INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/350

JAMAICA

November 2016

REQUEST FOR STAND BY ARRANGEMENT AND CANCELLATION OF THE CURRENT EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE AND STAFF REPORT

In the context of the Request for Stand-By Arrangement and Cancellation of the Current Extended Arrangement Under the Extended Fund Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 11, 2016, following discussions that ended on October 13, 2016, with the officials of Jamaica on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on October 25, 2016.

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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International Monetary Fund
Washington, D.C.

Press Release No. 16/503
FOR IMMEDIATE RELEASE
November 11, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$1.64 billion Stand By Arrangement for Jamaica

The Executive Board of the International Monetary Fund (IMF) today approved a three-year Stand-By Arrangement (SBA) for Jamaica to support the authorities' continued economic reform agenda. Access under the SBA arrangement amounts to about US$ 1,64 billion (SDR 1,195.3 million), the equivalent of 312 percent of Jamaica's quota in the IMF. The Jamaican authorities have indicated that they will treat the arrangement as precautionary, and do not intend to draw on the new SBA unless exogenous shocks generate an actual balance of payments need. The Executive Board approval will make about US$ 411.9 million (SDR 300.1 million) available, and the remainder in six tranches upon completion of semi-annual program reviews.

Following the Executive Board discussion on Jamaica, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, said:

"Jamaica has established a commendable track record of program ownership and implementation under the Extended Fund Facility (EFF). Macroeconomic stability has been entrenched, evidenced by low inflation, the build up of foreign currency reserves, and a decline in the current account deficit. Fiscal discipline and proactive debt management have helped place public debt on a downward trajectory. Still, growth is low, poverty and unemployment are high, and crime and security challenges impose a serious drag on growth.

"The authorities' request for a Stand-By Arrangement (SBA), which they intend to treat as precautionary, will provide insurance against unforeseen adverse external economic shocks, while focusing reform efforts to deliver better growth and job outcomes, as well as reduce poverty, while sustaining macroeconomic stability.

"Fiscal discipline and public debt reduction will continue to anchor Jamaica's reform program. Public sector transformation, another key pillar of the program, will seek to re-orient public resource allocation toward infrastructure, social protection, and security-related spending, while delivering more efficient public services. The ongoing growth-friendly shift from direct to indirect taxes will continue to broaden the tax base and improve the efficiency of the tax system. The program will continue to protect social spending, while also instituting reforms to strengthen the social safety net.

"The Jamaican authorities recognize that enhancing monetary policy credibility and operations for an eventual move to inflation targeting is critical. Key reforms include strengthening the operational autonomy of the Bank of Jamaica, refining the monetary policy signaling and liquidity provision framework, and improving macroeconomic modeling and forecasting. Toward this end, the authorities are committed to maintaining exchange rate flexibility and continuing to build international reserves through market-based purchases of foreign exchange. Furthermore, concrete steps will be taken to further enhance financial sector resilience and promote greater access to credit and financial inclusion.

"Supply side reforms are critical to unlock Jamaica's growth potential and create more private sector jobs. In this context, every effort is needed, in collaboration with development partners, to execute the structural growth reforms recommended by the authorities' Economic Growth Council. Resources will have to be redirected to combat crime and ensure national security. Easing of growth bottlenecks will facilitate a stronger private sector job creation, as the government refocuses and streamlines its role.

"The authorities' commitment and commendable track record, together with continued broad-based support for the reform agenda, should help foster its successful implementation."

ANNEX

Background

Jamaica has made commendable progress in its economic adjustment program over the past three and a half years under the existing IMF-supported program (see Press Release No. 13/150). Fiscal discipline and proactive debt management have helped reduce public debt by more than 25 percent of GDP since the start of the extended arrangement under the Extended Fund Facility (EFF). Macroeconomic stability is becoming entrenched as evidenced by low inflation, the buildup of foreign currency reserves, and a decline in the current account deficit. And important reforms are being undertaken to unlock Jamaica's growth potential.

Still, real GDP growth and employment dividends from the reforms have been slow to materialize. Growth has averaged 0.8 percent during the program period, albeit improving more recently to 1.4 percent in Q1 of FY16/17, supported by gains in agriculture, manufacturing, electricity generation, and tourism. Growth in FY2016/17 is expected to reach 1.7 percent in FY16/17. Business confidence is strong and Jamaica's international bonds are trading close to the average rate of other emerging markets. Unemployment is still high at 13.7 percent in April 2016, which partly reflects an increase in labor force participation.

Program objectives

A renewed focus on growth and job creation is needed, and the new precautionary Stand-By Arrangement (SBA) aims to sustain the macroeconomic stability, while boosting employment, raising the living standards of the Jamaican people, and progressively reducing a poverty level that remains too high. The main pillars of the program are to:

(i) better support growth, jobs, and social protection, including by improving public sector efficiency, rebalancing from direct to indirect taxes, strengthening the social safety net, and reallocating public resources to growth-enhancing capital spending;

(ii) reduce public debt to 60 percent of GDP by 2025/26 by maintaining primary surplus at 7 percent of GDP for the duration of the new arrangement;

(iii) modernize the monetary policy framework and build the foundation for an eventual move to inflation targeting, while maintaining exchange rate flexibility and continuing to build precautionary reserves; and

(iv) bolster the resilience of the financial system.

INTERNATIONAL MONETARY FUND

JAMAICA

October 25, 2016

REQUEST FOR A STAND-BY ARRANGEMENT AND CANCELLATION OF THE CURRENT EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

EXECUTIVE SUMMARY

Context. Jamaica's current 4-year Extended Arrangement under the Extended Fund Facility (EFF) expires in April 2017. A commendable track record of program ownership and implementation has resulted in significant strides in restoring macroeconomic stability, reducing public debt, and addressing a multitude of structural issues. Still, growth has fallen short of expectations, poverty and unemployment remain high, and crime and security are increasingly binding impediments to growth and prosperity.

Government's reform intentions. The new government, elected in February 2016, is fully focused on addressing these challenges by pursuing policies that will provide a long-term foundation for sustained growth, job creation, and protecting the vulnerable. Toward this end, Jamaica is requesting the cancellation of the extended arrangement and approval of a new 3-year Stand-By Arrangement (SBA). Reflecting the authorities' policy credibility, implementation track record, and ongoing commitment to strong economic management, they intend to treat the SBA as precautionary. The government views this as a critical insurance against potential balance of payments pressures from adverse external shocks.

Key program pillars.

- Better support for growth, jobs, and social protection. This includes improving public sector efficiency, rebalancing from direct to indirect taxes, strengthening the social safety net, and reallocating public resources to growth-enhancing infrastructure spending.
- Reducing the public debt to 60 percent of GDP by 2025/26 by maintaining primary surplus at 7 percent of GDP for the duration of the new arrangement.
- Further strengthening monetary operations to facilitate a move to inflation targeting. As such, authorities are committed to maintaining exchange rate flexibility and continuing to build precautionary reserves through market-based purchases of foreign exchange.
- Bolstering financial stability by strengthening financial supervision, improving the crisis resolution framework, and further reducing vulnerabilities from securities dealers.

Program modalities. The authorities' have requested a precautionary 36-month SBA with access equivalent to SDR 1.1953 billion (312 percent of quota, or about US$1.7 billion) and the cancellation of the current extended arrangement approved in May 2013. An initial tranche of SDR 300.1 million (78 percent of quota) is proposed at approval. The proposed SBA, which nearly doubles the Fund's commitment to Jamaica, will have semi-annual reviews reflecting increased confidence in Jamaica's economic policy implementation.

Approved By	
Nigel Chalk (WHD) and Peter Allum (SPR)	Discussions took place in Kingston during September 21-30, and October 13, 2016. Staff representatives comprised U. Ramakrishnan (head), J. Okwuokei, J. Wong (all WHD), X. Fang (FAD), R. Garcia Verdu (SPR), A. Guscina (MCM), and C. Lonkeng (Resident Representative). They were assisted at headquarters by E. Moreno, and C. Li, and at the Resident Representative Office by K. Jones and R. Henry. Mr. C. Williams (OED) participated in the discussions.

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BACKDROP

1. The government's policy efforts over the past three and half years have restored macroeconomic stability. In the wake of Hurricane Sandy, a crisis was looming in FY2012/13 as the economy contracted, external viability deteriorated, and public debt rose to 145 percent of GDP. To avoid these dynamics and turn the economy in a new direction, the IMF's Executive Board approved a four-year extended arrangement under the Extended Fund Facility (EFF) in May 2013 (SDR 615.38 million, 225 percent of quota at the time of approval of the extended arrangement, 161 percent of current quota). Reforms under the extended arrangement focused on boosting growth and employment, improving external competitiveness, achieving fiscal and debt sustainability, strengthening the financial system, and supporting the poor.

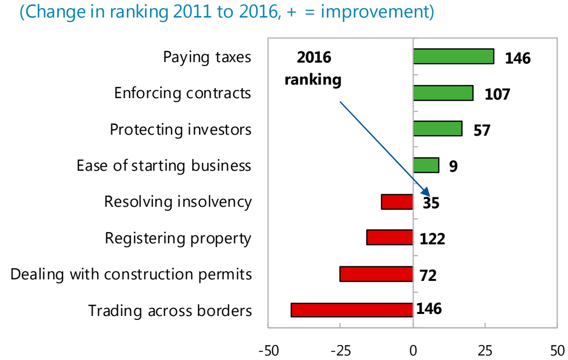
2. Important progress has been achieved under the extended arrangement in more than 3 years of strong program ownership and implementation.

- *Macroeconomic stability has become entrenched*. Inflation and the current account deficit are at historical lows, and international reserves have more than doubled. Access to domestic and international financial markets has been restored, buoyed by upgrades in credit ratings and all-time-high business confidence indicators. The recent reopening of the 2039 global bond at 6.75 percent—a historically low yield—reflects Jamaica's restored credibility in international markets.
- *The debt has been placed on a downward trajectory*. Broad tax policy and administration reforms have been and continue to be undertaken. Financial sector resilience has been strengthened, inter alia, by shifting retail repo transactions of securities dealers to a trust-based framework to address legal and regulatory risks.
- *There was strong, broad-based program ownership by various stakeholders* including the private sector, public sector, media, unions, academia, think tanks, civil society and opposition. This allowed for the sustenance of a domestic monitoring arrangement through the Economic Program Oversight Committee comprising members from the private sector, public sector, and civil society. The strong broad-based ownership and public accountability continued after the change in government in February 2016.

3. But significant challenges remain.

- *Growth and job creation dividends from the reforms have been slow to materialize*. Growth has averaged only about 0.6 percent during the extended arrangement, albeit picking up pace in more recent quarters. Unemployment remains high at 13.7 percent, and one-fifth of the population lives in poverty. While reforms have improved several aspects of the doing-business environment, deep-rooted structural

Doing Business Indicators
(Change in ranking 2011 to 2016, + = improvement)



bottlenecks continue to stifle private investment and job creation (Annex II, 2016 Article IV Consultation).

- *Wage spending is crowding out growth-enhancing capital spending*. Wages account for one-third of public expenditures, while capital spending takes up only 7 percent and social spending is less than 3 percent of total spending.
- *Continuing to lower public debt will require sustained fiscal effort*. At the same time, the high foreign currency composition of public debt leaves it vulnerable to exchange rate shocks.
- *The cost of financing for private capital formation remains high*. This is likely due to a range of factors including potentially low operational efficiency and insufficient competition among the banks, distortionary taxation of the financial sector, and crowding out from the high public debt.
- *Crime—homicide, burglary, and robberies—imposes sizable costs to the society and businesses*.

4. Recognizing these challenges, the authorities have requested a new Stand-By Arrangement (SBA) to support their reform program and deliver better growth, poverty and employment outcomes. The arrangement would support the new economic program with a 36-month SBA with access of SDR 1.1953 billion (equivalent to 312 percent of quota or about US$1.7 billion). Given the full access to domestic and international capital markets, and benign economic environment, the authorities intend to treat the arrangement as precautionary, as an insurance against potential balance of payments pressures that may arise due to external economic shocks (see ¶11).

OUTLOOK AND RISKS

A. Recent developments

5. An improving growth picture.

- Real GDP growth picked up in FY2015/16 to 1 percent with gains in agriculture, manufacturing, electricity generation, and tourism. Growth in Q1 FY2016/17 was even higher at 1.4 percent; however, unemployment remains high at 13.7 percent in April 2016 (although this partly reflects good news of improving labor force participation). Business confidence is strong and Jamaica's international bonds are trading close to the average rate of other emerging markets. Thus, real GDP is expected to grow by 1.7 percent in FY2016/17, as agriculture continues to recover with supportive weather and private investment improves (buoyed by an increase in FDI, including in tourism and the Business Process Outsourcing (BPO) sector).
- Medium-term growth should rise to around 2.8 percent as, inter alia, supply-side reforms boost productivity. A recovery in domestic investment and continued strong foreign investment is expected as the ongoing reforms to improve competitiveness and cut red-tape take hold. As public debt further reduces and financial access improves, domestic savings will also be rechanneled towards the private sector. Jamaica's potential in tourism and BPO is significant,

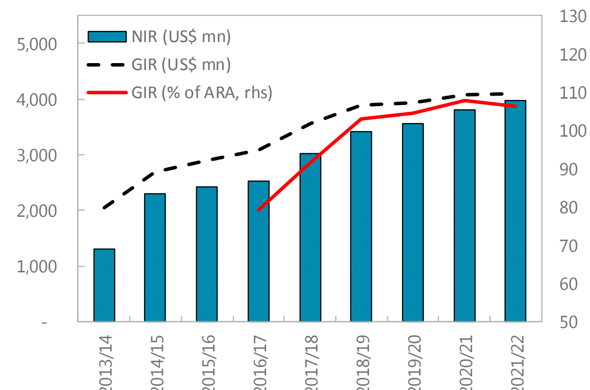
and work is ongoing to deepen domestic economy linkages of the former and improve the value-added of the latter.

6. **Inflation remains benign.** Inflation remains low (1.9 percent y/y in September) but is projected to return to 5.5 percent over the medium-term, in line with the BOJ's current target range of 4.5–6.5 percent. The shift from personal income tax to indirect taxes, among other factors, is likely to lead to some one-off effects in 2017. The medium-term path reflects convergence to a lower inflation path than historically experienced by Jamaica as inflation averaged nearly 10 percent over the last 20 years.

7. **Credit is growing, but banks' loan-deposit rate spreads remain high.** The BOJ lowered the policy rate by 25 bps in May as inflation remained subdued, representing a cumulative rate cut of 75 basis points since April 2015. Credit to the private sector grew at around 14 percent y/y in August 2016, albeit from a low base, and there appears to be expansion in a range of corporate and personal lending, particularly in tourism and electricity.

8. **The financial sector is resilient.** As of June 2016, banks' non-performing loans are at 3.5 percent of total loans with a high level of provisioning (111 percent). Banking system capital adequacy ratio (CAR) is at 14.5 percent (as of June 2016); while this ratio is lower than in December 2015 as loans have grown faster than capital, it remains comfortably above the 10 percent regulatory minimum and with most of the capital being Tier 1. FX and liquidity stress tests (performed by the BOJ on June 2016 data) show continued resilience of the financial system to shocks. There is, however, an increasing dollarization of deposits and asset portfolios and securities dealers are increasingly shifting their investment portfolios towards FX-denominated securities. The continued one-way currency movement towards depreciation, which has been ongoing since the beginning of 2012, has raised the attractiveness of FX-denominated assets. The authorities have responded by removing remuneration on the FX reserve requirements and beginning a gradual equalization of reserve requirements for foreign and local currency deposits. Subsequent introduction of stricter reserve requirements for FX deposits would be based on a cost-benefit analysis of such a move (MEFP ¶16).

Gross and Net Reserves

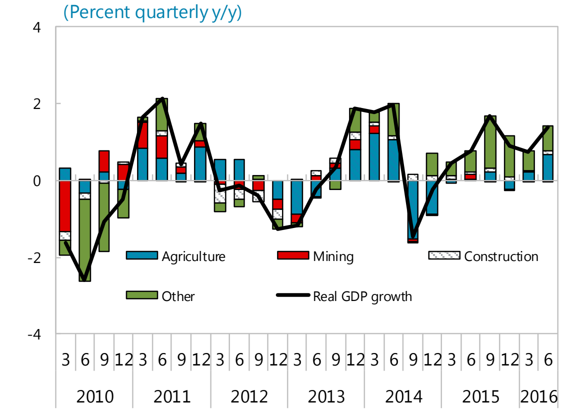


9. **The external position has greatly improved.** The external current account deficit fell to 1.8 percent of GDP in FY2015/16, driven by lower oil prices as well as strong tourism and remittances. Net international reserves (NIR) were US$2.5 billion at mid-October, covering 5.8 months of imports of goods. The real exchange rate has depreciated by 6.6 percent during the first half of 2016. Going forward, the BOJ is expected to continue to build reserves to reach 90 percent of the ARA metric by end-2017, rising to 100 percent by 2019. The current account deficit is expected to remain modest at around 3-3½ percent of GDP.

There are budding signs of a modest recovery…

Contribution to Real GDP Growth

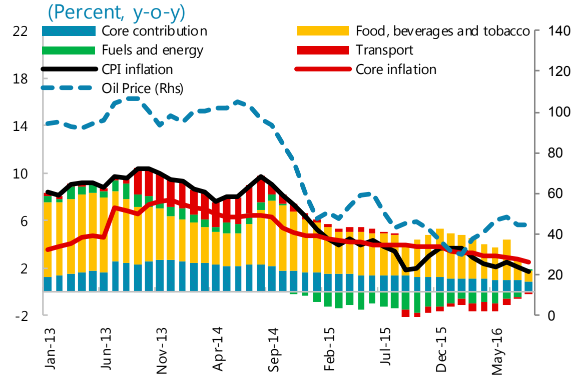
(Percent quarterly y/y)



.. while inflation remains subdued.

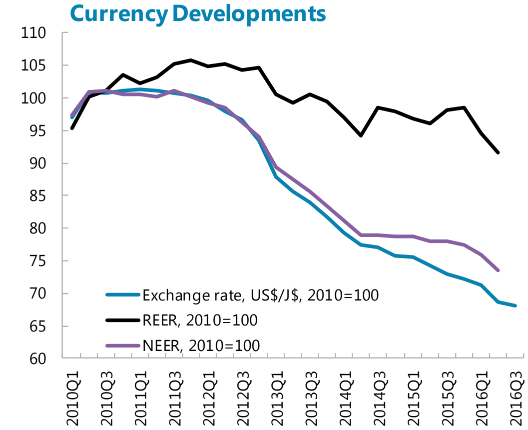
Contribution to CPI Inflation

(Percent, y-o-y)



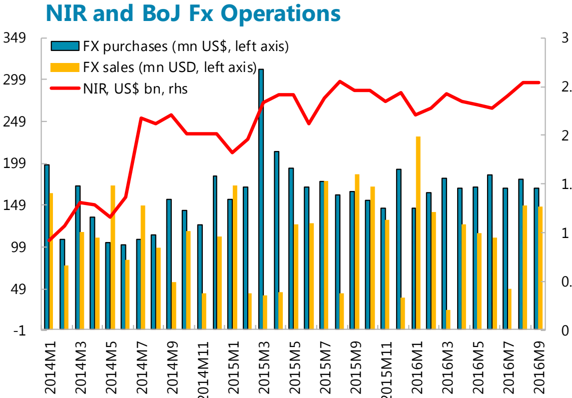
REER remains broadly in line with fundamentals…

Currency Developments



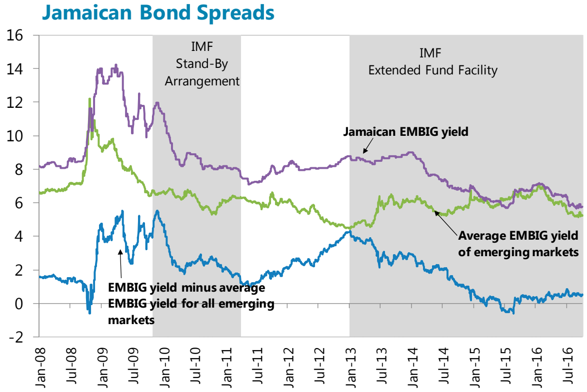
… and reserve accumulation has proceeded at a steady pace

NIR and BoJ Fx Operations



Bond spreads remain in line with EM average…

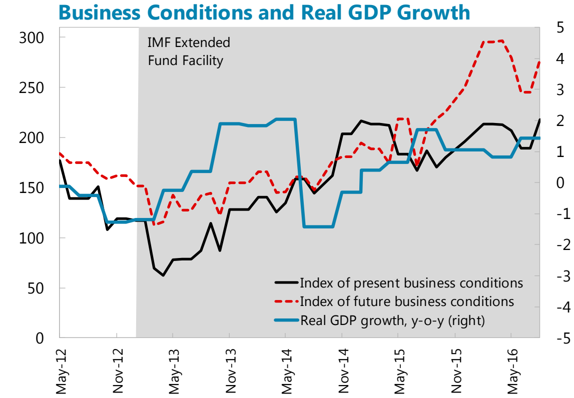
Jamaican Bond Spreads



Source: Bloomberg.

… as confidence levels pick up.

Business Conditions and Real GDP Growth



Source: Bank of Jamaica.

10. The exchange rate is broadly in line with fundamentals, but the balance of risks continues to point towards a modest overvaluation. Standard analytical approaches produce divergent results on undervaluation (current account model) or overvaluation (equilibrium real exchange rate and IIP sustainability models). However, given Jamaica's large negative international investment position (-140 percent of GDP) and the importance of achieving a more sustainable IIP position – in line with other emerging markets of similar per capita income level – a more depreciated exchange rate would support a faster convergence (Annex III, 2016 Article IV Consultation).

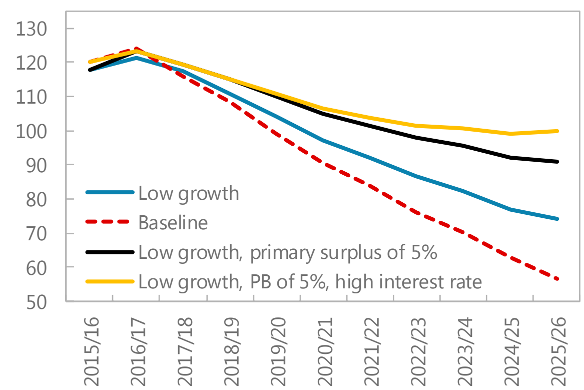
Main Macroeconomic Variables, Baseline

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Real GDP growth (%)	1.7	2.1	2.5	2.7	2.8	2.8
CPI Inflation (average, %)	2.9	5.2	5.5	5.5	5.5	5.5
Primary balance (% GDP)	7.0	7.0	7.0	7.0	6.5	6.5
Public Sector Debt (% GDP)	118.3	110.8	105.3	95.8	88.0	82.2
Current account balance (% GDP)	-2.8	-2.8	-2.8	-2.9	-3.3	-3.6
FDI, net (% GDP)	5.9	4.5	4.2	4.2	4.2	4.2
Gross international reserves (US$ mn)	3,129	3,596	3,933	3,973	4,115	4,143
Net international reserves (US$ mn)	2,536	3,019	3,419	3,556	3,815	3,967

11. Nevertheless, important risks remain.

- There are downside risks to the growth outlook. While the SBA envisages a continuation of the ambitious reform agenda, bringing back growth to above 2 percent is not likely to materialize without private sector-led growth. This underscores the importance of improving the business environment and cutting red-tape. Without better growth outturns, high unemployment and weak job prospects would further entrench long-term losses in skills and productivity (especially through brain drain) and undermine social support for the government's reform efforts. As an illustration of these risks, in a scenario where constraints to growth remain unaddressed (and growth as a result averages 1 percent for the forseeable future), public debt would still be at 80 percent in 2025/26—20 percent of GDP higher than the debt goal envisaged in the Fiscal Responsibility Law. That low growth could make it difficult to maintain the current path for the primary surplus leading to higher risk premia, both of which would push the path for debt-GDP even higher.

Debt to GDP: Non-Reform Scenarios



- Furthermore, Jamaica remains vulnerable to external shocks, including but not limited to natural disasters (the recent near miss by Hurricane Matthew is a clear reminder), a sharp rise in risk premia due to volatility in international markets, economic slowdown in trade partners, and a worsening of the Zika virus (particularly insofar as it impacts tourism). If any of these risks were to materialize, the medium-term impact on Jamaica could be significant (see Risk Assessment Matrix in Annex I, 2016 Article IV Consultation).

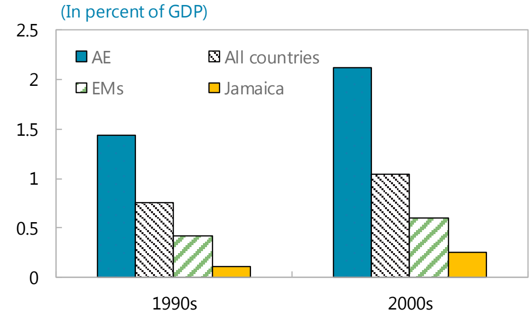
THE NEW PROGRAM

A. Reorienting fiscal policy to better support growth and reduce poverty

12. A clear, medium-term fiscal anchor. Consistent with the 2014 Fiscal Responsibility Law, the government's program would target a reduction of Jamaica's public debt-to-GDP to 60 percent by 2025/26. This would be achieved by reinvigorating growth and maintaining a primary surplus of 7 percent of GDP during the program period.

13. A more efficient and growth-friendly tax system. The new government is committed to a tax reform package that rebalances from direct to more growth-friendly indirect taxes. Following Phase I of the reform which increased the personal income tax (PIT) exemption threshold from J$592,800 to J$1 million in July 2016, the government plans to conclude with a Phase II increase in the exemption threshold from J$1 million to J$1.5 million by April 2017 (at a cost of 0.8 percent of GDP). To offset the revenue loss associated with the Phase II rebalancing effort, and generate additional revenues to expand social transfers to protect the vulnerable, the authorities, supported by IMF technical assistance, are narrowing down high-quality revenue options that aim to minimize distortions while balancing equity and efficiency (MEFP ¶9). Property taxes, which have been shown to be both progressive and efficient, could also be strengthened. As a first step, recalibrated property tax rates and bands using the 2013 valuation will be submitted to Cabinet (*structural benchmark end-December 2016)*. For the medium-term, authorities are also examining the structure of financial sector taxation with a view to reducing distortionary transaction taxes.

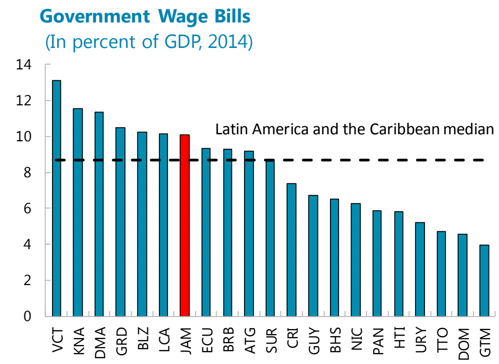
Property Tax Yields
(In percent of GDP)



Sources: Ministry of Finance and Fund Staff calculations.

14. A better social safety net. Jamaica's poverty rate has been around 20 percent since 2012 and a significant share of the poor remains outside of the social safety net (see Box 1). Moreover, the ongoing shift from direct to indirect taxes could potentially generate adverse effects on the most vulnerable. To address this, the authorities will increase expenditures on PATH conditional cash transfers and the school feeding program in FY2017/18 budget by at least the amount necessary to fully shield the bottom quintile from any such effects (MEFP ¶16). Over the medium term and in coordination with development partners, there are plans to review current social safety net programs so as to improve the levels of benefits and the coverage of poor households, implement an effective strategy for graduating from the programs, and institute better monitoring and evaluation systems (including through the national ID system).

15. Shifting from wages to infrastructure spending. Jamaica's high wage bill, currently at 10 percent of GDP, has been a chronic problem for many years that creates budgetary rigidities and limits the resources available for needed growth-enhancing capital spending. To help achieve a wage bill of 9 percent of GDP by FY2018/19 and to help attain a downward path in the medium term as the public sector becomes more efficient (¶17), the government will (MEFP ¶11):



- Review the levels and composition of compensation in the public sector and define a medium-term wage policy so as to enhance fairness, transparency, predictability, and equity in the pay of public sector employees.

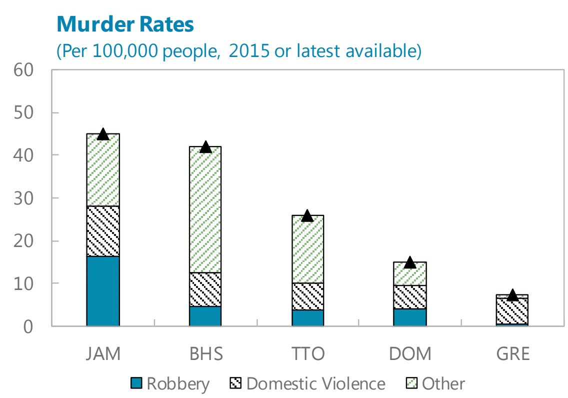
- Conduct a comprehensive review of allowances and put in place an employee verification exercise for all entities in the central government wage bill (*structural benchmarks for end-March 2017*) to improve control and oversight over the wage bill. Informed by the findings of these reviews, a public sector wage negotiation framework will be submitted to Cabinet (*structural benchmark end-April 2017)*.

- Pursue options for early retirement targeting the eligible population.

- Put in place new human resources software, starting with a pilot for 14 smaller entities by end-December 2018, and for the full central government by end-June 2019, so as to improve the information systems and gain greater control over the wage bill.

- Create and apply unambiguous rules for the approval of employment in the public sector, in order to institute effective controls (*structural benchmark for end-March 2017)*.

16. Increasing spending on security. A key priority of the government is to decisively tackle crime which has been on the rise lately and which staff analysis highlights as an important growth impediment in Jamaica. Efforts are underway to seek out support from other IFIs and bilateral donors to define and finance a program to strengthen public order and security together with strengthened transparency and anti-corruption measures (¶28, MEFP ¶7).



17. Redefining the roles and responsibilities of the government. The government is committed to the rationalization of public entities while enhancing the efficiency, service delivery, oversight and accountability of those that remain in the public sector (MEFP ¶10). Steps will be taken to: (i) divest commercial entities, (ii) merge entities when efficiency gains can be reaped, (iii) wind-up inactive or overlapping entities, and (iv) outsource functions that could be better performed by the private sector. As part of the plan, the government will pursue implementation of shared corporate services (first for human resources and then for public relations and communication and internal audit services) to reduce overlapping functions and will put in place a costed transition plan and schedule for those public workers that may be impacted by this restructuring/reorganization (*structural benchmarks for end-May 2017 and end-November 2017, respectively)*. The government is expected to establish a dedicated implementation team for the public sector transformation plan by end-2016.

18. Implementing reform of the public pension system. The draft reform bill, currently in Parliament, is expected to raise the retirement age to 65, require a 5 percent mandatory contribution, expand the benefit assessment period from the last year to the last 5 years of employment, reduce the commutation benefit, and lower the replacement rate (MEFP ¶12). Together, this proposed reform could yield annual gains of up to 0.5 percent of GDP in the medium to long term.

19. Strengthening public financial management as well as tax and customs administrations. Building on the work done during the extended arrangement, reforms will continue (with IMF technical support) on training and staffing of the Accountant General's Department (AGD), streamlining revenue collection, strengthening the treasury single account for all central government entities, and improving the ICT infrastructure for cash management. In addition, IMF technical assistance will continue to be provided to build capacity in tax administration, improve the quality of the audit function and information to taxpayers, and strengthen controls on transfer pricing.

B. A path to inflation targeting

20. Further strengthening monetary policy credibility and operations so as to eventually move to inflation targeting. The SBA will facilitate a shift toward an inflation anchor for monetary policy, including further strengthening monetary transmission (Box 2) and preparing the necessary operational toolkit for an inflation targeting framework. Program conditionality will be described by an inflation target band with a formal consultation clause if the band is breached (MEFP ¶13).

21. Key reforms in the monetary area include:

- *Refining the monetary policy signaling and liquidity provision framework* by (i) transitioning the BOJ's policy rate from the 30-day CD to an overnight rate; (ii) narrowing the interest rate corridor; (iii) using fixed-volume auctions for sterilization operations; and (iv) improving liquidity forecasting in close collaboration with the AGD.

- *Promoting operational autonomy of the BOJ* by ensuring the adequacy of its balance sheet for sustaining economic shocks and undertaking more efficient liquidity management and monetary policy implementation. Authorities also intend to submit revisions of the BOJ Act to Parliament to address any shortcomings in legal provisions with regard to the make-up of the BOJ Board, dividend arrangements, and the provision of financing to the GOJ (*structural benchmark end-September 2017*).

- Further strengthening inflation forecasting tools (with IMF technical support) and improving the coordination between monetary operations and debt management.

22. A commitment to exchange rate flexibility and a fully developed interbank FX market. In order to develop liquid and deep FX markets, with support from IMF technical assistance, the BOJ will institute a multiple-price FX auction – where successful bidders are allocated at the price they bid – to buy and sell FX in the market. This will support price discovery and increase the transparency and efficiency of the FX market (MEFP ¶15). As these auctions become effective, the BOJ will gradually phase out its use of surrender requirements. The auction system could be replaced by an interbank market, once the latter is established and becomes sufficiently deep to serve as the site for price discovery.

- While in practice, this type of multiple price auction is very unlikely to generate a large spread in prices, it does carry the potential for two winning bids to be more than 2 percent apart, given the absence of a mechanism to prevent such a spread, thus giving rise to a Multiple Currency Practice (MCP) inconsistent with Article VIII, Section 3 of the Fund's Articles.

- The authorities have requested Executive Board approval of the temporary retention of this measure, which will be maintained for non-BOP reasons, should the proposed FX auction mechanism give rise to a MCP. Staff recommends its approval on the following grounds that the measure: (i) does not materially impede the members' BOP adjustment; (ii) does not harm the interests of other members; (iii) the measure does not discriminate among members; and (iv) will be temporary and end once the interbank market is more developed.

23. The central bank intends to continue building nonborrowed international reserves. Currently, of the US$2.5 billion in NIR, around US$1 billion are borrowed from local banks through the issuance of BOJ US$-denominated CDs (with outstanding maturities of up to 7 years). The central bank is committed to continue accumulating NIR through market purchases of foreign currency while reducing the share of borrowed reserves. Accordingly, the program targets will be set in terms of the stock of non-borrowed NIR. The central bank intends to ensure that gross reserves reach at least 100 percent of the ARA metric by the end of the program period with the share of non-borrowed reserves in NIR increased from about 60 to nearly 80 percent by the end of the program.

C. Further building financial system resilience and inclusion

24. The immediate priorities in financial sector reform include (MEFP ¶16):

- Operationalizing the Financial System Stability Committee by finalizing the appointment of two external members (*structural benchmark end-November 2016*). The committee will provide assessments and policy advice on financial stability issues.

- Strengthening the resolution framework for insolvent financial intermediaries. As a first step, a consultation paper will be released for public comment that describes the proposed resolution framework (*structural benchmark end-February 2017*).

25. Remaining balance sheet and systemic risks in the securities dealers' industry will be addressed through:

- Developing prudential guidelines that will include (i) requirements to conduct and submit stress test results starting in December 2016; (ii) the introduction (April 2017) and full implementation (April 2019) of leverage and liquidity ratio requirements; (iii) stricter limits on single counterparty exposure (April 2019); (iv) restrictions on early encashment from retail repo instruments (April 2017); and

- Instituting mechanisms to ensure full compliance with the provisions of the Securities (Retail Repurchase Agreement) Regulations that require "retail repos" to be governed by a Master Retail Repurchase Agreement (MRRA) signed by both the dealer and the client (*structural benchmark end-May 2017*).

26. Medium-term priorities to strengthen financial sector resilience include: (i) further strengthening depositor protection and supervision of credit unions, (ii) establishing a regulatory regime for financial holding companies; (iii) implementing a risk-based supervision framework for insurance companies and securities dealers (based on IMF TA recommendations); (iv) further improving Jamaica's risk-based implementation of the AML/CFT framework, in line with the recommendations of the recent AML/CFT evaluation, including for the money service business sector; (v) and addressing the high and rising dollarization in the economy, with a mix of macroeconomic and macro-prudential policies (see Box 4 in the Staff Report for the 13th Review Under the Extended Arrangement). Addressing dollarization will help build resilience to FX shocks and reinforce the interest rate channel of monetary policy (Box 2).

D. Strengthening domestic debt markets

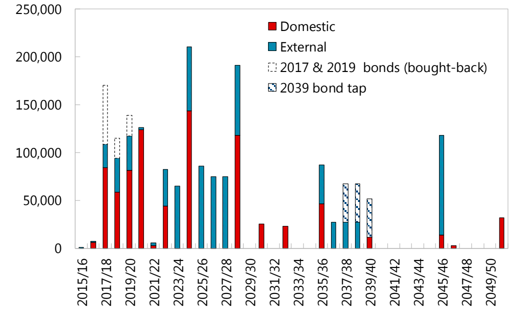
27. The authorities are cognizant of the importance of prudent active debt management for fiscal sustainability, financial stability, and a successful move to inflation targeting. Reform priorities will be to:

- Enhance coordination between MOF and BOJ to exploit complementarities and avoid competition between debt and monetary policy objectives. Jointly develop a comprehensive strategy for dealing with the upcoming large domestic maturities, including possible liability management operations (LMOs) to smooth out the amortization profile, minimize refinancing risk, and enhance liquidity in benchmark instruments. In this regard, the successful LMO in the international market in August 2016 has helped reduce the refinancing risk stemming from 2017–19 external debt amortizations.

- Enhance price transparency and bond market liquidity by re-introducing an auction-based mechanism for primary issuances and upgrading the primary dealer system to include market-making obligations in GOJ bonds.

- Revise the collateral policy for liquidity provision (by amending the BOJ Act) to better reflect the risk and market value of underlying assets. A more granular approach to the treatment of government securities would increase the collateral value of T-bills and BOJ CDs and enhance their attractiveness.

Redemption Profile of Bonds
(August 2016, in J$ million)



E. Structural reforms to raise potential growth

28. The broader growth agenda is being led by the recently created Ministry of Economic Growth and Job Creation, which has established an Economic Growth Council (EGC), in conjunction with international development partners. The EGC, which includes private sector and union representatives, has prepared a set of proposals to reboot the growth agenda. Efforts will be focused on eight key areas: (i) maintaining macroeconomic stability and pursuing debt-reduction strategies, (ii) improving citizen security, (iii) enhancing access to finance, (iv) improving the business environment, (v) pursuing asset sales and privatization, (vi) building human capital, (vii) better harnessing the power of the diaspora, and (viii) catalyzing the implementation of strategic projects. Some key measures will include (MEFP ¶5):

- Reviewing and reforming legislative arrangements, resource allocation, community outreach, and the court system with a view to strengthen citizen security arrangements and tackle corruption.
- Exploring the scope for selling government assets and using those proceeds for debt reduction.
- Reducing red tape and bureaucracy, including improving the turnaround time for building approvals, business registration, paying taxes, international trade, and government procurement process.
- Moving ahead on privatizations and public-private partnerships (PPPs), including by establishing a dedicated team that will work on privatizations and PPPs.
- Exploring the feasibility to establish an investment vehicle to encourage and facilitate diaspora direct investments into Jamaica.

29. The EGC also envisages reforms to enhance access to finance as a key growth priority. Reforms to be undertaken in partnership with the World Bank and IDB will include (MEFP ¶17):

- Establishing the Financial Inclusion Council (*structural benchmark end-March 2017*) to implement the umbrella financial inclusion strategy.

- Accelerating the current program for land titling and create a registry of collateral that could be used to expand access to credit.
- Developing markets for agency banking services, mobile money products, and factoring and leasing.
- Tabling the Micro Credit Act in Parliament.
- Expanding the scale and range of the partial guarantee program of the Development Bank of Jamaica.
- In addition, the competitiveness and regulatory foundations of the banking sector are to be reviewed to improve access to finance without compromising stability of the financial system.

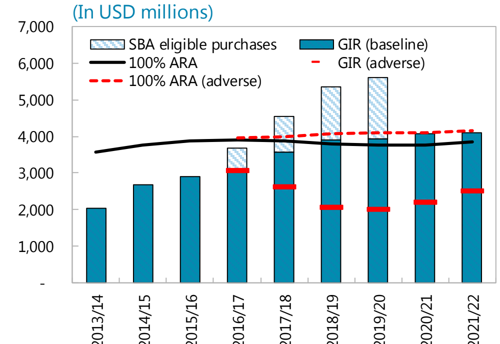
F. Improving Data Standards

30. The SBA will support Jamaica's subscription to the Fund's Special Data Dissemination Standard (Box 3). An IMF joint e-GDDS/SDDS assessment later this year will provide a step-by-step path towards SDDS subscription, which would also outline future TA needs. A focus on improving both the timeliness and periodicity of labor market statistics will greatly enhance the timely understanding of the economy.

PROGRAM MODALITIES AND FINANCING

31. Access and financing. Under an adverse scenario of higher oil prices, lower capital inflows and lower tourism receipts, and even after allowing for a substantial depreciation of the REER, gross reserves could fall by US$1.7 billion (Box 4). Access under the program is calibrated to ensure that with steady implementation of policies, even in such an adverse scenario, SBA resources could be drawn down to ensure that gross reserves remain at nearly 100 percent of the IMF's reserve adequacy metric. The authorities also anticipate that financial support from the Fund will help catalyze financing from the IDB with significant new loan commitments for the duration of the program, with about US$200 million to be available in the first year. The authorities believe that the precautionary nature of the program will provide important insurance for potential balance of payments pressures in the event of a negative external shock and will also facilitate a progressive graduation from IMF balance of payments support.

Gross Reserves and SBA Purchases
(In USD millions)



32. Phasing and reviews. Disbursements were phased to ensure that, upon approval of the program, gross reserves plus eligible purchases under the SBA would reach close to a 100 percent of the Fund's ARA metric. This implies an initial tranche equivalent to SDR 300.1 million (78 percent of quota), followed by two tranches equivalent to SDR 126 million (33 percent of quota) in the first year of the program. To further strengthen domestic program ownership, reviews will be 6-monthly with indicative targets in the intervening quarters. This would imply reporting to the Executive Board every six months and staff visits in alternating quarters, with a beginning test date of December 2016.

33. Program conditionality are proposed as follows:

- Quantitative Performance Criteria (QPC) floors on (i) the primary balance of the central government, and (ii) the overall balance of the public sector.

- QPCs ceilings on (i) contracting of new central government-guaranteed debt, and (ii) the accrual of domestic and tax refund arrears. A continuous QPC is also on the non-accumulation of external debt payment arrears.

- Indicative targets on spending on social programs and tax revenues (both floors), and a ceiling on the total loan value of user-funded PPPs.

- An indicative target on the contracting of new non-guaranteed debt by public bodies. This extension of conditionality to include public bodies (not covered under the EFF definition) aligns debt conditionality with the definition of public debt in the FRL, which includes all consolidated central government and public bodies' debt, excluding the BOJ.

- A QPC floor on non-borrowed NIR.

- A monetary policy consultation clause linked to an inflation band of 5.5 percent +/- 3.5 percent for the June 2017 and December 2017 test dates, which then narrows for the rest of the program to 5.5 +/- 2.5 percent. For the December 2016 test date, an asymmetric band of 5.5 +3.5/-4.5 percent is proposed to take into account that inflation is currently very low.

- The former QPC in the extended arrangement on central government direct debt is not retained for the stand-by arrangement, as the QPC on the central government primary balance adequately covers this source of debt accumulation.

34. The program is fully financed and staff's assessment of Jamaica's capacity to repay the Fund remains adequate.

- In the baseline scenario, Jamaica's capacity to repay is good.

- If the adverse scenario were to materialize and a drawing under the SBA were to occur under those circumstances, then peak debt service would be equivalent to 14 percent of exports of goods and services or 4.9 percent of GDP. In this

Public Borrowing Program
(In US$ million)

	2015/16	2016/17	2017/18	2018/19
Financing Needs	2676	1522	1229	956
Uses of debt financing				
Budget financing [1/]	2676	1522	1229	956
Financing Sources				
Short-Term	168	306	235	244
Medium/Long-Term	2381	1319	864	868
Deposits drawdown	127	-103	130	-155

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

scenario, the SBA resources would play a critical role in strengthening Jamaica's reserves and ensuring that debt service would peak at around 16 percent of international reserves.

- Although Jamaica has debt outstanding to the Fund, it has never had arrears to the Fund, and places high priority on meeting its obligations. As with the Extended Arrangement, commitment to reform policies is strong, and program implementation that is supported by broad societal ownership and public support for the reforms is expected to continue.

35. Safeguards assessment. An update of the safeguards assessment will occur before the first review. The last update assessment was completed in 2013 and found that the BOJ has relatively strong safeguards. While progress has been made in implementing most recommendations from that assessment, the recommendation to improve the autonomy of the BOJ through legal reforms remains outstanding.

STAFF APPRAISAL

36. Despite significant achievements supported by the extended arrangement, continued reform is needed for Jamaica to sustainably raise the living standards of its population. Macroeconomic stability is entrenched but growth remains low, unemployment and debt are high, and the level of poverty needs to be brought down. There are a multitude of factors why growth and welfare have not improved as much as expected under the extended arrangement: the high wage bill is crowding out more productive spending, access to finance is low , and social challenges such as crime hinder growth. Moreover, as a small open economy, Jamaica remains vulnerable to external shocks, including natural disasters, weak tourism inflows, and higher oil prices. Indeed, the recent narrow miss of Jamaica by Hurricane Matthew illustrates the vulnerabilities and highlights the value of external insurance for an economy such as Jamaica.

37. The government is committed to implementing reforms to further reduce vulnerabilities, raise growth and job creation, and achieve better social outcomes. The authorities are requesting support under a Stand-By Arrangement for these efforts and view the IMF financial support as insurance for potential balance of payments pressures since intend to treat the arrangement as precautionary. Key goals of the program are: (i) boosting growth, employment, and providing greater support for the poor; (ii) continuing the reduction of public debt, (iii) reprioritizing and redefining the role of the public sector to create space for growth-enhancing capital spending and an expansion of the social safety net, (iv) continue to build an operational toolkit for an eventual move to inflation targeting with a flexible, market-determined exchange rate (v) further strengthening financial resilience.

38. A steady path of debt reduction is critical for success. Maintaining a primary surplus of 7 percent of GDP during the program period will ensure that debt remains firmly on a downward path consistent with reaching the FRL's target of public debt of 60 percent of GDP by FY2025/26. The revenue-neutral shift toward indirect taxation will also help make the tax system more growth-friendly.

39. Public spending needs to shift from wages to infrastructure and social spending. A structural shift is necessary in Jamaica's budget to streamline the public sector, improve efficiency and accountability, and strengthen controls over public sector employment and compensation. Furthermore, resources released from wage spending can then be redirected towards growth-enhancing capital expenditures and protecting the most vulnerable, with positive consequences for socioeconomic outcomes.

40. A stronger safety net will support inclusive and equitable growth. Benefit increases will help mitigate potential adverse effects on the poor arising from the shift to indirect taxation. Nevertheless, Jamaica needs to do more to alleviate poverty by improving the targeting and coverage of the existing conditional cash transfer program. There is also a need for a vigorous implementation of the graduation strategy to enhance skills and move people out of social support and into productive employment.

41. The central bank should steadily move to an inflation targeting framework underpinned by continued exchange rate flexibility. This transition would imply an increase in the BOJ's operational autonomy, a shift to an overnight policy rate, and improving macroeconomic modeling and forecasting. In this context, reserve accumulation should gradually shift from borrowed reserves to market-based FX purchases through FX auctions (with FX sales limited to periods of high currency market volatility).

42. Steps have been identified to improve financial sector resilience. Measures to strengthen the resolution framework, enhance the regulatory and supervisory regimes of the financial sector including for AML/CFT, address balance sheet risks of securities dealers, and counter rising dollarization will be key to minimizing systemic risks.

43. Steps should also be taken to promote greater access to credit and financial inclusion. These include accelerating land titling, assessing the adequacy of banking sector competition, and developing agency and mobile banking products.

44. Raising Jamaica's medium-term growth potential requires the implementation of a range of supply side reforms. As the public sector refocuses and streamlines its functions, a stronger private sector will be essential. Policies should address growth bottlenecks and the agenda proposed by the Economic Growth Council is the right one. A failure to boost growth and employment could jeopardize social cohesion and weaken support for the government's policy plans.

45. Staff supports the authorities' request for a Stand-By Arrangement. In view of the country's recent track record and authorities' commitment to reforms and maintaining an open dialog with the Fund, staff supports the request for the precautionary Stand-By Arrangement.

Box 1. Jamaica's Social Spending (PATH Program)

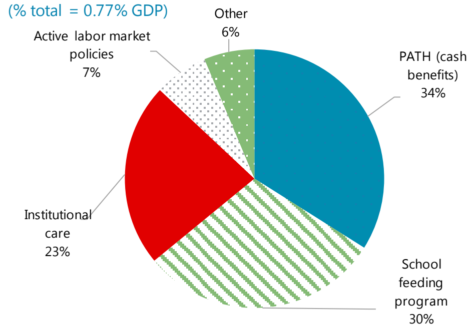
The Programme of Advancement through Health and Education (PATH) is a conditional cash transfer program created in 2001, as part of wide reforms of the social protection system. The program targets vulnerable households, including: (i) pregnant and lactating mothers, (ii) children (school age and younger), (iii) the elderly without pensions, and (iv) disabled adults. PATH's cash transfers account for ¼ percent of GDP, providing benefits to 350,000 individuals. Also linked to PATH, the school feeding program (another ¼ percent of GDP) provides at least three meals a week to approximately 389,000 school children, out of which 200,000 are PATH beneficiaries.

PATH Benefits and Beneficiaries

	Monthly benefit (J$)	% of total beneficiaries
Pregnant and lactating mothers	1,190	0.5
Children < school age	1,000	26.6
Children grades 1-6	1,045	23.7
Children grades 7-9	1,400	14.9
Children grades 10-13	1,600	8.4
Adults < 65	1,190	2.6
Adults > 65	1,725	16.7
People with disabilities	1,190	3.7
Poor relief	1,190	3.0

Composition of Social Welfare Expenditures

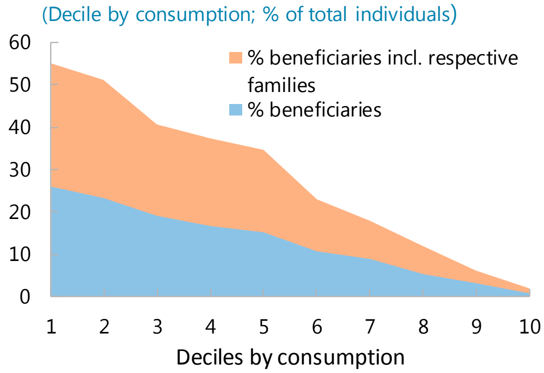
(% total = 0.77% GDP)



PATH eligibility is based on a proxy means tested formula. The formula takes into account characteristics which are linked to vulnerability, including education, dwelling quality, location, and assets. Once a household is deemed eligible, benefits are disbursed to the targeted beneficiaries in the categories above. In order to receive full support, pregnant mothers and children below school age must visit health clinics, while school-aged children must attend school. Benefits range from J$1,000 to J$1,725 per compliant beneficiary, per month. Households are recertified every 4 years for continued eligibility.

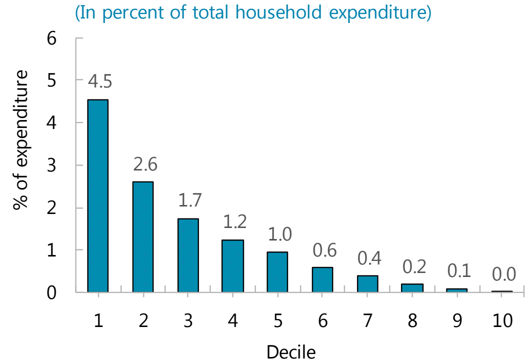
PATH Recipients in Each Decile

(Decile by consumption; % of total individuals)



PATH Benefits

(In percent of total household expenditure)

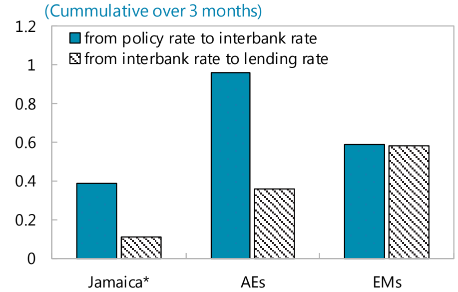


The benefit level and coverage of PATH are insufficient. In the bottom decile of consumption, only 58 percent live in a household that receives PATH benefits. Coverage is especially weak among persons with disabilities where only 10 percent of them in the bottom decile live in a PATH recipient household. For families receiving benefits, their levels are low – less than 5 percent of household expenditures in the bottom decile. Meanwhile, coverage among higher deciles does not decline quickly enough, with a quarter of households in the 6th decile still receiving PATH benefits.

Box 2. Strengthening Monetary Transmission Mechanism in Jamaica

Strengthening the monetary transmission mechanism is an integral part of the authorities' reform efforts. The ability of monetary policy to influence the economy, however, critically depends on how quickly and completely the BOJ's policy rate is transmitted to the lending and deposit rates. Staff analysis points to weaknesses in Jamaica's monetary transmission mechanism, with the pass-through from changes to the policy rate to bank lending rate being particularly low, especially following the two debt restructurings (see Box 4 of June 2016 Article IV Consultation; the chart shows results from estimating an autoregressive distributed lag model using monthly interest rate data from 2005-2015).

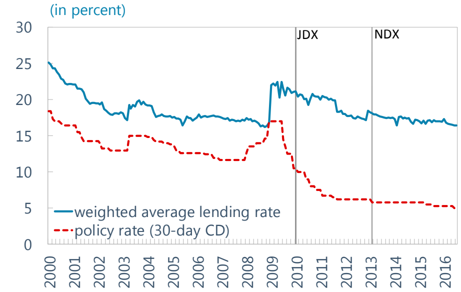
Interest Rate Passthrough
(Cummulative over 3 months)



* 2005 - 2015

There could be multiple explanations for the weak monetary transmission in Jamaica. These include fiscal dominance, high and rising dollarization of public and private balance sheets, limited competition in the banking sector, uneven excess liquidity among banks, and underdeveloped interbank FX and money market. The pursuit of multiple, often conflicting monetary policy objectives, in part due to gaps in BOJ governance and autonomy, hurts credibility and mutes the policy signal. Finally, the bond market is yet to fully recover from the two debt restructurings, and secondary market trading remains shallow, resulting in poor price discovery.

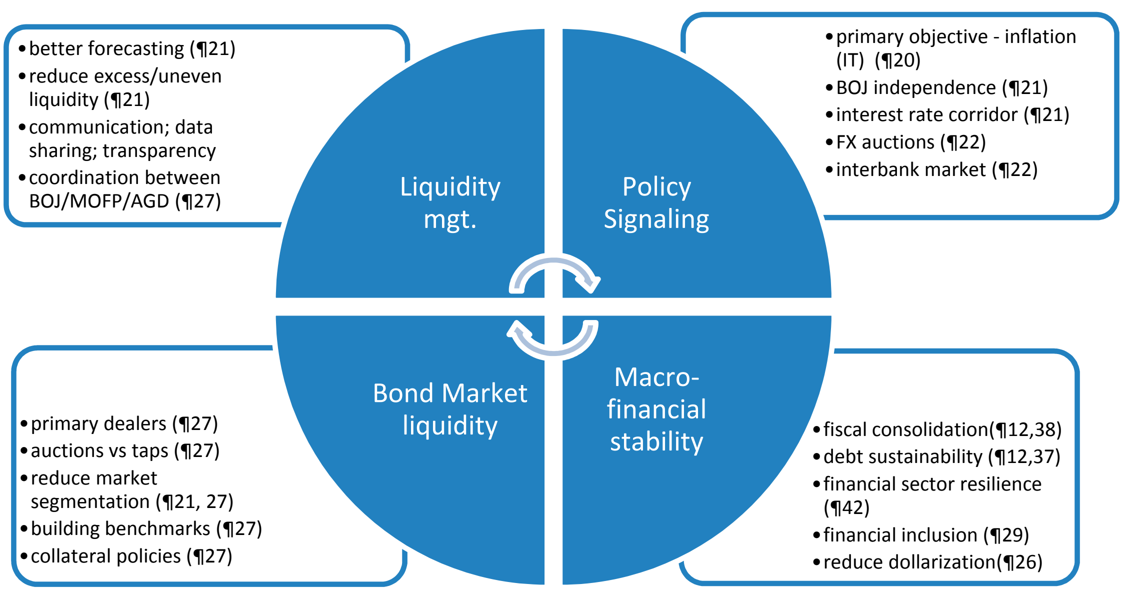
Policy and Lending Rates
(in percent)



Sources: BOJ and staff calculations

A range of reforms under the SBA will be tasked with improving the monetary policy transmission mechanism by addressing these challenges. The figure below describes the four main pillars of the reforms, their interrelationship, and links them to the action plan described in the report.

Four Pillars of Reforms to Strengthen Monetary Transmission



Box 3. SDDS Progress

Summary of SDDS Observance

SDDS Data Category	Meets SDDS?	Periodicity		Timeliness	
		SDDS	JAM	SDDS	JAM
Real Sector					
National accounts	Yes	Q	Q	1Q	1Q
Production index Production Statistics.	No	M	A,Q	6W	10W
Labor market: Employment	No	Q	SA	1Q	5M
Labor market: Unemployment	No	Q	Q	1Q	4M
Labor market: Wages/Earnings	No	Q	A	1Q	6M
Price index: Consumer prices	Yes	M	M	1M	15D
Price index: Producer prices	Yes	M	M	1M	1M
Fiscal Sector (Specifications)					
Central government operations	Yes	M	M	1M	1M
Central government debt Public Sector Debt	Yes	Q	M	1Q	1M
Financial Sector					
Depository corporations survey Monetary aggregates	Yes	M	M	1M	M
Central bank survey Base money	Yes	M	M	2W	2W
Interest rates	Yes	D	D,M	1D	1D
Stock market: Share price index	Yes	D	D	1D	1D
External Sector					
Balance of payments	No	Q	A,M	1Q	6-9M
Official reserve assets	Yes	M	M	1W	7D
Merchandise trade	No	M	M	8W	3M
External debt	Yes	Q	M	1Q	1M
Exchange rates	Yes	D	D	1D	D
Socio-demographic Data					
Population	NA	A	NA	...	NA

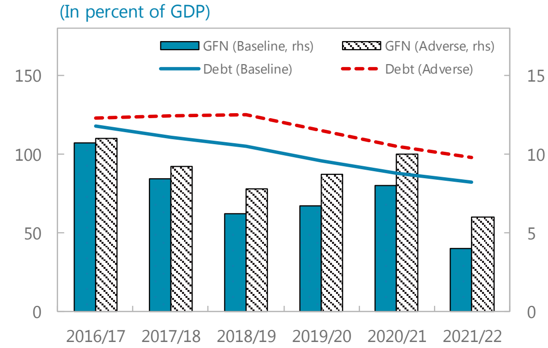
Periodicity and timeliness: (D) daily; (W) weekly; (M) monthly; (Q) quarterly; (A) annually; (SA) semiannual; and (NA) not applicable.

Box 4. Illustrative Adverse Scenario

This illustrative scenario shows that access at 312 percent of quota (SDR 1.1953 billion or about US$1.7 billion) can be justified under a plausible downside scenario.

- **Tourism receipts.** In the baseline, travel receipts are projected to reach about US$2.6 bn in FY2017/18. A significant slowdown in the U.S. economy, an escalation in crime, or spillovers from the continued normalization of US-Cuba relations could generate a large drop in Jamaica's tourism receipts. Thus, the adverse scenario assumes a 22 percent drop in travel receipts for FY2017/18, in line with the largest observed drop and equivalent to 2 standard deviations from the distribution of annual percent change in total travel receipts. These flows are assumed to gradually return to the baseline path by 2020/21.
- **Foreign direct investment.** Given that a significant portion of FDI goes to tourism-related projects, a gloomier outlook for the sector would also dampen prospects for FDI to Jamaica. A 30 percent decline in FDI inflows for two consecutive years (FY2016/17 and FY2017/18) and a slow recovery is assumed for the adverse scenario, in line with the decline registered following the 2008/09 global financial crisis. FDI inflows are assumed to return to the baseline path by FY2019/20.
- **Oil prices.** In the baseline, oil prices in FY2016/17, FY2017/18 and FY2018/19 are at US$44.9, US$51.3, and US$53.4 per barrel, respectively. In the adverse scenario, these prices increase instead to around US$48, US$67, and US$79 in each of the respective years. From FY2019/20 onwards, prices return to the baseline WEO path.
- **GDP growth, debt, and GFN.** The higher oil prices, lower FDI and tourism receipts will impose a drag on the economy, bringing down GDP growth in FY2016/17-FY2019/20 from an average of about 2.3 percent to 1.3 percent over those four years. Growth rates are assumed to return to the baseline starting in FY2020/21. Debt is 15 percentage points higher by FY2021/22 and gross financing needs increase by about 2 percent of GDP in the outer years.

Debt and Gross Financing Needs
(In percent of GDP)



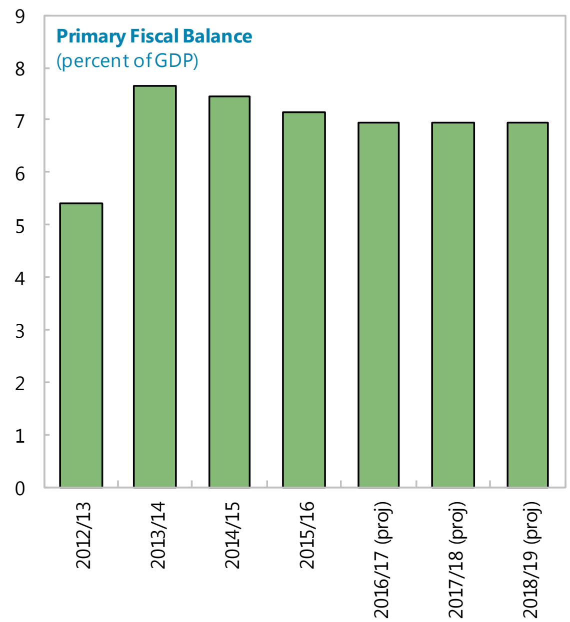
- **Exchange rate and inflation.** Over FY2016/17-FY2018/19 in the adverse scenario, the cumulative exchange rate depreciation is expected to be nearly 40 percent, significantly higher than experienced in recent episodes of adverse external shocks, and inflation is expected to be about 2 percentage points higher on average over those years. The REER depreciates by between 9 and 3 percent in FY2016/17-FY2018/19.

Adverse Scenario

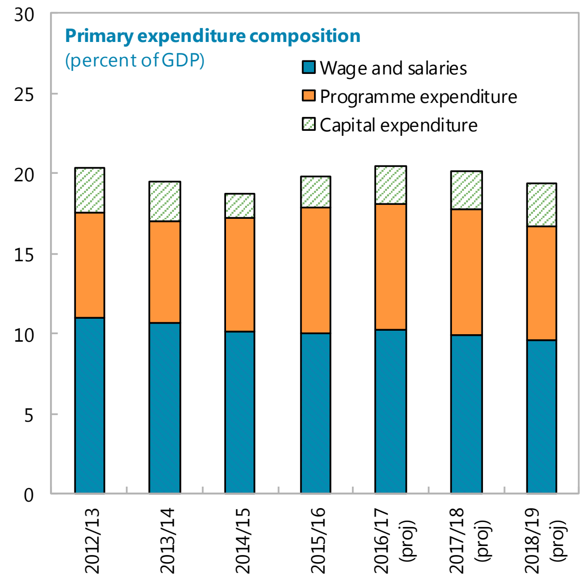
	2016/17		2017/18		2018/19	
	Baseline	Shock	Baseline	Shock	Baseline	Shock
Current account balance (% GDP)	-2.8	-2.0	-2.8	-9.0	-2.8	-9.5
Capital and financial account (% GDP)	3.6	3.4	6.1	5.2	5.4	5.5
FDI, net (% GDP)	5.9	4.6	4.5	3.3	4.2	4.1
Portfolio flows central gov (net, % GDP)	-1.2	-0.5	1.2	1.3	-0.1	-0.2
Gross Reserves (mn US$)	3,094	3,075	3,561	2,637	3,898	2,369
ARA metric (mn US$)	3,899	3,950	3,887	3,994	3,789	4,073
Difference of reserves relative to 100% ARA (mn US$)	(806)	(875)	(326)	(1,357)	110	(1,704)
Memo item:						
Real GDP growth (%)	1.7	1.5	2.1	1.2	2.5	0.5

Figure 1. Jamaica: Fiscal Developments

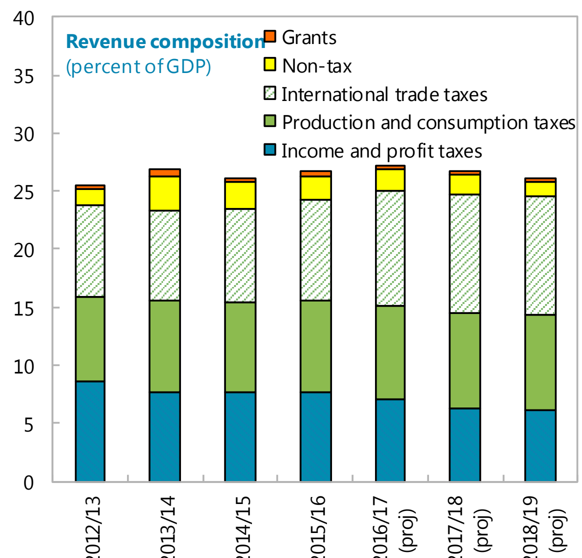
The primary fiscal balance remains strong at over 7 percent of GDP for the fourth year in a row....



... partly due to ongoing expenditure restraints in capital outlay and wages....



...and sustained improvements in revenue performance.



Gross financing needs, after the spike in FY2015/16 are expected to be along historical norms.

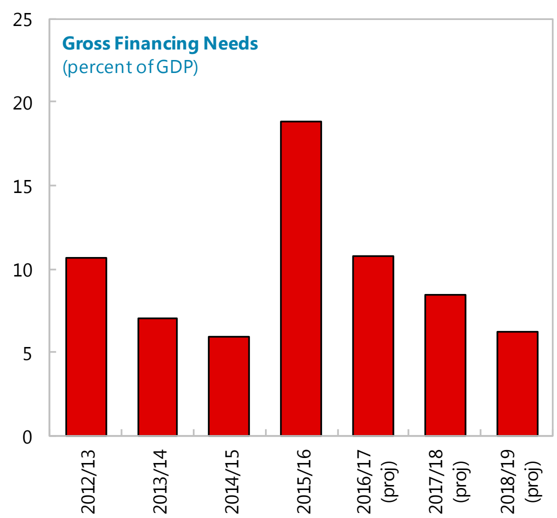
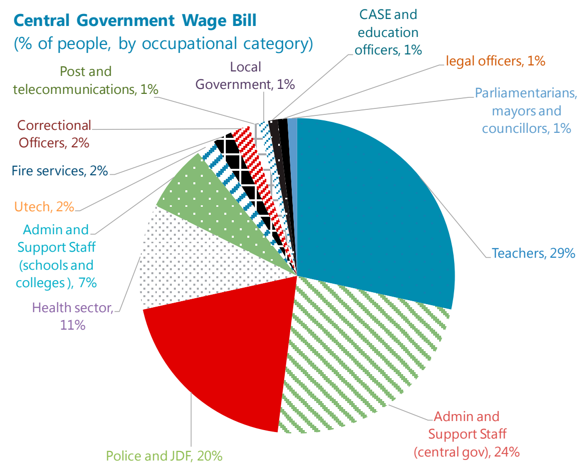
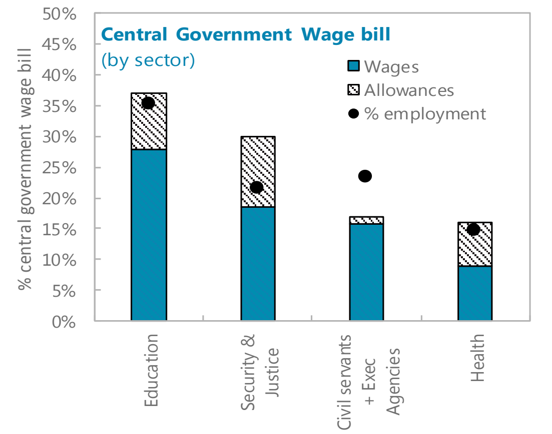


Figure 2. Jamaica: Public Sector

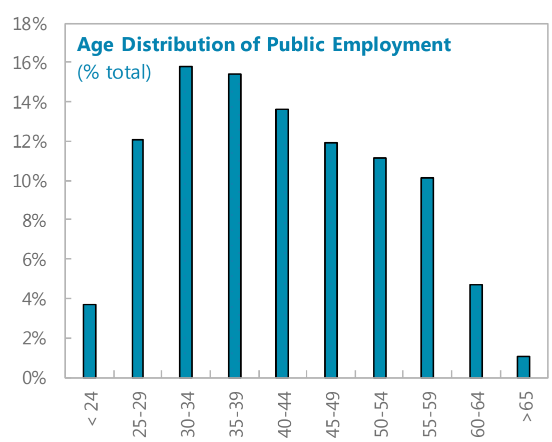
Teachers and civil servants make up a sizable portion of the public sector employees…



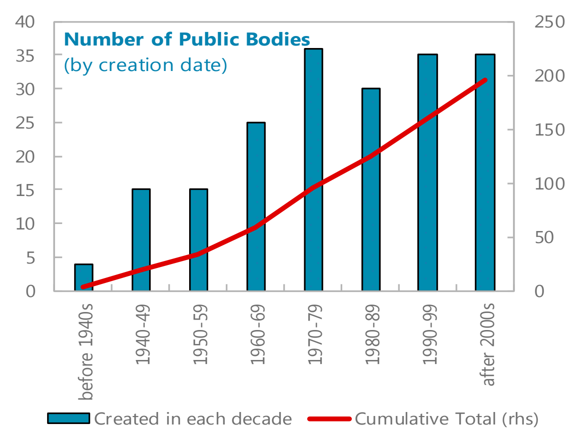
Allowances feature heavily for all except civil servants, but especially prominent in health.



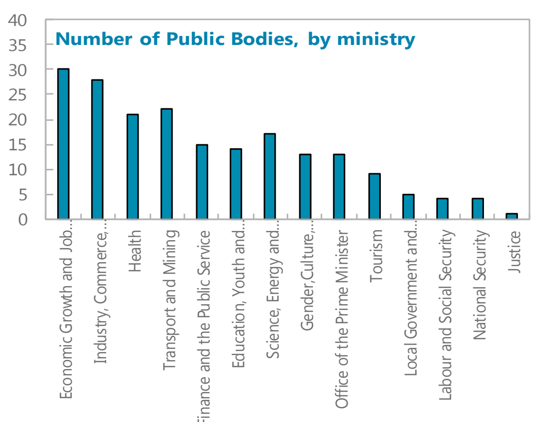
About 5 percent of employees are over the age of 60.



The number of public bodies has grown significantly in recent decades…



… with public bodies spread out across many ministries…



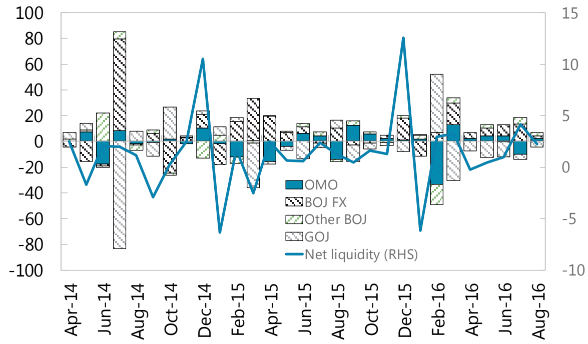
… with many being too small to reap economies of scale.

Source: Ministry of Finance and the Public Service and Fund staff calculations.

Figure 3. Jamaica: Monetary and Financial Indicators

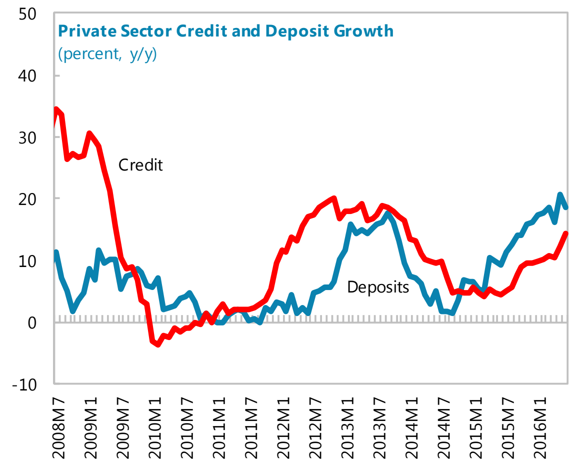
Liquidity conditions have eased in recent months.

Aggregate Liquidity Conditions
(In flows, J$billion)

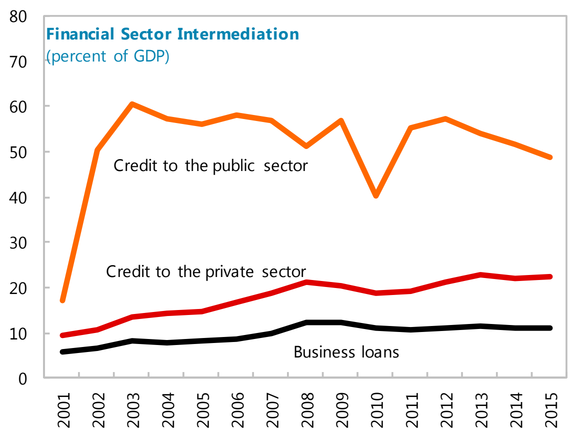


Sources: BOJ and IMF staff estimations

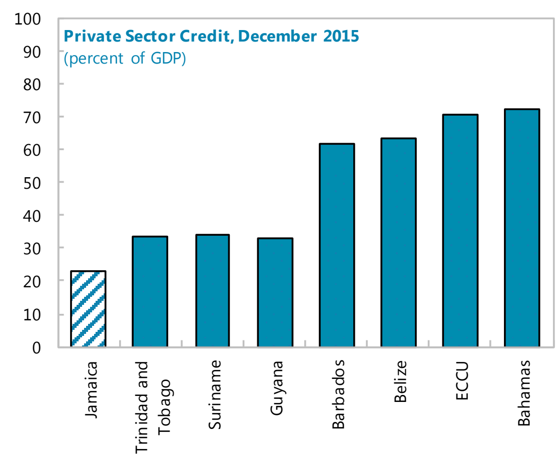
Credit to the private sector has been growing...



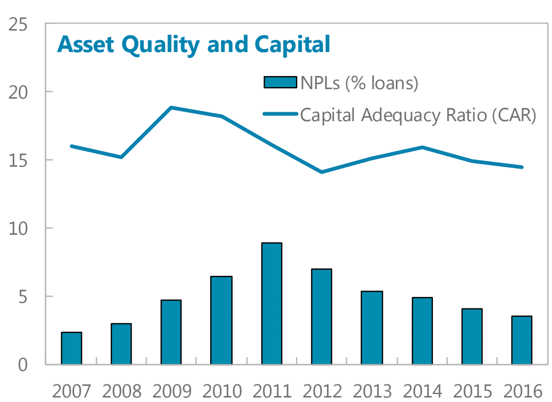
... albeit from a low base...



... even by regional standards

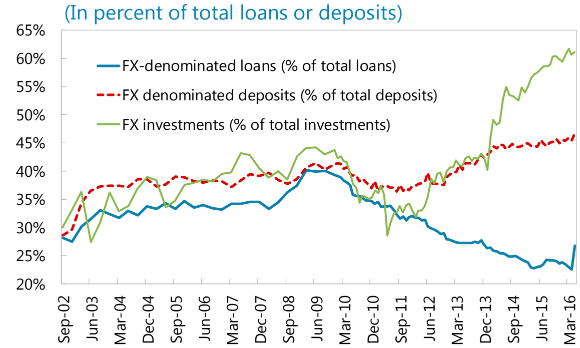


NPLs remain low and capital is adequate...



... although dollarization is rising

Financial System's Dollarization in Jamaica
(In percent of total loans or deposits)



Sources: Bank of Jamaica 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$4967
Literacy rate (2011)/Poverty rate (2012): 86.4%/19.9%
Unemployment rate (Apr. 2016): 13.7%

			Prel.	Projections					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
(Annual percent change, unless otherwise indicated)									
GDP and prices									
Real GDP	1.0	0.2	1.1	1.7	2.1	2.5	2.7	2.8	2.8
Nominal GDP	9.2	7.5	7.6	4.6	7.4	8.1	8.3	8.5	8.5
Consumer price index (end of period)	8.3	4.0	3.0	4.8	5.5	5.5	5.5	5.5	5.5
Consumer price index (average)	9.4	7.2	3.4	2.9	5.2	5.5	5.5	5.5	5.5
Exchange rate (end of period, J$/US$)	109.6	115.0	122.0	...	...	...	...	...	...
Exchange rate (average, J$/US$)	103.9	113.1	118.8	...	...	...	...	...	...
Nominal depreciation (+), end-of-period	10.8	5.0	6.1	...	...	...	...	...	...
End-of-period REER (appreciation +) (INS)	-4.7	7.4	-2.4	...	...	...	...	...	...
End-of-period REER (appreciation +) (new methodology) 2/	-3.5	-0.2	-2.4	...	...	...	...	...	...
Treasury bill rate (end-of-period, percent)	9.1	7.0	5.8	...	...	...	...	...	...
Treasury bill rate (average, percent)	7.9	7.8	6.3	...	...	...	...	...	...
Unemployment rate (percent) 3/	13.4	14.2	13.3	...	...	...	...	...	...
(In percent of GDP)									
Government operations									
Budgetary revenue	27.1	26.2	27.0	27.4	27.1	26.4	26.2	26.0	25.9
Of which: Tax revenue 4/	23.6	23.6	24.5	25.4	25.0	24.8	24.8	24.8	24.7
Budgetary expenditure	27.0	26.7	27.2	28.0	26.8	26.0	25.4	25.3	25.0
Primary expenditure	19.5	18.7	19.8	20.5	20.1	19.4	19.2	19.5	19.4
Of which: Wages and salaries	10.1	9.7	9.6	9.6	9.4	9.0	8.9	8.7	8.7
Interest payments	7.5	8.0	7.4	7.6	6.7	6.6	6.2	5.8	5.6
Budget balance	0.1	-0.5	-0.3	-0.6	0.2	0.4	0.7	0.7	0.9
Of which: Central government primary balance	7.6	7.5	7.1	7.0	7.0	7.0	7.0	6.5	6.5
Public entities balance	0.0	0.9	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	0.1	0.4	1.6	-0.6	0.2	0.4	0.7	0.7	0.9
Public debt (FRL definition) 4/ 6/	...	...	...	118.3	110.8	105.3	95.8	88.0	82.2
Public debt (EFF definition) 5/ 7/	140.5	137.6	120.2	123.9	115.7	108.4	99.0	90.6	84.0
External sector									
Current account balance	-8.7	-7.0	-1.8	-2.8	-2.8	-2.8	-2.9	-3.3	-3.6
Of which: Exports of goods, f.o.b.	10.6	10.1	8.4	8.3	8.3	8.0	7.8	7.7	7.5
Exports of services	14.3	15.5	14.8	15.6	14.7	14.1	13.6	13.3	13.0
Imports of goods, f.o.b.	37.5	36.3	29.9	31.8	32.2	31.6	31.0	30.6	30.1
Imports of services	18.8	19.8	19.5	21.2	21.4	21.0	20.6	20.3	20.0
Net international reserves (US$ millions)	1,304	2,294	2,416	2,536	3,019	3,419	3,556	3,815	3,967
of which: non-borrowed	714	1,335	1,470	1,570	2,163	2,615	2,805	3,065	3,417
(Changes in percent of beginning of period broad money)									
Money and credit									
Net foreign assets	18.7	27.9	10.0	5.7	13.9	11.7	5.7	8.1	5.8
Net domestic assets	-12.6	-22.3	8.7	-1.1	-6.5	-3.6	2.7	0.3	2.7
Of which: Credit to the private sector	8.2	3.1	8.2	8.4	9.1	9.6	10.1	10.6	11.1
Credit to the central government	-3.1	-15.2	5.5	-2.0	2.3	-2.2	-0.3	-1.2	-2.1
Broad money	6.1	5.7	18.7	4.6	7.4	8.1	8.3	8.5	8.5
Memorandum item:									
Nominal GDP (J$ billions)	1,462	1,572	1,691	1,769	1,899	2,054	2,225	2,413	2,617

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/ Consolidated central government and public bodies' debt, consistent with the Fiscal Responsibility Law.
5/ Central government direct debt, guaranteed debt, and debt holdings by PCDF, consistent with the definition used under the EFF approved in 2013
6/ Consistent with the Fiscal Responsibility Law (FRL), implementation of the FRL-consistent debt definition began in FY16/17. A backward series is not available since consistent data on public bodies' debt holdings is not available prior to FY16/17.
7/ The decrease in debt in FY15/16 partly reflects the PetroCaribe buyback operation that generated an immediate 10 percentage point reduction in debt. The increase in debt in FY16/17 partly reflects prefinancing for FY17/18 maturities.

Table 2. Jamaica: Summary of Central Government Operations

(In millions of Jamaican dollars)

			Prel.	Projections					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Budgetary revenue and grants	396,982	411,716	455,836	485,438	513,909	542,072	582,082	627,793	678,340
Tax	344,848	370,878	413,971	448,641	475,717	509,448	551,203	597,854	647,389
Of which:									
Income and profits	112,648	120,854	130,760	125,581	118,157	127,090	138,495	150,116	163,981
Of which: Other companies	35,155	35,903	42,282	46,119	50,008	55,700	60,953	68,089	76,061
PAYE	62,811	67,818	71,966	62,424	49,730	52,281	57,697	61,474	66,671
Production and consumption	115,214	120,421	133,557	141,183	157,354	168,284	182,334	199,966	216,576
Of which: GCT (Local)	61,265	63,995	72,745	76,865	83,347	89,228	96,677	107,995	117,125
International Trade	113,892	127,238	144,706	176,415	194,377	207,827	223,671	240,576	259,104
Of which: GCT (Imports)	51,238	58,471	65,806	77,534	84,071	91,367	99,985	109,522	119,968
Non-tax 1/	41,705	35,821	36,401	31,223	31,567	27,705	25,668	24,288	24,822
Grants	10,429	5,018	5,463	5,574	6,625	4,918	5,211	5,652	6,129
Budgetary expenditure	395,242	419,491	460,720	496,122	509,766	534,589	565,607	611,263	654,645
Primary expenditure	285,322	294,474	335,040	362,307	381,718	399,123	427,200	470,919	508,203
Compensation of employees	159,662	162,128	172,628	181,141	188,980	197,170	211,405	224,451	243,426
Wage and salaries	146,995	152,563	162,026	170,341	178,080	185,185	198,556	210,808	228,630
Employer contributions	9,366	9,565	10,601	10,800	10,900	11,985	12,850	13,643	14,796
Programme expenditure	91,972	112,697	133,506	138,065	148,104	146,499	155,710	169,238	181,018
Capital expenditure	36,989	23,019	32,747	43,100	44,634	55,454	60,084	77,230	83,759
Interest	109,919	125,016	125,680	133,815	128,048	135,466	138,407	140,345	146,441
Domestic	68,729	75,756	71,391	62,996	59,366	56,768	57,698	56,559	59,214
External	41,191	49,260	54,288	70,819	68,682	78,697	80,709	83,786	87,227
Budget balance	1,740	-7,775	-4,884	-10,684	4,143	7,483	16,475	16,530	23,695
Of which: Primary budget balance	111,659	117,242	120,796	123,131	132,191	142,948	154,882	156,874	170,136
Public entities balance	106	13,749	31,199	0	0	0	0	0	0
Public sector balance	1,846	5,975	26,315	-10,684	4,143	7,483	16,475	16,530	23,695
Principal repayments	105,196	85,283	312,923	179,580	164,177	135,847	166,093	209,583	128,873
Domestic	77,695	25,285	216,043	31,141	94,572	78,124	107,020	162,078	38,884
External	27,501	59,999	96,881	148,440	69,605	57,723	59,074	47,505	89,989
Gross financing needs	103,456	93,058	317,807	190,264	160,034	128,365	149,618	193,054	105,178
Gross financing sources	103,456	93,058	317,807	190,264	160,034	128,365	149,618	193,054	105,178
Domestic	52,211	42,306	34,978	76,618	51,409	94,129	62,153	124,189	74,834
Of which: compensatory flows from PCDF	…	…	5,938	14,477	15,075	15,549	16,005	16,490	17,002
External	57,619	116,944	267,766	126,528	91,701	55,095	66,734	47,505	47,719
Of which: Official	57,619	40,059	30,231	34,006	41,268	38,671	36,003	14,240	14,682
Divestment + deposit drawdown	-6,374	-66,193	15,063	-12,881	16,924	-20,859	20,731	21,360	-17,375
Memorandum items:									
Nominal GDP (billion J$)	1,462	1,572	1,691	1,769	1,899	2,054	2,225	2,413	2,617
Public sector debt (FRL definition, billion J$) 2/ 4/	…	…	…	2,094	2,104	2,164	2,132	2,124	2,152
Of which: Direct debt	…	…	…	2,053	2,067	2,103	2,086	2,061	2,066
Public sector debt (EFF definition, billion J$) 3/ 5/	2,054	2,163	2,033	2,192	2,197	2,227	2,203	2,187	2,198

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ From 2015/16, includes interest receipts from the PetroCaribe Development Fund to reimburse funds from the PetroCaribe debt buyback.
2/ Consolidated central government and public bodies' debt, consistent with the Fiscal Responsibility Law.
3/ Central government direct debt, guaranteed debt, and debt holdings by PCDF, consistent with the definition used under the EFF approved in 2013
4/ Consistent with the Fiscal Responsibility Law (FRL), implementation of the FRL-consistent debt definition began in FY16/17. A backward series is not available since consistent data on public bodies' debt holdings is not available prior to FY16/17.
5/ The decrease in debt in FY15/16 partly reflects the PetroCaribe buyback operation that generated an immediate 10 percentage point reduction in debt. The increase in debt in FY16/17 partly reflects prefinancing for FY17/18 maturities.

Table 3. Jamaica: Summary of Central Government Operations

(In percent of GDP)

			Prel.	Projections					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Budgetary revenue and grants	27.1	26.2	27.0	27.4	27.1	26.4	26.2	26.0	25.9
Tax	23.6	23.6	24.5	25.4	25.0	24.8	24.8	24.8	24.7
Of which:									
Income and profits	7.7	7.7	7.7	7.1	6.2	6.2	6.2	6.2	6.3
Of which: Other companies	2.4	2.3	2.5	2.6	2.6	2.7	2.7	2.8	2.9
PAYE	4.3	4.3	4.3	3.5	2.6	2.5	2.6	2.5	2.5
Production and consumption	7.9	7.7	7.9	8.0	8.3	8.2	8.2	8.3	8.3
Of which: GCT (Local)	4.2	4.1	4.3	4.3	4.4	4.3	4.3	4.5	4.5
International Trade	7.8	8.1	8.6	10.0	10.2	10.1	10.1	10.0	9.9
Of which: GCT (Imports)	3.5	3.7	3.9	4.4	4.4	4.4	4.5	4.5	4.6
Non-tax 1/	2.9	2.3	2.2	1.8	1.7	1.3	1.2	1.0	0.9
Grants	0.7	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Budgetary expenditure	27.0	26.7	27.2	28.0	26.8	26.0	25.4	25.3	25.0
Primary expenditure	19.5	18.7	19.8	20.5	20.1	19.4	19.2	19.5	19.4
Compensation of employees	10.9	10.3	10.2	10.2	9.9	9.6	9.5	9.3	9.3
Wage and salaries	10.1	9.7	9.6	9.6	9.4	9.0	8.9	8.7	8.7
Employer contribution	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Programme expenditure	6.3	7.2	7.9	7.8	7.8	7.1	7.0	7.0	6.9
Capital expenditure	2.5	1.5	1.9	2.4	2.4	2.7	2.7	3.2	3.2
Interest	7.5	8.0	7.4	7.6	6.7	6.6	6.2	5.8	5.6
Domestic	4.7	4.8	4.2	3.6	3.1	2.8	2.6	2.3	2.3
External	2.8	3.1	3.2	4.0	3.6	3.8	3.6	3.5	3.3
Budget balance	0.1	-0.5	-0.3	-0.6	0.2	0.4	0.7	0.7	0.9
Of which: Primary budget balance	7.6	7.5	7.1	7.0	7.0	7.0	7.0	6.5	6.5
Public entities balance	0.0	0.9	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	0.1	0.4	1.6	-0.6	0.2	0.4	0.7	0.7	0.9
Principal repayments	7.2	5.4	18.5	10.2	8.6	6.6	7.5	8.7	4.9
Domestic	5.3	1.6	12.8	1.8	5.0	3.8	4.8	6.7	1.5
External	1.9	3.8	5.7	8.4	3.7	2.8	2.7	2.0	3.4
Gross financing needs	7.1	5.9	18.8	10.8	8.4	6.2	6.7	8.0	4.0
Gross financing sources	7.1	5.9	18.8	10.8	8.4	6.2	6.7	8.0	4.0
Domestic	3.6	2.7	2.1	4.3	2.7	4.6	2.8	5.1	2.9
Of which : compensatory flows from PCDF	...	...	0.4	0.8	0.8	0.8	0.7	0.7	0.6
External	3.9	7.4	15.8	7.2	4.8	2.7	3.0	2.0	1.8
Of which: Official	3.9	2.5	1.8	1.9	2.2	1.9	1.6	0.6	0.6
Divestment + deposit drawdown	-0.4	-4.2	0.9	-0.7	0.9	-1.0	0.9	0.9	-0.7
Memorandum items:									
Nominal GDP (billion J$)	1,462	1,572	1,691	1,769	1,899	2,054	2,225	2,413	2,617
Public sector debt (FRL definition,billion J$) 2/ 4/	...	...	...	2,094	2,104	2,164	2,132	2,124	2,152
Public sector debt (EFF definition,billion J$) 3/	2,054	2,163	2,033	2,192	2,197	2,227	2,203	2,187	2,198
Public sector debt (FRL definition) 2/ 4/	...	...	...	118.3	110.8	105.3	95.8	88.0	82.2
Of which: Direct debt	...	...	...	116.1	108.8	102.4	93.7	85.4	78.9
Public sector debt (EFF definition) 3/ 5/	140.5	137.6	120.2	123.9	115.7	108.4	99.0	90.6	84.0

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ From 2015/16, includes interest receipts from the PetroCaribe Development Fund to reimburse funds from the PetroCaribe debt buyback.

2/ Consolidated central government and public bodies' debt, consistent with the Fiscal Responsibility Law.

3/ Central government direct debt, guaranteed debt, and debt holdings by PCDF, consistent with the definition used under the EFF approved in 2013

4/ Consistent with the Fiscal Responsibility Law (FRL), implementation of the FRL-consistent debt definition began in FY16/17. A backward series is not available since consistent data on public bodies' debt holdings is not available prior to FY16/17.

5/ The decrease in debt in FY15/16 partly reflects the PetroCaribe buyback operation that generated an immediate 10 percentage point reduction in debt. The increase in debt in FY16/17 partly reflects prefinancing for FY17/18 maturities.

Table 4. Jamaica: Summary Balance of Payments

(In millions of U.S. dollars)

				Projections					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Current account	-1,231	-978	-259	-393	-409	-429	-465	-557	-633
Trade balance	-3,778	-3,647	-3,062	-3,330	-3,485	-3,609	-3,725	-3,883	-4,033
Exports (f.o.b.)	1,495	1,401	1,192	1,170	1,207	1,225	1,261	1,297	1,331
Imports (f.o.b.)	5,274	5,047	4,253	4,500	4,692	4,835	4,986	5,180	5,364
Fuel (cif)	2,158	1,759	1,016	1,001	1,212	1,291	1,358	1,435	1,497
Exceptional imports (including FDI-related)	322	294	485	502	482	472	472	472	472
Other	2,794	2,995	2,752	2,997	2,997	3,071	3,155	3,272	3,394
Services (net)	669	790	968	1,056	1,135	1,193	1,246	1,288	1,332
Transportation	-702	-635	-576	-630	-635	-650	-669	-694	-720
Travel	1,915	2,105	2,211	2,277	2,355	2,435	2,517	2,602	2,691
Of which: Tourism receipts	2,096	2,314	2,451	2,523	2,611	2,701	2,795	2,893	2,994
Other services	-544	-680	-668	-591	-585	-591	-602	-621	-640
Income (net) 4/	-318	-351	-493	-523	-528	-536	-539	-544	-545
Current transfers (net)	2,197	2,229	2,328	2,404	2,469	2,523	2,553	2,583	2,613
Government (net)	204	150	182	186	190	194	198	202	206
Private (net)	1,993	2,079	2,146	2,218	2,279	2,329	2,355	2,381	2,407
Capital and financial account	1,649	1,968	279	514	892	829	602	816	785
Capital account (net)	-26	-19	1,421	-28	-28	-28	-28	-28	-28
Financial account (net) 1/	1,675	1,987	-1,142	542	920	857	630	844	813
Direct investment (net)	511	595	917	840	650	650	680	720	750
Central government (net) 5/	241	600	1,611	-175	170	-20	55	0	-188
Of which: IFIs	376	181	231	217	250	250	250	100	100
Other official (net) 2/ 5/	356	78	-2,851	-63	-40	-34	-33	2	-4
Of which: PetroCaribe	369	161	-2,932	30	41	47	47	45	43
Portfolio investment (net)	567	714	-820	-60	140	260	-73	122	255
Overall balance	418	990	20	120	483	400	137	259	152
Financing	-418	-990	-20	-120	-483	-400	-137	-259	-152
Change in gross reserves (- increase)	-330	-641	-205	-200	-467	-337	-39	-142	-28
Change in arrears	0	0	0	0	0	0	0	0	1
Financing gap	-88	-349	185	79	-16	-63	-97	-117	-124
IMF 3/	-26	-163	74	79	-16	-63	-97	-117	-124
Disbursements	346	259	119	79	0	0	0	0	0
Repayments	-372	-422	-45	0	-16	-63	-97	-117	-124
Memorandum items:									
Gross international reserves	2,049	2,690	2,894	3,129	3,596	3,933	3,973	4,115	4,143
(in weeks of prospective imports of GNFS)	14.4	19.3	23.5	24.5	27.2	28.9	28.3	28.2	27.4
Net international reserves	1,304	2,294	2,416	2,536	3,019	3,419	3,556	3,815	3,967
of which: non-borrowed	714	1,335	1,470	1,570	2,163	2,615	2,805	3,065	3,417
Current account (percent of GDP)	-8.7	-7.0	-1.8	-2.8	-2.8	-2.8	-2.9	-3.3	-3.6
Exports of goods (percent change)	-14.2	-6.3	-14.9	-1.8	3.2	1.5	2.9	2.8	2.6
Imports of goods (percent change)	-7.3	-4.3	-15.7	5.8	4.3	3.0	3.1	3.9	3.5
Oil prices (composite, fiscal year basis)	102.1	84.9	48.8	44.9	51.3	53.4	54.9	56.6	57.6
Tourism receipts (percent change)	2.0	10.4	5.9	2.9	3.5	3.5	3.5	3.5	3.5
GDP (US$ millions)	14,080	13,902	14,238	…	…	…	…	…	…
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 5. Jamaica: Summary Accounts of the Bank of Jamaica 1/

	2013/14	2014/15	2015/16	Projections 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**	**294**	**325**	**400**	**466**	**499**	**552**	**591**
Net domestic assets	**-48**	**-163**	**-174**	**-202**	**-263**	**-315**	**-336**	**-375**	**-400**
Net claims on public sector	195	112	45	100	96	82	97	121	100
Net claims on central government	75	17	40	27	44	23	44	65	48
Net claims on rest of public sector	130	102	-5	75	57	66	62	64	63
Operating losses of the BOJ	-10	-8	10	-2	-5	-8	-8	-8	-11
Net credit to commercial banks	-21	-24	-28	-20	-22	-24	-26	-28	-30
Of which : foreign prudential reserve	-21	-24	-28	-20	-22	-24	-26	-28	-30
Net credit to other financial institutions	-2	-2	-2	-2	-2	-3	-3	-3	-3
Open market operations	-31	-39	-58	-132	-173	-195	-213	-256	-238
Other items net (incl. valuation adj.)	-189	-210	-130	-148	-162	-176	-191	-209	-228
Of which: Valuation adjustment	-61	-70	-75	-92	-106	-120	-136	-154	-173
Base money	**94**	**101**	**120**	**123**	**137**	**150**	**163**	**177**	**192**
Currency in circulation	54	59	70	59	63	66	70	73	77
Liabilities to commercial banks	41	42	50	64	74	84	93	103	114
Fiscal year flows 1/									
Net foreign assets	**55.4**	**121.0**	**30.4**	**30.4**	**75.0**	**66.0**	**33.0**	**52.9**	**39.8**
Net domestic assets	-52.3	-114.4	-11.4	-27.8	-61.0	-52.1	-20.5	-39.1	-24.9
Net claims on public sector	-17.7	-82.6	-66.9	55.2	-4.2	-14.5	15.8	23.5	-21.2
Net claims on central government	-7.4	-57.4	22.5	-12.9	16.9	-20.9	20.7	21.4	-17.4
Net credit to commercial banks	-1.5	-2.5	-4.6	8.0	-1.3	-2.0	-2.0	-2.2	-2.5
Net credit to other financial institutions	0.0	-0.1	-0.6	0.0	-0.2	-0.1	-0.2	-0.1	-0.2
Open market operations	23.8	-8.3	-19.1	-73.8	-41.3	-21.7	-18.4	-42.6	18.2
Other items net (incl. valuation adj.)	-56.9	-20.8	79.8	-17.4	-14.0	-13.9	-15.7	-17.7	-19.2
Base money	**3.1**	**6.7**	**18.9**	**2.5**	**14.0**	**13.9**	**12.6**	**13.8**	**14.9**
Currency in circulation	3.0	4.9	11.7	-11.8	4.3	3.2	3.5	3.8	4.0
Liabilities to commercial banks	0.2	1.7	7.2	14.3	9.7	10.6	9.0	10.0	10.9
	(Change in percent of beginning-of-period Base Money)								
Net foreign assets	**60.7**	**128.2**	**30.0**	**25.3**	**61.2**	**48.3**	**22.0**	**32.5**	**22.5**
Net domestic assets	**-57.3**	**-121.1**	**-11.3**	**-23.2**	**-49.8**	**-38.2**	**-13.6**	**-24.0**	**-14.1**
Net claims on public sector	-19.4	-87.4	-66.2	46.0	-3.4	-10.6	10.5	14.4	-12.0
Net credit to commercial banks	-1.7	-2.6	-4.5	6.7	-1.1	-1.4	-1.4	-1.4	-1.4
Net credit to other financial institutions	0.1	-0.1	-0.6	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Open market operations	26.0	-8.8	-18.9	-61.5	-33.7	-15.9	-12.2	-26.1	10.3
Other items net (incl. valuation adj.)	-62.3	-22.1	78.9	-14.5	-11.4	-10.2	-10.5	-10.9	-10.9
Base money	**3.4**	**7.0**	**18.7**	**2.1**	**11.4**	**10.2**	**8.3**	**8.5**	**8.5**
Currency in circulation	3.3	5.2	11.6	-9.9	3.5	2.4	2.3	2.3	2.3
Liabilities to commercial banks	0.2	1.8	7.2	12.0	7.9	7.8	6.0	6.1	6.2
Memorandum items:									
Change in net claims on the central government (percent of GDP)	-0.5	-3.7	1.3	-0.7	0.9	-1.0	0.9	0.9	-0.7

Sources: Bank of Jamaica; and Fund staff estimates.

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

Table 6. Jamaica: Summary Monetary Survey 1/

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
				Projections					
	(In billions of Jamaican dollars)								
End-of-period stocks 1/									
Net foreign assets	**191**	**309**	**353**	**383**	**459.4**	**528.7**	**564.9**	**621.2**	**664.7**
Net domestic assets	**229**	**136**	**174**	**169**	**132.8**	**111.7**	**128.9**	**131.3**	**151.4**
Net claims on public sector	268	188	118	181	170.4	158.7	145.7	132.3	112.9
Of which: Central government 2/	173	109	134	123	135.8	122.9	121.2	113.2	97.6
Open market operations	18	14	15	-91	-135.5	-178.9	-215.7	-255.0	-326.0
Credit to private sector	326	339	376	420	470.6	527.4	592.2	665.9	749.7
Of which: Foreign currency	84	77	84	89	92.3	95.5	98.8	102.4	106.1
Other	-383	-407	-335	-341	-372.7	-395.5	-393.3	-411.9	-385.1
Of which: Valuation adjustment	-61	-70	-75	-89	-99.8	-110.9	-123.4	-137.1	-151.8
Liabilities to private sector (M3)	**421**	**444**	**527**	**552**	**592.2**	**640.4**	**693.9**	**752.5**	**816.1**
Money supply (M2)	261	273	310	325	350.5	376.8	407.6	441.5	477.4
Foreign currency deposits	160	171	217	227	241.7	263.6	286.2	311.1	338.7
Fiscal year flows 1/									
Net foreign assets	**74.1**	**117.4**	**44.3**	**29.9**	**76.6**	**69.3**	**36.3**	**56.3**	**43.5**
Net domestic assets	**-50.0**	**-93.6**	**38.6**	**-5.5**	**-36.0**	**-21.1**	**17.2**	**2.4**	**20.1**
Net claims on public sector	-25.4	-79.5	-70.5	63.5	-10.9	-11.7	-12.9	-13.5	-19.4
Of which: Central government	-12.4	-63.9	24.3	-10.6	12.6	-12.9	-1.7	-8.0	-15.6
Open market operations	54.4	-3.8	0.7	-106.4	-44.2	-43.4	-36.9	-39.3	-71.0
Credit to private sector	32.3	13.2	36.5	44.3	50.4	56.8	64.8	73.7	83.7
Of which: Foreign currency	2.4	-7.3	7.7	4.6	3.5	3.1	3.3	3.6	3.7
Other 2/	-111.3	-23.5	72.0	-6.9	-31.2	-22.9	2.2	-18.6	26.7
Of which: Valuation adjustment	-3.9	-8.9	-5.4	-13.8	-11.2	-11.1	-12.4	-13.7	-14.7
Liabilities to private sector (M3)	**24.1**	**23.8**	**82.9**	**24.3**	**40.6**	**48.2**	**53.5**	**58.7**	**63.6**
Money supply (M2)	8.4	12.7	37.2	14.3	25.7	26.4	30.8	33.8	36.0
Foreign currency deposits	15.7	11.1	45.7	10.0	14.9	21.8	22.7	24.8	27.6
	(Change in percent of beginning-of-period M3)								
Net foreign assets	**18.7**	**27.9**	**10.0**	**5.7**	**13.9**	**11.7**	**5.7**	**8.1**	**5.8**
Net domestic assets	**-12.6**	**-22.3**	**8.7**	**-1.1**	**-6.5**	**-3.6**	**2.7**	**0.3**	**2.7**
Net claims on public sector	-6.4	-18.9	-15.9	12.0	-2.0	-2.0	-2.0	-1.9	-2.6
Of which: Central government	-3.1	-15.2	5.5	-2.0	2.3	-2.2	-0.3	-1.2	-2.1
Open market operations	13.7	-0.9	0.2	-20.2	-8.0	-7.3	-5.8	-5.7	-9.4
Credit to private sector	8.2	3.1	8.2	8.4	9.1	9.6	10.1	10.6	11.1
Of which: Foreign currency	0.6	-1.7	1.7	0.9	0.6	0.5	0.5	0.5	0.5
Other 2/	-28.1	-5.6	16.2	-1.3	-5.7	-3.9	0.3	-2.7	3.6
Of which: Valuation adjustment	-1.0	-2.1	-1.2	-2.6	-2.0	-1.9	-1.9	-2.0	-1.9
Liabilities to private sector (M3)	**6.1**	**5.7**	**18.7**	**4.6**	**7.4**	**8.1**	**8.3**	**8.5**	**8.5**
Memorandum items:									
M3/monetary base	4.5	4.4	4.4	4.5	4.3	4.3	4.3	4.3	4.3
M3 velocity	3.5	3.5	3.2	3.2	3.2	3.2	3.2	3.2	3.2

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 7. Jamaica: Financial Sector Indicators 1/

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016Q2
Balance sheet growth (y/y)										
Capital	11.5	14.7	13.8	5.1	5.3	4.0	18.3	7.4	8.5	11.9
Loans	28.7	24.2	5.3	-1.4	4.8	12.9	14.1	6.6	9.4	19.9
NPLs	14.2	57.6	68.0	36.1	44.0	-10.8	-12.9	0.2	-11.6	-4.1
Liquidity										
Domestic currency liquid assets 2/	25.0	30.3	31.3	36.2	30.5	26.7	26.3	31.5	26.5	24.8
Asset Quality										
Prov. for loan losses/NPLs	103.4	87.2	75.7	69.9	75.2	90.3	95.7	101.6	106.7	111.5
NPLs/loans	2.3	2.9	4.7	6.5	8.9	7.0	5.4	5.0	4.1	3.5
Capital Adequacy										
NPLs/Capital+Prov. for loan losses	9.1	12.3	17.7	20.2	28.4	24.1	18.6	17.4	14.6	13.3
Capital Adequacy Ratio (CAR)	16.0	15.2	18.8	18.2	16.1	14.1	15.1	15.9	14.9	14.5
Profitability (calendar year) 3/										
Pre-tax profit margin	26.7	26.3	21.4	21.1	30.8	21.4	19.0	18.9	19.5	31.0
Return on average assets	3.4	3.5	2.9	2.5	3.9	2.4	2.0	2.1	2.1	0.9

Source: Bank of Jamaica.

1/ Commercial banks, building societies, and merchant banks.
2/ Percent of prescribed liabilities
3/ 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.

Table 8. Jamaica: New Structural Program Conditionality

	Structural Benchmarks	Timing
Fiscal Reforms		
1	The new rates and bands for property taxes using the 2013 land valuations will be completed and submitted to Cabinet.	December 31, 2016
Monetary policy and financial sector		
2	Operationalize Financial System Stability Committee by finalizing the appointment of two external members.	November 30, 2016
3	Issue for public comment a consultation paper for the resolution framework, developed with support from IMF TA, which describes the draft legislation.	February 28, 2017
4	Establish a financial inclusion council to implement the Cabinet-approved umbrella financial inclusion strategy for the period 2016-20.	March 31, 2017
5	Instituting mechanisms to ensure full compliance with the provisions of the Securities (Retail Repurchase Agreement) Regulations that require "retail repos" to be governed by a MRRA that is signed by both the dealer and the client.	May 30, 2017
6	To enhance the BoJ's governance framework, submit revisions of the BOJ Act to Parliament to improve central bank governance and independence, in line with IMF recommendations. The revisions will modernize arrangements for paying dividends, appointments to the BOJ Board, and provisions of central bank financing to the government.	September 30, 2017
Public Sector Transformation		
7	Build a comprehensive database—by occupational grouping and that includes all types of allowances paid, their amounts as well as the number of employees receiving each type of allowance in a given fiscal year—across ministries, departments, and agencies to ensure adequate control and oversight over this part of the wage bill. Pilots for the Ministry of Finance and the Public Service, the Ministry of Health (medical professionals), Ministry of Education, Youth, and Information (teaching groups) and the Jamaica Constabulary Force (police groups) are ongoing. The dabase for all entities in the central government wage bill will be completed by March 2017	March 31, 2017
8	Complete an employee verification exercise. Island-wide pilots at the Ministry of Finance and the Public Service, the civilian population of the police department, the NIS, and the non-teaching personnel at the Ministry of Education are ongoing. The verification for all entities in the central government wage bill will be finalized by March 2017.	March 31, 2017
9	The creation and application of strict unambiguous rules for the decisions of the Post Operations Committee regarding all types of employment including acting. These rules are to establish a percentage reduction rate which effectively controls the rate of employment and creates a sharp downward trajectory whilst ensuring that the public sector is properly resourced.	March 31, 2017
10	Informed by the compensation review results from end-March 2017, submit public sector wage negotiation framework to Cabinet for approval.	April 30, 2017
11	Identify positions that will be affected due to the implementation of shared corporate services in human resources and quantify the implications through the development of a costed transition plan and schedule.	May 30, 2017
12	Identify positions that will be affected due to the implementation of shared corporate services in Public Relations and Communications, and Internal Audit and quantify the implications through the development of a costed transition plan and schedule.	November 30, 2017

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

(In billions of Jamaican dollars unless otherwise stated)

	2016	2017			
	Performance Criteria	Indicative Target	Performance Criteria	Indicative Target	Indicative Target
	End-Dec	end-Mar	end-June	end-Sep	end-Dec
Fiscal targets					
Performance Criteria					
1. Primary balance of the central government (floor) 3/	54.0	123.0	13.4	38.1	61.0
2. Overall balance of the public sector (floor) 3/	-51.5	-17.2	-41.4	-46.9	-55.0
3. Net increase in the central government guaranteed debt (ceiling) 3/	0.0	0.0	0.0	0.0	0.0
4. Central government accumulation of domestic arrears (ceiling) 4/ 10/ 11/	0.0	0.0	0.0	0.0	0.0
5. Central government accumulation of tax refund arrears (ceiling) 5/ 10/ 11/	0.0	0.0	0.0	0.0	0.0
6. Consolidated government accumulation of external debt payment arrears (ceiling) 4/ 10/	0.0	0.0	0.0	0.0	0.0
Indicative targets					
7. Tax revenues of the central government (floor) 3/ 7/	300.0	440.0	100.0	218.0	330.0
8. Change in the stock of public bodies non-guaranteed debt (ceiling) 7/ 12/	-1.0	2.3	7.6	-7.0	-4.1
9. Central government spending on social programs (floor) 3/ 7/ 8/	16.4	24.3	5.0	10.2	17.3
10. Total loan value of all user funded PPPs (ceiling, percent of GDP)	3.0	3.0	3.0	3.0	3.0
Monetary targets					
11. Stock of non-borrowed net international reserves (floor) 6/ 9/	1,428	1,475	1,521	1,637	1,777
12. *Monetary policy consultation clause (in percent)*					
Upper band	9.0	9.0	9.0	9.0	9.0
Center inflation target	5.5	5.5	5.5	5.5	5.5
Lower band	1.0	2.0	2.0	2.0	2.0

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Based on program exchange rates defined in the November 2016 TMU.
3/ Cumulative flows from April 1 through March 31.
4/ Includes debt payments, supplies and other committed spending as per contractual obligations; full definition in November 2016 TMU.
5/ Includes tax refund arrears as stipulated by law.
6/ In millions of U.S. dollars.
7/ Indicative target.
8/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes (defined in TMU).
9/ Stock of BOJ NIR minus all foreign currency CDs to domestic residents.
10/ Continuous performance criterion.
11/ The accumulation is measured against the stock at end-March 2016, which is J$21.0 billion for domestic arrears and J$17.3 billion for tax arrears.
12/ For end-Dec 2016 and end-Mar 2017, these are cumulative flows from October 1, 2016. For subsequent dates, these are cumulative flows from April 1, 2017.

Table 10. Jamaica: Indicators of Fund Credit, 2016-27

(In millions of SDRs, unless otherwise specified)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Prospective drawings (4-year EFF)	84.96	...	...	...	...	...	...	...	...	...	...	...
(in percent of quota)	22.19	...	...	...	...	...	...	...	...	...	...	...
Prospective drawings (3-year SBA)	300.10	252.00	321.60	321.60	...	...	...	...	...	...	...	...
(in percent of quota)	78.38	65.81	83.99	83.99								
(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/												
Amortization	0.00	11.40	37.11	64.80	296.73	449.57	397.32	322.93	136.42	28.32	9.44	0.00
Amortization (4-year EFF)	0.00	11.40	37.11	64.80	83.68	93.12	93.12	81.73	56.02	28.32	9.44	0.00
Amortization (3-year SBA)	0.00	0.00	0.00	0.00	213.05	356.45	304.20	241.20	80.40	0.00	0.00	0.00
Interest and service charges	1.43	14.60	22.67	31.59	39.37	27.83	11.33	4.24	1.36	0.33	0.07	0.00
GRA surcharges	0.00	4.66	9.92	15.93	22.98	14.95	2.95	0.00	0.00	0.00	0.00	0.00
SDR charges and assessments	0.01	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Total debt service	2.95	27.30	61.44	98.05	336.16	477.46	408.71	327.22	137.83	28.70	9.56	0.05
(in percent of exports of G&S) 2/	0.10	1.04	2.18	3.24	10.38	14.15	11.48	8.90	3.63	0.73	0.22	0.00
(in percent of GDP) 2/	0.03	0.30	0.71	1.12	3.64	4.91	4.00	3.05	1.22	0.24	0.07	0.00
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings) 1/												
Outstanding stock	858.83	1,099.43	1,383.93	1,640.73	1,343.99	894.42	497.10	174.18	37.76	9.44	0.00	0.00
(in percent of quota)	224.30	287.13	361.43	428.50	351.00	233.59	129.83	45.49	9.86	2.47	0.00	0.00
(in percent of GDP) 2/	9.18	12.20	16.04	18.68	14.54	9.20	4.87	1.62	0.34	0.08	0.00	0.00
Memorandum items:												
Exports of goods and services (US$ millions) 2/	4,388.38	3,915.53	4,202.50	4,514.96	4,826.61	5,030.65	...	...	...	...	...	...
Debt service as percent of baseline exports	0.10	0.90	1.96	3.03	10.05	13.82	...	...	...	...	...	... ..
Quota	382.90	382.90	382.90	382.90	382.90	382.90	382.90	382.90	382.90	382.90	382.90	382.90

Source: Fund staff estimates.

1/ Assumes that all eligibile purchases under the SBA would be made.

2/ Based on exports of goods and services and GDP under the illustrative adverse scenario.

Table 11. Jamaica: Proposed Schedule of Reviews and Purchases

Available on or after	Amount of Purchase: SDR millions	Amount of Purchase: % Quota	Conditions 1/
November 11, 2016	300.1	78	Approval of Arrangement
March 15, 2017	126.0	33	First Review and end-December 2016 performance criteria
September 15, 2017	126.0	33	Second Review and end-June 2017 performance criteria
March 15, 2018	160.8	42	Third Review and end-December 2017 performance criteria
September 15, 2018	160.8	42	Fourth Review and end-June 2018 performance criteria
March 15, 2019	160.8	42	Fifth Review and end-December 2018 performance criteria
September 15, 2019	160.8	42	Sixth Review and end-June 2019 performance criteria
Total	1195.3	312	

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

Annex I. 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 FY2013/2014 and FY2015/16, public debt has fallen by about 20 percent of GDP to 120 percent of GDP. Under the current baseline projections, public debt would be reduced to 96 percent of GDP at end-March 2020, equals to the 96 percent marker set at the start of the program. The slight rise in debt-to-GDP ratio between 2015/16 and 2016/17 is driven by exchange rate movements and a higher level of issuances in the domestic bond market which reopened after a three year freeze. With the government fully financed for 2016/17, proceeds from the domestic bond issuances are contributing to prefinance large 2017/18 maturities; the issuances also help maintain a consistent presence in the bond market (in line with Fund advice).

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. **Continued debt reduction will be achieved through sustaining a 7 percent of GDP primary balance throughout the program.** Although realism test shows that Jamaica is an outlier in terms of 3-year average level of CAPB in Figure A1.2, maintaining a 7 percent of GDP primary balance is an achievable goal. Over the past 25 years Jamaica has averaged a primary surplus that was above 7 percent of GDP, despite which debt has increased because of materialization of contingent liabilities in public bodies—which the EFF has tried to address—as well as the deep financial crisis in the 1990s which added about 40 percent of GDP to public debt, compounded by low growth and a high interest burden.

[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.

4. The Fiscal Responsibility Law (FRL)-consistent definition implies a debt path which is over 5 percentage points of GDP lower than the EFF definition. The debt definition under the 2013 extended arrangement under the extended arrangement captured central government direct debt, debt guarantees by the central government, and PetroCaribe debt. Under the proposed SBA and in line with the authorities' 2014 FRL, public debt is now consolidated to cover all public bodies, excluding the central bank and public bodies deemed of a commercial nature by the Auditor General (of which there are currently none). Given the netting out of significant cross-holdings of public debt and the exclusion of central bank holdings of non-budget support IMF loans, preliminary data point a debt level under the FRL definition which is about 5 percentage points of GDP lower than the public debt implied by the EFF definition in FY2016/17-FY2017/18. In the long term, the FRL-consistent debt path is projected to approach the EFF one as net public body debt increases and central bank holdings decline. This definitional change affects the DSA presentation, generating a reduction in the gross public debt ratio in 2016 (Figure A1.1, A1.3, A1.4), whereas the debt ratio in 2016 under the EFF definition is projected to rise .

5. 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 A1.5),[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 FRL.

- **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 0.5 and 0.9 percent in these two years, respectively. Public debt would rise to about 102 percent of GDP by end-March 2020, 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 105 percent at end-March 2020, if it is subject to a one-time increase in non-interest expenditures equivalent to 10 percent of the

[3] The scenario of fiscal slippages 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).

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 A1.1).** 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 104 percent of GDP at end-March 2020, even absent a contingent liability shock.

- **The heat map shows improved market sentiment, while the proportion of foreign currency denominated debt remains high.** The market perception has significantly improved since last DSA as the average EMBIG spread dropped by over 160 bps to 532 bps, well below the upper risk-assessment benchmark of 600 bps. Stronger market confidence is also reflected in the successful international bond buyback transaction in August, which largely reduces the upcoming external debt repayments in 2017/18-2019/20 by about $780mn. The domestic issuance plan contemplated by the authorities in the next three fiscal years plus the fiscal surplus should be able to meet the large domestic repayment needs. A large part of the new issuance will be medium to long term bonds. However, the proportion of foreign currency denominated debt remains high (¶8).

6. 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.

- ***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.

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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).

- ***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 101 percent of GDP at end-March 2020. In light of frequent natural disasters, it is important to build sizable and lasting fiscal buffers to cover the cost of future disasters.

7. Further development 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

8. 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 A1.4). External debt is now estimated at around 68 percent of GDP in FY2016/17, about 4 percentage points of GDP higher than in FY2013/14. The foreign-currency denominated debt accounts for about 61 percent of total debt. As illustrated in Figure A1.5, 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.

9. There are risks related to PetroCaribe financing with the expectation of long-lasting low oil prices and increasing uncertainty of oil shipment from Venezuela. Given that oil prices are projected to recover modestly over the medium term and the uncertainty of oil supply from Venezuela has increased, 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.

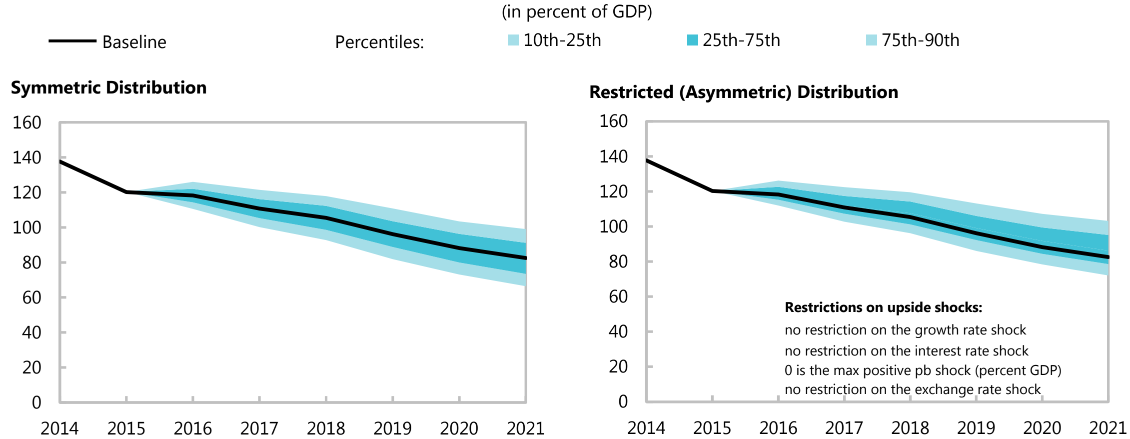
Figure A1.1. Jamaica Public DSA Risk Assessment

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

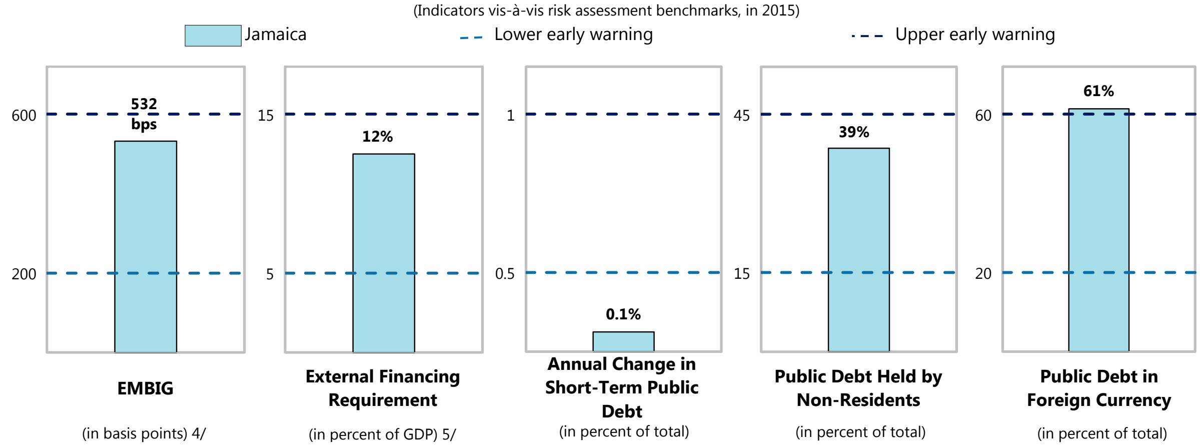
Evolution of Predictive Densities of Gross Nominal Public Debt

(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:

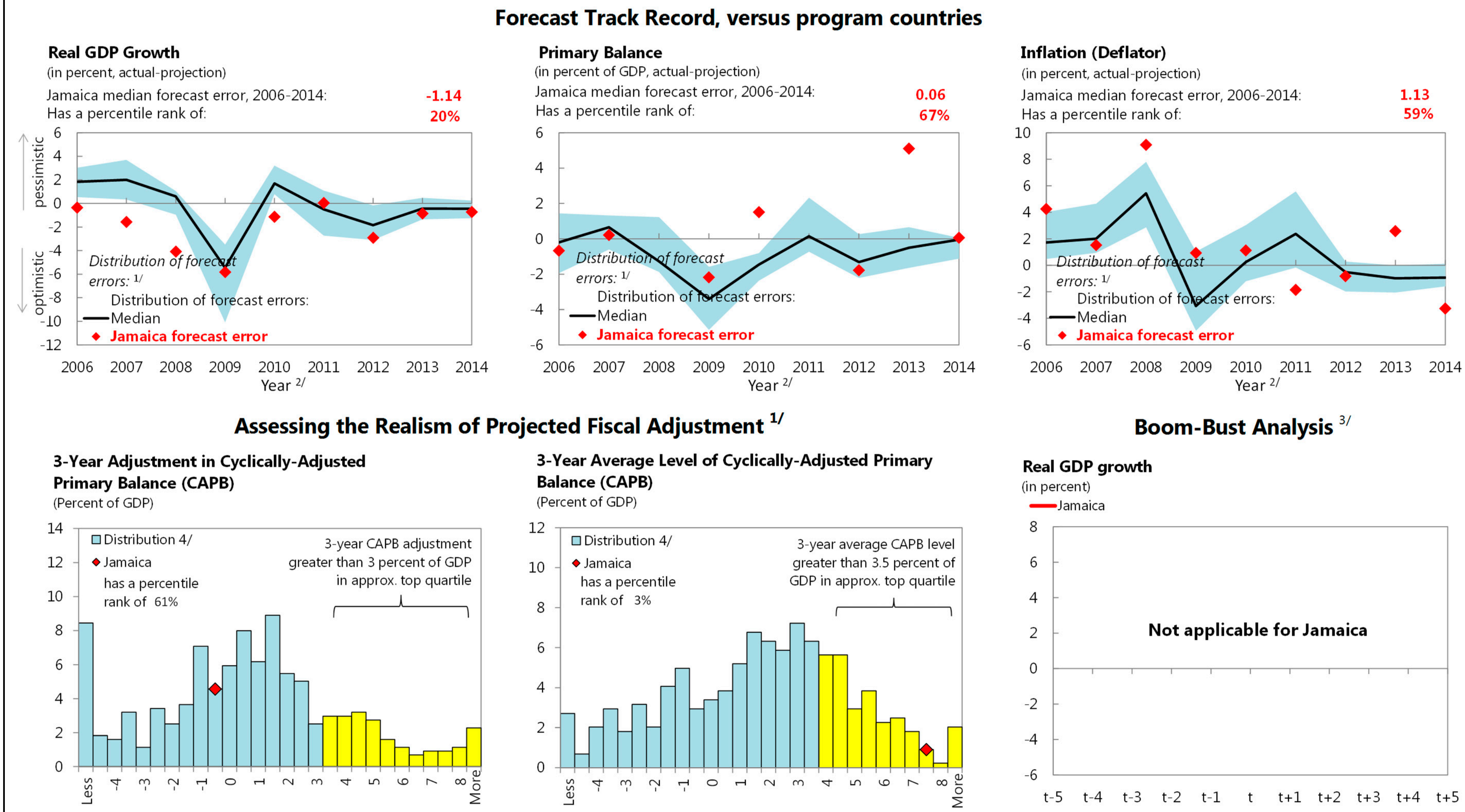
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 05-Jul-16 through 03-Oct-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 A1.2. 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 A1.3. Jamaica Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(in percent of GDP unless otherwise indicated)

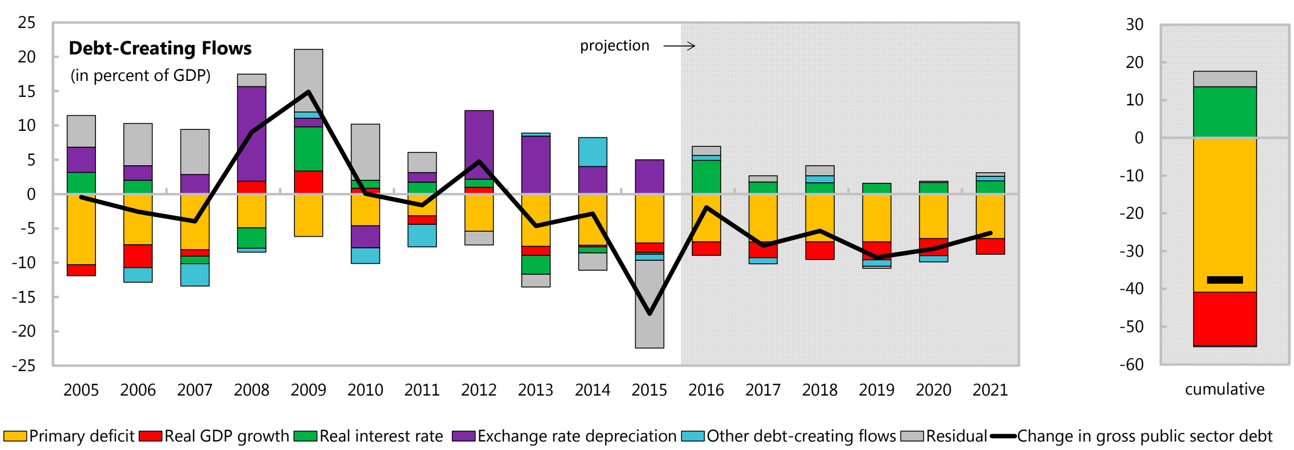
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	133.5	137.6	120.2	118.3	110.8	105.4	96.2	88.2	82.5
Of which: guarantees	10.8	11.1	10.0	9.7	9.0	8.3	7.7	7.1	6.5
Public gross financing needs	17.8	5.9	18.8	10.8	8.4	6.2	6.4	8.0	3.9
Real GDP growth (in percent)	0.1	0.2	1.1	1.7	2.1	2.5	2.7	2.8	2.8
Inflation (GDP deflator, in percent)	10.0	7.3	6.5	2.9	5.1	5.5	5.5	5.5	5.5
Nominal GDP growth (in percent)	10.2	7.5	7.6	4.6	7.4	8.1	8.3	8.5	8.5
Effective interest rate (in percent) [4/]	10.8	6.7	6.3	7.2	6.9	7.3	7.3	7.6	8.0

As of October 03, 2016		
Sovereign Spreads		
EMBIG (bp) 3/		49
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	1.7	-2.8	-17.4	-1.9	-7.5	-5.4	-9.2	-8.0	-5.7	-37.7	
Identified debt-creating flows	-2.2	-0.3	-4.7	-3.3	-8.4	-6.8	-8.9	-8.2	-6.2	-41.8	
Primary deficit	-6.4	-7.5	-7.1	-7.0	-7.0	-7.0	-7.0	-6.5	-6.5	-40.8	0.3
Primary (noninterest) revenue and grants	27.0	26.2	27.0	27.4	27.1	26.4	26.2	26.0	25.9	159.0	
Primary (noninterest) expenditure	20.6	18.7	19.8	20.5	20.1	19.4	19.2	19.5	19.4	118.1	
Automatic debt dynamics [5/]	5.3	2.9	3.4	2.9	-0.6	-0.9	-1.0	-0.8	-0.3	-0.7	
Interest rate/growth differential [6/]	0.8	-1.1	-1.6	2.9	-0.6	-0.9	-1.0	-0.8	-0.3	-0.7	
Of which: real interest rate	1.0	-0.9	-0.3	4.9	1.8	1.7	1.6	1.7	1.9	13.5	
Of which: real GDP growth	-0.1	-0.2	-1.4	-2.0	-2.3	-2.6	-2.6	-2.5	-2.3	-14.2	
Exchange rate depreciation [7/]	4.5	4.0	5.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-1.1	4.2	-0.9	0.7	-0.9	1.0	-0.9	-0.9	0.7	-0.3	
Privatization Receipts and Deposits Drawdown (negative)	-1.1	4.2	-0.9	0.7	-0.9	1.0	-0.9	-0.9	0.7	-0.3	
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/]	3.9	-2.5	-12.8	1.3	0.9	1.5	-0.3	0.2	0.5	4.1	



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.

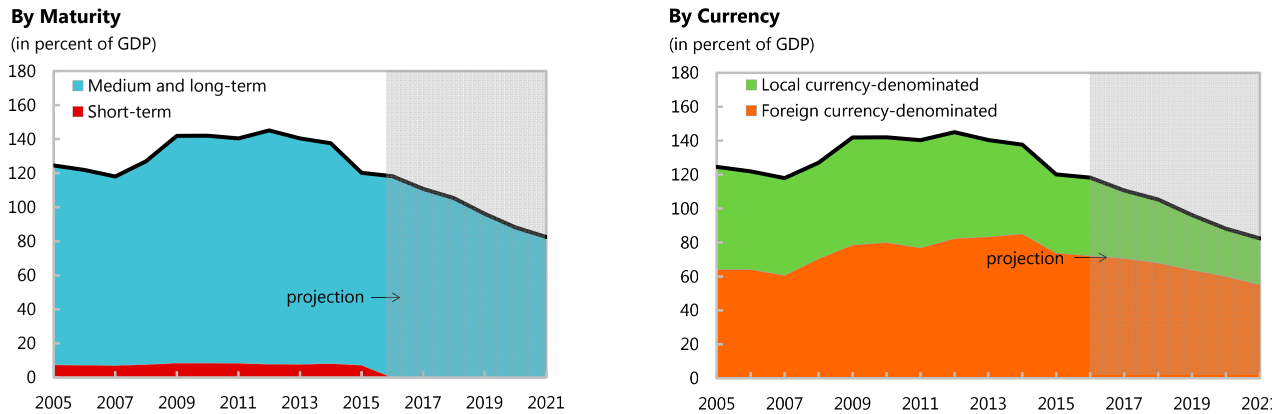
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

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.

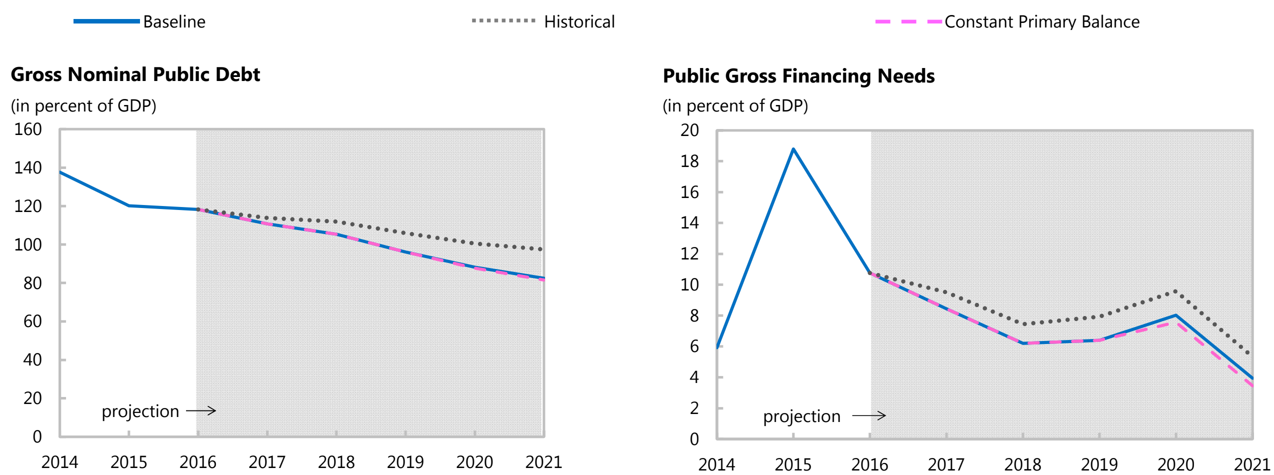
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure A1.4. Jamaica Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions
(in percent)

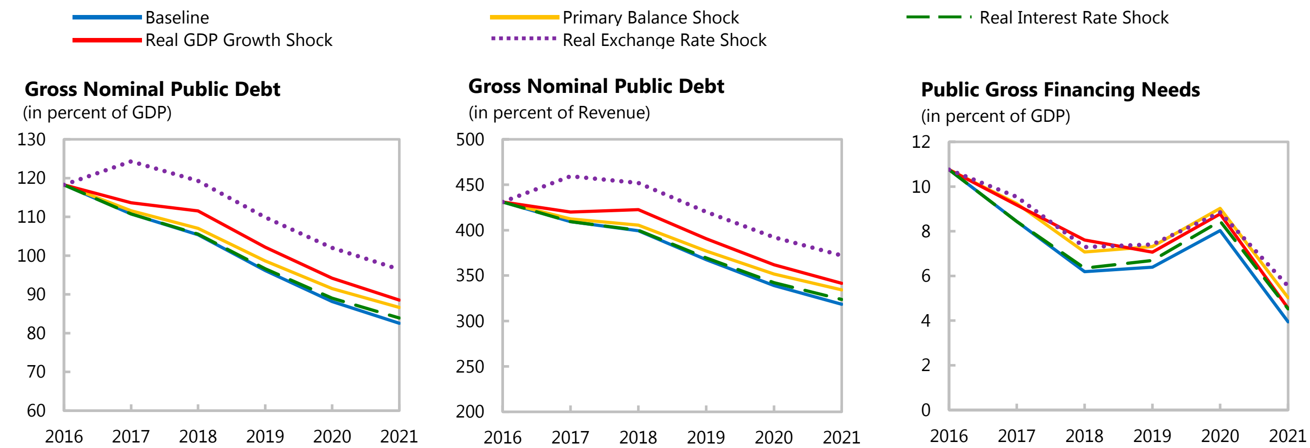
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.7	2.1	2.5	2.7	2.8	2.8
Inflation	2.9	5.1	5.5	5.5	5.5	5.5
Primary Balance	7.0	7.0	7.0	7.0	6.5	6.5
Effective interest rate	7.2	6.9	7.3	7.3	7.6	8.0
Constant Primary Balance Scenario						
Real GDP growth	1.7	2.1	2.5	2.7	2.8	2.8
Inflation	2.9	5.1	5.5	5.5	5.5	5.5
Primary Balance	7.0	7.0	7.0	7.0	7.0	7.0
Effective interest rate	7.2	6.9	7.3	7.3	7.6	8.0

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.7	0.1	0.1	0.1	0.1	0.1
Inflation	2.9	5.1	5.5	5.5	5.5	5.5
Primary Balance	7.0	6.2	6.2	6.2	6.2	6.2
Effective interest rate	7.2	6.9	7.1	7.0	7.1	7.4

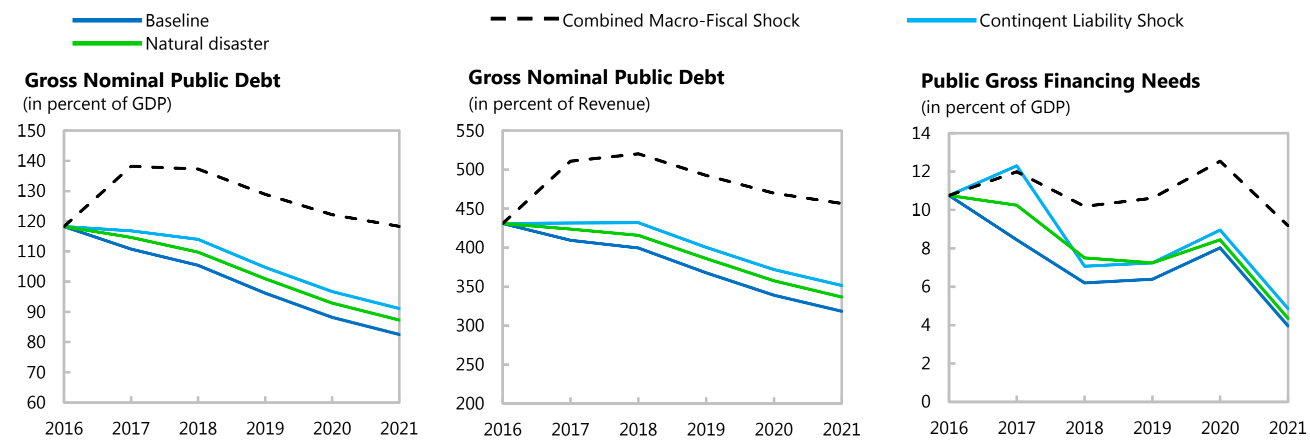
Source: Fund staff calculations.

Figure A1.5. Jamaica Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

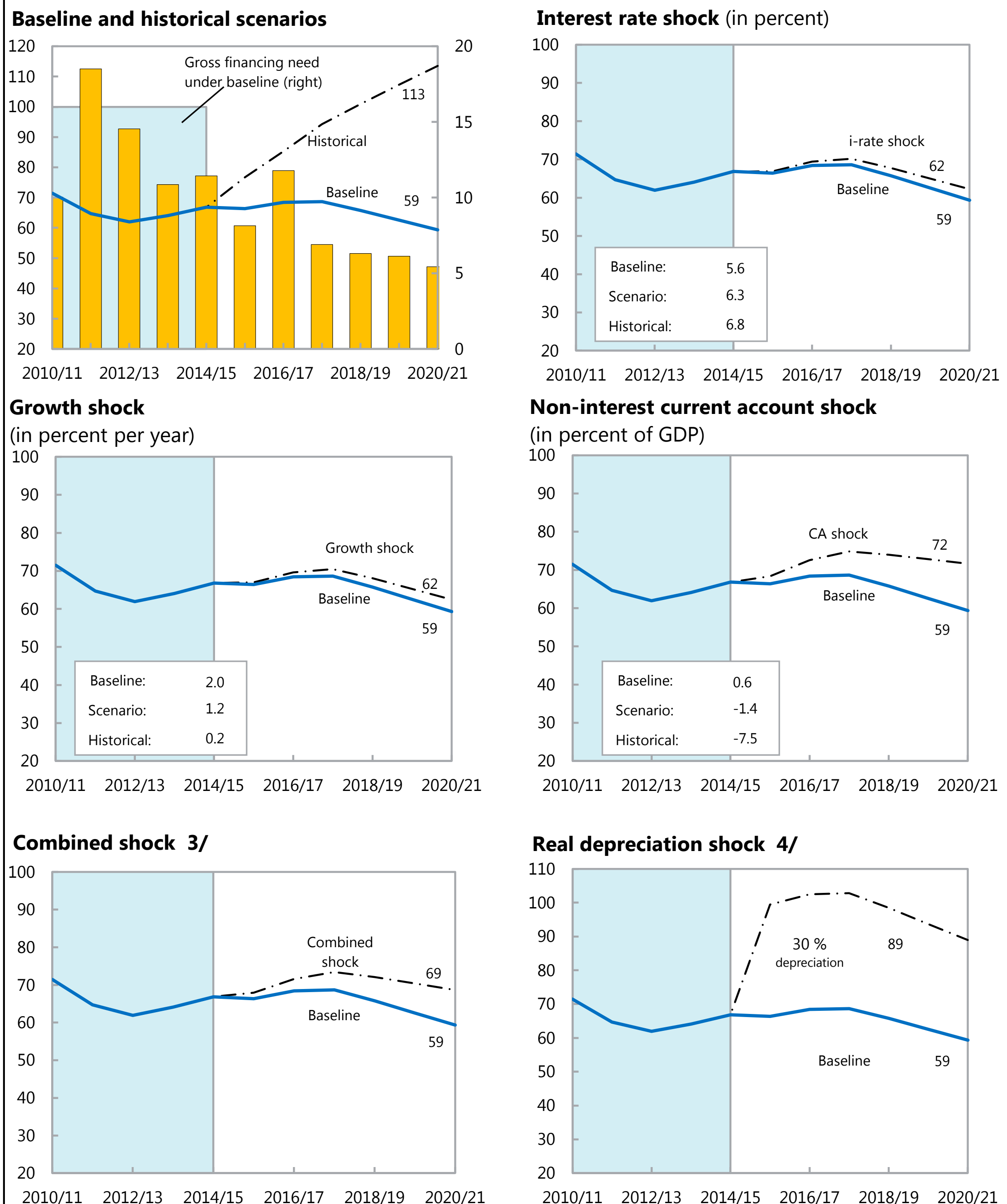
	2016	2017	2018	2019	2020	2021
Primary Balance Shock						
Real GDP growth	1.7	2.1	2.5	2.7	2.8	2.8
Inflation	2.9	5.1	5.5	5.5	5.5	5.5
Primary balance	7.0	6.2	6.2	6.2	5.7	5.7
Effective interest rate	7.2	6.9	7.3	7.3	7.6	8.0
Real Interest Rate Shock						
Real GDP growth	1.7	2.1	2.5	2.7	2.8	2.8
Inflation	2.9	5.1	5.5	5.5	5.5	5.5
Primary balance	7.0	7.0	7.0	7.0	6.5	6.5
Effective interest rate	7.2	6.9	7.4	7.6	8.0	8.7
Combined Shock						
Real GDP growth	1.7	0.4	0.8	2.7	2.8	2.8
Inflation	2.9	4.7	5.1	5.5	5.5	5.5
Primary balance	7.0	6.2	6.1	6.2	5.7	5.7
Effective interest rate	7.2	8.0	7.2	7.4	7.8	8.4

	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	2.9	4.7	5.1	5.5	5.5	5.5
Primary balance	7.0	6.5	6.1	7.0	6.5	6.5
Effective interest rate	7.2	6.9	7.3	7.3	7.6	8.0
Real Exchange Rate Shock						
Real GDP growth	1.7	2.1	2.5	2.7	2.8	2.8
Inflation	2.9	13.2	5.5	5.5	5.5	5.5
Primary balance	7.0	7.0	7.0	7.0	6.5	6.5
Effective interest rate	7.2	8.0	7.0	7.0	7.3	7.7
Contingent Liability Shock						
Real GDP growth	1.7	0.4	0.8	2.7	2.8	2.8
Inflation	2.9	4.7	5.1	5.5	5.5	5.5
Primary balance	7.0	3.8	7.0	7.0	6.5	6.5
Effective interest rate	7.2	7.2	7.3	7.3	7.6	8.0

Source: Fund staff calculations.

Figure A1.6. 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 A1.1. Jamaica: External Debt Sustainability Framework, 2010/11-2020/21
(In percent of GDP, unless otherwise indicated)

	Actual													
	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	71.4	64.7	61.9	64.1	66.8			**66.4**	**68.4**	**68.7**	**65.8**	**62.5**	**59.3**	**-3.9**
Change in external debt	2.3	-6.8	-2.7	2.1	2.7			-0.4	2.0	0.2	-2.9	-3.2	-3.2	
Identified external debt-creating flows (4+8+9)	0.4	7.0	7.8	7.8	3.0			-4.7	-3.0	-2.7	-2.6	-2.4	-2.1	
Current account deficit, excluding interest payments	4.4	10.4	7.1	5.7	3.9			-1.1	-1.0	-0.4	-0.3	-0.1	0.2	
Deficit in balance of goods and services	19.5	24.8	22.8	22.1	20.5			15.0	16.7	16.8	16.5	16.0	15.4	
Exports	29.6	29.2	30.6	30.3	31.7			30.5	31.1	30.8	30.2	29.6	28.9	
Imports	49.1	54.0	53.4	52.4	52.2			45.5	47.8	47.6	46.8	45.6	44.3	
Net non-debt creating capital inflows (negative)	-1.1	-1.5	-2.1	-3.6	-4.2			-6.2	-5.0	-4.5	-4.3	-4.0	-3.8	
Automatic debt dynamics 1/	-3.0	-1.8	2.8	5.7	3.3			2.6	3.0	2.2	2.1	1.7	1.6	
Contribution from nominal interest rate	3.6	3.3	3.3	3.1	3.4			3.3	4.1	3.6	3.7	3.4	3.2	
Contribution from real GDP growth	0.4	-0.6	0.5	-0.6	-0.1			-0.7	-1.1	-1.4	-1.6	-1.7	-1.7	
Contribution from price and exchange rate changes 2/	-7.0	-4.4	-0.9	3.3	...			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.0	-13.8	-10.6	-5.7	-0.3			4.3	5.1	2.9	-0.3	-0.8	-1.1	
External debt-to-exports ratio (in percent)	241.0	221.6	202.3	211.5	211.0			217.9	219.9	222.8	217.5	211.5	205.1	
Gross external financing need (in billions of US dollars) 4/	1.4	2.7	2.1	1.5	1.6			1.2	1.7	1.0	1.0	1.0	0.9	
in percent of GDP	10.0	18.5	14.5	10.9	11.4			8.1	11.8	6.9	6.3	6.1	5.4	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**76.7**	**85.3**	**94.3**	**100.9**	**107.3**	**113.5**	**-1.7**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	-0.6	0.9	-0.7	1.0	0.2	0.2	1.7	1.0	1.7	2.1	2.5	2.7	2.8	
GDP deflator in US dollars (change in percent)	11.3	6.6	1.4	-5.0	-1.5	3.9	5.5	1.3	-1.9	1.5	2.3	2.5	2.4	
Nominal external interest rate (in percent)	5.8	4.9	5.1	4.8	5.3	6.8	1.5	5.1	6.2	5.4	5.6	5.5	5.4	
Growth of exports (US dollar terms, in percent)	-1.0	6.0	5.6	-5.1	3.2	2.0	10.2	-1.5	1.9	2.7	2.9	3.0	3.0	
Growth of imports (US dollar terms, in percent)	5.8	18.4	-0.5	-6.0	-1.6	5.4	15.6	-10.8	4.8	3.2	3.1	2.7	2.2	
Current account balance, excluding interest payments	-4.4	-10.4	-7.1	-5.7	-3.9	-7.5	4.0	1.1	1.0	0.4	0.3	0.1	-0.2	
Net non-debt creating capital inflows	1.1	1.5	2.1	3.6	4.2	4.4	2.7	6.2	5.0	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
October 21, 2016

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

Dear Ms. Lagarde,

The Government of Jamaica is seeking to leverage the hard-earned gains in macroeconomic stability—achieved with support from the IMF's Extended Fund Facility (EFF)—to catalyze a positive cycle of growth and job creation with increasing support for our poorest citizens. Our priorities are to re-orient the composition of the budget toward growth-enhancing spending, shift our tax system from direct to indirect taxes, better protect society's most vulnerable and make our government more efficient and effective. We also intend to expand and improve security spending since crime represents an insidious obstacle to equitable growth in Jamaica.

We are seeking the IMF's support in this ambitious, yet much-needed, policy endeavour. Specifically, we are requesting a 36-month Stand-By Arrangement with the IMF with access equivalent to SDR 1.1953 billion (312 percent of quota or about US$ 1.7 billion). Our intention is to treat the arrangement as precautionary, an insurance policy against future economic shocks that are beyond our control. We also request that programme reviews be semi-annual. By maintaining our close engagement with the IMF, and with support from our other development partners, we expect to make important progress in achieving our economic development goals. We also request that the existing Extended Arrangement be canceled.

In our efforts to institutionalize exchange rate flexibility and develop the interbank market, we, in line with Fund TA recommendations, are planning to introduce multiple-price FX auctions to buy and sell FX from the market. Should introduction of these auctions lead to a multiple currency practice (MCP), we ask the Board's approval of the retention of this MCP on the following grounds: (i) the measure does not materially impede Jamaica's BOP adjustment; (ii) the measure does not harm the interests of other IMF members; (iii) the measure does not discriminate among members; and (iv) the measure will be temporary, and will be resolved once the interbank market is more developed.

Our Memorandum of Economic and Financial Policies (Attachment 1) sets out our priorities. The Government of Jamaica believes that the policies set forth therein are adequate to achieve the objectives of its program but stands ready to take any additional measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures, and in advance of any revisions to the policies contained in this memorandum, in accordance with the Fund's policies on such consultation, and will provide Fund staff with all relevant information needed, as outlined in the Technical Memorandum of Understanding (Attachment 2).

Finally, we authorize the IMF to publish this letter, its attachments, and the staff report for this request for a new arrangement in line with the transparency commitment of our government.

Very truly yours,

/s/
Andrew Holness
Prime Minister

/s/	/s/
Audley Shaw	Brian Wynter
Minister of Finance and the Public Service	Governor, Bank of Jamaica

Attachment I. Memorandum of Economic and Financial Policies

1. Buttressed by the Jamaican government's committed policy implementation over the past three years, public debt has fallen by 27 percent of GDP, net international reserves have tripled, inflation has fallen to historic lows, and macroeconomic stability has become entrenched.

2. Despite these important achievements, we continue to struggle to generate the growth and job creation that are needed to raise the living standards of the Jamaican people. As a result, we are requesting this three-year Stand-By Arrangement to support our efforts to create high quality private sector jobs, protect the poor, improve citizen security, strengthen public safety, and make our government work better for the good of the people.

3. The central planks of our policy platform include:

- *Growth and job creation*: Our goal is to rapidly facilitate strategic private investments in Jamaica, including by the diaspora, to tap new economic opportunities and generate faster growth and employment. To foster these channels, we intend to tackle key obstacles including crime, red-tape, access to finance and the inefficient utilization of public assets. We intend to create growth opportunities by transforming the public sector through efficiency gains and improved service delivery.
- *A responsible and equitable budget*: We intend to maintain the central government primary surplus at 7 percent of GDP. We will continue to rebalance from taxing wage earnings to indirect taxes. We will lower the public sector wage bill and create space for stronger support for the most vulnerable and for growth-enhancing capital spending.
- *A modern monetary framework*. We intend to eventually move to a full-fledged inflation targeting framework for monetary policy and to bolster our monetary and FX operations toolkit. As a first step, we commit to targeting an inflation rate of 5.5 percent with an inflation corridor initially set at +3.5/-4.5 percent in December 2016 and narrowing thereafter.
- *A more robust financial system*. Our policy plans include steps to strengthen the crisis resolution framework, enhance risk-based supervision, and further mitigate risks from securities dealers. We also intend to request a Financial Sector Assessment Program (FSAP) assessment of the health of our financial system in early 2018 to guide our reform efforts.

4. The policy matrix included at the end of this document outlines in more detail the specific timetable of measures for which we are accountable and by which the Jamaican people will judge our performance.

Focusing on Growth and Job Creation

5. **We have established an Economic Growth Council that has consulted widely within government and civil society and identified eight key areas to strengthen medium-term growth**:

- Continuing to maintain macroeconomic stability while pursuing debt reduction strategies.
- Improving citizen security and public safety to ensure a safe business environment to attract domestic and foreign investment.
- Improving access to finance.
- Reviewing competition and regulatory policies in the financial sector to facilitate lending and investing while maintaining financial stability.
- Continuing to reduce bureaucracy and red-tape to further improve the business environment.
- Stimulating better asset utilization through asset sales and privatizations.
- Enhancing diaspora involvement in economic growth and investment.
- Catalyzing the implementation of strategic projects.

With support from the World Bank, the IDB, and other development partners, we are working to implement specific and time-bound measures to achieve these goals which will generate significant growth and job creation dividends.

A Bigger Social Safety Net and Better Support for the Poor

6. **Poverty in Jamaica is a critical problem that needs immediate attention.** As a first step, we will institute a significant increase in the PATH conditional cash transfer benefits in the FY2017/18 budget. We will expand the PATH School Feeding Programme to 5 days. We also intend to increase coverage of the bottom quintile of households (by consumption level) in the PATH program from the current 55 percent. We also intend to review the efficiency and effectiveness of existing programs in ensuring that children from poor households remain in school.

Investing in Public Security

7. **We see crime and a lack of public security as a key social and economic issue that is holding Jamaica back.** Further, the impact of crime and insecurity has a greater impact on the poor, worsening social outcomes for all. A comprehensive approach will be put in place, including (i) a broad institutional reform that will reorganize the police force and improve the administration of the court system, (ii) addressing corruption by strengthening the framework around seizures, forfeitures, and witness protection, and implementing AML/CFT measures to prevent the laundering of proceeds of corruption, and (iii) addressing social exclusion, including implementing Clear, Hold, and Build strategies and a review of all informal settlements (where a fifth of Jamaicans live).

Resources to enhance security will be identified not only from central government resources but also from ministry-controlled public bodies. The budget will be reprioritised to implement the identified measures.

Our Fiscal Plan

8. **We will target a central government primary surplus of 7 percent of GDP throughout the life of the 3-year Stand-By Arrangement**. This will allow us to bring the public debt down to 60 percent of GDP by FY2025/26 as has been mandated by our Fiscal Responsibility Law. We also intend to make important changes to the structure of our tax system and the expenditure composition of our budget.

Tax Policy

9. **We intend to rebalance from direct to indirect taxation.** On July 1, 2016, the exemption threshold for the personal income tax (PIT) was raised to J$1 million and the marginal tax rate on earnings above J$6 million was increased to 30 percent. Offsetting measures included increasing the special consumption tax on fuels and raising the departure tax. A further increase of the exemption threshold to J$1.5 million will take place on April 1, 2017. We intend to offset this revenue loss and generate additional revenues to expand social transfers to shelter the vulnerable. With support from the IMF, we are narrowing options for high-quality revenue options which minimize distortions while balancing equity and efficiency. Property taxes, which have been shown to be both progressive and efficient, will be strengthened. Alongside these policy changes we are committed to continuing our efforts in improving tax administration and lowering the costs of compliance for companies and individuals alike.

Public Sector Transformation

10. **We are committed to enhancing the efficiency, quality and cost effectiveness of public services.** An action plan for public sector transformation was submitted to the Cabinet in September 2016 which includes detailed plans to:

- Merge, close, divest, and outsource government functions which are better performed by the private sector.
- Introduce shared corporate services for communications, human resource management and asset management, and centralize legal services.
- Reduce the number of public bodies and strengthen the financial reporting requirements on those entities that remain.
- For strategic interventions such as the implementation of shared corporate services and the rationalization of public bodies, ensure that a plan is in place for transitioning employment from the public sector to the private sector.

Public Service Reform

11. Continue to reprioritize our budgetary resources toward security, social, and growth-enhancing capital spending. As part of these efforts, we are undertaking a comprehensive compensation review and building a database on all wages and allowances paid to public employees in the Ministries of Finance, Health, Security, and Education (which together account for over four-fifths of our spending on wages and allowances). These efforts will be completed for these entities by end-November 2016 and for all entities in the central government wage bill by end-March 2017. We are also undertaking a full employee census to verify each employee's post and their eligibility for allowances. We have completed this process at the NIS (National Insurance Scheme), the Ministry of Finance and the Public Service, and the civilian population at the police department. We will extend this census to the non-teaching personnel in the Ministry of Education by end-November 2016 and to all entities in the central government wage bill by end-March 2017. To aid us in our efforts to improve control and monitoring over wage spending, we are also upgrading our human resources software system and putting in place stronger safeguards against hiring outside of approved positions.

Pension Reform

12. The public sector pension reform bill is being considered by our Parliament and is expected to become effective on April 1, 2017. The proposed law raises the retirement age to 65 years, requires a 5 percent mandatory contribution from workers, expands the benefit assessment period from the last year's wage to the average of the last 5 years' wages, reduces the commutation benefit, and lowers the benefit accrual rate to 1.8 percent. We intend to undertake an outreach campaign to educate and foster early retirement for eligible public sector workers.

A More Modern Central Bank

13. We intend to eventually move our monetary framework to an inflation targeting regime, supported by a flexible exchange rate. As a first step, monetary conditionality under the SBA has been framed, in a commitment to achieving an annual headline inflation target of 5.5 percent, with an asymmetric band of +3.5/-4.5 percent for December 2016 test date. For 2017, we plan to implement a symmetric band of ±3.5 percent around the target rate. We expect to narrow the band to ±2.5 for 2018 until the end of the program. The mid-point target rate will be reviewed and potentially tightened based on the prevailing and expected macroeconomic conditions. If inflation goes beyond the specified bands at the program test dates, we will complete a consultation with the IMF's executive board analyzing the reasons for the breach, policies undertaken to prevent it, and corrective actions the central bank plans to undertake. By June 2017, the central bank will make the overnight rate its policy rate to increase signaling power.

14. The last update of our safeguards assessment, completed in 2013, found a strong framework at the Bank of Jamaica but recommended steps to strengthen governance. To pave the way for a transition to inflation targeting, we intend to submit revisions to the Bank of Jamaica

Act to Parliament by September 2017. These will strengthen the BOJ's operational independence and modernize arrangements for paying dividends, appointments to the BOJ Board, and the provision of central bank financing to the government. We will ensure that our organizational structure and technical capacity are consistent with the envisioned modernization.

15. The central bank is committed to developing a competitive, liquid and transparent foreign exchange market. To this end, by June 2017, the BOJ will begin buying and selling FX from the market using multiple-price FX auctions to foster price discovery and increase the transparency and efficiency of the currency market. We also plan to steadily phase-out our use of borrowed reserves and surrender requirements and gradually build our foreign currency buffers through market purchases. By the end of the SBA, the central bank's international reserves will exceed 100 percent of the IMF's reserve adequacy metric and we will have reduced our reliance on borrowed reserves.

A Resilient and Inclusive Financial System

16. In the next 12 months, we are planning to take important steps to further improve the framework for financial supervision. We plan to introduce new legislation to enhance the resolution framework for distressed financial sector entities. For the securities dealer industry, we intend to implement regular stress testing, phase in a ceiling on the size of exposure to counterparties, restrict early encashment on retail repos, and introduce a minimum retail repo leverage ratio. To better protect depositors in credit unions, we will table in Parliament a bill to amend the Cooperative Societies Act and, the Bank of Jamaica (Credit Union) Regulations, which together will bring credit unions under the prudential supervision of the Bank of Jamaica and extend deposit insurance to those entities. In addition, we will introduce legislation to define the regulatory rules for financial holding companies and require consolidated supervision of those companies. Finally, to lessen the risks of dollarization of our financial system, we intend to equalize the reserve requirements for foreign currency and domestic currency bank deposits by December 2016 and conduct a cost-benefit analysis on introducing stricter reserve requirements for foreign currency deposits.

17. We have also devised a strategy to increase financial inclusion. This strategy, which has been approved by Cabinet, covers key areas such as better financing for smaller enterprises and the rural sector as well as expanding access to housing finance and the payments system. We also intend to improve consumer protections and increase financial literacy. A financial inclusion council will be created by March 2017 to oversee the implementation of this strategy.

Policy Matrix for Implementation Underlying the Memorandum of Economic and Financial Policies

Reform area	Measures	Date	Structural Benchmark
Tax policy			
Property tax	The new rates and bands for property taxes using the 2013 land valuations will be completed and submitted to Cabinet.	Dec-16	Yes
Financial sector taxes	Streamline and rationalize financial sector taxes, including financial turnover taxes (stamp duty and transfer tax) and the asset tax, while also assessing the appropriateness of the higher corporate income tax rate of the regulated industry	FY2018/19	
Public sector transformation			
Implementation Unit	Fully staff the public sector transformation implementation unit, including appointment of its head by December 2016.	Dec-16	
Shared Corporate Services	Corporate back-office functions for Clarendon Alumina Production Limited (CAP) Services, Jamaica Bauxite Mining and Jamaica Bauxite Institute will be merged and provided by JBI. Corporate functions in CAP and JBM will cease to exist.	Mar-17	
	Identify positions that will be affected due to the implementation of shared corporate services in human resources and quantify the implications through the development of a costed transition plan and schedule.	May-17	Yes
	Commence implementation of HR shared corporate service arrangements.	Aug-17	
	Identify positions that will be affected due to the implementation of shared corporate services in Public Relations and Communications, and Internal Audit and quantify the implications through the development of a costed transition plan and schedule.	Nov-17	Yes
Ongoing entities	Complete the divestment of Caymanas Track Limited and the merger of the Cocoa Industry Board, the Coconut Industry Board and the Coffee Industry Board into the Jamaica Agricultural Commodities Authority (JACRA).	Mar-17	
Merger	The Agricultural Credit Board and the Department of Cooperatives and Friendly Societies will be merged into the Agricultural Loan Societies and Approved Organizations.	Mar-17	
Public bodies			

Reform area	Measures	Date	Structural Benchmark
Classification	Complete review of the classification of all existing public bodies in a way that is consistent with public financial management rules, including identifying and submitting to cabinet a time-bound plan for reintegration into parent ministries consistent with the principles of the Policy on public bodies.	Feb-17	
Public service reform			
Compensation review	Build a comprehensive database—by occupational grouping and that includes all types of allowances paid, their amounts as well as the number of employees receiving each type of allowance in a given fiscal year—across ministries, departments, and agencies to ensure adequate control and oversight over this part of the wage bill. Pilots for the Ministry of Finance and the Public Service, the Ministry of Health (medical professionals), Ministry of Education, Youth, and Information (teaching groups) and the Jamaica Constabulary Force (police groups) are ongoing. The database for all entities in the central government wage bill will be completed by March 2017.	Mar-17	Yes
	Informed by the compensation review results from end-March 2017, submit public sector wage negotiation framework to Cabinet for approval.	Apr-17	Yes
Employee census	Complete an employee verification exercise. Island-wide pilots at the Ministry of Finance and the Public Service, the civilian population of the police department, the NIS, and the non-teaching personnel at the Ministry of Education are ongoing. The verification for all entities in the central government wage bill will be finalized by March 2017.	Mar-17	Yes
	Submit policy options to cabinet for transition plans for employees who are currently outside of approved positions.	Apr-17	
Recruitment rules	The creation and application of strict unambiguous rules for the decisions of the Post Operations Committee regarding all types of employment including acting. These rules are to establish a percentage reduction rate which effectively controls the rate of employment and creates a sharp downward trajectory whilst ensuring that the public sector is properly resourced	Mar-17	Yes
HCMES	Complete roll-out of the human resources software (HCMES) for 14 entities.	Dec-18	
Early retirement	Pursue options for early retirement targeting the eligible population.	Mar-17	
Tax Administration			
Staffing	Completion of staffing of the Tax Administration of Jamaica (TAJ) as a Semi-Autonomous Revenue Authority (SARA) at the November 2015 staffing levels. All final offers are expected to be accepted by end-November 2016.	Nov-16	

Reform area	Measures	Date	Structural Benchmark
Training	Training for audit managers will begin by November 2016 and is expected to be completed for all 50 audit managers by February 2017.	Feb-17	
Compliance	Improving the efficiency of the large taxpayers' office by (i) completing 70 comprehensive audits and 11 issue audits and (ii) settling 90 objections	Mar-17	
Audit process	Implement centralized organizational and reporting arrangements for the objection units currently residing in the regional services centers and the large taxpayers' office to ensure that objection decisions are carried out by officers outside of the Operations Division	Mar-17	
Transfer pricing	Develop audit processes and procedures, and a comprehensive work plan to focus on specified sectors/taxpayers/ issues such as tourism and bauxite.	Apr-17	
Client Services	Begin issuing formal practice notes and private rulings to improve information to the taxpayer.	Apr-17	
	By April 2017, work will begin on the development a database of legal opinions and guidance notes to be published on the TAJ website for taxpayers' information by October 2017.	Oct-17	
Customs Administration			
Post-Clearance Audit	Increase the number of completed Post-Clearance Audit to 60 a year by March 2017, with 25 percent of them identified by risk management system.	Mar-17	
	By March 2018, 50 percent of Post Clearance Audits will be identified by a risk management system.	Mar-18	
Capacity	Begin Tax Audit and Revenue Administration training for officers.	Dec-16	
Trade facilitation	Completion of the drafting of the Phase III under the latest amendments to the Customs Act by end-February 2016 and tabling in parliament by end-May 2017. Phase II will be tabled in Parliament by end-December 2016.	May-17	
Public Financial Management			
TSA Expansion	Put in place phase 1 of enhancements to Central Treasury Management System (CTMS), expected to be completed by end-December 2016. Begin web enablement of FinMan by January 2017 after all enhancements and job orders for CTMS are completed and signed off.	Jan-17	
	Commence daily sweeps of all revenue transit accounts into the Treasury Single Account (TSA).	Mar-17	
AGD capacity	A new organizational structure for the Accountant General's Department (AGD) was approved by the Ministry of Finance and Public Service in September 2016. Transfer of the responsibility for further	Nov-16	

Reform area	Measures	Date	Structural Benchmark
	development and management of the CTMS from the MoFP to the AGD is ongoing and all positions and responsibilities will be permanently transferred to the AGD by end-November 2016.		
	A service level agreement between the Bank of Jamaica and the Government for banking services provided by the central bank was signed in August 2016. After the circular is issued by the MOFP, full responsibility for the management of government accounts (except for IFI accounts) will be transferred to the AGD and 95 percent of all dormant and inactive accounts will be closed by December 2016.	Dec-16	
	To enhance capacity in support of its ongoing reform agenda, the AGD will conduct a training needs assessment to identify priorities and develop a medium-term training program	Jan-17	
MOFP Staffing	The new organizational structure macro-fiscal capacity of the Ministry of Finance and the Public Service was approved in August 2016 and the selection process of staff will begin shortly. We expect all final offers to be accepted by end-December 2016.	Dec-16	
Procurement	Begin staffing of the new structure for Procurement and Asset Policy Unit; all final offers will be made by end-January 2017, including those offers for helpdesk positions.	Jan-17	
	Complete INPRI (International Procurement Institute) training for all 50 procurement officers in ministries.	May-17	
Debt Management			
Capacity	Reduce operational risk by ensuring adequate staffing of the Debt Management Branch (DMB)'s middle office.	Mar-17	
	Ensure that core staff at the MOFP's Fiscal Policy Management Branch and the Debt Management Branch are trained in debt sustainability analysis (DSA) and medium-term debt management strategy (MTDS) modelling	Mar-17	
Market development	In consultation with all relevant stakeholders, prepare and publish a debt market development strategy to identify strategic medium-term priorities, next steps, and responsibilities. The plan should describe the strategy for reducing the high dollarization of government debt.	Mar-17	
	Review and upgrade the primary dealer system with respect to primary dealer commitments and privileges in GOJ bonds to incentivize market making.	Mar-17	
	Reintroduce competitive auctions for GOJ bonds to enhance price-transparency and liquidity, and requesting developer's help as needed.	Jun-17	
	To create a more liquid T-bill market, anchor the yield curve and provide an accurate benchmark, expand the issuance of T-bills and pursue dematerialization (i.e. switching from paper-form securities to electronic book -entry) of T-bills.	Jun-17	

Reform area	Measures	Date	Structural Benchmark
BOJ/GOJ coordination	To enhance the attractiveness of local currency bonds, revise collateral policy for liquidity provision by amending the BOJ Act to permit a more granular approach to the treatment of GOJ securities. To that end, , increase the collateral value of T-bills and BOJ CDs so as to better reflect the risk of underlying assets.	Sep-17	
	Institute more frequent meetings between the MOFP, the BOJ, and the AGD to discuss liquidity conditions around planned issuances and/or redemptions and to develop a comprehensive internal strategy for dealing with major domestic market redemptions, including possible liability management operations. Discuss the impact of these strategies (repayments, rollovers, buybacks, and exchanges) on domestic liquidity and FX conditions.	Dec-17	
Social Safety Net			
National Identification System (NIDS)	Put in place an initial team of project specialists spanning areas such as (i) procurement, (ii) legal, (iii) business process review, and (iv) information technology (ICT); final job offers will be made by end-November 2016.	Nov-16	
	A Memorandum of Understanding with eGov Jamaica Ltd. will be signed by end-November 2016 in order to secure a core team from eGov in the NIDS project.	Nov-16	
	Establish a Procurement Team including a Procurement Specialist, eGov representatives, ICT Specialist, NIDS Project Manager, NIDS Subject Matter Expert, and Legal Officer and issue tender.	Dec-16	
PATH coverage	Conclude the targeting assessment and benefits review for PATH.	Mar-17	
	Increase the funding for the School Feeding Program in the FY2017/18 budget and identify resources to augment program days and increase the resources per child/per meal.	Mar-17	
PATH graduation	Upon cabinet approval of the graduation strategy for PATH households, initiate the evaluation of households' ability to exit the program and begin delivery of interventions for the first group of families scheduled for graduation from PATH.	Mar-17	
PATH efficiency and effectiveness	Review of impact of PATH benefits on improving school attendance. The review will be conducted by the Ministry of Labor and Social Security and will inform the redesign of the scheme to meet the stated objective of increasing school attendance.	June-17	
Exchange rate			
FX market	The BOJ, with support from IMF TA, to develop modalities to improve price discovery in the FX market through the introduction of multiple-price FX auctions for BOJ buying and selling from the market. By March 2017, we will draft internal guidelines for the auctions, and develop and implement an outreach campaign to explain to market participants the new modality of buying and selling foreign exchange.	Mar-17	

Reform area	Measures	Date	Structural Benchmark
	Implement multiple-price FX auctions for the BOJ buying and selling from the market.	Jun-17	
Monetary Policy			
Liquidity provision and dollarization	Continue to remove the bias in the cash reserve requirement structure that favors foreign currency deposits by gradually equalizing the cash reserve and liquid asset reserve requirements for foreign currency and domestic currency deposits in the banking system; the next step in the equalization will occur November 2016.	Nov-16	
	Begin fortnightly meetings between the Cash Management Unit with the BOJ and MOFP to ensure accuracy of liquidity forecasts and aid in liquidity management.	Nov-16	
	Conduct cost-benefit analysis on imposing stricter cash reserve and liquid asset reserve requirement on foreign currency liabilities.	Mar-17	
	Guided by IMF TA, the BOJ will improve the effectiveness of its open market operations and liquidity assurance framework by making the overnight interest rate its policy rate by June 2017. This transition has begun with an adjustment of the interest rate on its overnight deposit facility from 0.25 percent to 3 percent in September 2016.	Jun-17	
BOJ Strength of Balance Sheet	To ensure the strength of the BOJ balance sheet and its capacity to conduct monetary policy with sufficient independence to implement inflation targeting, the BOJ, with the help of IMF TA, will conduct an assessment of its operating requirements and related cost structure, capital position and revenue requirements, and propose a reform plan that can be supported by the MOFP.	Jun-17	
BOJ Act	To enhance the BOJ's governance framework, submit revisions of the BOJ Act to Parliament to improve central bank governance and independence, in line with IMF recommendations. These revisions will modernize arrangements for paying dividends, appointments to the BOJ Board, and provisions of central bank financing to the government.	Sep-17	Yes
International reserves	Steadily phase-out the surrender requirements and borrowed reserves. By end of program, achieve at least 100 percent of ARA metrics and increase the proportion of non-borrowed reserves in NIR through market-based FX purchases.	Dec-19	
Financial Sector			
Securities dealers' reforms	The BOJ will continue to monitor market conditions and compliance with the existing limits in foreign investment and assess the readiness to lift the investment cap for CIS and SDs further, from their current level of 25 percent.	Ongoing	
	Require all securities dealers to conduct regular stress tests and submit test results.	Dec-16	

Reform area	Measures	Date	Structural Benchmark
	With the goal to implement a minimum retail repo leverage ratio by April 2019, by end-October 2016 begin consultations with the industry on the possibility of introducing intermediate targets, and devise a draft plan by January 2017.	Jan-17	
	With the goal of implementing a limit of 25 percent on exposure to counterparty by 2019, by end-October 2016, begin consultations with the industry on the possibility of introducing intermediate targets, and devise a draft plan by January 2017.	Jan-17	
	Instituting mechanisms to ensure full compliance with the provisions of the Securities (Retail Repurchase Agreement) Regulations that require "retail repos" to be governed by a MRRA that is signed by both the dealer and the client.	May-17	Yes
Consolidated supervision	The suite of regulations (which includes capital adequacy requirements for the Financial Holding Companies (FHC), and the form of application) that will comprise the regime for FHC and consolidated supervision will be shared with the industry by end-November 2016; with drafting instructions prepared by March-2017.	Nov-16	
Coordination	Operationalize Financial System Stability Committee by finalizing the appointment of two external members.	Nov-16	Yes
Crisis resolution	Issue for public comment a consultation paper for the resolution framework, developed with support from IMF TA, which describes the draft legislation	Feb-17	Yes
	Submit to Cabinet by May-2017 proposals for legislation to enhance the resolution framework for the financial sector.	May-17	
	Prepare drafting instructions for the CPC, based on the draft legislation, incorporating revisions from public consultation and feedback received on the cabinet proposal.	Jun-17	
	Submit legislation to Parliament for enactment and implement regulations	Dec-17	
Financial inclusion	Establish a financial inclusion council to implement the Cabinet-approved umbrella financial inclusion strategy for the period 2016-20.	Mar-17	Yes
	Tabling a Micro Credit Act in Parliament.	Dec-17	
	To encourage increased participation of data providers in the credit reporting system, review the Credit Reporting Act and propose amendments, if any, to Cabinet.	Dec-18	
Deposit insurance	Legislation to amend the Cooperative Societies Act will be tabled in Parliament by end-April 2017.	Apr-17	
	We will take steps to further strengthen depositor protection and investor compensation across financial institutions, including also credit union depositors. We will update the Proposal for the Establishment of Compensation Schemes for non-DTIs by November 2017.	Nov-17	

Reform area	Measures	Date	Structural Benchmark
Economic Growth Council recommendations			
Macroeconomic stability	Create framework for public debt reduction through a program of privatizations and asset sales.	Mar-17	
Citizen Security and Public Safety	Submit to Cabinet a plan for the rationalization of police stations, the redeployment of assets into high-crime areas and a more mobile strategy for policing.	Mar-17	
	Implement measures to allow witnesses to record their statements and give evidence via video-link.	Mar-17	
	Improve border security and enhance monitoring of Jamaica's air and maritime space through an initial acquisition of surveillance aircraft and marine patrol vessels leading towards the eventual development of a full Domain Awareness Centre.	Mar-17	
	Implement a full legislative review that leads to the tabling in Parliament of (i) a new Police Service Act to replace the Jamaica Constabulary Force Act, that supports the modernization and transformation of the Jamaica Constabulary Force into a modern intelligence-led police service that ensures Citizen Security, with stronger systems of administration, management and internal discipline, (ii) legislation to establish the Major Organized Crime and Anti-Corruption Agency as an independent national law enforcement agency focused on terrorism, major organized crime and serious corruption, (iii) legislation to merge the Corruption Prevention Commission, the Integrity Commission and the Office of the Contractor General into a more empowered single Anti-Corruption Agency with the necessary independence and resources to carry out its functions.	Oct-17	
	Subject to the ruling of the Constitutional Court, extend Proceeds of Crime legislation to include all FATF designated non-financial businesses and professions, including lawyers (consistent with attorney-client privileges), by way of ministerial order subject to affirmative resolution, or other legislative means, to assist in the detection, investigation and prosecution of the laundering of proceeds of crime, including corruption..	Oct-17	
	Submit to Cabinet a proposal for a comprehensive information system for the JCF, including acquisition of the necessary infrastructure that facilitates live feeds from CCTV to area-based control rooms to allow real-time operations control, accompanied by the implementation of proper electronic crime and incident-recording procedures feeding into real-time data analytics to support both strategic management and operations control.	Oct-17	
	Submit to Cabinet a comprehensive plan for normalizing and reintegrating informal settlements, 'garrisons' and high-crime communities, creating safe civic spaces and decent, law-abiding neighborhoods	Oct-17	
Access to finance	Finalize Terms of Reference for Banking Competition Review.	Dec-16	

Reform area	Measures	Date	Structural Benchmark
	Commence phased reviews of banking, insurance and pensions regulations that impact access to finance by March 2017. Implementation of changes in selected sectors will be completed by June 2017.	Jun-17	
	Expand the size of the partial credit guarantee programme at the Development Bank of Jamaica.	Mar-17	
Business climate and red-tape	Begin regulatory review of licensing, permitting and regulatory processes in fisheries, veterinary, agricultural, pharmaceutical, health and quality control divisions of government aimed at boosting efficiency and business competitiveness.	Mar-17	
	Complete the Public Procurement Regulations and the Handbook of Public Sector Procurement Procedures.	Mar-17	
	Implement electronic submission of development approval applications and mandatory use of AMANDA system for development approvals: (i) Table amendments to the Town and Country Planning Act and Local Improvements Act and regulations in Parliament by May 2017; (ii) Complete Public Portal Module II by September 2017; (iii) Complete upgrade of infrastructure to all Local Authorities (LAs) and commenting agencies by December 2017.	Dec-17	
	Complete improvements to the Development Approval Process inclusive of (i) finalization of the of National Spatial Plan by October 2017 (ii) tabling in parliament of the Building Act by March 2017 and (iii) completion of the Development Orders for all parishes by October 2017.	Oct-17	
Asset utilization	Submit to cabinet plan to divest up to 20% of assets held by the UDC and Factories Corporation of Jamaica	Mar-17	
	Improve the scalability and efficiency of the privatization, asset sale and public-private-partnership processes by (i) Increasing the number of Account Executives at the DBJ who handle such transactions (to X) (ii) dedicated staffing at the AG's chambers and the Ministry of Finance who are exclusively focused on these transactions (iii) establish permanently staffed Enterprise Team that handle multiple such transactions (iv) submit to cabinet the protocol and framework for the outsourcing of privatizations to for-profit firms	Mar-17	
Diaspora involvement	Begin feasibility study on institutional framework for promoting, coordinating and organizing economic and social investments by the Diaspora	Mar-17	
	Begin feasibility study of the creation of a Global Jamaican Immigration Card for issuance to members of the Diaspora	Mar-17	

Table 1. Jamaica: Proposed Schedule of Reviews and Purchases

Available on or after	Amount of Purchase SDR millions	Amount of Purchase % Quota	Conditions 1/
November 11, 2016	300.1	78	Approval of Arrangement
March 15, 2017	126.0	33	First Review and end-December 2016 performance criteria
September 15, 2017	126.0	33	Second Review and end-June 2017 performance criteria
March 15, 2018	160.8	42	Third Review and end-December 2017 performance criteria
September 15, 2018	160.8	42	Fourth Review and end-June 2018 performance criteria
March 15, 2019	160.8	42	Fifth Review and end-December 2018 performance criteria
September 15, 2019	160.8	42	Sixth Review and end-June 2019 performance criteria
Total	1195.3	312	

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

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

(In billions of Jamaican dollars unless otherwise stated)

	2016	2017			
	Performance Criteria	Indicative Target	Performance Criteria	Indicative Target	Indicative Target
	End-Dec	end-Mar	end-June	end-Sep	end-Dec
Fiscal targets					
Performance Criteria					
1. Primary balance of the central government (floor) 3/	54.0	123.0	13.4	38.1	61.0
2. Overall balance of the public sector (floor) 3/	-51.5	-17.2	-41.4	-46.9	-55.0
3. Net increase in the central government guaranteed debt (ceiling) 3/	0.0	0.0	0.0	0.0	0.0
4. Central government accumulation of domestic arrears (ceiling) 4/ 10/ 11/	0.0	0.0	0.0	0.0	0.0
5. Central government accumulation of tax refund arrears (ceiling) 5/ 10/ 11/	0.0	0.0	0.0	0.0	0.0
6. Consolidated government accumulation of external debt payment arrears (ceiling) 4/ 10/	0.0	0.0	0.0	0.0	0.0
Indicative targets					
7. Tax revenues of the central government (floor) 3/ 7/	300.0	440.0	100.0	218.0	330.0
8. Change in the stock of public bodies non-guaranteed debt (ceiling) 7/ 12/	-1.0	2.3	7.6	-7.0	-4.1
9. Central government spending on social programs (floor) 3/ 7/ 8/	16.4	24.3	5.0	10.2	17.3
10. Total loan value of all user funded PPPs (ceiling, percent of GDP)	3.0	3.0	3.0	3.0	3.0
Monetary targets					
11. Stock of non-borrowed net international reserves (floor) 6/ 9/	1,428	1,475	1,521	1,637	1,777
12. *Monetary policy consultation clause (in percent)*					
Upper band	9.0	9.0	9.0	9.0	9.0
Center inflation target	5.5	5.5	5.5	5.5	5.5
Lower band	1.0	2.0	2.0	2.0	2.0

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Based on program exchange rates defined in the November 2016 TMU.
3/ Cumulative flows from April 1 through March 31.
4/ Includes debt payments, supplies and other committed spending as per contractual obligations; full definition in November 2016 TMU.
5/ Includes tax refund arrears as stipulated by law.
6/ In millions of U.S. dollars.
7/ Indicative target.
8/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes (defined in TMU).
9/ Stock of BOJ NIR minus all foreign currency CDs to domestic residents.
10/ Continuous performance criterion.
11/ The accumulation is measured against the stock at end-March 2016, which is J$21.0 billion for domestic arrears and J$17.3 billion for tax arrears.
12/ For end-Dec 2016 and end-Mar 2017, these are cumulative flows from October 1, 2016. For subsequent dates, these are cumulative flows from April 1, 2017.

Table 3. Jamaica: New Structural Program Conditionality

	Structural Benchmarks	Timing
Fiscal Reforms		
1	The new rates and bands for property taxes using the 2013 land valuations will be completed and submitted to Cabinet.	December 31, 2016
Monetary policy and financial sector		
2	Operationalize Financial System Stability Committee by finalizing the appointment of two external members.	November 30, 2016
3	Issue for public comment a consultation paper for the resolution framework, developed with support from IMF TA, which describes the draft legislation.	February 28, 2017
4	Establish a financial inclusion council to implement the Cabinet-approved umbrella financial inclusion strategy for the period 2016-20.	March 31, 2017
5	Instituting mechanisms to ensure full compliance with the provisions of the Securities (Retail Repurchase Agreement) Regulations that require "retail repos" to be governed by a MRRA that is signed by both the dealer and the client.	May 30, 2017
6	To enhance the BoJ's governance framework, submit revisions of the BOJ Act to Parliament to improve central bank governance and independence, in line with IMF recommendations. The revisions will modernize arrangements for paying dividends, appointments to the BOJ Board, and provisions of central bank financing to the government.	September 30, 2017
Public Sector Transformation		
7	Build a comprehensive database—by occupational grouping and that includes all types of allowances paid, their amounts as well as the number of employees receiving each type of allowance in a given fiscal year—across ministries, departments, and agencies to ensure adequate control and oversight over this part of the wage bill. Pilots for the Ministry of Finance and the Public Service, the Ministry of Health (medical professionals), Ministry of Education, Youth, and Information (teaching groups) and the Jamaica Constabulary Force (police groups) are ongoing. The dabase for all entities in the central government wage bill will be completed by March 2017	March 31, 2017
8	Complete an employee verification exercise. Island-wide pilots at the Ministry of Finance and the Public Service, the civilian population of the police department, the NIS, and the non-teaching personnel at the Ministry of Education are ongoing. The verification for all entities in the central government wage bill will be finalized by March 2017.	March 31, 2017
9	The creation and application of strict unambiguous rules for the decisions of the Post Operations Committee regarding all types of employment including acting. These rules are to establish a percentage reduction rate which effectively controls the rate of employment and creates a sharp downward trajectory whilst ensuring that the public sector is properly resourced.	March 31, 2017
10	Informed by the compensation review results from end-March 2017, submit public sector wage negotiation framework to Cabinet for approval.	April 30, 2017
11	Identify positions that will be affected due to the implementation of shared corporate services in human resources and quantify the implications through the development of a costed transition plan and schedule.	May 30, 2017
12	Identify positions that will be affected due to the implementation of shared corporate services in Public Relations and Communications, and Internal Audit and quantify the implications through the development of a costed transition plan and schedule.	November 30, 2017

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 precautionary Stand-By Arrangement (SBA). It also describes the methods to be used in assessing the programme performance and the information requirements to ensure adequate monitoring of the targets.

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 programme exchange rates are those that prevailed on August 31, 2016. Accordingly, the exchange rates for the purposes of the programme are show in Table 1.

Table 1. Program Exchange Rates (End-August, 2016) /1

Jamaican dollar to the US dollar	127.57
Jamaican dollar to the SDR	178.07
Jamaican dollar to the Euro	144.50
Jamaican dollar to the Canadian dollar	98.73
Jamaican dollar to the British pound	167.23

1/ Average daily selling rates at the end of August 2016

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 are part of 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, Pilot Programme for Climate Resilience (PPCR II), Sugar Transformation Programme, Agricultural Competitiveness Project, Jamaica Foundations for Competitiveness & Growth, Expansion/upgrading of educational Institutions Infrastructure, Build-out of the Accountant General Department Offices, Upgrading of the Jamaica Conference Centre, Upgrading of the water distribution system – National Arena Facility, Upgrading of water supply system – Bellevue Hospital, University of Technology Enhancement Project (building and infrastructure development), Irrigation infrastructure for Trelawny Stadium, Major Rural Farm Roads Rehabilitation, Production Incentives Programme, Improvement in national security (emergency procurement of equipment).

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

B. Cumulative Floor on Overall Balance of the Public Sector

10. The public sector refers to the "Specified Public Sector" (SPS) as defined under the Fiscal Responsibility Law (FRL). In particular, it consists of the central government and self-financed public bodies that are not deemed "commercial" by the Office of the Auditor General (OAG), based on the set of legislated criteria. It excludes the Bank of Jamaica (BOJ).

11. The TMU will be updated when the formal assessment by the OAG of the commercial nature of public bodies is completed by April 1, 2017. Until completion of this OAG assessment and for the purposes of the SBA, the SPS will consist of the central government and the public bodies listed below.

12. For the purposes of the SBA, public bodies will consist of the following self-financed public bodies: AEROTEL; Airports Authority of Jamaica; Betting, Gaming and Lotteries Commission; Broadcasting Commission; Bureau of Standards; Caymanas Track Limited (to be divested by end FY 2016/17); CHASE; Clarendon Alumina Production Limited; Coconut Industry Board; Coffee Industry Board; Development Bank of Jamaica Limited; Factories Corporation of Jamaica; Financial Services

Commission; Firearm Licensing Authority; Harmonisation Limited; HEART Trust-NTA; Housing Agency of Jamaica Limited; Jamaica Bauxite Institute; Jamaica Bauxite Mining; Jamaica Civil Aviation Authority; Jamaica Deposit Insurance Corp.; Jamaica International Freezone Limited; Jamaica Mortgage Bank; Jamaica National Accreditation Agency; Jamaica Racing Commission; Jamaica Railway Corporation; Jamaica Ultimate Tyre Company Limited; Jamaica Urban Transport Company Limited; Kingston Free Zone Limited; Micro Investment Development Agency; Montego Bay Free Zone; Montego Bay Metro Limited; National Export Import Bank of Jamaica - EX-IM Bank; National Health Fund; National Housing Trust; National Insurance Fund; National Water Commission; National Road Operating and Constructing; Ocho Rios Commercial Centre Limited; Office of Utilities Regulation; Overseas Examination Commission; PetroCaribe Development Fund (PCDF); PetroJam Ethanol Limited; Petrojam Limited; Petroleum Corporation of Jamaica; Port Authority Management Service Limited; Port Authority of Jamaica; Ports Management and Security Limited; Ports Security Corps Limited; Postal Corporation of Jamaica; Public Accountancy Board; Road Maintenance Fund; Runaway Bay Water Company Limited; SCJ Holdings Limited; Self Start Fund; Spectrum Management Authority; Sports Development Foundation; St Ann Development Company Limited; Student Loan Bureau; Sugar Industry Authority; Tourism Enhancement Fund; Transport Authority; Universal Service Fund; Urban Development Corporation; Wigton Windfarms Limited.

13. The overall balance of public bodies will be calculated from the Statement A's provided by the Public Enterprises Division of the Ministry of Finance and the Public Service (MoFPS) for each of the 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 definition of the group of self-financed 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, beyond the aforementioned adjustment, unless specifically stated. All newly created entities, including from the merging of existing entities, will be incorporated into this group of public bodies.

14. 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 listed above.

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

16. **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 US$35 million, converted at the programme exchange rates.

Table 2. Overall Balance of Petrojam (Baseline Projection)	
	In billions of Jamaican dollars
End-December 2016	-2.3
End-March 2017	-1.0
End-June 2017	-1.2
End-September 2017	…
End-December 2017	…

C. Ceiling on Net Increase in Central Government Guaranteed Debt

17. 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 because of consolidation.

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

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

20. 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.

D. Ceiling on Central Government Accumulation of Domestic Arrears

21. 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 2016, which stood at J$21.0 billion.

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

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

E. Non-Accumulation of External Debt Payments Arrears

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

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

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

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

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

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

27. 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.

28. 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 November 11, 2016 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.

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

29. The consolidated government and the BOJ will accumulate no external debt payment arrears during the programme period. 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.

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

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

32. **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 six weeks after the test date.

F. Ceiling on Central Government Accumulation of Tax Refund Arrears

33. **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 2016, which stood at J$17.3 billion.

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

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

G. Floor on the Stock of Non-Borrowed Net International Reserves

36. **Definitions:** Net international reserves (NIR) of the BOJ (NIR-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-borrowed NIR is defined as NIR-BOJ minus all foreign currency liabilities issued by the BOJ and held by residents. Non-U.S. dollar denominated foreign assets and liabilities will be converted into U.S. dollar at the programme exchange rates.

37. 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.

38. 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 (thus excluding all foreign exchange liabilities to residents), including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps and options) and all credit outstanding from the Fund 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.

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

Table 3. External Program Disbursements (Baseline Projection)

Cumulative flows from the beginning of the fiscal year	(In millions of US$)
External loans from multilateral sources	
End-December 2016	202
End-March 2017	217
End-June 2017	21
End-September 2017	92
End-December 2017	214
End-March 2018	235
Budget support grants	
End-December 2016	0
End-March 2017	0
End-June 2017	0
End-September 2017	0
End-December 2017	0
End-March 2018	0
Commercial loans guaranteed by multilateral sources	
End-December 2016	0
End-March 2017	0
End-June 2017	300
End-September 2017	0
End-December 2017	0
End-March 2018	0

40. **Adjusters**: The non-borrowed NIR targets will be adjusted upward (downward) by the surplus (shortfall) in programme loan disbursements from multilateral institutions (the IBRD, IDB and CDB) and commercial loans guaranteed by multilateral sources, 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. The non-borrowed 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.

H. Performance Criterion on the Introduction or Modification of Multiple Currency Practices

41. The performance criterion on the introduction or modification of multiple currency practices (MCP) will exclude the introduction or modification in 2017 of a multiple-price foreign exchange auction system, developed in line with Fund staff advice, that may give rise to a MCP.

II. QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

A. Cumulative Floor on Central Government Tax Revenues

42. 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).

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

B. Ceiling on the Change in the Stock of Public Bodies' Non-Guaranteed Debt

44. Definitions: The non-guaranteed debt of public bodies includes all consolidated domestic and external bonds and other forms of debt by all self-financed public bodies (as defined in I.B.) that is not guaranteed by the central government or any other public entity. The target will be set in Jamaican dollars with foreign currency debt converted using the programme exchange rate. The change in the stock of non-guaranteed debt will be measured "below the line" as debt issuance minus repayments on all non-guaranteed debt by public bodies.

45. For the purposes of computing the non-guaranteed debt target, debt issues are to be recorded at the moment the funds are credited to the account of the corresponding public body. The stock of public bodies' non-guaranteed debt will be measured net of cross-holdings of such debt between the public bodies.

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

47. Adjuster: The target will be adjusted downwards if the government assumes part of previously non-guaranteed debt or if an entity with non-guaranteed debt is subsequently divested/privatized.

48. Adjuster: The target will also 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 US$35 million, converted at the programme exchange rates.

C. Floor on Central Government Spending on Social Programmes

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. Social programmes 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 and security 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 six weeks after the test date.

D. Ceiling on User-Funded PPPs

53. Definition: User-funded PPPs are defined as concessions in which users are expected to be the main source of revenue. 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). The total value of user-funded PPPs at end-September 2016 stood at US$260 million or 1.9 percent of GDP.

54. For the purpose of this condition, the applicable GDP is the projected nominal GDP for the ongoing fiscal year published in the Fiscal Policy Paper tabled in parliament ahead of the adoption of the budget. For FY2016/17, the projected nominal GDP used as a reference is J$1,726 billion, as presented in Table 2H, part 2, Macroeconomic Framework, page 34.

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

III. MONETARY POLICY CONSULTATION CLAUSE

E. Monetary Policy Consultation Clause

56. **Definitions.** Inflation is defined as the change over 12 months of the end-of-period headline consumer price index, as measured and published by the Statistical Institute of Jamaica (STATIN).

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

58. Breaching the inflation consultation band limits (as specified in the TMU, Table 4) at the end of each June/December test dates would trigger a consultation with the IMF's Executive Board on the reasons for the deviation and the proposed policy response before further purchases could be requested under the SBA. Specifically, the consultation will explain (i) the stance of monetary policy and whether the Fund-supported program remains on track;(ii) the reasons for deviations from the specified band, taking into account compensating factors; and (iii) on proposed remedial actions, as deemed necessary.

Table 4. Inflation Consultation Band

	2016				2017	
	Mar. Actual	Jun. Actual	Sep. Actual	Dec.	Mar.	Jun.
Upper band				9.0	9.0	9.0
Actual/Center point	3.0	2.5	1.9	5.5	5.5	5.5
Lower band				1.0	2.0	2.0

IV. 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; outstanding stock of foreign currency CDs to residents by maturity; 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 from the beginning to the end of the current fiscal year (and backward revisions as necessary), with a lag of no more than six weeks after the closing of each month.
- Public entities' Statement A: consolidated and by institution for the self-financed public bodies defined in I.B with a lag of no more than six weeks after the closing of each month.
- Central government debt amortization and repayments (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 six weeks days after the closing of each month.
- Amortization and repayments of public bodies' non-guaranteed debt for each of the Selected Public Bodies listed in I.B
- 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 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 six weeks after the closing of each month.
- The maturity structure of Government debt (domestic and external). The reporting lag should not exceed six 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, and self-financed public bodies.[2] This information should be received with a lag of no more than six weeks after the closing of each month. Ocassionaly
- Profits of the Bank of Jamaica on a cash and accrual basis, including a detailed decomposition of cash profits and profits from foreign exchange operations with a lag of no more than three weeks from month end.
- Deposits in the banking system: current accounts, savings and time deposits within six weeks after month end. Average monthly interest rates on loans and deposits within two weeks of month end; weighted average deposit and loan rates within six weeks after month end.
- Financial statements of core securities dealers and insurance companies within six weeks of month end.
- The maturity profile of assets and liabilities of core securities dealers in buckets within six weeks of month end.
- Data on reserve liabilities items for NIR target purposes (Table 9) within three weeks after month end.
- A full set of monthly FSIs regularly calculated by the BOJ, including liquidity ratios, within eight weeks of month end.
- Monthly balance sheet data of deposit taking institutions, as reported to the BOJ, within four weeks of month end.

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

- 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.
- 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 self-financed 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.