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Jamaica: Staff Report for the 1999 Article IV Consultation

This report was prepared by a staff team of the International Monetary Fund following discussions with the officials of Jamaica on economic developments and policies. The report was then considered by the IMF's Executive Board in the context of the IMF's periodic consultation with Jamaica, as required under Article IV of the IMF Articles of Agreement. The views expressed in the staff report itself are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF or of the authorities of Jamaica; a supplementary statement by IMF staff may also be included. The views of the Executive Board as expressed in the discussion of the Article IV consultation report and as summarized in a Public Information Notice (PIN) are also included. In addition, a statement by the member country authorities may be appended. Further background documentation prepared by IMF staff for the consultation may be published separately at a later date. The policy of publication of Article IV staff reports allows for the deletion of market sensitive information.

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JAMAICA

Staff Report for the 1999 Article IV Consultation

Prepared by the Staff Representatives for
the 1999 Consultation with Jamaica

Approved by Claudio M. Loser and G. Russell Kincaid

December 22, 1999

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EXECUTIVE SUMMARY

Jamaica has made progress in reducing inflation, restructuring the financial system after the crisis in 1995–96, and further liberalizing the economy through external tariff reduction and privatization. Inflation was reduced from 31 percent at end-FY 1995/96 to about 5½ percent in October 1999. The financial crisis was contained mainly by replacing nonperforming loans with government-backed securities in intervened institutions and by strengthening the prudential and supervisory frameworks. The maximum tariffs on nonagricultural products were reduced in stages to 20 percent by January 1999 and all quantitative restrictions on imports have been removed. Following some initial setbacks, privatization gained momentum in 1999 with the sale of some high-profile entities.

However, the mix of tight monetary policy and large fiscal deficits has resulted in very high real interest rates, substantial appreciation of the Jamaica dollar in real effective terms, and a cumulative decline in output of 4½ percent during the 1996/97–1998/99 period. Despite significant efforts at consolidation in 1998/99, the public sector balance widened to 12 percent of GDP mainly because of large interest payments on government-backed paper associated with the financial sector bailout. Total public debt climbed to 139 percent of GDP by 1998/99 despite a continued decline in foreign debt.

The staff is of the view that the core problems facing Jamaica are the heavy public debt burden, high real interest rates and weak external competitiveness that have constrained productive investment and growth, and the large fiscal imbalance. The authorities agreed that the first two problems are central to Jamaica's difficulties, but do not believe that there is a major competitiveness problem. They, therefore, considered inappropriate a policy framework that would include a sharp initial adjustment in the exchange rate as they are concerned that it would likely reignite the devaluation-inflation-wage spiral, and the only viable option is to have productivity gains gradually exceed wage increases. The strategy the authorities have adopted centers around moderate improvements in the primary fiscal balance, and a continuation of tight monetary policy. The staff's view is that this strategy, while a move in the right direction, may be insufficiently ambitious to generate the turnaround needed in the current adverse debt dynamics. Although it would put public debt on a slowly declining trajectory, it would probably yield only a weak and gradual recovery in growth and leave the economy—particularly the public sector—vulnerable to further shocks.

Therefore, the authorities are urged to strengthen their efforts to put the economy on a less vulnerable path by a larger upfront fiscal adjustment—including via cuts in current expenditures and elimination of tax exemptions—supported by wage restraint, some greater flexibility in the exchange rate, and an acceleration of structural reforms to reduce costs and improve productivity.

I. INTRODUCTION

1. **The 1999 Article IV consultation discussions with Jamaica were held in Kingston during October 6–22**. The representatives of Jamaica included the Minister of Finance, the Finance Secretary, the Governor of the Bank of Jamaica, the Director General of the Planning Institute, and other senior officials. The mission[1] also met with the Prime Minister and representatives from donor countries and international organizations. Mr. Bernes, Executive Director for Jamaica, and Ms. Turner-Huggins (Advisor to the Executive Director) participated in the meetings.

2. **At the conclusion of the last Article IV consultation in July 1998, Executive Directors noted that the tight monetary policy had reduced inflation sharply and yielded a stable nominal exchange rate, while the public sector balance had shifted from a surplus to a large deficit**. Directors expressed concern that the mix of policies—tight monetary policy combined with a loose fiscal stance—had resulted in very high real interest rates, a substantial appreciation of the Jamaica dollar, and declining output. Directors also observed that high real interest rates contributed to the worsening of financial sector problems.

3. **Jamaica publishes monthly and quarterly economic data.** The coverage, frequency, and timeliness of data have improved significantly over the recent past. However, the quality of statistics in the areas of national accounts and prices have been adversely affected by the use of outdated base years and surveys. Also, although some progress was made in the last few years, there is still a need to develop comprehensive accounts of the consolidated central government that accord with the guidelines of the GFS manual. In addition, comprehensive data on private sector external debt are unavailable. However, the existing data deficiencies do not hinder the effective conduct of surveillance, though improvement is needed and ongoing in several areas. The Fund has provided technical assistance, but its recommendations for strengthening statistics in some areas are still to be implemented. A key reason for deterioration and delay has been limited budgetary resources in the primary agencies involved—the Statistical Institute of Jamaica (STATIN) and the Planning Institute of Jamaica (PIOJ).

II. BACKGROUND

4. **Jamaica made considerable progress in stabilizing the economy while undertaking needed structural adjustments during the decade from the mid-1980s to mid-1990s**. These adjustments included the elimination of price controls, the reform of the

[1]The staff team comprised Mr. Itam, Mr. Bogetic, Mr. Tokarick, Mrs. Carlene Francis (all WHD), Mr. MacArthur (PDR), and Ms. Parkes (Assistant-STA). The team was assisted by Mr. Desmond Thomas (IDB) and Mr. Philippe Auffret (World Bank).
Mr. Goldsbrough (WHD) joined the mission for the concluding round of discussions.

tax system, a liberalization of the financial system that involved the privatization of banks and freeing of both the foreign exchange and financial markets, a move toward market-based instruments of monetary management, and the liberalization of the trade and exchange systems with presently no exchange restrictions on payments and transfers for current or capital international transactions.[2] In addition, fiscal consolidation was strengthened with the primary surplus increasing to about 13 percent of GDP and the overall public sector position shifting into—and remaining in—significant surplus up to 1995/96.[3]

5. Reflecting these efforts, there was a sharp improvement in Jamaica's external position (including the elimination of external arrears), a strong increase in the level of official international reserves, and a substantial decline in the ratio of public debt to GDP (in part the result of external debt forgiveness) by the mid-1990s. External debt was reduced from 165 percent of GDP in March 1992 to about 70 percent of GDP in March 1996, while domestic debt remained in the range of 25–30 percent of GDP (Figure 1). In 1995/96, interest payments on total public debt amounted to about 9 percent of GDP. With this structure of fiscal primary surplus, relatively low interest rate, and modest economic growth, the public debt profile appeared sustainable.

6. **However, the liberalization of the financial system that occurred from mid-1980s to mid-1990s was not accompanied by a sufficiently robust prudential and supervisory infrastructure.** Some institutions—such as insurance companies, unit trusts, and building societies—remained de facto unregulated. The increased competition in the liberalized system encouraged the creation of new institutions and the engagement of deposit-taking activities not subject to the then existing regulatory and supervision frameworks and that benefited from implicit "tax breaks" (including lower corporate tax and no withholding tax).[4] The distinction between banks and other institutions became increasingly blurred as the latter created deposit-like instruments. Most of these instruments were short-term deposits and were used to finance longer term investments (particularly real estate and tourism development), and channeled to connected parties of the institutions.

7. **In this setting, some of the financial institutions began to show signs of liquidity problems in 1995 and inflationary pressures built up.** The liquidity problems were initially met through greater resort to the overdraft facility with the central bank. Periodic

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[2] Jamaica is an Article VIII member country and its relations with the Fund are summarized in Appendix I. Relations with the World Bank and the Inter-American Development Bank (IDB) are summarized in Appendices II and III, respectively.

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

[4] The new institutions had low initial required capital, weaker prudential standards, no statutory cash and liquid assets requirements, and no loan provisioning. In addition, they faced lower corporate tax and no withholding tax on earnings.

episodes of downward pressure on the Jamaica dollar resulted in considerable foreign exchange intervention by the central bank. Also, there was a renewed acceleration of inflation, which reached about 30 percent by end-1995.

8. **The adjustment strategy adopted starting in 1996/97 emphasized tight monetary policy to reduce inflation and the maintenance of a relatively stable nominal exchange rate.** This strategy was intended to gradually improve private sector confidence and allow for real interest rates to decline and output to increase. In the event, as the central bank mopped up liquidity via open market operations, inflation was reduced sharply and the nominal exchange rate appreciated (Table 1). However, real interest rates rose significantly and a severe recession started in 1996/97. The earlier fiscal consolidation was reversed, with wage settlements that outpaced inflation by a large margin and substantial increases in other primary current expenditures, necessitating a considerable increase in the public sector borrowing requirement that added to the upward pressures on interest rates.

9. **The combination of rising interest rates and economic recession worsened the problems in the financial system.** The maturity mismatch of assets and liabilities was brought to the fore, with banks incurring losses on longer term assets, while the loan portfolio also deteriorated. As the perceived risks increased—investors withdrew funds, most of which were short term, exacerbating the liquidity problems of the financial system. These developments resulted in a financial crisis beginning in 1996 which, together with the provision of a government guarantee for all depositors and shareholders, was contained only after very large support from the government. In January 1997, the government established the Financial Sector Adjustment Company (FINSAC) with the mandate to restructure the financial institutions. FINSAC's main means of providing support has been to take over bad loans from intervened financial institutions in return for special floating interest rate notes that allow for the capitalization of some interest.

10. **Reflecting these developments, the broad downward trend of public sector debt that had been underway since 1991 was reversed.** Although external debt to GDP continued to decline, domestic debt started to rise sharply. Total gross cumulative support to the intervened financial institutions amounted to about 40 percent of GDP. This jump in public debt, in the context of high interest rates and weakening public sector primary balance, created severe adverse debt dynamics for Jamaica.

III. Recent Developments

11. **The combination of tight monetary policy with large fiscal imbalances during 1997/98–1998/99 contributed to a marked decline in inflation but output continued to contract.** Twelve-month inflation declined, reaching 6 percent in March 1999 and has since remained close to that level, notwithstanding the impact of contractionary fiscal measures introduced in April–May 1999 (1½ percentage points). However, output fell by a cumulative 2¼ percent during the two-year period 1997/98–1998/99 because of high real interest rates that slowed investment (particularly in nonconstruction related sectors), a decline in competitiveness in the manufacturing and nontraditional exports sectors, and the

adverse impact of a severe drought in 1997–98 on agriculture. Unemployment remained high at about 15½ percent.[5]

12. **The informal sector—estimated at between one-fourth and one-half the size of the measured economy—reportedly expanded in the recent period,** cushioning some of the effects of the recession. A survey indicated that the poverty index declined significantly during 1995–97.[6] The average per capita annual consumption is estimated to have increased, and remittances from abroad remained substantial—providing an important safety net against the contraction in the formal economy.

13. **Real wage increases, which averaged about 13½ percent a year in the large private establishments during the two-year period of 1996–97, slowed considerably in 1998.** The authorities' success in lowering inflation gradually fed through into wage contracts for both the public and private sectors. Nonetheless, until recently, increases in real wages appear to have far exceeded productivity growth, and available indicators suggest that labor productivity may have fallen in the manufacturing and construction sectors.

14. **The real effective exchange rate of the Jamaica dollar—based on relative CPI indices—appreciated by about 35 percent during 1996/97–1998/99.** There was a small reversal of this appreciation in 1999 as the Jamaica dollar depreciated by 3½ percent in nominal effective terms and as inflation approached that in trading partner countries[7] (Figure 2).

15. **The external current account deficit widened to an average of about 4½ percent of GDP a year in 1997/98–1998/99** (3½ percent of GDP excluding the purchase of two aircraft in 1997/98). Exports of goods declined in volume terms—with most of the decline coming from nontraditional exports including from the "free zone"—while export prices fell during the period (Table 2). Despite a sharp fall in fuel prices and some stagnation in imports of raw materials and capital goods (excluding aircraft in 1997/98), total import payments declined only modestly in the two-year period as a result of an expansion in imports of

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[5] Persons working for at least one hour during the survey week are counted as employed.

[6] Appendix IV provides details on social indicators of development and estimates of poverty.

[7] The exchange rate for the Jamaica dollar is determined in an interbank market operated by commercial banks but the central bank intervenes in accordance with its policy objectives. The central bank sells foreign exchange to ease shortages in the foreign exchange market, with a view to preventing any rapid depreciation. The central bank has not recently actively purchased foreign exchange in the market but has relied on the requirement that dealers sell 5 percent of daily purchases to the central bank and on purchases from the government (including government commercial borrowings). Section I of the accompanying Selected Issues background paper provides details on recent operations and developments in the foreign exchange market.

consumer goods. Net income payments abroad rose significantly reflecting to some extent increased repatriation of profits and, while remaining very large, net receipts of current transfers declined somewhat from the peak level recorded in 1996/97.

16. **The external current account deficit over the 1997/98–1998/99 period was financed almost entirely by foreign investment**, as substantial government commercial borrowings in international markets were offset by large official debt amortization. A cumulative overall balance of payment deficit of US$70 million was recorded during 1997/98–1998/99 and gross international reserves fell to around US$700 million at end-1998/99, equivalent to nine weeks of imports of goods and services in the following year and 105 percent of prospective public external debt service payments (all maturities, including short term).

17. **Public external debt relative to GDP continued to decline and is projected at about 46 percent of GDP at end-1999/2000 compared with over 50 percent at end-1996/97** (Table 6). The bulk of Jamaica's external debt is to official creditors, with about 45 percent to bilaterals and one third to multilaterals; debt to private creditors (mainly bond issues) remains relatively small at about one fourth. Most of the public external debt is denominated in U.S. dollars and nonconcessional, with floating interest rates. The authorities' external debt management capacity has been strengthened considerably in recent years, with the establishment of a special unit in the Ministry of Finance. As indicated earlier, comprehensive data on the private sector external debt are unavailable, but it is reportedly limited to a few large establishments and the amount is relatively small.

18. **The fiscal deficit widened further in 1997/98.** The primary surplus of the public sector (including FINSAC) declined sharply, and the overall public sector deficit increased by about 4 percentage points of GDP to 9½ percent even though interest payments (including those on FINSAC liabilities) declined slightly (Table 3). Central government revenues relative to GDP fell for the second consecutive year, while expenditures on most categories—especially wages—continued to rise.

19. **Significant efforts at fiscal consolidation were undertaken in 1998/99 including wide-ranging measures to strengthen tax administration and to reduce nonwage primary current expenditures and capital outlays, but were offset by the growing interest bill.** As a result, the primary balance of the central government was raised to 6 percent of GDP from about 2 percent of GDP in 1997/98. Higher and new user fees, together with efficiency gains, also improved the performance of the public enterprises, yielding an overall public sector primary balance of around 8 percent of GDP. However, the expanding interest bill—particularly on the domestic debt—resulted in the overall public sector deficit widening further to 12 percent of GDP.[8] Consequently, although external debt

[8] The quasi-fiscal deficit of the central bank has remained small, as interest receipts from the large stock of government securities held by the Bank of Jamaica largely offset the high cost of monetary policy.

relative to GDP declined for the sixth consecutive year, total public debt (net of central government holdings of FINSAC liabilities) rose from 126 percent of GDP at end-1997/98 to 139 percent of GDP at end-1998/99.

20. **As inflation declined, the central bank was able to steadily lower the repurchase rate during 1997/98–1998/99.** The unremunerated statutory cash reserve requirement was reduced in stages from 25 percent in March 1998 to 19 percent by March 1999, with a view to encouraging a lowering of commercial bank loan rates.[9] Real interest rates remained stable, although the nominal average lending rate fell by about 400 basis points and the nominal treasury bill rate also declined. Base money increased by about 9½ percent during 1997/98, but declined by 4 percent during 1998/99 (Table 7 and Figure 4). With large government borrowing from the banking system and weak economic activity, credit to the private sector showed little growth.[10] The stock of open market paper increased sharply as the central bank tried to limit the growth in base money, while providing substantial credit to the government.

21. **During the last two-three years, the authorities intervened most domestically owned financial institutions providing capital injections and liquidity support, and buying problem assets**. Additionally, official support through FINSAC—and its predecessor the Financial Institutions Services (FIS)—was extended to five life insurance companies, primarily in the form of capital injections. The extraordinary government support has not been accompanied by burden sharing among liability holders and in some cases only partial burden sharing by shareholders. Also, to stem the risks of widespread withdrawals and capital flight and to safeguard the interests of the vast majority in order to avoid social unrest, the government provided full guarantees to all depositors, life insurance policy holders, and pensioners.

IV. Structural Reforms

22. **Recent structural reforms have been most significant in the areas of banking and insurance.**[11] The rationalization of the banking sector has continued with the formation of the Union Bank that merged four FINSAC-acquired banks and a number of smaller entities that were in financial difficulties. The combined bank has closed over half of its branches and, pending further restructuring, is being prepared for privatization in the near

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[9] Preliminary estimates indicate that the direct impact of this reduction in reserve requirements on net interest margins was about 90 basis points.

[10] After adjustment for the transfer of nonperforming loans to FINSAC, credit to the private sector increased slightly by an average of about 2½ percent a year in 1997/98–1998/99.

[11] Section II of the background paper provides details on reforms in the financial system in the aftermath of the crisis.

future. The restructuring of the state-owned National Commercial Bank has also advanced, with managerial changes and streamlining of operations to core functions. Preparations for divestment of noncore functions (and related assets) have begun. Three of the five intervened insurance companies have been sold, with negotiations for the sale of the remaining two currently in progress.

23. **Supervision and regulation of bank and nonbank financial institutions have been strengthened considerably since 1996**. Prudential measures that were instituted include: changing the capital adequacy and provisioning requirements,[12] and strengthening the regulatory framework for early intervention. The finalization of the institutional arrangements for the regulation and supervision of the insurance sector are well underway under a FINSAC/IDB-sponsored project. The insurance companies are to adhere to international practices, with enhanced monitoring and selective tightening of prudential limits.

24. **The divestment process was accelerated markedly in 1999.** Sales totaled the equivalent of about US$200 million (3 percent of GDP)—including some high-profile divestments such as shares in Jamaica Power Company, the CIBC bank, the local cement company, and several tourist facilities. This reflected significant progress made by FINSAC in divesting various assets under its control. In the case of insurance companies, the portfolios of problem institutions were sold to Guardian Life of Trinidad (Individual Life and Pensions) and First Life (Group and Health), and the deposit components of interest-sensitive financial instruments were transferred to the Bank of Nova Scotia.

25. **In the process of trade liberalization that started in the mid-1980s, Jamaica has removed all quantitative restrictions and reduced in stages the maximum common external tariff on nonagricultural products** (under the aegis of CARICOM) to 20 percent by January 1999. The maximum import tariff (including additional stamp duties) is 90 percent on some agricultural goods and the number of tariff bands is 8 (from zero to 40 percent in 5 percentage points intervals). Jamaica has a moderately restrictive trade regime which includes a simple average rate of below 11 percent, and the use of licensing requirements, state trading and other nontariff barriers to protect selected industries. These restrictions result in an overall rating of 5 on the IMF's 10-point index of trade restrictiveness (with 10 being most restrictive). However, in the last year or so, the authorities have resisted to a large extent increased pressures for trade protection—specially with respect to meat, poultry, and sugar—in response to increased competition.

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[12] Introduction of the risk-based capital adequacy requirement at 10 percent (compared with an international minimum of 8 percent).

V. SHORT-TERM PROSPECTS

26. **The immediate prospects are that the economy will continue along the broad path established in recent years.** Based on available data, output is projected by the staff to recover only marginally with growth of about ½ percent in 1999/2000 based largely on the impact of better weather on agriculture (after the severe drought in 1997–98) and some expansion in tourism and related services. However, most other sectors are expected to contract—including the bauxite sector as a result of an explosion and shutdown of the main processing plant in the United States, and manufacturing on account of a decline in competitiveness over the last several years. Twelve-month consumer inflation, reflecting continued tight monetary policy, is projected by the staff at less than 7 percent by the end of 1999/2000; the authorities' inflation target is 4–6 percent.

27. **The volumes of both exports and imports are projected to decline further in 1999/2000 but, because of a significant deterioration in the external terms of trade, the external current account deficit is expected to widen to around 4½ percent of GDP.** Lower prices have reduced receipts for many of Jamaica's exports—including sugar, bananas, and nontraditional items—while lack of competitiveness in the apparel industry has led to declining manufacturing exports. The projected decline in the volume of imports reflects continued economic stagnation, although the increase in petroleum prices will cause an expansion in value terms. However, tourism receipts, the single most important source of foreign exchange earnings, have continued to increase—despite a brief security-related downturn in April 1999—and private remittances remain strong and are expected to be about 11 percent of GDP in 1999/2000.

28. **Lower-than-expected capital inflows during the first half of 1999/2000 led to a fall in the gross international reserves position of the central bank, but subsequent borrowings (including forward sales of bauxite by the government) are projected to maintain reserves at approximately US$700 million at end-March 2000.** Private inflows have remained reasonably high, in the form of direct investment in the bauxite industry and privatization-related inflows. However, official commercial borrowing from abroad, intended to roll over external amortizations, has fallen short, reflecting the government's reluctance to borrow at the substantially higher than expected interest margins it faced in international markets since mid-1999.

29. **The revised official estimates for the central government budget provide for significant further fiscal adjustment in 1999/2000.** The central government deficit was targeted to narrow by 3 percentage points of GDP and the public enterprises performance to strengthen sufficiently for the overall public sector deficit to decline from 12 percent of GDP in 1998/99 to 6½ percent of GDP in 1999/2000. Central government revenues were projected by the authorities to increase by 2 percentage points of GDP on the basis of expected improvements in tax administration, an increase in the fuel excise tax, and the introduction of a withholding tax on interest. On the expenditure side, the wage bill and spending on goods and services were projected to be maintained in nominal terms. The wage bill reflects in part the government's agreement with the unions to postpone the retroactive wage increase

for 1998/99 (½ percentage point of GDP) to 2000/01. In addition, interest rates were projected to decline—with the treasury bill rate falling from an average of 20 percent in 1998/99 to 16½ percent in 1999/2000. The budget also includes higher social expenditures in the form of a special employment program for the poor. To finance the deficit, the government intends to secure external borrowing (including forward sales of alumina) of US$250 million; the remaining borrowing requirement would be met with additional issues of domestic debt, including small amounts of U.S. dollar linked and denominated instruments in local and regional markets.

30. **The deficit of the public enterprises (including interest on FINSAC liabilities of 3 percent of GDP) is projected to decline from 4½ percent of GDP in 1998/99 to about 2 percent of GDP in 1999/2000.** The improvement is premised on the adjustment of prices to recover costs, some internal restructuring, and a decline in interest payments on domestic debt.[13]

31. **There are risks that the 1999/2000 fiscal outturn would be worse than budgeted.** The central government deficit in the first half of the year was about 4 percent of GDP, compared with a budget estimate of 3½ percent of GDP, as there were revenue shortfalls and expenditure overruns. Preliminary projections by the staff indicate that revenues for the year as a whole would be less than the revised budget estimates because of the continued weak economy. Also, interest payments will be higher than budgeted because domestic interest rates have declined less steeply than envisaged, and the wage bill is projected to exceed the revised budget estimate based on the first half outturn. The main policy response has been to cut capital expenditure and slow other payments (including liquidity support to FINSAC-controlled entities). As a result, the central government deficit is likely to be about 1 percentage point of GDP larger than the revised budget estimate at 5½ percent of GDP, with the overall public sector deficit at about 8 percent of GDP.

32. **About one half of the central government deficit will be financed by proceeds from privatization,** while the deficit of the public enterprises (mainly FINSAC) will be financed mainly by new issues of FINSAC liabilities (i.e., capitalized interest). A net repayment of external debt—equivalent to about ¾ percent of GDP—is now expected, leaving a net domestic borrowing requirement of about 6 percent of GDP in 1999/2000. Consequently, the total debt/GDP ratio would nearly stabilize, rising from 139 percent in 1998/99 to 140 percent in 1999/2000.

33. **Despite some easing measures, monetary policy, which is geared towards reducing inflation, has remained tight so far in 1999/2000.** The repurchase and treasury bill rates were reduced further through the first half of 1999/2000 but have since firmed up

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[13] A one percentage point reduction in domestic interest rates would lower total interest payments by public enterprises by about ½ percent of GDP in 1999/2000 (1 percent of GDP for the total public sector).

with higher-than-envisaged domestic borrowing by the government. In addition, the central bank has continued reducing in stages the unremunerated statutory cash reserve requirement from 19 percent at end-March 1999 to 16 percent by October 1999. Although real interest rates have also declined, they remain high, especially vis-à-vis other Caribbean countries such as Trinidad and Tobago and Barbados (Figures 5 and 6). **Base money is estimated to decline further by 5½ percent, mainly because of the reduction in cash reserve requirement**, with the demand for liquidity projected to grow at approximately the same rate as nominal GDP.

VI. Report on Discussions

A. Overview

34. **Several important shock absorbers have helped cushion Jamaica's vulnerability to a full-blown crisis.** First, 46 percent of bank deposits are held in foreign-owned institutions, a factor that limited the contagion effects of the bank failures in 1995–96 and provided a local safe haven for depositors who had lost confidence in domestically owned institutions. Second, 29 percent of the government's domestic debt (including FINSAC debt) is held by financial institutions, which have rolled over these holdings, with most interest on FINSAC liabilities being capitalized. In addition, international reserves were large in comparison to both base money and short-term external debt, and several liquidity indicators remain broadly adequate though they have deteriorated in recent years (Table 8).[14] Reflecting this setting, recent movements in velocity, real domestic interest rates, and sovereign bond spreads give little suggestion that the private sector considers a crisis to be imminent.[15] At the same time, neither do these indicators provide much comfort that Jamaica's challenges are easing. Jamaica continues to have access to international markets, but at much higher interest rate margins than was obtained in 1997–98, which makes the current situation more vulnerable to possible adverse developments.

35. **The staff's view is that the core problems facing Jamaica are adverse debt dynamics associated with the high real interest rates and heavy burden of public debt, as well as weakened external competitiveness.** This situation has been aggravated by the large fiscal deficits generated by the central government. While agreeing that the first two problems are central, the authorities were strongly of the view that Jamaica does not have a major competitiveness problem.

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[14] Gross official international reserves are held mainly with the U.S. Federal Reserve Bank and in U.S. treasury bills and are freely useable.

[15] In November 1999 Standard and Poors' gave Jamaica long-term foreign currency sovereign debt a credit rating of "B" and domestic currency debt a credit rating of "B+." This is weaker than the "Ba3" rating by Moody's in 1998.

36. **In the authorities' assessment the macroeconomic strategy best suited to Jamaica's circumstances is one that combines (i) a gradual approach to unwinding the adverse debt dynamics through moderate improvements in the primary fiscal balance; (ii) a continuation of the vigorous privatization efforts already underway; and (iii) maintenance of a relatively stable nominal exchange rate in a manner that would not jeopardize the hard-won inflation gains of recent years**. In particular, because they were not convinced of the existence of a major competitiveness problem, the authorities ruled out a policy framework that would include a sharp initial adjustment in the exchange rate as it would likely reignite the devaluation-inflation-wage spiral, and thus would not deliver any sustainable improvements in competitiveness. The authorities' expectation remains that—once the credibility of their fiscal and monetary policies is further established—interest rates will gradually decline, providing the conditions for a recovery in investment and growth. They stressed that this approach had already achieved some success in lowering real interest rates, albeit more slowly than they had hoped. As part of this strategy, they saw the only viable option to improve competitiveness as being based on productivity gains gradually outpacing real wage growth.

37. **The authorities' macroeconomic objectives** over the medium-term of 2000–2004 **are to reduce inflation** to that in major trading partner countries (about 2–3 percent a year), **accelerate growth in output** (to 3–4 percent a year), and **maintain a sustainable external position** (i.e., increase the gross official international reserves coverage to 14 weeks of nonbauxite-related current imports of goods). To achieve these objectives, a central element of their adjustment strategy is to move the operations of the government to a balanced position in 2000/01 and to generate modest surpluses in the subsequent years.[16] Monetary policy will remain tight to reduce inflation. Consistent with this inflation objective, the central bank will seek to maintain a relatively stable nominal exchange rate. The authorities expect that, as a result, real interest rates will decline sharply and the budgetary resources that will be released will permit increased outlays to rehabilitate and expand the infrastructure as well as spur economic activity. This, in turn, will help address the high unemployment situation on a sustainable basis.

B. Medium-Term Prospects

38. **Based on the authorities' proposed strategy, the overall public sector deficit (including interest payments on FINSAC liabilities) would decline** to about 6 percent of GDP in 2000/01 from about 8 percent in 1999/00, and then average about 6¾ percent of GDP a year over the medium term of 2001/02–2004/05. This would require the authorities to maintain a primary surplus of 11 percent of GDP over the period. The reduction in the borrowing requirement of the public sector would allow a further decline in domestic interest

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[16] Including proceeds from privatization and excluding any support to public entities.

rates. Hence, barring any slippages or unforeseen shocks, the debt dynamics would improve, although gradually, with total debt-to-GDP projected to decline from the current 140 percent in 1999/2000 to 130 percent by end-2004/05 (Table 9 and Figure 7).

39. **Such a strategy, if all goes well, will be successful in arresting and subsequently reversing the adverse public debt dynamics.** It would put public debt onto a slowly declining trajectory over the longer term but, in the staff's view, would probably yield only a weak and gradual recovery in growth and could leave the economy vulnerable to further external or domestic shocks during a long adjustment period. Agriculture expansion is likely to be modest, and even though expansion in tourism and related services could be brisk, output in the other key sectors of manufacturing and construction will remain relatively stagnant because of the nonrestoration of past competitiveness.[17] The external current account deficit would worsen to about 5 percent of GDP a year, with the export sector continuing to shrink relatively. Nonetheless, the authorities viewed this strategy as politically and socially acceptable.

40. **The above scenario implies a significant vulnerability to new shocks, especially if there were to be a disruption to new financing flows—perhaps because of events outside Jamaica—or if real interest rates were not to decline as envisaged.** Therefore, the mission outlined an alternative adjustment scenario that could put the economy on a less vulnerable path (Table 10 and Figure 7). The mission suggested bolstering the authorities' adjustment strategy in the following key areas: (i) moving more aggressively to reverse the adverse debt dynamics—by relying on stronger upfront fiscal adjustment (including strengthening safety net measures to cushion the adverse impact on disadvantaged groups) supported by wage restraint; (ii) a more market-determined exchange rate without official intervention; and (iii) an acceleration of structural reforms to reduce costs and improve productivity. The long-term goal should be to reduce the debt/GDP ratio to 60–75 percent over the next 6–8 years and this would require that sizeable primary surpluses (12 percent of GDP) be generated and maintained throughout the period. This more ambitious adjustment strategy would yield significantly lower domestic interest rates—crucial to improving the debt dynamics rapidly and releasing resources to promote stronger investment, both private and in essential public infrastructure.

C. Fiscal Policy

41. **Under this alternative scenario, the fiscal adjustment required to make substantial improvements in the debt dynamics is large.** The aim of fiscal policy should thus be to raise the primary balance by 2–3 percentage points of GDP.[18] Taking account of

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[17] See Section III of the background paper on the staff's assessment of Jamaica's competitiveness.

[18] From a primary surplus estimated at about 10 percent of GDP in 1999/2000. A similar effort—with a primary surplus of about 12 percent of GDP a year—was made

(continued...)

the expected decline in interest rates, the mission projected a reduction in the overall public sector deficit of about 4 percentage points of GDP in 2000/01, with further reductions in subsequent years. The total public debt/GDP ratio would decline to about 118 percent by 2004/05.

42. **As a first step, the authorities have already implemented the contingent cuts in expenditure—primarily new and ongoing low-priority capital projects—that had been envisaged in the event of a shortfall in revenue and/or higher-than-budgeted interest payments in 1999/2000.** Given the need for higher public savings to rehabilitate dilapidated infrastructure and finance key investment projects, the mission recommended that the government's current expenditure be curbed by continuing the present hiring freeze—while a civil service reform is formulated—and by containing wage increases. The prospect for success of any adjustment strategy would be greatly enhanced if it included a reform of the labor market that would enable the real wage to reflect productivity more closely, especially after the significant wage increases in recent years. In this regard, the mission argued that public sector wage restraint would set a useful benchmark.

43. **For the medium term, the mission suggested consideration of a menu of possible options for fiscal measures.** Since the tax ratio is already high, new measures must concentrate on expenditure cuts while improving tax administration and adjusting some rates and excises. Therefore, the menu included cuts in program expenditures in line with recent reports submitted to the government;[19] elimination of most general consumption tax (GCT) exemptions; some increases in the rates for GCT, personal income tax and corporate income tax; and increases in nonfuel excises. At the same time, the composition of expenditure should be shifted toward productive capital outlays and maintenance of infrastructure that have been squeezed under fiscal stress. Most likely, any combination of fiscal measures selected would have some adverse impact on the most disadvantaged groups. In this regard, the mission recommended strengthening the social safety net programs (with assistance from the IDB and the World Bank) to cushion the adverse impact of the adjustment measures. The focus should be directed at expanding the Food Security Program (raising the income cut-off

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during 1993–95 when expenditures (excluding interest payments) were about 6 percentage points of GDP lower than in 1999/2000, and revenue and grants were about 2 percentage points of GDP lower.

[19] These include streamlining the size of the public service as well as the operations. Report of the *Task Force to Reduce Waste in the Public Sector*, (Senator Orane) January 1999; and *Strategic Performance Reviews of the Ministries of National Security and Justice, Health, and Education and Culture*, (KPMG) January 1999.

point and expediting the processing and distribution), the School Feeding program, and the recently introduced jobs programs.[20]

D. Exchange Rate and Monetary Policies

44. **The authorities emphasized that monetary policy aims to reduce inflation. Consistent with this objective, in recent years, Jamaica has also limited the magnitude of movements in the exchange rate against the U.S. dollar, supported by high interest rates—although the Jamaica dollar has depreciated since late 1998**. Foreign exchange intervention has sought to achieve "orderly adjustment" of the exchange rate rather than to defend an unsustainable rate. However, whenever the exchange rate has come under pressure, most recently in July and November 1999, the central bank intervened to limit the pace of depreciation.

45. **On balance, the mission saw advantages in a more market-determined exchange rate.** Indeed, the success of the authorities' anti-inflation strategy has provided a wider margin for exchange rate flexibility that would not trigger a major wage-price response, given that there are no major inflation risks in the current economic environment. Accordingly, the mission encouraged the authorities to allow the exchange rate to move more freely, and depreciate if market pressures were to do so by abstaining from intervening. Such an approach—in conjunction with other measures—would help restore competitiveness and reverse the declining trend in exports.[21] Given the current level of reserves (about 55 percent of total short-term liabilities and nine weeks of import cover using Fund-standard methodology, or 13 weeks using the central bank's methodology),[22] the scope for further foreign exchange sales by the central bank was very limited.

46. **The authorities pointed out that a market-determined exchange rate regime has been maintained with no signs of unsatisfied demand for foreign exchange.** The central bank buying operations are normally limited to the required surrender of 5 percent of daily

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[20] Section IV of the background paper provides details on the existing social safety net programs and the scope for strengthening them.

[21] While the economy improved its competitive position in the early 1990s, it has lost competitiveness since 1995 mainly as a result of increases in real labor costs that exceeded the growth rate of labor productivity. The significant real appreciation induced resources to move out of the tradable sector and into the nontradable sector (see background paper for more detail).

[22] The Fund measures import cover in terms of the next year's projected imports of goods and services. The central bank methodology uses current year nonbauxite imports of goods as the base. See Table 8 for more indicators of international reserves adequacy.

purchases by the dealers and *cambios* at the previous day's rate; its selling operations are intended to provide liquidity in containing fluctuations in the exchange rate. The mission observed that the 5 percent surrender requirement was susbstantially lower than the required levels in the early 1990s, but remains a constraint on participant's freedom to trade. While the distortion is limited, the mission recommended that the surrender requirement be eliminated and that the central bank undertake its purchases of foreign exchange on the open market.

47. **The stable exchange rate has helped to lower inflationary expectations and, in turn, dampened demand for wage increases**. In the circumstances, the authorities argued that any adjustment strategy that included substantially greater exchange rate flexibility, or a sharp depreciation, would risk altering the inflationary expectations and reigniting the devaluation-inflation-wage spiral. With regard to competitiveness, the authorities argued that the loss that had occurred when inflation differentials were wider had already been reversed through a combination of exchange rate adjustment and low inflation. Moreover, they indicated that reliance will be placed on improvements in efficiency and productivity as the key ingredients to sustainable and durable efforts to enhance the competitiveness of the economy.

48. **The mission's view was that, in the context of further fiscal adjustment, some easing of the monetary policy stance should be possible, without triggering inflation**. Lower interest rates in these circumstances could lead to some depreciation of the currency but would contribute to relieving the liquidity problem in the banking sector and assist the ongoing bank restructuring. In any event, lower interest rates should not be accompanied by official intervention to protect the level of the exchange rate. The pace of interest rate cuts could be modulated to keep the exchange rate from moving too rapidly. To the extent that banks are holding treasury bills in excess of their liquidity requirements, further reduction in interest rates could well result in a redirection of funds to higher return private sector lending that has had difficulties borrowing from the banks under present conditions.

49. **Although the cash reserve and liquid asset requirements have been reduced significantly in the recent past, they remain high.** Since the cash reserves are unremunerated, the requirement acts as an implicit tax that contributes to the wide interest rate spreads. The authorities' indicated that their aim is to further reduce the cash reserve and liquid asset requirements. The mission recommended that in the meantime the cash reserves be remunerated at a market-related rate with full provisions made for the impact on the budget. The authorities responded that remuneration—at least from a fiscal perspective—was equivalent to reducing the reserve requirement, and reiterated their preference for a gradual reduction in this implied tax through reductions in the requirement.

E. Structural Issues

50. **Building upon the measures already taken, the mission recommended that the pace of structural reforms be accelerated.** In the financial sector, the severe liquidity problems of some institutions could be eased if the interest on FINSAC liabilities were increasingly paid in cash rather than capitalized. Also, in order to improve collection on nonperforming loans—and enhance accountability—the mission recommended that the list of names and amounts of all defaulting borrowers be made public. Assets of several troubled insurance companies are being divested and several banks that were intervened have been merged in the process of restructuring. However, efforts should be strengthened and accelerated to complete the restructuring of the National Commercial Bank and accelerate the internal restructuring of the Union Bank for privatization. The authorities took note of these recommendations, but expressed a view that publication of defaulters would perhaps make it more difficult to move ahead with corrective policies.

51. **As progress is made with the restructuring of the financial sector, efforts are needed to further strengthen financial supervision.** The measures taken recently have strengthened the quality of supervision of banks provided by the Bank of Jamaica, and the central bank has recently assumed responsibility for the supervision of the credit unions. However, the mission expressed concern that there are segments of the financial system (including insurance) that require stronger regulatory frameworks. The authorities shared this concern and pointed out that, as a start, the Office of Superintendent of Insurance would be strengthened under a FINSAC-IDB project.

52. **An important element of the adjustment strategy should include further privatization of nonfinancial public enterprises,** including hotels and large infrastructure companies, such as the public electricity utility, as a means to rationalize the public sector. Indeed, the authorities indicated their intention to press ahead with privatization, building upon the significant progress already achieved. The mission noted that this will help ease the government's short-term financing constraint, and make a modest contribution to reducing the public debt.

53. **The authorities should consider a comprehensive reform of the broad public service to reduce its size on the basis of voluntary severance.** This would ease the burden on the budget over the medium term and help significantly to streamline government operations and improve the delivery of essential services. In particular, the mission encouraged the authorities to rationalize operations in the education and health sectors—so as to eliminate excess staff and introduce cost recovery to help fund the provision of services—as recommended by several independent reports.[23] If needed, technical and financial assistance to this end could be provided by the World Bank and the IDB.

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[23] See footnote 19 on page 16.

54. **The mission was concerned that pressures for trade protection were increasing and urged the authorities to continue resisting them.** Increases in protection would work against Jamaica's long-term interest in fostering growth through efficient, internationally competitive industries. In this respect, the mission recommended that the high level of protection for some agricultural products be reduced. The authorities considered that high agricultural protection was carefully targeted at industries that suffered from unfair foreign competition. They noted that all protection was within the WTO bindings, and that it would be reduced in 2002 in accordance with WTO commitments.

55. **The mission noted the progress made—particularly in the financial sector—in dealing with the computer issues of the year 2000,** including the back-up plans that have been designed in most cases.[24] The authorities explained that they are undertaking a public information campaign to keep the public abreast of progress in this area.

F. Statistical Issues[25]

56. **Jamaica has recently made efforts to improve general statistics, particularly the national accounts data.** The plans are to start producing national accounts on a quarterly basis by end-2000. Also, the computation of the CPI has been revised on the basis of an expenditure survey conducted in 1996, and a new index (January 1998 base) is to be published shortly. Available information on government finance statistics are broadly adequate for analysis and, although some progress has been made recently, there is still a need to develop comprehensive accounts for the consolidated central government.

57. **In these efforts, the mission encouraged the authorities to develop a work program** (including the need for technical assistance) for improving economic statistics, using the IMF's General Data Dissemination Standard (GDDS) as a framework. The mission called the authorities' attention to the need to provide the necessary resources to the Statistical Institute of Jamaica and the Planning Institute of Jamaica, to enable them to undertake the reforms recommended by recent technical assistance reports. The authorities noted the central bank's ongoing program of improving the compilation and dissemination of economic statistics that has helped in maintaining standards and placed the country in an advantageous position in moving toward the GDDS framework.

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[24] According to the International Y2K Cooperation Center, Jamaica appears to be well prepared to deal with the Y2K problem, with low risk of potential disruptions in key sectors. Jamaica is not heavily reliant on a computerized system and is working with the international community to minimize any impact as a result of Y2K. The government and private sector preparedness efforts are focused and well organized.

[25] Details on the main statistical issues are presented in Appendix V.

VII. Staff Appraisal

58. In recent years, Jamaica has achieved considerable success in reducing inflation, restructuring the financial system after the crisis in 1995–96, and further liberalizing the economy through tariff reduction and privatization. Twelve-month inflation has declined from 31 percent at the end of 1995/96 to about 5½ percent in October 1999. The financial crisis that emerged in 1995–96 and threatened the collapse of the system has been contained with the replacement of nonperforming loans with government-backed securities, the closure or merger of several commercial banks and the streamlining of their activities, and the strengthening of the prudential and supervisory frameworks. With the reduction of the common external tariff on nonagricultural products to 20 percent in January 1999, Jamaica—which has removed all quantitative restrictions—completed the process of trade liberalization envisaged under the aegis of CARICOM. After some initial setbacks—with some privatized entities reverting to public ownership or continuing to need government subsidies—the privatization process picked up momentum in 1999 with the sale of some high-profile entities. In addition, the better inflation performance has helped in moderating demand for wage increases, with settlements in the last two years being substantially lower than the inordinately large settlements in the previous four-five years.

59. Tight monetary policy has reduced inflation. However, when combined with large fiscal deficits and, consequently, substantial domestic borrowing, the result was high real interest rates that contributed to a significant appreciation of the Jamaica dollar in real effective terms; wage increases that (prior to the last two years) had exceeded by a large margin growth in labor productivity also contributed to the real appreciation. The attendant considerable erosion in competitiveness remains a major obstacle to a more rapid expansion of economic activity. This mix of policies has hampered exports and economic growth—with a cumulative contraction in output of about 4 percent over the last three years. In addition, the cost of the bailout of the financial system, together with large central government deficits, has raised the public debt sharply in recent years, which has combined with high interest rates to produce very adverse public debt dynamics. Resolution of these problems would contribute immensely toward achieving satisfactory growth in the context of a stable macroeconomic framework.

60. The authorities' policy strategy has centered around moderate improvements in the primary fiscal balance and tight monetary policy to reduce inflation. This strategy constitutes a significant effort, but appears insufficient to generate the quick substantial turnaround needed in the debt dynamics. It has put public debt on a declining trajectory, but will probably yield only a weak and gradual economic recovery and would leave the economy—particularly the public sector—vulnerable to further external or domestic shocks for a prolonged period.

61. In the circumstances, the authorities are urged to strengthen their efforts in order to put the economy on a less vulnerable path by a stronger upfront fiscal adjustment supported by wage restraint, a more market-determined exchange rate, and an acceleration of structural reforms to reduce costs and improve productivity. The aim should be to raise the primary

fiscal balance by 2–3 percentage points of GDP to about 12–13 percent of GDP, a level that while high was obtained in the early 1990s. In this regard, the authorities should accelerate efforts to cut current expenditure while strengthening social safety net programs, as well as consider new revenue measures particularly to reduce exemptions and improve tax administration. A more substantial fiscal adjustment would allow some easing of the monetary policy and a reduction in interest rates to help promote noninflationary growth.

62. While some real depreciation has taken place since late 1998, the Jamaica dollar remains significantly appreciated in real effective terms. Gauging how much greater exchange rate flexibility is compatible with maintaining low inflation and avoiding a renewed wage-price spiral obviously involves difficult judgments. However, the success to date of the authorities' anti-inflation strategy should provide a margin to maneuver without triggering a major wage-price response. Given that reserve adequacy needs to be rebuilt, the authorities should abstain from intervention in the foreign exchange market and, thereby, allow the Jamaica dollar exchange rate to be more market determined and to depreciate if market pressures so indicate, as interest rates are lowered gradually.

63. The Jamaican authorities do not share the staff's view with respect to the speed of fiscal adjustment and exchange rate flexibility. Their overall adjustment strategy has been working better than earlier expected, but the staff considers that it is high risk and has resulted in a larger than necessary debt and higher real interest rates. Nonetheless, the authorities should be commended for their successful handling of the difficult situation and perseverance with adjustment, even if at a slower pace than recommended by the staff.

64. The significant progress in structural reform made over recent years is welcome as well as the authorities' determination to continue. As part of a comprehensive adjustment strategy, the authorities should accelerate these structural reform efforts. In the financial sector, the severe liquidity problems should be eased by at least paying the interest on FINSAC liabilities in cash rather than through the issuance of more FINSAC paper and by enhancing the efforts to recover nonperforming loans of FINSAC-controlled entities. Also, the restructuring of the National Commercial Bank and the Union Bank should be completed without delay, with the aim of privatizing them soon. Efforts should be made to further strengthen supervision of financial institutions (including the insurance sector) that do not currently fall under the responsibility of the central bank. The authorities are urged to undertake a comprehensive reform of the broad public service to reduce its size and improve the delivery of essential services. In this regard, the internal reviews completed recently provide a useful guide, and assistance could be sought from the World Bank and/or the IDB.

65. Improvements in, and efforts at dissemination of, general statistics are noted. The authorities should strengthen these efforts by providing the necessary resources to enable the statistical agencies to implement the reforms recommended by recent technical assistance reports.

66. 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/

	1995/96	1996/97	1997/98	Prel. 1998/99	Staff Proj. 3/ 1999/00
(Annual percentage changes; unless otherwise specified)					
GDP, prices, wages and interest rates					
GDP at constant prices	0.2	-1.6	-1.7	-0.5	0.4
GDP deflator	25.2	17.7	10.5	5.4	4.7
Nominal GDP					
(U. S. dollars billions)	5.2	6.2	6.7	6.9	6.9
(Jamaica dollars billions)	192.5	222.7	241.3	255.0	271.8
Per capita GDP (in U.S. dollars)	1,992	2,532	2,610	2,604	2,565
Consumer prices (end of period)	30.8	9.5	8.8	6.0	6.7
(period average)	21.7	21.5	9.1	8.1	7.0
Nominal wages 4/					
Large establishments	34.3	25.0	22.5	11.9	...
Government wage bill (cash basis)	41.8	52.1	20.9	9.8	4.0
Interest rate (six-month treasury bills, end of period)	34.3	16.6	24.6	17.8	17.4
Lending rate (weighted average, end of period)	43.9	36.1	35.3	32.1	29.1
Money and credit 5/					
Net domestic assets of the banking system 6/	10.6	21.6	7.5	8.8	4.6
Public sector	9.3	-0.8	54.9	25.2	1.5
Private sector 7/	1.3	22.5	-47.4	-16.4	3.1
Liabilities to private sector 8/	25.5	21.9	6.7	11.5	4.5
Velocity (GDP relative to liabilities to private sector)	2.7	2.6	2.6	2.5	2.5
(In percent of GDP; unless otherwise indicated)					
Savings and investment					
Gross national savings	24.9	30.9	25.8	26.2	24.3
Gross investment	32.0	32.4	31.5	29.0	29.0
Public sector					
Revenue and grants (central government)	30.4	28.3	27.5	29.1	31.3
Expenditures (central government)	28.8	34.6	35.8	36.5	36.9
Public sector interest payments 9/	9.3	12.1	11.8	17.4	18.5
Primary balance (central government)	10.8	5.6	1.9	6.0	8.7
Primary balance (public sector)	11.8	6.4	2.2	7.8	10.0
Central government surplus or deficit (-) 10/ 11/	1.5	-6.5	-8.3	-7.5	-5.6
Public sector balance 12/13/	2.5	-5.7	-9.6	-12.0	-8.2
Total debt 14/	100.4	93.9	125.9	139.1	139.8
External sector					
External current account (deficit -)	-2.5	-1.5	-5.7	-2.9	-4.6
Overall balance of payments (millions of U.S. dollars)	47	152	-53	-14	20
Gross official reserves (millions of U.S. dollars)	732	816	730	700	703
(weeks of next year's imports of goods and services)	9.8	10.4	9.7	9.0	8.8
(weeks of current year's nonbauxite (industry) imports of goods)	14.3	15.9	13.0	13.3	13.0
Net international reserves (millions of U.S. dollars)	496	649	595	582	601
External terms of trade (percent change)	3.4	-7.2	3.4	-2.4	-5.1
External debt (end of period)	68.6	50.8	49.3	48.2	45.8
Debt service ratio 15/	18.1	16.2	14.9	19.3	18.9
Short-term external liabilities/reserves	96.2	68.5	71.4	94.3	99.0
Interest payments 15/	5.6	5.6	5.4	5.4	6.2
Exchange rates					
Jamaica dollar per U.S. dollar					
(end of period)	38.85	34.98	36.40	38.18	39.60
(period average)	36.80	35.90	35.77	36.88	39.59
Real effective exchange rate 16/	7.6	25.9	5.8	1.8	-2.3
Nominal effective exchange rate 16/	-15.1	17.8	-1.1	-2.6	-5.4

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

1/ Fiscal years run from April 1 to March 31.
2/ Official 1999/2000 projections, as of October 1999.
3/ Current policy scenario, including staff assessment of 1999/2000 revised budget estimates.
4/ Calendar year (first year).
5/ As of the end of fiscal year
6/ Flow as percent of liabilities to the private sector at the beginning of the period.
7/ Includes open market operations, credit to other financial institutions capital accounts and net unclassified assets.
8/ Currency in circulation plus local and foreign currency demand, time and savings deposits.
9/ Includes interest on FINSAC paper from 1997/98 on.
10/ Includes grants but excludes proceeds from divestment.
11/ Includes the cash cost of FINSAC/FIS.
12/ Includes Bank of Jamaica operating balance and FINSAC/FIS interest due but not paid.
13/ The public sector balance for 1997 has been revised to include FINSAC debt; also, it includes the balances of selected public enterprises.
14/ Excluding FINSAC liabilities held by the government.
15/ In percent of exports of goods and services.
16/ Appreciation (+); latest figures refer to actual data in the April-October 1999.

Table 2. Jamaica: Summary Balance of Payments

(In millions of U.S. dollars)

	1995/96	1996/97	1997/98	Prel. Est. 1998/99	Staff Proj. 1999/00
Current account	**-123**	**-93**	**-385**	**-198**	**-318**
Trade balance	**-901**	**-1,021**	**-1,147**	**-1,105**	**-1,270**
Exports (f.o.b)	1,802	1,689	1,703	1,551	1,494
Of which:					
Alumina	650	586	657	587	647
Imports (f.o.b)	2,703	2,710	2,850	2,656	2,764
Services (net)	**529**	**503**	**466**	**539**	**578**
Transportation	-261	-260	-284	-255	-260
Travel	951	952	941	1,018	1,066
Other services	-162	-189	-190	-223	-228
Income (net)	-335	-232	-315	-268	-279
Current transfers (net)	584	658	611	636	653
Capital and financial account (less reserves)	**170**	**246**	**331**	**184**	**338**
Capital account (net)	29	35	13	18	18
Financial account (less reserves, net)	141	211	318	166	320
Direct investment (net)	88	104	169	270	299
Other official capital (net)	-131	-117	105	-90	-49
Other sectors investment (net) 1/	184	224	44	-14	70
Overall balance	**47**	**152**	**-53**	**-14**	**20**
Financing					
Change in BOJ net reserves (increase -)	-47	-152	53	14	-20
Change in assets	48	-84	86	30	-6
Change in liabilities	-95	-69	-33	-16	-14
Of which:					
IMF purchases	0	0	0	0	0
IMF repurchases	-95	-69	-33	-16	-14
Memorandum items:					
Current account (percent of GDP)	-2.5	-1.5	-5.7	-2.9	-4.6
Gross official reserves	732	819	730	701	706
In weeks of current year nonbauxite (industry) imports of goods	14.3	15.9	13.0	13.3	13.0
In weeks of next year imports of goods and services	9.8	10.4	9.7	9.0	8.8
Export volume (percent change)	...	-3.4	-1.5	-4.2	-5.3
Import volume (percent change)	...	-4.4	6.2	-3.9	-3.1
Export price (percent change)	6.5	-3.0	2.4	-5.0	1.7
Import price (percent change)	3.0	4.6	-1.0	-2.6	7.2
Terms of trade (percent change)	3.4	-7.2	3.4	-2.4	-5.1
Public external debt (percent of GDP)	68.6	50.8	49.3	48.2	45.8
Debt service ratio (percent of goods and services exports)	18.1	16.2	14.9	19.3	18.9

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

1/ Including errors and omissions.

Table 3. Jamaica: Summary of Public Sector Operations

	1995/96	1996/97	1997/98	Prel. Est. 1998/99	Rev. Budget 1/ 1999/00	Staff Proj. 1999/00
	(In millions of Jamaican dollars)					
Central government						
Revenue and grants	58,525	63,086	66,426	74,096	85,400	85,133
Tax	50,263	55,191	59,224	66,971	75,459	76,318
Nontax 2/	6,380	6,108	5,970	5,871	7,135	7,577
Capital revenue and grants	1,882	1,786	1,232	1,254	2,807	1,239
Expenditures	55,643	77,723	86,388	93,167	98,095	100,284
Wages and salaries	15,806	24,043	29,066	31,913	32,000	33,190
Interest	17,971	27,280	24,564	34,589	37,495	38,893
Domestic	12,458	21,370	18,918	28,541	31,136	32,556
External	5,514	5,910	5,645	6,048	6,359	6,338
Other expenditures	10,665	12,902	19,631	19,262	19,831	19,432
Capital	11,201	13,498	13,128	7,503	8,769	8,769
Central government balance	**2,882**	**-14,638**	**-19,962**	**-19,171**	**-12,695**	**-15,151**
Rest of public sector balance	1,946	1,724	-3,093	-11,426	-5,108	-7,075
Of which:						
Capitalized FINSAC interest	0	0	-3,772	-15,900	-8,424	-10,391
Total public sector balance	**4,828**	**-12,914**	**-23,055**	**-30,598**	**-17,803**	**-22,226**
	(In percent of GDP)					
Central government						
Revenue and grants	30.4	28.3	27.5	29.1	30.9	31.3
Of which:						
Taxes	26.1	24.8	24.5	26.3	27.3	28.1
Expenditures	28.8	34.6	35.8	36.5	35.5	36.9
Wages and salaries	8.2	10.7	12.0	12.5	11.6	12.2
Interest	9.3	12.1	10.2	13.6	13.6	14.3
Other expenditures	5.5	5.7	8.1	7.6	7.2	7.1
Capital	5.8	6.0	5.4	2.9	3.2	3.2
Central government balance	**1.5**	**-6.5**	**-8.3**	**-7.5**	**-4.6**	**-5.6**
Rest of public sector balance	1.0	0.8	-1.3	-4.5	-1.9	-2.6
Of which:						
Capitalized FINSAC interest	0.0	0.0	1.6	6.2	3.1	3.8
Total public sector balance 3/	**2.5**	**-5.7**	**-9.6**	**-12.0**	**-6.5**	**-8.2**
External financing (net)	-1.9	-2.2	1.1	1.5	1.2	-0.4
Domestic financing (net)	-0.6	7.9	8.5	10.5	5.3	8.6
Memorandum items:						
Primary balance						
Central government	10.8	5.6	1.9	6.0	9.0	8.7
Public sector	11.8	6.4	2.2	7.8	10.2	10.0
Public debt (end-period) 4/	**100.4**	**93.9**	**125.9**	**139.1**	**137.8**	**139.8**
Domestic 5/	31.9	43.2	76.6	90.9	92.1	94.0
External	68.6	50.8	49.3	48.2	45.7	45.8

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

1/ Revised budget proposal as of November 1999.
2/ Including bauxite levy.
3/Table 4 provides details on the financing.
4/ Tables 5 and 6 provide details on public debt.
5/ Net of central government holdings of FINSAC liabilities.

Table 4. Jamaica: Public Sector Financing

(In millions of Jamaica dollars)

	1995/96	1996/97	1997/98	Prel. Est. 1998/99	Staff Proj. 1999/00
Total financing	**-4,828**	**12,914**	**23,055**	**30,598**	**22,226**
External financing (net)	-3,620	-4,200	4,070	-3,283	-1,934
Disbursements	7,348	5,565	13,628	14,309	12,675
Project loans	2,098	2,872	2,897	5,089	2,777
Other loans	3,533	431	0	0	0
Refinancing 1/	1,202	0	0	0	0
Commercial loans	515	2,262	10,731	9,220	9,898
Amortization	-10,966	-9,765	-9,837	-17,592	-14,609
Domestic financing (net)	-1,208	17,114	18,985	33,881	16,274
Banking system	11,722	-179	48,094	26,486	...
Central government	8,045	1,827	19,894	-177	1,536
Bank of Jamaica	7,321	5,686	16,578	1,674	0
Commercial banks	724	-3,859	3,316	-1,851	1,536
Public enterprises	3,677	-2,006	28,200	26,663	...
Bank of Jamaica	3,423	-4,068	11,712	7,188	...
Commercial banks	254	2,062	16,488	19,475	...
Nonbank financing	-12,930	17,293	-29,109	7,395	...
Securities	-890	13,378	11,110	29,472	...
Other 2/	-12,040	3,915	-40,219	-22,077	...
Divestment proceeds	...	0	0	0	7,886
Foreign exchange receipts	...	0	0	0	2,771
Domestic	...	0	0	0	5,115

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

1/ Associated with debt restructuring.

2/ Including errors and omissions associated with floating transactions.

Table 5. Jamaica: Public Debt

	1995/96	1996/97	1997/98	Prel. Est. 1998/99	Staff Proj. 1999/00
	(In millions of Jamaica dollars)				
Total debt	**193,356**	**209,260**	**303,760**	**354,637**	**380,093**
Domestic debt 1/	61,329	96,124	184,725	231,686	255,567
Central government	60,386	85,181	101,540	139,203	155,477
LRS	40,617	61,587	75,873	105,121	...
Treasury bills	11,963	11,016	11,650	10,450	...
Commercial bank	4,958	4,566	3,089	1,716	...
Bonds and debentures	1,706	6,643	9,770	17,873	...
Other 2/	1,142	1,369	1,159	4,043	...
FINSAC securities 1/	...	4,500	73,552	80,312	87,919
FIS securities	943	6,443	9,633	12,171	12,171
External debt 3/	132,027	113,136	119,035	122,951	124,526
	(In percent of GDP)				
Total debt	**100.4**	**93.9**	**125.9**	**139.1**	**139.8**
Domestic debt 1/	31.9	43.2	76.6	90.9	94.0
Central government	31.4	38.3	42.1	54.6	57.2
LRS	21.1	27.6	31.4	41.2	...
Treasury bills	6.2	4.9	4.8	4.1	...
Commercial bank	2.6	2.0	1.3	0.7	...
Bonds and debentures	0.9	3.0	4.0	7.0	...
Other 2/	0.6	0.6	0.5	1.6	...
FINSAC securities 1/	...	2.0	30.5	31.5	32.3
FIS securities	0.5	2.9	4.0	4.8	4.5
External debt 3/	68.6	50.8	49.3	48.2	45.8

Sources: Data provided by the Bank of Jamaica; Ministry of Finance; and Fund staff estimates and projections.

1/ Net of central government holdings of FINSAC liabilities.
2/ Including valuation adjustment.
3/ Converted at end-period exchange rate.

Table 6. Jamaica: External Public Debt Outstanding

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

	1995/96	1996/97	1997/98	Prel. Est. 1998/99	Staff Proj. 1999/00
Total	**3,476**	**3,234**	**3,270**	**3,220**	**3,144**
Medium- and long-term	3,422	3,181	3,230	3,220	3,144
Official creditors	**3,034**	**2,790**	**2,597**	**2,485**	**...**
Bilateral	1,813	1,713	1,461	1,420	...
OECD	1,631	1,538	1,316	1,285	...
Non-OECD	182	175	145	135	...
Multilateral	1,221	1,077	1,136	1,065	...
IBRD	386	283	396	351	...
IMF	214	146	113	98	...
Other	621	648	627	616	...
Private creditors	**388**	**391**	**633**	**735**	**...**
Commercial bank	297	281	283	155	...
Other	91	62	50	30	...
Bond issue	0	48	300	550	...
Short-term debt	**54.0**	**53.3**	**40.0**	**...**	**...**
Memorandum items:					
Total debt (percent of exports of goods and nonfactor services)	101.2	96.1	96.2	96.1	93.7
Total debt (percent of GDP)	68.6	50.8	49.3	48.2	45.8

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

Table 7. Jamaica: Summary Monetary Indicators of the Banking System

	1995/96	1996/97	1997/98	Prel. Est. 1998/99	Staff Proj. 1999/00 1/
(End of period stock; in millions of Jamaica dollars)					
Net international reserves	24,251	24,468	23,729	26,182	25,190
Net domestic assets	47,234	62,687	69,228	77,430	83,058
Net claims on public sector 2/	9,464	8,868	56,698	80,100	81,637
Of which:					
Central Government	806	2,635	22,528	22,351	23,887
Open market operations	-8,331	-20,045	-32,269	-38,074	-37,811
Credit to private sector	44,235	47,857	42,362	36,763	40,560
Of which:					
Foreign currency	10,099	10,957	9,039	6,512	7,185
Other 3/	18,814	43,374	23,900	20,125	21,340
Liabilities to private sector (LPS)	71,485	87,155	92,957	103,613	108,247
Money supply (M2) 4/	52,732	69,515	71,278	79,733	84,264
Foreign currency deposits	18,753	17,639	21,679	23,880	23,983
(Percentage change from a year earlier) 5/					
Net international reserves	14.9	0.3	-0.8	2.6	-1.0
Net domestic assets	10.6	21.6	7.5	8.8	5.4
Net claims on public sector 2/	9.3	-0.8	54.9	25.2	1.5
Open market operations	-9.1	-16.4	-14.0	-6.2	0.3
Credit to private sector	20.9	5.1	-6.3	-6.0	3.7
Of which:					
Foreign currency	-2.3	1.2	-2.2	-2.7	0.6
Other 3/	-10.5	33.8	-27.0	-4.1	0.0
Liabilites to private sector	25.5	21.9	6.7	11.5	4.5
Memorandum items:					
Central bank interest rate 6/	43.5	18.0	29.0	20.8	18.0
Real interest rate 7/	9.7	7.8	18.6	14.0	10.6
Base money (millions of Jamaica dollars)	25,614	29,513	32,293	31,004	29,234
LPS/base money	2.8	3.0	2.9	3.3	3.7
M2/base money	2.1	2.4	2.2	2.6	2.9
LPS velocity	2.7	2.6	2.6	2.5	2.5

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

1/ IMF staff projections based on current policies.

2/ Includes Bank of Jamaica net profit and net unclassified assets.

3/ Includes net credit to nonbank financial institutions, capital account, valuation adjustment, net unclassifed 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.

6/ Central bank 30-day reverse repurchase rate; end of period.

7/ Reverse repurchase rate deflated by previous 12-month change in consumer price index.

Table 8. Jamaica: Indicators of Macroeconomic Liquidity Risks

(In millions of Jamaican dollars)

	1995/96	1996/97	1997/98	Prel. Est. 1998/99	Staff Proj. 1999/00
Gross official international reserves	29,284	28,556	26,632	26,255	27,958
Net international reserves	19,852	22,697	21,720	21,807	24,354
Total short-term liabilities	51,637	45,185	49,298	52,097	51,644
Monetary liabilities	23,522	25,645	30,267	27,340	23,966
External debt due during the year	28,116	19,540	19,031	24,757	27,678
IMF debt service in coming year	1,467	592	871	962	998
External debt service	26,649	18,948	18,160	23,795	26,680
Gross reserves/total short-term liabilities	0.57	0.63	0.54	0.50	0.54
Gross reserves/external short-term liabilities	1.04	1.46	1.40	1.06	1.01
Net reserves/short term liabilities	0.38	0.50	0.44	0.42	0.47
Net reserves/external short-term liabilities	0.71	1.16	1.14	0.88	0.88
Open market operations (OMO)	8,331	20,045	32,269	38,074	37,811
Gross reserves/short term liabilities (including OMO)	0.49	0.44	0.33	0.29	0.31
Net reserves/short term liabilities (including OMO)	0.33	0.35	0.27	0.24	0.27
Monetary base	25,614	29,513	32,293	31,004	29,234
Gross reserves/monetary base	1.14	0.97	0.82	0.85	0.96
Net reserves/monetary base	0.78	0.77	0.67	0.70	0.83
M2 in local currency (percent change, 12-month basis)	24.4	31.8	2.5	11.9	5.7
M2/gross reserves	1.80	2.43	2.68	3.04	3.01
Liabilities to the private sector 1/ (percent change, 12-month basis)	25.5	21.9	6.7	11.5	4.5
LPS/gross reserves	2.44	3.05	3.49	3.95	3.87

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

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

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

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
	(Annual percentage change)					
Real sector						
GDP (real growth)	0.4	1.0	1.3	1.5	1.5	1.5
Consumer price inflation (end-of-period)	6.7	6.5	6.5	6.0	5.0	4.0
Exports (volume)	-5.3	-0.1	0.7	0.4	0.9	1.0
Imports (volume)	-3.1	1.5	1.4	1.4	1.4	1.4
	(In percent of GDP)					
Savings and investment						
Gross national savings	24.4	24.4	24.1	23.7	23.7	23.6
Government	-2.4	-0.5	-0.1	0.4	1.1	1.9
Private 2/	26.8	24.9	24.2	23.3	22.6	21.7
Gross capital formation	29.0	29.0	28.8	28.4	28.2	28.1
Government	3.2	3.2	3.1	3.1	3.1	3.0
Private 3/	25.8	25.8	25.7	25.3	25.1	25.1
External sector						
External current account	-4.6	-4.6	-4.6	-4.7	-4.6	-4.5
Change in net international reserves (US$ millions)	20	-75	88	-86	137	67
Public sector						
Revenues	31.3	31.6	31.2	31.1	31.2	31.2
Expenditures	36.9	35.3	34.5	33.9	33.2	32.3
Central government balance	-5.6	-3.7	-3.2	-2.7	-2.0	-1.1
Overall public sector balance 4/	-8.2	-6.1	-6.9	-7.0	-6.2	-5.2
Domestic financing (net)	8.6	6.5	5.4	8.1	5.1	5.8
External financing (net)	-0.4	-0.4	1.4	-1.1	1.1	-0.6
Public sector primary balance	10.0	10.8	10.6	11.0	11.4	11.7
Memorandum items:						
Total public sector debt	139.9	136.2	134.4	132.3	131.2	130.1
Domestic	94.0	94.1	93.9	95.8	96.0	96.8
External	45.8	42.1	40.6	36.5	35.3	33.3
External debt service ratio (percent of exports of goods and services)	18.9	20.5	15.4	19.7	13.6	14.9
Effective interest rate on domestic debt 4/	19.8	17.5	16.7	15.1	13.8	12.3
Effective interest rate on external debt	5.1	7.7	8.5	9.0	9.5	9.3
Gross official international reserves (US$ millions)	703	613	683	579	701	763
(weeks of next year's imports of goods and services)	8.8	7.7	8.5	7.2	8.8	9.5

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

1/ Based on current policies.

2/ Including net factor income and current transfers.

3/ Including inventory accumulation.

4/ Including FINSAC interest.

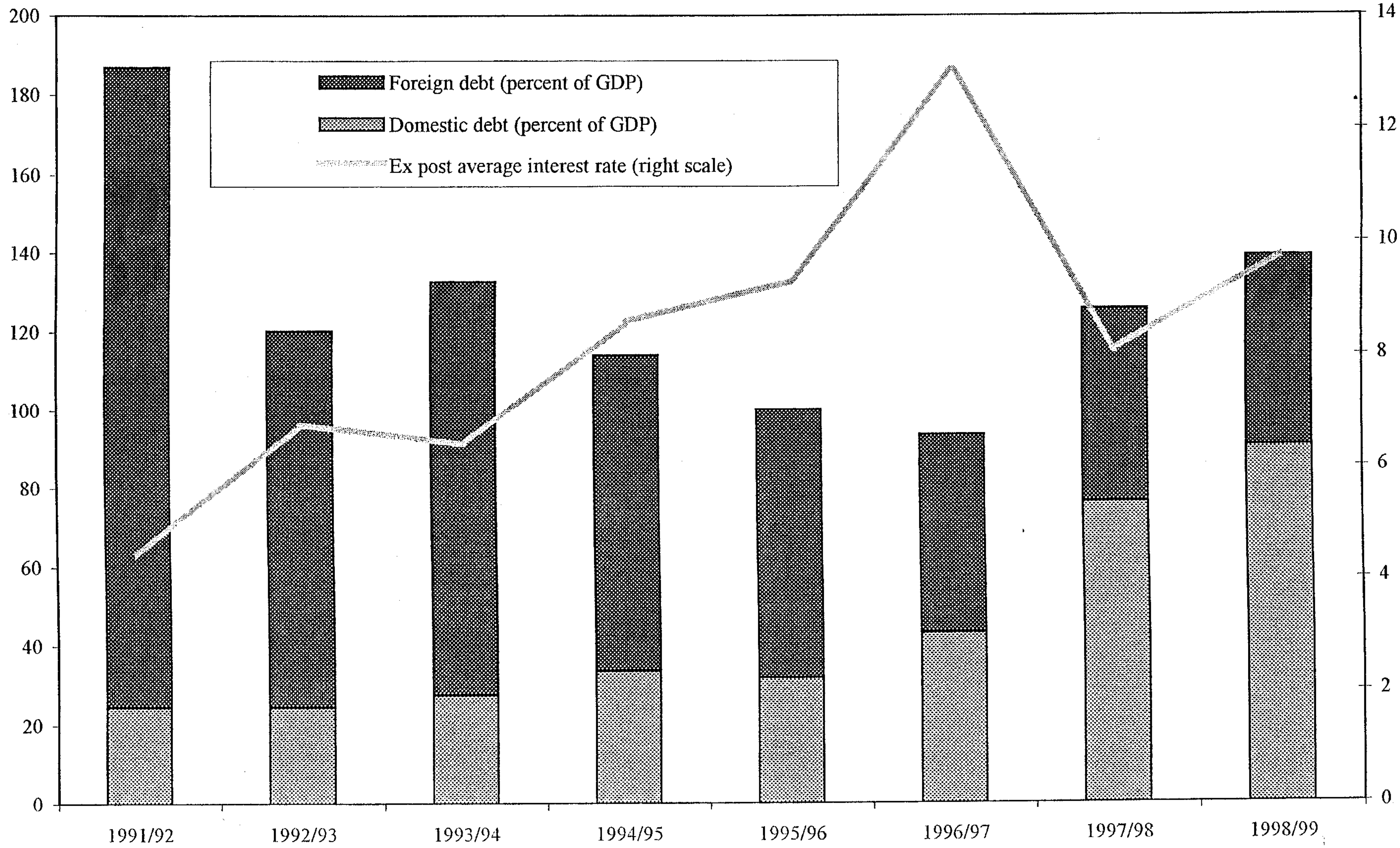
Table 10. Jamaica: Selected Alternative Scenario Macroeconomic Medium-Term Projections 1/

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
	(Percentage change)					
Real sector						
GDP (real growth)	0.4	1.5	2.2	2.8	2.9	3.0
Consumer price inflation (end-of-period)	6.7	6.5	6.3	5.7	4.7	3.8
Exports (volume)	-5.3	2.1	1.8	2.0	2.4	3.4
Imports (volume)	-3.1	1.9	2.2	2.5	2.6	2.7
	(In percent of GDP)					
Savings and investment						
Gross national savings	24.4	25.9	29.6	31.0	32.1	33.4
Government	-2.4	2.2	4.6	5.6	6.4	7.5
Private 2/	26.8	23.7	25.0	25.4	25.7	25.9
Gross capital formation	29.0	30.2	34.1	35.6	36.9	38.2
Government	3.2	4.0	4.0	5.0	5.2	5.2
Private 3/	25.8	26.2	30.1	30.6	31.7	33.0
External sector						
External current account	-4.6	-4.3	-4.5	-4.7	-4.8	-4.9
Change in net international reserves (US$ million)	20	14	163	25	222	138
Public sector						
Revenues	31.3	31.6	31.6	31.6	31.6	31.6
Expenditure	36.9	35.3	34.0	33.4	33.9	33.4
New fiscal measures (cumulative)	...	2.0	3.0	3.0	3.0	3.0
Central government balance	-5.6	-1.8	0.6	0.6	1.2	2.3
Overall public sector balance 4/	-8.2	-3.8	-2.7	-3.2	-2.4	-1.1
Domestic financing (net)	8.6	5.4	2.0	4.2	1.6	0.5
External financing (net)	-0.4	-1.6	0.7	-1.0	0.8	0.6
Primary public sector balance	10.0	12.0	13.3	12.7	12.8	13.1
Memorandum items:						
Total public sector debt	139.9	134.0	129.2	125.8	122.1	117.6
Domestic	94.0	91.1	87.6	86.9	83.2	80.1
External	45.8	42.9	41.6	38.9	39.0	37.5
External debt service ratio (percent of exports of goods and services)	18.9	20.3	15.5	19.6	13.7	14.9
Effective interest rate on domestic debt 4/	19.8	16.8	15.3	13.9	12.5	10.4
Effective interest rate on external debt	5.1	7.7	8.5	9.0	9.4	9.2
Gross official international reserves (US$ millions)	706	642	811	815	1,019	1,101
(weeks of next year's imports of goods and services)	8.8	8.0	10.1	10.2	12.7	13.7

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

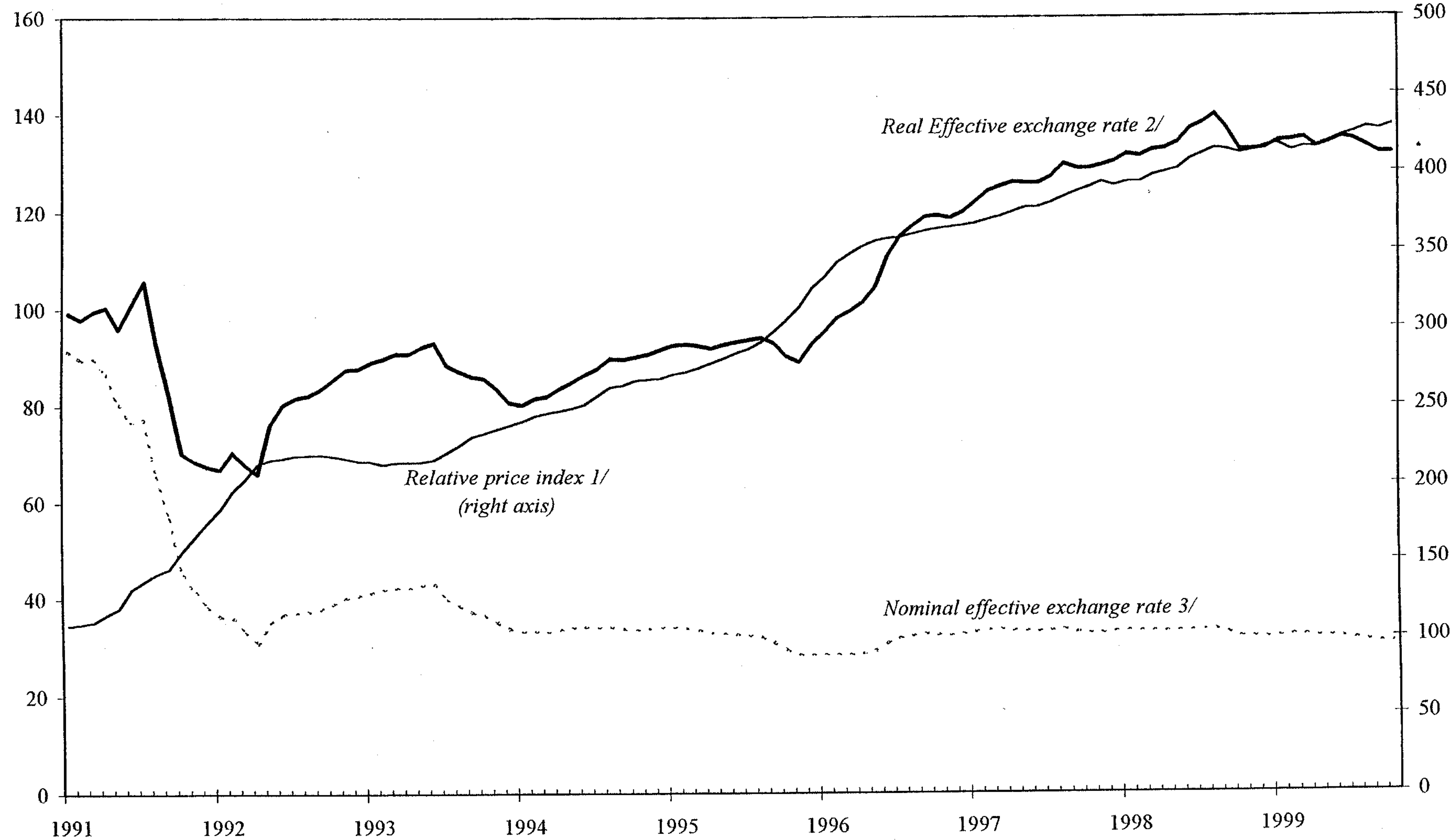
1/ Based on the staff's policy recommendations for a faster reversal of the adverse public debt dynamics.
2/ Including net factor income and current transfers.
3/ Including inventory accumulation.
4/ Including FINSAC interest.

Figure 1. Jamaica: Public Debt Dynamics, 1991-1998



Sources: Ministry of Finance; and Fund staff estimates.

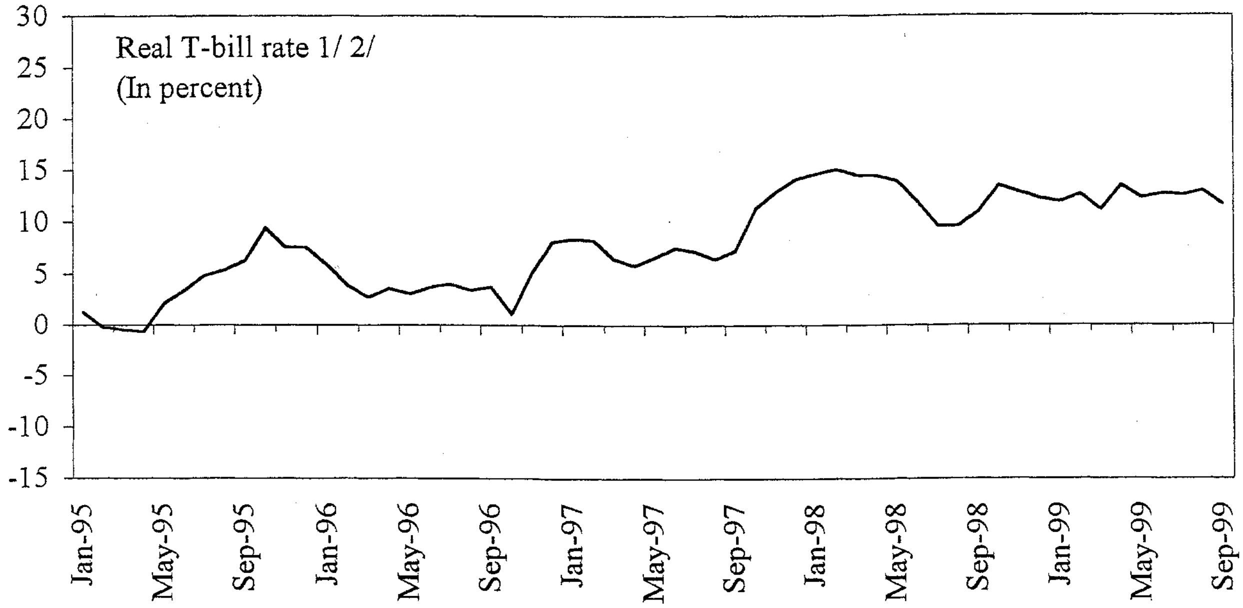
Figure 2. Jamaica
Exchange Rate Developments
(1990=100)

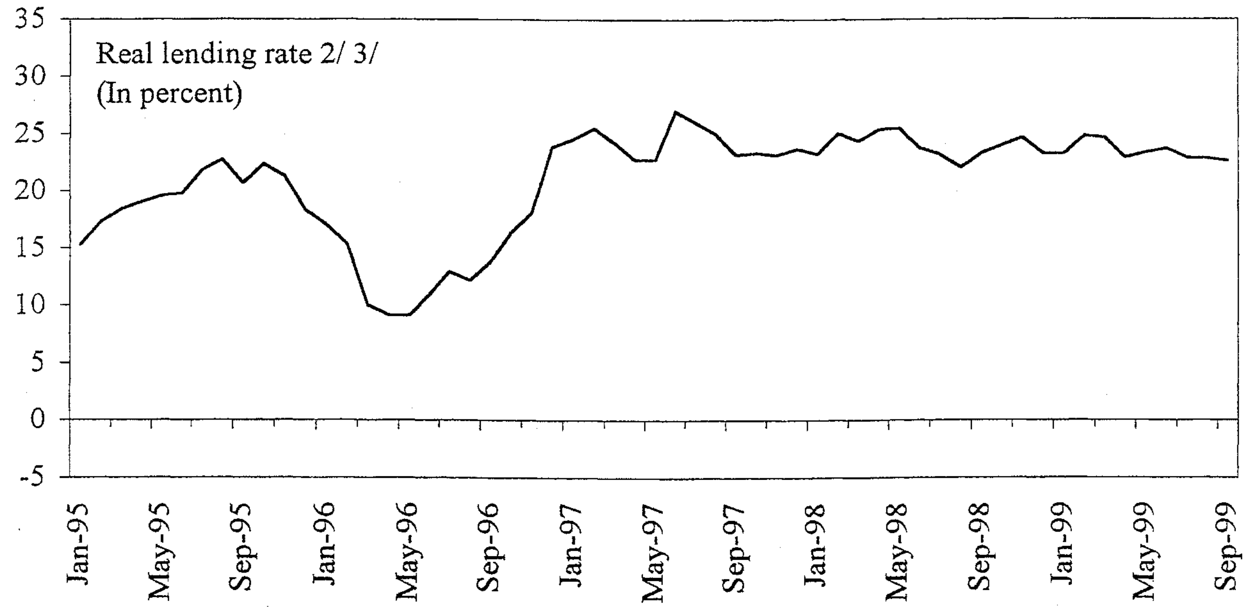


Source: IMF Information Notice System.

1/ Measured by seasonally adjusted consumer price indices.
2/ Nominal effective exchange rate deflated by relative prices; increase means appreciation.
3/ Trade weighted index of nominal exchange rates.

Figure 3. Jamaica: Interest Rates, 1995-1999





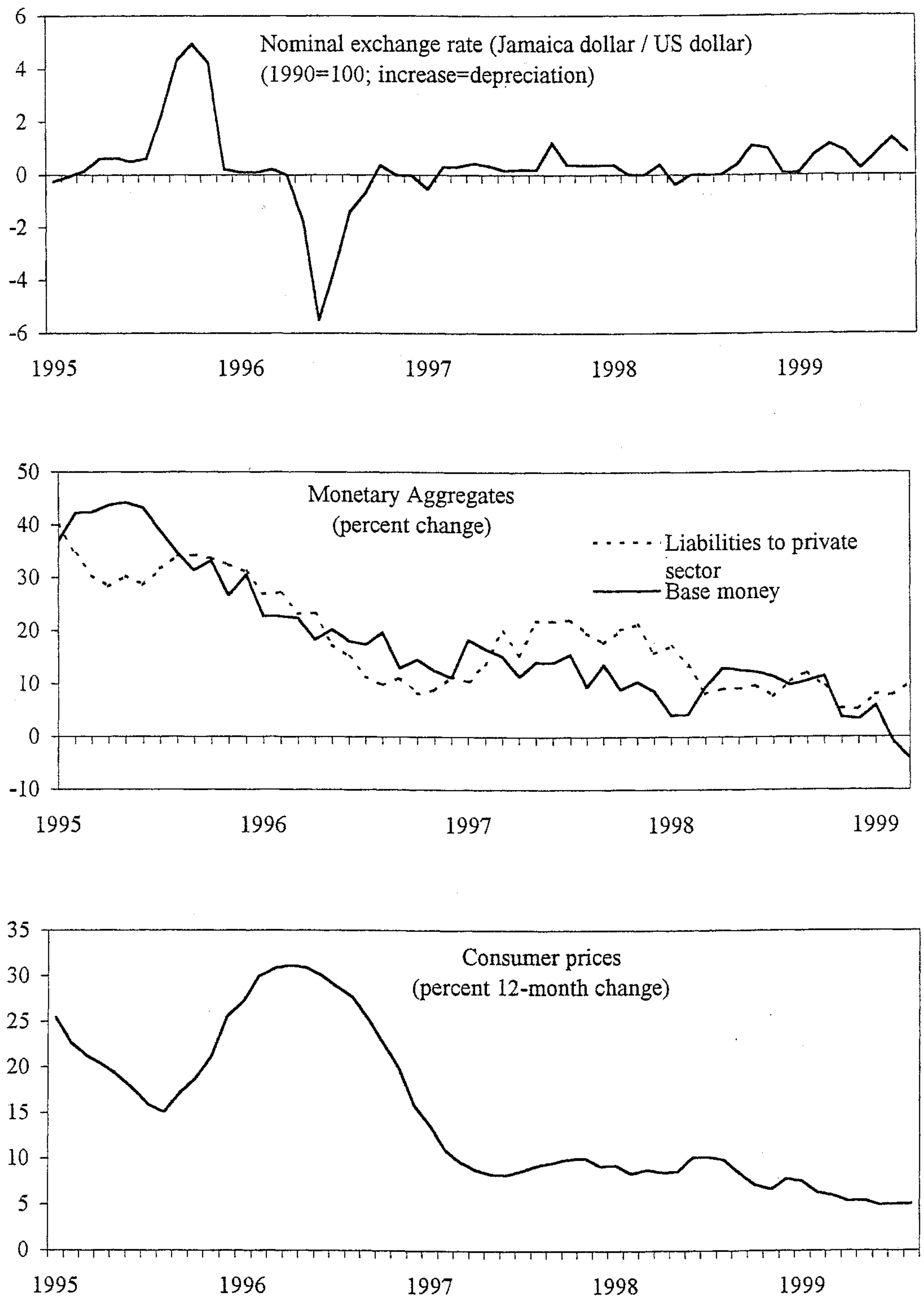
Sources: Bank of Jamaica; and Fund staff estimates.

1/ Six months Treasury bill rate or three months when not available.

2/ The real rate is the nominal rate deflated by the observed 12 months inflation rate (lagged).

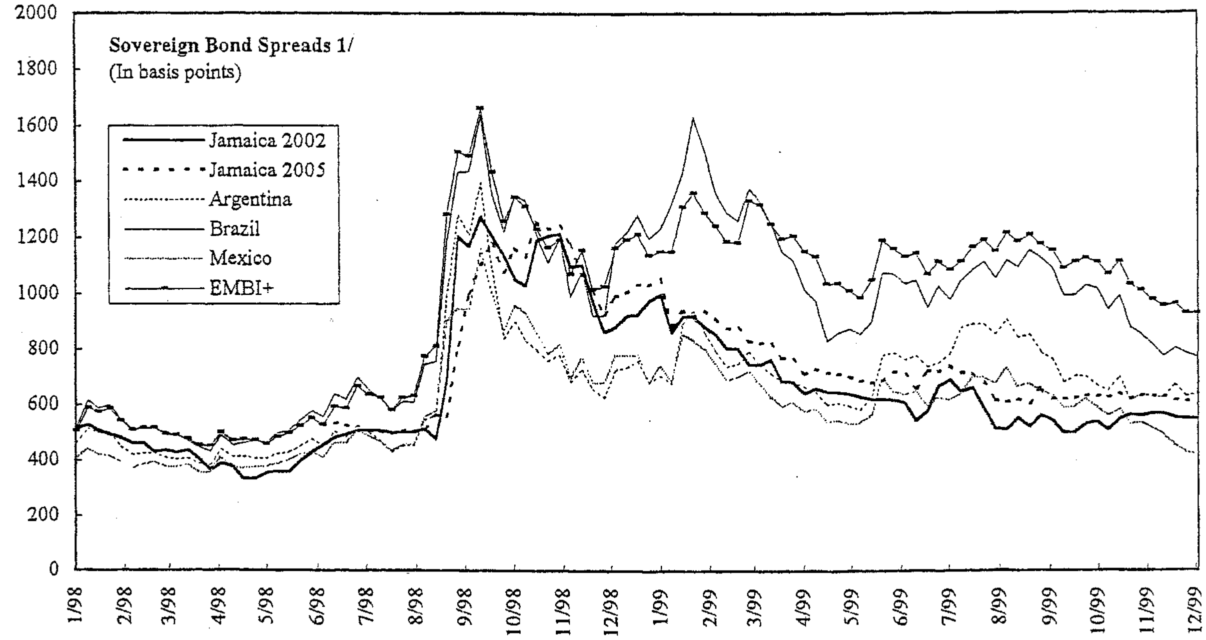
3/ Weighted average lending rate of commercial banks.

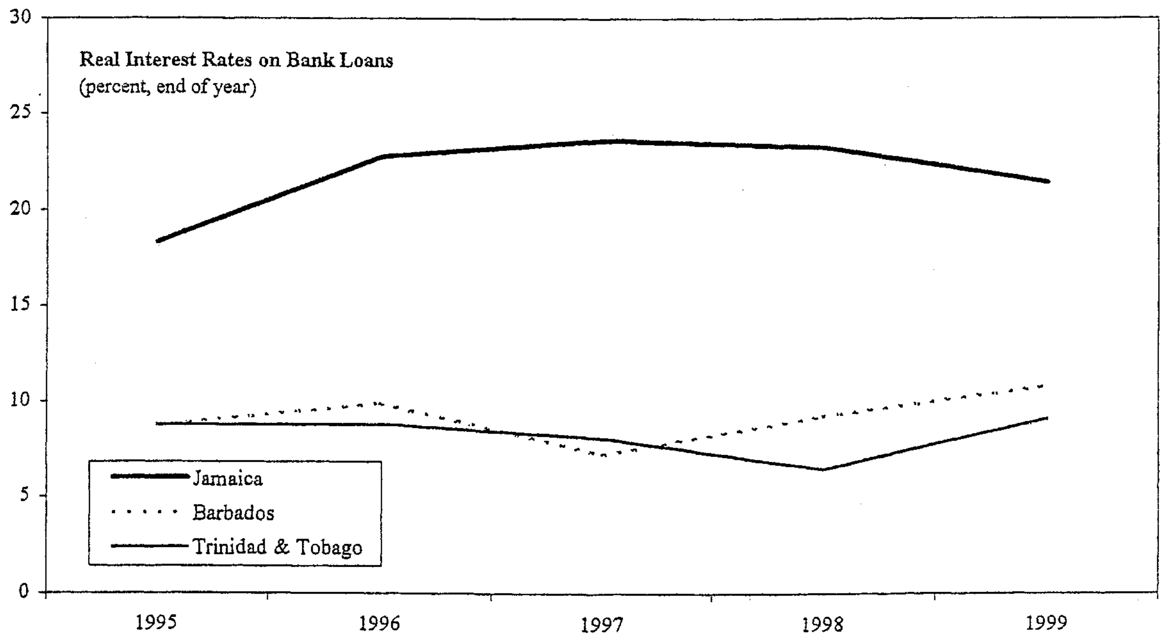
Figure 4. Jamaica: Movements in Exchange Rate, Money and Consumer Prices



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

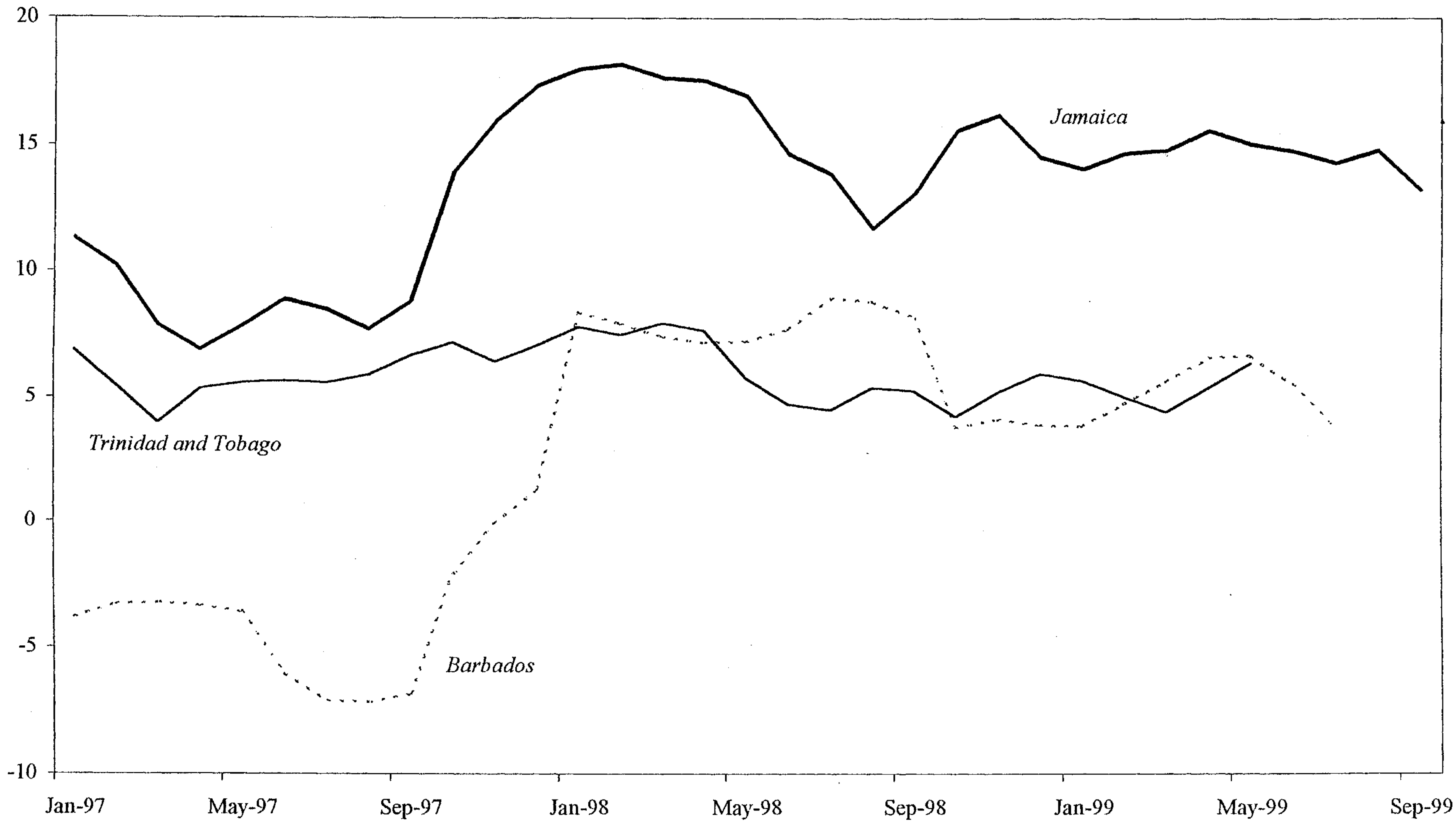
Figure 5. Jamaica. Sovereign Spreads and Real Bank Lending Rates





Sources: J.P. Morgan; national authorities; and Fund staff estimates.

Figure 6. Jamaica, Barbados and Trinidad and Tobago
Real Interest Rates on T-Bills 1/



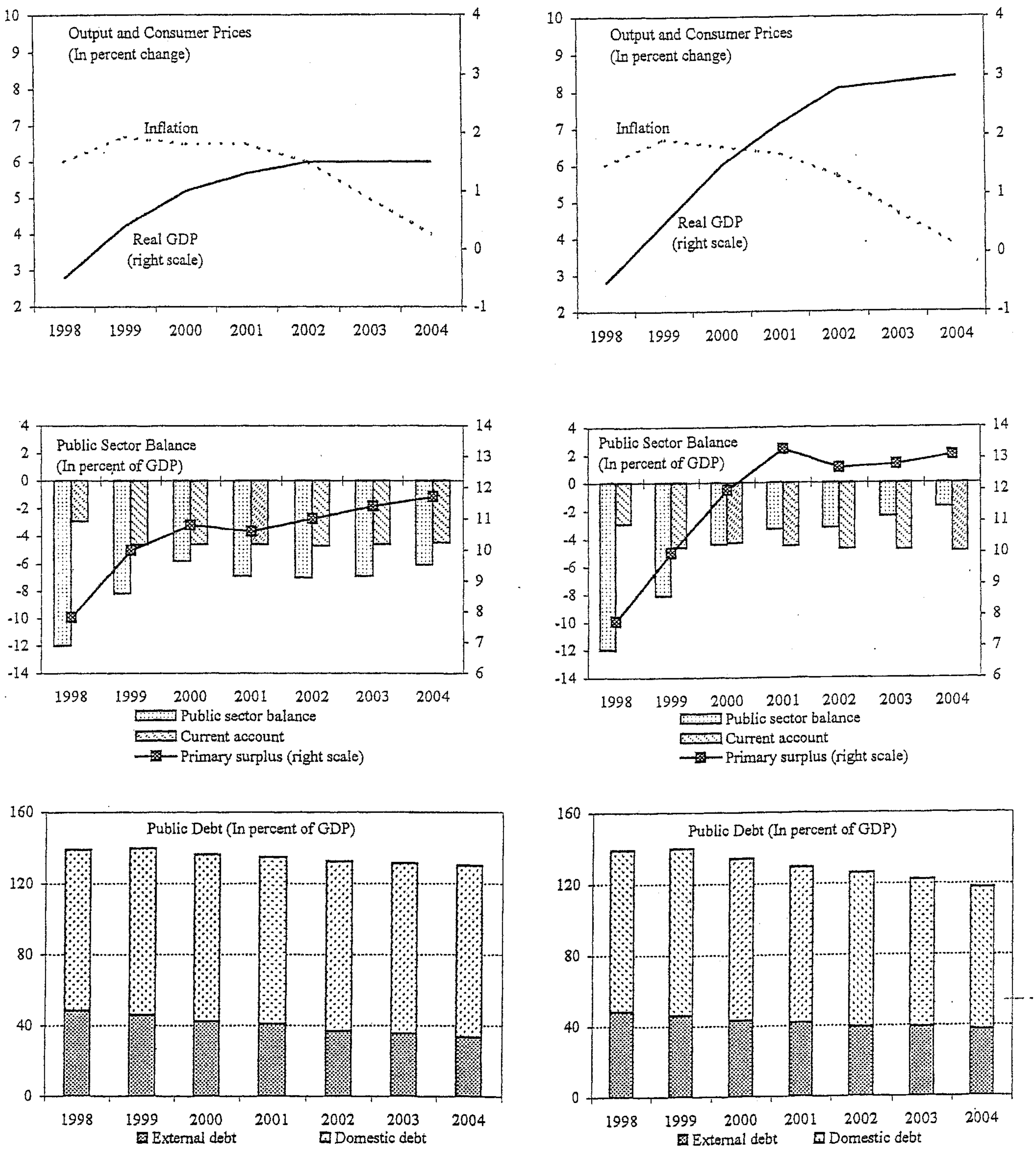
Sources: Economic Data Sharing System

1/ Real interest is the nominal rate deflated by 12-month CPI inflation rate (over the previous 12 months).

Figure 7. Jamaica: Medium-term Projections

I. Baseline (Current Policy)

II. Alternative Scenario



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

JAMAICA—FUND RELATIONS
(As of November 30, 1999)

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	338.70	123.8

III. SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	40.61	100.0
Holdings	1.26	3.1

IV. Outstanding Purchases and Loans:

	SDR Million	Percent of Quota
Extended arrangement	65.15	23.8

V. 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

	Overdue	Projections				
	11/30/99	1999	2000	2001	2002	2003
Principal	0.0	4.4	14.5	14.5	14.5	11.4
Charges/interest	0.0	1.0	4.0	3.3	2.7	2.1
Total	0.0	5.4	18.5	17.8	17.2	13.5

VII. Exchange Rate Arrangements:

The external value of the Jamaica dollar has been determined in an interbank market operated by commercial banks beginning September 17, 1990. During the first year of this arrangement, the Jamaica dollar depreciated from J$8 per U.S. dollar to J$13.3 per U.S. dollar. Following a substantial liberalization of the foreign exchange system on September 25, 1991 the Jamaica dollar depreciated further before stabilizing at J$22 per U.S. dollar by mid-June 1992. The Jamaica dollar remained stable through mid-June 1993 but depreciated to around J$32 per U.S. dollar by end-1993 reflecting uncertainties about inflation, as well as measures to increase competition in the market. Between February 1994 and March 1995 the Jamaica dollar was relatively stable at around J$33 per U.S. dollar. In July 1995, the exchange rate came under pressure and depreciated to J$40 per U.S. dollar by mid-November 1995 where it remained stable through end-April 1996. Between May 1996 and the end of August 1996, the Jamaica dollar appreciated to about J$35, remaining relatively stable until October 1997. Prior to the national election which took place in December 1997, the Jamaica dollar came under pressure and depreciated to J$36.5 and remained relatively stable—with the exception of some pressures prior to the budget presentations in April 1998 and 1999. In July 1999, the exchange rate again came under pressure but the central bank intervened and the rate remained at just under J$40.0 per U.S. dollar. In November 1999, the exchange rate moved above J$41.0 per U.S. dollar as Bank of Jamaica again intervened to smooth the effects of the seasonally low supply of U.S. dollars.

VIII. Last Article IV Consultation:

The last Article IV consultation was completed by the Executive Board on July 15, 1998 (SM/98/165 and SM/98/166). Jamaica is on the standard 12-month cycle. The fifth and final review under the extended arrangement (the last Fund arrangement) was completed by the Executive Board on March 13, 1996 (EBS/96/25).

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
STA	September 1996	Multisector statistics assessment

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 November 30, 1999

				Original Amount in US$ Millions			
Project ID	Fiscal Year	Borrower	Purpose	IBRD	IDA	Cancellations	Undisbursed
Number of Closed Projects: 55							
Active Projects							
JM-PE-38700	1997	Govt of Jamaica	Student Loan	28.50	0.00	0.00	11.20
JM-PE-39029	1997	Govt of Jamaica	Soc. Invest. Fund	20.00	0.00	0.00	4.70
JM-PE-7490	1997	Govt of Jamaica	Pub. Sector Moderniz.	28.40	0.00	0.00	24.30
JM-PE-7485	1997	Govt of Jamaica	Private Enterp. Inv.	35.00	0.00	0.00	12.00
JM-PE-7489	1997	Govt of Jamaica	Tax Admin.	13.20	0.00	0.00	5.10
JM-PE-7476	1997	Govt of Jamaica	Energy Str. Dereg.	60.00	0.00	0.00	0.00
JM-PE-7479	1997	Govt of Jamaica	Reform of Secondary	32.00	0.00	0.00	10.60
Total				217.1	0	0	67.9

	Total
Total disbursed (IBRD and IDA)	1,166.20
of which has been repaid:	763.9
Total now held by IBRD and IDA	402.3
Total Undisbursed	67.9

Note: disbursement data is updated at end of the first week of the month and is currently as of June 30, 1999.

II. Statement of IFC's Committed and Disbursed Portfolio Investments
As of August 31, 1999

(In millions of U.S. dollars)

		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic
1995	Jamaica Energy	18.40	1.91	0.00	41.54	18.40	1.91	0.00	41.54
Total Portfolio		18.40	1.91	0.00	41.54	18.40	1.91	0.00	41.54

III. Bank Assistance Strategy

The Bank Assistance Strategy is focussed on promoting private-sector led economic growth with poverty reduction This is to be achieved by reestablishing macroeconomic stability through tighter fiscal policy and financial sector reform, and supporting government efforts to ensure basic education, modernize the public sector, and develop economic and social infrastructure. However, the Bank is proceeding cautiously in developing together with the authorities an assistance strategy that will include technical assistance support to address financial sector and safety-net issues. Economic work has focussed on the financial sector, promoting macroeconomic stability and growth, urban poverty, and violence issues.

JAMAICA—RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of September 30, 1999)

Jamaica joined the Inter-American Development Bank (IDB) in 1969. Since then, Jamaica has had access to a range of IDB support in the form of loans on ordinary and more concessional terms, and technical assistance. As of September 30, 1999, the IDB approved loans to Jamaica amounting to US$1,348 million of which US$1,131 million or 84 percent has been disbursed. Of the disbursed amount, US$985 million or 74 percent came from ordinary capital, US$164 million (12 percent) from the concessionary Fund for Special Operations (FSO), and US$199 million (15 percent) from funds administered by the IDB on behalf of others. Jamaica's outstanding debt balance to the IDB amounted to US$518 million of which 83 percent was for ordinary capital loans, 16 percent for FSO loans, and 1 percent for other funds. To date, IDB technical assistance to Jamaica has amounted to US$30 million.

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 infrastructural, production and business activity.

Approved Loans by Sector

Sector	Amount (US$ millions)	Percent of Total
Export Financing	257	19
Industry and Tourism	202	15
Energy	179	13
Transportation	142	11
Agriculture and Fishery	132	10
Urban Development	132	10
Health and Sanitation	110	8
Education	80	6
Reform and Public Sector	79	6
Others	36	2
Total	1348	100

At present, the IDB is involved in ongoing projects costing US$647 million of which the IDB contributed US$398 million. Disbursement has slowed down in the latter half of the 1990s and more than 50 percent of approved lending remains to be disbursed. After a hiatus in 1998, there has been a resumption of new lending with the approval of the land administration and management, solid waste management, parish infrastructure development, and Y2K remediation projects in 1999.

The net flow to Jamaica has been negative for every year except 1990 and it is projected that the net outflow from Jamaica will continue and grow over the next four years. At the same time, IDB debt outstanding and debt service are projected to increase slightly. These cash flow projections reflect the application of a low lending scenario, which is associated with the *status quo* policy framework.

Jamaica: Social Indicators and Poverty Indices

	Jamaica (most recent estimates)	Jamaica (15-20 years ago)	Latin America and Caribbean (most recent estimates)
I. Social Indicators of Development			
Demographic			
Area (square kilometer)	10,830	...	20,063,940
Population (millions)	2.6	2.2	477.9
Density (population per square kilometer)	240.0	...	...
Population annual growth rate (percent)	1.0	1.4	1.7
Of which:			
Urban	2.3	2.6	2.4
Crude birth rate (per thousand population)	23.1	27.6	23.6
Crude death rate (per thousand population)	6.0	6.7	6.6
Fertility rate (births per women)	2.8	3.7	2.8
Per capita income (U.S. dollars)	2,631	1,242	...
Labor force			
Economic active population (millions)	1.1	1.0	196.8
Agriculture (percent of labor force)	21.4	31.2	25.5
Health			
Infant mortality (per thousand live births)	24.5	21.2	...
Life expectancy at birth	72.2	70.8	69.1
Population per physician	6,420	2,772	1,458
Immunized in percent of children under 12			
Measles	81.7	...	83.7
DPT	84.8	39.0	...
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)	113.0	86.0	113.7
Prevalence of malnutrition under 5 years of age (percent of age group)	9.9	15.0	...
Education			
Gross enrollment ratios (percent of school age group)			
Primary	109.0	103.0	109.7
Secondary	66.0	67.0	51.3
Pupil/teacher ratio (pupils per teacher)			
Primary	40.1	41.4	...
Secondary	...	...	...
Illiteracy rate (percentage of population over 15 years)	15.0	...	...
Newspaper circulation (per thousand of population)	67.0	51.0	86.3
Women			
Gross enrollment ratio (percent of school age group)			
Primary	108.0	104.0	...
Secondary	70.0	71.0	...
Illiteracy rate (percent of population over 15 years)	10.9	...	...
Life expectancy (years)	76.5	73.1	72.5
Labor force (percent of total)	45.1	46.3	33.4

Jamaica: Social Indicators and Poverty Indices

	1991	1992	1993	1994	1995	1996	1997
			II. Aggregate Estimates of Poverty 1/				
Percent poor	44.6	33.9	24.4	22.8	27.5	26.1	19.9
Poverty gap index (rural areaas)	0.38	0.31	0.33	0.28	0.26	0.27	0.27
Poverty severity index (rural aras)	0.14	0.10	0.11	0.08	0.07	0.07	0.07
Food shares in total consumption	0.64	0.65	0.63	0.62	0.63	0.62	...
Average per capita annual consumption	6.08	6.59	6.81	7.65	7.79	7.23	9.08
Memorandum items:							
Real GDP growth	0.7	1.4	1.5	1.1	0.5	-1.9	-2.2
Inflation (CPI - period average)	48.2	77.2	22.1	35.1	19.9	26.4	9.7
Private remittances (US$ million)	163	254	294	447	506	584	606

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.

Jamaica—Statistical Issues

National account statistics

1. There are 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 2000.

Prices

2. 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.

Government finance statistics

3. No data on the industrial production indices have been reported for publication in *IFS* since 1990. No data on wholesale or producers' prices, import volumes, or export or import prices have been reported for publication in *IFS*.

4. The latest year for which data is available in the GFS is 1985.

5. 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.

6. A GFS mission that was scheduled in the last quarter of the 1998 RAP was postponed—because of inadequated preparation by the authorities. Consequently, the Fund delayed the GFS mission 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 statistics

7. The published statistics for the BOJ are sectorized, classified, and valued in accordance with international standards, and are published in a timely manner.

8. 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.

9. 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 correctly exclude those entities that are no longer in the public sector in the monetary accounts of the BOJ and commercial banks.

10. 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

11. 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 balance of report has impressed but improvement is needed with respect to embassies, airlines, shipping companies, and computer services.

Jamaica: Core Statistical Indicators
as of December 6, 1999

	Exchange Rates	International Reserves	Reserve/ Base money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of Latest Observation	12/06/99	11/10/99	11/10/99	11/10/99	9/99	9/99	10/99	10/99	10/99	9/99	1998	9/99
Date Received	12/06/99	11/25/99	11/25/99	11/25/99	10/99	10/99	11/28/99	12/99	12/99	10/99	07/99	10/99
Frequency of Data 1/	D	W	W	M	M	M	M	M	M	W	A	Q
Frequency of Reporting 1/	D	W	W	Q	Q	M	M	M	M	W	A	Q
Source of Update 2/	A	A	A	A	A	A	A	A	A	A	A	A
Mode of Reporting 3/	C	C	C	C	C	C	C	C	C	C	C	C
Confidentiality 4/	C	C	C	C	C	C	C	C	C	C	C	C
Frequency of Publication 1/	D	M	M	A	Q	M	M	M	M	A	A	Q

1/ D-daily, W-weekly, M-monthly, Q-quarterly, Bi-W-bi-weekly.
2/ A-direct reporting by central bank, ministry of finance, or other official agency N-official publication and press release.
3/ E-electronic data transfer, C-facsimile.
4/ B-for use by the staff and the Executive Board, C-for unrestricted use.

INTERNATIONAL MONETARY FUND
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Public Information Notice (PIN) No. 00/3
FOR IMMEDIATE RELEASE
January 27, 2000

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

IMF Concludes Article IV Consultation with Jamaica

On January 10, 2000, the Executive Board concluded the Article IV consultation with Jamaica.[1]

Background

During the 1996/97–1998/99 period, Jamaica achieved significant progress in reducing inflation, restructuring the financial system after the crisis in 1995–96, and further liberalizing the economy through external tariff reduction and privatization. However, the policy mix of tight monetary policy and large fiscal imbalances continued to result in very high interest rates and appreciation of the Jamaica dollar in real effective terms that have contributed to weak economic growth. In addition, public sector debt rose sharply on account of a large bailout of the financial sector and the large public sector deficit.

Inflation was reduced from 31 percent in 1995/96 to about 5½ percent in October 1999, and real wage increases slowed significantly in 1998, after several years of large increases, as the authorities' success in reducing inflation fed into new wage contracts. The average nominal lending rate fell by 400 basis points but real interest rates remained high. **Output** contracted by a cumulative 4½ percent during the two-year period 1996/97–1998/99 mainly because of high interest rates that slowed investment, and a deterioration in competitiveness for manufacturing and nontraditional exports. **Unemployment** remained at about 15½ percent in 1997–98.

Real effective exchange rate appreciation had cumulated to about 35 percent during the 1996/97–1998/98 period, but slowed significantly since August 1998 as inflation in Jamaica approached that in trading partner countries and the Jamaica dollar depreciated moderately in nominal effective terms.

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[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. In this PIN, the main features of the Board's discussion are described.

The **external current account** deficit widened from 1½ percent of GDP in 1996/97 to 4½ percent of GDP a year during 1997/98–1998/99 as export volume and prices declined, despite a sharp fall in import prices. The current account deficit was financed mostly from foreign investment as large external commercial borrowing was offset by large official debt amortization. As the overall balance of payments recorded a deficit of US$70 million in the 1997/98–1998/99 period, **gross international reserves** fell to about US$700 million by end-March 1999, equivalent to nine weeks of prospective imports of goods and services and 105 percent of prospective debt service payments.

After a significant widening of the **fiscal deficit** in 1997/98, efforts were made to consolidate the public finances in 1998/99 but they were insufficient to offset fully the high interest bill. The overall public sector deficit increased by 4 percentage points of GDP to 9½ percent in 1997/98 as central government revenues relative to GDP fell for the second consecutive year and most expenditure categories—especially wages—rose sharply. Significant efforts at fiscal adjustment in 1998/99 included strengthening tax administration, cutting nonwage primary expenditures and capital outlays, and some tax increases. However, the growing interest bill on domestic debt resulted in the overall deficit rising further to 12 percent of GDP. Even though the external debt declined for the sixth consecutive year, total **public debt** (net of central government holdings of government-backed liabilities issued by the Financial Sector Adjustment Company (FINSAC) rose from 126 percent of GDP at end-1997/98 to 139 percent at end-1998/99.

In the area of structural reforms, considerable progress has been made in the financial sector and in privatization, while trade liberalization continued. The **financial sector** crisis that emerged in 1995/96 was contained by replacing nonperforming loans with government-backed securities, restructuring the intervened institutions, and strengthening the prudential and supervisory frameworks. Four state–owned banks and a number of smaller entities were merged into the Union Bank, and restructuring of the National Commercial Bank continued with both banks being prepared for privatization. Three of the five intervened insurance companies have been sold, with negotiations for the sale of the remaining two in progress. Following some setbacks—when some privatized entities reverted to public ownership or continued to need government subsidies—**privatization** gained momentum in 1999 with the sale of some high-profile entities. Also, Jamaica reduced, as envisaged under the aegis of CARICOM, the maximum external tariff on nonagricultural products to 20 percent in January 1999.

The **authorities' policy strategy** for 1999/2000 continues to be centered around moderate further improvements in the primary fiscal balance, and tight monetary policy to contain inflation. To that end, their aim is for a central government budget deficit of 4½ percent of GDP and inflation of 4–6 percent. Based on developments during the first half of the fiscal year, the staff projects that the central government deficit is likely to be around 5½ percent of GDP, due to lower than anticipated revenues associated with weak growth, and higher wage and interest payments; the total public sector deficit would decline to 8 percent of GDP and the public debt would broadly stabilize at about 140 percent of GDP. Real output growth, constrained by still high interest rates, is likely to be modest—about ½ percent—mainly on account of a recovery in agriculture and some growth in tourism. The external current account deficit would widen to 4½ percent of GDP, financed largely by direct investment and private capital inflows, with gross official reserves remaining at about US$700 million.

Executive Board Assessment

Executive Directors noted that the authorities have been dealing with a very difficult situation and have achieved some successes. Inflation has been significantly reduced in the last three to four years; fiscal efforts in the last two years have been substantial, although more than offset by the large interest bill; the restructuring of the financial system after the crisis in 1995/96 has progressed in a broadly satisfactory way; and the economy has been further liberalized via privatization and tariff reduction. However, Directors observed that the fiscal deficit has remained large, primarily because of the heavy public debt burden, and has required substantial domestic borrowing. High real interest rates, resulting from tight monetary policy and large fiscal deficits, have contributed to a significant appreciation of the Jamaican dollar in real effective terms. Moreover, the cost of the financial system bailout in recent years has combined with these developments to raise public debt and generate adverse debt dynamics.

Directors noted the convergence of views between the staff and the authorities over the macroeconomic challenges facing Jamaica, but observed that there were differences about the perceived risks to, and vulnerability of, the economy, and hence about the appropriate pace of adjustment. Directors welcomed the authorities' strong actions to raise the primary surplus in order to reverse the adverse debt dynamics while maintaining low inflation, which had been working better than earlier expected. However, they noted that, because of the rising interest bill, this strategy had put the public debt on only a moderately declining trajectory. Most Directors considered that there were risks associated with the more gradual path preferred by the authorities, as it might yield only weak economic recovery and could leave the economy vulnerable for a prolonged period to further external or domestic shocks. Furthermore, the erosion of competitiveness poses a major obstacle to a more vigorous economic recovery. Accordingly, these Directors urged the authorities to strengthen their efforts to put the economy on a less vulnerable path by a more ambitious, up-front fiscal adjustment, wage restraint, flexible exchange rate policy, and accelerated structural reforms. Some Directors, however, supported the authorities' concern that there might also be some risks associated with an accelerated adjustment path.

Directors considered that the emphasis of fiscal adjustment should be on expenditure reduction—particularly primary current expenditures—while strengthening social safety net programs. At the same time, while noting that tax rates in Jamaica are already high, they felt that some revenue measures may be needed, including steps to eliminate exemptions and improve tax administration. Directors noted that the pace of wage increases has been lowered, reflecting the authorities' success in reducing inflationary expectations. However, wage gains have outstripped productivity growth by a substantial margin during the preceding several years. Therefore, sustained moderation in wage increases remains necessary to enhance the chances of success for the authorities' adjustment strategy.

Directors agreed that it would be desirable to have greater flexibility in the exchange rate by abstaining from sustained intervention in the foreign exchange market. They considered that, in the context of a tighter fiscal policy, such greater flexibility would allow for a gradual reduction in domestic interest rates. In this regard, a number of Directors, although acknowledging the authorities' concern about the danger of renewing a wage-price spiral in the event of a significant depreciation, were of the view that the present low inflation environment provided room for such greater exchange rate flexibility. Many others, however, supported the authorities' cautious approach.

Directors welcomed the recent progress with structural reforms. Of particular note were the marked acceleration in privatization during 1999 and the strengthened financial sector framework that has been established with the recent rationalization of publicly-owned financial institutions and improvements in the supervision of the financial system. Directors encouraged the authorities to accelerate these and other reforms. They recommended strengthening the supervision of financial institutions that are not under the supervisory authority of the central bank. Directors were of the view that the authorities should undertake a comprehensive reform of the public service to reduce its size and improve efficiency in the delivery of public services.

Jamaica's economic statistics are generally adequate for surveillance and Directors commended the efforts to strengthen the provision of general statistics. At the same time, they urged the authorities to strengthen these efforts by matching the tasks of statistics agencies with adequate resources to implement the recommendations of recent technical assistance.

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. As part of a pilot project, the staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 1999 Article IV consultation with Jamaica is also available on the IMF's website (http://www.imf.org).

Jamaica: Selected Economic Indicators

	1996/97	1997/98	1998/99	1999/00
	(Annual percent changes; unless otherwise specified)			
GDP, prices, wages and interest rates				
GDP at constant prices	-1.6	-1.7	-0.5	0.4
Per capita GDP (in U.S. dollars)	2,532	2,610	2,604	2,565
CPI (end-of period)	9.5	8.8	6.0	6.7
Interest rate (six-month treasury bill, end period)	16.6	24.6	17.8	17.4
Lending rate (weighted average, end period)	36.1	35.3	32.1	29.1
Money and credit				
Net domestic assets 1/	21.6	7.5	8.8	4.6
Public sector 2/	-0.8	54.9	25.2	1.5
Private sector 2/	22.5	-47.4	-16.9	3.1
Liabilities to the private sector	21.9	6.7	11.5	3.6
	(In percent of GDP; unless otherwise indicated)			
Saving and investment				
Gross national saving	30.9	25.8	26.2	24.4
Gross capital formation	32.4	31.5	29.0	29.0
Public sector				
Central government balance	-6.5	-8.3	-7.5	-5.6
Public sector balance	-5.7	-9.6	-12.0	-8.2
Primary balance (public sector)	6.4	2.2	7.8	10.0
Total debt	93.9	125.9	139.1	139.8
External sector				
External current account	-1.5	-5.7	-2.9	-4.6
Overall balance of payments (millions of U.S. dollars)	152	-53	-14	20
Gross official reserves (millions of U.S. dollars)	819	730	701	706
(weeks of next year's imports of goods and services)	10.4	9.7	9.0	8.8
(weeks of current year's nonbauxite (industry) imports of goods)	15.9	13.0	13.3	13.0
Net international reserves	649	595	582	601
Exchange rates				
Nominal exchange rate (Jamaica dollar per U.S. dollar, end of period)	34.98	36.40	38.18	39.60
Real effective exchange rate (appreciation (+); latest figures refer to April-September)	25.9	5.8	1.8	-2.3

Sources: Bank of Jamaica; Ministry of Finance; STATIN; and IMF 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.

Statement by Thomas A. Bernes, Executive Director
for Jamaica
January 10, 2000

1. My Jamaican authorities wish to thank management and staff for their intense interest, dialogue, and helpful advice over the last twelve months and, in particular, during the recent 1999 Article IV Consultation. Directors will note the absence of a separate statement by the Government of Jamaica (GOJ) which underscores an emerging convergence of views between staff and the GOJ over policy options to address the macroeconomic challenges that Jamaica must tackle. Let me also congratulate staff for the timely Selected Issues Paper and commend the work done on the foreign exchange market (in response to the specific request made by the GOJ) in particular.

Background

2. Since Jamaica's exit from its last EFF program with the Fund in March 1996, it has enjoyed constructive engagement with Fund staff and management on economic policy and benefited from excellent technical assistance from MAE on financial sector issues. The GOJ wishes to maintain this valuable relationship, and while it does not foresee any financial relationship with the IMF, it does see a role for the Fund in providing advice to other multilateral and bilateral agencies that may be considering financing projects in Jamaica. In particular, Jamaica commends the Fund's most recent recommendations to the European Union for continued donor assistance. This signaling role, in our view, is an important function that the Fund can exercise as part of its surveillance in countries like Jamaica, which are not in Fund-supported programs.

3. Jamaica is pleased to note that this year's staff report has highlighted many of the achievements under the GOJ's economic strategy. Directors will recall that in the last two years especially, staff and others expressed doubts about Jamaica's ability to deliver output growth and, aired concerns about Jamaica's external position. However, we note and credit staff for their recognition of the efforts of the authorities in recent times.

4. In the overview in paragraph 34, staff note that *"several shock absorbers have helped cushion Jamaica's vulnerability to a full blown crisis"* including the fact that close to half of all bank deposits are held in foreign-owned banks, and that almost one third of all domestic debt is held by financial institutions. I would add that Jamaica's sizeable informal economy and buoyant level of remittances from abroad also helped to cushion the economy. Staff also comment in perhaps one of the most poignant statements of the report, that ***"reflecting this setting, recent movements in velocity, real domestic interest rates, and sovereign bond spreads give little suggestion that the private sector considers a crisis to be imminent".*** Indeed in November, 1999 Standard and Poor's assigned Jamaica its single "B" long-term foreign currency and single "B+" long-term local currency sovereign credit ratings.

5. Further, the staff appraisal opens with the statement that *"Jamaica has achieved considerable success in reducing inflation, restructuring the financial system after the crisis*

in 1995-96 and further liberalizing the economy through tariff reduction and privatization." While recognizing the major challenges that the country continues to face, my authorities appreciate the more balanced perspective adopted by staff. Jamaica applauds this approach to acknowledge the merits of their strategy, and stands ready to move forward in a continued dialogue with the Fund. This is crucial as Jamaica looks to the international community for support to achieve its economic objectives.

1999: Another Challenging Year

6. Given the excellent and balanced portrayal of recent economic developments included in the staff report, I will refrain from reiterating details here. I wish only to remark that against the background of an adverse external environment, especially in global financial markets, and due to exogenous shocks (inter alia falling commodity prices, rising oil prices, and the untimely loss of part of the bauxite market due to a fire in a plant overseas), Jamaica's limited output performance was disappointing in 1999.

7. Furthermore, Directors will recall that in April, at the time of the FY 99/00 Budget, in which the Minister of Finance, attempted to introduce a number of far-reaching fiscal measures, including higher gasoline taxes, major social unrest and riots erupted in protest. It is in this context that Directors are asked to view the authorities' policy stance, *which remains qualitatively different from the scenario preferred by staff **only** in pace. My Jamaican authorities recognize the perniciousness of the current debt dynamics and remain equally concerned about external competitiveness—the two main concerns of the IMF.*

8. The GOJ believes that the proposed alternative by staff, for large upfront adjustment in the exchange rate and fiscal accounts (through a massive primary surplus in the range of 14 percent of GDP), has tremendous risks which have not been fully explored and analyzed in the staff report. Furthermore, while the GOJ recognizes that there is a need to improve the competitiveness of domestic firms, it believes that the strategy is a complex one which must deal with certain inherent structural problems.

9. Jamaica's experience does not support the argument that the solution lies mainly through adjustments in the exchange rate. Directors familiar with Jamaica need only recall the many episodes of exchange regime tinkering over the many Fund-supported programs to realize that it takes a long and arduous time for a depreciation-inflation-wage spiral to work its way out to lower inflation and realignment of relative prices. My authorities have been down this path and wish to avoid it at all costs.

Policy Issues

10. ***Fiscal Policy***. *A larger primary surplus is being pursued at tremendous social cost.* The GOJ is determined to meet its fiscal objectives of a reduced overall deficit over the medium term and has every intention to meet its fiscal targets in FY 2000 and beyond. Directors will note that the tax burden in Jamaica is already very high (with a revenue to

GDP ratio of close to 30 percent) . As mentioned by staff and noted above, Jamaica's potential to tax further is constrained. The existing tax payer base is over-stretched and intolerant of any additional tax burden.

11. The GOJ however, is convinced that through better tax administration (a process that has been ongoing for several years now with technical assistance of donors) and a tight rein on expenditures, fiscal goals can be met. On the specific targets proposed by Fund staff in their alternative scenario, the GOJ, like most governments, would find it extremely difficult to deliver a primary balance of 14 percent of GDP over the medium term and considers that the current 10-11 percent of GDP effort more realistic for reducing the debt- to-GDP ratio over this period.

12. ***Exchange Rate Policy and External Competitiveness.*** Staff argue and have done some work to show that Jamaica appears to have lost ground in the area of external competitiveness in recent years, taking several different measures into account, including the real effective exchange rate and unit labour costs. My authorities are also concerned that some loss of external competitiveness has occurred between 1995 and 1998 particularly in the manufacturing sector, but do not underestimate the impact of NAFTA on domestic firms. Further, they would underscore that in the major export sectors of bauxite and tourism (constituting the bulk of foreign exchange earnings), other factors play a far more significant role in the growth or expansion of these industries while the exchange rate plays only a minor role. These include labour costs (determined in a wage bargaining environment via trade unions) and the impact of crime in the case of tourism.

13. I should remind Directors that *Jamaica's exchange rate continues to be market-determined and the Bank of Jamaica intervenes only to smooth out major fluctuations*. In response to "more exchange rate flexibility" as suggested by staff on various occasions, I note that the Jamaican dollar has depreciated by 14 percent since the beginning of FY 2000. This type of movement does not indicate a rate that is sticky in any particular direction. It is worth noting that there is no curb market for foreign exchange nor queuing, which suggest that the demand for foreign currency is satisfied in Jamaica.

14. ***Monetary Policy and Inflation Targeting.*** In the recent Board discussion on inflation targeting, I emphasized the importance of the central bank's credibility and a strong sense of ownership on the part of the national authorities as crucial components in programs that seek to use an inflation targeting framework in their conduct of monetary policy. In Jamaica for the last four years, the key to the lowering of inflation to single digit levels has been the Bank of Jamaica's (BOJ) inflation targeting strategy. There is no doubt that the Jamaican public has vested credibility in the BOJ as inflation has been reduced over this period and the *policies remain consistent.* My authorities therefore find the logic in paragraph 48, which underpins the thrust of the staff's scenario, very difficult to follow. Moreover the downside risks associated with the latter are already noted in paragraph 8 above.

15. ***Financial Sector and Structural Reforms.*** The exacerbation of recent economic problems, including the large increase in domestic debt has been associated with the ongoing

resolution of the financial sector crisis which started in 1995. While the impact of the crisis, as noted by staff, could have been significantly worse in terms of capital flight and a full blown crisis, the deft handling of the crisis by the authorities, in my opinion, is largely responsible for the maintenance of investor confidence. Since then, and with considerable success in 1999 in particular, Jamaica is beginning to see some reflow of liquidity through divestment proceeds and sale of assets of the failed institutions. This remains the greatest challenge, and the authorities agree with staff that FINSAC-related debt poses a serious risk and needs to be dealt with expeditiously. In this regard, Jamaica will be seeking to obtain technical and financial assistance from the Inter-American Development Bank (IDB) in the coming months and would need the support of the Fund and others in helping to secure this assistance.

Way Forward

16. Paragraph 63 of the staff report sums up eloquently the way forward for Jamaica: "***perseverance with adjustment, even if at a slower pace than recommended by staff***". I would like to draw Directors' attention to staff report Tables 9, 10, and Figure 7, which attempt to illustrate the quantitative distinctions between the two scenarios. I find that the main difference is in the timing and speed with which Jamaica reaches a more manageable debt level with interest rates roughly 2 percentage points lower than in the authorities' baseline. However, the staff's scenario will involve a major change in the monetary and exchange rate policies to be supported by an even greater fiscal effort, one that remains politically out of range. The impact of these changes are uncertain to deliver the kind of growth projected under the proposed scenario, and the risk of a major loss of confidence in the government's ability to maintain sound policy cannot be overestimated.

17. ***Gradual approach is best.*** The GOJ intends to continue along its strategic path (baseline as indicated in the report) while seeking to speed up reforms in the structural areas, notably to continue to divest assets where possible and to find ways to improve the functioning of the civil service in particular and the public sector in general. No doubt Jamaica will continue to seek support from the international community in the coming years as it remains committed to reducing poverty and improving the standard of living for its citizens.

18. I am pleased to report that no major Y2K problems were encountered during the transition to the year 2000. Jamaica looks forward to maintaining a strong relationship with the Fund and looks forward to another year of beneficial discussions with staff as it continues to tackle its economic problems. Finally, Jamaica intends to participate in the Fund's pilot study on transparency and will publish its staff report as indicated earlier.