

## International Monetary Fund

[Jamaica](#) and the IMF

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

**Press Release:**

[IMF Executive Board  
Completes Tenth  
Review Under the  
IMF's Extended Fund  
Facility for Jamaica  
and Approves  
US\\$39.3 Million  
Disbursement](#)

December 16, 2015

November 19, 2015

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.

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## OFFICE OF THE MINISTER OF FINANCE AND PLANNING

November 19, 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 tenth review of the extended arrangement under the Extended Fund Facility, and approve the modification of performance criteria for end-December 2015, end-March 2016 and end-June 2016 and the new performance criteria for September 2016, as well as the eleventh 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.

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**Ms. Christine Lagarde**  
**Managing Director**  
**International Monetary Fund**

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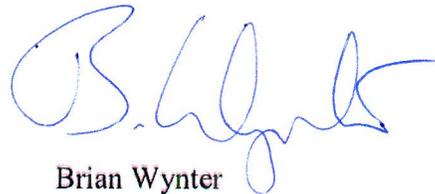
The Government will also provide the Fund staff with all the relevant information required to complete programme reviews and monitor performance on a timely basis. The Government will observe the standard performance criteria against imposing or intensifying exchange restrictions, introducing or modifying 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,



Peter D. Phillips,  
Minister of Finance and Planning  
Jamaica



Brian Wynter  
Governor, Bank of Jamaica  
Jamaica

## Attachment I. Memorandum of Economic and Financial Policies

### I. PERFORMANCE UNDER THE PROGRAMME

1. **Policy implementation under the programme remains strong and structural reforms are progressing.** All quantitative performance targets for end-September were met. All the structural benchmarks from September to mid-November 2015 were also met:

- In September, the government established a new Cash Management Unit in the Accountant General Department;
- Also in September, the Banking Services Act became fully effective;
- In October, the government tabled legislation governing the regulatory regime, including the tax regime, for Special Economic Zones;
- Legislation was also passed in October giving the Bank of Jamaica (BOJ) responsibility for overall financial stability.

### 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 March 2017. 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 central government primary surplus target has been reduced from 7.5 percent of GDP to 7.25 percent of GDP, to make additional room for growth-enhancing capital expenditure.** Specific projects have been identified, including (i) development of irrigation infrastructure; (ii) expansion of Agro Parks; (iii) building farm roads, and (iv) development of an infrastructure programme focused on key arterial and secondary roads, bridges, and drainage. These projects are critical to our growth agenda, with financial support indicated from our development partners.

4. **Preparations for the 2016/17 budget are well underway, with a primary surplus target of 7 percent of GDP.** 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. Economic growth is projected at 2.5 percent for the coming 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, which include providing external financial buffers and financing of energy-efficiency initiatives. 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, 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. **Comprehensive tax reform is a key pillar of our economic reform programme.** The goal is an efficient, broad-based and low-rate tax system that applies to all entities regardless of their sphere of activity. Major progress towards this goal has been made with the 2013 tax reforms, which repealed a wide array of incentives and exemptions. Going forward, we aim to continue to streamline tax incentives, and will review the tax regime for extractive industries. We will also seek to further broaden the tax base in the FY16/17 budget. Based on ongoing IDB TA, we will continue to improve the reporting on tax expenditures and their estimated fiscal costs in the context of future budgets.

7. **New legislation pertaining to transfer pricing was passed in November 2015.** With OECD technical assistance, the TAJ is developing its capacity to effectively administer (i) the new law upon its adoption and (ii) the asset base erosion and profit shifting (BEPS) rules developed by the OECD BEPS project. New transfer pricing law will be applied 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.

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

- Continue implementation of the TAJ NCP for FY2015/16 including the development of Other Performance Indicators (OPIs). The NCP outlines risk treatment strategies to be employed by TAJ in FY2015/16 in addressing compliance risks associated with identified registration, filing, payment and correct reporting of tax.
- Completion of staffing of the TAJ as a Semi-Autonomous Revenue Authority (SARA) by end-March 2016. This will require: (1) 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 December 2015; and (2) the phased transitioning to SARA of all remaining TAJ staff by 31 March 2016.
- Full implementation of the Key Performance Indicators (KPIs, as outlined in the NCP that measure the effectiveness and the efficiency of the tax system (*structural benchmark for end-November 2015*)), building on TA provided by the Fund.
- 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.

- Improving the efficiency of the large taxpayers' office (LTO) by defining a strategy, to be ready for implementation by March 2016, in order to reach e-filing and on-time filing rates of 90 percent for LTO clients for major taxes by March 2017. Continue, at the same time, to increase the number of auditors in the LTO while increasing the number of comprehensive audits to 90 per year by March 2017.
- Increasing the capacity of the Post-Clearance Audit (PCA) unit in the JCA through the hiring of 15 more auditors by March 2016 (*proposed new structural benchmark*) and increasing the number of completed PCA audits to 60 a year by March 2017.
- 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 February 2016.
  - (iv) The legislative framework supporting enhanced trade facilitation practices by the JCA, as articulated in phase III of the Customs Act, is being harmonized with trade facilitation, the SEZ legislation, and treaty obligations with World Bank and CARTAC assistance. Phase III of the Customs Act will be tabled in parliament by end-May 2016.

## 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 was tabled in 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 SEZ warehouse controls, administrative penalties and other sanctions against tax evasion and conferring to the Commissioner General of the TAJ and the Commissioner of Customs 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, in line with the time limits on the master concession.

- Beyond the above steps, further administrative procedures will be critical for the successful implementation of the SEZ's tax regime, in particular to strengthen product identification and inventory management systems compliance enforcement to enhance risk management, and post clearance audit.

## **Reforms to Public Financial Management (PFM) 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:

- A Procurement Act was passed in September 2015. Next steps include the Implementation of the Electronic Tendering System in five pilot entities during the fiscal year; a new procurement manual will be prepared by March 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:
  - review, re-organize and reclassify the functions and positions in the FPMU including development of job descriptions by December 2015;
  - recruit additional qualified staff for the re-organized Unit by March 2016.
- The Treasury Single Account (TSA) at the Bank of Jamaica (BOJ) will be further expanded and improved. A comprehensive plan has been prepared for approval by the FMIS Steering Committee by end November 2015. This is expected to include:
  - (i) The responsibility for management of government's banking arrangements will be transferred from the MoFP to the Accountant General's Department (AGD) by end January 2016.

- (ii) MoFP in conjunction with AGD will, by March 2016, prepare an updated inventory of all bank accounts in the public sector as at October 31, 2015. The inventory will be comprehensive and cover MoFP, AGD, MDAs and their constituent parts (schools, hospitals, etc.), extra-budgetary funds, executive agencies and non-commercial public bodies. It will detail the present authority over each bank account, purpose and usage in the past year (number of transactions and volume) and balances held in the account as on 31 October 2015. By end April 2016, a strategy will be finalized to close most of these accounts and to convert the remaining to zero-balance accounts.
  - (iii) Government will further increase direct payments through the TSA using the Central Treasury Management System (CTMS). By end March 2016, salaries of all civil servants in the central government (including teachers) will be paid directly from the TSA. Most imprest accounts will also be closed and payments will be made directly by the AGD.
- Coverage and functionality of the CTMS will continue to be expanded as per the plan developed for 2015–17. The first phase of CTMS enhancements will be concluded by end June 2016.
  - By end January 2016, the responsibility for further development and management of the CTMS will be transferred from the MoFP to the AGD. Necessary financial and human resources will be made available to the AGD to perform these functions effectively.
  - By April 2016, all funds under the direct control of the AGD will be managed through the General Ledger of the CTMS. By May 2016, a ledger accounting system will be introduced into the CTMS with sub-ledgers for all bank accounts maintaining a cash balance.
  - All revenues, including earmarked revenues, will be paid into the Consolidated Fund (CF). Consequently, warrants for each entity will cover all resources including Appropriations-in-Aid (AIA). By March 2016, relevant legal provisions will be reviewed, consultations will be held with stakeholders and a plan drawn up to realize these objectives. The plan will aim to (i) consolidate the CF and the TSA into one account, (ii) close all accounts presently being used by MDAs to deposit funds earmarked as AIAs, (iii) enable deposit of funds presently earmarked as AIAs directly into the CF.
  - To enhance expenditure control and streamline implementation of the budget, a system of commitment control against budget for capital expenditure will be activated in the Budget Preparation & Management System (BPMS), FinMan and TMM with effect from July 01, 2016.
  - A service level agreement (SLA) between the BOJ and the Government for banking services provided by the BOJ will be finalized by end-December 2015.
  - The AGD is implementing changes to modernize its systems, processes and operations over the next 3 years, with key reforms in the next 18 months. By end January 2016, a Treasury modernization plan will be approved and a new organizational structure defined. The plan will reflect transfer of responsibilities and personnel from the MoFP to the AGD for development of core activities of a modern Treasury at the AGD: cash management, management of CF/TSA and other banking arrangements, preparation of in-year and annual budget reports and financial statements for the Government of Jamaica, custody and maintenance of the chart of accounts,

management and development of the CTMS, guidance on PFM operational practices and ownership of the central government fiscal database.

- The Chart of Accounts has been finalized and is being used for the 2016/17 budget. Thereafter, the AGD will be responsible for maintenance of the Chart of Accounts.
- By end January 2016, a plan will be developed for defining and stabilizing for the next three years the ICT infrastructure development of MOFP and AGD, focusing on core functionality, interconnectivity, and interoperability. Implementation will begin in February 2016.

## 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 will further strengthen its debt management strategy and capacity** to reduce the burden of servicing government debt, and to ensure that access to several sources of financing, including the domestic bond market.

- 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.
- Continue to develop a debt management business continuity strategy and function with IMF TA, and in coordination with BoJ and AGD.

## Public Sector Reform

13. **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 has been prepared and will be submitted to Cabinet 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 the head of the new entity was selected in October and has assumed duties. . The new entity is currently operational.

- complete the organisational structure for the merger of the Betting Gaming and Lotteries and the Racing Commissions by September 2015. Subject to legislative approval, it is expected that the merged structure will be implemented in May 2016.
  - merge selected commodity Boards (Cocoa, Coffee, the regulatory functions of the Coconut Industry Board) and the Export Division of the Ministry of Agriculture & Fisheries which deals with Spices (Pimento, Tumeric, Nutmeg, Ginger), into a single New body to be named the Jamaica Agricultural Commodities Regulatory Authority (JACRA). This involves Organizational Structuring, Regulatory Changes, Legal Drafting and passage through the Parliamentary System to establish an operational Act for the new body JACRA. Approximately eighty percent (80%) of the Organizational aspects have been completed, and it is anticipated that the Legal aspects should be finalized by April 2016. The full merger is therefore expected to be completed by June 2016
  - divest the Petroleum Company of Jamaica Limited, Petcom—Cabinet approved the selection of the preferred in October 2015. Negotiations with the bidder are expected to commence shortly.
  - complete the RFP for the software for the Asset Management Shared Services by February 2016. Consequent on securing funding, we will seek to complete the procurement of that system and have a contract in place with the successful bidder by April 2017.
- **Wages and salaries.** The Government has signed a new wage agreement for the 2-year period after March 2015 with 9 union groups. These agreements cover about 80 percent of public sector employees. Discussions continue with the remaining groups with a commitment to reducing 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.** To meet the GOJ's overall wage ceiling of 9 percent of GDP by 2016/17, the GOJ will reduce the size of the public sector through the elimination of posts and an attrition programme, subject to the need to preserve capacity in a limited number of priority areas.
  - **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*).

14. **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 was completed in October 2015. To ensure a timely start for the system's implementation in the wider public sector, with IDB support, the project plan was completed in August 2015 and a full-time dedicated project management team (including specialists in the areas of Business Process Mapping, Human Resource Management, Payroll Administration and Data Migration) will be put in place by end-January 2016 (proposed new structural benchmark). The configuration of the system will be completed by the end of June 2016, when the roll –out to the first 14 MDAs will begin.

**15. In the area of public bodies, further improvement is to be achieved to improve their efficiency and supervision.**

- To enhance transparency, the annual reports (including audited statements) for the majority of self-financing public bodies will be completed by December 2015. 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 was approved in September 2015.
- We will develop and submit to Cabinet for approval a new policy on public bodies that will ensure consistent PFM rules for public bodies (*proposed new structural benchmark for June 2016*). The policy will create classes of public bodies, identify key PFM principles to be adhered to for each class, and eliminate the current classification by funding source. A unit in the MOFP will be assigned to be responsible for ensuring that the policy on public bodies is being adhered to across the full body of PFM reform projects.
- Upon approval by Cabinet of the new policy on public bodies, we will conduct a review of all existing public bodies to determine their classification. The review will also evaluate the scope for merging and reintegrating some public bodies into the central government.

### **III. FINANCIAL SECTOR REFORMS**

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

- The new Banking Services Act became effective in September 2015 (*structural benchmark*). 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.
- We have set a minimum transaction size for retail repos that we will gradually increase to J\$1,000,000 and US\$10,000 by end-December 2015.
- We have developed and started industry consultation on a strategy to introduce and gradually tighten prudential standards for the securities sector. 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. The FSC, after taking into consideration feedback received from the industry consultation as well as the impact of the minimum transaction size that is to be established at end-December 2015, will start implementing a strategy by March 2016 under the guidance of the Steering Committee.

- By March 2016, 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 has been established to develop a concept paper for the resolution framework, with a stakeholder consultation process scheduled to start in February 2016, with support from IMF TA by end-2015.

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

- The BOJ now has the overall responsibility for financial stability (*structural benchmark for November 2015*). Amendments to the BOJ Act that vest the BOJ with this responsibility became effective in October 2015. A green paper will also be tabled in February 2016, 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 to 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 end-December 2015.

**21. The BOJ will continue to ensure the provision of adequate liquidity to the financial system at a price consistent with its policy goals.** As a further refinement to its liquidity provision framework, the BOJ has introduced periodic auctions for repo operations in October 2015. Over the

course of FY2015/16, the BOJ will also further refine its monetary policy operations, such as by providing longer-term liquidity instruments if the need arises. Guided by IMF TA, the BOJ is developing a comprehensive strategy to improve the effectiveness of its open market operations and liquidity assurance framework in order to enhance the monetary policy transmission mechanism.

**22. The BOJ will continue to facilitate the development of the foreign exchange market.**

The BOJ, in consultation with IMF TA, is exploring mechanisms to improve price discovery in the FX market and to prevent excessive speculative position taking in the market. The BOJ also remains cognizant of the need to purchase reserves to further boost the net international reserves.

## **V. GROWTH ENHANCING REFORMS**

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

- A revised standardized pricing framework for development application fees is being completed and is expected to be submitted to Cabinet by end-December 2015.
- We will report, on a quarterly basis, on progress in reducing the time needed for the approvals process for development projects, especially for commercial development projects, including against the 90 day benchmark. The report for Q2 2015 shows that 84.2 percent of planning and building approvals were done within 90 days. Meanwhile, the National Building Act is expected to be tabled in December 2015; it will provide the regulatory framework for the acceptance of certified plans 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 2,000 titles under this program. As of October 2015, 581 titles have been issued this fiscal year.
- The pilot for the online system for business registration is on track to be rolled out by the end - December 2015. This will include online registration for Sole Proprietor Individuals, Sole Proprietor Corporate Clients and Sole Proprietor Partnerships. Online registration for Companies will be piloted by March 2016 and the system expected to be fully rolled out by April 2016.
- 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 and adoption of the AMANDA system are expected to be completed in 2016/17, 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 JCA 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. A preferred bidder was approved in July 2015 and the contract is expected to be signed by November 2015. The systems will ultimately be integrated to provide a complete trade and logistics solution for Jamaica. The implementation of the project is expected to start by Q1 2016/17, and will take 24 months to be completed.

- We are developing an umbrella financial inclusion strategy, covering key areas including MSME financing, housing finance, payments, rural finance, consumer protection and literacy. The strategy will benefit from extensive inputs from stakeholders. We will establish a financial inclusion council by March 2016 to oversee the launch and implementation of the strategy.
- The Development Bank of Jamaica (DBJ) is targeting to provide increased funding to MSMEs in 2015/16. The Mobile Money for Microfinance initiative is being reconfigured to focus on establishing an ecosystem for private-sector driven mobile money operations. With assistance from the IDB, the project is expected to start in Q1, 2016 and will take 12 months to finish.
- 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. Preliminary results were presented to relevant stakeholders in September 2015.
- 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. The strategy aims to create 18,000 jobs in the next 5 years.

**24. 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. The financial close is expected by January 2016. 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 January 2016, after which contract negotiations will begin with commercial closing expected in March 2016 and handover expected in November, 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. An RFP for a private sector developer for the feasibility study is expected to be issued in December 2015, with a view to sign the contract by May 2016. This work is closely aligned with a Master Plan for the Logistics Hub Initiative expected to start in January 2016, and be completed by March 2017, also supported by the World Bank.
- The Framework Agreement has been extended for a year to August 2016 for the development of a transshipment port and industrial and commercial zones in the Portland Bight area by China Harbour Engineering Company (CHEC). Technical feasibility studies for the project have commenced. This is a prerequisite for determining the construction methodology and for obtaining the terms of reference from NEPA for the Environmental Impact Assessment.

25. **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 2018. Several renewable energy projects are also under way.
- 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.

26. **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 has been reviewing policies and practices in the five thematic areas of education and training; productivity, technology and innovation; labour policies and legislation; social protection; and industrial relations. A first draft of recommendations will be submitted by the five sub-committees to the Commission by the end of the year for validation and onward submission to Cabinet by end FY15/16. Final recommendations will be submitted by end FY16/17.

## **VI. POVERTY REDUCTION AND REFORM OF SOCIAL SPENDING**

27. **We established a new National Poverty Reduction Committee in early 2015.** An inter-sectoral Committee is being convened on a quarterly basis 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 draft new Policy document is expected to be submitted to Cabinet by November 2015.

28. **Efforts to strengthen the social protection framework are progressing.** Implementation of the graduation strategy for PATH households has now begun. The implementation will be reviewed by the World Bank in December 2015, with recommendations on potential improvements. The government launched a comprehensive social protection strategy in July 2014; a monitoring and evaluation framework has been developed.

29. **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 expected by end-June 2016. 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                      |                |                  |                  | 2017     |       |
|--|----------|----------------|--------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|----------------|------------------|------------------|----------|-------|
|  | End-Dec. | End-Sept       |              | End-Dec.                  |                           | End-Mar.                  |                           | End-Jun.                  |                | End-Sept         | End-Dec.         | End-Mar. |       |
|  | Stock    | Adjusted<br>PC | Actual<br>PC | Revised<br>Proposed<br>PC | Revised<br>Proposed<br>PC | Revised<br>Proposed<br>PC | Revised<br>Proposed<br>PC | Revised<br>Proposed<br>PC | Proposed<br>PC | indicative<br>PC | indicative<br>PC |          |       |
| <b>Fiscal targets</b>  |          |                |              |                           |                           |                           |                           |                           |                |                  |                  |          |       |
| 1. Primary balance of the central government (floor) 4/                                  |          | 40.0           | 50.8         | 65.0                      | 60.7                      | 125.0                     | 120.7                     | 15.0                      | 11.0           | 33.0             | 58.0             | 126.0    |       |
| 2. Tax Revenues (floor) 4/9/   |          | 185.0          | 195.1        | 280.0                     | 280.0                     | 411.0                     | 393.0                     | 99.0                      | 99.0           | 203.0            | 305.0            | 445.0    |       |
| 3. Overall balance of the public sector (floor) 4/                                       |          | -34.0          | -30.5        | 9.2                       | -36.0                     | -40.3                     | -10.0                     | -14.3                     | -25.0          | -29.0            | -37.0            | -44.5    | -10.8 |
| 4. Central government direct debt (ceiling) 4/5/   |          | 40.0           |              | -11.0                     | 41.0                      | 47.0                      | 71.0                      | 77.0                      | 15.0           | 19.5             | 41.0             | 44.0     | 51.0  |
| 5. Central government guaranteed debt (ceiling) 4/                                       |          | 2.0            |              | 0.0                       | 0.0                       | 0.0                       | 0.0                       | 0.0                       | 0.0            | 0.0              | 0.0              | 0.0      | 0.0   |
| 6. Central government accumulation of domestic arrears (ceiling) 6/12/13/                | 21.6     | 0.0            |              | -1.3                      | 0.0                       | 0.0                       | 0.0                       | 0.0                       | 0.0            | 0.0              | 0.0              | 0.0      | 0.0   |
| 7. Central government accumulation of tax refund arrears (ceiling) 7/12/13/              | 23.2     | 0.0            |              | -4.3                      | 0.0                       | 0.0                       | 0.0                       | 0.0                       | 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            | 0.0              | 0.0              | 0.0      | 0.0   |
| 9. Social spending (floor) 9/10/   |          | 9.2            |              | 14.0                      | 15.6                      | 15.6                      | 23.2                      | 23.2                      | 4.8            | 4.8              | 9.7              | 16.6     | 24.6  |
| <b>Monetary targets</b>  |          |                |              |                           |                           |                           |                           |                           |                |                  |                  |          |       |
| 10. Cumulative change in net international reserves (floor) 8/11/                        | 1997.7   | -463.3         | -469.6       | 468.1                     | -338.0                    | -338.0                    | -339.0                    | -339.0                    | -199.6         | -199.6           | -49.6            | 52.3     | 152.3 |
| 11. Cumulative change in net domestic assets (ceiling) 11/                               | -120.2   | 56.1           | 56.8         | -54.6                     | 53.8                      | 61.8                      | 31.1                      | 39.1                      | 22.8           | 28.7             | 9.0              | 21.9     | -2.0  |

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/ The accumulation is 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 | Implementation status |
| <b>Institutional fiscal reforms</b>  |                       |                       |
| 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    | Met                   |
| 11. Put in place a full-time dedicated project management team for the implementation of the human resources software system (including specialists in the areas of Business Process Mapping, Human Resource Management, Payroll Administration and Data Migration).   | January 31, 2016      | Proposed              |
| 12. Develop and submit to Cabinet for approval a new policy on public bodies that will ensure consistent PFM rules for public bodies.  | June 30, 2016         | Proposed              |
| <b>Tax Reform</b>  |                       |                       |
| 13. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as stipulated in the TMU.  | Continuous            | Met                   |
| 14. 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                   |
| 15. Government to table in parliament amendments to the GCT as stipulated in paragraph 12 of the June 2014 MEFP.   | June 30, 2014         | Met                   |
| 16. 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/            |
| 17. 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      | Met                   |
| <b>Tax Administration</b>  |                       |                       |
| 18. Government to make e-filing mandatory for LTO clients with respect to General Consumption Tax (GCT) and Corporate Income Tax (CIT).  | March 31, 2014        | Met                   |
| 19. Government to implement ASYCUDA World for the Kingston Port as a pilot site.   | December 31, 2014     | Met                   |
| 20. 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/            |
| 21. Government to complete pilot testing of ASYCUDA World (covering imports and exports) in the Kingston port.   | May 31, 2015          | Met                   |
| 22. Government to implement Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package.   | February 28, 2015     | Met                   |
| 23. Government to table in Parliament proposals for a comprehensive overhaul of the Customs Act.   | June 30, 2015         | Met                   |
| 24. 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     |                       |
| 25. Government to implement Phase 2 of the RAIS (GENTAX) integrated tax software package, for all major tax types.   | December 31, 2015     |                       |
| 26. Increase the capacity of the Post-Clearance Audit (PCA) unit in the JCA through the hiring of 15 more auditors.  | March 31, 2016        | Proposed              |

**Table 2. Jamaica: Structural Program Conditionality (Concluded)**

| <b>Financial sector</b>  |                    |        |
|--|--------------------|--------|
| 27. Government to table legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.   | March 31, 2014     | Met    |
| 28. 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    |
| 29. 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    |
| 30. Government to table the Omnibus Banking Law <sup>3/</sup> consistent with Fund Staff advice to facilitate effective supervision of the financial sector.   | March 31, 2014     | Met 4/ |
| 31. Government to finalize the transition of retail repos to the trust-based framework.  | August 30, 2015    | Met    |
| 32. Government to fully implement the Banking Services Act.  | September 30, 2015 | Met    |
| 33. The BOJ to have overall responsibility for financial stability.  | November 1, 2015   | Met    |
| <b>Growth enhancing structural reforms</b>   |                    |        |
| 34. Government to implement a new (AMANDA) tracking system to track approval of construction permits across all parish councils.   | December 30, 2014  | Met    |
| 35. Government to table in parliament the Electricity Act.   | January 31, 2015   | Met    |
| <p>1/ The review was reportedly completed in March 2015.</p> <p>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.</p> <p>3/ Currently referred to as the Banking Services Act.</p> <p>4/ The law was tabled in March 2014 with subsequent fine-tuning in collaboration with Fund staff prior to its adoption in June.</p> |                    |        |

## 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.

| <b>Table 1. Program Exchange Rates (End-December, 2014)/1</b> |        |
|---|--------|
| 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. **To kick-start economic growth, the following growth-enhancing projects will be added to primary expenditures, accommodated by the 0.25 percent of GDP reduction in the central government primary surplus target for FY2015/16:** Lower Middle Income Housing Programme, Flood Damage Mitigation and Vector Control, Low Income Housing, Major Infrastructure Development Project, Major Rural Farm Roads Rehabilitation/Development Program, Portmore Transportation Hub, Jamaica Economical Housing Project, Transportation Infrastructure Rehabilitation Programme, Drought Mitigation Programme in Farming Communities, Foundation Jamaica Foundations for Competitiveness & Growth, FAMP, Portmore Informatics Buildings, Strategic Public Sector Transformation Project.

9. **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

10. **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.

11. **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.

12. **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.

13. **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.**

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

15. **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.

| 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  |
| End-September 2016              | 3.0  |

### C. Ceiling on the Change in the Stock of Central Government Direct Debt

16. **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.

17. **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.**

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

19. **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

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

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

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

23. **Adjuster:** In the case where the central government debt guarantees are called, the stock of central government guaranteed debt will be adjusted downwards in both the end-March of each year and the target date in order to preserve the performance criteria.

## E. Ceiling on Central Government Accumulation of Domestic Arrears

24. **Definition:** Domestic arrears are defined as payments to residents determined by contractual obligations that remain unpaid 90 days after the due date. Under this definition, the due date refers to the date in which domestic debt payments are due according to the relevant contractual agreement, taking into account any contractual grace periods. Central government domestic arrears include arrears on domestic central government direct debt, including to suppliers and all recurrent and capital expenditure commitments. This accumulation is measured as the change in the stock of domestic arrears relative to the stock at end-March 2015, which stood at J\$21.3 billion.

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

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

## F. Non-Accumulation of External Debt Payments Arrears

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

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

29. **Definitions:** The term "debt"<sup>1</sup> 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

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<sup>1</sup> As defined in Guidelines on Public Debt Conditionality in Fund Arrangements, Decision No. 15688-(14/107)..

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.

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

31. **Definitions:** Under this definition of debt set out above, external payments arrears consist of arrears of external debt obligations (principal and interest) falling due after March 31, 2015 that have not been paid at the time due, taking into account the grace periods specified in contractual agreements. Arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or rescheduling agreement is being sought are excluded from this definition.

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

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

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

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

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

## G. Ceiling on Central Government Accumulation of Tax Refund Arrears

37. **Definition:** Tax refund arrears are defined as obligations on tax refunds in accordance with tax legislation that remain unpaid 90 days after the due date. This accumulation is measured as the change in the stock of tax refund arrears relative to the stock at end-March 2015, which stood at J\$21.7 billion.

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

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

## H. Floor on the Cumulative Change in Net International Reserves

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

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

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

43. **Adjusters:** NIR targets will be adjusted upward (downward) by the surplus (shortfall) in programme loan disbursements from multilateral institutions (the IBRD, IDB and CDB) relative to the baseline projection reported in Table 3. Programme loan disbursements are defined as external loan disbursements from official creditors that are usable for the financing of the consolidated government. NIR targets will be adjusted upward (downward) by the surplus (shortfall) in disbursements of budget support grants relative to the baseline projection reported in Table 3. NIR targets will also be adjusted upward (downward) by the surplus (shortfall) in IMF budget support purchases relative to the baseline projection reported in Table 3.

| <b>Table 3. External Program Disbursements (Baseline Projection)</b> |                       |
|--|-----------------------|
| Cumulative flows from the beginning of the fiscal year               | (In millions of US\$) |
| <b>External loans from multilateral sources</b>                      |                       |
| End-September 2015   | 151                   |
| End-December 2015  | 205                   |
| End-March 2016   | 331                   |
| End-June 2016  | 72                    |
| End-September 2016   | 114                   |
| <b>Budget support grants</b>   |                       |
| End-September 2015   | 21                    |
| End-December 2015  | 21                    |
| End-March 2016   | 31                    |
| End-June 2016  | 0                     |
| End-September 2016   | 0                     |
| <b>IMF budget support disbursements</b>                              |                       |
| End-September 2015   | 0                     |
| End-December 2015  | 0                     |
| End-March 2016   | 0                     |
| End-June 2016  | 0                     |
| End-September 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.

| <b>Table 4. Reserve Liabilities Items for NIR Target Purposes</b> |       |
|---|-------|
| (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-September 2015  | 94.1  |
| End-December 2015   | 5.4   |
| End-March 2016  | 78.4  |
| End-June 2016   | 238.1 |
| End-September 2016  | 278.0 |
| 1/ Converted at the programme exchange rates.                     |       |

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

44. **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.

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

46. **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

47. **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).

48. **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

49. **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.

50. **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.*

51. **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.

52. **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**

53. **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.**

54. **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.

55. **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**

56. **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.

57. **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).**

58. **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

59. **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.<sup>2</sup> This information should be received with a lag of no more than six weeks after the closing of each month.

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<sup>2</sup>Selected public bodies and other public bodies are defined as outlined in Section IV (B).

- 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 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.