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Jamaica: Interim Staff Report Under Intensified Surveillance

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JAMAICA

Interim Staff Report Under Intensified Surveillance

Prepared by the Western Hemisphere Department

(In consultation with other departments)

Approved by Caroline Atkinson and Mark Plant

January 27, 2005

- **Discussions**. Discussions were held in Kingston during November 2–12, 2004. The mission team—comprising Antônio Furtado (head), Rafael Romeu, and Wendell Samuel (all WHD); Hemant Shah (PDR); and Wim Fonteyne (MFD)—met with Finance Minister Omar Davies, Financial Secretary Shirley Tyndall, Bank of Jamaica Governor Derik Latibeaudière, other senior officials, and representatives of the private sector. Ms. Atkinson (WHD) joined the mission for the concluding discussions, which were also attended by Messrs. Lynch and Campbell (OED).

- **Intensified surveillance**. Intensified surveillance of the authorities' medium-term macroeconomic and structural policies was requested by the authorities and supported by the Executive Board at the time of the conclusion of the 2004 Article IV consultation. The underlying economic strategy was formulated by the authorities without reaching prior understandings with Fund staff. Interim staff reports are to be issued for information of the Executive Board in between Article IV consultations. As with the last several Article IV reports, which have all been published, while a final decision is pending, the authorities expect to authorize publication of this interim staff report following its issuance to the Executive Board.

- **Article IV consultation**. The 2004 Article IV consultation was concluded by the Executive Board on August 3, 2004. Directors supported the priority placed by the authorities on bringing down the public debt-to-GDP ratio while noting that the magnitude and duration of the fiscal adjustment envisaged by the authorities are subject to considerable risks. They emphasized that reform measures to underpin the adjustment will be critical.

- **Political setting**. Despite adjustment measures over the last two years, the political outlook is stable. The governing People's National Party (PNP) retains a comfortable majority in parliament and elections are not due until 2007. However, Prime Minister Patterson has indicated his intention to resign from office, which would trigger the choice of a successor from within the PNP for the balance of the current term.

- **Fund relations**. Jamaica has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. A multiple currency practice remains, which is subject to Fund jurisdiction. Relations with the Fund are detailed in Appendix I.

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EXECUTIVE SUMMARY

- **Largely reflecting the impact of Hurricane Ivan, the authorities will not fully achieve the objectives under their macroeconomic program for FY 2004/05**. Real GDP growth has been revised down to 1.5 percent (from 2.5 percent), the 12-month CPI inflation forecast for March 2005 has been raised to 10.5 percent (from 9.9 percent), and—partly reflecting higher than projected petroleum prices—the external current account deficit has widened by more than originally envisaged. The forecast for the budget deficit is now set at 4.6 percent of GDP, compared with the target of 3.5 percent of GDP. However, partly reflecting the double-digit inflation, the public debt-GDP ratio is projected to decline, from 142½ percent in March 2004 to 136½ percent in March 2005.

- **The authorities have reaffirmed their objective of balancing the budget in FY 2005/06, while recognizing that this now poses a greater challenge**. The staff now estimates that measures in the range of 2.5–3.0 percent of GDP would be required to meet this goal, compared with the staff's estimate of 1.7 percent of GDP at the time of the 2004 Article IV consultation. The authorities have not yet specified the required measures. The mission emphasized the importance of formulating high-quality and permanent measures to bridge the gap, and noted that the ongoing tax reform exercise provided a critical opportunity for the adoption of such measures.

- **The room for maneuver in monetary and exchange rate policy remains constrained by the debt overhang**. Within this constraint, additional reductions in policy interest rates implemented in recent months were warranted given the strength of international reserves and considerable stability of the exchange rate. The mission reiterated the staff's recommendation, made during the 2004 Article consultation that, in the event of pressures in the foreign exchange market, the authorities should protect NIR through a balanced combination of interest rate action and exchange rate flexibility.

- **Structural reforms are proceeding in the financial sector and budget areas.** Consolidated bank supervision is being strengthened and laws aimed at reinforcing the AML/CFT framework are currently before parliament. In the nonbank financial sector, guidelines aimed at raising the capital of securities dealers and containing the growth of their repo liabilities are now in place. In the fiscal area, the authorities are considering the recommendations of a tax policy review committee on a comprehensive tax reform program in the context of the FY 2005/06 budget.

- **The medium-term scenario consistent with achievement of the authorities' fiscal targets remains broadly unchanged in relation to that presented in the 2004 Article IV staff report**. The public debt-GDP ratio would decline to about 100 percent by FY 2008/09 and NIR would strengthen to nearly US$2 billion. The scenario assumes real GDP growth rates of 3.0–3.5 percent. The mission stressed that, to secure such growth, it will be necessary to press ahead with ongoing fiscal and financial sector reforms, and also encouraged the authorities to assess the scope for reforms concerning the labor market, the education system, and domestic security.

I. Background

1. **In early 2004, the Jamaican authorities laid out a strategy to address Jamaica's heavy debt burden and generally poor growth performance**. While liberalization and structural changes during the 1990s resulted in more openness and market-orientation, economic growth has been slow, averaging less than 1 percent during FY 1994/95–FY 2003/04. A major impediment to growth has been the public debt burden, which discourages private investment and crowds out critically needed public investment in the country's economic infrastructure and human resources. Following a decline in the public debt-GDP ratio in the context of Fund-supported programs in the early 1990s, debt rebounded to well above 100 percent later in the decade, reflecting partly a major bail-out of domestic financial institutions in 1996–97. The debt ratio peaked at 146½ percent in FY 2002/03, in the context of a near foreign exchange crisis and large depreciation.

2. **The authorities indicated last year that while Jamaica did not require an arrangement, it would still benefit from a close policy dialogue with the Fund**. In this context, they requested more intensive surveillance of the Jamaican economy and of progress in implementing their economic strategy. At the conclusion of the 2004 Article IV consultation, Directors endorsed the authorities' request for intensified surveillance. They supported the priority placed by the authorities on bringing down the public debt-to-GDP ratio while noting that the magnitude and duration of the fiscal adjustment envisaged by the authorities are subject to considerable risks. Directors emphasized that reform measures to underpin the adjustment will be critical.

3. **At the outset of the authorities' strategy, substantial progress had already been achieved on the stabilization front**. Following the period of heightened instability in early 2003, the exchange rate stabilized and, by mid-2004, foreign exchange reserves had recovered, policy interest rates had been cut by more than half, and the government had regained access to international capital markets. These achievements stemmed, in large measure, from a sharp tightening of fiscal policy, as reflected in an increase in the primary budget surplus from 7 percent of GDP in FY 2002/03 (excluding grants) to nearly 11 percent of GDP in FY 2003/04 (April/March fiscal year). However, the public debt remained extremely high, at 143 percent of GDP, debt service exceeded budgetary revenue by some 30 percent, and real GDP growth continued to be modest, at 2 percent.

4. **Spreads on outstanding international bonds have tightened since the August, 2004 Article IV consultation discussion**. Spreads on dollar-denominated benchmark sovereign bonds have tightened by about 100 basis points since early August, in line with an overall advance in emerging market debt. In addition, one of the major international rating agencies raised its outlook for Jamaica's sovereign debt (currently rated B) to stable from negative.

II. The Authorities' Program

5. **The authorities' medium-term program is aimed at reducing the public debt-GDP ratio to around 100 percent of GDP by FY 2008/09 through intensified fiscal adjustment and improved growth**. The fiscal position is to be strengthened through primary expenditure restraint (including a two-year virtual freeze on government wages) and revenue enhancements

(including a comprehensive tax reform), as a result of which the primary budget surplus would be raised to 13–14 percent of GDP and maintained at that level for several years. The improved growth performance would reflect greater confidence, structural reform efforts, and programs to upgrade the education system and address the serious crime problem. [1]

Jamaica: Authorities' Original Medium-Term Program
(In percent)

	2004/05	2005/06	2006/07	2007/08	2008/09
Real GDP growth	2.5	2.5	2.8	3.3	3.4
Budget balance/GDP	-3.5	0.1	0.5	0.7	1.3
Of which: primary balance	13.8	14.4	14.1	14.3	13.6
Public debt/GDP	136.4	127.3	119.6	112.4	104.7
Net international reserves (in US$ millions)	1,400	1,550	1,850	2,150	2,150
Consumer price inflation (end of period)	9.9	7.0	6.4	6.0	5.0
External current account balance/GDP	-13.2	-12.4	-11.6	-9.2	-7.0

Source: IMF Country Report No. 04/263.

6. **Following the progress made in stabilizing the economy in FY 2003/04, the authorities' economic program for this fiscal year sought a further improvement in the fiscal position against the background of recovering growth, declining inflation, and broadly stable international reserves**. The key macroeconomic objectives were real GDP growth of 2.5 percent, 12-month CPI inflation of 9.9 percent, and end-year net international reserves (NIR) of US$1.4 billion. The NIR objective was consistent with gross reserves of 12 weeks of imports of goods and services, or about 70 percent of the government's short-term debt obligations. It was also consistent with a widening in the external current account deficit, reflecting mainly a higher oil import bill and an increase in the expatriation of profits and dividends by the tourism and mining sectors.

7. **The authorities' fiscal program targeted a reduction in the budget deficit to 3.5 percent of GDP, with a corresponding target of 6.5 percent of GDP for the overall government deficit**.[2] To this end, the government planned to raise the primary surplus (excluding grants) by 2.2 percentage points of GDP, to 13.0 percent of GDP. Tax revenue was projected to increase by 1.9 percentage points of GDP, benefiting from stepped-up collection of arrears and the full-year impact of measures introduced in the FY 2003/04 budget. Primary expenditure was projected to decline by 0.6 percentage points of GDP reflecting, in particular, the wage moderation agreed under a Memorandum of Understanding (MOU) with the trade

[1] The authorities' medium-term strategy was outlined in the FY 2004/05 budget presentation, and was published in summary form in the central bank's Quarterly Monetary Policy Report. It was also described in the 2004 Article IV consultation staff report (IMF Country Report No. 04/263).

[2] The overall deficit includes issuance of government securities to cover central bank losses, as well as debts taken on by the government in connection with off-budget projects.

unions.[3] The public debt ratio was projected to decline to 136½ percent of GDP (from 142½ percent of GDP in March 2004).

III. Performance Under the Authorities' Program in FY 2004/05

8. **The authorities' macroeconomic objectives for FY 2004/05 will not be fully achieved, reflecting primarily the impact of hurricane Ivan (Table 1 and Figure 1)**.[4] While the damage caused by Hurricane Ivan was not as serious as that caused by Hurricane Gilbert in 1988, there was heavy flooding, particularly in the South, with resulting loss of lives and considerable damage to the housing stock, crops, and infrastructure. Real GDP growth has been revised down to 1.5 percent (from 2.5 percent) reflecting the associated disruptions in the tourism, mining, agriculture, and electricity/water sectors. The 12-month CPI inflation forecast for March 2005 has been raised to 10.5 percent on account of adjustments to electricity tariffs and, in the wake of Hurricane Ivan, increases in the prices of food and raw materials. Partly reflecting higher than projected petroleum prices, the external current account deficit widened by more than envisaged in the authorities' program.[5]

Fiscal policy

9. **While fiscal performance in the first half of the fiscal year was broadly in line with the authorities' program, post-hurricane deviations are expected to lead to departures from the FY 2004/05 fiscal objectives**. During the first six months of FY 2004/05, the overall budget deficit amounted to 4.0 percent of annual GDP, slightly above the authorities' target (3.9 percent of GDP). A shortfall in budgetary revenue because of lower-than-projected imports and slower exchange rate depreciation was mostly offset by lower-than-projected government expenditure. However, for the year as a whole, the government now forecasts the budget deficit at 4.6 percent of GDP, compared with the target of 3.5 percent of GDP.[6] The primary surplus (excluding grants) is projected to increase by 0.5 percent of GDP from the previous year, to 11.3 percent of GDP (Table 3). This primary shortfall from the target reflects mainly lower-than-programmed receipts from indirect taxes and hurricane-related expenditures. The impact on the budget deficit is being partially offset by higher grants. The overall government deficit is now projected at 7.9 percent of GDP, including off-budget expenditure of 3.3 percent of GDP (mostly central bank losses). In addition, the government has assumed some of the domestic debt of the

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

[4] The authorities adopted semi-annual quantitative targets for FY 2004/05, which were presented in IMF Country Report No. 04/263 (page 18). The position vis-à-vis those targets is shown in Table 2.

[5] However, due to revisions to the FY 2003/04 external current account data, the deficit itself for FY 2004/05 (about US$920 million, or 10 percent of GDP) is expected to be smaller than originally projected.

[6] Due to seasonality in revenue, the bulk of the budget deficit is recorded in the first half of the fiscal year.

National Water Commission and the University of the West Indies, whose financial position remains weak. However, partly reflecting faster nominal GDP growth, the public debt-GDP ratio is projected to decline to 136½ percent in March 2005 (Table 4).[7]

10. **The authorities have reaffirmed their commitment to balancing the budget in FY 2005/06, while recognizing that this now poses a greater challenge**. Based on the revised fiscal outlook, which includes a continuation of hurricane-related capital outlays in FY 2005/06 (about 1 percent of GDP), the staff estimates that measures in the range of 2.5–3.0 percent of GDP will be required to balance the budget next year, compared with the staff's estimate of 1.7 percent of GDP at the time of the 2004 Article IV consultation.[8] The authorities concurred that measures will be needed in the context of the next budget, which is expected to be submitted to parliament by end-March. However, they expected the need for measures to be on the low end of the staff estimate. The authorities indicated that both revenue and expenditure measures would be considered, although they had not yet specified particular measures. The mission emphasized the importance of formulating high-quality and permanent measures to bridge the gap, and noted that the ongoing tax reform exercise provided an opportunity for the adoption of such measures. In view of the uncertainty about the new configuration of the tax system, the mission did not recommend specific tax measures. There was agreement that, in order to put the debt ratio on a firmly declining path, it will be critical to contain expenditure, both on- and off-budget, and to address weaknesses in revenue collection.

Monetary/exchange rate policy

11. **The Bank of Jamaica (BOJ) continues to operate monetary policy against the background of the sensitivity of the public debt dynamics to movements in interest rates or the exchange rate**.[9] Thus far in FY 2004/05, interest rates on open market operations declined from a range of 14.9–19.8 percent to a range of 14.0–16.0 percent.[10] Despite the rate reductions, NIR exceeded the September target and now stands at about US$1.8 billion—the highest level in two years—and the exchange rate has depreciated at a slower pace than expected. However, inflation picked up after Hurricane Ivan owing mainly to shortages of food and raw materials, and is expected to remain in double digits through the end of the fiscal year. Accordingly, the authorities do not envisage a further easing of monetary conditions during the remainder of the fiscal year.

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[7] Over the same period, foreign-currency-denominated and U.S. dollar-indexed debt in the total will decline from 75 percent of GDP to about 70 percent of GDP reflecting a reduction in U.S. dollar-indexed borrowing by the authorities and some real appreciation of the currency.

[8] In both the earlier and the current projections, the wage bill continues to decline in relation to GDP in FY 2005/06, which is the second year of the two-year wage freeze; and the interest bill also declines, reflecting lower interest tares.

[9] Monetary developments are presented in Tables 5 and 6.

[10] The six-month treasury bill rate declined from 15.57 percent to 14.78 percent.

12. **The mission expressed the view that maintaining NIR broadly at the current level was important for market confidence**. Accordingly, were there to be pressures in the foreign exchange market, intervention should be limited and the authorities should protect the NIR position through a balanced combination of interest rate action and exchange rate flexibility. The authorities expressed the view that, in contrast with downward movements, small incremental increases in interest rates were counterproductive in Jamaica's case (as they tended to trigger anticipation of further increases). Interest rate action aimed at tightening policy, to be credible, would have to be sizable—a move that would jeopardize an already fragile fiscal position. Consequently, any pressures that might arise in the foreign exchange market would have to be handled, at least initially, through depreciation and (within safe limits) intervention.

External sector

13. **The current account deficit is expected to widen markedly compared with last year but stronger capital inflows have lifted foreign exchange reserves**. The widening (from 6.5 percent of GDP to 10.2 percent of GDP) is explained primarily by higher oil import prices and an explosion in the PetroJam refinery in October 2004 (implying a greater share of refined products in total oil imports). In addition, in the wake of Hurricane Ivan, imports of food, raw materials and capital goods are expected to rise sharply, and exports of bauxite and alumina are likely to rise only modestly, while net tourism revenues will remain flat. However, developments in the first half of the fiscal year suggest that private transfers are likely to increase by about US$150 million, and that the capital and financial account should improve significantly. On balance, the authorities have revised upward their end-March 2005 NIR forecast to US$1.67 billion, US$270 million above the original target (Table 8).[11]

Structural policies

14. **There was no major fall-out from hurricane Ivan on the financial system, the prudential framework for which continues to be strengthened**. Banking operations were briefly interrupted during the hurricane, but recovered quickly. The impact on the insurance sector has been manageable, as much of the damaged property was not insured, and insurers were largely protected by re-insurance. Regarding the prudential framework, consolidated supervision is being strengthened and laws aimed at reinforcing the AML/CFT framework are currently being before parliament. In the nonbank financial sector, the Financial Services Commission has introduced guidelines aimed at gradually raising the capital of securities dealers and containing the growth of their repo liabilities. These guidelines, in combination with the ongoing dialogue between the FSC and the industry, have led to a reduction in dealers' growth rates, some consolidation in the industry, and initial efforts at diversification, mainly into pure broking and mutual fund management. Nonetheless, these dealers still constitute a potential source of vulnerability as they remain thinly capitalized and continue to hold deposit-like liabilities that exceed the deposit base of the banking system. The banking system's aggregate

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[11] Reserves are projected to decline somewhat in the last quarter of the fiscal year, reflecting mainly public debt repayments in foreign currency.

solvency and profitability indicators (based on standard zero-weighting of government debt) remain at comfortable levels (Table 7).

15. **In the fiscal area, the authorities are considering the recommendations of the tax policy review committee with a view to initiating a comprehensive tax reform program in the context of the FY 2005/06 budget**. The authorities' goal for the tax reform program is to increase the efficiency and equity of the tax system. The mission supported that goal, while noting that the reforms should be implemented in a manner to help achieve the balanced budget next year and maintain a stable ratio of tax revenue to GDP over the medium term.[12] Meanwhile, the program of arrears collection has met with mixed success, with the reduction of arrears on personal income tax exceeding the FY 2004/05 targets but corporate arrears collection languishing.

IV. Medium-Term Outlook

16. **The baseline medium-term scenario consistent with full achievement of the authorities' fiscal targets, including a balanced budget in FY 2005/06, remains broadly unchanged in relation to that presented in the 2004 Article IV staff report**.[13] Import requirements of several major capital projects may cause the external current account deficit to widen temporarily in the coming two years (to about 13 percent of GDP in FY 2006/007), due mainly to strong foreign direct investment inflows.[14] Over the medium term, a two-thirds increase in alumina production capacity, and almost doubling in the number of hotel rooms, would raise mining exports and travel receipts. This, along with higher remittances and a gradual

[12] The tax revenue-to-GDP ratio is projected to decline over the medium term reflecting lower receipts from taxes on interest income in line with the reduction in the government interest bill in relation to GDP.

[13] Revised medium-term projections were prepared by the mission based on discussions with the authorities. The baseline projections assume that the authorities' medium-term fiscal targets are fully achieved even though the required measures have not yet been fleshed out. Additional assumptions, including those on growth and interest rates, are staff assumptions consistent with the fiscal adjustment path; the authorities found those assumptions somewhat conservative but acceptable. The authorities have not revised their own revised medium term projections since the 2004 Article IV consultation discussions.

[14] The authorities expect several major capital projects to be undertaken by the private sector in mining, tourism, cement, telecommunications, inner-city housing, highways, and liquid natural gas facilities. The aggregate expenditure on currently identified projects—both under construction and where a firm indication of interest is available—could exceed US$4 billion, with an FDI component of around US$3.5 billion, and an average import content of 70–80 percent of FDI. Thus during the construction phase of these projects, the level and volatility of imports and of the current account deficit are expected to rise substantially. However, as long as FDI inflows support project implementation and imports, the current account deficit should be financed, and small increases in reserves should be possible.

decline in oil prices, should help reduce the current account deficit to about 4 percent of GDP by 2008/09. The public debt-GDP ratio would decline to about 100 percent by FY 2008/09 (compared with 105 percent in the June 2004 projection), and NIR would strengthen to nearly US$2 billion (Figure 2).[15] The baseline scenario assumes real GDP growth rates of 3.0–3.5 percent. The mission stressed that, to secure such growth, it will be necessary to press ahead with ongoing fiscal and financial sector reforms, and also encouraged the authorities to assess the scope for reforms concerning the labor market, the education system, and domestic security.

17. **In view of the implementation risks associated with the envisaged adjustment, the staff has prepared an illustrative scenario incorporating less favorable assumptions than those in the baseline scenario.** The alternative scenario is based on an unchanged primary budget surplus (at 11 percent of GDP) and assumes an additional 1 percent of GDP annually in off-budget expenditure. In addition, the scenario assumes no reduction in spreads between interest rates on domestic currency debt and those on foreign currency debt; and caps real GDP growth at 2.5 percent per year during the projection period. Under these less favorable assumptions, the public debt ratio would still decline during the period, albeit more slowly, to approximately 120 percent of GDP by FY 2008/09. As reflected in the debt sustainability analysis presented in the last Article IV consultation report, the debt dynamics is particularly sensitive to exchange rate and interest rate shocks, in reflection of the large share—about three-fourths—of foreign currency and floating rate debts in total public debt.

Jamaica: Medium-Term Scenarios
(In percent of GDP, unless otherwise indicated)

	2004/05	2005/06	2006/07	2007/08	2008/09
			I. Baseline 1/		
Real GDP growth (in percent)	1.5	3.0	3.0	3.5	3.5
Budget balance	-4.6	0.0	1.6	1.5	2.3
Of which: primary balance	11.3	13.7	14.1	14.0	14.1
Public debt	136.6	126.5	116.7	108.7	100.6
Six-month treasury bill rate (in percent per annum)	14.5	13.5	13.0	12.5	12.0
			II. Alternative		
Real GDP growth (in percent)	1.5	2.5	2.5	2.5	2.5
Budget balance	-4.6	-2.9	-1.9	-2.7	-2.6
Of which: primary balance	11.3	11.0	11.0	11.0	11.0
Public debt	136.6	131.2	126.6	124.5	122.2
Six-month treasury bill rate (in percent per annum)	14.5	14.5	14.5	14.5	14.5

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

1/ Assumes full achievement of the authorities' medium-term fiscal targets.

[15] The level of NIR is projected to decline in FY 2005/06 because government external debt service is projected to exceed external borrowing by US$400 million, while private capital inflows are expected to moderate in the context of narrowing spreads between Jamaican and foreign interest rates.

V. Staff Assessment

18. **The authorities have continued to consolidate the stabilization gains that they achieved following the near-crisis of early 2003**. Foreign exchange reserves have continued to recover, the exchange rate has remained broadly stable, and policy interest rates have been gradually reduced, while access to the international capital market has improved. These gains have stemmed, in large measure, from fiscal tightening undertaken in FY 2003/04, in particular the strengthening of the primary budget surplus to its current high level.

19. **Developments in FY 2004/05 highlight the economy's vulnerability to shocks and the implementation risks associated with the authorities' ambitious debt reduction strategy**. The former has been evidenced recently by the negative impact of hurricane Ivan, which has contributed to a reduction in real GDP growth, an increase in inflation, and a larger than anticipated widening of the external current account deficit. In the fiscal area, these shocks have led to only a modest reduction in the overall fiscal deficit, substantially short of that envisaged in the government's plan. The implementation risks in the fiscal area are highlighted by shortfalls on the revenue side and by the impact of unbudgeted fiscal operations, notably assumption by the government of some of the domestic debt of public entities. Given a still very heavy debt burden and limited confidence of investors, all efforts must be undertaken to avoid any further slippages from the announced fiscal consolidation path. In this regard, it would be critical to address financial weaknesses of public entities, notably the National Water Commission, perhaps through more flexible tariff policies and structural reforms.

20. **The room for maneuver in the monetary and exchange rate policy area remains constrained by the government's debt burden**. Within this constraint, the additional reductions in policy interest rates implemented in recent months were warranted given the strength of international reserves and considerable stability of the exchange rate. Indeed, despite the rate reductions, NIR exceeded the September target and now stands at the highest level in two years. However, in the aftermath of Hurricane Ivan, inflation is in the double digits, and the authorities have appropriately indicated that they do not envisage a further easing of monetary conditions in coming months. The staff recommends that, were there to be pressures in the foreign exchange market, the authorities should keep intervention to a minimum through a combination of interest rate action and exchange rate flexibility. This should take into account the fiscal impact of interest rate changes as well as the adverse impact of depreciation on the debt dynamics and the high exchange rate pass through to domestic prices.

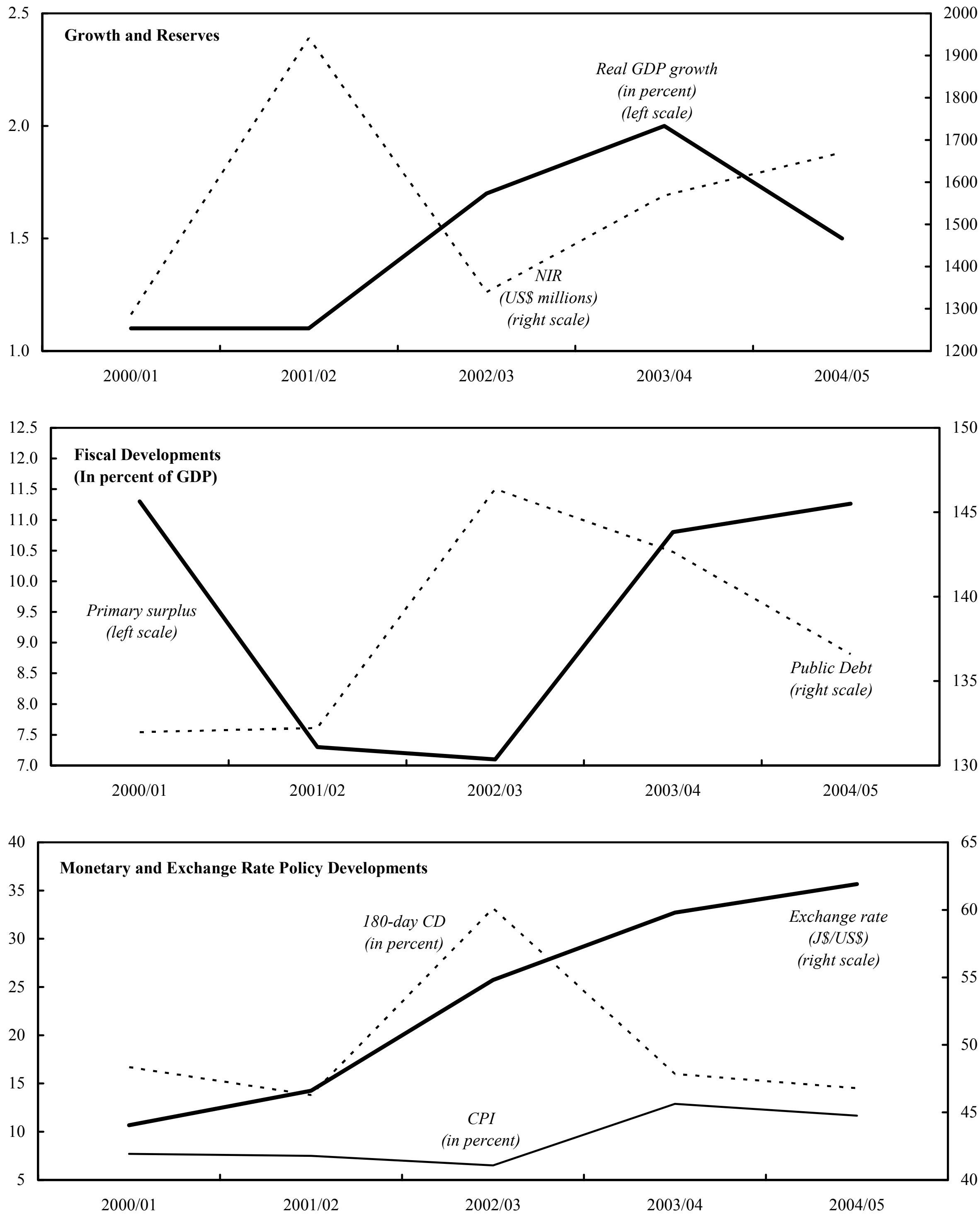
21. **While the current macroeconomic policy stance appears consistent with a continued gradual reduction in the public debt ratio over the medium term, the authorities are justified in seeking further fiscal consolidation**. Specifically, the staff estimates that sustaining the current primary budget surplus of 11 percent of GDP could reduce the public debt ratio to 115–120 percent over the next five years. However, in view of the high vulnerability of the economy, the authorities are appropriately targeting further fiscal consolidation, including the objective of a balanced budget in the next fiscal year, with a view to reducing the debt ratio to 100 percent of GDP by FY 2008/09. The balanced budget objective implies a primary surplus of nearly 14 percent of GDP, which has become considerably more challenging due to the revised outlook for the current year. Nevertheless, it remains an appropriate objective in that it would pave the way for a more rapidly declining path for the debt ratio—not only by stabilizing the

debt stock but also by helping to set in motion the virtuous circle of confidence and growth over the medium term.

22. **The authorities are therefore encouraged, at this stage, to formulate high-quality fiscal measures to achieve the FY 2005/06 balanced budget objective, and to press ahead with structural reforms**. It will be critical to contain expenditure, both on- and off-budget, and to address weaknesses in revenue collection. The ongoing tax reform exercise has been motivated primarily by the need to improve the environment for private sector development. It also provides an unique opportunity to develop high-quality fiscal adjustment measures. To secure the acceleration of growth envisaged by the authorities, it will also be of paramount importance to undertake efforts to address any factors that may discourage private investment, hamper external competitiveness, and limit Jamaica's growth potential. In addition to the ongoing fiscal and financial sector reforms, the authorities should press ahead with reforms relating to trade liberalization, the labor market, the education system, and domestic security.

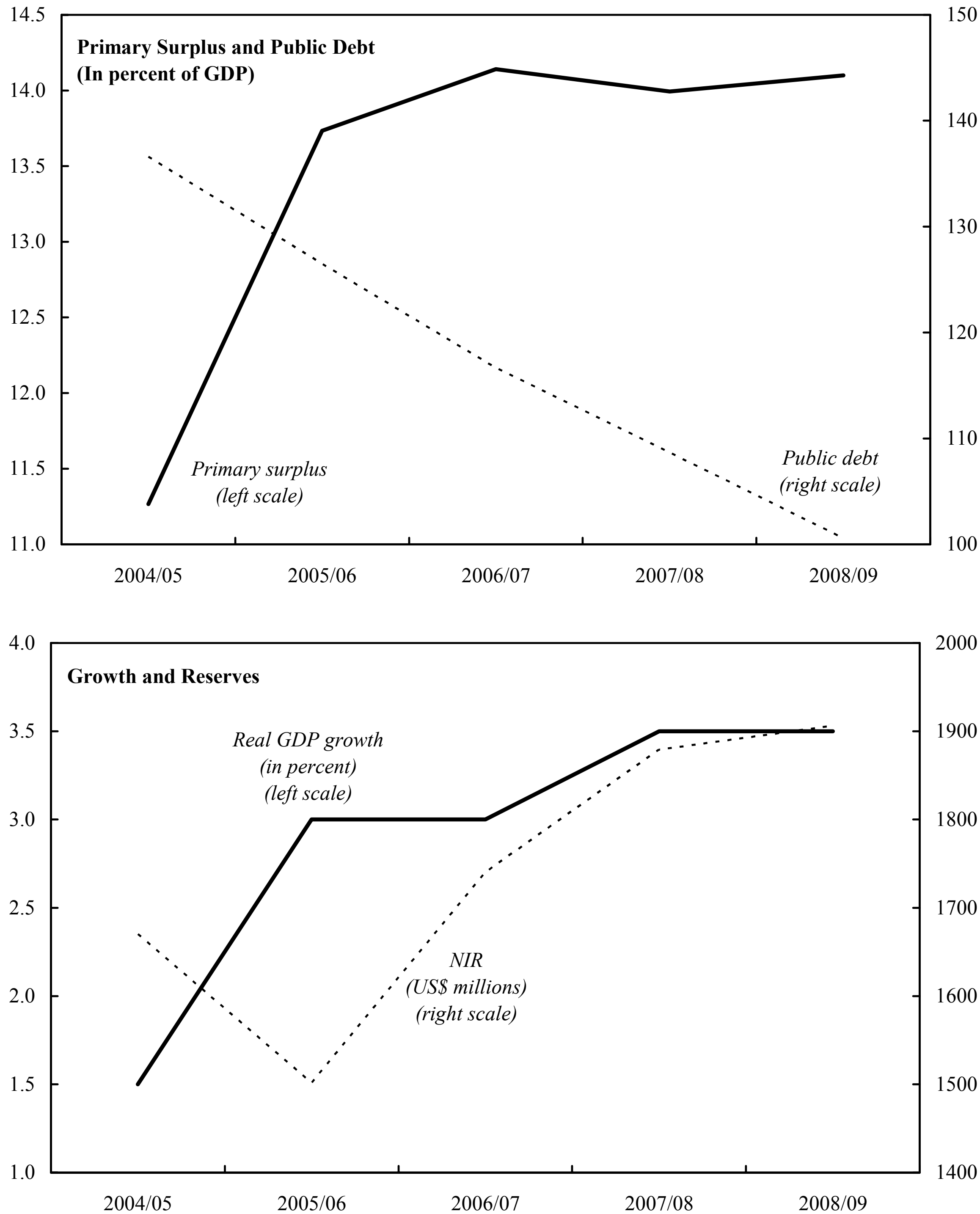
23. **Significant progress has been made in strengthening the prudential framework for the financial system**. Passage of the proposed AML/CFT legislation would be an important signal of Jamaica's commitment to international standards in this area. In the nonbank sector, progress has been made in reducing the risks associated with the rapid growth of the securities industry. Looking ahead, the authorities are encouraged to take advantage of the forthcoming FSAP to further enhance the prudential framework, particularly in the nonbank sector.

Figure 1. Jamaica: Key Indicators, FY 2000/01–FY 2004/05



Sources: Jamaican authorities; and Fund staff estimates.

Figure 2. Jamaica: Baseline Medium-Term Scenario, FY 2004/05–FY 2008/09 1/



Sources: Jamaican authorities; and Fund staff estimates.

1/ Assumes full implementation of the authorities' fiscal adjustment plans.

Table 1. Jamaica: Selected Economic Indicators 1/

			Prel.	Prog.	Projections				
	2001/02	2002/03	2003/04	2004/05	2004/05	2005/06	2006/07	2007/08	2008/09
	(Annual percentange changes)								
GDP, prices, and employment									
Real GDP	1.0	1.9	2.0	2.5	1.5	3.0	3.0	3.5	3.5
Nominal GDP	9.5	10.0	18.6	14.2	13.3	12.7	10.3	9.7	9.1
Consumer price index (end of period)	7.6	6.2	16.8	9.9	10.5	8.5	6.0	6.0	5.0
Consumer price index (average)	8.0	6.5	12.9	11.5	11.7	9.4	7.1	6.0	5.5
Exchange rate (end of period, in J$/US$)	4.0	18.2	8.1	…	…	…	…	…	…
End-of-period REER (percent change, depreciation +)	-3.9	14.3	-4.2	…	…	…	…	…	…
Unemployment rate (in percent)	14.8	15.4	12.8	…	…	…	…	…	…
	(In percent of GDP, unless otherwise indicated)								
Government operations									
Budgetary revenue	27.0	28.1	29.4	31.8	31.2	28.5	28.1	27.0	26.6
Budgetary expenditure	32.6	35.7	36.3	35.2	35.8	31.3	29.3	28.3	27.1
Of which: interest payments	13.4	14.9	17.8	17.3	17.0	14.1	12.9	12.7	12.0
Unidentified measures	--	--	--	--	--	2.8	2.8	2.8	2.8
Budget balance	-5.6	-7.6	-6.9	-3.5	-4.6	0.0	1.6	1.5	2.3
Of which: primary fiscal balance (excluding grants)	7.8	7.0	10.8	13.0	11.3	13.7	14.1	14.0	14.1
Off-budget expenditure 2/	0.5	3.2	1.9	3.0	3.3	1.8	1.8	2.1	2.2
Overall fiscal balance	-6.1	-10.8	-8.7	-6.5	-7.9	-1.8	-0.2	-0.6	0.1
Public debt	132.1	146.4	142.6	136.4	136.6	126.5	116.7	108.7	100.6
External sector									
Current account balance	-9.6	-14.9	-6.5	-13.2	-10.2	-10.3	-12.8	-7.0	-4.0
Of which: exports of goods, f.o.b.	17.8	15.6	18.0	17.4	16.4	16.4	15.5	16.2	16.9
Of which: imports of goods, f.o.b.	37.6	39.8	39.7	41.0	39.9	39.6	41.4	37.1	35.3
Net international reserves (in millions of US$)	1,942	1,340	1,569	1,400	1,670	1,502	1,740	1,879	1,906
	(Changes in percent of beginning of period broad money)								
Money and credit									
Net foreign assets 3/	24.3	-8.1	9.0	-4.3	4.4	-1.3	8.7	5.7	1.9
Net domestic assets	-14.3	15.6	11.3	18.0	6.0	14.0	1.7	4.1	7.2
Of which: credit to the central government	71.2	8.2	9.7	9.5	13.5	0.0	0.0	0.0	0.0
Broad money	10.0	7.5	20.2	13.6	10.5	12.7	10.3	9.7	9.1
Interest rate (180-day BoJ CD rate, end of period, in percent per annum) 4/	13.8	33.5	16.0	15.0	14.5	13.5	13.0	12.5	12.0
Velocity (ratio of GDP to broad money)	2.6	2.7	2.6	2.6	2.7	2.7	2.7	2.7	2.7
Memorandum items:									
Nominal GDP (in billions of Jamaican dollars)	379.8	417.7	495.5	556.2	561.6	632.8	698.2	766.0	836.1
Exchange rate (end of period, J$/US$)	47.6	56.2	60.8	…	…	…	…	…	…

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

1/ The projections assume full implementation of the authorities' fiscal consolidation plans.
2/ Includes issuance of debt to the BoJ to cover its cash losses and related capitalized interest, and debt related to off-budget projects financed initially by the private sector.
3/ Including valuation adjustments.
4/ This rate is tracked very closely by the six-month Treasury bill yield, which is the benchmark for indexing variable rate debt instruments that account for a major part of the government domestic debt.

Table 2. Jamaica: Quantitative Targets and Outcomes Under the Authorities' Program, FY 2004–05 1/

	April 04–September 04			April 04–March 05		
	Original	Adj. 2/	Actual	Original	Adj. 2/	Proj. 3/
	(In millions of U.S. dollars)					
Change in net international reserves	-288.6	-3.9	47.8	-168.8	-27.1	101.3
	(In billions of Jamaican dollars)					
Change in the net domestic assets 4/	20.4	27.6	-0.8	16.0	7.3	-1.7
Primary budget surplus	27.6	27.6	26.9	76.9	76.9	70.0
Overall budget deficit	21.9	21.9	22.3	19.3	19.3	25.7

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

1/ The targets were established at the time of the 2004 Article IV consultation discussions (see IMF Country Report No. 04/263).

2/ The adjustments reflect larger-than-programmed net foreign currency financing of the budget.

3/ Based on revised projections prepared during the November 2004 staff visit

4/ Defined as the difference between the change in base money and the change in NIR. The latter is converted into Jamaican dollars at the accounting exchange rate of J$61.90=US$1.

Table 3. Jamaica: Summary of Central Government Operations

	2001/02	2002/03	Prel. 2003/04	Auth. Prog. 2004/05	Projections 2004/05	Projections 2005/06	Projections 2006/07	Projections 2007/08	Projections 2008/09
				(In billions of Jamaican dollars)					
Budgetary revenue and grants	102.6	117.2	145.5	176.6	175.3	180.3	196.2	206.4	222.5
Tax	92.8	104.7	133.2	160.5	156.8	165.2	179.7	191.1	205.8
Nontax	7.8	11.6	11.7	11.8	11.8	12.7	14.0	13.8	15.0
Grants	2.0	0.9	0.5	4.3	6.7	2.5	2.5	1.6	1.7
Budgetary expenditure	123.8	149.0	179.6	195.9	201.0	198.1	204.3	216.6	226.4
Primary expenditure	72.8	86.9	91.4	99.7	105.3	108.8	114.5	119.5	126.2
Wage and salaries	42.6	51.5	60.5	63.0	63.1	62.6	69.8	73.5	77.8
Other expenditure 1/	20.1	27.5	25.3	28.2	31.1	32.9	34.9	36.8	38.5
Capital expenditure	10.1	7.9	5.7	8.5	11.0	13.3	9.8	9.2	10.0
Interest	51.0	62.1	88.2	96.2	95.7	89.3	89.7	97.1	100.2
Domestic	40.4	46.9	71.5	75.2	74.6	63.5	60.7	66.6	66.7
External	10.7	15.2	16.7	21.0	21.1	25.8	29.1	30.4	33.5
Unidentified measures 2/	--	--	--	0.0	0.0	17.9	19.6	21.8	23.3
Budget balance	**-21.2**	**-31.8**	**-34.1**	**-19.3**	**-25.7**	**0.1**	**11.5**	**11.7**	**19.4**
Of which: **primary balance (excluding grants)**	**29.8**	**29.4**	**53.5**	**72.6**	**63.3**	**86.9**	**98.7**	**107.2**	**117.9**
Off-budget expenditure	1.8	13.4	9.2	16.9	18.7	11.2	12.7	16.5	18.7
BoJ cash losses 3/	--	11.5	7.4	14.9	14.8	9.2	10.7	14.5	16.7
Operating losses	6.3	8.3	4.8	8.1	8.0	2.1	4.4	6.9	8.2
Accrued interest	--	3.3	2.6	6.8	6.8	7.2	6.3	7.6	8.5
Special financing mechanism 4/	1.8	1.8	1.8	2.0	3.9	2.0	2.0	2.0	2.0
Overall balance	-23.0	-45.1	-43.3	-36.2	-44.4	-11.2	-1.2	-4.7	0.7
Financing	23.0	45.1	43.3	36.2	44.4	11.2	1.2	4.7	-0.7
External financing	25.9	-12.9	11.6	1.7	8.5	2.6	2.0	1.4	1.4
Domestic financing	-2.9	58.1	31.7	34.6	35.9	8.6	-0.8	3.3	-2.1
Banking system	28.9	12.1	14.2	19.0	25.5	8.6	-0.8	3.3	-2.1
Others	-31.8	45.9	17.5	15.6	10.4	0.0	0.0	0.0	0.0
					(In percent of GDP)				
Budgetary revenue and grants	27.0	28.1	29.4	31.8	31.2	28.5	28.1	27.0	26.6
Tax	24.4	25.1	26.9	28.8	27.9	26.1	25.7	24.9	24.6
Nontax	2.1	2.8	2.4	2.1	2.1	2.0	2.0	1.8	1.8
Grants	0.5	0.2	0.1	0.8	1.2	0.4	0.4	0.2	0.2
Budgetary expenditure	32.6	35.7	36.3	35.2	35.8	31.3	29.3	28.3	27.1
Primary expenditure	19.2	20.8	18.5	17.9	18.7	17.2	16.4	15.6	15.1
Wage and salaries	11.2	12.3	12.2	11.3	11.2	9.9	10.0	9.6	9.3
Other expenditure 1/	5.3	6.6	5.1	5.1	5.5	5.2	5.0	4.8	4.6
Capital expenditure	2.7	1.9	1.1	1.5	2.0	2.1	1.4	1.2	1.2
Interest	13.4	14.9	17.8	17.3	17.0	14.1	12.9	12.7	12.0
Unidentified measures 2/	--	--	--	0.0	0.0	2.8	2.8	2.8	2.8
Budget balance	**-5.6**	**-7.6**	**-6.9**	**-3.5**	**-4.6**	**0.0**	**1.6**	**1.5**	**2.3**
Of which: **primary balance (excluding grants)**	**7.8**	**7.0**	**10.8**	**13.0**	**11.3**	**13.7**	**14.1**	**14.0**	**14.1**
Off-budget expenditure	0.5	3.2	1.9	3.0	3.3	1.8	1.8	2.1	2.2
Overall balance	-6.1	-10.8	-8.7	-6.5	-7.9	-1.8	-0.2	-0.6	0.1
Memorandum items:									
Overall balance of public enterprises	0.5	0.6	1.6	0.0	0.0	0.2	0.5	1.0	1.0
Public sector overall balance	-5.5	-10.2	-7.1	-6.5	-7.9	-1.6	0.3	0.4	1.1
Public debt	146.4	146.4	142.6	136.4	136.6	126.5	116.6	108.6	100.5
Gross financing requirement of the government	30.0	32.3	32.5	30.4	31.8	21.9	17.4	23.3	17.4
GDP (in billions of J$)	379.8	417.7	495.5	556.2	561.6	632.8	698.2	766.0	836.1

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

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

Table 4. Jamaica: Public Debt and Interest Payments

	2001/02	2002/03	Prel. 2003/04	Prog. 2004/05	Projections 2004/05	2005/06	2006/07	2007/08	2008/09
	(In billions of Jamaican dollars)								
Debt stock									
Public debt	502	611	707	758	767	800	814	832	840
Government debt	480	581	674	726	729	762	776	795	805
Domestic	300	369	425	464	465	479	481	488	489
Of which : US$ linked	60	73	97	101	93	99	103	106	109
External	180	212	249	262	265	283	295	307	316
Concessional	94	102	102	98	93	86	76	64	51
Commercial	86	110	146	164	172	197	219	243	265
Government guaranteed debt	22	30	33	32	38	39	38	37	36
External	15	21	27	26	32	29	28	27	26
Domestic	7	9	6	6	6	10	10	10	10
Domestic currency debt	248	305	334	369	377	389	388	392	390
Foreign currency debt	194	233	276	288	297	312	323	334	342
US$ linked debt	60	73	97	101	93	99	103	106	109
	(In percent of GDP)								
Public debt	132.1	146.4	142.6	136.4	136.6	126.5	116.6	108.6	100.5
Government debt	126.4	139.2	136.1	130.6	129.9	120.4	111.2	103.8	96.3
Domestic	79.0	88.4	85.9	83.5	82.7	75.7	69.0	63.8	58.5
of which: US$ linked	15.7	17.5	19.6	18.2	16.6	15.7	14.7	13.9	13.0
External	47.3	50.7	50.2	47.1	47.1	44.7	42.2	40.0	37.8
Concessional	24.8	24.5	20.7	17.7	16.6	13.7	10.8	8.3	6.1
Commercial	22.6	26.3	29.5	29.4	30.6	31.1	31.4	31.7	31.7
Government guaranteed debt	5.8	7.2	6.6	5.8	6.7	6.1	5.4	4.8	4.3
Domestic currency debt	65.2	73.0	67.4	66.3	67.1	61.5	55.6	51.1	46.6
Foreign currency debt	51.2	55.9	55.6	51.8	52.8	49.3	46.3	43.6	40.9
US$ linked debt	15.7	17.5	19.6	18.2	16.6	15.7	14.7	13.9	13.0
Budgetary interest payments									
Total	13.4	14.9	17.8	17.3	17.0	14.1	12.9	12.7	12.0
Domestic	10.6	11.2	14.4	13.5	13.3	10.0	8.7	8.7	8.0
Of which : US$ linked	1.2	1.4	1.7	1.9	3.6	1.5	1.3	1.2	1.4
External	2.8	3.6	3.4	3.8	3.8	4.1	4.2	4.0	4.0
Concessional	0.8	1.4	1.4	1.2	1.2	1.0	0.9	0.7	0.7
Commercial	2.0	2.2	1.9	2.6	2.6	3.1	3.3	3.2	3.3
Memorandum items:									
Net debt (in billions of J$)	480	589	685	736	745	778	792	810	818
In percent of GDP	126.3	141.1	138.2	132.4	132.7	123.0	113.4	105.7	97.9
Gross debt held by the market (in percent of GDP)	84.3	95.7	100.9	98.7	99.2	94.3	89.1	85.0	80.6
Domestic currency	43.4	52.7	52.8	52.0	52.9	48.4	43.7	40.1	36.5
Foreign currency or US$ linked	40.9	43.0	48.1	46.7	46.4	45.9	45.4	44.9	44.1
Total debt (in billions of US$)	10.5	10.9	11.6	11.9	12.2	12.0	11.8	11.7	11.5
Foreign curency debt (in billions of US$)	4.1	4.2	4.5	4.5	4.7	4.7	4.7	4.7	4.7
GDP (in billions of J$)	380	418	495	556	562	633	698	766	836

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

Table 5. Jamaica: Summary Accounts of the Bank of Jamaica 1/

	2001/02	2002/03	2003/04	Prog. 2004/05	Projections 2004/05	2005/06	2006/07	2007/08	2008/09
	(In billions of Jamaica dollars)								
End-of-period stocks 1/									
Net international reserves	94.8	75.0	95.5	86.7	103.4	99.9	119.9	134.0	139.3
Net domestic assets	-64.5	-42.5	-59.3	-44.9	-62.7	-54.1	-69.3	-78.4	-78.7
Net claims on public sector 2/	36.5	63.7	75.6	93.3	99.2	102.9	115.1	133.3	152.2
Of which: central government	41.1	57.0	68.5	83.6	84.8	94.1	104.8	119.3	135.9
Open market operations	-99.2	-86.2	-108.3	-113.0	-132.7	-120.8	-144.3	-166.8	-185.5
Of which : commercial banks	29.4	17.0	25.3	25.1	27.4	50.8	74.7	102.3	136.7
Credit to commercial banks	-4.4	-12.5	-13.7	-12.3	-13.8	-14.2	-14.3	-14.9	-12.0
Net credit to nonbank financial institutions	-0.8	-0.7	-0.6	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6
Other 3/	3.3	-6.8	-12.4	-12.4	-14.9	-21.4	-25.2	-29.5	-32.9
Monetary base	30.2	32.5	36.2	41.8	40.7	45.9	50.6	55.5	60.6
Currency in circulation	17.4	17.3	20.6	23.2	23.6	26.6	29.3	32.2	35.1
Liabilities to commercial banks	12.8	15.2	15.6	18.6	17.1	19.3	21.3	23.3	25.5
Fiscal year flows 1/									
Net international reserves	36.9	-19.7	20.5	-8.9	7.8	-3.4	19.9	14.1	5.3
Net domestic assets	-37.1	22.0	-16.8	14.5	-3.3	8.6	-15.2	-9.2	-0.3
Net claims on public sector 2/	4.7	27.2	11.9	17.7	23.6	3.7	12.2	18.2	18.9
Of which: central government	26.2	15.9	11.5	15.2	16.4	9.2	10.7	14.5	16.7
Open market operations	-37.8	13.0	-22.1	-4.7	-24.4	11.9	-23.5	-22.4	-18.7
Of which : commercial banks	21.2	-12.5	8.4	-0.2	2.1	23.3	23.9	27.6	34.3
Credit to commercial banks	2.2	-8.1	-1.2	1.3	-0.1	-0.5	0.0	-0.6	2.9
Net credit to nonbank financial institutions	-0.1	0.1	0.1	0.2	0.2	-0.1	0.0	0.0	0.0
Other 3/	-6.1	-10.2	-5.5	0.0	-2.6	-6.4	-3.8	-4.4	-3.4
Monetary base	-0.3	2.3	3.7	5.6	4.5	5.2	4.7	4.9	5.1
Currency in circulation	1.6	-0.2	3.3	2.6	3.0	3.0	2.8	2.9	3.0
Liabilities to commercial banks	-1.8	2.4	0.4	3.0	1.6	2.2	2.0	2.1	2.1
	(Changes in percent of beginning-of-period monetary base)								
Net international reserves	121.0	-65.3	63.1	-24.5	21.7	-12.2	43.5	27.9	9.6
Net domestic assets	-121.8	72.8	-51.8	40.0	-9.2	24.9	-33.1	-18.1	-0.5
Net claims on public sector 2/	15.4	90.1	36.7	48.8	65.2	9.1	26.5	36.0	34.1
Open market operations	-123.9	43.0	-67.9	-13.0	-67.4	31.7	-51.3	-44.3	-33.7
Net credit to commercial banks	7.2	-26.8	-3.7	3.7	-0.2	-1.1	-0.1	-1.2	5.2
Net credit to nonbank financial institutions	-0.4	0.2	0.2	0.4	0.4	-0.2	0.0	0.0	0.0
Other 3/	-20.1	-33.7	-17.0	0.0	-7.1	-14.6	-8.2	-8.6	-6.1
Monetary base	-0.8	7.5	11.3	15.5	12.5	12.7	10.3	9.7	9.1
Memorandum items									
Change in net claims on the central government (percent of GDP)	6.9	3.8	2.3	3.1	3.3	1.5	1.5	1.9	2.0
Required cash reserves (percentage points)	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Exchange rate (eop)	47.6	56.1	60.9	…	…	…	…	…	…
NIR (in millions of U.S. dollars)	1,942	1,339	1,569	1400.0	1,670	1,502	1,740	1,879	1,906

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

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

Table 6. Jamaica: Summary Monetary Survey 1/

				Prog.	Projections				
	2001/02	2002/03	2003/04	2004/05	2004/05	2005/06	2006/07	2007/08	2008/09
				(In billions of Jamaica dollars)					
End-of-period stocks 1/									
Net international reserves	99.9	87.9	102.1	93.8	110.6	107.8	128.4	143.2	148.8
Net domestic assets	47.8	70.8	88.7	122.9	100.2	129.7	133.7	144.3	165.1
Net claims on public sector 2/	119.4	151.0	164.8	183.7	196.2	190.6	192.1	195.8	198.0
Of which: central government	119.7	131.8	147.3	165.4	173.1	173.1	173.1	173.1	173.1
Open market operations	-69.8	-69.2	-83.0	-87.9	-105.3	-70.0	-69.6	-64.4	-48.8
Credit to private sector	39.8	54.7	79.9	106.1	89.3	100.6	111.0	121.8	133.0
Of which: foreign currency	11.2	19.5	27.0	32.9	32.9	36.9	41.2	45.6	48.0
Other 3/	-41.7	-65.6	-73.0	-79.0	-80.0	-91.5	-99.8	-108.9	-117.1
Liabilities to private sector (M3)	147.7	158.7	190.8	216.8	210.8	237.5	262.1	287.5	313.8
Money supply (M2)	108.0	107.5	124.9	141.5	138.3	155.8	172.0	188.7	205.9
Foreign currency deposits	39.7	51.2	65.9	75.3	72.5	81.7	90.1	98.9	107.9
Fiscal year flows 1/									
Net international reserves	32.6	-12.0	14.2	-8.2	8.5	-4.3	20.6	14.8	5.6
Net domestic assets	-19.2	23.1	17.9	34.2	11.5	29.5	3.9	10.7	20.7
Net claims on public sector 2/	22.6	31.6	13.8	19.0	31.4	-5.6	1.5	3.8	2.2
Of which: central government	95.5	12.1	15.4	18.1	25.9	0.0	0.0	0.0	0.0
Open market operations	-16.6	0.5	-13.7	-4.9	-22.3	35.2	0.4	5.2	15.6
Credit to private sector	5.8	14.9	25.2	26.2	9.4	11.3	10.4	10.8	11.1
Of which: foreign currency	3.9	8.4	7.5	5.8	5.8	4.1	4.2	4.4	2.4
Other 3/	-31.0	-24.0	-7.3	-6.0	-7.0	-11.5	-8.3	-9.1	-8.2
Liabilities to private sector (M3)	13.5	11.0	32.1	26.0	20.0	26.7	24.6	25.5	26.3
Money supply (M2)	6.9	-0.5	17.4	16.6	13.4	17.5	16.1	16.7	17.3
Foreign currency deposits	6.5	11.6	14.6	9.4	6.6	9.2	8.4	8.8	9.0
				(Changes in percent of beginning-of-period M3)					
Net international reserves	24.3	-8.1	9.0	-4.3	4.4	-1.3	8.7	5.7	1.9
Net domestic assets	-14.3	15.6	11.3	18.0	6.0	14.0	1.7	4.1	7.2
Net claims on public sector 2/	16.8	21.4	8.7	9.9	16.5	-2.6	0.6	1.4	0.8
Of which: central government	71.2	8.2	9.7	9.5	13.5	0.0	0.0	0.0	0.0
Open market operations	-12.3	0.4	-8.6	-2.6	-11.7	16.7	0.2	2.0	5.4
Credit to private sector	4.3	10.1	15.9	13.7	4.9	5.4	4.4	4.1	3.9
Of which: foreign currency	2.9	5.7	4.7	3.1	3.1	1.9	1.8	1.7	0.8
Other 3/	-23.1	-16.2	-4.6	-3.2	-3.7	-5.4	-3.5	-3.5	-2.9
Liabilities to private sector (M3)	10.0	7.5	20.2	13.6	10.5	12.7	10.3	9.7	9.1
Memorandum items:									
Dollarization (share of FCD in total deposits)	30.5	36.2	37.6	37.6	38.7	38.7	38.7	38.7	38.7
M3 velocity	2.6	2.6	2.6	2.6	2.7	2.7	2.7	2.7	2.7

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

1/ Fiscal year runs from April 1 to March 31.
2/ Includes Bank of Jamaica operating balance and net unclassified assets.
3/ Includes net credit to nonbank financial institutions, capital accounts, valuation adjustment, securities sold under repo and net unclassified assets

Table 7. Jamaica: Selected Vulnerability Indicators

	2001/02	2002/03	Prel. 2003/04	Proj. 2004/05
Key economic and market indicators				
Real GDP growth (in percent)	1.0	1.9	2.0	1.5
CPI inflation (period average, in percent)	8.0	6.5	12.9	11.7
Short-term (ST) interest rate (in percent)	14.3	33.4	16.0	14.5
EMBI secondary market spread (bps, end of period)	550.0	800.0	551.0	515.0
Exchange rate NC/US$ (end of period)	47.5	56.1	60.8	62.8
External sector				
Exchange rate regime		Managed float		
Current account balance (percent of GDP)	-9.6	-14.9	-6.5	-10.2
Net FDI inflows (percent of GDP)	5.7	4.1	7.3	4.4
Export growth (US$ value, percentage change, GNFS)	-8.6	1.3	7.6	5.2
Real effective exchange rate (1995=100)	138.6	144.0	123.5	117.5
Gross international reserves (GIR) in US$billion	2.0	1.4	1.6	1.7
GIR in percent of ST debt at remaining maturity	210.0	251.0	350.6	302.1
Net international reserves (NIR) in US$billion	1.9	1.3	1.6	1.7
Total gross external debt in percent of GDP	50.7	50.0	55.6	55.6
Of which : ST debt (original maturity in percent of GDP)	…	…	…	…
Private sector debt (in percent of GDP)	…	…	…	…
Total gross external debt in percent of exports of GNFS	127.1	126.9	127.8	127.8
Gross external financing requirement (in US$ billion)	0.9	1.8	1.1	1.3
Public sector 1/				
Overall balance (percent of GDP)	-6.1	-10.8	-8.7	-7.9
Primary balance (percent of GDP)	7.8	7.3	10.9	12.5
Debt-stabilizing primary balance (percent of GDP) 2/	7.3	17.3	10.0	9.0
Debt-service in percent of total revenue	129.2	129.6	128.8	129.9
Gross public sector financing requirement (in percent of GDP)	30.2	32.1	28.6	23.7
Public sector gross debt (PSGD, in percent of GDP)	132.1	146.4	142.6	136.6
Of which : external debt from official creditors (in percent of total PSGD)	20.9	16.7	14.4	12.6
External debt from private creditors (in percent of total PSGD)	18.7	18.0	21.5	21.6
Domestic debt linked to foreign currency (in percent of total PSGD)	6.5	11.9	13.1	12.9
Domestic debt at variable interest rate or indexed to inflation (in percent of total PSGD)	51.8	51.6	41.8	42.5
Public sector net debt (in percent of GDP)	…	…	…	…
Financial sector 3/				
Capital adequacy ratio (in percent)	17.8	14.4	13.1	13.5
NPLs in percent of total loans	8.0	4.9	3.9	3.1
Provisions in percent of NPLs	126.5	117.9	117.1	118.2
Pre-tax return on average assets (in percent) 4/	2.8	4.4	3.6	3.2
FX deposits (in percent of total deposits)	30.5	36.2	38.7	33.5
FX deposits (in percent of gross international reserves)	40.5	54.4	67.9	68.4
FX loans (in percent of total loans)	28.1	35.7	33.8	33.1
Net open forex position (balance sheet exposure) (in percent of capital) 5/	…	20.9	-8.2	-8.2
Ratio of gross notional off-balance sheet exposure to capital	…	…	…	…

Sources: Jamaican authorities and Fund staff estimates.

1/ Includes central government only.

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

3/ Includes all deposit-taking institutions supervised by the Bank of Jamaica (commercial banks, merchant banks, building societies and credit unions) except for FX indicators which relate to commercial banks only.

4/ Annualized data for the most recent quarter.

5/ Includes commercial banks only.

Table 8. Jamaica: Summary Balance of Payments

(In millions of U.S. dollars)

			Prel.	Revised	Prog.	Projections				
	2001/02	2002/03	2003/04	2003/04	2004/05	2004/05	2005/06	2006/07	2007/08	2008/09
Current account	-764	-1,249	-865	-526	-1,178	-923	-1,010	-1,324	-768	-463
Trade balance	-1,577	-2,023	-1,874	-1,770	-2,103	-2,129	-2,281	-2,691	-2,305	-2,152
Exports (f.o.b.)	1,424	1,307	1,408	1,463	1,550	1,492	1,602	1,608	1,778	1,965
Imports (f.o.b.)	3,001	3,330	3,282	3,233	3,653	3,621	3,883	4,299	4,083	4,117
Services (net)	321	308	471	585	542	520	603	617	789	931
Transportation	-254	-243	-194	-129	-213	-171	-199	-263	-196	-169
Travel	956	989	1,096	1,121	1,214	1,112	1,254	1,364	1,504	1,659
Other services	-390	-439	-431	-407	-460	-421	-452	-483	-519	-559
Income (net)	-457	-629	-641	-571	-832	-694	-714	-683	-738	-783
Of which : interest (net)	-204	-300	-298	-297	-392	-365	-371	-359	-340	-319
Current transfers (net)	958	1,096	1,178	1,230	1,215	1,381	1,381	1,432	1,486	1,541
Capital and financial account	1,545	647	1,094	755	1,014	1,030	841	1,562	906	490
Capital account (net)	-24	-16	-17	0	-18	2	2	2	2	-20
Financial account (net)	1,569	663	1,111	755	1,032	1,028	840	1,561	905	510
Direct investment (net)	454	347	396	593	337	420	723	1,398	782	557
Official capital flows (net)	590	-227	138	143	147	137	39	29	19	20
Portfolio investment (net)	-26	-195	-190	-286	-182	-286	-245	-202	-156	-109
Other private inflows (net) 1/	550	738	767	304	730	758	322	336	260	42
Overall balance/change in reserves	656	-602	229	229	-163	107	-169	239	139	27
Memorandum items:										
Net international reserves	1,942	1,340	1,569	1,569	1,400	1,670	1,502	1,740	1,879	1,906
Current account/GDP (percent)	-9.6	-14.9	-10.6	-6.5	-13.2	-10.2	-10.3	-12.8	-7.0	-4.0
Exports/GDP (percent)	17.8	15.6	17.3	18.0	17.4	16.4	16.4	15.5	16.2	16.9
Imports/GDP (percent)	37.6	39.8	40.3	39.7	41.0	39.9	39.6	41.4	37.1	35.3
Trade balance/GDP (percent)	-19.8	-24.2	-23.0	-21.7	-23.6	-23.5	-23.3	-25.9	-21.0	-18.5
Services/GDP (percent)	4.0	3.7	5.8	7.2	6.1	5.7	6.2	5.9	7.2	8.0
Debt service/exports of goods and services	19.2	31.9	16.5	16.5	23.3	25.9	25.1	17.7	21.0	21.5
GDP	7,979	8,367	8,143	8,143	8,909	9,069	9,794	10,379	11,001	11,663

Sources: Jamaican authorities; and Fund staff projections.

1/ Includes errors and omissions.

JAMAICA—FUND RELATIONS
(As of December 31, 2004)

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

II. **General Resources Account**:	**SDR Million**	**Percent of Quota**
Quota	273.50	100.00
Fund holdings of currency	277.42	101.44

III. **SDR Department**:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	40.61	100.00
Holdings	0.05	0.13

IV. **Outstanding Purchases and Loans**:	**SDR Million**	**Percent of Quota**
Extended arrangement	1.17	0.43

V. **Latest Financial Arrangements**:

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

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

	Projections				
	2004	2005	2006	2007	2008
Principal	0.58	0.58			
Charges/interest		0.91	0.90	0.90	0.90
Total	0.58	1.49	0.90	0.90	0.90

VII. **Exchange Rate Arrangements**:

The external value of the Jamaican dollar has been determined in an interbank market operated by commercial banks beginning September 17, 1990. The Jamaican dollar has depreciated significantly since then, though not in a uniform trend. Since January to September 2002 the exchange rate depreciated gradually from J$47½ to J$48 per U.S. dollar, but it has depreciated slightly more quickly during September to December as market uncertainties rose. After the Bank of Jamaica's intervention, the market has stabilized at around J$51. The Jamaican dollar depreciated further during the first quarter of 2003 but has stabilized since May 2003. At March 31 it was trading at around J$61 to the U.S. dollar. A multiple currency practice (MCP) exists subject to Fund jurisdiction under Article VIII. The MCP arises from the implementation of the surrender requirement where authorized foreign exchange dealers and cambios are required to surrender at least 5 percent—but not more than 10 percent—of their purchases of U.S. dollars, Canadian dollars and pound sterling to the Bank of Jamaica (BOJ). This surrender requirement is effected based on the previous day's average selling rate for the U.S. dollar, the Canadian dollar and the pound sterling respectively against the Jamaican dollar (referred below as "surrender rates"). For the period of April 2003–March 2004, the surrender rates have resulted in the cross rates between the U.S. dollar and the Canadian dollar and between the U.S. dollar and the pound sterling to differ periodically (for more than 5 days) by more than 1 percent from the midpoint spot exchange rates for those two currency pairs in their principal markets.

VIII. Last Article IV Consultation and Program Relations:

Jamaica is on the standard 12-month consultation cycle, and the last Article IV consultation was completed by the Executive Board on August 4, 2004 (IMF Country Report No. 04/263). In July 2002, the Jamaican authorities requested a staff-monitored program (SMP) (IMF Country Report No. 02/197) for the period from April 2002 through March 2003.

IX. Technical Assistance:

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

X. Resident Representative:

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