

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 Combined
Eleventh and Twelfth
Reviews under the
Extended Fund
Facility for Jamaica
and Approves US\\$80
Million Disbursement](#)
June 17, 2016

June 2, 2016

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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Letter of Intent

Kingston, Jamaica
June 2, 2016

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 combined 11th and 12th reviews of the extended arrangement under the Extended Fund Facility, and approve the modification of performance criteria for end-September 2016 and the new performance criteria for end-December 2016, as well as the purchases under the arrangement of SDR 56.64 million.

The Government believes that the policies described in the attached MEFP are adequate to achieve the programme's objectives. However, if necessary, the Government stands ready to take any additional measures that may be required. The Government will consult with the Fund in advance on the adoption of these measures and revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

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

are inconsistent with Article VIII of the Fund's Articles of Agreement and imposing or intensifying import restrictions for balance of payments reasons.

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

Very truly yours,

/s/
Audley Shaw
Minister of Finance and the Public Service
Jamaica

/s/
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-December 2015 and for end-March 2016 were met. The structural benchmarks for the period mid-November 2015 to mid-May 2016 were also met:

- Changes in legislation for the new public pension system were tabled in November 2015;
- Key performance indicators, as outlined in the National Compliance Plan (NCP), to measure the effectiveness and efficiency of the tax system were implemented in November 2015;
- Phase 2 of the RAiS (GENTAX) integrated tax software package was implemented for all major tax types by December 2015;
- A full-time dedicated management team for the implementation of the human resource software system was put in place in January 2016;
- And the capacity of the Post-Clearance Audit unit in the Jamaica Customs Agency (JCA) was increased through the hiring of 15 additional auditors by end-March 2016.

I. POLICIES FOR 2016/17 AND BEYOND

2. **The new Government remains fully committed to the reform programme.** It aims to combine prudent fiscal policies with efforts to boost growth and job creation, which have remained too low for too long. The quantitative targets that serve as performance criteria and indicative targets under the programme have been updated, and are presented in Table 1. The structural conditionality under the programme is presented in Table 2.

Fiscal Policy

3. **The budget for 2016/17 targets a primary surplus of 7.0 percent of GDP, and increases room for growth-enhancing capital expenditure to support growth and job creation.** The budget was adopted by Parliament in June 2016. Economic growth is projected at 1.8 percent for the coming fiscal year, up from just under 1 percent in 2015/16. Capital spending is projected to increase from 2 percent of GDP in 2015/16 to 2.6 of GDP in 2016/17, facilitated by the lower primary surplus target. To keep public debt on a downward trajectory to 96 percent of GDP by 2020 and to 60 percent by 2026, a 7 percent of GDP primary surplus will be maintained over the medium term.

Tax Reforms

4. **Comprehensive tax reform is a key pillar of our economic reform programme.** The goal is an efficient and broad-based tax system that applies equitably to all entities, regardless of their sphere of economic activity. 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.

5. **Continuing tax reforms to rebalance from direct toward indirect taxes is a central element of our program.** Starting July 1, 2016, the exemption threshold for the personal income tax will be raised to J\$1,000,272 from the current J\$592,800. A further increase to J\$1,500,096 will take place on April 1, 2017. The marginal tax rate for earnings above J\$6 million will be increased from 25 to 30 percent on July 1, 2016.

- The cost of this tax reform is estimated at 0.7 percent of GDP (about J\$12 billion) in FY16/17 and a further 0.9 percent of GDP (about J\$16 billion) in FY17/18.
- Offsetting measures in FY16/17 will encompass (i) a J\$7 increase in SCT on fuels, (ii) increasing the departure tax to US\$35, (iii) increase the SCT on cigarettes by J\$2 per stick, (iv) implementing a new LNG taxation regime. These measures are expected to yield 13.8 bn for FY16/17.
- With the support of IMF TA, a comprehensive tax reform package will be put in place for FY17/18 which continues to rebalance towards indirect taxation, including the scope for environmental/ carbon taxes (for which Jamaica is particularly well suited given its tourism potential).

6. **New legislation pertaining to transfer pricing including the requirement to file a declaration of connected party transaction was passed in November 2015 and is now in force.** With OECD technical assistance, the Tax Administration of Jamaica (TAJ) is developing its capacity to effectively administer the new law. TAJ will enforce compliance action for year of assessment 2016

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

- Continued implementation of the TAJ National Compliance Plan including the rationalization of key performance indicators.
- Completion of staffing of the TAJ as a Semi-Autonomous Revenue Authority (SARA) by end-October 2016. Staffing at the four (4) top levels, (Executive to AGM levels), has been completed.
- Following up on the entity-by-entity review of all grandfathered tax incentives, the Fiscal Impacts Report will be produced by September 2016.
- Improving the efficiency of the large taxpayers' office (LTO) by (i) maintaining e-filing and on-time filing rates of 90 percent for LTO clients for major taxes and (ii) increasing the number of comprehensive audits to 90 per year by March 2017.
- Increasing the number of completed PCA audits to 60 a year by March 2017.

- 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, in RAiS) has been completed. Interim testing on linking of these processes to RAiS case actioning and reporting components is ongoing and expected to be concluded by June 2016.
- 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 Special Economic Zone (SEZ) legislation, and treaty obligations with World Bank and CARTAC assistance. Phase III of the Customs Act will be tabled in parliament by end-December 2016.
- Upon finalization of the Phase III of the Customs Act, developing effective administrative procedures will be critical for the successful implementation of the SEZ 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

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

- By November 2016 a new procurement manual will be prepared with IDB assistance. An Electronic Tendering System has been implemented in four pilot entities (Ministry of Finance and Public Service, e-Gov, Ministry of Health and National Health Fund) with two more entities (HEART Trust and BOJ) expected to be finalized by end-June 2016.
- The macro-fiscal capacity of the Ministry of Finance and the Public Service (MoFP) will be strengthened with the support of IMF and other TA. We aim to recruit additional qualified staff by August 2016.
- The Treasury Single Account (TSA) at the Bank of Jamaica (BOJ) will be further expanded and improved. The responsibility of managing the government's banking arrangements will be transferred to the Accountant General's Department (AGD). An updated inventory of all bank accounts in the public sector will be prepared by end-June 2016 with the aim of closing most of them and converting the remainder into zero-balance accounts. Salaries of over 27,000 civil servants in the central government are paid directly from the TSA. By June 2016, salaries of about three-quarters of central government employees will be paid directly from the TSA, including teachers and police. Most imprest accounts will be terminated by end-August 2016.
- The first phase of CTMS enhancements will be concluded by December 2016. Transfer of the responsibility for further development and management of the CTMS from the MoFP to the AGD has commenced and is expected to be completed by August 2016. The mapping of function is in progress and expected to be finalized by July 2016. A ledger accounting system has been introduced into the CTMS with sub-ledgers for the RTGS and ACH accounts. A plan for

introducing sub-ledgers for all other bank accounts maintaining a cash balance will be prepared by June 2016 and implemented starting August 2016.

- By July 2016, a plan for paying all revenues, including earmarked revenues, into the Consolidated Fund (CF) will be drawn up. In particular, the plan will outline the steps to: (i) close all accounts used by MDAs to deposit funds earmarked as AIAs and (ii) enable deposit of funds presently earmarked as AIAs directly into the CF.
- By end-July 2016, all cash transfers for intra-government transactions will be eliminated.
- By end-September 2016, a new organizational structure for the Accountant General's Department should be approved by Corporate Management Development (CMD) branch in the Ministry of Finance and Public Service. (*Proposed new structural benchmark for end-September 2016*).
- A service level agreement (SLA) between the BOJ and the Government for banking services provided by the BOJ will be signed in June 2016 following the full transfer of responsibility for the management of government accounts to the AGD.

Debt Management

9. **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 a prudent debt management strategy. In designing and implementing these undertakings, the Government will seek to ensure sound public sector governance and public debt management. The Government will further strengthen its debt management strategy development and implementation, with the goal of reducing the burden of servicing government debt, supporting the continued reduction of public debt to a sustainable level, and ensuring access to multiple sources of financing. Moreover, the debt management strategy will seek to further develop and deepen the domestic bond market, so as to reduce currency, duration and concentration risk for both the government and the financial sector.

Public Sector Reform

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

- **Public sector transformation.** We will:
 - By March 2018, centralize legal services within the central government under the office of the Attorney General, with support from Justice Canada.
 - Subject to legislative approval, implement the merged organizational structure between Betting Gaming and Lotteries and the Racing Commissions in April 2017.
 - Merge selected commodity Boards and the Export Division of the Ministry of Agriculture & Fisheries which deals with Spices into a single new body to be named the Jamaica Agricultural Commodities Regulatory Authority (JACRA). It is anticipated that the legal

aspects will be finalized by April 2016, and the full merger is expected to be completed by September 2016.

- Divest the Petroleum Company of Jamaica Limited, Petcom—Negotiations with the bidder have been completed.
- Consequent on securing funding, we will seek to complete the procurement of the system for the Asset Management Shared Services and have a contract in place with the successful bidder by April 2017.
- We will submit to Cabinet an action plan for public sector transformation by end-September 2016. In particular, it will include detailed timelines for (1) the introduction of shared corporate services for communications and human resource management and (2) the merger, abolition and/or divestment/privatization of entities. The plan will also outline specific areas where efficiency gains can be made. *(Proposed new structural benchmark for end-September 2016)*
- **Wages and salaries.** The Government has signed new wage agreements for the 2-year period after March 2015 with 97 percent of public sector employees. Discussions for the period starting April 2017 are expected to be underway by November 2016. Informed by the compensation review to be completed by December 2016, the government's goal is to achieve a wage bill of 9 percent of GDP in 2018/19, and to firmly maintain the ratio of public debt to GDP on a downward path over the medium term. In order to achieve this objective, the GOJ will continue to reduce the size of the public sector through the elimination of posts and an attrition programme, subject to the capacity needs in a limited number of priority areas.
- **Compensation Review.** We will continue to build a comprehensive database to include all allowances paid to public employees across each MDA to ensure adequate control and oversight over this part of the wage bill. The database will be by occupational grouping and will include all types of allowances paid, their amounts as well as the number of employees that benefit from each type of allowance in a given fiscal year. A two-part pilot implementation will be pursued. A pilot for the Ministry of Finance and the Public Service will be completed by end-August 2016, followed by island-wide pilots, to be completed by end-November 2016, at the Ministry of Health (medical professionals), Ministry of Education, Youth and Information (teaching groups) and the Jamaica Constabulary Force (police groups). *(Proposed new structural benchmark for end-November 2016)* The review of all other central government MDAs will be completed by March 2017.
- **Employee Census.** To ensure adequate oversight, we will verify each employee's post and eligibility of the post for allowances beginning with a two-part pilot where the first part will comprise of island-wide pilots at the Ministry of Finance and the Public Service, the civilian population of the Ministry of National Security, and the NIS to be completed by end-August 2016. The second part will include an island-wide pilot for the non-teaching personnel in the Ministry of Education to be completed by end-November 2016. *(Proposed new structural benchmark for end-November 2016)*. These pilots target groups with high turnover rates where a headcount exercise could yield significant gains. The verification for all other central government MDAs will be finalized by March 2017.

- **Pension Reform.** Discussion of the proposed legislative changes in parliament has been delayed by the early elections. The Pension Bill is expected to be re-tabled in Parliament by July 2016. The new public pension system, as described in the June 2014 MEFP, is expected to be implemented in the first quarter of FY17/18.

11. **The implementation of the human resources software system (the HCMES system; including Payroll) is progressing.** A 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) was put in place by end-January 2016 (*structural benchmark*). The configuration of the system will be completed by end-June 2016, when the roll-out to the first 14 MDAs will begin.

12. **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 three-quarters of self-financing public bodies has been completed. The sanctioning process under Section 25 of the Public Bodies Management and Accountability Act of self-financing public bodies that failed to meet the statutory condition without reasonable cause is ongoing.
- The new structure of the Auditor General's office has been approved. Its ongoing implementation will allow for more in-depth and frequent reviews of financial statements of budget funded public bodies and enforcement of the six months' time limit for their submission to the Auditor General.
- We will develop and submit to Cabinet for approval a new policy on public bodies that will ensure consistent PFM rules for public bodies (*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. This review will be completed by December 2016.

II. FINANCIAL SECTOR REFORMS

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

- Under the Banking Services Act, the code of conduct on consumer related matters will be issued by August 2016. Regulations pertaining to agent banking will be tabled by August 2016. The suite of regulations and rules that will comprise the regime for financial holding companies and consolidated supervision will be tabled by end-December 2016.

- Following industry consultation and guidance from the Steering Committee, we have started implementing a strategy to introduce and gradually tighten prudential standards for the securities sector:
 - In April 2016, we introduced an operational risk-weighted asset component in the calculation of securities dealers' capital adequacy;
 - By December 2016, we will require all securities dealers to conduct regular stress tests and submit test results;
 - We will implement a limit of 25 percent on exposure to counterparty by 2019;
 - We are monitoring the dealers' retail repo leverage ratio, with the goal of introducing a minimum retail repo leverage ratio by April 2017;
 - We will start issuing comprehensive prudential guidelines for securities dealers in June 2016. We will ensure that in the near- to medium-term, the retail repo portfolios of individual firms and the securities industry as a whole will be at a level deemed by the BOJ and the FSC to be systemically safe and prudentially manageable.
- We will have taken steps to further strengthen depositor protection and investor compensation across financial institutions.

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

- We will prepare a consultation paper for the resolution framework for the entire financial sector, including proposals on (i) the scope of institutions that would be covered by the resolution regime; (ii) the resolution powers; (iii) the legal structure of the regime (i.e., administrative, court-based, or a combination); and (iv) the roles and responsibilities of the various agencies with respect to resolution (*proposed new structural benchmark for end- October 2016*). A working group has been established to prepare this paper, with input from stakeholders and IMF TA.
- By end-September 2017, we will table the legislative provisions, consistent with IMF TA, to support the national crisis management plan and the resolution framework for the banking and securities sectors.

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

- The Financial System Stability Committee, introduced by the amended BoJ Act which became effective in October 2015 and vested the BOJ with the responsibility for financial stability, will be formally established by September 2016. The functions and powers of the FSSC include producing financial stability assessments, the regular exchange of information on financial sector risks, commissioning stress tests and determining parameters that will trigger macro-prudential

action. A proposal will be submitted to Cabinet in September 2016, discussing further amendments to the BOJ Act for enhancing BOJ governance and autonomy.

16. **We are implementing measures to protect the interest of retail repo clients.** In addition to the transition to the trust-based framework in August 2015, we raised the investment cap for CIS in foreign assets to 15 percent in June 2015, and to 25 percent by end-December 2015. Going forward, the BOJ will continue to monitor market conditions and assess the need to lift the investment cap further.

III. MONETARY AND EXCHANGE RATE POLICY

17. **Monetary policy aims to achieve single digit inflation within a flexible exchange rate regime.** We envisage inflation in the range of 4.5 to 6.5 percent in FY2016/17. The long term objective is to gradually reduce inflation to a rate that is consistent with that of our main trading partners, and eventually to full-fledged inflation targeting. The BOJ is completing its first review to assess our readiness for inflation targeting. The outcome of the annual reviews will provide the inputs for an informed decision on inflation targeting to be made by Cabinet.

18. **The BOJ will continue to ensure the provision of adequate liquidity to the financial system at a price consistent with its policy goals.** 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. Specifically, as a further refinement to its liquidity provision framework, the BOJ has introduced periodic auctions for repo operations in October 2015. The BOJ will begin a programme of transitioning its policy rate to an overnight interest rate. This transition will be done over a six-month period and will commence with the adjustment of the interest rate on its overnight deposit facility by July 2016. To reduce the relative attractiveness of foreign-currency denominated investments relative to J\$ alternatives, the BOJ will also require a portion of the foreign currency cash reserve requirement for commercial banks to be held in J\$, starting September 2016.

19. **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:

IV. GROWTH ENHANCING REFORMS

20. **We have established an Economic Growth Council (EGC).** The EGC includes representatives from the public and private sector who will focus critical work in the areas of growth and job creation. The EGC is mandated by the Prime Minister and Cabinet to identify high-impact growth initiatives. The EGC will be supported by an Executive Secretariat that is also mandated, resourced and staffed to work closely with Government ministries, departments and the private sector. Appropriate monitoring, evaluation and transparency mechanisms will be put in place to

ensure that the EGC works closely with the Jamaican people, the private sector and civil society in the context of the growth and jobs agenda.

21. Further actions for improving the business climate are critical:

- A revised standardized pricing framework for development application fees has been drafted and is expected to be approved by Cabinet soon.
- We will continue to 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. For Q1 2016, around 65 percent of all building and planning applications were approved within 90 days.
- LAMP services were expanded to St. James, Trelawny, Hanover, St. Ann and Westmoreland in 2015/16, with 1,236 new titles issued during the year. Under the GoJ Land Titling programme, 15000 titles are expected to be issued each year for the period FY2015/16 to FY2017/18. For the period April 1, 2015 – January 31, 2016, the number of titles issued under the programme amounted to 7, 740.
- The roll-out of the online system for business registration will start by end-June, 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. Adoption of the AMANDA system is expected to be completed by April 2017, 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, the latter supported by a World Bank loan. 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. The implementation of the project started in January 2016, and will be completed by end-December, 2017.
- We are developing an umbrella financial inclusion strategy, with inputs from stakeholders and consultancy from the World Bank, covering key areas including MSME financing, housing finance, payments, rural finance, consumer protection and literacy. We will establish a financial inclusion council by July 2016 to oversee the launch and implementation of the strategy.
- The Development Bank of Jamaica (DBJ) achieved 121.2 percent of its MSME lending target in 2015/16. The DBJ is targeting to provide increased funding to MSMEs in 2016/17. 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 will start in August, 2016 and will be completed by 2018.

- We will 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, streamlining the process of listing on Junior Stock Exchange, 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 three more parks in 2016/17, with the IDB and CDB 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. A matching grant scheme will benefit small farmers in their cluster work with lead anchor firms that export.
- A national strategic plan for the BPO industry is now being implemented. Key actions under the plan include the establishment of a policy and legislative framework; labour market initiatives, infrastructure development, the development of business plans to attract developers and investors, and actions to support market penetration.

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

- In early April 2015, a 30-year concession agreement was signed with a private consortium regarding the privatization of Kingston Container Terminal (KCT). Under the agreement, beginning in 2016, the concessionaire will undertake dredging the access channel to the Kingston Harbour and the KCT basin to allow for the handling of larger vessels that will transit the Panama Canal after its expansion. The transfer of the operating control to the concessionaire is expected to take place shortly after financial close of the transaction, which is expected by June 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 continuing on the privatization of Norman Manley International Airport (NMIA). The Cabinet will need to approve the list of preferred bidders, to whom a request for proposal will be sent.
- Work is also proceeding on the Caymanas SEZ, with World Bank support. A request for expression of interest was completed in December 2015, and we plan to issue the request for proposals for the feasibility study to the pre-qualified firms soon. This work is closely aligned with a Master Plan for the Logistics Hub Initiative expected to be completed by April 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.

23. **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 August 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.

24. **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 to Cabinet soon. Final recommendations will be submitted by end FY16/17.

V. REFORM OF SOCIAL SPENDING

25. **Efforts to strengthen the social protection framework are progressing.** Implementation of the graduation strategy for PATH households was reviewed by the World Bank in December 2015, with recommendations on potential improvements. The graduation strategy will be submitted to Cabinet by end-June 2016. The actual implementation of the strategy will start by September 2016. The government launched a comprehensive social protection strategy in July 2014; a monitoring and evaluation framework has been developed.

26. **A national ID system (NIDS) will be rolled-out to all residents by 2020 which will improve targeting of social spending.** The first phase, which included the development of the legislative and institutional framework and designing the NIDS ICT infrastructure, was completed with IDB support. The second phase will begin in FY16/17 and will include the submission of the NIDS policy to parliament by March 2017.

27. **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-Dec.		End-March		End-June	End-Sept	End-Dec.	End-Mar.			
	Stock	Adjusted PC	Adjusted PC	Actual	Adjusted PC	Adjusted PC	Actual	PC	Proposed revised PC	Proposed PC	Indicative Targets	
Fiscal targets												
1. Primary balance of the central government (floor) 4/		60.7		66.0	120.7		120.8	11.0	33.0	29.0	54.0	119.5
2. Tax Revenues (floor) 4/9/		280.0		291.7	393.0		411.8	99.0	203.0	198.0	300.0	440.0
3. Overall balance of the public sector (floor) 4/		-40.3	-36.8	4.4	-14.3	-10.8	26.3	-29.0	-37.0	-41.0	-51.5	-17.2
4. Central government direct debt (ceiling) 4/5/		47.0		1.5	77.0		-52.8	19.5	41.0	45.0	55.0	61.0
5. Central government guaranteed debt (ceiling) 4/		0.0		-19.2	0.0		-21.3	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		-1.2	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		-5.3	0.0		-4.4	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
9. Social spending (floor) 9/10/		15.6		20.8	23.2		26.1	4.8	9.7	9.7	16.4	24.3
Monetary targets												
10. Cumulative change in net international reserves (floor) 8/11/	1997.7	-338.0	-341.1	442.2	-339.0	-384.0	429.0	-199.6	-49.6	-49.6	52.3	152.3
11. Cumulative change in net domestic assets (ceiling) 11/	-120.2	61.8	49.6	-37.4	39.1	51.1	-38.1	28.7	9.0	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
Institutional fiscal reforms		
1. Revise the relevant legislation for the adoption of a fiscal rule to ensure a sustainable budgetary balance, to be incorporated in the annual budgets starting with the 2014/15 budget.	March 31, 2014	Met
2. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	Met
3. Government to ensure there is: (i) no financing of Clarendon Alumina Production (CAP) by the government or any public body, including Petro Caribe; and (ii) no new government guarantee for CAP or use of public assets (other than shares in CAP and assets owned by CAP) as collateral for third-party financing of CAP.	Continuous	Met
4. Government to table in parliament a budget for 2014/15 consistent with the program.	April 30, 2014	Met
5. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17, Country Report No. 13/378).	April 30, 2014	Met
6. Cap the total loan value of all new user-funded PPPs at 3 percent of GDP on a cumulative basis over the program period.	Continuous	Met
7. Ensure that the public service database e-census is up to date and covers all Ministries, Departments and Agencies.	September 10, 2014	Met
8. Develop an action plan for public sector transformation to cover the following areas: (1) the introduction of shared corporate services, (2) the reallocation, merger, abolition and divestment/privatization of departments and agencies, (3) outsourcing of services, (4) strengthening control systems and accountability (including in auditing and procurement), and (5) aligning remuneration with job requirements.	September 30, 2014	Met
9. Government to table changes in legislation for the new public sector pension system expected to be implemented by April 2016 (MEFP paragraph 25, Country Report No. 14/169).	November 30, 2015	Met
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	Met
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	
13. Submit to Cabinet an action plan for public sector transformation by end-September 2016. In particular, it will include detailed timelines for (1) the introduction of shared corporate services for communications and human resource management and (2) the merger, abolition and/or divestment/privatization of entities. The plan will also outline specific areas where efficiency gains can be made.	September 30 2016	Proposed
14. The Corporate Management Development (CMD) branch in the Ministry of Finance and Public Service to approve a new organizational structure for the Accountant General's Department.	September 30 2016	Proposed
15. Complete a two-part island-wide pilot to build a comprehensive database on all allowances paid to public employees in the Ministries of Finance, Health, Security, and Education. The database will be by occupational grouping and will include all types of allowances paid, their amounts as well as the number of employees that benefit from each type of allowance in a given fiscal year.	November 30, 2016	Proposed
16. Verify each government employee's work post and eligibility for allowances in a two-part pilot across the Ministry of Finance, the civilian population of the Ministry of Security, and the NIS, and non-teaching personnel in the Ministry of Education.	November 30, 2016	Proposed
Tax Reform		
17. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as stipulated in the TMU.	Continuous	Met
18. 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
19. Government to table in parliament amendments to the GCT as stipulated in paragraph 12 of the June 2014 MEFP.	June 30, 2014	Met
20. 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/
21. 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
Tax Administration		
22. 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
23. Government to implement ASYCUDA World for the Kingston Port as a pilot site.	December 31, 2014	Met
24. 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/
25. Government to complete pilot testing of ASYCUDA World (covering imports and exports) in the Kingston port.	May 31, 2015	Met
26. Government to implement Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package.	February 28, 2015	Met

Table 2. Jamaica: Structural Program Conditionality (Concluded)

27. Government to table in Parliament proposals for a comprehensive overhaul of the Customs Act.	June 30, 2015	Met
28. 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	Met
29. Government to implement Phase 2 of the RAiS (GENTAX) integrated tax software package, for all major tax types.	December 31, 2015	Met
30. Increase the capacity of the Post-Clearance Audit (PCA) unit in the JCA through the hiring of 15 more auditors.	March 31, 2016	Met
Financial sector		
31. Government to table legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	Met
32. 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
33. 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
34. Government to table the Omnibus Banking Law ^{3/} consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	Met 4/
35. Government to finalize the transition of retail repos to the trust-based framework.	August 30, 2015	Met
36. Government to fully implement the Banking Services Act.	September 30, 2015	Met
37. The BOJ to have overall responsibility for financial stability.	November 1, 2015	Met
38. Draft a consultation paper for the resolution framework for the entire financial sector, including proposals on (i) the scope, roles and responsibilities, and powers of institutions that would be covered by the resolution regime; and (ii) the legal structure of the regime (i.e., administrative, court-based, or a combination).	October 31, 2016	Proposed
Growth enhancing structural reforms		
39. Government to implement a new (AMANDA) tracking system to track approval of construction permits across all parish councils.	December 30, 2014	Met
40. Government to table in parliament the Electricity Act.	January 31, 2015	Met
1/ The review was reportedly completed in March 2015.		
2/ While all other elements of the benchmarks were met, technical difficulties prevented the achievement of 95 percent take-up rate of e-filing in the LTO. The take-up rate was 80 percent.		
3/ Currently referred to as the Banking Services Act.		
4/ The law was tabled in March 2014 with subsequent fine-tuning in collaboration with Fund staff prior to its adoption in June.		

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) sets out the understandings between the Jamaican authorities and the IMF regarding the definitions of quantitative performance criteria and indicative targets for the programme supported by the extended arrangement under the EFF.** It also describes the methods to be used in assessing the programme performance and the information requirements to ensure adequate monitoring of the targets. In addition, the TMU specifies the requirements under the continuous structural benchmark concerning discretionary tax waivers.
2. **For programme purposes, all foreign currency-related assets, liabilities and flows will be evaluated at “programme exchange rates” as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates.** The updated programme exchange rates are those that prevailed on December 31, 2014. Accordingly, the exchange rates for the purposes of the programme are show in Table 1.

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 0.5 percent of GDP reduction in the central government primary surplus target for FY2016/17:** Rural Economic Development Initiatives (REDI), Rehabilitation of Irrigation Infrastructure (NIC), Islandwide Flood Damage Mitigation & Vector Control, Road Rehabilitation Project II, Major Infrastructure Development Programme (MIDP), Support to SMEs Sector, Support to PIMC Pipeline Projects, Contingency for Natural Disaster/Infrastructural Rehabilitation, BPO Expansion – Portmore and Montego Bay, Fiscal Administration Modernization Programme (FAMP), Strategic Public Sector Transformation Project, Jamaica Foundations for Competitiveness & Growth, Expansion/upgrading of educational Institutions Infrastructure, Education System Transformation Programme, Major Rural Farm Roads Rehabilitation, Drought Mitigation Programme in Farming Communities.

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.

Table 2. Overall Balance of Petrojam (Baseline Projection)

In billions of Jamaican dollars	
End-March 2016	-2.2
End-June 2016	0.0
End-September 2016	0.0
End-December 2016	-0.5
End-March 2017	-1.5

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

- i. Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds

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

and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- ii. Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- iii. Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property. For the purpose of the programme, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

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.

Table 3. External Program Disbursements (Baseline Projection)	
Cumulative flows from the beginning of the fiscal year	(In millions of US\$)
External loans from multilateral sources	
End-September 2015	158
End-December 2015	205
End-March 2016	231
End-June 2016	28
End-September 2016	152
End-December 2016	223
End-March 2017	325
Budget support grants	
End-September 2015	21
End-December 2015	21
End-March 2016	31
End-June 2016	0
End-September 2016	0
End-December 2016	0
End-March 2017	0
IMF budget support disbursements	
End-September 2015	0
End-December 2015	0
End-March 2016	0
End-June 2016	0
End-September 2016	0
End-December 2016	0
End-March 2017	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.

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.

Table 4. Reserve Liabilities Items for NIR Target Purposes	
(In millions of US\$) 1/	
BOJ's foreign liabilities to residents	
Outstanding stock	
End-December 2014	242.0
Cumulative change from end-December 2014	
End-September 2015	94.1
End-December 2015	9.3
End-March 2016	78.4
End-June 2016	238.1
End-September 2016	367.6
End-December 2016	469.3
End-March 2017	399.7
1/ Converted at the programme exchange rates.	

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.² This information should be received with a lag of no more than six weeks after the closing of each month.
- Profits of the Bank of Jamaica on a cash and accrual basis, including a detailed decomposition of cash profits and profits from foreign exchange operations with a lag of no more than three weeks from month end.
- Deposits in the banking system: current accounts, savings and time deposits within six weeks after month end. Average monthly interest rates on loans and deposits within two weeks of month end; weighted average deposit and loan rates within six weeks after month end.
- Financial statements of 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.

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

- 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.