ANY REPLY OR SUBSEQUENT REFERENCE SHOULD BE ADDRESSED TO THE FINANCIAL SECRETARY AND THE FOLLOWING REFERENCE NUMBER QUOTED:-

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MINISTRY OF FINANCE AND PLANNING
30 NATIONAL HEROES CIRCLE
P.O. BOX 512
KINGSTON
JAMAICA

13 September 2013

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

Dear Ms. Lagarde,

The Government of Jamaica has embarked on an ambitious journey to transform the Jamaican economy and overcome the long-standing problems of low growth and high debt that have resulted in sustained high unemployment, large-scale emigration, and high poverty.

The steadfast implementation of the policies to which we committed in our Letter of Intent (LOI) of April 17, 2013 commenced well before the formal start of the programme, as we put in place each of the prior actions, as well as a range of other policies aimed at supporting economic growth and ensuring an enduring improvement in our public finances. We have maintained this stance since the formal approval on May 1, 2013 by the Executive Board of the IMF of an arrangement under the Extended Fund Facility in support of our policy programme.

Notwithstanding the government's commitment to the programme, economic growth remains very weak, and unemployment much too high. However, we are encouraged by signs that confidence is returning. We are confident that the benefits of our strategy will become increasingly evident over time, as a more stable macroeconomic environment, a credible return to debt sustainability, and an improved business climate will attract new investments and result in durable job creation and increased prosperity.

In light of these developments and considerations, we are pleased to report that implementation of the very challenging framework of policies under our EFF-supported programme has been in line with our programme commitments. All quantitative fiscal and monetary performance criteria at end-June 2013 were met, as were the associated indicative targets. The government has also implemented all of the structural benchmarks that were included in the programme. In particular a budget has been adopted that is in line with our programme commitments. Several legislative amendments have been adopted to bolster tax administration. The use of discretionary waivers to support charities and charitable giving has been sharply reduced and we have increased the resources of the large taxpayers office. Most recently, we presented Fund staff the conceptual framework for a fiscal rule that will entrench fiscal discipline beyond the programme period.

Looking ahead, the Government remains fully committed to meeting the objectives of the programme, as well as the specific targets set out in the April 2013 Memorandum of Economic and Financial Policies (MEFP). At the same time, in some areas, we have strengthened our policy plans further, and there has been a need to update some specific policies to meet the programme's ultimate objectives.

In the fiscal area, the government will press ahead with implementing comprehensive tax reform, prepare and legislate the fiscal rule, and adopt a range of measures to strengthen public financial management. The government will also design an operational work plan to put in place a stronger budgetary process that will inform future updates to our programme. Our divestment programme is also moving ahead. However, we have had to adjust our strategy for the divestment of Clarendon Alumina Production (CAP) in light of the lack of interest from potential buyers of the company at this time. The government has put in place an alternative strategy for CAP, with the objective of preparing the sale of the company at the later stage while incorporating explicit provisions that rule out any further costs to the budget.

In the financial sector, the government will continue to strengthen its prudential policies, and move forward without delay with the programmed reforms to facilitate the transition by securities dealers towards a more robust business model. The government will continue to work very closely with the IMF on the preparation of these as well as further reforms to the securities dealers sector, to ensure a smooth transition and maintain financial sector stability.

Appendix 1 to this letter is a supplement to the MEFP of April 17, 2013, presenting performance under the EFF-supported programme so far, as well as an update on the government's macroeconomic policies and structural reform measures through mid-2014, including the associated quantitative targets and structural benchmarks. Appendix 2 is the updated Technical Memorandum of Understanding.

On the basis of our performance under the programme thus far, as well our sincere commitment to the continued implementation of the programme, including its proposed revisions, the government requests that the Executive Board of the IMF complete the first review of the extended arrangement under the Extended Fund Facility, approve the proposed revisions of performance criteria, and approve the second purchase under the arrangement of SDR 19.97 million.

The government believes that the policies described in the MEFP of April 17, 2013, and the attached supplement to this 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 on the adoption of these measures and in advance of 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 authorise the Fund to publish this letter and its attachments.

Very truly yours,

Peter D. Phillips,
Minister of Finance and Planning
Jamaica

Brian Wynter
Governor, Bank of Jamaica
Jamaica

Attachment 1. Jamaica—Supplementary Memorandum of Economic and Financial Policies

I. Background and Recent Developments

1. **On May 1, 2013 the Fund's Executive Board approved a four-year extended arrangement under the EFF in support of Jamaica's programme aimed at averting immediate crisis risks and creating the conditions for sustained growth.** This programme included critical steps and policy reforms to significantly improve the fiscal and debt positions and growth-enhancing structural reforms.

2. **Overall economic performance during the first months of the programme period has been mixed, reflecting a challenging economic environment.**

- **Economic Growth.** Real GDP contracted in the first quarter of 2013 following four consecutive quarters of decline, leading to a decline of 0.7 percent during FY2012/13. The contraction reflected declines in both the tradable and non-tradable industries and was influenced by severe drought conditions as well as weak domestic and external demand. Domestic demand continued to be adversely affected by declining incomes, high unemployment, and lower remittance inflows. Since the first quarter of 2013, the lending rates of commercial banks have shown a declining trend on all categories of private sector loans. Further, the robust growth of 18.4 per cent in private sector credit for FY2012/13 is anticipated to provide some momentum for projected growth in the current fiscal year.
- **Inflation.** For 2012/13, the inflation outturn was 9.1 per cent which was within the BOJ's target range of 7½ to 9½ per cent. Twelve-month CPI inflation reached 8¾ percent in June 2013, predominantly driven by higher imported inflation, which primarily reflected the accelerated pace of exchange rate depreciation. Additionally, drought conditions and some seasonal price adjustments help explain part of the inflation performance thus far.
- **Balance of Payments.** The external situation has improved, mainly as a result of a continued decline in the net demand for current account transactions, largely related to consumer goods and raw materials. As a result, the 2012/13 current account deficit is now estimated at 12.4 percent of GDP. The uncertainties which characterized the foreign exchange market during the first quarter of 2013 have now waned. Net international reserves increased to almost US$1 billion by end-June 2013, in part due to the receipt of a disbursement to GOJ under the EFF and substantial purchases from the market by the BOJ. International reserves are expected to continue to increase gradually over the fiscal year due to growth in multilateral inflows as well as incremental improvements in net private capital flows.
- **Public Finances.** Fiscal performance has improved and budget outcomes for FY2012/13 were better than expected. The central government primary surplus improved from 3.2 percent in FY2011/12 to 5.4 percent, largely reflecting lower expenditure. While the outturn was lower than the target outlined in the original budget, it comfortably exceeded the ratio in the supplementary budget. The FY2012/13 overall public sector deficit turned out better than

projected at 4.4 percent of GDP against a programme estimate of 5.2 percent of GDP. Central government financing was considerably lower than budgeted, as a result of the debt exchange, and primarily sourced from the domestic market in a context where external loans were lower than anticipated.

- **National Debt Exchange (NDX).** The National Debt Exchange (NDX), which was completed in March 2013, involved the voluntary exchange of selected domestic Government of Jamaica securities for instruments with lower coupons, reduced margins on variable rate instruments and extended maturities. The NDX resulted in declines in interest rates in the range of 1.0 to 5.0 percentage points on those instruments and consequential reductions in rates in the private money market. While there was a very marginal increase in these rates in April in the context of a reduction of Jamaican Dollar liquidity, these rates are expected to remain relatively low in the context of the environment created by the NDX and very strong fiscal consolidation.

- **Financial System.** Since the March 2013 quarter, the lending rates of commercial banks have shown a declining trend on all categories of private sector loans, and in particular, for personal lending. Private sector credit growth remains robust across most categories.

II. Performance Under the Programme

3. **Overall policy implementation under the programme has been strong and structural reforms are progressing.** All quantitative performance targets and indicative targets for end-June were met (Table 1). In addition, the government continues to implement the Cabinet decision stipulating the strict containment of discretionary waivers. All other structural benchmarks to date have also been met in a timely manner.

III. Policies for 2013/14

4. **The government remains fully committed to the reform strategy and the supporting policies outlined in the April 2013 MEFP.** Unless modified below, that strategy and those policies remain valid in full. The quantitative targets that serve as performance criteria and indicative targets under the programme have been updated, and extended through June 2014. These updated targets are presented in Table 1. The structural conditionality under the program, incorporating several modifications discussed below, is presented in Table 2.

Tax Reforms

5. **The government is moving ahead with a comprehensive tax reform.** With the support of the IDB, a tax reform action plan has been prepared to guide the reform process. Consistent with the MEFP of April 17, 2013, the tax reform will be designed to simplify the tax system and reduce economic distortions, eliminate ministerial discretion in the granting of

incentives, broaden the tax base, and promote economic growth and employment creation. The tax reform measures will be based on these principles such that they will result in a reduction of tax expenditures from around 6 percent of GDP in recent years to 2½ percent by 2015/16. The new tax system will be effective at the start of FY2014/15. To facilitate the assessment and discussion of the reform, the government is finalizing a blueprint of all key elements of comprehensive tax reform, by end-October 2013.

6. In particular, tax reform will:

- Simplify the tariff structure by reducing import tariff dispersion, eliminating anomalies and opportunities for misclassification and substantially reducing higher rates. Import duties will be capped for non-agricultural imports, normally at 20 percent, and in exceptional cases at 40 percent. For agricultural imports, tariff rates at or below 40% will generally be reduced to the default rate of 20 percent, however, in exceptional cases, the CET rates above 50% will be maintained (poultry, milk and cream, including milk powder, and vegetables). In any case, these rates will be held compliant with CARICOM/CET agreements. The Government also intends to promote amendments to the CARICOM tariff regime with the objective of reducing tariff dispersion further. In addition, while maintaining compliance with the CARICOM tariff regime, import duties on essential inputs for domestic producers can be zero rated. The government will seek IDB support for strengthening the process to minimize abuse, through a confined list of eligible inputs, strong administrative controls, and appropriate penalties. The list presenting such inputs will be subject to parliamentary review.
- Eliminate the zero-rating under the general consumption tax (GCT) for government purchases.
- Greatly reduce tax exemptions. In this context, a study of the scope for imposing GCT on petroleum products will be conducted and its conclusions will guide possible implementation in FY2014/15.
- Allow startup companies to claim GCT refunds for excess credit immediately.
- Complete the process of the amalgamation of payroll taxes, and subject to available fiscal room, progressively reduce payroll taxes over the medium-term in order to decrease the cost of labour.
- Allow for an initial reduction in tax rates, while maintaining the revenue neutrality for the overall tax reform. In particular, the reform will aim at reducing the effective CIT through a combination of all or some of the following instruments: an initial reduction in headline tax rates for unregulated companies, the application of (nonrefundable) investment tax credits, and streamlined and standardized capital allowances and/or accelerated depreciation, depending on the available fiscal room.
- Envisage a convergence of income tax rates to a uniform standard headline rate, over the medium term, subject to available fiscal space and the attainment of revenue targets.

- Establish a cap (calculated as a specified percentage of CIT/PIT payable) on the amount of losses of previous years that can be applied to set off taxable CIT and PIT income.
- Establish a minimum income tax on business activity payable by locally registered companies equal to the higher of (a) a percentage of gross turnover/revenues (b) a percentage of gross assets, or (c) a nominal amount. The determination of the latter parameters will be guided by technical assistance provided by the IDB.

7. As a first step, an Omnibus Tax Incentive Act and a Charities Act will be tabled in parliament by end-September (*unchanged structural benchmarks*). Both Acts are guided by TA provided by the IDB, and prepared in consultation with Fund staff.

8. The Tax Incentives Act will implement a rule-based regime for limited tax incentives that will replace all existing (mostly sectoral) schemes under which discretionary and statutory waivers and other tax incentives to business are granted. All incentives outside the Omnibus Tax Incentives Act will be explicitly cancelled by the Act,[1] which will become the only source of such incentives. The specific elements that will be included in the Omnibus Tax Incentive Act are:

- New incentives will take the form of tax credits for personal and corporate income taxes only, and incentives will be defined as the amount credited against the CIT/PIT payable in any fiscal year.
- Companies choosing grandfathering (i.e., using pre-existing incentive schemes) will not be entitled to new incentives or the lowered effective CIT rate until those grandfathered incentives have expired.
- There will be no ministerial discretion in granting tax incentives.
- To promote employment, companies of all nature that increase their number of employees within the fiscal year will be allowed a tax credit equal to a percentage of the payroll levies for new employees.
- Incentives provided under the Urban Renewal Programme will be maintained.
- The existing incentives for venture capital investment under the income tax act will be maintained at this stage. These incentives will be subject to a review that has recently been initiated.
- For pioneer "mega" projects that are growth-enhancing, specific tax credits could be provided in the context of the budget, with parliamentary approval, up to an overall annual cap of 0.25 percent GDP on this tax expenditure.
- The existing regime for the establishment and operation of Export Free Zones from which limited licensed activities can be conducted under strict conditions will be maintained at this

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[1] Specifically, the incentive programmes that will be replaced are listed in Table 4.

stage. This regime will be subject to a review to ensure compliance with commitments to the WTO and to ensure that the covered enterprises will be subject to CIT on profits.

- If a tax audit determines that the company was not current on its obligations in any year, then in addition to the usually applicable penalties the new incentive regime will include provisions to allow for a claw back of tax incentive credits granted in that year, and a suspension of eligibility for future tax incentive credits until compliance is assessed to be satisfactory.
- The government commits to work to accelerate the transition of grandfathered entities from their existing incentives to the new regime. The government will provide a review of all grandfathered entities and of their regime by end-2014/15. This will serve as a basis for discussion to speed up transition to the new regime by mutual agreement between authorities and entities.

9. The Charities Act will establish a new and strict registration process for charitable organizations. After November 2013, organizations that have not been registered under the new regime will not be eligible for exemptions granted under the Act. The Act will include a cap on CIT and PIT donations as a share of chargeable income.

10. Reforms to strengthen tax and customs administration are proceeding. In line with our commitment under the program, we have amended the Revenue Administration Act (RAA) and expanded the staffing of the Large Taxpayers Office (LTO). Further steps to improve tax and customs administration will be guided by the Tax Reform action plan prepared in collaboration with the IDB. In this context, next steps include:

- Ensuring the effectiveness of the expanded LTO through training, infrastructure, and improved management.
- Further revisions to the Revenue Administration Act to strengthen the powers of the Tax Administration Jamaica (TAJ) and the Jamaica Customs Administration (JCA) to collect outstanding arrears (including powers to seize and sell taxpayers' property, harmonized penalties and fines, and mandatory income tax filing for every business), to be in place by March 2014.
- Putting in place the necessary regulations to implement a write-off programme by end-October 2013.
- Concluding discussions with banks to reduce excessive charges for processing tax and customs revenue receipts. To achieve this, the government has established a high-level committee. New e–payment options will be introduced by December 2013.
- Establishing concrete steps to increase electronic filing, based on the recent amendment to the RAA. In particular, by end-March 2014, e-filing will be mandatory for LTO clients with respect to the GCT and CIT and, to the extent feasible, for all clients with respect to payroll taxes.

- Actions regarding the TAJ integrated tax administration IT system of evaluating responses (by October 2013), contracting the vendor for the product (December 2013), and commencing the customization of the software (February 2014) with phased implementation to be completed over 14 months. This timetable is consistent with an action plan developed in consultation with the Inter-American Development Bank.
- Actions regarding the JCA integrated IT system including publishing the RFP for an integrated customs system, by December 2013.
- Utilization of RTGS for payment of all duties and taxes on imports for all entries by March 2014. Phase I was implemented January 2013, for travel tax and passenger levy payments. Phase II is to include duties and other taxes, which is scheduled to begin March 2014.
- The continued improvement of JCA accounting and financial systems, through the introduction of ACCPAC (Accrual Accounting System) by March 2014, in compliance with the Executive Agency Regulatory Framework.

A Fiscal Rule

11. **The government has presented a conceptual framework for a fiscal rule to Fund staff.** The framework was designed based on technical assistance provided by Fund staff and it is aimed at limiting the annual budgeted overall or primary fiscal deficits of the wider public sector (covering all fiscal activities), to achieve a reduction in public debt to no more than 60 percent of GDP by about [2025/26]. The fiscal rule will: (i) establish an automatic correction mechanism that would be triggered by substantial cumulative deviations from the annual overall balance target, (ii) include an escape clause, limited to major adverse shocks (including hurricanes) and triggered only with parliamentary approval, (iii) take into account the fiscal implications of PPPs (capturing all associated actual or contingent fiscal liabilities and risks); and (iv) strengthen the sanctions regime to encourage compliance.

12. **The next steps leading to implementation of the fiscal rule will be put in place without delay.** In the coming months, the GOJ will specify the new framework in detail, in consultation with Fund staff.

- **The rule will be embedded in an effective legal framework.** The relevant existing legislation (in the Financial Administration and Audit (FAA) Act, the Public Bodies Management and Accountability (PBMA) Act, and the Public Debt Management Act (PDMA) will be amended to implement the fiscal rule (and the structural benchmark for March 2014 will be revised accordingly). Following this, the government will initiate a process of broad public consultation on ways for further strengthening the legal foundations of the fiscal rule.
- **In this context, the government will develop mechanisms to closely monitor possible fiscal costs and contingencies associated with public sector projects, entities, and possible PPPs.** In particular, the Ministry of Finance will develop the capacity to: (i) analyze PPP contracts, which includes the proper identification of direct fiscal impacts and valuation

of contingent obligations to ensure consistency with the fiscal rule; (ii) disclose fiscal risks (both explicit and implicit); and (iii) conduct value-for-money analyses.

- **The capacity of the Office of the Auditor General (OAG) will be augmented**, to allow it to provide an independent assessment of the macroeconomic and budget forecasts underpinning the budget. Additional resources will be provided to the OAG so that it can recruit additional experts in public finance and macroeconomics.
- **The government will also consider legal options for strengthening the sanctions regime to enhance the credibility of the fiscal rules.** Possible avenues include clarifying the legal possibility of the non-renewal or dismissal of public officials for non-compliance; strengthening the oversight role of Parliament in reviewing Ministerial actions on recommendations by the Attorney General and the Auditor General; reviewing the low cap on money penalties; and aligning the sanctions process for government departments and public bodies for a more equitable (and streamlined) process.

Reforms to Public Financial Management and the Budget Process

13. **In line with the program, the government has prepared an action plan for public financial management reform.** The plan draws on the main recommendations of the 2012 Public Expenditure and Financial Assessment (PEFA) report. The government is committed to its implementation, in collaboration with its development partners. In this context:

- The establishment of a central treasury management system (CTMS) will be completed in line with the existing end-March 2014 target date.
- The Accountant General's Department (AGD) will be the Treasurer of the single treasury account, and the process for transitioning of the AGD into a modern treasury department by March 2016 commenced in April 2013 with a consultancy to develop a strategy to guide the transition.
- The GOJ will strengthen the efficiency and quality of the GOJ procurement process thereby improving the ease of doing business and reducing costs by:
    - Implementing the Electronic Tendering System which will be procured by March 31, 2014 and be implemented in five pilot entities during the financial year 2014/15.
    - The publication of a GOJ Public Procurement Page in the print media by January 2014 which will enable procurement management through a centralized process.

14. **In addition, the government will prioritize reforms that are needed to underpin the forthcoming fiscal rule:**

- Near term actions would involve cabinet approval of a detailed budget calendar for the 2014/15 budget, before end-November 2013 (*new structural benchmark*).

- The government will prepare, by mid-November 2013, a work plan to strengthen budget preparation, guided by recent FAD TA on the fiscal rule, to be incorporated into the programme at the next reviews. Key elements include establishing a permanent binding budget calendar (envisaging budget approval prior to the fiscal year, starting with FY2015/16), early and accurate budget envelopes and priorities, and a policy to limit the use of virements (authorizing the transfer of funds within the budget) and of ex-post regularization of unbudgeted spending through supplementary budgets. A further priority will be to strengthen the development of realistic budget apportionment plans.
- Improving the revenue forecasting to avoid continuous deficit bias will be a policy priority. For this purpose, we have requested technical assistance.
- The government will prepare a workplan by mid-November 2013, to strengthen procedures for budget execution and cash management. In order to improve the Commitment Planning and Control system in central government, an automated Purchase Order Module will be added to the FinMan PFM system. In addition the Commitment Planning and Control Module will be activated. The Upgraded Commitment Control System and the Purchase Order Module are to be:
  - a) Developed and tested by December 31, 2013.
  - b) Piloted in the Ministry of Finance and Planning between January and February 2014.
  - c) Implemented in all MDAs by April 1, 2014.

Divestment

15. **The government has put in place a strategy for insulating the budget from contingent liabilities related to Clarendon Alumina Production (CAP).** Whereas the programme expected CAP to be privatized or implement an asset-lease arrangement by end-2013, (as a structural benchmark), the government had to conclude that, despite extensive efforts, no potential buyers could be found. The government has therefore put in place an alternative arrangement to finance CAP's past and possible future operating losses without any additional government guarantees or other liabilities for the government; and to facilitate the sale of the company at a later stage. Given the imperative of protecting the budget from any operations of CAP and its partners, a new continuous structural benchmark is included in the program, stipulating that there will be: (i) no financing of CAP by the government or any public body, including PetroCaribe; 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. The original structural benchmark, on divesting CAP, is dropped.

16. **The privatization of Wallenford Coffee Company is expected to be completed before end-October 2013.**

Debt Reduction

17. The scheduled reduction in public debt through debt-asset swaps and a reduction in guarantees has progressed in line with the programme. The government will establish the legal and administrative processes involved as well as a workplan for their completion before the end of 2013/14. In June 2013, the GOJ completed a preliminary valuation of assets that will be used to reduce public debt by at least 1.0 percent of GDP. Furthermore, the government is committed to ensuring that any new debt guarantees will be consistent with the applicable limits under the Public Debt Management Act.

Public Sector Reform

18. The government remains committed to improving the efficiency, quality and cost effectiveness of the public sector. The six month pilot programme for Shared Corporate Services has commenced, as planned, and will inform the planned roll-out across ministries. As it relates to the new Strategic Human Resources Management Division, the Corporate Management Division of the Cabinet Office has been merged with the Public Service Establishment Division of the Ministry of Finance and Planning, as intended, and staffing arrangements are being finalised. A request for proposals (RFP) for a human resources software system was completed and issued in August, 2013. It is projected that the RFP process will be completed by April 2014, with the final negotiations for the procurement starting by May 2014. The terms of reference for technical assistance for the review of public sector employment and remuneration (*unchanged structural benchmark*) is being finalised with the IDB.

IV. FINANCIAL SECTOR REFORMS

19. The supervisory authorities will continue scrutinizing closely the financial system to identify vulnerabilities in the wake of the debt restructuring. In this context, the authorities restated their commitment to make the financial sector more resilient through frequent monitoring and enhanced risk management, particularly as the liquidity situation has tightened. The government also remains committed to the reform agenda for the sector as described in the MEFP of April 17, 2013.

20. The government affirms its intention to phase out the retail repo model over time and allow the sector to provide a wider range of financing services, including collective investment schemes (CIS). To achieve this objective, as a first step, efforts will be accelerated to make less risky business models available to securities dealers. In particular, by end-December 2013, the authorities will: (i) amend the Securities Act and attendant regulations to establish a comprehensive framework for the regulation of CIS; (ii) amend the income tax law to remove double taxation of CIS; (iii) reform the Companies Act to eliminate (or exempt CIS from) the need to register unit-holders in the companies' registry; and (iv) publicly commit to a timetable for raising the cap on investments in foreign securities from 5 percent of assets to at least 25 percent by end-2015, and removing the cap by end-2016 unless extraordinary circumstances require a reassessment (*unchanged structural benchmark*).

21. Detailed steps for the securities dealers sector reforms are being prepared in collaboration with Fund staff. By end-October, we aim to have a concrete and comprehensive plan of action with specific deadlines, covering: (i) legal and regulatory reforms (e.g. to the prudential framework for securities dealers and regulation for a master repo agreement, among others); (ii) effective monitoring and additional reporting to address post-NDX vulnerabilities by the Financial Services Commission (FSC), as well as enhanced stress testing by the FSC)and Bank of Jamaica (BOJ); (iii) sequencing and timing of reforms; and (iv) in consultation with the Fund, contingency planning, including improving the insolvency regime that deals with failures of securities dealers. Key elements of the plan are expected to be incorporated in the program, most likely in the context of the second review.

V. MONETARY AND EXCHANGE RATE POLICY

22. Monetary policy remains aimed at achieving single digit inflation within a flexible exchange rate regime.

23. The BOJ will develop an operational agenda to allow a move towards inflation targeting over the medium term. The BOJ will develop a timetable for establishing the basic requirements for implementing an inflation targeting regime. This agenda will be prepared by end-January 2014, and key actions are expected to be incorporated in future updates of the MEFP. In this context, the BOJ will, for example, identify specific policy actions to improve the operations of the foreign exchange market to facilitate better information discovery and deal more efficiently with volatility.

24. The updated safeguards assessment found that relatively strong safeguards are in place at the BOJ, and the government is committed to following up on its key recommendations. The government will develop proposals, in consultation with Fund staff, to strengthen the legal provisions of the Bank of Jamaica Act, consistent with the recommendations from the safeguards assessment and as a complement to higher standards for public financial management. This will strengthen the institutional framework for monetary policy. The government and the BOJ are also preparing a memorandum of understanding to clarify the treatment of past BOJ losses and the refund of withheld taxes , and to preclude distribution of unrealized valuation gains to the government (as currently obtains in practice).

Growth Enhancing Structural Reforms

25. The government is aggressively implementing its strategy to improve the business environment. Legislation to include personal property (which includes movable property) as an allowable form of collateral was tabled in Parliament in July 2013 ahead of the August 2013 deadline, and preparations for establishing a central collateral registry (an end-December 2013 structural benchmark) are well underway. The civil jurisdiction of the lower courts has been increased to reduce the case flow burden in the Commercial Division of the Supreme Court. Actions toward parliamentary passage of an Insolvency Act are proceeding as planned and steps have been taken to implement the use of a multi-purpose registration instrument that will streamline the business registration process (December 2013). Plans to establish a Port Community System (PCS) to electronically integrate and streamline export and import procedures are underway, with completion of negotiations with the preferred bidder by January 2014. A phased roll-out of the PCS is expected to start in March 2014. Other ongoing initiatives to improve the business climate include (i) encouraging the active use of electronic filing systems for all taxes (except motor vehicle and stamp duty); (ii) reducing the number of steps to register a property; and (iii) streamlining the process for construction permits, including by standardizing and harmonizing application forms and application fees across local governments (Parish Councils).

26. **Strategic investments are expected to spearhead growth.** The 2015 expansion of the Panama Canal will create opportunities to establish Jamaica as a logistics hub. Several projects to support this initiative are on track, including (i) phased development of the Caymanas Economic Zone; (ii) privatization of the Kingston Container Terminal; and (iii) privatization of the Norman Manley International Airport. The agricultural sector, which also has significant untapped potential, is supported by the establishment of nine Agro Parks by end 2014/15 as well as by projects to facilitate climate change adaptation. With respect to the Agro Parks, three have already been established with the support of the European Union. Four additional parks will be operational by end-2013/14 (with IDB support). In the energy sector, several projects and initiatives to achieve fuel-source diversification, facilitate energy conservation, liberalize the electricity market and reduce the cost of energy are also moving ahead, with construction of a new 360 Megawatt Plant—the centerpiece of the medium-term energy strategy—scheduled to begin in January 2014. Completion of this facility in early 2016 is expected to reduce the cost of electricity and thereby address a major obstacle to growth.[2]

27. **An increase in financing to and support for micro, small and medium-sized enterprises (MSMEs) will complement these initiatives.** The phased roll-out of the mobile money initiative, aimed at providing greater access to financial services to underserved entities including MSMEs, is slated for November 2013, with the full roll-out expected to take place in 2014. In addition, of the two credit bureaus that are licensed, one has commenced operations. The Development Bank of Jamaica is rapidly expanding its credit to MSMEs, and the Jamaica Business Development Corporation is increasing its business development support in various ways, including training and incubator services.

28. **The programmed labor market reforms are progressing.** Based on a White Paper to be tabled by November 2013, flexible work arrangements will be established by end-2013/14. Establishment of new workforce colleges and TVET institutes is also proceeding on schedule.

Reform of Social Spending

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[2] Furthermore, to improve business environment and facilitate private sector investment in the energy sector, an Electric Power Sector Policy will be established and the Electric Lighting Act will be modernized by October 2013, with World Bank support.

29. **In line with the programme, the government is strengthening the social protection framework**. Increases in the benefit amounts payable under PATH were effected in the August payment period, with an overall increase in PATH benefits of15 percent, and a 67 percent increase to elderly beneficiaries. A graduation strategy for PATH households was defined by the government in July 2013. This strategy also covers the strengthening of agency networks and broad institutional strengthening to support the Steps-to-Work programme which is an integral part of the graduation strategy. The recertification exercise being conducted on 38,000 PATH households is on target for completion by end-October 2013. Within the context of Effective Social Protection articulated in Vision 2030 Jamaica—National Development Plan, progress continued towards the development of a comprehensive Social Protection Strategy. The final draft has been prepared for review in early September, 2013.

30. **Reforms of education spending, to enhance efficiency and effectiveness, are also on track**. Notably in the areas of (i) structured attrition; (ii) mandatory retirement; (iii) standardization of the student teacher ratio; (iv) voluntary reallocation of staff; and (v) reform of the study leave policy. To promote standardization of the student/teacher ratios, a Protocol for Voluntary Relocation of Teachers has been developed and its implementation is in progress. Discussions continue on modifying the Study Leave Policy.

31. **Several measures to enhance efficiency and quality in the provision of health care have been implemented.** To help revitalize primary health care, four regional centres of excellence are being created. To strengthen the billing mechanism to maximize revenue from payments by private insurance companies, billing mechanisms are being re-established at all hospitals where they were disbanded. A revision of the user fee gazette to maximize insurance co-payment has been completed. To improve efficiency in drugs procurement and distribution, Cabinet has approved the transfer of pharmacy services from the Regional Health Authorities to the National Health Fund.

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

(In billions of Jamaican dollars)

	2012	2013					2014	
	end Dec.	end Mar. 2/	end Jun	end Jun.	end Sep.	end Dec.	end Mar.	end June.
	Actual	Actual	Prog.	Actual	PC	PC	PC	PC
Fiscal targets								
1. Primary balance of the central government (floor) 3/	39.1	72.3	14.0	17.1	38.2	61.6	111.5	18.2
2. Tax Revenues (floor) 3/ 8/	225.0	319.8	73.3	78.7	150.4	232.7	360.5	82.7
3. Overall balance of the public sector (floor) 3/	-47.7	-52.7	-14.3	-12.4	-21.6	-37.3	-6.7	-14.4
4. Central government direct debt (ceiling) 3/, 4/	1558.7	27.0	13.9	4.9	51.4	90.4	74.7	-2.0
5. Central government guaranteed debt (ceiling) 3/	166.7	6.5	9.0	0.3	-13.1	-13.0	-14.0	4.0
6. Central government accumulation of domestic arrears (ceiling) 5/, 11/12/	n.a.	21.6	0.0	-0.1	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 6/, 11/12/	n.a.	24.6	0.0	-0.1	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 7/,11/12/	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9. Social spending (floor) 8/ 9/	...	18.2	4.1	4.1	8.3	14.4	20.1	4.2
Monetary targets								
10. Cumulative change in net international reserves (floor) 7/, 10/	1138.5	-240.7	-209.0	-135.8	-242.3	-220.5	101.1	121.5
11. Cummulative change in net domestic assets (ceiling) 10/	-7.3	14.7	10.8	10.0	16.2	26.4	-4.2	-7.3

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Including modified performance criteria
3/ Cumulative flows from April 1 through March 31.
4/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
5/ Includes debt payments, supplies and other committed spending as per contractual obligations.
6/ Includes tax refund arrears as stipulated by law.
7/ In millions of U.S. dollars.
8/ Indicative target.
9/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
10/ Cumulative change from end-December 2012.
11/ Continuous performance criterion.
12/ March 2013 numbers refer to stock outstanding as of end-March 2013

Table 2. Jamaica: Structural Program Conditionality

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1. Government to table in parliament a budget in line with program commitments.	April 30, 2013	Met
2. Government to introduce a 5-year public sector investment program (PSIP), beginning with FY2013/14, to be updated on an annual basis.	April 30, 2013	Met
3.a. Government to present to Fund staff a conceptual proposal for the design of a fiscal rule.	August 31, 2013	Met
3.b. 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	Proposed revised benchmark
4. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	
5. Cabinet to approve a detailed budget calendar consistent with top-down expenditure ceilings, for the 2014/15 budget	November 30, 2013	Proposed new benchmark
6. Government to ensure there is: (i) no financing of Clarendon Alimina 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	Proposed revised benchmark
Tax Reform		
7. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as described in paragraph 34 of the April 17, 2013 MEFP.	Continuous	Met
8. Parliament to adopt amendments to the relevant tax acts to harmonize the tax treatment for charities across tax types and remove ministerial discretion to grant waivers for charities and charitable purposes as described in paragraph 34 of the April 17, 2013 MEFP.	May 31, 2013	Met
9.a. Government to table a Charities Bill in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff.	September 30, 2013	
9.b. Government to cease the granting of waivers to charities other than under the Charities Bill.	November 30, 2013	
10.a. Government to table Omnibus Tax Incentive Act in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff, to eliminate ministerial discretionary powers to grant or validate any tax relief, and put in place a transparent regime for limited tax incentives.	September 30, 2013	
10.b. Government to cease the granting of tax incentives under the regime prior to the Omnibus Tax Incentive Act and of any discretionary tax waive.	December 31, 2013	
11. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (MEFP paragraphs 6, 7, and 8).	March 31, 2014	
Tax Administration		
12. Parliament to adopt amendments to the Revenue Administration Act to (i) provide access to third-party information, to enhance compliance management, and (ii) empower the TAJ to require mandatory e-filing for groups of taxpayers and/or types of taxes.	June 30, 2013	Met
13. Government to increase the professional staff of Large Taxpayer Office (LTO) to 120 staff members.	June 30, 2013	Met
Financial sector		
14. Government to Establish and Operate a Central Collateral Registry.	December 31, 2013	
15. Government to implement a legal and regulatory framework conducive to Collective Investment Schemes (Paragraph 45 of the MEFP of April 17, 2013) in consultation with Fund staff.	December 31, 2013	
16. Government to implement legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	
17. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (Paragraph 46 of the MEFP of April 17, 2013) in consultation with Fund staff.	March 31, 2014	
18. Enact Omnibus Banking Law consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	

Table 3. Jamaica: Schedule of Reviews and Purchases

Availability Date	Amount of Purchase Millions of SDR	Percent of Quota	Conditions 1/
	Purchases		
April 25, 2013	136.75	50	Approval of Arrangement
September 30, 2013	19.97	7	First Review and end-June 2013 performance criteria
December 20, 2013	19.97	7	Second Review and end-September 2013 performance criteria
March 20, 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 22, 2014	45.95	17	Fifth Review and end-June 2014 performance criteria
December 22, 2014	45.95	17	Sixth Review and end-September 2014 performance criteria
March 23, 2015	28.32	10	Seventh Review and end-December 2014 performance criteria
June 22, 2015	28.32	10	Eigth Review and end-March 2015 performance criteria
September 21, 2015	28.32	10	Nineth Review and end-June 2015 performance criteria
December 21, 2015	28.32	10	Tenth Review and end-September 2015 performance criteria
March 21, 2016	28.32	10	Eleventh Review and end-December 2015 performance criteria
June 20, 2016	28.32	10	Twelveth Review and end-March 2016 performance criteria
September 22, 2016	28.32	10	Thirteenth Review and end-June 2016 performance criteria
December 22, 2016	28.32	10	Fourteenth Review and end-September 2016 performance criteria
March 20, 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.

Table 4. Status of Incentives Legislation

Acts to be repealed:
(a) The Cement Industry (Encouragement and Control) Act;
(b) The Export Industry Encouragement Act;
(c) The Foreign Sales Corporation Act;
(d) The Hotels (Incentives) Act;
(e) The Industrial Incentives Act;
(f) The Industrial Incentives (Factory Construction) Act;
(g) The International Finance Companies (Income Tax Relief) Act;
(h) The International Finance Corporation Agreement Act;
(i) The Motion Picture Industry (Encouragement) Act;
(j) The Petroleum Refining Industry (Encouragement) Act;
(k) The Resort Cottages (Incentives) Act;
(l) The Shipping (Incentives) Act.

Tax relief provisions under the Income Tax Act to be repealed:
· Sections 14A (deduction for additional workers);
· Section 36D (tax relief for prescribed agricultural activity);

Incentive legislation to be maintained:
· The Urban Renewal (Tax Relief) Act
· The Jamaica Export Free Zones Act
· The Bauxite and Alumina Industries (Encouragement) Act (Regulation of Bauxite mining and Alumina production)
· The Bauxite and Alumina Industries (Production Levy) Act (imposition of production levy and power to remit or refund the levy)
· The Bauxite and Alumina Industries (Special Provision) Act (exemptions from transfer tax, stamp duties and fees; income tax credited against production levy; income tax may be required to be paid in US dollars)

Sections 36A, 36B and 36C of the Income Tax Act (tax relief for approved venture capital company).

Attachment 2. Jamaica—Technical Memorandum of Understanding

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 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 prior action and the continuous structural benchmark concerning discretionary tax waivers.

For programme purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "programme exchange rates" as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates. The programme exchange rates are those that prevailed on January 31, 2013. Accordingly, the exchange rates for the purposes of the programme of the Jamaican dollar (J$) to the U.S. dollar is set at J$94.14 = US$1, to the Special Drawing Right (SDR) at J$144.92=SDR 1, to the euro at J$126.72 = €1, to the Canadian dollar at J$93.73 = CND$1, and to the British pound at J$149.22 =£1.

VI. Quantitative Performance Criteria: Definition of Variables

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.

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

Cumulative Floor of the Central Government Primary Balance

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.

Revenues are recorded when the funds are transferred to a government revenue account. Revenues will also include grants. Capital revenues will not include any revenues from asset sales proceeding from divestment operations. Central government primary expenditure is recorded on a cash basis, and includes compensation payments, other recurrent expenditures, and capital spending. Primary expenditure also includes transfers to other public bodies which are not self-financed. Costs associated with divestment operations or liquidation of public entities, such as cancellation of existing contracts or severance payments to workers will be allocated to current and capital expenditures, accordingly.

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.

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

A. Cumulative Floor on Overall Balance of the Public Sector

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.

Public bodies consist of all self-financed public bodies, including the 18 "Selected Public Bodies", and "Other Public Bodies". The 18 "Selected Public Bodies" include: Airport Authority of Jamaica (AAJ); Human Employment and Resource Training Trust (HEART); Jamaica Mortgage Bank (JMB); Housing Agency of Jamaica (HAJ); National Housing Trust (NHT); National Insurance Fund (NIF); Development Bank of Jamaica (DBJ); National Water Commission (NWC); Petrojam; Petroleum Corporation of Jamaica (PCJ); Ports Authority of Jamaica (PAJ); Urban Development Corporation (UDC); Jamaica Urban Transit Company Ltd. (JUTC); Caymanas Track Ltd. (CTL); Wallenford Coffee Company Ltd. (WCC); National Road Operating and Constructing Company Ltd. (NROCC); Petro-Ethanol; Clarendon Aluminum Production (CAP);. "Other Public Bodies" include: Bauxite and Alumina Trading Company of Jamaica Ltd. ; 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; Agricultural Development Corporation; Agricultural Marketing Corporation, 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.

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.

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.

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

B. Ceiling on the Stock of Central Government Direct Debt

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.

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.

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

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.

The target will be adjusted downward by 20 percent of the value of the bonds converted through the February 2013 debt exchange into "Fixed Rate Accreting Bonds" (FRAN).

C. Ceiling on Net Increase in Central Government Guaranteed Debt

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.

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

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

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

D. Ceiling on Central Government Accumulation of Domestic Arrears

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.

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

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

E. Performance Criterion on Non-Accumulation of External Debt Payments Arrears

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

Definitions: external debt is determined according to the residency criterion.

Definitions: The term "debt" [3] will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

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

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

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

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.

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 29, 2013 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.

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

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

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.

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 MoFPS. Data on external arrears will be reconciled with the relevant creditors, and any necessary adjustments will be incorporated in these targets as they occur.

This performance criterion does not cover arrears on trade credits.

The performance criterion will apply on a continuous basis.

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

F. Ceiling on Central Government Accumulation of Tax Refund Arrears

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.

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

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

G. Floor on Accumulation of BOJ Net International Reserves

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.

Gross foreign liabilities 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).

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

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 1. 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 also be adjusted upward (downward) by the surplus (shortfall) in disbursements of budget support grants relative to the baseline projection reported in Table 1.

Table 1. External Program Disbursements (baseline projection)

Cumulative flows from the beginning of the fiscal year	(In millions of US$)
External loans from multilateral sources	
End-June 2013	15
End-September 2013	101
End-December 2013	126
End-March 2014	346
End-June 2014	15
Budget support grants	
End-June 2013	0
End-September 2013	10
End-December 2013	27
End-March 2014	67
End-June 2014	8

The NIR target will be adjusted upwards (downwards) by the amount by which, at a test date, the cumulative changes from end-December 2012 in BOJ's foreign exchange liabilities to residents (including banks' foreign currency deposits in BOJ against reserve requirements) are higher (lower) than the baseline projection for this change reported in Table 2.

Table 2. Reserve Liabilities Items for NIR Target Purposes

	(In millions of US$) 1/
1. BOJ's foreign liabilities to residents	
Outstanding stock	
End-December 2012	277.1
Cumulative change from end-December 2012	
End-March 2013	-17.9
End-June 2013	26.3
End-September 2013	50.0
End-December 2013	53.0
End-March 2014	3.6
End-June 2014	-2.0

1/ Converted at the programme exchange rates.

H. Ceiling on Net Domestic Assets of the Bank of Jamaica

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

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

VII. Quantitative Indicative Targets: Definition of Variables

A. Cumulative Floor on Central Government Tax Revenues

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).

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

Definition: Social spending is computed as the sum of central government spending on social protection programs 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.

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.*

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.

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

VIII. Conditionality on Tax Waiver Reform

Several aspects of the continuous structural benchmark regarding the application of discretionary tax waivers merit specification.

For the purposes of these conditions, 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.

The conditionality stipulates a 'de minimis cap' on granting new discretionary waivers that excludes waivers that are (i) granted to charitable organizations and for charitable purposes; (ii) required to satisfy the GoJ's already existing contractual or legal obligations; or (iii) specifically exempted in the Technical Memorandum of Understanding (TMU). These exceptions are specified below.

The GOJ already existing contractual or legal obligations (Ad (ii) above) comprise international treaties that have not yet been ratified, listed sector-specific arrangements, and existing contracts for government projects (as of the start of the arrangement period). International treaties that have not yet been ratified refers to CARICOM suspension for goods purchased outside of CARICOM. Sector specific arrangements on the basis of which waivers may be granted beyond the 'de minimis' cap are limited to the following:

- Attractions Initiative—approved list of items based on the type of attraction and the capital needs. Waivers from customs duties and GCT only, up to 10 percent.
- Tourism Ground Transportation/U-Drive—buses and cars for use in the tourism industry.
- JAMPRO—Motion Picture Industry Act—Directive that motor vehicles for the motion picture industry should be signed off by the Minister of finance and Planning.
- Jamaica Tourism Board—Conference materials for the sector, for re-export.

- Ministry of Agriculture—Motor vehicles and equipments for approved farmers. Waivers for SCT only.

- Existing contracts for government projects (as of the start of the arrangement period) comprise the following:

Contractor/Consultant	government/Construction Project
COMPLANT International Sugar Industry Co. Ltd.	Agreement for Sale and Purchase between SCJ Holdings Limited, Sugar Company of Jamaica Limited, The Minister of Housing, Commissioner of lands, National Sugar Company Limited, Sugar Industry Authority, Sugar Shipping Limited and COMPLANT
Stanley Consultants Inc.	Southern Coastal Highway Improvement Project Feasibility Study and Preliminary Design. Segment 1: Port Antonio to Harbour View Segment 2: Mandeville to Negril.
Kier Construction Limited	IDB Loan No. 2026/OC-JA Dry River Bridge, Harbour View, St. Andrew
Surrey Paving and Aggregate Company Limited	CDB Loan No. 16/SFR-OR-JAM Construction Contract No. WBIP/CDB/05/01—Fifth Road (Washington Boulevard Improvement) Project Vol. 1 – Contract Document
Surrey Paving and Aggregate Company Limited	CDB Loan No. 16/SFR-OR-JAM Construction Contract No. WBIP/CDB/05/01—Fifth Road (Washington Boulevard Improvement) Project Vol. 11 – Works Requirements
China Harbour Engineering Co. Ltd.	Jamaica Development Infrastructure Programme (JDIP) Island wide
China Harbour Engineering Co. Ltd.	Palisadoes Shoreline Protection and Rehabilitation Works
Golden Grove Sugar Company	Agreement for sale and Purchase (Duckenfield Estate, St. Thomas) SCJ Holdings Limited, National Sugar Company Limited, St. Thomas Sugar Company Limited
Vinci Construction Grands Project	Kingston Water & Sanitation Project–Rehabilitation of Mona & Hope Water Treatment Plants KSA/WI
Kier Construction Limited	Kingston Water Sanitation Project – Construction of New Waste Water Pump Station at Darling Street KSA/W2
M&M Jamaica Limited	Rehabilitation of the Negril Waste Water Treatment Plant
China Harbour Engineering Company	Jamaica North South Highway Project
Bouygues, Trans-Jamaican Highway, Jamaica Infrastructure Operators	Highway 2000
COMPLANT	Jamaica Economical Housing Project

- Additional waivers specifically exempted in the TMU (Ad (iii) above) are:

- Waivers from the CET for the procurement of oil outside of Caricom; and

- Waivers related to financial sector restructuring required by the Supervisor pursuant to statutory provisions to enhance supervisory functions and facilitate supervision on a consolidated basis.

IX. Information Requirements

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

A. 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.

- Deposits and liquidity assistance to institutions, by institution.

- Bank of Jamaica purchases and sales of foreign currency.

- Amounts offered, demanded and placed in Bank of Jamaica open market operations, including rates on offer for each tenor.

- Amounts offered, demanded and placed in government of Jamaica auctions; including minimum maximum and average bid rates.

B. 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.

C. Monthly

- Central government operations, 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.

- Stock of public external and domestic debt, by creditor and by currency, as at end month. Data is to be provided within four weeks of month end.

- 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, 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.

- Holdings of domestic bonds (J$-denominated and US$-denominated) by holder category. 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. Include a detailed decomposition on Bank of Jamaica and commercial bank net claims on the central government, selected public bodies, and other public bodies.[4] This information should be received with a lag of no more than six weeks after the closing of each month.

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

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

- Financial statements of 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.

- Monthly balance sheet data of deposit taking institutions, as reported to the BOJ 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.

- Imports and exports of goods, in US$ million within five months after month end. Tourism indicators within three months 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.

- Use of the PetroCaribe Development Fund, including loan portfolio by debtor and allocation of the liquidity funds in reserve within four weeks after month end.

- The balance sheet of the PetroCaribe Development fund.

- 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.

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

D. Quarterly

- 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.

E. 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.