INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/270

JAMAICA

September 2015

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

In the context of the Ninth Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 23, 2015, following discussions that ended on August 12–21, 2015, 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 September 8, 2015.
- 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 IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 15/434
FOR IMMEDIATE RELEASE
September 23, 2015

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

IMF Executive Board Completes Ninth Review Under the IMF's Extended Fund Facility Arrangement for Jamaica and Approves US$39.7 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the ninth review of Jamaica's economic performance under the program supported by a four-year, SDR 615.38 million (about US$932.3 million at the time of approval) arrangement under the Extended Fund Facility (EFF).

The completion of the review enables an immediate purchase of an amount equivalent to SDR 28.32 million (about US$39.7 million). The EFF arrangement was approved on May 1, 2013 (see Press Release 13/150).

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

"The authorities remain firmly commited to the economic program supported by the Extended Fund Facility. Program performance is on track and structural reforms have progressed broadly on schedule.

"Macroeconomic fundamentals continue to strengthen. Inflation is at a historical low and the current account is improving, aided by declining oil prices. The recent upgrade in the credit ratings followed by the large international bond placement signaled improved investor confidence in Jamaica's reform program. But growth remains weak and unemployment needs to decrease further. Sustained efforts in structural reforms, including by reducing energy costs, improving the business environment, and developing critical infrastructure, should help boost investment and growth.

“The recent Petrocaribe debt buyback has lowered the ratio of public debt to GDP, which the ongoing fiscal consolidation should maintain firmly on a downward path. Nonetheless, it is essential to move forward with public sector reforms, including as regards public financial management, to improve the efficiency of government services. It is also important to continue strengthening fiscal revenue by reforming customs and tax administration and broadening the tax base.

“Recent steps to loosen the monetary stance should support credit creation, while maintaining price stability. The completion of the transition of the retail repo contracts to a trust-based framework represents a milestone in buttressing financial sector stability.”

JAMAICA

September 8, 2015

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

EXECUTIVE SUMMARY

Macroeconomic indicators are improving, but growth remains sluggish. Growth has been revised down to 1.4 percent for FY2015/16 as drought continues to impede agricultural growth for a second year in a row. Inflation is projected to be 4½ percent this fiscal year, tempered by low global oil prices. The government's proactive liability management operation to buyback the debt owed to Venezuela's PDVSA has lowered debt; the ongoing fiscal effort should ensure it remains firmly on a downward trajectory.

The program is on track. All the quantitative performance criteria were met and structural reforms are broadly on schedule. The transition of the retail repo contracts to a trust-based framework has been completed (structural benchmark for end-August). Based on continued strong program implementation and the authorities' policy commitments, staff recommends completion of the ninth review.

Topics of the review. Discussions focused on boosting economic growth and job creation, achieving the goals of the 2015/16 budget, and reforming the financial sector. A new public-sector wage agreement is under negotiation, and an agreement has been signed with two of the major trade unions that represent the majority of public sector employees. Efforts are being made to improve revenue administration and public financial management. There is some scope to further ease monetary policy given weak growth and subdued inflation.

Risks to the program remain high. Notwithstanding the authorities' demonstrated resolve in implementing the program, more tangible signs of improvements in growth and job creation will be important to sustain the social consensus needed to continue on the reform trajectory. Revenue shortfalls or the inability to contain the government wage bill could undermine the fiscal position. An eventual reopening of the domestic bond market may prompt an upward shift in the yield curve and undermine financial sector stability. The run up to elections, which should be held before end-2016, could also potentially delay progress on program implementation and reform momentum.

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

Discussions took place in Kingston during August 12–21, 2015. Staff representatives comprised N. Che, U. Ramakrishnan (mission chief), D. Simard, and J. Wong (all WHD), C. Lonkeng Ngouana (FAD), R. Garcia-Verdu (SPR), and B. van Selm (Resident Representative). They were assisted at headquarters by E. Kapijimpanga, E. Moreno, and F. Strodel, at the Resident Representative office by K. Tyrell and K. Jones. Mr. Lessard (OED) participated in the discussions.

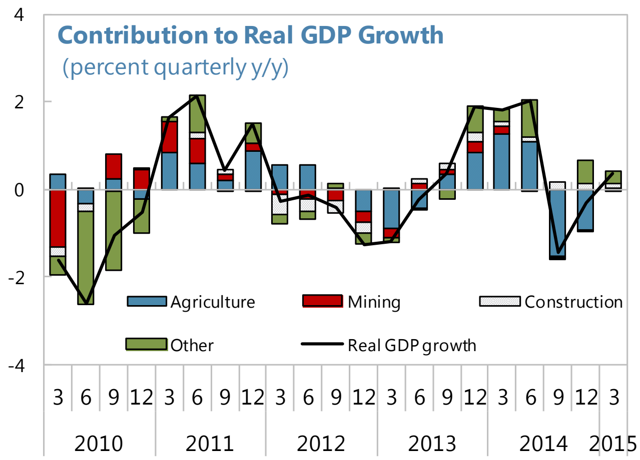
CONTENTS

ANNEX

APPENDIX

STRENGTHENED FUNDAMENTALS BUT FRAGILE GROWTH

1. **A gradual economic recovery is underway, but the continuing drought will weigh on growth again this year.** Preliminary data indicate that real GDP growth was 0.2 percent in FY2014/15. Tourism was the main growth driver; total tourist arrivals increased by 7 percent (y/y) in Q1 2015. Agriculture—hit hard by unusually dry weather for a second year in a row—and manufacturing continued to underperform. Unemployment decreased to 13.2 percent in April 2015, from 14.2 percent in January, with tourism and business services sectors recording the largest increase in employment. Business and consumer confidence remain solid, but the ongoing drought is hampering agricultural recovery. Real GDP growth projection has, therefore, been lowered by ½ percentage point to 1.4 percent for FY2015/16, driven by solid prospects in tourism and business service sectors, and less-than-expected agricultural growth.

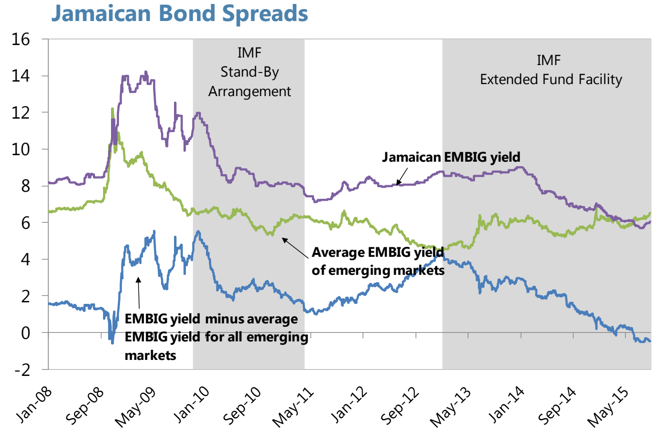


Source: STATIN.

2. **Inflation is at a historic low owing to the decline in global oil prices.** CPI inflation reached a 48-year low in July to 3.8 percent, mainly due to the drop in fuel prices. Inflation is expected to rise to 6.1 percent by end FY2015/16 as the effect of lower oil prices is countered by potential increases in food prices due to the drought. The Jamaican dollar has depreciated by 2 percent year-to-date against the U.S. dollar, while the real effective exchange rate appreciated by 1.8 percent in Q2 2015.

3. **Markets strongly endorsed Jamaica's economic program implementation, evidenced by the government's large bond placement in July**. The Government of Jamaica (GoJ) issued two tranches of external bonds totaling US$2 billion to finance a debt buyback from Venezuela's PDVSA (arising from oil imports under the PetroCaribe agreement) and other amortizations coming due in FY2015/16. A 13-year bond for US$1.35 billion was issued at a yield of 6.75 percent; an additional US$650 million 30-year bond was issued at a yield of 7.875 percent, a historical low. This substantially oversubscribed bond issuance occurred after credit rating upgrades in May by S&P and Moody's (to B and Caa2, respectively)—

Jamaican Bond Spreads

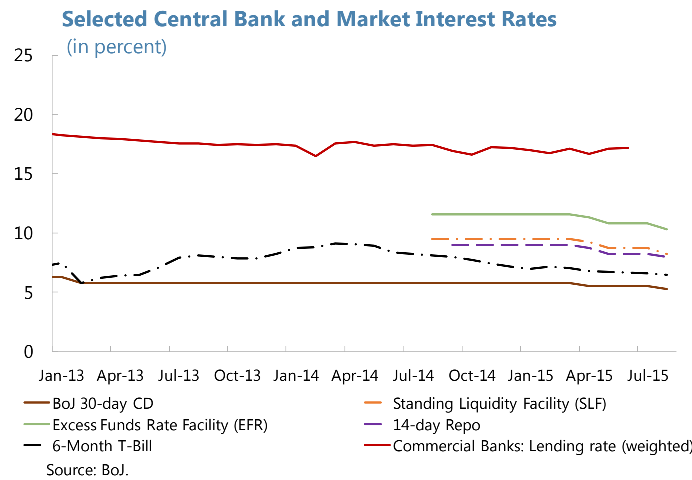


Source: Bloomberg.

following successful program implementation thus far.

4. **The current account registered a surplus in Q1 2015 for the first time in over a decade.** The decline in oil prices was the main driver of the US$39 million surplus (0.3 percent of GDP). The current account also benefited from the healthy growth in tourism, while remittance growth declined to 1.8 percent in Q1. Staff projects the current account deficit for FY2015/16 at 3.7 percent. Net international reserves (NIR) increased to US$2.5 billion following the July external bond issuance.

5. **Financial sector health is slowly improving, but bank credit continues to be weak.** Banks' capital adequacy remains stable and the NPL ratio hovers around 5 percent. The most recent (March 2015) stress test results by the Bank of Jamaica (BoJ) indicate slightly improved resilience to shocks for banks and securities dealers. Despite the two consecutive 25bps reductions in BoJ's policy rate in April and August, and the narrowing of the interest rate corridor by 100bps, bank lending rates have not changed significantly, and private sector lending has declined slightly in real terms. The spread between lending and deposit rates remains high. Securities dealers' balance sheets are diversifying away from retail repos as smaller investors shift out of these products, for which the average transaction size is rising.



6. **Risks to the program remain high.** Despite improvements in the macroeconomic fundamentals, growth remains frail and high unemployment persists. External financial flows could be undermined by exogenous shocks (including from global financial market volatility, U.S. monetary policy action, or PetroCaribe financing). Fiscal consolidation remains vulnerable to, inter alia, fiscal revenue underperformance and the ongoing public sector wage negotiations. An eventual reopening of the domestic bond market may prompt an upward shift in the yield curve and undermine financial stability. The run-up to elections before end-2016 could also potentially delay reform progress.

STEADY PROGRAM IMPLEMENTATION

7. **All quantitative performance criteria (PCs), indicative targets for end-June 2015 and continuous quantitative program targets were met**. The central government's primary balance target was met as higher tax receipts and lower-than-projected capital expenditures overcompensated for a slight overrun in program spending and lower non-tax revenue and grants. Tax revenues exceeded budgetary expectations with strong performances of corporate, excises and sales taxes, including from delayed payment of taxes due in the previous fiscal year, and offset underperforming grants and non-tax revenue. The overall balance target for the entire public sector

was also met as interest payments were below budget expectations and public bodies over-performed. Both NIR and net domestic assets (NDA) significantly outperformed the program targets.

8. **Structural reforms are broadly on track (Box 1).** The structural conditionality on tabling in Parliament a bill to strengthen the Customs Act has been met, as well as the structural benchmark for transitioning the retail repos to the Trust.

Jamaica: Program Monitoring—Quantitative Performance Criteria Under the Extended Arrangement Under the EFF 1/2/

(in billions of Jamaican dollars)

	8th Review PC End-Jun. 2015	Adjusted PCs End-Jun.	End-Jun. Actual	Difference	PC Status End-Jun. 2015
Fiscal targets					
1. Primary balance of the central government (floor) 3/	17.0		19.9	2.9	Met
2. Tax Revenues (floor) 3/9/	88.0		95.4	7.4	Met
3. Overall balance of the public sector (floor) 3/	-21.0	-17.5	-0.1	17.4	Met
4. Central government direct debt (ceiling) 3/4/	4.5		-37.9	-42.4	Met
5. Central government guaranteed debt (ceiling) 3/	2.0		-1.2	-3.2	Met
5. Central government accumulation of domestic arrears (ceiling) 5/11/12/	0.0		-0.6	-0.6	Met
7. Central government accumulation of tax refund arrears (ceiling) 6/11/12/	0.0		-5.2	-5.2	Met
8. Consolidated government accumulation of external debt payment arrears (ceiling) 5/11/	0.0		0.0	0.0	Met
9. Social spending (floor) 8/9/	4.5		6.8	2.3	Met
Monetary targets					
10. Cumulative change in net international reserves (floor) 7/10/	-482.2	-573.5	125.7	699.2	Met
11. Cumulative change in net domestic assets (ceiling) 10/	54.4	64.8	-18.8	-83.7	Met

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Based on program exchange rates defined in the June 2015 TMU.
3/ Cumulative flows from April 1.
4/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
5/ Includes debt payments, supplies and other committed spending as per contractual obligations.
6/ Includes tax refund arrears as stipulated by law.
7/ In millions of U.S. dollars.
8/ Indicative target.
9/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
10/ Cumulative change from end-March 2014.
11/ Continuous performance criterion.
12/ Measured as the change in the stock of arrears relative to the stock at end-March 2014.

Box 1. Structural Reform Progress Since the 8th Review

Since the 8th review, the following reform measures have been implemented:

1. Completion of the pilot testing of ASYCUDA World (covering imports and exports) in the Kingston port.
2. Publication of the Tax Administration Jamaica (TAJ)'s National Compliance plan (NCP) for FY2015/16.
3. Tabling in parliament a Bill to amend the Customs Act (structural benchmark for end-June).
4. Finalizing the transition of retail repos to the trust-based framework (structural benchmark for end-August).
5. Making effective the Revised Electricity Act.
6. Implementing the Application Management and Data Automation system (AMANDA), including in all parishes and all relevant commenting agencies.

STAYING THE COURSE TOWARDS PUBLIC DEBT SUSTAINABILITY

9. **The July debt buyback helped reduce public debt, but vulnerabilities remain.** The liability management operation supported the shift to a lower public debt path over the medium-term—the end-March 2020 debt-to-GDP ratio is now projected to fall from 103.3 percent to 97.8 percent (Box 2). This was achieved by substituting, at a substantially reduced face value, a facility with a very low interest rate and flat repayment schedule with external bonds issued at historically and internationally favorable market interest rates. Still, as the Debt Sustainability Analysis (DSA) highlights, the baseline debt path remains highly vulnerable to key macro-fiscal shocks, including to growth and the exchange rate, the latter owing to a large and growing share of FX-denominated debt (Annex I).

10. **The government is striving to mobilize additional tax revenue to fund growth-enhancing outlays while securing fiscal sustainability.** To better leverage these efforts, a strong synergy is needed between the ongoing reforms in tax policy and revenue administration.

- ***Sustained pace of reforms in revenue administration.*** The authorities are implementing their National Tax Compliance Plan, transitioning towards a more effective revenue administration with greater accountability, and building audit capacities, including in transfer pricing (MEFP ¶8). They are reforming the administrative structure, automating processes, and developing productivity indicators. Cooperation and information sharing between the tax and customs administrations is also being strengthened.

- ***Impact assessment of the 2013 tax policy reforms.*** The government has moved away from discretionary tax incentives and replaced them with general capital cost allowances and an employment tax credit. The authorities are now examining the impact of this reform on income tax revenue with IMF technical assistance.

- ***Special Economic Zones replace Export Free Zones.*** As required by the WTO, Special Economic Zones (SEZs) are replacing Free Zones by end-2015; the SEZs will have more substantial domestic economic linkages (MEFP ¶9). The tax package for the SEZs—more advantageous than the tax regime that prevails for the rest of the economy—is expected to be tabled in Parliament in October (structural benchmark). The provisions for the SEZs will pose a challenge to the still developing revenue administration and will require very strong safeguards to contain potential tax revenue leakage (including through bonded warehouse controls as well as administrative penalties and other sanctions to prevent tax evasion).

11. **Public financial management is advancing and will help improve public expenditure efficiency.** The authorities are finalizing plans to expand and improve the consolidated fund account at the BoJ and effect the transition to a full-fledged Treasury Single Account (MEFP ¶10). They are also modernizing the Accountant General's department, refining the cash management function, improving procurement processes, and strengthening their macro-fiscal capacity.

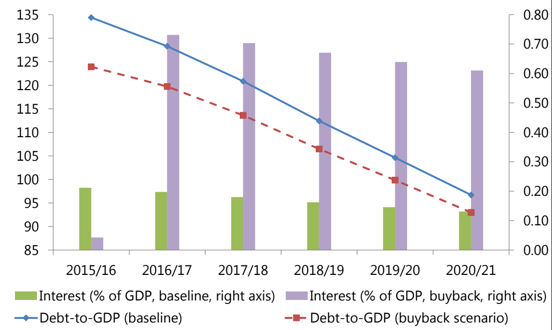
Box 2. PetroCaribe Debt Buyback

Venezuela supplies oil to Jamaica (and other Latin American and Caribbean countries) through the PetroCaribe Energy Cooperation Agreement, partially under deferred payments at highly concessional terms (Box 2 in IMF Country Report No. 15/95). The outstanding stock of Jamaica's liabilities to the Venezuelan state-owned oil company (PDVSA) amounted to some US$2.9 billion at end-December 2014 (21 percent of FY2014/15 GDP), and to around US$3.2 billion when (future) foregone interest payments are included.

In July 2015, the governments of Jamaica and Venezuela agreed to retire Jamaica's stock of PetroCaribe debt as of end-December 2014. The GoJ bought back the outstanding debt at US$1.5 billion, paid for with a dual external bond issuance (a 13-year bond with equal repayments in 2026, 2027 and 2028, at 6.75 percent interest rate, and a 30-year bullet bond at 7.875 percent). The buyback therefore entails replacing, at a significantly reduced face value, a low interest rate debt involving a flat repayment schedule throughout its remaining (average) maturity of 20 years, against international bonds at higher interest rates, but with back-loaded and lumpy repayments.[1]

The transaction generates important fiscal savings for Jamaica:

- In the short term, the buyback of the PetroCaribe debt puts a dent on the debt-to-GDP ratio (10 percent instant reduction). In the medium-term, the debt-to-GDP ratio at end-March 2020, one of the main markers of the EFF-supported program, also declines, albeit by a smaller margin of about 5 percentage points of GDP (text figure).



- In the long term (key in assessing the financial soundness of the transaction), overall fiscal savings from the buyback are positive—estimated to be US$287 million in NPV terms (about 2.1 percent of GDP) (text table),[2] as the upfront fiscal savings is only partially eroded over time by the GoJ servicing the higher interest rate global bonds (and their repayment).

	NPV (in million USD)	
	Status quo	Buyback
Amortization	1611 (A1)	506 (B1)
Interest	211 (A2)	1029 (B2)
Net savings	(A1+A2) - (B1+B2) =	287

- The central government will capture benefits of the transaction through a financial arrangement with the domestic PetroCaribe Development Fund (PCDF). The central government, having executed the buyback, *de facto* became the creditor of the US$2.9 billion worth of PCDF liabilities to PDVSA on PCDF's books. An immediate action was the write-off of US$1.7 billion of central government debt vis-à-vis PCDF against the US$2.9 billion—based on availability of domestic central government instruments held by the PCDF out of a total holding of about US$2.4 billion of central government debt as of end-June 2015. The remaining US$1.2 billion will be amortized by the PCDF to the central government over 10 years and the outstanding balance at each point in time will accrue a 1.5 percent interest rate.

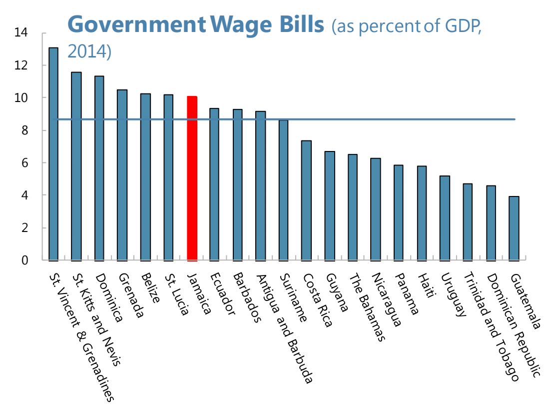
The debt buyback does not represent a shift in the PetroCaribe arrangement going forward. However, at current low global oil prices, the gross inflows from PDVSA are expected to be limited compared to recent years when international oil prices hovered around US$100 per barrel.

[1] The total bonds issuance amounted to US$2 billion, consisting of US$1350 on the 13-year tranche and US$650 on the 30-year tranche. The issuance included an amount to help meet budgeted financing requirements in FY2015/16.

[2] For the purpose of NPV calculations, future cash flows are discounted at a rate of 7.1 percent, mimicking the market interest rate on the US$1.5 billion (equivalent) international bond. NPV gains, though sensitive to that parametrization, remain positive for a wide range of parameter values.

12. **The Energy Stabilization and Efficiency Enhancement Fund (ESEF) is under implementation, using the proceeds from the increase in petroleum excise taxes**. The ESEF has been partly allocated to purchase a financial hedge against future oil price increases, covering about 47 percent of the value of total oil imports. The average strike price of the three options bought so far is about US$67 per barrel, for contracts valid through end-2016; under current WEO oil price forecasts, the options are unlikely to be triggered. The authorities are committed to managing the ESEF's resources with high standards of oversight and governance. The mission stressed that the resources in the ESEF should be used to enhance the economy's fuel efficiency to help reduce energy costs on a sustainable basis and stimulate growth, rather than stabilize domestic fuel prices.

13. **Jamaica's wage bill remains high and poses an important challenge for fiscal policy.** The government has signed a two-year wage agreement with the Jamaica Confederation of Trade Unions (JCTU), a confederation of 12 unions, and with the Jamaica Teachers' Association (JTA), covering 80 percent of all public sector employees. Negotiations are continuing with the other public sector unions, including for health sector workers and the police. Based on the benchmark agreement with the JCTU and JTA, the wage bill is projected at 10.1 percent of GDP in FY2015/16.[1] For FY2016/17, the government remains committed to lowering its wage bill to 9 percent of GDP. Meeting this target, however, would require measures for 0.4 percent of GDP. Current measures under consideration, including through attrition and voluntary separation, may need to be supplemented by additional reform measures to modernize the public sector and transition toward a smaller and more efficient civil service. The costs to the economy of failing to contain the wage bill to the 9 percent of GDP targeted by the government are likely to be high. Options to offset the additional wage expense would then be limited to undesirable policy choices of either compressing non-wage primary spending, including capital spending at a time when growth is weak, or raising additional revenue. Staff and authorities agreed on the critical need to accelerate efforts to constrain the size and remuneration of the civil service and to undertake a comprehensive reform of the public sector to modernize the civil service and enhance the delivery of public services. As a first step, the authorities will focus on accelerating the implementation of their new human resources software system, in collaboration with the IADB.



[1] The estimated public wage bill assumes a general increase in compensation by J$4,000 per person per month in FY2015/16 and 3 percent in FY2016/17, 2.5 percent merit increases for each year, and unchanged employment levels.

MONETARY POLICY TRADE-OFFS TO ANCHOR INFLATION AND SUPPORT GROWTH

14. **Given the economic slack and outlook for moderate inflation, there is scope for supporting growth through additional monetary loosening.** The BOJ's recent rate cuts are welcome steps to align interest rates with the fall in inflation expectations. However, the lower policy rate has yet to transmit to higher private sector credit in part due to weak monetary transmission through an underdeveloped financial sector. Credit growth is also likely hampered by a lack of price competition in the banking sector and the slow shift in banks' business model from lending to the government toward greater private sector lending. The BoJ's enhanced liquidity operation since last year has improved banks' short-term liquidity condition. The BoJ plans to begin regular auctions of the 14-day repos in October, which would further improve the certainty of liquidity provision and support credit creation. Staff encouraged the BoJ to proactively expand its toolbox for monetary operations to better manage liquidity, especially given the expected liquidity increase in February 2016, when a large domestic government bond repayment comes due.

15. **Building non-borrowed reserves and exchange rate flexibility remain essential.** Staff encouraged the BoJ to continue purchasing more reserves in the market to replace the borrowed reserves from commercial banks. A commitment to continued depreciation of the exchange rate will be crucial to maintain competitiveness in the face of a large inflation differential with trading partners (Box 3 shows a positive relationship between real exchange rate depreciation and growth). Going forward, exchange rate flexibility will be paramount for the transition toward inflation targeting over the medium term. Holding competitive foreign exchange auctions is one option to facilitate foreign exchange market development and help build reserves.

COMPLETING THE CRITICAL REFORMS IN THE FINANCIAL SECTOR

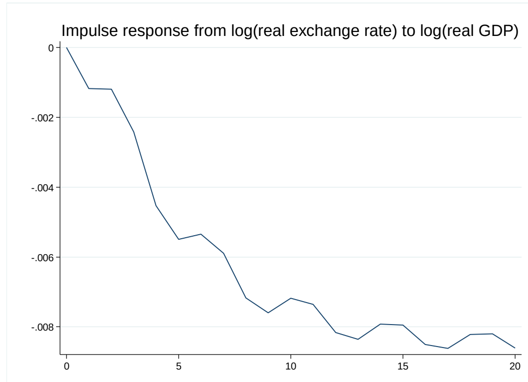
16. **The transition of retail repos to the Trust-based framework has been completed.** The retail repo sector, which finances long-term government securities with short-term, deposit-like instruments, poses many risks for financial sector stability. The recently completed transition of retail repo contracts to a Trust-based framework (structural benchmark, August 2015) will promote a more robust and transparent model for retail clients.

17. **Gaps in the financial sector stability framework are being addressed.** Reforms to further strengthen the securities dealers sector will be implemented in the coming months, including by gradually strengthening prudential standards for the securities dealers. Work is also ongoing to put in place a national financial crisis management plan, and to prepare legislative provisions to support the resolution framework for the securities and the banking sectors. While the domestic bond market

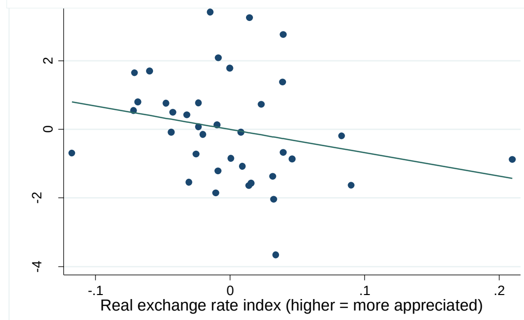
Box 3. Real Exchange Rate and Growth

The valuation of the exchange rate is important to economic growth. Cross-country empirical data have strongly supported the observation that an over-valued currency is detrimental to growth[1], as overvaluation causes foreign exchange shortage, unsustainable current account deficit, and amplified economic cycles. Recent research also shows that depreciation/undervaluation may be beneficial to growth and employment creation[2] in low- and middle-income countries, by encouraging the expansion of tradable sectors.

However, standard theories may not be fully applicable to smaller states including Jamaica. The relationship between exchange rate valuation and growth may be ambiguous for small countries, due to their high reliance on imports and structural factors that may limit the scope for supply responses. The traditional argument against depreciation is that it increases the cost of imports, which in turn may depress output, at least in the short run, as a majority of intermediate goods in small states is imported.



Empirical analysis shows that a more depreciated J$ is associated with higher growth in Jamaica. Using quarterly data for Jamaica from 1996 to 2014, the empirical model regresses real growth on the initial GDP level, an index of real exchange rate against the US$, and US output growth.[3] The model is similar to Rodrik (2008). The result shows that real depreciation (against the US$) of 10 percent is associated with around 0.5 percentage point increase in economic growth.[4] In addition, cointegration is detected between real exchange rate index and seasonally adjusted real GDP. A vector error correction model including the two variables shows that the real output responds negatively to the temporary appreciation shocks. And in the long run, a more depreciated J$ corresponds to a higher output level.



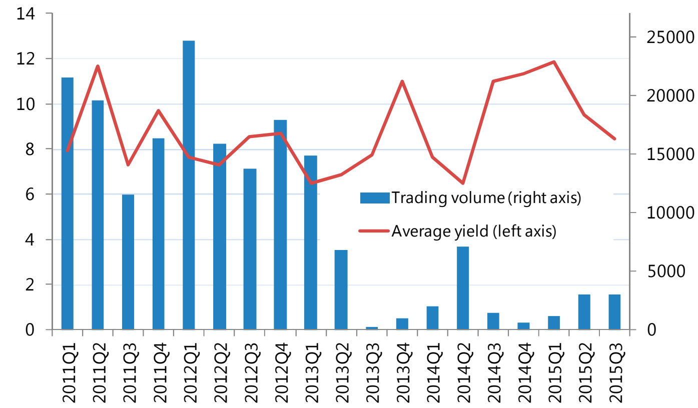
Data also shows a positive relationship between currency depreciation and growth across Caribbean states. A similar growth regression was conducted in a panel setting, using annual data for ten Caribbean countries from 1980 to 2014.[5] The empirical model regresses real growth on the initial GDP level, an index of real exchange rate against the US$, US output growth, and country fixed effects.[6] The baseline result shows that real depreciation of 10 percent of the index is on average associated with 0.7 percentage point increase in annual growth. Data also indicates a significantly positive relationship between a more depreciated real exchange rate and tourism expansion, which may be one channel through which depreciation impacts growth in the Caribbean.

---

1 For example, Razin and Collins (1997); Johnson, Ostry, and Subramanian (2007).
2 Eichengreen (2008); Rodrik (2008).
3 Lagged real exchange rates are used as instruments to alleviate endogeneity.
4 Similar results are obtained using the real effective exchange rate.
5 Bahamas, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Grenada, Barbados, Dominica, Belize, Dominican Republic, Jamaica.
6 Data are grouped into non-overlapping five-year intervals.

still remains largely dormant, staff welcomes the small volumes of secondary market trading that have recently begun. Supported by forthcoming IMF TA, the authorities are also preparing to reopen the domestic bond market more broadly.

Secondary Government Bond Market Activities



Source: BoJ.

18. **Reforms to improve the financial regulatory framework are being implemented.** The Banking Services Act is expected to be brought into effect in September (structural benchmark, September 2015), and the authorities will continue to implement components of the Act. Legislative amendments have been submitted to parliament to give the BoJ overall responsibility for financial stability. Proposals are also under consideration to enhance the BoJ's governance and operational autonomy.

LAYING THE FOUNDATION FOR GROWTH

19. **A supportive business environment is essential to boost private investment and growth in Jamaica.**

- **Reducing the cost of doing business**. The approval tracking system for construction permits is now implemented in all 14 parishes and all relevant commenting agencies. A new approval process for development applications is being put in place to ensure faster and more streamlined procedures. Work is ongoing to reduce the time needed for businesses to obtain electricity connections.

- **Improving access to credit.** Despite a gradual decline, the spread between lending and savings rates in Jamaica is still among the highest in the region, and credit access is a particular constraint for small and medium-sized enterprises (MSMEs). In this regard, the authorities are working with the World Bank on an assessment of the partial guarantee arrangements by the Development Bank of Jamaica (DBJ) (MEFP ¶22). The authorities are also exploring other areas of reform to reduce the cost of MSME lending, as part of their Financial Inclusion Strategy which will be finalized by end-2015.

- **Reforms to transform the energy sector and reduce electricity costs are ongoing.** The Electricity Act passed in July, clarifying ministerial responsibilities for granting licenses for electricity distribution. The gas supplier and developer for the conversion of the 115-MW Bogue power plant have been selected. The 190-MW, LNG-based power plant by the Jamaica Public Service Company (JPS) has received considerable interest from potential developers, and the financial closing of the project is expected by end-2015. The gas terminal project to support the new LNG plant is on track, and may have the potential to be developed into a regional supply hub for natural gas. In addition, the bauxite company Jamalco is expected to invest US$500 million in a coal-fired power plant, scheduled to be completed by end-2018.

20. **Social protection programs are being prioritized.** The implementation of the graduation strategy for PATH households has started, including job training programs for eligible adults and youth. There is room to improve the administrative efficiency of implementing social protection programs, as a third of the government's social payments correspond to administrative costs. A clear time-frame should be put in place for developing a comprehensive strategy to deepen electronic payment infrastructure in rural areas, streamline procedures for making social payments, and put in place mechanisms for electronic benefit transfers (MEFP ¶28).

PROGRAM ISSUES

21. **Additional program conditions are proposed for the coming 12-month period.** Since the debt buyback is NPV positive, we propose that the program accommodates the new interest obligations to the government arising from the liability management operation. Thus staff proposes to modify the March 2016 performance criteria on the overall balance of the public sector. It also proposes to modestly modify the primary balance, and the ceiling on the cumulative change in net domestic assets, to account for the impact of the revision in growth and inflation. New performance criteria for June 2016 are proposed. Staff also proposes to modify the structural benchmark on revenue productivity to refer to performance indicators under the National Compliance Plan. Accordingly, the benchmark would now read "full implementation of the key performance indicators (as outlined in the National Compliance Plan) that measure the effectiveness and the efficiency of the tax system" (structural benchmark, end-November 2015).

22. **The program is fully financed and staff's assessment of Jamaica's capacity to repay the Fund remains broadly unchanged from the last review (Table 11).** This capacity is deemed adequate, and will continue to depend on the timely and strong implementation of the government's reform program. External multilateral financing for the fiscal year has evolved broadly in line with earlier program assumptions. Debt service to the Fund and the purchase profile remain unchanged in the absence of significant revisions to the macroeconomic outlook.

STAFF APPRAISAL

23. **Program implementation is exemplary but growth remains sluggish.** Market confidence in Jamaica's outlook has improved, inflation is at a historical low, unemployment has declined, the external balance is rapidly improving, and the commitment to fiscal restraint as well as the recent debt buyback operation with Venezuela have reduced public debt. Economic growth, however, remains insufficient, partly due to another year of drought hurting agriculture. Better growth outturns are critical for job creation, improving living standards, and reducing poverty as well as maintaining social support for the reform trajectory the government has pursued.

24. **Public sector reform is paramount to modernize the provision of public services and ensure a lasting and sustainable fiscal consolidation.** Moving forward with civil service reform and the public sector transformation program will be central to achieving lasting fiscal gains. Accelerating implementation of the human resources software system is an important first step in this agenda and will serve as resource to pursue a more targeted approach in identifying wasteful spending and raising public sector efficiency.

25. **Achieving durable fiscal consolidation while funding growth-enhancing public programs will require the mobilization of additional tax revenues and increasing the efficiency of public spending.** The ongoing reforms to strengthen the customs and tax administrations need to be supported and the introduction of new SEZs must be designed to facilitate economic activity without putting additional strain on the revenue administration. Implementation of the reform plan for public financial management, particularly the improvement of the Treasury Single Account, needs to be comprehensive and timely.

26. **Increasing private investment hinges on efforts to reduce barriers for doing business.** These include reforms to reduce energy costs, improvements to energy efficiency, removing regulatory and bureaucratic impediments to business investments, and improved access to finance.

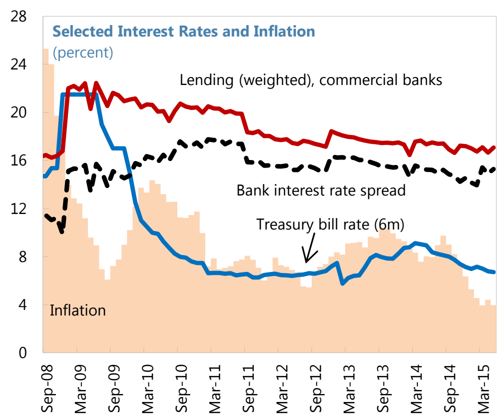
27. **Monetary policy should be anchored in maintaining price stability with a flexible exchange rate.** The recent reduction in interest rates and narrowing of the interest rate corridor are welcome developments. Given the low levels of inflation and weak near-term growth outlook, there is room for additional monetary loosening. At the same time, the authorities should be cognizant of the need to steadily build international reserves. With a significant inflation differential relative to trading partners, continued nominal depreciation will be necessary to maintain competitiveness.

28. **Retail repo reforms should continue to be implemented.** The recently completed transition of the retail repos to a trust-based framework is a crucial step to improve financial sector stability and create the environment needed to unfreeze the domestic bond market. The next step of the retail repo reform agenda would be to examine and improve the prudential standards for securities dealers.

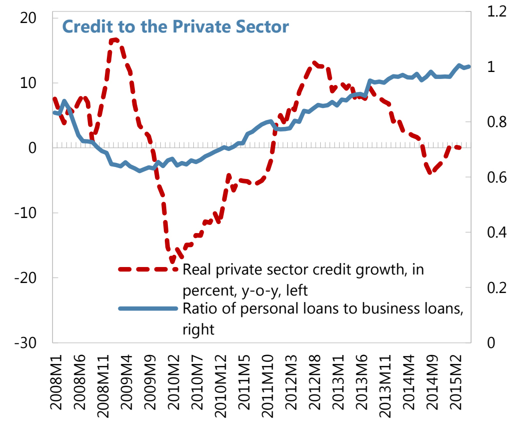
29. **Risks to the program remain high, but the authorities' steady implementation of their economic strategy is yielding results.** Financing and debt sustainability risks have decreased somewhat with the recent bond issuance and debt buyback, but challenges remain to keep the budget on track and to sustainably reduce the government wage bill. The authorities' program commitment and implementation continues to be strong and staff supports the authorities' request for completion of the ninth review of the arrangement under the Extended Fund Facility, the revision of the structural benchmark on implementing the key performance indicators for the TAJ, the modification of the performance criteria for end-March 2016 for the primary balance, the overall balance of the public sector, and the ceiling on the cumulative change in net domestic assets, as well as the proposed establishment of performance criteria for end-June 2016.

Figure 1. Jamaica: Macroeconomic and Financial Developments

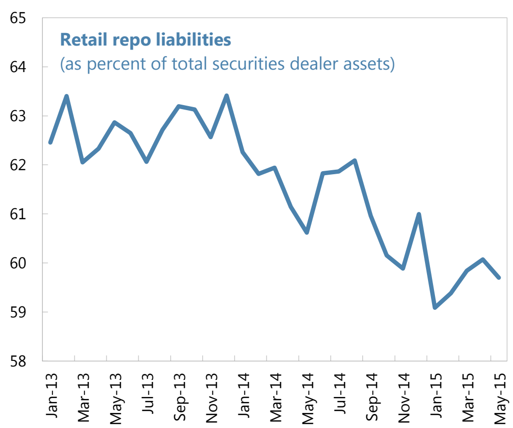
Inflation is declining mainly due to the drop in oil price. The deposit-lending rate spread has declined, but remains high.



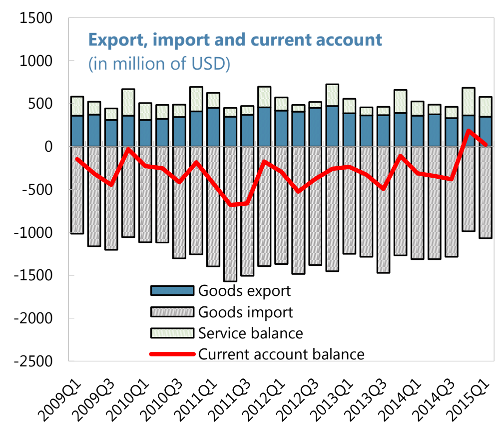
Growth of private sector bank credit has stagnated in real terms, while loan composition continues to shift from businesses to households.



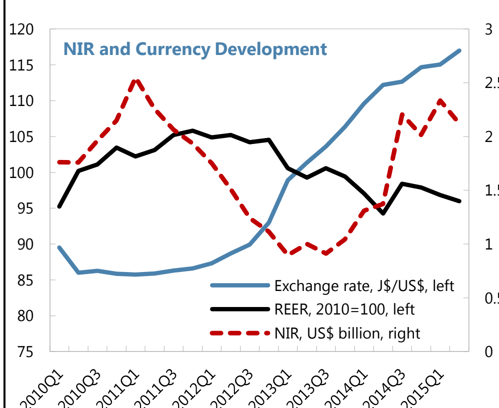
The share of securities dealers' intermediation undertaken through retail repos has declined overtime.



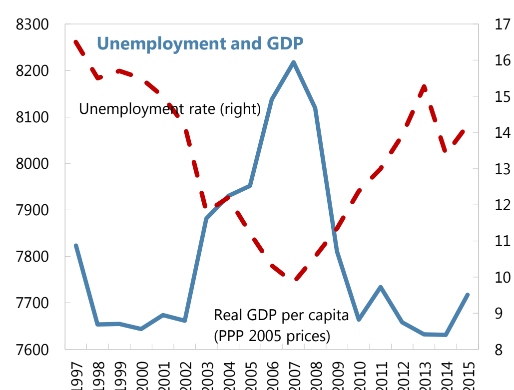
The current account has improved owing to the effect of oil price drop on imports and good performance of service trade, mainly tourism.



The real effective exchange rate has stabilized in recent quarters, while NIR continues to be built.



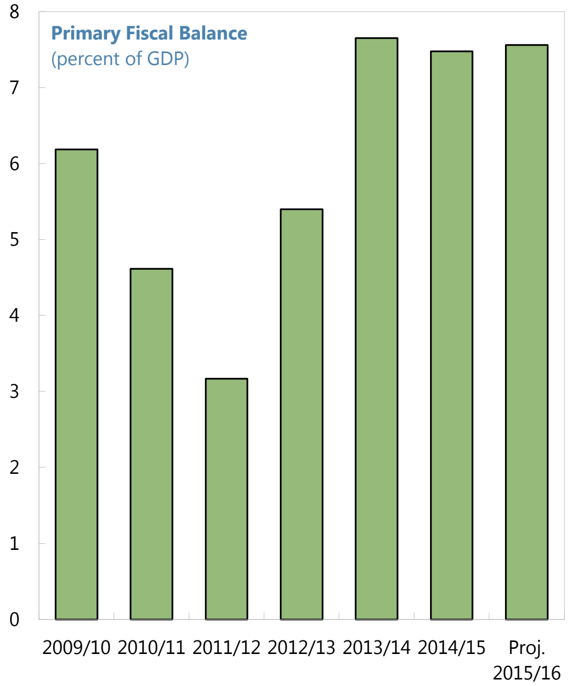
Unemployment has edged up and both unemployment and poverty levels remain unacceptably high.



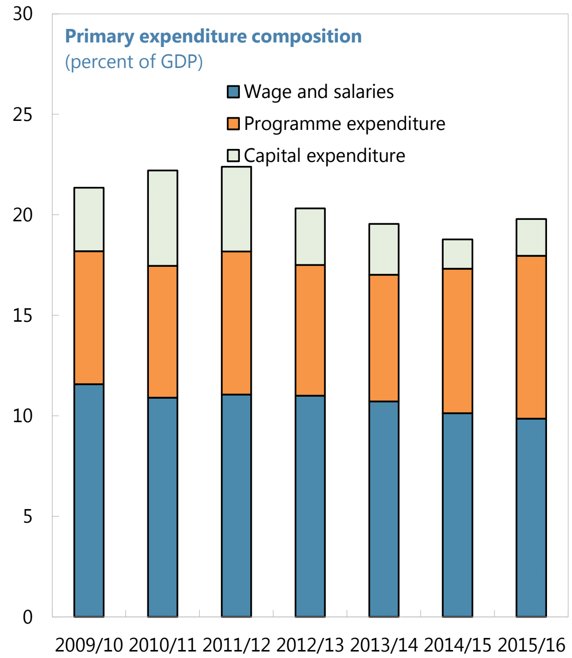
Sources: Bank of Jamaica; and Fund staff calculations.

Figure 2. Jamaica: Fiscal Developments

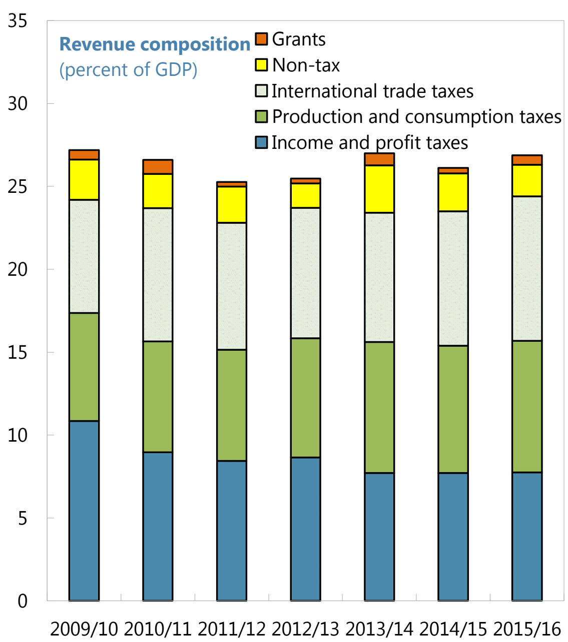
The primary fiscal balance has strengthened and is projected to remain at the programmed 7.5 of GDP in 2015/16…



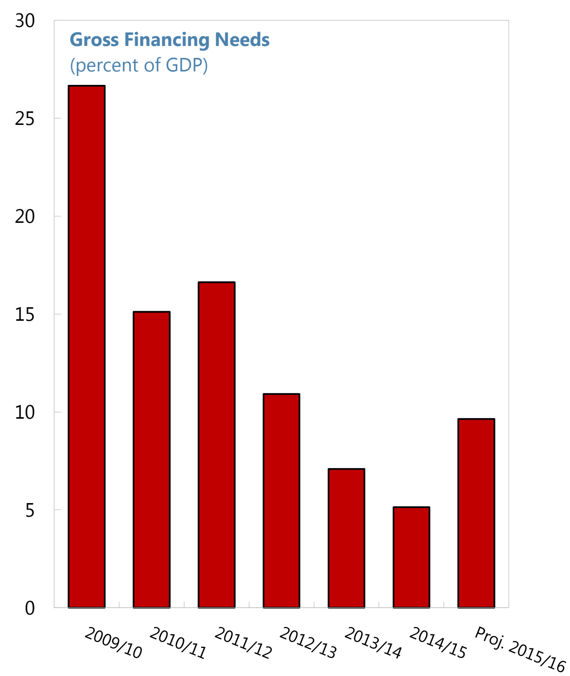
…due to ongoing expenditure restraints in capital outlay and wages….



…and projected improvements in revenue performance.



Gross financing needs, lower than the historical norm, will increase somewhat in FY2015/16 as large loan repayments come due.



Sources: Ministry of Finance; and Fund staff calculations.

Table 1. Jamaica: Selected Economic Indicators 1/

Population (2013): 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 (2013): US$5060
Literacy rate (2011)/Poverty rate (2012): 86.4%/19.9%
Unemployment rate (Apr. 2015): 14.2%

		Prel.	Prog.	Prel.	Prog.	Projections					
	2012/13	2013/14	2014/15	2014/15	2015/16	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
(Annual percent change, unless otherwise indicated)											
GDP and prices											
Real GDP	-0.8	1.0	0.4	0.2	1.9	1.4	2.3	2.5	2.7	2.7	2.7
Nominal GDP	6.2	9.4	7.8	6.9	6.9	5.9	8.9	9.6	9.7	9.1	8.9
Consumer price index (end of period)	9.1	8.3	4.7	4.0	6.5	6.1	6.8	7.1	6.5	6.0	6.0
Consumer price index (average)	7.2	9.4	7.3	7.2	4.9	4.5	6.5	7.0	6.8	6.3	6.0
Exchange rate (end of period, J$/US$)	98.9	109.6	...	115.0	...	...	...	...	...	...	...
Exchange rate (average, J$/US$)	91.2	103.9	...	113.1	...	...	...	...	...	...	...
Nominal depreciation (+), end-of-period	13.3	10.8	...	5.0	...	...	...	...	...	...	...
End-of-period REER (appreciation +) (INS)	-2.2	-4.8	...	7.3	...	...	...	...	...	...	...
End-of-period REER (appreciation +) (new methodology) 2/	-3.4	-4.3	...	...	...	...	...	...	...	...	...
Treasury bill rate (end-of-period, percent)	6.2	9.1	...	7.0	...	...	...	...	...	...	...
Treasury bill rate (average, percent)	6.6	7.9	...	7.8	...	...	...	...	...	...	...
Unemployment rate (percent) 3/	14.5	13.4	...	14.2	...	...	...	...	...	...	...
(In percent of GDP)											
Government operations											
Budgetary revenue	25.8	27.1	26.6	26.3	27.3	27.7	27.4	26.9	26.2	26.1	26.1
Of which: Tax revenue 4/	24.0	23.6	24.0	23.7	24.9	25.2	24.9	25.0	25.0	25.0	25.0
Budgetary expenditure	29.9	27.0	27.0	26.8	27.7	27.8	27.3	26.8	25.6	25.2	24.8
Primary expenditure	20.4	19.5	18.9	18.8	19.8	20.1	19.9	19.9	19.2	19.1	19.1
Of which: Wage bill	11.0	10.7	10.1	10.2	9.9	10.1	9.0	9.0	9.0	9.0	9.0
Interest payments	9.5	7.5	8.2	8.0	7.9	7.7	7.4	6.9	6.4	6.0	5.8
Budget balance	-4.1	0.1	-0.4	-0.5	-0.3	-0.1	0.1	0.1	0.6	1.0	1.2
Of which: Central government primary balance	5.4	7.6	7.7	7.5	7.6	7.6	7.5	7.0	7.0	7.0	7.0
Public entities balance	0.1	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	-4.2	0.1	-0.4	0.4	-0.3	-0.1	0.1	0.1	0.6	1.0	1.2
Public debt 5/	145.3	139.7	140.5	135.7	133.0	124.8	120.5	112.7	105.1	97.8	90.7
External sector											
Current account balance	-10.0	-8.3	-5.3	-7.0	-5.0	-3.7	-2.6	-2.7	-2.5	-2.1	-1.8
Of which: Exports of goods, f.o.b.	11.9	10.9	10.2	10.1	10.2	9.7	9.7	9.8	9.9	9.9	9.9
Imports of goods, f.o.b.	38.8	37.5	35.3	36.4	34.5	34.3	34.0	34.3	34.2	33.7	33.0
Net international reserves (US$ millions)	884	1,304	1,884	2,294	1,825	2,590	2,837	2,894	2,902	2,964	2,999
NIR (excl. prefinanced repayments of maturing bonds)	...	...	1,585	1,995	1,772	2,538	2,837	2,894	2,902	2,964	2,999
(Changes in percent of beginning of period broad money)											
Money and credit											
Net foreign assets	-13.5	18.7	20.3	27.9	-5.6	13.2	11.0	5.1	3.2	3.9	3.7
Net domestic assets	26.8	-12.6	-14.6	-22.3	12.4	-7.9	-2.1	4.6	6.4	5.2	8.0
Of which: Credit to the private sector	13.0	8.2	4.0	3.1	9.6	11.9	12.2	11.1	11.0	10.4	10.7
Credit to the central government	5.2	-3.1	-4.2	-15.2	2.9	13.5	-5.7	0.8	-0.9	-0.7	1.2
Broad money	13.3	6.1	5.7	5.7	6.7	5.3	8.9	9.6	9.7	9.1	11.7
Memorandum item:											
Nominal GDP (J$ billions)	1,337	1,463	1,573	1,563	1,676	1,656	1,803	1,977	2,168	2,366	2,576

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/ As of January 31.
4/ in 2014/15, reflects the extension of the CGT to government purchases, with projected total yield of 0.2 percent of GDP at the time of the sixth review. and updated projected total yield of 0.1 percent of GDP.
5/ Central government direct and guaranteed only, including PetroCaribe debt (net of its financing to the central government) and projected IMF disbursements and other IFIs.

Table 2. Jamaica: Summary of Central Government Operations

(In millions of Jamaican dollars)

	2012/13	2013/14	Prog. 2014/15	Prel. 2014/15	Prog. 2015/16	Projections 2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Budgetary revenue and grants	344,668	396,982	417,826	411,716	458,101	459,177	493,735	532,319	568,154	618,540	671,554
Tax	320,929	344,848	377,895	370,878	416,662	416,662	449,926	493,360	541,389	590,482	642,980
Of which:											
Income and profits	115,877	112,648	124,102	120,854	129,867	129,867	134,403	147,405	164,690	180,370	195,333
Of which: Other companies	35,798	35,155	41,465	35,903	42,657	42,657	45,160	50,496	55,386	60,437	65,792
PAYE	60,876	62,811	66,595	67,818	71,333	71,333	73,388	80,451	88,242	96,288	104,821
Production and consumption	96,460	115,214	124,030	120,421	132,830	132,830	145,849	161,994	177,681	194,999	215,249
Of which: GCT (Local) 1/	50,897	61,265	66,783	63,995	70,551	70,551	78,366	88,055	96,582	106,443	118,773
International Trade	105,306	113,892	127,411	127,238	146,074	146,074	157,510	170,951	185,117	200,306	216,665
Of which: GCT (Imports) 1/	45,501	51,238	58,763	58,471	66,102	66,102	72,920	81,537	90,327	99,549	109,455
Non-tax 2/	19,799	41,705	35,386	35,821	31,900	32,975	37,594	32,334	21,846	22,809	22,986
Grants	3,940	10,429	4,545	5,018	9,539	9,539	6,216	6,625	4,918	5,249	5,588
	361,521	358,253									
Budgetary expenditure	399,279	395,242	424,887	418,987	463,645	461,207	492,080	530,352	556,175	595,738	639,366
Primary expenditure	272,341	285,322	296,491	294,474	331,374	333,177	358,476	393,928	416,361	452,906	491,242
Wage and salaries 3/	147,382	156,362	158,759	158,759	165,229	167,947	162,311	177,932	195,162	212,958	231,830
Programme expenditure 4/	87,202	91,972	111,925	112,697	135,735	134,835	143,902	154,076	161,468	173,826	186,654
Capital expenditure 4/	37,758	36,989	25,808	23,019	30,409	30,394	52,262	61,921	59,731	66,122	72,757
Interest	126,938	109,919	128,396	124,513	132,271	128,030	133,604	136,424	139,814	142,832	148,125
Domestic	87,729	68,729	76,447	76,052	77,099	71,115	63,122	67,775	66,369	65,190	64,975
External	39,209	41,191	51,949	48,461	55,171	56,915	70,483	68,648	73,444	77,642	83,150
Budget balance	-54,610	1,740	-7,061	-7,271	-5,543	-2,030	1,655	1,968	11,979	22,802	32,188
Of which: Primary budget balance	72,327	111,659	121,335	117,242	126,727	126,000	135,259	138,391	151,793	165,634	180,313
Public entities balance	1,905	106	0	13,749	0	0	0	0	0	0	0
Public sector balance	-55,661	859	-6,707	6,479	-4,943	-1,430	1,655	1,968	11,979	22,802	32,188
Principal repayments	88,681	104,122	73,397	73,259	156,626	407,121	52,305	218,018	157,348	194,127	244,714
Domestic	36,976	75,695	11,253	11,245	70,490	261,628	2,133	82,262	70,702	104,257	168,404
o.w. amortization from PetroCaribe	…	…	…	…	…	-11,925	-14,031	-14,744	-15,414	-15,999	-16,567
External	51,705	28,427	62,144	62,015	86,136	145,493	50,173	135,756	86,646	89,870	76,310
Gross financing needs	146,248	103,368	80,104	80,530	161,570	330,824	36,619	201,307	129,955	155,326	195,959
Gross financing sources	146,248	103,368	80,104	80,530	161,570	330,824	36,619	201,307	129,955	155,326	195,959
Domestic	137,073	52,211	32,177	28,266	13,002	7,599	20,398	46,773	45,937	73,527	171,743
External	9,175	57,619	129,754	130,512	65,781	277,126	26,352	135,637	90,695	95,805	31,692
Of which: Official	9,175	57,619	39,112	40,059	35,875	38,625	26,352	36,543	48,385	53,255	31,692
Divestment + deposit drawdown	0	-6,462	-81,827	-78,249	82,787	46,098	-10,131	18,896	-6,678	-14,006	-7,476
Memorandum items:											
Nominal GDP (billion J$)	1,337	1,463	1,573	1,563	1,676	1,656	1,803	1,977	2,168	2,366	2,576
Public sector debt (billion J$)	1,942	2,043	2,210	2,121	2,240	2,067	2,173	2,228	2,280	2,314	2,336
Of which: Direct debt	1,678	1,812	1,946	1,923	1,990	1,915	2,007	2,042	2,076	2,094	2,095

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ in 2014/15, reflects the extension of the CGT to government purchases, with projected total yield of J$3.1 billion at the time of the sixth review and updated to a projected yield of J$1.4 billion.
2/ From 2015/16, includes interest receipts from the PetroCaribe Development Fund to reimburse funds from the PetroCaribe debt buyback.
3/ From 2013/14 to 2015/16, includes a provision for past wage settlements and the health sector reclassification, totaling J$6.7 billion in FY2015/16.
4/ in 2014/15, projections reflect a reclassification of J$8.8 billion from capital outlays to programme expenditures.

Table 3. Jamaica: Summary of Central Government Operations
(In percent of GDP)

	2012/13	2013/14	Prog. 2014/15	Prel. 2014/15	Prog. 2015/16	Projections 2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Budgetary revenue and grants	25.8	27.1	26.4	26.3	27.3	27.7	27.4	26.9	26.2	26.1	26.1
Tax	24.0	23.6	23.6	23.7	24.9	25.2	24.9	25.0	25.0	25.0	25.0
Of which:											
Income and profits	8.7	7.7	7.7	7.7	7.7	7.8	7.5	7.5	7.6	7.6	7.6
Of which: Other companies	2.7	2.4	2.6	2.3	2.5	2.6	2.5	2.6	2.6	2.6	2.6
PAYE	4.6	4.3	4.1	4.3	4.3	4.3	4.1	4.1	4.1	4.1	4.1
Production and consumption	7.2	7.9	7.8	7.7	7.9	8.0	8.1	8.2	8.2	8.2	8.4
Of which: GCT (Local) 1/	3.8	4.2	4.2	4.1	4.2	4.3	4.3	4.5	4.5	4.5	4.6
International Trade	7.9	7.8	7.9	8.1	8.7	8.8	8.7	8.6	8.5	8.5	8.4
Of which: GCT (Imports) 1/	3.4	3.5	3.6	3.7	3.9	4.0	4.0	4.1	4.2	4.2	4.2
Non-tax	1.5	2.9	2.3	2.3	1.9	2.0	2.1	1.6	1.0	1.0	0.9
Grants	0.3	0.7	0.5	0.3	0.6	0.6	0.3	0.3	0.2	0.2	0.2
Budgetary expenditure	29.9	27.0	27.0	26.8	27.7	27.8	27.3	26.8	25.6	25.2	24.8
Primary expenditure	20.4	19.5	18.9	18.8	19.8	20.1	19.9	19.9	19.2	19.1	19.1
Wage and salaries 3/	11.0	10.7	10.0	10.2	9.9	10.1	9.0	9.0	9.0	9.0	9.0
Programme expenditure 4/	6.5	6.3	6.9	7.2	8.1	8.1	8.0	7.8	7.4	7.3	7.2
Capital expenditure 4/	2.8	2.5	2.0	1.5	1.8	1.8	2.9	3.1	2.8	2.8	2.8
Interest	9.5	7.5	8.1	8.0	7.9	7.7	7.4	6.9	6.4	6.0	5.8
Domestic	6.6	4.7	4.9	4.9	4.6	4.3	3.5	3.4	3.1	2.8	2.5
External	2.9	2.8	3.2	3.1	3.3	3.4	3.9	3.5	3.4	3.3	3.2
Budget balance	-4.1	0.1	-0.5	-0.5	-0.3	-0.1	0.1	0.1	0.6	1.0	1.2
Of which: Primary budget balance	5.4	7.6	7.6	7.5	7.6	7.6	7.5	7.0	7.0	7.0	7.0
Public entities balance	0.1	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	-4.2	0.1	-0.6	0.4	-0.3	-0.1	0.1	0.1	0.6	1.0	1.2
Principal repayments	6.6	7.1	4.5	4.7	9.3	24.6	2.9	11.0	7.3	8.2	9.5
Domestic	2.8	5.2	0.5	0.7	4.2	15.8	0.1	4.2	3.3	4.4	6.5
o.w. amortization from PetroCaribe	…	…	…	…	…	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7
External	3.9	1.9	3.9	4.0	5.1	8.8	2.8	6.9	4.0	3.8	3.0
Gross financing needs	10.9	7.1	5.0	5.2	9.6	20.0	2.0	10.2	6.0	6.6	7.6
Gross financing sources	10.9	7.1	5.0	5.2	9.6	20.0	2.0	10.2	6.0	6.6	7.6
Domestic	10.3	3.6	2.0	1.8	0.8	0.5	1.1	2.4	2.1	3.1	6.7
External	0.7	3.9	8.2	8.3	3.9	16.7	1.5	6.9	4.2	4.0	1.2
Of which: Official	0.7	3.9	2.5	2.6	2.1	2.3	1.5	1.8	2.2	2.3	1.2
Divestment + deposit drawdown	0.0	-0.4	-5.2	-5.0	4.9	2.8	-0.6	1.0	-0.3	-0.6	-0.3
Memorandum items:											
Nominal GDP (billion J$)	1,337	1,463	1,601	1,563	1,676	1,656	1,803	1,977	2,168	2,366	2,576
Public sector debt	145.3	139.7	140.1	135.7	132.5	124.8	120.5	112.7	105.1	97.8	90.7
Of which: Direct debt	125.6	123.9	122.9	123.0	117.7	115.6	111.3	103.3	95.7	88.5	81.3

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ in 2014/15, reflects the extension of the CGT to government purchases, with projected total yield of 0.2 percent of GDP at the time of the sixth review and updated to 0.1 percent of GDP.
2/ From 2015/16, includes interest receipts from the PetroCaribe Development Fund to reimburse funds from the PetroCaribe debt buyback.
3/ From 2013/14 to 2015/16, includes a provision for past wage settlements and the health sector reclassification, totaling 0.4 percent of GDP in FY2015/16.
4/ in 2014/15, projections reflect a reclassification of 0.5 percent of GDP from capital outlays to programme expenditures.

Table 4. Jamaica: Operations of the Public Entities

	In billions of Jamaican dollars						In percent of GDP					
				Prog.	Prel.	Prog.			Prel.	Prog.	Prel.	Prog.
	2011/12	2012/13	2013/14	2014/15	2014/15	2015/16	2011/12	2012/13	2013/14	2014/15	2014/15	2015/16
Operating balance selected public entities 1/	**55.2**	**60.6**	**16.6**	**29.2**	**36.5**	**48.9**	**4.4**	**4.5**	**1.1**	**1.9**	**1.9**	**2.2**
Of which:												
Clarendon Aluminum	-7.2	-1.1	-10.1	...	...	...	-0.6	-0.1	-0.7	...	...	...
Petrojam	25.1	15.5	14.7	...	...	...	2.0	1.2	1.0	...	...	...
NROCC	-0.6	-3.3	-2.8	...	...	...	0.0	-0.2	-0.2	...	...	...
Urban Development Corporation	-0.8	-0.4	0.6	...	...	...	-0.1	0.0	0.0	...	...	...
National Water Commission	4.0	8.0	0.8	...	...	...	0.3	0.6	0.1	...	...	...
Port Authority of Jamaica	2.9	3.7	3.8	...	...	...	0.2	0.3	0.3	...	...	...
National Housing Trust	26.9	29.6	4.3	...	...	...	2.1	2.2	0.3	...	...	...
National Insurance Fund	1.7	4.8	1.4	...	...	...	0.1	0.4	0.1	...	...	...
Net current transfers from the central government	**-11.8**	**-15.2**	**-19.1**	**-26.6**	**-22.6**	**-21.3**	**-0.9**	**-1.1**	**-1.3**	**-1.7**	**-1.4**	**-1.3**
Of which:												
Clarendon Aluminum	7.5	3.4	1.7	...	...	...	0.6	0.3	0.1	...	...	...
Petrojam	-19.2	-21.3	-18.8	...	...	...	-1.5	-1.6	-1.3	...	...	...
NROCC	0.2	3.0	3.4	...	...	...	0.0	0.2	0.2	...	...	...
Urban Development Corporation	0.7	0.1	0.3	...	...	...	0.1	0.0	0.0	...	...	...
National Water Commission	0.0	1.0	0.7	...	...	...	0.0	0.1	0.0	...	...	...
Port Authority of Jamaica	0.0	0.0	0.0	...	...	...	0.0	0.0	0.0	...	...	...
National Housing Trust	-1.2	-4.0	-11.4	...	...	...	-0.1	-0.3	-0.8	...	...	...
National Insurance Fund	0.0	0.0	0.0	...	...	...	0.0	0.0	0.0	...	...	...
Gross capital expenditure selected public entities 2/	**39.5**	**41.6**	**39.6**	**41.8**	**39.3**	**47.4**	**3.1**	**3.1**	**2.7**	**2.7**	**2.5**	**2.9**
Of which:												
Clarendon Aluminum	-0.2	1.5	0.4	...	...	...	0.0	0.1	0.0	...	...	...
Petrojam	2.6	0.2	1.5	...	...	...	0.2	0.0	0.1	...	...	...
NROCC	0.6	0.3	0.4	...	...	...	0.1	0.0	0.0	...	...	...
Urban Development Corporation	0.7	0.2	1.8	...	...	...	0.1	0.0	0.1	...	...	...
National Water Commission	4.5	9.7	-6.0	...	...	...	0.4	0.7	-0.4	...	...	...
Port Authority of Jamaica	2.1	0.8	0.5	...	...	...	0.2	0.1	0.0	...	...	...
National Housing Trust	25.5	23.2	22.3	...	...	...	2.0	1.7	1.5	...	...	...
National Insurance Fund	0.1	0.0	0.0	...	...	...	0.0	0.0	0.0	...	...	...
Other net spending selected public entities 3/	0.0	0.0	-27.9	-28.9	-20.7	-13.9	0.0	0.0	-1.9	-1.9	-1.3	-0.8
Overall balance selected public entities	**3.9**	**3.7**	**-14.2**	**-10.3**	**-4.7**	**-5.9**	**0.3**	**0.3**	**-1.0**	**-0.7**	**-0.3**	**-0.4**
Of which:												
Clarendon Aluminum	0.5	0.8	-8.5	...	...	...	0.0	0.1	-0.6	...	...	...
Petrojam	3.3	-5.9	-5.0	...	...	...	0.3	-0.4	-0.3	...	...	...
NROCC	-1.0	-0.5	0.1	...	...	...	-0.1	0.0	0.0	...	...	...
Urban Development Corporation	-0.8	-0.5	0.6	...	...	...	-0.1	0.0	0.0	...	...	...
National Water Commission	-0.5	-0.7	-4.5	...	...	...	0.0	-0.1	-0.3	...	...	...
Port Authority of Jamaica	0.8	3.0	3.7	...	...	...	0.1	0.2	0.3	...	...	...
National Housing Trust	0.2	2.4	-4.7	...	...	...	0.0	0.2	-0.3	...	...	...
National Insurance Fund	1.6	4.7	1.4	...	...	...	0.1	0.4	0.1	...	...	...
Overall balance other public entities	**-4.1**	**-1.8**	**14.3**	**10.3**	**18.5**	**5.9**	**-0.3**	**-0.1**	**1.0**	**0.7**	**1.2**	**0.4**
Overall balance public entities	**-0.2**	**1.9**	**0.1**	**0.0**	**13.7**	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.9**	**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)

	2012/13	2013/14	Prog. 2014/15	2014/15	Prog. 2015/16	Projections 2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Current account	-1,459	-1,166	-738	-962	-535	-518	-372	-408	-389	-351	-317
Trade balance	-3,946	-3,750	-3,492	-3,637	-3,287	-3,415	-3,454	-3,641	-3,781	-3,887	-3,971
Exports (f.o.b.)	1,744	1,530	1,415	1,398	1,423	1,342	1,382	1,461	1,543	1,630	1,711
Imports (f.o.b.)	5,690	5,280	4,907	5,035	4,710	4,757	4,836	5,102	5,324	5,517	5,682
Fuel (cif)	2,124	2,158	1,664	1,714	1,072	1,059	1,091	1,225	1,342	1,421	1,470
Exceptional imports (including FDI-related)	618	353	400	257	400	400	400	330	300	300	300
Other	2,949	2,769	2,843	3,064	3,237	3,299	3,345	3,547	3,682	3,797	3,912
Services (net)	551	601	782	737	710	874	1,013	1,121	1,255	1,404	1,573
Transportation	-749	-703	-646	-637	-748	-688	-703	-737	-766	-796	-826
Travel	1,885	1,919	2,153	2,115	2,207	2,273	2,438	2,616	2,809	3,020	3,250
Of which: Tourism receipts	2,058	2,095	2,320	2,307	2,389	2,469	2,641	2,827	3,029	3,249	3,489
Other services	-585	-615	-725	-740	-749	-710	-722	-758	-788	-820	-852
Income (net) 4/	-182	-275	-283	-345	-292	-310	-338	-360	-390	-424	-504
Current transfers (net)	2,119	2,258	2,255	2,283	2,334	2,332	2,407	2,472	2,526	2,556	2,586
Government (net)	206	265	168	201	171	205	209	213	217	222	226
Private (net)	1,913	1,993	2,088	2,082	2,164	2,127	2,198	2,259	2,308	2,334	2,359
Capital and financial account	565	1,118	991	1,569	208	497	440	466	398	414	352
Capital account (net)	-14	-26	-26	-19	-26	-19	-19	-19	-19	-19	-19
Financial account (net) 1/	579	1,144	1,017	1,588	234	516	458	485	416	433	370
Direct investment (net)	325	635	541	494	530	530	547	563	579	595	591
Central government (net)	-503	-226	270	277	-437	2,208	-567	-1	29	41	-198
Other official (net) 2/	542	396	269	98	112	-2,822	179	173	158	147	18
Of which: PetroCaribe	462	376	249	170	48	-2,886	138	133	120	108	0
Portfolio investment (net)	216	339	-63	719	29	600	300	-250	-350	-350	-40
Overall balance	-894	-48	254	607	-326	-21	68	57	8	62	35
Financing	894	48	-254	-607	326	21	-68	-57	-8	-62	-35
Change in gross reserves (- increase)	893	-330	-276	-641	-67	-423	-405	-41	61	46	73
Change in arrears	0	0	0	0	0	0	0	0	0	0	0
Financing gap	1	378	22	34	393	444	338	-16	-70	-108	-107
IMF 3/	0	-26	-163	-163	127	127	159	-16	-70	-108	-107
Disbursements	0	346	259	259	176	176	159	0	0	0	0
Repayments	0	-372	-422	-422	-50	-50	0	-16	-70	-108	-107
IFIs	107	376	185	181	267	318	179	0	0	0	0
Memorandum items:											
Gross international reserves	1,718	2,049	2,324	2,690	2,391	3,113	3,518	3,559	3,498	3,452	3,379
(in weeks of prospective imports of GNFS)	11.4	14.5	17.3	19.5	17.9	23.3	25.8	24.8	23.4	22.2	21.1
Net international reserves	884	1,304	1,884	2,294	1,824	2,590	2,837	2,894	2,902	2,964	2,999
NIR (excl. prefinanced repayments of maturing bonds)			1,585	1,995	1,772	2,538	2,837	2,894	2,902	2,964	2,999
Current account (percent of GDP)	-10.0	-8.3	-5.3	-7.0	-3.9	-3.7	-2.6	-2.7	-2.5	-2.1	-1.8
Exports of goods (percent change)	7.8	-12.3	-5.0	-8.6	0.5	-4.0	3.0	5.7	5.7	5.6	5.0
Imports of goods (percent change)	-3.1	-7.2	-7.3	-4.6	-4.0	-5.5	1.6	5.5	4.4	3.6	3.0
Oil prices (composite, fiscal year basis)	104.8	102.1	84.9	85.1	52.9	51.3	51.6	56.5	60.4	62.4	63.0
Tourism receipts (percent change)	1.4	1.8	10.7	10.2	3.0	7.0	7.0	7.1	7.2	7.3	7.4
GDP (US$ millions)	14,661	…	…	…	…	…	…	…	…	…	…
Jamaican dollar/USD, period average	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.
4/ Starting FY2011/12, interest payments to non-residents were adjusted to reflect resident holdings of GOJ global bonds.

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

			Prog.		Prog.	Projections					
	2012/13	2013/14	2014/15	2014/15	2015/16	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	(In billions of Jamaican dollars)										
End-of-period stocks 1/											
Net foreign assets	**87**	**143**	**220**	**264**	**231**	**320**	**368**	**395**	**412**	**435**	**456**
Net domestic assets	**4**	**-48**	**-121**	**-163**	**-124**	**-205**	**-254**	**-269**	**-274**	**-285**	**-289**
Net claims on public sector	212	195	171	112	184	171	163	166	159	153	163
Net claims on central government	82	75	50	17	83	83	66	65	61	58	67
Net claims on rest of public sector	130	130	124	102	104	93	108	113	109	105	106
Operating losses of the BOJ	0	-10	-4	-8	-2	-6	-11	-12	-12	-10	-9
Net credit to commercial banks	-20	-21	-22	-24	-26	-25	-28	-29	-31	-33	-38
Of which : foreign prudential reserve	-20	-21	-22	-24	-26	-25	-28	-29	-31	-33	-38
Net credit to other financial institutions	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
Open market operations	-54	-31	-33	-39	-23	-135	-153	-149	-127	-113	-104
Other items net (incl. valuation adj.)	-133	-189	-235	-210	-258	-214	-234	-255	-273	-290	-307
Valuation adjustment	-57	-61	-66	-70	-88	-68	-88	-109	-127	-143	-161
Base money	**91**	**94**	**100**	**101**	**107**	**115**	**114**	**125**	**138**	**150**	**168**
Currency in circulation	51	54	58	59	62	62	67	74	81	88	96
Liabilities to commercial banks	41	41	42	42	45	53	47	52	57	62	72
Fiscal year flows 1/											
Net foreign assets	**-70.2**	**55.4**	**77.6**	**121.0**	**10.5**	**55.9**	**48.4**	**26.3**	**17.3**	**23.6**	**20.9**
Net domestic assets	77.8	-52.3	-72.3	-114.4	-3.0	-41.9	-49.1	-15.3	-5.1	-11.1	-3.3
Net claims on public sector	66.2	-17.7	-23.3	-82.6	13.1	58.9	-7.9	2.6	-6.7	-5.7	9.8
Net claims on central government	7.3	-7.4	-24.2	-57.4	32.4	66.2	-17.2	-1.6	-3.5	-2.7	8.3
Net credit to commercial banks	-4.7	-1.5	-1.0	-2.5	-3.2	-1.1	-2.8	-1.4	-2.1	-2.1	-4.9
Net credit to other financial institutions	-0.2	0.0	-0.2	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
Open market operations	57.3	23.8	-2.1	-8.3	9.7	-95.9	-18.5	4.8	21.9	13.2	9.3
Other items net (incl. valuation adj.)	-40.8	-56.9	-45.6	-20.8	-22.7	-3.7	-19.8	-21.2	-18.2	-16.4	-17.5
Base money	**7.6**	**3.1**	**5.3**	**6.7**	**7.5**	**14.0**	**-0.7**	**11.0**	**12.1**	**12.5**	**17.6**
Currency in circulation	3.3	3.0	4.2	4.9	4.3	3.2	5.5	6.5	7.1	7.4	7.8
Liabilities to commercial banks	4.3	0.2	1.2	1.7	3.1	10.8	-6.2	4.5	5.0	5.2	9.7
	(Change in percent of beginning-of-period Base Money)										
Net foreign assets	**-83.9**	**60.7**	**82.2**	**128.2**	**10.5**	**55.3**	**42.1**	**23.0**	**13.8**	**17.2**	**13.9**
Net domestic assets	**93.0**	**-57.3**	**-76.5**	**-121.1**	**-3.0**	**-41.5**	**-42.7**	**-13.4**	**-4.1**	**-8.1**	**-2.2**
Net claims on public sector	79.1	-19.4	-24.7	-87.4	13.1	58.3	-6.9	2.3	-5.3	-4.1	6.5
Net credit to commercial banks	-5.6	-1.7	-1.1	-2.6	-3.2	-1.1	-2.4	-1.2	-1.7	-1.5	-3.3
Net credit to other financial institutions	-0.3	0.1	-0.2	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
Open market operations	68.4	26.0	-2.2	-8.8	9.7	-94.9	-16.1	4.2	17.5	9.6	6.2
Other items net (incl. valuation adj.)	-48.7	-62.3	-48.3	-22.1	-22.7	-3.7	-17.2	-18.5	-14.5	-11.9	-11.7
Base money	**9.1**	**3.4**	**5.7**	**7.0**	**7.5**	**13.8**	**-0.6**	**9.6**	**9.7**	**9.1**	**11.7**
Currency in circulation	4.0	3.3	4.4	5.2	4.4	3.1	4.8	5.7	5.7	5.4	5.2
Liabilities to commercial banks	5.1	0.2	1.2	1.8	3.1	10.7	-5.3	4.0	4.0	3.8	6.5
Memorandum items:											
Change in net claims on the central government (percent of GDP)	0.5	-0.5	-1.5	-3.7	1.9	4.0	-1.0	-0.1	-0.2	-0.1	0.3

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Fiscal year runs from April 1 to March 31.

Table 7. Jamaica: Summary Monetary Survey 1/

	2012/13	2013/14	Prog. 2014/15	2014/15	Prog. 2015/16	2015/16	Projections 2016/17	2017/18	2018/19	2019/20	2020/21
	(In billions of Jamaican dollars)										
End-of-period stocks 1/											
Net foreign assets	**117**	**191**	**276**	**309**	**290**	**367**	**419**	**444.4**	**462.4**	**486.3**	**511.0**
Net domestic assets	**279**	**229**	**168**	**136**	**187**	**101**	**91**	**114.1**	**150.1**	**182.1**	**235.6**
Net claims on public sector	293	268	257	188	274	246	238	251.0	245.1	238.9	249.1
Of which: Central government 2/	186	173	156	109	187	170	143	146.8	141.6	137.5	145.5
Open market operations	-36	18	-1	14	-23	-127	-157	-177.6	-175.2	-181.5	-197.0
Credit to private sector	294	326	343	339	393	392	449	505.7	567.2	630.8	702.4
Of which: Foreign currency	81	84	78	77	81	79	83	88.0	92.9	98.6	105.7
Other 3/	-272	-327	-325	-315	-349	-316	-339	-363.3	-385.5	-405.8	-419.7
Of which: Valuation adjustment	-57	-61	-65	-70	-85	-65	-83	-100.8	-116.2	-129.9	-144.0
Liabilities to private sector (M3)	**396**	**421**	**444**	**444**	**478**	**468**	**509**	**558.5**	**612.6**	**668.4**	**746.6**
Money supply (M2)	252	261	270	273	287	281	302	340.4	378.6	419.0	460.4
Foreign currency deposits	144	160	174	171	191	187	208	218.1	233.9	249.4	286.2
Fiscal year flows 1/											
Net foreign assets	**-47.4**	**74.1**	**85.3**	**117.4**	**13.9**	**58.6**	**51.3**	**25.8**	**18.1**	**23.9**	**24.7**
Net domestic assets	**93.9**	**-50.0**	**-61.5**	**-93.6**	**19.4**	**-35.2**	**-9.7**	**23.3**	**36.0**	**32.0**	**53.5**
Net claims on public sector	76.0	-25.4	-10.7	-79.5	17.0	58.1	-8.1	12.6	-5.9	-6.2	10.2
Of which: Central government	18.0	-12.4	-17.5	-63.9	31.6	60.2	-26.9	4.0	-5.2	-4.1	8.1
Open market operations	27.3	54.4	-18.9	-3.8	-22.6	-141.5	-30.3	-20.2	2.4	-6.3	-15.5
Credit to private sector	45.3	32.3	16.9	13.2	49.5	52.9	56.9	56.5	61.5	63.6	71.6
Of which: Foreign currency	1.0	2.4	-5.9	-7.3	3.0	2.3	4.1	5.0	5.0	5.7	7.1
Other 2/	-54.7	-55.2	2.2	12.3	-24.4	-1.1	-22.8	-24.6	-22.2	-20.3	-13.9
Of which: Valuation adjustment	-2.2	-3.9	-3.9	-8.9	-20.3	4.2	-17.2	-18.2	-15.4	-13.7	-14.1
Liabilities to private sector (M3)	**46.5**	**24.1**	**23.8**	**23.8**	**33.3**	**23.5**	**41.6**	**49.0**	**54.1**	**55.9**	**78.2**
Money supply (M2)	16.0	8.4	9.9	12.7	16.1	7.8	20.6	38.7	38.3	40.3	41.4
Foreign currency deposits	30.6	15.7	13.9	11.1	17.2	15.7	21.0	10.3	15.8	15.5	36.8
	(Change in percent of beginning-of-period M3)										
Net foreign assets	**-13.5**	**18.7**	**20.3**	**27.9**	**3.1**	**13.2**	**11.0**	**5.1**	**3.2**	**3.9**	**3.7**
Net domestic assets	**26.8**	**-12.6**	**-14.6**	**-22.3**	**4.4**	**-7.9**	**-2.1**	**4.6**	**6.4**	**5.2**	**8.0**
Net claims on public sector	21.7	-6.4	-2.5	-18.9	3.8	13.1	-1.7	2.5	-1.1	-1.0	1.5
Of which: Central government	5.2	-3.1	-4.2	-15.2	7.1	13.5	-5.7	0.8	-0.9	-0.7	1.2
Open market operations	7.8	13.7	-4.5	-0.9	-5.1	-31.8	-6.5	-4.0	0.4	-1.0	-2.3
Credit to private sector	13.0	8.2	4.0	3.1	11.1	11.9	12.2	11.1	11.0	10.4	10.7
Of which: Foreign currency	0.3	0.6	-1.4	-1.7	0.7	0.5	0.9	1.0	0.9	0.9	1.1
Other 2/	-15.6	-13.9	0.5	2.9	-5.5	-0.2	-4.9	-4.8	-4.0	-3.3	-2.1
Of which: Valuation adjustment	-0.6	-1.0	-0.9	-2.1	-4.6	0.9	-3.7	-3.6	-2.8	-2.2	-2.1
Liabilities to private sector (M3)	**13.3**	**6.1**	**5.7**	**5.7**	**7.5**	**5.3**	**8.9**	**9.6**	**9.7**	**9.1**	**11.7**
Memorandum items:											
M3/monetary base	4.3	4.5	4.5	4.4	4.5	4.1	4.5	4.5	4.5	4.5	4.5
M3 velocity	3.4	3.5	3.5	3.5	3.5	3.5	3.5	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 net credit to nonbank financial institutions, capital accounts, valuation adjustment, securities sold under repurchase agreements and net unclassified assets.

Table 8. Jamaica: Financial Sector Indicators 1/
(in percent)

	2007	2008	2009	2010	2011	2012	2013	2014	2015Q1
Balance sheet growth (y/y)									
Capital	11.5	14.7	13.8	5.1	5.4	4.2	17.1	6.6	5.5
Loans	28.7	24.2	5.3	-1.4	4.8	12.9	14.1	6.6	6.8
NPLs	14.2	57.6	68.0	36.1	44.0	-10.8	-12.9	-2.2	6.3
Liquidity									
Excess liquidity 2/	25.0	30.3	31.3	36.2	30.5	26.7	25.3	31.5	30.0
Asset Quality									
Prov. for loan losses/NPLs	103.4	87.2	75.7	69.9	75.2	90.3	95.7	104.7	101.2
NPLs/loans	2.3	2.9	4.7	6.5	8.9	7.0	5.4	4.9	4.9
Capital Adequacy									
NPLs/Capital+Prov. for loan losses	9.1	12.3	17.7	22.3	28.4	24.1	18.8	17.1	16.8
Capital Adequacy Ratio (CAR) 3/	16.0	15.2	18.8	18.2	16.1	14.1	15.1	15.9	15.7
Profitability 4/ 5/									
Pre-tax profit margin	26.7	26.2	21.4	21.1	30.8	21.4	19.0	20.3	18.6
Return on average assets	3.4	3.5	2.9	2.5	3.9	2.4	2.0	2.1	2.1

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.
5/ Calendar year or end-quarter.

Table 9. Jamaica: Structural Program Conditionality

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1. 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. Government to ensure there is: (i) no financing of Clarendon Alumina 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
4. Government to table in parliament a budget for 2014/15 consistent with the program.	April 30, 2014	Met
5. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17, Country Report No. 13/378).	April 30, 2014	Met
6. 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	Met
7. Ensure that the public service database e-census is up to date and covers all Ministries, Departments and Agencies.	September 10, 2014	Met
8. 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	Met
9. Government to table changes in legislation for the new public sector pension system expected to be implemented by April 2016 (MEFP paragraph 25, Country Report No. 14/169).	November 30, 2015	
10. Government to establish a new Cash Management Unit in the Accountant General Department (AGD) and transfer to it the cash management function currently handled by the Fiscal Policy Management Unit (FPMU).	September 30, 2015	
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. 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
13. Government to table in parliament amendments to the GCT as stipulated in paragraph 12 of the June 2014 MEFP.	June 30, 2014	Met
14. Government to conduct an entity by entity review of all grandfathered entities and of their specific tax incentives in the context of the new tax incentives legislation by end-2014/15.	January 31, 2015	Not met 1/
15. Government to table legislation governing the tax regime that will be part of the SEZ legislation consistent with the criteria listed in the June 2015 MEFP par. 13 to help safeguard the integrity of the tax system and avoid tax leakage.	October 31, 2015	
Tax Administration		
16. 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
17. Government to implement ASYCUDA World for the Kingston Port as a pilot site.	December 31, 2014	Met
18. Government to: (i) increase the number of staff in the large taxpayers office (LTO) by a further 30 auditors (from March 2014 to March 2015); (ii) increase the number of (full plus issue) audits completed in the 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; (iv) write-off all GCT and SCT debts that have been subjected to risk-rated stress tests and consequently categorized as uncollectible according to the Regulations.	March 31, 2015	Not met 2/
19. Government to complete pilot testing of ASYCUDA World (covering imports and exports) in the Kingston port.	May 31, 2015	Met
20. Government to implement Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package.	February 28, 2015	Met
21. Government to table in Parliament proposals for a comprehensive overhaul of the Customs Act.	June 30, 2015	Met
22. Government to fully implement the key performance indicators, as outlined in the National Compliance Plan, to measure the effectiveness and efficiency of the tax system.	November 30, 2015	Proposed revision
23. Government to implement Phase 2 of the RAiS (GENTAX) integrated tax software package, for all major tax types.	December 31, 2015	

Table 9. Jamaica: Structural Program Conditionality (Concluded)

Financial sector		
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 (June 2014 MEFP Paragraph 29) in consultation with Fund staff.	December 30, 2014	Met
27. Government to table the Omnibus Banking Law 3/ consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	Met 4/
28. Government to finalize the transition of retail repos to the trust-based framework.	August 30, 2015	Met
29. Government to fully implement the Banking Services Act.	September 30, 2015	
30. The BOJ to have overall responsibility for financial stability.	November 1, 2015	
Growth enhancing structural reforms		
31. Government to implement a new (AMANDA) tracking system to track approval of contruction permits across all parish councils.	December 30, 2014	Met
32. Government to table in parliament the Electricity Act.	January 31, 2015	Met

1/ The review was reportedly completed in March 2015.
2/ While all other elements of the benchmarks were met, technical difficulties prevented the achievement of 95 percent take-up rate of e-filing in the LTO. The take-up rate was 80 percent.
3/ Currently referred to as the Banking Services Act.
4/ The law was tabled in March 2014 with subsequent fine-tuning in collaboration with Fund staff prior to its adoption in June.

Table 10. Jamaica: Quantitative Performance Criteria 1/2/3/

(in billions of Jamaican dollars)

	2014	2015					2016		
	End-Dec.	End-June	End-June	End-June	End-Sept	End-Dec.	End-Mar.		End-Jun.
	Stock	PC	Adjusted	Actual	PC	PC	PC	Revised Proposed PC	Proposed PC
Fiscal targets									
1. Primary balance of the central government (floor) 4/		17.0		19.9	40.0	65.0	126.0	125.0	15.0
2. Tax Revenues (floor) 4/9/		88.0		95.4	185.0	280.0	411.0	411.0	99.0
3. Overall balance of the public sector (floor) 4/		-21.0	-17.5	-0.1	-34.0	-36.0	-3.7	-10.0	-25.0
4. Central government direct debt (ceiling) 4/5/		4.5		-37.9	40.0	41.0	71.0	71.0	15.0
5. Central government guaranteed debt (ceiling) 4/		2.0		-1.2	2.0	0.0	0.0	0.0	0.0
6. Central government accumulation of domestic arrears (ceiling) 6/12/13/	21.6	0.0		-0.6	0.0	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 7/12/13/	23.2	0.0		-5.2	0.0	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/		4.5		6.8	9.2	15.6	23.2	23.2	4.8
Monetary targets									
10. Cumulative change in net international reserves (floor) 8/11/	1997.7	-482.2	-573.5	125.7	-463.3	-338.0	-339.0	-339.0	-199.6
11. Cumulative change in net domestic assets (ceiling) 11/	-120.2	54.4	64.8	-18.8	56.1	53.8	24.2	31.1	22.8

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 2015 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 2014.
12/ Continuous performance criterion.
13/ Through end-June 2015, this accumulation is measured as the change in the stock of arrears relative to the stock at end-March 2014. The latter stock is listed in the column for the stock at end-December 2014. From end-September 2015 onwards, the accumulation will be measured against the stock at end-March 2015, which is J$21.3 billion for domestic arrears and J$21.7 billion for tax arrears.

Table 11. Jamaica: Indicators of Fund Credit, 2015-26

(In millions of SDRs, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Prospective drawings (4-year EFF)	56.64	113.28	28.33	...	...	...	...	...	...	...	...	...
(in percent of quota)	20.71	41.42	10.36	...	...	...	...	...	...	...	...	...
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)												
Amortization	11.96	3.99	11.40	37.11	64.80	83.68	100.20	102.56	91.17	65.46	37.76	0.00
Amortization (SBA)	11.96	3.99	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Amortization (4-year EFF)	0.00	0.00	11.40	37.11	64.80	83.68	100.20	102.56	91.17	65.46	37.76	0.00
Interest and service charges	2.57	5.86	6.45	6.26	5.79	5.07	4.14	3.07	2.00	1.12	0.51	0.00
SDR charges and assessments	0.02	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Total debt service	14.56	9.89	17.89	43.41	70.64	88.79	104.38	105.68	93.21	66.62	38.31	0.04
(in percent of exports of G&S)	0.49	0.31	0.54	1.23	1.87	2.22						
(in percent of GDP)	0.16	0.10	0.18	0.42	0.65	0.78	0.88	0.85	0.72	0.49	0.27	0.00
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)												
Outstanding stock	477.76	587.05	603.98	566.88	502.08	418.39	318.19	215.63	124.46	59.00	21.24	0.00
(in percent of quota)	174.68	214.64	220.83	207.27	183.58	152.98	116.34	78.84	45.51	21.57	7.77	0.00
(in percent of GDP)	5.15	6.22	6.15	5.51	4.65	3.70	2.68	1.74	0.96	0.43	0.15	0.00
Memorandum items:												
Exports of goods and services (US$ millions)	4,430.99	4,684.60	4,971.82	5,283.21	5,620.67	5,974.18	...	...	...	...	...	...
US$/SDR exchange rate	...	...	...	...	...	...	...	...	...	...	...	...
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: Fund Staff estimates.

Table 12. 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 20, 2014	45.95	17	Fourth Review and end-March 2014 performance criteria
September 24, 2014	45.95	17	Fifth Review and end-June 2014 performance criteria
December 19, 2014	45.95	17	Sixth Review and end-September 2014 performance criteria
March 30, 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. Debt Sustainability Analysis

The current sustainability assessment is broadly in line with the analysis presented during the 2014 Article IV Consultation.[1] Despite the steady decline in the public debt-to-GDP ratio—underpinned by a strong fiscal consolidation and the recent buyback of the PetroCaribe debt at a significantly reduced face value, public debt in Jamaica remains high and vulnerable to key macro-fiscal shocks—especially to real GDP growth and the exchange rate—and to the financial sector contingent liability shock.[2]

A. Public Debt Sustainability Analysis

1. **Jamaica's public debt position has improved markedly over the past few years.** From 146.5 percent of GDP at end-March 2013, public debt fell to 136.9 percent of GDP at end-March 2015 and is now projected to about 125 percent of GDP at end-March 2016. Under the same projections, public debt would be down to 98.5 percent of GDP at end-March 2020, still higher than the 96 percent marker set at the start of the program, on the back of growth underperformance and lower inflation than expected (¶3 below).

2. **The steady decline in Jamaica's public debt has been supported by sustained fiscal consolidation under the authorities' IMF-supported program.** Fiscal adjustment has proceeded as envisaged (in size) at the start of the program—Jamaica's central government operations posted a primary surplus of 7½ percent of GDP over two consecutive years, and the FY2015/16 budget is anchored around the same level for the primary surplus. Fiscal consolidation would contribute to a direct reduction in public debt by some 21 percentage points of GDP by end-March 2016, if the current budget is executed as programmed. However, improving the quality of the fiscal adjustment, for instance by sheltering public investment from potential shortfall in tax revenues, would be key going forward.

3. **Three major developments have shaped the public debt landscape in Jamaica since the last DSA**:

- **Jamaica re-accessed the international capital market in July last year with a US$800 million bonds issuance.** The 10-year bond, at an initial yield of 7.625 percent with three equal maturities in 2023–25, marked the end of a three-year absence from external capital markets.
- **Jamaica bought back from Venezuela (in July 2015) its outstanding debt with PetroCaribe as of end-December 2014 at a significantly reduced face value.** The retired debt amounted to about US$3.25 billion, including prospective interest payments. This sizable transaction trades a highly concessional debt with PDVSA (1 percent interest rate with

[1] IMF Country Report 14/169.

[2] The main assumptions underpinning the DSA are presented in the lower panel of Figure 4 and are based on the medium-term macroeconomic framework under the extended arrangement under the EFF.

an average remaining maturity of 20 years) against international bonds financing of US$1.5 billion. Jamaica raised US$2 billion in July 2015 to finance both the buyback operation (US$1.5 billion) and maturities coming due in FY2015/16. The issuance consisted of two tranches: (i) one 13-year bond of US$1.35 billion at 6.75 percent interest rate, with equal repayments in 2026, 2027 and 2028; (ii) and a 30-year bond of US$350 million at 7.875 percent interest rate with single repayment in 2045. These bonds were oversubscribed, reflecting improved market sentiment, as the island successfully implements its economic program—Jamaica's bonds yields have declined steadily over the past two years and are now slightly below the EMBIG average spread. The buyback generated important fiscal gains for Jamaica, both in the short- and long term (Box 2, main text). The island should prepare to meet the related large bullet repayments when they come due.

- **Economic activity has been weaker and inflation lower than anticipated.** The drought last year (a severe drag on agriculture) and the Chikungunya virus outbreak undermined productivity in FY2014/15. Also, lower global oil prices brought inflation well below expectations. These two developments contributed to the worsening of the country's Interest Rate Growth Differential (IRGD), which became positive in FY2015/16 (Figure A1.3, lower Panel). Though projected to return to negative territory over the medium-term, Jamaica's IRGD would remain well above that of its emerging markets peers.

4. **While on a firm downward path, public debt in Jamaica is still high, and its baseline path remains vulnerable to key macro-fiscal and contingent liability shocks.**

- **With public debt still high, fiscal complacency could reverse hard-won gains under the ambitious reform program thus far, leading to unpleasant public debt dynamics**. The reduction in public debt since 2013 has been supported by fiscal consolidation. The current fiscal stance, seemingly extreme at face value by international standards (Figure A1.2), should be gauged against the historical ability of the island to generate high primary surpluses and the relatively low magnitude of the fiscal multiplier in a small open economy, with a non-fixed exchange rate regime, and high interest payments brought on by high levels of public debt. Although a primary balance shock does not seem to have a material impact on the debt trajectory (Figure A1.5)[3], the indirect effects of fiscal complacency at this juncture, characterized by high debt and low growth, can be significant (e.g., via the credibility and confidence channels, and the risk of multiple equilibria). It is therefore critical to maintain the strong fiscal position going forward.

- **Growth disappointments could derail public debt.** A negative shock of 1.7 percentage points to real GDP growth in FY2016/17 and FY2017/18, corresponding to one standard deviation of real GDP growth in Jamaica over the past 10 years, would push public debt up to

[3] The scenario describes a cumulative relaxation of the primary balance by 4¼ percentage points of GDP, spread over FY2016/17–FY2020/21 (Figure A1.5, lower panel).

102.8 percent of GDP by end-March 2021, 11.5 above the current projection. This vulnerability underscores the importance of policies to promote macroeconomic stability.

- **The heat map shows high vulnerabilities related to gross financing needs (Figure A1.1), but these needs mostly reflect the debt buyback operation that has already taken place in July 2015.** Taking out the amount of this buyback operation (US$1.5 billion) from debt service would bring down the gross financing needs level in FY2015/16 below the heat map benchmark (text chart, second row).

Heat Map (after accounting for the buyback operation)

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

1/2/3/ See associated footnotes in Annex I. Figure 1.

5. **Stochastic simulations summarize the vulnerability of Jamaica's public debt to joint macro-fiscal shocks (fan charts, Figure A1.1).** Based on the joint historical distribution of the main macroeconomic aggregates (real GDP growth, interest rate, nominal exchange rate, and primary balance), assumed to be ergodic for the purpose of the simulations, there is a 25 percent probability that public debt would exceed 100 percent of GDP at end-March 2021, even absent a contingent liability shock. A financial sector contingent liability stress test also suggests that public debt could rise above 100 percent at end-March 2021, if it is subject to a one-time increase in non-interest expenditures equivalent to 10 percent of the banking sector's assets.[4] On the positive side, the public debt-to-GDP ratio could meet the 96 percent target at end-March 2018, though with a limited probability of 10 percent.

B. External Debt Sustainability Analysis

6. **The composition of public debt has shifted towards external sources over the past few years**. External debt is now projected at around 70 percent of GDP in FY2015/16, about 7 percentage points of GDP higher than in FY2013/14. The share of foreign-currency denominated debt is also high, given that some domestic bonds are USD-denominated (see Figure A1.4 upper panel). The shift occurred as Jamaica taped on the international capital market with a still frozen domestic bonds market after the second domestic debt exchange in 2013 and as IFIs continued to meet their disbursement commitments under the EFF.

[4] It is assumed that the financial stress would also trigger GDP losses in the magnitude of the real growth shock described above (see ¶4 above).

7. **This recent trend has heightened the exchange rate risk on public debt**. Looking backward, the nominal exchange rate depreciation contributed to an increase in the debt-to-GDP ratio of about 13 percentage points between April 2013 and March 2015 (see Figure A1.3), after accounting for the pass-through onto inflation. Figure A1.5 highlights the vulnerability of public debt to exchange rate movements. [5]

8. **The composition of external financing will be critical going forward**. Jamaica has relied on the (highly concessional) PetroCaribe financing over the past years—the liabilities vis-à-vis PDVSA amounted to more than 22 percent of GDP at end-March 2015, prior to the buyback operation. The uncertainty surrounding the continuity of this arrangement going forward heightens the risk to external debt—seeking alternative concessional financing where possible would mitigate this risk. The re-activation of domestic bond market would provide scope for shifting the financing towards domestic sources, as external debt repayments come due, containing the foreign exchange risk to public debt.

[5] A pass-through coefficient of 0.25 (common across EMs under the MAC DSA) is assumed.

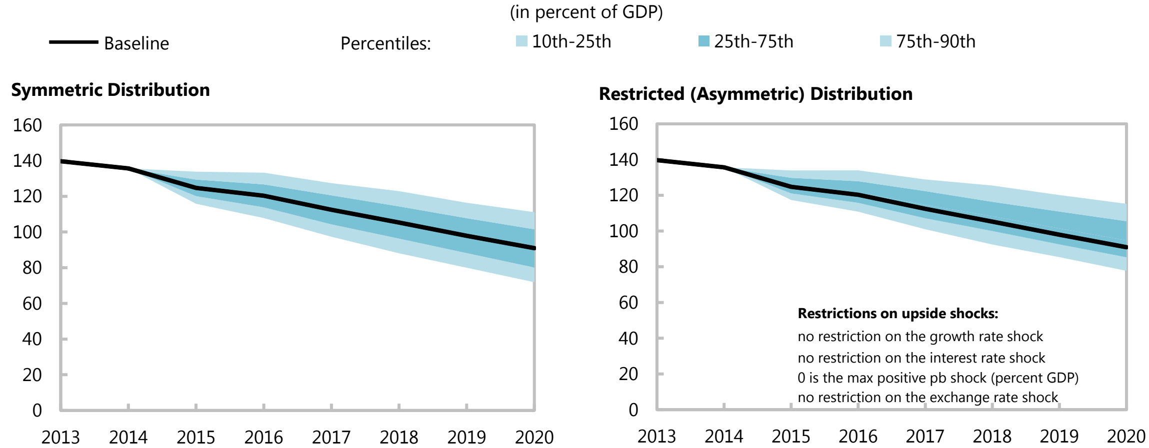
Figure A1.1. Jamaica Public DSA Risk Assessment

Heat Map 6/

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

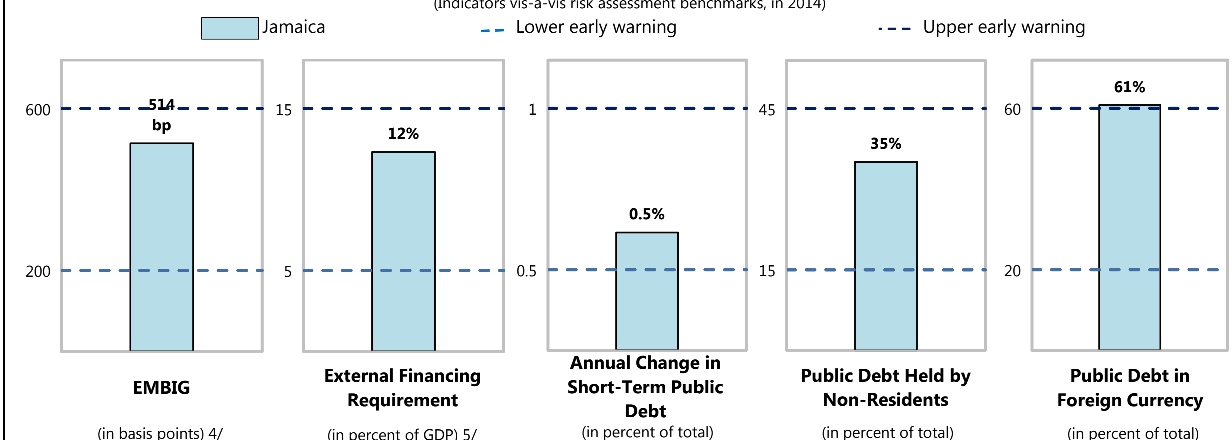
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2014)



Source: Fund staff calculations.

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

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

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

Lower and upper risk-assessment benchmarks are:

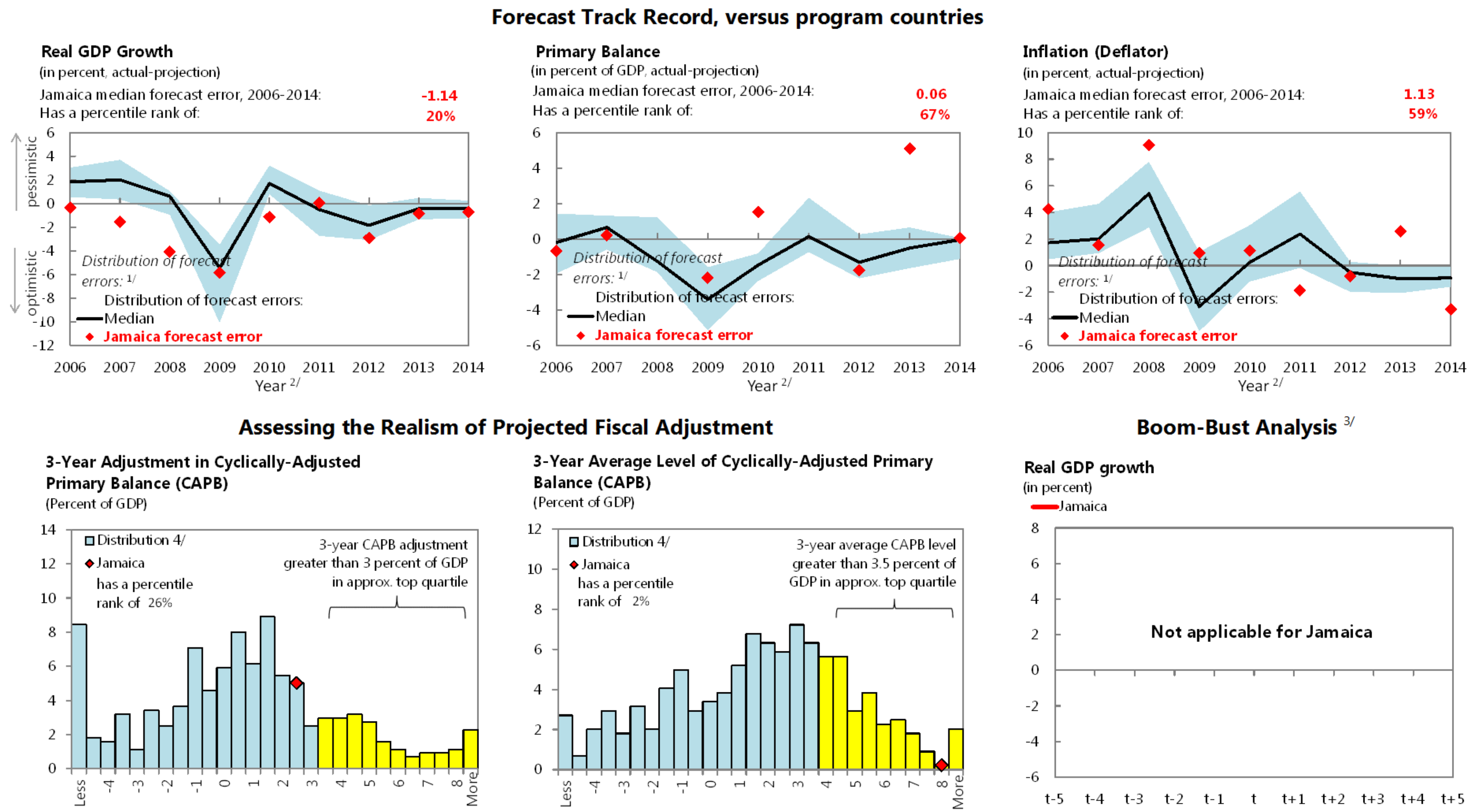
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 20-Apr-15 through 19-Jul-15.

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.

6/ The red-colored cells on the heat map under "gross financing needs" (upper panel chart, second row) do not account for the fact that the 2015 gross financing needs include the amount of the buyback operation which has already taken place.

Figure A1.2. Jamaica Public DSA – Realism of Baseline Assumptions



Source: Fund staff calculations.

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, as it meets neither the positive output gap criterion nor the private credit growth criterion.

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.

Figure A1.3. Jamaica Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

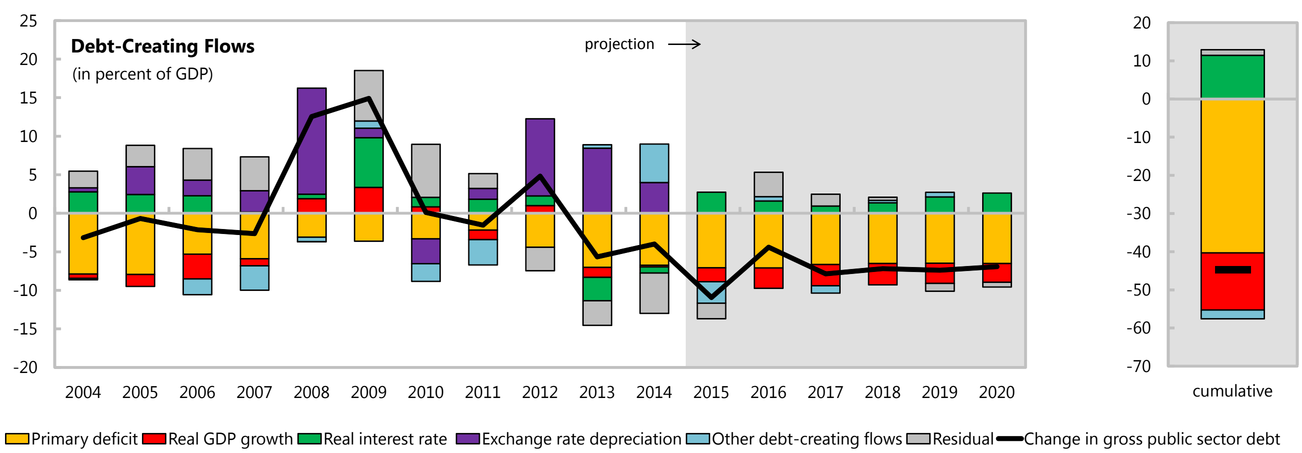
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2004-2012 [2]	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	129.7	139.7	135.7	124.8	120.4	112.5	105.3	97.9	91.0
Of which: guarantees	10.1	11.2	10.4	9.9	9.0	8.3	7.5	6.9	6.3
Public gross financing needs	19.5	7.0	5.2	24.9	2.9	9.9	6.7	8.2	10.1
Real GDP growth (in percent)	0.1	1.0	0.2	1.4	2.3	2.5	2.7	2.7	2.7
Inflation (GDP deflator, in percent)	9.9	8.4	7.2	4.5	6.5	6.9	6.8	6.3	6.0
Nominal GDP growth (in percent)	10.0	9.4	6.9	5.9	8.9	9.6	9.7	9.1	8.9
Effective interest rate (in percent) [4]	11.7	6.2	6.6	6.7	8.0	8.0	8.3	8.6	9.1

As of July 19, 2015		
Sovereign Spreads		
EMBIG (bp) 3/		-10
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Caa2	Caa2
S&Ps	B	B
Fitch	B-	B-

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	2.5	-5.7	-4.0	-10.9	-4.4	-7.9	-7.2	-7.4	-6.9	-44.7	
Identified debt-creating flows	-0.4	-2.5	1.3	-8.9	-7.6	-9.4	-7.6	-6.4	-6.3	-46.2	
Primary deficit	-4.8	-7.0	-6.7	-7.1	-7.1	-6.6	-6.5	-6.5	-6.5	-40.3	0.2
Primary (noninterest) revenue and grants	24.9	26.5	25.6	27.2	27.0	26.6	25.7	25.6	25.6	157.7	
Primary (noninterest) expenditure	20.0	19.5	18.9	20.1	19.9	19.9	19.2	19.1	19.1	117.3	
Automatic debt dynamics [5]	5.6	4.1	3.0	1.0	-1.0	-1.8	-1.4	-0.5	0.2	-3.6	
Interest rate/growth differential [6]	2.1	-4.3	-1.0	1.0	-1.0	-1.8	-1.4	-0.5	0.2	-3.6	
Of which: real interest rate	2.1	-3.0	-0.8	2.8	1.6	0.9	1.4	2.1	2.6	11.4	
Of which: real GDP growth	0.0	-1.3	-0.2	-1.8	-2.6	-2.7	-2.8	-2.6	-2.4	-15.0	
Exchange rate depreciation [7]	3.6	8.5	4.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-1.2	0.4	5.0	-2.8	0.6	-1.0	0.3	0.6	0.0	-2.3	
Privatization Receipts and Deposits Drawdown (negative)	-1.2	0.4	5.0	-2.8	0.6	-1.0	0.3	0.6	0.0	-2.3	
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 Euroarea loans)	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]	2.9	-3.2	-5.2	-2.0	3.2	1.5	0.4	-1.0	-0.6	1.5	



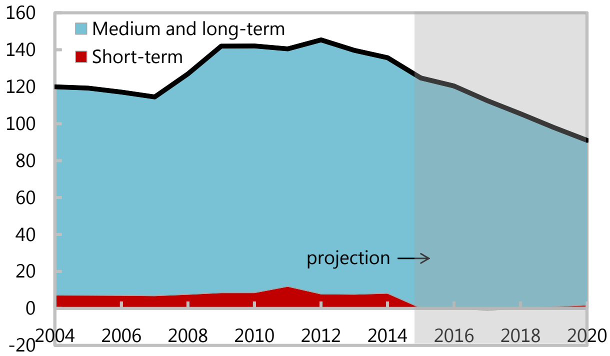
Source: Fund staff calculations.
1/ Public sector is defined as central government and includes public guarantees and PetroCaribe.
2/ Based on available data.
3/ EMBIG.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - 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.

Figure A1.4. Jamaica Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

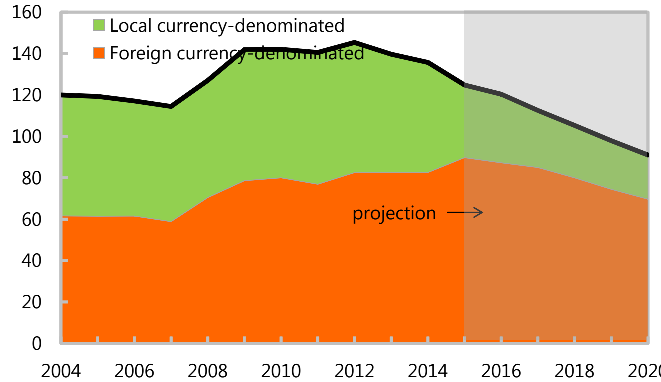
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

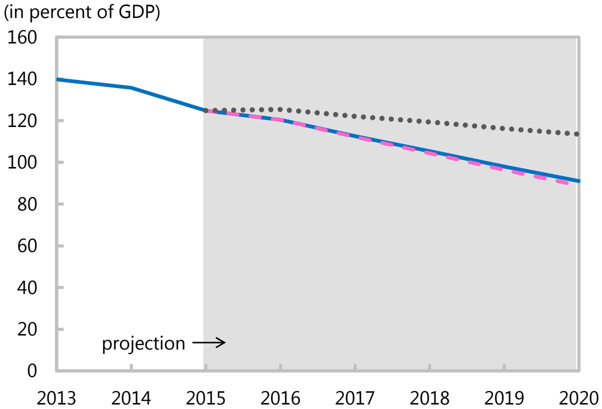


Alternative Scenarios

Baseline Historical Constant Primary Balance

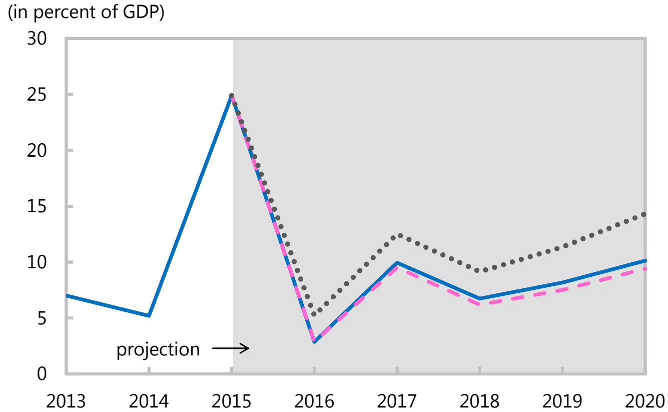
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

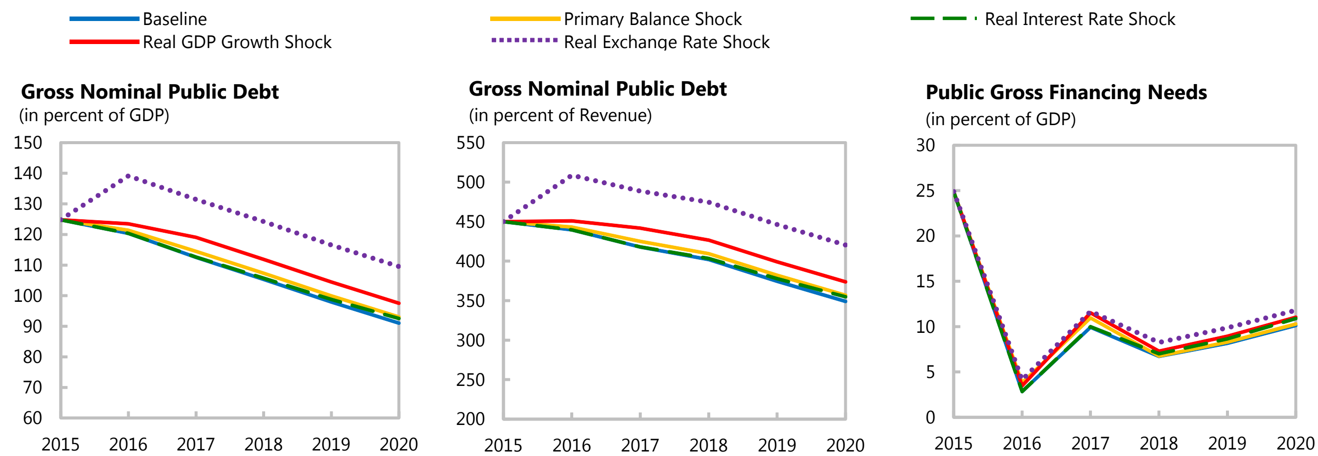
Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	1.4	2.3	2.5	2.7	2.7	2.7
Inflation	4.5	6.5	6.9	6.8	6.3	6.0
Primary Balance	7.1	7.1	6.6	6.5	6.5	6.5
Effective interest rate	6.7	8.0	8.0	8.3	8.6	9.1
Constant Primary Balance Scenario						
Real GDP growth	1.4	2.3	2.5	2.7	2.7	2.7
Inflation	4.5	6.5	6.9	6.8	6.3	6.0
Primary Balance	7.1	7.1	7.1	7.1	7.1	7.1
Effective interest rate	6.7	8.0	8.0	8.3	8.6	9.1

Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	1.4	0.1	0.1	0.1	0.1	0.1
Inflation	4.5	6.5	6.9	6.8	6.3	6.0
Primary Balance	7.1	5.0	5.0	5.0	5.0	5.0
Effective interest rate	6.7	8.0	7.9	8.1	8.3	8.6

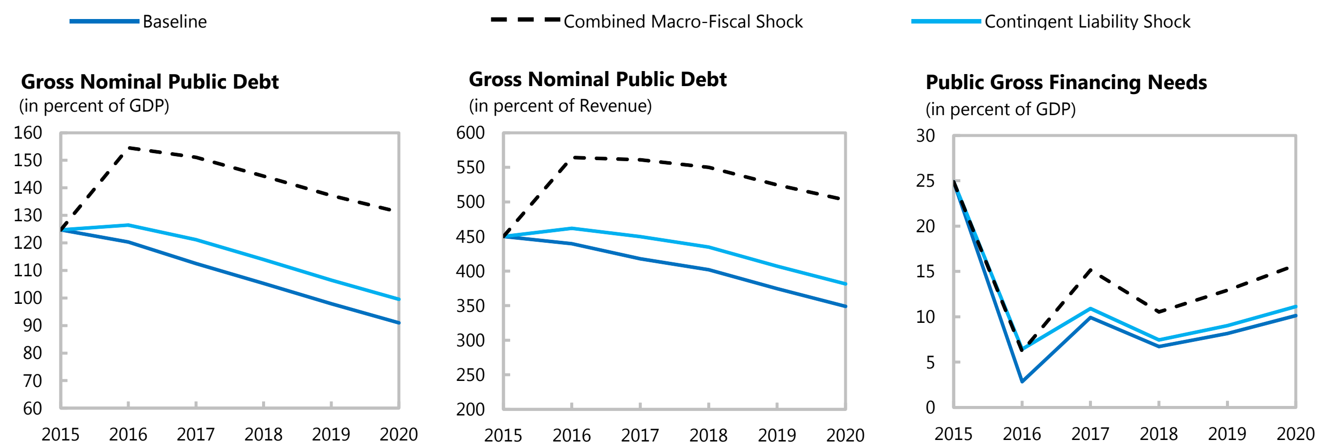
Source: Fund staff calculations.

Figure A1.5. Jamaica Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



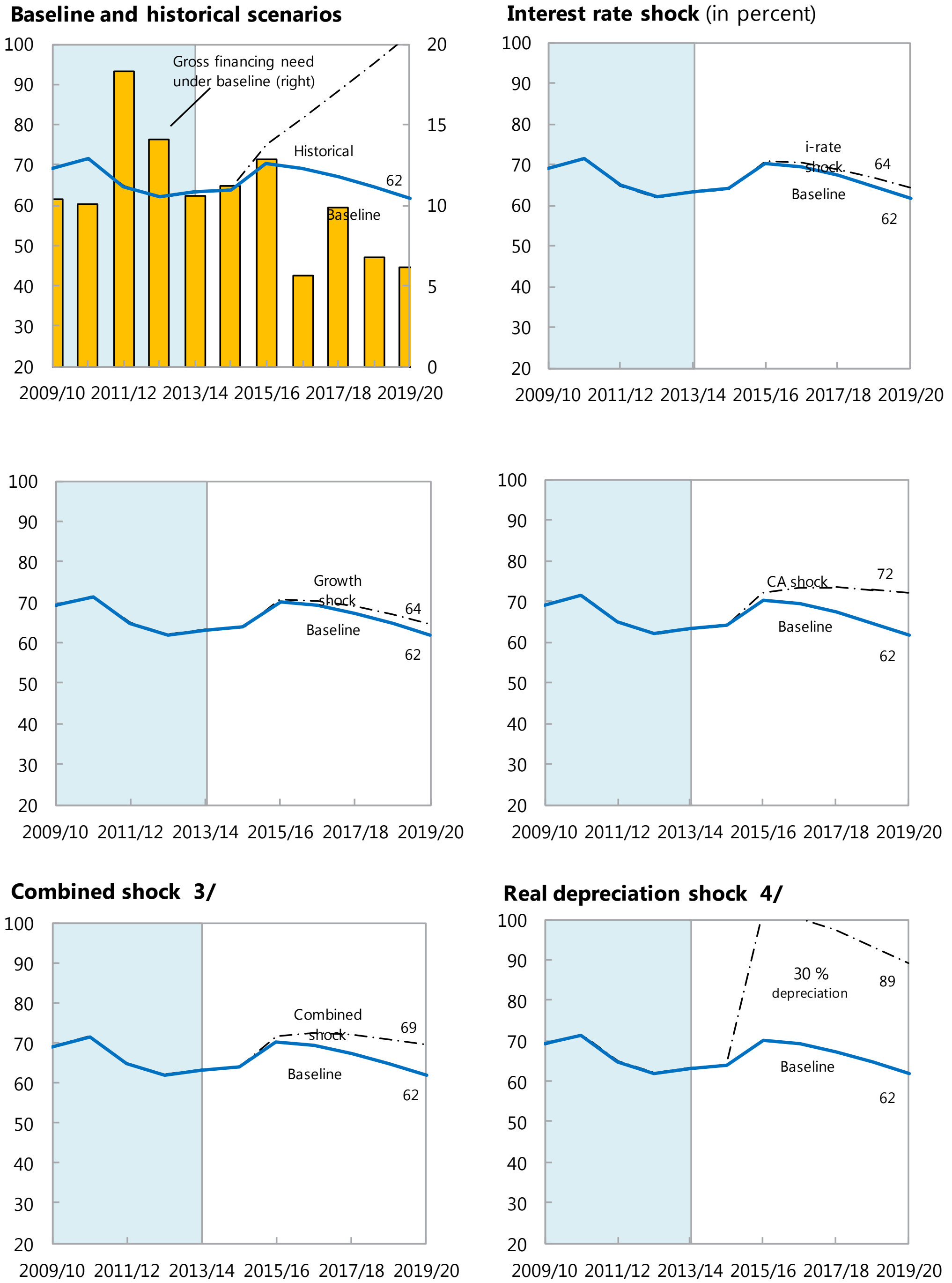
Underlying Assumptions
(in percent)

	2015	2016	2017	2018	2019	2020
Primary Balance Shock						
Real GDP growth	1.4	2.3	2.5	2.7	2.7	2.7
Inflation	4.5	6.5	6.9	6.8	6.3	6.0
Primary balance	7.1	6.1	5.7	6.5	6.5	6.5
Effective interest rate	6.7	8.0	8.0	8.3	8.6	9.1
Real Interest Rate Shock						
Real GDP growth	1.4	2.3	2.5	2.7	2.7	2.7
Inflation	4.5	6.5	6.9	6.8	6.3	6.0
Primary balance	7.1	7.1	6.6	6.5	6.5	6.5
Effective interest rate	6.7	8.0	8.1	8.6	9.1	9.9
Combined Shock						
Real GDP growth	1.4	0.6	0.8	2.7	2.7	2.7
Inflation	4.5	6.0	6.5	6.8	6.3	6.0
Primary balance	7.1	6.1	5.7	6.5	6.5	6.5
Effective interest rate	6.7	9.5	7.6	8.2	8.8	9.4

	2015	2016	2017	2018	2019	2020
Real GDP Growth Shock						
Real GDP growth	1.4	0.6	0.8	2.7	2.7	2.7
Inflation	4.5	6.0	6.5	6.8	6.3	6.0
Primary balance	7.1	6.7	5.8	6.5	6.5	6.5
Effective interest rate	6.7	8.0	8.0	8.3	8.6	9.1
Real Exchange Rate Shock						
Real GDP growth	1.4	2.3	2.5	2.7	2.7	2.7
Inflation	4.5	14.5	6.9	6.8	6.3	6.0
Primary balance	7.1	7.1	6.6	6.5	6.5	6.5
Effective interest rate	6.7	9.5	7.5	7.9	8.2	8.7
Contingent Liability Shock						
Real GDP growth	1.4	0.6	0.8	2.7	2.7	2.7
Inflation	4.5	6.0	6.5	6.8	6.3	6.0
Primary balance	7.1	4.1	6.6	6.5	6.5	6.5
Effective interest rate	6.7	8.4	7.9	8.2	8.5	9.0

Source: Fund staff calculations.

Figure A1.6. Jamaica: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



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

Table A1.1. Jamaica: External Debt Sustainability Framework, 2009/10-2019/20

(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/
Baseline: External debt	69.1	71.5	64.7	62.0	63.3			**63.9**	**70.7**	**70.4**	**68.7**	**66.1**	**63.4**	**-3.4**
Change in external debt	17.4	2.3	-6.7	-2.7	1.2			0.7	6.8	-0.3	-1.7	-2.6	-2.7	
Identified external debt-creating flows (4+8+9)	8.7	0.4	6.9	7.4	6.3			3.3	-0.1	-1.3	-1.6	-2.1	-2.4	
Current account deficit, excluding interest payments	3.6	4.4	10.2	6.8	5.2			3.4	1.2	0.2	0.4	0.0	-0.4	
Deficit in balance of goods and services	18.2	19.5	24.9	23.2	22.4			21.0	19.2	18.8	18.3	17.3	16.1	
Exports	33.1	29.7	29.1	30.2	29.9			31.0	32.1	33.3	34.0	34.4	34.9	
Imports	51.3	49.1	54.0	53.4	52.2			52.0	51.3	52.0	52.2	51.7	51.0	
Net non-debt creating capital inflows (negative)	-3.3	-1.1	-1.5	-2.2	-4.5			-3.6	-3.8	-3.9	-3.8	-3.8	-3.7	
Automatic debt dynamics 1/	8.4	-3.0	-1.8	2.8	5.7			3.4	2.6	2.4	1.9	1.7	1.7	
Contribution from nominal interest rate	4.1	3.6	3.3	3.1	3.1			3.5	3.5	4.0	3.6	3.5	3.4	
Contribution from real GDP growth	1.6	0.4	-0.6	0.5	-0.6			-0.1	-0.9	-1.6	-1.7	-1.8	-1.7	
Contribution from price and exchange rate changes 2/	2.7	-7.0	-4.4	-0.9	3.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	8.7	2.0	-13.6	-10.1	-5.1			-2.6	6.9	1.0	-0.2	-0.5	-0.3	
External debt-to-exports ratio (in percent)	208.7	241.0	222.3	205.3	211.9			206.1	220.6	211.6	202.2	192.2	181.7	
Gross external financing need (in billions of US dollars) 4/	1.3	1.4	2.7	2.1	1.5			1.5	1.9	1.0	1.6	1.2	1.1	
in percent of GDP	10.4	10.0	18.3	14.1	10.5			11.2	13.8	7.3	11.2	7.7	7.1	
Scenario with key variables at their historical averages 5/								**63.9**	**74.1**	**79.5**	**85.2**	**91.2**	**97.4**	**-2.1**
Key Macroeconomic Assumptions Underlying Baseline						10-Year Historical Average	10-Year Standard Deviation							
Real GDP growth (in percent)	-2.8	-0.6	0.9	-0.8	1.0	0.2	1.7	0.2	1.4	2.3	2.5	2.7	2.7	
GDP deflator in US dollars (change in percent)	-4.9	11.3	6.6	1.3	-4.8	3.9	5.4	-2.0	-1.4	-0.4	1.4	2.1	2.2	
Nominal external interest rate (in percent)	7.4	5.8	4.9	4.9	4.8	6.8	1.5	5.5	5.5	5.8	5.3	5.3	5.4	
Growth of exports (US dollar terms, in percent)	-19.3	-1.0	5.6	4.4	-5.1	1.9	10.2	2.0	3.4	5.7	6.1	6.3	6.4	
Growth of imports (US dollar terms, in percent)	-30.3	5.8	18.3	-0.6	-6.0	5.3	15.6	-2.3	-1.4	3.3	4.4	3.7	3.5	
Current account balance, excluding interest payments	-3.6	-4.4	-10.2	-6.8	-5.2	-7.4	4.0	-3.4	-1.2	-0.2	-0.4	0.0	0.4	
Net non-debt creating capital inflows	3.3	1.1	1.5	2.2	4.5	4.5	2.7	3.6	3.8	3.9	3.8	3.8	3.7	

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

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

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

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

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

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

Appendix I. Letter of Intent

Kingston, Jamaica
September 4, 2015

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

Dear Ms. Lagarde,

Jamaica has continued the steadfast implementation of 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 under the programme have been met for all quarterly test dates, with the exception of the March 2015 nominal target for the primary surplus for the central government, which was missed by a narrow margin, owing to lower than projected inflation and GDP growth (the surplus still came in at the projected 7.5 percent of GDP). The Government has also implemented all of the structural benchmarks that were included in the programme, albeit with some minor delays.

The Government remains fully committed to meeting the objectives of the programme, as well as its specific targets. Attachment 1 to this letter is a supplementary Memorandum of Economic and Financial Policies (MEFP), presenting performance under the programme, and updating the specific policies to meet the programme's ultimate objectives, including the associated quantitative targets and structural benchmarks. Attachment 2 is the updated Technical Memorandum of Understanding.

On the basis of our performance under the programme thus far as well as our strong commitment to the continued implementation of the programme, the Government requests that the Executive Board of the IMF complete the ninth review of the extended arrangement under the Extended Fund Facility, and approve the modification of performance criteria for end-March 2016 and the revision of the structural benchmark on the tax administration's new productivity indicators and the new performance criteria for June 2016 and the tenth purchase under the arrangement of SDR 28.32 million.

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 in advance on the adoption of these measures and 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

I. PERFORMANCE UNDER THE PROGRAMME

1. **Overall policy implementation under the programme remains strong and structural reforms are progressing.** All quantitative performance targets for end-June were met. Two structural benchmarks due during April to June 2015 were also met:

- In May, a pilot testing ASYCUDA World (covering imports and exports) in the Kingston port was completed. Reports are that it worked very well, dramatically reducing the time and effort to clear goods and pay duties.
- In June, the Government tabled in Parliament proposals for a comprehensive overhaul of the Customs Act.

II. POLICIES FOR 2015/16 AND BEYOND

2. **The Government remains fully committed to the reform programme**. The quantitative targets that serve as performance criteria and indicative targets under the programme have been updated and extended through June 2016. These updated targets are presented in Table 1. The structural conditionality under the programme, incorporating a modification discussed below, is presented in Table 2.

Fiscal Policy

3. **The 2015/16 budget is consistent with the objectives and targets of the programme and maintains a central government primary surplus of 7.5 percent of GDP.** The expenditure budget maintains the priority outlays for specified social programmes and contains an increased allocation to the Ministry of Health, to ensure sufficient drugs and other medical supplies. Capital projects during 2015/16 are mainly programmed in the areas of education, health, energy, infrastructure, security and agriculture.

4. **Preparations for the 2016/17 budget have commenced**. The draft budget is expected to be presented to parliament in February 2016, to allow for adoption prior to the start of the fiscal year.

5. **A new Energy Stabilization and Energy Efficiency Enhancement Fund (ESEF) has been introduced**, to finance the purchase of hedging instruments against the risk of a sharp increase in the price of oil and to manage resources in support of the objectives of the ESEF to provide external financial buffers and financing of energy-efficiency initiatives. The proceeds from increased excises on fuel products, introduced in March 2015, were used to purchase hedging contracts covering 8 million barrels of oil for a period until end-2016. Legislation and regulations governing the use of the ESEF will be adopted by February 2016, ahead of the parliamentary debate for the FY2016/17 budget. This is consequent on Cabinet's approval, to prescribe a transparent governance structure

for its operation, including the formal establishment of an ESEF Advisory Board, clearly defined reporting requirements to the portfolio ministry and to Parliament, and preset criteria and/or limits on the allocation of ESEF's resources among its multiple objectives.

Tax Reforms

6. **To further strengthen our tax system, we have:**

- **Introduced tax measures in the 2015/16 budget to support revenues**, including extending the environmental levy to domestic goods and CARICOM imports, applying GCT on electricity for residential customers usage above 350 KwH, and raising excise on cigarettes (by J$1.5 per stick). The threshold for the personal income tax will be increased to J$592,800 per year effective January 2016, to lighten the burden on employees with incomes below that level.

- **Tabled legislation pertaining to transfer pricing,** expected to be passed in October 2015. With OECD technical assistance, the TAJ is developing its capacity to effectively administer the new law upon its adoption.

7. **Important follow-up initiatives are still needed as part of the tax policy reform:**

- Looking beyond 2015/16, we have requested TA from FAD (possibly in collaboration with the IDB) to assess the impact of the 2013 tax reforms. The TA will also review the tax regime in fields where technological changes and/or the impetus to spur foreign direct investment warrant a reassessment. The TA is expected to help identify priorities for further tax reform, to be considered starting with the 2016/17 budget.

- Based on ongoing IDB TA, we plan to improve the reporting on tax expenditures and their estimated fiscal costs in the context of future budgets.

8. **Next steps to strengthen tax and customs administration include:**

- Continue implementation of the TAJ National Compliance Plan (NCP) for FY2015/16. The NCP outlines risk treatment strategies to be employed by TAJ in FY2015/16 in addressing identified registration, filing, payment and correct reporting tax compliance risks. The existing draft FY2015/16 Operations Plans for LTO, Revenue Service Centers (RSCs) and Large, Medium and Small Tax Offices will be migrated into a new planning template, which combined with a new reporting template also being developed will facilitate effective Programmes Unit monitoring by 30 September 2015.

- Implementation strategies and detailed expected outputs and outcomes consistent with the NCP for arrears management and objections by September 30, 2015.

- Completion of staffing the TAJ as a Semi-Autonomous Revenue Authority (SARA) by end-March 2016. This will require:

- recruiting direct reports to the Commissioner General and the Deputy Commissioners General by end-August 2015;

- hiring direct reports to chiefs and general management, and staff for the Human Resources, Finance and Accounts, Strategic Services (including planning, enterprise risk management, programmes, policy and transformation) and Customer Care Center sections by 31 October 2015; and

- completing the phased transitioning to SARA of all remaining TAJ staff by 31 March 2016.

In addition, undertake management and HR training during 2015 to assist with the SARA roll-out with CARTAC assistance.

- Full implementation of the key performance indicators (as outlined in the National Compliance Plan) that measure the effectiveness and the efficiency of the tax system (*proposed modified structural benchmark for end-November 2015*), building on TA provided by the Fund.

- With OECD technical assistance, TAJ is developing its capacity to effectively administer (1) the new transfer pricing law upon its adoption and (2) asset base erosion and profit shifting (BEPS) rules developed by the OECD BEPS project. A 3 year OECD training and sensitization program began in June 2015 with the first staff training session for MoFP and TAJ technical staff and a second session for these same staff is scheduled for November 2015. In addition to staff training, the OECD technical assistance includes the sensitization and education of taxpayers and their accountants likely to be impacted by the new legislation, beginning in September 2015.

- Application of the new transfer pricing law to tax returns for Year of Assessment 2015 by including transfer pricing compliance risk treatment strategies, including specific issue audits in the TAJ National Compliance Plan (NCP), Programmes Plan and LTO Operations Plan for FY2016/17.

- Following up on the entity-by-entity review of all grandfathered tax incentives by reviewing Year of Assessment 2014 company income tax returns and taking compliance action as necessary to assess the fiscal impact beyond 2020 of the ongoing grandfathering of the fiscal tax incentives legislation which came into effect on January 1, 2014. Fiscal Impacts Report will be produced by 31 December, 2015.

- Implementation of the Revenue Administration Cooperation and Information Sharing Memorandum of Understanding (MOU), signed in March 2015, including undertaking joint analysis, risk profiling and forensic data mining activities focusing on high compliance risk importers and the commencement of five (5) joint tax and customs compliance operations by 30 September 2015.

- Attaining the Jamaica Customs Agency annual performance indicators and targets, including for customs clearance and post-clearance audits, as set-out in the JCA Corporate Strategic Plan 2015–2018.

- Implementation of automation of tax and customs operations:
  - (i) the full function production version of the ASYCUDA-World integrated customs software package for the entire country (March 2016);
  - (ii) Phase 2 of the RAiS (GENTAX) integrated tax software package, for all major tax types by end-December 2015 (*structural benchmark*); the stamp duty and transfer tax will be added if possible (April 2016).
  - (iii) Phase 1 of the Enterprise Content Management (ECM) system processes comprising (1) the electronic imaging and data capture of paper tax returns and (2) the electronic imaging of other paper documents (e.g., taxpayer letters, certified copies of certificates, auditor working papers, taxpayer rulings etc); and linking these processes to RAiS case actioning and reporting components by end December 2015.

Special Economic Zones

9. **The government will create a new regime for special economic zones (SEZs) that will replace the existing Export Free Zones, in a manner compatible with WTO and CARICOM requirements.** This initiative aims to attract new economic activities to Jamaica, including logistics. It will support the provision of physical and human infrastructure as well as a competitive regulatory regime, and exploit synergies. Backward linkages to the rest of the economy will be key to maximizing their broader positive economic impact.

- Legislation governing the tax and customs regimes will be amended to work in harmony with the SEZ legislation. Provisions governing the tax regime that will be part of the SEZ legislation will be tabled by end-October 2015 consistent with the following criteria to help safeguard the integrity of the tax system and avoid tax leakage (*structural benchmark*): (i) Restrict eligibility to firms that meet preset criteria (thereby excluding businesses in established traditional sectors), with no ministerial discretion. In particular, firms operating in the extractive industries, tourism, telecommunication services, public utilities, financial services, construction services, real estate and property management, health services (excluding research and development) and retail, or in other sectors that do not fit in the strategic objectives of SEZ development, will not be eligible, whereas firms in the BPO and export processing sectors can be eligible; (ii) Allow zero rating of indirect taxes for eligible entities within the zone, subject to the establishment of an appropriate legislative framework to define forms and procedures, bonded warehouse controls, administrative penalties and other sanctions against tax evasion and conferring to the Commissioner General of the TAJ and the Commissioner of the Customs Administration Jamaica regulatory powers to support and or supplement that legislative framework; (iii) Apply the same direct tax regime for firms in and out of the SEZs--except for the possibility of streamlined procedures and reduced rates (while ensuring that enterprises operating in the SEZs will be subject to effective CIT), and except for temporary grandfathering of incentives granted under the tax regime for Export Free Zones), with no ministerial discretion—and apply regular personal income taxation for workers in SEZs. Reduced CIT rates for SEZ operators will be time-bound and non-renewable.

- Beyond the legislation and regulatory framework establishing the SEZs and modifying the tax and customs regimes, further administrative procedures will be critical for the successful implementation of its tax regime, in particular to strengthen product identification and inventory management systems compliance enforcement to enhance risk management, and post clearance audit.

- The legislative framework supporting enhanced trade facilitation practices by the JCA, as articulated in phase III of the Customs Act, is being harmonized with the SEZ legislation and treaty obligations, with World Bank and CARTAC assistance.

Reforms to Public Financial Management and the Budget Process

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

- The criteria for determining which entities would be deemed commercial and, on that basis, could be excluded from the coverage of the fiscal rule have been completed, the associated regulations completed, and a sensitization programme will start in the third quarter of FY2015/16.

- A Procurement Act is expected to be passed in September 2015. Next steps include:

  - Implementation of the Electronic Tendering System in five pilot entities during the financial year; the implementation of the pilot (e-gov) was started in July 2015;

  - A new procurement manual, to be prepared by January 2016 with IDB assistance.

- The macro-fiscal capacity of the Ministry of Finance and Planning (MOFP) will be strengthened with the support of IMF and other TA. We will:

  - strengthen the statement of fiscal risks in the Fiscal Policy Paper;

  - continue to undertake hands-on output-based training for the members of the Fiscal Policy Management Unit (FPMU);

  - review, re-organize and reclassify the functions and positions in the FPMU, by December 2015;

  - develop structured work plans for each position in the re-organized FPMU by December 2015;

  - recruit additional qualified staff for the re-organized Unit by March 2016; and

  - document methodology and processes for the efficient production of key outputs and effective management of datasets and information on an on-going basis.

- The Treasury Single Account (TSA) at the Bank of Jamaica (BOJ) will be further expanded and improved, in accordance with a comprehensive plan to be published by end-October 2015. To facilitate this, the responsibility for management of government's banking arrangements will be transferred from the Ministry of Finance and Planning (MoFP) to the Accountant General's Department (AGD).

- Coverage and functionality of the central treasury management system (CTMS) will continue to be expanded as per the plan developed for 2015-17. In particular: the Government will further increase direct payments through the TSA using the CTMS. A pilot commenced in January 2015 for the civil servants' salaries for the MOFP. By December 2015, all salaries of civil servants at the central government will be paid through the TSA. By December 2015, the AGD will be empowered to take over the responsibility for further development and management of the CTMS.

- Coverage and functionality of the CTMS will continue to be expanded as per the renewed action plan. All funds under the direct control of the AGD will be managed in the General Ledger of the CTMS by November 2015.

- Finalize, with the help of IMF TA, a service level agreement between the BOJ and the government for banking services provided by the BOJ, by end-September 2015.

- The AGD is implementing changes to modernize its systems, processes and operations, by March 2016. By November 2015, a Treasury modernization plan will be finalized and a new organizational structure defined. This will reflect transfer of responsibilities and personnel for core activities of a Treasury: cash management, management of banking arrangements, preparation of in-year and annual fiscal reports for the Government of Jamaica and custody and maintenance of the chart of accounts from the Ministry of Finance and Planning to the AGD.

- A new Cash Management Unit will be established in the AGD, and the cash management function (currently handled by FPMU) will be transferred to it by end-September 2015 (*structural benchmark*), with the help of IMF TA (funded by the Canadian Department of Foreign Affairs, Trade and Development). Furthermore, a new cash forecasting model is expected to become operational by end-October 2015.

- The adjusted Chart of Accounts was first prepared in April 2014 and is undergoing further revisions in time for the 2016/17 budget. Thereafter, the AGD will be responsible for maintenance of the Chart of Accounts.

Debt Management

11. **The Government is committed to sharply reducing public debt, which is expected 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. In designing and implementing these undertakings, the Government will seek to ensure sound public sector governance and public debt management.

12. **The Government is implementing its new medium-term debt management strategy and 2015/16 borrowing** plan to reduce the burden of servicing government debt over time, and to ensure that the government has access to several sources of financing, including the domestic bond market.

13. **The Government will further strengthen its debt management strategy and capacity.**

- Strengthen efficiency of the Debt Management Branch through increased staffing of the middle office, skills training, and improving securities operations and domestic market development, with the help of IMF TA (funded by the Canadian Department of Foreign Affairs, Trade and Development).

- Develop a debt management business continuity strategy and function with IMF TA, commencing in October 2015, and in coordination with BoJ and AGD.

Public Sector Reform

14. **The Government is committed to improving the efficiency, quality and cost effectiveness of the public sector.**

- **Public sector transformation.** On the basis of our action plan we will:

    - put in place shared services within the central government starting with the legal services, with support from Justice Canada. The report outlining an optimal shared service model for legal services and attendant service level agreements will be submitted to Cabinet in September, and will be completed by end-November 2015. The final plan will be implemented within 6 months of its adoption.

    - merge the Forensic Laboratory and the Legal Medicine Unit. The organisational structure has been completed and it is expected that the new entity will be operational by September 2015.

    - complete the organisational structure for the merger of the Betting Gaming and Lotteries and the Racing Commissions by September 2015. It is expected that the merged structure will be implemented in May 2016.

- merge the commodities boards (for cocoa, coffee and coconut) and the regulatory functions of the Export Division of MINAG pertaining to spices into a new body, to be called the Jamaica Agricultural Commodities Regulatory Authority (JACRA). This involves regulatory changes and preparing legislation for the JACRA. The legislation is expected to be completed by end-February 2016. The merger is expected to be completed in 2016.

- divest the Petroleum Company of Jamaica Limited, Petcom—a selected bidder is expected to be identified in September 2015.

- complete the RFP for the software for the Asset Management Shared Services by August 2015. Consequent on funding, we will seek to complete the procurement of that system by February 2016 to have a contract in place with the successful vendor for April 2016.

- **Wages and salaries.** The Government has signed a new wage agreement for the period after March 2015 with the Jamaican Confederation of Trade Unions (JCTU) and the Jamaica Teachers' Association. The discussions continue with the remaining groups to maintain a path of public sector wages consistent with a reduction in the wage bill to 9 percent of GDP in 2016/17 and firmly maintaining the ratio of public debt to GDP on a downward path over the medium term.

- **Public Sector Positions**. The GOJ will continue to reduce the size of the public sector over 2014–16 through the elimination of posts and an attrition programme. To meet the GOJ's overall wage ceiling of 9 percent of GDP by 2016/17, the filling of vacant positions will be constrained as needed, guided subject to the need to preserve capacity in a limited number of priority areas.

- **Cost Rationalization.** The government will be reviewing the 2015/16 budget to determine what further cost rationalization can be undertaken in addition to examining ways in which the government can achieve greater levels of efficiency.

- **Pension Reform**. The new public pension system, as described in the June 2014 MEFP, is expected to be implemented at the start of FY 2016/17. The requisite changes in legislation are expected to be tabled by end-November 2015 (*structural benchmark*).

- **The implementation of the human resources software system (the HCMES system; including Payroll) is progressing.** The process to evaluate the bids and identify the preferred vendor was completed in April 2015. Contract negotiation and agreement of the terms of the contract will be completed in September 2015. To ensure a timely start to implement the system for the wider public sector, with IDB support, a dedicated project management team is now in place, and the project plan has been completed in August 2015. The design stage will start in October 2015 and implementation of the HCMES/Payroll system for the first two entities, subject to contracting the vendor, will start in November 2015. The first stage of the implementation will be concluded by end-August 2016.

15. **In the area of public bodies, further improvement is to be achieved.**

- To enhance transparency, the annual reports (including audited statements) for self-financing public bodies will be completed by December 2015 (with the exception of PetroCaribe, and Petrojam). Self-financing public bodies that fail to meet the statutory condition without reasonable cause, will be sanctioned under Section 25 of the Public Bodies Management and Accountability Act.

- Monitoring of budget-funded public bodies will be strengthened by (1) enforcing the six months' time limit for submission of their 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. Following the funding and commencement of additional recruitment, a new organizational structure will be approved by end-September 2015.

- In addition, a review will be undertaken to evaluate the scope for reintegrating some public bodies into the central government and setting others at a more arms-length distance from the central government with a governance framework aligned with international best practices. IMF TA, scheduled for end-September 2015, will guide this review.

III. FINANCIAL SECTOR REFORMS

16. **We are strengthening the prudential framework for financial supervision.**

- We will make effective the Banking Services Act in September 2015 (*structural benchmark*), and will continue to implement its components. Updates of the existing regulations for licensed deposit taking institutions will be completed in September 2015 to facilitate the implementation of the Act. New areas under the Act regarding the code of conduct on consumer related matters and regulations pertaining to agent banking will be completed by March 2016. The suite of regulations and rules that will comprise the regime for financial holding companies and consolidated supervision will be completed by July 2016.

- By October 2015, we will have developed, and started industry consultation on a strategy to introduce and gradually tighten prudential standards for the securities sector. The FSC will start implementing the strategy by January, 2016 under the guidance of the Steering Committee. We will ensure that in the near- to medium-term, the retail repo portfolios of individual firms and the securities industry as a whole will be at a level deemed by the BOJ and the FSC to be systemically safe and prudentially manageable.

- We have set a minimum transaction size for retail repos that we will gradually increase to J$1,000,000 by end-December 2015.

- By end-December 2015, we will have taken steps to further strengthen depositor protection and investor compensation across financial institutions.

17. **We are enhancing the arrangements for financial crisis preparedness and management.**

- By end-September 2016, we will make effective any legislative provisions to support the national crisis management plan and the resolution framework for the banking and securities sectors that will be tabled in June 2016. A working group will be established by October 2015 to develop a concept paper for the resolution framework, with a stakeholder consultation process scheduled to start in February 2016, subject to Fund TA by end-2015.

18. **We will continue to strengthen the mandate and governance of the BOJ over the programme period.**

- The BOJ will, commencing November 1, 2015 (*structural benchmark*) have overall responsibility for financial stability. Amendments to the BOJ Act that vest the BOJ with this responsibility were tabled in July 2015.A green paper will also be tabled in October 2015 discussing amendments to the BoJ Act for enhancing BOJ governance and autonomy.

19. **We are implementing measures to protect the interest of retail repo clients.**

- The transition of retail repos to the trust-based framework was fully completed at end-August 2015 (*structural benchmark*).

- Meanwhile, we continue to make less risky business models available to securities dealers. We raised the investment cap for CIS in foreign assets to 15 percent in June 2015, and will raise the cap to 25 percent by end-December 2015. This cap will be lifted by end-2016, unless extraordinary circumstances require a reassessment.

IV. MONETARY AND EXCHANGE RATE POLICY

20. **Monetary policy aims achieve single digit inflation within a flexible exchange rate regime**. We envisage inflation in the range of 5.5 to 7.5 percent in FY2015/16. 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, with a possible move to full-fledged inflation targeting. Starting 2015, the BoJ will conduct annual reviews to assess our readiness for inflation targeting. The outcome of the reviews will provide the inputs for an informed decision on inflation targeting to be made by Cabinet. The first review will assess institutional readiness as at March 2015 and is expected to be completed by November 2015.

21. **The BOJ will continue to respond to liquidity needs in the financial system.** As a further refinement to its liquidity provision framework, the BoJ is making preparations to introduce periodic auctions for repo operations by October 2015. Over the course of FY 2015/16, the BOJ will also further refine its monetary policy operations, such as by providing longer-term liquidity instruments if the need arises and narrowing the width of the interest rate corridor in order to further increase certainty in its liquidity provision at a price consistent with its policy goals. The BoJ is cognizant of the need to purchase reserves to further boost the NIR. With IMF TA (planned for October 2015), The

BOJ will begin preparations for introducing more price competition in its foreign exchange interventions.

V. GROWTH ENHANCING REFORMS

22. **Further actions for improving the business climate are critical:**

- 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 being implemented with support from the World Bank. AMANDA has been implemented in all 14 parishes and all relevant commenting agencies.A standardized pricing framework for application fees is being developed and is expected to be submitted to Cabinet by December 2015.

- Cabinet approved reforms to the Development Applications Process (DAP) in December 2014, to be implemented within two years. Starting July 2015, applications for projects above certain thresholds are handled by a joint technical team, which would include NEPA, National Works Agency and the relevant parish councils, while smaller projects are handled by the parish councils, with clarity on the expected maximum time frames. The new process will result in a faster, more streamlined approvals process. We will report, on a quarterly basis, on progress in reducing the time needed, especially for commercial development projects, including against the 90 day benchmark. The first quarterly report, covering January to March 2015, was submitted to the Growth Agenda Sub-Committee of Cabinet in June 2015. Meanwhile, the National Building Act is expected to become effective by December 2015; it will provide the regulatory framework for the acceptance of certification from licensed professionals.

- LAMP services will be expanded to St. James, Trelawny and Hanover in 2015/16. During 2015/16, we expect to issue an additional 2,500 titles under this program. As of July 2015, 249 titles have been issued this fiscal year.

- An on-line system for business registration will be piloted by December 2015 and in place by April 2016, with IDB support, with a goal to reduce the turnaround time for applications to two business days.

- Urgent actions will be taken to reduce the time needed for entrepreneurs to get an electricity connection. Plans foresee the automation of the work processes within the Government Electrical Regulator (GER) and the acquisition of AMANDA software to streamline procedures for scheduling, inspecting, approving and certifying electrical installations. An action plan for implementation of the reforms is expected to be completed in September 2015, and adoption of the AMANDA system is expected to be completed by end 2015/16, with IDB support.

- Plans to establish a Port Community System (PCS) to electronically integrate and streamline export and import procedures are underway. The ASYCUDA World Customs Management System acquired by the Jamaica Customs Administration will support integrated processes/procedures and the National Single Window. Functions of the PCS that cannot be offered through ASYCUDA will be pursued by the private sector, possibly under a management contract. The GOJ has set up a Trade Facilitation Task Force which is examining the public/private issues, including pertaining to the PCS. A new PCS RFP is currently underway, and a preferred bidder was selected in May 2015 and approved in July 2015. The systems will ultimately be integrated to provide a complete trade and logistics solution for Jamaica. The project is expected to be completed by mid-2016.

- The Development Bank of Jamaica (DBJ) will provide funding to MSMEs in 2015/16. The Mobile Money for Microfinance initiative will be fully rolled out in 2015 to increase access to credit for small borrowers.

- We will continue to develop other areas of reform to improve the access to capital and reduce the cost of funding for MSMEs, including provision of support for MSME capacity development programmes, establishment of a venture capital eco-system, full implementation of collateral and insolvency reforms, SME value chain development, promotion of factoring and lease financing mechanisms, enhancement of the partial credit guarantee scheme and microfinance legislation and institutional reform.

- The Agro Parks Initiative, which aims to stabilize the agricultural supply chain, boost exports, and increase import replacement is progressing. Nine agro parks are already operational. Negotiations are ongoing to establish at least five more parks in 2015/16, with the IDB under solicitation to support at least two new Agro Parks. An IDB-financed consultancy is underway to prepare a sustainability framework for the existing Agro Parks and criteria for selection of new Parks. Results are expected late September.

- A national strategic plan for the BPO industry was approved by Cabinet in March 2015 and implementation started in April 2015. Key actions under the plan include the establishment of a policy and legislative framework; labour market initiatives, infrastructure development, and actions to support market penetration.

23. **Strategic investments to establish Jamaica as a logistics hub are well underway:**

- In early April 2015, a 30-year concession agreement was signed with a private consortium regarding the privatization of Kingston Container Terminal (KCT). Under the agreement, beginning in 2016, the concessionaire will undertake dredging the access channel to the Kingston Harbour and the KCT basin to allow for the handling of larger vessels that will transit the Panama Canal after its expansion. The transfer of the operating control to the concessionaire is expected to take place shortly after financial close of the transaction, which is expected in the last quarter of CY2015. The concessionaire is expected to invest approximately US$625 million over two phases of the concession, with the possibility of a third phase to be negotiated.

- Work is proceeding on the privatization of Norman Manley International Airport (NMIA). Five bidders were shortlisted from the pre-qualification round. The selection of a preferred bidder is expected by December 2015, after which contract negotiations will begin with handover expected in August, 2016.

- Work is also proceeding on the Caymanas SEZ, with World Bank support, under the coordination of a GoJ enterprise team based on the results of the pre-feasibility study which was completed in January 2015. The feasibility study is expected to commence by end-2015, with an RFP for a private sector developer expected to be issued in 2016. This work is closely aligned with a Master Plan for the Logistics Hub Initiative expected to be completed by September 2016, also supported by the World Bank.

- Technical feasibility studies have commenced for the development of a transhipment port and industrial and commercial zones in the Portland Bight area by China Harbour Engineering Company (CHEC). This is a prerequisite for determining the construction methodology and for obtaining the terms of reference from NEPA for the Environmental Impact Assessment. The project will be executed in phases with the first phase projected to be completed in the last quarter of 2016, pending the necessary approvals in each stage.

24. **Reducing the cost of electricity is critical to improve competitiveness:**

- The action plan prepared by the Electricity Sector Enterprise Team (ESET) foresees replacing current (oil-fired) generation capacity with gas, coal and ethane-fired plants, to achieve significant cost savings. Next steps will include the conversion of the Bogue power station from oil to gas by April 2016. In addition, the government has approved the construction of Jamaica's first natural gas-fired power plant, a 190MW facility to be built and operated by JPS, and to be completed by 2017. Several renewable energy projects are also under way.

- A revised Electricity Act was tabled in parliament in January (*structural benchmark),* and is expected to become effective in September 2015.

- We will prepare a plan to ensure that all public entities (central government, local government, and public bodies) meet their financial obligations in a timely manner.

25. **Labour market reforms are progressing.** In the context of the recently launched Comprehensive Labour Market Reform Agenda, a Labour Market Reform Commission and Secretariat was established and became operational on April 1, 2015. The Commission will review policies and practices in five thematic areas of education and training; productivity, technology and innovation; labour policies and legislation; social protection; and industrial relations. A concept note on options to reduce the impact of high separation costs was submitted to Cabinet in July 2015. The Commission is expected to provide the Government with recommendations for reform covering all five thematic areas by April 2016.

VI. POVERTY REDUCTION AND REFORM OF SOCIAL SPENDING

26. **We established a new National Poverty Reduction Committee in early 2015**. An inter-sectoral Committee has been convened to guide and monitor the process of development of a new National Policy on Poverty and a new Poverty Reduction Programme, and a process of consultation with key stakeholders has been initiated. The new Policy and Programme are expected to be approved by the end of FY2015/16.

27. **Efforts to strengthen the social protection framework are progressing**. Implementation of the graduation strategy for PATH households has now begun. The government launched a comprehensive social protection strategy in July 2014; a monitoring and evaluation framework is now being developed, and is expected to be in place by the end of FY2015/16.

28. **We aim to improve the administrative efficiency of social protection programs.** A comprehensive plan for transition of PATH and NIS payments to retail electronic payment products is being prepared. Measures to deepen payment infrastructure in rural areas and streamline procedures for collecting social payments are being identified.

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

(In billions of Jamaican dollars)

	2014	2015					2016		
	End-Dec.	End-June	End-June	End-June	End-Sept	End-Dec.	End-Mar.		End-Jun.
	Stock	PC	Adjusted	Actual	PC	PC	PC	Revised Proposed PC	Proposed PC
Fiscal targets									
1. Primary balance of the central government (floor) 4/		17.0		19.9	40.0	65.0	126.0	125.0	15.0
2. Tax Revenues (floor) 4/9/		88.0		95.4	185.0	280.0	411.0	411.0	99.0
3. Overall balance of the public sector (floor) 4/		-21.0	-17.5	-0.1	-34.0	-36.0	-3.7	-10.0	-25.0
4. Central government direct debt (ceiling) 4/5/		4.5		-37.9	40.0	41.0	71.0	71.0	15.0
5. Central government guaranteed debt (ceiling) 4/		2.0		-1.2	2.0	0.0	0.0	0.0	0.0
6. Central government accumulation of domestic arrears (ceiling) 6/12/13/	21.6	0.0		-0.6	0.0	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 7/12/13/	23.2	0.0		-5.2	0.0	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/		4.5		6.8	9.2	15.6	23.2	23.2	4.8
Monetary targets									
10. Cumulative change in net international reserves (floor) 8/11/	1997.7	-482.2	-573.5	125.7	-463.3	-338.0	-339.0	-339.0	-199.6
11. Cumulative change in net domestic assets (ceiling) 11/	-120.2	54.4	64.8	-18.8	56.1	53.8	24.2	31.1	22.8

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 2015 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 2014.
12/ Continuous performance criterion.
13/ Through end-June 2015, this accumulation is measured as the change in the stock of arrears relative to the stock at end-March 2014. The latter stock is listed in the column for the stock at end-December 2014. From end-September 2015 onwards, the accumulation will be measured against the stock at end-March 2015, which is J$21.3 billion for domestic arrears and J$21.7 billion for tax arrears.

Table 2. Jamaica: Structural Program Conditionality

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1. 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. Government to ensure there is: (i) no financing of Clarendon Alumina 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
4. Government to table in parliament a budget for 2014/15 consistent with the program.	April 30, 2014	Met
5. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17, Country Report No. 13/378).	April 30, 2014	Met
6. 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	Met
7. Ensure that the public service database e-census is up to date and covers all Ministries, Departments and Agencies.	September 10, 2014	Met
8. 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	Met
9. Government to table changes in legislation for the new public sector pension system expected to be implemented by April 2016 (MEFP paragraph 25, Country Report No. 14/169).	November 30, 2015	
10. Government to establish a new Cash Management Unit in the Accountant General Department (AGD) and transfer to it the cash management function currently handled by the Fiscal Policy Management Unit (FPMU).	September 30, 2015	
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. 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
13. Government to table in parliament amendments to the GCT as stipulated in paragraph 12 of the June 2014 MEFP.	June 30, 2014	Met
14. Government to conduct an entity by entity review of all grandfathered entities and of their specific tax incentives in the context of the new tax incentives legislation by end-2014/15.	January 31, 2015	Not met 1/
15. Government to table legislation governing the tax regime that will be part of the SEZ legislation consistent with the criteria listed in the June 2015 MEFP par. 13 to help safeguard the integrity of the tax system and avoid tax leakage.	October 31, 2015	
Tax Administration		
16. 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
17. Government to implement ASYCUDA World for the Kingston Port as a pilot site.	December 31, 2014	Met
18. Government to: (i) increase the number of staff in the large taxpayers office (LTO) by a further 30 auditors (from March 2014 to March 2015); (ii) increase the number of (full plus issue) audits completed in the 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; (iv) write-off all GCT and SCT debts that have been subjected to risk-rated stress tests and consequently categorized as uncollectible according to the Regulations.	March 31, 2015	Not met 2/
19. Government to complete pilot testing of ASYCUDA World (covering imports and exports) in the Kingston port.	May 31, 2015	Met
20. Government to implement Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package.	February 28, 2015	Met
21. Government to table in Parliament proposals for a comprehensive overhaul of the Customs Act.	June 30, 2015	Met
22. Government to fully implement the key performance indicators, as outlined in the National Compliance Plan, to measure the effectiveness and efficiency of the tax system.	November 30, 2015	Proposed revision
23. Government to implement Phase 2 of the RAiS (GENTAX) integrated tax software package, for all major tax types.	December 31, 2015	

Table 2. Jamaica: Structural Program Conditionality (Concluded)

Financial sector		
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 (June 2014 MEFP Paragraph 29) in consultation with Fund staff.	December 30, 2014	Met
27. Government to table the Omnibus Banking Law 3/ consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	Met 4/
28. Government to finalize the transition of retail repos to the trust-based framework.	August 30, 2015	Met
29. Government to fully implement the Banking Services Act.	September 30, 2015	
30. The BOJ to have overall responsibility for financial stability.	November 1, 2015	
Growth enhancing structural reforms		
31. Government to implement a new (AMANDA) tracking system to track approval of contruction permits across all parish councils.	December 30, 2014	Met
32. Government to table in parliament the Electricity Act.	January 31, 2015	Met

1/ The review was reportedly completed in March 2015.
2/ While all other elements of the benchmarks were met, technical difficulties prevented the achievement of 95 percent take-up rate of e-filing in the LTO. The take-up rate was 80 percent.
3/ Currently referred to as the Banking Services Act.
4/ The law was tabled in March 2014 with subsequent fine-tuning in collaboration with Fund staff prior to its adoption in June.

Attachment II. Technical Memorandum of Understanding

1. 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.

2. 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, 2014. Accordingly, the exchange rates for the purposes of the programme are show in Table 1.

Table 1. Program Exchange Rates (End-December, 2014)/1	
Jamaican dollar to the US dollar	114.66
Jamaican dollar to the SDR	166.12
Jamaican dollar to the euro	139.21
Jamaican dollar to the Canadian dollar	97.69
Jamaican dollar to the British pound	177.68
1/ Average daily selling rates at the end of December 2014	

I. QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

3. **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.

4. **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. Government-funded PPPs will be treated as traditional public procurements—the associated costs will be recorded as on-budget investment during the construction phase of the project. 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 17 "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-June 2015	2.5
End-September 2015	-0.5
End-December 2015	-1.5
End-March 2016	-2.2
End-June 2016	0.0

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.

D. Ceiling on Net Increase in Central Government Guaranteed Debt

19. **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.

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

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

22. **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

23. **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 2015, which stood at J$21.3 billion.

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

25. **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

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

27. **Definitions:** External debt is determined according to the residency criterion.

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

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

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

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

29. **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.

30. **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 31, 2015 that have

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

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.

31. **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.

32. **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.

33. **This performance criterion does not cover arrears on trade credits.**

34. **The performance criterion will apply on a continuous basis.**

35. **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

36. **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 2015, which stood at J$21.7 billion.

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

38. **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

39. **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.

40. **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.

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

42. **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-June 2015	100
End-September 2015	151
End-December 2015	182
End-March 2016	317
End-June 2016	23
Budget support grants	
End-June 2015	12
End-September 2015	21
End-December 2015	21
End-March 2016	35
End-June 2016	35
IMF budget support disbursements	
End-June 2015	0
End-September 2015	0
End-December 2015	0
End-March 2016	0
End-June 2016	0

The NIR target will be adjusted upwards (downwards) by the amount by which, at a test date, the cumulative changes from end-December 2014 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 2014	242.0
Cumulative change from end-December 2014	
End-March 2015	103.4
End-June 2015	108.0
End-September 2015	94.1
End-December 2015	126.1
End-March 2016	158.2
End-June 2016	255.8

1/ Converted at the programme exchange rates.

I. Ceiling on the Cumulative Change in Net Domestic Assets of the Bank of Jamaica

43. **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 programme 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.

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

45. **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.

II. QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

A. 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.

B. 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.

III. 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.**

IV. 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 programme 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 FY2015/16, the projected nominal GDP used as a reference is J$1,690 billion, as presented in Table 2G, part 2, Macroeconomic Framework, page 15.

V. 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.

- 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.

---

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

- 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.

- Issuance of exempt distributions by financial and non-financial corporations, six weeks after 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.

Statement by Serge Dupont, Executive Director for Jamaica and Trevor Lessard, Alternate Executive Director September 23, 2015

We thank the staff for their high quality report and the constructive discussions that once again took place when they visited Kingston last August. As a result of strong program ownership, all quantitative program criteria were met, including the ambitious primary surplus target, while the structural reform agenda remains on track with significant milestones having been reached since the last review. The positive effects of steadfast implementation of the fiscal and structural reform agenda are starting to become more pronounced: debt is on a firm downward sloping path; inflation is at a historic low; the Bank of Jamaica (BoJ) is quickly rebuilding its reserves; business confidence continues to rise; and unemployment is falling (albeit from high levels). Nevertheless, more needs to be done to generate the growth and investment takeoff that is needed to meet Jamaica's employment and development objectives, including increased flexibility to generate the fiscal space needed to support the implementation of growth-inducing capital initiatives.

Fiscal Policy and Debt Management

Fiscal policy remains anchored by the recently adopted fiscal rule and a primary surplus target that places the debt-to-GDP ratio on a firm downward path. A critical ingredient is placing the public sector wage bill on a sustainable path and our authorities remain committed to lowering the wage bill to 9 percent of GDP over the medium term. Recent wage agreements with unions representing approximately 80 percent of all public sector employees are consistent with this objective and our authorities are committed to finalizing agreements with the remaining unions in the coming months. Our authorities are cognizant of the potential risks stemming from overruns in the wage bill, which could further squeeze already insufficient growth enhancing public capital expenditures. Recently concluded wage agreements are part of a broader strategy of civil service reform and public sector modernization that is designed to enhance the delivery of public services.

Public debt has fallen by more than 20 percent of GDP in the past few years as a result of Jamaica's fiscal prudence and liability management operations. This significant progress is the result of several actions by the authorities, greatly assisted by a debt buyback with an important bilateral partner. Specifically, in July 2015, the governments of Jamaica and Venezuela agreed to retire Jamaica's stock of PetroCaribe debt as of end-December 2014. With the regained confidence of international markets, financing to support this deal was acquired by issuing $2 billion of external bonds, part of which included a US$650 million 30-year bond issued at historically low rates. The net result is an immediate fall of 10 percent in the debt-to-GDP ratio. Moreover, some of the financing gained from the external bond issuances has been set aside to pre-finance upcoming financing needs, which along with favourable macroeconomic developments (e.g. historically low inflation, etc.), should assist in the smooth reopening of the domestic bond market at a level that is consistent with financial stability.

Financial Sector Reform

An important milestone has been reached with the transition of retail repos to a trust-based framework. Transitioning retail repo contracts to a trust-based framework had been an objective of our authorities before the inception of the EFF and completion of this multi-year process yields a more robust and transparent model for clients and improves financial stability. Going forward, further reforms will be enacted to strengthen the securities dealer sector, most notably by gradually strengthening prudential standards. This effort will be complemented by wide-ranging reforms to put in place a national financial crisis management plan and prepare legislative provisions to support the resolution framework for banking and securities sectors.

External Competitiveness and Monetary Policy

Monetary policy continues to be anchored in achieving price stability, further reducing inflation expectations over the medium term, and maintaining a market determined flexible exchange rate. The current account registered a small surplus for the first time in more than a decade thanks to beneficial oil prices, healthy growth in tourism, and a more competitive exchange rate that continues to translate into improved net exports.

The BoJ has benefitted from the additional policy space afforded by fiscal consolidation as well as improved external (and internal) economic conditions, but still faces important tradeoffs to achieve its objectives. The BoJ made use of this additional space recently to cut rates and provide monetary policy support to the real economy and avoid any undue appreciations of the real effective exchange rate. The BoJ stands ready to take further actions if future conditions warrant. Moreover, the BoJ is actively assessing how it can expand its toolkit to better manage liquidity and improve the monetary transmission mechanism.

Generating More Robust Rates of Growth

Our authorities continue to believe that achieving permanently higher rates of growth in the economy is essential to program success. Unfortunately, while macroeconomic stability has become firmly entrenched and business confidence in Jamaica is rising, this has not yet satisfactorily translated into higher rates of growth. Igniting growth is our authorities' primary goal, which continues to be pursued vigorously in the context of a highly responsible fiscal stance. Structural reforms, beyond the ambitious financial sector reform agenda, are being implemented to improve the business climate, reduce the cost of electricity, and encourage entrepreneurial activities. That said, our authorities feel that more could be done to jump-start growth through strategic investment in potentially high-growth sectors, such as agri-business, tourism, and business process outsourcing. The recent droughts and their negative effects on growth are emblematic of how a few strategic public investments, such as increasing access to irrigation facilities in the agriculture sector, would improve growth prospects and reduce volatility.