

International Monetary Fund

[Jamaica](#) and the IMF

Press Release:

[IMF Executive Board
Completes Third
Review Under Stand-
By Arrangement with
Jamaica and
Approves US\\$49
Million Disbursement](#)
January 14, 2011

[Country's Policy
Intentions Documents](#)

E-Mail Notification
[Subscribe](#) or [Modify](#)
your subscription

Jamaica: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

December 23, 2010

The following item is a Letter of Intent of the government of Jamaica, which describes the policies that Jamaica intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Jamaica, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

LETTER OF INTENT

Kingston, Jamaica
December 23, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn:

Performance under the economic program described in our Letter of Intent (LOI) of September 14, 2010 has been mixed. Economic activity remains sluggish. The forecast for economic growth for FY2010/11 has been revised downward to between 0 and -0.5 percent (compared with 0.6 percent at the time of the second review), reflecting: the impact of lower than projected growth in Jamaica's major trading partners; Tropical Storm Nicole; and the State of Emergency. However, there have been some positive developments in the labour market and financial market conditions remain broadly positive.

Despite the challenges, the government is pleased to report that performance under the SBA remains on track. All end-September quantitative performance criteria were met. Notwithstanding these good results, risks relating to government spending overruns emerged. The government has taken quick steps to keep the fiscal programme on track with offsetting cuts in spending, new revenue measures, stepped up revenue collection efforts and strengthened expenditure control procedures. Most notably, the government has intensified efforts to divest Clarendon Alumina Production (CAP), whose losses constituted a major part of the projected unbudgeted spending. Despite these best efforts, the government requests that fiscal targets be relaxed by 0.2 percent of GDP this year to partially accommodate urgent infrastructure reconstruction spending related to Tropical Storm Nicole.

The structural reform agenda is advancing although in some cases there have been delays, mainly related to bottlenecks in the preparation of legislation and difficulties in contracting key technical advisory personnel. Efforts are ongoing to overcome these challenges. Key September structural benchmarks were achieved related to Central Treasury Management System (CTMS) reform and strengthening the framework to combat unlawful financial operations. On debt management, however, the Government has had difficulty in hiring a technical advisor for improving the debt management function and was not able to meet the benchmark. Funding has now been identified and the hiring is expected to be completed in January 2011. An interim tax waiver regime is now in place that significantly reduces

discretionary waivers. Work on calculating costs and savings from the public sector reform is near completion and the final plan is expected to be approved by Cabinet in January 2011. Amendments to the fiscal responsibility framework are being revised to accommodate additional recommendations by IMF technical staff. In the financial sector, the end-September installment of the risk-weighting on Government of Jamaica foreign currency-denominated securities was completed and other financial sector reforms are moving ahead broadly as envisaged.

The government recognizes that many challenges remain ahead. Concerns are rising over the prolonged recession, high unemployment, and increased poverty rates. In addition, the global economic environment remains uncertain. However, the Government recognizes the enduring benefits of sound macroeconomic policies and remains deeply committed to macroeconomic stability and the implementation of the reform pillars outlined in the Memorandum of Economic and Financial Policies (MEFP) attached to our LOI of January 15, 2010, that endeavour to fundamentally transform the Jamaican economy. The attached updated MEFP outlines new measures that the Government has implemented recently to keep the fiscal program on track and proposes some updates to quantitative targets and structural benchmarks.

The Government believes that the policies described in the MEFP are adequate to achieve the programme's objectives. However, as always, the Government stands ready to take any additional measures that may be required. The Government will maintain the productive and fruitful dialogue it has enjoyed with the Fund. In this spirit of cooperation, the Government will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

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

The Government requests waivers of applicability for the relevant end-December 2010 performance criteria in view of the fact that the Board discussion of the third programme review will be held in January 2011. Full information to assess performance under all the criteria will not be available by the Board date but we are confident that they will be observed. Subsequent reviews under the SBA are expected to be held on a quarterly basis based on relevant performance criteria.

As part of our communication policy, we intend to publish this letter on the websites of the Ministry of Finance and the Public Service and the Bank of Jamaica to keep domestic and

international agents informed about our policy actions and intentions. In that context, we authorize the Fund to publish this letter and the attached MEFP.

Very truly yours,

/s/

Audley Shaw, MP
Minister of Finance and the Public Service
Jamaica

/s/

Brian Wynter
Governor, Bank of Jamaica
Jamaica

JAMAICA—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. BACKGROUND AND RECENT DEVELOPMENTS

1. **Overall economic performance during the second quarter of FY2010/11 was mixed.** Financial market conditions have continued to improve, but economic activity remains weak.
2. **Real GDP is estimated to contract by 0.5 percent (y-o-y) in Q3 of 2010, an improvement over the fall of 2 percent recorded in Q2 of 2010.** Goods producing industries grew by 2 percent, led by agriculture and mining. However, the services sector declined by 1.7 percent, with only tourism showing positive growth. There were positive developments in the labour market, with the net creation of 21,000 jobs in Q3 of 2010, following three quarters of job losses. The external current account deficit widened to 1.8 percent of GDP in Q2 of 2010 from 0.4 percent in Q1 of 2010, owing mainly to a dent in tourism receipts related to the State of Emergency.
3. **The damage from Tropical Storm Nicole and its impact on the economy were severe.** Jamaica suffered widespread flooding during the last week of September as a result of the storm. The extensive damage to basic infrastructure such as roads, bridges, and sewerage systems is estimated at J\$20 billion (1.7 percent of GDP). Growth for FY2010/11 has been revised downward to -0.5 percent, compared with 0.6 percent at the time of the second review, reflecting the lower-than- envisaged outturn in the second and third quarters of 2010 and the projected negative impact of the tropical storm, in particular on agriculture, transport, and retail trade. Inflation (y-o-y) fell to 11.4 percent in November from 13.2 percent at end-June, with core inflation running at 7.6 percent. For this fiscal year, however, inflation has been revised up to 7½–8½ percent, to reflect a temporary jump in food prices associated with storm-related damage to crops.
4. **Financial market conditions remain stable and prudential indicators continue to point to a resilient system.** Rates on 3-month Treasury bills have fallen to 7.4 percent and those on 5-year bonds to 10.5 percent. The yield on Eurobonds has declined to 7.8 percent (consistent with a spread of 520 basis points). Commercial bank lending rates have also fallen somewhat, while remaining high. Credit to the private sector is still anemic, with a slight year-on-year decrease in September 2010. In September, the ratio of banks' nonperforming loans to total loans declined, while capital adequacy and liquid asset ratios improved, remaining comfortably above statutory levels. In the securities sector, profitability declined slightly, while most other prudential indicators (e.g., break-even yield, leverage, capital adequacy) improved. To date, no financial institutions have requested assistance from the Financial System Support Fund (FSSF). NIR has remained steady at US\$1.9–2.0 billion and the currency has been stable against the U.S. dollar, during what is typically the seasonally-low period for foreign exchange earnings.

II. PERFORMANCE UNDER THE PROGRAM

5. **All end-September quantitative targets were met** (Table 1). The central government deficit for the second quarter of FY 2010/2011 was 3.6 billion (0.3 percent of GDP) lower than projected at the time of the second review. This development was due to a better-than-anticipated primary surplus outcome (J\$10.8 billion compared with program projections of J\$8.3 billion), reflecting lower than projected capital and program expenditure, which more than offset lower grants. Revenue collections were slightly higher than projected, masking deviations in some subcategories. Strong GCT (value added tax) and SCT (excise tax) collections more than offset lower than projected revenues from the withholding taxes on wages (PAYE) and interest. Also, the overall fiscal deficit of public entities for the second quarter of FY 2010/2011 was 2.6 billion lower than targeted. The lower than anticipated fiscal deficit, coupled with pre-financing operations, resulted in a slower drawdown of deposits with the banking system than envisaged at the time of the second review. After adjusting for the impact of pre-financing, the change in the central government debt target was met. The net increase in central government guarantees was also met.

6. ¹ NIR continued to over perform, surpassing the end-September target by almost US\$600 million.

Table 1. Jamaica - Program Monitoring: Quantitative Performance Criteria (PC) under SBA ^{1/}
in billions of Jamaican dollars

	Sep-10	PC 3rd Review end Sep-10	Adjustments ^{7/}	Adjusted SBA PCs	Proj. Diff.	PC Status
Fiscal targets						
1. Primary balance of the central administration (floor) ^{2/}	21.4	18.8			2.5	Met
2. Overall balance of public entities (floor) ^{2/}	-3.4	-6.0			2.5	Met
3. Cumulative net increase in central government direct debt (ceiling) ^{2/ 3/}	52.6	54.0	-0.9	53.1	-0.5	Met
4. Cumulative net increase in central government guaranteed debt (ceiling) ^{2/}	3.9	15.7			-11.8	Met
5. Central government accumulation of domestic expenditure arrears (ceiling) ^{4/}	0.0	0.0			0.0	Met
6. Central government accumulation of tax refund arrears (ceiling) ^{5/}	-0.3	0.0			-0.3	Met
7. Consolidated government accumulation of external arrears (ceiling) ^{6/}	0.0	0.0			0.0	Met
Monetary targets						
8. Cumulative change in net international reserves (floor) ^{2/ 6/}	201.1	-395.4			596.5	Met
9. Cumulative change in net domestic assets (ceiling) ^{2/}	-22.9	-1.2			-21.7	Met

^{1/} Targets as defined in the Technical Memorandum of Understanding (TMU).

^{2/} Cumulative flows since April 1.

^{3/} Excludes government guaranteed debt. The central government direct debt excludes IMF credits and includes program consistent adjustments.

^{4/} Includes debt payments, supplies and other committed spending as per contractual obligations.

^{5/} Includes tax refund arrears as stipulated by law.

^{6/} In millions of US dollars. Measured at program exchange rates. PC incorporated automatic adjusters specified in TMU.

^{7/} Original targets for Q2 assumed that debts of the SCJ of 9.4 billion would be taken over adding to the stock of central government direct debt but only 8.5 billion were actually taken over. The remainder is expected to be taken over in the third quarter of FY 2010/2011.

¹ The central government direct debt target was minimally adjusted downwards (0.9 billion) to reflect that a small portion of the anticipated takeover of Sugar Company of Jamaica debt included in program projections is now expected to take place in the third quarter of FY 2010/2011 due to administrative delays.

7. **Performance related to the structural benchmarks was mixed.** In the fiscal area, the September benchmarks related to the Central Treasury Management System (CTMS) reform (completion of an inventory of all public sector bank accounts and preparation of a detailed conceptual design of the CTMS) were met. However, in the debt management area, the benchmark requiring the hiring of a technical advisor and project manager for the reform program was not met. The government is seeking the assistance of the Fund and the World Bank in the selection of appropriate candidates. In the financial sector, the authorities have completed the concept paper on measures to combat unlawful financial operations (October 2010 structural benchmark) and have submitted the Amendments to the Bank of Jamaica Act to the Cabinet.

8. **In the area of tax policy, the Government continues to take steps to reduce tax waivers.** On November 15, 2010, the following measures were implemented, pending the development of a comprehensive tax incentive reform plan: (i) a freeze on discretionary waivers of all taxes and import duties, with some limited exceptions; (ii) a prohibition on the granting of waivers when the fiscal revenue foregone is not known; (iii) a suspension of tax concessions for the rental vehicle industry; (iv) a tightening of motor vehicle concessions for farmers; and (v) a prohibition on the granting of new tax holidays. Effective March 31, 2011, the granting of waivers for the upfront payment of the GCT will cease. The government intends to improve transparency of the waiver policy by regularly updating the information on amounts, recipients, and sectors on the Ministry of Finance website.

9. **Advances have been made in the area of debt management reform, despite delays in certain areas.** In line with the joint IMF-World Bank-IDB technical assistance recommendations, a high level inter-agency Debt Management Committee has been established, chaired by the Financial Secretary, and including participation by the Bank of Jamaica (BOJ) and the Planning Institute of Jamaica (PIOJ). This Committee will advise on medium-term debt management strategies, debt issuance, and debt market development. An action plan for the establishment of a reformed Debt Management Unit that will carry out back, middle, and front office functions has been approved by the Financial Secretary.

10. **The financial sector reform agenda is moving ahead, with minimal changes to the target dates.** The second 12.5 percent installment of the phased introduction of 100 percent risk-weighting on foreign-currency-denominated government securities was implemented at end-September 2010. In October 2010, securities dealers began segregating collateral underpinning client repo contracts in accounts in the central securities depository, a measure that will reduce risks to clients. Full registration of individual holdings will be phased in by end-March 2011.

Table 2. Jamaica: Quantitative Performance Criteria 1/

(in J\$ billions)	2010			2011
	end Jun. observed	end Sept. observed	end Dec. criteria	end Mar. criteria
Fiscal targets				
1. Primary balance of the central administration (floor) 2/	10.6	21.4	30.9	57.6
2. Overall balance of public entities (floor) 2/	-1.9	-3.4	-10.9	-11.9
3. Cumulative net increase in central government direct debt (ceiling) 2/, 3/	26.2	56.9	91.1	111.3
4. Cumulative net increase in central government guaranteed debt (ceiling) 2/	5.6	3.9	18.8	20.9
5. Central government accumulation of domestic expenditure arrears (ceiling) 4/	0.0	0.0	0.0	0.0
6. Central government accumulation of tax refund arrears (ceiling) 5/	-0.5	-0.3	0.0	0.0
7. Consolidated government accumulation of external arrears (ceiling) 6/	0.0	0.0	0.0	0.0
Monetary targets				
8. Cumulative change in net international reserves (floor) 2/, 6/	-2.3	201.1	39.0	39.0
9. Cumulative change in net domestic assets (ceiling) 2/	-3.5	-22.9	13.8	-12.1

1/ Targets as defined in the Technical Memorandum of Understanding.

2/ Cumulative flows through April 1 to March 31.

3/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.

4/ Includes debt payments, supplies and other committed spending as per contractual obligations.

5/ Includes tax refund arrears as stipulated by law.

6/ In millions of US dollars.

III. POLICIES FOR THE REMAINDER OF FY2010/11

A. Fiscal Policy

11. **Notwithstanding the overall good program performance thus far, spending pressures emerged that threatened to place the FY2010/11 fiscal program off track.** Unbudgeted spending by the central government (1 percent of GDP) included the purchase of buses for the Jamaica Urban Transit Company (JUTC), other goods and services, and costs related to the May-July state of emergency. Such spending also included unbudgeted outlays related to the payment of salary and allowances to some public sector workers, including to comply with a ruling by the Industrial Disputes Tribunal on amounts payable to teachers. There has also been an urgent need to repair and replace the infrastructure damaged by Tropical Storm Nicole (0.2 percent of GDP).² In the public bodies, there were unbudgeted costs related to operating losses of Clarendon Alumina Production (CAP).

12. **To offset additional spending, the Government has implemented new measures equivalent to 0.8 percent of GDP and is requesting the inclusion of an adjustor under the program for storm-related outlays.** The new measures comprise: (i) the postponement

² Because the damage was not caused by hurricane-force winds, it is not covered by the World Bank-sponsored Caribbean Catastrophic Risk Insurance Facility (CCRIF) to which Jamaica subscribes.

of certain capital projects; (ii) cuts in expenditures on central government goods and services; (iii) a reduction in the issuance of discretionary waivers and the introduction of differentiated tax rates on alcohol beverages, based on alcohol content; and (iv) a strengthening in administration efforts to enforce compliance in PAYE. Taking into account capacity constraints, the government is requesting an adjustor to the primary balance of up to 0.2 percent of GDP to accommodate the repairs related to Tropical Storm Nicole. Assuming that the adjustor is fully used, the revised central government primary surplus for FY2010/11 would be 4.7 percent of GDP, compared with 4.9 percent projected at the time of the second review. The revised overall public sector deficit would be 7.4 percent of GDP (7.2 percent), and central government debt at end-march 2011 would be broadly unchanged from the level projected at the time of the second review, at around 139 percent of GDP.

Table 3. Jamaica: Unbudgeted Spending and Offsetting Measures FY 2010/2011
(in percentage of GDP)

Unbudgeted Spending	1.4	Measures and Actions	1.4
Central Government	1.0	Central government	1.0
Wage-related spending	0.2	Revenues	0.4
State of Emergency	0.1	Reduce waivers and modify alcohol tax	0.1
Damages from Tropical Storm Nicole	0.2	Strengthen administration of PAYE withholding tax	0.1
Purchase of 100 buses for JUTC	0.2	Transfers from public bodies	0.2
Other goods and services	0.3	Expenditures	0.4
		Postpone capital spending	0.3
		Reduce recurrent spending	0.1
		Adjustor in primary balance to accommodate Nicole	0.2
Public entities		Public entities	
CAP losses	0.4	Divestment of CAP before end of fiscal year	0.4

13. **The Government is adopting practices that will preclude the recurrence of the spending overruns that recently emerged.** In line with Fund technical assistance recommendations, beginning January 2011, ministries, departments, and agencies (MDAs) will be required to submit a monthly report to the Ministry of Finance detailing expenditure commitments. Permanent Secretaries were fully briefed about the new fiscal responsibility framework and its stricter standards for public financial management. Sensitization sessions will be organized for senior officials in all MDAs and other stakeholders during the last quarter of FY2010/11. Moreover, as part of the FRF regulations slated for implementation by end-February 2011, MDAs or public bodies responsible for unbudgeted expenditures will be held accountable by the Ministry of Finance and will be required to present offsetting measures elsewhere in their budgets. Personal sanctions may also be imposed on project managers who proceed with the execution of projects beyond the appropriated resource envelope.

14. **The Government intends to make additional changes to the fiscal responsibility framework (FRF) beyond those outlined in the September 2010 MEFP.** These amendments, prepared with the support of Fund staff, will be submitted to Parliament by

February 2011 for approval (new structural benchmark). They will more clearly establish: (i) the obligation of the Minister of Finance to propose to Parliament measures aimed at keeping the fiscal program on track when deviations from fiscal targets arise; (ii) a tightly defined escape clause limited only to well-defined national emergencies, as assessed by an independent oversight institution (e.g. the Office of the Auditor General); and (iii) the link between the medium-term fiscal framework and the annual budget, by fixing the key fiscal parameters for both the current budget year and the following year. While these changes will delay slightly the approval of the amendments (originally envisaged as a November 2010 structural benchmark), they will not affect the planned implementation in the FY2011/12 budget.

15. **The implementation of the Central Treasury Management System (CTMS) will also substantially improve fiscal control.** As of December 2010, the payment of debt service and major utilities (water, light and power) has been centralized in the Accountant General's Department, and the centralization of payroll payments will be completed by February 2011. In addition, the Ministry of Transport and Works, the Ministry of Education, and the Ministry of Finance and the Public Service, including the Accountant General's Department, have been selected as pilot MDAs for the phased rollout of the CTMS at the beginning of FY2011/12.

16. **The Government intends to strengthen its financial protection against natural disasters.** Together with its regional partners, Jamaica is pushing for changes in the criteria for insurance claims in the CCRIF, to include damages caused by flooding. In addition, beginning in FY2011/12, it is committed to implementing a framework that will provide resources to the budget to cover specific contingencies, such as natural disasters.

17. **The Government has intensified its efforts to divest Clarendon Alumina Production (CAP) and is confident that the sale will be finalized by March 2011.** The Government had expected to finalize the sale of CAP early in the fiscal year and as a result, no central government budgetary allocation was made to cover its operating losses. These losses, which have totaled close to 2 percent of GDP since 2007, derive mainly from the fixed price contracts under which the company sells half of its alumina. Discussions to sell CAP to an interested entity are now at an advanced stage and the Government is committed to ensuring that it does not incur any future contingent liabilities as a result of any agreement reached. It is also committed to using most of the divestment proceeds to fully cover the company's FY2010/11 losses and pay down the public debt. The divestment of CAP (and its removal from the public sector accounts) will not cause adjustments to any of the March 2011 fiscal targets.

18. **Preparation of the public sector rationalization plan continues to move forward.** Public hearings on the Master Rationalization Plan (MRP) took about one month longer than originally envisaged but are now completed. An international accounting firm has been hired to assess short-term costs and the medium-term savings of the MRP's

recommendations and alternative scenarios. This work will be completed by end-December 2010 (initially a structural benchmark for end-November 2010, this will be a prior action for the completion of the third review). The Government is also committed to completing a rationalization plan for the civil service (this was initially a structural benchmark for end-December 2010). This plan will be implemented beginning in FY2011/12 to generate permanent savings consistent with the medium-term objectives of the fiscal program.

19. **The Government continues to work toward a comprehensive reform of tax incentives aimed at reducing distortions, increasing revenues, and promoting economic growth (December 2010 structural benchmark).** With assistance from the IDB, the Ministry of Finance is moving ahead with plans to implement this reform beginning in FY2011/12. This effort will be consistent with a broader set of tax policy reforms that is being examined under the Partnership for Transformation, which represents stakeholders of the public and private sectors.

20. **The Government is committed to making the restructured Debt Management Unit operational by end-September 2011 (new structural benchmark).** The action plan for establishing the Unit will be submitted for Cabinet approval in January 2011, and the final structure of the Unit is expected to be approved by March 2011. The costs for the new organizational structure will be incorporated in the budget estimates for FY 2011/12. Following the recent identification of grant funds, the hiring of a project manager and technical advisor will be completed in January 2011. A draft Debt Management Bill is being finalized and will be submitted to Parliament in February 2011 for approval. The law will consolidate the existing fragmented legislative structure, introduce modern debt management practices, and ensure prudent management of government guarantees and contingent liabilities.

B. Monetary and Financial Sector Policies

21. **With underlying inflation pressures subdued, monetary policy will continue to be accommodative, while geared toward maintaining financial stability and reducing inflation.** The BOJ intends to continue its gradual approach to lowering the policy rate, with a view to keeping inflation expectations well anchored while avoiding excessive volatility in the foreign exchange market. The BOJ also intends to take advantage of the favourable momentum in financial markets to increase its net international reserves.

22. **The Government intends to continue to work to encourage further declines in commercial lending rates in order to help spur private sector demand.** The BOJ has reduced the cash reserve requirement, with a view to providing room to commercial banks to lower their lending rates. The recent passage of credit bureau legislation will help reduce adverse selection and risk premia over the medium term. The Government is exploring additional options to promote competition and lower spreads.

23. **The Government plans to gradually wind down the Financial System Support Fund (FSSF).** The FSSF played an important role in encouraging participation in the Jamaica Debt Exchange (JDX) and in fostering confidence in the financial system in the post-JDX period. Data on balance sheets, liquidity and income indicate that the institutions were able to successfully withstand the effects of the JDX. No institution has requested or received support from the FSSF and the risks associated with the JDX have passed. Given the balance of risks facing Jamaica, the Government believes that the resources in the FSSF would be better used as general purpose gross international reserves in the BOJ. The Government is committed to transferring at least half of the FSSF funds by June 2011 and to completing the process by March 2012.

Appendix 1. Structural Reform Agenda

Target Date 1/	Structural Benchmark / MEFP Commitments	Type	Status	Comment
Institutional Fiscal Reform				
Mar-10	Pass a fiscal responsibility framework (FRF) and accompanying legislative amendments.	Benchmark MEFP Jan-2010	Met	Approved in Parliament in March. Work on amendments and supporting regulations needed to enhance the effectiveness of the FRF is ongoing (see below).
Mar-10	Freeze on wage and salary increases through FY 2011/12.	Commitment MEFP Jan-2010	Met	FY2010/11 Budget includes the freeze.
Jun-10	Conduct a government employment / compensation census and create a public sector monitoring database.	Commitment MEFP Jan-2010	Met	The census of employment and compensation has been completed and a database has been created. The authorities are verifying the census results through work been conducted by the Public Sector Transformation Unit (PSTU) and through a formal payroll audit conducted by the Auditor General's office with the assistance of the World Bank.
Jun-10	Prepare time-bound tax administration reform action plan.	Commitment MEFP Jan-2010	Met	Modernization strategies for tax and customs administration were prepared and costed and are accompanied by detailed action plans.
Jun-10	Complete a time bound action plan to establish a central treasury management system (CTMS) by end 2010.	Benchmark MEFP Jan-2010	Met	An action plan to implement the CTMS was completed.
Sep-10	Finalize inventory of all public sector bank accounts	Benchmark MEFP Sep-2010	Met	Currently reconciling the information received from the financial institutions with the information provided by the Ministries, Departments, Agencies and Public Bodies.
Sep-10	Prepare a detailed conceptual design for CTMS	Benchmark MEFP Sep-2010	Met	The final conceptual design was sent to staff on November 19th 2010.
Nov-10	Amendments FRF legislation and introduce regulations.	Benchmark MEFP Jun-2010	Delayed	Additional amendments and regulations to be made following Fund staff comments. Submission to Parliament in February 2011. Will not affect the planned implementation in the FY2011/12 budget.
Nov-10	Undertake a costing exercise of the different reform options presented in the Master Rationalization Plan.	Benchmark MEFP Sep-2010	Delayed	<i>Prior Action for completion of 3rd Review.</i> Preliminary costing scenarios to be completed by end-December 2010.
Sep-10	Prime Minister's Committee Report on Public Sector Reform due.	Commitment MEFP Jan-2010	Met	The public sector reform report has been finalized after the comments of the Parliament were incorporated. The report is scheduled to be tabled in Parliament by the Chairman of the Public Accounts Committee by [end November 2010]
Sep-10	Announce strategy to scale back and reform the tax incentive system.	Commitment MEFP Jan-2010	Met	The announcement of a new strategy in relation to tax incentives took place on Aug 5, 2010.
Dec-10	Complete time-bound public employment and compensation reform action plan (to be implemented in FY2011/12 Budget).	Benchmark MEFP Jan-2010	Delayed	Reform strategy to be finalized in January 2011 after costing exercises completed.
Dec-10	Tax incentive reform.	Benchmark MEFP Jun-2010	In progress	Interim measures introduced on November 15 to scale back discretionary waivers, while more comprehensive reform is prepared.
Jan-11	Additional Changes to the FRF	Benchmark MEFP Dec-2010	In progress	Amendments to be submitted to Parliamentary Approval by end-January (details MEFP para. 13).
Apr-11	Interim CTMS system implemented for FY2011/12	Commitment MEFP Jun-2010	In progress	Payment of debt service and utilities has been centralized in the Accountant General's department. Ministry of Transport and Works, the Ministry of Education, and the Ministry of Finance will be pilot for the rollout of the CTMS .
FY2013/14	Reduce wage bill to 9.5 percent of GDP.	Commitment MEFP Jan-2010	In progress	Wage freeze in effect. Public employment and compensation reform strategy under preparation.
Public Entities				
Mar-10	Lease remaining Sugar Company Factories or put on zero-deficit budget.	Commitment MEFP Jan-2010	Met	Agreement signed between the Government and Chinese state-owned investment company Complant Sugar International Limited on July 30, 2010 for the remaining estates (Monymusk, Bernard Lodge and Frome). Full divestment is expected by December 2010 if due diligence is completed successfully.
Apr-10	Increase JUTC bus fares by 40 percent or more.	Commitment MEFP Jan-2010	Met	Increased by 40 percent on average.
Jun-10	Divest or liquidate Air Jamaica.	Commitment MEFP Jan-2010	Met	Agreements signed; full take over within 6 to 12 months proceeding as planned.
Mar-11	Divest Clarendon Alumina Production	Benchmark MEFP Dec-2010	In progress	Negotiations with interested buyer at advanced stage
Debt Management				
Jun-10	Complete cost-risk analysis alternative debt management strategy.	Commitment MEFP Jan-2010	Met	Received IMF/WB/IDB TA. Follow-up TA necessary to build strategic and analytical capacity (Oct-10).
Sep-10	Hire a resident Technical Financial Advisor and a Project Manager for a 1-2 year period.	Benchmark MEFP Jun-2010	Not Met	TORs were not drafted and the resident advisor was not hired. The authorities have asked assistance from the Fund and the Bank to find suitable candidates.
Jan-11	Hire of project manager and technical advisor	Benchmark MEFP Dec-2010	In progress	Grant funds have been identified
Mar-11	Submit draft debt management law to Parliament	Commitment MEFP Dec-2010	In progress	The law will consolidate the existing fragmented legislative structure, introduce modern debt management practices, and ensure prudent management of government guarantees and contingent liabilities.
Sep-11	Make the restructured Public Debt Management Unit operational	Benchmark MEFP Dec-2010	In progress	Action Plan for establishing the Unit approved by Financial Secretary. Will be submitted for Cabinet approval in January 2011. Final structure of the Unit expected to be approved by March 2011. Costing of Structure to be incorporated in the budget for FY2011/12.

1/ All target dates refer to end month.

Appendix 1 (Continued). Structural Reform Agenda

Target Date 1/	Structural Benchmark / MEFP Commitment	Type	Status	Comment
Financial Sector				
Feb-10	Freeze on issuance of new licences for securities dealers with traditional business model.	Benchmark MEFP Jan-2010	Met	...
Mar-10	Improve frameworks for AML/CFT.	Benchmark MEFP Jan-2010	Met	Financial Investigations Division Bill and other legislation passed.
Mar-10	Review/revise concept paper for an omnibus banking law to strengthen financial sector oversight.	Benchmark MEFP Jan-2010	Met	Completed; presented to Minister of Finance in June 2010 and submitted to Cabinet in July 2010.
Jun-10	Examine Bankruptcy Law reform.	Commitment MEFP Jun-2010	In progress	FSC to explore feasibility of enhanced repo-client protection.
Jun-10	Phased introduction of 100 percent risk weighting on foreign currency denominated GOJ bonds.	Commitment MEFP Jun-2010	Met	Second installment (a 25 percent risk weight) implemented end September 2010. Third installment scheduled for end-December
Jun-10	Finalize list of amendments to the BOJ Act.	Commitment MEFP Jun-2010	Met	Part of efforts to establish legal framework to support BOJ's mandate for financial system stability. Note prepared by BOJ submitted to cabinet in June. Final draft submitted to Cabinet . Drafting instructions forthcoming.
Aug-10	Develop enhanced capital and margin requirements for the securities dealer sector.	Commitment MEFP Jan-2010	Met	Second Fund TA mission took place in August 2010. Work program on track. A consultation paper has been prepared and will be discussed with industry during November. A revised paper will be produced in January 2011
Sep-10	Dealers requirement to register customer interest against underlying instruments in a central depository.	Commitment MEFP Jan-2010	Met	New FSC guidelines stipulate that customer interests be registered in the CSD through the use of an omnibus client account, whereby dealers place all assets subject to retail repos in a separate JamCLEAR CSD holding account, which is an account maintained by a dealer to facilitate the segregation of clients' unencumbered financial assets associated with a repo agreement. Securities dealers are required to keep clear records of clients' interests, which must be reconciled on a daily basis.
Oct-10	Prepare concept paper outlining measures to combat unlawful financial operations (UFOs).	Benchmark MEFP Sep-2010	Met	Original June 2010 benchmark not met. Previously delayed Fund TA has been delivered. Paper has been prepared and is being reviewed by Attorney General and Public Prosecutor.
Dec-10	Adopt supervisory rules to take remedial measures against weak entities on a specified timetable.	Commitment MEFP Jan-2010	Met	Part of omnibus concept paper presented to Minister and Cabinet as above.
Dec-10	Introduce enhanced capital rules for DTIs to address all market risks (including equity and interest).	Commitment MEFP Jan-2010	Met	Part of omnibus concept paper presented to Minister and Cabinet as above.
Dec-10	Amend Unit Trust Act to encourage the development of collective investment schemes.	Commitment MEFP Jan-2010	In progress	Concept Paper for public consultation March 2011.
Mar-11	Amending Companies Act of Jamaica to remove structural impediments to the development of the vibrant mutual fund market. Concept paper to be completed.	Commitment MEFP Jan-2010	In progress	Concept Paper for public consultation March 2011.
Feb-11	Pass Omnibus banking law, amend Bank of Jamaica Act and Financial Services Commission Act, implement stronger capital adequacy standards. Draft omnibus bill completed by CPC	Commitment MEFP Jan-2010	In progress	Concept paper distributed; Submitted to Cabinet July 2010; contemplated enactment 2012.
Mar-11	Close gaps in the power of the FSC to conduct consolidated supervision in line with Omnibus Banking bill. Concept paper to be completed.	Commitment MEFP Jan-2010	In progress	To be based on review of BoJ Concept note.
Mar-11	Amendments to Securities Act to enhance regulatory regime for securities dealers.	Commitment MEFP Jun-2010	In progress	Concept paper to be completed February 2011; Cabinet submission March 2011.
Mar-11	Securities dealers to pledge collateral against client interests in the CSD.	Commitment MEFP Jun-2010	In progress	Exploring increased functionality of CSD in this respect.
Mar-12	Fully implement regulations to strengthen the regulatory and supervisory framework of the securities dealers sector.	Commitment MEFP Jan-2010	In progress	Includes full implementation of 100 percent risk weighting.

1/ All target dates refer to end month.

Appendix 2. Financial Sector Reforms: Action Plan

Legislation (Statutes)	Timetable
<p>Omnibus Banking Bill</p> <p>Purpose:</p> <p>Incorporate measures to allow for more effective supervision of financial conglomerates (consolidated regulation) and strengthen oversight of the financial sector (as identified in the 2006 FSAP) JAN 2010 MEFP Paragraph 30</p> <p>Adopt prompt corrective action framework. JAN 2010 MEFP paragraph 30</p> <p>Establish authority to set risk weights for assets held by DTIs</p> <p>Amalgamate all relevant statutes, namely the Banking Act, the Financial Institutions Act and the Building Societies Act and related regulations.</p> <p>Incorporate provisions to facilitate new requirements under the revised Basel Core Principles</p> <p>Provide supervisory with power to issue legally binding rules</p> <p>Strengthen provisions related to unauthorized financial organizations, JAN 2010 MEFP paragraph 32</p>	<p>Concept Paper, June 2010 (completed)</p> <p>Submission to Cabinet, July 2010</p> <p>Cabinet to issue drafting instructions, August 2010</p> <p>Draft finalized by CPC (in consultation with BOJ), February 2011</p> <p>120 day consultation with industry completed May 2011</p> <p>Review by Legislation Committee of Cabinet, end July 2011</p> <p>Tabled in Houses of Parliament, September 2011</p> <p>Consideration by Joint Select Committee of Parliament commencing October 2011 to June 2011</p> <p>Passage in Parliament July 2012</p>
<p>Amendments to the Bank of Jamaica Act</p> <p>Establish legal framework to underpin responsibility for overall financial sector stability, JAN 2010 MEFP paragraph 31</p> <p>Amend provisions requiring transfer of unrealized profits to GoJ, Safeguards assessment</p>	<p>List of amendments to Cabinet for information (with IMF consultation), end June 2010</p> <p>First CPC draft, in consultation with BOJ, November 2010</p> <p>Industry consultations, completed February 2011</p> <p>Review by Legislative Committee of Cabinet, completed end April 2011</p> <p>Tabled in Houses of Parliament and referred to Joint Select Committee, end May 2011</p> <p>Debate in Parliament, June 2011</p> <p>Passage by Parliament, July 2011</p>

Legislation (Statutes)	Timetable
<p>Securities Act (securities dealers)</p> <p>Purpose:</p> <p>Strengthen definition of securities Strengthen rule making power (related to enhancing capital standards JAN 2010 MEFP paragraph 34)</p> <p>Strengthen investigative and supervisory powers. Introduce separate licensing categories</p> <p>Strengthen authority and information sharing ability to enable FSC to sign the International Organization of Securities Commissions Memorandum of Understanding on Information Sharing and Cooperation (international standard for cooperation)</p>	<p>Draft concept paper completed August 2010</p> <p>Concept paper submitted to Minister, December 2010</p> <p>Concept paper submitted to Minister, March 2011</p> <p>Cabinet Submission March, 2011</p> <p>Drafting instructions to the CPC April 2011</p> <p>First draft of Bill to be completed July 2011</p> <p>Drafting review and revision completed September 2011</p> <p>Submitted to Parliamentary committee for reviews, October 2011</p> <p>Committee review completed December, 2011</p> <p>Cabinet review completed by December 30, 2011</p> <p>Tabling in Houses of Parliament and referral to Joint Select Committee by December, 2011</p> <p>Consideration by Joint Select Committee and Parliamentary debate completed June 2012</p> <p>Passage, July 2012</p>
<p>Securities Act (collective investment schemes)</p> <p>Purpose:</p> <p>Removing impediments to development of mutual funds market, JAN 2010 MEFP paragraph 33</p>	<p>As above</p>
<p>Securities Act (Unregulated Financial Organizations)</p> <p>Purpose:</p> <p>Combating unregulated financial organizations, JAN 2010 MEFP paragraph 32</p>	<p>As above</p>

Legislation (Statutes)	Timetable
<p>Insurance Act (UFOs) Purpose: Combating unregulated financial organizations, JAN 2010 MEFP paragraph 32</p>	<p>Draft concept paper completed, October 2010 (revised structural benchmark) Discussion paper circulated for public consultation, January 2011</p> <p>Public consultation completed, March 2011 Concept paper submitted to Ministry, March 2011</p> <p>Cabinet Submission March, 2011 Drafting instructions to the CPC April 2011 First draft of Bill to be completed July 2011 Drafting review and revision completed September 2011 Submitted to Parliamentary committee for reviews, October 2011 Committee review completed December, 2011 Cabinet review completed by December 30, 2011 Tabling in Houses of Parliament and referral to Joint Select Committee by December, 2011 Consideration by Joint Select Committee and Parliamentary debate completed June 2012 Passage, July 2012</p>
<p>Financial Services Commission Act (Unregulated Financial Organizations) Purpose: Combating unregulated financial organizations, JAN 2010 MEFP paragraph 32</p>	<p>Discussion paper circulated for public consultation, January 2011 Public consultation completed, March 2011 Concept paper submitted to Ministry, March 2011</p> <p>Cabinet Submission March, 2011 Drafting instructions to the CPC April 2011 First draft of Bill to be completed July 2011 Drafting review and revision completed September 2011 Submitted to Parliamentary committee for reviews, October 2011 Committee review completed December, 2011 Cabinet review completed by December 30, 2011 Tabling in Houses of Parliament and referral to Joint Select Committee by December, 2011 Passage, July 2012</p>

Legislation (Statutes)	Timetable
<p>Financial Services Act (Prompt Corrective Action) Purpose:</p> <p>Adopt rules which require supervisors to take remedial measures against a weak entity within specific timeframes (prompt corrective action, PCA), JAN 2010 MEFP paragraph 30 Close gaps in the power of the FSC to conduct consolidated supervision in line with Omnibus Banking bill, JAN 2010 MEFP paragraph 34</p>	<p>Discussion paper circulated February 2011</p> <p>Legislative timetable as above.</p>
<p>Unit Trust Act</p> <p>Purpose:</p> <p>Removing impediments to development of mutual funds market, JAN 2010 MEFP paragraph 33</p>	<p>Concept paper, December, 2010; Consultation with industry to be completed by January, 2011 Concept paper submitted to Ministry, March 2011</p> <p>Cabinet Submission March, 2011</p> <p>Drafting instructions to the CPC April 2011 First draft of Bill to be completed July 2011 Drafting review and revision completed September 2011 Submitted to Parliamentary committee for reviews, October 2011 Committee review completed December, 2011 Cabinet review completed by December 30, 2011 Tabling in Houses of Parliament and referral to Joint Select Committee by December, 2011 Tabling in Houses of Parliament and referral to Joint Select Committee by October, 2011 Review by Joint Select Committee and debate in the Houses of Parliament completed December 2011 Passage January 2012</p>

Legislation (Statutes)	Timetable
<p>Companies Act (with Securities Act amendments and Mutual Fund Regulation Amendments)</p> <p>Purpose: Removing impediments to development of mutual funds market, JAN 2010 MEFP paragraph 33</p>	<p>Concept Paper end June 2010</p> <p>Legislative timetable same as Unit Trust Act</p>
Regulations	
<p>Securities Regulations (with Securities Act amendments)</p> <p>Purpose: Amendments to licensing and registration.</p>	<p>Draft concept paper completed August 2010</p> <p>Drafting instructions submitted to CPC, November 2010</p> <p>First draft completed by CPC, January 2010</p> <p>Drafting and review process completed, March. 2011</p> <p>Regulations approved by FSC Chairman, April 2011</p> <p>Regulations approved by Minister of Finance and Public Sector May 2011</p> <p>Regulations Gazetted June 2011</p>
<p>Mutual Fund Regulations (with Securities Act amendments)</p> <p>Purpose: Removing impediments to development of mutual funds market, JAN 2010 MEFP paragraph 33</p>	<p>Draft concept paper completed June 2010</p> <p>Drafting instructions submitted to CPC, July 2011</p> <p>First draft completed by CPC, September 2011</p> <p>Drafting and review process completed, November 2011</p> <p>Regulations approved by FSC Chairman, December 2011</p> <p>Regulations approved by Minister of Finance and Planning January 2012</p> <p>Regulations gazetted February 2012</p>

Regulations	Timetable
<p>Insurance Regulation Purpose: Imposition of risk weighting on foreign currency GoJ instruments</p>	<p>Proposal developed and completed, April 2010 (met)</p> <p>Industry consultation completed June 2010 Drafting instructions submitted to CPC, July 2010 First draft completed by CPC, August 2010 Drafting and review process completed, September 2010 Regulations approved by FSC Chairman, September 2010 Regulations approved by Minister of Finance and Planning October 2010 Regulations Gazetted October 2010 (completed)</p>
Regulatory Guidelines	
<p>Amendments to FSC Risk base capital guidelines Purpose: Enhance capital and margin rules, JAN 2010 MEFP paragraph 34</p>	<p>Draft guidelines prepared, January 2011</p> <p>Consultation with industry completed, February 2011</p> <p>Guidelines issued March 2011</p>
<p>Amendments to FSC Liquidity Management guidelines Purpose: Enhance capital and margin rules, JAN 2010 MEFP paragraph 34</p>	<p>Draft guidelines prepared, January 2011</p> <p>Consultation with industry completed February 2011</p> <p>Guidelines issued, March 2011</p>
<p>FSC Guideline on Operational Risk Purpose: Enhance capital and margin rules, JAN 2010 MEFP paragraph 34</p>	<p>Draft guidelines prepared, January 2011</p> <p>Consultation with industry completed Feb 2011</p> <p>Guidelines issued, March 2011</p>

JAMAICA—TECHNICAL MEMORANDUM OF UNDERSTANDING

This Technical Memorandum of Understanding (TMU) defines the variables subject to quantitative targets (performance criteria and indicative targets), specified in the Letter of Intent (LOI). It also describes the methods to be used in assessing the programme performance and the information requirements to ensure adequate monitoring of the targets. As is standard under all Fund arrangements, we will consult with the Fund before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the programme, and provide the Fund with the necessary information for programme monitoring.

The programme calculates foreign exchange transactions at fixed programme rates. In this context, the exchange rates for the purposes of the programme of the Jamaican dollar (J\$) to the U.S. dollar is set at J\$89.35 = US\$1, to the Special Drawing Right (SDR) at J\$140.18=SDR 1, to the euro at J\$127.57 = €1, to the Canadian dollar at J\$81.40 = CND\$1, and to the British pound at J\$143.11 =£1.

I. QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

A. Cumulative Floor of the Central Government Primary Balance

Definition: The central government for the purposes of the programme consists of the set of institutions currently covered under the state budget. The fiscal year starts on April 1 in each calendar year and it ends on March 31 of the following year.

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. The central government includes public bodies that are financed through the Consolidated Fund. Data will be provided to the Fund with a lag of no more than three weeks after the test date.

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 as proceeding from divestment operations. Central government primary expenditure is recorded on a cash basis, and includes compensation payments, other recurrent expenditures, and capital spending (Table 1). Primary expenditure also includes transfers to other public bodies which are not self-financed. Costs associated with divestment operations or liquidation of public entities, such as cancellation of existing contracts or severance payments to workers will be allocated to current and capital expenditures, accordingly.

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

The primary balance target includes US\$204 million in expenditure related to the divestment or liquidation costs of Air Jamaica. Should costs associated with the divestment or liquidation of Air Jamaica exceed US\$204 million, the targets may be adjusted downwards to accommodate those costs, up to US\$10 million at the programme reference exchange rate, subject to consultation with Fund staff. Symmetrically, if Air Jamaica divestment costs are lower than US\$ 204 million, the primary balance target will be adjusted upwards by the difference between the US\$ 204 million and the actual cost.

1. Targets on the Primary Balance of the Central Government
Cumulative over the fiscal year (April 1 to March 31)

	Floor (In billions of J\$)
Central Government Primary Balance at end-March 2010	67.5
End-June 2010 (observed)	10.6
End-September 2010 (observed)	21.4
End-December 2010 (performance criterion)	30.9
End-March 2011 (performance criterion) 1/	57.6
End-June 2011 (indicative target)	18.6
End-September 2011 (indicative target)	36.6

1/ The primary balance would be adjusted upwards to the extent that Tropical Storm Nicole related expenses (up to J\$ 2.5b) are not incurred.

B. Cumulative Floor on Overall Balance of Public Bodies

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

Public bodies consist of all self-financed public bodies, including the 20 “Selected Public Bodies”, and “Other Public Bodies”. The 20 “Selected Public Bodies” include: Airport Authority of Jamaica (AAJ); Human Employment and Resource Training Trust (HEART); Jamaica Mortgage Bank (JMB); House Agency of Jamaica (HAJ); National Housing Trust (NHT); National Insurance Fund (NIF); Development Bank of Jamaica (DBJ); National Water Commission (NWC); Petrojam; Petroleum Corporation of Jamaica (PCJ); Ports Authority of Jamaica (PAJ); Urban Development Corporation (UDC); Jamaica Urban Transit

Company Ltd. (JUTC); Caymanas Track Ltd. (CTL); Wallenford Coffee Company Ltd. (WCC); National Road Operating and Constructing Company Ltd. (NROCC); Petro-Ethanol; Air Jamaica (AJ); Clarendon Aluminum Production (CAP); Sugar Company of Jamaica (SCJ). “Other Public Bodies” include: Bauxite and Alumina Trading Company of Jamaica Ltd. ; Road Maintenance Fund; Jamaica Bauxite Mining Ltd. ; Petroleum Company of Jamaica Ltd. (Petcom); Wigton Windfarm Ltd.; Broadcasting Commission of Jamaica; The Office of Utilities Regulation; 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; The Public Accountancy Board; Students’ Loan Bureau; National Health Fund; Agricultural Development Corporation; Agricultural Marketing Corporation, Cocoa Industry Board; Coffee Industry Board; Sugar Industry Authority; Overseas Examination Commission; Aeronautical Telecommunications Ltd.; Jamaica Civil Aviation Authority; Jamaica Ultimate Tire Company Ltd.; Jamaica Railway Corporation Ltd.; Ports Security Corps Ltd.; Transport Authority.

The overall balance of public bodies will be calculated from the Statement A’s provided by the Public Enterprises Division of the Ministry of Finance and the Public Service (MoFPS) 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, 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. Data will be provided to the Fund with a lag of no more than 6 weeks after the test date.

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. As to CAP, it is included in the end-December 2010 target on the overall fiscal balance of the public bodies but not included in the targets end-March 2011 onwards, based on the assumption that the divestment of CAP will be completed by end-March 2011. All newly created entities, including from the merging of existing entities, will be incorporated in either of these two groups.

2. Targets on the Overall Fiscal Balance of the Public Bodies
Cumulative Balance over the fiscal year (April 1 to March 31)

	Floor (In billions of J\$)
Overall Balance of Public Bodies at end-March 2010	-17.5
End-June 2010 (observed)	-1.9
End-September 2010 (observed)	-3.4
End-December 2010 (performance criterion)	-10.9
End-March 2011 (performance criterion)	-11.9
End-June 2011 (indicative target)	-2.1
End-September 2011 (indicative target)	-4.2

C. Ceiling on the Stock of Central Government Direct Debt

Definitions: Central government direct debt includes all domestic and external bonds and any other form of central government debt, such as supplier loans. It excludes IMF debt.

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. Data will be provided to the Fund with a lag of no more than four weeks after the test date. The target will be adjusted upwards if explicit government guarantees (defined as the stock of existing guarantees as at end March 2010 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 target may be adjusted upward (by a maximum of US\$10 million at program exchange rates, subject to consultation with Fund staff) to the extent that cumulative Air Jamaica divestment costs exceed US\$204 million, or downward to the extent that these divestment costs fall below US\$204 million. 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. The debt target will be adjusted for cross-currency parity changes; and pre-financing, as reflected by the increase in central government deposits.

3. Targets on Central Government Direct Debt Stock
Cumulative Net Increase in Debt Measured at Program Exchange Rate 1/

	Ceiling (In billions of J\$)
Stock of Central Government Direct Debt at end-March 2010	1269
End-June 2010 (observed)	26
End-September 2010 (observed) 2/	57
End-December 2010 (performance criterion)	91
End-March 2011 (performance criterion) 3/	111
End-June 2011 (indicative target)	-12
End-September 2011 (indicative target)	1

1/ Increase relative to end-March 2010 stock.

2/ The observed change is not adjusted for prefinancing. This explains the difference with the target value reported in Table 1 of the MEFP.

3/ The central government direct debt stock would be adjusted downwards to the extent that Tropical Storm Nicole related expenses (up to J\$ 2.5b) are not incurred.

D. Ceiling on Net Increase in Central Government Guaranteed Debt

Definition: 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, and, beginning in December 2010, loans by the Petrocaribe Development Fund (PDF) to other public entities. Foreign currency debt will be converted to Jamaican dollars at the programme exchange rate. 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, as specified in table 4. The cumulative net increase in central government guaranteed debt will be monitored on a continuous basis. Data will be provided to the Fund with a lag of no more than four weeks after the test date. 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 defined in table 4.

**4. Cumulative Net Increase in Central Government
Guaranteed Debt Stock**

Cumulative balance over the fiscal year (April 1 to March 31)

	Ceiling (In billions of J\$)
Stock of Government Guaranteed Debt at end-March 2010	136.3
End-June 2010 (observed)	5.6
End-September 2010 (observed)	3.9
End-December 2010 (performance criterion) 1/	18.8
End-March 2011 (performance criterion) 1/	20.9

1/ Includes Petrocaribe Fund's financing to public enterprises.

The end-March 2010 stock of central government guaranteed debt is higher than in the January 2010 TMU on account of the stock of domestic guaranteed debt (3 percent of GDP), which was not included in the previous version of Table 4. The stock of domestic guaranteed debt of the central government has not changed since before end-FY2008/09 and therefore the update to the stock of total government guaranteed debt had no impact in the calculation or evaluation of the end-March 2010 targets. The inclusion of Petrocaribe loans makes the below-the-line numbers more consistent with the above-the-line projections.

E. Ceiling on Central Government Accumulation of Domestic Arrears

Definition: Domestic arrears are defined as payments to residents determined by contractual obligations that remain unpaid 90 days after the due date. Central government domestic arrears include arrears on domestic central government direct debt, including to suppliers, and all recurrent and capital expenditure commitments. The ceiling on central government accumulation of domestic arrears will be monitored on a continuous basis. Data will be provided to the Fund with a lag of no more than four weeks after the test date.

5. Central Government Accumulation of Domestic Expenditure Arrears
Cumulative Balance over the Fiscal year (April 1 to March 31)

	Ceiling (in billions of J\$)
Stock of arrears at end-March 2010	2.6
End-June 2010 (observed)	0.0
End-September 2010 (observed)	0.0
End-December 2010 (performance criterion)	0.0
End-March 2011 (performance criterion)	0.0
End-June 2011 (indicative target)	0.0
End-September 2011 (indicative target)	0.0

F. Ceiling on Central Government Accumulation of tax refund arrears

Definition: Tax refund arrears are defined as obligations on tax refunds in accordance with tax legislation that remain unpaid 90 days after the due date. The central government accumulation of tax refund arrears will be monitored on a continuous basis. Data will be provided to the Fund with a lag of no more than three weeks after the test date.

6. Central Government Accumulation of Tax Refund Arrears
Cumulative Balance over the Fiscal year (April 1 to March 31)

	Ceiling (in billions of J\$)
Stock of arrears at end-March 2010	20.3
End-June 2010 (observed)	-0.5
End-September 2010 (observed)	-0.3
End-December 2010 (performance criterion)	0.0
End-March 2011 (performance criterion)	0.0
End-June 2011 (indicative target)	0.0
End-September 2011 (indicative target)	0.0

G. Floor on Accumulation of BOJ Net International Reserves

Definition: Net international reserves (NIR) of the BOJ are defined as the US dollar value of gross foreign assets of the BOJ minus gross foreign liabilities with maturity of less than one

year. Non-US dollar denominated foreign assets and liabilities will be converted into US dollar at the programme exchange rates. Data will be provided by the BOJ to the Fund with a lag of no more than five days past the test date.

Gross foreign assets are defined consistently with the Sixth Edition of the *Balance of Payments Manual and International Investment Position Manual (BPM6)* as readily available claims on nonresidents denominated in foreign convertible currencies. They include the BOJ's holdings of monetary gold, SDR holdings, foreign currency cash, foreign currency securities, liquid balances abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currency vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets.

Gross foreign liabilities are defined consistently with the definition of NIR for programme purposes and include all foreign exchange liabilities to nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), and all credit outstanding from the Fund.

NIR targets will also be adjusted upward (downward) by the surplus (shortfall) in programme disbursements from the IBRD, IDB, and CDB, relative to the baseline projection reported in Table 8. Programme disbursements are defined as external disbursements from official creditors that are usable for the financing of the consolidated government.

If the amount of cumulative changes from end-March 2010 in BOJ's foreign exchange liabilities to residents and banks' foreign currency deposits in BOJ against reserve requirements is higher (lower) than the baseline projection reported in Table 9, the NIR targets will be adjusted upward (downward) by the cumulative difference in these items.

Net external payments related to the divestment cost of Air Jamaica is the divestment cost of Air Jamaica excluding employee costs and advance ticket sales, net of receipts from sales of aircrafts. Should net external payments related to the divestment cost of Air Jamaica be higher (lower) than the baseline projection reported in Table 10, the NIR targets may be adjusted downward (upward) by the cumulative difference in these items, up to an amount equivalent to US\$84.4 million at the program exchange rate, subject to consultation with Fund staff.

7. Net International Reserves of the Bank of Jamaica

	(In millions of US\$)
Floor on the Net International Reserves of the Bank of Jamaica	
Outstanding stock	
End-March 2010 1/	1,761.7
Floor on cumulative change in net international reserves from end-March 2010:	
End-June 2010 (observed)	-2.3
End-September 2010 (observed)	201.1
End-December 2010 (performance criterion)	39.0
End-March 2011 (performance criterion)	39.0
End-June 2011 (indicative target)	-61.0
End-September 2011 (indicative target)	-61.0

1/ End-March 2010 outstanding stock was revised upward compared with the number reported in EBS/10/115 because the internal audit in the BOJ revealed that part of foreign exchange holdings had not been converted to the US dollar at the programme exchange rates. The internal audit mechanism to assure a proper reporting of NIR for programme purposes was established in the BOJ and it has worked to the satisfaction of the auditors.

8. External Program Disbursements (baseline projection)

Cumulative flows from end-March 2010	(In millions of US\$)
End-June 2010 (observed)	33.3
End-September 2010 (observed)	233.3
End-December 2010	433.3
End-March 2011	666.3
End-June 2011	684.0
End-September 2011	752.5

9. Reserve liabilities items for NIR target purposes

		(In millions of US\$) 1/
1. BOJ's foreign liabilities to residents		
Outstanding stock		
End-March 2010		77.5
Cumulative change from end-March 2010		
End-June 2010 (observed)		-77.5
End-September 2010		-77.5
End-December 2010		-77.5
End-March 2011		-77.5
End-June 2011		-77.5
End-September 2011		-77.5
2. Banks foreign currency deposits in BOJ against reserve requirements		
Outstanding stock		
End-March 2010		169.6
Cumulative change from end-March 2010		
End-June 2010 (observed)		1.6
End-September 2010 (observed)		3.6
End-December 2010		-1.6
End-March 2011		-2.2
End-June 2011		-6.3
End-September 2011		-6.9

1/ Converted at the programme exchange rates.

10. Net External Payment related to Air Jamaica Divestment in 2010/11

(Baseline projections, Cumulative since March 31, 2010, in millions of US dollars)

	End-June 2010 (observed)	End-September 2010	End-December 2010	End-March 2011
	46.2	91.8	114.0	129.6

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

Definition: The Bank of Jamaica's net domestic assets (NDA) are defined as the difference between the monetary base and NIR. The monetary base includes currency in the hands of the non-bank public plus vault cash held in the banking system, statutory cash reserve requirements against prescribed liabilities in Jamaica Dollars held by commercial banks at the Bank of Jamaica, and the current account of commercial banks comprising of credit balances held at the central bank. Data will be provided to the Fund with a lag of no more than three weeks after the test date.

Table 11. Ceiling on Increase in Net Domestic Assets of the Bank of Jamaica

	(In billions of J\$)
Outstanding stock	
End-March 2010	-79.2
Ceiling on cumulative change in net domestic assets: 1/	
End-June 2010 (observed)	-3.5
End-September 2010 (observed)	-22.9
End-December 2010 (performance criterion)	13.8
End-March 2011 (performance criterion)	-12.1
End-June 2011 (indicative target)	8.5
End-September 2011 (indicative target)	9.7

1/ Change relative to end-March 2010 stock.

II. CONTINUOUS PERFORMANCE CRITERION ON NON-ACCUMULATION OF EXTERNAL DEBT PAYMENTS ARREARS

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

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

Definition: the term “debt” 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.

Definition: 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.

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

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

The performance criterion will apply on a continuous basis. The MoFPS will provide the final data on the stock of external arrears of the consolidated government and the BOJ to the Fund, with a lag of not more than two weeks after the test date. This performance criterion does not cover arrears on trade credits.

III. INFORMATION REQUIREMENTS

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

A. Daily

- Net international reserves; nominal exchange rates; interest rates on BOJ repurchase agreements; total currency issued by the BOJ, deposits held by financial institutions at the BOJ; required and excess reserves of the banking sector in local and foreign currency, total liquidity assistance to banks through normal BOJ operations, including overdrafts; overnight interest rates; GOJ bond yields.
- Disbursements from the Financial System Support Fund, by institutions.
- Deposits and liquidity assistance to institutions, by institution.
- Bank of Jamaica purchases and sales of foreign currency.

- Amounts offered, demanded and placed in Bank of Jamaica open market operations, including rates on offer for each tenor.
- Amounts offered, demanded and placed in Government of Jamaica auctions; including minimum maximum and average bid rates.

B. Weekly

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

C. Monthly

- Central government operations, with a lag of no more than three weeks after the closing of each month.
- Public entities' Statement A: consolidated and by institution for the "Selected Public Bodies", and consolidated for the "Other Public Bodies" with a lag of no more than six weeks after the closing of each month.
- Stock of public external and domestic debt, by creditor and by currency, as at end month. Data is to be provided within four weeks of month end.
- Central government debt amortization and repayments, by instrument (J\$-denominated and US\$-denominated bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans). Includes government direct, government guaranteed, and total. In the case of issuance of government guaranteed debt, include the name of the guaranteed individual/institution. The reporting lag should not exceed four weeks after the closing of each month.
- Balances of the Consolidated Fund and main revenue accounts needed to determine the cash position of the government.
- Stock of central government expenditure arrears.
- Stock of central government tax refund arrears.
- Stock of central government domestic and external debt arrears, and BOJ external debt arrears.

- Central government debt stock, including by (i) creditor (official, commercial domestic, commercial external; (ii) instrument (J\$-denominated and US\$-denominated bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans); (iii) direct and guaranteed. The reporting lag should not exceed four weeks after the closing of each month.
- Holdings of domestic bonds (J\$-denominated and US\$-denominated) by holder category. The reporting lag should not exceed four weeks after the closing of each month.
- Legal measures that affect the revenue of the central government (tax rates, import tariffs, exemptions, etc.).
- Balance sheet of the Bank of Jamaica within three weeks of month end.
- A summary of monetary accounts providing detailed information on the accounts of the Bank of Jamaica, commercial banks, and the overall banking system. Include a detailed decomposition on Bank of Jamaica and commercial bank net claims on the Central Government, selected public bodies, and other public bodies.¹ This information should be received with a lag of no more than six weeks after the closing of each month.
- Profits of the Bank of Jamaica on a cash and accrual basis, including a detailed decomposition of cash profits and profits from foreign exchange operations with a lag of no more than three weeks from month end.
- Deposits in the banking system: current accounts, savings and time deposits within six weeks after month end. Average monthly interest rates on loans and deposits within two weeks of month end; weighted average deposit and loan rates within six weeks after month end.
- Financial statements of other (non-bank) deposit taking institutions and insurance companies within six weeks of month end.
- The maturity profile of assets and liabilities of core securities dealers in buckets within six weeks of month end.
- Monthly balance sheet data of deposit taking institutions, as reported to the BOJ within six weeks of month end.

¹ Selected public bodies and other public bodies are defined as outlined in Section IV (B).

- Data on reserve liabilities items for NIR target purposes (Table 9) within three weeks after month end.
- A full set of monthly FSIs regularly calculated by the BOJ, including capital adequacy, profitability and liquidity ratios, within six weeks of month end.
- Imports and exports of goods, in US\$ million within five months after month end. Tourism indicators within three months after month end. Remittances' flows within four weeks after month end.
- Consumer price inflation, including by sub-components of the CPI index within four weeks after month end.
- Use of the PetroCaribe fund, including loan portfolio by debtor and allocation of the liquidity funds in reserve within four weeks after month end.

D. Quarterly

- Summary balance of payments within three months after quarter end. Revised outturn for the preceding quarters and quarterly projections for the forthcoming year, with a lag of no more than one month following receipt of the outturn for the quarter.
- Gross domestic product growth by sector, in real and nominal terms, including revised outturn for the preceding quarters within three months after quarter end; and projections for the next four quarters, with a lag no more than one month following receipt of the outturn for the quarter.
- Updated set of macroeconomic assumptions and programme indicators for the preceding and forthcoming four quarters within three months of quarter end. Main indicators to be included are: real/nominal GDP, inflation, interest rates, exchange rates, foreign reserves (gross and net), money (base money and M3), credit to the private sector, open market operations, and public sector financing (demand and identified financing).
- BOJ's Quarterly Financial Stability Report.
- Quarterly income statement data of deposit taking institutions, as reported to the BOJ within eight weeks of the quarter end.
- Summary review of the securities dealer sector, within eight weeks of quarter end.
- Summary report of the insurance sector (based on current FSC quarterly report), within eight weeks of quarter end.

- Risk weighted capital adequacy ratios of DTI's and non-bank financial institutions consistent with the phased implementation of the 100 percent risk weighting on all Government of Jamaica (GOJ) foreign currency denominated instruments within four weeks of quarter end. Quarterly reports on the progress of implementation the new GOJ foreign currency risk weighting provision across institutions, including a description of any measures taken to secure compliance 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 to clearly register retail repo client interests against underlying instruments in CSD. Reports are due within four weeks of end quarter.

E. Annual

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