FOR AGENDA

EBS/84/101

CONFIDENTIAL

May 4, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Jamaica - Staff Report for the 1984 Article IV Consultation and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Jamaica and request for stand-by arrangement equivalent to SDR 64 million. Draft decisions appear on page 30.

It is proposed to bring this subject, together with Jamaica's request for a purchase under the compensatory financing facility (EBS/84/102, 5/4/84), to the agenda for discussion on Wednesday, May 30, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Hardy (ext. (5)7158) or Mr. Gronlie (ext. (5)7163).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

JAMAICA

Staff Report for the 1984 Article IV Consultation and Request for Stand-By Arrangement

Prepared by the Western Hemisphere and the Exchange and Trade Relations Departments

(In consultation with the Fiscal, Legal, Research and Treasurer's Departments).

Approved by E. Wiesner and M. Guitian

May 3, 1984

Contents

I. Introduction

Since the early 1970s, the Executive Board has approved four arrangements with Jamaica: a one-year stand-by arrangement in 1973 (50 percent of quota); a two-year stand-by arrangement in 1977 (121 percent of quota); an extended arrangement in 1978 (270 percent of quota, augmented to 351 percent in 1979); and an extended arrangement in 1981 (430 percent of quota). Jamaica has also utilized the compensatory financing facility seven times during this period. As a result of purchases under these arrangements, outstanding use of Fund resources by Jamaica, excluding drawings under special facilities, currently amounts to SDR 537 million or 369 percent of Jamaica's new quota. In addition, SDR 48 million or 33 percent of quota is currently outstanding under the CFF (Table 1).

During the first and second year of the 1981 EFF arrangement, Jamaica made all purchases as scheduled (SDR 328 million); a further SDR 37.4 million was purchased in June 1983 after the Executive Board granted a waiver for the nonobservance of performance criteria at end-March 1983, and SDR 37.4 million in July 1983 based on observance of performance criteria for June established under the 1983/84 program, which was approved by the Executive Board on June 24, 1983. However, Jamaica was unable to purchase the remaining SDR 74.9 million under the arrangement due to noncompliance with performance criteria.1/ The arrangement expired on April 12, 1984.

In the attached letter, dated April 25, 1984, the Jamaican authorities request a stand-by arrangement in an amount of SDR 64 million (or 44 percent of the new quota) in support of a financial program covering the Jamaican fiscal year from April 1, 1984 to March 31, 1985. A purchase under the compensatory financing facility in the amount of SDR 72.6 million or 49.9 percent of quota also is being requested. This request is described in EBS/84/102 which is being presented concurrently with this paper.

It is proposed that the phasing of the arrangement be as follows: up to SDR 14.6 million (i.e., the balance available in the first credit tranche) be made available until July 16, 1984, SDR 18 million until October 16, 1984, SDR 28 million until January 16, 1985, and SDR 46 million until April 16, 1985. Of the total amount requested, 28 percent could be purchased before the first review, scheduled for completion by September 30, 1984, and a further 16 percent before the second review, scheduled for completion by December 31, 1984. Assuming that all repurchases are made as due, purchase of the full amount available under the arrangement and under the request for compensatory financing

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1/ The performance criteria that were not observed related to the Bank of Jamaica's net international reserves and net domestic assets, obligations arising from deferred oil payments, and the injunction against exchange restrictions (due to the incurrence of external payments arrears).

Table 1. Jamaica: Projection of Fund Position During Period of Stand-by Arrangement: April 1984 - April 1985

	Outstanding April 30, 1984	1984 May-June	1984 July-Sept.	1984 Oct.-Dec.	1985 Jan.-Mar.	1985 April
		(In millions of SDRs)				
Transactions under tranche policies (net) 1/		9.4	-5.5	-4.9	2.8	8.3
Purchases		14.6	3.4	10.0	18.0	18.0
Ordinary resources		(14.6)	(3.4)	(10.0)	(18.0)	(18.0)
Enlarged access resources		(--)	(--)	(--)	(--)	(--)
Repurchases		-5.2	-8.9	-14.9	-15.2	-9.7
Ordinary resources		(-1.3)	(-5.1)	(-6.8)	(-5.1)	(-5.5)
Enlarged access resources		(-3.9)	(-3.9)	(-8.1)	(-10.1)	(-4.2)
Transactions under special facilities (net) 2/		68.6	-6.6	-2.6	-2.6	-2.6
Purchases		72.6	--	--	--	--
Repurchases		-4.0	-6.6	-2.6	-2.6	-2.6
Total Fund credit outstanding (end of period)	584.9	662.9	650.8	643.3	643.5	649.2
Under tranche policies 1/	536.8	546.2	540.7	535.8	538.6	546.9
Special facilities 2/	48.1	116.7	110.1	107.5	104.9	102.3
		(As percent of quota)				
Total Fund credit outstanding (end of period)	402.0	455.6	447.3	442.1	442.3	446.2
Under tranche policies 1/	368.9	375.4	371.6	368.2	370.2	375.9
Special facilities 2/	33.1	80.2	75.7	73.9	72.1	70.3

Source: International Monetary Fund.

1/ Ordinary and enlarged access resources.
2/ Compensatory Financing Facility.

would raise outstanding Fund credit to Jamaica to 446 percent of new quota, or 376 percent excluding purchases under the compensatory financing facility.

Since the latter part of 1982, Jamaica has experienced frequent difficulties in discharging its financial obligations to the Fund on schedule. Delays in payments during this period have ranged from a few days to eight weeks, and the Executive Board has been informed on a number of occasions of the more protracted delays and the subsequent settlement of these obligations. As of April 25, 1984 Jamaica was current in its obligations to the Fund.

The discussions of the program were held concurrently with the 1984 Article IV consultation and were conducted by a staff team consisting of Messrs. Hardy (Head), Fajgenbaum, Gronlie (all WHD), and Nowak (ETR), Ms. Ross (EP-WHD) and Mrs. Orpin (Secretary-WHD). Mr. Joyce, Executive Director for Jamaica, participated in the policy discussions. The team was assisted by Mr. Gandhi (FAD) and by Mr. Lee, the Fund resident representative in Jamaica. The mission also benefited from collaboration with World Bank staff. The discussions were initiated at headquarters in the period December 8-20, 1983, were continued in Kingston from January 4 to February 1, 1984, and were concluded at headquarters during March 12-23, 1984.

The last Article IV consultation discussions were held in Kingston in September 1982, and the consultation was concluded by the Executive Board on January 4, 1983 (EBS/82/223 and SM/82/232).

II. Background and Recent Developments

1. Period before 1981/82

Jamaica's current economic difficulties need to be viewed in a longer term context. At the root of Jamaica's severe internal and external imbalances has been the structural shift in the public finances following the election in 1973 of a government which had as its platform the redistribution of incomes, increases in real wages, greater public sector control of the means of production, and a policy of using the public sector to reduce unemployment. As a result, public consumption rose sharply and the central government budget deficit increased from 4 1/2 percent of GDP at the beginning of the 1970s to almost 19 percent of GDP by 1976/77. The continuation of large fiscal deficits since that time has led to strong inflationary pressures, a prolonged contraction in economic activity, a rapid buildup of external debt, and recurring balance of payments crises. Real GDP declined by 18 percent from 1973 to 1980, real investment by 54 percent and real per capita consumption by 31 percent. Throughout the period, unemployment remained between 25 and 30 percent of the labor force.

From a sectoral point of view, the decline in activity was most marked in Jamaica's bauxite industry, which accounts for around 70 percent of merchandise exports. The imposition by Jamaica of a bauxite levy in 1974 and other government policies discouraged new investment in the sector, contributed to a loss of Jamaica's market share, and led to Jamaica becoming a "swing" producer for the major bauxite companies. Production dropped from a peak of 15 million tons in 1974 to 11-12 million tons a year in the period 1975-81. The large expansion of worldwide alumina capacity in recent years resulting from investments initiated in the late 1970s has further weakened Jamaica's position in the world market.

Some progress was made in checking the negative trends under the 1978 EFF arrangement. However, a sustained turnaround was not achieved, largely because of the failure to restructure the public finances and the continued lack of confidence of the domestic private sector and foreign investors. The country's difficulties were exacerbated by a renewed cycle of rising real wages, increased controls, and, following the abandonment of the crawling peg regime in 1979, an increasingly overvalued currency. The EFF program was interrupted in early 1980 after breaches of performance criteria. That year the fiscal deficit widened to 17 percent of GDP, and the country experienced a new balance of payments crisis.

2. Experience under the 1981 EFF

The government elected in 1980 drew up a gradualist strategy to address the domestic and external imbalances. The main objective of the program, in support of which a second extended arrangement was approved in April 1981, was a reversal of the prolonged decline of production through a revitalization of the private sector and export-led growth. In the initial stages, large-scale balance of payments support was to permit a restoration of imports and a reconstitution of inventories, thereby facilitating a reduction of idle capacity and an increase in employment. Private sector activity was also to be stimulated by the liberalization of the price and import control systems and by the divestment of a number of government enterprises. No change was made in the official exchange rate, but the existing illegal parallel market was recognized de facto by a system of "no-funds" import licenses and retained foreign exchange accounts. Adjustments in fiscal policy aimed at a reduction in the central government deficit to 13 percent of GDP in the first year of the program, and to 10 percent by the third year. The program envisaged a substantial increase in official foreign borrowing, and the balance of payments current deficit was expected to widen to 10 percent of GDP in the first year of the program (from 6 percent in the two preceding years) and then to decline to 9 percent of GDP in the third year.

Economic growth resumed in the first two years of the arrangement, with increases in real GDP of 2.2 percent in 1981/82 and 0.8 percent in 1982/83 (Table 2). With increased imports and an effective appreciation of the currency, inflation came down sharply to an annual rate of around 8 percent in the first two years of the arrangement from 26 percent in the pre-program year. Real wages rose by about 5-6 percent a year. However, in the second year of the program production of bauxite and alumina dropped by close to 30 percent to only 7-8 million tons (including about 1 million tons for the U.S. strategic stockpile) as a result of the international recession. Because of the attendant reduction in bauxite taxes as well as increases in both current and capital outlays, the overall deficit of the Central Government in 1982/83 remained at the level of 1981/82 (16 1/2 percent of GDP) stead of coming down to 12.9 percent of GDP as provided for in the program. The Central Government's recourse to domestic financing in 1982/83 was equivalent to 10 percent of GDP instead of the 2 1/2 percent envisaged in the program (Table 3). As a result, domestic credit expansion amounted to 23 percent in 1982/83, compared with the program target of 10 percent.

Table 2. Jamaica: Growth and Prices

(Percentage annual change)

	1980/81	1981/82	1982/83	Prel. 1983/84	Proj. 1984/85	Proj. 1985/86	Proj. 1986/87
Real GDP	-3.3	2.2	0.8	0.4	0.8	2.3	3.4
GDP deflator	14.3	8.1	8.8	16.8	18.9	16.0	15.0
Consumer price index							
Annual average	26.5	9.0	7.1	14.4	19.4	18.9	14.7
End of period	19.4	7.4	8.2	20.2			

Sources: Department of Statistics; and Fund staff estimates.

The balance of payments worsened significantly in the second year of the program with the reduction in bauxite exports, the tapering off of net inflows of official capital, and a resumption of private capital outflows. The current account deficit in the balance of payments widened to 24 percent of GDP from 21 percent the previous year (Table 4).1/ The overall balance reverted to a deficit of US$220 million in 1982/83, whereas the program had envisaged a modest surplus gain. By end-March

1/ Calculated on the basis of a shadow exchange rate which maintains the real effective exchange rate index constant at the 1978 level. Using the unadjusted official exchange rate, the current account deficit/GDP ratio actually declined to 14 percent in 1982/83 from 17 percent in 1981/82.

Table 3. Jamaica: Principal Indicators

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
(In percent of GDP)							
I. Central Government Finances							
Overall deficit							
Original three-year EFF program 1/	...	-13.3	...	-10.0			
Revised programs 2/	...	-13.3	-12.9	-10.3	-7.6	-5.0	-4.0
Actual/estimate	-17.1	-16.4	-16.4	-15.2			
Net foreign financing							
Revised programs 2/	...	11.2	10.5	7.8	17.5 3/	7.0	4.0
Actual/estimate	4.5	9.4	6.4	5.4			
Net domestic financing							
Revised programs 2/	...	2.1	2.4	2.5	-9.9	-2.0	--
Actual/estimate	12.6	7.0	10.0	9.8			
II. Balance of Payments							
Current balance							
Original three-year program 1/	...	-9.9	-9.5	-9.4			
Revised programs 2/4/	...	-9.9	-14.2	-3.0	-6.4	-4.5	-3.6
Actual/estimate 5/	-7.2	-20.5	-23.9	-13.0			
(In millions of U.S. dollars)							
Change in net international reserves							
Original three-year EFF program 1/	...	40	40	72			
Revised programs	...	40	12 6/	125	283	166	188
Actual/estimate	-151	43	-122	-306			

Sources: Tables 4 and 5; and Fund staff estimates.

1/ As set out in EBS/81/79.
2/ As set out in EBS/81/79, EBS/82/50 and EBS/83/122.
3/ Includes a major carry-over from 1983/84 and substantial rescheduling of external debt maturities.
4/ Calculated on the basis of the official rate.
5/ Calculated on the basis of the average shadow exchange rate, which is the rate necessary to maintain constant the real effective exchange rate at the 1978 level.
6/ Under the 1982/83 program the target for the first two years of the EFF was revised to US$55 million (cumulative).

Table 4. Jamaica: Balance of Payments, 1980/81-1983/84

(In millions of U.S. dollars)

	1980/81	1981/82		1982/83		1983/84	
	Actual	Prog.	Actual	Prog.	Est.	Prog.	Est.
Current account (net)	-191	-395	-438	-513	-461	-105	-271
Merchandise trade	-192	-415	-599	-652	-658	-465	-530
Exports, f.o.b.	(1,010)	(1,139)	(889)	(1,073)	(734)	(915)	(735)
Imports, c.i.f.	(-1,202)	(-1,554)	(-1,488)	(-1,725)	(-1,392)	(-1,220)	(-1,265)
Travel (net)	230	237	300	387	317	394	375
Receipts	(242)	(257)	(328)	(418)	(349)	(429)	(410)
Payments	(-12)	(-20)	(-28)	(-31)	(-32)	(-35)	(-35)
Investment income (net)	-287	-277	-225	-311	-215	-311	-217
Interest, official (net)	(-157)	(-219)	(-191)	(-221)	(-232)	(-258)	(-243)
Other	(-130)	(-58)	(-34)	(-90)	(17)	(-53)	(-26)
Other services (net)	-37	-55	-39	-53	-56	-30	-51
Transfers (net)	94	115	124	116	150	147	153
Capital account (net)	30	435	481	525	241	303	-165
Official (net)	211	479	427	484	314	316	65
Inflows	(314)	(679)	(649)	(785)	(639)	(719)	(449)
Outflows	(-103)	(-200)	(-222)	(-301)	(-325)	(-403)	(-384)
Private (net) 1/	-181	-44	54	41	-73	-13	-230
SDR allocation	10	--	--	--	--	--	--
Overall balance	-151	40	43	12	-220	198	-436
Financing	151	-40	-43	-12	220	-198	436
Change in net international reserves	151	-40	-43	-12	122	-125	306
Gross reserves	(11)		(-57)		(44)	(-221)	(27)
IMF	(-36)		(168)		(134)	(123)	(39)
Arrears 3/	(65)		(-106)		(--)	(-25)	(190)
Other	(111)		(-48)		(-56)	(-2)	(50)
Exceptional financing (net) 2/	--	--	--	--	98	-73	130
Memorandum items							
Arrears (end of period)	106	25	--	--	98	--	418
Current account (in percent of GDP)	-9.1	-9.9	-20.5 4/	-14.2	-23.9 4/	-3.0	-13.0 4/

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Includes net errors and omissions.

2/ For a breakdown, see Table 9.

3/ Overdue payments which were treated as reserve liabilities for program purposes.

4/ Calculated on the basis of a shadow exchange rate, i.e., the rate necessary to maintain the real effective exchange rate index constant at the 1978 level.

1983, official liquid reserves had been fully depleted and some US$98 million in payments arrears had accumulated. Therefore, a number of performance criteria under the program were not observed during the final quarter of the year.

In these circumstances Jamaica's exchange rate, which had remained fixed at J$1.78 per U.S. dollar since May 1979, came increasingly under pressure. The higher relative inflation rate in Jamaica and the overall strength of the U.S. dollar, to which the Jamaica dollar was pegged, led to an erosion in Jamaica's competitiveness. This was only partially mitigated by the increasing use of retained accounts and "no-funds" licenses in the illegal but tolerated parallel market, through which an estimated 15-20 percent of transactions were channeled. By the end of 1982, the rate in the parallel market was around J$3 per U.S. dollar and the real effective exchange rate index (adjusted for parallel market transactions) had appreciated by over 20 percent since the official rate was fixed in 1979 (Charts 1 and 2).

3. The 1983/84 program

In light of the 1982/83 outturn, the program for the third year of the arrangement called for a substantial strengthening of the adjustment effort. The balance of payments target envisaged the elimination of arrears and the rebuilding of gross reserves. Net international reserves were to improve by US$125 million, compared with a decline of US$122 million in the previous year. Supporting this target was a reduction in the central government deficit to 10.3 percent of GDP from 16.4 percent in 1982/83. This fiscal adjustment involved a small tax package, further improvements in tax administration, a sharp cutback in capital spending, and improvements in the finances of the rest of the public sector. On the strength of these undertakings, the Executive Board approved a waiver of the March 1983 performance criteria.

An important element of the 1983/84 program was a flexible exchange rate through the legalization and broadening of the parallel market, in which the rate was to float. Further incentives to the export sector were to be provided by a simplification of the import licensing system (including elimination of quantitative controls on imports of raw materials and capital goods by exporters), increased export financing through the Export Development Fund (EDF), and enhanced incentives for nontraditional exports. Recovery in the mining sector was expected to result in a strengthening of the balance of payments and fiscal positions. However, since there was uncertainty as to whether a number of planned special bauxite sales would be secured, the program included an understanding that additional fiscal measures would be taken should these sales fail to materialize.

The 1983/84 program quickly went off track, and the program targets for end-September were not observed. The proximate cause was a breakdown in the exchange rate system; underlying this was the inadequate response of fiscal and monetary policies to shortfalls in export earnings and capital inflows.

In the first few months of 1983 the rate in the parallel market ranged around J$2.60-J$3.00 per U.S. dollar compared with the official rate of J$1.78 per U.S. dollar. This widening spread made surrender requirements in the official market increasingly difficult to enforce. During the September quarter, the authorities took a number of measures in an attempt to stabilize the parallel market rate. The EDF was barred vented from purchasing foreign exchange from the parallel market, and over US$70 million of foreign exchange was provided from the official market to make oil payments. The tying of spot sales of foreign exchange to forward purchases in the parallel market was forbidden and banks were required to set aside 50 percent of parallel market exchange inflows to meet oil import payments. The authorities also advised the banks to fix the parallel rate at J$2.91-J$2.96 per U.S. dollar. In these circumstances the black market continued to flourish with the Jamaica dollar depreciating in this market to around J$3.75-J$4.25 per U.S. dollar by September 1983. These developments resulted in a breakdown of normal trade-financing operations, the cessation of operations of the EDF, the accumulation of external payments arrears, and substantial private capital outflows.

Financial policies did not help to absorb the pressures that developed in the exchange markets. The central government deficit exceeded the program target for the first half of the fiscal year by over 1 percent of GDP because of delays in implementing revenue measures and capital expenditure cuts. Moreover, there was a rapid expansion of private sector credit, contributing to a weakening of the capital account. This expansion of credit resulted from a rundown of the commercial banks' excess cash reserves, a de facto reduction in the required liquid assets ratio through allowing banks to count certain foreign assets in required holdings, and the failure to sterilize the monetary impact of the buildup of external payments arrears.

Discussions on a new program with the Fund began in the last quarter of 1983. In light of the unfavorable outturn under the EFF arrangement, a number of basic policy changes were required before a new program could be made effective: these included a unified market-determined exchange rate system, liberalization of the trade regime, fiscal adjustment measures, a tightening of credit policies, and confirmation of certain foreign financing agreements.

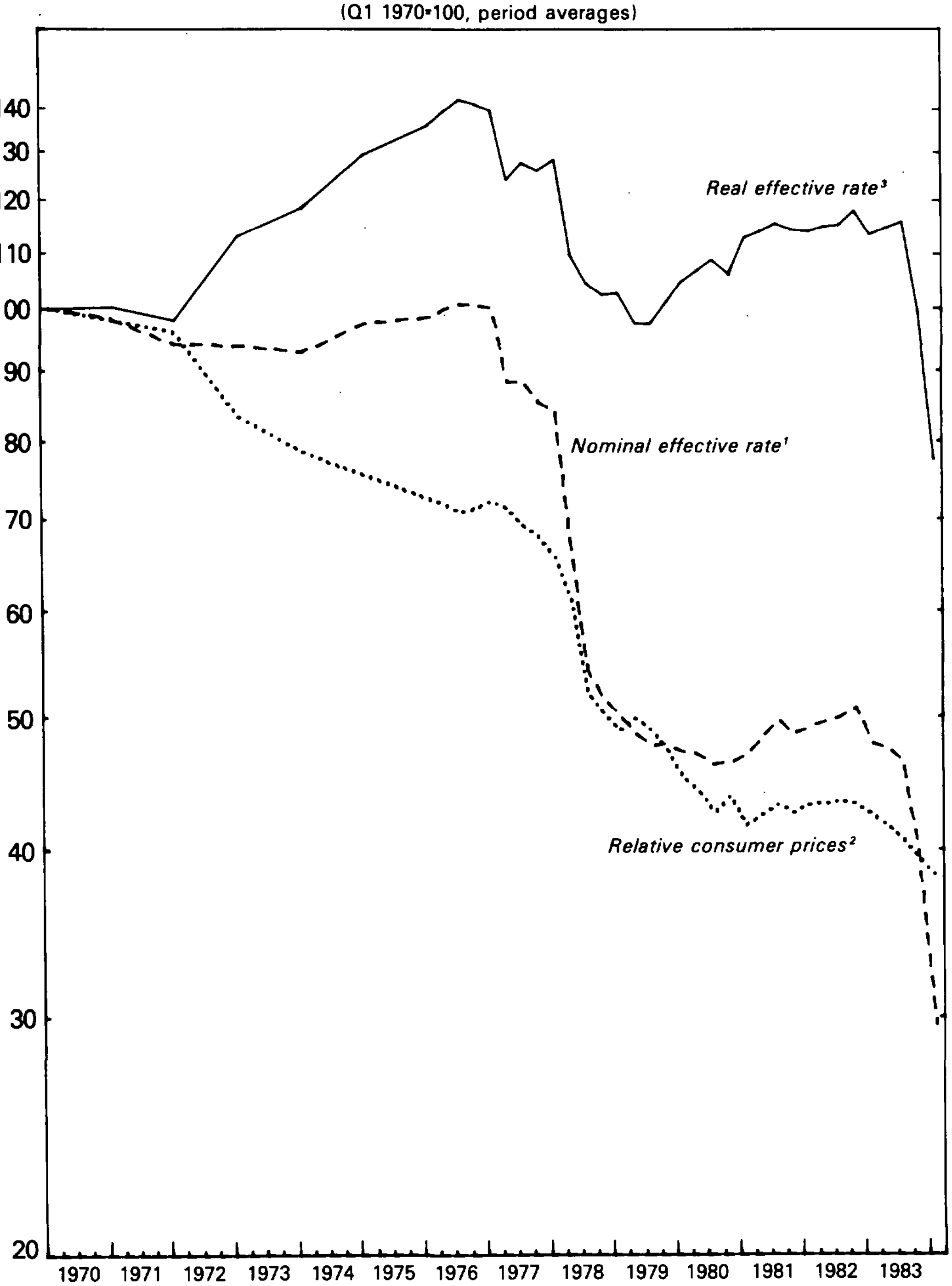
In November 1983, the authorities decided to unify the exchange rate regime under a managed float system. The exchange rate was to be maintained within an adjustable band of J$0.30, with the midpoint initially set at J$3.15 per U.S. dollar. The midpoint was to be adjusted fortnightly on the basis of the weighted average of actual rates for spot transactions. In late December, a rate determination mechanism was instituted through a daily auction system involving the domestic commercial banks. However, after three weeks, during which the band was adjusted to J$3.25-J$3.55 per U.S. dollar, the auction system was effectively abandoned and banks all bid at a fixed rate of J$3.25 per U.S. dollar until mid-March 1984. In the meantime, payments arrears continued to accumulate.

CHART 1

JAMAICA

EFFECTIVE EXCHANGE RATE INDICES, 1970-83

(Q1 1970=100, period averages)

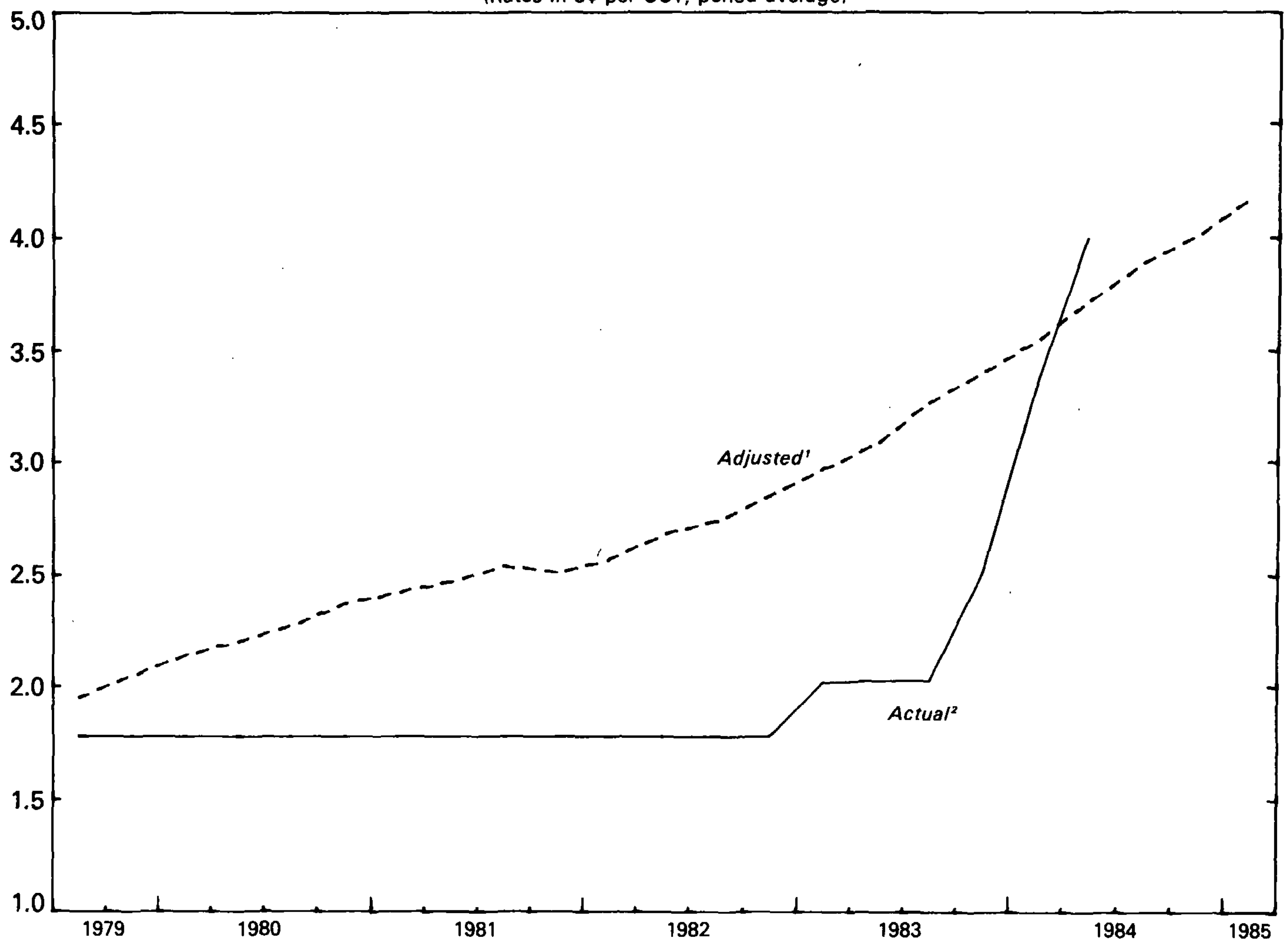


[1]Trade-weighted (1980) average value of partner countries' currencies in terms of Jamaican dollars. Decline in index represents depreciation of Jamaican dollar. Incorporates officially sanctioned dual market transactions, and for 1979 and beyond, black-market transactions.

[2]Partner countries' consumer price indices relative to Jamaican consumer price index.

[3]Nominal effective rate adjusted for relative consumer prices.

CHART 2
JAMAICA
EXCHANGE RATE ADJUSTMENT ON PURCHASING POWER PARITY BASIS
(Rates in J$ per US$, period average)



[1]Nominal rate necessary to maintain a constant real effective exchange rate; adjustment of 0.8 percent per quarter has been made to take account of differential rates of productivity between the traded goods sectors of Jamaica and its trading partners.
[2]1983 data are a weighted average of the rates in the dual market.

The fiscal and balance of payments situations continued to deteriorate in the last quarter of 1983 and early months of 1984. Following the 43 percent devaluation of the Jamaica dollar in the official market and the unification of the official and parallel markets in November, the Government introduced budgetary subsidies with a view to avoiding increases in basic food prices. These subsidies amounted to the equivalent of 1.3 percent of GDP. Although gasoline and electricity prices were raised by 50 percent and 40 percent, respectively, at the beginning of 1984, the delay in adjusting tariffs resulted in borrowing equivalent to about 1 1/2 percent of GDP from the Bank of Jamaica by the state petroleum company. Bank of Jamaica credit expansion was further fueled by exchange losses equivalent to 1 percent of GDP resulting from an exchange guarantee given on arrears existing at the time the dual market arrangement was adopted (in January 1983).

According to preliminary figures, the central government deficit in 1983/84 exceeded over 15 percent of GDP, against a program target of 10.3 percent. The worse-than-programed fiscal outturn reflected a shortfall of 7 percent in domestic revenues, as some tax measures contemplated in the program either were not implemented or provided less revenue than expected. Taxes on new automobiles and the tax compliance program provided less revenue than projected and nontax revenue was short of target, as profit remittances by public entities did not materialize to the extent expected. Bauxite levy proceeds were considerably lower than projected in terms of foreign exchange as the expected "special sales" were not concluded, but were about on target in local currency terms because of the devaluation. Total expenditure exceeded program targets by 10 percent reflecting higher current outlays due mainly to new subsidies and the higher cost of debt servicing. The interruption of the EFF program also led to US$95 million of capital inflows linked to the program being held up. Thus, as a result of the larger than expected fiscal deficit and shortfalls in foreign financing, the Government's recourse to domestic credit ballooned to about 10 percent of GDP compared with 2 1/2 percent envisaged in the program (Table 5).

In the monetary area, preliminary figures indicate that net domestic credit of the banking system increased by 58 percent (in relation to total liabilities to the private sector at the begining of the period) as against 11 percent envisaged in the program. Domestic bank financing of the Central Government was J$575 million (8 percent of GDP) higher than projected, bank financing of the rest of the public sector was J$136 million (2 percent of GDP) above program, and credit to the private sector exceeded the program by J$163 million (Table 6).

The looser than programed stance in financial policies and the shortfalls in exports and capital flows were reflected in a massive deterioration in the overall balance of payments position and a sharp pickup in inflation, from 8 percent in 1982/83 to 20 percent in 1983/84. The net international reserves of the Bank of Jamaica declined

Table 5. Jamaica: Summary Operations of the Central Government

		1981/82		1982/83		1983/84		1984/85
	1980/81	Prog.	Actual	Prog.	Actual	Program	Est.	Prog.
	(In millions of Jamaica dollars)							
Revenue	1,192	1,425	1,483	1,807	1,629	1,983	1,860	2,725
Tax revenue	881	1,052	1,131	1,364	1,377	1,640	1,568	1,870
Tax measures, 1984/85	—	--	--	--	--	--	--	206
Nontax revenue	81	49	52	101	54	146	98	98
Bauxite levy 1/	230	324	300	342	198	197	194	551
Expenditure	2,022	2,366	2,365	2,618	2,594	2,639	2,910	3,354
Current	1,550	1,693	1,721	1,912	1,921	2,136	2,394	2,789
Capital	472	673	644	706	673	503	516	565
Overall balance	-830	-941	-882	-811	-965	-656	-1,050	-629
Financing	830	941	882	811	965	656	1,050	629
Net external 1/	220	802	504	665	376	501	370	837
Net domestic	610	139	378	146	589	155	680	-822
Banking system	(490)	(...)	(189)	(...)	(636)	(-105)	(470)	(-1,062)
Other (including residual)	(120)	(...)	(189)	(...)	(-47)	(260)	(210)	(240)
Financing gap/refinancing	--	--	--	--	--	--	--	614
	(In percent of GDP)							
Revenue	24.5	20.1	27.6	28.7	27.6	31.0	26.9	32.8
Tax revenue	18.1	14.9	21.0	21.7	23.3	25.6	22.7	22.5
Tax measures, 1984/85	—	--	--	--	--	--	--	2.5
Nontax revenue	1.7	0.6	1.0	1.6	0.9	2.3	1.4	1.2
Bauxite levy	4.7	4.6	5.6	5.4	3.4	3.1	2.8	6.6
Expenditure	41.6	33.5	44.0	41.6	44.0	41.2	42.1	40.4
Current	31.9	24.0	32.0	30.4	32.6	33.3	34.6	33.6
Capital	9.7	9.5	12.0	11.2	11.4	7.9	7.5	6.8
Overall balance	-17.1	-13.3	-16.4	-12.9	-16.4	-10.3	-15.2	-7.6
Financing	17.1	13.3	16.4	12.9	16.4	10.3	15.2	7.6
Net external	4.5	11.3	9.4	10.6	6.4	7.8	5.4	10.1
Net domestic	12.6	2.0	7.0	2.3	10.0	2.5	9.8	-9.9
Banking system	(10.1)	(...)	(3.5)	(...)	(10.8)	(-1.6)	(6.8)	(-12.8)
Other (including residual)	(2.5)	(...)	(3.5)	(...)	(-0.8)	(4.1)	(3.0)	(2.9)
Financing gap/refinancing	--	--	--	--	--	--	--	7.4
Memorandum item								
Fiscal year GDP (millions of Jamaica dollars)	4,863	7,073	5,373	6,290	5,895	6,405	6,917	8,293

Sources: Ministry of Finance; and Fund staff estimates.

1/ Includes loan repayments of J$16 million, J$34 million and J$68 million, respectively in 1982/83, 1983/84, and 1984/85, corresponding to an advance of the levy in 1982/83.

Table 6. Jamaica: Summary Monetary Accounts

	1980/81	1981/82		1982/83		1983/84		1983/85
	Actual	Prog.	Actual	Prog.	Actual	Prog.	Prel.	Prog.
(Flows in millions of Jamaica dollars)								
I. Banking System								
Net international reserves	-273	69	95	1	-178	180	-835	1,075
Net domestic credit	522	350	407	307	721	311	1,567	-487
Central Government	490	(	(	(	636	-105	470	-1,062
Selected public entities	...	(129	(139	(100	-6	19	155	67
Private sector	180	388	298	359	447	316	479	250
Valuation adjustment, exchange losses and other (net)	...	-167	-30	-152	-359	--	463	258
Liabilities to private sector	249	419	502	308	543	491	732	588
II. Bank of Jamaica								
Net international reserves	-268	71	77	21	-261	223	-918 1/	1,132 1/
Net domestic credit	284	-31	-32	14	292	-192	968	-1,072
Central Government	518	(	37	(	535	-191	503	-1,339
Selected public entities	(	(-9	(	(57	-20	--	82	52
Rest of public sector	(-65	(	(8	(	-245	-10	41	--
Net credit to banks	-103	...	16	...	115	-74	-212	-58
Medium- and long-term foreign liabilities	-19	...	-39	...	-113	--	-219	79
Valuation adjustment, exchange losses and other (net)	-47	...	-54	...	20	83	773	194
Currency in circulation	16	40	45	35	31	30	50	60
III. Commercial Banks								
Net foreign assets	-5	-2	18	-20	83	-43	83	-57
Net domestic credit	228	381	439	296	429	503	599	585
Central Government	-28	(	226	(	101	86	-33	277
Selected public enterprises	...	(138	...	(44	13	19	73	15
Private sector	180	388	298	359	447	316	479	250
Other (net)	...	-145	...	-107	-132	82	80	43
Liabilities to private sector	233	379	457	276	512	460	682	528
(Annual percentage change)								
Banking System								
Net domestic assets 2/	36.8	20.9	24.3	14.1	33.1	11.4	57.6	14.1
Net credit to Central Government 2/	34.3	...	...	...	30.6	-3.9	17.3	-30.8
Credit to private sector 2/	12.6	23.1	17.8	16.5	20.5	11.6	17.6	7.2
Liabilities to private sector	17.4	25.0	29.9	14.1	24.9	18.1	26.9	17.0

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Valued at J$3 per U.S. dollar in 1983/84 and J$4 per U.S. dollar in 1984/85.
2/ In relation to liabilities to private sector at the beginning of the period.

by US$306 million compared with a programmed increase of US$125 million. This included US$190 million of arrears on public sector debt servicing. At the end of March 1984, total arrears amounted to some US$418 million; in addition to the US$190 million of arrears considered as part of net international reserves, there were US$65 million of commercial bank maturities in arrears, for which rescheduling has been agreed but not concluded, US$73 million of arrears to Venezuela on which agreement to reschedule is expected before the program is presented to the Board, US$34 million of overdue payments to Paris Club creditors, for which reschedduling has now been formally requested, and private sector arrears estimated at US$56 million.

The growing balance of payments crisis prompted a tightening of trade restrictions, primarily through the administration of the license system. During the course of 1983/84, approximately 50 percent of non-fuel imports of the nonbauxite sector were made subject to quantitative control. In addition arrears were accumulated on payments for imports not subject to trade restrictions. The shortage of foreign exchange and the resulting import compression (the nominal value of imports contracted by 9 percent in 1983/84) were the major factors accounting for a narrowing of the current account deficit to 13 percent of GDP. This deficit was, however, still considerably in excess of the program target of 3 percent of GDP as exports were far below projection.

Between December 1980 and March 1984, Jamaica's public and publicly guaranteed medium- and long-term external debt, including net credit from the Fund, grew by 80 percent to US$3.1 billion, the equivalent of almost 150 percent of GDP. Of this total debt, some 42 percent represented government-to-government loans, 20 percent net credit from the Fund and 18 percent loans from the IBRD and other multilateral agencies. Commercial bank loans amounted to only US$0.4 billion, or 13 percent of total. The debt service ratio (calculated to include payments which were rescheduled or had fallen into arrears) reached 42 percent by 1983/84, compared with a level of around 16-17 percent in the late 1970s. Even after rescheduling, debt service payments, of which one half was interest payments, absorbed some 30 percent of exports of goods and services (Table 7).1/

III. The Medium-Term Outlook

The 1984/85 program is framed within the context of a medium-term strategy which aims at a reduction in the fiscal deficit to around 4-5 percent of GDP in order to bring the external current account deficit down to 2 percent of GDP. The attainment of the current account targets would be consistent with an accumulation of liquid

1/ For the purpose of this calculation, payments due to the commercial banks have been treated as being rescheduled, since agreement has already been reached in principle.

Table 7. Jamaica: External Public Debt Operations, 1982/83-1989/90 1/

	Actual		Projected					
	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
	(In millions of U.S. dollars)							
A. Non-IMF debt (end of period)	2,214	2,452	2,949	3,242	3,521	3,771	4,055	4,281
B. IMF credit (net, end of period)	598	617	674	594	464	314	155	59
C. Total debt (end of period)	2,812	3,069	3,623	3,836	3,985	4,085	4,210	4,340
Of which:								
Existing debt 2/	2,812	...	2,348	2,017	1,706	1,388	1,113	926
Projected debt 3/	--	...	1,275	1,819	2,279	2,697	3,097	3,414
D. Less: liquid reserve assets	39	1	93	141	185	210	255	315
E. Net debt (end of period) (A+B+C-D)	2,773	3,068	3,530	3,695	3,800	3,875	3,955	4,025
F. Total debt service (accrual basis) 4/	505	611	738	830	811	853	848	813
Existing non-IMF debt	410	477	336	361	275	236	187	155
Principal	(219)	(322)	(229)	(251)	(181)	(168)	(116)	(91)
Interest	(191)	(155)	(107)	(110)	(94)	(82)	(71)	(64)
IMF	95	107	130	165	179	186	181	107
Repurchases	(41)	(43)	(63)	(104)	(130)	(150)	(159)	(96)
Charges (including SDR allocation)	(54)	(64)	(67)	(61)	(49)	(36)	(22)	(11)
Projected debt	--	27	272	304	357	417	480	551
Principal	(--)	(--)	(177)	(169)	(175)	(202)	(232)	(272)
Interest	(--)	(27)	(95)	(135)	(182)	(215)	(248)	(279)
G. Rescheduling/arrears 5/	98	321	131	--	--	--	--	--
Principal	98	259	167	--	--	--	--	--
Interest	--	62	-36	--	--	--	--	--
H. Total debt service (cash basis) F-G 6/	407	290	607	830	811	853	848	813
Principal	162	106	306	524	486	520	507	459
Interest	245	184	301	306	325	333	341	354
I. Total net debt service (cash basis) 7/	404	290	600	820	798	837	829	788
	(In percent)							
Memorandum items								
Debt service ratio (cash basis) 8/	29.4	19.7	37.3	47.0	40.5	37.2	32.6	27.4
Debt service ratio (accrual basis) 8/	36.5	41.5	44.9	47.0	40.5	37.2	32.6	27.4
Interest payments ratio (cash basis) 8/	17.8	12.5	18.7	17.6	16.5	14.8	13.4	12.3
Net debt/GDP 9/	130.2	147.3	170.3	162.0	151.6	140.4	130.3	120.5
Average interest rate 9/10/	8.9	8.3	8.0	8.2	8.3	8.3	8.2	8.3

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Medium- and long-term public and publicly guaranteed disbursed debt, including liabilities of the Bank of Jamaica.
2/ As at end-March 1983, but includes projected drawings from Fund until end of 1984/85 program.
3/ Includes debt incurred to meet financing gap.
4/ Originally scheduled payments, may include some interest payments on short-term debt.
5/ Repayment of arrears has a minus sign.

reserves to the equivalent of ten weeks of nonbauxite sector imports by 1987/88 and a decline in the debt service ratio to 27 percent in 1989/90 from a peak of 47 percent in 1985/86 (Table 8).

Attainment of these objectives requires a substantial reduction in the public sector deficit, by about 10-12 percentage points of GDP from the levels of recent years. Given the relatively high tax ratio and infrastructure requirements, nearly all of this adjustment is to be made in current outlays, which will require improved efficiency, layoffs, wage restraint, and reductions in subsidies and transfers. There is need for reform of the tax system to improve equity, provide appropriate incentives for production, and simplify administration.1/

Achievement of the program goals will also require the successful implementation of policies aimed at promoting the growth of nontraditional exports and tourism, and discouraging further outflows of private capital. The medium-term projections hinge on a recovery in the bauxite sector and assume that foreign interest rates will not rise beyond current levels.

Real GDP is projected to grow at a rate of about 3 percent a year through 1989/90 and exports of goods and services would rise by 14 percent a year in U.S. dollar terms. These developments partly reflect recent steps taken to improve the competitiveness of the bauxite industry. The new levy regime agreed in April 1984 effectively lowers the tax burden faced by the bauxite companies. For example, at full capacity and current ingot prices, the new levy averages about US$15 per ton compared with about US$19 per ton under the previous arrangement. The industry also has been provided additional improvements in profitability through the devaluation of the Jamaica dollar. These measures, in conjunction with recovery in the industrial countries, should enable bauxite production to recover to the 9-10 million ton range by 1986/87.

Improved access to the U.S. market under the Caribbean Basin Initiative is expected to provide a major stimulus to nontraditional exports. The substantial real effective depreciation of the Jamaica dollar since January 1983 and other measures such as the liberalization of the trade regime and restoration of the Export Development Fund should allow Jamaica to take full advantage of the new opportunities offered to nontraditional exports.

As regards the capital account, the large-scale special balance of payments assistance from multilateral and bilateral sources of the past few years is expected to taper off, while debt service payments will remain substantial. Assuming constant exposure of the commercial banks and given the targets for rebuilding the Bank of Jamaica's reserve position from its present depleted level, there is likely to be a need

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1/ A team of experts will present recommendations in this area this year and implementation is expected to begin next fiscal year.

Table 8. Jamaica. Medium-Term Balance of Payments, 1983/84-1989/90

	Est.	Proj.					
	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
	(In millions of U.S. dollars)						
Current account	-271	-133	-105	-90	-60	-65	-55
Exports, f.o.b.	735	870	976	1,147	1,342	1,543	1,774
Bauxite	(471)	(528)	(611)	(735)	(831)	(955)	(1,098)
Other	(264)	(307)	(365)	(412)	(511)	(588)	(676)
Imports	-1,265	-1,305	-1,328	-1,385	-1,557	-1,816	-2,095
Oil	(-405)	(-412)	(-435)	(-455)	(-480)	(-500)	(-530)
Other	(-860)	(-893)	(-893)	(-930)	(-1,077)	(-1,316)	(-1,565)
Services/transfers	259	302	247	148	155	208	266
Travel	(375)	(430)	(457)	(494)	(551)	(615)	(685)
Interest, official (net)	(-243)	(-262)	(-296)	(-312)	(-317)	(-322)	(-329)
Other	(126)	(134)	(86)	(-34)	(-79)	(-85)	(-90)
Capital (net)	-165	370	100	161	107	127	133
Official (net)	65	339	100	161	107	127	133
Inflows	(449)	(768)	(542)	(518)	(478)	(490)	(511)
Outflows	(-384)	(-429)	(-442)	(-357)	(-371)	(-363)	(-378)
Domestic commercial banks	-15	14	--	--	--	--	--
Other private 1/	-215	17	--	--	--	--	--
Overall balance	-436	237	-5	71	47	62	78
Financing	436	-237	5	-71	-47	-62	-78
Change in net international reserves	306	-283	166	-188	-189	-204	-156
Gross reserves 2/	(27)	(-88)	(-48)	(-44)	(-25)	(-45)	(-60)
IMF	(39)	(58)	(-104)	(-130)	(-150)	(-159)	(-96)
Arrears 3/	(190)	(-190)	(--)	(--)	(--)	(--)	(--)
Other	(50)	(-63)	(-14)	(-14)	(-14)	(--)	(--)
Exceptional financing (net) 4/	130	-228	--	--	--	--	--
Financing gap	--	274	171	117	142	142	78
	(In percent of GDP)						
Current account deficit	13.0	6.4	4.5	3.6	2.2	2.2	1.6

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Includes net errors and omissions.
2/ Projections consistent with target for liquid reserves equivalent to over 5 weeks of nonbauxite sector imports in 1984/85, 8 weeks in 1985/86, and 10 weeks thereafter.
3/ Overdue payments which are treated as reserve liabilities for program purposes.
4/ For a breakdown, see Table 9.

for refinancing or new borrowing of around US$100-US$150 million a year for the remainder of the decade, after the large-scale refinancing planned for 1984/85.

IV. The 1984/85 Stand-by Program

The economic program in support of which the stand-by arrangement is requested is designed to provide the basis for the longer term restructuring of the economy. Of prime importance is the normalization of the payments system through the elimination of arrears and a rebuilding of international reserves. The program rests essentially on four elements: tight demand management; a market-determined flexible exchange rate; liberalization of the trade regime and other policies to facilitate export-led growth; and a rescheduling of external debt.

1. Demand management

The program has been framed on the basis of a growth in output of 1 percent and an increase in consumer prices of close to 20 percent (compared with growth of less than 1/2 percent and inflation of 14 percent in the previous year). The higher rate of price increase results mainly from corrective price changes. Broad money is projected to expand by 17 percent, and the growth of domestic credit has been set with a view to generating an improvement in net international reserves of US$283 million, compared with the deterioration of US$306 million that occurred in 1983/84. Attainment of the latter objective will permit the elimination of all external arrears and restoration of the liquid reserves of the Bank of Jamaica to the equivalent of over five weeks of imports, excluding imports of the bauxite sector. Nearly US$100 million of the turnaround in the net international reserves reflects timing factors as certain loan disbursements which had been expected to take place in the last quarter of 1983/84 were delayed.

a. Fiscal policy

(1) Central Government

A major fiscal adjustment will be undertaken in 1984/85, with the central government deficit targeted to decline to 7.6 percent of GDP compared with an outturn estimated at 15.2 percent of GDP in 1983/84.1/

1/ It should be noted that the target expressed in the letter of intent is 8.3 percent of GDP because of a different treatment of amortization on the 1982 advance of the bauxite levy (the bauxite tolling arrangement). The staff considered the tolling arrangement as borrowing with subsequent levy deductions as repayments of debt.

On the revenue side, a set of measures estimated to yield some J$200 million (2 1/2 percent of GDP) was announced in April 1984, raising nonbauxite revenues to 26.2 percent of GDP in 1984/85, from 24.1 percent in 1983/84. The new measures include a 6 percent stamp duty on most imports of raw materials, license fees and increased room taxes on the hotel sector, and an increase in the consumption tax on cigarettes. With higher bauxite levy proceeds resulting from the devaluation of the Jamaica dollar and a recovery in exports, total revenue is projected to rise by almost 6 percentage points to 32.8 percent of GDP (see Table 5). The revenue estimate includes J$60 million (0.7 percent of GDP) from bauxite levy proceeds on an expected bauxite stockpile purchase by the United States. In the event that this purchase is not agreed upon, equivalent offsetting action in the current account of the budget is to be announced within 14 days of the decision of the U.S. authorities.

Total expenditure relative to GDP is to be reduced by about 1 1/2 percentage points to 40.4 percent. The principal measures include a reduction of some 10-15 percent in central government employment, excluding teachers, health workers, and security personnel. Under the existing wage contract, outlays on wages were scheduled to rise by 17 percent. The new measures will reduce the increase in total wage payments to 13 1/2 percent, as the reduction in staffing will take place over the year and redundancy payments postpone the full financial impact.

Other current outlays, excluding interest payments, are to be held below the estimated outturn for 1983/84 in nominal terms. In particular, prices of certain imported basic foods have been adjusted upward and, as a result, the budget allocation for subsidies will be below last year's level. Subsidies on imported basic foods are to be phased out by the end of 1985/86. Partially offsetting these savings, interest payments are expected to rise by 36 percent (1.7 percent of GDP), almost entirely as a result of the increased cost of servicing external debt.

Capital outlays will be cut by 0.7 percent of GDP, which is consistent with priorities established in a recent review of the public sector investment program by the Jamaican authorities in collaboration with the IBRD.

(2) Rest of public sector

The program also involves major adjustments in other parts of the public sector. In order to reduce the financing requirement of the sugar industry, which was facing potential losses equivalent to about 1 1/2 percent of GDP during the program year, the domestic price of sugar was raised and the Government decided to close three of the six sugar factories and release some 53,000 acres from sugar production; the remaining factories are to be leased or sold to private interests. Telephone rates are to be raised, the telephone company's investment program is to be stretched out and electricity tariffs are to be increased further as the cross-subsidy to the electricity utility built into gasoline prices was exhausted as a result of the continued depreciation of the Jamaica dollar. The program provides ceilings on the domestic financing of the selected public sector and contains understandings that electricity tariffs, gasoline prices, and other utility rates will be raised promptly in the event of external price increases or further depreciation of the Jamaica dollar.

b. Monetary policies

In addition to the planned reduction in public sector domestic borrowing, private sector credit is targeted to increase by some 12 percent during 1984/85 compared with an actual growth of 28 percent in 1983/84. The tightening of credit policy is intended to curtail private capital outflows or even induce a reflow. Initial moves to tighten credit were announced in January 1984 with quarterly limits on each bank's loans to the private sector. The cash reserve requirement on the commercial banks was raised from 5 to 10 percent in various steps from February to April, and the required liquid asset ratio was raised from 36 percent to the legal maximum of 40 percent in February. Furthermore, reversing a change introduced last year, the definition of the ratio was modified to exclude certain foreign assets, which were equivalent to around 4 percent of deposits.

The authorities have introduced selective measures in an attempt to prevent restrictive credit policies from placing an undue constraint on the productive sectors; this is to be done through a subceiling that implies a significant reduction in outstanding credit to the distributive and personal services sectors during 1984/85. The reactivation of the Export Development Fund and the availability of US$35 million under the IDB Industrial Rehabilitation loan are also expected to help shield the productive and export sectors from the impact of credit restraint.

Public sector entities are being debited for all external payments as they fall due and the counterpart of arrears kept in a segregated account at the Bank of Jamaica. The domestic currency counterpart of the private sector arrears removed from the exchange auction is to be sterilized (see below).

In order to curb credit expansion by the nonbanks, the authorities imposed a ceiling of 20 percent on the growth of credit to the private sector by these institutions, and their liquid assets ratio was raised from 10 to 15 percent.

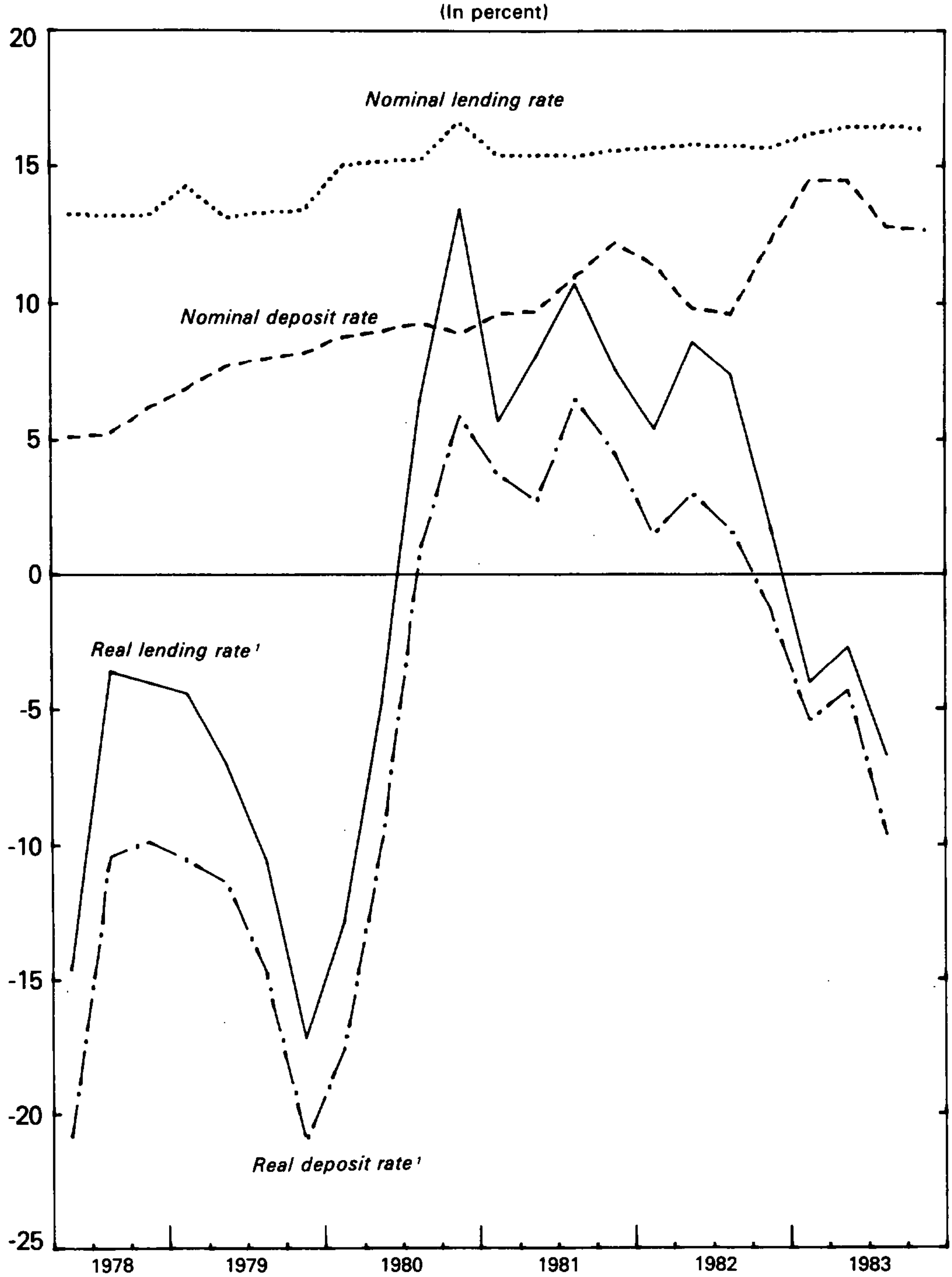
Interest rates became negative in real terms during 1983 as nominal deposit rates declined reflecting the abundant liquidity in the economy, and inflation accelerated (Chart 3). Controlled interest rates were increased by 2 percentage points in February 1984, when the minimum savings deposit rate was set at 11 percent, the Bank rate at 13 percent, the rediscount rate at 15 percent, and the maximum mortgage rate at

CHART 3

JAMAICA

INTEREST RATES, 1978-83

(In percent)



Source: Bank of Jamaica; Fund staff estimates.

[1] Nominal rates deflated by the annualized change in consumer prices in the following six months.

16 percent. Rates on Treasury bills are market-determined as are rates on time deposits and commercial bank loans. The Treasury bill rate serves as a floor for the bank and discount rates. Controlled interest rates are to be kept under review (see paragraph 16 of the Letter of Intent).

2. External policies

a. Exchange rate regime

A unified exchange rate system, responsive to market forces, is a critical element in the 1984/85 program to support demand management policies and ensure that the balance of payments target is attained. Moreover, a realistic exchange rate is essential to stem and in time reverse the capital flight that has taken place in recent years and to enable the needed import liberalization to proceed.

Since mid-March 1984, the official exchange rate has been determined twice weekly through an auction system, which is described in some detail in paragraphs 6-8 of the attached Letter of Intent. Under this system, movements in the rate are constrained by a band of J$0.30 which is adjustable periodically in accordance with a predetermined formula. The band was adjusted three times to J$3.70-J$4.00 per U.S. dollar in the period to late April. In the meantime, the black market rate has remained fairly stable at a level of around J$4.00-J$4.25 per U.S. dollar.

In the first few auctions, virtually all bids were at the maximum rate within the band and the level of unsatisfied demand increased steadily to over US$60 million. Most of the demand in the market related to payments which fell due before end-January 1984; at the same time, substantial import demand was not being expressed in the auction since importers were not allowed to bid for exchange with which to prepay letters of credit, a practice required by the commercial banks as a result of the shortage of foreign exchange. To make the system reflect current demand and supply more closely, on April 13 it was decided to remove the demand relating to the payments arrears from the auction, and to allow importers to bid for exchange with which to prepay letters of credit. Arrears which were excluded from the auction are to be registered with the Bank of Jamaica and scheduled on a priority basis, with the equivalent domestic currency being sterilized in the Bank. The latter will provide the foreign exchange to discharge these obligations on a phased basis by March 1985 through resources withheld from the auctions. In addition, regulations and exposure limits for a forward cover facility are to be promulgated shortly.

The most recent changes brought the cumulative effective depreciation of the Jamaica dollar in real terms to about 44 percent in the period from the beginning of 1983 to late April 1984.

b. Trade and payments system

A basic objective of the EFF as well as the World Bank SAL program has been the deregulation of the economy, particularly in the area of import licensing. In March 1984, the import licensing system was overhauled; licensing was reduced to a limited number of items protected by quotas on the "restricted list," and certain "low-priority" consumer goods (including motorcars). The coverage of the restricted list had already been reduced under the SAL program, and the remaining items on the restricted list will be removed over the next two years according to a schedule agreed with the World Bank. Following the changes already made, almost three quarters of the 1982 value of imports (excluding oil and imports of the bauxite industry) can now be imported without license.

In the area of current payments, exchange restrictions exist in the form of external arrears and of travel allowances, which are presently set at US$55 per person per year. The authorities agreed with the staff that these restrictions help perpetuate the black market and thus weaken the efforts to establish confidence in the new exchange system. Although in the present unsettled conditions they are hesitant to increase travel allowances, they intend to do so before the end of 1984. Foreign exchange approval for other current and capital remittances, except cash gifts and transfers which do not involve contractual obligations, is granted without restriction.

c. Donor support and debt relief

The program provides for a considerable increase in gross foreign official borrowing from US$449 million in 1983/84 to US$768 million in 1984/85. Of this amount, some US$484 million represents normal flows disbursed primarily from multilateral and governmental sources and US$115 million incremental finance which was originally expected to be disbursed before March 1984 but is now expected to be drawn down in the first quarter of 1984/85. The remainder represents debt relief, including maturities of US$169 million to Venezuela and Trinidad and Tobago, on which agreement is expected before the program is discussed by the Board (Table 9).

Despite the large adjustment projected in the current account, the substantial repayments of arrears and buildup in reserves which the program calls for leaves an unfinanced gap in the balance of payments of US$274 million in 1984/85. In an effort to close this gap, Jamaica has already presented a formal request to the creditors through a Paris Club arrangement for the rescheduling of arrears and current maturities totaling US$120 million. Moreover, the authorities expect to sign, shortly after Board approval of the program, an agreement with the commercial banks for the postponement of US$93 million in principal payments falling due in 1984/85, as well as US$65 million in payments which fell due in the last three quarters of 1983/84.1/ Thus,

1/ The terms of the rescheduling were agreed in principle in June 1983.

Table 9. Jamaica: External Financing, 1981/82 - 1987/88

(In millions of U.S. dollars)

	1981/82	1982/83	1983/84 Prog.	1983/84 Est.	1984/85 Proj.	1985/86 Proj.	1986/87 Proj.	1987/88 Proj.
Current account	-438	-461	-705	-271	-133	-105	-90	-60
Official capital inflows:								
new funds	562	543	533	338	599 1/	542	518	478
Governments	220	251	256	199	322	212	192	200
United States	(75)	(164)	(163)	(114)	(195)	(129)	(87)	(88)
United Kingdom	(9)	(6)	(7)	(6)	(7)	(...)	(...)	(...)
Canada	(12)	(3)	(21)	(12)	(22)	(...)	(...)	(...)
West Germany	(4)	(1)	(4)	(4)	(7)	(...)	(...)	(...)
Netherlands	(4)	(2)	(4)	(3)	(6)	(...)	(...)	(...)
France	(11)	(--)	(9)	(13)	(12)	(...)	(...)	(...)
Japan	(5)	(5)	(5)	(4)	(10)	(...)	(...)	(...)
Italy	(14)	(3)	(15)	(4)	(17)	(...)	(...)	(...)
India	(--)	(--)	(5)	(--)	(5)	(...)	(...)	(...)
Venezuela/Mexico oil facility	(86)	(67)	(23)	(39)	(41)	(--)	(--)	(--)
Multilateral	66	51	115	51	116	85	85	45
IDB	(--)	(4)	(30)	(16)	(35)	(35)	(40)	(45)
World Bank	(56)	(47)	(75)	(35)	(81)	(50)	(45)	(--)
OPEC	(10)	(--)	(10)	(--)	(--)	(--)	(--)	(--)
Project financing/suppliers' credits 2/	121	73	120	77	132	138	145	160
Other	155	111	42	10	30	107	96	73
Commercial banks 3/	(71)	(1)	(17)	(--)	(--)	(107)	(96)	(73)
Bauxite-related borrowing	(66)	(100)	(25)	(10)	(--)	(--)	(--)	(--)
Austen Blades	(--)	(--)	(--)	(--)	(30)	(--)	(--)	(--)
Other	(18)	(10)	(--)	(--)	(--)	(--)	(--)	(--)
Official capital inflows:								
rescheduling	87	153	186	111	169 1/	--	--	--
Venezuela (including oil)	--	25	25	15	73	--	--	--
Trinidad and Tobago	39	85 4/	96	96	96	--	--	--
Commercial banks	48	43	65	--	--	--	--	--
Official capital outflows	-222	-325	-403	-384	-429	-442	-357	-371
Private capital movements (net)	54	-73	-13	-230	31	--	--	--
Net international reserves (increase -)	-43	122	-125	306	-283	-166	-188	-189
Arrears 5/	-106	--	-25	190	-190	--	--	--
Other	-57	122	-100	116	-93	-166	-188	-188
Exceptional financing (arrears)	--	98	-73	130	-228	--	--	--
Oil (Venezuela)	--	73	-73	--	-73	--	--	--
Paris Club creditors	--	--	--	34	-34	--	--	--
Commercial banks	--	--	--	65	-65	--	--	--
Other	--	25	--	31	-56	--	--	--
Financing gap	--	--	--	--	274 6/	171	117	142

Sources: Bank of Jamaica; and Fund staff estimates.

1/ A total of US$188 million of inflows represent carryovers from the March quarter of 1983, reflecting in part delays in concluding an agreement on a program for 1984/85. The carryovers were US$45 million (U.S.A), US$26 million (World Bank), US$30 million (Austen Blades), and US$87 million (Venezuela, of which US$73 million represents the rescheduling of oil arrears). Of these amounts, US$94 million are receivable in the form of cash.

2/ Includes Eximbank.

3/ Commercial bank flows beyond 1984/85 are those necessary to maintain exposure.

4/ Includes conversion of a US$55 million deposit at the Bank of Jamaica into a 366-day credit.

5/ Overdue payments which are treated as reserve liabilities for program purposes.

6/ Identified possible sources of finance include a rescheduling of debts due to Paris Club creditors (a total of US$120 million are eligible for rescheduling), US$158 million in amortization payments due to the commercial banks (of which US$65 million fell due in 1983/84), and a new commercial bank loan of US$8 million.

the total amount for which refinancing is being sought covers some US$447 million of 1983/84 and 1984/85 maturities, including oil credits mentioned above. In the event that the financing gap cannot be closed, the authorities are committed to taking the necessary adjustment measures to ensure that the basic goals of the program remain intact.

3. Other structural adjustment policies

The incidence of price controls has been reduced since 1981/82, although rent controls were reintroduced in 1983. The authorities consider that price controls are no longer a major problem area; this is also the view of the private sector representatives with whom the mission discussed the question.

As part of its strategy to encourage private initiative, the Government intends to divest public enterprises that are primarily engaged in production. Over the past three years, 2 enterprises have been sold, 11 have been leased to private interests, and 14 enterprises liquidated. However, there have also been steps in the opposite direction, such as the acquisition by the Government in 1982 of the local oil refinery and the lease of a hotel. It is expected that the divestment policy will receive new impetus in 1984, particularly in the context of the restructuring of the sugar sector.

The agricultural sector is the focus of an ambitious diversification effort through encouragement of commercial export farming (Agro-21). Notable in this area are foreign investments in vegetable production, fish farming, and coffee production. In addition, a large banana plantation is being organized and the sugar sector is to be restructured. The state marketing organizations for coffee, cocoa, citrus and pimento are being divested of a range of nonmarketing functions such as input supply, extension, and research activities.

In the manufacturing sector the restructuring program is centered on export incentives through the depreciation of the exchange rate, liberalization of imports (including phased removal of import quotas) and provision of financing through the IDB - Industrial Rehabilitation loan and the IBRD-Export Development Fund.

4. Incomes policies

The Government is aware of the critical importance of wage restraint in Jamaica's adjustment efforts. In light of past experience, the authorities consider formal wage guidelines to be counterproductive. Instead, under the policy of free collective bargaining, they will encourage settlements of the order of 15 percent in 1984 compared with an expected inflation of 20 percent. To this end, the authorities are committed to keeping wage settlements in the public sector below the rate of inflation. In addition, the authorities plan to intensify their monitoring of wage settlements.

5. Performance criteria, consultation provision, and review clauses

The performance criteria pertaining to the program are set out in the Technical Memorandum of Understanding annexed to the letter requesting that Fund resources be made available under the stand-by arrangement (Annex II to Attachment VI). Reviews before September 30, 1984 and December 31, 1984 of the exchange system and demand management policies are also performance criteria.

The following performance criteria are subject to continuous testing during the program year:

(1) A set of quarterly ceilings on the borrowing requirement of the Central Government, defined to include all sources of domestic and foreign financing. It is understood that the Central Government will not incur any payments arrears.

(2) Quarterly ceilings on net banking system credit to the selected public entities and a limit on their use of nonbank credit. The selected public entities will not incur payments arrears (the list of entities has been broadened to include the petroleum company).

(3) Quarterly ceilings on the net domestic assets of the Bank of Jamaica. These ceilings will be subject to a downward adjustment for any excess, over programed amounts, of net official medium- and long-term foreign borrowing. Gross inflows associated with project financing by multilateral and other official development agencies are excluded from the foreign borrowing level to which this provision applies, because these disbursements are closely tied to imports and project execution. Contracting of new debt for projects in the public sector investment program requires the approval of the World Bank under the SAL. Import-related credits extended to the private sector with a government guarantee are also excluded from the total amount subject to adjustment: these comprise trade credits administered by the Jamaica Export Credit Insurance Corporation.

(4) A set of balance of payments targets framed in terms of the net international reserve position of the Bank of Jamaica (including external payments arrears as foreign liabilities). The balance of payments targets will be subject to an upward adjustment for any excess in the external flows referred to in paragraph (3) above.

In addition, the program includes as performance criteria schedules for the elimination of all external payments arrears (including outstanding replenishment obligations to the Export Development Fund), and the customary injunctions against restrictions on the trade and payments system.

A summary of the quantitative performance criteria is presented in Table 10.

Table 10. Jamaica: Quantitative Performance Criteria, 1984/85

	1983 Dec. 1/	1984 March 1/	1984 June	1984 Sept.	1984 Dec.	1985 March
	(End of period, in millions of U.S. dollars)					
Net international reserves 2/	-854	-853	-750	-755	-670	-570
Public sector external arrears:		362	114	76	--	--
Net external debt disbursements 3/		...	279	377	399	478
	(In millions of U.S. dollars)					
Reduction in private sector external arrears		...	14	14	14	14
	(End of period, in millions of Jamaica dollars)					
Net domestic assets of the Bank of Jamaica 4/	3,952	...	3,515	3,546	3,285	2,855
Central government net borrowing requirement 5/			229	518	710	697
Net banking credit to selected public sector 5/			-38	65	35	67
Net nonbank credit to selected public sector 5/			42	42	42	42

Source: Technical Memorandum of Understanding.

1/ Actual.
2/ Targets adjustable upward for any excess of net external debt disbursements over programmed amounts.
3/ Medium and long term. Any excess in net disbursements is to be added to net international reserves. Excludes project loans and trade financing contracted by the private sector with a government guarantee. Figures refer to cumulative change from December 31, 1983.
4/ Ceilings adjustable downward for any excess of net external debt disbursements over programmed amounts.
5/ Cumulative change from March 31, 1984.

V. Staff Appraisal

The economic recovery program of the Jamaican authorities, adopted at the beginning of 1981 and supported by an EFF arrangement, encountered severe difficulties in 1982. These difficulties stemmed in part from a less favorable than expected external environment (bauxite exports declined sharply and capital inflows, initially very substantial, tapered off), but they also were a consequence of inadequate policies. The reduction in domestic expenditure that would have been required to offset the unfavorable external developments was not made and, as a result, the goals for the second year of the program (1982/83) in the fiscal and balance of payments areas were missed by wide margins. In addition, Jamaica encountered severe difficulties in servicing its rapidly growing external debt and external payments arrears accumulated.

A waiver for the nonobservance of the March 1983 performance criteria was granted by the Board on the basis of the 1983/84 program, which sought a strengthening of the adjustment effort, including a sharp reduction in the budget deficit and an improvement in the net international reserve position of the Bank of Jamaica. A key feature of the 1983/84 program was a large degree of exchange rate flexibility to be achieved through a floating exchange rate in a broad parallel market. Purchases were made corresponding to the March and June quarters of 1983, but the performance criteria for September and subsequent dates were not observed and drawings consequently not able to be made. The breaches in the program largely reflected inadequate demand management policies and attempts by the authorities to limit the depreciation of the currency in the parallel market. The depreciation of the official rate and unification of the exchange market in November 1983 was not supported by the necessary tightening in fiscal and monetary policies. The overall budget deficit for 1983/84 remained in excess of 15 percent of GDP as against a goal of 10.3 percent, domestic credit expansion was several times the planned rate, and, exacerbated by the suspension of disbursements on loans tied to the EFF program, the overall balance of payments recorded a very large deficit instead of the surplus that had been contemplated.

The task facing the authorities is indeed difficult. Large imbalances have accumulated as a result of past failures to reduce the fiscal deficit, loose credit policies, and delays in implementing an adequate exchange rate policy. The consequence has been a very high level of foreign debt, the depletion of foreign exchange reserves, and the accumulation of external arrears to a level equivalent to nearly one half of the money supply. Debt service commitments are currently absorbing over 40 percent of the country's export earnings. The loss of confidence that has been engendered by the inadequacy of the adjustment has made the country's economic situation even more difficult. A major adjustment effort is required.

The proposed stand-by is designed to place fiscal and credit policies on a sound footing in order to arrest the deterioration in the external accounts and restore conditions for the successful implementation of structural reforms. In this regard, emphasis is to be placed on tight demand management, a unified flexible exchange rate regime, trade liberalization, and the rescheduling of external debt. The staff believes that the agreed program provides an appropriate balance between adjustment and financing.

Effective operation of the flexible exchange rate mechanism that has been established is crucial for the achievement of the balance of payments target. The authorities must allow the rate to respond to market conditions and resist the temptation to stabilize it artificially. Under the program, external financing in excess of the prescribed limits is not to be used to defend the exchange rate, but rather is to be added to net international reserves.

The planned reduction in the central government deficit to 7.6 percent of GDP in 1984/85 from more than 15 percent the previous year represents a major effort. This will require prompt and full implementation of the measures comprising the program, as well as improvements in financial management at all levels of the public sector. Further reductions in the deficit will be necessary in subsequent years. In light of the high tax burden and significant infrastructure requirements, this adjustment needs to fall mainly on current expenditure. An important initial step is the announced reduction in public sector employment, which will make a contribution to the strengthening of the public finances. The phasing out of subsidies also will help strengthen the fiscal position. Restructuring the tax system to restore incentives, improve equity and simplify tax administration will be important over the medium term.

With a flexible exchange rate, prompt adjustment of controlled prices and tariffs of public enterprises is needed to ensure that an additional financial gap does not emerge from this part of the public sector. Any delays in adjusting energy prices, in particular, would have serious repercussions for the program.

In the area of monetary policy, it will be essential to ensure strict limitation on the growth of private sector credit. A sharp tightening of credit conditions would be particularly helpful in the initial stages of the stabilization effort in order to help change expectations and to protect the balance of payments. This may require further increases in the cash reserve requirement and liquid assets ratio for a time. Real interest rates have become negative in recent months; a significant upward adjustment in controlled interest rates would help encourage savings, discourage capital outflows, and contribute to greater stability of the exchange rate.

Wage policy will become increasingly critical in the coming months. Attempts by wage earners to maintain real wage levels through increases in nominal wages would pose the danger of an escalating price-wage spiral. A reduction in real wages is an essential condition to facilitate the required compression of total expenditure, to make room for a shift from consumption to investment, and to prevent the burden of adjustment from falling on employment. The authorities should make every effort to ensure restraint on wages and in particular should be extremely cautious in negotiating the terms of public sector wage settlements.

The program of the Jamaican authorities represents a substantial effort to redress long-standing problems in respect of the level of public sector employment, the size of the fiscal deficit, the management of the exchange rate, and restrictions on imports and payments. To support this program and to permit the normalization of the trade and payments system, there is a need for substantial foreign financing, including a large volume of debt relief. Successful implementation of the stand-by program and determined pursuit of policies of structural reform over the next few years offers the prospect that Jamaica will surmount the severe balance of payments constraints on its development arising from an excessive accumulation of external debt. The management of this difficult process also will require the continued cooperation of major creditors in restructuring the country's external debt over the next several years.

The amount to be made available to Jamaica under the stand-by arrangement corresponds to 44 percent of quota, and will bring outstanding Fund credit under the tranche policies at the end of the program period to 375 percent of quota: a further 49.9 percent of quota would be made available to Jamaica under the compensatory financing facility, if the concurrent request is approved. The amount of the arrangement reflects the large size of Fund credit already outstanding in relation to quota, which in view of the major problems of adjustment still confronting Jamaica, makes it desirable to maintain a margin for possible future Fund support.

The staff welcomes the elimination of the multiple currency practices that resulted from the unification of the exchange rate system in November 1983. Exchange restrictions continue to apply in the form of external arrears and quantitative limits on travel allowances. In view of the commitment to liquidate all arrears by the end of the program period and to increase travel allowances, the staff recommends approval of these restrictions on a temporary basis.

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

VI. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

A. Article IV Consultation

1. The Fund takes this decision relating to Jamaica's exchange measures subject to Article VIII, Section 2, in the light of the 1984 Article IV consultation with Jamaica conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction the unification of the exchange markets that took place on November 24, 1983 as a result of which the previous multiple currency practices were eliminated. Jamaica maintains restrictions on payments and transfers for current international transactions as described in SM/84/ , and the external payments arrears are due to be eliminated by March 31, 1985. In view of the circumstances of Jamaica, the Fund grants approval of the remaining restrictions until April 30 1985, or the completion of the next Article IV consultation, whichever is earlier.

B. Stand-by Arrangement

1. The Government of Jamaica has requested a stand-by arrangement for the period from May --, 1984 through April 30, 1985 in an amount equivalent to SDR 64 million.

2. The Fund approves the stand-by arrangement set forth in EBS/84/101.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Jamaica - Fund Relations
(As of April 30, 1984)

I. Membership status
(a) Date of membership: February 21, 1963.
(b) Status: Article VIII.

(A) Financial Relations

II. General Department
(a) Quota: SDR 145.5 million

(b) Total Fund holdings of Jamaica dollars:
SDR 730.5 million or 502.0 percent of quota

(c) Fund credit (i.e., Fund holdings of Jamaica dollars subject to repurchase and charges):

	Millions of SDRs	As Percent of Quota
Total Fund credit	584.9	402.0
Of which: Under tranche policy	536.8	368.9
Credit tranches	21.8	15.0
Stand-by arrangement	--	--
Extended facility	515.0	354.0
Ordinary resources	(148.7)	(102.2)
Supplementary resources	(199.9)	(137.4)
Enlarged access resources	(166.4)	(114.4)
Under CFF	48.1	33.1

(d) Reserve tranche position: --

III. Current stand-by or extended arrangement and special facilities
(a) Current arrangements: --
(b) Stand-by and extended arrangements during the last ten years:

Type	Date	Duration	Amount	Utilization (millions of SDRs)	Utilization (In percent of then quota)
Stand-by	6/01/73	1 year	26.5	26.5	50.0
Stand-by	8/11/77	2 years	64.0	19.2	25.9
EFF	6/09/78	3 years	200.0		
(augmented)	6/11/79		259.7	155.0	209.5
EFF	4/13/81	3 years	477.7	402.8	362.9

(c) Special facilities during the last 3 years:

CFF	4/13/81	SDR 37.0 million
CFF	8/25/82	SDR 19.4 million

IV. SDR Department
(a) Net cumulative allocation: SDR 40.61 million
(b) Holdings: --

V. Administered Accounts

(a) Trust Fund loans: --
(b) SFF Subsidy Accounts: Payments by Fund

August 10, 1982	SDR	4.67	million
September 29, 1983	SDR	3.33	million
Total	SDR	8.00	million

VI. Exchange rate arrangement:

Since November 1983, Jamaica adopted a unified floating rate within an adjustable exchange rate band. An auction mechanism to determine daily rates was instituted in December 1983 and modified in March 1984.

VII. Last Article IV consultation:

September 1982, completed by the Executive Board on January 4, 1983 (Standard 12-month cycle).

VIII. Technical Assistance:

(a) CBD: Two advisors have been assigned to the Bank of Jamaica since April 1983:
Mr. R. Moghadam (appointed on April 17, 1983)
Mr. T. Tweddle (appointed on April 24, 1983)

(b) Fiscal: --

(c) Other:

Name	Date	Purpose
Mr. Y. Boutros-Ghali (ETR)	February and April 1982	Assistance to National Planning Agency in construction of a macro-economic model.
Mr. R. Hicks (TRE)	July 1982	Review of accounting procedures for Fund operations and transactions
Mr. G. Ortiz (GFS)	August 1983	Assistance to Ministry of Finance for reporting of fiscal statistics

IX. Resident Representative:

Mr. Chee Sung Lee (appointed on August 1, 1982)

Jamaica--Basic Data

Area and population	
Area	4,411 sq. miles (11,424 sq. kilometers)
Population (1983)	2.1 million
Annual rate of population increase (1978-83)	1.2 percent
Unemployment rate (April 1983)	26 percent
GDP (1983)1/	SDR 1,985 million
GDP per capita (1983)	SDR 940

Origin of GDP (1983)	(percent)
Agriculture and fishing	8
Mining	6
Manufacturing	16
Construction	6
Government	20
Other	44

Ratios to GDP (1983)	
Exports of goods and nonfactor services	86.5
Imports of goods and nonfactor services	91.2
Central government revenues (fiscal year from April 1)	27.0
Central government expenditures (fiscal year from April 1)	42.4
External public and government-guaranteed debt (fiscal year from April 1)	147.3
Gross national savings	6.7
Gross domestic investment	14.1
Money and quasi-money (end of year)	45.4

Annual percentage changes in selected economic indicators	1980	1981	1982	Prel. 1983
Real GDP per capita	-6.4	2.0	-1.5	0.7
Real GDP	-5.3	3.3	0.2	1.4
GDP at current prices	10.9	10.5	8.3	16.5
Domestic expenditure (at current prices)1/	11.5	19.6	10.0	14.5
Investment	(-9.5)	(51.2)	(3.8)	(18.9)
Consumption	(16.3)	(13.9)	(11.5)	(13.5)
GDP deflator	17.1	7.0	8.1	14.9
Consumer prices (annual average)	28.2	12.0	6.5	11.3
Money and quasi-money	18.1	23.5	23.1	26.2
Money	(13.8)	(6.1)	(6.4)	(20.8)
Quasi-money	(21.4)	(35.8)	(32.4)	(28.6)
Net domestic bank assets 2/	34.2	46.4	24.1	111.8
Credit to public sector (net)	(34.7)	(30.1)	(5.4)	(29.5)
Credit to private sector	(10.5)	(20.8)	(20.8)	(18.2)

	1980/81	1981/82	1982/83	Prel. 1983/84
Central government revenues	5.2	24.4	9.9	14.2
Central government expenditures	21.5	16.9	9.7	12.6
Merchandise exports (f.o.b., in U.S. dollars)	15.3	-12.0	-17.4	--
Merchandise imports (c.i.f., in U.S. dollars)	19.0	23.8	-6.5	-9.1
Travel receipts (gross, in U.S. dollars)	11.9	30.3	5.8	18.2

Central government finances	1980/81	1981/82	1982/83	Prel. 1983/84
	(millions of Jamaica dollars)			
Revenues 3/	1,191.7	1,482.9	1,629.0	1,860.0
Expenditures	-2,022.1	-2,364.7	2,594.4	2,910.0
Current account deficit (-)	-358.6	-238.0	-292.4	-534.0
Overall deficit (-)	-830.4	-881.8	-965.4	-1,050.0
External financing (net)	219.6	503.7	376.4	370.0
Domestic financing (net) and residual	610.8	378.1	589.0	680.0
Balance of payments	(millions of U.S. dollars)			
Merchandise exports (f.o.b.)	1,009.5	888.9	734.1	734.7
Merchandise imports (c.i.f.)	-1,201.6	-1,488.1	-1,391.6	-1,265.0
Travel (net)	230.2	300.0	317.3	375.0
Investment income (net)	-286.7	-225.3	-214.6	-216.7
Other services and transfers (net)	57.7	85.7	94.2	101.2
Balance on current and transfer accounts	-190.9	-438.4	-460.6	-270.8
Official capital (net)	211.2	427.1	314.0	65.0
Private capital (net) and errors and omissions	-180.8	54.3	-73.4	-230.2
SDR allocation	10.0	--	--	--
Overall balance	-150.5	43.0	-220.0	-436.0
International reserve position	(end of period, millions of U.S. dollars)			
Central Bank (gross)	73.1	130.7	88.1	60.5
Central Bank (net)	-582.8	-539.8	-619.2	-853.1

1/ Based on the average shadow exchange rate for the Jamaica dollar.
2/ In relation to the stock of money and quasi-money at the beginning of the period.
3/ Bauxite levy receipts are net of transfers to the Jamaica National Investment Company (JNIC).

Jamaica: Selected Economic and Financial Indicators, 1980/81-1984/85

	1980/81	1981/82 1/ Program	1981/82 1/ Actual	1982/83 Program	1982/83 Actual	1983/84 Program	1983/84 Est.	1984/85 Program
(Annual percent changes, unless otherwise specified)								
National income and prices								
GDP at constant prices	-3.3	3.8	2.2	4.5	0.8	3.3	0.4	0.8
GDP deflator	14.3	18.0	8.1	9.8	8.8	8.4	16.8	18.9
Consumer prices (period average)	26.5	18.0	9.0	10.0	7.1	9.0	14.9	19.4
External sector (in U.S. dollars)								
Exports, f.o.b.	15.3	23.8	-12.0	11.1	-17.4	24.2	--	18.4
Imports, c.i.f.	19.0	24.9	23.8	12.4	-6.5	-10.9	-9.1	3.2
Nonoil imports, c.i.f.	17.8	...	37.5	...	-2.5	-13.0	-12.5	3.8
Export volume	2.8	...	-11.4	...	-14.8	...	1.3	11.5
Import volume	-1.7	...	18.3	...	-9.1	...	-15.8	-3.6
Terms of trade (deterioration)	-7.4	...	-5.1	...	-5.8	...	-8.6	-0.7
Nominal effective exchange rate (depreciation -)2/	-0.6	...	4.9	...	-2.6	...	-38.2	...
Real effective exchange rate 2/ (depreciation -)	7.7	...	1.2	...	-0.7	...	-31.5	...
Government budget								
Revenue, excluding grants	5.2	19.5	24.4	21.8	9.9	21.7	14.2	46.5
Total expenditures	21.5	17.0	16.9	10.7	9.7	1.7	12.6	15.3
Money and credit 3/								
Domestic credit	32.3	16.6	21.1	-8.3	33.1	11.4	57.6	14.1
Government	34.3	7.7 4/	8.3 4/	4.6 4/	30.6	-3.9	17.3	-30.8
Private sector	12.6	23.1	17.8	16.5	20.5	11.6	17.6	7.2
Money and quasi-money (M)	19.5	25.0	28.8	15.2	24.5	18.1	26.9	17.0
Velocity (GDP relative to M)	3.4	4.0	3.0	2.9	2.8	2.4	2.2	2.3
Interest rate (annual average rate, one-year savings deposit)	8.78	...	9.85	...	10.70	...	12.60	...
(In percent of GDP)								
Overall public sector deficit	-14.4	...	-15.3	...	-16.8	-8.7	-12.4	...
Central government savings	-7.4	-3.8	-4.4	-1.7	-5.0	-2.4	-7.7	-0.8
Central government budget deficit (including grants)	17.1	13.3	16.4	12.9	16.4	-10.3	15.2	7.6
Domestic bank financing	10.1	1.0	3.5	0.3	12.9	2.5	6.8	-12.8
Foreign financing	4.5	11.3	9.4	10.6	6.4	7.8	5.3	17.5 5/
Gross domestic investment	15.6	17.7	18.7	23.9	20.5	15.8	20.1	23.1
Gross domestic savings	9.7	7.8	8.8	9.7	6.6	12.8	8.7	16.7
External current account deficit								
Excluding grants	13.6	12.8	26.3	17.4	31.7	7.2	20.3	15.3
Including grants	9.1	9.9	20.5	14.2	23.9	3.0	13.0	6.4
External debt 6/								
Inclusive of use of Fund credit	70.8	...	97.6	180.9	132.0	86.6	149.5	174.8
Debt service ratio (in percent of exports of goods and services)7/	16.2	...	21.7	21.1	29.4	26.3	15.9	40.3
Interest payments (in percent of exports of goods and services)	8.0	...	14.0	14.0	17.8	15.2	10.7	20.4
(In millions of U.S. dollars)								
Overall balance of payments	151	40	43	12	-220	198 8/	-436	237
Gross official reserves (weeks of imports)	--	--	--	--	--	--	2	6
External payments arrears	106	25	--	--	98	98	418	--

1/ For 1981/82 comparisons of actual to program ratios to GDP reflect a sharp downward revision of GDP.
2/ December to December.
3/ In relation to banking system liabilities to the private sector.
4/ Includes selected public entities.
5/ Includes 7.4 percent of GDP of refinancing.
6/ Actuals and 1984/85 projections calculated using an exchange rate adjusted on purchasing power parity basis.
7/ Cash payments, includes arrears repayments.
8/ Comprises changes in net reserves of US$125 million and repayment of oil arrears of US$73 million.

Jamaica: Financial Relations of the World Bank Group with Jamaica

(In millions of U.S. dollars)

	Outstanding as of March 31, 1984			
	Disbursed	Undisbursed	Total	Repayments
Total IBRD	433.00	165.20	598.20	61.70
Agriculture and forestry	34.68	3.40	38.08	4.10
Education	24.20	5.60	29.80	9.06
Population and rural development	22.90	0.90	23.80	4.85
Transportation	56.20	31.60	87.80	11.15
Power	43.05	28.20	71.25	19.61
Utilities	19.81	--	19.81	4.32
Program loan	30.00	--	30.00	3.68
EDF	63.90	34.70	98.60	--
SAL	111.00	25.40	136.40	--
Other	27.26	35.40	62.66	4.93
IFC investments	10.30	0.10	10.40	2.40

	Net Disbursements During Fiscal Year 1/				
	Actual			Est.	Proj.
	1980/81	1981/82	1982/83	1983/84	1984/85
Net disbursements (IBRD)	46.2	91.5	77.5	45.9	70.1
Disbursements	52.6	99.2	90.9	60.1	85.4 2/
Repayments	6.4	7.7	13.4	14.2	15.3

Source: IBRD.

1/ World Bank fiscal year (July 1-June 30).
2/ Includes disbursements of US$55 million for a third structural adjustment loan.

Jamaica: Summary of the Financial Program for the Stand-by Arrangement

	Assumptions and/or Targets 1/
Real GDP growth	0.8 percent (0.4)
GDP deflator	18.9 pecent (16.8)
Consumer prices (period average)	20.0 percent (14.9)
External sector	
Growth in bauxite/alumina exports (volume)	17.2 percent (7.5)
Growth in tourism receipts	14.2 percent (17.4)
Current account deficit	6.4 percent of GDP (13.0)
Balance of payments surplus	US$283 million (-US$306 million)
Gross reserves (end of period) in weeks of nonbauxite sector imports	8 (3)
Debt service ratio (cash basis) 2/	37.3 percent (19.7)
Central Government finances	
Overall deficit	7.6 percent of GDP (15.2)
Current deficit	2.3 percent of GDP (8.2)
Money and credit	
Broad money growth	17 percent (27)
Increase in net credit to consolidated public sector	-29 percent (28)
Increase in credit to private sector	12 percent (28)

Principal elements of the program

1. Fiscal policy

Reduction in central government deficit to 7.6 percent of GDP to be achieved through:

(a) An increase in revenue to 32.8 percent of GDP from 26.9 percent in 1983/84. This includes new tax measures yielding J$200 million or the equivalent of 2 1/2 percent of GDP, and a recovery in bauxite export taxes yielding over J$350 million or 3 1/2 percent of GDP.

1/ Figures in parentheses refer to 1983/84, estimated outturn.
2/ In terms of exports of goods and services, including obligations to IMF.

(b) Measures to lower expenditures to 40.4 percent of GDP from 42.1 percent, including a reduction of 10-15 percent in central government posts, a reduction in basic foods subsidies, cutbacks in other current outlays, and restraint on capital outlays.

2. Money and credit policies

(a) Cumulative reduction in the net domestic assets of the Bank of Jamaica, with quarterly ceilings (performance criterion). Ceilings are adjustable downward for any excess over projected amounts in net external debt disbursements, excluding gross disbursements on project loans and debt contracted by the private sector with a government guarantee.

(b) Cumulative limit on increase in net domestic banking system credit to the selected public entities, with appropriate quarterly ceilings (performance criterion). Net domestic nonbank credit to the selected public entities is also subject to a quantitative limit.

(c) Credit expansion to the private sector from commercial banks will be limited to 12 percent through quantitative ceilings applied on each bank. Outstanding consumer credit to decline by J$100 million to allow for more credit to the productive sector. The Bank of Jamaica raised the legal liquid asset ratio from 36 percent to 40 percent, eliminated the "foreign currency float" as a qualifying asset for this ratio, and doubled the cash reserve requirement to 10 percent. The legal limit on Treasury bills issue was raised from J$500 million to J$750 million.

(d) Credit expansion to the private sector from the nonbank financial institutions will be limited to 20 percent during 1984/85. For this purpose, the liquid assets ratio applicable to these institutions was increased by 5 percentage points to 15 percent.

(e) Treasury bill, time deposit, and bank lending rates (other than for mortgages) will remain market determined and administered interest rates will be kept under review. All administered interest rates were increased by 2 percentage points. The minimum interest rate on savings deposits was raised to 11 percent, the Bank rate to 13 percent, the rediscount rate to 15 percent, and the maximum mortgage rate to 16 percent. The treasury bill rate will serve as floor for the Bank and rediscount rates.

3. External sector policies

(a) Minimum improvement in the net international reserves of the Bank of Jamaica of US$283 million, with appropriate quarterly ceilings, adjustable upward as specified in 2(a) above (performance criterion). This improvement is designed to achieve elimination of payments arrears and a buildup of liquid foreign assets to the equivalent of five weeks of nonbauxite sector imports.

(b) The elimination of all commercial payments arrears, deferred oil payments, and overdue EDF replenishment obligations (performance criteria).

(c) Unified market-determined exchange rate.

(d) Net international reserve target to be adjusted for any net foreign borrowing over the amount specified in the program.

Jamaica: Stand-By Arrangement

Attached hereto is a letter, with annexed technical memorandum of understanding, dated April 25, 1984 from the Prime Minister and Minister of Finance and the Governor of the Bank of Jamaica requesting a stand-by arrangement and setting forth:

(a) the objectives and policies that the authorities of Jamaica intend to pursue for the period of this stand-by arrangement;

(b) understandings of Jamaica with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Jamaica will pursue for the period of this stand-by arrangement.

To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from May --, 1984 to April 30, 1985, Jamaica will have the right to make purchases from the Fund in an amount equivalent to SDR 64 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Until April 30, 1985 purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 64 million, provided that purchases shall not exceed the equivalent of SDR 14.6 million until July 16, 1984, the equivalent of SDR 18 million until October 16, 1984, and the equivalent of SDR 28 million until January 16, 1985 and the equivalent of SDR 46 million until April 16, 1985.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Jamaica's currency in the credit tranches beyond 25 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary resources.

4. Jamaica will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Jamaica currency in the credit tranches beyond 25 percent of quota.

(a) during any period in which the data at the end of the preceding period indicate that

(i) the limit on the central government borrowing requirement described in paragraph 2 of the technical memorandum of understanding annexed to the letter dated April 25, 1984, or

(ii) the limit on net domestic credit to the selected public entities as described in paragraph 3 of the technical memorandum of understanding annexed to the letter dated April 25, 1984, or

(iii) the limit on net domestic assets of the Bank of Jamaica as described in paragraph 4 of the technical memorandum of understanding annexed to the letter dated April 25, 1984, or

(iv) the target for the net international reserves as described in paragraph 5 of the technical memorandum of understanding annexed to the letter dated April 25, 1984,

are not observed, or

(b) if Jamaica fails to observe the understandings on net disbursements of new public and publicly guaranteed foreign indebtedness described in paragraph 6 of the technical memorandum of understanding annexed to the letter dated April 25, 1984, or

(c) if the limits on external payment arrears as described in paragraph 5 of the technical memorandum of understanding annexed to the letter dated April 25, 1984, are not observed, or

(d) during any period after September 30, 1984 and December 31, 1984, until the review referred to in paragraph 32 of the letter dated April 25, 1984, has been carried out and any understandings deemed by the Fund to be necessary have been reached pursuant to such review, or such understandings, having been reached, are being observed; or

(e) during the entire period of this stand-by arrangement, while Jamaica has any overdue financial obligation to the Fund, or if Jamaica

(i) imposes new or intensifies existing restrictions on payments and transfers for current international transactions, or

(ii) introduces multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes new or intensifies existing import restrictions for balance of payments reasons.

When Jamaica is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Jamaica and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Jamaica's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after

(a) a formal ineligibility, or

(b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Jamaica. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Jamaica and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Jamaica, the Fund agrees to provide them at the time of the purchase.

7. Jamaica shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

8. (a) Jamaica shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchases as Jamaica's balance of payments and reserve position improve.

(b) Any reductions in Jamaica's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

9. During the period of the stand-by arrangement Jamaica shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Jamaica or of representatives of Jamaica to the Fund. Jamaica shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Jamaica in achieving the objectives and policies set forth in the attached letter and annexed technical memorandum of understanding.

10. In accordance with paragraph 32 of the attached letter Jamaica will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Jamaica has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initative of the Government or at the request of the Managing Director, concerning Jamaica's balance of payments policies.

Washington, D.C.
April 25, 1984

Mr. Jacques de Larosiere
Managing Director
International Monetary Fund
700 19th Street, N. W.
Washington, D. C. 20431

Dear Mr. de Larosiere:

1. The Government of Jamaica hereby requests from the International Monetary Fund a stand-by arrangement in an amount of SDR 64 million, including any balance in the first credit tranche, in support of the financial programme covering the fiscal year April 1, 1984 to *March 31, 1985. The Government is also requesting a purchase under* the Compensatory Financing Facility of the Fund.

2. On April 1, 1981, the Government initiated a programme to restore economic activity to an economy depressed by seven consecutive years of negative real growth, reduce the high level of unemployment and strengthen Jamaica's external position in the medium term on the basis of sustained flows of foreign exchange rather than special balance of payments support. This programme received financial support under the Extended Facility arrangement of the Fund from FY 1981/82 to FY 1983/84. At that time, the Government embarked on an export-led development strategy initially emphasising the rehabilitation and expansion of export-oriented activities in the tourism, bauxite/alumina and agricultural sectors; and introduced policies and programmes for structural adjustment to facilitate expansion of productive capacity, on an efficient and competitive basis for non-traditional exports of the manufacturing and agricultural sectors. The Government also implemented a programme for gradually deregulating the economy through removing import licensing and price controls; and reducing public sector involvement in the productive sector through divestment of Government enterprises. The basic strategy is to place increasing reliance on the private sector as the propellant force for productive and commercial activities while the state focuses on the policy environment and infrastructure to ensure the effective functioning of the market system.

3. The economy registered real growth of 2.2% in FY 1981/82, 0.8% in FY 1982/83 and 0.4% in FY 1983/84. The unemployment rate was reduced and the increase in consumer prices was contained within high single digits with the exception of FY 1983/84 when it reached an average of 14.4%. Most major economic indicators point to a turnaround in the economy when compared with economic performance experienced during the seven years ending FY 1980/81. However, these gains were not reflected in the external accounts. The current account of

the balance of payments showed large deficits over the last three years, and the net international reserves of the Bank of Jamaica, after an improvement of US$43 million in FY 1981/82, deteriorated by US$122 million in FY 1982/83, and by US$306 million in FY 1983/84.

4. The primary purpose of the request for a stand-by arrangement is to enable the continued movement of the Jamaican economy towards a viable medium term balance of payments position, through a reduction in the current account deficit and a strengthening of the Bank of Jamaica's reserves. The basic elements of the programme will be three: firstly, a floating exchange rate system which will allow the exchange rate to reflect market forces, accompanied by a liberalization of the trade and payments regime. Secondly, tight demand management through monetary and credit policies and constrained fiscal operations. Finally, prudent debt management operations, including the rescheduling of external commercial debt obligations and of government-to-government debts.

5. The Government introduced on November 24, 1983 a unified foreign exchange regime based on a constrained floating rate with an auction mechanism for spot purchases of foreign exchange and the determination of daily exchange rates. The auction system will focus on current imports and service payments. Commercial arrears relating to payments in respect of imports landed prior to February 1, 1984 and also service payments and approved debt maturities which were outstanding prior to February 1, 1984 are excluded from the auction system. Such obligations will be cleared on a phased basis by March 31, 1985 from resources deducted by the Bank of Jamaica from daily foreign exchange flows.

6. Exchange rates are determined within an adjustable band with upper and lower limits at J$0.15 around the mid-point of the band. The band would be adjusted upwards from time to time if there is a specified level of unsatisfied demand. The daily rates will be set by a foreign exchange auction to be held twice weekly by the Bank of Jamaica. The bid rate which clears the auction (marginal price) will be the buying rate, and the selling rate will be determined by a spread not exceeding J$0.04. These rates will be used for all foreign exchange transactions, and will come into effect on the day immediately following the auction, remaining in force until the day following the subsequent auction.

7. Purchases of foreign exchange by domestic commercial banks shall be surrendered fully to the Bank of Jamaica (BOJ) which will retain for its own account flows from the tourism sector, export marketing organisations, bauxite/alumina sectors, receipts from sugar and banana exports, and other transfers now designated for the BOJ. These resources will be used for servicing public sector and BOJ external debt, and other defined public sector external payments. The balance of such resources surrendered by commercial banks will be devoted to the auction market and the Bank of Jamaica will announce the amount available before each auction. The participants in the auction will be all bona fide importers with valid, due and/or outstanding payments

for goods and other non-bank applicants holding foreign exchange approvals of BOJ; the commercial banks and the Bank of Jamaica. All non-bank participants including public sector entities, will be required to deposit the local currency equivalent with a commercial bank. This deposit arrangement will become the sole channel of demand for all non-bank participants in the auction. Participants who are registered thereunder and have valid claims equivalent to or exceeding US$50,000 can participate in the foreign exchange auction in their own right. Depositors with valid claims of less than US$50,000 would be represented collectively at the auction by their respective commercial banks.

8. Commercial banks would bid in the auction also for resources on their own account; firstly, and based on the experience of an average week foreign exchange sales over a four-week period, to meet the estimated demand for a week's transactions relating to medical expenses, education expenses, business and vacation travel. Secondly, to meet commitments which arise from the establishment of Letters of Credit underwritten by credit lines from their respective correspondent banks, excluding Letters of Credit backed by the special foreign currency "B" accounts.

9. The Government has also established the framework and regulations within which the commercial banks can undertake forward exchange transactions. It is the expectation that the new exchange system covering spot and forward transactions will speedily set an equilibrium exchange rate with a consequential reduction in illegal street market operations, and recapture of foreign exchange flows into the banking system.

10. The programme projects that the balance of payments current account deficit should fall sharply to 6.4% of GDP in FY 1984/85 and be reduced still further during subsequent years. The main factors for this improvement are the expected resurgence in demand for bauxite and alumina, the increased competitiveness of Jamaican exports of goods and services as a result of the devaluation of the Jamaica dollar, and the opportunities provided by the Caribbean Basin Initiative and other special trading regimes. At the same time, a tight demand management programme should constrain the growth in imports.

11. An increase in net international reserves of the Bank of Jamaica of US$283 million is targeted in FY 1984/85 compared to the deterioration of US$306 million in FY 1983/84. This target will permit the elimination of all payments arrears and a build-up of liquid reserves to US$110 million by March 31, 1985, the equivalent of just over five weeks non-bauxite imports. The financing flows supporting the improved external accounts consist of three main streams. Firstly, loans from donor countries and multilateral institutions amounting to US$400 million. Secondly, the refinancing of US$93 million of debt maturities for external commercial banks falling due during FY 1984/85. Finally, the Government will request a rescheduling of principal and interest on credits owed to members of the Paris Club, and seek debt relief from nonparticipating creditors on similar terms. The Paris Club request

would cover principal and interest payments falling due or in arrears through March 31, 1985 estimated at US$120 million. The total package would also include outstanding payments on maturities of US$73 million to Venezuela and US$96 million to Trinidad and Tobago. The latter refinancing arrangements are expected to be completed before the Fund Executive Board considers this request for a stand-by arrangement.

12. Overdue debt service obligations amounted to US$362 million at March 31, 1984. These arrears will be cleared either by cash payments or rescheduling agreements by December 31, 1984.

13. In November 1983, the Government dismantled the quota and licensing system for all imports save a small range of non-essential and low priority goods. Goods subject to licences now fall into two groups: items on the restricted list and low priority goods amounting to US$97 million or 12% of non-bauxite/non-oil imports; and imports of basic food financed under concessionary financing programmes of donor countries amounting to US$162 million. The aggregate of goods which may be imported without licence is around US$572 million, equivalent to some 73% of non-bauxite/non-oil imports. The Government plans to increase travel allowance before the end of 1984.

14. The objective of a reduction in the current account deficit of the balance of payments and rebuilding of reserves must be supported by strong demand management policies. Accordingly, the Government has designed and implemented a monetary and credit programme to constrain aggregate demand. During FY 1983/84, excessive credit expansion stimulated demand for imports and facilitated capital outflows. The Bank of Jamaica has now taken action to tighten credit conditions. The legal liquid assets ratio has been increased from 36% to 40% of prescribed liabilities effective from February 9, 1984. To further sterilize excess liquidity in the banking system, the commercial banks as of March 1, 1984 were no longer allowed to include as part of their liquid assets ratio the "foreign currency float" which arises from the lag between purchases and sales of foreign exchange by the banks on their own account, the amount was equivalent to about 4 percentage points of the liquid assets ratio. Finally, the cash reserve ratio of the commercial banks has been increased from 5% to 10% on a phased basis effective from February 9, 1984, through April 11, 1984. The relevant legislative monetary and banking instruments applicable to such areas as reserve requirements will be adjusted where necessary to achieve the programme objectives.

15. Incremental credit to the private sector averaged 30% per annum over the three-year period to FY 1983/84. For FY 1984/85, such credit will be contained within a growth rate of 12% or a net increase of J$250 million. The net increase in total credit of 12% will be channelled to the priority areas of the productive sector. In addition, subceilings have been applied in order to reduce outstanding credit to the distributive sector and for personal services by J$100 million during FY 1984/85 so as to provide scope for a redistribution of available

credit toward the productive sector. Quarterly ceilings on growth of private sector credit have been applied to each commercial bank.

16. The Government will pursue flexible interest rate policies which support the mobilisation of savings, efficient allocation of resources and restraint in growth of aggregate demand. Effective January 25, 1984, the Bank Rate was increased from 11% to 13% and the rediscount rates from 13% to 15%. The minimum interest rate on savings deposits in commercial banks has been increased from 9% to 11% as from February 1, 1984. Interest rates on time deposits will continue to be freely determined. The Treasury Bill discount rate, which is also market determined, serves as the main point of reference for the interest rate structure. To facilitate this market and the needs of the banking system in meeting reserve requirements, the legislative ceiling on the outstanding issue of Treasury Bills has been increased from J$500 million to J$750 million. The Bank Rate and related rediscount rates will continue to be set at levels no lower than the Treasury Bill rate. Interest rates will be market determined and the Government will continually review interest rate policy to ensure its effectiveness in the management of the economy, and achievement of the balance of payments targets.

17. Merchant banks, trust companies and other financial institutions which take deposits and provide credit within the regulatory framework of the Protection of Depositors Act, are now required to maintain liquid assets equivalent to 15% of liabilities compared to the previous ratio of 10%. The objective is to restrain credit expansion in these areas within the overall targets for the financial system as a whole. Consequently, the net increase in their credit to the private sector will be limited to 20% during FY 1984/85. Finally, the maximum lending rate of building societies for mortgages has been raised from 14% to 16%. These institutions are free to adjust their deposit rates to maintain competitiveness with the commercial banks in mobilising savings.

18. A sharp fiscal adjustment will be undertaken to support the tight demand management required to achieve the needed improvement in balance of payments position. The overall deficit of Central Government which deteriorated to an estimated 15.4% of GDP in FY 1983/84 will be held to 8.3% of GDP for FY 1984/85.

19. Two major programmes underpin this adjustment. Firstly on the resources side, a tax package equivalent to 2.5% of GDP has been approved for FY 1984/85. Traditional imposts such as travel tax, transfer tax on property, motor vehicle licences, postal rates and consumption duty on cigarettes have been increased. Raw materials now attract a stamp duty on imports at a rate of 6% ad valorem. In addition, the room tax now applied to the hotel sector has been doubled. Other charges on the hotel sector will include a licence fee for hotels and villas. This

tax package has been designed to dovetail into a medium term programme for reforming the tax structure and its administration. Currently, a team of tax experts provided under US/AID Technical Co-operation Programme is evaluating the income tax structure, property taxes and the need to rationalise and simplify the tax system. Their recommendations on the actions to be taken to ensure a more equitable tax system with appropriate incentives for production and simplicity in administration will be presented during this financial year and implementation is targeted for FY 1985/86.

20. The levy on bauxite production is expected to provide current resources equivalent to 5% of GDP in FY 1984/85, compared with 2.3% of GDP in FY 1983/84. A new bauxite production levy regime which has been negotiated with the companies will provide incentives based on capacity use to encourage production. A basic rate of 6% will be applied to production up to and including a reference quantity with an additional 3.6% for increments in the price of aluminium over US$0.75 per lb. For capacity use in excess of the reference quantity, the rate will be one-half of the basic rate. Incentives by way of discounts on the base levy would be provided in respect to foreign exchange inflows other than levy and oil purchases. Volume discounts will be granted to large producers; and concessions will be given to companies in relation to the share of Jamaica bauxite in their worldwide operations.

21. The second programme concerns expenditure adjustment with the objective of reducing overall expenditure over the medium term from the high level of 42% of GDP in FY 1983/84 to 40% in FY 1984/85 and 34% of GDP by FY 1986/87. The focus will be on the contraction of the size of central government administration and in particular, the reduction in staff cost. In January 1984, the programme for the slimming of the bureaucracy was initiated and the first phase, which is to be implemented in FY 1984/85 identifies adjustment in three areas. Firstly, 4,356 jobs, the equivalent of 10% of central government personnel, will be eliminated. Secondly, the Government has implemented an attrition programme whereby posts would be abolished when employees go on pension unless it is proven to the satisfaction of the Personnel authorities that the retention of a position is critical to the effectiveness of public service operations. In such cases, the agency must compensate by eliminating a comparable post. Finally, the Personnel authorities have removed from the books of the Government all existing job vacancies. Again, any agency which wishes to retain a vacancy must provide valid reasons for its retention in the national interest and also offer another post in compensation. The staff adjustment of 6,202 posts, the equivalent of 14% of central government personnel, proposed for FY 1984/85 is shown below:

Categories	Numbers	J$m. Amount
Redundancy Programme	4,356	26.0 (Net)
Attrition Programme	1,500	11.5
Vacancy Programme	346	3.5
Total	6,202	41.0

22. The Government is committed to continue this programme of staff adjustment through FY 1984/85 and future years. Work is being pursued to further reduce staffing in central government administration. A programme for evaluating the staffing of local authorities has also been implemented, and both the teaching establishment and statutory organisations are to be reviewed as soon as time permits. Already one statutory agency has been abolished, releasing 51 posts.

23. The adjustment strategy dictates that the overall fiscal deficit should continue to be reduced in the period after FY 1984/85 consistent with a planned reduction in the reliance on external financing. The cutback of the fiscal deficit would be sought primarily through the reduction of government expenditure from the 1984/85 level in relation to GDP.

24. In general, the determination of prices will be left to the working of market forces. However, in the case of imported basic food such as milk powder, wheat, flour, and rice, which form the staple diet of low income groups, a subsidy will be provided to cushion the impact of the unification of the exchange rate which took place in November 1983. For the period to March 31, 1984, the subsidy was maintained at 100% of increases arising out of exchange rate changes. During FY 1984/85, the subsidy will be held to a level of J$120 million and a sum of J$85 million has been provided in the Fiscal Budget for FY 1984/85. The balance of J$35 million will be supported by a cross subsidy out of the operations of the Jamaica Commodity Trading Company which imports and distributes such products. The nominal amount for the subsidy will be maintained irrespective of possible upward movement in the exchange rate. This subsidy will be phased out completely over the two-year period ending March 1986.

25. *The Government also decided that the devaluation impact on* water and sewage rates consequent on exchange rate unification in November 1983, should be fully subsidised for the period to March 31, 1985. The reason is that in October 1983 water and sewage rates were increased on average by 67% to conform with World Bank project criteria, and a reasonable time is needed before any further increases.

26. It is the policy of the Government that, with few exceptions, public enterprises which engage in commercial operations should price their products to secure an adequate rate of return on investment sufficient to service external and domestic debt and also provide a contribution to the financing of relevant investment programmes. In particular, the cost of oil would be passed through to consumers both at intermediate and final product stages. A special cross subsidy was provided for the support of fuel purchased by the electric utility in June 1983 and financed through receipts from gasolene prices. Consequent on the unification of exchange rates, it was decided to maintain this subsidy through a 50% increase of gasolene prices. At the same time, electricity rates were increased by 40%. The cross subsidy of approximately J$100 million is related to an exchange rate of J$3.55 = US$1. In the event that the floating exchange rate moves beyond that point, the Government will adjust electricity rates to absorb the incremental costs to the electric utility. Gasolene prices would also be adjusted to reflect increases in the cost of oil but in this connection, the Government will first consider the feasibility of a removal of the cross subsidy to the electric utility.

27. The Government has decided that the operations of the government-owned National Sugar Company should be restructured. At end of July 1984, three out of six estate/factories and three separate farming operations will be closed. The land released, amounting to some 53,000 acres will be used mainly for the production of alternative export crops either within private ownership or joint ventures between public sector entities and the private sector. The remaining three estate/factories will continue in sugar production under the management of the National Sugar Company until alternative arrangements for their operation by capable private sector sugar interests, through sale or lease, can be concluded. The three remaining factories are operating well below capacity, and it is expected that they will be able to process the sugar previously handled by the factories that are being closed, which was the equivalent of 12% of sugar output.

28. The costs of closing factories, estates and farms will be met by a combination of the uncommitted surpluses of the major shareholder in National Sugar (the Sugar Industry Authority), proceeds from the sale of land, and an increase in the price of locally consumed sugar.

29. The Jamaica Telephone Company forecasts a cash deficit of J$48 million for the financial year 1984/85. The programmed net bank credit for Public Enterprises cannot accommodate this demand, given the dedication of the surpluses of the Sugar Industry Authority to the rationalisation of the operations of the National Sugar Company. Consequently, the investment programme of the Jamaica Telephone Company has been rephased to reduce the financial requirements in 1984/85 and the rates for domestic telecommunication services have been increased to provide the required flow of resources to fill the gap.

30. The Government reaffirms its commitment to the policy of free collective bargaining between employers and employees or their representatives, based on the concept of ability to pay and supported by appropriate and effective conciliation and arbitration mechanisms. It is recognised that the programme for demand management rests on containing wage awards below the inflation rate anticipated during the coming year. During 1983, pay awards within the private sector averaged 15% and it is expected that this quantum of awards could be a suitable target during FY 1984/85. To support an effective wage policy within this framework, the Division for Research, Statistics and Pay Monitoring in the Ministry of Labour will be strengthened to permit intensified surveillance of the wage bargaining process.

31. Public sector pay awards will expire at the end of FY 1984/85. The Government recognises that its ability to attract and retain staff at critical management, professional and technical positions turns on an appropriate compensation plan. It is also recognised that wage restraint is a critical issue in public sector pay awards if fiscal policy is to be consistent with the demand management programme. Restraint to levels not exceeding inflation rates over the medium term is of particular importance in achieving the fiscal adjustment needed to secure stability in the exchange system, the improvement in the balance of payments and real economic growth.

32. The Government of Jamaica believes that the policies set out in the foregoing paragraphs and further elaborated in the annexed Technical Memorandum of Understanding are consistent with the strategies, direction and objectives for the improvement of the balance of payments and the accumulation of liquid reserves appropriate to the import requirements of the economy. The Government will periodically consult with the Fund in accordance with the Fund's policies on such consultations, about the progress being made in the implementation of the programme described and about any policy adaptations judged to be appropriate for the achievement of its objectives. In any event, the Government will complete reviews with the Fund by September 30, 1984, and December 31, 1984, on the progress made in implementing the policies affecting demand management and the exchange system defined in this letter and accompanying annex and if necessary will reach understanding in the context of such reviews, on any additional measures as may be needed.

Yours sincerely,

/s/
Horace G. Barber
Governor
Bank of Jamaica

/s/
Edward P.G. Seaga
Prime Minister and
Minister of Finance
and Planning

Technical Memorandum of Understanding

1. This Memorandum describes more concretely certain key targets and policy understandings of the accompanying letter of the Government of Jamaica.

2. The borrowing requirement of the Central Government over the period from March 31, 1984 through March 31, 1985 will not be more than J$697 million. This borrowing requirement will not be more than J$229 million from March 31, 1984 through June 30, 1984, will not be more than J$518 million from March 31, 1984 through September 30, 1984 and will not be more than J$710 million from March 31, 1984 through December 31, 1984. For the purpose of this paragraph, the borrowing requirement is defined to be the sum of central government net foreign borrowing valued at the prevailing exchange rate, net domestic banking system credit, net domestic nonbank borrowing, and the net domestic credit of the Capital Development Fund, as set out in attached Tables 1 and 2 which also detail projected quarterly flows. The central government will not incur any payments arrears.

3. The stock of net domestic banking system credit to the selected public entities, will not increase by more than J$67 million, over the period from March 31, 1984 through March 31, 1985. This stock will decline by not less than J$38 million from March 31, 1984 through June 30, 1984; will not increase by more than J$65 million from March 31, 1984 through September 30, 1984; and will not increase by more than J$35 million, from March 31, 1984 through December 31, 1984. For the purpose of this paragraph selected public entities are as defined in attached Table 3. Further, the selected public entities other than UDC will not increase the stock of net domestic nonbank credit during the period from March 31, 1984 to March 31, 1985, and the stock of net domestic nonbank credit of the UDC will not increase by more than J$41.5 million during the period from March 31, 1984 to March 31, 1985. The selected public entities will not incur any payments arrears.

4. The stock of the net domestic assets of the Bank of Jamaica will be no higher than J$3,515 million from March 31, 1984 through June 30, 1984; no higher than J$3,546 million from March 31, 1984 through September 30, 1984; no higher than J$3,285 million from March 31, 1984 through December 31, 1984; and no higher than J$2,855 million from March 31, 1984 through March 31, 1985. These ceilings will be subject to downward adjustments, for any excess over the projected net foreign disbursements set out in attached Table 4. For the purpose of this paragraph 4, the stock of the net domestic assets of the Bank of Jamaica is defined as the difference between (i) the sum of the stocks of currency in circulation (defined as the currency issue minus the amounts held by the Bank of Jamaica and the domestic commercial banks) and the local currency counterpart of the gross cumulative allocation of special drawing rights; and (ii) the stock of net international reserves of the Bank of Jamaica as defined in paragraph 5 below. For the purpose of

this paragraph all foreign assets and liabilities other than those denominated in special drawing rights (SDRs) will be converted into Jamaica dollars at the accounting rate of US$1.00 = J$4.00; all assets and liabilities denominated in SDRs will be converted at the accounting rate of SDR 1.00 = J$4.20.

5. The net international reserve position of the Bank of Jamaica which was negative US$854 million on December 31, 1983 and negative US$853 million on March 31, 1984, will not be less than negative US$750 million through June 30, 1984; will not be less than negative US$755 million through September 30, 1984; will not be less than negative US$670 million through December 31, 1984; and will not be less than negative US$570 million through March 31, 1985. The net international reserve targets will be subject to upward adjustments for any cumulative excess over the projections for the net change in foreign debt set out in attached Table 4.

Foreign assets of the Bank of Jamaica are defined to exclude the foreign assets of the Export Development Fund; and foreign liabilities of the Bank of Jamaica are defined to include (i) promissory notes related to any prepayment of exports; (ii) any new borrowing by the Government, Bank of Jamaica or any public sector entity with a maturity of less than one year and not directly related to imports or commodity trading; (iii) swap transactions with domestic or foreign entities; and (iv) external payments arrears, excluding overdue obligations to Paris Club creditors, the commercial banks and Venezuela, a rescheduling of which is being sought, and private sector arrears which were removed from the auction market in April 1984. Liabilities arising from disbursements from the Venezuela and Mexico oil facility will not be treated as reserve liabilities of the Central Government for purposes of these reserve targets. All reserve liabilities shown in the attached Table 5 will continue to be treated as such, irrespective of any change in maturity. Arrears are defined to include all external payments arrears, including overdue obligations of the Bank of Jamaica, the Government or governmental entities. "Undue delays" for the purpose of defining arrears will include any delays of more than seven banking days beyond the date on which payment is due. All assets and liabilities in SDRs will be converted into U.S. dollars at the accounting rate of SDR 1 = US$1.05. Assets and liabilities in foreign currencies will be converted into U.S. dollars at cross exchange rates prevailing on December 31, 1984.

External payments arrears on public sector obligations including arrears to Paris Club creditors, commercial banks and Venezuela, which amounted to US$362 million on March 31, 1984, will not exceed US$114 million through June 30, 1984, US$76 million through September 30, 1984, and will be eliminated by December 31, 1984. Private sector arrears, which are estimated at US$56 million as of March 31, 1984, will be reduced by cash payments at the rate of US$14 million per quarter during the program period, and in any event will be fully eliminated by March 31, 1985. No new arrears will be incurred during FY 1984/85. Outstanding replenishment obligations to the EDF will be eliminated by September 30, 1984. After that date any replenishment obligations by the Bank of Jamaica to the EDF will also be considered arrears.

6. Any changes in the stock of external debt of the public sector (defined as consisting of the Central Government, local governments, the group of selected public sector entities in attached Table 3, the Bank of Jamaica, and any other public sector entity) in excess of US$279 million between January 1, 1984 and June 30, 1984, US$377 million, between January 1, 1984 and September 30, 1984, US$399 million between January 1, 1984 and December 31, 1984, and US$478 million between January 1, 1984 and March 31, 1985 will be added to the net international reserve target. For the purpose of this paragraph, the definition of debt will exclude (a) Bank of Jamaica reserve liabilities; and other borrowing with a maturity of less than one year; (b) gross inflows associated with project financing by multilateral and other official development agencies; and (c) import-related credits extended to the private sector and carrying a Government of Jamaica guarantee; and will include the repayment of arrears on the debt defined in this paragraph. External debt transactions will be expressed in U.S. dollars, with conversions from other currencies effected at the exchange rates prevailing when the debt is disbursed.

7. During the program period, the Government does not intend to introduce any multiple currency practice or impose any new or intensify any existing restriction on payments and transfers for current international transactions or, for balance of payments reasons, introduce any new or intensify any existing restriction on imports, and will not enter into bilateral payment agreements with member countries of the Fund.

8. Whenever a purchase under the arrangement is requested, data for the end of the latest month would be used in determining compliance with all performance criteria.

Table 1. Jamaica: Summary Central Government Operations
1984/85 1/2/

(In millions of Jamaica dollars)

	Q I	Q II	Q III	Q IV	Total
Total revenue	535	582	617	923	2,657
Tax revenue	411	430	411	618	1,870
Tax measures	29	42	58	77	206
Nontax revenue	5	10	15	68	98
Bauxite levy	90	100	133	150	483
Of which: stockpile	(--)	(--)	(30)	(30)	(60)
Total expenditure	764	871	809	910	3,354
Current	664	741	646	738	2,789
Capital	100	130	163	172	565
Overall balance	-229	-289	-192	13	-697
Financing	229	289	192	-13	697
Net external	319	184	112	290	905
Net domestic	-226	-67	-64	-465	-822
Financing gap/refinancing	136	172	144	162	614

Sources: Ministry of Finance and Planning; and Fund staff estimates.

1/ April 1, 1984 - March 31, 1985.
2/ This presentation excludes an estimated J$68 million of deductions from the bauxite levy in repayment of an advance on the levy from 1982/83. By including this repayment, the overall deficit and the financing would be J$629 million.

Table 2. Jamaica: Central Government Financing, 1984/85

(In millions of Jamaica dollars)

	Q I	Q II	Q III	Q IV	Total
Total (net)	228.7	289.3	191.9	-12.9	697.0
Net external	319.3	184.4	111.9	289.7	905.3
Inflows	591.7	414.4	334.7	498.5	1,839.3
Project loans/supplier credits	26.8	28.4	32.9	75.8	163.9
Donor countries	270.8	109.7	266.6	322.7	969.8
United States	(242.0)	(69.8)	(203.8)	(243.8)	(759.4)
Canada	(6.0)	(9.9)	(12.0)	(12.0)	(39.9)
United Kingdom	(6.0)	(2.0)	(10.0)	(10.0)	(28.0)
Germany	(4.0)	(6.0)	(8.8)	(9.2)	(28.0)
Netherlands	(0.8)	(2.0)	(8.0)	(14.0)	(24.8)
France	(12.0)	(12.0)	(12.0)	(13.7)	(49.7)
Japan	(--)	(8.0)	(12.0)	(20.0)	(40.0)
Multilateral-IBRD (SAL)	102.0	120.0	--	100.0	322.0
Oil facility	104.1	47.9	--	--	152.0
Commercial banks, seabed loan	--	68.8	--	--	68.8
Other refinancing (Trinidad & Tobago)	88.0	39.6	35.2	--	162.8
Outflows	-272.4	-230.0	-222.8	-208.8	-934.0
Normal amortization	(-236.4)	(-194.0)	(-186.8)	(-168.8)	(-786.0)
Oil facility promissory notes	(-28.0)	(-28.0)	(-28.0)	(-28.0)	(-112.0)
Contingency, new loans	(-8.0)	(-8.0)	(-8.0)	(-12.0)	(-36.0)
Net domestic	-226.5	-67.4	-63.6	-464.3	-821.8
Banking system (net)	-259.7	-108.9	-135.3	-558.3	-1,062.2
Other domestic (net)	33.2	41.5	71.7	94.0	240.4
Securities outside banks	(14.0)	(40.2)	(72.0)	(110.7)	(236.9)
Debt service payments, public entities	(42.2)	(21.7)	(25.0)	(4.8)	(93.7)
Amortization	(-23.0)	(-20.4)	(-25.3)	(21.5)	(-90.2)
Financing gap/ refinancing	135.9	172.3	143.6	161.7	613.5
Memorandum item: IMF presentation					
Total (net)	211.7	272.3	174.9	-29.9	629.0
Total (net) (as above)	228.7	289.3	191.9	-12.9	697.0
Repayment of bauxite levy loan (tolling)	-17.0	-17.0	-17.0	-17.0	-68.0

Source: Ministry of Finance and Planning; and Fund staff estimates.

Table 3. Jamaica: Selected Public Entities

Airports Authority of Jamaica
Air Jamaica Limited
Banana Company of Jamaica Limited
H.E.A.R.T. (Human Employment and Resource Training)
Jamaica Broadcasting Corporation
Jamaica Commodity Trading Company Limited
Jamaica Development Bank
Jamaica International Telecommunications Limited
Jamaica Mechant Marine Limited
Jamaica Mortgage Bank
Jamaica National Investment Company Limited
Jamaica Omnibus Services Limited
Jamaica Public Service Company Limited
Jamaica Railway Corporation
Jamaica Telephone Company Limited
Montego Bay Bus Company
National Hotels and Properties Limited
National Housing Corporation Limited
National Housing Trust
National Insurance Fund
National Sugar Company Limited
National Water Authority/Water Commission
Petroleum Corporation of Jamaica/Petrojam
Port Authority of Jamaica
Sugar Industry Authority
Urban Development Corporation

Table 4. Jamaica: Net Disbursements of External Debt 1/

(In millions of U.S. dollars)

	1984			1985
	Jan.-June	July-Sept.	Oct.-Dec.	Jan.-March
Inflows 2/	460	195	185	177
Governments	271	75	128	94
United States	(96)	(20)	(54)	(61)
United Kingdom	(4)	(1)	(2)	(3)
Canada	(20)	(5)	(7)	(7)
France	(12)	(3)	(3)	(3)
Japan	(2)	(2)	(3)	(5)
Italy	(7)	(3)	(5)	(7)
Venezuela	(102)	(12)	(--)	(--)
Trinidad and Tobago	(22)	(26)	(48)	(--)
Other	(6)	(3)	(6)	(8)
Multilateral	42	37	10	36
World Bank	(26)	(-30)	(--)	(25)
IDB	(16)	(7)	(10)	(11)
Other identified	37	3	5	5
Financing gap	110	80	42	42
Outflows	-181	-97	-163	-97
Cumulative change in stock of debt	279	377	399	478

Source: Bank of Jamaica.

1/ Medium- and long-term public and publicly-guaranteed debt, exluding reserve liabilities.
2/ Excludes disbursements of project loans and loans extended to the private sector with a government guarantee.

Table 5. Jamaica: Net International Reserves
of the Bank of Jamaica

(In millions of U.S. dollars)

	Dec. 31, 1983 1/ Actual	March 31 1984 1/ Actual	March 31 1985 1/ Projection
Net international reserves	-853.5	-853.1	-569.9
Assets	69.9	60.5	148.0
Liquid	1.1	3.0	110.0
Nonliquid	68.8	57.5	38.0
Liabilities	923.4	913.6	717.9
IMF	628.9	617.0	673.8
Commercial banks	6.0	1.5	--
Central Bank of Libya	50.0	50.0 2/	42.0
Federal Reserve Bank	10.0	--	0.8
Norway Consultancy Fund	0.8	0.8	--
Bank of China	1.3	0.3	--
CARICOM	14.3	14.6 3/	--
Venalum	--	44.0	--
Payments arrears (n.i.e.)	177.2	167.4	--
Other	34.9	18.0	1.3

Sources: Bank of Jamaica; and Fund staff estimates.

1/ SDRs converted at US$1.05 = SDR 1.
2/ Of which US$8 million of arrears