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JAMAICA

April 2015

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

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

- The **Staff Report** for the Seventh Review Under the Extended Fund Facility and Request for Modification of Performance Criteria, prepared by a staff team of the IMF for the Executive Board's consideration on March 30, 2015, following discussions that ended on February 20, 2015, 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 13, 2015.
- 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 13, 2015

SEVENTH REVIEW UNDER THE ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Recent data point to a gradual pick-up in economic activity as the effects of the drought fades. Growth should reach 2 percent in 2015/16, and inflation is projected to fall to an average of 5¼ percent, largely owing to lower fuel prices.

The program is on track. All December 2014 quantitative performance criteria were met and structural reforms have progressed broadly on schedule. Based on the continued strong performance and the authorities' policy commitments, staff recommends completion of the seventh review.

Topics of the review. Discussions centered on the 2015/16 budget (which maintains the ambitious primary surplus target, at 7½ percent of GDP), reforms of the financial sector, and steps to boost long-term growth. Efforts are being made to improve public financial management and tax compliance. A new public-sector wage agreement is under negotiation. The securities dealers will transition to a trust-based framework by August. The resilience of the financial system is being reinforced. Progress in energy sector reform is expected to support investment and growth.

Risks to the program are slowly waning but remain high. Notwithstanding the authorities' demonstrated resolve in implementing the program, more tangible signs of improvements in growth will be important to sustain the social consensus needed to continue on the reform trajectory. Jamaica still faces risks from disruptions in external financing (including from PetroCaribe). Revenue shortfalls or an inability to contain the government wage bill could undermine the fiscal position. Vulnerabilities in the financial system, particularly during the transition to the trust for securities dealers, could become more prominent.

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

Discussions took place in Kingston during February 16-25, 2015. Staff representatives comprised J. Martijn (head), D. Simard, and N. Che (all WHD), C. Lonkeng Ngouana (FAD), R. Garcia-Verdu (SPR), A. Arda (MCM), and B. van Selm (Resident Representative). They were assisted at headquarters by F. Strodel, E. Kapijimpanga, and E. Moreno, and at the Resident Representative office by K. Tyrell. Mr. Lessard (OED) participated in the discussions.

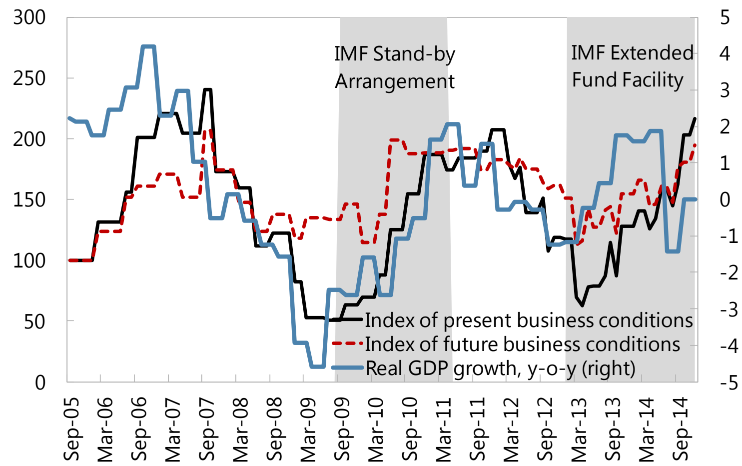
CONTENTS

APPENDIX

SIGNS OF BURGEONING GROWTH

1. **Economic confidence has rallied despite a weak third quarter growth outturn.** Real GDP dropped by 1.4 percent y/y during July–September, as a temporary drought severely affected agricultural production and the maintenance closure of the petroleum refinery reduced manufacturing output. Tourism growth, however, has been buoyant (foreign stopover arrivals increased by 7 percent y/y in Q4 2014) and remittances have been strong. The Chikungunya virus outbreak, and the related loss of productivity that was evident in the second half of 2014, now appears to be abating. Taking into account the slower-than-expected recovery of agricultural production, GDP growth for 2014/15 is now projected at 0.4 percent. Both business and consumer confidence improved significantly in the last quarter of 2014, rising to the highest levels in the past two years. The unemployment rate declined to 14.2 percent in October, 0.7 percentage points lower than a year earlier.

Business Conditions and Real GDP Growth



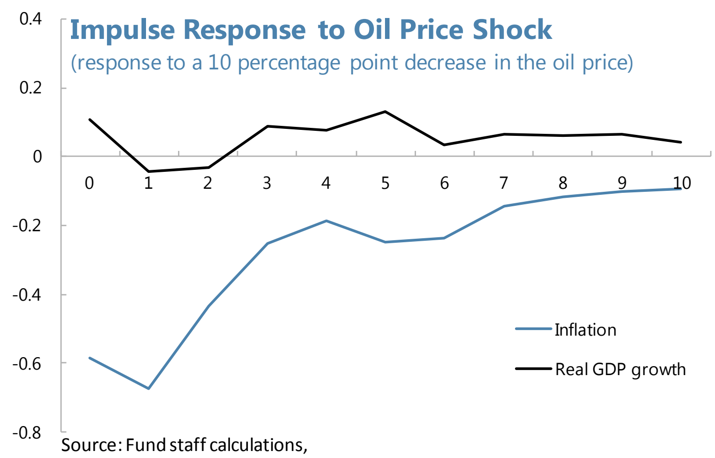
Source: Bank of Jamaica.

2. **Looking forward, lower fuel prices and improving confidence are expected to stimulate demand**. Growth is projected to rise to 2 percent in 2015/16 with the end of the drought expected to provide a boost of about ¾ percentage points. The pass through of lower oil prices into domestic fuel and electricity costs is expected to be high (Box 1), and the resulting rise in disposable income should support domestic production, notwithstanding a high marginal import share of consumption and signs that some of the rise in disposable income is being saved (through accelerated debt repayments). Furthermore, in the end-2014 business survey, the majority of firms expressed optimism towards investment prospects.

3. **Inflation continues its downward trend and competitiveness has been improving.** Inflation has declined sharply, to 5.3 percent (y/y) in January 2015 owing to lower oil prices and the diminishing effects of the drought. Inflation is expected to be 4.7 percent by end-March, well below earlier projections. The downward revision in inflation has elevated the 2014/15 program markers expressed in terms of GDP, including the primary fiscal balance, the wage bill, and the public debt ratio. Reflecting the higher base, the public debt ratio is now projected to be 1.8 percentage points higher at end-March 2020 than in the previous program review. The nominal exchange rate depreciated by 7.8 percent y/y relative to the U.S. dollar at end-December 2014 (a 1.5 percent fall in the real effective exchange rate).

Box 1. The Macroeconomic Impact of the Oil Price Shock

Recent changes in global oil prices have reduced Jamaica's imported energy costs by about 4 percent of GDP. The drop in the oil price is quickly passed through to lower transportation and electricity costs which, in turn, also lower non-energy prices. The empirical results from a VAR model estimated using quarterly data for 2007-2014 shows that a 10 percentage point drop in the world oil price—equivalent to a $9/bbl price drop from the average price of the sample period—reduces headline inflation by about 0.6 percentage point initially, rising to a cumulative price reduction of 2 percentage point after four quarters.



Lower global oil prices could, in principle, foster real income growth in Jamaica through various channels:

- *Domestic demand channel:* The increase in household real disposable income can raise consumption spending and stimulate the economy. However, given the structure of Jamaica's economy, the increased consumer spending is likely to be largely incident on imported consumer goods rather than domestic production.
- *External demand channel:* Tourism demand could increase as the cost of air travel is reduced.
- *Competitiveness (supply) channel:* Lower global oil prices may reduce production costs for Jamaica more than for key competitors in tourism and mining that have a more diversified energy base.

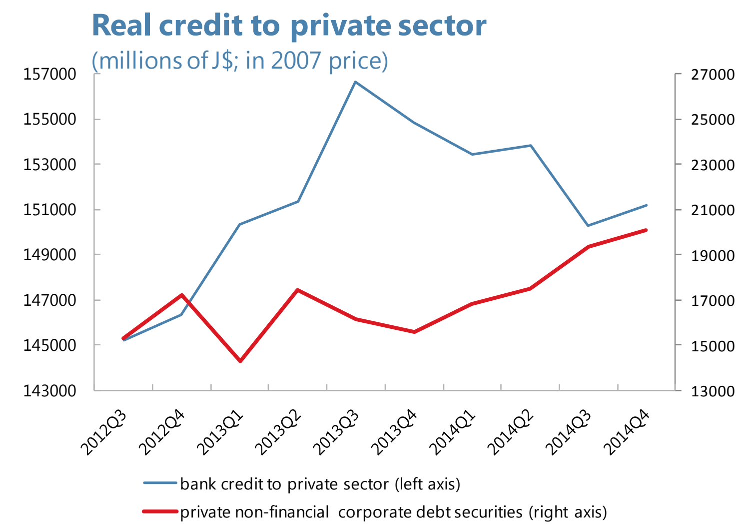
It is difficult to find clear empirical links between global oil prices and Jamaican output growth in historical data. This may be a sign of the sizable structural impediments to growth, the importance of non-energy business costs, and data limitations.

The current account deficit will shrink as global oil prices fall. While there is an offset to the impact of a better terms of trade through the expansion of non-fuel imports, past data indicates that a 10 percentage point drop in the oil price caused the current account-to-GDP ratio to improve by close to 1 percentage point in year 1 (with the effect fading over time).

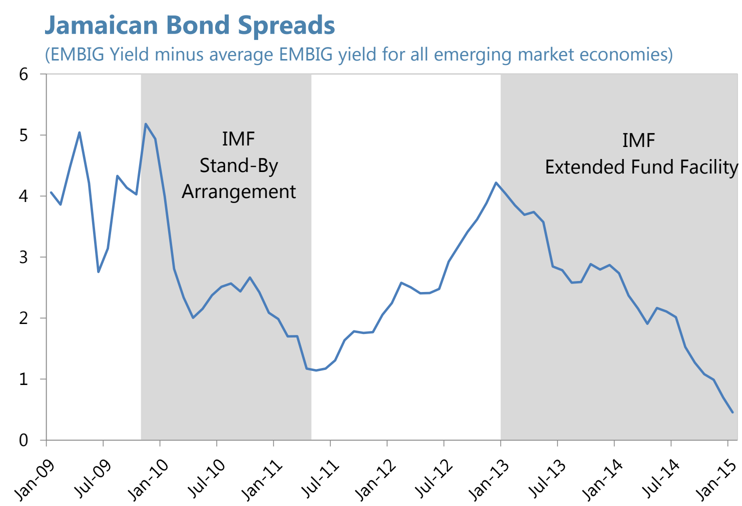
Historical data suggests that fiscal performance worsens as a result of lower oil prices. Because fuel excises are partly ad valorem and central government spending on energy is relatively low, a fall in energy prices worsens the fiscal balance. In the absence of offsetting measures, a 10 percentage point reduction in the oil price should be expected to worsen the government primary balance by 0.8 percent.

4. **The current account continues to improve.** During July–September, exports of goods grew for the first time in over a year, increasing by more than 3.5 percent y/y, primarily due to a bounce back in alumina and sugar exports. Service exports, mainly tourism, also registered strong growth. These factors, along with higher remittances, led to a projected reduction in the current account deficit from 2013/14 to 2014/15 by 3.2 percent of GDP. Staff expects the improvement in the current account balance to continue this year and next, assisted by lower oil prices and the ongoing movement in the real exchange rate. Net international reserves amounted to US$1.8 billion by end-January 2015, well above program goals.

5. **The health of the financial sector is gradually improving but credit growth remains slow.** Commercial bank credit to the private sector contracted slightly in real terms during Q4, 2014, while the growth in private corporate debt securities (held by securities dealers and private investors) was buoyant. Combined, the stock of credit to the private sector grew by about 0.5 percent y/y in real terms in Q4, 2014, a moderate pickup from the previous quarter. The BoJ's September stress test shows that banks' capital adequacy ratio was slightly more robust to negative shocks than in the previous quarterly assessment. Securities dealers' repo liabilities to retail clients have decreased. Meanwhile, the size of collective investment schemes (CIS)—which are intended to replace retail repos (see below)—is growing (total CIS fund under management increasing by almost 60 percent in the first nine months of 2014). Jamaica's sovereign bond spread relative to the emerging market average continues to narrow, reflecting the international market's favorable assessment of Jamaica's economic and policy performance.



Sources: Bank of Jamaica, Financial Services Comission, and Fund staff estimates.



Source: Bloomberg.

6. **Risks to the program are slowly waning but remain substantial.** Notwithstanding the authorities' demonstrated resolve in implementing the program, more tangible signs of improvements in growth will be important for sustaining the social consensus needed to push

ahead with—often painful and socially difficult—reforms. Although business confidence has increased, the growth dividend from the various policy efforts has been modest so far. Several infrastructure projects may potentially unlock growth, but the implementation timeline for such projects has been protracted. On the fiscal side, tax revenue has proven difficult to predict, with uncertainty about the effects of recent tax reforms. And an inability to contain the government wage bill could also undermine the fiscal position. Regaining access to global financing has greatly reduced financing risks, but the oil price decline and economic strains in Venezuela have heightened the uncertainties surrounding PetroCaribe financing (Box 2). Risks to the stability of the financial system remain elevated with the retail repo reform entering a crucial stage and the domestic government bond market still frozen.

STRONG PROGRAM IMPLEMENTATION

7. All quantitative performance criteria for end-December 2014 and continuous quantitative program targets were met.

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

(In billions of Jamaican dollars)

	7th Review PC End-Dec. 2014	Adjusted PCs End-Dec.	End-Dec. Actual	Difference	PC Status End-Dec. 2014
Fiscal targets					
1. Primary balance of the central government (floor) 3/	66.0		66.8	0.8	Met
2. Tax Revenues (floor) 3/8/	260.0		258.6	-1.4	Not Met
3. Overall balance of the public sector (floor) 3/	-37.0	-36.5	-17.0	19.5	Met
4. Central government direct debt (ceiling) 3/4/	92.4		67.9	-24.5	Met
5. Central government guaranteed debt (ceiling) 3/	0.1		0.1	0.0	Met
5. Central government accumulation of domestic arrears (ceiling) 5/11/12/	0.0		-0.1	-0.1	Met
7. Central government accumulation of tax refund arrears (ceiling) 6/11/12/	0.0		-2.9	-2.9	Met
8. Consolidated government accumulation of external debt payment arrears (ceiling) 5/11/	0.0		0.0	0.0	Met
9. Social spending (floor) 8/9/	14.8		18.2	3.4	Met
Monetary targets					
10. Cumulative change in net international reserves (floor) 7/10/	351.9	254.3	970.4	716.1	Met
11. Cumulative change in net domestic assets (ceiling) 10/	-27.0	-24.2	-98.1	-73.9	Met

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

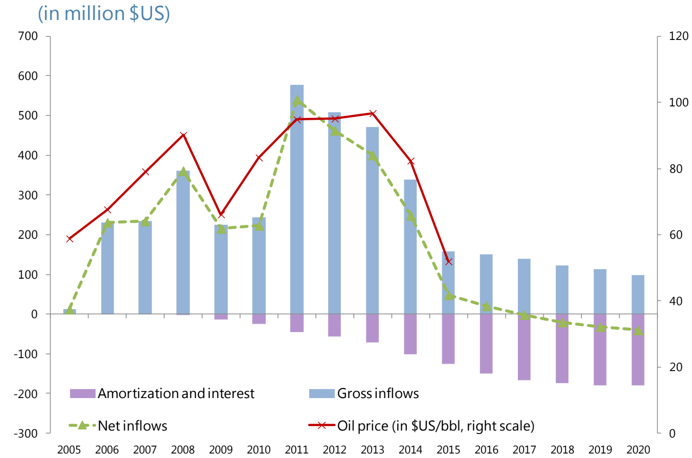
- Fiscal performance was broadly in line with the program through end-December 2014, although the indicative target on tax revenue was missed by a narrow margin. The central government's primary balance target was met through expenditure restraint, particularly in capital and wage outlays. The target for the overall balance of the public sector was also met, through savings on interest payments and overperformance by public enterprises. Tax revenue was weak due to sluggish receipts from corporate income taxes and lower consumption tax revenues. Non-tax revenue, though, was boosted by customs fees, capital income and dividends from public enterprises.

Box 2. Jamaica and the PetroCaribe Agreement

Through the PetroCaribe Energy Cooperation Agreement (and other such arrangements), Venezuela offers concessional financing to more than 20 Caribbean and Latin American countries, including Jamaica. The PetroCaribe arrangement was launched in June 2005, as a successor to the CARACAS Agreement, and similar arrangements have been in place since the 1970s. Under the PetroCaribe agreement, Jamaica pays Venezuela only a portion of its oil import bill (capped at 23,000 barrel/day under the agreement) at the time of purchase. Venezuela lends the remainder of the bill at highly concessional terms—the loan typically accrues an annual interest rate in the 1–2 percent range, with an average maturity of 23 years, including a 2-year grace period. The portion of the imported crude oil bill that is paid upfront is contingent on the oil price, and ranges from 40 percent when the oil price is above US$100/barrel, to 95 percent when the oil price falls below US$20/barrel, and amounts to 60 percent when the oil price is between US$50 and US$80. A modest share of the repayments is currently made in-kind (largely clinker and cement), and this segment could rise gradually to US$35 million by 2020.

Jamaica has secured important financing from PetroCaribe since its inception. The total debt stock accrued by Jamaica under the PetroCaribe agreement is estimated to be about 22 percent of GDP at end-December 2014[1], which is entirely captured in the measure of public debt stock under the program. The chart highlights the strong link between the oil price and the gross financing inflows. With the lower oil prices, net inflows from PetroCaribe are projected to be negative over the medium term, as debt repayments increase once the grace period expires.

Jamaica: Inflows under the PetroCaribe Agreement
(in million $US)



Source: PetroCaribe.

The net impact of lower international oil prices on Jamaica depends on several factors. The positive impact on the current account of lower oil prices is expected to be modest, as higher non-oil imports offset most of the savings on oil imports. As a result, the net balance of payments impact depends critically on the continuing inflows under the PetroCaribe Agreement. These inflows are also key to the fiscal impact: lower oil prices reduce tax revenues, and lower PetroCaribe inflows raise the government's dependence on market financing (implying higher borrowing costs). If there were a sudden stop in PetroCaribe inflows, the adverse effects on the budget and balance of payments would be more pronounced, with gross inflows projected in the baseline to average more than US$150 million over the next two years. However, during the past two years Jamaica has created important buffers, as macroeconomic stability, fiscal discipline, and international reserves have improved, and market access has been restored.

[1]This includes the debt stock from the previous agreements.

- Net international reserves (NIR) and net domestic asset (NDA) significantly outperformed the program targets, owing to the external bond issuance in July last year.

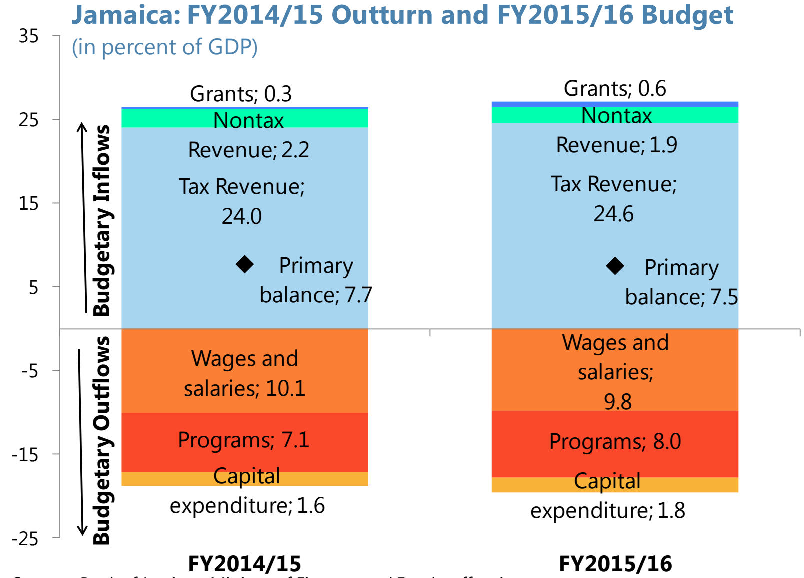
8. Structural reforms have broadly progressed on schedule, except for a delay in reviewing the implementation of the tax reform related to firms with grandfathered tax incentives (see below):

- An internationally compatible automated system for customs data was put in place, on a pilot basis, for the Kingston Port (Structural Benchmark for December).
- The database of all Public Sector Investment Plan (PSIP) projects was completed.
- Legislative amendments to remove tax obstacles for investments in collective investment scheme (CIS) were completed. The government also raised the CIS investment cap in foreign assets to 10 percent, and published a timetable to further raise the cap to 25 percent by December 2015.
- The Cabinet approved the program of reforms for the new Development Applications Process (DAP), which should accelerate the process of approval for investment projects.
- A distinct treatment for retail repo client interests was established in the legal and regulatory framework (Structural Benchmark for December).
- The Electricity Act was tabled in parliament (Structural Benchmark for January), to clarify and codify roles and responsibilities within the sector.

THE 2015/16 BUDGET

9. The draft budget for FY2015/16 continues to target a primary balance of 7.5 percent of GDP, for a third consecutive year. In line with the new budget calendar, the budget was tabled in February, and is scheduled to be adopted before end-March—i.e., for the first time, before the beginning of the new fiscal year. A second innovation is that expenditures and revenues are to be presented and discussed jointly in parliament (rather than sequentially). Revenue is envisaged to rise with new tax measures, creating room for a sizeable budget contingency and measures to address challenges in health care delivery that

Jamaica: FY2014/15 Outturn and FY2015/16 Budget
(in percent of GDP)



Sources: Bank of Jamaica, Ministry of Finance, and Fund staff estimates.

became increasingly apparent in 2014. The draft budget for public enterprises is in line with the program objective of maintaining an overall zero balance for these entities.

10. The draft budget provides for a further decline in the wage bill, to 9.8 percent of GDP. Under the program, the wage bill has come down from 11 percent of GDP to just over 10 percent in 2014/15, as a result of a multiyear wage freeze combined with strict limits on new hiring. The authorities confirmed their commitment to reduce the wage bill to 9 percent of GDP. However, the goal is deferred by one year, to 2016/17, which will be the second year covered by the ongoing wage negotiations with public sector employees (expected to be concluded in April). The wage bill allocation in the draft 2015/16 budget is predicated on continued efforts to constrain both the size and the remuneration of the civil service while permitting a modest salary increase, given that extending the strict wage freeze of the past five years was not deemed realistic. It also covers payments based on past wage settlements. The budget includes several contingencies—totaling more than 1 percent of GDP—to help safeguard the 7.5 percent of GDP primary balance target. A specific contingency would cover the cost of a possible hedge to protect against a steep rise in oil prices.

11. Social spending will be protected (and is subject to a floor in the program).The budget includes higher allocations for the public health system, in particular for drugs and medical supplies, and some increase in public sector pensions. The draft budget envisages an increase in program outlays (goods, services, subsidies and transfers, including the associated contingencies) by 0.9 percent of GDP, of which 0.4 percentage point for one-off items (such as the cost of local government elections, the possible oil price hedge, and a reduction in the stock of legacy expenditure arrears). Attempts will be made not to cut growth-critical capital outlays when the budget is implemented, although an increasing share of total infrastructure needs is being met through private sector projects, including PPPs (and that share is likely to increase over the coming years (see below)).

12. New tax measures have been prepared to support revenues. The budget envisages tax revenues of 24.6 percent of GDP. The tax package (0.7 percent of GDP) includes raising specific taxes on petroleum products, extending the environmental levy to domestic goods and CARICOM imports, applying the value-added tax to residential electricity consumption, above a social tranche, and increasing excises on cigarettes. There is a modest reduction in the personal income tax burden. The tax base will be helped by a pickup in revenues from non-oil imports. But lower oil prices (given ad valorem petroleum excises) and falling interest payments on domestic debt (due to taxation of interest income) will eat into revenues.

13. The authorities are strengthening revenue administration (MEFP, ¶5, 7). A new tax compliance plan has been developed, supported by a long-term advisor financed by Canada. Audit capacity at the Large Taxpayer Office is being reinforced through the hiring of additional auditors, guided by quantitative targets under the program for end-March 2015 (a structural benchmark). To facilitate implementation of a new integrated tax software, uncollectible tax debts are being written-off. The tax authorities are developing new revenue productivity indicators to measure the effectiveness of administration, based on IMF technical assistance (TA).

14. The authorities are exploring the scope for broadening the tax base and improving the efficiency of the tax system (MEFP, ¶5, 6). Following up on the comprehensive end-2013 reform of tax incentives the authorities are planning to complete the review of entities in receipt of grandfathered tax incentives by end-March (a structural benchmark for end-January). The authorities plan to introduce new Special Economic Zones to replace the existing export free-zones by end-2015. Staff reiterated its advice to limit the tax incentives in such zones and focus instead on the provision of infrastructure to support businesses (to ensure that the zones do not undermine tax administration). Finally, the authorities have requested IMF technical support to identify areas for further improvements to the tax system to support investment and growth while improving budget revenues.

15. Enhancing public sector efficiency is a key focus given the scarcity of budgetary resources (MEFP, ¶8). The authorities are adopting a new legal framework for government procurement, with assistance from the Inter-American Development Bank (IADB). They are further expanding and improving the Treasury Single Account (TSA) and other aspects of public financial management. The authorities are also implementing the first phase of their program of public sector transformation, with World Bank and IDB support (MEFP, ¶11). This will involve introducing shared services within the central government, starting with legal services, and developing an automated human resource management system. The authorities have also requested IMF assistance in developing a strategic plan to sustainably contain the wage bill without relying on wage or hiring freezes.

16. The authorities continue to proactively manage their public debt, supported by the peripatetic short term advisor on debt management and the recently installed IMF long term Treasury advisor (MEFP, ¶9, 10). The authorities are preparing a new medium-term debt management strategy to promote the development of the domestic capital market (including through an Investor Relations Program and a comprehensive communication strategy), mitigate foreign exchange risk and interest rate risk, and improve the maturity profile of public debt.

ANCHORING INFLATION AND STRENGTHENING COMPETITIVENESS

17. The authorities are maintaining a prudent monetary policy, which remains consistent with medium-term inflation of no more than 6 percent. This cautious stance has helped control inflation and supports some accumulation of international reserves. Furthermore, the recent fall in energy prices should help moderate inflation expectations.

18. Monetary policy is still framed around targets for nominal aggregates but the intention is to transition to inflation targeting over the medium term. The authorities intend to publish their first (annual) report on their readiness for inflation targeting as of end-March (MEFP, ¶17, 18). In the meantime, they have strengthened the corridor for short-term market interest rates, and ongoing technical assistance will focus on enhancing price discovery in the money, foreign exchange and securities markets. Within their nominal aggregate goals, the central bank has been actively managing liquidity conditions, including through longer-term instruments, which has helped provide more space for credit to the private sector.

19. The resumption of exchange rate depreciation since October is helping to support competitiveness and growth. Lower global oil prices have improved the outlook for the current account but inflation remains higher than in partner countries and the appreciation of the U.S. dollar means that continued exchange rate adjustment will be necessary. The Bank of Jamaica (BOJ) plans to continue purchasing foreign exchange, as market conditions allow, to rebuild non-borrowed reserves.

REMAKING THE FINANCIAL SYSTEM

20. The transition to a trust-based repo framework for the securities dealers is underway. Securities dealers (SDs) finance long-term government bonds with short-term, deposit-like investments ("retail repos"). To limit the risks this business model poses to financial sector stability, in December, the authorities implemented a change in the legal and regulatory framework to allow for a transparent and robust framework for repo transactions (MEFP, ¶14-16). The authorities have now started the operational design of the information systems that will support this framework, to be informed by a pilot that will commence in April. All repo transactions are expected to move to this platform by end-August 2015 (a revised structural benchmark). The program anticipates a gradual downsizing of the repo business that is incentivized by the introduction of a minimum transaction size for repos and a tightening of prudential regulations for this instrument. Clients are expected to steadily shift to Collective Investment Schemes (CIS) over the coming years.

21. The lack of liquidity in the government bond market remains a risk. Without clear market pricing of longer-term sovereign debt instruments, the balance sheets of financial intermediaries are difficult to evaluate. The authorities are exploring options to re-liquify the secondary domestic bond market while safeguarding financial sector stability. In the meantime, the central bank continues to maintain liquidity in the financial system through repo operations.

22. Gaps in the framework for financial sector stability are steadily being addressed (MEFP, ¶13). The implementing regulations for the Banking Services Act (adopted in 2014) are being drawn up and are expected to be in effect by end-September 2015 (a structural benchmark). This will establish consolidated bank supervision at the group level and provide supervisors with greater authority, access to information, and broader scope to intervene in failing institutions. Furthermore, amendments to the BOJ Act are expected to vest the BOJ with overall responsibility for financial stability as of November 2015, followed by further steps to strengthen its governance structure over the program period. The authorities are also working to bolster the legal underpinnings of the crisis management and resolution framework and have adopted agency-specific contingency plans (and financial backstop facilities), which will be complemented by a national crisis management plan in April 2015.

REDOUBLING EFFORTS ON GROWTH

23. Sustained economic growth is predicated on continued sound macroeconomic policies combined with reforms to strengthen the production side of the economy. Given recent disappointing growth outcomes, there is some urgency to accelerate actions to address key impediments to economic growth, including high crime, infrastructure bottlenecks, and red tape (MEFP, ¶19-22).

- **Regulatory impediments to investment**. After a tracking system for construction permits was implemented in November, the authorities intend to extend it to all agencies by June, 2015 and ensure that the new fast-track system becomes fully effective. They also plan to have an on-line system for business registration in place by August.

- **Electricity**. In February, the government approved the conversion of the 115 MW Bogue power station from oil to gas and the construction of a new 190 MW LNG-based power plant—both by the Jamaica Public Service (JPS). The construction of a gas-powered co-generation plant by the Alpart bauxite company (both for use by the national grid and for the processing of alumina) was also approved. These projects are expected to become operational between 2016 and 2018. They are based on the strategy proposed by the authorities' Electricity Sector Enterprise Team (ESET) to use a mix of gas, coal, and renewable energy power to replace aging and inefficient oil-fired facilities.

- **Strategic investments**. Construction of the final segments of the North-South Highway—which will link Jamaica's commercial centers—is moving toward completion in 2016. As part of the projects to establish Jamaica as a logistics hub, the authorities are selecting a preferred bidder for the privatization of the Norman-Manley Airport.

24. Within the constraints of the fiscal envelope, the authorities continue to prioritize social spending. The recently released 2012 Jamaica Survey of Living Conditions showed an increased incidence of poverty from 17.6 percent in 2010 to 19.9 percent 2012. The authorities have progressively strengthened the social protection framework, in particular through its conditional cash transfer program (PATH). A social protection strategy was launched in July 2014, followed by the creation of a National Poverty Reduction Committee tasked with developing a new national policy on poverty (MEFP, ¶23).

PROGRAM ISSUES

25. Additional program conditions are proposed to cover the coming 12-month period. Performance criteria for end-December 2015 are being proposed, as well as amendments to fine-tune the performance criteria for the primary balance and the overall fiscal balance for June and September 2015 (guided by the budget). For three of the existing structural benchmarks, a revision of the timetable is proposed: (i) tabling new pension legislation by November 2015 rather than June (given legislative capacity constraints, but without delaying the effectiveness of the new regime), (ii) reorganizing the government's cash management function from June 2015 to September (accommodating a delay in the associated technical assistance); and (iii) implementing the trust for securities dealers by August 2015 rather than June (given the time needed for system design). Furthermore, new structural benchmarks are proposed, to:

- Put in place a pilot covering imports and exports for the new (ASYCUDA) customs software in the Kingston Port (end-May 2015);
- Implement the new software for domestic tax collection for all major tax types (end-December 2015); and
- Give the BOJ overall responsibility for financial stability (November 1, 2015).

26. The program remains fully financed and staff's assessment of Jamaica's capacity to repay the Fund remains broadly unchanged from the last review (Table 11). This capacity is deemed adequate, and will continue to depend on the timely and strong implementation of the government's ambitious reform program. Financing for the 2015/16 fiscal year from other IFIs is expected to be in line with, or somewhat above, the commitments made at the start of the program. Debt service to the Fund and the purchase profile remain unchanged in the absence of significant revisions to the macroeconomic outlook.

STAFF APPRAISAL

27. Confidence in the Jamaican economy has improved, reaching its highest level in two years, but tangible growth dividends from the reform effort remain elusive. On the assumption of continued robust program implementation, the rising confidence points to prospects for stronger growth. However, more needs to be done to support economic activity and foster job creation. A more competitive currency, continued public debt reduction, and lower oil prices will all help.

28. Accelerating the pace of reforms to unlock growth is at the core of the program strategy. Bolder efforts are needed to reform the energy sector, improve the business climate, and find ways to creatively finance needed infrastructure. Collaboration on these issues with the World Bank and IADB, as well as bilateral donors, will be essential. Implementing the large strategic investment projects currently under consideration should be a priority and, once in progress, will provide a critical boost to economic activity.

29. Monetary policy should remain centered on enhancing price stability and building competitiveness. Allowing sufficient real exchange rate depreciation is showing effects on the competitiveness of the tradable sector, notably for tourism, and continued exchange rate adjustment remains essential. The current softening of price pressures should lower inflation expectations and help achieve the authorities' medium-term inflation objectives on a more expedited timetable.

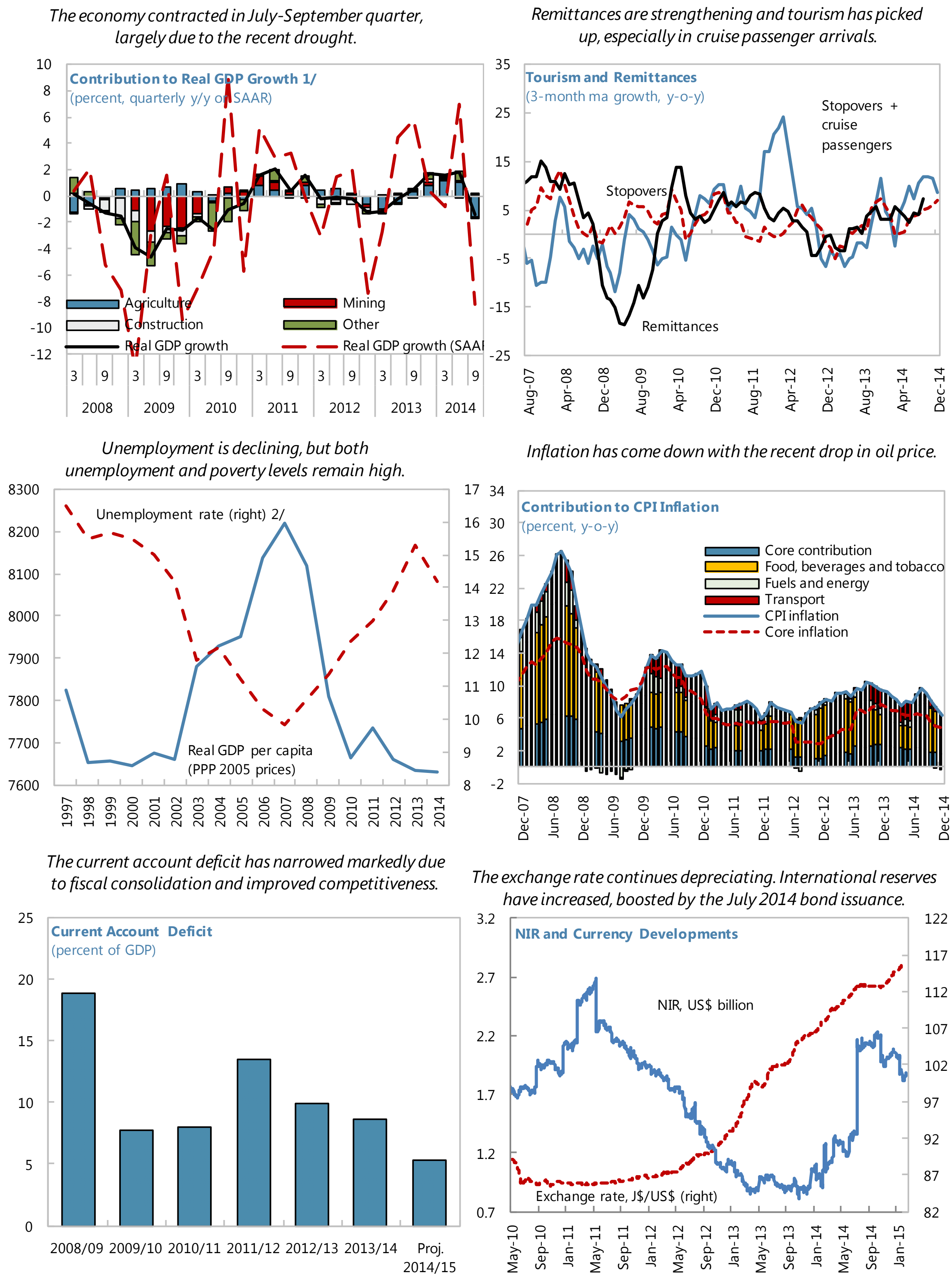
30. Buttressing the financial sector hinges on meeting the key milestones for the retail repo reform. The full transition of retail repos to a trust-based framework is to be finalized by August, and will require careful management. Restoring the government bond market liquidity should be the next step in strengthening the financial system but will need to be effected carefully given the potential risks to financial sector stability.

31. The draft budget for FY2015/16 shows Jamaica's staunch support for fiscal discipline under this Fund-supported economic program. A primary surplus of 7.5 percent of GDP continues to be an ambitious undertaking and will meet the program's central objective of reducing public debt. The draft budget includes important contingencies to achieve the primary balance target and protect essential social safety net outlays and infrastructure spending. Furthermore, the authorities should continue to explore options to accelerate the reduction in public debt.

32. Sustaining the momentum for fiscal consolidation over the medium term requires boosting revenue and improving public sector efficiency. This will necessitate an ambitious trajectory for strengthening customs and tax administration. There is a need to identify avenues for broadening the tax base and raising tax proceeds. Moreover, to maximize the impact of scarce budgetary resources on productivity and growth, it will be essential to enhance the efficiency of public outlays. This battle will need to be fought on several fronts: improving public financial management, prioritizing fiscal functions, seeking out private participation in public projects, accelerating the reform of the civil service, and lessening the burden of civil service compensation on the budget.

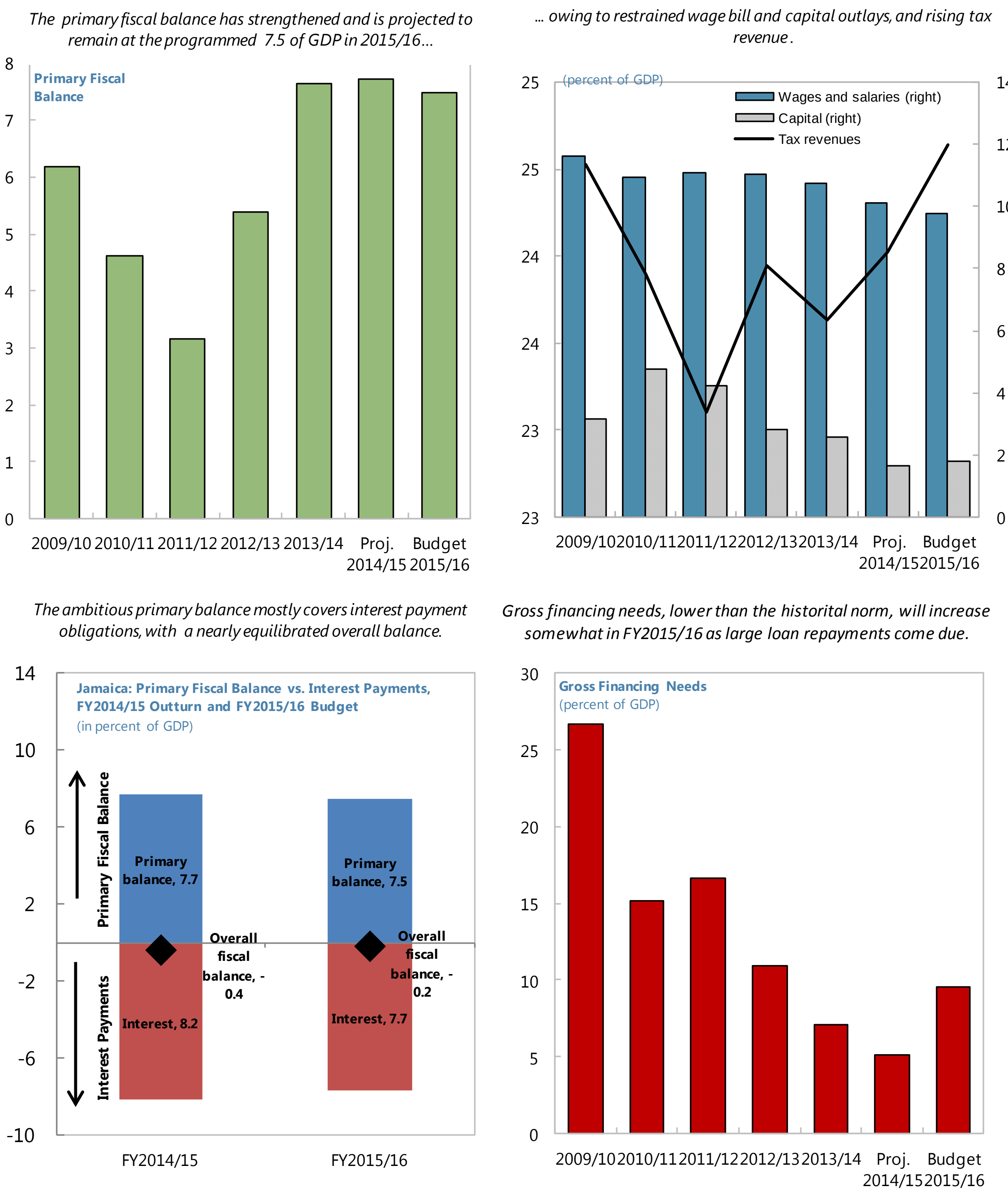
33. Risks remain high, but the authorities continue to rise to the challenges before them. Staff therefore supports the authorities' request for completion of the seventh review of the arrangement under the Extended Fund Facility, the modification of performance criteria for end-June 2015 and end-September 2015, and the proposed establishment of end-December 2015 performance criteria.

Figure 1. Jamaica: Macroeconomic Developments



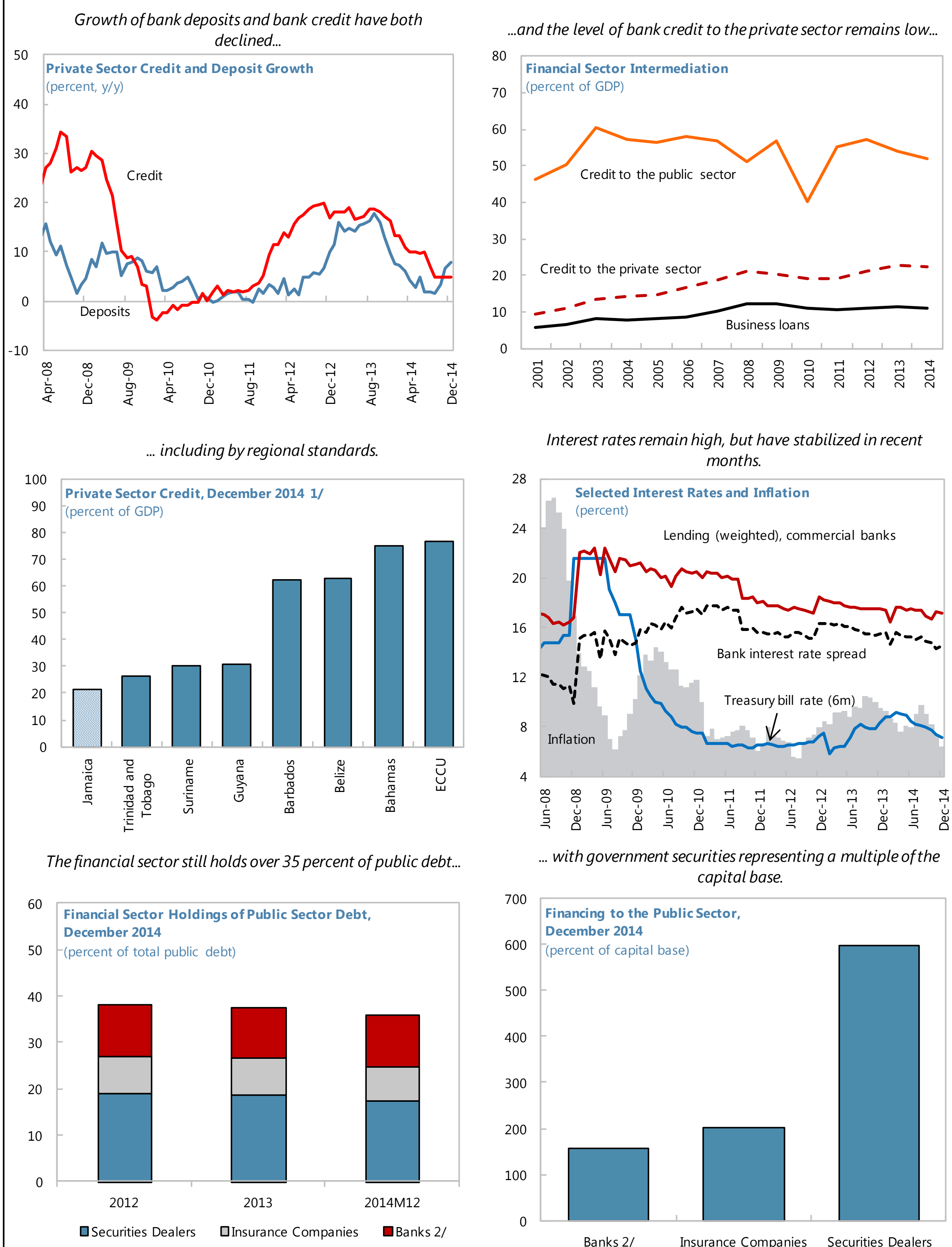
Sources: Bank of Jamaica; and Fund staff calculations.
1/ Seasonally-adjusted real GDP growth is in q/q annualized percent change.
2/ Unemployment rate data for 2014 refers to October 2014.

Figure 2. Jamaica: Fiscal Developments



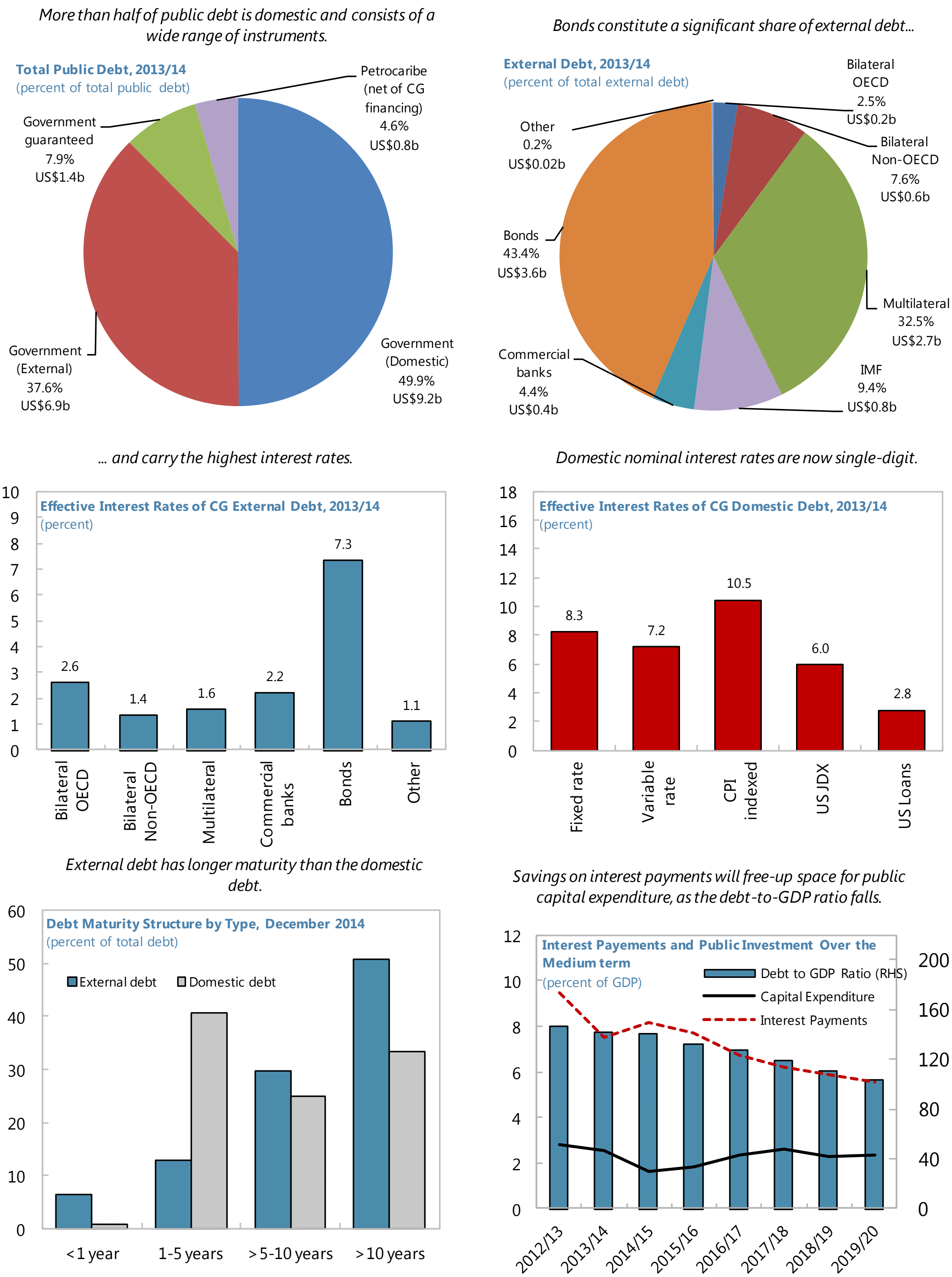
Sources: Ministry of Finance; and Fund staff calculations.

Figure 3. Jamaica: Financial Sector Developments



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; Ministry of Finance; and Fund staff calculations.

Table 1. Jamaica: Selected Economic Indicators 1/

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

Per capita GDP (2012): US$5310
Literacy rate/Poverty rate: 86.4%/17.6%
Unemployment rate (Jul. 2014): 13.8%

		Prel.	Prog.	Projections						
	2012/13	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	(Annual percent change, unless otherwise indicated)									
GDP and prices										
Real GDP	-0.7	0.9	1.1	0.4	2.1	2.3	2.5	2.7	2.7	2.7
Nominal GDP	6.2	8.9	9.4	7.8	7.5	9.6	9.8	9.6	9.1	8.9
Consumer price index (end of period)	9.1	8.3	8.1	4.7	7.0	7.3	7.0	6.5	6.0	6.0
Consumer price index (average)	7.2	9.4	8.2	7.3	5.3	7.1	7.1	6.8	6.3	6.0
Exchange rate (end of period, J$/US$)	98.9	109.6	...	...	...	...	...	...	...	...
Exchange rate (average, J$/US$)	91.2	103.9	...	...	...	...	...	...	...	...
Nominal depreciation (+), end-of-period	13.3	10.8	...	...	...	...	...	...	...	...
End-of-period REER (appreciation +) (INS)	-2.2	-4.8	...	...	...	...	...	...	...	...
End-of-period REER (appreciation +) (new methodology) 2/	-3.4	-4.3	...	...	...	...	...	...	...	...
Treasury bill rate (end-of-period, percent)	6.2	9.1	...	...	...	...	...	...	...	...
Treasury bill rate (average, percent)	6.6	7.9	...	...	...	...	...	...	...	...
Unemployment rate (percent) 3/	14.5	13.4	...	...	...	...	...	...	...	...
	(In percent of GDP)									
Government operations										
Budgetary revenue	25.7	27.2	26.8	26.6	27.1	26.6	26.2	25.5	25.5	25.4
Of which: Tax revenue 4/	23.9	23.6	24.1	24.0	24.6	24.4	24.4	24.4	24.4	24.4
Budgetary expenditure	29.8	27.1	27.5	27.0	27.3	25.9	25.4	24.4	24.0	23.2
Primary expenditure	20.3	19.5	19.2	18.9	19.6	19.1	19.2	18.5	18.5	18.4
Of which: Wage bill	11.0	10.7	10.1	10.1	9.8	9.0	9.0	9.0	9.0	9.0
Interest payments	9.5	7.6	8.3	8.2	7.7	6.7	6.2	5.9	5.5	4.8
Budget balance	-4.1	0.1	-0.7	-0.4	-0.2	0.8	0.8	1.1	1.5	2.2
Of which: Central government primary balance	5.4	7.7	7.6	7.7	7.5	7.5	7.0	7.0	7.0	7.0
Public entities balance	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	-4.2	0.1	-0.7	-0.4	-0.2	0.8	0.8	1.1	1.5	2.2
Public debt 5/	146.5	141.6	139.9	140.5	132.5	126.7	119.2	110.9	102.8	94.9
External sector										
Current account balance	-9.9	-8.5	-7.5	-5.3	-3.9	-3.7	-3.4	-3.1	-3.0	-3.1
Of which: Exports of goods, f.o.b.	11.9	10.6	11.6	10.2	10.2	10.5	10.5	10.4	10.4	10.3
Imports of goods, f.o.b.	38.6	37.7	37.0	35.3	33.9	34.2	33.6	32.8	31.9	31.0
Net international reserves (US$ millions)	884	1,304	1,893	1,884	1,824	1,917	2,071	2,177	2,345	2,245
NIR (excl. prefinanced repayments of maturing bonds)	...	...	1,594	1,585	1,772	1,917	2,071	2,177	2,345	2,245
	(Changes in percent of beginning of period broad money)									
Money and credit										
Net foreign assets	-13.5	18.7	20.5	20.3	3.1	6.0	6.2	4.9	5.8	0.4
Net domestic assets	26.8	-12.6	-12.0	-14.6	4.4	3.6	3.6	4.8	3.3	11.3
Of which: Credit to the private sector	13.0	8.2	6.8	4.0	11.1	10.8	12.4	10.8	9.7	9.7
Credit to the central government	5.2	-3.1	0.5	-4.2	7.1	2.4	-4.0	2.1	-2.9	1.3
Broad money	13.3	6.1	8.5	5.7	7.5	9.6	9.8	9.6	9.1	11.7
Memorandum item:										
Nominal GDP (J$ billions)	1,340	1,459	1,597	1,573	1,691	1,853	2,035	2,231	2,434	2,650

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

1/ Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.
2/ The new methodology uses trade weights for Jamaica that also incorporate trade in services especially tourism.
3/ As of January 31.
4/ in 2014/15, reflects the extension of the CGT to government purchases, with projected total yield of 0.2 percent of GDP at the time of the sixth review. and updated projected total yield of 0.1 percent of GDP.
5/ Central government direct and guaranteed only, including PetroCaribe debt (net of its financing to the central government) and projected IMF disbursements and other IFIs.

Table 2. Jamaica: Summary of Central Government Operations

(In millions of Jamaican dollars)

			Prog.	Projections						
	2012/13	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Budgetary revenue and grants	344,668	396,982	422,942	417,826	458,101	493,367	533,183	569,521	620,782	674,060
Tax	320,929	344,848	377,139	377,895	416,662	451,662	496,213	544,605	594,402	646,968
Of which:										
Income and profits	115,877	112,648	123,303	124,102	131,119	138,481	152,165	169,836	186,050	201,446
Of which: Other companies	35,798	35,155	40,875	41,465	44,578	47,594	53,305	58,440	63,769	69,420
PAYE	60,876	62,811	65,127	66,595	70,753	75,273	82,653	90,614	98,877	107,639
Production and consumption	96,460	115,214	125,167	124,030	138,058	152,070	169,316	185,625	203,780	224,467
Of which: GCT (Local) 1/	50,897	61,265	67,542	66,783	77,700	86,002	96,794	106,117	116,952	129,862
International Trade	105,306	113,892	126,087	127,411	137,800	146,960	159,534	172,845	187,149	202,474
Of which: GCT (Imports) 1/	45,501	51,238	57,143	58,763	63,171	69,229	77,536	85,854	94,620	104,035
Non-tax	19,799	41,705	37,211	35,386	31,900	35,489	30,345	19,998	21,131	21,504
Grants	3,940	10,429	8,592	4,545	9,539	6,216	6,625	4,918	5,249	5,588
	361,521	359,239								
Budgetary expenditure	399,279	396,228	431,689	424,887	461,892	479,339	516,961	544,690	585,236	615,371
Primary expenditure	272,341	285,322	301,923	296,491	331,374	354,390	390,755	413,374	450,396	488,575
Wage and salaries	147,382	156,362	160,842	158,759	165,229	166,773	183,122	200,761	219,068	238,481
Programme expenditure 2/	87,202	91,972	109,850	111,925	135,735	143,902	154,076	161,468	173,758	186,507
Capital expenditure 2/	37,758	36,989	31,231	25,808	30,409	43,714	53,557	51,145	57,570	63,587
Interest	126,938	110,906	129,766	128,396	130,519	124,949	126,206	131,317	134,840	126,797
Domestic	87,729	68,750	78,036	76,447	74,343	68,552	71,573	72,554	72,092	72,083
External	39,209	42,156	51,730	51,949	56,176	56,397	54,634	58,763	62,748	54,714
Budget balance	-54,610	754	-8,747	-7,061	-3,791	14,028	16,222	24,830	35,546	58,689
Of which: Primary budget balance	72,327	111,659	121,019	121,335	126,728	138,977	142,428	156,147	170,386	185,485
Public entities balance	1,905	106	0	0	0	0	0	0	0	0
Public sector balance	-55,661	859	-9,038	-6,707	-3,191	14,028	16,222	24,830	35,546	58,689
Principal repayments	88,681	104,122	71,439	73,397	158,707	59,237	227,185	171,192	209,105	260,802
Domestic	36,976	75,695	8,785	11,253	70,988	7,718	88,011	82,625	117,449	182,774
External	51,705	28,427	62,654	62,144	87,719	51,519	139,174	88,568	91,655	78,028
Gross financing needs	146,248	103,368	80,477	80,104	161,898	45,209	210,963	146,362	173,559	202,113
Gross financing sources 3/	146,248	103,368	80,477	80,104	161,898	45,209	210,963	146,362	173,559	202,113
Domestic	137,073	52,211	32,472	32,177	6,929	4,557	77,491	53,371	75,399	169,707
External	9,175	57,619	131,766	129,754	66,990	41,576	139,052	92,707	97,717	32,406
Of which: Official	9,175	57,619	40,381	39,112	36,534	32,182	37,463	49,457	54,259	32,406
Divestment + deposit drawdown	0	-6,462	-83,761	-81,827	87,980	-923	-5,580	284	442	0
Memorandum items:										
Nominal GDP (billion J$)	1,340	1,459	1,601	1,573	1,691	1,853	2,035	2,231	2,434	2,650
Public sector debt (billion J$)	1,964	2,067	2,243	2,210	2,240	2,347	2,425	2,473	2,502	2,516
Of which: Direct debt	1,678	1,812	1,968	1,946	1,990	2,085	2,143	2,176	2,184	2,175

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ in 2014/15, reflects the extension of the CGT to government purchases, with projected total yield of J$3.1 billion at the time of the sixth review and updated to a projected yield of J$1.4 billion.
2/ in 2014/15, projections reflect a reclassification of J$8.8 billion from capital outlays to programme expenditures.
3/ It is assumed that 70 percent of Petrocaribe's annual inflows are used for domestic debt repayments.

Table 3. Jamaica: Summary of Central Government Operations

(In percent of GDP)

	2012/13	2013/14	Prog. 2014/15	Projections 2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Budgetary revenue and grants	25.7	27.2	26.4	26.6	27.1	26.6	26.2	25.5	25.5	25.4
Tax	23.9	23.6	23.6	24.0	24.6	24.4	24.4	24.4	24.4	24.4
Of which:										
Income and profits	8.6	7.7	7.7	7.9	7.8	7.5	7.5	7.6	7.6	7.6
Of which: Other companies	2.7	2.4	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
PAYE	4.5	4.3	4.1	4.2	4.2	4.1	4.1	4.1	4.1	4.1
Production and consumption	7.2	7.9	7.8	7.9	8.2	8.2	8.3	8.3	8.4	8.5
Of which: GCT (Local) 1/	3.8	4.2	4.2	4.2	4.6	4.6	4.8	4.8	4.8	4.9
International Trade	7.9	7.8	7.9	8.1	8.1	7.9	7.8	7.7	7.7	7.6
Of which: GCT (Imports) 1/	3.4	3.5	3.6	3.7	3.7	3.7	3.8	3.8	3.9	3.9
Non-tax	1.5	2.9	2.3	2.2	1.9	1.9	1.5	0.9	0.9	0.8
Grants	0.3	0.7	0.5	0.3	0.6	0.3	0.3	0.2	0.2	0.2
Budgetary expenditure	29.8	27.1	27.0	27.0	27.3	25.9	25.4	24.4	24.0	23.2
Primary expenditure	20.3	19.5	18.9	18.9	19.6	19.1	19.2	18.5	18.5	18.4
Wage and salaries	11.0	10.7	10.0	10.1	9.8	9.0	9.0	9.0	9.0	9.0
Programme expenditure 2/	6.5	6.3	6.9	7.1	8.0	7.8	7.6	7.2	7.1	7.0
Capital expenditure 2/	2.8	2.5	2.0	1.6	1.8	2.4	2.6	2.3	2.4	2.4
Interest	9.5	7.6	8.1	8.2	7.7	6.7	6.2	5.9	5.5	4.8
Domestic	6.5	4.7	4.9	4.9	4.4	3.7	3.5	3.3	3.0	2.7
External	2.9	2.9	3.2	3.3	3.3	3.0	2.7	2.6	2.6	2.1
Budget balance	-4.1	0.1	-0.5	-0.4	-0.2	0.8	0.8	1.1	1.5	2.2
Of which: Primary budget balance	5.4	7.7	7.6	7.7	7.5	7.5	7.0	7.0	7.0	7.0
Public entities balance	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	-4.2	0.1	-0.6	-0.4	-0.2	0.8	0.8	1.1	1.5	2.2
Principal repayments	6.6	7.1	4.5	4.7	9.4	3.2	11.2	7.7	8.6	9.8
Domestic	2.8	5.2	0.5	0.7	4.2	0.4	4.3	3.7	4.8	6.9
External	3.9	1.9	3.9	4.0	5.2	2.8	6.8	4.0	3.8	2.9
Gross financing needs	10.9	7.1	5.0	5.1	9.6	2.4	10.4	6.6	7.1	7.6
Gross financing sources 3/	10.9	7.1	5.0	5.1	9.6	2.4	10.4	6.6	7.1	7.6
Domestic	10.2	3.6	2.0	2.0	0.4	0.2	3.8	2.4	3.1	6.4
External	0.7	3.9	8.2	8.2	4.0	2.2	6.8	4.2	4.0	1.2
Of which: Official	0.7	3.9	2.5	2.5	2.2	1.7	1.8	2.2	2.2	1.2
Divestment + deposit drawdown	0.0	-0.4	-5.2	-5.2	5.2	0.0	-0.3	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (billion J$)	1,340	1,459	1,601	1,573	1,691	1,853	2,035	2,231	2,434	2,650
Public sector debt	146.5	141.6	140.1	140.5	132.5	126.7	119.2	110.9	102.8	94.9
Of which: Direct debt	125.2	124.2	122.9	123.7	117.7	112.5	105.3	97.5	89.7	82.1

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ in 2014/15, reflects the extension of the CGT to government purchases, with projected total yield of 0.2 percent of GDP at the time of the sixth review and updated to 0.1 percent of GDP.
2/ in 2014/15, projections reflect a reclassification of 0.5 percent of GDP from capital outlays to programme expenditures.
3/ It is assumed that 70 percent of Petrocaribe's annual inflows are used for domestic debt repayments.

Table 4. Jamaica: Operations of the Public Entities

	In billions of Jamaican dollars						In percent of GDP					
			Prel.	Prog.					Prel.	Prog.		
	2011/12	2012/13	2013/14	2014/15	2014/15	2015/16	2011/12	2012/13	2013/14	2014/15	2014/15	2015/16
Operating balance selected public entities 1/	**55.2**	**60.6**	**16.6**	**...**	**...**	**...**	**4.4**	**4.5**	**1.1**	**...**	**...**	**...**
Of which:												
Clarendon Aluminum	-7.2	-1.1	-10.1	...	...	...	-0.6	-0.1	-0.7	...	...	...
Petrojam	25.1	15.5	14.7	...	...	...	2.0	1.2	1.0	...	...	...
NROCC	-0.6	-3.3	-2.8	...	...	...	0.0	-0.2	-0.2	...	...	...
Urban Development Corporation	-0.8	-0.4	0.6	...	...	...	-0.1	0.0	0.0	...	...	...
National Water Commission	4.0	8.0	0.8	...	...	...	0.3	0.6	0.1	...	...	...
Port Authority of Jamaica	2.9	3.7	3.8	...	...	...	0.2	0.3	0.3	...	...	...
National Housing Trust	26.9	29.6	4.3	...	...	...	2.1	2.2	0.3	...	...	...
National Insurance Fund	1.7	4.8	1.4	...	...	...	0.1	0.4	0.1	...	...	...
Net current transfers from the central government	**-11.8**	**-15.2**	**-19.1**	**...**	**...**	**...**	**-0.9**	**-1.1**	**-1.3**	**...**	**...**	**...**
Of which:												
Clarendon Aluminum	7.5	3.4	1.7	...	...	...	0.6	0.3	0.1	...	...	...
Petrojam	-19.2	-21.3	-18.8	...	...	...	-1.5	-1.6	-1.3	...	...	...
NROCC	0.2	3.0	3.4	...	...	...	0.0	0.2	0.2	...	...	...
Urban Development Corporation	0.7	0.1	0.3	...	...	...	0.1	0.0	0.0	...	...	...
National Water Commission	0.0	1.0	0.7	...	...	...	0.0	0.1	0.0	...	...	...
Port Authority of Jamaica	0.0	0.0	0.0	...	...	...	0.0	0.0	0.0	...	...	...
National Housing Trust	-1.2	-4.0	-11.4	...	...	...	-0.1	-0.3	-0.8	...	...	...
National Insurance Fund	0.0	0.0	0.0	...	...	...	0.0	0.0	0.0	...	...	...
Gross capital expenditure selected public entities 2/	**39.5**	**41.6**	**39.6**	**...**	**...**	**...**	**3.1**	**3.1**	**2.7**	**...**	**...**	**...**
Of which:												
Clarendon Aluminum	-0.2	1.5	0.4	...	...	...	0.0	0.1	0.0	...	...	...
Petrojam	2.6	0.2	1.5	...	...	...	0.2	0.0	0.1	...	...	...
NROCC	0.6	0.3	0.4	...	...	...	0.1	0.0	0.0	...	...	...
Urban Development Corporation	0.7	0.2	1.8	...	...	...	0.1	0.0	0.1	...	...	...
National Water Commission	4.5	9.7	-6.0	...	...	...	0.4	0.7	-0.4	...	...	...
Port Authority of Jamaica	2.1	0.8	0.5	...	...	...	0.2	0.1	0.0	...	...	...
National Housing Trust	25.5	23.2	22.3	...	...	...	2.0	1.7	1.5	...	...	...
National Insurance Fund	0.1	0.0	0.0	...	...	...	0.0	0.0	0.0	...	...	...
Other net spending selected public entities 3/	0.0	0.0	-27.9	0.0	0.0	0.0	0.0	0.0	-1.9	0.0	0.0	0.0
Overall balance selected public entities	**3.9**	**3.7**	**-14.2**	**-10.3**	**-10.3**	**-8.0**	**0.3**	**0.3**	**-1.0**	**-0.6**	**-0.7**	**-0.5**
Of which:												
Clarendon Aluminum	0.5	0.8	-8.5	...	...	...	0.0	0.1	-0.6	...	...	...
Petrojam	3.3	-5.9	-5.0	...	...	...	0.3	-0.4	-0.3	...	...	...
NROCC	-1.0	-0.5	0.1	...	...	...	-0.1	0.0	0.0	...	...	...
Urban Development Corporation	-0.8	-0.5	0.6	...	...	...	-0.1	0.0	0.0	...	...	...
National Water Commission	-0.5	-0.7	-4.5	...	...	...	0.0	-0.1	-0.3	...	...	...
Port Authority of Jamaica	0.8	3.0	3.7	...	...	...	0.1	0.2	0.3	...	...	...
National Housing Trust	0.2	2.4	-4.7	...	...	...	0.0	0.2	-0.3	...	...	...
National Insurance Fund	1.6	4.7	1.4	...	...	...	0.1	0.4	0.1	...	...	...
Overall balance other public entities	**-4.1**	**-1.8**	**14.3**	**10.3**	**10.3**	**8.0**	**-0.3**	**-0.1**	**1.0**	**0.6**	**0.7**	**0.5**
Overall balance public entities	**-0.2**	**1.9**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**

Sources: Jamaican authorities; and Fund staff estimates.

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

Table 5. Jamaica: Summary Balance of Payments

(In millions of U.S. dollars)

			Prog.	Projections						
	2012/13	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Current account	-1,458	-1,200	-1,051	-738	-535	-524	-505	-483	-496	-534
Trade balance	-3,932	-3,803	-3,552	-3,492	-3,287	-3,384	-3,457	-3,508	-3,554	-3,598
Exports (f.o.b.)	1,743	1,490	1,622	1,415	1,423	1,490	1,559	1,632	1,713	1,782
Imports (f.o.b.)	5,676	5,293	5,174	4,907	4,710	4,874	5,016	5,140	5,267	5,381
Fuel (cif)	2,109	2,161	2,015	1,664	1,072	1,248	1,373	1,464	1,528	1,579
Exceptional imports (including FDI-related)	613	336	650	400	400	400	330	300	300	300
Other	2,954	2,797	2,509	2,843	3,237	3,226	3,313	3,377	3,439	3,502
Services (net)	538	627	764	782	710	765	813	859	897	937
Transportation	-748	-661	-623	-646	-748	-757	-769	-783	-802	-820
Travel	1,885	1,922	1,945	2,153	2,207	2,271	2,336	2,403	2,472	2,544
Of which: Tourism receipts	2,058	2,096	2,124	2,320	2,389	2,460	2,533	2,609	2,686	2,766
Other services	-599	-634	-558	-725	-749	-749	-754	-761	-774	-786
Income (net) 4/	-182	-282	-487	-283	-292	-314	-335	-362	-396	-460
Current transfers (net)	2,119	2,258	2,224	2,255	2,334	2,409	2,474	2,528	2,558	2,587
Government (net)	206	266	259	168	171	174	178	182	185	189
Private (net)	1,913	1,993	1,965	2,088	2,164	2,235	2,296	2,347	2,372	2,398
Capital and financial account	564	1,152	1,303	991	208	405	659	588	664	434
Capital account (net)	-14	-26	-26	-26	-26	-26	-26	-26	-26	-26
Financial account (net) 1/	578	1,178	1,329	1,017	234	431	685	614	690	460
Direct investment (net)	313	620	387	541	530	547	563	579	595	591
Central government (net)	-503	-289	203	270	-437	-488	-1	29	41	-328
Other official (net) 2/	542	314	549	269	112	61	38	18	6	18
Of which: PetroCaribe	462	382	318	249	48	21	-2	-20	-32	0
Portfolio investment (net)	226	533	189	-63	29	311	85	-13	48	180
Overall balance	-894	-48	252	254	-326	-119	154	105	168	-100
Financing	894	48	-252	-254	326	119	-154	-105	-168	100
Change in gross reserves (- increase)	893	-330	-259	-276	-67	-269	-136	-35	-60	207
Change in arrears	0	0	0	0	0	0	0	0	0	0
Financing gap	2	379	7	22	393	388	-18	-70	-108	-107
IMF 3/	0	-26	-163	-163	127	176	-18	-70	-108	-107
Disbursements	0	346	259	259	176	176	0	0	0	0
Repayments	0	-372	-422	-422	-50	0	-18	-70	-108	-107
IFIs	107	376	170	185	267	212	0	0	0	0
Memorandum items:										
Gross international reserves	1,718	2,049	2,307	2,324	2,391	2,661	2,797	2,833	2,893	2,686
(in weeks of prospective imports of GNFS)	11.4	14.5	17.1	17.3	17.9	19.3	19.8	19.6	19.5	17.7
Net international reserves	884	1,304	1,893	1,884	1,824	1,917	2,071	2,177	2,345	2,245
NIR (excl. prefinanced repayments of maturing bonds)			1594	1,585	1,772	1,917	2,071	2,177	2,345	2,245
Current account (percent of GDP)	-9.9	-8.5	-7.5	-5.3	-3.9	-3.7	-3.4	-3.1	-3.0	-3.1
Exports of goods (percent change)	7.8	-14.5	6	-5.0	0.5	4.7	4.6	4.7	4.9	4.1
Imports of goods (percent change)	-3.3	-6.7	-1.9	-7.3	-4.0	3.5	2.9	2.5	2.5	2.2
Oil prices (composite, fiscal year basis)	104.8	102.1	105.3	84.9	52.9	60.1	64.4	66.9	68.0	68.5
Tourism receipts (percent change)	1.4	1.8	1.4	10.7	3.0	3.0	3.0	3.0	3.0	3.0
GDP (US$ millions)	14,702	...	...	...	...	...	...	...	...	...
Jamaican dollar/USD, period average	91	...	...	...	...	...	...	...	...	...

Sources: Jamaican authorities; and Fund staff estimates.

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

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

			Prog.	Projections						
	2012/13	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
				(In billions of Jamaican dollars)						
End-of-period stocks 1/										
Net foreign assets	**87**	**143**	**225**	**220**	**231**	**256**	**289**	**316**	**352**	**350**
Net domestic assets	**4**	**-48**	**-123**	**-121**	**-124**	**-138**	**-160**	**-174**	**-197**	**-177**
Net claims on public sector	212	195	101	171	184	217	196	206	186	194
Net claims on central government	82	75	72	50	83	104	79	90	72	81
Net claims on rest of public sector	130	130	19	124	104	114	121	119	116	115
Operating losses of the BOJ	0	-10	11	-4	-2	-1	-3	-2	-3	-2
Net credit to commercial banks	-20	-21	-25	-22	-26	-29	-30	-32	-34	-40
Of which : foreign prudential reserve	-20	-21	-25	-22	-26	-29	-30	-32	-34	-40
Net credit to other financial institutions	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
Open market operations	-54	-31	-68	-33	-23	-51	-35	-43	-30	2
Other items net (incl. valuation adj.)	-133	-189	-130	-235	-258	-274	-288	-303	-316	-332
Valuation adjustment	-57	-61	-85	-66	-88	-104	-119	-133	-147	-163
Base money	**91**	**94**	**102**	**100**	**107**	**118**	**129**	**141**	**154**	**172**
Currency in circulation	51	54	59	58	62	68	75	82	90	98
Liabilities to commercial banks	41	41	44	42	45	49	54	59	65	75
Fiscal year flows 1/										
Net foreign assets	**-70.2**	**55.4**	**86.4**	**77.6**	**10.5**	**24.9**	**32.9**	**26.9**	**36.0**	**-1.7**
Net domestic assets	77.8	-52.3	-78.6	-72.3	-3.0	-14.6	-21.4	-14.4	-23.1	19.8
Net claims on public sector	66.2	-17.6	-19.1	-23.3	13.1	32.5	-20.6	10.3	-21.0	8.6
Net claims on central government	7.3	-7.4	-3.0	-24.2	32.4	21.0	-24.9	10.8	-17.8	9.2
Net credit to commercial banks	-4.7	-1.6	-3.4	-1.0	-3.2	-3.1	-1.5	-2.2	-2.1	-5.1
Net credit to other financial institutions	-0.2	0.0	-0.1	-0.2	0.0	-0.2	-0.1	-0.2	-0.1	0.0
Open market operations	57.3	23.8	-37.4	-2.1	9.7	-27.8	15.4	-8.0	13.4	32.1
Other items net (incl. valuation adj.)	-40.8	-56.9	-18.3	-45.6	-22.7	-16.1	-14.6	-14.4	-13.2	-15.9
Base money	**7.6**	**3.1**	**8.0**	**5.3**	**7.5**	**10.3**	**11.5**	**12.4**	**12.9**	**18.1**
Currency in circulation	3.3	3.0	5.1	4.2	4.3	6.0	6.7	7.2	7.5	7.9
Liabilities to commercial banks	4.3	0.2	3.0	1.2	3.1	4.3	4.8	5.2	5.4	10.1
				(Change in percent of beginning-of-period Base Money)						
Net foreign assets	**-83.9**	**60.7**	**91.5**	**82.2**	**10.5**	**23.2**	**28.0**	**20.8**	**25.4**	**-1.1**
Net domestic assets	**93.0**	**-57.3**	**-83.0**	**-76.5**	**-3.0**	**-13.6**	**-18.2**	**-11.2**	**-16.3**	**12.8**
Net claims on public sector	79.1	-19.3	-20.2	-24.7	13.1	30.3	-17.5	8.0	-14.8	5.6
Net credit to commercial banks	-5.6	-1.7	-3.6	-1.1	-3.2	-2.9	-1.3	-1.7	-1.5	-3.3
Net credit to other financial institutions	-0.3	0.1	-0.1	-0.2	0.0	-0.2	-0.1	-0.1	-0.1	0.0
Open market operations	68.4	26.0	-39.6	-2.2	9.7	-25.9	13.1	-6.2	9.5	20.8
Other items net (incl. valuation adj.)	-48.7	-62.3	-19.4	-48.3	-22.7	-15.0	-12.4	-11.2	-9.4	-10.3
Base money	**9.1**	**3.4**	**8.5**	**5.7**	**7.5**	**9.6**	**9.8**	**9.6**	**9.1**	**11.7**
Currency in circulation	4.0	3.3	5.4	4.4	4.4	5.6	5.7	5.6	5.3	5.1
Liabilities to commercial banks	5.1	0.2	3.2	1.2	3.1	4.0	4.1	4.0	3.8	6.6
Memorandum items:										
Change in net claims on the central government (percent of GDP)	0.5	-0.5	-0.2	-1.5	1.9	1.1	-1.2	0.5	-0.7	0.3

Sources: Bank of Jamaica; and Fund staff estimates.

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

Table 7. Jamaica: Summary Monetary Survey 1/

	2012/13	2013/14	Prog. 2014/15	Projections 2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	(In billions of Jamaican dollars)									
End-of-period stocks 1/										
Net foreign assets	**117**	**191**	**273**	**276**	**290**	**319**	**351.8**	**379.7**	**416.1**	**419.0**
Net domestic assets	**279**	**229**	**183**	**168**	**187**	**204**	**223.0**	**250.5**	**271.5**	**349.1**
Net claims on public sector	293	268	186	257	274	300	288.3	301.0	282.1	291.2
Of which: Central government 2/	186	173	175	156	187	199	178.0	190.1	171.6	180.9
Open market operations	-36	18	-33	-1	-23	-65	-79.4	-109.6	-112.7	-100.1
Credit to private sector	294	326	355	343	393	444	509.1	571.0	631.9	699.0
Of which: Foreign currency	81	84	77	78	81	85	90.0	95.1	100.8	108.4
Other 3/	-272	-327	-325	-325	-349	-369	-387.1	-405.4	-422.5	-434.7
Of which: Valuation adjustment	-57	-61	-82	-65	-85	-99	-110.8	-122.7	-133.6	-146.0
Liabilities to private sector (M3)	**396**	**421**	**456**	**444**	**478**	**523**	**574.8**	**630.1**	**687.6**	**768.1**
Money supply (M2)	252	261	271	270	287	309	349.8	389.0	430.5	473.0
Foreign currency deposits	144	160	186	174	191	214	224.9	241.1	257.1	295.0
Fiscal year flows 1/										
Net foreign assets	**-47.4**	**74.1**	**86.4**	**85.3**	**13.9**	**28.8**	**32.6**	**27.9**	**36.4**	**2.9**
Net domestic assets	**93.9**	**-50.0**	**-50.6**	**-61.5**	**19.4**	**17.0**	**18.7**	**27.5**	**21.0**	**77.6**
Net claims on public sector	76.0	-25.4	-8.2	-10.7	17.0	25.4	-11.2	12.7	-18.9	9.2
Of which: Central government	18.0	-12.4	2.0	-17.5	31.6	11.3	-20.7	12.1	-18.5	9.2
Open market operations	27.3	54.4	-51.1	-18.9	-22.6	-41.6	-14.6	-30.2	-3.1	12.6
Credit to private sector	45.3	32.3	28.8	16.9	49.5	51.5	65.0	61.9	60.9	67.0
Of which: Foreign currency	1.0	2.4	-4.6	-5.9	3.0	4.4	4.7	5.0	5.7	7.6
Other 2/	-54.7	-55.2	-20.1	2.2	-24.4	-19.5	-18.3	-18.3	-17.1	-12.3
Of which: Valuation adjustment	-2.2	-3.9	-15.0	-3.9	-20.3	-13.8	-12.2	-11.9	-10.8	-12.4
Liabilities to private sector (M3)	**46.5**	**24.1**	**35.8**	**23.8**	**33.3**	**45.8**	**51.3**	**55.4**	**57.5**	**80.5**
Money supply (M2)	16.0	8.4	10.1	9.9	16.1	22.9	40.3	39.2	41.5	42.6
Foreign currency deposits	30.6	15.7	25.7	13.9	17.2	22.9	11.0	16.2	16.0	37.9
	(Change in percent of beginning-of-period M3)									
Net foreign assets	**-13.5**	**18.7**	**20.5**	**20.3**	**3.1**	**6.0**	**6.2**	**4.9**	**5.8**	**0.4**
Net domestic assets	**26.8**	**-12.6**	**-12.0**	**-14.6**	**4.4**	**3.6**	**3.6**	**4.8**	**3.3**	**11.3**
Net claims on public sector	21.7	-6.4	-1.9	-2.5	3.8	5.3	-2.1	2.2	-3.0	1.3
Of which: Central government	5.2	-3.1	0.5	-4.2	7.1	2.4	-4.0	2.1	-2.9	1.3
Open market operations	7.8	13.7	-12.1	-4.5	-5.1	-8.7	-2.8	-5.2	-0.5	1.8
Credit to private sector	13.0	8.2	6.8	4.0	11.1	10.8	12.4	10.8	9.7	9.7
Of which: Foreign currency	0.3	0.6	-1.1	-1.4	0.7	0.9	0.9	0.9	0.9	1.1
Other 2/	-15.6	-13.9	-4.8	0.5	-5.5	-4.1	-3.5	-3.2	-2.7	-1.8
Of which: Valuation adjustment	-0.6	-1.0	-3.6	-0.9	-4.6	-2.9	-2.3	-2.1	-1.7	-1.8
Liabilities to private sector (M3)	**13.3**	**6.1**	**8.5**	**5.7**	**7.5**	**9.6**	**9.8**	**9.6**	**9.1**	**11.7**
Memorandum items:										
M3/monetary base	4.3	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
M3 velocity	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5

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

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

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

	2007	2008	2009	2010	2011	2012	2013	14-Sep
Balance sheet growth (y/y)								
Capital	11.5	14.7	13.8	5.1	5.4	4.2	17.1	7.6
Loans	28.7	24.2	5.3	-1.4	4.8	12.9	14.1	7.3
NPLs	14.2	57.6	68.0	36.1	44.0	-10.8	-12.9	-11.4
Liquidity								
Excess liquidity 2/	25.0	30.3	31.3	36.2	30.5	26.7	25.3	30.7
Asset Quality								
Prov. for loan losses/NPLs	103.4	87.2	75.7	69.9	75.2	90.3	95.7	106.6
NPLs/loans	2.3	2.9	4.7	6.5	8.9	7.0	5.4	4.8
Capital Adequacy								
NPLs/Capital+Prov. for loan losses	9.1	12.3	17.7	22.3	28.4	24.1	18.8	16.8
Capital Adequacy Ratio (CAR) 3/	16.0	15.2	18.8	18.2	16.1	14.1	15.1	16.0
Profitability 4/ 5/								
Pre-tax profit margin	26.7	26.2	21.4	21.1	30.8	21.4	19.0	17.6
Return on average assets	3.4	3.5	2.9	2.5	3.9	2.4	2.0	0.5

Source: Bank of Jamaica.

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

Table 9. Jamaica: Structural Program Conditionality

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1. Revise the relevant legislation for the adoption of a fiscal rule to ensure a sustainable budgetary balance, to be incorporated in the annual budgets starting with the 2014/15 budget.	March 31, 2014	Met
2. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	Met
3. Government to ensure there is: (i) no financing of Clarendon Alumina Production (CAP) by the government or any public body, including Petro Caribe; and (ii) no new government guarantee for CAP or use of public assets (other than shares in CAP and assets owned by CAP) as collateral for third-party financing of CAP.	Continuous	Met
4. Government to table in parliament a budget for 2014/15 consistent with the program.	April 30, 2014	Met
5. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17, Country Report No. 13/378).	April 30, 2014	Met
6. Cap the total loan value of all new user-funded PPPs at 3 percent of GDP on a cumulative basis over the program period.	Continuous	Met
7. Ensure that the public service database e-census is up to date and covers all Ministries, Departments and Agencies.	September 10, 2014	Met
8. Develop an action plan for public sector transformation to cover the following areas: (1) the introduction of shared corporate services, (2) the reallocation, merger, abolition and divestment/privatization of departments and agencies, (3) outsourcing of services, (4) strengthening control systems and accountability (including in auditing and procurement), and (5) aligning remuneration with job requirements.	September 30, 2014	Met
9. Government to table changes in legislation for the new public sector pension system expected to be implemented by April 2016 (MEFP paragraph 25, Country Report No. 14/169).	November 30, 2015	Proposed revision
10. Government to establish a new Cash Management Unit in the Accountant General Department (AGD) and transfer to it the cash management function currently handled by the Fiscal Policy Management Unit (FPMU).	September 30, 2015	Proposed revision
Tax Reform		
11. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as stipulated in the TMU.	Continuous	Met
12. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (paragraphs 6, 7, 8, and 9 of the MEFP for Country Report 13/378) and as stipulated in par. 13 of the March 2014 MEFP.	March 31, 2014	Met
13. Government to table in parliament amendments to the GCT as stipulated in paragraph 12 of the June 2014 MEFP.	June 30, 2014	Met
14. Government to conduct an entity by entity review of all grandfathered entities and of their specific tax incentives in the context of the new tax incentives legislation by end-2014/15.	January 31, 2015	Not met
Tax Administration		
15. Government to make e-filing mandatory for LTO clients with respect to General Consumption Tax (GCT) and Corporate Income Tax (CIT).	March 31, 2014	Met
16. Government to implement ASYCUDA World for the Kingston Port as a pilot site.	December 31, 2014	Met
17. Government to: (i) increase the number of staff in the large taxpayers office (LTO) by a further 30 auditors (from March 2014 to March 2015); (ii) increase the number of (full plus issue) audits completed in the LTO by 100 percent (from FY 2013/14 to FY 2014/15); (iii) achieve 95 percent take up rate of e-filing and e-payment in the LTO; (iv) write-off all GCT and SCT debts that have been subjected to risk-rated stress tests and consequently categorized as uncollectible according to the Regulations.	March 31, 2015	
18. Government to complete pilot testing of ASYCUDA World (covering imports and exports) in the Kingston port.	May 1, 2015	Proposed
19. Government to implement Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package.	February 28, 2015	Met
20. Government to table in Parliament proposals for a comprehensive overhaul of the Customs Act.	June 30, 2015	
21. Government to introduce new productivity indicators, in consultation with Fund staff, to measure the effectiveness and efficiency of the tax system.	November 30, 2015	
22. Government to imlement Phase 2 of the RAiS (GENTAX) integrated tax software package, for all major tax types.	December 31, 2015	Proposed

Table 9 (Continued). Jamaica: Structural Program Conditionality

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

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

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

(In billions of Jamaican dollars)

	2013	2014			2015					
	End-Dec.	End-Dec.	End-Dec.	End-Dec.	End-Mar.	End-Jun.		End-Sep.		End-Dec.
	Stock	PC	Adjusted	Actual	PC	PC	Proposed Revised PC	PC	Proposed Revised PC	Proposed PC
Fiscal targets										
1. Primary balance of the central government (floor) 4/	...	66.0		66.8	121.0	17.0	17.0	32.0	40.0	65.0
2. Tax Revenues (floor) 4/9/	...	260.0		258.6	384.0	88.0	88.0	175.0	189.0	287.0
3. Overall balance of the public sector (floor) 4/	...	-37.0	-36.5	-17.0	-11.6	-17.0	-21.0	-25.0	-33.0	-35.0
4. Central government direct debt (ceiling) 4/5/	1672.0	92.4		67.9	90.6	4.5	4.5	0.0	0.0	12.0
5. Central government guaranteed debt (ceiling) 4/	...	0.1		0.1	-1.8	2.0	2.0	2.0	2.0	0.0
6. Central government accumulation of domestic arrears (ceiling) 6/12/13/	21.6	0.0		-0.1	0.0	0.0	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 7/12/13/	23.2	0.0		-2.9	0.0	0.0	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 6/12/	...	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
9. Social spending (floor) 9/10/	...	14.8		18.2	21.7	4.5	4.5	9.5	9.2	15.6
Monetary targets										
10. Cumulative change in net international reserves (floor) 8/11/	1045.1	351.9	254.3	970.4	529.4	470.3	470.3	469.2	469.2	614.5
11. Cumulative change in net domestic assets (ceiling) 11/	-7.5	-27.0	-24.2	-98.1	-55.1	-45.7	-45.7	-44.0	-44.0	-45.5

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

Table 11. Jamaica: Indicators of Fund Credit, 2015-25

(In millions of SDRs, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Prospective drawings (4-year EFF)	113.28	113.28	28.33	…	…	…	…	…	…	…	…
(in percent of quota)	41.42	41.42	10.36	…	…	…	…	…	…	…	…
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)											
Amortization	39.85	3.99	11.40	37.11	64.80	83.68	100.20	102.56	91.17	65.46	37.76
Amortization (SBA)	39.85	3.99	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Amortization (4-year EFF)	0.00	0.00	11.40	37.11	64.80	83.68	100.20	102.56	91.17	65.46	37.76
Interest and service charges	3.96	5.90	6.50	6.30	5.83	5.11	4.17	3.11	2.03	1.16	0.55
SDR charges and assessments	0.03	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Total debt service	43.81	9.89	17.90	43.41	70.63	88.79	104.37	105.67	93.20	66.62	38.31
(in percent of exports of G&S)	1.56	0.34	0.59	1.38	2.17						
(in percent of GDP)	0.49	0.11	0.19	0.43	0.67	0.80	0.89	0.86	0.73	0.50	0.27
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)											
Outstanding stock	477.76	587.05	603.98	566.88	502.08	418.39	318.19	215.63	124.46	59.00	21.24
(in percent of quota)	174.68	214.64	220.83	207.27	183.58	152.98	116.34	78.84	45.51	21.57	7.77
(in percent of GDP)	5.36	6.41	6.30	5.62	4.73	3.76	2.73	1.76	0.97	0.44	0.15
Memorandum items:											
Exports of goods and services (US$ millions)	4,378.81	4,539.02	4,705.11	4,878.04	5,059.87	…	…	…	…	…	…
Quota	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50

Source: Fund staff projections.

Table 12. Jamaica: Schedule of Reviews and Purchases

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

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

Appendix I. Letter of Intent

Kingston, Jamaica
March 12, 2015

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

Dear Ms. Lagarde,

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

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

On the basis of our performance under the programme thus far as well as our strong commitment to the continued implementation of the programme, the Government requests that the Executive Board of the IMF complete the seventh review of the extended arrangement under the Extended Fund Facility, and approve the modification of performance criteria for end-June 2015 and end-September 2015 and the new performance criteria for December 2015 and the eighth purchase under the arrangement of SDR 28.32 million.

The Government believes that the policies described in the attached MEFP are adequate to achieve the programme's objectives. However, if necessary, the Government stands ready to take any additional measures that may be required. The Government will consult with the Fund in advance on the adoption of these measures and revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

The Government will also provide the Fund staff with all the relevant information required to complete programme reviews and monitor performance on a timely basis. The Government will observe the standard performance criteria against imposing or intensifying exchange restrictions, introducing or modifying multiple currency practices, concluding bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement and imposing or intensifying import restrictions for balance of payments reasons.

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

Very truly yours,

/s/	/s/
Peter D. Phillips,	Brian Wynter
Minister of Finance and Planning	Governor, Bank of Jamaica
Jamaica	Jamaica

Attachment I. Memorandum of Economic and Financial Policies

I. PERFORMANCE UNDER THE PROGRAMME

1. On December 19, 2014, the Fund's Executive Board completed the Sixth Review of the four-year extended arrangement under the EFF in support of Jamaica's economic reform programme.

2. Overall policy implementation under the programme remains strong and structural reforms are progressing. All quantitative performance targets for end-December were met. Structural benchmarks due during October to December 2014 were also met. In December 2014, as a pilot, the UN automated system for customs collections was put in place for the Kingston Port. A legal and regulatory framework for retail repos has been established, and the automatic tracking system for the application of construction permits was implemented in November. In January, the government tabled a new Electricity Bill in parliament.

II. POLICIES FOR 2014/15 AND BEYOND

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

The 2015/16 Budget

4. The 2015/16 budget that was submitted to Parliament on February 19 is consistent with the objectives and targets of this programme, and is expected to be adopted before the start of the new fiscal year. In particular, the budget will maintain the primary surplus of the central government at 7.5 percent of GDP. The expenditure budget maintains the priority previously accorded to specified social programmes to at a minimum maintain expenditure in this area in real terms. The 2015/16 budget also seeks to address issues within the health sector through allocating, to the Ministry of Health, a significant increase over the 2014/15 budget allocation to among other things ensure the sufficiency of drugs and other medical supplies. Capital projects during 2015/16 are programmed in the areas of education, health, energy, infrastructure, security and agriculture among others. Funding the 2015/16 expenditure budget within the context of achieving a 7.5% primary balance requires the introduction of net revenue enhancing measures equivalent to 0.7% of GDP. The budget includes a comprehensive and clear fiscal risk statement, covering all significant contingent liabilities including those related to public sector entities and PPPs. The combined overall balance of the public bodies is projected to be in balance for the remaining programme years.

Tax Reforms

5. To further strengthen our tax system, we have:

- Simplified the annual tax return filing for self employed taxpayers through a single annual return (S04), made available on the TAJ website on December 31, 2014;

- Prepared permanent legislation (via a validation bill) for the Minimum Business Tax, to be tabled in March 2015;

- Set up a Modernization Programme Office (MPO) in the TAJ to manage the implementation of tax reform. The structure and management arrangements of the MPO are being reviewed to improve governance and links with the TAJ, with revised arrangements to be in place by end-April 2015;

- Tabled legislation related to the establishment of the Revenue Appeals Department as a separate, independent entity, with IFC support, which is expected to be adopted by May 2015;

- Implemented in February 2015 Phase 1 (Registration functionality, GCT, SCT, GART, Telephone) of the RAiS (GENTAX) integrated tax software package (*structural benchmark*);

- Prepared (with IMF TA support) an estimate of the revenue compliance gap for the GCT, to provide a basis for measuring the impact of administrative reforms and assisting compliance improvement initiatives. We will repeat this analysis in subsequent years; and

- Explored options (with World Bank support) to simplify processes and reduce banking fees when making and receiving tax payments. This exercise is expected to yield results in 2015.

6. Important follow-up initiatives are still needed as part of the tax policy reform:

- Property tax reform is envisaged to be ready for implementation by the start of FY2015/16. This will include amendments to the Property Tax Amendment Act, the Land Valuation Amendment Act, and the Tax Collection Amendment Act to provide for, among other things, the publication of names, valuation numbers, addresses and amounts outstanding of delinquent property owners in the Jamaica Gazette, daily news papers, broadcast media or a Government of Jamaica website, subject to court proceedings, as well as provisions to allow utilization of a wide array of media for the posting of Assessment Notices. Amendments to the Land Valuation Act will also provide for the interim adjustment of land values in periods of no more than two years, to take account of changes in economic conditions and/or change in the use of properties. These amendments were tabled in February 2015 for implementation in April 2015.

- In the context of the new tax incentives legislation, an expeditious transition by entities with grandfathered incentives to the new regime will be important for achieving the expected decline in tax expenditures. In this context, the Government is conducting an entity by entity review of all entities with grandfathered incentives and of their regime by end-FY2014/15 (*structural benchmark for January 2015*), to serve as a basis for discussion to facilitate transition to the new regime by mutual agreement between authorities and entities. The review is well underway and expected to be completed in March 2015.

- Looking beyond 2015/16, we have requested TA from FAD (possibly in collaboration with the IDB) to assess the impact of the tax reform completed to date, against the objectives of widening the tax base and creating room for lower rates over the medium-term, and boosting economic activity, as well as concerns about recent erosion of the tax base. The exercise should also review the existing or proposed tax regime in fields where technological changes and/or the impetus to spur foreign direct investment warrant a reassessment. The TA is expected to help identify priorities for further tax reform, to be considered starting with the 2016/17 budget.

- Furthermore, and based on ongoing IDB TA, we plan to improve the reporting on tax expenditures and their estimated fiscal costs in the context of future budgets.

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

- Implementation of the tax compliance plan for FY2015/16-FY2016/17 that was prepared with assistance of the FAD's long term expert in tax administration, and is articulated around a risk-based model. Next steps include improving our communication strategy on reporting requirements for taxpayers, employers and third party information providers, extending the tax compliance gap analysis (see below), and developing and implementing an information matching and forensic data mining project. The compliance plan will be published by April 2015, and coordinating plans will be developed by that time, while full implementation of the plan is expected no later than July 2015.

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

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

- The Jamaica Customs Agency will undertake strategic amendments to the Customs Act with the assistance of CARTAC. The amendments will seek to facilitate the introduction of a modern integrated customs management system consistent with international standards and best practice. A Bill to amend the Customs Act will be tabled in the houses of Parliament by end-June 2015 (*structural benchmark*).

- Automating tax and customs operations by implementing:

  - (iii) the full function production version of the ASYCUDA-World integrated customs software package for the entire country (March 2016), after completing pilot testing of this version (covering imports and exports) in the Kingston port by end-May 2015 (proposed structural benchmark), and

  - (iv) Phase 2 of the RAiS (GENTAX) integrated tax software package, for all major tax types by end-December 2015 (proposed structural benchmark); the stamp duty and transfer tax will be added if possible (April 2016).

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

Reforms to Public Financial Management and the Budget Process

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

- A database of PSIP projects was completed in December 2014.

- The criteria for determining which entities would be deemed commercial and, on that basis, could be excluded from the coverage of the fiscal rule have been completed, the associated regulations completed, and a sensitization programme will get underway in the first quarter of FY 2015/16.

- A Procurement Act is expected to be passed in April 2015. Next steps include:

  - Implementation of the Electronic Tendering System in four pilot entities during the financial year; the prototype was tested in January 2015 and the implementation of the pilot (e-gov) is to start in July 2015;

  - A new procurement manual will be prepared by August 2015, with IDB assistance.

- The macro-fiscal capacity of the Ministry of Finance and Planning (MOFP) will be strengthened with the support of IMF TA. We will:

  - undertake hands-on training for the members of the Fiscal Policy Management Unit (FPMU);
  - review, re-organize and reclassify the functions and positions in the FPMU;
  - develop structured work plans for each position in the re-organized FPMU by the second quarter of FY 2015/16;
  - recruit additional qualified staff for the re-organized Unit by the third quarter of FY 2015/16; and
  - document procedures of methodology and processes for the efficient production of key outputs and effective management of datasets and information on an on-going basis.

- The Treasury Single Account (TSA) at the Bank of Jamaica will be further expanded and improved, in accordance with a plan that was developed with Fund TA. In particular:
  - The Government will further increase direct payments through the TSA using the central treasury management system (CTMS). This has commenced in January 2015 with civil servants salaries for the (pilot) Ministry of Finance and Planning;

- Coverage and functionality of the CTMS will continue to be expanded. Use of a number of imprest and transit accounts will be terminated on March 31, 2015, with closure by October 1, 2015. All funds under the direct control of the AGD will be managed in the General Ledger of the CTMS by September 2015.

- We will review, with the help of IMF TA, the need for a service level agreement between the BOJ and the government for banking services provided by the BOJ.

- The Accountant General's Department (AGD) is transitioning into a modern treasury department by March 2016. By September 2015, we aim to develop an AGD modernization plan, and to define a new organizational structure.

- A new Cash Management Unit will be established in the AGD, and the cash management function (currently handled by FPMU) will be transferred to it by end-September 2015 *proposed revised structural benchmark*), with the help of IMF TA (funded by the Canadian Department of Foreign Affairs, Trade and Development). Furthermore, a new cash forecasting model is expected to be developed by June 2015 and to become operational by September 2015.

- The adjusted Chart of Accounts was first prepared in April 2014 and is undergoing further revisions with a view of its implementation by June 2015.

Debt Management

9. The Government is committed to sharply reducing public debt, which is expected to decline to 96 percent of GDP by March 2020. This is expected to be achieved by sustained fiscal efforts, policies to bolster growth, as well as additional measures. In designing and implementing these transactions, the Government will seek to ensure sound public sector governance and public debt management.

10. The Government will further strengthen its debt management strategy and capacity. The efficiency of the Debt Management Branch will be strengthened through increased staffing of the middle office, skills training and effecting improvements to securities operations and domestic market development, with the help of IMF TA (funded by the Canadian Department of Foreign Affairs, Trade and Development). The new medium-term debt management strategy and 2015/16 borrowing plan aim to reduce the burden of servicing government debt over time, and to ensure that the government has access to several sources of financing, including the domestic bond market. A debt management business continuity strategy and function will also be developed with IMF TA and in conjunction with similar BoJ and AGD planning. The business continuity function will be defined through back office procedures In March 2015, the BOJ and the MOFP will finalize a Fiscal Agency Agreement on debt management operations and the debt issuance process.

Public Sector Reform

11. The Government is committed to improving the efficiency, quality and cost effectiveness of the public sector.

- **Public sector transformation.** On the basis of our action plan we will:
  - put in place shared services within the central government starting with the legal services, with support from Justice Canada. A report outlining an optimal shared service model for legal services and attendant service level agreements is expected by March 2015;
  - merge the Forensic Laboratory and the Legal Medicine Unit by completing the organisational structure by June 2015 and getting the new entity operational by September 2015; and
  - complete the merger of the Betting Gaming and Lotteries and the Racing Commissions by April 2015.
- **Wages and salaries.** The Government has initiated discussions on a new wage agreement for the period after March 2015, to maintain a path of public sector wages consistent with a reduction in the wage bill to 9 percent of GDP in 2016/17 and firmly placing the ratio of public debt to GDP on a downward path over the medium term.
- **Public Sector Positions**. The GOJ will continue to reduce the size of the public sector over 2014–16 through the elimination of posts and an attrition programme. To ensure that the GOJ's overall wage ceiling of 9 percent of GDP by 2016/17 is met, the filling of vacant positions will be constrained as needed, guided subject to the need to preserve capacity in a

limited number of priority areas. We have also requested FAD TA to help identify sustainable reform options to support our efforts at containing the wage bill.

- **Pension Reform**. The new public pension system, as described in the June 2014 MEFP, is expected to be implemented by April 2016 (the start of FY 2016/17). The requisite changes in legislation are expected to be tabled by end-November 2015 (proposed revised structural benchmark).

- The procurement of the human resources software system (the HCMES system; including Payroll) is progressing. The process to evaluate the bids and identify the preferred vendor was completed by February 2015. Contract negotiation and agreement of the terms of the contract is expected to be completed by April 2015. To ensure a timely start to implementation of the system for the wider public sector, with IDB support, a dedicated project management team is now in place, with the project plan to be completed by May 2015. Implementation of the HCMES/Payroll system for the first entity, subject to the Vendor, is now expected to start in May 2015. Implementation for the remaining five entities will commence by October 2015.

- **A Chief Information Officer has been selected and is expected to be appointed in March 2015.**

12. In the area of public bodies, further improvement is to be achieved.

- To enhance transparency, the annual reports (including audited statements) for public bodies will be completed within six months of the end of the fiscal year; this was achieved by end-2014 for more than 60 percent of self-financing public bodies and will be achieved by December 2015 for all other public bodies (with the exception of PetroCaribe, and Petrojam). Public Bodies that fail to meet this condition without reasonable cause, will be sanctioned under Section 25 of the Public Bodies Management and Accountability Act.

- Monitoring of budget-funded public bodies will be strengthened by (1) enforcing the time limit for submission of the relevant public bodies' financial statements to the Auditor General; and (2) bolstering capacity within the Auditor General's office for more in-depth and frequent reviews of these statements.

- In addition, a review will be undertaken to evaluate the scope for reintegrating some public bodies into the central government and setting others at a more arms-length distance from the central government with a governance framework aligned with international best practices. TA is being requested to guide this review.

III. FINANCIAL SECTOR REFORMS

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

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

- The MOFP and the JDIC have put in place contingency plans to complement the plans of the BOJ and the FSC; and under auspices of the FRC, the national crisis management plan will be finalized by end-April 2015. Furthermore, we are strengthening the resolution framework for the banking and securities sectors.

- We expect to make effective, by end-October 2015, any legislative provisions to support the national crisis management plan and to strengthen the resolution framework for the securities sector that will be tabled in September 2015, building on IMF TA, with a stakeholder consultation process scheduled to start in April 2015.

- We expect to make effective, by end-June 2016, any legislative provisions to support the resolution framework for the banking sector that will be tabled in March 2016, building on IMF TA, with a stakeholder consultation process scheduled to start in December 2015.

- By end-March 2015, we will have ready for discussion a strategy paper to further strengthen depositor protection and investor compensation across financial institutions.

- The BOJ will, commencing November 1, 2015 (proposed structural benchmark) have overall responsibility for financial stability. Amendments to the BOJ Act that vest the BOJ with this responsibility will be tabled in July 2015.

- We are preparing a comprehensive strategy paper to enhance BOJ governance and autonomy over the program period—taking into account the findings of the IMF's Safeguards Assessment— for discussion in May 2015. We intend to propose any related amendments to the BOJ Act following a green paper that will be tabled in July 2015.

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

- In January 2015 we raised the investment cap for CIS in foreign assets to 10 percent of assets, and we published a timeline to migrate to 25 percent by end-December 2015. This cap will be removed altogether by end-2016, unless extraordinary circumstances require a reassessment.

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

- In December 2014 we enacted legislative provisions to exempt CIS from the transfer tax and the stamp duty.

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

- In consultation with Fund staff, we have established a distinct treatment for retail repo clients in the legal and regulatory framework in order to protect their interests prior to and in the event of the insolvency of a securities dealer. This entails establishing a Trust to hold the underlying securities on their behalf during the term of the retail repo. The trust will also facilitate appropriate actions in the event of a transaction failure or default.

- On January 1, 2015, the legal and regulatory framework supporting the trust-based framework entered into effect (structural benchmark). The transition of retail repos to the trust-based framework will be finalized by end-August 2015 (proposed revised structural benchmark) taking into account evolving market conditions and ensuring financial stability. As interim steps, we will commence a pilot in April 2015, and will start the transition in June 2015. Holders of retail repos that were concluded prior to January 1, 2015 that will mature after the transition period will be encouraged to amend their contracts to be able to participate in the transition and enjoy the protections offered by the trust-based framework.

- We are taking steps to ensure the financial and operational readiness of the securities dealers to move to a trust-based framework, supported by joint focused stress tests by the BOJ and the FSC that we will continue to update. We will also bolster—together with the JSE entities—communication efforts to inform the securities dealers and the general public about the upcoming changes.

- In December 2014 the FSC implemented a revised set of securities dealer reporting and analysis templates to enhance the breadth and quality of data ahead of the transition to the trust-based framework.

16. Over the medium term, a gradual tightening of prudential standards in line with best international practice will facilitate fundamental reform of the securities dealers sector. Our aim is to ensure that in the near to medium term the size of the retail repo business is reduced to a level deemed by the BOJ and the FSC to be systemically safe and prudentially manageable. By end-March 2015, we will assess whether we need to expedite the timetable to gradually increase the minimum transaction size of retail repos and/or increase the ultimate minimum transaction size. On 1 January 2015, the Securities (Prudential) Regulation 2014 entered into force. In March 2015, we will adopt a strategy for the gradual tightening of prudential standards that we will start executing in September 2015 taking into account progress towards the stated objective.

IV. MONETARY AND EXCHANGE RATE POLICY

17. Monetary policy remains aimed at achieving single digit inflation within a flexible exchange rate regime. For FY2014/15, current projections point to inflation well below the 7 percent to 9 percent target range. We envisage inflation to come down further during the next fiscal year, with a range of 5.5 to 7.5 percent projected for FY2015/16. Over the longer term, the objective is to achieve a gradual reduction of inflation to a rate that is consistent with that of our main trading partners, in the context of a possible move to full-fledged inflation targeting. Starting 2015, the BoJ will conduct annual reviews to assess our readiness for inflation targeting. The first review will assess institutional readiness as at March 2015.

18. The BOJ will continue to respond to liquidity pressures in the financial system. As a step towards establishing a comprehensive liquidity provision framework, the BoJ is intending to introduce auctions for periodic repo operations by early 2015, with the assistance of IMF TA. Over the course of FY 2015/16, the BOJ will continue to refine its monetary policy operations in order to further increase certainty in its liquidity provision at a price consistent with its policy goals.

V. GROWTH ENHANCING REFORMS

19. Further actions for improving the business climate are critical:

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

- Cabinet approved reforms to the Development Applications Process (DAP) in December 2014, to be implemented within two years. By June 2015, applications for projects above certain thresholds will be handled by a joint technical team, which would include NEPA, National Works Agency and the relevant parish councils, while smaller projects will be handled by the parish councils, with clarity on the expected maximum timeframes. The new process will result in a faster, more streamlined approvals process. We will report, on a quarterly basis, on progress in reducing the time needed, including against the 90 day benchmark.

- Under the Land Administration and Management Programme (LAMP) 800 new titles are expected to be issued during 2014/15. LAMP will be extending its services to clients in St. Ann, Westmoreland, St. James, Trelawny and Hanover. During 2015/16, we expect to issue an additional 2,500 titles under this program.

- More broadly, under the Jamaica land titling program, we will deliver 15,000 titles in 2015/16.

- The new Insolvency Act and its implementing regulations are now effective. Training is being supported by the IADB. A Supervisor of Insolvency has been appointed by Cabinet.

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

- Urgent actions will be taken to reduce the time needed for entrepreneurs to get an electricity connection. Plans foresee the automation of the work processes within the Government Electricity Inspectorate (GEI) and the acquisition of AMANDA software to streamline procedures for scheduling, inspecting, approving and certifying electrical installations. An action plan for implementation of the reforms will be completed by March 2015, and adoption of the AMANDA system is expected to be completed by end 2015/16, with IDB support.

- Plans to establish a Port Community System (PCS) to electronically integrate and streamline export and import procedures are underway. The ASYCUDA World Customs Management System acquired by the Jamaica Customs Administration will support integrated processes/procedures and the National Single Window. Functions of the PCS that cannot be offered through ASYCUDA will be pursued by the private sector, possibly under a management contract. A new PCS RFP is currently underway, whereby a preferred bidder is expected to be selected by April 2015. The systems will ultimately be integrated to provide a complete trade and logistics solution for Jamaica. The project is expected to be completed by the end of FY2016/17.

- A Special Economic Zone (SEZ) Act is expected to be passed by October 2015 that will ensure compatibility with WTO requirements. A White Paper is expected to be issued by March 2015. Drafting of the new SEZ Act (and its enabling regulations) will commence immediately thereafter, with World Bank support. The new regime is expected to focus on promoting synergies among enterprises and offering them a conducive and stable regulatory environment, reducing reliance on tax incentives in order to avoid distorting the playing field or undermining revenues. As a priority, we will clarify the precise governance structure of the SEZ Authority, labor relations and energy issues and follow best practices, including competitive bidding, for the allocation of any public resources to an SEZ. SEZ development will be private sector-led, financed and operated with regulatory oversight provided by the SEZ Authority.

20. Strategic investments to establish Jamaica as a logistics hub are well underway:

- Work is proceeding on the privatization of Norman Manley International Airport (NMIA). A rate review has now been completed, and the RFQ was issued in November 2014. The prequalification of bidders is currently in progress, with the selection of a preferred bidder expected by September 2015.

- Regarding the privatization of Kingston Container Terminal, negotiations with the provisional preferred bidder are well underway.

- Work is also proceeding on the Caymanas SEZ, with World Bank support. The tender for the feasibility study will be developed on the basis of the results of the pre-feasibility study which was completed in January 2015.

- Regarding the development of a transhipment port and industrial and commercial zones in the Portland Bight area by China Harbour Engineering Company (CHEC), technical feasibility studies have commenced. This is a prerequisite for determining the construction methodology and for obtaining the terms of reference from NEPA for the Environmental Impact Assessment. The project will be executed in phases with the first phase projected to be completed in the last quarter of 2016, pending the necessary approvals in each stage.

21. Reducing the cost of electricity is critical to improve competitiveness:

- The action plan prepared by the Electricity Sector Enterprise Team (ESET) foresees replacing current (oil-fired) generation capacity with gas, coal and ethane-fired plants, to achieve significant cost savings. Next steps will include the conversion of the Bogue power station from oil to gas by December 31, 2015. In addition, the government has approved the construction of Jamaica's first natural gas-fired power plant, a 190MW facility to be built and operated by JPS, and to be completed by 2017.

- A revised Electricity Act was tabled in parliament in January (*structural benchmark),* and is expected to become effective by end-April 2015.

- We are also preparing a plan to ensure that all public entities (central government, local government, and public bodies) meet their financial obligations in a timely manner.

22. Labour market reforms are progressing. In the context of the recently launched Comprehensive Labour Market Reform Agenda, a Labour Market Reform Commission will be operational by April 2015 to review existing policies and practices in the areas of education and training; productivity, technology and innovation; labour policies and legislation; social protection; and industrial relations. Options to reduce the impact of high separation costs are being reviewed by the Unemployment Insurance Committee, and decisions are to be supported by two IDB-supported consultancies on Unemployment Insurance. A Cabinet note regarding options for reducing high separation costs will be submitted by April 2015.

VI. POVERTY REDUCTION AND REFORM OF SOCIAL SPENDING

23. We have established a new National Poverty Reduction Committee. An inter-sectoral Committee has been convened to guide and monitor the process of development of a new

National Policy on Poverty and a new Poverty Reduction Programme by the end of FY2015/16. Subject to policy approval, a broader institutional framework will support the implementation and monitoring of the national programme. The institutional framework envisages useful partnerships between Government, non-Government organizations, civil society and academia.

24. Efforts to strengthen the social protection framework are progressing. Broad implementation of the graduation strategy for PATH households is anticipated in mid-2015. Members meeting the criteria for the graduation strategy will receive a reduced and diminishing portion of their cash payments over a two-year period, with heads of households targeted for support which may include skills development, job readiness, and entrepreneurship grants. Other beneficiaries deemed above the threshold for these interventions would receive fading cash payments over a year and exit the program. The government launched a comprehensive social protection strategy in July 2014, and a monitoring and evaluation framework is now being developed. A National Social Protection Committee has been convened with the first meeting held in November 2014.

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

(In billions of Jamaican dollars)

	2013	2014			2015					
	End-Dec.	End-Dec.	End-Dec.	End-Dec.	End-Mar.	End-Jun.		End-Sep.		End-Dec.
	Stock	PC	Adjusted	Actual	PC	PC	Proposed Revised PC	PC	Proposed Revised PC	Proposed PC
Fiscal targets										
1. Primary balance of the central government (floor) 4/	...	66.0		66.8	121.0	17.0	17.0	32.0	40.0	65.0
2. Tax Revenues (floor) 4/9/	...	260.0		258.6	384.0	88.0	88.0	175.0	189.0	287.0
3. Overall balance of the public sector (floor) 4/	...	-37.0	-36.5	-17.0	-11.6	-17.0	-21.0	-25.0	-33.0	-35.0
4. Central government direct debt (ceiling) 4/5/	1672.0	92.4		67.9	90.6	4.5	4.5	0.0	0.0	12.0
5. Central government guaranteed debt (ceiling) 4/	...	0.1		0.1	-1.8	2.0	2.0	2.0	2.0	0.0
6. Central government accumulation of domestic arrears (ceiling) 6/12/13/	21.6	0.0		-0.1	0.0	0.0	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 7/12/13/	23.2	0.0		-2.9	0.0	0.0	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 6/12/	...	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
9. Social spending (floor) 9/10/	...	14.8		18.2	21.7	4.5	4.5	9.5	9.2	15.6
Monetary targets										
10. Cumulative change in net international reserves (floor) 8/11/	1045.1	351.9	254.3	970.4	529.4	470.3	470.3	469.2	469.2	614.5
11. Cumulative change in net domestic assets (ceiling) 11/	-7.5	-27.0	-24.2	-98.1	-55.1	-45.7	-45.7	-44.0	-44.0	-45.5

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

Table 2. Jamaica: Structural Program Conditionality

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1. Revise the relevant legislation for the adoption of a fiscal rule to ensure a sustainable budgetary balance, to be incorporated in the annual budgets starting with the 2014/15 budget.	March 31, 2014	Met
2. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	Met
3. Government to ensure there is: (i) no financing of Clarendon Alumina Production (CAP) by the government or any public body, including Petro Caribe; and (ii) no new government guarantee for CAP or use of public assets (other than shares in CAP and assets owned by CAP) as collateral for third-party financing of CAP.	Continuous	Met
4. Government to table in parliament a budget for 2014/15 consistent with the program.	April 30, 2014	Met
5. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17, Country Report No. 13/378).	April 30, 2014	Met
6. Cap the total loan value of all new user-funded PPPs at 3 percent of GDP on a cumulative basis over the program period.	Continuous	Met
7. Ensure that the public service database e-census is up to date and covers all Ministries, Departments and Agencies.	September 10, 2014	Met
8. Develop an action plan for public sector transformation to cover the following areas: (1) the introduction of shared corporate services, (2) the reallocation, merger, abolition and divestment/privatization of departments and agencies, (3) outsourcing of services, (4) strengthening control systems and accountability (including in auditing and procurement), and (5) aligning remuneration with job requirements.	September 30, 2014	Met
9. Government to table changes in legislation for the new public sector pension system expected to be implemented by April 2016 (MEFP paragraph 25, Country Report No. 14/169).	November 30, 2015	Proposed revision
10. Government to establish a new Cash Management Unit in the Accountant General Department (AGD) and transfer to it the cash management function currently handled by the Fiscal Policy Management Unit (FPMU).	September 30, 2015	Proposed revision
Tax Reform		
11. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as stipulated in the TMU.	Continuous	Met
12. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (paragraphs 6, 7, 8, and 9 of the MEFP for Country Report 13/378) and as stipulated in par. 13 of the March 2014 MEFP.	March 31, 2014	Met
13. Government to table in parliament amendments to the GCT as stipulated in paragraph 12 of the June 2014 MEFP.	June 30, 2014	Met
14. Government to conduct an entity by entity review of all grandfathered entities and of their specific tax incentives in the context of the new tax incentives legislation by end-2014/15.	January 31, 2015	Not met
Tax Administration		
15. Government to make e-filing mandatory for LTO clients with respect to General Consumption Tax (GCT) and Corporate Income Tax (CIT).	March 31, 2014	Met
16. Government to implement ASYCUDA World for the Kingston Port as a pilot site.	December 31, 2014	Met
17. Government to: (i) increase the number of staff in the large taxpayers office (LTO) by a further 30 auditors (from March 2014 to March 2015); (ii) increase the number of (full plus issue) audits completed in the LTO by 100 percent (from FY 2013/14 to FY 2014/15); (iii) achieve 95 percent take up rate of e-filing and e-payment in the LTO; (iv) write-off all GCT and SCT debts that have been subjected to risk-rated stress tests and consequently categorized as uncollectible according to the Regulations.	March 31, 2015	
18. Government to complete pilot testing of ASYCUDA World (covering imports and exports) in the Kingston port.	May 1, 2015	Proposed
19. Government to implement Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package.	February 28, 2015	Met
20. Government to table in Parliament proposals for a comprehensive overhaul of the Customs Act.	June 30, 2015	
21. Government to introduce new productivity indicators, in consultation with Fund staff, to measure the effectiveness and efficiency of the tax system.	November 30, 2015	
22. Government to imlement Phase 2 of the RAiS (GENTAX) integrated tax software package, for all major tax types.	December 31, 2015	Proposed

Table 2 (Continued). Jamaica: Structural Program Conditionality

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

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

Attachment II. Technical Memorandum of Understanding

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 extended arrangement under the EFF.** It also describes the methods to be used in assessing the programme performance and the information requirements to ensure adequate monitoring of the targets. In addition, the TMU specifies the requirements under the continuous structural benchmark concerning discretionary tax waivers.

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	

I. QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

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

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

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.

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

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 2014	-2.0
End-March 2015	-3.8
End-June 2015	2.5
End-September 2015	1.5
End-December 2015	3.0
End-March 2016	4.7

B. 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.

C. Ceiling on Net Increase in Central Government Guaranteed Debt

19. 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.

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

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

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

D. Ceiling on Central Government Accumulation of Domestic Arrears

23. Definition: Domestic arrears are defined as payments to residents determined by contractual obligations that remain unpaid 90 days after the due date. Under this definition, the due date refers to the date in which domestic debt payments are due according to the relevant contractual agreement, taking into account any contractual grace periods. Central government domestic arrears include arrears on domestic central government direct debt, including to suppliers and all recurrent and capital expenditure commitments. This accumulation is measured as the change in the stock of domestic arrears relative to the stock at end-March 2014, which stood at J$21.6 billion.

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

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

E. Non-Accumulation of External Debt Payments Arrears

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

27. Definitions: External debt is determined according to the residency criterion.

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

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

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

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

29. 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.

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

30. 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 31, 2014 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.

31. 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.

32. 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.

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

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

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

F. Ceiling on Central Government Accumulation of Tax Refund Arrears

36. Definition: Tax refund arrears are defined as obligations on tax refunds in accordance with tax legislation that remain unpaid 90 days after the due date. This accumulation is measured as the change in the stock of tax refund arrears relative to the stock at end-March 2014, which stood at J$23.2 billion.

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

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

G. Floor on the Cumulative Change in Net International Reserves

39. 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.

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

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

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

Table 3. External Program Disbursements (baseline projection)

Cumulative flows from the beginning of the fiscal year	(In millions of US$)
External loans from multilateral sources	
End-December 2014	62
End-March 2015	185
End-June 2015	131
End-September 2015	153
End-December 2015	199
Budget support grants	
End-December 2014	41
End-March 2015	24
End-June 2015	14
End-September 2015	24
End-December 2015	24
IMF budget support disbursements	
End-December 2014	141.54
End-March 2015	141.54
End-June 2015	0
End-September 2015	0
End-December 2015	0

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

Table 4. Reserve Liabilities Items for NIR Target Purposes

	(In millions of US$) 1/
BOJ's foreign liabilities to residents	
Outstanding stock	
End-December 2013	282.7
Cumulative change from end-December 2013	
End-December 2014	51.6
End-March 2015	62.7
End-June 2015	67.3
End-September 2015	67.3
End-December 2015	67.3

1/ Converted at the programme exchange rates.

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

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

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

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

II. QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

A. Cumulative Floor on Central Government Tax Revenues

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.

B. 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.

III. 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 cap would exclude tax measures related to international treaties not yet ratified and provisions for CARICOM suspensions which are binding international legal obligations.

IV. CONDITIONALITY ON USER-FUNDED PPPS

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

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

57. For the purpose of this condition, the applicable GDP is the projected nominal GDP for the fiscal year published in the Fiscal Policy Paper tabled in parliament ahead of the adoption of the budget. For FY2015/16, the projected nominal GDP used as a reference is J$1,690 billion, as presented in Table 2G, part 2, Macroeconomic Framework, page 15.

V. INFORMATION REQUIREMENTS

58. 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.

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

- 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.
- The balance sheet of the PetroCaribe Development Fund with a lag of no more than six weeks after the closing of each month.
- Data on discretionary waivers, specifying those under the 'de minimis' cap, those under the broader cap and those covered by the exceptions from these caps.
- Data on tax waivers for charities and charitable giving.
- Data on the total loans value of all new user-funded PPPs, specifying the PPPs identified by the Office of the auditor General as involving only minimal contingent liabilities (including the absence of debt guarantees, demand or price guarantees or termination clauses that could imply a transfer of liabilities to the government).

Quarterly

- Holdings of government bonds (J$-denominated and US$-denominated) by holder category. The reporting lag should not exceed four weeks after the closing of each month (this would not be applicable to external and non-financial institutional holdings of GOJ global bonds as this information is not available to GOJ).
- Use of the PetroCaribe Development Fund, including loan portfolio by debtor and allocation of the liquidity funds in reserve within six weeks after month end.

- The stock of public entities non-guaranteed debt.

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

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

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

- BOJ's Quarterly Financial Stability Report.

- Quarterly income statement data of deposit taking institutions, as reported to the BOJ within eight weeks of the quarter end.

- Summary review of the securities dealer sector, within eight weeks of quarter end.

- Summary report of the insurance sector (based on current FSC quarterly report), within eight weeks of quarter end.

- Capital adequacy and profitability ratios (against regulatory minima) for DTI's and non-bank financial institutions within eight weeks of quarter end.

- FSC status report detailing compliance (and any remedial measures introduced to address any non compliance) with the agreed guidelines for the operation of client holding accounts at the Jam Clear@ CSD and FSC independent verification of daily reconciliations using data provided by Jam Clear@ CSD. Reports are due within four weeks of end quarter.

Annual

- Financial statements of pension funds within six months of year end.

- Number of public sector workers paid by the consolidated fund by major categories.

Press Release No. 15/147
FOR IMMEDIATE RELEASE
March 30, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Seventh Review Under the IMF's Extended Fund Facility for Jamaica and Approves US$39 Million Disbursement

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

The completion of the review enables an immediate purchase of an amount equivalent to SDR 28.32 million (about US$39 million). The EFF arrangement was approved on May 1, 2013 (see Press Release 13/150).

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

"The authorities' commitment to the program under the Extended Fund Facility remains strong. Program performance is on track and all quantitative performance targets for end-December were met. Structural reforms have progressed broadly on schedule.

"Macroeconomic performance continues to be good and economic confidence has reached a two-year peak. The decline in oil prices should help lower inflation expectations and boost demand. Still, stepping up the pace of reforms is essential to boost growth and employment. Bold efforts are needed to reform the energy sector, improve the business climate, and advance investment in critical infrastructure.

"The budget for 2015/16 demonstrates Jamaica's continued fiscal discipline and will help keep public debt on a sustainable path. Maintaining the momentum for fiscal consolidation over the medium term requires boosting revenue and improving public sector efficiency. This involves strengthening customs and tax administration and further broadening the tax base. It is also essential to improve public financial management, accelerate the reform of the public sector, and contain public sector wage costs.

"Buttressing the financial sector hinges on meeting the key milestones for reforming the retail repo sector. Completing the transition of the retail repo businesses to a trust-based framework requires careful management. Implementing the Banking Services Act will be a necessary step to improve financial sector stability further."

Statement by Serge Dupont, Executive Director for Jamaica and Trevor Lessard, Alternate Executive Director
March 30, 2015

Our authorities value the collaborative relationship that has been developed with the Fund over the last few years. The EFF and the technical assistance Jamaica has received from the IMF have been important elements of the authorities' multi-year economic reform plan. For this seventh review of Jamaica's EFF, all performance criteria have again been met and the ambitious structural reform agenda is proceeding broadly on schedule. It is now halfway through the EFF and our authorities' commitment to the program objectives has been unwavering and their implementation steadfast.

Fiscal Policy

On February 19th, the Minister of Finance laid before Parliament a budget comprising the estimates of revenues and expenditures for the 2015/2016 fiscal year. The budget is in line with program expectations and maintains the impressive primary surplus of 7.5 percent of GDP, a critical component of Jamaica's debt reduction strategy. Also, as part of my authorities' commitment to improve fiscal transparency, for the first time the budget will be passed by both Houses of Parliament before the start of the upcoming fiscal year. The government has also tabled in the Parliament its Growth Agenda Policy Paper and a matrix outlining public and private sector initiatives being undertaken to improve the business environment and economic growth.

With an economy that has yet to recover and fully benefit from many of the structural and competitiveness reforms that have been undertaken in recent years, a tax relief and revenue broadening package was implemented. The package is intended to mitigate against the risk of a revenue shortfall in 2015/16, where revenues remain depressed in certain areas and economic activity remains lower than potential. Also, to lessen the burden on income earners, the threshold on personal income tax was raised, disproportionately helping medium and lower income workers. Nevertheless, to safeguard fiscal sustainability the government had to introduce new revenue measures, but the measures chosen were those that would be the least harmful to the vulnerable and to growth.

The authorities continue to contain expenditures while simultaneously focusing resources on growth-enhancing activities. In the area of wages and salaries, the authorities have maintained the commitment to no salary increases over a five year period, while honouring all commitments under prior agreements. Despite this adherence to the stated policy, however, the lower than anticipated growth has resulted in an inability to meet the legislated wage/GDP target of 9.0 percent by fiscal year 2015/16. The authorities expect to meet the target by the following fiscal year.

External Competitiveness

The Bank of Jamaica (BoJ) continues to operate under the goals of price stability and a market-determined flexible exchange rate that reflects underlying macroeconomic fundamentals. The recent decline in oil prices has, amongst other things, led to favorable developments in the current account and assisted in the BoJ's efforts to lower inflation and anchor inflation expectations at a lower level. Understanding the importance of foreign reserves for a small open economy like Jamaica, both in terms of confidence and to smooth out excessive volatility, the BoJ continues to build up NIR through opportunistic purchases of hard currency, in line with program expectations.

Reform Agenda

The dramatic fall in oil prices has been a significant economic windfall for Jamaican consumers and producers. Electricity prices have fallen substantially as a result of the lower fuel bill, which has translated to an increase in disposable income for consumers and lower costs for producers. Oil and gasoline prices in Jamaica are market based and the benefits of the drop in energy costs are automatically transferred to final users. Moreover, the partly *ad valorem* tariff structure on fuel excises results in further gains in real disposable income for consumers as they pay less taxes when fuel prices decrease. Nevertheless, the authorities recognize that developments in energy markets are likely to be transient and the market is notoriously volatile, thus the recent windfall has not led to any complacency in their efforts to improve energy efficiency and diversify the energy mix for electricity production. Since its inception, the Electricity Sector Enterprise Team (ESET) has assisted in the authorities' efforts to reach important milestones in terms of energy reform. Plans have been approved to transform the 115 mega-watt (MW) Bogue power plant from oil to gas and to construct a new 190 MW LNG-based power plant. Moreover, construction is set to begin by three smaller energy producers, which will be completed over the next two years. Through a combination of wind, solar, and bio mass these facilities will provide an additional 78 MW of renewable energy. Furthermore the government has implemented a tax measure that will fund an energy stabilization initiative which will include the purchase of hedges in the oil market and conservation initiatives amongst other energy cost stabilization measures.

The authorities are also moving forward on their commitment to improve the quality and efficiency of the public sector. With the assistance of the World Bank and the IDB, the first phase of their public sector transformation program is being implemented. This multi-year transformation process will culminate in a more streamlined, effective, and client-friendly public service. In order to safeguard sustainability, the authorities are actively engaged with stakeholders to reach agreement on a strategic plan that will rationalize the wage bill in a durable way.

Conclusion

Confidence in the authorities' ability to deliver meaningful reforms and place debt firmly on a downward trajectory is rising. The need to further bolster confidence and have it translated into productive investment, jobs, and growth, is essential for economic success, both during the program and after it. A key ingredient of this will be convincing economic actors to get off the sidelines and mobilize their resources towards investment opportunities. Tax and structural reforms have assisted in making Jamaica a more attractive place to invest and work continues to bring to fruition flagship transformative projects. Also, every effort is being made, within the confines of the EFF's fiscal targets, to safeguard growth-enhancing public capital expenditures to alleviate bottlenecks and fill infrastructure gaps.