

Jamaica: 2001 Article IV Consultation and Review of Staff-Monitored Program--Staff Report; Supplementary Information—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Authorities of Jamaica

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2001 Article IV consultation with Jamaica and review of Staff-Monitored Program, the following documents have been released and are included in this package:

- the staff report for the combined 2001 Article IV consultation and review of Staff-Monitored Program prepared by a staff team of the IMF, following discussions that ended on **April 25, 2001**, with the officials of Jamaica on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on May 15, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff report providing Supplementary Information of **May 29, 2001**, updating information on recent economic developments.
- a Public Information Notice (PIN), summarizing the **views of the Executive Board as expressed during its May 30, 2001, discussion** of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- a statement by the authorities of Jamaica.

The document(s) listed below have been or will be separately released.

Statistical Appendix
Letter of Intent*

*May also be included in Staff Report.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to Publicationpolicy@imf.org.

Copies of this report are available to the public from
International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623 7430 • Telefax: (202) 623 7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

Price: \$15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

JAMAICA

**Staff Report for the 2001 Article IV Consultation and Review
of Staff Monitored Program**

Prepared by the Western Hemisphere and Policy Development and Review Departments

(In consultation with other departments)

Approved by Claudio M. Loser and G. Russell Kincaid

May 15, 2001

	Contents	Page
Executive Summary		3
I. Introduction		4
II. Recent Economic Developments		5
III. Report on Discussions		10
A. Program for 2001/02 Under the SMP		11
B. Medium-Term Prospects		12
C. Fiscal Policy		13
D. Monetary Policy and the Exchange Rate		16
E. Financial Sector Reform		17
F. Structural Issues		18
G. Regional Issues		19
H. Statistical Issues		19
IV. Staff Appraisal		20
Tables		
1. Selected Economic and Financial Indicators		22
2. Summary of Public Sector Operations		23
3. Public Sector Financing		24
4. Nonfinancial Public Sector Debt		25
5. External Public Debt Outstanding		26
6. Summary Monetary Indicators of the Banking System		27

7.	Summary Balance of Payments	28
8.	Indicators of External Macroeconomic Liquidity Risks	29
9.	Selected Baseline Macroeconomic Medium-Term Projections.....	30
10.	Medium-Term Projections Under Alternative Scenarios.....	31

Figures

1.	Interest Rates.....	32
2.	Sovereign Bond Spreads	33
3.	Exchange Rate Developments.....	34
4.	Impact of Different Risks in the Debt Dynamics.....	35

Appendices

I.	Fund Relations	36
II.	Financial Relations with the World Bank Group.....	38
III.	Relations with the Inter-American Development Bank	40
IV.	Relations with the Caribbean Development Bank (CDB)	41
V.	Statistical Issues	42
VI.	Work Program 2001/2002.....	45
VII.	Social Indicators and Poverty Indices.....	46

Annex I

1.	Performance for Quantitative Targets in the Staff-Monitored Program	48
2.	Structural Benchmarks Under SMP for 2000/01-2001/02— Status of Implementation	49

Annex II

Letter of Intent.....	51
-----------------------	----

EXECUTIVE SUMMARY

In June 2000, the Jamaican authorities undertook a staff-monitored program (SMP) designed to tackle the extremely heavy burden of public sector debt and the legacy of earlier periods of high inflation. The authorities have made a strong start in implementing their SMP, which is broadly on track in 2000/01. Despite a shortfall in revenues, the fiscal deficit has been broadly contained at targeted levels with an overall primary surplus of 12½ percent of GDP. Monetary growth has been restrained and instability in the exchange rate avoided with some modest gains in competitiveness. Progress has been made on structural reforms with privatizations of intervened financial sector institutions and the electricity company as well as a strengthening of the legal and regulatory framework for financial sector supervision designed to reduce the risks of a reoccurrence of the 1995/96 financial crisis.

These policies have resulted in a resumption of GDP growth estimated at around 1 percent in 2000/01 after four years of stagnation. Inflation (end year) has fallen to 6½ percent while gross foreign exchange reserves have risen to four months of imports of goods and services and twice short-term external debt. However, domestic interest rates are significantly above projected levels and the public sector debt GDP ratio stabilized at slightly below 140 percent rather than declining significantly as projected under the SMP. As a result of the higher debt level at end 2000/01 and the higher than projected interest rates together with some recovery in expenditures, the fiscal situation has deteriorated relative to that projected for 2001/02 under the SMP; the authorities have elected not to attempt to fully offset these factors, although the targeted primary surplus is still very large at over 11 percent of GDP.

The challenge facing the authorities in 2001/02 is to build on this strong start to achieve sustained faster growth and improve the public sector debt dynamics. The authorities envisage some recovery in nonwage current and, in particular, capital expenditures from low levels in 2000/01. Therefore, achievement of the high primary surplus will require restraint in public sector wage settlements and increases in capital spending—coupled with strict limits on the assumption of additional debt by the government, to ensure a downward path for the stock of debt in relation to GDP. This should in turn permit lower real interest rates. Fiscal restraint will need to be reinforced by continued tight monetary policy designed to curb inflation, although the comfortable international reserve position should permit some reduction in domestic interest rates. In the staff's view, exchange rate policy should be somewhat more flexible, building on the credibility the authorities have achieved in reducing inflation, to strengthen competitiveness, and lower interest rates. However, the authorities see relative stability of the exchange rate as a central pillar of their strategy to prevent any reoccurrence of a wage-price spiral.

In the structural area, the authorities intend to implement the new laws and regulations for prudential supervision, to continue sales of intervened financial institutions and noncore assets, and to strengthen the efficiency of enterprises remaining in the public sector while identifying possible further candidates for privatization. The recent proposals to more-than-double aggregate duties on certain agricultural imports, while intended to help reverse recent increases in rural poverty by protecting against dumping of these commodities, represent a step away from commendable progress towards free trade. Actions need to be taken to address statistical weaknesses which will require both domestic and external funding as well as technical assistance.

I. INTRODUCTION

1. The 2001 Article IV consultation discussions with Jamaica and review of performance under the Staff Monitored Program (SMP)^{1 2} were held in Kingston during January 25–February 9 and April 23–25. The representatives of Jamaica included the Minister of Finance, the Financial Secretary, the Governor of the Bank of Jamaica, the Director General of the Planning Institute, and other senior officials. The authorities published the February mission’s concluding statement, including information on performance relative to SMP targets, but with some market-sensitive information deleted at their request.

2. During the conclusion of the last Article IV consultation on January 10, 2000, Executive Directors commended the authorities for reducing inflation, starting to restructure the financial system, undertaking structural reforms, and improving the fiscal position. They welcomed the authorities’ strong actions to raise the primary surplus and to reverse adverse debt dynamics, while maintaining low inflation. Directors generally favored greater exchange rate flexibility to permit a gradual reduction in domestic interest rates. Directors took note of the authorities’ preference for a more gradual pace of adjustment, but expressed concern that such an approach might produce a weak economic recovery and leave the economy vulnerable to external shocks.

3. **The principal problems facing the Jamaican economy are the extraordinarily heavy burden of public sector debt reflecting in part the costs of the 1995/96 financial crisis, and the legacy of periods of high inflation.** The economic and social disruption caused by high inflation—which averaged over 40 percent annually in the first five years of the 1990s—has led to a strong policy aversion to both inflation and currency depreciation. The result has been a period after the financial crisis of extremely high interest rates and no economic growth during the past four years.

¹ Jamaica is an Article VIII member and maintains no restrictions on the making of current payments and transfers for current international transactions (Appendix I). Relations with the World Bank, the Inter-American Development Bank (IDB), and the Caribbean Development Bank (CDB) are summarized in Appendices II, III, and IV respectively.

² The staff team for the February mission comprised Mr. Itam (AFR, out-going mission chief), Mr. Boote (new mission chief), Mr. Berezin, Mr. Cueva, and Ms. Fonseca (Assistant) (all WHD), Ms. Basu (MAE), and Mr. Thorne (PDR). Staff from the CDB, IDB, and the World Bank participated in the mission. Mr. Whitehall (OED) joined the mission and Mr. Bernes, Executive Director for Jamaica, participated in the final meetings. For the April mission, the team was Messrs. Boote and Cueva with Mr. Bernes joining the last two days of discussions. Both missions were assisted by Mr. Tokarick (WHD).

4. **The authorities have embarked on an economic program aimed at reversing adverse debt dynamics and laying the foundation for economic growth in the medium term. In July 2000, the authorities requested a staff-monitored program (SMP) for the period from April 2000 through March 2002;³ as a signal to official creditors, donors, and financial markets; so far the SMP is broadly on track.** The CDB, IDB, and World Bank have approved assistance totaling US\$255 million in support of the reforms in the financial sector.⁴ The principal objectives of the authorities' economic program are to restore growth of at least 3 percent a year; reduce inflation to about 4 percent a year; and increase the stock of net international reserves. To achieve these goals, the authorities' plans include: (i) continued fiscal consolidation, debt reduction and divestment of public sector assets; (ii) further reforms to strengthen the financial sector; (iii) structural reforms to accelerate growth; and (iv) monetary and exchange rate policies to reduce inflation, interest rates, and avoid losses in external competitiveness.⁵

5. **The statistical base in Jamaica is generally adequate for conducting surveillance and monitoring economic developments under the SMP, but there are a number of areas where improvements are needed** (Appendix V). Data on the national accounts and consumer prices utilize outdated base years and production lags for national accounts data are long. There is a large, unreported informal sector. Data on the financial position of the public enterprises are produced with significant delays and are not comprehensive. Data on merchandise trade are available only after long lags.

II. RECENT ECONOMIC DEVELOPMENTS

6. **The authorities have made substantial progress toward macroeconomic stability in recent years, through fiscal consolidation, tight monetary policies, and financial sector reforms. While inflation has fallen, high real interest rates have resulted in stagnation and continued high unemployment.** The combination of the government's social safety net programs, and sustained remittances from abroad, as well as the sizeable informal sector, have all helped to maintain living standards, despite a decline in formal sector economic activity.

7. **After four years of stagnation/decline, signs are evident of economic recovery in 2000/01** (Table 1). In 1999/00, the economy was hit by drought and an explosion at a bauxite processing plant in the United States that lowered output in agriculture and mining. Growth of about 1 percent is expected in 2000/01 fuelled by the service sector (particularly

³ The fiscal year runs from April 1 through March 31.

⁴ The US\$255 million in support includes a loan from the World Bank of US\$75 million. The Bank will consider an additional loan for US\$75 million in their next fiscal year.

⁵ A more detailed treatment of the authorities' program is contained in the Memorandum of Economic and Financial Policies (MEFP), EBS/00/152, July 28, 2000.

tourism), manufacturing, and some recovery in agriculture and mining.^{6 7} Recorded investment has remained slightly below 30 percent of GDP (Box 1). Unemployment remains around 15½ percent, and is particularly high amongst women and youth, although slightly less than half those officially unemployed are looking for work. The informal sector in Jamaica appears to have been growing: electricity consumption has grown on average by 6 percent a year over the last six years, a period during which recorded GDP declined.

8. **Inflation has declined to around 6 percent in line with the SMP targets, though wages appear to be growing at a faster rate** (Table 1). Inflation rose to 8½ percent at end-1999/00, mainly as a result of the drought, and accelerated in the early part of 2000/01 as a result of increases in oil prices and some depreciation of the Jamaican dollar. By March 2001, the 12-month inflation rate declined to 6½ percent, mainly reflecting lower food prices. Total compensation to employees grew by 8 percent in 1999 and 9 percent in 2000.⁸

Box 1: The Investment Puzzle in Jamaica

Investment/GDP ratios in Jamaica have averaged around 27 percent over the past four years (Table 1). These ratios are similar to other CARICOM countries. This is somewhat surprising given very high real interest rates and low growth in Jamaica. It is also puzzling that these ratios do not appear to have been affected by the financial crisis in 1995–96 nor the prolonged period of stagnation since then. Some possible explanations include:

- Investment may be overstated.
- Building construction represents nearly half of all investment. Much of this may be financed by remittances from abroad, or from the informal sector.
- GDP as a whole is understated. If the sizable informal economy—tentative estimates range from one third to one half of recorded GDP—is added to the official estimate of GDP, the ratio of existing measured investment to the resulting overall output measure falls considerably.
- Structural reforms and liberalization, brought about in part by the financial crisis, have generated a need to retool and restructure existing businesses, irrespective of real interest rates. In effect, part of the existing capital stock was made obsolete, increasing the demand for new investment.

⁶ GDP numbers since 1991 have recently been revised upwards reflecting methodological changes and revised sectoral information; all ratios quoted are compared to these revised numbers.

⁷ Drought and lower bauxite production (due to a fire in the U.S. processing plant) are estimated to have reduced GDP by around one half a percentage point in 2000/01.

⁸ Survey data on large establishments suggest a slightly faster rate of growth.

9. The overall public sector deficit was substantially reduced—by 6 percentage points of GDP—over 1999/00 and 2000/01 (Table 2). After widening dramatically to 11 percent of GDP in 1998/99, the public sector deficit declined by 4 percentage points of GDP in 1999/00. The bulk of this adjustment occurred in the central government, reflecting the impact of a number of temporary factors that boosted revenue (from bauxite and cellular license fees), as well as declines in noninterest current expenditure. In 2000/01, the overall primary surplus rose by an estimated 1½ percentage points of GDP to 12½ percent. As a result of spending restraint, the authorities broadly met the quarterly targets for the overall deficit of the central government (Annex I, Table 1). The overall public sector deficit is estimated to have declined by 2 percentage points of GDP to 5¼ percent of GDP, one half of a percentage point of GDP above targeted levels due to a weaker than expected performance by public enterprises. Three quarters of the overall public sector deficit in 2000/01 was financed from abroad (Table 3): as a result, external debt rose by 6 percentage points of GDP to nearly 50 percent (Table 4). Domestic and external amortizations in 2000/01 were nearly 15 percent and 4 percent of GDP, respectively.

10. Public sector debt stabilized at around 137 percent of GDP in 2000/01^{9 10 11} (Tables 1 and 4). The larger than projected level of debt reflects (i) the assumption of previously off-balance sheet items in the privatization process as debt and lower sale proceeds than anticipated; (ii) valuation effects resulting in part from the larger than expected depreciation of the Jamaican dollar; (iii) previously unforeseen debt that has been assumed and/or guaranteed by the government; (iv) higher than expected capitalized interest on Financial Sector Adjustment Company (FINSAC) securities; and (v) the accounting treatment of FINSAC bonds held by the Bank of Jamaica (Box 2). Of the total debt outstanding as of end-March 2001, 36 percent was external (Table 4). Of domestic debt, around three quarters was at floating interest rates and 10 percent U.S. dollar linked (including FINSAC securities in U.S. dollars). Over 70 percent of domestic debt matures in the next three years.

⁹ As an illustration of the magnitude of this debt, it is more than twice the debt level (in relation to GDP) of all the 20 largest WHD countries except Ecuador.

¹⁰ The financial sector crisis is estimated to have cost around 40 percent of GDP.

¹¹ While the debt to GDP ratio rose by just over 2 percentage points in 2000/01, 22 percentage points of GDP above the SMP target, the stock of debt as of end-March 2001 included an amount of 4 percent of GDP which is in the process of being redeemed. See Box 2 first bullet.

Box 2. The Stock of Public Debt and the SMP Estimates

At end-March 2001, the nonfinancial public sector debt was about 137 percent of GDP, about 22 percentage points of GDP above the SMP estimates. Around 1 percentage point of this was explained by lower growth and by the larger overall deficit of the nonfinancial public sector than earlier projected. The remaining difference reflects:

- Outstanding FINSAC liabilities (4 percent of GDP) in the process of being redeemed using the proceeds of the sale of the power company in March 2001 or written-off as part of the liquidation of several FINSAC-controlled institutions or against outstanding assets.
- Financial sector restructuring (5 percent of GDP): reflecting higher interest rates than expected the stock of debt was increased by additional capitalized interest on FINSAC securities. Also, the process of restructuring and privatization of FINSAC-controlled institutions led to the inclusion as debt of several items that were previously off-balance sheet. Finally, the sale of Union Bank was delayed and the detailed conditions were less favorable than originally envisaged.
- Valuation adjustments (5 percent of GDP): the real depreciation of the Jamaican dollar—which was assumed to remain constant in real terms under the SMP—implied a larger debt stock, measured in Jamaican dollars, both for the external debt and for the U.S. dollar-denominated domestic debt. In addition, the stock of domestic debt increased more than the financing received, as domestic securities are sold using an auction system with coupons below market rate. The result is the nominal debt recorded (at par) is above actual receipts which reflect the discounted price paid.
- Guaranteeing of additional debt (3 percent of GDP): by a sugar company, the University of the West Indies, a US\$125 million loan to the Bauxite Alumina Trading Company, as well as other previously deferred obligations.
- The accounting treatment of the FINSAC securities held by the Bank of Jamaica (5 percent of GDP): this amount is the holdings of FINSAC bonds that will not be written-off against Bank of Jamaica's liabilities (which were not bearing any interest) with the central government as had been earlier assumed. Instead, those securities will be exchanged for an equivalent amount of government securities yielding 4½ percent interest, far below market rates.

11. **Monetary policy remained tight in 1999/00–2000/01.** The Bank of Jamaica actively engaged in open market operations to sterilize the large build up of net international reserves¹² and the 7 percentage points reduction in reserve requirements over the two years—

¹² The Bank of Jamaica conducts monetary policy by targeting base money through the use of open market operations and associated movements in the reverse repurchase rate. The exchange rate for the Jamaica dollar is determined in an interbank market operated by authorized dealers. The Bank of Jamaica routinely intervenes in the foreign exchange market—including through compulsory purchases from authorized dealers and cambios for an equivalent of 5 percent of their gross purchases of foreign currency—so as to smooth

(continued)

to 30 and 12 percent for the liquidity and unremunerated reserve requirement ratios respectively. The result was a decline in base money.¹³ Credit to the private sector declined in 1999/00, but grew by about 7 percent in 2000/01 (Table 6). Interest rates on six-month treasury bills declined to 16½ percent by end-April 2001, despite a spike in December 2000; however, they are still about 2½ percentage points higher than originally projected under the SMP (Figure 1 and Table 1). Weighted average lending rates declined from around 32 percent to about 24 percent at end-1999/00 and to 22 percent by February 2001. And Jamaican sovereign bond spreads have declined by around 150 base points—to around 650 basis points over U.S. comparable bonds—so far in 2001 (Figure 2).¹⁴

12. The real effective exchange rate (REER)—based on relative CPIs—depreciated by about 4 percent in 1999/00, and by about 2½ percent so far in 2000/01 (between April 2000 and February 2001) following a large (46 percent) cumulative appreciation over the previous four years (Figure 3).¹⁵ In the period between July and November 2000, the Bank of Jamaica intervened quite heavily through purchases in the foreign exchange market and squeezed domestic liquidity by raising nine-month and one-year reverse repo rates to maintain the value of the Jamaica dollar—which had come under pressure partly due to demand by Jamaican residents for U.S. dollars to purchase the government's U.S. dollar bond issue. The purpose of the intervention was to prevent an undue decline in the exchange rate from jeopardizing the inflation target for 2000/01. At end-April 2001, the Jamaica dollar was trading at about J\$45½ per US\$1, compared to about J\$42 per US\$1 at end-1999/00.

13. Net international reserves rose by over US\$700 million in the two-year period (1999/00 and 2000/01) notwithstanding periodic intervention to support the Jamaica dollar and a larger current account deficit (Table 1).¹⁶ The latter widened by about 1½ percentage points of GDP in 1999/00 to 4½ percent of GDP mainly because of higher fuel import costs and a sharp decline in bauxite exports (Table 7). Despite the larger current account deficit, the overall balance of payments registered a surplus as a result of additional private sector inflows. For 2000/01, the external current account deficit is estimated to remain

fluctuations in the U.S. dollar/Jamaican dollar exchange rate. The Bank of Jamaica in January 2001 eliminated the 1½ percent limit previously imposed on the bid-ask spread for foreign exchange operations.

¹³ Reserve requirements are included in base money.

¹⁴ In May 2001, Standard and Poor's upgraded Jamaica's long-term sovereign rating to B+ for foreign currency bonds (BB- for local currency bonds).

¹⁵ Other measures of external competitiveness, such as the relative price of tradeables to nontradeables and relative unit labor costs, also showed some depreciation in 1999 and 2000.

¹⁶ Over 2000/01 as a whole, Bank of Jamaica's overall intervention—allowing for the compulsory surrender of foreign exchange—was negative.

broadly unchanged with the overall balance of payments showing a surplus of around US\$600 million, based on privatization receipts, support from multilateral institutions, and commercial borrowing.¹⁷ NIR at end-March 2001 was US\$1.3 billion, almost US\$200 million above the adjusted SMP target. Gross reserves were more than two times short-term external debt of the public sector (Table 8).

14. The authorities have made progress in restructuring the financial sector and in strengthening prudential supervision over the last two years and the corresponding SMP benchmarks were all met (Annex 1, Table 2). The merger of four intervened banks and several other financial institutions into the new Union Bank was completed in April 1999, and the sale of the bank to Royal Bank of Trinidad and Tobago was completed in March 2001. The restructuring of the National Commercial Bank (NCB) has also progressed, with a new management team appointed in September 2000 and the bank's shareholding restructured, so that FINSAC took control of 76 percent of the bank. In the insurance sector, four of the five FINSAC-intervened institutions have been sold and progress has been made toward selling the remaining one (Life of Jamaica). The new Financial Services Commission Act was approved by Parliament in March 2001, along with a number of amendments to other Acts designed to strengthen financial sector supervision.¹⁸

15. The authorities have undertaken other structural reforms designed to improve efficiency and competitiveness, but have recently proposed—in the context of a change in the method of duty calculations—a large increase in overall import duties on certain agricultural products. In March 2001, the authorities sold the electricity company (JPSCo) to a U.S. company for about US\$200 million (3 percent of GDP). Reforms in other public enterprises, such as the implementation of improved operational systems together with a redundancies program (benchmarks under the SMP), have been delayed until next fiscal year (Annex I, Table 2). In April 2001, the authorities announced their intention, subject to legislative approval, to raise overall duties on imports from outside CARICOM on chicken legs and certain fresh fruits and vegetables from the current level of 86 percent to 180 percent, to protect local producers, in the context of a move from using reference prices to actual prices as the basis for duty calculations.¹⁹

¹⁷ The authorities raised US\$390 million in successive U.S. dollar and Euro bond issues; the U. S. dollar bond was issued in August 2000 at a yield of 12.75 percent tax free with a maturity of seven years and the Euro denominated bond in February 2001 offering a yield of 10½ percent for a 3½ year maturity. Since issue, the secondary market spreads on both bonds have declined vis-à-vis U.S. Treasuries and German government bonds, respectively to around 600 and 500 basis points (see Figure 2).

¹⁸ Including amendments to the Bank of Jamaica, Insurance, Unit Trust and Securities Acts.

¹⁹ The proposed rates are the bound rates under the WTO; the change is expected to take effect on the date of Jamaican implementation of the WTO Customs Valuation Agreement—under which duties are calculated on actual rather than reference prices—originally expected
(continued)

III. REPORT ON DISCUSSIONS

16. **The staff commended the Jamaican authorities for the progress already made under the first year of the SMP and noted that their main challenge is to build on this progress in order to achieve sustained faster growth and improve the public debt dynamics.** Further fiscal and monetary restraint would reduce inflation, lower interest rates, and allow for some additional build up in international reserves. The authorities' success in reducing inflation should permit somewhat great exchange rate flexibility to increase competitiveness and help reduce interest rates, although any such flexibility will need to take account of the authorities' inflation target. Growth could be boosted through an accelerated pace of structural reforms, including the disposal of the remaining FINSAC-controlled institutions and assets, public sector reforms including in education, privatization of commercially viable activities, and further strengthening of financial sector supervision.

A. Program for 2001/02 Under the SMP

17. **The authorities' program for 2001/02 under the SMP focuses on continuing fiscal consolidation, and a modest buildup of reserves, while lowering inflation.** Revised targets are summarized in Table 1 with the quantitative targets shown in Annex II, Table 1.

Key elements are:

- An adjusted central government deficit²⁰ of just over 3 percent of GDP, 1 percentage point higher than originally envisaged, reflecting higher interest payments, and larger current and capital expenditures.
- A further small increase of net international reserves (by US\$100 million), building on the overperformance in 2000/01, in order to provide a cushion for the large repayments of international bonds by the government (of US\$400 million) falling due in 2002/03.
- Continued tight monetary policy designed to reduce inflation to 5 percent.
- Further divestments by FINSAC and implementation of the legislation to strengthen prudential supervision.

in March 2001 but now delayed to later in 2001. The rise in protection is much less than the above percentages would suggest as in many cases the reference price is considerably higher than the actual price: in some cases, indeed, nominal protection may decline.

²⁰ Adjusted to include interest on FINSAC securities on a full year basis.

- Continued structural reforms including measures to strengthen the efficiency, management and accountability of public enterprises and to increase labor market flexibility.

B. Medium-Term Prospects

18. **The policies under the SMP are expected to lay the foundations for faster growth, and a further reduction in unemployment and in inflation.** Over the medium term, growth is expected to accelerate to around 3 percent a year, owing to strong growth in tourism and other services, and a further recovery in mining, agriculture and financial services.²¹ Such growth will increase job opportunities and moderately reduce the rate of unemployment. Inflation is targeted to decline toward 4 percent a year over the medium term, helped by projected declines in international energy prices.

19. **The fiscal measures in the authorities' program, along with the faster growth and lower nominal interest rates, will bring a shift in the public sector balance from a deficit of 3½ percent of GDP in 2001/02 to a small surplus in 2004/05** (Table 9). Such deficit reduction, together with further divestment of public sector assets, is projected to lower public sector debt from 126 percent of GDP at end-2001/02 to about 100 percent of GDP in 2005/06. This in turn will help support a decline in real interest rates as growth accelerates and capital imports increase. The external current account deficit is expected to widen to about 5¼ percent of GDP in 2001/02 and slightly more in later years, but would be financed by anticipated private capital inflows.

20. **The medium-term scenario is subject to a number of possible downside risks.** These include a less rapid decline in interest rates and slower than expected growth. Also, fiscal slippages, delays in privatization, or the assumption of additional debt by the central government, could lead to a slower than anticipated reduction in the stock of debt. The sensitivity of the public debt dynamics to these risks is summarized in Figure 4. Projections (Scenario 1, Table 10) where interest rates decline less rapidly and growth is more moderate point to a less rapid improvement in the public sector balance with a deficit of about 1½ percent of GDP and public sector debt 10 percentage points higher in 2005/06. Broadly similar—though slightly more favorable—results emerge from assuming lower U.S. growth than in the baseline (Scenario 2). If, by contrast, fiscal adjustment is faster (with additional measures of one half of one percentage point of GDP in 2001/02 and 2002/03) and there is some (modest) real depreciation of the exchange rate (Scenario 3), growth could be faster, albeit with slightly higher inflation. Under this scenario, the public sector could move into significant surplus one year earlier than under the base case and the public sector debt to GDP ratio could fall significantly to 93 percent by 2005/06.

²¹ A recovery from drought and increased bauxite production is projected to account for 1½ percentage points of GDP growth in 2001/02.

C. Fiscal Policy

21. **In order to reduce the very heavy burden of public debt, the mission urged the authorities to pursue further fiscal consolidation in 2001/02 and beyond—with a primary surplus close to 12 percent of GDP—through continued expenditure restraint and additional revenue-enhancing measures.** The authorities stressed the large cutbacks that have occurred in the central government's noninterest expenditures during 2000/01 and the need for some recovery in these expenditures in 2001/02. In particular, they viewed a substantial increase in capital expenditures as needed to lay the foundation for faster growth and to meet obligations to international partners.²² The authorities plan to strengthen revenue collection—through tax administration improvements and new enforcement legislation²³ and the introduction of some local fees—but cautioned that these measures would take time to generate additional revenues. They emphasized their determination to maintain tight control over expenditures—to below budgeted levels if necessary—to meet the fiscal targets for 2001/02. The staff urged the authorities to put in place the revenue measures as soon as possible and to contain overall expenditures—including through moderate wage increases—while maintaining in real terms social safety net expenditures to protect the poor (Box 3).

22. **The revised fiscal targets for 2001/02 under the SMP place the stock of debt on a moderate downward trajectory, aiming for a public sector debt reduction of around 10 percentage points of GDP within the fiscal year.**²⁴ With interest payments expected to be about one half a percentage point higher than originally expected, the adjusted central government deficit for 2001/02 is expected to widen to about 3 percent of GDP, about

²² The SMP is based on 90 percent implementation of capital expenditures in the 2001/02 budget subject to review in September: this implies an increase in such expenditures over 2000/01 of around one fifth. There are no expenditures included in the budget for the Highway 2000 project which is a private sector led development, although some portion of the project could involve the central government. Also, a five-year infrastructure program is expected to involve build-operating transfer agreements for certain road portions.

²³ A process of strengthening the tax administration and implementing an integrated tax collection system is well-advanced. Legislative amendments—planned but not introduced in 2000/01—covering the General Consumption Tax, the Customs Duty, the Revenue Administration, and the Evidence Act are aimed at helping to recover retroactive taxes, enlarging the tax base, enhancing enforcement powers, and facilitating the court procedures in fraud cases. The authorities have set up a special unit to encourage the informal sector to come into the tax net.

²⁴ Four percentage points of this is in process (see Box 2, first bullet); the remaining 6 percentage points results from the net financing requirement of the nonfinancial public sector—allowing for exchange rate and other valuation adjustments—and the expected GDP growth.

1 percentage point of GDP higher than originally projected under the SMP (see Table 1).²⁵ These amounts include the payment of cash interest (about 3¼ percent of GDP) on outstanding FINSAC/Financial Institutions Services Limited (FIS) securities which have been exchanged for government bonds, as was envisaged under the SMP.²⁶ This deficit is expected to be financed by

Box 3. Social Safety Net Expenditures

During 2000, the Government of Jamaica, as part of its medium-term economic and social policy framework, led a consultative process to design the reform of the country's social safety net. At present, the social safety net in Jamaica is fragmented among three main cash transfer programs and many other smaller programs that do not reach the poor in an efficient manner. As the benefit levels are extremely low, only the poorest go through the cumbersome process of filling out and submitting their applications. However, there is evidence of both exclusion of the poorest and leakage to the nonpoor. Based on an assessment of the existing safety net, a comprehensive reform proposal was developed to improve the effectiveness and the efficiency of safety net spending. The reform is intended to strengthen the focus of the safety net on the poor and vulnerable, with particular emphasis on young children and youth. While the government is committed to at least maintain the real level of spending on the social safety net, the implementation of the reforms, involving institutional change, will pose significant challenges for the authorities.

As the first steps towards the implementation of these reforms, the government has decided to consolidate the three existing income transfer programs into one unified transfer program with increased benefits, using a new targeting mechanism, and to terminate marginal programs. The implementation of the first phase of reform is supported by the preparation of an Inter-American Development Bank sector loan, while the implementation of the new unified income transfer program including the targeting mechanism is supported by the preparation of a World Bank loan.

In 2000/01, expenditures for social safety net programs were broadly in line with the budget figures, and the 2001/02 budget maintains these expenditures in real terms, as envisaged under the SMP. These numbers exclude a special employment program ("Lift-Up Jamaica"), for which expenditures are behind schedule, with about J\$0.5 billion spent out of J\$1 billion included in the budget for 2000/01 and J\$0.8 billion expected for 2001/02.

²⁵ The staff figures are adjusted from the budget presentation by the following items: privatization proceeds are excluded from fiscal revenues; revenues from bauxite levy and capital transfers include the proceeds earmarked for capital expenditures through the Investment Bank of Jamaica; capital expenditures are 90 percent of the figures in the budget. The adjusted central government deficit includes interest on FINSAC bonds on a full-year basis which increases the deficit in 2001/02 by 0.4 percent of GDP.

²⁶ These cash interest payments will likely increase the demand for government securities at auction, as the holders of FINSAC/FIS bonds are no longer forced to hold more public debt through the capitalization of interest. Furthermore, the budgetary costs will be partially offset by revenues from the tax withheld on the cash interest payments. The interest rate, maturity dates and interest payment dates of certain bonds have been modified in negotiations with holders: in some cases lower interest rates now have been agreed with higher rates later. The adjusted central government balance adjusts for the timing of payment dates in 2001/02 to reflect the full year interest cost. An enhanced transparency in the costs arising from the financial crisis of the mid-1990s has been also achieved through the offset/write-off of the intra-public sector holdings of FINSAC/FIS securities.

additional international bond issues and additional funding from official creditors/multilateral institutions with a net repayment of domestic securities of around 1 percent of GDP (Table 3). Overall amortization of domestic securities is projected at around 15 percent of GDP, unchanged from 2000/01.

23. **The primary surplus target for the overall public sector in 2001/02 is less ambitious than in the original SMP but still very large at 11 percent of GDP.**²⁷ The overall surplus for public enterprises is expected to be just below 1 percent of GDP in 2001/02, slightly lower than the outturn for 2000/01, owing to delays in the implementation of structural reforms, and to larger capital expenditures in the housing area. The Bank of Jamaica is expected to have a deficit of around 1 percent of GDP for its operating balance in 2001/02 reflecting below market interest rates paid on the government bonds issued to replace the FINSAC securities held by the central bank as well as the reduction in unremunerated reserve requirements and the costs of sterilizing the reserve build-up. A strengthening of the Bank's balance sheet is under discussion with the Ministry of Finance. The staff noted that, although the targeted primary surplus remains very high, a smaller decline from last year's level would have been desirable as a policy response to the higher than projected debt levels and would underscore the authorities' determination to implement their debt reduction strategy. While the authorities saw some merit in this argument, they emphasized the need for some recovery in capital and current (nonwage) expenditures from the very low levels of 2000/01 in order to foster growth. They reiterated their determination to meet their revised fiscal targets to ensure a reduction in overall public sector debt levels.

24. **The mission recommended that debt and liquidity management be strengthened.** Interest expenditures are projected at slightly above two fifths of total expenditures in 2001/02. The staff suggested that the objectives of debt management should not solely be to reduce short-term interest costs but also to (i) lower the overall costs (post tax) of government borrowing over the medium to long term; (ii) further develop a liquid market for government debt; (iii) reduce refunding or rollover risk; and (iv) complement the monetary operations of the Bank of Jamaica. The authorities in the 2001/02 budget have announced their intention to introduce regular, preannounced, monthly auctions of local registered stocks (LRS) offered at fixed interest rates and longer maturities and to reduce their funding through shorter term treasury bills. The authorities accepted the need to limit the guarantees of debt by government and propose to introduce a framework for reporting on contingent liabilities to Parliament.

²⁷ About 1¾ percentage points lower than the original SMP target and 1½ percentage points below the estimated outturn for 2000/01, of which about 1 percentage point reflects the one-off impact of cellular license fees on the fiscal position in the earlier year. The primary surplus of the central government for 2001/02 is around 10¾ percent of GDP.

D. Monetary Policy and the Exchange Rate

25. **The authorities intend to pursue tight monetary policies to meet the objective of containing inflation to the targeted level of 5 percent in 2001/02.** The planned further reduction of 3 percentage points in the unremunerated cash reserve and the liquidity requirements to 9 and 27 percent respectively should help reduce interest rates faced by borrowers and promote a more level playing field between banks and other institutions. Open market operations will need to offset both the reserve requirement reduction and the build-up of international reserves. The authorities plan to renew the scheme under which the banks agree that half of the amounts freed up by the reduction in the year are channeled via the Development Bank at concessional interest rates (9½ percent) to priority sectors (such as exporters). The staff was not in favor of extending this scheme.²⁸ However, the authorities regard concentration of the benefit of lower rates in a particular area—where it can have a visible impact—as more beneficial than a small across-the-board reduction in lending rates. The staff noted—and the authorities agreed—that the more comfortable international reserve position could provide scope for a further decline in domestic interest rates.

26. **In the staff's view, exchange rate flexibility would enhance competitiveness while not jeopardizing the inflation target.** Given the credibility the authorities have achieved in lowering inflation, the staff see the scope for a somewhat more depreciated exchange rate, while recognizing that it is important not to rekindle a wage-price spiral. The current position of relatively weak demand suggests that there is little risk of such a spiral if some limited greater flexibility, possibly leading to a small depreciation, were allowed. Greater exchange rate flexibility would be consistent with some easing of interest rates which should encourage further growth and a strengthened fiscal position. The authorities questioned whether greater flexibility in the exchange rate would be conducive to lower interest rates if it adversely affected expectations; they saw depreciation in the exchange rate as potentially self-perpetuating and likely to lead to higher, not lower, interest rates. They also argued that the lower pass-through from the exchange rate to domestic prices in recent years partly reflected temporary factors such as a reduction in private sector profit margins and delays in the full pass-through to administered prices, which could not be expected to continue. Nevertheless, they were concerned about the implications for competitiveness of potential exchange rate appreciation and agreed, therefore, that the comfortable international reserve position suggested there was scope for a significant decline in domestic interest rates. The importance of further moderation in wage settlements—with increases preferably tied to gains in productivity—both in the public and private sectors to enhance competitiveness was emphasized by the staff.

27. **The more comfortable international reserve and balance of payments position permits more room for maneuver both on raising funds in capital markets and on institutional arrangements in the foreign exchange market.** The planned raising of up to

²⁸ In addition to the issue of choosing beneficiaries, the scheme could reduce the profitability of the banks and the efficiency of the sector.

US\$400 million by two bond issues in capital markets would—if realized in full—likely exceed the needed external financing requirements in 2001/02 and would imply either an additional reserve build-up or significant net sales of foreign exchange by the central bank.²⁹ The staff questioned whether it was appropriate to proceed with the second bond issue in these circumstances. The authorities agreed that they should only raise the full amount if the terms available were cheaper than those on comparable domestic issues.³⁰ The staff suggested—and the authorities are considering—that the Bank of Jamaica also contemplate phasing out the current 5 percent surrender requirement on foreign currency transactions as well as arrangements which encourage sale to the Bank of larger sums.³¹ These measures would reduce the foreign exchange intermediated by the Bank and the differential treatment of reserve requirements on foreign currency deposits.³²

E. Financial Sector Reform

28. Following the considerable progress made last year, the authorities intend to divest further the remaining FINSAC core and noncore assets as soon as possible. The sale of the National Commercial Bank (NCB) and the divestment of the public sector stakes in three insurance companies (including FINSAC's majority stake in Life of Jamaica) are remaining challenges for first half of 2001/02. A prompt sale of the FINSAC portfolio of real estate and nonperforming loans as planned will permit a further reduction of public sector debt. Finally, FINSAC should be wound up once its remaining liabilities are redeemed or written off.

29. The speedy implementation and enforcement of the newly approved financial sector legislative framework and accompanying regulations to promote more market discipline is a key challenge. The setting up of the Financial Services Commission (FSC) with adequate resources, the promulgation of necessary regulations in line with international best practices, and full cooperation between the FSC and the central bank are needed to ensure effective consolidated supervision of interlinked banking and nonbank financial

²⁹ In May 2001, Jamaica announced a U.S. dollar issue of US\$275 million (increased from US\$200 million), with a ten-year maturity yielding 12 percent (a spread of 671 basis points over U.S. comparable bonds).

³⁰ Allowing for the different tax treatments: domestic securities (excluding U.S. linked issues) are subject to 25 percent withholding tax on interest whereas the primary foreign bond issues are tax free.

³¹ Around US\$200 million was surrendered under the 5 percent requirement in 2000/01 and US\$350 million above this requirement as a result of the Bank offering to purchase foreign exchange at the weighted average of the previous day's rates.

³² Reserve requirements on deposits in Jamaica dollars are unremunerated, while those on foreign currency deposits receive market interest rates.

institutions. Submission to Parliament of amendments to the Banking and Financial Institutions Act—which would strengthen the autonomy of the Bank of Jamaica in banking supervision—and of legislation governing pension funds would be desirable. In addition, collaboration should be strengthened with Jamaica’s external partners on the supervision of foreign financial institutions’ subsidiaries operating in Jamaica. At the authorities’ request, the Fund is providing an independent assessment—building on the Bank of Jamaica’s self assessment—of compliance with the Basle Core Principles for Effective Banking Supervision.³³ With the recent increase in deposit insurance protection (to J\$300,000 per depositor), an assessment of the funding and adequacy of the deposit protection arrangements would be desirable.

F. Structural Issues

30. **The staff stressed the need for deepened structural reforms to enhance competitiveness.** A key factor here is faster labor productivity growth, which is critical to enhancing growth in light of Jamaica’s already quite high investment/GDP ratio (see Box 1). In the staff’s view, earlier progress should be built on by:

- Action to strengthen the existing regulatory regime governing the behavior of utilities so as to establish a more transparent regulatory framework.
- The identification of public entities which could operate more efficiently in the private sector and the adoption of plans for their privatization.³⁴
- A possible review of the regulatory regimes governing small enterprises to reduce red tape and encourage the move of such enterprises from the informal to the formal sector.

The authorities have adopted a new timetable for the implementation in 2001/02 of steps to increase the efficiency of the remaining public enterprises including the National Insurance Fund (NIF), National Housing Trust (NHT) and National Water Commission (NWC) originally envisaged in 2000/01 (Annex I, Table 2). They also have prepared legislation to strengthen the management and accountability of public enterprises, for the reform of labor laws to encourage more flexible working practices and to increase labor productivity.

³³ An MAE mission visited Jamaica in April/May. Its preliminary conclusions were that compliance was fairly good, with Jamaica in the better rated range of emerging economies. Among the mission recommendations was greater operational independence for the Bank in its supervisory activities and the establishment by the Bank of an appeals tribunal to deal with complaints on major supervisory decisions.

³⁴ There are a number of relatively small enterprises that remain in the public sector involved in activities such as mining, agriculture, and tourism which could be transferred to the private sector with the proceeds used to retire debt.

31. **The authorities do not see further unilateral trade liberalization as a priority and have recently proposed additional import duties on certain agricultural products.** The authorities expressed the view that they have significantly liberalized the trade regime in the last few years. They justified the recent proposed increase in duties as being necessary—in the context of a move from using reference prices to actual invoice prices as the basis for duty calculations—to protect poor farmers against possible dumping and reverse the recent rise in rural poverty. While sympathetic to the need for protection against dumping, the staff questioned whether the proposed measures—which are contrary to the authorities’ undertakings under the SMP³⁵—were the most effective means to achieve these objectives. In light of Jamaica’s moderately restrictive trade regime, the staff, urged the adoption of a more open trading system, particularly on agricultural products.³⁶

G. Regional Issues

32. **The authorities saw reducing barriers to intra-regional trade through implementing agreed common tariff reductions as the priority for regional integration.** Intra-regional trade was currently small but growing. Jamaica’s comparative advantage in the region was seen as in the wider services area—not just in tourism. Other priorities included the harmonization of investment incentives and the establishment of an effective dispute settlement mechanism. Fiscal harmonization and movement towards a single currency would be more difficult to achieve. The authorities emphasized that Jamaica had a fully liberal exchange rate system with a floating exchange rate in contrast to its neighbors in the ECCB who still maintained some exchange controls to support a fixed exchange rate. It would not be possible or desirable to re-impose exchange or capital controls. In general, the authorities viewed Jamaica as more advanced on the path of liberalization than many of its neighbors. They saw consistency of targets or approach at the regional level—for example, in the banking supervision area—as more important than the establishment of regional bodies. While regional negotiations with trading partners had generally worked well, it was up to national authorities to draw up adjustment plans for sectors, such as banana and sugar, facing declining preferred access, drawing on the experience of neighboring countries.

H. Statistical Issues

33. **The authorities are taking action to address statistical weaknesses.**³⁷ A visit from STA is envisaged to help the authorities draw up a plan to address these weaknesses—including strengthening national accounts estimates of the informal sector—using the IMF’s General Data Dissemination System (GDDS) as a guide. The ultimate objective should be

³⁵ See EBS/00/152, 7/21/2000, Annex page 23, paragraph 28.

³⁶ Jamaica’s overall trade restrictiveness index is a 4, on a scale of 1 (open) to 10 (most restrictive).

³⁷ As summarized in paragraph 5 and Appendix V.

compliance with the Special Data Dissemination Standard (SDDS), given that Jamaica has regular access to capital markets. Implementation of the plan once drawn up will require both more domestic and external resources as well as further technical assistance.

IV. STAFF APPRAISAL

34. The principal problems facing the Jamaican economy are the extremely heavy burden of public sector debt, low growth and the legacy of earlier periods of high inflation. The Jamaican authorities are to be commended for the success they have achieved in implementing their economic program, which is being monitored by the Fund staff. The fiscal deficit has been broadly contained to targeted levels with an overall public sector primary surplus of 12½ percent of GDP despite shortfalls in revenues and while maintaining social safety net expenditures in real terms. Monetary growth has been restrained and inflation has fallen to 6½ percent. Foreign exchange reserves are above targeted levels at twice the level of residual maturity short-term external debt. GDP growth has resumed—albeit moderately at around 1 percent—after four years of stagnation.

35. However, despite these strong efforts, the public sector debt to GDP ratio has only been stabilized—at slightly below 140 percent—rather than reduced significantly as projected under the SMP. This reflects a number of factors—many of which are one-off—but some, such as valuation changes, the emergence of new debt and the impact of higher-than-projected interest rates, could reoccur. The fact that no reduction in the debt ratio was achieved in 2000/01 underscores the magnitude of the challenge facing the authorities. A more rapid deficit reduction, combined with more aggressive steps to promote competitiveness, would lead to an earlier return to sustained faster growth and reduce vulnerability to shocks. Thus, while acknowledging that the projected overall primary surplus at 11 percent of GDP in 2001/02 remains extraordinarily high, the staff would have preferred a somewhat smaller decline than currently envisaged in this surplus from 2000/01 as a policy response to the unchanged debt ratios. The authorities, however, did not consider further fiscal measures as realistic given the imperative for some increase in expenditures from the low levels in 2000/01. And they have implemented their chosen adjustment path with considerable determination, which is starting to yield positive results.

36. Looking ahead, a continued high primary surplus—which will require restraint in public sector wage settlements and moderation in increasing capital spending—coupled with strict limits on the assumption of additional liabilities by the government, is essential to ensure a downward path for the stock of debt in relation to GDP. Perseverance in such policies will be particularly challenging in the upcoming pre-electoral year, but is crucial to help create lower real interest rates and faster growth, which will in turn help further strengthen the fiscal position. Determined implementation of such policies could reduce public sector debt to 100 percent of GDP within five years. Given the size of the public sector debt, good debt management is crucial, and the authorities have implemented several improvements in their debt management strategy with more steps under consideration.

37. Fiscal restraint has been reinforced by tight monetary policy which succeeded in 2000/01 in offsetting the impact on domestic monetary growth of reductions in reserve

requirements and a buildup in net international reserves. Continued monetary restraint will be required in 2001/02 to offset further reserve requirement reductions, although the prospective strength of the international reserve and balance of payments position should permit a significant decline in domestic interest rates. Effective monetary policy will require the maintenance of a strong central bank balance sheet.

38. Exchange rate stability has succeeded in lowering domestic inflation. The success of the authorities' anti-inflationary strategy provides some scope for greater—albeit limited—exchange rate flexibility which would be consistent with lower real interest rates and faster growth without reigniting an inflationary spiral. The staff also sees the more comfortable reserve position as providing scope for a more selective approach to foreign bond issues and for a phasing-out of the 5 percent foreign exchange surrender requirement as well as other changes in institutional arrangements so as to facilitate a deeper and more efficient foreign exchange market.

39. The authorities have made good progress in putting in place the legislative framework to strengthen prudential supervision of both banks and other financial institutions to limit the risks of any further financial crisis. The challenges now are to implement this framework, to establish effective cooperation between the newly created Financial Services Commission and the Bank of Jamaica and with other international supervisors, to bring pension funds within the framework and to ensure the operational effectiveness of the bank deposit protection scheme and thereby to foster greater market discipline.

40. The authorities deserve credit for the disposals made by FINSAC in 2000/01—notably the completion of the sale of Union Bank—and for the payment of cash interest on FINSAC securities in the 2001/02 budget. In 2001/02, the objective should be to continue FINSAC sales—notably of the National Commercial Bank and Life of Jamaica as well as FINSAC's holdings of nonperforming assets—with the proceeds used to retire debt. This would permit starting the process of winding up FINSAC. While most large enterprises have been privatized, the authorities should investigate the scope for further privatizations and should implement the steps under consideration to increase the efficiency of enterprises remaining in the public sector. Measures to strengthen the regulatory framework for utilities as well as its transparency, to reduce the regulatory burden on small enterprises and to increase labor flexibility (where legislation is currently being considered by Parliament) are also desirable.

41. The staff shares the authorities' aim to reverse the recent rise in rural poverty but questions whether this is most effectively achieved by the proposed large rise in import duties on certain agricultural products—albeit the rise in protection is much lower given the switch to calculating duties on actual—as opposed to reference—prices. The authorities' intention to draw up a plan to strengthen their statistics—with the help of STA—is welcome. This will require both additional domestic and external resources as well as technical assistance.

42. It is recommended that the next Article IV consultation with Jamaica be held on the standard 12-month cycle.

Table 1. Jamaica: Selected Economic and Financial Indicators 1/

	1997/98	1998/99	1999/00	SMP 2/ 2000/01	Est. 2000/01	SMP 2/ 2001/02	Proj. 2001/02
(Annual percentage changes; unless otherwise specified)							
GDP, prices, wages and interest rates							
GDP at constant prices 3/	-1.5	-0.4	-0.1	1.5	1.1	2.5	3.0
GDP deflator	9.7	6.3	8.8	6.8	9.7	6.6	6.0
Nominal GDP							
(U.S. dollars billions)	7.1	7.4	7.4	7.5	7.4	7.9	7.7
(Jamaica dollars billions)	257.8	273.3	296.1	325.8	327.7	357.5	359.4
Per capita GDP (in U.S. dollars)	2,837	2,889	2,845	2,831	2,849	2,995	2,921
Consumer prices (end of period)							
(period average)	8.8	6.0	8.4	7.0	6.4	6.5	5.0
Nominal wages							
Total Labor Compensation	9.9	7.5	8.0	...	9.0	...	7.0
Government wage bill (cash basis)	20.9	9.8	-0.1	8.1	10.2	8.0	7.5
Unemployment (calendar year)	16.5	15.5	15.7	...	15.6	...	...
Interest rate (six-month treasury bills yield, end of period)							
Lending rate (weighted average, end of period)	28.0	21.7	18.0	14.0	16.9	...	...
	35.3	32.1	24.3	19.8	...	...	...
Money and credit 4/							
Net domestic assets of the banking system 5/							
Public sector	7.5	8.2	6.8	-3.4	-15.7	3.7	-2.4
Private sector	54.9	25.1	8.9	-4.5	10.2	2.4	-8.4
Other	-6.3	-6.0	-5.0	2.6	1.8	2.9	3.3
Liabilities to private sector	-41.4	-10.9	2.9	-1.5	-27.7	-1.6	2.7
Velocity (GDP relative to liabilities to private sector)	6.7	10.8	19.3	8.4	8.9	9.1	8.0
	2.8	2.7	2.4	2.4	2.4	2.5	2.5
(In percent of GDP; unless otherwise indicated)							
Savings and investment							
Gross national savings	24.1	23.8	21.6	24.2	22.7	24.2	22.0
Gross investment	29.5	26.8	25.9	28.8	27.0	29.3	27.3
Public sector							
Revenue and grants (central government)	25.8	27.1	30.5	32.1	30.8	29.7	29.9
Expenditures (central government) 6/	33.5	34.1	34.8	33.0	31.8	31.8	32.7
Public sector interest payments 7/	10.6	18.2	18.3	18.3	18.0	13.3	13.9
Primary balance (central government)	1.8	5.6	9.9	12.2	12.2	11.4	10.7
Primary balance (public sector)	1.3	7.1	11.0	13.6	12.6	12.7	11.0
Central government balance (-) 6/ 8/	-7.7	-7.0	-4.2	-0.9	-1.0	-2.1	-2.8
Adjusted central government balance 9/	-8.8	-12.6	-8.5	-6.1	-5.7	-2.1	-3.2
Public sector balance 10/	-9.4	-11.1	-7.4	-4.7	-5.3	-0.6	-3.5
Total debt 11/	103.9	117.9	134.6	114.7	136.6	106.5	126.5
External sector							
External current account (deficit -)	-5.3	-3.0	-4.3	-4.8	-4.3	-5.4	-5.3
Overall balance of payments (millions of U.S. dollars)	-53	-14	122	290	583	161	100
Gross official reserves (millions of U.S. dollars)							
(weeks of next year's imports of goods and services)	729.6	700.1	801.3	1,077.6	1,361.9	1,221.0	1,444.9
(weeks of current year's nonbauxite (industry) imports of goods)	9.7	9.3	10.3	12.9	16.6	14.6	17.6
Net international reserves (millions of U.S. dollars)	13.0	13.3	14.7	18.6	23.6	20.6	25.0
595.1	581.5	703.5	993.2	1,286.3	1,153.8	1,386.3	
External terms of trade (percent change)	3.3	-2.4	-4.6	0.6	-2.7	2.1	3.0
External debt (end of period)	45.6	45.0	45.0	45.4	50.5	45.7	53.3
Debt service ratio 12/	14.9	18.3	17.6	15.7	14.5	16.4	16.4
Short-term external liabilities/reserves 13/	0.7	1.0	0.6	0.5	0.5	0.7	0.7
Interest payments 12/	5.4	5.4	5.4	6.3	5.8	8.2	7.5
Exchange rates							
Jamaica dollar per U.S. dollar							
(end of period)	36.36	38.14	42.19	...	45.68	...	...
(period average)	35.80	36.93	40.21	...	44.06	...	...
Real effective exchange rate 14/	5.8	1.6	-3.9	...	-2.6	...	...
Nominal effective exchange rate 14/	-1.1	-2.9	-8.8	...	-4.6	...	...
Relations with the Fund (as of March 31, 2001)							
Quota							SDR 273.5 million
Outstanding purchases and loans							SDR 43.5 million

Sources: Bank of Jamaica; Ministry of Finance; FINSAC; STATIN; and Fund staff estimates and projections.

1/ Fiscal years run from April 1 to March 31.

2/ In order to make them comparable to the output for 2000/01 and the projections for 2001/02, the original SMP numbers in relation to GDP have been adjusted to reflect a change in the historical GDP series which led to a change in the 1999/00 GDP base (leaving unchanged the original SMP assumptions for growth and the change in the GDP deflator).

3/ Drought and lower bauxite production due to a fire at the U.S. processing plant are estimated to have lowered GDP growth by around one half of a percentage point in 2000/01; a rebound in growth (reflecting in particular larger bauxite production) of 1 1/2 percentage points of GDP is expected in 2001/02.

4/ As of the end of fiscal year.

5/ Flow as percent of liabilities to the private sector at the beginning of the period.

6/ Includes interest on FINSAC securities from 2001/02 on, estimated at 3.3 percent of GDP. This interest was excluded in the original SMP targets for 2001/02. In 2000/01, this (capitalized) interest was 4.9 percent of GDP.

7/ Interest payments due by the non-financial public sector on an annual basis, excluding intra-public sector obligations.

8/ Includes grants but excludes privatization proceeds. The original SMP figure for 2001/02 (1.3 percent of GDP) has been modified to reflect changes in the GDP base (see footnote 2) and to include the interests on FINSAC securities (see footnote 5).

9/ Including FINSAC interest payments on a full year basis, implying an increase of 0.4 percent of GDP above cash interest payments in 2001/02.

10/ Includes selected public enterprises, accrued but not paid FINSAC/FIS interest due to the private sector, and Bank of Jamaica operating balance. Includes an adjustment in BOJ operating balance for the interest accrued but not paid on 1 year reverse repos (equivalent to 0.2 percent of GDP added in 2000/01 and reduced in 2001/02).

11/ Nonfinancial public sector debt, excluding FINSAC liabilities and government securities held by the non-financial public sector.

12/ In percent of exports of goods and services.

13/ By residual maturity.

14/ For 2000/01, data for the period ending February 2001.

Table 2. Jamaica: Summary of Public Sector Operations

	1996/97	1997/98	1998/99	1999/00	Est. 2000/01	Proj. 2001/02
(In millions of Jamaican dollars)						
Central government balance	-13,198	-19,962	-19,171	-12,575	-3,153	-10,002
Revenues and grants	63,085	66,426	74,096	90,373	101,018	107,586
Tax 1/	57,989	62,097	69,757	81,370	89,824	99,035
Nontax 2/	4,037	3,605	3,687	8,068	9,457	6,412
Grants	1,059	725	652	935	1,737	2,139
Expenditures	76,283	86,389	93,267	102,948	104,171	117,588
Wages and salaries	24,043	29,066	31,913	31,895	33,164	37,193
Interest	27,280	24,364	34,589	41,784	42,920	48,436
Other expenditures	11,461	19,631	19,262	20,122	16,742	20,116
Capital expenditures	13,498	13,128	7,503	9,147	9,345	11,223
Rest of public sector balance	2,251	-4,224	-11,194	-9,196	-14,192	-1,149
Operating balance of public enterprises	679	2,134	3,494	3,283	2,888	2,400
FIS/FINSAC balance 3/	-700	-5,562	-14,590	-13,391	-15,441	0
Bank of Jamaica operating profit/loss 4/	2,272	-797	-98	912	-1,639	-3,549
Total public sector balance 5/	-10,946	-24,187	-30,365	-21,771	-17,345	-12,752
External financing	-2,137	2,770	-2,227	-3,523	12,039	11,592
Domestic financing	13,084	21,417	32,593	23,295	3,306	1,139
Banking system 6/	-2,866	48,626	23,455	8,590	14,189	8,852
Others	15,950	-27,209	9,138	16,705	-8,883	-7,693
Adjusted central government balance 5/	-15,229	-22,815	-34,331	-25,054	-18,594	-11,602
Central government primary balance	14,083	4,601	15,418	29,209	39,768	38,434
Public sector primary balance	16,365	3,229	19,384	32,491	42,655	39,517
(In percent of GDP)						
Central government balance	-5.5	-7.7	-7.0	-4.2	-1.0	-2.8
Revenues and grants	26.4	25.8	27.1	30.5	30.8	29.9
Tax 1/	24.3	24.1	25.5	27.5	27.4	27.6
Nontax 2/	1.7	1.4	1.3	2.7	2.9	1.8
Grants	0.4	0.3	0.2	0.3	0.5	0.6
Expenditures	31.9	33.5	34.1	34.8	31.8	32.7
Wages and salaries	10.1	11.3	11.7	10.8	10.7	10.5
Interest	11.4	9.5	12.7	14.1	13.1	13.5
Other expenditures	4.8	7.6	7.0	6.8	3.1	3.6
Capital expenditures	5.6	5.1	2.7	3.1	2.9	3.1
Rest of public sector balance	0.9	-1.6	-4.1	-3.1	-4.3	-0.3
Operating balance of public enterprises	0.3	0.8	1.3	1.1	0.9	0.7
FINSAC balance 3/	-0.3	-2.2	-5.3	-4.5	-4.7	0.0
Bank of Jamaica operating profit/loss 4/	1.0	-0.3	0.0	0.3	-0.5	-1.0
Total public sector balance 5/	-4.6	-9.4	-11.1	-7.4	-5.3	-3.5
External financing	-0.9	1.1	-0.8	-1.2	3.7	3.2
Domestic financing	5.5	8.3	11.9	8.5	1.6	0.3
Banking system 6/	-1.2	18.9	8.6	2.9	4.3	2.5
Others	6.7	-10.6	3.3	5.6	-2.7	-2.1
Adjusted central government balance 5/	-5.5	-8.8	-12.6	-8.5	-5.7	-3.2
Central government primary balance	5.9	1.8	5.6	9.9	12.2	10.7
Public sector primary balance	6.8	1.3	7.1	11.0	12.6	11.0
<i>Memorandum items:</i>						
Public debt (end of period) 7/	79.1	103.9	117.9	134.6	136.6	126.5
Domestic	35.4	60.2	74.5	90.8	87.0	74.6
External	43.7	43.7	43.4	43.7	49.6	51.9

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

1/ Including bauxite levy.

2/ Including capital revenue.

3/ Including interest due and capitalized during the year up to 2000/01, excluding interest due to the central government. On April 1, 2001, the central government assumed the remaining FINSAC liabilities, except J\$9.5 bn which is planned to be reduced using proceeds from the sale of JPSCo, or written-off in the process of liquidation of FINSAC-controlled institutions.

4/ Includes an adjustment for the interest accrued but not paid on 1 year reverse repos in 2001/02 (equivalent to 0.2 percent of GDP added in 2000/01 and reduced in 2001/02).

5/ Including FINSAC operations on a full year basis, implying an increase of 0.4 percent of GDP above cash interest payments in 2001/02.

6/ Includes capitalized interest on FINSAC bonds held by the banking system.

7/ Nonfinancial public sector debt (excluding Bank of Jamaica), net of non-financial public sector holdings of FINSAC and central government securities.

Table 3. Jamaica: Public Sector Financing

(In millions of Jamaica dollars)

	1996/97	1997/98	1998/99	1999/00	Est. 2000/01	Proj. 2001/02
Public sector net financing	10,946	24,187	30,365	21,771	17,345	12,752
Net external financing	-2,137	2,770	-2,227	-3,523	12,039	11,592
Capital flows	-2,606	2,503	-2,247	-3,229	12,039	11,592
Project related	5,458	3,346	3,638	3,323	7,603	8,103
Nonproject net financing	-8,563	-790	-6,009	-8,275	4,436	3,490
Others 1/	498	-53	124	1,723	...	...
Foreign deposits	469	267	19	-294	...	...
Net domestic financing	13,084	21,417	32,593	25,295	5,306	1,159
Banking system	-2,866	48,626	23,455	8,590	14,189	8,852
Commercial banks	-1,796	19,804	17,623	13,586	16,193	-3,836
Bank of Jamaica	-1,070	28,822	5,832	-4,996	-2,004	12,688
Nonbank financing 2/ 3/	15,950	-27,209	9,138	16,705	-8,883	-7,693
Central government net financing	13,198	19,962	19,171	12,575	3,153	10,002
Net external financing	-4,834	2,930	-2,200	-4,228	8,919	11,502
Disbursements	4,545	12,455	11,899	10,644	20,719	25,234
Project loans	2,857	2,678	2,801	2,309	3,557	6,714
Commercial loans	1,688	9,776	9,097	8,334	17,161	18,520
Refinancing	...	...	...	...	...	...
Amortization	-9,356	-9,543	-14,103	-14,904	-11,800	-13,731
Adjustments 4/	-23	19	5	32	...	...
Net domestic financing	18,031	17,032	21,371	16,804	7,234	-3,100
Banking system	-457	19,893	-178	-9,846	30,079	7,385
Commercial banks	-6,143	3,316	-1,852	1,110	4,509	-1,754
Bank of Jamaica 5/	5,686	16,577	1,674	-10,956	25,570	9,139
Nonbank financing	18,488	-2,861	21,549	26,650	-22,845	-10,485
Others 3/ 5/	...	...	...	...	-13,000	1,600
Memorandum item:						
Divestment proceeds 6/	...	...	...	...	15,074	11,184

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

1/ Includes short-term debt of public enterprises and exchange rate adjustments.

2/ Includes adjustments for increases in the public debt not related to the overall public sector balance (see Box 2).

3/ Including for 2001/02 the difference (J\$1.6 bn) between FINSAC interest due in a full year basis, as included in the adjusted central government and public sector balances, and the actual cash interest due.

4/ Includes adjustments for exchange rate and for public enterprises refinancing.

5/ Includes in 2000/01 an offset for J\$13 bn of Bank of Jamaica's holdings of FINSAC securities against liabilities to the central government.

6/ Includes proceeds from the sale of JPSCo and FINSAC core and non-core assets, as well as multilateral proceeds used to reduce FINSAC debt.

Table 4. Jamaica: Nonfinancial Public Sector Debt 1/

	1996/97	1997/98	1998/99	1999/00	Est. 2000/01	Proj. 2001/02
(In millions of Jamaican dollars)						
Total debt	189,064	267,876	322,284	398,451	447,523	454,606
Domestic debt	84,663	155,229	203,667	268,925	285,085	268,069
Central government domestic debt	79,483	93,639	126,703	163,274	200,878	...
LRS 1/	55,889	67,972	92,621	116,287	148,479	...
Treasury bills	11,016	11,650	10,450	9,550	...	...
Loans	4,566	3,089	5,759	3,253	...	...
Bonds and debentures 1/	8,012	10,929	13,516	21,648	25,552	...
U.S. dollar issues	...	...	4,357	12,536	...	...
FINSAC/FIS securities 1/ 2/	5,180	61,589	76,964	105,651	84,207	...
<i>Of which:</i>						
Held by Bank of Jamaica	...	17,715	20,455	27,473	15,565	...
External debt 3/	104,401	112,647	118,617	129,526	162,438	186,537
(In percent of GDP)						
Total debt	79.1	103.9	117.9	134.6	136.6	126.5
Domestic debt	35.4	60.2	74.5	90.8	87.0	74.6
Central government domestic debt	33.2	36.3	46.4	55.1	61.3	...
LRS 1/	23.4	26.4	33.9	39.3	45.3	...
Treasury bills	4.6	4.5	3.8	3.2	2.1	...
Loans	1.9	1.2	2.1	1.1	0.8	...
Bonds and debentures 1/	3.4	4.2	4.9	7.3	7.8	...
U.S. dollar issues	...	...	1.6	4.2	5.3	...
FINSAC/FIS securities 1/ 2/	2.2	23.9	28.2	35.7	25.7	...
<i>Of which:</i>						
Held by Bank of Jamaica	...	6.9	7.5	9.3	4.7	...
External debt 3/	43.7	43.7	43.4	43.7	49.6	51.9
<i>Of which:</i>						
Government guaranteed	5.5	4.4	3.2	2.7	4.4	4.1
Memorandum items:						
Bank of Jamaica's external debt	2.8	2.0	1.6	1.3	0.9	0.6
NFPS holdings of government securities	2.4	3.1	4.6	4.1	4.3	...

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Nonfinancial public sector debt (excluding Bank of Jamaica), net of nonfinancial public sector holdings of FINSAC securities, LRS, and debentures, as of end-period.

2/ During 2000/01, the central government assumed FINSAC debt for about J\$27 bn. From April 1, 2001, the central government assumes the outstanding FINSAC debt held by the private sector. Bank of Jamaica's holdings of FINSAC securities for J\$13 bn were offset against liabilities to the central government in March 2001.

3/ Nonfinancial public sector external debt (excluding Bank of Jamaica), including central government and government guaranteed debt, converted at end-period exchange rate.

Table 5. Jamaica: External Public Debt Outstanding 1/

(In millions of U.S. dollars, end of period)

	1996/97	1997/98	1998/99	1999/00	Est. 2000/01	Proj. 2001/02
Total	3,170	3,223	3,216	3,165	3,620	4,015
Official creditors	2,790	2,597	2,485	2,347	2,279	...
Bilateral	1,714	1,461	1,420	1,326	1,176	...
OECD	1,538	1,316	1,285	1,159	...	...
Non-OECD	175	145	135	127	...	...
Multilateral	1,066	1,129	1,061	1,022	1,103	...
IBRD	283	396	351	422	412	...
IMF	135	106	94	76	35	...
Other	648	627	616	524	656	...
Private creditors	391	633	735	818	1,341	...
Commercial bank	281	283	155	137	...	...
Other	62	50	30	37	...	...
Bond issue	48	300	550	644	1,016	...
Memorandum items:						
Total debt (percent of exports of goods and services)	94.2	94.8	95.9	92.5	100.6	105.1
Total external debt (percent of GDP)	46.5	45.6	45.0	45.0	50.5	52.5

Sources: Ministry of Finance; IFS; and Fund staff estimates and projections.

1/ Medium- and long-term outstanding external debt for the public sector, including Bank of Jamaica. Data on private sector external debt are not available. As of end-December 2000, data from the Bank of International Settlements (BIS) showed that consolidated international claims of reporting banks on Jamaica amounted to US\$1.2 billion, of which, US\$0.8 billion represents claimson the private sector.

Table 6. Jamaica: Summary Monetary Indicators of the Banking System 1/

	1996/97	1997/98	1998/99	1999/00	Est. 2000/01	Proj. 2001/02
(End of period stock; in millions of Jamaica dollars)						
Net international reserves	24,468	23,729	26,182	39,062	69,228	83,208
Net domestic assets	62,687	69,228	76,810	83,822	64,585	61,320
Net claims on public sector 2/	8,868	56,698	80,055	89,203	101,753	90,560
<i>Of which:</i>						
Central government	2,635	22,528	22,351	12,505	42,583	48,837
Credit to private sector	47,857	42,362	36,763	31,634	33,900	38,263
<i>Of which:</i>						
Foreign currency	10,957	9,039	6,512	5,964	6,391	7,214
Other 3/	5,961	-29,831	-40,008	-37,015	-71,068	-67,503
Liabilities to private sector (LPS)	87,155	92,957	102,992	122,884	133,813	144,528
Money supply (M2) 4/	69,515	71,278	79,733	92,844	100,710	109,096
Foreign currency deposits	17,639	21,679	23,259	30,040	33,103	35,433
(Percentage change from a year earlier) 5/						
Net international reserves	0.3	-0.8	2.6	12.5	24.5	10.4
Net domestic assets	21.6	7.5	8.2	6.8	-15.7	-2.4
Net claims on public sector 2/	-0.8	54.9	25.1	8.9	10.2	-8.4
Open market operations	-16.4	-14.0	-6.2	-1.4	-17.9	-7.0
Credit to private sector	5.1	-6.3	-6.0	-5.0	1.8	3.3
<i>Of which:</i>						
Foreign currency	1.2	-2.2	-2.7	-0.5	0.3	0.6
Other 3/	17.4	-41.1	-10.9	4.3	-9.8	9.7
Liabilities to private sector	21.9	6.7	10.8	19.3	8.9	8.0
Monetary base (millions of Jamaica dollars)	29,513	32,293	31,004	30,448	30,479	30,308
LPS/monetary base	3.0	2.9	3.3	4.0	4.4	4.8
M2/monetary base	2.4	2.2	2.6	3.0	3.3	3.6
LPS velocity	2.7	2.8	2.7	2.4	2.4	2.5
(In percentage points)						
Memorandum items:						
Cash reserve requirements (commercial banks)	25.0	25.0	19.0	15.0	12.0	9.0
Liquid asset requirements (commercial banks)	47.0	47.0	41.0	33.0	30.0	27.0
Interest rates (end of period)						
Bank of Jamaica's 30 days reverse repo	18.0	29.0	20.8	17.3	15.5	...
6-month treasury bills yield	18.1	28.0	21.7	18.0	16.9	...
Credit to the private sector (annual growth rate)						
In nominal terms	8.2	-11.5	-13.2	-14.0	7.2	12.9
In real terms	2.5	23.6	-18.1	-20.6	0.6	7.5

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

1/ As of the end of the fiscal year.

2/ Includes Bank of Jamaica operating balance and net unclassified assets.

3/ Includes net credit to nonbank financial institutions, capital accounts, valuation adjustments, net unclassified assets.

4/ Currency in circulation plus local currency demand deposits, and time and savings deposits at banks.

5/ In relation to liabilities to private sector at beginning of period.

Table 7. Jamaica: Summary Balance of Payments

(In millions of U.S. dollars)

	1996/97	1997/98	1998/99	Est. 1999/00	Proj. 2000/01	Proj. 1/ 2001/02
Current account	-96	-385	-219	-317	-323	-414
Trade balance	-1,022	-1,147	-1,113	-1,194	-1,356	-1,422
Exports (f.o.b.)	1,689	1,703	1,552	1,550	1,566	1,650
<i>Of which:</i>						
Alumina	586	657	588	666	691	720
Imports (f.o.b.)	2,710	2,850	2,665	2,744	2,921	3,072
Services (net)	500	466	539	555	665	740
Transportation	-260	-284	-254	-234	-246	-243
Travel	951	941	1,021	1,047	1,194	1,276
Other services	-191	-190	-228	-259	-283	-293
Income (net)	-232	-315	-283	-372	-433	-511
Current transfers (net)	658	611	638	695	800	779
Capital and financial account (less reserves)	247	331	203	440	906	514
Capital account (net)	35	13	18	18	18	17
Financial account (less reserves, net)	212	318	184	422	888	497
Direct investment (net)	104	169	309	359	380	279
Official capital (net)	-117	105	-90	-123	342	410
<i>Of which:</i>						
Gross commercial borrowing	63	305	250	220	400	400
Other sectors investment (net) 2/	225	44	-35	186	166	-192
Overall balance	152	-53	-14	122	583	100
Financing						
Change in BOJ net reserves (increase -)	-152	53	14	-122	-583	-100
Change in assets	-84	86	30	-101	-561	-83
Change in liabilities	-69	-33	-16	-21	-22	-17
<i>Of which:</i>						
IMF purchases	0	0	0	0	0	0
IMF repurchases	-69	-33	-16	-21	-22	-17
Memorandum items:						
Current account (percent of GDP)	-1.4	-5.3	-3.0	-4.3	-4.3	-5.3
Gross official reserves	815.9	729.6	700.1	801.3	1,361.9	1,444.9
In weeks of next year imports of goods and services	10.4	9.7	9.3	10.3	16.6	17.6
Export volume (percent change)	-3.4	-1.5	-4.3	-3.2	-1.7	3.6
Import volume (percent change)	-4.4	6.1	-3.7	-5.4	0.9	5.6
Export price (percent change)	-3.0	2.4	-4.8	3.1	2.8	1.8
Import price (percent change)	4.6	-0.9	-2.5	8.0	5.6	-1.2
Terms of trade (percent change)	-7.2	3.3	-2.4	-4.6	-2.7	3.0
Public external debt (percent of GDP) 3/	46.5	45.6	45.0	45.0	50.5	52.5
Debt service ratio (percent of goods and services exports)	16.2	14.9	18.3	17.6	14.5	16.4

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

1/ Based on policy objectives and measures described in text.

2/ Includes commercial banks, public enterprises, private capital, and errors and omissions.

3/ Including central government, Bank of Jamaica, and government guaranteed debt.

Table 8. Jamaica: Indicators of External Macroeconomic Liquidity Risks

	1996/97	1997/98	1998/99	1999/00	Est. 2000/01	Proj. 2001/02
I. Reserve-related indicators						
Gross reserves/short-term external debt 1/	1.46	1.40	1.02	1.54	2.18	1.46
Net reserves/short-term external debt 1/	1.16	1.14	0.84	1.35	2.05	1.39
Gross reserves/imports 2/	10.4	9.7	9.3	10.3	16.6	17.6
Net reserves/imports 2/	8.3	7.9	7.7	9.0	15.7	16.7
Gross reserves/money supply 3/	0.41	0.37	0.33	0.37	0.63	0.62
Net reserves/money supply 3/	0.33	0.30	0.27	0.32	0.60	0.59
Gross reserves/monetary base	0.97	0.82	0.85	1.12	2.08	2.25
Net reserves/monetary base	0.77	0.67	0.70	0.98	1.97	2.13
Gross reserves/short-term liabilities 4/	0.44	0.33	0.29	0.39	0.55	0.49
Net reserves/short-term liabilities 4/	0.35	0.27	0.24	0.34	0.52	0.46
II. External debt-related indicators						
External debt/GDP 5/	46.5	45.6	45.0	45.0	50.5	52.5
Average interest rate on external debt	4.8	5.4	5.4	5.7	6.7	7.1

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

1/ Public sector external debt due within a year, including debt service of medium- and long-term loans and government guaranteed debt, on a residual maturity basis. Excludes trade credits and other short-term debt.

2/ In weeks of next year's goods and services imports.

3/ Currency in circulation plus local currency-denominated demand, time and savings deposits at banks.

4/ Short-term external debt, plus domestic and foreign currency reserves, current accounts of commercial banks, open market operations, and 30 percent of the currency.

5/ Public sector external debt, including central government, Bank of Jamaica, and government guaranteed debt.

Table 9. Jamaica: Selected Baseline Macroeconomic Medium Term Projections 1/

	2001/02	2002/03	2003/04	2004/05	2005/06
(Annual percentage change)					
Real sector					
GDP (real growth) 2/	3.0	2.5	3.0	3.0	3.5
Consumer price inflation (end-of-period)	5.0	4.5	4.0	4.0	4.0
Exports (volume)	3.6	2.8	2.7	2.7	2.7
Imports (volume)	5.6	2.8	3.3	3.1	3.7
(In percent of GDP)					
Savings and investment					
Gross national savings	22.0	22.8	23.7	25.0	26.0
Government	0.3	0.6	1.3	2.4	3.4
Private 3/	21.7	22.2	22.4	22.6	22.6
Gross capital formation	27.3	27.7	28.8	30.4	31.4
Government	3.1	3.1	3.0	3.0	3.0
Private 4/	24.2	24.6	25.8	27.4	28.4
External sector					
External current account	-5.3	-5.0	-5.2	-5.4	-5.5
Change in net international reserves (US\$ millions)	100	-177	148	80	25
Public sector					
Revenues	29.9	29.8	29.7	29.6	29.5
Expenditures	32.7	32.3	31.4	30.2	29.1
Adjusted central government balance 5/	-3.2	-2.5	-1.7	-0.6	0.4
Overall public sector balance	-3.5	-2.1	-0.8	0.4	1.4
Domestic financing (net)	0.3	3.5	-1.6	-1.8	-1.7
External financing (net)	3.2	-1.5	2.4	1.5	0.2
Public sector primary balance	11.0	11.6	11.9	12.0	12.0
Memorandum items:					
Nonfinancial public sector debt	126.5	119.5	114.1	107.2	100.6
Domestic	74.6	71.7	65.8	59.9	55.1
External	51.9	47.8	48.3	47.2	45.5
External debt service ratio					
(percent of exports of goods and services)	16.4	25.8	14.5	19.4	23.6
Gross official international reserves (US\$ millions)	1,445	1,257	1,390	1,464	1,490
(weeks of next year's imports of goods and services)	17.6	14.0	14.8	14.8	14.3

Sources: Bank of Jamaica; Ministry of Finance; Planning Institute of Jamaica; and Fund staff estimates and projections.

1/ Based on current policies.

2/ Drought and lower bauxite production due to a fire at the U.S. processing plant are estimated to have lowered GDP growth by around one half of a percentage point in 2000/01; a rebound in growth (reflecting in particular larger bauxite production) of 1/2 percentage points of GDP is expected in 2001/02.

3/ Including net factor income and current transfers.

4/ Including inventory accumulation.

5/ Including FINSAC interest payments on a full year basis.

Table 10. Jamaica: Medium-Term Projections Under Alternative Scenarios

	2001/02	2002/03	2003/04	2004/05	2005/06
Base Scenario					
GDP growth	3.0	2.5	3.0	3.0	3.5
Inflation	5.0	4.5	4.0	4.0	4.0
Overall public sector balance/GDP	-3.5	-2.1	-0.8	0.4	1.4
Public sector primary balance/GDP	11.0	11.6	11.9	12.0	12.0
Current account/GDP	-5.3	-5.0	-5.2	-5.4	-5.5
Nonfinancial public sector debt/GDP	126.5	119.5	114.1	107.2	100.6
Interest expenditure/revenue	46.4	45.8	43.0	39.4	35.8
Scenario 1: Higher interest rates 1/					
GDP growth	2.0	2.0	2.3	2.5	2.7
Inflation	5.2	4.5	3.5	3.5	3.0
Overall public sector balance/GDP	-4.2	-3.3	-2.5	-2.0	-1.5
Public sector primary balance/GDP	10.5	10.9	11.5	11.5	11.5
Current account/GDP	-4.7	-4.6	-4.7	-4.9	-4.9
Nonfinancial public sector debt/GDP	127.8	122.9	119.6	114.8	110.6
Interest expenditure/revenue	48.5	48.0	47.1	45.5	43.9
Scenario 2: Lower U.S. growth 2/					
GDP growth	1.5	1.0	2.5	3.0	3.3
Inflation	5.7	5.0	4.0	4.0	4.0
Overall public sector balance/GDP	-3.8	-3.0	-1.8	-0.6	0.3
Public sector primary balance/GDP	10.3	10.7	11.2	11.4	11.5
Current account/GDP	-6.0	-5.7	-5.4	-5.6	-5.5
Nonfinancial public sector debt/GDP	127.7	122.5	117.9	112.0	106.5
Interest expenditure/revenue	46.7	46.5	44.2	40.9	37.7
Scenario 3: More flexible exchange rate, additional fiscal effort 3/					
GDP growth	3.5	3.5	4.0	4.5	5.0
Inflation	6.2	5.0	5.0	5.0	5.0
Overall public sector balance/GDP	-2.2	-0.4	1.6	3.4	4.5
Public sector primary balance/GDP	11.5	12.0	12.4	12.6	12.6
Current account/GDP	-5.3	-4.8	-5.0	-5.3	-5.5
Nonfinancial public sector debt/GDP	126.8	118.0	110.2	102.0	93.1
Interest expenditure/revenue	45.4	43.5	39.4	34.6	30.3

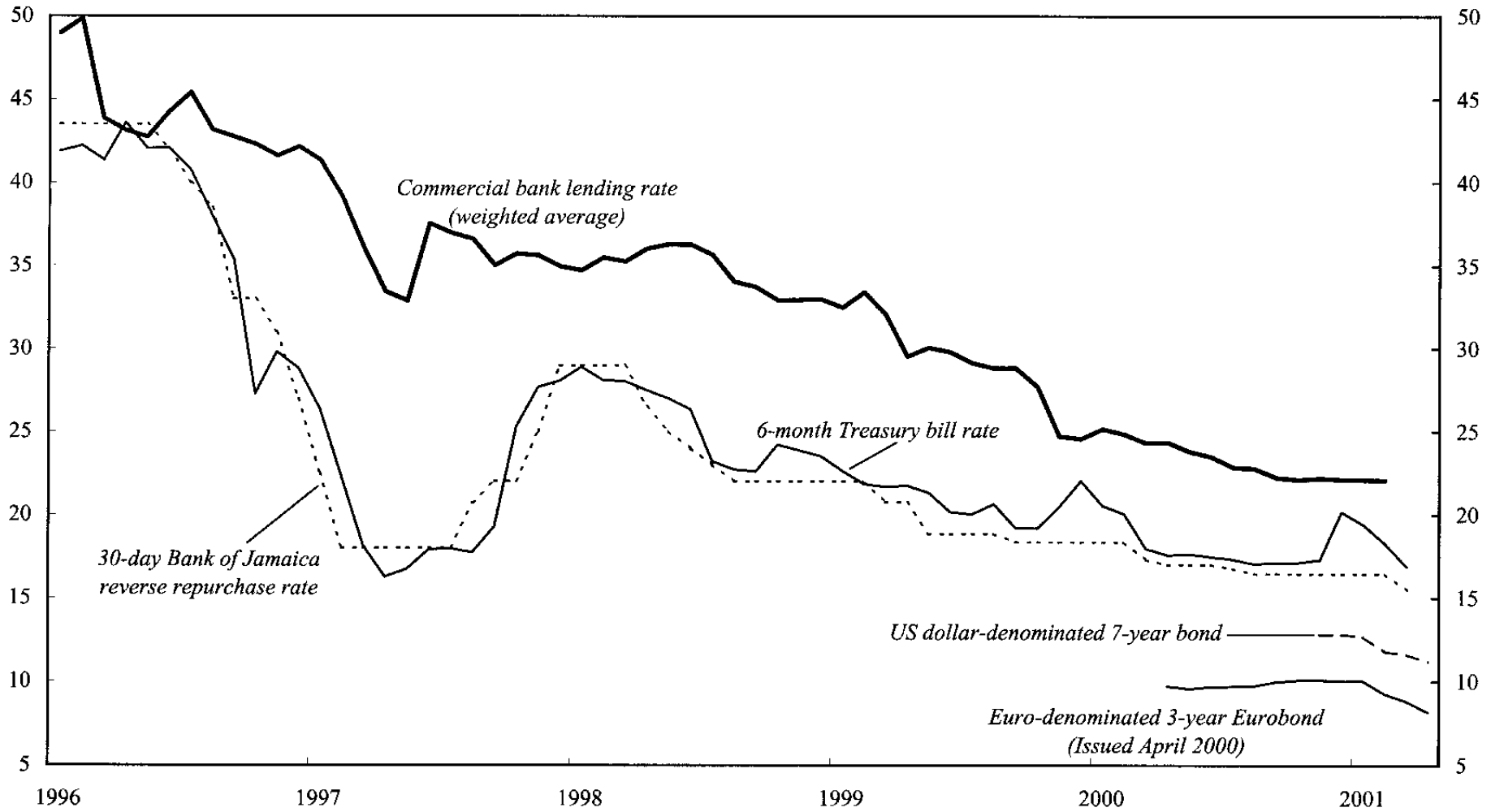
Source: Fund staff estimates and projections.

1/ Higher interest rates because of lack of market confidence, leading to lower GDP growth and lower inflation, and a slower pace of public sector divest

2/ Lower U.S. growth by about 2 percent in 2001/02 and 2002/03, compared to the base scenario. Export weakness leads to lower GDP growth, and real depreciation of the currency.

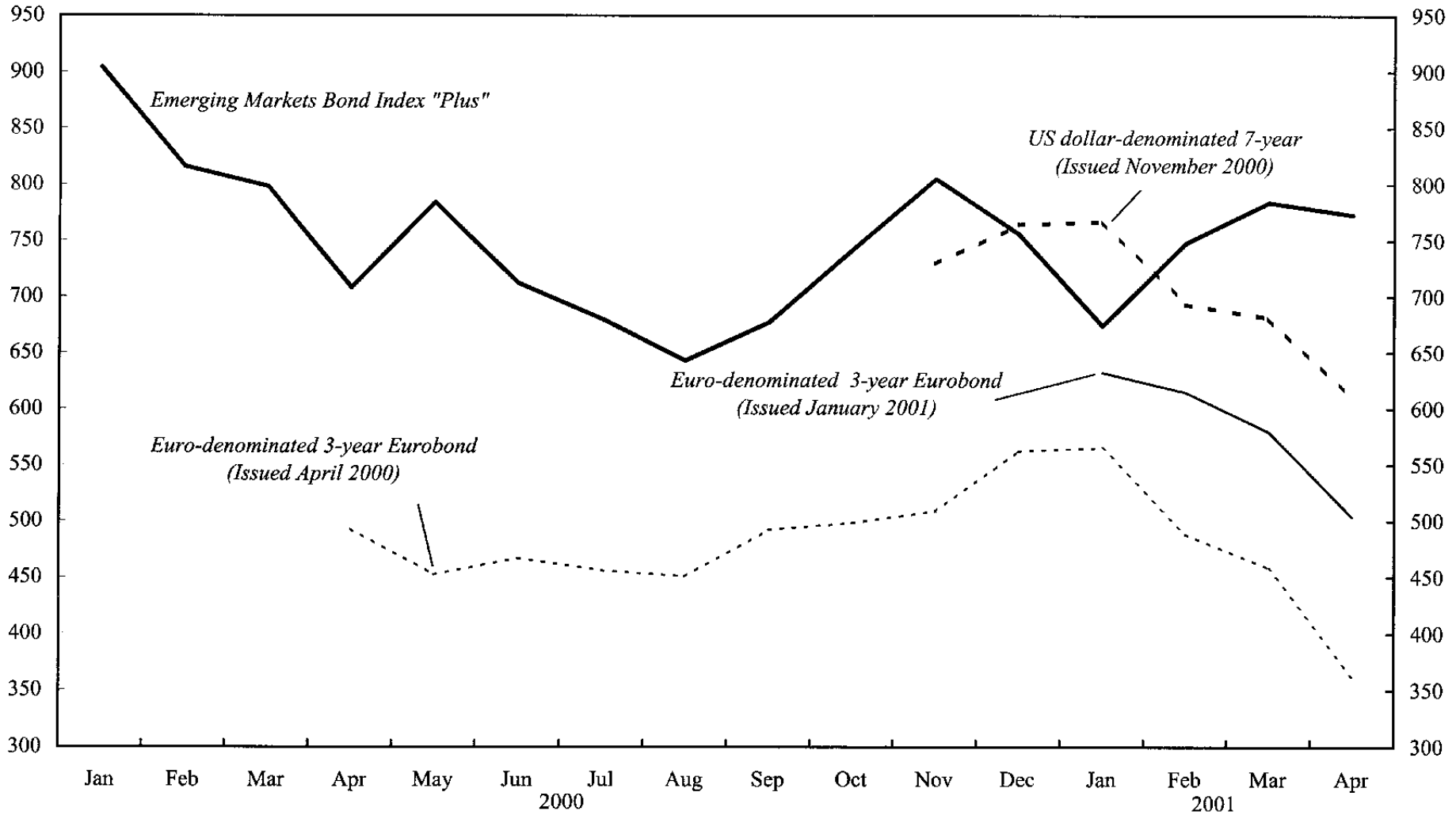
3/ Increased competitiveness through real effective exchange rate depreciation each year. Additional measures of about one half a percent of GDP in 2001/02-2002/03 and faster pace of public sector divestments. This leads to higher GDP growth and a slower fall in inflation.

**Figure 1. Jamaica: Interest Rates
(In percent)**



Sources: Bloomberg L. P.; and Bank of Jamaica.

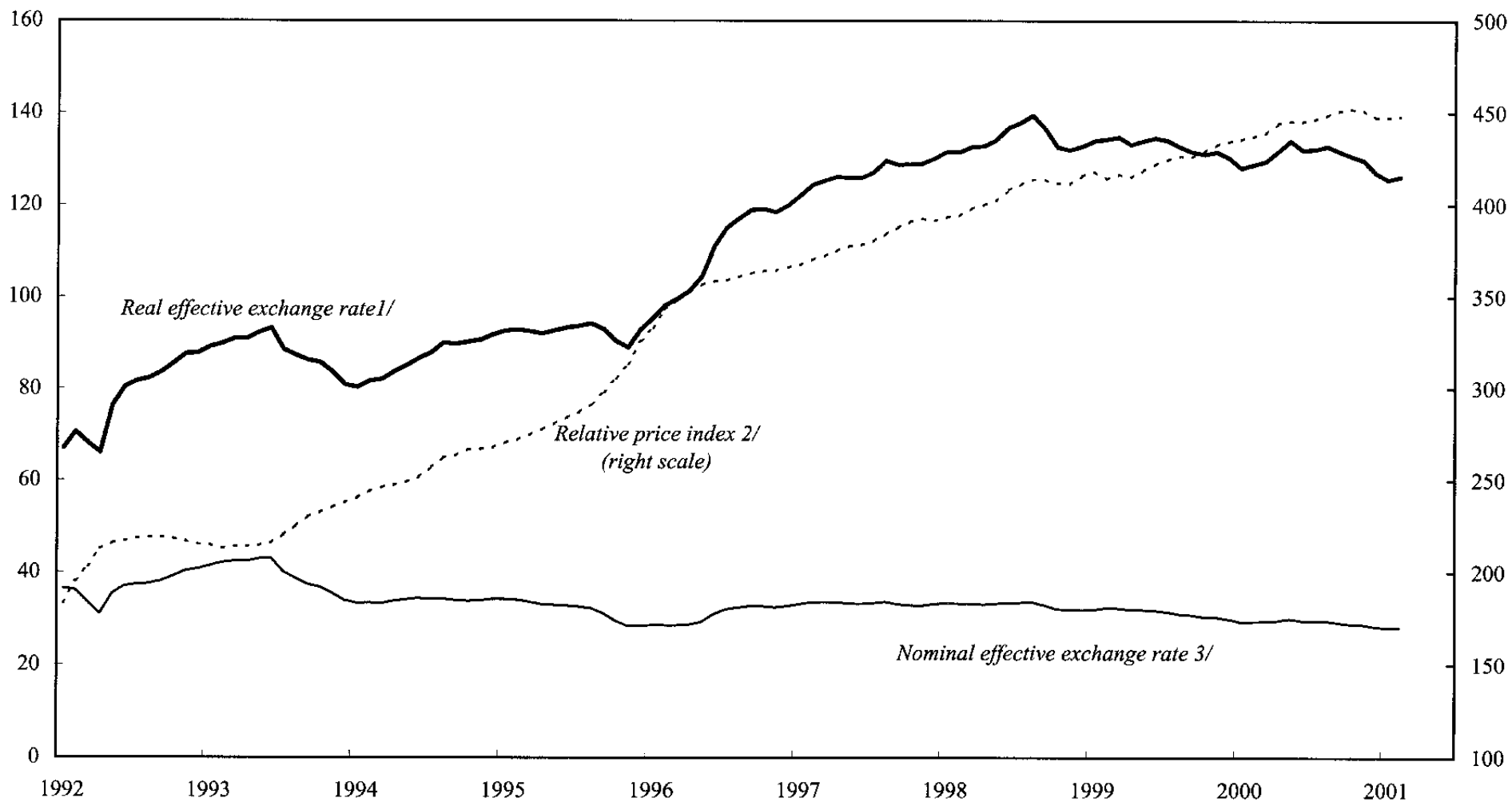
Figure 2. Jamaica: Sovereign Bond Spreads 1/
(In basis points)



Source: Bloomberg L. P.

1. In relation to U.S. Government bond or the Euro-denominated German Government bond of equivalent maturity.

**Figure 3. Jamaica: Exchange Rate Developments
(1990=100)**



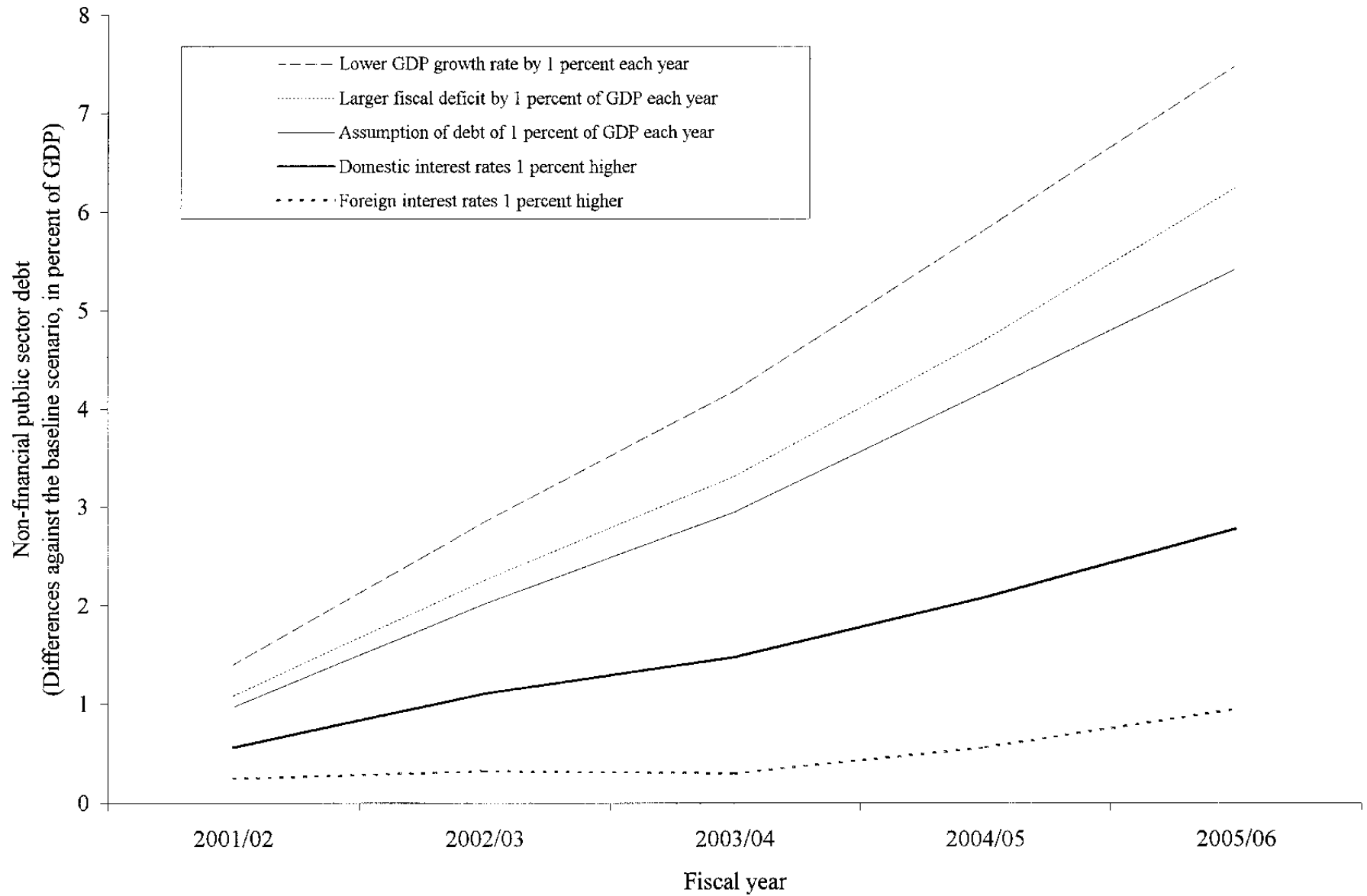
Source: IMF Information Notice System.

1/ Trade weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increase means appreciation.

2/ Trade weighted index of seasonally adjusted consumer price indices.

3/ Trade weighted index of nominal exchange rates; increase means appreciation.

Figure 4. Jamaica: Impact of Different Risks in the Debt Dynamics



JAMAICA: FUND RELATIONS
(As of March 31, 2001)

I.	Membership Status: Joined February 21, 1963; Article VIII					
II.	General Resources Account:		SDR Million	Percent of Quota		
	Quota		273.50	100.0		
	Fund holdings of currency		317.01	115.9		
III.	SDR Department:		SDR Million	Percent of Allocation		
	Net cumulative allocation		40.61	100.0		
	Holdings		.27	0.7		
IV.	Outstanding Purchases and Loans:		SDR Million	Percent of Quota		
	Extended arrangement		43.46	15.9		
V.	Latest Financial Arrangements:					
		Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)	
	EFF	12/11/92	03/16/96	109.13	86.75	
	Stand-by arrangement	06/28/91	09/30/92	43.65	43.65	
	Stand-by arrangement	03/23/90	05/31/91	82.00	82.00	
VI.	Projected Obligations to the Fund (SDR million): based on existing use of resources and present holdings of SDRs					
		Projections				
		2001	2002	2003	2004	2005
	Principal	11.6	14.5	11.4	5.4	0.6
	Charges/interest	<u>2.7</u>	<u>2.9</u>	<u>2.3</u>	<u>1.8</u>	<u>1.6</u>
	Total	14.3	17.4	13.7	7.2	2.2
VII.	Exchange Rate Arrangements:					

Jamaica's exchange rate system is free of restrictions on the making of payments and transfers for current international transactions. The external value of the Jamaica dollar has been determined in an interbank market operated by commercial banks beginning

September 17, 1990. The Jamaica dollar has depreciated significantly since then, though not in a uniform trend. In July 1999, the exchange rate came under renewed pressure but the central bank intervened and maintained the rate at just under J\$40 per U.S. dollar. A further depreciation occurred and the Jamaica dollar moved to about J\$42.50 per U.S. dollar as of July 2000, when the government went to local and foreign markets to issue foreign currency-denominated debt. Following active market intervention of the Bank the Jamaica, the exchange rate stabilized close to J\$45 per U.S. dollar as of November 2000. Since January 2001, the exchange rate has remained quite stable at J\$45½ per U.S. dollar.

VIII. Last Article IV Consultation and program relations:

Jamaica is on the standard 12-month consultation cycle, and the last Article IV consultation was completed by the Executive Board on January 10, 2000 (SM/99/302 and SM/99/303). In July 2000, the Jamaican authorities requested a staff-monitored program (SMP) (EBS/00/152) for the period from April 2000 through March 2002.

IX. Technical Assistance:

Department	Dates	Purpose
MAE	May 1995	Review of deposit insurance scheme
	October–December 1995	Banking supervision
	February–June 1996	Banking supervision
	September 1996	Banking crisis and restructuring
	October 1996	Banking supervision
	February 1997	Central bank accounting
	May 1997	Banking supervision
	August 1997	Banking supervision
	January 1998	Banking supervision
	April 1998	Public debt management
	May 1998	Financial sector restructuring
	April 2001	Banking supervision
	STA	September 1996	Multisector statistics assessment
TBA		National accounts

X. Resident Representative:

The post of the resident representative was closed in August 1997.

Jamaica: Financial Relations with the World Bank Group
I. Statement of World Bank Loans as of January 31, 2001

Active Projects				Original Amount in US\$ millions			
Project ID	Project Name	Borrower	Approval in Fiscal Year	IBRD	IDA	Cancel.	Undisb.
P071112	Bank Restructuring and Debt Management Program Adjustment Loan	Govt. of Jamaica	2001	75.0	0	0	0
P007485	Private Investment and Export Development	Govt. of Jamaica	1994	35.0	0	0	4.9
P007490	Public Sector Modernization	Govt. of Jamaica	1997	28.4	0	0	22.3
P007479	Reform of Secondary Education	Govt. of Jamaica	1993	32.0	0	0	4.8
P039029	Social Investment Fund	Govt. of Jamaica	1997	20.0	0	0	1.3
P038700	Jamaica Student Loan	Govt. of Jamaica	1997	28.5	0	0	3.5
P007489	Tax Administration Reform	Govt. of Jamaica	1994	13.2	0	0	0.2
Total				232.1	0	0	37.1

Loans/Credits Summary in USD as of December 3, 2000

Total disbursed (IBRD)	1,273,888,848
<i>Of which has been repaid :</i>	845,938,287
Total now held by IBRD	427,950,561
Total undisbursed	37,091,214

II. Statement of IFC's Committed and Disbursed Portfolio Investments

As of November 30, 2000

(In millions of U.S. dollars)

FY Approval	Company	Committed				Disbursed			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1995	Jamaica Energy Parners Old Harbour Diesel	16.82	0.00	0.00	37.84	16.82	0.00	0.00	37.84
Total Portfolio		16.82	0.00	0.00	37.84	16.82	0.00	0.00	37.84

III. World Bank Assistance Strategy

The World Bank Country Assistance Strategy (CAS), which covers Bank fiscal years 2001-2002, plans a Bank assistance program whose immediate aim is to help prevent a reversal of the recent gains in poverty reduction and create the foundations for sustained growth. The Bank assistance has three main components.

The first is US\$150 million in fast-disbursing lending for a bank restructuring and debt management program, to support financial sector restructuring and help reduce the public debt burden, thereby paving the way for restoration of growth and employment opportunities for the poor.

The second component is about US\$70 million in support of a social sector program focused on strengthening social safety net mechanisms and secondary education, to be delivered in the form of two investment operations (in FY02). Strengthening safety net mechanisms will help provide better and more cost-effective social assistance for the poor, even as improving access to, and the quality of, secondary education will help to tackle the key problem of youth at risk.

The third component is analytical and advisory activities (AAA), focusing on addressing gaps in understanding relating to poverty, growth and competitiveness. The Bank's assistance will complement that of other development partners.

JAMAICA—RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

Jamaica joined the Inter-American Development Bank (IDB) in 1969. Since then, the IDB has approved 199 operations to Jamaica amounting to US\$2,118 million. Loan approvals in the year 2000 amounted to US\$204 million, which is above the annual average. This figure is attributable mainly to the approval of the financial sector reform loan of US\$150 million. At the present time there are 8 loan operations in the pipeline totaling US\$193.5 million, and another US\$4.7 million in nonreimbursable technical cooperation. Active loans in execution amount to US\$532 million of which US\$259 million have been disbursed. Jamaica's outstanding debt balance to the IDB, including direct government loans and government guaranteed loans, stood at US\$481 million at the end of 2000.

IDB financial assistance has supported infrastructural and social sector projects with a view to enhancing Jamaica's human resource and absorptive capacity and strengthening the foundation for private sector-led growth. In addition, the IDB has supported reforms aimed at strengthening the institutional and regulatory environment. The largest proportion of IDB lending has gone to export financing as part of the support for structural adjustment and stabilization efforts. Other areas of IDB assistance include infrastructure, production and business activity. The table below is presented to give an indication of the sectoral distribution of the approved loans.

Approved Loans by Sector

Sector	Percent of total approvals
Export Financing	19
Industry and Tourism	15
Energy	13
Transportation and Communications	11
Agriculture and Fishery	10
Urban Development	10
Others	22

The net cash flow from the IDB to Jamaica was negative throughout the 1990s except in 1990 and 1999. The net cash flow was positive in 2000 and is expected to remain positive in 2001. However, it is projected to resume negative values thereafter if the existing lending scenario continues to prevail.

JAMAICA: RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)

(As of December 31, 2000)

The CDB has approved loans of US\$276.7 million, of which US\$53.6 million are undisbursed.

The major projects are:

	Approved	Undisbursed
	(US\$ million)	
1. Jamaica Financial Sector Reform (US\$25 million)	30.0 ¹	17.5
2. Sugar Industry Support (\$24.9 million)	24.9	4.0
3. Jamaica Social Investment Fund (\$14 million)	14.0	13.7
4. Citrus Replanting	9.9	9.9

Current Portfolio
(In millions of U.S. dollars)

	Approved	Undisbursed
Total	276.7	53.6
Lines of credit	75.3	1.1
Multi-sector	39.1	26.2
Roads	5.8	--
Water	5.5	0.9
Disaster rehab	25.1	--
Ports	1.6	--
Productive sectors	62.0	13.9
Poverty reduction	38.0	2.8
Electricity and telecommunications	16.9	1.8
Technical assistance (US\$2.04 million disbursed)	7.5	6.9

Loan Disbursements
(In millions of U.S. dollars)

	1996	1997	1998	1999	2000
Net disbursement	3.7	-3.8	1.3	9.0	13.4
Disbursement	8.5	6.2	9.9	18.5	20.2
Amortization	4.8	10.0	8.6	9.5	6.8
Interest and charges	6.1	5.2	4.2	5.6	5.0
Net resource flow	-2.4	-9.0	-2.9	3.4	8.4
Outstanding debt	86.1	83.5	83.2	92.8	104.2

¹ The additional US\$5 million is for technical assistance.

JAMAICA—STATISTICAL ISSUES

National accounts

There are significant weaknesses in the national accounts and other real sector data. National accounts in constant prices use an outdated base year (1986). The September 1996 multisector statistics mission determined that improvements to the timeliness and quality of the data will depend on the availability of adequate resources. Efforts are being made to improve national accounts data—including changing the base year—and there are plans to release quarterly national accounts in 2001. Assistance on national accounts methodology was provided in the past year by Statistics Canada

Prices

Outdated weights also are used in the computation of the published consumer price index (CPI)—reflecting the household expenditure survey for 1984 and a base of January 1988. However, the computation of the CPI has been revised to reflect the 1996 household expenditure survey and a more current index with a base of January 1998 is under preparation.

Production

No data on the industrial production indices have been reported for publication in the International Financial Statistics (IFS) since 1990. No data on wholesale or producers' prices, import volumes, or export or import prices have been reported for publication in IFS.

Government finance statistics

The latest year for which data is available in the Government Financial Statistics (GFS) is 1985, and no fiscal data have been reported for publication in IFS. The 1996 multisector mission worked with the authorities to compile quarterly data and took steps to reestablish the compilation of data for the *GFSY*. The mission found that the authorities did not allocate sufficient staff resources for these activities. Thus, the prospect for the near-term compilation and reporting of fiscal data for inclusion in STA publications was unclear. A GFS mission that was scheduled in the last quarter of the 1998 was postponed until the authorities had (1) shown evidence that they had taken significant steps to implement the 1996 mission recommendations; (2) indicated that they wish to compile adequate and consistent fiscal data and had sought Fund assistance in developing these fiscal data; and (3) collected a list of all accounts covering central government budgetary operations.

Monetary accounts

The published statistics for the BOJ are sectorized, classified, and valued in accordance with international standards, and are published in a timely manner. The September 1996 multisector statistics mission assisted the authorities in updating the classification and

sectorization of the accounts of the Bank of Jamaica (BOJ) and recommended that the BOJ expand the institutional coverage of its banking survey to include merchant banks and building societies. The mission also recommended the collection and compilation of quarterly statistics for credit unions and insurance companies, as these have become increasingly involved in banking activities in recent years. An extensive series on the assets and liabilities of credit unions is now published and there are plans to include data on Financial Institutions' Act licensees (merchant banks) and building societies in the expanded coverage of the monetary survey published. The classification and structure of public entities need to be updated regularly to avoid mixing indistinguishably the central government's accounts with positions of public enterprises and to exclude those entities that are no longer in the public sector in the monetary accounts of the BOJ and commercial banks. Currently, information for deposit money banks and monetary authorities is being reported on a regular basis. Nonetheless, considerable lags in the reporting of data for other banking institutions have been observed and measures are being taken for the lags to be significantly shortened.

Balance of payments

The multisector mission recommended that trade data compiled by the Statistical Institute of Jamaica (STATIN) be improved by treating the free zone companies as residents of Jamaica and that balance of payments data compiled by the BOJ fully incorporate their external trade, direct investment inflows, and repatriations of profits and capital in Jamaica's balance of payments. Also, coverage of other capital inflows should be expanded by introducing a comprehensive survey of direct investment companies. The mission also recommended that estimates of service transactions and private transfers be improved by tightening the banks' procedures for classifying foreign exchange transactions in the exchange record reported to the BOJ and by improving rates of response to various surveys conducted by the BOJ. The latter may be achievable only if the BOJ is granted the legal authority to conduct surveys for balance of payments statistics purposes and given powers to enforce a high level of compliance. Special efforts have been made to enhance the quality of data on foreign direct investment, including technical assistance from the World Bank and the IFC. The rate of response to surveys for the compilation of the balance of payments report improved somewhat but improvement is needed with respect to embassies, airlines, shipping companies, and computer services.

Jamaica: Core Statistical Indicators

As of May 4, 2001

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest observation	05/3/01	04/11/01	04/18/01	04/18/01	02/01	04/25/01	3/01	1/01	1/01	3/01	2000	3/01
Date received	05/4/01	04/25/01	05/04/01	05/04/01	04/25/01	04/25/01	4/17/01	5/4/01	5/4/01	04/20/01	4/01	04/20/01
Frequency of data ¹	D	W	W	W	M	M	M	M	M	Q	A	M
Frequency of reporting ¹	D	W	W	W	W	M	M	M	M	Q	A	O
Source of update ²	N	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting ³	E	M	M	M	M	E	C	C	C	C	C	C
Confidentiality ⁴	C	D	D	D	D	C	C	C	C	D	C	C
Frequency of publication	D	M	M	M	M	M	M	M	M	A	A	M

¹ D-daily, W-weekly, M-monthly, Q-quarterly, A-annually, V-irregularly, and O-other.

² A-direct reporting by Central Bank, Ministry of Finance, or other official agency, N-official publication of press release, P-commercial publication, C-commercial electronic data provider, E-EIS, O-other.

³ E-electronic data transfer, C-cable or facsimile, T-telephone, M-mail, V-staff visits, and O-other.

⁴ A-for use by the staff only, B-for use by the staff and Executive Board, C-unrestricted, D-preliminary data available to staff prior to official publication or E-subject to other use restrictions.

JAMAICA: WORK PROGRAM 2001/2002

1. IMF
 - (a) Article IV Consultation mission January 24–February 2, 2001
 - Staff Report May 2001
 - Staff Visit April 23–25, 2001
 - Circulation to the Board Mid-May 2001
 - Board discussion May 30, 2001
 - (b) Staff visit September 2001

2. World Bank (IBRD)

Ongoing

 - Reform of Secondary Education March 1993–December 2000
 - Private Investment and Export Development March 1994–June 2001
 - Tax Administration Reform June 1994–December 2000
 - Jamaica Student Loan July 1996–June 2002
 - Public Sector Modernization September 1996–June 2002
 - Social Investment Fund September 1996–March 2001
 - Bank Restructuring and Debt Management December 2000

Planned for FY2001

 - Social Safety Net Reform

Jamaica: Social Indicators and Poverty Indices

	Jamaica		Latin America and Caribbean (most recent estimates)
	(15-20 years ago)	(most recent estimates)	
I. Social Indicators of Development			
Demographic			
Area (square kilometer)	...	10,830	20,063,940
Population (millions)	2.2	2.6	509.0
Density (population per square kilometer)	...	240.0	...
Population annual growth rate (percent)	1.4	1.0	1.6
<i>Of which:</i>			
Urban	2.6	2.3	2.4
Crude birth rate (per thousand population)	27.6	23.1	23.6
Crude death rate (per thousand population)	6.7	6.0	6.6
Fertility rate (births per women)	3.7	2.8	2.8
Per capita income (U.S. dollars)	1,242	2,866	3,840
Labor force			
Economic active population (millions)	1.0	1.1	196.8
Agriculture (percent of labor force)	31.2	21.4	25.5
Health			
Infant mortality (per thousand live births)	21.2	25.0	31.0
Life expectancy at birth	71.0	75.0	70.0
Population per physician	2,772	6,420	1,458
Immunized in percent of children under 12			
Measles	...	81.7	83.7
DPT	39.0	84.8	...
Access to safe water	...	81.2	80.0
Urban	...	92.0	89.5
Rural	...	48.0	57.0
Nutrition			
Food production index (1989-91 = 100)	86.0	113.0	113.7
Prevalence of malnutrition under 5 years of age (percent of age group)	15.0	9.9	8.0
Education			
Gross enrollment ratios (percent of school age group)			
Primary	103.0	109.0	109.7
Secondary	67.0	66.0	51.3
Pupil/teacher ratio (pupils per teacher)			
Primary	41.4	40.1	...
Secondary	...	...	...
Illiteracy rate (percentage of population over 15 years)	...	15.0	...
Newspaper circulation (per thousand of population)	51.0	67.0	86.3
Women			
Gross enrollment ratio (percent of school age group)			
Primary	104.0	108.0	...
Secondary	71.0	70.0	...
Illiteracy rate (percent of population over 15 years)	...	10.9	...
Life expectancy (years)	73.1	76.5	72.5
Labor force (percent of total)	46.3	45.1	33.4

Jamaica: Social Indicators and Poverty Indices

	1993	1994	1995	1996	1997	1998	1999
II. Aggregate Estimates of Poverty 1/							
Percent poor	24.4	22.8	27.5	26.1	19.9	15.9	16.9
Poverty gap index (rural areas)	0.33	0.28	0.26	0.27	0.27	...	...
Poverty severity index (rural areas)	0.11	0.08	0.07	0.07	0.07	...	...
Food shares in total consumption	0.63	0.62	0.63	0.62	...	...	...
Average per capita annual consumption (J\$ per person)	3,778.1	4,992.3	6,442.6	7,632.7	8,326.0	8,742.9	9,394.1
Memorandum items:							
Real GDP growth	2.0	0.9	1.0	-1.3	-1.8	-0.4	-0.4
Inflation (CPI - period average)	22.1	35.1	19.9	26.4	9.7	8.6	6.0
Net Private remittances (US\$ million)	294	447	506	591	580	586	614

Sources: World Bank Social Indicators of Development; and Planning Institute of Jamaica; IFS; Balance of Payments Statistical Yearbook; and Fund staff estimates.

1/ The indicators of poverty for Jamaica use three Foster-Greer-Thorbecke (FGT) measures. The headcount index measures the prevalence of poverty and is the percentage of the population that is poor where the poverty line is defined as the amount of consumption expenditure necessary to provide an individual with food and other basic nonfood items. The poverty gap index measures the depth of poverty and calculates the mean proportionate distance of the poor's income (on consumption) from the poverty line. The severity of the poverty index puts greater weight on the income of the poorest individuals; a transfer to a poorer person decreases the severity of poverty more than the same transfer to a less poor person. The measure of welfare used is household consumption per capita.

Table 1. Jamaica: Performance for Quantative Targets in the Staff -Monitored Program

	Mar. 2000	Jun. 2000	Sept. 2000		Dec. 2000		Mar. 2001	
	Actual	Actual	Target	Actual	Target	Actual	Target	Actual 3/
(In millions of Jamaica dollars; end of period)								
Net domestic assets of central bank 1/	549	-1,777	-11,895	-10,280	-2,285	-6,884	-11,720	-24,501
Overall balance of selected public enterprises 2/	3,813	1,556	1,109	858	2,977	1,193	4,672	2,888
Primary balance of the central government (indicative) 2/	29,209	8,617	19,767	19,142	28,942	27,436	39,589	39,768
Overall balance of the central government 2/	-12,575	-3,909	-3,780	-3,576	-4,470	-4,604	-3,010	-3,153
(In millions of U.S. dollars; end of period)								
Net international reserves of the Bank of Jamaica 4/	704	757	1,007	935	888	970	1,094	1,286
Foreign short-term commercial borrowing 2/	0	15	75	15	25	75	0	n/a
Foreign medium and long-term commercial borrowing 2/	249	0	200	350	400	350	400	555

Sources:

1/ Using an accounting exchange rate of J\$42.50 per dollar, and the cross-currency exchange rates against the U.S dollar as of March 31, 2000.

2/ Cumulative figures for fiscal year to date.

3/ Provisional figures, estimate for selected public enterprises outturn.

4/ Targets after adjustments: initial targets for net international reserves of the Bank of Jamaica were US\$982 m for Sept. 2000, US\$838 million for December 2000, and US\$994 million for March 2001.

Table 2. Jamaica: Structural Benchmarks under SMP for 2000/01–2001/02—Status of Implementation

Sector	Measures	Timetable	Status
Financial sector reform	Bring to the point of sale Union Bank	June 30, 2000	Completed. The Bank was sold to Royal Bank of Trinidad and Tobago in March 2001.
	Reduce cash reserve requirement to 12 percent and liquidity requirement to 30 percent.	March 31, 2001	Completed. The current levels are 12 and 30 percent.
	Reduce cash reserve requirement to 9 percent and liquidity requirement to 27 percent.	March 31, 2002	Planned.
	Write-off FINSAC debt owed to the Ministry of Finance.	July 31, 2000	Cabinet approved and completed in July 2000. Parliamentary ratification in supplementary budget in March 2001.
	Offset FINSAC debt to Bank of Jamaica, and other government agencies against liabilities to government.	July 31, 2000	The Cabinet agreed on a write-off against government deposits in October 2000. Parliamentary ratification in supplementary budget in March 2001. A swap for government securities has been agreed.
	Start paying cash interest payments on outstanding FINSAC paper.	April 1, 2001	Done in 2001/02 budget.
	Government to assume explicitly outstanding FINSAC liabilities or their conversion to marketable securities.	April 1, 2001	Done (except for amount of J\$10 billion which is in the process of being written-off in the process of liquidation or redeemed using JPSCo. privatization proceeds).
	Reorganize FINSAC shareholding structure in NCB to provide FINSAC with direct controlling stake in NCB's equity.	December 31, 2000	Completed. Scheme of arrangement approved by the Supreme Court in November 2000.
	Appoint new management team for NCB.	June 30, 2000	Completed in September 2000. Delays due to legal requirements and search for new management.
	Table in parliament the appropriate legislation to establish the Financial Services Commission for Integrated Supervision of securities, pensions, and insurance industries to strengthen oversight of financial services industry.	March 31, 2001	Five bills were tabled in Parliament in October 2000 and were approved in March 2001.

Table 2. Jamaica: Structural Benchmarks under SMP for 2000/01–2001/02—Status of Implementation

Sector	Measures	Timetable	Status
Privatization	Bring to the point of sale Jamaica Public Service Company (JPSCo).	March 31, 2001	Sale completed in March 2001 for US\$201 million. Most of the proceeds (US\$163 million) received in March 2001.
Public enterprise reform	National Housing Trust (NHT): Reduction in staff to 445 (as envisaged in the “Jamaica Public Entities” publication of the Ministry of Finance and Planning, April 2000).	March 31, 2001	Delayed; staff will be reduced from 652 to 562, including 68 temporary workers by March 31, 2002.
	National Water Commission (NWC): implement the performance targets approved by the Office of Utility Regulation (OUR) set for end-2000/01 year.	March 31, 2001	Partly met, remainder will be met by March 31, 2002.
	National Insurance Fund (NIF): Implement the Insurance Management Database to ensure more efficient payment of benefits.	March 31, 2001	Delayed; data base will be implemented by September 30, 2001.
Social safety nets	Social safety net expenditures in the 2000/01 budget will be maintained in real terms in 2001/02.	March 31, 2002	Included in budget for 2001/02.
Statistics	Implement the new quarterly national accounts.	March 31, 2001	Delayed. New date set as June 2001.

May 8, 2001

Mr. Horst Köhler
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Dear Mr. Köhler:

1. During the fiscal year 2000/01, Jamaica has maintained a strong fiscal effort, which has resulted in a stabilization of debt levels and a resumption of growth, as well as increased confidence in domestic and international markets. Despite some shortfall in fiscal revenues, the fiscal targets under the Government's economic programme, monitored by the Fund staff, were met through continued restraint in non-interest expenditures, while preserving social safety net expenditures. Accompanied by prudent monetary policy, the program succeeded in further reducing inflation, and allowed an orderly adjustment of the exchange rate. Public sector reform was pursued, including the privatization of the electricity company and further restructuring in the financial sector, with the divestment of Union Bank.
2. However, the pace of interest rate reduction during 2000/01 was slower than projected while the assumption by the central government of third-parties' liabilities, together with other factors, limited the reduction in the public sector debt. In consequence, larger interest payments are now projected for 2001/02, necessitating an adjustment in the fiscal objectives for the fiscal year 2001/02. Further fiscal adjustment will be undertaken—by way of strengthened tax administration and enforcement measures, and some increase in local fees—while public sector expenditures will be strictly contained, although social safety net expenditures will be kept constant in real terms. The government will also strictly limit the issuance of central government guarantees to third parties and the assumption of any additional debt. The program includes the divestment of the remaining FINSAC assets, as well as further public sector reform.
3. The attached table presents the adjusted macroeconomic targets, consistent with the Government's economic and financial policies for 2001/02. Over the medium term, a critical target is the decline of public debt and a substantial reduction in debt servicing costs, enabling the country to achieve a sustained recovery and releasing resources for capital expenditures and poverty alleviation. In support of these objectives, the Government requests that Fund staff continue to monitor the execution of this programme until March 2002. The Government of Jamaica is ready to adopt any additional measures in order to achieve the

targets set under its programme. The authorities will provide to the Fund all the information necessary to monitor the programme, and will review it with the Fund staff no later than end-September 2001, and end-March 2002.

Yours truly,

/s/
Omar Davies
Minister of Finance and Planning
Government of Jamaica
Kingston
JAMAICA

/s/
Derick Latibeaudiere
Governor
Bank of Jamaica
Kingston
JAMAICA

Annex: Macroeconomic targets for 2001/02

Table 1. Jamaica: Quantative Targets for Key Variables in the Staff -Monitored Program for 2001/02 1/

	Actual 2/	Targets				
	Mar. 2001	Jun. 2001	Sept. 2001	Dec. 2001	Revised Mar. 2002	Original
(In millions of Jamaica dollars; end of period)						
Net domestic assets of central bank 3/	-29,462	-31,758	-32,458	-27,524	-34,294	-23,601
Overall balance of selected public enterprises 4/	2,888	-1,050	-300	1,250	2,400	4,599
Primary balance of the central government (indicative) 4/	39,768	3,400	11,900	23,500	38,500	40,706
Overall balance of the central government 4/	-3,153	-10,700	-13,800	-15,000	-10,000	-7,516
(In millions of U.S. dollars; end of period)						
Net international reserves of the Bank of Jamaica	1,286	1,336	1,336	1,336	1,386	1,155
Foreign short-term commercial borrowing 4/ 5/	n/a	50	50	50	50	0
Foreign medium and long-term commercial borrowing 4/	566	275	275	400	400	400

1/ As defined under the original SMP (EBS/00/152, 7/21/2000), Appendix I pages 27-28. The adjusters (pg. 28) are no longer necessary or appropriate and have been dropped. Implementation of capital expenditures will be reviewed in September.

2/ Provisional figures, estimated outturn for the selected public enterprises.

3/ Using an accounting exchange rate of J\$46.6 per dollar, and the cross-currency exchange rates against the U.S dollar as of March 31, 2001.

The original SMP target for March 2002 (of J\$ -18,559) has been adjusted to reflect these changes.

4/ Cumulative figures for fiscal year to date. The original SMP target for the central government balance for 2001/02 (surplus of J\$4,390 mill.) excluded interest payments on FINSAC securities, then estimated at J\$11,906 mill. The revised targets include cash interest payments on FINSAC securities, which have been assumed by the central government.

5/ Defined as trade credits to selected public enterprises.

INTERNATIONAL MONETARY FUND

JAMAICA

**Staff Report for the 2001 Article IV Consultation and Review
of Staff-Monitored Program
Supplementary Information**

Prepared by the Western Hemisphere and Policy Development and Review Departments

Approved by Claudio M. Loser and G. Russell Kincaid

May 29, 2001

Economic developments since the circulation of the Staff Report to the Board are positive requiring no change in the thrust of the staff appraisal. The program remains on track with domestic interest rates continuing to decline along with inflation and spreads on international bonds, the foreign market-funding target for 2001/02 secured in the first quarter of the year with net international reserves rising, and further progress achieved on privatization of intervened financial institutions. Developments include:

- **The government has secured the planned US\$400 million in foreign financing from the international capital markets for the fiscal year 2001/02.** After having issued a ten-year U.S. dollar bond of US\$275 million yielding 12 percent in early May (at a spread of 671 basis points over comparable U.S. Treasury bonds) the government increased the size of the issue by US\$125 million on May 23, at a yield of around 11½ percent (and a spread of 650 basis points) following favorable market conditions. While this breaches their end-June and end-September borrowing limits under the SMP, it represents a bringing forward of borrowing planned later in 2001/02 and is in line with the limit for the year as a whole.
- **Domestic interest rates have continued to decline**, with the yield on the six-month treasury bill falling by 1 percentage point in May to 15½ percent by May 22. The Bank of Jamaica reduced its reverse repo rates by around 1 percentage point, with the 30-day rate now at 14¾ percent. The authorities have commenced preannounced monthly auctions of local registered securities, with the mid-May auction results showing 12-year securities yielding 17¼ percent (subject to a 25 percent withholding tax on interest).
- **The 12-monthly inflation rate declined to 5.8 percent as of end-April**, compared to 6.4 percent as of end-March 2001 with the April inflation rate 0.4 percent compared to 0.5 percent for March 2001.

- **During the fiscal year 2000/01—through March 2001—the real effective exchange rate remained broadly constant.** The foreign exchange market has been broadly stable in May, with limited net sales of foreign currency by the central bank following the issuance of the U.S. dollar bond. The Jamaican dollar was trading at about J\$45.75 per U.S. dollar as of May 23.
- **Net international reserves were US\$1.5 billion as of May 23, 2001, US\$0.2 billion above the end-March level.**
- **FINSAC announced on May 18 the sale of the government's 76 percent shareholding in Life of Jamaica** to a group led by Barbados Mutual Life. FINSAC will receive J\$2.1 billion (US\$46 million, 0.5 percent of GDP). The new owner is expected to capitalize the company for between US\$25–35 million.
- **On May 22, the Jamaican authorities submitted to Parliament a White Paper on the Reform of the Pensions System which, inter alia, proposes that pension funds be supervised by the newly created Financial Services Commission.**



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

EDITORIAL DIVISION
ROOM IS 7-1200 0433

Public Information Notice (PIN) No. 01/57
FOR IMMEDIATE RELEASE
June 6, 2001

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

IMF Concludes Article IV Consultation with Jamaica

On May 30, 2001, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Jamaica.¹

Background

Jamaica experienced a crisis in 1995/96 that resulted from liberalization of the financial sector without a sufficiently robust prudential and supervisory framework in place. The bailout of the financial sector has been very costly, estimated at more than 40 percent of GDP by end-2000/01. Following the crisis, the government adopted a tight monetary policy stance and attempted to maintain a broadly stable nominal exchange rate in order to reduce inflation. Inflation declined to single digits by end-1996/97, but tight monetary policy, coupled with fiscal deficits, led to high real interest rates and an erosion in external competitiveness. This policy mix also created unfavorable debt dynamics in subsequent years and the stock of debt escalated sharply. In June 2000, the Jamaican authorities undertook a staff-monitored program (SMP) designed to tackle the heavy burden of public sector debt and the legacy of earlier periods of high inflation.

After a decline in 1999/00, real GDP is estimated to have grown by 1 percent in 2000/01, based on a recovery in agriculture and mining, as well as strong growth in tourism. Inflation fell to 6½ percent at end-2000/01, despite some depreciation of the Jamaican dollar early in the year and increases in oil prices. The overall public sector deficit declined by 6 percentage points of GDP over 1999/00 and 2000/01, mainly as a result of the stronger position of the central government stemming from one-time revenue increases and restraint

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the May 30, 2001 Executive Board discussion based on the staff report.

in non-interest expenditure. The public sector primary surplus reached 12½ percent of GDP in 2000/01.

The real effective exchange rate depreciated by about 4 percent in 1999/00 and 2½ percent so far in 2000/01 (April through February), following a large cumulative appreciation (46 percent) between 1995/96-1998/99. The external current account deficit widened by about 1½ percentage points of GDP in 1999/00 to 4½ percent of GDP, mainly as a result of a decline in bauxite exports, and is expected to remain broadly unchanged in 2000/01. Net international reserves increased by over US\$700 million in 1999/00-2000/01, on the basis of direct investment inflows, multilateral support, and official borrowing. At end-March 2001, net international reserves stood at US\$1.3 billion, equivalent to over 4 months of next year's imports.

Despite these advances, domestic interest rates are above levels projected under the SMP and the public debt to GDP ratio stabilized at slightly below 140 percent at end-2000/01, rather than declining as earlier projected. These developments, together with the need for some recovery in expenditures from low levels in 2000/01, have led to some relaxation of the fiscal targets under the SMP for 2001/02, although the targeted primary surplus would still be large at over 11 percent of GDP.

The authorities have made progress on structural reforms in recent years. Union Bank has been privatized and the restructuring of National Commercial Bank (NCB) has progressed. Four of the five FINSAC-intervened insurance companies institutions have been sold and sale of the fifth one is expected this year. Parliament approved the Financial Services Commission Act in March 2001, which is designed to strengthen financial sector supervision. Also, the authorities have sold a major public enterprise (the electric company).

The authorities' revised program for 2001/02 includes continued fiscal consolidation and a build-up in international reserves, while lowering inflation. Their revised program calls for a central government deficit of about 3 percent of GDP—about 1 percentage point of GDP higher than envisaged earlier, reflecting higher interest payments and larger current and capital expenditures. Also, an accumulation in net international reserves of US\$100 million is targeted, while continued tight monetary policy is planned to achieve a reduction in inflation to 5–6 percent. On structural policies, the authorities plan to: (i) implement legislation designed to strengthen prudential supervision; (ii) continue sales of intervened financial institutions; (iii) complete reforms to improve the management and accountability of public enterprises; and (iv) enhance labor market flexibility.

Executive Board Assessment

Directors commended the authorities for the progress achieved over the past two years, and more recently under the staff-monitored program, in strengthening the public finances,

reducing inflation, strengthening the net international reserve position, and adopting structural reforms, particularly in the financial sector. The reemergence of economic growth after four years of stagnation or decline was seen by Directors as praiseworthy. Directors noted in particular the very high public sector primary surplus of 12½ percent of GDP in 2000/01, which has been achieved through rigorous expenditure restraint, with social safety net expenditures maintained in real terms. They urged the authorities to build on these successes through maintaining strong policies so as to make further progress toward raising living standards and creating employment in the coming years.

Directors noted that, despite these successes, the stock of public debt in relation to GDP remained roughly unchanged in 2000/01, instead of falling significantly as envisaged, and that interest rates did not decline as rapidly as projected. They underscored that reducing the heavy public debt burden remains a key challenge facing the Jamaican economy. Directors welcomed the authorities' determination to meet their fiscal target for 2001/02. They noted that this will require continued expenditure restraint, including on public sector wages—while maintaining social safety net expenditures in real terms—as well as the expeditious implementation of revenue-enhancing measures, especially measures aimed at strengthening the enforcement of the tax code. Some Directors saw the case for an even stronger fiscal stance so as to permit faster debt reduction. Other Directors, however, noted that the primary surplus is expected to remain at a very high level and did not see a higher surplus as a realistic objective at this stage. Directors urged the authorities to persevere with fiscal restraint over the medium term to ensure a lasting decline in the public debt to GDP ratio as well as to help lower real interest rates and promote faster growth. They welcomed the measures taken by the authorities to improve debt management and the additional steps envisaged. Several Directors expressed concern over the guaranteeing of new debt by the government, and welcomed the authorities' commitment to exercise restraint in this regard.

Directors supported the authorities' tight monetary policy and its emphasis on reducing inflation. They were of the view that continued monetary restraint is appropriate. A number of Directors expressed concern at the authorities' plan to renew the scheme under which the banks agree to channel part of their resources resulting from lower reserve requirements via the Development Bank at concessional interest rates to priority sectors, noting the distortive effects of such a scheme. Directors considered the authorities' cautious approach to exchange rate management to be broadly appropriate, but a number of them saw scope for somewhat greater exchange rate flexibility without reigniting a wage-price spiral; this would be helped by a deepening of the exchange market through abolition of the 5 percent surrender requirement. They noted the importance of continued wage moderation and the removal of labor market rigidities to strengthen competitiveness. In this regard, Directors welcomed the continued dialogue between the government and labor unions to develop consensus and ownership on economic policies.

Directors welcomed the new legislative framework to strengthen prudential supervision of both banks and other financial institutions. They urged the authorities to implement quickly the framework, to establish effective cooperation between the new Financial Services Commission and the Bank of Jamaica and other international supervisors, to extend the framework to pension funds, and to strengthen the operational effectiveness—including the funding—of the bank deposit protection scheme.

Directors supported the assets disposals made by the Financial Sector Adjustment Company (FINSAC) last year, including the sale of Union Bank as well as the payment of cash interest on FINSAC securities in the 2001/02 budget. They endorsed the continued rapid privatization of other intervened financial institutions, and encouraged the authorities to identify other public enterprises for privatization.

Directors welcomed the proposed move to replace artificial reference prices by actual prices as the basis for the calculation of import duties for certain agricultural products, but concern was also expressed that this move is to be accompanied by a large rise in nominal duties. While supporting the objective of reducing rural poverty, several Directors questioned whether an increase in protection, even if small in effective terms, would be the best means of achieving this goal. Overall, they emphasized the benefits to the Jamaican economy of further trade liberalization, and urged the authorities to resist actions that would intensify existing trade restrictions.

Directors welcomed the authorities' intention to strengthen their statistics and, in particular, to improve their knowledge on the size and activities of the informal sector. It was noted that improvements in this area would require technical assistance, including from the Fund.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Jamaica: Selected Economic Indicators

	1997/98	1998/99	1999/00	2000/01
	(Annual percentage changes; unless otherwise specified)			
GDP, prices, wages and interest rates				
GDP at constant prices	-1.5	-0.4	-0.1	1.1
Per capita GDP (in U.S. dollars)	2,837	2,889	2,845	2,849
CPI (end-of period)	8.8	6.0	8.4	6.4
Interest rate (six-month treasury bill, end period)	28.0	21.7	18.0	16.9
Lending rate (weighted average, end period)	35.3	32.1	24.3	...
Money and credit				
Net domestic assets 1/	7.5	8.2	6.8	-15.7
Public sector 2/	54.9	25.1	8.9	10.2
Private sector 2/	-47.4	-16.9	2.1	-25.9
Liabilities to the private sector	6.7	10.8	19.3	8.9
	(In percent of GDP; unless otherwise indicated)			
Saving and investment				
Gross national saving	24.1	23.8	21.6	22.7
Gross capital formation	29.5	26.8	25.9	27.0
Public sector				
Central government balance 3/	-8.8	-12.6	-8.5	-5.7
Public sector balance	-9.4	-11.1	-7.4	-5.3
Primary balance (public sector)	1.3	7.1	11.0	12.6
Total debt	103.9	117.9	134.6	136.6
External sector				
External current account	-5.3	-3.0	-4.3	-4.3
Overall balance of payments (millions of U.S. dollars)	-53	-14	122	583
Gross official reserves (millions of U.S. dollars)	730	701	801	1,362
(weeks of next year's imports of goods and services)	9.7	9.3	10.3	16.6
(weeks of current year's nonbauxite (industry) imports of goods)	13.0	13.3	14.7	23.6
Net international reserves (millions of U.S. dollars)	595	582	704	1,286
Exchange rates				
Nominal exchange rate (Jamaica dollar per U.S. dollar, end of period)	36.36	38.14	42.19	45.68
Real effective exchange rate (appreciation (+) latest figures refer to April to February)	5.8	1.6	-3.9	-2.6

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

1/ In terms of liabilities to the private sector at the beginning of the year.

2/ Including the shift of nonperforming loans from intervened banks to FINSAC, which is in the public sector.

3/ The central government balance includes accrued interest on FINSAC bonds.

**Statement by Thomas A. Bernes, Executive Director
for Jamaica
May 30, 2001**

Overview

1. My Jamaican authorities wish to thank staff for their frank and helpful advice. The constructive relationship which has evolved between Jamaica and the Fund, including through the SMP, has contributed to the development of a consistent macroeconomic and structural reform strategy and a broad consensus on the way forward. This consensus has been vital in strengthening the credibility and resolve of Jamaica to take tough decisions which were necessary to address major macroeconomic and financial sector challenges – challenges from which Jamaica is only just beginning to emerge. Jamaica is not considering financial assistance from the Fund, but welcomes the positive assessment of its progress and achievements thus far. These achievements in the last year include the resumption of growth (following four years of negative growth), continuing moderation of inflation (first time in over 30 years of 5 consecutive years of single digit inflation), significant foreign reserve accumulation (now at its highest level ever covering 25 weeks of imports), divestment of major assets, and ongoing efforts to strengthen supervision of the financial sector. We acknowledge, however, that much remains to be done.

Background

2. Stabilizing debt and putting it on a firm downward trajectory has been, and continues to be, a key objective. During the fiscal year 2000/01, the authorities maintained a very tight fiscal stance. Despite some shortfall in revenue, the fiscal targets under the Government of Jamaica's (GOJ) economic program were met through continued restraint in non-interest expenditures, while maintaining the social safety net. The result has been achievement of a strong primary surplus of 12.6 percent for 2000/01 – a figure which is unparalleled in any other member country.

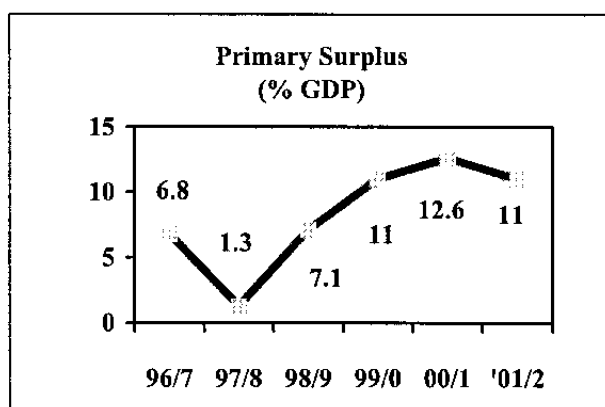
3. Largely as a result of the collapse of the domestic financial sector, the debt stock has grown from 80 percent of GDP in 1996/97 to 135 percent in 1999/00. Last year saw this debt stabilize and over the medium term there will be a substantial reduction in the debt stock. The Ministry of Finance has now taken full responsibility for the debt incurred as a result of intervention in the financial sector. (As a point of comparison, these interest costs exceed the capital budget.) The GOJ is committed to strictly limiting the issuance of central government guarantees to third parties and the assumption of any additional debt. The authorities fully appreciate the need to reduce the stock of debt over time, to free resources for economic development, and is fully focused on this objective.

4. The economy continued to be anchored by supportive monetary policy using the interest rate to target inflation. The downward trend in inflation has been sustained and there has been a moderate depreciation of the exchange rate.

5. The authorities continued to strengthen the financial sector. As noted in the staff report, the rationalization and sale of the financial assets controlled by the Financial Sector Adjustment Company (FINSAC) is proceeding well. There has been notable progress in negotiations with potential purchasers of major assets. The major achievements recently are the sale of Union Bank and JPSco (the electricity company).

Policy Issues

6. There are essentially four main pillars of the broad economic strategy which the authorities have been implementing: fiscal consolidation, inflation targeting, financial sector rationalization/divestment and strengthening growth prospects.



7. **Fiscal Policy:** A significant strengthening of the fiscal position lies at the heart of the macroeconomic strategy. One of the main concerns for fiscal policy is that interest rates have not come down as quickly as expected, which means higher debt-service cost. This will necessitate further fiscal adjustments for fiscal year 2001/02. Tax administration is being strengthened, some local fees are being increased and public sector expenditures are strictly contained. However it is intended to keep social safety net expenditures constant in real terms. It should be noted that this, together with remittances from abroad, has helped to strengthen social indicators and poverty indices when compared to the early nineties (as indicated in Appendix VII of the staff report).

8. The imperative of fiscal consolidation has led to a situation where capital expenditure is lower than it was five years ago in nominal terms and about half what it was in real terms. This situation has led to a growing backlog of projects and it will therefore be necessary next year to increase capital expenditure to support the improved growth prospects. In addition, some capital projects, partly funded by multilateral assistance, will have to be continued as the financing would be lost if the projects were not completed. In balancing these competing demands, the authorities expect a slight worsening of the fiscal position in the coming year, with the primary surplus being reduced to 11 percent, still an extremely high figure.

9. **Monetary Policy and the Exchange Rate:** Jamaica has built credibility in reducing inflation and strengthening competitiveness but prefers a gradual approach to exchange rate

policy. Depreciation of the exchange rate does not necessarily increase competitiveness of major exports because of weak supply elasticities and the fact that Jamaica is a price taker in its major exports bauxite/alumina and tourism (where prices are already being discounted by hoteliers/tour operators). Thus, the link between the exchange rate and export demand is weak in general.

10. Exchange rate flexibility has led to some adjustment and consolidation of activities in the productive sector. In general, market niches have been maintained and in some cases strengthened in agro-processing. Beverages, spices, jams, jellies and animal feed are doing well on export markets and poultry is doing well on the home market. These products have high value-added and a significant local raw material content and are also doing well in other parts of the region. The garment sector also has potential.

11. Given the weakness of the financial sector, monetary policy has sought to avoid sharp fluctuations in the exchange rate, sustain investor confidence in the macroeconomic framework and increase the confidence of domestic and international markets. Risk factors include expectations about interest rate policy, confidence in the exchange rate, and the need to preserve the understanding with the trade union movement so as not to trigger a wage/price spiral. The trade union movement has moderated wage demands over the last few years because it is comfortable with a broadly stable exchange rate. While Jamaica does not have a social contract there are a series of broad agreements between social partners in various key sectors.

12. Interest rates are falling, though not as quickly as expected. Interest rates were raised in November 2000 after a US dollar-denominated bond issue by the GOJ led to a sharp increase in demand for US dollars. Interest rates have since fallen significantly and the foreign exchange market has stabilized. Effective May 21, the 30-day reverse repurchase rate (Bank of Jamaica's (BOJ) signal rate) was reduced from 15.5 percent to 14.75 percent. Markets are sensitive to the path of interest rates and the authorities are keen to ensure that any downtrend associated with the recent reserve accumulation is sustainable.

13. **Debt and Financing:** The Government is taking advantage of the downtrend in interest rates following cuts by the US Federal Reserve and has engaged in a moderate amount of foreign borrowing. In April 2001, a US-denominated \$275 million 10-year Euro bond was successfully issued at 675 basis points over US treasuries. Markets have responded well to Jamaica's stabilization policies and a further \$125 million was realized in May 2001- a total of \$400 million. Jamaica is also exploring additional avenues for multilateral and bilateral assistance.

14. **Divestment & Rationalization:** The authorities remain committed to the rationalization and divestment program and have had important successes. There were unexpected delays related to legal and administrative hurdles and the negotiations process. While the program has taken longer than envisaged and challenges remain in the financial sector, it is expected that the remaining assets of FINSAC will be divested in the coming months. GOJ is determined to divest all of the assets of FINSAC as quickly as possible.

15. **Technical Assistance:** Jamaica's capacity needs to be strengthened in order to lay the groundwork for faster growth. The authorities are well aware of the need to strengthen legislative and supervisory procedures in order to minimize the possibility of a similar financial crisis occurring in the future. A Core Principles Assessment (CPA) was conducted in April 2001. The mission concluded that Jamaica was broadly compliant, putting the country in the better-rated range of emerging economies. Arising out of the CPA, the Bank of Jamaica has requested technical assistance from the IMF to strengthen consolidated supervision and market risk assessment.

16. Social sector statistics need to be broadened and GDP may be understated. The informal sector in particular appears to be inadequately measured. Thus, GOJ has requested technical assistance from the IMF to address these deficiencies as it plans for the development of its statistical base.

17. **Trade Policy:** Jamaica has been engaged in trade liberalization for some time and a natural outgrowth of this development has been the decision to implement the WTO Customs Valuation Agreement. Temporary increases in agricultural tariffs, as allowed under WTO rules, are being considered to ensure farmers are given at least equivalent protection when WTO guidelines are implemented. While the proposed increase in the level of tariffs is substantial, the actual difference in effective protection is likely to be moderate. Under WTO guidelines invoice prices will now be used instead of reference prices in the calculation of tariffs. Invoice prices are substantially lower than reference prices for some products.

The Road Ahead

18. It is vital for Jamaica to stay on track as it plans for a sustained recovery now that growth has resumed. In support of these objectives, the GOJ has requested that Fund staff continue to monitor the execution of its program until March 2002. The GOJ is ready to adopt any additional measures in order to achieve the targets under its SMP program. The authorities have had to make tough choices, but intend to persevere.