

Jamaica: 2003 Article IV Consultation—Staff Report; Staff Statement; 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 2003 Article IV consultation with Jamaica, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **February 25, 2003**, with the officials of Jamaica on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on May 23, 2003.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of **June 9, 2003** updating information on recent developments.
- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its June 9, 2003 discussion** of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for Jamaica.

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JAMAICA

Staff Report for the 2003 Article IV Consultation

Prepared by the Western Hemisphere Department and Policy Development and Review
Department in Consultation with Other Departments

Approved by John Dodsworth and Matthew Fisher

May 23, 2003

- **Mission:** The 2003 Article IV consultation discussions were held in Kingston during February 11–25, 2003.
- **Team:** The staff team comprised Messrs. Boote (Head), Samuel, Sun (all WHD), and Walsh (PDR). Mr. Bennett, Executive Director for Jamaica and Ms. Lewis-Bynoe (Advisor), also participated in the discussions.
- **Meetings:** The mission met with Finance Minister Davies, Financial Secretary Tyndall, Governor Latibeaudiere, and other senior officials including the Auditor General, as well as representatives from the opposition, business, banking sector, and labor unions.
- **Board Views:** In the last Article IV discussion, in August 2002, Directors commended the authorities for maintaining growth and keeping inflation low, but expressed concerns about fiscal overruns. Directors urged the authorities to redouble fiscal efforts to reverse serious fiscal slippages and implement growth-oriented policies.
- **Exchange System:** The exchange rate regime is a managed float with no pre-announced path for the exchange rate. Jamaica has accepted the obligations of Article VIII; however, a multiple currency practice exists subject to Fund jurisdiction under Article VIII (Appendix I).
- **International Partners:** Relations with the multilateral development banks are summarized in Appendices III–V.
- **Statistics:** Jamaica participates in the GDDS, effective January 2003.

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EXECUTIVE SUMMARY

- **Macroeconomic imbalances and vulnerability have increased significantly during FY 2002/03.** The public sector deficit rose sharply to around 9½ percent of GDP while the current account deficit rose to 12 percent of GDP, and net international reserves declined by almost one-third. With credibility weakening, the exchange rate depreciated by 27 percent against the U.S. dollar from November 2002 through mid-May 2003, and domestic interest rates have doubled. Public sector debt has now risen to nearly 150 percent of GDP—pushed up by the depreciating exchange rate—among the highest in the world. Growth is estimated at around 1½ percent for FY 2002/03 and inflation fell slightly to around 6 percent over the same period.
- **The challenge facing the authorities is to adopt a policy mix that would restore macroeconomic stability, achieve higher growth, lower external imbalances, and significantly reduce the public sector debt to GDP ratio.** The key policies include up-front fiscal adjustment, the maintenance of high primary surpluses over the medium term, continued exchange rate flexibility, and accelerated structural reforms to boost competitiveness and generate faster growth.
- **The authorities are aiming at strong upfront fiscal adjustment to restore policy credibility and help stabilize the foreign exchange market.** In the FY 2003/04 budget, an improvement of 4½ percent of GDP in the primary surplus is envisaged based on higher revenues resulting in a central government deficit of 6 percent of GDP. The authorities are publicly committed to achieving a balanced budget by FY 2005/06. Achieving this ambitious adjustment will require determined implementation of revenue enhancement measures as well as rigorous expenditure restraint especially on wages. The overall public sector deficit is projected to decline to 8 percent of GDP in FY 2003/04. Despite these adjustment efforts, the public sector debt is projected to remain broadly unchanged in FY 2003/04 at around 150 percent of GDP.
- **The authorities attempted to prevent the rapid depreciation of the exchange rate by intervening and pushing domestic interest rates to very high levels.** The authorities consider relative stability of the exchange rate as critical to reduce inflationary expectations. The staff favors continued flexibility in the exchange rate to maintain adequate competitiveness, with greater emphasis on short-term interest rates to achieve financial market stability. Developments over the past year have reduced the authorities' ability to resist market-driven movements in the exchange rate.
- **To promote faster growth, the authorities emphasize anti-crime measures, infrastructure building, and sector-specific policies.** The staff sees the case for a more comprehensive policy approach to generate faster growth including measures to increase labor market flexibility, reduce regulatory barriers, and steps to improve productivity based on civil society consensus; the authorities also favor consensus-based action on these issues.

I. PERSPECTIVE AND BACKGROUND

A. Brief Perspective

1. **Over the past decade, the Jamaican economy has undergone significant structural change.** Economic liberalization and structural reform have resulted in a more open and market-oriented economy with reduced government intervention. The economy has moved away from reliance on traditional sectors such as agriculture and mining to tourism and other service-oriented sectors. However, growth rates were disappointing with the average growth rate for 1990–2001 less than 1 percent (Figure 1), marginally below the population growth rate.

2. **High public debt has exerted a heavy burden on public finances over the past decade, particularly in the second half of the 1990s.** Jamaica's debt, at the beginning of the 1990s, was close to 210 percent of GDP and was reduced through fiscal surpluses and restructuring to 80 percent of GDP by FY 1996/97.^{1 2} However, partly as a result of rapid liberalization in the context of inadequate regulation, Jamaica was hit by a major financial sector crisis in late 1996 which affected many domestic financial institutions.³ The government's decision to bail out all depositors is estimated to have increased the debt to GDP ratio by 40 percent.

Figure 1. GDP Growth and Inflation
(In percent)

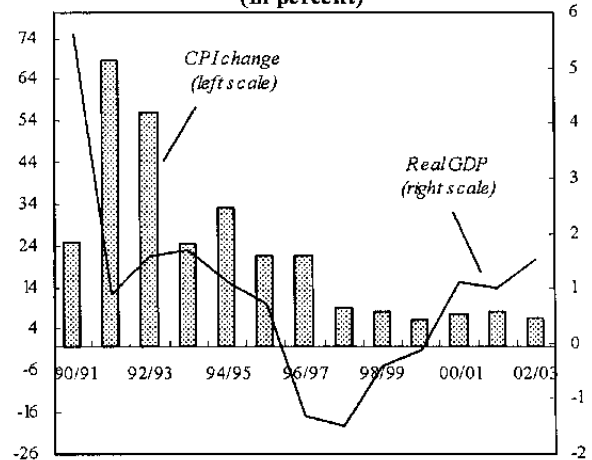
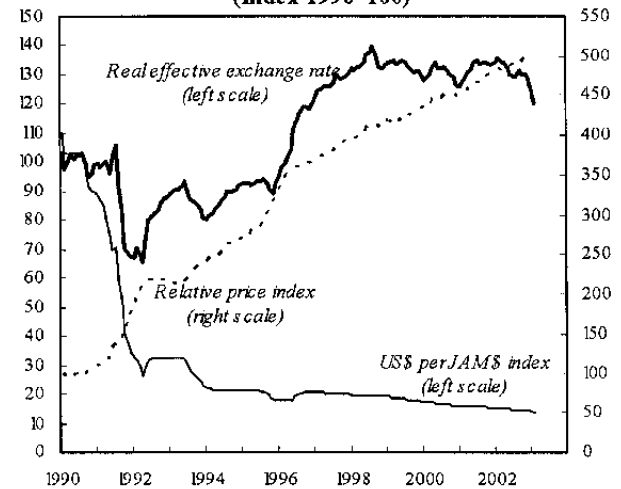


Figure 2. Exchange Rate Developments
(Index 1990=100)



¹ For a further analysis of the factors behind the current high debt see Jamaica—Selected Issues, Chapter III, 7/25/02.

² The fiscal year is from April 1 to March 31.

³ For a discussion of the financial sector crisis see Jamaica—Selected Issues, Chapter I, 7/25/02.

3. **Tight monetary and exchange rate policies resulted in a sharp real appreciation of the Jamaican dollar during the second half of the 1990s** (Figure 2). To break out from long periods of high inflation, the government adopted, from mid-1996, an exchange rate based disinflation strategy. This strategy has successfully delivered single digit inflation in recent years, but at the cost of high interest rates and real exchange rate appreciation of about 30 percent between 1996 and 2001.

4. **Social problems such as crime and unemployment remain serious.** Crime and violence have increased during the past decade.⁴ High crime rates have imposed significant social and economic costs on society. Helped by support from high remittances and the government's social programs, poverty has halved during the decade, but remains around 17–18 percent of the total population. The unemployment rate has been steady at 15 percent in recent years, with much higher youth and female unemployment rates; outward migration has averaged around 1 percent per year.

B. Background

5. **At the 2002 Article IV Board discussion on August 7, 2002, Directors saw the key policy priorities as reversing fiscal slippages and setting a firmer foundation for medium-term growth.** Directors commended the authorities for having maintained growth and low inflation in spite of numerous shocks to the economy and noted the success of the government in disposing assets of the intervened financial institutions. Directors acknowledged the strong fiscal effort evidenced by high primary surpluses over the previous 4 years, but were concerned about the overruns of the FY 2001/02 staff monitored program (SMP) fiscal targets. Directors stressed, in the context of an SMP for FY 2002/03, the need for further fiscal effort and strengthening of growth-oriented policies to reduce significantly the extremely high public debt burden

6. **In the event, the FY 2002/03 SMP did not achieve its goals (see Annex I).** The SMP was designed to strengthen the fiscal position; preserve low inflation; lay the foundations for faster growth; and signal to Jamaica's development partners (including multilateral banks) and international financial markets the authorities' commitment to credible macroeconomic policies. However, the fiscal targets were missed by wide margins and net international reserves (NIR) declined by more than expected as external confidence deteriorated. Fiscal slippages and a worsening current account position led to instability in financial markets.

7. **Increased macroeconomic imbalances in FY 2002/03 reflect in considerable part the lack of progress in implementing the policies recommended by the Board in the last Article IV discussion.** The proposed fiscal measures and growth-oriented structural reforms were not implemented. The exchange rate has depreciated more than anticipated

⁴ The murder rate increased by 90 percent from 1990–2001.

but this resulted from declining confidence in the macro-economic situation, and occurred despite significant foreign exchange market intervention and large interest rate increases by the BOJ intended to stabilize the exchange rate.

8. **A general election was held in October 2002.** The ruling People's National Party led by Prime Minister P. J. Patterson won a record fourth consecutive term in office with a reduced, yet still comfortable majority. Dr. Omar Davies was reappointed Minister of Finance, a post he has held since December 1993. Political consensus has not emerged on economic issues and the opposition Jamaican Labor Party abstained on the recent budget. Some of the tax measures in the budget have been opposed by the business community.

9. **Jamaica's foreign exchange arrangements are classified by the IMF as a managed float with no pre-announced path for the exchange rate.**⁵ Jamaica's exchange rate system is free of restrictions on the making of payments and transfers for current international transactions. The external value of the Jamaican dollar is determined in an interbank market operated by commercial banks, in which the Bank of Jamaica (BOJ) is a major player, and has been "floating" in this manner since September 1990.

10. **The statistical base in Jamaica is generally adequate for conducting surveillance but there are a number of areas where improvements are needed (Appendix II).** Jamaica began participating in the General Data Dissemination System (GDSS) in January 2003, and is currently undertaking an assessment of what is required to subscribe to the Special Data Dissemination Standard (SDDS).

II. RECENT ECONOMIC DEVELOPMENTS

11. **Growth was disappointing during FY 2002/03, although there was some pick up during the second half of the year.** After stagnating during April to September, GDP growth rose to 1½ percent for the year as a whole with a recovery in the second half of the year in tourism, agricultural production (following extensive flooding), and mining output. The twelve-month inflation rate fell somewhat from the previous year to about 6 percent by March 2003 (Table 1).

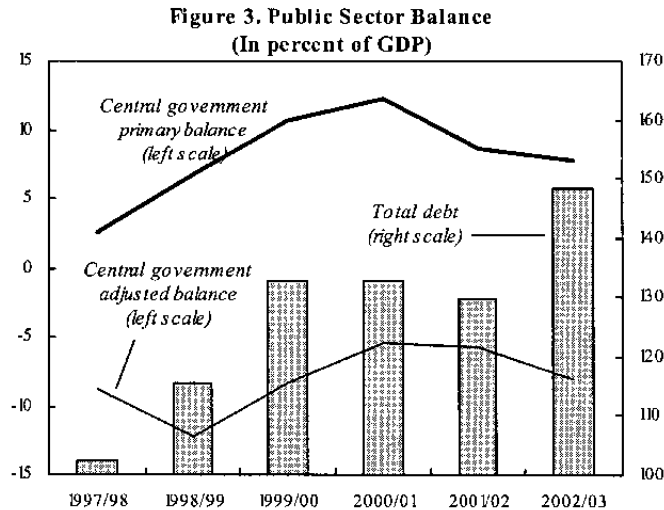
A. Public Finances

12. **Public finances were much weaker than expected due to expenditure overruns** in wages and non-wage recurrent expenditures, as well as higher interest spending. Lower tax revenues due to non-implementation of tax measures were offset by higher capital revenues. The central government deficit is estimated at around 8 percent of GDP and the primary surplus at about 7½ percent of GDP, compared with budget targets of 4.4 percent of GDP and 10.4 percent of GDP respectively (Figure 3, Table 3). The financial performance of other public entities was, however, somewhat better than planned, due to the effects of

⁵ Annual Report on Exchange Arrangements and Exchange Restrictions 2002.

higher oil prices and exchange rate depreciation on the oil company and delays in capital spending by the housing development corporations.

13. **The public debt ratio is estimated to have increased further in FY 2002/03.** Overall public sector debt is estimated to have risen by 18 percentage points to close to 150 percent of GDP by March 2003 (Figure 3). Around one half of the rise in J\$ terms reflects the 18 percent depreciation of the Jamaican dollar against the U.S. dollar during FY 2002/03; the remainder is due to the higher fiscal deficit partly reflecting higher interest rates, and the assumption of loans from public entities. About three-fifths of total debt is domestic and about half of overall debt is external or domestic U.S. dollar-linked (Box 1 and Tables 4 and 5). Nearly three-quarters of all the debt is estimated to be held by domestic residents;⁶ about one half of the domestic debt is at floating interest rates.



⁶ The authorities issued two indexed linked bonds during the last quarter of the fiscal year. Of the two-fifths of total debt which is classified as external, around two-fifths are international bonds. Most of these bonds are believed—some estimates put the figure as high as 80 percent—to have been sold on to domestic residents.

Box 1. Key Facts of Jamaica Public Sector Debt (as of end-March 2003) in Percent (unless stated)	
Total debt in ratio to GDP: ¹	151.8
Of total debt:	
Domestic debt:	61
External debt:	39
External and US\$ dollar linked domestic debt:	51
Held domestically: ²	73
Of all external debt:	
Owed to private creditors:	47
Owed to bilateral creditors:	24
Owed to multilateral creditors:	29
Of all domestic debt:	
Variable rate instruments:	52
Fixed rate instruments (includes US\$ linked debt):	48
Average interest rate (coupon) on domestic debt:	
Variable interest rate: 21.5 percent	
Fixed interest rate: 17.4 percent	
Average interest rate on external commercial debt: 11.1	
Holder of government securities (excluding Treasury bills, in percent)	
Commercial banks	25
Merchant banks, brokers, and building societies	34
Bank of Jamaica	18
Insurance companies, pension funds, and National Insurance Fund	17
Statutory bodies and other government funds	2
Other	4
Domestic debt maturing in one year:	21
External debt maturing in one year:	0.1
Government securities in commercial banks' total assets:	36
Government securities in commercial banks' outstanding credit:	64
Government securities in ratio of commercial banks' capital:	4.3
Source: Ministry of Finance; and Bank of Jamaica	
¹ This figure is reported by the government which includes external and government guaranteed debt by the government and the Bank of Jamaica, as well as all domestic government debt. It is different from the one used elsewhere in this report which includes domestic guaranteed debt but excludes BOJ's external debt and government securities held by the selected public enterprises.	
² Assuming 80 percent of external commercial bonds are held domestically.	

B. External

14. **The current account deficit widened by 3 percentage points of GDP to 12 percent of GDP (roughly US\$900 million) in FY2002/03 (Figure 4).** Weaker exports earnings, higher levels of external debt servicing and sharply higher import costs, reflecting in particular higher oil prices, were only partially offset by a further rapid growth in remittance flows (Table 6). Remittances are estimated to have grown by roughly a quarter in FY 2002/03, to over US\$1 billion, exceeding travel receipts for the first time.⁷

Figure 4. External Sector

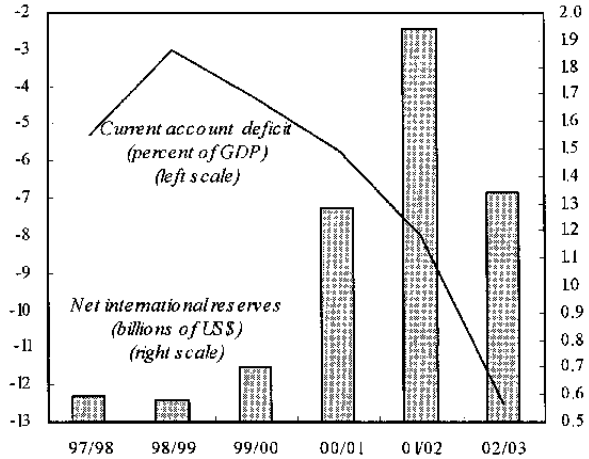
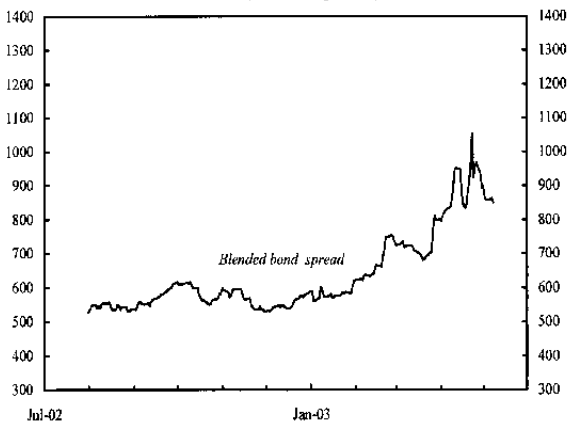


Figure 5. Blended Spread (over U.S. Treasuries) on Government of Jamaica's International Bonds (In basis points)



15. **There was a major deterioration in the capital account for FY 2002/03 and NIR fell by nearly one third.** The capital account surplus is estimated to have declined to US\$370 million in FY 2002/03 compared to US\$1.4 billion in the previous year. Total amortization payments in FY 2002/03—at US\$0.7 billion—were only partially offset by US\$300 million raised from commercial markets in June 2002.⁸ Foreign direct investment declined by US\$100 million as flows began to return to trend levels after being boosted in the previous two years by acquisition activity in the financial and mining sector and start-up investments in the mobile

phone sector. Weaker performance in “other sector investment” accounts for the remainder of the fall in the capital account, an area where there remains a good deal of uncertainty, in

⁷ The rapid growth in remittances reflects, in part, improved recording and increased Jamaican emigration. Recently, Jamaican banks and building societies have expanded their operations abroad, attempting to increase their share of this developing market.

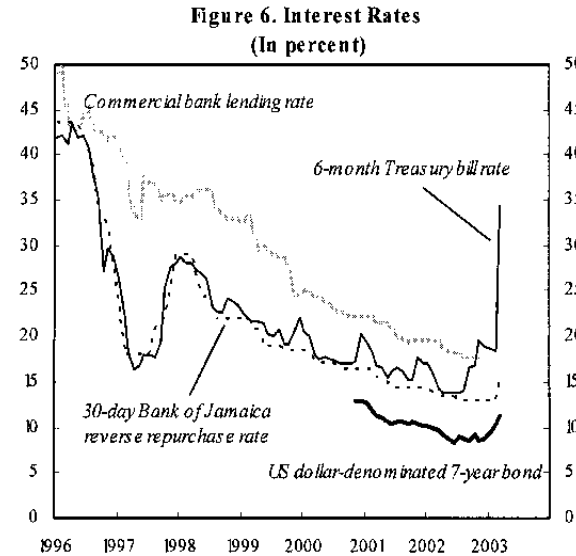
⁸ The authorities had pre-financed US\$250 million of these repayments, through commercial borrowing in FY2001/02 boosting the capital account for that year. In June 2002, US\$300 million was raised over 15 years at a yield of around 10.75 percent (590 basis points over U.S. Treasuries); the issue was reportedly heavily over subscribed.

particular with regard to private sector capital flows (see Appendix II). At end-March 2003, NIR were US\$1.3 billion, down roughly US\$600 million for the year.

16. **Spreads on Government of Jamaica global bonds over U.S. Treasuries rose over 250 basis points during the fiscal year to around 800 basis points** (Figure 5). In February 2003, the authorities cancelled plans to raise an additional US\$200 million from international markets reflecting rising spreads due to the deteriorating fiscal position, and the change in Standard & Poor's rating from stable to negative. Spreads, after reaching a peak of around 1000 basis points, declined somewhat post-budget to around 850 basis points by mid-May.

C. Financial Sector

17. **In the second half of FY 2002/03, domestic interest rates more than doubled as the BOJ tried to stabilize the exchange market while money growth remained tight.** Base money increased by around 7½ percent, as the BOJ increased its open market operations in the last quarter, while money supply remained roughly unchanged.⁹ Banking system credit to the private sector grew faster than expected as a result of increased demand for foreign currency lending by the tourism and telecommunications sectors, which accounted for about 60 percent of total lending in FY 2002/03 and for around 35 percent of private sector credit outstanding.¹⁰ As of end March 2003, the 6-month Treasury-bill rate was 33½ percent compared to 16½ percent as of end



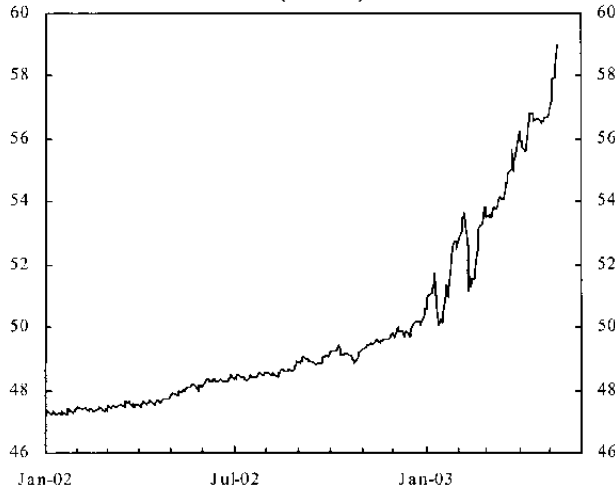
September 2002 (see Figure 6 and Table 8). In addition, a 5 percent special deposit requirement was imposed on Jamaican dollar deposits in February 2003 to reduce liquidity in the system.

⁹ During the previous four years, base money declined by an average of 1½ percent per year as the BOJ reduced its cash reserve requirements from 25 percent to 9 percent as reserves are counted as part of the monetary base.

¹⁰ Over the last two years, foreign currency deposits have risen by around 3 percentage points per year to around 30 percent of total deposits in the banking system.

18. Since November 2002, the Jamaican dollar has come under frequent pressure (Figure 7). From November 2002 through 14, May 2003 the rate depreciated by 27 percent against the U.S. dollar despite several BOJ interest rate hikes designed to stabilize the exchange rate and significant net intervention (US\$150 million). In real terms, after an

Figure 7. Exchange Rate (J\$/US\$)



appreciation of over 30 percent from 1995–2002 including a 4 percent appreciation in FY 2001/02, the Jamaican dollar depreciated by around 11 percent during FY 2002/03 reflecting the weakness of the U.S. and Jamaican dollars, recovering roughly one-third of the losses since the mid 1990s.¹¹

19. Steps were taken to strengthen prudential supervision and the balance sheet of the BOJ. Supervisory legislation was strengthened to improve the BOJ's capacity to supervise financial groups. The BOJ implemented a World Bank sponsored re-capitalization plan in August 2002,¹²

which reduced the proportion of below market-remunerated assets in its portfolio, and, on an accrual basis, the BOJ has again started to make profits. Despite this, however, the BOJ's cash deficit for FY 2002/03 was estimated at around 2½ percent of GDP. These cash losses reflect the large spread between what the BOJ receives on its assets (mostly NIR) and pays on its open market instruments. Prudential indicators for commercial banks are generally well above the minimum international standards,¹³ but the banks' large holdings of government debt are zero-weighted. All deposits up to J\$300,000 are covered by the

¹¹ Over the same period, based on unit labor costs, competitiveness declined by around 50 percent. In the absence of new national accounts data, it has not been possible to update the competitiveness indicators discussed in Jamaica—Selected Issues, Chapter IV (SM/02/241, 7/25/2002). The authorities and staff views of competitiveness are discussed further in paragraphs 33 and 34.

¹² Interest on newly issued bonds for recapitalization is capitalized until FY 2007/08.

¹³ Non-performing loans were 6 percent of total loans at end-December 2002 and the capital adequacy ratio was around 17 percent—compared with the minimum international standard of 8 percent. Government securities represented 35 percent of the assets of commercial banks, and a higher proportion of the assets of banks intervened by the Financial Sector Adjustment Company (FINSAC) and subsequently sold.

Jamaica Deposit Insurance Corporation (JDIC) with deposit-taking institutions contributing to a deposit insurance fund.

20. **The intermediation activities of securities market dealers potentially increase the vulnerabilities of the financial system.** They control funds equivalent to the deposit base, the minimum capital requirement is low, and their portfolios are subject to interest rate and foreign exchange risks.

III. REPORT ON DISCUSSIONS

21. **With extremely high and rising debt levels, persistent low real growth and rising current account deficits, the Jamaican economy is fast approaching a debt trap.** Sustainability hinges critically on the early adoption of coherent and credible policies to restore macro-stability by fiscal adjustment, strengthen competitiveness, and accelerate structural reforms to promote higher and sustained growth. Discussions with the authorities focused on policies to achieve these objectives.

22. **The authorities recognize the seriousness of the economic situation and have proposed a policy package intended to restore macro-economic stability.** The package combines strong upfront fiscal adjustment which will need to persevere into the medium term, with some growth-oriented structural reforms. The authorities recognize the ambitious nature of the proposed adjustment, but realize also that there is little scope for slippage.

A. Prospects for FY 2003/04

23. **Economic activity is projected to improve in FY 2003/04.** The authorities project real growth of around 2.7 percent, as a result of recovery in tourism (given strong arrivals during the winter season), continued growth in bauxite production and a rebound in agricultural production after the floods in 2002. Inflation is projected to rise to up to 8½ percent for FY 2003/04, reflecting the expected pass through from the depreciating exchange rate. The current account deficit is expected to decline by around 1 percent of GDP to 11½ percent, while NIR remains unchanged at US\$1.3 billion based on access to international capital markets in the second half of the fiscal year. The staff projects slightly lower growth of 2 percent in FY 2003/04 taking into account the effects of the proposed fiscal measures on the non-traded sectors. Other downside risks to the projection include further exogenous shocks that affect tourism arrivals, the persistence of high domestic interest rates if credibility is not quickly restored, and the risk of higher oil prices. Should the authorities choose not to access the international capital market, there will be US\$1 billion in NIR, an adequate level by international standards.

B. Fiscal Policy

24. **The government has proposed a budget to achieve a central government deficit target of 5–6 percent of GDP for FY 2003/04, consistent with a primary surplus of over 12 percent of GDP, and is committed to balance the budget by FY 2005/06.**¹⁴ The authorities recognize that their continued access to international capital markets depends on the credibility and implementation of the budget. The limits to their margin of maneuver are underscored by the fact that even full implementation of the budget proposals will leave public sector debt at end March 2004 broadly unchanged at around 150 percent of GDP, and the wider public sector deficit would decline to around 8 percent of GDP.

25. **The authorities have proposed a package of revenue enhancing measures to broaden the tax net and strengthen tax administration.** The revenue measures include a new 4 percent surcharge on all imports, the widening of the General Consumption Tax base, and a higher duty on vehicle imports with a combined impact of around 3 percent of GDP. To obtain the overall 6 percentage points of GDP increase in revenue, another 3 percentage points of GDP in revenue is projected to come from implementation of the tax measures announced in the FY 2002/03 budget,¹⁵ improved tax administration, and the cyclical pick up of the economy.

26. **Total expenditures are budgeted to be around 39½ percent of GDP, about 2 percentage points higher than last year.** Non-interest expenditures (including wages and salaries, other recurrent expenditures, and capital expenditures) are largely unchanged, while interest expenditures are estimated to increase by about 2½ percentage points of GDP. Wage expenditures as budgeted are lower in relation to GDP than in FY 2002/03; achievement of this will depend on wage settlements yet to be agreed including with teachers. While the authorities recognized the need for expenditure restraint, they saw little scope for large expenditure cuts, or reductions in wages.

27. **The staff were concerned that the adjustment relies exclusively on revenue measures.** While recognizing the constraints faced by the authorities, the staff argued that the chances of successful implementation of the budget would be enhanced by:

¹⁴ The Ministry of Finance characterizes the target as a 5-6 percent of GDP deficit for FY 2003/04; the detailed numbers underlying the budget are consistent with a 6 percent of GDP target.

¹⁵ They include amending the Customs Act and the GCT Act and linking tax compliance with the granting of licenses and certification to improve tax collection, reducing waivers and fees, eliminating tax exemptions to public entities, and auditing of financial institutions.

- Rigorous expenditure controls while protecting social safety net expenditures. There is a risk that the emphasis on revenue measures could be inimical to growth and strain the social consensus;
- Contingency measures in the event that interest rate projections are not realized and to deal with the risks;
- The adoption of a legal framework that formalizes a medium-term path to achieve budget balance by FY 2005/06; and
- A public indication of the additional measures envisaged to meet the announced fiscal targets for the next two years.

28. **Achievement of the proposed targets requires expenditure restraint—particularly on wages—and would be helped by greater public sector transparency and accountability.** In the discussions with the authorities, the staff expressed concern over the increase in the government wage bill (which at 12 percent of GDP is high compared to most Caribbean and Latin American countries). In this context, the large wage increase granted to senior civil servants and parliamentarians in October 2002 makes wage restraint going forward more difficult.¹⁶ The staff urged the government to consider early civil service reform and an expenditure review to prioritize better public services while maintaining social safety-net expenditures. Staff recommended also that the government limit or preferably discontinue the deferred financing program used to finance certain capital spending and bring on budget the associated off-budget expenditures (currently excluded from the deficit) which would also help reduce costs. The authorities are considering whether to request a fiscal transparency ROSC (Report on the Observance of Standards and Codes).

29. **Given the heightened market sensitivities, the authorities acknowledged that financing the budget in FY 2003/04 at acceptable interest rates will be a challenge.** The gross borrowing requirement declines somewhat from the previous fiscal years, although it still remains high at around 27 percent of GDP including amortization of over 20 percent of GDP (Table 9). No external bonds fall due, so the bulk of the rollover requirements arise in the domestic market. While the authorities have been successful to date in raising funds from the domestic market,¹⁷ securing their future financing needs at interest rates below

¹⁶ In October 2002, senior civil servants and parliamentarians received increases in salaries as part of a program to raise public sector wages to approximately 80 percent of market comparators. Because salaries for parliamentarians had not been increased for many years, the catch-up resulted in an 89-100 percent increase in some cases.

¹⁷ The authorities in late April raised over 3 percent of GDP in a 19-month securities paying 36.25 percent annual interest.

current high levels, without destabilizing the foreign exchange market, will require a rebuilding of overall market confidence.¹⁸

30. The government plans to restructure large loss-making public entities.

Currently, a number of large public entities including the National Water Commission, the Jamaica Urban Transport Company, the Sugar Company of Jamaica, and the National Housing Development Corporation, are making losses. The government also plans to speed up the process of reorganizing through merger, liquidation, and restructuring, the remaining small public entities, which should help to improve public sector performance.

C. Monetary and Exchange Rate Policies

31. There was considerable discussion of the appropriate role of exchange rate policy. The Jamaican dollar has depreciated significantly during FY 2002/03 despite the efforts by the authorities to stabilize the real exchange rate. While monetary policy formally targets base money with the aim of generating low and stable inflation, the BOJ remains reluctant to see too rapid movements in the exchange rate. In a small open economy like Jamaica, the BOJ officials saw movements of the exchange rate as an important indicator of future inflation, used by private and public agents alike, as the exchange rate is a key component of domestic prices. The BOJ attempts to balance inflationary and balance of payments objectives by seeking to avoid rapid movements in the exchange rate. Large depreciations of the rate, as occurred in the second half of FY 2002/03, also sharply increase debt-servicing costs. Interest rates on BOJ open market instruments—from 30 day to 1-year rates—were raised several times in FY 2002/03 to reach current levels of 15-33 percent respectively, with the aim of protecting the exchange rate. The result has been the preservation of single digit inflation for the seventh consecutive year, notwithstanding the large fiscal overruns of FY 2002/03. However, there has been a considerable cost in terms of high and volatile domestic interest rates which have increased the fiscal burden and dampened growth. There is also a large quasi-fiscal cost, and, over time, a major loss of competitiveness.

32. The authorities do not attribute the rapid expansion in the current account deficit—by 8 percentage points of GDP in two years—to a loss of competitiveness. Rather they attribute this to sharp adverse movements in the terms of trade—oil prices

¹⁸ The budget assumes an average interest rate of 17.4 percent for the year as a whole, which implies a substantial and rapid decline in domestic interest rates from current high levels. If this is not achieved, considerably higher interest expenditures—on newly raised funds and on the half of non-indexed domestic debt that is variable rate (linked to the 6-month TB rate with a 6-month lag)—could emerge. Depending on the interest rate profile, and the timing of interest payments, interest expenditures could rise by up to 2½ percentage points of GDP. For every 1 percent depreciation in the Jamaican dollar against the U.S. dollar, overall debt rises by around one half of 1 percent of GDP.

rising and alumina prices falling, weak tourist demand since September 11, 2001, and import-intensive infrastructure projects (highway construction and telecommunications). The BOJ fears that a policy of permitting more rapid depreciation would be quickly translated into higher inflation, citing evidence of a faster pass through in periods of rapid depreciation.¹⁹ The authorities considered that foreign direct investment and remittances—the primary sources of financing in the past—could sustain a current account deficit of around roughly half the current levels over the medium term. They saw the improvement in the current account as coming primarily from fiscal adjustment, the reversal of the special factors described above, and structural reforms, rather than further real exchange rate depreciation.

33. While agreeing that the factors cited by the authorities above were important, staff considered that the Jamaican economy has, on balance, lost competitiveness over recent years. The real depreciation of FY 2002/03 only partly offset the previous large real appreciation since 1995. Structural reforms had not been sufficient for the economy to adapt to the more appreciated real exchange rate. Indicators of lost competitiveness include (i) the decline in exports of goods by roughly one-quarter in U.S. dollar terms over the last 7 years; (ii) the widening current account deficit; and (iii) the fall in Jamaica's share of tourist arrivals to the Caribbean from 7.1 percent in 1995 to 6.4 percent in 2001. Looking ahead, the staff favored continued flexibility in exchange rate policy to regain competitiveness. However, particularly given the significant adverse fiscal impact of depreciation via increased debt-servicing costs, this should be reinforced by structural reforms to promote faster productivity growth.

34. The authorities plan reforms to deepen the foreign exchange market. The BOJ intends to introduce electronic trading and abolish the 5 percent surrender requirement when market conditions permit. The staff welcomed these plans, and suggested they be accelerated and combined with reduced BOJ market intervention (abolishing of the surrender requirement would also end the current multiple currency practice).²⁰ The BOJ would welcome further discussion with the staff on the implementation of international best practices in foreign exchange trading.

¹⁹ Although a recent BOJ study shows that since 1995 the pass-through has been reduced to 45 percent (from around 80 percent in the early 1990s) as a result of the low inflation environment.

²⁰ The MCP arises from the implementation of the surrender requirement as first reported in the 2002 Article IV Staff Report. The authorities have since modified the method used for calculating the surrender requirement and now make use of the previous day's average selling rate. Data for the period of January 2002 to February 2003 indicate that a MCP still exists (see Appendix I).

35. **There was considerable discussion of staff proposals to change the operation of monetary policy.** Currently, the BOJ uses primarily longer term instruments (over 180 days) to absorb excess liquidity and hence reduce pressure on the Jamaican dollar. The staff sees scope for more flexible money market interventions focusing on shorter-term interest rates—30 days or less—particularly as the fiscal position improves. The focus should be more on liquidity management rather than transformation, with the longer rates (60 days and beyond) set more by markets in the light of the government’s funding needs. In this context, abolition of the 30-day BOJ signal rate could be considered. The BOJ feared that, in the high liquidity conditions of the Jamaican economy, these changes would reduce the effectiveness of monetary policy. The staff questioned the rationale for the application of the 5 percent special reserve requirement solely on Jamaican dollar deposits and welcomed the BOJ’s assurance that this would be removed as part of the planned rationalization of reserve requirements.

36. **The authorities plan further strengthening of the regulatory framework of the financial system.** The staff encouraged urgent implementation of regulations governing the activities of securities market broker-dealers. Participation in the Financial Stability Assessment Program (FSAP) is not being contemplated by the authorities at present as their regulatory environment is undergoing reform, with the BOJ in the process of taking on supervision for credit unions. Once this is completed, the authorities agreed that an FSAP would be desirable. Following technical assistance from MFD in January 2002, the BOJ has been building its capacity to assess market risks with follow-up training.

D. Other Issues

37. **Jamaica provides core statistics to the Fund, and since January 2003 participates in the GDDS** (see Attachment II). At present Jamaica does not collect International Investment Position (IIP) data. The authorities, with EU assistance, have begun preparatory work and hope to begin collecting IIP data in 2004. A further strengthening of the statistical system remains a priority. The government is investigating what would be required to subscribe to the SDDS; the mission encouraged the government to commit to a plan to subscribe to the SDDS within a defined timeframe. Early implementation—with needed funding—of the recommendations of the recent STA technical assistance report on the organization of STATIN was also recommended.²¹

²¹ The major recommendations are (i) a revision of the organizational structure of STATIN to strengthen its management and streamline its functions; (ii) consolidation of its offices in a single office building; outsourcing of some activities to other organizations; and (iii) implementation of a technology plan to move to greater automation as soon as possible.

IV. MEDIUM-TERM ISSUES

A. Structural Reforms and Growth

38. **Faster growth requires a coherent strategy to tackle structural impediments including the labor market and trade protection.**²² Higher growth is critical to reducing the high public sector debt levels and key to addressing the social problems of unemployment, poverty and crime (see Box 2). The authorities' policy approach remains to maintain low inflation, take anti-crime measures to reduce the high security costs incurred by businesses and to maintain social order, strengthen infrastructure, and adopt sector-specific growth-oriented policies like financial assistance for irrigation and tillage to the agriculture sector through the development bank. A more ambitious agenda for structural reforms proposed by the mission includes greater labor market flexibility, accelerated public sector reform, a more flexible exchange rate regime, wage/productivity agreements in the public and private sectors, steps to remove regulatory barriers to small enterprises and encourage their participation in the formal economy, and measures to reduce agricultural protection to lower food prices. To be effective, such a program needs to be based on a civil society consensus.

39. **The staff encouraged urgent action on pending labor market reforms.** The labor market information system to facilitate searching and training was launched in February 2003 and plans are in train to establish a tripartite productivity center which would develop a framework for assessing national productivity developments. A bill to implement flexible work arrangements, which was withdrawn from parliament, will be resubmitted early in the new parliamentary term. The authorities also favor sectoral wage agreements to boost competitiveness. The mission cautioned that recent wage increases exceeded productivity increases and that recent (catch-up) salary increases for senior civil servants and parliamentarians could make it difficult to achieve the needed economy-wide wage restraint.²³

²² For a further discussion of these impediments to growth, see Jamaica—Selected Issues, Chapter II, 7/25/02.

²³ Over the period 1995-2001, real compensation per worker grew by around 7 percent in total, while output per worker grew by only 0.5 percent.

Box 2. Growth and Competitiveness

The World Bank and the IDB are conducting studies on growth and competitiveness in Jamaica. While the reports have not been finalized, some common themes are emerging. Growth has been low during the last decade (an average of 1 percent per year), however, the level of poverty has declined significantly. A number of factors account for the low growth.

The costs imposed by crime and violence. Direct costs of controlling crime and the losses suffered by business are estimated at least 4 percent of GDP per year—not including the impact on growth, investment, or the social fabric of the country.

The large debt overhang—which reflects the costs of the financial crisis and also a deterioration in the fiscal position—has crowded out productive expenditure in the budget, and also private investment.

Low productivity and loss of competitiveness caused by a variety of factors including: the large real exchange rate appreciation in the second half of the 1990s, the inflexibility in the labor market, and the poor quality and efficiency in infrastructure services. There is insufficient credit to the private sector as the post-crisis financial sector is yet to resume channeling adequate resources to the productive sectors. High expenditure on education (in an education system that is near universal until lower secondary level) has not translated into comparable levels of outcomes.

What would it take to stimulate sustained growth? According to the studies, the question is a very complex one, involving economic, social, and political dimensions.

Improving the macroeconomic policy mix was seen as critical. Fiscal consolidation and the maintenance of high primary surpluses were imperative in reducing the public debt and high real interest rates; as was greater flexibility in the exchange rate to boost competitiveness. Increasing labor market flexibility would also help to boost competitiveness.

Adopting anti-crime measures would help to reduce security costs and the uncertainty under which businesses operate.

Improving the average level of education outcomes would need an enhanced focus on early learning, improved functional literacy at the early childhood and primary level, more attention to poorly performing schools, and expansion of education at the upper secondary level.

Implementing reforms and improving the regulatory system would help to reap the full benefits of the recent acceleration of private participation in the provision infrastructure services. Regulatory capacity needs to be upgraded to manage continuing telecom liberalization, as well as regulated monopolies in other sectors such as power, water, and the private management contracts in the transport sector.

Over the last decade the percentage of persons below the poverty line decreased from 30 percent to 17 percent. Some of the explanations for the apparent paradox of significant poverty reduction in the context of low growth are the large size of the informal sector estimated at around 40 percent of GDP, the large flow of remittances associated with high levels of migration and the recovery of real wages in the latter half of the 1990s.

40. **Jamaica's trade regime is rated 4 out of 10 on the Fund's trade restrictiveness index.**²⁴ This reflects Jamaica's moderate tariffs—with average tariff rates at around 9 percent—and moderate non-tariff barriers. Despite some minor amendments, Jamaica's average tariff rate is broadly unchanged since the last Article IV report. Further reform of the current tariff regime is only envisaged by the authorities in the context of broader international reforms, within the CARICOM framework, or as part of the ongoing FTAA negotiations or WTO round. The authorities continued to defend agricultural protection as necessary to protect the sector—where a large proportion of the poor tend to be employed—from cheap imports which can flood the domestic market. They see local agriculture as making a potentially significant contribution to growth. They also reiterated the adverse impact on Jamaican agriculture of the continued agricultural support policies of the U.S. government. The staff urged the authorities to consider alternative means to achieve their social objectives such as strengthening the social safety net, noting that the current tariff policy raises costs in the domestic market, and in particular to the tourism sector, impacting negatively on Jamaica's competitiveness and growth prospects in this important export market.

B. Medium-Term Outlook

41. **The Jamaican economy remains very susceptible to potential short-term difficulties.** The economy is very vulnerable as a result of (i) high overall public sector debt levels; (ii) the susceptibility of foreign exchange earnings (mainly tourism receipts) and growth to external shocks, weather-related events notably flooding, and domestic violence; (iii) high real interest rates; (iv) a continuing large public sector deficit; and (v) a heavily managed floating exchange rate. In addition, a large exposure to public sector debt, the general loss of competitiveness and a modest but marginally increasing level of dollarization—around 25 percent of deposits and around 35 percent of loans—increases vulnerabilities in the banking system.

42. **The vulnerabilities discussed above are exacerbated when credible downside risks are considered.** These risks include a prolonged downturn in tourist demand, increased competition from other lower-cost Caribbean destinations (such as Cuba), further wide scale flooding or hurricanes, fiscal slippages, and a less rapid than expected decline in interest rates. Financial difficulties could be precipitated by loss of international capital market access or by the rollover risk associated with high gross domestic financing needs. There may also be some vulnerability to a speculative attack, notwithstanding the absence of an onshore forward market. The authorities' ability to respond to emerging exchange pressures is limited by the lower level of reserves and the impact of sustained high interest rates on the already heavy debt burden.

²⁴ A score of 10 is highly restrictive and 1 represents no restrictions.

43. **Current policy options are illustrated in the medium-term scenarios which staff discussed with the authorities.** These are (i) staff's baseline scenario which involves maintaining the primary surplus at around 10–11 percent of GDP—the average level of the three years to FY 2001/02; (ii) a stronger adjustment scenario of the authorities with primary surpluses reaching 14 percent of GDP consistent with the government's public commitment to achieve central government balance by FY 2005/06 and with the projections underlying the FY 2003/04 budget, and (iii) a worse-case scenario with the central government primary balance unchanged from FY 2002/03 levels. All of these scenarios are vulnerable to the risks outlined above as discussed further below. Table 10 illustrates the debt-stabilizing primary surplus on various growth and interest rates assumptions. At the current levels of growth and interest rates, the debt stabilizing primary surplus considerably exceeds the planned level for FY 2003/04 under all scenarios, which underscores the importance of the assumed decline in interest rates during the year.²⁵

44. **Under the staff's baseline scenario (scenario i), the economic situation is little changed.** Growth is maintained at around 1½ percent underpinned mainly by tourism, mining, and basic services (see Table 11). Growth in these sectors is largely dependent on a favorable external environment and domestic demand, the latter supported by strong remittances and informal economic activity. Interest rates would remain high and the public sector debt would remain above 140 percent of GDP by 2008, raising concerns about sustainability. The current account position would improve, but the deficit is expected to decline only gradually, requiring access to international capital markets to be regained to prevent a sharp fall in NIR. Under this scenario, performance remains weak, the economy would continue to be vulnerable to shocks, and an eventual financial crisis would be quite likely.

45. **The medium-term outlook would improve markedly under the adjustment policy scenario (scenario ii) which assumes the fiscal adjustment underlying the FY 2003/04 budget.** This is assumed to be reinforced by a comprehensive policy package that also addresses structural impediments to growth. Under this scenario, fiscal balance is expected to be achieved by FY 2005/06 (as the government plans, with a cumulative improvement of 8 percent of GDP in the primary surplus) which would lower the public debt-to-GDP ratio to 133 percent by then. Supported by a flexible monetary and exchange rate policy, this will reduce macroeconomic instability. Efforts to remove structural impediments to growth (such as crime and violence) as well as gains in competitiveness would help bring growth across the sectors. Under such a scenario, access to capital markets would likely be regained in due course and NIR could be maintained at current levels as foreign direct investment increases.

²⁵ The appropriate interest rate is the average rate paid on all government securities—fixed, floating (linked to the average 6-month TB rate over the previous 6 months) and U.S. dollar linked which is assumed to fall to 17.4 percent in FY 2003/04.

46. **The imperative of fiscal adjustment is illustrated under the worse-case scenario (iii) which assumes an unchanged central government primary surplus at around 8 percent of GDP in FY 2003/04.** Under this scenario, the economy would decline significantly and only gradually recover over the next few years. Financial difficulties could be triggered by a variety of events including an adverse international environment, which would further weaken the external account balances, failure to control the fiscal deficit, and a loss of reserves due to inability to access international capital markets.

47. **The debt sustainability analysis based on the staff's baseline scenario underscores the fragility of the Jamaican economy** (Box 3 and Annex II, Table A1). All the stress tests result in rising overall debt levels. The debt rises particularly sharply in response to higher interest rates and an upfront exchange rate depreciation. The external debt stress test (Annex II, Table A2) also underscores the vulnerability to an upfront depreciation.

48. **These scenarios and the debt sustainability analysis underline the imperative of the very large fiscal adjustment, sustained over the medium term, to which the authorities are publicly committed.** Absent this, the economy remains extremely vulnerable to shocks, and financial difficulties are very likely (Tables 12 and 13). The Minister of Finance, while recognizing that achieving and sustaining over the medium term such large primary surpluses was a challenge, emphasized the government's determination to achieve this outcome and its successful past record in achieving large primary surpluses.

V. STAFF APPRAISAL

49. **Macroeconomic imbalances intensified in FY 2002/03 to levels which threaten stability.** Present fiscal and current account deficits are not sustainable and risk serious financing difficulties. The risks are accentuated since Jamaica is highly vulnerable to exogenous and weather-related shocks. Strong and credible policy actions are necessary to reduce imbalances and lower vulnerability.

50. **The authorities' recognition of the need for strong fiscal adjustment, reflected in the FY 2003/04 budget and their commitment to achieve fiscal balance by FY 2005/06, is welcome.** The planned substantial fiscal adjustment—of around 4½ percent of GDP in the primary balance in FY 2003/04—is challenging but needed to stabilize current fragile market conditions. Over the medium term, fiscal retrenchment should facilitate faster growth by allowing more resources to go to the private sector and permitting lower interest rates.

51. **The coherence of the current economic strategy hinges on determined implementation of the measures in the FY 2003/04 budget.** There is no scope for slippage; even successful implementation would leave public sector debt broadly unchanged at close to 150 percent of GDP. The prospects for successful implementation could be enhanced through rigorous expenditures controls including public sector wage restraint, the identification of contingency measures in case current interest rate projections are not

realized or other shocks emerge, and the incorporation of fiscal consolidation into legislation.

Box 3. Sustainability of the Public Debt

Jamaica's public debt is approaching unsustainable levels but all the possible solutions pose difficult challenges. The extremely high public debt (nearly 150 percent of GDP) is mainly a legacy of high fiscal deficits during the 1980s (around 100 percent of GDP) and the resolution cost of the financial crisis in the mid-1990s (40 percent of GDP). The depreciation of the Jamaican dollar and the large fiscal overruns caused the public debt to increase substantially in FY 2002/03 rather than decline as envisaged. Three-fifths of the public debt is domestic. Banks, brokers, and building societies hold about 60 percent of the domestic debt (Box 1). Of the domestic debt, around 50 percent is at floating interest rate and one sixth indexed to the US dollar.

The high debt levels require large primary surpluses (Table 10). Gross financing requirements of around 30 percent of GDP create significant rollover risks. The recent resort to issuing US dollar indexed bonds in the context of tightened market access could increase vulnerability to external shocks. Over the medium-term, reducing the debt to GDP ratio would require continued double-digit primary surpluses (see Annex I).

There is limited scope for restructuring the public debt. Most of the external debt (56 percent of GDP of which more than two-fifths is in the form of bonds) has a fairly long maturity profile—the last 2 bond issues were 15-year and 20-year—without repayment humps and was issued at yields of around 10 percent. The authorities have also been seeking to lengthen the maturity of their domestic debt, although at relatively high interest rates (around 16 percent).

The Jamaican authorities have shown considerable determination to remain current on their debt payments and value their reputation as a good payer. They did not rule out renegotiations on a bilateral basis with individual domestic creditors (some international partners have been forgiving debt on a rolling annual basis).

Paying down their debt through large privatization receipts is not a feasible option as of most of the large state enterprises have already been privatized.

The sustainability of the current situation requires rigorous implementation of the strongest policies. The required fiscal adjustment could be politically difficult to achieve—particularly if expenditure reductions are ruled out.

52. **Fiscal retrenchment should be complemented by a more comprehensive approach to structural reforms to generate faster growth.** The various measures being implemented by the authorities should be integrated into a comprehensive approach based on dialogue with civil society on the difficult structural reforms required to boost growth. These reforms include further anti-crime measures, flexible working arrangements, and economy-wide agreement to promote wage restraint and productivity growth, reducing regulatory barriers to small enterprises, and lowering agricultural protection.

53. **There remains scope for a more flexible exchange rate policy aimed at rebuilding competitiveness.** Further gains in competitiveness—building on those achieved in FY 2002/03—are required. Such gains—particularly through accelerated structural reforms—should help improve growth prospects and reduce the current account deficit. Stability in the foreign exchange market could be enhanced by steps to deepen the market.

These include less frequent BOJ intervention, the abolition of the 5 percent surrender requirement (which would remove the current multiple currency practice) and the introduction of an electronic trading platform. Given the lack of a clear timetable for elimination of the MCP resulting from the surrender requirement, staff does not recommend Board approval of this measure.

54. **The operation of monetary policy could be enhanced by greater focus on domestic inflation and on shorter-term interest rates.** The emphasis of BOJ policy could be more on changes in shorter-term interest rates particularly as the fiscal position improves. This would reduce the need for large movements in longer-term rates, which are disruptive to economic activity and increase government borrowing costs. The 5 percent special deposit requirement imposed solely on Jamaican dollar deposits should be phased out at an early date.

55. **The planned strengthening of the supervision of non-bank financial institutions, particularly securities broker-dealers, is welcome.** The changes need careful handling to avoid unsettling the government securities market, but should improve the effectiveness of monetary policy. Efforts should be made to establish as level a playing field as possible between competing institutions to avoid regulatory arbitrage. The large exposure of the financial system to public sector debt gives cause for concern and, given the fragile macroeconomic situation, this needs to be kept under close review through appropriate stress tests. Over time, fiscal retrenchment should provide room for more private sector lending.

56. **The sustainability of the current situation is in doubt even with the determined implementation of the strongest policies.** The authorities have limited degrees of freedom given the already tight fiscal situation, high and rising public debt levels exacerbated by exchange rate depreciation, a financial system with large holdings of public domestic debt, and the impact of high interest rates on the debt burden. The large and rising primary surpluses required over the medium term could be politically difficult to achieve. The staff is working further on possible options that would address the problems arising from the debt burden and—together with Bank colleagues—to encourage faster growth. Enhanced collaboration with the authorities on these issues is planned over the next few months.

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

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

	1998/99	1999/00	2000/01	2001/02	SMP 2002/03	Est. 2002/03	Authorities Proj. 2003/04
(Annual percentage changes; unless otherwise specified)							
GDP, prices, wages and interest rates							
GDP at constant prices	-0.4	-0.1	1.1	1.1	2.5	1.7	2.7
GDP deflator	6.3	8.8	9.7	9.3	6.5	6.5	7.0
Nominal GDP 1/ (U.S. dollars billions)	7.5	7.5	7.6	8.0	...	8.0	...
(Jamaica dollars billions)	278.6	302.9	336.4	371.8	402.0	401.5	441.2
Per capita GDP (in U.S. dollars)	2,889	2,845	2,849	2,912	...	...	...
Consumer prices (end of period)	6.0	8.4	6.4	7.6	6.5	6.2	7.0
(period average)	8.1	6.3	7.7	8.0	6.5	6.5	6.5
Nominal wages							
Total Labor Compensation	7.5	8.0	9.0	...	...	...	...
Government wage bill (cash basis)	9.8	-0.1	10.2	...	...	...	...
Unemployment rate	15.5	15.7	15.5	15.0	...	...	...
Interest rate (six-month treasury bills yield, end of period)	21.7	18.0	16.9	14.3	...	33.4	...
Lending rate (weighted average, end of period)	32.1	24.3	22.1	19.5	...	...	...
Money and credit 2/							
Net domestic assets of the banking system 3/	8.2	6.8	-13.8	-14.4	26.3	14.7	25.8
Public sector	25.1	8.9	6.3	16.7	14.9	21.4	20.6
Private sector	-6.0	-5.0	1.9	4.3	2.1	10.1	1.7
Liabilities to private sector	10.8	19.3	9.2	9.9	9.3	7.5	12.3
Velocity (GDP relative to liabilities to private sector)	2.7	2.4	2.4	2.5	2.5	2.5	2.5
(In percent of GDP; unless otherwise indicated)							
Savings and investment							
Gross national savings	23.8	21.6	22.7	18.7	19.5	...	...
Gross investment	26.8	25.9	27.0	27.3	27.5	...	...
Public sector 4/							
Revenue and grants (central government)	26.6	29.8	30.0	27.6	29.2	29.6	33.4
Expenditures (central government)	33.5	34.0	31.0	33.3	33.6	37.6	39.4
Interest payments (central government)	12.4	13.8	12.8	13.7	14.8	15.7	18.2
Primary balance (central government)	5.5	9.6	11.8	8.0	10.4	7.7	12.2
Primary balance (public sector)	6.8	10.7	12.2	8.6	11.0	8.9	12.9
Central government balance (-)	-6.9	-4.2	-0.9	-5.7	-4.4	-8.0	-6.0
Adjusted central government balance 5/	-12.3	-8.3	-5.5	-5.7	-4.4	-8.0	-6.0
Public sector balance 6/	-10.9	-7.2	-5.6	-6.8	-6.6	-9.3	-7.6
Total debt 7/	115.7	132.7	132.7	129.9	125.5	148.5	...
External sector							
External current account (deficit -)	-2.9	-4.2	-5.7	-9.5	-8.2	-12.5	-11.3
Overall balance of payments (millions of U.S. dollars)	-17	123	582	656	-325	-546	68
Gross official reserves (millions of U.S. dollars)	700	801	1,368	2,005	1,645	1,384	1,376
(weeks of next year's imports of goods and services)	9.3	10.3	16.1	23.7	18.8	15.1	11.5
Net international reserves (millions of U.S. dollars)	582	704	1,286	1,942	1,600	1,340	1,340

Table 1. Jamaica: Selected Economic and Financial Indicators (Concluded)

	1998/99	1999/00	2000/01	2001/02	SMP 2002/03	Proj. 2002/03	Authorities Proj. 2003/04
(In percent of GDP; unless otherwise indicated)							
External terms of trade (percent change)	-2.3	-4.6	-3.3	-0.9	-0.5	-6.3	-0.1
External debt (end of period)	42.6	42.0	47.9	51.7	50.1	53.4	53.4
Debt service ratio 8/	18.3	17.6	14.6	19.1	30.1	31.4	19.9
Short-term external liabilities/reserves	1.1	0.9	0.4	0.3	0.6	0.8	0.5
Interest payments 8/	5.4	5.4	5.9	7.7	9.6	9.8	11.4
Exchange rates							
Jamaica dollar per U.S. dollar							
(end of period)	38.1	42.2	45.7	47.5	...	56.1	...
(period average)	36.9	40.2	44.1	46.5	...	49.9	...
Real effective exchange rate (annual percentage change)	1.6	-4.0	-0.2	3.9	...	-11.0	...
Nominal effective exchange rate (annual percentage change) 8/	-2.9	-8.8	-3.8	-1.9	...	...	...
Relations with the Fund (as of March 31, 2003)							
Quota							SDR 273.5 million
Outstanding purchases and loans							SDR 14.54 million

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

1/ Fiscal years run from April 1 to March 31. Latest estimates by the authorities for GDP in FY 2001/02 to FY 2003/04 are J\$365.2bn, J\$396.1bn, and J\$435.4bn, respectively. The fiscal ratios in this and other tables for FY 2002/03 and FY 2003/04 are based on these numbers to be consistent with the working numbers used by the ministry of finance.

2/ As of the end of fiscal year.

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

4/ Figures for 2003/04 are government's budget estimates.

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

6/ Includes selected public enterprises, accrued but not paid FINSAC/FIS interest due to the private sector, and Bank of Jamaica operating balance.

7/ The public sector debt is defined to include central government domestic and external debt and domestic and external debt guaranteed by the government. It excludes government securities held by public enterprises and external debt held by BoJ.

8/ In percent of exports of goods and services.

Table 2. Jamaica: Quantitative Targets and Outturn for Key Variables in the Staff-Monitored Program for Fiscal Year 2002/03

	Mar. 2001	Mar. 2002	June 2002		Sept. 2002		Dec. 2002		Mar. 2003	
		Actual	Targets 1/	Prel.	Targets	Prel.	Targets	Prel.	Targets	Prel.
(In millions of Jamaica dollars; end of period)										
Net domestic assets of central bank 2/ 3/	-29,462	-60,260	-56,789	-56,789	-58,200	-51,714	-52,400	-42,200	-45,400	-32,875
Overall balance of selected public enterprises	2,888	2,002	-1,300	35	-500	1,235	800	3,737	2,500	5,000
Primary balance of the central government (indicative) 4/	39,768	29,795	4,754	3,269	15,774	9,904	27,439	15,361	41,880	30,300
Overall balance of the central government 4/	-3,153	-21,216	-13,100	-12,333	-15,400	-22,628	-19,200	-34,344	-17,700	31,791
(In million U.S. dollars; end of period)										
Floor on net international reserves of Bank of Jamaica 3/	1,286	1,942	1,782	1,782	1,800	1,687	1,800	1,597	1,600	1,340
Foreign short-term commercial borrowing 6/	n/a	8	50	n/a	50	n/a	50	n/a	50	n/a
Foreign medium- and long-term commercial borrowing 4/ 5/	566	650	500	300	500	300	500	300	500	300

1/ The SMP targets are revised as indicated in the government's Letter of Intent to the Fund Dec. 4, 2001.

2/ Targets for FY 2002/03 are based on an accounting exchange rate of J\$48.80 per dollar, and the cross-currency exchange rate against the U.S. dollar as of March 31, 2002.

3/ Preliminary outturn for June 2002 - not target; at the time the LOI was signed, provisional data were available.

4/ Cumulative figures for fiscal year to date.

5/ The NIR floor for 2002/03 and limit for foreign medium- and long-term commercial borrowing will be adjusted by external borrowing to pre-fund next fiscal year's debt service.

6/ Defined as trade credits to selected public enterprises.

Table 3. Jamaica: Summary of Public Sector Operations

	1999/00	2000/01	2001/02	SMP FY 02/03	Prel. FY 02/03	Budget 2003/04
(In millions of Jamaican dollars)						
Central government balance	-12,575	-3,172	-21,216	-17,738	-31,791	-25,933
Revenues and grants	90,373	101,021	102,576	117,322	117,238	145,463
Tax 1/	81,370	89,827	92,820	109,391	104,692	137,260
Non-tax 2/	8,068	9,457	7,793	7,158	11,632	7,282
Grants	935	1,737	1,962	774	914	922
Expenditures	102,948	104,193	123,792	135,061	149,029	171,396
Wages and salaries	31,895	35,164	42,588	45,075	51,497	54,163
Interest	41,784	42,920	51,010	59,618	62,121	79,212
Domestic	34,980	34,306	40,353	42,733	46,935	60,461
External	6,804	8,614	10,657	16,885	15,186	18,751
Other expenditures 3/	20,122	16,764	20,067	20,457	27,463	28,975
Capital expenditures	9,147	9,345	10,126	9,911	7,949	9,046
Rest of public sector balance	-9,196	-15,657	-4,187	-8,993	-5,000	-6,944
Operating balance of public enterprises	3,283	1,422	2,001	2,500	5,000	2,903
FIS/FINSAC balance 4/	-13,391	-15,441	0	0	0	0
Bank of Jamaica operating profit/loss	912	-1,639	-6,188	-11,493	-10,000	-9,847
Total public sector balance	-21,771	-18,829	-25,403	-26,731	-36,791	-32,877
External financing	-3,523	12,039	25,895	3,731	-12,920	2,317
Domestic financing	25,295	6,790	-492	23,000	49,711	30,560
Banking system	8,236	14,189	28,893	18,993	31,944	32,847
Others	17,059	-7,399	-29,385	4,007	17,767	-2,287
Adjusted central government balance 5/	-25,054	-18,613	-21,216	-17,738	-31,791	-25,933
Central government primary balance	29,209	39,748	29,794	41,880	30,330	53,279
Public sector primary balance	32,492	41,171	31,795	44,380	35,330	56,182
(In percent of GDP)						
Central government balance	-4.2	-0.9	-5.7	-4.4	-8.0	-6.0
Revenues and grants	29.8	30.0	27.6	29.2	29.6	33.4
Tax 1/	26.9	26.7	25.0	27.2	26.4	31.5
Non-tax 2/	2.7	2.8	2.1	1.8	2.9	1.7
Grants	0.3	0.5	0.5	0.2	0.2	0.2
Expenditures	34.0	31.0	33.3	33.6	37.6	39.4
Wages and salaries	10.5	10.5	11.5	11.2	13.0	12.4
Interest	13.8	12.8	13.7	14.8	15.7	18.2
Domestic	11.6	10.2	10.9	10.6	11.8	13.9
External	2.2	2.6	2.9	4.2	3.8	4.3
Other expenditures 3/	6.6	5.0	5.4	5.1	6.9	6.7
Capital expenditures	3.0	2.8	2.7	2.5	2.0	2.1
Rest of public sector balance	-3.0	-4.7	-1.1	-2.2	-1.3	-1.6
Operating balance of public enterprises	1.1	0.4	0.5	0.6	1.3	0.7
FIS/FINSAC balance 4/	-4.4	-4.6	0.0	0.0	0.0	0.0
Bank of Jamaica operating profit/loss	0.3	-0.5	-1.7	-2.9	-2.5	-2.3
Total public sector balance	-7.2	-5.6	-6.8	-6.6	-9.3	-7.6
External financing	-1.2	3.6	7.0	0.9	-3.3	0.5
Domestic financing	8.4	2.0	-0.1	5.7	12.6	7.0
Banking system	2.7	4.2	7.8	4.7	8.1	7.5
Others	5.6	-2.2	-7.9	1.0	4.5	-0.5
Adjusted central government balance 5/	-8.3	-5.5	-5.7	-4.4	-8.0	-6.0
Central government primary balance	9.6	11.8	8.0	10.4	7.7	12.2
Public sector primary balance	10.7	12.2	8.6	11.0	8.9	12.9
<i>Memorandum items:</i>						
Non-financial public debt (end of period) 6/	132.7	131.9	130.6	125.5	148.5	...
Domestic	90.0	83.6	78.2	75.4	89.8	...
External	42.8	48.3	54.2	50.1	58.8	...

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

1/ Includes bauxite levy.

2/ Includes capital revenue.

3/ Includes statistical discrepancy.

4/ Includes interest due and capitalized during the year up to 2000/01.

5/ Includes FINSAC interest payments on a full year basis upto 2000/01.

6/ The public sector debt is defined to include central government domestic and external debt and domestic and external debt guaranteed by the government. It excludes government securities held by public enterprises and external debt held by BoJ.

Table 4. Jamaica: Nonfinancial Public Sector Debt

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	Prel. 2002/03	Proj. 2003/04
(in millions of Jamaican dollars, unless noted other wise)								
Total debt	189,064	267,876	322,284	401,997	443,593	485,458	588,313	660,302
Domestic debt 1/	84,663	155,229	203,667	272,471	281,238	290,794	355,600	414,001
Central government domestic debt	79,483	93,639	126,703	165,600	200,999	283,491	346,200	...
LRS	55,889	67,972	92,621	118,728	149,472	199,343	240,923	...
Treasury bills	11,016	11,650	10,450	7,467	6,031	3,807	2,950	...
Loans	4,566	3,089	5,759	3,253	3,291	4,690	7,761	...
Other	8,012	10,929	17,873	36,153	42,205	75,650	114,524	...
FINSAC/FIS securities	5,180	61,589	76,964	105,651	79,297	...	...	...
Of which:								
Held by Bank of Jamaica	...	17,715	20,455	27,473	15,565	...	...	...
Government guaranteed debt	...	...	...	1,220	942	7,303	9,400	...
External debt 2/	104,401	112,647	118,617	129,526	162,355	194,664	232,713	246,301
External debt (in millions of US\$) 2/	2,977	3,085	3,099	3,074	3,554	4,091	4,150	4,144
Total debt	78.0	102.3	115.7	132.7	131.9	130.6	148.5	152.4
Domestic debt 1/	34.9	59.3	73.1	90.0	83.6	78.2	89.8	95.5
External debt 2/	43.0	43.0	42.6	42.8	48.3	52.4	58.8	56.8
Memorandum item								
US\$ linked domestic debt (in percent of total domestic stock)				7.2	8.1	15.4	19.9	...
Variable rate instrument (in percent of total domestic stock)				91.7	66.0	55.9	51.6	...

1/ Nonfinancial public sector domestic debt (excluding Bank of Jamaica), net of nonfinancial public enterprises holdings of FINSAC securities and government papers, and government guaranteed domestic debt.

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

Table 5. Jamaica: External Public Debt Outstanding 1/

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

	1998/99	1999/00	2000/01	2001/02	2002/03
Total	3,216	3,165	3,624	4,135	4,180
Official creditors	2,485	2,347	2,264	2,178	2,230
Bilateral	1,420	1,326	1,151	1,048	1,001
OECD	1,285	1,159	1,031	937	904
Non-OECD	135	127	120	111	97
Multilateral	1,061	1,022	1,112	1,130	1,229
IBRD	351	422	414	441	480
IMF	94	76	54	37	23
Other	616	524	644	210	726
Private creditors	735	818	1,361	1,957	1,950
Commercial bank	155	137	151	90	85
Other	30	37	204	215	252
Bond issue	550	644	1,006	1,652	1,613
Memorandum items: 2/					
Total debt (percent of exports of goods and services)	95.9	92.5	79.7	93.5	127.5
Total external debt (percent of GDP)	42.6	42.0	47.9	51.7	53.4

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

1/ Medium- and long-term outstanding external debt for the public sector, including Bank of Jamaica. Data on private sector external debt are not available. As of end-December 2002, data from the Bank of International Settlements (BIS) showed that consolidated international claims of reporting banks on Jamaica amounted to US\$1.4 billion, of which, US\$1.0 billion represents claims on the private sector.

2/ FY2002/03 figures based on staff projections.

Table 6. Jamaica: Summary Balance of Payments

(In millions of U.S. dollars)

	1998/99	1999/00	Est. 2000/01	Est. 2001/02	Prov. Est. 2002/03	Proj. 2003/04
Current account	-219	-317	-430	-761	-916	-868
Trade balance	-1,113	-1,194	-1,456	-1,569	-1,854	-1,839
Exports (f.o.b.)	1,552	1,550	1,513	1,431	1,330	1,367
<i>Of which:</i>						
Bauxite	83	49	56	98	106	106
Alumina	588	666	676	632	615	646
Imports (f.o.b.)	2,665	2,744	2,969	3,000	3,184	3,206
Services (net)	539	555	609	334	337	369
Transportation	-254	-234	-247	-260	-261	-247
Travel	1,021	1,047	1,137	964	966	1,009
Other services	-228	-259	-281	-370	-367	-393
Income (net)	-283	-372	-414	-433	-494	-593
Current transfers (net)	638	695	831	907	1,094	1,195
Capital and financial account (less reserves)	203	440	1,011	1,417	370	936
Capital account (net)	18	18	-4	-24	-22	-22
Financial account (less reserves, net)	184	422	1,016	1,441	391	958
Direct investment (net)	309	359	530	443	347	308
Official capital flows (net) 1/	-90	-123	342	521	-175	211
Inflows	388	255	629	860	501	464
Project loans	138	36	229	208	201	164
Commercial loans	250	220	400	652	300	300
Other	0	0	0	0	0	0
Outflows	477	379	287	339	676	253
Portfolio investment	6	6	-62	27	21	25
Other sectors investment (net) 2/	-42	181	205	450	197	414
Overall balance	-17	123	582	656	-546	68
Financing	14	-123	-582	-656	546	-68
Change in BOJ net reserves (increase -)	14	-122	-582	-656	602	-6
Change in assets	30	-101	-567	-637	621	8
Change in liabilities	-20	-21	-16	-18	-19	-14
IMF purchases	0	0	0	0	0	0
IMF repurchases	-17	-20	-19	-18	-19	-14
Memorandum items:						
Current account (percent of GDP)	-2.9	-4.2	-5.7	-9.5	-12.5	-11.3
Gross official reserves (US\$ millions)	700	801	1,368	2,005	1,384	1,376
In weeks of current year nonbauxite imports	13.3	14.7	23.3	34.2	21.8	21.2
In weeks of next year goods and service imports	9.3	10.3	16.1	23.7	15.1	14.8
Net international reserves (US\$ millions)	582	704	1,286	1,942	1,340	1,340
Debt service ratio (percent of G+S exports)	18.3	17.6	14.6	19.1	31.4	19.9

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Includes central government and the Bank of Jamaica.

2/ Includes net flows of private capital and errors and omissions.

Table 7. Jamaica: Summary Monetary Indicators

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	Proj. 2003/04
(End of period stock; in millions of Jamaican dollars)							
I. Bank of Jamaica							
Net international reserves	21,720	21,807	29,899	57,883	94,753	75,104	59,263
Net domestic assets	10,573	9,197	549	-27,404	-64,532	-42,604	-22,182
Net claims on public sector 1/	34,170	39,905	35,467	31,809	36,501	63,720	73,267
<i>Of which: Central Government</i>	13,653	15,327	4,372	14,895	41,064	56,983	66,530
Open market operations	-32,269	-38,073	-39,491	-61,441	-99,196	-86,204	-74,070
Net claims on banks	-1,760	-4,204	-6,454	-6,582	-4,402	-12,488	-13,631
Other 2/	10,431	11,569	11,027	8,811	2,565	-7,632	-7,748
Monetary base 3/	32,293	31,004	30,448	30,479	30,221	32,500	37,081
II. Banking System							
Net international reserves	23,729	26,182	39,062	67,289	99,913	89,210	67,887
Net domestic assets	69,228	76,810	83,822	66,924	47,771	69,509	110,395
Net claims on public sector 1/	56,698	80,055	89,203	96,890	119,443	151,004	183,673
<i>Of which: Central Government</i>	22,528	22,351	12,505	24,177	119,701	131,838	164,385
Credit to private sector	42,362	36,763	31,634	33,953	39,772	54,712	57,447
<i>Of which: Foreign currency</i>	9,039	6,512	5,964	7,283	13,582	19,522	20,498
Other 4/	-29,831	-40,008	-37,015	-63,919	-111,444	-136,207	-130,725
Liabilities to private sector (LPS)	92,957	102,992	122,884	134,213	147,684	158,719	178,282
Money supply (M2) 5/	71,278	79,733	92,844	101,096	108,021	107,472	119,347
Foreign currency deposits	21,679	23,259	30,040	33,117	39,662	51,248	58,935
(Percentage change from a year earlier)							
I. Bank of Jamaica 6/							
Net international reserves	-3.3	0.3	26.1	91.9	121.0	-65.0	-48.7
Net domestic assets	12.7	-4.3	-27.9	-91.8	-121.8	72.6	62.8
Net claims on public sector 1/	95.0	17.8	-14.3	-12.0	15.4	90.1	29.4
Open market operations	-41.4	-18.0	-4.6	-72.1	-123.9	43.0	37.3
Net claims on banks	-32.8	-7.6	-7.3	-0.4	7.2	-26.8	-3.5
Other 2/	-8.0	3.5	-1.7	-7.3	-20.5	-33.7	-0.4
Monetary base	9.4	-4.0	-1.8	0.1	-0.8	7.5	14.1
II. Banking System 7/							
Net international reserves	-0.8	2.6	12.5	23.0	24.3	-7.2	-13.4
Net domestic assets	7.5	8.2	6.8	-13.8	-14.3	14.7	25.8
Net claims on public sector 1/	54.9	25.1	8.9	6.3	16.8	21.4	20.6
Open market operations	-14.0	-6.2	-1.4	-17.9	-28.1	8.8	7.6
Credit to private sector	-6.3	-6.0	-5.0	1.9	4.3	10.1	1.7
<i>Of which: Foreign currency</i>	-2.2	-2.7	-0.5	1.1	4.7	4.0	0.6
Other 3/	-41.1	-10.9	4.3	-4.0	-7.3	-25.6	-4.2
Liabilities to private sector	6.7	10.8	19.3	9.2	10.0	7.5	12.3
<i>Memorandum items:</i>							
M2 (12-month percentage change)	2.5	11.9	16.4	8.9	6.9	-0.5	11.1
LPS/Base Money	2.9	3.3	4.0	4.4	4.9	4.9	4.8
M2/Base Money	2.2	2.6	3.0	3.3	3.6	3.3	3.2
GDP/LPS	2.8	2.7	2.4	2.4	2.5	2.5	2.5
LPS/GDP	36.1	37.7	41.5	41.0	39.7	39.2	40.3
FC loans/Total loans	21.3	17.7	18.9	21.4	34.1	35.7	35.7

Source: Bank of Jamaica; and Fund staff estimates.

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

2/ Includes valuation adjustments.

3/ Includes 5 percent special deposit requirement imposed in January 2003 but expected to be removed during 2003/04

4/ Includes open market operations.

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

6/ In relation to base money at beginning of period.

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

Table 8. Jamaica: Domestic Interest Rates and Yields on GOJ Global Bonds

Date		Jam. 30-day Reverse repo	Jam. 6 month Treasury bill	Weighted Lending rate 1/	F.C. lending rate 2/	US Dollar 2007 Bond 3/	US Dollar 2011 Bond 4/	Spread over US Treasuries 5/
1999:	Mar.	20.75	21.85	29.65	13.84	...	...	...
	Jun.	18.85	20.16	27.12	12.93	...	...	...
	Sep.	18.35	19.21	26.16	12.68	...	...	...
	Dec.	18.35	22.03	24.64	12.95	...	...	...
2000:	Mar.	17.30	17.96	24.35	12.95	...	...	...
	Jun.	17.00	17.47	23.48	12.81	...	...	...
	Sep.	16.45	17.13	22.23	12.67	...	...	...
	Dec.	16.45	20.16	22.12	12.18	12.81	...	...
2001:	Mar.	15.50	16.88	21.47	12.22	11.35	...	...
	Jun.	14.25	16.20	20.86	11.92	10.34	10.80	...
	Sep.	14.25	15.10	19.41	11.82	10.42	10.78	...
	Dec.	14.25	17.03	19.46	12.11	10.13	10.59	...
2002:	Jan.	14.25	17.08	19.49	12.15	10.12	10.76	...
	Feb.	13.75	15.93	19.33	12.07	9.90	10.75	...
	Mar.	13.25	14.3	19.61	11.98	9.57	10.40	...
	Apr.	13.25	13.84	18.64	12.11	9.14	9.76	...
	May	13.25	13.79	18.50	12.27	8.87	9.51	...
	Jun.	13.25	13.81	18.15	11.76	8.39	8.86	...
	Jul.	12.95	13.79	18.06	11.72	8.90	9.22	529
	Aug.	12.95	13.95	17.85	11.87	8.68	9.40	536
	Sep.	12.95	16.69	18.08	11.83	8.57	9.39	617
	Oct.	12.95	16.89	18.10	11.58	9.11	9.82	597
	Nov.	12.95	19.54	18.03	11.75	8.52	9.242	528
	Dec.	12.95	18.89	18.26	12.08	8.66	9.23	588
2003	Jan.	12.95	18.65	...	...	9.33	9.63	621
	Feb.	12.95	18.45	...	...	10.34	11.18	725
	Mar.	15.00	34.43	...	...	11.28	11.94	800

Source: Bank of Jamaica Statistical Digest; IFS

1/ The weighted lending rate is average commercial bank lending rate with proportion of loans in each category used as the weight.

2/ Foreign currency lending rate.

3/ US dollar denominated bond with a maturity date of 2007.

4/ US Dollar denominated bond with a maturity date of 2011.

5/ Blended spread for US dollar denominated securities (in basis points).

Table 9. Jamaica: Financing of the Central Government Budget

(In percent of GDP)

	1999/00	2000/01	2001/02	SMP 2002/03	Prel. 2002/03	Budget 2003/04
Financing	4.2	0.9	5.7	4.4	8.0	6.0
Gross borrowing requirements	22.3	19.3	30.2	30.3	23.1	26.7
Gross inflows	22.3	19.3	30.2	23.1	30.7	26.7
External	3.8	10.3	12.5	11.1	6.1	3.8
Domestic	18.5	9.0	17.6	12.1	24.6	22.9
Gross outflows	18.2	18.4	24.5	18.7	22.7	20.7
External	5.2	4.0	3.7	8.2	9.1	3.1
Domestic	13.0	14.4	20.8	10.6	13.6	17.6
Net flows	4.1	0.9	5.7	4.4	8.0	6.0
External	-1.4	6.3	8.9	2.9	-2.9	0.7
Domestic	5.5	-5.4	-3.2	1.5	11.0	5.3
Memorandum item						
Central bank operating balances	0.3	-0.2	-1.7	-2.9	-2.5	...

Sources: Ministry of Finance; and Fund staff estimates.

Table 10. Debt Stabilizing Primary Surplus at Debt-to-GDP ratio of 150 Percent
(In Percent)

Growth	Nominal Interest Rates				
	12.00	17.00	20.00	25.00	30.00
	Inflation				
	7.00	7.00	7.00	7.00	7.00
0.00	7.60	14.00	18.20	25.20	32.20
1.00	6.00	12.40	16.60	23.50	30.40
2.00	4.50	10.80	14.90	21.80	28.70
3.00	3.00	9.20	13.30	20.10	26.90
4.00	1.50	7.70	11.80	18.50	25.20
	Memorandum items				
Real interest rate	5.00	9.30	12.10	16.80	21.50

Source: Fund staff calculations.

Table 11. Jamaica: Medium-Term Projections Under Alternative Scenarios

	2001/02	2002/03 Prel.	2003/04 Proj.	2004/05 Proj.	2005/06 Proj.	2006/07 Proj.	2007/08 Proj.
Scenario I. Baseline scenario							
Real GDP growth	1.1	1.7	2.2	1.9	1.6	1.6	1.6
CPI, eop	7.6	7.0	7.0	7.0	7.0	7.0	7.0
Real depreciation (vs. US\$)	-1.3	12.3	1.0	1.0	1.0	1.0	1.0
Domestic interest rates (avg.)	16.0	17.0	18.9	16.0	16.0	16.0	16.0
Central government balance	-5.7	-8.0	-9.3	-7.3	-5.8	-4.4	-3.8
Central government primary balance	8.0	7.7	10.8	11.2	11.7	11.7	11.7
Debt to GDP 1/	130.6	148.5	152.4	149.9	148.0	144.8	141.4
Interest expenditure (in percent of GDP)	13.7	15.7	20.1	18.5	17.5	16.1	15.5
Interest expenditure/revenue	49.7	53.0	62.6	57.0	53.1	48.8	47.0
Current account deficit to GDP	9.5	12.5	11.5	9.9	7.8	6.8	7.6
Scenario II. Illustrative: Very strong fiscal adjustment (as publicly announced), growth-oriented policies							
Real GDP growth	1.1	1.7	2.7	3.5	3.5	3.5	3.5
CPI, eop	7.6	7.0	8.0	8.0	8.0	8.0	8.0
Real depreciation (vs. US\$)	-1.3	12.3	2.0	2.0	2.0	2.0	2.0
Domestic interest rates (avg.)	16.0	17.0	17.6	15.0	15.0	15.0	15.0
Central government balance	-5.7	-8.0	-6.0	-3.0	0.0	1.2	2.4
Central government primary balance	8.0	7.7	12.2	13.7	15.1	14.2	14.2
Debt to GDP 1/	130.6	148.5	150.4	143.2	133.1	125.6	117.6
Interest expenditure (in percent of GDP)	13.7	15.7	18.2	16.7	15.1	13.1	11.8
Interest expenditure/revenue	49.7	53.0	54.5	50.0	44.9	42.5	38.4
Current account deficit to GDP	9.5	12.5	11.3	9.8	8.4	8.2	9.7
Scenario III. Worse case scenario (higher deficit, lower growth, and higher interest rates)							
Real GDP growth	1.1	1.7	-1.9	-0.4	0.7	0.8	0.9
CPI, eop	7.6	7.0	9.0	9.0	9.0	9.0	9.0
Real depreciation (vs. US\$)	-1.3	12.3	3.0	3.0	3.0	3.0	3.0
Domestic interest rates (avg.)	16.0	17.0	18.0	18.0	18.0	18.0	18.0
Central government balance	-5.7	-8.0	-12.8	-14.7	-15.6	-15.7	-16.3
Central government primary balance	8.0	7.7	7.7	7.7	8.1	8.6	9.0
Debt to GDP 1/	130.6	148.5	159.7	169.0	175.9	181.8	187.8
Interest expenditure (in percent of GDP)	13.7	15.7	20.5	22.4	23.7	24.4	25.3
Interest expenditure/revenue	49.7	53.0	69.2	75.6	78.7	79.6	81.7
Current account deficit to GDP	9.5	12.5	12.9	12.1	10.3	9.7	10.8

Source: Fund staff estimates and projections.

1/ The figures have made no allowance for any increase in debt resulting from efforts to strengthen the balance sheet of the Bank of Jamaica.

Table 12. Jamaica: Indicators of Macroeconomic and Liquidity Risks
(In millions of Jamaican dollars)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	Proj. 2002/03	Proj. 2003/04
I. Reserve-Related Indicators								
Gross Reserves/Short Term External Debt 1/	1.46	1.40	1.02	1.54	2.19	2.10	2.51	1.84
Net Reserves/Short Term External Debt 1/	1.16	1.14	0.84	1.35	2.02	2.03	2.42	1.79
Gross Reserves/Imports 2/	10.4	9.7	9.3	10.3	16.1	23.7	15.1	11.5
Net Reserves/Imports 2/	8.3	7.9	7.7	9.0	14.9	22.9	14.6	11.2
Gross Reserves/Money supply 3/	0.41	0.37	0.33	0.37	0.62	0.91	0.66	0.47
Net Reserves/Money supply 3/	0.33	0.30	0.27	0.32	0.57	0.88	0.64	0.45
Gross Reserves/Monetary Base	0.97	0.82	0.85	1.12	2.06	3.24	2.39	1.64
Net Reserves/Monetary Base	0.77	0.67	0.70	0.98	1.90	3.13	2.31	1.59
Gross Reserves/Short Term Liabilities 4/	0.44	0.33	0.29	0.39	0.55	0.58	0.56	0.43
Net Reserves/Short Term Liabilities 4/	0.35	0.27	0.24	0.34	0.50	0.56	0.54	0.42
II. Debt-Related Indicators								
External Debt/GDP	46.5	45.6	42.6	42.0	47.9	51.7	53.4	53.4
Average Interest Rate on External Debt	4.8	5.4	5.4	5.7	6.7	7.1	8.4	8.5
<i>Memorandum items:</i>								
Gross Official International Reserves	28,556	26,632	26,255	34,054	62,647	97,834	77,616	60,999
Net International Reserves	22,697	21,720	21,807	29,899	57,883	94,734	75,104	59,263
Short Term External Debt 1/	19,540	19,031	25,853	22,120	28,651	46,588	30,979	33,126
Monetary base	29,513	32,293	31,004	30,448	30,479	30,221	32,500	37,182
Money supply (M2) 3/	69,515	71,278	79,733	92,844	101,096	107,834	118,043	130,520
Short-Term Liabilities 4/	65,230	81,566	91,266	87,713	114,791	169,237	139,050	142,101

Source: Bank of Jamaica, and Fund staff estimates and projections.

1/ External debt due within a year, including debt service of medium-and long-term loans.

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

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

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

Table 13. Jamaica: Selected Vulnerability Indicators

	2000/01	2001/02	2002/03 1/
Key Economic and Market Indicators			
Real GDP growth (in percent)	1.10	1.10	1.70
CPI inflation (period average, in percent)	7.70	8.00	6.50
Short-term (ST) interest rate (in percent)	16.90	14.30	33.40
EMBI secondary market spread (bps, end of period)	...	550.00	800.00
Exchange rate NC/US\$ (end of period)	45.68	47.50	56.07
External Sector			
Exchange rate regime	Managed float	Managed float	Managed float
Current account balance (percent of GDP)	-5.65	-9.5	-12.50
Net FDI inflows (percent of GDP)	6.97	5.7	4.65
Export growth (US\$ value, GNFS)	3.98	-8.3	-0.12
Real effective exchange rate (1995 = 100)	129.40	134.4	131.50
Gross international reserves (GIR) in US\$billion	1,368	2,005	1,384
GIR in percent of ST debt at remaining maturity	2.19	2.10	2.51
Net international reserves (NIR) in US\$billion	1,286	1,942	1,340
Total gross external debt in percent of GDP	48.30	51.69	53.40
<i>of which</i> 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	101.81	126.70	140.06
Gross external financing requirement (in US\$ billion)	0.78	1.00	0.49
Public Sector 2/			
Overall balance (percent of GDP)	-5.60	-6.80	-9.30
Primary balance (percent of GDP)	12.20	8.60	8.90
Debt-stabilizing primary balance (percent of GDP) 3/	7.29	7.33	8.50
Gross public sector financing requirement (in percent of GDP)	19.30	30.17	30.73
Public sector gross debt (PSGD, in percent of GDP)	131.87	130.57	148.53
<i>of which</i> External debt from official creditors (in percent of total PSGD)	27.36	26.88	27.87
External debt from private creditors (in percent of total PSGD)	16.11	12.71	11.12
Domestic debt linked to foreign currency (in percent of total PSGD)	...	6.50	7.00
Domestic debt at variable interest rate or indexed to inflation (in percent of total PSGD)	...	...	...
Public sector net debt (in percent of GDP)	...	...	...
Financial Sector 4/			
Capital adequacy ratio (in percent)	21.70	19.60	15.10
NPLs in percent of total loans	9.60	6.80	4.60
Provisions in percent of NPLs	116.80	122.10	114.70
Return on average assets (in percent)	0.40	0.70	0.60
FX deposits (in percent of total deposits)	23.99	25.98	26.13
FX deposits (in percent of gross international reserves)	52.86	40.54	54.37
FX loans (in percent of total loans)	21.45	27.60	28.80
Net open forex position (sum of on- and off- balance sheet exposure) (in percent of capital)	...	...	...
Ratio of gross notional off-balance sheet exposure to capital	...	...	...

1/ Projections, unless indicated otherwise.

2/ Includes central government and non-financial public enterprises

3/ Based on averages over the last 5 years for the relevant variables (i.e., growth and interest rates).

4/ 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.

JAMAICA: FUND RELATIONS
(As of March 31, 2003)

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	290.96	106.38
III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	40.61	100.00
Holdings	0.33	0.82
IV. Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Extended arrangement	14.54	5.32

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				
	2003	2004	2005	2006	2007
Principal	8.56	5.40	0.58		
Charges/interest	0.76	0.81	0.71	0.71	0.71
Total	9.32	6.20	1.30	0.71	0.71

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 and at

March 31 it was trading at around J\$56 to the US 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 January 2002-February 2003, 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 August 7, 2002 (SM/02/24, EBS/02/134). In July 2002, the Jamaican authorities requested a staff-monitored program (SMP) (EBS/02/134) 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
TBA		National accounts

X. Resident Representative:

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

JAMAICA—STATISTICAL ISSUES

National accounts

There are significant weaknesses in the national accounts and other real sector data. National accounts in constant prices have an outdated base year (1986). The September 1996 multisector statistics mission determined that improvements to the timeliness and quality of the data will depend on the availability of adequate resources. Efforts are being made to improve national accounts data including updating the base year. The first publication of quarterly national accounts was issued in August 2002. Assistance on national accounts methodology was provided by Statistics Canada, and by a STA technical assistance mission in June 2001.

Prices

Outdated weights, derived from a household expenditure survey carried out in 1984 and based January 1988, underlying the published consumer price index (CPI), need to be updated. Recently, the compilation of the CPI has been revised to reflect the 1996 household expenditure survey and a more current index with a base of January 1998 is under preparation.

Production

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

Government finance statistics

The 1996 multisector mission worked with the authorities to compile quarterly data and took steps to reestablish the compilation of data for the *GFSY*.

A GFS mission that was scheduled in the last quarter of the 1998 was postponed until the authorities had (1) shown evidence that they had taken significant steps to implement the 1996 mission recommendations; (2) indicated that they wish to compile adequate and consistent fiscal data and had sought Fund assistance in developing these fiscal data; and (3) collected a list of all accounts covering central government budgetary operations.

In 2000, Jamaica's GFS correspondent attended the GFS training course in Washington D.C. and in the following year, the authorities reported data on the operations of the consolidated central government and debt back to 1991, and now up to 2001, for publication in the *Government Finance Statistics Yearbook (GFSY)*. The components of consolidated central government expenditures by functions have also been reported to STA and published. Although the breakdown of financing data by type of debt holder and by instruments have been provided by the authorities, the inconsistency of the data with the overall

deficit/surplus measures has prevented their publication in *GFSY*. No fiscal data have been reported for publication in *IFS*.

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. The September 1996 multisector statistics mission assisted the authorities in updating the classification and sectorization of the accounts of the BOJ and recommended that the BOJ expand the institutional coverage of its banking survey to include merchant banks and building societies. The mission also recommended the collection and compilation of quarterly statistics for credit unions and insurance companies, as these have become increasingly involved in banking activities in recent years. An extensive series on the assets and liabilities of credit unions is now published and there are plans to include data on Financial Institutions' Act licensees (merchant banks) and building societies in the expanded coverage of the published monetary survey. The classification and structure of public entities need to be updated regularly to avoid mixing indistinguishably the central government's accounts with positions of public enterprises and to exclude those entities that are no longer in the public sector in the monetary accounts of the BOJ and commercial banks. Currently, information for deposit money banks and monetary authorities is being reported on a regular basis.

Balance of payments

The September 1996 multisector mission recommended that trade data compiled by the Statistical Institute of Jamaica (STATIN) be improved by treating the free zone companies as residents of Jamaica and that balance of payments data compiled by the BOJ fully incorporate their external trade, direct investment inflows, and repatriations of profits and capital in Jamaica's balance of payments. Also, coverage of other capital inflows should be expanded by introducing a comprehensive survey of direct investment companies. The mission also recommended that estimates of service transactions and private transfers be improved by tightening the banks' procedures for classifying foreign exchange transactions in the exchange record reported to the BOJ and by improving rates of response to various surveys conducted by the BOJ. The latter may be achievable only if the BOJ is granted the legal authority to conduct surveys for balance of payments statistics purposes and granted the power necessary to enforce a high level of compliance. Special efforts have been made to enhance the quality of data on foreign direct investment, including technical assistance from the World Bank and the IFC. The rate of response to surveys for the compilation of the balance of payments report improved somewhat but improvement is needed with respect to embassies, airlines, shipping companies, and computer services. At present Jamaica does not collect International Investment Position (IIP) data. The BOJ reports to STA annual balance of payments data for publication in the *Balance of Payments Statistics Yearbook (BOPSY)* and the *IFS*. 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 May 7, 2003

	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	03/07/03	03/07/03	02/28/03	03/07/03	02/28/03	02/28/03	02/28/03	9/02	6/02	12/02	2001	12/02
Date received	03/31/03	03/31/03	03/31/03	03/31/03	03/31/03	03/31/03	03/13/03	01/10/03	01/10/03	02/15/03	05/30/02	02/15/03
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
I. Statement of World Bank Loans as of April 13, 2003

Project ID	Project Name	Borrower	Approval in Fiscal Year	IBRD	IDA	Cancel.	Undisb.
P007490	Public Sector Modernization	Jamaica	1997	28.4	0	0	5.5
P067774	Social Safety Net	Jamaica	2002	40.0	0	0	38.6
P074641	HIV/AIDS Prevention and Control	Jamaica	2002	15.0	0	0	14.3
P076837	National Community Development	Jamaica	2003	15.0	0	0	15.0
P071589	Reform of Secondary Education II	Jamaica	2003	39.8	0	0	39.4
P073756	Bank Restructuring and Debt Management Program II	Jamaica	2003	75.0	0	0	0.0
Total				213.2	0	0	112.8

Loans/Credits Summary in USD as of March 31, 2002

Total disbursed (IBRD)	1,447,446,543
<i>Of which has been repaid:</i>	950,074,696
Total now held by IBRD	488,189,860

II. Statement of IFC's Committed and Disbursed Portfolio Investments
As of March 2003

(In millions of U.S. dollars)

FY Approval	Institution	Loan IFC held	Equity IFC held	All Part held	Loan IFC Disb	Equity IFC Disb	All Part Disb
1995/1997	Jamaica Energy Partners	12.23	0.00	26.98	12.23	0.00	26.98
2002	MBJA Limited	20.00	0.00	25.00	0.00	0.00	0.00
2001/2002	Mossel	42.00	8.00	5.78	42.00	8.00	5.78
Total Portfolio		74.23	8.00	57.76	54.23	8.00	32.76

III. World Bank Assistance Strategy

On October 24, 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 ongoing and planned analytical work program—study on Growth and Competitiveness, a Public Expenditure and Institutional Review and a Rural Development Strategy—is 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: STRUCTURAL MEASURES

POLICY AREA	OBJECTIVES	RECENT ACTIONS AND PLANNED POLICY MEASURES April 1, 2002 – March 31, 2004
<p><i>Public Sector Efficiency and Governance</i></p>	<p>(a) Improve governance and accountability of public enterprises</p> <p>(b) Accelerate efficient private participation in infrastructure (PPI)</p> <p>(c) Rationalize the structure of Government agencies so as to improve both effectiveness and efficiency</p> <p>(d) Improve financial management within the Government</p> <p>(e) Further strengthen public sector procurement in accordance with the recommendations of the agreed CPAR Action Plan</p>	<ul style="list-style-type: none"> - It is planned to continue to enforce provisions of the Public Bodies Management Act and undertake efforts to harmonize the Act with related legislation. - A US\$200 million concession contract has been awarded to a public-private concessionaire for Sangster International Airport, and financial closure is expected to be reached in early 2003. It is planned to continue efforts to implement agreements for Kingston port and complete agreements for PPI for Montego Bay Port and Norman Manley Airport. - The <i>Jamaica Information Service</i> has been restructured into a dedicated and coordinated single news service for Government communications; the <i>National Environmental and Planning Agency</i> was created in April 2001 as a single executive agency for environmental issues; an action plan has been prepared to rationalize the structure of the <i>Statistical Institute of Jamaica</i>; and the Project Analysis and Monitoring Company was formally reintegrated with the Ministry of Finance and Planning in November 2002. It is planned to strengthen regulatory capacity of the Office of Utility Regulation and the Civil Aviation Authority to monitor increased private participation in infrastructure. - The <i>Financial Management Information System</i> was transferred to the Fiscal Services Ltd and will also need to be modernized. It is planned to review, develop an action plan for implementing, and implement recommendations of the studies conducted under the Public Sector Management and the Public Sector Restructuring Projects regarding the closure, merger, restructuring and/or re-engineering of the remaining entities covered by the studies. - Efforts have been made to support the Government's transition from a cash-based to an accrual accounting system. With the continuing objective of strengthening the financial management and accounting capabilities of the GOJ, it is planned to implement measures including: (i) moving the entire Central Government to accrual accounting by providing adequate funds to the public expenditure department to implement a stronger financial management system capable of accrual accounting; (ii) provide staff training in accrual accounting and reporting throughout Central Government; and (iii) provide staff training to the Auditor General Office in computer-assisted audit techniques, value-for-money audits, and procedures for using ACL software. - Cabinet has approved the Procurement Policy Paper prepared by the Ministry of Finance and Planning to update the existing legal and regulatory framework for public sector procurement - It is planned to agree on an Action Plan for further improvement of the Government procurement system (as per NCC Handbook) and start implementation immediately thereafter. Adequate funding for implementation of the Action Plan to be provided by Government

JAMAICA: STRUCTURAL MEASURES

POLICY AREA	OBJECTIVES	RECENT ACTIONS AND PLANNED POLICY MEASURES April 1, 2002 – March 31, 2004
<i>Financial Sector</i>	(a) Further improve transparency, accountability and financial health of bank and non-bank financial institutions to strengthen the financial sector	<ul style="list-style-type: none"> - It is planned to complete the legislative process for tabling in Parliament amendments needed to Jamaica's statutes in order to address tax evasion and the financing of terrorist activities in compliance with United Nations Security Council Resolutions 1373 and 1377, including issuing of drafting instructions by Cabinet to the Chief Parliamentary Counsel, submission to the relevant legislative committee and final Cabinet approval - Considerable progress has been made in the enforcement of the Money Laundering Act, in addition, the Financial Crimes Unit is being merged with the Office of Revenue Protection. - . The ability of prosecutors has been improved through the provision of technical assistance and training through the Caribbean Anti-Money Laundering Program. It is planned to strengthen Bank of Jamaica's capacity and issue Guidelines in relation to the revised Money Laundering Act. - The overall financial sector reforms undertaken by the Government and supported under the World Bank's second Bank Restructuring and Debt Management Program Adjustment Loan (BRDP II) were satisfactorily implemented. Reforms included resolution of intervened financial institutions, strengthening of the legal, supervisory, and regulatory framework for bank and non-bank financial institutions, and improvement of the environment for bank lending to the private sector

JAMAICA: STRUCTURAL MEASURES

POLICY AREA	OBJECTIVES	RECENT ACTIONS AND PLANNED POLICY MEASURES April 1, 2002 – March 31, 2004
<i>Social Sectors</i>	<p>(a) Protect the most vulnerable population groups from catastrophic income loss via safety nets</p> <p>(b) Address high unemployment through increased labor market flexibility, and improved protection for the unemployed.</p> <p>(c) Maintain basic health care services and mount a more intensive effort to combat HIV/AIDS</p> <p>(d) Maintain efficiency and outcomes in education</p>	<ul style="list-style-type: none"> - The Government has continued its efforts to consolidate and rationalize existing programs. Under the Program of Advancement for Health and Education, it has increased the provision of monthly conditional cash transfers (CCT) for health, education, and social security benefits in March 2002 and is on track for agreed further increases in FY2003 and FY2004. In addition, the pilot efforts in St. Catherine Parish were scheduled to be scaled up nationally in December 2002, thereby increasing the beneficiaries to about 236,000. - “White paper” on more flexible work arrangements has been drafted and is under review by the Parliament’s Legislative Committee. In March 2002, amendments were made to the Labor Relations and Industrial Disputes Act to increase protection for workers. - It is planned to implement pilot electronic labor exchange - Government’s efforts have resulted in a reduction of the cost of key anti-retroviral drugs by about 85%. The Government is also actively working with the private sector and representatives from civil society to extend the treatment of AIDS. It is planned to continue to provide adequate funding to implement approved HIV/AIDS Strategy. - The Government continues to subsidize the cost of taking examinations in basic subjects. - Fiscal year 2002/03 non-salary recurrent expenditures for basic education have increased by 6.6 percent in real terms. - Education sector reform and efficiency are being implemented through the Bank’s recently-approved Second Reform of Secondary Education (ROSE II) project. It is planned to continue to fund the expansion of higher secondary education with a view towards ensuring universal access to lower and higher secondary education by 2007. - The Government has provided textbooks to all students, including the 20 percent who do not pay education fees. It is planned to continue to ensure adequate access to textbooks for all lower secondary school students.

Jamaica: Relations with the Inter-American Development Bank

Jamaica joined the Inter-American Development Bank (IDB) in 1969. Since then, the IDB has approved 90 loans to Jamaica amounting to US\$1.4 billion and 154 technical cooperation operations totaling \$52 million. Four loans were approved in 2002, amounting to \$34 million. The largest loan approved in 2001 was for \$60 million for reform of the social safety nets. The loans approved in 2002 were from the Emergency Facility in response to the flood damage suffered as a result of storms, and for operations in the areas of information and communication technology and national irrigation. There were nine technical cooperation projects approved in 2002 amounting to \$3 million.

The number of loans that have been approved but not completely disbursed at this time is 19, including two loans totaling \$8 million, which are being administered by the Bank on behalf of OPEC. The total value of these loans is \$345.9 million, of which \$81.5 million (23.6 percent) have been disbursed. There are 22 TCs in execution amounting to \$9.2 million.

IDB financial assistance has supported infrastructural and social sector projects with a view to enhancing Jamaica's human resource and absorptive capacity and strengthening the foundation for private sector-led growth. In addition, the IDB has supported reforms aimed at strengthening the institutional and regulatory environment. Other areas of IDB assistance include infrastructure, production and business activity.

**Jamaica: Relations with the Caribbean Development Bank
(as at December 31, 2002)**

The CDB has approved loans of US\$335.4 million, of which US\$75.1 are undisbursed.

The major projects undisbursed are:

Item	Approved	Undisbursed
	US\$ million	
Enhancement of Basic Schools	13.4	13.2
Jamaica Financial Sector Reform	30.0	4.5
Jamaica Social Investment Fund	14.1	6.1
Citrus Replanting	9.9	9.1
Irrigation Development	8.1	8.1
Emergency Works	25.0	20.2
Rehabilitation of Flood Damage	10.5	10.5

**Current Portfolio
(in millions of US\$)**

Item	Approved	Undisbursed
Total	335.4	75.1
Lines of Credit	69.28	0
Multi-sector	80.47	10.66
Transportation and Communications	15.59	0
Power, Energy and Water	14.11	0.11
Disaster Rehab	61.00	31.20
Productive Sectors	77.59	19.14
Social Services	17.39	13.96

**Loan Disbursements
(in million of US\$)**

Item	1997	1998	1999	2000	2001	2002
Net Disbursement	-3.8	1.3	9.0	13.4	5.7	14.0
Disbursement	6.2	9.9	18.5	20.2	13.1	24.2
Amortization	10.0	8.6	9.5	6.8	7.4	10.2
Interest and Charges	5.2	4.2	5.6	5.0	6.5	5.9
Net Resource Flow	-9.0	-2.9	3.4	8.4	-0.8	8.1
Outstanding Debt	83.5	83.2	92.8	104.2	109.3	123.9

Box 1. Jamaica—Review of Performance under the Staff-Monitored Program (SMP)

Under the SMP covering FY 2000/01 and 2001/02, progress was made toward achieving the policy goals of improving public sector finances and reinvigorating growth. However, achievements were impeded by shocks as well as fiscal slippages in FY 2001/02. While positive growth emerged in 2000/01, the economy was hit by a series of shocks in FY 2001/02. Public finances were strengthened in FY 2000/01, but they deteriorated in FY 2001/02 due to lower revenues and higher wage expenditures and expenditures related to floods and tourism promotion as a result of shocks. The government successfully divested assets of intervened financial institutions, strengthened supervisory framework of the financial sector, and privatized some large public enterprises, but limited progress was made in improving labor market flexibility and public sector management. While low inflation was maintained in both years, interest rates continued to be high. Rather than significantly declining as anticipated under the SMP, the public to GDP ratio stabilized in FY 2000/01 and declined only modestly in FY 2001/02.

The FY2002/03 SMP did not achieve its goals as a result of fiscal policy overruns and negative shocks.

The policy goals were to consolidate the achievements (low inflation and macroeconomic stability) of the previous SMP; to strengthen the fiscal position thereby reducing the high debt level; to lay the foundation for higher growth; and to signal to Jamaica's development partners (including multilateral development banks) and international capital markets that the country was pursuing credible policies. The fiscal overruns reflected higher expenditures (see below); the economy was also adversely affected by the global slowdown and reluctance to travel post September 11, 2001. The deterioration in the fiscal position led S&P to change Jamaica's ratings from stable to negative in December 2002, causing further instability in the foreign exchange market.

The program for FY 2002/03 was broadly on track over the period April–July, but the July–September fiscal targets were missed by large margins. For the first six months of the fiscal year, the central government deficit target at 6½ percent of GDP was missed by 1½ percent of GDP, and the primary surplus target by around 2 percent of GDP. NIR at end-September were US\$1.7 billion, US\$100 million less than the SMP target of US\$1.8 billion (Table 2).

The fiscal position deteriorated further during the second half of the fiscal year. The tax measures were largely unimplemented and expenditures increased further than budgeted. The government presented a supplementary budget to parliament on December 17, which projected a central government fiscal deficit for FY2002/03 of around 9 percent of GDP compared with the SMP target of 4.4 percent of GDP. In the event, the deficit is estimated at 8 percent of GDP. Since the impact of lower taxes was offset by high non-tax revenues reflecting repayment of loans and transfers from public entities, the outturn reflects exclusively higher expenditures as follows (see table):

- Higher wage expenditures (1.8 percent of GDP higher than programmed). The excess is due largely to a higher-than-programmed adjustment in wage rates (e.g., due to reclassifications of civil service groups) and retroactive payments. A government decision to reinstate previously laid-off prison officers contributed to higher expenditures. Higher non-wage recurrent expenditures (1.8 percent of GDP). Delays in implementing property tax related measures (whose proceeds go to local governments) necessitated unbudgeted transfers to local governments.
- Higher pension expenditures, payment of arrears to the health insurance plan for government employees, and expenditures on police and security associated with elections, and flood-related expenditures also contributed to higher than budgeted expenditures.
- Higher interest expenditures (1 percent of GDP). Higher interest rates (than assumed in the budget) and higher financing needs contributed to higher interest expenditures.

Other SMP targets were also missed. NIR at March 31, 2003 were US\$1.3 billion—US\$300 million below the SMP target. The short fall was the result of non-receipt of international bond proceeds, of divestment proceeds, and of revenue from the sale of a telecommunications license. At the end of March 2003, net domestic assets of the central bank stood at J\$-35.6 billion compared with the indicative target of J\$-45.4 billion.

Little progress was made on structural reforms. The implementation of plans to restructure public enterprises has been delayed, and the legislative process to introduce a flexible workweek stalled because of strong resistance from religious groups. However, the bipartisan initiative on crime prevention has begun to be implemented.

Table. Central Government Operations (in percent of GDP)

	SMP FY 02/03	Proj. FY 02/03	Difference
Revenues and grants	29.6	29.2	0.4
Tax	26.4	27.2	-0.8
Non-tax	2.9	1.8	1.2
Grants	0.2	0.2	0.0
Expenditures	37.6	33.6	4.0
Wages and salaries	13.0	11.2	1.8
Interest	15.7	14.8	0.9
Domestic	11.8	10.6	1.2
External	3.8	4.2	-0.4
Other expenditures	6.9	5.1	1.8
Capital expenditures	2.0	2.5	-0.5
Central government balance	-8.0	-4.4	-3.6
Central government primary balance	7.7	10.4	-2.8

Source: Ministry of Finance.

Jamaica: Public Sector Debt Sustainability Analysis

This note summarizes the sustainability analysis for Jamaica's non-financial public sector debt. The main findings are shown in the attached table.

The sensitivity analysis shows that the debt dynamics in Jamaica is very susceptible to adverse shocks. Given the very high level of debt, high interest rates, and relatively low growth, the primary surplus has to be kept at very high levels to stabilize and reduce the debt-to-GDP ratio in the medium term. Given the significant proportion of foreign currency debt (external plus domestically held foreign currency indexed debt) in the total debt stock (close to 50 percent at end 2002/03), large exchange rate depreciations would drastically increase the debt to GDP ratio.

The staff's baseline scenario assumes that in the medium term, growth will be maintained at around 1½ percent, reflecting mainly growth in key sectors such as tourism and mining at a pace consistent with the growth of the world economy. It also assumes that the central government primary surplus is maintained at around 10-11 percent of GDP during this period, while inflation is kept at 7 percent. Real interest rates will decline modestly as public sector balances improve. Under this stress test, it is expected that total debt will decline from about 148½ percent of GDP in 2002/03 to around 141½ percent of GDP by 2007/08 (Table I, Annex I).

A variety of sensitivity analyses where key variables, separately or together, are worse than assumed in the baseline scenario are conducted. It is clear that if growth rate, interest rate, primary surplus, and the GDP deflator (inflation) are at previous five years' average, the debt to GDP ratio will increase persistently, as the primary surplus is not large enough to stabilize it (stress test 1).

Under stress tests 2, 3, 4, and 5, where interest rate, real GDP growth, inflation, and primary surplus are at historical averages (with two standard deviations) in the first two years of projection respectively, the debt-to-GDP ratio increases in the first one or two years with the onset of the shocks but either barely increases (stress test 2) or declines in the following years (stress test 3, 4, and 5)—mainly contributed by high primary surpluses. However, in all cases, the debt-to-GDP ratio by 2007/08 is higher than attained under the baseline scenario. Under the stress test where key variables—primary surplus, growth rate, interest rate, and inflation are at historical averages with one standard deviation for the first two years but revert to baseline levels after that, the debt-to-GDP ratio would reach close to 190 percent (stress test 6).

Under the stress test that a 30 percent nominal depreciation occurs in 2003/04, the depreciation would cause the debt-to-GDP ratio to jump to above 240 percent of GDP by the end of 2003/04 (stress test 8), and eventually increase to about 260 percent of GDP by the end of 2007/08, which is substantially higher than the level at end 2002/03. With an increase of debt to GDP in 2003/04 (by 10 percent), debt to GDP will increase initially but will

gradually decline not over the medium term if all other variables are kept at baseline levels (stress test 9).

External Debt Sustainability Analysis

Jamaica's external debt stock at US\$4.18 billion has grown by roughly US\$1 billion in the three years since FY 1999/00, returning to levels last seen at the beginning of the 1990s. The expansion in external debt levels reflects the authorities' debt management strategy, raised funds from international capital markets rather than remaining reliant on domestic borrowing.

Jamaica first issued debt on the international capital markets in FY1996/7. Jamaica continued to access capital markets in each of the last 7 years. Commercially issued bonds now account for US\$1.6 billion or 39 per cent of total external debt. Jamaica has six bonds outstanding with an average maturity of roughly 8¾ years, with the next repayment not due until August 2004.

The stress tests in Tables 2 and 3 show debt growing significantly in most cases and confirm that Jamaica's external debt dynamics remain vulnerable to external shocks.¹ The exception to this is stress test 1 where historical average rates are applied for growth and interest rates for the medium term. When compared with present levels, this represents an improvement in economic conditions for most variables, as Jamaica's current account position began to worsen only in the last two years. Stress tests 3 and 5 both portray the impact of a worsening of the trade sector on debt. As the current account deteriorates, increased borrowing by the authorities from international capital markets is required to prevent a rapid run down in net international reserves (NIR). The one off 30 percent depreciation of stress test 7 serves to magnify the weakness of the Jamaican traded sector. Exports, tourism, bauxite and to a lesser extent banana and sugar are traded on world markets and are priced in U.S. dollars (for exports of agricultural products to the EU the euro). A sharp depreciation may improve profitability in these sectors, assuming pass through effects are limited, but is unlikely to lead to a significant increase in demand as dollar prices do not change. Jamaica's import demand is price inelastic—leading to a widening of the current account, requiring additional financing from international capital markets to close the gap which further expands the external debt stock.

¹ The stress tests have been run using 5-year rather than 10-year averages to make allowance for the significant changes that the Jamaican economy has undergone in recent years.

Table A1. Jamaica: Public Sector Debt Sustainability Framework

	Actual	Prel.	Projection				
	t-2	t-1	t	t+1	t+2	t+3	t+4
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
I. Baseline Medium-Term Projections							
Public debt/Revenue	473.3	501.4	453.9	510.1	495.3	477.2	466.0
Debt service/GDP	38.2	38.4	43.4	37.1	36.4	31.4	30.3
Public debt/GDP	130.6	148.5	152.4	149.9	148.0	144.8	141.4
Change in public debt/GDP	-2.1	18.0	3.9	-2.5	-1.9	-3.2	-2.2
Net debt-creating flows/GDP (lines 5+8-11)	-3.4	2.8	2.1	-1.9	-1.8	-2.0	-2.2
Overall deficit, excluding net interest payments/GDP (=primary deficit)	-8.0	-7.7	-10.8	-11.2	-11.7	-11.7	-11.7
Minus net non-debt creating inflows/GDP	-1.9	0.0	0.0	0.0	0.0	0.0	0.0
Unrequited grants/GDP							
Privatization Receipts/GDP	1.9	0.0	0.0	0.0	0.0	0.0	0.0
$(r-g-(\pi+g\pi))/(1+g-\pi-g\pi)$ debt/GDP (lines 13/12)	6.6	10.5	12.8	9.3	9.9	9.7	9.6
Adjustment factor: $1+g+\pi-g\pi$	1.1	1.1	1.1	1.1	1.1	1.1	1.1
$(r-g-(\pi-g\pi))$ debt/GDP (lines 14+15+16)	7.3	11.4	14.0	10.2	10.7	10.6	10.4
r (interest rate) times debt/GDP	21.2	22.2	28.0	23.9	23.8	23.5	23.0
minus g (real GDP growth rate) times debt/GDP	-1.5	-2.2	-3.3	-2.9	-2.4	-2.4	-2.3
minus $(\pi + g\pi)$ (π = GDP deflator, growth rate) times debt/GDP	-12.5	-8.6	-10.6	-10.9	-10.7	-10.5	-10.3
Residual, incl. change in assets (e.g. government deposits)/GDP (lines 3-4)	1.2	15.1	1.8	-0.6	-0.1	-1.2	0.0
Memorandum Items: Key macro and external assumptions							
Nominal GDP (local currency)	371,803	396,097	433,293	472,375	513,682	558,469	607,009
Real GDP growth (in percent per year)	1.1	1.7	2.2	1.9	1.6	1.6	1.6
Consumer price index (change, in percent per year)	7.6	6.5	7.0	7.0	7.0	7.0	7.0
Domestic Interest Rate (percent per year)	15.8	17.0	18.9	16.0	16.0	16.0	16.0
Nominal GDP deflator (in local currency, change in percent per year)	9.3	6.5	7.0	7.0	7.0	7.0	7.0
Average interest rate on government debt (percent per year)	16.0	17.0	18.9	15.7	15.9	15.9	15.9
Growth of revenues (deflated by GDP deflator, in percent per year)	-7.1	7.4	15.9	-10.8	3.3	3.2	3.2
Growth of expenditure (deflated by GDP deflator, in percent per year)	8.7	2.4	18.6	-2.4	-1.9	-0.9	-0.9
II. Sensitivity Analysis for Public Debt-to-GDP Ratio							
1. If interest rate, real GDP growth rate, primary balance and non-debt flows (in percent of GDP) are at average of past 5 years		148.5	160.1	171.0	183.7	197.2	212.7
2. If interest rate in year t and t+1 is average plus two standard deviations, others at baseline		148.5	163.8	179.9	180.2	179.9	180.0
3. If real GDP growth rate in year t and t+1 is average minus two standard deviations, others at baseline		148.5	157.7	160.2	159.2	157.5	156.2
4. If GDP deflator growth in year t is average minus two standard deviations, others at baseline		148.5	154.5	154.0	152.7	150.6	148.8
5. If primary balance (in percent of GDP) in year t and t+1 is average minus one standard deviations, others at baseline		148.5	159.3	164.3	163.6	162.3	161.2
6. Combination of 2-5 using one standard deviation shocks		148.5	167.9	188.4	189.2	189.5	190.3
8. One time 30% (average of period) depreciation in year t, others, except primary balance, at baseline.		148.5	240.3	242.7	247.1	251.2	256.0
9. If debt ratio in year t rises by 10 percent of GDP, others at baseline		148.5	162.3	160.2	159.2	157.6	156.2
Memorandum Items							
Primary deficit (percent of GDP, average of past 5 years)		-8.5					
Primary deficit (percent of GDP, standard deviation of past 5 years)		2.3					
Interest rate (average of past 5 years)		20.5					
Interest rate (standard deviation of past 5 years)		3.4					
Real GDP growth rate (average of past 5 years)		0.6					
Real GDP growth rate (standard deviation of past 5 years)		0.8					
Inflation rate (average of past 5 years)		7.3					
Inflation rate (standard deviation of past 5 years)		0.9					

Table A2. Jamaica: External Debt Sustainability Framework, 1997-2007
(In percent of GDP, unless otherwise indicated)

	Actual	Projections					
	2001/02	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8
I. Baseline Medium-Term Projections							
1 External debt	51.3	54.5	55.6	60.3	64.4	67.8	73.6
2 Change in external debt	4.5	3.2	1.1	4.7	4.1	3.4	5.8
3 Identified external debt-creating flows (4+8+11)	1.6	6.8	9.6	2.8	1.7	0.5	1.1
4 Current account deficit, excluding interest payments	6.4	7.8	6.3	4.4	2.3	1.2	0.8
5 Deficit in balance of goods and services	15.5	19.9	19.1	18.3	17.2	16.9	16.9
6 Exports	40.9	42.8	43.7	45.1	46.7	47.8	48.8
7 Imports	56.4	62.7	62.8	63.4	63.9	64.7	65.7
8 Net non-debt creating capital inflows (negative)	-5.5	-4.6	-4.0	-4.2	-4.4	-4.6	-4.8
9 Net foreign direct investment, equity	5.5	4.6	4.0	4.2	4.4	4.6	4.8
10 Net portfolio investment, equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11 Automatic debt dynamics 1/	0.8	3.6	7.3	2.6	3.8	3.9	5.0
12 Contribution from nominal interest rate	3.1	4.0	5.3	5.2	5.4	5.5	6.7
13 Contribution from real GDP growth	-0.5	-0.9	-1.3	-1.0	-1.0	-1.0	-1.0
14 Contribution from price and exchange rate changes 2/	-1.9	0.5	3.3	-1.5	-0.6	-0.6	-0.6
14 Residual, incl. change in gross foreign assets (2-3)	2.9	-3.6	-8.6	1.8	2.3	2.9	4.7
External debt-to-exports ratio (in percent)	125.4	127.4	127.3	133.7	137.8	141.9	150.6
Gross external financing need (in billions of US dollars) 3/	1.5	2.3	1.4	1.7	1.6	1.0	1.6
in percent of GDP	18.9	30.5	18.7	21.3	20.2	13.0	19.4
Key Macroeconomic and External Assumptions							
Real GDP growth (in percent)	1.1	1.7	2.2	1.9	1.6	1.6	1.6
Exchange rate appreciation (US dollar value of local currency, change in percent)	-4.7	-6.9	-11.9	-3.9	-5.7	-5.7	-5.7
GDP deflator in US dollars (change in percent)	4.2	-0.9	-3.8	2.8	0.9	0.9	0.9
Nominal external interest rate (in percent)	7.1	7.8	9.3	9.7	9.1	8.7	10.2
Growth of exports (US dollar terms, in percent)	-8.3	-0.2	3.6	4.8	5.0	3.8	3.7
Growth of imports (US dollar terms, in percent)	2.1	6.1	1.6	2.5	2.3	2.6	3.1
II. Stress Tests for External Debt Ratio 4/							
1. Real GDP growth, nominal interest rate, dollar deflator, non-interest current account, and non-debt inflows are at historical	54.5	45.8	47.2	49.1	51.7	56.2	
2. Nominal interest rate is at historical average plus two standard deviations in 2003 and 2004	54.5	54.5	58.0	61.9	65.2	70.8	
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004	54.5	57.6	64.0	68.3	72.0	78.1	
4. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2003 and 2004	54.5	53.5	61.1	65.2	68.7	74.6	
5. Non-interest current account is at historical average minus two standard deviations in 2003 and 2004	54.5	56.6	64.2	68.5	72.2	78.3	
6. Combination of 2-5 using one standard deviation shocks	54.5	50.9	57.1	61.0	64.3	69.8	
7. One time 30 percent nominal depreciation in 2003	54.5	71.6	77.0	82.2	86.7	93.8	
Historical Statistics for Key Variables (past 5 years)							
		Average					
		2002-07					
Current account deficit, excluding interest payments		3.8					
Net non-debt creating capital inflows		4.4					
Nominal external interest rate (in percent)		9.1					
Real GDP growth (in percent)		1.8					
GDP deflator in US dollars (change in percent)		-0.2					

1/ Derived as $[r - g - \rho(1+g) + \alpha(1+\tau)] / (1+g+\rho+\tau)$ 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 α = share of domestic-currency denominated debt in total external debt.

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

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

4/ Historic averages are for the five year period 1997/8 to 2001/02 inclusive. A ten year average would be inappropriate for Jamaica given the financial crisis of the mid-1990s.

**Statement by the IMF Staff Representative
June 9, 2003**

1. The following developments have occurred since the staff report was issued. They do not affect the thrust of the staff appraisal.
2. Growth is estimated at 3½ percent in the first quarter of 2003, based on a recovery in agriculture and tourism. The same growth rate is projected for the second quarter of the year. Twelve monthly inflation in April rose to around 7½ percent (6 percent in March).
3. The government on May 18 announced some measures to try and stabilize the Jamaican dollar after it had come under significant pressure in early May. These included the possibility of Bank of Jamaica intervention, a US\$-linked domestic bond issue (with an effective annual return of around 16 percent)¹ at the time of issue, and a request to the private sector to avoid speculation. The exchange rate has since recovered from US\$1=J\$67 on May 16 to US\$1=J\$59 by June 5, 2003, still a decline of 16½ percent since January 1, 2003. Net international reserves declined to US\$1.23 billion at end-May from US\$1.34 billion at end-March 2003. Interest rates remain high with the 6-month T-bill rate over 30 percent per annum, and spreads on Government of Jamaica international bonds are currently around 950 basis points over U.S. Treasuries. In the staff's view, the announced measures are unlikely to have an enduring impact absent the determined implementation of fiscal restraint as envisaged in the FY 2003/04 budget.
4. Following representations by the private sector, the Finance Minister announced on May 20 replacement of the (tax deductible) 4 percent import cess by a 2 percent (non-deductible) import charge, yielding the same revenue. The staff notes that the incentives provided to broaden the tax base by the original import cess have been lost through the removal of its tax deductibility. Also the tax package was adjusted to extend the General Consumption Tax to gambling but not to a number of pharmaceutical drugs, medical aids, and agricultural inputs (as earlier proposed), with the result that the net yield increased by about J\$1 billion (0.23 percent of GDP).
5. The Jamaica Teachers Association in May reached a wage agreement under which they will receive a retroactive 3 percent increase for the six-month period April 2002 to September 2002; from October 2002 onwards, their wages are linked to similar posts in the civil service (whose wages will be adjusted to 80 percent of the market comparators by FY 2005/06). The cost of the wage agreement with the teachers was included in the FY 2003/04 budget.

¹ The maturity is 21-month, with a coupon rate of 12 percent. It raised about US\$43 million. The exchange rate used for conversion (10-day average as of May 8) was considerably more appreciated than the spot rate at the time of issue.

6. Moody's Investors Service downgraded Jamaica's foreign- and local-currency ratings on May 26, citing heightened credit risks posed by the government's defense of the exchange rate in the context of weak tourism receipts and its increased debt load. It lowered the rating for Jamaica's foreign currency bonds and notes from Ba3 to B1. It also cut the local-currency bond issuer rating to Ba2 from Baa3.



INTERNATIONAL MONETARY FUND

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March 23, 2004

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

IMF Concludes 2003 Article IV Consultation with Jamaica

On June 9, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Jamaica.¹

Background

Over the past decade, the Jamaican economy has undergone significant structural changes. Economic liberalization and structural reform have resulted in a more open and market-oriented economy with reduced government intervention. However, economic growth has been disappointing, with average growth less than 1 percent for 1990–2001, below the rate of population growth. High public sector debt, partly a result of the resolution of the financial crisis that erupted in 1996/97, has heavily burdened the public finances. From mid-1996, the government's exchange rate-based disinflation strategy has successfully delivered single digit inflation, but interest rates remain high and real exchange rate appreciated about 30 percent between 1996 and 2001. Social problems such as crime and unemployment persist.

In FY 2000/01–FY 2001/02, the Jamaican authorities undertook a staff-monitored program (SMP) designed to tackle the heavy public sector debt burden and restore economic growth. Results were mixed: while growth became positive in FY 2000/01 and the fiscal balance improved that year, fiscal slippages reemerged in FY 2001/02. No significant progress was achieved in lowering the debt-to-GDP ratio.

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.

The authorities undertook an SMP for FY 2002/03 intended to promote fiscal consolidation and a strengthening of growth-oriented policies to reduce the public sector debt burden, and to provide a framework for financial assistance from the World Bank and Inter-American Development Bank. In the event, the FY 2002/03 SMP did not achieve its goals. The fiscal targets were missed by wide margins and net international reserves (NIR) declined more than expected as confidence deteriorated. Fiscal slippages and a worsening current account position led to instability in the financial markets in the latter half of the fiscal year and significant pressure on the Jamaican dollar. Little progress was made on structural reforms.

Growth during FY 2002/03 was around 1½ percent (reflecting flooding and lingering impact of September 11 attack on tourism), although there was some pick up during the second half of the year in tourism, agricultural production, and mining. The twelve-month inflation rate to March 2003 was around 6 percent, slightly lower than in the previous year.

Public finances were much worse than expected in FY 2002/03 due to expenditure overruns in wages and other expenditures partly reflecting floods, as well as higher interest costs. Proposed tax measures were not implemented, although lower tax revenues were offset by higher capital receipts. The central government deficit is estimated at around 8 percent of GDP and the primary surplus at around 7½ percent of GDP, compared with budget targets of 4.4 percent of GDP and 10.4 percent of GDP, respectively. The public debt ratio is estimated to have increased significantly in FY 2002/03 to around 150 percent of GDP by March 2003. Around one half of the increase reflected the depreciation of Jamaican dollar; the remainder reflected higher fiscal deficits partly reflecting higher interest rates, and the assumption of loans from public entities.

The current account deficit widened by 3 percentage points of GDP to 12 percent of GDP, and there was a major deterioration in the capital account (due largely to official debt service). NIR fell by nearly one third to US\$1.34 billion. Weaker export earnings (due mainly to depressed alumina prices and continued decline in the garment industry), higher levels of debt servicing, and sharply higher import costs (partly reflecting higher oil prices) underlie the deterioration in the external sector balance.

Reflecting declining confidence in the macroeconomic situation, the Jamaican dollar has depreciated sharply since November 2002, despite large interest rate increases by the Bank of Jamaica (BOJ) and foreign exchange market intervention. In real terms, the Jamaican dollar depreciated by around 11 percent during FY 2002/03 (based on IMF's Information Notice System). As of end-March 2003, the 6-month Treasury-bill rate was 33½ percent, twice as high as the level of six months earlier, and has remained around 30 percent in early June. Spreads on Government of Jamaica global bonds over U.S. Treasuries increased significantly and are currently at around 950 basis points. In late May, Moody's Investors Service downgraded Jamaica's foreign- and local-currency ratings citing heightened credit risks posed by the government's defense of the exchange rate in the context of weak tourism receipts and vulnerabilities in public finances reflected in increasing debt burden.

The authorities have proposed a policy package intended to restore macroeconomic stability. The FY2003/04 budget targets an overall central government deficit of 5–6 percent of GDP with a primary surplus of 12.4 percent of GDP. The 4½ percent of GDP increase in the primary surplus is to be achieved primarily by revenue increases (4 percent of GDP), while total expenditure rises because of higher interest payments (3 percent of GDP). The overall public sector deficit would decline to around 8 percent of GDP.

Executive Board Assessment

Executive Directors noted that inflation remains subdued, remittance inflows continue to be strong, and the progress made in the last decade in reducing poverty is largely intact. However, economic growth has slowed to below the rate of population growth, unemployment has been stable at a relatively high rate, and crime and security considerations discourage private sector initiative. Directors expressed particular concern about the sharp deterioration in macroeconomic imbalances during FY 2002/03 and the significantly higher public debt to GDP ratio. The recent large fiscal and current account deficits are unsustainable and risk serious future financing difficulties. The risks are accentuated by Jamaica's high degree of vulnerability to exogenous and weather-related shocks. The authorities will need to move forcefully to contain the public debt, aiming at the same time to strengthen the social consensus in support of sustainable growth and poverty reduction policies.

Directors welcomed the authorities' commitment to effect a strong fiscal adjustment, as reflected in the FY 2003/04 budget and the objective of attaining fiscal balance by FY 2005/06. Reaching the planned substantial fiscal adjustment will be challenging, but is necessary to restore a sustainable fiscal position. It will require timely implementation of revenue-enhancing measures, but the emphasis ought to be on rigorous restraint of expenditures, particularly wages and unproductive outlays. In such an environment, measures to ensure the quality and efficiency of public spending will also be crucial. Directors encouraged the government to identify contingency measures, particularly on the expenditure side, in case the revenue projections and expected decline in interest rates do not materialize or other shocks emerge, and to incorporate medium-term fiscal consolidation targets into legislation.

Directors observed that monetary and exchange rate policy has sought to steer a difficult course between the balance of payments and inflation objectives. Using the exchange rate as an anchor for inflation expectations succeeded in keeping inflation low, but at the cost of a widening current account deficit and an overall decline in competitiveness since 1995. Directors considered that greater exchange rate flexibility would better safeguard competitiveness and respond to shocks. An acceleration of structural reforms would also help improve productivity and growth prospects. Directors noted that deepening the foreign exchange market could also improve its stability.

Directors encouraged the Bank of Jamaica to reorient monetary policy toward a greater focus on inflation, operating through shorter-term interest rates. Focusing on changes in shorter-term interest rates could help reduce the need for large movements in longer-term rates. Directors emphasized that a reduction in the public debt would be needed to reach a sustained lower level of interest rates.

Directors underscored the importance of complementing fiscal retrenchment with a more comprehensive program of structural reforms to generate faster growth, preferably based on a national consensus developed through dialogue with civil society. Such a program should include flexible working arrangements, and an economy-wide agreement to promote wage restraint and productivity growth, reduce regulatory barriers to small enterprises, and lower agricultural protection. At the same time, a few Directors noted that it would be helpful for Jamaica's poverty reduction efforts for industrial countries to increase access to their markets for Jamaican exports by, inter alia, reducing their subsidies, particularly in the agricultural

sector. Directors viewed further anti-crime measures as necessary to strengthen security and the investment climate.

Directors noted with concern the large exposure of the financial system to public sector debt and the need to keep the situation under close review, given the macroeconomic situation. They welcomed the authorities' plan to strengthen the supervision of non-bank financial institutions, particularly of securities broker-dealers, who hold large amounts of government securities. Strengthened supervision should improve the effectiveness of monetary policy and reduce risks of market instability. At the same time, Directors considered that needed changes should be introduced carefully and with a view to maintaining stability in the government securities market. Directors also stressed the need to foster a level playing field between competing institutions and to avoid creating opportunities to engage in regulatory arbitrage. Directors encouraged the authorities to move forward with implementation of measures to combat money laundering and the financing of terrorism.

Directors expressed concern about the fragility of the current macroeconomic situation. Even with determined implementation of the strongest policies, the situation remains difficult, with the economy vulnerable to shocks. Directors underscored that the authorities have a limited margin for maneuver, given the high and rising public debt levels—which have been exacerbated by exchange rate depreciation and a financial system with large holdings of public domestic debt, and the effect of sustained high interest rates on the debt burden. They encouraged the staff to collaborate closely with the authorities on these issues in the period ahead.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2003 Article IV Consultation with Jamaica is also available.

Jamaica: Selected Economic and Financial Indicators 1/

	1998/99	1999/00	2000/01	2001/02	Prov. Est. 2002/03
(Annual percentage changes; unless otherwise specified)					
GDP, prices, wages and interest rates					
GDP at constant prices	-0.4	-0.1	1.1	1.1	1.7
Per capita GDP (in U.S. dollars)	2,889	2,845	2,849	2,912	...
Consumer prices (end of period)	6.0	8.4	6.4	7.6	6.2
Unemployment rate	15.5	15.7	15.5	15.0	...
Interest rate (six-month treasury bills yield, end of period)	21.7	18.0	16.9	14.3	33.4
Lending rate (weighted average, end of period)	32.1	24.3	22.1	19.5	...
Money and credit					
Net domestic assets of the banking system 2/	8.2	6.8	-13.8	-14.4	14.7
Public sector	25.1	8.9	6.3	16.7	21.4
Private sector	-6.0	-5.0	1.9	4.3	10.1
Liabilities to private sector	10.8	19.3	9.2	9.9	7.5
(In percent of GDP; unless otherwise indicated)					
Savings and investment					
Gross national savings	23.8	21.6	22.7	18.7	...
Gross investment	26.8	25.9	27.0	27.3	...
Public sector					
Central government balance 3/	-12.3	-8.3	-5.5	-5.7	-8.0
Public sector balance 4/	-10.9	-7.2	-5.6	-6.8	-9.3
Primary balance (public sector)	6.8	10.7	12.2	8.6	8.9
Total debt 5/	115.7	132.7	132.7	129.9	148.5
External sector					
External current account (deficit -)	-2.9	-4.2	-5.7	-9.5	-12.5
Overall balance of payments (millions of U.S. dollars)	-17	123	582	656	-546
Gross official reserves (millions of U.S. dollars) (weeks of next year's imports of goods and services)	700	801	1,362	2,000	1,384
Net international reserves (millions of U.S. dollars)	582	704	1,286	1,942	1,340
Exchange rates					
Jamaica dollar per U.S. dollar (end of period)	38.1	42.2	45.7	47.5	56.1
Real effective exchange rate (annual percentage change)	1.6	-4.0	-0.2	3.9	-11.0

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

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

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

3/ Includes accrued interest on FINSAC bonds.

4/ Includes selected public enterprises, accrued interest on FINSAC bonds, and Bank of Jamaica operating balance.

5/ Nonfinancial sector debt, excluding FINSAC liabilities and government securities held by the nonfinancial public sector.

**Statement by Ian E. Bennett, Executive Director for Jamaica
June 9, 2003**

Overview

1. The authorities of Jamaica wish to express their appreciation for the helpful advice and constructive feedback offered by the staff during the Article IV consultation. They are strongly committed to maintaining macroeconomic stability and further enhancing the country's economic growth prospects and welcome the opportunity to exchange ideas on how best to achieve their desired objectives.

2. Fiscal year 2002/03 was an especially challenging one for the Jamaican economy. Mounting pressures on government resources due to extensive flood damage, the high cost imposed by crime and violence, and adverse interest and exchange rate movements at a time of marginal economic growth caused the public sector deficit to rise sharply. Speculative activity in the currency market gave rise to a rapid depreciation of the exchange rate and as the authorities intervened to maintain the stability in the exchange rate to reduce inflationary expectations, domestic interest rates were pushed up sharply. The public sector debt, already high, increased further to almost 150 percent of GDP at end-March. Appropriately, the authorities have sought to address these imbalances through strong up-front fiscal adjustment and continued structural reforms to enhance competitiveness and boost economic growth. They have publicly committed themselves to balancing the budget by FY2005/06 through determined implementation of revenue-enhancing measures and expenditure restraint. This goal is an ambitious one and will require that Jamaica continue to run substantial primary surpluses (in excess of 10 percent of GDP) for the next several years. The country's track record shows that it has the capacity to sustain results of that order.

Recent Economic Developments and Outlook

3. In 2002, economic growth continued to be sluggish but, nevertheless, positive, as external developments depressed activity in the tourism sector in the first half of the year and extensive flooding affected agriculture production. In FY2002/03, weaker exports earnings, higher imports, mostly related to increased oil prices, and higher external debt servicing led to a widening of the external current account deficit. This, coupled with the deterioration in the capital account, resulted in a fall in the NIR by about one-third. However, the gross reserves continue to be adequate, covering approximately 15 weeks of imports of goods and services. The twelve-month inflation rate fell from 7.6 percent the previous year to 6.2 percent by March 2003.

4. In 2003, the authorities are optimistic about the potential for a pick-up in economic activity (around 2.7 percent) based on a recovery in tourism, continued growth in bauxite production, and a rebound in agricultural production. The current account deficit should decline. The pass-through effects of the depreciating exchange rate is expected to push up the rate of inflation moderately. The Jamaican economy remains susceptible to potential

short-term difficulties which the authorities are fully cognizant of and are strongly committed to tackling through concerted fiscal adjustment and structural reforms. Like most countries, the outcome will hinge heavily on developments in the world economy. A less optimistic scenario is likely if the global economy stagnates and dampens export demand.

5. Over the medium to long term, growth prospects are likely to remain favorable given the authorities' efforts to consolidate the public finances while promoting structural reforms to enhance competitiveness and hopefully underpinned by a pick-up in the global economy.

Fiscal Policy

6. Overall, the authorities have been prudent in the management of fiscal policy, evidenced by the high primary surpluses over the previous four years. Even in FY2002/03, strong fiscal discipline was maintained and a primary surplus of 7½ percent of GDP was recorded. Nevertheless, the central government deficit widened to 8 percent of GDP with higher expenditure, and lower tax revenues due to a sluggish economy. Public sector debt increased by 18 percentage points to about 150 percent of GDP at end-March 2003, with the majority of this change being attributed to a depreciation of the Jamaican dollar against the U.S. dollar, higher interest rates, and the assumption of loans from public entities (necessary to protect the authorities' good payment track record). These factors aside, the authorities continue to recognize the need for further fiscal consolidation to avert an unstable debt dynamic and are working assiduously to return to a more sustainable debt path.

7. In the recent budget, the government announced a policy package of mostly revenue-enhancing measures aimed at achieving a reduction in the central government's deficit to 5-6 percent of GDP for FY2003/04, with a primary surplus of over 12 percent of GDP. A broadening of the tax net to include a growing informal sector and strengthening of tax administration are expected to yield about 6 percentage points of GDP increase in tax revenue. Measures also include a new 2 percent non-refundable customs fee, the widening of the General Consumption Tax base, and higher duty on some categories of vehicle imports.

8. On the expenditure side, while non-interest expenditures are expected to be largely unchanged, interest expenditure is estimated to rise resulting in an equivalent increase in total expenditure as a percent of GDP. While mindful of the need for expenditure restraint, the authorities see little scope for further large expenditure cuts especially given the adjustment of previous years. The bulk of the current wage bill relates to police and armed forces, a direct cost of controlling crime, and teachers and nurses, where salaries are being bid up by recruiters from the U.S. and U.K.

Monetary and Exchange Rate Issues

9. The primary objective of monetary policy is to maintain domestic inflation at low and predictable rates. The authorities believe that in a small economy, like Jamaica, movements in the exchange rate are important indicators of future inflation and so they have sought to avoid rapid movements while balancing inflationary and balance of payments objectives. As part of the exchange rate-based disinflation strategy, they have sought to maintain tight

monetary and exchange rate policies that have been highly successful in keeping inflation in the single digits over the last seven years. However, over the last six months, interest rates have risen sharply. The BOJ plans to reduce interest rates as the exchange rate situation stabilizes and the fiscal position improves.

10. Overall, the financial system remains strong with prudential indicators for the commercial banking sector well above the minimum international standards. The BOJ continues to work towards enhancing the functioning of the financial system through measures to further strengthen prudential supervision and recently took steps to improve its capacity to supervise financial groups. Further institutional strengthening measures were undertaken by BOJ including building its capacity to assess market risks and improving its balance sheet by implementing a World Bank-sponsored re-capitalization plan which reduced the proportion of below market-remunerated assets in its portfolio.

11. Corrective actions are also being taken to strengthen the regulatory regime for securities dealers. A Financial Services Commission (FSC) was established with the responsibility of regulating securities dealers and is currently implementing a program to reform the regulatory framework to include the introduction of interim and risk-based capital standards; the issuance of guidelines for margin trading; and the amendment of regulations to provide for registration and operation of mutual funds. In addition, proposals are being made for interim capital standards which will include a higher minimum entry capital requirement, a minimum capital to assets ratio, as well as measures to address the liquidity and interest rate risks.

12. In the foreign exchange market, the authorities are seeking to deepen the market with the introduction of electronic trading (including a platform for the auctioning of foreign exchange market intervention funds) and plan to abolish the 5 percent surrender requirement when market conditions permit.

Structural Reforms and Growth

13. The authorities' policy focus is to create an enabling environment for continued private sector-led growth that reduces poverty and improves the standard of living of the majority of Jamaicans. The maintenance of low inflation, the reduction of high security costs incurred by businesses through anti-crime measures, the strengthening of infrastructure, and adoption of other sector-specific growth-oriented policies are central to the attainment of this objective. Tackling crime and violence is especially critical to advancing economic growth and investment and so the authorities' efforts are appropriately focused on anti-crime measures. Competitiveness is to be addressed through labor market reforms which include plans to implement flexible work arrangements and the establishment of a tripartite productivity center to develop a framework for assessing national productivity developments. There is also a strong commitment to maintain exchange rate flexibility to preserve and further build on the strong depreciation in the real effective exchange rate experienced over the past several years and especially in the last two quarters.

14. Jamaica's trade regime is relatively open and further reforms of the current tariff regime are envisaged by the authorities in the context of broader international reforms, within CARICOM, FTAA, and WTO. With respect to agriculture, the authorities believe that protection is necessary to safeguard this sector given its importance to the economy, particularly in the employment of a significant portion of the rural poor. The authorities remained concerned about the adverse impact of continued agricultural-support policies of the U.S. and European governments on this sector.