

**Jamaica: Third Review Under the Stand-By Arrangement—Staff Report;
Informational Annex; Staff Supplement; and the Press Release on the Executive Board
Discussion.**

In the context of the third review under the stand-by arrangement, the following documents have been released and are included in this package:

- The staff report for the Third Review Under the Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on December 10, 2010, with the officials of Jamaica on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 28, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- Informational Annex to the Staff Report of December 30, 2010.
- A staff supplement of January 13, 2011 updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its January 14, 2011 discussion of the staff report that completed the request and/or review.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Jamaica*
Memorandum of Economic and Financial Policies by the authorities of
Jamaica*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

JAMAICA

Third Review Under the Stand-By Arrangement and Requests for Waivers of Applicability and Modification of Performance Criteria

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by Gilbert Terrier and Dominique Desruelle

December 28, 2010

EXECUTIVE SUMMARY

- **Context.** On February 4, 2010, the Executive Board approved a 27-month SBA in an amount equivalent to 300 percent of quota (SDR 820.5 million). To date, SDR 509.9 million have been disbursed. The pillars of the program are: (i) fiscal consolidation and institutional reform; (ii) public debt restructuring, completed as a prior action under the program; and (iii) financial sector reform, including to improve consolidated supervision and the regulation of non-banks. The second review was completed on September 24, 2010, with the authorities having complied with all end-June performance criteria.
- **Economic developments.** Economic activity remains sluggish. Real GDP fell 0.5 percent (y-o-y) in 2010Q3 but positive employment growth (q-o-q) was registered for the first time in a year. In late September, the country suffered damage estimated at 1.7 percent of GDP from Tropical Storm Nicole. Growth is now projected to be -0.5 percent for FY2010/11 (compared with 0.6 percent at the time of the second review). After steadily declining since April, inflation rose to 11.4 percent (y-o-y) in November, reflecting a spike in food prices following storm-related damage to crops. Financial market conditions remain favorable. The 90-day Treasury bill rate has fallen to 7.4 percent, while the average bank' prime lending rate remains relatively high, at 17 percent. NPLs appear to have stabilized and other data point to continued resilience of the financial system. NIR remain relatively comfortable, in the US\$1.9–2 billion range.
- **Review of the program.** Staff supports the completion of the third review under the SBA. Completion of the technical work on estimating costs and savings of public sector reform proposals is a prior action. All quantitative performance criteria for end-September were met. A structural benchmark related to the hiring of a technical advisor and a program director for the authorities' debt management reform was not met. However, the authorities have identified the appropriate persons and they are expected to begin work by end-January. The authorities have implemented measures to offset emerging spending pressures and keep the fiscal program broadly on track. They have requested that fiscal targets be relaxed by 0.2 percent of GDP to accommodate Nicole-related infrastructure reconstruction during this fiscal year.
- **Discussions.** The mission that visited Kingston during November 9–19 comprised Mr. Alleyne (head), Ms. Ocampos (both WHD), Ms. Elliott (MCM), and Messrs. Konuki (SPR) and Simone (FAD). Mr. Leon (Resident Representative) assisted the mission, and Mr. Purves (OED) joined the mission. The mission met with the Minister of Finance, the Governor of the Bank of Jamaica (BOJ), senior Ministry of Finance and BOJ officials, and representatives from the business, trade union, and financial sectors. Mr. Alleyne, Mr. Konuki, Ms. Ocampos, and Mr. Serra (WHD) returned to Kingston during December 8–10 to wrap up discussions on the Letter of Intent.
- **Outreach.** During the first mission, Mr. Alleyne met with the umbrella association of NGOs and was interviewed on national radio. He and Finance Minister Shaw also held a joint press conference.

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I. RECENT DEVELOPMENTS AND OUTLOOK

1. **Economic activity remains weak.** Real GDP declined by 0.5 percent during 2010Q3 (y/y), reflecting the impact of lower-than-projected growth in Jamaica's major trading partners and the negative impacts of the state of emergency during May–July and Tropical Storm Nicole in September (Figure 1). The damage from the storm, mainly to roads, bridges, and sewerage systems, is officially estimated at 1.7 percent of GDP. Overall activity was also weighed down by financial sector GDP, which declined by 2.8 percent in the aftermath of a drop in interest income as a result of the Jamaica Debt Exchange (JDX). On the positive side, the goods producing sector grew by 2 percent, reflecting robust growth in agriculture and mining; tourist arrivals rose by 3 percent; and, in the labor market, 21,000 jobs were created in net terms, following three quarters of job losses (Figure 2). Growth is now projected to be -0.5 percent for FY2010/11 (compared with 0.6 percent at the time of the second review).

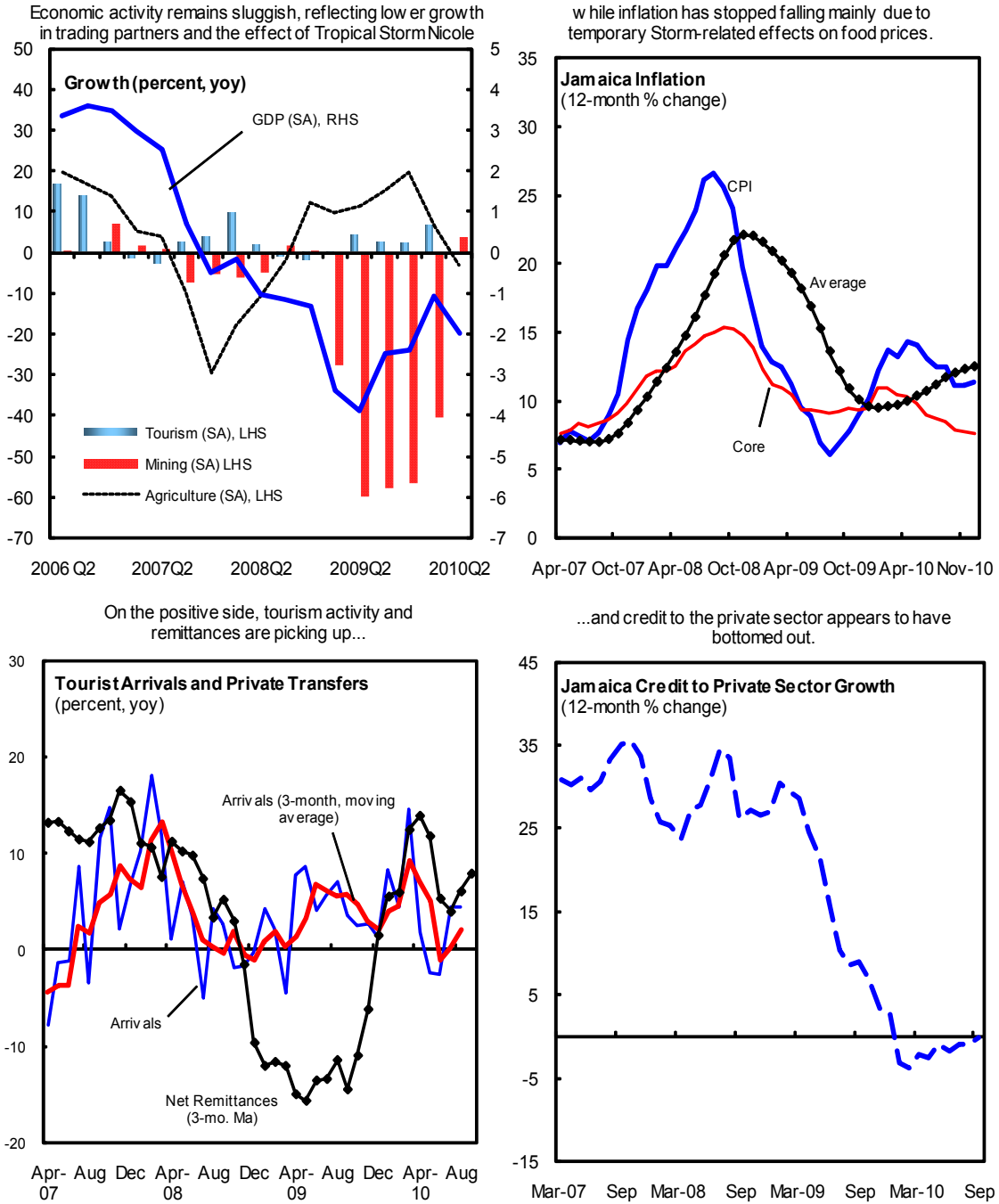
2. **In November, headline inflation rose for the first time since April but core inflation continued to abate.** Headline inflation rose to 11.4 percent, reflecting mainly a temporary jump in food prices owing to storm-related damage to crops. On the other hand, core inflation declined to 7.6 percent, reflecting ongoing weak domestic demand conditions. Staff has revised its FY2010/11 inflation projection up to 7.8 percent, from 6.1 percent at the time of the second review.

3. **Financial market conditions remain positive, broadly unchanged from those described in the Staff Report for the second review.** The 3-month Treasury bill rate has fallen to 7.4 percent; the Bank of Jamaica cut its policy rate to 7.5 percent; and the yield on the Eurobond fell to 7.8 percent (520 b.p. spread). Bank lending rates however remain high, with the prime rate to retail customers at about 17 percent (rates to prime corporate clients are significantly lower). In September, nonperforming loans in the banking system declined slightly to 5.7 percent of total loans, from 5.9 percent in June. Other prudential indicators also point to the continued resilience of the financial system (Figure 3). NIR remained steady at US\$1.9–2 billion during the third quarter and the currency was broadly stable against the U.S. dollar, during what is typically a seasonally-low period for foreign exchange earnings.

II. PERFORMANCE UNDER THE PROGRAM

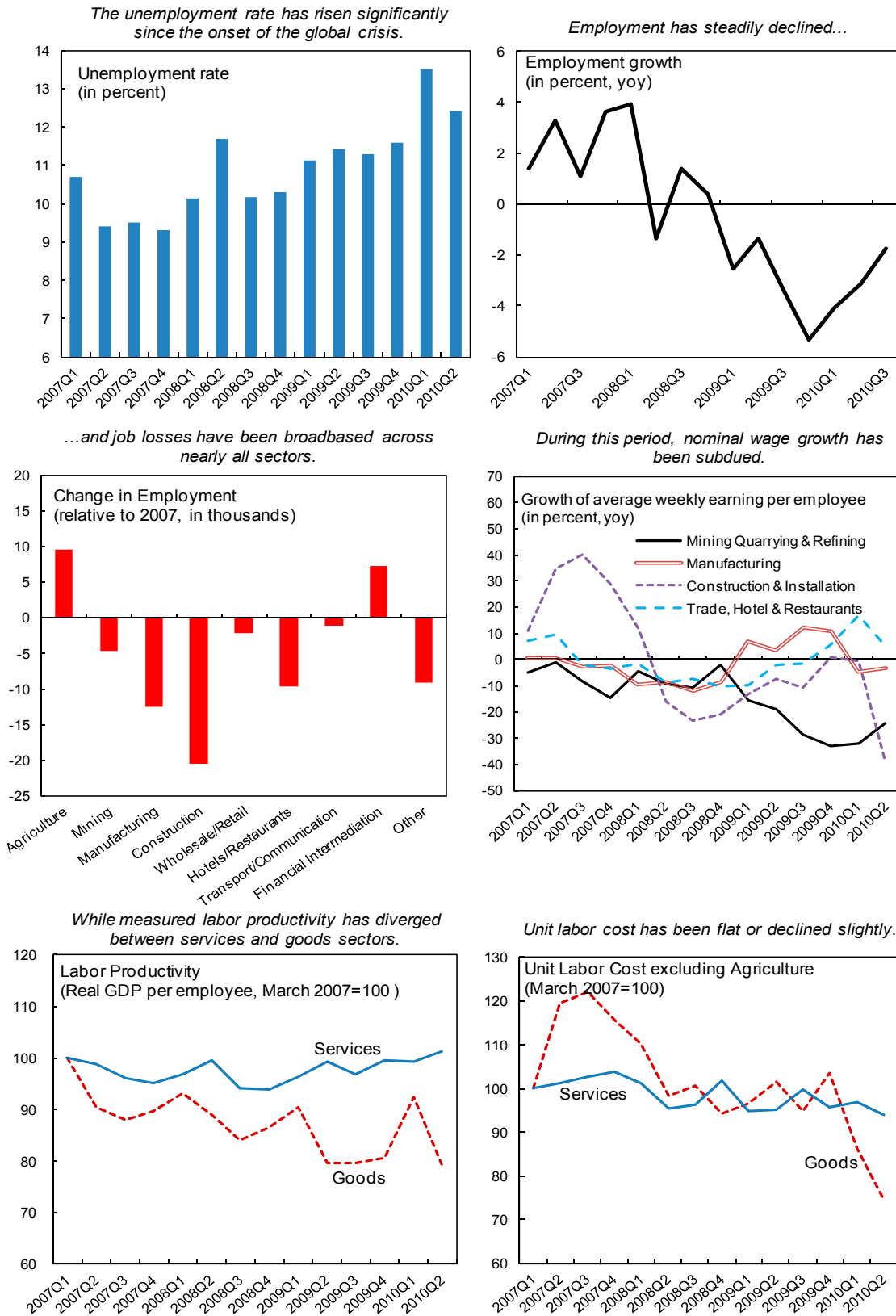
4. **All end-September quantitative performance criteria were met (MEFP, ¶5).** The central government primary surplus for the first half of FY2010/11 is estimated at 1.7 percent of GDP (1.5 percent of GDP under the program) and its overall deficit at 3.7 percent of GDP (3.8 percent of GDP under the program). The public sector overall deficit was 3.9 percent, significantly below the program projection of 4.5 percent of GDP. NIR continued to over perform, surpassing the end-September target by about US\$600 million.

Figure 1. Jamaica: Recent Economic Developments, 2006-10



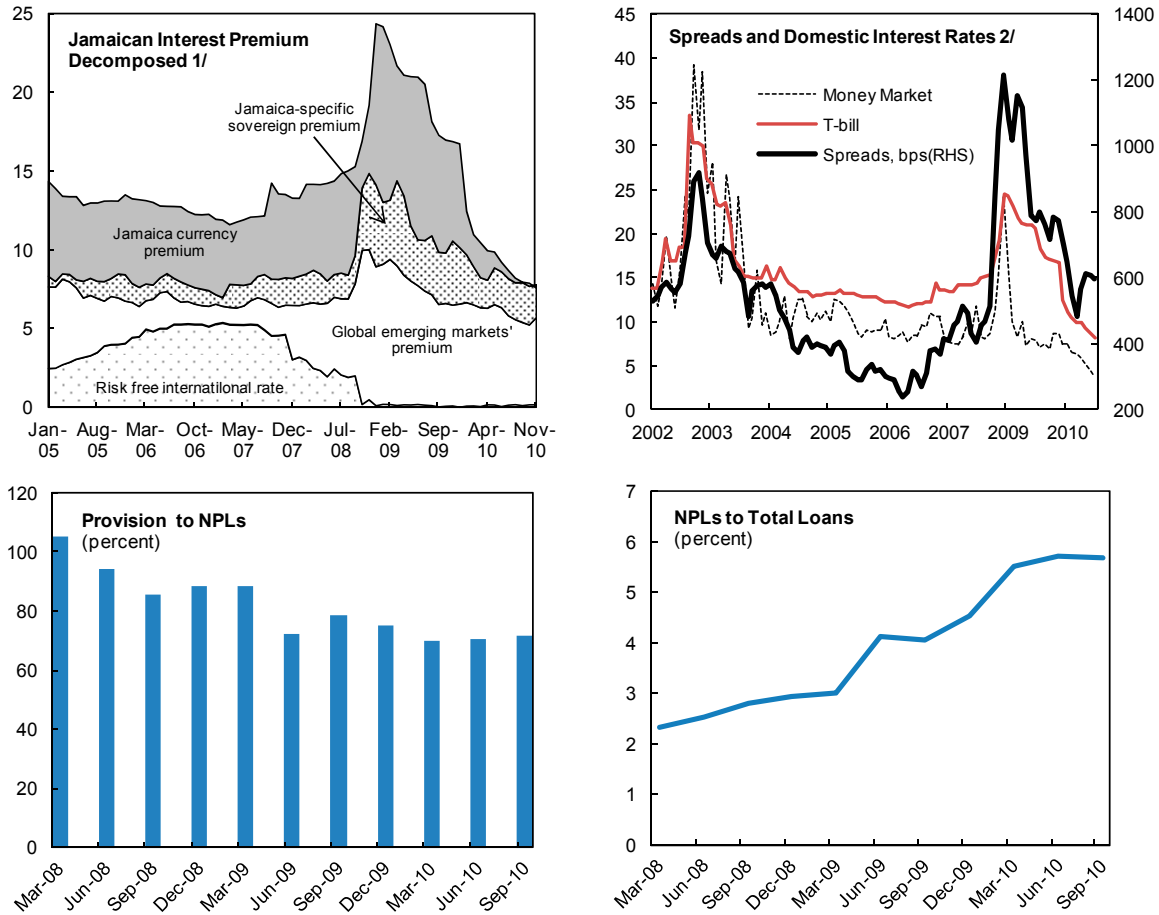
Source: Bank of Jamaica; Jamaica Tourist Board and Fund staff calculations.

Figure 2. Jamaica: Labor Market Indicators



Source: Bank of Jamaica; and Fund staff calculations.

Figure 3. Jamaica: Financial Sector Indicators



Jamaica: Financial Sector Indicators 3/

	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
In Percent					
Balance Sheet Growth (yoy)					
Capital Base	11.5	14.6	11.6	11.7	9.2
NPL	60.4	65.1	78.0	40.2	39.1
Liquidity					
Loans/Deposits	74.3	73.9	70.1	69.2	69.7
Asset Quality					
Prov for Loans/NPLs	78.6	75.0	69.9	70.3	71.4
NPLs to total loans	4.1	4.6	5.5	5.9	5.7
Capital Base					
Capital base/Total Assets	10.1	10.4	10.3	10.8	10.9
Capital Adequacy Ratio (CAR)	17.9	18.9	18.7	19.8	19.6
Profitability					
Pre Tax profit Margin(Calender Quarter)	15.5	17.8	17.8	21.2	23.8
ROA (Calender Quarter)	0.5	0.6	0.5	0.7	0.7

Source: Bank of Jamaica

Jamaica: Securities Industry Financial Indicators

	Dec-09	Mar-10	Jun-10	Sep-10
Funds Under Management (in billions of J\$)				
	610.1	610.7	614.5	579.8
In Percent				
Capital to Risked Weighted Assets	64.5	67.2	56.4	56.6
Capital to Total Assets	9.9	10.3	11.0	11.6
Net Profit to Funds Under Management	0.1	0.0	0.2	0.2
Net Interest Income to FUM	0.2	0.2	0.2	0.2

Source: Bank of Jamaica

Sources: JP Morgan, Jamaican authorities and Fund staff calculations.

1/ Jamaican interest premium is estimated as the sum of risk free rate (proxied by the U.S. Federal Funds rate), emerging market premium (proxied by the EMBI+ index), Jamaica sovereign premium (proxied by the blended yields on Jamaica Eurobonds) and Jamaica currency premium (the difference between Jamaica 6 month T-bill yields and other identified risk premiums).

2/ Spread refers to JPMorgan Central American and Caribbean Index (CACI) Jamaican stripped spread, which is calculated as the spread between a portfolio of Jamaican USD denominated bonds and on-the-run US treasury zero-coupon rate.

3/ Includes Commercial Banks, Merchant Banks, Building Societies

Table 1. Jamaica - Program Monitoring: Quantitative Performance Criteria (PC) under SBA ^{1/}
in billions of Jamaican dollars

	Sep-10	PC 3rd Review end Sep-10	Adjustments ^{7/}	Adjusted SBA PCs	Proj. Diff.	PC Status
Fiscal targets						
1. Primary balance of the central administration (floor) ^{2/}	21.4	18.8			2.5	Met
2. Overall balance of public entities (floor) ^{2/}	-3.4	-6.0			2.5	Met
3. Cumulative net increase in central government direct debt (ceiling) ^{2/ 3/}	52.6	54.0	-0.9	53.1	-0.5	Met
4. Cumulative net increase in central government guaranteed debt (ceiling) ^{2/}	3.9	15.7			-11.8	Met
5. Central government accumulation of domestic expenditure arrears (ceiling) ^{4/}	0.0	0.0			0.0	Met
6. Central government accumulation of tax refund arrears (ceiling) ^{5/}	-0.3	0.0			-0.3	Met
7. Consolidated government accumulation of external arrears (ceiling) ^{6/}	0.0	0.0			0.0	Met
Monetary targets						
8. Cumulative change in net international reserves (floor) ^{2/ 6/}	201.1	-395.4			596.5	Met
9. Cumulative change in net domestic assets (ceiling) ^{2/}	-22.9	-1.2			-21.7	Met

^{1/} Targets as defined in the Technical Memorandum of Understanding (TMU).

^{2/} Cumulative flows since April 1.

^{3/} Excludes government guaranteed debt. The central government direct debt excludes IMF credits and includes program consistent adjustments.

^{4/} Includes debt payments, supplies and other committed spending as per contractual obligations.

^{5/} Includes tax refund arrears as stipulated by law.

^{6/} In millions of US dollars. Measured at program exchange rates. PC incorporated automatic adjusters specified in TMU.

^{7/} Original targets for Q2 assumed that debts of the SCJ of 9.4 billion would be taken over adding to the stock of central government direct debt but only 8.5 billion were actually taken over. The remainder is expected to be taken over in the third quarter of FY2010/2011.

5. **Performance related to the structural benchmarks was mixed (Appendix 1 and MEFP ¶6).** In the fiscal area, the September benchmarks related to the Central Treasury Management System (CTMS) reform were met. In the debt management area, the benchmark requiring the hiring of a technical advisor and project manager for the reform program was not met. However, with the assistance of the Fund and the World Bank, this hiring is to be completed in January 2011. In addition, joint IMF/World Bank/IDB technical assistance on strategy development was provided in October 2010. The passage of new amendments to the fiscal responsibility framework (originally a November 2010 benchmark) has been delayed to January 2011, in order to incorporate additional recommendations by Fund staff. Delays have also emerged with the public sector rationalization plan, as parliamentary hearings have continued beyond the timeframe originally envisaged. In the financial sector, the authorities met the October benchmark of satisfactorily completing the concept paper on measures to combat unlawful financial operations. Meanwhile, the other financial reforms are advancing on schedule (Appendix 1).

III. POLICY DISCUSSIONS

6. **Despite the good performance under the program through end-September, mounting spending pressures and delays in some fiscal reforms have required the adoption of corrective measures by the authorities (MEFP ¶10).** Expenditure pressures identified during the review were in several forms: (a) the unanticipated purchase of new buses by the public bus company, after unsuccessful attempts to halt delivery; (b) prolonged operational support from the government for the Clarendon Alumina Production (CAP), due to delays in completing the divestment of the company; (c) payment of outstanding salaries and allowances to public sector workers; and (d) cost overruns related to highway construction projects and central government utility bills. In total, these new, unbudgeted outlays amounted to 1.4 percent of GDP, jeopardizing attainment of the program targets for

the second half of this fiscal year. Policy discussions therefore focused on measures to address the spending pressures and keep the fiscal program on track, and on ways to reinvigorate key structural reforms that appeared to be slipping.

A. Fiscal Policy

7. The authorities concurred with staff that the potential spending overruns reflected weaknesses in expenditure management that needed to be urgently addressed.

In a number of cases, the emergence of spending pressures reflected weak enforcement of spending control policies in government agencies and less-than-effective early warning mechanisms for detecting emerging pressures. The authorities indicated that they had begun to implement corrective measures, including an aggressive outreach campaign aimed at senior administrative officials and budget officers across the public sector. They also plan to introduce a monthly reporting system for expenditure commitments by government agencies (MEFP, ¶12). These actions would be reinforced with new regulations that would clearly set out accountability rules (and sanctions) for ensuring compliance with FRF provisions (MEFP, ¶12).

8. To offset the expenditure overruns, the government has adopted a number of compensatory measures. In the central government, these measures are in the form of: (i) the postponement of certain capital projects, most notably the Palisadoes Highway; (ii) cuts in recurrent spending including on travel, training, and advertising; (iii) a 60 percent reduction in the issuance of non-humanitarian discretionary tax waivers; (iv) the introduction of differentiated tax rates on alcohol beverages, based on alcohol content; (v) transfers to the central government from public entities (e.g., National Health Trust, Tourism Enhancement Fund); and (vi) a strengthening in administration efforts to enforce compliance in PAYE. Staff was satisfied that the new measures would keep the fiscal program on track (MEFP, ¶11). Staff noted, however, the one-off nature and low-quality (e.g., the postponement of capital spending) of some of the measures. Staff also emphasized the importance of structural reforms to secure more permanent savings over the medium term.

Table 2. Jamaica: Unbudgeted Spending and Offsetting Measures FY 2010/2011
(in percentage of GDP)

Unbudgeted Spending	1.4	Measures and Actions	1.4
Central Government	1.0	Central government	1.0
Wage-related spending	0.2	Revenues	0.4
State of Emergency	0.1	Reduce waivers and modify alcohol tax	0.1
Damages from Tropical Storm Nicole	0.2	Strengthen administration of PAYE withholding tax	0.1
Purchase of 100 buses for JUTC	0.2	Transfers from public bodies	0.2
Other goods and services	0.3	Expenditures	0.4
		Postpone capital spending	0.3
		Reduce recurrent spending	0.1
		Adjustor in primary balance to accommodate Nicole	0.2
Public entities		Public entities	
CAP losses	0.4	Divestment of CAP before end of fiscal year	0.4

9. **The authorities also agreed with staff that there was an urgent need to tighten procedures for evaluating and monitoring public investment projects.** Cost overruns related to certain road construction projects have reached as high as 50 percent. These included design flaws that subsequently had to be corrected as well as escalation of material and labor costs during project execution. Given that road construction will be the main component of the capital budget over the next few years, staff expressed concern that the risk of major overruns was significant. The authorities noted that a major initiative was underway to upgrade the government agency in charge of evaluating the design of road projects. They also noted that most of the new projects would be “design built” projects, under which risks associated with design-related flaws would be borne by the contractor.

10. **Staff strongly supports the authorities’ intensified efforts to divest CAP (MEFP, ¶16).** The losses of the state-owned alumina company CAP have arisen primarily from detrimental forward sale agreements with an international trading firm (Box 1). The cumulative losses resulting from these agreements are estimated at 1¼ percent of GDP during 2011–12 (the contracts expire at end-2012). The authorities have been actively engaged in the sale of the company, with a view to ensuring that any divestment agreements would not entail any future contingent liabilities for the government. After covering the costs associated with the cancelation of the forward sale contracts, divestment proceeds would be used to repay debt. The projected removal of CAP from public sector accounts in the last quarter of the FY2010/11 is not expected to result in a modification of the FY2010/11 target for the public entities’ deficit. Higher projected surpluses in other public bodies (e.g., National Housing Trust) will compensate for the surplus previously programmed for CAP.

11. **Staff supports the authorities’ request to partially accommodate storm-related spending in the FY2010/11 fiscal target (MEFP, ¶11).** Given that Tropical Storm Nicole did not have hurricane-force winds, the government was not eligible for relief under the World Bank-administered Caribbean Catastrophe Risk Insurance Facility (CCRIF). In that context, staff agreed to support the inclusion of an adjustor (with an upward limit of 0.2 percent of GDP) to accommodate expenses related to the storm, noting the limited room for flexibility in that area. Staff commended the authorities for taking steps (including renegotiating protection under the CCRIF and including a contingency reserve in future budgets) to ensure that adequate financial buffers are in place, in the event of future natural disasters (MEFP, ¶15). The total size of the buffer (insurance protection plus contingency reserve) should cover the expected annual loss which, for hurricanes, has been calculated at between ½–1 percent of GDP.¹

12. **Staff urged the authorities to continue keeping the wage bill in line with program projections.** The authorities reiterated their commitment to extending the public sector wage freeze through FY2011/12 and to lowering the wage bill to 9½ percent of GDP by FY2013/14. However, they also decided to pay outstanding allowances due to healthcare

¹ See World Bank (2006), *Results of Preparation Work on the Design of a Caribbean Catastrophe Risk Insurance Facility*.

Box 1. Clarendon Alumina Production

State-owned Clarendon Alumina Production (CAP) and Alcoa own and operate a joint venture production facility (Jamalco). Under the joint venture, CAP is entitled to 637,500 tons of the yearly production of alumina and responsible for 45 percent of the costs. Although CAP maintains value as a going concern, it has incurred significant operating losses over the years because of longstanding forward sales agreements for alumina at prices well below current international prices and production costs. As a result, the government estimates that CAP has lost some US\$185 million since 2007 and would lose another US\$175 million through 2012.

An earlier agreement for the sale of CAP fell through. A memorandum of understanding between the government and an investor was signed in March 2010. As the government expected to complete the sale early in FY2010/11, it did not allocate any funds in the budget to cover the operational losses of the company. Delays in divestment have resulted in unbudgeted costs estimated at 0.4 percent of GDP for this fiscal year.

CAP sells all of its alumina to one customer, under a number of sales agreements. Under a 10-year contract which commenced in 2002, CAP sells about half of its alumina at fixed contractual prices. The remainder of CAP's alumina is sold at a price equivalent to about 12.5 percent of the London Metal Exchange (LME) aluminum price which, therefore, adjusts to international market prices. While forward sale prices have remained stable at the 2000 price levels, production costs (oil and caustic soda) have risen sharply, leaving the company with persistent negative cash flows.

workers and teachers and make back payments owed to teachers, following a ruling of the Industrial Disputes Tribunal. Such payments amounted to 0.2 percent of GDP. The authorities noted that these one-off payments, originally programmed for the following three fiscal years, had been essentially brought forward by one year. Staff expressed concern that this action might increase pressure from other public sector workers, but was pleased to learn that formal discussions with public service unions had resumed, with the purpose of upholding the program's objectives while respecting the integrity of the legal system.²

13. **Staff expressed concern that delays have emerged in the timetables for some key fiscal reforms.** In particular, staff emphasized the importance of implementing reforms in public sector rationalization, tax policy, and debt management in the FY2011/12 budget to underpin the credibility of the medium-term fiscal consolidation efforts. The authorities agreed, and expressed confidence that reforms would proceed on time.

- *Public sector reform* (MEFP, ¶17). Staff noted that the technical work on estimating the costs and savings of the reforms (prior action for the third review) would need to be

² See IMF Country Report No. 10/358, for a detailed account of the various public sector wage disputes.

completed rapidly. This would allow policy makers to make informed decisions in time for the final policy strategy to be properly incorporated in the FY2011/12 budget planning exercise.

- *Tax incentives reform* (MEFP, ¶18). Staff was pleased that a consultant had finally been identified to assist the Ministry of Finance (MOF) in developing the reform and that a broader tax reform initiative was underway involving close consultation with key stakeholders. Given existing distortions in the tax system, a well-designed reform could generate significant efficiency gains, improve the business climate, and boost potential growth. The authorities provided assurances to staff that the tax incentives reform led by the Ministry of Finance and the broader reform led by the Partnership for Transformation (PFT) would be complementary and compatible with each other.
- *Debt Management* (MEFP, ¶19). The authorities indicated that various aspects of the debt management reform were proceeding in a timely fashion (e.g., action plan for restructuring the debt management unit, and changes to the debt law). However, staff expressed concerns that delays in hiring a technical advisor could prevent the authorities from taking advantage of potential strategic opportunities to improve the structure of government external public debt. The authorities plan to access international markets within the next four months, in order to rollover a US\$400 million Eurobond maturing in May 2011. With yields on external bonds at their lowest level in many years, staff encouraged the authorities to explore market-based options to reduce the cost and improve the profile of the existing external debt.

B. Monetary and Financial Sector Policies

14. **Staff expressed satisfaction with the overall improvement in financial system soundness indicators and continued progress in implementing the financial sector reforms (Appendices 1 and 2).** Data continue to indicate that financial institutions have been able to weather well the impact of the Jamaica Debt Exchange (JDX) and the general downturn in economic activity. In this context, staff supports the authorities' plans for gradually winding down the Financial System Support Fund (FSSF) and freeing up its resources for use as general purpose international reserves (MEFP, ¶22). The need for a phased winding down of the FSSF arises because it continues to serve as a liquidity source for a set of instruments used by financial institutions to fulfill their statutory liquidity requirements.³

³ The JDX extended maturities on short-dated instruments by over two years, making these new instruments ineligible, in principle, to count toward banks' statutory liquidity requirements. However, since these instruments could be used as collateral for liquidity support from the FSSF, they were deemed eligible to be counted as liquid assets. As the time-to-maturity of these instruments declines, they would become eligible for normal liquidity operations.

15. **Staff supported the authorities' approach to monetary policy (MEFP, ¶20).** At this stage, the recent increase in food prices is not expected to lead to any significant second-round effects, due to the expected temporary nature of the price increases and the prevailing weak domestic demand and slack labor market conditions. However, the BOJ is monitoring the situation closely. The authorities agreed that, with the decline in risk associated with the JDX, it was appropriate to raise the program's NIR floor. As a result, the December 2010 and March 2011 NIR floors have been raised by US\$500 million and US\$300 million, respectively, compared with the second review. The revised March 2011 floor is equivalent to 14 weeks of projected FY2010/11 imports of goods and services, i.e., above the often-used 3-month minimum reserve adequacy benchmark and 250 percent of short-term debt. Staff welcomed the initiatives taken thus far to encourage further reductions in bank lending rates and the authorities' plans to explore other options (e.g., reducing stamp duties and transfer taxes on loan refinancing) to stimulate competition in the financial system.

C. Policies to Enhance Long-Run Economic Growth

16. **The authorities remain concerned that negative growth, high unemployment, and rising poverty levels could adversely affect the sustained implementation of the program.** Jamaica has had very little growth for the past twenty years (averaging 1 percent a year) and, notwithstanding the positive developments thus far under the program, economic activity has remained lackluster. Staff and the authorities agreed that restoring fiscal sustainability and continuing to build on their track record of sound macroeconomic policies remain the most important contributions to raising potential growth.

17. **Sustained and broad-based growth in the economy is also predicated on simultaneous reforms on the production side of the economy.** Such reforms should include, inter alia, measures to remove constraints to, and to facilitate, new private investment that can enhance productivity and help develop emerging industries to globally competitive levels. In this context, staff noted that substantial work still needed to be done to improve business climate indicators (Appendix 3). Staff and the authorities also agreed that it was also crucial to enhance the government's ability to address other key impediments to economic growth, such as high crime and poor physical infrastructure. To this end, it was necessary that, within the constraints of the overall fiscal envelope, adequate room be found to protect and enhance social and capital spending, based on a comprehensive framework of national priorities.

IV. STAFF APPRAISAL

18. **Although economic conditions remain difficult, the conditions for growth now seem somewhat more favorable.** Real GDP growth for this fiscal year has been revised downward to reflect the impact of lower than projected growth in Jamaica's major trading partners, the negative impacts of Tropical Storm Nicole, and the state of emergency. At the same time, however, there have been some recent positive developments in the labor market, with positive job growth for the first time in four quarters. Core inflation has continued to abate, allowing the central bank to relax monetary conditions. Although credit is stagnant, bank lending rates have declined, from high levels. Nonperforming loans ratios have

stabilized, while other prudential indicators point to continued resilience of the financial system.

19. **With all the end-September quantitative performance targets under the SBA met, staff welcomes the authorities' steps to offset recent expenditure overruns.** To a large degree, the emergence of the spending overruns reflected longstanding problems in expenditure management and the unresolved legacy of the loss-making state-owned alumina company. The authorities have adopted critical measures to offset most of these overruns, and have intensified their efforts to divest CAP before the end of this fiscal year. In this context, staff supports accommodating in part storm-related infrastructure outlays through a modest relaxation in the primary surplus target. It will be critical for the authorities to move speedily ahead with the planned implementation of the fiscal reform agenda, including the public sector reform, to strengthen expenditure management and help create fiscal space for contingency buffers and to protect and boost growth enhancing social and capital spending programs.

20. **The financial system has remained resilient to the debt exchange and the economic downturn.** Prudential indicators have improved, and there have been no requests for assistance from the Financial System Support Fund (FSSF). The structural reforms aimed at strengthening the financial system are proceeding broadly on schedule, including the phased implementation of risk-weighting of foreign currency-denominated government securities. Staff supports the authorities' plan to gradually wind down the FSSF beginning in the first quarter of next year and to use the resources for general purpose gross international reserves of the central bank.

21. **Staff supports the completion of the third review under the SBA.** The risks to the program remain high, including from the external economic environment, Jamaica's very high debt and vulnerability to shocks, and limited implementation capacity. The authorities will need to remain vigilant and stand ready to make appropriate and timely decisions in order to secure the program's objectives.

22. **It is proposed to modify quantitative performance criteria for end-December 2010.** The overall fiscal balance of the public bodies was relaxed to account for the expected accumulated losses of CAP during 2010Q3. Additionally, the ceiling on central government guaranteed debt was revised in line with a change in definition, which now treats on-lending by the Petrocaribe Development Fund (PDF) to public bodies as part of central government guaranteed debt. The floor on net international reserves was increased in line with the reduced risks associated with the JDX.

23. **Staff supports the authorities' request for waivers of applicability for the end-December 2010 performance criteria for which data are not available and for which there is no evidence that they will not be met.** Information to assess observance of the performance criteria will not be available by the Board discussion on the third review scheduled for January 2011 and staff is of the view that the program will be successfully implemented notwithstanding the unavailability of such data. At this stage, based on discussions with the authorities and partial data in some cases, staff is confident that the performance criteria will be observed.

Table 3. Jamaica: Selected Economic Indicators 1/

	2008/09	2009/10	2010/11		Proj.		
		2nd.Review	2nd.Review	Rev.Proj.	2011/12	2012/13	2013/14
(Annual percent change)							
GDP, prices, and employment							
Real GDP	-1.7	-2.5	0.6	-0.5	1.8	2.0	2.0
Nominal GDP	12.1	8.2	11.0	10.6	10.3	8.9	8.9
Consumer price index (end of period)	12.4	13.3	6.1	7.8	5.5	5.5	5.5
Consumer price index (average)	20.2	9.7	11.1	11.4	7.0	5.5	5.5
Exchange rate (end of period, in J\$/US\$)	88.0	89.0	...	...	...	...	...
Exchange rate (average, J\$/US\$)	76.3	88.9	...	...	...	...	...
End-of-period REER (percent change, appreciation +)	-10.1	9.9	...	...	...	...	...
Treasury Bill rate, end-of-period, in percent	21.5	10.5	8.0	7.5	...	...	...
Treasury Bill rate, period average, in percent	17.0	16.8	8.7	8.3	...	...	...
Unemployment rate (in percent)	10.8	11.4	...	...	...	...	...
(in percent GDP)							
Government operations							
Budgetary revenue	26.9	27.0	26.0	26.5	26.2	26.3	26.7
Budgetary expenditure	34.3	37.9	32.3	32.9	28.5	26.5	25.6
Primary expenditure	22.0	20.9	21.1	21.8	19.3	18.9	18.5
Interest payments 2/	12.3	17.0	11.1	11.1	9.2	7.7	7.1
Budget balance	-7.4	-10.9	-6.2	-6.4	-2.3	-0.2	1.1
<i>Of which:</i> primary fiscal balance	4.9	6.1	4.9	4.7	6.8	7.5	8.2
Off-budget expenditure 3/	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Public entities balance 4/ 5/	-2.6	-1.6	-1.0	-1.0	-0.6	0.1	0.2
Public sector balance	-9.2	-12.5	-7.2	-7.4	-3.0	-0.1	1.2
Public debt 2/ 6/	126.1	139.8	139.0	138.7	133.2	125.2	113.8
External sector							
Current account balance	-18.4	-7.5	-7.7	-8.3	-6.7	-6.0	-5.5
<i>Of which:</i> exports of goods, f.o.b.	17.0	11.2	11.6	10.4	13.6	14.6	15.6
<i>Of which:</i> imports of goods, f.o.b.	50.0	35.4	34.6	33.7	37.4	39.3	41.2
Net international reserves (in millions of US\$)	1,629	1,762	1,905	2,195	2,292	2,184	2,205
Gross international reserves (In millions of US\$) 7/	1,664	2,434	2,978	3,268	3,602	3,494	3,133
(Changes in percent of beginning of period broad money)							
Money and credit							
Net foreign assets	-13.3	14.6	2.8	10.8	4.0	-0.8	1.8
Net domestic assets	24.8	-11.6	10.4	3.1	9.8	9.7	7.1
<i>Of which:</i> credit to the central government	8.7	4.2	-2.0	-7.8	1.2	0.9	0.4
Broad money	11.6	3.0	13.3	13.9	13.8	8.9	8.9
Velocity (ratio of GDP to broad money)	3.2	3.3	3.4	3.3	3.2	3.2	3.2
Memorandum items:							
Nominal GDP (in billions of J\$)	1,028	1,112	1,234	1,229	1,356	1,477	1,461

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

1/ Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.

2/ Includes savings from the debt exchange operation.

3/ Includes debt issued to BOJ to cover its cash losses and, until 2007/08, debt related to off-budget projects financed initially by the private sector.

4/ Assumes that any expansion of the PetroJam refinery, costing about 10 percent of GDP in cumulative terms, does not involve government financing, neither direct nor guaranteed.

5/ Includes 20 selected public entities under rationalization or divestment plans and other public entities.

6/ Central government direct and guaranteed only, including PetroCaribe debt and projected IMF disbursements.

7/ Includes the US\$650 million, which the authorities hold in reserve to address potential FSSF-related demand.

Table 4. Jamaica: Selected Economic Indicators 1/

	2008/09	2009/10	2009/10				2009/10	2010/11	2010/11				2010/11
		2nd.Review	Q1	Q2	Q3	Q4	Est.	2nd.Review	Q1	Q2	Q3	Q4	Rev. Proj.
(Annual percent change)													
GDP, prices, and employment													
Real GDP	-1.7	-2.5	-3.9	-2.5	-2.4	-1.0	-2.5	0.6	-2.0	-0.6	-0.7	1.3	-0.5
Nominal GDP	12.1	8.2	5.1	9.8	7.0	10.6	8.2	11.0	12.4	11.5	9.0	9.5	10.6
Consumer price index (end of period)	12.4	13.3	9.0	7.2	10.2	13.3	13.3	6.1	13.2	11.2	11.2	7.8	7.8
Consumer price index (average)	20.2	9.7	9.9	6.7	9.0	13.1	9.7	11.1	13.9	12.1	11.4	8.6	11.4
Exchange rate (end of period, in J\$/US\$)	88.0	89.0	88.6	88.7	89.1	89.0	89.0	...	...	...	...	...	...
Exchange rate (average, J\$/US\$)	76.3	88.9	88.6	88.6	89.0	89.2	88.9	...	...	...	...	...	...
End-of-period REER (% change, appreciation +)	-10.1	9.9	-12.9	-13.7	-2.6	9.9	9.9	...	...	...	...	...	...
Treasury Bill rate, end-of-period, in percent	21.5	10.5	21.5	17.0	15.0	10.5	10.5	8.0	9.3	8.0	7.5	7.5	7.5
Treasury Bill rate, period average, in percent	17.0	16.8	21.5	18.0	16.3	11.3	16.8	8.7	9.9	8.3	7.7	7.5	8.3
Unemployment rate (in percent)	10.8	...	11.4	11.3	11.6	...	11.4	...	...	...	...	...	...
(in percent GDP)													
Government operations													
Budgetary revenue	26.9	27.0	5.6	6.6	6.5	8.3	27.0	26.0	6.1	6.0	6.2	8.2	26.5
Budgetary expenditure	34.3	37.9	8.8	9.3	9.3	10.6	37.9	32.3	7.0	8.7	7.4	9.7	32.9
Primary expenditure	22.0	20.9	5.0	5.4	5.0	5.5	20.9	21.1	5.3	5.1	5.3	6.1	21.8
Interest payments 2/	12.3	17.0	3.8	3.8	4.3	5.0	17.0	11.1	1.8	3.6	2.1	3.6	11.1
Budget balance	-7.4	-10.9	-3.2	-2.7	-2.8	-2.2	-10.9	-6.2	-0.9	-2.7	-1.2	-1.5	-6.4
<i>Of which: primary fiscal balance</i>	4.9	6.1	0.6	1.1	1.5	2.8	6.1	4.9	0.9	0.9	0.9	2.1	4.7
Off-budget expenditure 3/	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public entities balance 4/ 5/	-2.6	-1.6	-0.1	-0.1	-0.1	-1.1	-1.6	-1.0	-0.2	-0.1	-0.6	-0.1	-1.0
Overall fiscal balance	-9.2	-12.5	-3.3	-2.9	-2.9	-3.4	-12.5	-7.2	-1.1	-2.9	-1.8	-1.6	-7.4
Public debt 2/ 6/	126.1	139.8					139.8	139.0					139.1
External sector													
Current account balance	-18.4	-7.5	-1.2	-2.5	-3.6	-0.2	-7.5	-7.7	-1.7	-2.5	-2.8	-1.3	-8.3
<i>Of which: exports of goods, f.o.b.</i>	17.0	11.2	2.9	3.0	2.5	2.9	11.2	11.6	2.3	2.6	2.6	2.9	10.4
<i>Of which: imports of goods, f.o.b.</i>	50.0	35.4	8.1	9.3	9.6	8.3	35.4	34.6	7.9	8.7	8.9	8.2	33.7
Net international reserves (in millions of US\$)	1,629	1,762	1,620	1,902	1,729	1,762	1,762	1,905	1,759	1,963	1,992	2,195	2,195
Gross international reserves (in millions of US\$) 7	1,664	2,434	1,654	1,924	1,752	2,434	2,434	2,978	2,533	2,785	2,815	3,268	3,268
Money and credit													
(Changes in percent of beginning of period broad money)													
Net foreign assets	-13.3	14.6	0.7	9.8	-1.7	14.6	14.6	2.8	16.2	11.9	11.7	10.8	10.8
Net domestic assets	24.8	-11.6	19.9	7.3	-1.5	-11.6	-11.6	10.4	-12.5	-8.2	-6.4	3.1	3.1
<i>Of which: credit to the central government</i>	8.7	4.2	21.7	20.4	15.3	4.2	4.2	-2.0	-5.7	-3.0	-11.6	-7.8	-7.8
Broad money	11.6	3.0	9.8	8.2	6.1	3.0	3.0	13.3	3.8	3.7	5.2	13.9	13.9
Velocity (ratio of GDP to broad money)	3.3	3.3	3.3	3.3	3.2	3.4	3.4	3.4	3.4	3.6	3.3	3.3	3.3
Memorandum items:													
Nominal GDP (in billions of J\$)	1,028	1,094	1,040	1,065	1,083	1,112	1,112	1,237	1,144	1,176	1201.2	1229	1,229

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

1/ Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.

2/ Includes savings from the debt exchange operation.

3/ Includes debt issued to BOJ to cover its cash losses and, until 2007/08, debt related to off-budget projects financed initially by the private sector.

4/ Assumes that any expansion of the PetroJam refinery, costing about 10 percent of GDP in cumulative terms, does not involve government financing, neither direct nor guaranteed.

5/ Includes 20 selected public entities under rationalization or divestment plans and other public entities.

6/ Central government direct and guaranteed only, including PetroCaribe debt and projected IMF disbursements.

7/ Includes the US\$650 million, which the authorities hold in reserve to address potential FSSF-related demand.

Table 5. Jamaica: Summary of Central Government Operations

	2008/09	2009/10	2009/10				2009/10	2010/11	2010/11				2010/11	2011/12
		2nd.Review	Q1	Q2	Q3	Q4	Est.	2nd.Review	Q1	Q2	Q3	Q4	Rev. Proj.	Proj.
(in billions of Jamaican dollars)														
Budgetary revenue and grants	276.2	300.2	62.5	72.9	72.2	92.6	300.2	321.4	75.5	73.2	76.1	100.5	325.3	354.8
Tax	250.7	267.4	58.2	63.1	66.1	80.1	267.4	285.6	63.3	67.6	66.6	90.1	287.5	315.4
Non-tax	18.0	26.5	3.9	4.9	5.6	12.0	26.5	22.3	8.9	3.9	4.6	7.4	24.8	25.1
Grants	7.6	6.3	0.4	4.9	0.5	0.5	6.3	13.6	3.4	1.8	4.8	3.0	13.0	14.3
Budgetary expenditure	352.2	421.5	97.8	103.0	103.1	117.6	421.5	398.2	86.6	107.0	91.1	119.4	404.1	386.0
Primary expenditure	226.2	232.7	55.4	60.2	55.5	61.6	232.7	260.7	65.0	62.4	65.4	74.9	267.7	262.4
Wage and salaries	111.5	126.3	31.6	33.0	30.3	31.4	126.3	127.3	32.0	31.7	32.9	32.6	129.2	135.9
Other expenditure	73.3	72.0	15.0	18.7	18.8	19.5	72.0	76.2	17.5	19.3	19.1	20.5	76.5	81.8
Capital expenditure	41.4	34.4	8.8	8.5	6.4	10.7	34.4	57.2	15.5	11.4	13.3	21.8	62.0	44.6
Interest	126.0	188.7	42.4	42.8	47.6	56.0	188.7	137.5	21.7	44.6	25.7	44.4	136.4	123.7
Domestic	90.2	144.9	31.2	31.2	34.6	47.9	144.9	94.2	11.9	34.3	12.8	35.9	94.9	86.7
Current	89.5	144.9	31.2	31.2	34.6	47.9	144.9	94.2	11.9	34.3	12.8	35.9	94.9	86.7
BoJ special issue bonds 1/	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	35.8	43.8	11.2	11.5	13.0	8.1	43.8	43.2	9.7	10.3	12.9	8.5	41.5	37.0
Budget balance	-76.0	-121.3	-35.3	-30.1	-30.9	-25.0	-121.3	-76.8	-11.1	-33.8	-15.1	-18.9	-78.8	-31.2
o.w. primary budget balance 2/	50.0	67.5	7.1	12.6	16.7	31.0	67.5	60.7	10.6	10.8	10.7	25.6	57.6	92.4
Off-budget expenditure	-7.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BoJ cash losses 3/	-7.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public entities balance 4/	-26.3	-17.5	-1.6	-1.6	-1.6	-12.7	-17.5	-11.9	-1.9	-1.5	-7.5	-1.0	-11.9	-8.3
Public sector balance	-94.9	-138.8	-36.9	-31.7	-32.5	-37.7	-138.8	-88.7	-13.0	-35.3	-22.6	-19.9	-90.8	-39.5
Net increase in Central Govt. debt	68.7	121.3	35.3	30.1	30.9	25.0	121.3	76.8	11.1	33.8	15.1	18.9	78.8	31.2
Principal Repayments	112.1	169.4	27.7	41.1	33.2	67.3	169.4	96.3	39.2	28.8	7.1	25.3	100.4	120.9
External	37.8	25.4	5.2	7.9	5.9	6.4	25.4	25.4	4.9	6.6	6.0	7.3	24.8	54.8
o.w. official	18.6	18.5	0.0	0.0	0.0	0.0	18.5	18.5	0.0	0.0	0.0	0.0	18.3	10.5
Domestic	74.3	144.0	22.5	33.3	27.3	60.9	144.0	70.9	34.3	22.2	1.1	18.0	75.6	66.1
Gross Financing Needs	180.7	290.6	63.1	71.2	64.0	92.3	290.6	173.1	50.3	62.6	22.1	44.2	179.2	152.1
Gross Financing Sources	180.7	290.6	63.1	71.2	64.0	92.3	290.6	173.1	50.3	62.6	22.1	44.2	179.2	152.1
External	58.9	50.8	4.0	2.9	6.4	37.6	50.8	73.6	9.5	19.3	21.2	23.7	73.6	59.0
o.w. official	30.8	50.4					50.4	68.2					68.3	21.7
Domestic	115.8	248.8	46.9	77.3	60.7	63.8	248.8	119.1	52.0	30.9	22.6	13.5	118.9	83.9
Divestment + deposit drawdown	6.0	-9.0	12.1	-9.0	-3.0	-9.1	-9.0	-19.7	-11.1	12.4	-21.7	7.0	-13.4	9.2
Memo item:														
Central government debt excluding IMF, J\$ billio	1119	1266	1142	1181	1215	1266	1266	1371	1292	1323	1360	1361	1361	1406
Public Debt 5/	1296	1554					1554	1716					1705	1807
Nominal GDP	1028	1112	1112	1112	1112	1112	1112	1234	1229	1229	1229	1229	1229	1356

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ Accrued interest on previous year's BoJ Special Issue Bonds has contractually been paid to the BoJ through debt issuance the following year.

2/ For revised projections in FY2010/11, includes Air Jamaica's divestment costs.

3/ Refers to operating losses of the BoJ, not covered by the BoJ Special Issue Bonds.

4/ Includes selected and other public entities.

5/ Central Government direct and guaranteed debt including PetroCarible debt and projected IMF disbursements

Table 6. Jamaica: Summary of Central Government Operations

	2008/09	2009/10		2009/10				2009/10	2010/11		2010/11				2010/11	2011/12
		2nd.Review	Q1	Q2	Q3	Q4	Est.	2nd. Review	Q1	Q2	Q3	Q4	Rev. Proj.	Proj.		
	(in percent of GDP)															
Budgetary revenue and grants	26.9	27.0	5.6	6.6	6.5	8.3	27.0	26.0	6.1	6.0	6.2	8.2	26.5	26.2		
Tax	24.4	24.1	5.2	5.7	5.9	7.2	24.1	23.1	5.1	5.5	5.4	7.3	23.4	23.3		
Non-tax	1.7	2.4	0.4	0.4	0.5	1.1	2.4	1.8	0.7	0.3	0.4	0.6	2.0	1.9		
Grants	0.7	0.6	0.0	0.4	0.0	0.0	0.6	1.1	0.3	0.1	0.4	0.2	1.1	1.1		
Budgetary expenditure	34.3	37.9	8.8	9.3	9.3	10.6	37.9	32.3	7.0	8.7	7.4	9.7	32.9	28.5		
Primary expenditure	22.0	20.9	5.0	5.4	5.0	5.5	20.9	21.1	5.3	5.1	5.3	6.1	21.8	19.3		
Wage and salaries	10.9	11.4	2.8	3.0	2.7	2.8	11.4	10.3	2.6	2.6	2.7	2.7	10.5	10.0		
Other expenditure	7.1	6.5	1.3	1.7	1.7	1.8	6.5	6.2	1.4	1.6	1.6	1.7	6.2	6.0		
Capital expenditure	4.0	3.1	0.8	0.8	0.6	1.0	3.1	4.6	1.3	0.9	1.1	1.8	5.0	3.3		
Interest	12.3	17.0	3.8	3.8	4.3	5.0	17.0	11.1	1.8	3.6	2.1	3.6	11.1	9.1		
Domestic	8.8	13.0	2.8	2.8	3.1	4.3	13.0	7.6	1.0	2.8	1.0	2.9	7.7	6.4		
Current	8.7	13.0	2.8	2.8	3.1	4.3	13.0	7.6	1.0	2.8	1.0	2.9	7.7	6.4		
BoJ special issue bonds 1/	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
External	3.5	3.9	1.0	1.0	1.2	0.7	3.9	3.5	0.8	0.8	1.0	0.7	3.4	2.7		
Budget balance	-7.4	-10.9	-3.2	-2.7	-2.8	-2.2	-10.9	-6.2	-0.9	-2.7	-1.2	-1.5	-6.4	-2.3		
o.w. primary budget balance 2/	4.9	6.1	0.6	1.1	1.5	2.8	6.1	4.9	0.9	0.9	0.9	2.1	4.7	6.8		
Off-budget expenditure	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
BoJ cash losses 3/	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Public entities balance 4/	-2.6	-1.6	-0.1	-0.1	-0.1	-1.1	-1.6	-1.0	-0.2	-0.1	-0.6	-0.1	-1.0	-0.6		
Public sector balance	-9.2	-12.5	-3.3	-2.9	-2.9	-3.4	-12.5	-7.2	-1.1	-2.9	-1.8	-1.6	-7.4	-2.9		
Net increase in Central Govt. debt	6.7	10.9	3.2	2.7	2.8	2.2	10.9	6.2	0.9	2.7	1.2	1.5	6.4	2.3		
Principal Repayments	10.9	15.2	2.5	3.7	3.0	6.1	15.2	7.8	3.2	2.3	0.6	2.1	8.2	8.9		
External	3.7	2.3	0.5	0.7	0.5	0.6	2.3	2.1	0.4	0.5	0.5	0.6	2.0	4.0		
o.w. official	1.8	1.7	0.0	0.0	0.0	0.0	1.7	1.5	0.0	0.0	0.0	0.0	1.5	0.8		
Domestic	7.2	13.0	2.0	3.0	2.5	5.5	13.0	5.7	2.8	1.8	0.1	1.5	6.2	4.9		
Gross Financing Needs	17.6	26.1	5.7	6.4	5.8	8.3	26.1	14.0	4.1	5.1	1.8	3.6	14.6	11.2		
Gross Financing Sources	17.6	26.1	5.7	6.4	5.8	8.3	26.1	14.0	4.1	5.1	1.8	3.6	14.6	11.2		
External	5.7	4.6	0.4	0.3	0.6	3.4	4.6	6.0	0.8	1.6	1.7	1.9	6.0	4.4		
o.w. official	3.0	4.5					4.5	5.5					5.6	1.6		
Domestic	11.3	22.4	4.2	7.0	5.5	5.7	22.4	9.7	4.2	2.5	1.8	1.1	9.7	6.2		
Divestment + deposit drawdown	0.6	-0.8	1.1	-0.8	-0.3	-0.8	-0.8	-1.6	-0.9	1.0	-1.8	0.6	-1.1	0.7		
Memo item:																
Central Govt. direct debt excluding IMF	108.9	113.9	102.7	106.2	109.3	113.9	113.9	111.1	105.2	107.6	110.6	110.8	110.8	103.7		
Public Debt 5/	126.1	139.8					139.8	139.0					138.7	133.2		
Nominal GDP	1028	1112	1112	1112	1112	1112	1112	1234	1229	1229	1229	1229	1229	1356		

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ Accrued interest on previous year's BoJ Special Issue Bonds has contractually been paid to the BoJ through debt issuance the following year.

2/ For revised projections in FY2010/11, includes Air Jamaica's divestment costs.

3/ Refers to operating losses of the BoJ, not covered by the BoJ Special Issue Bonds.

4/ Includes selected and other public entities.

5/ Central Government direct and guaranteed debt including PetroCarible debt and projected IMF disbursements

Table 7. Jamaica: Operations of the Public Entities

	In billions of Jamaican dollars					In percent of GDP				
	2007/08	2008/09	2009/10	2010/11	2011/12	2007/08	2008/09	2009/10	2010/11	2011/12
	Operating balance selected public entities 1/	17.5	5.9	23.2	47.0	49.1	1.9	0.6	2.1	3.8	3.6
<i>Of which:</i>										
Air Jamaica	-12.9	-11.9	-15.5	0.0	0.0	-1.4	-1.2	-1.4	0.0	0.0
Clarendon Aluminum	-1.0	-5.9	-6.3	0.0	0.0	-0.1	-0.6	-0.6	0.0	0.0
Sugar Company of Jamaica	-5.3	-7.2	-3.4	0.0	0.0	-0.6	-0.7	-0.3	0.0	0.0
Petrojam	13.7	2.2	24.0	13.7	11.3	1.5	0.2	2.2	1.1	0.8
NROCC	-0.5	-0.2	-3.5	-2.4	-2.4	-0.1	0.0	-0.3	-0.2	-0.2
Urban Development Corporation	1.1	0.7	0.0	5.7	0.6	0.1	0.1	0.0	0.5	0.0
National Water Commission	0.5	0.2	0.4	1.0	1.1	0.1	0.0	0.0	0.1	0.1
Port Authority of Jamaica	2.5	0.6	1.9	3.9	5.1	0.3	0.1	0.2	0.3	0.4
National Housing Trust 2/	15.5	24.7	18.4	26.4	25.6	1.7	2.4	1.7	2.1	1.9
National Insurance Fund	3.9	2.3	0.2	4.1	5.0	0.4	0.2	0.0	0.3	0.4
Net current transfers from the central government	-0.4	9.3	3.8	-3.9	-6.6	0.0	0.9	0.3	-0.3	-0.5
<i>Of which:</i>										
Air Jamaica	5.0	4.6	2.0	0.0	0.0	0.5	0.4	0.2	0.0	0.0
Clarendon Aluminum	0.0	0.0	9.7	0.0	0.0	0.0	0.0	0.9	0.0	0.0
Sugar Company of Jamaica	0.0	7.4	2.7	0.0	0.0	0.0	0.7	0.2	0.0	0.0
Petrojam	-6.6	-5.2	-13.7	-14.1	-14.4	-0.7	-0.5	-1.2	-1.1	-1.1
NROCC	0.0	0.0	0.1	2.6	2.7	0.0	0.0	0.0	0.2	0.2
Urban Development Corporation	0.5	1.4	2.1	4.5	3.1	0.1	0.1	0.2	0.4	0.2
National Water Commission	1.1	0.8	0.4	1.5	0.1	0.1	0.1	0.0	0.1	0.0
Port Authority of Jamaica	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Housing Trust	-0.4	-0.6	0.0	-0.5	0.0	0.0	-0.1	0.0	0.0	0.0
National Insurance Fund	-0.6	-0.7	0.1	-0.8	-0.9	-0.1	-0.1	0.0	-0.1	-0.1
Gross capital expenditure selected public entities 2/	44.2	38.8	36.6	65.9	48.0	4.8	3.8	3.3	5.4	3.5
<i>Of which:</i>										
Air Jamaica	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Clarendon Aluminum	9.1	2.9	3.3	0.0	0.0	1.0	0.3	0.3	0.0	0.0
Sugar Company of Jamaica	0.4	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petrojam	0.8	2.0	1.5	2.6	1.1	0.1	0.2	0.1	0.2	0.1
NROCC	3.8	2.5	3.6	9.1	6.2	0.4	0.2	0.3	0.7	0.5
Urban Development Corporation	0.8	1.9	2.9	6.6	6.2	0.1	0.2	0.3	0.5	0.5
National Water Commission	3.4	2.5	2.9	2.2	2.6	0.4	0.2	0.3	0.2	0.2
Port Authority of Jamaica	3.9	1.4	7.0	6.5	0.5	0.4	0.1	0.6	0.5	0.0
National Housing Trust	17.7	22.0	11.5	23.8	29.9	1.9	2.1	1.0	1.9	2.2
National Insurance Fund	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Other net spending selected public entities 3/	0.4	-5.4	5.6	-14.6	2.8	0.0	-0.5	0.5	-1.2	0.2
Overall balance selected public entities 4/	-27.4	-18.1	-15.1	-8.3	-8.3	-3.0	-1.8	-1.4	-0.7	-0.6
<i>Of which:</i>										
Air Jamaica	-8.1	-7.5	-13.6	0.0	0.0	-0.9	-0.7	-1.2	0.0	0.0
Clarendon Aluminum	-6.5	-9.1	0.3	0.0	0.0	-0.7	-0.9	0.0	0.0	0.0
Sugar Company of Jamaica	-5.8	0.3	-1.3	0.0	0.0	-0.6	0.0	-0.1	0.0	0.0
Petrojam	3.2	0.6	4.4	-5.0	-6.4	0.3	0.1	0.4	-0.4	-0.5
NROCC	-4.3	-2.6	-7.0	-9.1	-6.2	-0.5	-0.3	-0.6	-0.7	-0.5
Urban Development Corporation	0.6	0.5	-0.8	3.5	-2.6	0.1	0.0	-0.1	0.3	-0.2
National Water Commission	-2.0	-1.5	-1.9	0.4	-1.2	-0.2	-0.1	-0.2	0.0	-0.1
Port Authority of Jamaica	-1.6	-0.8	-5.1	-2.7	4.5	-0.2	-0.1	-0.5	-0.2	0.3
National Housing Trust	-2.7	1.6	6.5	2.1	-4.3	-0.3	0.2	0.6	0.2	-0.3
National Insurance Fund	3.3	1.6	0.3	3.2	4.0	0.4	0.2	0.0	0.3	0.3
Overall Balance other public entities 5/	-4.1	-8.1	-2.4	-3.7	0.0	-0.4	-0.8	-0.2	-0.3	0.0
Overall Balance Public Entities 4/	-31.5	-26.3	-17.5	-11.9	-8.3	-3.4	-2.6	-1.6	-1.0	-0.6
Overall Balance Public Entities Program 4/			-29.6	-11.9	-8.3			-2.7	-1.0	-0.6

1/ Selected public entities refer to a group of the most important 20 public bodies of which 10 are shown. The operating balance is defined as current revenues minus current expenditures after adjustments from accrual accounting to cash basis.

2/ Gross of the change in inventories

3/ Other net spending items not captured in the operating balance or gross capital expenditures. Positive number means spending.

4/ Divestment of Air Jamaica and no expansion of the Petrojam refinery are assumed in the figures.

5/ Other public entities as defined in Technical Memorandum of Understanding.

Table 8. Jamaica: Summary Balance of Payments

	2008/09	2009/10	2009/10				2009/10	2010/11	2010/11				2010/11	2011/12
		2nd.Review	Q1	Q2	Q3	Q4	Est.	2nd.Review	Q1	Q2	Q3	Q4	Rev. Proj.	Proj.
	(In millions of U.S. dollars)													
Current account	-2,497	-932	-148	-318	-446	-48	-960	-1,100	-245	-351	-398	-189	-1180	-1,017
Trade balance	-4,472	-3,019	-659	-791	-897	-700	-3,047	-3,272	-804	-859	-891	-765	-3318	-3,375
Exports (f.o.b.)	2,315	1,406	359	371	308	364	1,403	1,648	326	371	373	406	1476	1,939
Imports (f.o.b.)	6,786	4,425	1,017	1,163	1,205	1,065	4,450	4,920	1129	1230	1264	1171	4793	5,314
Fuel (cif)	2,807	1,466	300	428	345	415	1,488	1,772	374	426	394	435	1629	1,969
Exceptional imports (incl. FDI-related)	634	392	97	106	121	101	425	336	91	95	110	65	362	461
Other	3,345	2,567	620	629	739	549	2,537	2,812	664	710	759	670	2803	2,884
Services (net)	476	826	220	150	134	319	823	773	200	174	165	286	825	938
Transportation	-614	-422	-97	-114	-128	-85	-423	-444	-109	-116	-114	-102	-441	-477
Travel	1,688	1,756	440	385	381	548	1,755	1,747	429	404	399	550	1783	1,996
of which: Tourism receipts	1,939	1,964	486	452	441	584	1,963	1,960	465	467	460	602	1994	2,212
Other services	-598	-508	-123	-122	-119	-145	-508	-531	-121	-115	-119	-163	-518	-581
Income (net)	-562	-639	-165	-174	-162	-134	-634	-678	-150	-159	-186	-200	-690	-686
Current transfers (net)	2,060	1,900	455	497	478	467	1,898	2,077	508	492	514	489	2004	2,106
Government (net)	105	139	25	66	23	26	139	172	57	38	40	38	172	193
Private (net)	1,955	1,761	431	432	455	442	1,759	1,905	452	454	474	451	1831	1,913
Capital and financial account	2,055	1,053	139	591	271	81	1,081	1,244	244	553	427	288	1613	1113.6
Capital account (net)	28	-20	-6	-2	-6	-6	-20	-23	-9	-2	-7	-5	-23	-22.8
Financial account (net) 1/	2,027	1,073	145	593	277	86	1,101	1,267	253	556	434	293	1636	1136.4
Direct investment (net)	701	464	108	114	138	114	474	345	90	87	90	74	341	591.7
of which: One-off sales of shares	300	0	0	0	0	0	0	0	0	0	0	0	0	0.0
Central government (net)	43	285	-22	-45	5	347	285	554	18	159	188	195	565	47.9
Other official (net) 2/	284	573	-11	336	166	81	573	228	17	90	57	14	283	158.5
of which: PetroCaribe	325	222	49	56	83	30	218	187	102	62	57	-7	214	286.7
Government prefinancing deposits	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0
Portfolio investment (net)	688	-230	70	187	-32	-437	-212	140	128	220	100	10	447	338.3
Other private flows (net)	312	-19	0	0	0	-19	-19	0	0	0	0	0	0	0.0
Overall balance	-442	121	-9	273	-175	32	121	144	-1	202	30	99	434	97.0
Financing	442	-121	9	-273	175	-32	-121	-144	1	-202	-30	-99	-434	-97.0
Change in GIR (- increase)	442	-771	9	-273	175	-682	-771	-544	-99	-252	-30	-349	-834	-334.0
Prospective IMF credits	0	650	0	0	0	650	650	400	100	50	0	250	400	237.0
Memorandum items:														
Gross international reserves 3/	1,664	2,434	1,654	1,927	1,752	2,434	2,434	2,978	2533	2785	2815	3268	3268	3602
(in weeks of perspective imports of GNFs)	13.8	18.5					18.9	21.4					23.1	24.4
Net international reserves	1,629	1,762	1,620	1,902	1,729	1,762	1,762	1,905	1759	1963	1992	2195	2195	2292
Current account (in percent of GDP)	-18.4	-7.5	-1.2	-2.5	-3.6	-0.4	-7.7	-7.7	-1.7	-2.5	-2.8	-1.3	-8.3	-6.7
Exports of goods (in percent change)	-4.3	-39.3					-39.4	17.2					5.2	31.4
Imports of goods (in percent change)	1.8	-34.8					-34.4	11.2					7.6	10.9
Oil prices (composite, fiscal year basis)	88.2	65.6					65.6	77.6					81.9	89.8
Tourism receipts (in percent change)	-2.1	1.3					1.2	-0.2					1.5	11.0
GDP (in millions of U.S. dollars)	13,586	12,510					12,510	14,200					14,211	15,256

Sources: Jamaican authorities; and Fund staff estimates.

1/ Includes estimates of a partial payment for the sales of a rum company in 2008/09.

2/ Includes counterpart to the inflow for the government's pre-financing in 2005/06, the new general SDR allocation in 2009/10.

3/ Includes the US\$650 million, which the authorities hold in reserve to address potential FSSF-related demand.

Table 9. Jamaica: Summary Accounts of the Bank of Jamaica 1/

	2008/09	2009/10	2009/10				2010/11	2010/11			
		2nd.Review	Q1	Q2	Q3	Q4	2nd.Review	Q1	Q2	Q3	Q4
End-of-period stocks 1/											
	(in J\$ billions)										
Net international reserves	144.9	156.5	144.1	172.0	154.5	156.5	165.5	160.5	176.3	171.7	191.7
Net domestic assets	-73.7	-79.2	-71.4	-99.9	-73.4	-79.2	-86.6	-82.7	-102.1	-83.2	-110.7
Net claims on public sector	125.3	145.6	136.4	135.4	154.9	145.6	145.6	129.8	141.6	126.0	115.1
Net claims on central government	74.6	82.3	85.1	79.1	103.2	82.3	72.8	64.5	73.6	68.1	52.3
Net claims on rest of public sector /2	46.2	62.8	50.2	57.7	53.0	62.8	72.8	59.0	59.6	49.4	62.8
Operating losses of the BOJ	4.4	0.5	1.1	-1.3	-1.3	0.5	0.0	6.3	8.5	8.5	0.0
Net credit to commercial banks	-16.3	-10.3	-23.7	-23.9	-23.0	-10.3	-13.0	-8.4	-14.3	4.7	-13.0
Of which: foreign prudential reserve	-17.6	-14.6	-17.7	-17.8	-16.9	-14.6	-15.1	-14.1	-14.3	-14.9	-15.2
Net credit to other financial institutions	-1.4	-1.4	-1.4	-1.5	-1.6	-1.4	-1.6	-1.6	-1.5	-1.5	-1.5
Open market operations	-119.3	-121.3	-120.8	-118.5	-112.0	-121.3	-130.4	-110.7	-136.2	-119.7	-122.7
Of which: commercial banks	-47.1	-48.9	-39.1	-36.0	-31.9	-48.9	-58.2	-48.6	-51.0	-65.7	-60.0
Other items net (incl. valuation adj.)	-62.0	-91.8	-62.0	-91.4	-91.8	-91.8	-87.2	-91.8	-91.8	-92.8	-88.6
Medium- and long-term foreign liabilities	-2.6	-2.3	-2.6	-2.6	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3
Valuation adjustment	-54.1	-54.6	-54.1	-54.1	-54.6	-54.6	-50.0	-54.6	-54.6	-55.6	-51.5
Allocation of SDRs	-5.3	-34.8	-5.3	-34.7	-34.8	-34.8	-34.8	-34.8	-34.8	-34.8	-34.8
Base money	71.2	77.3	72.7	72.1	81.1	77.3	78.9	77.8	74.2	88.6	81.0
Currency in circulation	36.8	40.6	38.1	37.4	44.6	40.6	43.4	40.5	40.4	46.8	44.6
Liabilities to commercial banks	34.4	36.7	34.6	34.7	36.5	36.7	35.4	37.3	33.8	41.8	36.4
Fiscal year flows 1/											
	(Change YoY in J\$ billions)										
Net international reserves	-4.9	11.6	-16.2	8.9	10.6	11.6	8.9	16.3	4.3	17.2	35.2
Of which: Valuation effects	30.9	1.8	31.0	29.5	154.6	1.8	-3.7	-5.5	-5.0	-4.9	-2.5
Net domestic assets	17.3	-5.5	31.3	5.7	-1.0	-5.5	-7.4	-11.3	-2.2	-9.8	-31.5
Net claims on public sector	30.3	20.3	39.8	44.9	33.9	20.3	0.0	-6.6	-5.0	-4.9	-30.5
Net claims on central government	21.8	7.7	50.6	31.4	26.0	7.7	-9.5	-20.6	-5.5	-35.1	-30.0
Net claims on rest of public sector /2	18.2	16.5	-10.4	19.4	9.7	16.5	10.0	8.8	1.9	-3.7	0.0
Operating losses of the BOJ	-9.7	-3.9	-0.4	-5.9	-1.7	-3.9	-0.5	5.2	9.8	9.8	-0.5
Net credit to commercial banks	-3.3	6.0	-10.1	-9.6	-12.0	6.0	-2.7	15.2	9.6	27.7	-2.7
Net credit to other financial institutions	-0.4	0.0	-0.3	0.2	-0.3	0.0	-0.1	-0.2	0.0	0.1	-0.1
Open market operations	18.8	-2.0	30.1	27.7	19.9	-2.0	-9.1	10.1	-17.7	-7.6	-1.3
Other items net (incl. valuation adj.)	-28.1	-29.8	-28.1	-57.6	-42.5	-29.8	4.5	-29.8	-0.3	-1.0	3.1
Medium- and long-term foreign liabilities	-0.5	0.3	-0.5	-0.5	0.1	0.3	0.0	0.3	0.3	0.0	0.0
Valuation adjustment	-26.6	-0.5	-26.6	-26.6	-12.5	-0.5	4.5	-0.5	-0.5	-1.0	3.1
Allocation of SDRs	-1.0	-29.6	-1.0	-30.4	-30.0	-29.6	0.0	-29.6	-0.1	0.0	0.0
Base money	12.4	6.1	15.1	14.6	9.6	6.1	1.6	5.1	2.1	7.5	3.7
Currency in circulation	3.6	3.7	2.6	3.8	2.6	3.7	2.9	2.4	3.0	2.2	4.0
Liabilities to commercial banks	8.7	2.4	12.4	10.7	7.0	2.4	-1.3	2.7	-0.9	5.3	-0.4
	(Change YoY in percent of Base Money)										
Net international reserves	-8.4	16.3	-28.1	15.4	14.8	16.3	11.6	22.5	6.0	21.2	45.5
Net domestic assets	29.4	-7.7	54.2	9.9	-1.3	-7.7	-9.5	-15.5	-3.1	-12.0	-40.8
Net claims on public sector	51.4	28.5	69.1	78.1	47.5	28.5	0.0	-9.1	8.6	-35.7	-39.4
Net claims on central government	37.0	10.8	87.9	54.5	36.3	10.8	-12.3	-28.3	-7.7	-43.3	-38.8
Net claims on rest of public sector	30.9	23.2	-18.1	33.7	13.6	23.2	12.9	12.1	2.7	-4.5	0.0
Operating surplus/losses of the BOJ	-16.5	-5.5	-0.7	-10.2	-2.4	-5.5	-0.7	7.1	13.6	12.1	-0.7
Net credit to commercial banks	-5.6	8.5	-17.6	-16.7	-16.8	8.5	-3.5	20.9	13.3	34.2	-3.5
Net credit to other financial institutions	-0.7	0.0	-0.6	0.4	-0.5	0.0	-0.2	-0.3	0.0	0.1	-0.1
Open market operations	32.0	-2.8	52.2	48.1	27.9	-2.8	-11.7	13.8	-24.5	-9.4	-1.7
Other items net (incl. valuation adj.)	-47.8	-41.8	-48.8	-100.0	-59.4	-41.8	5.9	-40.9	-0.4	-1.2	4.1
Medium- and long-term foreign liabilities	-0.9	0.4	-0.9	-0.9	0.1	0.4	0.0	0.4	0.4	0.0	0.0
Valuation adjustment	-45.2	-0.7	-46.2	-46.2	-17.5	-0.7	5.9	-0.7	-0.7	-1.2	4.1
Allocation of SDRs	-1.7	-41.5	-1.8	-52.9	-42.0	-41.5	0.0	-40.7	-0.2	0.0	0.0
Base money	21.0	8.6	26.1	25.3	13.5	8.6	2.0	7.0	2.9	9.2	4.7
Currency in circulation	6.2	5.2	4.6	6.7	3.7	5.2	3.7	3.2	4.1	2.7	5.2
Liabilities to commercial banks	14.8	3.3	21.5	18.6	9.8	3.3	-1.7	3.7	-1.2	6.5	-0.5
Memorandum items:											
Net international reserves (US\$ millions)	1,629	1,762	1,627	1,941	1,735	1,762	1,905	1,759	1,963	1,992	2,195
NDA SBA Target (in J\$ billions) 3/		-79.2				-79.2	-91.3	-82.7	-102.1	-65.4	-91.3

Sources: Bank of Jamaica; and Fund staff estimates.

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

2/ Includes net unclassified.

3/ Calculated at program exchange rate.

Table 10. Jamaica: Summary Monetary Survey 1/

	2008/09	2009/10	2009/10				2010/11	2010/11			
		2nd. Review	Q1	Q2	Q3	Q4	2nd. Review	Q1	Q2	Q3	Q4
End-of-period stocks 1/	(in J\$ billions)										
Net foreign assets	94.3	140.5	96.4	125.1	119.7	140.5	149.8	148.3	162.9	158.5	176.0
Net domestic assets	223.4	186.7	223.1	191.7	212.4	186.7	220.9	183.3	165.7	191.0	196.8
Net claims on public sector	224.5	240.6	242.1	248.0	269.3	240.6	243.6	231.3	245.2	229.8	214.7
<i>Of which: central government 2/</i>	159.9	173.2	183.4	186.6	210.5	173.2	166.7	165.3	177.0	171.9	147.8
Open market operations (Net)	-72.3	-72.4	-81.6	-82.5	-80.1	-72.4	-72.3	-62.1	-85.2	-54.0	-62.7
Credit to private sector	220.6	215.7	220.3	218.8	218.5	215.7	239.5	216.4	218.6	225.3	234.7
<i>Of which: foreign currency</i>	95.5	84.9	84.9	91.4	101.0	84.9	91.4	90.1	100.3	110.5	90.1
Other 3/	-149.4	-197.2	-157.6	-192.5	-195.3	-197.2	-190.0	-202.4	-213.0	-210.1	-189.9
Liabilities to private sector (M3)	317.7	327.2	319.5	316.8	332.2	327.2	370.7	331.5	328.6	349.5	372.8
Money supply (M2)	202.8	210.4	206.4	206.8	216.8	210.4	244.8	218.7	221.4	239.6	246.5
Foreign currency deposits	114.8	116.8	113.0	110.0	115.3	116.8	125.9	112.8	107.2	109.9	126.3
Fiscal year flows 1/	(Change YoY in J\$ billions)										
Net foreign assets	-37.8	46.3	2.1	28.8	-5.4	46.3	9.3	51.9	37.8	38.7	35.4
Net domestic assets	70.7	-36.7	57.9	21.3	-4.6	-36.7	34.2	-39.8	-26.0	-21.4	10.1
Net claims on public sector 2/	37.4	16.0	47.2	62.1	48.0	16.0	3.0	-10.7	-2.7	-39.5	-25.9
<i>Of which: central government</i>	24.7	13.3	63.3	59.8	47.8	13.3	-6.5	-18.1	-9.6	-38.6	-25.4
Open market operations	22.2	-0.1	24.5	10.6	2.2	-0.1	0.1	19.6	-2.6	26.1	9.7
Credit to private sector	49.0	-4.9	29.8	18.1	6.2	-4.9	23.8	-3.8	-0.2	6.9	19.0
<i>Of which: foreign currency</i>	35.1	-10.6	48.5	44.4	40.6	-10.6	6.4	5.2	10.2	10.2	5.2
Other 3/	-38.0	-47.7	-43.7	-69.6	-61.1	-47.7	7.2	-44.8	-20.5	-14.8	7.3
<i>Of which: valuation adjustment</i>	-26.6	-0.5	-26.6	-26.6	-12.5	-0.5	3.4	-0.5	-0.5	-1.0	2.3
Liabilities to private sector (M3)	32.9	9.6	28.5	23.9	19.0	9.6	43.4	12.1	11.8	17.3	45.5
Money supply (M2)	13.6	7.6	8.6	7.3	5.8	7.6	34.3	12.3	14.6	22.8	36.1
Foreign currency deposits	19.3	1.9	19.8	16.6	13.1	1.9	9.1	-0.2	-2.8	-5.4	9.5
	(Change YoY in percent of M3)										
Net foreign assets	-13.3	14.6	0.7	9.8	-1.7	14.6	2.8	16.2	11.9	11.7	10.8
Net domestic assets	24.8	-11.6	19.9	7.3	-1.5	-11.6	10.4	-12.5	-8.2	-6.4	3.1
Net claims on public sector 2/	13.1	5.0	16.2	21.2	15.3	5.0	0.9	-3.4	-0.9	-11.9	-7.9
<i>Of which: central government</i>	8.7	4.2	21.7	20.4	15.3	4.2	-2.0	-5.7	-3.0	-11.6	-7.8
Open market operations	7.8	0.0	8.4	3.6	0.7	0.0	0.0	6.1	-0.8	7.9	3.0
Credit to private sector	17.2	-1.5	10.2	6.2	2.0	-1.5	7.3	-1.2	-0.1	2.1	5.8
<i>Of which: foreign currency</i>	12.3	-3.3	16.7	15.2	13.0	-3.3	2.0	1.6	3.2	3.1	1.6
Other 3/	-13.3	-15.0	-15.0	-23.7	-19.5	-15.0	2.2	-14.0	-6.5	-4.5	2.2
Liabilities to private sector (M3)	11.6	3.0	9.8	8.2	6.1	3.0	13.3	3.8	3.7	5.2	13.9
Money supply (M2)	4.8	2.4	3.0	2.5	1.9	2.4	10.5	3.8	4.6	6.9	11.0
Foreign currency deposits	6.8	0.6	6.8	5.7	4.2	0.6	2.8	-0.1	-0.9	-1.6	2.9
	(Change YoY, in percent)										
Liabilities to private sector (M3)	11.6	3.0	9.8	8.2	6.1	3.0	13.3	3.8	3.7	5.2	13.9
Money supply (M2)	7.2	3.8	4.4	3.7	2.8	3.8	16.3	5.9	7.0	10.5	17.1
Foreign currency deposits	20.2	1.7	21.3	17.8	12.8	1.7	7.8	-0.2	-2.5	-4.7	8.1
Memorandum items:											
Monetary base (J\$ Millions)	71.2	77.3	72.7	72.1	81.1	77.3	78.9	77.8	74.2	88.6	81.0
M3/monetary base	4.5	4.2	4.4	4.4	4.1	4.2	4.7	4.3	4.4	3.9	4.6
M3 velocity	3.2	3.3	3.3	3.3	3.2	3.4	3.4	3.4	3.6	3.3	3.3

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.

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

Table 11. Jamaica: External Debt Sustainability Framework, 2006/07-2015/16
(In percent of GDP, unless otherwise indicated)

	Actual				Projections							Debt-stabilizing non-interest current account 6
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16		
Baseline: External debt	51.1	50.1	51.4	68.5	69.9	68.7	65.4	59.7	55.1	50.9	-8.3	
Change in external debt	1.8	-1.0	1.2	17.2	1.4	-1.2	-3.3	-5.7	-4.6	-4.2		
Identified external debt-creating flows (4+8+9)	-0.8	3.9	12.0	8.3	6.2	1.6	2.4	-3.9	-4.9	-5.5		
Current account deficit, excluding interest payments	6.1	14.4	14.6	3.7	4.9	3.9	3.9	3.4	2.5	1.7		
Deficit in balance of goods and services	19.5	28.7	29.4	17.8	17.6	16.1	15.4	15.1	14.0	13.0		
Exports	39.9	39.3	37.0	32.7	29.7	32.5	32.8	32.9	33.2	33.4		
Imports	59.4	68.0	66.4	50.5	47.2	48.6	48.3	48.0	47.2	46.4		
Net non-debt creating capital inflows (negative)	-6.5	-10.9	-5.2	-3.8	-2.4	-3.9	-2.4	-8.2	-8.3	-8.2		
Automatic debt dynamics 1/	-0.4	0.3	2.5	8.4	3.7	1.6	0.9	0.9	0.9	1.0		
Contribution from nominal interest rate	3.6	4.0	3.8	4.0	3.4	2.8	2.2	2.1	2.1	2.0		
Contribution from real GDP growth	-1.5	-0.3	0.8	1.4	0.3	-1.2	-1.3	-1.2	-1.1	-1.1		
Contribution from price and exchange rate changes 2/	-2.6	-3.3	-2.1	3.0	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	2.6	-4.8	-10.8	8.8	-4.8	-2.8	-5.8	-1.7	0.3	1.3		
External debt-to-exports ratio (in percent)	128.2	127.6	138.6	209.7	235.9	211.4	199.1	181.4	166.3	152.4		
Gross external financing need (in billions of US dollars) 4/	2.1	3.0	3.0	1.3	1.5	1.6	1.7	1.7	1.8	1.7		
in percent of GDP	17.5	22.5	22.4	10.4	10.5	10.9	10.8	10.2	10.3	9.2		
					10-Year	10-Year						
Scenario with key variables at their historical averages 5/					69.9	72.8	71.5	74.4	78.6	83.8	-4.1	
Key Macroeconomic Assumptions Underlying Baseline					Historical Average	Standard Deviation						
Real GDP growth (in percent)	3.2	0.6	-1.6	-2.5	0.9	1.8	-0.5	1.8	2.0	2.0	2.0	
GDP deflator in US dollars (change in percent)	5.5	7.0	4.3	-5.6	4.2	6.8	14.1	4.6	2.9	3.2	2.1	
Nominal external interest rate (in percent)	8.0	8.4	7.7	7.2	7.5	0.5	5.7	4.3	3.4	3.5	3.7	
Growth of exports (US dollar terms, in percent)	16.2	6.0	-3.3	-18.8	2.3	10.2	3.0	16.8	6.0	5.5	4.9	
Growth of imports (US dollar terms, in percent)	16.0	23.2	0.3	-30.0	5.6	14.7	6.1	9.7	4.2	4.6	2.4	
Current account balance, excluding interest payments	-6.1	-14.4	-14.6	-3.7	-6.9	4.5	-4.9	-3.9	-3.9	-3.4	-2.5	
Net non-debt creating capital inflows	6.5	10.9	5.2	3.8	6.0	2.0	2.4	3.9	2.4	8.2	8.2	

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

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

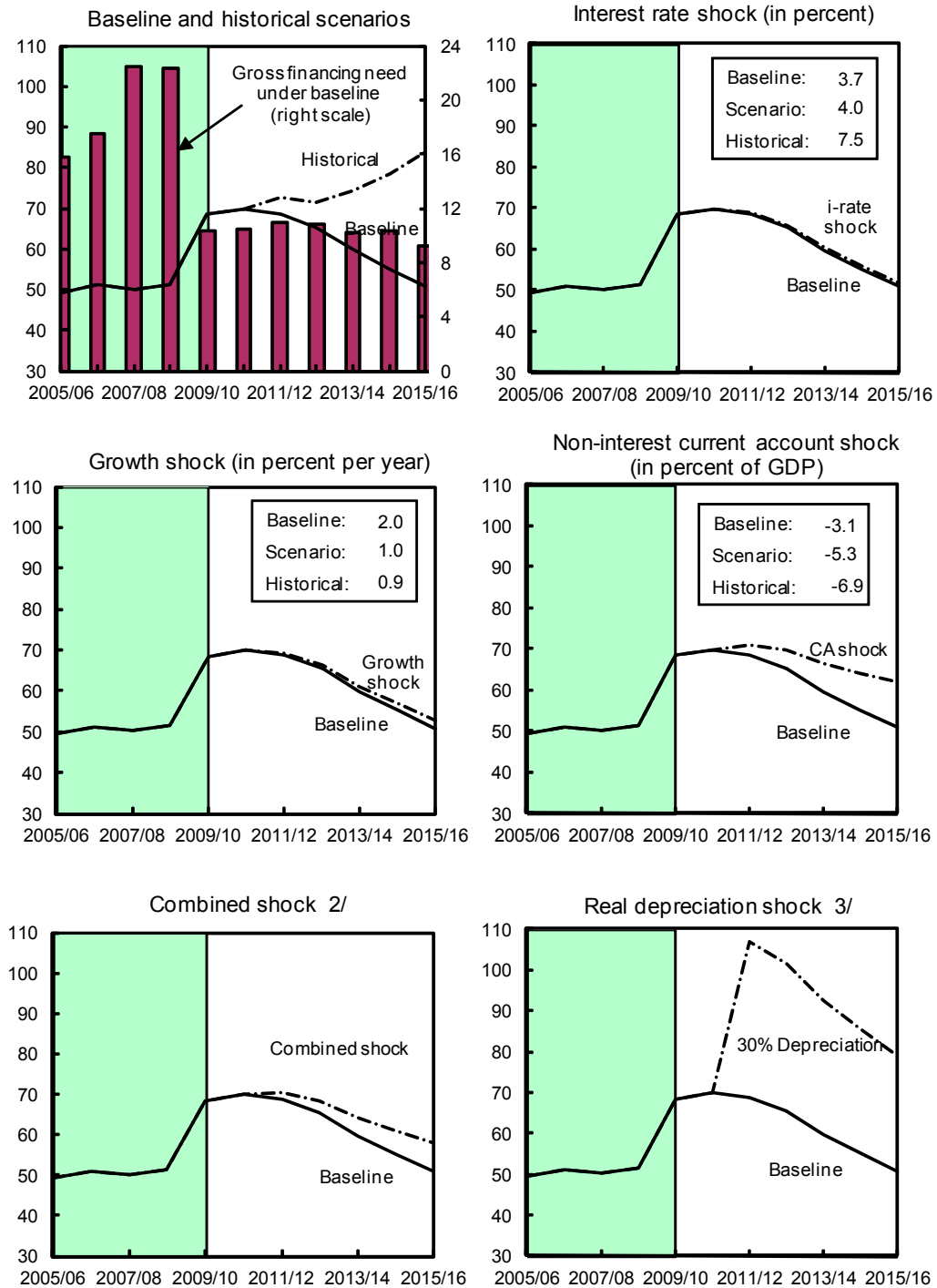
3/ For projection, line includes the impact of price and exchange rate changes.

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 level of the last projection year.

Figure 4. Jamaica : External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and 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 2010.

Table 12. Jamaica: Public Sector Debt Sustainability Framework, 2006/07-2014/15
(In percent of GDP, unless otherwise indicated)

	Actual				Projections					Debt-stabilizing primary balance 9/ 1.6
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	
Baseline: Public sector debt 1/	117.1	114.2	126.1	139.8	139.1	133.6	125.2	113.8	102.8	
Government debt 1/	106.8	101.7	108.9	119.1	118.6	112.6	105.4	95.1	84.4	
<i>Of which: foreign-currency denominated</i>	54.8	51.5	63.0	67.6	68.5	68.1	65.4	60.4	55.4	
Government guaranteed debt 1/	10.3	12.5	17.2	20.6	20.5	21.0	19.8	18.6	18.4	
Change in public sector debt	-5.0	-5.1	7.2	10.3	-0.5	-6.0	-7.2	-10.2	-10.7	
Identified debt-creating flows (4+7+12)	7.1	-5.3	10.9	4.9	-5.0	-8.8	-9.1	-9.7	-9.1	
Primary deficit	-7.1	-7.9	-4.9	-6.1	-4.7	-6.8	-7.5	-8.2	-8.9	
Revenue and grants	26.0	27.5	26.9	27.0	26.5	26.2	26.3	26.7	26.9	
Primary (noninterest) expenditure	19.0	19.6	22.0	20.9	21.8	19.4	18.9	18.5	18.0	
Automatic debt dynamics 2/	14.2	2.1	15.1	11.0	-0.3	-2.0	-1.6	-1.5	-0.2	
Contribution from interest rate/growth differential 3/	-1.7	-0.7	1.5	10.1	-0.3	-2.0	-1.6	-1.5	-0.2	
Of which contribution from real interest rate	1.7	-0.1	-0.3	7.3	-0.8	0.0	0.5	0.4	1.7	
Of which contribution from real GDP growth	-3.4	-0.7	1.8	2.9	0.5	-2.0	-2.0	-1.9	-1.9	
Contribution from exchange rate depreciation 4/	15.8	2.8	13.7	0.8	...	...	...	...	...
Other identified debt-creating flows	0.0	0.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.5	0.6	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	
Other (specify, e.g. bank recapitalization)	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/	-12.1	0.2	-3.7	5.3	4.4	2.8	1.8	-0.6	-1.7	
Public sector debt-to-revenue ratio 1/	449.8	415.4	469.1	517.5	525.6	510.5	475.0	426.8	382.6	
Gross financing need 6/	26.5	15.8	17.6	25.6	13.2	10.6	12.7	11.9	10.2	
in billions of U.S. dollars	3.2	2.1	2.4	3.2	1.9	1.6	2.0	2.0	1.8	
Scenario with key variables at their historical averages 7/					139.1	134.3	126.5	116.2	105.8	0.0
Scenario with no policy change (constant primary balance) in 2008-2012					139.1	134.5	128.5	120.3	113.2	1.5
Key Macroeconomic and Fiscal Assumptions Underlying Baseline										
Real GDP growth (in percent)	3.4	0.6	-1.7	-2.5	-0.5	1.8	2.0	2.0	2.1	
Average nominal interest rate on public debt (in percent) 8/	12.1	12.3	13.5	16.9	10.3	8.5	7.4	7.3	7.5	
Average real interest rate (nominal rate minus change in GDP deflator, in p	2.0	0.0	-0.5	6.0	-0.8	0.1	0.6	0.6	2.0	
Nominal appreciation (increase in US dollar value of local currency, in perc	-29.6	-4.6	-19.5	-1.1	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	10.1	12.3	14.0	10.9	11.1	8.3	6.8	6.8	5.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	20.5	4.2	10.2	-7.2	3.5	-9.3	-0.8	0.0	-0.4	
Primary deficit	-7.1	-7.9	-4.9	-6.1	-4.7	-6.8	-7.5	-8.2	-8.9	

1/ Central government and government guaranteed debt on gross basis. From FY 2002/03, includes debt issued to the BoJ to cover its cash losses and related capitalized interest.

FY 2006/07 debt includes US\$350 million in prefinancing. The primary balance includes budgetary primary balance and off-budget expenditure. Dynamics do not drive Guaranteed Debt.

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.

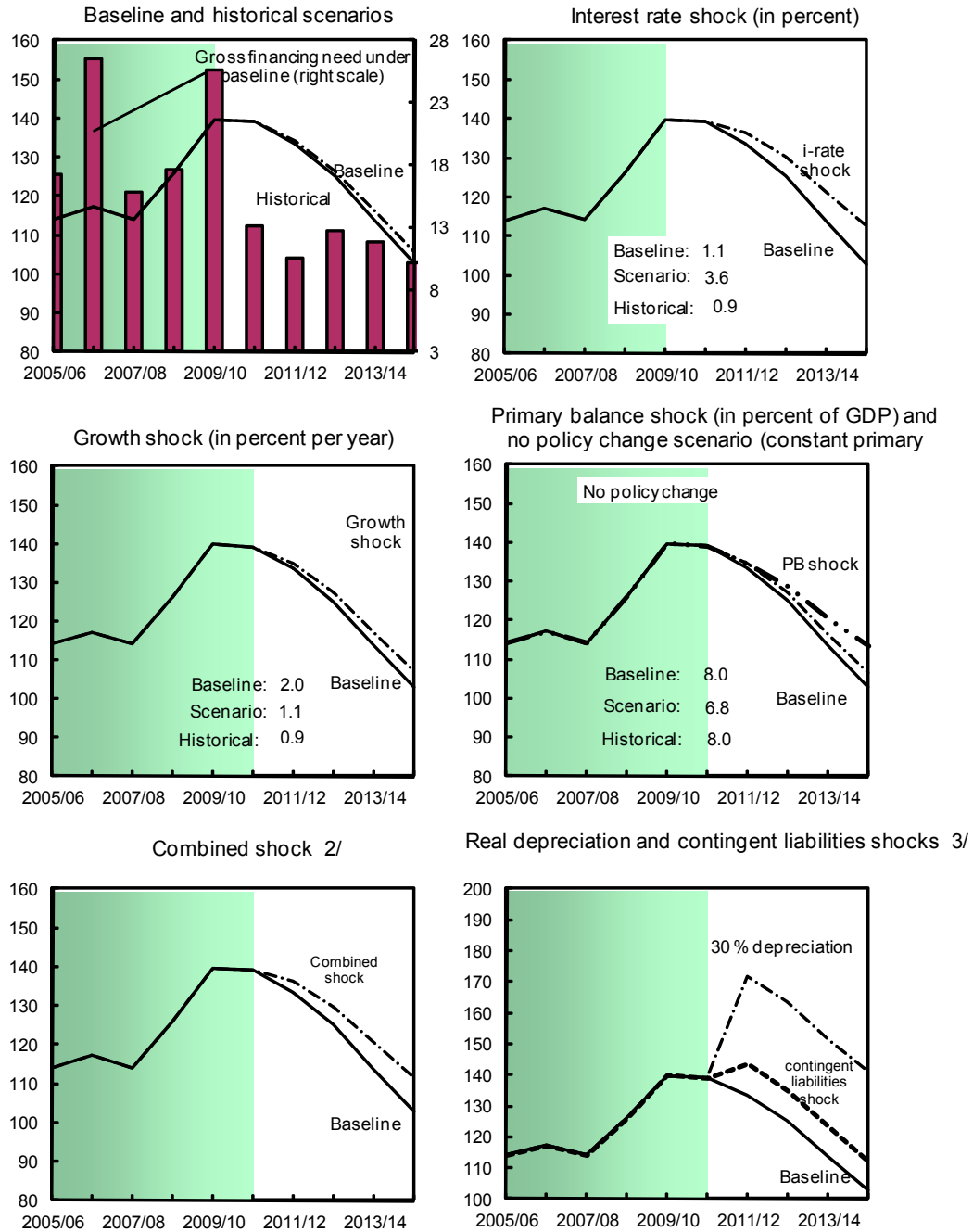
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP. Guaranteed debt added for presentational purposes.

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.

Figure 5. Jamaica: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



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

1/ Shaded areas and the Baseline projection line represent actual Central Government Debt 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 primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 13. Jamaica: Schedule of Reviews and Purchases

Date	Amount of Purchase		Conditions 1/
	Millions of SDR	Percent of Quota	
	Purchases already made		
February 8, 2010	414.3	151.5	Approval of arrangement
June 25, 2010	63.7	23.3	First review and end-March 2010 performance criteria
September 28, 2010	31.9	11.7	Second review and end-June 2010 performance criteria
	Purchases to be made		
January 14, 2011	31.9	11.7	Third review and end-September 2010 performance criteria 2/
March 31, 2011	127.5	46.6	Fourth review and end-December 2010 performance criteria
June 30, 2011	31.9	11.7	Fifth review and end-March 2011 performance criteria
September 30, 2011	31.9	11.7	Sixth review and end-June 2011 performance criteria
December 24, 2011	31.9	11.7	Seventh review and end-September 2011 performance criteria
March 31, 2012	55.5	20.3	Eighth review and end-December 2011 performance criteria
Total	820.5	300.0	

1/ Apart from periodic performance criteria, conditions also include continuous performance criteria

2/ While end-September 2010 PCs were intended to be relevant PCs for completion of the third review, due to delays in the third review, end-December 2010 PCs have become controlling PCs. The end-December 2010 PCs for which waivers of applicability are being requested will be controlling PCs for completion of the fourth review.

Table 14. Jamaica: Indicators of Capacity to Repay the Fund Under the SBA, 2009/10-2014/15

	IMF staff projections					
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Fund repurchases and charges						
In millions of US dollars 1/	3.4	11.4	14.9	15.9	395.6	571.5
In percent of exports of goods and nonfactor services	0.1	0.3	0.3	0.3	7.2	9.8
In percent of external debt services	0.5	2.3	1.8	1.7	28.0	35.9
In percent of quota	0.8	2.6	3.5	3.7	92.2	133.2
In percent of gross international reserves	0.1	0.3	0.4	0.5	12.6	18.3
Fund credit outstanding						
In millions of US dollars 1/	650.0	1,050.0	1,287.3	1,287.3	906.0	343.5
In percent of exports of goods and nonfactor services	15.9	24.9	26.2	24.7	16.5	5.9
In percent of external debt services	94.8	208.5	152.1	134.0	64.2	21.6
In percent of quota	151.5	244.7	300.0	300.0	211.2	80.0
In percent of gross international reserves	26.7	32.1	35.7	36.8	28.9	11.0
Memorandum items						
Exports of goods and nonfactor services (in millions of US dollars)	4,088.1	4,209.9	4,918.5	5,212.8	5,500.7	5,804.5
External debt services (in millions of US dollars)	685.7	503.7	846.5	960.8	1,411.8	1,593.1
Quota (in millions of US dollars)	429.1	429.1	429.1	429.1	429.1	429.1
Gross international reserves (in millions of US dollars)	2,434.2	3,267.7	3,602.0	3,494.2	3,133.3	3,118.3

1/ Exchange rate of US\$1.5689 = SDR 1, the program exchange rate specified in TMU, is used in this table.

Appendix 1. Structural Reform Agenda

Target Date 1/	Structural Benchmark / MEFP Commitments	Type	Status	Comment
Institutional Fiscal Reform				
Mar-10	Pass a fiscal responsibility framework (FRF) and accompanying legislative amendments.	Benchmark MEFP Jan-2010	Met	Approved in Parliament in March. Work on amendments and supporting regulations needed to enhance the effectiveness of the FRF is ongoing (see below).
Mar-10	Freeze on wage and salary increases through FY 2011/12.	Commitment MEFP Jan-2010	Met	FY2010/11 Budget includes the freeze.
Jun-10	Conduct a government employment / compensation census and create a public sector monitoring database.	Commitment MEFP Jan-2010	Met	The census of employment and compensation has been completed and a database has been created. The authorities are verifying the census results through work been conducted by the Public Sector Transformation Unit (PSTU) and through a formal payroll audit conducted by the Auditor General's office with the assistance of the World Bank.
Jun-10	Prepare time-bound tax administration reform action plan.	Commitment MEFP Jan-2010	Met	Modernization strategies for tax and customs administration were prepared and costed and are accompanied by detailed action plans.
Jun-10	Complete a time bound action plan to establish a central treasury management system (CTMS) by end 2010.	Benchmark MEFP Jan-2010	Met	An action plan to implement the CTMS was completed.
Sep-10	Finalize inventory of all public sector bank accounts	Benchmark MEFP Sep-2010	Met	Currently reconciling the information received from the financial institutions with the information provided by the Ministries, Departments, Agencies and Public Bodies.
Sep-10	Prepare a detailed conceptual design for CTMS	Benchmark MEFP Sep-2010	Met	The final conceptual design was sent to staff on November 19th 2010.
Nov-10	Amendments FRF legislation and introduce regulations.	Benchmark MEFP Jun-2010	Delayed	Additional amendments and regulations to be made following Fund staff comments. Submission to Parliament in February 2011. Will not affect the planned implementation in the FY2011/12 budget.
Nov-10	Undertake a costing exercise of the different reform options presented in the Master Rationalization Plan.	Benchmark MEFP Sep-2010	Delayed	<i>Prior Action for completion of 3rd Review.</i> Preliminary costing scenarios to be completed by end-December 2010.
Sep-10	Prime Minister's Committee Report on Public Sector Reform due.	Commitment MEFP Jan-2010	Met	The public sector reform report has been finalized after the comments of the Parliament were incorporated. The report is scheduled to be tabled in Parliament by the Chairman of the Public Accounts Committee by [end November 2010]
Sep-10	Announce strategy to scale back and reform the tax incentive system.	Commitment MEFP Jan-2010	Met	The announcement of a new strategy in relation to tax incentives took place on Aug 5, 2010.
Dec-10	Complete time-bound public employment and compensation reform action plan (to be implemented in FY2011/12 Budget).	Benchmark MEFP Jan-2010	Delayed	Reform strategy to be finalized in January 2011 after costing exercises completed.
Dec-10	Tax incentive reform.	Benchmark MEFP Jun-2010	In progress	Interim measures introduced on November 15 to scale back discretionary waivers, while more comprehensive reform is prepared.
Jan-11	Additional Changes to the FRF	Benchmark MEFP Dec-2010	In progress	Amendments to be submitted to Parliamentary Approval by end-January (details MEFP para. 13).
Apr-11	Interim CTMS system implemented for FY2011/12	Commitment MEFP Jun-2010	In progress	Payment of debt service and utilities has been centralized in the Accountant General's department. Ministry of Transport and Works, the Ministry of Education, and the Ministry of Finance will be pilot for the rollout of the CTMS .
FY2013/14	Reduce wage bill to 9.5 percent of GDP.	Commitment MEFP Jan-2010	In progress	Wage freeze in effect. Public employment and compensation reform strategy under preparation.
Public Entities				
Mar-10	Lease remaining Sugar Company Factories or put on zero-deficit budget.	Commitment MEFP Jan-2010	Met	Agreement signed between the Government and Chinese state-owned investment company Complant Sugar International Limited on July 30, 2010 for the remaining estates (Monymusk, Bernard Lodge and Frome). Full divestment is expected by December 2010 if due diligence is completed successfully.
Apr-10	Increase JUTC bus fares by 40 percent or more.	Commitment MEFP Jan-2010	Met	Increased by 40 percent on average.
Jun-10	Divest or liquidate Air Jamaica.	Commitment MEFP Jan-2010	Met	Agreements signed; full take over within 6 to 12 months proceeding as planned.
Mar-11	Divest Clarendon Alumina Production	Benchmark MEFP Dec-2010	In progress	Negotiations with interested buyer at advanced stage
Debt Management				
Jun-10	Complete cost-risk analysis alternative debt management strategy.	Commitment MEFP Jan-2010	Met	Received IMF/WB/IDB TA. Follow-up TA necessary to build strategic and analytical capacity (Oct-10).
Sep-10	Hire a resident Technical Financial Advisor and a Project Manager for a 1-2 year period.	Benchmark MEFP Jun-2010	Not Met	TORs were not drafted and the resident advisor was not hired. The authorities have asked assistance from the Fund and the Bank to find suitable candidates.
Jan-11	Hire of project manager and technical advisor	Benchmark MEFP Dec-2010	In progress	Grant funds have been identified
Mar-11	Submit draft debt management law to Parliament	Commitment MEFP Dec-2010	In progress	The law will consolidate the existing fragmented legislative structure, introduce modern debt management practices, and ensure prudent management of government guarantees and contingent liabilities.
Sep-11	Make the restructured Public Debt Management Unit operational	Benchmark MEFP Dec-2010	In progress	Action Plan for establishing the Unit approved by Financial Secretary. Will be submitted for Cabinet approval in January 2011. Final structure of the Unit expected to be approved by March 2011. Costing of Structure to be incorporated in the budget for FY2011/12.

1/ All target dates refer to end month.

Appendix 1 (Continued). Structural Reform Agenda

Target Date ^{1/}	Structural Benchmark / MEFP Commitment	Type	Status	Comment
Financial Sector				
Feb-10	Freeze on issuance of new licences for securities dealers with traditional business model.	Benchmark MEFP Jan-2010	Met	...
Mar-10	Improve frameworks for AML/CFT.	Benchmark MEFP Jan-2010	Met	Financial Investigations Division Bill and other legislation passed.
Mar-10	Review/revise concept paper for an omnibus banking law to strengthen financial sector oversight.	Benchmark MEFP Jan-2010	Met	Completed; presented to Minister of Finance in June 2010 and submitted to Cabinet in July 2010.
Jun-10	Examine Bankruptcy Law reform.	Commitment MEFP Jun-2010	In progress	FSC to explore feasibility of enhanced repo-client protection.
Jun-10	Phased introduction of 100 percent risk weighting on foreign currency denominated GOJ bonds.	Commitment MEFP Jun-2010	Met	Second installment (a 25 percent risk weight) implemented end September 2010. Third installment scheduled for end-December
Jun-10	Finalize list of amendments to the BOJ Act.	Commitment MEFP Jun-2010	Met	Part of efforts to establish legal framework to support BOJ's mandate for financial system stability. Note prepared by BOJ submitted to cabinet in June. Final draft submitted to Cabinet . Drafting instructions forthcoming.
Aug-10	Develop enhanced capital and margin requirements for the securities dealer sector.	Commitment MEFP Jan-2010	Met	Second Fund TA mission took place in August 2010. Work program on track. A consultation paper has been prepared and will be discussed with industry during November. A revised paper will be produced in January 2011
Sep-10	Dealers requirement to register customer interest against underlying instruments in a central depository.	Commitment MEFP Jan-2010	Met	New FSC guidelines stipulate that customer interests be registered in the CSD through the use of an omnibus client account, whereby dealers place all assets subject to retail repos in a separate JamCLEAR CSD holding account, which is an account maintained by a dealer to facilitate the segregation of clients' unencumbered financial assets associated with a repo agreement. Securities dealers are required to keep clear records of clients' interests, which must be reconciled on a daily basis.
Oct-10	Prepare concept paper outlining measures to combat unlawful financial operations (UFOs).	Benchmark MEFP Sep-2010	Met	Original June 2010 benchmark not met. Previously delayed Fund TA has been delivered. Paper has been prepared and is being reviewed by Attorney General and Public Prosecutor.
Dec-10	Adopt supervisory rules to take remedial measures against weak entities on a specified timetable.	Commitment MEFP Jan-2010	Met	Part of omnibus concept paper presented to Minister and Cabinet as above.
Dec-10	Introduce enhanced capital rules for DTIs to address all market risks (including equity and interest).	Commitment MEFP Jan-2010	Met	Part of omnibus concept paper presented to Minister and Cabinet as above.
Dec-10	Amend Unit Trust Act to encourage the development of collective investment schemes.	Commitment MEFP Jan-2010	In progress	Concept Paper for public consultation March 2011.
Mar-11	Amending Companies Act of Jamaica to remove structural impediments to the development of the vibrant mutual fund market. Concept paper to be completed.	Commitment MEFP Jan-2010	In progress	Concept Paper for public consultation March 2011.
Feb-11	Pass Omnibus banking law, amend Bank of Jamaica Act and Financial Services Commission Act, implement stronger capital adequacy standards. Draft omnibus bill completed by CPC	Commitment MEFP Jan-2010	In progress	Concept paper distributed; Submitted to Cabinet July 2010; contemplated enactment 2012.
Mar-11	Close gaps in the power of the FSC to conduct consolidated supervision in line with Omnibus Banking bill. Concept paper to be completed.	Commitment MEFP Jan-2010	In progress	To be based on review of BoJ Concept note.
Mar-11	Amendments to Securities Act to enhance regulatory regime for securities dealers.	Commitment MEFP Jun-2010	In progress	Concept paper to be completed February 2011; Cabinet submission March 2011.
Mar-11	Securities dealers to pledge collateral against client interests in the CSD.	Commitment MEFP Jun-2010	In progress	Exploring increased functionality of CSD in this respect.
Mar-12	Fully implement regulations to strengthen the regulatory and supervisory framework of the securities dealers sector.	Commitment MEFP Jan-2010	In progress	Includes full implementation of 100 percent risk weighting.

^{1/} All target dates refer to end month.

Appendix 2: Status of Financial Sector Reforms

IMPROVING FINANCIAL STABILITY

- The 2005 FSAP identified a number of gaps in the financial stability framework and further vulnerabilities were identified in the lead up to the Jamaica Debt Exchange (JDX).** The program presented an opportunity to strengthen and modernize the banking law, building on recommendations in the 2005 FSAP and long-standing concerns on the part of the supervisory institutions.
- Amendments to the Bank of Jamaica (BOJ) Act will give the BOJ formal responsibility for financial sector stability.** In this context, the BOJ would have the authority to request necessary data from all regulated entities. A revised draft bill is now being produced. The amendments will also give the BOJ the ability to extend emergency liquidity arrangements to financial institutions.
- Gaps in the ability of the BOJ and Financial Services Commission to carry out group-wide supervision of financial conglomerates are a major concern.** To this end amendments are being proposed through the Omnibus Banking Bill to require the creation a financial holding company that would be regulated by the Bank of Jamaica. This would strengthen the supervisor's ability to access information for all financial sections of the group. Similar authority will be included in amendments to the Financial Services Act. A concept paper for the Omnibus Banking Bill has been submitted to Cabinet and a draft is currently being developed.
- Under the proposed changes to the Omnibus Banking Bill, all deposit taking institutions will be subject to similar oversight.** Legislative provisions will be consolidated; greater authority and legal protection will be extended to the supervisors; provisions will be made to address market risk; and other features of new Basel rules will be included. The ability of the BOJ to act against a failing institution will be strengthened, by broadening the criteria under which the supervisor can intervene and the range of remedial actions that it can take.
- Given Jamaica's recent experience, the authorities have been concerned about their relatively weak enforcement powers against unlawful financial operations (e.g., Ponzi schemes).** With the assistance of MCM TA, a concept paper has been put together by the BOJ and FSC and is being considered by the Attorney General and Public Prosecutor. Following this review it will proceed for drafting.

ADDRESSING RISKS IN THE SECURITIES DEALER MODEL

6. **The securities dealer model, in particular the ‘retail repo’ business model, presents some risks to the system.** A new enhanced set of prudential standards (capital, liquidity and margin rules) is being developed that more adequately reflect the types of risks underlying the business model. A draft concept paper is currently under public consultation. The end result of this consultation will be new guidelines, regulations and amendments to the Securities Act.

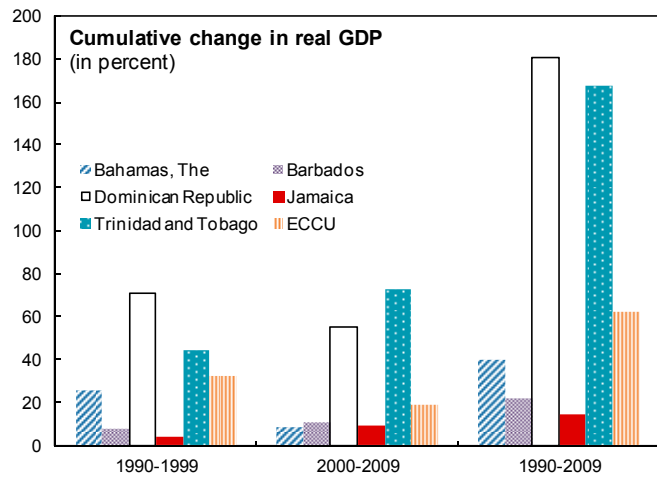
7. **The framework governing the obligation and ability of the FSC to act against a financially failing securities dealer is inadequate.** Amendments to legislation (Securities Act and the Financial Services Commission Act) will strengthen supervisory rules to take remedial measures against weak entities on a specified timetable. In addition, the grounds for action and the nature of action that can be taken will be broadened under the amended legislation. These powers will be in line with those of the BoJ. A concept paper will be produced in February 2011 setting out details.

8. **The status of client claims under a repo agreement in the event of a dealer bankruptcy is unclear.** In February 2010, the electronic central securities depository (CSD) began registering all GOJ instruments. Beginning October 2010 securities dealers are required to set up a separate account for assets underlying retail repo contracts. The FSC published guidelines setting out internal control standards for recording and reconciling the repo contracts and the CSD holding account. This is an interim step and will reduce the opportunity for rehypothecation (i.e., using the same collateral to back more than repo contract) and improve recordkeeping. By March 2011, the authorities have committed to requiring securities dealers to record each client’s entitlement separately in the CSD. While these operational changes improve the environment and make assets more identifiable, a legal risk remains. The FSC has begun to explore changes to the Bankruptcy Code that would clarify the legal status of the client claim under the repo contract in a bankruptcy.

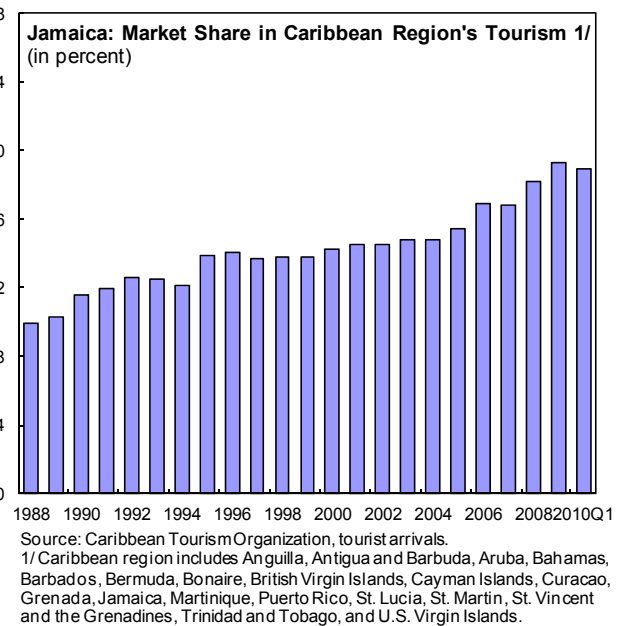
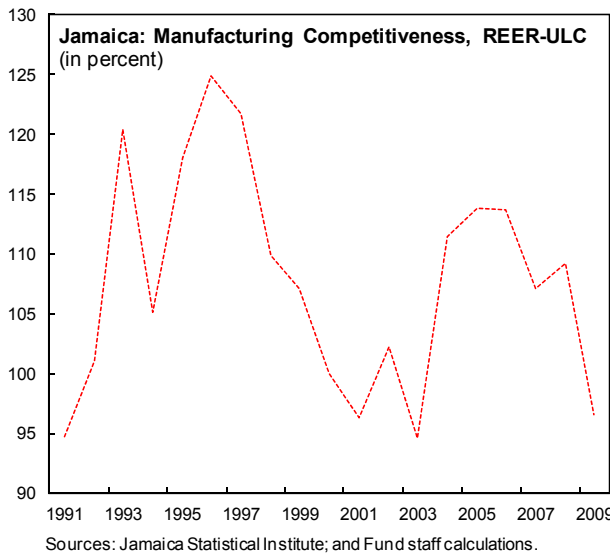
9. **The lack of alternative business models to the existing repo model is being addressed.** Impediments to development of the collective investment scheme (CIS) market are being removed. Unlike repos, the CIS model does not involve maturity transformation, and liquidity and market risk is passed from the dealer to the client. A freeze on unit trust registrations was immediately lifted in February 2010. The FSC, through CARTAC, had previously engaged a consultant who completed a study in July 2010. This study enumerates amendments that will be made to a number of pieces of legislation. Mutual fund operators are also heavily in favor of changes to the BOJ Act that would remove foreign exchange investment restrictions on funds.

Appendix 3: Clues to Jamaica’s Weak Growth Performance - An Examination of Global Business and Competitiveness Indicators

1. **Jamaica’s prolonged weak growth performance has led to questions what are the main obstacles for growth.** Jamaica has barely grown for 20 years. Its growth performance compares poorly with Caribbean and Central American countries at the similar level of per-capita income.



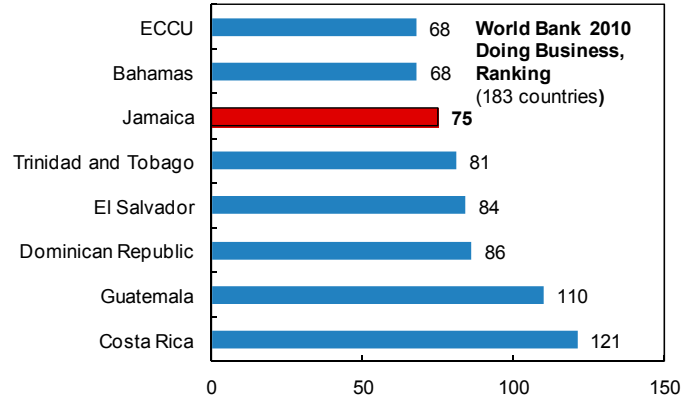
2. **External competitiveness does not seem to be a major cause for poor growth performance.** Competitiveness indicators and recent external developments show no sign of overvaluation. Unit-labor-cost-based real effective exchange rate in 2009 was at the same level as in early 1990s, albeit some temporary appreciation in mid-1990s and mid-2000s. Jamaica’s market share of tourism, which is the largest source of external current inflows, has steadily increased in recent years. The external current account balance has improved significantly since 2008/09.



3. **Structural factors, as well as inadequate macroeconomic policy conducted until mid-2000, could explain the weak growth performance.** Survey-based indicators of the quality of the business climate point to structural weakness that could undermine growth potential in Jamaica. This appendix relies mostly on two types of indices: the *Doing Business*

Index from the World Bank, which is largely based on surveys on laws and regulations, and the *Global Competitiveness Index* from the World Economic Forum, which is largely based on executive opinion surveys.

4. **The World Bank’s *Doing Business Index* ranks Jamaica 75 out of 183 countries in 2010, which is better than several countries in the peer group.** High administrative costs in paying taxes, notably represented by time spent on paying tax (414 hours per year), appear to be the most serious weakness. It points to a need to simplify the complicated tax system, including various exemptions. Other indicators reveal concerns on weakness in judicial system, such as registering property and enforcing contracts. Another weakness is trading across borders, particularly cost to export (46 percent of export claims).



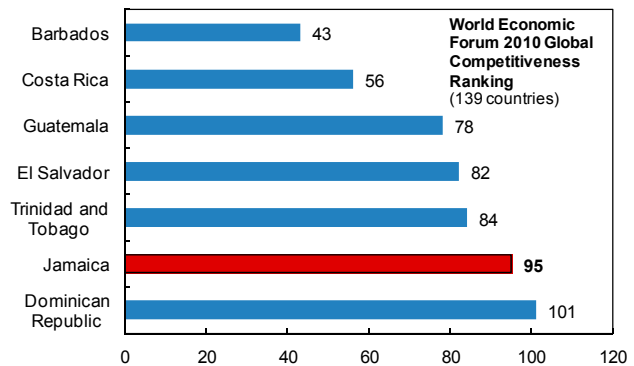
Overall Ranking	Ranking
Starting a Business	19
Dealing with Construction Permits	49
Registering Property	122
Getting Credit	87
Protecting Investors	73
Paying Taxes	174
Trading Across Borders	104
Enforcing Contracts	128
Closing a Business	23

Source: World Bank Doing Business 2010
1/ Doing Business 2010 rankings include 183 countries.

	Bahamas	Barbados	Costa Rica	Dominican Republic	El Salvador	Guatemala	Jamaica	Trinidad & Tobago	ECCU
Quality of port infrastructure, 2009 1/	...	5.49	2.57	4.30	4.17	4.30	5.27	3.98	...
Telephone lines (per 100 people), 2008	39.32	58.78	31.81	9.90	17.56	10.59	11.78	23.02	30.30
Cost to export (US\$ per container), 2009	930	...	1,190	916	880	1,182	1,750	866	1,233

Source: World Development Indicators, World Bank
1/ WEF (1=extremely underdeveloped to 7=well developed and efficient by international standards)

5. **The World Economic Forum’s *Global Competitiveness Index* paints an even less favorable picture of Jamaica’s business environment.** The macroeconomic environment, fiscal balance, and public debt stock in particular, are the most serious weaknesses. The survey of business executives indicates that security concerns, inefficient bureaucracy, and corruption are the most problematic factors for doing business in Jamaica. World Governance Indicators compiled by the World Bank also single out these problems. Although Jamaica ranks well in “Financial market



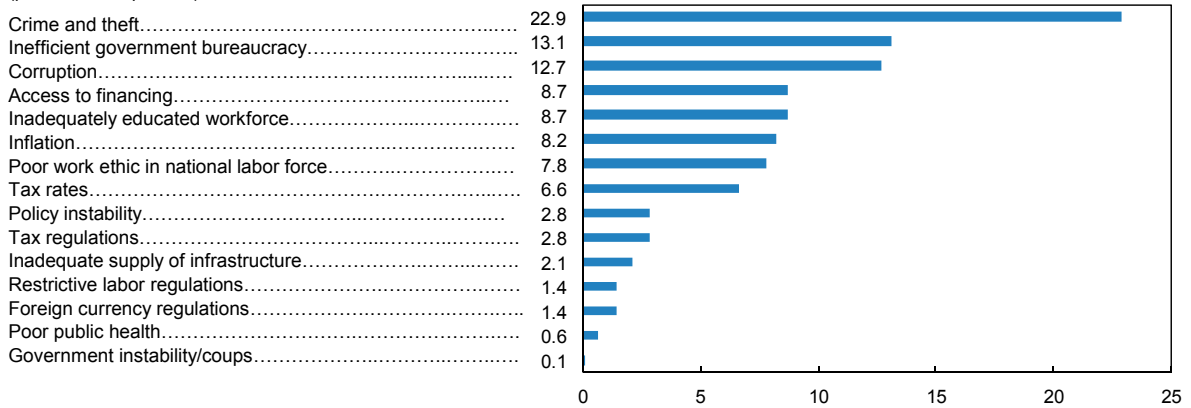
development,” it ranks poorly in a few of its subcomponents, namely ease of access to loans and venture capital availability. Relative lack of movements in lending rates at a time when other interest rates have declined substantially is likely due to the difficulty of access to credit. Structural reforms to help address this issue, such as passage of credit bureau laws, would help.

World Economic Forum, Global Competitiveness Index 2010-11 1/

Overall Ranking	95
Institutions	85
Infrastructure	65
Macroeconomic environment	137
Health and primary education	102
Higher education and training	80
Goods market efficiency	80
Labor market efficiency	83
Financial market development	46
Technological readiness	60
Market size	99

Source: World Economic Forum, Global Competitiveness Report, 2010-11
 1/ Global Competitiveness Index 2010-11 rankings include 139 countries.

The most problematic factors for doing business
 (percent of responses) 1/



1/ From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the response weighted according to their rankings.

ATTACHMENT 1: LETTER OF INTENT

Kingston, Jamaica
December 23, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn:

Performance under the economic program described in our Letter of Intent (LOI) of September 14, 2010 has been mixed. Economic activity remains sluggish. The forecast for economic growth for FY2010/11 has been revised downward to between 0 and -0.5 percent (compared with 0.6 percent at the time of the second review), reflecting: the impact of lower than projected growth in Jamaica's major trading partners; Tropical Storm Nicole; and the State of Emergency. However, there have been some positive developments in the labour market and financial market conditions remain broadly positive.

Despite the challenges, the government is pleased to report that performance under the SBA remains on track. All end-September quantitative performance criteria were met. Notwithstanding these good results, risks relating to government spending overruns emerged. The government has taken quick steps to keep the fiscal programme on track with offsetting cuts in spending, new revenue measures, stepped up revenue collection efforts and strengthened expenditure control procedures. Most notably, the government has intensified efforts to divest Clarendon Alumina Production (CAP), whose losses constituted a major part of the projected unbudgeted spending. Despite these best efforts, the government requests that fiscal targets be relaxed by 0.2 percent of GDP this year to partially accommodate urgent infrastructure reconstruction spending related to Tropical Storm Nicole.

The structural reform agenda is advancing although in some cases there have been delays, mainly related to bottlenecks in the preparation of legislation and difficulties in contracting key technical advisory personnel. Efforts are ongoing to overcome these challenges. Key September structural benchmarks were achieved related to Central Treasury Management System (CTMS) reform and strengthening the framework to combat unlawful financial operations. On debt management, however, the Government has had difficulty in hiring a technical advisor for improving the debt management function and was not able to meet the benchmark. Funding has now been identified and the hiring is expected to be completed in January 2011. An interim tax waiver regime is now in place that significantly reduces

discretionary waivers. Work on calculating costs and savings from the public sector reform is near completion and the final plan is expected to be approved by Cabinet in January 2011. Amendments to the fiscal responsibility framework are being revised to accommodate additional recommendations by IMF technical staff. In the financial sector, the end-September installment of the risk-weighting on Government of Jamaica foreign currency-denominated securities was completed and other financial sector reforms are moving ahead broadly as envisaged.

The government recognizes that many challenges remain ahead. Concerns are rising over the prolonged recession, high unemployment, and increased poverty rates. In addition, the global economic environment remains uncertain. However, the Government recognizes the enduring benefits of sound macroeconomic policies and remains deeply committed to macroeconomic stability and the implementation of the reform pillars outlined in the Memorandum of Economic and Financial Policies (MEFP) attached to our LOI of January 15, 2010, that endeavour to fundamentally transform the Jamaican economy. The attached updated MEFP outlines new measures that the Government has implemented recently to keep the fiscal program on track and proposes some updates to quantitative targets and structural benchmarks.

The Government believes that the policies described in the MEFP are adequate to achieve the programme's objectives. However, as always, the Government stands ready to take any additional measures that may be required. The Government will maintain the productive and fruitful dialogue it has enjoyed with the Fund. In this spirit of cooperation, the Government will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

The Government will also provide the Fund staff with all the relevant information required to complete programme reviews and monitor performance on a timely basis. The Government will observe the standard performance criteria against imposing or intensifying exchange restrictions, introducing or modifying multiple currency practices, concluding bilateral payments agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement, and imposing or intensifying import restrictions for balance of payments reasons.

The Government requests waivers of applicability for the relevant end-December 2010 performance criteria in view of the fact that the Board discussion of the third programme review will be held in January 2011. Full information to assess performance under all the criteria will not be available by the Board date but we are confident that they will be observed. Subsequent reviews under the SBA are expected to be held on a quarterly basis based on relevant performance criteria.

As part of our communication policy, we intend to publish this letter on the websites of the Ministry of Finance and the Public Service and the Bank of Jamaica to keep domestic and

international agents informed about our policy actions and intentions. In that context, we authorize the Fund to publish this letter and the attached MEFP.

Very truly yours,

/s/

Audley Shaw, MP
Minister of Finance and the Public Service
Jamaica

/s/

Brian Wynter
Governor, Bank of Jamaica
Jamaica

ATTACHMENT 2: JAMAICA—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES**I. BACKGROUND AND RECENT DEVELOPMENTS**

1. **Overall economic performance during the second quarter of FY2010/11 was mixed.** Financial market conditions have continued to improve, but economic activity remains weak.
2. **Real GDP is estimated to contract by 0.5 percent (y-o-y) in Q3 of 2010, an improvement over the fall of 2 percent recorded in Q2 of 2010.** Goods producing industries grew by 2 percent, led by agriculture and mining. However, the services sector declined by 1.7 percent, with only tourism showing positive growth. There were positive developments in the labour market, with the net creation of 21,000 jobs in Q3 of 2010, following three quarters of job losses. The external current account deficit widened to 1.8 percent of GDP in Q2 of 2010 from 0.4 percent in Q1 of 2010, owing mainly to a dent in tourism receipts related to the State of Emergency.
3. **The damage from Tropical Storm Nicole and its impact on the economy were severe.** Jamaica suffered widespread flooding during the last week of September as a result of the storm. The extensive damage to basic infrastructure such as roads, bridges, and sewerage systems is estimated at J\$20 billion (1.7 percent of GDP). Growth for FY2010/11 has been revised downward to -0.5 percent, compared with 0.6 percent at the time of the second review, reflecting the lower-than-envisaged outturn in the second and third quarters of 2010 and the projected negative impact of the tropical storm, in particular on agriculture, transport, and retail trade. Inflation (y-o-y) fell to 11.4 percent in November from 13.2 percent at end-June, with core inflation running at 7.6 percent. For this fiscal year, however, inflation has been revised up to 7½–8½ percent, to reflect a temporary jump in food prices associated with storm-related damage to crops.
4. **Financial market conditions remain stable and prudential indicators continue to point to a resilient system.** Rates on 3-month Treasury bills have fallen to 7.4 percent and those on 5-year bonds to 10.5 percent. The yield on Eurobonds has declined to 7.8 percent (consistent with a spread of 520 basis points). Commercial bank lending rates have also fallen somewhat, while remaining high. Credit to the private sector is still anemic, with a slight year-on-year decrease in September 2010. In September, the ratio of banks' nonperforming loans to total loans declined, while capital adequacy and liquid asset ratios improved, remaining comfortably above statutory levels. In the securities sector, profitability declined slightly, while most other prudential indicators (e.g., break-even yield, leverage, capital adequacy) improved. To date, no financial institutions have requested assistance from the Financial System Support Fund (FSSF). NIR has remained steady at US\$1.9–2.0 billion and the currency has been stable against the U.S. dollar, during what is typically the seasonally-low period for foreign exchange earnings.

II. PERFORMANCE UNDER THE PROGRAM

5. **All end-September quantitative targets were met** (Table 1). The central government deficit for the second quarter of FY 2010/2011 was 3.6 billion (0.3 percent of GDP) lower than projected at the time of the second review. This development was due to a better-than-anticipated primary surplus outcome (J\$10.8 billion compared with program projections of J\$8.3 billion), reflecting lower than projected capital and program expenditure, which more than offset lower grants. Revenue collections were slightly higher than projected, masking deviations in some subcategories. Strong GCT (value added tax) and SCT (excise tax) collections more than offset lower than projected revenues from the withholding taxes on wages (PAYE) and interest. Also, the overall fiscal deficit of public entities for the second quarter of FY 2010/2011 was 2.6 billion lower than targeted. The lower than anticipated fiscal deficit, coupled with pre-financing operations, resulted in a slower drawdown of deposits with the banking system than envisaged at the time of the second review. After adjusting for the impact of pre-financing, the change in the central government debt target was met. The net increase in central government guarantees was also met.¹ NIR continued to over perform, surpassing the end-September target by almost US\$600 million.

Table 1. Jamaica - Program Monitoring: Quantitative Performance Criteria (PC) under SBA ^{1/}
in billions of Jamaican dollars

	Sep-10	PC 3rd Review end Sep-10	Adjustments ^{7/}	Adjusted SBA PCs	Proj. Diff.	PC Status
Fiscal targets						
1. Primary balance of the central administration (floor) ^{2/}	21.4	18.8			2.5	Met
2. Overall balance of public entities (floor) ^{2/}	-3.4	-6.0			2.5	Met
3. Cumulative net increase in central government direct debt (ceiling) ^{2/ 3/}	52.6	54.0	-0.9	53.1	-0.5	Met
4. Cumulative net increase in central government guaranteed debt (ceiling) ^{2/}	3.9	15.7			-11.8	Met
5. Central government accumulation of domestic expenditure arrears (ceiling) ^{4/}	0.0	0.0			0.0	Met
6. Central government accumulation of tax refund arrears (ceiling) ^{5/}	-0.3	0.0			-0.3	Met
7. Consolidated government accumulation of external arrears (ceiling) ^{6/}	0.0	0.0			0.0	Met
Monetary targets						
8. Cumulative change in net international reserves (floor) ^{2/ 6/}	201.1	-395.4			596.5	Met
9. Cumulative change in net domestic assets (ceiling) ^{2/}	-22.9	-1.2			-21.7	Met

^{1/} Targets as defined in the Technical Memorandum of Understanding (TMU).

^{2/} Cumulative flows since April 1.

^{3/} Excludes government guaranteed debt. The central government direct debt excludes IMF credits and includes program consistent adjustments.

^{4/} Includes debt payments, supplies and other committed spending as per contractual obligations.

^{5/} Includes tax refund arrears as stipulated by law.

^{6/} In millions of US dollars. Measured at program exchange rates. PC incorporated automatic adjusters specified in TMU.

^{7/} Original targets for Q2 assumed that debts of the SCJ of 9.4 billion would be taken over adding to the stock of central government direct debt but only 8.5 billion were actually taken over. The remainder is expected to be taken over in the third quarter of FY 2010/2011.

¹ The central government direct debt target was minimally adjusted downwards (0.9 billion) to reflect that a small portion of the anticipated takeover of Sugar Company of Jamaica debt included in program projections is now expected to take place in the third quarter of FY 2010/2011 due to administrative delays.

6. **Performance related to the structural benchmarks was mixed.** In the fiscal area, the September benchmarks related to the Central Treasury Management System (CTMS) reform (completion of an inventory of all public sector bank accounts and preparation of a detailed conceptual design of the CTMS) were met. However, in the debt management area, the benchmark requiring the hiring of a technical advisor and project manager for the reform program was not met. The government is seeking the assistance of the Fund and the World Bank in the selection of appropriate candidates. In the financial sector, the authorities have completed the concept paper on measures to combat unlawful financial operations (October 2010 structural benchmark) and have submitted the Amendments to the Bank of Jamaica Act to the Cabinet.

7. **In the area of tax policy, the Government continues to take steps to reduce tax waivers.** On November 15, 2010, the following measures were implemented, pending the development of a comprehensive tax incentive reform plan: (i) a freeze on discretionary waivers of all taxes and import duties, with some limited exceptions; (ii) a prohibition on the granting of waivers when the fiscal revenue foregone is not known; (iii) a suspension of tax concessions for the rental vehicle industry; (iv) a tightening of motor vehicle concessions for farmers; and (v) a prohibition on the granting of new tax holidays. Effective March 31, 2011, the granting of waivers for the upfront payment of the GCT will cease. The government intends to improve transparency of the waiver policy by regularly updating the information on amounts, recipients, and sectors on the Ministry of Finance website.

8. **Advances have been made in the area of debt management reform, despite delays in certain areas.** In line with the joint IMF-World Bank-IDB technical assistance recommendations, a high level inter-agency Debt Management Committee has been established, chaired by the Financial Secretary, and including participation by the Bank of Jamaica (BOJ) and the Planning Institute of Jamaica (PIOJ). This Committee will advise on medium-term debt management strategies, debt issuance, and debt market development. An action plan for the establishment of a reformed Debt Management Unit that will carry out back, middle, and front office functions has been approved by the Financial Secretary.

9. **The financial sector reform agenda is moving ahead, with minimal changes to the target dates.** The second 12.5 percent installment of the phased introduction of 100 percent risk-weighting on foreign-currency-denominated government securities was implemented at end-September 2010. In October 2010, securities dealers began segregating collateral underpinning client repo contracts in accounts in the central securities depository, a measure that will reduce risks to clients. Full registration of individual holdings will be phased in by end-March 2011.

Table 2. Jamaica: Quantitative Performance Criteria 1/

(in J\$ billions)	2010			2011
	end Jun. observed	end Sept. observed	end Dec. criteria	end Mar. criteria
Fiscal targets				
1. Primary balance of the central administration (floor) 2/	10.6	21.4	30.9	57.6
2. Overall balance of public entities (floor) 2/	-1.9	-3.4	-10.9	-11.9
3. Cumulative net increase in central government direct debt (ceiling) 2/, 3/	26.2	56.9	91.1	111.3
4. Cumulative net increase in central government guaranteed debt (ceiling) 2/	5.6	3.9	18.8	20.9
5. Central government accumulation of domestic expenditure arrears (ceiling) 4/	0.0	0.0	0.0	0.0
6. Central government accumulation of tax refund arrears (ceiling) 5/	-0.5	-0.3	0.0	0.0
7. Consolidated government accumulation of external arrears (ceiling) 6/	0.0	0.0	0.0	0.0
Monetary targets				
8. Cumulative change in net international reserves (floor) 2/, 6/	-2.3	201.1	39.0	39.0
9. Cumulative change in net domestic assets (ceiling) 2/	-3.5	-22.9	13.8	-12.1

1/ Targets as defined in the Technical Memorandum of Understanding.

2/ Cumulative flows through April 1 to March 31.

3/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.

4/ Includes debt payments, supplies and other committed spending as per contractual obligations.

5/ Includes tax refund arrears as stipulated by law.

6/ In millions of US dollars.

III. POLICIES FOR THE REMAINDER OF FY2010/11

A. Fiscal Policy

10. **Notwithstanding the overall good program performance thus far, spending pressures emerged that threatened to place the FY2010/11 fiscal program off track.** Unbudgeted spending by the central government (1 percent of GDP) included the purchase of buses for the Jamaica Urban Transit Company (JUTC), other goods and services, and costs related to the May-July state of emergency. Such spending also included unbudgeted outlays related to the payment of salary and allowances to some public sector workers, including to comply with a ruling by the Industrial Disputes Tribunal on amounts payable to teachers. There has also been an urgent need to repair and replace the infrastructure damaged by Tropical Storm Nicole (0.2 percent of GDP).¹ In the public bodies, there were unbudgeted costs related to operating losses of Clarendon Alumina Production (CAP).

11. **To offset additional spending, the Government has implemented new measures equivalent to 0.8 percent of GDP and is requesting the inclusion of an adjustor under the program for storm-related outlays.** The new measures comprise: (i) the postponement

¹ Because the damage was not caused by hurricane-force winds, it is not covered by the World Bank-sponsored Caribbean Catastrophic Risk Insurance Facility (CCRIF) to which Jamaica subscribes.

of certain capital projects; (ii) cuts in expenditures on central government goods and services; (iii) a reduction in the issuance of discretionary waivers and the introduction of differentiated tax rates on alcohol beverages, based on alcohol content; and (iv) a strengthening in administration efforts to enforce compliance in PAYE. Taking into account capacity constraints, the government is requesting an adjustor to the primary balance of up to 0.2 percent of GDP to accommodate the repairs related to Tropical Storm Nicole. Assuming that the adjustor is fully used, the revised central government primary surplus for FY2010/11 would be 4.7 percent of GDP, compared with 4.9 percent projected at the time of the second review. The revised overall public sector deficit would be 7.4 percent of GDP (7.2 percent), and central government debt at end-march 2011 would be broadly unchanged from the level projected at the time of the second review, at around 139 percent of GDP.

Table 3. Jamaica: Unbudgeted Spending and Offsetting Measures FY 2010/2011
(in percentage of GDP)

Unbudgeted Spending	1.4	Measures and Actions	1.4
Central Government	1.0	Central government	1.0
Wage-related spending	0.2	Revenues	0.4
State of Emergency	0.1	Reduce waivers and modify alcohol tax	0.1
Damages from Tropical Storm Nicole	0.2	Strengthen administration of PAYE withholding tax	0.1
Purchase of 100 buses for JUTC	0.2	Transfers from public bodies	0.2
Other goods and services	0.3	Expenditures	0.4
		Postpone capital spending	0.3
		Reduce recurrent spending	0.1
		Adjustor in primary balance to accommodate Nicole	0.2
Public entities		Public entities	
CAP losses	0.4	Divestment of CAP before end of fiscal year	0.4

12. **The Government is adopting practices that will preclude the recurrence of the spending overruns that recently emerged.** In line with Fund technical assistance recommendations, beginning January 2011, ministries, departments, and agencies (MDAs) will be required to submit a monthly report to the Ministry of Finance detailing expenditure commitments. Permanent Secretaries were fully briefed about the new fiscal responsibility framework and its stricter standards for public financial management. Sensitization sessions will be organized for senior officials in all MDAs and other stakeholders during the last quarter of FY2010/11. Moreover, as part of the FRF regulations slated for implementation by end-February 2011, MDAs or public bodies responsible for unbudgeted expenditures will be held accountable by the Ministry of Finance and will be required to present offsetting measures elsewhere in their budgets. Personal sanctions may also be imposed on project managers who proceed with the execution of projects beyond the appropriated resource envelope.

13. **The Government intends to make additional changes to the fiscal responsibility framework (FRF) beyond those outlined in the September 2010 MEFP.** These amendments, prepared with the support of Fund staff, will be submitted to Parliament by

February 2011 for approval (new structural benchmark). They will more clearly establish: (i) the obligation of the Minister of Finance to propose to Parliament measures aimed at keeping the fiscal program on track when deviations from fiscal targets arise; (ii) a tightly defined escape clause limited only to well-defined national emergencies, as assessed by an independent oversight institution (e.g. the Office of the Auditor General); and (iii) the link between the medium-term fiscal framework and the annual budget, by fixing the key fiscal parameters for both the current budget year and the following year. While these changes will delay slightly the approval of the amendments (originally envisaged as a November 2010 structural benchmark), they will not affect the planned implementation in the FY2011/12 budget.

14. **The implementation of the Central Treasury Management System (CTMS) will also substantially improve fiscal control.** As of December 2010, the payment of debt service and major utilities (water, light and power) has been centralized in the Accountant General's Department, and the centralization of payroll payments will be completed by February 2011. In addition, the Ministry of Transport and Works, the Ministry of Education, and the Ministry of Finance and the Public Service, including the Accountant General's Department, have been selected as pilot MDAs for the phased rollout of the CTMS at the beginning of FY2011/12.

15. **The Government intends to strengthen its financial protection against natural disasters.** Together with its regional partners, Jamaica is pushing for changes in the criteria for insurance claims in the CCRIF, to include damages caused by flooding. In addition, beginning in FY2011/12, it is committed to implementing a framework that will provide resources to the budget to cover specific contingencies, such as natural disasters.

16. **The Government has intensified its efforts to divest Clarendon Alumina Production (CAP) and is confident that the sale will be finalized by March 2011.** The Government had expected to finalize the sale of CAP early in the fiscal year and as a result, no central government budgetary allocation was made to cover its operating losses. These losses, which have totaled close to 2 percent of GDP since 2007, derive mainly from the fixed price contracts under which the company sells half of its alumina. Discussions to sell CAP to an interested entity are now at an advanced stage and the Government is committed to ensuring that it does not incur any future contingent liabilities as a result of any agreement reached. It is also committed to using most of the divestment proceeds to fully cover the company's FY2010/11 losses and pay down the public debt. The divestment of CAP (and its removal from the public sector accounts) will not cause adjustments to any of the March 2011 fiscal targets.

17. **Preparation of the public sector rationalization plan continues to move forward.** Public hearings on the Master Rationalization Plan (MRP) took about one month longer than originally envisaged but are now completed. An international accounting firm has been hired to assess short-term costs and the medium-term savings of the MRP's

recommendations and alternative scenarios. This work will be completed by end-December 2010 (initially a structural benchmark for end-November 2010, this will be a prior action for the completion of the third review). The Government is also committed to completing a rationalization plan for the civil service (this was initially a structural benchmark for end-December 2010). This plan will be implemented beginning in FY2011/12 to generate permanent savings consistent with the medium-term objectives of the fiscal program.

18. **The Government continues to work toward a comprehensive reform of tax incentives aimed at reducing distortions, increasing revenues, and promoting economic growth (December 2010 structural benchmark).** With assistance from the IDB, the Ministry of Finance is moving ahead with plans to implement this reform beginning in FY2011/12. This effort will be consistent with a broader set of tax policy reforms that is being examined under the Partnership for Transformation, which represents stakeholders of the public and private sectors.

19. **The Government is committed to making the restructured Debt Management Unit operational by end-September 2011** (new structural benchmark). The action plan for establishing the Unit will be submitted for Cabinet approval in January 2011, and the final structure of the Unit is expected to be approved by March 2011. The costs for the new organizational structure will be incorporated in the budget estimates for FY 2011/12. Following the recent identification of grant funds, the hiring of a project manager and technical advisor will be completed in January 2011. A draft Debt Management Bill is being finalized and will be submitted to Parliament in February 2011 for approval. The law will consolidate the existing fragmented legislative structure, introduce modern debt management practices, and ensure prudent management of government guarantees and contingent liabilities.

B. Monetary and Financial Sector Policies

20. **With underlying inflation pressures subdued, monetary policy will continue to be accommodative, while geared toward maintaining financial stability and reducing inflation.** The BOJ intends to continue its gradual approach to lowering the policy rate, with a view to keeping inflation expectations well anchored while avoiding excessive volatility in the foreign exchange market. The BOJ also intends to take advantage of the favourable momentum in financial markets to increase its net international reserves.

21. **The Government intends to continue to work to encourage further declines in commercial lending rates in order to help spur private sector demand.** The BOJ has reduced the cash reserve requirement, with a view to providing room to commercial banks to lower their lending rates. The recent passage of credit bureau legislation will help reduce adverse selection and risk premia over the medium term. The Government is exploring additional options to promote competition and lower spreads.

22. **The Government plans to gradually wind down the Financial System Support Fund (FSSF).** The FSSF played an important role in encouraging participation in the Jamaica Debt Exchange (JDX) and in fostering confidence in the financial system in the post-JDX period. Data on balance sheets, liquidity and income indicate that the institutions were able to successfully withstand the effects of the JDX. No institution has requested or received support from the FSSF and the risks associated with the JDX have passed. Given the balance of risks facing Jamaica, the Government believes that the resources in the FSSF would be better used as general purpose gross international reserves in the BOJ. The Government is committed to transferring at least half of the FSSF funds by June 2011 and to completing the process by March 2012.

Appendix 1. Structural Reform Agenda

Target Date 1/	Structural Benchmark / MEFP Commitments	Type	Status	Comment
Institutional Fiscal Reform				
Mar-10	Pass a fiscal responsibility framework (FRF) and accompanying legislative amendments.	Benchmark MEFP Jan-2010	Met	Approved in Parliament in March. Work on amendments and supporting regulations needed to enhance the effectiveness of the FRF is ongoing (see below).
Mar-10	Freeze on wage and salary increases through FY 2011/12.	Commitment MEFP Jan-2010	Met	FY2010/11 Budget includes the freeze.
Jun-10	Conduct a government employment / compensation census and create a public sector monitoring database.	Commitment MEFP Jan-2010	Met	The census of employment and compensation has been completed and a database has been created. The authorities are verifying the census results through work been conducted by the Public Sector Transformation Unit (PSTU) and through a formal payroll audit conducted by the Auditor General's office with the assistance of the World Bank.
Jun-10	Prepare time-bound tax administration reform action plan.	Commitment MEFP Jan-2010	Met	Modernization strategies for tax and customs administration were prepared and costed and are accompanied by detailed action plans.
Jun-10	Complete a time bound action plan to establish a central treasury management system (CTMS) by end 2010.	Benchmark MEFP Jan-2010	Met	An action plan to implement the CTMS was completed.
Sep-10	Finalize inventory of all public sector bank accounts	Benchmark MEFP Sep-2010	Met	Currently reconciling the information received from the financial institutions with the information provided by the Ministries, Departments, Agencies and Public Bodies.
Sep-10	Prepare a detailed conceptual design for CTMS	Benchmark MEFP Sep-2010	Met	The final conceptual design was sent to staff on November 19th 2010.
Nov-10	Amendments FRF legislation and introduce regulations.	Benchmark MEFP Jun-2010	Delayed	Additional amendments and regulations to be made following Fund staff comments. Submission to Parliament in February 2011. Will not affect the planned implementation in the FY2011/12 budget.
Nov-10	Undertake a costing exercise of the different reform options presented in the Master Rationalization Plan.	Benchmark MEFP Sep-2010	Delayed	<i>Prior Action for completion of 3rd Review.</i> Preliminary costing scenarios to be completed by end-December 2010.
Sep-10	Prime Minister's Committee Report on Public Sector Reform due.	Commitment MEFP Jan-2010	Met	The public sector reform report has been finalized after the comments of the Parliament were incorporated. The report is scheduled to be tabled in Parliament by the Chairman of the Public Accounts Committee by [end November 2010]
Sep-10	Announce strategy to scale back and reform the tax incentive system.	Commitment MEFP Jan-2010	Met	The announcement of a new strategy in relation to tax incentives took place on Aug 5, 2010.
Dec-10	Complete time-bound public employment and compensation reform action plan (to be implemented in FY2011/12 Budget).	Benchmark MEFP Jan-2010	Delayed	Reform strategy to be finalized in January 2011 after costing exercises completed.
Dec-10	Tax incentive reform.	Benchmark MEFP Jun-2010	In progress	Interim measures introduced on November 15 to scale back discretionary waivers, while more comprehensive reform is prepared.
Jan-11	Additional Changes to the FRF	Benchmark MEFP Dec-2010	In progress	Amendments to be submitted to Parliamentary Approval by end-January (details MEFP para. 13).
Apr-11	Interim CTMS system implemented for FY2011/12	Commitment MEFP Jun-2010	In progress	Payment of debt service and utilities has been centralized in the Accountant General's department. Ministry of Transport and Works, the Ministry of Education, and the Ministry of Finance will be pilot for the rollout of the CTMS .
FY2013/14	Reduce wage bill to 9.5 percent of GDP.	Commitment MEFP Jan-2010	In progress	Wage freeze in effect. Public employment and compensation reform strategy under preparation.
Public Entities				
Mar-10	Lease remaining Sugar Company Factories or put on zero-deficit budget.	Commitment MEFP Jan-2010	Met	Agreement signed between the Government and Chinese state-owned investment company Complant Sugar International Limited on July 30, 2010 for the remaining estates (Monymusk, Bernard Lodge and Frome). Full divestment is expected by December 2010 if due diligence is completed successfully.
Apr-10	Increase JUTC bus fares by 40 percent or more.	Commitment MEFP Jan-2010	Met	Increased by 40 percent on average.
Jun-10	Divest or liquidate Air Jamaica.	Commitment MEFP Jan-2010	Met	Agreements signed; full take over within 6 to 12 months proceeding as planned.
Mar-11	Divest Clarendon Alumina Production	Benchmark MEFP Dec-2010	In progress	Negotiations with interested buyer at advanced stage
Debt Management				
Jun-10	Complete cost-risk analysis alternative debt management strategy.	Commitment MEFP Jan-2010	Met	Received IMF/WB/IDB TA. Follow-up TA necessary to build strategic and analytical capacity (Oct-10).
Sep-10	Hire a resident Technical Financial Advisor and a Project Manager for a 1-2 year period.	Benchmark MEFP Jun-2010	Not Met	TORs were not drafted and the resident advisor was not hired. The authorities have asked assistance from the Fund and the Bank to find suitable candidates.
Jan-11	Hire of project manager and technical advisor	Benchmark MEFP Dec-2010	In progress	Grant funds have been identified
Mar-11	Submit draft debt management law to Parliament	Commitment MEFP Dec-2010	In progress	The law will consolidate the existing fragmented legislative structure, introduce modern debt management practices, and ensure prudent management of government guarantees and contingent liabilities.
Sep-11	Make the restructured Public Debt Management Unit operational	Benchmark MEFP Dec-2010	In progress	Action Plan for establishing the Unit approved by Financial Secretary. Will be submitted for Cabinet approval in January 2011. Final structure of the Unit expected to be approved by March 2011. Costing of Structure to be incorporated in the budget for FY2011/12.

1/ All target dates refer to end month.

Appendix 1 (Continued). Structural Reform Agenda

Target Date ^{1/}	Structural Benchmark / MEFP Commitment	Type	Status	Comment
Financial Sector				
Feb-10	Freeze on issuance of new licences for securities dealers with traditional business model.	Benchmark MEFP Jan-2010	Met	...
Mar-10	Improve frameworks for AML/CFT.	Benchmark MEFP Jan-2010	Met	Financial Investigations Division Bill and other legislation passed.
Mar-10	Review/revise concept paper for an omnibus banking law to strengthen financial sector oversight.	Benchmark MEFP Jan-2010	Met	Completed; presented to Minister of Finance in June 2010 and submitted to Cabinet in July 2010.
Jun-10	Examine Bankruptcy Law reform.	Commitment MEFP Jun-2010	In progress	FSC to explore feasibility of enhanced repo-client protection.
Jun-10	Phased introduction of 100 percent risk weighting on foreign currency denominated GOJ bonds.	Commitment MEFP Jun-2010	Met	Second installment (a 25 percent risk weight) implemented end September 2010. Third installment scheduled for end-December
Jun-10	Finalize list of amendments to the BOJ Act.	Commitment MEFP Jun-2010	Met	Part of efforts to establish legal framework to support BOJ's mandate for financial system stability. Note prepared by BOJ submitted to cabinet in June. Final draft submitted to Cabinet . Drafting instructions forthcoming.
Aug-10	Develop enhanced capital and margin requirements for the securities dealer sector.	Commitment MEFP Jan-2010	Met	Second Fund TA mission took place in August 2010. Work program on track. A consultation paper has been prepared and will be discussed with industry during November. A revised paper will be produced in January 2011
Sep-10	Dealers requirement to register customer interest against underlying instruments in a central depository.	Commitment MEFP Jan-2010	Met	New FSC guidelines stipulate that customer interests be registered in the CSD through the use of an omnibus client account, whereby dealers place all assets subject to retail repos in a separate JamCLEAR CSD holding account, which is an account maintained by a dealer to facilitate the segregation of clients' unencumbered financial assets associated with a repo agreement. Securities dealers are required to keep clear records of clients' interests, which must be reconciled on a daily basis.
Oct-10	Prepare concept paper outlining measures to combat unlawful financial operations (UFOs).	Benchmark MEFP Sep-2010	Met	Original June 2010 benchmark not met. Previously delayed Fund TA has been delivered. Paper has been prepared and is being reviewed by Attorney General and Public Prosecutor.
Dec-10	Adopt supervisory rules to take remedial measures against weak entities on a specified timetable.	Commitment MEFP Jan-2010	Met	Part of omnibus concept paper presented to Minister and Cabinet as above.
Dec-10	Introduce enhanced capital rules for DTIs to address all market risks (including equity and interest).	Commitment MEFP Jan-2010	Met	Part of omnibus concept paper presented to Minister and Cabinet as above.
Dec-10	Amend Unit Trust Act to encourage the development of collective investment schemes.	Commitment MEFP Jan-2010	In progress	Concept Paper for public consultation March 2011.
Mar-11	Amending Companies Act of Jamaica to remove structural impediments to the development of the vibrant mutual fund market. Concept paper to be completed.	Commitment MEFP Jan-2010	In progress	Concept Paper for public consultation March 2011.
Feb-11	Pass Omnibus banking law, amend Bank of Jamaica Act and Financial Services Commission Act, implement stronger capital adequacy standards. Draft omnibus bill completed by CPC	Commitment MEFP Jan-2010	In progress	Concept paper distributed; Submitted to Cabinet July 2010; contemplated enactment 2012.
Mar-11	Close gaps in the power of the FSC to conduct consolidated supervision in line with Omnibus Banking bill. Concept paper to be completed.	Commitment MEFP Jan-2010	In progress	To be based on review of BoJ Concept note.
Mar-11	Amendments to Securities Act to enhance regulatory regime for securities dealers.	Commitment MEFP Jun-2010	In progress	Concept paper to be completed February 2011; Cabinet submission March 2011.
Mar-11	Securities dealers to pledge collateral against client interests in the CSD.	Commitment MEFP Jun-2010	In progress	Exploring increased functionality of CSD in this respect.
Mar-12	Fully implement regulations to strengthen the regulatory and supervisory framework of the securities dealers sector.	Commitment MEFP Jan-2010	In progress	Includes full implementation of 100 percent risk weighting.

^{1/} All target dates refer to end month.

Appendix 2. Financial Sector Reforms: Action Plan

Legislation (Statutes)	Timetable
<p>Omnibus Banking Bill</p> <p>Purpose:</p> <p>Incorporate measures to allow for more effective supervision of financial conglomerates (consolidated regulation) and strengthen oversight of the financial sector (as identified in the 2006 FSAP) JAN 2010 MEFP Paragraph 30</p> <p>Adopt prompt corrective action framework. JAN 2010 MEFP paragraph 30</p> <p>Establish authority to set risk weights for assets held by DTIs</p> <p>Amalgamate all relevant statutes, namely the Banking Act, the Financial Institutions Act and the Building Societies Act and related regulations.</p> <p>Incorporate provisions to facilitate new requirements under the revised Basel Core Principles</p> <p>Provide supervisory with power to issue legally binding rules</p> <p>Strengthen provisions related to unauthorized financial organizations, JAN 2010 MEFP paragraph 32</p>	<p>Concept Paper, June 2010 (completed)</p> <p>Submission to Cabinet, July 2010</p> <p>Cabinet to issue drafting instructions, August 2010</p> <p>Draft finalized by CPC (in consultation with BOJ), February 2011</p> <p>120 day consultation with industry completed May 2011</p> <p>Review by Legislation Committee of Cabinet, end July 2011</p> <p>Tabled in Houses of Parliament, September 2011</p> <p>Consideration by Joint Select Committee of Parliament commencing October 2011 to June 2011</p> <p>Passage in Parliament July 2012</p>
<p>Amendments to the Bank of Jamaica Act</p> <p>Establish legal framework to underpin responsibility for overall financial sector stability, JAN 2010 MEFP paragraph 31</p> <p>Amend provisions requiring transfer of unrealized profits to GoJ, Safeguards assessment</p>	<p>List of amendments to Cabinet for information (with IMF consultation), end June 2010</p> <p>First CPC draft, in consultation with BOJ, November 2010</p> <p>Industry consultations, completed February 2011</p> <p>Review by Legislative Committee of Cabinet, completed end April 2011</p> <p>Tabled in Houses of Parliament and referred to Joint Select Committee, end May 2011</p> <p>Debate in Parliament, June 2011</p> <p>Passage by Parliament, July 2011</p>

Legislation (Statutes)	Timetable
<p>Securities Act (securities dealers)</p> <p>Purpose:</p> <p>Strengthen definition of securities Strengthen rule making power (related to enhancing capital standards JAN 2010 MEFP paragraph 34)</p> <p>Strengthen investigative and supervisory powers. Introduce separate licensing categories</p> <p>Strengthen authority and information sharing ability to enable FSC to sign the International Organization of Securities Commissions Memorandum of Understanding on Information Sharing and Cooperation (international standard for cooperation)</p>	<p>Draft concept paper completed August 2010</p> <p>Concept paper submitted to Minister, December 2010</p> <p>Concept paper submitted to Minister, March 2011</p> <p>Cabinet Submission March, 2011</p> <p>Drafting instructions to the CPC April 2011</p> <p>First draft of Bill to be completed July 2011</p> <p>Drafting review and revision completed September 2011</p> <p>Submitted to Parliamentary committee for reviews, October 2011</p> <p>Committee review completed December, 2011</p> <p>Cabinet review completed by December 30, 2011</p> <p>Tabling in Houses of Parliament and referral to Joint Select Committee by December, 2011</p> <p>Consideration by Joint Select Committee and Parliamentary debate completed June 2012</p> <p>Passage, July 2012</p>
<p>Securities Act (collective investment schemes)</p> <p>Purpose:</p> <p>Removing impediments to development of mutual funds market, JAN 2010 MEFP paragraph 33</p>	<p>As above</p>
<p>Securities Act (Unregulated Financial Organizations)</p> <p>Purpose:</p> <p>Combating unregulated financial organizations, JAN 2010 MEFP paragraph 32</p>	<p>As above</p>

Legislation (Statutes)	Timetable
<p>Insurance Act (UFOs) Purpose: Combating unregulated financial organizations, JAN 2010 MEFP paragraph 32</p>	<p>Draft concept paper completed, October 2010 (revised structural benchmark) Discussion paper circulated for public consultation, January 2011</p> <p>Public consultation completed, March 2011 Concept paper submitted to Ministry, March 2011</p> <p>Cabinet Submission March, 2011 Drafting instructions to the CPC April 2011 First draft of Bill to be completed July 2011 Drafting review and revision completed September 2011 Submitted to Parliamentary committee for reviews, October 2011 Committee review completed December, 2011 Cabinet review completed by December 30, 2011 Tabling in Houses of Parliament and referral to Joint Select Committee by December, 2011 Consideration by Joint Select Committee and Parliamentary debate completed June 2012 Passage, July 2012</p>
<p>Financial Services Commission Act (Unregulated Financial Organizations) Purpose: Combating unregulated financial organizations, JAN 2010 MEFP paragraph 32</p>	<p>Discussion paper circulated for public consultation, January 2011 Public consultation completed, March 2011 Concept paper submitted to Ministry, March 2011</p> <p>Cabinet Submission March, 2011 Drafting instructions to the CPC April 2011 First draft of Bill to be completed July 2011 Drafting review and revision completed September 2011 Submitted to Parliamentary committee for reviews, October 2011 Committee review completed December, 2011 Cabinet review completed by December 30, 2011 Tabling in Houses of Parliament and referral to Joint Select Committee by December, 2011 Passage, July 2012</p>

Legislation (Statutes)	Timetable
<p>Financial Services Act (Prompt Corrective Action) Purpose:</p> <p>Adopt rules which require supervisors to take remedial measures against a weak entity within specific timeframes (prompt corrective action, PCA), JAN 2010 MEFP paragraph 30 Close gaps in the power of the FSC to conduct consolidated supervision in line with Omnibus Banking bill, JAN 2010 MEFP paragraph 34</p>	<p>Discussion paper circulated February 2011</p> <p>Legislative timetable as above.</p>
<p>Unit Trust Act</p> <p>Purpose:</p> <p>Removing impediments to development of mutual funds market, JAN 2010 MEFP paragraph 33</p>	<p>Concept paper, December, 2010; Consultation with industry to be completed by January, 2011 Concept paper submitted to Ministry, March 2011</p> <p>Cabinet Submission March, 2011</p> <p>Drafting instructions to the CPC April 2011 First draft of Bill to be completed July 2011 Drafting review and revision completed September 2011 Submitted to Parliamentary committee for reviews, October 2011 Committee review completed December, 2011 Cabinet review completed by December 30, 2011 Tabling in Houses of Parliament and referral to Joint Select Committee by December, 2011 Tabling in Houses of Parliament and referral to Joint Select Committee by October, 2011 Review by Joint Select Committee and debate in the Houses of Parliament completed December 2011 Passage January 2012</p>

Legislation (Statutes)	Timetable
<p>Companies Act (with Securities Act amendments and Mutual Fund Regulation Amendments)</p> <p>Purpose: Removing impediments to development of mutual funds market, JAN 2010 MEFP paragraph 33</p>	<p>Concept Paper end June 2010</p> <p>Legislative timetable same as Unit Trust Act</p>
Regulations	
<p>Securities Regulations (with Securities Act amendments)</p> <p>Purpose: Amendments to licensing and registration.</p>	<p>Draft concept paper completed August 2010</p> <p>Drafting instructions submitted to CPC, November 2010</p> <p>First draft completed by CPC, January 2010</p> <p>Drafting and review process completed, March. 2011</p> <p>Regulations approved by FSC Chairman, April 2011</p> <p>Regulations approved by Minister of Finance and Public Sector May 2011</p> <p>Regulations Gazetted June 2011</p>
<p>Mutual Fund Regulations (with Securities Act amendments)</p> <p>Purpose: Removing impediments to development of mutual funds market, JAN 2010 MEFP paragraph 33</p>	<p>Draft concept paper completed June 2010</p> <p>Drafting instructions submitted to CPC, July 2011</p> <p>First draft completed by CPC, September 2011</p> <p>Drafting and review process completed, November 2011</p> <p>Regulations approved by FSC Chairman, December 2011</p> <p>Regulations approved by Minister of Finance and Planning January 2012</p> <p>Regulations gazetted February 2012</p>

Regulations	Timetable
<p>Insurance Regulation Purpose: Imposition of risk weighting on foreign currency GoJ instruments</p>	<p>Proposal developed and completed, April 2010 (met)</p> <p>Industry consultation completed June 2010 Drafting instructions submitted to CPC, July 2010 First draft completed by CPC, August 2010 Drafting and review process completed, September 2010 Regulations approved by FSC Chairman, September 2010 Regulations approved by Minister of Finance and Planning October 2010 Regulations Gazetted October 2010 (completed)</p>
Regulatory Guidelines	
<p>Amendments to FSC Risk base capital guidelines Purpose: Enhance capital and margin rules, JAN 2010 MEFP paragraph 34</p>	<p>Draft guidelines prepared, January 2011</p> <p>Consultation with industry completed, February 2011</p> <p>Guidelines issued March 2011</p>
<p>Amendments to FSC Liquidity Management guidelines Purpose: Enhance capital and margin rules, JAN 2010 MEFP paragraph 34</p>	<p>Draft guidelines prepared, January 2011</p> <p>Consultation with industry completed February 2011</p> <p>Guidelines issued, March 2011</p>
<p>FSC Guideline on Operational Risk Purpose: Enhance capital and margin rules, JAN 2010 MEFP paragraph 34</p>	<p>Draft guidelines prepared, January 2011</p> <p>Consultation with industry completed Feb 2011</p> <p>Guidelines issued, March 2011</p>

ATTACHMENT 3: JAMAICA—TECHNICAL MEMORANDUM OF UNDERSTANDING

This Technical Memorandum of Understanding (TMU) defines the variables subject to quantitative targets (performance criteria and indicative targets), specified in the Letter of Intent (LOI). It also describes the methods to be used in assessing the programme performance and the information requirements to ensure adequate monitoring of the targets. As is standard under all Fund arrangements, we will consult with the Fund before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the programme, and provide the Fund with the necessary information for programme monitoring.

The programme calculates foreign exchange transactions at fixed programme rates. In this context, the exchange rates for the purposes of the programme of the Jamaican dollar (J\$) to the U.S. dollar is set at J\$89.35 = US\$1, to the Special Drawing Right (SDR) at J\$140.18=SDR 1, to the euro at J\$127.57 = €1, to the Canadian dollar at J\$81.40 = CND\$1, and to the British pound at J\$143.11 =£1.

V. QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

A. Cumulative Floor of the Central Government Primary Balance

Definition: The central government for the purposes of the programme consists of the set of institutions currently covered under the state budget. The fiscal year starts on April 1 in each calendar year and it ends on March 31 of the following year.

The primary balance of the central government is defined as total revenues minus primary expenditure and covers non-interest government activities as specified in the budget. The central government includes public bodies that are financed through the Consolidated Fund. Data will be provided to the Fund with a lag of no more than three weeks after the test date.

Revenues are recorded when the funds are transferred to a government revenue account. Revenues will also include grants. Capital revenues will not include any revenues from asset sales as proceeding from divestment operations. Central government primary expenditure is recorded on a cash basis, and includes compensation payments, other recurrent expenditures, and capital spending (Table 1). Primary expenditure also includes transfers to other public bodies which are not self-financed. Costs associated with divestment operations or liquidation of public entities, such as cancellation of existing contracts or severance payments to workers will be allocated to current and capital expenditures, accordingly.

All primary expenditures directly settled with bonds or any other form of non-cash liability will be recorded as spending above-the-line, financed with debt issuance, and will therefore affect the primary balance.

The primary balance target includes US\$204 million in expenditure related to the divestment or liquidation costs of Air Jamaica. Should costs associated with the divestment or liquidation of Air Jamaica exceed US\$204 million, the targets may be adjusted downwards to accommodate those costs, up to US\$10 million at the programme reference exchange rate, subject to consultation with Fund staff. Symmetrically, if Air Jamaica divestment costs are lower than US\$ 204 million, the primary balance target will be adjusted upwards by the difference between the US\$ 204 million and the actual cost.

1. Targets on the Primary Balance of the Central Government
Cumulative over the fiscal year (April 1 to March 31)

	Floor (In billions of J\$)
Central Government Primary Balance at end-March 2010	67.5
End-June 2010 (observed)	10.6
End-September 2010 (observed)	21.4
End-December 2010 (performance criterion)	30.9
End-March 2011 (performance criterion) 1/	57.6
End-June 2011 (indicative target)	18.6
End-September 2011 (indicative target)	36.6

1/ The primary balance would be adjusted upwards to the extent that Tropical Storm Nicole related expenses (up to J\$ 2.5b) are not incurred.

B. Cumulative Floor on Overall Balance of Public Bodies

Definitions: The public sector consists of public units, which are institutional units that are themselves government units or are controlled, directly or indirectly, by one or more government units. Whether an institution belongs to the public or private sector is determined according to who controls the unit, as specified in the Government Financial Statistics (GFS) Manual 2001 - Coverage and Sectorization of the Public Sector. For the purposes of the programme, the assessment of whether an entity belongs to the public or the private sector will be based on the guidance provided by the GFS criteria.

Public bodies consist of all self-financed public bodies, including the 20 “Selected Public Bodies”, and “Other Public Bodies”. The 20 “Selected Public Bodies” include: Airport Authority of Jamaica (AAJ); Human Employment and Resource Training Trust (HEART); Jamaica Mortgage Bank (JMB); House Agency of Jamaica (HAJ); National Housing Trust (NHT); National Insurance Fund (NIF); Development Bank of Jamaica (DBJ); National Water Commission (NWC); Petrojam; Petroleum Corporation of Jamaica (PCJ); Ports Authority of Jamaica (PAJ); Urban Development Corporation (UDC); Jamaica Urban Transit

Company Ltd. (JUTC); Caymanas Track Ltd. (CTL); Wallenford Coffee Company Ltd. (WCC); National Road Operating and Constructing Company Ltd. (NROCC); Petro-Ethanol; Air Jamaica (AJ); Clarendon Aluminum Production (CAP); Sugar Company of Jamaica (SCJ). “Other Public Bodies” include: Bauxite and Alumina Trading Company of Jamaica Ltd. ; Road Maintenance Fund; Jamaica Bauxite Mining Ltd. ; Petroleum Company of Jamaica Ltd. (Petcom); Wigton Windfarm Ltd.; Broadcasting Commission of Jamaica; The Office of Utilities Regulation; Spectrum Management Authority; Sports Development Foundation; Bureau of Standards Jamaica; Factories Corporation of Jamaica Ltd.; Kingston Freezone Company Ltd.; Micro Investment Development Agency Ltd.; Montego Bay Freezone Company Ltd.; Postal Corporation of Jamaica Ltd.; Self Start Fund; Betting Gaming and Lotteries Commission; Culture, Health, Arts, Sports and Education Fund; Financial Services Commission; Jamaica Deposit Insurance Corporation, Jamaica Racing Commission, National Export-Import Bank of Jamaica Ltd.; PetroCaribe Development Fund; The Public Accountancy Board; Students’ Loan Bureau; National Health Fund; Agricultural Development Corporation; Agricultural Marketing Corporation, Cocoa Industry Board; Coffee Industry Board; Sugar Industry Authority; Overseas Examination Commission; Aeronautical Telecommunications Ltd.; Jamaica Civil Aviation Authority; Jamaica Ultimate Tire Company Ltd.; Jamaica Railway Corporation Ltd.; Ports Security Corps Ltd.; Transport Authority.

The overall balance of public bodies will be calculated from the Statement A’s provided by the Public Enterprises Division of the Ministry of Finance and the Public Service (MoFPS) for each of the selected public bodies and the group of the other public bodies as defined above. The definition of overall balance used is operational balance, plus capital account net of revenues (investment returns, minus capital expenditure, plus change in inventories), minus dividends and corporate taxes transferred to government, plus net other transfers from government. For the particular case of the National Housing Trust, capital account revenues will not be netted out since they do not refer to flows arising from assets sales but rather to contribution revenue, and therefore will be included among recurrent revenue such as is done for pension funds. Data will be provided to the Fund with a lag of no more than 6 weeks after the test date.

The definitions of “Selected Public Bodies” and “Other Public Bodies” will be adjusted as the process of public bodies’ rationalization, including divestments and mergers, advances. However, this process will not affect the performance criterion unless specifically stated. As to CAP, it is included in the end-December 2010 target on the overall fiscal balance of the public bodies but not included in the targets end-March 2011 onwards, based on the assumption that the divestment of CAP will be completed by end-March 2011. All newly created entities, including from the merging of existing entities, will be incorporated in either of these two groups.

2. Targets on the Overall Fiscal Balance of the Public Bodies
Cumulative Balance over the fiscal year (April 1 to March 31)

	Floor (In billions of J\$)
Overall Balance of Public Bodies at end-March 2010	-17.5
End-June 2010 (observed)	-1.9
End-September 2010 (observed)	-3.4
End-December 2010 (performance criterion)	-10.9
End-March 2011 (performance criterion)	-11.9
End-June 2011 (indicative target)	-2.1
End-September 2011 (indicative target)	-4.2

C. Ceiling on the Stock of Central Government Direct Debt

Definitions: Central government direct debt includes all domestic and external bonds and any other form of central government debt, such as supplier loans. It excludes IMF debt.

The target will be set in Jamaican dollars with foreign currency debt converted using the programme exchange rate. The change in the stock of debt will be measured “below the line” as all debt issuance minus repayments on all central government debt. Data will be provided to the Fund with a lag of no more than four weeks after the test date. The target will be adjusted upwards if explicit government guarantees (defined as the stock of existing guarantees as at end March 2010 plus new guarantees allowed to be issued under the programme) are called. The target will be adjusted downwards if net divestment revenues (i.e. net of divestment expenses) take place. The target may be adjusted upward (by a maximum of US\$10 million at program exchange rates, subject to consultation with Fund staff) to the extent that cumulative Air Jamaica divestment costs exceed US\$204 million, or downward to the extent that these divestment costs fall below US\$204 million. For the purposes of computing the debt target, debt inflows are to be recorded at the moment the funds are credited to any central government account. The debt target will be adjusted for cross-currency parity changes; and pre-financing, as reflected by the increase in central government deposits.

3. Targets on Central Government Direct Debt Stock
Cumulative Net Increase in Debt Measured at Program Exchange Rate 1/

	Ceiling (In billions of J\$)
Stock of Central Government Direct Debt at end-March 2010	1269
End-June 2010 (observed)	26
End-September 2010 (observed) 2/	57
End-December 2010 (performance criterion)	91
End-March 2011 (performance criterion) 3/	111
End-June 2011 (indicative target)	-12
End-September 2011 (indicative target)	1

1/ Increase relative to end-March 2010 stock.

2/ The observed change is not adjusted for prefinancing. This explains the difference with the target value reported in Table 1 of the MEFP.

3/ The central government direct debt stock would be adjusted downwards to the extent that Tropical Storm Nicole related expenses (up to J\$ 2.5b) are not incurred.

D. Ceiling on Net Increase in Central Government Guaranteed Debt

Definition: Net increase in central government guaranteed debt is calculated as issuance minus repayments of central government guaranteed debt, in billions of Jamaican dollars, including domestic and external bonds, loans and all other types of debt, and, beginning in December 2010, loans by the Petrocaribe Development Fund (PDF) to other public entities. Foreign currency debt will be converted to Jamaican dollars at the programme exchange rate. The cumulative targets are computed as the difference between the stock of government guaranteed debt as of end-March of each year and the stock of government guaranteed debt as of the target date, as specified in table 4. The cumulative net increase in central government guaranteed debt will be monitored on a continuous basis. Data will be provided to the Fund with a lag of no more than four weeks after the test date. In the case where the central government debt guarantees are called, the stock of central government guaranteed debt will be adjusted downwards to preserve the performance criteria defined in table 4.

**4. Cumulative Net Increase in Central Government
Guaranteed Debt Stock**

Cumulative balance over the fiscal year (April 1 to March 31)

	Ceiling (In billions of J\$)
Stock of Government Guaranteed Debt at end-March 2010	136.3
End-June 2010 (observed)	5.6
End-September 2010 (observed)	3.9
End-December 2010 (performance criterion) 1/	18.8
End-March 2011 (performance criterion) 1/	20.9

1/ Includes Petrocaribe Fund's financing to public enterprises.

The end-March 2010 stock of central government guaranteed debt is higher than in the January 2010 TMU on account of the stock of domestic guaranteed debt (3 percent of GDP), which was not included in the previous version of Table 4. The stock of domestic guaranteed debt of the central government has not changed since before end-FY2008/09 and therefore the update to the stock of total government guaranteed debt had no impact in the calculation or evaluation of the end-March 2010 targets. The inclusion of Petrocaribe loans makes the below-the-line numbers more consistent with the above-the-line projections.

E. Ceiling on Central Government Accumulation of Domestic Arrears

Definition: Domestic arrears are defined as payments to residents determined by contractual obligations that remain unpaid 90 days after the due date. Central government domestic arrears include arrears on domestic central government direct debt, including to suppliers, and all recurrent and capital expenditure commitments. The ceiling on central government accumulation of domestic arrears will be monitored on a continuous basis. Data will be provided to the Fund with a lag of no more than four weeks after the test date.

5. Central Government Accumulation of Domestic Expenditure Arrears

Cumulative Balance over the Fiscal year (April 1 to March 31)

	Ceiling (in billions of J\$)
Stock of arrears at end-March 2010	2.6
End-June 2010 (observed)	0.0
End-September 2010 (observed)	0.0
End-December 2010 (performance criterion)	0.0
End-March 2011 (performance criterion)	0.0
End-June 2011 (indicative target)	0.0
End-September 2011 (indicative target)	0.0

F. Ceiling on Central Government Accumulation of tax refund arrears

Definition: Tax refund arrears are defined as obligations on tax refunds in accordance with tax legislation that remain unpaid 90 days after the due date. The central government accumulation of tax refund arrears will be monitored on a continuous basis. Data will be provided to the Fund with a lag of no more than three weeks after the test date.

6. Central Government Accumulation of Tax Refund Arrears

Cumulative Balance over the Fiscal year (April 1 to March 31)

	Ceiling (in billions of J\$)
Stock of arrears at end-March 2010	20.3
End-June 2010 (observed)	-0.5
End-September 2010 (observed)	-0.3
End-December 2010 (performance criterion)	0.0
End-March 2011 (performance criterion)	0.0
End-June 2011 (indicative target)	0.0
End-September 2011 (indicative target)	0.0

G. Floor on Accumulation of BOJ Net International Reserves

Definition: Net international reserves (NIR) of the BOJ are defined as the US dollar value of gross foreign assets of the BOJ minus gross foreign liabilities with maturity of less than one

year. Non-US dollar denominated foreign assets and liabilities will be converted into US dollar at the programme exchange rates. Data will be provided by the BOJ to the Fund with a lag of no more than five days past the test date.

Gross foreign assets are defined consistently with the Sixth Edition of the *Balance of Payments Manual and International Investment Position Manual (BPM6)* as readily available claims on nonresidents denominated in foreign convertible currencies. They include the BOJ's holdings of monetary gold, SDR holdings, foreign currency cash, foreign currency securities, liquid balances abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currency vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets.

Gross foreign liabilities are defined consistently with the definition of NIR for programme purposes and include all foreign exchange liabilities to nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), and all credit outstanding from the Fund.

NIR targets will also be adjusted upward (downward) by the surplus (shortfall) in programme disbursements from the IBRD, IDB, and CDB, relative to the baseline projection reported in Table 8. Programme disbursements are defined as external disbursements from official creditors that are usable for the financing of the consolidated government.

If the amount of cumulative changes from end-March 2010 in BOJ's foreign exchange liabilities to residents and banks' foreign currency deposits in BOJ against reserve requirements is higher (lower) than the baseline projection reported in Table 9, the NIR targets will be adjusted upward (downward) by the cumulative difference in these items.

Net external payments related to the divestment cost of Air Jamaica is the divestment cost of Air Jamaica excluding employee costs and advance ticket sales, net of receipts from sales of aircrafts. Should net external payments related to the divestment cost of Air Jamaica be higher (lower) than the baseline projection reported in Table 10, the NIR targets may be adjusted downward (upward) by the cumulative difference in these items, up to an amount equivalent to US\$84.4 million at the program exchange rate, subject to consultation with Fund staff.

7. Net International Reserves of the Bank of Jamaica

	(In millions of US\$)
Floor on the Net International Reserves of the Bank of Jamaica	
Outstanding stock	
End-March 2010 1/	1,761.7
Floor on cumulative change in net international reserves from end-March 2010:	
End-June 2010 (observed)	-2.3
End-September 2010 (observed)	201.1
End-December 2010 (performance criterion)	39.0
End-March 2011 (performance criterion)	39.0
End-June 2011 (indicative target)	-61.0
End-September 2011 (indicative target)	-61.0

1/ End-March 2010 outstanding stock was revised upward compared with the number reported in EBS/10/115 because the internal audit in the BOJ revealed that part of foreign exchange holdings had not been converted to the US dollar at the programme exchange rates. The internal audit mechanism to assure a proper reporting of NIR for programme purposes was established in the BOJ and it has worked to the satisfaction of the auditors.

8. External Program Disbursements (baseline projection)

Cumulative flows from end-March 2010	(In millions of US\$)
End-June 2010 (observed)	33.3
End-September 2010 (observed)	233.3
End-December 2010	433.3
End-March 2011	666.3
End-June 2011	684.0
End-September 2011	752.5

9. Reserve liabilities items for NIR target purposes

		(In millions of US\$) 1/
1. BOJ's foreign liabilities to residents		
Outstanding stock		
End-March 2010		77.5
Cumulative change from end-March 2010		
End-June 2010 (observed)		-77.5
End-September 2010		-77.5
End-December 2010		-77.5
End-March 2011		-77.5
End-June 2011		-77.5
End-September 2011		-77.5
2. Banks foreign currency deposits in BOJ against reserve requirements		
Outstanding stock		
End-March 2010		169.6
Cumulative change from end-March 2010		
End-June 2010 (observed)		1.6
End-September 2010 (observed)		3.6
End-December 2010		-1.6
End-March 2011		-2.2
End-June 2011		-6.3
End-September 2011		-6.9

1/ Converted at the programme exchange rates.

10. Net External Payment related to Air Jamaica Divestment in 2010/11

(Baseline projections, Cumulative since March 31, 2010, in millions of US dollars)

	End-June 2010 (observed)	End-September 2010	End-December 2010	End-March 2011
	46.2	91.8	114.0	129.6

H. Ceiling on Net Domestic Assets of the Bank of Jamaica

Definition: The Bank of Jamaica's net domestic assets (NDA) are defined as the difference between the monetary base and NIR. The monetary base includes currency in the hands of the non-bank public plus vault cash held in the banking system, statutory cash reserve requirements against prescribed liabilities in Jamaica Dollars held by commercial banks at the Bank of Jamaica, and the current account of commercial banks comprising of credit balances held at the central bank. Data will be provided to the Fund with a lag of no more than three weeks after the test date.

Table 11. Ceiling on Increase in Net Domestic Assets of the Bank of Jamaica

	(In billions of J\$)
Outstanding stock	
End-March 2010	-79.2
Ceiling on cumulative change in net domestic assets: 1/	
End-June 2010 (observed)	-3.5
End-September 2010 (observed)	-22.9
End-December 2010 (performance criterion)	13.8
End-March 2011 (performance criterion)	-12.1
End-June 2011 (indicative target)	8.5
End-September 2011 (indicative target)	9.7

1/ Change relative to end-March 2010 stock.

VI. CONTINUOUS PERFORMANCE CRITERION ON NON-ACCUMULATION OF EXTERNAL DEBT PAYMENTS ARREARS

Definition: consolidated government includes the central government and the public bodies, as defined in sections A and B, respectively.

Definition: external debt is determined according to the residency criterion.

Definition: the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- i. Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
- ii. Suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- iii. Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than

the total expected service life of the property. For the purpose of the programme, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

Definition: under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

The consolidated government and the BOJ will accumulate no external debt payment arrears during the programme period. For the purpose of this performance criterion, an external debt payment arrear will be defined as a payment by the consolidated government and the BOJ, which has not been made within seven days after falling due.

The stock of external arrears of the consolidated government and the BOJ will be calculated based on the schedule of external payments obligations reported by the MoFPS. Data on external arrears will be reconciled with the relevant creditors, and any necessary adjustments will be incorporated in these targets as they occur.

The performance criterion will apply on a continuous basis. The MoFPS will provide the final data on the stock of external arrears of the consolidated government and the BOJ to the Fund, with a lag of not more than two weeks after the test date. This performance criterion does not cover arrears on trade credits.

VII. INFORMATION REQUIREMENTS

To ensure adequate monitoring of economic variables and reforms, the authorities will provide the following information:

A. Daily

- Net international reserves; nominal exchange rates; interest rates on BOJ repurchase agreements; total currency issued by the BOJ, deposits held by financial institutions at the BOJ; required and excess reserves of the banking sector in local and foreign currency, total liquidity assistance to banks through normal BOJ operations, including overdrafts; overnight interest rates; GOJ bond yields.
- Disbursements from the Financial System Support Fund, by institutions.
- Deposits and liquidity assistance to institutions, by institution.
- Bank of Jamaica purchases and sales of foreign currency.

- Amounts offered, demanded and placed in Bank of Jamaica open market operations, including rates on offer for each tenor.
- Amounts offered, demanded and placed in Government of Jamaica auctions; including minimum maximum and average bid rates.

B. Weekly

- Balance sheets of the core securities dealers, including indicators of liquidity (net rollovers and rollover rate for repos and a 10 day maturity gap analysis), capital positions, details on sources of funding, including from external borrowing on margin, and clarity on the status of loans (secured vs. unsecured). Weekly reports will be submitted within 10 days of the end of the period.
- Deposits in the banking system and total currency in circulation.

C. Monthly

- Central government operations, with a lag of no more than three weeks after the closing of each month.
- Public entities' Statement A: consolidated and by institution for the "Selected Public Bodies", and consolidated for the "Other Public Bodies" with a lag of no more than six weeks after the closing of each month.
- Stock of public external and domestic debt, by creditor and by currency, as at end month. Data is to be provided within four weeks of month end.
- Central government debt amortization and repayments, by instrument (J\$-denominated and US\$-denominated bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans). Includes government direct, government guaranteed, and total. In the case of issuance of government guaranteed debt, include the name of the guaranteed individual/institution. The reporting lag should not exceed four weeks after the closing of each month.
- Balances of the Consolidated Fund and main revenue accounts needed to determine the cash position of the government.
- Stock of central government expenditure arrears.
- Stock of central government tax refund arrears.
- Stock of central government domestic and external debt arrears, and BOJ external debt arrears.

- Central government debt stock, including by (i) creditor (official, commercial domestic, commercial external); (ii) instrument (J\$-denominated and US\$-denominated bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans); (iii) direct and guaranteed. The reporting lag should not exceed four weeks after the closing of each month.
- Holdings of domestic bonds (J\$-denominated and US\$-denominated) by holder category. The reporting lag should not exceed four weeks after the closing of each month.
- Legal measures that affect the revenue of the central government (tax rates, import tariffs, exemptions, etc.).
- Balance sheet of the Bank of Jamaica within three weeks of month end.
- A summary of monetary accounts providing detailed information on the accounts of the Bank of Jamaica, commercial banks, and the overall banking system. Include a detailed decomposition on Bank of Jamaica and commercial bank net claims on the Central Government, selected public bodies, and other public bodies.¹ This information should be received with a lag of no more than six weeks after the closing of each month.
- Profits of the Bank of Jamaica on a cash and accrual basis, including a detailed decomposition of cash profits and profits from foreign exchange operations with a lag of no more than three weeks from month end.
- Deposits in the banking system: current accounts, savings and time deposits within six weeks after month end. Average monthly interest rates on loans and deposits within two weeks of month end; weighted average deposit and loan rates within six weeks after month end.
- Financial statements of other (non-bank) deposit taking institutions and insurance companies within six weeks of month end.
- The maturity profile of assets and liabilities of core securities dealers in buckets within six weeks of month end.
- Monthly balance sheet data of deposit taking institutions, as reported to the BOJ within six weeks of month end.

¹ Selected public bodies and other public bodies are defined as outlined in Section IV (B).

- Data on reserve liabilities items for NIR target purposes (Table 9) within three weeks after month end.
- A full set of monthly FSIs regularly calculated by the BOJ, including capital adequacy, profitability and liquidity ratios, within six weeks of month end.
- Imports and exports of goods, in US\$ million within five months after month end. Tourism indicators within three months after month end. Remittances' flows within four weeks after month end.
- Consumer price inflation, including by sub-components of the CPI index within four weeks after month end.
- Use of the PetroCaribe fund, including loan portfolio by debtor and allocation of the liquidity funds in reserve within four weeks after month end.

D. Quarterly

- Summary balance of payments within three months after quarter end. Revised outturn for the preceding quarters and quarterly projections for the forthcoming year, with a lag of no more than one month following receipt of the outturn for the quarter.
- Gross domestic product growth by sector, in real and nominal terms, including revised outturn for the preceding quarters within three months after quarter end; and projections for the next four quarters, with a lag no more than one month following receipt of the outturn for the quarter.
- Updated set of macroeconomic assumptions and programme indicators for the preceding and forthcoming four quarters within three months of quarter end. Main indicators to be included are: real/nominal GDP, inflation, interest rates, exchange rates, foreign reserves (gross and net), money (base money and M3), credit to the private sector, open market operations, and public sector financing (demand and identified financing).
- BOJ's Quarterly Financial Stability Report.
- Quarterly income statement data of deposit taking institutions, as reported to the BOJ within eight weeks of the quarter end.
- Summary review of the securities dealer sector, within eight weeks of quarter end.
- Summary report of the insurance sector (based on current FSC quarterly report), within eight weeks of quarter end.

- Risk weighted capital adequacy ratios of DTI's and non-bank financial institutions consistent with the phased implementation of the 100 percent risk weighting on all Government of Jamaica (GOJ) foreign currency denominated instruments within four weeks of quarter end. Quarterly reports on the progress of implementation the new GOJ foreign currency risk weighting provision across institutions, including a description of any measures taken to secure compliance within eight weeks of quarter end.
- FSC status report detailing compliance (and any remedial measures introduced to address any non compliance) with the agreed guidelines to clearly register retail repo client interests against underlying instruments in CSD. Reports are due within four weeks of end quarter.

E. Annual

- Financial statements of pension funds within six months of year end.

INTERNATIONAL MONETARY FUND

JAMAICA

**Third Review Under the Stand-By Arrangement and Requests for Waivers of
Applicability and Modification of Performance Criteria
Informational Annex**

Prepared by the Western Hemisphere Department

December 28, 2010

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Appendix I—Fund Relations
(As of November 30, 2010)

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	783.45	286.45
Reserve position	0.00	0.00
Lending to the Fund		
Notes Issuance		
Holdings exchange rate		

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	261.64	100.00
Holdings	214.07	81.82

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
Stand-by Arrangements	509.90	186.44

V. Latest Financial Arrangements:

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u> -	Amount	
			<u>Approved</u> (SDR Million)	<u>Amount Drawn</u> (SDR Million)
Stand-By	Feb 04, 2010	May 03, 2012	820.50	509.90
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 Fund¹:

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

	<u>Forthcoming</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Principal				175.28	254.95
Charges/Interest		7.22	7.22	6.69	3.62
Total		<u>7.22</u>	<u>7.22</u>	<u>181.96</u>	<u>258.57</u>

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative: Not Applicable**VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable****IX. 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 that time. At November 30, 2010 it was trading at around J\$86.1 to the U.S. dollar.

X. Last Article IV Consultation and Program Relations:

Jamaica is under 27-month Stand-By Arrangement in an amount equivalent to 300 percent of quota. The last Article IV consultation was completed by the Executive Board on February 4, 2010.

XI. Technical Assistance:

Department	Dates	Purpose
MCM	October 2010	Debt management
MCM	July 2010	Unlawful financial operations
MCM	August 2010	Strengthening capital requirements for securities dealers
MCM	May 2010	Medium term debt management strategy framework
FAD	April 2010	Tax and customs administration
FAD	March 2010	Fiscal responsibility and central treasury management
MCM	March 2010	Strengthening capital and margin requirements
FAD	December 2009	Tax policy
LEG/MCM	February 2008	Financial sector regulatory and supervisory frameworks
FAD	September 2006	Tax and customs administration
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

XII. Resident Representative:

The post of the resident representative was established effective June 1, 2010.

Appendix II. Jamaica—Relations with the World Bank Group

(As of December 20, 2010)

The new Jamaica-World Bank Group Country Partnership Strategy (CPS) was discussed by the WB Board of Executive Directors on March 23, 2010, following extensive consultations with key stakeholders. This CPS, which will guide support from the Bank Group during 2010–2013, supersedes the Country Assistance Program that ended in June 2009. The current strategy is fully aligned with the government’s outcome-oriented medium-term socio-economic policy framework and broadens potential Bank support compared with the last four-year country strategy. The last strategy focused mostly on human development, including support for the Program of Advancement through Health and Education (PATH) and projects in inner-city communities. The Bank considers it important to continue this focus, in addition to the work it started on fiscal and debt sustainability issues in 2009, and to address more directly the growth agenda through approaches to improve competitiveness and skills development. The strategy also promotes inclusive growth through crime and violence prevention, strengthening human capital and rural development. There is also a focus on governance. The IFC will work with the private sector and collaborate with the Bank on the regulatory and private-public partnership issues to strengthen Bank Group synergies in Jamaica.

A. Projects

The **Second Jamaica HIV/AIDS Project** was approved in May 2008 for US\$10 million. The project development objective is to assist in the implementation of the Government's National HIV/AIDS Program by: a) supporting the deepening of prevention interventions targeted at high risk groups and the general population; b) increasing of access to treatment, care and support services for infected and affected individuals; c) strengthening the program management and analysis to identify priorities for building the capacity of the health sector to respond to the HIV/AIDS epidemic and other priority health problems. Specifically, the principal project is designed to: (i) support the scaling up of HIV/AIDS prevention interventions so as to halt and reverse the spread of HIV/AIDS; (ii) provide financing to strengthen the diagnostic capacity, enhance services (HIV/AIDS, sexually transmitted infections, tuberculosis and prevention of mother-to-child transmission of HIV) and support for those infected and affected by HIV/AIDS; (iii) strengthen institutional capacity in supporting policy formulation for an enabling legal and regulatory environment, program management and monitoring and evaluation; and (iv) support health sector development through the strengthening of biomedical waste management and capacity assessment.

The **Jamaica Social Protection Project** (SPP) was approved in May 2008 for US\$40 million. The Jamaica Social Protection Project will: (i) further improve the effectiveness of the Program of Advancement through Health and Education (PATH) in order to foster investment by poor families in human capital accumulation; (ii) develop a structured system for assisting working-age members of PATH eligible households seek and retain employment; (iii) enable the formulation of a reform program for the public sector pension schemes; and (iv) develop a holistic social protection strategy. The first component, improving effectiveness of the PATH, support the PATH through: (a) co-financing for conditional cash transfers to children 0 to 19

years-old (child grants); and (b) technical improvements to the program. The second component, building capacity for the Steps-to-Work (StW) program, support capacity building within the Ministry of Labor and Social Security (MLSS) to implement a new initiative. The StW program target working age members of PATH eligible households for referral to the relevant support services to enable them to seek and retain employment. The third component, improving the public sector pension system administration and building capacity for reform, support two core sets of activities focused on the schemes for public sector workers: (i) preparation of a reform program; and (ii) improving administration and information systems. The final component is the development of a holistic social protection strategy. This component supports the Government in developing a holistic social protection strategy to inform decision-making on the appropriate policies and programs to address social risks and vulnerabilities within the population.

The **Jamaica Hurricane Dean Recovery Project** was approved in December 2007 for US\$10 million. The objective of the project is to provide funding to support the restoration of levels of service in selected community infrastructure. Specifically, basic, primary and all-age schools, health clinics and critical feeder roads, at a minimum to pre-hurricane levels, and to increase the Government's ability to respond to natural hazards. The proposed loan incorporates three project components: 1) repair and reconstruction of basic infrastructure; 2) capacity building for hazard risk reduction; and 3) project management. Component one has four subcomponents: finance restoration of early childhood schools infrastructure; restoration of primary and all-age schools infrastructure; finance restoration of community clinics including type I, II and III facilities; and finance restoration of feeder roads. Component two has two subcomponents which include financing support for training on disaster preparedness and mitigation for local government and relevant stakeholders and to finance studies and activities to strengthen the capacity to better respond to natural hazards taking into account lessons learned from past events.

The **Jamaica Rural Education Transformation Development Initiative (REDI)** was approved in September 2009 for US\$15 million. The objective of REDI is to improve market access for rural micro and small-scale producers of agriculture and tourism products, as well as, other service providers. There are three components to the project. The first component, which is support for rural subprojects in agriculture and tourism, will see the Bank financing two types of subprojects: type A will support revenue generating activities in agriculture and tourism, and type B will support provision of critical infrastructure, marketing, and management in the agriculture and tourism sectors. The second component of the project gives support through national technical assistance and capacity building. The main goal of this component is to strengthen relevant national organizations to enhance their capacity to continue assisting the rural enterprises and other project partners and ensure the sustainability of the rural enterprises. Hence, the component will finance technical assistance and capacity building for key organizations and agencies that deliver support services in agriculture and rural tourism at the local level. The third component of the project is project management. This component will finance project management, technical expertise (tourism and agricultural specialists, monitoring and evaluation) staff training, the annual audit, vehicles, office equipment, and other operating costs. This component will also ensure that effective fiduciary arrangements are in place during implementation.

The Jamaica **Early Childhood Development Project** was approved in May 2008 for US\$15 million. The objectives are to: (i) improve the monitoring of children's development, the screening of household-level risks affecting such development, and early intervention systems of the borrower to promote such development (ii) enhance the quality of early childhood schools and care facilities; and (iii) strengthen early childhood organizations and institutions. There are two components to the project. The first component is co-financing the implementation of activities under the seven action areas of the National Strategic Plan (NSP) through a Sector-Wide Approach. The second component finances selected consultant services critical to achieve the development objectives of the NSP. It will finance development of sub-strategies for parenting of children aged of 0–3 and 4–6 years, including the mapping of existing parenting education and support programs and awareness and advocacy strategies for parenting support programs. It will finance the development of service delivery models for nutritional programs targeted at different age groups as well as the development and implementation of the child health passport to be used in well-child clinics.

The **Jamaica Education Transformation Capacity Building** project was approved in November 2009 for US\$15 million. The objective of the Education Transformation Capacity Building Project for Jamaica is to build the capacity of the emerging key agencies (National Education Inspectorate (NEI), Jamaica Teaching Council (JTC), Regional Education Authorities (REA), and National Education Trust (NET) that are being established to support the national Education System Transformation Program (ESTP). There are three components to the project. The first component is the Enhanced Performance and Accountability, which is contributing to the implementation of the Government's ESTP by making operational the key agencies to form a coherent system to monitor progress and improve accountability and quality. The NEI and JTC are staffed and operational. The second component will develop mechanisms to mobilize resources to the NET. The NET will be the vehicle through which the Ministry of Education (MoE) will secure a consistent and reliable source of funds to support capital programs in education with a particular focus on, but not limited to, infrastructure. Mechanisms will be established to attract funding from the Diaspora, the private sector, and other sources. Finally, the third component is the communications, project management, and monitoring and evaluation. This component is supporting the implementation of a strategic communications strategy; provision of staffing, training, purchase of necessary equipment and materials, and operating costs for the MoE change management unit, responsible for overseeing implementation of the ESTP; and support to carry out evaluations of the ESTP, and annual external audits of project financing.

The **Jamaica Inner City Basic Services for the Poor Project** was approved in March 2006 for US\$29.3 million. The project development objective is to improve quality of life in 12 Jamaican inner-city areas and poor urban informal settlements through improved access to basic urban infrastructure, financial services, land tenure regularization, enhanced community capacity and improvements in public safety. Specifically, the project will: (a) increase access and improve the quality of water, sanitation, solid waste collection systems, electricity, roads, drainage and related community infrastructure for over 60,000 residents of poor urban informal settlements through capital investments and innovative

arrangements for operations and maintenance; (b) facilitate access to microfinance for enterprise development and incremental home improvement for entrepreneurs and residents in project areas; (c) increase security of tenure for eligible households in project areas; and (d) enhance public safety through mediation services, community capacity building, skills training and related social services.

In addition to the aforementioned projects, the Bank also provides technical assistance and grant funding to Jamaica. Currently, there are about twelve grants under implementation totaling US\$12.0 million. Technical assistance initiatives cover support to various areas including statistics, governance, crime and violence and disaster risk reduction and management.

B. Economic and Sector Work

The Bank, on February 23, 2010 approved a second Development Policy Loan operation to assist the Government of Jamaica in improving fiscal and debt sustainability during FY10–13. This operation is rooted in the CPS of Jamaica and the World Bank Group and supports policy actions in the following areas: (i) promoting fiscal sustainability through and the establishment of a Fiscal Responsibility Framework, rationalization and modernization of Public Bodies, and developing a strategic framework for improved debt management; (ii) increasing the efficiency of public financial management and budgeting processes; and (iii) reducing distortions and enhancing the efficiency and fairness of the tax system. The program’s analytical underpinnings include a Country Economic Memorandum (CEM) focused on growth obstacles in Jamaica. The objective of the study is to identify the most critical factors behind the low growth history of Jamaica and develop policy recommendations for unlocking the potential for high growth.

C. Financial Relations¹

(In millions of U.S. dollars)

Project	Original Amount	Total Disbursed	Undisbursed Balance
Rural Economic Development Initiative	15.0	1.0	14.0
Jamaica Early Childhood Development Project	15.0	4.9	10.1
Jamaica Hurricane Dean ERL	10.0	7.5	2.5
JM- Education Transformation Capacity Building	16.0	2.5	13.5
JM – Inner City Basic Services for the Poor Project	29.3	13.7	15.6
Second HIV/AIDS Prevention and Control Project (Second Phase)	10.0	2.8	7.2
Social Protection Project	40.0	15.0	25.0
Total	135.3	47.4	87.9

1/ Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.

Disbursements and Debt Service (Fiscal Year Ending June 30)

	Actual										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total											
disbursements	65.1	97.6	82.4	85.0	11.3	8.5	21.7	17.3	16.0	118.7	222.0
Repayments	70.1	56.9	45.7	44.9	47.4	43.4	39.7	45.8	47.9	48.4	46.7
Net											
disbursements	-5.0	40.7	36.7	40.1	-36.1	-34.9	-17.9	-28.5	-31.9	70.3	175.3
Interest and fees	22.8	21.6	20.3	21.9	18.9	17.5	20.5	22.4	21.6	16.6	13.2

Appendix III. Jamaica—Relations with the Inter-American Development Bank

Jamaica joined the Inter-American Development Bank (IDB) in 1969. Since then, the IDB has approved 113 loans (98 projects) to Jamaica amounting to US\$2.6 billion and 211 technical cooperation operations totaling US\$67.5 million. IDB financial assistance has supported a wide range of infrastructural, environmental and social sector projects with a view to enhancing Jamaica's human resource and absorptive capacity and strengthening the foundation for private sector-led growth. In addition, the IDB has supported reforms aimed at strengthening the institutional and regulatory environment.

The IDB is the leading lender to Jamaica among multilateral development partners. As of December 2010, Jamaica's outstanding debt to the IDB stood at US\$1.1 billion, of which US\$1.4 million were loans to the private sector. The total represents 16% of public external debt and 38% of multilateral debt (including the IMF).

Starting in 2004 there was a drastic reduction in the fiscal space needed to disburse existing Bank loans. As a result over US\$50 million of the portfolio had to be cancelled and no new loans were approved from 2004 to 2008. The new administration that took office in 2007 intensified Jamaica's reform program and emphasized a policy of expanding IFI financing for its development program. In response, the IDB updated the 2006–2009 country strategy renewing the lending program based on three basic principles:

- Aim for positive net flows in Jamaica's favor in order to provide countercyclical support during the economic downturn, depending on the degree of reform;
- No new debt, so that our policy-based lending would not add to Jamaica's debt load but rather help improve its debt profile;
- Cash flow savings arising from better loan terms should go toward faster debt reduction, growth-boosting investments or poverty alleviation.

This ushered in a new generation of Bank lending to Jamaica. The IDB approved eight new loans for a total of US\$405 million for Jamaica in 2008, including a US\$200 million loan to increase private bank lending to the real sector; a US\$60 million policy based loan for improving public financial management; US\$50 million for road rehabilitation; US\$30 million for education reform; a US\$30 million policy based loan for competitiveness; US\$14 million for primary schools; US\$11 million for youth at risk; and US\$10 million for rebuilding infrastructure damaged by floods.

This upward trend continued in January 2009 when the Bank approved two more loan operations: a US\$300 million liquidity program to protect the real sector from lost credit lines; and a US\$15 million social safety net program. In September 2009, a US\$70 million loan was approved to expand the highway network and a US\$25 million for a citizen security and justice program and US\$10 million for road improvement.

The Bank has been providing unprecedented support to the country in 2010 as part of a boarder financial support from multilateral financial institutions. In February 2010, the Bank approved

3 policy based loans and 1 hybrid PBL/investment loan for a total of US\$215 million. The areas of intervention were the same than the previously approved PBLs (public financial management, education and competitiveness) and a PBL focused on human capital protection. During the second half of the year the Bank approved an investment loan to support competitiveness in the agricultural sector US\$15.0 million, as well as two phases of a new policy based program totaling US\$400 million aimed to support fiscal consolidation.

As of December 2010, the Bank's portfolio consisted of 9 investment loans¹ valued at US\$192.8 million, and 39 non-reimbursable technical cooperations valued at US\$14.3 million. Thirty one percent of the IDB project funds and thirty three percent of the TC funds have been disbursed, leaving US\$141.9 million available for disbursement.

Table 1. Major Ongoing Projects

Project Category	Number	Amount (US\$ mn.)	Percent Disbursed
Projects in execution	9	192.8	31.5
Private sector loans (NSG)	3	212	0
IIC loans	3	11.2	22
TCs in execution	39	14.3	33

1/ Approved amount.

Disbursements reached a low point of US\$12.5 million in 2005, but have rebounded ever since. They doubled to US\$25 million in 2006, and reached US\$34 million in 2007. Due in large part policy-based lending in 2008 and the approval of the liquidity program in 2009, total disbursements rose dramatically to US\$144.2 million, and US\$151.5 million in those years respectively. The figures for 2010 reflect the above mentioned unprecedented support that implied a positive cash flow of more than US\$626.0 million.

¹ Including private sector loan but excluding IIC

Table 2. Net Flow of IDB Convertible Currencies
(US\$ million)

	2005	2006	2007	2008	2009	2010p
a. Loan disbursements (including PBLs)	12.8	25.9	34.3	144.2	151.5	633.4
b. Repayments (principal)	51.2	64.1	83.5	73.8	74.0	71.1
c. Net loan flow (a–b)	-38.4	-38.2	-49.2	70.4	77.5	573.9
d. Interest and charges	29.8	28.0	27.1	24.0	29.7	28.0
e. Net cash flow (c– d) 1/1	-73.6	-70.6	-78.1	46.4	47.8	545.9

p/Projected

Country Strategy with Jamaica 2011–2015

The IDB is currently preparing the Country Strategy with Jamaica for 2011–2015. Prior even to the design of the economic program, the Bank has been providing pivotal technical and financial support to formulate the reforms that underpin the program. The country strategy will support the GOJ's ongoing efforts to remove constraints to economic growth and directly promote public and private growth-enhancing investments in key economic areas. Since the policy-based loans described above are programmatic in nature, it is expected that the Bank will provide new loans to support subsequent phases of the reforms they target. This lending modality is expected to dominate the Bank's program with Jamaica in the new strategy period. Approval is expected during the second quarter of 2011.

Country Systems

In keeping with the agenda to improve and use national systems the Government of Jamaica, with the support of multilateral institutions and bilateral donors has prepared a wide range of studies in different areas, including a joint World Bank and IDB, *Country Financial Accountability Assessment and Country Procurement Assessment Report (CFAA/CPAR)* in 2005, and a Public Expenditure and Financial Accountability Report (PEFA) in May 2007. Following the recommended actions of those reports, the IDB and the Government agreed on the main areas of the local fiduciary systems for financial control and procurement procedures that needed to be strengthened, and the IDB went on to provide resources to finance development and reform activities stemming from the CFAA/CPAR, with non-reimbursable technical cooperation funds. Furthermore, in order to ascertain progress made in recent years and to determine eligibility to audit IDB-funded projects a follow-up assessment of the Office of the Auditor General of Jamaica was undertaken during a mission fielded in the third quarter of 2010.

Since 2007, Jamaica has developed a comprehensive handbook, more concrete regulations defining its public procurement including a procedure for managing contractual disputes, enhanced accessibility of information, separation of the Office of Contractor General and the National Contracts Committee, as well as creating national standard bidding documents. Although the national procurement system conforms to established principles of procurement based on international standards, some outstanding issues remain to be resolved. With the agreement of the Government of Jamaica, the IDB would undertake an update of the latest country assessment of the national procurement system to identify (a) the improvements in the pertinent aspects of the country procurement system, and (b) the readiness to rely on Jamaica's national procurement systems for Bank-financed projects with a view to adoption of procurement country systems. Ideally, this work can be accomplished together with the World Bank. In addition, the IDB PRODEV facility and the PFPM Programmatic PBL will also support the introduction of performance-based budgets and accrual accounting. The Multi-lateral Investment Fund (MIF) will also promote better access by Small and Medium Enterprises (SMEs) to public procurement.

Table 3. Total Projected Debt Service, 2011-2015
(Millions of U.S. dollars equivalent)

	2011	2012	2013	2014	2015
Principal	60.0	99.7	100.2	60.6	63.4
Interest	29.2	27.1	23.5	20.2	18.3
Total	89.2	126.9	123.7	80.8	86.7

Appendix IV—Statistical Issues

Effective surveillance is hampered by data gaps for the financial sector outside of commercial banks, and for public entities outside of the central government. In early 2003, Jamaica started participating in the Fund's General Data Dissemination System (GDDS), which provides participants with a framework for the development of the statistical system. Jamaica should now focus its efforts on improving its data and dissemination practices by moving towards the goal of subscribing to the Special Data Dissemination Standard (SDDS) over the medium term. No data on industrial production, wholesale or producer prices, import volumes, or export and import prices have been reported for publication in the *International Financial Statistics (IFS)* in recent years.

Key websites for statistics on Jamaica:

Bank of Jamaica:	http://www.boj.org.jm/
Ministry of Finance and Planning:	http://www.mof.gov.jm/
Planning Institute of Jamaica:	http://www.pioj.gov.jm/
Statistical Institute of Jamaica:	http://www.statinja.com/

There are significant weaknesses in the national accounts and other real sector data. In regard to GDP estimates, concerns relate both to level and growth rate. Addressing these shortcomings has been hindered, *inter alia*, by insufficient legal authority granted to the Statistical Institute of Jamaica (STATIN) to collect source data, as well as by institutional weaknesses, and a lack of resources. However, efforts are being made to improve the national accounts, including through updating the base year (currently dating back to 1996) and implementing the 1993 System of National Accounts (*SNA93*). Assistance on national accounts methodology has been provided by Statistics Canada and STA. The first publication of quarterly national accounts took place in August 2002.

Prices

Jamaica (with assistance from the IMF Caribbean Regional Technical Assistance Center, CARTAC) revised its consumer price index (CPI) series in 2007. The CPI revision updated expenditure weights of the CPI that had dated from 1984. The new CPI weights are based on a household survey conducted in 2004–05.

Government finance statistics

Central government operations and debt data are updated on a monthly basis. Some expenditures, however, are not recorded during the period they actually occur, making it difficult to assess the fiscal policy stance. Also, data on public entities outside the central

government, although regularly published, are not reported consistently across entities and in a way that is amenable to assessing and formulating the overall direction of fiscal policy. There is a paucity of data on the external debt stocks and maturities falling due for the nonfinancial public sector.

Government finance statistics are available at:

Debt: <http://www.mof.gov.jm/dmu/>

Budget: <http://www.mof.gov.jm/programmes/em/fpmu/default.shtml>

However, fiscal data are not currently reported for publication in the *IFS*. In 2007, the authorities reported data for 2006, in *GFSM 2001* format, for publication in the 2007 *GFS Yearbook*.

Monetary and financial statistics

Monetary statistics published by the Bank of Jamaica (BOJ) are sectorized, classified, and valued in accordance with international standards, and are provided to the Fund in a timely manner. Currently, information on deposit money banks and monetary authorities is being reported on a regular basis. The BOJ initiated the submission of monetary and financial statistics based on standardized report forms in March 2007. Financial sector statistics outside of the banking system are weak. The absence of adequate data on security dealers is particularly problematic, as dealers' liabilities to the public are larger than those of banks. Consequently, related systemic implications are difficult to assess without timely and comprehensive statistics.

Balance of payments

The BOJ compiles and disseminates balance of payments statistics on a monthly and annual basis. Detailed annual balance of payments and international investment position (IIP) data are reported by the BOJ for publication in the *Balance of Payments Statistics Yearbook (BOPSY)* and the *IFS*. In September 2007, Jamaica reported for the first time IIP data to STA; annual IIP data since 2005 are now available in *BOPSY* and *IFS*.

**JAMAICA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
AS OF DECEMBER 15, 2010**

	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶
Exchange Rates	12/10	12/10	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	12/10	12/10	D	D	D
Reserve/Base Money	11/10	12/10	M	M	M
Broad Money	11/10	12/10	M	M	M
Central Bank Balance Sheet	12/10	12/10	W	W	W
Consolidated Balance Sheet of the Banking System	11/10	12/10	M	M	M
Interest Rates ²	12/10	12/10	D	D	D
Consumer Price Index	11/10	12/10	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	10/10	11/10	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	10/10	11/10	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	10/10	11/10	M	M	M
External Current Account Balance	Q2/10	9/10	Q	Q	Q
Exports and Imports of Goods and Services	6/10	9/10	M	M	M
GDP/GNP	Q3/09	12/10	Q	Q	Q
Gross External Debt	10/10	11/10	M	M	M

¹Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds), and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND

JAMAICA

**Third Review Under the Stand-By Arrangement and Requests for Waivers of
Applicability and Modification of Performance Criteria—
Supplementary Information**

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by Gilbert Terrier and Dominique Desruelle

January 13, 2011

This supplement provides information on the completion of the prior action and on economic developments and performance under the SBA since the issuance of the staff report. The information contained in this supplement does not change the thrust of the staff appraisal.

- 1. The Prior Action on estimating costs and savings of public sector reform proposals has been completed.** The study, carried out by a well-known international consulting firm, estimated the potential savings arising from the proposals of the draft Master Rationalization Plan (MRP). The proposals, involve mainly the merging, divestment, and closure of government agencies, as well as the introduction of shared services among entities. This draft, which still needs to be discussed and approved by the Cabinet, appears to present viable options for rationalizing the public sector. During the next review mission, staff will discuss with the authorities the finalized proposal and timetable for implementation to ensure that they are consistent with the program medium term framework.
- 2. Data published last week show that the outturn for GDP growth in 2010Q3 was -0.9 percent, compared with -0.5 percent in the staff report.** At this stage, staff has not changed its growth projection for FY2010/11, as preliminary information on the winter tourist season point to better-than-projected performance for this sector. Preliminary data for 2010 show a 4.7 percent increase in stop-over arrivals and a 3.2 percent increase in revenues in 2010.
- 3. Preliminary fiscal and monetary data suggest that the authorities are still on track to meet end-December 2010 quantitative performance criteria.** Preliminary data through November show that the central government primary surplus was above program projections, mainly reflecting stronger tax revenues and lower capital expenditure. The better revenue performance was attributed to administrative improvements and the reduction in tax waivers. Tax refund arrears fell from their end-September levels. Preliminary data for December suggest that the performance criterion on net international reserves was met with a margin.

4. **The structural reform agenda is advancing as described in the authorities' Letter of Intent.** In late December, the authorities and the interested investor agreed in principle to the terms and conditions for the divestment of Clarendon Alumina Production. Detailed documentation describing the agreement is being prepared and the investor is conducting its due diligence. The amendments to the fiscal responsibility framework (SB January 2011) are scheduled to be submitted to the Legislative Committee of Parliament next week. On debt management reform, a technical advisor has been identified and is expected to visit Jamaica shortly.



Press Release No. 11/10
FOR IMMEDIATE RELEASE
January 14, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under Stand-By Arrangement with Jamaica and Approves US\$49 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Jamaica's economic performance under the Stand-By Arrangement (SBA). Completion of the review enables the immediate disbursement of an amount equivalent to SDR 31.9 million (about US\$49.3 million), bringing total disbursements under the arrangement to SDR 541.8million (about US\$838.2 million).

Jamaica's performance under the program has been positive overall. All end-September quantitative performance criteria were met. The Executive Board approved modifications of certain performance criteria, including a small relaxation of some fiscal targets to accommodate spending related to Tropical Storm Nicole and an increase in the floor on net international reserves.

The IMF's Executive Board approved a 27-month SBA in an amount equivalent to SDR 820.5 million (about US\$1.27 billion) on February 4, 2010 (see [Press Release No. 10/24](#)).

Following the Executive Board Discussion on Jamaica, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, issued the following statement:

“Overall performance under the Stand-By Arrangement has been satisfactory. Signs of recovery have emerged, with net job creation for the first time in four quarters, and inflationary pressures remain subdued, allowing an accommodative monetary policy. The authorities' macroeconomic program continues to focus on restoring fiscal sustainability and increasing the economy's resilience to external shocks. Further progress is necessary on the fiscal and structural reform agenda. Enhancing competitiveness and the overall investment climate is key to boosting potential growth.

“The authorities stand ready to take appropriate and timely measures to achieve the program's objectives. Efforts have been intensified to divest the state-owned mining company, and compensatory measures were adopted to offset expenditure overruns. The authorities intend to move decisively with public sector rationalization, tax policy, and debt management reforms. They remain committed to public financial management reforms. Full

implementation of the fiscal reform agenda will create fiscal space for contingency buffers and increased spending on social programs and growth-enhancing capital projects.

“Prudential indicators point to continued resilience of the financial system. Financial sector reforms aimed at strengthening prudential requirements and the overall supervisory framework are moving ahead broadly on schedule. The authorities plan to gradually wind down the Financial System Support Fund during 2011 and use its resources for general purpose international reserves,” Mr. Portugal said.