INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/181

JAMAICA

June 2016

2016 ARTICLE IV CONSULTATION, ELEVENTH AND TWELFTH REVIEWS UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JAMAICA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation and Eleventh and Twelfth Review Under the Extended Fund Facility and Request for Modification of Performance Criteria with Jamaica, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 17, 2016 consideration of the staff report that concluded the Article IV consultation with Jamaica.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 17, 2016, following discussions that ended on May 20, 2016, with the officials of Jamaica on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 3, 2016.
- An **Informational Annex** prepared by the IMF staff.
- 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 IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Washington, D.C.

Press Release No. 16/292
FOR IMMEDIATE RELEASE
June 17, 2016

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

IMF Executive Board Completes Combined Eleventh and Twelfth Reviews under the Extended Fund Facility for Jamaica and Approves US$80 Million Disbursement

On June 17, 2016, the Executive Board of the International Monetary Fund (IMF) completed the combined eleventh and twelfth reviews under the Extended Arrangement under the Extended Fund Facility (EFF) for Jamaica. The completion of the reviews enables the disbursement of an amount equivalent to SDR 56.64 million (about US$80 million) bringing the total disbursements under the arrangement to the equivalent of SDR 530.42 million (about US$748.2 million).

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

Since May 2013, Jamaica's implementation of the economic reform program supported by the EFF has been exceptional by international standards. After three years of difficult economic reforms, inflation is at historical lows, the current account deficit has more than halved, net international reserves have doubled, and access to domestic and international financial markets has been restored, supported by upgrades in credit ratings and historically high business confidence indicators. Comprehensive reforms in tax policy and administration have been and continue to be undertaken, while strict adherence to fiscal discipline together with a PetroCaribe debt buyback have helped place debt on a downward trajectory. Financial sector resilience has been strengthened and supply-side growth constraints have been eased. Elections in February 2016 resulted in a change in government. The new government remains committed to continuing reforms under the program, with a focus on maintaining fiscal discipline while achieving equitable growth through increased capital spending and the strengthening of the social safety net.

Following the Executive Board's discussion today, Mr. Mitsuhiro Furusawa Deputy Managing Director and Acting Chair issued the following statement:

"Jamaica's economic reform program supported by the Fund's Extended Fund Facility has made major strides in restoring macroeconomic stability, pursuing fiscal consolidation, reducing public debt and undertaking significant tax policy reforms, building financial sector resilience, and tackling structural issues. Business confidence is at an all time high, while inflation and the current account deficit have been significantly reduced. The domestic bond market has reopened after the 2013 debt exchange, and private credit growth is recovering.

“The new administration is committed to continued fiscal discipline. The phased personal income tax reform launched with the FY2016/17 budget is a bold step to shift the tax system from direct to indirect taxation. Proper execution of this reform is critical to ensure revenue neutrality and safeguard the revenue base. Strengthening and better targeting conditional cash transfers will help mitigate the impact of the reform on the low-income population.

“Concrete reforms are needed to sustainably reduce the government wage bill, which continues to crowd out priority social and infrastructure spending. Actions should be expedited to divest and outsource certain government services and implement the human resource management system.

“Jamaica’s growth remains weak and unemployment, while declining, is still high. Further structural reforms to boost growth and employment should focus on facilitating private sector development by expanding financial access and reducing financing cost, lowering energy cost, maintaining external competitiveness, reducing tax compliance costs, and improving public sector resource allocation.”

Press Release No. 16/300
FOR IMMEDIATE RELEASE
June 21, 2016

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

IMF Executive Board Concludes 2016 Article IV Consultation with Jamaica

On June 17, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Jamaica.

Since May 2013, Jamaica's implementation of the economic reform program supported by the EFF has been exceptional by international standards. After three years of difficult economic reforms, inflation is at historical lows, the current account deficit has more than halved, net international reserves have doubled, and access to domestic and international financial markets has been restored, supported by upgrades in credit ratings and historically high business confidence indicators. Comprehensive reforms in tax policy and administration have been and continue to be undertaken, while strict adherence to fiscal discipline together with a PetroCaribe debt buyback have helped place debt on a downward trajectory. Financial sector resilience has been strengthened and supply-side growth constraints have been eased. Elections in February 2016 resulted in a change in government. The new government remains committed to continuing reforms under the program, with a focus on maintaining fiscal discipline while achieving equitable growth through increased capital spending and the strengthening of the social safety net.

Executive Board Assessment[2]

Executive Directors commended the authorities' strong implementation of their Fund-supported program since its inception. Macroeconomic stability has been restored, marked by historic low

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

inflation, halving of the current account deficit, reduction of public debt, and regained access to international and domestic bond markets. Nonetheless, growth and employment have remained weak, and Directors underscored the need to accelerate efforts to address deep-rooted structural impediments to strong private-sector led growth. In this regard, they welcomed the new administration's commitment to the reform objectives.

Directors commended the authorities' significant fiscal reforms and their commitment to continued fiscal discipline. They welcomed their bold effort to reorient the tax system from direct to indirect taxation, and emphasized the importance of implementing measures to offset the revenue losses from the personal income tax reform, and protecting the poor from the impact of the higher indirect taxes. Directors also highlighted the need to improve public resource allocation in favor of priority social and infrastructure spending. They considered reducing the wage bill and enhancing public employment efficiency to be priorities. They also encouraged the authorities to continue to take steps to improve revenue administration and compliance, broaden the tax base, undertake pension reforms, and enhance public financial and debt management.

Directors noted that the monetary stance is broadly appropriate, and encouraged the central bank to continue to focus on price stability. They stressed the need to strengthen central bank autonomy and improve monetary transmission. In this context, the authorities should continue to refine monetary operations and reduce the high spread in banks' interest rates by increasing banking sector competition and reforming financial sector taxation. Directors also emphasized the importance of continued exchange rate flexibility.

Directors welcomed the progress in enhancing financial sector resilience. They concurred that the financial sector should be strengthened through further retail repo reforms and enhanced financial sector supervision and crisis management, including establishing a legal framework for the resolution of banks and securities dealers. Directors also highlighted the importance of promoting further development of the domestic debt market. They welcomed the Fund's commitment to better understand and address the issues related to the loss of correspondent banking relationships, and urged the authorities to work with the Fund and other partners in this area, in tandem with efforts to strengthen the AML/CFT framework.

Directors stressed that continued structural reforms are needed to boost growth and employment. They highlighted, in particular, the need to reduce energy costs, increase access to finance, enhance public sector efficiency, expedite labor market reforms, and continue to improve the overall business environment to attract private investment. Proper communication will be important to secure continued support by the population for the reform efforts.

Jamaica: Selected Economic Indicators

	2012/13	2013/14	2014/15	2015/16
Output				
Real GDP growth (%)	-0.8	1.0	0.2	0.8
Employment				
Unemployment (%)	16.3	13.6	13.2	13.3
Prices				
Inflation, end of period (%)	9.1	8.3	4.0	3.0
Inflation, average (%)	7.2	9.4	7.2	3.4
Central government finances 1/				
Budgetary revenue (% of GDP)	25.8	27.1	26.3	28.0
Budgetary expenditure (% of GDP)	29.9	27.0	26.8	28.3
Budget balance (% of GDP)	-4.1	0.1	-0.5	-0.3
Of which: central government Primary balance	5.4	7.6	7.5	7.4
Public entities balance (% of GDP)	0.1	0.0	0.9	1.9
Public sector balance (% of GDP)	-3.9	0.1	0.4	1.6
Public debt (% of GDP) 2/	145.3	139.7	135.6	128.7
Money and credit				
Broad money (% change)	13.3	6.1	5.7	18.7
Credit to the private sector (% change)	18.2	11.0	4.0	9.6
Treasury bill rate, end-of-period (%)	9.1	9.1	7.0	5.9
Treasury bill rate, average (%)	6.6	7.9	7.8	5.9
Balance of payments				
Current account (% of GDP)	-9.9	-8.1	-7.1	-3.0
FDI, net (% of GDP)	2.1	3.9	4.3	5.4
Gross international reserves (weeks of imports)	11.4	14.5	19.3	23.2
External debt (% of GDP)	67.4	66.7	65.5	75.9
Terms of trade (% change)	4.3	-2.0	10.5	15.8
Exchange rate				
End-of-period REER (appreciation +) (INS)	-2.1	-4.7	7.3	-2.4

Sources: Jamaican authorities; UNDP Human Development Report; Information Notice System; and Fund staff estimates and projections.

1/ Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.

2/ Central government direct and guaranteed only, including PetroCaribe debt (net of its financing to the central government) and projected IMF disbursements and other IFIs.

INTERNATIONAL MONETARY FUND

JAMAICA

June 3, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION, ELEVENTH AND TWELFTH REVIEWS UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

Context. Jamaica is implementing an economic reform program that has been supported by the IMF's Extended Fund Facility since May 2013. Significant strides have been made in restoring macroeconomic stability, pursuing prudent fiscal policy, reducing public debt and undertaking significant reforms in tax policy, financial sector resilience, and structural issues. Meanwhile, in the February 25 general elections, the Jamaica Labor Party (JLP) narrowly won, defeating the incumbent People's National Party (PNP). Prime Minister Holness has reiterated his government's commitment to the EFF-supported program, including continued fiscal consolidation, evidenced by the primary surplus target of 7 percent of GDP in the budget for FY16/17.

Focus of the Article IV Consultation. The spotlight was on further reducing macroeconomic vulnerabilities, fostering growth, creating the conditions for financial deepening and inclusion, reallocating public resources to maximize economic returns, and improving competitiveness. These reforms would need to be undertaken along with continued debt reduction and fiscal consolidation.

Program Issues. All quantitative performance criteria and structural benchmarks for the completion of the 11th and 12th reviews were met. The government's intention is to implement a phased reduction in the personal income tax burden, but to do so in a revenue-neutral, equitable, and efficient way that achieves a rebalancing from direct to indirect taxes. Efforts are also underway to reduce the public sector wage bill to redirect spending toward growth-enhancing capital spending. Modified performance criteria (PCs) for September 2016 and new PCs for December 2016 are proposed, reflecting the downward growth revision, and new structural benchmarks were set for fiscal and financial reforms.

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

Discussions took place in Kingston during May 9–20, 2016. Staff representatives comprised U. Ramakrishnan (head), N. Che, J. Wong (all WHD), X. Fang (FAD), R. Garcia Verdu (SPR), A. Guscina (MCM), and B. van Selm (Resident Representative). They were assisted at headquarters by H. Canelas, E. Moreno, and C. Li, and at the Resident Representative Office by K. Jones and R. Henry. Mr. Lessard (OED) participated in the discussions.

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POLITICAL CONTEXT

1. **The Jamaica Labor Party (JLP) won the general election in February 2016, defeating the incumbent People's National Party by one parliamentary seat.** The new government took office in March with a mandate to boost growth and reduce the tax burden for the low and middle income groups. Prime Minister Holness has stated the government's intention is to continue with the IMF-supported program to build on the macroeconomic stability achieved thus far, including by maintaining the fiscal targets of the program while supporting inclusive growth.

BACKGROUND: TOWARD STABILITY AND GROWTH

2. **Jamaica's economy has been afflicted for several decades by a combination of low growth and rising public debt.** Real growth has averaged 0.7 percent since 1990 and unemployment has rarely dropped below 10 percent. Meanwhile, the public debt has been above 100 percent of GDP since 2000. Poor fiscal discipline propelled the debt increase, which crowded out private sector credit, raised financing costs, and further depressed growth. Weak growth, in turn, undermined fiscal performance and caused further increases in debt.

3. **An IMF-supported program was approved in 2013 to avert a severe fiscal and balance of payments crisis.** The economy contracted by 0.2 percent in FY2012/13 in the wake of Hurricane Sandy. The current account deficit deteriorated to 12 percent of GDP. Foreign reserves dropped sharply to 1.4 months of imports, resulting from weak foreign inflows, including from the multilateral institutions, central bank foreign exchange sales to sustain the exchange rate, and debt payment. At the same time, fiscal performance fell short of budget targets and public debt rose to nearly 150 percent of GDP. To prevent the looming crisis, the IMF's Executive Board approved a four-year EFF-supported program in May 2013 (SDR 615.38 million, 225 percent of quota at the time of approval of the EFF, 161 percent of current quota).

4. **The authorities' economic reform program aimed to sustainably reduce debt and boost growth.** The goals of the reforms include boosting growth and employment, improving external competitiveness, achieving fiscal and debt sustainability, strengthening the financial system, and supporting the poor. To increase the credibility of the reform program against a history of repeated reform failures, the authorities frontloaded important policy actions. These include a multi-year public sector wage agreement, an upfront tax package, and a debt exchange to secure an immediate reduction in the debt stock.

5. **Significant progress has been achieved owing to strong program ownership and implementation.**

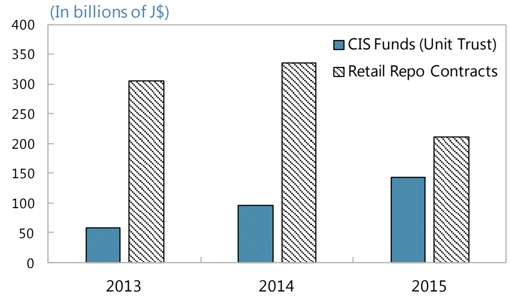
- **Sustained fiscal consolidation.** For three years, the central government primary surplus was maintained at 7½ percent of GDP, while public debt fell by 20 percentage points of GDP, aided by the PetroCaribe debt buyback in 2015. The faster than anticipated decline in debt allowed for a reduction in the primary surplus target (to 7.25 and 7 percent of GDP in FY2015/16 and FY2016/17 respectively) to accommodate growth-enhancing capital spending.

- **Stabilization of the macroeconomic environment.** Inflation has more than halved and is now at historical lows, while the current account deficit improved by over 7 percentage points of GDP. Foreign reserves now cover 6 months of imports. Improved stability is reflected in increased business and consumer confidence, as well as a fall in EMBIG bond spread, which is now aligned with the emerging market average. Jamaica also successfully reentered the international financial market, issuing external bonds of US$800 million and US$2 billion in 2014 and 2015, respectively, supported by upgrades in the country's credit ratings by all major rating agencies.

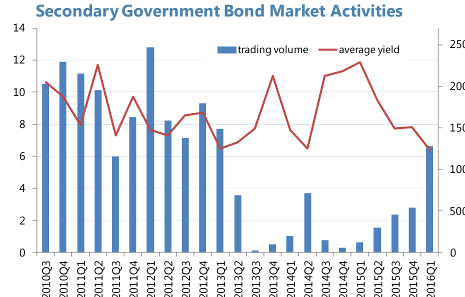
- **Strengthening the tax system and tax administration.** Tax incentives and discretionary waivers have been significantly reduced and replaced with a rules-based and transparent framework (Box 1). Tax administration has been improved through capacity building in the Large Taxpayers' Office, better compliance supported by the publication of a National Compliance Plan, and enhanced tracking of goods in customs with the ASYCUDA World system. In public financial management, a comprehensive plan has been created to expand the Treasury Single Account.

- **Greater financial sector resilience.** The legal and regulatory framework for retail repo transactions of securities' dealers (SDs)—which finance the acquisition of long-term government bonds with short-term, deposit-like investments—was improved by transitioning all retail repo contracts to a trust. Also, backstop facilities for the SDs have been established and the minimum transaction size for retail repos steadily increased. The foreign asset investment cap for the collective investment schemes (CIS)—an alternative for retail repos with more transparent risk distribution—has been increased, encouraging the development and use of this new investment product. Meanwhile, gaps in financial sector supervison are being addressed, including by the new Banking Services Act which improved the banking supervision framework, information access, and supervisors' authority. The Bank of Jamaica (BoJ) Act was amended to vest the BoJ with overall responsibiility for financial stability and strengthen its governance structure.

Sizes of CIS v.s. Retail Repos
(In billions of J$)



Secondary Government Bond Market Activities

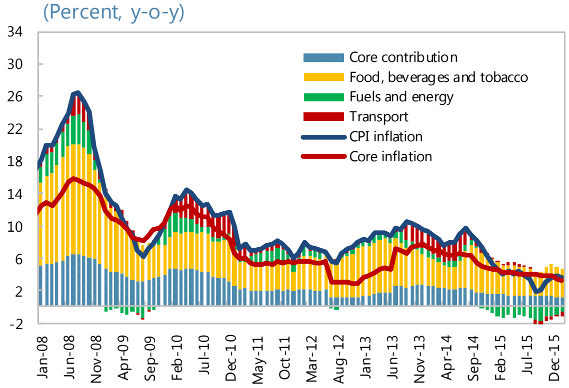


Source: Bank of Jamaica.

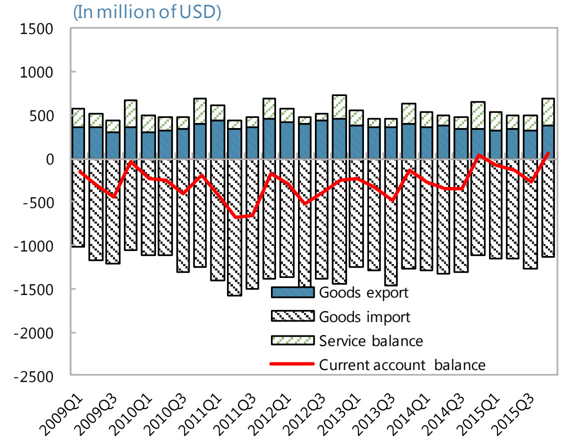
- **The domestic debt market reopened.** Capitalizing on the liquidity influx from the J$60.4 billion (4 percent of GDP) bond redemption in February 2016, the government successfully issued J$15 billion bonds domestically. This first issuance since the NDX was oversubscribed, with no adverse effects on the yield curve and the financial sector balance sheets. Secondary market trading is also now slowly restarting, which should help further improve financial intermediation.

- **Stronger social safety net.** During the fiscal consolidation, social expenditures were protected with a required minimum level of targeted spending, at about 1.5 percent of GDP. The conditional cash transfer program (PATH) has been strengthened with recurrent increases in transfer amounts well beyond inflation. A social protection strategy was launched in July 2014, and a National Poverty Reduction Committee has been tasked with developing a poverty reduction program.

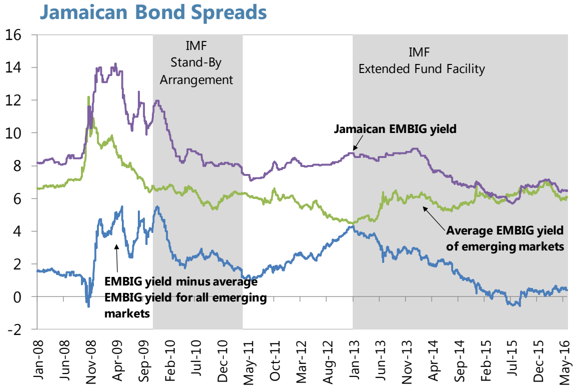
Contribution to CPI Inflation
(Percent, y-o-y)



Export, Import and Current Account
(In million of USD)

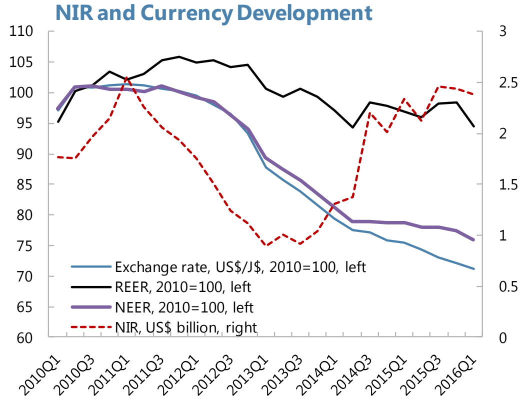


Jamaican Bond Spreads



Source: Bloomberg.

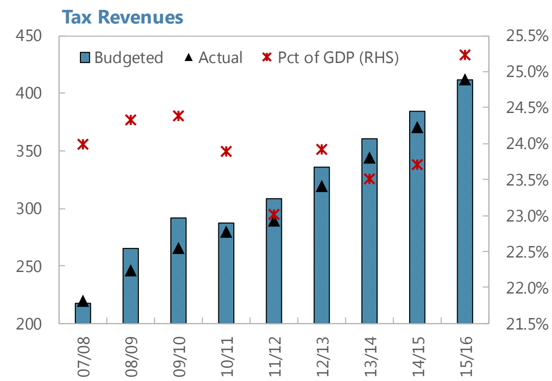
NIR and Currency Development



6. **Better business environment.** The construction permit approval process was streamlined to reduce the processing time to 90 days. A new insolvency legislation was passed to streamline the bankruptcy process and facilitate the rehabilitation of insolvent businesses. An online system for business registration is being put in place to reduce the turnaround time for registrations to two days. Supported by these reforms, Jamaica's ranking in World Bank's 2016 Doing Business Indicators improved by 7 positions.

Box 1. Tax and Customs Administration in Jamaica: Reforms and Challenges

Strong FY15/16 performance. Tax revenues in FY15/16 were on target with budget for the first time since the global financial crisis. Tax revenues were over 25 percent of GDP, driven by strong arrears collections and improved filing. Tax policy reforms including (i) transparent incentives which minimized the room for ministerial discretion (following IMF TA advice), (ii) the broadening of the GCT base to include government purchases, electricity and some foodstuffs, and (iii) the implementation of the Employment Tax Credit have driven much of the improvement. Capacity building in tax and customs administration also played a significant role in improving compliance and doing business.



Significant administration reforms. A key reform of the Tax Administration of Jamaica (TAJ) has been the strengthening of the Large Taxpayers' Office (LTO) which yields half of total Corporate Income Tax (CIT) revenues. Improvements in LTO are key to safeguarding the revenue base in countries with capacity constraints. Significant reforms have been undertaken in the context of the program, with the help of an IMF advisor:

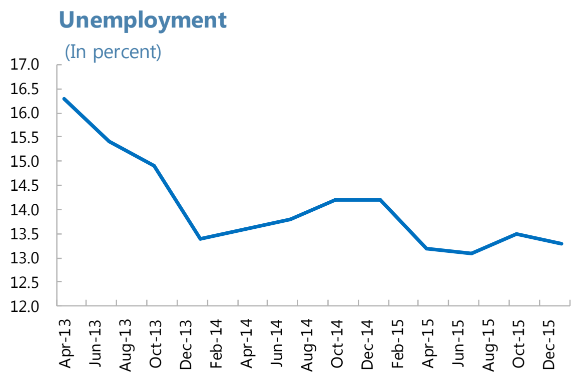
- Capacity increases and amendments to the Revenue Administration Act have allowed the TAJ to (i) compel for third-party information to cross-check taxpayers' information and activities, (ii) require mandatory e-filing for LTO clients for main tax types including the General Consumption Tax (GCT) and the CIT.
- A National Compliance Plan has been published and performance indicators have been established to improve compliance measurement.
- TAJ was empowered to collect outstanding arrears and seize and sell taxpayers' property.

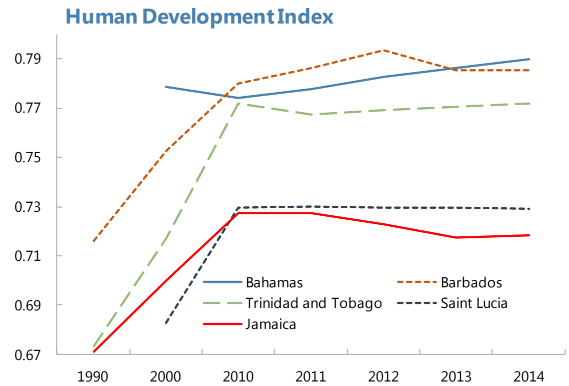
Customs administration reforms have also focused on capacity strengthening, with the hiring of new auditors for the Post-Clearance Audit unit, and the implementation of the ASYCUDA World software which has helped strengthen the tracking of imports and exports. The Jamaica Customs Agency (JCA) and TAJ are respectively transitioning into full executive agency status and semi-autonomous revenue agency, which will lower costs, enhance efficiency of service delivery, and improve decision-making and management practices.

Challenges remain. A recent GCT gap analysis by FAD shows that Jamaica's GCT collections could be higher by as much as 2 percent of GDP if compliance were improved and by 5 percent of GDP if tax expenditures and policy were improved. These gaps, while still sizable and on par with Latin America, have been declining in recent years due to the ongoing reform efforts. Within the region, Jamaica outperforms smaller countries like Dominica, Barbados and St. Vincent but fares worse than Trinidad and Tobago and Dominican Republic. These gaps are calculated against a theoretical benchmark and effective gains would likely be much smaller. Nevertheless, the analysis points to significant gains that could be reaped from improved compliance and policy. As identified by a recent FAD TADAT assessment, reforms going forward should address inaccurate taxpayer data, low on-time filing and payment rates, delays in the payment of GCT refunds, and low quality of audits leading to high rates of objections. In terms of tax policy, a continued broadening of the GCT base will not only reduce the policy gap but also improve compliance as exemption loopholes are closed.

7. **However, the reform dividends in the form of growth and job creation have been disappointing.** Over the past three years, real GDP growth has remained at the historical average of about 0.6 percent. Despite a decline in the unemployment rate by about 3 percentage points since 2013, it remains high at over 13 percent. The weak growth is partly due to negative external shocks: the drought conditions for two consecutive years led to a decline in agriculture; the chikungunya outbreak in 2014/15 reduced labor productivity; and the falling aluminum prices depressed exports.

However, there have also been positive shocks (e.g., lower global oil prices), though these factors appear to have done little to support faster growth. The weak growth is reflected in Jamaica's Human Development Index which has been declining since 2011. Inequality, which increased from 0.38 in 2001 to 0.46 by 2013, is high with one-fifth of the population living under the poverty line.

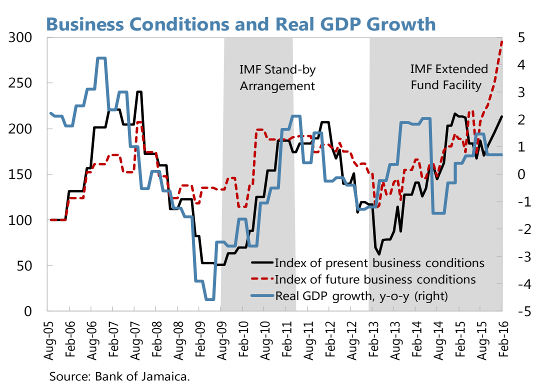




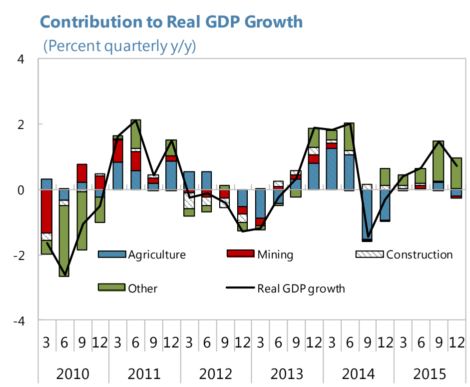
RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

A. Recent Developments

8. **Forward-looking indicators have improved despite slow growth.** Business confidence has increased to an all-time high in February 2016. Consumer confidence is also trending up. With agricultural recovery remaining slow, growth is estimated at 0.8 percent in 2015. Good tourism performance (arrival increased by 2.1 percent y/y in 2015) continued to drive growth, with recovery in manufacturing, including the normalization of petroleum refinery operation, also contributing. Net foreign direct investments increased by 30 percent in the first three quarters of FY15/16. The unemployment rate dropped to 13.3 percent in January 2016 from 14.2 percent in January 2015. Trade and construction generated the largest employment gains.

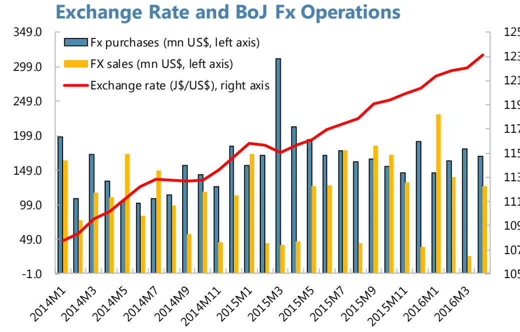


Source: Bank of Jamaica.



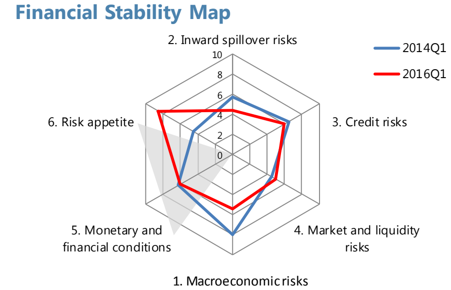
9. **Falling oil prices have lowered inflation and the current account deficit.** Inflation was 2.4 percent in April 2016, among the lowest historically, primarily owing to lower global oil prices and continued weakness in domestic demand. The current account deficit was 2.2 percent of GDP in Q4 2015, an improvement of 8.7 percent of GDP over Q4 2014. The improvement was mainly due to reduced import costs of fuels. Exports also declined, partly due to the drop in bauxite exports. Supported by low inflation in Q1 2016, the real effective exchange rate depreciated by 2.4 percent y/y; the J$ depreciated by 6 percent against the US dollar. The BoJ made net foreign exchange (FX) market sales in the run-up to the general elections to smooth market movements associated with political uncertainties as well as from the liquidity injection resulting from a large bond redemption in February. More recently, net FX market sales have occurred in April/May to reduce the exchange rate pressure which appears to have resulted from the prospect of a large US$ corporate bond issuance by a foreign financial institution.

Exchange Rate and BoJ Fx Operations



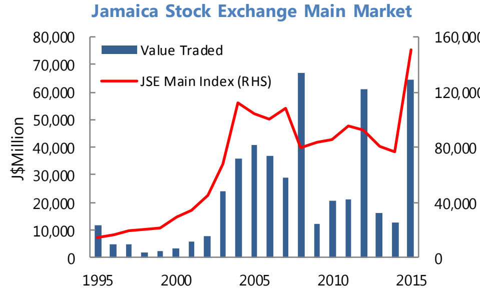
10. **The financial system is stable and credit growth is slowly recovering.** Financial stability indicators are improving; the higher risk appetite largely reflects lower bond spread and higher foreign inflows. Banks' capital adequacy ratio hovers around 15 percent and NPLs are less than 5 percent of total loans. The banking sector's profit margin improved slightly in 2015 compared to the previous year. The December 2015 stress tests indicated that the banking sector was generally resilient to shocks. Private sector credit growth is showing some uptick, increasing by 11 percent y/y in Q1 2016, partly reflecting increased capital investments in hotel and business process outsourcing (BPO) industries. Household debt as a share of disposable income has risen in the past five years, and was at 70 percent in 2015, reflecting faster growth of household debt relative to income growth. Corporate loan growth increased in real terms slightly by 4.8 percent y/y in 2015. Banks' exposure to the corporate sector, however, has declined for three years in a row, to around 17.2 percent of total bank assets in 2015, while corporate sector NPLs continued to decrease. Private lending through corporate bond issuance has been buoyant, increasing by 24 percent in Q4 2015 in real terms, albeit from a low base (non-financial corporate bond stock is estimated at around 30 percent of bank credit stock). The Jamaica Stock Exchange finished highest globally in 2015—an increase by 97 percent, driven by investor confidence, higher earnings by listed companies, and greater investor interest from the ongoing switch from retail repos to collective investment vehicles—and continues to rise in 2016.

Financial Stability Map



Note: Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.

Jamaica Stock Exchange Main Market



Source: Jamaica Stock Exchange.

B. Outlook and Risks

11. **Growth is projected to increase over the medium term.** Growth for FY16/17 is revised down to 1.7 percent, largely reflecting the slower-than-expected increase in investment. Agricultural recovery is expected to contribute to a third of the real growth for the fiscal year, in addition to a recovery in manufacturing and sustained growth in BPO, tourism, and trade. Over the medium term, growth is projected to gradually rise to around 2¾ percent, as large transportation and energy infrastructure projects come to fruition and planned structural reforms raise private investor confidence and investment.

12. **Inflation and current account balance projections are influenced by oil prices.** Headline inflation is expected to be 5.3 percent (y/y) by end FY16/17, as oil prices recover. Core inflation is also expected to rise, due to indirect impacts from the oil price increase. The current account deficit is expected to continue to decline as the economy grows and domestic production gradually replaces imports.

13. **Macroeconomic risks remain significant (Annex I):**

- Reform fatigue, capacity constraints, and the thin parliamentary majority of the current government could pose challenges to implementing key reforms. Continued sluggishness in growth and job creation may undermine public support for reform and fiscal prudence.

- Uncertainty regarding the revenues from the ongoing PIT reforms and accompanying revenue offsets (see ¶37) pose risks to the fiscal position, which may then translate into weaker growth if disappointing revenues crowd out critical capital spending.

- Government financing could be challenged by the still fragile domestic bond market, competition from potential corporate issuances, and the reliance on financing from international markets and other IFIs (both of which are dependent on continued strong program performance).

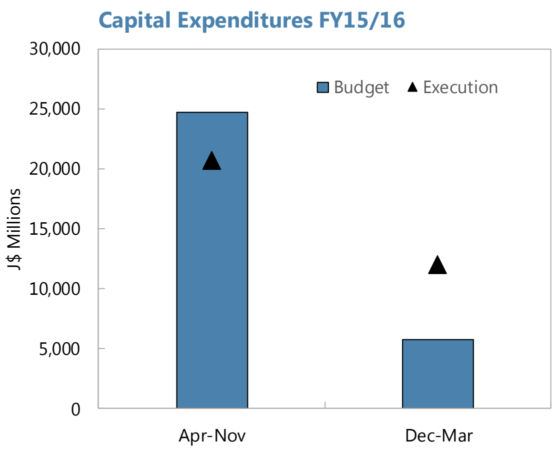
- Growth could also be affected by natural disasters, a worsening of the Zika virus (particularly insofar as it impacts tourism), and an economic slowdown in trade partners.

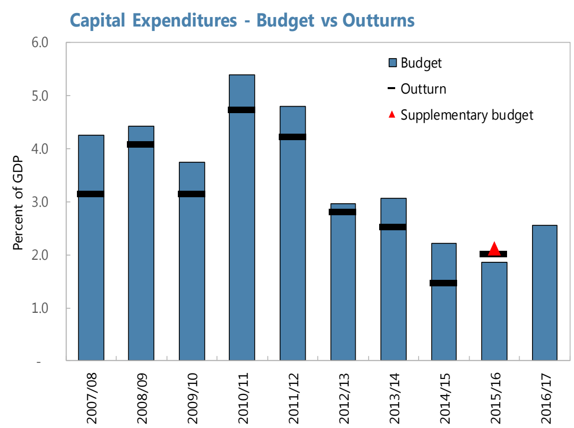
- Derisking activities from overseas banks may interrupt international financial flows (Box 3 and ¶22).

14. **The authorities broadly concurred with the outlook and risks.** The BoJ's growth forecast is 1.6 percent in FY16/17, with slower-than-expected investment growth being the main risk. They are optimistic about growth over the medium term, as the new Economic Growth Council's strategy for raising growth to 5 percent in four years unfolds, combined with the planned implementation of the large investment projects in energy and infrastructure. They are, however, concerned about capacity constraints of the government, which could delay reform implementation.

PROGRAM IMPLEMENTATION

15. **Program implementation has been solid.** All quantitative performance criteria (PC) for end-December 2015 and end-March 2016 were met; the NIR and NDA targets were exceeded by sizeable margins. Jamaica has outstanding arrears to Iraq, which has consented to Fund financing notwithstanding these arrears. The central government primary surplus for FY15/16 was 7.4 percent of GDP, above the target of 7.25 percent of GDP mainly due to the lower nominal GDP. Capital expenditures were J$33 billion in FY15/16, driven by an overexecution of nearly J$6 billion during December to March, including the additional fiscal space for growth-enhancing capital spending of J$4 billion approved at the 10th review.





Jamaica: Program Monitoring—Quantitative Performance Criteria Under the Extended Arrangement Under the EFF 1/2/
(in billions of Jamaican dollars)

	10th Review PC End-March 2016	Adjusted PCs End-March 2016	End-March 2016 Actual	End-March 2016 Difference	PC Status End-March 2016
Fiscal targets					
1. Primary balance of the central government (floor) 3/	120.7		120.8	0.1	Met
2. Tax Revenues (floor) 3/9/	393.0		411.8	18.8	Met
3. Overall balance of the public sector (floor) 3/	-14.3	-10.8	26.3	37.1	Met
4. Central government direct debt (ceiling) 3/4/	77.0		-52.8	-129.8	Met
5. Central government guaranteed debt (ceiling) 3/	0.0		-21.3	-21.3	Met
6. Central government accumulation of domestic arrears (ceiling) 5/11/12/	0.0		0.0	0.0	Met
7. Central government accumulation of tax refund arrears (ceiling) 6/11/12/	0.0		-4.4	-4.4	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/	23.2		26.1	2.9	Met
Monetary targets					
10. Cumulative change in net international reserves (floor) 7/10/	-339.0	-298.6	429.0	727.6	Met
11. Cumulative change in net domestic assets (ceiling) 10/	39.1	41.3	-38.1	-79.4	Met

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Based on program exchange rates defined in the June 2015 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-March 2014.
11/ Continuous performance criterion.
12/ Measured as the change in the stock of arrears relative to the stock at end-March 2014.

16. **Structural reforms have been broadly on track, though there have been delays in certain structural measures due to capacity constraints and government transition.**

- Phase 2 of the RAiS (GENTAX) integrated tax software package was implemented for all major tax types.
- The structural benchmarks on establishing a team for implementing the human resources software and hiring of new auditors for the customs for post-clearance audit were achieved.
- The minimum transaction size for retail repos has been increased to J$1,000,000 and US$10,000. The investment cap for CIS in foreign assets was raised to 25 percent.

POLICY DISCUSSIONS: PROMOTING STABILITY AND RAISING POTENTIAL GROWTH

A. Safeguarding Macroeconomic Stability

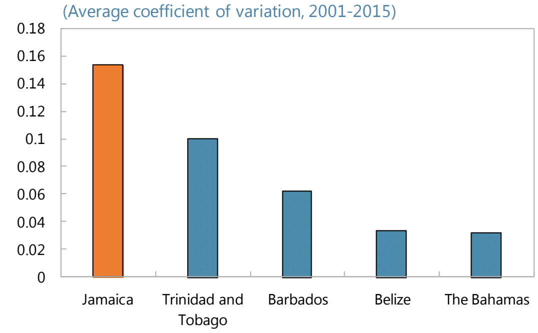
Fiscal Sustainability

17. **Fiscal discipline is the central plank for macroeconomic stability in Jamaica.** Decades of high public debt and interest bills have hindered public service provision, including security, education, and energy. The risks from a precarious fiscal position have also undermined confidence and raised risk premia, crowding out private investments. Strong program implementation in the last three years has improved fiscal credibility and lowered borrowing costs. Staying the course is critical to further reduce debt and create the space for productive spending.

Improving Monetary Framework

18. **Monetary policy should be guided by an overarching mandate for achieving price stability.** Until its recent steady decline, inflation has been high and unstable, making expectations hard to anchor. Although the BoJ regards inflation target as its nominal anchor, the effectiveness of actual monetary operation is weakened by the central bank's multiple objectives, which include managing credit conditions to promote production, trade, and employment, while maintaining monetary stability as well as the external value of the currency. A flexible exchange rate with a firmly established single mandate for achieving price stability will bolster BoJ's policy credibility and provide clear policy signals. BoJ's governance and autonomy also need to be improved to increase transparency and accountability in conducting monetary policy as fiscal dominance dissipates. Other factors such as developing financial markets, advancing modeling and

Volatility of Price Level
(Average coefficient of variation, 2001-2015)



forecasting ability, and improving policy communication, are also important. The work program for monetary reforms should be organized around the long-term goal of moving to a full-fledged inflation targeting regime. The annual inflation targeting readiness review is a helpful step in this direction.

Strengthening Financial Sector Stability

19. **Improving prudential regulations for the retail repo industry is important for financial stability.** Regulatory requirements for SDs need to be tightened and the risks of the retail repo industry be reduced to a systemically safe and prudentially manageable level, drawing on IMF TA recommendations. The authorities are currently working on prudential guidelines, including introducing an operational risk-weighted asset component in calculating the SD's CAR, requiring regular stress test reports, and limiting SD's exposure to any counterparty. They are also aiming to implement a minimum retail repo leverage ratio. Due to the strong sovereign-financial sector nexus in Jamaica, the speed of regulatory tightening needs to take into account the health of the SD sector and domestic financing needs.

20. **Strengthening debt management and developing domestic debt markets will help lower public borrowing costs and financial stability risks.** While successful reopening of the domestic government bond market in February 2016 was an important milestone, more work is needed to build a deep and liquid domestic debt market (Box 2), so as to reduce the currency, duration, and concentration risks for both the government and the financial sector. To the extent that the market conditions and the absorptive capacity of the domestic investor base allow, the upcoming bond redemptions should be refinanced in the domestic market, to help rebalance the debt portfolio from FX to local currency (Annex IV). Additional reforms, in line with recommendations from IMF TA, to reform the primary dealer system and introduce competitive auctions to replace taps should be pursued.

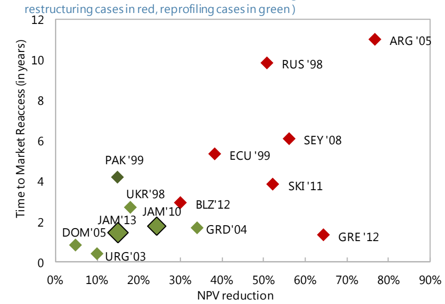
Box 2. Re-establishing Domestic Bond Market Access

It took Jamaica three years to reestablish domestic market access following the 2013 National Debt Exchange (NDX). Jamaica regained international market access quickly (in July 2014) supported by strong program performance, investors' search for yield, and the exclusion of international bonds from NDX. However, with 2 debt exchanges in a span of three years, reestablishing domestic market access after the NDX took almost three years.

The hard work of facilitating debt market development is still ahead. Efforts are needed in:

- *Prioritizing debt market development in the medium-term debt management strategy* to prevent exclusive focus on meeting immediate funding needs at the lowest cost. This would include developing a domestic debt market development plan in consultation with the key stakeholders, including the private sector.
- *Better coordination between the MOFP and the BOJ* to avoid competition between debt and monetary policy objectives, to address liquidity swings from large bond redemptions coming up in FY 2017/18.

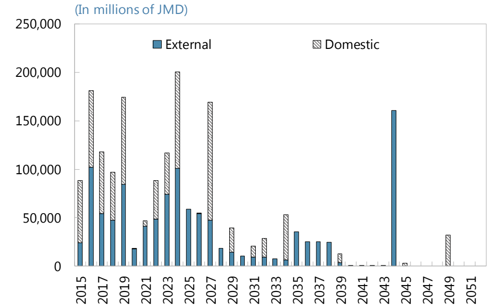
Restructuring and Reprofiling Cases - Time to International Market Reaccess
(Based on first international bond issuance following debt treatment, restructuring cases in red, reprofiling cases in green)



Sources: Moody's Sovereign Default Series, Bloomberg, and Fund staff estimates.

- *More active use of liability management operations* to enhance market liquidity and to mitigate refinancing risks. Retiring undervalued bonds or refinancing high-coupon bonds helps book budget savings, build more liquid benchmarks, and improve the composition of government's debt portfolio.
- *Promoting bond market liquidity* by reforming the primary dealer system to incentivize two-way price making, switching to an auction-based primary issuance mechanism, and building a larger T-bill market.
- *Ensuring stable demand for J$ government bonds* by conducting active outreaches to domestic investors. Coordination with the regulatory authorities may also be needed to prevent drastic reduction in the demand for J$ government bonds over the medium term.

Redemption Profile, as at end-2015
(In millions of JMD)



21. **Reforms on contingency planning and crisis management should continue.** A national crisis management plan and agency-specific contingency plans in all supervisory agencies (BoJ, MoF, FSC, JDIC) have been adopted. Regular financial crisis simulation exercises are necessary to identify weaknesses in the plans. Recovery plans for certain participating institutions are needed to give them access to the emergency liquidity and capital support facilities. A working group led by the JDIC has been designing reforms to the legal framework for the resolutions of the financial sector, but tangible progress is still needed.

22. **Multi-pronged efforts are needed to address potential future loss of correspondent banking relationships.** The trend of globally active banks scaling back their correspondent banking presence has caused interruptions in money service businesses (Box 3). While this has not yet significantly impacted the domestic deposit taking institutions in Jamaica at this point, there is prospective risk that should be addressed to avoid potential disruptions in financial services and reputational risks for the financial sector. In this regard, Jamaica should continue to address

remaining weaknesses in its AML/CFT framework in the context of implementing the recommendations by the Caribbean Financial Action Task Force's mutual evaluation, enhance the risk-based supervision of the financial sector, notably the money service business (MSB) sector, and effectively communicate its compliance efforts to overseas partners. In addition, contingency plans, including possible interventions from the BoJ for a limited period, should be prepared in the event of a broader loss of correspondent bank linkages.

Authorities' views

23. **Authorities concurred with the need to safeguard and further enhance macroeconomic stability.** In particular:

- Authorities are cognizant of the gains achieved by the sustained fiscal discipline, including confidence in both domestic and international markets. They agreed with the need for sustained consolidation, while also emphasizing the need to rebalance fiscal policy towards growth. They also agreed that the rising dollarization of government's debt portfolio needs to be addressed through active measures to develop the domestic debt market.

- They are committed to continued reforms of the SD sector and strengthening the national crisis management framework and resolution schemes. They expressed concerns about the potential negative impact of reductions of financial services by overseas banks on financial sector stability and financial inclusion, and requested Fund support in their effort to communicate the issue with overseas financial regulators.

- They agree with the need to further refine the monetary framework, but emphasized that the decision to pursue inflation targeting needs to be a deliberate one and further investigation is needed to determine whether it is a path suitable for Jamaica.

Box 3. Loss of Correspondent Bank Relationships and the Impact on Jamaica

Decisions by globally active banks to scale back operations has affected the operation of money service businesses (or cambios) in Jamaica. In 2012, the Financial Action Task Force (FATF) issued recommendations that identified cambios as high risk entities. Enhanced scrutiny by correspondent banks, including requirements for Jamaican respondent banks to have in place a solid risk management system for suspicious transactions, led to an intensified assessment and monitoring of cambios. Subsequently, multiple overseas correspondent banks gave notice to Jamaican domestic banks that prohibited transactions on behalf of cambios through their accounts, given the difficulty of undertaking due diligence on such transactions. As a result, domestic banks have stopped cash transactions with cambios altogether (Cash transactions are about 20 percent of total cambio transactions).

There have also been some losses of correspondent bank relationships (CBR). Since 2012, five domestic banks have had some of their CBRs terminated. But the FX transactions of these banks have not been impacted, as they were able to maintain their existing relationships with other overseas banks or find replacement for their lost CBRs**.** A large Canadian bank exited the Jamaican market in 2014, citing a reevaluation of their business mix as the reason. However, this appeared unrelated to regulatory restraint and was more a product of a broader realignment of that bank's global business model.

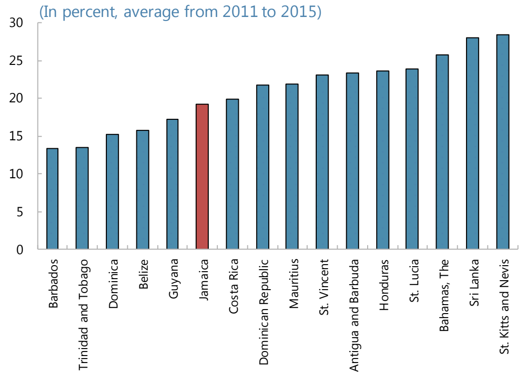
The shifting pattern of global banking has not significantly impacted financial flows into Jamaica, but its implication on financial inclusion could be relevant. Cambio transactions are typically small exchanges with individuals and provide convenience for workers in the tourism industry. The disruption in cambio services may also potentially drive FX transactions underground and increase dollarization in Jamaica.

Possible actions are currently being discussed in the Caribbean Community (CARICOM) to mitigate the impact on the loss of CBRs for the region. These include: (i) collective action and bundling of services to increase the business volume brought to a smaller number of correspondent banks; (ii) introduction of a scheme to purchase CBR insurance policies; (iii) the possible creation of a US-licensed special purpose vehicle (SPV) to process international transactions; and (iv) payment of CBR service fees.

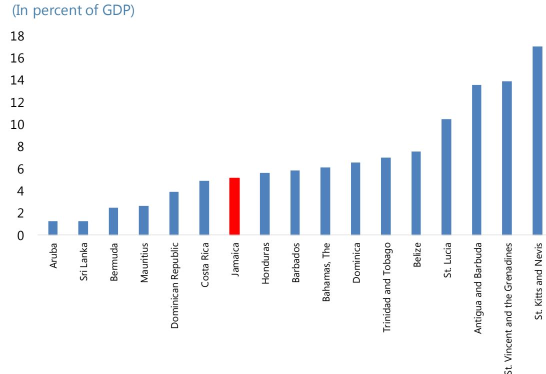
B. Raising Potential Growth and Creating Jobs

24. **Jamaica's growth strategy should focus on fostering the development of a dynamic private sector** (Annex II). Jamaica's per capita GDP growth has averaged 0.3 percent since 2000; the current potential growth is less than 1 percent. Investments and FDI inflows are among the lowest in the region. Traditional goods exports such as bauxite and sugar are losing market share to intense global competition, while the process of diversifying into new export categories has been slow. Tourism has contributed to the largest share in total exports of goods and services, but the upward potential of the sector is constrained by the enclave model that limits positive spillovers into the rest of the economy. Mobilizing the private sector is essential to support an increase in potential growth.

Fixed Investment to GDP
(In percent, average from 2011 to 2015)

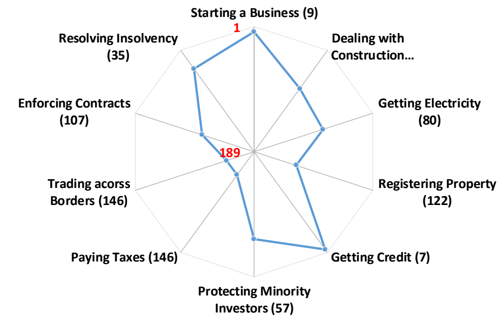


FDI Net Inflows, Average 2000-2014
(In percent of GDP)



25. **Private sector dynamism is constrained by multiple factors.** Staff analysis indicates that high crime, lack of financial access and high financing cost, and high tax compliance cost are among the primary deterrents to private sector growth. World Bank's Doing Business indicators show that trade facilitation, contract enforcement, and property registration are some of the areas Jamaica needs urgent improvement in. In addition, better infrastructure, greater external competitiveness and improved public sector efficiency and resource allocation will help foster private sector-led growth.

***Doing Business* Environment - Jamaica Rank**
(1-best; 189-worst)



Access to and Cost of Financing

26. **Low financial access and high financing cost hamper private sector growth.** Commercial banks have historically focused on providing government financing, resulting in crowding out of private credit. Low level of bank operational efficiency and high taxation of the financial sector have led to high interest rate margins on loans to the private sector.

27. **Efforts are needed on both macro and micro fronts to improve financial access and reduce the interest rate spread.**

- *Financial regulations*. Increasing banking sector competition, including by allowing qualified new entrants, conditional on implementing requisite supervision and regulation, should help lending rates become more responsive to policy rate changes and lower interest rate spreads. High collateral requirements (currently averaging over 200 percent of loan value) hinder financial access. The Security Interests in Personal Property Act was a helpful step to encourage the use of movable properties as collaterals, although complementary regulatory changes are needed to make the new law effective. The reporting requirements for opening bank accounts and applying for loans are onerous. Implementing a risk-based approach in assessing applicant risks can help reduce the reporting cost for low-risk borrowers. Improving land titling and creditor protection, and speedy implementation of the new bankruptcy law are also important.

- *Taxation.* The financial sector currently faces a combination of asset taxes, a higher CIT rate, and distortionary transaction taxes, resulting in combined statutory tax rates of 40-50 percent. A more equitable tax treatment across regulated and non-regulated entities would help lower the interest rate spread and costs of financial services. Reforms could be combined with the introduction of a capital gains tax and broadening indirect taxation to the financial sector. Tax reforms, combined with more competition and better credit assessment, could increase private credit creation and support growth.

- *Financial services*. The development of agency banking services, mobile money products, and factoring and leasing services should facilitate financial inclusion and deepening, especially among the under-banked population, such as rural borrowers and SMEs. Advancing electronic payment/transaction systems can help reduce the usage of cash and bank operating costs.

- *Equity and debt markets*. Developing financial markets to provide alternate financing sources is important for building private sector entrepreneurship. For example, expansion of the junior stock exchange should be encouraged. However, this should be achieved by lowering barriers to entry and simplifying listing requirements—with appropriate risk control—rather than using tax incentives to encourage listing, which is subject to abuse.

Energy, Logistics, and External Competitiveness

28. **Energy generation sources should be diversified to help sustainably reduce energy cost.** Several projects are underway to diversify Jamaica's energy landscape, including the conversion in the Bogue power plant from diesel- to natural gas-based power generation and the new 190MW gas-powered plant by Jamaica Public Service. Upgrading the grid infrastructure and improving metering and billing should help reduce distribution losses and lower electricity cost. Strengthening public-private partnerships in renewable energy and the power sector's regulatory framework to encourage private-sector participation will facilitate investments in the sector.

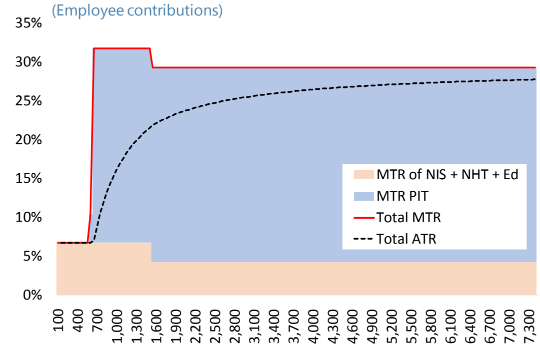
29. **Efforts are ongoing to improve critical infrastructure**. Concession of the Kingston Container Terminal and privatization of the international airport in Kingston will help modernize and lower operational costs of both structures, increasing Jamaica's attractiveness as an investment destination and a logistics hub. Improving road connectivity across the island would promote linkages between tourism and the rest of the economy.

30. **Exchange rate flexibility is needed to avoid the past patterns of the competitiveness erosion from currency overvaluation.** In applying EBA-lite methodologies on exchange rate valuation, special consideration is given to external sustainability, given Jamaica's large negative international investment position (-140 percent of GDP, Annex III). Convergence to a more sustainable IIP position (-70 percent of GDP, about the average for other emerging market countries at a similar GDP per capita level) in a period of no more than 15 years would require a somewhat more depreciated real effective exchange rate. The equilibrium real exchange rate model also points to overvaluation, while the current account model points to modest undervaluation. Given the mixed findings, staff's view is that the exchange rate is broadly in line with fundamentals. That said, given the importance of the IIP sustainability, the balance of risks is toward a modest overvaluation, which was a past pattern that eroded external competitiveness. Thus, it is essential to maintain a floating exchange rate, with the Jamaican dollar depreciating by at least as much as the inflation differential with trading partners. Maintaining a flexible exchange rate would imply that interventions in the FX market—which should be governed by BoJ's decisions—should be largely for the purpose of building reserves and smoothing out excessive exchange rate volatility.

Efficient allocation of public resources

31. **Further tax policy reforms are needed to support private sector development.** Notwithstanding tax reform achievements over the last few years, current PIT, education tax and social contributions (NIS and NHT) impose high tax rates on moderate-income workers, discouraging formality. The ongoing plan to lower the PIT burden is a bold step in moving away from reliance on distortionary direct taxes, encouraging formality and rebalancing towards indirect taxes. These reforms, however, need to be backed by strong implementation of offsetting measures to safeguard revenues and avoid undermining fiscal performance (¶37).

Average and Marginal Tax Rates
(Employee contributions)



32. **Efforts are needed to reduce taxpayer compliance costs and improve tax administration, particularly given the risk of revenue loss from the ongoing PIT reform**.

- Significant progress has been achieved in improving compliance among large taxpayers. In the future, there is scope for expanding audit capacity to improve compliance also among the medium and small taxpayers.

- Also, in light of the new transfer pricing law, and in line with IMF TA advice, a review of Jamaica's international tax regime is warranted, with a focus on thin capitalization rules, tax treaties and withholding taxes. This is especially important given the reliance on taxes from the financial sector which has large multinational players.

- The new Special Economic Zones (SEZ) will also pose leakage risks. Stronger domestic ties from SEZs, while increasing value added to the economy, will also put additional strain on a still developing revenue administration. Regulations to safeguard revenues should be passed as soon as possible, including clear administrative penalties, sanctions against tax evasion, and strong bonded warehouse controls.

- With help from the World Bank, Phase III of the Customs Act is expected to be tabled by December 2016 and will include measures to facilitate trade and streamline customs procedures (e.g., uniform documentation requirements, improving multi-agency coordination, and permitting electronic payments) to lower the costs of compliance to importers and exporters.

33. **Improving public sector efficiency will support private sector-led job creation.** The recent announcement of the divestment of Petcom to private investors is a welcome step. The authorities' commitment to a time-bound action plan for the divestment of public enterprises and implementing shared-corporate services (*proposed structural benchmark end-September 2016)* is important. A strategic examination of the role of government in different areas will be needed with a view to scale back some services and prioritize others. Strengthening control systems and

accountability, and addressing duplication and inefficiencies in public employment will be key first steps to achieve the 9 percent of GDP wage bill target and open fiscal space for growth-enhancing capital spending (¶38).

Protecting the poor

34. **Strengthening PATH transfers and services is key to protecting the poor and reducing inequality.** Rebalancing from direct to indirect taxes will require improved targeting of PATH transfers to ensure that any increased funding only goes to the neediest. Speedy implementation of the national identification system (NIDS) will be an important step in this regard. The first phase of the project, which included the development of the legislative and institutional framework and designing the ICT infrastructure, has been completed with IDB support. In addition, services currently provided through PATH, such as entrepreneurship and skills training, should be strengthened and expanded to help workers transition into dynamic sectors.

Authorities' Views

35. **There was agreement on the need for reforms to boost growth.**

- Authorities emphasized that promoting growth is the central mandate of the current government. They have launched an Economic Growth Council, comprised of private sector leaders, to advise the government and hold it accountable on initiatives to stimulate growth. The authorities also plan to invest in agro-parks and water infrastructure, seek out large foreign investments, and improve skill training for young people, in order to support growth and job creation.

- Authorities noted that the PIT reforms will be an important step in rebalancing from direct to indirect taxes and could generate compliance dividends from increased formality. They are committed to increasing the efficiency of the public sector, and noted that the plans for divestment and outsourcing will yield significant gains. Authorities are cognizant of the risks posed by transfer pricing practices and SEZs and will seek to put in place containment measures, while noting that staff should be mindful of capacity constraints.

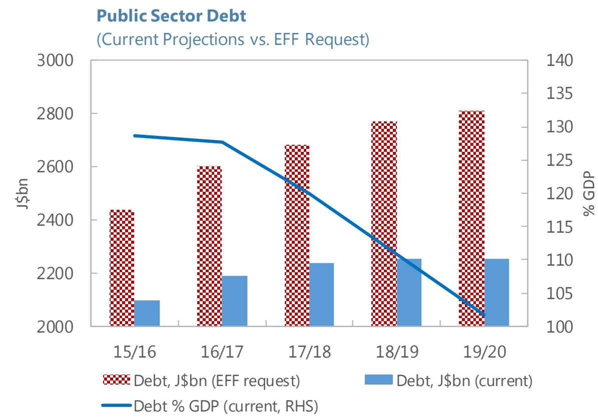
- On the junior stock exchange tax incentive, the authorities noted that the tax incentive played an instrumental role in SMEs' decision to go public, and intend to continue implementing the incentive while tightening rules to prevent its abuse.

- On exchange rate valuation, the authorities agree that external competitiveness should be maintained. But they stressed the importance of exchange rate stability in facilitating economic activities and reducing dollarization pressure.

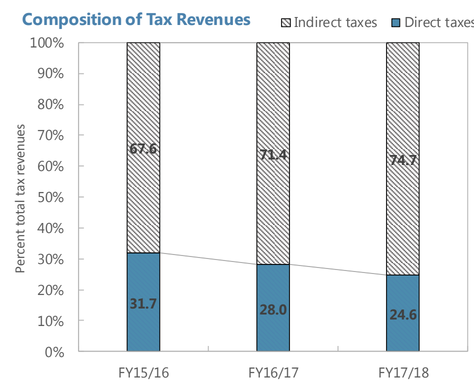
PROGRAM POLICIES

A. 2016/17 Budget

36. **Fiscal targets for 2016/17 remain unchanged with a primary surplus goal of 7 percent of GDP.** Authorities have reiterated their commitment to fiscal discipline which they see as an important anchor to stability and confidence. Public debt reduction has been better than expected in nominal terms, following the PetroCaribe debt buyback. The debt to GDP ratio is expected to remain broadly constant in FY16/17 due to a combination of small amortizations during the year and pre-financing for large redemptions coming due in early FY17/18. In the current low inflation and growth environment, the debt-to-GDP ratio could exceed 102 percent by end-March 2020 in the absence of further measures. The government is cognizant of these risks and is currently identifying measures, including the scope for debt-for-policy swaps, to reduce debt to the targeted 96 percent of GDP by end-March 2020, as envisaged at the start of the program.



37. **A significant tax package will structurally improve the tax system.**



- Starting July 1, 2016, the exemption threshold for the personal income tax will be raised to J$1,000,272 from the current J$592,800. A further increase to J$1,500,096 has been announced for April 1, 2017.

- The marginal tax rate for earnings above J$6 million will be increased from 25 to 30 percent on July 1, 2016. The introduction of a top bracket for higher earners is an important first step for increased progressivity in the tax system.

- The cost of this tax reform is estimated at 0.7 percent of GDP (about J$12.5 billion) in FY16/17 and a further 0.9 percent of GDP (about J$16 billion) in FY17/18.

PIT Reform and Offsetting Measures
(J$ billion,FY16/17)

	Prorated	Full year
Revenue loss from PIT reforms	12.5	15.5
Offsetting measures		
Increase SCT on fuel by J$7 a liter	6.5	7.4
Increase departure tax to US$35	5.3	6.4
Increase SCT cigarettes by J$2 per stick	0.6	0.7
Implement new LNG taxation regime	1.4	1.6
Total FY16/17 measures	13.8	16.1

- The revenue loss for FY16/17 will be offset mainly by higher fuel excises and departure taxes, which are estimated to generate about $14 billion in revenues annually.

- With the support of IMF TA, authorities are exploring revenue offset options for FY17/18 to continue rebalancing towards indirect taxation, including the scope for environmental/carbon taxes. As the balance shifts further toward indirect taxes it will be essential to strengthen conditional cash transfers to mitigate the impact on the poor.

38. **Capital and social spending will continue to be protected and enhanced.** Social spending in FY16/17 remains protected with a floor under the program. Capital spending will increase by around 2/3 percent of GDP relative to the FY15/16 outturn (including the 1/2 percent of GDP additional space created at the 10th review). The government's list of priority projects identified for the additional space is included in the TMU. The budget includes a contingency reserve of 1 percent of GDP to cover changes in debt service costs and natural disasters, and also to mitigate potential overruns in the wage bill. However, given the uncertainties surrounding revenues in FY16/17, it is imperative to identify other revenue and spending contingencies early which can be deployed if needed to safeguard fiscal targets without compressing capital expenditure.

39. **The reduction of the large wage bill, which continues to crowd out other spending, hinges on reforms to modernize the public sector.** The public sector wage bill is budgeted to exceed 10 percent of GDP in FY16/17, driven by the downward revision in nominal GDP and delays in reaching wage agreements with some unions, which shifted their pay increase from FY15/16 to FY16/17. Given continued upward pressures in the wage bill, concrete steps have been agreed with the authorities to strengthen information and control systems over the wage bill (MEFP ¶10). The costs to economic growth of failing to deliver a significant reform on the wage bill will likely be significant because it will continue to entail major difficulties in financing higher levels of pro-growth public investment and/or further increasing the tax burden.

Allowances 2014/15

(In percent of GDP)

Total allowances	**3.50**
Recurring allowances[1]	**1.80**
Travel allowances (non-recurring)	**0.73**
Ministry of Education, Ministry of Health, and Ministry of National Security	*0.36*
Other Ministries	0.37
Other non-recurring allowances	**0.97**
Ministry of Education	*0.17*
Ministry of Security	*0.07*
Ministry of Health	*0.27*
Other Ministries	0.46

1/ Breakdown across ministries is not available.

- Informed by the ongoing compensation review which is expected to be concluded in December 2016, the authorities' goal is to achieve the wage to GDP ratio of 9 percent by FY18/19 (MEFP ¶10). The compensation review will also provide inputs to the medium-term wage policy to guide the next round of wage negotiations (expected to begin in November 2016).

- The implementation of the human resource management system (HCMES) is ongoing, and the pace needs to be accelerated by giving it higher priority with more ambitious action plans and stricter timelines. Strengthening information gathering to arrest duplication and inefficiencies in public employment are necessary.

- The comprehensive review of allowances and the employee verification exercise *(both proposed structural benchmarks for end-November 2016)* will represent key first steps to improving control and oversight over the wage bill. Pilots in the Ministry of Finance and the Public Service will be implemented for both exercises by end-August 2016. In addition, the allowances pilot will encompass Ministry of Health, Ministry of Education and Ministry of National Security, which together represent the lion's share of central government employment and receive the majority of allowances. For the employee verification exercise, the pilot will target public employees in the civilian workforce of the police, the non-teaching personnel at the Ministry of Education, and the National Insurance Scheme—areas where turnover of personnel is highest and maximum gains could be had from a headcount exercise. Significant capacity constraints limit faster progress in this area; thus, both exercises will be completed for all central government employees by Q1 2017.

40. **Reforms to the public pension system are necessary for its sustainability.** Full implementation of the reforms could lower cash flow costs from the unfunded public pension system by as much as 0.5 percent of GDP in the long run, with immediate gains of about 0.1 percent of GDP if the government does not make matching contributions. The new government is expected to re-table the draft law in parliament by July 2016 (MEFP ¶10). The main features from the previous draft should be maintained, including the mandatory contribution of 5 percent and increasing the retirement age to 65 years. These are essential reform measures in order to improve the sustainability of the system, especially in light of population aging. Parametric changes should also follow in order to lower an overly generous benefits accrual rate, and reform the benefits calculation formula.

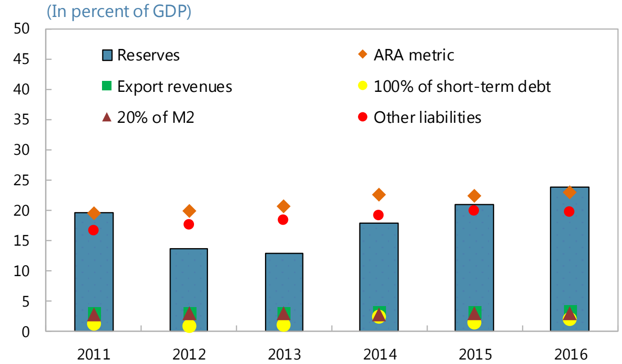
41. **Improvements in public financial management (PFM) will enhance management of domestic arrears.** The approval for the new organizational structure of the Accountant General Department (*proposed structural benchmark end-September 2016*) will greatly aid in the department's transition to becoming a modern treasury and enhancing its capacity. The ongoing expansion of the TSA will soon make it the only account in the public sector with a positive balance, providing a complete picture of the government's cash position at any point in time. The review of legal provisions for all revenues to be paid into the Consolidated Fund and improving accounting and fiscal reporting will also be important steps in this direction.

B. Monetary, Exchange Rate and Financial Sector Policies

42. **There is scope for improving liquidity provision and modernizing the structure of monetary operations.** Empirical analysis indicates that the policy rate was broadly aligned with the neutral rate after the rate cuts by a total of 50 bps in 2015 (Box 4). Meanwhile, the BoJ cut the policy rate by another 25 bps in May 2016 to 5 percent, given the moderate inflation outlook. More policy rate cuts are feasible if inflation expectations decrease. Meanwhile, pricing for short-term liquidity provision (14-day repos) could be further reduced to be consistent with the lowered policy rate. The transmission from BoJ's policy rate to market interest rates is relatively weak (Box 4). In line with IMF TA advice, improving monetary policy effectiveness requires establishing a clear operational target and further narrowing the interest rate corridor by consolidating the instruments that define its boundary, taking consistent actions to steer the target within the corridor. Improving the turnover and depth of the interbank market and the secondary bond market will also help strengthen monetary transmission.

43. **The BoJ should continue to build international reserves.** Although the reserve position has significantly improved over the program period, further accumulation is warranted. The near-term goal should be to raise reserve coverage to over 100 percent of the ARA metric by 2017. In addition, the reliance on both borrowed reserves and FX surrender requirements should give way to market purchases overtime. In line with IMF TA advice, the BoJ intends to move to fixed-volume FX auctions to improve market price discovery. The central bank is also weighing measures to address the risk of potentially speculative FX positions of financial institutions that could contribute to further financial stability.

Reserve Adequacy
(In percent of GDP)



44. **Progress is needed to establish a resolution framework for the financial sector**. Clearly defining the roles and responsibilities of different agencies in the resolution process is critical. As a next step, a consultation paper with concrete proposals on the framework should be drafted (*proposed structural benchmark for October 2016*), following which legislations to support the framework and the national crisis management plan should be drafted and tabled. The BoJ's mandate for financial stability needs to be substantiated with concrete tools, and information exchange among financial regulators needs to be strengthened. The Financial System Stability Committee—instituted by the amended BoJ Act in 2015—should be formally established to advice on evolving financial stability risks and promoting information exchange across the various agencies (MEFP ¶15).

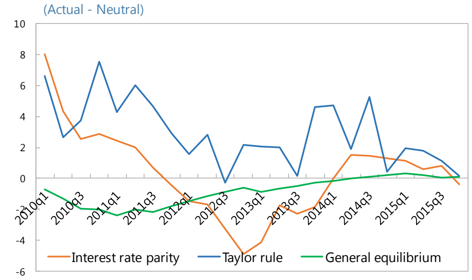
Box 4. Monetary Stance and Monetary Transmission in Jamaica

The policy rate is a main tool for calibrating monetary policy stance in Jamaica. To assess the appropriateness of the monetary stance, it is useful to compare the current rate with the neutral interest rate—i.e., the prevailing rate at which output gap is closed and inflation stable.

Several models are used to estimate the neutral rate:

- *Uncovered interest rate parity (UIP) condition*. The method relies on the assumption that nominal domestic interest rate should be equal to nominal international interest rate, plus expected nominal depreciation and a country risk premium.
- *Dynamic Taylor Rule*. In this model the policy rate is assumed to respond to deviations of (i) inflation from the BoJ's inflation target, and (ii) real GDP from its potential.
- *General equilibrium*. This semi-structural model relates the output gap to the neutral interest rate and the inflation rate to the output gap (Philips curve).

Interest Rate Gap
(Actual - Neutral)



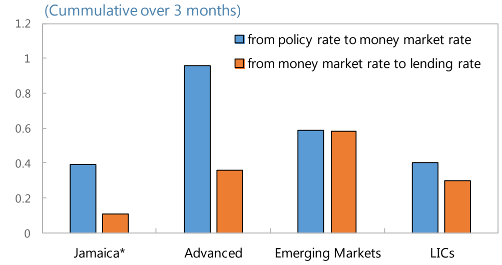
For the 2nd and 3rd models, systems of equations were estimated using Kalman filter.

Model estimates indicate that the current interest rate is aligned with the neutral rate. Based on quarterly data from 2000 to 2015, the UIP method suggests the neutral rate for 90-day T-bills to be 6.3 percent at end-2015, compared to the actual rate of 6 percent. Meanwhile, both the Taylor rule and general equilibrium methods suggest a neutral rate for BoJ 30-day CDs at around 5.1 percent, compared to the actual rate at 5.25 percent. Hence, assuming the output gap being closed in 2016 and inflation within target, the interest rate stance appears broadly appropriate.

Monetary policy is responsive to inflation conditions, but not to output gaps. Estimates show that there is a positive relationship between inflation gap, i.e. deviation of inflation from its target, and interest rate gap, which indicates that the policy rate has been adjusted to close the inflation gap. On the other hand, monetary policy has not been used to actively moderate business cycles. Moreover, regression results show that the policy rate stance has little effect on economic growth of the subsequent period, indicating potential weakness in monetary transmission through the credit channel, as discussed below.

Changes in the BoJ policy rate have limited effect on market lending rates. Theoretically, changes in the central bank's policy rate will cause changes in inter-bank rates and the interest rates on short-term government securities in the same direction, through arbitrages among commercial bank asset holdings. A reduction in the interbank rate from an increased supply of funds will tend to reduce bank lending rate and increase credit availability. However, these interest rate channels appear to be relatively weak in Jamaica. Results from estimating a autoregressive distributed lag model using monthly interest rate data shows that a reduction in the BoJ policy rate by 1 ppt leads to a 0.4 ppt reduction in the interbank rate over three months, lower than both advanced and emerging market averages. The pass-through from interbank rate to bank lending rate is even lower, at 0.15, compared to 0.3 and 0.9 in the average advanced and emerging market countries respectively. In addition, data indicates that the pass-through has been lower in the more recent period (after 2010), which is likely a result of the debt exchanges and their impact on bank liquidity and profit.

Interest Rate Passthrough
(Cummulative over 3 months)



* 2005 - 2015

C. Other Program Issues

46. **Modifications to the quantitative PCs for September 2016 and December 2016 are proposed.** Revisions are proposed to the existing PCs on central government primary balance, tax revenues, and overall balance of the public sector due to the downward revision to growth. The following new structural benchmarks are also proposed:

- Draft a consultation paper for the resolution framework for the financial sector, including proposals on (i) the scope, roles and responsibilities, and powers of institutions that would be covered by the resolution regime; and (ii) the legal structure of the regime (i.e., administrative, court-based, or a combination (end-October 2016).

- Complete a two-part pilot to build a comprehensive database on all allowances paid to public employees in the Ministries of Finance, Health, Security, and Education (end-November 2016).

- Verify each government employee's work position, eligibility for allowances, and role in the government, across the Ministry of Finance, the civilian population of the Ministry of Security, and the NIS, and non-teaching personnel in the Ministry of Education (end-November 2016).
- Submit to Cabinet implementation plans and timelines to (i) privatize entities (to be identified by end-July), (ii) implement shared corporate services across ministries in HR administration and payroll execution, asset management, communications (end-September 2016).

- A new organizational structure of the Accountant General Department will be approved by the Corporate Management Development (CMD) branch in the Ministry of Finance and the Public Service (end September 2016).

47. **Safeguards assessment.** The updated safeguards assessment of the BoJ, completed in September 2013, found that the BoJ has relatively strong safeguards, particularly in financial reporting and the audit mechanisms. The BoJ publishes audited financial statements annually and continues to receive unqualified (clean) audit opinions. In addition, the BoJ has made progress in further improving the safeguards framework by strengthening its independent oversight functions, enhancing transparency in the financial statements, and conducting an independent external review of the internal audit function. There is ongoing work on the recommendation to amend the BoJ Act to address shortcomings in the legal provisions on governance and autonomy.

48. **The program is fully financed and staff's assessment of Jamaica's capacity to repay the Fund remains broadly unchanged (Table 11).** This capacity is deemed adequate, and will continue to depend on the timely and strong implementation of the government's reform program. External multilateral financing for FY15/16 has evolved broadly in line with earlier program assumptions. Debt service to the Fund and the purchase profile remain unchanged in the absence of significant revisions to the macroeconomic outlook.

Public Borrowing Program
(In US$ million)

	2014/15	2015/16	2016/17
Financing Needs	841	3225	704
Uses of debt financing			
Budget financing [1/]	841	3225	704
Financing Sources			
Short-Term	124	168	228
Medium/Long-Term	1404	2926	466
Deposits drawdown	-688	131	10

[1/] For 2015/16, projections include US$1500 financing for the PetroCaribe debt buyback.

STATISTICS

49. **Weaknesses in data provision need to be addressed.** Jamaica currently produces annual and quarterly GDP estimates by production and annual GDP estimates by expenditure. Work has started on quarterly GDP statistics by expenditure, and on compiling financial accounts and balance sheets by institutional sector. The national accounts data is of reasonably good quality. A breakdown of government and private sector contributions to fixed capital formation would help track the evolution of sectoral growth drivers overtime. To better assess external competitiveness, more data is essential on private sector wages and unit labor cost.

STAFF APPRAISAL

50. **The government's reform program, supported with the four-year EFF arrangement approved in 2013, has been a turning point for the Jamaican economy.** The government embarked on the reform program to break the cycle of high debt and low growth that afflicted Jamaica for several decades. It embarked on a path of fiscal discipline to restore economic stability, reduce debt, and enhance growth through a wide range of structural reforms. The fiscal consolidation and extensive reform agenda have been difficult, yet necessary, in order to reverse the trajectory of vulnerabilities and achieve sustained stability, growth and job creation.

51. **With strong program implementation, macroeconomic stability has been restored and public debt is declining, but growth remains weak.** Macroeconomic stability is marked by inflation at historical lows, halving of the current account deficit over the program period, doubling of the NIR, and re-access to domestic and international financial markets. Yet, growth dividends from the reforms have been slower than expected, and unemployment remains high. The slow growth recovery is a symptom of entrenched structural bottlenecks whose correction requires perseverance and continued commitment to difficult reforms.

52. **Achieving private-sector led growth requires addressing some deep-rooted structural issues.** A history of fiscal dominance has resulted in inadequate lending to the private sector. Policies should focus, inter alia, on increasing banking sector competition and reducing collateral requirements to improve access to finance and inclusion. Reducing crime, lowering energy cost, reducing tax compliance cost, and improving infrastructure are essential to improve the business climate and increase private investment. The external competitiveness gains achieved during the program so far should be maintained by keeping the exchange rate flexible and allowing nominal depreciation to at least offset the inflation differential with trading partners.

53. **The phased PIT reform is a bold step by the new government, which, if done well, will reorient the tax system towards indirect taxation and improve compliance.** The rebalancing from direct to indirect taxes will reduce the marginal and average tax rates across the majority of PIT taxpayers, encouraging formality while spreading the tax burden. The new top tax bracket increases progressivity and fairness. However, revenue neutrality is essential and should be safeguarded

during the reform process. Also, an improved and well-targeted conditional cash transfer system, backed by a national identification system, will be essential to protect the poor and vulnerable.

54. **Public resource allocation must shift significantly towards essential capital spending.** The additional fiscal space created during the 10th review should be preserved solely for growth-enhancing capital spending, supported by the necessary capacity to execute the budgeted investment projects. The large public sector wage bill continues to crowd out other crucial expenditures. Informed by the ongoing compensation review, concrete measures need to be taken to lower the wage bill, including divestment and outsourcing of public services, and improving public sector efficiency with the aim to achieve the 9 percent of GDP wage bill target by FY18/19. Replacing distortive taxes (such as asset taxes, stamp duties and transfer taxes) with high quality taxes such as capital gains taxes and property taxes while reducing tax compliance cost will support private sector growth.

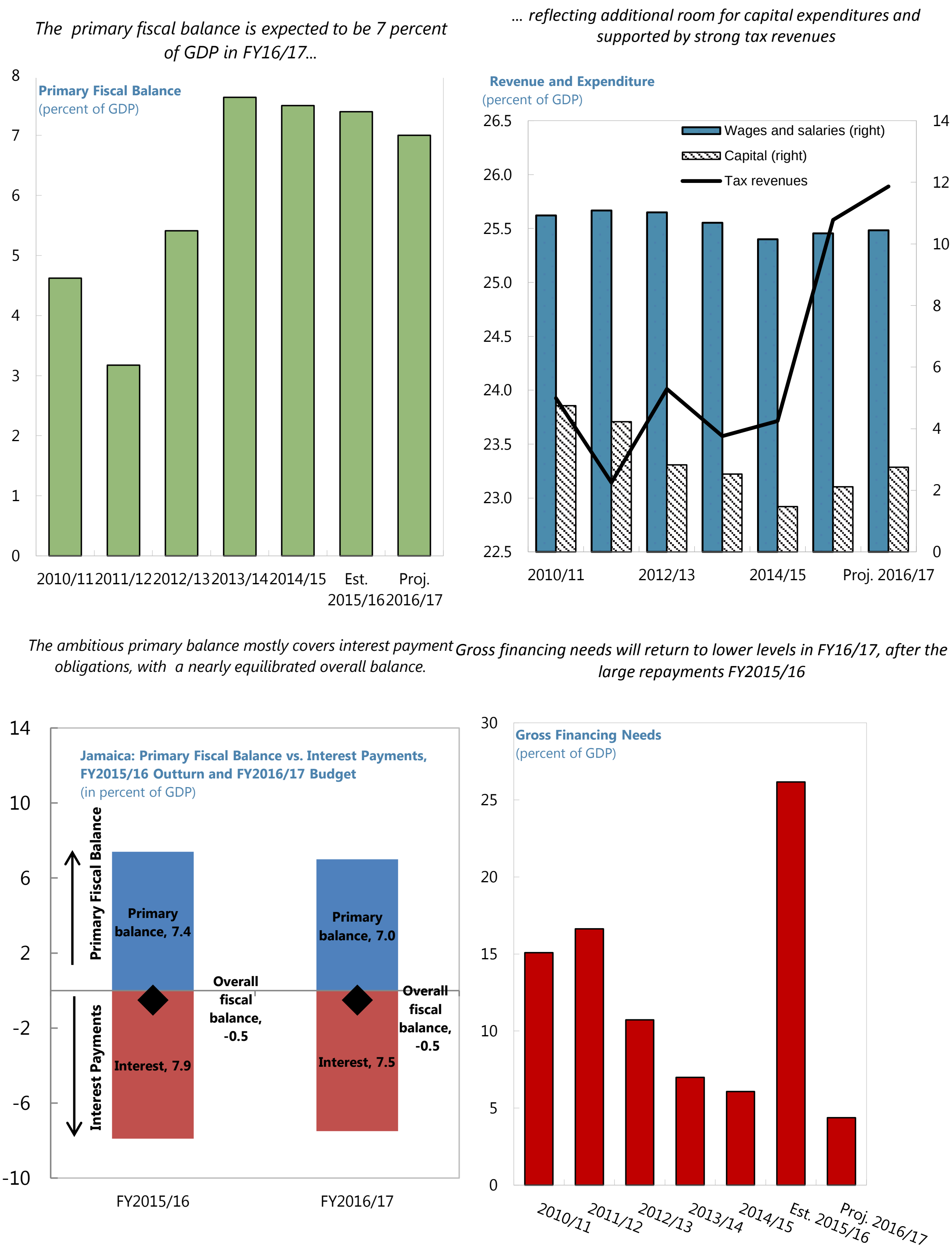
55. **Reforms to the monetary framework should center on achieving price stability.** The effectiveness of monetary operations is hampered by the multiple objectives of monetary policy. Maintaining a flexible exchange rate will help clarify the central bank's single mandate for price stability and provide the foundations to an eventual shift toward inflation targeting over the long term. Improving monetary operations will enhance credibility and help reduce interest rate spread. The BoJ's liquidity provision should be more consistent with the lowered policy rate, including by ensuring that the 14-day repo rate staying in the middle of the interest rate corridor.

56. **The financial sector should be strengthened through further retail repo reforms and enhanced financial sector supervision and crisis management.** The successful implementation of the trust framework significantly reduced legal and operational risks of retail repo transactions. The next step should be to bolster prudential requirements for retail repos and facilitate the reduction of overall retail repo portfolios to a level deemed by the authorities as systemically safe and prudentially manageable over the medium term. In addition, a legal framework for the resolution of banks and securities dealers should be set up without delay. To address rising dollarization and speculative FX pressures in the financial system, the authorities should explore the feasibility of introducing prudential limits on the FX net open position of financial institutions.

57. **Important risks remain, but continued reform implementation should yield stronger growth and job creation.** Risks include reform fatigue and loss of social support for the reform agenda in the absence of stronger growth, capacity constraints, thin majority of the government which may delay reform implementation, and weak revenue performance which could undermine fiscal consolidation and raise public borrowing costs. Notwithstanding those risks, the government's continued demonstrable commitment to the program and reform implementation should boost confidence and growth, and further buttress fiscal sustainability. Therefore, the staff supports the authorities' request to complete the 11th and 12th reviews for the arrangement under the Extended Fund Facility and the proposed modifications of performance criteria.

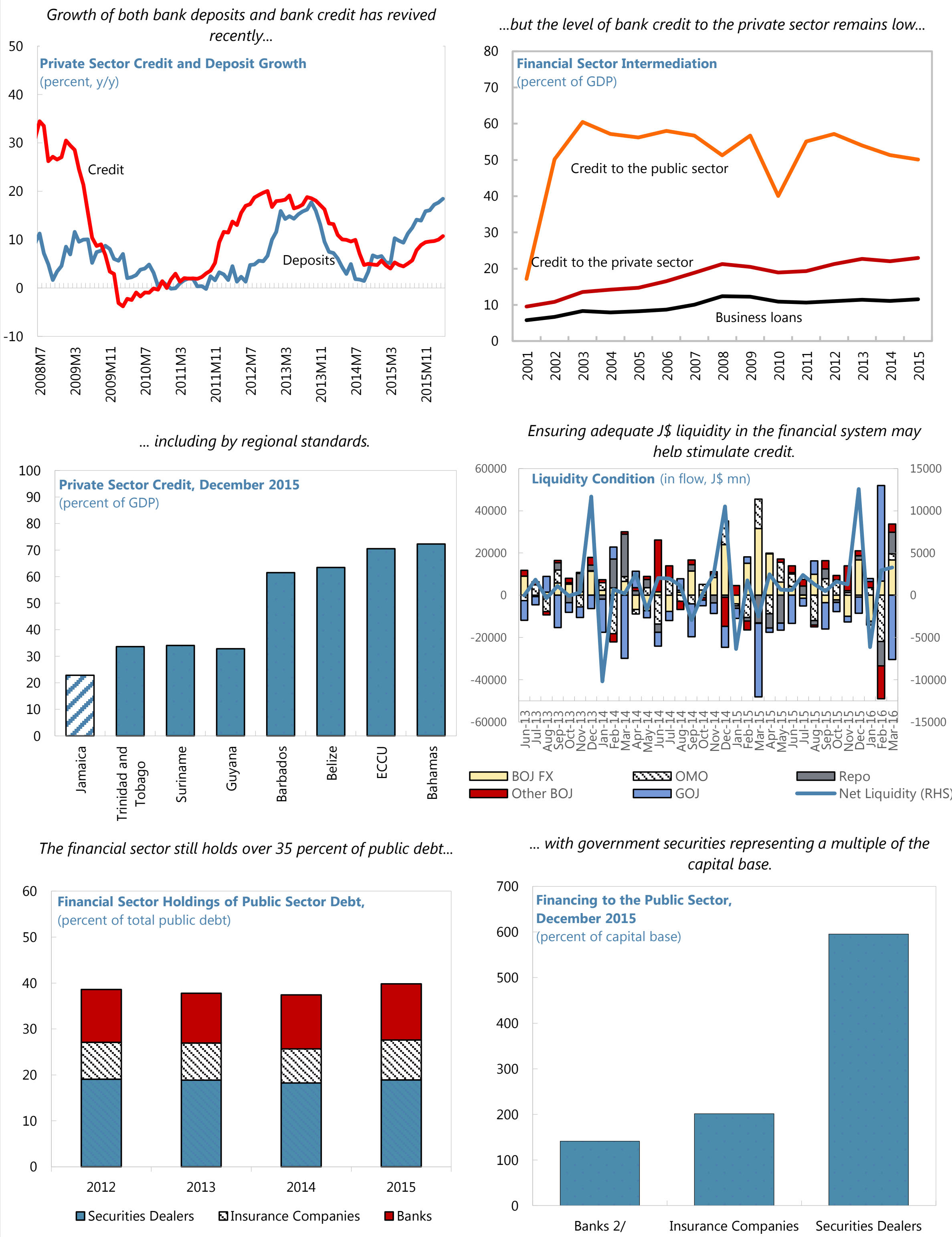
58. **The next Article IV consultation is expected to be held on a 24-month consultation cycle, in accordance with the Decision on Article IV Consultation Cycles (Decision No. 14747-(10/96)).**

Figure 1. Jamaica: Fiscal Developments



Sources: Ministry of Finance; and Fund staff calculations.

Figure 2. 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 3. Jamaica: Public Debt
More than half of public debt is external and consists of a wide range of instruments.
Total Public Debt, 2015/16
(percent of total public debt)
Government guaranteed 7.6% US$1.3b
Government (Domestic) 40.4% US$6.8b
Government (External) 52% US$8.8b
Bonds constitute a significant share of external debt…
0.11%
1.27%
6.15%
27.93%
55.47%
6.33%
2.74%
Bilateral OECD
Bilateral Non-OECD
Multilateral (Excl. IMF)
IMF
Commercial banks
Bonds
Other
… and carry the highest interest rates.
Effective Interest Rates of CG External Debt, 2015/16
3.0
4.0
1.3
3.0
5.9
Bilateral OECD
Bilateral Non-OECD
Multilateral
Commercial banks
Bonds
Domestic nominal interest rates are now single-digit.
Effective Interest Rates of CG Domestic Debt, 2015/16
(percent)
9.8
6.6
6.4
2.2
2.0
Fixed rate
Variable rate
CPI indexed
US JDX
US Loans
External debt has longer maturity than the domestic debt.
Debt Maturity Structure by Type, February 2016
(percent of total debt)
External debt
Domestic debt
<1 year
1-5 years
>5-10 years
>10 years
Savings on interest payments will free-up space for public capital expenditure, as the debt-to-GDP ratio falls.
Interest Payments and Public Investment Over the Medium term
(percent of GDP)
Debt to GDP Ratio (RHS)
Capital Expenditure
Interest Payments
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
Sources: Bank of Jamaica; Ministry of Finance; and Fund staff calculations.

Table 1. Jamaica: Selected Economic Indicators 1/

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

Per capita GDP (2014): US$4942
Literacy rate (2011)/Poverty rate (2012): 86.4%/19.9%
Unemployment rate (Jan. 2016): 13.3%

	Prog.			Prog.		Prog.	Projections					
	2013/14	2013/14	2014/15	2015/16	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	(Annual percent change, unless otherwise indicated)											
GDP and prices												
Real GDP	0.9	1.0	0.2	1.4	0.8	2.5	1.7	2.1	2.5	2.7	2.8	2.8
Nominal GDP	10.6	9.4	6.9	5.8	4.2	8.9	5.4	8.1	8.9	8.9	9.0	8.7
Consumer price index (end of period)	9.5	8.3	4.0	6.1	3.0	6.5	5.3	6.4	6.0	6.0	6.0	5.5
Consumer price index (average)	9.6	9.4	7.2	4.3	3.4	6.3	3.6	5.9	6.2	6.0	6.0	5.8
Exchange rate (end of period, J$/US$)	...	109.6	115.0	...	122.0	...	...	...	...	...	...	...
Exchange rate (average, J$/US$)	...	103.9	113.1	...	118.5	...	...	...	...	...	...	...
Nominal depreciation (+), end-of-period	...	10.8	5.0	...	...	...	...	...	...	...	...	...
End-of-period REER (appreciation +) (INS)	...	-4.7	7.3	...	...	...	...	...	...	...	...	...
End-of-period REER (appreciation +) (new methodology) 2/	...	-4.3	...	...	...	...	...	...	...	...	...	...
Treasury bill rate (end-of-period, percent)	...	9.1	7.0	...	...	...	...	...	...	...	...	...
Treasury bill rate (average, percent)	8.0	7.9	7.8	...	...	...	...	...	...	...	...	...
Unemployment rate (percent) 3/	...	13.4	14.2	...	...	...	...	...	...	...	...	...
	(In percent of GDP)											
Government operations												
Budgetary revenue	26.9	27.1	26.3	27.6	28.0	27.4	28.2	27.3	27.0	26.8	26.8	26.8
Of which: Tax revenue 4/	23.9	23.6	23.7	25.2	25.4	25.4	26.1	25.8	25.5	25.3	25.3	25.4
Budgetary expenditure	26.9	27.0	26.8	28.1	28.3	27.8	29.1	27.4	26.6	26.1	25.7	25.5
Primary expenditure	19.4	19.5	18.8	20.3	20.6	20.4	21.2	20.3	20.0	19.8	19.8	19.8
Of which: Wage bill	10.6	10.7	10.2	10.3	10.4	9.7	10.3	10.1	9.5	9.1	9.0	9.0
Interest payments	7.5	7.5	8.0	7.8	7.7	7.4	7.9	7.0	6.7	6.3	5.9	5.7
Budget balance	0.1	0.1	-0.5	-0.5	-0.3	-0.4	-0.9	0.0	0.3	0.7	1.1	1.3
Of which: Central government primary balance	7.5	7.6	7.5	7.3	7.4	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Public entities balance	-0.5	0.0	0.9	0.0	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	-0.4	0.1	0.4	-0.5	1.6	-0.4	-0.9	0.0	0.3	0.7	1.1	1.3
Public debt 5/	138.9	139.7	135.6	125.1	128.7	121.0	127.6	120.5	111.5	102.4	94.5	86.7
External sector												
Current account balance	-9.6	-8.1	-7.1	-3.6	-2.4	-2.6	-2.6	-2.5	-2.4	-2.4	-2.6	-2.3
Of which: Exports of goods, f.o.b.	11.8	10.6	10.1	9.8	8.9	9.7	8.8	8.6	8.5	8.4	8.2	8.1
Imports of goods, f.o.b.	38.7	37.4	36.5	34.3	31.5	34.1	32.2	32.6	32.4	32.1	31.5	30.9
Net international reserves (US$ millions)	1,248	1,304	2,294	2,607	2,427	2,885	2,956	3,057	3,244	3,290	3,349	3,516
	(Changes in percent of beginning of period broad money)											
Money and credit												
Net foreign assets	6.4	18.7	27.9	14.2	10.0	11.3	16.4	5.3	6.7	3.3	3.7	5.5
Net domestic assets	4.2	-12.6	-22.3	-4.0	8.7	-1.3	-7.8	2.8	2.2	5.6	5.3	3.2
Of which: Credit to the private sector	10.1	8.2	3.1	8.4	8.2	11.8	8.7	10.5	12.6	14.2	15.5	15.9
Credit to the central government	3.8	-3.1	-15.2	16.9	5.5	4.0	2.0	3.5	0.5	-0.5	-4.9	-5.8
Broad money	10.6	6.1	5.7	10.1	18.7	9.9	8.6	8.1	8.9	8.9	9.0	8.7
Memorandum item:												
Nominal GDP (J$ billions)	1,478	1,463	1,564	1,654	1,630	1,802	1,718	1,857	2,021	2,201	2,398	2,607

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 GCT 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)

	2013/14	2014/15	Prog. 2015/16	Prel. 2015/16	Prog. 2016/17	Projections 2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Budgetary revenue and grants	396,982	411,716	456,487	455,836	494,450	484,434	507,462	544,762	590,849	642,704	699,090
Tax	344,848	370,878	416,686	413,971	458,334	447,978	478,852	514,908	556,844	607,488	662,645
Of which:											
Income and profits	112,648	120,854	131,344	130,760	146,089	124,448	116,901	127,304	139,189	152,428	167,013
Of which: Other companies	35,155	35,903	43,142	42,282	50,404	46,446	51,702	57,968	65,020	72,977	81,714
PAYE	62,811	67,818	72,326	71,966	79,828	61,424	49,699	51,572	54,138	58,658	63,768
Production and consumption	115,214	120,421	132,830	133,557	147,522	141,265	159,237	170,967	185,128	204,692	226,173
Of which: GCT (Local) 1/	61,265	63,995	70,551	72,745	79,926	76,656	83,844	90,356	98,396	110,437	123,659
International Trade	113,892	127,238	146,074	144,706	158,228	176,464	196,106	209,439	224,711	241,904	260,328
Of which: GCT (Imports) 1/	51,238	58,471	66,102	65,806	73,446	77,344	86,259	94,837	104,309	114,800	126,048
Non-tax 2/	41,705	35,821	32,946	36,401	29,900	31,207	21,985	24,936	28,767	29,508	30,240
Grants	10,429	5,018	6,854	5,463	6,216	5,249	6,625	4,918	5,238	5,708	6,205
Budgetary expenditure	395,242	419,491	464,546	460,720	501,281	499,844	507,901	538,208	574,636	616,632	664,588
Primary expenditure	285,322	294,474	335,575	335,040	368,326	364,861	377,493	403,285	436,782	474,820	516,582
Wage and salaries 3/	156,362	158,759	171,132	168,787	175,264	176,341	187,576	192,718	201,301	217,020	235,925
Base wage	143,347	151,056	164,719	163,515	173,764	172,881	187,576	192,718	201,301	217,020	235,925
Backpay 3/	13,015	7,702	6,413	5,272	1,500	3,460	0	0	0	0	0
Programme expenditure 5/	91,972	112,697	129,735	133,506	135,932	144,572	138,858	152,965	167,251	181,053	197,225
Employer Contributions 4/	…	…	…	…	…	4,800	5,208	5,351	5,589	6,026	6,550
Capital expenditure 5/	36,989	23,019	34,708	32,747	57,130	43,947	51,059	57,602	68,230	76,747	83,432
Interest	109,919	125,016	128,971	125,680	132,955	134,984	130,408	134,923	137,855	141,813	148,006
Domestic	68,729	75,756	70,267	71,391	62,537	62,355	62,788	62,149	60,840	58,917	62,220
External	41,191	49,260	58,704	54,288	70,418	72,628	67,619	72,774	77,015	82,895	85,786
Budget balance	1,740	-7,775	-8,059	-4,884	-6,831	-15,410	-439	6,554	16,213	26,071	34,503
Of which: Primary budget balance	111,659	117,242	120,911	120,796	126,124	119,573	129,969	141,478	154,067	167,884	182,508
Public entities balance	106	13,749	0	31,199	0	0	0	0	0	0	0
Public sector balance	1,846	5,975	-8,059	26,315	-6,831	-15,410	-439	6,554	16,213	26,071	34,503
Principal repayments	104,122	87,299	421,161	377,443	66,115	72,500	231,837	167,832	201,796	212,729	197,199
Domestic	75,695	25,285	275,668	275,314	16,015	15,223	98,481	82,996	114,065	174,742	126,933
External	28,427	62,015	145,493	102,129	50,100	57,278	133,356	84,836	87,730	37,986	70,266
Gross financing needs	102,382	95,074	429,220	382,327	72,946	87,911	232,276	161,277	185,583	186,657	162,696
Gross financing sources	102,382	95,074	429,220	382,327	72,946	87,911	232,276	161,277	185,583	186,657	162,696
Domestic 6/	52,211	42,306	98,104	99,565	45,901	46,923	76,553	55,860	76,131	152,132	99,631
Of which: compensatory flows from PCDF	…	…	11,925	5,927	14,011	14,454	15,137	15,773	16,323	16,895	17,473
External	57,619	130,512	280,780	267,257	37,161	39,740	133,239	88,800	93,524	37,443	66,082
Of which: Official	57,619	40,059	42,279	30,173	37,161	39,740	35,896	47,373	51,987	30,924	28,361
Divestment + deposit drawdown	-7,448	-77,745	50,336	15,506	-10,116	1,248	22,483	16,618	15,928	-2,918	-3,018
Memorandum items:											
Nominal GDP (billion J$)	1,463	1,564	1,654	1,630	1,802	1,718	1,857	2,021	2,201	2,398	2,607
Public sector debt (billion J$)	2,044	2,121	2,070	2,099	2,181	2,192	2,237	2,254	2,254	2,267	2,262
Of which: Direct debt	1,812	1,923	1,917	1,943	2,015	2,028	2,059	2,067	2,059	2,060	2,048

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ in 2014/15, reflects the extension of the GCT 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/ From 2015/16, includes interest receipts from the PetroCaribe Development Fund to reimburse funds from the PetroCaribe debt buyback.
3/ Includes wage arrears from reclassification adjustments prior to 2014/15.
4/ From FY16/17 onwards, authorities have reclassified employer's contributions for health services into the wages line, consistent with GFS. Program definition remains unchanged.
5/ in 2014/15, projections reflect a reclassification of J$8.8 billion from capital outlays to programme expenditures.
6/ in 2015/16, projections include compensation from PCDF to the central government as part of the Petrocaribe buyback operation.

Table 3. Jamaica: Summary of Central Government Operations

(In percent of GDP)

	2013/14	2014/15	Prog. 2015/16	Prel. 2015/16	Prog. 2016/17	Projections 2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Budgetary revenue and grants	27.1	26.3	27.6	28.0	27.4	28.2	27.3	27.0	26.8	26.8	26.8
Tax	23.6	23.7	25.2	25.4	25.4	26.1	25.8	25.5	25.3	25.3	25.4
Of which:											
Income and profits	7.7	7.7	7.9	8.0	8.1	7.2	6.3	6.3	6.3	6.4	6.4
Of which: Other companies	2.4	2.3	2.6	2.6	2.8	2.7	2.8	2.9	3.0	3.0	3.1
PAYE	4.3	4.3	4.4	4.4	4.4	3.6	2.7	2.6	2.5	2.4	2.4
Production and consumption	7.9	7.7	8.0	8.2	8.2	8.2	8.6	8.5	8.4	8.5	8.7
Of which: GCT (Local) 1/	4.2	4.1	4.3	4.5	4.4	4.5	4.5	4.5	4.5	4.6	4.7
International Trade	7.8	8.1	8.8	8.9	8.8	10.3	10.6	10.4	10.2	10.1	10.0
Of which: GCT (Imports) 1/	3.5	3.7	4.0	4.0	4.1	4.5	4.6	4.7	4.7	4.8	4.8
Non-tax 2/	2.9	2.3	2.0	2.2	1.7	1.8	1.2	1.2	1.3	1.2	1.2
Grants	0.7	0.3	0.4	0.3	0.3	0.3	0.4	0.2	0.2	0.2	0.2
Budgetary expenditure	27.0	26.8	28.1	28.3	27.8	29.1	27.4	26.6	26.1	25.7	25.5
Primary expenditure	19.5	18.8	20.3	20.6	20.4	21.2	20.3	20.0	19.8	19.8	19.8
Wage and salaries 3/	10.7	10.2	10.3	10.4	9.7	10.3	10.1	9.5	9.1	9.0	9.0
Base wage	9.8	9.7	10.0	10.0	9.6	10.1	10.1	9.5	9.1	9.0	9.0
Backpay 3/	0.9	0.5	0.4	0.3	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Programme expenditure 5/	6.3	7.2	7.8	8.2	7.5	8.4	7.5	7.6	7.6	7.5	7.6
Employer Contributions 4/	…	…	…	…	…	0.3	0.3	0.3	0.3	0.3	0.3
Capital expenditure 5/	2.5	1.5	2.1	2.0	3.2	2.6	2.8	2.9	3.1	3.2	3.2
Interest	7.5	8.0	7.8	7.7	7.4	7.9	7.0	6.7	6.3	5.9	5.7
Domestic	4.7	4.8	4.2	4.4	3.5	3.6	3.4	3.1	2.8	2.5	2.4
External	2.8	3.1	3.5	3.3	3.9	4.2	3.6	3.6	3.5	3.5	3.3
Budget balance	0.1	-0.5	-0.5	-0.3	-0.4	-0.9	0.0	0.3	0.7	1.1	1.3
Of which: Primary budget balance	7.6	7.5	7.3	7.4	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Public entities balance	0.0	0.9	0.0	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	0.1	0.4	-0.5	1.6	-0.4	-0.9	0.0	0.3	0.7	1.1	1.3
Principal repayments	7.1	5.6	25.5	23.2	3.7	4.2	12.5	8.3	9.2	8.9	7.6
Domestic	5.2	1.6	16.7	16.9	0.9	0.9	5.3	4.1	5.2	7.3	4.9
External	1.9	4.0	8.8	6.3	2.8	3.3	7.2	4.2	4.0	1.6	2.7
Gross financing needs	7.0	6.1	25.9	23.5	4.0	5.1	12.5	8.0	8.4	7.8	6.2
Gross financing sources	7.0	6.1	25.9	23.5	4.0	5.1	12.5	8.0	8.4	7.8	6.2
Domestic 6/	3.6	2.7	5.9	6.1	2.5	2.7	4.1	2.8	3.5	6.3	3.8
Of which : compensatory flows from PCDF	…	…	0.7	0.4	0.8	0.8	0.8	0.8	0.7	0.7	0.7
External	3.9	8.3	17.0	16.4	2.1	2.3	7.2	4.4	4.2	1.6	2.5
Of which: Official	3.9	2.6	2.6	1.9	2.1	2.3	1.9	2.3	2.4	1.3	1.1
Divestment + deposit drawdown	-0.5	-5.0	3.0	1.0	-0.6	0.1	1.2	0.8	0.7	-0.1	-0.1
Memorandum items:											
Nominal GDP (billion J$)	1,463	1,564	1,654	1,630	1,802	1,718	1,857	2,021	2,201	2,398	2,607
Public sector debt (billion J$)	2,044	2,121	2,070	2,099	2,181	2,192	2,237	2,254	2,254	2,267	2,262
Public sector debt	139.7	135.6	125.1	128.7	121.0	127.6	120.5	111.5	102.4	94.5	86.7
Of which: Direct debt	123.9	123.0	115.9	119.1	111.8	118.0	110.9	102.3	93.5	85.9	78.5

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ in 2014/15, reflects the extension of the GCT 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/ From 2015/16, includes interest receipts from the PetroCaribe Development Fund to reimburse funds from the PetroCaribe debt buyback.
3/ Includes wage arrears from reclassification adjustments prior to 2014/15.
4/ From FY16/17 onwards, authorities have reclassified employer's contributions for health services into the wages line, consistent with GFS. Program definition remains unchanged.
5/ in 2014/15, projections reflect a reclassification of 0.5 percent of GDP from capital outlays to programme expenditures.
6/ in 2015/16, projections include compensation from PCDF to the central government as part of the Petrocaribe buyback operation.

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	2015/16	2016/17	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Operating balance selected public entities 1/	**55.2**	**60.6**	**16.6**	**36.5**	**55.4**	**56.4**	**4.4**	**4.5**	**1.1**	**2.3**	**3.4**	**3.3**
Of which:												
Clarendon Aluminum	-7.2	-1.1	-10.1	-2.8	-0.8	...	-0.6	-0.1	-0.7	-0.2	0.0	...
Petrojam	25.1	15.5	14.7	12.9	24.4	...	2.0	1.2	1.0	0.8	1.5	...
NROCC	-0.6	-3.3	-2.8	-5.7	-3.9	...	0.0	-0.2	-0.2	-0.4	-0.2	...
Urban Development Corporation	-0.8	-0.4	0.6	0.3	-0.1	...	-0.1	0.0	0.0	0.0	0.0	...
National Water Commission	4.0	8.0	0.8	3.5	5.3	...	0.3	0.6	0.1	0.2	0.3	...
Port Authority of Jamaica	2.9	3.7	3.8	5.5	4.9	...	0.2	0.3	0.3	0.4	0.3	...
National Housing Trust	26.9	29.6	4.3	18.9	18.7	...	2.1	2.2	0.3	1.2	1.1	...
National Insurance Fund	1.7	4.8	1.4	1.7	2.3	...	0.1	0.4	0.1	0.1	0.1	...
Net current transfers from the central government	**-11.8**	**-15.2**	**-19.1**	**-22.6**	**-29.2**	**-33.1**	**-0.9**	**-1.1**	**-1.3**	**-1.4**	**-1.8**	**-1.9**
Of which:												
Clarendon Aluminum	7.5	3.4	1.7	0.0	0.0	...	0.6	0.3	0.1	0.0	0.0	...
Petrojam	-19.2	-21.3	-18.8	-23.2	-24.0	...	-1.5	-1.6	-1.3	-1.5	-1.5	...
NROCC	0.2	3.0	3.4	5.2	4.3	...	0.0	0.2	0.2	0.3	0.3	...
Urban Development Corporation	0.7	0.1	0.3	0.5	0.2	...	0.1	0.0	0.0	0.0	0.0	...
National Water Commission	0.0	1.0	0.7	0.1	0.0	...	0.0	0.1	0.0	0.0	0.0	...
Port Authority of Jamaica	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	...
National Housing Trust	-1.2	-4.0	-11.4	-11.4	-11.4	...	-0.1	-0.3	-0.8	-0.7	-0.7	...
National Insurance Fund	0.0	0.0	0.0	0.0	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**	**39.3**	**31.4**	**51.7**	**3.1**	**3.1**	**2.7**	**2.5**	**1.9**	**3.0**
Of which:												
Clarendon Aluminum	-0.2	1.5	0.4	0.7	1.0	...	0.0	0.1	0.0	0.0	0.1	...
Petrojam	2.6	0.2	1.5	1.9	1.6	...	0.2	0.0	0.1	0.1	0.1	...
NROCC	0.6	0.3	0.4	0.7	0.8	...	0.1	0.0	0.0	0.0	0.0	...
Urban Development Corporation	0.7	0.2	1.8	0.7	0.3	...	0.1	0.0	0.1	0.0	0.0	...
National Water Commission	4.5	9.7	6.0	6.4	5.8	...	0.4	0.7	0.4	0.4	0.4	...
Port Authority of Jamaica	2.1	0.8	0.5	1.3	0.6	...	0.2	0.1	0.0	0.1	0.0	...
National Housing Trust	25.5	23.2	22.3	20.8	18.2	...	2.0	1.7	1.5	1.3	1.1	...
National Insurance Fund	0.1	0.0	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	...
Other net spending selected public entities 3/	0.0	0.0	-27.9	-20.7	-21.3	-16.6	0.0	0.0	-1.9	-1.3	-1.3	-1.0
Overall balance selected public entities	**3.9**	**3.7**	**-14.2**	**-4.7**	**16.0**	**-11.8**	**0.3**	**0.3**	**-1.0**	**-0.3**	**1.0**	**-0.7**
Of which:												
Clarendon Aluminum	0.5	0.8	-8.5	-4.0	-0.9	...	0.0	0.1	-0.6	-0.3	-0.1	...
Petrojam	3.3	-5.9	-5.0	-4.8	5.0	...	0.3	-0.4	-0.3	-0.3	0.3	...
NROCC	-1.0	-0.5	0.1	-1.2	0.1	...	-0.1	0.0	0.0	-0.1	0.0	...
Urban Development Corporation	-0.8	-0.5	0.6	-0.3	-1.1	...	-0.1	0.0	0.0	0.0	-0.1	...
National Water Commission	-0.5	-0.7	-4.5	-2.8	-0.7	...	0.0	-0.1	-0.3	-0.2	0.0	...
Port Authority of Jamaica	0.8	3.0	3.7	4.1	4.1	...	0.1	0.2	0.3	0.3	0.2	...
National Housing Trust	0.2	2.4	-4.7	0.1	4.0	...	0.0	0.2	-0.3	0.0	0.2	...
National Insurance Fund	1.6	4.7	1.4	1.7	2.3	...	0.1	0.4	0.1	0.1	0.1	...
Overall balance other public entities	**-4.1**	**-1.8**	**14.3**	**18.5**	**15.2**	**11.8**	**-0.3**	**-0.1**	**1.0**	**1.2**	**0.9**	**0.7**
Overall balance public entities	**-0.2**	**1.9**	**0.1**	**13.7**	**31.2**	**0.0**	**0.0**	**0.1**	**0.0**	**0.9**	**1.9**	**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.		Prog.		Projections				
	2013/14	2014/15	2015/16	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Current account	-1,148	-983	-493	-331	-373	-351	-358	-349	-381	-435	-405
Trade balance	-3,778	-3,647	-3,396	-3,110	-3,471	-3,223	-3,408	-3,550	-3,702	-3,832	-3,948
Exports (f.o.b.)	1,495	1,401	1,361	1,227	1,386	1,212	1,226	1,263	1,307	1,354	1,394
Imports (f.o.b.)	5,274	5,047	4,756	4,337	4,857	4,436	4,634	4,813	5,009	5,186	5,342
Fuel (cif)	2,158	1,759	1,077	988	1,105	778	911	1,001	1,082	1,141	1,181
Exceptional imports (including FDI-related)	394	284	400	400	400	400	330	300	300	300	300
Other	2,722	3,004	3,279	2,948	3,352	3,258	3,393	3,512	3,627	3,745	3,861
Services (net)	600	698	851	851	979	863	964	1,065	1,163	1,270	1,388
Transportation	-702	-635	-687	-575	-706	-709	-732	-759	-791	-824	-856
Travel	1,913	2,096	2,258	2,183	2,423	2,377	2,528	2,687	2,855	3,033	3,223
Of which: Tourism receipts	2,095	2,306	2,461	2,394	2,633	2,594	2,752	2,920	3,099	3,288	3,489
Other services	-611	-763	-720	-757	-738	-806	-832	-863	-901	-940	-979
Income (net) 4/	-228	-314	-277	-400	-284	-393	-382	-386	-394	-455	-457
Current transfers (net)	2,258	2,279	2,328	2,328	2,403	2,403	2,468	2,522	2,552	2,582	2,613
Government (net)	265	200	205	205	209	209	213	217	222	226	231
Private (net)	1,993	2,079	2,124	2,124	2,195	2,195	2,255	2,305	2,330	2,356	2,382
			0								
Capital and financial account	1,566	1,973	806	715	651	881	459	536	427	494	572
Capital account (net)	-26	-19	-19	-19	-19	-19	-19	-19	-19	-19	-19
Financial account (net) 1/	1,592	1,992	825	734	670	900	478	555	446	513	591
Direct investment (net)	552	589	530	740	547	678	636	634	631	629	626
Central government (net) 5/	241	600	3,056	3,315	-302	-141	-1	29	41	96	96
Of which: IFIs	376	181	331	231	325	325	0	0	0	0	0
Other official (net) 2/ 5/	356	78	-2,822	-2,822	179	140	132	112	92	18	18
Of which: PetroCaribe	369	161	-2,886	-2,885	138	99	92	73	54	0	0
Portfolio investment (net)	443	726	61	-499	247	222	-289	-220	-319	-230	-150
Overall balance	418	990	313	384	278	530	101	187	46	59	167
Financing	-418	-990	-313	-384	-278	-530	-101	-187	-46	-59	-167
Change in gross reserves (- increase)	-330	-641	-440	-229	-437	-689	-85	-117	62	48	-60
Change in arrears	0	0	0	0	0	0	0	0	0	0	1
Financing gap	-88	-349	127	-155	159	159	-16	-70	-108	-107	-107
IMF 3/	-26	-163	127	127	159	159	-16	-70	-108	-107	-107
Disbursements	346	259	176	176	159	159	0	0	0	0	0
Repayments	-372	-422	-50	-50	0	0	-16	-70	-108	-107	-107
Memorandum items:											
Gross international reserves	2,049	2,690	3,130	2,918	3,566	3,607	3,692	3,809	3,747	3,699	3,759
(in weeks of prospective imports of GNFS)	14.5	19.3	23.3	23.5	25.9	27.7	27.2	27.0	25.5	24.3	23.9
Net international reserves	1,304	2,294	2,607	2,427	2,885	2,956	3,057	3,244	3,290	3,349	3,516
Current account (percent of GDP)	-8.1	-7.1	-3.6	-2.4	-2.6	-2.6	-2.5	-2.4	-2.4	-2.6	-2.3
Exports of goods (percent change)	-14.2	-6.3	-5.1	-12.4	1.9	-1.2	1.1	3.0	3.5	3.6	3.0
Imports of goods (percent change)	-7.3	-4.3	-5.6	-14.1	2.1	2.3	4.5	3.9	4.1	3.5	3.0
Oil prices (composite, fiscal year basis)	102.1	84.9	51.3	46.8	51.6	36.3	41.9	45.3	48.0	49.7	50.5
Tourism receipts (percent change)	1.9	10.1	6.8	3.8	7.0	8.3	6.1	6.1	6.1	6.1	6.1
GDP (US$ millions)	14,086	13,832	…	13,753	…	…	…	…	…	…	…
Jamaican dollar/USD, period average	104	113	…	119	…	…	…	…	…	…	…

Sources: Jamaican authorities; and Fund staff estimates.

1/ Includes estimates of a partial payment for the sales of a rum company in 2008/09.
2/ Includes the new general SDR allocation in 2009/10.
3/ Negative indicates repayment to the IMF.
4/ Starting FY2011/12, interest payments to non-residents were adjusted to reflect resident holdings of GOJ global bonds.
5/ in 2015/16, projections reflect inflows and outflows associated with the Petrocaribe debt buyback.

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

			Prog.		Prog.	Projections					
	2013/14	2014/15	2015/16	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	(In billions of Jamaican dollars)										
End-of-period stocks 1/											
Net foreign assets	**143**	**264**	**322**	**294**	**373**	**377**	**409**	**450**	**472**	**497**	**539**
Net domestic assets	**-48**	**-163**	**-210**	**-174**	**-249**	**-246**	**-262**	**-287**	**-294**	**-304**	**-329**
Net claims on public sector	195	112	144	45	133	115	113	140	150	150	146
Net claims on central government	75	17	67	40	57	41	64	80	96	93	90
Net claims on rest of public sector	130	102	83	-5	85	75	57	66	62	64	63
Operating losses of the BOJ	-10	-8	-6	10	-10	-1	-8	-6	-8	-8	-7
Net credit to commercial banks	-21	-24	-26	-28	-29	-22	-22	-24	-25	-28	-31
Of which : foreign prudential reserve	-21	-24	-26	-28	-29	-22	-22	-24	-25	-28	-31
Net credit to other financial institutions	-2	-2	-2	-2	-2	-2	-3	-3	-3	-3	-3
Open market operations	-31	-39	-112	-58	-117	-189	-181	-214	-213	-200	-200
Other items net (incl. valuation adj.)	-189	-210	-214	-130	-233	-148	-169	-186	-204	-223	-241
Of which: Valuation adjustment	-61	-70	-68	-75	-87	-92	-114	-131	-148	-167	-185
			0								
Base money	**94**	**101**	**112**	**120**	**125**	**131**	**147**	**163**	**177**	**193**	**210**
Currency in circulation	54	59	65	70	73	63	68	72	77	81	86
Liabilities to commercial banks	41	42	47	50	51	68	79	91	101	112	124
Fiscal year flows 1/											
Net foreign assets	**55.4**	**121.0**	**58.0**	**30.4**	**51.6**	**83.0**	**31.9**	**40.4**	**22.0**	**25.6**	**41.8**
			0.0								
Net domestic assets	-52.3	-114.4	-47.0	-11.4	-38.7	-71.9	-16.1	-24.5	-7.5	-9.7	-25.0
Net claims on public sector	-17.7	-82.6	32.1	-66.9	-11.2	70.0	-1.9	26.7	10.2	-0.6	-3.3
Net claims on central government	-7.4	-57.4	50.2	22.5	-10.1	1.2	22.5	16.6	15.9	-2.9	-3.0
Net credit to commercial banks	-1.5	-2.5	-2.2	-4.6	-3.1	6.9	-0.7	-1.5	-1.6	-2.4	-3.2
Net credit to other financial institutions	0.0	-0.1	-0.1	-0.6	-0.1	0.0	-0.2	-0.1	-0.2	-0.2	-0.2
Open market operations	23.8	-8.3	-73.1	-19.1	-5.5	-131.5	8.1	-32.7	1.4	12.4	0.2
Other items net (incl. valuation adj.)	-56.9	-20.8	-3.7	79.8	-18.8	-17.4	-21.4	-16.9	-17.4	-19.0	-18.4
Base money	**3.1**	**6.7**	**10.9**	**18.9**	**12.9**	**11.1**	**15.8**	**15.9**	**14.5**	**15.9**	**16.8**
Currency in circulation	3.0	4.9	6.6	11.7	8.1	-7.2	5.1	4.0	4.3	4.6	4.6
Liabilities to commercial banks	0.2	1.7	4.4	7.2	4.7	18.3	10.7	11.9	10.2	11.3	12.2
	(Change in percent of beginning-of-period Base Money)										
Net foreign assets	**60.7**	**128.2**	**57.4**	**30.0**	**46.0**	**69.2**	**24.3**	**27.5**	**13.5**	**14.5**	**21.7**
Net domestic assets	**-57.3**	**-121.1**	**-46.5**	**-11.3**	**-34.5**	**-59.9**	**-12.3**	**-16.7**	**-4.6**	**-5.5**	**-12.9**
Net claims on public sector	-19.4	-87.4	31.8	-66.2	-10.0	58.4	-1.4	18.2	6.3	-0.3	-1.7
Net credit to commercial banks	-1.7	-2.6	-2.2	-4.5	-2.8	5.8	-0.6	-1.0	-1.0	-1.3	-1.7
Net credit to other financial institutions	0.1	-0.1	-0.1	-0.6	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Open market operations	26.0	-8.8	-72.3	-18.9	-4.9	-109.6	6.2	-22.3	0.9	7.0	0.1
Other items net (incl. valuation adj.)	-62.3	-22.1	-3.7	78.9	-16.8	-14.5	-16.3	-11.5	-10.7	-10.7	-9.5
Base money	**3.4**	**7.0**	**10.8**	**18.7**	**11.5**	**9.2**	**12.1**	**10.8**	**8.9**	**9.0**	**8.7**
Currency in circulation	3.3	5.2	6.5	11.6	7.3	-6.0	3.9	2.7	2.6	2.6	2.4
Liabilities to commercial banks	0.2	1.8	4.3	7.2	4.2	15.2	8.2	8.1	6.3	6.4	6.3
Memorandum items:											
Change in net claims on the central government (percent of GDP)	-0.5	-3.7	3.0	1.4	-0.6	0.1	1.2	0.8	0.7	-0.1	-0.1

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/

			Prog.		Prog.	Projections					
	2013/14	2014/15	2015/16	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	(In billions of Jamaican dollars)										
End-of-period stocks 1/											
Net foreign assets	**191**	**309**	**372**	**353**	**427**	**439**	**469.7**	**511.2**	**533.7**	**560.6**	**604.8**
Net domestic assets	**229**	**136**	**118**	**174**	**111**	**133**	**149.2**	**162.5**	**200.0**	**238.8**	**264.3**
Net claims on public sector	268	188	250	118	273	203	196.9	204.8	189.7	148.5	92.4
Of which: Central government 2/	173	109	184	134	204	145	164.8	167.8	164.8	128.8	82.2
Open market operations	18	14	-99	15	-164	-139	-153.8	-206.0	-227.6	-238.8	-262.3
Credit to private sector	326	339	377	376	435	422	481.7	559.9	655.2	768.9	895.8
Of which: Foreign currency	84	77	79	84	83	88	93.4	98.1	104.0	111.5	120.3
Other	-383	-407	-411	-335	-433	-352	-375.7	-396.2	-417.3	-439.8	-461.6
Of which: Valuation adjustment	-61	-70	-65	-75	-81	-89	-105.7	-119.2	-132.9	-147.5	-161.2
Liabilities to private sector (M3)	**421**	**444**	**489**	**527**	**538**	**573**	**618.9**	**673.7**	**733.7**	**799.4**	**869.1**
Money supply (M2)	261	273	294	310	320	333	371.1	409.1	451.1	490.6	524.4
Foreign currency deposits	160	171	195	217	218	239	247.8	264.6	282.5	308.9	344.7
Fiscal year flows 1/											
Net foreign assets	**74.1**	**117.4**	**62.9**	**44.3**	**55.1**	**86.4**	**30.4**	**41.5**	**22.5**	**26.9**	**44.2**
Net domestic assets	**-50.0**	**-93.6**	**-17.9**	**38.6**	**-6.6**	**-41.0**	**15.8**	**13.3**	**37.5**	**38.9**	**25.5**
Net claims on public sector	-25.4	-79.5	62.1	-70.5	22.9	85.5	-6.5	7.9	-15.1	-41.2	-56.1
Of which: Central government	-12.4	-63.9	75.0	24.3	19.8	10.8	20.3	3.0	-3.0	-36.0	-46.7
Open market operations	54.4	-3.8	-113.1	0.7	-65.5	-154.6	-14.4	-52.1	-21.6	-11.2	-23.6
Credit to private sector	32.3	13.2	37.5	36.5	57.8	45.7	60.0	78.1	95.3	113.7	126.9
Of which: Foreign currency	2.4	-7.3	2.3	7.7	3.8	3.8	5.2	4.8	5.9	7.5	8.8
Other 2/	-111.3	-23.5	-4.3	72.0	-21.7	-17.7	-23.4	-20.5	-21.2	-22.5	-21.7
Of which: Valuation adjustment	-3.9	-8.9	4.4	-5.4	-16.1	-13.8	-17.1	-13.4	-13.7	-14.6	-13.8
Liabilities to private sector (M3)	**24.1**	**23.8**	**45.0**	**82.9**	**48.5**	**45.4**	**46.2**	**54.8**	**60.0**	**65.8**	**69.6**
Money supply (M2)	8.4	12.7	21.0	37.2	25.3	22.8	37.9	38.0	42.0	39.5	33.9
Foreign currency deposits	15.7	11.1	24.0	45.7	23.2	22.6	8.3	16.8	17.9	26.3	35.8
	(Change in percent of beginning-of-period M3)										
Net foreign assets	**18.7**	**27.9**	**14.2**	**10.0**	**11.3**	**16.4**	**5.3**	**6.7**	**3.3**	**3.7**	**5.5**
Net domestic assets	**-12.6**	**-22.3**	**-4.0**	**8.7**	**-1.3**	**-7.8**	**2.8**	**2.2**	**5.6**	**5.3**	**3.2**
Net claims on public sector	-6.4	-18.9	14.0	-15.9	4.7	16.2	-1.1	1.3	-2.2	-5.6	-7.0
Of which: Central government	-3.1	-15.2	16.9	5.5	4.0	2.0	3.5	0.5	-0.5	-4.9	-5.8
Open market operations	13.7	-0.9	-25.5	0.2	-13.4	-29.3	-2.5	-8.4	-3.2	-1.5	-2.9
Credit to private sector	8.2	3.1	8.4	8.2	11.8	8.7	10.5	12.6	14.2	15.5	15.9
Of which: Foreign currency	0.6	-1.7	0.5	1.7	0.8	0.7	0.9	0.8	0.9	1.0	1.1
Other 2/	-28.1	-5.6	-1.0	16.2	-4.4	-3.4	-4.1	-3.3	-3.1	-3.1	-2.7
Of which: Valuation adjustment	-1.0	-2.1	1.0	-1.2	-3.3	-2.6	-3.0	-2.2	-2.0	-2.0	-1.7
Liabilities to private sector (M3)	**6.1**	**5.7**	**10.1**	**18.7**	**9.9**	**8.6**	**8.1**	**8.9**	**8.9**	**9.0**	**8.7**
Memorandum items:											
M3/monetary base	4.5	4.4	4.4	4.4	4.3	4.4	4.2	4.1	4.1	4.1	4.1
M3 velocity	3.5	3.5	3.4	3.1	3.4	3.0	3.0	3.0	3.0	3.0	3.0

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	2014	2015
Balance sheet growth (y/y)									
Capital	11.5	14.7	13.8	5.1	5.4	4.2	17.1	6.6	8.5
Loans	28.7	24.2	5.3	-1.4	4.8	12.9	14.1	6.6	9.4
NPLs	14.2	57.6	68.0	36.1	44.0	-10.8	-12.9	-2.2	-11.6
Liquidity									
Excess liquidity 2/	25.0	30.3	31.3	36.2	30.5	26.7	25.3	31.5	26.5
Asset Quality									
Prov. for loan losses/NPLs	103.4	87.2	75.7	69.9	75.2	90.3	95.7	104.7	105.5
NPLs/loans	2.3	2.9	4.7	6.5	8.9	7.0	5.4	4.9	4.1
Capital Adequacy									
NPLs/Capital+Prov. for loan losses	9.1	12.3	17.7	22.3	28.4	24.1	18.8	17.1	14.6
Capital Adequacy Ratio (CAR) 3/	16.0	15.2	18.8	18.2	16.1	14.1	15.1	15.9	14.9
Profitability 4/ 5/									
Pre-tax profit margin	26.7	26.2	21.4	21.1	30.8	21.4	19.0	20.3	21.2
Return on average assets	3.4	3.5	2.9	2.5	3.9	2.4	2.0	2.1	2.1

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	Met
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	Met
11. Put in place a full-time dedicated project management team for the implementation of the human resources software system (including specialists in the areas of Business Process Mapping, Human Resource Management, Payroll Administration and Data Migration).	January 31, 2016	Met
12. Develop and submit to Cabinet for approval a new policy on public bodies that will ensure consistent PFM rules for public bodies.	June 30, 2016	
13. Submit to Cabinet an action plan for public sector transformation by end-September 2016. In particular, it will include detailed timelines for (1) the introduction of shared corporate services for communications and human resource management and (2) the merger, abolition and/or divestment/privatization of entities. The plan will also outline specific areas where efficiency gains can be made.	September 30 2016	Proposed
14. The Corporate Management Development (CMD) branch in the Ministry of Finance and Public Service to approve a new organizational structure for the Accountant General's Department.	September 30 2016	Proposed
15. Complete a two-part island-wide pilot to build a comprehensive database on all allowances paid to public employees in the Ministries of Finance, Health, Security, and Education.The database will be by occupational grouping and will include all types of allowances paid, their amounts as well as the number of employees that benefit from each type of allowance in a given fiscal year.	November 30, 2016	Proposed
16. Verify each government employee's work post and eligibility for allowances in a two-part pilot across the Ministry of Finance, the civilian population of the Ministry of Security, and the NIS, and non-teaching personnel in the Ministry of Education.	November 30, 2016	Proposed
Tax Reform		
17. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as stipulated in the TMU.	Continuous	Met
18. 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
19. Government to table in parliament amendments to the GCT as stipulated in paragraph 12 of the June 2014 MEFP.	June 30, 2014	Met
20. 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 1/
21. Government to table legislation governing the tax regime that will be part of the SEZ legislation consistent with the criteria listed in the June 2015 MEFP par. 13 to help safeguard the integrity of the tax system and avoid tax leakage.	October 31, 2015	Met
Tax Administration		
22. 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
23. Government to implement ASYCUDA World for the Kingston Port as a pilot site.	December 31, 2014	Met
24. 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	Not met 2/
25. Government to complete pilot testing of ASYCUDA World (covering imports and exports) in the Kingston port.	May 31, 2015	Met
26. Government to implement Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package.	February 28, 2015	Met

Table 9. Jamaica: Structural Program Conditionality (Concluded)

27. Government to table in Parliament proposals for a comprehensive overhaul of the Customs Act.	June 30, 2015	Met
28. Government to fully implement the key performance indicators, as outlined in the National Compliance Plan, to measure the effectiveness and efficiency of the tax system.	November 30, 2015	Met
29. Government to implement Phase 2 of the RAiS (GENTAX) integrated tax software package, for all major tax types.	December 31, 2015	Met
30. Increase the capacity of the Post-Clearance Audit (PCA) unit in the JCA through the hiring of 15 more auditors.	March 31, 2016	Met
Financial sector		
31. Government to table legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	Met
32. 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
33. 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
34. Government to table the Omnibus Banking Law [3/] consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	Met 4/
35. Government to finalize the transition of retail repos to the trust-based framework.	August 30, 2015	Met
36. Government to fully implement the Banking Services Act.	September 30, 2015	Met
37. The BOJ to have overall responsibility for financial stability.	November 1, 2015	Met
38. Draft a consultation paper for the resolution framework for the entire financial sector, including proposals on (i) the scope, roles and responsibilities, and powers of institutions that would be covered by the resolution regime; and (ii) the legal structure of the regime (i.e., administrative, court-based, or a combination).	October 31, 2016	Proposed
Growth enhancing structural reforms		
39. Government to implement a new (AMANDA) tracking system to track approval of contruction permits across all parish councils.	December 30, 2014	Met
40. Government to table in parliament the Electricity Act.	January 31, 2015	Met

1/ The review was reportedly completed in March 2015.
2/ While all other elements of the benchmarks were met, technical difficulties prevented the achievement of 95 percent take-up rate of e-filing in the LTO. The take-up rate was 80 percent.
3/ Currently referred to as the Banking Services Act.
4/ 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)

	2014	2015			2016							2017
	End-Dec.	End-Dec.			End-March			End-June	End-Sept		End-Dec.	End-Mar.
	Stock	PC	Adjusted PC	Actual	PC	Adjusted PC	Actual	PC	PC	Proposed revised PC	Proposed PC	Indicative Targets
Fiscal targets												
1. Primary balance of the central government (floor) 4/		60.7		66.0	120.7		120.8	11.0	33.0	29.0	54.0	119.5
2. Tax Revenues (floor) 4/9/		280.0		291.7	393.0		411.8	99.0	203.0	198.0	300.0	440.0
3. Overall balance of the public sector (floor) 4/		-40.3	-36.8	4.4	-14.3	-10.8	26.3	-29.0	-37.0	-41.0	-51.5	-17.2
4. Central government direct debt (ceiling) 4/5/		47.0		1.5	77.0		-52.8	19.5	41.0	45.0	55.0	61.0
5. Central government guaranteed debt (ceiling) 4/		0.0		-19.2	0.0		-21.3	0.0	0.0	0.0	0.0	0.0
6. Central government accumulation of domestic arrears (ceiling) 6/12/13/	21.6	0.0		-1.2	0.0		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		-5.3	0.0		-4.4	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	0.0
9. Social spending (floor) 9/10/		15.6		20.8	23.2		26.1	4.8	9.7	9.7	16.4	24.3
Monetary targets												
10. Cumulative change in net international reserves (floor) 8/11/	1997.7	-338.0	-341.1	442.2	-339.0	-384.0	429.0	-199.6	-49.6	-49.6	52.3	152.3
11. Cumulative change in net domestic assets (ceiling) 11/	-120.2	61.8	49.6	-37.4	39.1	51.1	-38.1	28.7	9.0	9.0	21.9	-2.0

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Including proposed modified performance criteria for the net international reserves and the net domestic assets.
3/ Based on program exchange rates defined in the March 2015 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 2014.
12/ Continuous performance criterion.
13/ The accumulation is measured against the stock at end-March 2015, which is J$21.3 billion for domestic arrears and J$21.7 billion for tax arrears.

Table 11. Jamaica: Indicators of Fund Credit, 2015-26

(In millions of SDRs, unless otherwise specified)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Prospective drawings (4-year EFF)	113.28	28.33	...	...	...	...	...	...	...	...	...	...
(in percent of quota)	41.42	10.36	...	...	...	...	...	...	...	...	...	...
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)												
Amortization	0.00	11.40	37.11	64.80	83.68	100.20	102.56	91.17	65.46	37.76	18.88	2.36
Amortization (SBA)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Amortization (4-year EFF)	0.00	11.40	37.11	64.80	83.68	100.20	102.56	91.17	65.46	37.76	18.88	2.36
Interest and service charges	4.55	6.44	6.26	5.79	5.07	4.15	3.09	2.02	1.14	0.53	0.17	0.01
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	0.04
Total debt service	4.58	17.88	43.41	70.64	88.80	104.40	105.70	93.23	66.64	38.34	19.10	2.42
(in percent of exports of G&S)	0.15	0.58	1.34	2.07	2.47							
(in percent of GDP)	0.05	0.19	0.44	0.67	0.81	0.90	0.87	0.73	0.50	0.27	0.13	0.02
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)												
Outstanding stock	587.05	603.98	566.88	502.08	418.39	318.19	215.63	124.46	59.00	21.24	2.36	0.00
(in percent of quota)	214.64	220.83	207.27	183.58	152.98	116.34	78.84	45.51	21.57	7.77	0.86	0.00
(in percent of GDP)	6.36	6.34	5.70	4.79	3.79	2.75	1.77	0.98	0.44	0.15	0.02	0.00
Memorandum items:												
Exports of goods and services (US$ millions)	4,407.32	4,604.42	4,838.57	5,091.02	5,356.76	5,628.11	...	...	...	...	...	
US$/SDR exchange rate	...	...	...	...	...	...	...	...	...	...	...	
Quota	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50

Source: Fund staff estimates.

1/ Jamaica's old quota of SDR 273.50 million is included in the table since Jamaica chose to be grandfathered for surcharges (old quota/old policy on surcharges). Jamaica's new quota is SDR 382.9 million.

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	36	Approval of Arrangement
September 30, 2013	19.97	5	First Review and end-June 2013 performance criteria
December 18, 2013	19.97	5	Second Review and end-September 2013 performance criteria
March 19, 2014	45.95	12	Third Review and end-December 2013 performance criteria
June 20, 2014	45.95	12	Fourth Review and end-March 2014 performance criteria
September 24, 2014	45.95	12	Fifth Review and end-June 2014 performance criteria
December 19, 2014	45.95	12	Sixth Review and end-September 2014 performance criteria
March 30, 2015	28.32	7	Seventh Review and end-December 2014 performance criteria
June 16, 2015	28.32	7	Eighth Review and end-March 2015 performance criteria
September 23, 2015	28.32	7	Ninth Review and end-June 2015 performance criteria
December 16, 2015	28.32	7	Tenth Review and end-September 2015 performance criteria
March 15, 2016	28.32	7	Eleventh Review and end-December 2015 performance criteria
June 15, 2016	28.32	7	Twelfth Review and end-March 2016 performance criteria
September 15, 2016	28.32	7	Thirteenth Review and end-June 2016 performance criteria
December 15, 2016	28.32	7	Fourteenth Review and end-September 2016 performance criteria
March 15, 2017	28.33	7	Fifteenth Review and end-December 2016 performance criteria
Total	615.38	160.7	

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

Annex I. Risk Assessment Matrix

Table A1.1. Jamaica: Risk Assessment Matrix[1]

Main Threats	Likelihood of Realization of the Threat	Expected Impact if Threat is Realized
Delays in implementing the reform agenda.	**High** The heavy reform agenda, especially legislations, is testing capacity limits, contributing to reform delays. Reform fatigue and lack of political will may aggravate tackling important, yet challenging reforms, e.g. public sector reform.	**High** A modest delay in many reforms could be accommodated without serious repercussions. Others, in particular those related to budget implementation, are critical and highly time sensitive. Reforms associated with fiscal/debt sustainability remain critical.
A change in policy direction of the government.	**Medium** The new government has stated its intention to continue with the program. However, a period of credible policymaking may be needed to convince the financial markets and investors of the government's commitment.	**High** The recovery of investment and growth relies on public confidence in macro stability. Policy slippage, especially those concerning a sustainable fiscal consolidation, would have severe repercussions.
Delays in the pickup of investment and growth.	**High** Confidence has improved since the start of the program, but increase in investment and growth has not yet materialized. Structural constraints that hinder growth, e.g. crime, low access to finance, are persistent and take time to resolve.	**High** Without a significant growth payoff, the public support to the program may falter. Sustainable medium-term debt reduction also relies crucially on a growth pickup.
Acute fiscal and/or external financing pressures.	**Medium** Government successfully returned to local bond market after three years of market freeze. But domestic demand for government papers may still be fragile. PetroCaribe inflows may be affected by oil price decline. Financing from development partners is contingent on program implementation.	**High** While the impact is limited by the absence of net financing needs, refinancing needs are expected to rise over the coming years. A rise in financing pressures would compress the scope for fiscal spending or lead to monetization of the deficit.
Improving US economic prospects leading to a further dollar surge	**High** With US monetary lift and growth performance improving, US$ has appreciated significantly and the trend may continue.	**Medium** US$ appreciation increases Jamaica's external debt burden, creates further dollarization risk, and increases pressure on domestic interest rate at a time when growth is still below potential.
Sharper-than-expected global growth slowdown	**Medium** A sharp slowdown in China and other large EMs could materialize as a result of weak demand and corporate/household deleveraging.	**Medium** External demand of Jamaican exports could be negatively impacted,, which could affect growth and sustainable debt reduction.
Reduced financial services by global and regional banks	**Medium** Domestic banks have stopped receiving cash from money changers (cambios) due to concerns over potentially losing the correspondent banking relationships with overseas banks.	**Medium** Losses of correspondent banking services could significantly curtails cross-border payments, trade finance, and remittances, and encourage the development of underground economy.
Natural disasters and epidemics.	**Medium** Weather related disasters are prevalent. Zika virus has been found in Jamaica, though the number of cases are still small.	**High** Droughts and hurricanes can cause severe damage to infrastructure and agriculture. A Zika outbreak could undermine tourism growth and affect labor productivity.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non mutually exclusive risks may interact and materialize jointly.

Annex II. Growth Drivers and Constraints[1]

Jamaica's growth impediments, just like many other countries which have suffered from protracted low growth, are numerous and severe. While a simple growth accounting exercise points to losses in TFP as the main cause of growth sluggishness, this result hides many factors, most of them structural. Using the framework of Hausmann et al, 2005, one can think of the constraints to growth divided into three broad categories all related to capital and labor investment: (i) is there financing?, (ii) are the returns appropriate?, and (iii) are the legal/institutional bases in place so that the investor can collect his return? Findings based on limited data point to weaknesses in all three pillars, with access to financing a constraint to both human and physical investment.

A. Potential Growth, Investment and Institutions

1. **Jamaica's potential growth has historically been one of the lowest in the region.** Based on various filters, Jamaica's current potential growth is below 1½ percent. Although this is higher than some neighbors' current potential growth, the persistent low growth rates mean that Jamaica's PPP-based GDP per capita is only half of that of Barbados and one-third of that of Bahamas (Figure A2.1).

2. **Factor accumulation has been the main growth driver.** Labor was the main contributor to growth until 2002, but both capital and labor accumulation have since slowed, driving down GDP growth. Total factor productivity (TFP) growth has been negative throughout the last 25 years, in contrast with other tourism-based economies like Costa Rica which saw a turnaround in this period.

- TFP captures the efficiency with which labor and capital generate output, which, in turn, depends on (i) businesses' ability to innovate, (ii) an economic environment that fosters competition, (iii) the absence of unnecessary administrative burden, (iv) modern and efficient infrastructure, and (iv) easy access to finance. Productivity shortfalls in Jamaica reflect a combination of all these factors.

- Given the structural nature of these factors, one should not read the turn-around in these countries' TFP as an overnight achievement; most of them involved decades-long reforms. For instance, Costa Rica's changes was largely driven by U.S.'s Intel Corporation's decision to place its manufacturing plant in the country, which in turn was motivated by Costa Rica's (i) high levels of educational attainment, (ii) economic openness, (iii) stable political, social and macroeconomic environment, (iv) strong doing business environment. This environment was the outcome of many decades of reforms, including significant investment in educational expenditures (which are constitutionally mandated to reach 8 percent of GDP).

3. **Total investment in Jamaica is among the lowest of the region, with FDI concentrated in tourism.** Total FDI and domestic investment totaled only 21 percent of GDP in 2014 (Figure A2.1), significantly behind Bahamas or Costa Rica. Furthermore, nearly all of the FDI in 2014 went into

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[1] Prepared by Natasha Che and Joyce Wong.

tourism, reflecting not only the dynamism of the sector but potentially also the lack of it in other sectors such as manufacturing and other services. The literature has found that non-competitive sectors are usually not made competitive through FDI; instead they must be seen as competitive before investment flows into them.

4. **Jamaica performs well in most governance indicators albeit with weaknesses in the transparency of public sector decision-making (Figure A2.1).** Jamaica outperforms the rest of the Caribbean in most governance indicators. However, it lags behind in voice and accountability, which encompasses important pillars such as freedom of expression and association, transparency in government policymaking and procurement process, and reliability of public accounts and statistics. These are especially important for large-scale investors seeking policy continuity and macroeconomic stability.

B. Diagnostic on the Constraints to Growth

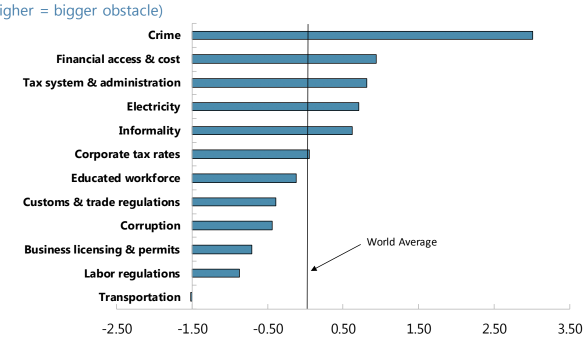
5. **A cross-country growth diagnostic is used to evaluate the relative constraints to private sector growth in Jamaica.** An index was compiled looking at the relative performance of Jamaica across an extensive list of common constraints facing emerging market economies, including constraints that impact the cost of investment, the overall returns on investment, and the appropriability of investment returns. A standard score is calcuated for Jamaica on each of the growth obstacles, comparing Jamaica to other countries in the world. The score consists of two components, measuring: 1) to what extent an obstacle is objectively present in Jamaica, and 2) how relevent an obstacle is for private sector firms. For the first component, the following variables are used to approximate the severeness of each constraint:

- Access to finance: credit to GDP ratio
- Business licensing and permits: time cost for obtaining construction permits
- Corruption: corruption perception index
- Cost of finance: real lending interest rate
- Crime: homicide rate
- Customs and trade regulations: cost of export
- Electricity: transmission and distribution losses
- Quality of workforce: population with secondary/tertiary education
- Labor regulations: firing cost
- Informality: informal employment ratio
- Tax rates: CIT rate
- Tax system and administration: hours per year spent on paying taxes
- Transportation infrastructure: road density

For the second component, firm survey data from IDB/CompeteCaribbean and World Bank on the percentage of firms identifying each factor as a major obstacle to conducting business is used.

6. **The diagnostic points to five key areas of constraints.** The top five obstacles to growth in Jamaica, when compared to other countries in the world, are: (i) crime, (ii) the cost and availability of credit, (iii) tax compliance cost, (iv) electricity supply and (v) competition from informal sector. These factors are examined below, in addition to other supply-side constraints which hamper competitiveness.

Ranking of Obstacles to Private Sector Growth
(Higher = bigger obstacle)



*Severity scores are calculated for a range of growth constraints. Each score has two components: 1) how critical an obstacle is for the private sector development, according to Jamaican firms' self-assessment using data from enterprise surveys; 2) Jamaica's quality of provision in each constraint categories, with data from the World Development Indicators and WB Doing Business. Both components are computed as standard scores of Jamaica in comparison to other countries. The two components are then added together to arrive at the final severity score for each growth obstacle.

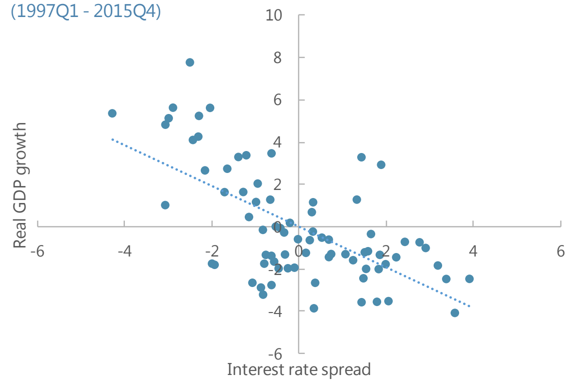
7. **Jamaica's growth constraints have been exacerbated by a history of poor fiscal management.** Decades of high public debt and its servicing costs have hindered public service provision, including in security, energy, tax administration, and education. Interest payments have averaged nearly 10 percent of GDP per year in the last 25 years, which has undercut critical public investment and fostered structural deficiencies. Furthermore, the risks associated with the fiscal position have also undermined confidence, keeping the risk premium high.

C. Improving Financial Access and Reducing Financing Cost

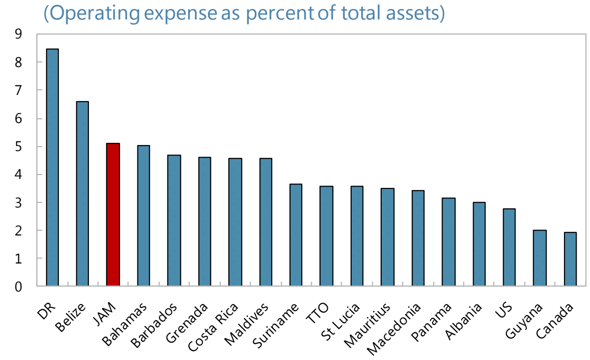
8. **Jamaica performs well in bank account coverage, but obstacles remain for their actual use by households and SMEs (Figure A2.2).** A high percentage of households and formal businesses have bank accounts. Nevertheless, credit represents only 29 percent of GDP (compared to 51 percent in the Caribbean) while deposits total 40 percent of GDP. Only 26 percent of SMEs report having a loan or a credit line (compared to double in Barbados or Dominican Republic); over 40 percent of SMEs cite credit access as a major constraint, well above the LAC average of 31 percent and 26 percent in the Dominican Republic. Few SMEs use banks to finance working capital (only 13 percent, compared to nearly a quarter in Trinidad and Tobago), which could be related to the high levels of collateral requirements, averaging over 200 percent of the loan value. Household access to credit mirrors the SMEs' patterns, with nearly 30 percent of households saving at a financial institution but only 11 percent having credit from one.

9. **Jamaica has very high lending-deposit interest rate spread compared to its peers.** Simple analysis shows that reducing the lending-deposit rate spread by 1 percentage point is associated with up to 0.4 percentage point increase in GDP growth[2]. Historically, the lack of fiscal responsibility and high sovereign borrowing needs pushed up the lending rate and contributed to the phenomenon of high spread. The interest rate spread is further elevated by the high operating cost of the banking sector, which is likely the result of a combination of factors, including (i) high financial sector taxation (CIT and asset tax amounting to nearly 50 percent of bank revenue); (ii) high personnel cost due to unionized wage structure; (iii) high percentage of cash transactions and underdevelopment of electronic payment and transaction systems; (iv) insufficient competition within the banking sector; and (v) high operating expenditure including in the form of elevated security costs.

Interest Rate Spread and GDP Growth in Jamaica
(1997Q1 - 2015Q4)



Bank Operating Efficiency
(Operating expense as percent of total assets)



10. **Improving financial inclusion and reducing the cost of credit are essential to promote growth**. These could include:

- *Corporate bond and equity markets*. Jamaica's corporate bond market is quite deep compared to the rest of Latin America and Caribbean (LAC); financial market access and efficiency, however, remain low (Figure A2.2). Expanding the pool of institutional investors, including moving towards a fully-funded pension system and the introduction of prudential limits to retail repo activity, could increase demand for corporate instruments. While the tax incentive for listing in the junior stock market has just been restored—which by itself opens the potential for abuse, unless well circumscribed—a better practice (done in the UK and Canada) could be to incentivize the end investor to fund these companies by giving the tax relief to the investor instead of the listing company.

- *Bank lending*. Private sector lending has been constrained to existing customers largely due to underdeveloped risk models and credit bureaus to assess creditworthiness, and limited competition in the banking sector. Moreover, the pass-through of interest rate cuts to the real economy is low in Jamaica, reflecting weaknesses in the monetary transmission mechanism. This partly reflects the highly segmented interbank market, as well as weak financial intermediation,

[2] The regression controls for initial GDP level, investment rate, inflation rate, and external environment as represented by US GDP growth.

resulting from banks' historical focus on providing low-risk financing to the public sector, rather than lending to the private sector. Expanding financial literacy through enhanced information disclosure requirements on banks' financial products and improved dispute resolution mechanisms would allow clients to compare products and force banks to compete on quality and price of services. Developing a well-functioning interbank market, with higher turnover and depth, will improve transmission. The recent issuance of banking license to Jamaica's largest building society, creating its 3rd largest bank, has helped improve competition. Additional competition could encourage consumer mobility, and make lending rates more responsive to policy rates.

- *MSME finance*. High informality levels (estimated at 43 percent of GDP) hamper credit access. To help lower inequality and informality, and improve financial inclusion, solutions for micro-insurance, agency banking services, regular saving products, and factoring and leasing should be considered to help rural and MSME sectors. The high collateral requirements noted earlier, combined with weaknesses in land titling, limit credit to a small portion of asset owners. The ongoing expansion of the partial credit guarantee of the Development Bank of Jamaica is a useful step to improve MSME lending. Expanding the use and reach of e-payment infrastructure, including by its use by the government to distribute social security payments, would help lower financial services costs.

D. Fostering Diversification and Competitiveness

11. **Jamaica has experienced limited domestic production diversification and losses in market share.** As a small open economy, Jamaica's growth is largely export driven due to limited domestic demand. However, the country's traditional exports—bauxite, alumina, and sugar, comprising over 50 percent of total exports—are losing global market share (Figure A2.3), as a result of more efficient competitors (e.g. Australia with alumina and Brazil with sugar) coming on stream and loss of preferential trade treatments. Nevertheless, Jamaica's loss in market share in total goods and services exports is smaller than that of its traditional industries, pointing to likely gains in service exports such as tourism and the BPO sector. In the absence of detailed data, however, this is difficult to assess. In recent years, Jamaica's exports have drifted towards lower value-added products such as foods and commodities at the cost of knowledge intensive goods such as transport, electrical equipment, machinery and chemicals. Only 15 percent of goods exported by Jamaica are in the knowledge intensive/high value added category, compared to about 30 percent for Bahamas, Costa Rica and Dominican Republic.

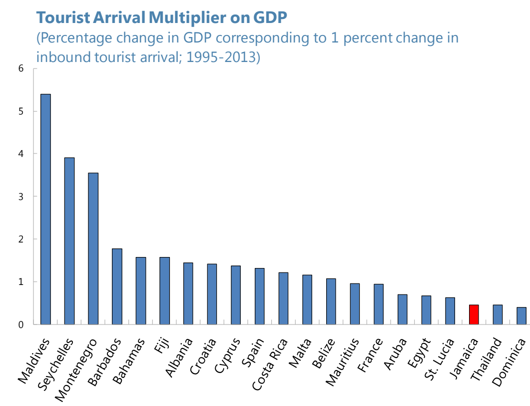
12. **There is scope for Jamaica to upgrade in the current production value chain.** Jamaica's small size and limited potential to exploit economies of scale imply that the cost of moving into a large number of new products could be prohibitive; quality upgrading within existing products could be a more feasible route toward diversification. Producing higher quality varieties of existing products can build on existing comparative advantages and can boost export revenue potential through the use of more physical- and human-capital intensive production techniques. Thus, quality upgrading opportunities in Jamaica could be quite strong in foods, drinks, or specialty agricultural items. Fostering new comparative advantages and upgrading quality will require improving key areas

such as fostering innovation and knowledge intensive sectors, improving ICT prevalence and usage, and improving labor market flexibility.

E. Increasing Value-Added and Spillover from the Tourism Sector

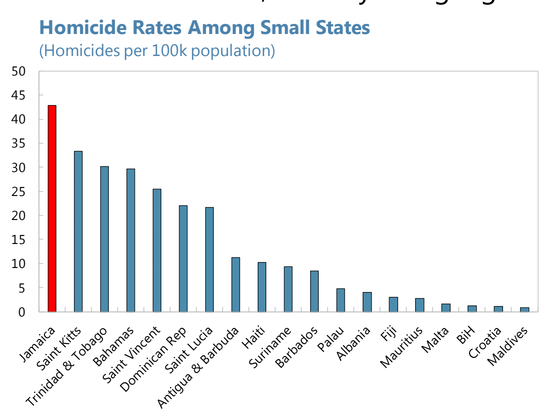
13. **Tourism is the largest exporting sector, but growth momentum is relatively weak (Figure A2.4).** Tourism contributes to over 50 percent of total exports in Jamaica. And the country's reliance on tourism has increased over time, given the subdued performance in other export sectors. However, growth momentum of tourism is weak relative to the sector's overall performance around the world. Data shows that tourism offerings in Jamaica is not cheap compared to other tourism-intensive small countries, likely due to high energy cost and lack of exchange rate competitiveness. On the other hand, expenditure per tourist in Jamaica is low compared to peers, indicating a lack of diversified tourism products and services.

14. **Increasing the linkage between tourism and the rest of the economy is essential.** A vector autoregressive model associating GDP growth on tourist arrival shows that the impact of tourist arrival on growth is small in Jamaica compared to other tourism-intensive countries. This is likely related to Jamaica's enclaved tourism model—tourists mostly stay in all-inclusive resorts that have little linkage with the rest of the economy, partly due to safety concerns. In addition, the sector imports most of its non-labor inputs. To increase the sector's contribution to the economy, better coordination by local producers is needed to reorient the sector's supply chain towards domestic goods and services. To diversify from the all-inclusive operating model, it is essential to reduce crime rate and encourage the development of domestic SMEs.



F. Other Supply-Side Constraints

15. **High crime rate severely constrains private sector growth, especially tourism.** Jamaica has one of the highest homicide rates in the world. Other crimes such as theft, robbery and gang activities are also prevalent. Nearly 50 percent of firms identify crime as a major cost of doing business. The IDB estimates that Jamaica's growth could have been 1.6 percent higher if it had the same homicide rate as the global average between 1995 and 2011. Moreover, total costs of crime are over 6 percent of businesses' annual sales, once security costs and direct losses are accounted for. To effectively combat crime, World Bank and the CARICOM Regional Taskforce on Crime and Security suggest that a



national plan for crime reduction is needed to ensure multi-sectoral collaboration. In addition, better data gathering and analysis should help identify geographical and demographic patterns of crime for improved interventions. Crime prevention elements should be integrated into social programs in health and education, especially among the youth population. The criminal justice system should also be reformed to improve performance measurement and promote institutional accountability.

16. **Survey indicators point to regulatory, educational and infrastructure weaknesses.** While Jamaica ranks well in starting a business and getting credit, these indicators reflect intensive margin improvements while a significant portion of the population still remains outside of those markets. Regulatory and legal weaknesses around contract enforcement, property registration, and paying taxes increase red tape and the hidden costs of doing business. Labor and goods markets are inefficient, driven by restrictive product market regulations and high separation costs. Labor mobility from the non-tradable to the tradable sector is also constrained by lack of training.

17. **Improving energy and transport infrastructure can reduce the cost of doing business in Jamaica**. Like other Caribbean countries, Jamaica's power system suffers from high dependency on imported fossil fuels.[3] The good news is that Jamaica has already embarked on moving from costly oil to natural gas-based power generation. For example, the Jamaica Public Services' new 190MW gas-powered power plant is on track to be operational by mid-2018, which should help sustainably lower electricity costs—especially if the current low global oil price is transitory—and help diversify Jamaica's energy generation matrix. Reforms to replace old and inefficient power plants, transmission/distribution lines, and improving metering would also help cut losses and costs. The IDB estimates that for 2018-2023, US$860 million investments are needed in diversifying energy sources and improving efficiency. Given limited fiscal space, strengthening public-private partnerships in energy diversification and power sector regulatory framework are important to mobilize private sector resources for energy investments. On infrastructure, the concession of Kingston Container Terminal and privatizing the international airport in Kingston will help modernize both structures and reduce their operational costs. Improving road connectivity and mass transit would promote linkages between tourism and the real economy.

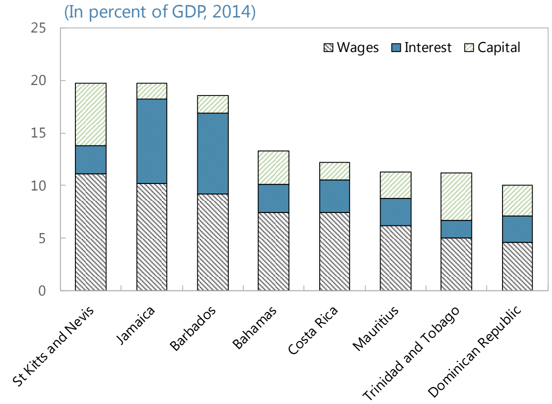
18. **A stunted private sector has lead to brain drain and fostered a large informal sector.** The educational attainment of Jamaican immigrants in the U.S. is much higher than those in the country, pointing to severe brain drain due to lack of economic opportunities. This, in combination with a high tax burden and labor market rigidities in such forms as high minimum wage and complex/costly dispute resolution framework, has in turn led to a large informal sector where activities are concentrated in low-productivity, labor-intensive areas such as small retail and agriculture. Improving labor market flexibility through training programs to facilitate transition out of agriculture and by tackling high separation costs, improving incentives to enter the formal sector (e.g. through a strong safety net) and improving regulatory/taxation hurdles would help foster

[3] See "Caribbean Energy: Macro-Related Challenges, IMF Working Paper No. 16/53.

formality and generate a virtuous cycle in the lower parts of the income distribution which would also reduce brain drain and crime.

19. **A long history of high debt service combined with a bloated and inefficient public sector has weakened public service delivery.** The high levels of interest and wage expenditures have significantly crowded out productive capital spending. This, combined with weak execution capacity over even the budgeted amounts each year, has resulted in weak infrastructure and telecommunications and electricity matrices. Some steps have also been taken to modernize an archaic tax system, but efforts should continue towards a broad-based, transparent system which reduces the reliance on distortive taxes (e.g. direct and turnover taxes) and eliminates almost all ad-hoc and sectoral exemptions. Modern taxes such as property taxes, capital gains tax and consumption taxes should be implemented or broadened to fill the void, with the added advantage that these taxes incentivize savings and are deemed to be more growth friendly. As reforms to raise public sector efficiency come on stream and the private sector becomes more vibrant, the newly found fiscal space should target much needed improvements in public sector provisions.

Composition of Public Expenditure
(In percent of GDP, 2014)



G. Emerging Transformational Investments

20. **Strategic investment projects can help transform the economy.** These investment projects help close the gap in crucial infrastructure and/or provide the foundation for the development of industries in which Jamaica potentially has a comparative advantage. With only limited fiscal space, private sector participation in these projects should be encouraged and facilitated through the use of privatization and different types of private-public partnership.

- The completion of Phase II of the Highway 2000 project (the North-South Highway), is an example of such partnership with China Harbour Engineering Company (CHEC). The highway reduces travel time between Kingston, the industrial and logistics center of Jamaica, and the North Coast where the tourism economy is concentrated, facilitating positive spillover of tourism into the domestic economy.

- Similarly, modernizing and expanding the container terminal in the Port of Kingston (KCT), with financing from private banks and the IDB, will boost the competitiveness of the Port, help establish Jamaica as a regional transshipment hub—particularly in light of potential competition from Cuba's Mariel port—and attract FDI in the logistics industry and related sectors.

- The Norman Manley Airport in Kingston is also being offered to private concessionaires for modernization and expansion, and improvements in the operational efficiency. The privatization and expansion of the NMIA is expected to help increase Jamaica's competitiveness as a regional logistics hub and boost the investment attractiveness of the Kingston area.

21. **Private sector dynamism supported by an improved business environment and investments in physical and human capital can generate growth.** Jamaica offers opportunities to the private sector in various growth sectors like BPO, tourism, manufacturing and agri-business, Jamaican specialty goods, creative industries, creating a Kingston waterfront, housing development, etc. The proximity to large export markets in North America, combined with the English-language advantage, puts Jamaica in a unique position to leverage its geography and culture to ignite private investment. The virtuous cycle of raising physical and human capital, which in turn increase productivity, attract private investment, generate job opportunities, and eventually higher growth is an achievable goal, requiring dedicated effort to sustain macroeconomic stability and deep structural reforms.

Figure A2.1. Growth, Investment and Institutions

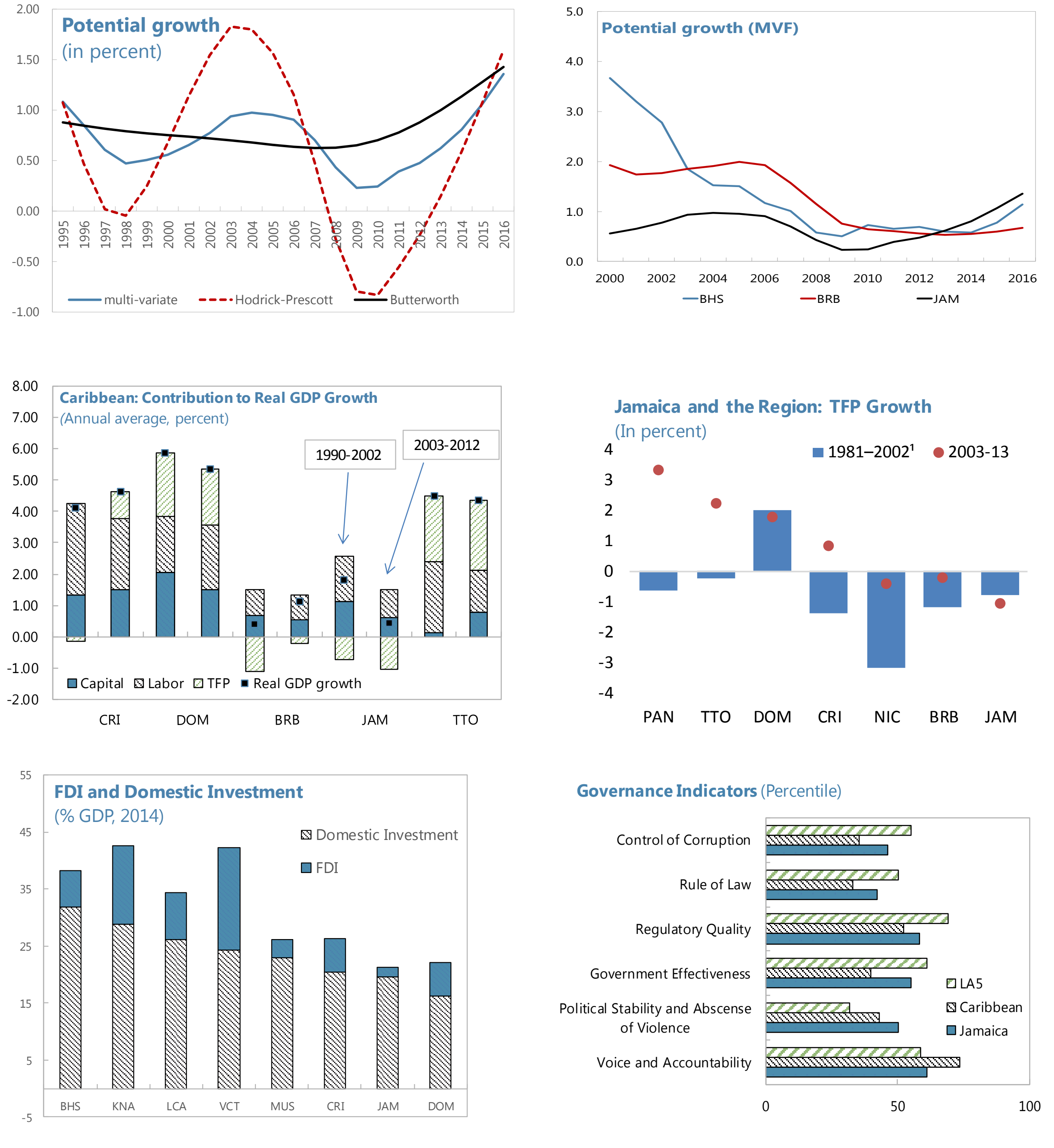
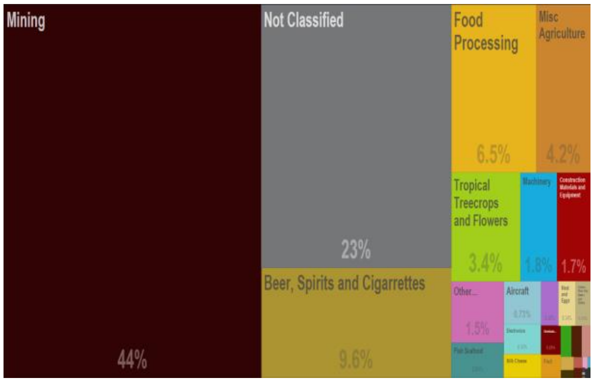


Figure A2.2. Financial Inclusion and Development

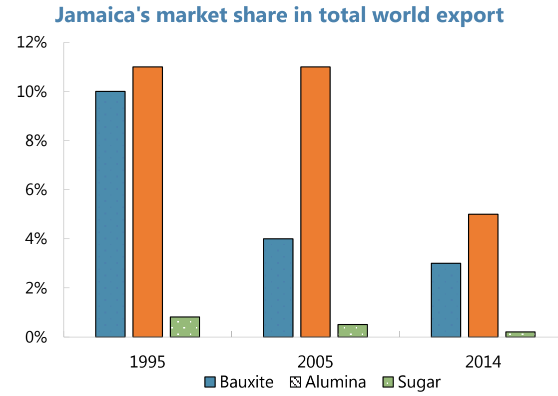
Figure A2.3. Export Composition and Market Share

Jamaican exports remains reliant on commodities…

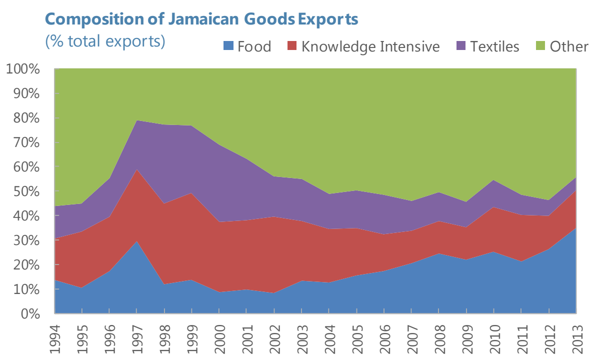


Source: MIT Observatory of Economic Complexity

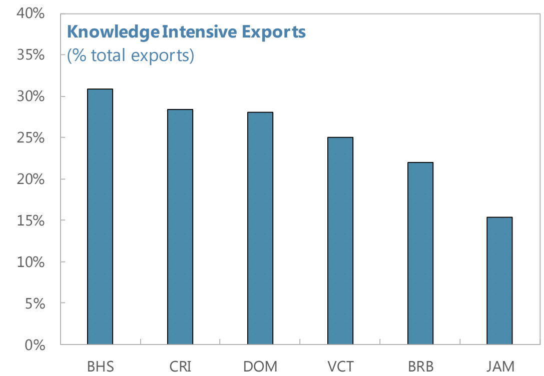
… despite severe loss in market shares in recent years.



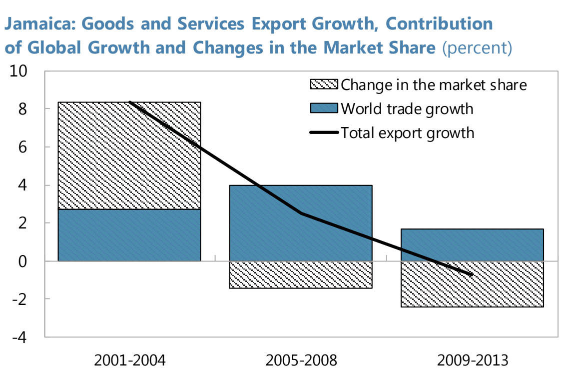
Exports have shifted to lower value-added goods (food)…



… and the share of knowledge intensive exports is low.



Overall market shares have been declining……



Sources: WEO and IMF staff estimates.

… and innovation lags behind.

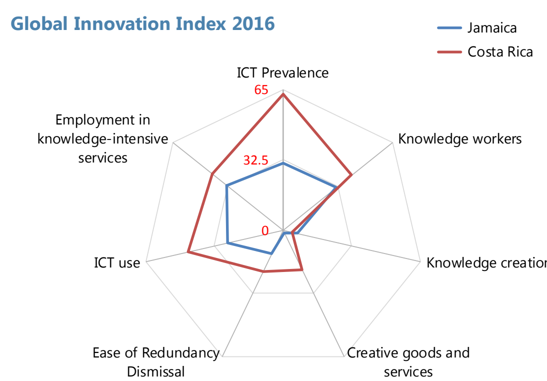
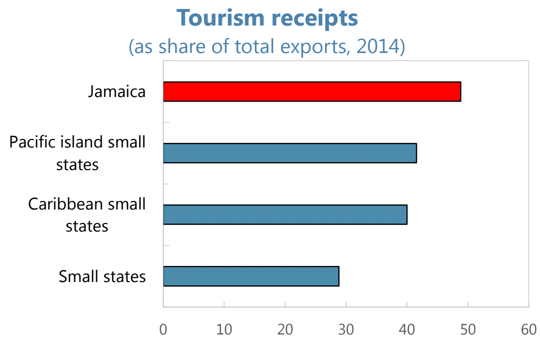
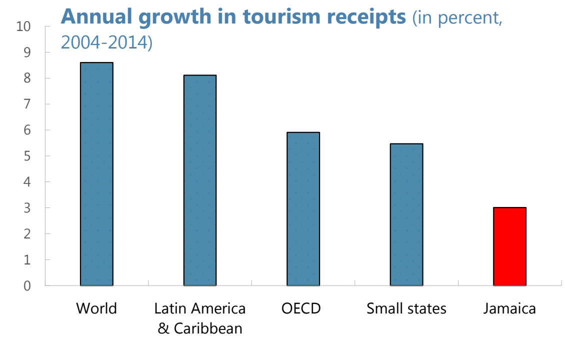


Figure A2.4. Tourism Development

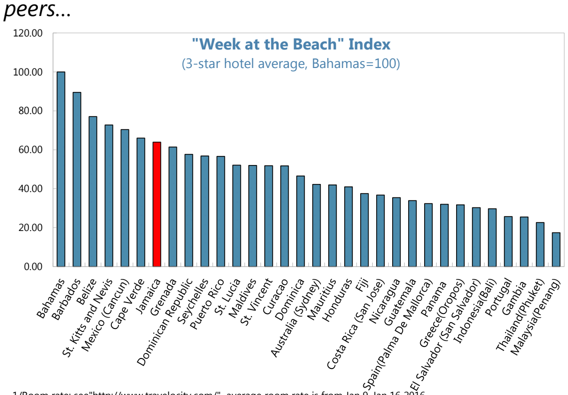
Tourism has a higher share in total exports compared to other small countries....



...but the growth performance of the sector is relatively weak.



Although tourism products are not cheap compared to peers...



1/Room rate: see"http://www.travelocity.com/", average room rate is from Jan 9-Jan 16 2016
2/Taxi, Meals, Water, Beer, Coffee: see"http://www.numbeo.com/cost-of-living/"an "http://www.worldcabfares.com/index.php", access date: Dec 3, 2015
3/Total Cost without Tax: 7 * (3 star hotel) + 2 * (average taxi ride from main international airport to capital city) + 7 * (1 inexpensive meal + 2 mid-range meals) + 7 * 2 liters water + 7 * 0.5 liter beer + 7 * regular coffee

...expenditure per tourist is quite low.

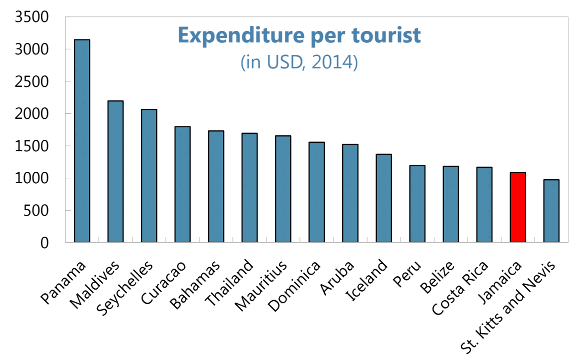
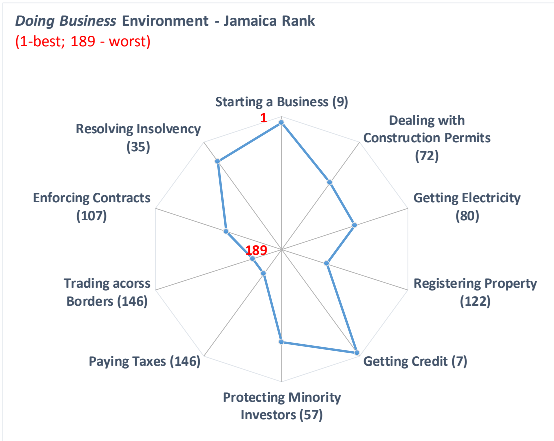
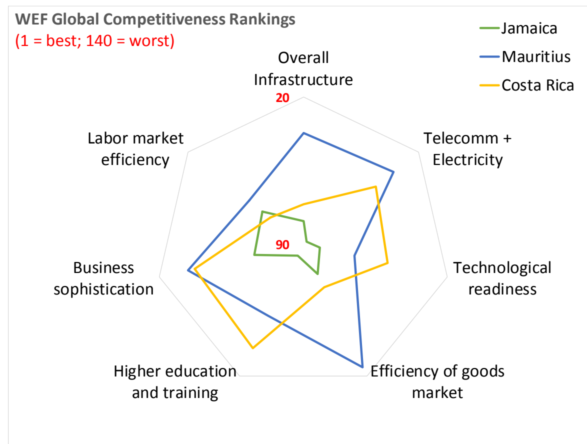


Figure A2.5. Competitiveness and Supply-Side Constraints

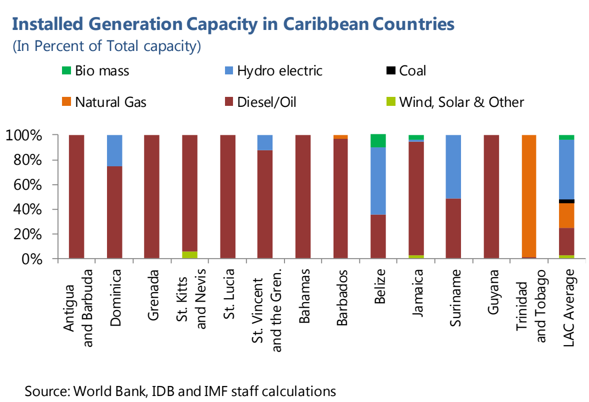
Some bright spots in Doing Business environment…



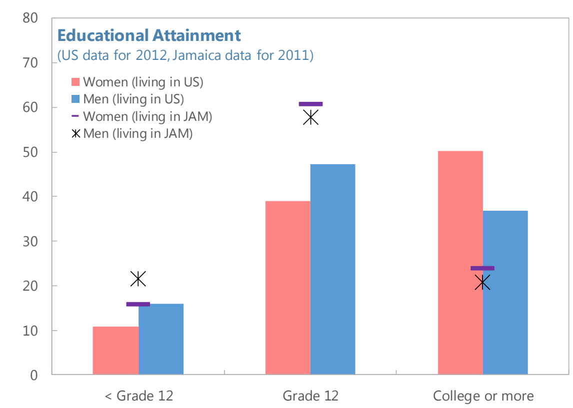
… are clouded by a weak competitiveness indicators…



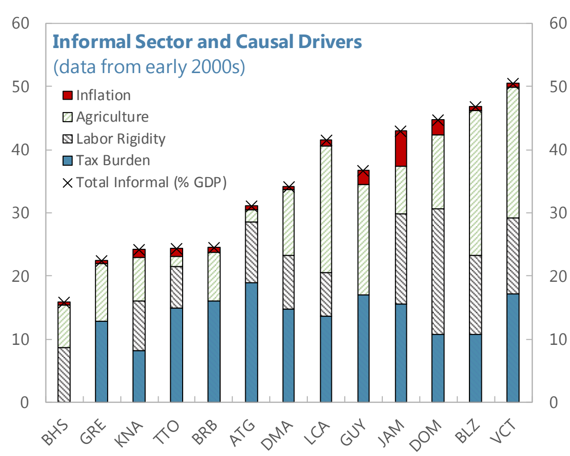
Energy generation matrix remains dependent on oil.



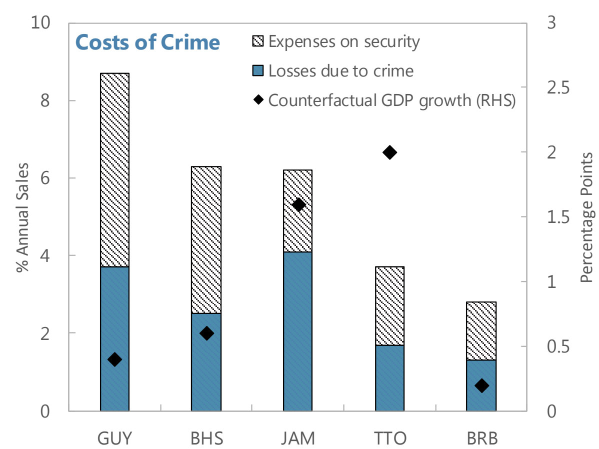
Brain drain has lowered the skills in the labor force…



… helping foster a large and unproductive informality…



… as private activity is further hindered by crime

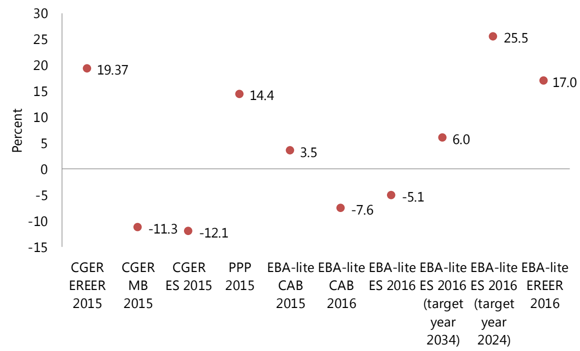


Annex III. 2016 External Sector Assessment

A. Exchange Rate Assessment

1. **In applying EBA-lite methodologies on exchange rate valuation, special consideration is given to external sustainability, given Jamaica's large NFA imbalances.** Convergence to a more sustainable NFA position (assumed to be -70 percent of GDP) in a period of no more than 15 years would require a somewhat more depreciated real effective exchange rate. Similarly, the equilibrium real exchange rate model points to an overvaluation, while the current account model points to modest undervaluation. Given these mixed findings, staff's view is that the exchange rate is broadly in line with fundamentals. That said, given the importance of NFA sustainability, the balance of risks may be toward modest overvaluation.

Real Effective Exchange Rate Appreciation (-) or Depreciation (+) Needed to Close the Gap Between the Underlying and Norm CAB



Results of the Real Effective Exchange Rate Assessment for Jamaica Using the EBA-lite and CGER Methodologies

	Current Account/GDP			2016 REER Over (+)/Under (-)	2015 REER Over (+)/Under (-)	2014 REER Over (+)/Under (-)
	Norm	Underlying	Elasticity	Valuation	Valuation	Valuation
CGER-type methodologies						
Macroeconomic balance	-5.5	-3.5	-0.18	N.A.	-11.5	3.1
External sustainability	-5.7	-3.5	-0.18	N.A.	-12.1	3.0
Equilibrium real exchange rate	N.A.	N.A.	N.A.	N.A.	19.4	15.1
Purchasing power parity	N.A.	N.A.	N.A.	N.A.	14.4	
Average REER Over(+)/Under (-)				N.A.	2.5	7.1
EBA-lite methodology						
Current account balance	-4.7	-3.3	-0.18	-7.6	3.5	N.A.
Equilibrium real exchange rate	4.7*	4.5*	-0.18	17.0	N.A.	N.A.
External sustainability	-3.7	-2.8	-0.18	-5.1	N.A.	N.A.
External sustainability (target year 2034)	-1.8	-2.8	-0.18	6.0	N.A.	N.A.
External sustainability (target year 2024)	1.7	-2.8	-0.18	25.5	N.A.	N.A.

Source: Fund staff estimates.

B. Composition of Capital Flows and of the Net International Investment Position (IIP)

2. **The significant narrowing of the current account deficit has allowed for continued accumulation of international reserves, despite reduced financing from the financial and capital accounts.** The current account deficit narrowed sharply from US$1,128 million in 2014 to US$326 million in 2015, largely as a result of lower oil prices. Over the past two years, foreign direct investment (FDI) has increased significantly: net FDI amounted to US$760 million in 2015, up from US$511 million in 2014. By contrast, portfolio flows, which have historically been much more volatile than FDI, were negative at US$225 in 2015 and a positive contribution of US$775 in 2014. The issuance of two sovereign bonds in the international capital markets in July of 2015 to finance the PetroCaribe debt buyback operation led to a negative contribution of net official investment flows of

US$1,202 million in 2015, which contrasts with a positive contribution of US$821 in 2014. Thus, despite the lower contribution of the capital and financial account to the current account financing, international reserves increased by US$953 million in 2014 and 435 million in 2015.

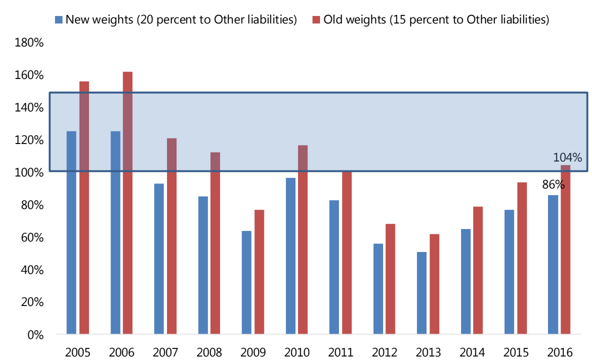
3. **Jamaica's net international investment position (IIP) has been relatively constant over the past year, although it remains very high.** Jamaica has a large negative IIP, which has grown over time both in absolute terms and as a share of GDP. At end-2015, the net IIP registered a deficit of US$22 billion, equivalent to -150.0 percent of GDP. This net IIP was largely unchanged from the deficit at end-2014 (US$22 billion), even if as a share of GDP it deteriorated as a result of the depreciation of the Jamaican dollar vis-a-vis the US dollar, which implied a lower level of GDP.

4. **The relatively high share of foreign direct investment in total liabilities, together with the longer maturity of the majority of other liabilities, suggests a smaller need to hold reserves for precautionary purposes**. The maturity profile of the other investment component of liabilities in end-2015 suggests that the majority of liabilities (80 percent) correspond to long-term loans; liabilities maturing in less than one year account for the remaining 20 percent. That said, the PetroCaribe debt buyback operation reduced the average maturity of liabilities and resulted in the bunching of repayments in some years.

C. Reserve Adequacy

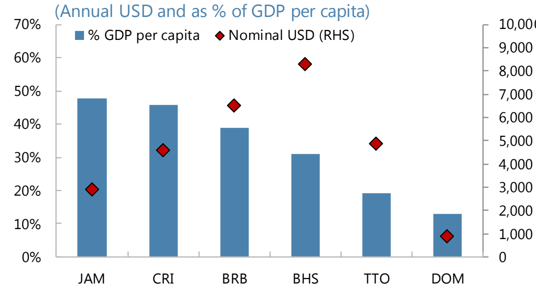
5. **Jamaica's international reserves are below the suggested range by the metric proposed in the IMF's Board paper "Assessing Reserve Adequacy" (2011) using the updated weight for the 'Other liabilities' component.** Whereas the ARA metric suggests that reserves should be between 100 and 150 percent of the ARA metric, using the updated weight for the 'Other liabilities' component Jamaica's level of international reserves at end-2015 were about 77 percent, and are projected to reach about 86 percent by end 2017. Using the old weight, at end-2015 reserves were about 94 percent of the ARA metric and are projected to reach about 104 percent by end 2017.

Gross International Reserves
(Percent of ARA Metric)



D. Wage and Non-Price Competitiveness Indicators

Minimum Wage
(Annual USD and as % of GDP per capita)



6. **Wage comparisons provide an additional measure of international competitiveness, but are significantly hampered by data availability.** In the absence of data on average manufacturing wages, a comparison of minimum wages among a group of countries in Central America and the Caribbean shows that Jamaica's minimum wage is not high in absolute U.S. dollar terms; it is, however, relatively high as a share of GDP per capita.

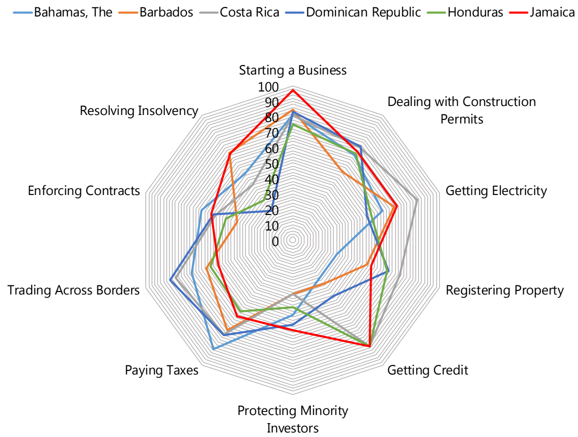
7. **Non-price competitiveness indicators have improved in recent years including the World Bank's 2015 Ease of Doing Business improving from 71 to 64 (among 189 economies).** In terms of the distance to frontier (DTF), it narrowed the distance from 64.7 in 2015 to 67.3 in 2016.[1]

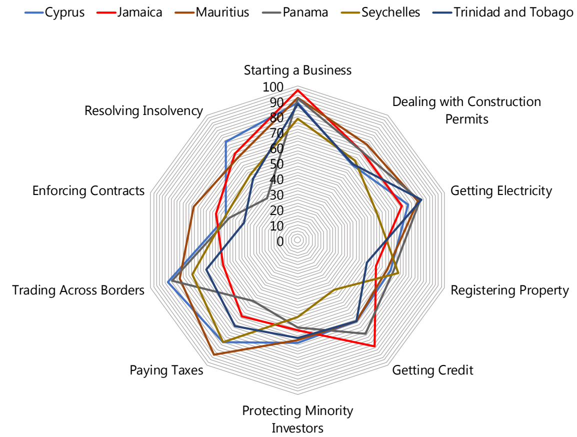
8. **Among the 11 areas of competitiveness considered, however, progress was uneven.** While the DTF ranking rose significantly in five areas (resolving insolvency, getting credit, starting a business, paying taxes, and dealing with construction permits), it remained nearly constant in 4 areas and declined in one (getting electricity). The decline in the average electricity price from US¢41.6 in 2014 to US¢28 per kWh in 2015, was more than offset by declines in the quality and reliability of service.

9. **Despite improvements, in terms of levels, Jamaica is still far from the frontier in five areas** (registering property, protecting minority investors, paying taxes, trading across borders, and enforcing contracts). Moreover, it lags behind its regional peers or relevant comparator countries in paying taxes and trading across borders.

Ease of Doing Business 2016
(Distance to Frontier)

[1] The distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier.

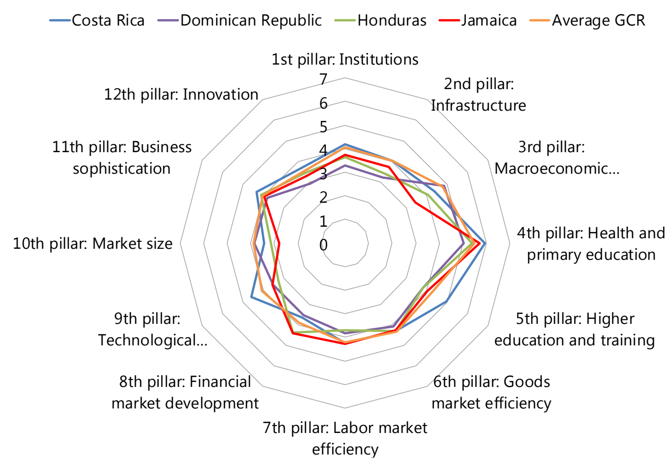




10. **The latest World Economic Forum's Global Competitiveness Report shows that Jamaica ranked 86 among 140 economies.** It also shows that Jamaica stagnated in terms of its value of the Global Competitiveness Index (GCI).

11. **Jamaica showed progress in five of the 12 pillars of competitiveness considered by the GCI–i.e., macroeconomic environment, innovation, institutions, financial market development, and health and primary education.** It remained nearly constant in three–infrastructure, goods market efficiency, and labor market efficiency; it declined in four others–higher education and training, technological readiness, market size, and business sophistication. The improvement in the GCI for 2015-2016 in the macroeconomic environment pillar was the result of higher savings, lower inflation, and higher credit rating in 2015 compared with 2014. In terms of the levels of the GCI, Jamaica does poorly compare with some of its regional peers in macroeconomic environment and market size.

Global Competitiveness Index 2015-2016



Annex IV. Debt Sustainability Analysis

Under the current baseline scenario, Jamaica's public debt remains high but is on a downward trend underpinned by sustained fiscal consolidation. The projected decline in public debt is vulnerable to risks from key macro-fiscal shocks, contingent liabilities, and natural disasters.[1]

A. Public Debt Sustainability Analysis

1. **Jamaica's public debt has declined steadily over the past few years.** Between FY2012/2013 and FY2015/16, public debt has fallen by about 11 percent of GDP to 129 percent of GDP, and is now projected to further decline to about 128 percent of GDP at end of FY2016/17. Under the current baseline projections, public debt would be reduced to 102 percent of GDP at end-March 2020, still higher than the 96 percent marker set at the start of the program.

2. **The steady decline in Jamaica's public debt has been underpinned by strong fiscal consolidation under the IMF-supported program and the buyback of the PetroCaribe debt in July 2015.**[2] Jamaica's central government operations posted a primary surplus of 7½ percent of GDP over FY2013/14 and FY2014/15. The primary surplus target was lowered slightly by ¼ and ½ percent of GDP for FY2015/16 and FY2016/17, respectively, to accommodate growth-enhancing spending, but remains at a level compatible with public debt reduction (7 percent of GDP per year from FY2016/17 onwards). Fiscal consolidation has contributed to the reduction in public debt; the decline in public debt in FY2015/16 also reflects the gains from the buyback of the PetroCaribe debt in July 2015, which resulted in an upfront reduction of public debt by 10 percent of GDP.

3. **Nevertheless, public debt sustainability risks are significant, particularly from key macro-fiscal and contingent liability shocks.**

- **The dynamics of debt reduction hinge on sustained fiscal consolidation.** The reduction in public debt since 2013 has been supported by fiscal consolidation and the recent buyback of the PetroCaribe debt. While slippages in fiscal consolidation do not seem to have a significant direct impact on debt trajectory (Figure A4.5),[3] its indirect effects on public debt can be significant. For example, fiscal complacency could undermine policy credibility and investor confidence, causing a spike in sovereign bond yields, which could lead to unpleasant public debt dynamics. Maintaining strong fiscal stance is critical, in line with the government's commitment to the program objective to bring public debt down to 96 percent of GDP by 2019/20 and to 60 percent of GDP by 2025/26, as entrenched in the Fiscal Responsibility Law.

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[1] The main assumptions underpinning the DSA are presented in the lower panel of Figure 4 and are based on the medium-term macroeconomic framework under the extended arrangement under the EFF.

[2] See Box 2 in IMF Country Report No. 15/270.

[3] The scenario describes a cumulative relaxation of the primary balance by 4.2 percentage points of GDP, spread over FY2017/18–FY2021/22 (Figure A4.5, lower panel).

- **Economic slack could derail the debt profile.** In a scenario with 1.7 percentage points lower real GDP growth in FY2017/18 and FY2018/19, corresponding to one standard deviation of growth over the past 10 years, the primary balance would deteriorate by 0.4 and 0.8 percent in these two years, respectively. Public debt would rise to 101 percent of GDP by end-March 2021, about 6 percent above the current projection.

- **Debt profile is also vulnerable to a contingent liabilities shock.** A financial sector contingent liability stress test suggests that public debt could rise to 104 percent at end-March 2021, if it is subject to a one-time increase in non-interest expenditures equivalent to 10 percent of the banking sector's assets.[4] It is therefore important to implement reforms to strengthen financial sector stability.

- **Overall risks to the debt outlook remain elevated as indicated by both the symmetric and asymmetric fan charts (Figure A4.1).** Based on the joint historical distribution of the main macroeconomic aggregates (real GDP growth, interest rate, nominal exchange rate, and primary balance), there is a 25 percent probability that public debt would exceed 100 percent of GDP at end-March 2021, even absent a contingent liability shock.

- **Although the heat map shows a somewhat worse market perception since the last DSA, recent developments point to improvements.** A large part of the increase in Jamaica's EMBIG yield since the last DSA was in August 2015 when the yield rose by 84 bps, after the international bond placement of US$2bn; otherwise, Jamaica's yields have broadly moved in line with the EM average. Moreover, recent developments point to strengthening market confidence: (1) there have been two credit ratings upgrades in the last 12 months, including in February by Fitch, (2) recent surveys which point to a 15 year high in confidence levels and (3) a downward path in yields since the beginning of 2016.

4. **Jamaica's debt position also remains vulnerable to natural disasters.**

- ***Calibration of the shock.*** Given Jamaica's high exposure to natural disasters,[5] this test assumes that such a shock causes 4 percent of GDP in damages, twice the conditional average cost of natural disasters in Jamaica over the past two decades.[6] The calibrated shock is a conservative estimate, given that the largest (hurricane Gilbert in 1988) and second largest natural disaster (hurricane Ivan in 2004) caused damages of 65 percent and 6.6 percent of GDP, respectively.

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[4] It is assumed that the financial stress would also trigger GDP losses in the magnitude of the real growth shock described above.

[5] Jamaica ranks 101 out of 206 countries worldwide in the frequency of disasters (frequency of disasters per 1000 km^2), 1990-2014 (Source: Growth and Resilience Initiative: Stylized Facts About Natural Disasters)

[6] Jamaica had 9 major hurricanes and storms over the past two decades (estimated damages in percent of GDP): 1988 hurricane Gilbert (65), 2002 flood (0.6), 2004 hurricane Ivan (6.6), 2005 hurricane Dennis and Emily (1), 2005 hurricane Wilma (0.6), 2007 hurricane Dean (2.9), 2008 storm Gustav (1.8), 2010 storm Nicole (1.9), 2012 hurricane Sandy (0.8).

- ***Parametrization of the scenario.*** With a disaster of such magnitude, real growth would typically be about 2 percentage points lower in the year of the disaster, and accelerate by 0.5 percentage points the year after the disaster (boosted by low base and reconstruction). Based on the past distribution of damages between the public and the private sectors, it is assumed that the government would cover ¾ of the damages, corresponding to 3 percent of GDP in this scenario. The associated fiscal expenditure is assumed to be spread over 3 years: 1.5 percent of GDP in the first year, and 1 and ½ percent of GDP in next two years respectively.

- ***Impact on public debt***. The shock would have a material impact on public debt, shifting the entire public debt trajectory up by around 5 percent of GDP above the baseline. Thus, public debt would reach 99.6 percent of GDP at end-March 2021. In light of frequent natural disasters, it is important to build sizable and lasting fiscal buffers to cover the fiscal cost of future disasters.

5. **The reopening of the domestic bond market could mitigate financing risks, including rollover risks of a still high debt burden.** Capitalizing on the liquidity available from the redemption of a J$62 billion (about 4 percent of GDP) government bond, the domestic bond market re-opened in February (after being frozen for almost three years), through the issuance by the GoJ of J$15 billion bonds at various maturities to meet the demand for new government assets. Concerted efforts to further develop local currency bond market offer the government an additional funding source to meet its financing needs and to address the FX risk of the debt portfolio. The risk profile of public debt would indeed benefit from reduced reliance on foreign currency (see ¶6).

B. External Debt Sustainability Analysis

6. **The recent shift towards external financing sources has increased public debt's exposure to exchange rate risk.** Jamaica tapped the international capital markets while the domestic bond market was frozen between 2013 and 2015, shifting the composition of public debt towards foreign currency (Figure A4.4). External debt is now estimated at around 70 percent of GDP in FY2015/16, about 10 percentage points of GDP higher than in FY2013/14. The foreign-currency denominated debt accounts for about 63 percent of total debt. As illustrated in Figure A4.5, public debt is most vulnerable to exchange rate volatility. The recent reactivation of the domestic bond market is a welcome step in this direction, as it provides scope for shifting the financing sources towards domestic ones.

7. **There are risks related to PetroCaribe financing with the expectation of long-lasting low oil prices.** Given that oil prices are projected to recover modestly over the medium term, the gross inflows at highly concessional terms from PDVSA are expected to be continuously low. Securing alternative low-cost financing where possible (e.g., from IFIs) would mitigate risks to public debt dynamics.

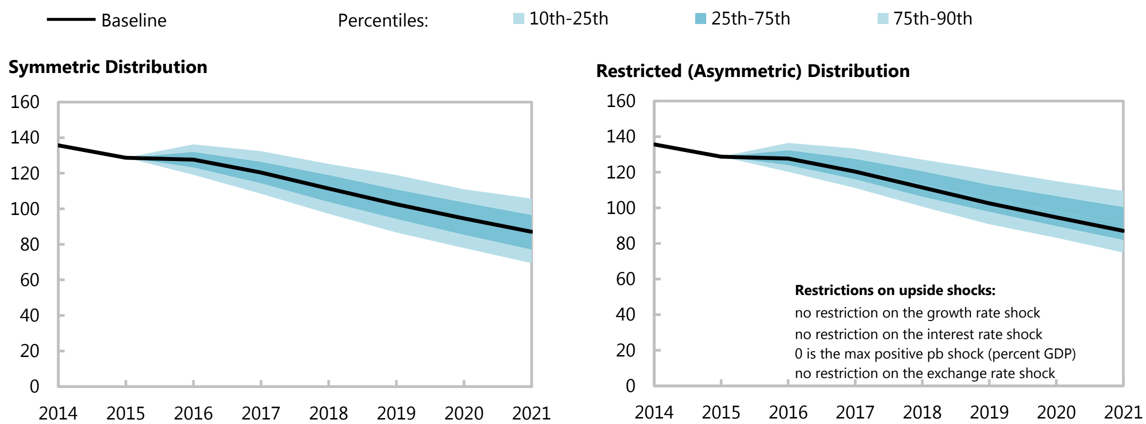
Figure A4.1. Jamaica Public DSA Risk Assessment

Heat Map 6/

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

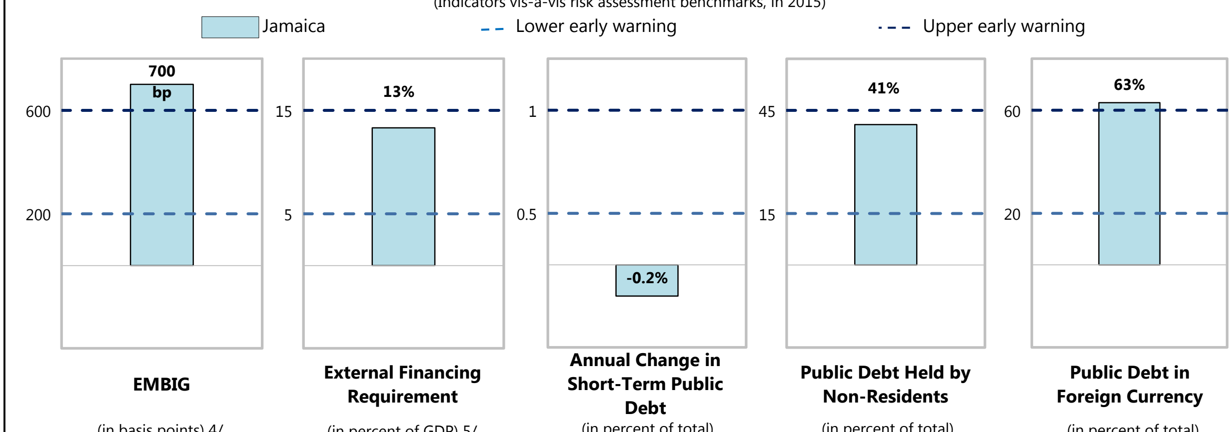
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: Fund staff calculations.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

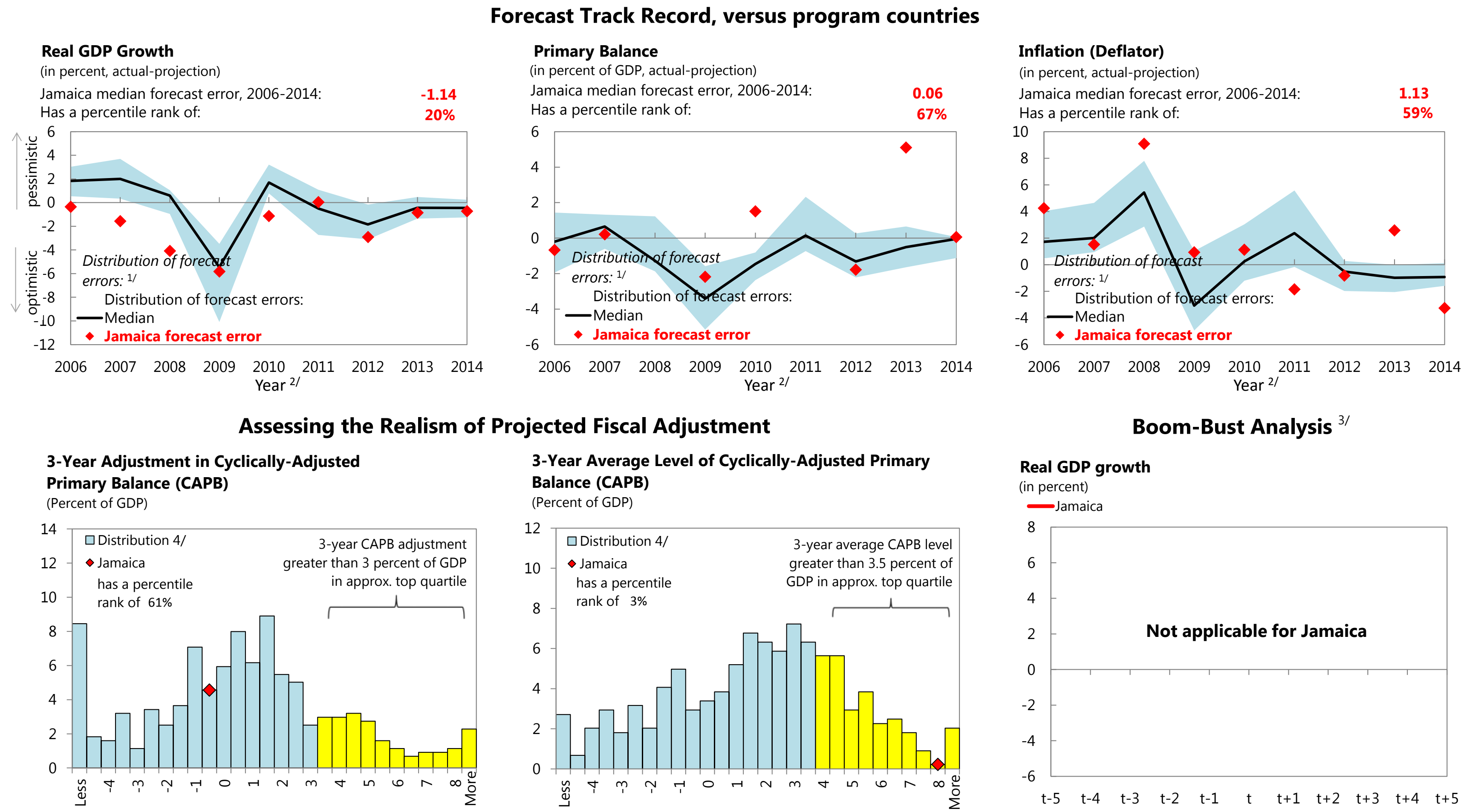
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 02-Jan-16 through 01-Apr-16.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

6/ The red-colored cells on the heat map under "gross financing needs" (upper panel chart, second row) do not account for the fact that the 2015 gross financing needs include the amount of the buyback operation which has already taken place.

Figure A4.2. Jamaica Public DSA - Realism of Baseline Assumptions



Source: Fund staff calculations.

1/ Plotted distribution includes program countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Jamaica, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure A4.3. Jamaica Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

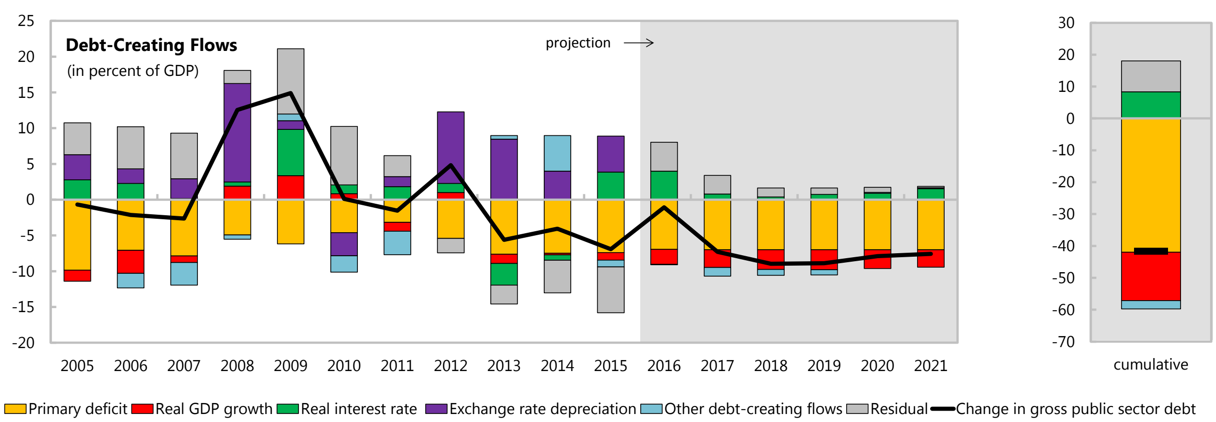
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	131.9	135.6	128.7	127.7	120.4	111.4	102.5	94.6	87.0
Of which: guarantees	10.6	10.5	9.6	8.8	8.2	7.5	6.9	6.3	5.8
Public gross financing needs	17.5	6.1	23.5	5.1	12.7	7.9	8.4	7.8	6.3
Real GDP growth (in percent)	0.1	0.2	0.8	1.7	2.1	2.5	2.7	2.8	2.8
Inflation (GDP deflator, in percent)	9.5	7.2	3.4	3.6	5.9	6.2	6.0	6.0	5.8
Nominal GDP growth (in percent)	9.7	6.9	4.2	5.4	8.1	8.9	8.9	9.0	8.7
Effective interest rate (in percent) [4/]	10.8	6.7	6.4	6.9	6.6	6.7	6.9	7.1	7.7

As of April 01, 2016		
Sovereign Spreads		
EMBIG (bp) 3/		47
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Caa2	Caa2
S&Ps	B	B
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.2	-4.1	-6.9	-1.1	-7.3	-9.0	-8.9	-7.9	-7.6	-41.7	
Identified debt-creating flows	-1.6	0.5	-0.5	-5.1	-9.9	-10.2	-9.8	-8.6	-7.8	-51.4	
Primary deficit	-6.3	-7.5	-7.4	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-42.0	-0.8
Primary (noninterest) revenue and grants	26.7	26.3	28.0	28.2	27.3	27.0	26.8	26.8	26.8	162.9	
Primary (noninterest) expenditure	20.3	18.8	20.6	21.2	20.3	20.0	19.8	19.8	19.8	121.0	
Automatic debt dynamics [5/]	5.8	3.0	7.8	1.9	-1.7	-2.4	-2.1	-1.7	-0.9	-6.8	
Interest rate/growth differential [6/]	1.4	-1.0	2.8	1.9	-1.7	-2.4	-2.1	-1.7	-0.9	-6.8	
Of which: real interest rate	1.5	-0.7	3.9	4.0	0.8	0.4	0.7	0.9	1.5	8.4	
Of which: real GDP growth	-0.1	-0.2	-1.0	-2.1	-2.5	-2.8	-2.8	-2.6	-2.4	-15.2	
Exchange rate depreciation [7/]	4.4	4.0	5.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	-1.1	5.0	-1.0	-0.1	-1.2	-0.8	-0.7	0.1	0.1	-2.6	
Privatization Receipts and Deposits Drawdown (negative)	-1.1	5.0	-1.0	-0.1	-1.2	-0.8	-0.7	0.1	0.1	-2.6	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other debt flows (incl. ESM and Euroarea loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	3.8	-4.6	-6.4	4.0	2.6	1.3	0.9	0.7	0.2	9.7	

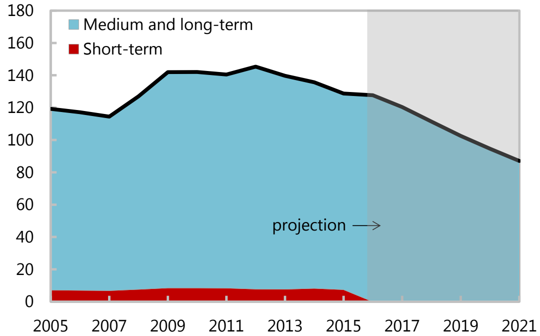


Source: Fund staff calculations.
1/ Public sector is defined as central government and includes public guarantees and PetroCaribe.
2/ Based on available data.
3/ EMBIG.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

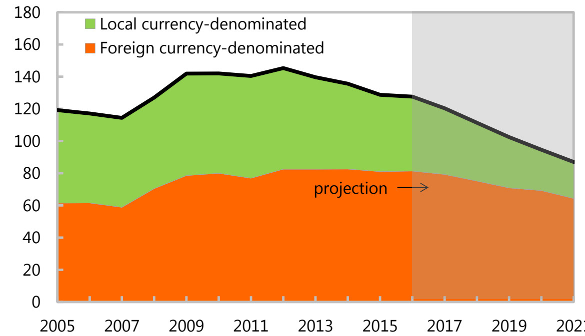
Figure A4.4. Jamaica Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



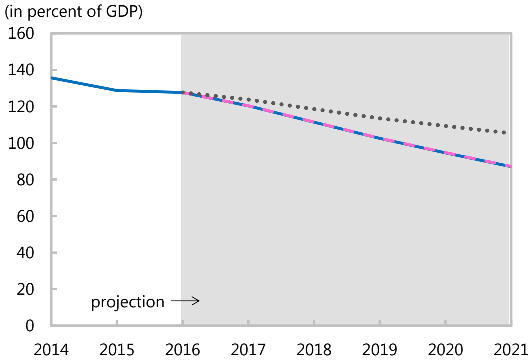
By Currency
(in percent of GDP)



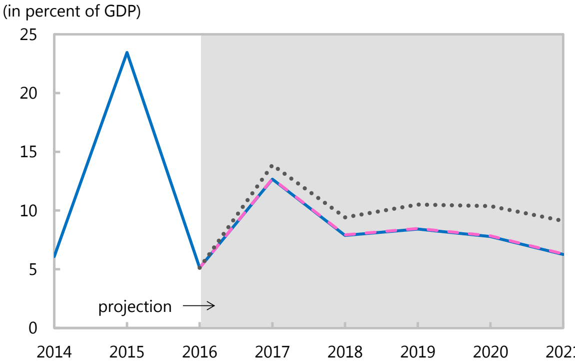
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

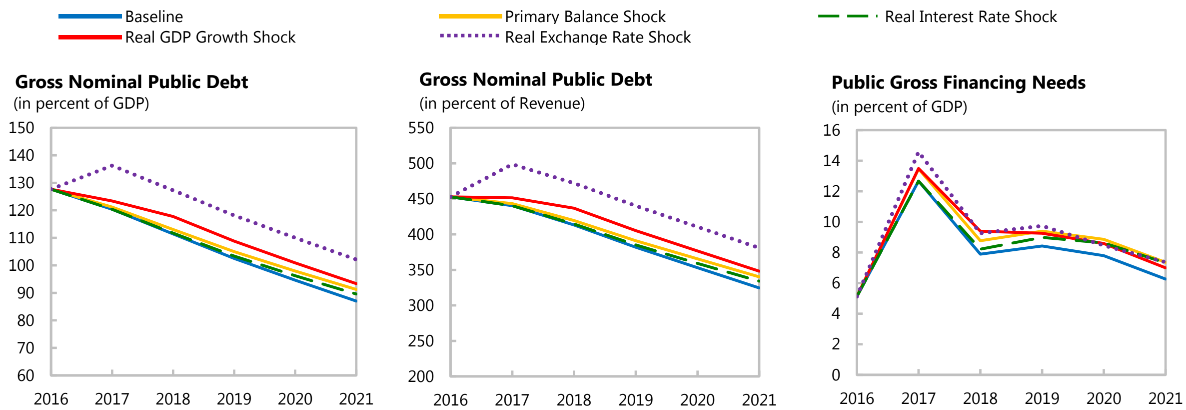
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.7	2.1	2.5	2.7	2.8	2.8
Inflation	3.6	5.9	6.2	6.0	6.0	5.8
Primary Balance	7.0	7.0	7.0	7.0	7.0	7.0
Effective interest rate	6.9	6.6	6.7	6.9	7.1	7.7
Constant Primary Balance Scenario						
Real GDP growth	1.7	2.1	2.5	2.7	2.8	2.8
Inflation	3.6	5.9	6.2	6.0	6.0	5.8
Primary Balance	7.0	7.0	7.0	7.0	7.0	7.0
Effective interest rate	6.9	6.6	6.7	6.9	7.1	7.7

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.7	0.1	0.1	0.1	0.1	0.1
Inflation	3.6	5.9	6.2	6.0	6.0	5.8
Primary Balance	7.0	6.2	6.2	6.2	6.2	6.2
Effective interest rate	6.9	6.6	6.7	6.8	7.0	7.5

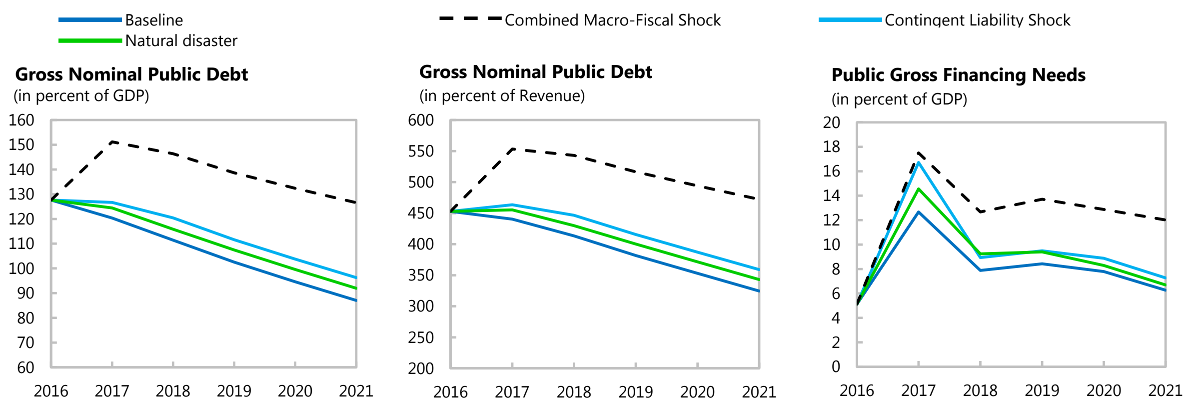
Source: Fund staff calculations.

Figure A4.5. Jamaica Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

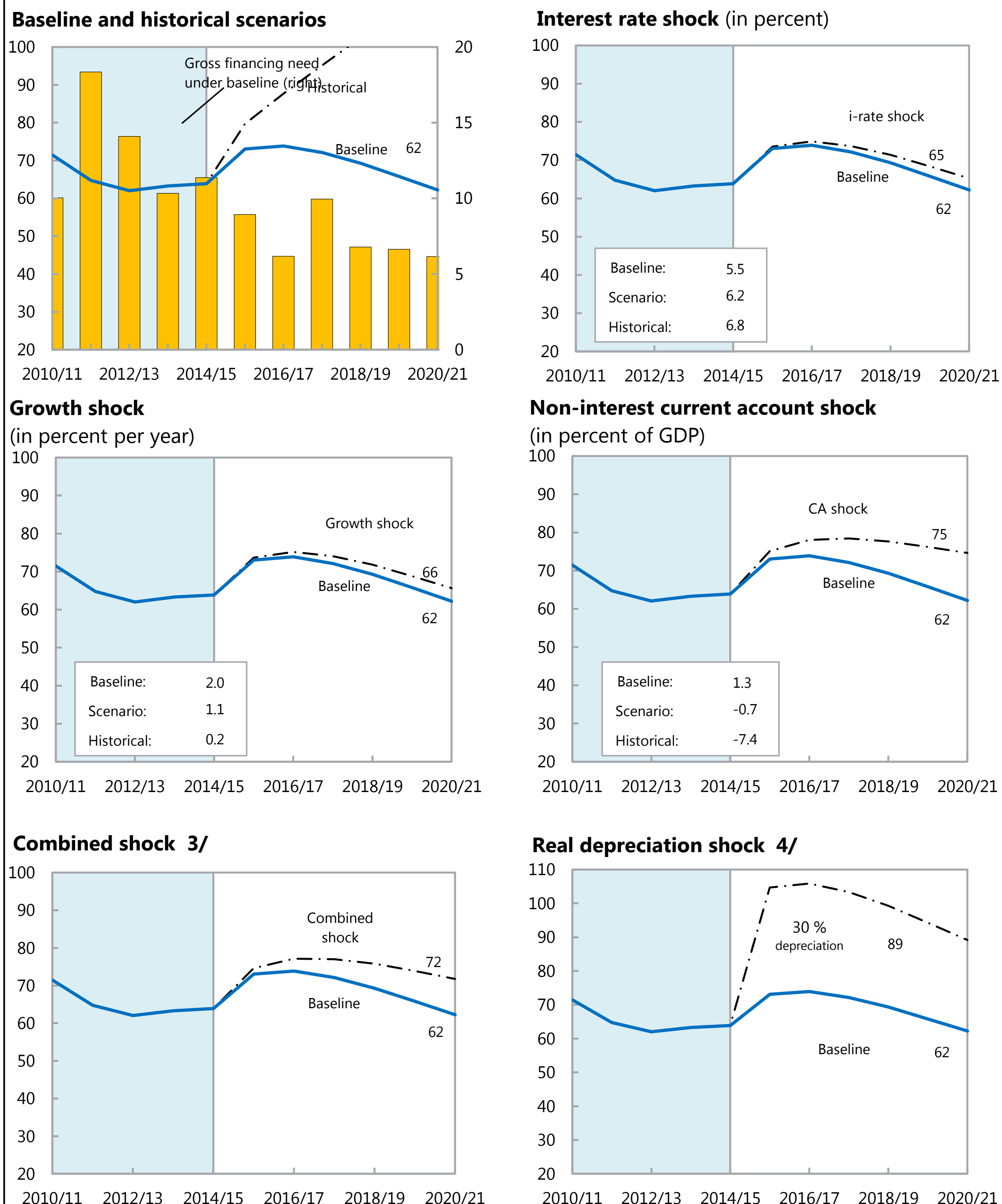
	2016	2017	2018	2019	2020	2021
Primary Balance Shock						
Real GDP growth	1.7	2.1	2.5	2.7	2.8	2.8
Inflation	3.6	5.9	6.2	6.0	6.0	5.8
Primary balance	7.0	6.2	6.2	6.2	6.2	6.2
Effective interest rate	6.9	6.6	6.7	6.9	7.2	7.7
Real Interest Rate Shock						
Real GDP growth	1.7	2.1	2.5	2.7	2.8	2.8
Inflation	3.6	5.9	6.2	6.0	6.0	5.8
Primary balance	7.0	7.0	7.0	7.0	7.0	7.0
Effective interest rate	6.9	6.6	7.0	7.4	7.9	8.8
Combined Shock						
Real GDP growth	1.7	0.4	0.8	2.7	2.8	2.8
Inflation	3.6	5.4	5.8	6.0	6.0	5.8
Primary balance	7.0	6.2	6.2	6.2	6.2	6.2
Effective interest rate	6.9	7.8	6.8	7.2	7.7	8.5

	2016	2017	2018	2019	2020	2021
Real GDP Growth Shock						
Real GDP growth	1.7	0.4	0.8	2.7	2.8	2.8
Inflation	3.6	5.4	5.8	6.0	6.0	5.8
Primary balance	7.0	6.6	6.2	7.0	7.0	7.0
Effective interest rate	6.9	6.6	6.7	6.9	7.1	7.7
Real Exchange Rate Shock						
Real GDP growth	1.7	2.1	2.5	2.7	2.8	2.8
Inflation	3.6	13.9	6.2	6.0	6.0	5.8
Primary balance	7.0	7.0	7.0	7.0	7.0	7.0
Effective interest rate	6.9	7.8	6.4	6.6	6.8	7.3
Contingent Liability Shock						
Real GDP growth	1.7	0.4	0.8	2.7	2.8	2.8
Inflation	3.6	5.4	5.8	6.0	6.0	5.8
Primary balance	7.0	3.7	7.0	7.0	7.0	7.0
Effective interest rate	6.9	6.9	6.8	7.0	7.2	7.8

Source: Fund staff calculations.

Figure A4.6. Jamaica: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2013/14.

Table A4.1. Jamaica: External Debt Sustainability Framework, 2010/11-2020/21

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2010/11	2011/12	2012/13	2013/14	2014/15			2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	71.5	64.7	62.0	63.3	63.9			**73.1**	**73.9**	**72.1**	**69.3**	**65.8**	**62.2**	**-3.9**
Change in external debt	2.3	-6.7	-2.7	1.3	0.6			9.2	0.8	-1.7	-2.8	-3.5	-3.6	
Identified external debt-creating flows (4+8+9)	0.4	6.9	7.4	6.8	2.7			-3.5	-3.6	-3.5	-3.6	-3.4	-2.9	
Current account deficit, excluding interest payments	4.4	10.2	6.6	5.0	3.6			-1.1	-1.8	-1.2	-1.3	-1.1	-0.9	
Deficit in balance of goods and services	19.5	24.9	23.2	22.6	21.3			16.4	17.2	17.2	16.7	16.3	15.6	
Exports	29.7	29.1	30.2	29.7	31.1			30.6	32.0	32.4	32.6	32.6	32.6	
Imports	49.1	54.0	53.4	52.2	52.4			47.0	49.2	49.6	49.4	48.9	48.2	
Net non-debt creating capital inflows (negative)	-1.1	-1.5	-2.1	-3.9	-4.3			-5.4	-4.9	-4.5	-4.3	-4.0	-3.8	
Automatic debt dynamics 1/	-3.0	-1.8	2.9	5.7	3.4			3.0	3.2	2.2	1.9	1.7	1.8	
Contribution from nominal interest rate	3.6	3.3	3.3	3.2	3.5			3.5	4.4	3.7	3.7	3.5	3.5	
Contribution from real GDP growth	0.4	-0.6	0.5	-0.6	-0.1			-0.5	-1.2	-1.5	-1.7	-1.8	-1.8	
Contribution from price and exchange rate changes 2/	-7.0	-4.4	-0.9	3.2	...			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.0	-13.6	-10.1	-5.5	-2.2			12.7	4.4	1.7	0.8	-0.1	-0.7	
External debt-to-exports ratio (in percent)	241.0	222.5	205.3	213.3	205.4			239.1	230.7	222.6	212.6	201.9	190.9	
Gross external financing need (in billions of US dollars) 4/	1.4	2.7	2.1	1.5	1.6			1.2	0.9	1.4	1.0	1.0	1.0	
in percent of GDP	10.0	18.3	14.1	10.3	11.4			8.9	6.2	10.0	6.8	6.6	6.2	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**79.7**	**87.6**	**95.1**	**102.4**	**109.4**	**116.0**	**-1.7**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	-0.6	0.9	-0.8	1.0	0.2	0.2	1.7	0.8	1.7	2.1	2.5	2.7	2.8	
GDP deflator in US dollars (change in percent)	11.3	6.6	1.3	-4.8	-2.0	3.9	5.4	-1.4	-1.6	1.1	1.9	2.4	2.4	
Nominal external interest rate (in percent)	5.8	4.9	5.1	4.9	5.5	6.8	1.4	5.4	6.0	5.2	5.3	5.4	5.7	
Growth of exports (US dollar terms, in percent)	-1.0	5.5	4.4	-5.6	2.9	1.8	10.2	-2.3	4.9	4.5	5.1	5.2	5.2	
Growth of imports (US dollar terms, in percent)	5.8	18.3	-0.6	-6.0	-1.5	5.3	15.6	-10.9	4.7	4.1	3.9	4.2	3.8	
Current account balance, excluding interest payments	-4.4	-10.2	-6.6	-5.0	-3.6	-7.4	4.0	1.1	1.8	1.2	1.3	1.1	0.9	
Net non-debt creating capital inflows	1.1	1.5	2.1	3.9	4.3	4.5	2.7	5.4	4.9	4.5	4.3	4.0	3.8	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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

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

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

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

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

Appendix I. Letter of Intent

Kingston, Jamaica
June 2, 2016

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, with the exception of the March 2015 nominal target for the primary surplus for the central government, which was missed by a narrow margin, owing to lower than projected inflation and GDP growth (the surplus still came in at the projected 7.5 percent of GDP). 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 its specific targets. Attachment 1 to this letter is a supplementary Memorandum of Economic and Financial Policies (MEFP), presenting performance under the programme, and updating the 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 combined 11th and 12th reviews of the extended arrangement under the Extended Fund Facility, and approve the modification of performance criteria for end-September 2016 and the new performance criteria for end-December 2016, as well as the purchases under the arrangement of SDR 56.64 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/
Audley Shaw	Brian Wynter
Minister of Finance and the Public Service	Governor, Bank of Jamaica
Jamaica	Jamaica

Attachment I. Memorandum of Economic and Financial Policies

I. PERFORMANCE UNDER THE PROGRAMME

1. **Policy implementation under the programme remains strong and structural reforms are progressing.** All quantitative performance targets for end-December 2015 and for end-March 2016 were met. The structural benchmarks for the period mid-November 2015 to mid-May 2016 were also met:

- Changes in legislation for the new public pension system were tabled in November 2015;
- Key performance indicators, as outlined in the National Compliance Plan (NCP), to measure the effectiveness and efficiency of the tax system were implemented in November 2015;
- Phase 2 of the RAiS (GENTAX) integrated tax software package was implemented for all major tax types by December 2015;
- A full-time dedicated management team for the implementation of the human resource software system was put in place in January 2016;
- And the capacity of the Post-Clearance Audit unit in the Jamaica Customs Agency (JCA) was increased through the hiring of 15 additional auditors by end-March 2016.

II. POLICIES FOR 2016/17 AND BEYOND

2. **The new Government remains fully committed to the reform programme**. It aims to combine prudent fiscal policies with efforts to boost growth and job creation, which have remained too low for too long. The quantitative targets that serve as performance criteria and indicative targets under the programme have been updated, and are presented in Table 1. The structural conditionality under the programme is presented in Table 2.

Fiscal Policy

3. **The budget for 2016/17 targets a primary surplus of 7.0 percent of GDP, and increases room for growth-enhancing capital expenditure to support growth and job creation.** The budget was adopted by Parliament in June 2016. Economic growth is projected at 1.8 percent for the coming fiscal year, up from just under 1 percent in 2015/16. Capital spending is projected to increase from 2 percent of GDP in 2015/16 to 2.6 of GDP in 2016/17, facilitated by the lower primary surplus target. To keep public debt on a downward trajectory to 96 percent of GDP by 2020 and to 60 percent by 2026, a 7 percent of GDP primary surplus will be maintained over the medium term.

Tax Reforms

4. **Comprehensive tax reform is a key pillar of our economic reform programme.** The goal is an efficient and broad-based tax system that applies equitably to all entities, regardless of their sphere of economic activity. Based on ongoing IDB TA, we will continue to improve the reporting on tax expenditures and their estimated fiscal costs in the context of future budgets.

5. **Continuing tax reforms to rebalance from direct toward indirect taxes is a central element of our program.** Starting July 1, 2016, the exemption threshold for the personal income tax will be raised to J$1,000,272 from the current J$592,800. A further increase to J$1,500,096 will take place on April 1, 2017. The marginal tax rate for earnings above J$6 million will be increased from 25 to 30 percent on July 1, 2016.

- The cost of this tax reform is estimated at 0.7 percent of GDP (about J$12 billion) in FY16/17 and a further 0.9 percent of GDP (about J$16 billion) in FY17/18.

- Offsetting measures in FY16/17 will encompass (i) a J$7 increase in SCT on fuels, (ii) increasing the departure tax to US$35, (iii) increase the SCT on cigarettes by J$2 per stick, (iv) implementing a new LNG taxation regime. These measures are expected to yield 13.8 bn for FY16/17.

- With the support of IMF TA, a comprehensive tax reform package will be put in place for FY17/18 which continues to rebalance towards indirect taxation, including the scope for environmental/ carbon taxes (for which Jamaica is particularly well suited given its tourism potential).

6. **New legislation pertaining to transfer pricing including the requirement to file a declaration of connected party transaction was passed in November 2015 and is now in force.** With OECD technical assistance, the Tax Administration of Jamaica (TAJ) is developing its capacity to effectively administer the new law. TAJ will enforce compliance action for year of assessment 2016

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

- Continued implementation of the TAJ National Compliance Plan including the rationalization of key performance indicators.
- Completion of staffing of the TAJ as a Semi-Autonomous Revenue Authority (SARA) by end-October 2016. Staffing at the four (4) top levels, (Executive to AGM levels), has been completed.
- Following up on the entity-by-entity review of all grandfathered tax incentives, the Fiscal Impacts Report will be produced by September 2016.
- Improving the efficiency of the large taxpayers' office (LTO) by (i) maintaining e-filing and on-time filing rates of 90 percent for LTO clients for major taxes and (ii) increasing the number of comprehensive audits to 90 per year by March 2017.
- Increasing the number of completed PCA audits to 60 a year by March 2017.

- Phase 1 of the Enterprise Content Management (ECM) system processes comprising (1) the electronic imaging and data capture of paper tax returns and (2) the electronic imaging of other paper documents (e.g., taxpayer letters, certified copies of certificates, auditor working papers, taxpayer rulings etc, in RAiS) has been completed. Interim testing on linking of these processes to RAiS case actioning and reporting components is ongoing and expected to be concluded by June 2016.
- The legislative framework supporting enhanced trade facilitation practices by the JCA, as articulated in phase III of the Customs Act, is being harmonized with trade facilitation, the Special Economic Zone (SEZ) legislation, and treaty obligations with World Bank and CARTAC assistance. Phase III of the Customs Act will be tabled in parliament by end-December 2016.
- Upon finalization of the Phase III of the Customs Act, developing effective administrative procedures will be critical for the successful implementation of the SEZ regime, in particular to strengthen product identification and inventory management systems compliance enforcement to enhance risk management, and post clearance audit.

Reforms to Public Financial Management (PFM) 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:

- By November 2016 a new procurement manual will be prepared with IDB assistance. An Electronic Tendering System has been implemented in four pilot entities (Ministry of Finance and Public Service, e-Gov, Ministry of Health and National Health Fund) with two more entities (HEART Trust and BOJ) expected to be finalized by end-June 2016.
- The macro-fiscal capacity of the Ministry of Finance and the Public Service (MoFP) will be strengthened with the support of IMF and other TA. We aim to recruit additional qualified staff by August 2016.
- The Treasury Single Account (TSA) at the Bank of Jamaica (BOJ) will be further expanded and improved. The responsibility of managing the government's banking arrangements will be transferred to the Accountant General's Department (AGD). An updated inventory of all bank accounts in the public sector will be prepared by end-June 2016 with the aim of closing most of them and converting the remainder into zero-balance accounts. Salaries of over 27,000 civil servants in the central government are paid directly from the TSA. By June 2016, salaries of about three-quarters of central government employees will be paid directly from the TSA, including teachers and police. Most imprest accounts will be terminated by end-August 2016.
- The first phase of CTMS enhancements will be concluded by December 2016. Transfer of the responsibility for further development and management of the CTMS from the MoFP to the AGD has commenced and is expected to be completed by August 2016. The mapping of function is in progress and expected to be finalized by July 2016. A ledger accounting system has been introduced into the CTMS with sub-ledgers for the RTGS and ACH accounts. A plan for

introducing sub-ledgers for all other bank accounts maintaining a cash balance will be prepared by June 2016 and implemented starting August 2016.

- By July 2016, a plan for paying all revenues, including earmarked revenues, into the Consolidated Fund (CF) will be drawn up. In particular, the plan will outline the steps to: (i) close all accounts used by MDAs to deposit funds earmarked as AIAs and (ii) enable deposit of funds presently earmarked as AIAs directly into the CF.
- By end-July 2016, all cash transfers for intra-government transactions will be eliminated.
- By end-September 2016, a new organizational structure for the Accountant General's Department should be approved by Corporate Management Development (CMD) branch in the Ministry of Finance and Public Service. (*Proposed new structural benchmark for end-September 2016*).
- A service level agreement (SLA) between the BOJ and the Government for banking services provided by the BOJ will be signed in June 2016 following the full transfer of responsibility for the management of government accounts to the AGD.

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 a prudent debt management strategy. In designing and implementing these undertakings, the Government will seek to ensure sound public sector governance and public debt management. The Government will further strengthen its debt management strategy development and implementation, with the goal of reducing the burden of servicing government debt, supporting the continued reduction of public debt to a sustainable level, and ensuring access to multiple sources of financing. Moreover, the debt management strategy will seek to further develop and deepen the domestic bond market, so as to reduce currency, duration and concentration risk for both the government and the financial sector.

Public Sector Reform

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

- **Public sector transformation.** We will:
  - By March 2018, centralize legal services within the central government under the office of the Attorney General , with support from Justice Canada.
  - Subject to legislative approval, implement the merged organizational structure between Betting Gaming and Lotteries and the Racing Commissions in April 2017.
  - Merge selected commodity Boards and the Export Division of the Ministry of Agriculture & Fisheries which deals with Spices into a single new body to be named the Jamaica Agricultural Commodities Regulatory Authority (JACRA). It is anticipated that the legal

aspects will be finalized by April 2016, and the full merger is expected to be completed by September 2016.

- Divest the Petroleum Company of Jamaica Limited, Petcom—Negotiations with the bidder have been completed.
- Consequent on securing funding, we will seek to complete the procurement of the system for the Asset Management Shared Services and have a contract in place with the successful bidder by April 2017.

- We will submit to Cabinet an action plan for public sector transformation by end-September 2016. In particular, it will include detailed timelines for (1) the introduction of shared corporate services for communications and human resource management and (2) the merger, abolition and/or divestment/privatization of entities. The plan will also outline specific areas where efficiency gains can be made. *(Proposed new structural benchmark for end-September 2016)*
- **Wages and salaries.** The Government has signed new wage agreements for the 2-year period after March 2015 with 97 percent of public sector employees. Discussions for the period starting April 2017 are expected to be underway by November 2016. Informed by the compensation review to be completed by December 2016, the government's goal is to achieve a wage bill of 9 percent of GDP in 2018/19, and to firmly maintain the ratio of public debt to GDP on a downward path over the medium term. In order to achieve this objective, the GOJ will continue to reduce the size of the public sector through the elimination of posts and an attrition programme, subject to the capacity needs in a limited number of priority areas.
- **Compensation Review.** We will continue to build a comprehensive database to include all allowances paid to public employees across each MDA to ensure adequate control and oversight over this part of the wage bill. The database will be by occupational grouping and will include all types of allowances paid, their amounts as well as the number of employees that benefit from each type of allowance in a given fiscal year. A two-part pilot implementation will be pursued. A pilot for the Ministry of Finance and the Public Service will be completed by end-August 2016, followed by island-wide pilots, to be completed by end-November 2016, at the Ministry of Health (medical professionals), Ministry of Education, Youth and Information (teaching groups) and the Jamaica Constabulary Force (police groups). *(Proposed new structural benchmark for end-November 2016)* The review of all other central government MDAs will be completed by March 2017.
- **Employee Census**. To ensure adequate oversight, we will verify each employee's post and eligibility of the post for allowances beginning with a two-part pilot where the first part will comprise of island-wide pilots at the Ministry of Finance and the Public Service, the civilian population of the Ministry of National Security, and the NIS to be completed by end-August 2016. The second part will include an island-wide pilot for the non-teaching personnel in the Ministry of Education to be completed by end-November 2016. *(Proposed new structural benchmark for end-November 2016).* These pilots target groups with high turnover rates where a headcount exercise could yield significant gains. The verification for all other central government MDAs will be finalized by March 2017.

- **Pension Reform**. Discussion of the proposed legislative changes in parliament has been delayed by the early elections. The Pension Bill is expected to be re-tabled in Parliament by July 2016. The new public pension system, as described in the June 2014 MEFP, is expected to be implemented in the first quarter of FY17/18.

11. **The implementation of the human resources software system (the HCMES system; including Payroll) is progressing.** A project plan was completed in August 2015 and a full-time dedicated project management team (including specialists in the areas of Business Process Mapping, Human Resource Management, Payroll Administration and Data Migration) was put in place by end-January 2016 (*structural benchmark*). The configuration of the system will be completed by end-June 2016, when the roll–out to the first 14 MDAs will begin.

12. **In the area of public bodies, further improvement is to be achieved to improve their efficiency and supervision.**

- To enhance transparency, the annual reports (including audited statements) for three-quarters of self-financing public bodies has been completed. The sanctioning process under Section 25 of the Public Bodies Management and Accountability Act of self-financing public bodies that failed to meet the statutory condition without reasonable cause is ongoing.
- The new structure of the Auditor General's office has been approved. Its ongoing implementation will allow for more in-depth and frequent reviews of financial statements of budget funded public bodies and enforcement of the six months' time limit for their submission to the Auditor General.
- We will develop and submit to Cabinet for approval a new policy on public bodies that will ensure consistent PFM rules for public bodies (*structural benchmark for June 2016*). The policy will create classes of public bodies, identify key PFM principles to be adhered to for each class, and eliminate the current classification by funding source. A unit in the MOFP will be assigned to be responsible for ensuring that the policy on public bodies is being adhered to across the full body of PFM reform projects.
- Upon approval by Cabinet of the new policy on public bodies, we will conduct a review of all existing public bodies to determine their classification. The review will also evaluate the scope for merging and reintegrating some public bodies into the central government. This review will be completed by December 2016.

III. FINANCIAL SECTOR REFORMS

13. **We are strengthening the prudential framework for financial supervision.**

- Under the Banking Services Act, the code of conduct on consumer related matters will be issued by August 2016. Regulations pertaining to agent banking will be tabled by August 2016. The suite of regulations and rules that will comprise the regime for financial holding companies and consolidated supervision will be tabled by end-December 2016.

- Following industry consultation and guidance from the Steering Committee, we have started implementing a strategy to introduce and gradually tighten prudential standards for the securities sector:
  - In April 2016, we introduced an operational risk-weighted asset component in the calculation of securities dealers' capital adequacy;
  - By December 2016, we will require all securities dealers to conduct regular stress tests and submit test results;
  - We will implement a limit of 25 percent on exposure to counterparty by 2019;
  - We are monitoring the dealers' retail repo leverage ratio, with the goal of introducing a minimum retail repo leverage ratio by April 2017;
  - We will start issuing comprehensive prudential guidelines for securities dealers in June 2016.We will ensure that in the near- to medium-term, the retail repo portfolios of individual firms and the securities industry as a whole will be at a level deemed by the BOJ and the FSC to be systemically safe and prudentially manageable.
- We will have taken steps to further strengthen depositor protection and investor compensation across financial institutions.

14. **We are enhancing the arrangements for financial crisis preparedness and management**.

- We will prepare a consultation paper for the resolution framework for the entire financial sector, including proposals on (i) the scope of institutions that would be covered by the resolution regime; (ii) the resolution powers; (iii) the legal structure of the regime (i.e., administrative, court-based, or a combination); and (iv) the roles and responsibilities of the various agencies with respect to resolution (*proposed new structural benchmark for end- October 2016*). A working group has been established to prepare this paper, with input from stakeholders and IMF TA.
- By end-September 2017, we will table the legislative provisions, consistent with IMF TA, to support the national crisis management plan and the resolution framework for the banking and securities sectors.

15. **We will continue to strengthen the mandate and governance of the BOJ over the programme period.**

- The Financial System Stability Committee, introduced by the amended BoJ Act which became effective in October 2015 and vested the BOJ with the responsibility for financial stability, will be formally established by September 2016. The functions and powers of the FSSC include producing financial stability assessments, the regular exchange of information on financial sector risks, commissioning stress tests and determining parameters that will trigger macro-prudential action. A proposal will be submitted to Cabinet in September 2016, discussing further amendments to the BOJ Act for enhancing BOJ governance and autonomy.

16. **We are implementing measures to protect the interest of retail repo clients.** In addition to the transition to the trust-based framework in August 2015, we raised the investment cap for CIS in foreign assets to 15 percent in June 2015, and to 25 percent by end-December 2015. Going forward, the BOJ will continue to monitor market conditions and assess the need to lift the investment cap further.

IV. MONETARY AND EXCHANGE RATE POLICY

17. **Monetary policy aims to achieve single digit inflation within a flexible exchange rate regime**. We envisage inflation in the range of 4.5 to 6.5 percent in FY2016/17. The long term objective is to gradually reduce inflation to a rate that is consistent with that of our main trading partners, and eventually to full-fledged inflation targeting. The BOJ is completing its first review to assess our readiness for inflation targeting. The outcome of the annual reviews will provide the inputs for an informed decision on inflation targeting to be made by Cabinet.

18. **The BOJ will continue to ensure the provision of adequate liquidity to the financial system at a price consistent with its policy goals.** Guided by IMF TA, the BOJ is developing a comprehensive strategy to improve the effectiveness of its open market operations and liquidity assurance framework in order to enhance the monetary policy transmission mechanism. Specifically, as a further refinement to its liquidity provision framework, the BOJ has introduced periodic auctions for repo operations in October 2015. The BOJ will begin a programme of transitioning its policy rate to an overnight interest rate. This transition will be done over a six-month period and will commence with the adjustment of the interest rate on its overnight deposit facility by July 2016. To reduce the relative attractiveness of foreign-currency denominated investments relative to J$ alternatives, the BOJ will also require a portion of the foreign currency cash reserve requirement for commercial banks to be held in J$, starting September 2016.

19. **The BOJ will continue to facilitate the development of the foreign exchange market.** The BOJ, in consultation with IMF TA, is exploring mechanisms to improve price discovery in the FX market and to prevent excessive speculative position taking in the market. The BOJ also remains cognizant of the need to purchase reserves to further boost the net international reserves.

V. GROWTH ENHANCING REFORMS

20. **We have established an Economic Growth Council (EGC).** The EGC includes representatives from the public and private sector who will focus critical work in the areas of growth and job creation. The EGC is mandated by the Prime Minister and Cabinet to identify high-impact growth initiatives. The EGC will be supported by an Executive Secretariat that is also mandated, resourced and staffed to work closely with Government ministries, departments and the private sector. Appropriate monitoring, evaluation and transparency mechanisms will be put in place to

ensure that the EGC works closely with the Jamaican people, the private sector and civil society in the context of the growth and jobs agenda.

21. **Further actions for improving the business climate are critical:**

- A revised standardized pricing framework for development application fees has been drafted and is expected to be approved by Cabinet soon.
- We will continue to report, on a quarterly basis, on progress in reducing the time needed for the approvals process for development projects, especially for commercial development projects, including against the 90 day benchmark. For Q1 2016, around 65 percent of all building and planning applications were approved within 90 days.
- LAMP services were expanded to St. James, Trelawny, Hanover, St. Ann and Westmoreland in 2015/16, with 1,236 new titles issued during the year. Under the GoJ Land Titling programme, 15000 titles are expected to be issued each year for the period FY2015/16 to FY2017/18. For the period April 1, 2015 – January 31, 2016, the number of titles issued under the programme amounted to 7, 740.
- The roll-out of the online system for business registration will start by end-June, 2016.
- 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 Electrical Regulator (GER) and the acquisition of AMANDA software to streamline procedures for scheduling, inspecting, approving and certifying electrical installations. Adoption of the AMANDA system is expected to be completed by April 2017, 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 JCA will support integrated processes/procedures and the National Single Window, the latter supported by a World Bank loan. Functions of the PCS that cannot be offered through ASYCUDA will be pursued by the private sector, possibly under a management contract. The GOJ has set up a Trade Facilitation Task Force which is examining the public/private issues, including pertaining to the PCS. The implementation of the project started in January 2016, and will be completed by end-December, 2017.
- We are developing an umbrella financial inclusion strategy, with inputs from stakeholders and consultancy from the World Bank, covering key areas including MSME financing, housing finance, payments, rural finance, consumer protection and literacy. We will establish a financial inclusion council by July 2016 to oversee the launch and implementation of the strategy.
- The Development Bank of Jamaica (DBJ) achieved 121.2 percent of its MSME lending target in 2015/16. The DBJ is targeting to provide increased funding to MSMEs in 2016/17. The Mobile Money for Microfinance initiative is being reconfigured to focus on establishing an ecosystem for private-sector driven mobile money operations. With assistance from the IDB, the project will start in August, 2016 and will be completed by 2018.

- We will develop other areas of reform to improve the access to capital and reduce the cost of funding for MSMEs, including provision of support for MSME capacity development programmes, streamlining the process of listing on Junior Stock Exchange, establishment of a venture capital eco-system, full implementation of collateral and insolvency reforms, SME value chain development, promotion of factoring and lease financing mechanisms, enhancement of the partial credit guarantee scheme and microfinance legislation and institutional reform.
- The Agro Parks Initiative, which aims to stabilize the agricultural supply chain, boost exports, and increase import replacement is progressing. Nine agro parks are already operational. Negotiations are ongoing to establish at least three more parks in 2016/17, with the IDB and CDB under solicitation to support at least two new Agro Parks. An IDB-financed consultancy is underway to prepare a sustainability framework for the existing Agro Parks and criteria for selection of new Parks. A matching grant scheme will benefit small farmers in their cluster work with lead anchor firms that export.
- A national strategic plan for the BPO industry is now being implemented. Key actions under the plan include the establishment of a policy and legislative framework; labour market initiatives, infrastructure development, the development of business plans to attract developers and investors, and actions to support market penetration.

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

- In early April 2015, a 30-year concession agreement was signed with a private consortium regarding the privatization of Kingston Container Terminal (KCT). Under the agreement, beginning in 2016, the concessionaire will undertake dredging the access channel to the Kingston Harbour and the KCT basin to allow for the handling of larger vessels that will transit the Panama Canal after its expansion. The transfer of the operating control to the concessionaire is expected to take place shortly after financial close of the transaction, which is expected by June 2016. The concessionaire is expected to invest approximately US$625 million over two phases of the concession, with the possibility of a third phase to be negotiated.
- Work is continuing on the privatization of Norman Manley International Airport (NMIA). The Cabinet will need to approve the list of preferred bidders, to whom a request for proposal will be sent.
- Work is also proceeding on the Caymanas SEZ, with World Bank support. A request for expression of interest was completed in December 2015, and we plan to issue the request for proposals for the feasibility study to the pre-qualified firms soon. This work is closely aligned with a Master Plan for the Logistics Hub Initiative expected to be completed by April 2017, also supported by the World Bank.
- The Framework Agreement has been extended for a year to August 2016 for 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 for the project 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.

23. **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 August 2016. 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 2018. Several renewable energy projects are also under way.
- We will prepare a plan to ensure that all public entities (central government, local government, and public bodies) meet their financial obligations in a timely manner.

24. **Labour market reforms are progressing.** In the context of the recently launched Comprehensive Labour Market Reform Agenda, a Labour Market Reform Commission and Secretariat was established and became operational on April 1, 2015. The Commission has been reviewing policies and practices in the five thematic areas of education and training; productivity, technology and innovation; labour policies and legislation; social protection; and industrial relations. A first draft of recommendations will be submitted to Cabinet soon. Final recommendations will be submitted by end FY16/17.

VI. REFORM OF SOCIAL SPENDING

25. **Efforts to strengthen the social protection framework are progressing.** Implementation of the graduation strategy for PATH households was reviewed by the World Bank in December 2015, with recommendations on potential improvements. The graduation strategy will be submitted to Cabinet by end-June 2016. The actual implementation of the strategy will start by September 2016.The government launched a comprehensive social protection strategy in July 2014; a monitoring and evaluation framework has been developed.

26. **A national ID system (NIDS) will be rolled-out to all residents by 2020 which will improve targeting of social spending.** The first phase, which included the development of the legislative and institutional framework and designing the NIDS ICT infrastructure, was completed with IDB support. The second phase will begin in FY16/17 and will include the submission of the NIDS policy to parliament by March 2017.

27. **We aim to improve the administrative efficiency of social protection programs.** A comprehensive plan for transition of PATH and NIS payments to retail electronic payment products is expected by end-June 2016. Measures to deepen payment infrastructure in rural areas and streamline procedures for collecting social payments are being identified.

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

(In billions of Jamaican dollars)

	2014	2015			2016							2017
	End-Dec.	End-Dec.			End-March			End-June	End-Sept		End-Dec.	End-Mar.
	Stock	PC	Adjusted PC	Actual	PC	Adjusted PC	Actual	PC	PC	Proposed revised PC	Proposed PC	Indicative Targets
Fiscal targets												
1. Primary balance of the central government (floor) 4/		60.7		66.0	120.7		120.8	11.0	33.0	29.0	54.0	119.5
2. Tax Revenues (floor) 4/9/		280.0		291.7	393.0		411.8	99.0	203.0	198.0	300.0	440.0
3. Overall balance of the public sector (floor) 4/		-40.3	-36.8	4.4	-14.3	-10.8	26.3	-29.0	-37.0	-41.0	-51.5	-17.2
4. Central government direct debt (ceiling) 4/5/		47.0		1.5	77.0		-52.8	19.5	41.0	45.0	55.0	61.0
5. Central government guaranteed debt (ceiling) 4/		0.0		-19.2	0.0		-21.3	0.0	0.0	0.0	0.0	0.0
6. Central government accumulation of domestic arrears (ceiling) 6/12/13/	21.6	0.0		-1.2	0.0		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		-5.3	0.0		-4.4	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	0.0
9. Social spending (floor) 9/10/		15.6		20.8	23.2		26.1	4.8	9.7	9.7	16.4	24.3
Monetary targets												
10. Cumulative change in net international reserves (floor) 8/11/	1997.7	-338.0	-341.1	442.2	-339.0	-384.0	429.0	-199.6	-49.6	-49.6	52.3	152.3
11. Cumulative change in net domestic assets (ceiling) 11/	-120.2	61.8	49.6	-37.4	39.1	51.1	-38.1	28.7	9.0	9.0	21.9	-2.0

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Including proposed modified performance criteria for the net international reserves and the net domestic assets.
3/ Based on program exchange rates defined in the March 2015 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 2014.
12/ Continuous performance criterion.
13/ The accumulation is measured against the stock at end-March 2015, which is J$21.3 billion for domestic arrears and J$21.7 billion for tax arrears.

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	Met
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	Met
11. Put in place a full-time dedicated project management team for the implementation of the human resources software system (including specialists in the areas of Business Process Mapping, Human Resource Management, Payroll Administration and Data Migration).	January 31, 2016	Met
12. Develop and submit to Cabinet for approval a new policy on public bodies that will ensure consistent PFM rules for public bodies.	June 30, 2016	
13. Submit to Cabinet an action plan for public sector transformation by end-September 2016. In particular, it will include detailed timelines for (1) the introduction of shared corporate services for communications and human resource management and (2) the merger, abolition and/or divestment/privatization of entities. The plan will also outline specific areas where efficiency gains can be made.	September 30 2016	Proposed
14. The Corporate Management Development (CMD) branch in the Ministry of Finance and Public Service to approve a new organizational structure for the Accountant General's Department.	September 30 2016	Proposed
15. Complete a two-part island-wide pilot to build a comprehensive database on all allowances paid to public employees in the Ministries of Finance, Health, Security, and Education.The database will be by occupational grouping and will include all types of allowances paid, their amounts as well as the number of employees that benefit from each type of allowance in a given fiscal year.	November 30, 2016	Proposed
16. Verify each government employee's work post and eligibility for allowances in a two-part pilot across the Ministry of Finance, the civilian population of the Ministry of Security, and the NIS, and non-teaching personnel in the Ministry of Education.	November 30, 2016	Proposed
Tax Reform		
17. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as stipulated in the TMU.	Continuous	Met
18. 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
19. Government to table in parliament amendments to the GCT as stipulated in paragraph 12 of the June 2014 MEFP.	June 30, 2014	Met
20. 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 1/
21. Government to table legislation governing the tax regime that will be part of the SEZ legislation consistent with the criteria listed in the June 2015 MEFP par. 13 to help safeguard the integrity of the tax system and avoid tax leakage.	October 31, 2015	Met
Tax Administration		
22. 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
23. Government to implement ASYCUDA World for the Kingston Port as a pilot site.	December 31, 2014	Met
24. 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	Not met 2/
25. Government to complete pilot testing of ASYCUDA World (covering imports and exports) in the Kingston port.	May 31, 2015	Met
26. Government to implement Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package.	February 28, 2015	Met

Table 2. Jamaica: Structural Program Conditionality (Concluded)

27. Government to table in Parliament proposals for a comprehensive overhaul of the Customs Act.	June 30, 2015	Met
28. Government to fully implement the key performance indicators, as outlined in the National Compliance Plan, to measure the effectiveness and efficiency of the tax system.	November 30, 2015	Met
29. Government to implement Phase 2 of the RAiS (GENTAX) integrated tax software package, for all major tax types.	December 31, 2015	Met
30. Increase the capacity of the Post-Clearance Audit (PCA) unit in the JCA through the hiring of 15 more auditors.	March 31, 2016	Met
Financial sector		
31. Government to table legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	Met
32. 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
33. 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
34. Government to table the Omnibus Banking Law [3/] consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	Met 4/
35. Government to finalize the transition of retail repos to the trust-based framework.	August 30, 2015	Met
36. Government to fully implement the Banking Services Act.	September 30, 2015	Met
37. The BOJ to have overall responsibility for financial stability.	November 1, 2015	Met
38. Draft a consultation paper for the resolution framework for the entire financial sector, including proposals on (i) the scope, roles and responsibilities, and powers of institutions that would be covered by the resolution regime; and (ii) the legal structure of the regime (i.e., administrative, court-based, or a combination).	October 31, 2016	Proposed
Growth enhancing structural reforms		
39. Government to implement a new (AMANDA) tracking system to track approval of contruction permits across all parish councils.	December 30, 2014	Met
40. Government to table in parliament the Electricity Act.	January 31, 2015	Met

1/ The review was reportedly completed in March 2015.
2/ While all other elements of the benchmarks were met, technical difficulties prevented the achievement of 95 percent take-up rate of e-filing in the LTO. The take-up rate was 80 percent.
3/ Currently referred to as the Banking Services Act.
4/ 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, 2014. Accordingly, the exchange rates for the purposes of the programme are show in Table 1.

Table 1. Program Exchange Rates (End-December, 2014)/1	
Jamaican dollar to the US dollar	114.66
Jamaican dollar to the SDR	166.12
Jamaican dollar to the euro	139.21
Jamaican dollar to the Canadian dollar	97.69
Jamaican dollar to the British pound	177.68
1/ Average daily selling rates at the end of December 2014	

I. QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

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

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

A. Cumulative Floor of the Central Government Primary Balance

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

6. **Revenues are recorded when the funds are transferred to a government revenue account.** Revenues will also include grants. Capital revenues will not include any revenues from asset sales proceeding from divestment operations. Central government primary expenditure is recorded on a cash basis and includes compensation payments, other recurrent expenditures and capital spending. Government-funded PPPs will be treated as traditional public procurements—the associated costs will be recorded as on-budget investment during the construction phase of the project. 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. **To kick-start economic growth, the following growth-enhancing projects will be added to primary expenditures, accommodated by the 0.5 percent of GDP reduction in the central government primary surplus target for FY2016/17:** Rural Economic Development Initiatives (REDI), Rehabilitation of Irrigation Infrastructure (NIC), Islandwide Flood Damage Mitigation & Vector Control, Road Rehabilitation Project II, Major Infrastructure Development Programme (MIDP), Support to SMEs Sector, Support to PIMC Pipeline Projects, Contingency for Natural Disaster/Infrastructural Rehabilitation, BPO Expansion – Portmore and Montego Bay, Fiscal Administration Modernization Programme (FAMP), Strategic Public Sector Transformation Project, Jamaica Foundations for Competitiveness & Growth, Expansion/upgrading of educational Institutions Infrastructure, Education System Transformation Programme, Major Rural Farm Roads Rehabilitation, Drought Mitigation Programme in Farming Communities.

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

B. Cumulative Floor on Overall Balance of the Public Sector

10. **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.

11. **Public bodies consist of all self-financed public bodies, including the 17 "Selected Public Bodies" and "Other Public Bodies."** The 17 "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.

12. **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.

13. **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.**

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

15. **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-March 2016	-2.2
End-June 2016	0.0
End-September 2016	0.0
End-December 2016	-0.5
End-March 2017	-1.5

C. Ceiling on the Change in the Stock of Central Government Direct Debt

16. **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.

17. **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.**

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

19. **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.

D. Ceiling on Net Increase in Central Government Guaranteed Debt

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

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

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

23. **Adjuster:** In the case where the central government debt guarantees are called, the stock of central government guaranteed debt will be adjusted downwards in both the end-March of each year and the target date in order to preserve the performance criteria.

E. Ceiling on Central Government Accumulation of Domestic Arrears

24. **Definition:** Domestic arrears are defined as payments to residents determined by contractual obligations that remain unpaid 90 days after the due date. Under this definition, the due date refers to the date in which domestic debt payments are due according to the relevant contractual agreement, taking into account any contractual grace periods. Central government domestic arrears include arrears on domestic central government direct debt, including to suppliers and all recurrent and capital expenditure commitments. This accumulation is measured as the change in the stock of domestic arrears relative to the stock at end-March 2015, which stood at J$21.3 billion.

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

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

F. Non-Accumulation of External Debt Payments Arrears

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

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

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

i. Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds

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

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.

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

31. **Definitions:** Under this definition of debt set out above, external payments arrears consist of arrears of external debt obligations (principal and interest) falling due after March 31, 2015 that have not been paid at the time due, taking into account the grace periods specified in contractual agreements. Arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or rescheduling agreement is being sought are excluded from this definition.

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

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

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

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

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

G. Ceiling on Central Government Accumulation of Tax Refund Arrears

37. **Definition**: Tax refund arrears are defined as obligations on tax refunds in accordance with tax legislation that remain unpaid 90 days after the due date. This accumulation is measured as the change in the stock of tax refund arrears relative to the stock at end-March 2015, which stood at J$21.7 billion.

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

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

H. Floor on the Cumulative Change in Net International Reserves

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

41. **Gross foreign liabilities 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.

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

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

disbursements of budget support grants relative to the baseline projection reported in Table 3. NIR targets will also be adjusted upward (downward) by the surplus (shortfall) in IMF budget support purchases relative to the baseline projection reported in Table 3.

Table 3. External Program Disbursements (Baseline Projection)

Cumulative flows from the beginning of the fiscal year	(In millions of US$)
External loans from multilateral sources	
End-September 2015	158
End-December 2015	205
End-March 2016	231
End-June 2016	28
End-September 2016	152
End-December 2016	223
End-March 2017	325
Budget support grants	
End-September 2015	21
End-December 2015	21
End-March 2016	31
End-June 2016	0
End-September 2016	0
End-December 2016	0
End-March 2017	0
IMF budget support disbursements	
End-September 2015	0
End-December 2015	0
End-March 2016	0
End-June 2016	0
End-September 2016	0
End-December 2016	0
End-March 2017	0

The NIR target will be adjusted upwards (downwards) by the amount by which, at a test date, the cumulative changes from end-December 2014 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.

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

44. **Definition**: The Bank of Jamaica's net domestic assets (NDA) are defined as the difference between the monetary base and NIR, 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.

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

46. **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.

Table 4. Reserve Liabilities Items for NIR Target Purposes

	(In millions of US$) 1/
BOJ's foreign liabilities to residents	
Outstanding stock	
End-December 2014	242.0
Cumulative change from end-December 2014	
End-September 2015	94.1
End-December 2015	9.3
End-March 2016	78.4
End-June 2016	238.1
End-September 2016	367.6
End-December 2016	469.3
End-March 2017	399.7

1/ Converted at the programme exchange rates.

II. QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

A. Cumulative Floor on Central Government Tax Revenues

47. **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).

48. **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

49. **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.

50. **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*.

51. **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.

52. **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

53. **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.**

54. **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.

55. **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

56. **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.

57. **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).**

58. **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

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

Daily

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

- Amounts offered, demanded and placed in Bank of Jamaica open market operations, including rates on offer for each tenor and amounts maturing for each tenor.
- Amounts offered, demanded and placed in government of Jamaica auctions and primary issues; including minimum maximum and average bid rates.
- Daily foreign currency government of Jamaica debt payments (domestic and external).

Weekly

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

Monthly

- Central government operations including monthly cash flow to the end of the current fiscal year, with a lag of no more than four weeks after the closing of each month.
- Public entities' Statement A: consolidated and by institution for the "Selected Public Bodies" and consolidated for the "Other Public Bodies" with a lag of no more than six weeks after the closing of each month.
- Central government debt amortization and repayments, by instrument (J$-denominated and US$-denominated bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans). Includes government direct, government guaranteed and total. In the case of issuance of government guaranteed debt, include the name of the guaranteed individual/institution. The reporting lag should not exceed four weeks after the closing of each month.
- Balances of the Consolidated Fund and main revenue accounts needed to determine the cash position of the government.
- Stock of central government expenditure arrears.
- Stock of central government tax refund arrears.
- Stock of central government domestic and external debt arrears and BOJ external debt arrears.
- Central government spending on social protection programmes as defined for the indicative target on social spending.
- Central government debt stock by currency, as at end month, including by (i) creditor (official, commercial domestic, commercial external; (ii) instrument (J$-denominated and US$-denominated bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans); (iii) direct and guaranteed. The reporting lag should not exceed four weeks after the closing of each month.

- The maturity structure of Government debt (domestic and external). The reporting lag should not exceed four weeks after the closing of each month. Legal measures that affect the revenue of the central government (tax rates, import tariffs, exemptions, etc.).
- Balance sheet of the Bank of Jamaica within three weeks of month end.
- A summary of monetary accounts providing detailed information on the accounts of the Bank of Jamaica, commercial banks and the overall banking system. Including Bank of Jamaica outstanding open market operations by currency and maturity and a detailed decomposition on Bank of Jamaica and commercial bank net claims on the central government, selected public bodies and other public bodies.[2] This information should be received with a lag of no more than six weeks after the closing of each month.
- Profits of the Bank of Jamaica on a cash and accrual basis, including a detailed decomposition of cash profits and profits from foreign exchange operations with a lag of no more than three weeks from month end.
- Deposits in the banking system: current accounts, savings and time deposits within six weeks after month end. Average monthly interest rates on loans and deposits within two weeks of month end; weighted average deposit and loan rates within six weeks after month end.
- Financial statements of core securities dealers and insurance companies within six weeks of month end.
- The maturity profile of assets and liabilities of core securities dealers in buckets within six weeks of month end.
- Data on reserve liabilities items for NIR target purposes (Table 9) within three weeks after month end.
- A full set of monthly FSIs regularly calculated by the BOJ, including liquidity ratios, within eight weeks of month end.
- Monthly balance sheet data of deposit taking institutions, as reported to the BOJ, within four weeks of month end.
- Issuance of exempt distributions by financial and non-financial corporations, six weeks after month end.
- Imports and exports of goods, in US$ million within twelve weeks after month end. Tourism indicators within four weeks after month end. Remittances' flows within four weeks after month end.
- Consumer price inflation, including by sub-components of the CPI index within four weeks after month end.
- The balance sheet of the PetroCaribe Development Fund with a lag of no more than six weeks after the closing of each month.

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

- 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.

INTERNATIONAL MONETARY FUND

JAMAICA

June 3, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION, ELEVENTH AND TWELFTH REVIEWS UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

Prepared By Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of April 30, 2016)

Membership Status: Joined: February 21, 1963, Article VIII

General Resources Account:	**SDR Million**	**% Quota**
Quota	382.90	100.00
Fund holdings of currency	829.37	216.60
Reserve tranche position	27.35	7.14

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	261.64	100.00
Holdings	179.44	68.58

Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
Extended Arrangements	473.77	123.73

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	May 1, 2013	Apr 30, 2017	615.38	473.77
Stand-By	Feb. 4, 2010	May 3, 2012	820.50	541.80
EFF	Dec. 11, 1992	Mar. 16, 1996	109.13	77.75
Stand-By	Jun. 28, 1991	Sep. 30, 1992	43.65	43.65

Projected Payments to Fund[1]:

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

	Forthcoming				
	2016	**2017**	**2018**	**2019**	**2020**
Principal		11.40	37.11	64.80	78.96
Charges/Interest	3.76	5.02	4.82	4.36	3.64
Total	**3.76**	**16.42**	**41.93**	**69.16**	**82.60**

Implementation of HIPC Initiative: Not Applicable

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

Implementation of Post-Catastrophic Debt Relief (PCDR): Not Applicable

Exchange Rate Arrangements:

Jamaica's de facto exchange rate regime is classified as "crawl-like", based on a standardized classification methodology, and de jure as floating. The external value of the Jamaican dollar has been determined in an interbank market operated by commercial banks beginning September 17, 1990. The Jamaican dollar has depreciated significantly since that time. At May 12, 2016 it was trading at around J$124.36 to the U.S. dollar. Jamaica has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Last Article IV Consultation and Program Relations:

Jamaica four-year, SDR 643.70 million (235.4 percent of quota) Extended Arrangement under the EFF was approved by the IMF Executive Board on May 1 2013, and the first ten reviews under the program were completed on schedule. The last Article IV consultation was completed by the Executive Board in June 2014.

A safeguards assessment of the Bank of Jamaica (BoJ) was completed in August 2013, with respect to Jamaica's EFF. The assessment found that the bank has relatively strong safeguards in place, particularly in the financial reporting and audit mechanisms. Annual financial statements continue to be prepared and audited in accordance with international standards and improved Audit Committee oversight is reflected in the development of the internal audit function. While oversight of the bank was bolstered by the filling of Board vacancies during 2012, the assessment found a need to further strengthen governance arrangements at the BoJ including through amendments to certain legal provisions in the BoJ Act. Consistent with the safeguards assessment recommendations, in December 2013 the government and the BoJ finalized a Memorandum of Understanding to clarify the treatment of past BoJ cash losses and to formalize the policy of not distributing unrealized

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

valuation gains to the government. In February 2014, the MOU was amended to recognize plans to settle an outstanding balance relating to prior years and to formalize the policy of not distributing unrealized profits to the government. A proposal for further strengthening BoJ governance, taking into account the safeguard assessment recommendations, is expected to be submitted to Cabinet by September 2016.

Technical Assistance:

Department	Dates	Purpose
FAD	October 2015	Treasury Restructuring
	October 2015	TADAT diagnostic assessment
	September 2015 – October 2015	Public Bodies Reform
	September 2015	Tax Reform and Tax Expenditures
	April 2015	Public-Private Partnerships (PPPs) and Fiscal Risks Workshop
	April 2015	Rationalizing the Government Wage Bill
	July 2014	Cash and Debt Management
	January–February 2014	Revenue Administration
	January 2014	Implementation of a Fiscal Rule
	July 2013	Conceptual Framework for Fiscal Rule
	July 2012	Options for Expenditure Rationalization
	July 2012	Customs and Tax Administration (Risk)
LEG/MCM	December 2015	Resolution framework for banks and securities dealers
	June 2015	Resolution framework for securities dealers
	June 2013–August 2015	Reforming Retail Repo Business Model of Securities Dealers
	August 2010–May 2014	HQ-based support for Omnibus Banking Bill
	April 2011	Financial Stability Framework
	July 2010	Unlawful financial institutions
	February 2008	Financial sector regulatory and supervisory frameworks
MCM	February 2016	Supervisory framework for SDs and insurance companies
	December 2015	Designing resolution framework
	October 2015	Debt management, monetary and FX operations
	June 2015	Transition to the retail repo trust
	April 2015	Resolution framework for the securities sector and other non-bank financial institutions
	March 2015	National crisis management framework
	February 2015	TOR for a review of the BOJ’s readiness for IT
	December 2014	Reforming monetary policy operations and the operational modalities of restarting the government bond market

	November 2014	Data collection templates for securities sector, system design for trust, and operational matters.
	October 2014	Contingency plans and crisis management framework
	April 2014	Developing Monetary and FX Operations
	January, March 2013	Banking Supervision and Regulations
	April 2012	Liability Management
	May 2011	Prudential Framework for Security Dealers
	February 2011	Development of Debt Strategy
	October 2010	Debt management
	August 2010	Strengthening capital requirements for securities dealers
	May 2010	Medium-term debt management strategy framework
	March 2010	Strengthening capital and margin requirements
	January 2002	Banking supervision
	April 2001	Banking supervision
STA	January 2016	National accounts statistics (CARTAC)
	August 2015	Institutional sectoral accounts (CARTAC)
	April 2015 – May 2015	Balance of payments statistics (CARTAC)
	December 2014	National accounts statistics (CARTAC)
	April 2014	Balance of payments statistics (CARTAC)
	January 2014	National accounts statistics (CARTAC)
	October 2013	Consumer/Producer Price Indices
	July, September 2013	National Accounts Statistics
	June 2012	National Accounts Statistics
	October 2011	External Sector Statistics; Government Finance Statistics
	April 2011	SDDS Assessment
	July 2002	Organization of Statistics Office
	September 1996	Multi-sector statistics assessment

Resident Representative: The post of the resident representative was established effective June 1, 2010.

RELATIONS WITH THE WORLD BANK

(As of April 30, 2016)

The World Bank Group Country Partnership Strategy (CPS) for Jamaica was discussed by the World Bank's Board of Executive Directors on April 29, 2014, following extensive consultations with stakeholders. The overarching goal of the CPS is to support Jamaica in creating the conditions for sustainable and inclusive growth over the period 2014-2017. The strategy is fully aligned with the government's National Development Plan 'Vision 2030 Jamaica' and aims to provide selective solution oriented support in three strategic thematic areas: (i) public sector modernization; (ii) enabling environment for private sector growth; and (iii) social and climate resilience. The strategy has a focus private sector-led growth and increased competitiveness with the view to unlock Jamaica's growth potential while it continues to build on successes in social protection, education, urban security and climate resilience. The IFC will work with the private sector and collaborate with the Bank on the regulatory and private-public partnership issues to strengthen Bank Group synergies in Jamaica and will place special emphasis on PPPs. The program will also benefit from strong coordination with other development partners.

A. Projects

The **Jamaica Integrated Community Development Project** was approved in March 2014 for US$42 million. The development objective is to enhance access to basic urban infrastructure and services, and contribute towards increased community safety in selected economically vulnerable and socially volatile inner city communities of Jamaica. The project will finance four components over six years.

The **Jamaica Foundations for Competitiveness and Growth Projects** was approved in July 2014 for US$50 million. The project will help to strengthen the business environment in Jamaica for private sector investment. Key initiatives include (i) improving the competition-related business environment; (ii) facilitating private investment including in strategic infrastructure assets and (iii) supporting SMEs in high-potential supply chains to increase their capabilities.

The **Strategic Public Sector Transformation Project** was approved in July 2014 for US$35 million. The project's objective is to strengthen public resource management and support selected public sector institutions in facilitating a more enabling environment for private sector growth.

The **Youth Employment in Digital and Animation Industries Project** was approved in July 2014 for USD$20 million. The project taps into Jamaica's creative industries as its aim is to support youth employment in the digital and animation industries.

The **Jamaica Disaster Vulnerability Reduction Project** was approved in February 2016 for US$30 million. The project seeks to enhance Jamaica's resilience to disaster and climate risk by improving disaster preparedness and response, and reducing risk of key infrastructure failure as a result of natural hazards.

The **Jamaica Social Protection Project (SPP)** was approved in May 2008 for US$40 million, with an additional financing of US$40 million approved in January 2014. Recognizing the government's budget constraints, the additional financing will continue to provide support to the most vulnerable under a well performing project. The Jamaica Social Protection Project will: (i) further improve the effectiveness of the Program of Advancement through Health and Education (PATH) in order to foster investment by poor families in human capital accumulation; (ii) develop a structured system for assisting working-age members of PATH eligible households seek and retain employment; (iii) enable the formulation of a reform program for the public sector pension schemes; and (iv) develop a holistic social protection strategy.

The **Jamaica Rural Education Transformation Development Initiative (REDI)** was approved in September 2009 for US$15 million. The objective of REDI is to improve market access for rural micro and small-scale producers of agriculture and tourism products, as well as, other service providers.

The Jamaica **Early Childhood Development Project (ECD)** was approved in May 2008 for US$15 million with additional financing of US$12million approved in February 2014. The additional financing will help to scale up activities under the ECD project while endorsing the objectives of the ECD National Strategic Plan and enhancing the impact of a well performing project. The revised development objectives are to: (i) improve parenting education and support programs; (ii) improve monitoring of children's development, the screening of household level risks, and the risk mitigation and early intervention systems, (iii) enhance the quality of early childhood schools and care facilities; and (iv) strengthen early childhood organizations and institutions.

The **Energy Security and Efficiency Enhancement Project** was approved in March 2011 for US$15 million. The Project's overarching objective is to support the implementation of the Government Energy Policy, particularly the goals of enhancing Jamaica's energy security and efficiency by: (i) reducing energy costs; and (ii) reducing the country's high dependence on imported petroleum products. The project is expected to assist in improving Jamaica's competitiveness.

IFC supported investments has a current portfolio of US$166.1 million with a focus on infrastructure, energy and access to finance. The introduction of local currency instruments through an IFC bond issuance will further leverage IFC resource mobilization capacity.

B. Advisory Services and Trust Funds

In addition to the aforementioned projects, the Bank also provides technical assistance and grant funding to Jamaica. Currently, grants and trust funds under implementation approximate US$20.2 million. Technical assistance complements investment financing in areas such as disaster risk management, public investment management, creative industries, and investment climate.

IFC investment and advisory services continue to increase in Jamaica with investments in the financial, telecommunications and energy sectors. Advisory services have been provided to support the Government of Jamaica's tax reform agenda in addition to focusing on improving the investment climate, increasing Public-Private Partnerships and providing value chain support in the food sector. IFC's support is expected to enhance energy competitiveness through the diversification of the country's energy mix, improve access to finance, especially to for the SME sector, as well as expand the support to the agricultural sector by increasing Jamaican food exports. MIGA currently has a net exposure of US$40.9 million and provides guarantee for an infrastructure project. MIGA will continue to encourage private sector development and facilitate inward foreign direct investment.

C. Economic and Sector Work

Between FY2014–FY16, the following knowledge products have been delivered to the Government of Jamaica and have formed the analytical underpinnings of Bank operations:

Financial Sector Assessment Program Development Module - The assessment looked at development priorities in the financial sector, including access to finance, housing finance, capital markets, payment systems and remittances, financial literacy and consumer protection. Recommendations included the development of a financial inclusion strategy.

Report on Observance of Standards and Codes-Accounting and Auditing – The report focused on three primary strategic objectives: (1) Facilitate in making Jamaica's business environment more conducive to private investment. (2) Supporting the governance agenda in Jamaica. (3) Facilitate Regional integration on accounting and auditing matters. The review identified the strengths and weaknesses in accounting and auditing practices that influence the quality of the country's financial reporting. It used International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) as benchmarks, and draws on international experience and good practices.

Parliamentary Oversight of Public Finances-An Institutional Review – A review of the capacity of the Jamaica Parliament to play its role in the oversight of the public finances was conducted. The report looked at the key weaknesses in performing oversight of functions by the two key committees such as, the Public Accounts Committee and Public Administration and Appropriation Committee. The report also includes recommendations for developing the oversight capacity of the Parliament.

D. Financial Relations

Project Lending[1] (Status as of April 2016) (In millions of U.S. dollars)			
Project	**Original Amount**	**Total Disbursed**	**Undisbursed Balance**
JM Early Childhood Develop Proj -- SWAP	26.90	20.70	6.20
JM Social Protection	80.00	64.40	15.60
JM Rural Economic Development Initiative	15.00	10.70	4.30
Energy Security & Efficiency Enhancement	15.00	11.20	3.80
JM - Integrated Comm. Devl. Proj.	42.00	2.40	39.60
JM Strategic Public Sect Transformation	35.00	1.50	33.50
JM Disaster Vulnerability Reduction	30.00	-	30.00
JM Foundations for Compet & Growth	50.00	7.70	42.30
JM Youth Employment in Digital and Anima	20.00	0.60	19.40
Total	**313.90**	**119.20**	**194.70**

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

Disbursements and Debt Service (Fiscal Year Ending June 30) (In millions of US dollars)												
	Actual											
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*
Total disbursements	8.5	21.7	17.3	16	118.7	222	22.2	129.9	20.4	145.5	112.2	18.9
Repayments	43.4	39.7	45.8	47.9	48.4	46.7	36.2	35.8	35.6	37.2	36.3	45.9
Net disbursements	-34.9	-17.9	-28.5	-31.9	70.3	175.3	-14	94.1	-15.1	108.1	75.9	-26
Interest and fees	17.5	20.5	22.4	21.6	16.6	13.2	10.9	11	11.3	9.2	8.5	8.4

*Data as of April, 2016

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of May 1, 2016)

Jamaica joined the Inter-American Development Bank (IDB) in 1969. Since then, the IDB has approved 116 loans to Jamaica amounting to almost US$3 billion and 220 technical cooperation operations totaling US$88.2 million. IDB financial assistance has supported a wide range of infrastructural, environmental and social sector projects with a view to enhancing Jamaica's human resource and absorptive capacity and strengthening the foundation for private sector-led growth. In addition, the IDB has supported reforms aimed at strengthening the institutional and regulatory environment.

The IDB is the leading lender to Jamaica among multilateral development partners. As of March 2016, Jamaica's outstanding debt to the IDB stood at US$1.56 billion, of which US$58.4 million were loans to the private sector. The total represents 17% of public external debt and 46% of multilateral debt (including the IMF).

Starting in 2004 there was a drastic reduction in the fiscal space needed to disburse existing Bank loans. As a result part of the portfolio was cancelled and no new loans were approved between 2004 and 2008. The new administration that took office in 2007 intensified Jamaica's reform program and emphasized a policy of expanding IFI financing for its development program.

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

This upward trend continued in January 2009 when the Bank approved two more loan operations: a US$300 million liquidity program to protect the real sector from lost credit lines; and a US$15 million social safety net program. In September 2009, a US$70 million loan was approved to expand the highway network and a US$25 million for a citizen security and justice program and US$10 million for road improvement.

The Bank provided unprecedented support to the country in 2010 as part of a broader financial support from multilateral financial institutions in support of the Stand-By Arrangement with the IMF. In February 2010, the Bank approved 3 policy based loans and 1 hybrid PBL/investment loan for a total of US$215 million. The areas of intervention were the same as the previously approved PBLs (public financial management, education and competitiveness) and a PBL focused on human capital protection. During the second half of the year the Bank approved an investment loan to support

competitiveness in the agricultural sector US$15.0 million, as well as two phases of a new policy based program totaling US$400 million aimed to support fiscal consolidation.
Because of the macroeconomic deterioration following the stalling of the SBA in 2011, IDB support to Jamaica decreased. The Bank disbursed US$131 million in 2011 and US$69.6 million in 2012. Because of the stabilization of the economy and in support of the Extended Fund Facility with the IMF, the Bank's support increased in 2013 with disbursements totaling US$101 million. Disbursements totaled US$194 million and US$203 million in 2014 and 2015 respectively.

In 2013, the Bank disbursed US$101.4 million, including US$60 million in budget support in the area of public financial and performance management. Another US$295 million in budget support was approved in calendar years 2014 and 2015, supporting the areas of competitiveness, education and fiscal reform. During 2013 to 2015, four investment loans were approved totaling US$105 million to support public sector efficiency, citizen security, climate change and social protection. In addition, one operation is programmed for approval in calendar year 2016 totaling US$15 million, which will support the Government of Jamaica in continuing Energy Efficiency and Energy Conservation efforts through the retrofitting of government facilities with energy efficient equipment and infrastructure. This operation could also benefit from JICA co-financing support in the amount of US$15 million.

As of May 1, 2016, the Bank's portfolio consisted of 9 active investment loans[1] valued at US$348.0 million, another 6 investment loans valued at US$100.6 million are exiting the portfolio in 2016 and there are 27 non-reimbursable technical cooperation valued at US$57.7 million. Forty-six percent of the IDB loan resources and twenty-seven percent of the TC funds have been disbursed, leaving US$228.2 million available for disbursement.

Major Ongoing Projects

Project Category	Number	Amount (US$ mn.) 1/	Percent Disbursed
Projects in execution	9	348.0	46.0
Private sector loans (NSG)	0	0	0.0
IIC loans	0	0	0
TCs in execution	27	57.7	27.0

1/ Approved amount.

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

[1] Including private sector loan but excluding IIC

2010 reflect the above mentioned unprecedented support that implied a positive cash flow of more than US$626.0 million. As such, disbursements leveled somewhat in 2011 to US$131.4 million, 2012 to US$52.3 million and 2013 to US$101.4 million.

Net Flow of IDB Convertible Currencies
(In millions of U.S. dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 p/
a. Loan disbursements *(including PBLs)*	12.8	25.9	34.3	144.2	151.5	626.4	131.4	69.6	101.4	194.0	203.15	232.1
b. Repayments (principal)	51.2	64.1	83.5	73.8	74.0	69.6	58.3	98.8	98.7	59.03	63.4	96.9
c. Net loan flow (a–b)	-38.4	-38.2	-49.2	70.4	77.5	556.8	73.1	-29.2	2.7	134.97	139.75	135.2
d. Interest and charges	29.8	28.0	27.1	24.0	29.7	23.7	28.6	28.0	26.4	26.8	26.2	35.2
e. Net cash flow (c–d)	-73.6	-70.6	-78.1	46.4	47.8	533.1	44.5	-57.2	-23.7	108.17	113.55	195.2

p/ Projected

Country Strategy with Jamaica
The current Country Strategy focuses on supporting efforts to reestablish fiscal sustainability, maintain social stability, and promote private-sector led growth. This will be realized through lending and technical assistance in the following priority areas: (i) Fiscal Sustainability; (ii) Social Protection and Safety; and (iii) Financial Sector & Business Climate. To mitigate fiscal and social impacts posed by extreme climatic events, Disaster Risk Management and Climate Change Adaptation will be a cross-cutting theme.

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

made in recent years and to determine eligibility to audit IDB-funded projects a follow-up assessment of the Office of the Auditor General of Jamaica was undertaken during a mission fielded in the third quarter of 2010.

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

Total Projected Debt Service, 2011–2016
(Millions of U.S. dollars equivalent)

	2011	2012	2013	2014	2015	2016
Principal	58.3	98.8	98.7	59.03	63.4	96.9
Interest	28.6	29.3	25.3	26.8	26.2	35.2
Total	**86.9**	**128.1**	**124.1**	**85.83**	**89.6**	**132.1**

STATISTICAL ISSUES

As of May 16, 2016

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance. In early 2003, Jamaica started participating in the Fund's General Data Dissemination System (GDDS), which provides participants with a framework for the development of the statistical system.

Key websites for statistics on Jamaica:

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

National Accounts: The Statistical Institute of Jamaica (STATIN) provides quarterly and annual data on GDP by type of economic activity and annual data by expenditure and income (both in current and constant prices). GDP by expenditure and income was first published in 2014. STATIN is currently working on quarterly demand-side GDP data and expects to disseminate the data in 2017. Progress has been made including through updating the base year for the national accounts data in constant price terms from 2003 to 2007, but weaknesses remain, including dated surveys for household expenditure (2004/5). A new household expenditure survey is expected to start in 2017. Addressing the shortcomings in national accounts has been hindered by a lack of resources. Assistance on national accounts methodology has been provided by Statistics Canada, STA, and CARTAC.

Price statistics: Jamaica (with assistance from the IMF Caribbean Regional Technical Assistance Center, CARTAC) revised its consumer price index (CPI) series in 2007. The CPI revision updated expenditure weights of the CPI that had dated from 1984. The new CPI weights are based on a household survey conducted in 2004–05. In addition, the STATIN compiles and disseminates the producer price index (PPI) on a monthly basis covering mining and manufacturing industries (base 2005 =100). There are plans to improve the scope of the PPI by covering other industries like agriculture, electricity, gas, services, etc.

Government finance statistics: Budgetary central government operations and public debt data (with the exception of non-guaranteed debt by public entities) are updated on a monthly basis. The demand side of GDP is not available at high frequency, making it difficult to assess the fiscal policy stance. Also, data on operations of public entities outside the consolidated fund (which includes all public bodies that are fully financed through the state budget) are only available with lag of more than a month, making the assessment of the overall balance of the public sector challenging.

Government finance statistics are available at:

Debt: http://www.mof.gov.jm/dmu/

Budget: http://www.mof.gov.jm/programmes/em/fpmu/default.shtml

Monetary and financial statistics: Monetary statistics published by the Bank of Jamaica (BOJ) are sectorized, classified, and valued in accordance with international standards, and are provided to the Fund for the most part in a timely manner. The BOJ initiated the submission of monetary and financial statistics based on standardized report forms in March 2007. Financial sector statistics outside of the banking system have improved substantially, but some gaps remain.

Balance of Payments: The BOJ reports quarterly balance of payments (BOP) and international investment position (IIP) in the format of the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*), and monthly International Reserves and Foreign Currency Liquidity data to STA. In addition, the BOJ participates in the World Bank's Quarterly External Debt Statistics (QEDS) database with data on Gross External Debt Position. The quality and dissemination of external sector statistics has significantly improved; however, there are shortcomings for direct investment data and the coverage of nonfinancial sector needs to be further improved. External debt data does not include intercompany debt.

II. Data Standards and Quality

Participant in the General Data Dissemination System (GDDS) since February 28, 2003.	No data ROSC is available.

III. Reporting to STA (Optional)

No data on industrial production, wholesale or producer prices, import volumes, or export and import prices have been reported for publication in the *International Financial Statistics (IFS)* in recent years.

Detailed annual balance of payments and international investment position (IIP) data are reported by the BOJ for publication in the *Balance of Payments Statistics Yearbook (BOPSY)* and the *IFS*. In September 2007, Jamaica reported for the first time IIP data to STA; annual IIP data since 2005 are now available in *BOPSY* and *IFS*. Currently, information on deposit money banks and monetary authorities is being reported on a regular basis.

Jamaica: Table of Common Indicators Required for Surveillance
(As of May 30, 2016)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	05/16	05/16	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	03/16	05/16	M	M	M
Reserve/Base Money	03/16	05/16	M	M	M
Broad Money	03/16	05/16	M	M	M
Central Bank Balance Sheet	04/16	05/16	M	M	M
Consolidated Balance Sheet of the Banking System	03/16	05/14	M	M	M
Interest Rates[2]	05/16	05/16	D	D	D
Consumer Price Index	03/16	04/16	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]–Selected Public Bodies[4]	03/16	05/16	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	03/16	05/16	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	03/16	05/16	M	M	M
External Current Account Balance	2015/16Q3	05/16	Q	Q	Q
Exports and Imports of Goods and Services	2015/16Q3	05/16	Q	Q	Q
GDP/GNP	2015Q4	04/16	Q	Q	Q
Gross External Debt	03/16	05/16	M	M	M
International Investment Position	2015Q4	05/16	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] Selected public bodies are self-financed public entities.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

**Statement by James Allison Haley, Executive Director for Jamaica,
Michael McGrath, Alternate Executive Director, and Trevor Lessard, Advisor
June 17, 2016**

We thank the staff for their report and their constructive engagement with our Jamaican authorities. While the review of Jamaica's EFF needed to be reasonably delayed to allow for free and fair democratic elections, the process and its outcome has not changed Jamaica's strong track record under this program. The elections ushered the Jamaica Labour Party (JLP) into power on a mandate that consisted of unwavering support for the Fund-supported adjustment program and a redoubling of efforts to jumpstart private sector-led growth, which remains disappointing. With the vitality of a new administration and a mandate to deliver strong, sustainable, and job-rich growth, the Government of Jamaica is well positioned to continue the reform agenda. For the eleventh and twelfth reviews all performance criteria and structural benchmarks have been met.

Fiscal Policy and Debt Management

Our authorities remain resolute in maintaining a strong fiscal position, anchored in the extraordinarily high primary surplus of 7 percent of GDP. While arduous, and entailing significant opportunity cost, our authorities believe that fiscal discipline is an important anchor to economic stability and investor confidence. A strong primary balance is also essential in order for Jamaica to meet the Government's commitment to bring debt-to-GDP down to 60 percent by 2026. Nevertheless, given the overall tightness of the fiscal stance, and the lack of fiscal space, the new Government of Jamaica is placing extra attention on improving the efficiency of public expenditures and making the tax system more growth friendly.

A key plank of the Government's fiscal strategy is to improve the growth-friendliness of the tax system by deliberately shifting some of the tax burden from productive inputs, particularly labor, to indirect taxation. The 2016/17 budget represents a sizeable move in this direction with the announcement to more than double the exemption threshold for personal income tax from its current level of J$592,800 to J$1,500,096 in a two-step process. With the help of Fund's TA, the 2016/17 tax reforms will structurally improve the tax system and, in a revenue-neutral way, encourage employment, job creation, and reduce informality in the labor market. Our authorities wish to emphasize that this tax shift is not a one-off action, but is part of a larger effort to improve the efficiency and growth-friendly nature of the tax system. With the help of their international partners, including the Fund, World Bank, and IDB, the authorities intend to systematically and responsibly overhaul the system so that it better incentivize investment and job-creation while still providing the Government of Jamaica the revenue it needs to provide essential public services.

This landmark tax policy shift will be complemented by ongoing efforts to improve debt management, reduce the public sector wage bill to 9 percent of GDP, privatize public entities to reap efficiency gains and lower public debt, and modernize the public sector. Our authorities share staff's view that unsustainable public sector wages and debt have in the past crowded out critical public investment and eroded investor confidence. They agree that failing to bring the public wage and debt service bills down to sustainable levels will stunt growth, and without robust growth, social consensus for structural reforms will wane.

Generating More Robust Rates of Growth

Our authorities welcome staff's focus on growth in this year's Article IV consultation, especially the inclusion of Annex II that examines growth drivers and constraints. Reducing crime, improving the quality of services delivered by the public sector, reducing electricity costs, and improving access to finance are all critical ingredients to growth identified by staff in their Annex and are areas emphasized by the Minister of Finance during his presentation of the budget to Parliament. While recognizing that some, or even most, of the benefits of these reforms will not materialize until later in the medium-to-long term, my authorities are somewhat more optimistic than staff that some of the dividends of structural reforms can be captured more quickly if the government consistently implements its reform agenda and investor confidence continues to build.

Our authorities share staff's view that delays in implementing these reforms will negatively affect Jamaica's economic growth prospects, which is why they have created the new Economic Growth Council. The Council has an ambitious goal, to raise GDP growth to 5 percent in four years, which will require a combination of structural reforms, public sector modernization, and the implementation of several large investment projects in energy and infrastructure. To support this work, the Council has been mandated by the Prime Minister to be comprised of public and private sector participants, have a Secretariat to support its work, and will be given the latitude necessary to drive important growth-oriented projects and proposals.

Monetary and Financial Sector Policy

The Bank of Jamaica continues to operate in a complicated environment, anchored in the objective of price stability and a market-determined exchange rate. Our authorities share the view that monetary transmission should be improved and continue to implement technical reforms that will assist in achieving that objective. The Bank of Jamaica also stands ready to further loosen the monetary stance if conditions warrant and if it does not threaten financial stability or exacerbate the problem of increasing dollarization.

Our authorities are disappointed with the slow pace of the discussion on correspondent banking relationships and call on the Fund to play a more active role within the international financial community in resolving this issue, which now affects several dozen

Fund members. While weaknesses in AML/CFT have and will continue to be addressed, it is important to stress that a strong AML/CFT regime is a necessary, but not sufficient, condition for maintaining macro-critical correspondent banking relations. While Jamaica has been less affected than many EMDCs by the trend in globally active banks to scale back their correspondent banking relationships, our authorities are nevertheless aware of the magnitude of the risk and the lack of clarity from regulators and stakeholders on what is required to maintain this important relationship. The Fund can play an important role in advocating on behalf of its many members around the globe that have been affected and highlight how economically costly the loss of banking relationships can be. The Fund is uniquely placed to not only summarize the depth of the problem, but also play a supportive role, along with other bodies and multilateral institutions, in developing solutions. We welcome the commitments in the Managing Director's Work Plan to deepen our understanding of the causes, and possible solutions, to de-risking and the thoughtful analysis that has been included in the Article IVs of some systemically important jurisdictions. There seems widespread agreement that more work needs to be done and that the discussion in Jamaica's Article IV, which is narrowly confined to improving AML/CFT and prepare for (risky and untested) interventions by the central bank, will need to be broadened if we are to get at the root of the problem.