INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/304

JAMAICA

November 2018

FOURTH REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND MONETARY POLICY CONSULTATION CLAUSE—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JAMAICA

In the context of the Fourth Review Under the Stand-By Arrangement, Request for Modification of Performance Criteria, and Monetary Policy Consultation Clause, 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 November 5, 2018, following discussions that ended on September 21, with the officials of Jamaica on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on October 10, 2018.
- A **Statement by the Executive Director** for Jamaica.

The documents listed below have been released.

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

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

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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 18/409
FOR IMMEDIATE
November 5, 2018

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review under the Stand-By Arrangement for Jamaica

On November 5, 2018, the Executive Board of the International Monetary Fund (IMF) completed the fourth review of Jamaica's performance under the program supported by the Stand-By Arrangement (SBA). The 36-month SBA, with a total access of SDR 1,195.3 million (about US$ 1.66 billion), equivalent to 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, an insurance policy against unforeseen 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 continue their impressive track record under the Stand-By Arrangement. While macroeconomic stability is entrenched, with reduced public debt and improving social and unemployment indicators, growth remains subdued. Against this backdrop, supply-side reforms to facilitate private sector investment are needed to achieve higher, sustained growth and job creation.

"The Bank of Jamaica (BOJ) remains committed to maintaining inflation within the 4-6 percent target range over the medium term. The recent tabling in Parliament of legislation to upgrade the BOJ Act is an important step toward the eventual shift toward full-fledged inflation targeting. Maintaining exchange rate flexibility and limiting FX sales during periods of disorderly market conditions is necessary to support an inflation targeting framework. The authorities are also planning to accelerate FX market development and the building of technical capacity in monetary operations.

"The public-sector wage bill needs to be placed on a sustained downward path. Reduced wage outlays will allow the government to reprioritize public spending toward security, social assistance, and growth-enhancing capital expenditure. Achieving such a wage bill reduction will require a broad overhaul of the public compensation and allowance system and a reduction in the size of the government workforce.

“The financial sector should be further strengthened in line with the recommendations from the accompanying Financial Sector Stability Assessment. Priority should be placed on enhancing coordination, data collection, monitoring, and strengthening technical capacity of the financial regulators. Improving consolidated and risk-based supervision are important reform areas. Addressing impediments that constrain access to finance would help support private-sector investment.”

Table 1. Jamaica: Selected Economic Indicators 1/

Population (2013): 2.8 million
Quota (current; millions SDRs/% of total): 382.9/0.08%
Main products: Alumina, tourism, chemicals, mineral fuels, bauxite, coffee, sugar

Per capita GDP (2014): US$4955
Literacy rate (2015)/Poverty rate (2016): 87%/17.1%
Unemployment rate (Apr. 2018): 9.7%

					Prog.	Projections				
	2014/15	2015/16	2016/17	2017/18	2018/19	2018/19	2019/20	2020/21	2021/22	2022/23
	(Annual percent change, unless otherwise indicated)									
GDP and prices										
Real GDP	0.2	1.0	1.4	0.9	1.7	1.4	1.6	1.8	2.1	2.2
Nominal GDP	7.2	7.7	5.9	8.1	6.8	5.5	7.1	6.9	7.2	7.3
Consumer price index (end of period)	4.0	3.0	4.1	4.0	5.0	4.7	5.1	5.0	5.0	5.0
Consumer price index (average)	7.2	3.4	2.4	4.6	5.0	3.7	5.5	5.0	5.0	5.0
Exchange rate (end of period, J$/US$)	115.0	122.0	128.7	126.0	…	…	…	…	…	…
Exchange rate (average, J$/US$)	113.1	118.8	127.3	127.9	…	…	…	…	…	…
Nominal depreciation (+), end-of-period	5.0	6.1	5.4	-2.1	…	…	…	…	…	…
End-of-period REER (appreciation +) (new methodology) 2/	-0.2	-2.4	-2.6	3.2	…	…	…	…	…	…
Treasury bill rate (end-of-period, percent)	7.0	5.8	6.3	5.1	…	…	…	…	…	…
Treasury bill rate (average, percent)	7.8	6.3	6.1	5.1	…	…	…	…	…	…
Unemployment rate (percent) 3/	14.2	13.3	12.7	9.7	…	…	…	…	…	…
	(In percent of GDP)									
Government operations										
Budgetary revenue	26.3	27.0	27.9	29.0	29.3	29.8	28.9	28.6	28.5	28.3
Of which: Tax revenue 4/	23.6	24.5	25.7	25.7	25.8	25.9	25.4	25.3	25.3	25.3
Budgetary expenditure	26.7	27.3	28.1	28.6	29.5	29.6	28.1	27.9	27.4	26.8
Primary expenditure	18.8	19.8	20.3	21.6	22.4	22.8	22.0	22.1	22.0	21.8
Of which: Wages and salaries	9.5	9.7	9.3	9.2	9.2	9.1	9.1	9.0	8.8	8.8
Interest payments	8.0	7.4	7.8	7.0	7.1	6.8	6.2	5.8	5.4	5.0
Budget balance	-0.5	-0.3	-0.2	0.5	-0.2	0.2	0.8	0.7	1.1	1.5
Of which: Central government primary balance	7.5	7.2	7.6	7.4	7.0	7.0	7.0	6.5	6.5	6.5
Public entities balance 8/	0.9	1.8	2.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	0.4	1.6	1.5	1.1	-0.2	0.2	0.8	0.7	1.1	1.5
Public debt (FRL definition) 4/ 6/	…	…	115.1	102.2	98.3	99.6	93.6	88.3	82.1	75.8
Public debt (EFF definition) 5/ 7/	139.7	121.3	121.8	109.1	104.8	105.8	99.0	92.7	85.2	77.7
External sector										
Current account balance	-7.0	-2.0	-2.6	-5.4	-3.0	-5.0	-4.0	-3.7	-3.6	-3.5
Of which: Exports of goods, f.o.b.	10.2	8.3	8.8	9.2	10.4	10.8	11.2	11.1	10.8	10.5
Exports of services	15.5	14.8	15.8	14.2	14.5	14.5	15.3	15.7	15.4	15.1
Of which: Imports of goods, f.o.b.	36.4	30.0	31.5	34.9	33.2	36.9	36.6	35.9	35.4	35.0
Imports of services	19.8	19.5	21.4	20.6	21.1	21.1	23.0	24.1	24.0	23.8
Net international reserves (US$ millions)	2,294	2,416	2,769	3,075	3,219	2,965	3,168	3,221	3,229	3,426
of which: non-borrowed	1,335	1,470	1,944	2,398	2,428	2,454	2,820	2,887	3,065	3,295
	(Changes in percent of beginning of period broad money)									
Money and credit										
Net foreign assets	27.9	10.1	7.1	5.5	4.7	2.8	5.5	2.6	2.0	5.3
Net domestic assets	-22.3	8.6	15.4	2.6	2.1	2.7	1.6	4.3	5.3	2.1
Of which: Credit to the private sector	3.1	8.2	22.4	9.0	9.5	7.8	8.4	8.8	9.9	11.6
Of which: Credit to the central government	-15.2	5.5	0.4	2.8	5.2	2.8	0.0	-2.1	0.6	0.1
Broad money	5.7	18.7	22.5	8.1	6.8	5.5	7.1	6.9	7.2	7.3
Memorandum item:										
Nominal GDP (J$ billions)	1,568	1,688	1,789	1,933	2,016	2,039	2,184	2,334	2,503	2,687

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.

8/ Projections for 18/19 reflect the special distribution from PCDF to Central Government, ahead of its reintegration by end 18/19.

JAMAICA

October 10, 2018

FOURTH REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND MONETARY POLICY CONSULTATION CLAUSE

EXECUTIVE SUMMARY

Stable macroeconomy but growth continues to underperform. After nearly six years of economic reforms, unemployment is at an almost 11-year low, poverty is at a 9-year low, inflation is low, public debt is firmly on a downward trajectory, and international reserves are at historically high levels. Still, growth remains lackluster. Private investment has not fully taken advantage of the unprecedented opportunities presented by macroeconomic stability and strong fundamentals. Structural impediments need to be quickly addressed to foster capital formation. Sustained weak growth risks impeding reform momentum and could make achieving the government's policy objectives more difficult.

Focus of the review. Discussions centered on: a planned supplementary budget for FY18/19, including deploying some of the revenue buoyancy to reduce the stock of local-government spending arrears; the next steps to overhaul the public sector (including sustainably shrinking the wage bill as a share of GDP); management of fiscal risks arising from various public bodies; restoring inflation to the mid-point of the target range; developing the FX market; institutional reforms to modernize the central bank; and continued strengthening of financial sector oversight. Discussions were held on advancing financial sector reforms in line with the recommendations in the accompanying FSSA.

Program issues. Implementation of the government's policy program remains strong. All quantitative performance criteria (QPCs) at end-June were met and supply-side measures are broadly on track. The Monetary Policy Consultation Clause (MPCC), however, was triggered in June with the inflation outturn below the lower band. The authorities are confident this is a temporary deviation and are maintaining their accommodative stance, supported by a flexible, market-determined exchange rate. Modifications are proposed to the QPCs for December 2018, and new QPCs for June 2019. The authorities have also requested amending the MPCC (to reduce the lower band for Board consultation and to introduce a staff consultation clause) to take into account recent inflation dynamics. Upon completion of the review, an additional SDR 160.8 million would be made available, bringing the total accessible credit to SDR 873.7 million. The authorities continue to treat the SBA as precautionary.

Approved By:
Nigel Chalk (WHD) and Nathan Porter (SPR)

Mission Team: U. Ramakrishnan (head), J. Danforth and K. Youssef (all WHD), M. Farid (SPR), R. Lam (FAD), N. Suryakumar (MCM), and C. Lonkeng (Resident Representative). Ms. M. Oliva (MCM) joined the end of the mission on FSAP-related issues. O. Stankova (COM) joined the mission to advise the central bank on communication. P. Cifuentes Henao, A. Veras, A. Robinson, and S. Spencer (all WHD) supported the mission. Mr. C. Williams (OED) joined the discussions.

Discussions took place in Jamaica (September 10–21, 2018).

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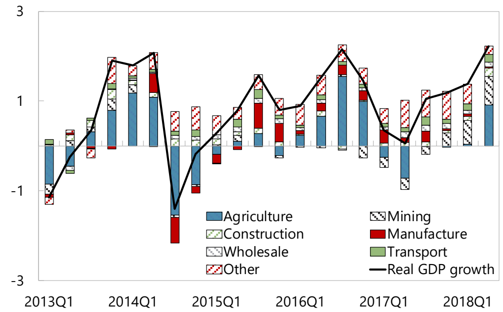
ANNEX

APPENDIX

STABLE MACROECONOMIC FUNDAMENTALS

1. **Growth has been supported by robust mining and construction.** Following weather-related shocks to agriculture, growth was just 0.9 percent in FY2017/18. Average real GDP growth in 2018H1 is estimated at 1.8 percent (y/y) supported by mining (28.8 percent) as operations at the Alpart alumina plant ramped up, and construction (2 percent) as capital expenditure overperforms. Growth for FY2018/19 is projected to be only 1.4 percent as domestic demand remains weak, agriculture momentum continues to build, and even with increased activity from Alpart, mining is held back by problems at the alumina company Windalco (see ¶14). Medium-term growth is expected to rise to around 2 percent, on the back of higher capital expenditure and as reductions in structural rigidities recede including from ongoing efforts to lessen domestic financial rigidities.

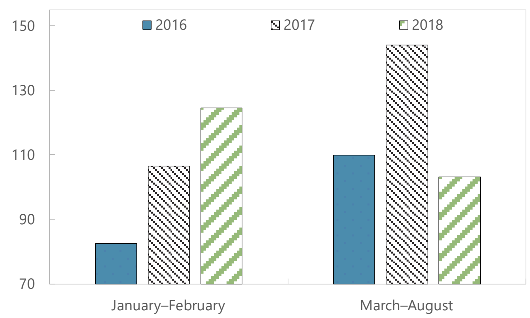
Quarterly Real GDP Growth, year on year
(in percent)



Source: STATIN

2. **The government's crime reduction efforts are paying off.** There has been a deceleration in crime after a state of emergency was declared earlier this year in areas with rising crime. However , the crime level is still high, and remains an important social and economic headwind. Reducing crime, remains one of the government's highest priorities, including within the context of their policy program that is supported by the SBA.

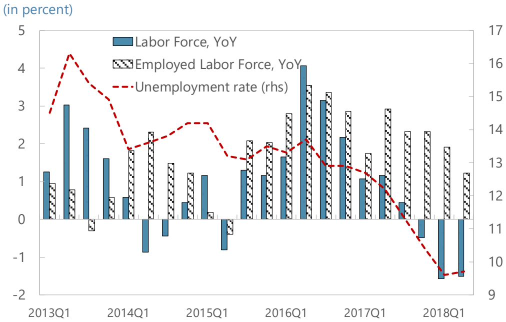
Number of Murders
(Average of the reference period)



Source: Jamaica Constabulary Force (JCF)

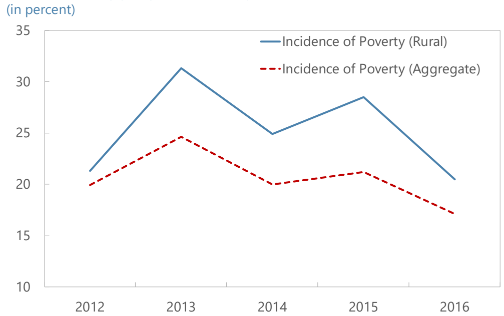
3. **Living standards are improving**. The unemployment rate reached an 11-year low of 9.6 percent in January 2018, and stood at 9.7 percent in April 2018. However, after 9 consecutive quarters of increase, labor force participation has reversed since October 2017. The poverty rate fell from 21 to 17 percent in 2016, driven mostly by a reduction of poverty in rural areas (where half of the population resides) linked to the recovery in agriculture during 2016. Despite this progress, poverty remains unacceptably high.

Employment
(in percent)



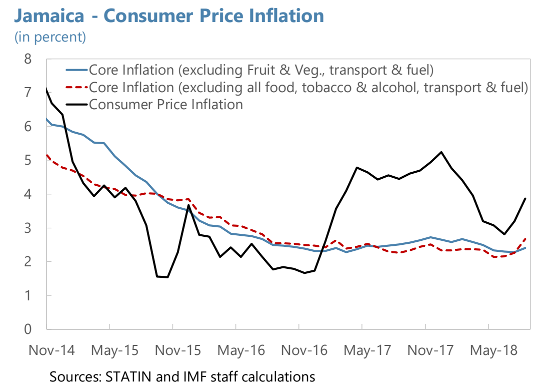
Source: STATIN

Rural and Aggregate Poverty
(in percent)



Source: STATIN

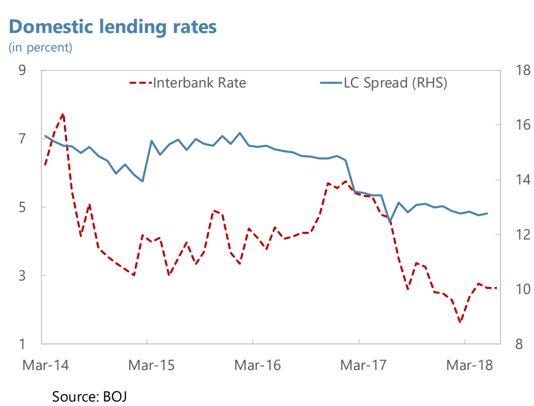
4. Inflation has been persistently low. Despite reductions in the Bank of Jamaica's (BOJ) policy rate (cumulatively 175bps since July 2017), inflation has remained below the 4-6 percent target inflation band since March 2018. It reached 2.8 percent during June 2018, triggering the Monetary Policy Consultation Clause (MPCC) (¶19 and 25, and Letter of Intent (LOI) and its Attachment I). The low inflation reflects: (i) persistently weak domestic demand that is dragging down core inflation (which has been 2-3 percent since March 2016); (ii) structural weaknesses in the monetary transmission mechanism which blunts the impact of the BOJ's policy response (see [Box 2 in 2016 Request for Stand-By Arrangement Country Report]); (iii) the effects of currency appreciation in late-2017 and early-2018; and (iv) decelerating food inflation (due to a faster-than-expected unwinding of higher agriculture prices following last year's heavy rains and floods). Higher oil prices and agriculture prices are now filtering through to headline CPI contributing to an uptick in headline inflation to 3.9 percent in August.

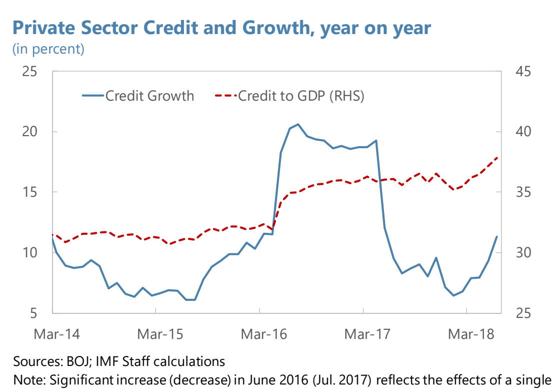


5. Monetary policy has been accommodative and consistent policy implementation has underpinned a reduction in sovereign risk premia.

- Short-term interest rates have fallen since the BOJ began easing last year (most recently by 25bps in May and 50bps in June). There is, however, no systematic evidence of a transmission from policy rates to loan rates. Private credit grew briskly (mainly on account of consumer loans) in FY17/18 (at 14.8 percent, y/y) and has since accelerated to 16.8 percent in July 2018. Available data indicates that NPLs remain relatively low, loan loss provisions are at prudent levels, and banks are currently well-capitalized.

- Jamaican international bonds are trading at historically low yields. Fitch and Moody's have recently upgraded Jamaica's ratings outlook to positive from stable. Domestic T-Bill yields have fallen to below 2 percent, and auctions are typically oversubscribed.

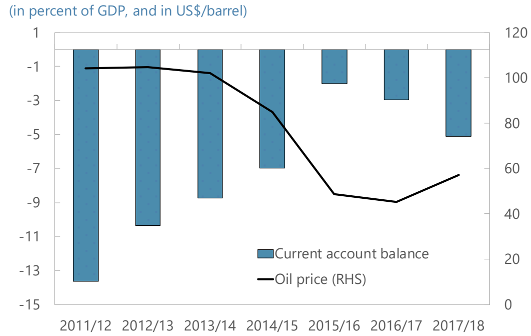




6. Jamaica's external position remains broadly in line with medium-term fundamentals and desirable policies, as detailed in the 2018 Article IV Consultation.

- The current account deficit expanded by 2.7 percent of GDP (to 5.4 percent of GDP) in FY2017/18, due to higher global oil prices and one-off imports of equipment for mining and security. The current account deficit is expected to converge to around 3.5 percent of GDP over the medium-term. This remains in line with medium term fundamentals and reflects higher imports to support the current wave of public-sector investment and the expected increase in growth-supporting private sector investment.

Current account and Oil price
(in percent of GDP, and in US$/barrel)

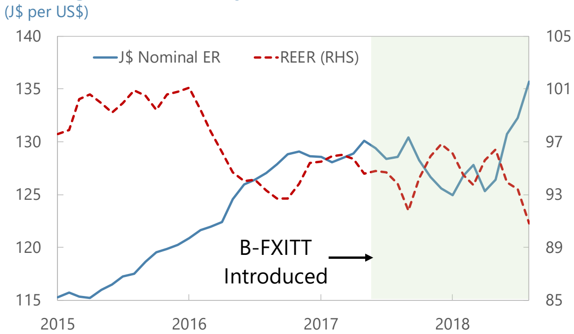


Sources: BOJ; IMF Staff calculations

- Since the introduction of the FX auction (B-FXITT), the bilateral J$/US$ exchange rate has been moving flexibly in both directions. From end-May to end-August, the J$/US$ has depreciated by about 7 percent, largely reflecting the strong U.S. dollar (when measured against Jamaica's trading partners, the currency has effectively moved very little). In July, a large J$ government bond redemption injected liquidity into the system, adding to currency weakness. In July and August, the BOJ sold US$86.5 million in reserves to help counter excessive exchange rate volatility.

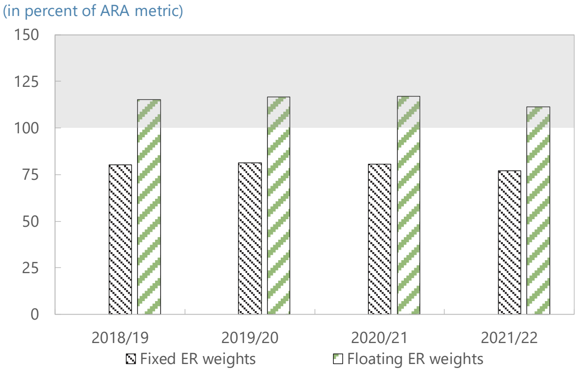
7. In June 2018, Jamaica's de-facto exchange rate arrangement was classified as "floating", retroactively from September 2017. The classification is supported by the two-way exchange rate movements that have been a characteristic of the system since the BOJ introduced FX auctions in June 2017. On the basis of maintaining this de-facto floating classification, Jamaica's current FX reserves are currently viewed as broadly adequate.

Exchange rate flexibility
(J$ per US$)



Sources: BOJ; IMF Staff calculations
Note: Figure is from January 2015 to August 2018. Jamaica's de facto exchange arrangement was reclassified twice (1) retroactively to stabilized from a crawl-like arrangement, effective October 31, 2016, and (2) to floating from a stabilized arrangement, effective September 15, 2017.

Gross International Reserves
(in percent of ARA metric)

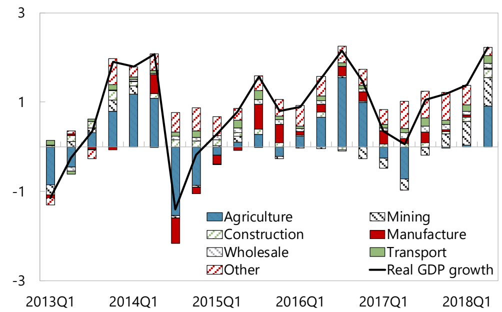


Source: IMF Staff calculations

Figure 1. Jamaica: Recent Developments

Mining supported growth in 2018H1…

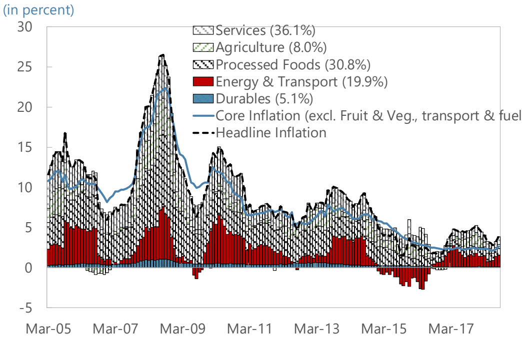
Quarterly Real GDP Growth, year on year
(in percent)



Source: STATIN

…and inflation remained subdued

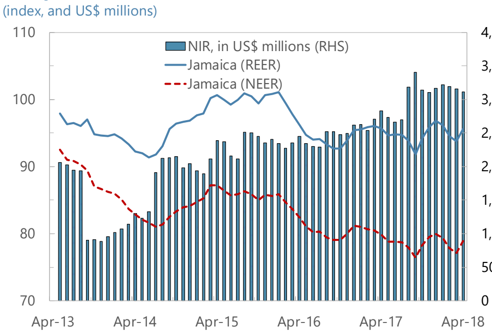
Inflation and contributions
(in percent)



Sources: BOJ; IMF Staff calculations

REER and NEER have remained rangebound since late 2017…

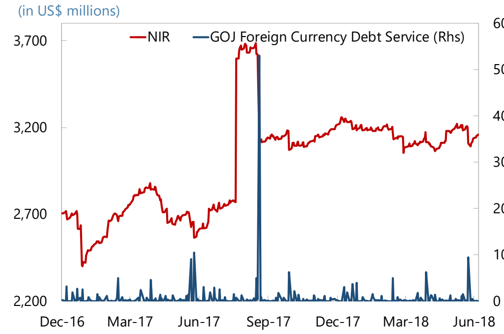
Competitiveness and Net International Reserves
(index, and US$ millions)



Sources: BOJ and IMF staff calculations

…and FX buy auctions have recently supported reserve accumulation

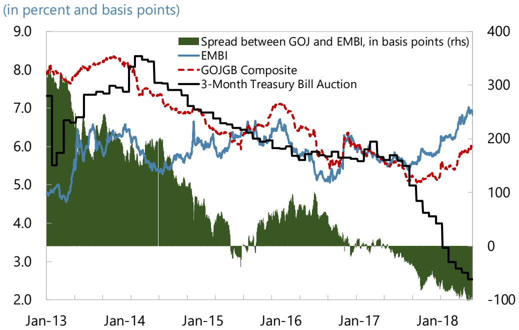
Net International Reserves
(in US$ millions)



Source: BOJ

Bond spreads at all time low…

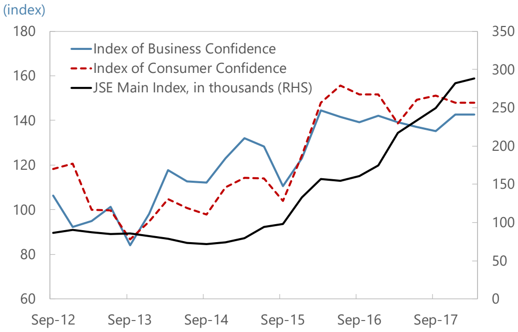
Jamaica borrowing cost
(in percent and basis points)



Sources: BOJ; GOJ; Bloomberg; IMF Staff calculations

…and domestic confidence high

Confidence and stock market
(index)



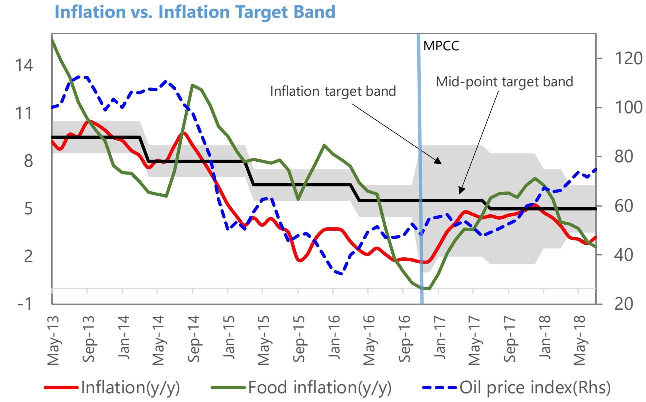
Sources: Chamber of Commerce; JSE; IMF Staff calculations

8. Risks, while subsiding, remain elevated. The balance of external risks remains unchanged since the 2018 Article IV and 3rd review report. Further oil price increases could risk increasing Jamaica's inflation and expanding the current account deficit. On the domestic front, prolonged weakness in domestic demand could hamper the achievement of the program's social and economic objectives. Continued broad-based public and political support is essential to sustain the government's reform efforts, particularly with respect to reducing public sector employment, managing emerging fiscal risks in some public bodies and passage of the proposed amendments revising the BOJ Act (to facilitate the move to full-fledged inflation targeting).

PROGRAM PERFORMANCE

9. Program implementation remains strong. All end-June quantitative performance criteria (QPCs) were met. The central government primary surplus exceeded the target by J$13 billion or 0.7 percent of GDP, due to buoyant tax revenues (trade taxes, domestic SCT, and taxes on interest). Capital expenditure was about 13 percent above budget in June – an unusual occurrence in Jamaica where capital expenditure has typically been under-executed. This higher infrastructure spending will help fill the wide infrastructure gap. Non-borrowed reserves exceeded the government's target by US$400 million, supported by robust tourism receipts. Despite inflation falling below the lower band for IMF Executive Board consultation (LOI, Attachment I), the BOJ deems this as temporary and remains committed to ensuring that inflation returns to the center of the 4-6 percent inflation target band over the next 12-24 months.

Inflation vs. Inflation Target Band



10. Structural reforms are progressing, albeit slow in some key areas.

- Amendments to the BOJ Act are on track for legislative submission to the Parliament in October 2018 (*structural benchmark*). This flagship reform, consistent with IMF TA recommendations and the updated 2017 safeguards assessment, will cement price stability as the primary central bank objective, provide a legal basis for the operational independence of the central bank, and strengthen its governance structure and its accountability framework. In support of this reform, the government has included financing to ensure the BOJ meets prudent capital levels in both the FY18/19 budget and the medium-term fiscal forecasts.

- On reforms to the public sector compensation framework, progress has been achieved in updating data, but stakeholder consultation has been delayed due to the prolonged wage negotiations with some unions for the current round.

- In the financial sector, reaching a concrete proposal on how best to revise investment limits for pension and insurance companies has been delayed, to ensure new limits take account of risks associated with changes to FX limits and investments in private equity and venture capital. In addition, a busy legislative calendar has held back revisions to the Micro Credit Act and Cooperative Societies Act. Finally, plans to undertake a study into bank competition have been delayed by multiple resets to the procurement process.

Jamaica: Program Monitoring—Quantitative Performance Criteria Under the Stand-By Arrangement 1/ 2/

(in billions of Jamaican dollars)

	end-June 2018				PC Status
		Adjusted			end-June
	PCs	PCs	Actual	Difference	2018
Fiscal targets					
Performance Criteria					
1. Primary balance of the central government (floor) 3/	18.0	18.1	31.3	13.3	Met
2. Overall balance of the public sector (floor) 3/	-25.0	-20.5	16.5	37.0	Met
3. Net increase in the central government guaranteed debt (ceiling) 3/	0.0	0.0	-8.4	8.4	Met
4. Central government accumulation of domestic arrears (ceiling) 4/ 10/	0.0	0.0	-4.5	4.5	Met
5. Central government accumulation of tax refund arrears (ceiling) 5/ 10/	0.0	0.0	-14.1	14.1	Met
6. Accumulation of external debt payment arrears (ceiling) 4/ 9/	0.0	0.0	0.0	0.0	Met
Indicative targets					
7. Tax revenues of the central government (floor) 3/	110.0	110.0	128.7	18.7	Met
8. Change in the stock of public bodies non-guaranteed debt (ceiling) 11/	16.8	16.8	12.8	4.0	Met
9. Central government spending on social programs (floor) 3/ 7/	6.4	6.4	11.5	5.1	Met
10. Total loan value of all user funded PPPs (ceiling, percent of GDP)	3.0	3.0	1.5	1.5	Met
Monetary targets					
11. Stock of non-borrowed net international reserves (floor) 6/ 8/	2,075	2,073.5	2484.0	411	Met
12. *Monetary policy consultation clause (in percent)*					
Upper band	6.5				
Center inflation target	5.0		2.8	2.2	
Lower band	3.5				

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.

ACHIEVING FISCAL SUSTAINABILITY

A. Maintaining Fiscal Discipline

11. A supplementary budget for FY18/19 was tabled in Parliament in September. The $17 billion (0.8 percent of GDP) supplementary budget envisages utilizing higher tax revenues, unused allocation from the Special Early Retirement Program, and transfers from public bodies to, inter alia, settle longstanding arrears owed to the power company by the local authorities, additional capital expenditure, and higher contingencies for program expenditures.

12. A renewed commitment is needed to sustainably reduce the public-sector wage bill.

- A 4-year wage settlement—double the duration of the usual 2-year agreement—has been reached with 80 percent of central government employees. Annual salary increases of 5/2/4/5 percent were agreed for the four years from FY17/18. The wage bill for FY18/19 is projected to be 9.1 percent of GDP; there are still risks that it may move higher as negotiations with the police are ongoing.

- The authorities are exploring how best to outsource some administrative activities, which could reduce nominal wage spending but would likely represent a reclassification of spending (rather than fiscal savings).

- As discussed in the 2018 Article IV and 3rd review report, the opportunity of longer wage settlement needs to be leveraged to fundamentally reform the compensation framework and scale back the size of the public sector. Staff and authorities agree that there is significant scope to streamline the vast and inequitable system of allowances. The authorities expect to complete collection of payroll data from all Ministries, Departments, and Agencies by October 2018. They also expect stakeholder consultations on the compensation reform to be done by March 2019, with a view to developing a standardized pay scale by September 2019. Staff reiterated the importance of moving forward quickly on this difficult but important reform to institute a more rational compensation framework before the next wage negotiation round. The resulting savings from a lower wage spending (as a share of GDP) would free up valuable resources to support outlays on social assistance and growth-enhancing capital spending.

13. The government is strengthening its efforts to merge, close, or reintegrate public bodies. Out of the 190 public bodies, only 14 have been actioned so far, with little fiscal savings. The GOJ is making efforts to accelerate the process, with an additional 18 public bodies identified for action in the next 12 months. Going forward, staff stressed that—in addition to streamlining the number of public bodies—the reform should strike a balance between the government's public service priorities and maximizing fiscal savings, which can be applied towards growth enhancing priorities. The extent of reliance on government financing and public bodies' workforce size should also inform these decisions.

14. Several emerging fiscal risks will require careful management.

- The temporary reprieve (until October 23) from the U.S. sanctions on the Russian owner of the private alumina company (Windalco) has provided some scope for international banks to provide financing to the company. Staff encouraged the government to seek durable private sector solutions to the precarious financial position of the company and mitigate the risk that the government would need to step in and provide financing to preserve the company's operations and jobs.

- The Clarendon Alumina Production (CAP) company, owned by the GOJ, was identified as having weak liquidity and solvency positions in a November 2017 analytical review by the Auditor General. With some recent technical restorations, CAP's operational efficiency has improved, and its financial performance is expected to improve as well. The long-delayed upgrades to LNG-based power generation are now expected to begin in March 2019.

- State-owned Petrojam's already-weak financial position, took a turn for the worse with a prolonged plant shut-down. As a result, the company's plans for the first phase of a much-needed upgrade to its refinery are further delayed. The GOJ is working to address recent governance issues that have risen in the company, including by appointing a new Board, and conducting an ongoing administrative review which is expected to conclude by end-January 2019 and will inform further actions.

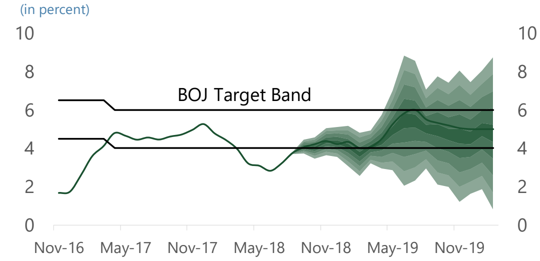
- Full replacement of Export Free Zones with Special Economic Zones (SEZ) from January 1, 2019 poses revenue risks if not monitored properly. The SEZ Authority and the tax and customs administrations are committed to following operating procedures and service standards to tighten oversight (e.g., for applications, certifications, and approval of SEZ status), and ensure compliance with SEZ rules and tax and customs laws. Strong implementation is critical to avoid erosion of the tax base as operations migrate into the SEZs.

ENHANCING MONETARY POLICY CREDIBILITY

15. Bank of Jamaica's accommodative monetary stance remains appropriate, while carefully weighing the prospects of some higher inflation from rising oil prices and the impact of the recent currency depreciation. On the whole, downward risks to the inflation path predominate from continued weak economic activity**.**

- Despite cuts in the overnight policy rate of 175bps since July 2017, inflation is projected at under 4 percent through end-2018. Inflation is forecast to approach the upper bound of the target band by June 2019—primarily because of the base effect and the return of seasonally higher prices in early summer—before falling back to the mid-point of the target range. Staff continues to recommend that the BOJ maintain an accommodative policy stance, while carefully monitoring risks.

Consumer Price Inflation Fan-Chart
(in percent)



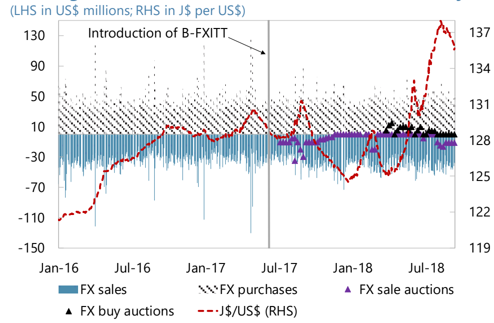
Source: IMF Staff calculations
Note: Distribution is derived using both historical series and is re-estimated around each point of the staff forecast horizon (as the mode). The methodology is an adaptation of Britton Fisher Whitley (1998), with the standard BOE parameters informing the dispersion and skewness implied by the historical series.

- The central bank sees similar two-sided risks to inflation and, with significant monetary accommodation already in the pipeline, held the policy rate unchanged in August. The BOJ is, however, carefully assessing incoming information and is committed to ensuring that inflation returns to the mid-point of the 4-6 percent target range (MEFP ¶17). Staff also stressed that consistent policy signaling by the BOJ is essential to anchor inflation expectations.

16. Addressing structural impediments to monetary transmission would help boost private credit, support growth and job creation. Measures to enhance monetary transmission should be data dependent and consistent with the monetary policy stance. In the present low inflation environment with an accommodative monetary stance, possible measures should be considered imminently starting with (i) lowering the J$ cash reserve requirement from 12 percent; (ii) reducing liquid asset requirements below the current 26 percent, while beginning to develop a well-calibrated liquidity coverage ratio that conforms with international standards; and (iii) gradually phasing out the high financial turnover taxes that impede intermediation (e.g., the 0.25 percent asset tax, stamp duty, and the 5 percent transfer tax), subject to fiscal affordability. IMF technical assistance in these areas, together with the findings of the pending banking competition study will help inform ways to lower spreads between loans and deposits. To that end, the BOJ is exploring ways to lower the concentration of deposits across banks—including account portability.

17. The BOJ should continue to prioritize exchange rate flexibility, further develop the FX market, and maintain external buffers. The authorities remain committed to a flexible exchange rate regime, with FX intervention limited to episodes of excessive volatility and disorderly market conditions. Staff emphasized that the assessment of adequacy of external reserves holds, provided that classification as a flexible exchange rate regime is sustained. From April to August, the BOJ made market-based FX purchases of US$111 million to build non-borrowed reserves; surrender requirements have been lowered by 10 percentage points since October 2017. The BOJ is committed to continuing to build internal capacity and take further steps to develop the FX market. The authorities are working toward introducing an FX trading platform. Staff recommended, with IMF technical assistance, improving monitoring and enforcement of group level net open position limits for authorized dealers and position limits for cambios, and building capacity to monitor existing FX hedging activity and introduce related regulations. Staff also noted the need to advance adoption of an FX market code of conduct, in line with IMF technical assistance recommendations.

Exchange rate and Bank of Jamaica FX market activity
(LHS in US$ millions; RHS in J$ per US$)



Source: BOJ

18. With a flexible exchange rate, Jamaica's reserve holdings are already above 100 percent of the ARA metric. Taking into account the improved reserve coverage, the program will target a modestly slower build up of non-borrowed reserves (with gross reserves expected to reach 117 percent of the ARA metric by the end of the SBA). The authorities welcomed the reclassification of the exchange rate arrangement based on their successful policy actions, and recommitted to maintaining exchange rate flexibility.

19. Effective BOJ communications will be essential to fully implement inflation targeting and guide expectations (MEFP ¶16). The BOJ is developing, with IMF support, a communication strategy and toolkit (Box 1) to better explain to financial markets and the wider public the conduct of monetary policy and the framework for inflation targeting. As part of this effort, the BOJ intends to adopt clearer signaling to the market and the public on the trajectory and context of its policy actions and upgrade its monetary policy communications to better anchor inflation expectations.

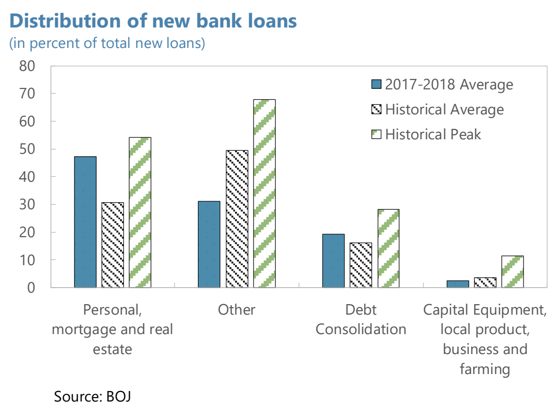
PRIVATE SECTOR FINANCING AND GROWTH

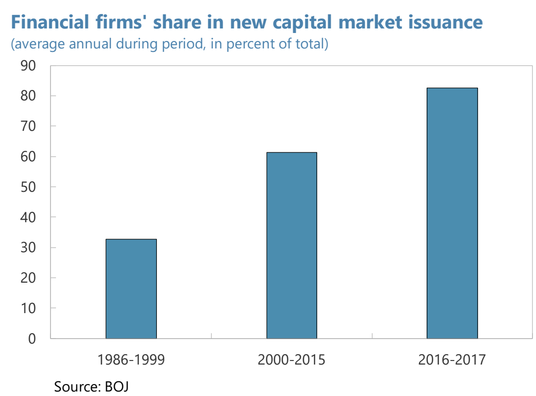
20. The scaling back of the public sector's borrowing needs has not been matched by a crowding in of private credit creation. The phasing out of fiscal dominance and the move to historically low interest rates have opened space for financial institutions to fund private sector activity. However, financial intermediaries have been slow to reshape their business models toward lending to the real economy. Necessary supply-side reforms continue to constrain private sector crowding in, particularly in accessing and pricing of credit. Concurrently, capital market intermediation has been largely dominated by liabilities issued by financial entities. There is a need to better incentivize the system of financial intermediation to fund private investment and consumption, underpinned by a strong risk-management framework. Steps in this direction should include:

- Further developing the primary and secondary debt markets including with a liquid benchmark government yield curve, better market infrastructure, and accompanying technical capacity;

- With IMF technical assistance, broadening the role of securities dealers as market makers for corporate debt and equity instruments to increase the liquidity of those instruments;

- Increasing access to small and medium enterprises by setting up microinsurance, utilizing the existing land titling, and legal frameworks to securitize future receivables to expand financial inclusion and intermediation; and





- BOJ continued monitoring of trends from the credit reporting system, together with the broadening of acceptable collateral and addressing existing informational gaps, can help increase benefits from the reporting system. This would help reduce data fragmentation and inaccuracies.

21. As the accompanying Financial System Stability Assessment (FSSA) recommends, intensifying effective supervision of consolidated financial groups, enhancing supervisory capacity, as well as boosting data collection and monitoring are necessary for sustained financial sector stability (Annex I). This will require:

- *Increasing visibility on interconnectedness and strengthening risk-based supervision*. Large and concentrated exposures—both domestic and cross-border—of a few financial institutions are a financial stability risk, notwithstanding the systems resilience to potential stress events. The FSSA recommends:
  - developing consolidated risk-based supervision of financial conglomerates;

  - improving coordination between the BOJ and the FSC, with respect to group supervision and data collection of securities dealers' over-the-counter transactions; and
  - developing better policing for concentrated exposures, counterparty limits, and FX and liquidity risks, including by establishing transparent and mandatory trade reporting.

- *Developing and operationalizing transparent criteria to identify Domestic-Systemically Important Banks* and computing a capital surcharge reflective of their systemic importance.

- *Further developing the special resolution regime*. The preparation of draft legislation is underway, including to (i) clarify the responsibilities of different players and the hierarchy of creditor claims in case of resolution and insolvency; and (ii) lay out the mechanisms for resolution funding modalities. The authorities noted that they will begin consultations with the industry on firm and group-level recovery planning, and concurrently commence the consolidated risk-based supervision pilot during 2019.

- Concurrent work on the special insolvency regime for financial institutions is ongoing, with the aim of connecting the legislative framework seamlessly with the administrative component, alongside a clear and adequate funding model for resolutions. Given the scope of this reform and the additional work needed, the envisaged timeline for Parliamentary submission of this legislation is being reset for September 2019.

- *Re-examining investment limits for non-bank financial regulations*: To broaden the types of allowable investment assets for institutional investors, the FSC recently submitted a proposal to the Finance Minister to marginally relax the investment limits of pension funds, but with no change to the limits on FX investments. Changes to these limits should be decided in conjunction with the BOJ to avoid potential regulatory arbitrage—especially for FX limits—and adjustments should be gradual and commensurate with enhanced data collection and FSC's enforcement capacity. There is also a need to improve the governance arrangements for pension funds and, more generally, the risk management framework for nonbank financial institutions (especially asset management companies and insurance companies).

- *Completing the reform of the regulatory framework for securities dealers*. Completing retail repo reforms will require the FSC to signal to the industry its preferred path towards full phase-in of the mismatch ratio (at March 2020), and revise the large exposure regime to enhance resilience to contagion. The FSC should move quickly towards implementing risk-based supervision for SDs and upgrade data reporting for the sector.

22. Strengthening the AML/CFT framework and mitigating the risks of a loss of correspondent banking relationships (CBRs) should continue. The withdrawal of CBRs remains contained in Jamaica. Nonetheless, there is still a need to strengthen the AML/CFT regime, in line with recommendations from the CFATF 2017 Mutual Evaluation. Work is underway in this area including the development and implementation of a risk-based supervisory framework for deposit taking institutions and cambios, with IMF technical assistance.

DATA STANDARDS

23. Ongoing work at the statistics agency to strengthen quality and timeliness, aims to meet the requirements of the Special Data Dissemination Standards Subscription. Ongoing IMF technical assistance is supporting the needed improvements in data standards, especially those relating to monetary statistics and the external accounts—in line with the 2017 Safeguards Assessment recommendations. The BOJ is also upgrading capacity and statistical methods to ensure alignment with the *2016 Monetary and Financial Statistics Manual and Compilation Guide,* and coordinating with the FSC to produce consistent data for other financial corporations. Jamaica currently produces annual and quarterly GDP estimates by production and annual GDP estimates by expenditure. Quarterly expenditure GDP figures are expected to be routinely published starting in 2020.

PROGRAM ISSUES

24. The program is fully financed and the capacity to repay the Fund is adequate. The government's commitment to reforms remains strong and, despite recent concerns about exchange rate depreciation, there is broad-based societal ownership of the government's policy plans. A fully-drawn SBA, under a downside scenario, would imply a peak debt service in 2023 of 18.9 percent of exports of goods and services (or 6.5 percent of GDP).

25. Modifications to the MPCC. Currently, the symmetrical MPCC with the IMF Executive Board is triggered if annual inflation outturns at the program test dates are outside of 5±1.5 percent in 2018, and 5±1 percent in 2019. The proposed modification introduces a staff consultation clause, whereby the BOJ will consult with staff on the outlook for inflation and the proposed policy response if year-on-year inflation at program test dates (December 2018) falls below 3.5 percent in 2018 and 4 percent in 2019 test dates (June). For the December 2018 test date, Board consultation is proposed if inflation falls below 2 percent or above 6.5 percent. For the June 2019 test date, Board consultation would be triggered if inflation falls outside of the 2.5 to 6 percent range.

26. Program targets. Modifications to December 2018 QPC on the central government guaranteed debt ceiling, new QPCs for end-June 2019, as well as indicative targets for end-September 2019 are proposed.

STAFF APPRAISAL

27. Sustained reforms since 2013 have brought macroeconomic stability but not strong economic growth. Inflation is low, FX reserves are adequate, public debt is on track to reach 60 percent of GDP by March 2026 (as stipulated in the FRL), unemployment is falling, and poverty has receded. However, continuing weaker than expected growth is symptomatic of macroeconomic stability being a necessary but not sufficient condition for solid growth and robust job creation. The challenge Jamaica faces at this juncture is prioritizing and steering important structural reforms to facilitate private sector investment as a path to faster and sustained economic growth.

28. The public-sector wage bill needs to be placed on a downward trajectory to create greater space for growth-enhancing spending. Achieving a sustained reduction in the wage bill will require (i) overhauling compensation to reward performance; (ii) exerting better control over compensation by streamlining the vast and inequitable allowance structure; and (iii) prioritizing key government functions and shedding those that are not affordable or not needed. This approach will inevitably reduce the size of the workforce. The resultant fiscal space such reforms will open up could be sizable and would provide meaningful resources for much-needed security, social, and growth-enhancing capital spending.

29. Emerging fiscal risks call for increased vigilance. Durable private sector solutions are necessary for the mining and sugar industries. Financing pressures on the budget from problems in the corporate sector should be provided only after carefully weighing the implications for public finance, social and jobs considerations, and the trade-offs versus other fiscal needs. The SEZ Authority and the tax and customs administrations should follow agreed procedures for oversight mechanisms to ascertain compliance with the SEZ rules to prevent revenue leakage.

30. An accommodative monetary stance, supported by a flexible exchange rate, is essential to achieve the medium-term inflation target. While the recent fall in inflation was partly supply-side driven, the BOJ should continue to act proactively to restore inflation to the mid-point of the target range. A central focus on inflation and improved communications can help better anchor inflation expectations. Meanwhile, FX intervention should be reserved for smoothing excess volatility and not to counter healthy, market-determined two-way movements in the currency. FX market development needs to be accelerated, including through the introduction of a common FX trading platform, a review of the net open position limits, and bolstering internal technical capacity.

31. Staff supports the authorities' request 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 (MEFP ¶8).[1] In addition to supporting the authorities' efforts to develop the FX market (¶17), 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.

32. Economic conditions are ripe for the private sector to step up productive investment. Since 2013, the sustained effort of consecutive administrations has delivered sound macroeconomic fundamentals and economic stability. The current economic environment is unprecedented for driving private sector-led growth. Yet, private lending and investment to support the productive economy has lagged behind. In addition, stronger growth will require policy makers to remove obstacles to private investment in the real economy including by supporting skills development, lowering red tape, and increasing policy predictability.

33. Further strengthening the financial sector, in line with FSSA recommendations, should be a top priority. Immediate attention should be provided to enhancing coordination, data

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[1] Jamaica continues to implement the multiple-price FX auction system, developed with IMF technical assistance, that give rise to a MCP. The Executive Board previously approved the temporary retention for MCP until October 22, 2018.

collection, monitoring, and technical capacity at both financial regulators. Bolstering consolidated and risk-based supervision, identifying domestic-systemically important banks (with appropriate accompanying regulatory treatment for such institutions), and addressing impediments that constrain access to finance would all be important steps forward.

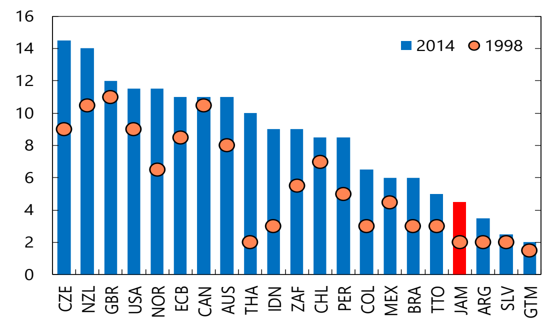
34. On the basis of the authorities' strong program implementation and continued reform commitment, staff recommends approval of the authorities' request for completion of the fourth review and monetary policy consultation under the SBA, the approval of the retention of the MCP, the proposed establishment and modification of performance criteria, and the proposed modification of the MPCC.

Box 1. Strengthening the Bank of Jamaica's Monetary Policy Communications

The Bank of Jamaica (BOJ) has made significant progress in strengthening its monetary policy framework. The exchange rate has been more flexible since the B-FXITT auctions were introduced, the interest rate corridor has narrowed to improve policy signaling, modelling and forecasting has been upgraded, and information sharing has expanded.

The BOJ has also strengthened its communications around monetary and exchange rate policy. It holds quarterly press briefings, issues press statements for policy decisions, and publishes monetary and inflation reports several times a year, as well as a financial sector stability report each year. The BOJ stepped up its communications during the introduction of the FX auctions via the B-FXITT.

Central Bank Transparency Index
(Index)



Sources: Dincer and Eichengreen (2014)[1]; Bloomberg Finance L.P.; and IMF staff

With the draft legislation to amend the BOJ Act toward operational independence and full-fledged inflation targeting underway, clear and transparent communication will be even more essential. Indeed, communication can be an effective monetary policy instrument. A large empirical literature indicates that stronger transparency and communication strategies are linked with greater policy predictability and better anchoring of inflation expectations (WHD April 2018 REO, Chapter 3). Transparency enhances accountability by enabling the public to better understand the central bank's objectives and the factors that drive monetary policy decisions. While transparency at the BOJ has improved, international comparison suggests room for more development.

As the BOJ transitions to inflation targeting, it could seek to further enhance financial literacy and understanding of financial markets such that inflation expectations can be anchored credibly, supporting the BOJ's independence. In addition to including analyses of future policy intentions with the necessary caveats, and simplified reasons behind conclusions that can be understood by a wider audience, the BOJ communications strategy could focus on the following key elements: (i) explaining the benefits of achieving price stability; (ii) better tailoring communications to diverse audiences; (iii) using simpler and less technical language for greater reach; (iv) expanding the range of communications channels to include more broadcast and social media; (v) strengthening BOJ's presence in the public debate, including by designating additional senior level spokespersons; and (vi) explaining consistency of policy signals of various operational actions, to safeguard BOJ credibility. The BOJ has set on a path of significant reforms to improve the effectiveness of monetary policy. Transforming its approach to communication, with IMF technical assistance, will further support its policy effectiveness and credibly anchor inflation expectations.

[1] The Dincer and Eichengreen index on central bank transparency covers 120 central banks on an annual basis. While it is widely used in economic research, there is no internationally accepted statistical standard for this indicator; the compilers do not report confidence intervals around the index; data are not updated or disseminated on a regular basis.

Figure 2. Jamaica: Financial Sector Rigidities and Monetary Policy Transmission

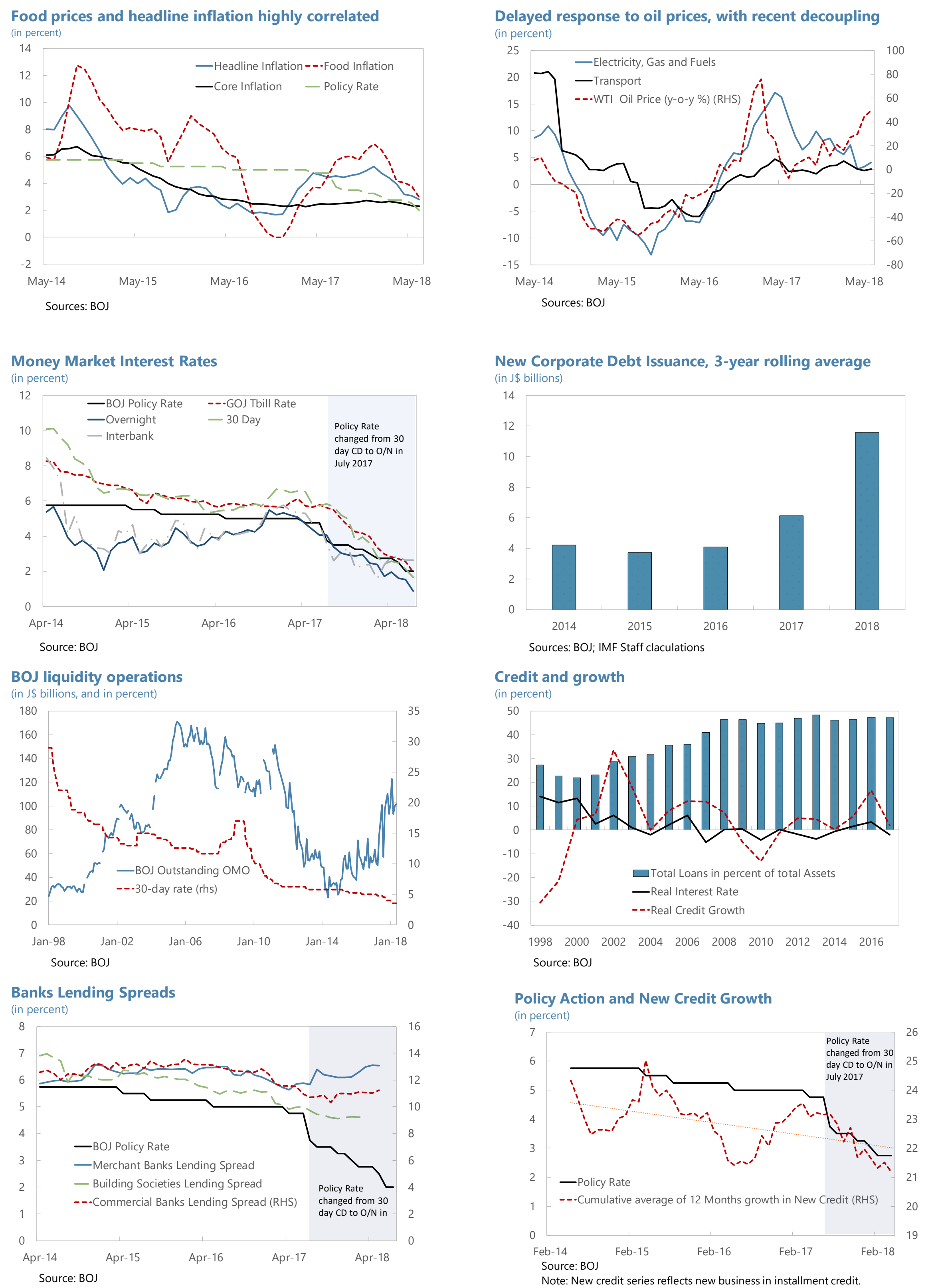


Table 1. Jamaica: Selected Economic Indicators 1/

Population (2013): 2.8 million
Quota (current; millions SDRs/% of total): 382.9/0.08%
Main products: Alumina, tourism, chemicals, mineral fuels, bauxite, coffee, sugar

Per capita GDP (2014): US$4955
Literacy rate (2015)/Poverty rate (2016): 87%/17.1%
Unemployment rate (Apr. 2018): 9.7%

				Est.	Prog.	Projections				
	2014/15	2015/16	2016/17	2017/18	2018/19	2018/19	2019/20	2020/21	2021/22	2022/23
	(Annual percent change, unless otherwise indicated)									
GDP and prices										
Real GDP	0.2	1.0	1.4	0.9	1.7	1.4	1.6	1.8	2.1	2.2
Nominal GDP	7.2	7.7	5.9	8.1	6.8	5.5	7.1	6.9	7.2	7.3
Consumer price index (end of period)	4.0	3.0	4.1	4.0	5.0	4.7	5.1	5.0	5.0	5.0
Consumer price index (average)	7.2	3.4	2.4	4.6	5.0	3.7	5.5	5.0	5.0	5.0
Exchange rate (end of period, J$/US$)	115.0	122.0	128.7	126.0	…	…	…	…	…	…
Exchange rate (average, J$/US$)	113.1	118.8	127.3	127.9	…	…	…	…	…	…
Nominal depreciation (+), end-of-period	5.0	6.1	5.4	-2.1	…	…	…	…	…	…
End-of-period REER (appreciation +) (new methodology) 2/	-0.2	-2.4	-2.6	3.2	…	…	…	…	…	…
Treasury bill rate (end-of-period, percent)	7.0	5.8	6.3	5.1	…	…	…	…	…	…
Treasury bill rate (average, percent)	7.8	6.3	6.1	5.1	…	…	…	…	…	…
Unemployment rate (percent) 3/	14.2	13.3	12.7	9.7	…	…	…	…	…	…
	(In percent of GDP)									
Government operations										
Budgetary revenue	26.3	27.0	27.9	29.0	29.3	29.8	28.9	28.6	28.5	28.3
Of which: Tax revenue 4/	23.6	24.5	25.7	25.7	25.8	25.9	25.4	25.3	25.3	25.3
Budgetary expenditure	26.7	27.3	28.1	28.6	29.5	29.6	28.1	27.9	27.4	26.8
Primary expenditure	18.8	19.8	20.3	21.6	22.4	22.8	22.0	22.1	22.0	21.8
Of which: Wages and salaries	9.5	9.7	9.3	9.2	9.2	9.1	9.1	9.0	8.8	8.8
Interest payments	8.0	7.4	7.8	7.0	7.1	6.8	6.2	5.8	5.4	5.0
Budget balance	-0.5	-0.3	-0.2	0.5	-0.2	0.2	0.8	0.7	1.1	1.5
Of which: Central government primary balance	7.5	7.2	7.6	7.4	7.0	7.0	7.0	6.5	6.5	6.5
Public entities balance 8/	0.9	1.8	2.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	0.4	1.6	1.5	1.1	-0.2	0.2	0.8	0.7	1.1	1.5
Public debt (FRL definition) 4/ 6/	…	…	115.1	102.2	98.3	99.6	93.6	88.3	82.1	75.8
Public debt (EFF definition) 5/ 7/	139.7	121.3	121.8	109.1	104.8	105.8	99.0	92.7	85.2	77.7
External sector										
Current account balance	-7.0	-2.0	-2.6	-5.4	-3.0	-5.0	-4.0	-3.7	-3.6	-3.5
Of which: Exports of goods, f.o.b.	10.2	8.3	8.8	9.2	10.4	10.8	11.2	11.1	10.8	10.5
Exports of services	15.5	14.8	15.8	14.2	14.5	14.5	15.3	15.7	15.4	15.1
Imports of goods, f.o.b.	36.4	30.0	31.5	34.9	33.2	36.9	36.6	35.9	35.4	35.0
Imports of services	19.8	19.5	21.4	20.6	21.1	21.1	23.0	24.1	24.0	23.8
Net international reserves (US$ millions)	2,294	2,416	2,769	3,075	3,219	2,965	3,168	3,221	3,229	3,426
of which: non-borrowed	1,335	1,470	1,944	2,398	2,428	2,454	2,820	2,887	3,065	3,295
	(Changes in percent of beginning of period broad money)									
Money and credit										
Net foreign assets	27.9	10.1	7.1	5.5	4.7	2.8	5.5	2.6	2.0	5.3
Net domestic assets	-22.3	8.6	15.4	2.6	2.1	2.7	1.6	4.3	5.3	2.1
Of which: Credit to the private sector	3.1	8.2	22.4	9.0	9.5	7.8	8.4	8.8	9.9	11.6
Credit to the central government	-15.2	5.5	0.4	2.8	5.2	2.8	0.0	-2.1	0.6	0.1
Broad money	5.7	18.7	22.5	8.1	6.8	5.5	7.1	6.9	7.2	7.3
Memorandum item:										
Nominal GDP (J$ billions)	1,568	1,688	1,789	1,933	2,016	2,039	2,184	2,334	2,503	2,687

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.

8/ Projections for 18/19 reflect the special distribution from PCDF to Central Government, ahead of its reintegration by end 18/19.

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

	2014/15	2015/16	2016/17	Est. 2017/18	Prog. 2018/19	Projections 2018/19	2019/20	2020/21	2021/22	2022/23
Budgetary revenue and grants	411,716	455,836	499,880	560,773	590,451	607,055	631,799	668,258	713,506	761,705
Tax	370,878	413,971	460,264	497,022	518,424	527,076	555,377	591,693	632,923	679,660
Of which:										
Income and profits	120,854	130,760	136,025	131,111	137,446	140,604	143,953	152,717	165,268	177,892
Of which: Other companies	35,903	42,282	51,791	61,507	63,716	63,244	66,396	70,969	78,388	84,984
PAYE	67,818	71,966	64,955	53,662	54,170	55,856	59,837	63,958	68,587	73,622
Production and consumption	120,421	133,557	147,937	175,339	182,999	183,696	196,615	209,721	222,938	239,100
Of which: GCT (Local)	63,995	72,745	78,175	90,817	96,245	95,788	103,128	111,333	119,390	128,155
International Trade	127,238	144,706	171,189	186,814	194,266	198,822	210,575	224,730	239,867	257,464
Of which: GCT (Imports)	58,471	65,806	73,735	78,925	80,799	84,066	90,508	97,709	105,827	114,732
Non-tax 1/	35,821	36,401	34,323	58,137	62,968	70,688	66,691	66,164	69,430	70,073
Grants	5,018	5,463	5,293	5,614	9,059	9,291	9,730	10,400	11,153	11,972
Budgetary expenditure	419,491	460,720	503,356	552,050	593,848	603,426	614,561	652,162	686,794	720,549
Primary expenditure	294,474	335,040	364,000	416,869	449,726	465,357	479,369	516,534	550,802	586,066
Compensation of employees	158,759	168,787	179,068	192,284	201,112	201,755	213,666	225,873	235,295	252,569
Wage and salaries 6/	149,193	163,518	166,485	177,366	185,186	186,465	198,727	210,080	220,276	236,448
Employer contributions	9,565	5,270	12,583	14,917	15,926	15,290	14,940	15,793	15,019	16,121
Programme expenditure	112,697	133,506	142,976	177,779	188,790	198,442	198,004	208,963	227,897	232,385
Capital expenditure	23,019	32,747	41,955	46,806	59,825	65,160	67,698	81,698	87,610	102,102
Interest	125,016	125,680	139,356	135,181	144,121	138,069	135,192	135,628	135,993	134,483
Domestic	75,756	71,391	63,544	63,783	63,470	58,257	51,664	52,594	51,920	53,730
External	49,260	54,288	75,812	71,398	80,651	79,812	83,528	83,034	84,073	80,753
Budget balance	-7,775	-4,884	-3,476	8,723	-3,397	3,629	17,238	16,096	26,711	41,156
Of which: Primary budget balance	117,242	120,796	135,880	143,904	140,724	141,698	152,430	151,724	162,704	174,649
Public entities balance 7/	13,749	31,199	36,263	11,400	0	0	0	0	0	0
Public sector balance	5,975	26,315	27,607	21,163	-3,397	3,629	17,238	16,096	26,711	40,165
Principal repayments	85,283	312,923	76,660	231,126	182,313	151,305	131,974	158,503	151,188	127,657
Domestic	25,285	216,043	30,161	166,974	63,470	89,106	71,785	109,860	62,593	76,298
External	59,999	96,881	46,499	64,153	80,651	62,199	60,189	48,642	88,594	51,360
Gross financing needs	93,058	317,807	85,316	221,364	185,710	147,677	114,736	142,407	124,476	87,492
Gross financing sources	93,058	317,807	85,316	221,364	185,710	147,677	114,736	142,407	124,476	87,492
Domestic	42,306	21,011	50,699	83,447	120,529	70,879	58,080	91,481	82,370	56,151
Of which : compensatory flows from PCDF	…	5,938	14,741	11,357	15,126	20,258	16,139	16,554	17,009	17,505
External	143,628	267,766	38,435	111,572	80,651	48,176	49,688	43,778	37,700	26,806
Of which: Official	66,743	30,231	35,660	28,213	46,091	42,965	35,929	14,296	10,282	11,337
Divestment + deposit drawdown	-92,877	29,030	-3,819	26,345	28,737	28,621	6,968	7,148	4,406	4,535
Memorandum items:										
Nominal GDP (billion J$)	1,568	1,688	1,789	1,933	2,016	2,039	2,184	2,334	2,503	2,687
Public sector debt (FRL definition, billion J$) 2/ 4/	…	…	2,059	1,976	1,981	2,030	2,045	2,062	2,056	2,036
Of which: Direct debt	…	…	2,036	1,965	1,977	2,020	2,029	2,048	2,042	2,023
Public sector debt (EFF definition, billion J$) 3/ 5/	2,190	2,048	2,178	2,109	2,112	2,157	2,162	2,163	2,133	2,089

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.

7/ Projections for 18/19 reflect the special distribution from PCDF to Central Government, ahead of its reintegration by end 18/19.

Table 3. Jamaica: Summary of Central Government Operations

(In percent of GDP)

	2014/15	2015/16	2016/17	Est. 2017/18	Prog. 2018/19	Projections 2018/19	2019/20	2020/21	2021/22	2022/23
Budgetary revenue and grants	26.3	27.0	27.9	29.0	29.3	29.8	28.9	28.6	28.5	28.3
Tax	23.6	24.5	25.7	25.7	25.7	25.9	25.4	25.3	25.3	25.3
Of which:					0.0					
Income and profits	7.7	7.7	7.6	6.8	6.8	6.9	6.6	6.5	6.6	6.6
Of which: Other companies	2.3	2.5	2.9	3.2	3.2	3.1	3.0	3.0	3.1	3.2
PAYE	4.3	4.3	3.6	2.8	2.7	2.7	2.7	2.7	2.7	2.7
Production and consumption	7.7	7.9	8.3	9.1	9.1	9.0	9.0	9.0	8.9	8.9
Of which: GCT (Local)	4.1	4.3	4.4	4.7	4.8	4.7	4.7	4.8	4.8	4.8
International Trade	8.1	8.6	9.6	9.7	9.6	9.8	9.6	9.6	9.6	9.6
Of which: GCT (Imports)	3.7	3.9	4.1	4.1	4.0	4.1	4.1	4.2	4.2	4.3
Non-tax 1/	2.3	2.2	1.9	3.0	3.1	3.5	3.1	2.8	2.8	2.6
Grants	0.3	0.3	0.3	0.3	0.4	0.5	0.4	0.4	0.4	0.4
Budgetary expenditure	26.7	27.3	28.1	28.6	29.5	29.6	28.1	27.9	27.4	26.8
Primary expenditure	18.8	19.8	20.3	21.6	22.3	22.8	22.0	22.1	22.0	21.8
Compensation of employees	10.1	10.0	10.0	9.9	10.0	9.9	9.8	9.7	9.4	9.4
Wage and salaries 6/	9.5	9.7	9.3	9.2	9.2	9.1	9.1	9.0	8.8	8.8
Employer contribution	0.6	0.3	0.7	0.8	0.8	0.8	0.7	0.7	0.6	0.6
Programme expenditure	7.2	7.9	8.0	9.2	9.4	9.7	9.1	9.0	9.1	8.6
Capital expenditure	1.5	1.9	2.3	2.4	3.0	3.2	3.1	3.5	3.5	3.8
Interest	8.0	7.4	7.8	7.0	7.1	6.8	6.2	5.8	5.4	5.0
Domestic	4.8	4.2	3.6	3.3	3.1	2.9	2.4	2.3	2.1	2.0
External	3.1	3.2	4.2	3.7	4.0	3.9	3.8	3.6	3.4	3.0
Budget balance	-0.5	-0.3	-0.2	0.5	-0.2	0.2	0.8	0.7	1.1	1.5
Of which: Primary budget balance	7.5	7.2	7.6	7.4	7.0	7.0	7.0	6.5	6.5	6.5
Public entities balance 7/	0.9	1.8	2.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	0.4	1.6	1.5	1.1	-0.2	0.2	0.8	0.7	1.1	1.5
Principal repayments	5.4	18.5	4.3	12.0	9.0	7.4	6.0	6.8	6.0	4.8
Domestic	1.6	12.8	1.7	8.6	3.1	4.4	3.3	4.7	2.5	2.8
External	3.8	5.7	2.6	3.3	4.0	3.1	2.8	2.1	3.5	1.9
Gross financing needs	5.9	18.8	4.8	11.5	9.2	7.2	5.3	6.1	5.0	3.3
Gross financing sources	5.9	18.8	4.8	11.5	9.2	7.2	5.3	6.1	5.0	3.3
Domestic	2.7	1.2	2.8	4.3	6.0	3.5	2.7	3.9	3.3	2.1
Of which : compensatory flows from PCDF	...	0.4	0.8	0.6	0.8	1.0	0.7	0.7	0.7	0.7
External	9.2	15.9	2.1	5.8	4.0	2.4	2.3	1.9	1.5	1.0
Of which: Official	4.3	1.8	2.0	1.5	2.3	2.1	1.6	0.6	0.4	0.4
Divestment + deposit drawdown	-5.9	1.7	-0.2	1.4	1.4	1.4	0.3	0.3	0.2	0.2
Memorandum items:										
Nominal GDP (billion J$)	1,568	1,688	1,789	1,933	2,016	2,039	2,184	2,334	2,503	2,687
Public sector debt (FRL definition,billion J$) 2/ 4/	...	...	2,059	1,976	1,981	2,030	2,045	2,062	2,056	2,036
Public sector debt (EFF definition,billion J$) 3/	2,190	2,048	2,178	2,109	2,112	2,157	2,162	2,163	2,133	2,089
Public sector debt (FRL definition) 2/ 4/	...	...	115.1	102.2	98.3	99.6	93.6	88.3	82.1	75.8
Of which: Direct debt	...	...	113.8	101.7	98.1	99.1	92.9	87.8	81.6	75.3
Public sector debt (EFF definition) 3/ 5/	139.7	121.3	121.8	109.1	104.8	105.8	99.0	92.7	85.2	77.7

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.

7/ Projections for 18/19 reflect the special distribution from PCDF to Central Government, ahead of its reintegration by end 18/19.

Table 4. Jamaica: Operations of the Public Entities

	In billions of Jamaican dollars					In percent of GDP				
	2014/15	2015/16	2016/17	2017/18	2018/19 latest	2014/15	2015/16	2016/17	2017/18	2018/19 latest
Operating balance selected public entities 1/	**36.5**	**55.4**	**79.3**	**75.2**	**26.8**	**2.3**	**3.3**	**4.4**	**3.9**	**1.3**
Of which:										
Airports Authority of Jamaica	1.5	3.6	4.0	7.0	3.8	0.1	0.2	0.2	0.4	0.2
Caymanas Track Limited	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Clarendon Aluminum	-2.8	-0.8	-0.8	1.3	1.5	-0.2	0.0	0.0	0.1	0.1
Development Bank of Jamaica	0.5	0.4	0.8	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Human Employment and Resource Training Trust	2.0	2.2	2.2	1.6	0.8	0.1	0.1	0.1	0.1	0.0
Housing Agency of Jamaica	-0.4	0.7	0.4	0.5	-0.1	0.0	0.0	0.0	0.0	0.0
Jamaica Mortgage Bank	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Jamaica Urban Transit Company	-2.4	-1.4	-2.4	-3.0	-1.2	-0.2	-0.1	-0.1	-0.2	-0.1
National Housing Trust	18.9	18.7	23.4	21.0	7.3	1.2	1.1	1.3	1.1	0.4
National Insurance Fund	1.7	2.3	3.6	4.0	1.0	0.1	0.1	0.2	0.2	0.0
NROCC	-5.7	-3.9	-4.2	-0.8	-0.3	-0.4	-0.2	-0.2	0.0	0.0
National Water Commission	3.5	5.3	4.9	4.4	-0.2	0.2	0.3	0.3	0.2	0.0
Petrojam Ethanol	-0.5	-0.4	0.0	0.4	-0.1	0.0	0.0	0.0	0.0	0.0
Petrojam	12.9	24.4	41.3	33.9	12.2	0.8	1.4	2.3	1.8	0.6
Petroleum Corporation of Jamaica	1.4	-0.7	0.6	0.1	0.2	0.1	0.0	0.0	0.0	0.0
Port Authority of Jamaica	5.5	4.9	5.0	4.2	2.0	0.4	0.3	0.3	0.2	0.1
Urban Development Corporation	0.3	-0.1	0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Net current transfers from the central government	**-22.6**	**-29.2**	**-40.3**	**-54.6**	**-7.5**	**-1.4**	**-1.7**	**-2.3**	**-2.8**	**-0.4**
Of which:										
Airports Authority of Jamaica	-0.2	-0.7	-0.9	-1.5	-0.2	0.0	0.0	-0.1	-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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development Bank of Jamaica	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Human Employment and Resource Training Trust	-0.9	-1.3	-1.0	-1.1	-0.5	-0.1	-0.1	-0.1	-0.1	0.0
Housing Agency of Jamaica	0.0	0.0	0.0	0.0	0.0	0.0	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	8.0	3.0	3.3	0.0	1.0	0.5	0.2	0.2	0.0	0.0
National Housing Trust	-11.4	-11.4	-12.4	-11.4	-1.2	-0.7	-0.7	-0.7	-0.6	-0.1
National Insurance Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NROCC	5.2	4.3	4.6	0.0	2.3	0.3	0.3	0.3	0.0	0.1
National Water Commission	0.1	0.0	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	-23.2	-24.0	-33.9	-40.2	-11.8	-1.5	-1.4	-1.9	-2.1	-0.6
Petroleum Corporation of Jamaica	-0.7	0.7	-0.5	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Port Authority of Jamaica	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Urban Development Corporation	0.5	0.2	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance selected public entities	**-4.7**	**16.0**	**11.8**	**-0.3**	**7.1**	**-0.3**	**1.0**	**0.7**	**0.0**	**0.3**
Of which:										
Airports Authority of Jamaica	0.7	2.3	2.4	4.7	3.1	0.0	0.1	0.1	0.2	0.2
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	-4.0	-0.9	-2.5	1.2	0.2	-0.3	-0.1	-0.1	0.1	0.0
Development Bank of Jamaica	0.5	0.3	0.7	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Human Employment and Resource Training Trust	1.0	0.5	0.8	-0.2	0.2	0.1	0.0	0.0	0.0	0.0
Housing Agency of Jamaica	-0.7	0.1	0.6	1.0	-0.1	0.0	0.0	0.0	0.1	0.0
Jamaica Mortgage Bank	0.1	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Jamaica Urban Transit Company	0.3	0.1	0.3	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0
National Housing Trust	0.1	4.0	1.4	-3.7	0.1	0.0	0.2	0.1	-0.2	0.0
National Insurance Fund	1.7	2.3	3.6	4.0	1.0	0.1	0.1	0.2	0.2	0.0
NROCC	-1.2	0.1	0.3	3.4	2.0	-0.1	0.0	0.0	0.2	0.1
National Water Commission	-2.8	-0.7	0.4	0.9	-1.5	-0.2	0.0	0.0	0.0	-0.1
Petrojam Ethanol	0.0	-0.2	0.0	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Petrojam	-4.8	5.0	-0.1	-8.3	2.3	-0.3	0.3	0.0	-0.4	0.1
Petroleum Corporation of Jamaica	0.6	0.0	0.1	1.0	0.1	0.0	0.0	0.0	0.1	0.0
Port Authority of Jamaica	4.1	4.1	3.3	-4.7	-0.1	0.3	0.2	0.2	-0.2	0.0
Urban Development Corporation	-0.3	-1.1	0.6	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0
Overall balance other public entities	**18.5**	**15.2**	**24.5**	**11.6**	**7.0**	**1.2**	**0.9**	**1.4**	**0.6**	**0.3**
Overall balance public entities	**13.7**	**31.2**	**36.3**	**11.4**	**14.1**	**0.9**	**1.8**	**2.0**	**0.6**	**0.7**

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)

	2014/15	2015/16	2016/17	Est. 2017/18	Prog. 2018/19	Projections 2018/19	2019/20	2020/21	2021/22	2022/23
Current account	-967	-283	-372	-810	-459	-766	-627	-600	-606	-622
Trade balance	-3,641	-3,091	-3,192	-3,893	-3,523	-4,029	-3,990	-4,057	-4,200	-4,363
Exports (f.o.b.)	1,412	1,179	1,231	1,388	1,608	1,664	1,752	1,809	1,835	1,860
Imports (f.o.b.)	5,053	4,270	4,423	5,281	5,131	5,693	5,742	5,867	6,035	6,224
Fuel (cif)	1,764	1,029	1,097	1,482	1,516	1,790	1,778	1,740	1,688	1,648
Exceptional imports (including FDI-related)	294	443	471	452	564	424	506	515	625	721
Other	2,995	2,798	2,855	3,348	3,051	3,479	3,458	3,612	3,723	3,854
Services (net)	790	970	1,018	1,194	1,212	1,371	1,461	1,540	1,611	1,683
Transportation	-635	-562	-579	-666	-661	-723	-723	-737	-763	-791
Travel	2,105	2,203	2,305	2,602	2,555	2,893	2,998	3,111	3,230	3,355
Of which: Tourism receipts	2,314	2,444	2,566	2,876	2,833	3,176	3,290	3,413	3,543	3,680
Other services	-680	-671	-708	-742	-682	-799	-815	-835	-857	-881
Income (net) 4/	-345	-490	-594	-507	-740	-601	-648	-685	-673	-650
Current transfers (net)	2,229	2,328	2,396	2,396	2,591	2,492	2,550	2,603	2,656	2,708
Government (net)	150	182	174	178	181	182	186	189	193	197
Private (net)	2,079	2,146	2,222	2,217	2,410	2,310	2,364	2,413	2,463	2,511
Capital and financial account	1,957	296	726	1,130	612	657	830	653	614	819
Capital account (net)	-19	1,421	0	-19	-28	-19	-19	-19	-19	-19
Financial account (net) 1/	1,976	-1,125	726	1,149	640	676	849	672	633	838
Direct investment (net)	590	942	585	907	705	697	705	735	769	806
Central government (net) 5/	600	1,599	-39	540	-297	-145	-174	-240	-533	-265
Of which: IFIs	181	231	214	142	258	105	230	30	30	30
Other official (net) 2/ 5/	78	-2,835	34	19	-44	-93	-35	-31	-25	-25
Of which: PetroCaribe	161	-2,932	12	0	0	0	0	0	0	0
Portfolio investment (net)	709	-831	145	-317	278	218	353	208	422	322
Overall balance	990	13	354	320	153	-109	203	53	8	197
Financing	-990	-13	-354	-320	-153	109	-203	-53	-8	-197
Change in gross reserves (- increase)	-641	-205	-430	-333	-88	173	-105	69	124	-62
Change in arrears	0	0	0	0	0	0	0	0	0	0
Financing gap	-349	191	76	13	-65	-64	-98	-122	-132	-135
IMF 3/	-163	74	118	-16	-65	-64	-98	-122	-132	-135
Disbursements	259	119	118	0	0	0	0	0	0	0
Repayments	-422	-45	0	-16	-65	-64	-98	-122	-132	-135
Memorandum items:										
Gross international reserves	2,690	2,894	3,324	3,657	3,709	3,484	3,589	3,521	3,396	3,458
(in weeks of prospective imports of GNFS)	19.2	23.5	26.0	24.7	25.7	21.9	22.3	21.4	20.0	19.8
Net international reserves	2,294	2,416	2,769	3,075	3,219	2,965	3,168	3,221	3,229	3,426
of which: non-borrowed	1,335	1,470	1,944	2,398	2,428	2,454	2,820	2,887	3,065	3,295
Current account (percent of GDP)	-7.0	-2.0	-2.6	-5.4	-3.0	-5.0	-4.0	-3.7	-3.6	-3.5
Exports of goods (percent change)	-5.6	-16.5	4.4	12.8	17.6	19.9	5.3	3.3	1.4	1.4
Imports of goods (percent change)	-4.2	-15.5	3.6	19.4	7.5	7.8	0.9	2.2	2.9	3.1
Oil prices (composite, fiscal year basis)	83.3	46.1	47.9	55.7	61.4	70.8	68.4	65.1	62.7	61.1
Tourism receipts (percent change)	10.4	5.6	5.0	12.1	4.3	10.4	3.6	3.7	3.8	3.9
GDP (US$ millions)	13,870	14,216	14,052	15,114	…	…	…	…	…	…
Jamaican dollar/USD, period average	113	119	127	128	…	…	…	…	…	…

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/

				Est.	Prog.	Projections				
	2014/15	2015/16	2016/17	2017/18	2018/19	2018/19	2019/20	2020/21	2021/22	2022/23
	(In billions of Jamaican dollars)									
End-of-period stocks 1/										
Net foreign assets	**263.9**	**294.8**	**356.3**	**387.3**	**425.8**	**408.0**	**447.1**	**466.4**	**481.1**	**525.4**
Net domestic assets	**-162.8**	**-174.8**	**-216.8**	**-230.6**	**-258.7**	**-239.5**	**-266.5**	**-273.4**	**-274.1**	**-303.3**
Net claims on public sector	112.0	133.7	28.8	103.4	91.5	101.0	122.7	123.4	132.4	136.1
Net claims on central government	17.2	39.8	11.1	37.5	56.6	66.1	73.1	80.2	84.6	89.2
Net claims on rest of public sector	102.3	83.8	24.2	70.8	44.0	44.0	56.9	52.2	56.2	54.8
Operating losses of the BOJ	-7.6	10.1	-6.5	-4.9	-9.1	-9.1	-7.3	-9.0	-8.5	-7.8
Net credit to commercial banks	-23.9	-28.5	-44.1	-43.7	-46.2	-46.6	-50.1	-53.5	-57.7	-62.0
Of which : foreign prudential reserve	-23.9	-28.5	-44.1	-43.7	-46.2	-46.6	-50.1	-53.5	-57.7	-62.0
Net credit to other financial institutions	-1.7	-2.4	-1.9	-2.1	-2.1	-2.1	-2.2	-2.3	-2.4	-2.5
Open market operations	-38.9	-57.8	-51.8	-146.9	-144.7	-121.4	-157.4	-151.6	-145.5	-161.3
Other items net (incl. valuation adj.)	-210.3	-219.9	-147.9	-141.3	-157.3	-170.4	-179.5	-189.4	-201.0	-213.5
Of which: Valuation adjustment	-69.5	-74.9	-126.6	-120.1	-136.0	-149.2	-158.2	-168.2	-179.7	-192.3
Base money	**101.1**	**120.0**	**139.5**	**156.7**	**167.1**	**168.5**	**180.5**	**193.0**	**206.9**	**222.1**
Currency in circulation	58.7	70.4	76.6	64.4	65.5	66.0	68.7	71.4	74.4	77.7
Liabilities to commercial banks	42.4	49.7	62.9	92.3	101.6	102.5	111.8	121.5	132.5	144.4
Fiscal year flows 1/										
Net foreign assets	**121.0**	**30.9**	**61.5**	**31.0**	**30.5**	**20.7**	**39.0**	**19.3**	**14.7**	**44.3**
Net domestic assets	-114.4	-12.0	-42.1	-13.8	-16.8	-8.9	-27.0	-6.9	-0.7	-29.1
Net claims on public sector	-82.6	21.7	-104.8	74.5	-2.0	-2.4	21.7	0.8	8.9	3.8
Net claims on central government	-57.4	22.5	-28.6	26.3	28.7	28.6	7.0	7.1	4.4	4.5
Net credit to commercial banks	-2.5	-4.6	-15.6	0.4	-3.4	-2.9	-3.6	-3.4	-4.1	-4.4
Net credit to other financial institutions	-0.1	-0.6	0.5	-0.2	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Open market operations	-8.3	-18.9	5.9	-95.0	-2.7	25.4	-36.0	5.8	6.1	-15.8
Other items net (incl. valuation adj.)	-20.8	-9.6	72.0	6.6	-8.7	-29.1	-9.0	-10.0	-11.5	-12.6
Base money	**6.7**	**18.9**	**19.4**	**17.3**	**13.7**	**11.8**	**12.0**	**12.4**	**14.0**	**15.2**
Currency in circulation	4.9	11.7	6.2	-12.1	2.4	1.6	2.7	2.7	3.0	3.2
Liabilities to commercial banks	1.7	7.2	13.2	29.4	11.3	10.2	9.3	9.8	10.9	12.0
	(Change in percent of beginning-of-period Base Money)									
Net foreign assets	**128.2**	**30.6**	**51.2**	**22.3**	**19.9**	**13.2**	**23.2**	**10.7**	**7.6**	**21.4**
Net domestic assets	**-121.1**	**-11.9**	**-35.0**	**-9.9**	**-10.9**	**-5.7**	**-16.0**	**-3.8**	**-0.4**	**-14.1**
Net claims on public sector	-87.4	21.5	-87.4	53.4	-1.3	-1.5	12.9	0.4	4.6	1.8
Net credit to commercial banks	-2.6	-4.5	-13.0	0.3	-2.2	-1.8	-2.1	-1.9	-2.1	-2.1
Net credit to other financial institutions	-0.1	-0.6	0.4	-0.2	0.0	0.0	-0.1	0.0	-0.1	0.0
Open market operations	-8.8	-18.7	4.9	-68.1	-1.7	16.2	-21.4	3.2	3.2	-7.6
Other items net (incl. valuation adj.)	-22.1	-9.5	60.0	4.7	-5.7	-18.6	-5.4	-5.5	-6.0	-6.1
Base money	**7.0**	**18.7**	**16.2**	**12.4**	**8.9**	**7.5**	**7.1**	**6.9**	**7.2**	**7.3**
Currency in circulation	5.2	11.6	5.2	-8.7	1.6	1.0	1.6	1.5	1.6	1.6
Liabilities to commercial banks	1.8	7.2	11.0	21.1	7.4	6.5	5.5	5.4	5.7	5.8
Memorandum items:										
Change in net claims on the central government (percent of GDP)	-3.7	1.3	-1.6	1.4	1.4	1.4	0.3	0.3	0.2	0.2

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Fiscal year runs from April 1 to March 31. Additionally, the authorities are compiling and disseminating monetary data on the basis of the 2000 MFS manual, which reflect a different methodology and coverage.

Table 7. Jamaica: Summary Monetary Survey [1/]

	2014/15	2015/16	2016/17	Est. 2017/18	Prog. 2018/19	Projections 2018/19	2019/20	2020/21	2021/22	2022/23
	(In billions of Jamaican dollars)									
End-of-period stocks 1/										
Net foreign assets	**308.6**	**353.5**	**391.0**	**426.5**	**465.2**	**445.9**	**486.7**	**507.5**	**523.9**	**571.5**
Net domestic assets	**135.7**	**173.8**	**254.8**	**271.4**	**264.8**	**290.1**	**301.8**	**335.4**	**379.9**	**398.7**
Net claims on public sector	188.4	206.5	116.6	179.2	169.5	159.7	165.0	130.8	140.8	140.5
Of which: Central government 2/	109.5	133.8	136.0	154.0	183.2	173.5	173.6	157.2	162.6	163.1
Open market operations	14.5	15.3	35.8	145.8	55.2	22.4	3.0	-30.8	-217.2	-310.7
Credit to private sector	339.5	376.0	493.9	552.0	602.1	606.1	668.1	737.3	821.0	925.6
Of which: Foreign currency	76.6	84.3	100.7	99.1	104.5	108.7	112.1	115.6	119.5	123.6
Other	-406.5	-424.0	-391.6	-605.5	-561.9	-498.1	-534.4	-502.0	-364.6	-356.8
Of which: Valuation adjustment	-69.5	-74.9	-126.6	-123.0	-132.0	-138.8	-143.7	-149.0	-154.8	-160.9
Liabilities to private sector (M3)	**444.4**	**527.3**	**645.9**	**697.9**	**730.0**	**736.0**	**788.5**	**842.8**	**903.8**	**970.1**
Money supply (M2)	273.3	310.4	383.6	406.5	422.1	425.6	454.2	486.0	519.4	556.5
Foreign currency deposits	171.1	216.8	262.3	291.4	307.9	310.4	334.3	356.8	384.4	413.7
Fiscal year flows 1/										
Net foreign assets	**117.4**	**44.9**	**37.6**	**35.5**	**32.3**	**19.4**	**40.8**	**20.8**	**16.4**	**47.6**
Net domestic assets	**-93.6**	**38.0**	**81.0**	**16.6**	**14.5**	**18.7**	**11.7**	**33.6**	**44.6**	**18.8**
Net claims on public sector	-79.5	18.1	-89.8	62.5	-3.2	-19.5	5.3	-34.2	9.9	-0.3
Of which: Central government	-63.9	24.3	2.2	18.0	35.5	19.5	0.1	-16.4	5.4	0.5
Open market operations	-3.8	0.9	20.5	109.9	-84.3	-123.4	-19.4	-33.8	-186.4	-93.4
Credit to private sector	13.2	36.5	118.0	58.0	65.1	54.1	62.0	69.2	83.7	104.6
Of which: Foreign currency	-7.3	7.7	16.4	-1.6	3.1	9.7	3.3	3.5	3.9	4.1
Other 2/	-23.5	-17.4	32.4	-213.9	36.8	107.4	-36.3	32.4	137.4	7.8
Of which: Valuation adjustment	-8.9	-5.4	-51.8	3.7	-5.0	-15.9	-4.9	-5.3	-5.8	-6.1
Liabilities to private sector (M3)	**23.8**	**82.9**	**118.6**	**52.1**	**46.7**	**38.1**	**52.5**	**54.3**	**61.0**	**66.4**
Money supply (M2)	12.7	37.2	73.2	22.9	24.1	19.1	28.6	31.8	33.5	37.1
Foreign currency deposits	11.1	45.7	45.5	29.1	22.6	19.0	23.8	22.6	27.5	29.3
	(Change in percent of beginning-of-period M3)									
Net foreign assets	**27.9**	**10.1**	**7.1**	**5.5**	**4.7**	**2.8**	**5.5**	**2.6**	**2.0**	**5.3**
Net domestic assets	**-22.3**	**8.6**	**15.4**	**2.6**	**2.1**	**2.7**	**1.6**	**4.3**	**5.3**	**2.1**
Net claims on public sector	-18.9	4.1	-17.0	9.7	-0.5	-2.8	0.7	-4.3	1.2	0.0
Of which: Central government	-15.2	5.5	0.4	2.8	5.2	2.8	0.0	-2.1	0.6	0.1
Open market operations	-0.9	0.2	3.9	17.0	-12.3	-17.7	-2.6	-4.3	-22.1	-10.3
Credit to private sector	3.1	8.2	22.4	9.0	9.5	7.8	8.4	8.8	9.9	11.6
Of which: Foreign currency	-1.7	1.7	3.1	-0.2	0.5	1.4	0.5	0.4	0.5	0.5
Other 2/	-5.6	-3.9	6.1	-33.1	5.4	15.4	-4.9	4.1	16.3	0.9
Of which: Valuation adjustment	-2.1	-1.2	-9.8	0.6	-0.7	-2.3	-0.7	-0.7	-0.7	-0.7
Liabilities to private sector (M3)	**5.7**	**18.7**	**22.5**	**8.1**	**6.8**	**5.5**	**7.1**	**6.9**	**7.2**	**7.3**
Memorandum items:										
M3/monetary base	4.4	4.4	4.6	4.5	4.4	4.4	4.4	4.4	4.4	4.4
M3 velocity	3.5	3.2	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8

Sources: Bank of Jamaica; and Fund staff estimates and projections.

1/ Fiscal year runs from April 1 to March 31. Additionally, the authorities are compiling and disseminating monetary data on the basis of the 2000 MFS manual, which reflect a different methodology and coverage.

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/

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	March 2018
Balance sheet growth (y/y)											
Capital	14.7	13.8	5.1	5.3	4.0	18.3	7.4	9.0	12.6	8.1	10.4
Loans	24.2	5.3	-1.4	4.8	12.9	14.1	6.6	9.3	18.3	7.2	11.2
NPLs	57.6	68.0	36.1	44.0	-10.8	-12.9	0.2	-11.6	-16.9	-2.6	10.3
Liquidity											
Domestic currency liquid assets 2/	30.3	31.3	36.2	30.5	26.7	26.3	31.5	26.5	27.4	31.5	30.8
Asset Quality											
Prov. for loan losses/NPLs	87.2	75.7	69.9	75.2	90.3	95.7	101.6	106.4	117.5	121.3	111.2
NPLs/loans	2.9	4.7	6.5	8.9	7.0	5.4	5.0	4.1	3.5	3.5	3.5
Capital Adequacy											
NPLs/Capital+Prov. for loan losses	12.3	17.7	20.2	28.4	24.1	18.6	17.4	14.5	11.0	10.0	11.6
Capital Adequacy Ratio (CAR)	15.2	18.8	18.2	16.1	14.1	15.1	15.9	14.9	14.5	14.5	14.5
Profitability (calendar year) 3/											
Pre-tax profit margin	26.3	21.4	21.1	30.8	21.4	19.0	18.9	19.8	26.8	24.9	28.0
Return on average assets	3.5	2.9	2.5	3.9	2.4	2.0	2.1	2.1	2.1	2.1	2.1

Source: Bank of Jamaica.

1/ Commercial banks, building societies, and merchant banks; series includes credit unions from 2018

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

	Amount of Purchase		
Available on or after	SDR millions	% Quota	Conditions 1/
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
Fiscal Reforms		
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
Monetary policy and financial sector		
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	
Public Sector Transformation		
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 dabase 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	Met
21 Finalize the operational merger of HEART/NTA, Jamaica Foundation for Lifelong Learning, and the National Youth Service.	October 31, 2017	Met
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	Met
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)

	2018								2019		2019	2019
	Indicative Target	Actual	Performance Criteria	Adj. Performance Criteria	Actual	Indicative Target	Performance Criteria	Proposed Revised Performance Criteria	Indicative Target	Proposed Revised Indicative Target	Proposed Performance Criteria	Proposed Indicative Target
	end-March			end-June		end-Sep	end-December		end-March		end-June	end-Sept.
Fiscal targets												
Performance Criteria												
1. Primary balance of the central government (floor) 3/	132.0	143.9	18.0	18.1	31.3	44.0	68.0	68.0	140.2	141.6	19.0	35.7
2. Overall balance of the public sector (floor) 3/	-14.8	25.5	-25.0	-20.5	16.5	-39.2	-41.1	-41.1	-14.7	-14.7	-14.0	-25.0
3. Net increase in the central government guaranteed debt (ceiling) 3/	0.0	-8.9	0.0	0.0	-8.4	0.0	0.0	-8.4	0.0	-8.4	0.0	0.0
4. Central government accumulation of domestic arrears (ceiling) 4/ 10/	0.0	-2.5	0.0	0.0	-4.5	0.0	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	-9.6	0.0	0.0	-14.1	0.0	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	0.0	0.0
Indicative targets												
7. Tax revenues of the central government (floor) 3/	473.0	496.9	110.0	110.0	128.7	234.0	360.0	360.0	516.0	516.0	115.0	242.0
8. Change in the stock of public bodies non-guaranteed debt (ceiling) 11/	11.5	0.2	16.8	16.8	12.8	17.2	18.0	18.0	20.0	20.0	22.0	24.0
9. Central government spending on social programs (floor) 3/ 7/	26.6	32.2	6.4	6.4	11.5	11.9	19.4	19.4	28.2	28.2	6.7	12.3
10. Total loan value of all user funded PPPs (ceiling, percent of GDP)	3.0	1.5	3.0	3.0	1.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Monetary targets												
11. Stock of non-borrowed net international reserves (floor) 6/ 8/	1,917	2,409	2,075	2,073.5	2484	2,140	2,200	2,200	2,200	2,200	2,250	2,300
12. *Monetary policy consultation clause (in percent) 12/*												
Outer band (upper)	7.5		6.5			6.5	6.5	6.5	6.0	6.0	6.0	6.0
Center inflation target	5.0	4.0	5.0		2.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Inner band (lower)								3.5		4.0	4.0	4.0
Outer band (lower)	2.5		3.5			3.5	3.5	2.0	4.0	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.
12/ The Monetary policy consultation clause bands consist of two types of thresholds. The Inner band triggers a Staff consultation and an Outer band triggers a Board conusltation as detailed in the TMU.

Table 12. Jamaica: Indicators of Fund Credit, 2018–27
(In millions of SDRs, unless otherwise specified)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Prospective drawings (3-year SBA)	873.70	321.60	…	…	…	…	…	…	…	…
(in percent of quota)	228.18	83.99								
(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/										
Amortization	22.38	64.80	83.68	93.12	610.37	679.38	136.42	28.32	9.44	0.00
Amortization (4-year EFF)	22.38	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	517.25	597.65	80.40	0.00	0.00	0.00
Interest and service charges 1/	7.02	31.25	32.45	30.70	25.42	12.60	2.60	0.62	0.14	0.00
GRA surcharges 1/	1.76	15.47	18.08	17.14	13.80	0.86	0.00	0.00	0.00	0.00
SDR charges and assessments 1/	0.26	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Total debt service 1/	29.66	112.42	135.27	141.22	652.31	694.33	140.08	30.00	10.63	1.05
(in percent of exports of G&S) 2/	1.05	3.71	4.18	4.19	18.33	18.89	3.69	0.77	0.25	0.02
(in percent of GDP) 2/	0.34	1.28	1.46	1.45	6.39	6.48	1.24	0.25	0.08	0.01
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings) 1/										
Outstanding stock 1/	1,383.93	1,640.73	1,557.04	1,463.92	853.55	174.18	37.76	9.44	0.00	0.00
(in percent of quota)	361.43	428.50	406.64	382.32	222.92	45.49	9.86	2.47	0.00	0.00
(in percent of GDP) 2/	16.04	18.68	16.84	15.05	8.36	1.62	0.34	0.08	0.00	0.00
Memorandum items:										
Exports of goods and services (US$ millions) 2/	4,202.50	4,514.96	4,826.61	5,030.65	…	…	…	…	…	…
GDP (US$ millions) 2/	12,862.94	13,096.84	13,785.90	14,501.16	15,228.51	15,983.78	16,792.68	17,642.39	19,141.99	20,769.06
US$/SDR exchange rate	…	…	…	…	…	…	…	…	…	
Debt service as percent of baseline exports	0.92	3.36	3.91	3.95	…	…	…	…	…	…
Debt service as percent of baseline GDP	0.29	1.05	1.20	1.19	5.24	5.31	1.02	0.21	0.07	0.01
Quota	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 eligibile 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.

Annex I. FSSA Main Recommendations

	Recommendations, Responsible Authorities, and References to Main Text	**Time[1]**
	Financial Stability and Resources	
1	Increase supervisory resources (All)	I
2	Enhance data collection and technical skills needed for risk-based supervision, including frequency, granularity, and quality, with a focus on exposures data for analysis (All)	I
3	Strengthen the IT platform for supervisory data sharing and regulatory collaboration, including sharing costs (All)	I/NT
	Microprudential Oversight	
4	Provide greater delegation to the BoJ to enact legally enforceable rules and include the most important Standards of Sound Practices in the binding set of prudential rules (Government)	I
5	Fully deploy and implement risk-based supervision (BoJ, FSC)	I
6	Fully deploy and implement risk-based AML/CFT supervision for DTIs and Cambios (BoJ)	NT
7	Implement consolidated supervision and intensify cross-agency cooperation (BoJ, FSC)	I
8	Strengthen the regulatory framework by implementing Basel III capital adequacy requirements and liquidity requirements at the solo and group levels (BoJ)	NT
9	Intensify dialogue with the industry (BoJ, FSC)	I
	Securities Dealers	
10	Complete the retail repo reforms through the staged introduction of the mismatch ratio (FSC)	I/NT
11	Securities dealers should be able to intermediate in a wider range of financial instruments, in particular, corporate debt and equity instruments (FSC)	MT
12	Introduce the revised large exposure regime to improve resilience against contagion (FSC)	NT
13	Introduce formal arrangements for group-wide supervision of conglomerates which include securities dealers, both within the FSC and between the FSC and BoJ (FSC and BoJ)	NT
	Insurance Sector	
14	Enact binding regulations for asset-liability management and introduce regular stress tests for general insurers (Government, FSC)	MT
15	Introduce a risk-based solvency regime, ideally at the time of adoption of IFRS 17 (Government, FSC)	NT
	Macroprudential Policy and Framework	
16	Develop a toolkit for macroprudential policy (BoJ)	MT
17	Develop a communication strategy to convey financial stability assessments and link them to policy actions (BoJ)	MT
	Crisis Preparedness, Recovery Planning, and Resolution	
18	Introduce a special resolution regime (SRR) closely aligned with international best practice for resolving systemic financial institutions (Government)	NT
19	Finalize an MoU between BoJ and JDIC to allow JDIC to better prepare for possible resolution action (BoJ, JDIC)	I
20	Develop a contingency plan for a systemic crisis (All)	MT
21	Develop guidance for FIs on recovery plans and begin a pilot project to request such plans from the most significant institutions on a rolling basis (BoJ, FSC, JDIC)	I
22	Develop strategy for funding of resolution, including whether to establish a resolution fund (All)	MT
	Capital Market Development	
23	Adopt a strategy for capital markets deepening, including developing the short end of the yield curve for benchmarking (Government)	NT

[1] I (immediate) = within one year; NT (near term) = 1–3 years; MT (medium term) = 3–5 years.

Appendix I. Letter of Intent

Kingston, Jamaica
October 4, 2018

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde,

The Government of Jamaica (GOJ) has made major strides in transforming its economy, supported by the Stand-By Arrangement (SBA) over the past two years. Our public debt is on a firm downward trajectory and, barring unforeseen shocks, will be at or below 60 percent of GDP by 2025/26 (as mandated by our Fiscal Responsibility Law). Social outcomes are improving, with unemployment at a near-historic low and poverty declining. Crime—which remains our highest policy priority—has also decelerated following implementation of a series of steps in high crime areas.

We are pleased to report that all quantitative performance criteria for end-June 2018 were met and structural reforms are on track. We are preparing to submit to Parliament legislation to amend the Bank of Jamaica (BOJ) Act to support the institution of full-fledged inflation targeting. This will represent a flagship reform of this government. We are also bolstering our efforts to engage with the Jamaican public to underline the importance we attach to price stability as our primary monetary policy goal.

The recent Financial Sector Assessment Program (FSAP) by the IMF has provided important input to our efforts to strengthen financial system stability. We are examining carefully the IMF's recommendations in this regard.

The inflation outturn for June 2018 was 2.8 percent (y/y), below our target range. As explained in the attached letter from Bank of Jamaica to the Minister of Finance and the Public Service, this period of lower-than-targeted inflation is expected to be temporary. We also stand ready to take any additional steps that may be necessary to restore inflation to within our target range.

We request that the IMF's Executive Board approve the retention of the multiple currency practice related to our multiple-price FX auction on the same grounds as was done on October 23, 2017.

In consultation with key stakeholders, we are working toward reforming the public sector compensation structure, including to streamline the vast and inequitable system of allowances. These decisive policy actions will ultimately make public service delivery more efficient, and sustainably lower the wage bill, freeing up scarce resources for much-needed social and capital spending.

On the basis of our performance under the programme thus far and our strong commitment to its continued implementation, the Government requests that the IMF's Executive Board complete the fourth review of the SBA and approve the modifications of (i) the PC for end-December-2018, and (ii) the MPCC consultation clause.

The Memorandum of Economic and Financial Policies (Attachment II) 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 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 III).

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

Very truly yours,

/s/
Andrew Holness
Prime Minister

/s/
Nigel Clarke
Minister of Finance and the Public Service

/s/
Brian Wynter
Governor, Bank of Jamaica

Attachment I. Consultation With the IMF Executive Board on the Missed Inflation Target Under the MPCC

Report to Minister of Finance on Breach of Inflation Target

and

Consultation on Breach of MPCC Target at June 2018

Bank of Jamaica

07 August 2018

A. Overview

1. In September 2017, the Minister of Finance and the Public Service set a continuous medium-term inflation target of 4.0 per cent to 6.0 per cent to be achieved and maintained by Bank of Jamaica from April 2018 onwards. In April 2018 and through June 2018, twelve-month inflation fell below the 4.0 per cent lower band of the target. In this context, Bank of Jamaica is required to explain to the Minister of Finance and the Public Service and to the Jamaican public the reasons for the deviation of inflation from this target and the actions it will take to remedy the breach.

2. In the context of its precautionary Stand-By Arrangement with the IMF, Jamaica also committed to a Monetary Policy Consultation Clause (MPCC) in late 2016. Annual inflation in Jamaica at June 2018 fell below the lower limit of the agreed consultation band, which requires Jamaica to consult with the IMF Board on the reasons for the deviation of inflation from the target and the Bank's proposed policy responses.

3. Over the course of the year leading up to June 2018, the Bank's forecasts indicated that headline inflation would remain slightly below the centre of its inflation target, which prompted the Bank to embark on a programme of gradual monetary easing over the year. Signs emerged in the December 2017 and March 2018 quarters that the lower limits of both inflation target bands were at risk. The Bank, in response, eased monetary policy more aggressively and stepped up its communication so as to guide inflation back to the target.

4. The lower outturn for inflation at June 2018, relative to the target, primarily reflected the impact of a stronger-than-anticipated reversal in agricultural prices in the March 2018

quarter, lower-than-forecasted imported inflation and a reduction in the pass-through of oil prices to inflation. Domestic demand conditions were also assessed to be weaker than originally anticipated.

5. While Bank of Jamaica projects that inflation over the September 2018 to December 2018 quarters will remain close to 3.5 per cent (below the lower limit of the inflation target and below the lower limit of the inflation target band of the MPCC), inflation will rise to the midpoint of the target by June 2019 and remain broadly at that level over the medium term. This view is informed by an expected normalization in agricultural prices, higher oil prices and higher domestic GDP growth, the latter driven in part by the accommodative monetary conditions induced by the central bank over the past year. Bank of Jamaica is consequently of the view that the economic programme remains on track. Persistent sluggishness in demand notwithstanding the strong pace of job creation, specific constraints in the monetary policy transmission and the possibility of additional negative inflationary shocks, however, suggest that stronger monetary policy action may be required in the near term.

6. In what follows, section B of this document outlines Jamaica's commitment under the SBA in relation to inflation and the performance of inflation over the period June 2017 to June 2018. Section C summarises the macroeconomic and policy context. The next section (section D) outlines the assumptions underpinning the Bank's inflation forecasts over the relevant policy horizon. These assumptions are used to explain the Bank's monetary policy decisions in 2017 and early 2018 in the next section (section E). Section F then describes the main reasons why inflation fell below the target. The final section summarises the Bank's monetary policy posture going forward.

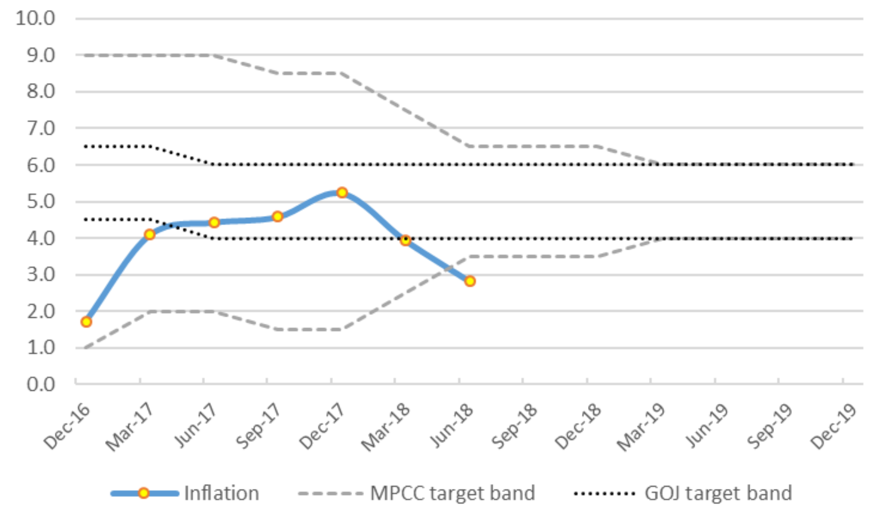
B. Programme Commitments & Performance

7. Jamaica in 2016 requested from the IMF a cancellation of the extended fund facility (EFF) that supported its economic reform programme and its replacement with a precautionary Stand-By Arrangement (SBA). The precautionary SBA is scheduled to span the period November 2016 to October 2019. Under the precautionary SBA, inflation targets for the June and December review dates were set under a Monetary Policy Consultation Clause (MPCC).[1]

8. The inflation targets under the SBA were meant to be adjusted over time. As part of the Third Review under the SBA, the inflation targets for 2018 were revised from 3.0 per cent to 8.0 per cent to 3.5 per cent to 6.5 per cent and then to 4.0 per cent to 6.0 per cent for 2019. These adjustments were intended to better align and eventually converge the targets under the SBA with the medium-term inflation target set by the Government of Jamaica for Bank of Jamaica. The targets (as specified in the Technical Memorandum of Understanding (TMU) accompanying each Letter of Intent (LOI)) are shown in Figure 1 below.

[1] Inflation in this context is defined as the change over 12 months of the end-of-period consumer price index (CPI), as measured and published by the Statistical Institute of Jamaica (STATIN).

Figure 1. Jamaica: Inflation Trajectory and GOJ & MPCC Target Bands



9. On 16 July 2018, STATIN reported that the annual change in the CPI at June 2018 was 2.8 per cent, below the lower limit of the inflation consultation band. This outturn for inflation meant that the MPCC had been triggered, which requires Jamaica to consult with the IMF's Executive Board on the reasons for the deviation and the proposed policy response before further purchases can be requested under the precautionary SBA. Specifically, the consultations are expected to 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) proposed remedial actions, as deemed necessary.

10. Inflation had also fallen below the lower limit of the GOJ's target from April 2018. For April 2018 and May 2018, annual inflation was 3.2 per cent and 3.1 per cent. Together with June's 12-month inflation at 2.8 per cent, these breaches require that the Bank explain to the Minister of Finance and the Public Service and to the Jamaican public why the target was missed and propose remedial actions, as deemed necessary.

C. Policy and Macroeconomic Context

11. Leading up to the period under review, the authorities implemented a number of structural reforms which facilitated improvements in the monetary transmission mechanism. The Bank's assessment was that the transmission mechanism in Jamaica, particularly the credit channel, had not been performing optimally (see appendix on *The Pass-Through of Bank of Jamaica's Policy Interest Rate to Market Interest Rates*). This was due to a variety of deep-seated structural factors, including fiscal dominance, high and rising dollarization, limited competition in the banking sector, uneven excess liquidity among banks and underdeveloped interbank foreign exchange (FX) and money markets. The gaps in Bank of Jamaica's governance and legislative framework may also have affected the central bank's credibility and muted its policy signals. The reforms in this respect were identified under four pillars, namely (1) macro-financial stability, (2) policy signaling, (3) liquidity management and (4) bond market liquidity.

12. Reforms aimed at strengthening macro-financial stability dealt with issues of fiscal consolidation, debt sustainability, resilience of the financial sector, financial inclusion and reducing the level of dollarization.[2] In the context of these changes, the government's overall debt ratio declined to 118.2 per cent of GDP at end FY2016/17 from 147.0 per cent in FY2012/13, driven mainly by reductions in the fiscal deficit over time. These changes engendered some amount of demand compression in the economy but they also supported a significant reduction in the extent of fiscal dominance.

13. Most of the initiatives aimed at improving policy signaling have been completed or are in train. These include the establishment by Bank of Jamaica of an interest rate corridor for private money market interest rates, the introduction of auctions for Bank of Jamaica's interactions with the foreign exchange market, a lowering of the FX surrender requirements and the phasing out of the FX sale arrangements under the Public Sector Enterprise Facility (PSE).[3] Importantly, the legislative amendments aimed at modernizing the central bank by clarifying its objectives, improving its governance and accountability structures and enhancing its financial and operational independence are on track for tabling in Parliament by October 2018. The Government has already defined for the Bank (in September 2017) a continuous medium-term inflation target of 4.0 per cent to 6.0 per cent, which became effective in April 2018. The target was consistent with Jamaica's other medium-term macroeconomic objectives as set out in the FY2018/19 Fiscal Policy Paper that was tabled in Parliament.

14. Complementary to these initiatives was the introduction of the Bank's liquidity assurance programme. This involved the introduction of a standing overnight lending facility and a two-week lending facility. To address the problem of **bond market liquidity**, Bank of Jamaica recently began to provide shorter-term Jamaican dollar-denominated instruments to financial institutions in exchange for their longer-dated domestic assets. There has also been improved coordination between the Ministry of Finance and the Public Service and the Bank aimed at improving liquidity management through the Central Treasury Management System.

[2] Details of reforms aimed at fiscal consolidation, debt sustainability and financial deepening can be found in the Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding accompanying the various Letters of Intent under the precautionary SBA and the preceding Extended Fund Facility at http://www.imf.org/en/Countries/JAM

[3] The corridor, initially set at 375 basis points at September 2014, was narrowed to 200 basis points at June 2017. With the overnight rate replacing the 30-day rate as the policy rate in July 2017 the spread increased to 300 bps. The introduction of the corridor was designed to guide money market rates in the direction consistent with monetary policy. The foreign exchange market initiatives were designed to reduce the Bank's footprint in the market, enhance transparency and price discovery and promote a reduction in the pass-through of exchange rate changes to inflation.

15. Another development of note relates to the increased level and concentration of liquidity in the financial system, which has occurred in the context of (a) the GOJ's programme of fiscal consolidation and deleveraging and (b) the central bank's programme of reserve accumulation.

16. The economy has reflected relatively weak demand conditions over the past two years and exhibited several features that dampened inflation pressures. These included (1) susceptibility to repeated weather-related shocks, (2) structural bottlenecks that inhibited credit and business expansion and slowed crowding-in and (3) lower pass-through of international oil prices to domestic energy prices. The main bottlenecks to growth and increasing labour and total factor productivity relate to deficiencies in human capital (poor quality of the labour force due to low levels of education and skills training), high levels of crime (negative relationship between crime and productivity, distortion in investment spending) and poor work ethic.

17. Notwithstanding these constraints, in the context of the reforms to the economy and the financial system, the economy reflected some improvements between 2015 and 2017. Real GDP grew by 1.4 per cent in FY2016/17 compared with 1.0 per cent in FY2015/16. The most recent estimate indicates that real GDP for FY2017/18 grew by slightly less than 1.0 per cent. Inflation also reflected a significant decline to 4.1 per cent at end FY2016/17 from 9.1 per cent in FY2012/13. The improvement in the economy was also reflected in increased employment. Over three years to April 2018, employment in Jamaica grew by 88,800 or 7.9 per cent. This was reflected in a 3.5 percentage point reduction in the unemployment rate to 9.7 per cent at April 2018. The labour force participation rate averaged 64.5 per cent, above that which existed over the recent past. In the context of lower inflation and the introduction of Bank of Jamaica's auction-based interactions with the foreign exchange market, the exchange rate exhibited lower levels of depreciation and increased volatility, while market interest rates generally trended downwards in the context of high liquidity in the financial system.

D. Main Assumptions Underlying the Inflation Projections

18. Monetary policy decisions in Jamaica affect inflation with a lag of between four and eight quarters. For this reason, monetary policy in Jamaica is forward looking. Bank of Jamaica puts much effort into establishing its view of the future and bases its monetary policy decisions on this view. The Bank undertakes an assessment of the economy eight times during each calendar year and publishes its decisions in accordance with a pre-announced schedule. On four of these occasions, at a time when most data on the key macroeconomic variables are available, the Bank prepares a comprehensive macroeconomic forecast covering the international economy, the balance of payments, the fiscal accounts, money, credit, financial markets (including the foreign exchange market), the real sector (domestic GDP and prices) and other specific factors which directly affect prices. These forecasts typically do not include any assumption for domestic or international supply shocks. These are evaluated as risks, which are presented to the public in fan charts.

19. This forecast and policy assessment system (FPAS) implies that the relevant Bank of Jamaica inflation projection for June 2018 and the assumptions underpinning this projection were finalized in the June 2017 quarter. Growth in the domestic economy for FY2018/19 was projected to accelerate to 2.9 per cent, relative to the expansion of 1.9 per cent for FY2017/18. Over the next three years, the domestic economy was projected to register average growth of 2.5 per cent, consistent with projected continued expansion in the global economy and on-going reforms to improve the competitiveness of selected sectors of the economy (see Table 1). It was expected that Government operations would continue to be restrictive with primary balances of 7.0 per cent of GDP over the medium term to support a continued downward reduction in its debt. The Bank's working assumption was that the exchange rate would adjust over the medium term in line with the difference between inflation in Jamaica and those of its main trading partners. International commodity prices (oil and non-oil) were projected to trend upwards, albeit at a moderate pace during FY2018/19, reflecting the impact of increased global demand for these commodities.[4]

Table 1. Jamaica: Medium-Term Inflation Forecast and Main Assumptions (at July 2017)

	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2019/21
Inflation	3.0	4.1	4.6	5.0	5.0	5.0
GDP Growth	1.0	1.4	1.9	2.9	2.3	2.4
Treasury Bill Rate (180-day) (eop)	5.8	6.3	6.1	6.1	6.1	6.1
Crude Oil (WTI)	37.96	49.67	48.71	51.46	52.70	54.05
%Change		30.9	-1.9	5.6	2.4	2.6
US Inflation	0.9	2.4	1.4	1.6	1.8	2.0

20. In the context of these assumptions, the main sources of inflation were anticipated to be higher imported inflation, higher aggregate demand that closes the output gap over the forecast horizon and tax measures to support the GOJ's switch from direct to indirect taxes. Higher imported inflation was expected to reflect the projected acceleration in oil prices, supported

[4] The global economy was projected to expand by 3.5 per cent in 2018, a slight strengthening on the 3.3 per cent projected for 2017 with growth in the USA, Jamaica's main trading partner, expected to accelerate to 2.4 per cent for 2018 relative to the forecast of 2.1 per cent for 2017. Over the medium term, global growth was expected to average 3.5 per cent while the average expansion in the US economy was projected to be 2.3 per cent. In this context, average crude oil price for March 2019 was projected to be higher by 5.6 per cent relative to the same measure for March 2018. The Bank at the time also expected crude oil price to increase, on average, by 2.3 per cent per year over the next three years.

by depreciation in the nominal exchange rate. The Bank assumed that inflation expectations would, however, remain stable.[5]

E. Bank of Jamaica's Monetary Policy Actions and Inflation Forecasts

21. Since 2014, the Bank has adopted an accommodative monetary policy stance in the face of declining inflation rates and sluggish economic growth stemming, in part, from the Government's successful drive towards fiscal consolidation. Since June 2017, Bank of Jamaica reduced the policy rate on six occasions. The overnight policy rate was reduced four times by 25 basis points on each occasion to 2.50 per cent at May 2018. Table 2 shows the policy actions that have been undertaken since the beginning of 2017.

Table 2. Jamaica: Bank of Jamaica's Monetary Policy Decisions (2017 & 2018)[1]

Announcement Dates	Policy Rate (%) 30-Day CD	Policy Rate (%) O/N CD	Change (ppt)
09 February 2017	5.00	n/a	0.00
04 April 2017	4.75	n/a	-0.25
01 July 2017	n/a	3.75	n/a
24 August 2017	n/a	3.50	-0.25
22 November 2017	n/a	3.25	-0.25
20 February 2018	n/a	2.75	-0.25
27 March 2018	n/a	2.75	0.00
16 May 2018	n/a	2.50	-0.25
27 June 2018	n/a	2.00	-0.50

[1] On 01 July 2017, the Bank changed its policy rate from the 30-day rate to the overnight rate

22. This repeated easing of monetary policy was the outcome of the Bank's forecasts over the year which consistently pointed to inflation falling in the lower part of the Bank's 4.0 percent to 6.0 per cent inflation target. Figure 2 illustrates the Bank's near-term forecasts for

[5] This assumption was based on results from surveys of business establishments which showed that expectation for inflation generally remained constant over the period July 2015 to Jun 2017. The Bank commissions eight surveys per year.

inflation at each of the four forecast rounds over the year.[6] The Bank's steady approach to easing monetary conditions reflected the view that economic growth was projected to accelerate, notwithstanding structural bottlenecks in the economy. Additionally, external financial conditions were tightening which could have precipitated capital flight and increasing dollarization.

23. In signalling its increased concern about the future path for inflation, the Bank reduced the policy rate more aggressively by 50 basis points in June 2018 to 2.00 per cent. The Bank also changed the tone of its communication to reiterate its view of the economy and future inflation. When adjusted for expected inflation, the real policy rate became very negative in a context of high liquidity in the financial markets.[7] The Bank's decision in June 2018 to accelerate its accommodative policy stance was aimed at fostering greater credit expansion and a faster pace of GDP growth to support inflation returning to the target of 4.0 per cent to 6.0 per cent over the medium term.

F. Why Did Inflation Breach the Target?

24. The lower outturn for inflation relative to the target at June 2018 primarily reflected the impact of:

i. Stronger-than-anticipated food price reductions in the March and June 2018 quarters;

ii. Lower-than-forecasted imported inflation associated with a strengthening currency and a reduction in the pass through of oil prices to inflation; and

iii. Weak domestic demand conditions.

[6] At the June 2017 forecast round, inflation was projected to rise to 4.4 per cent at June 2017, relative to 4.1 per cent at March 2017, due primarily to Government of Jamaica's announced revenue measures and the impact of the projected rise in crude oil prices. Inflation was also anticipated to accelerate because of the effects on agricultural prices of bad weather in May 2017. Over the ensuing three quarters, inflation was projected to remain relatively stable, ending June 2018 at 4.6 per cent, due mainly to the dissipation of the effects of the revenue measures implemented in the previous year. The Bank held the view at this forecast round that the balance of risks to the inflation outlook was even. While risk from the external economy was perceived to be skewed to the downside, there were upside risks to inflation from private capital outflows.

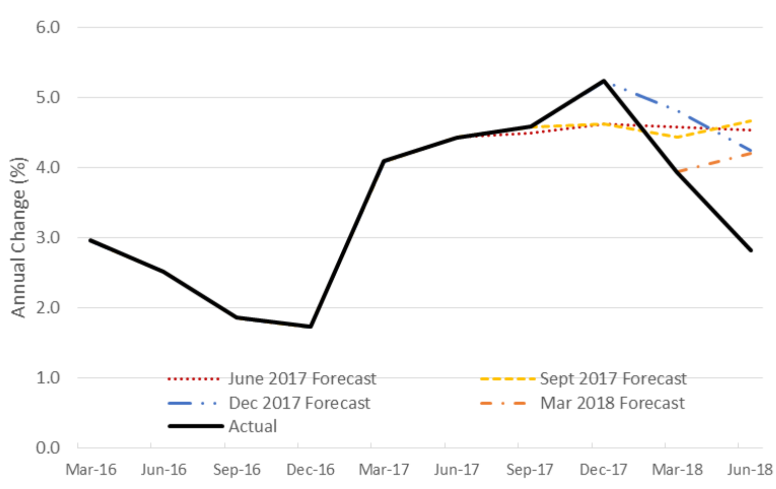
The projections at the September 2017 forecast round (up to June 2018) remained broadly similar to the previous forecast, accounting only for the slight positive surprise to inflation in the September 2017 quarter from higher than expected unprocessed food prices. The Bank held the view at this forecast round that risks to the inflation forecast were skewed to the downside. Demand conditions at the time appeared to be restrained by fiscal conditions.

For the December 2017 forecast round, the impact of adverse weather in October and November 2017 on agricultural prices led to a spike in inflation to 5.2 per cent at December 2017. In this context, the updated forecast anticipated a normalization in these prices in the March and June 2018 quarters. The Bank's view of inflation at June 2018 was consequently adjusted down to 4.2 per cent from the 4.7 per cent previously anticipated. This view was maintained at the March 2018 quarter because the Bank had not anticipated the impact of an anomalous decline in the power company's fuel rate and overall tariff in the context of rising oil prices. The Bank also held the view at this forecast round that the risks to the inflation outlook were balanced.

The Bank's medium-term projections over all the projection rounds held that inflation, conditional on an appropriate monetary policy posture, would rise gradually to the midpoint of the target range by March 2019 and remain broadly at that rate in the medium term.

[7] Expected inflation one year ahead is proxied by the Bank's unconditional inflation forecast.

Figure 2. Jamaica: Inflation: Actual versus Projected Trajectory



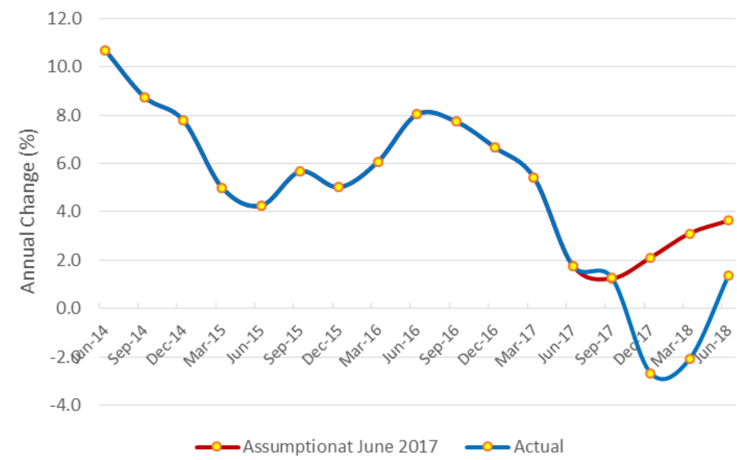
25. A sharper-than-expected recovery in agricultural supplies following production disruptions in late 2017 caused unprocessed food prices to fall in the March and June 2018 quarters by more than had been anticipated by the Bank. For the first half of the calendar year, unprocessed food prices (as measured by STATIN's *Vegetable and Starchy Foods* sub-division) fell by 9.4 per cent, relative to prices at December 2017. In the context of the projections for agricultural supplies, the Bank had projected at the December 2017 forecast round that this sub-index would have declined by 3.4 per cent.[8]

26. Imported inflation for the first two quarters of 2018 is estimated to have been lower than that in the same period of the previous year. This partly occurred in the context of a strengthening of the Jamaican dollar. At May 2018, the six-month average of the bilateral (JMD/USD) end-of-month exchange rate appreciated by 2.0 per cent, relative to the same measure at May 2017.[9] Similarly, the JMD/USD exchange rate at the end of May 2018 appreciated on an annual point to point basis by 1.7 per cent, compared with the Bank's broad expectation for a **depreciated** nominal exchange rate over the year, in line with the relevant inflation differential (see Figure 3).

[8] Expectations about future developments in non-processed food prices are informed by forecasted supply trends from the Ministry of Industry, Commerce, Agriculture & Fisheries and the Rural Agricultural Development Agency.

[9] The assessment stops at May (and not June) because of the assumption that the exchange rate pass-through affects domestic prices with a lag of at least one month.

Figure 3. Jamaica: Exchange Rate Change (JMD/USD): Actual versus Assumed

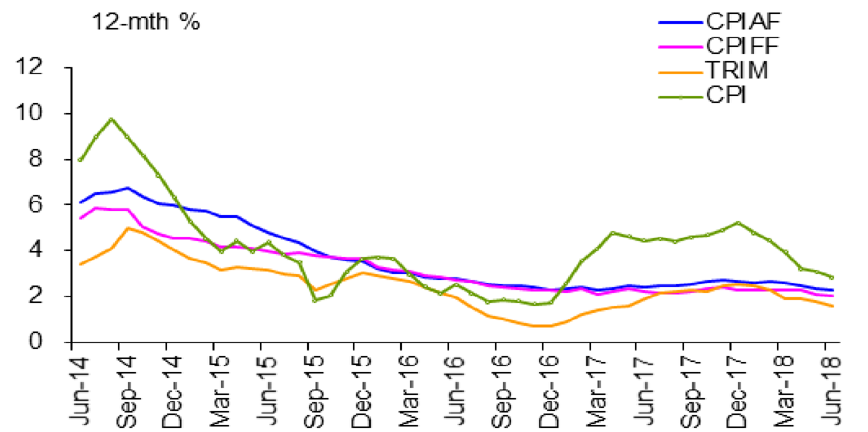


27. Lower imported inflation also emanated from a smaller-than-anticipated pass-through of oil prices to domestic inflation. The average of monthly crude oil price increases over the year to May 2018 accelerated to 3.0 per cent, compared with 0.5 per cent over the previous year to May 2017 and 0.1 per cent expected by the Bank. In contrast, the average of monthly changes in the fuel charge in electricity rates (in US$) fell to 1.8 per cent over the year to May 2018, compared with 6.3 per cent in the previous year. This implied that the pass-through from international oil prices to electricity rates fell significantly over the 12-month period. Some of this weakening was related to an anomalous decline in the power company's fuel rate in April 2018, made more so in the context of rising oil prices during that period.[10]

28. Core, or underlying, inflation also remained subdued over the year, indicative of weak domestic demand conditions. The Bank's main measure of core inflation (inflation that excludes the immediate influence of agriculture and energy prices - referred to as CPIAF) remained firmly below 3.0 per cent since April 2016. At June 2018, the annual change in the CPIAF was 2.3 per cent relative to 2.4 per cent at June 2017 (see **Figure 4)**. All the other measures of core inflation also remained relatively low and stable.

[10] Pump prices were affected by taxes implemented between May 2017 and May 2018. Consequently, the average monthly change in pump prices were 14.1% and 11.1%, much higher than the observed changes in external energy prices.

Figure 4. Jamaica: Annual Percentage Change in Core and Headline Inflation



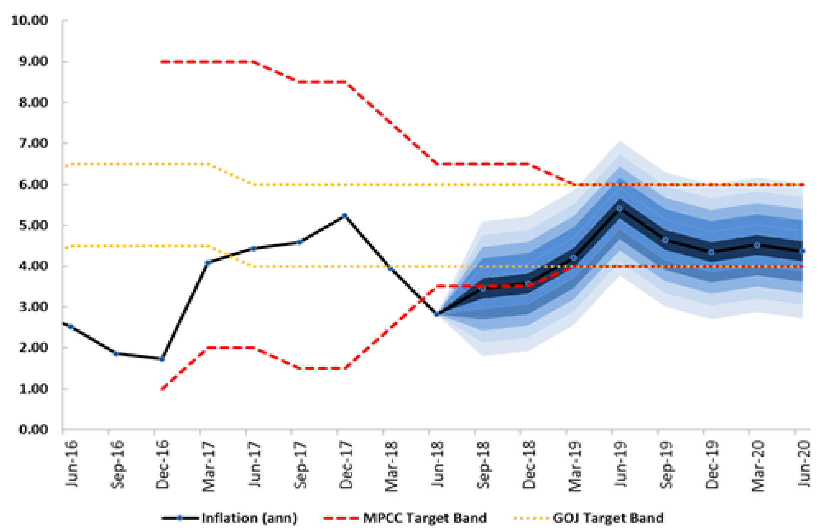
29. Weak aggregate demand conditions in 2017 were driven primarily by ongoing fiscal consolidation and less-than-favourable external demand conditions. The weak state of domestic demand was largely evident in a slower pace of growth in net external demand in 2017, relative to 2016. This was consequent on a faster pace of growth in imports over the year, which offset an increase in real exports.[11] Moreover, the spillovers from investment spending to the rest of the economy remained constrained.

G. The Path Back to the Target & Conditional Monetary Policy Posture

30. Bank of Jamaica projects that inflation over the September 2018 to December 2018 quarters will remain close to 3.5 per cent, due in part to the base effect of the low CPI at June 2018 (see **Figure 5**). Inflation is projected to rise to above 5.0 per cent (the midpoint of the target) by June 2019 but subside to the lower half of the target band over the medium term. The projected path for the annual inflation rate over this period is consistent with an average monthly inflation rate of 0.4 per cent, slightly higher than the monthly average of 0.3 per cent over the most recent eight quarters. Therefore, Jamaica may again trigger the MPCC at the December 2018 SBA review, since the impact of the most recent monetary policy adjustments on inflation will be largely ineffective over this time horizon. The future path for inflation will be influenced by the lagged effects of (1) the rate cuts of the last 12 months plus (2) any action taken at the next decision date (27 August 2018). Recent cuts and further actions will therefore not have an effect on the inflation rate until the September 2019 quarter.

[11] The faster pace of growth in imports was evident for raw materials, fuel and consumer goods.

Figure 5. Jamaica: Projected Inflation Path (Sept 2019-Jun 2020)



31. In a context of an unchanged monetary policy over the forecast horizon, the inflation trajectory is driven primarily by (1) a normalization in domestic agricultural commodity prices (2) higher imported inflation and (3) the effect of higher economic activity, given the accommodative monetary conditions induced by the central bank over the past year.[12] Consistent with their seasonal patterns and the outlook for an intensification of dry conditions during the September 2018 quarter, agricultural supplies are expected to fall over the near term, relative to the June 2018 quarter. This reduction will support higher vegetable and starchy food prices in the September and December 2018 quarters. The recent upturn in crude oil prices is also expected to affect domestic energy prices. The forecast is for elevated international oil prices at around US$70 per barrel for the remainder of 2018 in the context of geopolitical tensions. This implies an increase of approximately 30.0 per cent in oil prices for FY2018/19, followed by a normalization to an average of about US$64.00 per barrel in FY2019/20. Average GDP growth is projected to approximate 2.0 per cent over the next eight quarters, an acceleration relative to the 1.1 per cent realised over the last two years. Much of this acceleration is related to the restart of a plant in the mining sector.[13]

32. The other assumptions underlying the medium-term inflation forecast are as follows:

a. Continued gradual recovery in the world economy. The US economy should continue to grow strongly over the next three years.

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[12] Given the risk for adverse weather shocks, there is a risk that unprocessed food prices could increase by more than is being anticipated. The higher imported inflation is predicated on the projection for increases in oil price, offset by an assumed lower pass-through (relative to history) to domestic energy prices.

[13] Abstracting from the effects of this plant, the Bank projects average GDP growth of 1.7 per cent over the period.

b. International financial conditions are projected to tighten further as the US monetary authorities increase their policy rate.

c. The Government of Jamaica's fiscal stance is expected to remain restrictive.

33. Bank of Jamaica has undertaken a number of policy adjustments that will help to guide inflation, over time, back into the target band. The Bank's analysis is that the factors responsible for shifting inflation below the target, though somewhat ameliorated, still persist. Notwithstanding, it is the Bank's view that the economic programme remains on track. The problem of uneven excess liquidity within the financial system remains a constraint to the effectiveness of the transmission mechanism. There is also the possibility that additional negative inflationary shocks may adversely affect inflation in the future. Low core inflation, symptomatic of weak domestic demand, will need to accelerate in the context of the pickup in economic activity to approximately 3.5 per cent, to be consistent with the midpoint of the target bands.[14] With the continued slow pace of economic expansion, notwithstanding the strong pace of job creation, these factors may require stronger monetary policy action in order to overcome them in the near term.

[14] The average level of core since April 2016 is 2.5 per cent.

Attachment II. Memorandum of Economic and Financial Policies (Update)[1]

1. Our focus remains to increase growth and resilience and raise the living standards of all Jamaicans, while maintaining our public debt on a firm downward trajectory. Securing our citizens' security and combatting crime are the government's highest priorities. To achieve these objectives, key elements of our policy programme include:

A. The FY2018/19 Budget

2. Budget execution remains strong. The central government primary surplus exceeded budget by J$5 billion at end-July 2018 with tax receipts remaining buoyant. Capital expenditure is also over-performing, with significant ongoing infrastructure spending.

3. The supplementary budget tabled in parliament in September is consistent with achieving the 7 percent primary surplus in FY2018/19. The tax revenue overperformance, combined with the unused allocation from the Special Early Retirement Programme and special distributions from public bodies will be used to, among other things, address longstanding arrears and current payments due to the power company by local authorities for street lighting and increase our growth-enhancing capital expenditure.

B. Wage Bill Reduction

4. The government reached a 4-year—rather than the usual 2-year—wage settlement with 80 percent of central government employees and we continue to work closely with the police and other bargaining units. To increase efficiency and lessen wage costs, we are looking to outsource some administrative activities in a few ministries in the coming months. We are working to develop a new public sector compensation framework, in consultation with key stakeholders to (1) transform our complex salary scale to one that better rewards performance; and (2) streamline the vast and inequitable system of allowances. We are also looking to upgrade technology to be utilised in the provision of government services to allow for a smaller public sector workforce.

5. The government will prioritize essential government functions/services to free-up resources for urgently-needed social and capital spending. As a step in this direction, we are accelerating the merger, closure, or reintegration of 18 public bodies in the next twelve months.

C. Modernizing the Central Bank

6. We are on track to submit legislation to further modernize Bank of Jamaica's monetary policy framework and make price stability the BOJ's central mandate (*end-October 2018 structural benchmark*). These reforms will improve the BOJ's governance and accountability

[1] This Memorandum of Economic and Financial Policies updates measures undertaken and/or committed to since the third SBA review (IMF Report No. 18/103). The Government of Jamaica's full commitments under the SBA are in IMF Report No. 17/98.

structure and strengthen its balance sheet. The BOJ is also developing, with IMF technical assistance, a communication strategy and toolkit to support the shift to inflation targeting and ensure clarity and transparency in its policy messages.

7. The BOJ remains committed to steering inflation towards the centre of its 4–6 percent target range. We are confident that the combination of policy interest rate cuts and the unwinding of temporary supply-side factors will bring inflation to 5 percent by mid-2019.

8. The BOJ continues, in consultation with the Fund, to further develop the FX market. We are working toward: (1) strengthening the infrastructure by introducing a market trading platform that is integrated with the payments and settlement systems; (2) developing regulations for FX market hedging instruments, and engaging with market participants to develop criteria for pricing and monitoring; (3) gradually reducing the surrender requirements; (4) transitioning public enterprises into the market; and (5) upgrading the monitoring capacity for FX Net Open Position limits and developing the prudential regime for the limits. The BOJ is continuing to invest in its market intelligence function so as to better calibrate its FX market actions. We remain committed to exchange rate flexibility and will continue to limit FX market sales to smoothing excess volatility and countering disorderly market conditions.

D. Building Financial Resilience

9. By the end of the programme, we intend to work on accelerating implementation of measures that enhance financial resilience and improve access to finance for businesses and households to support growth:

- We are examining the scope to reduce liquid asset requirements (from the current level of 26 percent) and develop a well-calibrated liquidity coverage ratio (LCR) that is in line with international norms.
- We intend to lower the J$ cash reserve requirement (currently at 12 percent).
- We are examining ways to phase out certain financial turnover taxes in a revenue neutral way (including the asset tax, stamp duty, and transfer tax).
- We intend to develop the primary and secondary debt markets and build a liquid benchmark government yield curve.
- We will improve credit reporting and revise the prudential standards on problem assets and provisioning requirements.

10. Based on the findings of the recent FSAP by the IMF, we will upgrade our oversight capacity. Specifically, we will:

- Improve our data collection on the interconnectedness of financial institutions.
- Strengthen risk-based and consolidated supervision.

- Develop and operationalize transparent criteria for identifying systemically important financial institutions so as to help contain systemic risk.
- Further clarify the responsibilities of different players and the hierarchy of claims under the resolution regime. We also will lay out the mechanisms for resolution funding, and work to improve our recovery planning, resolution plans, and resolvability assessments.
- Gradually relax the investment limits for non-bank financial institutions after improvements are made to data collection and regulatory enforcement and we are confident that risk management frameworks of non-bank financial institutions are sufficiently prepared for such changes.
- Introduce the mismatch ratio for retail repos and revise the large exposure regime to enhance resilience of security dealers to contagion.

Table 1. Jamaica: Policy Matrix for Implementation Underlying the Memorandum of Economic and Financial Policies[1]

Reform Area	Measures	Date	Structural Benchmark	Implementation Status
Tax Policy				
Financial sector taxes	Develop recommendations, with IMF support, to 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.	Mar-19		On track
Fiscal Institutional Reform				
Fiscal Council	Submit to Parliament legislation establishing a Fiscal Council by September 2019, with Cabinet submission by December 2018.	Sep-19		
Disaster Risk Financing	Develop and submit to Parliament a National Natural Disaster Risk Financing Policy for Jamaica by end-June 2019	Jun-19		
Public Sector Transformation				
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.
Closure and re-integration	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		Target delayed to November 2018 (i) delayed to Nov. 2018; (ii) completed; (iii) and (iv) delayed to October 2018
	(i) Reintegrate the National Council on Drug Abuse into the Ministry of Health, (ii) wind-up the Toll Authority, (iii) reintegrate the Legal Aid Council into the Ministry of Justice, (iv) close the National Family Planning Board and fold its functions into the Ministry of Health, (v) close the River Rafting Authority and fold its functions into the Jamaica Tourist Board, and (vi) merge the functions of the Port Authority Management Services into the Transport Authority.	Oct-18		(i) delayed to November 2018: (iii) delayed to February 2019
	Complete all necessary legal changes to reintegrate PCDF into central government.	Mar-19		On track
	Complete the merger/closure/reintegration of an additional 18 public bodies for action in the next twelve months as identified in the Public Bodies Action List.	Sep-19		

[1]This updated policy matrix highlights measures undertaken and/or committed since the third SBA review in March 2018. IMF Report No. 18/103 provides measures completed between the second SBA review in September 2017 and the third review.

Table 1. Jamaica: Policy Matrix for Implementation Underlying the Memorandum of Economic and Financial Policies (continued)

Reform Area	Measures	Date	Structural Benchmark	Implementation Status
Public Bodies				
	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
	Complete inventory of public sector functions/services with a recommendation for prioritization for submission to Cabinet	Jul-19		
Public Service Reform				
Retirement	Create a registry of participants in the early retirement programme.	Mar-18		Completed
Wage bill (pay structure and workforce)	Submit to Cabinet the final Performance Management Mechanism to include standards of performance and an aligned reward system.	Dec-18		On track
	Update data on compensation, employment and cadre from all public-sector entities in ECensus on a quarterly basis. Data on payroll will be sent to the PSTIU on a quarterly basis.	Oct-18		On track
	Complete stakeholder consultations on compensation reform by March 2019; Develop a standardized salary scale for the central government by September 2019; and submit to Cabinet completed standardized salary scales with an implementation plan for approval.	Sep-19		
HCMES	Complete roll-out of the human resources software (HCMES) for 14 entities.	Dec-18		On track (12 entities live by August 2018)
Revenue Administration				
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		Completed
Transfer pricing	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		Target delayed to February 2019 for RAA and ITA to September 2019
Tax arrears	Implement a 70 percent reduction in the stock of tax arrears for government entities vis-à-vis the end-December 2017 stock.	May-19		On track for 50 percent reduction of stock of arrears
Organizational Framework	By September 2018, (i) reorganize the LTO within the context of TAJ-SARA, and (ii) implement revised centralized organizational and reporting arrangements in the objections unit, in line with CARTAC advice.	Sep-18		On track
Trade facilitation	Submit a Bill to repeal and replace the Customs Act to Parliament.	Mar-19 (revised)		On track

Table 1. Jamaica: Policy Matrix for Implementation Underlying the Memorandum of Economic and Financial Policies (continued)

Reform Area	Measures	Date	Structural Benchmark	Implementation Status
SEZs	Complete an inventory of all entities currently in Export Free Zones and Special Economic Zones, with data on their employment levels.	Sep-18		Completed
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		Completed
	Document standard operating procedures and service standards between the SEZ Authority and the tax and customs administrations to tighten oversight (e.g., for applications, certifications, and approval of SEZ status), and ensure compliance with the SEZ rules.	Dec-18		
	Conduct a detailed joint TAJ/JCA risk assessment for the Special Consumption Tax (SCT)/Excise and implement findings to ensure that all goods subject to SCT/Excises are covered by one of the two agencies.	Oct-18		On track
Public Financial Management				
TSA Expansion	Following the soft-launch of web-enabled FinMan, roll out the system to 90 percent of entities by March 2019.	Mar-19		On track
	Finish contracting for the revenue management module (RMM).	Mar-18		Completed
	Complete development of the revenue management module (RMM)	Mar-19		
	Complete (i) the review of the government's bank accounts in commercial banks outside the TSA by December 2018; and (ii) determine suitable policy actions by June 2019.	Jun-19		
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		Three positions completed and 3 outstanding. Target delayed to May 2019
Debt Management				
Capacity	Reduce operational risk by ensuring adequate staffing of the Debt Management Branch (DMB)'s middle office.	Jun-17		3 positions completed and 3 outstanding. Target delayed to September 2019
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		Completed with delay in August 2018
	Continue issuing domestic debt securities 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		Target delayed to October 2018

Table 1. Jamaica: Policy Matrix for Implementation Underlying the Memorandum of Economic and Financial Policies (continued)

Reform Area	Measures	Date	Structural Benchmark	Implementation Status
BOJ/GOJ coordination	To enhance the attractiveness of local currency bonds, revise collateral policy for liquidity provision by tabling amendments to the BOJ Act to permit a more granular approach to the treatment of GOJ securities. To that end, subsequently increase the collateral value of T-bills and BOJ CDs so as to better reflect the risk of underlying assets.	Oct-18		On track
	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 market redemptions. Discuss the impact of these strategies (repayments, rollovers, buybacks, and exchanges) on domestic liquidity and FX conditions.	Continuous		Ongoing
Social Safety Net				
National Identification System (NIDS)	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		Target met with delay. Core project organization fully staffed by June 2018.
	Complete the two-stage procurement process for acquiring a National Identification System Solution for Jamaica.	Aug-18		Target delayed to January 2019
	Establish committee to guide and monitor the transformation of the Registrar General's Department (RGD) and the establishment of the National Identification and Registration Authority (NIRA).	Jun-18		Completed
PATH graduation	Complete the reapplication for PATH families who first enrolled in PATH between 2002-2013.	Mar-19		On track
Monetary Policy				
BOJ Act	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)	On track
Communication	Bank of Jamaica to publish and implement its monetary policy communication strategy.	Mid-Nov-18		
International reserves	Steadily phase-out the surrender requirements and borrowed reserves. By end of the 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		
Financial Sector				
Liquid Asset Requirement	BOJ to begin phasing out Liquid Asset Requirement by November 2018, and plan total phase-out to coincide with the introduction of liquidity coverage ratio in line with FSSA recommendations.	Nov-18		

Table 1. Jamaica: Policy Matrix for Implementation Underlying the Memorandum of Economic and Financial Policies (continued)

Reform Area	Measures	Date	Structural Benchmark	Implementation Status
FX market development	Strengthen market infrastructure and price transparency by introducing a mechanism such as a FX market trading platform by March 2019. Subsequently, commence process for integrating trading platform with e-Gate and the existing payments and settlement systems by July 2019, and issue regulations in September 2019 for market participants to exclusively trade all FX transactions via the platform by end-2019.	Sep-19		
	Complete consultation with the industry on the benchmarks and pricing approaches for FX forward contracts by March 2019. Draft regulations for FX market hedging activities and reporting by June 2019.	June-19		
Consolidated risk-based supervision	Commence risk-based consolidated supervision pilot for at least one Domestic-Systemically Important group by May 2019. To that end the BOJ and the FSC will develop an information sharing platform to execute the pilot by December 2018.	May-19		
	The BOJ and FSC will jointly monitor the retail repo leverage ratio for securities dealers by January 2019; and the intermediate limits proposed in December 2017 for large exposure limits at the group level for all financial institutions) by April 2019	Apr-19		
Capacity Building and Staffing	Reduce systemic and operational risks and manage the transitions occurring in the financial system by ensuring adequate supervisory staffing for the sustainability of the supervisory work programme. To this end, BOJ will establish and begin staffing a unit of at least 8 persons to commence a risk- based consolidated supervision pilot of a systemically important group to inter alia include recovery planning, by December 2018.	Dec-18		
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. One stress test should be conducted using the dealer's audited financial statements. The results will be used as a feedback to risk-based supervision.	Continuous		Ongoing
Crisis resolution	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		Completed for administrative component
	Submit legislation to Parliament for a Special Resolution Regime (crisis resolution) for financial institutions, including a modified insolvency regime, and funding modalities.	Sep-19		
Financial inclusion	Table a Micro Credit Act in Parliament.	May-18		Target delayed to February 2019
	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		On track

Table 1. Jamaica: Policy Matrix for Implementation Underlying the Memorandum of Economic and Financial Policies (concluded)				
Reform Area	**Measures**	**Date**	**Structural Benchmark**	**Implementation Status**
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		Target delayed to June 2019
	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		Target delayed to December 2018
Economic Growth Council Recommendations				
Citizen Security and Public Safety	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.	Apr-18		Target delayed to April 2019
	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		Target delayed to June 2019
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		Target delayed to November 2018
	Complete a study on banking competition.	Mar-19		Target delayed
	Issue 4,000 new land titles for unregistered parcels under new pilot project.	Mar-19		Target delayed to September 2019
Business climate and red-tape	Table in Parliament Regulations and amendments to the Public Procurement Act and finalize the Handbook of Public Sector Procurement Procedures.	Mar-18		Completed
	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.	Dec-18		Target delayed: (i) completed with delay; (ii) completed; (iii) delayed to December 2018
	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		Target delayed: (i) completed; (ii) delayed to March 2019; (iii) delayed to September 2019
	Improve the predictability of the development approval process through the development of a framework for standard fees to be charged for development approvals.	Dec-18		On track

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

(In billions of Jamaican dollars unless otherwise stated)

	2018								2019		2019	2019
	Indicative Target	Actual	Performance Criteria	Adj. Performance Criteria	Actual	Indicative Target	Performance Criteria	Proposed Revised Performance Criteria	Indicative Target	Proposed Revised Indicative Target	Proposed Performance Criteria	Proposed Indicative Target
	end-March			end-June		end-Sep	end-December		end-March		end-June	end-Sept.
Fiscal targets												
Performance Criteria												
1. Primary balance of the central government (floor) 3/	132.0	143.9	18.0	18.1	31.3	44.0	68.0	68.0	140.2	141.6	19.0	35.7
2. Overall balance of the public sector (floor) 3/	-14.8	25.5	-25.0	-20.5	16.5	-39.2	-41.1	-41.1	-14.7	-14.7	-14.0	-25.0
3. Net increase in the central government guaranteed debt (ceiling) 3/	0.0	-8.9	0.0	0.0	-8.4	0.0	0.0	-8.4	0.0	-8.4	0.0	0.0
4. Central government accumulation of domestic arrears (ceiling) 4/ 10/	0.0	-2.5	0.0	0.0	-4.5	0.0	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	-9.6	0.0	0.0	-14.1	0.0	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	0.0	0.0
Indicative targets												
7. Tax revenues of the central government (floor) 3/	473.0	496.9	110.0	110.0	128.7	234.0	360.0	360.0	516.0	516.0	115.0	242.0
8. Change in the stock of public bodies non-guaranteed debt (ceiling) 11/	11.5	0.2	16.8	16.8	12.8	17.2	18.0	18.0	20.0	20.0	22.0	24.0
9. Central government spending on social programs (floor) 3/ 7/	26.6	32.2	6.4	6.4	11.5	11.9	19.4	19.4	28.2	28.2	6.7	12.3
10. Total loan value of all user funded PPPs (ceiling, percent of GDP)	3.0	1.5	3.0	3.0	1.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Monetary targets												
11. Stock of non-borrowed net international reserves (floor) 6/ 8/	1,917	2,409	2,075	2,073.5	2484	2,140	2,200	2,200	2,200	2,200	2,250	2,300
12. *Monetary policy consultation clause (in percent) 12/*												
Outer band (upper)	7.5		6.5			6.5	6.5	6.5	6.0	6.0	6.0	6.0
Center inflation target	5.0	4.0	5.0		2.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Inner band (lower)								3.5		4.0	4.0	4.0
Outer band (lower)	2.5		3.5			3.5	3.5	2.0	4.0	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.
12/ The Monetary policy consultation clause bands consist of two types of thresholds. The Inner band triggers a Staff consultation and an Outer band triggers a Board conusltation as detailed in the TMU.

Table 4. Jamaica: Structural Program Conditionality

Structural Benchmarks	Timing	Implementation status
Fiscal Reforms		
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
Monetary policy and financial sector		
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	
Public Sector Transformation		
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 dabase 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	Met
21 Finalize the operational merger of HEART/NTA, Jamaica Foundation for Lifelong Learning, and the National Youth Service.	October 31, 2017	Met
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	Met
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 III. 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.

Table 1. Jamaica: Program Exchange Rates (End-August, 2016) [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.

Table 2. Jamaica: CAP repayment schedule

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 1/	7.46
end-December 2018	14.68
end-June 2019	6.99

1/ CAP made a prepayment in March 2018.

10. **Adjuster for loan to Petroleum Corporation of Jamaica:** 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 imputed principal and shortfall in interest repayments due (relative to Table 3), converted at programme exchange rates.

Table 3. Jamaica: Imputed repayment schedule

Cumulative repayment flows to central government from beginning of each fiscal year (US$ millions)	
end-June 2018	1.13
end-December 2018	7.19
end-June 2019	7.08

B. Cumulative Floor on Overall Balance of the Public Sector

11. 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).

12. 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.

13. 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; Clarendon Alumina Production Limited; Coconut 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 Agricultural Commodities Regulatory Authority; Jamaica Bauxite Institute; Jamaica Bauxite Mining; 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 Company Limited; 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; Runaway Bay Water Company Limited; SCJ Holdings Limited; Spectrum Management Authority; Sports Development Foundation; St Ann Development Company Limited; Student Loan Bureau; Sugar Industry Authority; Transport Authority; Universal Service Fund; Urban Development Corporation; Wigton Windfarms Limited.

14. 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.

15. 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.

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

17. 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 4), with the value of the adjustment at the end of any quarter capped at US$35 million, converted at the programme exchange rates.

Table 4. Jamaica: Overall Balance of Petrojam
(Baseline Projection)

	In billions of J$
end-June 2018	-31.0
End-September 2018	-42.3
end-December 2018	-31.7

C. Ceiling on Net Increase in Central Government Guaranteed Debt

18. 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.

19. 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

20. 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.

21. 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

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

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

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

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

23. 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

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

contractual agreements; and for the public bodies listed in paragraph 24, 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.

24. **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.

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

F. Ceiling on Central Government Accumulation of Tax Refund Arrears

26. **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.

27. **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

28. **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.

29. **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.

30. **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.

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

Table 5. Jamaica: External Program Disbursements (Baseline Projection)

Cumulative flows from end-March 2016	(In millions of US$)
External loans from multilateral sources	
End-September 2018	307
End-December 2018	357
Budget support grants	
End-September 2018	19.3
End-December 2018	19.3
Commercial loans guaranteed by multilateral sources	
End-September 2018	0.0
End-December 2018	0.0

32. **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 5. 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 and loan disbursements to the central government that are purchased by or deposited at the BOJ, relative to the baseline projection reported in Table 5.

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

33. The performance criterion on the introduction or modification of multiple currency practices (MCP) will continue to exclude the ongoing implementation or modifications in 2019 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

34. 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).

35. 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

36. 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.

37. 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.

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

39. 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.

40. 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 4), 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

41. 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.

42. 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.*

43. 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.

44. 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

45. 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).

46. 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 FY18/19 budget. For FY2018/19, the projected nominal GDP used as a reference is J$2,018 billion, as presented in Table 2H, Macroeconomic Framework, of the FY18/19 Fiscal Policy Paper.

47. 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

48. 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).

49. 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.

50. Consultation with IMF Board would be triggered for the December 2018 test date if inflation falls below 2 percent or is above 6.5 percent. For the June 2019 test date, Board consultation would be triggered if inflation falls below 2.5 percent or is above 6 percent. The consultation with the Board will be 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. In addition, a staff consultation clause whereby the BOJ will consult with IMF staff on the outlook for inflation and the proposed policy response will be triggered if inflation falls below 3.5 percent for the December 2018 test date or below 4 percent for the June 2019 test date.

Table 6. Jamaica: Inflation Consultation Bands

	Dec. 2018	Jun. 2019
Upper outer band	6.5	6.0
Center point	5.0	5.0
Inner band	3.5	4.0
Lower outer band	2.0	2.5

IV. CONDITIONALITY ON PUBLIC BODIES' DOMESTIC ARREARS

51. 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.

52. 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.

53. 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

54. 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.[2] This information should be received with a lag of no more than six weeks after the closing of each month.

- Profits of the Bank of Jamaica on a cash and accrual basis, including a detailed decomposition of cash profits and profits from foreign exchange operations with a lag of no more than three weeks from month end.
- Deposits in the banking system: current accounts, savings and time deposits within six weeks after month end. Average monthly interest rates on loans and deposits within six 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 NBR target purposes within three weeks after month end.
- A full set of monthly FSIs regularly calculated by the BOJ, including liquidity ratios, within eight weeks of month end.
- Monthly balance sheet data of deposit taking institutions, as reported to the BOJ, within four weeks of month end.
- Issuance of exempt distributions by financial and non-financial corporations, six weeks after month end.
- Imports and exports of goods, in US$ million within twelve weeks after month end. Tourism indicators within four weeks after month end. Remittances' flows within four weeks after month end.
- Consumer price inflation, including by sub-components of the CPI index within four weeks after month end.
- The balance sheet of the PetroCaribe Development Fund with a lag of no more than six weeks after the closing of each month.
- Data on 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

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

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 Anne Marie McKiernan, Alternate Executive Director for Jamaica and Courtney Williams, Senior Advisor to the Executive Director
November 5, 2018

Fourth Review Under the Stand-By Arrangement

Our Jamaican authorities are highly appreciative of the Fund's continued support and thank staff for the productive engagement during the fourth SBA review mission. They also thank the various stakeholders for their continued buy-in, which has been instrumental in achieving program targets and meeting commitments. Strong program implementation continues with all quantitative performance criteria (QPC) met, and structural benchmarks remaining on track. This has helped to solidify macroeconomic stability notwithstanding the low-growth trend. To address this trend, our authorities will accelerate efforts to reduce structural impediments, strengthen policy credibility and reinforce confidence.

Program Performance

Jamaica's adherence to commitments remains a strong feature of program performance. Since the SBA started in November 2016, Jamaica continues to meet the QPCs, and has met all 21 structural benchmarks through the end-June 2018 review period. It is noteworthy that key fiscal targets such as the primary and overall balances continue to out-perform, while the near-doubling of spending on social programs relative to the end-June 2018 target will help to preserve social consensus and support for the program. At the same time, the stock of non-borrowed reserves comfortably surpassed the floor at end-June 2018. Conversely, the 12-month inflation rate at June 2018 fell to 2.8 percent, below the lower band of the SBA's target range and thereby triggering the MPCC. However, inflation rose to 4.3 percent in September, within the authorities' target range of 4-6 percent. The BOJ remains confident that the policy steps and other factors outlined in its communication to the Fund's Board will steer inflation toward the mid-point of the target range by mid-2019.

Sustaining Fiscal Prudence

Our authorities' sound fiscal consolidation path continues to lay a solid foundation for macroeconomic stability and to encourage private investment. Thanks to steady and sustained reform efforts, fiscal operations remain on track to deliver public sector surpluses for the fifth consecutive year. This has enabled a lowering of risk premia, placed public debt on a firm downward path toward the legislated ceiling of 60 percent of GDP by March 2026, and provided stronger liquidity to crowd-in private sector activity. Revenues continue to outperform, underpinned by recent tax reforms, including the shift toward greater reliance on indirect taxes. Relatedly, the Supplementary Budget tabled in September raised expenditure by approximately 1 percent of GDP, allowing for, inter alia, upscaling growth-friendly public investment, accelerating payout of domestic arrears, and reducing public sector borrowing.

Public sector transformation will continue to support the delivery of efficient public services and safeguard fiscal consolidation. The GOJ's contributory pension scheme implemented in April 2018 will assist in easing fiscal burden in the long run. Furthermore, the GOJ will move expeditiously to grasp the opportunity presented by the historic 4-year wage agreements signed with unions to accelerate public sector reforms. In this context, plans are advanced toward streamlining the menu of compensation allowances and developing a new compensation policy and structure. Further, to allow for a leaner and more efficient public sector while freeing up resources for much needed social spending and public investment, the GOJ has been rationalizing public bodies. An additional 18 public bodies have been identified for action within the next 12 months, which could include closure, merger, or reintegration into the central government.

Sound management of fiscal risks is vital to sustaining the fiscal program. Jamaica is mindful of geopolitical considerations regarding Venezuela's 49 percent stake in Petrojam, and possible implications for upgrading of the refinery. The GOJ expects the ongoing review of the entity to inform decisions that will improve governance and reduce fiscal exposure. Our authorities are also closely monitoring risks from the alumina industry, particularly regarding the Russian-owned Windalco. The reprieve from US sanctions has been extended until November 12 to allow adequate time for a review of corporate governance changes.

Securing Monetary Policy Independence

The BOJ maintains an accommodative monetary stance consistent with its price stability objectives within the context of a flexible exchange rate system. Downside risks to inflation over the first half of the year favored a relaxation of monetary policy. The effect on demand is however being stymied by a weak transmission mechanism. This, alongside currency appreciation and stronger than expected agricultural supply, contributed to inflation falling temporarily below the floor of the target band. The BOJ however remains vigilant to market developments and will act accordingly to maintain inflation around the midpoint of the band. In this context, foreign exchange interventions will continue to be limited to dealing with excess volatility and disorderly market conditions. W*ith staff's support, our authorities have again requested Board's approval for retention of the multiple currency practice, first approved in November 2016, for a period of twelve months.*

Jamaica is taking profound steps to modernize the central bank. To this end, our authorities tabled a Bill in Parliament on October 23 that seeks to establish price stability as the principal mandate of the BOJ. The proposed amendments will enable a fully-fledged inflation-targeting framework by codifying the BOJ's operational independence, enhancing accountability, improving its governance structure, and strengthening its balance sheet. This flagship reform, informed by the 2017 Safeguard Assessments, complements already-undertaken and ongoing fiscal reforms. It is expected to contribute to an improvement in macroeconomic outcomes by anchoring inflation expectations and promoting policy credibility, which are important for encouraging private investment.

The Jamaican authorities remain steadfast in their reform efforts. To prepare the BOJ for modernization, the GOJ in this fiscal year commenced implementation of a medium-term financing plan to strengthen the BOJ's balance sheet. Moreover, our authorities are committed to maintaining the flexible exchange rate system. They also acknowledge that a robust and effective communication strategy is vital to garner support and enable successful implementation of the reforms. In this regard, our authorities welcome the assistance provided by the Fund to strengthen the Bank's communication toolkit around monetary and exchange rate policy and look forward to continued support.

Stimulating Growth

Generating sustainable growth remains a critical challenge. While macroeconomic stability is entrenched, growth remains anemic. The Jamaican economy grew by 0.9 percent in 2017/18 and our authorities project that it will expand by around 2 percent in 2018/19 and over the medium term. Meanwhile, poverty remained high at 17 percent in 2016. Faster and more inclusive growth is imperative to further reducing poverty. Within this context, our authorities have stepped up efforts on a number of fronts, including sustaining the ongoing measures to upgrade the country's physical and security infrastructure, which are essential to stimulating private investment and boosting youth employment. The GOJ's supplementary budget approved in October included a sizeable increase to road works and crime fighting.

Stronger financial intermediation will be integral to invigorating growth. Despite the favorable macroeconomic environment anchored by the entrenched fiscal discipline, private sector investment remains lukewarm, due in part to the inability of small and medium-sized firms to access affordable credit. To address these concerns, our authorities are considering reducing the liquid assets requirement of banks and are exploring ways to further develop the local capital market. Other measures being contemplated include a rationalization of financial sector taxes in a manner that reduces the burden on the sector while protecting the GOJ's overall revenue stream.

Bolstering Financial Sector Resilience

Jamaica has made significant progress to bolster the resilience of the financial sector, but more work is needed. The accompanying FSSA, while commending the progress over the last decade, flagged several areas for attention. Our authorities' decisions and actions to strengthen the financial sector will be informed by the FSAP recommendations. The requirements to ensure a more resilient and inclusive financial system are demanding amid the current capacity constraints. Nevertheless, our authorities remain committed and will prioritize implementation of the required legislative, regulatory, and supervisory activities.

Strengthening Institutions

Plans are advanced to modernize the central bank, and further enhance fiscal responsibility through establishment of a fiscal council. These institutional changes are critical to preserving hard-won gains from the sound economic reforms, supported by Fund programs. They will require significant capacity building and our authorities have been proactive in moving to enhance the technical competences in key macro-financial agencies, with Fund assistance. Jamaica is also developing, with World Bank assistance, an institutional framework to transition from an ex-post to ex-ante resilience response mechanism. In this regard, our authorities intend to complete a national natural disaster risk financing policy by June 2019.