For more information, see Jamaica and the IMF

The following item is a Memorandum of Economic and Financial Policies of the government of Jamaica. It is being made available on the IMF website by agreement with the member as a service to users of the IMF website. This memorandum describes the policies that Jamaica is implementing in the framework of a staff-monitored program.
A members's staff-monitored program is an informal and flexible instrument for dialogue between the IMF staff and a member on its economic policies. A staff-monitored program is not supported by the use of the Fund's financial resources; nor is it subject to the endorsement of the Executive Board of the IMF.

Use the free Adobe Acrobat Reader to view Figures 1-2 and Tables 1-10.

July 19, 2000

Mr. Horst Köhler
Managing Director
International Monetary Fund
700 19th Street NW

Washington, D.C. 20431
U.S.A.

Dear Mr. Köhler:

1. During the last decade, Jamaica faced several challenges as the economy struggled to deal with structural issues arising from a crisis in the financial sector, an adverse external environment for our exports, high rates of inflation, and recurring instability in the foreign exchange market. In dealing with these challenges, significant successes have been achieved in stabilizing the economy—inflation has been reduced to single digit since 1996/97; the exchange rate for the Jamaica dollar has remained relatively stable; and the level of official international reserves has increased significantly. There were fiscal surpluses from 1989/90 through 1995/96, but recent developments have led to fiscal deficits over the last four years. Efforts have been made to reduce the Central Government deficit, which has narrowed from a high of about 8 percent of GDP in 1997/98 to 4½ percent of GDP in 1999/2000. Since 1996/97, the costs associated with the rehabilitation of the financial sector, have led to a significant accumulation of domestic debt. This has made the debt problem exceedingly burdensome.

2. Over the medium term, a major objective is the containment of the domestic debt and a substantial reduction in debt servicing. This will release resources for productive investment in physical and human infrastructure, especially since the capital budget has suffered greatly in order to achieve the fiscal targets in recent years. In this regard, Jamaica has adopted an economic and financial programme to consolidate recent gains and strengthen the conditions for the resumption of satisfactory growth over the medium term to address, on a sustainable basis, the serious unemployment and social situation facing the country.

3. The annexed memorandum of economic and financial policies presents the Government's specific macroeconomic objectives and policies for 2000/01-2001/02 (the fiscal years run from April 1 to March 31). Key among these policies is the continued substantial fiscal effort required. Jamaica is faced with limited policy options if it is to retain the confidence of creditors at home and abroad, and the most important signal will be the attainment of the fiscal targets. In support of these objectives, the Government requests that Fund staff monitor and follow up the execution of its programme during April 1, 2000-March 31, 2002.

4. The Government of Jamaica believes that the policies set forth in the attached memorandum will enable it to achieve its programme objectives, but we are ready to adopt any additional measure that may prove necessary to this end. The Government will communicate to the Fund all the information needed to monitor its progress in implementing its economic and financial policies and the measures required to achieve the programme objectives. The authorities of Jamaica will review the SMP with the Fund staff no later than end-December 2000, end-June 2001, and end-December 2001.

Sincerely yours,,

/s/	/s/
Omar Davies	Derick Latibeaudiere
Minister of Finance and Planning	Governor
Government of Jamaica	Bank of Jamaica
Kingston	Kingston
JAMAICA	JAMAICA

Annex: Memorandum of Economic and Financial Policies

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES OF THE GOVERNMENT OF JAMAICA FOR 2000/01–2001/02

I. Introduction

1. The government of Jamaica would like an informal monitoring of its economic and financial program for 2000/01–2001/02 by the IMF staff.[1] The objectives of the program are to consolidate recent gains in economic stabilization and adjustment, advance the resolution of the problems facing the financial sector following the intervention by the public sector in the latter part of the 1990s, and lay the foundation for strong economic growth that would help address poverty on a sustained basis. The informal monitoring under a staff-monitored program (SMP) would serve as a vehicle for maintaining a close dialogue with the Fund to convey a signal (to official creditors, donors, and financial markets) of Jamaica's commitment to a credible and consistent policy package. This memorandum of economic and financial policies reviews recent developments and describes the government's economic objectives and policies for 2000/01–2001/02 and over the medium term, as laid out in the government's budgetary submission to Parliament in early April 2000.[2]

II. Background and Recent Economic Developments

2. Jamaica made considerable progress in stabilizing the economy and undertaking needed structural adjustments during the decade from the mid-1980s to mid-1990s. The liberalization of the financial system that occurred, however, was not accompanied by a sufficiently robust prudential and supervisory infrastructure, and a wide range of intricately related financial institutions emerged, with substantial lending to connected parties. Some financial institutions began to show signs of liquidity problems in 1995, which were initially met through greater resort to the overdraft facility of the central bank. At the same time, the earlier fiscal consolidation was reversed, as public sector domestic borrowing increased significantly, with central government's efforts to eliminate the losses of the central bank and public sector wage settlements outpaced inflation. Despite these developments, inflationary pressures were reduced and relative stability was maintained in the foreign exchange market although private sector economic activity remained weak.

3. In response to the above developments, the government adopted a strategy in 1996/97 that focussed on reducing inflation through tight monetary policy and the maintenance of a relatively stable nominal exchange rate.[3] This strategy was intended to lead to a reduction in real interest rates and a resumption of growth mainly through an improvement in private sector confidence. While it succeeded in reducing inflation sharply, the real effective exchange rate for the Jamaica dollar appreciated and real interest rates rose significantly. These developments put additional pressure on an already weak financial system with weak management and mis-matched assets and liabilities—as the incidence of nonperforming loans increased, and the profitability of substantial investments in long-term assets (especially real estate) was reversed. As confidence eroded, nervous depositors withdrew their funds from weak institutions and placed them at stronger domestic institutions. The financial crisis was contained only after large support from the government through the establishment of the Financial Sector Adjustment Company (FINSAC),[4] which capitalized intervened entities by purchasing shares, making subordinated loans, and purchasing bad loans with the use of FINSAC notes that allow for the capitalization of interest. As a result, total public debt rose from 102 percent of GDP at end-1995/96 to 123½ percent of GDP at end-1997/98, which—in the context of high interest rates, a weakening public sector primary balance, and economic contraction—created severe adverse debt dynamics.

4. Economic performance in the recent period of 1998/99–1999/2000 was characterized mainly by weak output performance and high real interest rates (Table 1). The output decline of ½ percent in 1998/99 represents the third consecutive year of contraction and output is estimated to have stagnated in 1999/2000, as high interest rates continued to hinder investment to some extent. Inflation rose from 6 percent in 1998/99 to about 8½ percent in 1999/2000, owing to higher prices for oil imports and the effects of new fiscal measures. Unemployment is estimated to have remained high at about 15½ percent during the period, with some new entrants into the labor force being engaged in the informal sector (reportedly about one-fourth the size of the measured economy).The real effective exchange rate for the Jamaica dollar—based on relative CPI indices—which had appreciated significantly in the earlier years, appreciated only slightly in 1998/99 and then depreciated by 4 percent in 1999/2000 (Figure 1).

5. Significant efforts at fiscal consolidation were undertaken during 1998/99—1999/2000. The public sector primary surplus was raised by 6½ percentage points of GDP to 7 percent in 1998/99, mainly through strengthened tax administration and efficiency gains in the operation of the public enterprises (Table 2). However, the growing interest bill on the large public sector debt (including that on FINSAC liabilities) more than offset this gain, and the overall public sector deficit widened from 11 percent of GDP in 1997/98 to 12 percent of GDP in 1998/99. Further consolidation efforts in 1999/2000—relying mainly on expenditure cuts and some revenue measures, including the introduction of a withholding tax on interest—raised the public sector primary surplus by about 5½ percentage points to 12½ percent of GDP. However, the overall public sector deficit dropped by only 3 percentage points of GDP because of further increases in the interest bill. Consequently, the stock of public debt rose from about 124 percent of GDP at end-1997/98 to about 144 percent of GDP at end-1999/2000.[5]

6. The external current account deficit narrowed during 1998/99–1999/2000 to about 4 percent of GDP a year from about 5½ percent in 1997/98 (Table 3). The main factors accounting for this improvement were the continued strong receipts from bauxite/alumina, increases in tourism receipts—the single most important source of foreign exchange earnings—strong private remittances, and reduced imports of investment goods. However, lower prices reduced receipts for many exports—including sugar, bananas, and nontraditional items—while many closures in the apparel industry led to a decline in manufacturing exports. The external current account deficits were financed almost entirely by foreign investment, as large government commercial borrowings (about US$250 million a year) in international markets were made primarily to meet official debt amortization. On a cumulative basis, the overall balance of payments recorded a surplus of about US$110 million and gross official international reserves[6] rose by US$70 million in 1998/99–1999/00 to US$800 million, equivalent to about 9½ weeks of projected imports of goods and services. Official international reserves at end-1999/2000 were also equivalent to 141 percent of public external debt service payments (all maturities, including short term) and 37 percent of broad money supply. Barring any significant capital flight, these indicators suggest that the reserve position is comfortable and should not be particularly vulnerable in the near term (Table 4 presents indicators of macroeconomic liquidity risks).

7. Monetary policy has aimed at reducing inflation in a base money targeting framework.[7] Despite a reduction in the unremunerated statutory cash reserve requirement and a steady decline in the central bank repurchase rate—monetary policy remained tight during 1998/99–1999/2000. Base money is estimated to have decreased by an average of 3 percent a year during the period (Table 5). Real interest rates (weighted average lending rates) declined from about 24½ percent at end-1997/98 to 18 percent at end-1999/2000.

8. The focus of structural reforms during 1998/99–1999/2000 was on the financial sector and trade. The rationalization of the financial sector involved the merger of four FINSAC-acquired banks and several other financial institutions into one—the Union Bank; advances in the financial restructuring of the state-owned National Commercial Bank including solvency support through the provision of FINSAC securities; and the sale of five of the six intervened insurance companies. Also, the supervision and regulation of commercial and merchant banks, building societies, and provident funds were strengthened. The process of trade liberalization under the aegis of CARICOM was completed with the reduction of the maximum common external tariff on nonagricultural products to 20 percent in January 1999.[8]

III. Program for 2000/01–2001/02

9. The most critical macroeconomic problems facing Jamaica are adverse debt dynamics associated with the high interest rates and a heavy public debt burden. However, several important shock absorbers have helped cushion the economy's vulnerability. These include the relatively large proportion of bank deposits held in foreign-owned institutions (46 percent); the willingness of financial institutions to roll over a significant portion of government domestic debt and the option to capitalize most interest on FINSAC liabilities; large and stable inflows from tourism and private remittances; the high level of official international reserves relative to base money and short-term public external debt; and the large informal sector.

10. The government is strengthening its adjustment strategy to accelerate the reversal in the adverse debt dynamics and put the economy on a less vulnerable path. The government's macroeconomic objectives over the medium term (2000–04) are to reduce inflation to about 5½ percent a year; achieve an average growth in output of about 2½ percent a year that will lay the foundation for faster growth; and maintain a sustainable external position in terms of gross official international reserves coverage of imports and external short-term liabilities. In this regard, the medium-term macroeconomic framework has as a central purpose a significant reduction in the public sector borrowing requirement that would contribute importantly in the reduction of domestic interest rates. Such a development would have the twin effects of releasing resources to promote higher investment (both private and in essential public infrastructure and human development) for growth and lessening the public debt burden. The goal is to reduce the debt-to-GDP ratio significantly over the medium term, which would require that sizeable public sector primary surpluses be maintained over the period.

11. Accordingly, the policy content of the government's program includes measures to reduce the public sector deficit, maintain an appropriate monetary policy stance, and accelerate structural reforms to improve efficiency and competitiveness. A key feature of the government's strategy is to deliver a long-term solution to the problems in the financial sector. Also, the strategy assumes disbursements under possible financial sector loans from the World Bank, the Inter-American Development Bank (IDB), and the Caribbean Development Bank (CDB) and asset sales to help write down the stock of FINSAC debt in the initial years of 2000/01–2001/02 while overall public sector surpluses would be generated in subsequent years to further reduce the stock of debt.

A. Financial Sector Strategy

12. In the financial sector, the government recognizes the need for a long-term comprehensive solution to address the mounting debt burden associated with the FINSAC liabilities.[9] The strategy for FINSAC debt resolution involves implementing six key measures: (i) FINSAC's debt to the central government (the Ministry of Finance and Planning) will be written off; (ii) FINSAC's debt to public sector entities (Bank of Jamaica, and other government entities) will be offset against those entities' liabilities to the government; (iii) the sale of Union Bank will be completed in 2000/01, and proceeds from the sale will be used towards reducing the stock of FINSAC debt held by the Union Bank; (iv) efforts to recover value on FINSAC's noncore assets—including the sale of property and the portfolio of nonperforming loans (NPLs) to a third party—will be intensified during 2000/01 and the proceeds used towards a reduction in the FINSAC debt held by the private sector; (v) the government will use all proceeds from possible World Bank, IDB, and CDB loans supporting its financial sector to reduce the stock of FINSAC debt during 2000/01–2001/02; and (vi) all remaining FINSAC liabilities outstanding as of end-2000/01 will be assumed explicitly by the government, and full interest payments will be made on FINSAC paper in cash beginning in 2001/02.

13. Preliminary calculations indicate that this strategy would require additional cash interest payment by the central government of about 3 percent of GDP in 2001/02, trending downwards over the medium term to about 2 percent of GDP in 2004/05. At this level of effort, and taking into account the reductions in the stock of debt through the measures outlined above to J$73.6 billion, the stock of FINSAC debt relative to GDP would decline from 37 percent at end-1999/2000 to 23½ percent in 2000/01 and 17 percent by end-2004/05.

14. With regard to the National Commercial Bank (NCB), the government realizes that there is an urgent need to prepare the bank for privatization in 2001/02. Efforts will be made to reorganize the bank's shareholding structure to provide FINSAC with a direct stake in NCB's equity, which would better reflect FINSAC's de facto economic ownership of the bank. In addition, a new management team for NCB will be put in place in 2000/01.

15. Significant steps have been taken to enhance financial sector supervision and regulation. These include strengthening the regulatory and supervisory powers of the Bank of Jamaica to allow it to take corrective actions to deal with problem banks and nonbank financial institutions, and introducing a number of prudential measures. Bank of Jamaica is currently updating its self assessment of compliance with the Basle Core Principles on Effective Banking Supervision, with an independent assessment planned for 2001/02. The Bank of Jamaica is largely compliant in all material aspects of the Core Principles and work is in progress to ensure full compliance.

16. The regulatory and supervisory framework for nondeposit—taking financial institutions (including insurance companies, pension funds, and money market funds) will also be strengthened. To rationalize oversight of the financial services industry, a "Financial Services Commission" (FSC) for integrated supervision of Securities, Pensions, and Insurance industries will be established in 2001. Moreover, in 2000/01, the Securities Commission will undertake a self assessment of its compliance with IOSCO Principles, and the Office of the Superintendent of Insurance will undertake a self assessment on compliance with IAIS standards of insurance supervision. Fit and proper criteria for nondeposit-taking financial institutions will be broadened, and licensing requirements will be strengthened. Formal mechanisms will be developed to consolidate supervision of financial groups, involving effective coordination between the Bank of Jamaica and the FSC (once established).

B. Fiscal Policy

17. The aim of fiscal policy would be to raise the primary balance by an average of

about 1 percentage point of GDP in 2000/01–2001/02 in order to make substantial improvements in the debt dynamics. In particular, the government's target is to approximately halve the overall public sector deficit to about 5 percent of GDP in 2000/01 and then reduce the deficit to ½ percent of GDP in 2001/02. Most of this improvement would come from the effort of the central government, which is programmed to reduce its deficit sharply in 2000/01 and to generate modest overall surpluses over the medium term. The government is convinced that such an effort would contribute importantly to address the adverse debt dynamics. Specifically, total public debt would decline from 144 percent of GDP at end-1999/2000 to about 94 percent by 2004/05. The projected decline in domestic interest rates would release budgetary resources for productive capital expenditure and for strengthening the social safety net programs.[10]

18. Since the tax rate is already high, new measures will concentrate on expenditure reduction and on tax administration improvement. Therefore, expenditures are being streamlined, using for guidance two recent internal reports.[11] At the same time, the composition of expenditure would be shifted toward productive capital outlays and the maintenance of infrastructure that have been squeezed under fiscal stress in recent years. On the revenue side, improvements in tax administration would concentrate on the rationalization of various legislation to streamline incentives and the strengthening of tax collection from all key taxes. However, new tax measures—particularly in an effort to include more of the sizeable informal sector—will not be ruled out since they could contribute toward a broadening of the tax base, a more equitable tax system, and more favorable debt dynamics.

19. In 2000/2001, the aims are to raise the public sector primary surplus by about 1½ percent of GDP to 14 percent and reduce the overall deficit further to about 5 percent of GDP. The central government deficit is to be reduced by 3½ percentage points of GDP to 1 percent in 2000/01.[12] The main features of the budget include: (i) continued expenditure restraint—including on wages, recurrent provisions (other goods and services), and capital outlays;[13] (ii) an increase in the withholding tax rate on interest from the current 15 percent to the maximum personal income tax rate of 25 percent, and new fees and charges; and (iii) legislation to expand the coverage of the GCT.

20. The government believes that the 2000/01 budget is consistent with generating the targeted primary surplus and the overall deficit but there are downside risks. First, domestic interest rates may not decline as rapidly as assumed and, second, the real GDP growth assumption may not be realized. In such a case, the government is committed to taking measures to contain the deviations from the targets. Most likely, further cuts would be made in expenditures. Capital outlays will be reviewed to determine which projects could be postponed or scaled back. Also, the government will bring forward into 2000/01 new measures being contemplated for next year to tighten tax administration. Finally, if necessary, quick yielding revenue measures will be introduced. In essence, any additional outlays—including from higher-than-projected interest rates—or shortfalls in revenues will be offset by expenditure cuts elsewhere or new revenue measures. In this regard, the program sets quarterly targets for the overall balance of the central government.

21. Despite the significant fiscal restraint announced in the budget, the government will need to finance large external debt service payments coming due in 2000/2001. The government will seek external funding to meet these payments in a manner that would lead to a reduction in the overall interest bill, while maintaining the country's presence in international markets. In combination with such borrowing, the program provides for a net repayment to the banking system by the central government.

22. The overall deficit of the rest of the public sector (including balances of public enterprises after capital outlays, the capitalized interest on FINSAC paper, and the central bank profit/loss) of just under 5 percent of GDP in 1999/2000 will be reduced by 1 percentage point of GDP to 4 percent in 2000/01. This will be achieved mainly through price adjustments to recover costs in several public enterprises and their internal restructuring. Continued emphasis will be placed on improving the performance of public enterprises, especially loss-making entities, while preparations are made for privatization. It is projected that the deficit of the rest of the public sector will decline significantly over the medium term to about ½ percent of GDP in 2004/05. In any event, the program calls for a significant net repayment by the public sector to the banking system in 2000/01 and a modest net borrowing in 2001/02. These efforts, in combination with those of the central government, will leave ample scope for growth in bank credit to the private sector.

C. Exchange Rate and Monetary Policies

23. The main aims of exchange rate and monetary policies over the medium term will be to contain domestic inflation and maintain official international reserves at relatively comfortable levels. In principle, the government believes that economic policies should seek to avoid loss of competitiveness as measured by the real effective exchange rate for the Jamaica dollar, which should not appreciate in the current medium-term macroeconomic framework. Efforts to improve external competitiveness will concentrate on structural reforms—including through labor market reforms—to increase productivity and through wage restraint. Therefore, the government will continue to allow the exchange rate to reflect underlying market forces, and the central bank's intervention in the foreign exchange market will be limited only to deal with temporary pressures on the exchange rate. In any event, the program has established quarterly targets for official net international reserves which will be monitored closely to determine if any policy response is required to deviations with respect to the target path. Furthermore, the government is committed to avoid the accumulation of external payment arrears and will not impose exchange restrictions.

24. The monetary program will continue to be geared toward ensuring a reduction in inflation through the targeting of base money. In the context of further fiscal adjustment, a lowering of interest rates will be possible without triggering inflation. Accordingly, the Bank of Jamaica has designed a monetary program for 2000/2001, which entails a reduction in net claims on the public sector by the banking system, and real growth in private sector credit of 3 percent in 2000/01 and 4 percent in 2001/02. Such an extension of credit to the private sector would be crucial to maintain the momentum of the incipient economic recovery during these years.

25. An important element in the monetary program—and in assessing the adequacy of the fiscal adjustment effort to reverse the adverse debt dynamics—is the interest rate path. Interest rates are expected to continue on the recent downward trend mainly because of credible policies that are being adopted, including a lower overall public sector deficit; a plan to resolve the liquidity problem facing the financial sector from the significant holdings of effectively nonmarketable FINSAC paper;[14] and appropriate easing of monetary policy. Also, although the cash reserve and liquid asset requirements have been reduced significantly in the recent past, they remain relatively high (at 15 percent and 33 percent, respectively), and the program calls for reductions of 3 percentage points each in 2000/01 and 2001/02 to 9 percent and 27 percent, respectively.

D. Structural Reform

26. As indicated earlier, significant progress has been made in implementing structural reforms, but much remains to be done with respect to the privatization of nonfinancial public enterprises and the reform of the public service. Further privatization of nonfinancial public enterprises is important as a means to rationalize the public sector and to generate resources to help ease the government's short-term financing constraint and make a modest contribution to reducing the public debt. Indeed, the government intends to press ahead, building upon the significant progress already achieved. Accordingly, the program has established a timetable for bringing to the point-of-sale the remaining majority share holdings in selected public enterprises, including large infrastructure enterprises such as the electricity company—Jamaica Public Service Company. The potential magnitude of resources to be generated by privatization is about 2–3 percent of GDP over the medium term.

27. The government has embarked on a Public Sector Modernization Programme for a comprehensive reform of the public service. In particular, the government is rationalizing operations in the education and health sectors—including the introduction of cost recovery to help fund the provision of services. This would ease the burden on the budget over the medium term while improving the delivery of essential services.

28. The government will continue to resist pressures to increase trade restrictions, and will review the trade regime to identify areas for further liberalization with the belief that excessive protection would work against Jamaica's long-term interest in fostering growth through efficient, internationally competitive industries. However, the high level of agricultural protection has been carefully targeted at industries that suffer from unfair foreign competition. In any event, Jamaica will not introduce new or intensify existing trade restrictions during 2000/01–2001/02.

29. Although substantial progress has been made in recent years, the government will develop a work program (including the need for technical assistance) for improving economic, financial, and social statistics—using the IMF's General Data Dissemination Standards (GDDS) as a framework. As part of the program, the government will begin implementing reforms recommended by recent technical assistance reports and will allocate sufficient resources for these reforms to be completed over the medium term. In particular, the government is working to develop a robust estimation of the informal and hidden economy.

E. Social Safety Nets

30. **Jamaica has a long-established tradition of publicly funded and managed social safety nets**. At least 45 distinct safety net programs are in operation, spread over several ministries and agencies. However, many programs are targeted to the same population groups which causes duplication and inefficiencies. In addition, assigned budgets are not always fully executed due to cumbersome procedures in the delivery mechanisms. In its effort to protect the poor and vulnerable, the government is committed to maintaining the level of spending on social safety nets. However, it is also committed to ensuring greater effectiveness of such spending.

31. In this regard, efforts will be made to strengthen the social safety nets, focusing on several key areas for improvement. The government will complete a review of the social safety nets and prepare a comprehensive reform agenda which would aim at consolidating duplicative programs and improving effectiveness and efficiency in program delivery by end- December 2000. The reform agenda will include a plan for establishing a comprehensive monitoring and evaluation system for the reformed mechanisms. Also, social safety net expenditures in 2001/02 will be maintained at least in real terms at the 2000/01 level. Finally, expenditures on the food stamp program in 2001/02 will be increased substantially in real terms. It is anticipated that support will be forthcoming from the World Bank and the Inter-American Development Bank for these and related actions to strengthen social safety nets.

F. Monitoring

32. To assist in the monitoring of Jamaica's program, quarterly quantitative targets for key variables and structural benchmarks have been set. These include targets for the overall balance of the central government, overall balance of selected public enterprises, net domestic assets of the central bank, the level of official net international reserves, and limits on external borrowing (Table 6). In addition, a quantitative target—applicable on a continuous basis—for nonaccumulation of external arrears has been included. The structural benchmarks cover measures with respect to the restructuring of the financial sector, privatization, and improvement of statistics (including a timetable for the preparation of the new quarterly national accounts) (Table 7). The definitions and adjusters associated with data and information to be reported under the SMP are listed in Appendix I.

IV. Medium-term Prospects

33. Jamaica expects to be building the foundation for satisfactory growth, given the government's baseline medium-term macroeconomic framework and policies described in the previous section (Figure 2 and Table 8). Real GDP growth of about 1½ percent is projected for 2000/01 based largely on some recovery in agriculture and manufacturing. Growth is expected to continue over the medium term—averaging 3 percent a year—driven by continued expansion in tourism and other services, and complete recovery in the financial and agricultural sectors. With this performance, the government anticipates the creation of job opportunities to start addressing the unemployment situation, but growth will remain significantly below the potential of the economy and will approach what is required to make an impressive dent in unemployment only in the longer term. With the continuation of appropriately tight monetary policy, the government believes that it can contain inflation within the targeted range of 4–6 percent a year over the medium term.

34. Based on the macroeconomic strategy, the public sector deficit would shift into an average surplus of about $^2/_3$ percent of GDP a year during 2002/03–2004/05. This fiscal consolidation would contribute greatly toward arresting the adverse public debt dynamics, with the overall public sector debt declining to 114 percent of GDP at end-2001/02 and to about 94 percent in 2004/05 (Table 9).

35. The external current account deficit is projected to initially worsen to about 5 percent of GDP a year during 2000/01–2001/02. Import payments are projected to increase more rapidly in these years than receipts from exports of goods and services as investment picks up. In the subsequent years, the external current deficit is projected to narrow to about 4½ percent of GDP a year, a level that would be consistent with expected capital inflows to finance the deficit and permit modest increases in gross official reserves. Official reserves are expected to rise appreciably in the initial years to about US$1.2 billion at end-2001/02 (about twice the projected short-term external liabilities and about half the projected money supply) which would be a good stead to meet large external amortization in the mid-2000s.

36. As indicated earlier, the government is aware that there are downside risks to the medium-term macroeconomic framework. These risks include a less rapid decline in domestic interest rates than assumed and a more sluggish economic recovery (Table 10). In such a scenario, real GDP growth is assumed to be less than 1 percent a year in 2000/01–2001/02 and to average 2 percent a year in 2002/03–2004/05. Projections based on this scenario indicate that the cash interest payments on FINSAC debt would be about ½ a percentage point of GDP higher each year than envisaged earlier. With a slightly less favorable fiscal prospect (mainly from lower revenues stemming from the more sluggish economic recovery), the improvement in the public sector balance would be more gradual, with an overall deficit of about 2 percent of GDP a year even in the outer period of 2003/04–2004/05.

37. In the circumstances, total public debt (including the stock of FINSAC liabilities) will decline from 144 percent of GDP at end-1999/2000 to 125 percent at end-2001/02 and to only 101 percent by 2004/05. To leave the debt objective in the baseline scenario uncompromised, additional fiscal efforts would be required as indicated earlier in terms of both expenditure cuts and revenue enhancement to offset revenue shortfalls as well as higher-than-projected outlays. The government has indicated its clear determination to make further efforts, however, the magnitude of the gap that may emerge in terms of required resources (averaging 2 percent of GDP a year in 2000/01–2004/05) would not be closed without further external assistance. The government will remain vigilant as the program is implemented, to make adjustments that would limit any deviation from the targeted path. At the same time, the government will approach the multilateral community for additional support if this worse case scenario were to become unavoidable.

38. However, given the strong package of measures in the government's program, and barring any significant adverse shocks, it is possible that the growth response may be higher than envisaged in the baseline scenario. The government believes that in such an event, growth over the medium term could average 3½–4 percent a year in 2000/01–2004/05. This would generate stronger fiscal performance with larger overall surpluses that would permit a faster amortization of debt, and more rapid decline in the debt/GDP trajectory and in domestic interest rates. In particular, the central government surpluses would be about ½ percent of GDP higher than in the baseline, mainly on account of higher revenues, and public debt/GDP ratio would decline to about 85 percent of GDP by 2004/05. In such a scenario, the external current account deficit would widen initially due to the faster response of imports than exports to higher growth, but would narrow in the outer years as exports pick up. However, with somewhat higher capital inflows associated with higher investment, the overall balance of payments position would remain relatively comfortable, and the path of official international reserves would be similar to that in the baseline scenario.

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[1] The fiscal year runs from April 1 to March 31.

[2] Jamaica is an Article VIII member of the Fund. The last Article IV consultation was completed on January 10, 2000. Since 1991, Jamaica has had no restriction on payments and transfers for current international transactions. In addition, Jamaica maintains a system that is free of restrictions on capital international transactions.

[3] The exchange rate for the Jamaica dollar is determined in an interbank market operated by authorized dealers, in which the central bank intervenes in accordance with its policy objectives.

[4] The cumulative support through FINSAC up to end-1999/2000 amounted to about US$2½ billion, 37 percent of GDP.

[5] Public external debt continued to decline, reaching 46 percent of GDP at end-1999/2000. The bulk of the external debt is owed to official creditors, about 45 percent to bilaterals and 30 percent to multilaterals; debt to private creditors (mainly bond issues) account for about 25 percent. Most of the public external debt is denominated in U.S. dollars, Yen, and—recently—in Euros, and is nonconcessional, with fixed

interest rates; 45 percent of public external debt is concessional. Jamaica's debt management capacity has been strengthened considerably in recent years, with the establishment of a special Debt Management Unit in the ministry of finance.

[6] International reserves are held mainly with the U.S. Federal Reserve Bank and in U.S. treasury bills and are freely useable.

[7] Monetary policy targets the base money through open market operations by the central bank (and associated reverse purchase rate).

[8] Jamaica has a moderately restrictive trade regime which includes a simple average tariff rate of below 11 percent, and the use of licensing requirements, state trading and other nontariff barriers to protect selected industries. These restrictions result in an overall rating of 5 on the IMF's 10-point index of trade restrictiveness (with 10 being most restrictive).

9 Including FIS debt of J$5.4 billion (about 2 percent of GDP).

[10] The effective interest rate on domestic debt is projected to decline from about 21½ percent in 1999/2000 to about 11½ percent by 2004/05. From the 1999/2000 base, each percentage point decline in domestic interest rate results in debt service saving of 1 percent of GDP.

[11] Report of the *Task Force to Reduce Waste in the Public Sector* (Senator Orane, January 1998); and *Strategic Performance Reviews of the Ministries of National Security and Justice, Health, and Education and Culture* (KPMG, January 1999).

[12] In terms of the Ministry of Finance and Planning presentation, which includes proceeds from privatization in revenues, this target translates into a balanced position.

[13] Private sector participation in investment programs—including build-operate-transfer projects—(toll roads, etc.) is expected to increase significantly, with government involvement being limited to the provision of land and other logistical support. The nature of these programs have been properly treated in the fiscal accounts.

[14] Although the banks' portfolios include a large amount of floating rate government securities, the high cost of funds for FINSAC-owned entities arises from short-term deposits with interest rates that are linked to the central bank's reverse-repurchase rates.

Jamaica: Data and Information to be Reported for the 2000/2001–2001/02 Staff-Monitored Program

I. Reporting Commitments

Sector/Data	Data	Reporting Required
General		
Cable data	The entire set of cable data.	Quarterly
Selected public enterprises	Main aggregates and operating and overall balances.	Quarterly
Specific		
Central government budget turnout	Expenditure, revenues (by main categories) and financing data.	Monthly
Banking system credit to the government	Net credit to the central government and public sector, broken down to BOJ and commercial banks.	Monthly
CPI	Detailed CPI data.	Monthly
Trade	Value of exports and imports by main categories, current account balance.	Monthly
Bank of Jamaica	BOJ operating balance.	Monthly
Interest rates	6-month Treasury bill rates and 30-day to 180-day Reverse Repo rate.	Monthly
Bank of Jamaica	BOJ interventions in foreign exchange market.	Weekly
External debt (short term)	Short-term external debt stock and borrowing.	Monthly
Medium and long-term external debt	Medium and long-term external debt stock and borrowing.	Monthly
		Weekly
		Daily (2-day lag)

Net international reserves Exchange rate	Net international reserves of the BOJ in U.S. dollars. Daily average weighted selling exchange rate quoted by the BOJ.	

II. Definitions

1. The net domestic assets of the central bank are defined as the monetary base (currency issued—either with the public or held by commercial banks—plus local currency regulatory cash reserve requirements and the commercial banks current account deposits) less net international reserves.[1]

2. The net claims of Bank of Jamaica on the central government is defined as the government securities (including Treasury bills, Government of Jamaica debentures, local registered stocks, and other securities) held by the Bank of Jamaica minus the central government deposits and other claims with the central bank.

3. The banking system is defined as the consolidation of the accounts of the central bank and the commercial banks.

4. The nonfinancial public sector is defined as the central government, selected public entities and other nonfinancial public enterprises, and FIS and FINSAC.

5. Selected public enterprises are: National Housing Trust (NHT), National Investment Bank of Jamaica (NIBJ), Urban Development Corporation (UDC), National Insurance Fund (NIF), Human Employment and Resources Training (HEART), Jamaica Public Service Company Limited (JPSCo), Petroleum Corporation of Jamaica (PCJ), Petrojam Limited, National Water Commission (NWC), Jamaica Mortgage Bank (JMB), National Housing Development Corporation Limited (NHDC), Airports Authority of Jamaica (AAJ), and Port Authority of Jamaica (PAJ). Any changes in this list of public enterprises will be made upon notification of deletions or additions to the group of selected public enterprises and the relevant targets will be adjusted accordingly.

6. Overall balance of Selected Public Enterprises is defined as the sum of the following items, as in the "Summaries" (pp.82–89) of the government's publication "Jamaica Public Sector Entities: Estimates of Revenue and Expenditure for the Year Ending 31 March 2001." Operating balance (item 5), Capital account (item 6), Transfers from government (item 7), and Transfers to government (item 8).

7. The net credit of the banking system to the non-financial public sector is defined as advances, credit and other claims—including government, FIS and FINSAC securities—of the banking system to the non-financial public sector, minus deposits of the non-financial public sector in the banking system.

8. The overall balance of the central government is defined as total revenue and grants (excluding proceeds from privatization) less total expenditure.

9. The net international reserves of the central bank are defined as foreign assets minus short-term foreign liabilities of the Bank of Jamaica.

10. Foreign short-term commercial borrowing is defined as foreign borrowings of less than one year maturity—and includes financial leases and other instruments giving rise to noncessional external liabilities, contingent or otherwise—undertaken by the central government and/or the nonfinancial public enterprises.

11. Foreign medium- and long-term borrowing is defined as foreign borrowings of one year or longer maturity—and includes financial leases and other instruments giving rise to noncessional external liabilities, contingent or otherwise—undertaken by the central government and/or the nonfinancial public enterprises.

III. Adjusters

12. If the effective implementation of capital projects in 2000/01 (particularly in the information and technology area) is faster than expected in the program, the capital expenditures will be raised from J$9,904 million (3.2 percent of GDP) as included in the program up to a limit of J$12,296 million (3.9 percent of GDP). The ceiling on the overall balance of the central government will be raised correspondingly.

13. The reduction in the stock of FINSAC debt by the central government associated with loan disbursements by the World Bank, the IDB, and the CDB will be higher (lower) by the amounts the disbursements are greater (less) than US$112.5 million in 2000/01 and US$112.5 million in 2001/02.

14. The targets for gross official international reserves will be lowered by any shortfall in the disbursement of loans from the World Bank, the IDB, and the CDB in support of the financial sector reform provided the shortfall in disbursement is not because policy measures associated with the loans were not implemented.

15. The targets for gross official international reserves will be lowered (raised) by the shortfall (excess) in external commercial borrowing from that indicated in Table 3.