing (mostly sectoral) schemes, as described in the December 2013 MEFP supplement.
- The **Minimum Business Tax** initially announced in FY2012/13 was implemented by way of a provisional order starting April 2014. Permanent legislation will be passed by September 2014.
- Under the new **Charities Act,** the government has ceased the granting of waivers to charities other than under the new Act and, effective December 1, 2013, all new applications (organizations/individuals) must be registered under the new regime, in order to be eligible for exemptions granted under the Act. A transitional period of six months has been provided under

the new Charities Act to existing charities to facilitate registration at the end of which, if not registered as per the new regime, these entities would no longer qualify to benefit from requisite exemptions. This transition period ends on June 24, 2014.

- An amendment to the **Customs Act** adopted by parliament in December 2013 simplified the tariff structure and reduced opportunities for misclassification. To reduce tariff dispersion, high rates were substantially reduced, generally converging to a standard maximum rate of 20 percent and subject to CARICOM requirements (while the tariff levied on a number of goods was increased from zero to 5 percent). In addition, while maintaining compliance with the CARICOM tariff regime, import duties on essential inputs for domestic producers are subject to a zero rate. The process to minimize abuse is being strengthened, in consultation with the IDB, through revised and newly established lists of eligible inputs, strong administrative controls and appropriate penalties. The lists presenting such inputs will be subject to parliamentary review. The Government also intends to continue reforming the tariff structure and to promote amendments to the CARICOM regime with the objective of reducing tariff dispersion further.

- A first phase in the **amalgamation of statutory payroll deductions** was completed by finalizing and gazetting the SO3 form in March 2014. Annual return of the SO4 form is to be completed by end-December 2014.

12. Amendments to the GCT Act are to be tabled by June 2014 (structural benchmark). The main objectives of the reform of the General Consumption Tax (GCT) are to broaden the tax base and improve its administration. Key elements, that will be effective as of July 1, 2014, are:

- Broadening the application of GCT and SCT on motor vehicles, including by curtailing the availability of a reduced rate of SCT on selected motor vehicle imports by limiting the CIF value to US$35,000 afforded to pickup trucks used for agricultural activity.
- Elimination of the exempt status of electricity for independent private power producers.
- Startup companies will be allowed to claim GCT refunds for excess credit immediately.
- The zero-rating of government purchases will be eliminated.
- The tax base was broadened as of April 1 2014 by allowing for the payment of GCT on vehicles up to 10 years old, by Provisional Order and the extension of the GCT to imported services other than electricity, business processing, tourist accommodations and imports by the bauxite/alumina subsector. This reform will be made permanent via the amendments to the GCT Act.

13. Important follow-up actions will still be needed as part of the tax reform. In the context of the new tax incentives legislation, an expeditious transition by entities with grandfathered incentives to the new regime will be important for achieving the expected decline in tax expenditures. In this context, the Government will conduct an entity by entity review of all entities with grandfathered incentives and of their regime by end-FY2014/15 (*structural benchmark for*

January 2015), to serve as a basis for discussion to facilitate transition to the new regime by mutual agreement between authorities and entities. Technical assistance for this review has been requested from the IDB. A study on the scope for imposing GCT on petroleum products versus the existing SCT, within the context of no net increase in petroleum taxation has now been completed; its conclusions will inform decisions regarding any adjustment to the existing petroleum tax structure in FY2015/16. Looking ahead, we will assess the need for a further reduction in tax expenditures in the context of the 2015/16 budget on the basis of revenue needs and an assessment of the degree to which the recent reforms will result in a progressive decline in tax expenditures over time, as grandfathered incentives come to an end. Over the medium term, a convergence of personal and corporate income tax rates to a uniform standard headline rate is also envisaged, subject to available fiscal space and the attainment of revenue targets.

14. Property tax reform is envisaged to be ready for implementation by the start of FY2015/16. This will include amendments to the Property Tax Act and the Land Valuation Act to provide for, among other things, the publication of names, valuation numbers, addresses and amounts outstanding of delinquent property owners in the public media, subject to court proceedings, as well as provisions to allow utilization of a wide array of media for the posting of Assessment Notices. Amendments to the Land Valuation Act will also provide for the interim adjustment of land values in periods of no more than two years, to take account of changes in economic conditions and/or change in the use of properties.

15. Reforms to strengthen tax and customs administration are proceeding. Steps to improve tax and customs administration will be guided by the revenue administration action plan prepared in collaboration with the IMF and IDB. In particular, we have recently:

- Initiated discussions with banks to seek reduction in excessive charges for processing tax and customs revenue receipts. More generally, an improved payment regime is expected to be implemented before end-2014.

- Continued to improve JCA and TAJ accounting and financial systems, through the introduction of ACCPAC (Accrual Accounting System) in March 2014 for the JCA. Introduction of this system is expected for June 2014 for the TAJ, in compliance with the Executive Agency Regulatory Framework.

- Started to use RTGS as an alternative channel for payment of duties and taxes on commercial imports. Phase I was implemented January 2013, for travel tax and passenger levy payments. Phase II, to include duties and other taxes, commenced in March 2014. The system is now operational for two banks, and others are expected to be added.

- Established concrete steps to increase electronic filing, based on the amendment to the RAA. In particular, in March 2014, e-filing became mandatory for LTO clients with respect to the GCT and CIT (structural benchmark) and with respect to payroll taxes for employers with more than 20 employees.

16. Next steps to strengthen tax and customs administration include:

- Setting up a modernization programme office in the TAJ before end-September 2014.
- Improving large taxpayer administration through: (i) increasing the number of staff by a further 50 auditors (from March 2014 to March 2015); (ii) increasing the number of (full plus issue) audits completed in the large taxpayers office (LTO) by 100 percent (from FY 2013/14 to FY 2014/15); (iii) achieving 95 percent take up rate of e-filing and e-payment in the LTO (March 2015) (*new structural benchmark, March 2015*). We also aim to write off debts that have been subjected to risk-rated stress tests and consequently categorised as uncollectible in accordance with the Regulations by end-March 2015.
- Enacting additional legislative reforms in tax and customs. Specifically:
  - (i) revise and enact the Revenue Administration Act and the Tax Collection Act to strengthen the powers of Tax Administration Jamaica (TAJ) and Jamaica Customs Agency (JCA) to collect outstanding arrears (including powers to seize and sell taxpayers' property, harmonized penalties and fines where appropriate and mandatory income tax filing for every business), in line with IMF (FAD) TA (July 2014).
  - (ii) enact amendments to the Customs Act to facilitate implementation of ASYCUDA World and trade facilitation (September 2014).
- Automating tax and customs operations by implementing:
  - (i) ASYCUDA World for the Kingston Port as a pilot site (*new structural benchmark for December 2014*),
  - (ii) Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package (*new structural benchmark for February 2015*),
  - (iii) ASYCUDA-World integrated customs software package for the entire country (March 2016), and
  - (iv) GENTAX integrated tax software package for all taxes (April 2016).
- Preparing an estimate of the revenue compliance gap for the GCT by February 2015, to provide a basis for measuring the impact of administrative reforms.
- Establishing the Revenue Appeals Department as a separate, independent entity, with IFC support (October 2014).

A Fiscal Rule

17. A new fiscal rule to enhance fiscal transparency and lock in the gains of fiscal consolidation was adopted by Parliament in March 2014. The relevant existing legislation (in the Financial Administration and Audit (FAA) Act and the Public Bodies Management and Accountability (PBMA) Act was amended to implement the rule. The new fiscal policy framework limits the annual budgeted overall fiscal balance of the public sector excluding the BoJ and commercially-oriented public bodies, to achieve a reduction in public debt to no more than 60 percent of GDP by the end of FY 2025/26. The March 2014 MEFP supplement described the new rule in detail, including its coverage, automatic correction mechanism, escape clause, and compliance regime. The amendments also put into place a binding permanent budget calendar envisaging budget approval prior to the fiscal year, starting with the budget for FY2015/16.

18. Next steps to ensure effective implementation of the fiscal rule include:

- The government will continue its broad public information campaign on the objectives and features of a new fiscal rule.
- As experience is gained under the rules-based framework, consultations with public stakeholders will continue on possible steps for further strengthening the legal foundations of the fiscal rule.
- The classification rules for determining which entities could be deemed commercial and, on that basis, could be excluded from the coverage of the fiscal rule, will be developed in consultation with Fund staff by July 2014.
- The government will develop mechanisms to closely monitor possible fiscal costs and contingencies associated with possible PPPs. In particular, the Ministry of Finance and Planning will develop the capacity to: (i) analyze PPP contracts, which includes the proper identification of direct fiscal impacts and valuation of contingent obligations to ensure consistency with the fiscal rule; (ii) disclose fiscal risks (both explicit and implicit); and (iii) conduct value-for-money analyses.
- Furthermore, the total loan value of all new user-funded PPPs will be capped at 3 percent of GDP on a cumulative basis over the program period (*new continuous structural benchmark*). In case the Office of the Auditor General (OAG) has established that a PPP involves only minimal fiscal contingent liabilities (including the absence of debt guarantees, demand or price guarantees or termination clauses that could imply a transfer of liabilities to the government) the project could be exempted from the PPP ceiling.
- The capacity of the (OAG) will be augmented to allow it to provide an independent assessment of the macroeconomic and budget forecasts underpinning the budget, as well as the quality of adjustment measures and the proper treatment of PPPs. Additional resources will be provided to the OAG so that it can recruit additional experts in public finance and macroeconomics. Relatedly, the OAG's statutory autonomy, including financial autonomy, will be strengthened.
- The government will also consider legal options for strengthening the sanctions regime to enhance the credibility of the fiscal rules. Possible avenues include clarifying the legal possibility of the non-renewal or dismissal of public officials for non-compliance; strengthening the oversight role of Parliament in reviewing Ministerial actions on recommendations by the Attorney General and the Auditor General; reviewing the low cap on money penalties; and aligning the sanctions process for government departments and public bodies for a more equitable (and streamlined) process (by July 2015).
- The government will develop an improved annual risk statement. The government will ensure that, starting with the 2015/16 budget, a comprehensive and clear fiscal risk statement is

presented, covering all significant contingent liabilities including those related to commercial public sector entities and PPPs. Technical assistance has been requested from the IDB/IMF to support this effort.

Reforms to Public Financial Management and the Budget Process

19. The government is implementing its updated action plan for public financial management reform, in collaboration with its development partners. In this context:

- The central treasury management system (CTMS), which has been established ahead of schedule (end-March 2014 structural benchmark), will be strengthened by including modules for the tracking of expenditures that will be effective by June 2014.
- The Accountant General's Department (AGD) is the Treasurer of the single treasury account and the process for transitioning of the AGD into a modern treasury department by March 2016 commenced in April 2013 with a consultancy to develop a strategy to guide the transition.
- The adjusted Chart of Accounts was first prepared in April 2014 and is undergoing further revisions with a view of its implementation by November 2014.
- The GOJ will strengthen the efficiency and quality of the GOJ procurement process, thereby improving the ease of doing business and reducing costs. The GOJ began publishing a Public Procurement Page in the print media starting in December 2013. Next steps include:
    - A contract for implementing the Electronic Tendering System was awarded in May 2014 and will be implemented in five pilot entities during the financial year 2014/15.
    - The Procurement Act will be tabled by July 2014, with a view to its passing and effectiveness by September 2014.
    - A new procurement manual will be prepared by December 2014, with IDB assistance.

20. In addition, the government has prioritized reforms that are needed to underpin the fiscal rule:

- In line with the improved Public Investment Management System (PIMS), designed with World Bank support, a comprehensive Public Sector Investment Programme (PSIP) was tabled in parliament in April 2014 (*structural benchmark*), as a rolling five-year plan, comprised of Cabinet-approved, prioritized investment projects, to be reviewed on a regular basis. The improved PIMS will be supported by a high-level Public Investment Management Committee that will be in place by August 2014 and the creation of a web-based public investment management information system, Phase 1 of which will become operational in July 2014. A PSIP policy paper will be before Cabinet by the end of September 2014.
- Key elements of a government work plan to strengthen budget preparation include: (i) a budget call for early and accurate budget envelopes and priorities that will be issued by September 2014, and (ii) strengthening the policy to limit the use of virements (authorizing the transfer of funds within the budget) and of ex-post regularization of unbudgeted spending through

supplementary budgets, to be completed and approved by July 2014. A further priority will be to strengthen the development of realistic budget apportionment plans.

- The government has also prepared a workplan to strengthen procedures for budget execution and cash management. In order to improve the Commitment Planning and Control system in central government, an automated Purchase Order Module was added to the FinMan PFM system. In addition the Commitment Planning and Control Module were activated. The Upgraded Commitment Control System and the Purchase Order Module has now been developed and tested and was piloted in the Ministry of Finance and Planning in January 2014. Effective April 1, 2104, the new system was implemented in all MDAs.
- An IFMIS will be introduced during 2016/17, and replace the FinMan PFM system.
- Improving the revenue forecasting to avoid continuous deficit bias will be a policy priority. For this purpose, we have requested technical assistance, with funding from CIDA.
- Improving cash management is a priority and technical assistance will support reforms in these areas through: a) improving cash flow forecasting techniques to develop reliable forecasts of cash flows and more timely monitoring through the Treasury Single Account (TSA) system; and b) enhancing the TSA in terms of coverage and procedures.

Debt Reduction

21. The government is committed to sharply reducing public debt, which is projected to decline to 96 percent of GDP by March 2020. This is expected to be achieved by sustained fiscal efforts, policies to bolster growth, as well as additional measures such as debt–asset swaps and asset sales. For the purpose of the IMF-supported reform programme, reporting on public debt includes government guaranteed debt and PetroCaribe debt (net of its financing to the central government and its holdings of guaranteed debt).

22. The scheduled reduction, in public debt through debt-asset swaps and asset sales and a reduction in guarantees, has progressed in line with the programme. The government has established the legal and administrative processes involved, as well as a workplan for their expeditious completion, to reduce guaranteed debt and other public debt by at least 1.0 percent of GDP by early 2015. In designing these transactions, the government will seek to ensure sound public sector governance. Furthermore, the government remains committed to ensuring that any new debt guarantees will be consistent with the applicable limits under the Public Debt Management Act.

23. The government will further strengthen its debt management strategy. The efficiency of the Debt Management Branch will be further strengthened through increased staffing of the middle office, skills training and effecting improvements to securities operations.

Public Sector Reform

24. The government is committed to improving the efficiency, quality and cost effectiveness of the public sector. A reduction in bureaucracy through public sector transformation is expected to increase the efficiency of government operations, boost the pace of commerce and provide upside potential to growth prospects. We will develop an action plan for public sector transformation by end-September 2014 (*new structural benchmark)*, in close cooperation with our development partners, to cover the following areas: (1) the introduction of shared corporate services, (2) the reallocation, merger, abolition and divestment/privatization of departments and agencies, (3) outsourcing of services, (4) strengthening control systems and accountability (including in auditing and procurement); and (5) aligning remuneration with job requirements. The Fiscal Responsibility Framework and this programme have set a target for reducing the size of the wage bill to 9.0 percent of GDP for FY2015/16.

- **Wages and salaries.** In March 2013, the government signed a wage restraint agreement for the 2012/13-2014/15 period with the major unions, representing 85 percent of public servants. In particular, the agreement entailed foregoing wage increases over the three year period of 2012/13 through 2014/15 except where increases arise from promotions, increments and reclassification exercises agreed prior to the current agreement. This helped to reduce the wage bill from 11.0 percent of GDP in 2012/13 to 10.6 percent of GDP in 2013/14. During the programme period, there will be no new reclassification exercises 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 transformation 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 2013–15 through the elimination of some posts and an attrition programme. Following the permanent removal of 3,000 posts from the Civil Service in September 2012 and the elimination of an additional 3,000 posts in the wider public sector in early 2013, an additional 1,000 positions that became vacant due to natural attrition by end-2013 have not been 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 9.0 percent of GDP by 2015/16 is met, the filling of vacant positions will be constrained as needed.

- The **review of public sector employment and remuneration** to guide the modernization of the modalities and terms of employment has now been completed (*March 2014 structural benchmark*). As fiscal space allows, and while adhering to the 9 percent of GDP wage bill ceiling, it proposed strategies to retain high quality staff in the public sector through competitive compensation and enhancing responsibility, accountability and the working environment.

- To support the management of public sector employment, we are improving the public service databases in **e-Census** and will ensure that it is up to date by September 10, 2014 and covers all Ministries, Departments and Agencies (MDAs) (*new structural benchmark*).

- The **procurement of the human resources software system** (the HCMES system; including Payroll) is progressing and the vendor is expected to be contracted by early November 2014. To ensure a timely start to implementation of the system for the wider public sector, with IDB support, a dedicated project management team will be in place by September 2014 and a project plan will be prepared by December 2014. The start of the implementation of the HCMES/Payroll system for the first entity, eGov Jamaica Ltd, is expected to commence in January 2015. Implementation for the remaining five entities (including TAJ and JCA) in Phase one of the project is expected to commence in February 2015.

25. A White Paper on public pension reform was tabled in parliament in December 2013. The reform has been developed with World Bank support and is aimed at ensuring that the system is sustainable in the long run, with more efficient management of public pensions and improved monitoring arrangements. The policy enunciated in the White Paper will require legislative changes in order for it to become effective. As a consequence the legislative process has been initiated. This will be accompanied by an education programme to sensitize the public sector workers of the proposed changes. There will be a parametric reform with the retention of a Defined Benefits (DB) system with the following changes:

- All workers will contribute 5 percent of their salary towards their pension;
- The accrual rate at which employee's benefits will accumulate in the DB scheme is proposed as follows: (1) all past service will be preserved at a 2.2 percent accrual rate; (2) existing workers 55 years and older will continue to see their pension benefit build up at a rate of 2.2 percent; (3) workers 54 and younger will receive an accrual rate of 2.0 percent; and (4) new employees as of the date of implementation of the reform will have their pension calculated at an accrual rate of 1.8 percent;
- Pension benefits will be computed using an average of the final five years of salary;
- The normal retirement age will be increased from 60 to 65 years, by one year each year starting in April 2016.

Software is being developed to move from the current paper-based system to electronic submission of data on the career history of an employee and the provisions of the revised pension system will be incorporated into a single piece of legislation. The new public sector pension system is expected to be implemented by April 2016 (the start of FY2016/17). The requisite changes in legislation are expected to be tabled by June 2015 (*new structural benchmark*).

26. In the area of public bodies, further improvement is to be achieved. The sector's overall balance is projected to be in balance for the remaining 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 fiscal year; 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.

FINANCIAL SECTOR REFORMS

27. We are taking steps to complete work to mitigate the risks inherent in Jamaica's highly interconnected financial system. To allow for more effective supervision of the financial sector, the government has tabled a Banking Services Bill that harmonizes the prudential standards across deposit takers, facilitates consolidated supervision of financial conglomerates, strengthens the corrective, sanctioning and resolution regime and ensures that the Bank of Jamaica has operational independence for supervision (structural benchmark, March 2014). Passage of the law is envisaged by end-June 2014. Going forward, we will seek Fund technical assistance to develop plans for a comprehensive crisis management and resolution framework for banks and other financial firms, and we will make any necessary amendments to the legislation accordingly by end-December 2014. In addition, the government will amend the Financial Services Commission Act in order to strengthen the Financial Services Commission's enforcement powers, and the BOJ Act in order to vest the BOJ with overall responsibility for financial stability.

28. In December 2013, steps were taken to make less risky business models available to securities dealers. In this context, a timetable was published for raising the cap for CIS on investments in foreign assets from 5 percent of assets to at least 25 percent by end-2015, with a first step to be effective as of July 1, 2014. This cap will be removed altogether by end-2016 unless extraordinary circumstances require a reassessment. Furthermore, during the first half of 2014, the Bank of Jamaica intends to enter into consultations with representatives of regulated entities in the insurance and pensions sectors and the FSC with the aim of establishing the scope and extent to which current limits on permissible investments in foreign assets can be lifted over time. The remaining tax obstacles to CIS, in particular those arising from the stamp duty and the transaction tax, will be removed by end-June 2014.

29. We are implementing measures to protect the interest of retail repo clients. In consultation with Fund staff, we 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. This will entail establishing a Trust to hold the underlying securities on their behalf during the term of the repo. The legal and regulatory framework will comprise (1) the standardized legal documentation for the retail repo transactions, including a master retail repurchase agreement and trust deed; (2) reporting and other regulatory requirements for the securities dealers who are parties to retail repurchase agreements; (3) reporting and other regulatory requirements for the Jamaica Stock Exchange entities that will serve as custodian and trustee with respect to the trust arrangement; and (4) definitive legal treatment for the retail repo client interests in the event of a dealer's insolvency. The Trust arrangement is intended to ensure that funds and securities flow in accordance with the terms of the retail repo agreement, and the Trust will be responsible for the custody of the securities underlying retail repo transactions. It will also facilitate the taking of appropriate actions in the event of a transaction failure or default. A key function of the Trust arrangement will be to ensure that the interests of each retail repo client in the underlying securities are clearly and uniquely identified for the increased protection of the clients, and also to ensure that such securities would be held apart from the dealer's estate in the event of its insolvency. We submitted the legal and regulatory framework to the industry for consultation at end-March 2014 (structural benchmark). The legal and regulatory framework will be in place by end-December 2014 (*revised structural benchmark*).

30. We are also strengthening the securities dealer sector more broadly. We will take steps to ensure the financial and operational readiness of the securities dealers to move to a trust-based operational framework, supported by focused stress testing by the FSC and BOJ that will conclude at end-August 2014. By end-September, we will set up backstop facilities for exceptional financial support for the securities dealers. We will also continue to work on contingency planning to maintain broader financial stability. The transition of retail repos to the new operational framework will be implemented taking into account evolving market conditions and ensuring financial stability.

31. Over the medium term, a gradual tightening of prudential standards in line with best international practice will facilitate fundamental reform of the securities dealers sector. As the first step, the FSC will establish by end-September a minimum transaction size for retail repos. Additional measures could include (i) a gradual tightening of capital adequacy ratios; (ii) a tapering of the intermediation ratio, and (iii) operational and/or regulatory measures that will help to discourage investors from closing down their retail repo positions prior to the contractual maturity. The FSC will also continue to enhance its monitoring and reporting methods for the securities dealers.

MONETARY AND EXCHANGE RATE POLICY

32. Monetary policy remains aimed at achieving single digit inflation within a flexible exchange rate regime. For FY2014/15, the BOJ's forecast for inflation is in the range of 7 percent to 9 percent. Over the medium term, we envisage inflation to come down to a range of 6 percent to 8 percent, while over the longer term, the objective is to achieve a gradual reduction of inflation to a rate that is consistent with that of our main trading partners.

33. The BOJ will continue to respond to liquidity pressures in the financial system. Following the National Debt Exchange (NDX), the implementation of CTMS and the BOJ's open market policies, the financial system faced tighter liquidity. To counter these developments, starting mid-September 2013, the BOJ has been conducting repo operations to inject liquidity into the financial system. Further, in December 2013, the Bank established a Standing Liquidity Facility (SLF) under which deposit taking institutions have automatic access to overnight liquidity from the BOJ. Access to the SLF is by overnight repurchase agreement. In addition, in February 2014, the BOJ introduced Six-Month Repurchase Operations (SMRO) to further alleviate liquidity constraints. Over the course of FY 2014/15, the BOJ will continue to refine its monetary policy operations, including modification to the SLF, in order to provide liquidity with more certainty and at a price consistent with its policy goals.

34. The BOJ is committed to initiating preparations to allow a move towards full-fledged inflation targeting (FFIT) over the medium term. The adoption of FFIT requires strengthened fiscal and external positions and greater financial market development. Consistent with the objectives of the Fund-supported programme, Jamaica is expected to substantially improve its fiscal and external position and reduce its debt from a very high level. In this regard, the BOJ has developed a timetable for establishing the basic requirements for implementing FFIT. This agenda was finalized in January 2014 and key actions include: (i) initiating a communication and education strategy; (ii) strengthening the monetary policy implementation framework; (iii) designing and implementing a strategy for market deepening, particularly the foreign exchange market; and (iv) commencing annual assessments of the necessary pre-conditions for FFIT (such as fiscal and external stability) by March 2015, and (v) improving the governance structure of the BOJ. In this context, amendments to the Bank of Jamaica Act to strengthen the governance and the autonomy of the Bank are currently being considered and a Cabinet decision on the way forward is envisaged by June 2014. This will strengthen the institutional framework for monetary policy.

Growth Enhancing Reforms

35. Actions for improving the business climate are critical and additional steps have been prioritized in light of the imperative of promoting growth :

- The Government has examined the existing process for construction permit approval with a view to reducing the time for issuing construction permits to 90 days. Since the start of the year, considerable success was achieved to clear outstanding requests for permits and to reduce the approval time to within 90 days. The implementation of the AMANDA system will improve the monitoring and approval of construction permits when fully functional.
- The Application Management and Data Automation system (AMANDA) will allow the government to track approval of construction permits across all parish councils in Jamaica and is expected to be implemented with support from the World Bank. Implementation of the system has started in nine parishes, as well as in four agencies (National Works Agency, Mines and Geology Division, Agricultural Land Management Division, and the Environmental Health Unit Kingston), and the system is expected to be implemented in all parish councils by December 2014 (*structural benchmark*) after which the Government will focus on implementing the system in the commenting agencies to make it fully operational. A Concept Paper has been developed to revise and standardize the fee structure for application fees.
- With IDB support, land titling is being expanded under the Land Administration and Management Programme (LAMP). Under this programme, around 3,000 new titles were issued between 2011 and 2013. LAMP is expected to issue another 1,000 new titles during 2014/2015. LAMP will be extending its services to clients in St. Ann, Westmoreland, St. James, Trelawny and Hanover.
- Legislation to create a Secured Interest in Personal Property (SIPP) was passed in parliament in December, 2013. This paved the way for meeting the end-December benchmark on establishing

a central collateral registry. Training of financial sector stakeholders has begun and a public relations and education campaign will support its use.

- Actions toward parliamentary passage of an Insolvency Act are proceeding as planned, with the legislation tabled in parliament in December 2013. The Act is expected to be passed before end-July 2014 and enabling regulations are being prepared by end-July 2014. Training and PR will be supported by the World Bank.
- A multi-purpose registration instrument to streamline the business registration process has been introduced. Furthermore, an on-line system for business registration will be in place by end-February 2015, with IDB support.
- Urgent actions will be taken to reduce the time needed for entrepreneurs to get an electricity connection. These actions will shorten both the time needed for an inspection by the Government Electricity Inspectorate (GEI) and the time for installation by the power company. The government conducted a business process review and will commence implementation of its recommendations. These include the automation of the work processes within the GEI and the acquisition of ICT to streamline procedures for scheduling, inspecting, approving and certifying electrical installations. The contract signature for the acquisition of the application is expected by end-March 2015, with IDB support. In the very near-term, action will be undertaken to increase the availability of inspectors and improve scheduling in order to generate initial improvements.
- Plans to establish a Port Community System (PCS) to electronically integrate and streamline export and import procedures are underway. Bids were received from pre-qualified bidders and have been evaluated. The evaluation process was completed in April 2014 and both bidders were found to be technically and financially responsive. However, the associated transaction fees were prohibitive and would make Jamaica globally uncompetitive; hence approval has been received from the National Contracts Commission for a limited retender utilizing a refined RFP with the two (2) pre-qualified bidders to facilitate more effective alignment of the system capabilities and the competitive needs of the country at this point in time. With the Jamaica Customs acquisition of ASYCUDA World Customs Management System, an independent assessment of both the PCS and ASYCUDA World systems is currently being undertaken and will inform the next critical steps.
- A Special Economic Zone Act is expected to be passed by June 2015 that will ensure compatibility with WTO requirements and based on a Green Paper forthcoming by September 2014, and a White Paper by end-2014.

36. Strategic investments to establish Jamaica as a logistics hub are well underway. The expansion of the Panama Canal which is now expected to be completed in 2016 provides a reordering of maritime traffic in East West trade between the Far East, Europe and the Americas. Jamaica is desirous of taking advantage of this opportunity and is seeking to establish Jamaica as a Logistics Hub. A number of projects to support this initiative are well underway. Work is proceeding on the privatization of both Norman Manley International Airport (NMIA) and the Kingston Container Terminal. The Transaction Structure to guide the privatization process has been developed for NMIA and has been approved by Cabinet. A rate review, which must be completed before bids are made, is expected to be completed by August 2014. In the case of the Kingston Container Terminal, the Request for Proposal (RfP) has been issued to the pre-qualified bidders and is expected to be returned in July 2014, with a provisional preferred bidder expected to be selected in September 2014. Regarding the development of a transhipment port and industrial and commercial zones in the Portland Bight area by China Harbour Engineering Company (CHEC), a Non-Binding Framework Agreement has been signed. CHEC has obtained approval from the National Environment and Planning Agency (NEPA) to commence the technical feasibility study. This is a prerequisite for determining the construction methodology and for obtaining the terms of reference from NEPA. The project will be executed in phases with the first phase projected to be completed in the last quarter of 2016.

37. Reducing the cost of electricity is critical to improve competitiveness. Several projects and initiatives to achieve fuel-source diversification, facilitate energy conservation, liberalize the electricity market and reduce the cost of energy are moving ahead. Electricity costs are targeted to be reduced by at least one-third by 2017. Construction of a new 381 Megawatt Plant is slated to start this fiscal year; completion of this facility in 2016 is expected to reduce the cost of electricity and thereby address a major obstacle to growth. In addition, with World Bank support, we have prepared updates to the Electricity Act that clarify and codify the roles and responsibilities of the main actors in the sector, including the government, the regulator, the utilities and the independent power producers. These are expected to be submitted to parliament by end-September 2014 (*structural benchmark*), and become effective by end-2014.

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

39. The new Agro Parks are contributing to an increase in agricultural production. Seven of these are now in operation, with the remaining two expected to start production during FY2014/15. Establishing better links between the agricultural sector and the tourism industry is an important priority and is actively supported by the Agriculture-Tourism technical working group, which is in the process of establishing concrete targets for linkages.

40. Labour market reforms are progressing. Based on a White Paper that was tabled in September 2013, legislation supporting flexible work arrangements has now been tabled in parliament in March 2014. Based on drafting instructions issued to the Chief Parliamentary Council (CPC), the necessary amendments to legislation will be enacted by September 2014 to remove impediments to the implementation of flexible work arrangements. A public education campaign is planned to promote the use of these arrangements. In the context of the recently launched Comprehensive Labour Market Reform Agenda, a Labour Market Reform Commission will review existing policies and practices in the areas of education and training; productivity, technology and innovation; labour policies and legislation; social protection; and industrial relations. Options to reduce the impact of high separation costs will be considered, and be informed by a recently completed consultant report on payment options for unemployment insurance for Jamaica.

Reform of Social Spending

41. 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.[2] These programmes are funded by GOJ resources only and comprise: conditional cash transfers to children 0–18 years and the elderly; youth employment programme;[3] 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.

42. Efforts to strengthen the social protection framework are progressing. In May 2014 Cabinet adopted a graduation strategy for PATH households. This strategy also covers the strengthening of agency networks and broad institutional strengthening to support the Steps-to-Work programme which is an integral part of the graduation strategy. The field work for the recertification exercise was conducted on 34,000 PATH households, and the analysis was completed in March 2014. Within the context of Effective Social Protection articulated in Vision 2030 Jamaica–National Development Plan, progress continued towards the development of a comprehensive Social Protection Strategy. The draft of this strategy was completed and approved by Cabinet in March 2014.

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

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

Table 1. Jamaica: Quantitative Performance Criteria 1/2/3/

(In billions of Jamaican dollars)

	2013	2014						2015
	End-Dec.	End-Mar.	End-Mar.	End-Mar.	End-Jun.	End-Sep.	End-Dec.	End-Mar.
	Stock	Prog.	Adjusted	Act.	PC	PC	PC	Proposed PC
Fiscal targets								
1. Primary balance of the central government (floor) 4/	...	111.5	111.5	111.7	15.5	37.8	76.0	122.0
2. Tax Revenues (floor) 4/9/	...	357.5	357.5	343.8	80.0	166.0	253.4	384.0
3. Overall balance of the public sector (floor) 4/	...	-7.4	-10.9	1.1	-19.3	-30.2	-37.0	-7.5
4. Central government direct debt (ceiling) 4/5/	1672.0	70.3	70.3	20.4	15.7	23.2	26.5	35.3
5. Central government guaranteed debt (ceiling) 4/	...	-14.0	-14.0	-14.5	4.0	2.7	0.1	-1.8
6. Central government accumulation of domestic arrears (ceiling) 6/12/13/	21.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 7/12/13/	24.6	0.0	0.0	-1.5	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 6/12/	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9. Social spending (floor) 9/10/	...	20.1	20.1	20.7	4.2	8.9	14.8	21.7
Monetary targets								
10. Cumulative change in net international reserves (floor) 8/11/14/	1045.1	194.4	12.0	264.7	265.5	258.6	351.9	529.4
11. Cumulative change in net domestic assets (ceiling) 11/14/	-7.5	-21.4	-21.4	-37.4	-29.1	-24.7	-27.0	-55.1

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Including proposed modified performance criteria for the net international reserves and the net domestic assets.
3/ Based on program exchange rates defined in the March 2014 TMU.
4/ Cumulative flows from April 1 through March 31.
5/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
6/ Includes debt payments, supplies and other committed spending as per contractual obligations.
7/ Includes tax refund arrears as stipulated by law.
8/ In millions of U.S. dollars.
9/ Indicative target.
10/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
11/ Cumulative change from end-December 2013.
12/ Continuous performance criterion.
13/ This accumulation is measured as the change in the stock of arrears relative to the stock at end-March 2013. The latter stock is listed in the column for the stock at end-December 2013.
14/ The end-December 2012 NIR and NDA were US$1138.5 million and J$-9.5 billion respectively.

Table 2. Jamaica: Structural Program Conditionality

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1.a. Government to present to Fund staff a conceptual proposal for the design of a fiscal rule.	August 31, 2013	Met
1.b. Revise the relevant legislation for the adoption of a fiscal rule to ensure a sustainable budgetary balance, to be incorporated in the annual budgets starting with the 2014/15 budget.	March 31, 2014	Met
2. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	Met
3. Cabinet to approve a detailed budget calendar consistent with top-down expenditure ceilings, for the 2014/15 budget.	November 30, 2013	Met
4. Government to ensure there is: (i) no financing of Clarendon Alimina Production (CAP) by the government or any public body, including Petro Caribe; and (ii) no new government guarantee for CAP or use of public assets (other than shares in CAP and assets owned by CAP) as collateral for third-party financing of CAP.	Continuous	Met
5. Government to table in parliament a budget for 2014/15 consistent with the program.	April 30, 2014	Met
6. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17, Country Report No. 13/378).	April 30, 2014	Met
7. Cap the total loan value of all new user-funded PPPs at 3 percent of GDP on a cumulative basis over the program period.	Continuous	Proposed
8. Ensure that the public service database e-census is up to date and covers all Ministries, Departments and Agencies.	September 10, 2014	Proposed
9. Develop an action plan for public sector transformation to cover the following areas: (1) the introduction of shared corporate services, (2) the reallocation, merger, abolition and divestment/privatization of departments and agencies, (3) outsourcing of services, (4) strengthening control systems and accountability (including in auditing and procurement), and (5) aligning remuneration with job requirements.	September 30, 2014	Proposed
10. Table changes in legislation for the new public sector pension system expected to be implemented by April 2016 (MEFP paragraph 25).	June 30, 2015	Proposed
Tax Reform		
11. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as stipulated in the TMU.	Continuous	Met
12. Parliament to adopt amendments to the relevant tax acts to harmonize the tax treatment for charities across tax types and remove ministerial discretion to grant waivers for charities and charitable purposes as described in paragraph 34 of the April 17, 2013 MEFP.	May 31, 2013	Met
13.a. Government to table a Charities Bill in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff.	September 30, 2013	Met
13.b. Government to cease the granting of waivers to charities other than under the Charities Bill.	November 30, 2013	Met
14.a. Government to table Omnibus Tax Incentive Act in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff, to eliminate ministerial discretionary powers to grant or validate any tax relief, and put in place a transparent regime for limited tax incentives.	September 30, 2013	Met with delay
14.b. Government to cease the granting of tax incentives under the regime prior to the Fiscal Incentives Legislation.	December 31, 2013	Met
15. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (paragraphs 6, 7, 8, and 9 of the MEFP for Country Report 13/378) and as stipulated in par. 13 of the March 2014 MEFP.	March 31, 2014	Met
16. Government to table in parliament amendments to the GCT as stipulated in paragraph 12 of the MEFP.	June 30, 2014	
17. Government to conduct an entity by entity review of all grandfathered entities and of their specific tax incentives in the context of the new tax incentives legislation by end-2014/15.	January 31, 2015	

Table 2. Jamaica: Structural Program Conditionality (concluded)

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Tax Administration		
18. Government to make e-filing mandatory for LTO clients with respect to General Consumption Tax (GCT) and Corporate Income Tax (CIT).	March 31, 2014	Met
19. Implement ASYCUDA World for the Kingston Port as a pilot site.	December 31, 2014	Proposed
20. (i) Increase the number of staff by a further 50 auditors (from March 2014 to March 2015); (ii) increase the number of (full plus issue) audits completed in the large taxpayers office (LTO) by 100 percent (from FY 2013/14 to FY 2014/15); (iii) achieve 95 percent take up rate of e-filing and e-payment in the LTO.	March 31, 2015	Proposed
21. Implement Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package.	February 28, 2015	Proposed
Financial sector		
22. Government to Establish and Operate a Central Collateral Registry.	December 31, 2013	Met
23. Government to implement a legal and regulatory framework conducive to Collective Investment Schemes (Paragraph 45 of the MEFP of April 17, 2013) in consultation with Fund staff.	December 31, 2013	Met
24. Government to table legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	Met
25. Government to submit proposals for a distinct treatment for retail repo client interests in the legal and regulatory framework to the relevant financial industry for consultation (MEFP March 2014 Paragraph 25) in consultation with Fund staff.	March 31, 2014	Met
26. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (MEFP Paragraph 29) in consultation with Fund staff.	December 30, 2014	Proposed revision
27. Government to table the Omnibus Banking Law [1/] consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	Tabled in March with subsequent ongoing fine-tuning.
Growth enhancing structural reforms		
28. Government to implement a new (AMANDA) tracking system to track approval of contruction permits across all parish councils.	December 30, 2014	
29. Government to table in parliament the Electricity Act.	September 30, 2014	

1/ Currently referred to as the Banking Services Bill.

Attachment II. Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) sets out the understandings between the Jamaican authorities and the IMF regarding the definitions of quantitative performance criteria and indicative targets for the programme supported by the extended 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 continuous structural benchmark concerning discretionary tax waivers.

For programme purposes, all foreign currency-related assets, liabilities and flows will be evaluated at "programme exchange rates" as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates. The updated programme exchange rates are those that prevailed on December 31, 2013. Accordingly, the exchange rates for the purposes of the programme are show in Table 1.

Table 1. Program Exchange Rates (End-December, 2013)/1	
Jamaican dollar to the US dollar	106.38
Jamaican dollar to the SDR	163.83
Jamaican dollar to the euro	139.97
Jamaican dollar to the Canadian dollar	99.72
Jamaican dollar to the British pound	175.84
1/ Average daily selling rates at the end of December 2013	

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

5. **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.

6. **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.

7. 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.

8. 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

9. 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.

10. Public bodies consist of all self-financed public bodies, including the 17 "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); National Road Operating and Constructing Company Ltd. (NROCC); Petro-Ethanol; Clarendon Aluminum Production (CAP);. "Other Public Bodies" include: 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; 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.

11. 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.

12. 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.

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

14. Adjuster: The floor for the overall public sector balance (cumulative since the beginning of the fiscal year) will be adjusted downward (upward) by an amount equivalent to the shortfall (excess) of PetroJam's overall balance (relative to baseline projections in Table 2), with the value of the adjustment at the end of any quarter capped at J$3.5 billion.

Table 2. Overall Balance of Petrojam (Baseline Projection)

	In billions of Jamaican dollars
End-December 2013	-3.0
End-March 2014	3.3
End-June 2014	2.9
End-September 2014	-3.0
End-December 2014	-2.5

C. Ceiling on the Stock of Central Government Direct Debt

15. 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.

16. 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.

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

18. 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.

19. 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), The target will be adjusted upward by any interest penalties**,** up to J$1,7 billion, associated with a possible liability management operation under which existing debt obligations are retired early with the objective of reducing the eventual debt burden.

D. Ceiling on Net Increase in Central Government Guaranteed Debt

20. 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.

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

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

23. 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

24. 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. This accumulation is measured as the change in the stock of domestic arrears relative to the stock at end-March 2013, which stood at J$21.6 billion.

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

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

F. Non-Accumulation of External Debt Payments Arrears

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

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

29. 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

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

during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

30. 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.

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

32. 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.

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

34. This performance criterion does not cover arrears on trade credits.

35. The performance criterion will apply on a continuous basis.

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

G. Ceiling on Central Government Accumulation of Tax Refund Arrears

37. 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. This accumulation is measured as the change in the stock of tax refund arrears relative to the stock at end-March 2013, which stood at J$24.6 billion.

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

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

H. Floor on the Cumulative Change in Net International Reserves

40. 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.

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

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

43. 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 3. 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 be adjusted upward (downward) by the surplus (shortfall) in disbursements of budget support grants relative to the baseline projection reported in Table 3. NIR targets will also be adjusted upward (downward) by the surplus (shortfall) in IMF budget support purchases relative to the baseline projection reported in Table 3.

Table 3. External Program Disbursements (baseline projection)	
Cumulative flows from the beginning of the fiscal year	(In millions of US$)
External loans from multilateral sources	
End-March 2014	426
End-June 2014	21
End-September 2014	41
End-December 2014	141
End-March 2015	216
Budget support grants	
End-March 2014	67
End-June 2014	24
End-September 2014	33
End-December 2014	57
End-March 2015	75
IMF budget support disbursements	
End-March 2014	0
End-June 2014	70.77
End-September 2014	70.77
End-December 2014	141.54
End-March 2015	141.54

The NIR target will be adjusted upwards (downwards) by the amount by which, at a test date, the cumulative changes from end-December 2013 in BOJ's foreign exchange liabilities to residents with a maturity of less than one year (including banks' foreign currency deposits in BOJ) are higher (lower) than the baseline projection for this change reported in Table 4.

Table 4. Reserve Liabilities Items for NIR Target Purposes	
	(In millions of US$) 1/
BOJ's foreign liabilities to residents	
Outstanding stock	
End-December 2013	282.7
Cumulative change from end-December 2013	
End-March 2014	31.5
End-June 2014	38.2
End-September 2014	44.9
End-December 2014	51.6
End-March 2015	40.0
1/ Converted at the programme exchange rates.	

I. Ceiling on the Cumulative Change in 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, converted into Jamaican dollars at the program exchange rate. 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.

Adjusters: The NDA target will be adjusted downward (upward) for the surplus (shortfall) in programme loan disbursements from multilateral institutions (the IBRD, IDB and CDB) relative to the baseline projection reported in Table 3, converted into Jamaican dollars at the programme exchange rate. The NDA target will be adjusted downward (upward) for the surplus (shortfall) in disbursements of budget support grants relative to the baseline projection reported in Table 3, converted into Jamaican dollars at the programme exchange rate. The NDA target will also be adjusted downward (upward) for the surplus (shortfall) in IMF budget support purchases relative to the baseline projection reported in Table 3, converted into Jamaican dollars at the programme exchange rate. The NDA target will be adjusted downwards (upwards) by the amount by which, at a test date, the cumulative changes from end-December 2013 in BOJ's foreign exchange liabilities to residents with a maturity of less than one year (including banks' foreign currency deposits in BOJ) are higher (lower) than the baseline projection for this change reported in Table 4, converted into Jamaican dollars at the programme exchange rate.

QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

J. Cumulative Floor on Central Government Tax Revenues

46. 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).

47. 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

48. Definition: Social spending is computed as the sum of central government spending on social protection programmes 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.

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

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

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

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

51. 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

52. Under the continuous structural benchmark regarding the application of discretionary tax waivers, the granting of new discretionary waivers is subject to a *de minimis* cap' of J$10 million in any month.

53. For the purpose of this condition, 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.

54. The amounts covered under the cap would exclude tax measures related to international treaties not yet ratified and provisions for CARICOM suspensions which are binding international legal obligations.

CONDITIONALITY ON USER-FUNDED PPPS

55. Under the continuous structural benchmark regarding the total loan value of all new user-funded PPPs, the total value of all such loans contracted after May 1, 2013 will be capped at 3 percent of GDP on a cumulative basis over the program period. At end-June 2014, the total loan value of existing user-funded PPPs contracted after May 1, 2013 was zero.

56. For the purpose of this condition, the loan value of a PPP may be excluded if the Office of the Auditor General has established that the PPP involves only minimal contingent liabilities (by demonstrating that the project has no debt guarantee, demand or price guarantees or termination clauses that could imply a transfer of liabilities to the government).

57. For the purpose of this condition, the applicable GDP is the projected nominal GDP for the fiscal year published in the Fiscal Policy Paper tabled in parliament ahead of the adoption of the budget. For FY2014/15, the projected nominal GDP used as a reference is J$1,617 billion, as presented in Table 2E, Medium-Term Macroeconomic Profile, part II, Macroeconomic Framework, page 11.

INFORMATION REQUIREMENTS

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

Daily

- Net international reserves; nominal exchange rates; interest rates on BOJ repurchase agreements; total currency issued by the BOJ, deposits held by financial institutions at the BOJ; required and excess reserves of the banking sector in local and foreign currency, total liquidity assistance to banks through normal BOJ operations, including overdrafts; overnight interest rates; GOJ bond yields.

- Disbursements from the Financial System Support Fund, by institutions.

- Liquidity assistance to institutions from the BOJ, by institution.

- Bank of Jamaica purchases and sales of foreign currency, by transaction type (surrenders, public sector entities facility and outright purchases or sales including interventions).

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

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

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

Weekly

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

Monthly

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

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

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

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

- Stock of central government expenditure arrears.

- Stock of central government tax refund arrears.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- The balance sheet of the PetroCaribe Development Fund with a lag of no more than six weeks after the closing of each month.

- Data on discretionary waivers, specifying those under the 'de minimis' cap, those under the broader cap and those covered by the exceptions from these caps.

- Data on tax waivers for charities and charitable giving.

- Data on the total loans value of all new user-funded PPPs, specifying the PPPs identified by the Office of the auditor General as involving only minimal contingent liabilities (including the absence of debt guarantees, demand or price guarantees or termination clauses that could imply a transfer of liabilities to the government).

Quarterly

- Holdings of government bonds (J$-denominated and US$-denominated) by holder category. The reporting lag should not exceed four weeks after the closing of each month (this would not be applicable to external and non-financial institutional holdings of GOJ global bonds as this information is not available to GOJ).

- Use of the PetroCaribe Development Fund, including loan portfolio by debtor and allocation of the liquidity funds in reserve within six weeks after month end.
- The stock of public entities non-guaranteed debt.
- Summary balance of payments within three months after quarter end. Revised outturn for the preceding quarters and quarterly projections for the forthcoming year, with a lag of no more than one month following receipt of the outturn for the quarter.
- Gross domestic product growth by sector, in real and nominal terms, including revised outturn for the preceding quarters within three months after quarter end; and projections for the next four quarters, with a lag no more than one month following receipt of the outturn for the quarter.
- Updated set of macroeconomic assumptions and programme indicators for the preceding and forthcoming four quarters within three months of quarter end. Main indicators to be included are: real/nominal GDP, inflation, interest rates, exchange rates, foreign reserves (gross and net), money (base money and M3), credit to the private sector, open market operations and public sector financing (demand and identified financing).
- BOJ's Quarterly Financial Stability Report.
- Quarterly income statement data of deposit taking institutions, as reported to the BOJ within eight weeks of the quarter end.
- Summary review of the securities dealer sector, within eight weeks of quarter end.
- Summary report of the insurance sector (based on current FSC quarterly report), within eight weeks of quarter end.
- Capital adequacy and profitability ratios (against regulatory minima) for DTI's and non-bank financial institutions within eight weeks of quarter end.
- FSC status report detailing compliance (and any remedial measures introduced to address any non compliance) with the agreed guidelines for the operation of client holding accounts at the Jam Clear@ CSD and FSC independent verification of daily reconciliations using data provided by Jam Clear@ CSD. Reports are due within four weeks of end quarter.

Annual

- Financial statements of pension funds within six months of year end.
- Number of public sector workers paid by the consolidated fund by major categories.

INTERNATIONAL MONETARY FUND

JAMAICA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

June 5, 2014

Prepared By

Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of April 30, 2014)

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

General Resources Account:	**SDR Million**	**% Quota**
Quota	273.50	100.00
Fund holdings of currency	794.99	290.67

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	261.64	100.00
Holdings	190.55	72.83

Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
Stand-By Arrangements	298.80	109.25
Extended Arrangements	222.64	81.40

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	May 1, 2013	Apr 30, 2017	615.38	222.64
Stand-By	Feb. 4, 2010	May 3, 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				
	2014	**2015**	**2016**	**2017**	**2018**
Principal	199.19	95.63	3.99	11.40	33.28
Charges/Interest	3.94	3.13	2.62	2.61	2.39
Total	**203.13**	**98.75**	**6.61**	**14.00**	**35.67**

Implementation of HIPC Initiative: Not Applicable

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

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

Exchange Rate Arrangements:

Jamaica's de facto exchange rate regime is classified as "crawl-like", based on a standardized classification methodology, and de jure as floating. 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. At May 16, 2014 it was trading at around J$111.02 to the U.S. dollar. Jamaica has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Last Article IV Consultation and Program Relations:

Jamaica four-year, SDR 615 million (225 percent of quota) Extended Arrangement under the EFF was approved by the IMF Executive Board on May 1 2013, and the first three reviews under the program were completed on schedule. The last Article IV consultation was completed by the Executive Board on May 30, 2012.

A safeguards assessment of the Bank of Jamaica (BoJ) was completed in August 2013, with respect to Jamaica's EFF. The assessment found that the bank has relatively strong safeguards in place, particularly in the financial reporting and audit mechanisms. Annual financial statements continue to be prepared and audited in accordance with international standards and improved Audit Committee oversight is reflected in the development of the internal audit function. While oversight of the bank was bolstered by the filling of Board vacancies during 2012, the assessment found a need to further strengthen governance arrangements at the BoJ including through amendments to certain legal provisions in the BoJ Act. Amendments to the BoJ Act are pending. Consistent with the safeguards assessment recommendations, in December 2013 the government and the BoJ finalized a

[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.

Memorandum of Understanding to clarify the treatment of past BoJ cash losses and to formalize the policy of not distributing unrealized valuation gains to the government. In February 2014, the MOU was amended to recognize plans to settle an outstanding balance relating to prior years and to formalize the policy of not distributing unrealized profits to the government.

Technical Assistance:

Department	Dates	Purpose
CARTAC	May 2014	PFM quarterly review
	April 2014	Non-bank Supervision
FAD	January–February 2014	Revenue Administration
	January 2014	Implementation of a Fiscal Rule
	July 2013	Conceptual Framework for Fiscal Rule
	July 2012	Options for Expenditure Rationalization
	July 2012	Customs and Tax Administration (Risk)
LEG/MCM	June 2013–May 2014	Reforming Retail Repo Business Model of Securities Dealers
	August 2010–May 2014	HQ-based support for Omnibus Banking Bill
	April 2011	Financial Stability Framework
	July 2010	Unlawful financial institutions
	February 2008	Financial sector regulatory and supervisory frameworks
MCM	April 2014	Developing Monetary and FX Operations
	January, March 2013	Banking Supervision and Regulations
	April 2012	Liability Management
	May 2011	Prudential Framework for Security Dealers
	February 2011	Development of Debt Strategy
	October 2010	Debt management
	August 2010	Strengthening capital requirements for securities dealers
	May 2010	Medium-term debt management strategy framework
	March 2010	Strengthening capital and margin requirements
	January 2002	Banking supervision
	April 2001	Banking supervision
STA	October 2013	Consumer/Producer Price Indices
	July, September 2013	National Accounts Statistics
	June 2012	National Accounts Statistics
	October 2011	External Sector Statistics; Government Finance Statistics
	April 2011	SDDS Assessment
	July 2002	Organization of Statistics Office
	September 1996	Multi-sector statistics assessment

Resident Representative: The post of the resident representative was established effective June 1, 2010.

RELATIONS WITH THE WORLD BANK

(As of May 13, 2014)

The World Bank Group Country Partnership Strategy (CPS) for Jamaica was discussed by the World Bank's Board of Executive Directors on April 29, 2014, following extensive consultations with stakeholders. The overarching goal of the CPS is to support Jamaica in creating the conditions for sustainable and inclusive growth over the period 2014-2017. The strategy is fully aligned with the government's National Development Plan 'Vision 2030 Jamaica' and aims to provide selective solution oriented support in three strategic thematic areas: (i) public sector modernization; (ii) enabling environment for private sector growth; and (iii) social and climate resilience. The last strategy focused mostly on attending to the needs of the most vulnerable population including support for the Program of Advancement through Health and Education (PATH) and projects in inner-city communities and laying the foundations for longer term sustainable growth. The Bank considers it important to continue to build on successes in social protection, education, urban security and climate resilience, while sharpening its focus on private sector-led growth and increased competitiveness with the view to unlock Jamaica's growth potential. The IFC will work with the private sector and collaborate with the Bank on the regulatory and private-public partnership issues to strengthen Bank Group synergies in Jamaica and will place special emphasis on PPPs in infrastructure and education. The program will also benefit from strong coordination with other development partners.

A. Projects

The **Jamaica Social Protection Project (SPP)** was approved in May 2008 for US$40 million, with an additional financing of US$40 million approved in January 2014. Recognizing the government's budget constraints the additional financing will continue to provide support to the most vulnerable under a well performing project. 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, supports 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, supports capacity building within the Ministry of Labor and Social Security (MLSS) to implement a new initiative. The StW program targets 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, supports 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 supports 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 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 (ECD)** was approved in May 2008 for US$15 million with additional financing of US$12million approved in February 2014. The additional financing will help to scale up activities under the ECD project while endorsing the objectives of the ECD National Strategic Plan and enhancing the impact of a well performing project. The revised development objectives are to: (i) improve parenting education and support programs; (ii) improve monitoring of children's development, the screening of household level risks, and the risk mitigation and early intervention systems, (iii) enhance the quality of early childhood schools and care facilities; and (iv) strengthen early childhood organizations and institutions. The first component is co-financing the implementation of activities under the seven action areas of the National Strategic Plan (NSP) through a Sector-Wide Approach. The second component finances selected consultant services critical to achieve the development objectives of the NSP. 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 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 as well as the development and implementation of the child health passport to be used in 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, which is contributing to the implementation of the government's ESTP by making operational the key agencies to form a coherent system to monitor progress and improve accountability and quality. The NEI and JTC are staffed and operational. The second component will develop 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 is supporting 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 **Energy Security and Efficiency Enhancement Project** was approved in March 2011 for US$15 million. The government has requested the World Bank Group support to implement its new Energy Policy and Strategy, in particular to: (a) develop and implement renewable energy and energy efficiency programs to displace imported fossil fuels and reduce fuel imports; (b) develop the use of natural gas (LNG), a lower-cost and cleaner fuel alternative; and (c) accelerate the replacement of old plants through strengthening the capacity for regulation, planning and development/oversight of Public/Private Partnerships (PPPs) of (i) the Ministry of Energy and Mining; (ii) the Office of the Utility Regulator (OUR), and (iii) the institutions responsible for implementing the Energy Efficiency (EE) and Renewable Energy (RE) policy such as the Center of Excellence, a division within the Petroleum Corporation of Jamaica (PCJ). 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 project is expected to assist in improving Jamaica's competitiveness.

The **Jamaica Integrated Community Development Project** was approved in March 2014 for US$42 million. The development objective is to enhance access to basic urban infrastructure and services, and contribute towards increased community safety in selected economically vulnerable and socially volatile inner city communities of Jamaica. The project will finance four components over six years. This includes: Component 1: Basic Infrastructure and Access to Services, which will develop infrastructure investments across project communities according to identified community priorities. Component 2: Public Safety Enhancement and Alternative Livelihoods, which will focus on supporting the development and roll-out of programs that focus on key safety concerns and high risk groups. Component 3: Institutional Strengthening for Urban Management and Public Safety, which will support institutional strengthening activities related to urban management. Component 4: Project Administration which will support program management.

The Economic Stabilization and Foundations for Growth **Development Policy Loan** was approved on December 12, 2013, in the amount of US$130 million to assist the Government of Jamaica in implementing a set of policy actions and institutional reforms to increase competitiveness and improve fiscal management. This operation is the first of three planned budget support operations under the CPS and supports policy actions in the following areas: (i) improving investment climate and increasing competitiveness by undertaking reforms to mitigate constraints faced by the private sector and (ii) improving public financial management to sustain the government's fiscal consolidation efforts.

The Bank is currently working with the government to prepare four investment projects totaling US$145 million which are scheduled for Board approval in FY15. The projects will cover: public sector transformation, youth employment in digital and creative industries, competiveness and growth and disaster vulnerability reduction.

IFC supported investments has a current portfolio of US$262 million with a focus on infrastructure, access to finance, growth sectors and education. The introduction of local currency instruments of an authorized amount of up to US$500 million will further leverage IFC resource mobilization capacity.

B. Advisory Services and Trust Funds

In addition to the aforementioned projects, the Bank also provides technical assistance and grant funding to Jamaica. Currently, grants and trust funds under implementation approximate US$12.2 million. Technical assistance initiatives include, among others, support to debt management and budget reforms, support to entrepreneurship, strengthening PPP capacity, tackling youth unemployment through creative industries and support to gender and poverty initiatives.

IFC advisory services have been increasing and are focused on access to finance, investment climate, PPPs and value chain support in the food sector. IFC is now advising on the privatization of selected Government assets; institutional strengthening of a microfinance institution and increasing its operational efficiency; and Credit Bureau legislation as part of a regional harmonization plan. Support to the microfinance institutions is expected to lead these institutions to better adapt loan products to the local market and increase average loan size by 45 percent and IFC is pursuing other such opportunities. MIGA currently has a net exposure of US$56.5 million and provides guarantee for an infrastructure project. MIGA will continue to encourage private sector development and facilitate inward foreign direct investment.

C. Economic and Sector Work

Between FY2012–FY14, the following knowledge products have been delivered to the Government of Jamaica and have formed the analytical underpinnings of Bank operations:

- **Managing Nurse Migration II**, which reviewed relevant obligations under existing international legal agreements which led to identifying a non-legally binding Memorandum of Understanding as the instrument that could provide the supporting framework for regional action in all of the priority policy areas.

- **Non-Communicable Disease**, which provided detailed recommendations to improve NCD and Human Resources for Health (HRH) policies. The Bank and the Government jointly organized a regional workshop on the NCDs prior to the UN High Level Meeting on NCDs, which helped Jamaica and other Caribbean countries to further form their positions on NCDs.

- **Employment Growth Effects of Investment**, which studied the employment multiplier effects of investment decisions.

- **Impact of Economic Crisis on Health Spending**, which assessed the effects of the economic contraction in Jamaica due to the global economic crisis on health expenditure.

- **A Framework to Assess the Fiscal Risk of Public Bodies,** which outlines a framework for assessing the macroeconomic significance of fiscal risks on the operation of selected public bodies (PBs) in Jamaica.

D. Financial Relations

Project Lending[1] (Status as of May 2014)

(In millions of U.S. dollars)

Project	Original Amount	Total Disbursed	Undisbursed Balance
JM 1st Prog DPL	130	130	0
JM Early Childhood Development Project	27	14.4	12.6
JM Education Transformation Capacity Building	16	12.4	3.6
JM Energy Security & Efficiency Enhancement	15	5.3	9.7
JM Integrated Community Development Project	42	0	42
JM Rural Economic Development Initiative	15	6.3	8.7
JM Social Protection Project	80	38	42
Total	325	206.4	118.6

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

Disbursements and Debt Service (Fiscal Year Ending June 30)

(In millions of US dollars)

	Actual											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Total disbursements	85	11.3	8.5	21.7	17.3	16	118.7	222	22.2	129.9	20.4	145.3
Repayments	44.9	47.4	43.4	39.7	45.8	47.9	48.4	46.7	36.2	35.8	35.6	37.2
Net disbursements	40.1	-36.1	-34.9	-17.9	-28.5	-31.9	70.3	175.3	-14	94.1	-15.1	108.1
Interest and fees	21.9	18.9	17.5	20.5	22.4	21.6	16.6	13.2	10.9	11	11.3	8.48

*Data as of April, 2014

Actual and Projected Disbursement* (Fiscal Year Ending June 30)

Financial Years 2014–2016, US$

FY14 Actual	FY15	FY16
141,837,182	37,548,000	37,460,000

*Note: For FY15 and 16, the estimates reflect planned investment project disbursement as at April 30, 2014. They do not include planned budget support, which is currently estimated at $75million for FY15 and $ 55 million for FY16.

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

Jamaica joined the Inter-American Development Bank (IDB) in 1969. Since then, the IDB has approved 116 loans to Jamaica amounting to almost US$3 billion and 220 technical cooperation operations totaling US$88.2 million. 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 leading lender to Jamaica among multilateral development partners. As of March 2014, Jamaica’s outstanding debt to the IDB stood at US$1.43 billion, of which US$53.4 million were loans to the private sector. The total represents 17% of public external debt and 41% of multilateral debt (including the IMF).

Starting in 2004 there was a drastic reduction in the fiscal space needed to disburse existing Bank loans. As a result part of the portfolio was cancelled and no new loans were approved between 2004 and 2008. The new administration that took office in 2007 intensified Jamaica's reform program and emphasized a policy of expanding IFI financing for its development program.

This ushered in a new generation of Bank lending to Jamaica. The IDB approved eight new loans for a total of US$405 million for Jamaica in 2008, including a US$200 million loan to increase private bank lending to the real sector; a US$60 million policy based loan for improving public financial management; US$50 million for road rehabilitation; US$30 million for education reform; a US$30 million policy based loan for competitiveness; US$14 million for primary schools; US$11 million for youth at risk; and US$10 million for rebuilding infrastructure damaged by floods.

This upward trend continued in January 2009 when the Bank approved two more loan operations: a US$300 million liquidity program to protect the real sector from lost credit lines; and a US$15 million social safety net program. In September 2009, a US$70 million loan was approved to expand the highway network and a US$25 million for a citizen security and justice program and US$10 million for road improvement.

The Bank provided unprecedented support to the country in 2010 as part of a boarder financial support from multilateral financial institutions in support of the Stand-By Arrangement with the IMF. In February 2010, the Bank approved 3 policy based loans and 1 hybrid PBL/investment loan for a total of US$215 million. The areas of intervention were the same as the previously approved PBLs (public financial management, education and competitiveness) and a PBL focused on human capital protection. During the second half of the year the Bank approved an investment loan to support competitiveness in the agricultural sector US$15.0 million, as well as two phases of a new policy based program totaling US$400 million aimed to support fiscal consolidation.

Because of the macroeconomic deterioration following the stalling of the SBA in 2011, IDB support to Jamaica decreased. The Bank disbursed US$131 million in 2011 and US$69.6 million in 2012. Because of the stabilization of the economy and in support of the Extended Fund Facility with the IMF, the Bank increased its support in 2013, including through budget support.

In 2013, the Bank disbursed US$101.4 million, including US$60 million in budget support in the area of public financial and performance management. Another US$140 million in budget support was approved in the 1st quarter of 2014, supporting the areas of competitiveness and fiscal reform. During 2013, one investment loan for public sector efficiency was approved totaling US$25 million. In addition, one operation is programmed for approval in calendar year 2014 totaling US$20 million, which will support citizen security.

As of December 2013, the Bank's portfolio consisted of 15 investment loans[1] valued at US$452.6 million, and 27 non-reimbursable technical cooperation valued at US$31.6 million. Forty one percent of the IDB loan resources and fifty seven percent of the TC funds have been disbursed, leaving US$278.4 million available for disbursement.

Table 1. Major Ongoing Projects

Project Category	Number	Amount (US$ mn.)	Percent Disbursed
Projects in execution	14	505.8	40.7
Private sector loans (NSG)	1	6.750	0.0
IIC loans	7	20.0	100
TCs in execution	27	31.6	57.7

1/ Approved amount.

Disbursements reached a low point of US$12.5 million in 2005, but have rebounded ever since. They doubled to US$25 million in 2006, and reached US$34 million in 2007. Due in large part to policy-based lending in 2008 and the approval of the liquidity program in 2009, total disbursements rose dramatically to US$144.2 million, and US$151.5 million in those years respectively. The figures for 2010 reflect the above mentioned unprecedented support that implied a positive cash flow of more than US$626.0 million. As such, disbursements leveled somewhat in 2011 to US$131.4 million, 2012 to US$52.3 million and 2013 to US$101.4 million.

[1] Including private sector loan but excluding IIC

Table 2. Net Flow of IDB Convertible Currencies
(US$ million)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014p
a. Loan disbursements *(including PBLs)*	12.8	25.9	34.3	144.2	151.5	626.4	131.4	69.6	101.4	190.0
b. Repayments (principal)	51.2	64.1	83.5	73.8	74.0	69.6	58.3	98.8	98.7	47.8
c. **Net loan flow (a–b)**	**-38.4**	**-38.2**	**-49.2**	**70.4**	**77.5**	**556.8**	**73.1**	**-29.2**	**2.7**	**142.2**
d. Interest and charges	29.8	28.0	27.1	24.0	29.7	23.7	28.6	28.0	26.4	22.0
e. **Net cash flow (c– d) 1/[1]**	**-73.6**	**-70.6**	**-78.1**	**46.4**	**47.8**	**533.1**	**44.5**	**-57.2**	**-23.7**	**120.2**

p/Projected

Country Strategy with Jamaica

The current Country Strategy focuses on supporting efforts to reestablish fiscal sustainability, maintain social stability, and promote private-sector led 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.

Country Systems

In keeping with the agenda to improve and use national systems the Government of Jamaica, with the support of multilateral institutions and bilateral donors has prepared a wide range of studies in different areas, including a joint World Bank and IDB, *Country Financial Accountability Assessment and Country Procurement Assessment Report* (CFAA/CPAR) in 2005, and a Public Expenditure and Financial Accountability Report (PEFA) in May 2007. Following the recommended actions of those reports, the IDB and the Government agreed on the main areas of the local fiduciary systems for financial control and procurement procedures that needed to be strengthened, and the IDB went on to provide resources to finance development and reform activities stemming from the CFAA/CPAR, with non-reimbursable technical cooperation funds. Furthermore, in order to ascertain progress made in recent years and to determine eligibility to audit IDB-funded projects a follow-up assessment of the Office of the Auditor General of Jamaica was undertaken during a mission fielded in the third quarter of 2010.

Since 2007, Jamaica has developed a comprehensive handbook, more concrete regulations defining its public procurement including a procedure for managing contractual disputes, enhanced accessibility of information, separation of the Office of Contractor General and the National Contracts Committee, as well as creating national standard bidding documents. Although the national procurement system conforms to established principles of procurement based on international standards, some outstanding issues remain to be resolved. With the agreement of the Government of Jamaica, the IDB would undertake an update of the latest country assessment of the national procurement system to identify (a) the improvements in the pertinent aspects of the country procurement system, and (b) the readiness to rely on Jamaica's national procurement systems for Bank-financed projects with a view to adoption of procurement country systems. Ideally, this work can be accomplished together with the World Bank. In addition, the IDB PRODEV facility and the PFPM Programmatic PBL will also support the introduction of performance-based budgets and accrual accounting. The Multi-lateral Investment Fund (MIF) will also promote better access by Small and Medium Enterprises (SMEs) to public procurement.

Table 3. Total Projected Debt Service, 2011–2016

(Millions of U.S. dollars equivalent)

	2011	2012	2013	2014	2015	2016
Principal	58.3	98.8	98.7	47.8	63.1	94.2
Interest	28.6	29.3	25.3	22.0	23.5	24.2
Total	**86.9**	**128.1**	**124.1**	**69.8**	**86.6**	**118.4**

STATISTICAL ISSUES

As of May 19, 2014

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance. 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.

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/**

National Accounts: The Statistical Institute of Jamaica (STATIN) provides quarterly and annual data on GDP by type of economic activity and annual data by expenditure and income (both in current and constant prices). GDP by expenditure and income was first published in 2014. STATIN is currently working on quarterly demand-side GDP data and expects to provide this data in 2016. Progress has been made including through updating the base year for the national accounts data in constant price terms from 2003 to 2007, but weaknesses remain, including dated surveys for household expenditure (2004/5). Addressing these shortcomings has been hindered by a lack of resources. Assistance on national accounts methodology has been provided by Statistics Canada and STA.

Price statistics: 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 are based on a household survey conducted in 2004–05. In addition, the STATIN compiles and disseminates the producer price index (PPI) on a monthly basis covering mining and manufacturing industries (base 2005 =100). There are plans to improve the scope of the PPI by covering other industries like agriculture, electricity, gas, services, etc.

Government finance statistics: Budgetary central government operations and public debt data (with the exception of non-guaranteed debt by public entities) are updated on a monthly basis. The demand side of GDP is not available at high frequency, making it difficult to assess the fiscal policy stance. Also, data on operations of public entities outside the consolidated fund (which includes all public bodies that are fully financed through the state budget) are only available with lag of more than a month, making the assessment of the overall balance of the public sector challenging.

Government finance statistics are available at:

Debt: http://www.mof.gov.jm/dmu/

Budget: http://www.mof.gov.jm/programmes/em/fpmu/default.shtml

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 for the most part in a timely manner. 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 have improved substantially, but some gaps remain.

Balance of payments: The BOJ compiles and disseminates balance of payments statistics in national publications on a monthly (only aggregated data) and annual basis. The authorities have started the compilation of balance of payments data on the basis of BPM6.

II. Data Standards and Quality

Participant in the General Data Dissemination System (GDDS) since February 28, 2003.

No data ROSC is available.

III. Reporting to STA (Optional)

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.

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*. Currently, information on deposit money banks and monetary authorities is being reported on a regular basis.

Jamaica: Table of Common Indicators Required for Surveillance
(As of May 30, 2014)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	05/14	05/14	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	03/14	05/14	M	M	M
Reserve/Base Money	03/14	05/14	M	M	M
Broad Money	03/14	05/14	M	M	M
Central Bank Balance Sheet	04/14	05/14	M	M	M
Consolidated Balance Sheet of the Banking System	03/14	05/14	M	M	M
Interest Rates[2]	05/14	05/14	D	D	D
Consumer Price Index	03/14	04/14	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]–Selected Public Bodies[4]	03/14	05/14	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	03/14	05/14	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	03/14	05/14	M	M	M
External Current Account Balance	2013/14Q3	05/14	Q	Q	Q
Exports and Imports of Goods and Services	2013/14Q3	05/14	Q	Q	Q
GDP/GNP	2013Q4	04/14	Q	Q	Q
Gross External Debt	03/14	05/14	M	M	M
International Investment Position	2013Q4	05/14	Q	Q	Q

[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] Selected public bodies are self-financed public entities.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 14/296
FOR IMMEDIATE RELEASE
June 20, 2014

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2014 Article IV Consultation and Fourth Review Under the Extended Fund Facility with Jamaica and Approves US$70.9 Million Disbursement

On June 20, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation and fourth review through the Extended Arrangement under the Extended Fund Facility (EFF) with Jamaica.[1] The completion of the review enables the disbursement of an amount equivalent to SDR 45.95 million (about US$70.9 million) bringing the total disbursements under the arrangement to SDR 268.59 million (about US$414.4 million)

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

In early 2013, the Jamaican authorities adopted a comprehensive economic reform program to tackle the challenges of low growth and high debt head-on. Since then, fiscal policy has been tightened further and extensive structural reforms have been implemented, including wide-ranging tax reform and a fiscal rule anchored on a reduction in public debt to 60 percent of GDP by 2025/26. The authorities also initiated significant reforms in the financial sector, and have allowed the exchange rate to depreciate. In addition, and in view of minimizing the social impact of the reform program, the government has taken steps to strengthen social protection programs, including through the cash transfer program (PATH), a vital component of the social safety net.

Following the Board discussion of the review, Mr. Naoyuki Shinohara, Deputy Managing Director, and Acting Chair made the following statement:

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

“Jamaica’s program implementation under the Extended Fund Facility has been commendable. The achievement of a primary surplus in a short time is impressive. Essential social spending has been safeguarded and steps are being taken to strengthen the social safety net. Continued support by the international community remains crucial as Jamaica is undertaking this difficult adjustment.

“With upfront fiscal adjustment and the steadfast implementation of an ambitious and wide-ranging structural reform agenda, the initial dividends from the reorientation of policies are emerging. The government’s economic strategy aims to boost growth and employment, place public debt on a sustainable path, restore competitiveness, and strengthen the social safety net. Its full implementation will bring about tangible benefits for Jamaica and its people.

The Executive Board also concluded the 2014 Article IV consultation with Jamaica.

A gradual economic recovery appears to be under way. Growth is estimated at 0.9 percent in FY2013/14, as mining, agriculture and tourism picked up. Recorded unemployment remains high, but fell from 16 percent to 13.5 percent (in seasonally adjusted terms) from April 2013 to January 2014. Inflation declined to 7.6 percent (year-on-year) at end-April, as the impact of the ongoing depreciation of the exchange rate was countered by weak domestic demand. These factors also caused a sharp reduction in the current account deficit to 9.5 percent in FY2013/14. Gross international reserves increased to US$2 billion at end-March 2014.

The public sector’s fiscal position was balanced in FY2013/14, following a deficit exceeding 4 percent of GDP in the previous year. This resulted from lower interest costs and an increase in the primary surplus of the central government to 7.5 percent of GDP. The 2014/15 budget aims to maintain this primary surplus. The authorities’ ongoing fiscal consolidation efforts and gains from the early 2013 debt exchange have reduced public sector debt from 147 percent of GDP in March 2013 to 140 percent a year later.

Standard indicators of the soundness of the financial sector remain broadly positive, including the share of non-performing loans and capital-asset ratios. Stress test results from the Bank of Jamaica confirmed that banks largely remained in compliance with capital requirements under a range of shocks. However, the financial system is still heavily exposed to government debt holdings and a decline in the market value of government bonds could have a negative impact on financial institutions’ capital.

The steadfast implementation of planned policies should support a gradual economic recovery. Growth is projected to reach almost 1½ percent in 2014/15, as the negative fiscal impulse comes to an end. The gradual impact of various supply side reforms and rising confidence with implementation of the authorities’ comprehensive reform program are expected to help raise growth to beyond two percent over the medium term. The risks to the outlook remain high, however, and include a possible disruption of external financing flows, natural disasters, lower partner-country growth, and oil price shocks.

Executive Board Assessment[2]

Executive Directors welcomed the emerging signs of economic recovery and the marked improvements in fiscal and external balances. Directors commended the authorities for the impressive implementation of their economic transformation program, notably the ambitious fiscal adjustment. They stressed that steadfast implementation of the economic strategy and sustained broad public support for the reform agenda would be critical to achieving the objectives of growth, employment, and poverty reduction.

Directors noted that downside risks to the outlook remain high, and that the economic and social costs of the adjustment effort have been substantial. Careful sequencing and prioritizing of wide-ranging reforms, with the full support of the international community, will be important. Directors welcomed as critical the steps being taken to safeguard social spending and improve the social safety net to protect the most vulnerable.

Directors commended the authorities for the remarkable front-loaded fiscal consolidation aimed at reducing public debt to sustainable levels. They welcomed in particular the achievement of a primary surplus that is exceptional by international standards, progress on tax reform, and the adoption of a fiscal rule. Directors agreed that efforts should focus on improving tax collection. At the same time, accelerated efforts are needed to reform the public sector and contain the wage bill, address contingent fiscal risks by strengthening the performance of public entities, and improve public financial management to better leverage the growth impact of scarce public investment. Directors also looked forward to progress on strengthening debt management.

Directors supported the overall stance of monetary policy, which aims to balance the multiple objectives of containing inflation, rebuilding reserves, and ensuring sufficient credit to the real economy. They recommended increasing reliance on interest rate channels and expanding the monetary policy toolkit for liquidity management, while maintaining exchange rate flexibility. Directors welcomed the plan to adopt inflation targeting once prior conditions have been met.

Directors welcomed progress in strengthening the banking system, including the adoption of legislation on bank supervision. They encouraged a proactive approach to address remaining vulnerabilities in the financial system, giving priority to reforming the business model of the securities dealers. Further consolidating supervision and enhancing the bank resolution framework are also crucial.

Directors stressed the importance of promoting growth and job creation, by reducing red tape, improving infrastructure, and boosting competitiveness. They welcomed the improvement in price competitiveness resulting from a flexible exchange rate. Reducing the price of electricity and focusing training on critical skills remain important priorities.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://wwww.imf.org/external/np/sec/misc/qualifers.html

Jamaica: Selected Economic Indicators 1/

	2010/11	2011/12	2012/13	Prel. 2013/14	Projections 2014/15	2015/16	2016/17	2017/18
(Annual percent change, unless otherwise indicated)								
GDP and prices								
Real GDP	-0.6	0.9	-0.7	0.9	1.4	1.7	2.3	2.5
Nominal GDP	7.5	7.5	6.1	10.4	9.7	9.7	10.1	9.9
Consumer price index (end of period)	7.8	7.3	9.1	8.3	8.0	7.8	7.5	7.0
Consumer price index (average)	11.4	7.3	7.2	9.4	8.2	7.9	7.7	7.3
Exchange rate (end of period, J$/US$)	85.7	87.3	98.9	109.6	…	…	…	…
Exchange rate (average, J$/US$)	86.4	86.4	91.2	103.9	…	…	…	…
Nominal depreciation (+), end-of-period	-4.2	1.8	13.3	10.8	…	…	…	…
End-of-period REER (appreciation +) (INS)	6.0	4.4	-2.1	-3.4	…	…	…	…
End-of-period REER (appreciation +) (new methodology) 2/	7.0	3.1	-3.4	-4.3	…	…	…	…
Treasury bill rate (end-of-period, percent)	6.6	6.5	6.2	9.1	…	…	…	…
Treasury bill rate (average, percent)	8.2	6.5	6.6	7.1	…	…	…	…
Unemployment rate (percent)	13.1	14.4	16.3	…	…	…	…	…
(In percent of GDP)								
Government operations								
Budgetary revenue	26.8	25.6	25.8	26.9	26.4	26.5	26.6	26.8
Of which: Tax revenue	23.9	23.1	24.0	23.4	23.8	23.9	23.9	24.1
Budgetary expenditure	33.2	32.0	29.9	26.8	26.9	26.5	25.8	25.7
Primary expenditure	22.2	22.4	20.4	19.3	18.9	19.0	19.1	19.8
Of which: Wage bill	10.9	11.1	11.0	10.6	10.0	9.0	9.0	9.0
Interest payments	10.9	9.6	9.5	7.5	8.0	7.5	6.7	5.9
Budget balance	-6.3	-6.4	-4.1	0.1	-0.5	0.0	0.8	1.1
Of which: Central government primary balance	4.6	3.2	5.4	7.6	7.5	7.5	7.5	7.0
Public entities balance	-0.5	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Public sector balance	-6.9	-6.4	-4.2	0.1	-0.5	0.0	0.8	1.1
Public debt 3/	143.5	141.9	146.9	140.2	135.6	130.1	123.9	115.6
External sector								
Current account balance	-9.0	-14.9	-11.5	-9.5	-8.0	-7.0	-6.2	-5.4
Of which: Exports of goods, f.o.b.	10.5	11.6	12.1	11.1	11.5	11.9	12.4	12.3
Imports of goods, f.o.b.	36.5	41.1	40.8	38.7	38.1	37.7	37.3	35.5
Net international reserves (US$ millions)	2,553	1,777	884	1,303	1,594	1,758	1,907	2,067
(Changes in percent of beginning of period broad money)								
Money and credit								
Net foreign assets	23.3	-15.7	-14.7	18.7	12.2	7.9	6.6	6.2
Net domestic assets	-21.6	20.9	28.0	-12.6	-2.3	1.8	3.6	3.7
Of which: Credit to the private sector	0.9	9.0	13.0	8.2	6.6	8.9	10.5	11.0
Credit to the central government	-11.7	9.9	7.4	-5.1	0.5	1.8	1.6	1.5
Broad money	1.7	5.1	13.3	6.1	9.9	9.7	10.1	9.9
Memorandum item:								
Nominal GDP (J$ billions) 4/	1,172	1,260	1,336	1,475	1,618	1,775	1,955	2,149

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/ The new methodology uses trade weights for Jamaica that also incorporate trade in services especially tourism.

3/ Central government direct and guaranteed only, including PetroCaribe debt (net of its financing to the central government) and projected IMF disbursements and other IFIs.

4/ Historical revisions to GDP data has lowered nominal GDP for 2012/13 by 1 percent relative to the April 2013 staff report.

Statement by Thomas Hockin, Executive Director for Jamaica and Trevor Lessard, Advisor to the Executive Director June 20, 2014

We thank the staff for their informative report and continue to value their assistance as Jamaica navigates through its multi-year adjustment program to improve competitiveness, growth, and employment. With the help of external partners and the support of domestic stakeholders, significant reforms have taken place that will pave the way towards strong and sustainable growth. Fundamental tax reform that levels the playing field will assist the economy now and pay dividends for many years to come. To secure the gains of painful fiscal consolidation, comprehensive fiscal rules tailored to the unique characteristics of Jamaica have been enacted, anchored in a medium-term debt target of 60 percent of GDP. Significant tax reform has been undertaken and administration has improved, with additional initiatives being implemented. Structural reforms to boost productivity, encourage job creation, and improve business competitiveness are proceeding apace while strategic investments are underway, along with steadfast debt reduction. These will be the focus of the program going forward.

Fiscal Policy and Debt Sustainability

In order to place public debt on a steeply downward trajectory, the Government of Jamaica (GoJ) has successfully implemented an unprecedented fiscal adjustment in a short time. Starting from a primary balance of approximately 3.2 percent of GDP in 2011/12, the GoJ has successfully raised this surplus to 7.6 percent of GDP in 2013/2014, modestly exceeding the 7.5 percent program target. The budget is expected to post a minuscule deficit in 2014/2015 (0.5 percent), before being balanced in 2015/16 and moving into surplus for the remainder of the decade.

My authorities would like to recognize the important contributions made by several stakeholders in achieving this massive shift in the fiscal position of the GoJ. A comprehensive wage agreement with public sector employees has been a critical ingredient in the shift to fiscal sustainability. The financial sector agreed to a debt exchange, the NDX, which provided important interest payment relief and fiscal space for the Government to implement its reform program. Finally, despite partial mitigation resulting from the GoJ commitment to maintain the real value of social spending for the next three years, Jamaicans have endured a period of austerity as part of a collective effort to move the economy on to a new growth path.

My authorities are appreciative of the Fund’s willingness to change the profile of the next two disbursements to direct budget support. As the staff report indicates, the timing of cash flows for the first half of the fiscal year, along with continued temporary illiquidity in the domestic bond market for Government securities, has created some timing issues. Shifting the form of Fund assistance for the next two disbursements will help avoid the GoJ entering frozen domestic markets where appetite for Government debt instruments is currently limited. We see the Fund's willingness to provide budget support as a vote of confidence for the program and are hopeful it will be catalytic, inspiring further confidence in domestic stakeholders and other international partners.

With regard to debt sustainability, under staff's baseline scenario public debt in Jamaica is expected to be 99.3 percent by 2019/20, down from 146.9 percent in 2012, effectively reducing the public debt-to-GDP ratio by more than 50 percent of GDP within 7 years. Indeed, there is reason to be cautiously optimistic that in 2019 the debt ratio will in fact be lower than currently forecast. An acceleration in global growth, especially in the US, and better than anticipated dividends from the GoJ's reform agenda could materially affect the medium-term forecast. Moreover, due to the idiosyncrasies of the DSA, it should be noted that the primary balance in the DSA baseline is 0.5 percent less than in the macroeconomic framework for the years 2014-2019, inclusive. This cumulative difference of 3 percent of GDP, plus savings from foregone financing costs, would have a non-negligible effect on the debt-to-GDP level in 2020.

External competitiveness

The Bank of Jamaica (BoJ) remains committed to price stability, increasingly anchored on lower inflation expectations, and a flexible exchange rate regime that reflects underlying fundamentals. The BoJ is also committed to gradually rebuilding NIR, essential for building confidence, while limiting its interventions in the market to smoothing excessive volatility that inevitably arises from the bunching of demand for FX within a shallow market.

The BoJ agrees with staff that substantial improvement in the price competitiveness of the Jamaican economy has been achieved over the last year as the exchange has moved in line with market fundamentals. As a result, BoJ analysis indicates that the exchange rate is much closer to equilibrium than the staff's assessment (3-15 percent overvaluation) would suggest. As staff alludes to in Annex III, the econometrically derived equilibrium real exchange rate (ERER) is purely backward looking and is poorly suited to providing an accurate assessment of the exchange rate during times of significant policy and exchange rate adjustment. Excluding the ERER method, staff's assessment shows an exchange rate that is close to equilibrium, especially considering the substantial variability inherent in these assessments. Going forward, future movements in the nominal exchange rate are likely to be driven by macroeconomic and trade relevant variables, such as the inflation differential between Jamaica and its major trading partners, and the success of policies to raise productivity and remove obstacles to investment.

Financial Sector

My authorities feel that it is important that stakeholders not underestimate the complexity and risks involved with the fundamental reform of the financial system that is envisioned under the program. In the past, the financial system has, by necessity of the fiscal stance, focused too much on allocating resources to the public sector. Going forward, with a much improved fiscal position, efforts are being made to shift financing towards productive, growth enhancing investment. The establishment of two credit bureaus and the creation of a central credit registry, along with other transformative measures, should assist in the growth of the private sector credit market.

My authorities are unwavering in their commitment to this reform since it will bolster stability in the system and facilitate much needed credit flow to the real economy, but they are cognizant that such sweeping reforms are not riskless and it is absolutely essential to carefully sequence the reform process. Reforming the business model of securities dealers is an example where careful sequencing will be critical to avoiding potential risks to financial stability and market conditions, particularly for GoJ securities. Following the introduction of a viable alternative business model for securities dealers through the availability of collective investment schemes (CIS), the Government will introduce, in a gradual fashion, new legal and regulatory frameworks for this sector by the end of 2014.

As mentioned in our last statement, the BoJ continues to operate in a complex environment as it seeks to balance the multiple goals of maintaining price stability, managing bank liquidity and rebuilding NIR. Consequently, it has been gradually expanding its toolkit. The creation of a standing liquidity window for banks and the expansion of repo instruments are recent actions by the BoJ to respond to the liquidity demands of the system. The BoJ will continue to gradually enhance and expand its toolkit to respond to liquidity pressures and prepare for the eventual transition to a full-fledged inflation targeting regime over the medium term.

Boosting Growth and Competitiveness

The implementation of the growth agenda is critical to the long-term success of Jamaica. My authorities largely agree with staff that there are key supply side impediments that need to be overcome in order for Jamaica to experience robust growth. In the first year of the program, of necessity, there was a focus on restoring stability and avoiding a serious economic and financial downturn. Going forward, the emphasis will be placed on addressing the main impediments to growth as the authorities focus on reducing electricity costs, eliminating bureaucratic red tape, improving infrastructure, and increasing tax compliance. The reality is that none of these obstacles will be removed overnight, but my authorities understand the importance and benefits of tackling these challenges quickly.

To assist the private sector in spurring growth and creating jobs, my authorities continue to work on transforming the public sector to make it more efficient, nimble, and client driven. Although many initiatives have been ongoing for some time, a detailed action plan for public sector transformation will be completed by end-September 2014. The action plan will focus on gaining efficiencies through shared corporate services; optimize the size, number and structure of departments and agencies; improve control and accountability systems within government; explore avenues to outsource services that can be more effectively delivered by expert providers; and ensure that pay in the public sector is better aligned with job requirements and responsibilities.

Conclusion

More than a year into the authorities' Fund supported program, Jamaica is in a better place than it was 12 months ago. Nevertheless, the authorities are not complacent and are well aware of the necessity to continue to pursue reforms that will move Jamaica from stability to growth.