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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 Matthew Fisher

July 31, 2006

Context. Jamaica is a sizeable Caribbean island economy with a very high debt burden. The authorities' policies center around a medium-term strategy to reduce debt through fiscal consolidation.

Fund relations. Jamaica is under intensified Fund surveillance. Staff monitor the implementation of the economic strategy formulated by the authorities without reaching prior understandings with the Fund. Interim staff reports are issued for information of the Executive Board in between Article IV consultations, the most recent of which was concluded on March 24, 2006.

Recent developments. The economy is making a gradual recovery following a series of adverse shocks during 2004–05. Growth is estimated to be about 2 percent in FY 2005/06 (April–March), compared with ½ percent the previous year. Inflation eased to 8½ percent (12-month basis) in May 2006 after peaking at 19 percent in late 2005.

Discussions. Discussions were held in Kingston during June 7–20, 2006. The mission team—comprising Sanjaya Panth (head), Goohoon Kwon, Rafael Romeu, and Rituraj Mathur (all WHD); and, Piyabha Kongsamut (PDR)—met with the Minister of Finance, the Hon. Omar Davies; Governor Derick Latibeaudiere of the Bank of Jamaica; Financial Secretary Colin Bullock; other senior government officials; representatives of the private sector; and the opposition party. Mr. Jonathan Fried, Executive Director, attended the concluding policy discussions.

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EXECUTIVE SUMMARY

The economy is making a gradual recovery from shocks. Starting in late 2004, real GDP was adversely affected by natural disasters while inflation increased sharply, reflecting higher agriculture prices and larger oil import costs. During the fourth quarter of 2005, however, real GDP grew by 2.4 percent, boosting growth for the calendar year to 1.4 percent, up from 0.9 percent in 2004. Headline inflation stood at 8½ percent in May 2006, compared to 19 percent in September 2005.

Progress is being made in reducing high debt, albeit at a slower pace than envisaged earlier due, in part, to wider-than-anticipated budget deficits as well as slower growth. Public debt is estimated by staff to have fallen from 144 percent at the end of FY 2003/04 (April to March) to about 133 percent currently. The latter includes about 2½ percent of GDP in pre-financing for this year. Budget outcomes for the past two fiscal years have not met expectations—including that of balancing the budget in FY 2005/06—mainly on account of lower-than-anticipated revenue collections.

Discussions focused on the pace of fiscal consolidation. The budget for FY 2006/07 envisages an overall fiscal deficit of 2.7 percent of GDP on the basis of a targeted primary surplus of 10.1 percent of GDP, down from 11 percent of GDP in FY 2005/06. In view of the high debt, the mission viewed the recovering economy as providing an opportunity to aim for a more ambitious objective. It suggested taking both revenue and expenditure measures. The authorities pointed out that by international standards, Jamaica's primary surplus remains extraordinarily high and that the important point was that the overall deficit was expected to continue to improve, by close to 1 percent of GDP relative to the FY 2005/06 outturn.

Achieving the budget objective hinges on the authorities' tax administration efforts. The authorities have adopted an active and aggressive strategy to widen the tax base and strengthen the underlying fiscal position by improving tax administration. While commending the direction and preliminary results of these efforts, the mission cautioned that expectations that the efforts would yield 2½ percent of GDP may be optimistic.

Structural reforms will remain key to guarding against erosion by off-budget entities of the gains made in the budget. The authorities' commitments to fiscal discipline by public entities and reform of loss making enterprises will have an important bearing on Jamaica's debt dynamics.

I. Background

1. **At the request of the Jamaican authorities, Fund staff regularly monitors the design and implementation of their economic program**. In 2004, Jamaica initiated an ambitious medium-term strategy to reduce the public debt from about 144 percent of GDP to around 100 percent of GDP by 2009 through fiscal consolidation. Also in 2004, the authorities requested intensified surveillance by the Fund of their strategy and the Executive Board supported this request. Under this arrangement, interim staff reports are issued for information to the Board between comprehensive Article IV consultations, the most recent of which was concluded on March 24, 2006.

2. **Progress is being made in reducing public debt despite adverse shocks and revenue shortfalls**. Currently, gross public debt is estimated by staff at 133 percent of GDP, of which about 2½ percent of GDP represents pre-financing for FY 2006/07 (April to March).[1] This compares to expectations in 2004 that debt would be reduced to about 125–127 percent of GDP by now. The higher debt outcome reflects both lower than expected GDP and higher fiscal deficits. Real GDP contracted sharply and unexpectedly in late 2004 following the devastating impact of Hurricane Ivan, and the subsequent economic recovery was dampened by other, although less severe, natural disasters. Revenue shortfalls, in part reflecting the natural disasters, have contributed to missed budget targets, and therefore slower progress in reducing debt.

3. **A change has occurred in political leadership and early elections may be in the offing**. Early this year, Ms. Portia Simpson Miller emerged victorious in an internal contest for the leadership of the governing People's National Party (PNP). In March 2006, she took over the prime ministership from P.J. Patterson, who stepped down after 14 years at the helm. Most ministers in the Patterson cabinet, including Finance Minister Davies (who had also contested the party leadership) have retained their portfolios in the current cabinet. The next general elections are due by October 2007 but there is increasing speculation that elections will be called early. The opposition Jamaica Labor Party—which currently controls most local governments—has already finalized its electoral candidate list.

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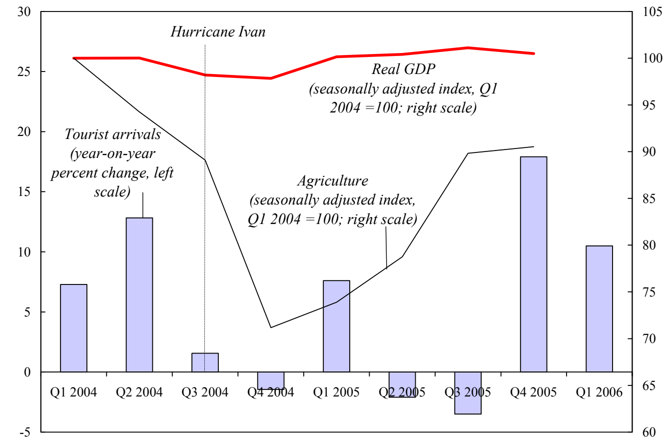
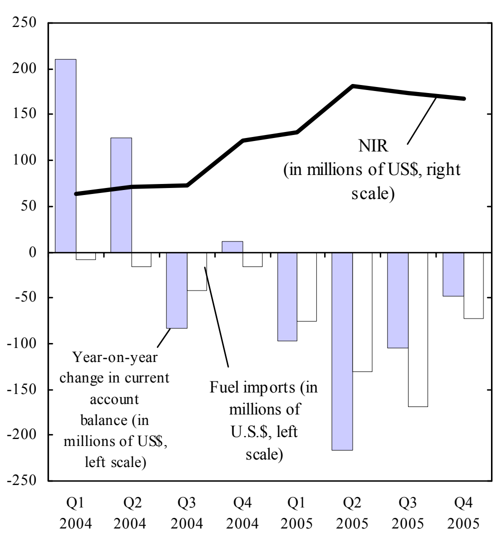
[1] Public debt includes debt contracted, taken over, or guaranteed by the central government. Excludes borrowing by off-budget entities on their own account, i.e., without sovereign guarantee.

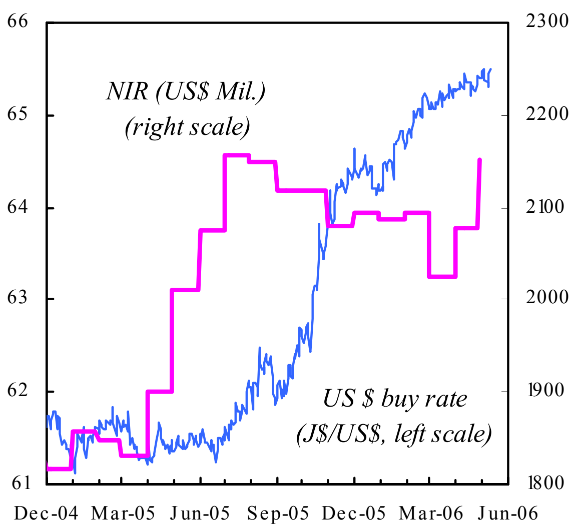
II. Recent Economic Developments

4. **The economy is making a gradual recovery, sustained by strength in agriculture and tourism**. Real GDP grew 2.4 percent (year-on-year) during the fourth quarter of 2005, boosting economic growth for the calendar year to 1.4 percent, up from 0.9 percent in 2004. The unemployment rate fell by 0.4 percentage points, to 11.3 percent in 2005. The economic recovery has largely been driven by the rebound of agriculture and tourist arrivals from their troughs associated with Hurricane Ivan of September 2004. Manufacturing and mining, in contrast, declined in the fourth quarter of 2005, due to factory closures and temporary power disruptions. Business and consumer confidence indices are on the rise but flash GDP estimates for the first quarter of 2006 indicate continuing weaknesses in manufacturing and mining and a sharp decline in construction due to a disruption in cement supply.

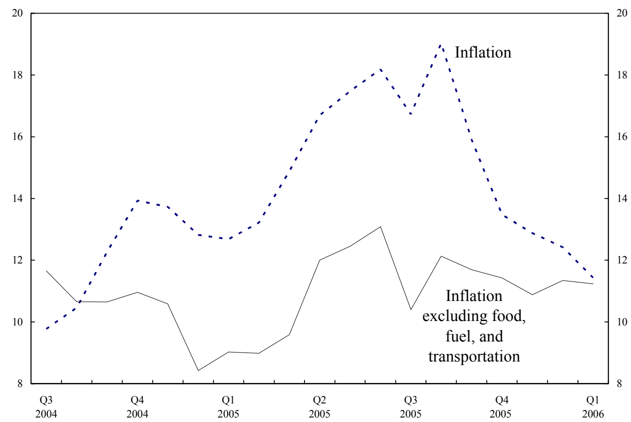


5. **External current account developments reflect the economic recovery and high oil prices**. A pick-up of agricultural exports and tourism, as well as favorable aluminum prices, have more than offset an increase in nonfuel consumption goods imports. Nevertheless, the current account deficit is estimated to have deteriorated by 3 percentage points of GDP during FY 2005/06, to approximately 10 percent of GDP. This deterioration is mostly on account of higher fuel prices, which are fully passed on to retail consumers in Jamaica. The current account deficit is being financed by inflows to both the private and public sectors—net international reserves have in recent weeks regained their highs reached in mid-2005 and the exchange rate has remained broadly stable.





6. **Headline inflation has fallen to single digits, with declining food prices somewhat offsetting recent increases in petroleum prices**. Annual consumer price inflation, which had peaked at 19 percent in September 2005, has recently been dampened by the recovery in agriculture. Food prices—accounting for over half the consumer basket—fell by 1½ percent during the first quarter of 2006, compared to an increase of 11 percent during April–December 2005. Therefore, despite an increase in fuel prices by 18 percent (year-on-year) during FY 2005/06, headline inflation at end-year was 11½ percent. Since then, inflation has continued to fall—to 8½ percent in May 2006.



7. **Money and credit conditions have been eased recently by the Bank of Jamaica (BOJ) in response to the output recovery and declining inflation**. In response to temporarily unsettled market conditions, the BOJ had adopted a tighter monetary policy stance than originally programmed for most of FY 2005/06. In response to rising money demand associated with the favorable recent output, exchange rate and inflation developments, the BOJ removed on May 1 a special reserve requirement for banks and on May 12, reduced its interest rates for open market instruments (OMOs) by 15–20 basis points.[2] It also streamlined its intervention instruments by eliminating the 270-day and 365-day OMOs. Broad money and credit extension (by both banks and other deposit-taking institutions such as building societies and credit unions) have recently picked up along with economic activity.

8. **The FY 2005/06 balanced budget target for the central government was missed by 2.7 percent of GDP, notwithstanding an increase in tax rates in April 2005 and a pick up in revenue collection at the end of the fiscal year**.[3] For the most part, a shortfall in tax revenues of 2½ percent of GDP accounts for the missed target. Nearly three-quarters of this shortfall occurred in consumption taxes, despite increases in their statutory rates in the

[2] The reserve requirement had been introduced in 2003, initially at 5 percent in the wake of turmoil in the foreign exchange market and had been reduced to 1 percent in two steps between February and May 2005.

[3] The concept of the fiscal balance used here, including in the accompanying text table, is the one used by the authorities through FY 2005/06, i.e. it excludes the capitalized interest on BOJ special issue bonds (see Tables 2 and 3). All other references to the budget balance in this document use the new definition, which includes the capitalized interest.

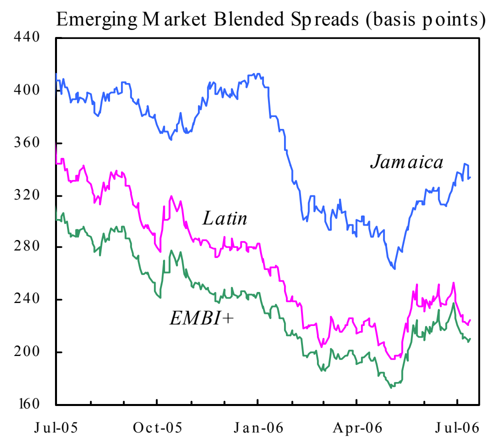
FY 2005/06 budget. The full-year revenue losses, which stemmed from a combination of natural disasters, weaker-than-expected consumption, poor compliance as well as delays and modifications to some of the budgeted measures, would have been larger were it not for a pick-up in collections during January–March 2006, when receipts exceeded originally budgeted amounts. The improvement at the end of the fiscal year is likely due to both the continuing economic recovery and an intensification of the authorities' efforts to collect tax arrears—the latter generated nearly 1 percent of GDP in the last few months of the year.

	FY 2004/05 1/			FY 2005/06 1/		
	Target	Actual	Deviation	Budget	Actual	Deviation
	(In percent of GDP)					
Budget balance	-3.5	-4.9	-1.5	0.0	-2.7	-2.7
Revenue and grants	31.8	30.8	-1.0	31.2	29.0	-2.2
Of which: tax revenue	28.8	27.5	-1.4	28.1	25.7	-2.4
Non-interest expenditure	17.9	19.1	1.1	17.6	17.9	0.3
Of which:						
Capital expenditure 2/	1.5	1.9	0.4	2.1	1.8	-0.3
Interest expenditure	17.3	16.7	-0.6	13.6	13.7	0.1
Domestic	13.5	13.1	-0.5	10.0	10.1	0.1
Foreign	3.8	3.6	-0.2	3.6	3.6	-0.1
GDP (in billions of J$)	556	556		643	645	

Sources: Jamaican authorities; and Fund staff estimates.

1/ Fiscal year runs from April 1 to March 31.
2/ Includes accounting entries from deferred financing projects recorded as capital expenditure.

9. **Financial markets have taken the recent fiscal slippages in stride**. Jamaican Eurobond spreads tightened considerably early this year, together with those of emerging market peers. The benign capital market conditions enabled the authorities to issue in late February a landmark 30-year Eurobond at a relatively low yield of 8.55 percent (or a 403 basis point spread), pre-financing all external financing needs for FY 2006/07. In recent weeks, Jamaican spreads have widened relatively more amid rising volatility in global financial markets but are still, on average, about one fifth below 2005 peaks.



III. Macroeconomic Outlook and the Budget for FY 2006/07

10. **The short-term macroeconomic outlook is broadly favorable**. For FY 2006/07, real GDP growth of about 3 percent is expected, up from an estimated outturn of around 2 percent during FY 2005/06. Growth is picking up due to ongoing large-scale hotel and infrastructure investment projects as well as buoyant tourism. Based on recent trends, and in line with the authorities' assumptions underlying the budget, inflation should remain moderate, ending the year under 10 percent (year-on-year). The external current account deficit will likely widen further to over 13 percent of GDP due to higher oil prices as well as an increase in imports related to foreign direct investment (FDI)—indeed, the BOJ considers it likely for FDI and imports to be even higher. If global financial markets remain stable, the

current account deficit for FY 2006/07 is likely to be financed mostly by private capital inflows (including FDI), with reserves declining only moderately relative to the level at the start of the fiscal year.[4]

11. **Parliament approved in mid-May a budget for FY 2006/07 that envisages a modest reduction of the central government budget deficit**. A deficit of 2.7 percent of GDP is being targeted for FY 2006/07. This represents an improvement of 0.9 percentage points of GDP over the FY 2005/06 outturn on a comparable basis (Table 2), although it is higher than the deficit of 1.7 percent of GDP (1 percent of GDP under the earlier definitions) that the authorities had hoped to target at the time of the 2005 Article IV consultations.[5] The recent decline in debt stocks, prudent debt management practices over the past several years, and the fall in domestic interest rates since the 2003 peak are expected to reduce the FY 2006/07 interest bill by 1.8 percentage points of GDP compared to the FY 2005/06 outturn. However, the targeted primary surplus of 10.1 percent of GDP, while still exceptionally high by international standards, would represent a weakening from FY 2005/06 by 0.9 percentage point of GDP.

- **Revenues and grants are projected by the budget to rise to 30⅓ percent of GDP, up from 29 percent of GDP in FY 2005/06**. There are no new tax policy initiatives included in the budget. The expected revenue outcome hinges critically on the envisaged yield of about 2½ percent of GDP from strengthened tax administration, which entails improving processes and stepping up arrears collection (see paragraph 17).

- **Total expenditures are expected to increase to 33 percent of GDP, up by ½ percentage points of GDP compared to the FY 2005/06 outturn**. Expenditure increases are concentrated on wages and capital spending. Regarding wages, a memorandum of understanding (MOU) between the government and public service unions, under which nominal wages had been frozen for the past two years, expired at end-March 2006. The government has agreed with most unions to an increase in wages of 13 percent during FY 2006/07 and a further 5 percent the following year.[6] However, two major unions have yet to sign on to the agreement, introducing an

[4] Of the approximately US$180 million increase in capital flows relative to last year, some US$100 million is expected on account of higher FDI, with the rest representing flows to the wider public sector (central government and other public entities) as well as the private sector.

[5] Including capitalized interest in BOJ special issue bonds for both years (see also Footnote 3).

[6] The wage bill includes, in addition, a performance-based increment that is not part of the new MOU.

element of uncertainty into the budgets.[7] As regards capital spending, the budget speech announced a number of new programs, including housing for the poor and sugar and tourism workers and increased allocations for early childhood education. Including provisions for one-off expenditures, capital spending is budgeted to double to 3¾ percent of GDP in FY 2006/07.

IV. Policy Discussions

Fiscal policy

12. **The mission noted its preference for a stronger fiscal effort in this year's budget**. Under difficult circumstances, some deviations from fiscal targets had occurred over the past two years. The mission viewed the recovering economy as now providing an opportunity to claw back some of these deviations. It noted that Jamaica's recent record of double digit primary surplus to GDP ratios was indeed remarkable. Nevertheless, the decline in that surplus of nearly 1 percentage point of GDP now expected for FY 2006/07 would mean a less rapid reduction in debt than otherwise.

13. **While acknowledging that the pace of fiscal consolidation was now somewhat slower than envisaged earlier, the authorities pointed to the substantial progress still being made**. They noted that the series of adverse natural events from the last two years continued to impact on the budget in the form of higher capital repair and rehabilitation costs. Absent one-off expenditures in the FY 2006/07 budget associated with preparing for the Cricket World Cup (1 percent of GDP) and the Education Transformation Project (0.5 percent of GDP), nonwage primary spending was already severely squeezed. The authorities emphasized that a primary surplus of over 10 percent of GDP continued to represent a very considerable fiscal effort. The important point, in their view, was that the budget was still moving in the right direction, with the overall deficit improving and the debt ratio expected to decline again this year.

14. **The mission advocated revenue or expenditure measures to place the fiscal position on a more sustainable footing**. The recent upward trend in global interest rates and increased volatility in global financial markets could signal a more difficult environment for highly indebted economies like Jamaica. In particular, interest savings could not be relied upon to improve the overall fiscal balance going forward. The authorities should, instead, consider introducing revenue measures and reducing entrenched primary expenditure pressures.

[7] There is comparability clause in the signed agreement and the budget assumes that the holdouts will agree to the same terms.

15. **The mission recommended consideration of a number of fiscal measures**. Regarding revenues, it suggested widening the tax net through presumptive taxation, expanding the tax on motor vehicles, and introducing a capital gains tax. As regards expenditures, the mission noted that notwithstanding the FY 2006/07 wage increases, civil servants' real incomes had declined sharply with the earlier across-the-board wage freezes, making it difficult for the government to retain qualified and motivated staff in critical functions. At the same time, the expansion of public sector employment in the 1990s left the overall wage bill at a high level. The mission suggested that civil service reform could help rationalize the wage structure and allow the government to attract and retain qualified personnel within a leaner overall envelope.

16. **The authorities concurred that they may need to consider measures if their ongoing efforts to improve revenue collections faltered but that the appropriate priority now was to strengthen tax administration**. They noted that initiatives such as civil service reform and the introduction of major new taxes required a degree of political and social consensus that would be difficult to engender at the current point of the electoral cycle. Specific recommendations that may appear logical in principle could be very difficult to introduce in practice. In any case, the experience in FY 2005/06—when tax collections fell in real terms despite increased rates—suggested that the capacity to generate additional revenues from the tax compliant segment of the economy had reached its limits. The priority now, on both efficiency and equity grounds, was to improve compliance as part of an active and aggressive strategy to widen the tax base and strengthen the underlying fiscal position.

17. **While commending the direction and preliminary results of the tax administration efforts, the mission cautioned that expectations may be optimistic**. The weakness in revenue collections last fiscal year as well as the large stock of outstanding tax arrears suggested that there remained further room to improve administration and compliance. In this context, the mission welcomed the recent steps taken by the authorities, including bringing in new expertise, improving taxpayer education and information, easing the burden of tax compliance, and increasing collaboration between the tax authorities and various other entities. These steps already appeared to be having discernible effects on collections. At the same time, it appeared optimistic to assume that they would yield the full budget projection of a 2½ percent of GDP increase in revenues.The total stock of arrears excluding penalties and interest now amounted to only 4¾ percent of GDP and there likely existed decreasing returns to arrears recovery.

18. **There was agreement that the budget would remain very constrained in the period ahead**. The mission advised the authorities to underexecute, to the extent possible, this year's expenditure program until after it has become clear that revenues have improved substantially, and to prepare contingencies in the event revenues fell short, or natural disasters struck. Beyond this year, meeting the authorities' fiscal plans for FY 2007/08 implied not replacing one-off capital expenditures in this year's budget with new spending, containing spending on other recurrent programs in line with inflation (implying a relative

shrinking of government expenditures in relation to GDP), and sustaining much of the revenue gains from improved tax administration expected this year. The authorities explained the difficulties in delaying budgeted expenditures and reiterated that the one-time capital expenditures from FY 2006/07 would not be carried forward into the medium term.

19. **The mission urged vigilance to ensure that public entities do not expand the overall spending envelope, including through the use of PetroCaribe funds**. Public entities' underlying balances appeared to be weakening (Box 1) and some of their activities, such as the plans of the National Insurance Fund to extend loans to small enterprises, raised questions as to whether they were being strictly limited to their core mandates. In this regard, the authorities' intentions to use at least some of the cashflow savings from the PetroCaribe agreement to finance public entities' spending were potentially worrisome. The mission noted the benefits of regularly monitoring and disseminating data on all borrowing by public entities and recommended that the concessional funding available from the PetroCaribe agreement be used to offset more expensive borrowing of the central government instead. Furthermore, any receipts and uses of the funds should be reflected fully in the government accounts and its administration integrated into the budget process to ensure transparency, efficiency and accountability of public spending.

20. **The authorities underscored their intention to use the PetroCaribe savings wisely and in accordance with proper budgetary procedure**s. They explained that they would use the cash flow savings to replace already planned but more expensive borrowing (including domestic borrowing) by public entities. As such, the savings would not be used to increase public entities' spending relative to current plans. A committee headed by the Financial Secretary would be in charge of vetting requests for funding from an off-budget entity (the PetroCaribe Development Fund) to be established shortly and the Fund would operate fully in line with all legal and constitutional requirements.

Monetary and exchange rate policy

21. **The authorities' monetary policy stance is geared toward realizing the inflation objective while ensuring that credit to the economy continues to grow in line with the recent trend**. The Bank of Jamaica (BOJ) plans to issue open market operations (OMO) instruments this fiscal year to limit the impact on net domestic assets of an expected drawdown of government deposits (associated with the February Eurobond) as well as continuation of central bank losses. Base money is programmed to grow by about 12 percent, broadly in line with nominal GDP. With no change expected in the money multiplier, this should translate into broad money growth of about the same rate, and coupled with a small decline in commercial banks' net foreign assets, create room for growth in credit to the economy of about 15 percent.

22. **The mission cautioned the authorities to remain vigilant against pressures on the capital account**. The BOJ's lowering of interest rates, combined with the hikes in the United

Box 1. Jamaica: Public Sector Entities

Public entities in Jamaica comprise statutory bodies, agencies, and state owned enterprises. Their significance has grown recently, given their increasing prominence in executing infrastructure programs, which exceed budgetary capital expenditure. These programs are financed by direct commercial borrowing by the public entities as well as budgetary transfers. Debt that is not guaranteed by the central government is not counted as part of the stock of public debt.

The financial soundness of public entities has traditionally affected the central government budget materially. The authorities have periodically provided debt relief or direct transfers to distressed public entities. For example, the National Water Commission received debt relief in FY 2004/05, and again in FY 2005/06, along with letters of undertaking to help secure better financing terms. In the other direction, the National Housing Trust paid a one-time dividend to the budget of about J$5 billion in FY 2005/06.

The latest financial accounts and the government's projections show a weakening of the underlying balances of the public entities. The FY 2005/06 outturn was better than projected on a cash basis. However, the underlying balance was considerably weaker after adjusting for increased payables by Petrojam associated with a lengthening of the period for making payments for oil deliveries. Furthermore, a significant rise in the deficit is being projected by the authorities for FY 2006/07. The increased FY 2006/07 deficit arises mainly from expansionary capital expenditure being undertaken by the Port Authority of Jamaica, Airports Authority of Jamaica and the National Housing Trust. The authorities expect the capital spending of these entities to have a positive impact on economic growth and represent necessary expenditures for achievement of the wider development objective.

Consolidated Balance of Public Sector Entities 1/

	2004/05 Act.	2005/06 Bgt proj.	2005/06 Prel.	2006/07 Bgt proj.
	(In billions of Jamaican dollars)			
Public sector entity balance	-3.9	-2.8	-0.5	-13.9
Selected public entities 2/	0.7	2.0	7.5	-9.9
Three large loss-makers	-8.4	-6.8	-9.2	-5.6
Air Jamaica	-6.9	-5.7	-7.1	-5.0
Sugar Company of Jamaica	-0.7	-0.1	-1.4	-0.4
Urban Transit Corporation	-0.7	-1.0	-0.7	-0.2
Other public entities	3.8	1.9	1.2	1.6
	(In percent of GDP)			
Public sector entity balance	-0.7	-0.4	-0.1	-1.9
Selected public entities 2/	0.1	0.3	1.2	-1.4
Three large loss-makers	-1.5	-1.1	-1.4	-0.8
Air Jamaica	-1.2	-0.9	-1.1	-0.7
Sugar Company of Jamaica	-0.1	0.0	-0.2	-0.1
Urban Transit Corporation	-0.1	-0.2	-0.1	0.0
Other public entities	0.7	0.3	0.2	0.2
Memorandum items:				
Change in net payables (in percent of GDP)	-0.8	0.0	1.0	0.1
Public sector entity balance, adjusted for changes in net payables (in percent of GDP)	0.1	-0.4	-1.1	-2.1

Sources: Jamaican authorities; and Fund staff estimates.
1/ Air Jamaica's balances (after government transfers) are included in all periods for comparability.
2/ Airports Authority of Jamaica, Human Employment and Resource Training, Jamaica Mortgage Bank, National Housing Development Corporation, National Housing Trust, National Insurance Fund, National Investment Bank of Jamaica, National Water Commission, Petrojam, Petroleum Corporation of Jamaica, Port Authority of Jamaica; and Urban Development Corporation.

States, has led to a significant narrowing of the Jamaican-U.S. interest differential, possibly increasing the exposure of the economy to risks of capital outflows. The authorities should, therefore, remain ready to increase interest rates at the earliest signs of emerging pressures by more than enough to compensate for the recent increases in U.S. interest rates. The authorities explained that they continued to monitor markets daily and that their policy stance allowed for exchange rate flexibility as well as changes in interest rates in either direction. They reiterated that they remain committed to increasing rates if and when the conditions so warrant.

Structural reforms

23. **The mission recommended steps to limit the losses of public enterprises**. A particular concern is Air Jamaica, whose losses before government transfers amounted to US$136 million (1.3 percent of GDP) last year, up from US$113 million in 2004, despite the implementation of a restructuring plan. These losses add to the government debt burden as they are financed through a combination of government transfers and commercial loans contracted under government guarantee. Similarly, the Sugar Company of Jamaica (SCJ) continues to drain the public finances because of its recurring operational losses, with the long-term prognosis more dire, given the erosion of the preferential trading arrangement with the European Union.

24. **The authorities agreed that the loss-making public enterprises posed difficult issues but noted that existing reform plans provided hope**. In the case of Air Jamaica, they noted that airlines throughout the world were currently making losses. Notwithstanding the recent increase in service to Jamaica by other airlines, they saw tangible as well as intangible benefits to a tourism-dependent economy to maintaining its own flag carrier, especially since Air Jamaica was the only direct service provider on a number of important routes. The authorities explained that in any case, some of the losses for the past fiscal year had been due to one-off rehabilitation of the fleet and that future losses would be significantly lower. As regards the sugar sector, the government had prepared a comprehensive adaptation strategy, although the source of the necessary financing had not yet been fully identified (Box 2).

25. **The mission suggested that structural reforms of public enterprises should seek, as a first-best principle, to ensure commercial viability**. If Air Jamaica's restructuring plan failed to steadily improve its finances, the authorities may need to reconsider the merits of maintaining a flag carrier. The mission noted that the situation was more complicated in the case of sugar by the need to protect the vulnerable population currently dependent on the sector. Fundamentally, however, given the current cost-price structure, it was difficult to see Jamaica becoming globally competitive in sugarcane farming, suggesting that diversifying from sugar into other cane-based products (rum, ethanol, power co-generation) may not be cost effective. There appeared, on the other hand, significant potential for rural areas to help supply the rapidly expanding hotel sector with local produce. This suggested that the priority

Box 2. Prospects for the Sugar Sector

While sugar no longer accounts for large shares of GDP or export earnings, the industry has historical significance and provides important social benefits (such as education and health facilities) to rural communities. The sugar sector accounts for over 6 percent of goods exports, 1 percent of GDP, and employs up to 38,000 people. Part of the sector is held in private hands, with the five public sugar estates accounting for around 60 percent of total land area in cane cultivation.

The EU's reform of its sugar sector will have profound implications for the Jamaican sugar industry, which has benefited from preferential access at prices that are multiples above world market prices. Notably, even at these protected prices, the Sugar Company of Jamaica (SCJ) has been a chronic drain on the public sector. The average cost of production for raw sugar in the public estates is estimated at US$28 cents per pound, compared to around US$19 cents per pound for private Jamaican producers. The latter is still significantly above costs in competitive Asian and Latin American cane producing countries. Under a WTO ruling, price reductions in the EU will begin this year, cumulating to 36 percent by 2009. These reductions will put further pressure on the Jamaican industry to adapt, or to face unsustainable increasing losses.

The authorities have prepared a medium-term strategy for the industry's adaptation, with the aim of achieving a sustainable future. The government seeks to base the future of the Jamaican sugar industry on three main products: raw sugar; molasses, and ethanol. The plan includes needed actions to increase private sector participation, reduce the costs of production (to below US$18–19 cents per pound), increase productivity, and provide supporting services for the industry such as human resource development, rural infrastructure, and better research and development. Such results are estimated in the strategy document to require significant investment and costs, to the tune of €556 million (6½ percent of current GDP) over 2006–15. The sources of financing have not been clearly identified, but are envisaged to include private sector investors and the EU. Indeed, the government has announced the intended divestment of the SCJ and has invited expressions of interest.

should be on helping sugarcane farmers make the transition to other activities, while also ensuring that a social safety net continues to exist.

26. **Financial sector reforms continue apace**. The authorities noted that recent efforts to strengthen regulation and supervision over security dealers are beginning to bear fruit in terms of increasing capital-asset ratios. Preparatory work is being undertaken to compile a consolidated survey of the financial sector, incorporating security dealers, which would further strengthen the monitoring, supervision and analysis of the financial system as a whole. The implementation of the recently approved Pension Acts will help strengthen supervision over private pension companies.

Medium term and debt dynamics

27. **Absent further shocks, the medium term outlook is broadly favorable**. The external current account deficit is expected to improve starting in FY 2008/09 as the large ongoing investment programs come on stream, with currently associated imports falling and earnings rising. Barring shocks, in particular hurricanes, annual real GDP growth should remain at about 3 percent, with further improvements contingent on bringing debt down more rapidly than currently envisaged.

28. **Under current plans, the debt/GDP ratio is projected to continue to decline steadily**. The debt dynamics are affected by both the primary surplus of the central government and assumptions about debt takeovers and off-budget activities. The staff's current projections—of debt declining to 106 percent of GDP by FY 2010/11—assume the authorities achieve their deficit target for this year; realize and then maintain all planned reductions in expenditures in relation to GDP during FY 2007/08; and limit debt takeovers and guarantees to below recent levels. To the extent that these assumptions do not hold, debt will be higher. On the other hand, the projections assume that the PetroCaribe savings are fully utilized in a manner that adds on to the public debt (i.e., that they replace the non government-guaranteed borrowings currently undertaken by off-budget entities, which are not counted as part of the public debt under existing definitions). Debt would correspondingly be lower to the extent that the PetroCaribe savings reduce central government obligations instead of those of the off-budget entities.

29. **The medium-term projections, in particular the debt dynamics, will also be influenced by other factors, including external sector developments**. The sizeable current account deficits projected over the medium term are currently expected to be financed by capital inflows, as in the past, in particular of foreign direct investment. These flows will continue to be influenced by developments in Jamaica's fundamentals, including the fiscal and current account balances. These capital flows, in turn, have bearings on real exchange rate movements, and hence, given the sizeable share of foreign-currency debt, on the debt dynamics. More broadly, debt projections are also sensitive to various nonpolicy related external risks such as exogenous declines in international travel and tourism and higher foreign interest rates.

V. Staff Appraisal

30. **The authorities have deftly charted the economy through a difficult patch**. Over the past two years, Jamaica has had to withstand a series of natural disasters, as well as very large hikes in petroleum prices. Under these circumstances, the authorities' efforts to limit the deterioration of the government budget deficit and skillfully conduct monetary policy have contributed to the current favorable outcomes. Inflation has come down, economic growth has picked up, international reserves have increased, and borrowing terms have

improved. It is encouraging that the public debt ratio, whose very high level remains Jamaica's fundamental challenge, continues to decline.

31. **This year poses further challenges, requiring intensified fiscal efforts to stay the course and continue to reduce debt rapidly**. In formulating their medium-term strategy, the authorities had envisaged raising and then maintaining budgetary primary surpluses at levels, and for periods, that have not been replicated elsewhere. In light of the shocks of recent years, it is not surprising that recent outcomes have fallen somewhat short of targets. Looking forward, however, the concern is that even with the economy improving, the FY 2006/07 budget envisages a further decline in the primary surplus. Consequently, debt will remain higher for a longer period than envisaged during the last Article IV consultation. It should be noted that Jamaica's fiscal primary surplus remains, at 10 percent of GDP, extraordinarily high (including among countries with high debt) by international standards. At the same time, pressures arising outside of the budget underscore the importance of keeping primary surpluses high if the authorities are to achieve their medium-term objectives.

32. **Room for maneuver remains severely limited**. The large gross fiscal financing needs and substantial current account deficit represent important risks, whose mitigation requires sustained progress in rapidly reducing debt. Policymaking is further complicated by Jamaica's location in the Caribbean hurricane belt. Under these circumstances, the absence of fiscal space requires that the authorities make every effort to achieve their revenue objectives, strictly avoid undertaking new spending commitments without first identifying additional revenue sources, and guard against erosion by off-budget entities of the gains made in the budget. During a period that could prove to be an election year, these are formidable challenges. On monetary and exchange rate policy, it is comforting that the authorities remain flexible regarding their policy options; in particular, that they stand ready to increase interest rates if conditions warrant. They are also encouraged to continue to strengthen the resilience of the financial system.

Table 1. Jamaica: Selected Economic Indicators 1/

			Prel.	Rev. Proj.				
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	(Annual percentage changes)							
GDP, prices, and employment								
Real GDP	1.9	0.4	2.0	2.9	3.0	3.1	3.1	3.1
Nominal GDP	18.6	12.3	15.8	12.1	12.0	10.5	9.3	8.8
Consumer price index (end of period)	16.8	13.2	11.4	9.6	8.0	6.5	5.5	5.5
Consumer price index (average)	12.9	12.7	15.1	9.0	8.7	7.2	6.0	5.5
Exchange rate (end of period, in J$/US$)	8.6	0.9	6.2	…	…	…	…	…
End-of-period REER (percent change, appreciation +)	-0.7	5.2	4.6	…	…	…	…	…
Unemployment rate (in percent)	11.8	12.2	11.3	…	…	…	…	…
	(In percent of GDP)							
Government operations 1/								
Budgetary revenue	29.4	30.8	29.0	30.3	28.6	28.4	28.0	28.0
Budgetary expenditure	36.8	36.3	32.6	33.0	30.0	28.9	28.0	26.9
Primary expenditure	18.4	19.1	17.9	20.2	18.1	18.0	18.0	18.1
Interest payments 2/	18.5	17.1	14.6	12.8	11.9	10.9	9.9	8.9
Budget balance	-7.4	-5.4	-3.6	-2.7	-1.4	-0.5	0.0	1.1
Of which: primary fiscal balance	11.0	11.7	11.0	10.1	10.5	10.4	10.0	9.9
Off-budget expenditure 3/	2.4	1.7	1.5	1.2	1.3	0.8	0.5	0.2
Overall fiscal balance	-9.9	-7.1	-5.2	-3.9	-2.7	-1.3	-0.5	0.9
Public debt	143.7	137.9	132.6	126.1	122.2	117.6	112.3	105.8
External sector								
Current account balance	-6.8	-6.7	-9.7	-13.2	-14.0	-11.8	-8.9	-7.5
Of which: exports of goods, f.o.b.	17.7	17.3	17.4	18.8	18.5	18.0	18.9	18.1
Of which: imports of goods, f.o.b.	39.7	40.7	42.7	45.9	46.6	44.3	42.7	41.0
Net international reserves (in millions of US$)	1,569	1,902	2,078	2,000	2,000	2,100	2,200	2,300
	(Changes in percent of beginning of period broad money) 4/							
Money and credit								
Net foreign assets	9.0	7.5	1.8	-5.0	...	...	...	...
Net domestic assets	11.3	2.7	6.8	16.8	...	...	...	...
Of which: credit to the central government	9.7	0.5	-8.5	19.0	...	...	...	...
Broad money	20.2	10.3	8.6	11.7	...	...	...	...
Velocity (ratio of GDP to broad money)	2.6	2.6	2.8	2.8	...	...	...	...
Memorandum items:								
Nominal GDP (in billions of Jamaican dollars)	496	556	644	722	809	894	978	1,064
Exchange rate (end of period, J$/US$)	60.8	61.5	65.3	…	…	…	…	…

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

1/ Based partly on assumptions provided by the authorities. Fiscal years run from April 1 to March 31.

2/ Includes capitalized interest payments on previous year's BoJ Special Issue bonds. In previous presentations, these payments were recorded as off-budget expenditure.

3/ Includes debt issued to BOJ to cover its cash losses, and debt related to off-budget projects financed initially by the private sector.

4/ Including valuation adjustments.

Table 2. Jamaica: Summary of Central Government Operations (In billions of Jamaican dollars)

			Prel.	Budget	Proj. 4/			
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Budgetary revenue and grants	145.5	171.5	186.7	219.2	231.5	254.0	273.7	297.8
Tax	133.2	153.0	160.1	179.8	214.4	235.7	253.8	276.1
Special tax administration efforts	...	...	5.6	19.1	...	...	...	...
Nontax	11.7	14.4	20.3	16.6	15.7	17.3	19.0	20.6
Grants	0.6	4.2	0.7	3.7	1.4	1.0	1.0	1.1
Budgetary expenditure	182.4	201.8	210.0	238.7	242.8	258.5	273.4	286.3
Primary expenditure	90.9	106.4	115.6	146.3	146.3	160.8	176.2	192.1
Wage and salaries	60.5	63.5	63.1	72.8	77.9	86.0	94.0	102.3
Other expenditure	24.6	32.1	40.8	46.5	50.7	56.0	61.2	66.5
Capital expenditure	5.9	10.8	11.7	27.0	17.7	18.8	21.0	23.3
Interest	91.4	95.4	94.4	92.4	96.5	97.7	97.2	94.1
Domestic	74.7	75.3	71.5	66.3	67.5	68.1	65.9	61.7
Current	71.5	72.6	65.4	61.5	61.2	60.3	57.6	53.3
BoJ Special Issue Bonds 1/	3.3	2.6	6.1	4.8	6.3	7.8	8.3	8.4
External	16.7	20.1	22.9	26.1	29.0	29.5	31.3	32.5
Budget balance	**-36.9**	**-30.2**	**-23.3**	**-19.4**	**-11.3**	**-4.4**	**0.3**	**11.5**
***Of which:* primary balance**	**54.6**	**65.2**	**71.1**	**73.0**	**85.2**	**93.2**	**97.5**	**105.7**
Off-budget expenditure	12.1	9.4	10.0	8.7	10.6	7.3	4.8	2.4
BoJ cash losses 2/	8.3	5.5	10.0	8.7	9.0	7.3	4.8	2.4
Deferred financing 3/	3.8	3.9	0.0	0.0	1.6	0.0	0.0	0.0
Overall balance	-49.0	-39.6	-33.3	-28.2	-22.0	-11.8	-4.4	9.2
Financing	49.0	39.6	33.3	28.2	22.0	11.8	4.4	-9.2
External financing	11.8	7.8	20.7	-8.8	2.1	2.2	2.3	2.4
Domestic financing	37.2	30.6	12.6	34.0	19.9	9.6	2.1	-11.5
Banking system	15.4	1.0	-11.9	43.3	15.3	15.1	13.0	10.7
Others	21.7	29.6	24.5	-9.3	4.6	-5.5	-10.9	-22.3
Divestment	0.0	1.3	0.0	3.0	0.0	0.0	0.0	0.0

Sources: Jamaican authorities; Fund staff estimates and projections.

1/ Accrued interest on previous year's BoJ Special Issue bonds is contractually paid to the BoJ through debt issuance the following year. Earlier, these payments were reflected as off-budget expenditure under the heading of "Issuance of Debt to BoJ." These payments are now being recorded as part of the regular budget balance. Data prior to fiscal year 2006/07 have been adjusted accordingly for comparability.

2/ Refers to operating losses of the Bank of Jamaica, not covered by the BOJ Special Issue Bonds.

3/ Debt issued upon assuming public investment projects carried out by the private sector.

4/ Staff projections.

Table 3. Jamaica: Summary of Central Government Operations (In percent of GDP)

			Prel.	Budget	Proj. 4/			
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Budgetary revenue and grants	29.4	30.8	29.0	30.3	28.6	28.4	28.0	28.0
Tax	26.9	27.5	25.7	24.9	26.5	26.4	26.0	26.0
Special tax administration efforts	...	...	0.9	2.6	...	...	...	...
Nontax	2.4	2.6	3.1	2.3	1.9	1.9	1.9	1.9
Grants	0.1	0.8	0.1	0.5	0.2	0.1	0.1	0.1
Budgetary expenditure	36.8	36.3	32.6	33.0	30.0	28.9	28.0	26.9
Primary expenditure	18.4	19.1	17.9	20.2	18.1	18.0	18.0	18.1
Wage and salaries	12.2	11.4	9.8	10.1	9.6	9.6	9.6	9.6
Other expenditure	5.0	5.8	6.3	6.4	6.3	6.3	6.3	6.3
Capital expenditure	1.2	1.9	1.8	3.7	2.2	2.1	2.1	2.2
Interest	18.5	17.1	14.6	12.8	11.9	10.9	9.9	8.9
Domestic	15.1	13.5	11.1	9.2	8.3	7.6	6.7	5.8
Current	14.4	13.1	10.1	8.5	7.6	6.7	5.9	5.0
BoJ Special Issue Bonds 1/	0.7	0.5	0.9	0.7	0.8	0.9	0.8	0.8
External	3.4	3.6	3.6	3.6	3.6	3.3	3.2	3.1
Budget balance	**-7.4**	**-5.4**	**-3.6**	**-2.7**	**-1.4**	**-0.5**	**0.0**	**1.1**
***Of which:* primary balance**	**11.0**	**11.7**	**11.0**	**10.1**	**10.5**	**10.4**	**10.0**	**9.9**
Off-budget expenditure	2.4	1.7	1.5	1.2	1.3	0.8	0.5	0.2
BoJ cash losses 2/	1.7	1.0	1.5	1.2	1.1	0.8	0.5	0.2
Deferred financing 3/	0.8	0.7	0.0	0.0	0.2	0.0	0.0	0.0
Overall balance	-9.9	-7.1	-5.2	-3.9	-2.7	-1.3	-0.5	0.9
Budgetary principal payment	19.7	24.0	21.7	16.3	18.1	23.1	25.8	26.7
Domestic	16.3	18.6	16.6	14.0	14.0	18.2	24.1	23.7
External	3.4	5.4	5.1	2.3	4.1	4.9	1.7	3.0
Memorandum items:								
Public debt	143.7	137.9	132.6	126.1	122.2	117.6	112.3	105.8
Cumulative PetroCaribe 5/	...	...	...	1.8	3.3	4.7	5.8	6.9
Gross financing (in percent of GDP)	29.6	31.1	26.9	20.2	20.8	24.4	26.3	25.9
GDP (in billions of J$)	495.5	556.3	644.5	722.5	809.4	894.4	977.6	1,063.5

Sources: Jamaican authorities; Fund staff estimates and projections.

1/ Accrued interest on previous year's BoJ Special Issue bonds is contractually paid to the BoJ through debt issuance the following year. Earlier, these payments were reflected as off-budget expenditure under the heading of "Issuance of Debt to BoJ." These payments are now being recorded as part of the regular budget balance. Data prior to fiscal year 2006/07 have been adjusted accordingly for comparability.

2/ Refers to operating losses of the Bank of Jamaica, not covered by the BOJ Special Issue Bonds.

3/ Debt issued upon assuming public investment projects carried out by the private sector.

4/ Staff projections.

5/ Includes annually US$190 million financing from the PetroCaribe agreement.

Table 4. Jamaica: Summary of the Public Debt

	2003/04	2004/05	Prel. 2005/06	Proj. 2006/07	2007/08	2008/09	2009/10	2010/11
				(In billions of Jamaican dollars)				
Debt stock								
Public debt	712	767	855	911	989	1,052	1,098	1,125
Government debt	677	727	798	827	874	905	926	933
Domestic 1/	418	449	483	506	533	549	556	551
Of which : US$ linked	97	85	77	81	85	89	91	94
External	259	278	315	321	341	357	369	383
Concessional	113	103	121	113	106	95	85	76
Commercial	146	174	194	208	236	262	284	307
PetroCaribe external debt	...	...	...	13	27	42	57	73
Government guaranteed debt	35	41	57	71	88	104	115	119
External	27	32	48	61	77	92	102	105
Domestic	9	8	8.9	10.2	11	12	13	13
Domestic currency debt	329	373	415	436	459	472	478	470
Foreign currency debt	286	310	363	394	445	491	529	561
US$ linked debt	97	85	77	81	85	89	91	94
				(In percent of GDP)				
Debt stock								
Public debt	143.7	137.9	132.6	126.1	122.2	117.6	112.3	105.8
Government debt	136.6	130.6	123.8	114.5	108.0	101.2	94.7	87.7
Domestic 1/	84.3	80.7	74.9	70.1	65.9	61.3	56.9	51.8
of which: US$ linked	19.5	15.2	12.0	11.2	10.5	9.9	9.3	8.8
External	52.3	49.9	48.9	44.4	42.2	39.9	37.8	36.0
Concessional	22.8	18.5	18.8	15.7	13.0	10.7	8.7	7.1
Commercial	29.5	31.4	30.1	28.7	29.1	29.2	29.1	28.9
PetroCaribe external debt	...	...	...	1.8	3.3	4.7	5.8	6.9
Government guaranteed debt	7.2	7.3	8.8	9.8	10.8	11.7	11.8	11.2
Domestic currency debt	66.5	67.0	64.3	60.3	56.7	52.8	48.9	44.2
Foreign currency debt	57.7	55.7	56.3	54.6	55.0	54.9	54.1	52.7
US$ linked debt	19.5	15.2	12.0	11.2	10.5	9.9	9.3	8.8
Change in the debt/GDP ratio	-4.3	-5.8	-5.3	-6.6	-3.9	-4.6	-5.3	-6.5
Memorandum items:								
Total debt (US$ billion)	11.7	12.5	13.1	13.3	13.7	14.0	14.2	14.2
Of which: Foreign currency debt	4.7	5.0	5.6	5.8	6.2	6.5	6.8	7.1
Government guaranteed debt issues (US$ million)	-	-	280	154	170	170	95	70
GDP (in billions of J$)	495	556	644	722	809	894	978	1064

Sources: Jamaican authorities; Fund staff estimates and projections.

1/ Includes annually 0.3 percent of GDP for contingencies and assumed domestic debts.

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

	2002/03	2003/04	2004/05	Prel. 2005/06	Proj. 2006/07
	(In billions of Jamaican dollars)				
End-of-period stocks 1/					
Net international reserves 2/	**75**	**96**	**118**	**136**	**131**
Net domestic assets	**-43**	**-59**	**-76**	**-92**	**-82**
Net claims on public sector	64	76	95	97	137
Net claims on central government	57	68	78	55	93
Net claims on rest of public sector 3/	-5	0	1	28	28
Operating losses of the BOJ	12	7	16	14	15
Net credit to commercial banks	-12	-14	-13	-11	-9
Net credit to other financial institutions	-1	-1	-1	-1	-1
Open market operations	-86	-108	-144	-157	-189
Other items net	-7	-12	-14	-20	-20
Base money	**32**	**36**	**42**	**44**	**49**
Currency in circulation	17	21	24	26	29
Liabilities to commercial banks	15	16	18	17	19
Fiscal year flows 1/					
Net international reserves 2/	**-19.7**	**20.5**	**22.1**	**18.0**	**-5.1**
Net domestic assets	**22.0**	**-16.8**	**-16.7**	**-16.0**	**10.2**
Net claims on public sector	27.2	11.9	19.3	1.6	40.1
Net credit to commercial banks	-8.1	-1.2	1.1	1.7	1.6
Net credit to other financial institutions	0.1	0.1	-0.1	0.0	-0.1
Open market operations	13.0	-22.1	-35.6	-13.5	-31.2
Other items net	-10.2	-5.5	-1.4	-5.9	-0.1
Base money	**2.3**	**3.7**	**5.5**	**2.0**	**5.1**
Currency in circulation	-0.2	3.3	2.9	2.7	3.1
Liabilities to commercial banks	2.4	0.4	2.5	-0.7	2.0
	(Change in percent of beginning-of-period base money)				
Net international reserves 2/	**-65.3**	**63.1**	**61.1**	**43.2**	**-11.7**
Net domestic assets	**72.8**	**-51.8**	**-46.0**	**-38.5**	**23.5**
Net claims on public sector	90.1	36.7	53.4	3.8	92.0
Net credit to commercial banks	-26.8	-3.7	3.0	4.1	3.6
Net credit to other financial institutions	0.2	0.2	-0.3	0.0	-0.2
Open market operations	43.0	-67.9	-98.3	-32.4	-71.6
Other items net	-33.7	-17.0	-3.8	-14.1	-0.3
Base money	**7.5**	**11.3**	**15.1**	**4.7**	**11.7**
Currency in circulation	-0.5	10.2	8.1	6.4	7.0
Liabilities to commercial banks	8.1	1.2	7.0	-1.7	4.7

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Fiscal year runs from April 1 to March 31.
2/ Evaluated at the exchange rates of end-March 06 for FY06/07 and actual end-period exchange rates for other fiscal years.
3/ Includes net unclassified.

Table 6. Jamaica: Summary Monetary Survey 1/

	2002/03	2003/04	2004/05	Prel. 2005/06	Proj. 2006/07
	(In billions of Jamaican dollars)				
End-of-period stocks 1/					
Net foreign assets 2/	88	102	116	120	109
Net domestic assets	71	89	94	108	147
Net claims on public sector 3/	151	165	179	191	236
Of which: central government	132	147	148	136	180
Open market operations	-69	-83	-110	-116	-126
Credit to private sector	55	80	93	106	122
Other 3/	-66	-73	-68	-73	-85
Liabilities to private sector (M3)	159	191	210	229	255
Money supply (M2)	107	125	139	154	171
Foreign currency deposits	51	66	71	75	84
Fiscal year flows 1/					
Net foreign assets 2/	-12.0	14.2	14.4	3.8	-11.5
Net domestic assets	23.1	17.9	5.2	14.4	38.3
Net claims on public sector 3/	31.6	13.8	13.8	12.3	44.9
Of which: central government	12.1	15.4	1.0	-11.9	43.3
Open market operations	0.5	-13.7	-26.9	-5.7	-10.9
Credit to private sector	14.9	25.2	13.0	13.1	15.9
Other 4/	-24.0	-7.3	5.3	-5.4	-11.6
Liabilities to private sector (M3)	11.0	32.1	19.6	18.2	26.8
	(Change in percent of beginning-of-period M3)				
Net foreign assets 2/	-8.1	9.0	7.5	1.8	-5.0
Net domestic assets	15.6	11.3	2.7	6.8	16.8
Net claims on public sector 3/	21.4	8.7	7.2	5.9	19.6
Of which: central government	8.2	9.7	0.5	-8.5	19.0
Open market operations	0.4	-8.6	-14.1	-2.7	-4.8
Credit to private sector	10.1	15.9	6.8	6.2	6.9
Other 4/	-16.2	-4.6	2.8	-2.6	-5.1
Liabilities to private sector (M3)	7.5	20.2	10.3	8.6	11.7
Memorandum items					
M3 velocity	2.6	2.6	2.6	2.8	2.8

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

1/ Fiscal year runs from April 1 to March 31.
2/ Evaluated at the exchange rates of end-March 06 for FY06/07 and actual end-period exchange rates for other fiscal years.
3/ Includes Bank of Jamaica operating balance and net claims on public bodies.
4/ Includes net credit to nonbank financial institutions, capital accounts, valuation adjustment, securites sold under repurchase agreements, and net unclassified assets.

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

		Revised	Est.	Proj.				
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Current account	-562	-606	-995	-1,431	-1,611	-1,433	-1,149	-1,016
Trade balance	-1,832	-2,125	-2,573	-2,935	-3,242	-3,190	-3,058	-3,102
Exports (f.o.b.)	1,467	1,566	1,779	2,034	2,125	2,188	2,425	2,458
Imports (f.o.b.)	3,299	3,691	4,353	4,969	5,367	5,378	5,483	5,560
Fuel	838	987	1,448	1,788	1,872	1,912	2,024	2,097
Exceptional imports (including FDI-related)	146	316	273	414	658	504	365	231
Other	2,315	2,388	2,632	2,767	2,837	2,962	3,094	3,232
Services (net)	597	594	685	785	971	1,136	1,343	1,492
Transportation	-128	-166	-201	-217	-247	-215	-184	-161
Travel	1,145	1,178	1,330	1,476	1,750	1,915	2,134	2,288
of which: Tourism receipts	1,401	1,457	1,590	1,749	2,036	2,214	2,448	2,616
Other services	-420	-419	-444	-473	-532	-564	-607	-635
Income (net)	-566	-586	-640	-852	-930	-999	-1,067	-1,062
of which: Investment income (net)	-638	-672	-733	-950	-1,035	-1,111	-1,186	-1,189
Current transfers (net)	1,239	1,511	1,534	1,570	1,590	1,620	1,632	1,656
Government (net)	106	172	110	111	81	82	67	66
Private (net)	1,133	1,339	1,424	1,459	1,509	1,538	1,565	1,590
Capital and financial account	791	939	1,171	1,353	1,611	1,533	1,249	1,116
Capital account (net)	0	-1	-11	-12	-12	-12	-12	-11
Financial account (net)	790	939	1,183	1,365	1,622	1,545	1,261	1,127
Direct investment (net)	592	542	601	707	1,078	928	815	671
Central government (net)	142	274	237	52	217	214	212	210
Other public bodies (net)	…	…	12	209	170	170	95	70
Private (net)	57	123	332	397	157	233	139	177
of which: unidentified flows	-158	-215	0	0	0	0	0	0
Overall balance/change in NFA	229	333	177	-78	0	100	100	100
Memorandum items:								
Net international reserves	1,569	1,902	2,078	2,000	2,000	2,100	2,200	2,300
(in weeks of imports of GNFS)	17	18	18	15	14	14	15	15
Current account (in percent of GDP)	-6.8	-6.7	-9.7	-13.2	-14.0	-11.8	-8.9	-7.5
Exports of goods (in percent change)	11.7	6.7	13.7	14.3	4.5	2.9	10.8	1.3
Imports of goods (in percent change)	-1.2	11.9	17.9	14.2	8.0	0.2	2.0	1.4
Tourism receipts (in percent change)	12.2	4.0	9.1	10.0	16.4	8.8	10.6	6.9
GDP (in millions of U.S. dollars)	8,303	9,057	10,205	10,836	11,518	12,146	12,839	13,574

Sources: Jamaican authorities; and Fund staff estimates.

Table 8. Jamaica: Selected Vulnerability Indicators

	2002/03	2003/04	2004/05	Prel. 2005/06 1/	Proj. 2006/07
Key economic and market indicators					
Real GDP growth (in percent)	2.2	1.9	0.4	2.0	2.9
CPI inflation (period average, in percent)	6.5	12.9	12.7	15.1	9.0
Short-term (ST) interest rate (in percent)	33.4	16.0	13.5	13.0	12.8
EMBI secondary market spread (bps, end of period)	800	551	405	301	...
Exchange rate NC/US$ (end of period)	56.1	60.8	61.5	65.3	...
External sector					
Exchange rate regime	Managed float				
Current account balance (percent of GDP)	-15.2	-6.8	-6.7	-9.8	-13.2
Net FDI inflows (percent of GDP)	5.3	7.1	6.0	5.9	6.5
Exports (percentage change of US$ value, GNFS)	1.7	11.0	5.8	9.8	11.7
Real effective exchange rate (1995/96=100; end of period)	116.2	115.4	121.4	127.0	…
Gross international reserves (GIR) in US$billion	1.4	1.6	1.9	2.1	2.0
GIR in percent of ST debt at remaining maturity (RM)	472.0	327.7	323.9	665.6	640.9
GIR in percent of ST debt at RM and banks' FX deposits.	115.0	100.0	143.0	102.0	…
Net international reserves (NIR) in US$billion	1.3	1.6	1.9	2.1	2.0
Total gross external debt (ED) in percent of GDP	54.8	54.5	55.7	54.6	53.8
Of which: ST external debt (original maturity, in percent of total ED)	0.0	0.0	0.0	0.0	0.0
ED of domestic private sector (in percent of total ED)	...	...	...	...	...
ED to foreign official sector (in percent of total ED)	53.4	47.1	43.7	36.0	30.1
Total gross external debt in percent of exports of GNFS	126.4	123.4	129.9	130.5	122.3
Gross external financing requirement (in US$billion) 2/	1.9	0.8	1.1	1.7	1.7
Public sector (PS) 3/					
Overall balance (percent of GDP)	-10.8	-9.9	-7.1	-5.2	-3.9
Primary balance (percent of GDP)	7.3	11.0	11.7	11.0	10.1
Debt-stabilizing primary balance (percent of GDP) 4/	17.3	10.0	9.0	5.0	3.6
Gross PS financing requirement (in percent of GDP) 5/	32	30	31	27	20
Public sector gross debt (PSGD, in percent of GDP)	146	144	138	133	126
Of which: Exposed to rollover risk (in percent of total PSGD) 6/	15	17	17	12	...
Exposed to exchange rate risk (in percent of total PSGD) 7/	51	54	51	52	...
Exposed to interest rate risk (in percent of total PSGD) 8/	52	42	43	40	...
Public sector net debt (in percent of GDP)	127	126	121	118	...
Financial sector (FS) 9/					
Capital adequacy ratio (in percent)	15.4	14.0	17.5	18.7	...
NPLs in percent of total loans	3.8	3.1	2.7	2.5	...
Provisions in percent of NPLs	138.9	125.0	135.7	129.3	...
Return on average assets (in percent)	2.8	4.3	3.1	...	...
Return on equity (in percent)	26.6	39.0	26.9	...	...
FX deposits held by residents (in percent of total deposits)	28.5	33.9	34.4	34.8	...
FX loans to residents (in percent of total loans)	33.0	37.5	40.2	40.4	...
Net open forex position (in percent of capital) 10/	26.6	0.2	15.1	-5.5	...
Government debt held by FS (percent of total FS assets)	42.7	41.2	40.4	44.9	...
Credit to private sector (percent change)	34.9	47.2	18.6	...	...
Memorandum item:					
Nominal GDP in billions of U.S. dollars	7.6	8.3	9.1	10.2	10.8

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

1/ Staff estimates, projections, or latest available observations.
2/ Current account deficit plus amortization of external debt.
3/ Public sector covers central government only.
4/ Based on averages for the last five years for the relevant variables (i.e., growth, interest rates).
5/ Overall balance plus debt amortization.
6/ ST debt and maturing medium- and long-term debt, domestic and external, excluding external debt to official creditors.
7/ Debt in foreign currency or linked to the exchange rate, domestic and external, excluding external debt on concessional terms.
8/ ST debt and maturing medium-and long-term debt at variable interest rates, domestic and external.
9/ Financial sector includes commercial banks only. FY 2005/06 data refer to September 05 data.
10/ Sum of on-and off-balance sheet exposure.

Table 9. Jamaica: Public Sector Debt Sustainability Framework, 2001/02-2011/12
(In percent of GDP, unless otherwise indicated)

	Actual					Proj.						
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	**133.3**	**148.0**	**143.7**	**137.9**	**132.6**	**126.1**	**122.2**	**117.6**	**112.3**	**105.8**	**98.6**	**3.2**
Central government debt 1/	129.2	140.8	136.6	130.6	123.8	114.5	108.0	101.2	94.7	87.7	81.5	
Of which : foreign-currency denominated	69.9	70.6	71.8	65.1	60.8	57.3	56.0	54.5	53.0	51.7	48.2	
PetroCaribe and government guaranteed debt 1/	4.0	7.2	7.2	7.3	8.8	11.6	14.2	16.3	17.6	18.0	17.1	
Change in public sector debt	1.7	11.6	-4.2	-6.0	-6.8	-9.3	-6.4	-6.8	-6.5	-7.0	-6.2	
Identified debt-creating flows (4+7+12)	-4.2	10.2	-7.0	-7.1	-9.0	-6.7	-6.3	-6.6	-6.2	-6.6	-6.2	
Primary deficit	-7.4	-5.2	-8.6	-10.0	-9.5	-8.9	-9.2	-9.6	-9.5	-9.7	-9.9	
Revenue and grants	27.0	28.1	29.4	30.8	29.0	30.4	28.6	28.4	28.0	28.0	28.0	
Primary (noninterest) expenditure	19.6	22.9	20.8	20.8	19.5	21.5	19.4	18.8	18.5	18.3	18.1	
Automatic debt dynamics 2/	3.2	15.4	1.6	3.0	0.4	2.2	2.9	3.0	3.3	3.2	3.7	
Contribution from interest rate/growth differential 3/	1.2	3.2	-3.8	2.3	-3.4	-0.6	-0.4	0.7	1.5	1.4	2.0	
Of which contribution from real interest rate	2.3	5.9	-1.4	2.8	-1.0	2.8	3.0	4.2	4.9	4.6	5.1	
Of which contribution from real GDP growth	-1.0	-2.6	-2.4	-0.5	-2.4	-3.4	-3.4	-3.4	-3.4	-3.2	-3.0	
Contribution from exchange rate depreciation 4/	2.0	12.2	5.4	0.6	3.8	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	5.8	1.3	2.8	1.1	2.2	0.2	3.2	2.1	1.4	1.3	1.7	
Public sector debt-to-revenue ratio 1/	493.4	527.3	489.4	447.2	457.9	415.3	427.3	414.0	401.1	377.8	352.2	
Gross financing need 6/	**30.1**	**31.2**	**29.6**	**31.1**	**26.9**	**20.2**	**20.8**	**24.4**	**26.3**	**25.9**	**23.4**	
in billions of U.S. dollars	2.4	2.4	2.5	2.8	2.7	2.2	2.4	3.0	3.4	3.5	3.4	
Scenario with key variables at their historical averages 7/						**114.3**	**113.0**	**110.7**	**107.7**	**104.6**	**101.9**	**4.2**
Scenario with no policy change (constant primary balance) in 2005-2010						**126.1**	**108.5**	**102.6**	**96.5**	**89.9**	**84.2**	**2.7**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	0.9	2.2	1.9	0.4	2.0	2.9	3.0	3.1	3.1	3.1	3.1	
Average nominal interest rate on public debt (in percent) 8/	11.5	12.7	15.5	14.1	13.0	11.6	11.7	11.2	10.7	10.2	10.9	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.0	5.0	-0.8	2.2	-0.6	2.6	3.0	4.0	4.7	4.7	5.4	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-4.0	-15.4	-7.6	-0.9	-5.8	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	9.5	7.6	16.4	11.9	13.6	9.0	8.7	7.2	6.0	5.5	5.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	11.1	19.0	-7.3	0.4	-4.5	13.4	-6.9	0.0	1.5	1.9	1.9	
Primary deficit	-7.4	-5.2	-8.6	-10.0	-9.5	-8.9	-9.2	-9.6	-9.5	-9.7	-9.9	

1/ Central government serviced, PetroCaribe, and government guaranteed debt on gross basis. From FY 2002/03, includes debt issued to the BoJ to cover its cash losses and related capitalized interest. The primary balance includes budgetary primary balance and off-budget expenditure.

2/ Derived as $[(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp))$ times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as $-g$.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $ae(1+r)$.

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 10. Jamaica: External Debt Sustainability Framework, 2001/02-2010/11
(In percent of GDP, unless otherwise indicated)

	Actual					Projections					
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Debt-stabilizing non-interest current account 6/
Baseline: External debt	**50.7**	**54.8**	**54.5**	**55.7**	**54.6**	**53.8**	**53.9**	**54.3**	**53.8**	**52.9**	**-1.9**
Change in external debt	4.8	4.1	-0.3	1.2	-1.1	-0.8	0.2	0.4	-0.5	-0.9	
Identified external debt-creating flows (4+8+9)	2.2	13.4	-4.8	-3.8	-2.4	5.2	3.1	2.6	1.0	1.0	
Current account deficit, excluding interest payments	6.2	11.1	3.3	3.0	5.9	9.0	9.7	7.7	5.0	3.6	
Deficit in balance of goods and services	15.4	21.7	14.9	16.9	18.5	19.8	19.7	16.9	13.4	11.9	
Exports	39.9	43.4	44.2	42.9	41.8	43.9	45.2	45.3	47.1	46.4	
Imports	55.3	65.1	59.1	59.8	60.3	63.8	64.9	62.2	60.4	58.3	
Net non-debt creating capital inflows (negative)	-5.6	-5.3	-7.1	-6.0	-5.9	-6.5	-9.4	-7.6	-6.3	-4.9	
Automatic debt dynamics 1/	1.6	7.6	-0.9	-0.9	-2.4	2.7	2.8	2.5	2.4	2.3	
Contribution from nominal interest rate	3.1	4.1	3.5	3.6	3.8	4.2	4.3	4.1	4.0	3.9	
Contribution from real GDP growth	-0.4	-1.2	-1.0	-0.2	-1.0	-1.5	-1.5	-1.6	-1.6	-1.6	
Contribution from price and exchange rate changes 2/	-1.1	4.6	-3.5	-4.4	-5.3	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.6	-9.3	4.5	5.0	1.3	-6.0	-2.9	-2.2	-1.5	-1.8	
External debt-to-exports ratio (in percent)	127.2	126.4	123.4	129.9	130.5	122.4	119.5	119.9	114.3	114.0	
Gross external financing need (in billions of US dollars) 4/	**1.1**	**1.9**	**0.9**	**1.1**	**1.6**	**1.7**	**2.2**	**2.1**	**1.4**	**1.5**	
in percent of GDP	13.7	24.8	10.3	12.1	15.6	16.1	18.9	17.2	11.3	11.0	
Scenario with key variables at their historical averages 5/						**53.8**	**50.8**	**48.2**	**46.3**	**44.2**	**-5.1**
Key Macroeconomic Assumptions Underlying Baseline											
Real GDP growth (in percent)	0.9	2.2	1.9	0.4	2.0	2.9	3.0	3.1	3.1	3.1	
GDP deflator in US dollars (change in percent)	2.4	-8.4	6.8	8.7	10.5	3.2	3.1	2.3	2.5	2.5	
Nominal external interest rate (in percent)	6.9	7.6	7.0	7.3	7.7	8.2	8.5	8.0	7.7	7.6	
Growth of exports (US dollar terms, in percent)	-8.4	1.7	11.0	5.8	9.8	11.7	9.2	5.8	9.8	4.3	
Growth of imports (US dollar terms, in percent)	2.3	10.2	-1.2	10.4	13.7	12.3	8.1	1.1	2.7	2.0	
Current account balance, excluding interest payments	-6.2	-11.1	-3.3	-3.0	-5.9	-9.0	-9.7	-7.7	-5.0	-3.6	
Net non-debt creating capital inflows	5.6	5.3	7.1	6.0	5.9	6.5	9.4	7.6	6.3	4.9	

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

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

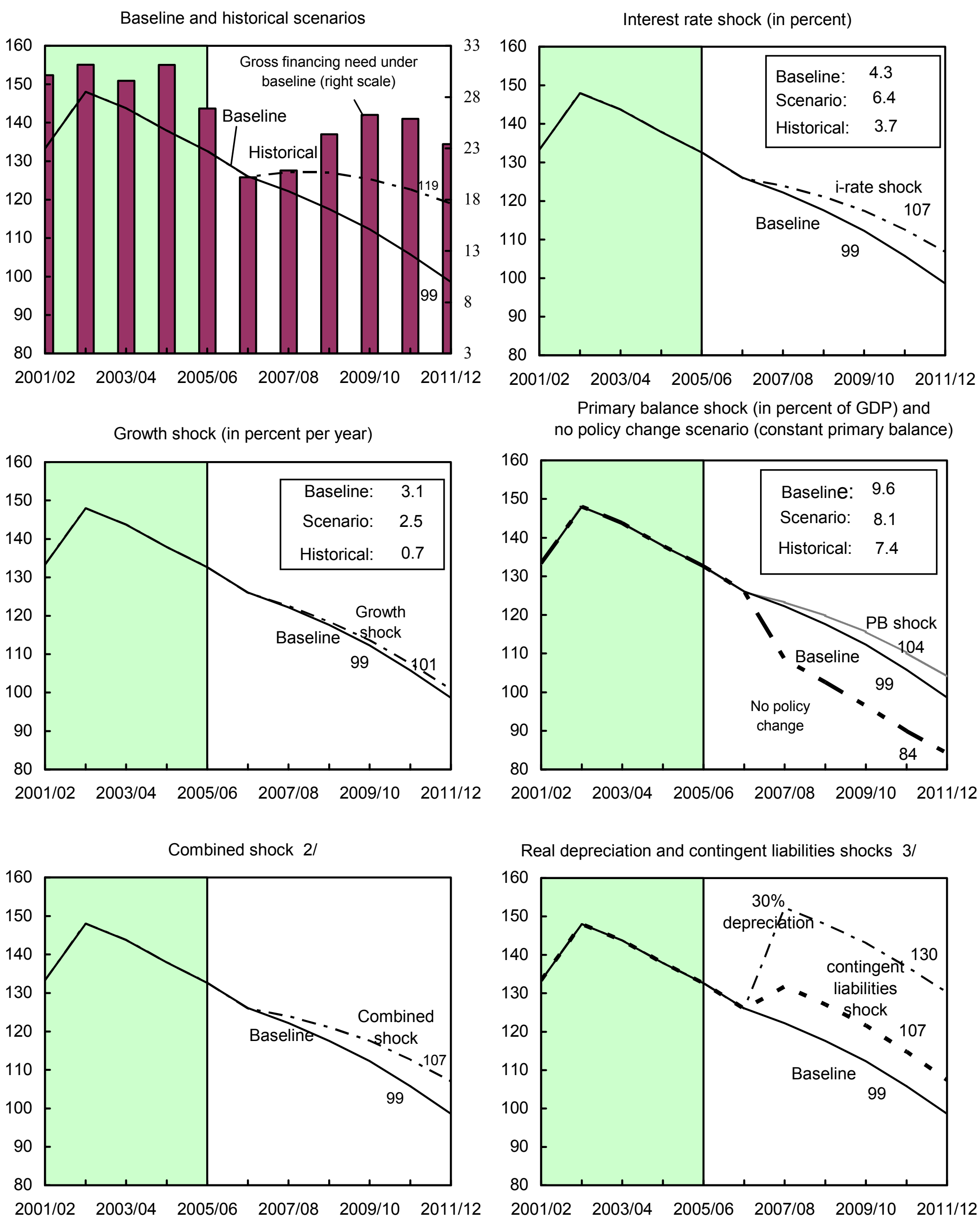
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

Figure 1. Jamaica: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



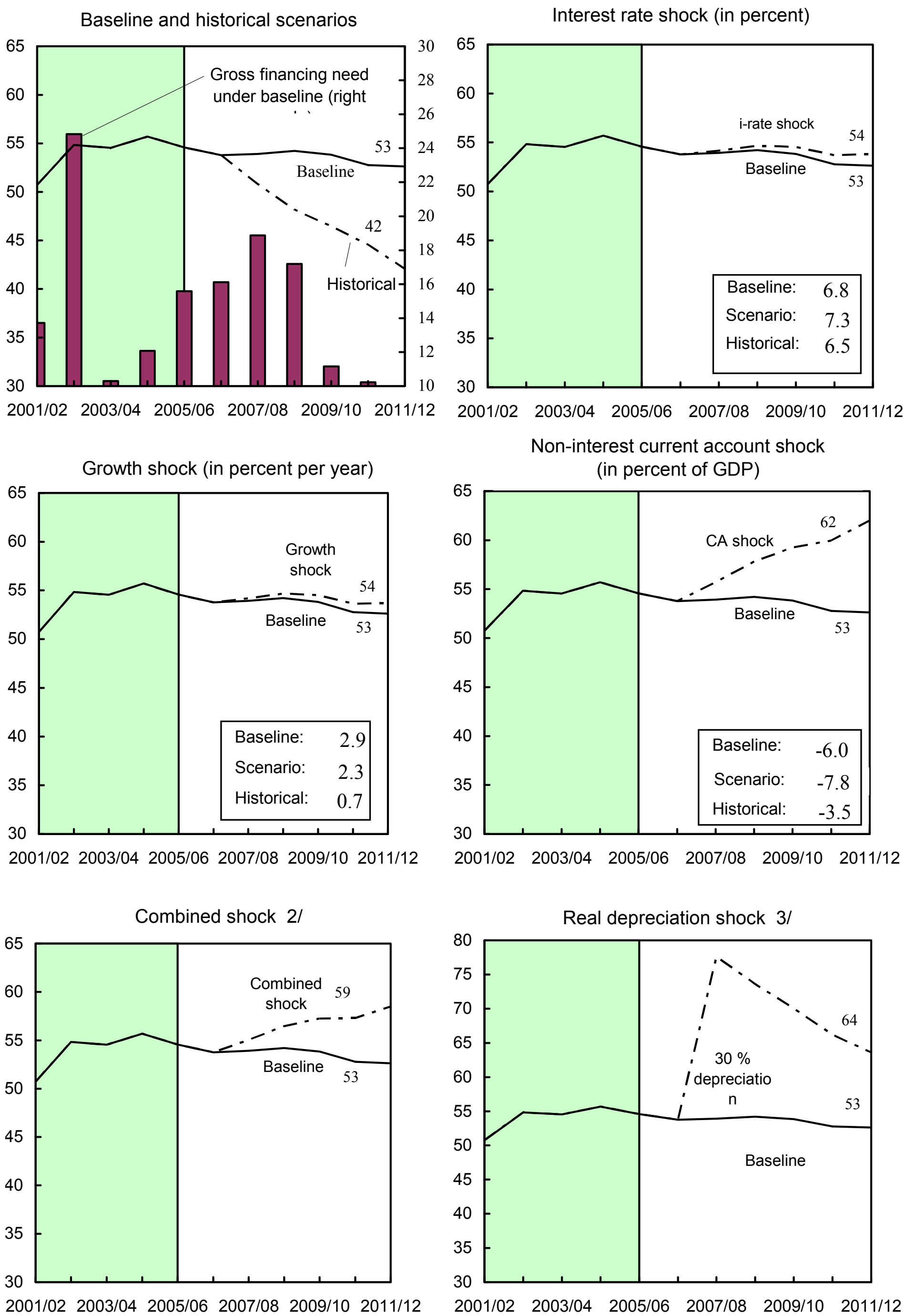
Sources: International Monetary Fund, Country desk data; and Fund staff estimates.

1/ Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 2. Jamaica: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data; and Fund staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2006.

Appendix I. Jamaica—Fund Relations

(As of May 31, 2006)

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

II. General Resources Account:

	SDR Million	% Quota
Quota	273.50	100.00
Fund holdings of currency	273.55	100.02
Reserve position	0.00	0.00
Holdings exchange rate		

III. SDR Department:

	SDR Million	% Allocation
Net cumulative allocation	40.61	100.00
Holdings	0.00	0.01

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	Dec. 11, 1992	Mar. 16, 1996	109.13	77.75
Stand-By	Jun. 28, 1991	Sep. 30, 1992	43.65	43.65
Stand-By	Mar. 23, 1990	May 31, 1991	82.00	82.00

VI. Projected Payments to Fund:

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2006	2007	2008	2009	2010
Principal					
Charges/Interest	0.73	1.46	1.46	1.46	1.46
Total	0.73	1.46	1.46	1.46	1.46

VII. Implementation of HIPC Initiative: Not Applicable

VIII. 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. At January 31, it was trading at around J$65 to the U.S. dollar. At the conclusion of the 2004 Article IV consultation for Jamaica, it was found that a multiple currency practice arose 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"). In 2004, the surrender rates had 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. While such differences were observed in 2004 leading to a finding that a multiple currency practice arose, the previously identified broken cross rate arising from the currency surrender requirement is no longer apparent since this time. Therefore, there is no evidence that a multiple currency practice arises from the surrender requirement.

IX. 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 March 24, 2006 (IMF Country Report No. 06/158). A Financial Sector Assessment Program was completed and reviewed by the Executive Board on the same date. Two interim staff reports were prepared for information of the Executive Board in-between Article IV consultations (IMF Country Report No. 05/61 and IMF Country Report No. 05/219).

X. 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
	April-May 2006	Monetary and financial statistics

XI. Resident Representative:

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