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Jamaica: 2009 Article IV Consultation and Request for a Stand-By Arrangement—Staff Report; Staff Supplement; Public Information Notice and Press Release on the Executive Board Discussion.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2009 Article IV consultation with Jamaica and Request for a Stand-By Arrangement, the following documents have been released and are included in this package:

- The staff report for the combined 2009 Article IV consultation and Request for a Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on December 17, 2009, with the officials of Jamaica on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 29, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement of February 3, 2010 updating information on recent economic developments.

- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its February 4, 2010, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

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

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

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

JAMAICA

Staff Report for the 2009 Article IV Consultation and Request for a Stand-By Arrangement

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by Gilbert Terrier and Dominique Desruelle

January 29, 2010

EXECUTIVE SUMMARY

- **Key program policies.** The core objectives of the proposed program are to achieve fiscal sustainability and reduce financial system risks. Up-front fiscal measures include tax revenue and expenditure containment measures. Structural reforms cover fiscal responsibility legislation, a central Treasury management system, tax administration, and the rationalization of public employment and public enterprises. A proposed debt exchange operation targets interest savings of at least 3 percent of GDP and a 70 percent reduction in the amount of maturing debt over the next three years. In the financial sector, regulatory reform focuses on improving consolidated supervision and reducing risks associated with the securities dealers sector.

- **SBA Request**. The authorities are requesting a 27-month SBA in an amount of SDR 820.5 million (300 percent of quota). Disbursements are to be front loaded, with half of total purchases available upon Board approval to help establish the Financial Sector Support Fund, which will provide primarily liquidity support to financial institutions.

- **Mission.** The last mission took place during December 12–17. Staff met with the Prime Minister Golding, Finance Minister Shaw, Bank of Jamaica Governor Wynter, and senior government and Bank of Jamaica officials. The staff team consisted of Messrs. Alleyne (head), Faircloth, and Guerson (all WHD); Mr. Grigorian (MCM), Mr. Konuki (SPR); and Mr. Simone (FAD). A parallel MCM mission, Mrs. Mitchell-Casselle (head) and Mrs. Elliott also contributed to the mission. This mission was preceded by several WHD and parallel MCM missions during 2009 and two visits by the authorities to headquarters.

- **Relations with the Fund.** The last Article IV consultation was concluded in April 2008. Jamaica has accepted the obligations of Article VIII, sections 2, 3, and 4 and does not have restriction on payments and transfers for current international transactions nor multiple currency practices. While Jamaica's exchange rate regime is classified as floating, according to the IMF's classification, the regime is considered a "Managed Floating with no Predetermined Path for the Exchange Rate". Jamaica subscribes to the General Data Dissemination Standards. Economic data are generally adequate for surveillance and program monitoring, although there are areas where data provision could be improved.

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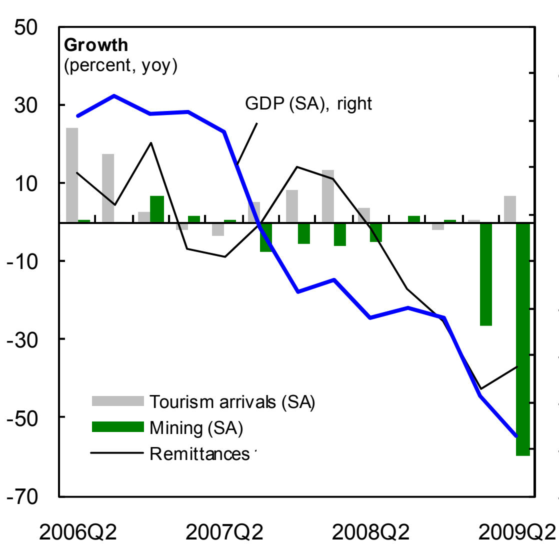
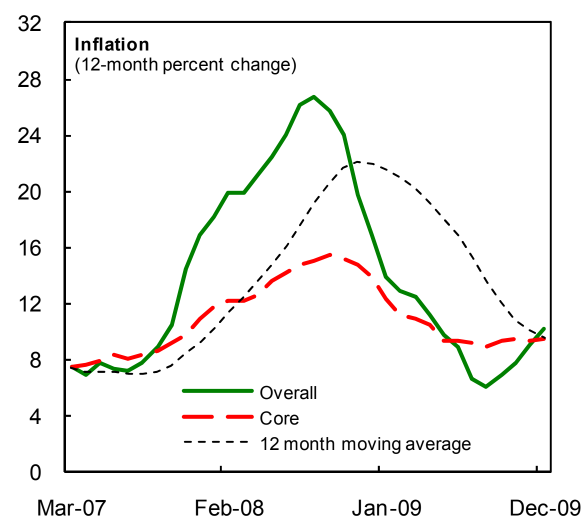
I. Background and Recent Developments

1. **For many years, Jamaica has been stuck in a cycle of low growth and high debt dynamics.** Its anemic growth (less than 2 percent a year over the past two decades) and recurring bouts of financial instability are rooted in part in an elevated public debt. Sustained high public debt service obligations and large refinancing needs have resulted in costly risk premiums, crowded out and distorted private sector investment, and left the country highly vulnerable to shifts in market sentiment. Notwithstanding record profits in recent years, the financial system's heavy exposure to public debt makes it vulnerable to the fiscal situation, constituting another significant risk to overall macroeconomic stability.[1] Like many other small-island economies, Jamaica is also vulnerable to recurring natural disaster shocks, which exact heavy tolls on the economy.

2. **Jamaica has been severely impacted by the global economic slowdown** (Figure 1). Real GDP declined by 1.6 percent in FY2008/09, with economic conditions deteriorating sharply in the second half of the year. During the current fiscal year, real GDP contracted further, registering a decline of 3 percent during the first half of the year. Bauxite and alumina production and exports fell by about 60 percent, while remittances—a traditional source of balance of payments support—declined by 33 percent. Tourism has also been negatively affected, although it has proven to be far more resilient than in the rest of the Caribbean. In FY2009/10, the external current account deficit is expected to narrow from 18 percent of GDP to 9½ percent, as the contraction in imports exceeds by far that of exports. Inflation fell steadily from 26½ percent in August 2008 to 9 percent in November 2009, reflecting weak domestic demand and a decline in global commodity prices from their mid-2008 peaks.

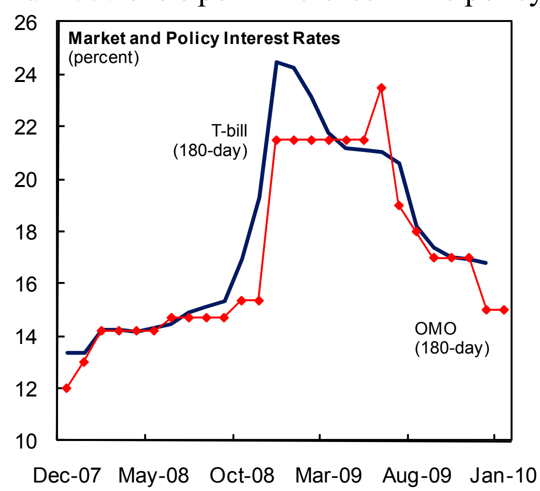




[1] As a percent of their total assets, banks' exposure to government debt stands at 20 percent, and that of securities' dealers' at 70 percent.

3. **Government finances have deteriorated, constraining the authorities' ability to respond to the global shock with countercyclical policies.** During FY2008/09, the public sector deficit widened by 1¼ percent of GDP, to 9½ percent. During this current fiscal year, faced with declining revenues and a sharp increase in interest costs, the government introduced two packages of fiscal measures equivalent to 1.9 percent of GDP. Despite these actions, the public sector deficit is projected at 12¾ percent of GDP in FY2009/10. The interest bill rose by 38 percent, reflecting the effects of the depreciation and a steep rise in interest rates. The deficit of public entities remained large, at close to 3 percent of GDP, reflecting mainly losses by Air Jamaica and Clarendon Alumina Partners.

4. **Over the past year and a half, concerns about economic prospects and the sustainability of Jamaica's debt have placed pressure on the currency** (Figure 2)**.** As global credit dried up in the immediate aftermath of the September 2008 shock, both the nonbank financial sector and the government faced external funding shortfalls. Pressure on the currency prompted the central bank to intervene in the foreign exchange market and provide liquidity to securities' dealers. The central bank also tightened monetary conditions sharply through higher cash reserve requirements and a 680 basis point increase in the policy rate to 21½ percent. Net international reserves fell from US$2.3 billion in September 2008 to US$1.6 billion in February 2009, while the currency depreciated by over 20 percent against the U.S. dollar. In more recent months, a drop in inflation has allowed the central bank to cut its policy rate to 15 percent, while some stability has returned in the foreign exchange market. At end-2009, net international reserves stood at US$1.7 billion (equivalent to three months of imports—the BOJ's minimum reserve target), after having been boosted by the SDR allocation (US$320 million).



II. Policy Discussions and Program for 2009/12

5. **Discussions focused on the overriding challenge of achieving fiscal and debt sustainability, in a sharply weakened domestic and external economic environment.** There was broad agreement between the authorities and staff that sustaining the confidence of financial market participants in the current environment required credible actions to ensure a return to fiscal sustainability. Therefore, discussions focused on developing a coherent policy reform program that adequately addresses the country's long-standing economic imbalances and main underlying vulnerabilities. The authorities' proposed program focuses on a three-pronged strategy including: (i) an ambitious medium-term fiscal consolidation, under which the public sector is to be reformed and rationalized; (ii) a debt strategy to lower exceptionally high interest costs and help address the problem of the debt overhang; and (iii) financial sector regulatory reform to reduce systemic risks, in line with 2006 FSAP recommendations.

6. **The authorities' medium-term program aims at restoring macroeconomic stability and creating the conditions for a sustained pick up in growth** (see MEFP, paragraphs 5–8)**.**

- ***Growth.*** Economic growth is projected to shift from -3½ percent in FY2009/10 to ½ percent in FY2010/11 and further to 2 percent thereafter. Like in the rest of the Caribbean, in the first half of FY2010/11, sluggish employment growth in advanced countries will continue to weigh on a recovery in key sectors such as tourism, and remittance flows, while rising global commodity prices are expected to lead to a deterioration in the terms of trade. Thereafter, the domestic economy would be expected to benefit from the recovery in the global economy, and growth would rise accordingly.

- ***Inflation.*** While one-off tax measures are expected to result in a temporary spike in inflation to 12¼ percent by end FY2009/10, in the absence of strong demand or foreign exchange market pressures, inflation is projected to fall to an average of 11¼ percent in FY2010/11 and further to 6 percent over the medium term.

- ***Balance of payments.*** The external current account deficit is projected to continue to narrow gradually from 9½ percent of GDP in FY2009/10 to 5 percent over the medium term, based on the recent depreciation of the currency in real effective terms and the expected increase in national saving as a result of fiscal consolidation. Better global conditions and an improved investment climate are projected to result in a recovery in FDI and other private capital flows. As a result, NIR are projected to rise steadily during the medium term to the equivalent of 3 months of imports of goods and services, after declining in late FY2009/10 and early FY2010/11 reflecting the materialization of contingent external claims to the private sector at the early stages of the program.

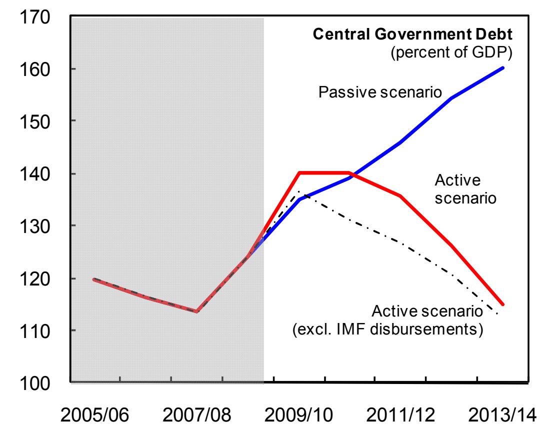
Jamaica: Key Economic Indicators

			Projection				
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
GDP real growth rate, in percent	0.6	-1.6	-3.5	0.6	1.9	1.9	2.0
Consumer inflation, period average, in percent	12.4	20.2	9.0	11.2	7.1	6.7	6.3
Overall fiscal balance, in percent of GDP	-8.2	-9.4	-12.7	-7.5	-4.9	-2.5	-0.5
Public debt, in percent of GDP	113.5	124.0	140.0	140.0	135.6	126.1	114.9
Current account balance, in percent of GDP	-18.4	-18.0	-9.4	-8.8	-6.6	-5.9	-5.0
Net international reserves, in US$ billion	2.1	1.6	1.4	1.1	1.3	1.5	1.8
Gross international reserves, in US$ billion	2.1	1.7	2.1	2.2	2.6	2.7	2.6

Source: Jamaican authorities and staff calculations.

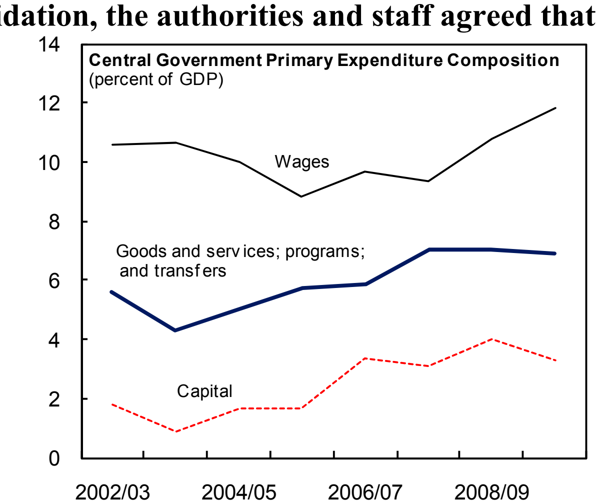
A. Fiscal Policy

7. **The authorities' strategy aims at a significant and sustained improvement in the overall balance of the public sector.** The key macroeconomic policies underpinning the medium-term outlook is a tightening of fiscal policy and a comprehensive debt management strategy aimed at putting the fiscal balance and the public debt on a clearly declining path. The public sector deficit is projected to narrow from 12¾ percent of GDP in FY2009/10 to ½ percent in FY2013/14, while public debt would decline from 140 percent of GDP to 115 percent over the same period. The primary surplus of the central government is projected to rise from 6 percent of GDP in FY2009/10 to 7 percent in FY2010/11, and further to 9 percent over the medium term. In addition, the overall deficit of public sector entities would be eliminated by FY2012/13, from 2¾ percent of GDP in FY2009/10.



8. **To help ensure achievement of the primary surplus objective for this fiscal year and next, the authorities have introduced a series of revenue and expenditure measures**. In late December 2009, parliament approved a tax package designed to yield revenues equivalent to 1.8 percent of GDP. The main measures included the introduction of a new *ad valorem* fuel tax; an increase in the general consumption tax (GCT) rate from 16½ percent to 17½ percent; an increase in the personal income tax rate for high income earners; and a 5 percent advanced GCT payment on all taxable imported goods (MEFP, paragraph 10). The authorities recognized that the latter two measures were not fully consistent with their broad tax policy goals of shifting the tax burden away from direct taxation and of reducing distortions from the system. They noted that these measures were temporary and had been introduced only after public opposition and the threat of widespread social unrest forced the government to withdraw an original set of measures aimed at substantially broadening the base of the GCT by eliminating most exemptions, including for food items.

9. **To entrench the needed fiscal consolidation, the authorities and staff agreed that expenditure-based fiscal adjustment needed to play a critical role.** In the discussions, staff noted that cuts could be implemented in recurrent program spending, which had risen significantly in recent years, and that better prioritizing could help improve the quality of capital spending. There was also a need to strictly control the growth of the wage bill, which had risen significantly in recent years, and achieve a significant reduction in the interest bill (see paragraph 17). The authorities agreed on the importance of cost containment in recurrent



program spending, and introduced a nominal freeze on the purchases of goods and services; cuts in travel costs; and a reduction in public utilities costs in ministries and agencies in the FY2010/11 budget in line with ongoing initiatives, such as the energy saving program (MEFP, paragraph 11). They also reaffirmed their intention to extend the wage freeze introduced in 2009 and rephase the granting of previously-agreed wage and salary increases (see MEFP, paragraph 11). While supporting the wage freeze as a short-term measure, staff cautioned about the limited credibility of such a freeze as a long-term solution. In response, the authorities are committed to implementing a comprehensive public sector reform allowing for a reduction in the wage bill over the medium term. This reform is to be implemented starting in FY2011/12 (paragraph 13).

10. **The authorities plan to increase spending on the social safety net.** Resources within the social assistance envelope will be reallocated to the better targeted programs. Spending on these programs will be increased by at least 25 percent in FY2010/11 (0.3 percent of GDP) (MEFP paragraph 12). In particular, this increase will benefit the school feeding program, which provides breakfast and lunches to children; and the Programme of Advancement through Health and Education (PATH), which provides conditional cash transfers to five categories within the poorest income groups. The government will also be pursuing efforts to expand the social safety net to assist persons below the poverty line who do not qualify for PATH assistance.

Summary Fiscal Impact of Main Revenue and Non Interest Expenditure Measures
In percent of GDP

Measures	Expected Savings in FY 2010/2011
Total Revenue Measures	**1.8**
Introduction of a new Ad-Valorem Fuel Tax	0.9
GCT Measures 1/	0.5
Increase in the personal income tax rate for high income earners	0.1
Other tax measures 2/	0.3
Total non interest Expenditure Measures	**1.3**
Continuation of wage freeze and rephasing of backpay	1.0
Reduction in program spending	0.5
Increase in well targeted social safety net spending	-0.3

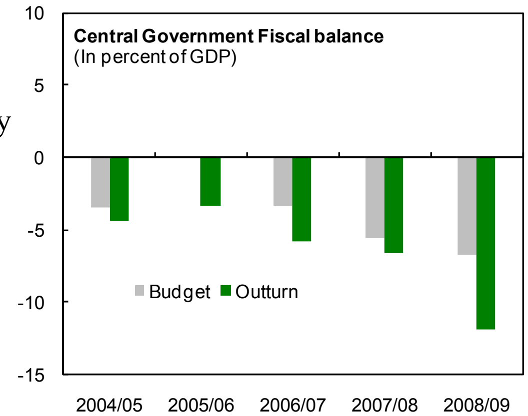
Source: Jamaican authorities and Fund Staff Estimates

1/ Includes the increase in standard rate and 5 percent advance GCT payment. See MEFP, paragraph 10.

2/ Includes the increase in cigarette excise rate and other taxes. See MEFP paragraph 10.

B. Structural Fiscal Reforms

11. **The mission underscored that medium term fiscal consolidation be underpinned by a comprehensive structural fiscal reform.** Over the past year, the authorities have refined a structural reform agenda that targets the root sources of repeated fiscal slippage. This is necessary to entrench sustainability and credibility to the adjustment efforts, given (i) poor tax compliance; (ii) Jamaica's large and relatively inefficient public sector; (iii) sustained losses at several large public entities; and (iv) an overall lack of expenditure control and accountability within parastatals and across ministries.



Tax reform

12. **The program aims at modernizing the organization of the tax administration and improving tax compliance.** At present, the administrative powers of the Director General of tax administration are limited, with large powers granted to the commissioners of each department. The exchange of information between the tax administration and customs departments remains limited, thereby reducing opportunities to cross check information and effectively combat evasion. In addition, the size of the large tax payers' office is limited and complex procedures create ample opportunities for non compliance and corruption. Under the program, the authorities are committed to implementing rapidly the recommendations of a 2008 Fund TA mission, including by unifying domestic tax administration; granting increased legal and administrative powers to the director general of tax administration; expanding the large taxpayers' office; and enhancing compliance through streamlined administrative procedures (MEFP, paragraph 24).

Public Sector Reforms

13. **The authorities plan to rationalize the organization of the public sector, with a view to reducing the wage bill as a share of GDP**. The Prime Minister has appointed a committee to review the existing structure of the public sector which is characterized by many entities with unclear or overlapping functions. The committee will present recommendations on a new structure by December 2010. The report of the committee is expected to specify critical steps and recommendations to ensure attainment of the government's objective of reducing the wage bill from 11¾ percent of GDP this fiscal year to 9½ percent over the medium term. The authorities are committed to completing a time-bound public employment and compensation reform action plan to be implemented in time for the FY2011/12 budget. This plan will ensure that wage bill spending is consistent with the medium-term budget framework (MEFP, paragraph 22). Staff also emphasized the importance of increasing control and transparency over public sector employment and compensation and encouraged the authorities to expeditiously complete a census of all government positions and compensation.

14. **New impetus is given to the rationalization of public entities while increasing the oversight and accountability of those that will remain in the public sector.** Although the deficit of these entities has been reduced in recent years, it remains high, at 2¾ percent of GDP in FY2009/10. In addition, government guarantees on the debt of these entities represent an important source of contingent liabilities. The government has approved a reform plan to: (i) divest commercial entities; (ii) merge entities when feasible to bolster efficiencies; and, (iii) wind-up inactive entities. Past losses by Clarendon Alumina Partners in recent years are expected to be eliminated as a result of the end of a costly forward sale contract and the recovery of global aluminum prices. In recent months, two of the five sugar mills operated by the Jamaica Sugar Company were divested. The government will either lease the two remaining sugar mills, or continue to strictly enforce a zero-deficit budget rule, while efforts to divest the sugar mills continue. The government is also committed to making a decision on the sale or liquidation of Air Jamaica prior to the Board discussion of the program (an update will be provided before the Board discussion). Negotiations with a foreign airline company are at an advanced stage and, if successful, government will ensure that all closing costs are strictly contained.[2] The government has also provided assurances that the modernization and expansion of the PetroJam refinery will not give rise to any government liability, either directly or indirectly. Finally, the government is committed to raising the tariffs of the state-owned urban transport company by 40 percent by April 1st, 2010. With respect to the public entities that will remain in the public sector, the fiscal responsibility framework will strengthen their accountability and transparency (see below), and the government will agree to performance targets with the management of each entity to ensure that sought after efficiency gains are realized.

Public Expenditure Management

15. **The authorities' program seeks to address the main weaknesses of the current public expenditure management (PEM) system.** At present, the PEM system suffers from severe deficiencies, including a narrow institutional coverage of the budget, mechanisms allowing for spending to occur without budget appropriations and weaknesses in the oversight and governance arrangements of autonomous public bodies. These weaknesses have limited the ability of the government to execute budgets as originally approved. This has been reflected in repeated spending overruns and frequent budget revisions. The authorities are committed to addressing these issues in the context of their fiscal responsibility legislation plans (MEFP, paragraph 26). To that effect, the FRL will expand the coverage of the budget to all general government institutions; enshrine the principle of no spending without budget appropriations; require approval by parliament of the corporate plans of public bodies and strengthen their oversight by the Ministry of Finance, including their ability to borrow; strengthen reporting and auditing requirements; and introduce appropriate sanctions and enforcement mechanisms to ensure proper compliance with the FRL. The new fiscal responsibility law will also introduce a medium-term framework approach to fiscal policy.

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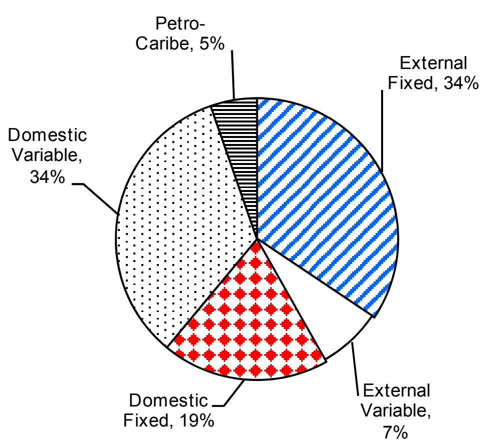
[2] Closing costs are estimated at US$200 million, which are accommodated in the government's financing program.

16. **The authorities also plan to create a central treasury management system (CTMS)** (MEFP, paragraph 27). At present, the authority granted to government entities to open accounts in financial institutions complicates cash management. This is the case in particular for local governments and extra budgetary funds that belong to the central government. This, combined with weak reporting arrangements, has contributed to a situation in which government resources are idle while the government is engaging in expensive borrowing. Staff and the authorities consider that the creation of a CTMS and the establishment of a treasury single account at the general government level could generate sizeable interest savings while improving the liquidity position of the Treasury.

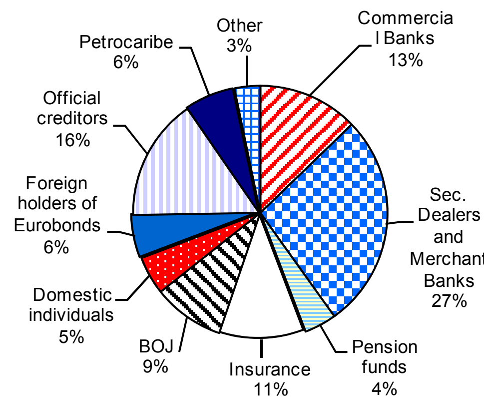
C. Addressing the Debt Overhang

17. **Achieving a meaningful reduction in Jamaica's public debt service burden is critical, both for fiscal consolidation and debt sustainability.** As noted, Jamaica's debt overhang is very high, with an interest bill of unmatched proportions—equivalent to 60 percent of fiscal revenue and 16 percent of GDP. In addition, a significant bunching of maturities has contributed to large gross borrowing needs in the years ahead. With 65 percent of the debt held by domestic financial intermediaries, any debt relief operation needs to be carefully designed to minimize the risks of financial sector distress.

Public Debt by Instrument and Variability 1/
(percent of total public debt)



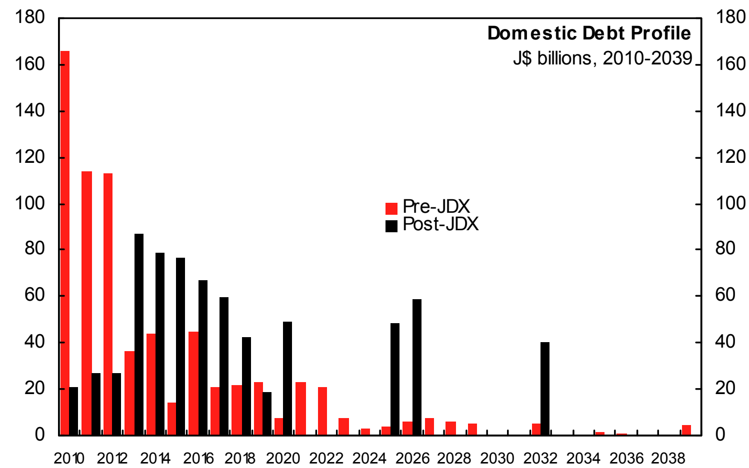
Holdings of Government Direct Debt 2/
(percent of total government direct debt)



Source: IMF staff calculations based on data from MoFP and Petrocaribe Fund. and Banking sector balance sheets,
1/ Includes government guaranteed debt.
2. Assumes 80 percent of Eurobonds are held domestically. Does not include government guaranteed debt.

18. **With these constraints in mind, the government has engaged its creditors in a comprehensive debt exchange** (MEFP, paragraph 14). The Jamaica debt exchange (JDX) was designed with a view of balancing the fiscal goals with the need to limit the costs to the financial sector, whose continued involvement in the public debt market is critical. The two main fiscal objectives of the debt exchange were to achieve a reduction in the public interest bill of at least 3 percent of GDP in FY2010/11 and a ¾ reduction in the rollover requirements

of domestic bonds over the next three years (Box 1).[3] The debt operation aims at extending domestically-issued bonds for new bonds carrying a lower interest rate. The initial yield on domestic currency-denominated bonds is expected to average 12½ percent across instruments and maturities, while the average rate on the bonds exchanged was 19 percent. In the short term, fiscal savings from the debt exchange will be locked in by securing a take up of a sizable share of fixed rate bonds at lower rates and fixing interest rates on new variable rate bonds for a period of 3-12 months, depending on maturities. In the medium term, maintaining the savings will depend on the decline of the yield curve. The operation is to be par neutral; including the yield curve decline, it is expected to result in about 20 percent reduction in NPV terms at a discount rate of 12 percent. Given that the debt exchange is essential to close the government's financing gap for next fiscal year and over the medium term, its successful conclusion is a prior action under the proposed program. As of January 27th 2010, preliminary results point to a participation rate of around 90 percent.



19. **The design of the debt exchange critically aims at preserving financial stability** (MEFP, paragraph 15). The par-to-par exchange aims at limiting any direct adverse impact on holders' balance sheets, with a view to maximizing participation in the offer while adhering to Jamaica's constitutional provision regarding the primacy of debt obligations. Nonetheless, given the size of the financial sector's holding of the GOJ debt, the exchange is expected to impose costs to the financial system through reduced interest earnings on the new bonds. In addition, financial institutions will be subject to regulatory tightening to better safeguard balance sheets from underlying sovereign risks, thus resulting in pressure on their capital base. Possible short run liquidity pressures were also discussed and accounted for in the authorities' contingency plans.

20. **To further buttress financial stability, a key part of the program will be the establishment the Financial Sector Support Fund (FSSF), with resources from multilaterals**. Stress test analyses were undertaken to better assess the vulnerabilities of the sector. The results of the stress tests were used to adjust the initial debt proposals, with the aim of reducing any adverse potential impact on the sector. The tests highlighted differences in vulnerability across various segments of the financial sector and found that the overall risks of the operation were manageable in terms of financial system stability provided

[3] Interest expenditures reported in Tables 1 to 3 reflects relatively conservative assumptions, including higher interest rates. Staff is waiting for the completion of the debt exchange to update interest expenditures.

Box 1. Details of the Debt Exchange

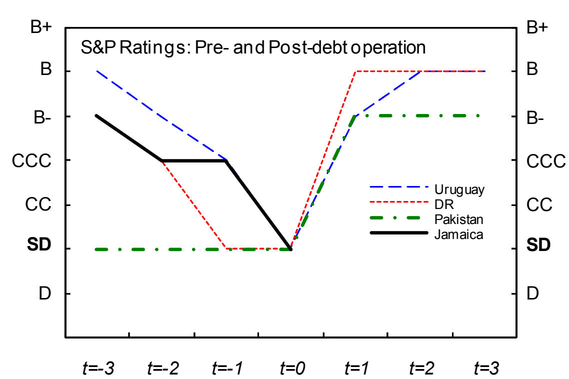
The government launched a comprehensive debt exchange to address its looming debt problem. The exchange, launched on January 14, 2010, allows the government to reduce its interest bill and expand the maturity profile of the debt stock. If successful, the exchange will significantly reduce the budget's gross financing requirements in the upcoming 2 years and pave the way for fiscal consolidation and reduction of the stock of debt.

Targeted bonds amount to 65 percent of GDP. The old bonds targeted by exchange include local currency (including fixed, variable, and US$-indexed debt) as well as US$-denominated debt amounting to approximately J$700 billion in total. In exchange for the old bonds, investors will have an option of selecting from a menu of fixed, floating, and inflation- and US$-indexed securities, subject to the allocation rules. The initial yield on J$-denominated bonds will average 12½ percent across instruments and maturities, while the initial yield on US$-denominated bonds will average 7 percent. For comparison, the BOJ's 1-month repo rate is currently at 10½ percent, with the current (pre-exchange) average rate on the eligible bonds at 19 percent (9 percent for US$-denominated bonds). To reduce the scope for free riding (i.e., holdouts), the government intends to strategically exercise the call options embedded in the old bonds. It has also threatened to impose a punitive tax on income earned from the old bonds.

The exchange is guided by allocation rules that are intended to offer some predictability for the government. In particular, they restrict any increase in variable rate and US$ denominated bonds in favor of fixed-rate and longer dated instruments so as to lock in upfront fiscal savings and reduce rollover risks. To further secure fiscal savings, the coupon rate on variable bonds will be fixed (for 3 to 12 months depending on maturities) at 11¾ percent—the coupon on 1-year fixed rate bonds. Most new fixed rate bonds will be stripped of call options to make them more attractive for investors to hold.

The exchange is expected to simplify the functioning of the public debt market. The new (benchmark) bonds—23 in total, comprised of 9 fixed, 9 variable, 3 US$-denominated, and 2 CPI-index bonds—will replace over 340 eligible bonds presently in circulation. This is also expected to facilitate a more efficient price discovery and wider use of public yield data for pricing of private transactions.

The operation is expected to generate high participation rates as investors have a vested interest in continued financial sector and macroeconomic stability. Overall, the exchange is expected to generate interest savings in excess of 3 percent of GDP. While the initial announcement of the exchange led to Jamaica's downgrade to Selective Default by the S&P, the consensus outlook—driven by improved debt sustainability and prospects of stronger fiscal position—appears to be positive, with a possibility of upgrades shortly after the close of the exchange.



Source: Standard and Poor's; Fund staff calculations
Note: Each time period equals three months; assumes Jamaica debt operation successfully concludes in January 2010

Box 2. Financial Sector Impact of Debt Exchange Operation—Stress Testing Results

The Bank of Jamaica (BOJ) conducted stress tests to assess the potential impact of the debt exchange operation. The analysis was applied to deposit-taking institutions (DTIs), securities dealers (SDs) and insurance companies. It examined the direct income and fair value loss of the coupon cut and maturity extension proposed under the debt operation and assessed potential second-round impacts of the exchange, including declines in market value of all GOJ instruments, margin calls, and liquidity pressures. The tests also examined the balance sheet impact of a phasing in of risk weighting on foreign currency denominated debt.

While the financial system is generally robust to the direct impact of the exchange, potential second-round effects are a possible source of stress. The authorities and staff agreed on the need to introduce risks weightings in a post debt exchange environment to ensure consistency in the authorities' regulatory approach. At the same time, given the extraordinary circumstances, they agreed that it would be prudent to phase in the introduction of risk weighting.

additional liquidity and possibly recapitalization support was made available (Box 2). These tests identified the securities dealer sector as a particularly important source of risk, due to the structure of its assets under management, weak capital base, and external borrowing subject to margin calls (Appendix I). To further buttress stability, the authorities plan to set aside US$1 billion from multilateral disbursements for the establishment of the FSSF. This fund will be managed by the central bank and its resources used to provide liquidity support, if needed, to individual financial institutions with high participation rates in the debt exchange and which experience difficulties as a result of it (MEFP, paragraph 16-18, and Appendix II). Liquidity support will be temporary, with clear incentives for participants to exit. The government is also committed to resolving any institution which does not meet the full solvency requirements, in accordance with existing legal and regulatory frameworks.[4]

21. **Beyond the debt exchange, the government is committed to strengthen debt management (MEFP, paragraph 20)**. In the discussions, staff highlighted the need for a comprehensive medium-term debt management strategy to guide the authorities in the assessment of cost-risk trade-offs. The authorities agreed that such a framework would be useful and committed to improve transparency and communication with market players. Additional measures will be needed to improve the efficiency of the government securities market and price discovery. The authorities indicated, however, that progress in these areas would likely require technical assistance from the Fund and other multilateral partners. Staff stands ready to provide such assistance in a timely manner.

[4] The existing regulatory framework allows regulators to take temporary management, which suspends the rights of shareholders and managers for at least 60 days. If an institution is considered systemic or if its closure would undermine progress in stabilizing the financial sector, with Court approval, the shareholders would be removed, the institution taken into temporary conservatorship, and the government would commit to resolving for eventual privatization.

D. Financial Sector Policies

22. **While the Jamaican financial system is relatively healthy, securities dealers are highly exposed to government risk.** The banking system is generally well capitalized and has been highly profitable in recent years, in the context of high interest rates on government securities. At the same time, the financial sector has remained insulated from the spillover effects of the CL Financial-related problems that have affected other Caribbean countries.[5] Nevertheless, as noted, the large holdings of government securities by Jamaican financial institutions make them vulnerable to a weakening in the fiscal situation. Given the relative size of the securities dealer sector and inter-linkages within financial conglomerates, pressures within the securities dealer sector could spillover to the financial system more broadly. The design of the retail repo product, the basis of the securities dealer business model, is akin to a deposit— the customer makes a short term investment with a guaranteed return and does not directly take on the risk of the associated GOJ instrument, which remains with the dealer.

Jamaica: Financial Sector Indicators 1/

	2006	2007	2008	Sep-09
Balance sheet growth (yoy)				
Capital base	13.2	11.7	13.3	11.5
NPL	6.0	14.2	57.6	60.4
Liquidity				
Loans/deposits	56.2	63.5	75.4	74.3
Asset Quality				
Prov. for loan losses/NPLs	101.2	103.4	88.2	78.6
NPLs to total loans	2.6	2.3	2.9	4.1
Capital Adequacy				
Capital base/total assets	9.4	9.2	9.6	10.1
Capital Adequacy Ratio (CAR)	17.1	16.0	15.2	17.9
Profitability 2/				
Pre-tax profit margin	21.8	24.5	21.7	15.5
Return on average assets	0.7	0.8	0.8	0.5

Source: Bank of Jamaica.

1/ Commercial banks, building societies, and merchant banks.
2/ Figures are for the calendar quarters.

23. **Vulnerabilities associated with securities dealers will be addressed**. The authorities agreed that the repo business model should be substantially reduced over time. Addressing these risks must be done in a steadfast but gradual manner —the securities dealers are an important mechanism for placing government debt. The authorities underscored their commitment to improve the dealers' ability to withstand shocks. The authorities plan to enhance capital adequacy and margin requirements for securities dealers (MEFP paragraph 33). In addition, they will introduce a temporary freeze on the licensing of new securities dealers whose business model involves retail repos until the enhanced capital and margin requirements are in place (MEFP, paragraph 34). At the same time, in order to provide a viable investment alternative to repos, the authorities will focus on developing the collective investment scheme sector over the long term (MEFP, paragraph 33 and 34). As indicated in the MEFP, initial measures will be implemented in 2010.

24. **The authorities' program includes reforms to strengthen legislative, regulatory and supervisory frameworks, in line with recommendations of the 2006 FSAP.** Current circumstances have highlighted a number of systemic weaknesses—many of which were also identified in the 2006 FSAP. In particular, the BOJ and the Financial Services Commission (FSC) have limited ability to regulate conglomerates, requiring additional authority to request data, impose prudential norms and identify potential risks, and take action on a group basis. The authorities are committed under the program to enacting legislative changes, in the form of an omnibus banking law that would establish a new Holding Company Act; harmonize the

[5] CL Financial is a financial conglomerate with operations across the Caribbean that collapsed in January 2009.

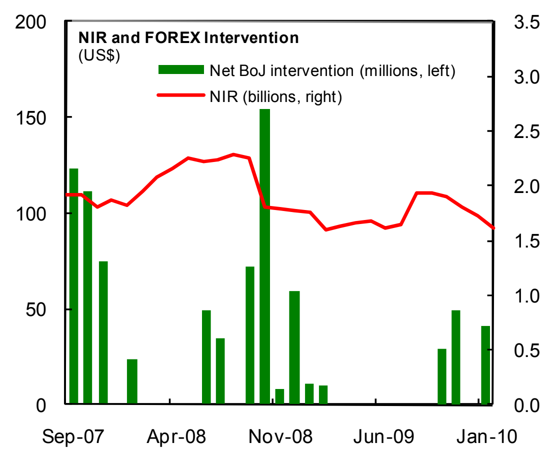
different prudential standards that apply to commercial banks, merchant banks, and building societies; and grant regulators expanded powers to conduct due diligence for all significant shareholders (MEFP, paragraph 30).

25. **Under the authorities' plans, the Bank of Jamaica will be given explicit responsibility for overall financial system stability.** Toward this end, the authorities plan to amend the Bank of Jamaica Act to give the central bank a well-defined responsibility in that area, together with full authority to collect all necessary information from all financial institutions as well as from the functional regulators of these entities (MEFP paragraph 31). Under extraordinary circumstances, the BOJ would have authority and discretion to give direction to all financial institutions in coordination with the functional regulator and to extend support to all financial institutions. While the BOJ has been able to work with its existing authority to provide liquidity and monitor stability, these changes will create greater certainty and efficiency for future possible stress events.

E. Monetary and Exchange Rate Policy

26. **Monetary policy will focus on containing inflation and supporting the normal operations of the domestic financial system.** In the current weak economic context, underlying inflationary pressures are expected to remain subdued. A successful debt exchange combined with the implementation of the fiscal consolidation program under a Fund arrangement should yield significant dividends in terms of reduced sovereign risks premiums, thus allowing the central bank to ease the policy rate significantly below the prevailing level of 15 percent.

27. **Exchange rate flexibility is a key element of Jamaica's macroeconomic framework under the program.** The nominal exchange rate has adjusted significantly over the past year and the REER appears in line with fundamentals (Box 3).[6] Against this backdrop, and given the potential adverse effects of a further weakening in the currency on debt dynamics and increased dollarization, the program contemplates the possibility of limited central bank intervention in the foreign exchange market. Such an intervention will be limited to episodes of excessive volatility. The reserves target of the program will help safeguard the adequacy of reserve coverage.



[6] While Jamaica's exchange rate regime is classified as floating, according to the IMF's classification, the regime is considered a "Managed Floating with no Predetermined Path for the Exchange Rate".

III. Program Issues

28. **In support of their program, the authorities have requested a 27-month Stand-By Arrangement from the Fund.** In view of the difficult economic situation, mounting balance of payments needs, and precarious budget and debt positions, the authorities are requesting a 27-month SBA in an amount equivalent to 300 percent of quota, or SDR 820.5 million (about US$1.3 billion). The authorities anticipate that financial support from the Fund will also help unlock critical financing from other multilateral institutions. In total, the government is requesting US$2.4 billion from multilaterals to support their program, which is described in detail in the Memorandum of Economic and Financial Policies (MEFP).

- **Access and Financing:** The government envisages the need for financing from multilateral sources of US$2.4 billion over the next two years in support of their economic program. Of this, about half would be required upfront to address immediate budget financing and balance of payments needs as well as the establishment of the FSSF. Total funding from the IMF is expected to be US$1.3 billion, with about half provided up front. Loan commitments over the next two years from the IDB, World Bank, and the Caribbean Development Bank are projected at around US$1 billion, half of which would be disbursed up front. In addition, Jamaica will continue to draw financing from the PetroCaribe facility and to strategically access external commercial markets, which are expected to re-open before the end of the next fiscal year. Remaining financing needs will be filled through domestic financial sector borrowing.

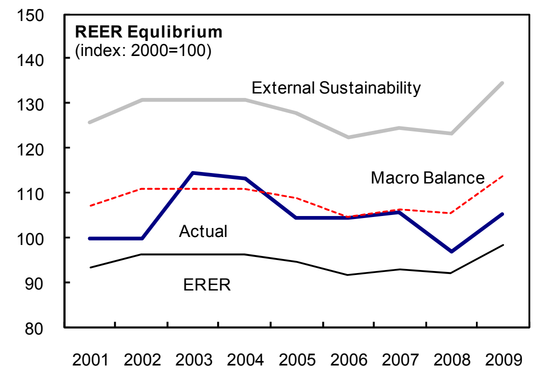
  Phasing and Use of Resources: The phasing of the disbursements is substantially front loaded, with half of the total program funds proposed to be disbursed on approval of the SBA by the Board (Table 7 and MEFP Table 1). The main rationale for the front loading is to secure the necessary resources for the timely establishment of the FSSF. As described earlier, stress tests point to the possibility that this fund would be crucial for the maintenance of financial system stability in the period following the debt exchange. Fund resources are projected to be used entirely for balance of payments support and for the establishment of the FSSF. Disbursements from the IDB and the World Bank are also projected to be front loaded in order to be able to fund the FSSF.

Jamaica: Schedule of reviews and Purchases

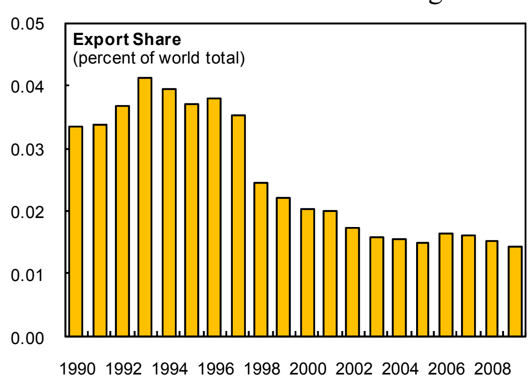
Date	Amount of Purchase		Conditions
	Millions of SDR	Percent of Quota	
February 4, 2010	414.3	151.5	Approval of arrangement
May 31, 2010	63.7	23.3	First review and end-March 2010 performance criteria
August 31, 2010	31.9	11.7	Second review and end-June 2010 performance criteria
November 30, 2010	31.9	11.7	Third review and end-September 2010 performance criteria
February 28, 2011	127.5	46.6	Fourth review and end-December 2010 performance criteria
May 31, 2011	31.9	11.7	Fifth review and end-March 2011 performance criteria
August 31, 2011	31.9	11.7	Sixth review and end-June 2011 performance criteria
November 30, 2011	31.9	11.7	Seventh review and end-September 2011 performance criteria
February 28, 2012	55.5	20.3	Eighth review and end-December 2011 performance criteria
Total	820.5	300.0	

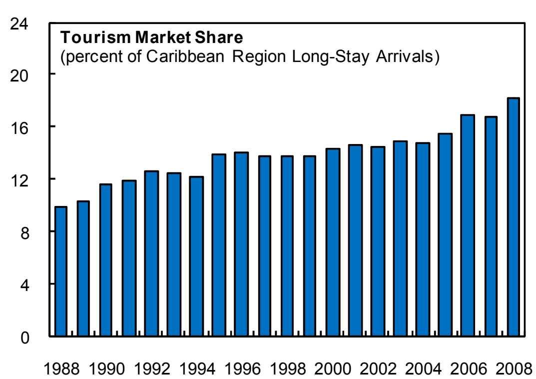
Box 3. Exchange Rate Assessment and Competitiveness

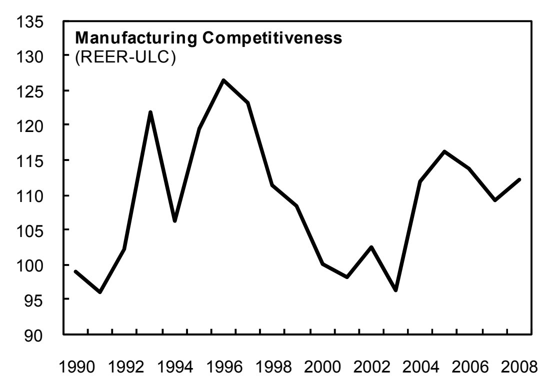
In staff's view, Jamaica's exchange rate is broadly in line with equilibrium based on the methodology in line with CGER. It is customary to take a simple average of three approaches, which gives an undervaluation of 9.9 percent, within the standard forecast error.[1] This average, however, masks a range of estimates using each approach separately. Under the macroeconomic balance approach, Jamaica enjoys a small competitiveness advantage of around 8 percent. The external sustainability approach gives a competitiveness advantage about three times as large as that given by the macroeconomic balance approach. On the contrary, the equilibrium real exchange rate (ERER) approach indicates a small overvaluation by 6½ percent.



Various other competitiveness indicators also indicate that Jamaica's competitiveness remains satisfactory. Jamaica's market share of Caribbean tourism has been increasing and its market share of manufacturing exports in the world has been broadly stable in recent years, despite some appreciation in unit-labor-cost-based measure of the real exchange rate during the same period.







[1] This is based on the estimation method proposed by Vitek (WP/09/165) using the panel data of the medium-term projections reported in the IMF's *Fall 2009 WEO*.

- **Conditionality and Reviews:** Quantitative performance criteria would focus on fiscal targets, in particular the primary balance of the central government, the balance of the public entities, and the level of public debt. An NIR floor would be set to contain downside risks to reserves and a ceiling on NDA assets to help preserve growth and inflation objectives. Reviews would be focused on the progress on critical structural reforms that are important to assuring sustained fiscal savings over the medium-term, including the passage of FRL; implementation of a central Treasury management system; and public sector reform. However, reforms aimed at strengthening financial sector regulation, especially the securities dealers sector, rise to the level of being macro critical and are also to be the focus of program reviews. Given the large risks for a proposed SBA (see below), staff proposes quarterly reviews. In particular, the proposed 27-month SBA (which covers the current and next budget cycle) alongside quarterly reviews will help the authorities establish a solid track record of fiscal performance while seeking to contain risks to the Fund. All disbursements from the FSSF must be reported to the Fund, daily.

- **Safeguards Assessment:** A safeguards assessment of the Bank of Jamaica has been initiated. The bank is providing the information requested, and the assessment will be completed no later than the first review of the program.

29. **Although a Stand-by Arrangement with Jamaica carries significant risks, staff believes that there is a compelling case for a Fund program**.

- **Capacity to repay the Fund.** Under the baseline projections, Jamaica's capacity to repay the Fund is good. The external current account is projected to improve once tourism and remittances recover and, with good economic performance under the program, normal access to capital access is restored. Jamaica has no debt outstanding to the Fund, has never had arrears to the Fund, and puts a high priority on its very good reputation with creditors.

- **Debt sustainability**. Jamaica's total external debt-to-GDP ratio is high, around 60 percent now and is expected to rise further to 70 percent in 2010/11 after projected new borrowings from IFIs, including the Fund. However, this ratio would gradually decline after 2011/12 reflecting the expected improvement in current account balance (Appendix III). The external debt sustainability analysis indicates that Jamaica has a capacity to absorb various types of shocks. If purchases are made as scheduled, there will be a peak in repurchases and charges to the Fund in FY2014/15, but they reach only 8 percent of exports of goods and services in that year (see Table 8). This is well within the country's capacity to repay.

- **Downside risks.** The risks of policy slippage are high. The primary surplus targets in the authorities' program are high by international standards, and their achievement is by no means assured.[7] Significant slippage could occur, particularly given that a high degree of social and political consensus will be needed to sustain fiscal adjustment over the medium term. Moreover, the fiscal effort is to be underpinned by structural fiscal reforms that may take more time than expected to yield budgetary savings, given the risk of delays in implementation (i.e. capacity constraints, possible legal and/or political hurdles) and uncertainties related to their costs. Even if the authorities achieve the projected fiscal adjustment, the debt-to-GDP ratios will remain high, unless economic growth picks up substantially. As such, the public finances and the overall economy would remain highly vulnerable to shocks, including shifts in market sentiment and natural disasters. There is also a risk that the debt exchange does not achieve its objectives in terms of fiscal savings or leads to significant disruptions in the financial system. The establishment of the FSSF should help protect against the latter risks. In addition, Jamaica remains vulnerable to exchange rate and interest rate swings, including from other sources than fiscal slippage, given its openness and high proportion of FX-denominated and variable-rate public debt. The significant fiscal consolidation also constitutes a potential downside to growth. Finally, there are inherent risks to the program associated with delays in disbursements from other multilateral creditors.

- **Upside risks**. Although there are important downside risks, upside risks also exist. On the positive side, the authorities' program aims at addressing key factors that thwarted previous fiscal consolidation efforts. Resolute implementation of the program, together with substantial multilateral support, could raise investment and growth prospects above those outlined in the baseline projections. A virtuous cycle of growth and improved fiscal results could also accelerate the elimination of underlying vulnerabilities and put the economy on a permanently stronger footing to withstand exogenous shocks.

IV. Staff Appraisal

30. **Jamaica has suffered from chronic low growth and periodic episodes of financial market instability which are rooted in a large and unsustainable public debt.** The authorities have been forced to confront the global crisis by implementing strongly procyclical fiscal and monetary policies in order to address large fiscal and balance of payments financing gaps and declining investor sentiment. At the same time, however, the global crisis has forged a strong resolve on the part of the authorities for fundamental reform. Thus, in contrast with past attempts at fiscal consolidation, the program developed by the authorities aims to address the key underlying vulnerabilities and imbalances in the economy through a coherent set of policies and structural reforms. Their strategy correctly focuses on medium-term fiscal consolidation, underpinned by reforms that entrench fiscal discipline; a debt strategy to lower exorbitant debt service costs and help address the problem of debt overhang; and financial sector reforms to reduce systemic sources of risk.

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[7] Although, the projected primary surpluses are high, there are many successful examples of other countries achieving the cumulative fiscal adjustment projected in this program. See IMF Occasional Paper 246 (2006), Experience with Large Fiscal Adjustments.

31. **The authorities' objective of virtually eliminating the overall public sector deficit over the next four years is ambitious but appropriate.** The authorities' fiscal consolidation program is well balanced, which, in the staff's view, increases its likelihood of success. The burden of adjustment is appropriately spread across revenue enhancement, primary expenditure restraint, and improved public enterprise balances. Through the debt exchange, creditors are also called upon to assume a part of the burden, while the neediest are protected by the provisions in the program for an enhanced social safety net. For the most part, the revenue measures are in the right direction, as they aim to decrease distortions by reducing exemptions. On the expenditure side, the extension of the wage freeze for the next two years is important to secure short-run fiscal savings. However, it will be crucial to design and implement the public sector reform as soon as possible so that the desired reduction the wage-to-GDP ratio can be sustained after the expiration of the freeze. Staff commends the ongoing efforts to eliminate the deficit of the public enterprise sector including through divestment, improved cost recovery, and rationalization of capital spending plans.

32. **A successful debt exchange is an essential component of the fiscal consolidation strategy and the plan to address the debt overhang.** With the huge interest and amortization costs, a debt operation to reduce interest expenses and extend maturities was necessary, both to fill financing gaps over the next two years and help build consensus for sustained fiscal adjustment. Staff believes that the design of the debt exchange strikes an appropriate balance between the need to maximize fiscal savings and that to avoid jeopardizing financial system stability. Stress tests confirm that the debt exchange could significantly impact the balance sheets of financial institutions, particularly the securities dealers sector, given their heavy exposure to government debt. However, staff believes that sufficient safeguards for the financial sector will be in place. Specifically, access to resources in the FSSF will help ensure the smooth functioning of the financial system and sustain confidence in its overall soundness.

33. **The authorities' intention to embed the medium-term fiscal consolidation effort in a comprehensive set of fiscal structural reforms is key.** Jamaica has embarked on many fiscal adjustment programs in the past that were compromised by relying too heavily on ad hoc adjustment measures and failing to address institutional factors at the root of the debt and deficit generation process. In this context, staff commends the authorities for tackling the problematic and non-transparent public expenditure management framework. The swift passage of fiscal responsibility legislation and creation of a central Treasury management system will concretely signal the authorities' commitment to fiscal prudence. The comprehensive reforms to rationalize the public sector, enhance the efficiency and accountability of entities, and improve control over public sector employment and compensation are crucial to sustaining the fiscal adjustment beyond the program period.

34. **Notwithstanding efforts to strengthen regulatory and supervisory frameworks, further legislative and structural reforms are needed to reduce systemic risks to the financial system.** This includes passing an omnibus banking law that allows for more effective supervision of financial conglomerates; amending the Bank of Jamaica Act to establish a legal framework to underpin its responsibility for overall financial system stability; and taking further measures to strengthen capital adequacy standards for all deposit

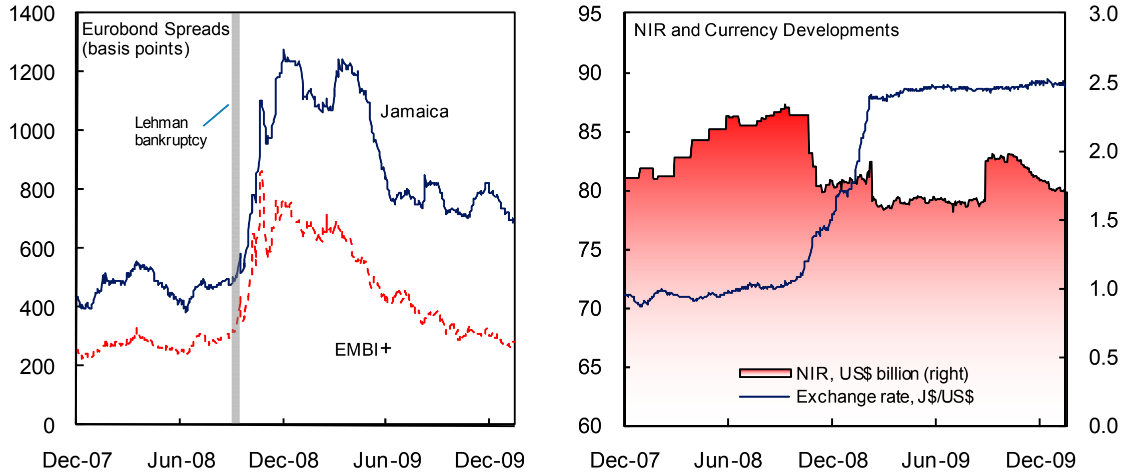
taking institutions and securities dealers. The current regulatory approach to the repo business model has been inadequate; serious regulatory reform is required to move the sector to a more prudent business model. In this context, staff supports the authorities' plan to impose a temporary moratorium on new licenses for securities dealers whose business model is mainly in the form of repo contracts until enhanced capitalization and margin requirements are implemented. In addition, staff encourages the authorities to move quickly to push through legislative changes to encourage the development of collective investment schemes.

35. **Although the proposed program carries risks, staff is of the view that these risks are manageable and that the program merits financial support from the Fund.** The primary surplus targets in the program are high by international standards and there is a risk that structural reforms may be delayed because of capacity constraints or a failure to sustain a political and social consensus around the reforms. At the same time, staff is of the view that the authorities' program deserves Fund support, given its comprehensiveness and the ambitious set of reforms that it includes.

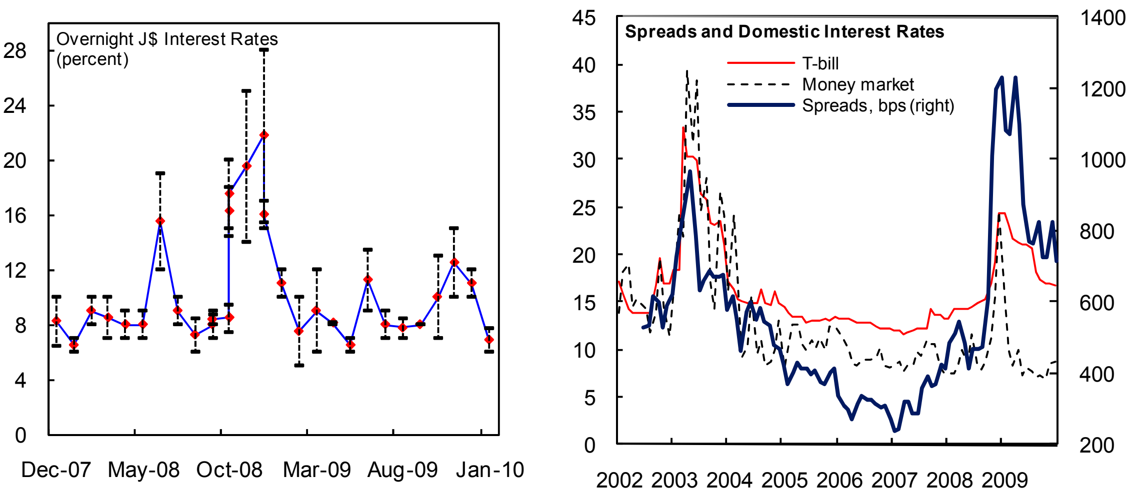
36. Staff proposes that the next Article IV consultation take place within the 24-month cycle, subject to the provisions of the decision on Article IV consultation cycles.

Figure 2. Jamaica: Financial Sector Developments

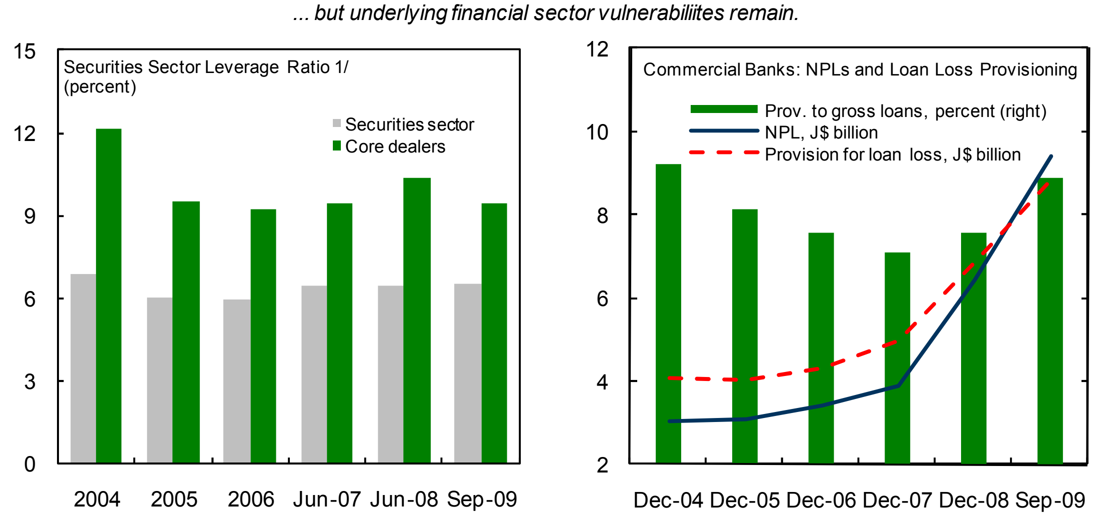
Global financial turbulence has increased Jamaican spreads and put pressure on the currency and reserves.



Interest rate pressures in the period following the global financial shock have eased...



... but underlying financial sector vulnerabiliites remain.



Sources: Jamaican authorities; and Fund staff estimates
1/ Ratio of liabilities to capital

Table 1. Jamaica: Selected Economic Indicators 1/

					Proj.				
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	012/13	013/14
GDP, prices, and employment									
Real GDP	1.2	3.2	0.6	-1.6	-3.5	0.6	1.9	1.9	2.0
Nominal GDP	12.2	14.2	13.2	12.3	3.3	11.5	10.3	9.7	9.5
Consumer price index (end of period)	11.2	8.0	19.9	12.4	12.2	7.3	7.0	6.5	6.0
Consumer price index (average)	14.8	7.4	12.4	20.2	9.0	11.2	7.1	6.7	6.3
Exchange rate (end of period, in J$/US$)	65.3	67.6	70.8	88.0	…	…	…	…	…
Exchange rate (average, J$/US$)	63.2	66.3	69.7	76.3	…	…	…	…	…
End-of-period REER (percent change, apprecia	4.0	-0.7	4.0	-10.1	…	…	…	…	…
Unemployment rate (in percent)	11.6	10.8	9.7	10.6	…	…	…	…	…
Government operations									
Budgetary revenue	26.2	25.9	27.3	26.6	28.3	27.7	27.8	27.9	27.9
Budgetary expenditure	29.5	30.8	31.1	34.0	38.2	34.2	32.1	30.5	28.6
Primary expenditure	16.3	18.9	19.5	21.8	22.0	20.7	20.2	19.5	18.8
Interest payments 2/	13.2	11.9	11.6	12.2	16.2	13.5	11.9	10.9	9.7
Budget balance	-3.3	-4.8	-3.8	-7.3	-10.0	-6.5	-4.3	-2.6	-0.7
Of which: primary fiscal balance	9.9	7.0	7.8	4.8	6.2	7.0	7.7	8.3	9.1
Of which: underlying primary fiscal balance 3/	..	..	..	..	5.2	7.0	7.7	8.3	9.1
Off-budget expenditure 4/	1.0	1.5	1.1	-0.4	0.0	0.0	0.0	0.0	0.0
Net capital transfers to public entities 5/ 6/	..	..	0.0	0.6	-0.2	0.0	0.0	0.0	0.0
Public entities balance 5/	..	..	-3.4	-2.5	-2.8	-1.0	-0.6	0.1	0.2
of which financed with loans and deposits dra	..	..	-3.4	-3.1	-2.5	-1.0	-0.6	0.1	0.2
Overall fiscal balance			-8.2	-9.4	-12.7	-7.5	-4.9	-2.5	-0.5
Public debt 2/ 7/	119.9	116.5	113.5	124.0	140.0	140.0	135.6	126.1	114.9
External sector									
Current account balance	-10.5	-9.7	-18.4	-18.0	-9.4	-8.8	-6.6	-5.9	-5.0
Of which: exports of goods, f.o.b.	16.0	17.9	18.3	17.0	11.8	12.0	12.6	12.9	13.2
Of which: imports of goods, f.o.b.	40.0	42.3	50.4	50.0	38.9	39.0	39.5	39.0	38.4
Net international reserves (in millions of US$)	2,078	2,329	2,083	1,629	1,378	1,078	1,325	1,436	1,705
Gross international reserves (In millions of US$	2,373	2,614	2,106	1,664	2,051	2,151	2,635	2,677	2,616
Money and credit									
Net foreign assets	1.7	4.2	0.9	-13.3	-6.1	-7.7	7.6	4.0	8.1
Net domestic assets	6.9	6.6	11.6	24.8	5.2	19.2	6.0	9.1	1.4
Of which: credit to the central government	-5.6	-3.5	2.7	8.7	5.1	2.2	2.7	1.7	0.8
Broad money	8.6	10.8	12.5	11.6	-1.0	11.5	13.7	13.1	9.5
Velocity (ratio of GDP to broad money)	3.1	3.2	3.2	3.3	3.4	3.4	3.3	3.2	3.2
Memorandum items:									
Nominal GDP (in billions of J$)	714	815	923	1,037	1,071	1,194	1,317	1,445	1,582

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

1/ Based partly on assumptions provided by the authorities. Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.

2/ Assumes liability management operations on January 1st 2010 involving the par-for-par exchange of bonds, and targeting a 12.5 percent yield return on domestically-issued bonds and extension of maturities.

3/ Adjusts for one-off revenues in FY 2009/10.

4/ Includes debt issued to BOJ to cover its cash losses and, until 2007/08, debt related to off-budget projects financed initially by the private sector.

5/ Assumes that any expansion of the PetroJam refinery, costing about 10 percent of GDP in cumulative terms, does not involve government financing, neither direct nor guaranteed.

6/ Includes 20 selected public entities under rationalization or divestment plans and other public entities.

7/ Central government direct and guaranteed only, including PetroCaribe debt and proposed IMF disbursements.

Table 2. Jamaica: Summary of Central Government Operations
(in billions of Jamaican dollars)

	2005/06	2006/07	2007/08	2008/09	Proj. 2009/10	2010/11	2011/12	2012/13	2013/14
Budgetary revenue and grants	186.7	211.3	252.0	276.2	302.8	330.5	366.4	402.8	441.3
Tax	165.7	192.5	224.5	250.7	266.6	303.0	336.0	369.5	404.8
Non-tax	20.3	17.3	23.0	18.0	24.2	20.6	22.7	24.9	27.3
Grants	0.7	1.5	4.5	7.6	11.9	7.0	7.7	8.4	9.2
Budgetary expenditure	210.4	250.8	286.8	352.2	409.5	408.2	422.6	440.2	451.9
Primary expenditure	116.0	153.9	180.0	226.2	235.9	247.3	265.6	282.3	297.9
Wage and salaries	63.1	78.7	86.2	111.5	126.4	130.5	137.1	145.0	149.3
Other expenditure	40.8	48.0	64.9	73.3	74.3	76.9	82.4	87.9	96.6
Capital expenditure 1/	12.0	27.2	28.9	41.4	35.2	39.9	46.1	49.4	52.1
Interest	94.4	96.9	106.8	126.0	173.6	160.9	156.9	158.0	153.9
Domestic	71.5	70.3	75.1	90.2	132.5	121.6	122.6	121.8	114.7
Current	65.4	65.5	69.3	89.5	132.5	121.6	122.6	121.8	114.7
BoJ special issue bonds 2/	6.1	4.8	5.7	0.7	0.0	0.0	0.0	0.0	0.0
External	22.9	26.5	31.7	35.8	41.1	39.3	34.3	36.1	39.2
Budget balance	-23.7	-39.4	-34.8	-76.0	-106.7	-77.6	-56.2	-37.4	-10.6
o.w. primary budget balance	70.7	57.4	72.0	50.0	66.9	83.3	100.8	120.6	143.4
Off-budget expenditure	4.8	5.7	2.3	-4.5	0.0	0.0	0.0	0.0	0.0
BoJ cash losses 3/	4.8	5.7	0.7	-4.5	0.0	0.0	0.0	0.0	0.0
Deferred financing 4/	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Public entities balance 5/	..	..	-31.5	-26.3	-29.6	-11.9	-8.3	1.6	2.9
of which financed with loans and deposits drawdown	..	..	-0.4	5.9	-2.4	-0.5	0.3	0.0	0.0
Net capital transfers to public entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	..	..	-68.6	-97.8	-136.3	-89.6	-64.5	-35.8	-7.7
Net increase in central government debt	70.8	68.3	37.1	71.5	106.7	77.6	56.2	37.4	10.6
Principal Repayments	140.0	164.7	99.1	105.8	105.5	145.6	174.7	333.9	345.1
External	33.1	59.6	30.3	31.5	23.7	20.0	64.1	62.2	64.1
o.w. official	16.1	17.5	15.6	18.6	18.5	16.9	23.6	31.1	30.3
Domestic	106.9	105.1	68.8	74.3	81.8	125.6	110.6	271.7	281.0
Gross Financing Needs	210.8	233.0	136.2	177.3	212.2	223.2	230.9	371.3	355.6
Gross Financing Sources 6/	210.8	233.0	143.4	183.2	209.8	222.7	231.1	371.3	355.6
External	55.2	37.4	24.0	63.7	70.3	45.4	76.0	75.7	79.5
o.w. official	3.2	16.6	9.6	34.0	60.8	35.2	23.6	31.1	30.3
Domestic	155.6	179.1	90.5	113.5	166.8	149.8	154.4	295.6	276.2
Divestment + deposit drawdown	0.0	16.6	28.9	6.0	-27.3	27.4	0.7	0.0	0.0
Memo item:									
Central government debt, J$ billion	856	950	1047	1286	1499	1672	1786	1822	1818
Central government debt excluding IMF, J$ billion	856	950	1047	1286	1463	1567	1671	1740	1780

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ Excludes the costs of divestment or liquidation of Air Jamaica.

2/ Accrued interest on previous year's BoJ Special Issue Bonds has contractually been paid to the BoJ through debt issuance the following year.

3/ Refers to operating losses of the BoJ, not covered by the BoJ Special Issue Bonds.

4/ Debt issued upon assuming public investment projects carried out by the private sector.

5/ Includes selected public entities which are financially independent from the central government.

6/ For FY 2006/07 and FY 2007/08 the composition reflects the impact of external borrowing for pre-financing.

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

	2005/06	2006/07	2007/08	Est. 2008/09	Projection 2009/10	2010/11	2011/12	2012/13	2013/14
Budgetary revenue and grants	26.2	25.9	27.3	26.6	28.3	27.7	27.8	27.9	27.9
Tax	23.2	23.6	24.3	24.2	24.9	25.4	25.5	25.6	25.6
Non-tax	2.8	2.1	2.5	1.7	2.3	1.7	1.7	1.7	1.7
Grants	0.1	0.2	0.5	0.7	1.1	0.6	0.6	0.6	0.6
Budgetary expenditure	29.5	30.8	31.1	34.0	38.2	34.2	32.1	30.5	28.6
Primary expenditure	16.3	18.9	19.5	21.8	22.0	20.7	20.2	19.5	18.8
Wage and salaries	8.8	9.7	9.3	10.8	11.8	10.9	10.4	10.0	9.4
Other expenditure	5.7	5.9	7.0	7.1	6.9	6.4	6.3	6.1	6.1
Capital expenditure 1/	1.7	3.3	3.1	4.0	3.3	3.3	3.5	3.4	3.3
Interest	13.2	11.9	11.6	12.2	16.2	13.5	11.9	10.9	9.7
Domestic	10.0	8.6	8.1	8.7	12.4	10.2	9.3	8.4	7.3
Current	9.2	8.0	7.5	8.6	12.4	10.2	9.3	8.4	7.3
BoJ special issue bonds 2/	0.9	0.6	0.6	0.1	0.0	0.0	0.0	0.0	0.0
External	3.2	3.3	3.4	3.5	3.8	3.3	2.6	2.5	2.5
Budget balance	-3.3	-4.8	-3.8	-7.3	-10.0	-6.5	-4.3	-2.6	-0.7
o.w. primary budget balance	9.9	7.0	7.8	4.8	6.2	7.0	7.7	8.3	9.1
o.w. underlying primary balance 3/	..	..	..	..	5.2	7.0	7.7	8.3	9.1
Off-budget expenditure	1.0	1.5	1.1	-0.4	0.0	0.0	0.0	0.0	0.0
BoJ cash losses 4/	1.0	1.5	0.9	-0.4	0.0	0.0	0.0	0.0	0.0
Deferred financing 5/	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Public entities balance 6/	..	..	-3.4	-2.5	-2.8	-1.0	-0.6	0.1	0.2
of which financed with loans and deposits	..	..	-3.4	-3.1	-2.5	-1.0	-0.6	0.1	0.2
Net capital transfers to public entities	..	..	0.0	0.6	-0.2	0.0	0.0	0.0	0.0
Public sector balance	..	..	-8.2	-9.4	-12.7	-7.5	-4.9	-2.5	-0.5
Net increase in central government debt	9.9	8.4	4.8	7.5	9.7	6.5	4.3	2.6	0.7
Principal Repayments	19.6	20.2	10.7	10.2	9.9	12.2	13.3	23.1	21.8
External	4.6	7.3	3.3	3.0	2.2	1.7	4.9	4.3	4.1
o.w. official	2.2	2.1	1.7	1.8	1.7	1.4	1.8	2.2	1.9
Domestic	15.0	12.9	7.5	7.2	7.6	10.5	8.4	18.8	17.8
Gross Financing Needs	29.5	28.6	15.5	17.7	19.6	18.7	17.5	25.7	22.5
Gross Financing Sources 6/	29.5	28.6	15.5	17.7	19.6	18.7	17.5	25.7	22.5
External	7.7	4.6	2.6	6.1	6.6	3.8	5.8	5.2	5.0
o.w. official	0.4	2.0	1.0	3.3	5.7	2.9	1.8	2.2	1.9
Domestic	21.8	22.0	9.8	11.0	15.6	12.5	11.7	20.5	17.5
Divestment + deposit drawdown	0.0	2.0	3.1	0.6	-2.5	2.3	0.1	0.0	0.0
Memo item:									
Central government debt	119.9	116.5	113.5	124.0	140.0	140.0	135.6	126.1	114.9
Central government debt excluding IMF	119.9	116.5	113.5	124.0	136.6	131.2	126.8	120.4	112.5

Sources: Jamaican authorities and Fund staff estimates and projections.
1/ Excludes the costs of divestment or liquidation of Air Jamaica.
2/ Accrued interest on previous year's BoJ Special Issue Bonds has contractually been paid to the BoJ through debt issuance the following year. Starting in 2008/09 there is no further issuance of special issue bonds, and the central government pays all amounts due as debt when it settles the Bank of Jamaica total losses concurrently for the fiscal year.
3/ Excludes one-off grants and nontax revenues in 2009/10.
4/ Refers to operating losses of the BoJ, not covered by the BoJ Special Issue Bonds.
5/ Debt issued upon assuming public investment projects carried out by the private sector.
6/ Includes selected public entities which are financially independent from the central government.
7/ For FY 2006/07 and FY 2007/08 the composition reflects the impact of external borrowing for pre-financing.

Table 4. Jamaica: Summary Balance of Payments
(In millions of U.S. dollars)

					Proj.				
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Current account	-1,186	-1,199	-2,436	-2,439	-1,129	-1,142	-905	-846	-760
Trade balance	-2,716	-3,008	-4,250	-4,481	-3,259	-3,525	-3,691	-3,753	-3,828
Exports (f.o.b.)	1,809	2,202	2,419	2,311	1,427	1,565	1,726	1,863	1,994
Imports (f.o.b.)	4,524	5,210	6,670	6,792	4,686	5,090	5,417	5,616	5,821
Fuel (cif)	1,558	1,730	2,835	2,805	1,687	1,994	2,107	2,217	2,332
Exceptional imports (including FDI-related)	310	631	735	613	429	338	481	463	468
Other	2,656	2,849	3,100	3,373	2,571	2,758	2,829	2,936	3,022
Services (net)	643	614	455	471	681	811	809	864	916
Transportation	-290	-451	-564	-594	-386	-359	-396	-411	-426
Travel	1,372	1,639	1,678	1,686	1,712	1,802	1,888	1,977	2,072
of which : Tourism receipts	1,619	1,920	1,980	1,938	1,956	2,052	2,145	2,243	2,346
Other services	-439	-573	-660	-622	-645	-633	-683	-703	-730
Income (net)	-702	-615	-712	-536	-517	-480	-343	-374	-420
Current transfers (net)	1,589	1,810	2,071	2,107	1,966	2,053	2,319	2,417	2,571
Government (net)	130	141	134	106	105	88	88	88	88
Private (net)	1,459	1,669	1,937	2,000	1,861	1,965	2,232	2,330	2,484
Capital and financial account	1,634	1,439	1,928	1,997	867	842	1,152	957	1,028
Capital account (net)	-3	-7	-5	28	-15	-11	-11	-11	-10
Financial account (net) 1/	1,638	1,446	1,933	1,969	882	853	1,163	967	1,038
Direct investment (net)	608	802	1,444	629	391	308	685	444	452
of which: One-off sales of shares	0	0	0	300	0	0	0	0	0
Central government (net)	334	-413	-194	125	418	166	0	0	0
Other official (net) 2/	227	470	275	284	740	182	188	153	158
of which: PetroCaribe	12	231	230	325	245	168	160	153	158
Government prefinancing deposits	-250	-100	350	0	0	0	0	0	0
Portfolio investment (net)	196	-119	768	620	-323	197	289	371	428
Other private flows (net) 3/	523	805	-710	312	-344	0	0	0	0
Overall balance	449	241	-508	-442	-263	-300	247	111	269
Financing	-449	-241	508	442	263	300	-247	-111	-269
Change in GIR (- increase)	-449	-241	508	442	-387	-100	-484	-42	61
Prospective IMF credits	0	0	0	0	650	400	237	-69	-330
Memorandum items:									
Gross international reserves	2,373	2,614	2,106	1,664	2,051	2,151	2,635	2,677	2,616
(in weeks of perspective imports of GNFS)	16.9	15.1	12.1	12.8	14.8	14.6	17.2	16.9	16.1
Net international reserves	2,078	2,329	2,083	1,629	1,378	1,078	1,325	1,436	1,705
Current account (in percent of GDP)	-10.5	-9.7	-18.4	-18.0	-9.4	-8.8	-6.6	-5.9	-5.0
Exports of goods (in percent change)	15.4	21.7	9.9	-4.5	-38.2	9.6	10.3	7.9	7.0
Imports of goods (in percent change)	22.6	15.2	28.0	1.8	-31.0	8.6	6.4	3.7	3.7
Oil prices (composite, fiscal year basis)	57.1	63.3	77.6	88.2	65.3	77.3	79.9	81.5	83.4
Tourism receipts (in percent change)	11.1	18.6	3.1	-2.2	1.0	4.9	4.5	4.6	4.6
GDP (in millions of U.S. dollars)	11,301	12,305	13,245	13,586	12,055	13,051	13,708	14,391	15,159

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 counterpart to the inflow for the government's pre-financing in 2005/06, the new general SDR allocation in 2009/10.

3/ Capital flight accompanying the liability management operation is expected to take place in 2009/10 Q4.

Table 5. Jamaica: Summary Accounts of the Bank of Jamaica 1/

	2005/06	2006/07	2007/08	2008/09	Proj. 2009/10	Proj. 2010/11	Proj. 2011/12
End-of-period stocks 1/							
Net international reserves	**136**	**158**	**150**	**145**	**123**	**101**	**130**
Net domestic assets	**-92**	**-106**	**-91**	**-74**	**-49**	**-23**	**-49**
Net claims on public sector	97	97	95	125	137	137	137
Net claims on central government 2/	55	45	53	75	80	80	80
Net claims on rest of public sector	28	35	28	46	57	57	57
Operating losses of the BOJ	14	17	14	4	0	0	0
Net credit to commercial banks	-11	-11	-13	-16	-23	-19	-17
Of which : foreign prudential reserve	-9	-11	-13	-18	-18	-17	-15
Net credit to other financial institutions	-1	-1	-1	-1	-1	-2	-2
Open market operations	-157	-166	-138	-119	-68	-39	-59
Other items net (incl. valuation adj.)	-20	-25	-34	-62	-93	-101	-108
Valuation adjustment	-14	-19	-27	-54	-56	-64	-71
Base money	**44**	**52**	**59**	**71**	**74**	**78**	**81**
Currency in circulation	26	31	33	37	40	43	47
Liabilities to commercial banks	17	21	26	34	34	34	34
Fiscal year flows 1/							
Net international reserves	**17.9**	**22.2**	**-7.9**	**-4.9**	**-22.0**	**-21.7**	**29.1**
Net domestic assets	**-15.9**	**-14.0**	**14.9**	**17.3**	**24.9**	**25.4**	**-25.6**
Net claims on public sector	1.7	0.2	-1.8	30.3	12.0	0.0	0.0
Net claims on central government 2/	-22.7	-9.9	7.7	21.8	5.5	0.0	0.0
Net credit to commercial banks	1.7	0.0	-2.1	-3.3	-7.0	4.0	2.2
Net credit to other financial institutions	0.0	-0.3	0.1	-0.4	0.0	-0.1	-0.1
Open market operations	-13.5	-8.3	27.5	18.8	51.1	29.3	-20.5
Other items net (incl. valuation adj.)	-5.9	-5.6	-8.7	-28.1	-31.3	-7.7	-7.1
Base money	**2.0**	**8.2**	**7.0**	**12.4**	**2.8**	**3.8**	**3.6**
Currency in circulation	2.7	5.0	2.1	3.6	3.0	3.6	3.5
Liabilities to commercial banks	-0.7	3.3	5.0	8.7	-0.2	0.2	0.1
Net international reserves	**42.9**	**51.0**	**-15.2**	**-8.4**	**-30.9**	**-29.3**	**37.4**
Net domestic assets	**-38.2**	**-32.1**	**28.8**	**29.4**	**34.9**	**34.4**	**-32.8**
Net claims on public sector	4.1	0.4	-3.5	51.4	16.9	0.0	0.0
Net credit to commercial banks	4.1	0.1	-4.1	-5.6	-9.8	5.3	2.8
Net credit to other financial institutions	0.0	-0.8	0.1	-0.7	-0.1	-0.2	-0.2
Open market operations	-32.4	-19.1	53.1	32.0	71.8	39.6	-26.3
Other items net (incl. valuation adj.)	-14.1	-12.7	-16.8	-47.8	-43.9	-10.4	-9.1
Base money	**4.7**	**18.8**	**13.5**	**21.0**	**4.0**	**5.1**	**4.6**
Currency in circulation	6.4	11.4	4.0	6.2	4.2	4.8	4.5
Liabilities to commercial banks	-1.7	7.5	9.6	14.8	-0.2	0.3	0.1
Memorandum items:							
Net international reserves (US$ millions)	2,078	2,329	2,083	1,629	1,378	1,078	1,325

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Fiscal year runs from April 1 to March 31.
2/ Includes net unclassified and BoJ operating loss from the previous fiscal year.

Table 6. Jamaica: Summary Monetary Survey 1/

					Proj.		
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
End-of-period stocks 1/							
Net foreign assets	**120**	**130**	**132**	**94**	**75**	**51**	**77**
Net domestic assets	**108**	**123**	**153**	**223**	**240**	**300**	**321**
Net claims on public sector	191	194	187	225	242	249	258
Of which: central government 2/	136	128	135	160	176	183	192
Open market operations (Net)	-116	-124	-94	-72	-49	-17	-28
Credit to private sector	106	139	172	221	230	267	304
Of which: foreign currency	36	47	60	96	100	117	134
Other 3/	-73	-85	-111	-149	-183	-198	-213
Of which: valuation adjustment	-14	-19	-27	-54	-55	-60	-65
Liabilities to private sector (M3)	**229**	**253**	**285**	**318**	**315**	**351**	**399**
Money supply (M2)	154	175	189	203	202	232	271
Foreign currency deposits	75	78	96	115	112	119	127
Fiscal year flows 1/							
Net foreign assets	**3.7**	**9.6**	**2.3**	**-37.8**	**-19.4**	**-24.2**	**26.7**
Net domestic assets	**14.5**	**15.0**	**29.3**	**70.7**	**16.4**	**60.5**	**21.2**
Net claims on public sector 2/	12.5	2.8	-6.7	37.4	17.5	7.1	9.3
Of which: central government	-11.9	-8.0	6.7	24.7	16.1	7.1	9.3
Open market operations	-5.7	-8.7	29.7	22.2	23.0	32.1	-10.7
Credit to private sector	13.1	32.6	33.0	49.0	9.8	36.4	37.7
Of which: foreign currency	3.5	10.5	13.5	35.1	4.5	16.8	17.6
Other 3/	-5.4	-11.7	-26.7	-38.0	-33.9	-15.0	-15.1
Of which: valuation adjustment	-6.6	-5.3	-8.3	-26.6	-1.2	-4.8	-4.8
Liabilities to private sector (M3)	**18.2**	**24.6**	**31.6**	**32.9**	**-3.0**	**36.3**	**47.9**
Money supply (M2)	14.2	21.8	13.8	13.6	-0.6	30.1	39.0
Foreign currency deposits	3.9	2.9	17.8	19.3	-2.5	6.2	8.9
Net foreign assets	**1.7**	**4.2**	**0.9**	**-13.3**	**-6.1**	**-7.7**	**7.6**
Net domestic assets	**6.9**	**6.6**	**11.6**	**24.8**	**5.2**	**19.2**	**6.0**
Net claims on public sector 2/	5.9	1.2	-2.6	13.1	5.5	2.2	2.7
Of which: central government	-5.6	-3.5	2.7	8.7	5.1	2.2	2.7
Open market operations	-2.7	-3.8	11.7	7.8	7.2	10.2	-3.1
Credit to private sector	6.2	14.3	13.0	17.2	3.1	11.6	10.8
Of which: foreign currency	1.7	4.6	5.3	12.3	1.4	5.3	5.0
Other 3/	-2.6	-5.1	-10.5	-13.3	-10.7	-4.8	-4.3
Of which: valuation adjustment	-3.1	-2.3	-3.3	-9.3	-0.4	-1.5	-1.4
Liabilities to private sector (M3)	**8.6**	**10.8**	**12.5**	**11.6**	**-1.0**	**11.5**	**13.7**
Memorandum items:							
Monetary base (J$ Millions)	43.6	51.8	58.8	71.2	74.0	77.8	81.4
M3/monetary base	5.2	4.9	4.8	4.5	4.3	4.5	4.9
Net foreign assets (US$ Millions)	1841	1921	1865	1072	840	540	787
M3 velocity	3.1	3.2	3.2	3.3	3.4	3.4	3.3

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

1/ Fiscal year runs from April 1 to March 31.
2/ Includes Bank of Jamaica operating balance.
3/ Includes net credit to nonbank financial institutions, capital accounts, valuation adjustment, securities sold under repurchase agreements and net unclassified assets.

Table 7. Jamaica: IFI Disbursements under Program
(In US$ million)

	Upon Approval	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	Total
IFI funding	1335	0	100	150	335	200	100	50	80	87	2437
WB	250	0	0	0	200	0	0	0	0	0	450
Budget support	50	0	0	0	200	0	0	0	0	0	
FSSF	200	0	0	0	0	0	0	0	0	0	
IDB	400	0	0	100	50	0	50	0	0	0	600
Budget support	100	0	0	100	50	0	50	0	0	0	
FSSF	300	0	0	0	0	0	0	0	0	0	
IMF	650	0	100	50	50	200	50	50	50	87	1287
BOP support	200	0	100	50	50	50	200	50	50	87	
FSSF	450	0	0	0	0	0	0	0	0	0	
CDB	35	0	0	0	35	0	0	0	30	0	100
Budget support	35	0	0	0	35	0	0	0	30	0	
Financing needs	0	1335	100	150	335	50	250	50	80	87	2437
Budget support		185	0	100	285	0	50	0	30	0	650
BOP support		200	100	50	50	50	200	50	50	87	837
FSSF		950	0	0	0	0	0	0	0	0	950
Strategic call		0									
External borrowing on margin		350									
Backstop/Liquidity Funds		600									

Sources: Jamaican authorities; and Fund staff estimates

Table 8. Jamaica: Indicators of Capacity to Repay the Fund Under a Proposed SBA, 2009/10-2014/15

	IMF staff projections					
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Fund repurchases and charges						
In millions of US dollars	2.7	11.5	14.3	84.1	343.3	462.2
In percent of exports of goods and nonfactor services	0.1	0.3	0.3	1.7	6.4	8.2
In percent of external debt services	0.4	2.2	1.4	6.5	23.0	35.1
In percent of quota	0.6	2.7	3.3	19.6	80.0	107.7
In percent of gross international reserves	0.1	0.5	0.5	3.1	13.1	17.8
Fund credit outstanding						
In millions of US dollars	650.0	1,050.0	1,287.0	1,218.3	888.6	435.1
In percent of exports of goods and nonfactor services	15.6	23.3	26.9	24.1	16.7	7.8
In percent of external debt services	95.1	197.0	125.2	93.7	59.6	33.0
In percent of quota	151.5	244.7	299.9	283.9	207.1	101.4
In percent of gross international reserves	31.7	48.8	48.8	45.5	34.0	16.7
Memorandum items						
Exports of goods and nonfactor services (in millions of US dollars)	4,162.2	4,500.9	4,788.8	5,058.4	5,325.5	5,606.7
External debt services (in millions of US dollars)	683.8	532.9	1,027.6	1,300.2	1,491.0	1,318.3
Quota (in millions of US dollars)	429.1	429.1	429.1	429.1	429.1	429.1
Gross international reserves (in millions of US dollars)	2,050.9	2,150.9	2,635.2	2,677.4	2,616.5	2,601.5

Appendix I: The Securities Dealer Sector—Vulnerabilities and Regulatory Challenges

The securities sector in Jamaica has emerged as an outgrowth of high levels of domestic debt and has benefited from the high yields on government paper. The securities industry is built almost entirely around one product, a 'repo' contract wherein a customer makes a short term investment with a dealer and receives a guaranteed return, backed by government of Jamaica (GOJ) bonds, held on the dealer's books. Dealer purchases of long-term GOJ bonds are financed with short-term repo contracts (generally in 30-, 60- and 90-day terms) that traditionally enjoy high rollover rates—upwards of 80 percent in normal times. Investors are both retail and institutional investors that widely regard repos as a risk-free deposit, despite the fact that investors enjoy returns that reflect sovereign and currency risk premiums. The existence of the repo model has allowed the placement of GOJ bonds with the domestic public because it transforms long-term, large-denomination bonds into short-term investments in small denominations that provide relatively higher returns than comparable time deposits in commercial banks. This business model has been replicated elsewhere in the Caribbean.

Jamaica's securities dealer model is fraught with inherent risks and the sector is vulnerable to shocks with potential systemic implications. The securities dealer business model bears a concentration risk because dealers are heavily exposed to the GOJ, and liquidity risk because the secondary market for GOJ paper is illiquid. Given mismatch between the rollover period of the contracts and the terms of the bonds these contracts finance, balance sheets are also vulnerable to rollover and interest rate risks. The dealers are not well capitalized—prudential regulation has not properly recognized these inherent risks—and lax controls on margin operations have allowed some dealers to become over leveraged. These are long-standing risks that were identified in the 2006 FSAP. Recent stress tests undertaken by the BOJ confirm that the dealers do not have sufficient capital to withstand meaningful shocks to the GOJ market. In addition, given the extent of financial conglomeration in Jamaica, these vulnerabilities could have negative spillovers that could threaten financial system stability.

Strengthening the dealer business model will be a challenging but necessary endeavor. However, an accelerated reform agenda could be counter productive given fiscal objectives and the need to safeguard financial sector stability. The ability of the GOJ to place its debt domestically relies on the current model and, if it were to disappear or become significantly more costly, the cost of debt would rise. Further, investor confidence must be maintained—the dealers would be unable to withstand a modest degree of investment outflow. Many of the dealers are part of financial conglomerates and their financial weakness would become a serious problem for related parent banks, as well as other financial affiliates. Any wind down of a dealer could have a serious effect on all holders of GOJ debt since the secondary market could not absorb sudden sales (and thus the reduced price would affect the balance sheets of all Jamaican financial institutions).

The 2006 FSAP set out a number of important recommendations in response to risks in this sector which should now be moved forward by the authorities. Stronger prudential requirements should be introduced over a two to three year period, including strengthened capital and margin reserve requirements and more stringent limits on margin operations. The FSC should develop more robust supervision (including better data collection and stress testing) and should adopt a prompt corrective action framework. GOJ instruments should also be registered and cleared electronically for greater customer protection. Over the long term, an alternative model should be introduced where risks are held off-balance sheet (as is the case in more traditional broker business models) through the introduction of mutual funds, unit trusts and small denomination GOJ bonds. The structural benchmarks to the program charge the FSC with introducing new prudential rules and imposing a freeze on new licenses for dealers engaging in this repo model, until these improvements are made.

Appendix II: The Financial Sector Support Fund

A Financial Sector Support Fund (FSSF) will be established with US$950 million in multilateral funds as a contingent measure to address possible negative impacts of the debt exchange on the financial sector. The FSSF will be available to individual institutions that encounter specified problems, primarily liquidity, directly related to the debt exchange. Access to the fund will be restricted to those financial institutions (banks, securities dealers and insurance companies) that have participated at a rate of at least 90 percent in the debt exchange. In this context, the FSSF will act as an incentive to participate in the debt exchange.

The FSSF will be established by the Government of Jamaica (GOJ) and managed by the Financial Regulatory Council (FRC). The FRC is an existing interagency body, which will be charged with overseeing the disbursement of funds under the FSSF.[8] The FRC will be tasked with providing recommendations to the GOJ on granting access to the FSSF for recapitalization; the GOJ will delegate the decision to grant liquidity access to the FRC. The FRC will use the existing technical working group (TWG) to make assessments and recommendations for access to the FSSF. Assessments will be made of the liquidity needs of the system and the financial condition of the institution requesting support. The work of the TWG will be ongoing, and it will provide periodic reports to the FRC and regular reports to the IMF on the uses of the FSSF. The TWG will be made up of staff of the FSC and BOJ and be chaired by the BOJ.

The primary use of the FSSF will be to provide liquidity support in the event of external funding calls or pressure on deposits or assets under management that are attributable to the debt exchange. The terms of liquidity support will be more favorable than those currently offered by the BOJ, i.e., GOJ collateral will be accepted at par value and without a hair cut. The interest rate will be set to avoid any fiscal costs. Liquidity will be repaid within 6 months or else a punitive rate will begin to apply. Liquidity support (in terms of capital) above a threshold level will trigger increased regulatory intervention. A regulatory circular will be issued specifying supervisory actions to be taken when emergency liquidity support reaches predefined trigger levels. Banks and non bank financial institutions will be intervened if a maximum level is breached. At an aggregate level, the government will be required to report to Fund staff when 50 percent of the FSSF funds have been disbursed, at which time the use of the FSSF will be reviewed. The uses and funding of the FSSF will also be re-examined during regular program reviews.

Following current practices, supervisors will require undercapitalized banks to seek additional funds from shareholders and other external sources. They will also fully implement the 'ladder of enforcement' as circumstances warrant. However, in order to support financial stability, under certain limited circumstances, systemically important

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[8]The BOJ (which acts as chair), the FSC, the Jamaica Deposit Insurance Corporation, the Solicitor General, and the Finance Secretary are all represented on the FRC.

institutions that are unable to raise external resources, may be permitted to receive capital injections from the GOJ using the FSSF, provided the need for capital is the result of the debt exchange. The use of FSSF resources for such capital injections would be a rare step taken as a last resort and would be subject to prior consultation with Fund staff. The need for capital injections from the government could arise owing to the challenges of finding additional capital in current global conditions, particularly for domestic institutions. The GOJ will hold equity or preferred shares, or subordinated debt, in financial institutions that receive recapitalization funds.

All financial institutions that access the FSSF for capital support would be subject to enhanced monitoring by the BOJ or FSC. Deposit taking institutions and nonbank institutions will be required to submit a five-year business plan by December 2010 and December 2011 respectively, substantiating their viability and ability to comply with the minimum capital requirements over the 2 to 3-year horizon. GOJ capitalization support would come with additional strings. GOJ will place representatives on the entity's board of directors, and supervisory oversight will be more intensive, reporting requirements more demanding, while operations may be restricted, depending on circumstances.[9]

[9] When capital levels fall below regulatory requirements, the BOJ and FSC have indicated that they will enforce the ladder of enforcement, which includes placing restrictions on entities' activities when capital falls below 8 percent, and if capital falls to 5 percent or below the BOJ and FSC will initiate additional measures, i.e. temporary management and if necessary, permanent intervention measures.

Appendix III: Debt Sustainability Analysis

Public Debt Sustainability

Public debt is expected to decline under the IMF program policies from 140 percent of GDP at end FY2009/10 to 115 percent of GDP in four years. This is predicated on a sustained strengthening of consolidated government fiscal balances and prudent monetary policy management given the debt's sensitivity to exchange rate and interest rate shocks. The debt exchange—a prior action for the program—provides significant financing relief in the near term, given (i) lower interest coupons yielding interest savings of more than 3 percent of GDP in 2010, assuming participation of at least 90 percent, and (ii) the extension of maturities to reduce domestic debt rollover obligations by 75 percent over the next three years. However, these results reflect more pessimistic assumptions than expected under the debt exchange, including a participation rate of 80 percent, implying higher average interest costs and rollover pressures in the first three years. This financing relief, along with the set of fiscal and financial sector measures underpinning the program, is crucial to allow domestic interest rates to decline from over 20 percent in FY2009/10 to below 12 percent levels in the short term, and to continue declining thereafter. Sustaining the interest saving into the medium term would depend critically on the projected decline in the yield curve.

The debt exchange is expected to result in a significant extension of maturities and interest savings. For example, in the case in which maturities of new bonds remain at the shortest tenor under the allocation rules, eligible instruments would have an average maturity of 8.7 years, as opposed to 5.3 years. The currency and interest rate composition of the new instruments, however, is expected to remain similar to before the exchange given the allocation rules (see Box 1).

Given Jamaica's debt overhang problem, public debt sustainability risks remain high. Bound tests indicate public debt sustainability is highly vulnerable to exchange rate, interest rate, and primary balance shocks. A 30 percent nominal exchange rate depreciation shock in FY2010/11 would result in a public debt-to-GDP ratio of 180 percent. Vulnerability to primary balance shocks illustrates the importance of successfully implementing program reforms, including eliminating liabilities originating in the public entities. Interest rate shocks are a major vulnerability given that over half of domestic bonds are set at variable rates, even post debt exchange.

External Debt Sustainability

External debt appears to be sustainable. Despite a sharp increase in external debt at end FY2009/10 to near 70 percent of GDP—largely reflecting disbursements from multilaterals and an exchange rate depreciation of over 20 percent in the second half of FY2008/09—external debt is expected to turn downwards. This is predicated on the basis of a sustained improvement of the current account over the medium term, resulting from: (i) a consolidated government fiscal adjustment of 12 percentage points of GDP over the next four years, and, (ii) a recovery in exports and GDP growth as world conditions normalize. Challenges will remain, however, given that the stock of net international reserves is expected to decline to below prudent levels under the program. As a result, external debt sustainability remains conditional on a successful implementation of the program by the authorities, including from implementation of structural fiscal and financial sector reforms.

Bound tests indicate that external debt appears most vulnerable to exchange rate shocks and to current account shocks. This includes shocks from natural disasters and from imported commodity prices, particularly oil and food. The recovery in bauxite prices is an upside risk.

Table 9. Jamaica: Public Sector Debt Sustainability Framework, 2005/06-2013/14
(In percent of GDP, unless otherwise indicated)

	Actual				Projections					
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	**Debt-stabilizing primary balance 9/**
1 **Baseline: Public sector debt 1/**	**119.9**	**116.5**	**113.5**	**124.0**	**140.0**	**140.0**	**135.6**	**126.1**	**114.9**	**2.7**
Government debt 1/	111.8	106.2	101.1	107.9	121.2	120.4	115.6	106.7	96.1	
Of which : foreign-currency denominated	55.0	54.4	51.2	62.4	68.8	73.2	71.0	65.9	60.6	
Government guaranteed debt 1/	8.1	10.3	12.4	16.1	18.9	19.6	20.0	19.4	18.8	
2 Change in public sector debt	-2.5	-5.5	-5.2	6.9	13.2	-0.7	-4.8	-8.9	-10.6	
3 Identified debt-creating flows (4+7+12)	6.7	-7.2	-5.4	10.5	7.7	-6.0	-7.0	-7.6	-8.6	
4 Primary deficit	-9.9	-7.0	-7.8	-4.8	-6.2	-7.0	-7.7	-8.3	-9.1	
5 Revenue and grants	26.2	25.9	27.3	26.6	28.3	27.7	27.8	27.9	27.9	
6 Primary (noninterest) expenditure	16.3	18.9	19.5	21.8	22.0	20.7	20.2	19.5	18.8	
7 Automatic debt dynamics 2/	16.6	-0.2	1.9	14.7	12.8	1.0	0.7	0.7	0.5	
8 Contribution from interest rate/growth differential 3/	0.8	-2.2	-0.9	1.2	12.8	1.0	0.7	0.7	0.5	
9 Of which contribution from real interest rate	2.1	1.2	-0.3	-0.4	9.1	1.6	2.7	2.7	2.4	
10 Of which contribution from real GDP growth	-1.3	-3.4	-0.6	1.6	3.6	-0.6	-2.0	-2.0	-1.9	
11 Contribution from exchange rate depreciation 4/	15.8	2.0	2.7	13.5	...	...	...	...	...	
12 Other identified debt-creating flows	0.0	0.0	0.5	0.6	1.2	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.0	0.5	0.6	1.2	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	-9.2	1.7	0.3	-3.6	5.5	5.3	2.2	-1.3	-2.0	
Public sector debt-to-revenue ratio 1/	458.3	449.4	415.4	465.5	495.3	505.9	487.4	452.2	412.0	
Gross financing need 6/	24.0	26.5	15.6	17.1	19.0	18.7	17.5	25.7	22.5	
in billions of U.S. dollars	2.7	3.3	2.1	2.3	2.3	2.4	2.4	3.7	3.4	
Scenario with key variables at their historical averages 7/					**140.0**	**137.5**	**130.8**	**119.8**	**108.1**	**-0.1**
Scenario with no policy change (constant primary balance) in 2008-2012					**140.0**	**150.1**	**147.0**	**139.7**	**131.4**	**2.8**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline										
Real GDP growth (in percent)	1.2	3.2	0.6	-1.6	-3.5	0.6	1.9	1.9	2.0	
Average nominal interest rate on public debt (in percent) 8/	13.0	12.1	12.3	13.5	...	...	...	...	...	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.2	1.5	-0.2	-0.6	...	...	...	...	...	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-27.1	-3.4	-4.6	-19.5	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	10.8	10.6	12.5	14.1	7.0	10.9	8.3	7.7	7.4	
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.3	19.9	4.0	10.1	-2.6	-5.5	-0.8	-1.3	-1.7	
Primary deficit	-9.9	-7.0	-7.8	-4.8	-6.2	-7.0	-7.7	-8.3	-9.1	

1/ Central government and government guaranteed debt on gross basis. From FY 2002/03, includes debt issued to the BoJ to cover its cash losses and related capitalized interest. FY 2006/07 debt includes US$350 million in prefinancing. The primary balance includes budgetary primary balance and off-budget expenditure. Dynamics do not drive Guaranteed Debt.

2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

5/ For projections, this line includes exchange rate changes.

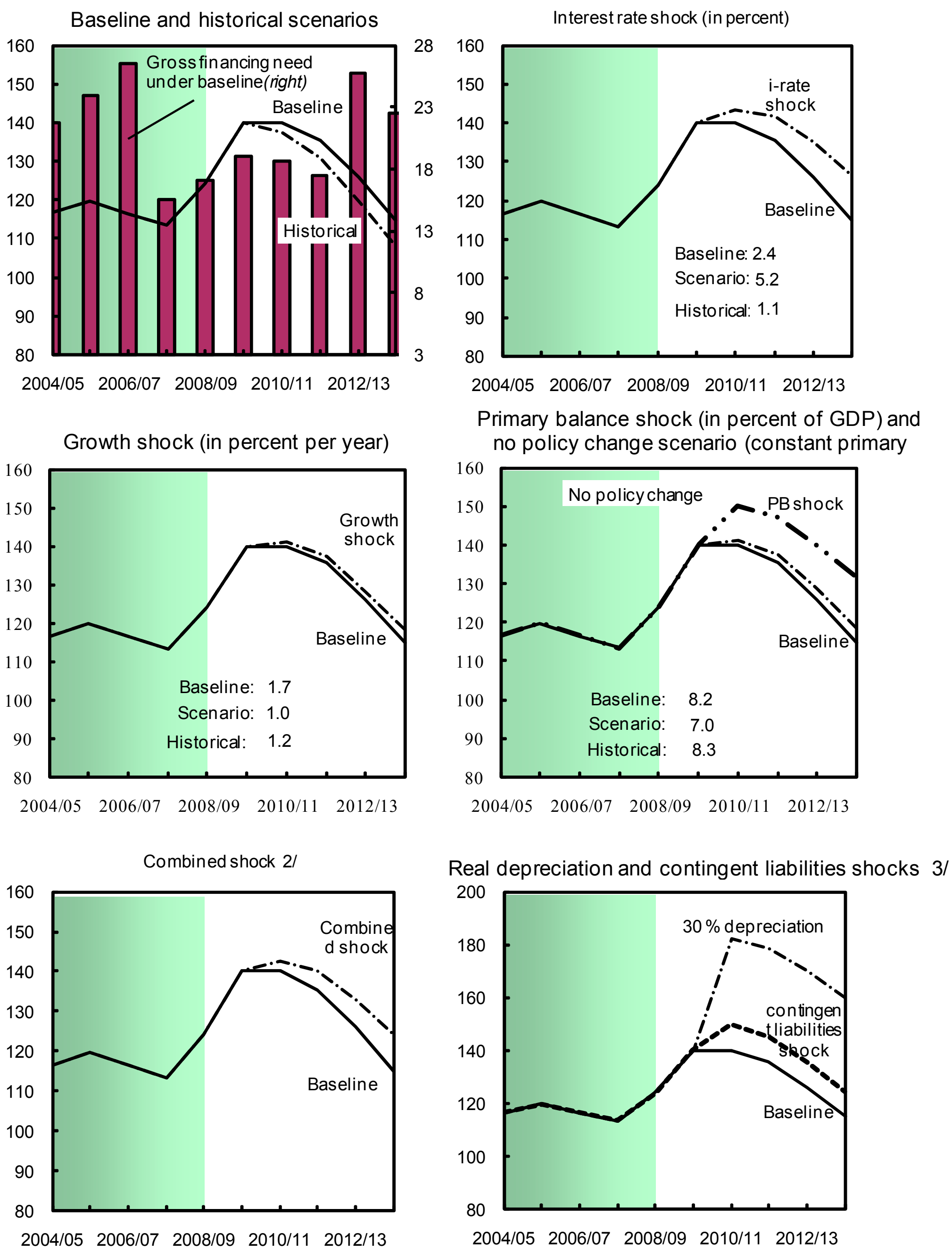
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP. Guaranteed debt added for presentational purposes.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 3. Jamaica: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas and the Baseline projection line represent actual Central Government Debt data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented . Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 10. Jamaica: External Debt Sustainability Framework, 2004/05-2014/15
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	**Debt-stabilizing non-interest current account 6/**
1 **Baseline: External debt**	48.7	49.3	51.0	50.1	51.4	**69.4**	**70.0**	**69.4**	**65.9**	**60.7**	**56.3**	**-9.3**
2 Change in external debt	1.3	0.7	1.7	-0.9	1.2	18.0	0.6	-0.5	-3.5	-5.2	-4.4	
3 Identified external debt-creating flows (4+8+9)	-2.5	1.0	-0.8	3.9	12.1	8.1	6.0	0.4	1.6	-5.8	-6.4	
4 Current account deficit, excluding interest payments	3.0	7.0	6.1	14.4	14.2	5.5	5.4	3.9	3.3	2.5	1.4	
5 Deficit in balance of goods and services	15.0	18.3	19.5	28.7	29.5	21.4	20.8	21.0	20.1	19.2	17.8	
6 Exports	37.3	37.4	39.9	39.3	37.2	34.5	34.5	34.9	35.1	35.1	35.7	
7 Imports	52.3	55.7	59.4	68.0	66.7	55.9	55.3	56.0	55.2	54.3	53.4	
8 Net non-debt creating capital inflows (negative)	-5.2	-5.4	-6.5	-10.9	-4.6	-3.2	-2.4	-5.0	-3.1	-9.6	-9.1	
9 Automatic debt dynamics 1/	-0.3	-0.6	-0.4	0.4	2.5	5.9	3.0	1.4	1.3	1.3	1.3	
10 Contribution from nominal interest rate	3.4	3.5	3.6	4.0	3.8	3.9	3.4	2.7	2.6	2.5	2.5	
11 Contribution from real GDP growth	-0.3	-0.5	-1.5	-0.3	0.8	2.0	-0.4	-1.2	-1.2	-1.3	-1.2	
12 Contribution from price and exchange rate changes 2/	-3.4	-3.5	-2.6	-3.3	-2.1	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	3.8	-0.4	2.5	-4.7	-10.9	9.9	-5.4	-0.9	-5.1	0.6	1.9	
External debt-to-exports ratio (in percent)	130.6	132.0	127.9	127.6	138.2	201.0	202.9	198.8	187.5	172.8	157.7	
Gross external financing need (in billions of US dollars) 4/	1.3	1.8	2.2	3.0	2.9	1.4	1.4	1.6	1.5	1.4	1.6	
in percent of GDP	12.9	15.7	17.6	22.4	21.3	12.0	10.7	11.6	10.3	9.2	10.3	
Scenario with key variables at their historical averages 5/						**69.4**	**70.5**	**73.4**	**72.1**	**76.5**	**81.6**	**-4.9**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	0.8	1.2	3.2	0.6	-1.6	-3.5	0.6	1.9	1.9	2.0	2.0	
GDP deflator in US dollars (change in percent)	7.8	7.8	5.5	7.0	4.3	-8.1	7.6	3.1	3.1	3.3	2.6	
Nominal external interest rate (in percent)	7.9	7.7	8.0	8.4	7.7	6.8	5.2	4.0	3.9	4.0	4.3	
Growth of exports (US dollar terms, in percent)	5.1	9.5	16.2	6.0	-3.0	-17.6	8.1	6.4	5.6	5.3	6.3	
Growth of imports (US dollar terms, in percent)	10.3	16.4	16.0	23.2	0.6	-25.6	7.1	6.3	3.6	3.6	2.9	
Current account balance, excluding interest payments	-3.0	-7.0	-6.1	-14.4	-14.2	-5.5	-5.4	-3.9	-3.3	-2.5	-1.4	
Net non-debt creating capital inflows	5.2	5.4	6.5	10.9	4.6	3.2	2.4	5.0	3.1	9.6	9.1	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

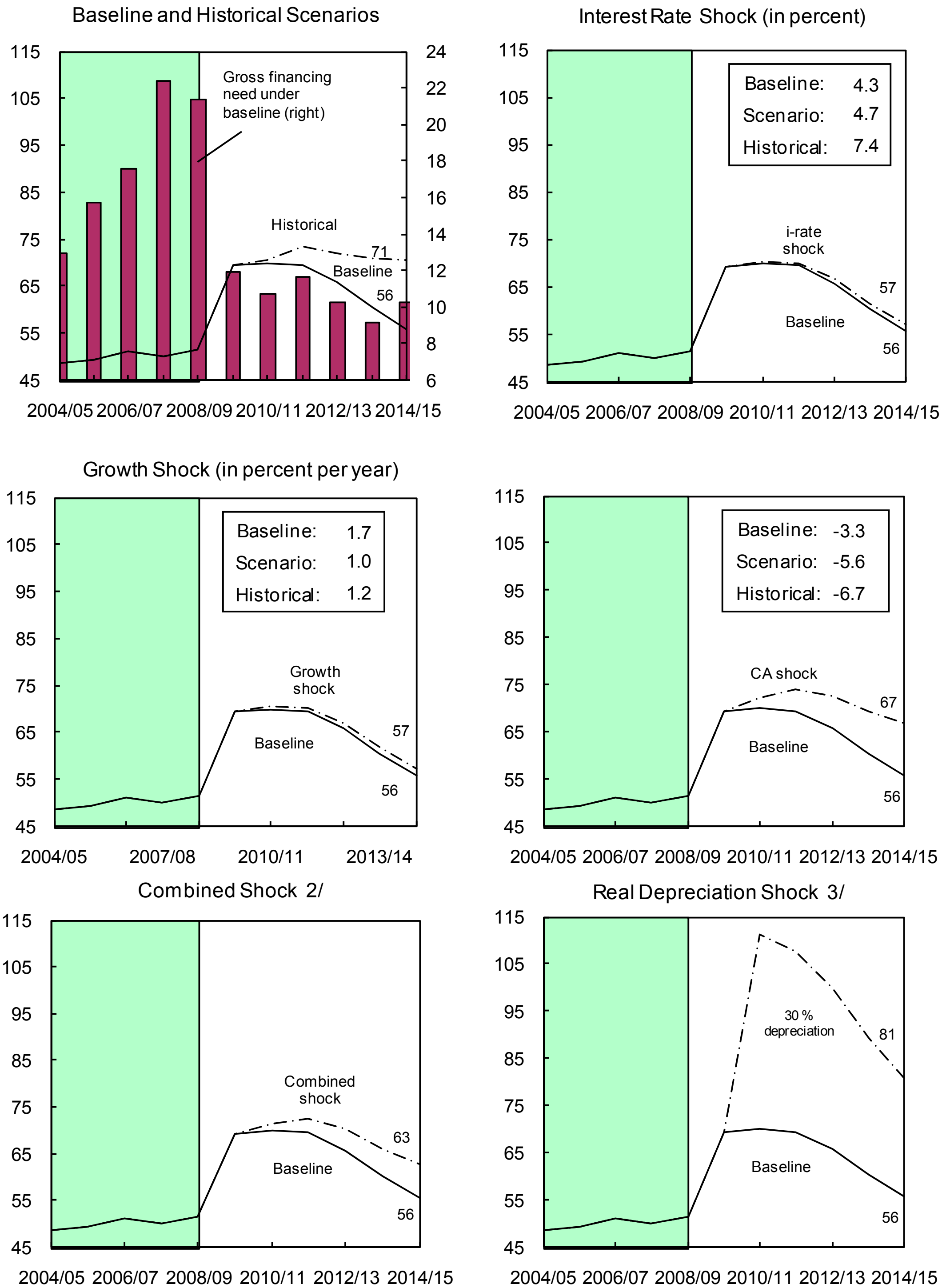
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 4. Jamaica: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund; Country desk data; and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2009.

ANY REPLY OR SUBSEQUENT REFERENCE SHOULD BE ADDRESSED TO THE **FINANCIAL SECRETARY** AND THE FOLLOWING REFERENCE NUMBER QUOTED:-

Telephone No. 92-28600-16
Website: http://www.mof.gov.jm
Email: info@mof.gov.jm

MINISTRY OF FINANCE AND THE PUBLIC SERVICE
30 NATIONAL HEROES CIRCLE
P.O. BOX 512
KINGSTON
JAMAICA

Kingston, Jamaica
January 15, 2010

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

Dear Mr. Strauss-Kahn:

For many years, Jamaica has struggled with the twin challenges of low economic growth and high public debt. As a result of the fragile economic situation and underlying vulnerabilities, the economy has been seriously affected by the ongoing global economic and financial crisis. Growth is projected to fall a cumulative 5 percent between 2008 and 2009. Moreover, the high debt levels and limited access to financing have left us no other option but the implementation of short term pro-cyclical fiscal and monetary policies which, in turn, have reinforced the negative effects of the global shocks on the economy.

The main objective of this programme is to restore macroeconomic stability and create conditions for strong and sustained growth and to enable the economy to benefit from the recovery in the global economy. Through the sustained implementation of a strong and credible fiscal adjustment programme and key structural fiscal reforms, the programme puts the public debt levels on a clearly downward path. This fiscal programme will be supplemented upfront by decisive action to tackle, in close coordination with creditors, the large and expensive debt burden.

The Government of Jamaica is deeply committed to the objectives and measures underlying this programme, and intends to pursue them regardless of any formal lending arrangement with the International Monetary Fund (Fund). In the current context, however, we believe that support from the Fund and other multilateral financial institutions will help further boost investor confidence, including the provision of a liquidity cushion to avoid shortfalls in external inflows that could put the programme at risk. Given the broad-based nature of our reform agenda, we believe that sustained multilateral engagement over the medium term is essential, including through the provision of technical assistance in priority areas. To this end, we are requesting a 27-month Stand-By Arrangement (SBA) through March 2012 in an amount equivalent to SDR 820.5 million or 300 percent of quota (about US$1,300 million) that will support the programme detailed in the attached Memorandum of Economic and Financial Policies (MEFP).

The Government believes that the policies described in the MEFP are adequate to achieve the programme's objectives, however, if necessary, the Government stands ready to take any additional measures that may be required. The Government will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. The Government will also provide the Fund staff with all the relevant information required to complete programme reviews and monitor performance.

The authorities will observe the standard performance criteria against imposing or intensifying exchange restrictions, introducing or modifying multiple currency practices, concluding bilateral payments agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement, and imposing or intensifying import restrictions for balance of payments reasons.

During the period covered by the programme, there will be quarterly quantitative performance criteria (Table 2) and structural benchmarks (Table 3). During 2010, there will be quarterly reviews to be completed by end-May, end-August, and end-November. These reviews will be associated with the observance of the relevant performance criteria.

The Fund is hereby authorized to publish this letter and the attached MEFP, to facilitate access to and review of Jamaica's policies both locally and internationally.

Very truly yours,

/s/

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

Very truly yours,

/s/

Brian Wynter
Governor, Bank of Jamaica
Jamaica

JAMAICA—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. Background and Recent Developments

1. **Jamaica faces severe economic challenges.** During most of the past decade, economic growth has been low, at 1 percent a year on average. At the same time, inflation has remained relatively high, while the external current account balance registered large deficits. Anaemic growth and recurring bouts of financial market instability have been rooted in increasingly high levels of public debt, which reached 135 percent of GDP at the end of 2009. Sustained high debt service obligations and large refinancing needs have resulted in costly risk premiums and helped crowd out private sector investment. The high debt levels have also exposed the country to adverse shifts in market sentiment. With interest payments alone accounting for 60 percent of government revenues, the fiscal accounts are stretched too thin to pursue productivity-enhancing social and infrastructure investment.

2. **As a result of these structural vulnerabilities, the Jamaican economy has been deeply affected by the global crisis.** Real GDP contracted by 1½ percent in FY 2008/09 and is projected to fall by an additional 3½ percent in FY 2009/10. Tourism, remittances, and mining have been negatively impacted by the weakening in the global environment. At the beginning of the crisis, the Jamaican currency came under intense pressure, depreciating by 22 percent against the U.S. dollar. This reflected investors' concerns about potential fiscal and external financing gaps as global private credit dried up. International reserves, which initially fell significantly, have stabilized at a lower level in recent months. The Bank of Jamaica (BOJ) responded decisively to stabilize financial market conditions. The BOJ raised interest rates above 20 percent; intervened in the foreign exchange market to limit excessive volatility in the value of the currency; and established special facilities and procedures to provide liquidity and ensure normal functioning of the interbank and foreign exchange markets. The global crisis has also negatively affected the fiscal accounts, with lower revenue and a significantly higher interest bill. As a result, the budget deficit for FY 2009/10 is projected to exceed the original budget target by a wide margin. The government is therefore confronting large financing gaps in a context where external markets remain closed.

II. Programme Objectives and Strategy

3. **The government is firmly committed to implementing policy reforms to fundamentally transform the Jamaican economy and create the conditions for strong and sustained growth.** The overarching objectives of this programme are to put the public debt/GDP ratio firmly on a downward trajectory, entrench fiscal discipline and accountability, and significantly raise real GDP growth rates. The programme rests on three central and interrelated pillars: (i) an ambitious fiscal consolidation strategy, focused on streamlining expenditure and reforming the public sector, including the divestment of non-core public bodies; (ii) a comprehensive debt management strategy that decisively addresses the debt overhang; and (iii) reforms to further strengthen the financial system. Monetary policy will aim at bringing inflation down to mid-single digit levels and maintaining it at those levels, within the context of exchange rate flexibility.

4. **To help soften any negative impact on the poor, the programme includes important measures to strengthen the social safety net.** The government is well aware that adverse economic conditions are generating drastic changes in Jamaica. The contraction in activity has led to a significant increase in layoffs, exacerbating the already high unemployment rate. The most vulnerable social groups, with low levels of human capital, are most affected by the decline in economic activity. The programme has been designed to ensure that the adjustment burden is effectively shared across society and economic agents. Safeguards have been included to ensure that the social safety net is not only preserved but broadened, with special attention being given to enhancing those social programmes that are well targeted and far-reaching.

III. Medium-term Macroeconomic framework

5. **The programme aims at yielding permanent growth dividends by raising growth to 2 percent by FY2011/12, with upside risks to the outlook over the longer-term.** After registering a decline during this fiscal year, real GDP is projected to rise by ½ percent in FY2010/11. The growth outlook over the programme period reflects both a gradual pick-up in activity in the mining sector, as global demand recovers, and continued investment and growth in Jamaica's highly competitive tourism sector. Restoring fiscal and debt sustainability will help reduce sovereign risk premiums and boost private sector investment. This will benefit agriculture and other activities with linkages to the tourism sector.

6. **Under the programme, inflation will trend down to the 6–7 percent range over the medium term.** Despite a temporary increase in inflation this fiscal year, resulting from the introduction of new tax measures, underlying price pressures will remain limited, given the absence of strong demand or foreign exchange market pressures. In this context, inflation is projected to fall from 12 percent in FY 2009/10 to less than 8 percent in FY2010/11. In subsequent years, monetary policy will continue to focus on quickly bringing inflation to 6 percent.

7. **Fiscal policy is aimed at eliminating the overall public sector deficit over the medium term and putting the debt-to-GDP ratio on a clear downward trajectory.** The overall public sector deficit is projected to fall from 12¾ percent of GDP in FY2009/10 to 1 percent in FY2013/14. This improvement is consistent with a significant reduction in the interest bill and an increase from 6 percent of GDP to 9 percent in the primary surplus of the central government. The debt-to-GDP will decline steadily from 140 percent in FY2009/10 to below 120 percent over the next four years. Fiscal consolidation measures will be underpinned by core structural reforms—fiscal responsibility legislation, central treasury management, and public bodies and employment reforms—that entrench fiscal discipline.

8. **In this context, the balance of payments is expected to improve markedly over the medium term.** Higher national savings as a result of fiscal adjustment, the gradual recovery in world demand, and a recovery in remittances are projected to help narrow the current account deficit from about 9½ percent of GDP in FY2009/10 to about 8¾ percent in FY2010/11 and, further, to around 5 percent of GDP over the medium term. This improvement, coupled with a projected recovery in foreign direct investment, will result in solid overall balance of payments surpluses beginning in FY2011/12. Gross international reserves are projected to remain at

around 3¼–4 months of imports of goods and services during the programme period and stay around 3¾ months over the medium term.

IV. Macroeconomic Programme

A. Fiscal Policy

9. **The government is committed to reducing the overall public sector deficit from 12¾ percent of GDP in the current fiscal year to 5 percent in FY2011/12.** The public debt ratio is projected to fall from 140 percent of GDP at end FY2009/10 to 136 percent at end FY2011/12, including Fund credit. Consistent with these figures, the central government's primary surplus would rise from 6¼ percent of GDP in the current fiscal year to 7 percent in FY2010/11 and 7¾ percent in FY2011/12. The deficit of the public bodies is projected to decline from 3 percent of GDP to near balance in FY2011/12. Achieving these objectives requires a combination of corrective revenue and spending measures, and specific actions to reduce the interest bill. The government is committed to pass a FY2010/11 budget consistent with the program outlined below and in the attached macro-framework tables. The government believes that the measures outlined below will be sufficient to achieve these targets but is committed to take additional action to meet the targets if needed.

Revenue and spending measures for the remainder of FY2009/10 and in FY 2010/11

10. **To safeguard public finances, the government has introduced three packages of measures over the past year, aimed at boosting revenue by over 3 percent of GDP**. In the first phase of measures, introduced at the time of the FY 2009/10 budget, the government raised the excise tax on gasoline by J$8.75 per litre, and broadened the General Consumption Tax base by eliminating exemptions on several items. The second package, aimed at generating annualized revenue equivalent to 0.3 percent of GDP, became effective on October 1, 2009 and included increasing the GCT rate on telephone services from 20 percent to 25 percent and increasing the departure tax to J$1,800. The third package aimed at generating revenue equivalent to 1¾ percent of GDP, became effective on January 1, 2010 (prior action). This package includes the following measures:

- **General Consumption Tax (GCT**) (yield: 0.5 percent of GDP). The GCT rate was raised from 16½ percent to 17½ percent. In addition, residential electricity consumption above 200 kwh and commercial/industrial electricity consumption are subject to GCT at 10 percent; the rate of GCT applicable to the tourism sector has been increased from 8.25 percent to 10 percent; and commercial importers are now required to pay a 5 percent advanced GCT payment on all taxable imported goods.

- **Personal income tax.** Tax rates for income over J$5 million but below J$10 million and for income over J$10 million have been adjusted from 25 percent to 27.5 percent and 35 percent respectively, until March 31, 2011. The yield is estimated at 0.1 percent of GDP.

- **Fuel tax**. An ad valorem fuel tax of 15 percent was applied. It is expected to generate revenue equivalent to 0.9 percent of GDP on a full-year basis.

- **Other taxes**. A freeze was introduced in the granting or renewal of discretionary waivers of duties and taxes; excise taxes on cigarettes were raised; and license fees for large motor cars were increased as were the common external tariff on various luxury items. The yield is estimated at 0.3 percent of GDP.

11. **On the expenditure side, the freeze on wage and salary increases will be maintained through FY2011/12, and primary spending in FY2010/11 will be reduced by 1¼ percent of GDP, excluding the one-time costs associated with divesting Air Jamaica.**

- **Wages and salaries.** The government is committed to maintaining the current public service wage freeze on salary increases into FY2011/12, while it develops a comprehensive reform of the public sector. Wage and salary increases agreed for periods prior to FY2009/10 that have not yet been paid will be paid in instalments over the medium term. Similar treatment will also be applied in the event that an award is made to health care workers in the reclassification case now under arbitration. Overall, this scheduling across the medium term will help generate savings of close to 1 percent of GDP in FY2010/11. New compensation agreements will be better aligned with the budget process and budget constraints to ensure that the government's objective of reducing the size of the wage bill from 11¾ percent of GDP to about 9½ percent over the next four years is achieved.

- **Cost containment in recurrent expenditure programmes**. The budget for FY2010/11 will freeze or reduce allocations in a number of areas. Most notably, a nominal freeze will be extended to purchases of goods and services, awards, and indemnities, and travel costs will be cut by 10 percent. Allocations for public utility costs in ministries and agencies will be reduced by at least 5 percent, benefiting from a recently-launched energy saving programme. A nominal freeze will also be implemented on tuition subsidies for tertiary education at the level of the FY2009/10 budget, while a system of means testing will be introduced. Subsidies on external school examination fees will be reduced, by improving the incentive structure (e.g. providing reimbursement based on results). These measures will provide a combined fiscal saving of 0.5 percent of GDP.

12. **To help protect the poor, the social safety net will be significantly enhanced**. Resources within the social assistance envelope will be reallocated to the better targeted programmes. Spending on these programmes will be increased by at least 25 percent in FY2010/11 (0.3 percent of GDP). In particular, this increase will benefit the school feeding programme, which provides breakfast and lunches to children; and the Programme of Advancement through Health and Education (PATH), which provides conditional cash transfers to five categories within the poorest income groups. Coverage of PATH will be expanded from the current 327,000 to 360,000. A Steps to Work programme, aimed at improving the employability of working age members of PATH households has been launched. The government will also be pursuing efforts to expand the social safety net to assist persons below the poverty line who do not qualify for PATH assistance.

13. **In the area of public bodies, which has been a constant drain on public resources, significant improvement is to be achieved in the following key public bodies:**

- **Air Jamaica will be divested or liquidated.** The elimination of losses from Air Jamaica is a key priority for the government. To that effect, the government is committed to finalizing an agreement for the sale of the company to a strategic partner, or to arrange the liquidation of the company. The arrangement will not entail subsidies or guarantees of any kind to the airline or to the strategic partner. The costs associated with the divestment of the airline, including for the cancellation of airplane lease agreements, fees to workers, and tax payments due to foreign tax administration agencies will be addressed (prior action).

- **The activities of Petrojam will remain streamlined.** To avoid further increases in the public debt due to the activities of public bodies, the government will not participate in the planned Petrojam refinery expansion project. The cost of this project—estimated at around 10 percent of GDP—is prohibitive in the current economic and fiscal context. The government is exploring with the foreign shareholder the possibility of alternate means of financing the project that will involve no Jamaica liability. In any case, no public sector debt, directly contracted or guaranteed by any public sector institution, will be involved in the financing of this project.

- **Divestment of the assets of Sugar Company of Jamaica will continue** Already, two factories have been sold, and the government is seeking to divest the remaining three factories. In the interim, these factories will be either leased or put on a strict zero-deficit budget by March 2010.

- **The net operational loss of the Jamaica Urban Transit Company (JUTC) will be reduced by 40 percent.** An increase of not less than 40 percent in bus fares approved by the Office of Utility Regulations in October 2009 will be implemented effective April 1, 2010. Further improvements in the financial situation of this company will be achieved from recent initiatives to curb illegal bus and taxi operators and continued improvements in cost efficiency.

Public Debt Exchange

14. **The government will engage its creditors in a debt exchange aimed at securing fiscal savings by exchanging existing high cost debt for new instruments that have lower coupons and longer maturities.** The success of the exchange is essential to closing the government's financing gap. It will also reduce the periodic bouts of financial market instability arising from large rollover requirements and improve the structure of the debt to ensure sustainability. The debt exchange will be undertaken in January 2010, in advance of the IMF's Board meeting to approve the requested SBA (prior action). Its key elements are as follows:

- **Objectives**. The exchange explicitly targets achieving: (i) interest saving of at least 3 percent of GDP next fiscal year; and (ii) a reduction by at least two thirds in maturing domestic debt over the next 36 months.

- **Bonds exchanged**. The operation targets a high proportion of the government's domestically-issued bonds (J$701.4 billion, or 65 percent of GDP), with a special focus on short-dated instruments (i.e., those maturing within the next two years) and high-coupon fixed-rate instruments. If necessary, the government intends to strategically exercise call options embedded in existing bonds in support of the debt exchange.

- **New bonds**. A mix of fixed and variable interest instruments, including inflation indexed bonds will be offered in the exchange, with the aim of developing new benchmark securities along the yield curve. The exchange is to be par-neutral. The lower interest rate coupons will still provide investors positive real rates of return, based on improved prospects for underlying inflation and exchange rate fundamentals.

15. **The debt exchange has been designed carefully, recognizing the need to avoid jeopardizing the stability of the domestic financial system.** Development of contingent measures is an important aspect of this design. A contingency planning framework is in place with the Financial Regulatory Council (FRC) taking the leadership role for ensuring appropriate coordination and communications. FRC is an interagency policy level group, chaired by the BOJ. Moreover, supervisors perform monthly stress tests (more frequently if circumstances warrant), which allow them to identify and develop plans for institutions which might be impacted under the various stress testing scenarios. Further, funds from the multilateral institutions will be devoted to establishing a Financial Sector Support Fund (FSSF) in the amount of approximately US$1 billion, immediately following disbursement under the IMF programme. This fund will be established by the government and administered by the BOJ.

16. **Deposit taking institutions, securities dealers, and insurance companies will be eligible for access to the FSSF provided the institution and the group to which the institution belongs tender in the debt exchange at least 90 percent of eligible assets.** Institutions and groups must participate by first exchanging instruments that generate the highest savings to the government (taking into account both coupon and maturity). The government will authorize access to the FSSF, informed by the assessment and recommendation of the FRC.

17. **The FSSF will be overseen by the FRC.** The FRC will use the existing technical working group (TWG), also chaired by BOJ staff, to assess applications from institutions seeking financial assistance. Assessments will be made of the liquidity needs of the system and the financial condition of the institution requesting support. The work of the TWG will be ongoing, and it will provide periodic reports to the FRC. The FRC will monitor specific thresholds, which will trigger further evaluation and action by the primary supervisor.

18. **The FSSF will be used primarily to provide temporary assistance to institutions in the event of liquidity needs, including from external borrowing on margin.** The disbursement of funds will be secured by eligible collateral, which would be Government of Jamaica (GOJ) instruments. Institutions should be required to repay liquidity support extended under the FSSF as quickly as possible. After a period of 6 months, this liquidity should be repaid or become subject to a punitive interest rate. We have developed a framework for supervisory action based on the level of liquidity support provided as a percentage of capital. If the stock of liquidity reaches certain levels, institutions will be subject to escalating supervisory response including inspections, intensive monitoring, and intervention. The authorities will consult with the Fund once 50 percent of the FSSF resources have been disbursed.

19. **All necessary measures will be taken to ensure stability of the financial system.** Institutions receiving support will be subject to intensive supervision. Any institution receiving support for recapitalization will be required to submit an agreed plan of recapitalization and operational restructuring, restrictions on dividend payments, and other measures as determined by supervisors. For safety and soundness reasons, supervisors have the authority to intervene in all institutions. This authority includes taking temporary management, which suspends the rights of shareholders and managers for at least 60 days. The government maintains its commitment to resolving any institution which does not meet the full solvency requirements, in accordance with existing legal and regulatory frameworks and consistent with the objective of maintaining financial system stability.

20. **Beyond the debt exchange, the government will strengthen its debt management strategy.** The strategy will include an explicit assessment of the cost-risk analysis of alternative portfolio options, and enhance transparency and communication with market players and rating agencies by June 2010. The government will also seek technical assistance from the IMF to look into institutional features of the government securities market in order to make it more competitive.

B. Structural Fiscal Reforms

21. **The programme prioritizes a set of structural fiscal reforms that aim at entrenching fiscal discipline and bolstering transparency.** These reforms will help ensure that the gains achieved during the programme period will be sustained and deepened over the medium term.

Public Sector Reform

22. **The government is committed to rationalizing the public sector with a view to improving efficiency and cost effectiveness.** A committee appointed by the Prime Minister is reviewing the existing structure of the public sector and will present recommendations by September 2010 on the formulation of a new structure. The current structure is characterized by many entities with unclear or overlapping functions. The government commits to implementing

the core recommendations of the committee no later than FY2011/12 and to gradually reduce the wage bill from 11½ percent of GDP at present to around 9½ percent in the medium term. In this context, the government believes that it is critical to increase its control over public sector compensation and ensure that public employment costs are transparently reported. To achieve these objectives the government will:

- Complete a census of all government positions, compensation, and description of function (by end-June 2010).
- Create and maintain a comprehensive database of employment and compensation in the public sector, updating on a regular basis the census information (by end-June 2010 and thereafter).
- Finalize and present the Prime Minister's Committee Report on Public Sector Reform (by end-September 2010).
- Complete a time-bound public employment reform action plan, which will be implemented in time for the FY2011/12 budget (by end-December 2010) (structural benchmark).

23. **The ongoing rationalization and reform of Jamaica's public bodies will continue over the medium term.** This reform has been a priority of this administration since taking office. The government's three-pronged plan aims at: (i) divesting commercial entities; (ii) merging entities when feasible to bolster efficiencies; and (iii) winding-up inactive entities. Guiding the government's approach are two fundamental principles: the priority given to reducing public debt and the need to reduce the size of the public sector, particularly through divesting activities that ought to be carried out more efficiently by the private sector. The government has identified twenty parastatal entities to be divested. With respect to mergers and the winding up of inactive entities, the government has also identified a wide set of candidates. It is expected that a number of entities will be merged and more than 50 inactive enterprises will be closed over the next 3 years. A plan to this effect will be completed in time to be implemented beginning in the upcoming fiscal year. A Fiscal Responsibility Framework (see below) will increase the entities' accountability by requiring approval of their budgets by Parliament, while transparency will be increased through a stricter enforcement of reporting and auditing standards. In order to ensure that sought after efficiency gains are realized, the government plans to agree to performance targets with the management of each entity, in line with the nature of each entity's core functions.

Tax Reform

24. **The government will deepen reforms to strengthen tax administration.** In the short term, this includes: (1) adopting a comprehensive reform strategy including a time bound action plan to unify the domestic tax administration; (2) vesting the necessary legal and administrative powers in the Tax Administration Director General instead of the respective commissioner of

each department; (3) expanding the large taxpayers office; (4) facilitating compliance through streamlined procedures; and (5) developing an interface between the domestic tax and customs IT systems to exchange information between departments. By June 2010, a time-bound action plan will be designed to implement these reforms.

25. **Key tax policy reforms will also be undertaken.** The government remains committed to significantly scale back the system of tax incentives and exemptions in order to significantly broaden the tax base, reduce distortions in the system, and allow a phased reduction in the corporate tax rate to a more competitive level. The freeze in granting of discretionary waivers on duties and taxes is the first step in this process. The government will prepare and announce by September 2010 a strategy for the reform of tax incentives. At the same time, the government is committed to spearheading the revival of negotiations on tax coordination under the auspices of CARICOM.

Public Expenditure Management

26. **The government will enact legislation before the end of FY2009/10 to establish a fiscal responsibility framework (FRF).** The overall objective is to operationalize the key principles of prudent fiscal management in order to ensure that the institutional framework is consistent with achieving the government's short- and medium-term fiscal targets. The FRF will provide for clearly articulated fiscal policies, including a medium-term fiscal framework; greater transparency through various reporting requirements; stricter accountability in the management of public finances; and a better level of oversight of fiscal policy and the management of public funds. The FRF will provide for improved public financial management through expanding the coverage of the budget to all general government institutions; enshrining the principle of no spending without prior budget appropriation; and requiring approval by parliament of the budget of each of the "self financed" public bodies. By March 2010, the FRF will be integrated into the Financial Administration and Audit Act, while the Public Bodies Management and Accountability Act will also be amended to ensure consistency with the FRF (structural benchmark).

27. **Central Treasury Management System.** The government is pursuing the establishment of a central treasury management system (CTMS) to bring responsibility for treasury management functions under one agency. The CTMS will establish a Treasury Single Account (TSA) to improve cash management. The government plans to consolidate all general government cash resources in the TSA. All funds, including special funds, owned by general government entities and held in financial institutions would be transferred to the TSA and those accounts would then be closed. The government is receiving assistance in establishing the CTMS from several multilateral agencies including the IMF. A step-by-step plan for consolidation will be fully completed by end-June 2010 with the help of IMF technical assistance (structural benchmark). This includes the preparation of an inventory of all accounts of general government entities, sources of inflows, rules for outflows, and the existing balances.

The government is committed to have an operational CTMS system by end-December 2010 in order to support the implementation of the FY2011/12 budget.

C. Monetary and exchange rate policy

28. **Monetary policy will focus on reducing inflation and supporting the operations of the domestic financial system.** The BOJ will safeguard the programme's inflation objective. In the aftermath of the debt exchange, the BOJ will monitor closely operations in the financial system to identify liquidity pressures.

29. **The BOJ will continue to manage monetary policy within the framework of a managed floating exchange rate regime.** The BOJ will allow the exchange rate to move freely while using its instruments to ensure stability in credit and foreign exchange markets in the short and medium term. To that end, the programme will contain clear reserve targets to safeguard the adequacy of reserve coverage—a key policy priority in the current context.

D. Strengthening the Financial System

30. **Important work needs to be undertaken to respond to the challenges posed by Jamaica's highly interconnected financial institutions.** Implementing recommendations made during the 2006 IMF/World Bank Financial Sector Assessment Program (FSAP) will introduce a number of reforms by June 2011. The government plans to pass an omnibus banking law that will allow for more effective supervision of financial conglomerates, including by harmonizing the prudential standards that apply to commercial banks, merchant banks, and building societies. Toward this end, the BOJ's concept paper for an omnibus banking law and the related legislative and regulatory framework to strengthen the oversight of the financial sector (as identified in the 2006 FSAP),will be reviewed and revised, in consultation with IMF (structural benchmark). The Bank of Jamaica Act and the Financial Services Commission Act will both be amended to further strengthen supervisory tools. Stronger capital adequacy standards will be developed for all financial institutions to achieve fullest compliance with international standards, in consultation with the Fund. Additionally, supervisors will adopt rules which require them to take remedial measures against a weak entity within specific timeframes (prompt corrective action) (December 2010).

31. **The Bank of Jamaica Act will also be amended to establish the legal framework to underpin its responsibility for overall financial system stability by December 2010**. This will allow the BOJ to access data from parent or affiliate institutions that might not be a part of a conglomerate group. It will also provide a stronger basis for the BOJ to provide financial support to nonbanks, if needed for securing financial system stability during periods of extreme volatility. The BOJ will develop procedures for providing liquidity facilities to primary dealers.

32. **There are several additional reforms pertaining specifically to deposit-taking institutions that will be developed, in consultation with the Fund.** Other key reforms will deal with enhancing capital rules to address all market risks (December 2010), including equity

and interest rate risks; improving the frameworks for AML/CFT (March 2010); and combating unregulated financial organizations by June 2010 (structural benchmark).

33. **The government will reform the securities dealer sector to strengthen its ability to withstand shocks going forward.** A major problem with the securities dealer sector as currently structured is that liquidity and maturity risk are held on the security dealer's balance sheet and capital requirements are not comprehensive, as identified in the FSAP. In keeping with FSAP recommendations and technical assistance from CARTAC, the government is taking steps to shift risks to investors by encouraging the development of collective investment schemes, including by amending the Unit Trust Act. Amendments to this act will come into effect by December 2010. Thereafter, the existing freeze on new registrations of unit trusts (and new unit trust products) will be lifted. At the same time, the government is committed to removing structural impediments to the development of a vibrant local mutual fund market, including by exempting mutual funds from onerous provisions in the Companies Act of Jamaica by December 2010.

34. **In addition, the government will continue strengthening the regulatory and supervisory framework of the securities dealers sector.** Reforms to enhance capitalization and margin requirements, to include a liquidity risk component and an operational risk component will be developed in consultation with the Fund. It is expected that draft regulations will be ready by August 2010, to be fully implemented by March 2012. Until that time, we will place a temporary freeze on issuing new licenses for securities dealers whose business model is based on repos and other short-term liabilities, except coming out of mergers and/or acquisitions of existing firms (structural benchmark). The government is committed to ensuring that any new applicants have robust financial resources, a well-diversified business model and knowledgeable management and staff. The government will also press ahead with an initiative underway to improve the stress testing and contingency planning capacity of the Financial Services Commission (FSC). Draft legislation will be presented to Parliament for approval in early FY2011/12 to close gaps in the power of the FSC to conduct consolidated supervision, in line with the BOJ's omnibus banking bill. Dealers' repo contracts are a source of risk. Dealers will be required to register customer interest against underlying instruments in a central securities depository by September 2010. To ensure that the enhanced legal framework is technically sound and the agreed timetable in the program is met, the FSC would require IMF technical assistance to develop the new risk-based capital framework to incorporate elements such as operational risk and liquidity risk.

V. FINANCING UNDER THE PROGRAMME

35. **In support of the economic programme, the government envisages the need for financing from multilateral sources of US$2.4 billion over the next two years.** Of this, about half would be required upfront to address immediate budget financing and balance of payments needs as well as the establishment of the FSSF. Total funding from the IMF is expected to be SDR 820.5 million or 300 percent of quota (about US$1,300 million), with about half provided

up front. Loan commitments over the next two years from the IDB, World Bank, and the Caribbean Development Bank are US$1.1 billion. In addition, Jamaica will continue to draw financing from the PetroCaribe facility and to strategically access external commercial markets, which are expected to re-open before the end of the next fiscal year. Remaining financing needs will be filled through domestic financial sector borrowing.

VI. Safeguards Assessment

36. **The government fully recognizes the importance of completing a safeguards assessment of BOJ before the first review of the Stand-By Arrangement.** To facilitate such an assessment, the central bank's external auditors have been authorized to hold discussions directly with Fund staff. An IMF mission to conduct the safeguards assessment is scheduled for February 2010 and the BOJ will provide Fund staff with all necessary information in preparation of that mission.

VII. Programme Monitoring

37. **The programme will be monitored on a quarterly basis, through quantitative performance criteria, indicative targets, and structural benchmarks.** The phasing of access under the arrangement and the review schedule are set out in Table 1 of this memorandum. The quantitative performance criteria and indicative targets through end-March 2011 are set out in Table 2. Targets for the remainder of FY2010/11 will be identified at the time of the second programme review. Programme reviews will assess the achievement of the quantitative targets and focus on progress in key structural reforms. In this context, the first programme review will focus on the FY 2010/11 budget and the implementation of the fiscal responsibility framework. The review will also examine the plans for recapitalizing financial institutions. The second review will focus on fiscal reforms, specifically in the debt management, tax, and public financial management areas. It will also review progress in the various initiatives aimed at strengthening financial system regulatory and supervisory framework. The third review will focus on public bodies and employment reforms as well as progress in financial sector reforms. Structural benchmarks are set out in Table 3. Programme conditionality is further specified in the accompanying Technical Memorandum of Understanding.

Table 1. Jamaica: Schedule of reviews and Purchases

Date	Amount of Purchase		Conditions
	Millions of SDR	Percent of Quota	
February 4, 2010	414.3	151.5	Approval of arrangement
May 31, 2010	63.7	23.3	First review and end-March 2010 performance criteria
August 31, 2010	31.9	11.7	Second review and end-June 2010 performance criteria
November 30, 2010	31.9	11.7	Third review and end-September 2010 performance criteria
February 28, 2011	127.5	46.6	Fourth review and end-December 2010 performance criteria
May 31, 2011	31.9	11.7	Fifth review and end-March 2011 performance criteria
August 31, 2011	31.9	11.7	Sixth review and end-June 2011 performance criteria
November 30, 2011	31.9	11.7	Seventh review and end-September 2011 performance criteria
February 28, 2012	55.5	20.3	Eighth review and end-December 2011 performance criteria
Total	820.5	300.0	

Table 2: Jamaica: Quantitative Performance Criteria 1/

	2010				2011
	end Mar. 6/	end Jun.	end Sept.	end Dec.	end Mar.
	Performance criteria		Indicative targets		
Fiscal targets					
1. Primary balance of the central administration (floor) 2/ 3/	66.9	12.1	31.5	51.7	83.3
2. Overall balance of public entities (floor) 2/ 3/	-29.6	-3.0	-6.0	-8.9	-11.9
3. Central government direct debt (ceiling) 3/	1260.4	1287.2	1306.6	1325.2	1332.4
4. Cumulative net increase in central government guaranteed debt (ceiling) 2/ 4/	32.8	3.0	3.0	3.0	3.0
5. Central government accumulation of domestic arrears (ceiling) 5/	0.0	0.0	0.0	0.0	0.0
6. Central government accumulation of tax arrears (ceiling) 7/	0.0	0.0	0.0	0.0	0.0
7. Consolidated government accumulation of external arrears (ceiling) /8	0.0	0.0	0.0	0.0	0.0
Monetary targets					
8. Cumulative change in net international reserves (floor) 8/	-351	-534	-673	-617	-651
9. Net domestic assets (ceiling)	-49.1	-33.7	-20.6	-11.2	-18.5

1/ Targets as defined in the Technical memorandum of Understanding.
2/ Cumulative flows through April 1 to March 31.
3/ Excludes government guaranteed debt. In billions of Jamaican dollars. The central government direct debt excludes IMF credits.
4/ In billions of Jamaican dollars.
5/ Includes debt payments, supplies and other committed spending as per contractual obligations.
6/ Includes February and March 2010, under the assumption that the program begins on February 1, 2010.
7/ Includes all arrears in refunding taxpayers owed refunds stipulated by law.
8/ In millions of US dollars.

Table 3: Jamaica: Programme Conditionality

	Measure	Conditionality	Timing
	Prior Actions		
Government Finances			
1	Adopt a tax policy package yielding around 2 percent of GDP (MEFP, paragraph 10).	Prior action	December 2009
Public debt management			
2	Launch and complete debt exchange operation that, in comparison to the existing securities, achieves an estimated saving of over 3 percent of GDP in FY2010/11 and a reduction in the amount of debt maturing during 2010-2012 by at least two thirds. (MEFP, paragraph 14).	Prior action	January 2010
Public entities			
3	Reach agreement on divestment of Air Jamaica or initiate plans to liquidate the airline by June 2010 (MEFP, paragraph 13).	Prior action	January 2010
	Structural Benchmarks		
Institutional Fiscal Reform			
4	Complete a time-bound plan to establish a central treasury management system by end-2010 (MEFP, paragraph 27).	Benchmark	June 2010
5	Pass a fiscal responsibility framework and accompanying legislative amendments (MEFP, paragraph 26).	Benchmark	March 2010
6	Design a public employment and compensation reform (MEFP, paragraph 22).	Benchmark	December 2010
Financial sector reform			
7	Review and revise, in consultation with IMF, the BOJ's concept paper for an omnibus banking law and the related legislative and regulatory framework to strengthen the oversight of the financial sector (as identified in the 2006 FSAP), (MEFP, paragraph 30).	Benchmark	March 2010
8	Draft a concept paper, in consultation with the IMF, on all major elements to be included in legislation and other measures to address unregulated financial organizations (MEFP, paragraph 32).	Benchmark	June 2010
9	Introduce a temporary freeze on issuing new licenses for securities dealers whose business model is based on repos and other short-term liabilities (MEFP, paragraph 34).	Benchmark	February 2010

JAMAICA—TECHNICAL MEMORANDUM OF UNDERSTANDING

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

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

VIII. Quantitative Performance Criteria: Definition of Variables

A. Cumulative Floor of the Central Government Primary Balance

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

The primary balance of the central government is defined as total revenues minus primary expenditure and covers non-interest government activities as specified in the budget. The central government includes public bodies that are financed through the Consolidated Fund. Data will be provided to the Fund with a lag of no more than three weeks after the test date.

Revenues are recorded when the funds are transferred to a government revenue account. Revenues will also include grants. Capital revenues will not include any revenues from asset sales as proceeding from divestment operations. Central government primary expenditure is recorded on a cash basis, and includes compensation payments, other recurrent expenditures, and capital spending (Table 2). 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.

The primary balance target does not include expenditure related to the divestment or liquidation costs of Air Jamaica. Should costs associated to the divestment or liquidation of Air Jamaica occur, the targets will be adjusted downwards to accommodate those costs, up to an amount equivalent to US$200 million at the program reference exchange rate.

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

	Floor (In billions of J$)
End-January 2010 (program projection)	45.4
End-February 2010 (program projection)	47.0
End-March 2010 (performance criterion)	66.9
End-April 2010 (program projection)	6.3
End-May 2010 (progam projection)	14.8
End-June 2010 (performance criterion)	12.1
End-July 2010 (program projection)	18.2
End-August 2010 (program projection)	22.3
End-September 2010 (indicative target)	31.5
End-October 2010 (program projection)	35.6
End-November 2010 (program projection)	40.8
End-December 2010 (indicative target)	51.7
End-January 2011 (program projection)	61.2
End-February 2011 (program projection)	63.9
End-March 2011 (indicative target)	83.3

B. Cumulative Floor on Overall Balance of Public Bodies

Definition: Public bodies consist of all self-financed public bodies, including the 20 "Selected Public Bodies", and "Other Public Bodies". The 20 "Selected Public Bodies" include: Airport Authority of Jamaica (AAJ); Human Employment and Resource Training Trust (HEART); Jamaica Mortgage Bank (JMB); House Agency of Jamaica (HAJ); National Housing Trust (NHT); National Insurance Fund (NIF); Development Bank of Jamaica (DBJ); National Water Commission (NWC); Petrojam; Petroleum Corporation of Jamaica (PCJ); Ports Authority of Jamaica (PAJ); Urban Development Corporation (UDC); Jamaica Urban Transit Company Ltd. (JUTC); Caymanas Track Ltd. (CTL); Wallenford Coffee Company Ltd. (WCC); National Road Operating and Constructing Company Ltd. (NROCC); Petro-Ethanol; Air Jamaica (AJ); Clarendon Aluminum Partners (CAP); Sugar Company of Jamaica (SCJ). "Other Public Bodies" include: Bauxite and Alumina Trading Company of Jamaica Ltd. ; Jamaica Bauxite Mining Ltd. ; Petroleum Company of Jamaica Ltd. (Petcom); Wigton Windfarm Ltd.; Broadcasting Commission of Jamaica; The Office of Utilities Regulation; Spectrum Management Authority; Sports Development Foundation; Bureau of Standards Jamaica; Factories Corporation of Jamaica Ltd.; Kingston Freezone Company Ltd.; Micro Investment Development Agency Ltd.; Montego Bay Freezone Company Ltd.; Postal Corporation of Jamaica Ltd.; Self Start Fund; Betting Gaming and Lotteries Commission; Culture, Health, Arts, Sports and Education Fund; Financial Services Commission; Jamaica Deposit Insurance Corporation, Jamaica Racing Commission, National Export-Import Bank of Jamaica Ltd.; PetroCaribe Development Fund; The Public Accountancy Board; Students' Loan Bureau; National Health Fund; Agricultural Development Corporation; Agricultural Marketing Corporation, Cocoa Industry Board; Coffee Industry Board; Sugar Industry Authority; Overseas Examination Commission; Aeronautical

Telecommunications Ltd.; Jamaica Civil Aviation Authority; Jamaica Ultimate Tire Company Ltd.; Jamaica Railway Corporation Ltd.; Ports Security Corps Ltd.; Transport Authority.

The overall balance of public bodies will be calculated from the Statement A's provided by the Public Enterprises Division of the Ministry of Finance and the Public Services (MoFPS) for each of the selected public bodies and the group of the other public bodies as defined above. The definition of overall balance used is operational balance, plus capital account net of revenues (investment returns, minus capital expenditure, plus change in inventories), minus dividends and corporate taxes transferred to government, plus net other transfers from government. For the particular case of the National Housing Trust, capital account revenues will not be netted out since they do not refer to flows arising from assets sales but rather to contribution revenue, and therefore will be included among recurrent revenue such as is done for pension funds. Data will be provided to the Fund with a lag of no more than 6 weeks after the test date.

The definitions of "Selected Public Bodies" and "Other Public Bodies" will be adjusted as the process of public bodies' rationalization, including divestments and mergers, advances. All new entities that might be created as a result of this process, including from the merging of existing entities, will be incorporated in either of these two groups. However, this process will not affect the performance criterion.

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

	Floor (In billions of J$)
End-January 2010 (program projection)	-24.7
End-February 2010 (program projection)	-27.2
End-March 2010 (performance criterion)	-29.6
End-April 2010 (program projection)	-1.0
End-May 2010 (progam projection)	-2.0
End-June 2010 (performance criterion)	-3.0
End-July 2010 (program projection)	-4.0
End-August 2010 (program projection)	-5.0
End-September 2010 (indicative target)	-6.0
End-October 2010 (program projection)	-7.0
End-November 2010 (program projection)	-8.0
End-December 2010 (indicative target)	-8.9
End-January 2011 (program projection)	-9.9
End-February 2011 (program projection)	-10.9
End-March 2011 (indicative target)	-11.9

C. Ceiling on the Stock of Central Government Direct Debt

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

The target will be set in Jamaican dollars. The change in the stock of debt will be measured "below the line" as all debt issuance minus repayments on all central government debt. Data will be provided to the Fund with a lag of no more than four weeks after the test date. The target will be adjusted upwards if explicit government guarantees (defined as the stock of existing guarantees as at end March 2010 plus new guarantees allowed to be issued under the program) are called.

3. Targets on Central Government Direct Debt Stock
Cumulative balance over the fiscal year (April 1 to March 31)

	Ceiling (In billions of J$)
End-March 2010 (performance criterion)	1260
End-June 2010 (performance criterion)	1287
End-September 2010 (indicative target)	1307
End-December 2010 (indicative target)	1325
End-March 2011 (indicative target)	1332

D. Ceiling on Net Increase in Central Government Guaranteed Debt

Definition: Net increase in central government guaranteed debt is calculated as issuance minus repayments of central government guaranteed debt, in billions of Jamaican dollars, including domestic and external bonds, loans and all other types of debt. The cumulative targets are computed as the difference between the stock of government guaranteed debt as of end-March of each year and the stock of government guaranteed debt as of the target date, as specified in table 4. The cumulative net increase in central government guaranteed debt will be monitored on a continuous basis. Data will be provided to the Fund with a lag of no more than four weeks after the test date. In the case where the central government debt guarantees are called, the stock of central government guaranteed debt will be adjusted downwards to preserve the performance criteria defined in table 4.

4. Cumulative Net Increase in Central Government Guaranteed Debt Stock
Cumulative balance over the fiscal year (April 1 to March 31)

	Ceiling (In billions of J$)
Stock of Government Guaranteed Debt at end-March 2009	76.3
Stock of Government Guaranteed Debt at end-March 2010	109.1
End-March 2010 (performance criterion)	32.8
End-June 2010 (performance criterion)	3.0
End-September 2010 (indicative target)	3.0
End-December 2010 (indicative target)	3.0
End-March 2011 (indicative target)	3.0

E. Ceiling on Central Government Accumulation of Domestic Arrears

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

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

	Ceiling (In millions of J$)
End-January 2010 (program projection)	0.0
End-February 2010 (program projection)	0.0
End-March 2010 (performance criterion)	0.0
End-April 2010 (program projection)	0.0
End-May 2010 (progam projection)	0.0
End-June 2010 (performance criterion)	0.0
End-July 2010 (program projection)	0.0
End-August 2010 (program projection)	0.0
End-September 2010 (indicative target)	0.0
End-October 2010 (program projection)	0.0
End-November 2010 (program projection)	0.0
End-December 2010 (indicative target)	0.0
End-January 2011 (program projection)	0.0
End-February 2011 (program projection)	0.0
End-March 2011 (indicative target)	0.0

F. Ceiling on Central Government Accumulation of tax refund arrears

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

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

	Ceiling (In millions of J$)
End-January 2010 (program projection)	0.0
End-February 2010 (program projection)	0.0
End-March 2010 (performance criterion)	0.0
End-April 2010 (program projection)	0.0
End-May 2010 (progam projection)	0.0
End-June 2010 (performance criterion)	0.0
End-July 2010 (program projection)	0.0
End-August 2010 (program projection)	0.0
End-September 2010 (indicative target)	0.0
End-October 2010 (program projection)	0.0
End-November 2010 (program projection)	0.0
End-December 2010 (indicative target)	0.0
End-January 2011 (program projection)	0.0
End-February 2011 (program projection)	0.0
End-March 2011 (indicative target)	0.0

G. Floor on Accumulation of BOJ Net International Reserves

Definition: Net international reserves (NIR) of the BOJ are defined as the US dollar value of gross foreign assets of the BOJ minus gross foreign liabilities with maturity of less than one year. Non-US dollar denominated foreign assets and liabilities will be converted into US dollar at the program exchange rates. Data will be provided by the BOJ to the Fund with a lag of no more than five days past the test date.

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

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

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

If the amount of cumulative changes from end-December 2009 in BOJ's foreign exchange liabilities to residents and banks' foreign currency deposits in BOJ against reserve requirements is higher (lower) than the baseline projection reported in Table 9, the NIR targets will be adjusted upward (downward) by the cumulative difference in these items.

Should costs associated to the divestment or liquidation of Air Jamaica occur, the targets will be adjusted downwards to accommodate those costs, up to an amount equivalent to US$140 million at the program reference exchange rate.

7. Net International Reserves of the Bank of Jamaica

	(In millions of US$)
6. Floor on the Net International Reserves of the Bank of Jamaica	
Outstanding stock	
End-December 2009	1,729
Floor on cumulative change in net international reserves from end-December 2009:	
End March 2010 (performance criterion)	-351
End-June 2010 (performance criterion)	-534
End-September 2010 (indicative target)	-673
End-December 2010 (indicative target)	-617
End-March 2011 (indicative target)	-651

8. External Program Disbursements (baseline projection)

Cumulative flows from end-December 2009	(In millions of US$)
End March 2010	685
End-June 2010	685
End-September 2010	785
End-December 2010	1,070
End-March 2011	1,070

Table 9. Reserve liabilities items for NIR target purposes

	(In millions of US$) 1/
1. BOJ's foreign liabilities to residents	
Outstanding stock	
End-December 2009	199.1
Cumulative change from end-December 2009	
End-March 2010	-122.3
End-June 2010	-199.1
End-September 2010	-199.1
End-December 2010	-199.1
End-March 2011	-199.1
2. Banks foreign currency deposits in BOJ against reserve requirements	
Outstanding stock	
End-December 2009	194.6
Cumulative change from end-December 2009	
End-March 2010	11.4
End-June 2010	5.5
End-September 2010	10.2
End-December 2010	9.8
End-March 2011	9.2

1/ Converted at the programme exchange rates.

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

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

Table 10. Ceilings on Net Domestic Assets of the Bank of Jamaica

	(In billions of J$)
Ceiling on net domestic assets:	
End March 2010 (performance criterion)	-49.1
End-June 2010 (performance criterion)	-33.7
End-September 2010 (indicative target)	-20.6
End-December 2010 (indicative target)	-11.2
End-March 2011 (indicative target)	-18.5

IX. Continuous Performance Criterion on Non-accumulation of External Debt Payments Arrears

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

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

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

i. Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
ii. Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time 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 program, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

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

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

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

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

X. Information Requirements

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

A. Daily

- Net international reserves; nominal exchange rates; interest rates on BOJ repurchase agreements; total currency issued by the BOJ, deposits held by financial institutions at the BOJ; required and excess reserves of the banking sector in local and foreign currency, total liquidity assistance to banks through normal BOJ operations, including overdrafts; overnight interest rates; GOJ bond yields.
- Disbursements from the Financial System Support Fund, by institutions.
- Deposits and liquidity assistance to institutions, by institution.
- Bank of Jamaica purchases and sales of foreign currency.
- Amounts offered, demanded and placed in Bank of Jamaica open market operations, including rates on offer for each tenor.
- Amounts offered, demanded and placed in Government of Jamaica auctions; including minimum maximum and average bid rates.

B. Weekly

- Consolidated balance sheet and individual balance sheets of the core securities dealers, including indicators of liquidity and capital positions; evolution of liabilities, details on sources of funding, including from external borrowing on margin.
- Deposits in the banking system and total currency in circulation.

C. Monthly

- Central government operations, with a lag of no more than three weeks after the closing of each month.

- Public entities' Statement A: consolidated and by institution for the "Selected Public Bodies", and consolidated for the "Other Public Bodies" with a lag of no more than six weeks after the closing of each month.

- Central government debt amortization and repayments, by instrument (LRS, Debentures, US$ denominated bonds, US$-linked bonds, treasury bills, Eurobonds, domestic loans, external commercial loans; external official loans). Includes government direct, government guaranteed, and total. In the case of issuance of government guaranteed debt, include the name of the guaranteed individual/institution. The reporting lag should not exceed four weeks after the closing of each month.

- Central government debt stock, including by (i) creditor (official, commercial domestic, commercial external; (ii) instrument (LRS, Debentures, US$ denominated bonds, US$-linked bonds, treasury bills, Eurobonds, domestic loans, external commercial loans; external official loans); (iii) direct and guaranteed. The reporting lag should not exceed four weeks after the closing of each month.

- Holdings of domestic bonds (LRS, Debentures, US$-linked, US$-denominated) by holder category. The reporting lag should not exceed four weeks after the closing of each month.

- Legal measures that affect the revenue of the central government (tax rates, import tariffs, exemptions, etc.).

- Balance sheet of the Bank of Jamaica.

- A summary of monetary accounts providing detailed information on the accounts of the Bank of Jamaica, commercial banks, and the overall banking system. Include a detailed decomposition on Bank of Jamaica and commercial bank net claims on the Central Government, selected public bodies, and other public bodies.[10] This information should be received with a lag of no more than three 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.

- Deposits in the banking system: current accounts, savings and time deposits. Average monthly interest rates on loans and deposits.

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[10] Selected public bodies and other public bodies are defined as outlined in Section B.

- Financial statements of other (non-bank) deposit taking institutions, insurance companies and pension funds.

- Monthly balance sheet and income statement data of deposit taking institutions, as reported to the BOJ

- Data on Table 9.

- A full set of monthly FSIs regularly calculated by the BOJ, including capital adequacy, profitability and liquidity ratios.

- Imports and exports of goods, in US$ million. Tourism indicators. Remittances' flows.

- Consumer price inflation, including by sub-components of the CPI index.

- Use of the PetroCaribe fund, including loan portfolio by debtor and allocation of the liquidity funds in reserve.

D. Quarterly

- Summary balance of payments. Revised outturn for the preceding quarters and quarterly projections for the forthcoming year, with a lag of no more than one month following the close of the quarter.

- Stock of external debt, by creditor, as of end-of-quarter, with a lag of no more than one month following the close of the quarter. The reporting lag should not exceed four weeks after the closing of each month.

- Gross domestic product growth by sector, in real and nominal terms, including revised outturn for the preceding quarters and projections for the next four quarters.

- BOJ Quarterly Financial Stability Report.

Table 1. Jamaica: Selected Economic Indicators 1/

					Proj.				
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	012/13	013/14
GDP, prices, and employment									
Real GDP	1.2	3.2	0.6	-1.6	-3.5	0.6	1.9	1.9	2.0
Nominal GDP	12.2	14.2	13.2	12.3	3.3	11.5	10.3	9.7	9.5
Consumer price index (end of period)	11.2	8.0	19.9	12.4	12.2	7.3	7.0	6.5	6.0
Consumer price index (average)	14.8	7.4	12.4	20.2	9.0	11.2	7.1	6.7	6.3
Exchange rate (end of period, in J$/US$)	65.3	67.6	70.8	88.0	…	…	…	…	…
Exchange rate (average, J$/US$)	63.2	66.3	69.7	76.3	…	…	…	…	…
End-of-period REER (percent change, apprecia	4.0	-0.7	4.0	-10.1	…	…	…	…	…
Unemployment rate (in percent)	11.6	10.8	9.7	10.6	…	…	…	…	…
Government operations									
Budgetary revenue	26.2	25.9	27.3	26.6	28.3	27.7	27.8	27.9	27.9
Budgetary expenditure	29.5	30.8	31.1	34.0	38.2	34.2	32.1	30.5	28.6
Primary expenditure	16.3	18.9	19.5	21.8	22.0	20.7	20.2	19.5	18.8
Interest payments 2/	13.2	11.9	11.6	12.2	16.2	13.5	11.9	10.9	9.7
Budget balance	-3.3	-4.8	-3.8	-7.3	-10.0	-6.5	-4.3	-2.6	-0.7
Of which: primary fiscal balance	9.9	7.0	7.8	4.8	6.2	7.0	7.7	8.3	9.1
Of which: underlying primary fiscal balance 3/	..	..	..	..	5.2	7.0	7.7	8.3	9.1
Off-budget expenditure 4/	1.0	1.5	1.1	-0.4	0.0	0.0	0.0	0.0	0.0
Net capital transfers to public entities 5/ 6/	..	..	0.0	0.6	-0.2	0.0	0.0	0.0	0.0
Public entities balance 5/	..	..	-3.4	-2.5	-2.8	-1.0	-0.6	0.1	0.2
of which financed with loans and deposits dra	..	..	-3.4	-3.1	-2.5	-1.0	-0.6	0.1	0.2
Overall fiscal balance			-8.2	-9.4	-12.7	-7.5	-4.9	-2.5	-0.5
Public debt 2/ 7/	119.9	116.5	113.5	124.0	140.0	140.0	135.6	126.1	114.9
External sector									
Current account balance	-10.5	-9.7	-18.4	-18.0	-9.4	-8.8	-6.6	-5.9	-5.0
Of which: exports of goods, f.o.b.	16.0	17.9	18.3	17.0	11.8	12.0	12.6	12.9	13.2
Of which: imports of goods, f.o.b.	40.0	42.3	50.4	50.0	38.9	39.0	39.5	39.0	38.4
Net international reserves (in millions of US$)	2,078	2,329	2,083	1,629	1,378	1,078	1,325	1,436	1,705
Gross international reserves (In millions of US	2,373	2,614	2,106	1,664	2,051	2,151	2,635	2,677	2,616
Money and credit									
Net foreign assets	1.7	4.2	0.9	-13.3	-6.1	-7.7	7.6	4.0	8.1
Net domestic assets	6.9	6.6	11.6	24.8	5.2	19.2	6.0	9.1	1.4
Of which: credit to the central government	-5.6	-3.5	2.7	8.7	5.1	2.2	2.7	1.7	0.8
Broad money	8.6	10.8	12.5	11.6	-1.0	11.5	13.7	13.1	9.5
Velocity (ratio of GDP to broad money)	3.1	3.2	3.2	3.3	3.4	3.4	3.3	3.2	3.2
Memorandum items:									
Nominal GDP (in billions of J$)	714	815	923	1,037	1,071	1,194	1,317	1,445	1,582

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

1/ Based partly on assumptions provided by the authorities. Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.

2/ Assumes liability management operations on January 1st 2010 involving the par-for-par exchange of bonds, and targeting a 12.5 percent yield return on domestically-issued bonds and extension of maturities.

3/ Adjusts for one-off revenues in FY 2009/10.

4/ Includes debt issued to BOJ to cover its cash losses and, until 2007/08, debt related to off-budget projects financed initially by the private sector.

5/ Assumes that any expansion of the PetroJam refinery, costing about 10 percent of GDP in cumulative terms, does not involve government financing, neither direct nor guaranteed.

6/ Includes 20 selected public entities under rationalization or divestment plans and other public entities.

7/ Central government direct and guaranteed only, including PetroCaribe debt and proposed IMF disbursements.

Table 2. Jamaica: Summary of Central Government Operations
(in billions of Jamaican dollars)

	2005/06	2006/07	2007/08	2008/09	Proj. 2009/10	2010/11	2011/12	2012/13	2013/14
Budgetary revenue and grants	186.7	211.3	252.0	276.2	302.8	330.5	366.4	402.8	441.3
Tax	165.7	192.5	224.5	250.7	266.6	303.0	336.0	369.5	404.8
Non-tax	20.3	17.3	23.0	18.0	24.2	20.6	22.7	24.9	27.3
Grants	0.7	1.5	4.5	7.6	11.9	7.0	7.7	8.4	9.2
Budgetary expenditure	210.4	250.8	286.8	352.2	409.5	408.2	422.6	440.2	451.9
Primary expenditure	116.0	153.9	180.0	226.2	235.9	247.3	265.6	282.3	297.9
Wage and salaries	63.1	78.7	86.2	111.5	126.4	130.5	137.1	145.0	149.3
Other expenditure	40.8	48.0	64.9	73.3	74.3	76.9	82.4	87.9	96.6
Capital expenditure 1/	12.0	27.2	28.9	41.4	35.2	39.9	46.1	49.4	52.1
Interest	94.4	96.9	106.8	126.0	173.6	160.9	156.9	158.0	153.9
Domestic	71.5	70.3	75.1	90.2	132.5	121.6	122.6	121.8	114.7
Current	65.4	65.5	69.3	89.5	132.5	121.6	122.6	121.8	114.7
BoJ special issue bonds 2/	6.1	4.8	5.7	0.7	0.0	0.0	0.0	0.0	0.0
External	22.9	26.5	31.7	35.8	41.1	39.3	34.3	36.1	39.2
Budget balance	-23.7	-39.4	-34.8	-76.0	-106.7	-77.6	-56.2	-37.4	-10.6
o.w. primary budget balance	70.7	57.4	72.0	50.0	66.9	83.3	100.8	120.6	143.4
Off-budget expenditure	4.8	5.7	2.3	-4.5	0.0	0.0	0.0	0.0	0.0
BoJ cash losses 3/	4.8	5.7	0.7	-4.5	0.0	0.0	0.0	0.0	0.0
Deferred financing 4/	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Public entities balance 5/	..	..	-31.5	-26.3	-29.6	-11.9	-8.3	1.6	2.9
of which financed with loans and deposits drawdown	..	..	-0.4	5.9	-2.4	-0.5	0.3	0.0	0.0
Net capital transfers to public entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	..	..	-68.6	-97.8	-136.3	-89.6	-64.5	-35.8	-7.7
Net increase in central government debt	70.8	68.3	37.1	71.5	106.7	77.6	56.2	37.4	10.6
Principal Repayments	140.0	164.7	99.1	105.8	105.5	145.6	174.7	333.9	345.1
External	33.1	59.6	30.3	31.5	23.7	20.0	64.1	62.2	64.1
o.w. official	16.1	17.5	15.6	18.6	18.5	16.9	23.6	31.1	30.3
Domestic	106.9	105.1	68.8	74.3	81.8	125.6	110.6	271.7	281.0
Gross Financing Needs	210.8	233.0	136.2	177.3	212.2	223.2	230.9	371.3	355.6
Gross Financing Sources 6/	210.8	233.0	143.4	183.2	209.8	222.7	231.1	371.3	355.6
External	55.2	37.4	24.0	63.7	70.3	45.4	76.0	75.7	79.5
o.w. official	3.2	16.6	9.6	34.0	60.8	35.2	23.6	31.1	30.3
Domestic	155.6	179.1	90.5	113.5	166.8	149.8	154.4	295.6	276.2
Divestment + deposit drawdown	0.0	16.6	28.9	6.0	-27.3	27.4	0.7	0.0	0.0
Memo item:									
Central government debt, J$ billion	856	950	1047	1286	1499	1672	1786	1822	1818
Central government debt excluding IMF, J$ billion	856	950	1047	1286	1463	1567	1671	1740	1780

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ Excludes the costs of divestment or liquidation of Air Jamaica.

2/ Accrued interest on previous year's BoJ Special Issue Bonds has contractually been paid to the BoJ through debt issuance the following year.

3/ Refers to operating losses of the BoJ, not covered by the BoJ Special Issue Bonds.

4/ Debt issued upon assuming public investment projects carried out by the private sector.

5/ Includes selected public entities which are financially independent from the central government.

6/ For FY 2006/07 and FY 2007/08 the composition reflects the impact of external borrowing for pre-financing.

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

				Est.	Projection				
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Budgetary revenue and grants	26.2	25.9	27.3	26.6	28.3	27.7	27.8	27.9	27.9
Tax	23.2	23.6	24.3	24.2	24.9	25.4	25.5	25.6	25.6
Non-tax	2.8	2.1	2.5	1.7	2.3	1.7	1.7	1.7	1.7
Grants	0.1	0.2	0.5	0.7	1.1	0.6	0.6	0.6	0.6
Budgetary expenditure	29.5	30.8	31.1	34.0	38.2	34.2	32.1	30.5	28.6
Primary expenditure	16.3	18.9	19.5	21.8	22.0	20.7	20.2	19.5	18.8
Wage and salaries	8.8	9.7	9.3	10.8	11.8	10.9	10.4	10.0	9.4
Other expenditure	5.7	5.9	7.0	7.1	6.9	6.4	6.3	6.1	6.1
Capital expenditure 1/	1.7	3.3	3.1	4.0	3.3	3.3	3.5	3.4	3.3
Interest	13.2	11.9	11.6	12.2	16.2	13.5	11.9	10.9	9.7
Domestic	10.0	8.6	8.1	8.7	12.4	10.2	9.3	8.4	7.3
Current	9.2	8.0	7.5	8.6	12.4	10.2	9.3	8.4	7.3
BoJ special issue bonds 2/	0.9	0.6	0.6	0.1	0.0	0.0	0.0	0.0	0.0
External	3.2	3.3	3.4	3.5	3.8	3.3	2.6	2.5	2.5
Budget balance	-3.3	-4.8	-3.8	-7.3	-10.0	-6.5	-4.3	-2.6	-0.7
o.w. primary budget balance	9.9	7.0	7.8	4.8	6.2	7.0	7.7	8.3	9.1
o.w. underlying primary balance 3/	..	..	..	..	5.2	7.0	7.7	8.3	9.1
Off-budget expenditure	1.0	1.5	1.1	-0.4	0.0	0.0	0.0	0.0	0.0
BoJ cash losses 4/	1.0	1.5	0.9	-0.4	0.0	0.0	0.0	0.0	0.0
Deferred financing 5/	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Public entities balance 6/	..	..	-3.4	-2.5	-2.8	-1.0	-0.6	0.1	0.2
of which financed with loans and deposits	..	..	-3.4	-3.1	-2.5	-1.0	-0.6	0.1	0.2
Net capital transfers to public entities	..	..	0.0	0.6	-0.2	0.0	0.0	0.0	0.0
Public sector balance	..	..	-8.2	-9.4	-12.7	-7.5	-4.9	-2.5	-0.5
Net increase in central government debt	9.9	8.4	4.8	7.5	9.7	6.5	4.3	2.6	0.7
Principal Repayments	19.6	20.2	10.7	10.2	9.9	12.2	13.3	23.1	21.8
External	4.6	7.3	3.3	3.0	2.2	1.7	4.9	4.3	4.1
o.w. official	2.2	2.1	1.7	1.8	1.7	1.4	1.8	2.2	1.9
Domestic	15.0	12.9	7.5	7.2	7.6	10.5	8.4	18.8	17.8
Gross Financing Needs	29.5	28.6	15.5	17.7	19.6	18.7	17.5	25.7	22.5
Gross Financing Sources 6/	29.5	28.6	15.5	17.7	19.6	18.7	17.5	25.7	22.5
External	7.7	4.6	2.6	6.1	6.6	3.8	5.8	5.2	5.0
o.w. official	0.4	2.0	1.0	3.3	5.7	2.9	1.8	2.2	1.9
Domestic	21.8	22.0	9.8	11.0	15.6	12.5	11.7	20.5	17.5
Divestment + deposit drawdown	0.0	2.0	3.1	0.6	-2.5	2.3	0.1	0.0	0.0
Memo item:									
Central government debt	119.9	116.5	113.5	124.0	140.0	140.0	135.6	126.1	114.9
Central government debt excluding IMF	119.9	116.5	113.5	124.0	136.6	131.2	126.8	120.4	112.5

Sources: Jamaican authorities and Fund staff estimates and projections.
1/ Excludes the costs of divestment or liquidation of Air Jamaica.
2/ Accrued interest on previous year's BoJ Special Issue Bonds has contractually been paid to the BoJ through debt issuance the following year. Starting in 2008/09 there is no further issuance of special issue bonds, and the central government pays all amounts due as debt when it settles the Bank of Jamaica total losses concurrently for the fiscal year.
3/ Excludes one-off grants and nontax revenues in 2009/10.
4/ Refers to operating losses of the BoJ, not covered by the BoJ Special Issue Bonds.
5/ Debt issued upon assuming public investment projects carried out by the private sector.
6/ Includes selected public entities which are financially independent from the central government.
7/ For FY 2006/07 and FY 2007/08 the composition reflects the impact of external borrowing for pre-financing.

Table 4. Jamaica: Summary Balance of Payments

(In millions of U.S. dollars)

					Proj.				
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Current account	-1,186	-1,199	-2,436	-2,439	-1,129	-1,142	-905	-846	-760
Trade balance	-2,716	-3,008	-4,250	-4,481	-3,259	-3,525	-3,691	-3,753	-3,828
Exports (f.o.b.)	1,809	2,202	2,419	2,311	1,427	1,565	1,726	1,863	1,994
Imports (f.o.b.)	4,524	5,210	6,670	6,792	4,686	5,090	5,417	5,616	5,821
Fuel (cif)	1,558	1,730	2,835	2,805	1,687	1,994	2,107	2,217	2,332
Exceptional imports (including FDI-related)	310	631	735	613	429	338	481	463	468
Other	2,656	2,849	3,100	3,373	2,571	2,758	2,829	2,936	3,022
Services (net)	643	614	455	471	681	811	809	864	916
Transportation	-290	-451	-564	-594	-386	-359	-396	-411	-426
Travel	1,372	1,639	1,678	1,686	1,712	1,802	1,888	1,977	2,072
of which : Tourism receipts	1,619	1,920	1,980	1,938	1,956	2,052	2,145	2,243	2,346
Other services	-439	-573	-660	-622	-645	-633	-683	-703	-730
Income (net)	-702	-615	-712	-536	-517	-480	-343	-374	-420
Current transfers (net)	1,589	1,810	2,071	2,107	1,966	2,053	2,319	2,417	2,571
Government (net)	130	141	134	106	105	88	88	88	88
Private (net)	1,459	1,669	1,937	2,000	1,861	1,965	2,232	2,330	2,484
Capital and financial account	1,634	1,439	1,928	1,997	867	842	1,152	957	1,028
Capital account (net)	-3	-7	-5	28	-15	-11	-11	-11	-10
Financial account (net) 1/	1,638	1,446	1,933	1,969	882	853	1,163	967	1,038
Direct investment (net)	608	802	1,444	629	391	308	685	444	452
of which: One-off sales of shares	0	0	0	300	0	0	0	0	0
Central government (net)	334	-413	-194	125	418	166	0	0	0
Other official (net) 2/	227	470	275	284	740	182	188	153	158
of which: PetroCaribe	12	231	230	325	245	168	160	153	158
Government prefinancing deposits	-250	-100	350	0	0	0	0	0	0
Portfolio investment (net)	196	-119	768	620	-323	197	289	371	428
Other private flows (net) 3/	523	805	-710	312	-344	0	0	0	0
Overall balance	449	241	-508	-442	-263	-300	247	111	269
Financing	-449	-241	508	442	263	300	-247	-111	-269
Change in GIR (- increase)	-449	-241	508	442	-387	-100	-484	-42	61
Prospective IMF credits	0	0	0	0	650	400	237	-69	-330
Memorandum items:									
Gross international reserves	2,373	2,614	2,106	1,664	2,051	2,151	2,635	2,677	2,616
(in weeks of perspective imports of GNFS)	16.9	15.1	12.1	12.8	14.8	14.6	17.2	16.9	16.1
Net international reserves	2,078	2,329	2,083	1,629	1,378	1,078	1,325	1,436	1,705
Current account (in percent of GDP)	-10.5	-9.7	-18.4	-18.0	-9.4	-8.8	-6.6	-5.9	-5.0
Exports of goods (in percent change)	15.4	21.7	9.9	-4.5	-38.2	9.6	10.3	7.9	7.0
Imports of goods (in percent change)	22.6	15.2	28.0	1.8	-31.0	8.6	6.4	3.7	3.7
Oil prices (composite, fiscal year basis)	57.1	63.3	77.6	88.2	65.3	77.3	79.9	81.5	83.4
Tourism receipts (in percent change)	11.1	18.6	3.1	-2.2	1.0	4.9	4.5	4.6	4.6
GDP (in millions of U.S. dollars)	11,301	12,305	13,245	13,586	12,055	13,051	13,708	14,391	15,159

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 counterpart to the inflow for the government's pre-financing in 2005/06, the new general SDR allocation in 2009/10.

3/ Capital flight accompanying the liability management operation is expected to take place in 2009/10 Q4.

Table 5. Jamaica: Summary Accounts of the Bank of Jamaica 1/

					Proj.		
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
End-of-period stocks 1/							
Net international reserves	**136**	**158**	**150**	**145**	**123**	**101**	**130**
Net domestic assets	**-92**	**-106**	**-91**	**-74**	**-49**	**-23**	**-49**
Net claims on public sector	97	97	95	125	137	137	137
Net claims on central government 2/	55	45	53	75	80	80	80
Net claims on rest of public sector	28	35	28	46	57	57	57
Operating losses of the BOJ	14	17	14	4	0	0	0
Net credit to commercial banks	-11	-11	-13	-16	-23	-19	-17
Of which : foreign prudential reserve	-9	-11	-13	-18	-18	-17	-15
Net credit to other financial institutions	-1	-1	-1	-1	-1	-2	-2
Open market operations	-157	-166	-138	-119	-68	-39	-59
Other items net (incl. valuation adj.)	-20	-25	-34	-62	-93	-101	-108
Valuation adjustment	-14	-19	-27	-54	-56	-64	-71
Base money	**44**	**52**	**59**	**71**	**74**	**78**	**81**
Currency in circulation	26	31	33	37	40	43	47
Liabilities to commercial banks	17	21	26	34	34	34	34
Fiscal year flows 1/							
Net international reserves	**17.9**	**22.2**	**-7.9**	**-4.9**	**-22.0**	**-21.7**	**29.1**
Net domestic assets	**-15.9**	**-14.0**	**14.9**	**17.3**	**24.9**	**25.4**	**-25.6**
Net claims on public sector	1.7	0.2	-1.8	30.3	12.0	0.0	0.0
Net claims on central government 2/	-22.7	-9.9	7.7	21.8	5.5	0.0	0.0
Net credit to commercial banks	1.7	0.0	-2.1	-3.3	-7.0	4.0	2.2
Net credit to other financial institutions	0.0	-0.3	0.1	-0.4	0.0	-0.1	-0.1
Open market operations	-13.5	-8.3	27.5	18.8	51.1	29.3	-20.5
Other items net (incl. valuation adj.)	-5.9	-5.6	-8.7	-28.1	-31.3	-7.7	-7.1
Base money	**2.0**	**8.2**	**7.0**	**12.4**	**2.8**	**3.8**	**3.6**
Currency in circulation	2.7	5.0	2.1	3.6	3.0	3.6	3.5
Liabilities to commercial banks	-0.7	3.3	5.0	8.7	-0.2	0.2	0.1
Net international reserves	**42.9**	**51.0**	**-15.2**	**-8.4**	**-30.9**	**-29.3**	**37.4**
Net domestic assets	**-38.2**	**-32.1**	**28.8**	**29.4**	**34.9**	**34.4**	**-32.8**
Net claims on public sector	4.1	0.4	-3.5	51.4	16.9	0.0	0.0
Net credit to commercial banks	4.1	0.1	-4.1	-5.6	-9.8	5.3	2.8
Net credit to other financial institutions	0.0	-0.8	0.1	-0.7	-0.1	-0.2	-0.2
Open market operations	-32.4	-19.1	53.1	32.0	71.8	39.6	-26.3
Other items net (incl. valuation adj.)	-14.1	-12.7	-16.8	-47.8	-43.9	-10.4	-9.1
Base money	**4.7**	**18.8**	**13.5**	**21.0**	**4.0**	**5.1**	**4.6**
Currency in circulation	6.4	11.4	4.0	6.2	4.2	4.8	4.5
Liabilities to commercial banks	-1.7	7.5	9.6	14.8	-0.2	0.3	0.1
Memorandum items:							
Net international reserves (US$ millions)	2,078	2,329	2,083	1,629	1,378	1,078	1,325

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Fiscal year runs from April 1 to March 31.
2/ Includes net unclassified and BoJ operating loss from the previous fiscal year.

Table 6. Jamaica: Summary Monetary Survey 1/

					Proj.		
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
End-of-period stocks 1/							
Net foreign assets	**120**	**130**	**132**	**94**	**75**	**51**	**77**
Net domestic assets	**108**	**123**	**153**	**223**	**240**	**300**	**321**
Net claims on public sector	191	194	187	225	242	249	258
Of which: central government 2/	136	128	135	160	176	183	192
Open market operations (Net)	-116	-124	-94	-72	-49	-17	-28
Credit to private sector	106	139	172	221	230	267	304
Of which: foreign currency	36	47	60	96	100	117	134
Other 3/	-73	-85	-111	-149	-183	-198	-213
Of which: valuation adjustment	-14	-19	-27	-54	-55	-60	-65
Liabilities to private sector (M3)	**229**	**253**	**285**	**318**	**315**	**351**	**399**
Money supply (M2)	154	175	189	203	202	232	271
Foreign currency deposits	75	78	96	115	112	119	127
Fiscal year flows 1/							
Net foreign assets	**3.7**	**9.6**	**2.3**	**-37.8**	**-19.4**	**-24.2**	**26.7**
Net domestic assets	**14.5**	**15.0**	**29.3**	**70.7**	**16.4**	**60.5**	**21.2**
Net claims on public sector 2/	12.5	2.8	-6.7	37.4	17.5	7.1	9.3
Of which: central government	-11.9	-8.0	6.7	24.7	16.1	7.1	9.3
Open market operations	-5.7	-8.7	29.7	22.2	23.0	32.1	-10.7
Credit to private sector	13.1	32.6	33.0	49.0	9.8	36.4	37.7
Of which: foreign currency	3.5	10.5	13.5	35.1	4.5	16.8	17.6
Other 3/	-5.4	-11.7	-26.7	-38.0	-33.9	-15.0	-15.1
Of which: valuation adjustment	-6.6	-5.3	-8.3	-26.6	-1.2	-4.8	-4.8
Liabilities to private sector (M3)	**18.2**	**24.6**	**31.6**	**32.9**	**-3.0**	**36.3**	**47.9**
Money supply (M2)	14.2	21.8	13.8	13.6	-0.6	30.1	39.0
Foreign currency deposits	3.9	2.9	17.8	19.3	-2.5	6.2	8.9
Net foreign assets	**1.7**	**4.2**	**0.9**	**-13.3**	**-6.1**	**-7.7**	**7.6**
Net domestic assets	**6.9**	**6.6**	**11.6**	**24.8**	**5.2**	**19.2**	**6.0**
Net claims on public sector 2/	5.9	1.2	-2.6	13.1	5.5	2.2	2.7
Of which: central government	-5.6	-3.5	2.7	8.7	5.1	2.2	2.7
Open market operations	-2.7	-3.8	11.7	7.8	7.2	10.2	-3.1
Credit to private sector	6.2	14.3	13.0	17.2	3.1	11.6	10.8
Of which: foreign currency	1.7	4.6	5.3	12.3	1.4	5.3	5.0
Other 3/	-2.6	-5.1	-10.5	-13.3	-10.7	-4.8	-4.3
Of which: valuation adjustment	-3.1	-2.3	-3.3	-9.3	-0.4	-1.5	-1.4
Liabilities to private sector (M3)	**8.6**	**10.8**	**12.5**	**11.6**	**-1.0**	**11.5**	**13.7**
Memorandum items:							
Monetary base (J$ Millions)	43.6	51.8	58.8	71.2	74.0	77.8	81.4
M3/monetary base	5.2	4.9	4.8	4.5	4.3	4.5	4.9
Net foreign assets (US$ Millions)	1841	1921	1865	1072	840	540	787
M3 velocity	3.1	3.2	3.2	3.3	3.4	3.4	3.3

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

1/ Fiscal year runs from April 1 to March 31.
2/ Includes Bank of Jamaica operating balance.
3/ Includes net credit to nonbank financial institutions, capital accounts, valuation adjustment, securities sold under repurchase agreements and net unclassified assets.

INTERNATIONAL MONETARY FUND

JAMAICA

Staff Report for the 2009 Article IV Consultation and Request for Stand-By Arrangement—Informational Annex

Prepared by the Western Hemisphere Department

January 29, 2010

Contents Page

Appendices

Appendix I. Jamaica—Fund Relations
(As of December 31, 2009)

I. Membership Status: Joined: February 21, 1963; Article VIII

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	273.50	100.00
Fund holdings of currency	273.55	100.02
Reserve position	0.00	0.00
Holdings exchange rate		

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	261.64	100.00
Holdings	221.01	84.47

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date -	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	Dec. 11, 1992	Mar. 16, 1996	109.13	77.75
Stand-By	Jun. 28, 1991	Sep. 30, 1992	43.65	43.65
Stand-By	Mar. 23, 1990	May 31, 1991	82.00	82.00

VI. Projected Payments to Fund[1]:

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	2009	2010	2011	2012
Principal					
Charges/Interest	0.11	0.11	0.11	0.11	0.11
Total	**0.11**	**0.11**	**0.11**	**0.11**	**0.11**

VII. Implementation of HIPC Initiative: Not Applicable

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Exchange Rate Arrangements:

The external value of the Jamaican dollar has been determined in an interbank market operated by commercial banks beginning September 17, 1990. The Jamaican dollar has depreciated significantly since that time. At January 26, 2010 it was trading at around J$89½ to the U.S. dollar.

X. Last Article IV Consultation and Program Relations:

Jamaica is under intensified surveillance whereby staff monitors the implementation of the economic strategy formulated by the authorities without reaching prior understandings with the Fund. The last Article IV consultation was completed by the Executive Board on April 21, 2008 (Country Report No. 08/199). Interim staff reports are prepared for information of the Executive Board in-between Article IV consultations (Country Report No. 06/324, Country Report No. 05/61, and Country Report No. 05/219).

XI. Technical Assistance:

Department	**Dates**	**Purpose**
FAD	December 2009	Tax Policy
LEG/MCM	February 2008	Financial Sector Regulatory and Supervisory Frameworks
FAD	September 2006	Tax and Customs Administration
MAE	May 1995	Review of deposit insurance scheme
	October–December 1995	Banking supervision
	February–June 1996	Banking supervision
	September 1996	Banking crisis and restructuring
	October 1996	Banking supervision
	February 1997	Central bank accounting
	May 1997	Banking supervision
	August 1997	Banking supervision
	January 1998	Banking supervision
	April 1998	Public debt management
	May 1998	Financial sector restructuring
	April 2001	Banking supervision
	January 2002	Banking supervision
STA	September 1996	Multisector statistics assessment
	July 2002	Organization of Statistics Office

XII. Resident Representative:

The post of the resident representative was closed on August 1997.

Appendix II. Jamaica—Relations with the World Bank

(As of January 21, 2010)

A new Jamaica-World Bank Group Country Partnership Strategy (CPS) is being prepared for Board presentation on, or about, February 23, 2010, following extensive consultations with key stakeholders. This CPS, which will guide support from the Bank Group during 2010-2013, supersedes the Country Assistance Program that ended in June 2009. The new strategy is fully aligned with the government's outcome-oriented medium-term framework and broadens potential Bank support compared with the last four-year country strategy. The last strategy focused mostly on human development, including support for the Program of Advancement through Health and Education (PATH) and projects in inner-city communities. The Bank considers it important to continue this focus, in addition to the work it has started on fiscal and debt sustainability issues in 2009, and to address more directly the growth agenda through approaches to improve competitiveness and skills development. The IFC will work with the private sector and collaborate with the Bank on the regulatory and private-public partnership issues to strengthen Bank Group synergies in Jamaica.

A. Projects

The **Second Jamaica HIV/AIDS Project** was approved in May 2008 for US$10 million. The project development objective is to assist in the implementation of the Government's National HIV/AIDS Program by: a) supporting the deepening of prevention interventions targeted at high risk groups and the general population; b) increasing of access to treatment, care and support services for infected and affected individuals; c) strengthening the program management and analysis to identify priorities for building the capacity of the health sector to respond to the HIV/AIDS epidemic and other priority health problems. Specifically, the principal project is designed to: (i) support the scaling up of HIV/AIDS prevention interventions so as to halt and reverse the spread of HIV/AIDS; (ii) provide financing to strengthen the diagnostic capacity, enhance services (HIV/AIDS, sexually transmitted infections, tuberculosis and prevention of mother-to-child transmission of HIV) and support for those infected and affected by HIV/AIDS; (iii) strengthen institutional capacity in supporting policy formulation for an enabling legal and regulatory environment, program management and monitoring and evaluation; and (iv) support health sector development through the strengthening of biomedical waste management and capacity assessment.

The **Jamaica Social Protection Project** (SPP) was approved in May 2008 for US$40 million. The Jamaica Social Protection Project will: (i) further improve the effectiveness of the Program of Advancement through Health and Education (PATH) in order to foster investment by poor families in human capital accumulation; (ii) develop a structured system for assisting working-age members of PATH eligible households seek and retain employment; (iii) enable the formulation of a reform program for the public sector pension schemes; and (iv) develop a holistic social protection strategy. The first component, improving effectiveness of the PATH, will support the PATH through: (a) co-financing for conditional cash transfers to children 0 to 19 years-old (child grants); and (b) technical improvements to the program. The second component, building capacity for the Steps-to-Work (StW) program, will support capacity building within the Ministry of Labor and Social Security (MLSS) to implement a new initiative. The StW program will target working age members of PATH eligible households for referral to the relevant support services to enable them to seek and retain employment. The third component, improving the public sector pension system administration and building capacity for reform, will support two core sets of activities focused on the schemes for public sector workers: (i) preparation of a reform program; and (ii) improving administration and information systems. The final component is the development of a holistic social protection strategy. This component will support the Government in developing a holistic social protection strategy to inform decision-making on the appropriate policies and programs to address social risks and vulnerabilities within the population.

The **Jamaica Hurricane Dean Recovery Project** was approved in December 2008 for US$10 million. The objective of the project is to provide funding to support the restoration of levels of service in selected community infrastructure. Specifically, basic, primary and all-age schools, health clinics and critical feeder roads, at a minimum to pre-hurricane levels, and to increase the Government's ability to respond to natural hazards. The proposed loan incorporates three project components: 1) repair and reconstruction of basic infrastructure; 2) capacity building for hazard risk reduction; and 3) project management. Component one has four subcomponents: basic school finance restoration of early childhood schools infrastructure; restoration of primary and all-age schools infrastructure; finance restoration of community clinics including type I, II and III facilities; and finance restoration of feeder roads. Component two has two subcomponents which include financing support for training on disaster preparedness and mitigation for local government and relevant stakeholders and to finance studies and activities to strengthen the capacity to better respond to natural hazards taking into account lessons learned from past events.

The **Jamaica Rural Education Transformation Development Initiative (REDI)** was approved in September 2009 for US$15 million. The objective of REDI is to improve market access for rural micro and small-scale producers of agriculture and tourism products, as well as, other service providers. There are three components to the project. The first component, which is support for rural subprojects in agriculture and tourism, will see the Bank financing two types of subprojects: type A will support revenue generating activities in agriculture and tourism, and type B will support provision of critical infrastructure, marketing, and management in the agriculture and tourism sectors. The second component of the project gives support through national technical assistance and capacity building. The main goal of this component is to strengthen relevant national organizations to enhance their capacity to continue assisting the rural enterprises and other project partners and ensure the sustainability of the rural enterprises. Hence, the component will finance technical assistance and capacity building for key organizations and agencies that deliver support services in agriculture and rural tourism at the local level. The third component of the project is project management. This component will finance project management, technical expertise (tourism and agricultural specialists, monitoring and evaluation) staff training, the annual audit, vehicles, office equipment, and other operating costs. This component will also ensure that effective fiduciary arrangements are in place during implementation.

The Jamaica **Early Childhood Development Project** was approved in May 2008 for US$15 million. The objectives are to: (i) improve the monitoring of children's development, the screening of household-level risks affecting such development, and early intervention systems of the borrower to promote such development (ii) enhance the quality of early childhood schools and care facilities; and (iii) strengthen early childhood organizations and institutions. There are two components to the project. The first component is co-financing the implementation of the National Strategic Plan under Sector-Wide Approach modalities. This component area foresees the strengthening of the Early Childhood Commissions (ECC's) parenting Sub-Committee, the development and implementation of a national Early Childhood Development parenting education and support sub-strategy, and a public awareness campaign. It includes the creation of an accreditation system for early childhood parenting education and support programs and a grant facility to support service providers in meeting accreditation standards. This component area also includes the development of a national policy for screening, referral and early intervention. The development of a screening system for household-level risks and its application to all households enrolled in the Government of Jamaica's income support program is also provide for under this component. The second component will finance selected consultant services critical to achieve the project development objective. This component will support the development of a national policy on screening, referral and early intervention, including the design of a screening system for risks at the household level, and the development of a public education strategy about risks for children. It will finance development of sub-strategies for parenting of children aged of 0-3 and 4-6 years, including the mapping of existing parenting education and support programs, the development of an accreditation system for parenting programs, and awareness and advocacy strategies for parenting support programs. It will finance the development of service delivery models for nutritional programs, targeted at different age groups and a strategy for the reorganization and strengthening of well-child clinics.

The **Jamaica Education Transformation Capacity Building** project was approved in November 2009 for US$15 million. The objective of the Education Transformation Capacity Building Project for Jamaica is to build the capacity of the emerging key agencies (National Education Inspectorate (NEI), Jamaica Teaching Council (JTC), Regional Education Authorities (REA), and National Education Trust (NET) that are being established to support the national Education System Transformation Program (ESTP). There are three components to the project. The first component is the enhanced performance and accountability. Enhanced performance and accountability will contribute to the implementation of the Government of Jamaica ESTP by making operational the following key agencies to form a coherent system to monitor progress and improve accountability and quality: NEI, JTC, and REA. The second component is the mechanisms to mobilize resources to the NET. The NET will be the vehicle through which the Ministry of Education (MoE) will secure a consistent and reliable source of funds to support capital programs in education with a particular focus on, but not limited to, infrastructure. Mechanisms will be established to attract funding from the Diaspora, the private sector, and other sources. Finally, the third component is the communications, project management, and monitoring and evaluation. This component will support the implementation of a strategic communications strategy; provision of staffing, training, purchase of necessary equipment and materials, and operating costs for the MoE change management unit, responsible for overseeing implementation of the ESTP; and support to carry out evaluations of the ESTP, and annual external audits of project financing.

The **Jamaica Inner City Basic Services for the Poor Project** was approved in March 2006 for US$29.3 million. The project development objective is to improve quality of life in 12 Jamaican inner-city areas and poor urban informal settlements through improved access to basic urban infrastructure, financial services, land tenure regularization, enhanced community capacity and improvements in public safety. Specifically, the project will: (a) increase access and improve the quality of water, sanitation, solid waste collection systems, electricity, roads, drainage and related community infrastructure for over 60,000 residents of poor urban informal settlements through capital investments and innovative arrangements for operations and maintenance; (b) facilitate access to microfinance for enterprise development and incremental home improvement for entrepreneurs and residents in project areas; (c) increase security of tenure for eligible households in project areas; and (d) enhance public safety through mediation services, community capacity building, skills training and related social services. In addition, the Bank has number of technical assistance initiatives focused on statistics, crime and violence and disaster risk reduction and management.

B. Economic and Sector Work

The Bank is in the process of preparing the second Development Policy Loan operation to assist the Government of Jamaica in improving fiscal and debt sustainability during FY10-13. The proposed operation is rooted in the CPS of Jamaica and the World Bank Group and will support policy actions in the following areas: (i) promoting fiscal sustainability through and the establishment of a Fiscal Responsibility Framework, rationalization and modernization of Public Bodies, and developing a strategic framework for improved debt management; (ii) increasing the efficiency of public financial management and budgeting processes; and (iii) reducing distortions and enhancing the efficiency and fairness of the tax system. The program's analytical underpinnings includes a Country Economic Memorandum (CEM), a Public Expenditure Review (PER), and a Poverty Assessment, as well as, work by the Government, local think-tanks, and universities.

The Bank is also preparing a new Country Economic Memorandum (CEM) focused on growth obstacles in Jamaica. The objective of the study is to identify the most critical factors behind the low growth history of Jamaica and develop policy recommendations for unlocking the potential for high growth.

C. Financial Relations[1]

(In millions of U.S. dollars)

Project	Original Amount	Available	Disbursed Outstanding
Rural Economic Development Initiative	15.0	0.0	15.0
Jamaica Early Childhood Development Project	15.0	3.3	11.7
Jamaica Hurricane Dean ERL	10.0	5.5	4.5
JM- Education Transformation Capacity Building	16.0	0.0	16.0
JM – Inner City Basic Services for the Poor Project	29.3	9.3	20.0
Second HIV/AIDS Prevention and Control Project (Second Phase)	10.0	1.8	8.2
Social Protection Project	40.0	7.3	32.7
Total	**135.3**	**27.2**	**108.1**

1/ Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.

Disbursements and Debt Service (Fiscal Year Ending June 30)

	Actual										Projections
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total disbursements	65.1	97.6	82.4	85.0	11.3	8.5	21.7	17.3	16.0	118.7	207.9
Repayments	70.1	56.9	45.7	44.9	47.4	43.4	39.7	45.8	47.9	48.4	23.5
Net disbursements	-5.0	40.7	36.7	40.1	-36.1	-34.9	-17.9	-28.5	-31.9	70.3	184.4
Interest and fees	22.8	21.6	20.3	21.9	18.9	17.5	20.5	22.4	21.6	16.6	7.1

Appendix III. Jamaica—Relations with the Inter-American Development Bank

Jamaica joined the Inter-American Development Bank (IDB) in 1969. Since then, the IDB has approved 109 loans (94 projects) to Jamaica amounting to US$2.4 billion and 211 technical cooperation operations totaling US$67.5 million. IDB financial assistance has supported a wide range of infrastructural, environmental and social sector projects with a view to enhancing Jamaica's human resource and absorptive capacity and strengthening the foundation for private sector-led growth. In addition, the IDB has supported reforms aimed at strengthening the institutional and regulatory environment.

The IDB is the leading lender to Jamaica among multilateral development partners. As of December 2009, Jamaica's outstanding debt to the IDB stood at US$ 734.6 million, of which US$581.8 million were public sector loans and US$1.4 million were loans to the private sector. The total represents 11 percent of public external debt and 52 percent of multilateral debt.

Table 1. IDB Outstanding Debt

Type	Amount (US$ mn.)
Public Sector	581.8
Private Sector	1.4
Total Debt Outstanding	734.6

Starting in 2004 there was a drastic reduction in the fiscal space needed to disburse existing Bank loans. As a result over US$50m of the portfolio had to be cancelled and no new loans were approved from 2004 to 2008. The new administration that took office in 2007 intensified Jamaica's reform program and emphasized a policy of expanding IFI financing for its development program. In response, the IDB updated the 2006-2009 country strategy renewing the lending program based on three basic principles:

- Aim for positive net flows in Jamaica's favor in order to provide countercyclical support during the economic downturn, depending on the degree of reform;
- No new debt, so that our policy-based lending would not add to Jamaica's debt load but rather help improve its debt profile;
- Cash flow savings arising from better loan terms should go toward faster debt reduction, growth-boosting investments or poverty alleviation.

This ushered in a new generation of Bank lending to Jamaica. The IDB approved eight new loans for a total of US$ 405 million for Jamaica in 2008, including a US$200m loan to increase private bank lending to the real sector; a US$60 million policy based loan for improving public financial management; US$50 million for road rehabilitation; US$30 million for education reform; a US$30 million policy based loan for competitiveness; US$14 million for primary schools; US$11 million for youth at risk; and US$10 million for rebuilding infrastructure damaged by floods.

This upward trend continued in January 2009 when the Bank approved two more loan operations: a US$300 million liquidity program to protect the real sector from lost credit lines; and a US$15m social safety net program. In September 2009, a US$70m loan was approved to expand the highway network. Two more loans were expected to be approved before the end of 2009: US$21 million for a citizen security and justice program and US$10 million for road improvement.

The IDB is currently preparing the Country Strategy with Jamaica for 2010-2012. Since the policy-based loans described above are programmatic in nature, it is expected that the Bank will provide new loans to support subsequent phases of the reforms they target. This lending modality is expected to dominate the Bank's program with Jamaica in the new strategy period.

As of December 2009, the Bank's portfolio consisted of 13 investment loans[2] valued at US$512 million, and 41 non-reimbursable technical cooperations valued at US$19.8 million. Thirty-four percent of the IDB project funds and fifty-two percent of the TC funds have been disbursed, leaving US$ 346.1 million available for disbursement.

Table 2. Major Ongoing Projects

Project Category	Number	Amount (US$ mn.)	Percent Disbursed
Projects in execution	12	512	57
Private sector loans	1	5.0	0
IIC loans	8	40.8 1/	22
TCs in execution	41	19.8	52

1/ Approved amount.

Three policy-based loans and one hybrid PBL/Investment loan totaling US$200 million are slated for approval in the first half of 2010. These represent the continuation of the support for specific reforms that started in 2008. The policy areas include: education, human capital protection, competitiveness, and public financial management. In addition to the specific reforms in each operation the PBL program is also conditional upon Jamaica maintaining a stable economic environment conducive to the continuation of the reform process. Jamaica also has the option of requesting support from the Bank's Emergency Program. It is important to note that the scope of the IDB's support for Jamaica's reform agenda and its efforts to ensure macroeconomic stability are fully coordinated with other multilateral development banks.

[2] Including private sector loan but excluding IIC

Table 3. Number of Projects by implementation Progress Category

	2005	2006	2007	2008	2009 *(June)*
Highly Satisfactory	0	0	0	0	1
Satisfactory	7	7	8	11	10
Unsatisfactory	4	3	0	1	2
Very unsatisfactory	2	0	1	0	0
TOTAL	13	10	9	12	13

Disbursements reached a low point of US$12.5 million in 2005, but have rebounded ever since. They doubled to US$25 million in 2006, and reached US$34 million in 2007. Due in large part policy-based lending in 2008 and the approval of the liquidity program in 2009, total disbursements rose dramatically to US$144.2 million, and US$151.5 million in those years respectively.

Table 4. Net Flow of IDB Convertible Currencies
(US$ million)

	2005	2006	2007	2008	2009
a. Loan disbursements *(including PBLs)*	12.8	25.9	34.3	144.2	151.5
b. Repayments (principal)	51.2	64.1	83.5	73.8	74.0
c. **Net loan flow (a–b)**	**-38.4**	**-38.2**	**-49.2**	**70.4**	**77.5**
d. Interest and charges	29.8	28.0	27.1	24.0	34.0
e. **Net cash flow (c– d) 1/[1]**	**-73.6**	**-70.6**	**-78.1**	**46.4**	**43.5**

In keeping with the agenda to improve and use national systems the Government of Jamaica, with the support of multilateral institutions and bilateral donors has prepared a wide range of studies in different areas, including a joint World Bank and IDB, *Country Financial Accountability Assessment and Country Procurement Assessment Report* (CFAA/CPAR) in 2005, and a Public Expenditure and Financial Accountability Report (PEFA) in May 2007. Following the recommended actions of those reports, the IDB and the Government agreed on the main areas of the local fiduciary systems for financial control and procurement procedures that needed to be strengthened, and the IDB went on to provide resources to finance development and reform activities stemming from the CFAA/CPAR, with non-reimbursable technical cooperation funds. Furthermore, in order to ascertain progress made in recent years and to determine eligibility to audit IDB-funded projects a follow-up assessment of the Office of the Auditor General of Jamaica is due for completion in early 2010.

Since 2007, Jamaica has developed a comprehensive handbook, more concrete regulations defining its public procurement including a procedure for managing contractual disputes, enhanced accessibility of information, separation of the Office of Contractor General and the National Contracts Committee, as well as creating national standard bidding documents. Although the national procurement system conforms to established principles of procurement based on international standards, some outstanding issues remain to be resolved. With the agreement of the Government of Jamaica, the IDB would undertake an update of the latest country assessment of the national procurement system to identify (a) the improvements in the pertinent aspects of the country procurement system, and (b) the readiness to rely on Jamaica's national procurement systems for Bank-financed projects with a view to adoption of procurement country systems. Ideally, this work can be accomplished together with the World Bank. In addition, the IDB PRODEV facility and the PFPM Programmatic PBL will also support the introduction of performance-based budgets and accrual accounting. The Multi-lateral Investment Fund (MIF) will also promote better access by Small and Medium Enterprises (SMEs) to public procurement.

Table 5. Total Projected Debt Service, 2010-2014
(Millions of U.S. dollars equivalent)

	2010	2011	2012	2013	2014
Principal	71.3	60.1	200.5	200.5	58.6
Interest	31.5	33.7	30.5	21.6	14.7
Total	**102.8**	**93.8**	**231.0**	**222.1**	**73.4**

Appendix IV. Jamaica—Statistical Issues

Effective surveillance is hampered by data gaps for the financial sector outside of commercial banks, and for public entities outside of the central government. In early 2003, Jamaica started participating in the Fund's General Data Dissemination System (GDDS), which provides participants with a framework for the development of the statistical system. Jamaica should now focus its efforts on improving its data and dissemination practices by moving towards the goal of subscribing to the Special Data Dissemination Standard (SDDS) over the medium term. No data on industrial production, wholesale or producer prices, import volumes, or export and import prices have been reported for publication in the *International Financial Statistics (IFS)* in recent years.

Key websites for statistics on Jamaica:

Bank of Jamaica:	**http://www.boj.org.jm/**
Ministry of Finance and Planning:	**http://www.mof.gov.jm/**
Planning Institute of Jamaica:	**http://www.pioj.gov.jm/**
Statistical Institute of Jamaica:	**http://www.statinja.com/**

There are significant weaknesses in the national accounts and other real sector data. In regard to GDP estimates, concerns relate both to level and growth rate. Addressing these shortcomings has been hindered, *inter alia*, by insufficient legal authority granted to the Statistical Institute of Jamaica (STATIN) to collect source data, as well as by institutional weaknesses, and a lack of resources. However, efforts are being made to improve the national accounts, including through updating the base year (currently dating back to 1996) and implementing the 1993 System of National Accounts (*SNA93*). Assistance on national accounts methodology has been provided by Statistics Canada and STA. The first publication of quarterly national accounts took place in August 2002.

Prices

Jamaica (with assistance from the IMF Caribbean Regional Technical Assistance Center, CARTAC) revised its consumer price index (CPI) series in 2007. The CPI revision updated expenditure weights of the CPI that had dated from 1984. The new CPI weights are based on a household survey conducted in 2004–05.

Government finance statistics

Central government operations and debt data are updated on a monthly basis. Some expenditures, however, are not recorded during the period they actually occur, making it difficult to asses the fiscal policy stance. Also, data on public entities outside the central government, although regularly published, are not reported consistently across entities and in a way that is amenable to assessing and formulating the overall direction of fiscal policy.

There is a paucity of data on the external debt stocks and maturities falling due for the nonfinancial public sector.

Government finance statistics are available at:
Debt: http://www.mof.gov.jm/dmu/
Budget: http://www.mof.gov.jm/programmes/em/fpmu/default.shtml

However, fiscal data are not currently reported for publication in the *IFS*. In 2007, the authorities reported data for 2006, in *GFSM 2001* format, for publication in the 2007 GFS *Yearbook*.

Monetary and financial statistics

Monetary statistics published by the Bank of Jamaica (BOJ) are sectorized, classified, and valued in accordance with international standards, and are provided to the Fund in a timely manner. Currently, information on deposit money banks and monetary authorities is being reported on a regular basis. The BOJ initiated the submission of monetary and financial statistics based on standardized report forms in March 2007. Financial sector statistics outside of the banking system are weak. The absence of adequate data on security dealers is particularly problematic, as dealers' liabilities to the public are larger than those of banks. Consequently, related systemic implications are difficult to assess without timely and comprehensive statistics.

Balance of payments

The BOJ compiles and disseminates balance of payments statistics on a monthly and annual basis. Detailed annual balance of payments and international investment position (IIP) data are reported by the BOJ for publication in the *Balance of Payments Statistics Yearbook (BOPSY)* and the *IFS*. In September 2007, Jamaica reported for the first time IIP data to STA; annual IIP data since 2005 are now available in *BOPSY* and *IFS*.

JAMAICA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
AS OF MARCH 21, 2008

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	11/07	1/08	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	11/07	01/08	M	M	M
Reserve/Base Money	11/07	2/08	M	M	M
Broad Money	11/07	2/08	M	M	M
Central Bank Balance Sheet	11/07	2/08	W	W	W
Consolidated Balance Sheet of the Banking System	11/07	2/08	M	M	M
Interest Rates[2]	11/07	2/08	M	M	M
Consumer Price Index	02/08	3/08	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	02/07	03/07	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	02/07	03/07	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	02/07	03/07	M	M	M
External Current Account Balance	2006	9/07	M	M	M
Exports and Imports of Goods and Services	2006	9/07	M	M	M
GDP/GNP	Q4/06	04/07	Q	Q	Q
Gross External Debt	02/07	03/07	M	M	M

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds), and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND

JAMAICA

Staff Report for the 2009 Article IV Consultation and Request for a Stand-By Arrangement
Supplementary Information

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by Gilbert Terrier and Dominique Desruelle

February 2, 2010

This supplement reports on economic and policy developments since the Staff Report was issued on January 29, 2010. This information does not change the thrust of the Staff Appraisal.

The Debt Exchange

1. **The outcome of the debt exchange operation was somewhat better than envisaged in the Staff Report.** Preliminary data provided by the authorities indicate that the participation rate reached 92 percent as of January 27, 2010. The deadline to take part in the exchange has been extended to February 3rd, to accommodate small investors. Preliminary staff estimates point to interest savings of 3-3½ percent of GDP in FY 2010/11, independent of any assumptions regarding interest rate developments during the coming fiscal year (beginning on April 1). Compared with the staff report, interest payments are now projected to be 0.6 percent of GDP lower, both in FY 2010/11 and in FY 2011/12. In addition, maturing domestic amortizations over the next three fiscal years have been reduced, on average, by around 65 percent (this compares with 45 percent in the Staff Report).

2. **Market conditions have begun to normalize since the launch of Jamaica's domestic debt exchange operation** (Figure 1). Domestic interest rates have declined by an average of 520 basis points, as yield curves have shifted steadily downward. External bond prices on Jamaican sovereigns have also rallied, given the apparent success of the debt exchange and the overall integrity of the economic reform strategy.

3. **However, pressure in foreign exchange (FX) markets prompted the Bank of Jamaica to intervene in recent weeks.** Net intervention amounted to around US$50 million in January and reserves currently stand at US$1.6 billion (slightly less than 3 months of imports). While FX pressure in early January was largely explained by uncertainties related to the upcoming debt exchange operation, pressure in most recent days is related to a strong demand for foreign exchange by local investors for Jamaican Eurobonds. Although, as

anticipated, the domestic financial markets remain closed to the government, access is expected to be restored after the closure of the debt exchange and approval of the Fund-supported program.

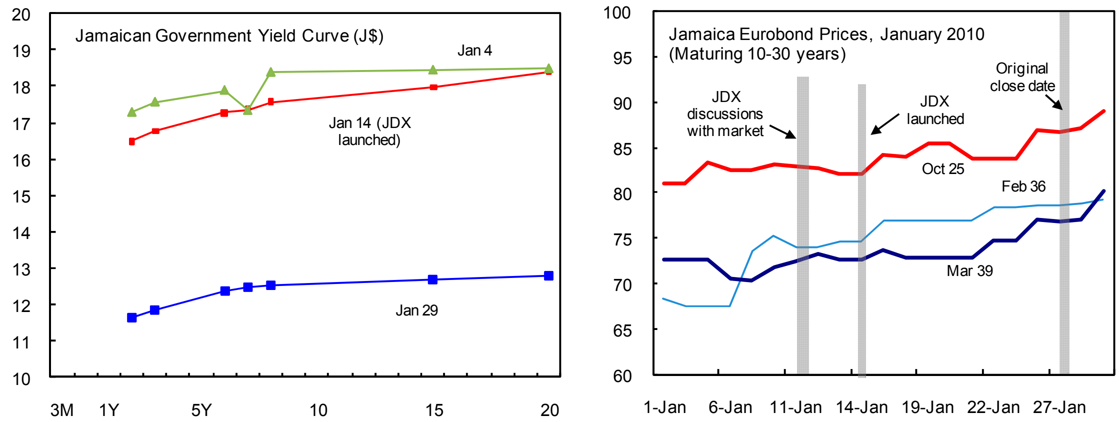
Air Jamaica

4. **The authorities have made progress toward divesting Air Jamaica.** The government asked the Air Jamaica Board to resign in December 2009 and has appointed new Board members. On January 22, 2010, the authorities signed a Letter of Intent with Caribbean Airlines, a company owned by the government of Trinidad and Tobago. Under the arrangement, Caribbean Airlines would maintain air operations in Jamaica, while Air Jamaica would cease operations by June 30, 2010. Under the terms of the agreement in principle, the parties are committed to making their best efforts to sign legally-binding agreements by March 31, 2010.

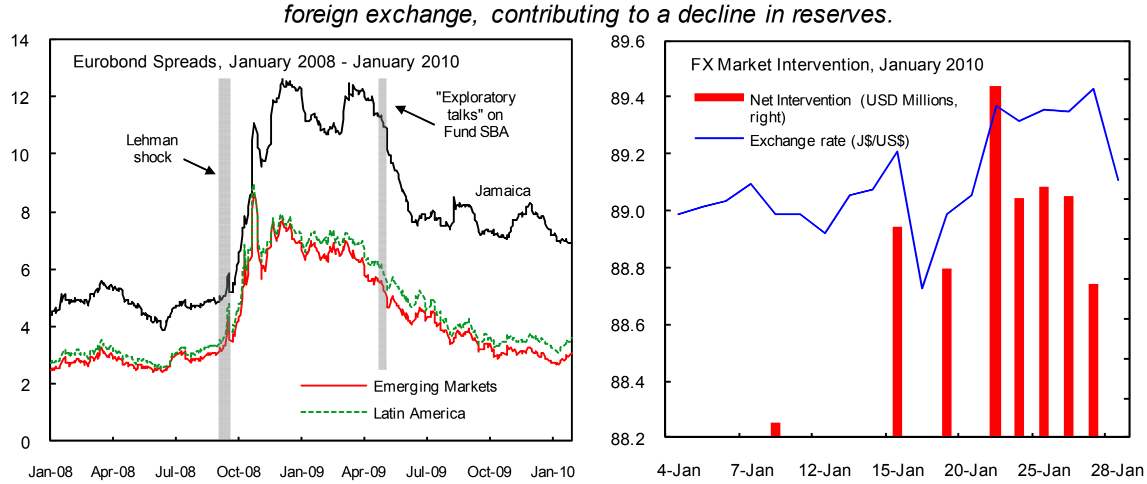
5. **The authorities' actions are consistent with the program's objectives and their commitment of having Air Jamaica off the public sector books as soon as possible.** Staff's opinion is that the prior action was not met, because the Letter of Intent with Caribbean Airlines is nonbinding. However, based on the significant overall progress made under the program, including the other two prior actions (implementation of a substantial tax package and a successful debt exchange), staff recommends proceeding with the approval of the program. In addition, staff notes that the authorities made good-faith efforts to comply with the Air Jamaica prior action and that the key timelines for the closure of Air Jamaica remain intact. Staff plans to revisit the progress on Air Jamaica divestment/liquidation at the time of the first review under the program.

Figure 1. Jamaica: Financial Sector Developments, January 2010

The successful debt exchange operation has contributed to a decline in interest rates...



...and spreads. However, the recent rally in external bond prices has increased the demand for foreign exchange, contributing to a decline in reserves.



Source: Jamaican authorities; Bloomberg LP; JP Morgan; and Fund staff calculations

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 10/115
FOR IMMEDIATE RELEASE
August 18, 2010

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2009 Article IV Consultation with Jamaica

On February 4, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Jamaica.[1]

Background

The Jamaican economy has been deeply impacted by the global crisis. Real Gross Domestic Product (GDP) is projected to fall by 3.5 percent in FY 2009/10. Mining production and remittances have fallen sharply. Tourism has also been negatively affected, although it has proven to be far more resilient than in the rest of the Caribbean. Inflation fell steadily from 26.5 percent in August 2008 to 9 percent in November 2009, reflecting weak domestic demand and a decline in global commodity prices from their mid-2008 peaks. The external current account deficit is expected to narrow from 18 percent of GDP to 9.5 percent, as the contraction in imports exceeds, by far, that of exports.

Government finances have deteriorated despite the introduction of fiscal measures equivalent to almost 2 percent of GDP. The public sector deficit is projected to widen from 9.5 percent of GDP in FY 2008/09 to 12.75 percent of GDP in FY 2009/10, owing mainly to increases in interest payments and public wage costs.

Over the past year and a half, concerns about economic prospects and the sustainability of Jamaica's public debt, which stands at 135 percent of GDP, have placed pressure on the currency. In the aftermath of the September 2008 shock, the central bank intervened in the

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm

foreign exchange market and also tightened monetary conditions, including a 680 basis point increase in the policy rate to 21.5 percent. Net international reserves fell from US$2.3 billion in September 2008 to US$1.6 billion in February 2009, while the currency depreciated by over 20 percent against the U.S. dollar. In more recent months, a drop in inflation has allowed the central bank to cut its policy rate, while some stability has returned in the foreign exchange market. At end-2009, net international reserves stood at US$1.7 billion (equivalent to three months of imports), after having been boosted by the SDR allocation (US$320 million).

Executive Board Assessment

The Executive Directors observed that Jamaica's persistently weak fiscal position and unsustainable debt burden had magnified the fallout from the global economic crisis. Lack of access to external financing and large fiscal and balance of payments gaps had constrained the authorities' room for policy maneuver. Directors underscored the urgency of fundamental reforms to break the vicious cycle of low growth and high debt dynamics. Full implementation of the ambitious economic strategy that underpins the Fund-supported program[2] is of critical importance, with its three pillars being: medium-term fiscal consolidation and reforms to entrench fiscal discipline, a debt strategy aimed at reducing interest costs, and financial sector reforms to address systemic sources of risk.

Directors supported the goal of eliminating the overall public sector deficit in four years and putting the debt on a clear downward path. They welcomed the package of revenue measures recently introduced and the planned expenditure measures to be included in the FY 2010/11 budget. Directors emphasized the need to reduce distortions by eliminating exemptions and tax incentives, and saw scope for further action in this regard. They endorsed measures to contain recurrent spending and plans to increase spending on targeted social safety net programs. While acknowledging that the proposed extension of the wage freeze is necessary in the short term, Directors called on the authorities to implement more sustainable public employment reforms, with a view to securing fiscal savings over the long term.

Directors stressed the importance of addressing longstanding institutional weaknesses through structural reforms. High priorities in this regard include swift passage of fiscal responsibility legislation and creation of a Central Treasury Management System to strengthen budget execution and accountability. Renewed efforts are also crucial to rationalize the public enterprise sector and eliminate deficits in large loss-making companies. Directors welcomed recent steps to divest Air Jamaica and encouraged the authorities to make further efforts to successfully conclude ongoing discussions with a foreign airline.

Directors commended the authorities for the successful completion of a par-to-par debt exchange operation, enabling a more equitable burden sharing of the fiscal adjustment and effectively balancing the need to secure cash flow savings without jeopardizing financial sector stability. Temporary liquidity support provided by the Financial System Support Fund would help sustain confidence in the financial system. Going forward, it will be important to press ahead with the planned initiatives to enhance the supervision of financial conglomerates, establish a legal framework to formalize the central bank's responsibility for overall financial system

[2] See Press Release 10/24: IMF Executive Board Approves US$1.27 Billion Stand-By Arrangement with Jamaica

stability, and strengthen capital adequacy standards for all deposit-taking institutions and securities dealers. In the interim, Directors supported the temporary moratorium on new licenses for securities dealers.

Directors agreed that monetary policy should remain focused on containing inflation and promoting exchange rate flexibility. They saw some scope for reducing interest rates as sovereign risk premiums decline following the debt exchange and as fiscal consolidation progresses. They encouraged the authorities to limit foreign exchange intervention to smoothing excessive volatility.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2009 Article IV Consultation with Jamaica is also available.

Jamaica: Selected Economic Indicators 1/

					Projections		
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
GDP, prices, and employment							
Real GDP	1.2	3.2	0.6	-1.6	-3.5	0.6	1.9
Nominal GDP	12.2	14.2	13.2	12.3	3.3	11.5	10.3
Consumer price index (end of period)	11.2	8.0	19.9	12.4	12.2	7.3	7.0
Consumer price index (average)	14.8	7.4	12.4	20.2	9.0	11.2	7.1
Exchange rate (end of period, in J$/US$)	65.3	67.6	70.8	88.0	…	…	…
Exchange rate (average, J$/US$)	63.2	66.3	69.7	76.3	…	…	…
End-of-period REER (percent change, appreciation +)	4.0	-0.7	4.0	-10.1	…	…	…
Treasury Bill rate, end-of-period, in percent	13.0	12.0	14.2	21.5	…	…	…
Treasury Bill rate, period average, in percent	13.0	12.3	12.5	17.0	…	…	…
Unemployment rate (in percent)	11.6	10.8	9.7	10.6	…	…	…
Government operations							
Budgetary revenue	26.2	25.9	27.3	26.6	28.3	27.7	27.8
Budgetary expenditure	29.5	30.8	31.1	34.0	38.2	34.2	32.1
Primary expenditure	16.3	18.9	19.5	21.8	22.0	20.7	20.2
Interest payments 2/	13.2	11.9	11.6	12.2	16.2	13.5	11.9
Budget balance	-3.3	-4.8	-3.8	-7.3	-10.0	-6.5	-4.3
Of which: primary fiscal balance	9.9	7.0	7.8	4.8	6.2	7.0	7.7
Of which: underlying primary fiscal balance 3/	…	…	…	…	5.2	7.0	7.7
Off-budget expenditure 4/	1.0	1.5	1.1	-0.4	0.0	0.0	0.0
Net capital transfers to public entities 5/ 6/	…	…	0.0	0.6	-0.2	0.0	0.0
Public entities balance 5/	…	…	-3.4	-2.5	-2.8	-1.0	-0.6
of which financed with loans and deposits drawdown	…	…	-3.4	-3.1	-2.5	-1.0	-0.6
Overall fiscal balance	…	…	-8.2	-9.4	-12.7	-7.5	-4.9
Public debt 2/ 7/	119.9	116.5	113.5	124.0	140.0	140.0	135.6
External sector							
Current account balance	-10.5	-9.7	-18.4	-18.0	-9.4	-8.8	-6.6
Of which: exports of goods, f.o.b.	16.0	17.9	18.3	17.0	11.8	12.0	12.6
Of which: imports of goods, f.o.b.	40.0	42.3	50.4	50.0	38.9	39.0	39.5
Net international reserves (in millions of US$)	2,078	2,329	2,083	1,629	1,378	1,078	1,325
Gross international reserves (In millions of US$)	2,373	2,614	2,106	1,664	2,051	2,151	2,635
Money and credit							
Net foreign assets	1.7	4.2	0.9	-13.3	-6.1	-7.7	7.6
Net domestic assets	6.9	6.6	11.6	24.8	5.2	19.2	6.0
Of which: credit to the central government	-5.6	-3.5	2.7	8.7	5.1	2.2	2.7
Broad money	8.6	10.8	12.5	11.6	-1.0	11.5	13.7
Velocity (ratio of GDP to broad money)	3.1	3.2	3.2	3.3	3.4	3.4	3.3
Memorandum items:							
Nominal GDP (in billions of J$)	714	815	923	1,037	1,071	1,194	1,317

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

1/ Based partly on assumptions provided by the authorities. Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.

2/ Assumes liability management operations on January 1st 2010 involving the par-for-par exchange of bonds, and targeting a 12.5 percent yield return on domestically-issued bonds and extension of maturities.

3/ Adjusts for one-off revenues in FY 2009/10.

4/ Includes debt issued to BOJ to cover its cash losses and, until 2007/08, debt related to off-budget projects financed initially by the private sector.

5/ Assumes that any expansion of the PetroJam refinery, costing about 10 percent of GDP in cumulative terms, does not involve government financing, neither direct nor guaranteed.

6/ Includes 20 selected public entities under rationalization or divestment plans and other public entities.

7/ Central government direct and guaranteed only, including PetroCaribe debt and proposed IMF disbursements.

Press Release No. 10/24
FOR IMMEDIATE RELEASE
February 4, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$1.27 Billion Stand-By Arrangement with Jamaica

The Executive Board of the International Monetary Fund (IMF) today approved a 27-month Stand-By Arrangement with Jamaica in the amount of SDR 820.5 million (about US$1.27 billion) to support the country's economic reforms and help it cope with the consequences of the global downturn. A disbursement of SDR 414.3 million (about US$ 640 million) will become available to Jamaica immediately.

The key objectives of the arrangement are to support the Jamaican authorities' ample reform program to address deep-seated structural weaknesses in the country's economy, increase its growth potential, and make it less vulnerable to external shocks.

To achieve these goals, the program focuses on a three-pronged strategy:

1) An ambitious plan that puts public finances on a sustainable path that includes much-needed public sector reform;
2) A debt strategy to lower exceptionally high interest costs and help address the problem of the debt overhang , and raise the productivity of public spending;
3) Financial sector regulatory reform to reduce systemic risks.

The Jamaican authorities are already implementing many of these actions, which are expected to improve the public sector fiscal balance by over 5 percent of GDP in FY 2010. Among them, a debt exchange aimed at generating interest savings of at least 3 percent of GDP and a 65 percent reduction in the amount of maturing debt over the next three years have been successfully carried out, with an acceptance level of almost 95 percent of bondholders. A tax package has already been enacted and is expected to produce an increase in revenues of around 2 percent of GDP. Loss-making public entities are being divested.

At the same time, the government's economic program is designed to ensure a significant increase in social spending for targeted programs. Spending will increase by at least 25 percent (equivalent to 0.3 percent of GDP) in the school feeding program and the cash transfer Program of Advancement through Health and Education (PATH). The administration will also be pursuing efforts to expand the social safety net to assist persons below the poverty line who do not qualify for PATH assistance and improve their employability.

Approval of the Stand-By Arrangement is expected to generate about US$1.1 billion in funding from other international financial institutions. Part of the first disbursement will be used to establish a Financial Stability Support Fund, which will also include funds from other multilaterals and will help support the country's financial sector.

Following the Executive board discussion, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, issued the following statement:

"Jamaica's large debt burden has magnified the fallout of the global crisis by limiting the scope for a counter-cyclical domestic policy response. Fundamental economic reforms are needed to restore fiscal sustainability, safeguard economic and financial sector stability, and enhance Jamaica's growth potential. The ambitious economic program demonstrates that the authorities are committed to meeting these challenges.

"The authorities are to be commended for the strong measures taken to maintain economic stability. These include introducing a third tax package this fiscal year and extending the public sector wage freeze for two years. The 2010/11 budget provides for increased social spending while reducing recurrent expenditures. The government has successfully completed a domestic debt exchange operation, which has contributed to a more equitable sharing of the burden of the overall fiscal adjustment. The exchange has also struck an appropriate balance in terms of delivering necessary cash flow savings while taking appropriate account of the need to ensure financial sector stability.

"In addition to these near-term measures, the Jamaican authorities have committed to a comprehensive agenda of structural reform to help address the root causes of the deep economic imbalances. The swift passage of fiscal responsibility legislation and adoption of a central Treasury management system are necessary to enhance budget control and bolster fiscal transparency and accountability. Rationalization of the public sector, including through compensation and employment reforms and the divestment of public entities, aims to secure durable fiscal savings.

"The planned legislative and regulatory reforms will help reduce systemic risks to the financial system and strengthen the overall resilience of the economy to shocks. Key measures include the adoption of an omnibus banking law, an amendment to the Bank of Jamaica Act, and reforms of deposit-taking institutions and the securities dealer sector," Mr. Kato said.

ANNEX

Recent Economic Developments

Jamaica has been strongly impacted by the global economic slowdown. Real GDP declined by 1.6 percent in Fiscal Year (FY) 2008/09 (April 1-March 31), with economic conditions deteriorating sharply in the second half of the year. During the current fiscal year, real GDP contracted further, registering a decline of 3 percent during the first half of the year.

Bauxite and alumina production and exports fell by about 60 percent, while remittances—a traditional source of balance of payments support—suffered a sharp decline. Tourism has also been negatively affected, although it has proven to be far more resilient than in the rest of the Caribbean.

In FY2009/10, the external current account deficit is expected to narrow from 18 percent of GDP to 9.5 percent, as the contraction in imports exceeds by far that of exports. Inflation fell steadily from 26.5 percent in August 2008 to 9 percent in November 2009, reflecting weak domestic demand and a decline in global commodity prices from their mid-2008 peaks.

Government finances have deteriorated, constraining the authorities' ability to respond to the global shock with countercyclical policies. The public sector deficit is projected to reach almost 13 percent of GDP in FY 2009/10. The interest bill rose by 38 percent, reflecting the effects of the depreciation and a steep rise in interest rates. The deficit of public entities remained large, at close to 3 percent of GDP. As a result of these combined shocks, concerns about economic prospects and the sustainability of Jamaica's debt have placed significant pressure on the currency over the past year and a half.

Main Program Goals

Growth: Economic growth is projected to shift from a contraction of 3.5 percent in FY2009/10 to an expansion of 0.5 percent in FY2010/11 and a further increase of 2 percent thereafter.

Inflation: While one-off tax measures are expected to result in a temporary spike in inflation to just over 12 percent by end FY2009/10, in the absence of strong demand or foreign exchange market pressures, inflation is projected to fall to an average of 11 percent in FY2010/11 and further to 6 percent over the medium term.

Balance of payments: The external current account deficit is projected to continue to narrow gradually from 9.5 percent of GDP in FY2009/10 to 5 percent over the medium term, based on the recent depreciation of the currency in real effective terms and the expected increase in national saving as a result of fiscal consolidation.

Tax Reform: The organization of the tax administration and improving tax compliance is expected to be modernized. The authorities are committed to implementing rapidly the recommendations of a 2008 Fund Technical Assistance mission, including by unifying domestic tax administration and enhancing compliance through streamlined administrative procedures

Public Sector Reforms: The organization of the public sector will be streamlined, with a view to reducing the wage bill as a share of GDP. A committee has been appointed to review the existing structure of the public sector which is characterized by many entities with unclear or overlapping functions. The committee will present recommendations on a new structure by December 2010.

Financial sector reforms: Vulnerabilities in the financial system will be addressed, particularly the high exposure of securities dealers to government risk. The Jamaican government is committed to improving financial sector companies' ability to withstand shocks, by enhancing capital adequacy and margin requirements. The Bank of Jamaica will take explicit responsibility for overall financial system stability.

Jamaica has been a member of the IMF since February 1963 and has a total quota of SDR 273.5 million. For additional information on IMF and Jamaica see: http://www.imf.org/external/country/JAM/index.htm