

Jamaica: 2002 Article IV Consultation and a New Staff-Monitored Program—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Jamaica

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2002 Article IV consultation with Jamaica, the following documents have been released and are included in this package:

- the staff report for the 2002 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **June 7, 2002**, with the officials of Jamaica on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on July 24, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its August 7, 2002 discussion** of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for Jamaica.

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

Letter of Intent*
Memorandum of Economic and Financial Policies*

*May also be included in Staff Report.

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JAMAICA

**Staff Report for the 2002 Article IV Consultation and
a New Staff-Monitored Program**

Prepared by the Western Hemisphere and Policy Development and Review Departments

(In consultation with other departments)

Approved by Claudio M. Loser and G. Russell Kincaid

July 24, 2002

- The 2002 Article IV consultation discussions were held in Kingston during February 11–20 and June 4–7, 2002. Understandings were also reached on a new staff monitored program covering FY 2002/03 (beginning April 1).
- The staff team comprised Messrs. Boote (Head), Balakrishnan, Samuel, Sun (all WHD), and Walsh (PDR). Mr. Bennett, Executive Director for Jamaica and Mr. Whitehall (Advisor), also participated in the discussions.
- The mission met with Finance Minister Davies, Financial Secretary Tyndall, Governor Latibeaudiere, and other senior officials, as well as representatives from the opposition, business, banking sector, and labor unions.
- Jamaica has accepted the obligations of Article VIII, however, a multiple currency practice exists subject to Fund jurisdiction under Article VIII (Appendix I).
- Jamaica agreed to participate in the GDDS by January 2003.

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EXECUTIVE SUMMARY

Over the fiscal year 2001/02, Jamaica's economy was hit by a series of shocks including the outbreak of violence in July, the impact of the terrorist attacks of September 11, and floods in late November. The government responded through steps to cushion the impact of these shocks on the economy while maintaining macroeconomic stability. However, partly as a result, public finances significantly worsened—the deficit increased to 5.7 percent of GDP, and the central government primary surplus declined to 8 percent of GDP—and the reduction in public debt to around 130 percent of GDP was much less than anticipated under the revised staff-monitored program. **Annual real GDP growth is estimated at slightly above 1 percent in FY2001/02**, with shocks depressing growth in the second half of the fiscal year; inflation was close to 7½ percent.

Net International Reserves reached US\$1.9 billion by the end of FY 2001/02 boosted by strong remittances and proceeds from issues in the international bond market, with the exchange rate broadly stable. Domestic interest rates have trended downwards. The government continued to make progress in **strengthening the financial sector**—through divestment of intervened financial institutions and strengthening the regulatory framework.

The challenge facing the authorities in FY 2002/03 is to reverse the fiscal slippages in FY 2001/02 and achieve a further reduction in the onerous public sector burden while maintaining macroeconomic stability and laying the foundations for faster growth. The challenge has been made more difficult by recent heavy floods in May.

On the **budget**, the authorities have adopted a series of revenue measures and are committed to exercise restraint in expenditures—including on public sector wages. The cash central government deficit is budgeted at 4.4 percent of GDP, consistent with close to 2.5 percentage points of GDP improvement in the primary surplus. However, the overall public sector deficit improves only slightly to around 6½ percent of GDP due to the projected worsening in the central bank operating losses.

Monetary policy will continue to remain tight to achieve single-digit inflation. While the authorities regard exchange rate stability as critical to anchor inflationary expectations, the staff encouraged somewhat more flexibility in the rate to strengthen competitiveness.

Faster **growth** remains critical to address the social problems of unemployment, crime, and poverty. The authorities are committed to take anti-crime measures to improve the business climate and maintain social order, strengthen infrastructure, and boost competitiveness including through sector-specific growth-oriented policies. These policies should be complemented by early implementation of public sector and labor market reforms. The government intends to participate in the General Data Dissemination System by January 2003.

Strong fiscal effort, ambitious structural reforms, and macroeconomic stability are envisaged to improve Jamaica's economic performance over the medium term, in particular, for achieving higher growth and sizable reduction in public sector debt. Nevertheless, Jamaica's medium term economic prospects remain very vulnerable to adverse shocks. It is paramount that the government maintain primary surpluses at consistently high levels necessary to escape the debt trap.

I. INTRODUCTION

1. At the conclusion of last year's Article IV consultation, the Executive Board commended the authorities for their achievement in strengthening public finances (and the net international reserves position), reducing inflation, and adopting structural reforms (particularly in the financial sector), and welcomed the reemergence of economic growth after four years of stagnation or decline. However, Directors noted that, despite these successes, the public-debt-to-GDP ratio remained roughly unchanged, instead of falling significantly as envisaged under the staff monitored program (SMP) and interest rates did not decline as rapidly as projected. Directors urged the authorities to persevere with fiscal restraint over the medium term to ensure a lasting decline in the public debt burden as well as to help lower interest rates and promote faster growth.

2. **Over the last fiscal year (through March 31, 2002), the economy was hit by a series of shocks** including an outbreak of domestic violence in July, the impact of September 11 terrorist attacks on tourism, and floods in November which damaged infrastructure and farm crops. The government responded through steps to cushion the impact on the economy while maintaining macroeconomic stability. Partly as a result, public finances significantly worsened and the reduction in public debt was much less than anticipated. In the current fiscal year, Jamaica was again hit by heavy flooding in May which caused significant damage to agricultural crops and infrastructure.

3. The Article IV mission discussed policies for achieving higher and sustained growth in the medium term and a faster reduction in the public debt burden. It also reviewed performance under the SMP for the FY 2001/02,¹ and discussed policies for FY 2002/03 which form the basis for a new one-year SMP. **Elections** are required by end-March 2003, but Prime Minister Patterson has announced his intention to hold them by end 2002. The governing People's National Party is seeking a record fourth term in office.

4. **The statistical base** in Jamaica is generally adequate for conducting surveillance and monitoring economic developments under the SMP, but there are a number of areas where improvements are needed (Appendix II). Consistent with Jamaica's access to international capital markets, the staff encouraged the Jamaica authorities to work to bring reserve and debt data into compliance with the SDDS benchmark.

II. RECENT ECONOMIC DEVELOPMENTS

5. **The SMP for FY 2001/02 was broadly on track up to September 2001** (Tables 1 and 2). Real GDP growth was strong from April to September, at an estimated annual rate of 3 percent, mainly due to a strong recovery of agriculture from the previous year's drought, a resumption of bauxite and aluminum production as the processing plant in the US came back on stream, and positive, albeit, lower growth in tourism. Inflation was higher than envisaged partly due to large increases in transportation and postal prices. Net international reserves

¹ The Jamaican fiscal year starts on April 1.

(NIR) were above the SMP targets, largely because in May 2001 the government successfully raised the full annual amount of international bond issues envisaged under the SMP.

6. **Growth slowed in the second half of FY 2001/02 due to the impact of the shocks described in paragraph 2 above, and for the fiscal year as a whole, growth is estimated at about 1 percent (Table 1, Figure 1).** In response to the shocks, the government increased expenditures on security, tourism promotion, and flood relief; and multilateral institutions, including the World Bank and the Inter-American Development Bank, provided quick disbursing emergency loans.² **Inflation** was around 7½ percent (12 month basis at end March 2002). The SMP targets were revised in December 2001 consistent with these developments.³

7. After a short period of depreciation in October, the exchange rate firmed in the latter part of 2001. For the whole fiscal year, the real **effective exchange rate** appreciated by about 4 percent (Table 1 and Figure 2), though it has since depreciated by 1.5 percent (through May) reflecting, in part, the weakness of the US dollar. Net international reserves (NIR) increased further to US\$1.9 billion by end FY 2001/02, boosted by proceeds of another international bond issue in December 2001⁴ and strong inflows of private remittances (which rose by 17 percent to 12½ percent of GDP).⁵ In June 2002, Jamaica successfully raised US\$300 million in a 15-year international bond issue yielding around 10.75 percent (590 basis points over US Treasury's); the issue was reportedly heavily oversubscribed. At end-June, NIR was around US\$1.8 billion following (net) foreign exchange sales of around US\$150 million in April–June. **The current account deficit** is estimated to have widened by 3 percentage points of GDP to close to 8½ percent of GDP in FY 2001/02 mainly because of lower export earnings (due to lower prices on bauxite and aluminum) and lower tourism receipts⁶ (Table 3).

8. **Public finances significantly worsened in 2001/02 and the envisaged reduction in public debt only partially materialized.** The central government deficit is estimated at 5.7 percent of GDP, compared to the revised SMP target of 4.1 percent, and the original

² Jamaica's relations with the World Bank, the Inter-American Development Bank, and the Caribbean Development Bank are described in Appendix III, IV, and V.

³ See EBS/01/73, Supplement 2 (12/12/01).

⁴ This issue is intended to pre-fund part of the large external debt service falling due in FY 2002/03.

⁵ This large increase in remittances is thought to reflect the increase in Jamaican emigration to North America in recent years and better recording as a result of an expansion of activity by remittance agencies.

⁶ Nominal GDP numbers for 1986–2001 have been revised upwards recently, therefore GDP ratios may differ from previous reports.

target of 2.8 percent of GDP (see Box 1 and Table 4). Revenues and grants fell significantly below expectations, with lower tax revenues from the income and profit tax, the General Consumption Tax, and import duties reflecting mainly weaker economic activity. Expenditures increased on security, tourism promotion, and flood relief and rehabilitation, as well as on wages due to earlier than anticipated wage settlements⁷ and on interest payments related to the sale of a major commercial bank.⁸ These increases were partly offset by expenditure compression elsewhere. The primary surplus, which had been close to 11 percent of GDP in recent years, declined to 8 percent of GDP. Quasi-fiscal operations including expenditures incurred under the deferred financing scheme and central bank losses (see Box 2) also increased significantly. The overall balance of selected public enterprises was close to the SMP target at 0.6 percent of GDP.

9. **The public sector debt** declined by a modest 3 percentage points of GDP, half of what was originally projected, and reached 130 percent of GDP by end 2001/02.⁹ The smaller decline reflected the higher fiscal deficit, additional debt from the deferred financing scheme (see Box 2), new domestic bonds with a government guarantee issued for the Highway 2000 project¹⁰ and the Development Bonds,¹¹ and pre-funding in December 2001. Of the total debt outstanding as of end-March 2002, 50 percent was external, of which around one third was in the form of international bonds.

The government has in recent years implemented a **debt management strategy** to lengthen the maturity and reduce the variable rate portion of domestic debt. Currently about 55 percent of domestic debt is at floating rates, down from around three quarters a year ago. Debt maturing within one year is below 20 percent of total debt compared to about 25 percent a year ago. The government has also started in FY 2001/02 regular, pre-announced, monthly auctions of local registered stock.

⁷ Wage increases of 6½ percent for both FY 2000/01 and FY 2001/02 were granted for most public sector employees in FY 2001/02. Wage bills were further increased because for several groups of public servants, non-wage benefits have been rolled into salaries (and subject to tax). The wage bill for FY 2001/02 was one percentage point of GDP higher than in FY 2000/01 and than originally envisaged in the SMP.

⁸ Payment of interest on the bank's holdings of FINSAC securities, previously envisaged in FY 2002/03, was shifted to FY 2001/02 as part of the agreement.

⁹ The public sector debt is defined to include central government domestic and external debt and domestic and external debt guaranteed by the government. It excludes government securities held by public enterprises and external debt held by the BoJ.

¹⁰ The government guaranteed a domestic bond issue of US\$75 million for the road construction of Highway 2000 project (phase I) in 2001/02.

¹¹ These bonds were issued to channel funds released by the reduction in reserve requirement in FY 2001/02 to invest in selected sectors at preferential rates.

Box 1. Outturn of the Central Government Budget Operations in FY 2001/02

The deviations of budget outturn in FY 2001/02 from the SMP targets are explained by the following factors (see Table below):

- A larger than anticipated decline in tax revenues (including income and profit taxes, taxes on interest, and the GCT).
- Lower than expected nontax revenues from FINSAC and PetroJam (a petroleum company).
- Higher wage expenditures due to earlier than anticipated wage agreements and the payment of higher public sector wages.
- Higher expenditures to accommodate the shocks of September 11 and November floods principally on security, tourism promotion, and rehabilitation.
- Higher than programmed interest payments (related to the agreement reached for the sale of the National Commercial Bank).

Table. Jamaica: Central government operations (in percent of GDP)

	Orig. SMP 1/	Rev. SMP	Prel. Est.
Central government balance	-2.8	-4.1	-5.7
Revenues and grants	29.9	30.0	27.6
Tax	27.6	27.2	25.0
Nontax	1.8	2.4	2.1
Grants	0.6	0.4	0.5
Expenditures	32.7	34.1	33.3
Wages and salaries	10.5	11.2	11.5
Interest	13.5	14.1	13.7
Domestic	10.3	10.8	10.9
External	3.2	3.3	2.9
Other expenditures	5.6	5.9	5.4
Capital expenditures	3.1	2.9	2.7
Primary balance	10.7	9.9	8.0

1/ May 2001

10. **The Bank of Jamaica (BoJ) has achieved its primary objective of single digit inflation in FY 2001/02 through targeting base money and maintaining a broadly stable exchange rate.** During the year, **base money** declined by about 1 percent reflecting the 3 percentage points reduction in the reserve requirement (to 9 percent) (Table 5). **Credit to private sector from the banking system** grew by about 17 percent due mainly to loans to the telecommunication industry, but remains only around one fifth of banking sector assets. In late October, pressure on the Jamaican dollar mounted resulting from concerns on the impact on tourism receipts of September 11 and an arbitrage opportunity that arose on the

exchange rates paid by the BoJ under its foreign currency surrender requirements.¹² The BoJ responded by sharply increasing interest rates on its longer-term instruments (its one-year reverse-repo rate was increased by 4 percentage points) and the exchange market has since stabilized—with mild depreciation in April–June 2002—and interest rates have fallen (Figure 2).¹³ ¹⁴ The six-month Treasury-bill rate declined from 16.9 percent at end-March 2001 to 14.6 percent at end-March 2002, reaching 13.8 percent by end-June (Figure 3).

11. The **soundness of the banking system** has continued to improve and prudential indicators are generally well above international minimum standards.¹⁵ The regulatory and supervisory framework has been further strengthened through legislative amendments. Commercial banks remain quite profitable due to high interest rate spreads and the stable exchange rate. In contrast, **the BoJ incurred operating losses** in 2001/02 for the second year in a row as a result of large-scale open market operations and sterilization in the foreign exchange market (see Box 2).

¹² Prior to October 23, 2001, authorized foreign exchange dealers and cambios were required to surrender 5 percent (but could sell more) of their purchases of US dollars, Canadian dollars and pound sterling to the BoJ at the weighted average of the previous day's selling rate. Implicit cross rates between the U.S. dollar and the Canadian dollar and between the U.S. dollar and the pound sterling derived from bilateral reference rates of exchange set by the Bank of Jamaica between the Jamaican dollar and these three currencies sometimes exceeded by more than one percent the exchange rates for those two currency pairs in their principal markets. (Under Fund policy, the multiple currency practice arises as these differences have resulted from official action and have lasted for more than five market days.) The arbitrage opportunities arising from differences between the cross rate in the spot market for Canadian dollars and the rates set by BoJ were exploited by some dealers in late October.

¹³ The BoJ responded also by requiring that Canadian dollars and pound sterling be surrendered at the previous day's published 10-day moving average selling rate of the respective currency rate. On November 5, 2001, the BoJ reverted to effecting the surrender of the Canadian dollar and the pound sterling at the weighted average of the previous day's selling rate and capping sales to the BoJ at 10 percent of purchases from local clients only.

¹⁴ The BoJ deems its 30-day reverse repo rate as the signal rate and prefers to adjust longer-term rates—270-day and 365-day rates—to avoid sending a signal of an upward trend in interest rate.

¹⁵ Past due loans declined to 6.8 percent of total loans at end 2001 (from 9.6 percent in 2000). And the capital adequacy ratio is close to 19½ percent compared to the international minimum standard 8 percent.

Box 2. Quasi Fiscal Operations

The Jamaican central government budget is drawn up on a cash basis. Expenditures carried out under the **deferred financing scheme and central bank's open-market operations** affect the accrued fiscal position.

Expenditures under the deferred financing scheme

Expenditures on infrastructure projects are sometimes carried out through the deferred financing scheme where private sector contractors are asked by the government to bid for such projects (by arranging their own financing) without a direct budget outlay. The cabinet is allowed under the relevant legislation to authorize expenditures through the deferred financing scheme and the Minister of Finance has to agree on the terms of financing. After the completion of such a project, a payment is made from the government to the contractor with the remaining debt taken over by the government (often the government will renegotiate with the creditors on the terms of the debt). Amendments have been proposed to allow payments on deferred financing to be included in the budget against the relevant sector ministry's appropriations. In the most recent four years, expenditures under this scheme were about ½ percent of GDP every year, and 1¼ percent of GDP was added to government's debt stock. It is clear that, on an accrual basis, such expenditures should be included in the budget balance.

Bank of Jamaica losses

The Bank of Jamaica made losses averaging about 1 percent of GDP in the two years FY 2000/01 and FY 2001/02. The losses are due mainly to open-market operations to sterilize the accumulation of international reserves.

The BoJ began using its Certificates of Security Holdings (COSH) in open-market operations in May 2001 after exhausting its holdings of marketable government securities. The use of COSH in open-market operations does not affect the cash central government fiscal deficit, since profits/losses of the BoJ are reported as part of advances to government, consistent with the Bank of Jamaica Act which requires that the **central government fund the BoJ's losses**.

Assuming that BoJ's losses are mostly from interest expenditures, they would not affect **the quasi-primary surplus** of the public sector (including the BoJ).

12. **On structural reforms**, by the end of FY 2001/02, the **Financial Adjustment Corporation (FINSAC)** had divested all of its assets except the holdings of commercial properties.¹⁶ However, progress in public enterprise reform has been limited, with most of the structural benchmarks envisaged under the SMP not fulfilled.¹⁷ On June 17, 2002, leaders of the two major parties signed an anti-crime plan aimed at reducing the escalating levels of crime and violence.

¹⁶ FINSAC is planned to be wound up in October 2002, with any residual activities handed over to the Financial Institution Services.

¹⁷ These benchmarks were steps to increase the efficiency of the National Insurance Fund, the National Housing Trust, and the National Water Commission.

13. The national **minimum wage** has been increased by **125 percent** in the past 2½ years—most recently by 50 percent in January 2002.¹⁸ Average wages increased cumulatively by about 20 percent in the period of 1999 to 2001¹⁹. The unemployment rate declined by one half a percentage point but remains high at 15 percent. However, the incidence of poverty declined to 16.9 percent in 2001 from 18.7 percent a year ago, a reversal of increases in the last two years. Nevertheless, the poverty incidence in rural areas remains high at 24 percent.

III. REPORT ON DISCUSSIONS

14. The staff commended the Jamaican authorities for low inflation and positive real growth despite adverse shocks, but noted that the fiscal position in FY 2001/02 was much worse than had been projected in November 2001 (post shocks), and expressed strong concern that only modest progress was made in reducing the public sector debt burden.

15. Noting the still difficult macroeconomic environment, a very high public sector debt and considerable structural impediments to growth, the staff pointed to the importance of maintaining a persistently strong fiscal effort over the medium term and a viable strategy to increase Jamaica's growth potential. Discussions with the authorities therefore focused on policies to reinforce the fiscal effort and continue structural reforms to underpin higher and sustained growth.

16. Understandings were reached on the new SMP for FY 2002/03 which aims to reverse the fiscal slippages in FY 2001/02, to maintain macroeconomic stability, and to promote structural reforms that would lay the foundations for accelerating economic growth and reducing the public sector debt burden in the medium term (see Annex I for the memorandum of economic policies). The Parliament approved the budget for FY 2002/03 consistent with the SMP targets in early May 2002.

A. Policies and Prospects for FY 2002/03

17. Real GDP growth in FY 2002/03 is projected to accelerate from the shock-affected levels of FY 2001/02, led by a recovery in agriculture, tourism, and mining. However, recent weaknesses in tourism and the impact of the May/June floods on the economy suggest that there are considerable downside risks to the 2½ percent growth underlying the SMP (Table 1). The authorities plan to contain inflation to below 7 percent and maintain a stable exchange rate. The **current account deficit** is expected to increase modestly in FY 2002/03 reflecting the impact of higher oil prices on imports and a slower-than-earlier-projected rebound in tourism from the lows seen post-September 11. Total government debt

¹⁸ The increases in August 1999 and January 2002 follow the recommendations of a Tripartite Committee (comprising government, labor and employee representatives) based on the cost of living facing a representative family of Jamaica.

¹⁹ Measured by (annual) average labor compensation.

repayments falling due are close to US\$1 billion. Other capital flows are expected to be broadly similar to those in FY 2001/02, although there remains a good deal of uncertainty in the area of private sector capital flows.²⁰ **Remittances** are now expected to grow by roughly 10 percent in FY 2002/03 slightly down from the 17 percent increase in FY 2001/02.

B. Budget for FY 2002/03

18. **A key short-term priority is to reinforce the fiscal effort and to achieve a further reduction in the onerous public sector debt burden.** The cash central government deficit has been targeted at 4.4 percent of GDP, consistent with a roughly 2½ percentage points of GDP improvement in the primary surplus. With the target for surpluses of selected public enterprises unchanged at 0.6 percent of GDP, and the BoJ losses rising to around 3 percent of GDP,²¹ the overall public sector deficit would decline slightly to around 6½ percent of GDP. While recognizing the major fiscal effort in running large primary surpluses, the staff suggested that a more ambitious fiscal effort would help to underpin lower real interest rates and faster growth. The authorities saw the current targets as at the limit of what is politically and economically feasible. The floods in May/June would lead to reconstruction spending upwards of half a percent of GDP. The authorities are seeking international support for this additional spending. The fiscal targets will be reviewed in late August in the light of more considered estimates of this spending and international support.²²

19. The authorities have proposed in the budget a series of measures to increase **revenues** through steps to encourage greater compliance, a reduction in exemptions (statutory and discretionary), higher administrative fees, and revenues from the sale of one cellular phone license (see Box 3). The implementation of these measures should arrest the sharp decline in revenues last year and bring the revenue-to-GDP ratio closer to the high levels of previous years. In an effort to further improve the efficiency of the tax system and promote growth, the government eliminated the tax on dividends from the beginning of FY 2002/03, and is in the process of negotiating with the bauxite industry on plans to replace the bauxite production levy with taxes on corporate incomes and increased royalties.²³

²⁰ BoJ has only very partial information on such flows—see Appendix II.

²¹ From 1–2 percent a year in recent years.

²² The SMP targets were discussed and understandings were reached before the onset of floods.

²³ An agreement has been reached recently with Alcoa, and similar agreements are expected to be reached with other bauxite companies. The agreement includes a commitment for a minimum expansion of capacity, guaranteed minimum tax payments over a 5-year transition period, increased royalty per ton of bauxite and provision for additional royalties in certain circumstances.

20. **Expenditures** would be slightly below the levels in FY 2001/02 as higher interest expenditures offset lower non-interest expenditures. **Interest expenditures** are projected to increase by about one percentage point of GDP because of higher payments on international bonds (the counterpart to higher reserves) partially offset by lower domestic interest payments. **Wages and salaries** are projected to be slightly lower than in FY 2001/02 (in percent of GDP) because most of the back pay for FY 2001/02 has already been paid, and the wage increase for FY 2002/03 is currently projected at a lower rate than last year (around 5½ percent).²⁴ The budget also plans modest reductions in other recurrent expenditures and capital expenditures. The authorities have committed to reduce expenditures (excluding debt service, wages and salaries, and social safety net expenditures)²⁵ to meet the budget target in the event that revenues fall short of the budgeted amounts or there is an unforeseen increase in other expenditures.

21. **The gross borrowing requirement** for the central government would decline significantly in FY 2002/03 both domestically and externally, but remain at a high level of 23 percent of GDP (excluding the rollover of BoJ operations) (see Table 6). It is expected that financing will be met largely domestically in FY 2002/03 in contrast to previous years, as multilateral inflows and net external commercial borrowings are expected to decline.²⁶

22. **The public sector debt is projected to decline to 125½ percent of GDP by the end of FY 2002/03, a reduction of 3½ percentage points of GDP.**²⁷ The large public sector debt has placed a heavy burden on budget operations, with interest costs at around 51 percent of revenues and 45 percent of expenditures in FY 2002/03. In this context, the staff advised against assuming additional debt through the **deferred financing** scheme—with its borrowing costs 1½–2½ percentage points above T-bill rates—and providing guarantees for public sector debt. The authorities pointed to the need to maintain infrastructure investment

²⁴ The wage contract is up for renegotiation for the period of FY 2002/03 to FY 2003/04 for most public sector employees. The civil service union has reached an agreement with the government in early 2002 for wage contract covering the period of FY 2002/03 to FY 2005/06 which envisages raising the wage level to 80 percent of the levels in the private sector (and the public entities) by 2005/06; this implies an increase of 12 percent over the period.

²⁵ Expenditures other than debt service, wages, and social safety net expenditures are close to 6 percent of GDP.

²⁶ New bond issues (together with prefunding in FY 2001/02) are expected to cover bond principal payments totalling about US\$700 million falling due in FY 2002/03.

²⁷ Excluding any increase in public sector debt arising from BoJ losses. Although concrete estimates on liabilities arising from actions to restore BoJ losses are currently unavailable (see footnote 29), some preliminary estimates show that the net increase in government liability would be close to 10–12 percent of GDP by end of 2006/07.

despite stringent budget constraints. Nevertheless, the government agreed to limit expenditures through the deferred financing scheme to an amount consistent with an annual increase in debt of no more than J\$2 billion (½ percent of GDP), and also agreed to limit strictly additional borrowing guarantees (currently only a guarantee of about US\$10–11 million borrowing by the Port Authority is envisaged in FY 2002/03).

23. The authorities are interested in a **simplification of the tax system** in the medium-term. Currently there are a number of specific taxes or contributions on payroll (some of them paid to different agencies) such as the Education tax, contributions to the National Insurance Scheme (NIS), the National Housing Trust (NHT), and the Human Employment and Resource Training (HEART). The staff suggested that these taxes could be merged with the personal income tax to reduce the administrative burden on taxpayers and improve the efficiency of budget resource management. The authorities agreed to consider plans to merge the Education tax with the general income tax. They noted that contributions to the NIS, NHT, and HEART are not taxes, but concurred that collections of these contributions could be streamlined to reduce the burden on private sector businesses.

C. Monetary and Exchange Rate Policy

24. The authorities' objectives are to maintain single digit inflation (below 7 percent) and maintain—and if possible improve—competitiveness through monetary and exchange rate policy. **Broad money** is expected to increase by 8 percent in FY 2002/03, assuming an unchanged velocity. The banking system's credit to the private sector is projected to increase by 15 percent, although remaining a relatively small proportion of total bank assets. As inflationary expectations continue to adjust downward, the authorities expect a further decline in domestic **interest rates**. However, the floor set by interest rates on Jamaica's international bonds—which are widely available in the domestic market—may limit the room for significant domestic interest rate reduction. The staff encouraged the BoJ to rely more on short-term interest rates—less than the 30 day signal rate—to reduce liquidity and be more reluctant to raise longer-term rates.

25. On **exchange rate** policy, while the exchange rate is determined in an interbank market operated by the authorized dealers, the BoJ routinely intervenes and continues to aim to avoid over-rapid movement in the Jamaican dollar.²⁸ They see such movements as potentially destabilizing (in a thin foreign exchange market) and as threatening inflationary expectations. The staff urged adoption of a more flexible exchange rate policy, particularly against the background of the real appreciation that had occurred in FY 2001/02.

26. Within the constraint of achieving single digit inflation, the staff encouraged a willingness to accept a somewhat faster rate of depreciation of the Jamaican dollar to boost

²⁸ The BoJ intervenes through compulsory purchases from authorized dealers and cambios (see footnote 12) as well as through direct purchase and sale in addition to the surrender requirement.

the competitiveness of the economy. Staff noted that Jamaica suffered a significant loss of competitiveness—of between 40 and 60 percent—between 1995 and 1998, from which the economy has not yet recovered.²⁹ Exports in US dollars have declined continuously in the last five years and exports in US dollars in 2001/02 are projected to be 20 percent below that of 1995/96. The current account deficit widened to 8 percent of GDP from 3 percent in 1998/99, and external financing was heavily dependent on FDI and remittances. The authorities said they placed greater weight in maintaining low inflation, while observing that Jamaica had not lost its share in the tourist market to other Caribbean countries, and pointing to the recent weakness of the US dollar as permitting some boost to competitiveness.

27. The staff urged early action by the authorities to strengthen **the balance sheet of the BoJ** to limit its losses. The authorities acknowledged the need to tackle this issue, and various plans are under consideration to **strengthen the BoJ** balance sheet.³⁰ The BoJ is committed to abolish the **foreign currency surrender requirement** (currently at 5 percent) when market conditions permit.³¹ The staff encouraged that this be done quickly, which would not only help foster the development of the foreign exchange market, but also signal the end of an era of foreign exchange scarcity in the Jamaican economy, and help to eliminate the multiple currency practice noted in footnote 12.

28. The staff questioned the **preferred credit** scheme under which banks provide subsidized loans equivalent to half the reduction in cash reserve requirements at a preferential interest rate of 9 percent to selected sectors such as tourism through the Development Bank (guaranteed by the government) and pressed for a commitment that it would not be renewed in the context of any further reserve requirement reductions. The authorities saw this scheme as providing support to productive sectors, but noted that as no further reductions in the cash reserve requirement were planned in FY 2002/03, the scheme would lapse in the current fiscal year.

²⁹ The real effective exchange rate appreciated by 41 percent on the CPI measure and 56 percent on Unit Labor Cost measure between 1995 and 1998 and has remain broadly unchanged since. For more detail, see “Jamaica—External Competitiveness and Exchange Rate Pass Through” in the Selected Issues Paper.

³⁰ The World Bank is assisting the authorities in assessing these proposals which involve higher interest payments to the BoJ on its holdings of FINSAC related government papers financed in part by use of government deposits.

³¹ The foreign exchange surrender requirement was reduced from a high of 55 percent in 1991 to the current level of 5 percent in 1995. Foreign exchange dealers are required to surrender 5 percent of their foreign currency receipts to the BoJ.

Box 3. Revenue Measures in the FY 2002/03 Budget

The authorities have proposed the following revenue measures, with a total revenue impact of around 2.5 percent of GDP.

- **Amendments to the General Consumption Tax (GCT) Act** (0.23 percent of GDP).

The amendments will provide for recovery of GCT payable from third parties; require full payment of GCT payable by motor vehicle dealers at clearance from the Customs; enable the collection of tax payable in respect of services rendered by a nonresident to a registered taxpayer; and limit the exemptions of GCT to apply only to persons operating under a license granted under the Betting, Gaming and Lotteries Act.

- **Amendments to the Customs Act** (0.1 percent of GDP).

The amendments will provide for seizure of equipment from an importer's premises, seizure of goods that are cleared through the customs and are not in the possession of the importer, and admission into evidence of certain documents.

- **Linking tax compliance with the granting of licenses and certification** (0.5 percent of GDP).

All individuals requiring licenses or permits issued by Government agencies will be required to present a valid Tax Compliance Certificate prior to the issue of the license. Also, all professionals requiring certification or licenses will be required to present a valid Tax Compliance Certificate prior to the issue of such certification or licenses by their respective professional bodies.

- **Reduction in waivers on taxes and fees** (0.37 percent of GDP).
- **Increases in administrative fees and fines** (0.006 percent of GDP).
- **Cancellation of tax exemption** (0.66 percent of GDP).

Exemptions for Public Enterprises from the transfer tax, the property tax, the stamp duty, the income tax, the customs duty, and the general consumption tax to be removed.

- **Auditing of financial institutions** (0.24 percent of GDP).

Local brokers who purchased or acquired Government of Jamaica Eurobonds have issued derivatives as tax-free instruments. Although the Eurobonds were issued free of the transfer tax, the stamp duty, and the income tax, interest income on these derivatives is subject to tax. The Tax Audit Department has been conducting audit inspections of these transactions to ensure that taxes due on these securities are paid.

- **Sale of one cellular phone license** (0.23 percent of GDP).

D. Growth and Competitiveness

29. **Higher growth is critical to address the social problems of unemployment, crime, and poverty** (see Box 4 for impediments to growth) The authorities' policy approach is to maintain low inflation, take anti-crime measures to improve business confidence and maintain social order, strengthen infrastructure and adopt sector-specific growth-oriented policies such as support for the agricultural sector on marketing, research, training and technology transfer). In the staff's view, these policies should be complemented by more ambitious structural reforms in the labor market and public sector, and more flexibility in the exchange rate regime (as described above).

30. The government plans to continue **labor market reforms**. Major initiatives planned in FY 2002/03 include launching a labor market information system to facilitate job searching and training, continuing the legislative effort to introduce flexible work arrangements and establishing a tripartite national productivity center which would help the

Box 4. Structural Impediments to Growth in Jamaica

Jamaica has had low GDP per capita growth (of less than 1 percent per annum) for the last 40 years, with a marginally worse performance in the last decade. Beyond macroeconomic factors (such as the loss of external competitiveness and the very high level of public debt), the principal structural impediments to high growth in Jamaica include:

- **Endemic violence**, linked to underground and drug activity, is considered by many to be the most significant impediment to faster growth. It imposes high security costs on formal economic activity, as well as discouraging tourists and FDI inflows. **High levels of poverty** maybe a significant factor behind the endemic violence in Jamaica: the number of people living below the poverty line stood at 16.8 percent in 2001.
- **Strong trade unions** push for high minimum wages and high wage growth despite unemployment. Real unit labor costs have risen over the last decade. The growth in real labor compensation has exceeded the growth in real output per worker in 6 out of the last ten years, significantly so in 1993 and 1995. Encouragingly, this trend was reversed in 1999.
- **The reluctance of the banking sector to resume private sector lending** in the wake of the mid-1990s banking crisis, along with high public sector demand for financing has slowed domestic private sector investment.
- **The tax system is complicated and imposes too much red tape on the private sector:** tax administration and voluntary tax payer compliance would greatly be helped by simplification of the tax system, which could also encourage higher FDI inflows. Revenues would also be bolstered by steps to increase the coverage of the informal sector which at present largely escapes the tax net.
- **Trade protection, particularly in agriculture remains high.** For agricultural products, the average tariff rate for 2002 was 19.4 percent and for industrial products 6.4 percent. While the need remains to protect Jamaican agriculture from dumping, high tariff barriers have led to high domestic food prices and higher nominal wages—food and beverages have over a 50 percent weight in the CPI basket and so domestic food prices play a significant part in wage negotiations—which have reduced Jamaican competitiveness.
- The continued **emigration** of qualified Jamaicans erodes the economy's skill base, though this is partially counter-balanced by the positive effect of emigration on remittances, which reached 12.4 percent of GDP in FY 2001/02.

assessment of national developments in productivity.³² The staff suggested the encouragement of productivity related pay in both public and private sector wage settlements, as well as of consideration of further steps—such as a reexamination of redundancy payments—to promote labor market flexibility. The authorities plan to contain **public sector wage growth** to boost competitiveness. Staff noted that the increases in the **minimum wage** in recent years were significantly above the rate of inflation and expressed concern about their impact on future wage growth in Jamaica. The authorities observed that the national minimum wage only affected workers in restaurants, shops, and the garment industry, and is lower than most industry minimum wages. Hence, the authorities did not see these increases as leading to larger generalized wage settlements.

³² The budget and the staffing for the center, however, have been significantly reduced from the original proposal.

31. The staff encouraged the authorities to build on the progress in recent years in the public sector to strengthen governance, efficiency and accountability.³³ The staff also encouraged the government to take actions to strengthen and make more transparent the regulatory regime governing utilities, and simplify the tax and regulatory burden on small enterprises to encourage their move from the informal to the formal sector.

E. Other Structural Reforms

32. Jamaica's **trade regime** is rated 4 out of 10 on the Fund's trade restrictiveness index. This reflects Jamaica's moderate tariffs—with average tariff rates at around 9 per cent—and moderate nontariff barriers. Amendments to tariff rates on a small number of agricultural products came into effect on June 3, 2002 taking the maximum tariff rates from 75 per cent to 100 percent or, in ten cases, 260 per cent, in the context of moving from a reference to an actual price system. While the combined effect of the change on prices is still being analyzed, it is not expected that it will result in significant price increases to consumers because the new tariffs will be applied to actual import prices which tend to be much lower than the reference prices used before for assessing import duties. Moreover, Jamaica's average tariff rate is broadly unchanged since the last Article IV despite these changes. The authorities defended agricultural protection as necessary to protect the sector—where a large proportion of the poor tend to be employed—from cheap imports (sometimes reflecting under-invoicing) which can flood the domestic market. They also pointed to the adverse impact on Jamaican agriculture of recent agricultural support legislation adopted in the US. The staff encouraged the authorities to establish a program of quickly reducing the new tariff rates consistent with WTO rules and consider alternative means, such as through strengthening the social-safety net, to achieve their social objectives which would be both less distortionary and more effective.

33. The government plans to **participate in the General Data Dissemination System (GDDS)** by January 2003 and is currently assessing what would be required to subscribe to the Special Data Dissemination Standard (SDDS) in the future to facilitate Jamaica's access to international capital markets. The main statistical agency, the Statistical Institute of Jamaica (STATIN), has embarked on an ambitious plan to improve the efficiency and quality of statistics production, and technical assistance is being provided by the Fund and other donor agencies. The staff welcomed the planned publication of quarterly GDP estimates in July.

³³ Understandings were reached on new benchmarks on the public sector modernization program which replace the structural benchmarks for public enterprises under the SMP in 2001/02 which were not met. The World Bank is providing assistance through the Public Sector Modernization Project.

F. Medium-Term Outlook and Policies

34. The Jamaican economy has emerged from the financial crisis of 1996 with restored macroeconomic stability, a reemergence of growth, and a healthier banking system, but also a significantly higher public debt which places a heavy burden on public finances and increases economic vulnerability (Table 7). In the medium term, sustained high growth is needed to make substantial headway in reducing the debt burden, curtailing unemployment and alleviating poverty; and a continued strong fiscal effort is also indispensable in reducing the debt burden.

35. **The authorities' macroeconomic objectives over the medium term** to FY 2006/07 are to reduce inflation to the level in major trading partner countries, accelerate growth in output (to 3–4 percent a year), while maintaining a sustainable external position (Table 8). To achieve these objectives, the central government budget is planned to move into a balanced position by FY 2004/05 and to moderate surpluses thereafter. This is mainly achieved by maintaining a high primary surplus at around 11 percent of GDP, with declining interest expenditures as debt reduction takes effect. Such a deficit reduction is projected to lower public sector debt from 123 percent of GDP at end FY 2002/03 to below 100 percent by FY 2006/07.³⁴ A tight monetary policy and a stable exchange rate will help achieve the inflation targets. The authorities expect that, as a result, real interest rates will decline significantly which, together with a continued structural reforms, should spur economic growth. This, in turn, will help alleviate high unemployment.

36. **The medium-term scenario is subject to a number of possible downside risks.** The Jamaican economy is very vulnerable to natural disasters and an adverse international environment. Financing the current account deficit also remains heavily dependent on flows of remittances and FDI. Other risks include escalating communal violence or another world event impacting on tourism leading to a slower than anticipated growth and a less rapid decline in interest rates. Fiscal slippages, or the guaranteeing of additional public sector debt by the government, will also lead to a smaller reduction in the debt-to-GDP ratio.

37. **In particular, the debt dynamics in Jamaica are very vulnerable to adverse shocks.** The sensitivity analysis presented in Annex II for debt sustainability shows that under a variety of scenarios the debt to GDP ratio rises sharply. This indicates that the authorities have a very limited room for maneuver. Consequently, the primary surplus has to be kept above 10 percent of GDP over the medium term to stabilize and reduce the debt to GDP ratio.

IV. STAFF APPRAISAL

38. **In the past fiscal year, the Jamaican economy has achieved economic growth despite major negative shocks.** In this respect, it has performed better than many of its

³⁴ This does not include possible increases in government liabilities from strengthening the BoJ's balance sheet.

Caribbean neighbors which are also heavily dependent on tourism. Inflation was kept in single-digits and there has been a marked decline in interest rates. The authorities deserve considerable credit for such economic performance in the face of such shocks.

39. **However, the sizeable deterioration in public finances and the slow progress in the reduction of public sector debt burden are very worrisome.** Partly as a result of measures responding to shocks, the government's fiscal position worsened significantly in the past year by large margins over the SMP targets. The progress in reducing the public sector debt burden has continued to be below expectations, in part because of the higher fiscal deficit and in part because of debt assumed through deferred financing schemes and contingent liabilities that materialized. The BoJ losses also increased significantly during the year as costs of sterilization and open market operations mounted.

40. **The key short-term priority is to reverse the fiscal slippages and continue the strong fiscal effort necessary to escape the debt trap.** The central government budget for FY 2002/03 has targeted a 2½ percentage points of GDP improvement in the primary surplus and a 1½ percent of GDP decline in the cash deficit. However, the public sector deficit remains very high at close to 7 percent of GDP, reflecting worsening BoJ losses. It is imperative that the authorities implement rigorously the proposed revenue measures and avoid expenditure slippages (with the exception of reconstruction spending post floods). The staff welcomes the government's intention to limit public sector wage increases and encourages further actions to reduce the public sector wage bill. The staff also urges early implementation of BoJ recapitalization plan being worked out with the World Bank to reduce the central bank's losses and to preserve its credibility.

41. **Achieving sustained higher economic growth is the overarching goal.** The authorities should build on their anti-crime measures and sector-specific policies with flexibility in the exchange rate to boost competitiveness without jeopardizing the single digit inflation target (see paragraph 44) as well as public sector wage restraint. Efficiency in the public sector will be strengthened by speedier implementation of the public sector modernization project, including further steps to improve governance and accountability. Early implementation of the flexible working week and the encouragement of productivity-related pay will reduce labor market rigidities.

42. **There remain significant downside risks to achieving the authorities' policy objectives in FY 2002/03.** Jamaica's economy remains susceptible to shocks. Heavy damages caused by recent floods and the recent slowdown in tourist arrivals could reduce growth in FY 2002/03; the scope for further significant reduction in interest rates is limited by strong government financing needs and is subject to investors' sentiment; financing the current amount deficit remains heavily dependent on remittances and FDI flows. There is little scope for policy slippage particularly given the uncertainties created by pending elections.

43. **Achieving higher growth and a lower public debt burden over the medium term will depend on mutually reinforcing fiscal consolidation and structural reforms.** The authorities' plan to shift the central government deficit to surplus by FY 2005/06 is welcome

although it requires an unwavering fiscal effort in maintaining the primary surplus at a high level of 10–11 percent of GDP over the medium term. Such effort could be helped by an improvement in tax compliance (in part through a simplification of the tax system) and continued restraint in non-interest expenditures, including wages.

44. **The BoJ deserves considerable credit for its implementation of monetary policy** which has (i) achieved single digit inflation for six consecutive years despite very large financial demands of the public sector, (ii) brought down domestic interest rates and (iii) contributed to the recent resumption of growth. The build up of NIR has also underpinned Jamaica's access to international bond markets. Given the policy credibility provided by these achievements, and consistent with the objective of single digit inflation, more flexible exchange rate policy could boost the competitiveness of the Jamaican economy and also help reduce BoJ losses. Such a policy will be consistent with the BoJ paying more attention to domestic conditions in setting domestic interest rates in response to pressures on the Jamaica dollar. The BoJ should also consider acting on very short-term rates (below its signal 30 day rate) to reduce liquidity rather than longer-term maturities. The authorities should eliminate the foreign surrender requirement quickly, which would help remove the multiple currency practice associated with this scheme. The staff does not recommend approval of the multiple currency practice because a time frame for its elimination has not been established.

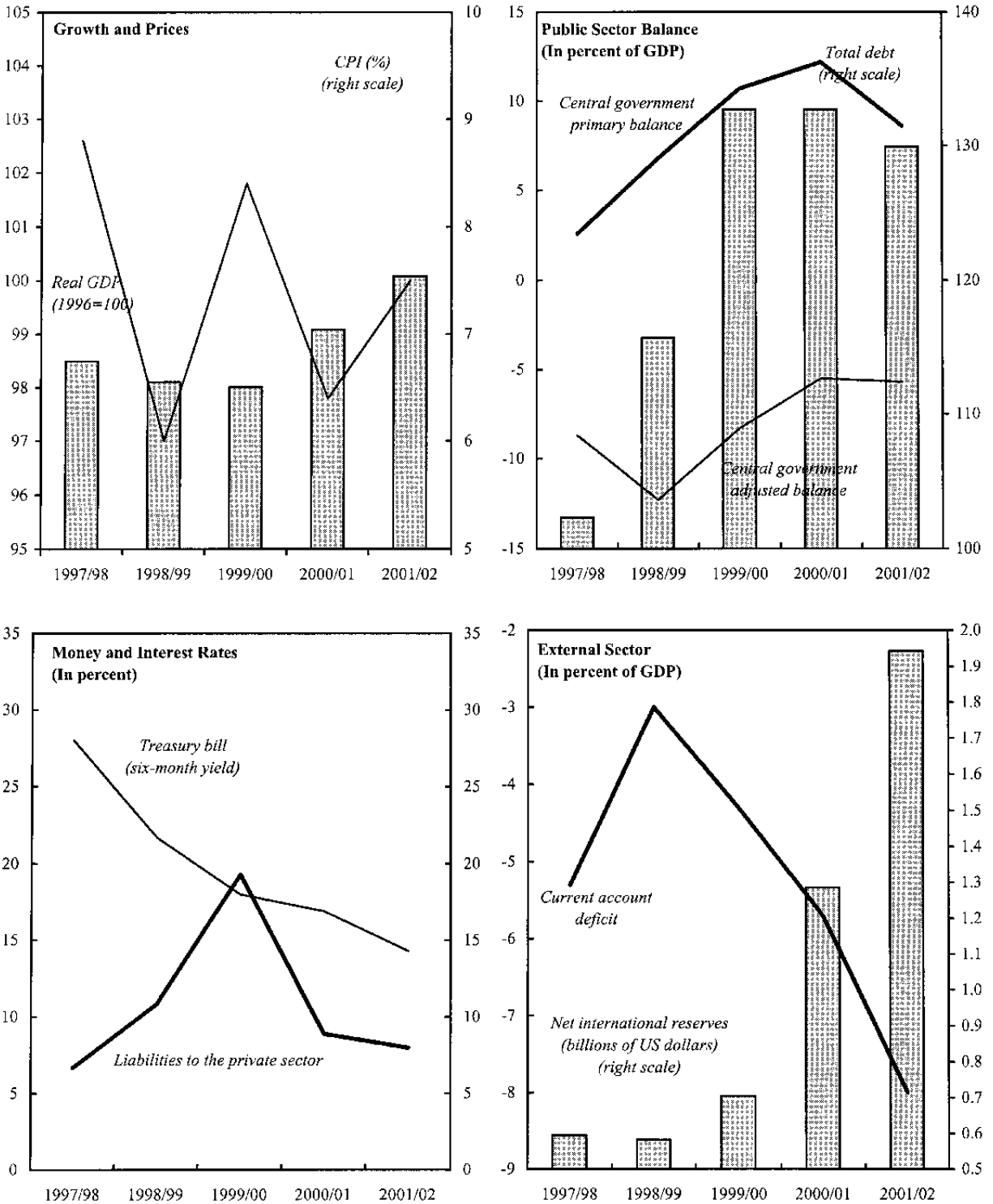
45. The staff commends the progress made in **restructuring the financial sector** particularly through FINSAC, and welcomes the prospective early winding up of the institution. The strengthening of the regulatory framework and supervisory capacity of the banking system is also praiseworthy including the progress made in nonbanking financial sector supervision. The banking system has emerged strong and healthy.

46. **On trade issues**, the staff welcomes the switch from reference to actual prices. The effect of the recent sharp increase in tariffs on a few agricultural imports are still being analyzed. At the same time, the government is encouraged to establish a timetable for quickly reducing the new high tariff rates consistent with WTO rules and examine alternative means such as through strengthening the social safety net, to achieve its objective in a less distortional and more effective manner.

47. Jamaica provides adequate and timely **economic statistics** for surveillance purpose. Statistics on international reserves and other key statistics conform to international standards. The staff welcomes the government plan to participate in the GDDS and encourages the authorities to subscribe to the SDDS in the near term to facilitate Jamaica's access to international capital markets. STATIN's plan to improve the efficiency and quality of economic statistics is welcome and the staff urges the authorities to provide STATIN with sufficient resources to achieve this objective.

48. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

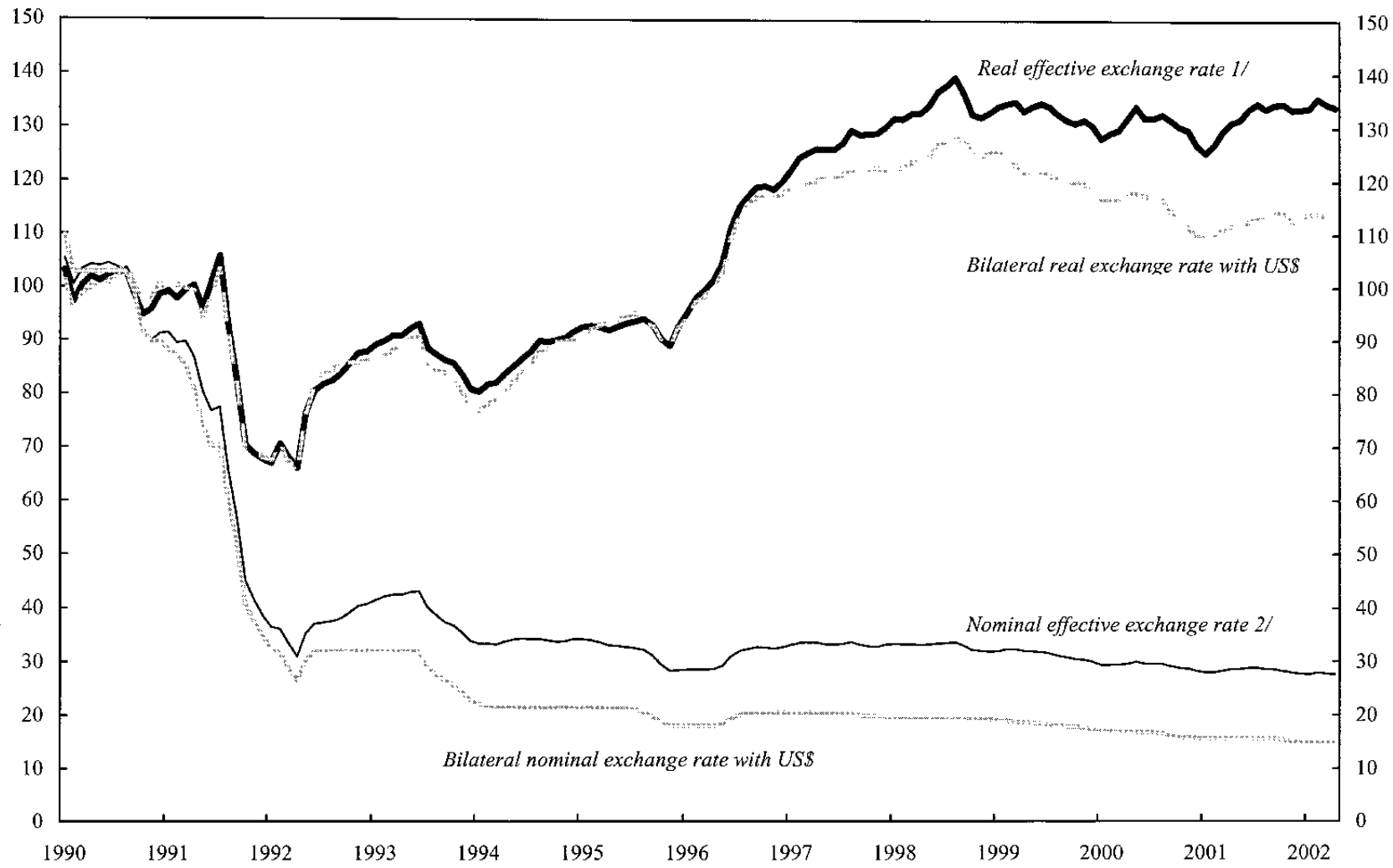
Figure 1. Jamaica: Selected Economic and Financial Indicators, 1997/98-2001/02^{1/}



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

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

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

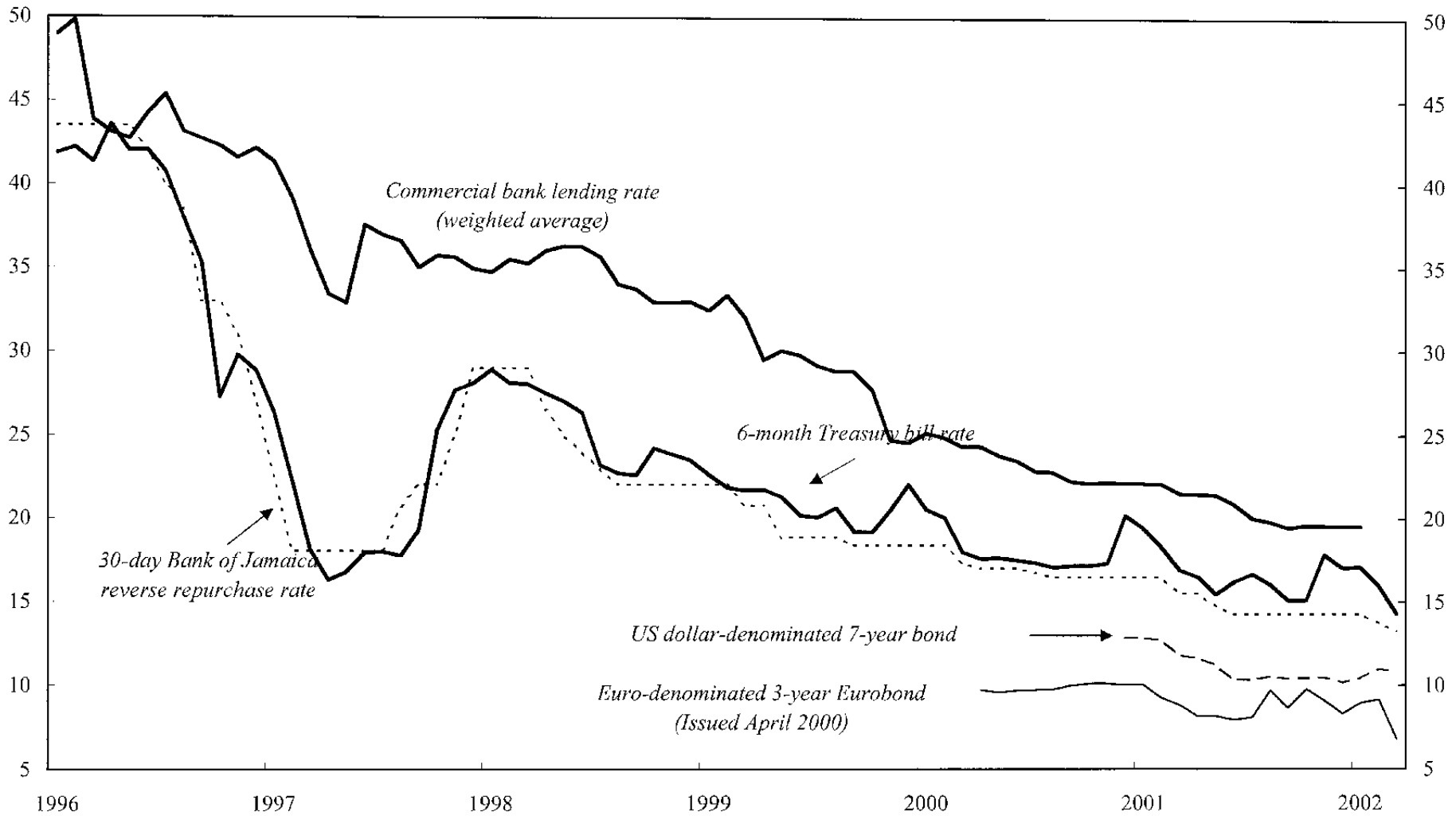


Source: IMF Information Notice System.

1/ Nominal effective exchange rate deflated by relative prices; increase means appreciation.

2/ Trade weighted index of nominal exchange rates.

Figure 3. Jamaica: Interest Rates
(In percent)



Sources: Bloomberg L. P.; and Bank of Jamaica.

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

	1997/98	1998/99	1999/00	2000/01	2001/02	2001/02	2002/03
				Est.	SMP	Prov. Est.	Proj.
(Annual percentage changes; unless otherwise specified)							
GDP, prices, wages and interest rates							
GDP at constant prices	-1.5	-0.4	-0.1	1.1	3.0	1.1	2.5
GDP deflator	9.7	6.3	8.8	9.7	6.0	9.3	6.5
Nominal GDP							
(U.S. dollars billions)	7.3	7.5	7.5	7.6	7.7	8.0	...
(Jamaica dollars billions)	261.9	278.6	302.9	336.4	359.4	371.8	402.0
Per capita GDP (in U.S. dollars)	2,837	2,889	2,845	2,849	2,921	2,912	...
Consumer prices (end of period)	8.8	6.0	8.4	6.4	5.0	7.6	6.5
(period average)	9.1	8.1	6.3	7.7	5.7	8.0	6.5
Nominal wages							
Total Labor Compensation	9.9	7.5	8.0	9.0	7.0
Government wage bill (cash basis)	20.9	9.8	-0.1	10.2	7.5
Unemployment rate	16.5	15.5	15.7	15.5	...	15.0	...
Interest rate (six-month treasury bills yield, end of period)	28.0	21.7	18.0	16.9	...	14.3	...
Lending rate (weighted average, end of period)	35.3	32.1	24.3	22.1	...	19.5	...
Money and credit 2/							
Net domestic assets of the banking system 3/	7.5	8.2	6.8	-13.8	-2.4	-14.4	20.2
Public sector	54.9	25.1	8.9	6.3	-8.4	14.8	14.9
Private sector	-6.3	-6.0	-5.0	1.9	3.3	4.2	2.1
Liabilities to private sector	6.7	10.8	19.3	9.2	8.0	9.9	9.3
Velocity (GDP relative to liabilities to private sector)	2.8	2.7	2.4	2.4	2.5	2.5	2.5
(In percent of GDP; unless otherwise indicated)							
Savings and investment							
Gross national savings	24.1	23.8	21.6	22.7	22.1	18.7	19.5
Gross investment	29.5	26.8	25.9	27.0	27.5	27.3	27.5
Public sector							
Revenue and grants (central government)	25.4	26.6	29.8	30.0	30.0	27.6	29.2
Expenditures (central government)	33.0	33.5	34.0	31.0	34.1	33.3	33.6
Interest payments (central government)	9.4	12.4	13.8	12.8	14.1	13.7	14.8
Primary balance (central government)	1.8	5.5	9.6	11.8	9.9	8.0	10.4
Primary balance (public sector)	2.6	6.8	10.7	12.2	10.6	8.6	11.0
Central government balance (-)	-7.6	-6.9	-4.2	-0.9	-4.1	-5.7	-4.4
Adjusted central government balance 4/	-8.7	-12.3	-8.3	-5.5	-4.6	-5.7	-4.4
Public sector balance 5/	-9.2	-10.9	-7.2	-5.6	-4.7	-6.8	-6.6
Total debt 6/	102.3	115.7	132.7	132.7	129.0	129.9	125.5
External sector							
External current account (deficit -)	-5.4	-3.0	-4.3	-5.7	-5.3	-8.0	-8.2
Overall balance of payments (millions of U.S. dollars)	-53	-17	123	612	100	626	-325
Gross official reserves (millions of U.S. dollars)	730	700	801	1,368	1,451	2,005	1,645
(weeks of next year's imports of goods and services)	9.7	9.3	10.3	16.1	17.6	23.7	18.8
Net international reserves (millions of U.S. dollars)	595	582	704	1,286	1,386	1,942	1,600

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

	1997/98	1998/99	1999/00	Est. 2000/01	SMP 2001/02	Prov. Est. 2001/02	Proj. 2002/03
(In percent of GDP; unless otherwise indicated)							
External terms of trade (percent change)	3.3	-2.3	-4.6	-3.4	3.0	-0.8	-0.5
External debt (end of period)	45.4	43.4	42.8	48.3	56.7	52.3	50.1
Debt service ratio 7/	14.9	18.3	17.6	14.6	16.4	19.2	30.1
Short-term external liabilities/reserves	0.7	1.0	0.7	0.4	0.4	0.4	0.6
Interest payments 7/	5.4	5.4	5.4	5.9	7.5	8.0	9.6
Exchange rates							
Jamaica dollar per U.S. dollar							
(end of period)	36.36	38.14	42.19	45.68	...	47.50	...
(period average)	35.80	36.93	40.21	44.06	...	46.50	...
Real effective exchange rate (annual percentage change) 8/	5.8	1.6	-4.0	-0.2	...	3.9	...
Nominal effective exchange rate (annual percentage change) 8/	-1.1	-2.9	-8.8	-3.8	...	-1.9	...
Relations with the Fund (as of June 30, 2002)							
Quota						SDR 273.5 million	
Outstanding purchases and loans						SDR 24.64 million	

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

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

2/ As of the end of fiscal year.

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

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

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

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

7/ In percent of exports of goods and services.

8/ For 2001/02, data for the period ending March 2002.

Table 2. Jamaica: Quantitative Targets for Key Variables in the Staff-Monitored Program for Fiscal Year 2001/02

	Mar. 2001	<u>Targets</u>	<u>Actual</u>	<u>Targets</u>	<u>Actual</u>	<u>Targets 1/</u>	<u>Original</u>	<u>Actual</u>	<u>Targets 1/</u>	<u>Original</u>	<u>Actual</u>
		Jun. 2001		Sept. 2001		Dec. 2001			Mar. 2002		
(In millions of Jamaica dollars; end of period)											
Net domestic assets of central bank 2/	-29,462	-31,758	-41,333	-32,458	-41,838	-27,524	-27,524	-51,467	-34,294	-34,294	-60,260
Overall balance of selected public enterprises	2,888	-1,050	1,050	-300	1,096	1,250	1,250	1,120	2,400	2,400	2,002
Primary balance of the central government (indicative) 3/	39,768	3,400	2,194	11,900	10,914	18,600	23,500	17,674	35,400	38,500	29,795
Overall balance of the central government 3/	-3,153	-10,700	-10,887	-13,800	-13,440	-19,800	-15,000	-22,379	-14,800	-10,000	-21,216
(In million U.S. dollars; end of period)											
Floor on net international reserves of Bank of Jamaica 4/	1,286	1,336	1,541	1,336	1,537	1,536	1,336	1,841	1,586	1,386	1,942
Foreign short term commercial borrowing 5/	n/a	50	n/a	50	n/a	50	50	n/a	50	50	8
Foreign medium- and long-term commercial borrowing 3/ 4/	566	275	400	275	400	450	400	650	650	400	650

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

2/ Targets for FY 2001/02 are based on an accounting exchange rate of J\$46.6 per dollar, and the cross-currency exchange rate against the US dollar as of March 31, 2001.

3/ Cumulative figures for fiscal year to date.

4/ The NIR floor and the limit on foreign medium- and long-term commercial borrowing for March 2002 are raised by US\$200 million--the additional amount of government borrowing in Dec. 2001 above US\$50 million from the bond market intended to prefund next fiscal year's borrowing requirement.

5/ Defined as trade credits to selected public enterprises.

Table 3. Jamaica: Summary Balance of Payments

(In millions of U.S. dollars)

	1997/98	1998/99	1999/00	Est.	Prov. Est.	Proj.
				2000/01	2001/02	2002/03
Current account	-386	-219	-317	-427	-585	-608
Trade balance	-1,147	-1,113	-1,194	-1,453	-1,511	-1,583
Exports (f.o.b)	1,703	1,552	1,550	1,515	1,436	1,498
<i>Of which:</i>						
Bauxite	72	83	49	56	98	99
Alumina	657	588	666	676	630	704
Imports (f.o.b.)	2,850	2,665	2,744	2,969	2,947	3,081
Services (net)	466	539	555	609	504	574
Transportation	-284	-254	-234	-247	-269	-256
Travel	941	1,021	1,047	1,137	1,043	1,117
Other services	-190	-228	-259	-281	-269	-288
Income (net)	-315	-283	-372	-414	-458	-576
Current transfers (net)	611	638	695	831	879	978
Capital and financial account (less reserves)	331	203	440	1,039	1,211	288
Capital account (net)	13	18	18	-4	-12	11
Financial account (less reserves, net)	318	184	422	1,043	1,223	278
Direct investment (net)	169	309	359	530	448	523
Official capital flows (net) 1/	105	-90	-123	342	491	-25
Inflows	381	388	255	629	830	655
Project loans	81	138	36	229	178	155
Commercial loans	300	250	220	400	652	500
Other	0	0	0	0	0	0
Outflows	275	477	379	287	339	680
Portfolio investment	0	6	6	-62	-54	-54
Other sectors investment (net) 2/	37	-42	181	233	337	-166
Overall balance	-53	-17	123	612	626	-319
Financing	53	14	-123	-626	-626	319
Change in BOJ net reserves (increase -)	53	14	-122	-656	-656	342
Change in assets	86	30	-101	-637	-635	360
Change in liabilities	-28	-20	-21	-18	-20	-19
IMF purchases	0	0	0	0	0	0
IMF repurchases	-28	-17	-20	-18	-20	-19
Memorandum items:						
Current account (percent of GDP)	-5.4	-3.0	-4.3	-5.7	-8.0	-8.2
Gross official reserves (US\$ millions)	730	700	801	1,368	2,005	1,645
In weeks of current year nonbauxite imports	13.0	13.3	14.7	23.3	34.2	26.3
In weeks of next year goods and service imports	9.7	9.3	10.3	16.1	23.7	18.8
Net international reserves (US\$ millions)	595	582	704	1,286	1,942	1,600
Debt service ratio (percent of G-S exports)	14.9	18.3	17.6	14.6	19.2	30.1

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Includes central government and the Bank of Jamaica.

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

Table 4. Jamaica: Summary of Public Sector Operations

	1999/00	2000/01	Orig. SMP 2001/02	Rev. SMP 2001/02	Prov. Est. 2001/02	Proj. 2002/03
(in millions of Jamaican dollars)						
Central government balance	-12,575	-3,172	-10,000	-14,841	-21,216	-17,738
Revenues and grants	90,373	101,021	107,586	107,197	102,576	117,322
Tax 1/	81,370	89,827	99,035	97,139	92,820	109,391
Non-tax 2/	8,068	9,457	6,412	8,471	7,793	7,158
Grants	935	1,737	2,139	1,588	1,962	774
Expenditures	102,948	104,193	117,586	122,039	123,792	135,061
Wages and salaries	31,895	35,164	37,793	40,116	42,588	45,075
Interest	41,784	42,920	48,456	50,277	51,010	59,618
Domestic	34,980	34,306	36,882	38,540	40,353	42,733
External	6,804	8,614	11,574	11,738	10,657	16,885
Other expenditures 3/	20,122	16,764	20,116	21,225	20,067	20,457
Capital expenditures	9,147	9,345	11,222	10,421	10,126	9,911
Rest of public sector balance	-9,196	-15,657	-1,149	-2,065	-4,187	-8,993
Operating balance of public enterprises	3,283	1,422	2,400	2,400	2,001	2,500
FIS/FINSAC balance 4/	-13,391	-15,441	0	0	0	0
Bank of Jamaica operating profit/loss	912	-1,639	-3,549	-4,465	-6,188	-11,493
Total public sector balance	-21,771	-18,829	-11,150	-16,907	-25,403	-26,731
External financing	-3,523	12,039	11,592	31,326	25,895	324
Domestic financing	25,295	6,790	-443	-14,419	-492	26,407
Banking system	8,236	14,189	8,852	6,091	28,893	18,993
Others	17,059	-7,399	-9,295	-20,510	-29,385	7,414
Adjusted central government balance 5/	-25,054	-18,613	-11,600	-16,441	-21,216	-17,738
Central government primary balance	29,209	39,748	38,456	35,436	29,794	41,880
Public sector primary balance	32,492	41,171	40,856	37,836	31,795	44,380
(In percent of GDP)						
Central government balance	-4.2	-0.9	-2.8	-4.1	-5.7	-4.4
Revenues and grants	29.8	30.0	29.9	30.0	27.6	29.2
Tax 1/	26.9	26.7	27.6	27.2	25.0	27.2
Non-tax 2/	2.7	2.8	1.8	2.4	2.1	1.8
Grants	0.3	0.5	0.6	0.4	0.5	0.2
Expenditures	34.0	31.0	32.7	34.1	33.3	33.6
Wages and salaries	10.5	10.5	10.5	11.2	11.5	11.2
Interest	13.8	12.8	13.5	14.1	13.7	14.8
Domestic	11.6	10.2	10.3	10.8	10.9	10.6
External	2.2	2.6	3.2	3.3	2.9	4.2
Other expenditures 3/	6.6	5.0	5.6	5.9	5.4	5.1
Capital expenditures	3.0	2.8	3.1	2.9	2.7	2.5
Rest of public sector balance	-3.0	-4.7	-0.3	-0.6	-1.1	-2.2
Operating balance of public enterprises	1.1	0.4	0.7	0.7	0.5	0.6
FIS/FINSAC balance 4/	-4.4	-4.6	0.0	0.0	0.0	0.0
Bank of Jamaica operating profit/loss	0.3	-0.5	-1.0	-1.2	-1.7	-2.9
Total public sector balance	-7.2	-5.6	-3.1	-4.7	-6.8	-6.6
External financing	-1.2	3.6	3.2	8.8	7.0	0.1
Domestic financing	8.4	2.0	-0.1	-4.0	-0.1	6.6
Banking system	2.7	4.2	2.5	1.7	7.8	4.7
Others	5.6	-2.2	-2.6	-5.7	-7.9	1.8
Adjusted central government balance 5/	-8.3	-5.5	-3.2	-4.6	-5.7	-4.4
Central government primary balance	9.6	11.8	10.7	9.9	8.0	10.4
Public sector primary balance	10.7	12.2	11.4	10.6	8.6	11.0
Memorandum items:						
Non-financial public debt (end of period) 6/	132.7	132.7	125.2	129.0	129.9	125.5
Domestic	90.0	84.4	73.2	72.3	77.6	75.4
External	42.8	48.3	51.9	56.7	52.3	50.1

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

1/ Includes bauxite levy.

2/ Includes capital revenue.

3/ Includes statistical discrepancy.

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

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

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

Table 5. Jamaica: Summary Monetary Indicators

	1996/97	1997/98	1998/99	1999/00	2000/01	Prov. Est 2001/02	Proj. 2002/03
(End of period stock; in millions of Jamaica dollars)							
I. Bank of Jamaica							
Net international reserves	22,697	21,720	21,807	29,899	57,883	94,734	78,064
Net domestic assets	6,816	10,573	9,197	549	-27,404	-64,512	-45,382
Net claims on public sector 1/	6,145	34,170	39,905	35,467	31,809	36,498	48,327
<i>Of which:</i>							
Central government	-2,925	13,653	15,327	4,372	14,895	15,345	27,173
Open market operations	-20,045	-32,269	-38,073	-39,491	-61,441	-99,195	-91,083
Net claims on banks	7,914	-1,760	-4,204	-6,454	-6,582	-4,401	-5,160
Other 2/	12,802	10,431	11,569	11,027	8,811	2,585	2,535
Monetary base	29,513	32,293	31,004	30,448	30,479	30,221	32,682
II. Banking System							
Net international reserves	24,468	23,729	26,182	39,062	67,289	99,894	83,712
Net domestic assets	62,687	69,228	76,810	83,822	66,924	47,603	77,454
Net claims on public sector 1/	8,868	56,698	80,055	89,203	96,890	116,814	138,758
<i>Of which:</i>							
Central government 3/	2,635	22,528	22,351	12,505	24,177	94,072	116,015
Credit to private sector	47,857	42,362	36,763	31,634	33,953	39,611	42,639
<i>Of which:</i>							
Foreign currency	10,957	9,039	6,512	5,964	7,283	10,998	11,838
Other 4/	5,961	-29,831	-40,008	-37,015	-63,919	-108,822	-103,943
Liabilities to private sector (LPS)	87,155	92,957	102,992	122,884	134,213	147,497	161,165
Money supply (M2) 5/	69,515	71,278	79,733	92,844	101,096	107,834	117,537
Foreign currency deposits	17,639	21,679	23,259	30,040	33,117	39,662	43,629
(Percentage change from a year earlier)							
I. Bank of Jamaica 6/							
Net international reserves	11.1	-3.3	0.3	26.1	91.9	120.9	-55.2
Net domestic assets	4.1	12.7	-4.3	-27.9	-91.8	-121.7	63.3
Net claims on public sector 1/	4.7	95.0	17.8	-14.3	-12.0	15.4	39.1
Open market operations	-45.7	-41.4	-18.0	-4.6	-72.1	-123.9	26.8
Net claims on banks	33.5	-32.8	-7.6	-7.3	-0.4	7.2	-2.5
Other 2/	11.6	-8.0	3.5	-1.7	-7.3	-20.4	-0.2
Monetary base	15.2	9.4	-4.0	-1.8	0.1	-0.8	8.1
II. Banking System 7/							
Net international reserves	0.3	-0.8	2.6	12.5	23.0	24.3	-11.0
Net domestic assets	21.6	7.5	8.2	6.8	-13.8	-14.4	20.2
Net claims on public sector 1/	-0.8	54.9	25.1	8.9	6.3	14.8	14.9
Open market operations	-16.4	-14.0	-6.2	-1.4	-17.9	-28.1	5.5
Credit to private sector	5.1	-6.3	-6.0	-5.0	1.9	4.2	2.1
<i>Of which:</i>							
Foreign currency	1.2	-2.2	-2.7	-0.5	1.1	2.8	0.6
Other 3/	17.4	-41.1	-10.9	4.3	-4.0	-5.3	-2.2
Liabilities to private sector	21.9	6.7	10.8	19.3	9.2	9.9	9.3
Memorandum items:							
M2 (12-month percentage change)	31.8	2.5	11.9	16.4	8.9	6.7	9.0
LPS/Base money	2.95	2.9	3.3	4.0	4.4	4.9	4.9
M2/Base money	2.36	2.2	2.6	3.0	3.3	3.6	3.6
GDP/LPS	2.74	2.8	2.7	2.4	2.4	2.5	2.5
LPS/GDP	36.5	36.1	37.7	41.5	41.0	39.7	39.7

Sources: Bank of Jamaica; and Fund staff estimates.

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

2/ Includes valuation adjustments.

3/ Includes FINSAC securities from FY2001/02

4/ Includes open market operations.

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

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

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

Table 6. Jamaica: Financing of Central Government Budget

(In percent of GDP)

	1999/00	2000/01	Prov. Est. 2001/02	Proj. 2002/03
Financing	4.2	0.9	5.7	4.4
Gross borrowing requirements	22.3	19.3	30.2	23.1
Gross inflows	22.3	19.3	30.2	23.1
External	3.8	10.3	12.5	10.2
Domestic	18.5	9.0	17.6	12.9
Gross outflows	18.2	18.4	24.5	18.7
External	5.2	4.0	3.7	8.2
Domestic	13.0	14.4	20.8	10.6
Net flows	4.1	0.9	5.7	4.4
External	-1.4	6.3	8.9	2.0
Domestic	5.5	-5.4	-3.2	2.4
Memorandum item				
Central bank operating balances	0.3	-0.2	-1.7	-2.9

Sources: Ministry of Finance; and Fund staff estimates.

Table 7. Jamaica: Indicators of Macroeconomic Liquidity Risks

(In millions of Jamaica dollars)

	1996/97	1997/98	1998/99	1999/00	2000/01	Prov. Est. 2001/02	Proj. 2002/03
Reserve-Related Indicators							
Gross reserves/short-term external debt 1/	1.46	1.40	1.02	1.54	2.19	2.10	1.63
Net reserves/short-term external debt 1/	1.16	1.14	0.84	1.35	2.02	2.03	1.42
Gross reserves/imports 2/	10.4	9.7	9.3	10.3	16.1	23.7	21.0
Net reserves/imports 2/	8.3	7.9	7.7	9.0	14.9	22.9	18.2
Gross reserves/money supply 3/	0.41	0.37	0.33	0.37	0.62	0.91	0.77
Net reserves/money supply 3/	0.33	0.30	0.27	0.32	0.57	0.88	0.66
Gross reserves/monetary base	0.97	0.82	0.85	1.12	2.06	3.24	2.75
Net reserves/monetary base	0.77	0.67	0.70	0.98	1.90	3.13	2.39
Gross reserves/short-term liabilities 4/	0.44	0.33	0.29	0.39	0.55	0.59	0.53
Net reserves/short-term liabilities 4/	0.35	0.27	0.24	0.34	0.50	0.57	0.46
Debt-Related Indicators							
External debt/GDP	46.5	45.6	43.4	42.8	48.3	54.4	52.4
Average interest rate on external debt	4.8	5.4	5.4	5.7	6.7	7.1	8.4
Memorandum items							
Gross official international reserves	28,556	26,632	26,255	34,054	62,647	97,834	80,250
Net international reserves	22,697	21,720	21,807	29,899	57,883	94,734	78,064
Short-term external debt 1/	19,540	19,031	25,853	22,120	28,651	46,588	55,125
Monetary base	29,513	32,293	31,004	30,448	30,479	30,221	32,682
Money supply (M2) 3/	69,515	71,278	79,733	92,844	101,096	107,834	117,537
Short-term liabilities 4/	65,230	81,566	91,266	87,713	114,791	166,792	179,072

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

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

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

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

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

Table 8. Jamaica: Selected Baseline Macroeconomic Medium Term Projections

	Prov. Est.					
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
(Annual percentage change)						
Real sector						
GDP (real growth) 2/	1.1	2.5	2.5	2.5	2.5	2.5
Mining and quarrying	11.9	2.0	2.5	2.5	2.5	2.5
Financial services	3.3	3.5	3.5	3.5	4.5	4.5
Tourism	-6.9	8.4	4.4	4.5	4.4	4.3
Exports (volume)	-3.1	6.5	1.2	2.9	2.9	2.8
Imports (volume)	2.5	0.2	2.8	2.9	3.3	3.3
Consumer price inflation (end of period)	8.1	8.0	7.0	7.0	7.0	7.0
(In percent of GDP)						
Savings and investment						
Gross national savings	19.3	19.3	20.4	21.2	21.5	21.7
Government	-3.0	-1.9	0.5	2.0	3.7	4.9
Private 1/	22.3	21.3	19.9	19.1	17.7	16.9
Gross capital formation	27.3	27.5	28.0	28.5	29.0	29.5
Government	2.7	2.5	2.5	2.8	2.8	3.1
Private 2/	24.6	25.0	25.5	25.7	26.2	26.4
External sector						
External current account	-8.0	-8.2	-7.6	-7.3	-7.5	-7.8
Change in net international reserves (US\$ millions)	656	-142	76	108	173	210
Public sector						
Revenues	27.6	29.2	29.3	29.3	29.3	29.2
Expenditures	33.3	33.6	32.4	31.0	29.3	27.8
Adjusted central government balance 3/	-5.7	-4.4	-3.2	-1.7	0.0	1.4
Overall public sector balance	-6.8	-6.6	-5.0	-3.2	-1.4	0.6
Domestic financing (net)	-0.1	6.6	2.4	2.4	1.2	-3.1
External financing (net)	7.0	0.1	2.6	0.8	0.2	2.5
Public sector primary balance	8.6	11.0	11.1	11.3	11.3	11.3
Memorandum items:						
Interest rate on domestic six-month treasury bill	16.0	14.6	14.0	13.5	13.0	13.0
Nonfinancial public sector debt	129.9	125.5	121.3	114.7	106.9	98.1
Domestic	77.6	75.4	70.8	65.8	60.0	50.9
External	52.3	50.1	50.5	48.9	46.9	47.3
External debt service ratio						
(Percent of exports of goods and services)	19.2	30.1	19.3	23.8	24.2	18.1
Gross official international reserves (US\$ millions)	2,005	1,645	1,706	1,808	1,982	2,191
(Weeks of next year's imports of goods and services)	24	21	21	21	22	23

Sources: Bank of Jamaica; Ministry of Finance; Planning Institute of Jamaica; and Fund staff estimates and projections.

1/ Including net factor income and current transfers.

2/ Including inventory accumulation.

3/ Including FINSAC interest payments on a full year basis.

JAMAICA: FUND RELATIONS
(As of May 31, 2002)

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

II. General Resources Account:	SDR Million	Percent of Quota
Quota	273.50	100.00
Fund holdings of currency	298.19	109.03
III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	40.61	100.00
Holdings	0.30	0.75
IV. Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Extended arrangement	24.64	9.01

V. Latest Financial Arrangements:

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

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

	Projections				
	2002	2003	2004	2005	2006
Principal	7.20	11.40	5.40	0.60	
Charges/interest	0.90	1.40	1.10	0.90	0.90
Total	8.10	12.80	6.50	1.50	0.90

VII. Exchange Rate Arrangements:

The external value of the Jamaican dollar has been determined in an interbank market operated by commercial banks beginning September 17, 1990. The Jamaican dollar has depreciated significantly since then, though not in a uniform trend. Since January 2001 the exchange rate had remained quite stable at J\$45½ per U.S. dollar, but it depreciated briefly in late October as market uncertainties rose. After the Bank of Jamaica's intervention, the market has stabilized at around J\$47. A multiple currency practice (MCP) exists subject to

Fund jurisdiction under Article VIII. The MCP arises from the implementation of the surrender requirement where authorized foreign exchange dealers and cambios are required to surrender at least 5 percent – but not more than 10 percent – of their purchases of U.S. dollars, Canadian dollars and pound sterling to the Bank of Jamaica (BoJ). This surrender requirement is effected based on the previous day’s average selling rate for the U.S. dollar, the Canadian dollar and the pound sterling respectively against the Jamaican dollar (referred below as “surrender rates”). The surrender requirement does not have a mechanism to limit to 2 percent the spread between the surrender rates and the prevailing market rates for those currencies against the Jamaican dollar. Also for the period of January 2001-February 2002, the surrender rates have resulted in the cross rates between the U.S. dollar and the Canadian dollar and between the U.S. dollar and the pound sterling to differ periodically (for more than 5 days) by more than 1 percent from the midpoint spot exchange rates for those two currency pairs in their principal markets.

VIII. Last Article IV Consultation and program relations:

Jamaica is on the standard 12-month consultation cycle, and the last Article IV consultation was completed by the Executive Board on May 31, 2001 (SUR/01/59, EBS/01/73). In July 2000, the Jamaican authorities requested a staff-monitored program (SMP) (EBS/00/152) for the period from April 2000 through March 2002.

IX. Technical Assistance:

Department	Dates	Purpose
MAE	May 1995	Review of deposit insurance scheme
	October–December 1995	Banking supervision
	February–June 1996	Banking supervision
	September 1996	Banking crisis and restructuring
	October 1996	Banking supervision
	February 1997	Central bank accounting
	May 1997	Banking supervision
	August 1997	Banking supervision
	January 1998	Banking supervision
	April 1998	Public debt management
	May 1998	Financial sector restructuring
	April 2001	Banking supervision
	STA	September 1996
TBA		National accounts

X. Resident Representative:

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

JAMAICA—STATISTICAL ISSUES

National accounts

There are significant weaknesses in the national accounts and other real sector data. National accounts in constant prices use an outdated base year (1986). The September 1996 multisector statistics mission determined that improvements to the timeliness and quality of the data will depend on the availability of adequate resources. Efforts are being made to improve national accounts data—including changing the base year—and there are plans to release quarterly national accounts in 2002. Assistance on national accounts methodology was provided by Statistics Canada, and during a STA GDDS and national accounts mission in June 2001.

Prices

Outdated weights also are used in the computation of the published consumer price index (CPI)—reflecting the household expenditure survey for 1984 and a base of January 1988. However, the computation of the CPI has been revised to reflect the 1996 household expenditure survey and a more current index with a base of January 1998 is under preparation.

Production

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

Government finance statistics

The latest year for which data is available in the Government Financial Statistics (GFS) is 1985, and no fiscal data have been reported for publication in IFS. The 1996 multisector mission worked with the authorities to compile quarterly data and took steps to reestablish the compilation of data for the *GFSY*. The mission found that the authorities did not allocate sufficient staff resources for these activities. Thus, the prospect for the near-term compilation and reporting of fiscal data for inclusion in STA publications was unclear. A GFS mission that was scheduled in the last quarter of the 1998 was postponed until the authorities had (1) shown evidence that they had taken significant steps to implement the 1996 mission recommendations; (2) indicated that they wish to compile adequate and consistent fiscal data and had sought Fund assistance in developing these fiscal data; and (3) collected a list of all accounts covering central government budgetary operations.

Monetary accounts

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

Balance of payments

The multisector mission recommended that trade data compiled by the Statistical Institute of Jamaica (STATIN) be improved by treating the free zone companies as residents of Jamaica and that balance of payments data compiled by the BOJ fully incorporate their external trade, direct investment inflows, and repatriations of profits and capital in Jamaica's balance of payments. Also, coverage of other capital inflows should be expanded by introducing a comprehensive survey of direct investment companies. The mission also recommended that estimates of service transactions and private transfers be improved by tightening the banks' procedures for classifying foreign exchange transactions in the exchange record reported to the BOJ and by improving rates of response to various surveys conducted by the BOJ. The latter may be achievable only if the BOJ is granted the legal authority to conduct surveys for balance of payments statistics purposes and given powers to enforce a high level of compliance. Special efforts have been made to enhance the quality of data on foreign direct investment, including technical assistance from the World Bank and the IFC. The rate of response to surveys for the compilation of the balance of payments report improved somewhat but improvement is needed with respect to embassies, airlines, shipping companies, and computer services.

Jamaica: Core Statistical Indicators
As of June 30, 2002

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest observation	06/21/02	6/21/02	6/21/02	6/21/02	6/21/02	6/21/02	5/31/02	3/02	3/02	3/02	2001	3/02
Date received	06/30/02	06/30/02	06/30/02	06/30/02	06/30/02	06/30/02	06/30/02	05/30/02	05/30/02	05/30/02	05/30/02	05/30/02
Frequency of data ¹	D	W	W	W	M	M	M	M	M	Q	A	M
Frequency of reporting ¹	D	W	W	W	W	M	M	Q	Q	Q	A	O
Source of update ²	N	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting ³	E	M	M	M	M	E	C	C	C	C	C	C
Confidentiality ⁴	C	D	D	D	D	C	C	C	C	D	C	C
Frequency of publication	D	M	M	M	M	M	M	M	M	A	A	M

¹ D-daily, W-weekly, M-monthly, Q-quarterly, A-annually, V-irregularly, and O-other.

² A-direct reporting by Central Bank, Ministry of Finance, or other official agency, N-official publication of press release, P-commercial publication, C-commercial electronic data provider, E-EIS, O-other.

³ E-electronic data transfer, C-cable or facsimile, T-telephone, M-mail, V-staff visits, and O-other.

⁴ A-for use by the staff only, B-for use by the staff and Executive Board, C-unrestricted, D-preliminary data available to staff prior to official publication or E-subject to other use restrictions.

Jamaica: Financial Relations with the World Bank Group
I. Statement of World Bank Loans as of May 31, 2002

Active Projects

Project ID	Project Name	Borrower	Approval in Fiscal Year	Original Amount in US\$ millions			
				IBRD	IDA	Cancel.	Undisb.
P007490	Public Sector Modernization	Jamaica	1997	28.4	0	0	11.9
P067774	Social Safety Net	Jamaica	2002	40.0	0	0	38.6
P074641	HIV/AIDS Prevention and Control	Jamaica	2002	15.0	0	0	15.0
			Total	83.4	0	0	65.5

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

Total disbursed (IBRD)	1,364,893,525
<i>Of which has been repaid :</i>	910,454,327
Total now held by IBRD	454,439,198

II. Statement of IFC's Committed and Disbursed Portfolio Investments
As of October 31, 2001

(In millions of U.S. dollars)

FY Approval	Company	Committed				Disbursed			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1995	Jamaica Energy Partners Old Harbour Diesel Project	13.72	0.00	0.00	30.50	13.72	0.00	0.00	30.50
2001	Mossel	42.00	8.00	0.00	5.78	30.00	0.00	0.00	5.78
Total Portfolio		55.72	8.00	0.00	36.28	43.72	0.00	0.00	36.28

III. World Bank Assistance Strategy

The World Bank Country Assistance Strategy (CAS), which covered Bank fiscal years 2001-2002, planned a Bank assistance program whose immediate aim was to help prevent a reversal of the recent gains in poverty reduction and create the foundations for sustained growth. The Bank assistance had three main components: (a) US\$150 million in fast-disbursing lending for a bank restructuring and debt management program, to support financial sector restructuring and help reduce the public debt burden, thereby paving the way for restoration of growth and employment opportunities for the poor; (b) about US\$85 million in support of a social sector program focused on strengthening social safety net mechanisms, improving access to and quality of secondary education, and HIV/AIDS control and prevention; and (c) analytical and advisory activities (AAA), focusing on addressing gaps in understanding relating to poverty, growth and competitiveness.

In addition to the program outlined in the CAS and as a result of multiple shocks which impacted the Jamaican economy since September 2001, namely the decline in international travel to and tourism in Jamaica following the events of September 11, the flooding associated with Hurricane Michelle and the incidents of violence in Kingston, the Bank increased its assistance to Jamaica. An Emergency Economic Rehabilitation Loan in the amount of US\$75 million was discussed and approved by the Board in December 2001, which supported the Government's efforts to maintain a sound macroeconomic program and continue its progress towards achievement of sustainable economic growth and further poverty reduction. In addition, a National Community Development Program loan in the amount of US\$15 million is being prepared and will be discussed at the Board in the first quarter of FY03. This loan will support employment-intensive works, especially in those poor inner city and rural areas most affected by the decline in tourism and tourism-related sectors.

The Bank is currently preparing a CAS Update, scheduled to be presented to the Board during the first quarter of FY03. The CAS Update will cover the next 18 months and will include the following three operations: the National Community Development Program loan, the Reform of Secondary Education II, and the Bank Restructuring and Debt Management Program loan II.

JAMAICA: STRUCTURAL MEASURES

POLICY AREA	OBJECTIVES	MEDIUM-TERM POLICY ACTIONS GOJ FYs02/03 and 03/04 (April 1, 2002 – March 31, 2004)
<p><i>Public Sector Efficiency and Governance</i></p>	<p>(a) Improve governance and accountability of public enterprises</p> <p>(b) Accelerate efficient private participation in infrastructure (PPI)</p> <p>(c) Rationalize the structure of Government agencies so as to improve both effectiveness and efficiency</p> <p>(d) Improve financial management within the Government</p> <p>(e) Further strengthen public sector procurement in accordance with the recommendations of the agreed CPAR Action Plan</p>	<ul style="list-style-type: none"> - Enforce provisions of the Public Bodies Management Act, including passage of amendments to harmonize the Act with related legislation. - Implement agreements for Sangster and Kingston port and complete agreements for PPI for Montego Bay Port and Norman Manley Airport - Strengthen regulatory capacity of the Office of Utility Regulation and the Civil Aviation Authority to monitor increased private participation in infrastructure. - Review, develop an action plan for implementing, and implement recommendations of the studies conducted under the Public Sector Management and the Public Sector Restructuring Projects regarding the closure, merger, restructuring and/or re-engineering of the remaining entities covered by the studies. - With the continuing objective of strengthening the financial management and accounting capabilities of the GOJ, implement measures including: (i) moving the entire Central Government to accrual accounting by providing adequate funds to the public expenditure department to implement a stronger financial management system capable of accrual accounting; (ii) provide staff training in accrual accounting and reporting throughout Central Government; and (iii) provide staff training to the Auditor General Office in computer-assisted audit techniques, value-for-money audits, and procedures for using ACL software. - Implement approved policy following Cabinet approval of the Procurement Policy Paper - Agree on an Action Plan for further improvement of the Government procurement system (as per NCC Handbook) and start implementation immediately thereafter. Adequate funding for implementation of the Action Plan to be provided by Government

JAMAICA: STRUCTURAL MEASURES

<p>Financial Sector</p>	<p>(a) Further improve transparency, accountability and financial health of bank and non-bank financial institutions to strengthen the financial sector</p>	<ul style="list-style-type: none"> - Completion of legislative process for tabling in Parliament amendments needed to Jamaica's statutes in order to address tax evasion and the financing of terrorist activities in compliance with United Nations Security Council Resolutions 1373 and 1377, including issuing of drafting instructions by Cabinet to the Chief Parliamentary Counsel, submission to the relevant legislative committee and final Cabinet approval - Better enforcement of Money Laundering Act and its amendments through appropriate legal processes, including the newly-established FCU - Bank of Jamaica to strengthen its capacity and issue Guidelines in relation to the revised Money Laundering Act - Continued satisfactory implementation of the overall financial sector reforms being undertaken by the Government and being supported under the World Bank's second Bank Restructuring and Debt Management Program Adjustment Loan (BRDP II). This comprehensive set of financial sector reforms includes resolution of intervened financial institutions, strengthening of the legal, supervisory, and regulatory framework for bank and non-bank financial institutions, and improving the environment for bank lending to the private sector
<p>Social Protection and Human Development</p>	<p>(a) Protect the most vulnerable population groups from catastrophic income loss via safety nets</p> <p>(b) Address high unemployment through increased labor market flexibility, and improved protection for the unemployed.</p> <p>(c) Maintain basic health care services and mount a more intensive effort to combat HIV/AIDS</p> <p>(d) Maintain efficiency and outcomes in education</p>	<ul style="list-style-type: none"> - Continue program to reform social safety nets - Approve and implement labor legislation; - Implement pilot electronic labor exchange - Expand and improve targeting of community-based social programs targeted to the most vulnerable groups, including youth-at-risk and poor rural communities during 2002. Evaluate community-based program and modify as needed by end 2002 - Continue to provide adequate funding to implement approved HIV/AIDS strategy - Maintain targeted subsidies for examination fees for poor students - Continue to fund the expansion of higher secondary education with a view towards ensuring universal access to lower and higher secondary education by 2007 - Continue to ensure adequate access to textbooks for all lower secondary school students

Jamaica: Relations with the Inter-American Development Bank

Jamaica joined the Inter-American Development Bank (IDB) in 1969. Since then, the IDB has approved 72 loan operations to Jamaica amounting to US\$1.4 billion and 149 technical cooperation operations totaling \$50 million. Six loans were approved in 2001, amounting to \$112 million. The largest loan approved in 2001 was for \$60 million for reform of the social safety nets. The Social Safety Net Reform Loan was increased from \$40 million to \$60 million in response to difficulties faced by Jamaica as a result of shocks that occurred in the latter half of the year. Ten technical cooperation projects were approved in 2001 for a total of \$5 million.

The present portfolio of operations in execution consists of 14 loan projects amounting to \$463 million, 19 technical cooperations valued at \$10 million and 6 small projects worth \$1 million. There are 6 projects in the pipeline amounting to \$122 million and 9 TCs worth \$3.8 million.

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

**Jamaica: Relations with the Caribbean Development Bank (CDB)
(As of December 31, 2001)**

The CDB has approved loans of United States dollars (USD) 291.3 million (mn), of which USD 55.1 mn are undisbursed.

The major projects undisbursed are:

Item	Approved	Undisbursed
	(USD mn)	
1. Enhancement of Basic Schools	13.4	13.4
2. Jamaica Financial Sector Reform	30.0	17.5
3. Jamaica Social Investment Fund	14.1	8.0
4. Citrus Replanting	9.9	9.8

**Current Portfolio
(In millions of US dollars)**

Item	Approved	Undisbursed
Total	291.3	55.1
Lines of credit	69.28	0
Multi-sector	80.47	25.94
Transportation and Communications	15.59	0
Power, Energy and Water	14.11	2.04
Disaster Rehab	25.08	0
Productive Sectors	70.49	12.87
Social Services	16.28	14.28

Loan Disbursements
(In millions of US dollars)

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

July 25, 2002

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431, U.S.A.

Dear Mr. Köhler

In spite of challenging circumstances, the Staff Monitored Programme (SMP) for fiscal year 2000/01-2001/02 has achieved its major objectives of maintaining economic stability and laying the foundations for strong economic growth.

During the first half of fiscal year 2001/02, the Jamaican economy was growing at an annualised rate of 3 percent, reflecting a recovery in mining activity and a rebound in agricultural output following a period of drought. However, between July and November 2001 the Jamaican economy sustained three major shocks: an outbreak of violence in a section of Kingston in July; a significant reduction in visitor arrivals as a result of the 11 September terrorist attacks in the US and the slowdown of the world economy; and major infrastructure damage and population dislocation as a result of wide scale flooding in the eastern section of the island in November. These shocks resulted in lower growth of around 1 percent in FY 2001/02, and a fiscal deficit of 5.7 percent of GDP despite significant expenditure cuts. Net International Reserves were consistently above target, rising to over US\$1.9 billion by end-March 2002, with end year inflation contained to around 7½ percent, representing the sixth consecutive year of single digit inflation. Progress continued with institutional reforms, including sales of intervened financial institutions and the strengthening of prudential supervision. Overall public sector debt declined modestly from 133 to 130 percent of GDP.

The main challenges facing the Jamaican economy continue to be high public sector debt and low economic growth, which has been further exacerbated by recent flooding in May 2002. The challenges will be addressed by continuing fiscal consolidation, maintaining macroeconomic stability and through further structural reforms. Within this context, the Government plans to reduce the Central Government's fiscal deficit by 1.3 percentage points of GDP in fiscal year 2002/03 to 4.4 percent of GDP, with a primary surplus of around 10.5 percent of GDP, to be achieved by continued restraint in expenditures and further strengthening of tax administration to improve revenue collection. These targets will need to be reviewed in August in light of pending estimates of the additional spending required for reconstruction as a result of the May floods as well as the success of our efforts to attain international assistance in this respect. Exchange rate and monetary policies are intended to promote growth through maintaining and, if possible,

enhancing competitiveness while preserving single digit inflation. The target for Net International Reserves is US\$1.6 billion at end-March 2003. Improvements in public sector management will continue with the restructuring of remaining (generally smaller) public enterprises through reorganizations, mergers, transfers and privatisation.

The annexed Memorandum of Economic and Financial Policies presents the Government's specific economic objectives and policies for 2002/03. In support of these objectives, the Government requests that the Fund staff monitor the execution of its programme during the period April 1, 2002 through March 31, 2003, with a progress review against the targets included in the Memorandum, in November 2002. It is the Government's intention to publish this review.

The Government of Jamaica believes that the policies set forth in the attached Memorandum will enable it to achieve its programme objectives, but remains ready to adopt additional measures as necessary to achieve the above targets under the SMP. The authorities will provide to the Fund all the information necessary to monitor the programme.

Yours truly,

/s/

Omar Davies
Minister of Finance and Planning
Government of Jamaica
Kingston, Jamaica

/s/

Derick Latibeaudiere
Governor
Bank of Jamaica
Kingston, Jamaica

Annex: Memorandum of Economic and Financial Policies

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES OF THE
GOVERNMENT OF JAMAICA FOR 2002/03

I. INTRODUCTION

1. The Government of Jamaica would like to continue in FY 2002/03, the informal monitoring of its economic and financial policies by the IMF staff.¹ The objectives of the programme are to consolidate the gains in economic stabilization and adjustment achieved to date and lay the foundations for sustainable, strong economic growth that would further reduce poverty. The informal monitoring under the new SMP would serve as a vehicle for maintaining close dialogue with the Fund as well as strengthening the signal to international partners and financial markets of Jamaica's commitment to credible and consistent macroeconomic policies. This Memorandum of Economic and Financial Policies (MEFP) reviews recent developments and describes the Government's economic objectives and policies for FY2002/03 and over the medium term.

II. BACKGROUND AND RECENT ECONOMIC DEVELOPMENTS

2. The SMP for FY 2001/02 was broadly on track up to September 2001, with all quantitative targets for end-September met. Real GDP growth was estimated at an annual rate of 3 percent from April to September. This was due mainly to the strong recovery of agriculture from the previous year's drought; a resumption of bauxite and alumina production after disruption in a processing plant in the U.S. and positive, albeit lower, growth in tourism. Inflation was higher than envisaged, at 7½ percent, largely due to administrative increases in transportation prices in June.² This, however, represents the sixth consecutive year of single digit inflation. Net international reserves at end-March 2002 were US\$1.9 billion, significantly higher than the SMP target, largely reflecting successful international bond issues in May and December 2001, and buoyant private sector inflows.

3. However the economy suffered three major shocks in FY2001/02 – an outbreak of violence in a section of Kingston in July; a significant reduction in visitor arrivals caused by the September 11 terrorist attacks in the US and the slowdown of the world economy; and major infrastructure damage and population dislocation as a result of wide-scale flooding in the eastern parishes of the island associated with Hurricane Michelle – that have reduced real GDP growth for the fiscal year as a whole to around 1 percent. Lower revenues, higher expenditures on security, tourism promotion, and flood relief and rehabilitation resulted in an

¹ The fiscal year runs from April 1 to March 31.

² At end March 2002, the 12-month inflation was 7½ percent. However, excluding the transportation increase in June, the rate would have been around 6 percent.

increase in the fiscal deficit, despite significant cutbacks in other expenditures.³ The Central Government's deficit rose to 5.7 percent of GDP corresponding to a primary surplus of around 8 percent of GDP. Interest rates continued their downward trend, except for a brief interruption in October when they were increased temporarily to facilitate orderly adjustments in the exchange rate. The sale of the core assets of the Financial Sector Adjustment Company (FINSAC) has been completed, and negotiations are under way for divestment of the remaining commercial real estate. The activities of the institution are to be wound up by October 2002. The regulatory and supervisory framework for non-bank financial institutions was also strengthened with the establishment of the Financial Services Commission (FSC) to provide integrated supervision of securities, pensions, and insurance industries. Public sector debt declined modestly from 133 to 130 percent of GDP.⁴

III. PROGRAM FOR 2002/03

4. The main challenges for the Jamaican economy continue to be high public sector debt and low economic growth. The recent recurrence of heavy flooding, in May 2002 has magnified these challenges. The policies in the 2002/03 programme will lay the foundations for faster economic growth through continued fiscal consolidation, macroeconomic stability, and further structural reforms. In this context, the Government plans to reduce the Central Government's deficit to 4.4 per cent of GDP; contain inflation below 7 per cent while enhancing competitiveness through prudent monetary and exchange rate policies; maintain a comfortable level of NIR (US\$1.6 billion by end March 2003), consistent with real economic growth of around 2.5 percent. Improvements in public sector management will continue with the restructuring of remaining (generally smaller) public enterprises through reorganizations, mergers, transfers, further privatisations and closure.

A. Fiscal Policy

5. The aim of the fiscal measures in the FY2002/03 programme is to reduce the Central Government's deficit by 1.3 percentage points of GDP over the FY2001/02 outturn, to 4.4 percent of GDP, consistent with a primary surplus of about 10.5 percent of GDP. To achieve this, the Government intends to implement a series of measures to increase revenue collection. These include strengthening of the compliance machinery, reduction in preferential exemptions, and continuing expenditure restraint, especially with respect to

³ Higher expenditures also include larger wage expenditures due to earlier than anticipated wage settlements and higher interest payments related to the National Commercial Bank's (NCB) holding of Financial Sector Adjustment Corporation (FINSAC) securities.

⁴ Excluding debt held by the BoJ and government securities held by public enterprises, but including government guaranteed domestic debt. On the authorities' definition, including debt held by the BoJ and government securities held by public enterprises, but excluding government guaranteed domestic debt, the fall was from 136 to 133 percent of GDP.

wages and salaries. However, the Government is committed to at least maintain the real level of spending on social safety nets in 2002/03. The deficit of the rest of the public sector, of just over 1 per cent of GDP in 2001/02, will increase by 1 percentage point of GDP to 2 percent in 2002/03. This results from the quasi-fiscal operations of the Bank of Jamaica (BOJ), which is projected to make a loss of 3 percent of GDP, up 1 percentage point on FY 2001/02. These losses arise largely from the sterilization of the impact of past accumulation of foreign reserves on the money supply and a 16 percentage points reduction in the cash reserve. Continued emphasis will be placed on improving the performance of public enterprises where a surplus of 0.6 percent of GDP is projected in 2002/03 (unchanged from last year). The overall public sector deficit will decline by about ½ percentage point to around 6½ percent of GDP, with a primary surplus of about 10.5 per cent of GDP. These fiscal targets will be reviewed in August in light of considered estimates of the additional reconstruction spending resulting from the floods and the results of the Government's efforts to generate international support for this spending.

6. Total public sector debt is projected to decline from 130 percent of GDP at end-2001/02 to 125½ percent by end-2002/03. The Government will limit the approval of projects under the deferred financing scheme to an amount consistent with an increase in public sector debt of J\$2 billion (0.5 percent of GDP) annually, and minimize the issuance of Central Government guarantees for borrowing by the public or private sector.

7. The Government believes that the above measures are consistent with generating the indicative primary surplus and the overall deficit but there are downside risks. First, domestic interest rates may not decline as rapidly as assumed and, second, the real GDP growth projections may not be realized. In either of these events, the Government is committed to taking measures to contain deviations from targets, through further cuts in expenditures. Any additional outlays or shortfalls in revenues will also be offset by expenditure cuts elsewhere.

B. Exchange Rate and Monetary Policies

8. The main objective of exchange rate policy is to maintain single digit inflation, while maintaining and, to the extent possible, strengthening the competitiveness of the economy. Consistent with these objectives, the BOJ will allow the exchange rate to reflect underlying market forces and will continue to permit limited flexibility in the rate provided that exchange rate movements do not appear destabilizing. The programme has established quarterly targets for official net international reserves, which will be monitored closely to determine if any policy response to deviations with respect to the targeted path is required.

9. The monetary programme will continue to be geared towards maintaining single-digit inflation through the targeting of base money. In the context of further fiscal consolidation, a moderate lowering of interest rates should be possible without triggering an increase in inflation. Accordingly, the BOJ has designed a monetary program for 2002/2003, which entails some increase in net claims on the public sector by the banking system, and continued lowering of interest rates to encourage faster growth. Lower interest rates would result in an

8 percent real expansion of credit to the private sector, which is important to maintain the momentum of economic growth.

10. Although the cash reserve and liquid asset requirements have been reduced significantly in the recent past, the liquid asset requirement remains relatively high at 27 percent. The BOJ proposes a further 7 percentage points reduction in the liquid assets ratio to 20 percent in 2002/03 and the cessation of remuneration of prudential reserves on foreign currency deposits, which caused a distortion vis a vis reserve requirements on Jamaica dollar deposits.

C. Structural Reforms

11. Significant progress has been made toward strengthening the supervisory framework for banks and non-bank financial institutions with amendments to the BOJ legislation to supervise financial groups, and the establishment of the Financial Services Commission (FSC)—in charge of supervising non-bank financial institutions. FINSAC has successfully discharged its mandate to restore the liquidity and solvency of the financial system, and that institution will be wound up by October 2002, with any residual activities handed over to the Financial Institutions Services (FIS). The Government has initiated the introduction and enforcement of legislative amendments to address tax evasion and any financing of terrorism activities and established a Financial Crimes Unit to investigate and prosecute money-laundering offences. Simplification of the tax system is to be examined.

12. Progress has been made in improving public sector management with the assistance of the World Bank and other international partners in recent years.⁵ The Government plans to restructure the remaining (generally smaller) public entities through reorganization, mergers and transfers, privatisation, and closure. New legislation has been passed in Parliament—the Public Bodies Management and Accountability Act—to improve transparency and accountability of public entities.

13. In the current stable inflation environment, competitiveness will be enhanced by wage moderation and increased factor productivity. The recently established productivity centre should play a useful role in assessing productivity developments.

14. The Government will participate in the IMF's General Data Dissemination System (GDDS) by January 2003. The Government's medium-term objective is for Jamaica, as a regular borrower on international capital markets, to subscribe to the Special Data Dissemination Standard (SDDS). The Government will assess Jamaica's readiness for subscription to the SDDS. The Government will also implement plans to improve statistics on national accounts, balance of payments, and the labour market with technical assistance from CARTAC and other international institutions.

⁵ The World Bank provided assistance through the Public Sector Modernization Project.

D. Monitoring

15. To assist in the monitoring of Jamaica's programme, quarterly quantitative targets for key variables and structural benchmarks have been set. These include targets for the overall balance of the Central Government, the overall balance of Selected Public Enterprises, net domestic assets of the Central Bank, the level of official net international reserves, and limits on external borrowing. The structural benchmarks cover measures with respect to public enterprise reform. An indicative target on the primary balance (of the Central Government) has also been set. The definitions and adjusters associated with data and information to be reported under the SMP are listed in Appendix I. Progress under the programme against these quarterly targets will be assessed in a mid-term review by the staff. It is the Government's intention to publish this mid-year assessment. Fund staff would also review performance targets under the programme in light of the impact of the 2002 floods on reconstruction spending, and its proposed financing, in August when firm estimates should be available.

IV. MEDIUM-TERM PROSPECTS

16. The policies in the SMP are expected to help lay the foundations for the medium-term achievement of higher growth, more employment, and moderate inflation. Growth is expected to accelerate to 3-4 per cent a year on average by 2005, owing to growth in tourism, as well as in mining, agriculture, and financial and other services. Inflation can be contained at around 5 percent per year in the medium term while strengthening competitiveness. The six-month Treasury Bill rate is projected to decline significantly from the current level (13.8 percent), while public sector primary surpluses will be kept over 10 percent of GDP. Continued fiscal consolidation helped by faster growth and lower nominal interest rates could shift the public sector overall balance to a surplus by 2005/06. Such an improvement in the overall balance could lower the public sector debt from around 130 percent of GDP at end-2001/02 to below 100 percent of GDP by 2006/07, which in turn would support further declines in real interest rates.

Table 1. Jamaica: Quantitative Targets and Outturn for Key Variables in the Staff-Monitored Program for Fiscal Year 2002/03

	Mar. 2001	Targets 1/ Mar. 2002	Actual	Targets 1/ Jun. 2002	Preliminary	Sept. 2002	Dec. 2002	Mar. 2003
(In millions of Jamaica dollars; end of period)								
Net domestic assets of central bank 2/	-29,462	-34,294	-60,260	-56,789 3/	-56,789	-58,200	-52,400	-45,400
Overall balance of selected public enterprises	2,888	2,400	2,002	-1,300	n/a	-500	800	2,500
Primary balance of the central government (indicative) 4/	39,768	35,400	29,795	4,754	3,269	15,774	27,439	41,880
Overall balance of the central government 4/	-3,153	-14,800	-21,216	-13,100	-12,333	-15,400	-19,200	-17,700
(In million U.S. dollars; end of period)								
Floor on net international reserves of Bank of Jamaica 5/	1,286	1,586	1,942	1,782 3/	1,782	1,800	1,800	1,600
Foreign short term commercial borrowing 6/	n/a	50	8	50	n/a	50	50	50
Foreign medium- and long-term commercial borrowing 4/ 5/	566	650	650	500	300	500	500	500

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

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

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

4/ Cumulative figures for fiscal year to date.

5/ The NIR floor and the limit on foreign medium- and long-term commercial borrowing for March 2002 are raised by US\$200 million--the additional amount of government borrowing in Dec. 2001 above US\$50 million from the bond market intended to pre-fund payments for fiscal year 2002/03.

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

6/ Defined as trade credits to selected public enterprises.

Table 2. Jamaica—Structural Benchmarks for Public Sector Reform for 2002/03

Measures	Timetable
Implement costing of and action on 50 percent of the recommendations relating to the 28 self-financing entities (on which there is consensus on action with the relevant Portfolio Ministry).	March 31, 2003
Develop draft Regulations which will address <i>inter alia</i> dividend payments to the Government, wage and loans policy, as well as procurement procedures in accordance with the provisions of Section 24 of the Public Bodies Management and Accountability Act 2001.	March 31, 2003

**Jamaica: Data and Information to be Reported
for the 2002/2003 Staff-Monitored Program**

I. REPORTING COMMITMENTS

Sector/Data	Data	Reporting Requirement	
		Periodicity	Timeliness
General			
Cable data	The entire set of cable data.	Quarterly	6 weeks
Selected public enterprises	Main aggregates and operating and overall balances.	Monthly	6 weeks
Specific			
Central government budget turnout	Expenditure, revenues (by main categories) and financing data.	Monthly	6 weeks
Banking system credit to the government	Net credit to the central government and public sector, broken down to BOJ and commercial banks.	Monthly	6 weeks
CPI	Detailed CPI data.	Monthly	4 weeks
Trade	Value of exports and imports by main categories, current account balance.	Monthly	3-4 month lag
Bank of Jamaica	BOJ operating balance.	Monthly	4 weeks
Interest rates	6-month Treasury bill rates and 30-day to 180-day Reverse Repo rate.	Monthly	Monday following end of month or website
Bank of Jamaica	BOJ interventions in foreign exchange market.	Weekly	Each Monday
External debt (short term)	Short-term external debt stock and borrowing.	Quarterly	6 weeks
Medium and long-term external debt	Medium and long-term external debt stock and borrowing.	Monthly	6 weeks
Net international reserves	Net international reserves of the BOJ in U.S. dollars.	Weekly	Each Monday
Exchange rate	Daily average weighted selling exchange rate quoted by the BOJ.	Daily (1 day lag)	Available on website

II. DEFINITIONS

1. The net domestic assets of the central bank are defined as the monetary base (currency issued—either with the public or held by commercial banks—plus local currency regulatory cash reserve requirements and the commercial banks current account deposits) less net international reserves.¹
2. The net claims of Bank of Jamaica on the central government is defined as the government securities (including Treasury bills, Government of Jamaica debentures, local registered stocks, and other securities) held by the Bank of Jamaica minus the central government deposits and other claims with the central bank.
3. The banking system is defined as the consolidation of the accounts of the central bank and the commercial banks.
4. The nonfinancial public sector is defined as the central government, selected public entities and other nonfinancial public enterprises, and FIS and FINSAC.
5. Selected public enterprises are: National Housing Trust (NHT), National Investment Bank of Jamaica (NIBJ), Urban Development Corporation (UDC), National Insurance Fund (NIF), Human Employment and Resources Training (HEART), Petroleum Corporation of Jamaica (PCJ), Petrojam Limited, National Water Commission (NWC), Jamaica Mortgage Bank (JMB), National Housing Development Corporation Limited (NHDC), Airports Authority of Jamaica (AAJ), and Port Authority of Jamaica (PAJ). Any changes in this list of public enterprises will be made upon notification of deletions or additions to the group of selected public enterprises and the relevant targets will be adjusted accordingly.
6. Overall balance of Selected Public Enterprises is defined as the flows in total financing for the respective period as in the “Net Credit Return” of prepared by the Ministry of Finance and Planning.
7. The net credit of the banking system to the non-financial public sector is defined as advances, credit and other claims of the banking system to the non-financial public sector, minus deposits of the non-financial public sector in the banking system.
8. The overall balance of the central government is defined as total revenue and grants (excluding proceeds from privatization) less total expenditure.
9. The net international reserves of the central bank are defined as foreign assets minus short-term foreign liabilities of the Bank of Jamaica.

¹Using an accounting exchange rate of J\$48.80 per U.S. dollar. Non-U.S. dollar-denominated assets and liabilities are to be valued at the cross rates with the U.S. dollar on March 31, 2002.

10. Foreign short-term commercial borrowing is defined as foreign borrowings of less than one year maturity—and includes financial leases and other instruments giving rise to noncessional external liabilities, contingent or otherwise—undertaken by the central government and/or the nonfinancial public enterprises.
11. Foreign medium- and long-term borrowing is defined as foreign borrowings of one year or longer maturity—and includes financial leases and other instruments giving rise to noncessional external liabilities, contingent or otherwise—undertaken by the central government and/or the nonfinancial public enterprises.

Jamaica: Public Sector Debt Sustainability Analysis

The note summarizes the vulnerability analysis for Jamaica's non-financial public sector debt.¹ The main findings are summarized in the attached Table.

The sensitive analysis shows that the debt dynamics in Jamaica is very vulnerable to adverse shocks. Given the very high level of debt, high interest rates, and relatively low growth, the primary surplus has to be kept at very high level to stabilize and reduce the debt to GDP ratio in the medium term. Given the significant proportion of external debt in the total debt stock, large exchange rate depreciation would drastically increase the debt to GDP ratio.

The staff's baseline assumes that in the medium term, growth will be maintained at around 2½ percent, supported by structural reforms and sustained fiscal effort—the central government primary surplus is maintained at around 10½ percent of GDP, while inflation is kept at 6½ percent. Real interest rates will decline gradually over, facilitated by the improvement in public government balances. Under this scenario, it is expected that total debt will decline from about 130 percent of GDP to below 100 percent by 2006/07.

A variety of sensitivity analyses where the main variables, separately or together, are worse than assumed in the baseline in the first two years' of projection, are conducted relative to the baseline scenario. It is clear that if growth rate, interest rate, primary surplus, and the GDP deflator (inflation) are at previous 5-years' average, the debt to GDP ratio will increase persistently, as the primary surplus is not large enough to stabilize it (scenario 1). Similar results occur when interest rates are kept at historical average—which is significantly higher than current levels—after initial two periods' shocks, although other variables are same as those in the baseline scenario (scenario 2).

Under most other scenarios (scenarios 3, 4, 5, 7, 8, and 9), while the debt to GDP ratio does increase in the first one or two years with the onset of the shocks, invariably it declines in the following years—mainly contributed by a high primary surplus which is larger than the debt stabilizing primary surplus. However, in all cases, the level of debt to GDP ratio by 2006/07 is higher than the one attained under the baseline scenario. Under the scenario where all main variables—primary surplus, growth rate, interest rate, and inflation are at historical average with two standard deviations before reverting to historical averages, the debt to GDP ratio explodes in the medium term (scenario 6), but it slowly stabilizes under the scenario where all variables are subject to one standard deviation shock during the first two years of projection (scenario 7).

¹ This analysis excludes liabilities that may rise from the capitalization of the Bank of Jamaica.

Under the scenario that a 30 percent nominal depreciation occurs in 2002/03 (assuming a 50 percent pass-through, which would result in an inflation rate of about 20 percent), the depreciation would cause the debt to GDP ratio to jump to about 180 percent of GDP by the end of 2002/03 (scenario 8). Though it will eventually decline to about 150 percent of GDP by the end of 2006/07, this is still substantially higher than the level at end 2001/02. An increase of debt to GDP in 2002/03 (by 10 percentage points) shows a similar debt path (scenario 9).

Table. Jamaica: Public Sector Debt Sustainability Framework

	Actual			Projection		
	t-1	t	t+1	t+2	t+3	t+4
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
I. Baseline Medium-Term Projections						
1 Public debt/Revenue	470.8	430.1	420.2	402.8	361.7	335.3
2 Public debt/GDP	129.9	125.5	121.3	114.7	106.9	98.1
3 Change in public debt/GDP	-2.8	-4.4	-4.2	-6.6	-7.8	-8.8
4 Net debt-creating flows/GDP (lines 5+8+11)	-5.8	-5.8	-6.2	-6.8	-7.4	-8.0
5 Overall deficit, excluding net interest payments/GDP (=primary deficit)	-8.0	-10.4	-10.4	-10.6	-10.6	-10.6
6 Revenue/GDP	27.6	29.2	28.9	28.5	28.4	27.9
7 Expenditure/GDP	33.3	33.6	30.9	29.2	27.5	26.2
8 Minus net non-debt creating inflows/GDP	-1.9	0.0	0.0	0.0	0.0	0.0
9 Unrequited grants/GDP						
10 Privatization Receipts/GDP	1.9	0.0	0.0	0.0	0.0	0.0
11 $(r-g-(\pi+g\pi))/(1+g+\pi+g\pi)$ debt/GDP (lines 13/12)	4.2	4.6	4.2	3.8	3.2	2.6
12 Adjustment factor: $1+g+\pi+g\pi$	1.1	1.1	1.1	1.1	1.1	1.1
13 $(r-g-(\pi+g\pi))$ debt/GDP (lines 14+15+16)	4.6	5.0	4.6	4.2	3.5	2.8
14 r (interest rate) times debt/GDP	18.6	16.9	16.1	15.3	14.0	12.6
15 minus g (real GDP growth rate) times debt/GDP	-1.5	-3.2	-3.1	-3.0	-2.9	-2.7
16 minus $(\pi + g\pi)$ (π = GDP deflator, growth rate) times debt/GDP	-12.5	-8.7	-8.4	-8.1	-7.6	-7.1
17 Residual, incl. change in assets (e.g. government deposits)/GDP (lines 3-4)	3.0	1.4	2.0	0.2	-0.4	-0.8
Memorandum Items: Key macro and external assumptions						
Nominal GDP (local currency)	371,803	402,058	439,047	479,440	503,404	544,431
Real GDP growth (in percent per year)	1.1	2.5	2.5	2.5	2.5	2.5
Consumer price index (change, in percent per year)	7.6	5.5	6.5	6.5	6.5	6.5
Exchange rate (LC per US dollar, end period) 1/	47.6	49.5	52.0	54.6	57.3	60.1
Exchange rate (LC per US dollar, average of period) 1/	46.6	48.5	50.9	53.5	56.1	58.9
Nominal GDP deflator (in US dollars, change in percent per year)	7.4	2.5	1.5	1.5	1.5	1.5
Domestic Interest Rate (percent per year)	15.8	14.6	13.9	13.4	12.9	12.9
Nominal GDP deflator (in local currency, change in percent per year)	9.3	6.5	6.5	6.5	6.5	6.5
Average interest rate on government debt (percent per year)	14.0	13.0	12.8	12.6	12.2	11.8
Growth of revenues (deflated by GDP deflator, in percent per year)	-7.1	7.4	1.4	1.1	2.3	0.5
Growth of expenditure (deflated by GDP deflator, in percent per year)	8.7	2.4	-5.8	-2.9	-3.6	-2.4
II. Sensitivity Analysis for Public Debt-to-GDP Ratio						
1. If interest rate, real GDP growth rate, primary balance and non-debt flows (in percent of GDP) are at average of past 5 years		139.2	150.2	160.6	171.6	183.6
2. If interest rate in year t and t-1 is average plus two standard deviations, others at baseline		142.5	157.9	163.8	169.8	176.1
3. If real GDP growth rate in year t and t+1 is average minus two standard deviations, others at baseline		132.1	134.4	131.0	126.9	121.9
4. If GDP deflator growth in year t is average minus two standard deviations, others at baseline		126.5	122.9	114.5	105.3	95.4
5. If primary balance (in percent of GDP) in year t and t+1 is average minus one standard deviations, others at baseline		132.4	135.0	131.6	127.5	122.7
6. Combination of 2-5 using one standard deviation shocks		162.0	202.0	218.5	236.3	255.9
7. Repeat 6 using "standard" standard deviations		150.4	175.1	175.0	174.3	172.8
8. One time 30% (average of period) depreciation in year t, others, except primary balance, at baseline.		182.3	179.5	174.1	167.9	160.9
9. If debt ratio in year t rises by 10 percent of GDP, others at baseline		136.8	132.6	125.8	118.4	110.0
Memorandum Items						
Primary deficit (percent of GDP, average of past 5 years)		-7.4				
Primary deficit (percent of GDP, standard deviation of past 5 years)		3.9				
Interest rate (average of past 5 years)		20.5				
Interest rate (standard deviation of past 5 years)		3.4				
Real GDP growth rate (average of past 5 years)		0.1				
Real GDP growth rate (standard deviation of past 5 years)		1.2				
Inflation rate (average of past 5 years)		7.7				
Inflation rate (standard deviation of past 5 years)		1.0				
GDP deflator growth (average of past 5 years)		7.7				
GDP deflator growth (standard deviation of past 5 years)		1.0				



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IMF Concludes 2002 Article IV Consultation with Jamaica

On August 7, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Jamaica.¹

Background

Following the financial crisis in 1995/96, the Jamaican government adopted stabilization policies aimed at reducing inflation through a broadly stable nominal exchange rate. While the government has succeeded in bringing inflation down (the inflation has been kept in single digits since 1997/98), tight monetary policy, coupled with high fiscal deficits, led to high real interest rates and an erosion in competitiveness. The public sector debt increased sharply during the period to over 130 percent of GDP, reflecting in part the costs of the financial sector rescue. Economic recovery has been slow. In June 2000, the Jamaican authorities undertook a Staff-Monitored Program (SMP) for FY 2000/01–2001/02 designed to tackle the heavy public sector burden and restore economic growth.

Over the past fiscal year (2001/02), Jamaica's economy was hit by a series of shocks including the outbreak of violence in July, the impact of the terrorist attacks of September 11 on tourism, and heavy floods in late November. The government responded to these shocks through steps

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the August 7, 2002 Executive Board discussion based on the staff report.

to cushion the impact on the economy. However, partly as a result, public finances worsened significantly and the reduction in the public sector debt was much less than anticipated. Jamaica has again been hit by heavy flooding in May 2002.

After growing strongly in the first half of the fiscal year (at estimated 3 percent annual rate), the economy grew by about 1 percent in FY 2001/02 following the shocks. Inflation was around 7½ percent, and the real exchange rate appreciated by 4 percent. Despite a weaker external current account, Net International Reserves increased by about US\$650 million boosted by strong remittances and proceeds from international bond issues. Domestic interest rates generally trended downwards, although with a hiccup in the third quarter of the fiscal year.

Public finances deteriorated with revenues declining sharply, reflecting weaker economic activities. Expenditures for tourist promotion, flood relief, and wages—resulting from earlier than expected wage settlements—were higher but offset by savings elsewhere. The cash government budget deficit increased to 5.7 percent of GDP relative to the revised SMP target of 4.1 percent of GDP, and the central government primary surplus contracted by nearly 3 percentage points of GDP to 8 percent of GDP. Public debt declined modestly to 129 percent of GDP.

On structural reforms, the government has succeeded in divesting intervened financial institutions through the Financial Sector Adjustment Company (FINSAC) and has restored the liquidity and the solvency of the financial system; FINSAC will be wound up by October 2002. Steps have been taken to strengthen further the regulatory framework for the financial sector and supervisory capacity of the regulatory authority.

To build on the progress achieved so far, the government has requested a new SMP for FY 2002/03. The objectives of the program are to consolidate the gains in macroeconomic stabilization and adjustment achieved to date and to lay the foundations for sustainable, strong economic growth that would further reduce poverty. The authorities' program for FY 2002/03 includes a renewed fiscal effort to reverse fiscal slippages in 2001/02 and maintaining single digit inflation through tight monetary policy. The budget targets a deficit of 4.4 percent of GDP, consistent with close to 2½ percentage points of GDP improvement in the primary surplus. This improvement is predicated on a series of revenue measures; the government is committed to exercise restraint in expenditures, including on wages. The fiscal effort would facilitate a further reduction in the heavy public sector burden.

To lay foundations for faster economic growth, the authorities are committed to maintain macroeconomic stability, take anti-crime measures to improve the business environment and maintain social order; improve infrastructure; strengthen the competitiveness of the economy including through adopting sector-specific growth-oriented policies; continue the effort to reduce labor market rigidities; and adopt further public sector reforms.

Executive Board Assessment

The Jamaican economy suffered major negative shocks during the last fiscal year, including a decline in tourism following the September 11 terrorist attacks, wide-scale flooding, and an

outbreak of domestic violence. Directors commended the Jamaican authorities for having maintained macroeconomic stability through this difficult period, as evidenced by the low inflation and positive economic growth. They also saw Jamaica's successful borrowing in the international bond market as an encouraging sign of the credibility of the authorities' economic policies.

Directors acknowledged the authorities' strong fiscal efforts, as evidenced by the achievement of high primary surpluses over the last four years. Given the critical challenge to achieve a permanent reduction in the public debt burden, it was, nevertheless, a source of concern that, partly as a result of measures responding to the recent shocks, the public finances fell short of the targets in the Staff-Monitored Program (SMP) for FY 2001/02. Against this backdrop, Directors considered that key priorities for the authorities must be to redouble their effort to reverse the fiscal slippages and to strengthen policies over the medium term to improve Jamaica's growth performance and to achieve a faster reduction in the public debt burden.

Directors welcomed the authorities' determination to meet their fiscal targets for FY 2002/03 in the context of a new SMP. They emphasized that this will require expeditious implementation of revenue-enhancing measures, including efforts to improve tax compliance, and rigorous restraint in expenditures, particularly on wages. Noting the budgetary impact of the central bank's losses, they also urged early implementation of the recapitalization plan being worked out with the World Bank. Looking ahead, the authorities will need to maintain a sufficiently high primary surplus over the medium term to ensure the sustainability of public debt, and to facilitate a further reduction in real interest rates.

Directors commended the Bank of Jamaica for achieving single digit inflation for six consecutive years and supported the authorities' objective of maintaining low and stable inflation. A number of Directors suggested that the Bank should consider acting on very short term interest rates to reduce liquidity rather than longer-term rates, and, in this context, noted the positive impact on private sector lending and growth that could result from a prudent gradual reduction in interest rates.

Most Directors considered the authorities' approach to exchange rate management as broadly appropriate. A number of them saw scope for somewhat greater exchange rate flexibility to help boost competitiveness, without undermining disinflation efforts. A few other Directors, however, saw a trade-off between achieving competitiveness through significant depreciation and maintaining low inflation. All Directors stressed that sustained structural reform will remain key in underpinning the authorities' efforts to strengthen external competitiveness and improve current account prospects. Directors urged the authorities to press ahead with the elimination of the foreign exchange surrender requirement, which would remove the multiple currency practice associated with this scheme.

Directors welcomed the authorities' growth-oriented structural reforms. They urged the government to take further measures to improve public sector efficiency and governance and reduce labor market rigidities, noting that higher employment along with the government's anti-crime initiatives will be key to promoting social stability and improving the business climate. Some Directors also suggested that stronger efforts to simplify the tax system would foster private sector investment.

Directors commended the success of the Financial Sector Adjustment Company (FINSAC) in disposing of assets of the intervened institutions. They supported the authorities' continued efforts to improve the regulatory framework and strengthen the supervision of both banks and non-bank financial institutions.

Directors welcomed the move to replace reference prices with actual prices as the basis for assessing import duties for certain agricultural products. Noting the large rise in tariff rates for these products, several Directors encouraged the authorities to adopt a timetable for their reduction, although a few acknowledged that this should be facilitated in the context of an international effort to phase out agricultural protection.

Directors welcomed the authorities' intention to further strengthen the quality of economic statistics and their plan to participate in the General Data Dissemination System. Directors welcomed the measures being taken by the Jamaican authorities against money laundering and encouraged the authorities to continue implementing actions to combat terrorist financing in line with UN resolutions.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2002 Article IV Consultation with Jamaica is also available.

Jamaica: Selected Economic and Financial Indicators 1/

	1997/98	1998/99	1999/00	2000/01	Prov.Est. 2001/02
	(Annual percentage changes; unless otherwise specified)				
GDP, prices, and interest rates					
GDP at constant prices	-1.5	-0.4	-0.1	1.1	1.1
Per capita GDP (in U.S. dollars)	2,837	2,889	2,845	2,849	2,912
Consumer prices (end of period)	8.8	6.0	8.4	6.4	7.6
Unemployment rate	16.5	15.5	15.7	15.5	15.5
Interest rate (six-month treasury bills yield, end of period)	28.0	21.7	18.0	16.9	14.3
Lending rate (weighted average, end of period)	35.3	32.1	24.3	22.1	19.5
Money and credit					
Net domestic assets of the banking system 2/	7.5	8.2	6.8	-13.8	-14.4
Public sector	54.9	25.1	8.9	6.3	14.8
Private sector	-6.3	-6.0	-5.0	1.9	4.2
Liabilities to private sector	6.7	10.8	19.3	9.2	9.9
	(In percent of GDP; unless otherwise indicated)				
Savings and investment					
Gross national savings	24.1	23.8	21.6	22.7	18.7
Gross investment	29.5	26.8	25.9	27.0	27.3
Public sector					
Central government balance 3/	-8.7	-12.3	-8.3	-5.5	-5.7
Public sector balance 4/	-9.2	-10.9	-7.2	-5.6	-6.8
Primary balance (public sector)	2.6	6.8	10.7	12.2	8.6
Total debt 5/	102.3	115.7	132.7	132.7	129.9
External sector					
External current account (deficit -)	-5.4	-3.0	-4.3	-5.7	-8.0
Overall balance of payments (millions of U.S. dollars)	-53	-17	123	612	626
Gross official reserves (millions of U.S. dollars)	730	700	801	1,368	2,005
(weeks of next year's imports of goods and services)	9.7	9.3	10.3	16.1	23.7
Net international reserves (millions of U.S. dollars)	595	582	704	1,286	1,942
Exchange rates					
Jamaica dollar per U.S. dollar (end of period)	36.36	38.14	42.19	45.68	47.50
Real effective exchange rate (annual percentage change)	5.8	1.6	-4.0	-0.2	3.9

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

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

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

3/ Includes accrued interest on FINSAC bonds.

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

5/ Non-financial public sector debt, excluding FINSAC liabilities and government securities held by the non-financial public sector.

Statement by Ian E. Bennett, Executive Director for Jamaica
August 7, 2002

1. On behalf of my Jamaican authorities, I wish to thank staff for their frank and helpful advice during the recent Article IV consultation. My authorities value highly the opportunity for dialogue with staff and appreciate the shared understanding of the broad macroeconomic framework which has developed. Consequently, they are pleased that agreement has been reached to extend the informal monitoring of their program for another year.

2. My authorities also welcome the acknowledgement by staff of the credibility which Jamaica has built up at home and abroad through the successful implementation of its economic strategy. Significant achievements during the year include: the maintenance of comfortable reserves (\$1.9 billion at March) with reasonably low inflation in single digits, a further decline in interest rates and a modest downtrend in the ratio of debt-to-GDP. The contribution of fiscal policy to Jamaica's credibility in the face of economic shocks has been significant with the achievement of three consecutive years of high primary surpluses between 8 percent and 12 percent of GDP and divestment of all major assets of the Financial Sector Restructuring Company (FINSAC). However, a number of unforeseen events (including natural disasters, a brief outbreak of civil unrest and the impact of September 11) reversed earlier gains in the fiscal deficit. Jamaica remains committed to structural transformation and has shown its willingness to take tough decisions when necessary.

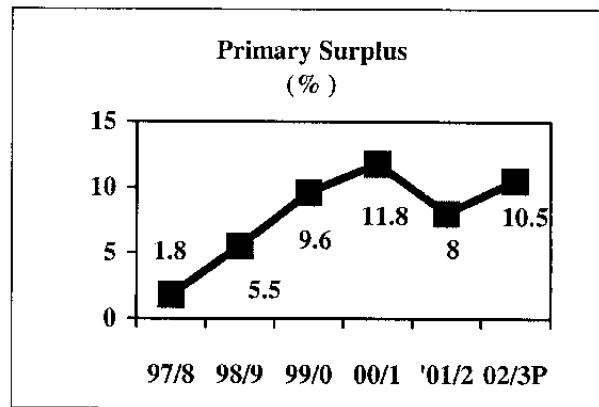
Background

3. My authorities began the year 2001/2 with the expectation that a significant reduction in the debt stock would be achieved. The policy framework included continuation of the tight fiscal stance through maintenance of a strong primary surplus, restraint in non-interest expenditures, and strict limits on the issuance of central government guarantees to third parties and on the assumption of additional debt. The authorities were well on their way to achieving these goals when the positive trends in the economy during the first half of 2001/2 were interrupted by floods, a brief outbreak of civil unrest and the impact of September 11 on tourism. Thus, the non-financial debt stock as a percentage of GDP, which stabilised in 2000/1 at 133 percent, declined only modestly to 130 percent while external debt increased slightly to 52 percent.

4. After growing by an estimated 3 percent in the first half of the year, real growth became sluggish and grew by just 1 percent for the year, despite the resumption of bauxite/alumina production. This reflects a significant reduction in visitor arrivals as demand moderated following the terrorist attacks of September 11, the synchronised slowdown of major economies, and major damage to infrastructure from the November flood.

5. While public expenditure grew slightly in relation to GDP there was a significant reduction in revenue. The primary surplus was still impressive at 8.0 percent but significantly below the 11.8 percent level achieved in the previous year. As the central government fiscal deficit widened to 5.7 percent the authorities responded by putting a number of measures in

place to boost revenue. These include increases in fees and levies as well as amendments to existing legislation to improve customs and consumption tax compliance, the linking of tax compliance to the granting of certification for certain professions, and reduction of preferential exemptions and waivers. It will take some time for the full impact of these measures to be realised.



6. The inflation rate remained in single digits for the sixth consecutive year, with the economy anchored by stable monetary policy using the monetary base to target inflation, and an exchange rate which remained broadly stable.

Policy Issues

7. The Staff Monitored Programme (SMP) for fiscal year 2001/02 achieved its major objective of maintaining macroeconomic stability. The main challenge is to stimulate faster growth while engineering a further reduction in the public debt. My authorities are fully aware that this will require continuation of their focus on the main pillars of the broad economic strategy to facilitate growth, fiscal consolidation, inflation targeting, financial sector restructuring, strengthening of the environment for private sector investment, and other structural reforms. The further dislocation and costs associated with the most recent flood in May 2002, have added to present challenges.

8. **Fiscal Policy:** While the authorities are committed to expenditure restraint, particularly with respect to wages and salaries, there is little scope to further compress expenditures without weakening the social safety net. As mentioned above, the authorities have implemented measures to significantly improve revenue administration. In addition, consideration will be given to simplification of the tax structure in the medium term. These measures, together with higher fees and levies, are expected to increase revenue by 2.5 percent of GDP. The authorities plan to reduce the deficit by 1.3 percent to 4.4 percent in 2002/3.

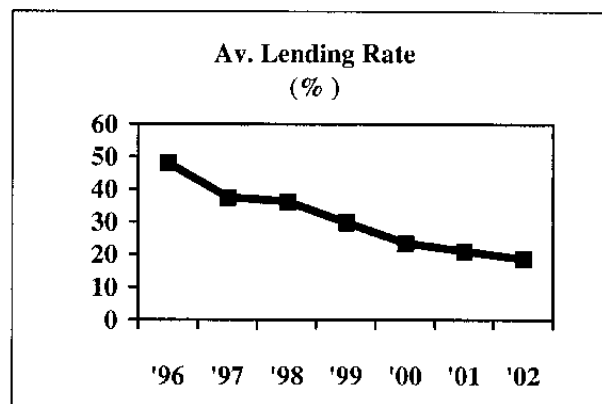
9. **Debt and Financing:** One of the main concerns for fiscal policy is that interest rates have not come down as quickly as expected with implications for debt-service cost. The government took advantage of the downtrend in interest rates following cuts by the US Federal Reserve last year and engaged in a moderate amount of foreign borrowing mainly to

enhance the maturity structure of the debt. In June 2002, Jamaica successfully issued a US-denominated \$300 million 15-year bond as markets continued to respond well to Jamaica's stabilization policies. Jamaica also successfully realised additional financing from multilateral and bilateral sources given the need to strengthen the economy in the immediate aftermath of September 11.

10. **Monetary Policy and the Exchange Rate:** The main objective of the exchange rate policy is to maintain a credible and stable market, while permitting limited flexibility, consistent with an internationally competitive economy. Jamaica's gradual approach to exchange rate policy has built credibility with the social partners mainly because inflation has been kept within single digits for the past six years and the exchange rate has been broadly stable. This credibility is essential in order to avoid re-igniting the wage/price spirals of the past now that wage demands are more moderate and the social partners are comfortable with reduced variation in inflation and the exchange rate.

11. As we pointed out last year, the link between the exchange rate and exports in a small economy is weak in general. Depreciation of the exchange rate does not necessarily lead to an expansion in major exports because of weak supply elasticities and the fact that Jamaica is a price taker in its major export markets for bauxite/alumina and tourism (where prices are often discounted by hoteliers and/or tour operators, according to market forces.)

12. Thus, a key role of monetary policy in a small island with a thin foreign exchange market is to avoid sharp fluctuations in the exchange rate, sustain investor confidence in the economy and increase the confidence of domestic and international markets. The authorities are also keen to ensure that any downward trend in interest rates associated with the recent reserve accumulation is sustainable. Over the last 7 years weighted average lending rates have steadily fallen from 50 percent to 18 percent. While there is concern that interest rates have not come down as quickly as expected, the steady down trend over such a long period shows that the strategy is working and real growth has resumed as a result.



13. **Financial Sector Strengthening:** The rationalization and divestment program for financial institutions has finally achieved its goal of restoring the liquidity of the financial sector. Major assets have been divested or rationalised and FINSAC will be wound up in

October. The Core Principles Assessment last year indicated broad compliance with prudential standards and technical assistance has been secured to strengthen consolidated supervision and market risk assessment. The regulatory and supervisory framework for non-bank financial institutions was also strengthened with the establishment of the Financial Services Commission (FSC) to provide integrated supervision of securities, pensions, and insurance industries. The government has also introduced legislative amendments to address any financing of terrorist activities and established a Financial Crimes Unit to investigate and prosecute money laundering offences.

14. **Technical Assistance:** Jamaica has steadily secured technical assistance to strengthen public sector capacity in order to lay the groundwork for faster growth and has set a timetable of January 2003 for participation in the GDDS. Participation in the SDDS is also desirable given that Jamaica is already accessing capital markets, and is a medium-term objective of the authorities. The government will also implement plans to improve statistics on national accounts, balance of payments, and the labour market, with technical assistance from CARTAC and other international institutions.

15. **Trade Policy:** Jamaica is committed to a policy of trade liberalisation as far as possible and has implemented the WTO Customs Valuation Agreement. Temporary increases in agricultural tariffs, as allowed under WTO rules, were intended to ensure that farmers were given at least equivalent protection when WTO guidelines were implemented. The result of the higher level of tariffs is expected to be a moderate increase in effective protection.

The Road Ahead

16. The economic strategy is working and my authorities are satisfied with their achievements under difficult circumstances. The key issue is not the direction but how fast can we go without weakening the consensus and jeopardising the gains which have been achieved. Nevertheless, they are acutely conscious of the downside risks and the challenges which lie ahead, and recognise that a lot more needs to be done. With this in mind, the public will be kept informed as usual of Jamaica's progress.