

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/84/101
Supplement 3

CONFIDENTIAL

June 13, 1984

To: Members of the Executive Board
From: The Acting Secretary
Subject: Jamaica - Stand-By Arrangement

Attached is the text of the decision approving a stand-by arrangement for Jamaica, adopted by the Executive Board at Meeting 84/90 (6/8/84), together with the text of the arrangement. The effective date of the stand-by arrangement will be set in a further decision dealing with the arrangements referred to in paragraph 2 of the attached decision. The forthcoming decision will be submitted to the Executive Board for consideration on a lapse-of-time basis.

Att: (2)

INTERNATIONAL MONETARY FUND

Jamaica - Stand-By Arrangement

Executive Board Decision - June 8, 1984

1. The Government of Jamaica has requested a stand-by arrangement for the period of a year following its effective date for an amount equivalent to SDR 64 million.

2. The Fund approves the stand-by arrangement set forth in EBS/84/101, which shall become effective on the date, but not later than June 20, 1984, on which the Fund finds that satisfactory arrangements have been made for the refinancing of certain short-term liabilities.

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



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 a period of one year from the effective date of the stand-by arrangement, 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) 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 initiative 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 turn-around 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 re-financing 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:

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

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 gasoline prices. Consequent on the unification of exchange rates, it was decided to maintain this subsidy through a 50% increase of gasoline 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. Gasoline 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 estates/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 estates/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.

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
<u>Total revenue</u>	<u>535</u>	<u>582</u>	<u>617</u>	<u>923</u>	<u>2,657</u>
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)
<u>Total expenditure</u>	<u>764</u>	<u>871</u>	<u>809</u>	<u>910</u>	<u>3,354</u>
Current	664	741	646	738	2,789
Capital	100	130	163	172	565
<u>Overall balance</u>	<u>-229</u>	<u>-289</u>	<u>-192</u>	<u>13</u>	<u>-697</u>
<u>Financing</u>	<u>229</u>	<u>289</u>	<u>192</u>	<u>-13</u>	<u>697</u>
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
<u>Total (net)</u>	<u>228.7</u>	<u>289.3</u>	<u>191.9</u>	<u>-12.9</u>	<u>697.0</u>
<u>Net external</u>	<u>319.3</u>	<u>184.4</u>	<u>111.9</u>	<u>289.7</u>	<u>905.3</u>
<u>Inflows</u>	<u>591.7</u>	<u>414.4</u>	<u>334.7</u>	<u>498.5</u>	<u>1,839.3</u>
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)
<u>Net domestic</u>	<u>-226.5</u>	<u>-67.4</u>	<u>-63.6</u>	<u>-464.3</u>	<u>-821.8</u>
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)
<u>Financing gap/ refinancing</u>	<u>135.9</u>	<u>172.3</u>	<u>143.6</u>	<u>161.7</u>	<u>613.5</u>
Memorandum item: IMF presentation					
<u>Total (net)</u>	<u>211.7</u>	<u>272.3</u>	<u>174.9</u>	<u>-29.9</u>	<u>629.0</u>
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 Merchant 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
<u>Inflows</u> <u>2/</u>	<u>460</u>	<u>195</u>	<u>185</u>	<u>177</u>
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
<u>Outflows</u>	<u>-181</u>	<u>-97</u>	<u>-163</u>	<u>-97</u>
<u>Cumulative change in</u> <u>stock of debt</u>	<u>279</u>	<u>377</u>	<u>399</u>	<u>478</u>

Source: Bank of Jamaica.

1/ Medium- and long-term public and publicly-guaranteed debt, excluding 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,	March 31	
	1983 ^{1/} Actual	1984 ^{1/} Actual	1985 ^{1/} Projection
<u>Net international reserves</u>	<u>-853.5</u>	<u>-853.1</u>	<u>-569.9</u>
<u>Assets</u>	<u>69.9</u>	<u>60.5</u>	<u>148.0</u>
Liquid	1.1	3.0	110.0
Nonliquid	68.8	57.5	38.0
<u>Liabilities</u>	<u>923.4</u>	<u>913.6</u>	<u>717.9</u>
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