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Jamaica: 2004 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Jamaica

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2004 Article IV consultation with Jamaica, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 4, 2004, with the officials of Jamaica on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 19, 2004. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its August 4, 2004 discussion of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Jamaica.

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

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

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INTERNATIONAL MONETARY FUND

JAMAICA

Staff Report for the 2004 Article IV Consultation

Prepared by the Staff Representatives for the 2004 Consultation with Jamaica

Approved by Caroline Atkinson and Matthew Fisher

July 19, 2004

- **Discussions**: A staff team comprising Antônio Furtado (Head), Wendell Samuel, and Yan Sun (all WHD); Emanuele Baldacci (FAD); and Inutu Lukonga (PDR) held discussions in Kingston during May 25–June 4. The mission met with Finance Minister Omar Davies, Bank of Jamaica Governor Derick Latibeaudiere, Financial Secretary Shirley Tyndall, other senior officials, opposition leader Edward Seaga, and representatives of labor and the private sector. Mr. Ian Bennett, Mr. Richard Campbell, and Ms. Emma Cunningham (OED) attended the policy discussions

- **Intensified surveillance**: The authorities have requested intensified surveillance of the medium-term economic strategy they have formulated, which has not been negotiated with Fund staff. In this context, semi-annual interim staff reports are expected to be prepared for the information of the Executive Board between the annual Article IV consultations, the first of which following a mission that is scheduled to visit Jamaica next fall. During the discussions, the authorities were encouraged to publish the Article IV reports and the interim reports.

- **Political setting**: The People's National Party, led by Prime Minister Patterson, won a fourth consecutive term in office in October 2002, with a reduced but still comfortable majority. However, in municipal elections held in June 2003, the opposition Jamaica Labor Party won control of 12 of 14 municipal councils (it controlled none before). The authorities have been trying to forge a broad consensus on economic adjustment and reform policies through consultations with trade unions and the business community.

- **Last Article IV consultation**: At the Board discussion of June 9, 2003, Directors expressed concerns about the high levels of the fiscal deficit and public debt, and recommended a strong fiscal adjustment effort to reduce vulnerabilities associated with the large debt burden. Directors recommended greater flexibility in the management of the exchange rate, along with an acceleration of structural reforms.

- **Exchange system**: Jamaica has accepted the obligations of Article VIII. A multiple currency practice remains, which is subject to Fund jurisdiction under Article VIII. Relations with the Fund are detailed in Appendix I (and those with other IFIs in Appendices III–V).

Contents Page

Executive Summary

- **The authorities succeeded over the past year in stabilizing the economy and improving market confidence, despite Jamaica's extraordinarily high public debt burden**. Following a near crisis in early 2003, the foreign exchange market stabilized, inflation decelerated, domestic interest rates declined, and growth improved, while Jamaica returned to the international capital market. Although the external environment was favorable, a key contributor to this outcome was the government's renewed fiscal adjustment effort. The primary budget surplus reached 11 percent of GDP, while the public debt ratio declined slightly, to 145 percent of GDP. Bank soundness indicators have remained favorable.

- **In the context of the authorities' request for intensified surveillance, the discussions centered on their strategy aimed at a gradual reduction in the debt ratio, through an ambitious and prolonged fiscal adjustment**. The authorities' fiscal strategy calls for reducing the fiscal deficit in FY 2004/05, balancing the budget in the next fiscal year, and maintaining small overall surpluses thereafter. These objectives are predicated on primary surpluses of about 14 percent of GDP over the medium term. The public debt would decline gradually to just above 100 percent of GDP by FY 2008/09.

- **While supporting the authorities' fiscal consolidation efforts, the mission underscored the need for structural reforms to mitigate implementation risks, reduce vulnerability to shocks, and in particular to promote higher growth**. As the staff's projections point to a gap of about 1½ percent of GDP relative to the authorities' balanced-budget target for FY 2005/06, the mission encouraged the government to move quickly to identify policies to close this potential gap. The mission welcomed the authorities' plans for a major tax reform and encouraged them to proceed with efforts to improve tax administration, rationalize government employment, and improve the public expenditure management system. The social safety net should be strengthened to mitigate the short-term social impact of the fiscal adjustment and related reforms.

- **The current level of the exchange rate appropriately reflects market forces**. While the authorities have not been intervening in the foreign exchange market, the exchange rate has remained quite stable, despite a substantial decline in domestic interest rates. The mission supported a flexible and balanced use of monetary and exchange policies. It cautioned, however, that these policies will remain constrained by the size of the public debt and the high share of variable rate and foreign currency-linked debt.

- **The mission stressed the mutually reinforcing links between higher growth and achieving greater debt sustainability**. The authorities concurred that a host of structural and social weaknesses still discourage private investment and hamper external competitiveness and limit Jamaica's growth potential. In the period ahead, they will focus on further trade liberalization, addressing remaining vulnerabilities in the financial sector, reducing labor market rigidities, improving the education system, and combating crime.

I. BACKGROUND

1. **Jamaica has a history of high public indebtedness, with large swings in the public debt-to-GDP ratio**. After exceeding 120 percent of GDP in the late 1980s, the public debt was reduced to 80–90 percent of GDP in the mid-1990s. This reflected sustained overall fiscal surpluses under Fund programs, with primary surpluses exceeding 10 percent of GDP for five consecutive years. However, a subsequent return to fiscal deficits, and a major bail-out of domestic financial institutions that cost approximately 40 percent of GDP, led to a rebound in the public debt ratio (Figure 1).

2. **Jamaica's growth performance has been generally poor**. While liberalization and structural changes during the last decade have resulted in more openness and market-orientation, economic growth has been anemic, averaging around 1 percent during 1990–2002. The major impediments to growth have been the crowding out of the private sector and deterioration in economic infrastructure associated with high fiscal deficits and public debt; weaknesses in the financial sector, culminating in a major banking crisis in the mid-1990s; rigidities in the labor market; and a high incidence of crime.

3. **Fiscal slippages and a worsening external current account position led to acute pressures in the foreign exchange market in FY 2002/03 and early FY 2003/04**.[1] From March 2002 to June 2003, the cumulative reserve loss amounted to about US$800 million (about 40 percent) while the currency depreciated against the U.S. dollar by 24 percent (Figure 2). In response, the Bank of Jamaica (BOJ) sharply increased interest rates on its open market instruments to around 35 percent. Higher interest rates and depreciation contributed to a marked increase in the public debt-to-GDP ratio, which peaked at 146½ percent in FY 2002/03. Inflation also accelerated, affected by the high exchange rate pass through.

4. **Fund surveillance has focused on the need for policies to contain Jamaica's large public debt burden and to achieve sustained higher growth over the medium term**. The authorities' views mostly coincided with those of the staff, as reflected in agreements on staff monitored programs (SMPs) that spanned the period FY 2000/01–FY 2002/03. However, progress in implementing agreed policies has been uneven, reflecting policy slippages and negative external shocks. In particular, fiscal deficit targets were missed on account of overruns in the wage bill and other current expenditure, as well as higher interest outlays. Moreover, much of the fiscal adjustment undertaken in recent years has relied heavily on distortionary tax increases and unsustainable cuts in capital expenditure.

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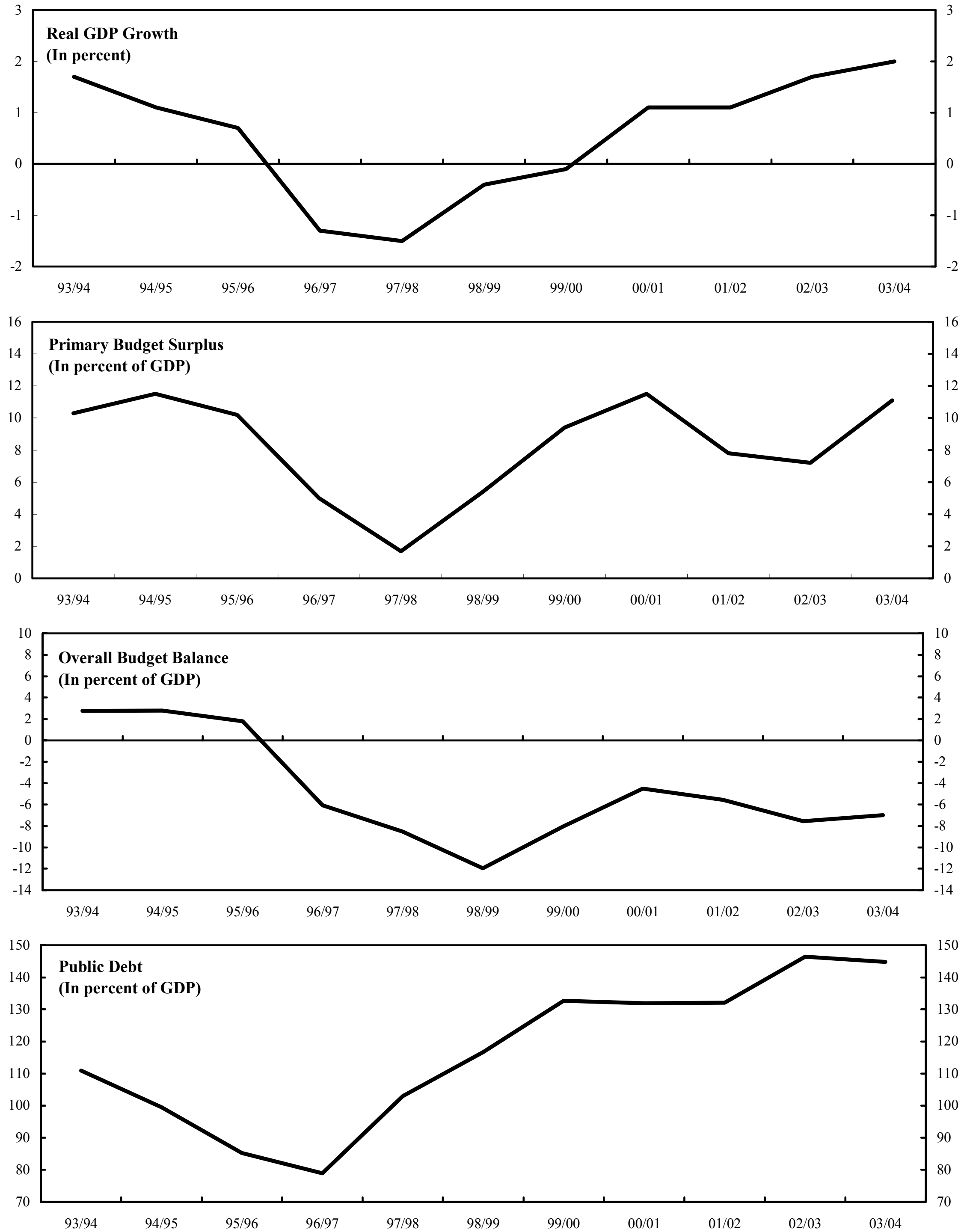
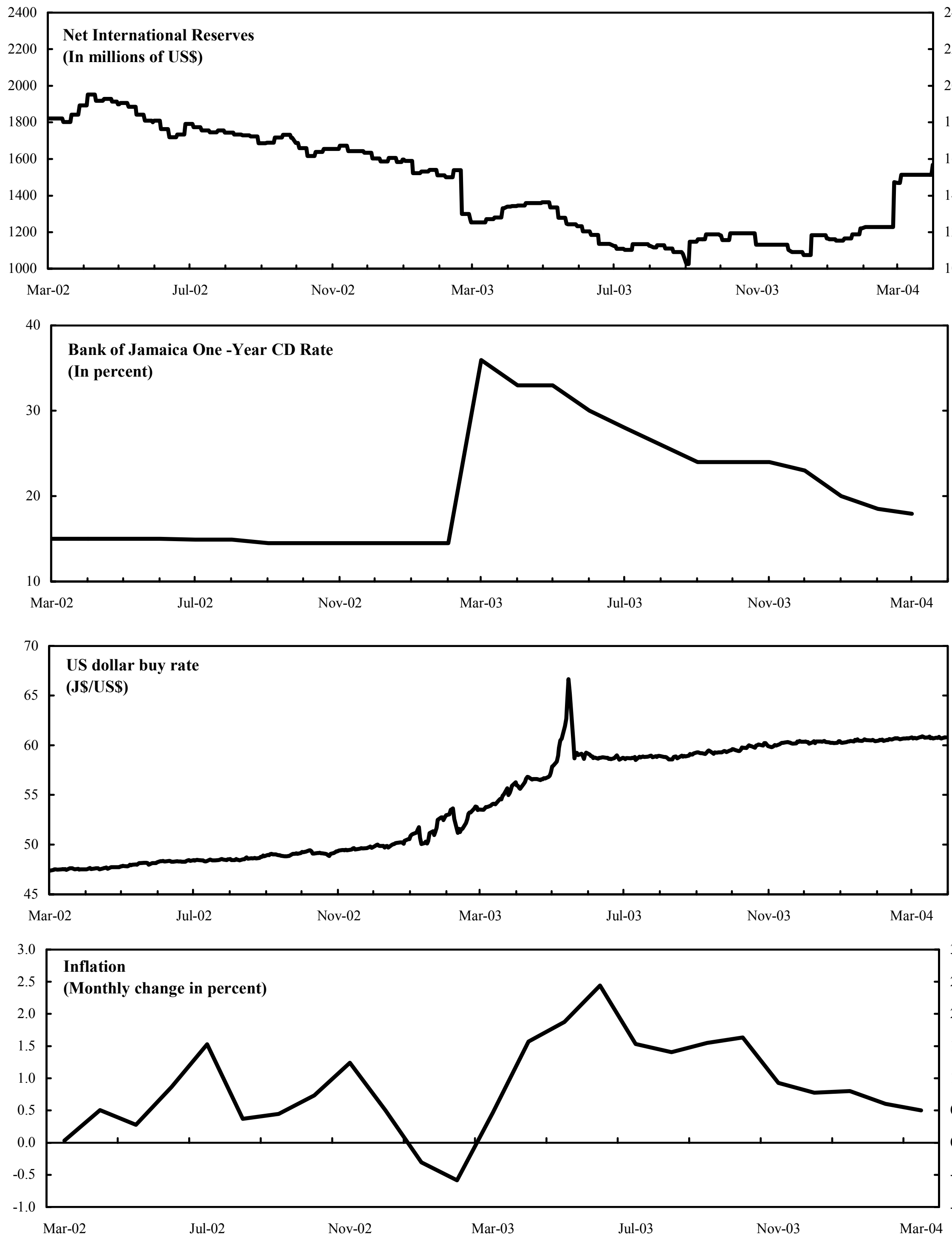
[1] The fiscal year runs from April to March.

Figure 1. Jamaica: Growth, Budget Balances, and Public Debt,
FY 1993/94–FY 2003/04



Sources: Jamaican authorities; and Fund staff estimates.

Figure 2. Jamaica: NIR, Monetary and Exchange Rate Policy Response, and Inflation
FY 2002/03–FY 2003/04



Sources: Jamaican authorities; and Fund staff estimates.

II. Recent Developments

5. **Following the near crisis in the first half of 2003, the authorities have succeeded over the past year in stabilizing the economy and restoring market confidence**. The foreign exchange market stabilized in mid-2003, inflation has decelerated, domestic interest rates have declined, and growth improved, while Jamaica has returned to the international capital market. Although the external environment was favorable, a key contributor to this outcome was the government's renewed fiscal adjustment effort in FY 2003/04. In particular, the increase in the primary fiscal surplus, reflecting both expenditure savings and revenue measures, allowed the budget deficit target to be met despite higher-than-budgeted interest payments.

6. **After more than a decade of virtual stagnation, real GDP growth reached 2 percent in FY 2003/04 (Table 1)**. The improvement was led by strong performance in the key tourism and mining sectors. The agricultural sector rebounded from the effects of widespread flooding in the previous year, and utility, communication, and financial sectors also turned in good performances. Reflecting the significant exchange rate depreciation in late 2002 and early 2003, as well as the impact of tax measures introduced with the FY 2003/04 budget, twelve-month (as well as year-on year) inflation increased to double digits. However, annualized monthly inflation has declined to single digits in recent months.

7. **In FY 2003/04, the government contained the budget deficit in relation to GDP slightly below the preceding year's outturn, despite a much higher interest bill**. The primary surplus (excluding privatization-related receipts) increased by 4 percentage points of GDP, to 11 percent of GDP, compared to 7 percent of GDP in FY 2002/03 (Table 2).[2] Revenue increased by about 2 percentage points of GDP, to 30 percent of GDP, reflecting higher receipts from the general consumption tax, personal income tax, and taxes on interest as a result of measures introduced in the FY 2003/04 budget, as well as the imposition of an import surcharge. Primary expenditure declined by 2 percentage points, to 19 percent of GDP, as cuts in nonwage current spending and capital outlays were implemented.[3] While the deficit was initially financed largely from domestic sources, the government was able to secure, towards the end of the fiscal year, foreign currency financing of around

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[2] In the authorities' presentation of the fiscal accounts, the FY 2003/04 capital revenue includes J$4 billion that originated from the sale of future privatization receipts associated with sale of intervened financial institutions in previous years.

[3] Regarding other fiscal operations, extra-budgetary expenditure declined to 2 percent of GDP reflecting lower central bank losses and broadly unchanged expenditure through the deferred financing scheme. Taking such expenditure into account, the overall government deficit narrowed by 1½ percentage points of GDP, to 9.3 percent of GDP. Meanwhile, the consolidated overall surplus of the major public sector bodies improved to 1.7 percent of GDP in FY 2003/04. Except for significant losses of National Water Commission (NWC), most other large entities delivered good results last year.

US$450 million (including a €200 million Eurobond issue in February 2004).[4] The public debt ratio declined slightly, to 145 percent of GDP.[5]

8. **Monetary policy has continued to rely on open market operations guided by inflation and NIR objectives**. Following the sharp increase in interest rates on its open market instruments at the end of FY 2002/03, the BOJ has substantially reduced its interest rates to 14–17 percent by June 2004—less than half the March 2003 peak. Nonetheless, given improved confidence, the BOJ succeeded not only in rolling over maturing CDs, but also in mopping up additional liquidity, associated mainly with government external borrowing. The resulting contraction in the central bank's NDA contained base money growth at about 11½ percent while providing room for a partial recovery in NIR during FY 2003/04 (Table 4).

9. **Developments in the banking system have reflected improved confidence**. Broad money growth exceeded that of nominal GDP, with a significant buildup in foreign assets (Table 5). Private sector credit, mainly to the tourism and telecommunications sectors, showed strong recovery after a prolonged post-financial crisis slowdown. Bank soundness indicators continued to improve: the percentage of past due loans stands at 3 percent, while provisioning for loan losses, capital adequacy, and profitability remain well above minimum international standards (Table 6). While deposit dollarization increased somewhat,[6] banks have maintained a roughly balanced foreign exchange position.[7]

10. **The external current account deficit narrowed by 4 percentage points of GDP to 11 percent of GDP in FY 2003/04 (Table 7)**. Tourism completed its recovery and alumina exports rose in the context of capacity expansion, increased international demand, and better export prices. Agricultural exports experienced a weather-related improvement while

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[4] This bond issue had a five-year maturity and a yield of 10.5 percent. More recently, the government issued a €200 million Eurobond with an eight-year maturity and a yield of 11 percent.

[5] Over 50 percent of the total debt is in foreign currency or indexed to the U.S. dollar, while a further 25 percent consists of variable-rate instruments linked to the six-month Treasury bill yield (Table 3).

[6] Interest rates on local currency time deposits have remained in the 8–9 percent range, even during the period of rapid depreciation and high inflation in the first half of 2003, compared with 5–6 percent on foreign currency deposits. Lending rates in local currency also remained stable. Meanwhile, rates offered by securities dealers, whose very large funding base is more interest-sensitive, paralleled the BOJ policy rates.

[7] Banks have continued to use their foreign currency resources primarily to invest in government dollar-denominated debt and to lend to private sector clients with foreign exchange revenue.

reported remittances also rose.[8] Imports declined reflecting currency depreciation and the winding down of investments in the telecommunication sector.[9]

11. **The exchange rate of the Jamaican dollar has continued to be determined in an interbank market that is free of restrictions on current payments, and in the context of an open capital account**. The exchange rate has remained around J$60 per U.S. dollar over the past year, in the context of declining domestic interest rates and broadly unchanged official international reserves. The real effective exchange rate has risen somewhat following the steep depreciation in late 2002/early 2003, but remains well below its range in the six-year period through 2002 (Figure 3).

III. Report on the Discussions

12. **In the context of the authorities' request for intensified surveillance, the discussions centered on their strategy for bringing down the public debt-to-GDP ratio, the major vulnerability to Jamaica's economy**. The mission emphasized that a serious attack on the fiscal deficiencies was also key to promoting growth. The authorities are aware that Jamaica's extremely high levels of public debt, coupled with high exposure to interest and exchange rate volatility, constitute an impediment to rapid growth as well as threatening the stability of the economy and the financial sector. It is with this in mind that they have embarked on a strategy, of ambitious and prolonged fiscal adjustment, aimed at a gradual reduction in the debt ratio. They continue to rule out seeking a rapid reduction in the debt ratio through a comprehensive debt restructuring involving a substantial cut in NPV. The authorities believe that such a debt restructuring would be highly detrimental both in its immediate impact on the economy given the large holdings of public debt by the financial system[10] and because of the damage it would inflict on Jamaica's access to international capital markets.

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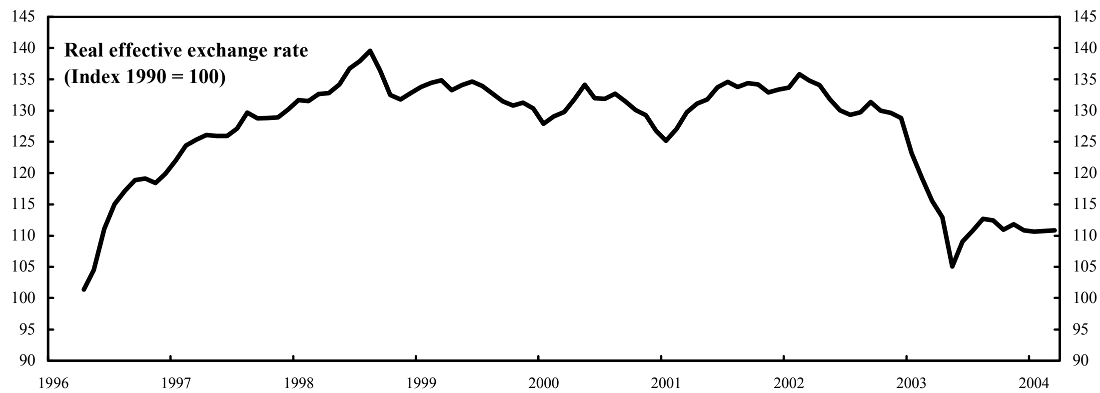
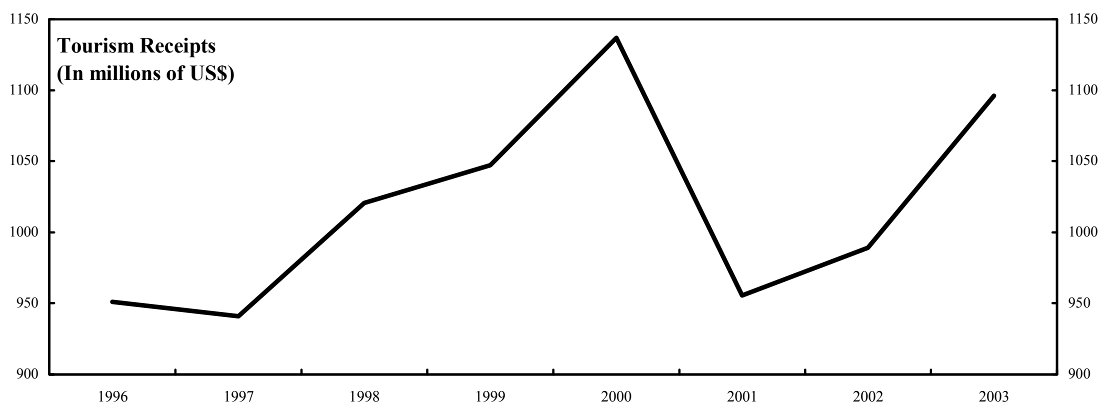
[8] Remittances are believed to remain underestimated, partly due to misclassification of capital inflows.

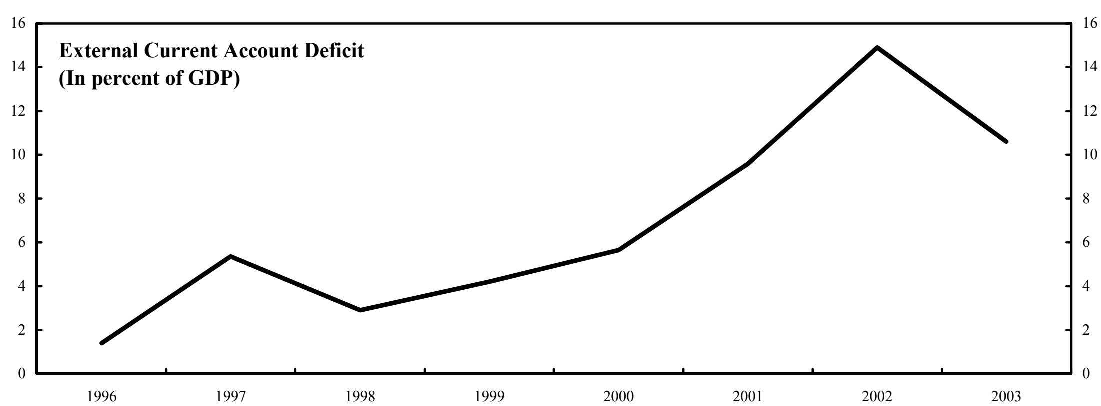
[9] A change in government guidelines on duty concessions to public sector workers for motor vehicle imports also contributed to the decline in imports.

[10] About 70 percent of the total public debt is held domestically, including an estimated 10 percent in residents' holdings of global bonds. The financial system holds close to three-quarters of the domestically issued debt plus some of the residents' holdings of global bonds. Thus, 50–55 percent of total public debt is held on the balance sheet of the financial system, about one-half of which by securities dealers. The externally held debt (about 30 percent of GDP) is roughly equally split between official and commercial creditors.

Figure 3. Jamaica: Real Effective Exchange Rate and External Sector Developments, 1996–2003







Sources: Jamaican authorities; and Fund staff estimates.

13. **While supporting the authorities' fiscal consolidation efforts, the mission underscored the need for structural reforms to mitigate implementation risks and reduce vulnerability to shocks, as well as to promote higher growth**. The mission indicated that it shared the authorities' concerns over the potentially disruptive effects of a debt restructuring. However, it stressed that the authorities' strategy required structural reforms in the fiscal area to help mitigate the major implementation risks involved in targeting very high primary surpluses for an extended period. The mission noted that the economy will, in any case, remain vulnerable to shocks over the medium term because of the elevated public debt ratio, large gross financing requirements,[11] and high degree of indexation of the domestic debt to the U.S. dollar and to short-run interest rates. The high public debt will also imply a continued vulnerability for the heavily exposed financial system. Furthermore, although the envisaged fiscal consolidation and reduction in the debt burden will improve the environment for private investment, it will limit the government's ability to spend on social programs and infrastructure without a major additional revenue effort. In this context, the staff urged the authorities to take steps to raise Jamaica's growth potential through reforms to promote private sector initiative and reduce impediments to investment and employment, including tax and labor market reforms.

A. Fiscal Policy Framework

14. **The authorities' fiscal strategy calls for balancing the budget by FY 2005/06, and maintaining small overall surpluses thereafter in order to bring about a sustained reduction in the debt ratio**. This strategy is predicated on primary surpluses of about 14 percent of GDP over the medium term. On this basis, the public debt would decline gradually to just above 100 percent of GDP by FY 2008/09. As a first step, the government is targeting a reduction in the budget deficit to below 4 percent of GDP in FY 2004/05, in the context of a macroeconomic program whose objectives include real GDP growth in the range of 2–3 percent, a reduction in twelve-month inflation to single digits, and maintenance of broadly unchanged NIR. The public debt ratio is projected to decline by 8½ percentage points of GDP in FY 2004/05, to 136½ percent of GDP.[12]

15. **The targeted reduction in the budget deficit in FY 2004/05 would be achieved mostly through an increase in the primary surplus**. The primary surplus is expected to rise by 2.7 percentage points of GDP, to 13.8 percent of GDP. Budgetary revenue is projected to increase by 1.9 percentage points of GDP, reflecting stepped-up collection of arrears (1.0 percent of GDP), expected grant disbursements from the EU (0.7 percent of GDP), and the full-year impact of measures introduced in the FY 2003/04 budget (0.2 percent of GDP). Primary expenditure is projected to decline by 0.8 percent of GDP. In

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[11] The gross financing requirement for FY 2004/05 is estimated at 31 percent of GDP.

[12] Extra-budgetary expenditure is projected to rise by 1 percentage point of GDP, to 3 percent of GDP in FY 2004/05, before declining over the medium term. The bulk of this expenditure is related to central bank losses (2.7 percent of GDP in FY 2004/05), which are expected to decline over the medium term reflecting lower domestic interest rates and higher international reserves (see Table 2).

particular, reflecting the wage moderation agreed under an Memorandum of Understanding (MOU) with the trade unions,[13] the wage bill is projected to decline by 1.1 percentage points of GDP (to 11.3 percent of GDP).[14] The budget provides some room for an increase in public investment. The interest bill is projected to decline only slightly as interest payments on certain debt instruments will continue to reflect high interest rates that prevailed last year.

16. **The mission expressed the view that the fiscal targets for FY 2004/05 appear ambitious, but achievable with a determined policy effort**. A successful fiscal outturn will hinge on unwavering efforts at tax collection, including the collection of tax arrears (particularly from larger tax payers), and expenditure control, especially considering potential pressures on expenditure from sustained high oil prices.[15] The latter could have implications for implementation of the MOU with the trade unions, strict adherence to which is critical for the achievement of the fiscal targets. Priority expenditures, including on the social sector (particularly education-related), should be protected.

17. **Regarding the medium term, however, the mission's projections pointed to the need for additional measures to secure the authorities' budgetary targets**. The shortfall relative to the target, on the basis of unchanged policies, partly reflects the non-recurrence of one-off factors included in this year's revenue projections (foreign grants and tax arrears). In addition, the mission projected somewhat higher interest expenditure than the authorities, on account of a slower assumed decline in interest rates. As a result, a gap of about 1.7 percent of GDP would emerge in FY 2005/06 relative to the authorities' balanced-budget target (see Table 2). The mission encouraged the government to move quickly to identify policies to close this potential gap, for example in the context of the forthcoming tax reform. The authorities indicated that they expected to continue to collect tax arrears in FY 2005/06, and that, in any event, they would keep the fiscal outlook under review and stood ready to take measures to ensure achievement of the medium-term budgetary targets.

18. **More fundamentally, the mission underscored that it would be unprecedented for a country to sustain, for a protracted period, the stringent fiscal discipline envisaged by the authorities**. In view of the major implementation risks to their fiscal strategy, the mission encouraged the authorities to elaborate a comprehensive fiscal reform agenda to strengthen the budgetary outlook. In particular, the envisaged reduction in the wage bill, by 3 percentage points of GDP over the medium term, will need to be underpinned by policies to rationalize government employment and thus solidify the savings achieved through the recently agreed two-year wage restraint.

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[13] The MOU caps annual wage increases at 3 percent for two years.

[14] Adjusted for a budgeted payment of arrears on wage-related payroll contributions, the decline in the wage bill would be 1.7 percentage points of GDP.

[15] The pricing mechanism for petroleum products permits an automatic pass-through of higher import prices.

Fiscal reforms

19. **While revenue collection in Jamaica is at levels comparable to other middle-income countries, important distortions are present in the tax system**. Reforms introduced in the late 1980s resulted in a simple system with broad consumption and income tax bases and few rates. However, over time, the system has become more complex, on account of a series of ad-hoc measures and exemptions. Against this background, the government plans to reform the tax system in the context of next year's budget with a view to increasing its efficiency and equity. The mission advised that the authorities design the tax reform in a manner that helps achievement of the balanced budget target for next year, and provides for a stable ratio of tax revenue to GDP over the medium term.[16] The mission also suggested the removal of the many exemptions that narrow the consumption tax base and the elimination of reduced rates and other features that complicate the tax system.

20. **Revenue administration has been strengthened through recent major reforms and remaining weaknesses are being addressed**. The recent reorganization of the revenue administration department along functional lines has improved audit and assessment functions, in combination with the development of an integrated tax administration computer system. In the area of customs administration, recent reforms introduced service automation and online payments of duties and taxes, quality control systems, more efficient goods clearance procedures (based on risk assessment of goods to be inspected and fast-track release for compliant importers), and electronic links with tax administration. The authorities were of the view that these measures had played an important role in the increase in revenue to GDP in FY 2003/04. During FY 2004/05 the authorities plan to establish a comprehensive tax arrears collection plan with specific annual targets; strengthen the monitoring of arrears collection; and review the related administrative procedures. The mission encouraged the authorities to proceed with these reforms and to focus the tax arrears collection efforts on larger taxpayers.

21. **The government intends to advance reforms in the public expenditure management system over the medium term**. The plan for the current year is to extend modernization measures implemented in the pilot ministries to the rest of the central government. These measures aim at establishing output-based budgeting, and linking salary increases to performance by the end of this fiscal year, and moving toward accrual accounting over a three-year period. In addition, the authorities plan further to strengthen the cash management system. The mission noted that, while these measures are important, they would require adequate time and resources to be implemented; and that emphasis should also be given to strengthening reporting of public enterprise finances and contingent fiscal liabilities.

22. **Effective public expenditure allocation is constrained by the size of the wage and interest bills, which, together, represent over 80 percent of budgetary expenditure**. Spending on wages exceeds 12 percent of GDP, while capital outlays are comparatively low.

[16] The medium-term projections show a decline in the tax revenue-to-GDP ratio (see Table 2), reflecting lower receipts from the tax on interest income as the government's interest bill declines in relation to GDP.

This reflects, in large part, high public sector employment levels. The MOU will reduce public sector wage growth in the period April, 2004 to March 2006—by freezing employment and capping nominal public sector salary increases below inflation. It also calls for a modernization and rationalization of public sector activities but no specific plans have been prepared so far. The mission urged the authorities to use the opportunity provided by the MOU to rationalize public sector employment concurrent with wider structural reforms aimed at fostering private sector activity. At the same time, the social protection system and the social safety net should be strengthened to mitigate the short-term social impact of these measures.

B. Monetary and Exchange Rate Policy

23. **The BOJ indicated that it will continue to rely on open market operations to target a base money growth compatible with its inflation and balance of payments objectives**. In this connection, the BOJ will operate on the assumption that the demand for broad money (M3) will grow in FY 2004/05 at least in line with nominal GDP. Taking into account the fiscal outlook, this would provide resources for continued strong growth in credit to the private sector. The BOJ's NIR target for end-March 2005 is US$1.4 billion—somewhat less than the March 2004 level, which reflected recent external bond placements in anticipation of upcoming debt repayments.[17] On the further assumption that the demand for base money will parallel that for M3, the BOJ has set an NDA target whose achievement will require only a small increase in the stock of open market instruments. This would facilitate some further decline in interest rates on open market instruments. The BOJ indicated that it will exercise flexibility in its conduct of exchange rate policy, and believes that the monetary projections are consistent with a roughly unchanged real effective exchange rate.

24. **The authorities' NIR target is consistent with a projected widening in the external current account deficit in FY 2004/05**. Historically, Jamaica's current account deficit has been large, reflecting imports for the tourism and mining sectors, which have been financed largely by foreign direct investment in these sectors. In FY 2004/05, the current account deficit is projected to widen by 2½ percentage points of GDP (13.2 percent of GDP), reflecting mainly a higher oil import bill and an increase in the expatriation of profits and dividends.

25. **The mission supported the authorities' inflation and NIR objectives, and recommended a flexible and balanced use of monetary and exchange policies**. The mission welcomed the fact that, over the past year, the exchange rate had continued to be

[17] The authorities' NIR target for FY 2004/05 is equivalent to about 40 percent of broad money and is consistent with gross reserves of 12 weeks of imports, or about 70 percent of the government's short-term debt obligations.

market-determined,[18] and that the authorities had refrained from intervening in the market while substantially reducing interest rates. Looking ahead, the mission emphasized that, in the event of pressures on international reserves, the available policy instruments should be activated early on, as the room for intervention remained limited. The mission cautioned, however, that the debt overhang will continue to serve as a constraint on monetary and exchange rate policy. Given the size of the public debt and the share of variable rate and foreign currency-linked debt, changes in interest rates or the exchange rate could have a substantial adverse impact on the debt dynamics. The authorities indicated that their policy stance for the period ahead was broadly in line with the approach suggested by the mission of using what flexibility they had to raise interest rates and allow the exchange rate to depreciate in the event of pressures in the foreign exchange market.

C. Structural Reforms and Social Issues

26. **The mission stressed the mutually reinforcing links between higher growth and achieving greater debt sustainability**. The authorities noted that Jamaica had, over the years, undertaken several important structural reforms with direct macroeconomic relevance, including trade liberalization and financial sector deregulation. They concurred, however, that a host of structural and social weaknesses still discourage private investment and hamper external competitiveness and limit Jamaica's growth potential. In addition to the fiscal reforms discussed above, the authorities will focus in the coming period on reforms relating to trade liberalization, the financial sector, the labor market, the education system, and domestic security.

27. **The authorities plan to pursue further regional integration and trade liberalization in the context of CARICOM, the FTAA, and the WTO**. The process of trade liberalization started in the mid-1980s, and Jamaica has removed all quantitative restrictions and reduced in stages the maximum common external tariff on non-agricultural products, under the aegis of CARICOM, to 20 percent by January 1999.[19] The government is putting the necessary administrative structures in place to be in a position to comply with future FTAA obligations—the Fair Trading Commission; the Anti-dumping and Subsidies Commission; and the Jamaica Intellectual Property Office. The authorities indicated that the planned removal of the EU preferential regime for exports of sugar and bananas from the Caribbean region will have a relatively minor impact on Jamaica, given the small share of

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[18] Jamaica continues to maintain a surrender requirement under which authorized foreign exchange dealers and cambios are required to sell 5 percent of their gross purchases of foreign exchange to the BOJ (see Appendix I). A review of daily exchange rate data for FY 2003/04 indicates that the surrender mechanism continued to give rise to a multiple currency practice subject to Fund jurisdiction. While concurring with the authorities that the foreign exchange market is not materially affected, the mission encouraged them to consider removal of the surrender mechanism. The mission indicated that, in the absence of a timetable for removal, the staff would not recommend Fund approval of the resulting multiple currency practice.

[19] The average tariff rate is 10 percent, and the trade regime's overall rating is 5 on the IMF's 10-point index of trade restrictiveness (with 10 being the most restrictive).

these commodities in the country's exports. Nonetheless, the government is taking steps to increase productivity in these sectors, with financial assistance from the EU.

28. **The authorities intend to strengthen the regulatory framework for the financial sector, in particular the prudential framework for securities dealers**. The financial system in Jamaica is relatively large and there are gaps in the related supervisory and regulatory framework. While supervision of the banking system and bank soundness have improved significantly since the 1996–97 financial sector crisis, securities dealers remain vulnerable to interest rate and liquidity risks. This is a concern because the securities industry intermediates retail funds which are very large in relation to its capital base and that exceed the deposit base of the banking system. The Financial Services Commission is at an advanced stage of preparation of prudential requirements for securities dealers, including capital adequacy and margin requirements that would provide a cushion against such risks. Against this background, the mission welcomed the government's recent request for participation in the joint IMF/World Bank Financial Sector Assessment Program, work on which is scheduled to start in early 2005. In addition, a new Pensions Act to regulate and facilitate private pension schemes has been passed by the lower house. In the area of AML/CFT, the authorities have outlined a legislative agenda which includes the enactment of a CFT bill, as well as statutes dealing with enhancing the AML framework.

29. **The mission emphasized that reducing rigidities in the labor market will improve the business and investment environment and help job creation**. The authorities acknowledged the importance of this issue, and indicated that steps are being taken to allow more flexible work arrangements. The mission noted that, in its discussions with the private sector, it had emerged that high redundancy costs are a key remaining issue to be addressed in order to improve the labor regime, and encouraged the authorities to develop appropriate reforms.

30. **While access to education in Jamaica is at levels comparable to higher income economies, the quality of secondary education is weak and inequalities persist**.[20] The government is planning initiatives during the next fiscal year to improve the teaching of science and to strengthen vocational training. In line with World Bank advice, the mission suggested that the authorities consider increasing cost sharing in tertiary education; and that, over the medium term, the role of the private sector in education be expanded.

31. **Jamaica suffers from a high crime rate, which affects living conditions and is detrimental to the business climate**. The government has made the fight against crime a priority, and intends to address this issue over the medium term in the context of the National Crime Plan—comprising social interventions to prevent criminal behavior and improvements of law enforcement. Anti-drug initiatives will be intensified in cooperation with the U.S., British, and Canadian governments.

[20] Access to primary education is close to the corresponding Millennium Development Goal of universal coverage (Table 10).

D. Medium-Term Outlook

32. **The authorities' strategy, if fully and successfully implemented, would bring about a gradual reduction in the public debt-to-GDP ratio, and some further improvements in growth**. The authorities envisage that the Jamaican economy will grow by about 2½ percent in FY 2004/05, and in the region of 3–4 percent over the medium term. The mission indicated that this was a plausible growth scenario, on the assumption of continued expansion in tourism and mining capacity, and growth in tourism-related services. The authorities' aim is to balance the budget by FY 2005/06 and to maintain small overall surpluses thereafter, which—given current interest rate projections—would require maintaining a primary surplus of around 14 percent of GDP.[21] Inflation would moderate further to single digits and the external current account deficit would narrow substantially. The envisaged improvement in the external current account is consistent with recent and expected capacity expansion in the bauxite/alumina and tourism industries, financed mainly by FDI. Exports are projected to increase significantly as world demand for aluminum continues to increase. Meanwhile, investments by Spanish companies are expected to open new markets for Jamaica's tourism industry. Over the period through FY 2008/09, NIR would strengthen to about US$2.2 billion, and the public debt ratio would decline to close to 100 percent of GDP.

33. **The authorities' medium-term scenario is significantly more positive than developments in recent years, and therefore subject to substantial downside risks**. The mission underscored that—while the more favorable external environment would contribute importantly to the envisaged growth and developments in the balance of payments—realization of the medium-term scenario would require steadfast policy implementation. However, even in this case, the public debt ratio would remain elevated enough to constitute a major vulnerability. In addition, the economy remains vulnerable to adverse terms of trade developments (e.g., higher oil prices) and weather-related shocks.

34. **Debt sustainability analysis highlights the major implementation risks and vulnerability to shocks associated with the medium-term scenario**. The debt dynamics would considerably worsen under a variety of scenarios in which key economic variables are subject to adverse shocks (Table 8).[22] In particular, the debt ratio will worsen significantly in the face of interest rate and exchange rate shocks, or if the baseline GDP growth rates do not materialize.[23]

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[21] Over the medium term, extra-budgetary expenditure would be broadly constant, at around 2 percent of GDP. Initiatives to improve the financial operations of loss-making entities such as the NWC, and a tapering off in capital outlays, are envisaged to restore the overall account of the public bodies to a surplus position.

[22] The DSA shows an improvement in the debt dynamics when all key variables are set at their historical averages—which is unusual and reflects, in this case, the fact that the 10-year average for the real interest rate is negative.

[23] External debt sustainability analysis (Table 9) is made difficult in the Jamaican case by the presence of a large foreign currency-denominated domestic public debt, as well as by lack of

(continued)

E. More Intensive Surveillance

35. **The authorities indicated that while Jamaica did not have a balance of payments need, and therefore did not require an arrangement, it would still benefit from a close policy dialogue with the Fund**. In this context, they requested the Fund staff to undertake more intensive surveillance of the Jamaican economy and of progress in implementing their economic strategy. The mission indicated that the Article IV report would describe and assess the authorities' program. In addition, semi-annual interim staff reports are expected to be prepared for the information of the Board between the regular annual consultations. The first of these would follow a mission that is scheduled to visit Jamaica in the fall. The mission encouraged the authorities to publish the Article IV report and interim reports.

36. **Consistent with their economic program for FY 2004/05, the authorities have established semi-annual quantitative targets for the balance sheet of the BOJ and key budgetary indicators**. The following targets have been adopted for September 2004 and March 2005:

Jamaica: Semi-Annual Quantitative Targets, FY 2004/05

	April 04–September 04	April 04–March 05
Change in net international reserves 1/	-US$288.6 million	-US$168.8 million
Change in the net domestic assets 2/	J$20.4 billion	J$16.0 billion
Primary budget surplus	J$27.6 billion	J$74.2 billion
Overall budget deficit	J$21.9 billion	J$22.0 billion

1/ The changes in NIR reflect the seasonal pattern of foreign exchange flows.
2/ Defined as the difference between the change in base money and the change in NIR. The latter will be converted into Jamaica dollars at the accounting exchange rate of J$62.40=US$1.

F. Statistical Issues

37. **Jamaica provides core statistics to the Fund that are broadly adequate for the conduct of surveillance, and formally adopted the GDDS in January 2003 (see Appendix II)**. There was consensus that further strengthening of the statistical system remains a priority. Consistent with the government's desire to maintain access to international capital markets, the mission encourage the authorities to commit to a plan to subscribe to the SDDS within a defined timeframe.

IV. Staff Appraisal

38. **Over the past year, the Jamaican authorities have achieved significant progress in stabilizing the economy and setting the stage for a reversal in the highly unfavorable**

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information on private sector external debt. It may be noted, however, that projected debt-creating inflows are small as the bulk of the external current account deficits are expected to be financed by foreign direct investment.

debt dynamics. Following a near-crisis in the first half of 2003, pressures in the foreign exchange market have subsided, inflation has decelerated and interest rates have declined, growth has resumed after years of virtual stagnation, and the government has again accessed the international capital market. While the positive external environment has played a role, the authorities are to be commended for their policy efforts, which included a substantial fiscal adjustment and active use of monetary and exchange rate policy.

39. **Having steered successfully through this difficult period, the authorities are nonetheless still confronted with formidable challenges**. In particular, Jamaica's public debt-to-GDP ratio remains extraordinarily high, and the associated vulnerabilities of the economy are exacerbated by the high degree of indexation of the debt to the exchange rate and short-term interest rates. Despite the sharp decline in domestic interest rates and stability of the exchange rate since mid-2003, the interest bill remains very large, and seriously constrains the government's ability to deliver essential public services and undertake much-needed spending on critical economic infrastructure. Growth performance has been disappointing over the past decade, and a renewed emphasis on structural reforms that would promote private sector growth is needed.

40. **It is understandable that the authorities have placed a reduction in the public debt-to-GDP ratio as their top policy priority**. In working toward this objective, the authorities have chosen to pursue a gradual reduction in the debt ratio through a prolonged fiscal adjustment effort, combined with structural policies to promote higher growth. They have strongly rejected seeking a debt restructuring that would aim at a substantial and upfront reduction in net present value to a clearly sustainable level, citing the potential impact on the financial system and the need to preserve domestic and external market access. The staff understands these concerns and strongly supports the authorities' efforts at fiscal consolidation, while stressing that prospects for achieving the envisaged reduction in the debt ratio will hinge on steadfast fiscal discipline in conjunction with appropriately designed structural reforms. The staff also stresses that, even if the authorities' strategy is successfully implemented, it will still leave the public debt ratio at high enough levels over the medium term to constitute a major vulnerability to the Jamaican economy.

41. **While the fiscal targets for FY 2004/05 appear achievable, staff projections based on existing policies pointed to potential shortfalls in relation to the medium-term fiscal targets**. Achievement of the fiscal deficit target of 4 percent of GDP in FY 2004/05 will be helped by the savings arising from the critically important agreement with the public sector trade unions. Nonetheless, the government must be unwavering in its efforts to maintain tax collection, including the collection of tax arrears, and control expenditure, especially in light of potential pressures on expenditure from sustained high oil prices. With respect to the next fiscal year, the target of balancing the budget is likely to require additional measures in view of the possible non-recurrence of one-off revenue items—foreign grants and tax arrear reduction—as well as higher interest payments than currently projected by the authorities. The staff is therefore encouraged by the authorities' indication that they will keep the fiscal outlook under review, and stand ready to take additional measures as may be needed to ensure adherence to the announced target. Early identification and prompt implementation of any necessary additional measures will be key.

42. **It would be unprecedented for a country to sustain, for a protracted period, the stringent fiscal discipline envisaged by the authorities and reform measures to underpin the planned adjustment will be critical**. In view of the major implementation risks to their fiscal strategy, the staff encourages the authorities to elaborate a comprehensive fiscal reform agenda to strengthen the budgetary outlook. In particular, the envisaged reduction in the wage bill will need to be underpinned by policies to rationalize government employment following the two-year wage agreement. The social safety net should be strengthened to mitigate the impact of these policies. The staff welcomes the substantial progress that has been made in modernizing tax administration in recent years, and attaches importance to the government's plan to reform the tax system in the context of next year's budget. The authorities are encouraged to design the tax reform in a manner that helps achievement of the balanced budget target for next year, and provides for a stable ratio of tax revenue to GDP over the medium term. To this end, they should consider removing the many exemptions that narrow the consumption tax base, and eliminating reduced rates and other features that complicate the tax system.

43. **The staff believes that the current level of the exchange rate appropriately reflects market forces**. Over the past year, the authorities have not significantly intervened in the interbank market, where foreign exchange is available for both current and capital transactions. The exchange rate has remained quite stable, despite a substantial decline in domestic interest rates. In the period ahead, the scope for monetary and exchange rate policy actions will remain constrained by the debt overhang. Within this constraint, however, the authorities should make a flexible use of monetary and exchange policies, and minimize intervention in the foreign exchange market, guided by their objectives for inflation and international reserves.

44. **The staff stresses the mutually reinforcing links between achieving greater debt sustainability and higher growth**. While Jamaica has undertaken, over the years, several important structural reforms, a host of structural and social weaknesses still discourage private investment and hamper external competitiveness. The staff therefore attaches the utmost importance to ongoing structural reform efforts. The planned fiscal structural reforms will go a long way in creating an enabling environment for private sector development. In the financial sector, the envisaged introduction of prudential requirements for securities dealers would help cushion the large interest rate and liquidity risks they carry, and could be accelerated. More generally, in light of its large exposure to public debt, the prudential regulation of the overall financial sector needs to be reviewed and strengthened. In this context, the staff welcomes the ongoing preparatory work on legislation to combat money laundering and the financing of terrorism, and the plan to undertake a joint IMF/World Bank FSAP in early 2005. In the labor market, the authorities should develop options for reducing rigidities, particularly high redundancy costs. This would improve the business and investment environment and help job creation. In the social area, the staff welcomes the government's planned initiatives to improve the education system, and ongoing efforts to fight crime.

45. **The staff welcomes the authorities' request for more intensive surveillance of the Jamaican economy and of progress in implementing their economic strategy**. In response, the staff envisages producing semi-annual interim staff reports for information of the Executive Board between Article IV consultations.

46. **Jamaica provides core statistics to the Fund that are broadly adequate for the conduct of surveillance**. However, a further strengthening of the statistical system remains a priority. Consistent with the government's desire to maintain access to international capital markets, the staff encourages the authorities to commit to a plan to subscribe to the SDDS within a defined timeframe.

47. It is expected that the next Article IV consultation with Jamaica will be conducted on the standard 12-month cycle.

Table 1. Jamaica: Selected Economic Indicators 1/

	2001/02	2002/03	Prel. 2003/04	Projections 2004/05	2005/06	2006/07	2007/08	2008/09
			(Annual percentage changes)					
GDP, prices, and employment								
Real GDP	1.0	1.9	2.0	2.5	2.5	2.8	3.3	3.4
Nominal GDP	9.5	10.0	16.6	14.2	10.6	9.4	9.4	9.1
Consumer price index (end of period)	7.6	6.2	16.8	9.9	7.0	6.0	6.0	5.0
Consumer price index (average)	8.0	6.5	12.9	11.5	7.9	6.4	6.0	5.4
Exchange rate (end of period, in J$/US$)	4.0	18.2	8.1	…	…	…	…	…
End-of-period REER (percent change, depreciation +)	-3.9	14.3	-4.2	…	…	…	…	…
Unemployment rate (in percent)	14.8	15.4	12.8	…	…	…	…	…
			(In percent of GDP, unless otherwise indicated)					
Government operations								
Budgetary revenue	27.0	28.1	29.9	31.8	29.4	29.0	28.8	28.2
Budgetary expenditure	32.6	35.7	36.9	35.2	31.1	30.2	29.7	28.6
Of which: interest payments	13.4	14.9	18.1	17.3	14.3	13.6	13.6	12.3
Unidentified measures	--	--	--	--	1.7	1.7	1.7	1.7
Budget balance	-5.6	-7.6	-7.0	-3.5	0.1	0.5	0.7	1.3
Of which: primary fiscal balance	7.8	7.3	11.1	13.8	14.4	14.1	14.3	13.6
Off-budget expenditure 2/	0.5	3.2	1.9	3.0	1.9	1.9	2.2	1.9
Overall fiscal balance	-6.1	-10.8	-8.9	-6.5	-1.8	-1.4	-1.5	-0.6
Public debt	132.1	146.4	144.8	136.4	127.3	119.6	112.4	104.7
External sector								
Current account balance	-9.6	-14.9	-10.6	-13.2	-12.4	-11.6	-9.2	-7.0
Of which: exports of goods, f.o.b.	17.8	15.6	17.3	17.4	17.2	16.1	17.4	17.3
Of which: imports of goods, f.o.b.	37.6	39.8	40.3	41.0	40.5	40.0	38.5	36.7
Net international reserves (in millions of US$)	1,942	1,340	1,569	1,400	1,550	1,850	2,150	2,150
			(Changes in percent of beginning of period broad money) 3/					
Money and credit								
Net foreign assets 3/	24.3	-8.1	9.0	-2.9	6.9	10.4	10.1	1.4
Net domestic assets	-14.3	15.6	11.3	17.0	3.7	-1.0	-0.5	7.5
Of which: credit to the central government	71.2	8.2	9.0	10.0	5.1	3.7	4.2	2.7
Broad money	10.0	7.5	20.2	14.1	10.6	9.4	9.6	8.9
Interest rate (180 day BoJ CD rate, end of period, in percent per annum) 4/	13.8	33.5	16.0	15.0	14.0	13.5	13.0	12.5
Velocity (ratio of GDP to broad money)	2.6	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Memorandum items:								
Nominal GDP (in billions of Jamaica dollars)	379.8	417.7	486.9	556.2	614.9	672.9	736.3	803.1
Exchange rate (end of period, J$/US$)	47.6	56.2	60.8	…	…	…	…	…

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

1/ Based partly on assumptions provided by the authorities. Fiscal years run from April 1 to March 31.
2/ Includes issuance of debt to the BoJ to cover its cash losses and related capitalized interest, and debt related to off-budget projects financed initially by the private sector.
3/ Including valuation adjustments.
4/ This rate is tracked very closely by the six-month Treasury bill yield, which is the benchmark for indexing variable rate debt instruments that account for a major part of the government domestic debt.

Table 2. Jamaica: Summary of Central Government Operations

	2001/02	2002/03	Prel. 2003/04	Proj. 2004/05	2005/06	2006/07	2007/08	2008/09
				(In billions of Jamaican dollars)				
Budgetary revenue and grants	102.6	117.2	145.5	176.6	181.0	195.3	211.8	226.2
Tax	92.8	104.7	133.2	160.5	167.1	180.3	195.5	209.8
Nontax	7.8	11.6	11.7	11.8	12.3	13.5	14.7	15.3
Grants	2.0	0.9	0.5	4.3	1.5	1.6	1.6	1.1
Budgetary expenditure	123.8	149.0	179.6	195.9	191.3	203.1	218.5	229.4
Primary expenditure	72.8	86.9	91.4	99.7	103.4	111.9	118.6	130.8
Wage and salaries	42.6	51.5	60.5	63.0	63.7	67.8	71.9	75.8
Other expenditure 1/	20.1	27.5	25.3	28.2	30.7	32.3	33.9	36.9
Capital expenditure	10.1	7.9	5.7	8.5	8.9	11.8	12.9	18.1
Interest	51.0	62.1	88.2	96.2	87.9	91.2	99.9	98.6
Domestic	40.4	46.9	71.5	75.2	65.6	65.6	73.0	74.0
External	10.7	15.2	16.7	21.0	22.3	25.6	26.9	24.7
Unidentified measures 2/	--	--	--	0.0	10.7	11.5	12.2	13.9
Budget balance	**-21.2**	**-31.8**	**-34.1**	**-19.3**	**0.5**	**3.7**	**5.4**	**10.6**
***Of which:* primary balance**	**29.8**	**30.3**	**54.1**	**76.9**	**88.3**	**94.9**	**105.3**	**109.2**
Off-budget expenditure	1.8	13.4	9.2	16.9	11.5	13.0	16.3	15.1
BoJ cash losses 3/	--	11.5	7.4	14.9	9.5	11.0	14.3	13.1
Special financing mechanism 4/	1.8	1.8	1.8	2.0	2.0	2.0	2.0	2.0
Overall balance	-23.0	-45.1	-43.3	-36.2	-11.0	-9.3	-10.9	-4.5
Financing	23.0	45.1	43.3	36.2	11.0	9.3	10.9	4.5
External financing	25.9	-12.9	11.6	1.7	2.6	2.0	1.4	1.4
Domestic financing	-2.9	58.1	31.7	34.6	8.4	7.3	9.5	3.1
Banking system	28.9	12.1	14.2	19.0	11.1	8.9	11.0	7.8
Others	-31.8	45.9	17.5	15.6	-2.7	-1.6	-1.5	-4.7
				(In percent of GDP)				
Budgetary revenue and grants	27.0	28.1	29.9	31.8	29.4	29.0	28.8	28.2
Tax	24.4	25.1	27.4	28.8	27.2	26.8	26.5	26.1
Nontax	2.1	2.8	2.4	2.1	2.0	2.0	2.0	1.9
Grants	0.5	0.2	0.1	0.8	0.3	0.2	0.2	0.1
Budgetary expenditure	32.6	35.7	36.9	35.2	31.1	30.2	29.7	28.6
Primary expenditure	19.2	20.8	18.8	17.9	16.8	16.6	16.1	16.3
Wage and salaries	11.2	12.3	12.4	11.3	10.4	10.1	9.8	9.4
Other expenditure 1/	5.3	6.6	5.2	5.1	5.0	4.8	4.6	4.6
Capital expenditure	2.7	1.9	1.2	1.5	1.5	1.8	1.8	2.3
Interest	13.4	14.9	18.1	17.3	14.3	13.6	13.6	12.3
Unidentified measures 2/	--	--	--	0.0	1.7	1.7	1.7	1.7
Budget balance	**-5.6**	**-7.6**	**-7.0**	**-3.5**	**0.1**	**0.5**	**0.7**	**1.3**
***Of which:* primary balance**	**7.8**	**7.3**	**11.1**	**13.8**	**14.4**	**14.1**	**14.3**	**13.6**
Off-budget expenditure	0.5	3.2	1.9	3.0	1.9	1.9	2.2	1.9
BoJ cash losses 3/	--	2.8	1.5	2.7	1.5	1.6	1.9	1.6
Special financing mechanism 4/	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.2
Overall balance	-6.1	-10.8	-8.9	-6.5	-1.8	-1.4	-1.5	-0.6
Financing	6.1	10.8	8.9	6.5	1.8	1.4	1.5	0.6
External financing	6.8	-3.1	2.4	0.3	0.4	0.3	0.2	0.2
Domestic financing	-0.8	13.9	6.5	6.2	1.4	1.1	1.3	0.4
Memorandum items:								
Overall balance of public enterprises	0.5	0.6	1.7	0.0	0.2	0.5	1.0	1.0
Public sector overall balance	-5.5	-10.2	-7.2	-6.5	-1.6	-0.9	-0.5	0.4
Public debt	132.1	146.4	144.8	136.4	127.3	119.6	112.4	104.7
GDP (in billions of J$)	379.8	417.7	486.9	556.2	614.9	672.9	736.3	803.1

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

1/ For actual data, includes the discrepancy between reported budget deficit and that measured by financing.
2/ This is the amount that would be needed to achieve the target for the overall budget balance established by the authorities, based on staff's projections.
3/ Equals to the debt issued to BoJ to cover its losses and related capitalized interest.
4/ Equals to the issuance of debt relating to off-budget projects that are initially financed by private sector.

Table 3. Jamaica: Public Debt and Interest Payments

	2001/02	2002/03	Prel. 2003/04	Projections 2004/05	2005/06	2006/07	2007/08	2008/09
				(In billions of Jamaican dollars)				
Debt stock								
Public debt	502	611	705	758	783	805	828	841
Government debt	480	581	673	726	754	777	802	816
Domestic	300	369	425	464	478	489	502	508
Of which : US$ linked	60	73	96	101	106	110	114	116
External	180	212	248	262	277	289	300	309
Concessional	94	102	106	98	91	80	68	55
Commercial	86	110	142	164	186	209	232	253
Government guaranteed debt	22	30	32	32	28	27	26	25
External	15	21	27	26	23	22	20	19
Domestic	7	9	6	6	6	6	6	6
Domestic currency debt	248	305	334	369	377	384	394	397
Foreign currency debt	194	233	275	288	300	310	320	328
US$ linked debt	60	73	96	101	106	110	114	116
				(In percent of gross public debt)				
Public debt	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Government debt	95.6	95.1	95.4	95.8	96.4	96.6	96.8	97.1
Domestic	59.8	60.4	60.3	61.2	61.0	60.7	60.6	60.4
External	35.8	34.7	35.1	34.5	35.4	35.9	36.2	36.7
Government guaranteed debt	4.4	4.9	4.6	4.2	3.6	3.4	3.2	2.9
Domestic currency debt	49.4	49.9	47.4	48.6	48.2	47.8	47.6	47.2
Foreign currency debt	38.7	38.2	38.9	38.0	38.3	38.6	38.7	39.0
US$ linked debt	11.9	11.9	13.7	13.4	13.6	13.6	13.7	13.8
				(In percent of GDP)				
Public debt	132.1	146.4	144.8	136.4	127.3	119.6	112.4	104.7
Government debt	126.4	139.2	138.2	130.6	122.7	115.5	108.9	101.6
Domestic	79.0	88.4	87.3	83.5	77.7	72.6	68.1	63.2
External	47.3	50.7	50.9	47.1	45.0	42.9	40.7	38.4
Government guaranteed debt	5.8	7.2	6.7	5.8	4.6	4.1	3.5	3.1
Domestic currency debt	65.2	73.0	68.6	66.3	61.3	57.1	53.5	49.4
Foreign currency debt	51.2	55.9	56.4	51.8	48.7	46.1	43.5	40.8
US$ linked debt	15.7	17.5	19.8	18.2	17.3	16.3	15.4	14.5
Budgetary interest payments								
Total	13.4	14.9	18.1	17.3	14.3	13.6	12.4	11.1
Domestic	10.6	11.2	14.7	13.5	10.7	9.8	8.8	8.0
Of which : US$ linked	1.2	1.4	1.7	1.9	1.8	1.7	1.6	1.6
External	2.8	3.6	3.4	3.8	3.6	3.8	3.6	3.1
Concessional	0.8	1.4	1.5	1.2	1.0	0.9	0.8	0.4
Commercial	2.0	2.2	2.0	2.6	2.6	2.9	2.9	2.7
Memorandum items:								
Net debt (in billions of J$)	480	589	683	736	761	783	806	819
In percent of GDP	126.3	141.1	140.3	132.4	123.7	116.3	109.4	102.0
Gross debt held by the market (in percent of GDP)	84.3	95.6	101.6	98.7	94.7	91.2	88.0	84.0
Domestic currency	43.4	52.7	53.7	52.0	48.1	44.7	41.9	38.7
Foreign currency or US$ linked	40.9	43.0	47.9	46.7	46.6	46.5	46.1	45.3
Total debt (in billions of US$)	10.5	10.9	11.6	11.9	11.7	11.6	11.6	11.5
GDP (in billions of J$)	380	418	487	556	615	673	736	803

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

Table 4. Jamaica: Summary Accounts of the Bank of Jamaica 1/

	2001/02	2002/03	Prel. 2003/04	Proj. 2004/05	2005/06	2006/07	2007/08	2008/09
	(In billions of Jamaica dollars)							
End-of-period stocks 1/								
Net international reserves	94.8	75.0	95.5	89.3	103.6	128.0	153.8	157.6
Net domestic assets	-64.5	-42.5	-59.3	-47.5	-57.4	-77.5	-99.2	-98.5
Net claims on public sector 2/	36.5	63.7	75.6	93.3	97.4	110.0	127.5	139.5
Of which: central government	41.1	57.0	67.3	83.6	93.2	104.2	118.5	131.6
Open market operations	-99.2	-86.2	-108.3	-111.6	-124.4	-152.5	-186.3	-193.0
Of which : commercial banks	29.4	17.0	25.3	25.1	25.1	25.3	25.6	24.0
Credit to commercial banks	-4.4	-12.5	-13.7	-12.3	-9.2	-10.1	-11.1	-12.1
Net credit to nonbank financial institutions	-0.8	-0.7	-0.6	-0.5	-0.6	-0.6	-0.6	-0.6
Other 3/	3.3	-6.8	-12.4	-16.4	-20.6	-24.3	-28.8	-32.4
Monetary base	30.2	32.5	36.2	41.8	46.3	50.5	54.6	59.0
Currency in circulation	17.4	17.3	20.6	23.2	25.7	28.1	31.2	33.5
Liabilities to commercial banks	12.8	15.2	15.6	18.6	20.5	22.4	23.5	25.5
Fiscal year flows 1/								
Net international reserves	36.9	-19.7	20.5	-6.2	14.3	24.4	25.8	3.7
Net domestic assets	-37.1	22.0	-16.8	11.8	-9.8	-20.1	-21.7	0.7
Net claims on public sector 2/	4.7	27.2	11.9	17.7	4.1	12.6	17.5	12.0
Of which: central government	26.2	15.9	10.3	16.4	9.5	11.0	14.3	13.1
Open market operations	-37.8	13.0	-22.1	-3.3	-12.8	-28.1	-33.8	-6.7
Of which : commercial banks	21.2	-12.5	8.4	-0.2	0.0	0.2	0.3	-1.6
Credit to commercial banks	2.2	-8.1	-1.2	1.3	3.1	-0.9	-1.0	-1.0
Net credit to nonbank financial institutions	-0.1	0.1	0.1	0.2	-0.1	0.0	0.0	0.0
Other 3/	-6.1	-10.2	-5.5	-4.0	-4.2	-3.8	-4.5	-3.6
Monetary base	-0.3	2.3	3.7	5.6	4.5	4.3	4.1	4.4
Currency in circulation	1.6	-0.2	3.3	2.6	2.6	2.4	3.0	2.3
Liabilities to commercial banks	-1.8	2.4	0.4	3.0	1.9	1.9	1.1	2.1
	(Change in percent of beginning-of-period monetary base)							
Net international reserves	121.0	-65.3	63.1	-17.2	34.2	52.7	51.1	6.8
Net domestic assets	-121.8	72.8	-51.8	32.7	-23.5	-43.5	-43.0	1.3
Net claims on public sector 2/	15.4	90.1	36.7	48.8	9.9	27.1	34.7	22.0
Open market operations	-123.9	43.0	-67.9	-9.2	-30.6	-60.7	-67.0	-12.3
Net credit to commercial banks	7.2	-26.8	-3.7	3.7	7.4	-1.9	-1.9	-1.8
Net credit to nonbank financial institutions	-0.4	0.2	0.2	0.4	-0.2	0.0	0.0	0.0
Other 3/	-20.1	-33.7	-17.0	-11.1	-10.0	-8.1	-8.9	-6.5
Monetary base	-0.8	7.5	11.3	15.5	10.7	9.2	8.1	8.1
Memorandum items:								
Change in net claims on the central government '(percent of GDP)	6.9	3.8	2.1	2.9	1.5	1.6	1.9	1.6
Required cash reserves (percentage points)	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Exchange rate (eop)	47.6	56.1	60.9	…	…	…	…	…
NIR (in millions of U.S. dollars)	1,942	1,339	1,569	1,400	1,550	1,850	2,150	2,150

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

1/ Fiscal year runs from April 1 to March 31.
2/ Includes Bank of Jamaica operating balance and net unclassified assets.
3/ Includes medium- and long-term liabilities, valuation adjustments and allocation of SDRs.

Table 5. Jamaica: Summary Monetary Survey 1/

	2001/02	2002/03	Prel. 2003/04	Proj. 2004/05	2005/06	2006/07	2007/08	2008/09
			(In billions of Jamaica dollars)					
End-of-period stocks 1/								
Net international reserves	99.9	87.9	102.1	96.5	111.5	136.5	163.1	167.0
Net domestic assets	47.8	70.8	88.7	121.1	129.2	126.8	125.5	147.2
Net claims on public sector 2/	119.4	151.0	164.8	183.4	189.1	199.6	213.8	220.4
Of which: central government	119.7	131.8	146.1	165.1	176.2	185.1	196.1	203.9
Open market operations	-69.8	-69.2	-83.0	-86.5	-99.3	-127.2	-160.7	-169.0
Credit to private sector	39.8	54.7	79.9	106.1	129.8	152.8	179.9	211.7
Of which: foreign currency	11.2	19.5	27.0	32.9	36.9	41.2	45.6	52.9
Other 3/	-41.7	-65.6	-73.0	-81.9	-90.4	-98.4	-107.5	-116.0
Liabilities to private sector (M3)	147.7	158.7	190.8	217.6	240.7	263.3	288.5	314.2
Money supply (M2)	108.0	107.5	124.9	142.3	157.5	172.3	188.9	205.5
Foreign currency deposits	39.7	51.2	65.9	75.3	83.2	91.1	99.6	108.7
Fiscal year flows 1/								
Net international reserves	32.6	-12.0	14.2	-5.6	15.0	25.1	26.5	3.9
Net domestic assets	-19.2	23.1	17.9	32.4	8.1	-2.5	-1.3	21.7
Net claims on public sector 2/	22.6	31.6	13.8	18.7	5.7	10.4	14.3	6.6
Of which: central government	95.5	12.1	14.2	19.0	11.1	8.9	11.0	7.8
Open market operations	-16.6	0.5	-13.7	-3.6	-12.8	-27.9	-33.5	-8.3
Credit to private sector	5.8	14.9	25.2	26.2	23.8	23.0	27.1	31.8
Of which: foreign currency	3.9	8.4	7.5	5.8	4.1	4.2	4.4	7.4
Other 3/	-31.0	-24.0	-7.3	-8.9	-8.6	-8.0	-9.1	-8.4
Liabilities to private sector (M3)	13.5	11.0	32.1	26.8	23.1	22.6	25.2	25.7
Money supply (M2)	6.9	-0.5	17.4	17.4	15.1	14.8	16.6	16.6
Foreign currency deposits	6.5	11.6	14.6	9.4	8.0	7.8	8.6	9.0
			(Change in percent of beginning-of-period M3)					
Net international reserves	24.3	-8.1	9.0	-2.9	6.9	10.4	10.1	1.4
Net domestic assets	-14.3	15.6	11.3	17.0	3.7	-1.0	-0.5	7.5
Net claims on public sector 2/	16.8	21.4	8.7	9.8	2.6	4.3	5.4	2.3
Of which: central government	71.2	8.2	9.0	10.0	5.1	3.7	4.2	2.7
Open market operations	-12.3	0.4	-8.6	-1.9	-5.9	-11.6	-12.7	-2.9
Credit to private sector	4.3	10.1	15.9	13.7	10.9	9.5	10.3	11.0
Of which: foreign currency	2.9	5.7	4.7	3.1	1.9	1.8	1.7	2.6
Other 3/	-23.1	-16.2	-4.6	-4.7	-3.9	-3.3	-3.5	-2.9
Liabilities to private sector (M3)	10.0	7.5	20.2	14.1	10.6	9.4	9.6	8.9
Memorandum items:								
Dollarization (share of FCDs in total deposits)	30.5	36.2	38.7	38.7	38.7	38.7	38.7	38.7
Growth rate of bank deposits	10.0	8.6	20.3	14.2	10.6	9.4	9.4	9.1
M3 velocity	2.6	2.7	2.6	2.6	2.6	2.6	2.6	2.6

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

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

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

3/ Includes net credit to nonbank financial institutions, capital accounts, valuation adjustment, securities sold under repo and net unclassified assets

Table 6. Jamaica: Selected Vulnerability Indicators

	2001/02	2002/03	Prel. 2003/04	Proj. 2004/05
Key economic and market indicators				
Real GDP growth (in percent)	1.0	1.9	2.0	2.5
CPI inflation (period average, in percent)	8.0	6.5	12.9	11.5
Short-term (ST) interest rate (in percent)	14.3	33.4	16.0	...
EMBI secondary market spread (bps, end of period)	550.0	800.0	551.0	...
Exchange rate NC/US$ (end of period)	47.5	56.1	60.8	...
External sector				
Exchange rate regime		Managed float		
Current account balance (percent of GDP)	-9.6	-14.9	-10.6	-13.2
Net FDI inflows (percent of GDP)	5.7	4.1	4.9	3.8
Export growth (US$ value, percentage change, GNFS)	-8.6	1.3	7.6	9.4
Real effective exchange rate (1995=100)	138.6	144.0	123.5	…
Gross international reserves (GIR) in US$billion	2.0	1.4	1.6	1.4
GIR in percent of ST debt at remaining maturity	210.0	251.0	350.6	276.9
Net international reserves (NIR) in US$billion	1.9	1.3	1.6	1.4
Total gross external debt in percent of GDP	50.7	50.0	55.6	54.0
Of which : ST debt (original maturity in percent of GDP)	…	…	…	…
Private sector debt (in percent of GDP)	…	…	…	…
Total gross external debt in percent of exports of GNFS	127.1	126.9	127.8	124.0
Gross external financing requirement (in US$ billion)	1.8	1.4	1.4	1.5
Public sector 1/				
Overall balance (percent of GDP)	-6.1	-10.8	-8.9	-6.6
Primary balance (percent of GDP)	7.8	7.3	11.1	13.8
Debt-stabilizing primary balance (percent of GDP) 2/	7.3	17.3	10.0	9.0
Debt-service in percent of total revenue	129.2	129.6	128.8	129.7
Gross public sector financing requirement (in percent of GDP)	30.2	32.1	28.6	31.0
Public sector gross debt (PSGD, in percent of GDP)	132.1	146.4	144.8	136.4
Of which : external debt from official creditors (in percent of total PSGD)	20.9	16.7	14.4	…
External debt from private creditors (in percent of total PSGD)	18.7	18.0	21.5	…
Domestic debt linked to foreign currency (in percent of total PSGD)	6.5	11.9	13.1	…
Domestic debt at variable interest rate or indexed to inflation (in percent of total PSGD)	56.8	51.6	41.8	…
Public sector net debt (in percent of GDP)	…	…	…	…
Financial sector 3/				
Capital adequacy ratio (in percent)	17.8	14.4	13.1	…
NPLs in percent of total loans	8.0	4.9	3.9	…
Provisions in percent of NPLs	126.5	117.9	117.1	…
Return on average assets (in percent)	0.7	1.1	0.9	…
FX deposits (in percent of total deposits)	30.5	36.2	38.7	38.7
FX deposits (in percent of gross international reserves)	40.5	54.4	67.9	78.1
FX loans (in percent of total loans)	28.1	35.7	33.8	31.0
Net open forex position (balance sheet exposure) (in percent of capital) 4/	…	20.9	-8.2	…
Ratio of gross notional off-balance sheet exposure to capital	…	…	…	…

Sources: Jamaican authorities and Fund staff estimates.

1/ Includes central government only.
2/ Based on averages over the last 5 years for the relevant variables (i.e., growth and interest rates).
3/ Includes all deposit-taking institutions supervised by the Bank of Jamaica (commercial banks, merchant banks, building societies and credit unions) except for FX indicators which relate to commercial banks only.
4/ Includes commercial banks only.

Table 7. Jamaica: Summary Balance of Payments
(In millions of U.S. dollars)

	2001/02	2002/03	Est. 2003/04	Projections 2004/05	2005/06	2006/07	2007/08	2008/09
Current account	-764	-1,250	-865	-1,178	-1,166	-1,145	-960	-775
Trade balance	-1,577	-2,023	-1,874	-2,103	-2,192	-2,366	-2,208	-2,146
Exports (f.o.b.)	1,424	1,307	1,408	1,550	1,615	1,595	1,826	1,923
Imports (f.o.b.)	3,001	3,330	3,282	3,653	3,807	3,961	4,034	4,069
Services (net)	321	308	471	542	607	695	784	907
Transportation	-254	-243	-194	-213	-231	-234	-239	-216
Travel	956	989	1,096	1,214	1,326	1,445	1,571	1,710
Other services	-390	-439	-431	-460	-488	-515	-549	-587
Income (net)	-457	-630	-641	-832	-824	-760	-865	-906
Of which: interest (net)	-204	-300	-298	-392	-395	-382	-396	-416
Current transfers (net)	958	1,096	1,178	1,215	1,243	1,286	1,329	1,371
Capital and financial account	1,545	648	1,094	1,014	1,316	1,445	1,260	775
Capital account (net)	-24	-16	-17	-18	-18	-19	-19	-20
Financial account (net)	1,569	664	1,111	1,032	1,334	1,463	1,279	795
Direct investment (net)	454	347	396	337	766	914	911	529
Official capital flows (net)	590	-227	138	147	52	43	35	-86
Portfolio investment (net)	-26	-195	-190	-182	-174	-165	-156	-146
Other private inflows (net) 1/	550	739	767	730	689	672	489	499
Overall balance/change in reserves	656	-602	229	-163	150	300	300	0
Memorandum items:								
Net international reserves	1,942	1,340	1,569	1,400	1,550	1,850	2,150	2,150
Current account/GDP (percent)	-9.6	-14.9	-10.6	-13.2	-12.4	-11.6	-9.2	-7.0
Exports/GDP (percent)	17.8	15.6	17.3	17.4	17.2	16.1	17.4	17.3
Imports/GDP (percent)	37.6	39.8	40.3	41.0	40.5	40.0	38.5	36.7
Trade balance/GDP (percent)	-19.8	-24.2	-23.0	-23.6	-23.3	-23.9	-21.1	-19.3
Services/GDP (percent)	4.0	3.7	5.8	6.1	6.4	7.0	7.5	8.2
Debt service/exports of G&S	19.2	31.9	16.5	23.3	22.9	15.3	18.9	20.6
GDP	7,979	8,367	8,143	8,909	9,412	9,893	10,464	11,091

Sources: Bank of Jamaica; and Fund staff projections.

1/ Includes errors and omissions.

Table 8. Jamaica: Public Debt Sustainability Framework, FY 1993/94–2008/09

(In percent of GDP, unless otherwise indicated)

	Actual												Prel.	Projections					
	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03			2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	
													I. Baseline Projections						**Debt-stabilizing primary balance 10/**
1 **Public debt 1/**	110.9	99.5	85.2	79.1	103.2	116.5	132.5	132.0	132.1	146.4			**144.8**	**136.4**	**127.3**	**119.6**	**112.4**	**104.7**	
Government debt 1/	110.9	99.5	78.4	73.8	98.9	113.5	129.5	127.5	126.4	139.2			138.2	130.6	122.7	115.5	108.9	101.6	**-7.2**
Of which : foreign-currency denominated	90.6	83.7	55.4	48.0	49.7	43.4	43.6	44.7	48.8	65.2			67.7	66.8	61.4	58.6	55.8	52.4	
Government guaranteed debt 1/	0.0	0.0	6.8	5.3	4.3	3.0	3.0	4.4	5.8	7.2			6.7	5.8	4.6	4.1	3.5	3.1	
2 Change in government debt	7.9	-11.4	-21.1	-4.5	25.1	14.6	16.0	-1.9	-1.2	12.8			-1.0	-7.6	-7.9	-7.2	-6.6	-7.2	
3 Identified debt-creating flows (4+7+12)	1.4	-29.2	-8.9	-8.4	25.3	12.2	12.8	-9.8	0.0	9.9			-5.7	-7.3	-7.6	-7.0	-6.5	-7.1	
4 Primary deficit	-10.3	-11.5	-10.2	-5.0	-1.7	-5.4	-9.4	-11.5	-7.8	-5.3			8.9	6.5	1.8	1.4	1.5	0.6	
5 Revenue and grants	25.7	26.0	27.5	25.6	24.8	25.8	29.1	29.1	27.0	28.1			29.9	31.8	29.4	29.0	28.8	28.2	
6 Primary (noninterest) expenditure	15.4	14.4	17.3	20.6	23.1	20.4	19.7	17.7	19.2	22.8			38.8	38.3	31.2	30.4	30.2	28.7	
7 Automatic debt dynamics 2/	11.7	-17.6	1.0	-5.3	5.9	12.2	12.8	7.1	6.0	14.9			-14.6	-13.8	-9.4	-8.4	-7.9	-7.7	
8 Contribution from interest rate/growth differential 3/	-20.6	-17.7	-10.8	0.5	4.4	10.4	8.9	3.4	4.0	4.2			-19.8	-17.2	-12.5	-10.6	-10.0	-9.0	
9 *Of which:* contribution from real interest rate	-19.3	-16.2	-10.7	-0.3	4.0	9.9	10.1	4.3	5.1	6.4			-17.3	-14.2	-9.6	-7.4	-6.5	-5.6	
10 *Of which:* contribution from real GDP growth	-1.3	-1.5	0.0	0.7	0.4	0.5	-1.2	-0.9	-1.2	-2.2			-2.4	-3.0	-2.9	-3.2	-3.4	-3.4	
11 Contribution from exchange rate depreciation 4/	32.2	0.1	11.7	-5.7	1.5	1.8	3.9	3.7	2.0	10.7			5.2	3.4	3.0	2.2	2.0	1.4	
12 Other identified debt-creating flows	0.0	0.0	0.3	1.8	21.1	5.4	9.5	-5.5	1.9	0.3			0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.2	2.1	1.9	0.3			0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.3	1.8	21.1	5.4	9.2	-7.6	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3)	6.6	17.8	-12.2	3.9	-0.2	2.4	3.2	7.9	-1.2	2.9			4.7	-0.3	-0.2	-0.2	-0.2	-0.1	
Public debt-to-revenue ratio 1/	431.0	383.0	309.6	308.7	415.2	451.8	455.6	453.1	489.3	521.5			484.8	429.5	432.6	411.9	390.9	371.8	
Gross financing need 5/	2.0	7.7	5.3	15.9	20.3	24.0	25.7	23.2	31.2	31.9			29.3	30.4	18.6	14.4	17.8	19.0	
In billions of U.S. dollars	0.1	0.4	0.3	1.1	1.5	1.8	1.9	1.8	2.5	2.7			2.4	2.7	1.7	1.4	1.9	2.1	
Key macroeconomic and fiscal assumptions											10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	1.7	1.8	0.0	-1.1	-0.6	-0.6	1.1	0.8	1.0	1.9	0.6	1.1	2.0	2.5	2.5	2.8	3.3	3.4	2.7
Average nominal interest rate on public debt (in percent) 6/	10.1	10.4	10.5	16.4	15.1	18.8	16.6	14.5	12.9	13.6	13.9	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-25.2	-18.7	-13.4	-0.6	5.8	10.7	9.7	3.8	4.5	5.7	-1.8	12.7	-14.2	-11.5	-7.9	-6.4	-6.0	-5.4	-8.6
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	-33.5	-0.1	-16.5	14.1	-3.9	-4.6	-9.2	-7.7	-4.0	-15.4	-8.1	12.3	-7.5	-4.8	-4.5	-3.4	-3.3	-2.4	-4.3
Inflation rate (GDP deflator, in percent)	35.3	29.1	23.9	17.0	9.3	8.1	7.0	10.7	8.4	7.9	15.7	10.3	14.2	11.5	7.9	6.4	6.0	5.4	8.6
Growth of real primary spending (deflated by GDP deflator, in percent)	10.1	-4.6	19.6	18.1	11.4	-12.2	-2.6	-9.5	9.5	21.2	6.1	12.4	73.6	1.1	-16.4	0.1	2.7	-1.7	9.9
Primary deficit	-10.3	-11.5	-10.2	-5.0	-1.7	-5.4	-9.4	-11.5	-7.8	-5.3	-7.8	3.3	8.9	6.5	1.8	1.4	1.5	0.6	3.4
													II. Stress Tests for Public Debt Ratio						**Debt-stabilizing primary balance 10/**
A. Alternative scenarios																			
A1. Key variables are at their historical averages in 2004-08 7/													**144.8**	**136.6**	**127.7**	**118.7**	**109.7**	**100.3**	**-6.9**
A2. Primary balance under no policy change in 2004-08													**144.8**	**120.8**	**118.0**	**116.0**	**113.5**	**110.6**	**-7.2**
B. Bound tests																			
B1. Real interest rate is at historical average plus two standard deviations in 2004 and 2005													**144.8**	**179.8**	**218.4**	**204.4**	**191.4**	**178.1**	**-12.4**
B2. Real GDP growth is at historical average minus two standard deviations in 2004 and 2005													**144.8**	**143.0**	**141.4**	**135.2**	**129.5**	**123.0**	**-8.5**
B3. Primary balance is at historical average minus two standard deviations in 2004 and 2005													**144.8**	**128.7**	**117.2**	**110.2**	**103.7**	**96.6**	**-6.6**
B4. Combination of 2-4 using one standard deviation shocks													**144.8**	**157.6**	**172.1**	**161.3**	**151.3**	**140.8**	**-9.7**
B5. One time 30 percent real depreciation in 2004 9/													**144.8**	**180.9**	**168.6**	**158.0**	**148.3**	**138.0**	**-9.1**
B6. 10 percent of GDP increase in other debt-creating flows in 2004													**144.8**	**146.4**	**136.6**	**128.2**	**120.5**	**112.2**	**-7.7**

1/ Central government and government guaranteed debt on gross basis. From FY 2002/03, includes debt issued to the BoJ to cover its cash losses and related capitalized interest. The primary balance includes budgetary primary balance and off-budget expenditures.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ Defined as overall fiscal deficit (including off-budget issuance of debt to BoJ) , plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ The implied change in other key variables under this scenario is discussed in the text.
9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
10/ Assumes that key variables (real GDP growth, real interest rate, and primary balance) remain at the level in percent of GDP/growth rate of the last projection year.

Table 9. Jamaica: External Debt Sustainability Framework, 1999–2009 8/

(In percent of GDP, unless otherwise indicated)

	Actual				Prel.			Projections					
	1999/00	2000/01	2001/02	2002/03	2003/04			2004/05	2005/06	2006/07	2007/08	2008/09	
								I. Baseline Projections					**Debt-stabilizing non-interest current account 7/**
1 **External debt**	40.9	46.0	50.7	50.0	55.6			**54.3**	**51.2**	**48.6**	**46.0**	**42.2**	**-3.9**
2 Change in external debt	-0.4	5.1	4.8	-0.8	5.7			-1.3	-3.1	-2.6	-2.6	-3.8	
3 Identified external debt-creating flows (4+8+9)	-0.4	-3.2	1.2	15.0	1.7			8.2	3.0	1.0	-1.0	0.7	
4 Current account deficit, excluding interest payments	0.3	1.6	5.5	10.4	6.3			8.1	7.7	7.1	4.8	2.7	
5 Deficit in balance of goods and services	8.3	10.7	15.5	20.5	17.2			17.6	16.9	16.9	13.6	11.1	
6 Exports	44.2	45.1	39.9	39.4	43.5			43.8	43.8	43.0	44.6	44.5	
7 Imports	52.5	55.9	55.4	59.9	60.7			61.4	60.8	59.9	58.2	55.6	
8 Net nondebt creating capital inflows (negative)	-4.6	-6.7	-5.6	-4.1	-4.9			-3.8	-8.2	-9.2	-8.7	-4.7	
9 Automatic debt dynamics 1/	3.9	1.9	1.2	8.8	0.3			3.9	3.5	3.1	2.9	2.8	
10 Contribution from nominal interest rate	3.0	3.1	3.5	5.0	3.9			5.2	4.8	4.5	4.4	4.3	
11 Contribution from real GDP growth	-0.5	-0.3	-0.4	-1.1	-0.9			-1.3	-1.3	-1.4	-1.5	-1.5	
12 Contribution from price and exchange rate changes 2/	1.4	-0.9	-1.8	4.8	-2.7			...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2–3) 3/	0.1	8.3	3.6	-15.8	3.9			-9.6	-6.1	-3.6	-1.6	-4.5	
External debt-to-exports ratio (in percent)	92.4	101.8	127.1	126.9	127.8			124.0	116.7	112.9	103.0	94.7	
Gross external financing need (in billions of U.S. dollars) 4/	0.7	0.7	1.1	2.0	1.2			1.7	1.7	1.4	1.5	1.4	
in percent of GDP	8.6	8.7	13.7	23.7	14.2			19.2	18.5	14.4	13.9	12.4	
Key macroeconomic assumptions						10-Year Historical Average	10-Year Standard Deviation						Projected Average
Real GDP growth (in percent)	1.1	0.8	1.0	1.9	2.0	0.6	1.1	2.5	2.5	2.8	3.3	3.4	2.8
GDP deflator in U.S. dollars (change in percent)	-3.2	2.2	4.1	-8.7	5.7	7.3	13.3	6.2	3.1	2.8	2.5	2.9	3.9
Nominal external interest rate (in percent)	7.1	7.9	8.0	9.1	8.5	7.3	1.1	10.2	9.2	9.2	9.6	9.9	9.7
Growth of exports (U.S. dollar terms, in percent)	2.1	4.0	-8.6	1.3	7.6	4.0	9.1	9.4	5.8	3.7	9.8	6.3	6.6
Growth of imports (U.S. dollar terms, in percent)	3.4	8.5	2.5	10.9	-1.3	6.1	8.7	9.9	4.6	4.2	2.9	1.8	4.6
Current account balance, excluding interest payments	-0.3	-1.6	-5.5	-10.4	-6.3	-1.5	4.6	-8.1	-7.7	-7.1	-4.8	-2.7	-5.5
Net nondebt creating capital inflows	4.6	6.7	5.6	4.1	4.9	3.7	1.9	3.8	8.2	9.2	8.7	4.7	6.5
								II. Stress Tests for External Debt Ratio					**Debt-stabilizing non-interest current account 7/**
A. Alternative scenarios													
A1. Key variables are at their historical averages in 2005–09 5/								**54.3**	**47.4**	**42.8**	**40.0**	**34.6**	**-3.9**
A2. Country-specific shock in 2005, with reduction in GDP growth (relative to baseline) of one standard deviation 6/								**54.3**	**51.2**	**48.6**	**46.0**	**42.2**	**-3.9**
A3. Selected variables are consistent with market forecast in 2005–09								**54.3**	**51.2**	**48.6**	**46.0**	**42.2**	**-3.9**
B. Bound tests													
B1. Nominal interest rate is at historical average plus two standard deviations in 2005 and 2006								**54.3**	**51.3**	**48.7**	**46.2**	**42.4**	**-3.9**
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006								**54.3**	**53.0**	**51.9**	**48.6**	**44.2**	**-4.3**
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2005 and 2006								**54.3**	**63.2**	**71.7**	**64.2**	**56.0**	**-6.5**
B4. Non-interest current account is at historical average minus two standard deviations in 2005 and 2006								**54.3**	**54.2**	**55.3**	**53.0**	**49.4**	**-3.8**
B5. Combination of 2–5 using one standard deviation shocks								**54.3**	**54.7**	**54.9**	**51.3**	**46.2**	**-5.1**
B6. One time 30 percent nominal depreciation in 2005								**54.3**	**67.0**	**60.8**	**55.3**	**48.9**	**-5.4**

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ The implied change in other key variables under this scenario is discussed in the text.

7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and both non-interest current account and nondebt inflows in percent of GDP) remain at their levels of the last projection year.

8/ Excludes private sector debt.

Table 10. Jamaica: Millennium Development Goals

	1990	1995	Latest data 2002	Target 2015
Goal 1. Eradicate extreme poverty and hunger				
Population below US$1 a day (percent)	…	…	…	…
Poverty gap at US$1 a day (percent)	…	…	…	…
Percentage share of income or consumption held by poorest 20 percent	…	…	…	
Prevalence of child malnutrition (percent of children under 5)	4.6	5.1	…	2.3
Population below minimum level of dietary energy consumption (percent)	14	11	…	
Goal 2. Achieve universal primary education				
Net primary enrollment ratio (percent of relevant age group)	95.7	…	…	100
Percentage of cohort reaching grade 5 (percent)	…	…	…	
Youth literacy rate (percent of ages 15–24)	91.2	92.8	94.5	100
Goal 3. Promote gender equality				
Ratio of girls to boys in primary and secondary education (percent)	101.8	…	…	100
Ratio of young literate females to males (percent of ages 15–24)	109.3	108.3	107.1	100
Share of women employed in the nonagricultural sector (percent)	49.6	49.2	…	
Proportion of seats held by women in national parliament (percent)	…	12	…	
Goal 4. Reduce child mortality				
Under 5 mortality rate (per 1,000)	20	20	20	7
Infant mortality rate (per 1,000 live births)	17	17	17	
Immunization, measles (percent of children under 12 months)	69	89	86	
Goal 5. Improve maternal health				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	…	…	…	…
Births attended by skilled health staff (percent of total)	79	94.6	…	
Goal 6. Combat HIV/AIDS, malaria, and other diseases				
Prevalence of HIV, female (percent of ages 15–24)	…	…	…	
Contraceptive prevalence rate (percent of women ages 15–49)	55	62	…	
Number of children orphaned by HIV/AIDS	…	…	…	
Incidence of tuberculosis (per 100,000 people)	…	…	7.5	
Tuberculosis cases detected under DOTS (percent)	…	85	68.1	
Goal 7. Ensure environmental sustainability				
Forest area (percent of total land area)	35	…	…	
Nationally protected areas (percent of total land area)	…	0	84.6	
GDP per unit of energy use (PPP $ per kg oil equivalent)	2.6	2.6	…	
CO2 emissions (metric tons per capita)	3.3	3.9	…	
Access to an improved water source (percent of population)	93	…	…	97
Access to improved sanitation (percent of population)	99	…	…	
Access to secure tenure (percent of population)	…	…	…	
Goal 8. Develop a global partnership for development				
Youth unemployment rate (percent of total labor force ages 15–24)	30.1	34.1	…	
Fixed line and mobile telephones (per 1,000 people)	44.6	135.9	704.5	
Personal computers (per 1,000 people)	…	5.2	53.9	

Source: World Development Indicators.

JAMAICA—FUND RELATIONS
(As of June 30, 2004)

I. Membership Status: Joined February 21, 1963; Article VIII

II.	**General Resources Account**:	**SDR Million**	**Percent of Quota**
	Quota	273.50	100.00
	Fund holdings of currency	277.41	101.43

III.	**SDR Department**:	**SDR Million**	**Percent of Allocation**
	Net cumulative allocation	40.61	100.00
	Holdings	0.46	1.13

IV.	**Outstanding Purchases and Loans**:	**SDR Million**	**Percent of Quota**
	Extended arrangement	3.86	1.41

V. Latest Financial Arrangements:

	Approval Date	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
EFF	12/11/92	03/16/96	109.13	86.75
Stand-by arrangement	06/28/91	09/30/92	43.65	43.65
Stand-by arrangement	03/23/90	05/31/91	82.00	82.00

VI. Projected Obligations to the Fund (SDR million); based on existing use of resources and present holdings of SDRs:

	Projections				
	2004	2005	2006	2007	2008
Principal	3.28	0.58			
Charges/interest	0.38	0.71	0.70	0.70	0.70
Total	3.66	1.29	0.70	0.70	0.70

VII. Exchange Rate Arrangements:

The external value of the Jamaican dollar has been determined in an interbank market operated by commercial banks beginning September 17, 1990. The Jamaican dollar has depreciated significantly since then, though not in a uniform trend. Since January to September 2002 the exchange rate depreciated gradually from J$47½ to J$48 per U.S. dollar, but it has depreciated slightly more quickly during September to December as market uncertainties rose. After the Bank of Jamaica’s intervention, the market has stabilized at around J$51. The Jamaican dollar depreciated further during the first quarter of 2003 but has stabilized since May 2003. At March 31 it was trading at around J$61 to the U.S. dollar. A multiple currency practice (MCP) exists subject to Fund jurisdiction under Article VIII.

The MCP arises from the implementation of the surrender requirement where authorized foreign exchange dealers and cambios are required to surrender at least 5 percent—but not more than 10 percent—of their purchases of U.S. dollars, Canadian dollars and pound sterling to the Bank of Jamaica (BOJ). This surrender requirement is effected based on the previous day's average selling rate for the U.S. dollar, the Canadian dollar and the pound sterling respectively against the Jamaican dollar (referred below as "surrender rates"). For the period of April 2003–March 2004, the surrender rates have resulted in the cross rates between the U.S. dollar and the Canadian dollar and between the U.S. dollar and the pound sterling to differ periodically (for more than 5 days) by more than 1 percent from the midpoint spot exchange rates for those two currency pairs in their principal markets.

VIII. Last Article IV Consultation and Program Relations:

Jamaica is on the standard 12-month consultation cycle, and the last Article IV consultation was completed by the Executive Board on June 9, 2003 (IMF Country Report No. 04/76). In July 2002, the Jamaican authorities requested a staff-monitored program (SMP) (IMF Country Report No. 02/197) for the period from April 2002 through March 2003.

IX. Technical Assistance:

Department	**Dates**	**Purpose**
MAE	May 1995	Review of deposit insurance scheme
	October–December 1995	Banking supervision
	February–June 1996	Banking supervision
	September 1996	Banking crisis and restructuring
	October 1996	Banking supervision
	February 1997	Central bank accounting
	May 1997	Banking supervision
	August 1997	Banking supervision
	January 1998	Banking supervision
	April 1998	Public debt management
	May 1998	Financial sector restructuring
	April 2001	Banking supervision
	January 2002	Banking Supervision
STA	September 1996	Multisector statistics assessment
	July 2002	Organization of Statistics Office

X. Resident Representative:

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

JAMAICA—STATISTICAL ISSUES

In early 2003, Jamaica started participating in the Fund's General Data Dissemination System (GDDS), which provides participants with a framework for the development of their statistical systems.

National accounts

There are significant weaknesses in the national accounts and other real sector data. In regard to estimates of GDP, concerns relate both to its level and growth. Addressing these shortcomings has been hindered, *inter alia*, by insufficient legal authority granted to the Statistical Institute of Jamaica (STAINT) to collect source data, as well as by institutional weaknesses, including a lack of resources. However, efforts are being made to effect some improvements to national accounts data, including updating the base year. Assistance on national accounts methodology was provided by Statistics Canada, and by a STA technical assistance mission in June 2001. The first publication of quarterly national accounts was issued in August 2002.

Prices

The outdated weights of the published consumer price index (CPI) are derived from a household expenditure survey carried out in 1984. However, the price relatives are obtained for January 1988 and results in an apparent mismatch with the reference period of the weights. Further, some releases of the index do not adequately explain this inconsistency.

Production

No data on industrial production indices, on wholesale or producer prices, on import volumes, or on export or import prices have been reported for publication in the *International Financial Statistics (IFS)* in recent years.

Government finance statistics (GFS)

In 2001, the authorities reported data on the operations of the consolidated central government and debt dating back to 1991 for publication in the *GFSY*. The components of consolidated central government expenditures by functions have also been published in *IFS*. Although the breakdown of financing data by type of debt holder and by instruments has been provided by the authorities, the inconsistency of the data with the overall deficit/surplus measures has prevented their publication in *GFSY*. In 2003, the authorities reported data for 2002 in *GFSM 2001* format for publication in *GFSY* 2003.

Monetary accounts

The published statistics for the Bank of Jamaica (BOJ) are sectorized, classified, and valued in accordance with international standards, and are published in a timely manner. Following technical assistance from the Fund, an extensive series on the assets and liabilities of credit unions is now being compiled and published and there are plans to include data on Financial Institutions' Act licensees (merchant banks) and building societies in the expanded coverage of the published monetary survey. The classification and structure of public entities need to be updated regularly in order to avoid the mixing of central government's accounts with the financial positions of public enterprises and to exclude those entities that are no longer in the public sector from the monetary accounts of the BOJ and commercial banks. Currently, information on deposit money banks and monetary authorities is being reported on a regular basis.

Balance of payments

The BOJ compiles and disseminates balance of payments data on a monthly and annual basis. Detailed annual balance of payments data are reported by the BOJ for publication in the *Balance of Payments Statistics Yearbook (BOPSY)* and the *IFS*. At present, Jamaica does not compile International Investment Position (IIP) statistics. Nevertheless, the authorities, with European Union assistance, have begun preparatory work and hope to begin collecting IIP data in 2004.

Jamaica: Core Statistical Indicators
As of July 1, 2004

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest observation	05/31/04	05/31/04	05/29/04	04/31/04	04/31/04	04/29/04	05/04	10/03	09/03	03/04	2002	03/04
Date received	06/07/04	06/07/04	06/07/04	06/07/04	06/07/04	06/07/04	06/21/04	06/15/04	03/23/04	05/25/04	06/30/03	05/25/04
Frequency of data[1]	D	W	W	W	M	M	M	M	M	Q	A	M
Frequency of reporting[1]	D	W	W	W	W	M	M	Q	Q	Q	A	O
Source of update[2]	N	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting[3]	E	M	M	M	M	E	C	C	C	C	C	C
Confidentiality[4]	C	D	D	D	D	C	C	C	C	D	C	C
Frequency of publication	D	M	M	M	M	M	M	M	M	A	A	M

[1] D-daily, W-weekly, M-monthly, Q-quarterly, A-annually, V-irregularly, and O-other.
[2] A-direct reporting by Central Bank, Ministry of Finance, or other official agency, N-official publication of press release, P-commercial publication, C-commercial electronic data provider, E-EIS, O-other.
[3] E-electronic data transfer, C-cable or facsimile, T-telephone, M-mail, V-staff visits, and O-other.
[4] A-for use by the staff only, B-for use by the staff and Executive Board, C-unrestricted, D-preliminary data available to staff prior to official publication or E-subject to other use restrictions.

Jamaica—Financial Relations with the World Bank Group

(In millions of U.S. dollars)

I. Statement of World Bank Loans as of April 13, 2004

Project ID	Project Name	Approval in Fiscal Year	IBRD	IDA	Cancel.	Undisb.
P007490	Public Sector Modernization	1997	28.4	0	0	10.3
P067774	Social Safety Net	2002	40.0	0	0	38.6
P074641	HIV/AIDS Prevention and Control	2002	15.0	0	0	15.0
P076837	National Community Development	2003	15.0	0	0	15.0
P071589	Reform of Secondary Education II	2003	39.8	0	0	39.4
P073756	Bank Restructuring and Debt Management Program II	2003	75.0	0	0	0.0
	Total		**213.2**	**0**	**0**	**118.3**

Loans/credits summary as of March 31, 2004	**1,461**
Total disbursed (IBRD)	
Of which has been repaid:	996
Total now held by IBRD	463

II. Statement of IFC's Committed and Disbursed Portfolio Investments
As of March 2004

(In millions of U.S. dollars)

FY Approval	Institution	Loan IFC held	Equity IFC held	QL+QE Comtd - IFC	All Part held	Loan IFC Disb	Equity IFC Disb	QL + QE Comtd IFC	All Part disb
1995/1997	Jamaica Energy Parners	10.08	0.00	0.00	21.90	10.08	0.00	0.00	21.90
2002	MBJA Limited	20.00	0.00	0.00	25.00	13.78	0.00	0.00	17.22
2001/2002	Mossel	25.71	8.00	12.00	4.34	25.71	8.00	12.00	4.34
2003	JPS Co	0.00	0.00	45.00	0.00	0.00		45.00	0.00
Total Portfolio		**55.79**	**8.00**	**57.00**	**51.24**	**49.57**	**8.00**	**57.00**	**43.46**

III. World Bank Assistance Strategy

On September 18, 2002, the World Bank's Board of Executive Directors discussed the Bank Group's Country Assistance Strategy (CAS) Progress Report for Jamaica covering the next twelve months. The Bank's assistance strategy has been closely aligned with the Government's own development priorities and reform agenda and remains largely unchanged from the CAS discussed at the Board in November 2000. The total package amounts to US$129.8 million. New lending is limited to the two projects already identified in the previous CAS—the Bank Restructuring and Debt Management Program Loan II (US$75 million) and Reform of Secondary Education II (US$39.8 million)—as well as the National Community Development Project (US$15 million) identified in the aftermath of September 11, 2001. The three projects were approved by the Board on October 24, 2002.

The Bank's recently completed Country Economic Memorandum (December, 2003) and ongoing Public Expenditure and Institutional Review—are designed to identify key interventions to support the resumption of broad-based growth in Jamaica, and to provide an analytical basis for its interventions in the next CAS.

The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) have also had active programs in Jamaica, with IFC supporting investments in telecommunications and the airports and MIGA supporting active contracts in the power and financial sectors.

JAMAICA—RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

Jamaica joined the Inter-American Development Bank (IDB) in 1969. Since then, the IDB has approved 91 loans (76 projects) to Jamaica amounting to US$1.4 billion and 160 technical cooperation operations totaling US$52.2 million. IDB financial assistance has supported a wide range of infrastructural, environmental 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 IDB is the leading lender to Jamaica among multilateral development partners. As of March 2004, Jamaica's outstanding debt to the IDB stood at US$704 million representing 16 percent of Jamaica's total external debt and 61 percent of Jamaica's multilateral debt. Out of this outstanding debt, US$687 million were public sector loans and US$17 million were private sector loans. With respect to the loan terms, 46 percent is on Ordinary Capital (OC) terms, 43 percent on Intermediate Financing Facility (IFF) terms and 8 percent on Fund for Special Operations (FSO) terms (see Table 1). Table 1 provides a breakdown of the outstanding portfolio by type of lending program showing the applicable weighted average interest rates which vary between 2 percent and 7 percent. The IFF provides an interest subsidy on OC lending of up to 5 percentage points of the OC interest rate, provided that the effective rate does not go below 3.38 percent. With 43 percent of the outstanding debt receiving IFF terms, this program provides substantial saving to Jamaica. Jamaica's eligibility to receive IFF terms is under review at the present time.

Table 1. Interest Terms on IDB Outstanding Debt

Type	Amount (US$m.)	Weighted Average Interest Rate (percent)
Public sector	687.4	
OC	324.5	5.56
IFF	305.1	3.38
FSO	57.8	2.0
Private sector	17.0	7.08
Total debt outstanding	704.4	

At the present time, there are 14 loan projects and 22 technical cooperation projects in execution with total IDB contributions of US$350 million and US$10 million, respectively (see Table 2). Thirty-five percent of the IDB project funds and 27 percent of the TC funds have been disbursed leaving some US$235 million available for disbursement. In addition, there are US$280 million in the pipeline, divided between 17 loan projects and 7 TCs. Despite the availability of these funds for disbursement to Jamaica, it is anticipated that the actual disbursement in 2004 will be small as a result of the fiscal and debt constraints that the Government of Jamaica faces. For the same reason, there is likely to be a concentration on TC assistance in order to maintain some level of development assistance to Jamaica. In this regard, attention may be drawn to a recently approved TC which provides assistance to Jamaica in the conduct of a major review of the tax system with a due to identifying reforms for promoting improved resource allocation and growth.

Table 2. Major Ongoing Projects

Project Category	Number	Amount (US$m.)	Percent Disbursed
Projects in execution	14	349.6	34.7
TCs in execution	22	9.9	27.4
Projects in pipeline	17	279.0	Not applicable
TCs in pipeline	7	2.4	Not applicable

Table 3 below shows the disbursement and repayment flows to Jamaica from 1997 to 2004. it can be observed that the net cash flow to Jamaica has been overwhelmingly negative during that period. This situation is expected to persist into the foreseeable future, given existing limitations on further borrowing from the IDB as a result of the country's high debt ratio and fiscal constraints. Table 4 provides five-year projections of loan collections from Jamaica on IDB loans on the basis of the existing portfolio. These projections take into account both OC and FSO debt outstanding.

Table 3. Net Flow of IDB Convertible Currencies
(US$ million)

	1997	1998	1999	2000	2001	2002	2003	Proj. 2004
a. Loan disbursements	50.4	47.1	75.0	124.8	21.4	133.0	26.5	51.4
b. Repayments (principal)	35.2	29.3	40.8	41.5	36.8	45.0	53.5	51.3
c. **Net loan flow (a–b)**	**15.2**	**17.8**	**34.2**	**83.3**	**-15.4**	**88.0**	**27.0**	**0.1**
d. Interest and charges	29.7	30.5	31.9	34.0	38.1	37.1	38.4	40.4
e. **Net cash flow (c– d)**	**-14.5**	**-12.7**	**2.3**	**49.3**	**-53.5**	**50.90**	**-65.4**	**-40.3**

Table 4. Total Projected Loan Repayments, 2004–08
(Millions of U.S. dollars equivalent)

	2004	2005	2006	2007	2008
Principal	55.3	55.9	72.0	78.2	80.6
Interest	36.0	37.8	38.3	35.4	31.8
Total	**91.4**	**93.7**	**110.3**	**113.6**	**112.4**

JAMAICA—RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK
(As at December 31, 2003)

The CDB has approved loans of US$364.1 million, of which US$88.7 are undisbursed.

The major projects undisbursed are:

	Approved	Undisbursed
Item	US$ million	
Enhancement of basic schools	13.4	13.2
Jamaica financial sector reform	30.0	3.6
Citrus replanting	9.9	8.8
Irrigation development	8.1	8.1
Caribbean Court of Justice	28.7	28.7
Rehabilitation of flood damage	35.0	22.3

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

Item	Approved	Undisbursed
Total	**364.1**	**88.7**
Lines of credit	75.3	0.0
Multi-sector	108.1	34.1
Transportation and communications	15.6	0.0
Power, energy and water	14.0	0.0
Disaster rehab	61.10	23.3
Productive sectors	72.6	17.7
Social services	17.4	13.6

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

Item	1997	1998	1999	2000	2001	2002	2003
Net disbursement	-3.8	1.3	9.0	13.4	5.7	14.0	3.3
Disbursement	6.2	9.9	18.5	20.2	13.1	24.2	15.0
Amortization	10.0	8.6	9.5	6.8	7.4	10.2	11.7
Interest and charges	5.2	4.2	5.6	5.0	6.5	5.9	6.4
Net resource flow	-9.0	-2.9	3.4	8.4	-0.8	8.1	-3.1
Outstanding debt	83.5	83.2	92.8	104.2	109.3	123.9	126.6

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

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

IMF Concludes 2004 Article IV Consultation with Jamaica

On August 2, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Jamaica.[1]

Background

Following the near crisis in the first half of 2003, the authorities have succeeded over the past year in stabilizing the economy and restoring market confidence. The foreign exchange market stabilized in mid-2003, inflation has decelerated, domestic interest rates have declined, and growth improved, while Jamaica has returned to the international capital market. Although the external environment was favorable, a key contributor to this outcome was the government's renewed fiscal adjustment effort in FY 2003/04. In particular, the increase in the primary fiscal surplus, reflecting both expenditure savings and revenue measures, allowed the budget deficit target to be met despite higher-than-budgeted interest payments.

After more than a decade of virtual stagnation, real GDP growth reached 2 percent in FY 2003/04. The improvement was led by strong performance in the key tourism and mining sectors. The agricultural sector rebounded from the effects of widespread flooding in the previous year, and utility, communication, and financial sectors also turned in good performances. Reflecting the significant exchange rate depreciation in late 2002 and early 2003, as well as the impact of tax measures introduced with the FY 2003/04 budget, 12-month (as well as year-on year) inflation increased to double digits. However, annualized monthly inflation has declined to single digits in recent months.

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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 FY 2003/04, the government contained the budget deficit in relation to GDP slightly below the preceding year's outturn, despite a much higher interest bill. The primary surplus (excluding privatization-related receipts) increased by 4 percentage points of GDP, to 11 percent of GDP, compared to 7 percent of GDP in FY 2002/03. Revenue increased by about 2 percentage points of GDP, to 30 percent of GDP, reflecting higher receipts from the general consumption tax, personal income tax, and taxes on interest as a result of measures introduced in the FY 2003/04 budget, as well as the imposition of an import surcharge. Primary expenditure declined by 2 percentage points, to 19 percent of GDP, as cuts in nonwage current spending and capital outlays were implemented. While the deficit was initially financed largely from domestic sources, the government was able to secure, towards the end of the fiscal year, foreign currency financing of around US$450 million. The public debt ratio declined slightly, to 145 percent of GDP.

Monetary policy has continued to rely on open market operations guided by inflation and NIR objectives. Following the sharp increase in interest rates on its open market instruments at the end of FY 2002/03, the Bank of Jamaica (BOJ) has substantially reduced its interest rates to 14–17 percent by June 2004—less than half the March 2003 peak. Nonetheless, given improved confidence, the BOJ succeeded not only in rolling over maturing CDs but also in mopping up additional liquidity, associated mainly with government external borrowing. The resulting contraction in the central bank's NDA contained base money growth at about 11½ percent while providing room for a partial recovery in NIR during FY 2003/04.

Developments in the banking system have reflected improved confidence. Broad money growth exceeded that of nominal GDP, with a significant buildup in foreign assets. Private sector credit, mainly to the tourism and telecommunications sectors, showed strong recovery after a prolonged post-financial crisis slowdown. Bank soundness indicators continued to improve: the percentage of past due loans stands at 3 percent, while provisioning for loan losses, capital adequacy, and profitability remain well above minimum international standards. While deposit dollarization increased somewhat, banks have maintained a roughly balanced foreign exchange position.

The external current account deficit narrowed by 4 percentage points of GDP to 11 percent of GDP in FY 2003/04. Tourism completed its recovery and alumina exports rose in the context of capacity expansion, increased international demand, and better export prices. Agricultural exports experienced a weather-related improvement while reported remittances also rose. Imports declined reflecting currency depreciation and the winding down of investments in the telecommunication sector.

The exchange rate of the Jamaican dollar has continued to be determined in an interbank market that is free of restrictions on current payments, and in the context of an open capital account. The exchange rate has remained around J$60 per U.S. dollar over the past year, in the context of declining domestic interest rates and broadly unchanged official international reserves. The real effective exchange rate has risen somewhat following the steep depreciation in late 2002/early 2003, but remains well below its range in the six-year period through 2002.

Executive Board Assessment

Executive Directors welcomed the authorities' progress in stabilizing the economy after a near-crisis in the first half of 2003, noting that in the past year, growth has resumed after years of virtual stagnation, inflation has slowed, and interest rates have declined significantly. While the favorable external environment has played a role, the authorities are to be commended for their policy efforts, which reflected their strong commitment to reform and their efforts to secure a broad consensus. These policy efforts included a substantial fiscal adjustment and active use of monetary and exchange rate policies. However, Directors emphasized that formidable challenges still remain because of the very high level of public debt, and the associated vulnerabilities of the economy, exacerbated by the high degree of indexation of the debt to exchange rates and short-term interest rates. Going forward, Directors urged the authorities to continue to secure consensus on the reforms.

Directors supported the priority placed by the authorities on bringing down the public debt-to-GDP ratio. They stressed that prospects for achieving this goal will hinge on steadfast fiscal discipline in conjunction with structural reforms to promote growth. Some Directors cautioned that, even if successfully implemented, the authorities' strategy will still leave the public debt ratio at a level over the medium term that will continue to constitute an important vulnerability to the Jamaican economy.

Directors welcomed the government's efforts to strengthen tax collection and expenditure management, which they viewed as essential for achieving the ambitious deficit reduction target for FY 2004/05. Moreover, achieving the balanced budget target for FY 2005/06 is likely to require additional measures to compensate for the discontinuation of one-off revenue items, as well as possible higher-than-projected interest payments. Directors were encouraged by the authorities' intention to keep the fiscal outlook under review, and urged early identification and prompt implementation of any necessary additional measures to deal with unforeseen contingencies.

Directors noted that the magnitude and duration of the fiscal adjustment envisaged by the authorities is unprecedented, and subject to considerable risks, and emphasized that reform measures to underpin the adjustment will be critical. They urged the authorities to elaborate promptly a comprehensive fiscal reform agenda to strengthen the budgetary outlook, including policies to contain the wage bill and rationalize government employment. In this context, Directors welcomed the recent understandings in these areas reached with the trade unions. At the same time, the social safety net should be strengthened to mitigate the potential impact of adjustment measures on the disadvantaged. Directors welcomed the substantial progress made in modernizing the tax administration in recent years, and encouraged the government to design the forthcoming tax reform in a manner that would help to achieve the balanced budget target, and provide for a stable ratio of tax revenue to GDP over the medium term. In this context, Directors saw the need to reduce exemptions that narrow the consumption tax base, and to eliminate reduced rates and other features that complicate the tax system.

Directors observed that the current level of the exchange rate reflects market forces, and that the exchange rate has remained stable, despite a substantial decline in domestic interest rates. They encouraged the authorities to continue to minimize intervention in the foreign exchange market and to make flexible use of monetary and exchange policies in the period ahead. A few Directors encouraged the authorities to eliminate the multiple currency practice associated with the foreign exchange surrender requirement.

Directors stressed the mutually reinforcing links between achieving greater debt sustainability and higher growth. They noted that while Jamaica has undertaken several important reforms, structural and social weaknesses still discourage private investment and hamper external competitiveness. In this regard, the planned structural reforms in the fiscal area will go a long way in creating an enabling environment for private sector development.

Directors considered that in the financial sector, prudential regulation needs to be reviewed and strengthened, given the system's large exposure to public debt. In particular, the envisaged introduction of prudential requirements for securities dealers would help cushion the large interest rate and liquidity risks in this subsector. Directors welcomed the ongoing preparatory work on legislation to combat money laundering and the financing of terrorism, and the plan to undertake a FSAP in 2005. Directors urged the authorities to develop options for reducing rigidities in the labor market, particularly high redundancy costs, and they supported the government's planned initiatives to improve the education system, and ongoing efforts to fight crime.

Directors endorsed the authorities' request for intensified surveillance of the Jamaican economy and of progress in implementing their economic strategy. In this regard, they looked forward to the semi-annual interim reports for information of the Executive Board between Article IV consultations. Directors considered that the usefulness of intensified surveillance would be enhanced by the authorities' firm commitment to and ownership of the economic program, supported by full communication of the program and its objectives to the public, aimed at building consensus.

Directors noted that while the statistical information provided by Jamaica is broadly adequate for surveillance purposes, there remains scope for further strengthening the statistical system. They encouraged the government to commit to a plan to subscribe to the SDDS within a defined timeframe.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The Staff Report for the 2004 Article IV Consultation with Jamaica is also available.

Jamaica: Selected Economic Indicators 1/

	1998/99	1999/00	2000/01	2001/02	2002/03	Prel. 2003/04
	(Annual percentage changes)					
GDP, prices, and employment						
Real GDP	-0.6	1.1	0.8	1.0	1.9	2.0
Nominal GDP	7.5	8.1	11.6	9.5	10.0	16.6
Consumer price index (end of period)	6.0	8.4	6.4	7.6	6.2	16.8
Consumer price index (average)	8.1	6.3	7.7	8.0	6.5	12.9
Exchange rate (end of period, in J$/US$)	4.9	10.6	8.3	4.0	18.2	8.1
End-of-period REER (percent change, depreciation +)	-1.6	4.0	0.2	-3.9	14.3	-4.2
Unemployment rate (in percent)	15.5	15.7	15.5	14.8	15.4	12.8
	(In percent of GDP, unless otherwise indicated)					
Government operations						
Budgetary revenue	25.8	29.1	29.1	27.0	28.1	29.9
Budgetary expenditure	37.7	37.1	33.6	32.6	35.7	36.9
Of which: interest payments	17.3	17.5	16.0	13.4	14.9	18.1
Budget balance	-11.9	-8.1	-4.5	-5.6	-7.6	-7.0
Of which: primary fiscal balance	5.4	9.4	11.5	7.8	7.3	11.1
Off-budget expenditure	…	0.5	0.3	0.5	3.2	1.9
Overall fiscal balance	-11.9	-8.6	-4.8	-6.1	-10.8	-8.9
Public debt	116.5	132.5	132.0	132.1	146.4	144.8
External sector						
Current account balance	-2.0	-3.3	-4.8	-9.6	-14.9	-10.6
Of which: exports of goods, f.o.b.	20.0	19.9	20.5	17.8	15.6	17.3
Of which: imports of goods, f.o.b.	34.3	35.3	38.2	37.6	39.8	40.3
Net international reserves (in millions of US$)	582	704	1,286	1,942	1,340	1,569
	(Changes in percent of beginning of period broad money)					
Money and credit						
Net foreign assets	2.6	12.5	23.0	24.3	-8.1	9.0
Net domestic assets	8.2	6.8	3.4	-14.3	15.6	11.3
Of which: credit to the central government	-0.2	-9.5	26.6	71.2	8.2	9.0
Broad money	10.8	19.3	9.2	10.0	7.5	20.2
Interest rate (180 day BoJ CD rate, end of period, in percent per annum)	22.0	18.6	16.9	13.8	33.5	16.0
Velocity (ratio of GDP to broad money)	2.7	2.4	2.4	2.6	2.7	2.6
Memorandum items:						
Nominal GDP (in billions of Jamaica dollars)	287.4	310.8	346.8	379.8	417.7	486.9
Exchange rate (end of period, J$/US$)	38.1	42.2	45.7	47.6	56.2	60.8

Sources: Jamaican authorities; and IMF staff estimates.

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

Statement by Ian E. Bennett, Executive Director for Jamaica
August 2, 2004

Key Points

- *Following a fairly challenging period recently, there is clear evidence that the economy has stabilized.*
- *Important challenges remain, particularly, a reduction of the fiscal imbalances over the medium term, and improvement in the debt dynamics.*
- *The authorities have embarked on their own medium term economic program to eliminate the fiscal deficit by FY 2005/06, and gradually reduce the debt.*
- *Recent developments have lent credibility to the authorities' monetary policy framework and resulted in renewed confidence in the J$.*
- *Continuation of structural reform efforts in the financial sector, the labor market, and the education system, will be key to sustaining growth.*
- *The authorities believe that they can benefit from closer dialogue with the Fund through more frequent and intensified surveillance.*

1. My authorities wish to express their appreciation to the staff for their comprehensive assessment of developments in Jamaica during the recent Article IV consultations. They value the relationship with the Fund and welcome the IMF's assessment of Jamaica's overall macro-economic program. They believe that following a fairly challenging period recently, there is clear evidence that the economy has stabilized, and the basis for a period of sustained growth and renewed confidence has been laid. They acknowledge, however, that important challenges remain, particularly, a reduction of the fiscal imbalances over the medium term and an improvement in the debt dynamics.

Recent Economic Developments and Outlook

2. Evidence of unanticipated economic challenges emerged early in 2003, when wider than projected fiscal deficits developed. External market developments around the same time necessitated the use of net international reserves (NIR) to meet maturing debt, creating uncertainty in the foreign exchange market. The result was a depreciation of the Jamaican dollar (J$) – bottoming out at J$70 to US$1. Monetary policy intervention, (a hike in interest rates) an indexed bond offer and moral suasion by the Prime Minister stabilized the market at about J$60 to US$1.

3. Despite these difficulties there were positive signs in the real economy, as the agriculture, mining and tourism sectors began to rebound. Following adverse weather events in recent years which significantly disrupted output, the agriculture sector grew by 5.7 percent in 2003. In the mining sector, international prices for alumina were higher than my authorities had projected and plants were close to full capacity.

Tourism rebounded; visitor arrivals surpassed pre-9/11 levels and new highs were established in the long-term visitor, cruise-ship passenger and total visitor expenditure categories. With these developments overall real growth was 2.0 percent in FY 2003/04.

4. The medium term outlook is positive. Planned expansions in tourism and mining – 5000 new hotel rooms over five years will be added through investment of nearly US$600m, and around US$700m investment in new capacity in the bauxite/alumina sector will lay the foundation for higher growth. These investments, complemented by a program of infrastructure development, and timely implementation of the structural and fiscal reform agenda form the basis of the country's economic program going forward.

Fiscal Policy and Debt

5. My authorities acknowledge that the fiscal deficit is higher than desirable, and at current levels, the debt needs to be reduced. With this in mind, they have embarked on a program to eliminate the deficit by FY 2005/06, and gradually reduce the debt to more manageable levels through the creation of small fiscal surpluses. Achieving the fiscal and debt targets will require a substantial fiscal effort – a primary surplus in the range of 14 percent of GDP, however, my authorities are committed to this, and are pursuing complementary policy options.

6. Through a sustained tax effort which includes continued reform of the tax system to widen the base and increase efficiency, stepped-up efforts to collect arrears, and along with anticipated grants, total revenue inflows are expected to average around 32 percent of GDP - up from 28.1 percent in FY 2002/03. My authorities are currently undertaking a comprehensive review of the tax system, which is slated for completion in the fall of 2004 and should assist in further improvements to the system. On the expenditure side, the authorities are committed to tighter management, and halting the rate of growth of the wage bill. A memorandum of understanding (MOU) with the major trade unions was signed in February 2004; public sector salary increases will be kept below inflation, and public sector employment will be capped through 2006.

7. Based on higher interest expenditure projections, and more conservative revenue collection estimates, the staff projects a small overall deficit in FY 2005/06 compared to the authorities' balanced budget target. My authorities remain confident; preliminary estimates show revenue running ahead of budget, suggesting that a sustained collection effort will have significant yields and with the implementation of tax reform measures over the next two years, should enhance revenues. At any rate, the authorities have committed to take any necessary corrective action early, should signs of a deficit emerge.

8. The current level of public sector debt - 142 percent of GDP - is high. My authorities agree with the staff that at existing levels this represents a significant risk to the economy. However, the authorities' exemplary record in meeting its debt obligations has yielded credibility and going forward, the aim is to reduce current debt levels

through high primary surpluses and then sustain small overall fiscal surpluses. This will help reduce existing levels, albeit not as aggressively as might be desired. Nonetheless, the target reduction to around 100 percent of GDP by 2008/09 is substantial, but achievable as the debt reduction and the resulting lower interest payments become mutually reinforcing.

Monetary and Exchange Rate Policy

9. Broadly, Jamaica's exchange rate policy is to maintain a credible and stable market – price and financial system stability - while permitting flexibility, consistent with an emerging market economy constrained by high debt. The turmoil in the foreign exchange market in early 2003 and its subsequent stability following the intervention by the Bank of Jamaica (BOJ) has lent credibility to the authorities' monetary policy framework and resulted in renewed confidence in the J$. At current levels - approximately J$61 to US$1 - the authorities agree with the staff that this appropriately reflects market conditions.

10. The authorities intend to retain flexibility in the conduct of exchange rate policy and accept broadly the staff's recommendation of a flexible and balanced use of monetary and exchange policy in support of the inflation and NIR objectives. At the same time, however, the authorities remain cautious about some of the conclusions reached in the Selected Issues Paper on Monetary Exchange Rate Policy Mix – e.g. that in the Jamaica case, an alternative monetary policy mix that pays less attention to smoothing the path of the exchange rate, and more to the impact of the policy mix on output, could have resulted in reduced output and inflation volatility.

11. Chapter IV of the Selected Issues paper provides some useful insights into the conduct of monetary policy in Jamaica in recent years. However, my authorities believe that there are differences of interpretation on policy in certain areas, as well as data revisions that are not adequately reflected in the paper. In this regard, they are working with the staff to incorporate suggested changes to the paper.

Structural Reforms and Social Issues

12. My authorities recognize that the continuation of ongoing structural reform efforts in the areas of the financial sector, the labor market, the education system, and domestic security will be key to sustaining growth and competitiveness over the medium term. They are committed to further strengthening the financial sector regulatory framework through continued enhancements in the legislative framework and strengthening the overall institutional structure. In particular, the Financial Services Commission is at an advanced stage of preparation of prudential requirements for securities dealers. In addition, Jamaica has requested participation in the joint IMF and World Bank Financial Sector Assessment Program in 2005.

13. The budget for FY 2004/05 outlined further priorities in this area including –

- Legislation to provide legal status to the Financial Investigations Division. This new Division of the Ministry of Finance and Planning is responsible for all matters relating to economic and financial crimes, including fraud, breaches against revenue statutes and money laundering.
- Executing a public education program on pension reform and embarking on phase two of pension reform, which will, among other issues, deal with mandatory preservation and portability of pension rights and voluntary indexation of pensions.

14. My authorities are committed to and continue to make progress in reducing rigidities in the labor market with a view to enhancing the business and investment environment. In the public sector, they are implementing an ambitious reform program aimed at developing a modern public administration based on optimal use of resources, as detailed in Chapter I of the Selected Issues paper.

15. In February 2004, a task force was established to review and initiate a transformation of Jamaica's education sector and to present an action plan consistent with the creation of a world-class education system geared toward generating human capital and producing the skills required for competing successfully in the global economy. My authorities are also cognizant that tackling crime is especially critical to advancing economic growth and tackling the issue is a priority.

Intensified Surveillance

16. Having established what they believe to be a credible economic program aimed at reducing the fiscal imbalances, debt reduction and sustained growth, my Jamaican authorities believe that they can benefit from closer dialogue with the Fund through more frequent and intensified surveillance. The intensified surveillance would serve the dual purpose of monitoring the progress on the implementation of the economic program and, at the same time, provide some "signaling" to Jamaica's creditors and the rest of the international community.

17. My authorities have full and complete ownership of the program. They envision that the intensified surveillance will involve a frank assessment by the Fund staff of their economic program and the production of semi-annual reports – on Jamaica's progress in meeting the program's quantitative targets. This Article IV consultation has fulfilled the first part of the intensified surveillance exercise and my authorities look forward to the first follow-up mission later this year.