INTERNATIONAL MONETARY FUND

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# JAMAICA

March 2014

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

In the context of the Third Review Under the Extended Arrangement 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** prepared by a staff team of the IMF for the Executive Board's consideration on March 19, 2014, following discussions that ended on February 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 March 5, 2014.
- A **Staff Statement** of March 19, 2014 updating information on recent developments.
- 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.**

INTERNATIONAL MONETARY FUND

# JAMAICA

March 5, 2014

## THIRD REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA


## EXECUTIVE SUMMARY

**The economic recovery remains fragile, in line with earlier projections.** Recent data remain in line with GDP growth of some 1 percent in 2013/14 (broadly unchanged from previous projections). Inflation has increased over the past year due to the depreciation of the exchange rate as well as higher administered prices, but has moderated in recent months. The current account has improved markedly during 2013, in large part due to compressed domestic demand. International reserves have increased in line with program requirements, but remain low given external risks. Notwithstanding challenges to revenue collection, the execution of the 2013/14 budget has remained broadly on track.

**Program performance is on track**. Jamaica's four-year, SDR 615.38 million (225 percent of quota) Extended Arrangement under the EFF was approved by the IMF Executive Board on May 1, 2013, and the first two reviews under the program were completed on schedule. All end-December quantitative performance criteria and structural benchmarks were met. Far-reaching tax reforms have been adopted and a fiscal rule aims at entrenching fiscal discipline has been prepared. The policy agenda under the program is now shifting to a range of complementary reforms in several areas. Priority areas include tax and customs administration, public financial management, securities dealers, the framework for monetary policy, and the business environment. The macroeconomic outlook and financing scenario remain broadly unchanged from earlier projections.

**Program risks.** Risk to the program remains high, including possible external shocks, weak confidence that could hamper the recovery in investment, possible shortfalls in budget financing, weak revenue collection, and policy slippages.

**Appraisal.** Based on the performance to date and the authorities' updated policy intentions and commitments, staff recommends completion of the third review under the EFF.

Approved By
**Gian Maria Milesi-Ferretti (WHD) and Peter Allum (SPR)**

Discussions took place in Kingston during February 5–13, 2013. Staff representatives comprised J. Martijn (head), C. Amo-Yartey, and J. Schmittmann (all WHD), C. Lonkeng Ngouana (FAD), M. Opoku-Afari (SPR), P. Lohmus (MCM), and B. van Selm (Resident Representative). Mr. Lessard (OED) participated in the discussions.

# CONTENTS

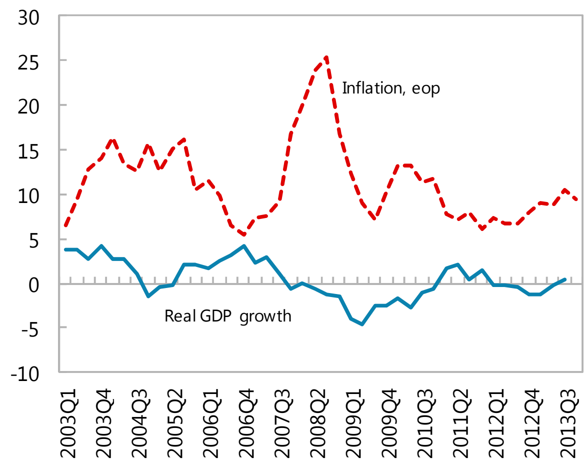
**APPENDIX**

# BACKGROUND AND RECENT DEVELOPMENTS

1. **Program performance has remained on track.** Jamaica's four-year, SDR 615.38 million (225 percent of quota) Extended Arrangement under the EFF was approved by the IMF Executive Board on May 1, 2013, and the second review was completed on December 18, 2013. The authorities' program aims to reduce public debt, stem balance of payments risks, address financial sector vulnerabilities, and create the conditions for sustained economic growth through significant improvements in fiscal management and competitiveness, supported by wide-ranging structural reforms.

2. **The economic recovery remains weak, in line with earlier projections, with inflation moderating somewhat**. Preliminary data indicate that real GDP increased by 1.4 percent in the fourth quarter of calendar year 2013 (relative to the same period in 2012), mainly due to strong mining, agricultural, and tourism activities, compared with 0.5 percent in the third quarter. Reported unemployment declined from 15.4 percent in July to 15.1 percent in October (seasonally adjusted). Inflation has come down from 10.2 percent in November 2013, but remains elevated at 9.3 percent (y-o-y) in January 2014 reflecting the pass-through of nominal depreciation into domestic prices and increased administered prices. The latter, in particular higher bus fares and water prices, directly accounted for an increase by 2 percentage points.

**Real GDP Growth and Inflation**
(percent change)




3. **The external situation has improved somewhat but remains weak.** The current account deficit has shown an ongoing improvement since 2011/12 due to import compression generated in turn by the combination of fiscal consolidation and higher import prices (reflecting the ongoing exchange rate depreciation). Preliminary data through September 2013 confirmed this trend, as the current account deficit from April through September was about 2.3 percent of GDP smaller than a year earlier. The better-than-projected performance in the current account in the first half of the fiscal year was the result of further contraction in imports across all categories (raw materials, capital goods, consumer goods and fuel). The nominal exchange rate depreciated by almost 22 percent between June 2012 and mid-February 2014 relative to the U.S. dollar. From end-2012 to end-2013, this nominal depreciation amounted to 14½ percent, with a real effective depreciation estimated at 4 percent, that has supported price competitiveness. Net international reserves (NIR) increased to more than US$1 billion by end-December 2013, before declining in January and February as a result of sizable repayments of maturing foreign-currency government debt. At end-January, NIR stood at US$924, with gross reserves reaching US$1,695 million (about 3 months of imports).

4. **Financial market conditions have tightened further.** Interbank rates for overnight funds have risen sharply since October 2013, reaching 14–16 percent by mid-February. Interest rates for private sector borrowing have edged up in recent months. The tightening has been due to the combined effects of open-market operations to withdraw liquidity (including active sterilization) by the Bank of Jamaica (BOJ), the reduction in government debt-service payments as a result of the February 2013 debt exchange, the introduction of a centralized treasury management system, and the lack of activity in the secondary markets in government securities following the debt exchange. The first three of these elements have dampened (reserve) money growth, while the lack of secondary market activity has reduced the liquidity of a main financial asset. Overall growth in money and credit has fallen below program projections and, despite limited net public sector financing needs—owing to the fiscal consolidation—the provision of credit to the private sector has decelerated. Excluding exchange-rate valuation effects, credit to the private sector increased by 10.1 percent (y-o-y) in December, with an increase by 1.5 percent from end-September to end-December, well below earlier growth rates. Moreover, banks confirmed that new credit is increasingly concentrated in retail credit, while corporate borrowing is being compressed. A forthcoming World Bank developmental FSAP mission will consider options for enhancing access to credit for small and medium-sized enterprises.

5. **The Bank of Jamaica introduced a standing liquidity window for commercial banks in December 2013, which could help address emerging liquidity shortages**. While the BOJ has been withdrawing liquidity through open-market operations at longer maturities, the new instruments inject liquidity on a short-term basis. The interest rate on the window is set at 1.5 percentage points above BOJ's 30-day rate and the available amount is limited by bank. However, there might not be an effective cap on market rates if banks (with eligible collateral) are constrained on the amount available. Furthermore, the BOJ has continued injecting liquidity, albeit in moderate amounts, into the financial system through the use of two-week repos, which were initiated in mid-September 2013. Finally, in February 2014, the BOJ initiated six-months repo operations, providing liquidity over a longer horizon.

6. **The implementation of the budget through the third quarter of FY2013/14 remained consistent with program projections**. While the end-December program floor on tax revenues was met, the underperformance of these revenues relative to the—more frontloaded—authorities' internal budget targets continued. The underperformance reflected, in particular, shortfalls in tax receipts on wages and imports, reflecting weak domestic demand. With strict expenditure control, the primary surplus over the first three quarters of the fiscal year was in line with projections. At the same time, the overall deficit of the central government was smaller than projected, by 0.4 percent of annual GDP, supported by lower-than-projected interest payments. The overall deficit of the public sector—comprising the central government and selected public bodies—amounted to 1.7 percent of GDP, below the program projection of 2.4 percent of GDP, with varying performance across public bodies.

7. **The authorities have financed the sizeable maturing foreign currency debt in January and February 2014.** The associated financing needs amounted to about 3.5 percent of GDP during

these two months. The financing needs were met using PetroCaribe financing and World Bank and IaDB budget support.

8. **Indicators of the soundness of the financial system remain broadly unchanged from the Staff Report for the second review.** Commercial banks' capital-asset ratios remained stable, at 14 percent at end-December, while non-performing loans (NPLs) declined to 5.2 percent of total loans from 5.8 percent at end-September, with almost full provisioning. Stress test results for end-September from the Bank of Jamaica confirmed that while loan delinquency is expected to remain high under various macroeconomic stresses, banks' and security dealers' capital positions showed improving resilience to withstand hypothetical shocks—including a simultaneous impact of increases in interest rates, currency depreciation, credit quality deterioration and deposit outflow—compared with results in the previous quarter. However, a possible decline in market value of government bonds could have a more sizeable impact on financial institutions' capital.

# PERFORMANCE UNDER THE PROGRAM

9. **All quantitative program targets for end-December 2013 and continuous quantitative program targets were met (Text Table 1).** The end-December target for net international reserves (NIR) was met with an ample margin. The other monetary and fiscal targets were also achieved, including the indicative floor for social expenditure.

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

(In billions of Jamaican dollars)

| | 3rd Review PC End-Dec. 2013 | Adjusted PCs End-Dec. | End-Dec. Actual | Difference | PC Status End-Dec. 2013 |
|---|---|---|---|---|---|
| **Fiscal targets** | | | | | |
| 1. Primary balance of the central government (floor) 2/ | 61.6 | 61.6 | 61.7 | 0.1 | Met |
| 2. Tax Revenues (floor) 2/ 7/ | 232.7 | 232.7 | 242.7 | 10.0 | Met |
| 3. Overall balance of the public sector (floor) 2/ | -37.3 | -40.8 | -27.3 | 13.5 | Met |
| 4. Central government direct debt (ceiling) 2/ 3/ | 92.9 | 92.9 | 53.7 | -39.2 | Met |
| 5. Central government guaranteed debt (ceiling) 2/ | -13.0 | -13.0 | -13.0 | 0.0 | Met |
| 6. Central government accumulation of domestic arrears (ceiling) 4/ 10/ 11/ | 0.0 | 0.0 | -0.3 | -0.3 | Met |
| 7. Central government accumulation of tax refund arrears (ceiling) 5/ 10/ | 0.0 | 0.0 | -2.7 | -2.7 | Met |
| 8. Consolidated government accumulation of external debt payment arrears (ceiling) 6/ 10/ 11/ | 0.0 | 0.0 | 0.0 | 0.0 | Met |
| 9. Social spending (floor) 7/ 8/ | 14.4 | 14.4 | 16.6 | 2.2 | Met |
| **Monetary targets** | | | | | |
| 10. Cumulative change in net international reserves (floor) 6/ 9/ | -220.5 | -301.7 | -81.8 | 219.9 | Met |
| 11. Cummulative change in net domestic assets (ceiling) 9/ | 26.4 | 26.4 | 13.7 | -12.7 | Met |

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Cumulative flows from April 1 through March 31.
3/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
4/ Includes debt payments, supplies and other committed spending as per contractual obligations.
5/ Includes tax refund arrears as stipulated by law.
6/ In millions of U.S. dollars.
7/ Indicative target.
8/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
9/ Cumulative change from end-December 2012.
10/ Continuous performance criterion.

10. **The government has continued to make significant progress on its ambitious structural reform agenda**. All structural benchmarks through end-December 2013 and a range of other programmed structural reforms have been completed. In particular:

- Following the implementation of the Charities Bill (end-November structural benchmark), new tax incentives legislation was passed in December, replacing the multiplicity of discretionary tax waivers and sectoral tax incentive schemes by limited rules-based and standardized incentives. Its implementation started at the beginning of 2014 (structural benchmark).

- Amendments to the regime for import duties were also passed in December, stipulating reductions in tariff dispersion and in the higher tariff rates, which will be capped at 20 percent in most cases.

- Under a structural benchmark for end-December, that aimed to make less risky business models available to securities dealers, the authorities: (i) amended the Securities Act and attendant regulations to establish a comprehensive framework for the regulation of Collective Investment Schemes (CIS); (ii) amended the income tax law to remove double taxation of CIS; (iii) reformed the Companies Act to exempt CIS from the need to register unit-holders in the companies' registry; and (iv) issued a timetable for raising the cap on investments in foreign securities by CIS.

- A Memorandum of Understanding between the BOJ and the Ministry of Finance and Planning for dealing with central bank losses was provided to Fund staff in December, based on a recommendation in the 2013 Safeguards Assessment.

- A White Paper on public sector pension reform was tabled in parliament in December.

- In order to streamline the business registration process, legislation was adopted in December to create a multi-purpose registration instrument, which became available in January.

- A Bankruptcy and Insolvency Act was tabled in parliament in December 2013, to modernize the procedures and facilitate the rehabilitation of enterprises.

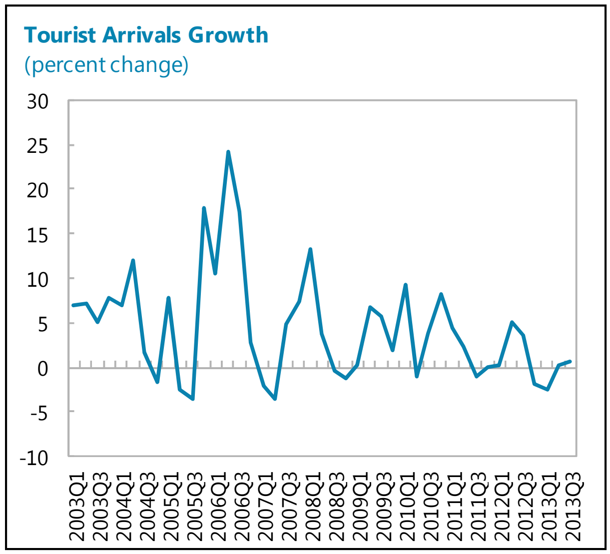
- Parliament passed legislation on the use of movable property as collateral, to facilitate access to credit by SMEs, and a central collateral registry was established (end-December structural benchmark).

# POLICY DISCUSSIONS

11. **Policy discussions focused on forthcoming structural reforms, in particular those relating to the fiscal rule, tax administration, the securities dealers sector, the framework for monetary policy, and the business climate.** The authorities expressed their determination to continue to meet the program's fiscal and monetary targets, and to maintain the reform momentum. At the same time, they also indicated that the ambitious timetable of reform program had been challenging and had strained the country's administrative and legislative capacity. The discussions also covered the extension of conditionality through December 2014.

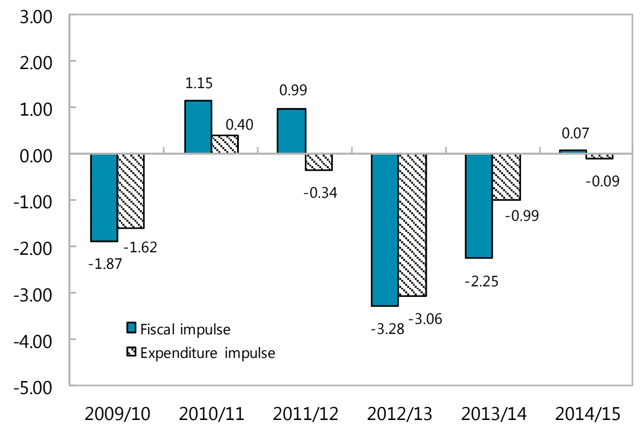
## A. Macroeconomic Framework

12. **Based on recent indicators, the staff has fine-tuned its macroeconomic projections.** In particular, staff maintains its projection of a modest return of economic growth in 2013/14—projected at 0.9 percent (y-o-y). Growth through the first three quarters of the fiscal year is estimated to have been slightly above earlier program projections. Short-term indicators of economic activity, related to tourist arrivals and the business survey, remain mixed. Tourist arrivals during September–October 2013 were 7 percent higher than the year before. While the business survey on future conditions in the last quarter of 2013 showed a marked improvement over the previous quarter of 2013, and a record share (49 percent) of firms indicated their intention to increase their investment spending in the year ahead, the overall survey results remained relatively depressed. Staff has revised its inflation projection for FY2013/14 to 9.5 percent, from 10.0 percent at the time of the previous reviews, as recent data suggest a slightly smaller pass through of the exchange rate depreciation than had been expected, likely reflecting the weakness of domestic demand. The annual inflation projections for 2014/15 through 2016/17 have also been adjusted down by ½ of a percentage point. Staff has revised the current account path to be consistent with the faster-than-projected trend contraction in imports.



13. **Notwithstanding the improved outlook for U.S. growth, the outlook for Jamaica in 2014/15 remains weak and subject to significant downside risks.** The staff projection for real GDP growth in 2014/15 is maintained at 1.4 percent. Growth should benefit from the pickup in the U.S., which accounts for about 70 percent of tourist arrivals in Jamaica. In addition, the negative fiscal impulse (text chart) will likely come to an end, as the adjustment under the program has been frontloaded (although the impact on growth may exhibit some persistence). Furthermore, immediate vulnerabilities to international market financing pressures appear minor in the absence of sovereign market access and limited bank reliance on external funding. On the other hand, the growth momentum is weak (with growth in 2013/14 also reflecting a rebound after weather-related disruptions) and investor confidence remains frail as doubts still linger about the efficacy of the reforms. Downside risks remain severe, including from liquidity shortages, feeble confidence, delays in scheduled investment projects, or a possible reduction in external financing (including PetroCaribe financing by Venezuela).

**Fiscal and Expenditure Impulses: Initial Contributions to Growth in Aggregate Demand**
(percent of previous year's GDP)




## B. The Fiscal Program and the Fiscal Reform Agenda

### Fiscal Policy

14. **The authorities committed to implementing further expenditure-reducing measures in 2013/14 as needed to meet the budget targets.** They underscored that the central government primary surplus of 7½ percent of GDP, combined with near balance for the overall balance of the wider public sector, were critical anchors of the program. Revenue collection is concentrated in the last quarter of the fiscal year, and the outcome for the January–March 2014 quarter is particularly difficult to project as the tax reform is becoming effective, and as short-term indicators of domestic activity are imprecise. Against this background, the authorities indicated that tax collection had been reinforced by actions to improve compliance. Nonetheless, staff tentatively projects a revenue shortfall of about 0.5 percent of GDP over the fiscal year relative to the budget. The authorities underscored their ongoing restraint in recurrent spending and readiness to continue the implementation of the pre-identified expenditure contingencies, and their determination to adopt additional expenditure measures as needed to meet the primary balance target. They had expanded the contingency measures for the remainder of the fiscal year, more than covering the expected shortfall, with capital spending contributing most to the expenditure reduction. A supplementary budget to align expenditures with the revenue shortfall was expected to be submitted to parliament by early March. The authorities also expected that the increases in transportation and water tariffs in 2013, combined with careful monitoring and rationalization of public bodies' finances, would be

adequate for meeting the public sector balance target. However, they noted that full control over the large number of public bodies, including some operating on a commercial basis, entailed challenges for attaining of the targeted balance.[1]

15. **Looking beyond 2013/14, the authorities and the mission concurred that maintaining the strict fiscal discipline embedded in the program required both ongoing policy discipline and further structural reforms.** Preparations of the 2014/15 budget have started, and the mission underscored the need for realistic revenue projections, pre-identified spending contingencies, improved expenditure prioritization, and alignment with the new fiscal rule (see below). In this context:

- Tax revenues (as a share of GDP) are expected to be broadly unchanged from the current projection for 2013/14, reflecting the assumption that the recent shortfalls are of a structural nature. Nonetheless, collection should be supported by the frontloaded tax policy reforms, designed to have a minor positive revenue impact, and by the renewed emphasis on reforms to strengthen revenue collection, guided by the new action plan for revenue administration (see below).

- The multiyear wage agreement implies a significant further reduction in the wage bill, offering room for some expansion in capital spending (albeit more modest than in earlier projections) and a buffer against further shocks.

- Investment planning is expected to be enhanced by the comprehensive Public Sector Investment Program, comprising Cabinet-approved, prioritized investment projects (end-April 2014 structural benchmark), and the broader new Public Investment Management System (PIMS), designed with World Bank support (MEFP, ¶18).

- Furthermore, the next reform priorities under the program are also aimed at supporting the budget—in particular, actions to bolster public financial management, as well as various growth-enhancing reforms (see below).

- The monthly monitoring of the program by the Economic Policy Oversight Committee (EPOC)—comprising domestic financial institutions, private sector organizations, and unions—against budget and program targets offers important support for fiscal discipline as well for the reform process more generally.

[1] In this context, staff proposes that the adjuster for the performance of Petrojam be revised to allow for its application over several quarters. At the same time, the use of this adjuster will be reviewed before the end of the new fiscal year to confirm that it has served, as intended, to absorb volatility in Petrojam's cash balance rather than to accommodate a sustained deterioration. In the latter case, its design would be reassessed.

16. **The authorities noted progress in developing a durable energy solution for the state-owned company Clarendon Aluminum Production (CAP)**. An energy solution would involve a dedicated power plant that would reduce CAP's operating costs and increase its market value. In any case, the authorities reiterated their commitment to refrain from any further government financial support to CAP.

17. **While public debt as a share of GDP has declined more rapidly than initially projected, the authorities and the staff explored options for further direct debt reduction to achieve the program's debt target**. Public debt as of end-March 2014 is now projected at 139 percent of GDP, compared with 143 percent projected at the start of the program, owing to a reduction in government deposits, lower interest costs and lower debt guarantees than had been expected, and a redistribution of PetroCaribe financing. In this context, the authorities have utilized readily available assets to reduce debt. In addition, government-guaranteed debt (which is included in the program measure of public debt) has so far been reduced by 0.5 percent of GDP below the original program projections. Nonetheless, achieving the program target of reducing public debt to 96 percent of GDP by 2019/20 will likely require further efforts, beyond the fiscal consolidation. The authorities have been preparing debt-asset swaps or asset sales and they confirmed their determination to ensure that these operations are well designed and consistent with sound public sector governance (MEFP, ¶19). Staff estimates that an additional reduction in debt by about 3 percentage points of GDP, including through such swaps and sales, would still be needed to achieve the 2019/20 debt target.

**Strengthening Fiscal Management**

18. **Preparations for an effective fiscal rule are nearing completion.** The fiscal rule (end-March 2014 structural benchmark) aims to entrench fiscal discipline by constraining the annual budgets, to achieve a reduction in public debt to no more than 60 percent of GDP by 2025/26. The draft legislation has been prepared with extensive FAD technical assistance, as well as input by World Bank staff (See Box 1 and MEFP, ¶15–16).

### Box 1. Jamaica: Adopting an Effective Fiscal Rule

**To entrench fiscal discipline beyond the current EFF arrangement, the Jamaican authorities have committed to adopt a fiscal rule, to be incorporated in annual budgets starting with the 2014/15 budget.** The fiscal rule will cover the fiscal activities associated with the public sector defined to include central and local governments, public bodies and public corporations. Commercial public enterprises that do not engage in significant fiscal operations could be excluded from the rule. The Office of the Auditor General (OAG) would independently determine which public entity falls into the commercial realm, based on preset of criteria.

**The fiscal rule will set a floor on the overall balance of the covered public sector, designed to bring debt down to no more than 60 percent of GDP by 2025/26.** Public debt under the fiscal rule will be defined as the consolidated debt of the covered public sector, netting out cross-holdings of public debt.

**A transition period will avoid inconsistencies between the fiscal rule and the current Fund-supported program**. To avoid the confusion that multiple (and potentially conflicting) fiscal targets could create, targets under the fiscal rule would mimic those under the program over its duration. At the end of the EFF arrangement, the stock of public debt will be adapted to the new definition of debt and the overall balance path re-calibrated consequently. Beyond that, the overall balance path will be re-calibrated periodically (every 3 years) to ensure compliance with the debt objective.

**To constrain fiscal risks stemming from user fee-funded PPPs, their loan value will be subject to a cumulative ceiling.** The cumulative ceiling is set at 3 percent of GDP over the duration of the EFF arrangement. To put a premium on careful design of PPP contracts, fully user-fee-funded PPPs with only minimal fiscal risks, as assessed independently by the OAG, could be exempted from the PPP ceiling. For government-funded PPPs, the full construction cost of the project would be recorded as a government liability within public debt (following the IPSAS 32 accounting standards), and these would thus be covered directly by the fiscal rule.

**The fiscal rule will embed an escape clause for major adverse shocks, triggered only with parliamentary approval.** The escape clause will be limited to natural disasters, a severe economic contraction, a banking or financial crisis, and a state of emergency, and may only be activated if the estimated fiscal impact of such shocks (to be validated by the OAG) exceeds 1½ percent of GDP.

**An automatic correction mechanism will strengthen the credibility of the rule**. Annual deviations from the overall balance floor will be stored in a notional account. When the notional balance exceeds the lower threshold of 1½ percent of GDP, annual adjustments are required to get back on track with the rule. If the balance of the notional account exceeds the upper threshold of 3½ percent of GDP, a larger automatic cut in primary spending by 1½ percent of GDP will be triggered.

**Other design features of the fiscal rule include measures to ensure transparency and accountability, and a permanent budget calendar.** Under the new calendar, budgets should be adopted before the start of the fiscal year (rather than several months later), and the Fiscal Policy Paper and the related OAG assessment will be presented to the parliament by end-September to inform the policy debate, including on how to address fiscal shortfalls early on.

19. **The authorities have updated their plans for strengthening public financial management (PFM)**. This updated PFM action plan was discussed in a second quarterly meeting with development partners, including the Fund, the World Bank, the IaDB, the European Union, and bilateral partners. Next steps under the program include reforms to support the effectiveness of the fiscal rule; in particular (MEFP, ¶16–18): the adoption of a permanent binding budget calendar involving early and accurate budget envelopes and priorities, a policy to limit the use of virements; actions to enhance the capacity for assessing fiscal contingencies associated with PPPs, implementation of the newly adopted Public Investment Management System (prepared with World Bank support) and actions to strengthen the capacity of the Auditor General. Further PFM reforms aim to enhance public procurement (with IaDB support), including forthcoming amendments to procurement legislation.

20. **In the context of public sector reform, the authorities have submitted plans for revising the public pension system** (MEFP, ¶21)**.** A White Paper on public sector pension reform was tabled in parliament in December 2013, and the revisions are expected to be implemented by 2016. The plans were developed with World Bank support, and involve parametric changes, including a gradual increase in the normal retirement age from 60 to 65 years, to limit the projected increase in government obligations. While welcoming the proposed reforms, staff pointed out that with their implementation, annual government spending on public pensions could still be expected to increase gradually and staff encouraged the authorities to consider more ambitious and expedited reforms to support fiscal sustainability. Reforms of the broader public pension system are expected to be addressed in the context of the new multiyear IaDB 'Fiscal-Structural Program for Economic Growth.' Reforms of public sector employment and remuneration practices are expected to be informed by a forthcoming review being prepared with IaDB support (unchanged structural benchmark for March 2014). A new IaDB investment lending program for enhancing public sector efficiency aims to support reforms that address excessive bureaucracy, duplication of functions, and underutilization of Information and Communication Technologies (ICT). In this context, the authorities' updated program includes steps towards the adoption of human capital management system for the entire public sector (MEFP, ¶20).

**Tax Reforms**

21. **Staff welcomed the recent improvements of the tax system while emphasizing the need for further reform** (MEFP, ¶6–13)**.** The tax reform is aimed at creating a broader and more reliable revenue base, while supporting the business climate and competitiveness through simplification and rationalization, and has benefitted from substantial IaDB technical assistance. The recently adopted fiscal incentives legislation was arguably the most critical part of these reforms. Remaining steps to be effective by April 2014 include changes to the General Consumption Tax, including the elimination of the zero-rating of government purchases and reductions in exemptions, and to the implementation of a minimum income tax for companies. Staff emphasized that the reforms still needed to be continued over the coming years, including through determined action to accelerate the phase out of grandfathered tax waivers from the previous regime, follow-up on a forthcoming study of petroleum taxation, and through further reduction in tax rates over time to the

extent permitted by the fiscal room. Reform of the property tax is envisaged to be ready for implementation by the start of 2015/16.

22. **The effectiveness of the reforms of the tax system hinges on concomitant improvements in revenue administration** (MEFP, ¶14). Building on legislative changes already adopted in the context of the program, the authorities have committed to the use of third party information for tax audits to making electronic filing mandatory for large taxpayers (structural benchmark for end-March 2014). Furthermore, the program has been strengthened on the basis of a recent joint technical assistance by the IaDB and the Fund. Further legislative amendments to strengthen the powers of the collection agencies are programmed for June 2014, shifted from March 2014 as additional elements were added to these amendments in the context of the action plan. Other elements of the action plan focus on strengthening the Large Taxpayers Office and improved tracking of the tax compliance (MEFP, ¶14).

## C. Monetary Policy and Exchange Rate Regime

**Monetary Policy**

23. **The authorities confirmed their commitment to the program targets for rebuilding net international reserves to create a buffer to deal with possible adverse external shocks.** In particular, they considered that the sizeable programmed increase in NIR by end-March 2014 was within reach, notwithstanding the large amortizations of foreign currency public debt in January and February. The BoJ's drive to attract longer-term foreign currency deposits from domestic banks, started towards the end of 2013, accelerated in January and February 2014.[2] In this context, staff considered that the depreciation of the nominal and real exchange rate since end-June 2012 has helped to reduce the real overvaluation of the Jamaican dollar, and supported the necessary current-account adjustment. Staff reiterated the case for raising international reserves beyond the program floor, to the extent possible.

24. **The authorities and staff concurred on the challenges to monetary management.** The authorities emphasized the importance of reducing inflation, and avoiding the entrenchment of inflation expectations (MEFP, ¶27). Accordingly, their policy has involved open-market operations to withdraw liquidity, including the active sterilization of the increase in NIR, limiting the scope for monetary and credit growth. The recent notable increases in money market interest rates and declining banking sector balances with the BoJ illustrate the impact of this policy on market conditions. This tightening took place notwithstanding stable policy interest rates. The mission concurred that monetary policy had been effective in combating inflation and meeting the NIR targets, while accommodating a continuing increase in private sector credit, and the projected paths for NIR and NDA have remained broadly unchanged. However, liquidity conditions have continued to tighten and the mission stressed the need for continued close monitoring of market conditions to

[2] In particular, the BOJ has started offering certificates of deposit to banks and primary dealers, with maturities from 2 to 4.5 years, denominated in U.S. dollars. In line with the TMU, these instruments contribute to NIR.

avoid a possible credit crunch and system-wide liquidity shortages. In this context, staff supported the central bank's policy response to pointedly alleviate liquidity shortages in the financial system via repo operations and the creation by the BOJ of an overnight stand-by liquidity window for the banking system. Staff encouraged the BOJ to fine-tune this instrument in line with staff advice, including by removing quantitative constraints (MEFP, ¶28). Staff also supported the recent initiative for injecting liquidity on a longer term (six months) basis, as this could help address constraints to loan growth, including for business investment, albeit its effectiveness in the context of overall tightening remains to be seen.

25. **The authorities have prepared a preliminary timetable for putting in place the operational requirements for a possible move to full-fledged inflation targeting over the medium term** (MEFP, ¶29)**.** A possible decision on moving to inflation targeting is tentatively foreseen by 2016, and could only become effective once regular financial market functioning has been restored, international reserves have reached an adequate level, and fiscal credibility has been enhanced. The authorities' proposals were based on Fund technical assistance provided in 2012. Critical elements of the work plan include actions to improve the functioning of the foreign exchange market, improved monitoring of macroeconomic developments, and steps to entrench operational independence and governance of the central bank. On the latter issue, the authorities are preparing amendments to the Central Bank Act to strengthen the institutional framework for the BOJ (MEFP, ¶30).

## D. Financial Sector Reform

26. **Preparations for meeting the programmed improvements in financial sector legislation by end-March 2014 are well underway** (MEFP, ¶22). An Omnibus Banking Law should enhance financial sector supervision by harmonizing the prudential standards across deposit takers, facilitating consolidated supervision of financial conglomerates, strengthening the corrective, sanctioning and resolution regime and ensuring that the Bank of Jamaica (BOJ) has operational independence for supervision. Further legislative improvements are aimed at safeguarding against unlawful financial operations that engage in fraudulent or otherwise unlawful activities (for example, "Ponzi schemes"). The associated structural benchmarks for March 2014 are proposed to be adjusted in light of capacity constraints in preparing

**Text Table 2. Jamaica: Financial Sector Indicators 1/**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Sep-13 | Nov-13 |
|---|---|---|---|---|---|---|---|---|
| **Balance sheet growth (y/y)** | | | | | | | | |
| Capital 2/ | 11.5 | 14.7 | 13.8 | 5.1 | 5.4 | 3.3 | 19.3 | 19.8 |
| Loans | 28.7 | 24.2 | 5.3 | -1.4 | 4.8 | 12.9 | 14.9 | 13.3 |
| NPLs | 14.2 | 57.6 | 68.0 | 36.1 | 44.0 | -13.2 | -5.1 | 0.1 |
| **Liquidity** | | | | | | | | |
| Excess liquidity | 25.0 | 30.3 | 31.3 | 36.2 | 30.5 | 26.7 | 27.1 | 25.9 |
| **Asset Quality** | | | | | | | | |
| Prov. for loan losses/NPLs | 103.4 | 87.2 | 75.7 | 69.9 | 75.2 | 92.8 | 95.3 | 95.7 |
| NPLs/loans | 2.3 | 2.9 | 4.7 | 6.5 | 8.9 | 6.8 | 5.8 | 5.7 |
| **Capital Adequacy** | | | | | | | | |
| NPLs/Capital+Prov. for loan losses | 9.1 | 12.3 | 17.7 | 22.3 | 28.4 | 23.7 | 20.0 | 19.8 |
| Capital Adequacy Ratio (CAR) 3/ | 16.0 | 15.2 | 18.8 | 18.2 | 16.1 | 14.1 | 15.1 | 15.1 |
| **Profitability (calendar year) 3/4/** | | | | | | | | |
| Pre-tax profit margin | 26.7 | 26.2 | 21.4 | 21.1 | 30.8 | 20.5 | 18.7 | 18.7 |
| Return on average assets | 3.4 | 3.5 | 2.9 | 2.5 | 3.9 | 2.3 | 0.5 | 0.5 |

Source: Bank of Jamaica.

1/ Commercial banks, building societies, and merchant banks.
2/ The increase in capital in November 2013 is partially due to the recapitalization of a bank.
3/ Data for 2013 refer to the September calendar 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.

and passing legislation, and now call for tabling rather than passage of the legislation, with the latter foreseen by May 2014.

27. **The authorities and staff concurred on the continued need for close monitoring of the financial system was needed to address vulnerabilities**. While the immediate impact of the debt exchange on financial sector stability appeared to have been modest and no entity has applied for support from the Financial Sector Support Fund, the resultant drying up of secondary markets in government paper, the tightening of financial market liquidity more generally, and the possibility of bond repricing, have heightened liquidity and solvency risks. Staff reiterated the need for frequent and in-depth monitoring of the financial system.

28. **Reforms of the securities dealers sector are moving forward**. The program aims to modify the business model of the sector, which currently entails significant risks to financial stability. With intensive Fund technical assistance, and in consultation with the sector, the authorities have fine-tuned the roadmap for phasing out the sector's "retail repo instrument". As a first step, several measures were adopted at end-December to make less risky business models (in particular, collective investment schemes) available to securities dealers (MEFP, ¶23). By March 2014, as a new structural benchmark under the program, the authorities plan to submit for consultation to the industry the legal and regulatory framework to establish a Trust to hold the underlying securities on the retail repo clients' behalf (MEFP, ¶24–25). The framework is expected to be in place by end June 2014 (reset structural benchmark). This reform has been designed to mitigate the risks to retail repos clients in case of a transaction failure of default, and it will require a range of specific legislative and regulatory changes to be put in place. Subsequently, a gradual tightening of prudential standards pertaining to the retail repo model is foreseen over the medium term (MEFP, ¶26). The mission emphasized the importance of careful contingency planning in the context of the illiquid government bond market and other market sensitivities.

## E. Growth and Social Protection

29. **Several reforms aimed at boosting economic growth have been initiated, but much remains to be done.** In light of the necessity of continued fiscal consolidation, the authorities' growth agenda is focused on promoting exports and replacing imports by domestic production, which are also supported by the ongoing real depreciation. Staff welcomed recent actions, including the tabling of an Insolvency Act, and legislation to streamline the business registration process. The construction of a large new power plant is scheduled to start in the first quarter of 2014, which is to reduce Jamaica's very high electricity costs by about one third. The authorities indicated that preparations for infrastructure investments to help create a logistics hub were also moving ahead.

30. **Staff stressed the need to press ahead with further actions for improving the business climate, in collaboration with the World Bank and the IaDB** (MEFP, ¶31–36). Certain priority actions that address critical bottlenecks are proposed as conditionality under the program.

- The authorities have committed to put in place a tracking system for the approval process for construction permits (new structural benchmark for December 2014), building on World Bank assistance. Delays in these approvals are a key bottleneck to investment. Furthermore, the authorities are developing actions in order to accelerate the process.

- To streamline the procedures for business registration further, an on-line process will be put in place by end-June 2014, in the context of the IaDB program for enhancing public sector efficiency.

- The authorities have committed to a plan of action to reduce the time required for obtaining an electricity connection, also with IaDB support.

- A new Electricity Act, developed in consultation with the World Bank, will be tabled in parliament by end-September 2014. This Act aims to strengthen governance in the sector and facilitate access to the grid by new power producers.

31. **The authorities confirmed their commitment to strengthening the social protection programs** (MEFP, ¶37). In line with the forthcoming adoption by the government of a graduation strategy for moving PATH recipients from welfare to work, through professional training and intermediation, they have committed to the recertification of 34,000 PATH households, by March 2014. A comprehensive Social Protection Strategy is expected to be submitted to Cabinet by March 2014. In addition, the authorities indicated that the program floor supporting budgetary spending on social priorities will be maintained in real terms under the 2014/15 budget.

# PROGRAM DESIGN AND FINANCING

32. **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 10)**. With recent disbursements of budget support by the World Bank (US$130 million) and the IaDB (US$140 million), as well as disbursements under the PetroCaribe Facility, external financing has remained in line with program assumptions. Further IFI disbursements are programmed to be relatively backloaded within the next fiscal year. The assumptions for bilateral financing in the current fiscal year remain broadly in line with those at the time of the previous review under the arrangement, albeit with a more cautious assumption on the drawings from the PetroCaribe facility. Debt service to the Fund and the disbursements profile remain unchanged, and in the absence of significant revisions to the macroeconomic outlook. Jamaica's capacity to repay the Fund will continue to depend on the timely and strong implementation of the ambitious program.

33. **New and revised structural benchmarks are proposed as well as new quantitative PCs for December 2014 (Tables 8 and 9).** Proposed revisions to the performance criteria for NIR and NDA for March through September 2014 reflect an updated program exchange rate (based on end-2013 rates) and the use of end-2013 (rather than end-2012) as the start date for calculating the cumulative changes. Some modifications to the fiscal PCs (overall balance of the public sector and direct government debt) are proposed for March-September 2014, reflecting updated quarterly cash-flow projections. The adjuster on the overall balance related to Petrojam is also proposed to be amended (see footnote 1). Minor revisions are proposed to the timing of several legislative reforms,

taking into account emerging capacity constraints. The program will continue to be reviewed on a quarterly basis (Table 11), and the availability dates for the purchase associated with the remaining reviews are proposed to be rephased to the 15th of the last month in each quarter, consistent with the expected timing of the reviews.

# STAFF APPRAISAL

34. **Recent data suggest that while growth has shown a modest recovery, domestic demand has been weak.** Projected real GDP growth for 2013/14 remains close to 1 percent, with an apparent shift to net exports, including in agriculture, as well as some strengthening in tourism and mining. Inflation has edged down in recent months, although it remains close to 10 percent, mainly due to the recent depreciation of the exchange rate. These and other indicators remain consistent with the existing medium-term macroeconomic projections, which show a gradual improvement in growth and price stability.

35. **As the initial key reforms are nearing completion, the policy agenda under the program is shifting to a range of complementary reforms to support sustained stability, debt reduction, and growth**. The authorities have continued their strong track record in keeping the program on track; meeting all quantitative performance criteria and indicative targets, and implementing the programmed structural reforms. Far-reaching tax reforms have been implemented and a fiscal rule aimed at entrenching fiscal discipline has been prepared. The next program priorities focus on strengthening tax and customs administration, public financial management, the securities dealers sector, the framework for monetary policy, and the business environment. Given the constraints to administrative and legislative capacity, careful sequencing of the reforms and the provision of technical assistance will be important to underpin continued successful program implementation.

36. **Fiscal performance has thus far been in line with the program, but maintaining the programmed tight fiscal stance remains a major challenge.** Meeting the programmed primary balance target of 7.5 percent of GDP during the program period is projected to be facilitated by the wage restraint embedded in the multiyear wage agreement, and by improved targeting of investment spending in the context of more structured investment planning and budgeting. On the other hand, anemic domestic demand has weakened the tax base, and the introduction of tax reform adds to the uncertainties of revenue performance. In addition, spending pressures could rise as fiscal consolidation is prolonged. Against this background, the authorities should maintain strict expenditure control and be prepared to adjust budget execution further if necessary. The next reform priorities are targeted to support such fiscal discipline, including through improvements in revenue collection to help realize the potential gains from the tax policy reforms. The programmed next steps under the action plan for strengthening public financial management constitute another reform priority that is critical to maintaining fiscal discipline and improving the effectiveness of public spending within the budgetary limits. In depth public consultations to bolster support for the new fiscal rule would be important for ensuring its effectiveness.

37. **Looking ahead, modernizing the public sector and addressing remaining fiscal risks will merit further attention in updating the reform agenda**. Public sector modernization is expected to start with improved human resource management, in collaboration with development partners. Its success will be vital to a sustainable reduction in the public sector wage bill over the medium term, as well as to improved service delivery. These efforts are also expected to benefit from the imminent completion of the review of public sector employment and remuneration. Given that much of Jamaica's excessive debt burden has resulted from fiscal contingencies, the programmed fiscal consolidation must be accompanied by comprehensive efforts to address new fiscal risks. Risks that call for attention include those related to pensions, public enterprises, and forthcoming public-private partnership agreements.

38. **A further priority must be to support economic growth through vigorous implementation of reforms.** The restoration of exchange-rate flexibility has yielded welcome improvements in price competitiveness, and should be maintained. Steadfast implementation of the macroeconomic program is also expected to support growth, through the return of investor confidence. However, these general forces can only be truly effective if efforts are redoubled to reduce the pervasive red tape and bureaucracy that continue to stifle private sector investment. For growth to be inclusive, the authorities need to continue their planned efforts to strengthen social protection programs, including by moving PATH recipients from welfare to work.

39. **Limiting inflationary pressures remain the key challenge for monetary policy, but should be matched with efforts to ensure adequate liquidity in the financial system**. Excessively tight liquidity conditions could undermine credit growth, pose risks to financial institutions, and complicate the reform of the securities dealers sector. These challenges call for continued close monitoring of monetary conditions, as well as the optimization of monetary management. While the recent creation of a standing liquidity window was welcome, its design could usefully be fine-tuned. Furthermore, vulnerabilities within the financial system need to be closely monitored, and the forthcoming legislative improvements in financial sector governance should be made effective without delay.

40. **Advancing the reforms of the securities dealers sector is essential for underpinning financial stability.** Following the recent actions to make less risky business models available to securities dealers, the authorities should execute the next steps of the reform of the securities dealers sector in a prudent manner, in close coordination with ongoing Fund technical assistance. In particular, the forthcoming introduction of a legal and regulatory framework for the "repo" product offered by securities dealers, that better protects clients' interests, should help increase transparency and reduce risks during a subsequent transitional period when investments are expected to shift towards alternative vehicles.

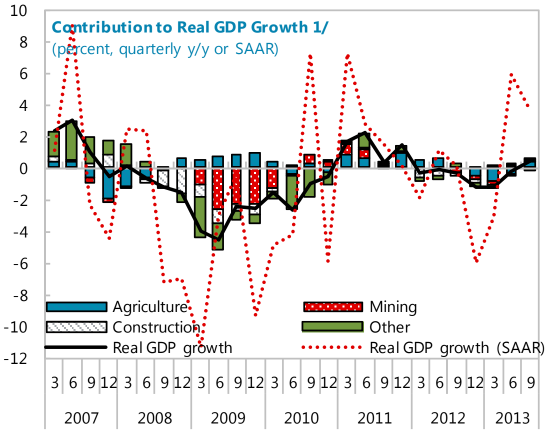
41. **Risks to the program remain high.** Despite the strong implementation of the program thus far, investor confidence remains weak resulting in a delayed investment response and inactiveness of the government domestic bond market. Until these delays abate, growth is likely to remain weak, posing risks to the reform momentum. Furthermore, there are important risks to revenue collection. Risks to government and balance-of-payments financing, including from

PetroCaribe, also remain significant. Against this background, the substantial recent World Bank and the IaDB operations offer important support to the design of the reform process, its credibility, and its financing.

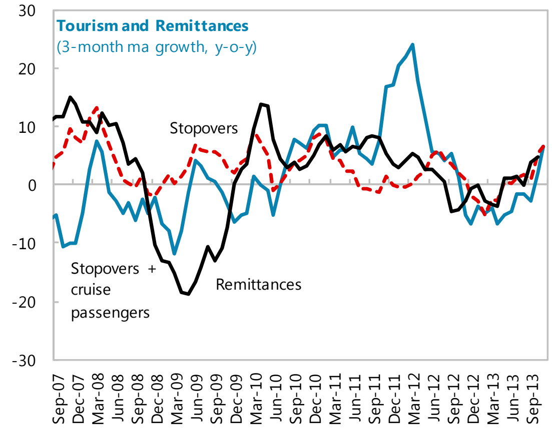
42. **On the basis of reforms undertaken in the context of this review, and the government's policy commitments going forward, the staff supports the authorities' request for completion of the third review under the arrangement under the Extended Fund Facility, the proposed rephasing of the availability date, and the proposed establishment and modification of performance criteria.**

## Figure 1. Jamaica: Recent Economic Developments

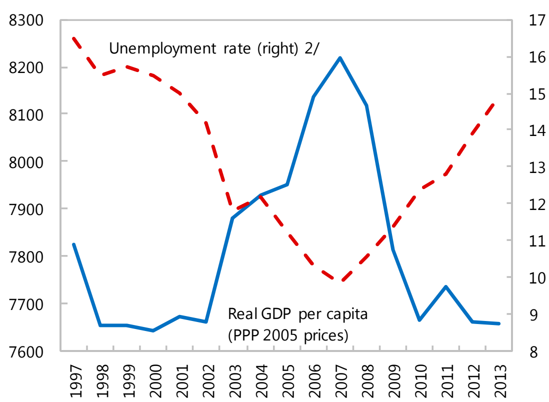
*After contracting in 2012/13, there are signs of a modest recovery in economic activity.*



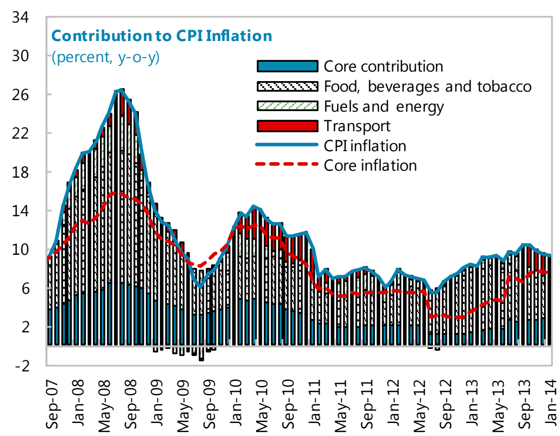

*Tourism and remittances have picked up in recent months.*



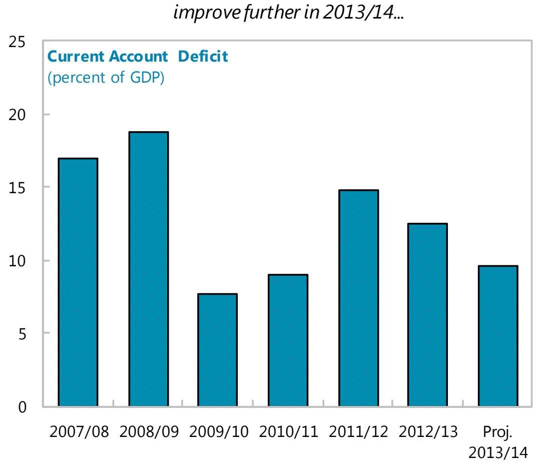

*Unemployment and poverty levels remain high...*



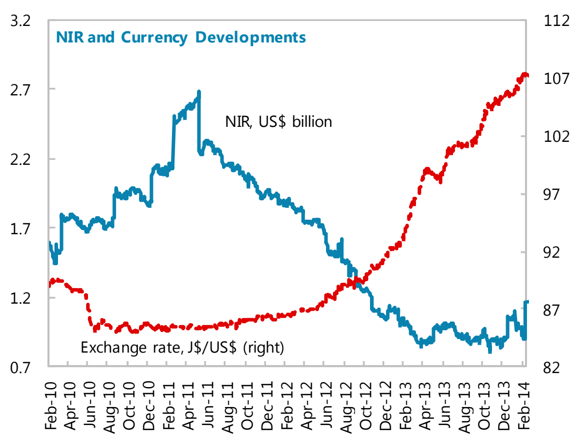

*... and core inflation has started to pick up in recent months.*




*The current account balance slightly improved in 2012/13 owing to lower demand for imports and is projected to improve further in 2013/14...*



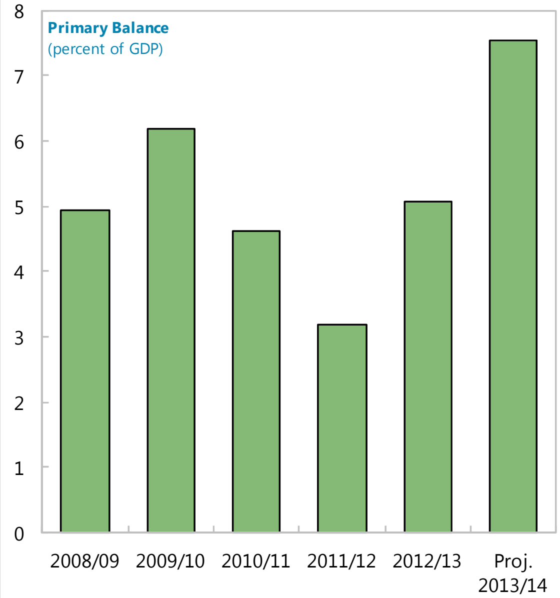

*... while international reserves have started to increase after declining steadily since mid-2011.*



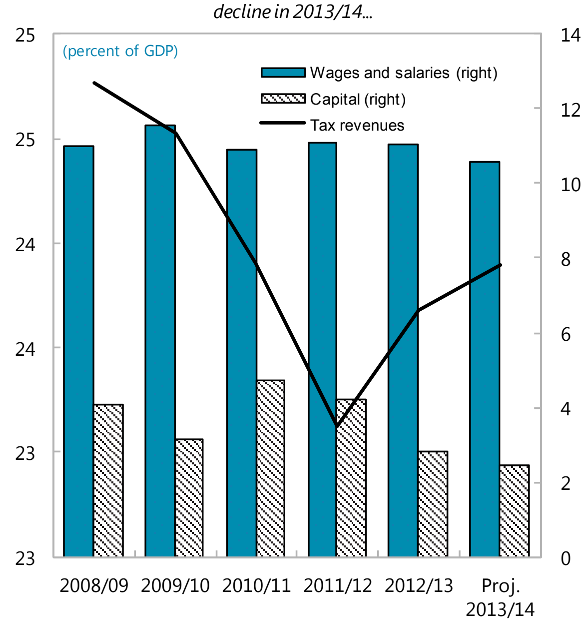

Sources: Bank of Jamaica; and Fund staff calculations.
1/ Seasonally-adjusted real GDP growth is in q/q annualized percent change.
2/ Unemployment rate data for 2013 refers to October 2013.

## Figure 2. Jamaica: Fiscal Developments

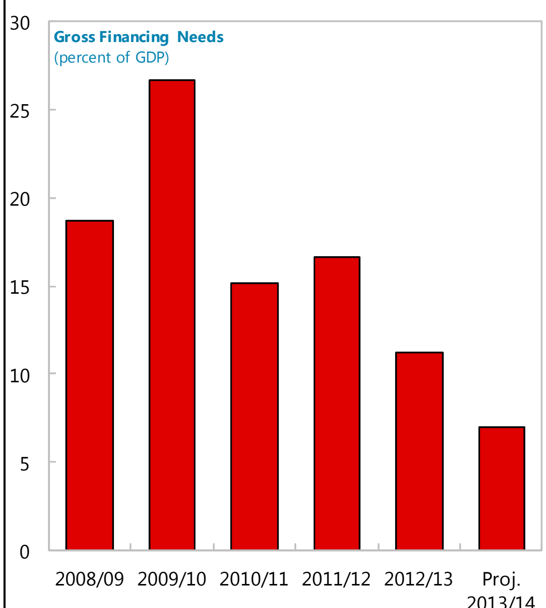
*The fiscal position strengthened in 2012/13 and is projected to improve further in 2013/14…*



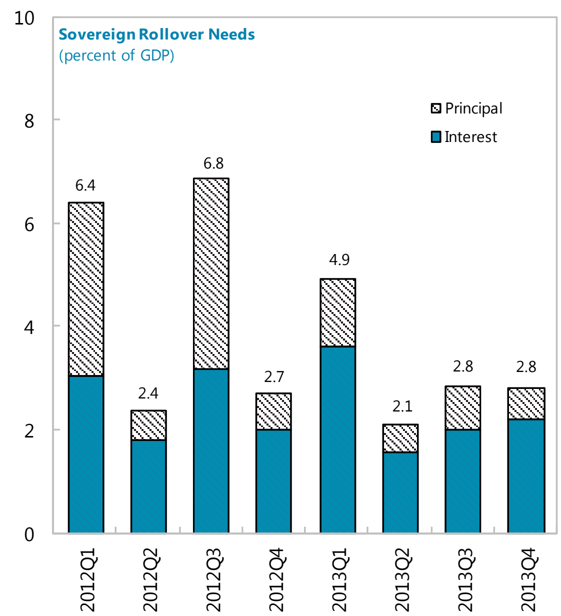

*… owing to improved revenue collection and lower capital spending. Expenditure on wages and salaries is projected to decline in 2013/14…*




*Gross financing needs have declined significantly in recent times…*



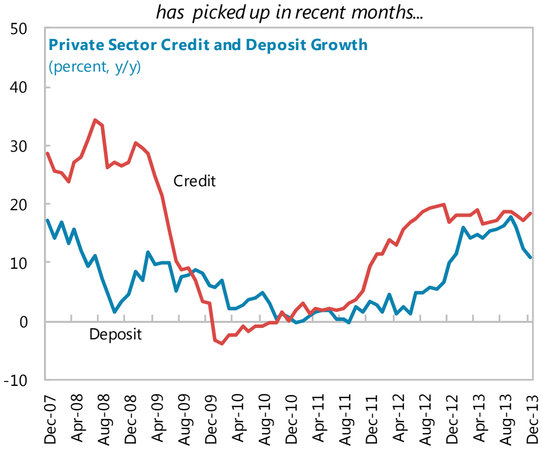

*… due partly to lower debt service cost.*



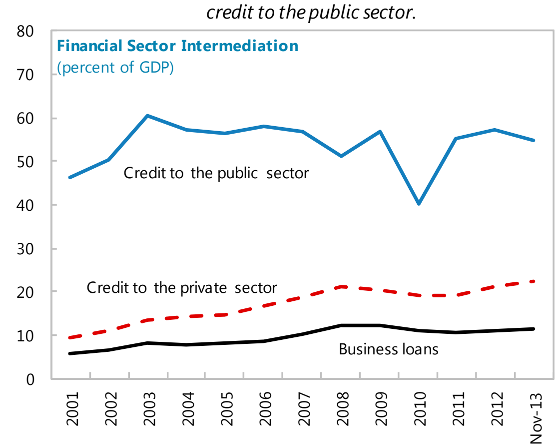

Sources: Bank of Jamaica; and Fund staff calculations.

## Figure 3. Jamaica: Financial Sector Developments

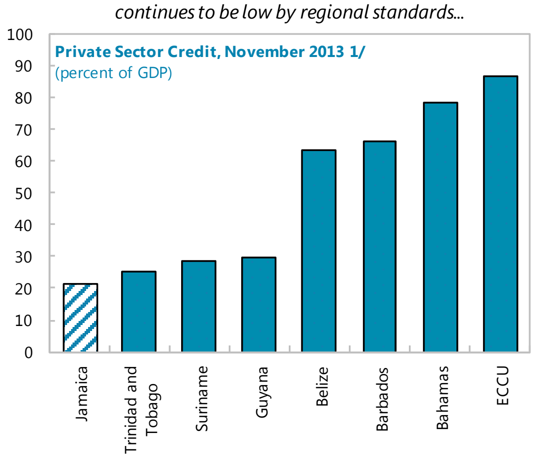
*Deposits are increasing and credit to the private sector has picked up in recent months...*



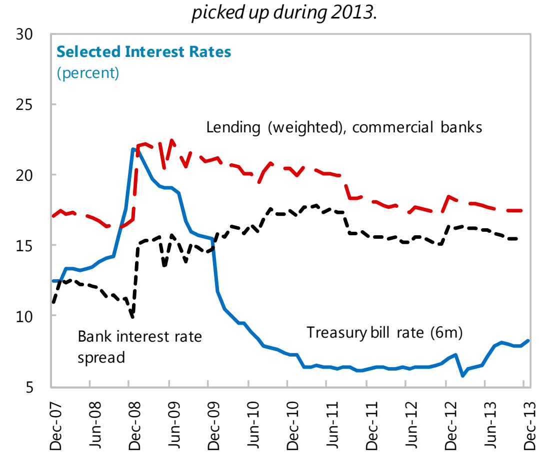

*... but credit to the private sector remains low compared to credit to the public sector.*



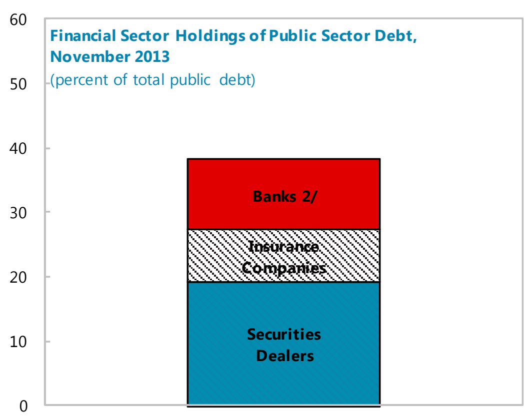

*As a result, credit to the private sector relative to GDP continues to be low by regional standards...*



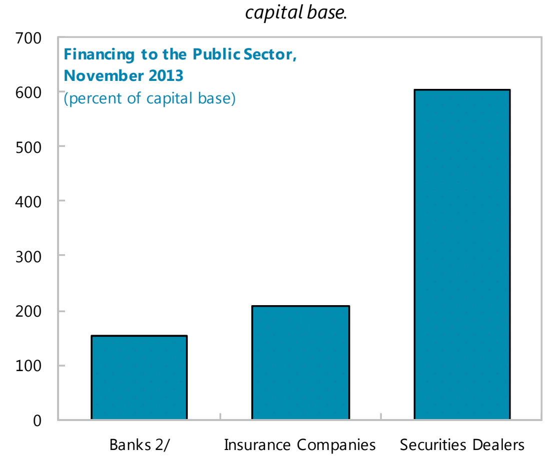

*... and interest rates remain high and treasury bill rates picked up during 2013.*




*The financial sector holds 40 percent of public debt...*

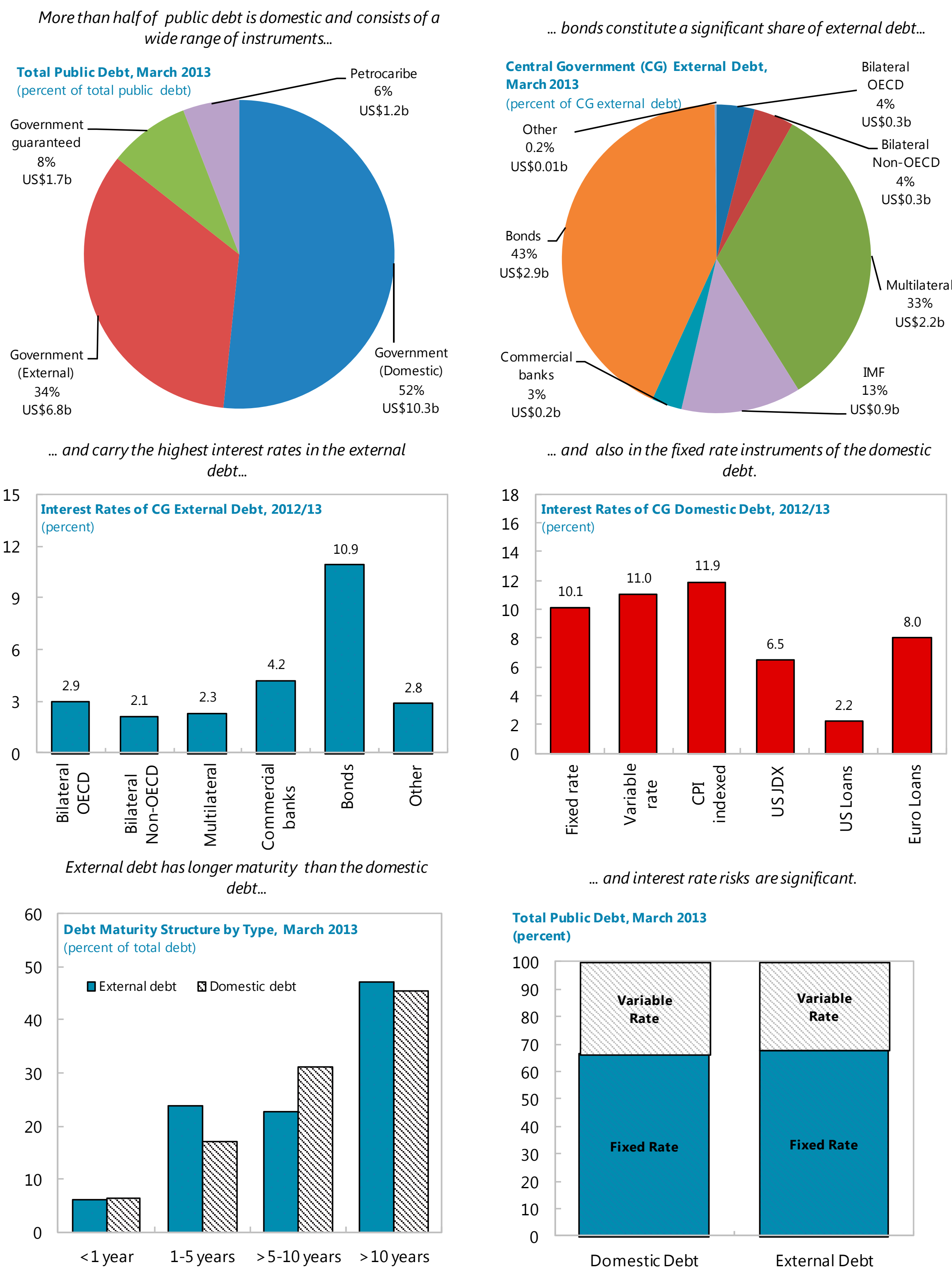



*... with government securities representing a multiple of the capital base.*




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




Sources: Bank of Jamaica; and Fund staff calculations.

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

Population (2012): 2.71 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$5,358
Literacy rate/Poverty rate: 86.4%/16.5%
Unemployment rate (July 2013): 15.4%

| | | | | Prog. | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
| | (Annual percent change, unless otherwise indicated) | | | | | | | | | | |
| **GDP and prices** | | | | | | | | | | | |
| Real GDP | -0.6 | 0.9 | -0.7 | 0.8 | 0.9 | 1.4 | 1.8 | 2.2 | 2.5 | 2.7 | 2.7 |
| Nominal GDP | 7.5 | 7.5 | 6.1 | 10.9 | 10.6 | 10.5 | 10.2 | 10.4 | 10.7 | 10.6 | 9.4 |
| Consumer price index (end of period) | 7.8 | 7.3 | 9.1 | 10.0 | 9.5 | 8.5 | 8.0 | 8.0 | 8.0 | 7.4 | 6.5 |
| Consumer price index (average) | 11.4 | 7.3 | 7.2 | 10.0 | 9.6 | 9.0 | 8.3 | 8.0 | 8.0 | 7.7 | 6.5 |
| Exchange rate (end of period, J$/US$) | 85.7 | 87.3 | 98.9 | ... | ... | ... | ... | ... | ... | ... | ... |
| Exchange rate (average, J$/US$) | 86.4 | 86.4 | 91.2 | ... | ... | ... | ... | ... | ... | ... | ... |
| Nominal depreciation (+), end-of-period | -4.2 | 1.8 | 13.3 | ... | ... | ... | ... | ... | ... | ... | ... |
| End-of-period REER (appreciation +) | 6.0 | 4.4 | -2.1 | ... | ... | ... | ... | ... | ... | ... | ... |
| Treasury bill rate (end-of-period, percent) | 6.6 | 6.5 | 6.2 | ... | ... | ... | ... | ... | ... | ... | ... |
| | (In percent of GDP) | | | | | | | | | | |
| **Government operations** | | | | | | | | | | | |
| Budgetary revenue | 26.8 | 25.6 | 25.5 | 27.3 | 26.9 | 26.9 | 27.0 | 26.8 | 26.9 | 26.9 | 27.0 |
| *Of which:* Tax revenue | 23.9 | 23.1 | 23.7 | 24.3 | 23.9 | 24.0 | 24.1 | 24.1 | 24.1 | 24.2 | 24.2 |
| Budgetary expenditure | 33.2 | 32.0 | 29.9 | 27.2 | 26.9 | 26.9 | 26.6 | 25.8 | 25.6 | 25.2 | 24.9 |
| Primary expenditure | 22.2 | 22.4 | 20.4 | 19.7 | 19.4 | 19.4 | 19.5 | 19.3 | 19.9 | 19.9 | 20.0 |
| *Of which:* Wage bill | 10.9 | 11.1 | 11.0 | 10.6 | 10.6 | 9.9 | 9.0 | 8.9 | 8.8 | 8.7 | 8.6 |
| Interest payments | 10.9 | 9.6 | 9.5 | 7.5 | 7.5 | 7.6 | 7.1 | 6.4 | 5.7 | 5.3 | 4.9 |
| Budget balance | -6.3 | -6.4 | -4.4 | 0.1 | 0.1 | -0.1 | 0.4 | 1.1 | 1.3 | 1.7 | 2.1 |
| *Of which:* Central government primary balance | 4.6 | 3.2 | 5.1 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.0 | 7.0 | 7.0 |
| Public entities balance | -0.5 | 0.0 | 0.1 | -0.1 | -0.5 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Public sector balance | -6.9 | -6.4 | -4.5 | -0.1 | -0.4 | 0.1 | 0.6 | 1.2 | 1.4 | 1.8 | 2.2 |
| Public debt 2/ | 143.5 | 141.9 | 146.9 | 138.3 | 138.9 | 133.7 | 129.1 | 123.9 | 115.4 | 107.0 | 99.0 |
| **External sector** | | | | | | | | | | | |
| Current account balance | -9.0 | -14.9 | -12.8 | -10.0 | -9.6 | -8.2 | -7.2 | -6.2 | -5.5 | -5.4 | -5.0 |
| *Of which:* Exports of goods, f.o.b. | 10.5 | 11.6 | 12.1 | 11.5 | 11.8 | 12.2 | 12.7 | 13.2 | 13.2 | 13.4 | 13.4 |
| Imports of goods, f.o.b. | 36.5 | 41.1 | 40.7 | 39.6 | 38.7 | 37.9 | 37.5 | 36.5 | 35.3 | 34.5 | 33.5 |
| Net international reserves (US$ millions) 3/ | 2,553 | 1,777 | 884 | 1,246 | 1,248 | 1,453 | 1,613 | 1,761 | 1,921 | 2,029 | 2,206 |
| | (Changes in percent of beginning of period broad money) | | | | | | | | | | |
| **Money and credit** | | | | | | | | | | | |
| Net foreign assets | 23.3 | -15.7 | -14.7 | 6.2 | 6.4 | 7.9 | 6.6 | 6.4 | 6.3 | 4.8 | 5.6 |
| Net domestic assets | -21.6 | 20.9 | 28.0 | 4.7 | 4.2 | 2.6 | 3.6 | 3.9 | 4.4 | 5.9 | 3.8 |
| *Of which:* Credit to the private sector | 0.9 | 9.0 | 13.0 | 14.1 | 10.1 | 9.7 | 10.3 | 10.6 | 11.3 | 11.7 | 12.2 |
| Credit to the central government | -11.7 | 9.9 | 7.4 | 3.8 | 3.8 | 5.0 | 4.8 | 4.3 | 4.8 | 5.1 | 4.6 |
| Broad money | 1.7 | 5.1 | 13.3 | 10.9 | 10.6 | 10.5 | 10.2 | 10.4 | 10.7 | 10.6 | 9.4 |
| **Memorandum item:** | | | | | | | | | | | |
| Nominal GDP (J$ billions) | 1,172 | 1,260 | 1,336 | 1,482 | 1,478 | 1,634 | 1,800 | 1,987 | 2,200 | 2,433 | 2,662 |

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/ Central government direct and guaranteed only, including PetroCaribe debt (net of its financing to the central government) and projected IMF disbursements and other IFIs.
3/ Excludes the part of gross reserves to address potential FSSF-related demand.

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

| | | | | Prog. | Budget | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2013/14 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
| Budgetary revenue and grants | 314,558 | 322,457 | 340,236 | 404,023 | 407,160 | 398,149 | 438,748 | 485,494 | 533,491 | 590,953 | 654,229 | 717,929 |
| Tax 1/ | 280,295 | 291,407 | 316,496 | 360,684 | 362,058 | 353,217 | 392,468 | 434,494 | 479,289 | 531,224 | 588,408 | 645,443 |
| *Of which:* | | | | | | | | | | | | |
| Income and profits | 105,119 | 106,423 | 115,877 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| *Of which:* Other companies | 32,481 | 29,035 | 35,798 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| PAYE | 51,553 | 60,165 | 60,876 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Production and consumption | 78,571 | 84,629 | 92,027 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| *Of which:* GCT (Local) | 46,390 | 47,973 | 50,897 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| International Trade | 94,144 | 96,512 | 105,306 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| *Of which:* GCT (Imports) | 38,521 | 41,685 | 45,501 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Non-tax | 24,138 | 27,602 | 19,799 | 33,054 | 35,680 | 33,840 | 37,337 | 41,145 | 45,341 | 49,966 | 55,061 | 60,629 |
| Grants | 10,125 | 3,449 | 3,940 | 10,285 | 9,422 | 11,092 | 8,943 | 9,855 | 8,860 | 9,764 | 10,760 | 11,857 |
| Budgetary expenditure | 388,768 | 403,192 | 399,279 | 403,228 | 415,206 | 397,275 | 440,135 | 478,476 | 512,446 | 563,136 | 613,040 | 661,735 |
| Primary expenditure | 260,413 | 282,487 | 272,341 | 292,512 | 295,679 | 286,648 | 316,286 | 350,402 | 384,365 | 437,004 | 483,978 | 531,716 |
| Wage and salaries | 127,957 | 139,557 | 147,382 | 157,352 | 157,253 | 156,230 | 161,697 | 162,448 | 177,530 | 194,225 | 211,900 | 227,997 |
| Programme expenditure | 76,862 | 89,699 | 87,202 | 93,988 | 93,704 | 93,688 | 106,892 | 124,593 | 136,821 | 151,661 | 167,749 | 185,514 |
| Capital expenditure | 55,594 | 53,231 | 37,758 | 41,172 | 44,722 | 36,731 | 47,697 | 63,361 | 70,014 | 91,118 | 104,330 | 118,205 |
| Interest | 128,355 | 120,704 | 126,938 | 110,716 | 119,567 | 110,627 | 123,849 | 128,074 | 128,081 | 126,133 | 129,062 | 130,019 |
| Domestic | 88,049 | 81,617 | 87,729 | 68,776 | 75,523 | 68,420 | 78,266 | 81,465 | 79,532 | 80,283 | 79,967 | 78,755 |
| External | 40,305 | 39,087 | 39,209 | 41,941 | 44,044 | 42,207 | 45,583 | 46,609 | 48,549 | 45,849 | 49,095 | 51,264 |
| Budget balance | -74,210 | -80,734 | -59,043 | 795 | -8,046 | 874 | -1,386 | 7,018 | 21,045 | 27,817 | 41,189 | 56,194 |
| *Of which:* Primary budget balance | 54,145 | 39,970 | 67,895 | 111,511 | 111,521 | 111,500 | 122,463 | 135,092 | 149,126 | 153,949 | 170,251 | 186,212 |
| Public entities balance | -5,755 | -195 | 1,905 | -1,601 | ... | -7,401 | 2,900 | 2,900 | 2,900 | 2,900 | 2,900 | 2,900 |
| Public sector balance | -80,658 | -81,243 | -60,094 | -806 | ... | -6,528 | 1,514 | 9,918 | 23,945 | 30,717 | 44,089 | 59,094 |
| Principal repayments | 102,432 | 128,455 | 88,681 | 103,703 | 105,680 | 104,222 | 59,528 | 160,208 | 67,050 | 239,208 | 179,946 | 221,952 |
| Domestic | 79,394 | 67,820 | 36,976 | 75,422 | 76,387 | 75,760 | 8,803 | 70,635 | 17,366 | 97,340 | 90,390 | 128,585 |
| External | 23,038 | 60,635 | 51,705 | 28,281 | 29,293 | 28,461 | 50,725 | 89,573 | 49,684 | 141,868 | 89,556 | 93,367 |
| Gross financing needs | 177,334 | 209,753 | 150,680 | 102,908 | 113,726 | 103,348 | 60,915 | 153,190 | 46,005 | 211,392 | 138,757 | 165,759 |
| Gross financing sources 2/ | 177,334 | 209,753 | 150,680 | 102,908 | 103,280 | 103,348 | 60,915 | 153,190 | 46,005 | 211,392 | 138,757 | 165,759 |
| Domestic | 59,920 | 142,750 | 141,505 | 48,937 | 13,778 | 52,253 | 25,020 | 76,737 | 17,038 | 82,508 | 64,494 | 84,358 |
| External | 90,490 | 20,768 | 9,175 | 56,466 | 89,502 | 57,657 | 42,459 | 69,271 | 34,938 | 122,555 | 73,962 | 80,928 |
| *Of which:* Official | 51,262 | 30,032 | 9,175 | 56,466 | | 57,657 | 39,655 | 44,627 | 34,938 | 29,268 | 37,314 | 40,269 |
| Divestment + deposit drawdown | 26,924 | 41,424 | 0 | -2,495 | 10,447 | -6,860 | -6,565 | 7,182 | -5,971 | 6,329 | 301 | 472 |
| **Memorandum items:** | | | | | | | | | | | | |
| Nominal GDP (billion J$) | 1,172 | 1,260 | 1,336 | 1,482 | 1,494 | 1,478 | 1,634 | 1,800 | 1,987 | 2,200 | 2,433 | 2,662 |
| Public sector debt (billion J$) | 1,682 | 1,788 | 1,963 | 2,049 | 2,128 | 2,053 | 2,185 | 2,323 | 2,461 | 2,538 | 2,602 | 2,635 |
| *Of which:* Direct debt | 1,457 | 1,537 | 1,678 | 1,803 | 1,783 | 1,808 | 1,908 | 2,024 | 2,136 | 2,178 | 2,209 | 2,202 |

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/ It is assumed that 70 percent of Petrocaribe's annual inflows are used for external commercial debt repayments.

## Table 3. Jamaica: Summary of Central Government Operations

(In percent of GDP)

| | | | | Prog. | Budget | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2013/14 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
| Budgetary revenue and grants | 26.8 | 25.6 | 25.5 | 27.3 | 27.5 | 26.9 | 26.9 | 27.0 | 26.8 | 26.9 | 26.9 | 27.0 |
| Tax 1/ | 23.9 | 23.1 | 23.7 | 24.3 | 24.5 | 23.9 | 24.0 | 24.1 | 24.1 | 24.1 | 24.2 | 24.2 |
| *Of which:* | | | | | | | | | | | | |
| Income and profits | 9.0 | 8.4 | 8.7 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| *Of which:* Other companies | 2.8 | 2.3 | 2.7 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| PAYE | 4.4 | 4.8 | 4.6 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Production and consumption | 6.7 | 6.7 | 6.9 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| *Of which:* GCT (Local) | 4.0 | 3.8 | 3.8 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| International Trade | 8.0 | 7.7 | 7.9 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| *Of which:* GCT (Imports) | 3.3 | 3.3 | 3.4 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Non-tax | 2.1 | 2.2 | 1.5 | 2.2 | 2.4 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| Grants | 0.9 | 0.3 | 0.3 | 0.7 | 0.6 | 0.8 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| Budgetary expenditure | 33.2 | 32.0 | 29.9 | 27.2 | 28.1 | 26.9 | 26.9 | 26.6 | 25.8 | 25.6 | 25.2 | 24.9 |
| Primary expenditure | 22.2 | 22.4 | 20.4 | 19.7 | 20.0 | 19.4 | 19.4 | 19.5 | 19.3 | 19.9 | 19.9 | 20.0 |
| Wage and salaries | 10.9 | 11.1 | 11.0 | 10.6 | 10.6 | 10.6 | 9.9 | 9.0 | 8.9 | 8.8 | 8.7 | 8.6 |
| Programme expenditure | 6.6 | 7.1 | 6.5 | 6.3 | 6.3 | 6.3 | 6.5 | 6.9 | 6.9 | 6.9 | 6.9 | 7.0 |
| Capital expenditure | 4.7 | 4.2 | 2.8 | 2.8 | 3.0 | 2.5 | 2.9 | 3.5 | 3.5 | 4.1 | 4.3 | 4.4 |
| Interest | 10.9 | 9.6 | 9.5 | 7.5 | 8.1 | 7.5 | 7.6 | 7.1 | 6.4 | 5.7 | 5.3 | 4.9 |
| Domestic | 7.5 | 6.5 | 6.6 | 4.6 | 5.1 | 4.6 | 4.8 | 4.5 | 4.0 | 3.6 | 3.3 | 3.0 |
| External | 3.4 | 3.1 | 2.9 | 2.8 | 3.0 | 2.9 | 2.8 | 2.6 | 2.4 | 2.1 | 2.0 | 1.9 |
| Budget balance | -6.3 | -6.4 | -4.4 | 0.1 | -0.5 | 0.1 | -0.1 | 0.4 | 1.1 | 1.3 | 1.7 | 2.1 |
| *Of which:* Primary budget balance | 4.6 | 3.2 | 5.1 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.0 | 7.0 | 7.0 |
| Public entities balance | -0.5 | 0.0 | 0.1 | -0.1 | ... | -0.5 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Public sector balance | -6.9 | -6.4 | -4.5 | -0.1 | ... | -0.4 | 0.1 | 0.6 | 1.2 | 1.4 | 1.8 | 2.2 |
| Principal repayments | 8.7 | 10.2 | 6.6 | 7.0 | 7.1 | 7.1 | 3.6 | 8.9 | 3.4 | 10.9 | 7.4 | 8.3 |
| Domestic | 6.8 | 5.4 | 2.8 | 5.1 | 5.2 | 5.1 | 0.5 | 3.9 | 0.9 | 4.4 | 3.7 | 4.8 |
| External | 2.0 | 4.8 | 3.9 | 1.9 | 2.0 | 1.9 | 3.1 | 5.0 | 2.5 | 6.4 | 3.7 | 3.5 |
| Gross financing needs | 15.1 | 16.6 | 11.3 | 6.9 | 7.7 | 7.0 | 3.7 | 8.5 | 2.3 | 9.6 | 5.7 | 6.2 |
| Gross financing sources 2/ | 15.1 | 16.6 | 11.3 | 6.9 | 7.0 | 7.0 | 3.7 | 8.5 | 2.3 | 9.6 | 5.7 | 6.2 |
| Domestic | 5.1 | 11.3 | 10.6 | 3.3 | 0.9 | 3.5 | 1.5 | 4.3 | 0.9 | 3.8 | 2.7 | 3.2 |
| External | 7.7 | 1.6 | 0.7 | 3.8 | 6.1 | 3.9 | 2.6 | 3.8 | 1.8 | 5.6 | 3.0 | 3.0 |
| *Of which:* Official | 4.4 | 2.4 | 0.7 | 3.8 | 0.0 | 3.9 | 2.4 | 2.5 | 1.8 | 1.3 | 1.5 | 1.5 |
| Divestment + deposit drawdown | 2.3 | 3.3 | 0.0 | -0.2 | 0.7 | -0.5 | -0.4 | 0.4 | -0.3 | 0.3 | 0.0 | 0.0 |
| **Memorandum items:** | | | | | | | | | | | | |
| Nominal GDP (billion J$) | 1,172 | 1,260 | 1,336 | 1,482 | 1,478 | 1,478 | 1,634 | 1,800 | 1,987 | 2,200 | 2,433 | 2,662 |
| Public sector debt | 143.5 | 141.9 | 146.9 | 138.3 | ... | 138.9 | 133.7 | 129.1 | 123.9 | 115.4 | 107.0 | 99.0 |
| *Of which:* Direct debt | 124.3 | 122.0 | 125.6 | 121.6 | ... | 122.3 | 116.8 | 112.4 | 107.5 | 99.0 | 90.8 | 82.7 |

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/ It is assumed that 70 percent of Petrocaribe's annual inflows are used for external commercial debt repayments.

## Table 4. Jamaica: Operations of the Public Entities

| | In billions of Jamaican dollars | | | | | | In percent of GDP | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Prog. | | | | | | Prog. | | |
| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2013/14 | 2014/15 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2013/14 | 2014/15 |
| **Operating balance selected public entities 1/** | **53.6** | **55.2** | **60.6** | **59.6** | **53.8** | **...** | **4.6** | **4.4** | **4.5** | **4.0** | **3.6** | **...** |
| *Of which:* | | | | | | | | | | | | |
| Clarendon Aluminum | -4.2 | -7.2 | -1.1 | -0.3 | ... | ... | -0.4 | -0.6 | -0.1 | 0.0 | ... | ... |
| Petrojam | 27.8 | 25.1 | 15.5 | 21.9 | ... | ... | 2.4 | 2.0 | 1.2 | 1.5 | ... | ... |
| NROCC | -3.9 | -0.6 | -3.3 | -4.3 | ... | ... | -0.3 | 0.0 | -0.2 | -0.3 | ... | ... |
| Urban Development Corporation | 0.6 | -0.8 | -0.4 | 0.2 | ... | ... | 0.1 | -0.1 | 0.0 | 0.0 | ... | ... |
| National Water Commission | 1.5 | 4.0 | 8.0 | 5.7 | ... | ... | 0.1 | 0.3 | 0.6 | 0.4 | ... | ... |
| Port Authority of Jamaica | 2.9 | 2.9 | 3.7 | 4.5 | ... | ... | 0.2 | 0.2 | 0.3 | 0.3 | ... | ... |
| National Housing Trust | 23.5 | 26.9 | 29.6 | 28.2 | ... | ... | 2.0 | 2.1 | 2.2 | 1.9 | ... | ... |
| National Insurance Fund | 2.8 | 1.7 | 4.8 | 0.2 | ... | ... | 0.2 | 0.1 | 0.4 | 0.0 | ... | ... |
| **Net current transfers from the central government** | **-11.2** | **-11.8** | **-15.2** | **-22.8** | **-22.8** | **...** | **-1.0** | **-0.9** | **-1.1** | **-1.5** | **-1.5** | **...** |
| *Of which:* | | | | | | | | | | | | |
| Clarendon Aluminum | 1.5 | 7.5 | 3.4 | 0.3 | ... | ... | 0.1 | 0.6 | 0.3 | 0.0 | ... | ... |
| Petrojam | -26.8 | -19.2 | -21.3 | -18.8 | ... | ... | -2.3 | -1.5 | -1.6 | -1.3 | ... | ... |
| NROCC | 2.5 | 0.2 | 3.0 | 4.2 | ... | ... | 0.2 | 0.0 | 0.2 | 0.3 | ... | ... |
| Urban Development Corporation | 3.7 | 0.7 | 0.1 | 0.0 | ... | ... | 0.3 | 0.1 | 0.0 | 0.0 | ... | ... |
| National Water Commission | 1.6 | 0.0 | 1.0 | 0.5 | ... | ... | 0.1 | 0.0 | 0.1 | 0.0 | ... | ... |
| Port Authority of Jamaica | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... |
| National Housing Trust | 0.0 | -1.2 | -4.0 | -11.4 | ... | ... | 0.0 | -0.1 | -0.3 | -0.8 | ... | ... |
| National Insurance Fund | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... |
| **Gross capital expenditure selected public entities 2/** | **50.7** | **39.5** | **41.6** | **48.2** | **48.2** | **...** | **4.3** | **3.1** | **3.1** | **3.3** | **3.3** | **...** |
| *Of which:* | | | | | | | | | | | | |
| Clarendon Aluminum | 1.7 | -0.2 | 1.5 | 3.6 | ... | ... | 0.1 | 0.0 | 0.1 | 0.2 | ... | ... |
| Petrojam | 3.0 | 2.6 | 0.2 | -0.2 | ... | ... | 0.3 | 0.2 | 0.0 | 0.0 | ... | ... |
| NROCC | 0.4 | 0.6 | 0.3 | 0.5 | ... | ... | 0.0 | 0.1 | 0.0 | 0.0 | ... | ... |
| Urban Development Corporation | 3.5 | 0.7 | 0.2 | 0.7 | ... | ... | 0.3 | 0.1 | 0.0 | 0.0 | ... | ... |
| National Water Commission | 5.4 | 4.5 | 9.7 | 9.6 | ... | ... | 0.5 | 0.4 | 0.7 | 0.7 | ... | ... |
| Port Authority of Jamaica | 4.6 | 2.1 | 0.8 | 2.0 | ... | ... | 0.4 | 0.2 | 0.1 | 0.1 | ... | ... |
| National Housing Trust | 21.7 | 25.5 | 23.2 | 24.8 | ... | ... | 1.8 | 2.0 | 1.7 | 1.7 | ... | ... |
| National Insurance Fund | 0.0 | 0.1 | 0.0 | 0.1 | ... | ... | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... |
| Other net spending selected public entities 3/ | 0.5 | 0.0 | 0.0 | 0.6 | 0.6 | ... | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | ... |
| **Overall balance selected public entities** | **-8.8** | **3.9** | **3.7** | **-11.9** | **-17.7** | **2.9** | **-0.7** | **0.3** | **0.3** | **-0.8** | **-1.2** | **0.2** |
| *Of which:* | | | | | | | | | | | | |
| Clarendon Aluminum | -4.4 | 0.5 | 0.8 | -3.6 | ... | ... | -0.4 | 0.0 | 0.1 | -0.2 | ... | ... |
| Petrojam | -2.0 | 3.3 | -5.9 | 3.3 | ... | ... | -0.2 | 0.3 | -0.4 | 0.2 | ... | ... |
| NROCC | -1.8 | -1.0 | -0.5 | -0.5 | ... | ... | -0.2 | -0.1 | 0.0 | 0.0 | ... | ... |
| Urban Development Corporation | 0.7 | -0.8 | -0.5 | -1.0 | ... | ... | 0.1 | -0.1 | 0.0 | -0.1 | ... | ... |
| National Water Commission | -2.3 | -0.5 | -0.7 | -3.5 | ... | ... | -0.2 | 0.0 | -0.1 | -0.2 | ... | ... |
| Port Authority of Jamaica | -1.8 | 0.8 | 3.0 | 2.4 | ... | ... | -0.1 | 0.1 | 0.2 | 0.2 | ... | ... |
| National Housing Trust | 1.9 | 0.2 | 2.4 | -8.0 | ... | ... | 0.2 | 0.0 | 0.2 | -0.5 | ... | ... |
| National Insurance Fund | 2.8 | 1.6 | 4.7 | 0.1 | ... | ... | 0.2 | 0.1 | 0.4 | 0.0 | ... | ... |
| **Overall balance other public entities** | **3.0** | **-4.1** | **-1.8** | **10.3** | **10.3** | **0.0** | **0.3** | **-0.3** | **-0.1** | **0.7** | **0.7** | **0.0** |
| **Overall balance public entities** | **-5.8** | **-0.2** | **1.9** | **-1.6** | **-7.4** | **2.9** | **-0.5** | **0.0** | **0.1** | **-0.1** | **-0.5** | **0.2** |

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)

| | | | Est. | Prog. | Projections | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
| Current account | -1,221 | -2,168 | -1,874 | -1,430 | -1,371 | -1,171 | -1,034 | -911 | -839 |
| Trade balance | -3,537 | -4,311 | -4,189 | -4,029 | -3,816 | -3,650 | -3,554 | -3,432 | -3,401 |
| Exports (f.o.b.) | 1,418 | 1,691 | 1,778 | 1,655 | 1,681 | 1,741 | 1,827 | 1,944 | 2,025 |
| Imports (f.o.b.) | 4,955 | 6,002 | 5,968 | 5,685 | 5,497 | 5,391 | 5,381 | 5,376 | 5,425 |
| Fuel (cif) | 1,805 | 2,508 | 2,241 | 2,103 | 2,141 | 2,086 | 2,053 | 2,049 | 2,100 |
| Exceptional imports (including FDI-related) | 447 | 477 | 585 | 660 | 560 | 650 | 550 | 310 | 310 |
| Other | 2,704 | 3,017 | 3,142 | 2,922 | 2,795 | 2,655 | 2,777 | 3,017 | 3,015 |
| Services (net) | 777 | 615 | 674 | 835 | 753 | 781 | 938 | 918 | 960 |
| Transportation | -465 | -629 | -783 | -601 | -681 | -707 | -674 | -693 | -704 |
| Travel | 1,819 | 1,863 | 1,896 | 1,892 | 1,919 | 1,987 | 2,070 | 2,074 | 2,123 |
| *Of which:* Tourism receipts | 2,007 | 2,029 | 2,059 | 2,047 | 2,076 | 2,147 | 2,236 | 2,246 | 2,302 |
| Other services | -577 | -619 | -439 | -456 | -485 | -498 | -458 | -463 | -459 |
| Income (net) | -486 | -481 | -421 | -370 | -442 | -498 | -619 | -664 | -687 |
| Current transfers (net) | 2,026 | 2,008 | 2,064 | 2,135 | 2,135 | 2,196 | 2,201 | 2,268 | 2,289 |
| Government (net) | 206 | 141 | 190 | 154 | 154 | 150 | 150 | 150 | 150 |
| Private (net) | 1,819 | 1,867 | 1,874 | 1,981 | 1,981 | 2,046 | 2,051 | 2,118 | 2,139 |
| Capital and financial account | 2,023 | 1,392 | 874 | 1,310 | 1,253 | 1,166 | 984 | 850 | 999 |
| Capital account (net) | -24 | -11 | -14 | 16 | 16 | 16 | 16 | 16 | 16 |
| Financial account (net) 1/ | 2,047 | 1,403 | 888 | 1,294 | 1,237 | 1,149 | 968 | 834 | 982 |
| Direct investment (net) | 143 | 201 | 260 | 529 | 435 | 489 | 523 | 466 | 452 |
| Central government (net) | 732 | -443 | -555 | -208 | -200 | -282 | -372 | -318 | -135 |
| Other official (net) 2/ | 239 | 698 | 552 | 553 | 632 | 543 | 416 | 283 | 235 |
| *Of which:* PetroCaribe | 258 | 492 | 462 | 324 | 403 | 312 | 241 | 180 | 132 |
| Portfolio investment (net) | 933 | 947 | 630 | 420 | 370 | 400 | 400 | 404 | 430 |
| Overall balance | 801 | -776 | -1,000 | -119 | -117 | -5 | -50 | -60 | 160 |
| Financing | -801 | 776 | 1,000 | 119 | 117 | 5 | 50 | 60 | -160 |
| Change in net reserves (- increase) | -801 | 776 | 893 | -246 | -248 | -42 | -286 | -325 | -142 |
| Change in arrears | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap | 0 | 0 | 107 | 365 | 365 | 47 | 337 | 385 | -18 |
| IMF 3/ | 0 | 0 | 0 | -26 | -26 | -163 | 127 | 176 | -18 |
| Disbursements | 0 | 0 | 0 | 346 | 346 | 259 | 176 | 176 | 0 |
| Repayments | 0 | 0 | 0 | -372 | -372 | -422 | -50 | 0 | -18 |
| IFIs | 0 | 0 | 107 | 391 | 391 | 210 | 210 | 209 | 0 |
| **Memorandum items:** | | | | | | | | | |
| Gross international reserves | 3,435 | 2,639 | 1,718 | 1,986 | 1,967 | 2,009 | 2,295 | 2,620 | 2,762 |
| (in weeks of prospective imports of GNFS) | 26.2 | 17.1 | 11.2 | 13.8 | 13.8 | 14.3 | 16.4 | 18.6 | 19.4 |
| Net international reserves | 2,553 | 1,777 | 884 | 1,246 | 1,248 | 1,453 | 1,613 | 1,761 | 1,921 |
| Current account (percent of GDP) | -9.0 | -14.9 | -12.8 | -10.0 | -9.6 | -8.2 | -7.2 | -6.2 | -5.5 |
| Exports of goods (percent change) | 0.8 | 19.2 | 5.2 | -6.5 | -5.5 | 3.6 | 4.9 | 6.4 | 4.2 |
| Imports of goods (percent change) | 11.4 | 21.1 | -0.6 | -4.7 | -7.9 | -1.9 | -0.2 | -0.1 | 0.9 |
| Oil prices (composite, fiscal year basis) | 85.3 | 104.3 | 104.8 | 103.7 | 102.9 | 98.1 | 93.1 | 88.9 | 86.0 |
| Tourism receipts (percent change) | 2.0 | 1.1 | 1.5 | 0.1 | 0.8 | 3.4 | 4.1 | 0.4 | 2.5 |
| GDP (US$ millions) | 13,562 | 14,588 | 14,659 | … | … | … | … | … | … |
| Jamaican dollar/USD, period average | 86 | 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.

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

| | | | | Prog. | Projections | | | |
|---|---|---|---|---|---|---|---|---|
| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| | (In billions of Jamaican dollars) | | | | | | | |
| **End-of-period stocks 1/** | | | | | | | | |
| **Net international reserves** | **228** | **158** | **83** | **135** | **136** | **175** | **211** | **245** |
| **Net domestic assets** | **-149** | **-74** | **8** | **-32** | **-33** | **-61** | **-85** | **-107** |
| Net claims on public sector | 102 | 146 | 182 | 214 | 204 | 216 | 226 | 236 |
| Net claims on central government 2/ | 39 | 75 | 90 | 90 | 90 | 92 | 95 | 98 |
| Net claims on rest of public sector | 50 | 71 | 92 | 118 | 108 | 114 | 120 | 127 |
| Operating losses of the BOJ | 13 | 0 | 0 | 6 | 6 | 11 | 11 | 11 |
| Net credit to commercial banks | -14 | -15 | -20 | -22 | -22 | -24 | -27 | -30 |
| *Of which* : foreign prudential reserve | -14 | -15 | -20 | -22 | -22 | -24 | -27 | -30 |
| Net credit to other financial institutions | -2 | -1 | -1 | -2 | -2 | -2 | -2 | -2 |
| Open market operations | -144 | -112 | -54 | -109 | -100 | -119 | -131 | -143 |
| Other items net (incl. valuation adj.) | -92 | -92 | -98 | -114 | -113 | -132 | -151 | -168 |
| Valuation adjustment | -55 | -55 | -59 | -75 | -74 | -93 | -112 | -129 |
| **Base money** | **79** | **84** | **91** | **103** | **103** | **114** | **125** | **138** |
| Currency in circulation | 43 | 47 | 51 | 56 | 56 | 62 | 68 | 75 |
| Liabilities to commercial banks | 36 | 36 | 41 | 47 | 47 | 52 | 57 | 63 |
| **Fiscal year flows 1/** | | | | | | | | |
| **Net international reserves** | **71.6** | **-70.5** | **-74.4** | **52.2** | **52.9** | **38.9** | **35.8** | **34.4** |
| **Net domestic assets** | -70.0 | 75.3 | 82.0 | -40.3 | -41.3 | -28.0 | -24.2 | -21.4 |
| Net claims on public sector | -43.9 | 44.3 | 36.1 | 32.0 | 21.5 | 12.6 | 9.5 | 9.8 |
| Net claims on central government 2/ | -43.5 | 35.9 | 15.3 | 0.0 | 0.0 | 1.7 | 3.2 | 3.2 |
| Net credit to commercial banks | -3.7 | -1.3 | -4.7 | -2.2 | -2.1 | -2.3 | -2.5 | -2.8 |
| Net credit to other financial institutions | -0.1 | 0.1 | -0.1 | -0.2 | -0.1 | -0.1 | -0.1 | -0.2 |
| Open market operations | -22.3 | 32.1 | 57.3 | -54.6 | -46.0 | -19.0 | -12.1 | -11.5 |
| Other items net (incl. valuation adj.) | 0.0 | 0.0 | -6.6 | -15.4 | -14.5 | -19.2 | -18.9 | -16.8 |
| **Base money** | **1.6** | **4.8** | **7.6** | **11.9** | **11.6** | **10.8** | **11.6** | **13.0** |
| Currency in circulation | 2.9 | 4.0 | 3.3 | 5.5 | 5.4 | 5.9 | 6.3 | 7.1 |
| Liabilities to commercial banks | -1.3 | 0.7 | 4.3 | 6.3 | 6.2 | 4.9 | 5.3 | 5.9 |
| | (Change in percent of beginning-of-period Base Money) | | | | | | | |
| **Net international reserves** | **92.6** | **-89.3** | **-88.9** | **57.2** | **57.9** | **37.8** | **31.4** | **27.4** |
| **Net domestic assets** | **-90.5** | **95.4** | **98.0** | **-44.2** | **-45.2** | **-27.2** | **-21.2** | **-17.1** |
| Net claims on public sector | -56.8 | 56.2 | 43.1 | 35.1 | 23.5 | 12.2 | 8.4 | 7.8 |
| Net credit to commercial banks | -4.7 | -1.6 | -5.6 | -2.4 | -2.3 | -2.2 | -2.2 | -2.2 |
| Net credit to other financial institutions | -0.1 | 0.2 | -0.1 | -0.2 | -0.2 | -0.1 | -0.1 | -0.1 |
| Open market operations | -28.9 | 40.7 | 68.4 | -59.9 | -50.4 | -18.4 | -10.7 | -9.2 |
| Other items net (incl. valuation adj.) | 0.0 | 0.0 | -7.9 | -16.9 | -15.9 | -18.7 | -16.6 | -13.4 |
| **Base money** | **2.1** | **6.1** | **9.1** | **13.0** | **12.7** | **10.5** | **10.2** | **10.4** |
| Currency in circulation | 3.7 | 5.1 | 4.0 | 6.0 | 5.9 | 5.7 | 5.6 | 5.7 |
| Liabilities to commercial banks | -1.7 | 1.0 | 5.1 | 6.9 | 6.8 | 4.8 | 4.6 | 4.7 |
| **Memorandum items:** | | | | | | | | |
| Change in net claims on the central government (percent of GDP) | -3.7 | 2.9 | 1.1 | 0.0 | 0.0 | 0.1 | 0.2 | 0.2 |
| Net international reserves (US$ millions) | 2,553 | 1,777 | 884 | 1,246 | 1,248 | 1,453 | 1,613 | 1,761 |

Sources: Bank of Jamaica; and Fund staff estimates.

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

**Table 7. Jamaica: Summary Monetary Survey 1/**

| | 2010/11 | 2011/12 | 2012/13 | Prog. 2013/14 | Projections 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|---|---|---|---|---|
| | (In billions of Jamaican dollars) | | | | | | | |
| **End-of-period stocks 1/** | | | | | | | | |
| **Net foreign assets** | **217** | **165** | **113** | **138** | **138** | **173** | **205** | **239** |
| **Net domestic assets** | **116** | **185** | **283** | **302** | **300** | **312** | **329** | **350** |
| Net claims on public sector | 193 | 217 | 263 | 313 | 303 | 338 | 369 | 401 |
| *Of which:* Central government 2/ | 135 | 168 | 194 | 209 | 209 | 230 | 254 | 277 |
| Open market operations | -81 | -63 | -36 | -107 | -84 | -132 | -178 | -229 |
| Credit to private sector | 219 | 249 | 294 | 350 | 334 | 377 | 426 | 483 |
| *Of which:* Foreign currency | 72 | 81 | 81 | 91 | 87 | 94 | 101 | 108 |
| Other 3/ | -214 | -217 | -237 | -254 | -253 | -271 | -288 | -305 |
| *Of which:* Valuation adjustment | -55 | -55 | -59 | -70 | -69 | -81 | -93 | -103 |
| **Liabilities to private sector (M3)** | **333** | **350** | **396** | **440** | **438** | **485** | **534** | **589** |
| Money supply (M2) | 226 | 236 | 252 | 280 | 279 | 308 | 340 | 375 |
| Foreign currency deposits | 107 | 114 | 144 | 160 | 160 | 176 | 194 | 215 |
| **Fiscal year flows 1/** | | | | | | | | |
| **Net foreign assets** | **76.4** | **-52.4** | **-51.6** | **24.7** | **25.3** | **34.7** | **32.0** | **34.4** |
| **Net domestic assets** | **-70.6** | **69.5** | **98.1** | **18.5** | **16.7** | **11.4** | **17.4** | **21.0** |
| Net claims on public sector 2/ | -47.9 | 24.7 | 45.9 | 50.1 | 39.6 | 35.1 | 31.5 | 31.4 |
| *Of which:* Central government | -38.4 | 32.9 | 26.0 | 15.0 | 15.0 | 21.7 | 23.2 | 23.2 |
| Open market operations | -8.9 | 17.9 | 27.3 | -71.2 | -47.6 | -48.5 | -46.2 | -50.4 |
| Credit to private sector | 2.8 | 30.1 | 45.3 | 55.9 | 40.1 | 42.5 | 49.7 | 56.7 |
| *Of which:* Foreign currency | -13.1 | 8.6 | 0.2 | 10.2 | 6.5 | 7.1 | 7.0 | 6.6 |
| Other 3/ | -16.6 | -3.2 | -20.4 | -16.3 | -15.4 | -17.6 | -17.6 | -16.6 |
| *Of which:* Valuation adjustment | 0.0 | 0.0 | -4.6 | -10.6 | -9.8 | -12.0 | -11.7 | -10.4 |
| **Liabilities to private sector (M3)** | **5.7** | **17.1** | **46.5** | **43.1** | **42.1** | **46.2** | **49.4** | **55.4** |
| Money supply (M2) | 15.3 | 10.5 | 16.0 | 27.4 | 26.8 | 29.4 | 31.4 | 35.2 |
| Foreign currency deposits | -9.6 | 6.6 | 30.6 | 15.7 | 15.3 | 16.8 | 18.0 | 20.2 |
| | (Change in percent of beginning-of-period M3) | | | | | | | |
| **Net foreign assets** | **23.3** | **-15.7** | **-14.7** | **6.2** | **6.4** | **7.9** | **6.6** | **6.4** |
| **Net domestic assets** | **-21.6** | **20.9** | **28.0** | **4.7** | **4.2** | **2.6** | **3.6** | **3.9** |
| Net claims on public sector 2/ | -14.7 | 7.4 | 13.1 | 12.6 | 10.0 | 8.0 | 6.5 | 5.9 |
| *Of which:* Central government | -11.7 | 9.9 | 7.4 | 3.8 | 3.8 | 5.0 | 4.8 | 4.3 |
| Open market operations | -2.7 | 5.4 | 7.8 | -18.0 | -12.0 | -11.1 | -9.5 | -9.4 |
| Credit to private sector | 0.9 | 9.0 | 13.0 | 14.1 | 10.1 | 9.7 | 10.3 | 10.6 |
| *Of which:* Foreign currency | -4.0 | 2.6 | 0.1 | 2.6 | 1.6 | 1.6 | 1.4 | 1.2 |
| Other 3/ | -5.1 | -1.0 | -5.8 | -4.1 | -3.9 | -4.0 | -3.6 | -3.1 |
| *Of which:* Valuation adjustment | 0.0 | 0.0 | -1.3 | -2.7 | -2.5 | -2.7 | -2.4 | -1.9 |
| **Liabilities to private sector (M3)** | **1.7** | **5.1** | **13.3** | **10.9** | **10.6** | **10.5** | **10.2** | **10.4** |
| **Memorandum items:** | | | | | | | | |
| M3/monetary base | 4.2 | 4.2 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| Net foreign assets (US$ Millions) | 2,530 | 1,885 | 1,142 | 1,266 | 1,268 | 1,437 | 1,569 | 1,721 |
| M3 velocity | 3.5 | 3.6 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |

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

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

**Table 8. Jamaica: Structural Program Conditionality**

| Measures | Status/Timing | |
|---|---|---|
| **Structural Benchmarks** | **Timing** | **Implementation status** |
| **Institutional fiscal reforms** | | |
| 1.a. Government to present to Fund staff a conceptual proposal for the design of a fiscal rule. | August 31, 2013 | Met |
| 1.b. 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 | |
| 2. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform. | March 31, 2014 | |
| 3. Cabinet to approve a detailed budget calendar consistent with top-down expenditure ceilings, for the 2014/15 budget | November 30, 2013 | Met |
| 4. Government to ensure there is: (i) no financing of Clarendon Alimina 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 |
| 5. Government to table in parliament a budget for 2014/15 consistent with the program | April 30, 2014 | |
| 6. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17) | April 30, 2014 | |
| **Tax Reform** | | |
| 7. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as stipulated in the TMU. | Continuous | Met |
| 8. Parliament to adopt amendments to the relevant tax acts to harmonize the tax treatment for charities across tax types and remove ministerial discretion to grant waivers for charities and charitable purposes as described in paragraph 34 of the April 17, 2013 MEFP. | May 31, 2013 | Met |
| 9.a. Government to table a Charities Bill in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff. | September 30, 2013 | Met |
| 9.b. Government to cease the granting of waivers to charities other than under the Charities Bill. | November 30, 2013 | Met |
| 10.a. Government to table Omnibus Tax Incentive Act in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff, to eliminate ministerial discretionary powers to grant or validate any tax relief, and put in place a transparent regime for limited tax incentives. | September 30, 2013 | Met with delay |
| 10.b. Government to cease the granting of tax incentives under the regime prior to the Fiscal Incentives Legislation. | December 31, 2013 | Met |
| 11. 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 December 2013 MEFP) and as stipulated in the current MEFP. | March 31, 2014 | |
| 12. Government to table in parliament amendments to the GCT as stipulated in paragraph 11 of the the MEFP | June 30, 2014 | Proposed new structural benchmark |
| 13. 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** | | |
| 14. Government to make e-filing mandatory for LTO clients with respect to General Consumption Tax (GCT) and Corporate Income Tax (CIT) | March 31, 2014 | |
| **Financial sector** | | |
| 15. Government to Establish and Operate a Central Collateral Registry. | December 31, 2013 | Met |
| 16. Government to implement a legal and regulatory framework conducive to Collective Investment Schemes (Paragraph 45 of the MEFP of April 17, 2013) in consultation with Fund staff. | December 31, 2013 | Met |
| 17. Government to table legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010. | March 31, 2014 | Revised structural benchmark |
| 18. 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 Paragraph 25) in consultation with Fund staff. | March 31, 2014 | Proposed new structural benchmark |
| 19. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (MEFP Paragraph 25) in consultation with Fund staff. | June 30, 2014 | Reset from March 31, 2014 |
| 20. Government to table the Omnibus Banking Law consistent with Fund Staff advice to facilitate effective supervision of the financial sector. | March 31, 2014 | Revised structural benchmark |
| **Growth enhancing structural reforms** | | |
| 21. Government to implement a new (AMANDA) tracking system to track approval of contruction permits across all parish councils. | December 30, 2014 | Proposed new structural benchmark |
| 21. Government to table in parliament the electricity Act | September 30, 2014 | Proposed new structural benchmark |

## Table 9. Jamaica: Quantitative Performance Criteria 1/2/

(In billions of Jamaican dollars)

| | 2013 | | 2013 | 2014 | | | |
|---|---|---|---|---|---|---|---|
| | End-Dec Prog. | End-Dec. Actual 3/ | End-Dec. Stock 4/ | End-Mar. PC | End-Jun. PC | End-Sep. PC | End-Dec. Proposed PC |
| **Fiscal targets** | | | | | | | |
| 1. Primary balance of the central government (floor) 5/ | 61.6 | 61.7 | ... | 111.5 | 15.5 | 38.4 | 66.0 |
| 2. Tax Revenues (floor) 5/10/ | 232.7 | 242.7 | ... | 357.5 | 80.0 | 166.0 | 253.4 |
| 3. Overall balance of the public sector (floor) 5/ | -37.3 | -27.3 | ... | -7.4 | -19.3 | -30.2 | -37.0 |
| 4. Central government direct debt (ceiling) 5/6/ | 92.9 | 53.7 | 1672.0 | 70.3 | 15.7 | 23.2 | 26.5 |
| 5. Central government guaranteed debt (ceiling) 5/ | -13.0 | -13.0 | ... | -14.0 | 4.0 | 2.7 | 0.1 |
| 6. Central government accumulation of domestic arrears (ceiling) 7/13/14/ | 0.0 | -0.3 | 21.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| 7. Central government accumulation of tax refund arrears (ceiling) 8/13/14/ | 0.0 | -2.7 | 24.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| 8. Consolidated government accumulation of external debt payment arrears (ceiling) 7/13/ | 0.0 | 0.0 | ... | 0.0 | 0.0 | 0.0 | 0.0 |
| 9. Social spending (floor) 10/11/ | 14.4 | 16.6 | ... | 20.1 | 4.2 | 8.9 | 14.8 |
| **Monetary targets** | | | | | | | |
| 10. Cumulative change in net international reserves (floor) 9/12/15/ | -220.5 | -81.8 | 1045.2 | 194.4 | 194.8 | 187.8 | 210.32 |
| 11. Cummulative change in net domestic assets (ceiling) 12/15/ | 26.4 | 13.7 | -7.6 | -21.4 | -21.6 | -17.2 | -11.9 |

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Including modified performance criteria.
4/ Based on the original program exchange rates.
3/ Based on the revised program exchange rates (see the TMU).
5/ Cumulative flows from April 1 through March 31.
6/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
7/ Includes debt payments, supplies and other committed spending as per contractual obligations.
8/ Includes tax refund arrears as stipulated by law.
9/ In millions of U.S. dollars.
10/ Indicative target.
11/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
12/ Cumulative change from end-December 2013 except the end December 2013 PC , which is cummulative change from end-December 2012.
13/ Continuous performance criterion.
14/ The data for the stock are as of end-March 2013 rather than end-December 2013.
15/ The end-December 2012 NIR and NDA were US$1138.5 million and J$-9.5 billion respectively.

**Table 10. Jamaica: Indicators of Fund Credit, 2013-27**

(In millions of SDRs, unless otherwise specified)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Prospective drawings (4-year EFF) | 183.80 | 113.28 | 113.28 | 28.33 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| (in percent of quota) | 67.20 | 41.42 | 41.42 | 10.36 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| (Projected Debt Service to the Fund based on Existing and Prospective Drawings) | | | | | | | | | | | | | | |
| Amortization | 215.13 | 95.63 | 3.99 | 11.40 | 37.11 | 64.80 | 83.68 | 100.20 | 102.56 | 91.17 | 65.46 | 37.76 | 18.88 | 2.36 |
| Amortization (SBA) | 215.13 | 95.63 | 3.99 | 0.00 | 0.00 | 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 | 18.88 | 2.36 |
| Interest and service charges | 5.09 | 5.48 | 6.29 | 6.98 | 6.80 | 6.29 | 5.50 | 4.49 | 3.34 | 2.17 | 1.22 | 0.56 | 0.18 | 0.01 |
| SDR charges and assessments | 0.07 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 |
| Total debt service | 220.28 | 101.19 | 10.37 | 18.48 | 44.00 | 71.18 | 89.28 | 104.79 | 106.00 | 93.43 | 66.77 | 38.41 | 19.15 | 2.47 |
| (in percent of exports of G&S) | 7.81 | 3.44 | 0.34 | 0.59 | 1.35 | 2.13 | | | | | | | | |
| (in percent of GDP) | 2.41 | 1.10 | 0.11 | 0.19 | 0.42 | 0.65 | 0.79 | 0.88 | 0.85 | 0.72 | 0.49 | 0.27 | 0.13 | 0.02 |
| (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 | 2.36 | 0.00 |
| (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 | 0.86 | 0.00 |
| (in percent of GDP) | 5.03 | 5.18 | 6.20 | 6.11 | 5.46 | 4.62 | 3.69 | 2.68 | 1.73 | 0.95 | 0.43 | 0.15 | 0.02 | 0.00 |
| **Memorandum items:** | | | | | | | | | | | | | | |
| Exports of goods and services (US$ millions) | 4,390.65 | 4,575.44 | 4,733.29 | 4,893.50 | 5,062.90 | 5,205.29 | ... | ... | ... | ... | ... | ... | ... | ... |
| US$/SDR exchange rate | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| 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 | 273.50 | 273.50 |

Source: IMF staff projections.

**Table 11. Jamaica: Schedule of Reviews and Purchases**

| Availability Date | Amount of Purchase: Millions of SDR | Amount of Purchase: Percent of Quota | Conditions 1/ |
|---|---|---|---|
| | Purchases 2/ | | |
| 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 15, 2014 | 45.95 | 17 | Third Review and end-December 2013 performance criteria |
| June 15, 2014 | 45.95 | 17 | Fourth Review and end-March 2014 performance criteria |
| September 22, 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 | Eigth Review and end-March 2015 performance criteria |
| September 15, 2015 | 28.32 | 10 | Nineth 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.
2/ The availability dates starting with the third review are proposed to be rephased.

# Appendix I. Letter of Intent

Kingston, Jamaica
March 4, 2014

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

Dear Ms. Lagarde,

Jamaica has made a strong start in implementing its EFF-supported economic reform programme aimed at overcoming the long-standing problems of low growth and high debt. All quantitative fiscal and monetary performance criteria at end-June, end-September and end-December 2013 were met, as were the associated indicative targets. The government has also implemented all of the structural benchmarks that were included in the programme. While economic growth remains weak and unemployment much too high, we are confident that the benefits of our strategy will become increasingly evident over time, as a more stable macroeconomic environment, a credible return to debt sustainability and an improved business climate will attract new investments and result in durable job creation and increased prosperity.

The Government remains fully committed to meeting the objectives of the programme, as well as the specific targets set out in the April 2013 Memorandum of Economic and Financial Policies (MEFP), and its September 2013 and December 2013 supplements. In the fiscal area, the government will press ahead with implementing comprehensive tax reform, prepare and legislate the fiscal rule, and adopt a range of measures to strengthen public financial management. In the financial sector, the government is moving forward with reforms to facilitate the transition by securities dealers towards a more robust business model.

Appendix 1 to this letter is a further supplement to the MEFP, presenting performance under the EFF-supported programme so far, and updating some specific policies to meet the programme’s ultimate objectives, including the associated quantitative targets and structural benchmarks. Appendix 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 program, including its proposed revisions, the government requests that the Executive Board of the IMF complete the third review of the extended arrangement under the Extended Fund Facility, modify the availability dates for the purchases associated with the remaining reviews, approve the proposed revisions of performance criteria as well as new performance criteria for December 2014, and approve the fourth purchase under the arrangement of SDR 45.95 million.

The government believes that the policies described in the MEFP of April 17, 2013, the MEFP supplements of September 13, 2013, and December 3, 2013 and the attached supplement 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.

Very truly yours,

| | |
|---|---|
| /s/ | /s/ |
| Peter D. Phillips,<br>Minister of Finance and Planning<br>Jamaica | Brian Wynter<br>Governor, Bank of Jamaica<br>Jamaica |

# Attachment 1. Jamaica—Supplementary Memorandum of Economic and Financial Policies

## BACKGROUND AND RECENT DEVELOPMENTS

1. **On May 1, 2013 the Fund's Executive Board approved a four-year extended arrangement under the EFF in support of Jamaica's economic reform programme.** This programme includes critical steps and policy reforms to significantly improve the fiscal and debt positions and growth-enhancing structural reforms. The First Review of the program was completed on September 30, 2013, and the Second Review on December 18, 2013.

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

- **Economic Growth.** Real GDP is estimated to have increased slightly in the first half of FY2013/14, with growth in the October to December quarter estimated at 1.4 percent, supported by growth in tourism, mining and agriculture. Growth for 2013/14 is projected at 0.9 percent.
- **Inflation.** Consumer price inflation reached 9.3 percent (year-on-year) in January 2014, reflecting increased administered prices and the pass-through of nominal depreciation into domestic prices.
- **Balance of Payments.** The current account deficit is now projected at 9.6 percent of GDP in 2013/14, down from 12.5 percent in 2012/13, supported by nominal exchange rate depreciation and fiscal consolidation. Net international reserves (NIR) increased to US$1,045 million (at programme exchange rates) by end-December 2013, in compliance with the programme's NIR target. As of end-February, reserves amounted to US$1,077 million.
- **Public Finances.** Fiscal performance in the first three quarters of the year was satisfactory. Tax revenues were weaker than budgeted by about 4.9 percent due to lower international trade taxes and PAYE receipts. However, higher than budgeted grant receipts mitigated the impact of the lower tax collection, reducing the overall revenue shortfall relative to the budget to 3.8 percent. Total expenditures were about 5 percent below the amount budgeted, with capital expenditure contributing most of the containment in spending. The primary balance was 0.1 percentage point better than targeted while the fiscal deficit was 21 percent below budget due to lower interest payments. As a result, all end-December fiscal performance criteria were met including the primary balance target, the overall public sector balance target, and the indicative targets on revenues and social expenditure.

## 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-

December were met (Table 1). All structural benchmarks due in the last quarter of calendar year 2013 were also met in a timely manner.

## POLICIES FOR THE REMAINDER OF 2013/14 AND BEYOND

**4. The government remains fully committed to the reform strategy and the supporting policies outlined in the April 2013 MEFP and its September 2013 and December 2013 supplements.** 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 December 2014. These updated targets are presented in Table 1. The structural conditionality under the programme, incorporating several modifications discussed below, is presented in Table 2.

**5. The Government remains committed to implementing the budget for 2013/14 and meeting the associated programme conditions.** A supplementary budget will be tabled in parliament by early March with a view to aligning expenditures with an expected shortfall in revenue and ensure that the programme target for the primary balance of the central government is met. The performance of the public bodies will be monitored closely to ensure that the target for the overall balance of the public sector is also met and price adjustments and other measures will be implemented as needed to ensure cost-recovery.

### Tax Reforms

**6. Comprehensive tax reform is a key plank of our economic reform programme.** The government has finalized a blueprint of all the key elements of the 2013/14 reform in February 2014. The December 2013 MEFP supplement provided an overview of the proposed reforms in tax policy and this supplement provides additional details and updates. The tax reform is expected to result in a reduction of tax expenditures from around 6 percent of GDP in recent years to 2½ percent by 2015/16. The new system will be effective at the start of FY2014/15.

**7. The new Charities Act is now in effect.** The government has ceased the granting of waivers to charities other than under the new Act and, effective December 1, 2013, all new applications (organizations/individuals) must be registered under the new regime, in order to be eligible for exemptions granted under the Act. A transitional period of six months has been provided under the Act to existing charities to facilitate registration at the end of which, if not registered as per the new regime, these entities would no longer qualify to benefit from requisite exemptions. This transition period ends on June 24, 2014.

**8. The Fiscal Incentives Legislative Instruments adopted by Parliament in December 2013 has put in place a rule-based regime for limited tax incentives to replace the existing (mostly sectoral) schemes.** [1] Incentives outside the Fiscal Incentives Legislative Instruments were explicitly

[1] These instruments comprise the Income Tax Relief (Large Scale Projects and Pioneer Industries) Act, 2013 and the Fiscal Incentives (Miscellaneous Provision) Act, 2013.

cancelled by the Instruments, which has become the only source of such incentives, except in the instances stated below. New incentives take the form of tax credits for personal and corporate income taxes only and incentives are defined as the amount credited against the Corporate Income tax (CIT) or Personal Income Tax (PIT) payable in any fiscal year. There will be no ministerial discretion in granting tax incentives.[2] Incentives provided under the Urban Renewal Programme have been maintained at this stage, as have the existing incentives for venture capital investment under the income tax act and income tax incentives provided for companies listed on the Junior Market of the Jamaica Stock Exchange, which will be retained until December 31, 2016. The existing incentives under the Bauxite and Alumina Industries Acts have also been retained. For pioneer or "mega" projects that are growth-enhancing, specific tax credits can be provided in the context of the budget, with parliamentary approval, up to an overall annual cap of 0.25 percent of GDP on this tax expenditure. The existing regime for the establishment and operation of Export Free Zones from which limited licensed activities can be conducted under strict conditions has been maintained at this stage. This regime will be subject to a review to ensure compliance with commitments to the WTO and to ensure that the covered enterprises will be subject to CIT on profits.

**9. The reformed CIT regime replaces sectoral incentives by credits and allowances based on employment and use of capital, as described in the December 2013 MEFP supplement.** The Employment Tax Credit (ETC) may reduce the rate of effective CIT to as low as 17.5 percent, which is critical to enhance Jamaica's competitiveness. It also provides important incentives to increase employment, which is very important in light of high unemployment. Increased Initial Capital Allowances (ICAs) apply to specified newly acquired (i.e. new and used) plants, equipment and industrial buildings. Further reforms to the Income Tax legislation include the amalgamation of statutory payroll deductions.[3] The minimum business tax initially announced in FY2012/13 will be implemented by way of provisional order starting April 2014 and has been included in the revenue estimates for the 2014/15 budget under a new revenue line. Permanent legislation will be passed by September 2014.

**10. An amendment to the Customs Act was also adopted by parliament in December 2013.** The tariff structure was simplified and opportunities for misclassification were diminished. To reduce tariff dispersion, high rates were substantially reduced, generally converging to a standard maximum rate of 20 percent and subject to CARICOM requirements (while the tariff levied on a number of goods was increased from zero to 5 percent). In addition, while maintaining compliance with the CARICOM tariff regime, import duties on essential inputs for domestic producers are subject to a zero rate. The process to minimize abuse is being strengthened through revised and newly established lists of eligible inputs, strong administrative controls and appropriate penalties. The lists presenting such inputs will be subject to parliamentary review. The Government also intends to

[2] Accordingly, the allowances (within caps) under the program for granting discretionary waivers on the basis of existing legal and contractual obligations or for charitable organizations and charitable purposes are removed. The *de minimis* cap will be retained as specified in the TMU in light of legal imperatives.

[3] The SO3 form will be finalized and gazetted by end-March 2014. Annual return of the SO4 form is to be completed by end-December 2014.

continue reforming the tariff structure and to promote amendments to the CARICOM regime with the objective of reducing tariff dispersion further.

**11. Amendments to the GCT Act are expected to be tabled by June 2014 (structural benchmark).** The main objectives of the reform of the General Consumption Tax (GCT) are to broaden the tax base and improve its administration. Key elements are:

- The zero-rating for government purchases will be eliminated effective FY2014/15 by way of Provisional Order and has been included in the revenue and expenditure estimates for the 2014/15 budget;
- Broadening the application of GCT and SCT on motor vehicles, including (a) amending the GCT Act to allow for the payment of GCT on vehicles over 10 years (initially by way of a Provisional Order) and (b) curtailing the availability of a reduced rate of SCT on selected motor vehicle imports by limiting the CIF value to US$35,000.00 afforded to pickup trucks used for agricultural activity;
- Elimination of the exempt status of electricity for independent private power producers;
- And startup companies will be allowed, as of July 1, 2014, to claim GCT refunds for excess credit immediately (by an amendment in the GCT Act).

**12. Important follow-up actions will still be needed as part of the tax reform.** A study will be conducted by March 2014 on the scope for imposing GCT on petroleum products; its conclusions will guide possible implementation in FY2015/16, while noting that no net increase in petroleum taxation is foreseen. In the context of the new tax incentives legislation, an expeditious transition by grandfathered entities 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 grandfathered entities and of their regime by end-FY2014/15, with technical assistance (*structural benchmark for January 2015*), to serve as a basis for discussion to speed up transition to the new regime by mutual agreement between authorities and entities. 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.

**13. Property tax reform is envisaged to be ready for implementation by the start of FY2015/16.** This will include amendments to the Property Tax Act and the Land Valuation Act to provide for the publication of names, valuation numbers, addresses and amounts outstanding of delinquent property owners in the public media, subject to court proceedings, as well as provisions to allow for a wide array of media for the posting of Assessment Notices. It will also include amendments to the Land Valuation Act to provide for 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.

**14. Reforms to strengthen tax and customs administration are proceeding.** In October 2013, we put in place the necessary regulations to implement a write-off programme. Further steps to improve tax and customs administration will be guided by the revenue administration action plan prepared in collaboration with the IMF and IDB. In this context, next steps include:

- Ensuring the effectiveness of the expanded LTO through training, infrastructure and improved management. Particular targets for end-March 2015 are to: (i) increase the number of staff by a further 50 auditors; (ii) increase annual audit coverage by 150 percent; (iii) achieve 100 percent e-filing and e-payment; (iv) seek to achieve 100 percent on-time filing and payment; and (v) write-off all (LTO) uncollectible debt.
- Further revisions to the Revenue Administration Act and the Tax Collection Act to strengthen the powers of the Tax Administration Jamaica (TAJ) and the Jamaica Customs Agency (JCA) to collect outstanding arrears (including powers to seize and sell taxpayers' property, harmonized penalties and fines where appropriate and mandatory income tax filing for every business), facilitate write-off of uncollectible customs debt and other provisions in line with IMF (FAD) TA, to be in place by June 2014.
- Concluding discussions with banks to seek reduction in excessive charges for processing tax and customs revenue receipts by end-April 2014, based on a review that has recently been commissioned by the Government. More generally, an improved payment regime will be implemented before end-2014.
- Establishing concrete steps to increase electronic filing, based on the recent amendment to the RAA. In particular, by end-March 2014, e-filing will be mandatory for LTO clients with respect to the GCT and CIT (structural benchmark) and with respect to payroll taxes for employers with more than 20 employees.
- Preparing an estimate of the revenue compliance gap for the GCT by February 2015, to provide a basis for measuring the impact of administrative reforms.
- Setting up a modernization programme office in the TAJ before end-September 2014.
- Amending the Customs Act by September 2014 to facilitate implementation of ASYCUDA-World and support trade facilitation.
- Implementing the GenTax integrated tax software package by April 2016. Phase I operations (Registration, GCT, SCT, GART, Telephone) will be completed by December 2014.
- Implementing the ASYCUDA-World integrated customs software package by March 2016. A pilot for the Kingston port will begin by December 2014.
- Utilization of RTGS as an alternative channel for payment of duties and taxes on commercial imports for by March 2014. Phase I was implemented January 2013, for travel tax and passenger levy payments. Phase II is to include duties and other taxes, which is scheduled to begin March 2014.
- The continued improvement of JCA and TAJ accounting and financial systems, through the introduction of ACCPAC (Accrual Accounting System) by March 2014 for the JCA and June 2014 for the TAJ, in compliance with the Executive Agency Regulatory Framework.

- Establishing the Revenue Appeals Department as a separate, independent entity, with IFC support.

**A Fiscal Rule**

**15. A fiscal rule will be established to enhance fiscal transparency and lock in the gains of fiscal consolidation**. In particular, the fiscal policy framework will be revised to limit the annual budgeted overall fiscal balance of the public sector as defined under the rule, to achieve a reduction in public debt to no more than 60 percent of GDP by the end of FY 2025/26. Key elements of the fiscal rule are:

- **Coverage** of fiscal activities associated with the public sector defined to include central and sub-national governments, public bodies and corporations. Commercial entities that do not primarily provide public services associated with government and that do not engage in significant fiscal operations could be excluded. The Auditor General (OAG) will establish if any entities fall in the latter category through an independent interpretation and application of classification rules to individual entities, which may include indicators assessing managerial independence, subsidies and transfers, governance structure, profitability and financial sustainability. This classification will be updated whenever the path of overall balance floor is re-calibrated (see below).

- **Public debt**, for the purpose of the fiscal rule, will be defined as the consolidated debt of the public sector (as defined above), netting out cross-holdings of public debt.

- A **periodic review** and recalibration of the overall balance floor will be conducted every three years to ensure its ongoing consistency with observing the ceiling by the target date and maintain a stable anchor for fiscal policy.

- The rule will establish an **automatic correction mechanism** that would be triggered if cumulative deviations from the overall balance floor exceed either a lower threshold of 1.5 percent of GDP or an upper threshold of 3.5 percent of GDP—with the latter requiring a larger annual correction of 1.5 percent of GDP, compared with 0.75 percent of GDP for exceeding only the lower threshold. The additional fiscal adjustment would be required in subsequent fiscal years to correct for these deviations to bring fiscal performance back in line with the fiscal rule.

- The rule will also include an **escape clause**, limited to major adverse shocks and triggered only with parliamentary approval. The clause will apply to a pre-defined list of events or shocks that could have a serious adverse impact on public finances (natural disasters, severe economic contraction, financial or banking crisis, state of emergency) and the projected fiscal impact of the adverse shock event would need to exceed 1.5 percent of GDP before the escape clause can be activated by Parliament. Independent validation by the OAG of the event or shock and its expected fiscal impact will be a pre-requisite for Parliamentary activation of the escape clause and execution by the Ministry of Finance and Planning. Activating the escape clause would suspend the fiscal rule in the current fiscal year. Parliament may decide to extend the suspension, using the escape clause, for a second fiscal year but no more than two fiscal years. In any year that an escape clause is being exited, the key parameters of the rule-based framework could be reset.

- There will be a **transition period** spanning the duration of the current EFF arrangement. During this period, the coverage of the public debt and overall balance would remain consistent with the definitions in the authorities' Fund-supported programme, and the numerical targets of the fiscal rule would be aligned with the overall balance floor of the public sector as set out in the programme. In this way, the fiscal rule would be fully consistent with the programme during the transition period. The floor on the overall balance would need to be recalibrated when the transition period ends to ensure the debt target can be met by the target date. The automatic correction mechanism and escape clause may only be implemented after the transition period expires.

- The total loan value of **user-funded PPPs** will be subject to a separate cumulative ceiling. For the transition period, this ceiling will amount to 3 percent of GDP.[4] After the transition period, this cumulative PPP ceiling will gradually rise to the sum of 8 percent of GDP by 2025/2 and the room, if any, under the 60 percent of GDP debt ceiling at the most recent periodic review. In case the OAG has established that a PPP involves only minimal fiscal 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) the project could be exempted from the PPP ceiling. After the transition period, guarantees offered by the general government for debt issued by entities outside this sector will also be covered by this PPP ceiling. A user-funded PPP would not count towards the debt ceiling unless that PPP or the associated loan values were to be included as part of government debt, which will occur only if these liabilities have become probable. Government-funded PPPs will be considered part of government (and thus public) debt and recorded in line with IPSAS 32.

- The effectiveness of the current **enforcement and compliance regime** will be further enhanced to encourage greater ex-ante compliance with the new rules-based framework. Measures will include transparency and accountability. The Minister of Finance and Planning will be required to explain deviations from the fiscal rule in a mid-term budget review in parliament and outline corrective steps to get back on track with the annual fiscal rule target.

**16. The next steps leading to implementation of the fiscal rule are now being put in place, to ensure that the fiscal rule can take effect starting with the next (2014/15) fiscal year**:

[4] This ceiling does not cover any currently outstanding loans for user-funded PPPs that are already in place.

- **The government has initiated a broad public information campaign on the objectives and features of a new fiscal rule before its legal implementation.**
- **The rule will be embedded in an effective legal framework.** The relevant existing legislation (in the Financial Administration and Audit (FAA) Act and the Public Bodies Management and Accountability (PBMA) Act will be amended to implement the fiscal rule. As experience is gained under the rules-based framework, consultations with public stakeholders will continue on possible steps for further strengthening the legal foundations of the fiscal rule. The classification rules for determining which entities could be deemed commercial and, on that basis, could be excluded from the coverage of the fiscal rule, will be developed in consultation with Fund staff.
- **The government will develop mechanisms to closely monitor possible fiscal costs and contingencies associated with possible PPPs.** In particular, the Ministry of Finance and Planning will develop the capacity to: (i) analyze PPP contracts, which includes the proper identification of direct fiscal impacts and valuation of contingent obligations to ensure consistency with the fiscal rule; (ii) disclose fiscal risks (both explicit and implicit); and (iii) conduct value-for-money analyses.
- **The capacity of the Office of the Auditor General (OAG) will be augmented** to allow it to provide an independent assessment of the macroeconomic and budget forecasts underpinning the budget, as well as the quality of adjustment measures and the proper treatment of PPPs. Additional resources will be provided to the OAG so that it can recruit additional experts in public finance and macroeconomics.
- **The government will also consider legal options for strengthening the sanctions regime to enhance the credibility of the fiscal rules.** Possible avenues include clarifying the legal possibility of the non-renewal or dismissal of public officials for non-compliance; strengthening the oversight role of Parliament in reviewing Ministerial actions on recommendations by the Attorney General and the Auditor General; reviewing the low cap on money penalties; and aligning the sanctions process for government departments and public bodies for a more equitable (and streamlined) process.
- **The government will develop an improved annual risk statement.** The government will ensure that, starting with the 2015/16 budget, a comprehensive and candid risk statement is presented, covering all significant contingent liabilities including those related to commercial public sector entities and PPPs. Technical assistance will be requested to support this effort.

### Reforms to Public Financial Management and the Budget Process

**17. In line with the programme, the government has updated its action plan for public financial management reform**. The government is committed to its implementation, in collaboration with its development partners. In this context:

- The central treasury management system (CTMS), which has been established ahead of schedule (existing end-March 2014 structural benchmark), will be strengthened by including modules for the tracking of expenditures, that will be effective by June 2014.

- 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.
- The adjusted Chart of Accounts will be implemented by November 2014.
- The GOJ will strengthen the efficiency and quality of the GOJ procurement process, thereby improving the ease of doing business and reducing costs. A GOJ Public Procurement Page is published in the print media starting in December 2013. Next steps include:
    - A contract for implementing the Electronic Tendering System will be awarded by March 31, 2014 and be implemented in five pilot entities during the financial year 2014/15.
    - Amendments to the Procurement Act will be tabled by July 2014, with a view to its effectiveness by September 2014.
    - A new procurement manual will be prepared by December 2014, with IDB assistance.

**18. In addition, the government will prioritize reforms that are needed to underpin the forthcoming fiscal rule**:

- A budget for FY2014/15 that is consistent with and supports our economic programme will be tabled by end-April 2014 (*structural benchmark*).
- In line with the improved Public Investment Management System (PIMS), designed with World Bank support, a comprehensive Public Sector Investment Programme (PSIP) will be tabled in parliament by end-April 2014 (*structural benchmark*), as a rolling five-year plan, comprised of Cabinet-approved, prioritized investment projects, to be reviewed on a regular basis. The improved PIMS will be supported by a high-level Public Investment Management Committee and the creation of a web-based public investment management information system by April 2014, Phase 1 of which will be operational by April 2014.
- Key elements of a government work plan to strengthen budget preparation include: (i) establishing a permanent binding budget calendar (envisaging budget approval prior to the fiscal year, starting with the budget for FY2015/16, to be included in legislation by end-March 2014), (ii) early and accurate budget envelopes and priorities and (iii) a policy to limit the use of virements (authorizing the transfer of funds within the budget and of ex-post regularization of unbudgeted spending through supplementary budgets (to be completed and approved by June 2014). A further priority will be to strengthen the development of realistic budget apportionment plans.
- The government has also prepared a workplan to strengthen procedures for budget execution and cash management. In order to improve the Commitment Planning and Control system in central government, an automated Purchase Order Module will be added to the FinMan PFM system. In addition the Commitment Planning and Control Module will be activated. The Upgraded Commitment Control System and the Purchase Order Module has now been

developed and tested and was piloted in the Ministry of Finance and Planning in January 2014. The new system will be implemented in all MDAs by April 1, 2014.

- Improving the revenue forecasting to avoid continuous deficit bias will be a policy priority. For this purpose, we have requested technical assistance, with funding from CIDA.
- Improving cash and debt management is a priority and technical assistance will support reforms in these areas: a) improve cash flow forecasting techniques and develop reliable forecasts of cash flows and more timely monitoring through the Treasury Single Account (TSA) system; b) enhance the TSA in terms of coverage and procedures; c) develop debt management actions based on the established debt strategy, which is linked to fiscal strategy and train staff in the middle office of the debt management branch.

**Debt Reduction**

**19. The scheduled reduction in public debt through debt-asset swaps and asset sales and a reduction in guarantees has progressed in line with the programme.** The government has established the legal and administrative processes involved as well as a workplan for their completion—to reduce guaranteed debt and other public debt by at least 1.0 percent of GDP, each. In designing these transactions, the government will seek to ensure sound public sector governance. Furthermore, the government remains committed to ensuring that any new debt guarantees will be consistent with the applicable limits under the Public Debt Management Act.

**Public Sector Reform**

**20. The government remains committed to improving the efficiency, quality and cost effectiveness of the public sector.** The Fiscal Responsibility Framework sets a target for reducing the size of the wage bill to 9 percent of GDP by March 2016.

- The terms of reference for technical assistance for the review of public sector employment and remuneration has now been completed and a consultant from the IDB has been contracted and the review is expected to be finalized by end-March 2014 (*unchanged structural benchmark*).
- To support a rationalization of public sector employment, we will improve the public service databases in e-Census by ensuring that it is up to date and covers all Ministries, Departments and Agencies (MDAs) by end-March 2014.
- The procurement of the human resources software system (the HCMES system; including Payroll) is progressing and the vendor is expected to be contracted by end-August 2014. 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 July 2014 and a project plan will be prepared by September 2014. The start of the implementation of the HCMES/Payroll system for the first entity, eGov Jamaica Ltd, is expected to commence in

October 2014. Implementation for the remaining five entities (including TAJ and JCA) in Phase one of the project is expected to commence in January 2015.

**21. A White Paper on public pension reform was tabled in parliament in December 2013**. The reform has been developed with World Bank support and is aimed at ensuring that the system is sustainable in the long run, with more efficient management of public pensions and improved monitoring arrangements. Key elements of the proposed reform are:

- Retention of a Defined Benefits (DB) system is expected while parametric reform will be undertaken, as follows:
- It is proposed that all workers will contribute 5 percent of their salary towards their pension;
- The accrual rate at which employee's benefits accumulate in the DB scheme is proposed to be amended as follows: (1) all past service will be preserved at a 2.2 percent accrual rate; (2) existing workers 55 years and older will continue to see their pension benefit build up at a rate of 2.2 percent; (3) workers 54 and younger will receive an accrual rate of 2.0 percent; and (4) new employees as of the date of implementation of the reform will have their pension calculated at an accrual rate of 1.8 percent;
- In the new system, it is proposed that pension benefits will be computed using an average of the final five years of salary;
- And it is proposed that the normal retirement age will be increased from 60 to 65 years, by one year each year starting in April 2016.

Software is being developed to move from the current paper-based system to electronic submission of data on the career history of an employee and the provisions of the revised pension system will be incorporated into a single piece of legislation. The new public sector pension system is expected to be implemented by April 2016 (the start of FY2016/17). Changes in legislation are expected to be tabled by June 2015.

## FINANCIAL SECTOR REFORMS

**22. Important work needs to be completed to mitigate the risks inherent in Jamaica's highly interconnected financial system**. To allow for more effective supervision of the financial sector, the government will table an Omnibus Banking Law, consistent with Fund staff advice, that will harmonize the prudential standards across deposit takers, facilitate consolidated supervision of financial conglomerates, strengthen the corrective, sanctioning and resolution regime and ensure that the Bank of Jamaica has operational independence for supervision (revised structural benchmark, March 2014). Passage of the law is envisaged by May 2014. In addition, the government will amend the Financial Services Commission Act in order to strengthen the Financial Services Commission's enforcement powers and the BOJ Act in order to vest the BOJ with overall responsibility for financial stability. The government will also table legislative changes regarding unlawful financial operations, consistent with Fund TA provided in 2010 (revised structural benchmark for March 2014). This legislation will enable the BOJ and the FSC to investigate and impose administrative and civil remedies on unlawful financial organizations that engage in fraudulent or otherwise unlawful activities (for example, Ponzi schemes).[5]

**23. Steps have now been taken to make less risky business models available to securities dealers.** In December 2013, (i) the Securities Act and attendant regulations were amended to establish a comprehensive framework for the regulation of Collective Investment Schemes (CIS); (ii) the income tax law was amended to remove the double taxation of CIS; and (iii) the Companies Act was amended to exempt CIS from the need to register unit-holders in the companies' registry. In addition, a timetable was published for raising the cap for CIS on investments in foreign assets from 5 percent of assets to at least 25 percent by end-2015, with a first step to be effective as of July 1, 2014. This cap will be removed altogether by end-2016 unless extraordinary circumstances require a reassessment. Furthermore, during the first half of 2014, the Bank of Jamaica intends to enter into consultations with representatives of regulated entities in the insurance and pensions sectors and the FSC with the aim of establishing the scope and extent to which current limits on permissible investments in foreign assets can be lifted over time. The remaining tax obstacles to CIS, in particular those arising from the stamp duty and the transaction tax, will be removed by end-June 2014.

**24. Detailed steps for the securities dealers sector reforms are being prepared in collaboration with Fund staff, to reduce the risks of the retail repo product until it is phased out.** We are continuing to develop a concrete and comprehensive plan of action with specific deadlines, covering: (i) legal and regulatory reforms (e.g. to the prudential framework for securities dealers and regulation for a master retail repo agreement, among others); (ii) effective monitoring and additional reporting to address post-NDX vulnerabilities by the Financial Services Commission (FSC), as well as enhanced stress testing by the FSC and Bank of Jamaica (BOJ); (iii) sequencing and timing of reforms; and (iv) in consultation with the Fund, contingency planning, including improving the insolvency regime that deals with failures of securities dealers.

**25. In consultation with Fund staff, the government will establish a distinct treatment for retail repo client interests 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, and the government will ensure the establishment of a single, local master retail repurchase agreement for retail repo transactions that defines the parameters for client disclosure and for dealer substitution of underlying collateral** . In line with the structural benchmark, we intend to mitigate the risks to retail repos clients by establishing a Trust to hold the underlying securities on their behalf during the transition period for the phasing out of the retail repo business model and will submit the legal and regulatory framework to the industry for consultation by end-March 2014 (new structural benchmark, March 2014). The framework will comprise the (1) standardized legal documentation for the retail repo transactions, including a master retail repurchase agreement and trust deed;

[5] Given that Amendments to the FSC Act are contemplated in connection with reforms to address unlawful financial operations (structural benchmark for end-March 2014) and reforms to protect retail repo client interests (structural benchmarks for end-March and end-June 2014) the later date will govern. Amendments to the Securities Act were adopted in December 2013.

(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 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. The Trust arrangement is intended to ensure that funds and securities flow in accordance with the terms of the retail repo agreement. The legal and regulatory framework to facilitate the migration of the retail repos to the Trust will be in place by end-June 2014 (reset structural benchmark). The transition to the new operational framework will start at end-September the latest.

**26. A gradual tightening of prudential standards envisaged over the medium term will facilitate fundamental reform of the securities dealers sector.** This could include a gradual tapering of the intermediation ratio, as well as tightening of capital adequacy ratios, implementing a minimum transaction size for retail repos, and regulating the ability of investors to close down their retail repo positions early, prior to the contractual maturity date.

## MONETARY AND EXCHANGE RATE POLICY

**27. Monetary policy remains aimed at achieving single digit inflation within a flexible exchange rate regime**. For FY2013/14, the BOJ's forecast for inflation remains in the range of 8.5 percent to 10.5 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.

**28. The BOJ will continue to ensure that liquidity in the financial system is appropriate.** Following the National Debt Exchange (NDX), the implementation of CTMS and the BOJ's open market policies, the financial system faced liquidity pressures. To counter these developments, starting mid-September 2013, the BOJ has been conducting repo operations to inject liquidity into the financial system. Further, in December 2013, the Bank established a Standing Liquidity Facility (SLF) under which deposit taking institutions have automatic access to overnight liquidity from the BOJ. Access to the SLF is by overnight repurchase agreement. The BOJ will refine this instrument in consultation with Fund staff, to enhance its effectiveness. The BOJ will continue monitoring developments in the money markets and take the necessary actions to ensure that financial institutions operate with appropriate levels of liquid resources.

**29. The BOJ is committed to initiating preparations to allow a move towards full-fledged inflation targeting (FFIT) over the medium term**. The adoption of FFIT requires strengthened fiscal and external positions and greater financial market development. Consistent with the objectives of the EFF programme, Jamaica is expected to substantially improve its fiscal and external position and reduce its debt from a very high level. In this regard, the BOJ has developed a timetable for establishing the basic requirements for implementing FFIT. This agenda was finalized in January 2014 and key actions include: (i) initiating a communication and education strategy; (ii) improving the governance structure of the BOJ; (iii) strengthening the monetary policy implementation framework; (iv) designing and implementing a strategy for market deepening, particularly the foreign exchange market; and (v) commencing annual assessments of the necessary pre-conditions for FFIT (such as fiscal and external stability) by March 2015.

30. **Key recommendations of the updated safeguards assessment are now being implemented.** In December 2013, the government and the BOJ finalized a Memorandum of Understanding to clarify the treatment of past BOJ cash losses and to formalize the policy of not distributing unrealized valuation gains to the government. In February, the MOU was amended to recognize plans to settle an outstanding balance relating to prior years and to formalize the policy of not distributing unrealized profits to the government. As a result, the recoverable cash losses from the Government of Jamaica as at December 2012 will be settled by cash transfers in four tranches spread over the next four fiscal years. Amendments to the Bank of Jamaica Act to strengthen the governance and the autonomy of the Bank are currently being considered and a Cabinet decision on the way forward is envisaged by June 2014. This will strengthen the institutional framework for monetary policy.

### Growth Enhancing Reforms

31. **Actions for improving the business climate are on track and additional steps have been prioritized in light of the imperative of promoting growth :**

- The Government is examining the process for construction permit approval with a view to reducing the time for issuing construction permits to 90 days, to be included in the next MEFP.
- 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. Implementation of the system has started, including for Kingston and the system is expected to be implemented in all parish councils by December 2014 (*new structural benchmark*) after which the Government will focus on implementing the system in the commenting agencies to make it fully operational.
- With IDB support, land titling is being expanded under the Land Administration and Management Programme (LAMP). Under this programme, around 3,000 new titles were issued between 2011 and 2013. LAMP is expected to issue another 1,000 new titles during 2014/2015.
- Legislation to create a Secured Interest in Personal Property (SIPP) was passed in parliament in December, 2013. This paved the way for meeting the end-December benchmark on establishing a central collateral registry. Training of financial sector stakeholders has begun and a public relations and education campaign will support its use.
- Actions toward parliamentary passage of an Insolvency Act are proceeding as planned, with the legislation tabled in parliament in December 2013. The Act is expected to be passed by June

2014 and enabling regulations are being prepared without delay. Training and PR will be supported by the World Bank.

- A multi-purpose registration instrument to streamline the business registration process has been introduced. Furthermore, an on-line system for business registration will be in place by end-June 2014, with IDB support.
- Urgent actions will be taken to reduce the time needed for entrepreneurs to get an electricity connection. These actions will shorten both the time needed for an inspection by the Government Electricity Inspectorate (GEI) and the time for installation by the power company. The government plans to hire a consultant for proposing a simplified GEI process within 6 months and sign a contract for re-engineering the system (for scheduling, inspecting, approving and certifying) within one year, with IDB support.
- Plans to establish a Port Community System (PCS) to electronically integrate and streamline export and import procedures are underway, with negotiations with the preferred bidder expected to be completed in April 2014. A phased roll-out of the PCS is expected to start in June 2014, with complete implementation by June 2016.
- A Special Economic Zone Act is expected to be passed by June 2015 that will ensure compatibility with WTO requirements and based on a White Paper forthcoming by end-2014.

**32. Strategic investments to establish Jamaica as a logistics hub are well underway.** The expansion of the Panama Canal which is now expected to be completed in 2016 provides a reordering of maritime traffic in East West trade between the Far East, Europe and the Americas. Jamaica is desirous of taking advantage of this opportunity and is seeking to establish Jamaica as a Logistics Hub. A number of projects to support this initiative are well underway. Work is proceeding on the privatization of both Norman Manley International Airport (NMIA) and the Kingston Container Terminal. The Transaction Structure to guide the privatization process has been developed for NMIA and is awaiting Cabinet approval to proceed. In the case of the Kingston Container Terminal, the Request for Proposal (RfP) has been issued to the pre-qualified bidders and is expected to be returned in the latter half of May 2014. Regarding the development of a transhipment port and industrial and commercial zones in the Portland Bight area by China Harbour Engineering Company (CHEC), a Non-Binding Framework Agreement will be submitted to Cabinet for approval before the end of March 2014. Thereafter, CHEC will begin discussions with the National Environment and Planning Agency (NEPA) regarding the completion of a technical feasibility study and will seek agreement on the prerequisite Terms of Reference (TOR) for the Environmental Impact Assessment (EIA) of the project. The project will be executed in phases with the first phase projected to be completed in the last quarter of 2016.

**33. 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, Electricity costs are targeted to be reduced by one-third by 2017. Construction of a new 381 Megawatt Plant—the centerpiece of the medium-term energy strategy—is slated to start in the first quarter of this year. Completion of this facility in early 2016 is expected to reduce the cost of electricity and thereby address a major obstacle to growth. In addition, with World Bank support, we have prepared updates to the Electricity Act that 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 are expected to be submitted to parliament by end-September 2014 (*new structural benchmark*).

**34. An increase in financing to and support for micro, small and medium-sized enterprises (MSMEs) will also support growth.** The roll-out of the mobile money initiative, aimed at providing greater access to financial services to underserved entities including MSMEs is expected to be completed by September 2014. In addition, two credit bureaus have commenced operations. The Development Bank of Jamaica is rapidly expanding its credit to MSMEs and the Jamaica Business Development Corporation is increasing its business development support in various ways, including training and incubator services.

**35. The new Agro Parks are now contributing to an increase in agricultural production.** Three have already been established with the help of the European Union; four more will be in operation by March 2014 (with IDB support), with the remaining two expected to start production during FY2014/15. Establishing better links between the agricultural sector and the tourism industry is an important priority and is actively supported by the Agriculture-Tourism technical working group, which is in the process of establishing concrete targets for linkages.

**36. Labor market reforms are progressing.** Based on a White Paper that was tabled in September 2013, legislation supporting flexible work arrangements is expected to be tabled in parliament by end-2013/14. Based on drafting instructions issued to the Chief Parliamentary Council (CPC), the necessary amendments to legislation will be enacted by September 2014 to remove impediments to the implementation of flexible work arrangements. A public education campaign is planned to promote the use of these arrangements. Ways to reduce the impact of high separation costs are under consideration in the context of the recently launched Comprehensive Labor Market Reform Agenda.

## Reform of Social Spending

**37. Efforts to strengthen the social protection framework are progressing**. A graduation strategy for PATH households was discussed at Cabinet in December 2013 and January 2014. It is expected to be adopted by Cabinet in March 2014. This strategy also covers the strengthening of agency networks and broad institutional strengthening to support the Steps-to-Work programme which is an integral part of the graduation strategy. The field work for the recertification exercise was conducted on 34,000 PATH households and the analysis is expected to be completed by March 2014. Within the context of Effective Social Protection articulated in Vision 2030 Jamaica–National Development Plan, progress continued towards the development of a comprehensive Social Protection Strategy. The draft of this strategy was completed and is expected to be submitted to Cabinet in March 2014.

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

(In billions of Jamaican dollars)

| | 2013 | | 2013 | 2014 | | | |
|---|---|---|---|---|---|---|---|
| | End-Dec Prog. | End-Dec. Actual 3/ | End-Dec. Stock 4/ | End-Mar. PC | End-Jun. PC | End-Sep. PC | End-Dec. Proposed PC |
| **Fiscal targets** | | | | | | | |
| 1. Primary balance of the central government (floor) 5/ | 61.6 | 61.7 | ... | 111.5 | 15.5 | 38.4 | 66.0 |
| 2. Tax Revenues (floor) 5/10/ | 232.7 | 242.7 | ... | 357.5 | 80.0 | 166.0 | 253.4 |
| 3. Overall balance of the public sector (floor) 5/ | -37.3 | -27.3 | ... | -7.4 | -19.3 | -30.2 | -37.0 |
| 4. Central government direct debt (ceiling) 5/6/ | 92.9 | 53.7 | 1672.0 | 70.3 | 15.7 | 23.2 | 26.5 |
| 5. Central government guaranteed debt (ceiling) 5/ | -13.0 | -13.0 | ... | -14.0 | 4.0 | 2.7 | 0.1 |
| 6. Central government accumulation of domestic arrears (ceiling) 7/13/14/ | 0.0 | -0.3 | 21.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| 7. Central government accumulation of tax refund arrears (ceiling) 8/13/14/ | 0.0 | -2.7 | 24.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| 8. Consolidated government accumulation of external debt payment arrears (ceiling) 7/13/ | 0.0 | 0.0 | ... | 0.0 | 0.0 | 0.0 | 0.0 |
| 9. Social spending (floor) 10/11/ | 14.4 | 16.6 | ... | 20.1 | 4.2 | 8.9 | 14.8 |
| **Monetary targets** | | | | | | | |
| 10. Cumulative change in net international reserves (floor) 9/12/15/ | -220.5 | -81.8 | 1045.2 | 194.4 | 194.8 | 187.8 | 210.32 |
| 11. Cummulative change in net domestic assets (ceiling) 12/15/ | 26.4 | 13.7 | -7.6 | -21.4 | -21.6 | -17.2 | -11.9 |

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Including modified performance criteria.
4/ Based on the original program exchange rates.
3/ Based on the revised program exchange rates (see the TMU).
5/ Cumulative flows from April 1 through March 31.
6/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
7/ Includes debt payments, supplies and other committed spending as per contractual obligations.
8/ Includes tax refund arrears as stipulated by law.
9/ In millions of U.S. dollars.
10/ Indicative target.
11/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
12/ Cumulative change from end-December 2013 except the end December 2013 PC , which is cummulative change from end-December 2012.
13/ Continuous performance criterion.
14/ The data for the stock are as of end-March 2013 rather than end-December 2013.
15/ The end-December 2012 NIR and NDA were US$1138.5 million and J$-9.5 billion respectively.

**Table 2. Jamaica: Structural Program Conditionality**

| Measures | Status/Timing | |
|---|---|---|
| **Structural Benchmarks** | **Timing** | **Implementation status** |
| **Institutional fiscal reforms** | | |
| 1.a. Government to present to Fund staff a conceptual proposal for the design of a fiscal rule. | August 31, 2013 | Met |
| 1.b. 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 | |
| 2. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform. | March 31, 2014 | |
| 3. Cabinet to approve a detailed budget calendar consistent with top-down expenditure ceilings, for the 2014/15 budget | November 30, 2013 | Met |
| 4. Government to ensure there is: (i) no financing of Clarendon Alimina 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 |
| 5. Government to table in parliament a budget for 2014/15 consistent with the program | April 30, 2014 | |
| 6. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17) | April 30, 2014 | |
| **Tax Reform** | | |
| 7. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as stipulated in the TMU. | Continuous | Met |
| 8. Parliament to adopt amendments to the relevant tax acts to harmonize the tax treatment for charities across tax types and remove ministerial discretion to grant waivers for charities and charitable purposes as described in paragraph 34 of the April 17, 2013 MEFP. | May 31, 2013 | Met |
| 9.a. Government to table a Charities Bill in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff. | September 30, 2013 | Met |
| 9.b. Government to cease the granting of waivers to charities other than under the Charities Bill. | November 30, 2013 | Met |
| 10.a. Government to table Omnibus Tax Incentive Act in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff, to eliminate ministerial discretionary powers to grant or validate any tax relief, and put in place a transparent regime for limited tax incentives. | September 30, 2013 | Met with delay |
| 10.b. Government to cease the granting of tax incentives under the regime prior to the Fiscal Incentives Legislation. | December 31, 2013 | Met |
| 11. 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 December 2013 MEFP) and as stipulated in the current MEFP. | March 31, 2014 | |
| 12. Government to table in parliament amendments to the GCT as stipulated in paragraph 11 of the the MEFP | June 30, 2014 | Proposed new structural benchmark |
| 13. 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** | | |
| 14. Government to make e-filing mandatory for LTO clients with respect to General Consumption Tax (GCT) and Corporate Income Tax (CIT) | March 31, 2014 | |
| **Financial sector** | | |
| 15. Government to Establish and Operate a Central Collateral Registry. | December 31, 2013 | Met |
| 16. Government to implement a legal and regulatory framework conducive to Collective Investment Schemes (Paragraph 45 of the MEFP of April 17, 2013) in consultation with Fund staff. | December 31, 2013 | Met |
| 17. Government to table legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010. | March 31, 2014 | Revised structural benchmark |
| 18. 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 Paragraph 25) in consultation with Fund staff. | March 31, 2014 | Proposed new structural benchmark |
| 19. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (MEFP Paragraph 25) in consultation with Fund staff. | June 30, 2014 | Reset from March 31, 2014 |
| 20. Government to table the Omnibus Banking Law consistent with Fund Staff advice to facilitate effective supervision of the financial sector. | March 31, 2014 | Revised structural benchmark |
| **Growth enhancing structural reforms** | | |
| 21. Government to implement a new (AMANDA) tracking system to track approval of contruction permits across all parish councils. | December 30, 2014 | Proposed new structural benchmark |
| 21. Government to table in parliament the electricity Act | September 30, 2014 | Proposed new structural benchmark |

# Attachment 2. Jamaica—Technical Memorandum of Understanding

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

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

## QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

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

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

## A. Cumulative Floor of the Central Government Primary Balance

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

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

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

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

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

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

**9. 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.

**10. Public bodies consist of all self-financed public bodies, including the 18 "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); Wallenford Coffee Company Ltd. (WCC); National Road Operating and Constructing Company Ltd. (NROCC); Petro-Ethanol; Clarendon Aluminum Production (CAP);. "Other Public Bodies" include: Bauxite and Alumina Trading Company of Jamaica Ltd. ; 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; Agricultural Development Corporation; Agricultural Marketing Corporation, Cocoa Industry

Board; Coffee Industry Board; Sugar Industry Authority; Overseas Examination Commission; Aeronautical Telecommunications Ltd.; Jamaica Civil Aviation Authority; Jamaica Ultimate Tire Company Ltd.; Jamaica Railway Corporation Ltd.; The Firearm Licensing Authority; Ports Management Security Corps Ltd.; Transport Authority.

**11. 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.

**12. 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.**

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

**14. 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-December 2013 | -3.0 |
| End-March 2014 | 3.3 |
| End-June 2014 | 2.9 |
| End-September 2014 | … |
| End-December 2014 | … |

## C. Ceiling on the Stock of Central Government Direct Debt

**15. 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.

**16. 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.**

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

**18. 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.

**19. The target will be adjusted downward by 20 percent of the value of the bonds converted through the February 2013 debt exchange into "Fixed Rate Accreting Bonds" (FRAN).**

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

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

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

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

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

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

**24.** **Definition**: Domestic arrears are defined as payments to residents determined by contractual obligations that remain unpaid 90 days after the due date. Under this definition, the due date refers to the date in which domestic debt payments are due according to the relevant contractual agreement, taking into account any contractual grace periods. Central government domestic arrears include arrears on domestic central government direct debt, including to suppliers and all recurrent and capital expenditure commitments.

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

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

## F. Performance Criterion on Non-Accumulation of External Debt Payments Arrears

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

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

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

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

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

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

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

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

**31. Definitions**: Under this definition of debt set out above, external payments arrears consist of arrears of external debt obligations (principal and interest) falling due after March 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.

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

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

**34. This performance criterion does not cover arrears on trade credits.**

**35. The performance criterion will apply on a continuous basis.**

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

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

**37. Definition**: Tax refund arrears are defined as obligations on tax refunds in accordance with tax legislation that remain unpaid 90 days after the due date.

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

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

## H. Floor on Accumulation of BOJ Net International Reserves

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

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

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

**43. Adjusters:** NIR targets will be adjusted upward (downward) by the surplus (shortfall) in programme loan disbursements from multilateral institutions (the IBRD, IDB and CDB) relative to the baseline projection reported in Table 3. Programme loan disbursements are defined as external loan disbursements from official creditors that are usable for the financing of the consolidated government. NIR targets will also be adjusted upward (downward) by the surplus (shortfall) in disbursements of budget support grants 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-December 2013 | 190 |
| End-March 2014 | 426 |
| End-June 2014 | 10 |
| End-September 2014 | 46 |
| End December 2014 | 126 |
| **Budget support grants** | |
| End-December 2013 | 58 |
| End-March 2014 | 67 |
| End-June 2014 | 3 |
| End-September 2014 | 14 |
| End-December 2014 | 34 |

The NIR target will be adjusted upwards (downwards) by the amount by which, at a test date, the cumulative changes from end-December 2012 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 | 282.2 |
| Cumulative change from end-December 2013 | |
| End-March 2014 | 31.5 |
| End-June 2014 | 38.2 |
| End-September 2014 | 44.9 |
| End-December 2014 | 51.6 |
| 1/ Converted at the programme exchange rates. | |

## I. Ceiling on Net Domestic Assets of the Bank of Jamaica

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

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

## QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

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

**46.** **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).

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

### K. Floor on Central Government Social Spending

**48.** **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.

**49.** **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.*

**50.** **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.

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

## CONDITIONALITY ON TAX WAIVER REFORM

**52. 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.**

**53. 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.

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

### Information Requirements

**55. 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.

- 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.

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

- 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.

## 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.

**Statement by the Staff Representative on Jamaica**
**March 19, 2014**

1. **This statement provides an update on the information presented in the staff report**. This information does not alter the thrust of the staff appraisal.

2. **Net international reserves have recovered since end-February**, reaching US$1125 million as of March 12—compared with an (unadjusted) end-March performance criterion of US$1240 million.

3. **Recent data confirm the ongoing shortfall in revenue collection, mainly due to weak domestic demand, compared with the original budget targets, as discussed in the staff report**. A supplementary budget incorporating the lower revenues was adopted on March 6. Revenues for 2014/15 in the authorities' forthcoming budget are likely to be somewhat below the level projected in the staff report. The authorities have reiterated their commitment to meet the program conditions for the fiscal balances of the central government and of the broader public sector throughout the program period by adjusting expenditures as needed, while also seeking to enhance revenue collection.

4. **Legislation to implement a fiscal rule, that will set a floor for the annual budgeted overall fiscal balance of the public sector, was tabled in parliament on March 4**.

Press Release No.14/111
FOR IMMEDIATE RELEASE
March 19, 2014

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Completes Third Review under the Extended Fund Facility Arrangement for Jamaica and Approves US$71.4 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Jamaica's economic performance under a program supported by an Extended Fund Facility (EFF) arrangement. The completion of this review enables the disbursement of an amount equivalent to SDR 45.9 million (about US$71.4 million), which would bring total disbursements under the arrangement to the equivalent of SDR 222.6 million (about US$345.8 million).

The Executive Board approved the EFF arrangement for four years and a total of SDR 615.38 million (about US$948.1 million, the equivalent of 225 percent of Jamaica's quota in the IMF—see Press Release No. 13/150) on May 1, 2013.

Following the Executive Board's discussion, Mr. Nayouki Shinohara, Deputy Managing Director and Acting Chair of the Board, said:

"Jamaica's program implementation under the Extended Fund Facility has remained strong. The current account has improved markedly and international reserves have increased in line with program requirements. The execution of the 2013/14 budget has remained broadly on track. However, the economic recovery is fragile. Sustaining the reform momentum and continued implementation of sound macroeconomic policies is necessary to address the persisting challenges and risks.

"The recent improvement in competitiveness and the steadfast implementation of the macroeconomic program are expected to spur investor confidence. However, private investment needs to be supported also by determined actions to reduce red tape and bureaucracy, while the strengthening of social protection programs should help make growth more inclusive.

"The authorities' plan to restrain expenditure and to meet the 2013/14 budget targets is commendable. Going forward, policies should rely more curtailing current spending,while protecting capital spending. In the event of a revenue shortfall, additional contingency measures will be needed. Strengthening fiscal management, including an effective fiscal rule, will help entrench fiscal discipline and commitment to debt reduction. While important progress has been made to improve the tax system, revenue administration, public sector modernization, and public financial management reforms should remain a priority.

“Monetary policy should continue to focus on reducing inflation and rebuilding net international reserves. In addition, it will be important to remain vigilant to market conditions to avoid liquidity constraints. Continued in-depth monitoring of the financial system is also necessary going forward. The ongoing reform of the securities dealers sector should help underpin financial stability.”

**Statement by Thomas Hockin, Executive Director for Jamaica**
**Mary O'Dea, Alternate Executive Director and**
**Trevor Lessard, Advisor to the Executive Director**
**March 19, 2014**

We thank the staff for their efforts, constructive dialogue, and technical assistance as Jamaica progresses through its multi-year adjustment to improve competitiveness, boost growth, and support sustained job creation. Almost a year into Jamaica's program with the Fund, and more than a year since the Government of Jamaica embarked upon the process of comprehensively reforming the economy, significant milestones have been reached.

Government debt has fallen faster than originally projected, fundamental tax reform that will encourage jobs and growth has been enacted, the Bank of Jamaica has created several new tools to provide liquidity and conduct monetary policy, and the fiscal target of a 7.5 percent primary balance remains on track. Ownership of the program remains high, evidenced by Jamaica's ability to meet all structural benchmarks and performance criteria.

## Economic Outlook and Government Finances

We agree with staff that risks to the program remain, but would like to emphasize where these sources of risk originate and what measures the Government of Jamaica has taken to minimize threats to the program.

As a small, open, island economy, Jamaica is susceptible to global economic slowdowns and shocks, as well as environmental disasters, but the Government has little control over these risks. Nevertheless, recognizing these external risks during the previous review, Jamaica voluntarily agreed to increase its NIR target to partially assuage concerns expressed by staff. We also note the subjective assessment of staff, repeated on several occasions in the document, of risks associated with a shift in the PetroCaribe oil purchasing agreement. This assessment by staff is at odds with the understanding of the Government of Jamaica and recent announcements made by the Venezuelan authorities.

With respect to internal risks, recently completed fundamental reforms to the tax system, which are necessary for long-term growth and job creation, have inevitably created difficulties in forecasting revenues over the short- to-medium term. The Government has been proactive in implementing measures to improve revenue administration to minimize these costs, but some costs associated with the transition are unavoidable. Despite risks to revenue forecasts, the Government of Jamaica is unwavering in its determination to meet its fiscal targets, which are a core pillar of the reform program. To ensure fiscal targets are met the Government has developed contingency measures it can implement in the event that revenues fall below forecast levels.

We would argue that there is scope for cautious optimism if global growth continues to pick up, especially growth in the USA, and investor confidence in Jamaica recovers as potential investors become increasingly convinced of the authorities' commitment to the reform program.

## Structural Reform

The front-loaded adjustment under the program has stressed the legislative and reform capacity of Jamaica, but it has paid dividends through tangible progress on the structural reform agenda. The Government has successfully replaced the discretionary tax incentive regime, a longstanding barrier to new firm creation, with a limited, rules-based system that creates a more level playing field.

Alongside the 2014 budget, the Government will enshrine a binding fiscal rule that will lock in the gains from fiscal consolidation. The fiscal rule sets a target to reduce Jamaica's debt-to-GDP to no more than 60 percent by 2025/26. The rule will be extensive in its coverage of the public sector, moving well beyond the central government and covering a larger share of the public sector than most other fiscal rules adopted by other jurisdictions. For the rule to be a long-term success, it needs to be binding, but not completely inflexible in the face of unforeseen shocks. For these reasons Jamaica's fiscal rule has been tailored to its economy, with flexibility for responding to natural disasters and a PPP framework that balances accounting for fiscal risk with the need for the Government to support critical investment projects.

Going forward, the focus will remain on improving the tax system and financial sector reform, but will also be joined by a renewed effort towards public sector modernization and improving the business climate. As a first step, a white paper on pension reform has been tabled in Parliament and provides a broad outline for placing the pension system on a sustainable path. With respect to the business environment, going forward there will be renewed efforts to bolster the implementation of the various reforms and a prioritization of additional initiatives to be introduced in light of the imperative of promoting growth. The restructuring of the financial sector, particularly reforming the securities dealer sector, will proceed apace, with helpful assistance from international partners. The Bank of Jamaica (BoJ) continues to expand its toolkit and strengthen its capacity for operational independence in preparation for a decision to be made to implement full-fledged inflation targeting. The Memorandum of Understanding (MoU) between the BoJ and Government for dealing with central bank losses has assisted in this process by strengthening the integrity of the balance sheet.

## Financial Sector and Monetary Policy

The Bank of Jamaica continues to operate in a very difficult environment as it tries to balance the goals of maintaining price stability, managing bank liquidity, meeting NIR targets and expanding its toolkit. These goals are all important, but often measures to achieve one objective (ex. NIR target) make it more difficult to achieve the others (ex. provide adequate liquidity).

The financial sector remains stable, resilient, well capitalized and characterized by low NPLs and high provisioning rates. Liquidity conditions remain tight, largely as a result of thin trading for government securities and reduced interest income from the NDX, and the BoJ continues to monitor the effects of tight liquidity on borrowing costs and credit to the private sector. Overall, a restoration of confidence, achieved through continued good performance under Jamaica's reform program, will be critical to unfreezing the domestic government securities market and returning liquidity to normal levels. Confidence will also play a pivotal role in successfully restructuring the financial sector so that it can refocus towards providing credit to the private sector to support investment. A central aspect of this reform will be reforming the securities dealer sector in a way that provides a sustainable business model for dealers and bolsters financial stability.

Movement in the nominal exchange rate, which is in line with market fundamentals, has led to increases in price competitiveness. Staff's preliminary estimate is that the real effective rate has moved by 4 percent, although uncertainty remains on this point estimate. The authorities look forward to a comprehensive assessment of the REER during the next review mission.

**Conclusion**

Building on recent achievements, Jamaica will continue to plot a course towards sustainable growth and economic stability. In the coming weeks the Government will table a budget that is consistent with fiscal targets and that places the debt ratio on a steep downward trajectory. Simultaneously legislation will be tabled to enshrine a binding fiscal rule, which, with the help of IMF technical assistance, is tailored to Jamaica and will permanently lock in the gains from fiscal consolidation. These fiscal efforts will complement ongoing structural reforms that will improve the business climate, support critical infrastructure and development projects, and promote job creation and economic growth.