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JAMAICA

December 2015

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

In the context of the Tenth Review, 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 December 16, 2015, following discussions that ended on November 13, 2015, with the officials of Jamaica on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on November 23, 2015.
- A **Statement by the Executive Director** for Jamaica.

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

Letter of Intent sent to the IMF by the authorities of Jamaica*
Memorandum of Economic and Financial Policies by the authorities of Jamaica*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Press Release No. 15/567
FOR IMMEDIATE RELEASE
December 16, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Tenth Review Under the IMF's Extended Fund Facility for Jamaica and Approves US$39.3 Million Disbursement

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

The completion of the review enables an immediate purchase of an amount equivalent to SDR 28.32 million (about US$39.3 million). The EFF arrangement was approved on May 1, 2013 (see Press Release 13/150).

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

"The authorities continue to have an impressive track record of strong program implementation under the Extended Fund Facility. Macroeconomic stability continues to stregthen, vulnerabilities have reduced substantially, and structural reforms have progressed well.

"Jamaica has made important achievements under the economic program. Inflation and the current account deficit have fallen significantly, supported by low oil prices. Business confidence continues to be strong and private credit growth is showing signs of recovery, while public debt is falling. Nevertheless, overall growth remains weak and unemployment, though declining, remains high. Continued structural reforms should help boost investment and growth by sustainably reducing energy costs, improving financial access, and upgrading public infrastructure.

"With macroeconomic stability well-established, the recalibration of fiscal and monetary targets should help support growth and job creation. The modest relaxation of fiscal policy is intended to increase growth-enhancing capital expenditures, while continuing to protect social spending. A looser monetary stance, with a faster pace of monetary growth to create more room for private sector lending, will complement fiscal policy in supporting growth.

"Fiscal sustainability requires continued reduction in the government wage bill and safeguarding revenues. In this regard, concrete efforts are needed to modernize the public sector and improve the efficiency of public services. It is also essential to strengthen fiscal revenues by improving customs and tax administration and broadening the tax base. The liquidity injection associated with the upcoming government bond redemption provides an opportunity to reopen the domestic bond market."

INTERNATIONAL MONETARY FUND

JAMAICA

November 23, 2015

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

EXECUTIVE SUMMARY

Macroeconomic stability continues to strengthen. Inflation and the current account deficit have fallen to historical lows, a product of the low oil prices as well as the ongoing economic adjustment. Growth is expected to be 1.4 percent in FY2015/16 with improving prospects in manufacturing and a modest agricultural recovery as the impact of the drought wanes. Private credit growth is slowly recovering, and unemployment is falling albeit still high.

The program remains on track. All performance criteria for end-September 2015 and structural benchmarks for the review period were met. Based on the authorities' continued strong program implementation and their forward-looking policy commitments, staff recommends completion of the tenth Review.

Focus of the review. Discussions focused on how best to support growth and job creation. The mission agreed on the broad parameters for the FY2016/17 budget which will involve a modest fiscal stimulus both this year and next. With macroeconomic stability well established, monetary goals are also being realigned to be more supportive of the real economy. Policy efforts continue on tax administration, public financial management, and strengthening the resilience of the financial system.

Risks. Continued social support for the program hinges on higher growth and job creation. Improving tax revenues and containing the wage bill are critical for fiscal sustainability. Reopening the bond market may impact bond pricing and yields, with potentially adverse consequences for the financial sector, although this risk has been reduced with the successful transition of retail repos to a trust-based framework.

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

Discussions took place in Kingston during November 4–13, 2015. Staff representatives comprised U. Ramakrishnan (mission chief), N. Che, and J. Wong (all WHD), C. Lonkeng Ngouana (FAD), R. Garcia-Verdu (SPR), and B. van Selm (Resident Representative). They were assisted at headquarters by E. Kapijimpanga and E. Moreno and at the Resident Representative office by K. Tyrell and K. Jones. Mr. Lessard (OED) participated in the discussions.

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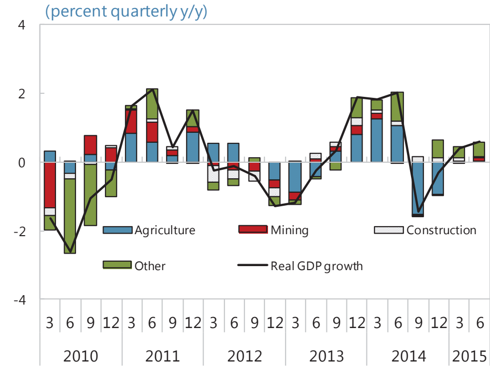
APPENDIX

A GRADUAL ECONOMIC RECOVERY

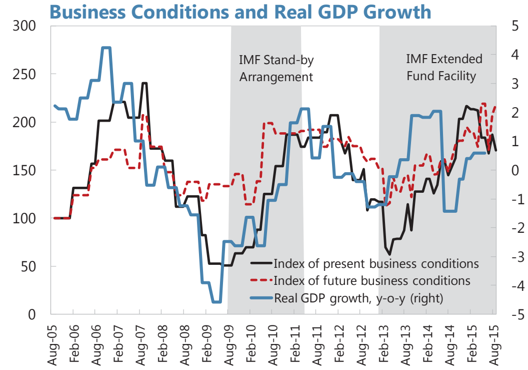
1. **Economic recovery is underway.** The economy grew by 0.6 percent y/y in Q2 2015, driven mainly by the service sector, including tourism, and a modest recovery in agriculture. There are also signs of rising capital investments in tourism. Both consumer and business confidence have generally been on an upward trend, notwithstanding the dip in the September quarter. Unemployment has fallen to 13.1 percent in July—about 0.7 percentage points lower than a year ago—with the business process outsourcing (BPO) sector registering the biggest employment gains. Growth is projected at 1.4 percent in FY2015/16, with a modest recovery in manufacturing and agriculture.

Contribution to Real GDP Growth

(percent quarterly y/y)



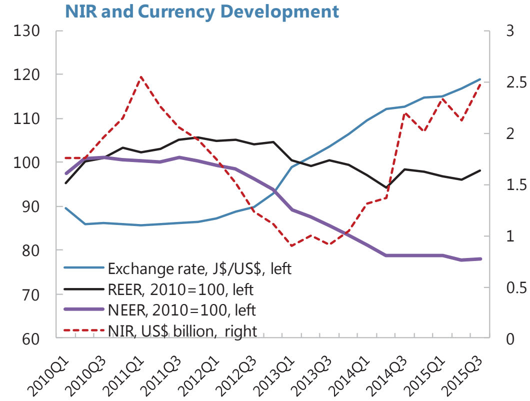
Business Conditions and Real GDP Growth



Source: Bank of Jamaica.

2. **Headline inflation has fallen to historic lows, a product of lower oil prices.** CPI inflation dropped to 1.8 percent in September (y/y), driven by declining fuel prices and, to a lesser extent, a modest recovery in domestic food production following last year's drought. The Jamaican dollar depreciated by 4.5 percent (y/y) against the US dollar in Q3 2015, and the real effective exchange rate in September was 0.3 percent more depreciated than in the same month of last year.

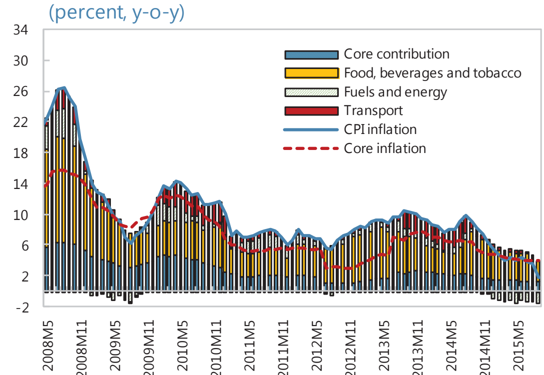
NIR and Currency Development



3. **Low inflation and weak growth has led the Bank of Jamaica (BoJ) to ease monetary policy.** The policy rate (30-day CD rate) has been reduced by 50 basis points since April to 5.25 percent, and the interest rate ceilings have been reduced by a cumulative 200 basis points to narrow the interest rate corridor. The BoJ strengthened liquidity provision through weekly, variable-rate, 14-day repo auctions starting in October. The BoJ also doubled the limit on its overnight Standing Liquidity Facility and launched in October 4-month repo offerings of J$6.6 billion. However, the effect of the policy rate reduction on the 14-day repo rate was largely offset by the liquidity tightening implied by the BoJ's partial sterilization of its sale of FX. Short-term market rates have declined modestly (the 6-month T-bill rate dropped by about 40bps to 6.2 percent between June and October).

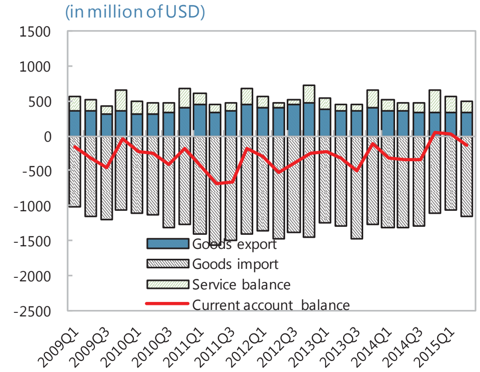
Contribution to CPI Inflation

(percent, y-o-y)

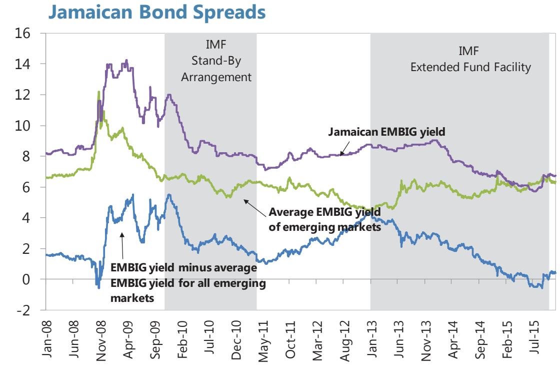


4. **The current account deficit continues to shrink.** The trade deficit for goods fell by 11 percent (y/y) in the first half of 2015, mainly due to lower oil prices. The current account deficit dropped to US$ 83.5 million (0.6 percent of GDP) in Q2 2015, as a result of the lower trade deficit, strong tourism inflows, and growth in remittances. Net international reserves (NIR) stood at US$2.4 billion at end-September, substantially exceeding the program target. Jamaica's sovereign bond spread remains at the emerging market (EM) average, although it has widened slightly relative to other EMs after the large external bond issuance in July and outflows from emerging markets in August.

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



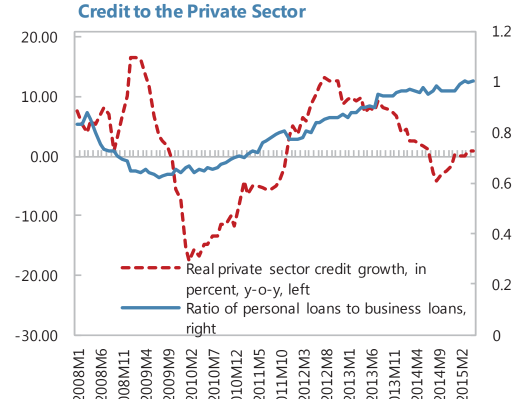
Jamaican Bond Spreads



Source: Bloomberg.

5. **Bank credit has expanded slightly and financial sector vulnerabilities are slowly diminishing.** Following the BoJ's policy rate reductions, credit to the private sector is showing some signs of recovery, increasing by about 7 percent (y/y) in real terms in September. And for the first time in over a year, business loan growth outstripped consumer loans. The BoJ's recent stress test results show both banks and securities dealers are more resilient to shocks than in previous quarters. Banks' non-performing loans (NPL) and capital adequacy ratios have remained stable. Following the transition of the retail repos to a trust structure in August, the size of retail repo liabilities has continued to fall, dropping by 30 percent from June to October. Meanwhile, savings into collective investment vehicles have been growing, with total funds under management increasing by close to 20 percent in the first half of 2015.

Credit to the Private Sector

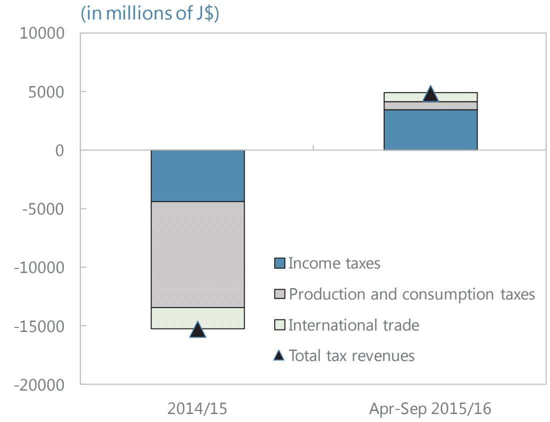


6. **There are still important risks to the program**. Maintaining social consensus for the government's reform agenda hinges on achieving faster growth, greater job creation, and steadily improving living standards. Fiscal sustainability remains vulnerable to revenue weakness and overruns in the wage bill. A disorderly unfreezing of the government bond market could result in an upward shift in the yield curve, and could affect financial sector stability, though this risk has been reduced with the successful transition of retail repos to a trust-based framework. Election-related uncertainty could also create market volatility and slow the reform momentum.

PROGRAM IMPLEMENTATION REMAINS STRONG

7. **All quantitative performance criteria (PCs) and structural benchmarks for end-September 2015 were met.** The central government's primary balance target was met with higher tax receipts and lower-than-projected capital expenditures which compensated for weak non-tax revenues and grants. Corporate, excise and sales tax revenues continued their strong performance partly reflecting substantial collection of tax arrears. The overall public sector fiscal balance was comfortably above program targets as the balance of public bodies ended in surplus. The NIR and net domestic assets (NDA) continue to outperform program targets by a large margin.

Difference in Tax Revenues, Budget vs. Outturns
(in millions of J$)



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

	9th Review PC End-Sept. 2015	Adjusted PCs End-Sept.	End-Sept. Actual	Difference	PC Status End-Sept. 2015
Fiscal targets					
1. Primary balance of the central government (floor) 3/	40.0		50.8	10.8	Met
2. Tax Revenues (floor) 3/9/	185.0		195.1	10.1	Met
3. Overall balance of the public sector (floor) 3/	-34.0	-30.5	9.2	39.7	Met
4. Central government direct debt (ceiling) 3/4/	40.0		-11.0	-51.0	Met
5. Central government guaranteed debt (ceiling) 3/	2.0		0.0	-2.0	Met
5. Central government accumulation of domestic arrears (ceiling) 5/11/12/	0.0		-1.3	-1.3	Met
7. Central government accumulation of tax refund arrears (ceiling) 6/11/12/	0.0		-4.3	-4.3	Met
8. Consolidated government accumulation of external debt payment arrears (ceiling) 5/11/	0.0		0.0	0.0	Met
9. Social spending (floor) 8/9/	9.2		14.0	4.8	Met
Monetary targets					
10. Cumulative change in net international reserves (floor) 7/10/	-463.3	-469.6	444.2	913.8	Met
11. Cumulative change in net domestic assets (ceiling) 10/	56.1	56.8	-51.9	-108.8	Met

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Based on program exchange rates defined in the June 2015 TMU.
3/ Cumulative flows from April 1.
4/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
5/ Includes debt payments, supplies and other committed spending as per contractual obligations.
6/ Includes tax refund arrears as stipulated by law.
7/ In millions of U.S. dollars.
8/ Indicative target.
9/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
10/ Cumulative change from end-March 2014.
11/ Continuous performance criterion.
12/ Measured as the change in the stock of arrears relative to the stock at end-March 2014.

Box 1. Structural Reform Progress Since the Ninth Review

1. The Procurement Act was passed.
2. A new Cash Management Unit was established in the Accountant General's Department, and the cash management function was transferred to the Unit (structural benchmark).
3. A new organizational structure for the Auditor General's Office was approved.
4. Updates of the existing regulations for licensed deposit taking institutions were completed to facilitate the implementation of the BSA.
5. The Banking Services Act was made effective (structural benchmark).
6. A sustainability framework for the existing Agro Parks and selection criteria for new Parks was completed.
7. A revised Electricity Act became effective.
8. Legislation was tabled governing the tax regime that will be part of the SEZ legislation, consistent with the criteria listed in the June 2015 MEFP (structural benchmark).
9. The BoJ was given the overall responsibility for financial stability (structural benchmark).
10. A strategy to introduce and gradually tighten prudential standards for the securities sector has been developed and industry consultation started.

8. **Structural reforms are moving steadily ahead (Box 1).** All structural benchmarks through September have been met, including for establishing a new Cash Management Unit in the Accountant General's Department (AGD), tabling legislation on the tax regime in special economic zones, implementing the Banking Services Act, and giving the BoJ the overall responsibility for financial stability. Progress has also been made in tax administration, public financial management, and removing bottlenecks for growth.

SUPPORTING GROWTH AND JOB CREATION

9. **Building growth momentum necessitates a recalibration of the program.** Good progress has been made in strengthening the public debt dynamics through continued high primary surpluses and the recent PetroCaribe debt buyback operation. However, at the same time, the pace of job creation and overall economic growth continues to undershoot program goals. Staff and the authorities agreed that with macroeconomic stability on a stronger footing—inflation is low, the current account deficit has shrunk, and policy credibility has been built—there was scope to provide further support to the real economy.

A. Relaxing the Fiscal Stance

10. **In order to provide fiscal space for pro-growth investments, the primary balance target has been lowered by 0.25 percent of GDP in FY2015/16 and 0.5 percent of GDP in FY2016/17**. The direct growth effects from such spending are likely to be modest given its large import component. However, the incremental investment will help fill some of the more salient infrastructure gaps which will yield long-term dividends in both competitiveness and economic activity. The government is particularly focused on (i) developing irrigation infrastructure;

(ii) expanding Agro Parks; (iii) building farm roads; and (iv) developing drainage, bridges, and arterial and secondary road infrastructure. It was agreed, though, that a medium term primary balance target of 7 percent of GDP remains an important anchor for fiscal and debt sustainability.

11. **There are, however, risks to achieving the planned scaling up of growth-enhancing spending in FY2015/16.** There are downside risks to tax revenue in the second half of the fiscal year due to a smaller-than-anticipated yield from large audits as well as delays in the implementation of the transfer pricing legislation and the environmental levy. Non-tax revenues have also been underperforming. Without concerted action, the revenue shortfall could be up to 0.2 percent of GDP for this fiscal year. On the expenditure side, the public wage bill remains high and is set to rise by 9 percent in nominal terms in FY2015/16 (excluding back pay) due to increases in the base pay and allowances under the recent wage agreements. This will push the wage bill for FY15/16 to 10.3 percent of GDP, 0.2 percent of GDP higher than previously anticipated. In light of these developments, the authorities are developing plans to cut spending on lower priority programs so as to preserve social spending and ensure the needed expansion of priority investment.

12. **The 2016/17 budget will lower the primary surplus to 7 percent of GDP.** The budget is scheduled to be adopted by parliament in March 2016 (MEFP, ¶4). The lower target for the primary surplus aims to raise growth-inducing capital spending (¶10). The main issues surrounding the FY2016/17 budget relate to containing the wage bill and safeguarding tax revenues.

13. **The government remains committed to the challenging goal of reducing the wage bill to 9 percent of GDP**. Under current policies, including the recently signed wage agreements, staff estimates the wage bill to be 9.7 percent of GDP in 2016/17. The government reiterated its commitment to the wage bill target of 9 percent of GDP and is currently identifying measures to supplement those already embodied in the wage agreements (which include attrition and voluntary separation)[1]. Without high quality and durable measures to lower the wage bill, the authorities will either have to further squeeze non-wage current spending or under execute their planned increase in capital spending. The authorities recognized these challenges, but noted that the recent wage increases, coming after a three-year wage freeze, were necessary to maintain social stability. They agreed that, starting next fiscal year, there will be a systematic effort to modernize the public sector with an overall reduction in public sector employment through:

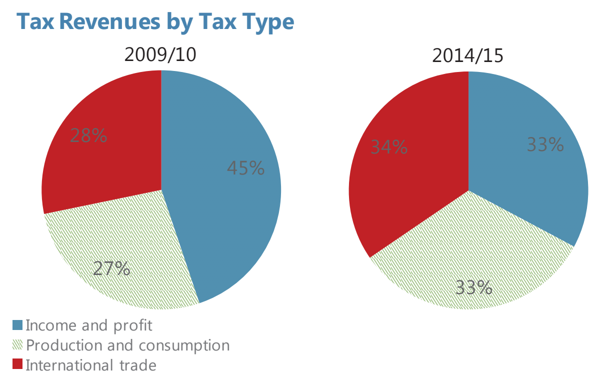
- divestment of public enterprises and government units;
- enhancing efficiency through shared services;
- beginning to modernize select ministries;

[1] Table 3 assumes a nominal wage bill increase in 2017/18 matching that in 2016/17, resulting in a wage bill ratio of 9.3 percent of GDP. Achieving the wage bill target of 9 percent of GDP would create additional fiscal space for growth-promoting investments.

- advancing the implementation of the human resources software (with IDB support) to provide a dynamic picture of the public sector employment and compensation by putting in place a full-time dedicated project team (*proposed new structural benchmark for January 2016*); and
- prioritizing government functions and the associated employment.

To this end, significant technical work and data gathering are expected to begin soon to determine the level and distribution of employment, wages and allowances across the public sector. Given the multi-year extent of this reform, however, results are likely to take time to emerge.

14. **Improving the efficiency of the tax system and countering an eroding tax base are key priorities**. Over the last five years, there has been a welcome revenue shift from income to consumption taxes. However, the tax base is being eroded by a decline in government interest payments, falling real wages in the public sector, a rising PAYE threshold, and specific excise taxes that are set in nominal terms. Several policy options are available to improve the efficiency of the tax system (Box 2). Staff would favor focusing over the near-term on a wider coverage of the General Consumption Tax and indexing specific excises to inflation. Over the medium term, distortive taxes such as transfer taxes and the stamp duty should be phased out in favor of a capital gains tax. The existing property tax should also be modernized. The authorities are weighing these options and are conscious of minimizing the impact on lower income groups of any tax policy change. They also noted that frequent changes to tax measures are involve sizable compliance costs, especially for small businesses, and could corrode confidence.



15. **The weakening revenue dynamics underscores the importance of improving tax and customs administrations.**

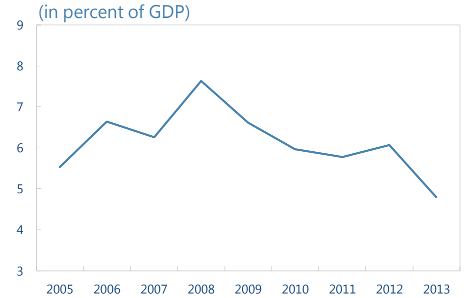
- The solid revenue performance during the first half of FY2015/16 was largely driven by improved arrears collection, especially in the large taxpayers' office (LTO). Going forward, efforts to strengthen compliance through the full adoption of e-filing for LTO clients will be paramount (MEFP ¶8).
- The forthcoming implementation of phase 2 of the RAiS (GENTAX) tax software for all major tax types (structural benchmark for end-December 2015) and its linking to the Enterprise Content Management System for electronic imaging of returns will help automate functions in the Tax Authority of Jamaica (TAJ) (MEFP ¶8).

Box 2. Recent Tax Reforms

Significant progress has been made in reforming tax incentives. The 2013 Charities Act and the Fiscal Incentives Act (FIA) repealed a number of incentives and exemptions, and also simplified rates:

- Discretionary waivers beyond a *de minimis* cap were discontinued, a tax exempt status was introduced for registered charities, and CIT rates across all non-regulated sectors were harmonized at 25 percent.
- The Employment Tax Credit, which can reduce effective CIT rates to 17.5 percent, was introduced for companies that adopted the FIA. A straight-line depreciation method was applied to capital and motor vehicle depreciation allowances which were also simplified and broadened.
- The customs tariff structure was greatly simplified to limit rate dispersion and improve reporting.

Total Tax Expenditures
(in percent of GDP)

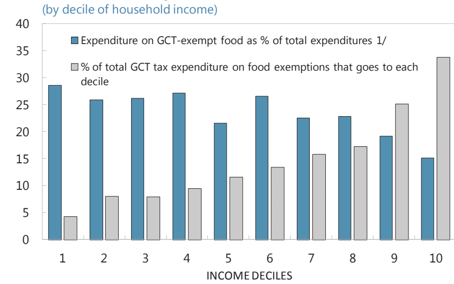


Sources: Jamaica Authorities and Fund staff calculations

Tax expenditures (which had been dropping since 2008) registered a marked drop in 2013, partly reflecting reforms that broadened the tax base. This trend is expected to continue in the aftermath of the 2013 tax reforms.

The GCT base was also expanded, including by eliminating the zero-rating of public sector purchases, eliminating exemptions for some foodstuff, and applying GCT on electricity for households consuming over 350 KwH/month (less than 10 percent of households).

GCT Food Exemption Incidence
(by decile of household income)

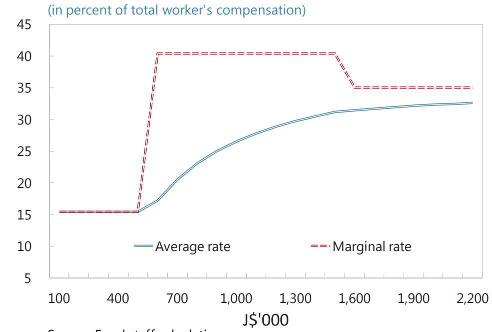


1/ Total expenditures exclude utilities and housing rental/mortgage payments.
Sources: Jamaican authorities and Fund staff calculations

There is scope to further improve tax efficiency. Progressivity could be enhanced by further eliminating exemptions. Taxes on gross asset values such as the transfer tax and the ad-valorem stamp duty are highly distortive, discourage profitable transactions and encourage informal ownership, all of which are drags on growth. A capital gains tax, although more difficult to administer, would be less distortive. Strengthening property taxes would provide a much needed source of own revenue for local governments and thus reduce transfers from central government. The property tax, which tends to be progressive, has also been shown to be associated with higher growth rates and encouraging more efficient property allocation. Furthermore, compliance can be improved when property transfer taxes, which are prone to collusion and under-declaration, are eliminated. Going forward, safeguards should also be put in place to minimize revenue leakages from new incentive measures such as SEZs.

Additional reforms in the PIT and contributions are needed to lower the wedge between the formal and informal sectors. PIT and combined employer and employee contribution rates are substantial. Although the average rate is progressive, high marginal rates kick in at relatively low income levels due to the use of a flat rate system with a nominal tax free threshold. Based on rudimentary income distribution data from household surveys, and assuming that everybody operates in the formal sector, less than two-fifths of the labor force is subject to the lower marginal rate of 15 percent.

PIT and Contributions
(in percent of total worker's compensation)



Source: Fund staff calculations

- With regards to the revenue risks posed by the Special Economic Zones (the law was tabled in October), the authorities agreed on the need to address current weaknesses in the post-clearance audit program by hiring more auditors for the unit (*a proposed new structural benchmark for March 2016*) and putting in place strong regulations and administrative controls on companies covered by the SEZ (such as well-defined eligibility criteria, bonded warehouse controls, and strict sanctions against tax evasion).
- The TAJ is currently preparing Fiscal Impact Reports which follow-up on the entity-by-entity review of grandfathered tax incentives which will help assess the long-term impact of recent tax reforms.

16. **There have been advances in public financial management but hurdles remain.** A comprehensive plan has been published to expand and improve the Treasury Single Account (TSA) (MEFP ¶10). Steps have also been taken to modernize the AGD, including transferring the cash management function to the Cash Management Unit within the AGD (MEFP ¶10). Still, there was broad agreement that further steps are needed to improve liquidity management and strengthen the TSA and the Central Treasury Management system. Work is also beginning on a thorough review of public bodies which will improve governance and efficiency and assure these entities comply with public financial management rules (*proposed new structural benchmark for June 2016*).

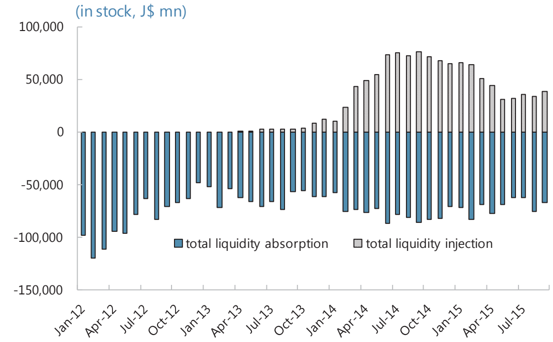
B. Relaxing the Monetary Stance

17. **A looser monetary stance will complement fiscal policy in supporting job creation and growth**.

- With inflation at low levels, the policy rate reductions and the narrowing of the interest rate corridor are important steps in signaling the BoJ's policy intention for a looser monetary stance. The recently introduced 14-day repo auction is a welcome step in strengthening the liquidity provision framework.

Bank of Jamaica Monetary Operations

(in stock, J$ mn)



(Liquidity absorption includes BoJ CDs, o/n deposits, USD indexed notes, and FX sales; liquidity injection includes o/n liquidity facilities, reverse repos, and FX purchases.)

- However, despite these recent policy changes, liquidity conditions in the financial sector have tightened, given that the BoJ is not fully sterilizing its recent FX sales. The 14-day repo rate has increased, driving a wedge between the BoJ policy rate and the market rate, and potentially generating mixed policy signals.
- Ongoing weak economic growth and low inflation call for a more decisive easing of monetary policy, while remaining cognizant of the need to accumulate reserves. To facilitate this, staff has proposed a loosening of program targets to allow for a faster pace of base money growth, creating room for greater private credit growth. The BoJ should actively use this additional space and inject liquidity to support the real economy. Liquidity conditions could also be improved by relaxing the sterilization associated with future FX purchases.

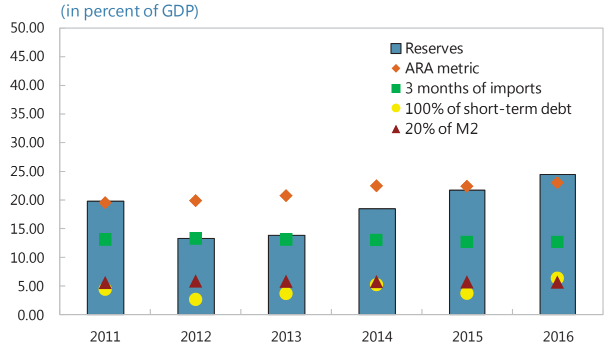
- To improve the transmission of the policy rate cuts to the real economy, the BoJ should move towards a clearly defined interest rate corridor by consolidating the two liquidity facilities that form the interest rate ceiling and merging the two facilities at the floor, and use its liquidity operations to steer short-term rates to the middle of that corridor.
- Clearly communicating the BoJ's objectives and defining an operational target (which could be a point or target range for a designated short-term interest rate), combined with continued exchange rate flexibility, will further strengthen the signaling power of the BoJ's policy actions and boost policy credibility.

The BoJ considered that its current monetary policy intention has been clearly communicated through the downward policy rate shift and narrowing of the interest rate corridor. It also noted that, guided by IMF TA, it is developing a comprehensive strategy to improve the effectiveness of its liquidity management framework and enhance the monetary policy transmission mechanism.

18. **In the coming months, the BoJ will need to continue purchasing reserves, and its FX market sales should continue to be used only to curb excess currency volatility.**

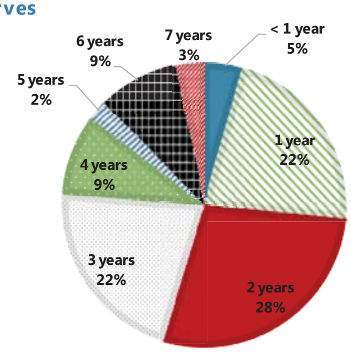
- Despite increased surrendering requirements since the beginning of the year and reduced FX demand from public enterprises (given lower oil prices), there has not been any trend increase in the BoJ's net FX purchases. Indeed, net purchases were negative in September and October.
- Jamaica's gross reserves are projected to exceed 100 percent of the IMF's ARA metric by the end of the program period. But to achieve the projected reserve level, additional net FX purchases are required during FY2016/17. Currently, around US$1 billion of reserves (or a third of the current stock of gross reserves) is borrowed from commercial banks (by issuing US dollar certificates of deposit with an average residual maturity of 2.5 years).

Reserve Adequacy
(in percent of GDP)



- Further market purchases of reserves would lessen the reliance on borrowed reserves from domestic banks. Such purchases should take place through fixed-volume auctions which will help facilitate the development of the FX market. Over the medium term, the BoJ should gradually lower its FX surrender requirements and, instead, move toward relying on market purchases as the main tool for reserve accumulation. All of this will require limiting FX sales to only smooth lumpy transactions that would otherwise create unusual market volatility. Nominal depreciation should, at a minimum, offset the inflation differential with Jamaica's trading partners so as to preserve the competitiveness gains made so far under the program. The authorities agreed with the importance

Maturity Distribution of Borrowed Reserves



of further refining the FX management tools but emphasized that these reforms were complex and would take time.

19. **Plans to reopen the domestic bond market are being considered in the context of the large government bond repayment due in February 2016**. The redemption of a J$62 billion (about 4 percent of GDP) GoJ bonds, and the associated liquidity spike which creates demand for new assets, provides an opportunity for the government of Jamaica to restart the bond market through issuing bonds at various maturities. To smooth out this large amortization, the authorities have a strategy that involves a combination of new issuance of securities by the Ministry of Finance (MoF), partial sterilization of the liquidity injection by the BoJ using instruments at staggered maturities, and allowing for some liquidity expansion, in line with the monetary goals of the program. The authorities agreed that meeting the challenges of this large amortization payment will provide an opportunity to deepen the collaboration between the MoF and the BoJ on debt and liquidity management. They also agreed that communicating the strategy clearly would help investors plan ahead and mitigate any risk of a disorderly market reaction.

A STRONGER FINANCIAL SYSTEM

20. **The next step of the securities dealers' reform will be to strengthen prudential regulations.** The recent transition of retail repo contracts to a Trust-based model was an important milestone in the reform agenda. It will help improve transparency of the retail repo businesses and protect client interests. Nevertheless, there is still an important maturity mismatch between assets (long-term government securities) and liabilities (short-term, deposit-like instruments) for the remaining retail repo contracts. To address the potential financial stability risks, a strategy for reforming the prudential regulations, including by increasing the capital requirements for securities dealers, is currently being developed (MEFP ¶16).

21. **Other actions are being taken to strengthen financial sector resilience.** The new Banking Services Act is in effect (structural benchmark, September 2015), which, inter alia, harmonizes prudential standards across the deposit-taking institutions' (DTIs), enhances their code of conduct and regulates how DTIs can entrust other agents to deliver certain banking services (agent banking). Key regulations under the Act will be completed in two stages: (i) by March 2016, the code of conduct on consumer-related matters and regulations on agent banking will be done; and (ii) the regime for financial holding companies and consolidated supervision are expected to be completed by July 2016 (MEFP ¶16). As an important step of mending the gaps in financial sector supervision, the BoJ has been given the overall responsibility for financial stability (structural benchmark, November 2015). Work continues on the legal framework supporting the national crisis management plan and the resolution framework for banks and securities dealers, with technical assistance from the IMF (MEFP ¶17).

RAISING POTENTIAL GROWTH

22. **Social protection programs continue to be a priority.** A strategy is in place to provide targeted assistance to those households supported by conditional cash transfers (through the PATH program) in the form of job training programs, grants for continued education, and assistance with job search. The government is also working to streamline procedures for making social transfers, deepening the infrastructure for electronic payments of social protection programs in rural areas, and strengthening the administrative efficiency of social protection programs (MEFP ¶29).

23. **Improving the business environment is crucial to support growth and encourage investment.** Jamaica has made significant progress since the start of the program. *Doing Business 2016,* released by the World Bank in October, shows that Jamaica ranked at 64 among 189 countries in 2016, an improvement of 7 positions from last year. The progress was mainly driven by improvements in addressing insolvency, issuing construction permits, process for starting a business, and ease of paying taxes. Still, significant constraints remain. Progress is needed in property registration, trade facilitation, and contract enforcement. The efficiency and business-friendliness of the tax administration also requires continued improvement.

Ease of Doing Business Rank for Selected Countries (2015–2016)

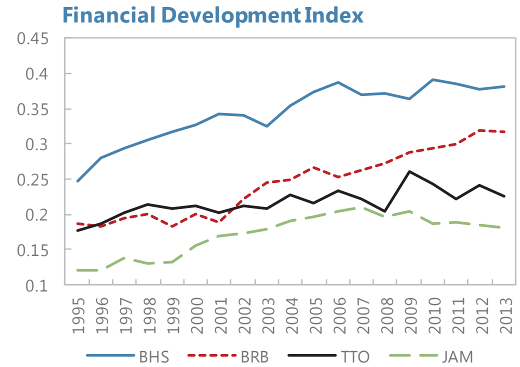
	2015	2016	+/-
Macedonia	14	12	2
Mauritius	31	32	-1
Montenegro	47	46	1
Jamaica	71	64	7
Trinidad and Tobago	85	88	-3
Bahamas, The	108	106	2
Barbados	116	119	-3
Belize	118	120	-2
Guyana	132	137	-5
Suriname	154	156	-2

24. **Supply side reforms should continue to focus on reducing the cost of doing business, promoting private sector credit, and lowering electricity costs.**

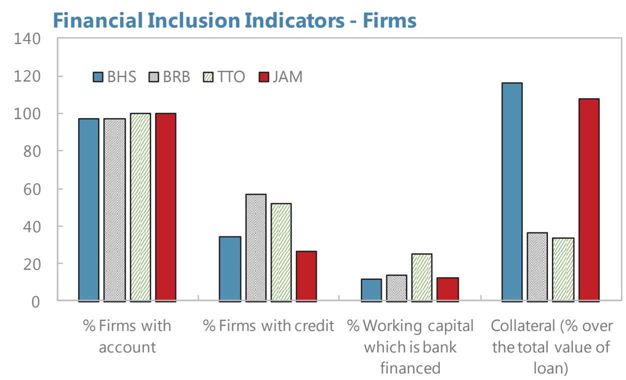
- Work is underway to standardize the application fee structure for construction permits and reduce the time needed for obtaining electricity connections. The Development Applications Process is also being streamlined to further reduce the approval time needed for commercial development projects.
- There is significant scope for improving financial inclusion in Jamaica (Box 3). In this regard, the Development Bank of Jamaica is expanding its direct lending and partial guarantee schemes to private businesses, especially to small and medium-sized enterprises (SMEs). A new credit line for SMEs will be set up in collaboration with the World Bank.
- Construction started in October to convert the Bogue power plant from oil to gas. The 190MW gas-fired plant by Jamaican Public Services is expected to reach financial closing by December 2015. For the associated gas terminal project, a preferred bidder has been selected and contract negotiation is in progress. Meanwhile, the alumina company Jamalco has committed to building a 50MW power plant sourced from coal or natural gas. Collectively these projects will serve to lower the electricity cost by reducing the reliance on expensive, imported petroleum for power generation. In addition, constructions for three new renewable energy plants (80MW in total) are in progress and expected to be completely in 2016.

Box 3. Financial Deepening and Inclusion in Jamaica

Financial development in Jamaica lags that of its neighbors. When compared to countries like the Bahamas, Barbados or Trinidad and Tobago, Jamaica's levels of financial development have lagged since 1995.[1] Jamaica lags in all three financial institution development categories—both depth and access are weak in Jamaica but it scores particularly low on efficiency, driven by high overhead, spreads, and margins. The deposit-lending interest rate spread in Jamaica averages 14 percentage points, compared to about 6 percentage points in both Barbados and Trinidad and Tobago and 3 percentage points in Bahamas. This generates a measured net interest margin of about three times that of Bahamas, the best performer in the group. The lack of efficiency is also seen in overhead costs which are almost 8 times as high as those of Barbados. On the development of financial market, Jamaica comes out ahead of Trinidad and Tobago, driven mostly by a strong stock market and sizable debt outstanding in both the public and private sectors.



Although Jamaica does well in bank account coverage, obstacles remain for actual usage. A high percentage of households and formal businesses in Jamaica have bank accounts. Still, credit to the private sector represents only 29 percent of GDP while deposits total 40 percent of GDP. Only 11 percent of households have a credit line; in contrast, nearly 30 percent report borrowing from family and friends or an informal lender. Among SMEs, a similar picture emerges: only 26 percent report having a credit line, compared to over 50 percent in both Trinidad and Tobago and Barbados. About 13 percent of firms use banks to finance working capital, compared to a quarter in Trinidad and Tobago. These low levels of actual usage could be related to the high levels of collateral, which average about 207 percent of the value of the loan, only lower than those in Bahamas and substantially higher than the other two neighbors' levels of about 135 percent.



Several policies could be leveraged to improve financial deepening and increase access to finance. Increasing the number of products targeted to low income households, SMEs and agricultural finance such as micro-insurance, regular saving products, factoring, and leasing would improve inclusion. The existing partial credit guarantee of the Development Bank of Jamaica could be revamped to help mitigate information asymmetries and credit risks for the lender, while enhanced transparency and financial literacy would allow consumers to better compare products. Costs of financial services could be decreased through an expansion of payment infrastructure and policies to promote banking competition.

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[1] Financial development is measured as a composite index which aggregates sub-indices for financial institutions and financial markets, with development measured across depth, access, and efficiency. For further details, see IMF, Western Hemisphere Dept., (2015). "Advancing Financial Development in Latin America and Caribbean", *Regional Economic Outlook, October, 2015*.

PROGRAM ISSUES

25. **Staff proposes modifying the performance criteria on the primary balance of the central government, overall balance of the public sector, central government direct debt, and net domestic assets, in line with the proposed adjustments in the fiscal stance**. The modifications are proposed for December 2015, March 2016, and June 2016. New performance criteria for September 2016 are proposed, as well as indicative targets through the expiration of the program in April 2017. In addition, staff proposes new structural benchmarks on public bodies, public sector transformation, and customs administration.

Public Borrowing Program (US$ million)

	2014/15	2015/16	2016/17
Financing Needs	841	3599	577
Uses of debt financing			
Budget financing [1/]	841	3599	577
Financing Sources			
Short-Term	124	218	222
Medium/Long-Term	1404	2959	435
Deposits drawdown	-688	422	-80

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

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

STAFF APPRAISAL

27. **Program implementation remains strong and macroeconomic stability has been strengthened.** The authorities' commitment to the program is commendable: all quantitative conditions have been met, and structural reforms continue to progress on schedule.

28. **Sustained and dynamic growth remains elusive.** Important achievements have been made under the program: inflation has dropped to a historical low; the unemployment rate is slowly declining; the external balance continues to improve; public debt is falling; and vulnerabilities have been significantly reduced on a number of dimensions. Notwithstanding improving signs of economic activity, overall growth continues to disappoint.

29. **Capital spending will be critical to strengthen growth and employment, increase economic opportunities, and raise living standards.** Investments to reduce electricity costs must continue without delay, while strategic investments in logistics and transportation have the potential to give a large long-term boost to the economy. Putting in place a financial inclusion strategy and further exploring ways to boost SME financing will help alleviate constraints on private investment and job creation.

30. **The 2016/17 budget offers an important opportunity to support the economy.** The relaxation in the fiscal stance will allow for much needed spending in infrastructure projects. It will

be important to ensure that such spending is not displaced by either current spending or weak revenue performance. In addition, a swift execution of these capital projects will be instrumental in generating confidence and growth momentum. There are risks to the scaling up of the capital projects because of the higher-than-programmed increase in the public wage bill this fiscal year and next. Efforts are urgently needed to sustainably lower the wage bill by creating a smaller and more effective public sector. Such efforts should begin immediately since they will take time to yield results. Strengthening tax and customs administration must also be a priority with particular attention to ensuring tax bases are not eroded by the new SEZs. Public financial management reforms that improve the TSA and enhance oversight over public bodies are crucial for public sector efficiency gains.

31. **A further loosening of monetary conditions is needed.** In the current environment of low inflation expectations, economic slack, and more supportive fiscal targets, monetary policy should refocus on lowering the costs of private credit while remaining attuned to the need to sustain a modest rate of inflation and accumulate non-borrowed international reserves. The J$62 billion liquidity inflow expected in February from a government bond repayment will need to be smoothed out through new bond issuance by the government and partial sterilization operations by the BoJ. However, some of this liquidity injection should be allowed to remain in the system to encourage private credit and provide much-needed support to economic activity.

32. **Exchange rate flexibility must safeguard hard-earned competitiveness gains.** The exchange rate should remain market-determined and preserve the competitiveness gains achieved so far under the program. FX sales into the market should be confined to counteracting excess volatility in the exchange rate. Over the next year, the principal focus should be on building reserves through measured FX purchases.

33. **Steps should now be taken to re-open the domestic bond market.** The completion of the transition of retail repos to the trust-based framework and steps to strengthen financial sector safeguards should allow the domestic bond market to be restarted in the near future. The bond repayment next February provides a valuable opportunity to reopen the market through new issuances by the GoJ.

34. **There are still important risks to the program but the reforms put in place over the past two years are yielding results.** External financing and debt sustainability risks have abated, the economy is on a stronger footing, and financial system vulnerabilities have diminished. However, there is a risk of reform fatigue and fading social support for the program if the growth response continues to be weak.

35. **The authorities' commitment to the implementation of their economic program continues to merit the support of the international community.** Staff supports the authorities' request for completion of the tenth review of the arrangement under the Extended Fund Facility, and the proposed establishment and modification of performance criteria. The proposed revision of fiscal and monetary targets should provide important room to boost growth and lower unemployment while keeping debt on a sustainable path.

Table 1. Jamaica: Selected Economic Indicators 1/

Population (2013): 2.8 million
Quota (current; millions SDRs/% of total): 273.5/0.11%
Main products: Alumina, tourism, chemicals, mineral fuels, bauxite, coffee, sugar

Per capita GDP (2013): US$5060
Literacy rate (2011)/Poverty rate (2012): 86.4%/19.9%
Unemployment rate (Apr. 2015): 14.2%

			Prel.	Prog.	Projections					
	2012/13	2013/14	2014/15	2015/16	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
(Annual percent change, unless otherwise indicated)										
GDP and prices										
Real GDP	-0.8	1.0	0.2	1.4	1.4	2.5	2.6	2.8	2.7	2.7
Nominal GDP	6.2	9.4	6.9	5.9	5.8	8.9	9.4	9.6	9.2	8.9
Consumer price index (end of period)	9.1	8.3	4.0	6.1	6.1	6.5	6.8	6.5	6.0	6.0
Consumer price index (average)	7.2	9.4	7.2	4.5	4.3	6.3	6.7	6.7	6.3	6.0
Exchange rate (end of period, J$/US$)	98.9	109.6	115.0	...	...	...	...	...	...	...
Exchange rate (average, J$/US$)	91.2	103.9	113.1	...	...	...	...	...	...	...
Nominal depreciation (+), end-of-period	13.3	10.8	5.0	...	...	...	...	...	...	...
End-of-period REER (appreciation +) (INS)	-2.2	-4.8	7.3	...	...	...	...	...	...	...
End-of-period REER (appreciation +) (new methodology) 2/	-3.4	-4.3	...	...	...	...	...	...	...	...
Treasury bill rate (end-of-period, percent)	6.2	9.1	7.0	...	...	...	...	...	...	...
Treasury bill rate (average, percent)	6.6	7.9	7.8	...	...	...	...	...	...	...
Unemployment rate (percent) 3/	14.5	13.4	14.2	...	...	...	...	...	...	...
(In percent of GDP)										
Government operations										
Budgetary revenue	25.8	27.1	26.3	27.7	27.6	27.4	27.0	26.9	26.9	26.9
Of which: Tax revenue 4/	24.0	23.6	23.7	25.2	25.2	25.4	25.5	25.5	25.5	25.5
Budgetary expenditure	29.9	27.0	26.8	27.8	28.1	27.8	26.8	26.3	26.0	25.6
Primary expenditure	20.4	19.5	18.8	20.1	20.3	20.4	20.0	19.9	19.9	19.9
Of which: Wage bill	11.0	10.7	10.2	10.1	10.3	9.7	9.3	9.0	9.0	9.0
Interest payments	9.5	7.5	8.0	7.7	7.8	7.4	6.9	6.4	6.0	5.7
Budget balance	-4.1	0.1	-0.5	-0.1	-0.5	-0.4	0.1	0.6	1.0	1.3
Of which: Central government primary balance	5.4	7.6	7.5	7.6	7.3	7.0	7.0	7.0	7.0	7.0
Public entities balance	0.1	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	-3.9	0.1	0.4	-0.1	-0.5	-0.4	0.1	0.6	1.0	1.3
Public debt 5/	145.3	139.7	135.6	124.8	125.1	121.0	113.2	105.6	98.2	91.1
External sector										
Current account balance	-10.0	-8.4	-6.6	-3.7	-3.6	-2.6	-2.6	-2.4	-2.0	-1.8
Of which: Exports of goods, f.o.b.	11.9	10.7	10.4	9.7	9.8	9.7	9.4	9.3	9.1	8.9
Imports of goods, f.o.b.	38.8	37.5	36.4	34.3	34.3	34.1	34.1	33.9	33.3	32.6
Net international reserves (US$ millions)	884	1,304	2,294	2,590	2,607	2,885	2,905	2,872	2,914	2,948
(Changes in percent of beginning of period broad money)										
Money and credit										
Net foreign assets	-13.5	18.7	27.9	13.2	14.2	11.3	3.5	2.0	3.3	3.2
Net domestic assets	26.8	-12.6	-22.3	-7.9	-4.0	-1.3	4.3	6.0	5.8	5.7
Of which: Credit to the private sector	13.0	8.2	3.1	11.9	8.4	11.8	10.2	8.4	8.7	7.7
Credit to the central government	5.2	-3.1	-15.2	13.5	16.9	4.0	3.1	-1.3	-2.5	-1.7
Broad money	13.3	6.1	5.7	5.3	10.1	9.9	7.8	8.0	9.2	8.9
Memorandum item:										
Nominal GDP (J$ billions)	1,337	1,463	1,564	1,656	1,654	1,802	1,971	2,160	2,358	2,567

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

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

Table 2. Jamaica: Summary of Central Government Operations

(in millions of Jamaican dollars)

			Prel.	Prog.	Projections					
	2012/13	2013/14	2014/15	2015/16	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Budgetary revenue and grants	344,668	396,982	411,716	459,177	456,487	494,450	531,286	581,378	634,995	690,474
Tax	320,929	344,848	370,878	416,662	416,686	458,334	502,648	551,496	600,944	655,366
Of which:										
Income and profits	115,877	112,648	120,854	129,867	131,344	146,089	162,267	180,850	198,067	214,643
Of which: Other companies	35,798	35,155	35,903	42,657	43,142	50,404	56,242	61,637	67,280	73,259
PAYE	60,876	62,811	67,818	71,333	72,326	79,828	89,583	98,177	107,165	116,688
Production and consumption	96,460	115,214	120,421	132,830	132,830	147,522	162,215	177,776	194,115	214,886
Of which: GCT (Local) 1/	50,897	61,265	63,995	70,551	70,551	79,926	88,309	96,780	105,640	118,478
International Trade	105,306	113,892	127,238	146,074	146,074	158,228	171,073	185,116	200,332	216,708
Of which: GCT (Imports) 1/	45,501	51,238	58,471	66,102	66,102	73,446	81,952	90,712	100,007	109,982
Non-tax 2/	19,799	41,705	35,821	32,975	32,946	29,900	22,013	24,963	28,800	29,517
Grants	3,940	10,429	5,018	9,539	6,854	6,216	6,625	4,918	5,251	5,591
Budgetary expenditure	399,279	395,242	419,491	461,207	464,546	501,281	528,410	568,697	611,941	658,121
Primary expenditure	272,341	285,322	294,474	333,177	335,575	368,326	393,314	430,170	469,944	510,757
Wage and salaries 3/	147,382	156,362	158,759	167,947	171,132	175,264	183,321	194,409	212,208	231,065
Base wage	137,779	143,347	151,056	161,534	164,719	173,764	183,321	194,409	212,208	231,065
Backpay 4/	9,603	13,015	7,702	6,413	6,413	1,500	0	0	0	0
Programme expenditure 5/	87,202	91,972	112,697	134,835	129,735	135,932	142,389	150,381	161,791	173,600
Capital expenditure 5/	37,758	36,989	23,019	30,394	34,708	57,130	67,604	85,380	95,945	106,091
Interest	126,938	109,919	125,016	128,030	128,971	132,955	135,096	138,526	141,997	147,365
Domestic	87,729	68,729	75,756	71,115	70,267	62,537	66,508	65,253	64,540	64,422
External	39,209	41,191	49,260	56,915	58,704	70,418	68,587	73,273	77,457	82,942
Budget balance	-54,610	1,740	-7,775	-2,030	-8,059	-6,831	2,876	12,681	23,054	32,353
Of which: Primary budget balance	72,327	111,659	117,242	126,000	120,911	126,124	137,972	151,207	165,051	179,717
Public entities balance	1,905	106	13,749	0	0	0	0	0	0	0
Public sector balance	-52,705	1,846	5,975	-2,030	-8,059	-6,831	2,876	12,681	23,054	32,353
Principal repayments	88,681	104,122	87,299	407,121	421,161	66,115	231,006	170,271	206,874	257,412
Domestic	36,976	75,695	25,285	261,628	275,668	16,015	95,826	84,110	117,508	181,530
External	51,705	28,427	62,015	145,493	145,493	50,100	135,181	86,161	89,366	75,882
Gross financing needs	143,292	102,382	95,074	330,824	429,220	72,946	228,130	157,590	183,820	225,060
Gross financing sources	143,292	102,382	95,074	330,824	429,220	72,946	228,130	157,590	183,820	225,060
Domestic 6/	134,117	52,211	42,306	7,599	98,104	45,901	74,252	74,043	102,479	200,979
Of which: compensatory flows from PCDF	...	...	...	11,925	11,925	14,011	14,681	15,328	15,909	16,474
External	9,175	57,619	130,512	277,126	280,780	37,161	135,062	90,187	95,268	31,515
Of which: Official	9,175	57,619	40,059	38,625	42,279	37,161	36,388	48,114	52,957	31,515
Divestment + deposit drawdown	0	-7,448	-77,745	46,098	50,336	-10,116	18,816	-6,640	-13,928	-7,434
Memorandum items:										
Nominal GDP (billion J$)	1,337	1,463	1,564	1,656	1,654	1,802	1,971	2,160	2,358	2,567
Public sector debt (billion J$)	1,942	2,043	2,121	2,067	2,070	2,181	2,231	2,282	2,316	2,339
Of which: Direct debt	1,678	1,812	1,923	1,915	1,917	2,015	2,046	2,080	2,097	2,098

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ in 2014/15, reflects the extension of the CGT to government purchases, with projected total yield of J$3.1 billion at the time of the sixth review and updated to a projected yield of J$1.4 billion.
2/ From 2015/16, includes interest receipts from the PetroCaribe Development Fund to reimburse funds from the PetroCaribe debt buyback.
3/ From 2013/14 to 2015/16, includes a provision for past wage settlements and the health sector reclassification, totaling J$6.7 billion in FY2015/16.
4/ Includes wage arrears from reclassification adjustments prior to 2014/15.
5/ in 2014/15, projections reflect a reclassification of J$8.8 billion from capital outlays to programme expenditures.
6/ in 2015/16, projections include compensation from PCDF to the central government as part of the Petrocaribe buyback operation.

Table 3. Jamaica: Summary of Central Government Operations

(in percent of GDP)

	2012/13	2013/14	Prel. 2014/15	Prog. 2015/16	Projections 2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Budgetary revenue and grants	25.8	27.1	26.3	27.7	27.6	27.4	27.0	26.9	26.9	26.9
Tax	24.0	23.6	23.7	25.2	25.2	25.4	25.5	25.5	25.5	25.5
Of which:										
Income and profits	8.7	7.7	7.7	7.8	7.9	8.1	8.2	8.4	8.4	8.4
Of which: Other companies	2.7	2.4	2.3	2.6	2.6	2.8	2.9	2.9	2.9	2.9
PAYE	4.6	4.3	4.3	4.3	4.4	4.4	4.5	4.5	4.5	4.5
Production and consumption	7.2	7.9	7.7	8.0	8.0	8.2	8.2	8.2	8.2	8.4
Of which: GCT (Local) 1/	3.8	4.2	4.1	4.3	4.3	4.4	4.5	4.5	4.5	4.6
International Trade	7.9	7.8	8.1	8.8	8.8	8.8	8.7	8.6	8.5	8.4
Of which: GCT (Imports) 1/	3.4	3.5	3.7	4.0	4.0	4.1	4.2	4.2	4.2	4.3
Non-tax 2/	1.5	2.9	2.3	2.0	2.0	1.7	1.1	1.2	1.2	1.1
Grants	0.3	0.7	0.3	0.6	0.4	0.3	0.3	0.2	0.2	0.2
Budgetary expenditure	29.9	27.0	26.8	27.8	28.1	27.8	26.8	26.3	26.0	25.6
Primary expenditure	20.4	19.5	18.8	20.1	20.3	20.4	20.0	19.9	19.9	19.9
Wage and salaries 3/	11.0	10.7	10.2	10.1	10.3	9.7	9.3	9.0	9.0	9.0
Base wage	10.3	9.8	9.7	9.7	10.0	9.6	9.3	9.0	9.0	9.0
Backpay 4/	0.7	0.9	0.5	0.4	0.4	0.1	0.0	0.0	0.0	0.0
Programme expenditure 5/	6.5	6.3	7.2	8.1	7.8	7.5	7.2	7.0	6.9	6.8
Capital expenditure 5/	2.8	2.5	1.5	1.8	2.1	3.2	3.4	4.0	4.1	4.1
Interest	9.5	7.5	8.0	7.7	7.8	7.4	6.9	6.4	6.0	5.7
Domestic	6.6	4.7	4.8	4.3	4.2	3.5	3.4	3.0	2.7	2.5
External	2.9	2.8	3.1	3.4	3.5	3.9	3.5	3.4	3.3	3.2
Budget balance	-4.1	0.1	-0.5	-0.1	-0.5	-0.4	0.1	0.6	1.0	1.3
Of which: Primary budget balance	5.4	7.6	7.5	7.6	7.3	7.0	7.0	7.0	7.0	7.0
Public entities balance	0.1	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector balance	-3.9	0.1	0.4	-0.1	-0.5	-0.4	0.1	0.6	1.0	1.3
Principal repayments	6.6	7.1	5.6	24.6	25.5	3.7	11.7	7.9	8.8	10.0
Domestic	2.8	5.2	1.6	15.8	16.7	0.9	4.9	3.9	5.0	7.1
External	3.9	1.9	4.0	8.8	8.8	2.8	6.9	4.0	3.8	3.0
Gross financing needs	10.7	7.0	6.1	20.0	25.9	4.0	11.6	7.3	7.8	8.8
Gross financing sources	10.7	7.0	6.1	20.0	25.9	4.0	11.6	7.3	7.8	8.8
Domestic 6/	10.0	3.6	2.7	0.5	5.9	2.5	3.8	3.4	4.3	7.8
Of which : compensatory flows from PCDF	…	…	…	0.7	0.7	0.8	0.7	0.7	0.7	0.6
External	0.7	3.9	8.3	16.7	17.0	2.1	6.9	4.2	4.0	1.2
Of which: Official	0.7	3.9	2.6	2.3	2.6	2.1	1.8	2.2	2.2	1.2
Divestment + deposit drawdown	0.0	-0.5	-5.0	2.8	3.0	-0.6	1.0	-0.3	-0.6	-0.3
Memorandum items:										
Nominal GDP (billion J$)	1,337	1,463	1,564	1,656	1,654	1,802	1,971	2,160	2,358	2,567
Public sector debt	145.3	139.7	135.6	124.8	125.1	121.0	113.2	105.6	98.2	91.1
Of which: Direct debt	125.6	123.9	123.0	115.6	115.9	111.8	103.8	96.3	89.0	81.7

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ in 2014/15, reflects the extension of the CGT to government purchases, with projected total yield of 0.2 percent of GDP at the time of the sixth review and updated to 0.1 percent of GDP.
2/ From 2015/16, includes interest receipts from the PetroCaribe Development Fund to reimburse funds from the PetroCaribe debt buyback.
3/ From 2013/14 to 2015/16, includes a provision for past wage settlements and the health sector reclassification, totaling 0.4 percent of GDP in FY2015/16.
4/ Includes wage arrears from reclassification adjustments prior to 2014/15.
5/ in 2014/15, projections reflect a reclassification of 0.5 percent of GDP from capital outlays to programme expenditures.
6/ in 2015/16, projections include compensation from PCDF to the central government as part of the Petrocaribe buyback operation.

Table 4. Jamaica: Operations of the Public Entities

	In billions of Jamaican dollars					In percent of GDP				
				Prel.	Prog.				Prel.	Prog.
	2011/12	2012/13	2013/14	2014/15	2015/16	2011/12	2012/13	2013/14	2014/15	2015/16
Operating balance selected public entities 1/	**55.2**	**60.6**	**16.6**	**36.5**	**48.9**	**4.4**	**4.5**	**1.1**	**1.9**	**2.2**
Of which:										
Clarendon Aluminum	-7.2	-1.1	-10.1	-2.8	...	-0.6	-0.1	-0.7	-0.2	...
Petrojam	25.1	15.5	14.7	12.9	...	2.0	1.2	1.0	0.8	...
NROCC	-0.6	-3.3	-2.8	-5.7	...	0.0	-0.2	-0.2	-0.4	...
Urban Development Corporation	-0.8	-0.4	0.6	0.3	...	-0.1	0.0	0.0	0.0	...
National Water Commission	4.0	8.0	0.8	3.5	...	0.3	0.6	0.1	0.2	...
Port Authority of Jamaica	2.9	3.7	3.8	5.5	...	0.2	0.3	0.3	0.4	...
National Housing Trust	26.9	29.6	4.3	18.9	...	2.1	2.2	0.3	1.2	...
National Insurance Fund	1.7	4.8	1.4	1.7	...	0.1	0.4	0.1	0.1	...
Net current transfers from the central government	**-11.8**	**-15.2**	**-19.1**	**-22.6**	**-21.3**	**-0.9**	**-1.1**	**-1.3**	**-1.4**	**-1.3**
Of which:										
Clarendon Aluminum	7.5	3.4	1.7	0.0	...	0.6	0.3	0.1	0.0	...
Petrojam	-19.2	-21.3	-18.8	-23.2	...	-1.5	-1.6	-1.3	-1.5	...
NROCC	0.2	3.0	3.4	5.2	...	0.0	0.2	0.2	0.3	...
Urban Development Corporation	0.7	0.1	0.3	0.5	...	0.1	0.0	0.0	0.0	...
National Water Commission	0.0	1.0	0.7	0.1	...	0.0	0.1	0.0	0.0	...
Port Authority of Jamaica	0.0	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	...
National Housing Trust	-1.2	-4.0	-11.4	-11.4	...	-0.1	-0.3	-0.8	-0.7	...
National Insurance Fund	0.0	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	...
Gross capital expenditure selected public entities 2/	**39.5**	**41.6**	**39.6**	**39.3**	**47.4**	**3.1**	**3.1**	**2.7**	**2.5**	**2.9**
Of which:										
Clarendon Aluminum	-0.2	1.5	0.4	0.7	...	0.0	0.1	0.0	0.0	...
Petrojam	2.6	0.2	1.5	1.9	...	0.2	0.0	0.1	0.1	...
NROCC	0.6	0.3	0.4	0.7	...	0.1	0.0	0.0	0.0	...
Urban Development Corporation	0.7	0.2	1.8	0.7	...	0.1	0.0	0.1	0.0	...
National Water Commission	4.5	9.7	-6.0	6.4	...	0.4	0.7	-0.4	0.4	...
Port Authority of Jamaica	2.1	0.8	0.5	1.3	...	0.2	0.1	0.0	0.1	...
National Housing Trust	25.5	23.2	22.3	20.8	...	2.0	1.7	1.5	1.3	...
National Insurance Fund	0.1	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	...
Other net spending selected public entities 3/	0.0	0.0	-27.9	-20.7	-13.9	0.0	0.0	-1.9	-1.3	-0.8
Overall balance selected public entities	**3.9**	**3.7**	**-14.2**	**-4.7**	**-5.9**	**0.3**	**0.3**	**-1.0**	**-0.3**	**-0.4**
Of which:										
Clarendon Aluminum	0.5	0.8	-8.5	-4.0	...	0.0	0.1	-0.6	-0.3	...
Petrojam	3.3	-5.9	-5.0	-4.8	...	0.3	-0.4	-0.3	-0.3	...
NROCC	-1.0	-0.5	0.1	-1.2	...	-0.1	0.0	0.0	-0.1	...
Urban Development Corporation	-0.8	-0.5	0.6	-0.3	...	-0.1	0.0	0.0	0.0	...
National Water Commission	-0.5	-0.7	-4.5	-2.8	...	0.0	-0.1	-0.3	-0.2	...
Port Authority of Jamaica	0.8	3.0	3.7	4.1	...	0.1	0.2	0.3	0.3	...
National Housing Trust	0.2	2.4	-4.7	0.1	...	0.0	0.2	-0.3	0.0	...
National Insurance Fund	1.6	4.7	1.4	1.7	...	0.1	0.4	0.1	0.1	...
Overall balance other public entities	**-4.1**	**-1.8**	**14.3**	**18.5**	**5.9**	**-0.3**	**-0.1**	**1.0**	**1.2**	**0.4**
Overall balance public entities	**-0.2**	**1.9**	**0.1**	**13.7**	**0.0**	**0.0**	**0.1**	**0.0**	**0.9**	**0.0**

Sources: Jamaican authorities; and Fund staff estimates.

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

Table 5. Jamaica: Summary Balance of Payments

(in millions of U.S. dollars)

			Prel.	Prog.	Projections					
	2012/13	2013/14	2014/15	2015/16	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Current account	-1,459	-1,183	-912	-518	-493	-373	-382	-368	-335	-305
Trade balance	-3,946	-3,771	-3,603	-3,415	-3,396	-3,471	-3,668	-3,836	-3,976	-4,092
Exports (f.o.b.)	1,744	1,507	1,434	1,342	1,361	1,386	1,404	1,452	1,497	1,537
Imports (f.o.b.)	5,690	5,278	5,038	4,757	4,756	4,857	5,073	5,288	5,472	5,628
Fuel (cif)	2,124	2,158	1,739	1,059	1,077	1,105	1,233	1,343	1,412	1,452
Exceptional imports (including FDI-related)	618	394	284	400	400	400	330	300	300	300
Other	2,949	2,727	3,014	3,299	3,279	3,352	3,509	3,645	3,760	3,876
Services (net)	551	597	718	874	851	979	1,104	1,237	1,385	1,553
Transportation	-749	-703	-636	-688	-687	-706	-732	-761	-791	-821
Travel	1,885	1,919	2,105	2,273	2,258	2,423	2,600	2,793	3,003	3,233
Of which: Tourism receipts	2,058	2,094	2,304	2,469	2,461	2,633	2,819	3,021	3,241	3,481
Other services	-585	-618	-750	-710	-720	-738	-765	-795	-827	-860
Income (net) 4/	-182	-268	-306	-310	-277	-284	-285	-291	-296	-348
Current transfers (net)	2,119	2,258	2,279	2,332	2,328	2,403	2,468	2,522	2,552	2,582
Government (net)	206	265	200	205	205	209	213	217	222	226
Private (net)	1,913	1,993	2,079	2,127	2,124	2,195	2,255	2,305	2,330	2,356
Capital and financial account	782	1,601	1,840	497	806	651	402	335	377	339
Capital account (net)	-14	-26	-19	-19	-19	-19	-19	-19	-19	-19
Financial account (net) 1/	796	1,627	1,859	516	825	670	421	354	396	358
Direct investment (net)	325	551	549	530	530	547	563	579	595	591
Central government (net) 5/	-396	241	600	2,208	3,056	-302	-1	29	41	-198
Of which: IFIs	107	376	181	318	331	325	0	0	0	0
Other official (net) 2/ 5/	651	356	98	-2,822	-2,822	179	173	158	147	18
Of which: PetroCaribe	462	375	169	-2,886	-2,886	138	133	120	108	0
Portfolio investment (net)	216	479	612	600	61	247	-314	-412	-387	-52
Overall balance	-678	418	928	-21	313	278	20	-33	42	34
Financing	678	-418	-928	21	-313	-278	-20	33	-42	-34
Change in gross reserves (- increase)	893	-330	-641	-423	-440	-437	-4	102	67	73
Change in arrears	0	0	0	0	0	0	0	0	0	0
Financing gap	-215	-88	-287	444	127	159	-16	-70	-108	-107
IMF 3/	0	-26	-163	127	127	159	-16	-70	-108	-107
Disbursements	0	346	259	176	176	159	0	0	0	0
Repayments	0	-372	-422	-50	-50	0	-16	-70	-108	-107
Memorandum items:										
Gross international reserves	1,718	2,049	2,690	3,113	3,130	3,566	3,570	3,468	3,401	3,329
(in weeks of prospective imports of GNFS)	11.4	14.5	19.4	23.3	23.3	25.9	24.9	23.2	22.0	20.8
Net international reserves	884	1,304	2,294	2,590	2,607	2,885	2,905	2,872	2,914	2,948
Current account (percent of GDP)	-10.0	-8.4	-6.6	-3.7	-3.6	-2.6	-2.6	-2.4	-2.0	-1.8
Exports of goods (percent change)	7.8	-13.6	-4.8	-4.0	-5.1	1.9	1.3	3.4	3.1	2.7
Imports of goods (percent change)	-3.1	-7.2	-4.6	-5.5	-5.6	2.1	4.5	4.2	3.5	2.9
Oil prices (composite, fiscal year basis)	104.8	102.1	85.1	51.3	51.3	51.6	56.5	60.4	62.4	63.0
Tourism receipts (percent change)	1.4	1.8	10.0	7.0	6.8	7.0	7.1	7.2	7.3	7.4
GDP (US$ millions)	14,661	…	…	…	…	…	…	…	…	…
Jamaican dollar/USD, period average	91	…	…	…	…	…	…	…	…	…

Sources: Jamaican authorities; and Fund staff estimates.

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

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

	2012/13	2013/14	2014/15	Prog. 2015/16	Projections 2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	(In billions of Jamaican dollars)									
End-of-period stocks 1/										
Net foreign assets	**87**	**143**	**264**	**320**	**322**	**373**	**394**	**405**	**426**	**446**
Net domestic assets	**4**	**-48**	**-163**	**-205**	**-210**	**-249**	**-259**	**-260**	**-267**	**-273**
Net claims on public sector	212	195	112	171	144	133	141	140	124	119
Net claims on central government	82	75	17	83	67	57	76	70	56	48
Net claims on rest of public sector	130	130	102	93	83	85	74	80	77	78
Operating losses of the BOJ	0	-10	-8	-6	-6	-10	-10	-10	-9	-7
Net credit to commercial banks	-20	-21	-24	-25	-26	-29	-30	-32	-34	-37
Of which : foreign prudential reserve	-20	-21	-24	-25	-26	-29	-30	-32	-34	-37
Net credit to other financial institutions	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
Open market operations	-54	-31	-39	-135	-112	-117	-115	-95	-67	-49
Other items net (incl. valuation adj.)	-133	-189	-210	-214	-214	-233	-253	-271	-287	-304
Of which: Valuation adjustment	-57	-61	-70	-68	-68	-87	-107	-125	-141	-158
Base money	**91**	**94**	**101**	**115**	**112**	**125**	**135**	**145**	**159**	**173**
Currency in circulation	51	54	59	62	65	73	80	86	91	96
Liabilities to commercial banks	41	41	42	53	47	51	54	60	68	77
Fiscal year flows 1/										
Net foreign assets	**-70.2**	**55.4**	**121.0**	**55.9**	**58.0**	**51.6**	**20.4**	**11.5**	**20.3**	**20.5**
Net domestic assets	77.8	-52.3	-114.4	-41.9	-47.0	-38.7	-10.6	-0.7	-7.0	-6.4
Net claims on public sector	66.2	-17.7	-82.6	58.9	32.1	-11.2	7.8	-0.9	-16.0	-4.6
Net claims on central government	7.3	-7.4	-57.4	66.2	50.2	-10.1	18.8	-6.6	-13.9	-7.4
Net credit to commercial banks	-4.7	-1.5	-2.5	-1.1	-2.2	-3.1	-0.9	-1.8	-2.3	-3.2
Net credit to other financial institutions	-0.2	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
Open market operations	57.3	23.8	-8.3	-95.9	-73.1	-5.5	2.7	20.1	27.5	18.6
Other items net (incl. valuation adj.)	-40.8	-56.9	-20.8	-3.7	-3.7	-18.8	-20.1	-18.0	-16.1	-17.1
Base money	**7.6**	**3.1**	**6.7**	**14.0**	**10.9**	**12.9**	**9.7**	**10.8**	**13.3**	**14.1**
Currency in circulation	3.3	3.0	4.9	3.2	6.6	8.1	6.9	5.3	5.3	5.3
Liabilities to commercial banks	4.3	0.2	1.7	10.8	4.4	4.7	2.8	5.5	8.0	8.8
	(Change in percent of beginning-of-period Base Money)									
Net foreign assets	**-83.9**	**60.7**	**128.2**	**55.3**	**57.4**	**46.0**	**16.3**	**8.5**	**14.0**	**12.9**
Net domestic assets	**93.0**	**-57.3**	**-121.1**	**-41.5**	**-46.5**	**-34.5**	**-8.5**	**-0.5**	**-4.8**	**-4.0**
Net claims on public sector	79.1	-19.4	-87.4	58.3	31.8	-10.0	6.2	-0.7	-11.0	-2.9
Net credit to commercial banks	-5.6	-1.7	-2.6	-1.1	-2.2	-2.8	-0.7	-1.3	-1.6	-2.0
Net credit to other financial institutions	-0.3	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
Open market operations	68.4	26.0	-8.8	-94.9	-72.3	-4.9	2.1	15.0	18.9	11.7
Other items net (incl. valuation adj.)	-48.7	-62.3	-22.1	-3.7	-3.7	-16.8	-16.1	-13.4	-11.1	-10.8
Base money	**9.1**	**3.4**	**7.0**	**13.8**	**10.8**	**11.5**	**7.8**	**8.0**	**9.2**	**8.9**
Currency in circulation	4.0	3.3	5.2	3.1	6.5	7.3	5.5	3.9	3.6	3.4
Liabilities to commercial banks	5.1	0.2	1.8	10.7	4.3	4.2	2.3	4.1	5.5	5.5
Memorandum items:										
Change in net claims on the central government (percent of GDP)	0.5	-0.5	-3.7	4.0	3.0	-0.6	1.0	-0.3	-0.6	-0.3

Sources: Bank of Jamaica; and Fund staff estimates.

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

Table 7. Jamaica: Summary Monetary Survey 1/

	2012/13	2013/14	2014/15	Prog. 2015/16	2015/16	2016/17	Projections 2017/18	2018/19	2019/20	2020/21
	(In billions of Jamaican dollars)									
End-of-period stocks 1/										
Net foreign assets	**117**	**191**	**309**	**367**	**372**	**427**	**445.5**	**457.0**	**477.9**	**499.5**
Net domestic assets	**279**	**229**	**136**	**101**	**118**	**111**	**134.3**	**169.1**	**205.6**	**244.7**
Net claims on public sector	293	268	188	246	250	273	282.3	283.0	267.7	260.7
Of which: Central government 2/	186	173	109	170	184	204	220.9	213.2	197.8	186.3
Open market operations	-36	18	14	-127	-99	-164	-181.6	-174.5	-157.1	-149.8
Credit to private sector	294	326	339	392	377	435	489.4	538.2	592.5	645.0
Of which: Foreign currency	81	84	77	79	79	83	87.5	92.4	98.0	105.1
Other	-272	-383	-407	-316	-411	-433	-455.8	-477.6	-497.5	-511.1
Of which: Valuation adjustment	-57	-61	-70	-65	-65	-81	-98.2	-113.3	-126.6	-140.3
Liabilities to private sector (M3)	**396**	**421**	**444**	**468**	**489**	**538**	**579.7**	**626.1**	**683.4**	**744.2**
Money supply (M2)	252	261	273	281	294	320	355.0	388.3	428.6	465.5
Foreign currency deposits	144	160	171	187	195	218	224.7	237.8	254.8	278.6
Fiscal year flows 1/										
Net foreign assets	**-47.4**	**74.1**	**117.4**	**58.6**	**62.9**	**55.1**	**18.9**	**11.6**	**20.9**	**21.6**
Net domestic assets	**93.9**	**-50.0**	**-93.6**	**-35.2**	**-17.9**	**-6.6**	**23.0**	**34.8**	**36.5**	**39.1**
Net claims on public sector	76.0	-25.4	-79.5	58.1	62.1	22.9	9.0	0.7	-15.3	-7.0
Of which: Central government	18.0	-12.4	-63.9	60.2	75.0	19.8	16.7	-7.6	-15.4	-11.5
Open market operations	27.3	54.4	-3.8	-141.5	-113.1	-65.5	-17.4	7.1	17.4	7.2
Credit to private sector	45.3	32.3	13.2	52.9	37.5	57.8	54.6	48.8	54.3	52.4
Of which: Foreign currency	1.0	2.4	-7.3	2.3	2.3	3.8	4.8	4.9	5.6	7.1
Other 2/	-54.7	-111.3	-23.5	-1.1	-4.3	-21.7	-23.2	-21.8	-19.9	-13.6
Of which: Valuation adjustment	-2.2	-3.9	-8.9	4.2	4.4	-16.1	-17.0	-15.1	-13.3	-13.8
Liabilities to private sector (M3)	**46.5**	**24.1**	**23.8**	**23.5**	**45.0**	**48.5**	**41.9**	**46.4**	**57.3**	**60.7**
Money supply (M2)	16.0	8.4	12.7	7.8	21.0	25.3	35.4	33.3	40.3	36.9
Foreign currency deposits	30.6	15.7	11.1	15.7	24.0	23.2	6.5	13.1	17.0	23.8
	(Change in percent of beginning-of-period M3)									
Net foreign assets	**-13.5**	**18.7**	**27.9**	**13.2**	**14.2**	**11.3**	**3.5**	**2.0**	**3.3**	**3.2**
Net domestic assets	**26.8**	**-12.6**	**-22.3**	**-7.9**	**-4.0**	**-1.3**	**4.3**	**6.0**	**5.8**	**5.7**
Net claims on public sector	21.7	-6.4	-18.9	13.1	14.0	4.7	1.7	0.1	-2.5	-1.0
Of which: Central government	5.2	-3.1	-15.2	13.5	16.9	4.0	3.1	-1.3	-2.5	-1.7
Open market operations	7.8	13.7	-0.9	-31.8	-25.5	-13.4	-3.2	1.2	2.8	1.1
Credit to private sector	13.0	8.2	3.1	11.9	8.4	11.8	10.2	8.4	8.7	7.7
Of which: Foreign currency	0.3	0.6	-1.7	0.5	0.5	0.8	0.9	0.9	0.9	1.0
Other 2/	-15.6	-28.1	-5.6	-0.2	-1.0	-4.4	-4.3	-3.8	-3.2	-2.0
Of which: Valuation adjustment	-0.6	-1.0	-2.1	0.9	1.0	-3.3	-3.2	-2.6	-2.1	-2.0
Liabilities to private sector (M3)	**13.3**	**6.1**	**5.7**	**5.3**	**10.1**	**9.9**	**7.8**	**8.0**	**9.2**	**8.9**
Memorandum items:										
M3/monetary base	4.3	4.5	4.4	4.1	4.4	4.3	4.3	4.3	4.3	4.3
M3 velocity	3.4	3.5	3.5	3.5	3.4	3.4	3.4	3.5	3.5	3.5

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

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

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015Q3
Balance sheet growth (y/y)									
Capital	11.5	14.7	13.8	5.1	5.4	4.2	17.1	6.6	7.5
Loans	28.7	24.2	5.3	-1.4	4.8	12.9	14.1	6.6	8.5
NPLs	14.2	57.6	68.0	36.1	44.0	-10.8	-12.9	-2.2	-6.0
Liquidity									
Excess liquidity 2/	25.0	30.3	31.3	36.2	30.5	26.7	25.3	31.5	26.7
Asset Quality									
Prov. for loan losses/NPLs	103.4	87.2	75.7	69.9	75.2	90.3	95.7	104.7	105.5
NPLs/loans	2.3	2.9	4.7	6.5	8.9	7.0	5.4	4.9	4.2
Capital Adequacy									
NPLs/Capital+Prov. for loan losses	9.1	12.3	17.7	22.3	28.4	24.1	18.8	17.1	15.0
Capital Adequacy Ratio (CAR) 3/	16.0	15.2	18.8	18.2	16.1	14.1	15.1	15.9	15.1
Profitability 4/ 5/									
Pre-tax profit margin	26.7	26.2	21.4	21.1	30.8	21.4	19.0	20.3	21.2
Return on average assets	3.4	3.5	2.9	2.5	3.9	2.4	2.0	2.1	0.6

Source: Bank of Jamaica.

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

Table 9. Jamaica: Structural Program Conditionality

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

Table 9. Jamaica: Structural Program Conditionality (Concluded)

Financial sector		
27. Government to table legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	Met
28. Government to submit proposals for a distinct treatment for retail repo client interests in the legal and regulatory framework to the relevant financial industry for consultation (MEFP March 2014 Paragraph 25) in consultation with Fund staff.	March 31, 2014	Met
29. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (June 2014 MEFP Paragraph 29) in consultation with Fund staff.	December 30, 2014	Met
30. Government to table the Omnibus Banking Law 3/ consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	Met 4/
31. Government to finalize the transition of retail repos to the trust-based framework.	August 30, 2015	Met
32. Government to fully implement the Banking Services Act.	September 30, 2015	Met
33. The BOJ to have overall responsibility for financial stability.	November 1, 2015	Met
Growth enhancing structural reforms		
34. Government to implement a new (AMANDA) tracking system to track approval of contruction permits across all parish councils.	December 30, 2014	Met
35. Government to table in parliament the Electricity Act.	January 31, 2015	Met

1/ The review was reportedly completed in March 2015.
2/ While all other elements of the benchmarks were met, technical difficulties prevented the achievement of 95 percent take-up rate of e-filing in the LTO. The take-up rate was 80 percent.
3/ Currently referred to as the Banking Services Act.
4/ The law was tabled in March 2014 with subsequent fine-tuning in collaboration with Fund staff prior to its adoption in June.

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

(in billions of Jamaican dollars)

	2014	2015					2016						2017
	End-Dec.	End-Sept			End-Dec.		End-Mar.		End-Jun.		End-Sept	End-Dec.	End-Mar.
						Revised		Revised		Revised			
			Adjusted			Proposed		Proposed		Proposed	Proposed	indicative	indicative
	Stock	PC	PC	Actual	PC	PC	PC	PC	PC	PC	PC	PC	PC
Fiscal targets													
1. Primary balance of the central government (floor) 4/		40.0		50.8	65.0	60.7	125.0	120.7	15.0	11.0	33.0	58.0	126.0
2. Tax Revenues (floor) 4/9/		185.0		195.1	280.0	280.0	411.0	393.0	99.0	99.0	203.0	305.0	445.0
3. Overall balance of the public sector (floor) 4/		-34.0	-30.5	9.2	-36.0	-40.3	-10.0	-14.3	-25.0	-29.0	-37.0	-44.5	-10.8
4. Central government direct debt (ceiling) 4/5/		40.0		-11.0	41.0	47.0	71.0	77.0	15.0	19.5	41.0	44.0	51.0
5. Central government guaranteed debt (ceiling) 4/		2.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6. Central government accumulation of domestic arrears (ceiling) 6/12/13/	21.6	0.0		-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 7/12/13/	23.2	0.0		-4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 6/12/		0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9. Social spending (floor) 9/10/		9.2		14.0	15.6	15.6	23.2	23.2	4.8	4.8	9.7	16.6	24.6
Monetary targets													
10. Cumulative change in net international reserves (floor) 8/11/	1997.7	-463.3	-469.6	468.1	-338.0	-338.0	-339.0	-339.0	-199.6	-199.6	-49.6	52.3	152.3
11. Cumulative change in net domestic assets (ceiling) 11/	-120.2	56.1	56.8	-54.6	53.8	61.8	31.1	39.1	22.8	28.7	9.0	21.9	-2.0

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Including proposed modified performance criteria for the net international reserves and the net domestic assets.
3/ Based on program exchange rates defined in the March 2015 TMU.
4/ Cumulative flows from April 1 through March 31.
5/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
6/ Includes debt payments, supplies and other committed spending as per contractual obligations.
7/ Includes tax refund arrears as stipulated by law.
8/ In millions of U.S. dollars.
9/ Indicative target.
10/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
11/ Cumulative change from end-December 2014.
12/ Continuous performance criterion.
13/ The accumulation is measured against the stock at end-March 2015, which is J$21.3 billion for domestic arrears and J$21.7 billion for tax arrears.

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

(in millions of SDRs, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Prospective drawings (4-year EFF)	28.32	113.28	28.33	…	…	…	…	…	…	…	…	…
(in percent of quota)	10.35	41.42	10.36	…	…	…	…	…	…	…	…	…
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)												
Amortization	0.00	3.99	11.40	37.11	64.80	83.68	100.20	102.56	91.17	65.46	37.76	18.88
Amortization (SBA)	0.00	3.99	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Amortization (4-year EFF)	0.00	0.00	11.40	37.11	64.80	83.68	100.20	102.56	91.17	65.46	37.76	18.88
Interest and service charges	1.30	5.86	6.45	6.26	5.79	5.07	4.14	3.07	2.00	1.12	0.51	0.16
SDR charges and assessments	0.01	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Total debt service	5.30	9.89	17.90	43.41	70.64	88.80	104.38	105.68	93.21	66.62	38.32	19.09
(in percent of exports of G&S)	0.18	0.32	0.55	1.25	1.93	2.29						
(in percent of GDP)	0.06	0.10	0.18	0.41	0.64	0.77	0.86	0.83	0.70	0.48	0.26	0.12
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)												
Outstanding stock	477.76	587.05	603.98	566.88	502.08	418.39	318.19	215.63	124.46	59.00	21.24	2.36
(in percent of quota)	174.68	214.64	220.83	207.27	183.58	152.98	116.34	78.84	45.51	21.57	7.77	0.86
(in percent of GDP)	5.14	6.14	6.05	5.41	4.56	3.61	2.62	1.69	0.93	0.42	0.15	0.02
Memorandum items:												
Exports of goods and services (US$ millions)	4,435.28	4,657.43	4,890.08	5,169.37	5,465.01	5,776.45	…	…	…	…	…	…
US$/SDR exchange rate	…	…	…	…	…	…	…	…	…	…	…	…
Quota	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50	273.50

Source: Fund staff estimates.

Table 12. Jamaica: Schedule of Reviews and Purchases

	Amount of Purchase		
Availability Date	Millions of SDR	Percent of Quota	Conditions 1/
	Purchases		
May 1, 2013	136.75	50	Approval of Arrangement
September 30, 2013	19.97	7	First Review and end-June 2013 performance criteria
December 18, 2013	19.97	7	Second Review and end-September 2013 performance criteria
March 19, 2014	45.95	17	Third Review and end-December 2013 performance criteria
June 20, 2014	45.95	17	Fourth Review and end-March 2014 performance criteria
September 24, 2014	45.95	17	Fifth Review and end-June 2014 performance criteria
December 19, 2014	45.95	17	Sixth Review and end-September 2014 performance criteria
March 30, 2015	28.32	10	Seventh Review and end-December 2014 performance criteria
June 16, 2015	28.32	10	Eighth Review and end-March 2015 performance criteria
September 23, 2015	28.32	10	Ninth Review and end-June 2015 performance criteria
December 15, 2015	28.32	10	Tenth Review and end-September 2015 performance criteria
March 15, 2016	28.32	10	Eleventh Review and end-December 2015 performance criteria
June 15, 2016	28.32	10	Twelfth Review and end-March 2016 performance criteria
September 15, 2016	28.32	10	Thirteenth Review and end-June 2016 performance criteria
December 15, 2016	28.32	10	Fourteenth Review and end-September 2016 performance criteria
March 15, 2017	28.33	10	Fifteenth Review and end-December 2016 performance criteria
Total	615.38	225.0	

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

Appendix I. Letter of Intent

Kingston, Jamaica
November 19, 2015

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

Dear Ms. Lagarde,

Jamaica has continued the steadfast implementation of its Fund-supported economic reform programme aimed at overcoming the long-standing problems of low growth and high debt. All quantitative fiscal and monetary performance criteria under the programme have been met for all quarterly test dates, with the exception of the March 2015 nominal target for the primary surplus for the central government, which was missed by a narrow margin, owing to lower than projected inflation and GDP growth (the surplus still came in at the projected 7.5 percent of GDP). The Government has also implemented all of the structural benchmarks that were included in the programme, albeit with some minor delays.

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

On the basis of our performance under the programme thus far as well as our strong commitment to the continued implementation of the programme, the Government requests that the Executive Board of the IMF complete the tenth review of the extended arrangement under the Extended Fund Facility, and approve the modification of performance criteria for end-December 2015, end-March 2016 and end-June 2016 and the new performance criteria for September 2016, as well as the eleventh purchase under the arrangement of SDR 28.32 million.

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

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

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

Very truly yours,

/s/
Peter D. Phillips,
Minister of Finance and Planning
Jamaica

/s/
Brian Wynter
Governor, Bank of Jamaica
Jamaica

Attachment I. Memorandum of Economic and Financial Policies

I. PERFORMANCE UNDER THE PROGRAMME

1. **Policy implementation under the programme remains strong and structural reforms are progressing.** All quantitative performance targets for end-September were met. All the structural benchmarks from September to mid-November 2015 were also met:

- In September, the government established a new Cash Management Unit in the Accountant General Department;
- Also in September, the Banking Services Act became fully effective;
- In October, the government tabled legislation governing the regulatory regime, including the tax regime, for Special Economic Zones;
- Legislation was also passed in October giving the Bank of Jamaica (BOJ) responsibility for overall financial stability.

II. POLICIES FOR 2015/16 AND BEYOND

2. **The Government remains fully committed to the reform programme**. The quantitative targets that serve as performance criteria and indicative targets under the programme have been updated and extended through March 2017. These updated targets are presented in Table 1. The structural conditionality under the programme, incorporating a modification discussed below, is presented in Table 2.

Fiscal Policy

3. **The central government primary surplus target has been reduced from 7.5 percent of GDP to 7.25 percent of GDP, to make additional room for growth-enhancing capital expenditure.** Specific projects have been identified, including (i) development of irrigation infrastructure; (ii) expansion of Agro Parks; (iii) building farm roads, and (iv) development of an infrastructure programme focused on key arterial and secondary roads, bridges, and drainage. These projects are critical to our growth agenda, with financial support indicated from our development partners.

4. **Preparations for the 2016/17 budget are well underway, with a primary surplus target of 7 percent of GDP**. The draft budget is expected to be presented to parliament in February 2016, to allow for adoption prior to the start of the fiscal year. Economic growth is projected at 2.5 percent for the coming fiscal year.

5. **A new Energy Stabilization and Energy Efficiency Enhancement Fund (ESEF) has been introduced**, to finance the purchase of hedging instruments against the risk of a sharp increase in the price of oil and to manage resources in support of the objectives of the ESEF, which include providing external financial buffers and financing of energy-efficiency initiatives. Legislation and

regulations governing the use of the ESEF will be adopted by February 2016, ahead of the parliamentary debate for the FY2016/17 budget. This is consequent on Cabinet's approval to prescribe a transparent governance structure, including the formal establishment of an ESEF Advisory Board, clearly defined reporting requirements to the portfolio ministry and to Parliament, and preset criteria and/or limits on the allocation of ESEF's resources among its multiple objectives.

Tax Reforms

6. **Comprehensive tax reform is a key pillar of our economic reform programme.** The goal is an efficient, broad-based and low-rate tax system that applies to all entities regardless of their sphere of activity. Major progress towards this goal has been made with the 2013 tax reforms, which repealed a wide array of incentives and exemptions. Going forward, we aim to continue to streamline tax incentives, and will review the tax regime for extractive industries. We will also seek to further broaden the tax base in the FY16/17 budget. Based on ongoing IDB TA, we will continue to improve the reporting on tax expenditures and their estimated fiscal costs in the context of future budgets.

7. **New legislation pertaining to transfer pricing was passed in November 2015.** With OECD technical assistance, the TAJ is developing its capacity to effectively administer (i) the new law upon its adoption and (ii) the asset base erosion and profit shifting (BEPS) rules developed by the OECD BEPS project. New transfer pricing law will be applied to tax returns for Year of Assessment 2015 by including transfer pricing compliance risk treatment strategies, including specific issue audits in the TAJ National Compliance Plan (NCP), Programmes Plan and LTO Operations Plan for FY2016/17.

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

- Continue implementation of the TAJ NCP for FY2015/16 including the development of Other Performance Indicators (OPIs). The NCP outlines risk treatment strategies to be employed by TAJ in FY2015/16 in addressing compliance risks associated with identified registration, filing, payment and correct reporting of tax.
- Completion of staffing of the TAJ as a Semi-Autonomous Revenue Authority (SARA) by end-March 2016. This will require: (1) hiring direct reports to chiefs and general management, and staff for the Human Resources, Finance and Accounts, Strategic Services (including planning, enterprise risk management, programmes, policy and transformation) and Customer Care Center sections by 31 December 2015; and (2) the phased transitioning to SARA of all remaining TAJ staff by 31 March 2016.
- Full implementation of the Key Performance Indicators (KPIs, as outlined in the NCP that measure the effectiveness and the efficiency of the tax system (*structural benchmark for end-November 2015*), building on TA provided by the Fund.
- Following up on the entity-by-entity review of all grandfathered tax incentives by reviewing Year of Assessment 2014 company income tax returns and taking compliance action as necessary to

assess the fiscal impact beyond 2020 of the ongoing grandfathering of the fiscal tax incentives legislation which came into effect on January 1, 2014. Fiscal Impacts Report will be produced by 31 December, 2015.

- Improving the efficiency of the large taxpayers' office (LTO) by defining a strategy, to be ready for implementation by March 2016, in order to reach e-filing and on-time filing rates of 90 percent for LTO clients for major taxes by March 2017. Continue, at the same time, to increase the number of auditors in the LTO while increasing the number of comprehensive audits to 90 per year by March 2017.
- Increasing the capacity of the Post-Clearance Audit (PCA) unit in the JCA through the hiring of 15 more auditors by March 2016 (*proposed new structural benchmark)* and increasing the number of completed PCA audits to 60 a year by March 2017.
- Implementation of automation of tax and customs operations:
  - (i) the full function production version of the ASYCUDA-World integrated customs software package for the entire country (March 2016);
  - (ii) Phase 2 of the RAiS (GENTAX) integrated tax software package, for all major tax types by end-December 2015 (*structural benchmark*); the stamp duty and transfer tax will be added if possible (April 2016).
  - (iii) Phase 1 of the Enterprise Content Management (ECM) system processes comprising (1) the electronic imaging and data capture of paper tax returns and (2) the electronic imaging of other paper documents (e.g., taxpayer letters, certified copies of certificates, auditor working papers, taxpayer rulings etc); and linking these processes to RAiS case actioning and reporting components by end February 2016.
  - (iv) The legislative framework supporting enhanced trade facilitation practices by the JCA, as articulated in phase III of the Customs Act, is being harmonized with trade facilitation, the SEZ legislation, and treaty obligations with World Bank and CARTAC assistance. Phase III of the Customs Act will be tabled in parliament by end-May 2016.

Special Economic Zones

9. **The government will create a new regime for special economic zones (SEZs) that will replace the existing Export Free Zones, in a manner compatible with WTO and CARICOM requirements.** This initiative aims to attract new economic activities to Jamaica, including logistics. It will support the provision of physical and human infrastructure as well as a competitive regulatory regime, and exploit synergies. Backward linkages to the rest of the economy will be key to maximizing their broader positive economic impact.

- Legislation governing the tax and customs regimes will be amended to work in harmony with the SEZ legislation. Provisions governing the tax regime that will be part of the SEZ legislation was tabled in October 2015 consistent with the following criteria to help safeguard the integrity of the tax system and avoid tax leakage (*structural benchmark*): (i) Restrict eligibility to firms that meet preset criteria (thereby excluding businesses in established traditional sectors), with no ministerial discretion. In particular, firms operating in the extractive industries, tourism, telecommunication services, public utilities, financial services, construction services, real estate and property management, health services (excluding research and development) and retail, or in other sectors that do not fit in the strategic objectives of SEZ development, will not be eligible, whereas firms in the BPO and export processing sectors can be eligible; (ii) Allow zero rating of indirect taxes for eligible entities within the zone, subject to the establishment of an appropriate legislative framework to define forms and procedures, bonded SEZ warehouse controls, administrative penalties and other sanctions against tax evasion and conferring to the Commissioner General of the TAJ and the Commissioner of Customs regulatory powers to support and or supplement that legislative framework; (iii) Apply the same direct tax regime for firms in and out of the SEZs—except for the possibility of streamlined procedures and reduced rates (while ensuring that enterprises operating in the SEZs will be subject to effective CIT), and except for temporary grandfathering of incentives granted under the tax regime for Export Free Zones, with no ministerial discretion—and apply regular personal income taxation for workers in SEZs. Reduced CIT rates for SEZ operators will be time-bound and non-renewable, in line with the time limits on the master concession.

- Beyond the above steps, further administrative procedures will be critical for the successful implementation of the SEZ's tax regime, in particular to strengthen product identification and inventory management systems compliance enforcement to enhance risk management, and post clearance audit.

Reforms to Public Financial Management (PFM) and the Budget Process

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

- A Procurement Act was passed in September 2015. Next steps include the Implementation of the Electronic Tendering System in five pilot entities during the fiscal year; a new procurement manual will be prepared by March 2016, with IDB assistance.
- The macro-fiscal capacity of the Ministry of Finance and Planning (MoFP) will be strengthened with the support of IMF and other TA. We will:
  - review, re-organize and reclassify the functions and positions in the FPMU including development of job descriptions by December 2015;
  - recruit additional qualified staff for the re-organized Unit by March 2016.
- The Treasury Single Account (TSA) at the Bank of Jamaica (BOJ) will be further expanded and improved. A comprehensive plan has been prepared for approval by the FMIS Steering Committee by end November 2015. This is expected to include:
  - (i) The responsibility for management of government's banking arrangements will be transferred from the MoFP to the Accountant General's Department (AGD) by end January 2016.

- (ii) MoFP in conjunction with AGD will, by March 2016, prepare an updated inventory of all bank accounts in the public sector as at October 31, 2015. The inventory will be comprehensive and cover MoFP, AGD, MDAs and their constituent parts (schools, hospitals, etc.), extra-budgetary funds, executive agencies and non-commercial public bodies. It will detail the present authority over each bank account, purpose and usage in the past year (number of transactions and volume) and balances held in the account as on 31 October 2015. By end April 2016, a strategy will be finalized to close most of these accounts and to convert the remaining to zero-balance accounts.
- (iii) Government will further increase direct payments through the TSA using the Central Treasury Management System (CTMS). By end March 2016, salaries of all civil servants in the central government (including teachers) will be paid directly from the TSA. Most imprest accounts will also be closed and payments will be made directly by the AGD.

- Coverage and functionality of the CTMS will continue to be expanded as per the plan developed for 2015–17. The first phase of CTMS enhancements will be concluded by end June 2016.
- By end January 2016, the responsibility for further development and management of the CTMS will be transferred from the MoFP to the AGD. Necessary financial and human resources will be made available to the AGD to perform these functions effectively.
- By April 2016, all funds under the direct control of the AGD will be managed through the General Ledger of the CTMS. By May 2016, a ledger accounting system will be introduced into the CTMS with sub-ledgers for all bank accounts maintaining a cash balance.
- All revenues, including earmarked revenues, will be paid into the Consolidated Fund (CF). Consequently, warrants for each entity will cover all resources including Appropriations-in-Aid (AIA). By March 2016, relevant legal provisions will be reviewed, consultations will be held with stakeholders and a plan drawn up to realize these objectives. The plan will aim to (i) consolidate the CF and the TSA into one account, (ii) close all accounts presently being used by MDAs to deposit funds earmarked as AIAs, (iii) enable deposit of funds presently earmarked as AIAs directly into the CF.
- To enhance expenditure control and streamline implementation of the budget, a system of commitment control against budget for capital expenditure will be activated in the Budget Preparation & Management System (BPMS), FinMan and TMM with effect from July 01, 2016.
- A service level agreement (SLA) between the BOJ and the Government for banking services provided by the BOJ will be finalized by end-December 2015.
- The AGD is implementing changes to modernize its systems, processes and operations over the next 3 years, with key reforms in the next 18 months. By end January 2016, a Treasury modernization plan will be approved and a new organizational structure defined. The plan will reflect transfer of responsibilities and personnel from the MoFP to the AGD for development of core activities of a modern Treasury at the AGD: cash management, management of CF/TSA and other banking arrangements, preparation of in-year and annual budget reports and financial statements for the Government of Jamaica, custody and maintenance of the chart of accounts,

management and development of the CTMS, guidance on PFM operational practices and ownership of the central government fiscal database.

- The Chart of Accounts has been finalized and is being used for the 2016/17 budget. Thereafter, the AGD will be responsible for maintenance of the Chart of Accounts.
- By end January 2016, a plan will be developed for defining and stabilizing for the next three years the ICT infrastructure development of MOFP and AGD, focusing on core functionality, interconnectivity, and interoperability. Implementation will begin in February 2016.

Debt Management

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

12. **The Government will further strengthen its debt management strategy and capacity** to reduce the burden of servicing government debt, and to ensure that access to several sources of financing, including the domestic bond market.

- Strengthen efficiency of the Debt Management Branch through increased staffing of the middle office, skills training, and improving securities operations and domestic market development, with the help of IMF TA.
- Continue to develop a debt management business continuity strategy and function with IMF TA, and in coordination with BoJ and AGD.

Public Sector Reform

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

- **Public sector transformation.** On the basis of our action plan we will:
    - put in place shared services within the central government starting with the legal services, with support from Justice Canada. The report outlining an optimal shared service model for legal services and attendant service level agreements has been prepared and will be submitted to Cabinet by end-November 2015. The final plan will be implemented within 6 months of its adoption.
    - merge the Forensic Laboratory and the Legal Medicine Unit. The organisational structure has been completed and the head of the new entity was selected in October and has assumed duties. . The new entity is currently operational.

- complete the organisational structure for the merger of the Betting Gaming and Lotteries and the Racing Commissions by September 2015. Subject to legislative approval, it is expected that the merged structure will be implemented in May 2016.
- merge selected commodity Boards (Cocoa, Coffee, the regulatory functions of the Coconut Industry Board) and the Export Division of the Ministry of Agriculture & Fisheries which deals with Spices (Pimento, Tumeric, Nutmeg, Ginger), into a single New body to be named the Jamaica Agricultural Commodities Regulatory Authority (JACRA). This involves Organizational Structuring, Regulatory Changes, Legal Drafting and passage through the Parliamentary System to establish an operational Act for the new body JACRA. Approximately eighty percent (80%) of the Organizational aspects have been completed, and it is anticipated that the Legal aspects should be finalized by April 2016. The full merger is therefore expected to be completed by June 2016
- divest the Petroleum Company of Jamaica Limited, Petcom—Cabinet approved the selection of the preferred in October 2015. Negotiations with the bidder are expected to commence shortly.
- complete the RFP for the software for the Asset Management Shared Services by February 2016. Consequent on securing funding, we will seek to complete the procurement of that system and have a contract in place with the successful bidder by April 2017.

- **Wages and salaries.** The Government has signed a new wage agreement for the 2-year period after March 2015 with 9 union groups. These agreements cover about 80 percent of public sector employees. Discussions continue with the remaining groups with a commitment to reducing the wage bill to 9 percent of GDP in 2016/17 and firmly maintaining the ratio of public debt to GDP on a downward path over the medium term.
- **Public Sector Positions**. To meet the GOJ's overall wage ceiling of 9 percent of GDP by 2016/17, the GOJ will reduce the size of the public sector through the elimination of posts and an attrition programme, subject to the need to preserve capacity in a limited number of priority areas.
- **Pension Reform**. The new public pension system, as described in the June 2014 MEFP, is expected to be implemented at the start of FY 2016/17. The requisite changes in legislation are expected to be tabled by end-November 2015 (*structural benchmark*).

14. **The implementation of the human resources software system (the HCMES system; including Payroll) is progressing.** The process to evaluate the bids and identify the preferred vendor was completed in April 2015. Contract negotiation and agreement of the terms of the contract was completed in October 2015. To ensure a timely start for the system's implementation in the wider public sector, with IDB support, the project plan was completed in August 2015 and a full-time dedicated project management team (including specialists in the areas of Business Process Mapping, Human Resource Management, Payroll Administration and Data Migration) will be put in place by end-January 2016 (proposed new structural benchmark). The configuration of the system will be completed by the end of June 2016, when the roll –out to the first 14 MDAs will begin.

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

- To enhance transparency, the annual reports (including audited statements) for the majority of self-financing public bodies will be completed by December 2015. Self-financing public bodies that fail to meet the statutory condition without reasonable cause will be sanctioned under Section 25 of the Public Bodies Management and Accountability Act.
- Monitoring of budget-funded public bodies will be strengthened by (1) enforcing the six months' time limit for submission of their financial statements to the Auditor General; and (2) bolstering capacity within the Auditor General's office for more in-depth and frequent reviews of these statements. Following the funding and commencement of additional recruitment, a new organizational structure was approved in September 2015.
- We will develop and submit to Cabinet for approval a new policy on public bodies that will ensure consistent PFM rules for public bodies (*proposed new structural benchmark for June 2016*). The policy will create classes of public bodies, identify key PFM principles to be adhered to for each class, and eliminate the current classification by funding source. A unit in the MOFP will be assigned to be responsible for ensuring that the policy on public bodies is being adhered to across the full body of PFM reform projects.
- Upon approval by Cabinet of the new policy on public bodies, we will conduct a review of all existing public bodies to determine their classification. The review will also evaluate the scope for merging and reintegrating some public bodies into the central government.

III. FINANCIAL SECTOR REFORMS

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

- The new Banking Services Act became effective in September 2015 (*structural benchmark*). New areas under the Act regarding the code of conduct on consumer related matters and regulations pertaining to agent banking will be completed by March 2016. The suite of regulations and rules that will comprise the regime for financial holding companies and consolidated supervision will be completed by July 2016.
- We have set a minimum transaction size for retail repos that we will gradually increase to J$1,000,000 and US$10,000 by end-December 2015.
- We have developed and started industry consultation on a strategy to introduce and gradually tighten prudential standards for the securities sector. We will ensure that in the near- to medium-term, the retail repo portfolios of individual firms and the securities industry as a whole will be at a level deemed by the BOJ and the FSC to be systemically safe and prudentially manageable. The FSC, after taking into consideration feedback received from the industry consultation as well as the impact of the minimum transaction size that is to be established at end-December 2015, will start implementing a strategy by March 2016 under the guidance of the Steering Committee.

- By March 2016, we will have taken steps to further strengthen depositor protection and investor compensation across financial institutions.

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

- By end-September 2016, we will make effective any legislative provisions to support the national crisis management plan and the resolution framework for the banking and securities sectors that will be tabled in June 2016. A working group has been established to develop a concept paper for the resolution framework, with a stakeholder consultation process scheduled to start in February 2016, with support from IMF TA by end-2015.

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

- The BOJ now has the overall responsibility for financial stability (*structural benchmark for November 2015*). Amendments to the BOJ Act that vest the BOJ with this responsibility became effective in October 2015. A green paper will also be tabled in February 2016, discussing amendments to the BoJ Act for enhancing BOJ governance and autonomy.

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

- The transition of retail repos to the trust-based framework was fully completed at end-August 2015 (*structural benchmark*).

- Meanwhile, we continue to make less risky business models available to securities dealers. We raised the investment cap for CIS in foreign assets to 15 percent in June 2015, and will raise the cap to 25 percent by end-December 2015. This cap will be lifted by end-2016, unless extraordinary circumstances require a reassessment.

IV. MONETARY AND EXCHANGE RATE POLICY

20. **Monetary policy aims to achieve single digit inflation within a flexible exchange rate regime**. We envisage inflation in the range of 5.5 to 7.5 percent in FY2015/16. Over the longer term, the objective is to achieve a gradual reduction of inflation to a rate that is consistent with that of our main trading partners, with a possible move to full-fledged inflation targeting. Starting 2015, the BOJ will conduct annual reviews to assess our readiness for inflation targeting. The outcome of the reviews will provide the inputs for an informed decision on inflation targeting to be made by Cabinet. The first review will assess institutional readiness as at March 2015 and is expected to be completed by end-December 2015.

21. **The BOJ will continue to ensure the provision of adequate liquidity to the financial system at a price consistent with its policy goals.** As a further refinement to its liquidity provision framework, the BOJ has introduced periodic auctions for repo operations in October 2015. Over the

course of FY2015/16, the BOJ will also further refine its monetary policy operations, such as by providing longer-term liquidity instruments if the need arises. Guided by IMF TA, the BOJ is developing a comprehensive strategy to improve the effectiveness of its open market operations and liquidity assurance framework in order to enhance the monetary policy transmission mechanism.

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

V. GROWTH ENHANCING REFORMS

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

- A revised standardized pricing framework for development application fees is being completed and is expected to be submitted to Cabinet by end-December 2015.
- We will report, on a quarterly basis, on progress in reducing the time needed for the approvals process for development projects, especially for commercial development projects, including against the 90 day benchmark. The report for Q2 2015 shows that 84.2 percent of planning and building approvals were done within 90 days. Meanwhile, the National Building Act is expected to be tabled in December 2015; it will provide the regulatory framework for the acceptance of certified plans from licensed professionals.
- LAMP services will be expanded to St. James, Trelawny and Hanover in 2015/16. During 2015/16, we expect to issue an additional 2,000 titles under this program. As of October 2015, 581 titles have been issued this fiscal year.
- The pilot for the online system for business registration is on track to be rolled out by the end - December 2015. This will include online registration for Sole Proprietor Individuals, Sole Proprietor Corporate Clients and Sole Proprietor Partnerships. Online registration for Companies will be piloted by March 2016 and the system expected to be fully rolled out by April 2016.
- Urgent actions will be taken to reduce the time needed for entrepreneurs to get an electricity connection. Plans foresee the automation of the work processes within the Government Electrical Regulator (GER) and the acquisition of AMANDA software to streamline procedures for scheduling, inspecting, approving and certifying electrical installations. An action plan for implementation of the reforms and adoption of the AMANDA system are expected to be completed in 2016/17, with IDB support.
- Plans to establish a Port Community System (PCS) to electronically integrate and streamline export and import procedures are underway. The ASYCUDA World Customs Management System acquired by the JCA will support integrated processes/procedures and the National Single Window. Functions of the PCS that cannot be offered through ASYCUDA will be pursued by the private sector, possibly under a management contract. The GOJ has set up a Trade

Facilitation Task Force which is examining the public/private issues, including pertaining to the PCS. A new PCS RFP is currently underway. A preferred bidder was approved in July 2015 and the contract is expected to be signed by November 2015. The systems will ultimately be integrated to provide a complete trade and logistics solution for Jamaica. The implementation of the project is expected to start by Q1 2016/17, and will take 24 months to be completed.

- We are developing an umbrella financial inclusion strategy, covering key areas including MSME financing, housing finance, payments, rural finance, consumer protection and literacy. The strategy will benefit from extensive inputs from stakeholders. We will establish a financial inclusion council by March 2016 to oversee the launch and implementation of the strategy.
- The Development Bank of Jamaica (DBJ) is targeting to provide increased funding to MSMEs in 2015/16. The Mobile Money for Microfinance initiative is being reconfigured to focus on establishing an ecosystem for private-sector driven mobile money operations. With assistance from the IDB, the project is expected to start in Q1, 2016 and will take 12 months to finish.
- We will continue to develop other areas of reform to improve the access to capital and reduce the cost of funding for MSMEs, including provision of support for MSME capacity development programmes, establishment of a venture capital eco-system, full implementation of collateral and insolvency reforms, SME value chain development, promotion of factoring and lease financing mechanisms, enhancement of the partial credit guarantee scheme and microfinance legislation and institutional reform.
- The Agro Parks Initiative, which aims to stabilize the agricultural supply chain, boost exports, and increase import replacement is progressing. Nine agro parks are already operational. Negotiations are ongoing to establish at least five more parks in 2015/16, with the IDB under solicitation to support at least two new Agro Parks. An IDB-financed consultancy is underway to prepare a sustainability framework for the existing Agro Parks and criteria for selection of new Parks. Preliminary results were presented to relevant stakeholders in September 2015.
- A national strategic plan for the BPO industry was approved by Cabinet in March 2015 and implementation started in April 2015. Key actions under the plan include the establishment of a policy and legislative framework; labour market initiatives, infrastructure development, and actions to support market penetration. The strategy aims to create 18,000 jobs in the next 5 years.

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

- In early April 2015, a 30-year concession agreement was signed with a private consortium regarding the privatization of Kingston Container Terminal (KCT). Under the agreement, beginning in 2016, the concessionaire will undertake dredging the access channel to the Kingston Harbour and the KCT basin to allow for the handling of larger vessels that will transit the Panama Canal after its expansion. The transfer of the operating control to the concessionaire is expected to take place shortly after financial close of the transaction. The financial close is expected by January 2016. The concessionaire is expected to invest approximately US$625 million over two phases of the concession, with the possibility of a third phase to be negotiated.

- Work is proceeding on the privatization of Norman Manley International Airport (NMIA). Five bidders were shortlisted from the pre-qualification round. The selection of a preferred bidder is expected by January 2016, after which contract negotiations will begin with commercial closing expected in March 2016 and handover expected in November, 2016.
- Work is also proceeding on the Caymanas SEZ, with World Bank support, under the coordination of a GoJ enterprise team based on the results of the pre-feasibility study which was completed in January 2015. An RFP for a private sector developer for the feasibility study is expected to be issued in December 2015, with a view to sign the contract by May 2016. This work is closely aligned with a Master Plan for the Logistics Hub Initiative expected to start in January 2016, and be completed by March 2017, also supported by the World Bank.
- The Framework Agreement has been extended for a year to August 2016 for the development of a transhipment port and industrial and commercial zones in the Portland Bight area by China Harbour Engineering Company (CHEC). Technical feasibility studies for the project have commenced. This is a prerequisite for determining the construction methodology and for obtaining the terms of reference from NEPA for the Environmental Impact Assessment.

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

- The action plan prepared by the Electricity Sector Enterprise Team (ESET) foresees replacing current (oil-fired) generation capacity with gas, coal and ethane-fired plants, to achieve significant cost savings. Next steps will include the conversion of the Bogue power station from oil to gas by April 2016. In addition, the government has approved the construction of Jamaica's first natural gas-fired power plant, a 190MW facility to be built and operated by JPS, and to be completed by 2018. Several renewable energy projects are also under way.
- We will prepare a plan to ensure that all public entities (central government, local government, and public bodies) meet their financial obligations in a timely manner.

26. **Labour market reforms are progressing.** In the context of the recently launched Comprehensive Labour Market Reform Agenda, a Labour Market Reform Commission and Secretariat was established and became operational on April 1, 2015. The Commission has been reviewing policies and practices in the five thematic areas of education and training; productivity, technology and innovation; labour policies and legislation; social protection; and industrial relations. A first draft of recommendations will be submitted by the five sub-committees to the Commission by the end of the year for validation and onward submission to Cabinet by end FY15/16. Final recommendations will be submitted by end FY16/17.

VI. POVERTY REDUCTION AND REFORM OF SOCIAL SPENDING

27. **We established a new National Poverty Reduction Committee in early 2015**. An inter-sectoral Committee is being convened on a quarterly basis to guide and monitor the process of

development of a new National Policy on Poverty and a new Poverty Reduction Programme, and a process of consultation with key stakeholders has been initiated. The draft new Policy document is expected to be submitted to Cabinet by November 2015.

28. **Efforts to strengthen the social protection framework are progressing**. Implementation of the graduation strategy for PATH households has now begun. The implementation will be reviewed by the World Bank in December 2015, with recommendations on potential improvements. The government launched a comprehensive social protection strategy in July 2014; a monitoring and evaluation framework has been developed.

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

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

(in billions of Jamaican dollars)

	2014	2015					2016						2017
	End-Dec.	End-Sept			End-Dec.		End-Mar.		End-Jun.		End-Sept	End-Dec.	End-Mar.
	Stock	PC	Adjusted PC	Actual	PC	Revised Proposed PC	PC	Revised Proposed PC	PC	Revised Proposed PC	Proposed PC	indicative PC	indicative PC
Fiscal targets													
1. Primary balance of the central government (floor) 4/		40.0		50.8	65.0	60.7	125.0	120.7	15.0	11.0	33.0	58.0	126.0
2. Tax Revenues (floor) 4/9/		185.0		195.1	280.0	280.0	411.0	393.0	99.0	99.0	203.0	305.0	445.0
3. Overall balance of the public sector (floor) 4/		-34.0	-30.5	9.2	-36.0	-40.3	-10.0	-14.3	-25.0	-29.0	-37.0	-44.5	-10.8
4. Central government direct debt (ceiling) 4/5/		40.0		-11.0	41.0	47.0	71.0	77.0	15.0	19.5	41.0	44.0	51.0
5. Central government guaranteed debt (ceiling) 4/		2.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6. Central government accumulation of domestic arrears (ceiling) 6/12/13/	21.6	0.0		-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 7/12/13/	23.2	0.0		-4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 6/12/		0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9. Social spending (floor) 9/10/		9.2		14.0	15.6	15.6	23.2	23.2	4.8	4.8	9.7	16.6	24.6
Monetary targets													
10. Cumulative change in net international reserves (floor) 8/11/	1997.7	-463.3	-469.6	468.1	-338.0	-338.0	-339.0	-339.0	-199.6	-199.6	-49.6	52.3	152.3
11. Cumulative change in net domestic assets (ceiling) 11/	-120.2	56.1	56.8	-54.6	53.8	61.8	31.1	39.1	22.8	28.7	9.0	21.9	-2.0

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Including proposed modified performance criteria for the net international reserves and the net domestic assets.
3/ Based on program exchange rates defined in the March 2015 TMU.
4/ Cumulative flows from April 1 through March 31.
5/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
6/ Includes debt payments, supplies and other committed spending as per contractual obligations.
7/ Includes tax refund arrears as stipulated by law.
8/ In millions of U.S. dollars.
9/ Indicative target.
10/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
11/ Cumulative change from end-December 2014.
12/ Continuous performance criterion.
13/ The accumulation is measured against the stock at end-March 2015, which is J$21.3 billion for domestic arrears and J$21.7 billion for tax arrears.

Table 2. Jamaica: Structural Program Conditionality

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

Table 2. Jamaica: Structural Program Conditionality (Concluded)

Financial sector		
27. Government to table legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	Met
28. Government to submit proposals for a distinct treatment for retail repo client interests in the legal and regulatory framework to the relevant financial industry for consultation (MEFP March 2014 Paragraph 25) in consultation with Fund staff.	March 31, 2014	Met
29. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (June 2014 MEFP Paragraph 29) in consultation with Fund staff.	December 30, 2014	Met
30. Government to table the Omnibus Banking Law 3/ consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	Met 4/
31. Government to finalize the transition of retail repos to the trust-based framework.	August 30, 2015	Met
32. Government to fully implement the Banking Services Act.	September 30, 2015	Met
33. The BOJ to have overall responsibility for financial stability.	November 1, 2015	Met
Growth enhancing structural reforms		
34. Government to implement a new (AMANDA) tracking system to track approval of contruction permits across all parish councils.	December 30, 2014	Met
35. Government to table in parliament the Electricity Act.	January 31, 2015	Met

1/ The review was reportedly completed in March 2015.
2/ While all other elements of the benchmarks were met, technical difficulties prevented the achievement of 95 percent take-up rate of e-filing in the LTO. The take-up rate was 80 percent.
3/ Currently referred to as the Banking Services Act.
4/ The law was tabled in March 2014 with subsequent fine-tuning in collaboration with Fund staff prior to its adoption in June.

Attachment II. Technical Memorandum of Understanding

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

2. **For programme purposes, all foreign currency-related assets, liabilities and flows will be evaluated at "programme exchange rates" as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates.** The updated programme exchange rates are those that prevailed on December 31, 2014. Accordingly, the exchange rates for the purposes of the programme are show in Table 1.

Table 1. Program Exchange Rates (End-December, 2014)/1

Jamaican dollar to the US dollar	114.66
Jamaican dollar to the SDR	166.12
Jamaican dollar to the euro	139.21
Jamaican dollar to the Canadian dollar	97.69
Jamaican dollar to the British pound	177.68

1/ Average daily selling rates at the end of December 2014

I. QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

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

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

A. Cumulative Floor of the Central Government Primary Balance

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

6. **Revenues are recorded when the funds are transferred to a government revenue account.** Revenues will also include grants. Capital revenues will not include any revenues from asset sales proceeding from divestment operations. Central government primary expenditure is recorded on a cash basis and includes compensation payments, other recurrent expenditures and capital spending. Government-funded PPPs will be treated as traditional public procurements—the associated costs will be recorded as on-budget investment during the construction phase of the project. Primary expenditure also includes transfers to other public bodies which are not self-

financed. Costs associated with divestment operations or liquidation of public entities, such as cancellation of existing contracts or severance payments to workers will be allocated to current and capital expenditures, accordingly.

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

8. **To kick-start economic growth, the following growth-enhancing projects will be added to primary expenditures, accommodated by the 0.25 percent of GDP reduction in the central government primary surplus target for FY2015/16:** Lower Middle Income Housing Programme, Flood Damage Mitigation and Vector Control, Low Income Housing, Major Infrastructure Development Project, Major Rural Farm Roads Rehabilitation/Development Program, Portmore Transportation Hub, Jamaica Economical Housing Project, Transportation Infrastructure Rehabilitation Programme, Drought Mitigation Programme in Farming Communities, Foundation Jamaica Foundations for Competitiveness & Growth, FAMP, Portmore Informatics Buildings, Strategic Public Sector Transformation Project.

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

B. Cumulative Floor on Overall Balance of the Public Sector

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

11. **Public bodies consist of all self-financed public bodies, including the 17 "Selected Public Bodies" and "Other Public Bodies".** The 17 "Selected Public Bodies" include: Airport Authority of Jamaica (AAJ); Human Employment and Resource Training Trust (HEART); Jamaica Mortgage Bank (JMB); Housing Agency of Jamaica (HAJ); National Housing Trust (NHT); National Insurance Fund (NIF); Development Bank of Jamaica (DBJ); National Water Commission (NWC); Petrojam; Petroleum Corporation of Jamaica (PCJ); Ports Authority of Jamaica (PAJ); Urban Development Corporation (UDC); Jamaica Urban Transit Company Ltd. (JUTC); Caymanas Track Ltd. (CTL); National Road Operating and Constructing Company Ltd. (NROCC); Petro-Ethanol; Clarendon Aluminum Production (CAP);. "Other Public Bodies" include: Road Maintenance Fund; Jamaica Bauxite Mining Ltd.; Jamaica Bauxite Institute; Petroleum Company of Jamaica Ltd. (Petcom); Wigton Windfarm Ltd.; Broadcasting Commission of Jamaica; The Office of Utilities Regulation; The Office of the Registrar of Companies, Runaway Bay Water Company, Jamaica National Agency for Accreditation, Spectrum Management Authority; Sports Development Foundation; Bureau of

Standards Jamaica; Factories Corporation of Jamaica Ltd.; Kingston Freezone Company Ltd.; Micro Investment Development Agency Ltd.; Montego Bay Freezone Company Ltd.; Postal Corporation of Jamaica Ltd.; Self Start Fund; Betting Gaming and Lotteries Commission; Culture, Health, Arts, Sports and Education Fund; Financial Services Commission; Jamaica Deposit Insurance Corporation, Jamaica Racing Commission, National Export-Import Bank of Jamaica Ltd.; PetroCaribe Development Fund; Tourism Enhancement Fund, The Public Accountancy Board; Students' Loan Bureau; National Health Fund; Cocoa Industry Board; Coffee Industry Board; Sugar Industry Authority; Overseas Examination Commission; Aeronautical Telecommunications Ltd.; Jamaica Civil Aviation Authority; Jamaica Ultimate Tire Company Ltd.; Jamaica Railway Corporation Ltd.; The Firearm Licensing Authority; Ports Management Security Corps Ltd.; Transport Authority.

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

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

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

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

Table 2. Overall Balance of Petrojam (Baseline Projection)

	In billions of Jamaican dollars
End-June 2015	2.5
End-September 2015	-0.5
End-December 2015	-1.5
End-March 2016	-2.2
End-June 2016	0.0
End-September 2016	3.0

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

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

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

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

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

D. Ceiling on Net Increase in Central Government Guaranteed Debt

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

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

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

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

E. Ceiling on Central Government Accumulation of Domestic Arrears

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

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

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

F. Non-Accumulation of External Debt Payments Arrears

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

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

29. **Definitions:** The term "debt"[2] 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

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

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

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

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

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

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

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

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

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

G. Ceiling on Central Government Accumulation of Tax Refund Arrears

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

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

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

H. Floor on the Cumulative Change in Net International Reserves

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

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

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

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

Table 3. External Program Disbursements (Baseline Projection)	
Cumulative flows from the beginning of the fiscal year	(In millions of US$)
External loans from multilateral sources	
End-September 2015	151
End-December 2015	205
End-March 2016	331
End-June 2016	72
End-September 2016	114
Budget support grants	
End-September 2015	21
End-December 2015	21
End-March 2016	31
End-June 2016	0
End-September 2016	0
IMF budget support disbursements	
End-September 2015	0
End-December 2015	0
End-March 2016	0
End-June 2016	0
End-September 2016	0

The NIR target will be adjusted upwards (downwards) by the amount by which, at a test date, the cumulative changes from end-December 2014 in BOJ's foreign exchange liabilities to residents with a maturity of less than one year (including banks' foreign currency deposits in BOJ) are higher (lower) than the baseline projection for this change reported in Table 4.

Table 4. Reserve Liabilities Items for NIR Target Purposes	
	(In millions of US$) 1/
BOJ's foreign liabilities to residents	
Outstanding stock	
End-December 2014	242.0
Cumulative change from end-December 2014	
End-September 2015	94.1
End-December 2015	5.4
End-March 2016	78.4
End-June 2016	238.1
End-September 2016	278.0
1/ Converted at the programme exchange rates.	

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

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

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

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

II. QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

A. Cumulative Floor on Central Government Tax Revenues

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

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

B. Floor on Central Government Social Spending

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

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

- *Youth employment programmes* comprising on the job training, summer employment and employment internship programme.

- *Conditional cash transfers* comprising children health grant, children education grants, tertiary level, pregnant and lactation grants, disabled adult grants, adult under 65 grants and adults over 65 grants.
- *Poor relief programme.*

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

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

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

III. CONDITIONALITY ON TAX WAIVER REFORM

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

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

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

IV. CONDITIONALITY ON USER-FUNDED PPPS

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

57. **For the purpose of this condition, the loan value of a PPP may be excluded if the Office of the Auditor General has established that the PPP involves only minimal contingent**

liabilities (by demonstrating that the project has no debt guarantee, demand or price guarantees or termination clauses that could imply a transfer of liabilities to the government).

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

V. INFORMATION REQUIREMENTS

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

Daily

- Net international reserves; nominal exchange rates; interest rates on BOJ repurchase agreements; total currency issued by the BOJ, deposits held by financial institutions at the BOJ; required and excess reserves of the banking sector in local and foreign currency, total liquidity assistance to banks through normal BOJ operations, including overdrafts; overnight interest rates; GOJ bond yields.
- Disbursements from the Financial System Support Fund, by institutions.
- Liquidity assistance to institutions from the BOJ, by institution.
- Bank of Jamaica purchases and sales of foreign currency, by transaction type (surrenders, public sector entities facility and outright purchases or sales including interventions).
- Amounts offered, demanded and placed in Bank of Jamaica open market operations, including rates on offer for each tenor and amounts maturing for each tenor.
- Amounts offered, demanded and placed in government of Jamaica auctions and primary issues; including minimum maximum and average bid rates.
- Daily foreign currency government of Jamaica debt payments (domestic and external).

Weekly

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

Monthly

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

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

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

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

- Stock of central government expenditure arrears.

- Stock of central government tax refund arrears.

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

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

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

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

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

- A summary of monetary accounts providing detailed information on the accounts of the Bank of Jamaica, commercial banks and the overall banking system. Including Bank of Jamaica outstanding open market operations by currency and maturity and a detailed decomposition on Bank of Jamaica and commercial bank net claims on the central government, selected public bodies and other public bodies.[3] This information should be received with a lag of no more than six weeks after the closing of each month.

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

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

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

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

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

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

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

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

- Issuance of exempt distributions by financial and non-financial corporations, six weeks after month end.

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

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

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

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

- Data on tax waivers for charities and charitable giving.

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

Quarterly

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

- Use of the PetroCaribe Development Fund, including loan portfolio by debtor and allocation of the liquidity funds in reserve within six weeks after month end.
- The stock of public entities non-guaranteed debt.
- Summary balance of payments within three months after quarter end. Revised outturn for the preceding quarters and quarterly projections for the forthcoming year, with a lag of no more than one month following receipt of the outturn for the quarter.
- Gross domestic product growth by sector, in real and nominal terms, including revised outturn for the preceding quarters within three months after quarter end; and projections for the next four quarters, with a lag no more than one month following receipt of the outturn for the quarter.
- Updated set of macroeconomic assumptions and programme indicators for the preceding and forthcoming four quarters within three months of quarter end. Main indicators to be included are: real/nominal GDP, inflation, interest rates, exchange rates, foreign reserves (gross and net), money (base money and M3), credit to the private sector, open market operations and public sector financing (demand and identified financing).
- BOJ's Quarterly Financial Stability Report.
- Quarterly income statement data of deposit taking institutions, as reported to the BOJ within eight weeks of the quarter end.
- Summary review of the securities dealer sector, within eight weeks of quarter end.
- Summary report of the insurance sector (based on current FSC quarterly report), within eight weeks of quarter end.
- Capital adequacy and profitability ratios (against regulatory minima) for DTI's and non-bank financial institutions within eight weeks of quarter end.
- FSC status report detailing compliance (and any remedial measures introduced to address any non compliance) with the agreed guidelines for the operation of client holding accounts at the Jam Clear@ CSD and FSC independent verification of daily reconciliations using data provided by Jam Clear@ CSD. Reports are due within four weeks of end quarter.

Annual

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

Statement by Serge Dupont, Executive Director for Jamaica and Trevor Lessard, Alternate Executive Director
December 16, 2015

We thank the staff for their report and the continued constructive dialogue that took place during the Extended Fund Facility (EFF) review mission. Our authorities' enduring resolve and steadfast implementation continues to deliver concrete results, and once again for this tenth review of their EFF all of the performance criteria and structural benchmarks are met. On the ground, there are clear signs that economic activity is picking up, with a modest recovery in agriculture, encouraging prospects for manufacturing and business process outsourcing, and continued growth in the tourism sector. Nevertheless, our authorities are cognizant that more must be done to encourage growth, and most critically, meaningful job creation.

Going for Growth

While macroeconomic stability is entrenched and creating a foundation for confidence, sustained and dynamic growth requires additional catalytic support. Invigorating sustainable, job-rich growth in Jamaica requires a multi-pronged approach developed at the outset of the reform agenda to improve the business climate, modernize the delivery of public services, maintain a competitive tax system, and supply the requisite public infrastructure for the private sector to build upon. Many important milestones have been met, especially in financial sector and tax reform, and building on these successes by improving financial inclusion, training, transforming and modernizing the public sector, and facilitating private investment, is our authorities' primary goal for the remainder of the EFF.

After extensive discussions with Fund staff and Jamaica's other international partners, a consensus was achieved to support our authorities' request to mobilize some fiscal space to bolster capital spending. The relaxation is modest, lowering the primary balance by 0.25 percent in FY2015/2016 and 0.5 percent in FY2016/2017. The new primary balance targets, 7.25 percent and 7 percent of GDP, respectively, remain extremely ambitious, but achievable, and are needed to keep debt on a steeply declining path. The additional fiscal space will be directed towards capital spending in areas chosen to maximize the contribution to growth over the short- to medium- term, such as logistics, transportation, and agriculture. The recalibration of the fiscal targets in no way lessens our authorities' commitment to reducing the high level of public debt, and staff's medium-term debt projections highlight that the fiscal adjustment can be accommodated without jeopardizing long-term debt sustainability. *Our authorities seek Directors' favourable consideration of the proposed modifications of the fiscal targets for FY15/16 and 16/17.*

Fiscal Policy and Public Sector Modernization

Fiscal policy remains geared towards reducing public debt, meeting program targets, and following the fiscal rule that has been adopted. Achieving these goals will require a sustained effort to modernize and streamline the public service so that it can more efficiently deliver services to the public. Our authorities remain committed to lowering the wage bill to 9 percent of GDP, but emphasize that it is important to meet this goal in an orderly and sustainable fashion. Recent wage agreements have included a moderate nominal wage increase for public servants after years of wage freezes, on the understanding that wage adjustments alone cannot achieve the larger goal of a revitalized and reformed public sector while maintaining the social consensus. Concurrently, our authorities met several structural benchmarks related to public sector transformation while also agreeing to the inclusion of new benchmarks in this area.

It is important to place the small expansion in fiscal space within the context of more than two years of unbroken success at fully meeting the program's ambitious primary balance and debt targets. It is only because of this success, achieved through fiscal consolidation, wage restraint, a painful debt restructuring, and a favourable liability management exercise, that the opportunity to further invest in public infrastructure is possible. Moreover, this recalibration coincides with recent positive revisions to the September outcomes that reflect a correction and classification of Air Jamaica debt flows. Following these revisions to the outturns performance criteria for the central government direct and guaranteed debt, their combined stock is reduced by J$18.8 billion, J$5.8 billion larger than the decrease previously reported in the staff's report.

<u>Monetary Policy and Financial Sector</u>

Monetary policy remains geared towards achieving price stability, further anchoring the recent decline in inflation expectations, all while maintaining a market determined exchange rate. Similar to other central banks, the Bank of Jamaica (BoJ) continues to operate in an uncertain external environment. With positive inflation outturns and prospects, and subdued domestic activity, the BoJ acted to loosen monetary conditions and narrow the interest rate corridor, the latter to improve the monetary transmission mechanism. The actions will complement fiscal policy in supporting credit growth and job creation.The BoJ stands ready to take further action, if necessary, to support the economic recovery, but stresses the need to proceed cautiously, given the objective of building non-borrowed reserves while ensuring continued gains in exchange rate competitiveness. The central bank's caution is also informed by the large bond redemption next February (see below), and any monetary tightening that may take place by the Federal Reserve before the end of 2015.

The redemption of J$62 billion (approx. 4 percent of GDP) of Government of Jamaica bonds in February 2016 will bring about a large liquidity injection to the financial system. The redemption and associated liquidity increase brings with it an opportunity for financial institutions to increase their lending to the real economy from its relatively low levels. Moreover, there is an opportunity to re-open the domestic sovereign debt securities market, which has remained frozen since the National Debt Exchange (NDX). The BoJ and the Ministry of Finance and Planning (MoFP) remain in close contact and have coordinated on a strategy that will achieve the multiple objectives of re-entering the domestic debt market, increasing bank liquidity and consequently lending to the private sector, and maintaining the monetary goals of the program.