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JAMAICA

December 2014

SIXTH REVIEW UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JAMAICA

In the context of the Sixth Review Under the Extended Fund Facility and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- The **Staff Report** for the Sixth Review Under the Extended Fund Facility and Request for Modification of Performance Criteria, prepared by a staff team of the IMF for the Executive Board's consideration on December 19, 2014, following discussions that ended on November 14, 2014, with the officials of Jamaica on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on December 3, 2014.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Jamaica.

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

Letter of Intent sent to the IMF by the authorities of Jamaica*
Memorandum of Economic and Financial Policies by the authorities of Jamaica*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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International Monetary Fund
Washington, D.C.

JAMAICA

SIXTH REVIEW UNDER THE ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

December 3, 2014

EXECUTIVE SUMMARY

Recent data show a gradual pick-up in economic activity in the aftermath of a recent drought, with growth projected to reach 0.9 percent in 2014/15. Inflation projections fluctuate around 8 percent, as food prices are pushed up temporarily by the drought while lower fuel prices are expected to persist.

The program is on track. All September 2014 quantitative performance criteria and structural benchmarks were met. Based on this strong performance and the authorities' policy commitments, staff recommends completion of the sixth review.

Focus of the review. Discussions centered on the preparations for the 2015/16 budget, and reforms to strengthen the financial sector and boost growth. The authorities have deepened their efforts in supporting their ambitious fiscal goals by strengthening public financial management and revenue administration, and they reiterated their resolve to continue containing the wage bill. Steps have also been identified to advance the reform of the securities dealers and to increase the resilience of the financial system.

Risks to the program remain high. Without more tangible signs of improvements in growth, the social consensus for pushing ahead with reforms may prove difficult to sustain. Revenue shortfalls, disruptions in external financing (including from PetroCaribe), and inability to contain the government wage bill could undermine the fiscal position. Vulnerabilities in the financial system could become more prominent.

Approved By
Nigel Chalk (WHD) and Peter Allum (SPR)

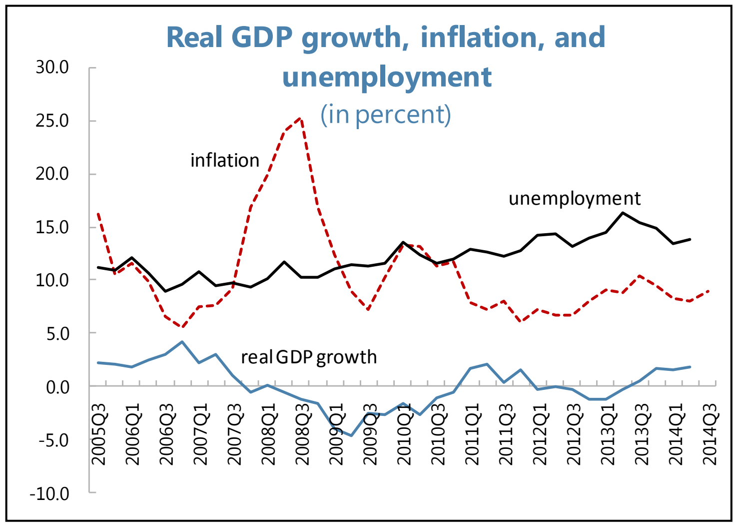
Discussions took place in Kingston during November 5–14, 2014. Staff representatives comprised J. Martijn (head), D. Simard, and N. Che (all WHD), C. Lonkeng Ngouana (FAD), P. Morra (SPR), A. Arda (MCM), and B. van Selm (Resident Representative). They were assisted at headquarters by F. Strodel, E. Kapijimpanga, and I. Sirbu, and at the Resident Representative office by K. Tyrell and K. Roach. Mr. Lessard (OED) participated in the discussions.

CONTENTS

APPENDIX

AN IMPROVED GROWTH PERFORMANCE BUT RISKS REMAIN

1. **Economic activity is slowly picking up.** The economy grew 1.8 percent (y/y) in the second quarter of 2014, somewhat higher than expected owing to improved outturns in agriculture and manufacturing (in particular, sugar production and petroleum refining) and steady performance in tourism. However, the recent drought (that ended in September) is estimated to have depressed agricultural production in the third quarter beyond earlier expectations, and, accordingly, growth in FY2014/15 is now projected at 0.9 percent rather than 1.1 percent. Confidence indicators suggest that businesses continue to have a more positive economic outlook than last year but consumer optimism has declined somewhat. With the recovery from the drought and lower fuel prices, projected growth in 2015/16 is revised up slightly to 2.1 percent. Unemployment has fallen, estimated at 13.8 percent in July, a 1.6 percentage point drop from a year before. During this period, youth unemployment in the group of 20 to 24 year olds declined by 3.3 percentage points to 31.9 percent, while female unemployment dropped by 1.5 percentage points to 18.4 percent.



2. **Inflation is moderating.** Inflation rose temporarily during July–September, peaking at 9.8 percent (y/y) in August as the drought pushed up food prices. However, it has since been falling (to 8.2 percent (y/y) in October 2014), also reflecting weak domestic demand and lower fuel prices. The latter is projected to contribute to a further drop in inflation to 7½ percent in 2015/16. Core inflation has been stable at around 6 percent.

3. **The current account deficit narrowed sharply since 2011/12.** The trend improvement in the current account has been due to fiscal consolidation and exchange rate depreciation. In addition, recent data revisions to profit remittances and a methodological improvement in interest payment data lowered the estimates of the current account deficit for FY2012/13 and FY2013/14

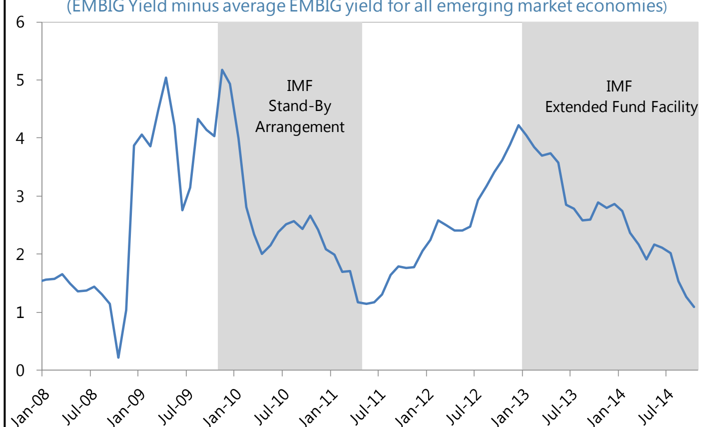
to 10.8 percent and 8.4 percent of GDP, respectively.[1] Higher imports of raw materials and consumer goods interrupted this trend in the April–June quarter, reflecting increased foreign direct investment inflows and higher food imports. However, the trend decline is expected to continue over the medium term, supported also by the fall in petroleum prices.[2] Net international reserves increased substantially by US$643 million from June to October due to the external bond issuance in July and ongoing intervention efforts by the central bank. The y/y real effective depreciation by September 2014 is estimated at 4.5 percent, corresponding to a y/y nominal effective depreciation of 8 percent. The exchange rate resumed its depreciation at end-October, after it had been stable since mid-July.

4. Fiscal performance was broadly on track. Tax revenues for the first two quarters of the fiscal year were aligned with the indicative target under the program. Wage taxes performed particularly well, reflecting base broadening (possibly owing to the new employment tax credit). The central government's primary balance floor was met with a comfortable margin due to expenditure restraint, mainly concerning capital outlays and the wage bill. The overall balance of the public sector also outperformed the program floor, notwithstanding ongoing losses of the national oil refinery (on a cash basis).

5. Financial market conditions are stable but credit growth has slowed. In August, the Bank of Jamaica (BoJ) raised the borrowing limits under its short-term liquidity facilities, in line with Fund advice. The overnight interbank rate has remained at 3 to 4 percent since July, while the 90-day T-bill rate has declined to around 7 percent in November. Banks' NPLs edged down to 4.8 percent of total loans in Q3, 2014, and the capital adequacy ratio has slightly improved. Banks' and securities dealers' exposure to government securities has declined since June, partly due to maturing bond holdings, but remains high at 26 percent and 57 percent of their assets, respectively, as of end-September. Growth of credit to the private sector has slowed to 4.8 percent (y/y) in Q3, 2014, after a pickup in the second quarter, with a continued contraction in foreign-currency credit, and a slowdown in business lending.

Jamaican Bond Spreads

(EMBIG Yield minus average EMBIG yield for all emerging market economies)



Source: Bloomberg.

6. Jamaica's sovereign bond spread on the secondary

[1] The Bank of Jamaica has begun collecting data on holdings of Jamaican government global bonds held by residents, and interest payments recorded in the income balance have been adjusted accordingly, back to FY 2012/13.

[2] Lower oil prices are estimated to reduce the current account deficit by about 1 percentage point of GDP on average over the forecast period.

international market has continued to decline, falling by 26 basis points since July's external bond issuance, reflecting lower spreads on emerging market sovereign debt and increasing market confidence in Jamaica's economic prospects. Standards and Poor's also upgraded Jamaica's outlook from stable to positive in September.

7. Risks remain elevated. Although business confidence has improved from its trough in 2013, there are no clear signs thus far of a strong revival in either investment or growth. Without more tangible improvements in jobs and growth, there is a risk that public support for the reform process may falter. The recent Chikungunya virus outbreak may be having an impact on productivity and poses additional risks to economic growth. On the other hand, lower oil prices and progress in large infrastructure projects offer upside potential for growth. Tax revenue shortfalls, disruptions in external financing (including from PetroCaribe), and insufficient progress in reducing the wage bill could undermine fiscal performance. A disorderly restart of the domestic government bond market or ineffective implementation of the retail repo reforms might threaten the stability of the financial system.

STEADY PROGRESS IN REFORM IMPLEMENTATION

8. All quantitative performance criteria for end-September 2014 and continuous quantitative program targets were met. The end-September target for net international reserves (NIR) was met with a significant margin, as the external bond issuance in July has temporarily elevated reserves.

9. All structural benchmarks for September were met, and other structural reforms continue to progress. Since the last review:

- Parliament adopted amendments to the General Consumption Tax (GCT) Act, to broaden the tax base and eliminate the zero rating of government purchases under the GCT.
- Parliament also adopted amendments to the legislation on revenue collection to strengthen the powers of Tax Administration Jamaica (TAJ) and Jamaica Customs Agency (JCA), including to collect outstanding arrears. A modernization program office in the TAJ was established and a new organizational structure was put in place.
- Amendments to the Customs Act were enacted to assist the implementation of ASYCUDA World and trade facilitation.
- In line with the new budget calendar, a budget call for early and accurate budget envelopes and priorities was issued and a Public Sector Investment Program (PSIP) policy paper was presented to the Cabinet in September.
- The authorities have developed an action plan for public sector transformation and the public service database "e-census" has been updated.

- As a step towards downsizing the retail repo business, the Financial Services Commission (FSC) established a minimum transaction size for repos, and a strategy for the tightening of prudential standards.
- The Insolvency Act and legislation supporting flexi-work arrangements were adopted by parliament.
- An automated tracking system for the approval process for construction permits has been implemented in all parishes.

Text Table 1. Jamaica: Program Monitoring—Quantitative Performance Criteria under EFF 1/2/

(In billions of Jamaican dollars)

	6th Review PC End-Sep. 2014	Adjusted PCs End-Sep.	End-Sep. Actual	Difference	PC Status End-Sep. 2014
Fiscal targets					
1. Primary balance of the central government (floor) 3/	37.8		43.6	5.8	Met
2. Tax Revenues (floor) 3/9/	166.0		169.0	3.0	Met
3. Overall balance of the public sector (floor) 3/	-30.2	-33.7	-23.1	10.6	Met
4. Central government direct debt (ceiling) 3/4/	108.1		99.9	-8.2	Met
5. Central government guaranteed debt (ceiling) 3/	2.7		1.1	-1.6	Met
5. Central government accumulation of domestic arrears (ceiling) 5/11/12/	0.0		-0.2	-0.2	Met
7. Central government accumulation of tax refund arrears (ceiling) 6/11/12/	0.0		-0.9	-0.9	Met
8. Consolidated government accumulation of external debt payment arrears (ceiling) 5/11/	0.0		0.0	0.0	Met
9. Social spending (floor) 8/9/	8.9		12.3	3.4	Met
Monetary targets					
10. Cumulative change in net international reserves (floor) 7/10/	258.6	134.0	1159.3	1025.4	Met
11. Cumulative change in net domestic assets (ceiling) 10/	-24.7	-11.4	-130.7	-119.3	Met

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Based on program exchange rates defined in the March 2014 TMU.
3/ Cumulative flows from April 1.
4/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
5/ Includes debt payments, supplies and other committed spending as per contractual obligations.
6/ Includes tax refund arrears as stipulated by law.
7/ In millions of U.S. dollars.
8/ Indicative target.
9/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
10/ Cumulative change from end-December 2013.
11/ Continuous performance criterion.
12/ Measured as the change in the stock of arrears relative to the stock at end-March 2013.

PREPARING THE NEXT BUDGET

10. Notwithstanding the successful fiscal adjustment that has already been undertaken, meeting the 2014/15 budget targets will be challenging. Tax revenues in the current fiscal year are being impacted by the further decline in imports (including fuel) and by the recent tax reforms, which have led to delays in tax assessments and uncertainty about the pace at which grandfathered tax incentives are being phased out. Staff tentatively projects a revenue shortfall by 0.3 percent of GDP for the fiscal year as a whole.[3] The authorities have identified spending contingencies in the event that revenues indeed underperform, including prioritizing investment and program outlays. They are also, with Fund support, proactively addressing the downside risks to revenues through intensified control and enforcement of tax liabilities owed by large taxpayers.

[3] Apart from a 0.2 percent of GDP impact from a delay in implementing the elimination of the zero-rating under the GCT of government purchases, which equally reduces revenues and expenditures.

The authorities are currently finalizing their proposals for the 2015/16 budget, scheduled to be adopted by parliament in March 2015 (MEFP, ¶5). They confirmed their commitment to a central government primary surplus of 7.5 percent of GDP as the heart of their debt reduction strategy.

11. Budget revenues as a share of GDP are expected to decline in 2015/16. The overall tax base is expected to be eroded by a lower government wage bill and weaker imports (including due to lower oil prices) and, to a lesser extent, declining government interest payments, all of which are important contributors to tax revenue. The authorities intend to limit the drop in tax revenues to about 0.3 percent of GDP, and are exploring alternative policy options to support their revenue objective. Nontax revenues are also projected to decline, by 0.3 percent of GDP, given the one-off receipts in the past two budget cycles from the sale of telecommunications licenses.

12. The revenue shortfalls and risk underscore the importance of steadfast implementation of the action plan for revenue administration. Since October, a long-term resident advisor has been assisting the authorities in this endeavor. Immediate priorities are to articulate and implement a tax compliance strategy, implement pilots for new automated tax and customs administration systems, and strengthen the large taxpayers' office (MEFP, ¶9, 10). A forthcoming assessment of the pace at which firm-specific tax incentives are being phased out (a structural benchmark for end-January 2015) is being prepared with technical assistance from the IaDB (MEFP, ¶7). The authorities agreed on the case for additional tax reform over the medium term to secure revenues, broaden the tax base, and simplify the tax system to boost growth. They have requested Fund support for this exercise.

13. There is little room for incremental discretionary spending in the forthcoming 2015/16 budget, for example to expand capital projects or social protection. Sustaining a 7.5 percent primary surplus over the medium-term hinges on achieving the targeted one percent of GDP reduction in the wage bill (to 9 percent of GDP). Public sector wage negotiations were initiated in October, with the current three-year wage freeze expiring in March 2015. A mix of wage containment (through a new wage agreement) and efficiency improvements will be needed. There was broad agreement on the need to maintain social spending as a top priority and retain a substantial contingency in the budget to address possible further revenue shortfalls. Although the scope for capital spending by the government remains limited, total infrastructure outlays in Jamaica have expanded in the past four years, as undertaken by public and private entities (in particular, through the PPP for highway development; see Box 1).

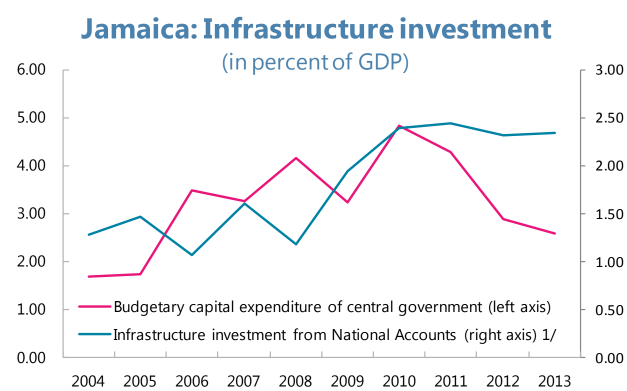
14. The quality and sustainability of a lower wage bill hinge on a resolute implementation of broader public sector reforms. The authorities have prepared a reform plan to enhance public sector efficiency and service delivery, including through sharing services across departments, divestment of public enterprises and government units, and the introduction of a new HR system (MEFP, ¶15). The authorities are currently developing specific implementation strategies for the first phase of the reforms, scheduled over the coming year. However, staff expects the resulting reduction in the wage bill to materialize only slowly, and has reiterated its advice to frontload actions to enhance efficiency and reduce the size of the public sector. Staff also advised: (i) speeding up civil-service reform; (ii) increasing the flexibility in reallocating employees, (iii) exploring options for early retirement with adjusted pension benefits, (iv) avoiding the common pitfalls of voluntary separation packages; and (v) revisiting the compensation structure across skills levels to match pay with market comparators. Ongoing World Bank and IDB TA is helping to shape specific parts of the public sector reform agenda and forthcoming FAD TA will be targeted toward evaluating the various options and trade-offs in attaining the government's wage bill target in a sustainable manner.

15. Budget financing needs through mid-2015/16 have been met by the July 2014 bond issue. The US$800 million bond issued in July entails a temporary increase in government deposits, international reserves, and public debt. However, a EUR150 million bond matured in October, and further large maturities will come due in June and July 2015. By end-2015, public debt and international reserves are projected to have returned to their prior path. Based on currently identified policies, public debt is expected to fall slightly below 101 percent of GDP by end-March 2020. The authorities continue working to identify additional market-friendly measures so as to achieve the 96 percent goal by March 2020 (MEFP ¶13).

Box 1. Infrastructure Investment in Jamaica

Infrastructure investment has increased in Jamaica in recent years. From 2008 to 2013, infrastructure-related fixed capital formation grew by about 1.2 percent of GDP. The increase was partly due to infrastructure restoration after recent hurricanes, as well as to increased expenditure on road infrastructure. The main example of the latter is the ongoing Highway 2000 Project, a multi-phase, tolled 230 kilometer highway.

Use of a public-private partnership (PPP) has allowed higher infrastructure investment despite lower budgetary capital expenditure. The North-South leg of the Highway 2000, started in February 2013 and expected to be completed by January 2016, is developed by China Harbor Engineering Company (CHEC) under a 50-year concession. CHEC is solely responsible for the construction and financing of the second and third segments of the project. The first segment was financed by a public body, with an agreed repayment schedule by CHEC. The total investment of the project is estimated at US$600 million.



1/ Fixed capital formation in "other structures" category in GDP by expenditure approach; as per ISIC 3, Class 4520, this item includes construction of roads, highways, bridges, harbors, pipelines, electric lines, etc.

Sources: STATIN, MoF and staff calculation.

Several other infrastructure projects with private sector financing are in the pipeline, including:

- The privatization of the Kingston Container Terminal (KCT). The project aims to double the terminal's current capacity, and also includes dredging the port. The investment could be about US$250 million.
- A transshipment hub in the Portland Bight area, proposed by CHEC, who would be responsible for its financing, construction, and operation. Initial plans foresee an investment of US$1.5 billion.
- The privatization of Norman Manley International Airport (NMIA).
- Investments in new power plants and in conversion of existing plants.

STRENGTHENING MONETARY POLICY

16. Meeting the reserves targets and continuing the adjustment of the exchange rate remain critical for stability and growth. The monetary authorities have accelerated their purchases of foreign reserves since July, taking advantage of a stronger external position to build reserves and become less reliant on borrowed reserves. Staff advised the authorities to press ahead with opportunistic purchases of foreign exchange, as market conditions allowed, and to continue to permit a moderate pace of depreciation of the exchange rate to offset inflation differentials and help maintain competitiveness.

17. The monetary policy stance remains broadly appropriate, with TA planned to improve the tools for monetary management. Bank liquidity has continued to ease in recent months, while inflation has remained under control and monetary targets were met.[4] The authorities have requested further Fund TA to strengthen monetary management, in particular to develop mechanisms that can facilitate price discovery and support market-clearing in the money, foreign exchange and securities markets, and to prepare for the eventual move towards inflation targeting (MEFP, ¶22). Furthermore, the authorities confirmed their intention to strengthen central bank governance, and the government has begun preparatory consultations to build a broader social consensus around such reforms.

REFORMING THE FINANCIAL SYSTEM

18. The authorities are improving the financial regulatory and supervisory framework. Financial sector risks remain elevated in the context of ongoing reforms and the still-illiquid secondary market in government paper. The implementing regulations for the Banking Services Act that was adopted by parliament in June 2014 are expected to be in effect by end-September 2015 (proposed structural benchmark); in parallel the authorities plan to bolster the legal underpinnings of the crisis management and resolution framework, and vest the BOJ with overall responsibility for financial stability (MEFP, ¶17). In the interim, the supervisory authorities are working to ensure that strong crisis management and contingency planning arrangements are in place for the banking and securities sectors. A long-term advisor on nonbank supervision, funded by Canada, is expected to assume duty in Q1 2015.

19. The introduction of a trust-based repo framework for the securities dealers sector is broadly on track (Box 2; MEFP, ¶18–20**).** A key next step will be the implementation of the legal and regulatory framework so as to provide a transparent and robust platform for repo transactions by end-December 2014 (a structural benchmark). These transactions are expected to move to this platform by end-June 2015 (a proposed structural benchmark). The authorities are also exploring

[4] See the June 2014 Article IV staff report (Country Report No. 14/169) for a discussion of the objectives and targets of monetary policy.

options to unfreeze the secondary domestic bond market, without creating undue risks to financial sector stability. The restoration of a liquid bond market and of market-based bond prices would greatly facilitate a well functioning securities dealer sector and provide important price signals for macroeconomic policies.

Box 2. Retail Repo Reform Status Update

Retail repo reform is an essential component of financial sector reform in Jamaica. Securities dealers (SDs), with assets close to 40 percent of GDP, finance long-term government bonds with short-term, deposit-like investments ("retail repos"). The business model entails significant interest rate, liquidity, and concentration risks not matched by adequate capital or liquidity buffers. The principal SDs are members of deposit-taking institutions groups. Under the program, a more transparent and robust framework is to be in place by June 2015, and clients are expected to shift to Collective Investment Schemes (CIS) over the coming years. Since the last review, the authorities have made important progress on the retail repo reform with the help of Fund TA.

The authorities have established backstop facilities to provide exceptional financial support for SDs if needed. The design of these facilities was informed by stress tests to assess possible shocks that were conducted in August and updated in September.

As a step towards the gradual downsizing of retail repo business, the Financial Services Commission (FSC) has established a Minimum Transaction Size (MTS) of J$100,000. A timeline has also been published to gradually increase the MTS to J$1,000,000 by end-December, 2015. Securities dealers' repo liabilities to retail clients have decreased in recent months, with a drop by about 15 percent y/y by September for the 12 largest dealers, with an increase in CIS and liabilities to corporate clients.

The cap on investments by CIS in foreign assets has been lifted from 5 percent to 7.5 percent, to encourage the development of this new investment model. The next step is to publish the timetable to raise the limit to at least 25 percent by end–December, 2015.

The authorities are making progress in establishing the framework for trust-based transactions. They have agreed with the industry on the transaction structure for the new trust-based framework, stipulating the detailed procedures for handling retail repo transactions. The authorities have drafted proposals for the legal and regulatory framework for the framework that aims to protect retail client interests (structural benchmark, end-December 2014).

Prudential regulations for the security dealers are being strengthened. The authorities are preparing a new regulation that will be enacted end-2014, which includes provisions on capital standards, liquidity management, stress testing, large exposures, and the minimum transactions size. A strategy for the gradual tightening of prudential standards is also being prepared.

ENHANCING ECONOMIC GROWTH

20. The business environment is improving, and Jamaica's ranking in the World Bank's *Doing Business* survey moved from 94 last year to 58 in October.[5] Looking ahead, important next steps have been spelled out for each component of the authorities' growth agenda (MEFP, ¶23–27).

- **Regulatory impediments to investment**. The end-year structural benchmark on a tracking system for construction permits was met ahead of schedule; next steps include extending the system to all agencies by June, 2015, and ensuring that the new fast-track system for smaller projects becomes fully effective. The new legislation to introduce flexible work arrangements—which could, in particular, benefit female employment and labor force participation—is in effect, and the new Insolvency Act—that aims to facilitate restarting operations—is expected to be by December, 2014.

- **Electricity**. A new strategy proposed by the authorities' Electricity Sector Enterprise Team (ESET) foresees a mix of new gas, coal, and renewable energy power projects to replace ageing oil-fired facilities, and thereby achieve significant cost savings. Implementation of the strategy is expected to start in 2015, with the conversion of the Bogue power station from oil to gas. Alumina producers have proposed to build new co-generation plants (for power and steam for both the grid and the processing of alumina), to generate additional efficiencies. The authorities have prioritized preparing a new Electricity Act to clarify and codify roles and responsibilities within the sector, which should be tabled in parliament by end-January 2015 (a structural benchmark).

- **Strategic investments**. The authorities expected the privatization of the Kingston Container Terminal—a key element of their logistics initiative to take advantage of the expansion of the Panama Canal—to move ahead, after a preferred bidder was accepted in October.

- **Special Economic Zones.** The authorities are issuing a position paper on a forthcoming Special Economic Zone Act, prepared with World Bank assistance. Staff emphasized the need to focus on creating a conducive and stable regulatory regime and on promoting synergies among enterprises, rather than offering tax incentives that would distort the playing field or undermine revenues. Also, the initiative to establish these zones should not distract from broader efforts to improve the investment climate for all investors (regardless of location).

21. The implementation of the authorities' new social protection strategy has started. The strategy was launched in July and initial steps include the costing for a social protection floor

[5] However, because of changes in methodology, the old and new rankings are not fully comparable. Using the new methodology, Jamaica would have ranked 85 in last year's survey.

(MEFP, ¶28). A graduation strategy to help selected welfare recipients return to the labor market will be implemented in 2015.

PROGRAM ISSUES

22. Additional program conditions are proposed to cover the coming 12-month period. The establishment of performance criteria for end-September 2015 is proposed, as well as three new structural benchmarks:

- to establish a cash forecasting team and cash management function in the Accountant General Department by June 2015 (MEFP, ¶12);
- to complete the transition of retail repos' issued by the securities dealers to the new trust-based framework, such that all qualifying securities backing the repos will be held by the trust, by June 2015; and
- to fully implement the Banking Services Act by September 2015.

23. The program remains fully financed and staff's assessment of Jamaica's capacity to repay the Fund remains broadly unchanged from the last review (Table 11). This capacity is deemed adequate, and will continue to depend on the timely and strong implementation of the government's ambitious reform program. External multilateral financing for the fiscal year has evolved broadly in line with earlier program assumptions as IFI disbursements were already expected to be relatively backloaded in the current fiscal year. Debt service to the Fund and the purchase profile remain unchanged in the absence of significant revisions to the macroeconomic outlook.

STAFF APPRAISAL

24. Macroeconomic performance under the program continues to be good and growth is showing signs of picking up. The authorities' commitment to the program has remained strong. All quantitative conditions have been met, and structural reforms have progressed on schedule. Inflation has remained under control notwithstanding the temporary drought. The depreciation of the currency over the program period is helping to restore competitiveness and, together with lower oil prices, is facilitating an adjustment of the current account to a more sustainable level. Jamaica's risk premium in financial markets has continued to decline. However, risks to growth remain serious, including from possible delays in the response of activity to improved competitiveness and a more stable macroeconomic environment.

25. Wide-ranging actions to boost the momentum for growth and employment creation are critical for the success of the program. While economic stabilization and debt reduction are on track and constitute an essential pillar of the growth strategy, reforms to enhance the business climate should be accelerated—including by cutting red tape, reforming the energy sector, and making the public sector more client-oriented.

26. The preparation of the 2015/16 budget brings new challenges, in particular to strengthen the quality and sustainability of the fiscal adjustment. Recent curtailment of tax incentives has made the tax system more transparent. However, revenues remain weak, putting downward pressure on the expenditure envelope. Strengthening tax and customs administration must be a policy priority, guided by the government's comprehensive action plan. In the coming year, further actions to broaden the tax base should be explored to maintain revenue collection, and create space to eventually lower direct tax rates. Effort to reduce the wage bill through compressing nominal wages will be difficult to sustain and need to be complemented with actions to enhance government efficiency and create a smaller but more effective civil service.

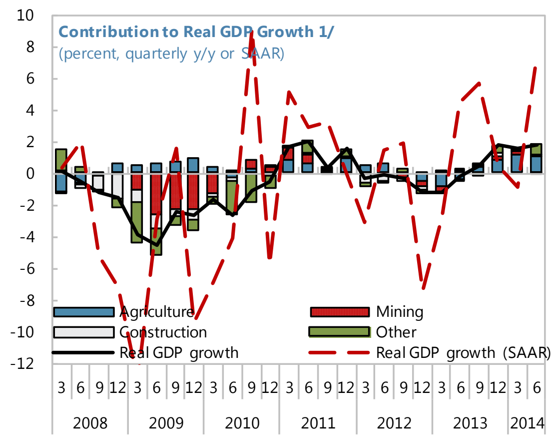
27. Monetary policy should remain guided by the need to contain inflation and build international reserves. Policies to restrain the growth in monetary aggregates are bringing down inflation and the decline in the net government borrowing requirement is creating some room for a continued expansion of private sector credit from the banking system so as to support private sector-led growth. To help secure a continued increase in non-borrowed reserves over the program horizon, the authorities should continue to build these reserves through opportunistic intervention. Furthermore, allowing for sufficient exchange rate adjustment to build international competitiveness remains essential for sustainable growth.

28. The plan for financial sector reforms must be implemented expeditiously. The next several months will be critical for putting in place a new framework for repo transactions that will lessen financial risks and make the securities dealers system more transparent and secure. Concurrently, the Banking Services Act should be brought into effect, in tandem with other reforms, to strengthen the crisis management and resolution framework.

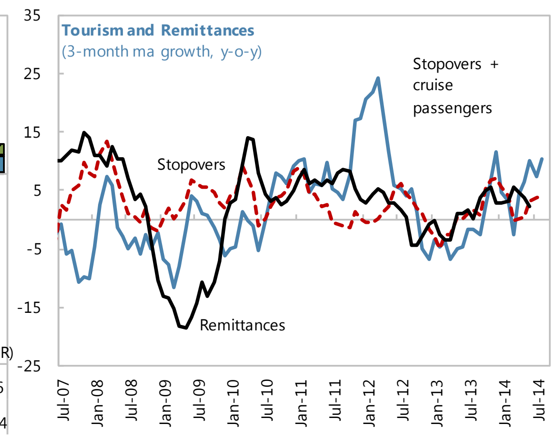
29. Notwithstanding the risks and challenges ahead, the steadfast implementation of the authorities' wide-ranging reform program will create robust growth and job creation and a sustainable trajectory of public debt. Staff therefore fully supports the authorities' request for completion of the sixth review of the arrangement under the Extended Fund Facility, and the proposed establishment of end-September 2015 performance criteria.

Figure 1. Jamaica: Recent Economic Developments

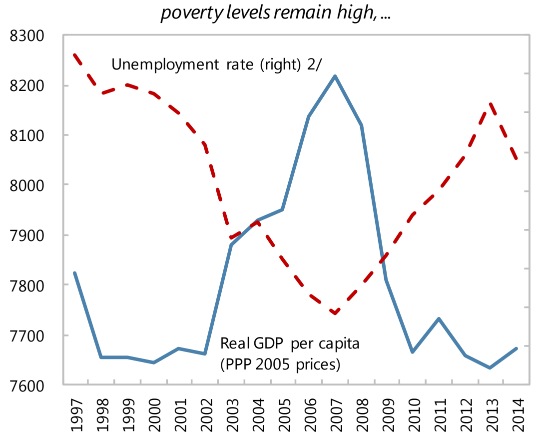
After contracting in 2012/13, there has been a modest recovery in economic activity.



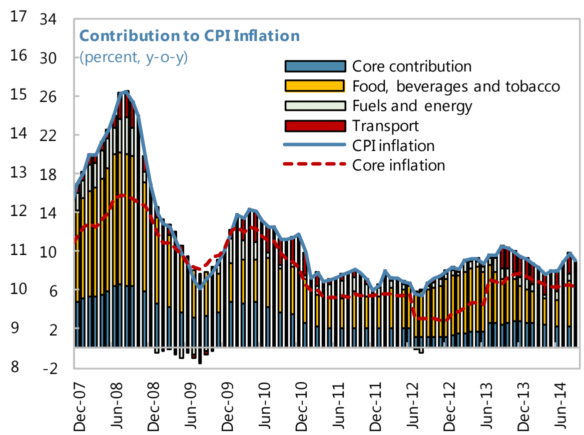
Remittances are strengthening and tourism has picked up owing to a surge in cruise passenger arrivals.



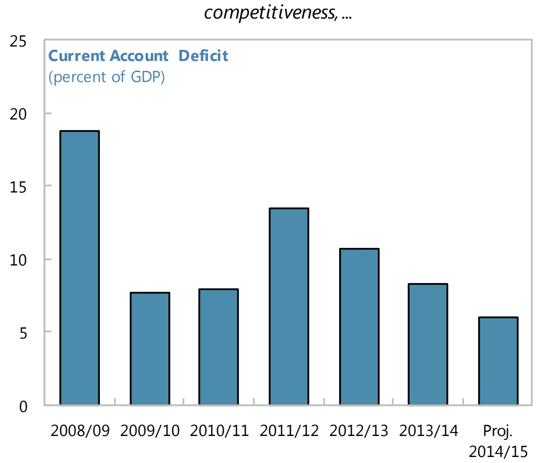
Unemployment is declining, but unemployment and poverty levels remain high, ...



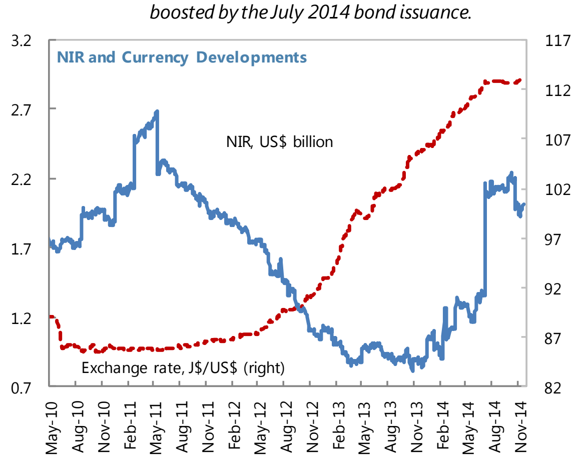
... and higher food prices due to the drought has pushed up inflation.



The current account deficit has narrowed markedly since 2012/13, with fiscal consolidation and improved competitiveness, ...



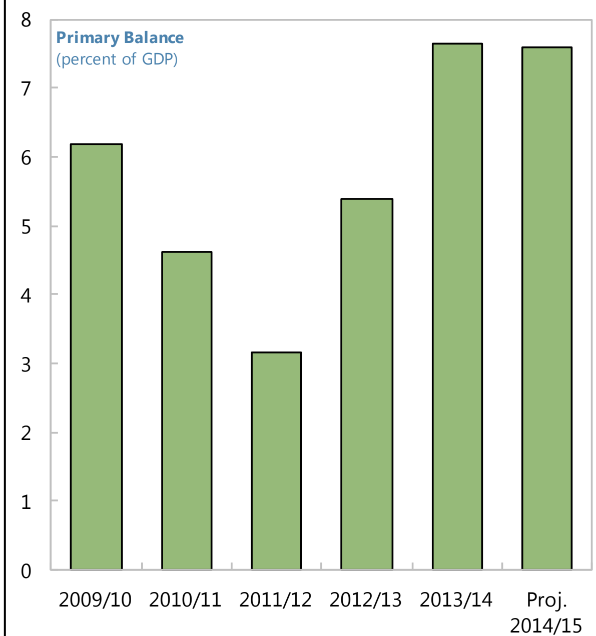
... while international reserves have continued to increase, boosted by the July 2014 bond issuance.



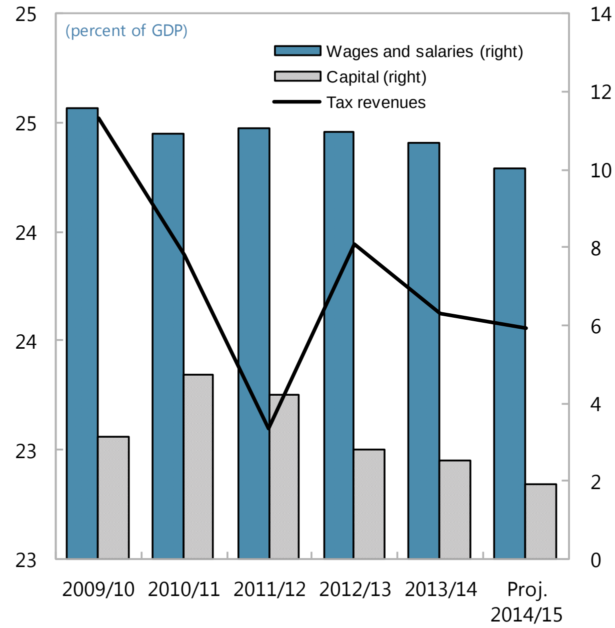
Sources: Bank of Jamaica; and Fund staff calculations.
1/ Seasonally-adjusted real GDP growth is in q/q annualized percent change.
2/ Unemployment rate data for 2014 refers to July 2014.

Figure 2. Jamaica: Fiscal Developments

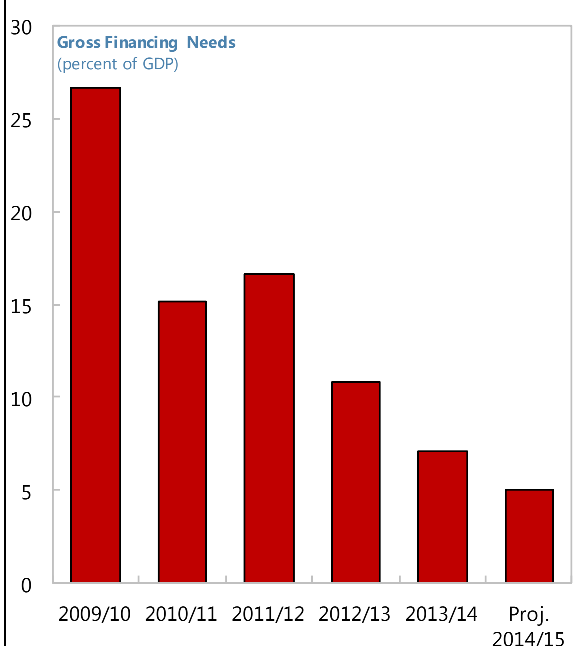
The fiscal position strengthened from 2012/13 to 2013/14 and is projected to remain broadly stable in 2014/15…



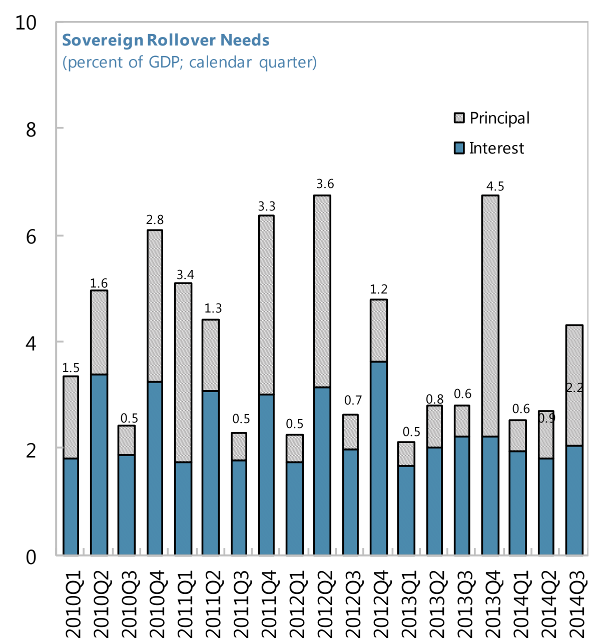
… owing to lower wage and capital spending.



Gross financing needs have declined significantly…



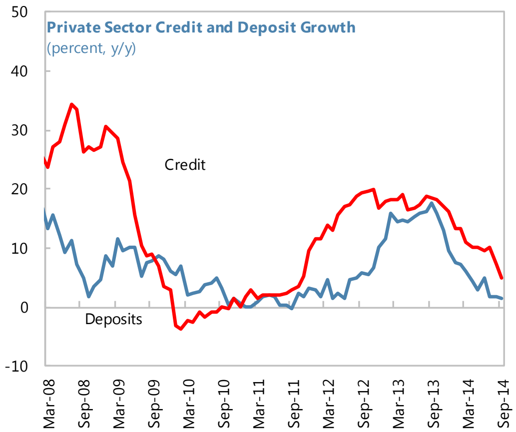
… while principal payments are pushed up when large bond repayments are due.



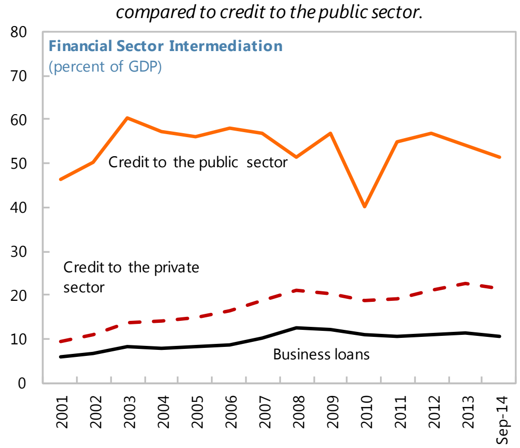
Sources: Ministry of Finance; and Fund staff calculations.

Figure 3. Jamaica: Financial Sector Developments

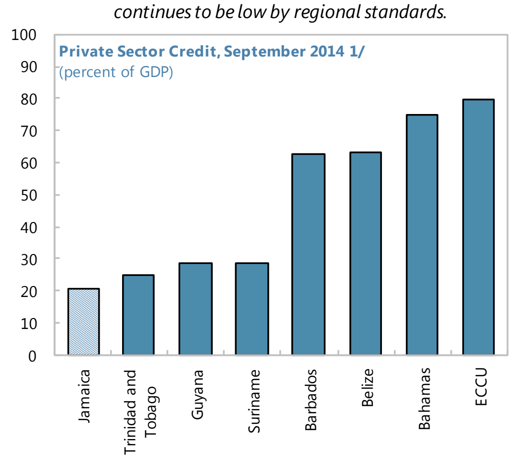
Growth of deposits and credit have both declined,



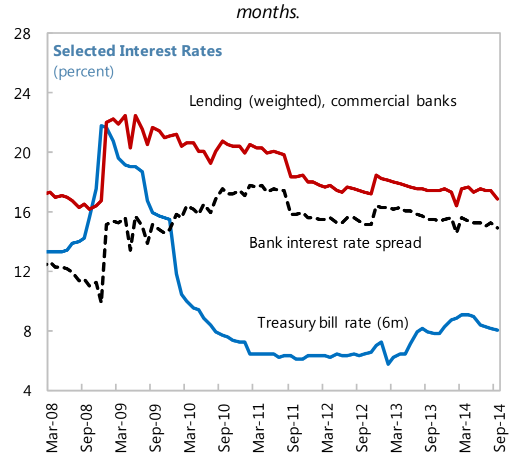
...and the level of credit to the private sector remains low compared to credit to the public sector.



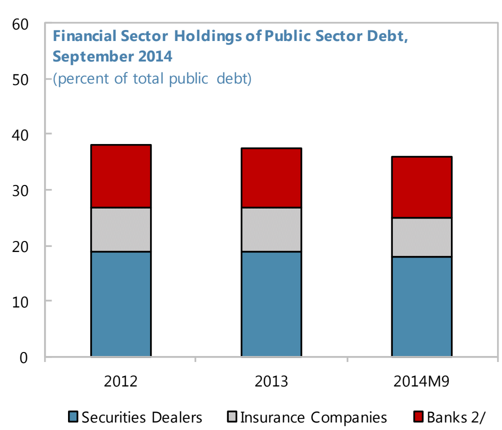
As a result, credit to the private sector relative to GDP continues to be low by regional standards.



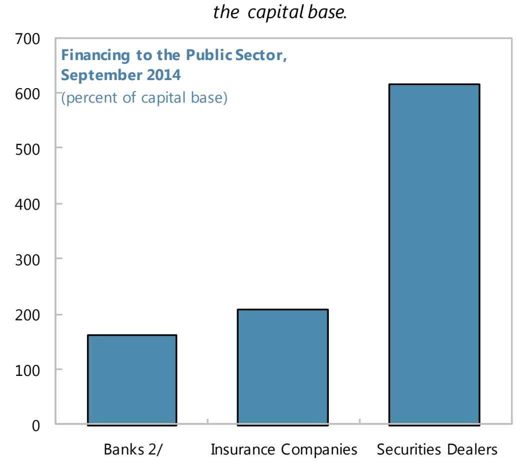
Interest rates remain high, but have stabilized in recent months.



Though banks' holding of public debt has been slightly declining, the financial sector still holds close to 40 percent of public debt...



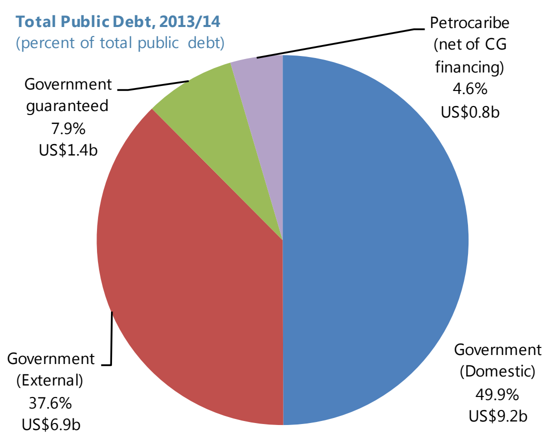
... with government securities representing a multiple of the capital base.



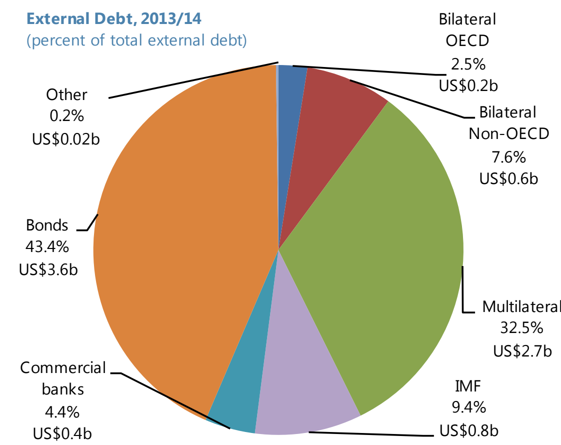
Sources: Bank of Jamaica; and Fund staff calculations.
1/ Latest available data.
2/ Banks refer to the aggregate of commercial and merchant banks and building societies.

Figure 4. Jamaica: Public Debt

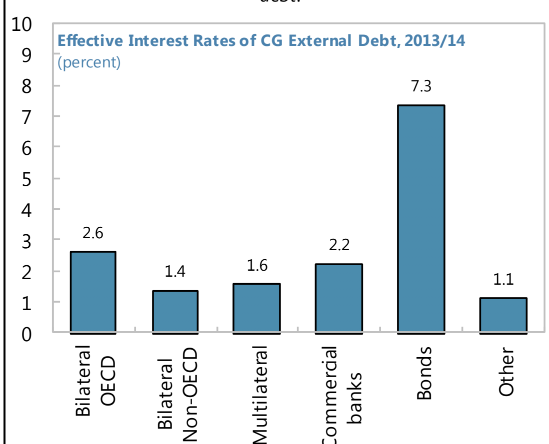
More than half of public debt is domestic and consists of a wide range of instruments.



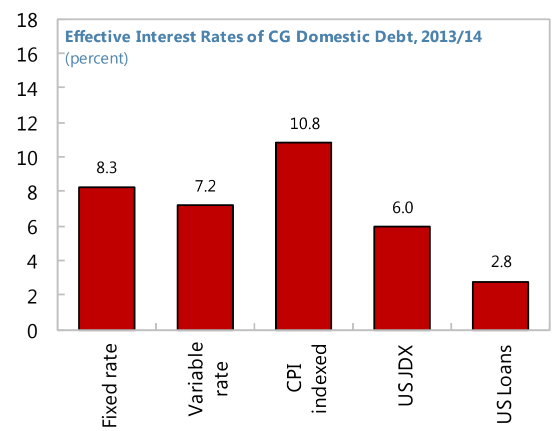
Bonds constitute a significant share of external debt...



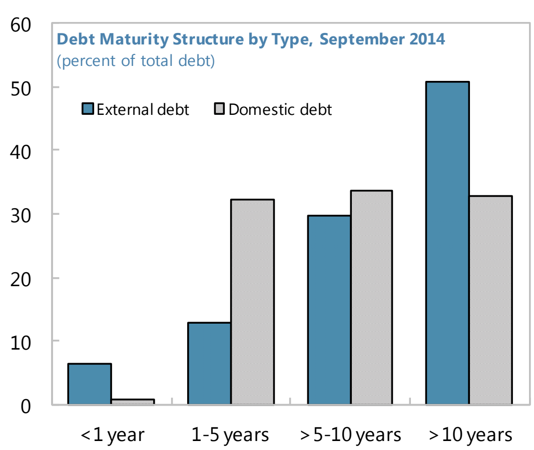
... and carry the highest interest rates in the external debt.



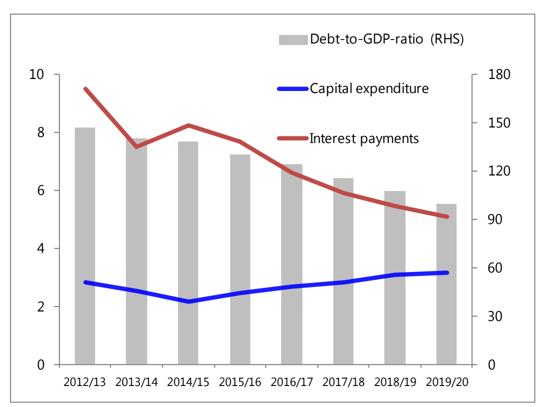
Domestic interest rates are now single-digit, except for CPI-indexed bonds.



External debt has longer maturity than the domestic debt.



Savings on interest payments will free-up space for public capital expenditure, as the debt-to-GDP falls.



Sources: Bank of Jamaica; Ministry of Finance; and Fund staff calculations.

Table 1. Jamaica: Selected Economic Indicators 1/

Population (2012): 2.8 million
Quota (current; millions SDRs/% of total): 273.5/0.11%
Main products: Alumina, tourism, chemicals, mineral fuels, bauxite, coffee, sugar

Per capita GDP (2012): US$5310
Literacy rate/Poverty rate: 86.4%/17.6%
Unemployment rate (Apr. 2014): 13.6%

			Prel.	Prog.	Projections					
	2011/12	2012/13	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
(Annual percent change, unless otherwise indicated)										
GDP and prices										
Real GDP	0.9	-0.7	0.9	1.1	0.9	2.1	2.3	2.5	2.7	2.7
Nominal GDP	7.5	6.2	8.9	9.4	9.7	9.7	10.2	9.9	9.6	9.1
Consumer price index (end of period)	7.3	9.1	8.3	8.1	8.0	7.6	7.5	7.0	6.5	6.0
Consumer price index (average)	7.3	7.2	9.4	8.2	8.7	7.4	7.7	7.3	6.8	6.3
Exchange rate (end of period, J$/US$)	87.3	98.9	109.6	...	...	...	...	...	...	...
Exchange rate (average, J$/US$)	86.4	91.2	103.9	...	...	...	...	...	...	...
Nominal depreciation (+), end-of-period	1.8	13.3	10.8	...	...	...	...	...	...	...
End-of-period REER (appreciation +) (INS)	4.4	-2.2	-4.8	...	...	...	...	...	...	...
End-of-period REER (appreciation +) (new methodology) 2/	3.1	-3.4	-4.3	...	...	...	...	...	...	...
Treasury bill rate (end-of-period, percent)	6.3	6.2	9.1	...	...	...	...	...	...	...
Treasury bill rate (average, percent)	6.3	6.4	7.9	...	...	...	...	...	...	...
Unemployment rate (percent) 3/	14.2	14.5	13.4	...	...	...	...	...	...	...
(In percent of GDP)										
Government operations										
Budgetary revenue	25.6	25.7	27.2	26.8	26.4	25.7	25.6	25.7	25.4	25.5
Of which: Tax revenue 4/	23.1	23.9	23.6	24.1	23.6	23.3	23.5	23.6	23.7	23.8
Budgetary expenditure	32.0	29.8	27.1	27.5	27.0	25.8	24.7	24.6	23.9	23.6
Primary expenditure	22.4	20.3	19.5	19.2	18.9	18.2	18.1	18.7	18.4	18.5
Of which: Wage bill	11.1	11.0	10.7	10.1	10.0	9.0	9.0	9.0	9.0	9.0
Interest payments	9.6	9.5	7.6	8.3	8.1	7.6	6.6	5.9	5.5	5.1
Budget balance	-6.4	-4.1	0.1	-0.7	-0.5	-0.1	0.9	1.1	1.5	1.9
Of which: Central government primary balance	3.2	5.4	7.7	7.6	7.6	7.5	7.5	7.0	7.0	7.0
Public entities balance	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	-6.4	-4.1	0.1	-0.7	-0.6	-0.1	0.9	1.1	1.5	1.9
Public debt 5/	141.7	146.5	141.6	139.9	140.1	131.0	124.9	116.9	108.7	100.6
External sector										
Current account balance	-13.5	-10.8	-8.4	-7.5	-6.1	-4.8	-4.7	-4.1	-4.0	-4.0
Of which: Exports of goods, f.o.b.	11.1	11.9	11.0	11.6	11.0	11.2	11.3	11.3	11.3	11.1
Imports of goods, f.o.b.	40.2	38.8	37.4	37.0	35.9	34.8	34.9	33.9	33.1	32.1
Net international reserves (US$ millions)	1,777	884	1,304	1,893	1,883	1,824	1,916	2,069	2,173	2,341
NIR (excl. prefinanced repayments of maturing bonds)	...	...	...	1,594	1,584	1,771	1,916	2,069	2,173	2,341
(Changes in percent of beginning of period broad money)										
Money and credit										
Net foreign assets	-15.7	-14.7	18.7	20.5	21.9	3.6	6.0	6.1	4.7	5.6
Net domestic assets	20.9	28.0	-12.6	-12.0	-16.2	7.9	4.2	3.8	4.9	3.5
Of which: Credit to the private sector	9.0	13.0	8.2	6.8	3.7	9.1	9.1	11.8	7.9	9.0
Credit to the central government	9.9	7.4	-5.1	0.5	-3.8	9.2	1.8	-4.9	1.3	-3.0
Broad money	5.1	13.3	6.1	8.5	5.7	11.6	10.2	9.9	9.6	9.1
Memorandum item:										
Nominal GDP (J$ billions)	1,261	1,340	1,459	1,597	1,601	1,756	1,935	2,127	2,332	2,544

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

1/ Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.
2/ The new methodology uses trade weights for Jamaica that also incorporate trade in services especially tourism.
3/ As of January 31.
4/ in 2014/15, reflects the extension of the CGT to government purchases, with projected total yield of 0.2 percent of GDP.
5/ Central government direct and guaranteed only, including PetroCaribe debt (net of its financing to the central government) and projected IMF disbursements and other IFIs.

Table 2. Jamaica: Summary of Central Government Operations

(In millions of Jamaican dollars)

	2011/12	2012/13	2013/14	Prog. 2014/15	Projections 2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Budgetary revenue and grants	322,457	344,668	396,982	427,889	422,942	451,289	495,471	546,909	591,602	648,008
Tax 1/	291,407	320,929	344,848	384,304	377,139	409,149	454,005	501,376	553,223	606,280
Of which:										
Income and profits	106,423	115,877	112,648	122,481	123,303	130,984	...	...	...	...
Of which: Other companies	29,035	35,798	35,155	42,366	40,875	47,083	...	...	...	...
PAYE	60,165	60,876	62,811	64,112	65,127	68,663	...	...	...	...
Production and consumption	84,629	96,460	115,214	130,665	125,167	138,954	...	...	...	...
Of which: GCT (Local) 2/	47,973	50,897	61,265	70,664	67,542	76,835	...	...	...	...
International Trade	96,512	105,306	113,892	128,807	126,087	135,915	...	...	...	...
Of which: GCT (Imports) 2/	41,685	45,501	51,238	60,392	57,143	62,689	...	...	...	...
Non-tax	27,602	19,799	41,705	34,940	37,211	34,373	36,040	39,717	32,142	35,073
Grants	3,449	3,940	10,429	8,645	8,592	7,768	5,425	5,816	6,236	6,655
Budgetary expenditure	403,192	399,279	396,228	439,486	431,689	453,829	478,823	524,231	556,430	600,286
Primary expenditure	282,487	272,341	285,322	306,614	301,923	319,586	350,364	398,026	428,378	469,901
Wage and salaries	139,557	147,382	156,362	161,704	160,842	158,043	174,128	191,421	209,859	228,995
Programme expenditure 3/	89,699	87,202	91,972	110,281	109,850	116,339	124,309	145,162	149,818	160,935
Capital expenditure 3/	53,231	37,758	36,989	34,628	31,231	45,204	51,927	61,443	68,701	79,971
Interest	120,704	126,938	110,906	132,873	129,766	134,243	128,459	126,205	128,052	130,385
Domestic	81,617	87,729	68,750	80,852	78,036	79,747	73,559	73,890	73,448	73,276
External	39,087	39,209	42,156	52,021	51,730	54,496	54,901	52,316	54,603	57,109
Budget balance	-80,734	-54,610	753	-11,598	-8,747	-2,540	16,647	22,678	35,172	47,723
Of which: Primary budget balance	39,970	72,327	111,659	121,275	121,019	131,703	145,106	148,883	163,224	178,107
Public entities balance	-195	1,905	106	0	0	0	0	0	0	0
Public sector balance	-81,243	-55,161	859	-11,598	-9,038	-2,540	16,647	22,678	35,172	47,723
Principal repayments	128,455	88,681	104,122	81,722	71,439	160,120	64,012	233,117	175,535	216,324
Domestic	67,820	36,976	75,695	8,785	8,785	71,089	11,715	91,607	85,350	122,797
External	60,635	51,705	28,427	72,936	62,654	89,031	52,297	141,510	90,185	93,527
Gross financing needs	209,753	145,747	103,369	93,319	80,477	162,660	47,365	210,440	140,363	168,601
Gross financing sources 4/	209,753	145,747	103,369	93,319	80,477	162,660	47,365	210,440	140,363	168,601
Domestic	142,750	136,572	52,211	32,472	32,472	24,394	15,052	79,703	64,951	86,670
External	20,768	9,175	57,587	131,766	131,766	47,603	34,187	123,636	75,122	81,481
Of which: Official	30,032	9,175	57,587	40,381	40,381	47,603	34,187	32,265	39,933	42,791
Divestment + deposit drawdown	41,424	0	-6,430	-70,919	-83,761	90,663	-1,874	7,101	290	451
Memorandum items:										
Nominal GDP (billion J$)	1,261	1,340	1,459	1,597	1,601	1,756	1,935	2,127	2,332	2,544
Public sector debt (billion J$)	1,788	1,964	2,067	2,235	2,243	2,301	2,417	2,485	2,535	2,561
Of which: Direct debt	1,537	1,678	1,812	1,957	1,968	2,008	2,104	2,145	2,170	2,166

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ In the context of the tax reform, it is premature to project the exact composition of revenues.
2/ in 2014/15, reflects the extension of the CGT to government purchases, with projected total yield of J$3.1 billion
3/ in 2014/15, projections reflect a reclassification of J$8.8 billion from capital outlays to programme expenditures.
4/ It is assumed that 70 percent of Petrocaribe's annual inflows are used for domestic debt repayments.

Table 3. Jamaica: Summary of Central Government Operations

(In percent of GDP)

				Prog.	Projections					
	2011/12	2012/13	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Budgetary revenue and grants	25.6	25.7	27.2	26.8	26.4	25.7	25.6	25.7	25.4	25.5
Tax 1/	23.1	23.9	23.6	24.1	23.6	23.3	23.5	23.6	23.7	23.8
Of which:										
Income and profits	8.4	8.6	7.7	7.7	7.7	7.5	...	...	...	...
Of which: Other companies	2.3	2.7	2.4	2.7	2.6	2.7	...	...	...	...
PAYE	4.8	4.5	4.3	4.0	4.1	3.9	...	...	...	...
Production and consumption	6.7	7.2	7.9	8.2	7.8	7.9	...	...	...	...
Of which: GCT (Local) 2/	3.8	3.8	4.2	4.4	4.2	4.4	...	...	...	...
International Trade	7.7	7.9	7.8	8.1	7.9	7.7	...	...	...	...
Of which: GCT (Imports) 2/	3.3	3.4	3.5	3.8	3.6	3.6	...	...	...	...
Non-tax	2.2	1.5	2.9	2.2	2.3	2.0	1.9	1.9	1.4	1.4
Grants	0.3	0.3	0.7	0.5	0.5	0.4	0.3	0.3	0.3	0.3
Budgetary expenditure	32.0	29.8	27.1	27.5	27.0	25.8	24.7	24.6	23.9	23.6
Primary expenditure	22.4	20.3	19.5	19.2	18.9	18.2	18.1	18.7	18.4	18.5
Wage and salaries	11.1	11.0	10.7	10.1	10.0	9.0	9.0	9.0	9.0	9.0
Programme expenditure 3/	7.1	6.5	6.3	6.9	6.9	6.6	6.4	6.8	6.4	6.3
Capital expenditure 3/	4.2	2.8	2.5	2.2	2.0	2.6	2.7	2.9	2.9	3.1
Interest	9.6	9.5	7.6	8.3	8.1	7.6	6.6	5.9	5.5	5.1
Domestic	6.5	6.5	4.7	5.1	4.9	4.5	3.8	3.5	3.1	2.9
External	3.1	2.9	2.9	3.3	3.2	3.1	2.8	2.5	2.3	2.2
Budget balance	-6.4	-4.1	0.1	-0.7	-0.5	-0.1	0.9	1.1	1.5	1.9
Of which: Primary budget balance	3.2	5.4	7.7	7.6	7.6	7.5	7.5	7.0	7.0	7.0
Public entities balance	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	-6.4	-4.1	0.1	-0.7	-0.6	-0.1	0.9	1.1	1.5	1.9
Principal repayments	10.2	6.6	7.1	5.1	4.5	9.1	3.3	11.0	7.5	8.5
Domestic	5.4	2.8	5.2	0.6	0.5	4.0	0.6	4.3	3.7	4.8
External	4.8	3.9	1.9	4.6	3.9	5.1	2.7	6.7	3.9	3.7
Gross financing needs	16.6	10.9	7.1	5.8	5.0	9.3	2.4	9.9	6.0	6.6
Gross financing sources 4/	16.6	10.9	7.1	5.8	5.0	9.3	2.4	9.9	6.0	6.6
Domestic	11.3	10.2	3.6	2.0	2.0	1.4	0.8	3.7	2.8	3.4
External	1.6	0.7	3.9	8.3	8.2	2.7	1.8	5.8	3.2	3.2
Of which: Official	2.4	0.7	3.9	2.5	2.5	2.7	1.8	1.5	1.7	1.7
Divestment + deposit drawdown	3.3	0.0	-0.4	-4.4	-5.2	5.2	-0.1	0.3	0.0	0.0
Memorandum items:										
Nominal GDP (billion J$)	1,261	1,340	1,459	1,597	1,601	1,756	1,935	2,127	2,332	2,544
Public sector debt	141.7	146.5	141.6	139.9	140.1	131.0	124.9	116.9	108.7	100.6
Of which: Direct debt	121.9	125.2	124.2	122.5	122.9	114.4	108.8	100.9	93.1	85.1

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ In the context of the tax reform, it is premature to project the exact composition of revenues.
2/ in 2014/15, reflects the extension of the CGT to government purchases, with projected total yield of 0.2 percent of GDP.
3/ in 2014/15, projections reflect a reclassification of 0.5 percent of GDP from capital outlays to programme expenditures.
4/ It is assumed that 70 percent of Petrocaribe's annual inflows are used for domestic debt repayments.

Table 4. Jamaica: Operations of the Public Entities

	In billions of Jamaican dollars					In percent of GDP				
			Prel.	Prog.				Prel.	Prog.	
	2011/12	2012/13	2013/14	2014/15	2014/15	2011/12	2012/13	2013/14	2014/15	2014/15
Operating balance selected public entities 1/	**55.2**	**60.6**	**16.6**	**...**	**...**	**4.4**	**4.5**	**1.1**	**...**	**...**
Of which:										
Clarendon Aluminum	-7.2	-1.1	-10.1	...	...	-0.6	-0.1	-0.7	...	...
Petrojam	25.1	15.5	14.7	...	...	2.0	1.2	1.0	...	...
NROCC	-0.6	-3.3	-2.8	...	...	0.0	-0.2	-0.2	...	...
Urban Development Corporation	-0.8	-0.4	0.6	...	...	-0.1	0.0	0.0	...	...
National Water Commission	4.0	8.0	0.8	...	...	0.3	0.6	0.1	...	...
Port Authority of Jamaica	2.9	3.7	3.8	...	...	0.2	0.3	0.3	...	...
National Housing Trust	26.9	29.6	4.3	...	...	2.1	2.2	0.3	...	...
National Insurance Fund	1.7	4.8	1.4	...	...	0.1	0.4	0.1	...	...
Net current transfers from the central government	**-11.8**	**-15.2**	**-19.1**	**...**	**...**	**-0.9**	**-1.1**	**-1.3**	**...**	**...**
Of which:										
Clarendon Aluminum	7.5	3.4	1.7	...	...	0.6	0.3	0.1	...	...
Petrojam	-19.2	-21.3	-18.8	...	...	-1.5	-1.6	-1.3	...	...
NROCC	0.2	3.0	3.4	...	...	0.0	0.2	0.2	...	...
Urban Development Corporation	0.7	0.1	0.3	...	...	0.1	0.0	0.0	...	...
National Water Commission	0.0	1.0	0.7	...	...	0.0	0.1	0.0	...	...
Port Authority of Jamaica	0.0	0.0	0.0	...	...	0.0	0.0	0.0	...	...
National Housing Trust	-1.2	-4.0	-11.4	...	...	-0.1	-0.3	-0.8	...	...
National Insurance Fund	0.0	0.0	0.0	...	...	0.0	0.0	0.0	...	...
Gross capital expenditure selected public entities 2/	**39.5**	**41.6**	**39.6**	**...**	**...**	**3.1**	**3.1**	**2.7**	**...**	**...**
Of which:										
Clarendon Aluminum	-0.2	1.5	0.4	...	...	0.0	0.1	0.0	...	...
Petrojam	2.6	0.2	1.5	...	...	0.2	0.0	0.1	...	...
NROCC	0.6	0.3	0.4	...	...	0.1	0.0	0.0	...	...
Urban Development Corporation	0.7	0.2	1.8	...	...	0.1	0.0	0.1	...	...
National Water Commission	4.5	9.7	-6.0	...	...	0.4	0.7	-0.4	...	...
Port Authority of Jamaica	2.1	0.8	0.5	...	...	0.2	0.1	0.0	...	...
National Housing Trust	25.5	23.2	22.3	...	...	2.0	1.7	1.5	...	...
National Insurance Fund	0.1	0.0	0.0	...	...	0.0	0.0	0.0	...	...
Other net spending selected public entities 3/	0.0	0.0	-27.9	0.0	...	0.0	0.0	-1.9	0.0	...
Overall balance selected public entities	**3.9**	**3.7**	**-14.2**	**-10.3**	**-10.3**	**0.3**	**0.3**	**-1.0**	**-0.6**	**-0.6**
Of which:										
Clarendon Aluminum	0.5	0.8	-8.5	...	...	0.0	0.1	-0.6	...	...
Petrojam	3.3	-5.9	-5.0	...	...	0.3	-0.4	-0.3	...	...
NROCC	-1.0	-0.5	0.1	...	...	-0.1	0.0	0.0	...	...
Urban Development Corporation	-0.8	-0.5	0.6	...	...	-0.1	0.0	0.0	...	...
National Water Commission	-0.5	-0.7	-4.5	...	...	0.0	-0.1	-0.3	...	...
Port Authority of Jamaica	0.8	3.0	3.7	...	...	0.1	0.2	0.3	...	...
National Housing Trust	0.2	2.4	-4.7	...	...	0.0	0.2	-0.3	...	...
National Insurance Fund	1.6	4.7	1.4	...	...	0.1	0.4	0.1	...	...
Overall balance other public entities	**-4.1**	**-1.8**	**14.3**	**10.3**	**10.3**	**-0.3**	**-0.1**	**1.0**	**0.6**	**0.6**
Overall balance public entities	**-0.2**	**1.9**	**0.1**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**

Sources: Jamaican authorities; and Fund staff estimates.

1/ Selected public entities refer to a group of the most important 18 public bodies of which 8 are shown. The operating balance is defined as current revenues minus current expenditures after adjustments from accrual accounting to cash basis.
2/ Gross of the change in inventories.
3/ Other net spending items not captured in the operating balance or gross capital expenditures. Positive number means spending.

Table 5. Jamaica: Summary Balance of Payments

(In millions of U.S. dollars)

				Prog.	Projections					
	2011/12	2012/13	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Current account	-1,977	-1,583	-1,174	-1,051	-852	-687	-682	-635	-650	-678
Trade balance	-4,254	-3,956	-3,705	-3,552	-3,482	-3,356	-3,452	-3,464	-3,518	-3,560
Exports (f.o.b.)	1,618	1,743	1,546	1,622	1,548	1,587	1,658	1,733	1,813	1,880
Imports (f.o.b.)	5,872	5,699	5,251	5,174	5,030	4,943	5,110	5,197	5,330	5,440
Fuel (cif)	2,433	2,139	2,139	2,015	1,927	1,750	1,841	1,867	1,885	1,905
Exceptional imports (including FDI-related)	478	607	354	650	600	480	300	350	350	400
Other	2,961	2,953	2,758	2,509	2,503	2,713	2,969	2,980	3,095	3,134
Services (net)	619	523	616	764	768	741	794	810	817	824
Transportation	-616	-748	-656	-623	-577	-615	-631	-642	-663	-679
Travel	1,853	1,886	1,922	1,945	1,989	2,040	2,120	2,152	2,225	2,279
Of which: Tourism receipts	2,030	2,059	2,095	2,124	2,167	2,225	2,312	2,351	2,433	2,496
Other services	-619	-614	-649	-558	-644	-684	-695	-700	-745	-776
Income (net) 4/	-358	-269	-343	-487	-332	-345	-369	-390	-410	-432
Current transfers (net)	2,016	2,119	2,258	2,224	2,195	2,272	2,345	2,408	2,461	2,490
Government (net)	145	206	266	259	150	153	156	160	163	167
Private (net)	1,871	1,913	1,993	1,965	2,045	2,119	2,189	2,249	2,298	2,323
Capital and financial account	1,200	583	1,154	1,303	1,120	358	565	789	754	847
Capital account (net)	-11	-14	-26	-26	-26	-26	-26	-26	-26	-26
Financial account (net) 1/	1,211	597	1,180	1,329	1,146	383	591	815	779	873
Direct investment (net)	226	388	675	387	677	483	529	546	562	578
Central government (net)	-452	-621	-289	203	296	-662	-508	-273	-380	-365
Other official (net) 2/	698	542	316	549	314	272	204	162	126	91
Of which: PetroCaribe	492	462	382	318	294	209	163	123	87	53
Portfolio investment (net)	739	288	477	189	-141	290	366	380	471	568
Overall balance	-776	-1,000	-21	252	268	-330	-117	153	103	169
Financing	776	1,000	21	-252	-268	330	117	-153	-103	-169
Change in gross reserves (- increase)	776	893	-330	-259	-275	-67	-268	-136	-34	-61
Change in arrears	0	0	0	0	0	0	0	0	0	0
Financing gap	0	107	351	7	7	397	385	-18	-70	-108
IMF 3/	0	0	-26	-163	-163	127	176	-18	-70	-108
Disbursements	0	0	346	259	259	176	176	0	0	0
Repayments	0	0	-372	-422	-422	-50	0	-18	-70	-108
IFIs	0	107	376	170	170	270	209	0	0	0
Memorandum items:										
Gross international reserves	2,639	1,718	2,049	2,307	2,324	2,391	2,659	2,795	2,829	2,889
(in weeks of prospective imports of GNFS)	17.4	11.4	14.6	17.1	17.2	17.6	19.0	19.6	19.3	19.3
Net international reserves	1,777	884	1,304	1,893	1,883	1,824	1,916	2,069	2,173	2,341
NIR (excl. prefinanced repayments of maturing bonds)				1594	1,584	1,771	1,916	2,069	2,173	2,341
Current account (percent of GDP)	-13.5	-10.8	-8.4	-7.5	-6.1	-4.8	-4.7	-4.1	-4.0	-4.0
Exports of goods (percent change)	17.2	7.7	-11.3	6	0.1	2.5	4.5	4.5	4.6	3.7
Imports of goods (percent change)	22.3	-2.9	-7.9	-1.9	-4.2	-1.7	3.4	1.7	2.6	2.1
Oil prices (composite, fiscal year basis)	104.3	104.8	102.8	105.3	95.3	84.8	85.6	85.5	85.2	85.2
Tourism receipts (percent change)	1.2	1.4	1.8	1.4	3.4	2.7	3.9	1.7	3.5	2.6
GDP (US$ millions)	14,605	14,702	...	...	...	...	...	...	...	...
Jamaican dollar/USD, period average	86	91	...	...	...	...	...	...	...	...

Sources: Jamaican authorities; and Fund staff estimates.

1/ Includes estimates of a partial payment for the sales of a rum company in 2008/09.
2/ Includes the new general SDR allocation in 2009/10.
3/ Negative indicates repayment to the IMF.
4/ Starting FY2011/12, interest payments to non-residents were adjusted to reflect resident holdings of GOJ global bonds.

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

	2011/12	2012/13	2013/14	Prog. 2014/15	Projections 2014/15	2015/16	2016/17
			(In billions of Jamaican dollars)				
End-of-period stocks 1/							
Net foreign assets	**158**	**83**	**139**	**225**	**224**	**234**	**260**
Net domestic assets	**-74**	**8**	**-44**	**-123**	**-124**	**-123**	**-137**
Net claims on public sector	146	182	121	101	111	147	165
Net claims on central government	75	90	75	72	50	86	105
Net claims on rest of public sector	71	92	56	19	68	70	73
Operating losses of the BOJ	0	0	-10	11	-7	-9	-13
Net credit to commercial banks	-15	-20	-21	-25	-23	-27	-30
Of which : foreign prudential reserve	-15	-20	-21	-25	-23	-27	-30
Net credit to other financial institutions	-1	-1	-2	-2	-2	-2	-2
Open market operations	-112	-54	-31	-68	-81	-91	-104
Other items net (incl. valuation adj.)	-92	-98	-111	-130	-129	-151	-166
Valuation adjustment	-55	-59	-67	-85	-85	-106	-122
Base money	**84**	**91**	**94**	**102**	**100**	**111**	**123**
Currency in circulation	47	51	54	59	59	65	71
Liabilities to commercial banks	36	41	41	44	41	47	51
Fiscal year flows 1/							
Net foreign assets	**-70.5**	**-74.4**	**55.4**	**86.4**	**85.2**	**10.3**	**25.6**
Net domestic assets	75.3	82.0	-52.3	-78.6	-79.8	1.3	-14.2
Net claims on public sector	44.3	36.1	-61.6	-19.1	-9.6	36.1	17.7
Net claims on central government	35.9	15.3	-15.4	-3.0	-24.7	36.4	18.5
Net credit to commercial banks	-1.3	-4.7	-1.6	-3.4	-1.8	-3.3	-3.3
Net credit to other financial institutions	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Open market operations	32.1	57.3	23.8	-37.4	-50.1	-10.3	-12.6
Other items net (incl. valuation adj.)	0.0	-6.6	-12.8	-18.3	-18.3	-21.0	-15.9
Base money	**4.8**	**7.6**	**3.1**	**8.0**	**5.4**	**11.5**	**11.3**
Currency in circulation	4.0	3.3	3.0	5.1	5.2	5.7	6.6
Liabilities to commercial banks	0.7	4.3	0.2	3.0	0.2	5.8	4.8
			(Change in percent of beginning-of-period Base Money)				
Net foreign assets	**-89.3**	**-88.9**	**60.7**	**91.5**	**90.3**	**10.3**	**23.0**
Net domestic assets	**95.4**	**98.0**	**-57.3**	**-83.0**	**-84.5**	**1.3**	**-12.8**
Net claims on public sector	56.2	43.1	-67.5	-20.2	-10.1	36.2	15.9
Net credit to commercial banks	-1.6	-5.6	-1.7	-3.6	-1.9	-3.3	-3.0
Net credit to other financial institutions	0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Open market operations	40.7	68.4	26.0	-39.6	-53.0	-10.3	-11.3
Other items net (incl. valuation adj.)	0.0	-7.9	-14.0	-19.4	-19.4	-21.1	-14.2
Base money	**6.1**	**9.1**	**3.4**	**8.5**	**5.7**	**11.6**	**10.2**
Currency in circulation	5.1	4.0	3.3	5.4	5.5	5.7	5.9
Liabilities to commercial banks	1.0	5.1	0.2	3.2	0.2	5.8	4.3
Memorandum items:							
Change in net claims on the central government (percent of GDP)	2.8	1.1	-1.1	-0.2	-1.5	2.1	1.0

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Fiscal year runs from April 1 to March 31.

Table 7. Jamaica: Summary Monetary Survey 1/

	2011/12	2012/13	2013/14	Prog. 2014/15	Projections 2014/15	2015/16	2016/17
	(In billions of Jamaican dollars)						
End-of-period stocks 1/							
Net foreign assets	**165**	**113**	**187**	**273**	**279**	**295**	**325**
Net domestic assets	**185**	**283**	**233**	**183**	**166**	**201**	**221**
Net claims on public sector	217	263	194	186	199	245	261
Of which: Central government 2/	168	194	173	175	158	199	207
Open market operations	-63	-36	18	-33	-49	-77	-95
Credit to private sector	249	294	326	355	342	382	427
Of which: Foreign currency	81	81	82	77	77	80	84
Other 3/	-217	-237	-305	-325	-326	-349	-368
Of which: Valuation adjustment	-55	-59	-67	-82	-83	-100	-113
Liabilities to private sector (M3)	**350**	**396**	**421**	**456**	**445**	**496**	**547**
Money supply (M2)	236	252	261	271	271	298	323
Foreign currency deposits	114	144	160	186	174	198	223
Fiscal year flows 1/							
Net foreign assets	**-52.4**	**-51.6**	**74.1**	**86.4**	**92.1**	**16.1**	**29.8**
Net domestic assets	**69.5**	**98.1**	**-50.0**	**-50.6**	**-67.9**	**35.3**	**20.6**
Net claims on public sector	24.7	45.9	-69.3	-8.2	5.3	45.5	16.1
Of which: Central government	32.9	26.0	-20.4	2.0	-15.8	41.1	8.8
Open market operations	17.9	27.3	54.4	-51.1	-67.6	-27.3	-17.8
Credit to private sector	30.1	45.3	32.3	28.8	15.4	40.2	45.4
Of which: Foreign currency	8.6	0.2	0.9	-4.6	-4.6	2.8	4.5
Other 2/	-3.2	-20.4	-67.4	-20.1	-21.0	-23.2	-18.7
Of which: Valuation adjustment	0.0	-4.6	-7.7	-15.0	-15.7	-17.5	-12.5
Liabilities to private sector (M3)	**17.1**	**46.5**	**24.1**	**35.8**	**24.1**	**51.4**	**50.5**
Money supply (M2)	10.5	16.0	8.4	10.1	10.5	26.5	25.5
Foreign currency deposits	6.6	30.6	15.7	25.7	13.6	24.9	24.9
	(Change in percent of beginning-of-period M3)						
Net foreign assets	**-15.7**	**-14.7**	**18.7**	**20.5**	**21.9**	**3.6**	**6.0**
Net domestic assets	**20.9**	**28.0**	**-12.6**	**-12.0**	**-16.2**	**7.9**	**4.2**
Net claims on public sector	7.4	13.1	-17.5	-1.9	1.3	10.2	3.2
Of which: Central government	9.9	7.4	-5.1	0.5	-3.8	9.2	1.8
Open market operations	5.4	7.8	13.7	-12.1	-16.1	-6.1	-3.6
Credit to private sector	9.0	13.0	8.2	6.8	3.7	9.1	9.1
Of which: Foreign currency	2.6	0.1	0.2	-1.1	-1.1	0.6	0.9
Other 2/	-1.0	-5.8	-17.0	-4.8	-5.0	-5.2	-3.8
Of which: Valuation adjustment	0.0	-1.3	-2.0	-3.6	-3.7	-3.9	-2.5
Liabilities to private sector (M3)	**5.1**	**13.3**	**6.1**	**8.5**	**5.7**	**11.6**	**10.2**
Memorandum items:							
M3/monetary base	4.2	4.3	4.5	4.5	4.5	4.5	4.5
M3 velocity	3.6	3.4	3.5	3.5	3.6	3.5	3.5

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

1/ Fiscal year runs from April 1 to March 31.

2/ Includes net credit to nonbank financial institutions, capital accounts, valuation adjustment, securities sold under repurchase agreements and net unclassified assets.

Table 8. Jamaica: Financial Sector Indicators 1/
(In percent)

	2007	2008	2009	2010	2011	2012	2013	Jun-14
Balance sheet growth (y/y)								
Capital	11.5	14.7	13.8	5.1	5.4	4.2	17.1	16.1
Loans	28.7	24.2	5.3	-1.4	4.8	12.9	14.1	8.9
NPLs	14.2	57.6	68.0	36.1	44.0	-10.8	-12.9	-4.9
Liquidity								
Excess liquidity 2/	25.0	30.3	31.3	36.2	30.5	26.7	25.3	29.3
Asset Quality								
Prov. for loan losses/NPLs	103.4	87.2	75.7	69.9	75.2	90.3	95.7	97.5
NPLs/loans	2.3	2.9	4.7	6.5	8.9	7.0	5.4	5.1
Capital Adequacy								
NPLs/Capital+Prov. for loan losses	9.1	12.3	17.7	22.3	28.4	24.1	18.8	17.7
Capital Adequacy Ratio (CAR) 3/	16.0	15.2	18.8	18.2	16.1	14.1	15.1	16.0
Profitability 4/ 5/								
Pre-tax profit margin	26.7	26.2	21.4	21.1	30.8	21.4	19.0	17.6
Return on average assets	3.4	3.5	2.9	2.5	3.9	2.4	2.0	0.5

Source: Bank of Jamaica.

1/ Commercial banks, building societies, and merchant banks.
2/ Statutory liquid assets/prescribed liabilities.
3/ If not end-quarter, data corresponds to last quarter.
4/ The significant increase in profitability for 2011 is due to an up-stream dividend from one insurance subsidiary to its parent bank. Without such dividend pre-tax profit margin and return on average assets would be 18.1 and 2.3 percent, respectively.
5/ Calendar year or end-quarter.

Table 9. Jamaica: Structural Program Conditionality

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1. Revise the relevant legislation for the adoption of a fiscal rule to ensure a sustainable budgetary balance, to be incorporated in the annual budgets starting with the 2014/15 budget.	March 31, 2014	Met
2. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	Met
3. Government to ensure there is: (i) no financing of Clarendon Alumina Production (CAP) by the government or any public body, including Petro Caribe; and (ii) no new government guarantee for CAP or use of public assets (other than shares in CAP and assets owned by CAP) as collateral for third-party financing of CAP.	Continuous	Met
4. Government to table in parliament a budget for 2014/15 consistent with the program.	April 30, 2014	Met
5. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17, Country Report No. 13/378).	April 30, 2014	Met
6. Cap the total loan value of all new user-funded PPPs at 3 percent of GDP on a cumulative basis over the program period.	Continuous	Met
7. Ensure that the public service database e-census is up to date and covers all Ministries, Departments and Agencies.	September 10, 2014	Met
8. Develop an action plan for public sector transformation to cover the following areas: (1) the introduction of shared corporate services, (2) the reallocation, merger, abolition and divestment/privatization of departments and agencies, (3) outsourcing of services, (4) strengthening control systems and accountability (including in auditing and procurement), and (5) aligning remuneration with job requirements.	September 30, 2014	Met
9. Government to table changes in legislation for the new public sector pension system expected to be implemented by April 2016 (MEFP paragraph 25, Country Report No. 14/169).	June 30, 2015	
10. Government to establish a new Cash Management Unit in the Accountant General Department (AGD) and transfer to it the cash management function currently handled by the Fiscal Policy Management Unit (FPMU).	June 30, 2015	Proposed
Tax Reform		
11. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as stipulated in the TMU.	Continuous	Met
12. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (paragraphs 6, 7, 8, and 9 of the MEFP for Country Report 13/378) and as stipulated in par. 13 of the March 2014 MEFP.	March 31, 2014	Met
13. Government to table in parliament amendments to the GCT as stipulated in paragraph 12 of the June 2014 MEFP.	June 30, 2014	Met
14. Government to conduct an entity by entity review of all grandfathered entities and of their specific tax incentives in the context of the new tax incentives legislation by end-2014/15.	January 31, 2015	
Tax Administration		
15. Government to make e-filing mandatory for LTO clients with respect to General Consumption Tax (GCT) and Corporate Income Tax (CIT).	March 31, 2014	Met
16. Government to implement ASYCUDA World for the Kingston Port as a pilot site.	December 31, 2014	
17. Government to: (i) increase the number of staff in the large taxpayers office (LTO) by a further 30 auditors (from March 2014 to March 2015); (ii) increase the number of (full plus issue) audits completed in the LTO by 100 percent (from FY 2013/14 to FY 2014/15); (iii) achieve 95 percent take up rate of e-filing and e-payment in the LTO; (iv) write-off all GCT and SCT debts that have been subjected to risk-rated stress tests and consequently categorized as uncollectible according to the Regulations.	March 31, 2015	Proposed revision
18. Government to implement Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package.	February 28, 2015	
19. Government to table in Parliament proposals for a comprehensive overhaul of the Customs Act.	June 30, 2015	
20. Government to introduce new productivity indicators, in consultation with Fund staff, to measure the effectiveness and efficiency of the tax system.	November 30, 2015	

Table 9 (Continued). Jamaica: Structural Program Conditionality

Financial sector		
21. Government to table legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	Met
22. Government to submit proposals for a distinct treatment for retail repo client interests in the legal and regulatory framework to the relevant financial industry for consultation (MEFP March 2014 Paragraph 25) in consultation with Fund staff.	March 31, 2014	Met
23. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (June 2014 MEFP Paragraph 29) in consultation with Fund staff.	December 30, 2014	
24. Government to table the Omnibus Banking Law 1/ consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	Met 2/
25. Government to finalize the transition of retail repos to the trust-based framework.	June 30, 2015	Proposed
26. Government to fully implement the Banking Services Act.	September 30, 2015	Proposed
Growth enhancing structural reforms		
27. Government to implement a new (AMANDA) tracking system to track approval of contruction permits across all parish councils.	December 30, 2014	Met
28. Government to table in parliament the Electricity Act.	January 31, 2015	Revision

1/ Currently referred to as the Banking Services Act.
2/ The law was tabled in March 2014 with subsequent fine-tuning in collaboration with Fund staff prior to its adoption in June.

Table 10. Jamaica: Quantitative Performance Criteria 1/2/3/

(In billions of Jamaican dollars)

	2013	2014				2015		
	End-Dec.	End-Sep.	End-Sep.	End-Sep.	End-Dec.	End-Mar.	End-Jun.	End-Sep.
	Stock	Prog.	Adjusted	Actual	PC	PC	PC	Proposed PC
Fiscal targets								
1. Primary balance of the central government (floor) 4/	...	37.8		43.6	66.0	121.0	17.0	32.0
2. Tax Revenues (floor) 4/9/	...	166.0		169.0	260.0	384.0	88.0	175.0
3. Overall balance of the public sector (floor) 4/	...	-30.2	-33.7	-23.1	-37.0	-11.6	-17.0	-25.0
4. Central government direct debt (ceiling) 4/5/	1672.0	108.1		99.9	92.4	90.6	4.5	0.0
5. Central government guaranteed debt (ceiling) 4/	...	2.7		1.1	0.1	-1.8	2.0	2.0
6. Central government accumulation of domestic arrears (ceiling) 6/12/13/	21.6	0.0		-0.2	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 7/12/13/	24.6	0.0		-0.9	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 6/12/	...	0.0		0.0	0.0	0.0	0.0	0.0
9. Social spending (floor) 9/10/	...	8.9		12.3	14.8	21.7	4.5	9.5
Monetary targets								
10. Cumulative change in net international reserves (floor) 8/11/	1045.1	258.6	134.0	1159.3	351.9	529.4	470.3	469.2
11. Cumulative change in net domestic assets (ceiling) 11/	-7.5	-24.7	-11.4	-130.7	-27.0	-55.1	-45.7	-44.0

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Including proposed modified performance criteria for the net international reserves and the net domestic assets.
3/ Based on program exchange rates defined in the March 2014 TMU.
4/ Cumulative flows from April 1 through March 31.
5/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
6/ Includes debt payments, supplies and other committed spending as per contractual obligations.
7/ Includes tax refund arrears as stipulated by law.
8/ In millions of U.S. dollars.
9/ Indicative target.
10/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
11/ Cumulative change from end-December 2013.
12/ Continuous performance criterion.
13/ This accumulation is measured as the change in the stock of arrears relative to the stock at end-March 2013. The latter stock is listed in the column for the stock at end-December 2013.

Table 11. Jamaica: Indicators of Fund Credit, 2014-25

(In millions of SDRs, unless otherwise specified)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Prospective drawings (4-year EFF)	137.85	113.28	113.28	28.33	…	…	…	…	…	…	…	…
(in percent of quota)	50.40	41.42	41.42	10.36	…	…	…	…	…	…	…	…
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)												
Amortization	11.95	95.63	3.99	11.40	37.11	64.80	83.68	100.20	102.56	91.17	65.46	37.76
Amortization (SBA)	11.95	95.63	3.99	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Amortization (4-year EFF)	0.00	0.00	0.00	11.40	37.11	64.80	83.68	100.20	102.56	91.17	65.46	37.76
Interest and service charges	0.23	5.11	5.86	6.45	6.26	5.79	5.07	4.13	3.07	1.99	1.12	0.51
SDR charges and assessments	0.00	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Total debt service	12.18	100.77	9.88	17.89	43.41	70.63	88.79	104.37	105.67	93.20	66.62	38.31
(in percent of exports of G&S)	0.44	3.54	0.33	0.59	1.38	2.18						
(in percent of GDP)	0.14	1.10	0.10	0.18	0.42	0.65	0.79	0.89	0.86	0.73	0.49	0.27
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)												
Outstanding stock	460.10	477.76	587.05	603.98	566.88	502.08	418.39	318.19	215.63	124.46	59.00	21.24
(in percent of quota)	168.23	174.68	214.64	220.83	207.27	183.58	152.98	116.34	78.84	45.51	21.57	7.77
(in percent of GDP)	5.11	5.23	6.23	6.13	5.48	4.61	3.71	2.72	1.76	0.97	0.44	0.15
Memorandum items:												
Exports of goods and services (US$ millions)	4,309.00	4,430.40	4,613.29	4,753.20	4,910.83	5,047.37	…	…	…	…	…	…
Quota	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50

Source: IMF staff projections.

Table 12. Jamaica: Schedule of Reviews and Purchases

Availability Date	Amount of Purchase: Millions of SDR	Amount of Purchase: Percent of Quota	Conditions 1/
	Purchases		
May 1, 2013	136.75	50	Approval of Arrangement
September 30, 2013	19.97	7	First Review and end-June 2013 performance criteria
December 18, 2013	19.97	7	Second Review and end-September 2013 performance criteria
March 19, 2014	45.95	17	Third Review and end-December 2013 performance criteria
June 20, 2014	45.95	17	Fourth Review and end-March 2014 performance criteria
September 24, 2014	45.95	17	Fifth Review and end-June 2014 performance criteria
December 15, 2014	45.95	17	Sixth Review and end-September 2014 performance criteria
March 15, 2015	28.32	10	Seventh Review and end-December 2014 performance criteria
June 15, 2015	28.32	10	Eighth Review and end-March 2015 performance criteria
September 15, 2015	28.32	10	Ninth Review and end-June 2015 performance criteria
December 15, 2015	28.32	10	Tenth Review and end-September 2015 performance criteria
March 15, 2016	28.32	10	Eleventh Review and end-December 2015 performance criteria
June 15, 2016	28.32	10	Twelfth Review and end-March 2016 performance criteria
September 15, 2016	28.32	10	Thirteenth Review and end-June 2016 performance criteria
December 15, 2016	28.32	10	Fourteenth Review and end-September 2016 performance criteria
March 15, 2017	28.33	10	Fifteenth Review and end-December 2016 performance criteria
Total	615.38	225.0	

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

Appendix I. Letter of Intent

Kingston, Jamaica
December 3, 2014

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

Dear Ms. Lagarde,

Jamaica has continued the steadfast implementation of its Fund-supported economic reform programme aimed at overcoming the long-standing problems of low growth and high debt. All quantitative fiscal and monetary performance criteria under the programme have been met for all quarterly test dates. The Government has also implemented all of the structural benchmarks that were included in the programme, albeit with some minor delays.

The Government remains fully committed to meeting the objectives of the programme, as well as the specific targets set out in the June 2014 Memorandum of Economic and Financial Policies (MEFP) and its September 2014 supplement. Attachment 1 to this letter is a further supplement to the MEFP, presenting performance under the programme, and updating some specific policies to meet the programme's ultimate objectives, including the associated quantitative targets and structural benchmarks. Attachment 2 is the updated Technical Memorandum of Understanding.

On the basis of our performance under the programme thus far as well as our sincere commitment to the continued implementation of the programme, the Government requests that the Executive Board of the IMF complete the sixth review of the extended arrangement under the Extended Fund Facility, approve new performance criteria for September 2015 and approve the seventh purchase under the arrangement of SDR 45.95 million.

The Government believes that the policies described in the attached MEFP are adequate to achieve the programme's objectives. However, if necessary, the Government stands ready to take any additional measures that may be required. The Government will consult with the Fund 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 on a timely basis. The Government will observe the standard performance criteria against imposing or intensifying exchange restrictions, introducing or modifying multiple currency practices, concluding bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement and imposing or intensifying import restrictions for balance of payments reasons.

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

Very truly yours,

/s/

Peter D. Phillips,
Minister of Finance and Planning
Jamaica

/s/

Brian Wynter
Governor, Bank of Jamaica
Jamaica

Attachment I. Memorandum of Economic and Financial Policies

RECENT DEVELOPMENTS

1. On September 24, 2014, the Fund's Executive Board completed the Fifth Review of the four-year extended arrangement under the EFF in support of Jamaica's economic reform programme.

2. Economic performance during the first year of the programme has been mixed, reflecting a challenging economic environment.

- **Economic Growth.** Real GDP is estimated to have increased by 1.8 percent in the first quarter of FY2014/15 (April to June 2014), supported by growth in agriculture, manufacturing, construction, and tourism.

- **Inflation.** Consumer price inflation amounted to 8.2 percent (year-on-year) in October 2014, reflecting the residual impact of an earlier drought on agricultural production and the pass-through of nominal depreciation into domestic prices.

- **Balance of Payments.** The current account deficit is estimated to have declined to 8.4 percent of GDP in 2013/14, supported by exchange rate depreciation and fiscal consolidation. Net international reserves (NIR) increased to US$2.2 billion by end-September 2014, comfortably meeting the programme's NIR target. As of end-November, reserves amounted to US$2.0 billion.

- **Public Finances.** Fiscal performance in the first half of FY 2014/15 was broadly satisfactory. Tax revenues were above the September programme floor. Current and capital expenditures were also lower than projected, and both the central government primary balance and overall balance of the public sector exceeded the programme target.

PERFORMANCE UNDER THE PROGRAMME

3. Overall policy implementation under the programme remains strong and structural reforms are progressing. All quantitative performance targets and indicative targets for end-September were met. Structural benchmarks due during July to September 2014 were also met. The e-census public service database is now up to date, covering all Ministries, Departments and Agencies, and is being validated and updated, and a Public Sector Transformation Plan was approved by Cabinet in September 2014. Parliament adopted amendments to the General Consumption Tax (GCT) Act, Tax Collection Act 2014 and Tax Penalties Act, also in September.

POLICIES FOR 2014/15 AND BEYOND

4. The Government remains fully committed to the reform strategy and the supporting policies outlined in the June 2014 MEFP. Unless modified below, that strategy and those policies remain valid in full. The quantitative targets that serve as performance criteria and indicative targets under the programme have been updated and extended through September 2015. These updated targets are presented in Table 1. The structural conditionality under the programme, incorporating several modifications discussed below, is presented in Table 2.

The 2015/16 Budget

5. The 2015/16 budget will be consistent with the objectives and targets of this programme, and will be submitted to parliament in time for its adoption before end-March 2015. In particular, the budget will maintain the primary surplus of the central government at 7.5 percent of GDP. It will include a reduction in the size of the wage bill to 9.0 percent of GDP, consistent with the Fiscal Responsibility Framework. Reforms in tax administration and tax policy will be aimed at minimizing any loss of tax revenues in the face of an eroding tax base due to, for example, the wage bill reduction and import compression. A budget call for early and accurate budget envelopes and priorities was issued in September 2014 to strengthen budget preparation. The budget will include a comprehensive and clear fiscal risk statement, covering all significant contingent liabilities including those related to public sector entities and PPPs. Technical assistance (TA) is expected to be provided by the IDB, the World Bank and the IMF to support this effort. In this context, the total loan value of all new user-funded PPPs (excluding those confirmed by the Auditor General to involve only minimal fiscal contingent liabilities) is capped at 3 percent of GDP on a cumulative basis over the programme period (*continuous structural benchmark*).

Tax Reforms

6. Several elements of the extensive reform of the tax system that have already been presented require further action:

- The Minimum Business Tax initially announced in FY2012/13 was implemented by way of a provisional order starting April 2014. Permanent legislation will be tabled by January 2015.
- A first phase in the amalgamation of statutory payroll deductions was completed by finalizing and gazetting the SO3 form in March 2014. Annual return SO4 form is to be completed by end-December 2014.

7. Important follow-up initiatives are still needed as part of the tax reform. In the context of the new tax incentives legislation, an expeditious transition by entities with grandfathered incentives to the new regime will be important for achieving the expected decline in tax expenditures. In this context, the Government will conduct an entity by entity review of all entities with grandfathered incentives and of their regime by end-FY2014/15 (*structural benchmark for January 2015*), to serve as a basis for discussion to facilitate transition to the new regime by mutual agreement between authorities and entities. TA by the IDB for this review is ongoing. Property tax reform is also envisaged to be ready for implementation by the start of FY2015/16, as discussed in the June 2014 MEFP. Looking beyond 2015/16, we will assess the need for a further reduction in tax expenditures, on the basis of revenue needs and an assessment of the degree to which the recent reforms will result in a progressive decline in tax expenditures over time, as grandfathered incentives expire. The IDB has provided TA to support these assessments. A further exploration of options for additional broadening of the tax base, and their implications for growth, revenue and social objectives, would be helpful in guiding such further tax reform. We will invite the Fund and the IDB to offer assistance in preparing these reviews. Furthermore, and based on ongoing IDB TA, we plan to improve the reporting on tax expenditures and their estimated fiscal costs in the context of future budgets. Over the medium term, a convergence of personal and corporate income tax rates to a uniform standard headline rate is also envisaged, subject to available fiscal space and the attainment of revenue targets.

8. Property tax reform is envisaged to be ready for implementation by the start of FY2015/16. This will include amendments to the Property Tax Amendment Act, the Land Valuation Amendment Act, and the Tax Collection Amendment Act to provide for, among other things, the publication of names, valuation numbers, addresses and amounts outstanding of delinquent property owners in the Jamaica Gazette, daily news papers, broadcast media or a Government of Jamaica website, subject to court proceedings, as well as provisions to allow utilization of a wide array of media for the posting of Assessment Notices. Amendments to the Land Valuation Act will also provide for the interim adjustment of land values in periods of no more than two years, to take account of changes in economic conditions and/or change in the use of properties.

9. Reforms to strengthen tax and customs administration are proceeding. Steps to improve tax and customs administration are guided by the revenue administration action plan prepared in collaboration with the IMF and IDB. In particular, we have recently:

- Appointed a permanent Commissioner General to head Tax Administration Jamaica (TAJ), and a permanent Board has been put in place, to ensure strong leadership and governance. The new organizational structure has been approved and the appointment of deputies has been completed.

- Enacted legislation to strengthen the powers of TAJ and Jamaica Customs Agency (JCA) to collect outstanding arrears. Amendments (including powers to seize and sell taxpayers' property, harmonization of penalties and fines where appropriate and the introduction of mandatory income tax filing for every business) were adopted by Parliament in September 2014.

- Enacted amendments to the Customs Act to facilitate implementation of ASYCUDA World and trade facilitation (September 2014).

- Set up a modernization programme office in the TAJ, with a manager and key staff already in function.

- Tabled legislation related to the establishment of the Revenue Appeals Department as a separate, independent entity, with IFC support.

10. Next steps to strengthen tax and customs administration include:

- Full implementation of the elimination of applying the GCT for government purchases by March 2015 (except for purchases by public schools).

- Improving the regime for making tax payments, with lower bank charges, by February 2015, with the World Bank assisting the TAJ

- Seeking to increase the number of banks that accept the use of Real Time Gross Settlement (RTGS) as an alternative channel for the payment of duties and taxes on commercial imports; discussions with banks are ongoing.

- Improving large taxpayer administration through: (i) increasing the number of staff in the large taxpayers office (LTO) by a further 30 auditors (from March 2014 to March 2015); (ii) increasing the number of (full plus issue) audits completed in the LTO by 100 percent (from FY 2013/14 to FY 2014/15); (iii) achieving 95 percent take up rate of e-filing and e-payment in the LTO (March 2015) and (iv) writing off all GCT and SCT debts that have been subjected to risk-rated stress tests and consequently categorised as uncollectible in accordance with the Regulations (*revised structural benchmark, March 2015*). We aim to similarly write off income tax debts that have been subjected to risk-rated stress tests and consequently categorised as uncollectible in accordance with the Regulations by end-2015. The number of LTO auditors will be increased by another 20 by September 2015.

- A comprehensive overhaul of the Customs Act will be tabled by June 2015 (*structural benchmark*).

- Automating tax and customs operations by implementing:

  - (i) ASYCUDA World for the Kingston Port as a pilot site (*structural benchmark for December 2014*),

  - (ii) Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package (*structural benchmark for February 2015*),

  - (iii) ASYCUDA-World integrated customs software package for the entire country (March 2016), and

  - (iv) GENTAX integrated tax software package for all major tax types; the stamp duty and transfer tax will be added if possible (April 2016).

- Preparing (with IMF TA support) an estimate of the revenue compliance gap for the GCT by February 2015, to provide a basis for measuring the impact of administrative reforms.

- Implementing new revenue productivity indicators that measure the effectiveness and the efficiency of the tax system (*structural benchmark for November 2015*), building on TA provided by the Fund. The indicators should cover compliance gaps for all major taxes, as well as e-filing, non-filing, audit coverage, objection, and appeals results, arrears collection, collectible and disputed debts, refund processing, and customs clearance and customs post-clearance audits.

Reforms to Public Financial Management and the Budget Process

11. The government is prioritizing reforms that are needed to underpin the new fiscal rule adopted by Parliament in March 2014. The March 2014 MEFP supplement described the rule in detail. The classification rules for determining which entities would be deemed commercial and, on that basis, could be excluded from the coverage of the fiscal rule have now been completed, and the associated regulations and a sensitization programme are under preparation. Next steps to ensure effective implementation of the fiscal rule were listed in full in the June 2014 MEFP and its September 2014 supplement. These include bolstering capacity within the Auditor General's office, and a database of PSIP projects will be completed in December 2014. An improved Public Investment Management System (PIMS), designed with World Bank support, will be supported by a high-level Public Investment Management Committee that has been approved by cabinet, and the creation of a web-based public investment management information system, Phase 1 of which became operational in July 2014. A PSIP policy paper was presented to Cabinet in September 2014.

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

- The macro-fiscal capacity of the Ministry of Finance and Planning (MOFP) will be strengthened with the support of IMF TA. An action plan was completed in September 2014, as described in the September 2014 MEFP supplement. On the basis of this plan, we will: :(1) undertake hands-on training for the members of the Fiscal Policy Management Unit (FPMU); (2) review, re-organize and reclassify the functions and positions in the FPMU; (3) develop structured workplans for each position in the re-organized FPMU by the first quarter of FY 2015/16; (4) recruit additional qualified staff for the re-organized Unit by the second fiscal quarter of 2015; and (5) document procedures of methodology and processes for the efficient production of key outputs and effective management of datasets and information on an on-going basis. With the support of IMF TA, the FPMU commenced, in October 2014, hands-on training in macro-fiscal management, including a review of the revenue forecasting methodology, as well as the development of a comprehensive macro-fiscal data collection and management strategy.

- The Treasury Single Account (TSA) at the Bank of Jamaica will be further expanded and improved, including by the closure of imprest and various transit accounts by April 2015 (including clearing accounts for the payment of salaries), collection of gross revenue flows, and inclusion of extra budgetary funds, executive agencies and budget-financed public bodies in the TSA. The Government will further increase direct payments through the TSA using the central treasury management system (CTMS), including of civil servants salaries (by January 2015), and will strive to retain collections in the TSA till payments need to be made. With technical assistance of the Fund a plan for further expansion of the TSA will be developed by December 2014.

- We will review the need for a service level agreement between the BOJ and the government for banking services provided by the BOJ.
- CTMS coverage and functionality will continue to be expanded. A CTMS development strategy has been prepared.
- The Accountant General's Department (AGD) is the Treasurer of the single treasury account and the process for transitioning of the AGD into a modern treasury department by March 2016 commenced in April 2013 with a consultancy to develop a strategy to guide the transition. By December 2014, we aim to develop an AGD modernization plan, and to define a new organizational structure. In support of the modernization plan, an AGD Modernization Task Force including MOFP and AGD functional, HR, and IT expertise has recently been established.
- A new Cash Management Unit will be established in the AGD, and the cash management function (currently handled by FPMU) will be transferred to it by June 2015 (proposed structural benchmark), with the help of IMF TA (funded by the Canadian Department of Foreign Affairs, Trade and Development). Furthermore, a new cash forecasting model is expected to be developed by June 2015 and to become operational by September 2015.
- The adjusted Chart of Accounts was first prepared in April 2014 and is undergoing further revisions with a view of its implementation by June 2015.
- The GOJ will strengthen the efficiency and quality of the GOJ procurement process, thereby improving the ease of doing business and reducing costs. Next steps include:
  - Implementation of the Electronic Tendering System in four pilot entities during the financial year 2014/15.
  - Adoption and effectiveness of the Procurement Act tabled by July 2014, with a view to its passing and effectiveness by January 2015.
  - A new procurement manual will be prepared by March 2015, with IDB assistance.

Debt Reduction

13. The Government is committed to sharply reducing public debt, which is expected to decline to 96 percent of GDP by March 2020. This is expected to be achieved by sustained fiscal efforts, policies to bolster growth, as well as additional market friendly measures. In designing and implementing these transactions, the Government will seek to ensure sound public sector governance. For the purpose of the IMF-supported reform programme, reporting on public debt includes government guaranteed debt and PetroCaribe debt (net of its financing to the central government and its holdings of guaranteed debt).

14. The Government will further strengthen its debt management strategy. The efficiency of the Debt Management Branch will be further strengthened through increased staffing of the middle office, skills training and effecting improvements to securities operations. By January 2015, the BOJ and the MOFP will finalize a Fiscal Agency Agreement on debt management operations and the debt issuance process.

Public Sector Reform

15. The Government is committed to improving the efficiency, quality and cost effectiveness of the public sector. We have developed an action plan for public sector transformation (*structural benchmark)*, in close cooperation with our development partners.

- **Public sector transformation.** On the basis of our action plan we will: (i) put in place shared services within the central government starting with the legal services; a consultant is being retained who will complete a report for optimal shared service model, the structure and attendant service level agreements by March 2015. (ii) merge the Forensic Laboratory and the Legal Medicine Unit by completing the organisational structure by June 2015 and getting the new entity operational by September 2015, and (iii) complete the merger of the Betting Gaming and Lotteries and the Racing Commissions by April 2015.

- **Wages and salaries.** The Government has initiated discussions on a new wage agreement for the period after March 2015, to maintain a path of public sector wages consistent with firmly placing public debt on a downward path over the medium-term.

- **Public Sector Positions**. The GOJ will continue to reduce the size of the public sector over 2014–16 through the elimination of posts and an attrition programme. To ensure that the GOJ's overall wage ceiling of 9.0 percent of GDP by 2015/16 is met, the filling of vacant positions will be constrained as needed, guided subject to the need to preserve capacity in a limited number of priority areas.

- **The procurement of the human resources software system (the HCMES system; including Payroll)** is progressing and the vendors were sent the 2nd stage RFP on October 16th and are expected to respond by December 2nd. Given the delay in sending out the 2nd stage RFP the process to evaluate the bids and identify the preferred vendor will be completed by January 2015. Contract negotiation and agreement of the terms of the contract is expected to be completed by April 2015. To ensure a timely start to implementation of the system for the wider public sector, with IDB support, a dedicated project management team will be in place by November 30th 2014 with the project plan to be completed by April 2015. The start of the implementation of the HCMES/Payroll system for the first entity, subject to the Vendor, is now expected to start in April 2015. Implementation for the remaining five entities will commence by October 2015**.**

- A Chief Information Officer will be in place by end-January 2015, to support the e-government strategy.

16. In the area of public bodies, further improvement is to be achieved. The sector's overall balance is projected to be in balance for the remaining programme years. To enhance transparency, the annual reports (including audited statements) for public bodies will be completed within six months of the end of the fiscal year; this is to be achieved by end-2014 for self-financing public bodies (with the exception of PetroCaribe, and Petrojam) and by December 2015 for all other public bodies. Public Bodies that fail to meet this condition without reasonable cause will be sanctioned under Section 25 of the Public Bodies Management and Accountability Act. Monitoring of public bodies will be strengthened by (1) enforcing a time limit for submission of the relevant public bodies' financial statements to the Auditor General; and (2) bolstering capacity within the Auditor General's office for more in-depth and frequent reviews of these statements. In addition, by June 2015, a review will be undertaken to evaluate the scope for reintegrating some public bodies into the central government and setting others at a more arms-length distance from the central government with a governance framework aligned with international best practices.

FINANCIAL SECTOR REFORMS

17. We are taking steps to mitigate the risks inherent in Jamaica's highly interconnected financial system.

- We will bring into effect by end-September 2015 (proposed structural benchmark) the Banking Services Act that was adopted in June 2014; the supporting regulations require parliamentary approval and will be tabled by end-July 2015.

- We are preparing plans to strengthen the regulatory and supervisory framework for non-bank financial institutions with long-term Fund technical assistance.

- Concurrent with the ongoing and intensified measures to achieve financial sector reform and in the context of Jamaica's highly interconnected financial sector, we are taking steps to strengthen the resolution framework and formally establish the national crisis management plan, consistent with international best practices. The BOJ and the FSC have put in place contingency plans, including financial backstops, and agency-specific crisis management frameworks. These steps will support a national plan and framework under the auspices of the FRC that we will finalize by end-December 2014; the MOF and the JDIC will put in place complementary plans and frameworks by end-January 2015. To support the foregoing, we will table any necessary legislative provisions by end-July 2015, for enactment by end-September 2015, building on anticipated IMF TA in January or February 2015, with a stakeholder consultation process scheduled to start by end-April 2015. By end-March 2015, we will also have ready for discussion a strategy paper to further strengthen depositor protection and investor compensation across financial institutions.

- We are preparing amendments to the BOJ Act in order to vest the BOJ with overall responsibility for financial stability. We will also prepare a comprehensive strategy paper to enhance BOJ governance and autonomy for discussion by end-February 2015; we will assess the need and scope for priority revisions to the BOJ Act, especially in the context of the Safeguards

Assessment. We will table any such priority legislative provisions by end-July 2015, together with the amendments concerning the BOJ's financial stability mandate, for enactment by end-September 2015.

- We would support the commencement of a Financial Sector Assessment Program (FSAP) Stability Module by end-2015.

18. We are taking steps to make less risky business models available to securities dealers.

- We raised the investment cap for CIS in foreign assets from 5 percent of assets to 7.5 percent effective July 1, 2014, as a first step towards raising the cap to at least 25 percent by end-2015.The second step (10 percent) is scheduled for January 2015. In January 2015 we will publish a timeline to migrate from 10 percent to at least 25 percent by end-December 2015. This cap will be removed altogether by end-2016, unless extraordinary circumstances require a reassessment.

- Furthermore, consultations are ongoing between the BOJ, representatives of regulated entities in the insurance and pensions sectors, and the FSC clarifying that current limits on permissible investments in foreign assets can be removed only at a later stage. The BOJ, in collaboration with the FSC, will prepare a paper for discussion with the industry by end-March 2015.

- The remaining tax obstacles to CIS, in particular those arising from the stamp duty and the transfer tax, were removed in July 2014 through a provisional order that will expire in December 2014; we will enact legislative provisions by end-December 2014 to remove these obstacles for a longer period to provide certainty and encourage the use of CISs.

19. We are implementing measures to protect the interest of retail repo clients.

- In consultation with Fund staff, we are establishing a distinct treatment for retail repo clients in the legal and regulatory framework in order to protect their interests prior to and in the event of the insolvency of a securities dealer. This will entail establishing a Trust to hold the underlying securities on their behalf during the term of the retail repo.

- The legal and regulatory framework will comprise (1) the standardized legal documentation for the retail repo transactions, including a master retail repurchase agreement and trust deed; (2) reporting and other regulatory requirements for the securities dealers who are parties to retail repurchase agreements; (3) reporting and other regulatory requirements for the Jamaica Stock Exchange entities that will serve as custodian and trustee with respect to the trust arrangement; and (4) definitive legal treatment for the retail repo client interests in the event of a dealer's insolvency.

- The Trust arrangement is intended to ensure that funds and securities flow in accordance with the terms of the retail repo agreement, and the Trust will be responsible for the custody of the securities underlying retail repo transactions. It will also facilitate the taking of appropriate actions in the event of a transaction failure or default. A key function of the Trust arrangement will be to ensure that the interests of each retail repo client in the underlying securities are clearly and uniquely identified for the increased protection of the clients, and also to ensure that such securities would be held apart from the dealer's estate in the event of its insolvency.

- We have finalized the transaction structure for the trust-based framework; and by end-December 2014 the legal and regulatory framework supporting this framework will be in effect (structural benchmark). The transition of retail repos to the trust-based framework will be finalized by end-June 2015 (proposed structural benchmark) taking into account evolving market conditions and ensuring financial stability. As interim steps, we will start a pilot by end-February 2015, and start the transition by mid-April 2015.

- We are taking steps to ensure the financial and operational readiness of the securities dealers to move to a trust-based framework, supported by joint focused stress tests by the BOJ and the FSC that we will continue to update.

- To enhance the breadth and quality of data ahead of the transition to the trust-based framework, the FSC will implement a revised set of securities dealer reporting and analysis templates by end-December 2014.

20. Over the medium term, a gradual tightening of prudential standards in line with best international practice will facilitate fundamental reform of the securities dealers sector. Our aim is to ensure that in the near to medium term the size of the retail repo business is reduced to a level deemed by the BOJ and the FSC to be systemically safe and prudentially manageable. As the first step, effective October 1, 2014, we established (i) an initial minimum transaction size for retail repos, and (ii) a timetable to gradually increase the minimum transaction size; by end-March 2015 we will assess whether we need to expedite this timetable and/or increase the ultimate minimum transaction size. By end-December 2014 we will (i) bring into effect a Prudential Regulation for the securities dealers, and (ii) adopt a strategy for the gradual tightening of prudential standards. By end-March 2015 we will start executing this strategy.

MONETARY AND EXCHANGE RATE POLICY

21. Monetary policy remains aimed at achieving single digit inflation within a flexible exchange rate regime. For FY2014/15, the BOJ's forecast for inflation is in the range of 7 percent to 9 percent. Over the medium term, we envisage inflation to come down to a range of 6 percent to 8 percent, while over the longer term, the objective is to achieve a gradual reduction of inflation to a rate that is consistent with that of our main trading partners, in the context of a possible move to full-fledged inflation targeting. Starting 2015, the BoJ will conduct annual reviews to assess our readiness for inflation targeting. The first review will be conducted by March 2015.

22. The BOJ will continue to respond to liquidity pressures in the financial system. The BOJ has taken steps to rationalize the structure of its interest rates and provide liquidity with greater certainty including by removing the volume limit on its Standing Liquidity Facility. As a further step towards establishing a comprehensive liquidity provision framework, the BoJ is intending to introduce auctions for periodic repo operations by early 2015, with the assistance of IMF TA scheduled for December 2014. Over the course of FY 2014/15, the BOJ will continue to refine its monetary policy operations in order to further increase certainty in its liquidity provision at a price consistent with its policy goals.

GROWTH ENHANCING REFORMS

23. We have set up a Sub-Committee of Cabinet to promote growth. A secretariat has been established to coordinate with key stakeholders to ensure the effective implementation of the strategic projects and growth reform initiatives.

24. Actions for improving the business climate are critical:

- The Application Management and Data Automation system (AMANDA) will allow the Government to track approval of construction permits across all parish councils in Jamaica and is expected to be implemented with support from the World Bank. AMANDA has been implemented in all parishes ahead of schedule (*structural benchmark*). The Government will now focus on implementing the system in the commenting agencies to make it fully operational by June 2015. A Concept Paper has been developed to revise and standardize the fee structure for application fees.

- We have started implementing a programme of reforms to be implemented for the improvement to the Development Applications Process (DAP), including provisions to fast-track lower-risk and smaller projects. A Memorandum of Understanding between the Local Planning Authorities (LPAs) and the National Environment and Planning Agency (NEPA) will be effected to facilitate this Joint Technical Team for the review, assessment and monitoring of development applications. Applications for projects above certain thresholds would be handled by the established joint technical team, which would include NEPA, National Works Agency and the relevant parish councils, while smaller projects would be handled by the parish councils, with clarity on the expected maximum timeframes. The improvements to the DAP will enable the facilitation of developers' submissions of preliminary, outline or detailed applications to the relevant LPAs. Outline approvals can be given, subject to the reserved matters. Reserved matters include other detailed planning requirements, such as parking, drainage, setbacks etc. The programme of reforms for the new process was submitted to Cabinet in October 2014. The new process will be in place by the end of 2014 and result in a faster, more streamlined approvals process.

- Under the Land Administration and Management Programme (LAMP) another 1,000 new titles are expected to be issued during 2014/2015. LAMP will be extending its services to clients in St. Ann, Westmoreland, St. James, Trelawny and Hanover.

- The new Insolvency Act was adopted by Parliament in October 2014. The law will be effective as of end-December 2014. Training and PR will be supported by the World Bank.

- An on-line system for business registration will be in place by end-June 2015, with IDB support. By then, the turnaround time for applications will be reduced further to two business days.

- Urgent actions will be taken to reduce the time needed for entrepreneurs to get an electricity connection. Plans foresee the automation of the work processes within the Government Electricity Inspectorate (GEI) and the acquisition of ICT to streamline procedures for scheduling, inspecting, approving and certifying electrical installations. The contract signature for the acquisition of the application is expected by end-March 2015 and its adoption is expected to be completed by April 2016, with IDB support.

- Plans to establish a Port Community System (PCS) to electronically integrate and streamline export and import procedures are underway. With the Jamaica Customs acquisition of ASYCUDA World Customs Management System, an independent assessment of both the PCS and ASYCUDA World systems was completed in September 2014 and will inform the next critical steps. In particular, those functions of the PCS that cannot be offered through ASYCUDA will be pursued by the private sector, possibly under a management contract. The systems will ultimately be integrated.

- A Special Economic Zone (SEZ) Act is expected to be passed by October 2015 that will ensure compatibility with WTO requirements. A White Paper is planned to be issued in February 2015. Drafting of the new SEZ Act (and its enabling regulations) will commence immediately thereafter.

25. Strategic investments to establish Jamaica as a logistics hub are well underway. Work is proceeding on the privatization of both Norman Manley International Airport (NMIA) and the Kingston Container Terminal. For NMIA, a rate review has now been completed, and the RFP is to be issued in November 2014, with the selection of a preferred bidder expected by June 2015. In the case of the Kingston Container Terminal, a negotiating team has started discussions with the provisional preferred bidder. Work is proceeding on the Caymanas SEZ. The tender for the feasibility study will be at market in January 2015. Regarding the development of a transhipment port and industrial and commercial zones in the Portland Bight area by China Harbour Engineering Company (CHEC), a final Framework Agreement was signed in August 2014. CHEC has commenced the technical feasibility study. This is a prerequisite for determining the construction methodology and for obtaining the terms of reference from NEPA for the Environmental Impact Assessment. The project will be executed in phases with the first phase projected to be completed in the last quarter of 2016. Negotiations leading to execution of the Definitive Agreements are expected to commence shortly.

26. Reducing the cost of electricity is critical to improve competitiveness. Several projects and initiatives to achieve fuel-source diversification, facilitate energy conservation, liberalize the electricity market and reduce the cost of energy are moving ahead. The Electricity Sector Enterprise Team (ESET) has prepared an action plan for creating a viable model for the sector, and to manage the procurement process for additional generation capacity. The plan foresees replacing current (oil-fired) generation capacity with gas, coal and ethane-fired plants, to achieve significant cost savings.

The ESET aims to initiate the execution of these plans in 2015, with the conversion of the Bogue power station from oil to gas. It has also provided guidance to update the Electricity Act, to clarify and codify the roles and responsibilities of the main actors in the sector, including the Government, the regulator, the utilities and the independent power producers. These amendments are expected to be submitted to Parliament by January 2015 (*structural benchmark*), after which they will become effective by end-March 2015. We are also preparing a plan to ensure that all public entities (central government, local government, and public bodies) meet their financial obligations in a timely manner.

27. Labour market reforms are progressing. Legislation supporting flexible work arrangements was adopted by Parliament in November 2014 and is in effect, and a public education campaign to promote the use of flexible work arrangements is underway. In the context of the recently launched Comprehensive Labour Market Reform Agenda, a Labour Market Reform Commission will be operational by March 2015 to review existing policies and practices in the areas of education and training; productivity, technology and innovation; labour policies and legislation; social protection; and industrial relations. Options to reduce the impact of high separation costs are being reviewed by the Unemployment Insurance Committee, and decisions are to be supported by two IDB-supported consultancies on Unemployment Insurance. A Cabinet note regarding options for reducing high separation costs will be submitted by March 2015.

REFORM OF SOCIAL SPENDING

28. Efforts to strengthen the social protection framework are progressing. In May the government adopted a graduation strategy for PATH households. A communication strategy has been prepared, and broad implementation of the strategy is anticipated in early to mid-2015. The government launched a new social protection strategy in July, and a monitoring and evaluation framework is now being developed.

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

(In billions of Jamaican dollars)

	2013	2014				2015		
	End-Dec.	End-Sep.	End-Sep.	End-Sep.	End-Dec.	End-Mar.	End-Jun.	End-Sep.
	Stock	Prog.	Adjusted	Actual	PC	PC	PC	Proposed PC
Fiscal targets								
1. Primary balance of the central government (floor) 4/	...	37.8		43.6	66.0	121.0	17.0	32.0
2. Tax Revenues (floor) 4/9/	...	166.0		169.0	260.0	384.0	88.0	175.0
3. Overall balance of the public sector (floor) 4/	...	-30.2	-33.7	-23.1	-37.0	-11.6	-17.0	-25.0
4. Central government direct debt (ceiling) 4/5/	1672.0	108.1		99.9	92.4	90.6	4.5	0.0
5. Central government guaranteed debt (ceiling) 4/	...	2.7		1.1	0.1	-1.8	2.0	2.0
6. Central government accumulation of domestic arrears (ceiling) 6/12/13/	21.6	0.0		-0.2	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 7/12/13/	24.6	0.0		-0.9	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 6/12/	...	0.0		0.0	0.0	0.0	0.0	0.0
9. Social spending (floor) 9/10/	...	8.9		12.3	14.8	21.7	4.5	9.5
Monetary targets								
10. Cumulative change in net international reserves (floor) 8/11/	1045.1	258.6	134.0	1159.3	351.9	529.4	470.3	469.2
11. Cumulative change in net domestic assets (ceiling) 11/	-7.5	-24.7	-11.4	-130.7	-27.0	-55.1	-45.7	-44.0

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Including proposed modified performance criteria for the net international reserves and the net domestic assets.
3/ Based on program exchange rates defined in the March 2014 TMU.
4/ Cumulative flows from April 1 through March 31.
5/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
6/ Includes debt payments, supplies and other committed spending as per contractual obligations.
7/ Includes tax refund arrears as stipulated by law.
8/ In millions of U.S. dollars.
9/ Indicative target.
10/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
11/ Cumulative change from end-December 2013.
12/ Continuous performance criterion.
13/ This accumulation is measured as the change in the stock of arrears relative to the stock at end-March 2013. The latter stock is listed in the column for the stock at end-December 2013.

Table 2. Jamaica: Structural Program Conditionality

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1. Revise the relevant legislation for the adoption of a fiscal rule to ensure a sustainable budgetary balance, to be incorporated in the annual budgets starting with the 2014/15 budget.	March 31, 2014	Met
2. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	Met
3. Government to ensure there is: (i) no financing of Clarendon Alumina Production (CAP) by the government or any public body, including Petro Caribe; and (ii) no new government guarantee for CAP or use of public assets (other than shares in CAP and assets owned by CAP) as collateral for third-party financing of CAP.	Continuous	Met
4. Government to table in parliament a budget for 2014/15 consistent with the program.	April 30, 2014	Met
5. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17, Country Report No. 13/378).	April 30, 2014	Met
6. Cap the total loan value of all new user-funded PPPs at 3 percent of GDP on a cumulative basis over the program period.	Continuous	Met
7. Ensure that the public service database e-census is up to date and covers all Ministries, Departments and Agencies.	September 10, 2014	Met
8. Develop an action plan for public sector transformation to cover the following areas: (1) the introduction of shared corporate services, (2) the reallocation, merger, abolition and divestment/privatization of departments and agencies, (3) outsourcing of services, (4) strengthening control systems and accountability (including in auditing and procurement), and (5) aligning remuneration with job requirements.	September 30, 2014	Met
9. Government to table changes in legislation for the new public sector pension system expected to be implemented by April 2016 (MEFP paragraph 25, Country Report No. 14/169).	June 30, 2015	
10. Government to establish a new Cash Management Unit in the Accountant General Department (AGD) and transfer to it the cash management function currently handled by the Fiscal Policy Management Unit (FPMU).	June 30, 2015	Proposed
Tax Reform		
11. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as stipulated in the TMU.	Continuous	Met
12. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (paragraphs 6, 7, 8, and 9 of the MEFP for Country Report 13/378) and as stipulated in par. 13 of the March 2014 MEFP.	March 31, 2014	Met
13. Government to table in parliament amendments to the GCT as stipulated in paragraph 12 of the June 2014 MEFP.	June 30, 2014	Met
14. Government to conduct an entity by entity review of all grandfathered entities and of their specific tax incentives in the context of the new tax incentives legislation by end-2014/15.	January 31, 2015	
Tax Administration		
15. Government to make e-filing mandatory for LTO clients with respect to General Consumption Tax (GCT) and Corporate Income Tax (CIT).	March 31, 2014	Met
16. Government to implement ASYCUDA World for the Kingston Port as a pilot site.	December 31, 2014	
17. Government to: (i) increase the number of staff in the large taxpayers office (LTO) by a further 30 auditors (from March 2014 to March 2015); (ii) increase the number of (full plus issue) audits completed in the LTO by 100 percent (from FY 2013/14 to FY 2014/15); (iii) achieve 95 percent take up rate of e-filing and e-payment in the LTO; (iv) write-off all GCT and SCT debts that have been subjected to risk-rated stress tests and consequently categorized as uncollectible according to the Regulations.	March 31, 2015	Proposed revision
18. Government to implement Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package.	February 28, 2015	
19. Government to table in Parliament proposals for a comprehensive overhaul of the Customs Act.	June 30, 2015	
20. Government to introduce new productivity indicators, in consultation with Fund staff, to measure the effectiveness and efficiency of the tax system.	November 30, 2015	

Table 2 (Continued). Jamaica: Structural Program Conditionality

Financial sector		
21. Government to table legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	Met
22. Government to submit proposals for a distinct treatment for retail repo client interests in the legal and regulatory framework to the relevant financial industry for consultation (MEFP March 2014 Paragraph 25) in consultation with Fund staff.	March 31, 2014	Met
23. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (June 2014 MEFP Paragraph 29) in consultation with Fund staff.	December 30, 2014	
24. Government to table the Omnibus Banking Law [1/] consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	Met 2/
25. Government to finalize the transition of retail repos to the trust-based framework.	June 30, 2015	Proposed
26. Government to fully implement the Banking Services Act.	September 30, 2015	Proposed
Growth enhancing structural reforms		
27. Government to implement a new (AMANDA) tracking system to track approval of contruction permits across all parish councils.	December 30, 2014	Met
28. Government to table in parliament the Electricity Act.	January 31, 2015	Revision

1/ Currently referred to as the Banking Services Act.
2/ The law was tabled in March 2014 with subsequent fine-tuning in collaboration with Fund staff prior to its adoption in June.

Attachment II. Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) sets out the understandings between the Jamaican authorities and the IMF regarding the definitions of quantitative performance criteria and indicative targets for the programme supported by the extended arrangement under the EFF. It also describes the methods to be used in assessing the programme performance and the information requirements to ensure adequate monitoring of the targets. In addition, the TMU specifies the requirements under the continuous structural benchmark concerning discretionary tax waivers.

For programme purposes, all foreign currency-related assets, liabilities and flows will be evaluated at "programme exchange rates" as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates. The updated programme exchange rates are those that prevailed on December 31, 2013. Accordingly, the exchange rates for the purposes of the programme are show in Table 1.

Table 1. Program Exchange Rates (End-December, 2013)/1	
Jamaican dollar to the US dollar	106.38
Jamaican dollar to the SDR	163.83
Jamaican dollar to the euro	139.97
Jamaican dollar to the Canadian dollar	99.72
Jamaican dollar to the British pound	175.84
1/ Average daily selling rates at the end of December 2013	

I. QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

Definitions: The central government for the purposes of the programme consists of the set of institutions currently covered under the state budget. The central government includes public bodies that are financed through the Consolidated Fund.

The fiscal year starts on April 1 in each calendar year and ends on March 31 of the following year.

Cumulative Floor of the Central Government Primary Balance

Definitions: The primary balance of the central government is defined as total revenues minus primary expenditure and covers non-interest government activities as specified in the budget.

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

30. All primary expenditures directly settled with bonds or any other form of non-cash liability will be recorded as spending above-the-line, financed with debt issuance and will therefore affect the primary balance.

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

A. Cumulative Floor on Overall Balance of the Public Sector

32. Definitions: The public sector consists of the central government and public bodies. Public bodies are institutional units that are themselves government units or are controlled, directly or indirectly, by one or more government units. Whether an institution belongs to the public or private sector is determined according to who controls the unit, as specified in the government Financial Statistics (GFS) Manual 2001—Coverage and Sectorization of the Public Sector. For the purposes of the programme, the assessment of whether an entity belongs to the public or the private sector will be based on the guidance provided by the GFS criteria.

33. Public bodies consist of all self-financed public bodies, including the 17 “Selected Public Bodies” and “Other Public Bodies”. The 18 “Selected Public Bodies” include: Airport Authority of Jamaica (AAJ); Human Employment and Resource Training Trust (HEART); Jamaica Mortgage Bank (JMB); Housing Agency of Jamaica (HAJ); National Housing Trust (NHT); National Insurance Fund (NIF); Development Bank of Jamaica (DBJ); National Water Commission (NWC); Petrojam; Petroleum Corporation of Jamaica (PCJ); Ports Authority of Jamaica (PAJ); Urban Development Corporation (UDC); Jamaica Urban Transit Company Ltd. (JUTC); Caymanas Track Ltd. (CTL); National Road Operating and Constructing Company Ltd. (NROCC); Petro-Ethanol; Clarendon Aluminum Production (CAP);. “Other Public Bodies” include: Road Maintenance Fund; Jamaica Bauxite Mining Ltd.; Jamaica Bauxite Institute; Petroleum Company of Jamaica Ltd. (Petcom); Wigton Windfarm Ltd.; Broadcasting Commission of Jamaica; The Office of Utilities Regulation; The Office of the Registrar of Companies, Runaway Bay Water Company, Jamaica National Agency for Accreditation, Spectrum Management Authority; Sports Development Foundation; Bureau of Standards Jamaica; Factories Corporation of Jamaica Ltd.; Kingston Freezone Company Ltd.; Micro Investment Development Agency Ltd.; Montego Bay Freezone Company Ltd.; Postal Corporation of Jamaica Ltd.; Self Start Fund; Betting Gaming and Lotteries Commission; Culture, Health, Arts, Sports and Education Fund; Financial Services Commission; Jamaica Deposit Insurance Corporation, Jamaica Racing Commission, National Export-Import Bank of Jamaica Ltd.; PetroCaribe Development Fund; Tourism Enhancement Fund, The Public Accountancy Board; Students’ Loan Bureau; National Health Fund; Cocoa Industry Board; Coffee Industry Board; Sugar Industry Authority; Overseas Examination Commission; Aeronautical Telecommunications Ltd.; Jamaica Civil Aviation Authority; Jamaica Ultimate Tire Company Ltd.; Jamaica Railway Corporation Ltd.; The Firearm Licensing Authority; Ports Management Security Corps Ltd.; Transport Authority.

34. **The overall balance of public bodies** will be calculated from the Statement A's provided by the Public Enterprises Division of the Ministry of Finance and the Planning (MoFP) for each of the selected public bodies and the group of the other public bodies as defined above. The definition of overall balance used is operational balance, plus capital account net of revenues (investment returns, minus capital expenditure, plus change in inventories), minus dividends and corporate taxes transferred to government, plus net other transfers from government. For the particular case of the National Housing Trust and the House Agency of Jamaica, capital account revenues will not be netted out since they do not refer to flows arising from assets sales but rather to contribution revenue and therefore will be included among recurrent revenue such as is done for pension funds. The definitions of "Selected Public Bodies" and "Other Public Bodies" will be adjusted as the process of public bodies' rationalization, including divestments and mergers, advances. However, this process will not affect the performance criterion unless specifically stated. All newly created entities, including from the merging of existing entities, will be incorporated in either of these two groups.

35. **The overall balance of the public sector is calculated as the sum of central government overall balance and the overall balance of the public bodies.**

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

37. **Adjuster**: The floor for the overall public sector balance (cumulative since the beginning of the fiscal year) will be adjusted downward (upward) by an amount equivalent to the shortfall (excess) of PetroJam's overall balance (relative to baseline projections in Table 2), with the value of the adjustment at the end of any quarter capped at J$3.5 billion.

Table 2. Overall Balance of Petrojam (Baseline Projection)

	In billions of Jamaican dollars
End-September 2014	-3.7
End-December 2014	-2.0
End-March 2015	-3.8
End-June 2015	2.5
End-September 2015	[1.5]

B. Ceiling on the Stock of Central Government Direct Debt

38. Definitions: Central government direct debt includes all domestic and external bonds and any other form of central government debt, such as supplier loans. It excludes IMF debt. It includes loan disbursements from the PetroCaribe Development Fund to finance central government operations. The target will be set in Jamaican dollars with foreign currency debt converted using the programme exchange rate. The change in the stock of debt will be measured "below the line" as all debt issuance minus repayments on all central government debt.

39. For the purposes of computing the debt target, debt inflows are to be recorded at the moment the funds are credited to any central government account.

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

41. Adjusters: The target will be adjusted upwards if explicit government guarantees (defined as the stock of existing guarantees as of end March 2012 plus new guarantees allowed to be issued under the programme) are called. The target will be adjusted downwards if net divestment revenues (i.e. net of divestment expenses) take place. The debt target will be adjusted for cross-currency parity changes; and pre-financing, as reflected by the increase in central government deposits.

C. Ceiling on Net Increase in Central Government Guaranteed Debt

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

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

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

45. Adjuster: 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.

D. Ceiling on Central Government Accumulation of Domestic Arrears

46. Definition: Domestic arrears are defined as payments to residents determined by contractual obligations that remain unpaid 90 days after the due date. Under this definition, the due date refers to the date in which domestic debt payments are due according to the relevant contractual agreement, taking into account any contractual grace periods. Central government domestic arrears include arrears on domestic central government direct debt, including to suppliers and all recurrent and capital expenditure commitments. This accumulation is measured as the change in the stock of domestic arrears relative to the stock at end-March 2013, which stood at J$21.6 billion.

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

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

E. Non-Accumulation of External Debt Payments Arrears

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

50. Definitions: external debt is determined according to the residency criterion.

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

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

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

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

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

[1] As defined in Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, Decision No. 6230–(79/140), as amended.

53. Definitions: Under this definition of debt set out above, external payments arrears consist of arrears of external debt obligations (principal and interest) falling due after March 29, 2013 that have not been paid at the time due, taking into account the grace periods specified in contractual agreements. Arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or rescheduling agreement is being sought are excluded from this definition.

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

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

56. This performance criterion does not cover arrears on trade credits.

57. The performance criterion will apply on a continuous basis.

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

F. Ceiling on Central Government Accumulation of Tax Refund Arrears

59. **Definition**: Tax refund arrears are defined as obligations on tax refunds in accordance with tax legislation that remain unpaid 90 days after the due date. This accumulation is measured as the change in the stock of tax refund arrears relative to the stock at end-March 2013, which stood at J$24.6 billion.

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

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

G. Floor on the Cumulative Change in Net International Reserves

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

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

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

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

Table 3. External Program Disbursements (baseline projection)	
Cumulative flows from the beginning of the fiscal year	(In millions of US$)
External loans from multilateral sources	
End-September 2014	41
End-December 2014	62
End-March 2015	176
End-June 2015	114
End-September 2015	167
Budget support grants	
End-September 2014	15
End-December 2014	41
End-March 2015	43
End-June 2015	1
End-September 2015	13
IMF budget support disbursements	
End-September 2014	70.77
End-December 2014	141.54
End-March 2015	141.54
End-June 2015	0
End-September 2015	0

The NIR target will be adjusted upwards (downwards) by the amount by which, at a test date, the cumulative changes from end-December 2013 in BOJ's foreign exchange liabilities to residents with a maturity of less than one year (including banks' foreign currency deposits in BOJ) are higher (lower) than the baseline projection for this change reported in Table 4.

Table 4. Reserve Liabilities Items for NIR Target Purposes	
	(In millions of US$) 1/
BOJ's foreign liabilities to residents	
Outstanding stock	
End-December 2013	282.7
Cumulative change from end-December 2013	
End-September 2014	44.9
End-December 2014	51.6
End-March 2015	62.7
End-June 2015	67.3
End-September 2015	67.3

1/ Converted at the programme exchange rates.

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

66. **Definition**: The Bank of Jamaica's net domestic assets (NDA) are defined as the difference between the monetary base and NIR, converted into Jamaican dollars at the programme exchange rate. The monetary base includes currency in the hands of the non-bank public plus vault cash held in the banking system, statutory cash reserve requirements against prescribed liabilities in Jamaica Dollars held by commercial banks at the Bank of Jamaica and the current account of commercial banks comprising of credit balances held at the central bank.

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

Adjusters: The NDA target will be adjusted downward (upward) for the surplus (shortfall) in programme loan disbursements from multilateral institutions (the IBRD, IDB and CDB) relative to the baseline projection reported in Table 3, converted into Jamaican dollars at the programme exchange rate. The NDA target will be adjusted downward (upward) for the surplus (shortfall) in disbursements of budget support grants relative to the baseline projection reported in Table 3, converted into Jamaican dollars at the programme exchange rate. The NDA target will also be adjusted downward (upward) for the surplus (shortfall) in IMF budget support purchases relative to the baseline projection reported in Table 3, converted into Jamaican dollars at the programme exchange rate. The NDA target will be adjusted downwards (upwards) by the amount by which, at a test date, the cumulative changes from end-December 2013 in BOJ's foreign exchange liabilities to residents with a maturity of less than one year (including banks' foreign currency deposits in BOJ) are higher (lower) than the baseline projection for this change reported in Table 4, converted into Jamaican dollars at the programme exchange rate.

II. QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

A. Cumulative Floor on Central Government Tax Revenues

68. **Definition**: Tax revenues refer to revenues from tax collection. It excludes all revenues from asset sales, grants, bauxite levy and non tax revenues. To gauge the impact of the tax policy reforms and improvements in tax administration, the programme will have a floor on central government tax revenues (indicative target). The revenue target is calculated as the cumulative flow from the beginning to the end of the fiscal year (April 1 to March 31).

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

B. Floor on Central Government Social Spending

70. **Definition**: Social spending is computed as the sum of central government spending on social protection programmes as articulated in the central government budget for a particular fiscal year. These programmes are funded by GOJ resources only and comprise conditional cash transfers to children 0–18 years and the elderly; youth employment programmes; the poor relief programme for both indoor and outdoor poor; the school feeding programme; and the basic school subsidy.

71. In particular, this target comprises spending on specific capital and recurrent programmes. On capital expenditure the following specific programmes must be included in the target:

- *Youth employment programmes* comprising on the job training, summer employment and employment internship programme.
- *Conditional cash transfers* comprising children health grant, children education grants, tertiary level, pregnant and lactation grants, disabled adult grants, adult under 65 grants and adults over 65 grants.
- *Poor relief programme*.

72. On recurrent expenditure, the following specific programmes must be included in the floor on social expenditure*:*

- School feeding programmes including operating costs;
- Poor relief (both indoor and outdoor) including operating costs;
- Golden Age Homes;
- Children's home, places of safety and foster care including operating cost;
- Career Advancement Programme; and
- National Youth Service Programme.

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

III. CONDITIONALITY ON TAX WAIVER REFORM

74. Under the continuous structural benchmark regarding the application of discretionary tax waivers, the granting of new discretionary waivers is subject to a *de minimis* cap' of J$10 million in any month.

75. For the purpose of this condition, discretionary waivers are defined as: any reduction in tax or customs duty payable, effected through the direct exercise by the Minister of Finance of his powers under the various tax statutes; in circumstances where there is no express provision for exemption in any statute.

76. The amounts covered under the cap would exclude tax measures related to international treaties not yet ratified and provisions for CARICOM suspensions which are binding international legal obligations.

IV. CONDITIONALITY ON USER-FUNDED PPPS

77. Under the continuous structural benchmark regarding the total loan value of all new user-funded PPPs, the total value of all such loans contracted after May 1, 2013 will be capped at 3 percent of GDP on a cumulative basis over the programme period. At end-June 2014, the total loan value of existing user-funded PPPs contracted after May 1, 2013 was zero.

78. For the purpose of this condition, the loan value of a PPP may be excluded if the Office of the Auditor General has established that the PPP involves only minimal contingent liabilities (by demonstrating that the project has no debt guarantee, demand or price guarantees or termination clauses that could imply a transfer of liabilities to the government).

79. For the purpose of this condition, the applicable GDP is the projected nominal GDP for the fiscal year published in the Fiscal Policy Paper tabled in parliament ahead of the adoption of the budget. For FY2014/15, the projected nominal GDP used as a reference is J$1,617 billion, as presented in Table 2E, Medium-Term Macroeconomic Profile, part II, Macroeconomic Framework, page 11.

V. INFORMATION REQUIREMENTS

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

Daily

- Net international reserves; nominal exchange rates; interest rates on BOJ repurchase agreements; total currency issued by the BOJ, deposits held by financial institutions at the BOJ; required and excess reserves of the banking sector in local and foreign currency, total liquidity assistance to banks through normal BOJ operations, including overdrafts; overnight interest rates; GOJ bond yields.
- Disbursements from the Financial System Support Fund, by institutions.
- Liquidity assistance to institutions from the BOJ, by institution.
- Bank of Jamaica purchases and sales of foreign currency, by transaction type (surrenders, public sector entities facility and outright purchases or sales including interventions).

- Amounts offered, demanded and placed in Bank of Jamaica open market operations, including rates on offer for each tenor and amounts maturing for each tenor.

- Amounts offered, demanded and placed in government of Jamaica auctions and primary issues; including minimum maximum and average bid rates.

- Daily foreign currency government of Jamaica debt payments (domestic and external).

Weekly

- Balance sheets of the core securities dealers (covering at least 70 percent of the market), including indicators of liquidity (net rollovers and rollover rate for repos and a 10 day maturity gap analysis), capital positions, details on sources of funding, including from external borrowing on margin and clarity on the status of loans (secured vs. unsecured). Weekly reports will be submitted within 10 days of the end of the period. Deposits in the banking system and total currency in circulation.

Monthly

- Central government operations including monthly cash flow to the end of the current fiscal year, with a lag of no more than four weeks after the closing of each month.

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

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

- Balances of the Consolidated Fund and main revenue accounts needed to determine the cash position of the government.

- Stock of central government expenditure arrears.

- Stock of central government tax refund arrears.

- Stock of central government domestic and external debt arrears and BOJ external debt arrears.

- Central government spending on social protection programmes as defined for the indicative target on social spending.

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

- The maturity structure of Government debt (domestic and external). The reporting lag should not exceed four weeks after the closing of each month. Legal measures that affect the revenue of the central government (tax rates, import tariffs, exemptions, etc.).

- Balance sheet of the Bank of Jamaica within three weeks of month end.

- A summary of monetary accounts providing detailed information on the accounts of the Bank of Jamaica, commercial banks and the overall banking system. Including Bank of Jamaica outstanding open market operations by currency and maturity and a detailed decomposition on Bank of Jamaica and commercial bank net claims on the central government, selected public bodies and other public bodies.[2] This information should be received with a lag of no more than six weeks after the closing of each month.

- Profits of the Bank of Jamaica on a cash and accrual basis, including a detailed decomposition of cash profits and profits from foreign exchange operations with a lag of no more than three weeks from month end.

- Deposits in the banking system: current accounts, savings and time deposits within six weeks after month end. Average monthly interest rates on loans and deposits within two weeks of month end; weighted average deposit and loan rates within six weeks after month end.

- Financial statements of core securities dealers and insurance companies within six weeks of month end.

- The maturity profile of assets and liabilities of core securities dealers in buckets within six weeks of month end.

- Data on reserve liabilities items for NIR target purposes (Table 9) within three weeks after month end.

- A full set of monthly FSIs regularly calculated by the BOJ, including liquidity ratios, within eight weeks of month end.

- Monthly balance sheet data of deposit taking institutions, as reported to the BOJ, within four weeks of month end.

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

- Imports and exports of goods, in US$ million within twelve weeks after month end. Tourism indicators within four weeks after month end. Remittances' flows within four weeks after month end.

- Consumer price inflation, including by sub-components of the CPI index within four weeks after month end.

- The balance sheet of the PetroCaribe Development Fund with a lag of no more than six weeks after the closing of each month.

- Data on discretionary waivers, specifying those under the 'de minimis' cap, those under the broader cap and those covered by the exceptions from these caps.

- Data on tax waivers for charities and charitable giving.

- Data on the total loans value of all new user-funded PPPs, specifying the PPPs identified by the Office of the auditor General as involving only minimal contingent liabilities (including the absence of debt guarantees, demand or price guarantees or termination clauses that could imply a transfer of liabilities to the government).

Quarterly

- Holdings of government bonds (J$-denominated and US$-denominated) by holder category. The reporting lag should not exceed four weeks after the closing of each month (this would not be applicable to external and non-financial institutional holdings of GOJ global bonds as this information is not available to GOJ).

- Use of the PetroCaribe Development Fund, including loan portfolio by debtor and allocation of the liquidity funds in reserve within six weeks after month end.

- The stock of public entities non-guaranteed debt.

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

- Gross domestic product growth by sector, in real and nominal terms, including revised outturn for the preceding quarters within three months after quarter end; and projections for the next four quarters, with a lag no more than one month following receipt of the outturn for the quarter.

- Updated set of macroeconomic assumptions and programme indicators for the preceding and forthcoming four quarters within three months of quarter end. Main indicators to be included are: real/nominal GDP, inflation, interest rates, exchange rates, foreign reserves (gross and net), money (base money and M3), credit to the private sector, open market operations and public sector financing (demand and identified financing).

- BOJ's Quarterly Financial Stability Report.
- Quarterly income statement data of deposit taking institutions, as reported to the BOJ within eight weeks of the quarter end.
- Summary review of the securities dealer sector, within eight weeks of quarter end.
- Summary report of the insurance sector (based on current FSC quarterly report), within eight weeks of quarter end.
- Capital adequacy and profitability ratios (against regulatory minima) for DTI's and non-bank financial institutions within eight weeks of quarter end.
- FSC status report detailing compliance (and any remedial measures introduced to address any non compliance) with the agreed guidelines for the operation of client holding accounts at the Jam Clear@ CSD and FSC independent verification of daily reconciliations using data provided by Jam Clear@ CSD. Reports are due within four weeks of end quarter.

Annual

- Financial statements of pension funds within six months of year end.
- Number of public sector workers paid by the consolidated fund by major categories.

Press Release No. 14/598
FOR IMMEDIATE RELEASE
December 19, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review Under the Extended Fund Facility for Jamaica and Approves US$ 67 million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the Sixth Review of Jamaica's economic performance under the program supported by a four-year, SDR 615.38 million (about US$932 million at the time of approval) arrangement under the Extended Fund Facility (EFF).

The completion of the review enables an immediate purchase of an amount equivalent to SDR 45.95 million (about US$67 million). The EFF arrangement was approved on May 1, 2013 (see Press Release 13/150).

Following the Board discussion of the review, Mr. Naoyuki Shinohara, Deputy Managing Director, and Acting Chair made the following statement:

"The authorities' commitment to the program under the Extended Fund Facility has remained strong. Fiscal performance was broadly on track and all quantitative performance targets for end-September were met. Structural reforms have progressed on schedule.

"Macroeconomic performance under the program continues to be good and growth is showing signs of picking up. Wide-ranging actions to boost growth and employment are nonetheless critical for the success of the program. While the ongoing economic stabilization and debt reduction are essential pillars of the growth strategy, reforms to enhance the business climate should be accelerated—including by cutting red tape, reforming the energy sector, and making the public sector more client-oriented.

"Achieving the program's ambitious fiscal goals on a sustained basis will require further actions to strengthen public financial management and revenue administration, and to contain the wage bill. The preparation of the 2015/16 budget offers an opportunity to strengthen the quality of the fiscal adjustment, including by advancing public sector reform. These efforts will help provide additional resources for priority budgetary outlays.

"Expeditious implementation of the plans for financial sector reform, including by bringing into effect the Banking Services Act and the new framework for repo transactions, combined with strong contingency planning and resolution frameworks, will improve the soundness of the financial system."

Statement by Serge Dupont, Executive Director for Jamaica
and Trevor Lessard, Alternate Executive Director
December 19, 2014

Our authorities continue to value the advice, technical assistance and financial support that the Fund is providing to Jamaica as it steadily moves forward with its multi-year reform program to boost growth, generate employment opportunities, and improve competitiveness. A heavily front-loaded program has been challenging, often stretching the capacity of the Government very thin, but the benefits of the extraordinary efforts made thus far to meet all structural benchmarks and performance criteria are slowly beginning to materialize within the Jamaican economy. Risks of a crisis have receded, debt-to-GDP is falling, external accounts are improving faster than programmed, economic buffers are being rebuilt, confidence is slowly returning, and our authorities are redoubling their efforts to support strong and sustainable growth.

Fiscal Policy

Difficult and often painful budgetary decisions were necessary to achieve the required primary balance of 7.5 percent of GDP, which is a cornerstone of the program and the authorities' efforts to quickly reduce debt-to-GDP levels. Our authorities remain committed to this target, understanding that it is a critical ingredient to meeting their debt-to-GDP goals for 2020 (and beyond). They have confirmed that the 2015/16 budget, to be tabled in Parliament by the Government in February 2015, will be consistent with the objective. A key component to achieving the fiscal targets will be securing a new multi-year wage agreement and the Government of Jamaica is now actively engaged with employee representatives to reach an agreement that facilitates achievement of the targeted wage bill of 9 percent of GDP.

Investor confidence in the economic reform program is growing, as evidenced by the Government of Jamaica's recent US-dollar dominated bond issue that was both oversubscribed and settled at the lowest commercial rates ever enjoyed by Jamaica. Our authorities consider this a strong positive shift in investor sentiment that reflects the steady progress under the EFF. They expect (domestic and external) confidence to continue to rise as fiscal targets and structural benchmarks continue to be met in the future.

While it in no way diminishes their commitment to fiscal and debt sustainability, our authorities wish to stress the challenges of budget forecasting, especially revenues, in a highly uncertain environment. Our authorities welcome staff's cautious tone in discussing revenue and agree that any discussion of a revenue shortfall is based on a very tentative projection. At the heart of the matter is uncertainty regarding whether any potential revenue shortfall is cyclical or structural, which of course affects the type of corrective measures that would need to be implemented (i.e. temporary or permanent). The recent tax reforms, although successful at broadening the tax base, reducing discretion, and improving the business climate, are nevertheless new and add an additional layer of uncertainty to the forecasts.

Sustaining Growth

The Government of Jamaica is committed to meaningfully improving the business climate. Significant reforms have been achieved since the start of the program and our authorities fully expect to build on these successes in the future. Our authorities are pleased that recognition of these reforms have been noted by Jamaica's recent performance in the World Bank's *Doing Business Survey*, which using the same methodology for both years represents a 27 place jump, from 85th to 58th. Jamaica is now number one in the Caribbean according to this World Bank survey.

On top of continued general improvements to the business climate and tax system, the Government of Jamaica continues to actively pursue several key strategic investments. Although the complexity of these investments and privatizations requires extensive deliberation, progress is being made on several fronts, most notably with the Electricity Sector Enterprise Team's (ESET) proposed energy strategy. The authorities expect many of these activities will begin to ramp up in 2015, adding further economic momentum and further bolstering domestic confidence in the reform program.

External Competitiveness

The Bank of Jamaica (BoJ) remains committed to price stability and a market determined flexible exchange rate that reflects underlying fundamentals. The BoJ continues to opportunistically purchase foreign exchange to build NIR, essential to building confidence, as part of its goal to bolster reserves and shift the composition more towards owned reserves. To support the maintenance of a competitive, market determined exchange rate, the BoJ continues to limit its FX interventions in the market to smoothing excessive volatility that sometimes arise from the bunching of foreign currency demand within a relatively shallow market.

The cumulative movement in the REER since the inception of the program has led to a substantial improvement in the price competitiveness of the Jamaican economy. Although data limitations preclude a robust estimate of the effects on the real economy, there is some evidence that private firms, particularly in the tourism and agro-processing sectors, are benefitting from the price competitiveness. This, along with a substantial reduction in the cost of oil imports and increasing FDI, has led to substantial improvement in the external accounts.

Financial Sector

A main goal of our authorities during this program is to reform the financial sector to improve its resilience and enable it to better channel savings to productive private sector investment. The complexity of this reform, which entails important improvements in regulation and supervision, along with a complete overhaul of the securities dealer sector, should not be underestimated. Moreover, these reforms are further complicated by a domestic bond market that remains frozen. The technical assistance provided by MCM, LEG, and other specialists within the Fund has been extremely valuable during this process. Nevertheless, the financial sector reform agenda remains on track and our authorities have recently established backstop facilities to provide exceptional financial support to securities dealers, if needed, as a precautionary measure to mitigate the risks associated with the next phase of migrating the sector to a trust-based transaction framework. Additionally, the authorities, with IMF TA, are taking steps to strengthen the resolution framework and establish a national crisis management plan.

Conclusion

As stability becomes entrenched, emphasis has necessarily shifted to securing growth and creating jobs, both of which are critical to continued social support and long-term success. Our authorities continue to believe that sustained engagement with the IFIs, both through financial support and valuable technical assistance, are critical to achieving these long-term goals.