



# JAMAICA

October 2017

## SECOND REVIEW UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JAMAICA

In the context of the second review under the Stand-By Arrangement and request for modification of performance criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 23, 2017, following discussions that ended on September 15, 2017 with the officials of Jamaica on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 3, 2017.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Jamaica.

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

Letter of Intent sent to the IMF by the authorities of Jamaica\*  
Memorandum of Economic and Financial Policies by the authorities of Jamaica\*  
Technical Memorandum of Understanding\*  
\*Also included in the Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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INTERNATIONAL MONETARY FUND



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October 23, 2017

International Monetary Fund  
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### **IMF Executive Board Completes Second Review under the Stand-By Arrangement for Jamaica**

- The authorities' commitment remains strong more than four years into the reform program.
- Fiscal sustainability requires a continued reduction in the public wage bill, particularly as the government rethinks its role, responsibilities, and size of its workforce.
- Jamaica's structural reforms are critical to build resilience and support inclusive growth.

On October 23, 2017, the Executive Board of the International Monetary Fund (IMF) completed the second review of Jamaica's performance under the economic program supported by the Stand-By Arrangement (SBA). The 36-month SBA with a total access of SDR 1,195.3 million (about US\$ 1.68 billion), equivalent of 312 percent of Jamaica's quota in the IMF, was approved by the IMF's Executive Board on November 11, 2016 (see Press Release No.16/503). The Jamaican authorities continue to view the SBA as precautionary, and to use it as an insurance policy against unforeseen external economic shocks that could lead to a balance of payments need.

Following the Executive Board's discussion today, Mr. Tao Zhang Deputy Managing Director and Acting Chair issued the following statement:

“The authorities' commitment to their Fund-supported program remains strong more than four years after embarking on difficult economic reforms. Program performance is on track and macroeconomic stability is entrenched, with stronger fiscal and external positions, subdued inflation, and employment at historic highs. Nevertheless, vulnerability to weather-related shocks continues to pose important challenges to Jamaica's growth performance. Against this backdrop, supply-side reforms, including enhancing resilience to weather swings, must be accelerated to deliver better growth and job outcomes, reduce poverty, and improve living standards, while sustaining macroeconomic stability.

“Concluding the ongoing wage negotiations is necessary for budget certainty. More generally, fiscal sustainability requires a continued reduction in the public wage bill, particularly as the government rethinks its role, responsibilities, and size of its workforce. Overhauling the pay

structure and reviewing the complex system of allowances are vital foundations to a modern public sector that can attract and retain talent. In addition, a smaller public sector remains essential to create space for much-needed spending on health, education, social safety nets, public safety, and growth-enhancing capital projects.

“The authorities recognize that reforms to the Bank of Jamaica Act, further enhancing the monetary policy toolkit, improving communications, and strengthening the central bank’s balance sheet are essential for moving toward inflation targeting. To this end, the authorities are committed to maintaining exchange rate flexibility and limiting foreign exchange interventions to smoothing excessive volatility.

“Implementation of the resolution framework for financial institutions is critical for strengthening the financial sector’s resilience. Any changes to investment and foreign exchange limits of non-bank institutions should first carefully analyze growth and stability tradeoffs and ensure that adequate supervisory capacity is in place.

“Structural reforms are critical to support a dynamic private sector that creates jobs. In this regard, efforts should be accelerated to divest underutilized public assets, upgrade procurement procedures, ease the development approval process, and foster financial inclusion.”

## Table 1. Jamaica: Selected Economic Indicators 1/

Population (2013): 2.8 million Per capita GDP (2014): US\$4955  
 Quota (current; millions SDRs/% of total): 382.9/0.08% Literacy rate (2011)/Poverty rate (2012): 86.4%/19.9%  
 Main products: Alumina, tourism, chemicals, mineral fuels, bauxite, coffee, sugar Unemployment rate (Apr. 2017): 12.2%

	13/14	14/15	15/16	Prog.	Est.	Projections		
				16/17	16/17	17/18	18/19	19/20
(Annual percent change, unless otherwise indicated)								
<b>GDP and prices</b>								
Real GDP	0.9	0.2	1.0	1.7	1.3	1.6	1.9	2.3
Nominal GDP	9.2	7.3	7.6	4.0	5.6	6.0	6.7	7.4
Consumer price index (end of period)	8.3	4.0	3.0	4.0	4.1	4.5	5.0	5.0
Consumer price index (average)	9.4	7.2	3.4	2.3	2.4	4.3	4.8	5.0
Exchange rate (end of period, J\$/US\$)	109.6	115.0	122.0	...	...	...	...	...
Exchange rate (average, J\$/US\$)	103.9	113.1	118.8	...	...	...	...	...
Nominal depreciation (+), end-of-period	10.8	5.0	6.1	...	...	...	...	...
End-of-period REER (appreciation +) (new methodology) 2/	-3.5	-0.2	-2.2	...	...	...	...	...
Treasury bill rate (end-of-period, percent)	9.1	7.0	5.8	...	...	...	...	...
Treasury bill rate (average, percent)	7.9	7.8	6.3	...	...	...	...	...
Unemployment rate (percent) 3/	13.4	14.2	13.3	...	12.7	...	...	...
(In percent of GDP)								
<b>Government operations</b>								
Budgetary revenue	27.2	26.3	27.0	27.9	28.0	28.7	28.5	28.2
<i>Of which:</i> Tax revenue 4/	23.6	23.7	24.5	25.6	25.8	25.5	25.4	25.3
Budgetary expenditure	27.0	26.8	27.3	28.8	28.4	29.0	28.8	27.8
Primary expenditure	19.5	18.8	19.9	20.9	20.4	21.7	21.5	21.3
<i>Of which:</i> Wages and salaries	10.1	9.7	9.6	9.6	9.4	9.6	9.0	8.9
Interest payments	7.5	8.0	7.4	7.9	8.0	7.3	7.3	6.5
Budget balance	0.1	-0.5	-0.3	-0.9	-0.3	-0.3	-0.3	0.5
<i>Of which:</i> Central government primary balance	7.6	7.5	7.2	7.0	7.6	7.0	7.0	7.0
Public entities balance	0.0	0.9	1.8	0.0	2.0	0.7	0.6	0.3
Public sector balance	0.1	0.4	1.6	-0.9	1.7	0.4	0.3	0.8
Public debt (FRL definition) 4/ 6/	...	...	...	115.2	111.9	107.1	102.2	94.2
Public debt (EFF definition) 5/ 7/	140.5	138.0	120.5	122.5	119.2	113.4	107.9	99.3
<b>External sector</b>								
Current account balance	-8.7	-7.0	-1.9	-3.0	-2.5	-2.5	-2.5	-2.6
<i>Of which:</i> Exports of goods, f.o.b.	10.6	10.2	8.3	8.8	8.8	8.8	8.9	8.7
Exports of services	14.3	15.5	14.8	15.8	15.8	14.8	14.6	14.3
Imports of goods, f.o.b.	37.5	36.4	30.0	32.6	31.5	31.9	31.8	31.4
Imports of services	18.8	19.8	19.5	21.4	21.4	21.5	21.6	21.5
Net international reserves (US\$ millions)	1,304	2,294	2,416	2,699	2,762	3,282	3,593	3,753
<i>of which:</i> non-borrowed	714	1,335	1,470	1,876	1,936	2,495	2,829	3,010
(Changes in percent of beginning of period broad money)								
<b>Money and credit</b>								
Net foreign assets	18.7	27.9	10.1	10.2	9.4	15.0	9.6	5.7
Net domestic assets	-12.6	-22.3	8.6	-6.2	-3.7	-9.0	-2.9	1.6

<i>Of which:</i> Credit to the private sector	8.2	3.1	8.2	8.0	11.4	7.1	9.5	10.1
Credit to the central government	-3.1	-15.2	5.5	-0.1	-0.5	1.3	0.2	1.3
Broad money	6.1	5.7	18.7	4.0	5.6	6.0	6.7	7.4

**Memorandum item:**

Nominal GDP (J\$ billions)	1,461	1,568	1,687	1,759	1,783	1,889	2,015	2,164
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Sources: Jamaican authorities; and Fund staff estimates and projections.

1/ Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.

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

3/ As of January 31.

4/ Consolidated central government and public bodies' debt, consistent with the Fiscal Responsibility Law. The most significant deviation from the EFF definition is the exclusion of debt to the IMF held by the BoJ.

5/ Central government direct debt, guaranteed debt, and debt holdings by PCDF, consistent with the definition used under the EFF approved in 2013

6/ Consistent with the Fiscal Responsibility Law (FRL), implementation of the FRL-consistent debt definition began in FY16/17. A backward series is not available since consistent data on public bodies' debt holdings is not available prior to FY16/17.

7/ The decrease in debt in FY15/16 partly reflects the PetroCaribe buyback operation that generated an immediate 10 percentage point reduction in debt. The increase in debt in FY16/17 partly reflects prefinancing for FY17/18 maturities.



# JAMAICA

## SECOND REVIEW UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

October 3, 2017

### EXECUTIVE SUMMARY

**Sustained signs of activity but growth remains vulnerable to weather.**

Unemployment is falling, new jobs are being created, and there is robust activity in construction, manufacturing, and hotels and restaurants. Inflation and the current account deficit are low, helped by relatively stable oil prices and the government's policy efforts. The historically low yields in the recent global bonds' reopening reflect Jamaica's hard-won credibility. Nevertheless, weather-related shocks continue to be a drag on growth and have led to a weaker outlook for FY17/18.

**Program implementation remains strong.** All performance criteria and structural benchmarks at end-June were met. The landmark public pension reform bill was passed by parliament. Based on continued strong program implementation and reform commitments, staff recommends completion of the second review.

**Focus of the review.** Discussions centered on a planned supplementary budget for FY17/18, ongoing wage negotiations, pension and public sector reforms, exchange rate and liquidity management, the appropriate stance of monetary policy, the needed steps to improve the central bank's governance and operational framework, and policies to further strengthen the financial system.

**Risks.** Continued social support for the government's policy efforts will rely on clear evidence that past reforms are generating better growth and jobs outturns, and improving security. Without these dividends, maintaining reform momentum could be challenging. Ongoing wage negotiations and the need to rationalize public sector employment have the potential to create tensions as the government makes difficult social choices about the best use of its limited public resources.

Approved By  
**Nigel Chalk (WHD)**  
**and Zeine Zeidane**  
**(SPR)**

Discussions took place in Kingston during September 6–15, 2017. Staff representatives comprised U. Ramakrishnan (head), J. Wong and K. Youssef (WHD), M. Farid (SPR), W. Lam (FAD), and C. Lonkeng (Resident Representative).

They were assisted at headquarters by A. Veras and P. Cifuentes Henao, and at the Resident Representative office by T. Bryson, T. Ennis, and C. Ritchie.

Mr. Williams (OED) participated in the discussions.

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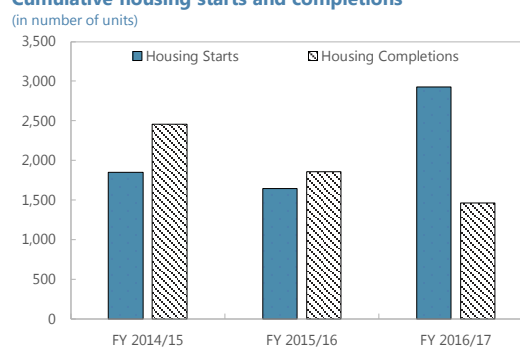
## IMPROVING MACROECONOMIC FUNDAMENTALS

1. **Recovery in non-agricultural sectors, but growth hampered by recurrent, negative weather shocks.** Real GDP growth reached 1.3 percent in FY16/17 as drags in mining in the second half of the year offset strong performance in manufacturing, housing construction, and hotels and restaurants. Unfavorable weather and beet armyworm infestation contributed to a small GDP contraction in the June quarter by 0.1 percent, y/y (0.8 percent growth, q/q, SA). Nevertheless, employment is at an all-time high, buoyed by construction and business process outsourcing; labor force participation is rising, and the unemployment rate is at a 7-year low (12.2 percent in April 2017). However, the weakness in mining and agriculture has led to a lowering of the growth forecast for FY17/18 (from 2.1 to 1.6 percent), and the negative output gap is estimated to have widened. The medium-term outlook remains strong, as ongoing reforms support both higher investment and better productivity growth.

**Employment and growth**



**Cumulative housing starts and completions**



Sources: PIOJ, NHT, TAJ

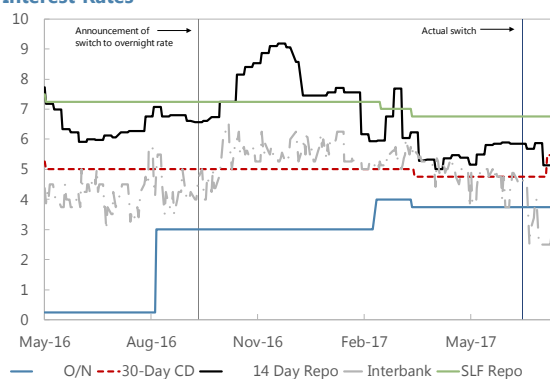
2. **Inflation is well-anchored.** Inflation remains contained even with food price increases from the floods and one-off water and electricity tariff hikes (in August, core and headline inflation were 2.5 and 4.4 percent y/y, respectively). Inflation is expected to be 4.5 percent by end-FY17/18. Given the recent and longer-run inflation outturns as well as risks to growth, the balance of risks is skewed toward lower inflation.

3. **Jamaica continues to access international capital markets at competitive rates.** In August, the GOJ conducted a liability management operation, reopening its 2028 and 2045 global bonds at a historically low yield-to-maturity of 5.0 and 6.45 percent, respectively. The US\$1 billion proceeds of the bond issue were used for a buyback of international and domestic US\$ bonds that mature in 2019–2025, improving the refinancing profile.

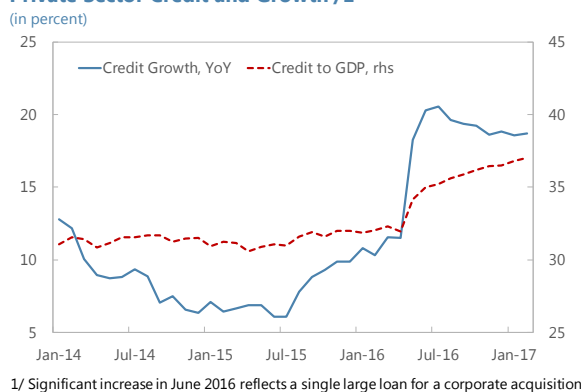
4. **A strong external position.** The FY16/17 current account deficit slightly widened to 2.5 percent of GDP driven by imports of cars and machinery, construction-related manufactured goods, and fuel. Non-borrowed net international reserves stood at US\$1.8 billion at end-June, about US\$300 million above the program performance criterion. Gross reserves are at 81 percent of the IMF's reserve adequacy metric. The appreciation of the J\$/US\$ exchange rate during the June quarter has been mostly reversed in September. The REER and NEER have depreciated by 0.2 and 2.8 percent y/y, respectively, in July.

5. **The modestly weaker growth and low inflation have led the central bank to cautiously lower policy rates.** The term structure of interest rates fell after the BOJ cut the overnight policy rate by 25bps to 3.5 percent in August. The BOJ switched its official policy rate from the 30-day CD to the overnight rate on July 1 which has also fed through to modestly lower interbank rates. Rising optimism about economic prospects has led to an expansion of credit by 18 percent in FY16/17—11 percent excluding a single large corporate acquisition loan—with growth in both personal and business loans. Non-performing loans are near historic lows at 3.5 percent of total loans, and the banking sector has provisioned sufficiently and appears well-capitalized.

Interest Rates



Private Sector Credit and Growth /1



6. **There are various risks to the program, but ownership remains resilient.** Most importantly, continued growth setbacks, combined with high crime, could generate policy reversal or erode social support for difficult structural reforms. These include the much-needed overhaul of the public sector which is already facing operational bottlenecks. In addition, the ongoing wage negotiations need to be accelerated and managed carefully to preserve social cohesion while achieving the central government wage bill target. The government's demonstrated strong program commitment and ownership could come under pressure if there continues to be public anxiety about a flexible exchange rate. This would complicate economic management and policymaking, and may catalyze resistance to the government's intention to move to an inflation targeting regime with a flexible market-determined exchange rate. It also may trigger excessive demands to use the BOJ's accumulated reserves to resist healthy two-way currency movements.

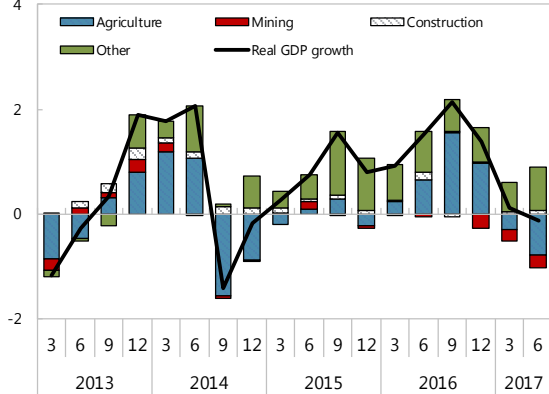
## A STRONG PROGRAM PERFORMANCE

7. **All quantitative performance criteria for end-June 2017 were met.** Tax revenues continued to over-perform allowing the central government's primary balance and overall public sector balance for Q1 of FY17/18 to exceed the program target. Social spending significantly exceeded the program floor. End-June inflation was well within the target band and non-borrowed NIR was US\$298 million above the end-June target.

**Figure 1. Jamaica: Macroeconomic Developments**

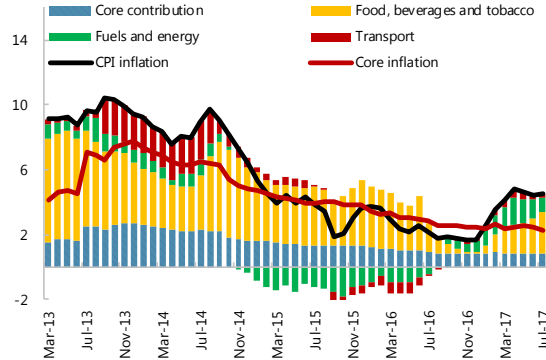
*Agriculture and mining continue to drag growth...*

**Contribution to Real GDP Growth**  
(Percent quarterly y/y)



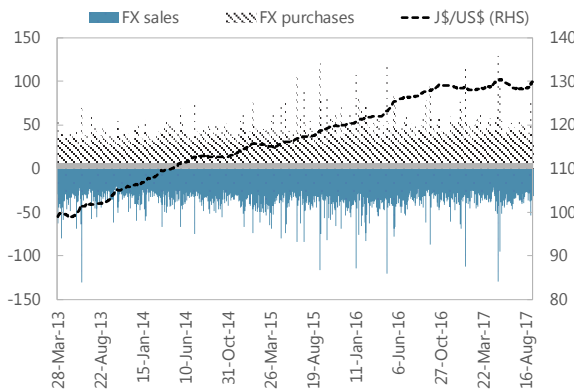
*... as inflation remains subdued.*

**Contribution to CPI Inflation**  
(Percent, y-o-y)



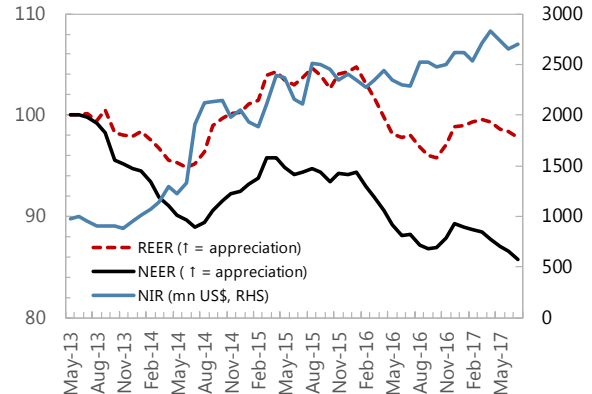
*The exchange rate has adjusted to market conditions...*

**Exchange Rate and BOJ Operations**



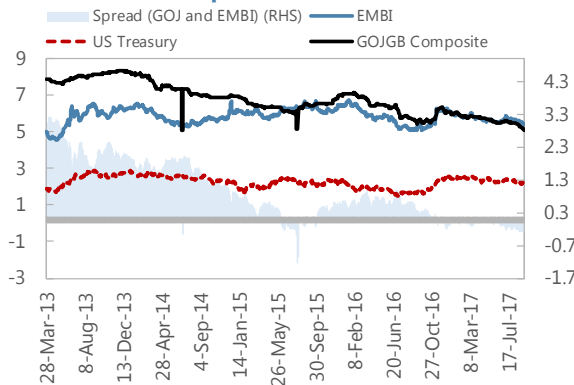
*...as reserve accumulation continues*

**NIR and Currency**



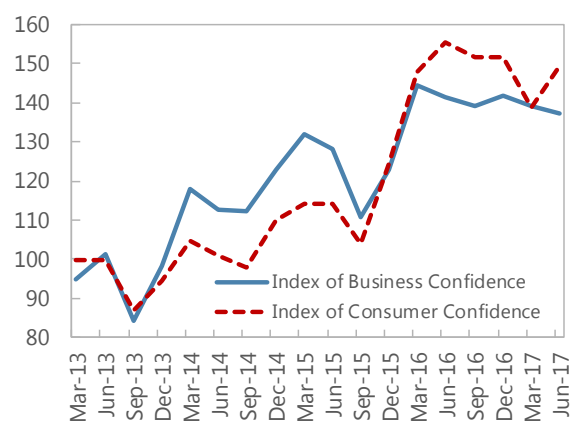
*Bond markets remain reassured...*

**Jamaica Bond Spreads**



*... and confidence remains high*

**Confidence Index**



**Jamaica: Program Monitoring—Quantitative Performance Criteria Under the Stand-By Agreement 1/ 2/**  
(in billions of Jamaican dollars)

	end-June 2017			Difference	PC Status end-June 2017
	PCs	Adjusted PCs	Actual		
<b>Fiscal targets</b>					
<i>Performance Criteria</i>					
1. Primary balance of the central government (floor) 3/	15.0		30.6	15.6	Met
2. Overall balance of the public sector (floor) 3/	-39.2	-48.1	5.6	53.7	Met
3. Net increase in the central government guaranteed debt (ceiling) 3/	0.0		-2.5	2.5	Met
4. Central government accumulation of domestic arrears (ceiling) 4/ 10/	0.0		-0.9	0.9	Met
5. Central government accumulation of tax refund arrears (ceiling) 5/ 10/	0.0		-8.4	8.4	Met
6. Accumulation of external debt payment arrears (ceiling) 4/ 9/	0.0		0.0	0.0	Met
<i>Indicative targets</i>					
7. Tax revenues of the central government (floor) 3/	100.0		117.1	17.1	Met
8. Change in the stock of public bodies non-guaranteed debt (ceiling) 11/	2.5	11.4	0.1	11.3	Met
9. Central government spending on social programs (floor) 3/ 7/	6.1		8.9	2.8	Met
10. Total loan value of all user funded PPPs (ceiling, percent of GDP)	3.0		0.9	2.1	Met
<b>Monetary targets</b>					
11. Stock of non-borrowed net international reserves (floor) 6/ 8/	1,521	1,522	1,820	298.1	Met
12. <i>Monetary policy consultation clause (in percent)</i>					
Upper band	9.0				
Center inflation target	5.5		4.4		Met
Lower band	2.0				

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

2/ Based on program exchange rates defined in the TMU.

3/ Cumulative flows from April 1 through March 31.

4/ Includes debt payments, supplies and other committed spending as per contractual obligations; full definition in TMU.

5/ Includes tax refund arrears as stipulated by law.

6/ In millions of U.S. dollars.

7/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes (defined in TMU).

8/ Stock of BOJ NIR minus all foreign currency CDs to domestic residents; full definition in TMU.

9/ Continuous performance criterion.

10/ The accumulation is measured against the stock at end-March 2016, which is J\$21.0 billion for domestic arrears and J\$17.3 billion for tax arrears.

11/ For end-Dec 2016 and end-Mar 2017, these are cumulative flows from October 1, 2016. For subsequent dates, these are cumulative flows from April 1, 2017.

8. **Structural reforms are progressing.** Since the completion of the first review and through end-September, 15 benchmarks were met (Table 10) including establishing the financial inclusion council, strengthening the oversight of securities dealers, advancing reforms to the crisis resolution framework and BOJ governance, reviewing/proposing public sector employment rules including for merit increases, hiring, promotion, and exit, and improving management of public bodies. Progress has also been made in tax administration, public financial management, financial oversight, and putting in place a system of competitive FX auctions.

## ENTRENCHING FISCAL SUSTAINABILITY

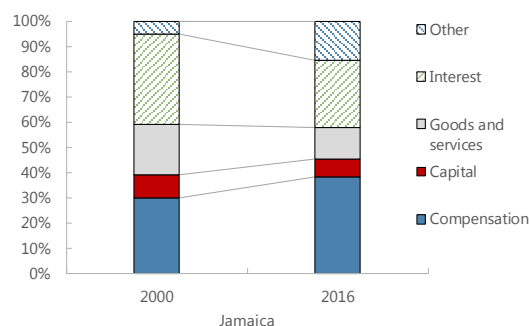
### A. Maintaining Fiscal Discipline

9. **A modest FY17/18 supplementary budget.** The supplementary budget submitted to Cabinet in September envisages higher revenues of J\$5.4 billion. The higher revenue reflects stronger than expected corporate income tax, travel tax, and transfers from public bodies. More than half the higher revenues will be deployed to security spending. Additional spending and reallocations will be used to cover repairs from the flood damage, settlement of some arrears, funding for the public sector early retirement program, and a new training program for vulnerable youths (HOPE). The additional J\$2bn required by the local authorities, to offset the property taxes roll-back after budget approval, is covered.

### 10. Reducing the wage bill and reshaping government.

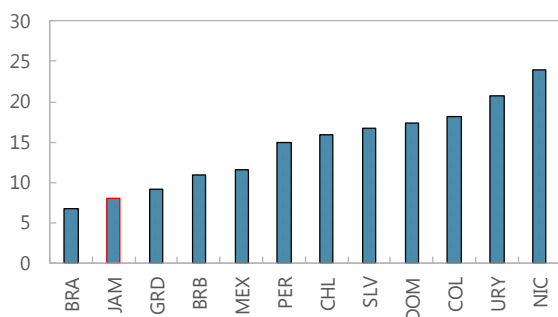
- No agreement has yet been reached under the current wage negotiation round (covering FY17/18 and FY18/19) which targets reducing the wage bill to 9 percent of GDP by FY18/19. The authorities are intensifying efforts to conclude these negotiations.
- In the past, allowances have been used as a means to reach agreement on public sector employee compensation, but this has generated inequities across different public employee groups and even for employees doing similar tasks. Beyond containing the pace of public wage increases, the allowance system—which has become large, complex, unequal, and non-transparent (Box 1)—has to be structurally simplified and made equitable.
- In addition, there is a broader need to rethink the size and composition of the workforce, to free up the resources through redesigning public sector pay scales so as to retain skilled employees and appropriately reward performance. This would pave the way for rebalancing public spending from wages to growth-enhancing outlays on health (where Jamaica’s expenditures are relatively low), education (where an overly large share of expenditures is on wages), security, and capital spending. The government is examining these issues, including completing a new compensation philosophy and structure by January 2019.

Composition of Government Expenditures



Public Health Expenditures

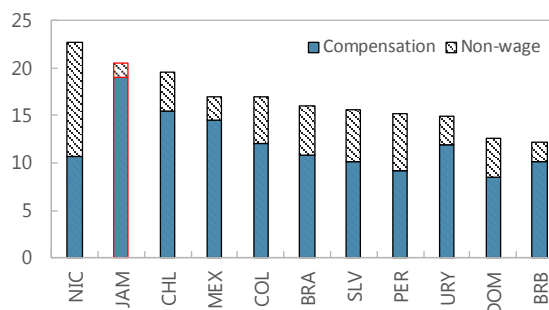
(% total expenditures, 2014)



Source: World Development Indicators

Public Education Expenditures

(% total expenditures, 2014)

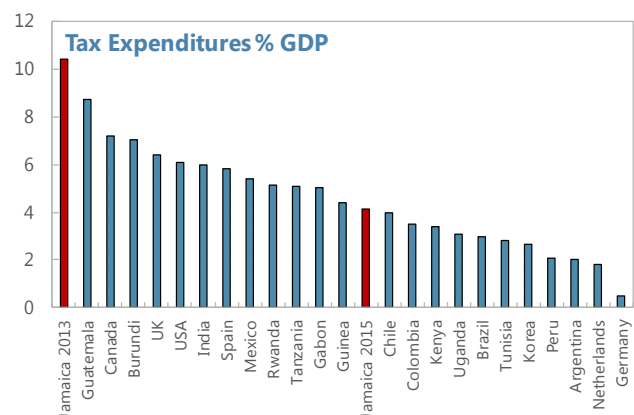


Source: World Development Indicators

### 11. **Safeguarding the revenue base.**

Reforms in 2013 to curtail sector and firm-specific tax incentives have helped halve Jamaica's tax expenditures. Preserving these gains will require a continued determination to not provide discretionary tax incentives or waivers. Instead the focus should be to ensure an equitable, broad-based tax system that treats all taxpayers equally (as envisaged in the 2013 Omnibus Legislation). Protecting the revenue base from potential leakages from the new tax-favored Special Economic Zones (SEZ)

will require putting in place clear regulations and procedures that ensure coordination between the SEZ authority and revenue collection agencies (to be completed by early-2018).



## B. Advancing Critical Public Sector Reforms

12. **Pension reform passage paves the way for early retirement.** The landmark public pension reform bill was passed in October. Key reforms include a mandatory public employee contribution, lower benefits accrual rate, and less generous commutation benefit. The passage of the bill paves the way to kick-off the IDB-supported early retirement program for public employees. All technical work to roll-out this program should be finalized without delay. Parameters of the program should be calibrated to maximize the downward impact on the public-sector wage bill (including by replacing only a fraction of those who retire).

13. **Public bodies reforms.** Achieving greater efficiency will require a scale back of the roles, responsibilities, and overall size of the public sector. The ongoing reforms to public bodies aim to enhance their efficiency, service delivery, oversight, and accountability through their closure, merger, or divestment. The experience with the first wave of public bodies' reforms has highlighted the need to enhance the capacity of the public sector transformation implementation unit and to begin the human resources "change management" process at an early stage. Separately, the auditor general will undertake analytical reviews for the National Health Fund, Clarendon Alumina Production, and the Urban Development Cooperation by end-March 2018—an important step to assess potential underlying fiscal risks.

## MODERNIZING THE MONETARY FRAMEWORK

14. **Revision to the medium-term inflation target.** To entrench the lower prevailing and expected inflation, the inflation target has been revised from 5.5 percent to 5.0 percent and the BOJ has extended its inflation target horizon from a fiscal year to a medium-term target. The new medium-term inflation target has a band of  $\pm 1$  percent. The lower target reflects the recent success in lowering inflation and anchoring inflation expectations.

15. **An accommodative monetary stance is warranted given the downside risks to growth and inflation.** The absence of fiscal space, widened output gap, and subdued core inflation support the recent monetary loosening. Looking ahead, staff estimates suggest that—in the absence of further growth setbacks or negative shocks to inflation—the current overnight policy rate (of 3.5 percent) should result in an inflation of 4.5 percent by end FY17/18. However, there is scope to lower the policy rate further, should downside risks materialize.

16. **The BOJ is upgrading its policy toolkit.** As the BOJ transitions to an inflation targeting framework, clear policy signaling will be essential to credibly anchor inflation expectations. The BOJ recognized that the effectiveness of their policy efforts may be weakened by countervailing monetary and FX liquidity actions arising from the BOJ's multiple objectives. To further strengthen policy signaling and transmission, the BOJ has:

- Moved the policy rate to the overnight lending rate (from the 30-day CD rate).
- Narrowed the interest rate corridor so that the standing liquidity facility repo is set at 300 bps above the policy rate.
- Introduced competitive, multiple-price FX sale auctions (the "BOJ's Foreign Exchange Intervention and Trading Tool" or B-FXITT) to enhance price-discovery and deepen the interbank FX market.

Beyond these actions, the BOJ is developing an improved communication strategy for monetary operations and policy decisions. This includes establishing a pre-announced calendar for the BOJ's monetary policy decisions, and having a clearer public communication of their policy decisions.

17. **Maintaining exchange rate flexibility is critical to a successful move toward inflation targeting.**

- To entrench price stability as the monetary goal and maintain exchange rate flexibility, the BOJ remains committed to undertake FX sales only sparingly through its existing FX auction mechanism, and to limit such sales only to periods of excessive market volatility and disorderly market conditions.
- To further strengthen FX market price signaling, the BOJ has begun announcing a mid-day market rate, which it will use in its own non-auction FX transactions with public entities and the market. The BOJ will soon issue upgraded market directives for FX auction operations, which will allow it to both buy and sell reserves as needed through the FX auctions at market determined rates. Strengthening BOJ market oversight, particularly on FX net open positions for authorized FX dealers, will also support FX market development.
- Concurrently, to increase FX market liquidity, the BOJ plans to reduce the FX surrender requirement by 5 percentage points before end-2017. Further reductions in the surrender requirement will be reviewed every three months, taking into account, inter alia, market development and reserve accumulation needs. As the FX market further develops, the BOJ

intends to gradually transition public entities toward purchasing their FX through the market rather than bilaterally from the BOJ. The BOJ will then also increasingly accumulate reserves through buy auctions rather than surrender requirements.

18. **Strengthening the BOJ’s operational autonomy and governance, as well as improving its solvency are critical to adequately equip the BOJ for inflation targeting** (Box 2). A proposal on revisions to the BOJ Act was submitted to Cabinet in August. The proposal, in line with IMF TA recommendations, sets in train reforms toward a legal framework for inflation targeting. The reforms will help deepen financial intermediation and lower real interest rates by anchoring inflation expectations, providing a clear and predictable policy direction for investors, and strengthening the BOJ’s accountability. These steps will be conducive to higher growth and job creation. The governance reforms include:

- Clarifying that the BOJ’s primary objective is price stability;
- Strengthening the BOJ’s financial, personal, operational, and institutional independence and accountability;
- Identifying an effective Board decision-making structure, with clear roles and responsibilities.
- Recapitalizing the central bank to address the currently weak balance sheet of the BOJ. This will remove potential future balance sheet-related constraints to monetary policy operations while pursuing price stability. Recapitalization implies injecting new capital to the BOJ—through the issuance of government liabilities—to offset accumulated losses and provide a capital buffer that is in line with international best practice.

To allow for consultations on these important changes, it is expected that the revised BOJ Act will be submitted to Parliament by end-October 2018 (*proposed modified structural benchmark*).

## ENTRENCHING FINANCIAL SECTOR RESILIENCE

19. **Following public consultations, the authorities submitted proposals to the Cabinet in July to introduce a Special Resolution Regime (crisis resolution) for failing/non-viable financial institutions.** The new framework includes policy options for planning, coordinating and executing resolution, seeking public money only as a last resort. The next steps will include introducing a modified insolvency framework for financial institutions, consistent with the government’s resolution framework. The parliamentary submission of the legislation is expected by January 2019; industry consultations will also soon begin on modalities for funding the resolution framework.

20. **As of May 2017, all securities dealers (SDs) are compliant with the Master Retail Repo Agreements.** Remaining balance sheet risks are being addressed by deciding on a systemically safe level of retail repos and regulating the retail repo leverage ratio. Work is also underway toward developing a liquidity ratio for the SDs.



21. **The government is beginning a review of the existing investment limits for non-bank financial institutions, starting with pension funds.** There is scope for deploying a larger share of private sector capital toward a broader range of domestic assets and loosen the restrictions on international diversification. Before doing so, though, it will be important to resolve regulatory capacity constraints to ensure efficient capital allocation through the financial sector. At the same time, the build-up of financial sector risks and increasing complexity (Box 3) need to be better understood, to protect macroeconomic stability. To this end, the authorities have begun a review of the pension funds industry, to ensure that broadening the investment mandate to more asset classes and higher FX limits can be supported by appropriate investment regulations, risk management guidelines and supervisory arrangements.
22. **The authorities intend to fully address the AML/CFT deficiencies that were identified in the recent CFATF Mutual Evaluation Report.** Progress on enhancing oversight of money services businesses, and implementing preventive measures and risk-based AML/CFT supervision are critical before the next progress report due to CFATF in May 2018.
23. **While the August 2017 external bond issuance was at historically low yields, Jamaica's growing FX debt exposure creates vulnerabilities.** To lessen the dollarization of public liabilities the government is committed to accelerating the development and implementation of the domestic J\$ debt-market with a view to increasing secondary market liquidity. The Ministry of Finance is also coordinating closely with the BOJ and the Accountant General's Department.

## GROWTH AGENDA AND DATA STANDARDS

24. **Given Jamaica's capacity constraints and need for high-yield interventions, growth-enhancing reforms should remain focused on key structural bottlenecks.** The authorities are accelerating their efforts to divest underutilized public assets and using proceeds towards public debt reduction. In particular, plans have been submitted to Cabinet to divest up to 20 percent of the assets owned by the Urban Development Corporation and the Factories Corporation of Jamaica, two public bodies with significant asset holdings. To continue reducing red-tape and enhancing business environment, authorities are committed to accelerating the already delayed reforms to upgrade the Procurement Act and associated handbook to improve the timeliness and execution of growth-enhancing public spending, while at the same time enhancing the ease of the development approval process. To foster financial inclusion, reforms to the legislative framework for cooperatives and micro-credit should proceed without further delay.
25. **Progress towards subscribing to SDDS continues, supported by an IMF general government statistics mission scheduled for October 2017.** However, the rebasing of GDP to 2014, transition to SNA 2008, and the new supply-and-use tables have been delayed to 2019. In response to the statistical agency's (STATIN) capacity constraints, authorities are working on a restructuring plan to boost its technical resources.

## PROGRAM ISSUES

26. **The program remains fully financed and staff considers Jamaica's capacity to repay the Fund to be adequate (Table 12).** There are program risks, but commitment to the economic reform program remains strong, with continued broad-based societal ownership. Economic confidence indicators are at historical highs, supported by a favorable macroeconomic environment. Even in a downside scenario where the precautionary resources of the SBA were fully drawn, debt service ratios would be moderate.

27. **Performance criteria for end-June 2018 and indicative targets for end-September 2018 are proposed.** Staff proposes a modification to the QPC for the overall balance of the public sector for end-December 2017 to reflect the higher than expected outcomes from public bodies and central government operations. In addition, staff proposes the modification of the structural benchmark for the submission to Parliament of the revised BOJ Act for October 2018 to allow for the necessary stakeholder consultations.

28. **An updated safeguards assessment of the BOJ, completed in May 2017, found a relatively strong safeguards framework in place.** Actions to address the remaining priority recommendations are underway (see ¶18).

## STAFF APPRAISAL

29. **After more than 4 years of difficult economic reforms, Jamaica's program implementation remains exemplary.** All quantitative conditions and structural benchmarks were met and the government's reform plan is broadly on schedule. Strong domestic ownership of the reform agenda, across two different governments and the broader society, has helped entrench macroeconomic stability and fiscal discipline. The authorities' sustained commitment coupled with the ongoing program monitoring by civil society has paved the way for reforms to be increasingly domestically-owned, -designed, and -executed.

30. **Employment is rising, but vulnerability to weather poses growth risks.** With historically high employment, falling unemployment, and robust signs of economic activity, Jamaica's economy continues to benefit from macroeconomic stability. Inflation and the current account deficit remain subdued, while the recent bond issuance reflects Jamaica's hard-won international credibility. Nevertheless, the repeated weather-related growth setbacks illustrate Jamaica's continued vulnerability, underscoring the importance of ongoing structural reforms to enhance resilience, support private sector growth and job creation, and improve living standards. Societal support for the reforms could be further tested by high crime and the difficult public sector reforms.

31. **The government's limited spending envelope needs to be better prioritized to support growth.** The still high public-sector wage bill continues to crowd out other spending given scarce public resources. There is a need to right-size the large and inefficient public sector, exert better control over wages and allowances (including as part of the ongoing wage negotiations), and create the space for growth-enhancing public spending on safety nets, citizen security and capital projects.

Transforming the public sector, including by overhauling the pay structure, streamlining allowances, modernizing the pension system, rolling out the early retirement program, and advancing procurement reforms are all critical steps that need to be accelerated. The successful launch of the graduation strategy for PATH (the government's targeted cash transfer program) and the continued increase in social assistance benefits is a clear example of the gains that can be made when scarce public resources are carefully redirected.

**32. Moving to inflation targeting requires making price stability the anchor for monetary policy alongside a flexible, market-determined exchange rate.**

- The accommodative monetary stance—with a loosening bias should weak growth persist and downside inflation risks materialize—is appropriate to support achieving the medium-term inflation target. Ongoing improvements to the monetary toolkit will improve liquidity management and policy signaling. A primary focus on inflation, combined with improved BOJ communications and a strong balance sheet as envisaged in the revisions to the BOJ Act under consideration, will better anchor expectations as the central bank moves to fully adopt inflation targeting.
- Successful introduction of FX auctions is a landmark step in market development. Staff supports the authorities' request for the Board to approve the retention of the MCP relating to the multiple price foreign currency auction for a period of twelve months from the date of the decision approving the retention—for non-BOP reasons (LOI 13). Staff recommends its retention because the measure is temporary and does not: (i) materially impede Jamaica's BOP adjustment; (ii) nor harm the interests of other members; (iii) nor discriminate among members.
- Pressure to use accumulated reserves to counter healthy two-way currency movements should be resisted; FX sales should be reserved for smoothing excessive volatility. Reliance on FX surrender requirements should be gradually reduced, with reserve accumulation increasingly supported by FX buy auctions.

**33. Financial sector stability is essential to support growth.** Implementation of the Special Resolution Regime (crisis resolution) will greatly enhance the system's safety net and minimize public exposure in the event of instability in the financial system. Reforms to address the remaining balance sheet risks in securities dealers will continue to improve systemic stability. Changes to investment limits for nonbank institutions, starting with pension funds, should be carefully assessed by undertaking a full institution-by-institution assessment of FX and domestic currency exposures and ensuring that the necessary macroprudential regulations are in place before investment limits are relaxed. This will require upgrading the regulation framework and supervisory capacity of the relevant authorities, and enhancing data gathering and reporting.

**34. Staff recommends approval of the authorities' request for completion of the second review of the Stand-By Arrangement,** the approval of the retention of the MCP, and the proposed establishment and modification of performance criteria.

### Box 1. Allowances in Central Government Wage Bill<sup>1</sup>

Based on the recent compensation review by the Ministry of Finance and the Public Service, Jamaica provides a significant share of its public employee compensation through a complex scheme of allowances. Their costs and complexity have grown over time, prompting an urgent need to evaluate the current system with a goal of creating greater pay equity across employees and better aligning pay with performance.

**Allowances, including the reimbursable travel allowance, make up one-third of compensation and total over 3 percent of GDP.** There currently exist at least 174 different types of allowances. There are differences across the 10 employee groups but all groups receive 10 or more allowances. Health and central government groups receive more than 30 different types of allowances. Across government employees, allowances can make up between 7 and about 55 percent of total compensation. Compensation allowances total 2 percent of GDP and a further 1 percent of GDP is disbursed each year for travel allowances.

**There is significant dispersion across the incidence of these allowances creating wage inequality for government employees.**

Allowances were originally designed to provide flexibility in compensating employees but the current structure leads to significant inequality across groups. For example, housing, seniority, and acting allowances are received by all groups, but the amount per person varies widely. For example, those working in legal and judiciary services average over J\$2 million in housing allowance per person while that same allowance for eligible central government employees averages to about J\$94,000 per person.

**There are also likely inefficiencies and overlaps in the granting of allowances.** Some allowances appear to raise wage costs without a clear motivation for their existence. For instance, the sizable overtime payments made to health sector workers could imply that increasing the number of permanent staff may actually be cost-saving. Furthermore, there are different types of allowances, both across and within groups, that appear to play similar roles, generating administrative complexity and overlap. For example, within the broader category of overtime allowances, one can find duty, emergency duty, overtime, and sessional rates allowances with the amounts for each varying significantly across employees.

**Costs.** The costliest allowances are of two types: (i) allowances that are relatively small but received by large numbers of employees (e.g. book and software allowances for teachers or housing and overtime allowances for security personnel) or (ii) allowances received by a few people but with large amounts per person (e.g. overtime allowances for health). Many of these allowances have increased in cost over time, offered as effective fringe benefits during the various wage rounds (e.g. in the last wage round teachers received a 50 percent increase in book, software and special teacher allowances that added 0.2 percent of GDP per year to the budget).

	<b>Top 10 Allowances by Group</b>	<b>% GDP</b>
1	Central Govt - Travelling Allowance	0.63%
2	Teachers - Special Teacher	0.25%
3	Security - Housing	0.22%
4	Health - Emergency Duty Allowance	0.20%
5	Health - Acting Allowance	0.18%
6	Health - Sessional Rates	0.16%
7	Teachers - Book & Software	0.15%
8	Security - Overtime	0.14%
9	Health - Travelling Allowance	0.11%
10	Security - Travelling Allowance	0.08%
	Other	1.05%

<sup>1</sup> Groups in the analysis include Correctional Services, Executive Agencies, Fire Brigade, Health Sector, Legal and Judiciary, Library Aides, Parish Councils, Security, Teachers, and Central Government Administration, which is referred to as Central Government.

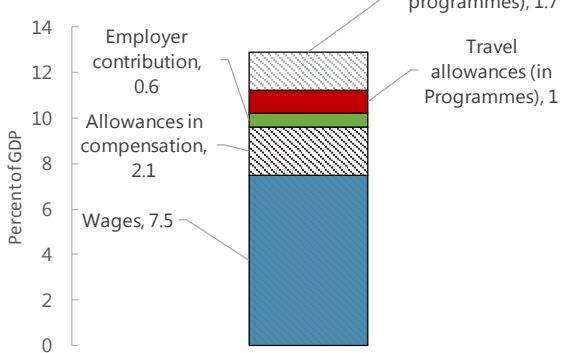
### Box 1. Allowances in Central Government Wage Bill (Concluded)

Total cost of public employment includes a complex system of allowances...

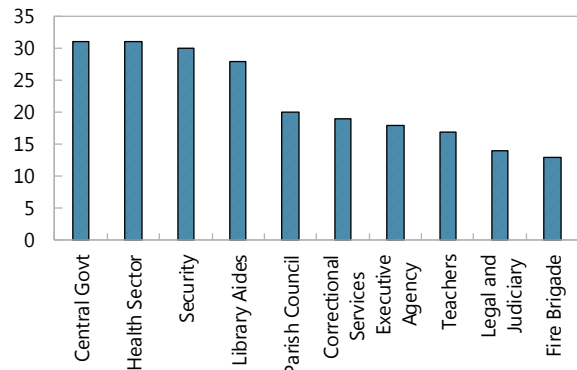
... with at least 174 allowances distributed across all groups...

#### Total Employment Costs:

Central Government



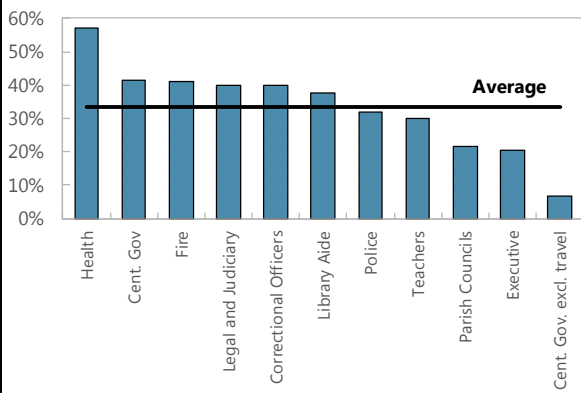
#### Number of Allowances per Group



... and representing more than one-half of total compensation for some groups.

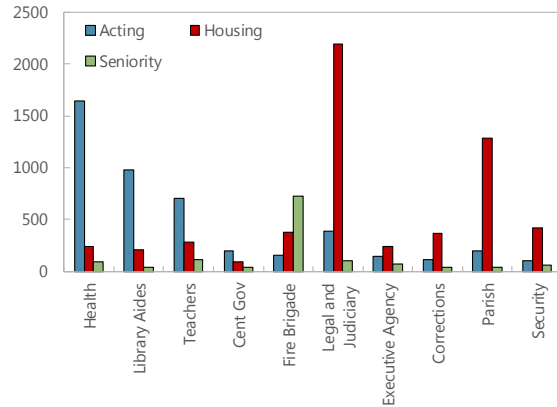
The dispersion across groups is sizable...

#### Allowances as % of total Compensation



#### Allowances received by all groups

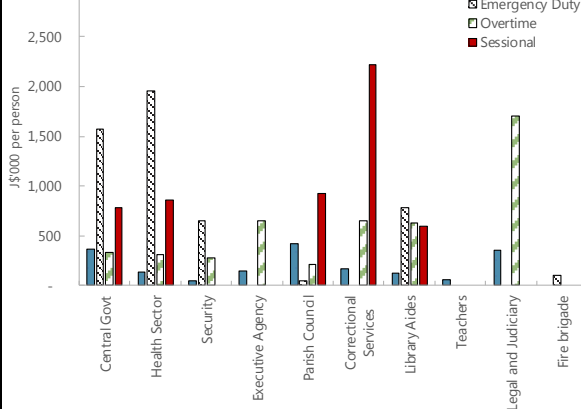
(amount per eligible person, J\$'000)



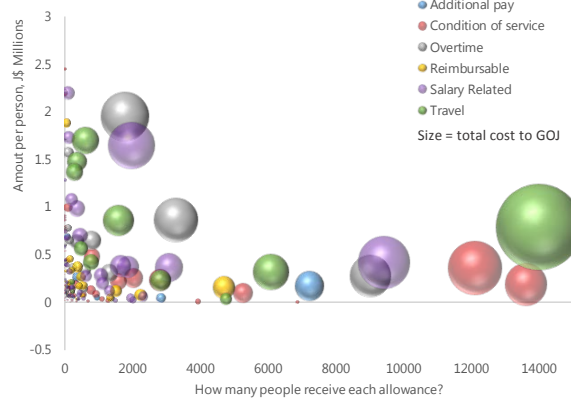
... and even within one category of allowances, the amounts vary wildly across different types of public employees

The high costs to GOJ come from both large amounts paid to small groups and small amounts that are widely available.

#### Overtime Allowances



Allowances: (i) how many receive them?, (ii) how much per person and (iii) how much do they cost?



### Box 2. Strengthening the Bank of Jamaica

**Inflation targeting requires shifting the central bank's primary mandate to be price stability.** The BOJ's current mandate of multiple and sometimes conflicting objectives confuses investors and savers, potentially distorting saving and investment decisions in Jamaica. To anchor policy decisions, provide operational focus, and clear policy signaling, the mandate should instead focus primarily on price stability.

**Pursuing an inflation objective requires the BOJ to have operational independence, proper accountability, and a suitable governance structure.** In particular, a clear assignment of roles and responsibilities is necessary that are geared toward achieving the price stability objective, combined with BOJ accountability potentially to both the government and to Parliament.

**Negative net worth has a potential to hamper a central bank's operational independence.** While, by law, the government is responsible for annually covering any losses incurred by the BOJ, such transfers have not occurred over the past several years. Bankruptcy is not a risk for central banks, but a weak balance sheet can create perverse incentives for the central bank (e.g. to print money and generate higher inflation to recapitalize itself and reduce the real value of its nominal, domestic currency debt). In addition, a central bank with a weak balance sheet may be constrained in its ability to issue financial instruments as it tightens monetary conditions.

**A strong balance sheet, with suitable accountability, will allow the BOJ to credibly focus on its price stability objective as it moves toward full-fledged inflation targeting.** Based on international experience, a statutory capital buffer of 3 to 8 percent of monetary liabilities is an appropriate cushion against potential future losses that will help safeguard the primacy of the inflation target. To safeguard these public resources, the BOJ statutory framework should be enhanced to ensure it is accountable to a broad set of stakeholders, including potentially to the government and parliament, with clear external communication, transparency and reporting requirements.

### Box 3. A Snapshot of Jamaica's Financial Sector Balance Sheet Risks

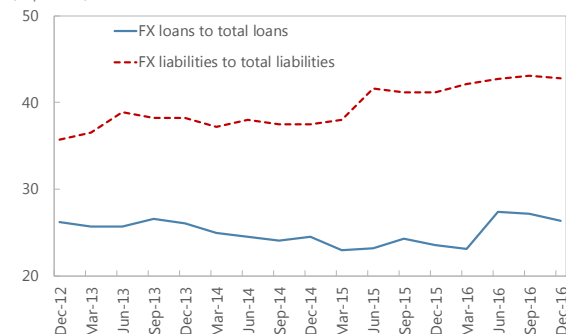
*Jamaica's balance sheets are exposed to direct and indirect foreign currency risks. Contagion among financial intermediaries can result from highly correlated investments and deeply interconnected ownership structures. Growth in off-balance sheet investments vehicles, which are either under or altogether unregulated can increase the complexity of risks in the financial sector.*

**Jamaica's NIIP remains negative and large.** Hovering around 150 percent of GDP since FY13/14, Jamaica's negative NIIP still reflects its sizable external public debt although recent economic reforms have supported growth on the asset side in terms of FX reserves and portfolio investment. Nevertheless, external private debt has also grown during this period, reflecting a growing reliance on FX denominated corporate borrowing from both domestic and foreign sources, as well as inter-group financing among financial regional conglomerates.

**While traditional banking FX risks appear muted, FX exposures are sizable.** Traditional banking FX risks are subdued as domestic currency loans far outstrip FX loans at deposit taking institutions (DTIs), and FX deposits account for most of banks' FX liabilities. That said, FX loans and liabilities continue to occupy a sizeable share of DTI's balance sheets. Moreover, Jamaican government debt—more than half of which is FX denominated—remains a prominent FX exposure for the public sector, and constitutes a large share of financial sector asset holding. In addition, the stock of non-loan FX investments by DTIs and securities dealers in the private sector is a combined 10 percent of GDP, mostly comprising corporate debt issued domestically or abroad.

#### DTI Foreign Exchange Risk

(in percent)



Sources: Bank of Jamaica Financial Stability Report

#### Balance sheets linkages create cross-sectoral contagion and spillover risks.

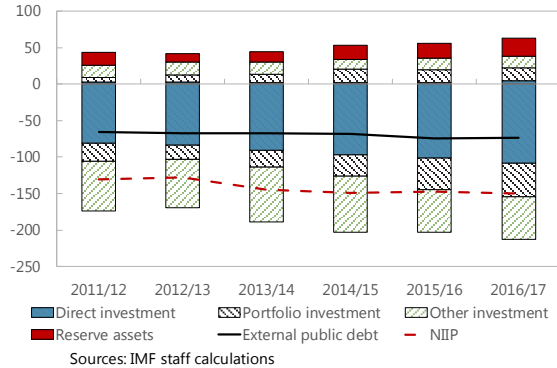
- Jamaica's financial sector is closely connected through various parent-subsidiary relationships that often include non-financial corporates. There is evidence of inter-conglomerate self-financing, often including entities outside of Jamaica. For example, available data suggests that securities dealers channel roughly 1.5 percent of GDP towards financing their own investment arms.
- Financial intermediaries also maintain large off-balance sheet entities in the form of collective investment funds (CIF) and type 1 pooled funds (which solely invest the assets of more than one approved pension fund or approved retirement scheme). These funds are estimated at more than J\$330 billion in managed assets, or about 19 percent of GDP. There is evidence of CIFs reinvesting back into foreign currency assets and real estate, either directly or indirectly through purchasing their own, or others' CIFs. There is, however, very little known about the composition or risks on type 1 pooled funds' balance sheets. The central bank and the Financial Services Commission (regulator of non-DTIs) are working to better understand these interconnections and their implications for systemic stability.

### Box 3. A Snapshot of Jamaica's Financial Sector Balance Sheet Risks (Concluded)

*NIIIP reflects growth in external assets and liabilities*

#### Jamaica's foreign assets and liabilities

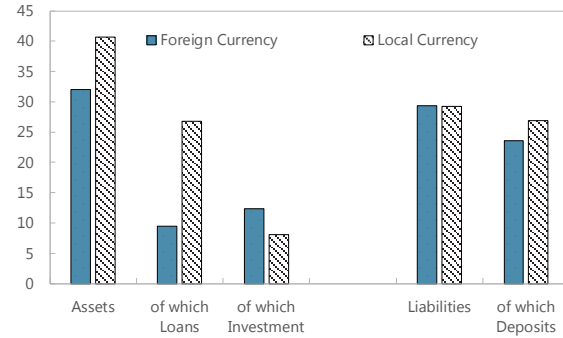
(in percent of GDP)



*Banks' balance sheets appear robust to FX risks*

#### Banking Sector Assets and Liabilities, FY 2016/17 Average

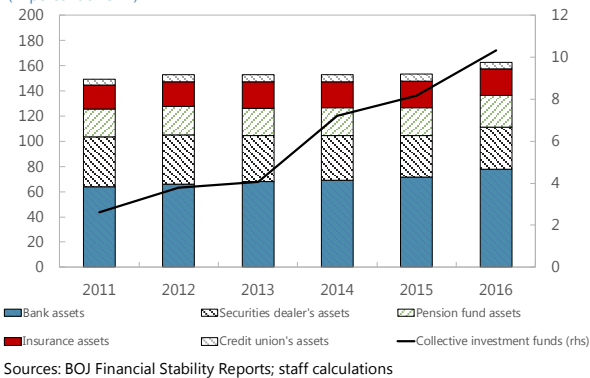
(in percent of GDP)



*... but non-bank financial institutions are also large*

#### Financial Sector Assets

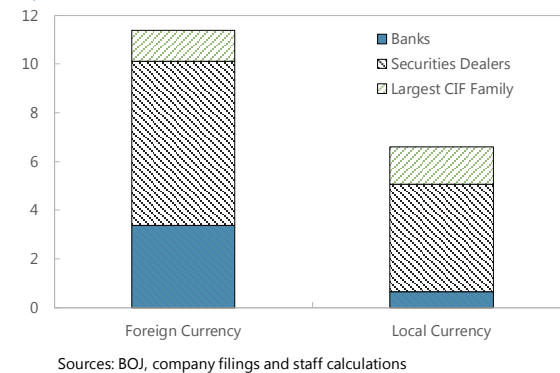
(in percent of GDP)



*...with sizeable FX investments*

#### Non-loan private sector investment

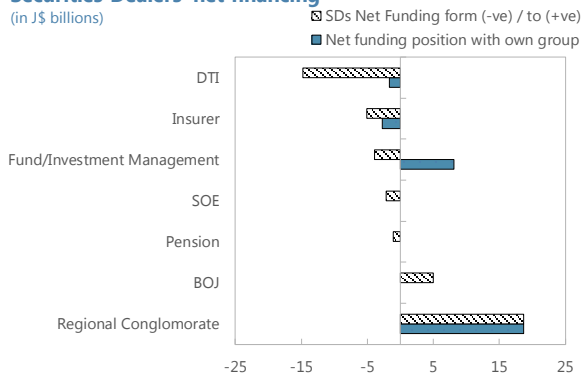
(in percent of GDP)



*...and significant cross-border and inter-group financing...*

#### Securities Dealers' net financing

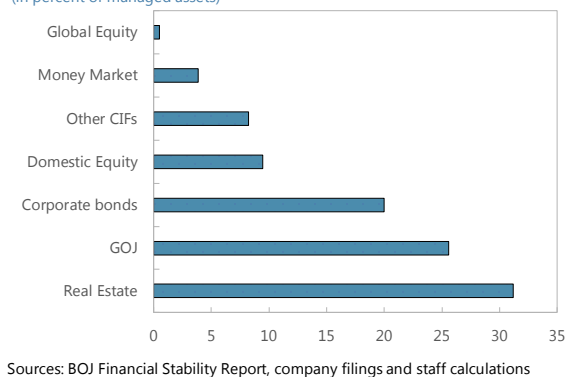
(in J\$ billions)



*... and there are potential contagion loops from CIFs*

#### Estimated asset distribution for largest family of CIFs

(in percent of managed assets)





**Table 1. Jamaica: Selected Economic Indicators 1/**

Population (2013): 2.8 million		Per capita GDP (2014): US\$4955								
Quota (current; millions SDRs/% of total): 382.9/0.08%		Literacy rate (2011)/Poverty rate (2012): 86.4%/19.9%								
Main products: Alumina, tourism, chemicals, mineral fuels, bauxite, coffee, sugar		Unemployment rate (Apr. 2017): 12.2%								
		Prog.		Est.	Projections					
	2013/14	2014/15	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
(Annual percent change, unless otherwise indicated)										
<b>GDP and prices</b>										
Real GDP	0.9	0.2	1.0	1.7	1.3	1.6	1.9	2.3	2.5	2.6
Nominal GDP	9.2	7.3	7.6	4.0	5.6	6.0	6.7	7.4	7.6	7.7
Consumer price index (end of period)	8.3	4.0	3.0	4.0	4.1	4.5	5.0	5.0	5.0	5.0
Consumer price index (average)	9.4	7.2	3.4	2.3	2.4	4.3	4.8	5.0	5.0	5.0
Exchange rate (end of period, J\$/US\$)	109.6	115.0	122.0	...	128.7	...	...	...	...	...
Exchange rate (average, J\$/US\$)	103.9	113.1	118.8	...	127.3	...	...	...	...	...
Nominal depreciation (+), end-of-period	10.8	5.0	6.1	...	5.4	...	...	...	...	...
End-of-period REER (appreciation +) (new methodology) 2/	-3.5	-0.2	-2.2	...	-2.6	...	...	...	...	...
Treasury bill rate (end-of-period, percent)	9.1	7.0	5.8	...	6.3	...	...	...	...	...
Treasury bill rate (average, percent)	7.9	7.8	6.3	...	6.1	...	...	...	...	...
Unemployment rate (percent) 3/	13.4	14.2	13.3	...	12.7	...	...	...	...	...
(In percent of GDP)										
<b>Government operations</b>										
Budgetary revenue	27.2	26.3	27.0	27.9	28.0	28.7	28.5	28.2	28.1	27.8
<i>Of which:</i> Tax revenue 4/	23.6	23.7	24.5	25.6	25.8	25.5	25.4	25.3	25.3	25.2
Budgetary expenditure	27.0	26.8	27.3	28.8	28.4	29.0	28.8	27.8	27.7	27.0
Primary expenditure	19.5	18.8	19.9	20.9	20.4	21.7	21.5	21.3	21.6	21.3
<i>Of which:</i> Wages and salaries	10.1	9.7	9.6	9.6	9.4	9.6	9.0	8.9	8.7	8.7
Interest payments	7.5	8.0	7.4	7.9	8.0	7.3	7.3	6.5	6.2	5.6
Budget balance	0.1	-0.5	-0.3	-0.9	-0.3	-0.3	-0.3	0.5	0.3	0.9
<i>Of which:</i> Central government primary balance	7.6	7.5	7.2	7.0	7.6	7.0	7.0	7.0	6.5	6.5
Public entities balance	0.0	0.9	1.8	0.0	2.0	0.7	0.6	0.3	0.1	0.0
Public sector balance	0.1	0.4	1.6	-0.9	1.7	0.4	0.3	0.8	0.5	0.9
Public debt (FRL definition) 4/ 6/	...	...	...	115.2	111.9	107.1	102.2	94.2	87.2	82.0
Public debt (EFF definition) 5/ 7/	140.5	138.0	120.5	122.5	119.2	113.4	107.9	99.3	91.4	85.1
<b>External sector</b>										
Current account balance	-8.7	-7.0	-1.9	-3.0	-2.5	-2.5	-2.5	-2.6	-2.6	-2.7
<i>Of which:</i> Exports of goods, f.o.b.	10.6	10.2	8.3	8.8	8.8	8.8	8.9	8.7	8.7	8.6
Exports of services	14.3	15.5	14.8	15.8	15.8	14.8	14.6	14.3	14.1	13.9
Imports of goods, f.o.b.	37.5	36.4	30.0	32.6	31.5	31.9	31.8	31.4	31.1	30.8
Imports of services	18.8	19.8	19.5	21.4	21.4	21.5	21.6	21.5	21.2	20.9
Net international reserves (US\$ millions)	1,304	2,294	2,416	2,699	2,762	3,282	3,593	3,753	3,902	3,989
<i>of which:</i> non-borrowed	714	1,335	1,470	1,876	1,936	2,495	2,829	3,010	3,160	3,269
(Changes in percent of beginning of period broad money)										
<b>Money and credit</b>										
Net foreign assets	18.7	27.9	10.1	10.2	9.4	15.0	9.6	5.7	5.5	4.3
Net domestic assets	-12.6	-22.3	8.6	-6.2	-3.7	-9.0	-2.9	1.6	2.0	3.4
<i>Of which:</i> Credit to the private sector	8.2	3.1	8.2	8.0	11.4	7.1	9.5	10.1	10.7	11.4
Credit to the central government	-3.1	-15.2	5.5	-0.1	-0.5	1.3	0.2	1.3	-0.5	-2.1
Broad money	6.1	5.7	18.7	4.0	5.6	6.0	6.7	7.4	7.6	7.7
<b>Memorandum item:</b>										
Nominal GDP (J\$ billions)	1,461	1,568	1,687	1,759	1,783	1,889	2,015	2,164	2,328	2,506

Sources: Jamaican authorities; and Fund staff estimates and projections.

1/ Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.

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

3/ As of January 31.

4/ Consolidated central government and public bodies' debt, consistent with the Fiscal Responsibility Law. The most significant deviation from the EFF definition is the exclusion of debt to the IMF held by the BoJ.

5/ Central government direct debt, guaranteed debt, and debt holdings by PCDF, consistent with the definition used under the EFF approved in 2013.

6/ Consistent with the Fiscal Responsibility Law (FRL), implementation of the FRL-consistent debt definition began in FY16/17. A backward series is not available since consistent data on public bodies' debt holdings is not available prior to FY16/17.

7/ The decrease in debt in FY15/16 partly reflects the PetroCaribe buyback operation that generated an immediate 10 percentage point reduction in debt. The increase in debt in FY16/17 partly reflects prefinancing for FY17/18 maturities.

**Table 2. Jamaica: Summary of Central Government Operations**  
(In millions of Jamaican dollars)

	2013/14	2014/15	2015/16	Prog.	Est.	Projections				
				2016/17	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Budgetary revenue and grants	396,982	411,716	455,836	491,243	499,880	542,742	574,005	611,154	653,852	697,335
Tax	344,848	370,878	413,971	450,276	460,264	481,853	511,881	547,823	589,511	632,034
<i>Of which:</i>										
Income and profits	112,648	120,854	130,760	128,783	136,025	128,290	137,643	146,224	156,914	169,612
<i>Of which:</i> Other companies	35,155	35,903	42,282	47,049	51,791	55,428	60,909	66,047	73,180	81,163
PAYE	62,811	67,818	71,966	63,724	64,955	52,704	56,228	60,368	64,940	69,925
Production and consumption	115,214	120,421	133,557	143,867	147,937	160,277	168,590	180,935	196,242	210,215
<i>Of which:</i> GCT (Local)	61,265	63,995	72,745	76,440	78,175	82,420	87,053	93,462	103,556	111,506
International Trade	113,892	127,238	144,706	172,308	171,189	189,796	201,925	216,670	232,060	247,585
<i>Of which:</i> GCT (Imports)	51,238	58,471	65,806	75,333	73,735	82,565	88,527	95,995	104,297	113,428
Non-tax 1/	41,705	35,821	36,401	35,155	34,323	56,109	57,205	58,168	58,788	59,322
Grants	10,429	5,018	5,463	5,812	5,293	4,779	4,918	5,162	5,553	5,980
Budgetary expenditure	395,242	419,491	460,720	507,537	505,885	548,278	579,903	601,344	645,771	675,809
Primary expenditure	285,322	294,474	335,040	368,089	364,000	410,134	433,334	460,127	502,560	534,429
Compensation of employees	159,662	162,128	172,628	179,933	179,068	195,428	196,092	207,040	217,713	233,082
Wage and salaries 6/	146,995	152,563	162,026	168,635	168,466	181,670	182,388	192,570	202,498	218,044
Employer contributions	9,366	9,565	10,601	11,298	10,602	13,758	13,704	14,470	15,215	15,038
Programme expenditure	91,972	112,697	133,506	146,156	142,976	165,424	178,798	190,339	208,038	213,628
Capital expenditure	36,989	23,019	32,747	42,000	41,955	49,283	58,445	62,748	76,809	87,719
Interest	109,919	125,016	125,680	139,447	141,885	138,144	146,569	141,218	143,211	141,381
Domestic	68,729	75,756	71,391	63,342	64,700	64,252	62,899	57,591	54,324	52,883
External	41,191	49,260	54,288	76,105	77,184	73,892	83,670	83,627	88,886	88,498
Budget balance	1,740	-7,775	-4,884	-16,294	-6,005	-5,536	-5,899	9,810	8,081	21,526
<i>Of which:</i> Primary budget balance	111,659	117,242	120,796	123,153	135,880	132,608	140,670	151,027	151,291	162,907
Public entities balance	106	13,749	31,199	0	36,263	13,223	11,286	7,270	3,128	0
Public sector balance	1,846	5,975	26,315	-16,294	30,259	7,687	5,387	17,080	11,209	21,526
Principal repayments	105,196	85,283	312,923	180,392	182,539	244,794	132,757	121,389	150,881	107,878
Domestic	77,695	25,285	216,043	35,381	35,472	176,974	77,015	64,244	104,727	19,313
External	27,501	59,999	96,881	145,010	147,066	67,820	55,742	57,145	46,154	88,565
Gross financing needs	103,456	93,058	317,807	196,685	188,543	250,330	138,656	111,580	142,800	86,352
Gross financing sources	103,456	93,058	317,807	196,685	188,543	250,330	138,656	111,580	142,800	86,352
Domestic	52,211	42,306	34,978	70,747	62,092	104,346	106,398	39,253	82,332	60,115
<i>Of which:</i> compensatory flows from PCDF	...	...	5,938	14,535	14,741	11,574	15,500	15,893	16,284	16,725
External	57,619	116,944	267,766	128,449	130,270	131,646	45,643	51,740	39,374	43,329
<i>Of which:</i> Official	57,619	40,059	30,231	35,162	35,660	41,710	32,258	24,292	18,281	14,443
Divestment + deposit drawdown	-6,374	-66,193	15,063	-2,510	-3,819	14,338	-13,385	20,586	21,093	-17,092
<b>Memorandum items:</b>										
Nominal GDP (billion J\$)	1,461	1,568	1,687	1,759	1,783	1,889	2,015	2,164	2,328	2,506
Public sector debt (FRL definition, billion J\$) 2/ 4/	...	...	...	2,026	1,995	2,024	2,060	2,038	2,029	2,054
<i>Of which:</i> Direct debt	...	...	...	1,969	1,981	1,998	2,037	2,017	2,009	2,034
Public sector debt (EFF definition, billion J\$) 3/ 5/	2,054	2,163	2,033	2,155	2,125	2,142	2,174	2,148	2,128	2,134

Sources: Jamaican authorities and Fund staff estimates and projections.

- 1/ From 2015/16, includes interest receipts from the PetroCaribe Development Fund to reimburse funds from the PetroCaribe debt buyback.  
2/ Consolidated central government and public bodies' debt, consistent with the Fiscal Responsibility Law. The most significant deviation from the EFF definition is the exclusion of debt to the IMF held by the BoJ.  
3/ Central government direct debt, guaranteed debt, and debt holdings by PCDF, consistent with the definition used under the EFF approved in 2013  
4/ Consistent with the Fiscal Responsibility Law (FRL), implementation of the FRL-consistent debt definition began in FY16/17. A backward series is not available since consistent data on public bodies' debt holdings is not available prior to FY16/17.  
5/ The decrease in debt in FY15/16 partly reflects the PetroCaribe buyback operation that generated an immediate 10 percentage point reduction in debt. The increase in debt in FY16/17 partly reflects prefinancing for FY17/18 maturities.  
6/ Includes base wage and backpay.

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

	2013/14	2014/15	2015/16	Prog.	Est.	Projections				
				2016/17	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Budgetary revenue and grants	27.2	26.3	27.0	27.9	28.0	28.7	28.5	28.2	28.1	27.8
Tax	23.6	23.7	24.5	25.6	25.8	25.5	25.4	25.3	25.3	25.2
<i>Of which:</i>										
Income and profits	7.7	7.7	7.7	7.3	7.6	6.8	6.8	6.8	6.7	6.8
<i>Of which:</i> Other companies	2.4	2.3	2.5	2.7	2.9	2.9	3.0	3.1	3.1	3.2
PAYE	4.3	4.3	4.3	3.6	3.6	2.8	2.8	2.8	2.8	2.8
Production and consumption	7.9	7.7	7.9	8.2	8.3	8.5	8.4	8.4	8.4	8.4
<i>Of which:</i> GCT (Local)	4.2	4.1	4.3	4.3	4.4	4.4	4.3	4.3	4.4	4.4
International Trade	7.8	8.1	8.6	9.8	9.6	10.0	10.0	10.0	10.0	9.9
<i>Of which:</i> GCT (Imports)	3.5	3.7	3.9	4.3	4.1	4.4	4.4	4.4	4.5	4.5
Non-tax 1/	2.9	2.3	2.2	2.0	1.9	3.0	2.8	2.7	2.5	2.4
Grants	0.7	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Budgetary expenditure	27.0	26.8	27.3	28.8	28.4	29.0	28.8	27.8	27.7	27.0
Primary expenditure	19.5	18.8	19.9	20.9	20.4	21.7	21.5	21.3	21.6	21.3
Compensation of employees	10.9	10.3	10.2	10.2	10.0	10.3	9.7	9.6	9.4	9.3
Wage and salaries 6/	10.1	9.7	9.6	9.6	9.4	9.6	9.0	8.9	8.7	8.7
Employer contribution	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.6
Programme expenditure	6.3	7.2	7.9	8.3	8.0	8.8	8.9	8.8	8.9	8.5
Capital expenditure	2.5	1.5	1.9	2.4	2.4	2.6	2.9	2.9	3.3	3.5
Interest	7.5	8.0	7.4	7.9	8.0	7.3	7.3	6.5	6.2	5.6
Domestic	4.7	4.8	4.2	3.6	3.6	3.4	3.1	2.7	2.3	2.1
External	2.8	3.1	3.2	4.3	4.3	3.9	4.2	3.9	3.8	3.5
Budget balance	0.1	-0.5	-0.3	-0.9	-0.3	-0.3	-0.3	0.5	0.3	0.9
<i>Of which:</i> Primary budget balance	7.6	7.5	7.2	7.0	7.6	7.0	7.0	7.0	6.5	6.5
Public entities balance	0.0	0.9	1.8	0.0	2.0	0.7	0.6	0.3	0.1	0.0
Public sector balance	0.1	0.4	1.6	-0.9	1.7	0.4	0.3	0.8	0.5	0.9
Principal repayments	7.2	5.4	18.5	10.3	10.2	13.0	6.6	5.6	6.5	4.3
Domestic	5.3	1.6	12.8	2.0	2.0	9.4	3.8	3.0	4.5	0.8
External	1.9	3.8	5.7	8.2	8.2	3.6	2.8	2.6	2.0	3.5
Gross financing needs	7.1	5.9	18.8	11.2	10.6	13.3	6.9	5.2	6.1	3.4
Gross financing sources	7.1	5.9	18.8	11.2	10.6	13.3	6.9	5.2	6.1	3.4
Domestic	3.6	2.7	2.1	4.0	3.5	5.5	5.3	1.8	3.5	2.4
<i>Of which:</i> compensatory flows from PCDF	...	...	0.4	0.8	0.8	0.6	0.8	0.7	0.7	0.7
External	3.9	7.5	15.9	7.3	7.3	7.0	2.3	2.4	1.7	1.7
<i>Of which:</i> Official	3.9	2.6	1.8	2.0	2.0	2.2	1.6	1.1	0.8	0.6
Divestment + deposit drawdown	-0.4	-4.2	0.9	-0.1	-0.2	0.8	-0.7	1.0	0.9	-0.7
<b>Memorandum items:</b>										
Nominal GDP (billion J\$)	1,461	1,568	1,687	1,759	1,783	1,889	2,015	2,164	2,328	2,506
Public sector debt (FRL definition, billion J\$) 2/ 4/	...	...	...	2,026	1,995	2,024	2,060	2,038	2,029	2,054
Public sector debt (EFF definition, billion J\$) 3/	2,054	2,163	2,033	2,155	2,125	2,142	2,174	2,148	2,128	2,134
Public sector debt (FRL definition) 2/ 4/	...	...	...	115.2	111.9	107.1	102.2	94.2	87.2	82.0
<i>Of which:</i> Direct debt	...	...	...	111.9	111.1	105.8	101.1	93.2	86.3	81.2
Public sector debt (EFF definition) 3/ 5/	140.5	138.0	120.5	122.5	119.2	113.4	107.9	99.3	91.4	85.1

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ From 2015/16, includes interest receipts from the PetroCaribe Development Fund to reimburse funds from the PetroCaribe debt buyback.

2/ Consolidated central government and public bodies' debt, consistent with the Fiscal Responsibility Law. The most significant deviation from the EFF definition is the exclusion of debt to the IMF held by the BoJ.

3/ Central government direct debt, guaranteed debt, and debt holdings by PCDF, consistent with the definition used under the EFF approved in 2013

4/ Consistent with the Fiscal Responsibility Law (FRL), implementation of the FRL-consistent debt definition began in FY16/17. A backward series is not available since consistent data on public bodies' debt holdings is not available prior to FY16/17.

5/ The decrease in debt in FY15/16 partly reflects the PetroCaribe buyback operation that generated an immediate 10 percentage point reduction in debt. The increase in debt in FY16/17 partly reflects prefinancing for FY17/18 maturities.

6/ Includes base wage and backpay.

Table 4. Jamaica: Operations of the Public Entities

	In billions of Jamaican dollars					In percent of GDP				
	2013/14	2014/15	2015/16	2016/17	2017/18	2013/14	2014/15	2015/16	2016/17	2017/18
					latest (Jun)					latest (Jun)
<b>Operating balance selected public entities 1/</b>	<b>16.6</b>	<b>36.5</b>	<b>55.4</b>	<b>79.3</b>	<b>9.9</b>	<b>1.1</b>	<b>2.3</b>	<b>3.3</b>	<b>4.4</b>	<b>0.5</b>
<i>Of which:</i>										
Airports Authority of Jamaica	1.2	1.5	3.6	4.0	1.8	0.1	0.1	0.2	0.2	0.1
Caymanas Track Limited	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Clarendon Aluminum	-10.1	-2.8	-0.8	-0.8	0.3	-0.7	-0.2	0.0	0.0	0.0
Development Bank of Jamaica	0.4	0.5	0.4	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Human Employment and Resource Training Trust	0.7	2.0	2.2	2.2	0.3	0.0	0.1	0.1	0.1	0.0
Housing Agency of Jamaica	-0.4	-0.4	0.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Jamaica Mortgage Bank	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Jamaica Urban Transit Company	0.2	-2.4	-1.4	-2.4	-0.6	0.0	-0.2	-0.1	-0.1	0.0
National Housing Trust	4.3	18.9	18.7	23.4	2.3	0.3	1.2	1.1	1.3	0.1
National Insurance Fund	1.4	1.7	2.3	3.6	-0.7	0.1	0.1	0.1	0.2	0.0
NROCC	-2.8	-5.7	-3.9	-4.2	-1.8	-0.2	-0.4	-0.2	-0.2	-0.1
National Water Commission	0.8	3.5	5.3	4.9	1.4	0.1	0.2	0.3	0.3	0.1
Petrojam Ethanol	0.1	-0.5	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petrojam	14.7	12.9	24.4	41.3	6.2	1.0	0.8	1.4	2.3	0.3
Petroleum Corporation of Jamaica	0.9	1.4	-0.7	0.6	0.0	0.1	0.1	0.0	0.0	0.0
Port Authority of Jamaica	3.8	5.5	4.9	5.0	0.7	0.3	0.4	0.3	0.3	0.0
Urban Development Corporation	0.6	0.3	-0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net current transfers from the central government</b>	<b>-19.1</b>	<b>-22.6</b>	<b>-29.2</b>	<b>-40.3</b>	<b>-6.6</b>	<b>-1.3</b>	<b>-1.4</b>	<b>-1.7</b>	<b>-2.3</b>	<b>-0.3</b>
<i>Of which:</i>										
Airports Authority of Jamaica	-0.1	-0.2	-0.7	-0.9	0.0	0.0	0.0	0.0	-0.1	0.0
Caymanas Track Limited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Clarendon Aluminum	1.7	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Development Bank of Jamaica	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Human Employment and Resource Training Trust	-0.5	-0.9	-1.3	-1.0	-0.1	0.0	-0.1	-0.1	-0.1	0.0
Housing Agency of Jamaica	1.6	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Jamaica Mortgage Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Jamaica Urban Transit Company	4.6	8.0	3.0	3.3	0.4	0.3	0.5	0.2	0.2	0.0
National Housing Trust	-11.4	-11.4	-11.4	-12.4	0.0	-0.8	-0.7	-0.7	-0.7	0.0
National Insurance Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NROCC	3.4	5.2	4.3	4.6	1.8	0.2	0.3	0.3	0.3	0.1
National Water Commission	0.7	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petrojam Ethanol	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petrojam	-18.8	-23.2	-24.0	-33.9	-8.7	-1.3	-1.5	-1.4	-1.9	-0.5
Petroleum Corporation of Jamaica	-0.6	-0.7	0.7	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Port Authority of Jamaica	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Urban Development Corporation	0.3	0.5	0.2	0.6	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance selected public entities</b>	<b>-14.2</b>	<b>-4.7</b>	<b>16.0</b>	<b>11.8</b>	<b>0.3</b>	<b>-1.0</b>	<b>-0.3</b>	<b>1.0</b>	<b>0.7</b>	<b>0.0</b>
<i>Of which:</i>										
Airports Authority of Jamaica	0.1	0.7	2.3	2.4	1.7	0.0	0.0	0.1	0.1	0.1
Caymanas Track Limited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Clarendon Aluminum	-8.5	-4.0	-0.9	-2.5	-0.4	-0.6	-0.3	-0.1	-0.1	0.0
Development Bank of Jamaica	0.1	0.5	0.3	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Human Employment and Resource Training Trust	0.3	1.0	0.5	0.8	0.1	0.0	0.1	0.0	0.0	0.0
Housing Agency of Jamaica	-1.0	-0.7	0.1	0.6	0.1	-0.1	0.0	0.0	0.0	0.0
Jamaica Mortgage Bank	0.2	0.1	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Jamaica Urban Transit Company	0.1	0.3	0.1	0.3	-0.1	0.0	0.0	0.0	0.0	0.0
National Housing Trust	-4.7	0.1	4.0	1.4	1.3	-0.3	0.0	0.2	0.1	0.1
National Insurance Fund	1.4	1.7	2.3	3.6	-0.7	0.1	0.1	0.1	0.2	0.0
NROCC	0.1	-1.2	0.1	0.3	0.0	0.0	-0.1	0.0	0.0	0.0
National Water Commission	-4.5	-2.8	-0.7	0.4	0.8	-0.3	-0.2	0.0	0.0	0.0
Petrojam Ethanol	0.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petrojam	-5.0	-4.8	5.0	-0.1	-2.7	-0.3	-0.3	0.3	0.0	-0.1
Petroleum Corporation of Jamaica	-0.4	0.6	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Port Authority of Jamaica	3.7	4.1	4.1	3.3	0.3	0.3	0.3	0.2	0.2	0.0
Urban Development Corporation	0.6	-0.3	-1.1	0.6	-0.1	0.0	0.0	-0.1	0.0	0.0
<b>Overall balance other public entities</b>	<b>14.3</b>	<b>18.5</b>	<b>15.2</b>	<b>24.5</b>	<b>2.5</b>	<b>1.0</b>	<b>1.2</b>	<b>0.9</b>	<b>1.4</b>	<b>0.1</b>
<b>Overall balance public entities</b>	<b>0.1</b>	<b>13.7</b>	<b>31.2</b>	<b>36.3</b>	<b>2.8</b>	<b>0.0</b>	<b>0.9</b>	<b>1.8</b>	<b>2.0</b>	<b>0.2</b>

Sources: Jamaican authorities; and Fund staff estimates.

1/ The operating balance is defined as current revenues minus current expenditures after adjustments from accrual accounting to cash basis.

Table 5. Jamaica: Summary Balance of Payments

(In millions of U.S. dollars)

	2013/14	2014/15	2015/16	Prog.	Est.	Projections				
				2016/17	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Current account	-1,231	-967	-268	-421	-351	-361	-379	-409	-432	-469
Trade balance	-3,778	-3,641	-3,078	-3,338	-3,180	-3,340	-3,445	-3,578	-3,704	-3,850
Exports (f.o.b.)	1,495	1,412	1,179	1,230	1,229	1,282	1,338	1,378	1,436	1,494
Imports (f.o.b.)	5,274	5,053	4,257	4,568	4,409	4,622	4,783	4,956	5,140	5,343
Fuel (cif)	2,158	1,764	1,029	1,168	1,079	1,120	1,155	1,187	1,227	1,277
Exceptional imports (including FDI-related)	322	294	443	471	471	515	516	505	561	599
Other	2,794	2,995	2,785	2,929	2,858	2,988	3,112	3,264	3,352	3,468
Services (net)	669	790	971	1,087	1,054	1,122	1,176	1,225	1,275	1,325
Transportation	-702	-635	-561	-614	-578	-617	-638	-662	-687	-715
Travel	1,915	2,105	2,203	2,307	2,305	2,399	2,489	2,575	2,665	2,758
Of which: Tourism receipts	2,096	2,314	2,444	2,554	2,566	2,668	2,767	2,865	2,967	3,072
Other services	-544	-680	-671	-607	-673	-660	-674	-688	-703	-718
Income (net) 4/	-318	-345	-490	-580	-627	-623	-640	-638	-641	-639
Current transfers (net)	2,197	2,229	2,328	2,410	2,402	2,481	2,530	2,583	2,638	2,695
Government (net)	204	150	182	186	180	184	188	191	195	199
Private (net)	1,993	2,079	2,146	2,224	2,222	2,297	2,342	2,391	2,443	2,495
Capital and financial account	1,649	1,957	282	682	705	907	690	569	580	557
Capital account (net)	-26	-19	1,421	-28	-8	-28	-28	-28	-28	-28
Financial account (net) 1/	1,675	1,976	-1,139	710	713	935	718	597	608	584
Direct investment (net)	511	590	942	484	584	621	650	648	656	662
Central government (net) 5/	241	600	1,599	-132	-44	490	-75	-39	-48	-313
Of which: IFIs	376	181	231	214	214	215	35	35	30	30
Other official (net) 2/ 5/	356	78	-2,835	32	40	-52	-50	-51	-7	-4
Of which: PetroCaribe	369	161	-2,932	12	12	0	0	0	0	0
Portfolio investment (net)	567	709	-845	326	132	-123	194	39	7	240
Overall balance	418	990	14	261	354	547	312	160	148	87
Financing	-418	-990	-14	-261	-354	-547	-312	-160	-148	-87
Change in gross reserves (- increase)	-330	-641	-205	-379	-438	-531	-248	-62	-27	44
Change in arrears	0	0	0	0	0	0	0	0	0	0
Financing gap	-88	-349	191	118	85	-16	-63	-98	-121	-131
IMF 3/	-26	-163	74	118	118	-16	-63	-98	-121	-131
Disbursements	346	259	119	118	118	0	0	0	0	0
Repayments	-372	-422	-45	0	0	-16	-63	-98	-121	-131
<b>Memorandum items:</b>										
Gross international reserves	2,049	2,690	2,894	3,274	3,333	3,863	4,112	4,174	4,201	4,157
(in weeks of prospective imports of GNFS)	14.4	19.2	23.5	25.3	26.2	29.2	30.1	29.5	28.7	27.3
Net international reserves	1,304	2,294	2,416	2,699	2,762	3,309	3,620	3,780	3,929	4,016
of which: non-borrowed	714	1,335	1,470	1,876	1,936	2,495	2,829	3,010	3,160	3,269
Current account (percent of GDP)	-8.7	-7.0	-1.9	-3.0	-2.5	-2.5	-2.5	-2.6	-2.6	-2.7
Exports of goods (percent change)	-14.2	-5.6	-16.5	0.8	4.2	4.3	4.4	3.0	4.2	4.0
Imports of goods (percent change)	-7.3	-4.2	-15.8	6.9	3.6	4.8	3.5	3.6	3.7	4.0
Oil prices (composite, fiscal year basis)	103.7	83.3	46.1	48.2	47.9	49.5	50.3	50.6	51.3	52.2
Tourism receipts (percent change)	2.0	10.4	5.6	4.5	5.0	4.0	3.7	3.5	3.5	3.5
GDP (US\$ millions)	14,073	13,868	14,207	...	14,004	...	...	...	...	...
Jamaican dollar/USD, period average	104	113	119	...	127	...	...	...	...	...

Sources: Jamaican authorities; and Fund staff estimates.

1/ Includes estimates of a partial payment for the sales of a rum company in 2008/09.

2/ Includes the new general SDR allocation in 2009/10.

3/ Negative indicates repayment to the IMF.

4/ Starting FY2011/12, interest payments to non-residents were adjusted to reflect resident holdings of GOJ global bonds.

5/ in 2015/16, projections reflect inflows and outflows associated with the Petrocaribe debt buyback.

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

	2013/14	2014/15	2015/16	Prog.	Est.	Projections				
				2016/17	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
(In billions of Jamaican dollars)										
<b>End-of-period stocks 1/</b>										
<b>Net foreign assets</b>	<b>142.8</b>	<b>263.9</b>	<b>294.8</b>	<b>348.2</b>	<b>350.9</b>	<b>433.2</b>	<b>487.5</b>	<b>521.0</b>	<b>555.8</b>	<b>584.1</b>
<b>Net domestic assets</b>	<b>-48.4</b>	<b>-162.8</b>	<b>-174.8</b>	<b>-226.4</b>	<b>-227.2</b>	<b>-297.1</b>	<b>-339.6</b>	<b>-362.2</b>	<b>-385.0</b>	<b>-400.1</b>
Net claims on public sector	194.5	112.0	44.3	110.8	109.5	101.2	94.4	110.2	133.2	113.1
Net claims on central government	74.6	17.2	39.8	37.3	36.0	50.3	36.9	57.5	78.6	61.5
Net claims on rest of public sector	129.8	102.3	-5.6	75.0	75.0	57.0	66.0	61.5	63.8	62.6
Operating losses of the BOJ	-9.9	-7.6	10.1	-1.5	-1.5	-6.1	-8.5	-8.8	-9.2	-11.1
Net credit to commercial banks	-21.4	-23.9	-28.5	-27.1	-27.5	-36.0	-38.8	-41.7	-45.0	-48.6
<i>Of which</i> : foreign prudential reserve	-21.4	-23.9	-28.5	-27.1	-27.5	-36.0	-38.8	-41.7	-45.0	-48.6
Net credit to other financial institutions	-1.6	-1.7	-2.4	-2.3	-2.3	-2.5	-2.6	-2.7	-2.8	-3.0
Open market operations	-30.5	-38.9	-57.8	-156.5	-156.9	-198.4	-217.2	-239.8	-266.7	-240.8
Other items net (incl. valuation adj.)	-189.4	-210.3	-130.5	-151.4	-149.9	-161.4	-175.5	-188.2	-203.6	-220.8
<i>Of which</i> : Valuation adjustment	-60.6	-69.5	-74.9	-95.7	-94.3	-105.8	-119.9	-132.6	-148.0	-165.2
<b>Base money</b>	<b>94.4</b>	<b>101.1</b>	<b>120.0</b>	<b>121.8</b>	<b>123.7</b>	<b>136.1</b>	<b>147.9</b>	<b>158.8</b>	<b>170.8</b>	<b>183.9</b>
Currency in circulation	53.7	58.7	70.4	58.2	59.1	64.1	66.4	69.3	72.5	75.9
Liabilities to commercial banks	40.7	42.4	49.7	63.6	64.6	72.0	81.5	89.5	98.3	108.0
<b>Fiscal year flows 1/</b>										
<b>Net foreign assets</b>	<b>55.4</b>	<b>121.0</b>	<b>30.9</b>	<b>53.4</b>	<b>56.1</b>	<b>82.4</b>	<b>54.3</b>	<b>33.4</b>	<b>34.8</b>	<b>28.3</b>
<b>Net domestic assets</b>	<b>-52.3</b>	<b>-114.4</b>	<b>-12.0</b>	<b>-51.6</b>	<b>-52.4</b>	<b>-70.0</b>	<b>-42.5</b>	<b>-22.6</b>	<b>-22.8</b>	<b>-15.1</b>
Net claims on public sector	-17.7	-82.6	-67.7	66.5	65.2	-8.3	-6.8	15.8	22.9	-20.1
Net claims on central government	-7.4	-57.4	22.5	-2.5	-3.8	14.3	-13.4	20.6	21.1	-17.1
Net credit to commercial banks	-1.5	-2.5	-4.6	1.4	1.0	-8.6	-2.7	-3.0	-3.3	-3.7
Net credit to other financial institutions	0.0	-0.1	-0.6	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.2
Open market operations	23.8	-8.3	-18.9	-98.7	-99.2	-41.5	-18.8	-22.6	-26.9	25.9
Other items net (incl. valuation adj.)	-56.9	-20.8	79.8	-20.9	-19.4	-11.5	-14.1	-12.7	-15.4	-17.2
<b>Base money</b>	<b>3.1</b>	<b>6.7</b>	<b>18.9</b>	<b>1.8</b>	<b>3.7</b>	<b>12.4</b>	<b>11.8</b>	<b>10.9</b>	<b>12.0</b>	<b>13.1</b>
Currency in circulation	3.0	4.9	11.7	-12.2	-11.3	5.0	2.4	2.9	3.2	3.4
Liabilities to commercial banks	0.2	1.7	7.2	14.0	15.0	7.4	9.5	8.0	8.9	9.7
(Change in percent of beginning-of-period Base Money)										
<b>Net foreign assets</b>	<b>60.7</b>	<b>128.2</b>	<b>30.6</b>	<b>44.5</b>	<b>46.7</b>	<b>66.6</b>	<b>39.9</b>	<b>22.6</b>	<b>21.9</b>	<b>16.5</b>
<b>Net domestic assets</b>	<b>-57.3</b>	<b>-121.1</b>	<b>-11.9</b>	<b>-43.0</b>	<b>-43.6</b>	<b>-56.6</b>	<b>-31.2</b>	<b>-15.2</b>	<b>-14.4</b>	<b>-8.9</b>
Net claims on public sector	-19.4	-87.4	-67.0	55.4	54.3	-6.7	-5.0	10.7	14.4	-11.7
Net credit to commercial banks	-1.7	-2.6	-4.5	1.2	0.8	-6.9	-2.0	-2.0	-2.0	-2.1
Net credit to other financial institutions	0.1	-0.1	-0.6	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Open market operations	26.0	-8.8	-18.7	-82.2	-82.6	-33.5	-13.8	-15.3	-17.0	15.2
Other items net (incl. valuation adj.)	-62.3	-22.1	78.9	-17.4	-16.2	-9.3	-10.4	-8.6	-9.7	-10.1
<b>Base money</b>	<b>3.4</b>	<b>7.0</b>	<b>18.7</b>	<b>1.5</b>	<b>3.1</b>	<b>10.0</b>	<b>8.7</b>	<b>7.4</b>	<b>7.6</b>	<b>7.7</b>
Currency in circulation	3.3	5.2	11.6	-10.1	-9.4	4.0	1.7	2.0	2.0	2.0
Liabilities to commercial banks	0.2	1.8	7.2	11.7	12.5	6.0	6.9	5.4	5.6	5.7
<b>Memorandum items:</b>										
Change in net claims on the central government (percent of GDP)	-0.5	-3.7	1.3	-0.1	-0.2	0.8	-0.7	1.0	0.9	-0.7
Sources: Bank of Jamaica; and Fund staff estimates.										
1/ Fiscal year runs from April 1 to March 31.										

Table 7. Jamaica: Summary Monetary Survey 1/

	2013/14	2014/15	2015/16	Prog.	Est.	Projections				
				2016/17	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
(In billions of Jamaican dollars)										
<b>End-of-period stocks 1/</b>										
<b>Net foreign assets</b>	<b>191.2</b>	<b>308.6</b>	<b>353.5</b>	<b>407.4</b>	<b>402.8</b>	<b>486.1</b>	<b>542.6</b>	<b>578.7</b>	<b>616.2</b>	<b>647.4</b>
<b>Net domestic assets</b>	<b>229.3</b>	<b>135.7</b>	<b>173.8</b>	<b>141.2</b>	<b>154.3</b>	<b>104.2</b>	<b>87.1</b>	<b>97.4</b>	<b>111.1</b>	<b>135.7</b>
Net claims on public sector	267.9	188.4	117.0	191.4	189.6	171.6	174.2	171.2	161.8	143.8
<i>Of which: Central government 2/</i>	173.3	109.5	133.8	133.0	131.3	138.3	139.6	147.7	144.1	129.1
Open market operations	18.2	14.5	15.3	-100.0	-101.3	-156.2	-201.5	-242.6	-274.4	-342.6
Credit to private sector	326.3	339.5	376.0	418.4	435.8	475.1	531.4	595.0	667.6	750.2
<i>Of which: Foreign currency</i>	83.9	76.6	84.3	87.0	98.8	101.8	105.2	108.2	111.5	115.2
Other	-383.1	-406.5	-334.6	-368.6	-369.9	-386.3	-417.0	-426.3	-444.0	-415.7
<i>Of which: Valuation adjustment</i>	-60.6	-69.5	-74.9	-91.5	-90.3	-99.7	-111.3	-121.6	-133.9	-147.4
<b>Liabilities to private sector (M3)</b>	<b>420.5</b>	<b>444.4</b>	<b>527.3</b>	<b>548.6</b>	<b>557.0</b>	<b>590.3</b>	<b>629.7</b>	<b>676.1</b>	<b>727.3</b>	<b>783.1</b>
Money supply (M2)	260.6	273.3	310.4	323.0	328.0	350.0	371.2	397.9	427.4	458.9
Foreign currency deposits	160.0	171.1	216.8	225.6	229.1	240.3	258.5	278.2	299.9	324.3
<b>Fiscal year flows 1/</b>										
<b>Net foreign assets</b>	<b>74.1</b>	<b>117.4</b>	<b>44.9</b>	<b>53.9</b>	<b>49.3</b>	<b>83.3</b>	<b>56.6</b>	<b>36.1</b>	<b>37.5</b>	<b>31.2</b>
<b>Net domestic assets</b>	<b>-50.0</b>	<b>-93.6</b>	<b>38.0</b>	<b>-32.6</b>	<b>-19.5</b>	<b>-50.1</b>	<b>-17.1</b>	<b>10.3</b>	<b>13.7</b>	<b>24.7</b>
Net claims on public sector	-25.4	-79.5	-71.3	74.3	72.5	-18.0	2.6	-3.0	-9.4	-18.0
<i>Of which: Central government</i>	-12.4	-63.9	24.3	-0.7	-2.5	7.1	1.3	8.1	-3.6	-15.1
Open market operations	54.4	-3.8	0.9	-115.3	-116.6	-55.0	-45.3	-41.0	-31.8	-68.2
Credit to private sector	32.3	13.2	36.5	42.4	59.9	39.3	56.3	63.6	72.6	82.6
<i>Of which: Foreign currency</i>	2.4	-7.3	7.7	2.7	14.5	3.1	3.4	3.0	3.4	3.7
Other 2/	-111.3	-23.5	72.0	-34.0	-35.3	-16.4	-30.7	-9.3	-17.7	28.3
<i>Of which: Valuation adjustment</i>	-3.9	-8.9	-5.4	-16.7	-15.4	-9.4	-11.6	-10.3	-12.3	-13.4
<b>Liabilities to private sector (M3)</b>	<b>24.1</b>	<b>23.8</b>	<b>82.9</b>	<b>21.3</b>	<b>29.8</b>	<b>33.2</b>	<b>39.5</b>	<b>46.4</b>	<b>51.2</b>	<b>55.8</b>
Money supply (M2)	8.4	12.7	37.2	12.5	17.5	22.0	21.3	26.6	29.5	31.5
Foreign currency deposits	15.7	11.1	45.7	8.8	12.2	11.2	18.2	19.7	21.7	24.3
(Change in percent of beginning-of-period M3)										
<b>Net foreign assets</b>	<b>18.7</b>	<b>27.9</b>	<b>10.1</b>	<b>10.2</b>	<b>9.4</b>	<b>15.0</b>	<b>9.6</b>	<b>5.7</b>	<b>5.5</b>	<b>4.3</b>
<b>Net domestic assets</b>	<b>-12.6</b>	<b>-22.3</b>	<b>8.6</b>	<b>-6.2</b>	<b>-3.7</b>	<b>-9.0</b>	<b>-2.9</b>	<b>1.6</b>	<b>2.0</b>	<b>3.4</b>
Net claims on public sector	-6.4	-18.9	-16.0	14.1	13.8	-3.2	0.4	-0.5	-1.4	-2.5
<i>Of which: Central government</i>	-3.1	-15.2	5.5	-0.1	-0.5	1.3	0.2	1.3	-0.5	-2.1
Open market operations	13.7	-0.9	0.2	-21.9	-22.1	-9.9	-7.7	-6.5	-4.7	-9.4
Credit to private sector	8.2	3.1	8.2	8.0	11.4	7.1	9.5	10.1	10.7	11.4
<i>Of which: Foreign currency</i>	0.6	-1.7	1.7	0.5	2.7	0.6	0.6	0.5	0.5	0.5
Other 2/	-28.1	-5.6	16.2	-6.5	-6.7	-2.9	-5.2	-1.5	-2.6	3.9
<i>Of which: Valuation adjustment</i>	-1.0	-2.1	-1.2	-3.2	-2.9	-1.7	-2.0	-1.6	-1.8	-1.8
<b>Liabilities to private sector (M3)</b>	<b>6.1</b>	<b>5.7</b>	<b>18.7</b>	<b>4.0</b>	<b>5.6</b>	<b>6.0</b>	<b>6.7</b>	<b>7.4</b>	<b>7.6</b>	<b>7.7</b>
<b>Memorandum items:</b>										
M3/monetary base	4.5	4.4	4.4	4.5	4.5	4.3	4.3	4.3	4.3	4.3
M3 velocity	3.5	3.5	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Sources: Bank of Jamaica; and Fund staff estimates and projections.										
1/ Fiscal year runs from April 1 to March 31.										
2/ Includes net credit to nonbank financial institutions, capital accounts, valuation adjustment, securities sold under repurchase agreements and net unclassified assets.										

**Table 8. Jamaica: Financial Sector Indicators 1/**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Balance sheet growth (y/y)</b>										
Capital	11.5	14.7	13.8	5.1	5.3	4.0	18.3	7.4	8.5	12.6
Loans	28.7	24.2	5.3	-1.4	4.8	12.9	14.1	6.6	9.4	18.3
NPLs	14.2	57.6	68.0	36.1	44.0	-10.8	-12.9	0.2	-11.6	-16.9
<b>Liquidity</b>										
Domestic currency liquid assets 2/	25.0	30.3	31.3	36.2	30.5	26.7	26.3	31.5	26.5	27.4
<b>Asset Quality</b>										
Prov. for loan losses/NPLs	103.4	87.2	75.7	69.9	75.2	90.3	95.7	101.6	106.7	116.6
NPLs/loans	2.3	2.9	4.7	6.5	8.9	7.0	5.4	5.0	4.1	3.5
<b>Capital Adequacy</b>										
NPLs/Capital+Prov. for loan losses	9.1	12.3	17.7	20.2	28.4	24.1	18.6	17.4	14.6	11.0
Capital Adequacy Ratio (CAR)	16.0	15.2	18.8	18.2	16.1	14.1	15.1	15.9	14.9	14.5
<b>Profitability (calendar year) 3/</b>										
Pre-tax profit margin	26.7	26.3	21.4	21.1	30.8	21.4	19.0	18.9	19.5	-
Return on average assets	3.4	3.5	2.9	2.5	3.9	2.4	2.0	2.1	2.1	2.1
Source: Bank of Jamaica.										
1/ Commercial banks, building societies, and merchant banks.										
2/ Percent of prescribed liabilities.										
3/ The significant increase in profitability for 2011 is due to an up-stream dividend from one insurance subsidiary to its parent bank.										
Without such dividend pre-tax profit margin and return on average assets would be 18.1 and 2.3 percent, respectively.										

**Table 9. Jamaica: Schedule of Reviews and Purchases**

Available on or after	Amount of Purchase		Conditions 1/
	SDR millions	% Quota	
November 11, 2016	300.1	78	Approval of Arrangement
March 15, 2017	126.0	33	First Review and end-December 2016 performance criteria
September 15, 2017	126.0	33	Second Review and end-June 2017 performance criteria
March 15, 2018	160.8	42	Third Review and end-December 2017 performance criteria
September 15, 2018	160.8	42	Fourth Review and end-June 2018 performance criteria
March 15, 2019	160.8	42	Fifth Review and end-December 2018 performance criteria
September 15, 2019	160.8	42	Sixth Review and end-June 2019 performance criteria
Total	1195.3	312	
1/ Apart from periodic performance criteria, conditions also include continuous performance criteria.			



Table 10. Jamaica: Structural Program Conditionality

Structural Benchmarks	Timing	Implementation status
<b>Fiscal Reforms</b>		
1 The new rates and bands for property taxes using the 2013 land valuations will be completed and submitted to Cabinet.	December 31, 2016	Met
<b>Monetary policy and financial sector</b>		
2 Operationalize Financial System Stability Committee by finalizing the appointment of two external members.	November 30, 2016	Met
3 Issue for public comment a consultation paper for the resolution framework, developed with support from IMF TA, which describes the draft legislation.	February 28, 2017	Met
4 Establish a financial inclusion council to implement the Cabinet-approved umbrella financial inclusion strategy for the period 2016-20.	March 31, 2017	Met
5 Instituting mechanisms to ensure full compliance with the provisions of the Securities (Retail Repurchase Agreement) Regulations that require "retail repos" to be governed by a MRRA that is signed by both the dealer and the client.	May 30, 2017	Met
6 Submit to cabinet a proposal for the crisis resolution framework, based on the outcomes of the consultation paper.	July 31, 2017	Met
7 Submit to Cabinet a proposal for revising the BoJ Act in line with IMF recommendations.	August 31, 2017	Met
8 To enhance the BoJ's governance framework, submit revisions of the BOJ Act to Parliament to - among other things - improve central bank governance and independence, in line with IMF recommendations. The revisions will modernize arrangements for paying dividends, appointments to the BOJ Board, and provisions of central bank financing to the government.	October 31, 2018	Proposed Modification
<b>Public Sector Transformation</b>		
9 Build a comprehensive database—by occupational grouping and that includes all types of allowances paid, their amounts as well as the number of employees receiving each type of allowance in a given fiscal year—across ministries, departments, and agencies to ensure adequate control and oversight over this part of the wage bill. Pilots for the Ministry of Finance and the Public Service, the Ministry of Health (medical professionals), Ministry of Education, Youth, and Information (teaching groups) and the Jamaica Constabulary Force (police groups) are ongoing. The database for all entities in the central government wage bill will be completed by March 2017.	March 31, 2017	Met
10 Complete an employee verification exercise. Island-wide pilots at the Ministry of Finance and the Public Service, the civilian population of the police department, the NIS, and the non-teaching personnel at the Ministry of Education are ongoing. The verification for all entities in the central government wage bill will be finalized by March 2017.	March 31, 2017	Met
11 The creation and application of strict unambiguous rules for the decisions of the Post Operations Committee regarding all types of employment including acting. These rules are to establish a percentage reduction rate which effectively controls the rate of employment and creates a sharp downward trajectory whilst ensuring that the public sector is properly resourced.	March 31, 2017	Met
12 Informed by the compensation review results from end-March 2017, submit public sector wage negotiation framework to Cabinet for approval.	April 30, 2017	Met
13 Identify positions that will be affected due to the implementation of shared corporate services in human resources and quantify the implications through the development of a costed transition plan and schedule.	May 30, 2017	Met
14 Institute rules prohibiting the rehiring of participants in the early retirement program into the public sector for at least 5 years unless the person returns the incentive.	May 30, 2017	Met
15 Submit to the Governor General through Cabinet rules and standards for the Public Service Commission for limiting the approval of continued employment after retirement age, including as contract officers.	May 30, 2017	Met
16 Submit to parliament all necessary legislative changes to direct all earmarked revenues from the Jamaica Civil Aviation Authority, the Tourism Enhancement Fund, and the CHASE Fund to the consolidated fund.	June 15, 2017	Met
17 Submit to Cabinet a time-bound plan to reintegrate eligible public bodies into central government, consistent with the public financial management principles of the policy on public bodies.	July 31, 2017	Met
18 Submit to Cabinet a medium-term policy and implementation plan to revise the performance-based merit increases to make them more meaningfully related to the performance management appraisal system.	September 30, 2017	Met
19 Submit to Cabinet a proposal to institute clear rules for hiring, promotion and exit.	September 30, 2017	Met
20 The following entities will be closed: (i) Board of Supervision, (ii) Road Maintenance Fund, (iii) Kingston Waterfront Hotel Company Limited, (iv) Montego Shopping Centre Limited, and (v) Portmore Commercial Development Ltd. In addition, the Children's Registry will be reintegrated into the Child Development Agency.	October 31, 2017	
21 Finalize the operational merger of HEART/NTA, Jamaica Foundation for Lifelong Learning, and the National Youth Service.	October 31, 2017	
22 Identify positions that will be affected due to the implementation of shared corporate services in Public Relations and Communications, and Internal Audit and quantify the implications through the development of a costed transition plan and schedule.	November 30, 2017	
23 The total stock of domestic arrears (as defined in the TMU) of the following public bodies will be capped at J\$6.4 billion during the program period: Clarendon Alumina Production (CAP), National Water Commission (NWC), Jamaica Urban Transit Company (JUTC), Housing Agency of Jamaica (HAJ), Urban Development Corporation (UDC), the National Road Operating and Constructing Company (NROCC), and the National Health Fund (NHF) and monitored on a monthly basis.	Monthly	

**Table 11. Jamaica: Quantitative Performance Criteria 1/ 2/**

(In billions of Jamaican dollars unless otherwise stated)

	2017								2018			
	Indicative Target	Actual	Performance Criteria	Adj. Performance Criteria	Actual	Indicative Target	Performance Criteria	Proposed Performance Criteria	Revised Performance Criteria	Indicative Target	Proposed Performance Criteria	Indicative Target
	end-Mar			end-June		end-Sep		end-Dec		end-Mar	end-Jun	end-Sep
<b>Fiscal targets</b>												
<i>Performance Criteria</i>												
1. Primary balance of the central government (floor) 3/	123.0	135.9	15.0		30.6	37.0	59.0	59.0		132.0	18.0	40.0
2. Overall balance of the public sector (floor) 3/	-17.2	32.8	-39.2	-48.1	5.6	-36.9	-59.3	-44.3		-14.8	-25.0	-30.0
3. Net increase in the central government guaranteed debt (ceiling) 3/	0.0	-8.3	0.0		-2.5	0.0	0.0	0.0		0.0	0.0	0.0
4. Central government accumulation of domestic arrears (ceiling) 4/ 10/	0.0	0.0	0.0		-0.9	0.0	0.0	0.0		0.0	0.0	0.0
5. Central government accumulation of tax refund arrears (ceiling) 5/ 10/	0.0	-7.8	0.0		-8.4	0.0	0.0	0.0		0.0	0.0	0.0
6. Accumulation of external debt payment arrears (ceiling) 4/ 9/	0.0	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0
<i>Indicative targets</i>												
7. Tax revenues of the central government (floor) 3/	440.0	458.3	100.0		117.1	215.0	328.0	328.0		473.0	110.0	230.0
8. Change in the stock of public bodies non-guaranteed debt (ceiling) 11/	3.3	0.6	2.5	11.4	0.1	2.0	3.5	3.5		11.5	13.0	15.0
9. Central government spending on social programs (floor) 3/ 7/	24.3	27.8	6.1		8.9	11.2	18.3	18.3		26.6	6.4	11.9
10. Total loan value of all user funded PPPs (ceiling, percent of GDP)	3.0	0.7	3.0		0.9	3.0	3.0	3.0		3.0	3.0	3.0
<b>Monetary targets</b>												
11. Stock of non-borrowed net international reserves (floor) 6/ 8/	1,475	1,936	1,521	1,522	1,820	1,637	1,777	1,777		1,917	1,978	2,097
12. <i>Monetary policy consultation clause (in percent)</i>												
Upper band	9.0		9.0			8.5	9.0	8.5		7.5	7.5	7.5
Center inflation target	5.5	4.1	5.5		4.4	5.0	5.5	5.0		5.0	5.0	5.0
Lower band	2.0		2.0			1.5	2.0	1.5		2.5	2.5	2.5
<p>1/ Targets as defined in the Technical Memorandum of Understanding (TMU).                  2/ Based on program exchange rates defined in the TMU.                  3/ Cumulative flows from April 1 through March 31.                  4/ Includes debt payments, supplies and other committed spending as per contractual obligations; full definition in TMU.                  5/ Includes tax refund arrears as stipulated by law.                  6/ In millions of U.S. dollars.                  7/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes (defined in TMU).                  8/ Stock of BOJ NIR minus all foreign currency CDs to domestic residents; full definition in TMU.                  9/ Continuous performance criterion.                  10/ The accumulation is measured against the stock at end-March 2016, which is J\$21.0 billion for domestic arrears and J\$17.3 billion for tax arrears.                  11/ For end-Dec 2016 and end-Mar 2017, these are cumulative flows from October 1, 2016. For subsequent dates, these are cumulative flows from April 1, 2017.</p>												

**Table 12. Jamaica: Indicators of Fund Credit, 2017-27**

(In millions of SDRs, unless otherwise specified)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Prospective drawings (4-year EFF) (in percent of quota)	...	...	...	...	...	...	...	...	...	...	...
Prospective drawings (3-year SBA) (in percent of quota)	552.10 144.19	321.60 83.99	321.60 83.99	...	...	...	...	...	...	...	...
(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/											
Amortization	11.40	37.11	64.80	83.68	449.57	610.37	322.93	136.42	28.32	9.44	0.00
Amortization (4-year EFF)	11.40	37.11	64.80	83.68	93.12	93.12	81.73	56.02	28.32	9.44	0.00
Amortization (3-year SBA) 1/	0.00	0.00	0.00	0.00	356.45	517.25	241.20	80.40	0.00	0.00	0.00
Interest and service charges 1/	2.51	28.86	38.74	43.52	41.31	20.62	6.30	2.02	0.49	0.11	0.00
GRA surcharges 1/	0.15	9.92	15.47	18.21	19.24	6.18	0.00	0.00	0.00	0.00	0.00
SDR charges and assessments 1/	0.13	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53
Total debt service 1/ (in percent of exports of G&S) 2/ (in percent of GDP) 2/	16.79 0.64 0.19	68.10 2.42 0.79	105.67 3.49 1.20	127.72 3.95 1.38	491.41 14.56 5.05	631.51 17.74 6.18	329.75 8.97 3.08	138.96 3.66 1.23	29.33 0.75 0.25	10.07 0.24 0.08	0.52 0.01 0.00
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings) 1/											
Outstanding stock 1/ (in percent of quota) (in percent of GDP) 2/	1,099.43 287.13 12.20	1,383.93 361.43 16.04	1,640.73 428.50 18.68	1,557.04 406.64 16.84	1,107.47 289.23 11.39	497.10 129.83 4.87	174.18 45.49 1.62	37.76 9.86 0.34	9.44 2.47 0.08	0.00 0.00 0.00	0.00 0.00 0.00
<b>Memorandum items:</b>											
Exports of goods and services (US\$ millions) 2/	3,915.53	4,202.50	4,514.96	4,826.61	5,030.65	...	...	...	...	...	...
Debt service as percent of baseline exports	0.54	2.11	3.16	3.69	13.74	...	...	...	...	...	...
Quota	382.90	382.90	382.90	382.90	382.90	382.90	382.90	382.90	382.90	382.90	382.90

Source: Fund staff estimates.

1/ Assumes that all eligible purchases under the SBA would be made.

2/ Based on exports of goods and services and GDP under the illustrative adverse scenario in SBA approval staff report 16/350.

## Appendix I. Letter of Intent

Kingston, Jamaica  
October 2, 2017

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

Dear Ms. Lagarde,

For the past year, the Government of Jamaica has been implementing successfully its new economic reform programme, supported by a 3-year precautionary Stand-By Arrangement (SBA). We are pleased to report that for the second review period ending June 2017, all quantitative fiscal and monetary performance criteria and all the structural benchmarks for this review have been met. Going forward, fiscal policy will continue to be guided by the goal of achieving the debt target of 60 percent of GDP or below, consistent with the Fiscal Responsibility Law. Our monetary policy goal is to maintain price stability, with a medium-term target range of 4–6 percent. We also remain committed to exchange rate flexibility and limiting FX intervention to smoothing excess volatility and countering disorderly FX market conditions.

We have long recognized that successful implementation of our ambitious reform agenda requires bringing all Jamaicans on board and having full ownership of our proposed policy changes by the Jamaican people. In this regard, the independent monitoring bodies of the reform programme (the Economic Programme Oversight Committee, the Public Sector Transformation Oversight Committee and the Economic Growth Council) continue to report regularly to the public on progress under the Government of Jamaica's policy commitments.

In our efforts to institutionalize exchange rate flexibility and develop the interbank market, we, in line with the Fund TA recommendations, will continue to implement and refine the multiple-price FX auctions to buy and sell FX from the market. We ask for the Executive Board's approval of the retention of the MCP related to the multiple price auction on the following grounds: (i) the measure does not materially impede Jamaica's BOP adjustment; (ii) the measure does not harm the interests of other IMF members; (iii) the measure does not discriminate among members; and (iv) the measure is temporary, and will be resolved once the interbank market is more developed.

The attached Memorandum of Economic and Financial Policies provides an update to our policy plans and priorities. The Government of Jamaica believes that the policies set forth therein are adequate to achieve the objectives of its programme. We also stand ready to take any additional measures that may become appropriate. We will consult with the Fund on the adoption of these measures, and in advance of any revisions to the policies contained in this memorandum, in accordance with the Fund's policies on such consultation, and will continue to provide Fund staff with all relevant information needed as outlined in the Technical Memorandum of Understanding (Attachment 2).

Finally, we authorize the IMF to publish this letter, its attachments, and the staff report for this second review under the SBA in line with the transparency commitment of our government.

Very truly yours,

/s/

Andrew Holness  
Prime Minister

/s/

Audley Shaw  
Minister of Finance and the Public Service

/s/

Brian Wynter  
Governor, Bank of Jamaica

## Attachment I. Memorandum of Economic and Financial Policies (Update)<sup>1</sup>

1. Jamaica's hard-won credibility and economic transformation, as evidenced by the macroeconomic stability that is supported by our commitment to fiscal sustainability, is delivering positive gains. Employment and confidence are at historical highs, unemployment continues to fall, and Jamaica's bond yields in international markets are at an all-time low.
2. Our focus is to increase growth and resilience, and raise the living standards of all Jamaicans. As evidenced by the adverse impact of drought and floods this year, Jamaica remains vulnerable to adverse weather conditions. To counter these vulnerabilities, we intend to continue to build our policy buffers to enhance resilience, tackle private investment bottlenecks, and find new ways to unleash Jamaica's growth potential.

### Maintaining Fiscal Discipline

3. Our fiscal strategy remains anchored around reducing public debt to or below 60 percent of GDP by FY2025/26, as mandated by our Fiscal Responsibility Law (FRL). We will continue to prioritize spending toward social assistance, tackling crime, and improving infrastructure. Tax revenue has been higher than expected, reflecting our efforts to modernize our tax administration, which we intend to use to fund the early retirement programme, flooding repairs, additional security spending, and settling some domestic/tax refund arrears within the programme goal of a 7 percent of GDP primary surplus. We continue to work with labour unions to reach a fair and fiscally responsible agreement on public sector wages through FY18/19.

### Reorienting the Public Sector

4. We remain committed to enhancing the efficiency, quality, and cost effectiveness of our public services. We intend to reintegrate 8 public bodies into the central government subject to the normal budget prioritization, oversight and approval process by June 2019. Moreover, 5 public bodies will be closed, merged integrated or divested by April 2018.
5. The public sector compensation structure needs to be rethought. Our recent compensation review highlighted the substantial cost, complexity, and inequities in the current structure of public sector allowances. Guided by this review and in consultation with relevant stakeholders, by January 2019 we plan to complete and submit to Cabinet for approval a new compensation policy and structure which, inter alia, outlines (i) the guiding principles on which compensation will be set and (ii) a new compensation structure including a simplified structure of allowances, a more equitable distribution of salary and benefits, attracting and retaining skilled employees, and performance based compensation. This will inform the basis for wage negotiations from FY19/20. We also intend to incentivize early retirement for public sector workers over the course of this fiscal year.

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<sup>1</sup> This Memorandum of Economic and Financial Policies update highlights measures undertaken and/or committed to since the first SBA review. IMF Report No. 17/98 provides the Government of Jamaica's full commitments under the SBA.

## **A Modern Central Bank**

6. The medium-term inflation target has been changed from 5.5 percent to 5.0 percent in line with the prevailing and expected inflation and macroeconomic conditions and BOJ has extended its inflation target horizon from a fiscal year to a medium-term target. The target inflation will have a symmetric band of  $\pm 1$  percent to allow for unexpected shocks. We remain committed to consulting with the IMF's Executive Board if inflation breaches the MPCC bands at the programme test date, as specified in the Technical Memorandum of Understanding.

7. We are modernizing the Bank of Jamaica's monetary policy framework centred on a mandate of price and financial stability, in line with our commitment to inflation targeting. In order to lower financing costs for the private sector, anchor inflation expectations, and protect the purchasing power of the income and savings of Jamaicans, we intend to amend the BOJ Act. Our goals are to create a statutory basis for the BOJ's mandate, increase its accountability, strengthen its balance sheet, align its governance structure with international best practice, and provide the BOJ with operational autonomy to achieve its mandate.

8. In preparation for these changes, the BOJ is enhancing its monetary policy toolkit. Recent steps have included: (1) the adoption of the overnight deposit rate as the main policy rate to improve policy signaling; (2) the reduced reliance on borrowed foreign exchange reserves, along with a commitment to gradually replace surrender requirements with market-based purchases over the medium-term; and (3) the introduction of the foreign exchange sale auctions to improve price discovery, boost market transparency, and further develop the interbank market. Consistent with our commitment to exchange rate flexibility and in line with our inflation target objectives, the BOJ will limit its intervention in the foreign exchange market to smoothing excess volatility and countering disorderly market conditions. We also intend to establish a pre-announced calendar for monetary policy decisions by the BOJ, and strengthen the mechanism for clear public communication of the BOJ's policy decisions.

## **A More Resilient Financial Sector**

9. We are on track to submit legislation to Parliament for a new resolution framework for financial institutions by January 2019. This key piece of legislation will clarify the scope, legal authorities, and institutional arrangements in the event a financial institution becomes insolvent or illiquid. This framework will bolster public confidence in the financial system and reduce the eventual fiscal costs to resolve such a situation.

10. To strengthen financial stability, we are committed to improving the risk management capabilities among pension and insurance companies, we are closely monitoring leverage among the remaining retail repo funds, and will gradually implement the "mismatch ratio" regulation for retail repos. We are also examining the feasibility of relaxing investment rules for pension funds to allow them to safely diversify their investments. We will undertake a thorough assessment of the broader macroeconomic implications of such a change, and undertake stress testing to better understand the potential financial stability risks from such a move.

### Policy Matrix for Implementation Underlying the Memorandum of Economic and Financial Policies<sup>1</sup>

Reform Area	Measures	Date	Structural Benchmark	Implementation Status
<b>Tax Policy</b>				
Financial sector taxes	Streamline and rationalize financial sector taxes, including financial turnover taxes (stamp duty and transfer tax) and the asset tax, while also assessing the appropriateness of the higher corporate income tax rate of the regulated industry.	FY2018/19		
<b>Public Sector Transformation</b>				
Shared Corporate Services	Corporate back-office functions for Clarendon Alumina Production Limited (CAP) Services, Jamaica Bauxite Mining (JBM) and Jamaica Bauxite Institute (JBI) will be merged and provided by JBI. Corporate functions in CAP and JBM will cease to exist.	Mar-17		Completed for merger of legal, internal audit and recruitment functions.
	Identify positions that will be affected due to the implementation of shared corporate services in human resources and quantify the implications through the development of a costed transition plan and schedule.	May-17	Yes	Completed
	Commence implementation of HR shared corporate service arrangements.	Sep-17		Completed
	Identify positions that will be affected due to the implementation of shared corporate services in Public Relations and Communications, and Internal Audit and quantify the implications through the development of a costed transition plan and schedule.	Nov-17	Yes	On track for completion by target date
Ongoing entities	Complete the divestment of Caymanas Track Limited and the merger of the Cocoa Industry Board, the Coconut Industry Board and the Coffee Industry Board into the Jamaica Agricultural Commodities Regulatory Authority (JACRA).	Mar-17		Completed
Merger	The Agricultural Credit Board and the Department of Cooperatives and Friendly Societies will be merged into the Agricultural Loan Societies and Approved Organizations.	Apr-17		Completed
	Finalize the operational merger of HEART/NTA, Jamaica Foundation for Lifelong Learning, and the National Youth Service.	Oct-17	Yes	On track for completion by target date
Closure and re-integration	The following entities will be closed: (i) Board of Supervision, (ii) Road Maintenance Fund, (iii) Kingston Waterfront Hotel Company Limited, (iv) Montego Shopping Centre Limited, and (v) Portmore Commercial Development Ltd. In addition, the Children's Registry will be reintegrated into the Child Development Agency.	Oct-17	Yes	On track for completion by target date
<sup>1</sup> This updated policy matrix highlights measures undertaken and/or committed since the first SBA review. IMF Report No. 17/98 provides measures completed between the inception of the SBA programme in November 2016 and February 2017.				



Reform Area	Measures	Date	Structural Benchmark	Implementation Status
	Complete (i) the merger of LAMP and the National Land Agency, (ii) the operational merger of the Real Estate Board, the Commission of Strata Corporations, Registrar of Timeshare, (iii) the closure of the Audit Commission and integration of its functions into MOFPS, and (iv) the integration of the Management Authority of Plant Genetic Resources for Food and Agriculture into MICAF.	Apr-18		
<b>Public Bodies</b>				
Arrears control	The total stock of domestic arrears (as defined in the TMU) of the following public bodies will be capped at J\$6.4 billion during the programme period: Clarendon Alumina Production (CAP), National Water Commission (NWC), Jamaica Urban Transit Company (JUTC), Housing Agency of Jamaica (HAJ), Urban Development Corporation (UDC), the National Road Operating and Constructing Company (NROCC), and the National Health Fund (NHF) and monitored on a monthly basis.	Monthly	Yes	Ongoing
Reporting and monitoring capacity	With support from the IMF, build and roll-out a risk-based approach to identify problematic public entities, together with a monitoring and reporting framework to ensure that the Ministry of Finance has a centralized view of all payments due to external suppliers by the major public bodies who have external counterparts	Dec-17		Completed
Earmarked revenues	Submit to parliament all necessary legislative changes to direct all earmarked revenues from the Jamaica Civil Aviation Authority, the Tourism Enhancement Fund, and the CHASE Fund to the consolidated fund.	Jun-15-2017	Yes	Completed
Re-integration	Submit to Cabinet a time-bound plan to reintegrate eligible public bodies into central government, consistent with the public financial management principles of the policy on public bodies.	Jul-17	Yes	Completed
<b>Public Service Reform</b>				
Compensation review	Build a comprehensive database—by occupational grouping and that includes all types of allowances paid, their amounts as well as the number of employees receiving each type of allowance in a given fiscal year—across ministries, departments, and agencies to ensure adequate control and oversight over this part of the wage bill. Pilots for the Ministry of Finance and the Public Service, the Ministry of Health (medical professionals), Ministry of Education, Youth, and Information (teaching groups) and the Jamaica Constabulary Force (police groups) are ongoing. The database for all entities in the central government wage bill will be completed by March 2017.	Mar-17	Yes	Completed
	Informed by the compensation review results from end-March 2017, submit public sector wage negotiation framework to Cabinet for approval.	Apr-17	Yes	Completed

Reform Area	Measures	Date	Structural Benchmark	Implementation Status
Employee census	Complete an employee verification exercise. Island-wide pilots at the Ministry of Finance and the Public Service, the civilian population of the police department, the NIS, and the non-teaching personnel at the Ministry of Education are ongoing. The verification for all entities in the central government wage bill will be finalized by March 2017.	Mar-17	Yes	Completed
	Submit policy options to cabinet for transition plans for employees who are currently outside of approved positions.	Apr-17		Completed
Recruitment rules	The creation and application of strict unambiguous rules for the decisions of the Post Operations Committee regarding all types of employment including acting. These rules are to establish a percentage reduction rate which effectively controls the rate of employment and creates a sharp downward trajectory whilst ensuring that the public sector is properly resourced.	Mar-17	Yes	Completed
Retirement	Pursue options for early retirement targeting the eligible population.	Mar-17		Proposal submitted to and approved by Cabinet. Awaiting passage of pension legislation.
	Institute rules prohibiting the rehiring of participants in the early retirement programme into the public sector for at least 5 years unless the person returns the incentive.	May-17	Yes	Completed
	Submit to the Governor General through Cabinet rules and standards for the Public Service Commission for limiting the approval of continued employment after retirement age, including as contract officers.	May-17	Yes	Completed
	Create a registry of participants in the early retirement programme.	Mar-18		
Performance management policy	Submit to Cabinet a medium-term policy and implementation plan to revise the performance-based merit increases to make them more meaningfully related to the performance management appraisal system.	Sep-17	Yes	Completed
	Submit to Cabinet a proposal to institute clear rules for hiring, promotion and exit.	Sep-17	Yes	Completed
	Conduct consultations on scope for standardizing public sector pay scales across all MDAs.	Jan-18		On track for completion by target date
HCMES	Complete roll-out of the human resources software (HCMES) for 14 entities.	Dec-18		
<b>Revenue Administration</b>				
Training	Training for audit managers will begin by November 2016 and is expected to be completed for all 50 audit managers by February 2017.	Feb-17		Completed
Compliance	Continue to improve the efficiency of the large taxpayers' office by completing in FY17/18: (i) 33 comprehensive audits, (ii) 51 issue audits, and (iii) settling 100% of the 47 objections in current inventory.	Mar-18		

Reform Area	Measures	Date	Structural Benchmark	Implementation Status
Audit process	Implement centralized organizational and reporting arrangements for the objections units currently residing in the regional services centres to ensure that objection decisions are carried out by officers outside of the Operations Division.	Mar-17		Completed
	Public roll-out of the new independent objection units in the regional service centres and posting of information on the TAJ website.	Apr-17		Completed
	Implement centralized organizational and reporting arrangements for the objections unit currently residing in the Large Taxpayers' Office to ensure that objection decisions are carried out by officers outside of the Operations Division.	Sep-17		Completed
Transfer pricing	Develop audit processes and procedures, and a comprehensive work plan to focus on specified sectors/taxpayers/ issues and distributive trade.	Apr-17		Completed
	Develop framework for Country by Country Reporting (CBCR) including tabling in Parliament the necessary legislative amendments to the Income Tax Act and Revenue Administration Act.	May-18		
Client Services	Begin issuing formal practice notes and private rulings to improve information to the taxpayer.	Apr-17		Completed
	Begin developing an integrity framework and conflict of interest guidelines.	Aug-17		Completed
	By April 2017, work will begin on the development of a database of legal opinions and guidance notes to be published on the TAJ website for taxpayers' information by October 2017.	Oct-17		On track for completion by target date
	Develop (i) a security framework including system access controls, and (ii) discipline and dismissal policies. Roll out a public awareness campaign for (ii).	Nov-17		On track for completion by target date
Business process	Develop a business process reengineering strategy which includes (i) an as-is analysis of the RAIS environment, (ii) an office footprint and workforce analysis, and (iii) an ICT investment plan.	Aug-17		Completed
	Submit new organizational structure, including headquarters operations and objections unit, for MOFPS approval.	Sep-17		Report on new headquarters structure and operations finalized
Post-Clearance Audit	Increase the number of completed Post-Clearance Audits to 60 a year by March 2017, with 25 percent of them identified by risk management system.	Mar-17		Completed
	By March 2018, 50 percent of Post Clearance Audits will be identified by a risk management system.	Mar-18		
Trade facilitation	Complete the drafting of legislation to repeal and replace the Customs Act and begin stakeholder consultations by May 2017.	May-17		Completed
	Submit a Bill to repeal and replace the Customs Act to Parliament.	Mar-18		
Interagency Coordination	Develop a tripartite MOU between the Jamaica SEZ Authority, TAJ, and JCA to facilitate alignment in the application of, and compliance with, the SEZ Act and Regulations.	Apr-18		

Reform Area	Measures	Date	Structural Benchmark	Implementation Status
<b>Public Financial Management</b>				
TSA Expansion	Commence daily sweeps of revenue transit accounts of Principal Receivers of Revenues (PRRs) into the Treasury Single Account (TSA).	Mar-17		Completed
	Begin user testing of the web-enabled FinMan by October 2017, and implement soft-launch of web-enabled FinMan by February 2018.	Feb-18		
	Finish contracting for the revenue management module (RMM).	Mar-18		
PFM and JIFMIS reforms	Submit to Cabinet the JIFMIS Policy for the Government of Jamaica that details the charter of the JIFMIS Steering Committee and implementation schedule to ensure widespread ownership and buy-in of the sequencing of JIFMIS reforms.	Jan-18		
MOFP Staffing	The new organizational structure to enhance macro-fiscal capacity of the Ministry of Finance and the Public Service was approved in August 2016 and the selection process of staff has begun. We expect all offers to be made by end-September 2017.	Sep-17		Filling of staff positions in progress
Procurement	Begin staffing of the new structure for Procurement and Asset Policy Unit; three customer service positions will be in place.	Apr-17		Completed
	On-board an additional 12 Procuring Entities to the electronic government procurement system by the end of FY17/18.	Mar-18		
	Complete the development of training materials for procurement training at the procurement faculty at MIND.	Jan-18		
<b>Debt Management</b>				
Capacity	Reduce operational risk by ensuring adequate staffing of the Debt Management Branch (DMB)'s middle office.	Jun-17		3 positions completed
Market development	Review and complete the upgrading of the primary dealer (PD) system with respect to primary dealer commitments and privileges in GOJ bonds to incentivize market making.	Jun-18		
	To enhance price discovery, gradually increase the share of domestic debt issued via competitive auctions.	Continuous		Ongoing
	To create a more liquid T-bill market, anchor the yield curve and provide an accurate benchmark, expand the issuance of T-bills and pursue dematerialization (i.e. switching from paper-form securities to electronic book-entry) of T-bills, with roll-out of upgraded central securities depository by June 2018.	Jun-18		
BOJ/GOJ coordination	To enhance the attractiveness of local currency bonds, revise collateral policy for liquidity provision by amending the BOJ Act to permit a more granular approach to the treatment of GOJ securities. To that end, increase the collateral value of T-bills and BOJ CDs so as to better reflect the risk of underlying assets.	Oct-18		
	Institute more frequent meetings between the MOFP, the BOJ, and the AGD to discuss liquidity conditions around planned issuances and/or redemptions and to develop a comprehensive internal strategy for dealing with major domestic	Continuous		Ongoing

	market redemptions. Discuss the impact of these strategies (repayments, rollovers, buybacks, and exchanges) on domestic liquidity and FX conditions.			
Reform Area	Measures	Date	Structural Benchmark	Implementation Status
<b>Social Safety Net</b>				
National Identification System (NIDS)	Develop and publish a full NIDS system requirement, in collaboration with MDAs and stakeholders; publish request for proposal to acquire NIDS.	Apr-17		Completed
	A Memorandum of Understanding with Jamaica Post will be signed to facilitate the enrolment of Jamaicans at full services post offices.	May-17		Completed
	Put in place the core project organization to drive the implementation of the National Identification System covering the areas of Project Direction and Management, Communications, Financial Management, Procurement Management, Systems Support, Monitoring and Evaluation, Research and Development, Business Processes, and Technical Documentation.	Oct-17		
	Complete the two-stage procurement process for acquiring a National Identification System Solution for Jamaica.	Mar-18		
PATH graduation	Upon cabinet approval of the graduation strategy for PATH households, initiate the evaluation of households' ability to exit the programme and begin delivery of interventions for the first group of families scheduled for graduation from PATH.	June-17		Completed
	Complete the reapplication for PATH families who first enrolled in PATH between 2002-2013.	Mar-19		
PATH efficiency and effectiveness	Review of impact of PATH benefits on improving school attendance. The review will be conducted by the Ministry of Labour and Social Security and will inform the redesign of the scheme to meet the stated objective of increasing school attendance. A first draft report will be completed by end-June 2017.	June-17		Completed
<b>Exchange Rate</b>				
FX market	The BOJ, with support from IMF TA, to develop modalities to improve price discovery in the FX market through the introduction of multiple-price FX auctions for BOJ buying from and/or selling to the market. By April 2017, we will draft internal guidelines for the auctions, and develop and implement an outreach campaign to explain to market participants the new modality of buying and selling foreign exchange.	Apr-17		Completed
	Implement multiple-price FX auctions for the BOJ buying from and/or selling to the market.	Jun-17		Completed
<b>Monetary Policy</b>				
Liquidity provision	Guided by IMF TA, the BOJ will improve the effectiveness of its open market operations and liquidity assurance framework by making the overnight interest rate its policy rate by June 2017. This transition has begun with an adjustment of the interest rate on its overnight deposit facility from 0.25 percent to 3 percent in September 2016 and a further narrowing of the interest rate corridor in March 2017.	Jun-17		Completed

Reform Area	Measures	Date	Structural Benchmark	Implementation Status
BOJ Strength of Balance Sheet	To ensure the strength of the BOJ balance sheet and its capacity to conduct monetary policy with sufficient independence to implement inflation targeting, the BOJ, with the help of IMF TA in June, will conduct an assessment of its operating requirements and related cost structure, capital position and revenue requirements.	Jul-17		Completed
	Propose a reform plan constructed in collaboration with the MOFP.	Aug-17		Completed
BOJ Act	Submit to Cabinet policy proposals for revising the BOJ Act in line with IMF recommendations.	Aug-17	Yes	Completed
	To enhance the BOJ's governance framework, submit revisions of the BOJ Act to Parliament to—among other things—improve central bank governance and independence, in line with IMF recommendations. These revisions will modernize arrangements for paying dividends, appointments to the BOJ Board, and provisions of central bank financing to the government.	Oct-18	Yes (modified)	
International reserves	Steadily phase-out the surrender requirements and borrowed reserves. By end of programme, achieve at least 100 percent of ARA metrics and increase the proportion of non-borrowed reserves in NIR through market-based FX purchases.	Dec-19		
<b>Financial Sector</b>				
Securities dealers' reforms	The BOJ will continue to monitor market conditions and compliance with the existing limits in foreign investment and assess the readiness to lift the investment cap for CIS and SDs further, from their current level of 25 percent.	Continuous		Ongoing
	The FSC to require all securities dealers to conduct regular stress tests and submit test results on a semi-annual basis, commencing end-June, 2017. Additionally, one stress test should be conducted using the dealer's audited financial statements and the other using end-April data. The results will be used as a feedback to risk-based supervision.	Continuous		Ongoing
	With the goal of addressing remaining balance sheet risks in the SD industry, the FSC, in collaboration with the BOJ Financial Stability Unit and in consultation with the IMF, will by end-June 2017 complete a study on the appropriate indicators for a systemically safe level of retail repos, including the retail repo leverage ratio (RRLR). The indicators studied will also include additional capital and/or margin requirements. The goal will be to determine, by end-October 2017, how to implement suitable indicators. In the meantime, the FSC will continue to undertake monthly monitoring of the RRLR.	Oct-17		

Reform Area	Measures	Date	Structural Benchmark	Implementation Status
	The FSC to complete a study on the appropriate definition and level of the liquidity ratio.	Oct-17		On track for completion by target date
	The FSC, in collaboration with the BOJ Supervision Department and Financial Stability Unit, will by September 2017 complete a study on the appropriate level of single and group counterparty exposure limits. Following consultation with the industry in October 2017, the guidelines, including the timeline for enforcing intermediate targets will be finalized by end-December 2017.	Dec-17		On track for completion by target date
	Instituting mechanisms to ensure full compliance with the provisions of the Securities (Retail Repurchase Agreement) Regulations that require "retail repos" to be governed by a MRRA that is signed by both the dealer and the client.	May-17	Yes	Completed
Consolidated supervision	The suite of regulations (which includes capital adequacy requirements for the Financial Holding Companies (FHC), and the form of application) that will comprise the regime for FHC and consolidated supervision will be shared with the industry by end-November 2016; drafting instructions to be prepared by end-April 2017.	Apr-17		Completed
Crisis resolution	Submit to cabinet a proposal for the crisis resolution framework, based on the outcomes of the consultation paper.	Jul-17	Yes	Completed
	Prepare drafting instructions for the CPC, based on the draft legislation, incorporating revisions from public consultation and feedback received on the cabinet proposal.	Feb-18		
	Submit legislation to Parliament for a Special Resolution Regime (crisis resolution) for financial institutions, including a modified insolvency regime.	Jan-19		
Financial inclusion	Establish a financial inclusion council to implement the Cabinet-approved umbrella financial inclusion strategy for the period 2016-20.	Mar-17	Yes	Completed
	Table a Micro Credit Act in Parliament.	Feb-18		
	To encourage increased participation of data providers in the credit reporting system, review the Credit Reporting Act and propose amendments, if any, to Cabinet.	Dec-18		
Deposit insurance and investor compensation	Legislation to amend the Cooperative Societies Act (CSA), accompanied by the legislative proposals for the prudential regulatory regime for credit unions, will be tabled in Parliament by April 2018.	Apr-18		
	We will take steps to further strengthen investor compensation across financial institutions. We will update the Proposal for the Establishment of Compensation Schemes for non-DTIs by June 2018.	Jun-18		

Reform Area	Measures	Date	Structural Benchmark	Implementation Status
<b>Economic Growth Council Recommendations</b>				
Citizen Security and Public Safety	Submit to Cabinet a plan for the rationalization of police stations, the redeployment of assets into high-crime areas and a more mobile strategy for policing.	Mar-17		Completed
	Complete phased implementation of measures to allow witnesses to record their statements and/or give evidence via video-link in at least 50 locations by February 2018.	Feb-18		
	Improve border security and enhance monitoring of Jamaica's air and maritime space through an initial acquisition of surveillance aircraft and marine patrol vessels leading towards the eventual development of a full Domain Awareness Centre.	Mar-17		Completed
	Implement a full legislative review that leads to (i) completion of a draft new Police Service Act to replace the Jamaica Constabulary Force Act, that supports the modernization and transformation of the Jamaica Constabulary Force into a modern intelligence-led police service that ensures Citizen Security, with stronger systems of administration, management and internal discipline, (ii) tabling in Parliament of legislation to establish the Major Organized Crime and Anti-Corruption Agency as an independent national law enforcement agency focused on terrorism, major organized crime and serious corruption, (iii) tabling in Parliament of legislation to merge the Corruption Prevention Commission, the Integrity Commission and the Office of the Contractor General into a more empowered single Anti-Corruption Agency with the necessary independence and resources to carry out its functions.	Oct-17		On track for completion by target date
	Subject to the ruling of the Constitutional Court, extend Proceeds of Crime legislation to include all FATF designated non-financial businesses and professions, including lawyers (consistent with attorney-client privileges), by way of ministerial order subject to affirmative resolution, or other legislative means, to assist in the detection, investigation and prosecution of the laundering of proceeds of crime, including corruption.	Mar-18		
	Submit to Cabinet a proposal for a comprehensive information system for the JCF, including acquisition of the necessary infrastructure that facilitates live feeds from CCTV to area-based control rooms to allow real-time operations control, accompanied by the implementation of proper electronic crime and incident-recording procedures feeding into real-time data analytics to support both strategic management and operations control.	Oct-17		On track for completion by target date
	Submit to Cabinet a comprehensive plan for normalizing and reintegrating informal settlements, 'garrisons' and high-crime communities, creating safe civic spaces and decent, law-abiding neighbourhoods.	Oct-17		On track for completion by target date



Reform Area	Measures	Date	Structural Benchmark	Implementation Status
Access to finance	Submit to Cabinet proposals for a revised investment framework for Pension Funds to include: (i) investment regulations; (ii) risk management guidelines; (iii) supervisory arrangements; and (iv) data reporting requirements.	Jun-18		
	Complete a study on banking competition.	Oct-18		
Business climate and red-tape	Begin regulatory review of licensing, permitting and regulatory processes in fisheries, veterinary, agricultural, pharmaceutical, health and quality control divisions of government aimed at boosting efficiency and business competitiveness.	Mar-17		Completed
	Table in Parliament Regulations and amendments to the Public Procurement Act and finalize the Handbook of Public Sector Procurement Procedures.	Mar-18		
	Undertake improvements to the Development Approval Process inclusive of (i) hiring of consultant to complete Phase 1 (updating of geospatial datasets and background papers) of the National Spatial Plan by November 2017, (ii) tabling in parliament of the Building Act by March 2017, and (iii) completion of the Development Orders for all parishes by June 2018.	Jun-18		Building Act tabled in Parliament December 2016.
	Implement electronic submission of development approval applications and mandatory use of AMANDA system for development approvals: (i) Table amendments to the Town and Country Planning Act and Local Improvements Act and regulations in Parliament by May 2017; (ii) Commence pilot of Public Portal Module II in 3 Local Authorities by March 2018; (iii) Complete upgrade of infrastructure of eight Local Authorities (LAs) by May 2018.	May-18		
Asset utilization	Create framework for public debt reduction through a programme of privatizations and asset sales.	May-17		Completed
	Submit to cabinet plan to divest up to 20% of assets held by the UDC and Factories Corporation of Jamaica.	Nov-17		
	Improve the scalability and efficiency of the privatization, asset sale and public-private-partnership processes by: (i) DBJ making provision in Corporate Plan for additional number of Account Executives at the DBJ who handle such transactions, (ii) commencing the process to procure or identify dedicated staff at the AG's chambers and the Ministry of Finance who are exclusively focused on these transactions, (iii) the DBJ providing a protocol for the establishment of permanently staffed Enterprise Team that handle multiple such transactions by April 2017, and (iv) submit to cabinet the protocol and framework for the outsourcing of privatizations to for-profit firms by May 2017.	May-17		Completed
Diaspora involvement	Prepare draft proposal on institutional framework for promoting, coordinating and organizing economic and social investments by the Diaspora.	Mar-17		Completed
	Begin feasibility study of the creation of a Global Jamaican Immigration Card for issuance to members of the Diaspora.	May-17		Completed

**Table 1. Jamaica: Schedule of Reviews and Purchases**

Available on or after	Amount of Purchase		Conditions 1/
	SDR millions	% Quota	
November 11, 2016	300.1	78	Approval of Arrangement
March 15, 2017	126.0	33	First Review and end-December 2016 performance criteria
September 15, 2017	126.0	33	Second Review and end-June 2017 performance criteria
March 15, 2018	160.8	42	Third Review and end-December 2017 performance criteria
September 15, 2018	160.8	42	Fourth Review and end-June 2018 performance criteria
March 15, 2019	160.8	42	Fifth Review and end-December 2018 performance criteria
September 15, 2019	160.8	42	Sixth Review and end-June 2019 performance criteria
<b>Total</b>	<b>1195.3</b>	<b>312</b>	

1/ Apart from periodic performance criteria, conditions also include continuous performance criteria.

**Table 2. Jamaica: Quantitative Performance Criteria 1/ 2/**  
(In billions of Jamaican dollars unless otherwise stated)

	2017							2018			
	Indicative Target	Actual	Performance Criteria	Adj.	Actual	Indicative Target	Performance Criteria	Proposed Revised Performance Criteria	Indicative Target	Proposed Performance Criteria	Indicative Target
				Performance Criteria							
	end-Mar			end-June	end-Sep		end-Dec	end-Mar	end-Jun	end-Sep	
<b>Fiscal targets</b>											
<i>Performance Criteria</i>											
1. Primary balance of the central government (floor) 3/	123.0	135.9	15.0		30.6	37.0	59.0	59.0	132.0	18.0	40.0
2. Overall balance of the public sector (floor) 3/	-17.2	32.8	-39.2	-48.1	5.6	-36.9	-59.3	-44.3	-14.8	-25.0	-30.0
3. Net increase in the central government guaranteed debt (ceiling) 3/	0.0	-8.3	0.0		-2.5	0.0	0.0	0.0	0.0	0.0	0.0
4. Central government accumulation of domestic arrears (ceiling) 4/ 10/	0.0	0.0	0.0		-0.9	0.0	0.0	0.0	0.0	0.0	0.0
5. Central government accumulation of tax refund arrears (ceiling) 5/ 10/	0.0	-7.8	0.0		-8.4	0.0	0.0	0.0	0.0	0.0	0.0
6. Accumulation of external debt payment arrears (ceiling) 4/ 9/	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Indicative targets</i>											
7. Tax revenues of the central government (floor) 3/	440.0	458.3	100.0		117.1	215.0	328.0	328.0	473.0	110.0	230.0
8. Change in the stock of public bodies non-guaranteed debt (ceiling) 11/	3.3	0.6	2.5	11.4	0.1	2.0	3.5	3.5	11.5	13.0	15.0
9. Central government spending on social programs (floor) 3/ 7/	24.3	27.8	6.1		8.9	11.2	18.3	18.3	26.6	6.4	11.9
10. Total loan value of all user funded PPPs (ceiling, percent of GDP)	3.0	0.7	3.0		0.9	3.0	3.0	3.0	3.0	3.0	3.0
<b>Monetary targets</b>											
11. Stock of non-borrowed net international reserves (floor) 6/ 8/	1,475	1,936	1,521	1,522	1,820	1,637	1,777	1,777	1,917	1,978	2,097
12. <i>Monetary policy consultation clause (in percent)</i>											
Upper band	9.0		9.0			8.5	9.0	8.5	7.5	7.5	7.5
Center inflation target	5.5	4.1	5.5		4.4	5.0	5.5	5.0	5.0	5.0	5.0
Lower band	2.0		2.0			1.5	2.0	1.5	2.5	2.5	2.5

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

2/ Based on program exchange rates defined in the TMU.

3/ Cumulative flows from April 1 through March 31.

4/ Includes debt payments, supplies and other committed spending as per contractual obligations; full definition in TMU.

5/ Includes tax refund arrears as stipulated by law.

6/ In millions of U.S. dollars.

7/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes (defined in TMU).

8/ Stock of BOJ NIR minus all foreign currency CDs to domestic residents; full definition in TMU.

9/ Continuous performance criterion.

10/ The accumulation is measured against the stock at end-March 2016, which is J\$21.0 billion for domestic arrears and J\$17.3 billion for tax arrears.

11/ For end-Dec 2016 and end-Mar 2017, these are cumulative flows from October 1, 2016. For subsequent dates, these are cumulative flows from April 1, 2017.

Table 3. Jamaica: Structural Program Conditionality

Structural Benchmarks	Timing	Implementation status
<b>Fiscal Reforms</b>		
1 The new rates and bands for property taxes using the 2013 land valuations will be completed and submitted to Cabinet.	December 31, 2016	Met
<b>Monetary policy and financial sector</b>		
2 Operationalize Financial System Stability Committee by finalizing the appointment of two external members.	November 30, 2016	Met
3 Issue for public comment a consultation paper for the resolution framework, developed with support from IMF TA, which describes the draft legislation.	February 28, 2017	Met
4 Establish a financial inclusion council to implement the Cabinet-approved umbrella financial inclusion strategy for the period 2016-20.	March 31, 2017	Met
5 Instituting mechanisms to ensure full compliance with the provisions of the Securities (Retail Repurchase Agreement) Regulations that require "retail repos" to be governed by a MRRA that is signed by both the dealer and the client.	May 30, 2017	Met
6 Submit to cabinet a proposal for the crisis resolution framework, based on the outcomes of the consultation paper	July 31, 2017	Met
7 Submit to Cabinet a proposal for revising the BoJ Act in line with IMF recommendations.	August 31, 2017	Met
8 To enhance the BoJ's governance framework, submit revisions of the BOJ Act to Parliament to - among other things - improve central bank governance and independence, in line with IMF recommendations. The revisions will modernize arrangements for paying dividends, appointments to the BOJ Board, and provisions of central bank financing to the government.	October 31, 2018	Proposed Modification
<b>Public Sector Transformation</b>		
9 Build a comprehensive database—by occupational grouping and that includes all types of allowances paid, their amounts as well as the number of employees receiving each type of allowance in a given fiscal year—across ministries, departments, and agencies to ensure adequate control and oversight over this part of the wage bill. Pilots for the Ministry of Finance and the Public Service, the Ministry of Health (medical professionals), Ministry of Education, Youth, and Information (teaching groups) and the Jamaica Constabulary Force (police groups) are ongoing. The database for all entities in the central government wage bill will be completed by March 2017	March 31, 2017	Met
10 Complete an employee verification exercise. Island-wide pilots at the Ministry of Finance and the Public Service, the civilian population of the police department, the NIS, and the non-teaching personnel at the Ministry of Education are ongoing. The verification for all entities in the central government wage bill will be finalized by March 2017.	March 31, 2017	Met
11 The creation and application of strict unambiguous rules for the decisions of the Post Operations Committee regarding all types of employment including acting. These rules are to establish a percentage reduction rate which effectively controls the rate of employment and creates a sharp downward trajectory whilst ensuring that the public sector is properly resourced.	March 31, 2017	Met
12 Informed by the compensation review results from end-March 2017, submit public sector wage negotiation framework to Cabinet for approval.	April 30, 2017	Met
13 Identify positions that will be affected due to the implementation of shared corporate services in human resources and quantify the implications through the development of a costed transition plan and schedule.	May 30, 2017	Met
14 Institute rules prohibiting the rehiring of participants in the early retirement program into the public sector for at least 5 years unless the person returns the incentive.	May 30, 2017	Met
15 Submit to the Governor General through Cabinet rules and standards for the Public Service Commission for limiting the approval of continued employment after retirement age, including as contract officers.	May 30, 2017	Met
16 Submit to parliament all necessary legislative changes to direct all earmarked revenues from the Jamaica Civil Aviation Authority, the Tourism Enhancement Fund, and the CHASE Fund to the consolidated fund.	June 15, 2017	Met
17 Submit to Cabinet a time-bound plan to reintegrate eligible public bodies into central government, consistent with the public financial management principles of the policy on public bodies.	July 31, 2017	Met
18 Submit to Cabinet a medium-term policy and implementation plan to revise the performance-based merit increases to make them more meaningfully related to the performance management appraisal system	September 30, 2017	Met
19 Submit to Cabinet a proposal to institute clear rules for hiring, promotion and exit.	September 30, 2017	Met
20 The following entities will be closed: (i) Board of Supervision, (ii) Road Maintenance Fund, (iii) Kingston Waterfront Hotel Company Limited, (iv) Montego Shopping Centre Limited, and (v) Portmore Commercial Development Ltd. In addition, the Children's Registry will be reintegrated into the Child Development Agency.	October 31, 2017	
21 Finalize the operational merger of HEART/NTA, Jamaica Foundation for Lifelong Learning, and the National Youth Service.	October 31, 2017	
22 Identify positions that will be affected due to the implementation of shared corporate services in Public Relations and Communications, and Internal Audit and quantify the implications through the development of a costed transition plan and schedule.	November 30, 2017	
23 The total stock of domestic arrears (as defined in the TMU) of the following public bodies will be capped at J\$6.4 billion during the program period: Clarendon Alumina Production (CAP), National Water Commission (NWC), Jamaica Urban Transit Company (JUTC), Housing Agency of Jamaica (HAJ), Urban Development Corporation (UDC), the National Road Operating and Constructing Company (NROCC), and the National Health Fund (NHF) and monitored on a monthly basis.	Monthly	

## 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 Stand-By Arrangement (SBA) treated as precautionary. It also describes the methods to be used in assessing the programme performance and the information requirements to ensure adequate monitoring of the targets.

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 programme exchange rates are those that prevailed on August 31, 2016. Accordingly, the exchange rates for the purposes of the programme are show in Table 1.

Jamaican dollar to the US dollar	127.57
Jamaican dollar to the SDR	178.07
Jamaican dollar to the Euro	144.50
Jamaican dollar to the Canadian dollar	98.73
Jamaican dollar to the British pound	167.23
1/ Average daily selling rates at the end of August 2016	

### 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. Primary expenditure also includes transfers to other public bodies which are not self-financed. Costs associated with divestment operations or liquidation of public entities, such as cancellation of existing contracts or severance payments to workers, will be allocated to current and capital expenditures accordingly.

7. All primary expenditures directly settled with bonds or any other form of non-cash liability will be recorded as spending above-the-line, financed with debt issuance and will therefore affect the primary balance.
8. **Reporting:** Data will be provided to the Fund with a lag of no more than six weeks after the test date.
9. **Adjuster for loan to Clarendon Alumina Production (CAP):** The floor of the central government primary balance (cumulative since the beginning of the fiscal year) will be adjusted upwards by an amount equivalent to the total shortfall of principal and interest repayments due (relative to table 2), converted at programme exchange rates.

<b>Table 2. CAP repayment schedule</b>	
Cumulative repayment flows to central government from beginning of each fiscal year (US\$ millions)	
end-June 2017	0.00
end-December 2017	7.96
end-June 2018	7.46
end-December 2018	14.68
end-June 2019	6.99

## B. Cumulative Floor on Overall Balance of the Public Sector

10. The public sector refers to the “Specified Public Sector” (SPS) as defined under the Fiscal Responsibility Law (FRL). In particular, it consists of the central government and self-financed public bodies that are not deemed “commercial” by the Office of the Auditor General (OAG), based on the set of legislated criteria. It excludes the Bank of Jamaica (BOJ).
11. The TMU will be updated when the formal assessment by the OAG of the commercial nature of public bodies is completed by April 1, 2020. Until completion of this OAG assessment and for the purposes of the SBA, the SPS will consist of the central government and the public bodies listed below.
12. For the purposes of the SBA, public bodies will consist of the following self-financed public bodies: AEROTEL; Airports Authority of Jamaica; Betting, Gaming and Lotteries Commission; Broadcasting Commission; Bureau of Standards; CHASE; Clarendon Alumina Production Limited; Cocoa Industry Board; Coconut Industry Board; Coffee Industry Board; Development Bank of Jamaica Limited; Factories Corporation of Jamaica; Financial Services Commission; Firearm Licensing Authority; Harmonisation Limited; HEART Trust-NTA; Housing Agency of Jamaica Limited; Jamaica Bauxite Institute; Jamaica Bauxite Mining; Jamaica Civil Aviation Authority; Jamaica Deposit Insurance Corp.; Jamaica International Freezone Limited; Jamaica Mortgage Bank; Jamaica National Accreditation Agency; Jamaica Racing Commission; Jamaica Railway Corporation; Jamaica Ultimate Tyre Company Limited; Jamaica Urban Transport Company Limited; Kingston Free Zone Limited; Micro Investment Development Agency; Montego Bay Free Zone; Montego Bay Metro Limited; National Export Import Bank of Jamaica - EX-IM Bank; National Health Fund; National Housing Trust; National Insurance Fund; National Water Commission; National Road Operating and Constructing; Ocho Rios Commercial Centre Limited; Office of Utilities Regulation; Overseas Examination

Commission; PetroCaribe Development Fund (PCDF); PetroJam Ethanol Limited; Petrojam Limited; Petroleum Corporation of Jamaica; Port Authority Management Service Limited; Port Authority of Jamaica; Ports Management and Security Limited; Ports Security Corps Limited; Postal Corporation of Jamaica; Public Accountancy Board; Road Maintenance Fund; Runaway Bay Water Company Limited; SCJ Holdings Limited; Self Start Fund; Spectrum Management Authority; Sports Development Foundation; St Ann Development Company Limited; Student Loan Bureau; Sugar Industry Authority; Tourism Enhancement Fund; Transport Authority; Universal Service Fund; Urban Development Corporation; Wigton Windfarms Limited.

13. The overall balance of public bodies will be calculated from the Statement A's provided by the Public Enterprises Division of the Ministry of Finance and the Public Service (MoFPS) for each of the 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 Housing Agency of Jamaica, capital account revenues will not be netted out since they do not refer to flows arising from asset sales but rather to contribution revenue and therefore will be included among recurrent revenue such as is done for pension funds. The definition of the group of self-financed 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, beyond the aforementioned adjustment, unless specifically stated. All newly created entities, including from the merging of existing entities, will be incorporated into this group of public bodies.

14. 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 listed above.

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

16. **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 3), with the value of the adjustment at the end of any quarter capped at US\$35 million, converted at the programme exchange rates.

<b>Table 3. Overall Balance of Petrojam (Baseline Projection)</b>	
In billions of J\$	
End-March 2017	-1.0
End-June 2017	-2.4
End-September 2017	-3.9
End-December 2017	0.2

### C. Ceiling on Net Increase in Central Government Guaranteed Debt

17. **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 because of consolidation.

18. **Adjuster:** In the case where the central government debt guarantees are called, the stock of central government guaranteed debt will be adjusted downwards in order to preserve the performance criteria.

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

19. **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 2016, which stood at J\$21.0 billion.

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

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

21. **Definition of debt:** External debt is determined according to the residency criterion. 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

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



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

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

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

22. **Definition of external arrears:** External debt payment arrears for programme monitoring purposes are defined as external debt obligations (principal and interest) falling due after March 31, 2017 that have not been paid, taking into account the grace periods specified in contractual agreements; and for the public bodies listed in paragraph 23, such obligations that have not been paid within 30 days after the contractual due date (taking into account any contractual grace periods). 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.

23. **Coverage:** This performance criterion covers central government and the following 6 public bodies, which are a subset of the self-financed public bodies defined in Section B: Airports Authority of Jamaica, Jamaica Ultimate Tyre Company, National Health Fund, Petrojam Limited, Petrojam Ethanol Limited, Port Authority of Jamaica. This performance criterion does not cover (i) arrears on trade credits and (ii) arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or rescheduling agreement is being sought.

24. **Monitoring:** This performance criterion applies on a continuous basis.

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

25. **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 2016, which stood at J\$17.3 billion.

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

## G. Floor on the Stock of Non-Borrowed Net International Reserves

27. **Definitions:** Net international reserves (NIR) of the BOJ (NIR-BOJ) are defined as the U.S. dollar value of gross foreign assets of the BOJ minus gross foreign liabilities. Non-borrowed NIR is defined as NIR-BOJ minus all foreign currency liabilities issued by the BOJ and held by residents. Non-U.S. dollar denominated foreign assets and liabilities will be converted into U.S. dollar at the programme exchange rates.

28. **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.

<b>Table 4. External Program Disbursements (Baseline Projection)</b>	
Cumulative flows from end-March 2016	(In millions of US\$)
<b>External loans from multilateral sources</b>	
End-March 2017	182
End-June 2017	182
End-September 2017	252
End-December 2017	252
End-March 2018	362
<b>Budget support grants</b>	
End-March 2017	10.8
End-June 2017	10.8
End-September 2017	10.8
End-December 2017	10.8
End-March 2018	10.8
<b>Commercial loans guaranteed by multilateral sources</b>	
End-March 2017	0.0
End-June 2017	0.0
End-September 2017	0.0
End-December 2017	0.0
End-March 2018	0.0

29. **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 (thus excluding all foreign exchange liabilities to residents), including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps and options) and all credit outstanding from the Fund 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. GOJ foreign liabilities are excluded from gross foreign liabilities of the BOJ.

30. **Reporting:** Data will be provided by the BOJ to the Fund with a lag of no more than 10 days past the test date.

31. **Adjusters:** The non-borrowed NIR targets will be adjusted upward (downward) by the surplus (shortfall) in programme loan disbursements from multilateral institutions (the IBRD, IDB and CDB) and commercial loans guaranteed by multilateral sources, relative to the baseline projection reported in Table 4. Programme loan disbursements are defined as external loan disbursements (excluding project financing disbursements) from official creditors that are usable for the financing of the consolidated government. The non-borrowed 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 4.

## H. Performance Criterion on the Introduction or Modification of Multiple Currency Practices

32. The performance criterion on the introduction or modification of multiple currency practices (MCP) will continue to exclude the ongoing implementation or modifications in 2018 of the multiple-price foreign exchange auction system, developed in line with Fund staff advice, that give rise to a MCP.

## II. QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

### A. Cumulative Floor on Central Government Tax Revenues

33. **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).

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

### B. Ceiling on the Change in the Stock of Public Bodies' Non-Guaranteed Debt

35. **Definitions:** The non-guaranteed debt of public bodies includes all consolidated domestic and external bonds and other forms of debt by all self-financed public bodies (as defined in I.B.) that is not guaranteed by the central government or any other public entity. The target will be set in Jamaican dollars with foreign currency debt converted using the programme exchange rate. The change in the stock of non-guaranteed debt will be measured "below the line" as debt issuance minus repayments on all non-guaranteed debt by public bodies.

36. For the purposes of computing the non-guaranteed debt target, debt issues are to be recorded at the moment the funds are credited to the account of the corresponding public body. The stock of public bodies' non-guaranteed debt will be measured net of cross-holdings of such debt between the public bodies.

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

38. **Adjuster:** The target will be adjusted downwards if the government assumes part of previously non-guaranteed debt or if an entity with non-guaranteed debt is subsequently divested/privatized.

39. **Adjuster:** The target will also be adjusted upward (downward) by an amount equivalent to the shortfall (excess) of PetroJam's overall balance (relative to baseline projections in Table 3), with the value of the adjustment at the end of any quarter capped at US\$35 million, converted at the programme exchange rates.

### C. Floor on Central Government Spending on Social Programmes

40. **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. Social programmes 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.

41. **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.*

42. **On recurrent expenditure, the following specific programmes must be included in the floor on social and security 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.

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

#### D. Ceiling on User-Funded PPPs

44. **Definition:** User-funded PPPs are defined as concessions in which users are expected to be the main source of revenue. 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).

45. For the purpose of this condition, the applicable GDP is the projected nominal GDP for the ongoing fiscal year published in the Fiscal Policy Paper tabled in parliament ahead of the adoption of the FY17/18 budget. For FY2017/18, the projected nominal GDP used as a reference is J\$1,884 billion, as presented in Table 2H, Macroeconomic Framework, of the FY17/18 Fiscal Policy Paper.

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

### III. MONETARY POLICY CONSULTATION CLAUSE

#### A. Monetary Policy Consultation Clause

47. **Definitions.** Inflation is defined as the change over 12 months of the end-of-period headline consumer price index, as measured and published by the Statistical Institute of Jamaica (STATIN).

48. **Reporting.** Data will be provided to the Fund with a lag of no more than six weeks after the test date. Data from the last test date will be used until new data is submitted.

49. Breaching the inflation consultation band limits (as specified in the TMU, Table 5) at the end of each June/December test dates would trigger a consultation with the IMF's Executive Board on the reasons for the deviation and the proposed policy response before further purchases could be requested under the SBA. Specifically, the consultation will explain (i) the stance of monetary policy and whether the Fund-supported programme remains on track; (ii) the reasons for deviations from the specified band, taking into account compensating factors; and (iii) on proposed remedial actions, as deemed necessary.

	2017				2018			
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
Upper band	9.0	9.0	8.5	8.5	7.5	7.5	7.5	7.5
Center point	5.5	5.5	5.0	5.0	5.0	5.0	5.0	5.0
Lower band	2.0	2.0	1.5	1.5	2.5	2.5	2.5	2.5

#### **IV. CONDITIONALITY ON PUBLIC BODIES' DOMESTIC ARREARS**

50. **Under the structural benchmark on public bodies' arrears**, the total combined stock of **domestic** arrears of the following public bodies will be capped at J\$6.4 billion during the programme period: Clarendon Alumina Production (CAP), National Water Commission (NWC), Jamaica Urban Transit Company (JUTC), Housing Agency of Jamaica (HAJ), Urban Development Corporation (UDC), the National Road Operating and Constructing Company (NROCC), and the National Health Fund (NHF). The domestic arrears will be monitored on a monthly basis.

51. **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 on which domestic debt payments are due according to the relevant contractual agreement, taking into account any contractual grace periods. Public bodies' domestic arrears include arrears on suppliers' credits.

52. **For the purposes of this condition**, arrears on taxes due to the central government, including on PAYE and education tax, are excluded.

#### **V. INFORMATION REQUIREMENTS**

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

##### **A. Daily**

- Net international reserves; nominal exchange rates; interest rates on BOJ repurchase agreements; total currency issued by the BOJ, deposits held by financial institutions at the BOJ; outstanding stock of foreign currency CDs to residents by maturity; 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.
- Aggregate liquidity assistance to institutions from the BOJ.
- 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).

## B. 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.

## C. Monthly

- Central government operations including monthly cash flow from the beginning to the end of the current fiscal year (and backward revisions as necessary), with a lag of no more than six weeks after the closing of each month.
- Public entities' Statement A: consolidated and by institution for the self-financed public bodies defined in I.B with a lag of no more than six weeks after the closing of each month.
- Central government debt amortization and repayments (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 six weeks after the closing of each month.
- Amortization and repayments of public bodies' non-guaranteed debt for each of the Selected Public Bodies listed in I.B.
- Balances of the Consolidated Fund and main revenue accounts needed to determine the cash position of the government.
- Stock of central government domestic debt and domestic expenditure arrears.
- Stock of central government tax refund arrears.
- Central government spending on social protection 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); and (iii) direct and guaranteed. The reporting lag should not exceed six weeks after the closing of each month.

- The maturity structure of Government debt (domestic and external). The reporting lag should not exceed six 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.
- Liquidity assistance to institutions from the BOJ by institution.
- 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, and self-financed 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.
- 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.

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



- 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).

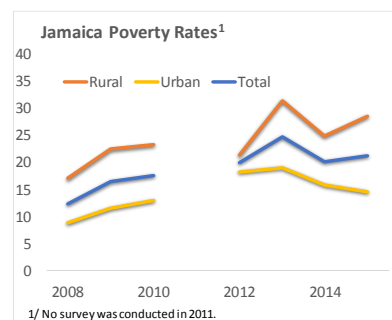
#### D. Quarterly

- Holdings of government bonds (J\$-denominated and US\$-denominated) by holder category. The reporting lag should not exceed six 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 self-financed public entities non-guaranteed debt.
- Summary balance of payments within four 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 four 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 DTIs 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.

**Statement by the Staff Representative on Jamaica**  
**October 23, 2017**

1. The information below has become available since the issuance of the staff report (EBS/17/102). The thrust of the staff appraisal remains unchanged.

2. **Jamaica's poverty rate increased in 2015.** Based on the newly released Jamaica Survey of Living Conditions, the poverty rate in 2015 was 21.2 percent, an increase relative to 2014 by 1.2 percentage points. This aggregate increase reflects a jump in rural poverty (from 24.9 to 28.5 percent) which appears to be linked to weather events that disrupted production. Poverty rates in cities and towns fell by 1½ percent from 2014 to 2015.



3. **Weather shocks have disproportionately impacted rural areas.** The severe drought in 2014-15 had an especially strong impact on agriculture and generated a contraction in agricultural output by 0.6 percent over the two years. There was an even larger effect on agricultural employment, which contracted by over 3 percent in 2015. At the same time, however, construction, business process outsourcing, and hotel industry have expanded steadily creating new employment in the urban areas and facilitating an overall decline in unemployment and poverty.

4. **The new data highlights the need to continue to tackle poverty and support rural communities.** The government is keenly aware that the weather shocks, structural headwinds to the agricultural sector, and retuning the economy to a stable and sustainable macroeconomic path has an uneven impact on the poor and vulnerable. To mitigate these effects, and despite the limited availability of budgetary resources, the FY17/18 budget included an increase of nearly 50 percent in social spending for PATH (the government's cash transfer program) and the school feeding program. In addition, the government has put in place the PATH graduation program which will allocate resources to the most needy families, while providing training to facilitate an exit from social assistance support. These are important steps. However, to fully support the poor and invest in rural communities, a further recomposition of government spending is necessary, away from the wage and interest bill toward growth-enhancing capital spending—particularly that which enhances agricultural resilience in face of weather events (e.g., improving irrigation)—and health, education and social assistance spending.

**Statement by Ms. Nancy Horsman, Executive Director  
and Mr. Courtney Williams, Senior Advisor to the Executive Director**

**October 23, 2017**

**Our Jamaican authorities would like to thank staff for the constructive engagement during the second PSBA review mission, and the resulting focused and candid report.**

Strong program ownership, backed by solid stakeholder support and effective program monitoring, enabled our authorities to meet all the quantitative performance criteria (QPCs) for end-June 2017 and all structural benchmarks (SBs) up to September 2017. Further, critical QPCs, such as the Central Government Primary Surplus and the stock of Non-Borrowed NIR, were comfortably above targets. Of note, spending on social programs exceeded the end-June indicative target (floor) by 46 percent. Preliminary indications are that the end-September indicative targets were met and our authorities remain firmly on track to meet all the end-December targets.

**Steadfast implementation of economic reforms has entrenched macroeconomic stability.**

At the end of fiscal year 2016/17, the Jamaican economy registered the fourth consecutive year of growth, led by strong performances in agriculture, manufacturing, and tourism. A minimal contraction of 0.1 percent in the June 2017 quarter, arising from adverse weather effects, is expected to cause only a temporary setback, as the economy is projected to expand by 1.7 percent in fiscal year 2017/18 and to approach 3 percent over the medium term. Meanwhile, investor and consumer confidence remain high, inflation is at low single digits, and labor market conditions continue to improve with record high employment level as at April 2017 and unemployment falling to 12.2 percent, the lowest rate in seven years. To further reduce unemployment and address poverty concerns, our authorities will step up efforts to facilitate faster and more inclusive growth, including through measures to bolster resilience to weather-related shocks, alleviate procurement bottlenecks, further strengthen the financial sector, and transform the public sector into a more efficient outfit.

**Fiscal Policy and Debt Management**

**Sustained fiscal discipline has lowered risk premia and placed debt on a firm downward trajectory.**

Fiscal operations continue to register better-than-targeted performance. The central government primary surplus surpassed the target in 2016/17 by 0.6 percent of GDP, and doubled the end-June performance criterion, on the back of revenue overperformance and restraint in primary expenditure. This outcome has enabled our authorities to accommodate additional expenditure demands for national security and flood damage repairs, without the need to implement new revenue measures. Our authorities are now reaping dividends from the earlier tax reform measures, including from reducing tax expenditures, and they remain positive that the buoyant revenue performance will continue. Further, the strengthened credibility of the fiscal program has resulted in a significant reduction in borrowing costs and contributed to the generation of public sector surpluses. As

a result, the Government of Jamaica (GOJ) has been able to strategically pay down debt and execute favorable and market-friendly liability management operations, including the re-opening of the 2028 and 2045 global bonds in August 2017, at record low yields. Our Jamaican authorities remain firmly committed to sustaining the strong fiscal effort, which has so far contributed to the debt stock falling at a faster rate than envisaged at the start of the program, and thereby remaining on track to meet the fiscal rules' ceiling of 60 percent of GDP by 2026.

**Public sector transformation remains a priority to support fiscal consolidation and deliver efficient public service.** Our authorities continue to steadfastly execute their reform action plans. In this regard, to reduce overlaps and improve public financial management operations, they have, inter alia, commenced implementation of shared corporate service arrangements, passed legislation to direct earmarked revenue from three public bodies to the consolidated fund, and by April 2018 will close, merge, reintegrate into the central government, or divest, five public bodies. The GOJ acknowledges the risks posed by current wage negotiations to fiscal stability and posits that the negotiations with unions have to go wider than just the government's wage offer. As an integral part of the transformation agenda, our authorities will seek to rationalize the menu of compensation allowances, develop a new compensation policy and structure, and engage the unions and other stakeholders in discussions on initiatives to increase productivity within the public sector. To guide this process, our authorities developed a negotiation framework in April 2017 that establishes parameters for the conduct of wage negotiations and is congruent with the requirements of the fiscal rules, which includes the need to achieve and adhere to a wage bill ceiling of 9 percent of GDP by 2018/19. Looking ahead, the longer-term fiscal consolidation thrust will be further enhanced by implementation of a new contributory pension scheme in April 2018.

## **Monetary Policy and Financial Sector Developments**

**Monetary policy is anchored by the central bank's price stability objective within the context of a market-determined exchange rate.** Guided by the prevailing macroeconomic environment, including a supportive fiscal position and a downside risk to inflation, the Bank of Jamaica (BOJ) has maintained an accommodative monetary stance, while adopting a medium-term inflation target of 4.0-6.0 percent. Our authorities will however continue to remain vigilant to market developments and stand ready to appropriately adjust the monetary policy stance consistent with their price stability objectives. The BOJ will continue to limit foreign exchange intervention to smoothing volatility and assuaging speculative action. With Fund assistance, the BOJ successfully introduced in July 2017 a new tool to buy and sell foreign exchange— the BOJ Foreign Exchange Intervention and Trading Tool (B-FXITT), which provides a basis for developing a more competitive, liquid, and transparent foreign exchange market. Our authorities are pleased with the operations of the B-FXITT and will continue to consult with Fund staff on further enhancements as necessary. Looking ahead, our authorities will commence preparatory work for the FSAP, which is due in 2018, and, to

this end, have started consultations with Fund staff. *With staff's support, our authorities have requested the Board's approval for retention of the multiple-currency practice, first approved in November 2016, for a period of twelve months.*

**Actions will continue toward establishing a more modern central bank.** The Fund completed an update of the BOJ safeguards assessment in February 2017. The assessments confirmed that the BOJ has a strong framework and made recommendations to improve the Bank's governance. Fund TA recommended in July 2017 more ambitious reforms to strengthen BOJ's operational autonomy and governance. Our authorities appreciate the Fund's advice and intend to act on the recommendations. The actions will include the tabling in Parliament of amendments to the BOJ Act by October 2018, aimed at enhancing the Bank's operational independence and strengthening its accountability. Among the amendments contemplated are the clarification of BOJ's primary mandate of price stability, changes to the governance arrangements to ensure a more effective and accountable decision making structure, and the arrangements for capitalization and paying dividends. The intended institutional changes will provide the appropriate environment to support the BOJ's transition toward an inflation targeting regime within a flexible exchange rate system.

**Our authorities will continue efforts toward developing a more resilient and inclusive financial system.** To this end, our authorities established a financial inclusion council in March 2017 to oversee implementation of their financial inclusion strategy. Moreover, our Jamaican authorities will press ahead with efforts to further improve the framework for financial supervision through a number of legislative, regulatory, and supervisory activities, including submitting to Parliament a new resolution framework for financial institutions by January 2019. In consultation with key stakeholders including Fund staff, they will continue to build on efforts to strengthen the AML/CFT framework. Our authorities are aware of the disquiet among pension funds stakeholders regarding restrictions on their investment portfolios and will undertake a proper assessment of the potential risks to relaxing such rules.

### **Growth-enhancing Reforms**

While macroeconomic stability is entrenched and public debt continues on a steady downward path, economic growth remains modest and vulnerable to shocks, particularly weather-related. Against this backdrop, our authorities will place greater focus on timely implementation of critical structural reforms and growth-enhancing capital expenditure. In particular, our authorities will step up efforts to remove roadblocks to business and public investment. Notable measures to be pursued include amendments to the Public Procurement Act and the accompanying Regulations, crafting of a plan to accelerate divestment of state assets, streamlining the development approval process for land development projects, and

implementing the legislative and infrastructure measures to enhance citizen security and public safety.

## **Conclusion**

Program implementation under the PSBA remains strong. All performance criteria and structural benchmarks have been met and the prospects for continued adherence are good. Public debt is on a steady downward trajectory, anchored by a strong fiscal framework. The NIR is healthy and less reliant on borrowed foreign exchange. At the same time, inflation and the current account deficit are at low single digits, the financial system is sound, and business and consumer confidence are at significant highs. Nevertheless, growth remains below potential and our authorities will accelerate efforts to enhance public safety, improve public sector efficiency, bolster Jamaica's resilience to shocks, boost inclusive growth, and reduce poverty. Our authorities remain committed to undertake the appropriate mix of fiscal and monetary policy, supported by sound structural reforms, not just to meet program commitments but also to deliver a better quality of life for the Jamaican people.