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AGENDA

EBS/83/122

CONFIDENTIAL

June 13, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Jamaica - Consultation and Request for Waiver of Performance Criteria Under Extended Arrangement and Program for 1983/84

Attached for consideration by the Executive Directors is a paper on the consultation and request for a waiver of performance criteria under the extended arrangement for Jamaica, and program for 1983/84. Draft decisions appear on pages 31, 32, and 33.

It is proposed to bring this subject to the agenda for discussion on Friday, June 24, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Hardy, ext. 76032.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

JAMAICA

Consultation and Request for Waiver of Performance Criteria Under Extended Arrangement and Program for 1983/84

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

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

Approved by E. Wiesner and W. A. Beveridge

June 13, 1983

I. Introduction

On April 13, 1981, the Executive Board approved an extended arrangement for Jamaica in an amount equivalent to SDR 236.4 million (213 per cent of quota). On June 25, 1981, after the Enlarged Access Policy became operative, the arrangement was augmented to SDR 477.7 million (430 per cent of quota), the amount originally requested by Jamaica. Of this amount, SDR 178.2 million was made available and was purchased during the first year of the arrangement, and SDR 149.8 million was made available and was purchased in the second year. Of the remaining SDR 149.7 million available for the third year, SDR 37.4 million relates to a purchase associated with the observance of performance criteria at end-March 1983. Jamaica was unable to make this purchase due to non-observance of the performance criteria relating to the injunction against exchange restrictions (due to incurrence of arrears), net credit to the public sector, and the Bank of Jamaica's net international reserves and net domestic assets. In addition, the consultation on policies for the third year of the arrangement had not been completed.

In a letter dated March 31, 1982, requesting that Fund resources be made available for the second year of the extended arrangement, the Jamaican authorities had stated that they would consult with the Fund on or before March 31, 1983 on the policies for the third year of the arrangement. These consultations were initiated in the period December 8 to December 17, 1982 at headquarters, and were continued in Kingston from January 17 to February 4, 1983, at headquarters again from March 7 through 18, and from April 4 through May 3. The final round of discussions took place at headquarters from May 9 to May 25, 1983.1/

1/ The staff team consisted of Mr. Hardy (Head), Ms. Bierman, Messrs. Citrin and Gronlie (all WHD), Mr. Nowak (ETR), and Mrs. Koo (Secretary-WHD). Mr. Joyce, Executive Director for Jamaica, participated in several of the policy discussions. Mr. Lee, the Fund resident representative in Jamaica, also participated in the discussions.

As of March 31, 1983, Fund holdings of Jamaica dollars stood at SDR 665 million, or 599 per cent of quota, including SDR 66 million under the compensatory financing facility. The Jamaican authorities have requested a waiver of the performance criteria not observed at the end of March 1983, and of the performance criteria relating to the injunction against multiple currency practices and exchange restrictions maintained since then. It is proposed, subject to Board approval of this request, that the SDR 149.7 million that may be purchased during the third year be made available as follows: up to SDR 37.4 million until July 15, 1983, SDR 74.8 million until October 15, 1983, and SDR 112.2 million until January 15, 1984. Assuming all repurchases due during the third year of the extended arrangement are made, purchases of the full amount available in the third year would raise Fund holdings of Jamaica dollars by March 31, 1984 to 697 per cent of quota, and to 654 per cent of quota excluding the compensatory facility (Table 1). This would bring the cumulative use of Fund resources, net of repurchases and excluding purchases under the compensatory financing facility, to 554 per cent of quota.

Article IV consultations were initiated in Kingston in September 1982, and were concluded by the Executive Board on January 4, 1983 (EBS/82/223 and SM/82/232).

Developments during the first two years of the extended arrangement are reviewed in Section II of this paper. Section III sets out the medium-term economic strategy for the period through 1985/86 (i.e., through March 31, 1986), and Section IV describes the program for 1983/84. The policies for fiscal year 1983/84 are described in the Economic Policy Memorandum of Jamaica and the Technical Memorandum of Understanding, annexed to the Jamaican authorities' letter of May 24, 1983 (see Attachment IV).

II. Developments During the First and Second Years of the Extended Arrangement 1/

The extended arrangement was designed within the framework of a medium-term plan having as its main objective the reversal of the prolonged decline in the Jamaican economy, initially by facilitating utilization of idle capacity and unemployed labor, and subsequently by promoting new investment. The private sector was assigned a leading role in attaining the objectives of the plan, and the Government was to adopt policies conducive to private sector recovery and growth. The plan called for substantial reliance on external borrowing to secure the turnaround in the early phase of the recovery period. A sustainable external position would subsequently be generated through structural adjustments in the agricultural and manufacturing sectors, a rebound in tourism and mining, and a gradual reduction in the financing requirement

1/ Developments during the first year of the arrangement are described in more detail in EBS/82/50 and EBS/82/223.

Table 1. Jamaica: Projection of the IMF Position: March 1983-March 1984

	Outstanding Mar. 31 1983	Operations of Third Year of Arrangement: Apr.-June 1983	July-Sept. 1983	Oct.-Dec. 1983	Jan.-March 1984	Outstanding Mar. 31 1984
	(In millions of SDRs)					
Purchases	554.2	37.4	37.4	37.4	37.5	662.6
Credit tranches	21.8	--	--	--	--	21.8
Extended facility	466.4	37.4	37.4	37.4	37.5	592.6
Ordinary resources	(155.4)	(--)	(--)	(--)	(--)	(151.4)
Supplementary resources	(219.4)	(--)	(--)	(--)	(--)	(199.9)
Enlarged access resources	(91.6)	(37.4)	(37.4)	(37.4)	(37.5)	(241.3)
Compensatory financing	66.0	--	--	--	--	48.2
Repurchases		11.8	7.9	11.5	10.1	
Extended facility		5.9	3.9	7.5	6.2	
Ordinary resources		(--)	(--)	(1.7)	(2.3)	
Supplementary resources		(5.9)	(3.9)	(5.8)	(3.9)	
Compensatory financing		5.9	4.0	4.0	3.9	
Net purchases		25.6	29.5	25.9	27.4	
Memorandum item						
Total holdings (end of period)	665.2	690.8	720.3	746.2	773.6	773.6
Excluding compensatory facility	599.2	630.7	664.2	694.1	725.4	725.4
	(In per cent of quota)					
Total holdings	599.3	622.3	648.9	672.3	696.9	696.9
Excluding compensatory facility	539.8	568.2	598.4	625.3	653.5	653.5

Source: International Monetary Fund.

of the public sector. During the first year of the program all financial targets were met and all purchases were made on schedule. However, the real growth rate was only 1.2 per cent, compared with a projection of 4-5 per cent under the program.

For the second year of the arrangement economic growth was targeted at 4 per cent and exports were projected to rise sharply. The program called for further liberalization in the areas of price control, reduction of quantitative import restrictions, and further divestment or leasing of government holdings. There were to be reductions in the Central Government's overall deficit and the current account deficit of the balance of payments.

With the world recession and the sharp downturn in the bauxite industry, the prospects for export-led recovery diminished in 1982/83. Mining output, which had been projected to rise by 12 per cent, instead contracted by 17 per cent. This by itself is estimated to have reduced GDP by more than 1 percentage point. Agricultural output stagnated as the sugar sector continued to be plagued by labor unrest, and the plans for restructuring both the sugar and the banana sectors were delayed. Nevertheless, real GDP still increased by 2 per cent in 1982/83, boosted by construction, tourism, and other private service sectors.

However, despite the reversal of the declining trend in real GDP in the past two years, the unemployment rate increased marginally to about 27-28 per cent of the labor force in the second half of 1982. This figure includes among the unemployed those not actively seeking employment, and may not be comparable to definitions used in other countries.

Inflation remained low by historical standards. Consumer prices rose by only 7.3 per cent in the 12 months ended March 1983 after a sharp reduction to 9 per cent in 1981/82. The relatively low rate of consumer price increases (which mainly reflected decelerating imported inflation, but also improved domestic supply conditions) formed part of the strategy for attaining wage moderation. The civil service salary award of 10 per cent a year for two years from mid-1981 came to be regarded broadly as a norm for wage contracts in the rest of the public sector. Partial information on wage settlements in the private sector suggests settlements in 1982/83 of the order of 10-15 per cent a year for two-year contracts, down from the previous year, but well above the rate of inflation. Thus, most wage awards--including that for the civil service--involved some increase in real wages.

The Government continued the process of deregulation in 1982/83. Seven items were removed from the list of commodities subject to specific price control, bringing the number remaining to 16 compared with 57 at the beginning of the extended arrangement. An additional 14 items were removed from the category of goods which require prior notification of price increases, thereby reducing the number of items in this category to 4, compared with 24 before the start of the arrangement. Furthermore, the policy of employing quantitative restrictions to control the level of imports was revised in 1982/83, as part of Jamaica's undertakings in the context of a structural adjustment loan from the World Bank. Some 360 items are to be removed from the restricted list over a five-year period, leaving only a small number of products deemed strategic in terms of national and social priorities; 124 items had been removed by March 1983. Somewhat in contrast to these policies, but in response to sharp rent increases during the period since the new administration took office, the Government amended the Rent Control Law in 1982/83, subjecting all commercial units built after 1980 and all residential rental units to an assessment of maximum monthly rent.

In the area of reducing government involvement in commercial activities, progress in the second year of the program was mixed; during 1982/83 the Government acquired hotels, certain other commercial facilities, and the local oil refinery. Government activities in the construction and manufacturing sectors remained largely unchanged. The position of the Jamaica Commodities Trading Corporation as the sole importer of basic foods, building materials, and pharmaceuticals was curtailed for some commodities.

Although all quantitative performance criteria were met through December 1982, it became apparent as the year progressed that, largely because of the downturn in the bauxite industry and shortfalls in capital flows, performance under the program was not evolving according to plan. Indeed, in March 1983, the performance criteria relating to net foreign assets, net domestic assets, credit to the public sector, and payments arrears were not observed (Table 2). The finances of the Central Government weakened substantially in 1982/83 as the overall deficit widened to an estimated 15.7 per cent 1/ of GDP from 14.2 per cent in 1981/82 and from a target of 12.9 per cent under the program 2/ (Chart 1 and Table 3). The deviation from the program was primarily due to shortfalls (relative to projections) in revenue from the bauxite levy (J$160 million) and in nontax revenue (J$22 million), the latter arising largely from lower than projected Bank of Jamaica profits. These shortfalls were not fully offset by tax revenue in excess of the program (J$13 million) and lower expenditure than programed (J$84 million). The former mainly reflected success in improving tax compliance, including the collection of tax arrears, while the latter resulted in part from lower than planned capital expenditure and current outlays. (Even so, in reflection of a downward revision of GDP, expenditure was still significantly higher in terms of GDP than had been programed.) As a result, the Central Government's overall deficit exceeded the program target for 1982/83 by some J$85 million. There was also a substantial deviation from the program with

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1/ The most recent tentative data suggest that the deficit may have been even higher than this level in 1982/83.

2/ In the attached Economic Policy Memorandum, the Government of Jamaica reports an overall central government deficit of 13.7 per cent for 1982/83. The difference reflects a special financing arrangement with a bauxite company which the staff has treated as borrowing rather than current revenue.

Table 2. Jamaica: Extended Arrangement; Quantitative Performance, April 1982-March 1983

	1982			Mar. 31
	June 30	Sept. 30	Dec. 31	1983
(In millions of Jamaica dollars)				
Net domestic credit to the public sector				
Actual	3,448.6	3,555.7	3,723.8	3,887.0
Ceiling 1/	3,470.8	3,672.6	3,813.1	3,749.8
Bank of Jamaica: net domestic assets				
Actual	1,293.5	1,363.8	1,388.4	1,478.5
Ceiling 1/	1,393.4	1,472.4	1,448.4	1,294.4
(In millions of U.S. dollars)				
Bank of Jamaica: net international reserves				
Actual	-531.8	-573.8	-559.2	-619.2
Floor 1/	-588.0	-630.0	-587.0	-517.0
Arrears on current international payments				
Actual	--	--	--	24.6
Ceiling	--	--	--	--
Cumulative disbursements on net external commercial borrowing				
1 - 5 year maturity				
Actual	--	--	--	--
Ceiling	60.0	60.0	60.0	60.0
1 - 12 year maturity				
Actual	--	--	1.3	1.3
Ceiling	250.0	250.0	250.0	250.0

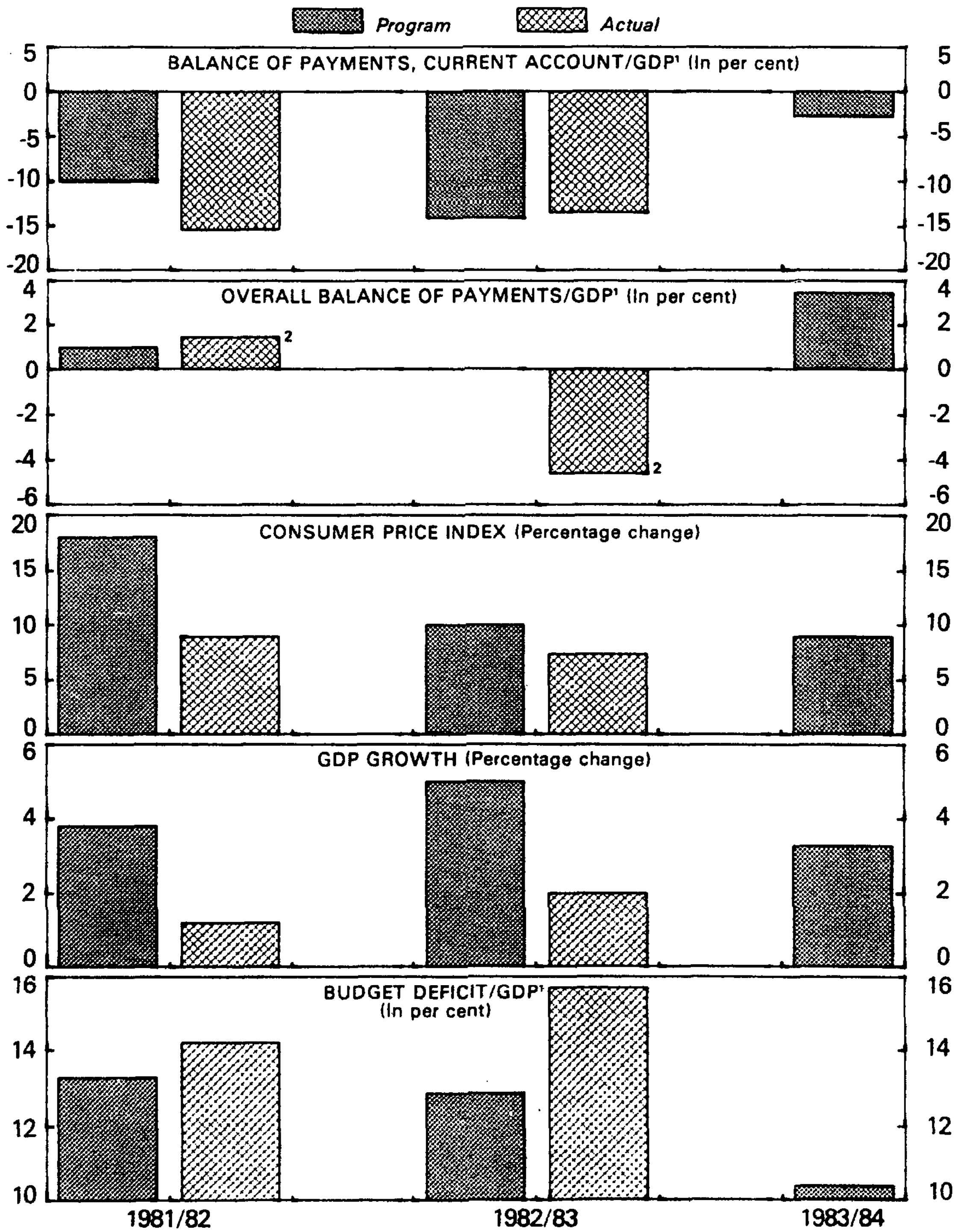
1/ Adjusted for shortfall of external inflows.

CHART 1

JAMAICA

SELECTED POLICY INDICATORS, TARGETS AND OUTTURN

(1981/82, 1982/83 and 1983/84)



[1]For 1981/82 and 1982/83 comparison of ratios to GDP are distorted because of downward revision of GDP from program estimate.

[2]This BOP/GDP ratio corresponds to the acceptable outcome with maximum adjustment for shortfalls in external flows. With programmed flows the acceptable outcome is 1 per cent of GDP for 1981/82 and 1.5 per cent of GDP for 1982/83.

Table 3. Jamaica: Summary Operations of the Central Government

	1980/81	1981/82 Prog.	1981/82 Actual	1982/83 Prog.	1982/83 Est.
	(In millions of Jamaica dollars)				
Revenue	1,192	1,425	1,552	1,807	1,638
Tax revenue	881	1,052	1,147	1,364	1,377
Nontax revenue	81	49	105	101	79
Bauxite levy	230	324	300	342	182
Expenditure	2,022	2,366	2,299	2,618	2,534
Current	1,547	1,693	1,655	1,912	1,861
Capital	475	673	644	706	673
Current account	-355	-268	-103	-105	-223
Overall balance	-830	-941	-747	-811	-896
Net foreign financing	220	802	590	665	425 1/
Net domestic financing	610	139	157	146	471
	(In per cent of GDP)				
Revenue	24.5	20.1	29.5	28.7	28.7
Tax revenue	18.1	14.9	21.8	21.7	24.1
Nontax revenue	1.7	0.6	2.0	1.6	1.4
Bauxite levy	4.7	4.6	5.7	5.4	3.2
Expenditure	41.5	33.5	43.6	41.6	44.3
Current	31.8	24.0	31.4	30.4	32.5
Capital	9.7	9.5	12.2	11.2	11.8
Current account	-7.3	-3.8	-2.0	-1.7	-3.9
Overall balance	-17.0	-13.3	-14.2	-12.9	-15.7
Net foreign financing	4.5	11.3	11.2	10.6	7.5
Net domestic financing	12.5	2.0	3.0	2.3	8.2
Memorandum item					
Fiscal year GDP (J$ millions)	4,870	7,073	5,269	6,290	5,719

Sources: Ministry of Finance; and Fund staff estimates.

1/ Includes J$112 million (1.9 per cent of GDP) of special bauxite financing (tolling).

respect to the financing of the budget deficit. Even after securing special financing through a bauxite company that had not been foreseen in the program, net external financing fell short of the targeted amount of J$665 million by more than one third. As a result, the net use of domestic credit rose to J$471 million, compared with J$146 million originally envisaged under the 1982/83 program (see Table 3). While the program permitted shortfalls in nearly all categories of external support to be fully made up by corresponding increases in the net use of domestic credit, the larger than programed fiscal deficit caused credit to the public sector to exceed the fully adjusted ceiling by J$137.2 million at March 31, 1983.

Monetary developments in 1982/83 were characterized by an increase in money and quasi-money of 25 per cent, compared with a program projection of 20 per cent (Table 4). In the face of strong demand for credit from both the public and private sectors, the cash/deposit ratio of the banks declined to 5 per cent at end-March 1983 from 15 per cent a year earlier. There was a decline in the velocity of circulation, perhaps reflecting a continued increase in real interest rates on bank deposits, together with some dampening of inflationary expectations.

Net domestic credit of the banking system had been programed to expand by 15 per cent in relation to the initial stock of liabilities to the private sector in 1982/83, but is now estimated to have risen by 33 per cent. This deviation from the target reflected bank credit expansion to the selected public sector of J$616 million, compared with J$111 million envisaged under the program. The Bank of Jamaica's net domestic assets expanded by J$292 million, which was J$184 million more than provided for after adjustment of the ceiling by the maximum amount permissible for shortfalls in external flows.

The program had envisaged a cumulative balance of payments surplus of US$55 million for the two-year period 1981/82-1982/83 (Table 5). Since a surplus of US$43 million was registered in 1981/82, the target for 1982/83 was a surplus of US$12 million. This target was subject to a downward adjustment of up to US$60 million in the event of a shortfall in specified official capital inflows. Actual performance for 1982/83 fell well short of the fully adjusted program target, with the overall balance of payments recording a deficit of US$147 million, of which US$25 million represented the accumulation of new external payments arrears. As a consequence, gross foreign exchange reserves declined by US$39 million to US$88 million at end-March 1983, equivalent to less than four weeks of nonbauxite sector imports and well below the programed level of US$281 million.

The worse-than-expected overall balance of payments outcome in 1982/83 was attributable to a number of factors, but particularly to a shortfall in projected net capital inflows of US$274 million. By contrast, despite the weak export performance, the current account deficit declined to the equivalent of 13 per cent of GDP (as calculated on the basis of the revised rather than the originally projected GDP), compared with the program target of 16 per cent.

Table 4. Jamaica: Summary Monetary Accounts

(In millions of Jamaica dollars)

	March 31, 1982		March 31, 1983	
	Original Estimate	Actual	Program	Actual
I. Banking System				
Net international reserves	-970.7	-896.8	-888.8	-1,074.7
Net domestic credit	3,147.4	3,154.3	3,454.5	3,875.4
Selected public sector	1,998.1	2,002.6	2,109.1	2,618.9
Central Government	(...)	(1,941.2)	(...)	(2,563.9)
Selected public entities	(...)	(61.4)	(...)	(55.0)
Private sector	1,331.8	1,241.6	1,601.0	1,688.2
Unclassified	-182.5	-89.9	-255.6	-431.7
SDR allocation	81.7	81.7	81.7	81.7
Liabilities to private sector	2,095.0	2,175.8	2,484.0	2,719.0
Money	655.0	689.1	744.0	705.5
Quasi-money	1,280.0	1,329.0	1,580.0	1,807.0
Other	160.0	157.7	160.0	206.5
II. Bank of Jamaica				
Net international reserves	-895.7	-841.4	-813.8	-1,102.2
Of which: arrears	-33.1	--	--	43.8
Net domestic credit	1,237.4	1,186.4	1,190.5	1,478.5
Selected public sector	1,378.9	1,322.2	1,378.9	1,824.1
Central Government	(...)	(1,414.4)	(...)	(1,935.9)
Selected public entities	(...)	(-92.2)	(...)	(-111.8)
Other	-141.5	-135.8	-188.4	-345.6
SDR allocation	81.7	81.7	81.7	81.7
Currency in circulation	260.0	263.3	295.0	294.6

Sources: Bank of Jamaica; and Fund staff estimates.

Table 5. Jamaica: Balance of Payments

	1980/81	FY 1981/82		1982/83	
	Actual	Prog.	Actual	Prog.	Est.
	(In millions of U.S. dollars)				
Current account (net)	-191	-395	-455	-513	-431
Merchandise trade	-192	-415	-599	-652	-634
Exports, f.o.b.	(1,010)	(1,139)	(889)	(1,073)	(737)
Imports, c.i.f.	(-1,202)	(-1,554)	(-1,488)	(-1,725)	(-1,370)
Travel (net)	230	237	300	387	338
Receipts	(242)	(257)	(328)	(418)	(369)
Payments	(-12)	(-20)	(-28)	(-31)	(-31)
Investment income (net)	-287	-277	-225	-311	-235
Interest (net)	(-176)	(-231)	(-219)	(-253)	(-266)
Other (net)	(-111)	(-46)	(-6)	(-58)	(31)
Other services (net)	-37	-55	-39	-53	-36
Transfers (net)	94	115	107	116	135
Capital account (net)	30	435	498	559	285
Official inflows	314	679	649	785	718
Special assistance	(142)	(621)	(470)	(586)1/	(408)
Project loans	(62)	(58)	(63)	(82)	(34)
Other	(110)	(--)	(116)	(117)	(276)
Official outflows	-103	-200	-222	-301	-321
Private (net) 3/	-181	-44	71	75	-112
SDR allocation	10	--	--	--	--
Change in net international reserves (increase -)	151	-40	-43	-46 4/	147
Of which: change in arrears	65	-80	-106	-19	25
	(In per cent of GDP)				
Memorandum item					
Current account	-7.2	-9.9	-15.4	-14.2	-13.4

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Of this, US$5 million was disbursed in the form of grants rather than loans as initially anticipated. The shortfall in special assistance therefore amounted to US$173 million.
2/ An additional US$4 million in special assistance is expected to be disbursed in grant form.
3/ Includes net errors and omissions.
4/ Based on estimate for 1981/82 of US$9 million.

Bauxite/alumina shipments, which comprised over three quarters of merchandise exports in 1981/82, contracted by 26 per cent, while sugar exports declined by 7 per cent. Hence, in spite of continued growth of nontraditional exports, the value of total exports fell by more than 17 per cent in 1982/83, a shortfall of 31 per cent from the program target. The value of imports, on the other hand, declined by 8 per cent in 1982/83, to a level about 20 per cent lower than originally programed. In response to the decline in activity in the mining sector, imports of the bauxite sector fell by 24 per cent. The contraction in nonbauxite sector imports of around 6 per cent was largely attributable to the reduction in special balance of payments support and project loans, in addition to some rundown of inventories. Nevertheless, nonbauxite imports in 1982/83 were around 24 per cent higher than two years previously. Primarily because of continued strong gains in tourism and substantially reduced profits in the mining sector, the surplus on services account nearly doubled in 1982/83 to US$67 million, a significant improvement over the program target of US$23 million.

The 1982/83 program relied on a substantial increase in disbursements of external assistance. It was also expected that adherence to tight domestic financial policies together with an improvement in private sector confidence would promote further inflows of private capital. As it turned out, developments in the official and private capital accounts fell well short of expectations. Total net inflows of capital amounted to only US$285 million, about half of the level originally envisaged. The shortfall in special balance of payments assistance amounted to US$173 million. Of this shortfall, US$50 million represented a syndicated bank loan which could not be secured during 1982/83 and US$84 million represented lower than projected inflows from multilateral sources, nearly half of which were delayed; the rest comprises lower than expected assistance from bilateral creditors. The financing gap created by this shortfall was partially offset by two bauxite-related capital transactions totaling US$81 million and deferred payments for oil imports amounting to over US$70 million.

There was a net outflow of private capital in 1982/83 of US$112 million, in sharp contrast to the net inflow of around US$75 million which had been expected. One factor contributing to this was the buildup of the net foreign assets of the commercial banks, in part apparently to provide forward cover facilities to importers operating in the newly legalized parallel exchange market.

In January 1983, Jamaica implemented a number of changes in its exchange and trade system with a view to promoting a more efficient allocation of scarce foreign exchange resources, providing improved price incentives for the nontraditional export sector, and easing the liquidity constraint on the Bank of Jamaica. The informal parallel foreign exchange market was legalized and its operations institutionalized in the commercial banks. Exporters of nontraditional commodities were permitted to retain 50 per cent of their foreign currency proceeds either to finance their imports, or to sell to other importers at the parallel market rate. Cash payments for imports on the official market were restricted to government imports, imports of oil, basic foods, and certain other essentials. The financing of all other imports was formally shifted to the parallel market.1/ Prior to that time, foreign exchange for imports and invisible payments was readily available at a premium in the illegal but tolerated parallel market, and licenses were being granted for "no-funds" imports.2/ Consequently, the formal transfer of a wide range of payments from the official market, in effect provided only limited relief to the official market. Moreover, the local currency value of virtually all imports financed under bilateral or multilateral foreign credits continued to be determined at the official exchange rate.

Exchange control regulations and the import licensing system were also liberalized in January. In particular, foreign exchange sales to the commercial banks were permitted on a "no-questions-asked" basis. Quota restrictions for imports by nontraditional exporters were lifted (except for consumer goods), while other importers were granted licenses on an automatic basis up to specified quantitative limits. In addition, as part of the effort to ensure that all foreign exchange transactions are channeled through the banking system, the practice of issuing "no-funds" import licenses was terminated. Finally, in February, a further 60 items were removed from the restricted import list without any compensatory tariff increase.

Since the new exchange arrangements were introduced, the parallel market rate has been fairly stable, although the rates quoted by the commercial banks have been far from uniform. As of May 31, 1983, the average mid-rate stood at J$2.68 = US$1, compared with the official market rate of J$1.78 = US$1. There has been a depreciation in the parallel market rate of around 5 per cent since that market first opened in January.

Between May 1979, when the Jamaica dollar was pegged to the U.S. dollar at its present level, and March 1983, the trade-weighted value of the Jamaica dollar in the official market appreciated by 16 per cent. After adjusting for movements in Jamaica's inflation rate relative to its major trading partners, the appreciation of the Jamaica dollar in the official market amounted to 32 per cent in real terms over this period. However, the deterioration in Jamaica's external competitiveness has been partly mitigated by the premium for U.S. dollars offered on the parallel market. Staff estimates indicate that, taking account of the volume of transactions and the exchange rate movement in the parallel market, the real appreciation of the Jamaica dollar was about 20 per cent between May 1979 and March 1983 (Chart 2).

1/ Attachment III contains a full description of the new exchange arrangements.

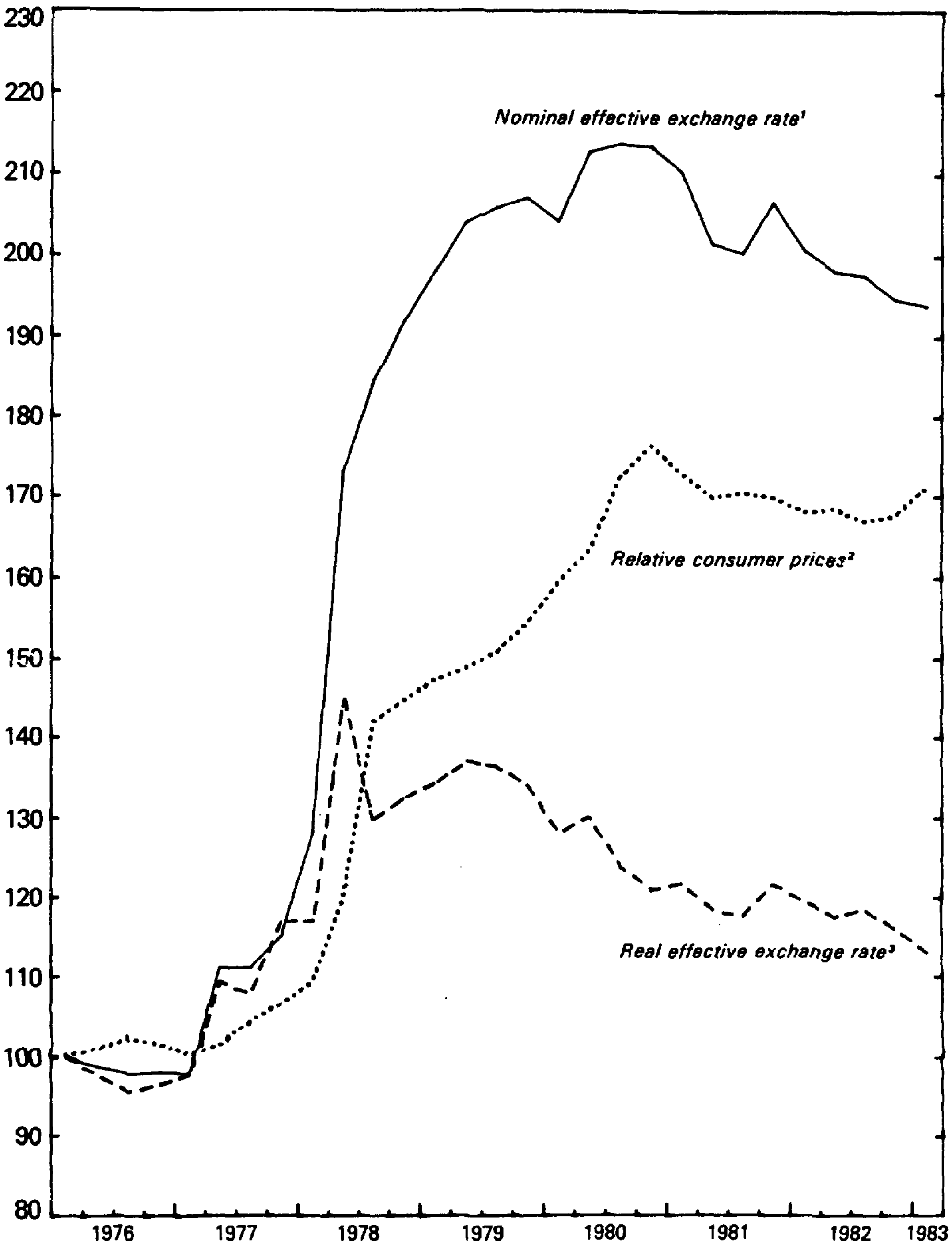
2/ A "no-funds" license is one issued for imports not requiring foreign exchange from the Bank of Jamaica.

CHART 2

JAMAICA

EFFECTIVE EXCHANGE RATE INDICES, 1976-83

(Q1 1976 = 100)



[1]Trade weighted (1975-77) average value of partner countries' currencies in terms of Jamaica dollars. Increase in index represents depreciation of Jamaica dollar. Adjustments have been made to incorporate the parallel foreign exchange market.

[2]Jamaica consumer price index relative to partner countries' consumer price indices.

[3]Nominal effective exchange rate adjusted for consumer prices. Decline in index represents a real appreciation of the Jamaica dollar.

III. The Medium-Term Strategy

In the attached Economic Policy Memorandum, the Government of Jamaica reiterates the basic thrust of the economic policies launched in 1981 and supported by the current extended arrangement. The objective of the medium-term strategy is to adjust the external and fiscal deficits to levels that can be financed by normal flows of external capital and by increases in domestic credit which are sustainable and consistent with moderate inflation and private sector recovery.

Strengthened export incentives introduced in January 1983, implementation of the industrial rehabilitation and structural adjustment programs, agreed with the World Bank and the IDB, and a recovery in external demand for Jamaican bauxite and alumina by 1985 are the major factors underlying the projected increase in the rate of growth of real GDP to 3.3 per cent in 1983/84 and to 4 per cent a year in the two subsequent years (Table 6).

Table 6. Jamaica: Growth and Prices

(In per cent of GDP)

	1980/81	1981/82	1982/83	Proj. 1983/84	Proj. 1984/85	Proj. 1985/86
			(In millions of Jamaica dollars)			
Nominal GDP	4,870	5,269	5,719	6,405	7,194	8,080
Real GDP (1974 prices)	1,848	1,870	1,908	1,971	2,050	2,132
			(Percentage changes)			
Real GDP	-4.6	1.2	2.0	3.3	4.0	4.0
GDP deflator	16.3	6.9	6.4	8.4	8.0	8.0
Consumer price index						
Annual average	26.5	9.0	7.3	9.0	8.0	8.0
End of period	19.4	7.3	8.5	...	...	...

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

In the area of fiscal management there is provision for an adjustment of almost 5-1/2 percentage points of GDP in the overall central government deficit in 1983/84, compared to the 1982/83 estimated outturn, and over the subsequent two years through 1985/86 the deficit is to be reduced by a further 1.8 percentage points of GDP (Table 7).

Table 7. Jamaica: Selected Indicators

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
(In per cent of GDP)						
I. Central Government Indicators						
Overall deficit						
Original program 1/	...	-13.3	...	-10.0	...	...
Actual/estimate	-17.0	-14.2	-15.7	...	...	...
Revised program	...	...	...	-10.3	-9.5	-8.5
Net foreign financing						
Actual/estimate	4.5	11.2	7.5 2/	...	...	...
Revised program	...	...	...	7.8	5.5	4.0
Net domestic financing						
Actual/estimate	12.5	3.0	8.2	...	...	...
Revised program	...	...	...	2.5	4.0	4.5
II. Balance of Payments Indicators						
Current account						
Original program 1/	...	-9.9	-9.5	-9.4	...	...
Actual/estimate	-7.2	-15.4	-13.4	...	...	...
Revised program	...	...	...	-3.0	-8.0	-6.0
(In millions of U.S. dollars)						
Change in net international reserves						
Original program 1/	...	40	40	72	...	...
Actual/estimate	-151	43	-147	...	...	...
Revised program	...	...	...	125	40	60

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

1/ As set out in EBS/81/79.
2/ Includes special bauxite financing, equivalent to 2 per cent of GDP.

While the fiscal improvement in the period through 1985/86 relies heavily on a recovery in revenue from the bauxite levy, new revenue measures also will probably be required in each of the years. In addition, the authorities are committed to restricting expenditure on personal emoluments to 15 per cent of GDP (about the 1983/84 level) during the three-year period, and it is expected that recommendations for curtailing current outlays will be forthcoming from a zero-based budgeting exercise to be undertaken this year. The programs involving the World Bank in restructuring the operations of a number of public enterprises are expected to continue, and budgetary support for the current operations of the selected public enterprises is projected to be scaled down from an estimated J$43 million in 1982/83 to J$19 million in 1983/84. The objective is to eliminate transfers from the Central Government to the selected enterprises for current operations by the end of 1983/84.

The fiscal program is consistent with a medium-term balance of payments strategy designed to raise gross foreign reserves to a level equivalent to at least three months' imports of the nonbauxite sector; reduce the current account deficit to around 6 per cent of GDP; and provide an economic environment that encourages the resumption of net private capital inflows (Table 8). In 1983/84 the adjustment on the current account will be substantial because of the overriding need to rebuild the reserves of the Bank of Jamaica. On the somewhat conservative assumption that increased reliance on the parallel market will not induce significant additional resources, the current account deficit is projected to shrink to 3 per cent of GDP, from 13.4 per cent in the preceding year.

The medium-term outlook for the external sector hinges crucially on the anticipated recovery in world trade and the assumption of no rise in foreign interest rates beyond present levels. The value of bauxite/alumina exports is projected to grow by about 18 per cent a year through 1985/86. Even so, by then the volume of production is expected to be still below that recorded in 1980/81. Although no further increase in Jamaica's share of the regional tourist market is anticipated beyond 1983/84, renewed growth in the United States and other industrial economies should permit an expansion in tourism expenditures of around 15 per cent a year. To reinforce these external developments, domestic policies will be directed to providing greater export incentives. The nontraditional export sector is expected to respond positively and should also benefit from an expansion in the resources of the Export Development Fund (EDF). Rehabilitation programs for sugar and bananas should significantly expand the surpluses available for export to the point where quotas for the European Community and U.S. markets can be fully met.

It is expected that the growth of exports and tourism will reduce Jamaica's reliance on external borrowing and ease the debt service burden. The medium-term current account projections are consistent with a reduction in net official capital inflows to a level of around 5 per cent of GDP, and a cumulative balance of payments surplus for the three-year period through 1985/86 of US$225 million.

Table 8. Jamaica: Balance of Payments

(In millions of U.S. dollars)

	Actual		Est.	Proj.		
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Current account (net)	-191	-455	-431	-105	-323	-272
Merchandise trade	-192	-599	-634	-305	-547	-520
Exports, f.o.b.	(1,010)	(889)	(737)	(915)	(952)	(1,223)
Imports, c.i.f.	(-1,202)	(-1,488)	(-1,370)	(-1,220)	(-1,499)	(-1,743)
Services (net)	-93	37	67	53	84	103
Travel (net)	(230)	(300)	(338)	(394)	(456)	(521)
Other (net)	(-324)	(-264)	(-271)	(-341)	(-372)	(-418)
Transfers (net)	94	107	135	147	140	145
Capital account (net)	30	498	285	230	363	332
Official (net)	211	427	397	387	235	220
Inflows	(314)	(649)	(718)	(719)	(654)	(622)
Outflows	(-103)	(-222)	(-321)	(-476)	(-419)	(-402)
Private (net) 1/	-181	71	-112	-13	128	112
SDR allocation	10	--	--	--	--	--
Change in net international reserves (increase -)	151	-43	147	-125	-40	-60
Of which: change in arrears	65	-106	25	-25	--	--
Memorandum items						
Current account/GDP (in per cent)	-7.2	-15.4	-13.4	-3.0	-8.0	-6.0
Gross reserves in weeks of nonbauxite sector imports	3	6	4	13	13	13

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Includes net errors and omissions.

IV. The Program for 1983/84

Given the slippage that occurred in 1982/83 and the difficult international environment, the financial program for 1983/84 incorporates a substantial reinforcement of the adjustment effort. Domestic inflation is projected to remain at the 8-10 per cent level, and real GDP is projected to grow by 3.0-3.5 per cent with exports, tourism, and construction leading the way.

The principal elements, assumptions, and targets of the program for 1983/84 are summarized in Attachment II.

1. Growth and deregulation

The recovery program supported by the extended arrangement has emphasized the role of the private sector in generating economic growth. The actions already taken to reduce the incidence of price controls, to simplify and liberalize the import licensing system, and to establish the parallel market for foreign exchange are important elements in this strategy. The policy of gradually reducing quantitative restrictions on imports and replacing them with tariffs will be continued in 1983/84, with 61 additional items being taken off the restricted list. A schedule for the removal of the remaining 175 items, together with the tariffs that will apply to them at that time will be presented in 1983/84. The Government also intends to pursue more vigorously the policy of privatization, and is currently negotiating the sale or lease of 8 enterprises, which will bring the total number sold or leased to 26.

In an attempt to stimulate sales of bauxite and alumina the Government is continuing its efforts to organize barter and countertrade arrangements, most notably for motor vehicles, to be imported by the Jamaica Commodities Trading Corporation, a public entity. This would make the JCTC the major importer of motor vehicles in Jamaica in 1983/84.

2. Fiscal policy

The original three-year program had envisaged a reduction in the overall central government deficit from 17 per cent of GDP in 1980/81 to 10 per cent of GDP in 1983/84, and targeted a current account surplus of 1 per cent of GDP in 1983/84. The revised program now calls for an overall deficit of 10.3 per cent of GDP in 1983/84 (down from 15.7 per cent in 1982/83), and an improvement in the current deficit to 2.4 per cent of GDP from 3.9 per cent in 1982/83 (Table 9).

The adjustment in 1983/84 will be achieved in part by taking a set of measures designed to increase total revenue to 31.0 per cent of GDP in 1983/84 from an estimated 28.7 per cent in 1982/83. The measures include: (1) further improvements in tax administration (projected to yield J$60 million, or almost 1 per cent of GDP), particularly through better monitoring procedures at ports and airports (including container-stripping), a continuation of the present program to bring

Table 9. Jamaica: Summary Operations of the Central Government

		1981/82		1982/83		1983/84	
	1980/81	Prog.	Actual	Prog.	Est.	Orig. 1/ Program	Current Program
			(In millions of Jamaica dollars)				
Revenue	1,192	1,425	1,552	1,807	1,638		1,983
Tax revenue	881	1,052	1,147	1,364	1,377		1,640
Nontax revenue	81	49	105	101	79		146
Bauxite levy	230	324	300	342	182		197
Expenditure	2,022	2,366	2,299	2,618	2,534		2,639
Current	1,547	1,693	1,655	1,912	1,861		2,136
Capital	475	673	644	706	673		503
Current account	-355	-268	-103	-105	-223		-153
Overall balance	-830	-941	-747	-811	-896		-656
Net foreign financing	220	802	590	665	425 2/		501
Net domestic financing	610	139	157	146	471		155
Banking system	(490)	(72)	(189)	(20)	(623)		(-105)
Other (incl. residual)	(120)	(67)	(-32)	(126)	(-153)		(260)
			(In per cent of GDP)				
Revenue	24.5	20.1	29.5	28.7	28.7	22.0	31.0
Tax revenue	18.1	14.9	21.8	21.7	24.1	...	25.6
Nontax revenue	1.7	0.6	2.0	1.6	1.4	...	2.3
Bauxite levy	4.7	4.6	5.7	5.4	3.2	...	3.1
Expenditure	41.5	33.5	43.6	41.6	44.3	32.0	41.2
Current	31.8	24.0	31.4	30.4	32.5	...	33.3
Capital	9.7	9.5	12.2	11.2	11.8	...	7.9
Current account	-7.3	-3.8	-2.0	-1.7	-3.9	1.0	-2.4
Overall balance	-17.0	-13.3	-14.2	-12.9	-15.7	-10.0	-10.3
Net foreign financing	4.5	11.3	11.2	10.6	6.6 1/	...	7.8
Net domestic financing	12.5	2.0	3.0	2.3	7.3	...	2.5
Banking system	(10.1)	(1.0)	(3.6)	(0.3)	(11.5)	(...)	(-1.6)
Other (incl. residual)	(2.4)	(1.0)	(-0.6)	(2.0)	(-3.3)	(...)	(4.1)
Memorandum item							
Fiscal year GDP (J$ millions)	4,870	7,073	5,269	6,290	5,719		6,405

1/ As included in EBS/81/79.
2/ Includes J$112 million of special bauxite financing (tolling).

taxpayers on to the tax rolls, and strengthening of the procedures for collecting nontax revenue; (2) the transfer of current and accumulated profits from public enterprises and the Bank of Jamaica to the Central Government (projected to yield J$100 million); these profits will emanate primarily from trading operations relating to the importation of motor vehicles, special bauxite transactions, and from a commission on sales of foreign exchange to be levied by the Bank of Jamaica; and (3) new tax measures (projected to yield J$60 million) consisting of (a) an increase in the consumption duty on cigarettes, (b) a special levy on the earnings of life insurance companies, (c) a sales tax on the transfer of all motor vehicles, (d) an adjustment of the transfer tax on real estate, and (e) improvements to the system of taxation for self-employed individuals. The revenue projections for 1983/84 also include J$80 million from special bauxite and alumina sales.

The remaining fiscal adjustment will come from a reduction in expenditure to 41.2 per cent of GDP from 44.3 per cent in 1982/83. Current expenditure is projected to increase to 33.3 per cent of GDP in 1983/84 from an estimated 32.5 per cent in 1982/83, due mainly to higher interest payments and an increase of 15 per cent in outlays for personal emoluments. The latter reflects the new two-year wage contract which forms part of the Government's medium-term program for strengthening the civil service.1/ As in the first two years of the arrangement, the program for 1983/84 calls for limiting the number of persons employed by the Central Government to the level prevailing on March 31, 1981.

Capital expenditure will be reduced from an estimated 11.8 per cent of GDP in 1982/83 to 7.9 per cent of GDP under the 1983/84 program. More than three quarters of this reduction stems from cutbacks and delays in the execution of projects. The balance reflects lower transfers to the rest of the public sector in 1983/84, so that transfers to the selected public enterprises will include only loans and grants to the Urban Development Corporation for construction projects and repayment of debts owed by one of its subsidiaries (National Hotels and Properties), contribution of equity to the Port Authority and the National Sugar Company, and a loan to the Jamaica Railway Corporation. The sharp curtailment of investment outlays has been agreed with the World Bank in the context of the Public Sector Investment Program, and will be concentrated on lower priority domestically financed projects. Nonetheless, there will be repercussions for expenditure on social infrastructure.

The level of net foreign financing in 1983/84 is projected at J$501 million, equivalent to 7.8 per cent of GDP. Net domestic financing will be limited to J$155 million, equivalent to 2.5 per cent of GDP, compared with 3.0 and 8.2 per cent of GDP, respectively, during the first two years of the arrangement. It should be noted that due to the seasonal pattern of central government revenue and expenditure the overall deficit declines sharply in the second half of the program year, compared with the first half. Combined with a pattern of net foreign financing which

1/ The broad outline of this wage award had been already made public by the time discussions on the program commenced.

increases significantly in the second half of the year, this causes the Central Government's net domestic financing requirement to shift from J$310 million in the first half of the year to minus J$155 million in the second.

A major thrust of the Government's policies under the terms of the Structural Adjustment Loan with the World Bank has been to improve the financial position of the public enterprises, and to date several enterprises have been overhauled (see Appendix A to Annex II of Attachment IV). The overall financial performance of the selected public entities is projected to improve by 1.8 per cent of GDP in 1983/84, due mainly to improvements in the operations of the Sugar Industry Authority, the National Sugar Company, the Jamaica Public Service Company, and National Hotels and Properties, through increased sugar production, higher electricity rates, lower fuel costs, and the leasing of additional tourist facilities. The activities of the Jamaica Omnibus Service (JOS) have been reduced over the last two years, as private minibus operators have gradually taken over a number of bus routes. The remaining assets and bus lines will be sold or leased to the private sector in 1983/84.

Taking into account the projected improvement in the operations of the selected public entities of 1.8 per cent of GDP, and the reduction in the Central Government's overall deficit by 5.4 per cent of GDP, the overall deficit of the consolidated public sector is projected to fall by about 6.3 percentage points of GDP in 1983/84 after netting out intra-public sector transfers. This will bring the overall deficit of the consolidated public sector to about 8.7 per cent of GDP in 1983/84 compared with an estimated 14.7 per cent of GDP in 1982/83.

3. Monetary policy

The monetary program for 1983/84 is predicated on an increase in liabilities to the private sector of 18 per cent (Table 10). This projection assumes a further decline in the velocity of circulation, albeit at a considerably slower pace than in previous years (Table 17, Attachment I). It is expected that, even with a substantial improvement in the net foreign asset position of the banking system, there will be adequate domestic credit to sustain the economic recovery already under way.

The credit restraint necessary to meet the increase in net international reserves programed for 1983/84 is to come primarily from a curtailment in domestic bank lending to the public sector. After increasing by 31 per cent in 1982/83, the program for 1983/84 provides for a decrease in banking system net credit to the consolidated public sector of 3 per cent. This is expected to leave room for bank credit to the private sector to grow by 19 per cent, which would represent a significant increase in real terms. Nevertheless, the Bank of Jamaica plans to continue restricting the growth of consumer credit through moral suasion. Moreover, it should be noted that the Central Government is expected to rely relatively heavily on nonbank financing in 1983/84, implying a contraction in private sector financing from these sources.

Table 10. Jamaica: Summary Monetary Accounts

(In millions of Jamaica dollars)

	March 31		
	Actual		Program
	1982	1983	1984
I. Banking System			
Net international reserves	-896.8	-1,074.7	-894.5
Net domestic credit	3,154.3	3,875.4	4,186.2
Selected public sector	2,002.6	2,618.9	2,533.1
Central Government	(1,941.2)	(2,563.9)	(2,458.9)
Selected public entities	(61.4)	(55.0)	(74.2)
Private sector	1,241.6	1,688.2	2,003.7
Other	-107.9	-431.7	-350.6
SDR allocation	81.7	81.7	81.7
Liabilities to private sector	2,175.8	2,719.0	3,210.0
II. Bank of Jamaica			
Net international reserves	-841.4	1,102.2	-879.5
Of which: arrears	—	43.8	—
Net domestic credit	1,186.4	1,478.5	1,286.2
Selected public sector	1,322.2	1,824.1	1,633.4
Central Government	(1,414.4)	(1,935.9)	(1,745.2)
Selected public entities	(-92.2)	(-111.8)	(-111.8)
Other	-135.8	-345.6	-347.2
SDR allocation	81.7	81.7	81.7
Currency in circulation	263.3	294.6	325.0
III. Commercial Banks			
Net foreign assets	-55.4	27.5	-15.0
Net domestic credit	2,013.1	2,473.9	2,922.8
Selected public sector	680.4	794.8	899.7
Central Government	(526.8)	(628.0)	(713.7)
Selected public enterprises	(153.6)	(166.8)	(186.0)
Private sector	1,241.6	1,688.2	2,003.7
Other (net)	91.1	-9.1	19.4
Medium- and long-term liabilities	7.9	15.8	15.8
Liabilities to Bank of Jamaica	17.1	6.2	7.0
Special deposits	20.2	—	—
Liabilities to private sector	1,912.5	2,424.4	2,885.0
Demand deposits	425.8	410.9	442.9
Quasi-money	1,329.0	4,807.0	2,235.6
Other	157.7	206.5	206.5

Interest rates will continue to be determined competitively, and to discourage commercial bank borrowing from the Bank of Jamaica, rediscount rates will be set at levels no lower than those on Treasury bills of comparable maturity. The authorities have also undertaken to sterilize the liquidity impact of any exchange losses or profits arising from financial operations within the dual market. In any event, there will be no net purchases or sales of foreign exchange in the parallel market by the Bank of Jamaica during the program period.

4. External policies

The central objective of the 1983/84 program with respect to the external sector is to generate a substantial improvement in the overall balance of payments position and provide for a rebuilding of foreign exchange reserves from their present depleted levels. To avoid accumulating an undue debt service burden, and to permit the economy to adjust progressively to a level of capital inflows that is sustainable over the medium term, the brunt of the adjustment in 1983/84 will be borne by the current account. The promotion of exports and tourism are, therefore, key elements of the program. In this connection, the new exchange system in conjunction with the accompanying modifications to the exchange and trade system are intended to play a pivotal role in providing export incentives and ensuring that the local currency cost of all but certain essential imports fully reflects the prevailing scarcity of foreign exchange.

The balance of payments target for 1983/84 has been established with a view to achieving an increase in the net international reserves of the Bank of Jamaica of US$125 million. This target would ensure a minimum cumulative balance of payments surplus over the life of the extended arrangement of US$21 million. In the event that inflows of special balance of payments assistance exceed the benchmark figure of US$594 million (as detailed in Table 2 of the attachment to the Technical Memorandum of Understanding annexed to the Letter of Intent) the targeted increase in net international reserves will be adjusted upward by the full amount of the excess. After providing for the liquidation of all external arrears, the target implies an accumulation in gross foreign exchange reserves to US$308 million by end-March 1984, a level sufficient to finance about 13 weeks of projected 1984/85 nonbauxite sector imports.

In support of the balance of payments target, significant action has already been, or is about to be, taken on several fronts. First, a number of foreign exchange payments previously made by the Bank of Jamaica will be transferred to the parallel market. It is projected that these payments will amount to some US$484 million in 1983/84, of which US$110 million will comprise remittances for oil imports (about half of the total presently financed through official market cash payments), US$221 million for other essential imports (such as basic foods), US$95 million for services, and the rest for private sector capital transactions. In terms of current cash payments, excluding interest, this will leave in the official market projected annual amounts of US$109 million in oil payments, US$90 million in government imports, and US$10 million in education expenses. Second, on May 18, a special exchange rate of J$2.25 = US$1 was established for all CARICOM transactions, except those previously designated for payment at the official exchange rate.1/ This action, which simplifies the structure of financial transactions within the CARICOM clearing facility, has permitted the normalization of trading relations within the CARICOM area. Third, a 3 per cent commission will be charged on all payments which are retained in the official market except Bank of Jamaica debt service and public sector amortization payments. The commission will also apply to all imports obtained under external credits, the local currency value of which is determined at the official exchange rate.

As a result of the shift of payments to the parallel market and the new arrangements for CARICOM trade, the proportion of current account (nonbauxite) transactions passing through the official market will be reduced from about 75 per cent in 1982/83 to some 57 per cent in 1983/84.

The balance of payments test for 1983/84 is associated with a forecast reduction in the current account deficit to US$105 million (3 per cent of GDP) from US$431 million (13.4 per cent of GDP) in 1982/83. Virtually all of this improvement will derive from a reduction in the merchandise trade deficit (see Table 8).

Export growth is expected to accelerate to 24 per cent, with the bulk of this stemming from three new bauxite export contracts which are expected to be signed during 1983/84. The largest of these contracts would involve incremental sales of 500,000 tons of alumina at a total market value of US$106 million. The other two involve bauxite sales to the U.S. Government for its strategic stockpile (US$20 million) and to Mexico, payment of which would take the form of approximately US$33 million in crude oil. Shipments relating to all of these contracts are not expected to take place until the second half of the program period. They will permit an increase in bauxite/alumina exports of 26 per cent at a time when world market for aluminum is expected to remain fairly depressed (Table 20, Attachment I).

Despite soft international prices, other traditional exports (sugar and bananas) are projected to grow by around 30 per cent, while nontraditional exports should benefit considerably from the price and production incentives provided by the parallel market mechanism, from a further replenishment of EDF resources, and from the relaxation of quantitative restrictions on imports. The program envisages an increase in exports of manufactured goods and other nontraditional products of 18 per cent, compared with 9 per cent in 1982/83.

1/ A full description of the modified exchange arrangements with CARICOM countries is contained in EBD/83/146.

Merchandise imports are projected to decline by 11 per cent during 1983/84. This contraction primarily reflects the assumption of a 15 per cent decrease in the U.S. dollar price of petroleum products (which comprise nearly one third of total imports), the continued application of tight quota limits on imports of nonessential consumer goods and lower imports of capital goods following cutbacks in the investment program. The increase in prices associated with the transfer of substantial amounts of imports into the parallel market is also expected to help reduce the demand for imports in most categories. However, imports of raw materials are expected to rise by about 10 per cent over 1982/83.

Largely because of the growing interest burden of servicing Jamaica's external debt and enhanced profit remittances in the mining sector, the services account may deteriorate marginally in 1983/84, despite the continued revival in the tourism industry. The incentives provided by the depreciated parallel market exchange rate should enable Jamaica to recover fully its share of the Caribbean tourism market from the low levels of the late 1970s. The program assumes an increase in tourist arrivals of around 10 per cent and a rise in total tourist expenditure of 16 per cent.

The capital account surplus is expected to narrow to US$230 million (6.4 per cent of GDP) in 1983/84 from US$285 million in 1982/83. The major sources of gross official inflows, which are projected to total US$719 million, are: multilateral loans (US$115 million), including a Structural Adjustment Loan from the World Bank, a loan to replenish the Export Development Fund, and a sectoral loan from the Inter-American Development Bank; bilateral credits (US$248 million), of which the United States is expected to provide two thirds; credits extended for oil imports by Venezuela and Mexico until the expiration of existing agreements in August (US$23 million); syndicated commercial bank loans (US$83 million); 100 per cent refinancing of certain maturing principal payments due to bilateral creditors (US$121 million); and project loans and related forms of development assistance (US$105 million).

Jamaica's medium- and long-term debt (including liabilities of the Bank of Jamaica) rose by US$516 million in 1982/83 to US$2,882 million; outstanding debt averaged 82 per cent of GDP in 1982/83 (Table 11). Debt service payments absorbed around 26 per cent of exports of goods and services in 1982/83, compared with 24 per cent the previous year. On the basis of existing debt and projected debt disbursements there will be a further rise in nonrescheduled commitments to the equivalent of over 26 per cent of exports of goods and services in 1983/84 and 30 per cent in 1984/85. Thereafter, the debt service ratio should taper off, to around 27 per cent by 1986/87. In light of the debt service pressures, the program for 1983/84 provides for ceilings on disbursements of debt contracted on nonconcessional terms.

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 for the third year of the

Table 11. External Public Debt Operations

	Actual 1980/81	1981/82	Est. 1982/83	Proj. 1983/84	1984/85	1985/86	1986/87
	(In millions of U.S. dollars)						
Non-IMF debt (end of period) 1/	1,483	1,902	2,256	2,600	2,886	3,130	3,375
Drawings	256	583	602	700	705	671	680
Of which: refinancing	(52)	(87)	(151)	(226)	(247)	(247)	(243)
Amortization 2/	82	164	248	356	419	427	435
IMF credit (net, end of period)	296	464	626	749	749	749	749
Total debt (end of period)	1,799	2,366	2,882	3,349	3,635	3,879	4,124
Debt service payments							
On existing debt 3/	215	335	357	363	353	363	339
Principal 4/	49	136	140	177	190	228	228
Interest	166	199	217	186	163	135	111
On existing and projected debt	215	335	357	420	521	591	661
Non-IMF	172	244	262	308	378	405	453
Principal 4/	(30)	(77)	(97)	(130)	(172)	(180)	(192)
Interest	(142)	(167)	(165)	(178)	(206)	(225)	(261)
IMF	43	91	95	112	143	186	208
Repurchases	(19)	(59)	(43)	(47)	(69)	(111)	(131)
Charges	(24)	(32)	(52)	(65)	(74)	(75)	(77)
	(In per cent)						
External debt indicators							
Non-IMF debt/GDP 5/	52.2	61.9	64.7	67.5	67.9	66.3	65.1
Total debt/GDP 5/	63.4	76.1	81.7	86.6	86.4	82.8	80.1
Debt service ratio 6/ (excluding IMF)	11.8	17.2	18.9	19.3	21.7	19.2	18.7
Debt service ratio 6/ (including IMF)	14.7	23.7	25.7	26.3	29.9	28.0	27.3
Interest payments ratio 6/ (including IMF)	11.4	14.1	15.6	15.2	16.1	14.2	13.9
Average interest rate 7/	10.4	9.9	7.9	7.3	7.5	7.5	8.0

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Medium- and long-term public and publicly guaranteed debt, including non-IMF liabilities of the Bank of Jamaica.
2/ Includes valuation adjustment.
3/ Debt contracted before or during 1982/83.
4/ Net of refinancing.
5/ Average of beginning and end-of-period debt.
6/ Expressed in terms of exports of goods and services.
7/ Ratio of interest payments to average of beginning and end-of-period debt, excluding IMF.

arrangement (Attachment IV). A review before December 31, 1983 of the exchange system and demand management policies is also a performance criterion.

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

(1) A set of ceilings on the net domestic credit to the public sector (defined to include the Central Government, local governments, and a specified group of public entities). These ceilings are subject to a downward adjustment for any excess over the projected cumulative disbursements of external loans and credit to the Central Government, and to an upward adjustment of up to J$27 million in the third quarter of the program year for any shortfall. Net domestic credit to the public sector is defined to encompass bank as well as nonbank credit. Performance under the ceiling will be monitored by taking the changes in net domestic bank credit to the public sector (as defined above), excluding bank holdings of government securities, plus the change in the outstanding stock of government securities adjusted for any change in the holdings of securities by the selected public entities in order to avoid double counting any transactions in government securities by the selected entities (paragraph two of the Technical Memorandum of Understanding).

(2) A set of ceilings on the net domestic assets of the Bank of Jamaica. These ceilings will be subject to a downward adjustment for any excess, or an upward adjustment of up to J$27 million in the third quarter, for any shortfall in the projected cumulative disbursements of official loans and credits for balance of payments support (paragraph three of the Technical Memorandum of Understanding).

(3) A set of balance of payments targets framed in terms of the projected net international reserve position of the Bank of Jamaica (including external payments arrears as foreign liabilities). The balance of payments targets will also be subject to an upward adjustment for any excess, or a downward adjustment of up to US$15 million in the third quarter, for any shortfall in the external flows referred to in paragraph (2) above (paragraph four of the Technical Memorandum of Understanding).

In addition, the program includes as performance criteria schedules for the elimination of commercial external payment arrears, outstanding replenishment obligations to the Export Development Fund, and deferred obligations relating to oil payments to Venezuela and Mexico (paragraph four of the Technical Memorandum of Understanding), limits on the disbursement of new external public and publicly guaranteed debt contracted on nonconcessional terms within the maturity ranges of 1 to 12 years, and 1 to 5 years (paragraph five of the Technical Memorandum of Understanding), and the customary injunctions against multiple currency practices and restrictions on payments and transfers for current international transactions (paragraph six of the Technical Memorandum of Understanding).

A summary of the quantitative performance criteria is presented in Table 12.

Table 12. Jamaica: Quantitative Performance Criteria, 1983/84

	1983				March
	March 1/	June	Sept.	Dec.	1984
(End of period, in millions of U.S. dollars)					
Net international reserves 2/	-619	-662	-715	-656 3/	-494
External arrears	25	17	17	--	--
Deferred oil payments	73	65	41	20	--
External debt disbursements 4/					
1-5 years	...	60	60	60	60
1-12 years	...	250	250	250	250
(End of period, in millions of Jamaica dollars)					
Net domestic assets 2/4/	...	85	175	130 3/	-192
Net domestic credit to public sectort 2/4/	...	200	312	316 3/	173

Source: Technical Memorandum of Understanding.

1/ Actual.
2/ Ceilings adjustable downward for any excess of special external assistance over programed amounts.
3/ Adjustable upward up to a limit of US$15 million (J$27 million) for any shortfall in special external assistance from programed amounts.
4/ Cumulative change.

6. Request for a waiver of performance criteria

As described above, the performance criteria relating to the injunction against exchange restrictions and to net international reserves, the net domestic assets of the Bank of Jamaica, and net credit to the public sector as at March 31, 1983, were not observed. The Jamaican authorities have requested a waiver of these performance criteria. In this connection, it is necessary to assess the extent to which the slippages from program targets are temporary in that the recent and prospective policy measures will restore the viability of the program.

Significant actions have been or are about to be taken that will reverse the slippages that led to the nonobservance of performance criteria last March. Despite the drop in bauxite exports, the current account deficit (as measured in terms of GDP), which turned out lower than programed in 1982/83, provides for a considerably larger degree of improvement in the 1983/84 program compared with the target for the current account in the original three-year arrangement. Greater reliance is being placed on the exchange rate system through large-scale shifts of imports and services payments from the official to the parallel market. In the fiscal area, adjustment measures have been adopted that will reduce the budget deficit to 10.3 per cent of GDP, in line with the original program target. Also, the authorities are committed to further reductions in the budget deficit to 8.5 per cent of GDP in 1985/86. This fiscal and exchange rate system action is designed to help secure an overall balance of payments surplus of US$125 million in 1983/84, which would catch up most of last year's shortfall in respect of the reserve target. Achievement of the reserve target would result in a cumulative balance of payments surplus over the three-year period of US$21 million. As a result, gross reserves at end-March 1984 should cover about 13 weeks of total imports, which was the original target.

V. Staff Appraisal

The recovery program for the Jamaican economy adopted in early 1981, within the framework of an extended Fund facility, called for substantial reliance on external official borrowing in the early phase of the program, to be gradually replaced by export growth and private capital inflows. A cumulative balance of payments surplus that would permit the replenishment of official foreign exchange reserves was a vital element in the strategy.

In the first year of the arrangement (April 1981-March 1982) Jamaica made substantial progress toward achieving the objectives of the medium-term recovery program, but in the second year economic performance was adversely affected by the severe downturn in bauxite, Jamaica's main export commodity. In addition, both official and private capital inflows fell considerably short of projected levels. As a result, despite imports and the current account deficit being lower than had been expected, the net international reserves target at the end of March 1983 was not met, new arrears on external payments were incurred, and the ceilings on net domestic assets and credit to the public sector were not observed.

In order to address these problems and to continue the adjustment process, the Jamaican authorities have taken several important steps. In January 1983 the parallel foreign exchange market was legalized and its operations institutionalized in the banking system. This was accompanied by other modifications to the exchange and trade system designed to provide enhanced export incentives to the nontraditional export sector, to simplify import licensing procedures, and to reduce quantitative restrictions on imports of nonconsumer goods. These measures represented a welcome departure from the tightly regulated system which existed until early this year. In the very near future, the parallel market will be broadened by the transfer into it of some US$484 million of payments from the official market; in addition, a special exchange rate has been set up for CARICOM transactions. As a result, almost all private sector transactions (other than the bauxite sector) and over 40 per cent of total current receipts and payments will be transacted in the parallel market, at a floating exchange rate, or under the special arrangement with CARICOM at a depreciated rate of J$2.25 per U.S. dollar, compared with the official rate of J$1.78 per U.S. dollar. The staff believes that reliance should continue to be placed on the parallel market as a means of allocating scarce foreign exchange, promoting exports, and improving the liquidity position of the Bank of Jamaica. Indeed the staff would urge the authorities to stand ready to shift additional transactions to the parallel market in the event of any shortfalls in programed cash flows, and more generally to be ready to take additional fiscal and monetary measures, if necessary, to ensure observance of the quarterly targets of the program. The staff would also emphasize the importance of following tight financial policies so as to limit domestic price pressures. Reunification of the exchange system at a realistic rate should be sought as soon as possible.

The fiscal program for 1983/84 provides for a large adjustment compared with the first two years of the arrangement, which is expected to bring the fiscal deficit in line with the original program target in terms of GDP. The authorities have undertaken to take prompt compensating revenue measures if the special bauxite and alumina sales and the tax compliance program fall short of target. Careful monitoring of the revenue performance will be required, for measures to be implemented in time. This will be a major focus of the midyear review of demand management policies and the exchange system.

The staff notes that the brunt of the fiscal adjustment in 1983/84 will fall on capital outlays. A continuing obstacle to improving the fiscal performance under the present, as well as under previous arrangements with Jamaica, has been the inability to reduce current expenditure relative to GDP. This reflects largely the increased outlays on personal emoluments and interest payments as a proportion of current expenditure. While the staff recognizes the need to offer competitive remuneration in order to improve the quality of the civil service, a strong effort will nevertheless be needed to curb the growth of current outlays over the next three years. The staff welcomes the authorities' intention to undertake a zero-based budgeting exercise as a basis for restructuring the recurrent budget in 1984/85 and subsequent years.

The program for 1983/84 provides for a moderate reduction in the rate of monetary growth, compared with last year's outturn. The staff feels that a cautious monetary stance would contribute to the smoother functioning of the parallel market. Also, sterilizing the liquidity impact of exchange losses that the Bank of Jamaica may incur through intervention in the parallel market is essential if the monetary and price targets are to be adhered to. In this regard, the staff welcomes the authorities' intention to refrain from intervening in the parallel market on a net basis during the course of the program year.

It was originally envisaged that the cumulative balance of payments surplus over the life of the three-year extended arrangement would amount to US$152 million. The target for a surplus of US$125 million in 1983/84 implies a cumulative surplus for the three-year period of US$21 million. The revised target would still result in a level of gross official reserves sufficient to finance some 13 weeks of nonbauxite sector imports, which was the aim of the original program. The staff feels that achievement of such a reserve level will provide an adequate margin for meeting foreign exchange obligations falling due during 1984/85.

While price controls, quantitative import restrictions, and import licensing have been substantially reduced in scope, much less progress has been made in reducing state participation in the productive and distributive sectors. The slow pace of divestment may in part be explained by the currently depressed demand for the types of assets offered by the Government, but the staff nevertheless believes that the process of privatization should continue to be vigorously pursued since it is a key feature of the Government's economic recovery strategy.

The Jamaican authorities have requested a waiver of the performance criteria that were not observed during the March quarter of 1983, and also of the performance criteria relating to the multiple currency practices and exchange restrictions maintained since then, as described in EBS/83/122. The staff supports this request because it considers that the policies that have been and are about to be adopted will reverse the slippages from the program and ensure an adjustment consistent with the goals and targets of the original three-year arrangement.

VI. Proposed Decisions

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

A. Extended Arrangement

1. Jamaica has consulted with the Fund in accordance with paragraph 3(c) of the extended arrangement for Jamaica (EBS/81/79, Supp. 3, April 15, 1981) and paragraph 4 of the letter of March 31, 1982 attached thereto in order to reach understandings with the Fund regarding policies and measures that Jamaica will pursue and to establish performance criteria, subject to which purchases may be made by Jamaica during the third year of the extended arrangement.

2. The letter from the Prime Minister and Minister of Finance and Planning, and the Governor of the Bank of Jamaica dated May 24, 1983 together with the Economic Policy Memorandum of Jamaica for FY 1983/84 and the Technical Memorandum of Understanding annexed to it, shall be attached to the extended arrangement for Jamaica (EBS/81/79, Supp. 3, April 15, 1981) as amended, and the letter dated March 31, 1982 together with the annexed Economic Policy Memorandum of Jamaica and the Technical Memorandum of Understanding shall be read as supplemented and modified by the letter dated May 24, 1983 together with the Economic Policy Memorandum and Technical Memorandum of Understanding annexed to it.

3. Accordingly, Jamaica will not make purchases under this extended arrangement throughout the third year:

(a) during any period in which

(i) the limit on the net domestic credit to the public sector as specified in paragraph 2 of the Technical Memorandum of Understanding annexed to the letter dated May 24, 1983, or

(ii) the limit on the net domestic assets of the Bank of Jamaica as specified in paragraph 3 of the Technical Memorandum of Understanding annexed to the letter dated May 24, 1983, or

(iii) the target for the net international reserves of the Bank of Jamaica as specified in paragraph 4 of the Technical Memorandum of Understanding annexed to the letter dated May 24, 1983,

is not observed; or

(b) if the limit on disbursements on account of new external debt as specified in paragraph 5 of the Technical Memorandum of Understanding annexed to the letter dated May 24, 1983, is not observed; or

(c) if the limit on commercial external payments arrears, on deferred replenishment obligations to the EDF, and deferred obligations for oil payments to Venezuela and Mexico, as specified in paragraph 4 of the Technical Memorandum of Understanding annexed to the letter dated May 24, 1983, is not observed; or

(d) during any period after December 31, 1983, until the mid-year consultation with the Fund described in paragraph 4 of the letter dated May 24, 1983, has been completed and any understandings deemed by the Fund to be necessary have been reached.

4. Purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 365.4 million until July 15, 1983; and the equivalent of SDR 402.8 million until October 15, 1983; and the equivalent of SDR 440.2 million until January 15, 1984.

5. In light of the letter dated May 24, 1983, the Fund finds that no additional understandings are necessary concerning the nonobservance of the performance criteria as of end-March 1983 and that Jamaica may make purchases under the extended arrangement, notwithstanding the multiple currency practices and exchange restrictions introduced by Jamaica as described in EBS/83/122.

B. Exchange Measures

The multiple exchange rate system, and the 3 per cent commission levied on foreign exchange payments (as described in EBS/83/122) constitute multiple currency practices. Jamaica also maintains restrictions on payments and transfers for current international transactions, including those arising from external payments arrears (as described in EBS/83/122). In view of the circumstances of Jamaica, the Fund grants approval of the multiple currency practices and the exchange restrictions (described in EBS/83/   ) until December 31, 1983, or the completion of the mid-year review, whichever is earlier.

Jamaica: Statistical Appendix Tables

Table 13. Fund Relations with Jamaica

Date of Membership:	February 21, 1963		
Status:	Article VIII.		
Quota:	SDR 111 million		
Fund holdings of Jamaica dollars (as of March 31, 1983):		Millions of SDRs	Per Cent of Quota
	Total	665.3	599.3
	Of which:		
	Under tranche policy from ordinary resources	177.3	159.7
	Under tranche policy from SFF	219.4	197.6
	Under tranche policy from EAR	91.6	82.5
	Under CFF	66.0	59.4
SDR Department (as of March 31, 1983)		Millions of SDRs	Per Cent of Allocation
	Net cumulative allocation	40.6	100.0
	Holdings	--	--

Existing EFF arrangement:

Effective period: April 13-1981-April 12, 1984
Amount: SDR 477.7 million.
Of which: Under SFF: SDR 149.3 million.
Under EAR: SDR 241.3 million.
Purchases to March 31, 1983: SDR 328.0 million.

Gold distribution (four distributions): Jamaica has acquired 45,358.961 ounces of fine gold.

Direct distribution of profits from gold sales (July 1, 1976-July 31, 1980): US$8.4 million.

Exchange rate: Multiple rate system: official market rate pegged to the U.S. dollar at J$1.78 per U.S. dollar since May 1, 1979, clearing rate for CARICOM transactions pegged to U.S. dollar at J$2.25 per U.S. dollar since May 18, 1983, and since January 10, 1983, floating parallel market rate set by commercial banks.

Latest Article IV Consultation: September 1982, completed by the Executive

Table 14. Jamaica: Basic Data

Area and population	
Area	4,411 sq. miles (11,424 sq. kilometers)
Population (1982)	2.2 million
Annual rate of population increase (1977-82)	1.2 per cent
Unemployment rate (October 1981)	28 per cent
GDP (1982/83)	SDR 2,939 million
GDP per capita (1982/83)	SDR 1,336
Origin of GDP (1982/83)	(per cent)
Agriculture and fishing	8
Mining and refining	6
Manufacturing	16
Construction	9
Government	16
Other	45
Ratios to GDP (1982/83)	
Exports of goods and nonfactor services	39.1
Imports of goods and nonfactor services	50.8
Central government revenues (fiscal year from April 1)	28.7
Central government expenditures (fiscal year from April 1)	44.3
External public and government-guaranteed debt (end of year) 1/	89.7
Gross domestic savings	8.6
Gross investment	20.3
Money and quasi-money (end of year)	43.9

Annual changes in selected economic indicators	1979	1980	1981	Prel. 1982
		(per cent)		
Real GDP per capita	-2.9	-6.5	0.7	-0.5
Real GDP	-1.5	-5.4	1.9	0.7
GDP at current prices	14.3	10.6	8.8	8.4
Domestic expenditure (at current prices)	17.6	11.1	20.4	10.2
Fixed investment	(49.9)	(-7.8)	(38.3)	(21.0)
Consumption	(13.0)	(16.0)	(13.9)	(11.5)
GDP deflator	16.0	16.9	6.8	7.6
Consumer prices (annual averages)	29.1	27.2	12.6	6.9
	1979/80	1980/81	1981/82	1982/83
Central government revenues	9.2	5.2	30.4	5.5
Central government expenditures	6.0	21.5	13.7	10.2
Money and quasi-money	14.2	19.5	28.8	24.5
Money	(17.1)	(8.1)	(17.0)	(2.4)
Quasi-money	(12.1)	(27.6)	(36.0)	(36.0)
Net domestic bank assets 2/	39.6	37.0	29.0	33.1
Credit to public sector (net)	(30.5)	(33.8)	(12.3)	(28.3)
Credit to private sector	(9.8)	(12.6)	(17.7)	(20.5)
Merchandise exports (f.o.b., in U.S. dollars)	2.8 3/	26.5	-11.9	-17.1
Merchandise imports (c.i.f., in U.S. dollars)	16.0 3/	15.6	23.8	-7.9
Travel receipts (gross, in U.S. dollars)	33.1 3/	7.6	35.5	12.3

Central government finances	1979/80	1980/81	1981/82	Prel. 1982/83
	(millions of Jamaica dollars)			
Revenues 4/	1,133.0	1,191.7	1,552.0	1,638.0
Expenditures	-1,664.2	-2,021.8	-2,299.0	-2,534.0
Current account surplus or deficit (-)	-174.8	-355.6	-103.0	-223.0
Overall deficit (-)	-531.2	-830.1	-747.0	-896.0
External financing (net)	140.2	219.6	590.0	425.0
Domestic financing (net) and residual	391.0	610.5	157.0	471.0

Balance of payments				
	(millions of U.S. dollars)			
Merchandise exports (f.o.b.)	798.0	1,009.5	888.9	736.5
Merchandise imports (c.i.f.)	-1,045.0	-1,201.6	-1,488.1	-1,370.0
Travel (net)	205.7	230.2	300.0	337.7
Investment income (net))	-155.7	-286.7	-225.3	-234.6
Other services and transfers (net))		57.7	68.8	99.3
Balance on current and transfer accounts	-197.0	-190.9	-455.3	-431.1
Official capital (net)	34.0	211.2	427.1	396.5
Private capital (net) and errors and omissions	-17.0	-180.8	71.2	-111.9
SDR allocation	10.0	10.0	--	--
Change in official net reserves (increase -)	170.0	150.5	-43.0	-146.5

International reserve position	Mar. 31 1980	Mar. 31 1981	Mar. 31 1982 5/	Mar. 31 1983 5/
	(millions of SDRs)			
Central Bank (gross)	84.6	73.6	126.8	87.7
Central Bank (net)	-432.3	-582.8	-472.7	-619.2

IMF data (as of March 31, 1983)	
Article VIII status	
Intervention currency and rate	U.S. dollar at J$1.78 per US$
Quota	SDR 111 million
Cumulative purchases	SDR 760.3 million
Regular purchases (including SFF and EAR)	SDR 587.4 million
Compensatory financing facility purchases	SDR 143.7 million
Oil facility purchases	SDR 29.2 million
Cumulative repurchases	SDR 183.9 million
Fund holdings of Jamaica dollars under tranche policy	439.8 per cent of quota
Total Fund holdings of Jamaica dollars	599.3 per cent of quota
EFF arrangement (April 13, 1981-April 12, 1984)	SDR 477.7 million
Purchases thereunder	SDR 328.0 million
Status of drawing rights thereunder	Operational
Special Drawing Rights Department	
Cumulative SDR allocation	SDR 40.6 million
Net acquisition or utilization (-) of SDRs	-SDR 40.6 million
Holdings of SDRs	0.0 per cent of allocation
Share of profits from gold sales	US$8.4 million

1/ Includes purchases from Fund.

2/ In relation to the stock of money and quasi-money at the beginning of the period. Excludes contra-entry for SDR allocations.

3/ Calendar year.

4/ Bauxite levy receipts are net of transfers to the Jamaica National Investment Company (JNIC).

5/ SDRs converted at US$1 = SDR 1.13.

Table 15. Jamaica: Selected Economic and Financial Indicators

	1980 Actual	FY 1981/82 Program	FY 1981/82 Actual	FY 1982/83 Program	FY 1982/83 Est.	FY 1983/84 Original Program	FY 1983/84 Program
(Annual percentage changes, unless otherwise specified)							
National income and prices							
GDP at constant prices	-5.4	3.0	1.2	5.0	2.0	5.0	3.3
GDP deflator	16.9	18.0	6.9	9.8	6.4	...	8.4
Consumer prices (average)	27.2	18.0	9.0	10.0	7.3	...	9.0
External sector (millions of U.S. dollars)							
Exports, f.o.b.	962.7	1,139.0	888.9	1,073.0	736.5	1,478.0	914.6
Imports, c.i.f.	1,159.5	1,554.0	1,488.1	1,725.0	1,370.0	2,125.0	1,220.0
Non-oil imports, c.i.f.	721.6	1,019.0	1,008.4	1,253.0	953.0	...	829.0
Nominal effective exchange rate (depreciation -)	-3.4	...	5.1	...	3.2	...	...
Real effective exchange rate (depreciation -)	7.7	...	4.1	...	2.6	...	...
Government budget							
Revenue and grants	5.5	14.5	30.2	17.8	5.5	...	21.1
Total expenditure and net lending	23.2	15.1	13.7	11.4	10.7	...	4.1
Money and credit							
Domestic credit (net) 1/	36.4	23.4	24.2	14.7	33.1	...	11.4
Selected public sector	(29.8)	(8.0)	(8.3)	(5.3)	(28.3)	...	(-3.2)
Other	(6.6)	(15.4)	(15.9)	(9.4)	(5.6)	...	(14.6)
Money and quasi-money (M-2)	17.4	27.5	28.8	20.1	24.5	...	19.5
Velocity (GDP divided by M-2)	3.0	3.2	2.6	2.7	2.3	...	2.1
Interest rate (annual rate, savings deposit)	9.0	...	9.0	...	9.0	...	...
(In per cent of GDP, unless otherwise specified) 2/							
Consolidated public sector deficit	-14.4	...	-11.3	...	-14.6	...	-8.7
Central government savings	-7.3	-3.8	-2.0	-1.7	-3.9	1.0	-2.4
Central government overall deficit	17.0	13.3	14.1	12.9	15.7	10.0	-10.3
Domestic bank financing	(10.1)	(1.0)	(3.6) 3/	(0.3)	(11.5)	(...)	(2.5)
Foreign financing	(4.5)	(11.3)	(11.2)	(10.6)	(7.5)	(...)	(7.8)
Gross domestic investment	15.4	17.7	19.5	23.9	20.3	...	15.8
Gross domestic savings	9.2	7.8	6.6	9.7	8.6	...	14.2
Current account deficit	-6.2	-9.9	-15.4	-14.2	-13.4	-9.4	-3.0
External debt							
Inclusive of use of Fund credit 4/	58.9	...	76.1	73.3	81.7	...	86.6
Debt service as a per cent of exports and service receipts 5/	15.0	31.3	23.7	21.1	25.7	...	26.3
Interest payments (in per cent of exports of goods and services)	10.5	14.4	14.1	14.5	15.6	...	15.2
(In millions of SDRs, unless otherwise specified)							
Overall balance of payments	-57.5	-15.4/30.8 5/	33.1	-12.4/40.7 6/	-134.0	66.7	111.0
Gross international reserves (months of imports)	0.9	0.9/1.1 5/	1.0	1.6/2.0 6/	0.9	3.0	2.5
External payments arrears (end of period)	89.1	32.3	—	—	22.9	—	—

1/ In relation to banking system liabilities.
2/ For FY 1981/82 comparison of ratios to GDP reflect a downward revision of GDP from program estimates.
3/ Note that public sector domestic bank financing was still within program limits, through utilization of the automatic adjustment formula for shortfalls in special budgetary assistance.
4/ Average of beginning and end-of-period debt.
5/ Debt service payments including obligations to the Fund and net of rescheduled amortization payments.
6/ Range of acceptable outcome, depending on the level of external support.

Table 16. Jamaica: Financial Relations of the World Bank Group with Jamaica

(In millions of U.S. dollars)

	Outstanding as of February 28, 1983			
	Disbursed	Undisbursed	Total	Repayments
Total IBRD	372.31	90.68	462.99	49.33
Agriculture and forestry	29.89	8.19	38.08	4.90
Education	23.10	6.70	29.80	7.86
Population and rural development	18.25	5.55	23.80	3.24
Transportation	52.82	3.98	56.80	9.52
Power	39.60	31.65	71.25	16.07
Utilities	19.81	--	19.81	3.39
Program loan	30.00	--	30.00	2.31
EDF	57.91	10.59	68.50	--
SAL	76.20	--	76.20	--
Other	24.73	24.02	48.75	2.04
IFC investments	8.8	1.6	10.4	2.3

	Actual			Est.	Proj.
Fiscal year (July 1-June 30)	1979/80	1980/81	1981/82	1982/83	1983/84
Net disbursements (IBRD)	30.5	46.2	91.5	86.0	83.1
Disbursements	35.3	52.6	99.2	100.0 1/	99.1 2/
Repayments	4.8	6.4	7.7	14.0	16.0

Source: IBRD.

1/ Includes projected disbursements from a second structural adjustment loan of US$35 million.

2/ Includes projected disbursements of the remaining US$25 million from the second SAL.

Table 17. Jamaica: Velocity of Circulation 1/

	Money 2/	Money and Quasi-Money 3/
1976	9.03	3.42
1977	7.14	3.14
1978	7.61	3.36
1979	7.95	3.35
1980/81	8.26	3.11
1981/82	7.65	2.61
1982/83		
Program	8.47	2.71
Estimated	8.11	2.28
1983/84		
Program	8.34	2.13

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Gross domestic product divided by end-of-period stock of money or money plus quasi-money.

2/ Money defined as currency in circulation plus domestic commercial banks' demand deposits.

3/ Quasi-money defined as time plus savings deposits.

Table 18. Jamaica: Selected Interest Rates

(In per cent per annum)

	Average for Period				
	1978	1979	1980	1981	1982
Bank rate	9.00	9.00	11.00	11.00	11.00
Treasury bill (90 days)	8.26	9.15	9.93	9.83	8.55
Long-term government bonds	11.70	12.28	13.61	13.70	13.68
Time deposits 1/	5.88	7.43	8.69	9.85	10.48 2/
3-6 months weighted	(5.68)	(8.28)	(9.53)	(10.48)	(10.71)2/
6-12 months weighted	(5.53)	(7.55)	(8.78)	(10.03)	(10.69)2/
Savings deposits	7.00	7.00	9.00	9.00	9.00
Prime lending rate 2/	11.00	11.00	13.00	13.00	13.00
Comparable interest rates					
Treasury bills (90 days) in:					
Barbados	4.82	4.88	5.63	9.49	13.25
Trinidad and Tobago	3.60	3.16	3.06	3.06	3.05
United Kingdom	8.51	12.98	15.11	13.03	11.47
United States	7.22	10.04	11.62	14.08	10.72
Eurodollar deposits (90 days) in London	8.73	11.96	14.36	16.51	13.11
Memorandum item					
Change in consumer prices (average)	35.00	29.10	27.20	12.60	6.8

Sources: Bank of Jamaica; and International Monetary Fund, International Financial Statistics.

1/ Overall average weighted rate of time deposits ranging from call money to deposits of 24 months and above.
2/ This is a base rate to which commissions and fees are added.

Table 19. Jamaica: Net International Reserves of the Bank of Jamaica

(End of period, in millions of U.S. dollars)

	1978	1979	1980	1981/82 Prog. 1/	1981/82 Act. 1/	1981/82 Act. 2/	1982/83 Prog. 2/	1982/83 Act. 2/	1983/84 Prog. 2/
Net international reserves	-324.2	-463.9	-532.2	-594.6	-539.8	-472.7	-457.2	-619.2	-494.2
Gross reserves	50.3	65.5	92.8	139.8	130.7	126.8	289.2	87.7	308.4
Reserve liabilities	-374.5	-529.4	-625.0	-734.4	-670.5	-599.5	-746.4	-706.9	-802.6
Of which: IMF	-180.5	-351.4	-309.3	-565.2	-542.0	-471.1	-604.2	-626.2	748.7
Arrears	-63.4	-55.2	-113.6	-42.0	--	--	--	-24.7	--
Memorandum item:									
Gross reserves/imports (in weeks)	3	3	4	5	4	4	9	4	11

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Conversion rate US$1.30 = SDR 1.
2/ Conversion rate US$1.13 = SDR 1.

Table 20. Jamaica: Exports and Tourism

	Actual		Est.	Proj.		
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
			A. Major Commodities 1/			
Bauxite						
Value	201.0	152.0	129.6	170.8	150.8	217.0
Volume	6.3	4.8	3.9	5.1	4.5	6.0
Price	32.1	31.7	33.6	33.5	33.5	36.2
Alumina						
Value	583.5	516.8	364.0	451.9	458.0	592.8
Volume	2.6	2.3	1.7	2.1	2.0	2.4
Price	227.0	227.7	212.2	212.0	229.0	247.0
Sugar						
Value	48.9	48.6	45.0	57.4	63.8	72.2
Volume	121.9	128.3	122.2	156.6	170.0	190.0
Price	401.1	378.7	368.2	366.5	375.0	
Bananas						
Value	7.8	5.8	11.0	17.0	25.8	43.0
Volume	20.8	22.3	25.0	40.0	60.0	100.0
Price	375.0	224.6	440.0	430.0	430.0	430.0
			B. Other Exports			
Nontraditional exports (value)	138.1	156.2	170.0	200.0	236.0	278.0
			C. Tourism			
Visitors (in thousands)	492.7	613.8	699.9	770.0	831.0	873.0
Stopover arrivals	364.3	446.0	502.9	553.0	597.0	627.0
Cruise visitors	128.4	167.8	197.0	217.0	234.0	246.0
Daily expenditure per tourist (in U.S. dollars)						
Stopover visitors	65.5	71.0	75.5	80.0	85.5	92.5
Cruise visitors	39.0	37.5	39.0	41.5	44.5	48.0
Average length of stay (in days) 2/	9.9	10.2	9.5	9.5	9.5	9.5
Expenditure (in millions of U.S. dollars)	242.2	328.4	368.7	429.0	445.0	563.0
Stopover arrivals	237.2	322.1	361.0	420.0	485.0	551.0
Cruise visitors	5.0	6.3	7.7	9.0	10.0	12.0

Sources: Jamaican authorities; and Fund staff estimates.

1/ Value in millions of U.S. dollars; volume in millions of long tons for bauxite and alumina, thousands of long tons for sugar and bananas; and price in U.S. dollars per ton.

2/ Stopover visitors only.

Table 21. Jamaica: Special External Assistance for Balance of Payments and Budgetary Support, 1983/84

(In millions of U.S. dollars)

	Balance of Payments Support	Budgetary Support
Donor countries	239.8	212.3
United States	165.8	158.3
United Kingdom	7.0	7.0
Canada	21.0	21.0
West Germany	4.0	4.0
Netherlands	4.0	4.0
France	9.0	9.0
Japan	5.0	5.0
Japan	5.0	5.0
Italy	15.0	--
India	5.0	--
Sweden 1/	4.0	4.0
Multilateral	115.0	70.0
IBRD(SAL)	60.0	60.0
IBRD (EDF)	15.0	--
IDB	30.0	--
OPEC	10.0	10.0
Other	238.5	105.0
Venezuela/Mexico oil facility	23.0	23.0
Eximbank	12.0	--
Commercial banks	82.5	100.0
Official refinancing	121.0	41.0
Total	593.3 2/	446.3

1/ Grant.
2/ Rounded up to US$594 million for purpose of adjusting program ceilings.

Jamaica: Summary of the Financial Program for the Third Year of the Extended Arrangement

	Assumptions and/or Objectives 1/
Real GDP growth	3.3 per cent (2.0)
GDP deflator	8.4 per cent (6.4)
Consumer prices	9.0 per cent (7.3)
External sector	
Growth in bauxite exports (volume)	28 per cent (-22)
Growth in tourism expenditure	16 per cent (12)
Current account deficit	3.0 per cent of GDP (13.4)
Balance of payments surplus	US$125 million (-US$147 million)
Gross reserves (end of period) in weeks of nonbauxite imports	13 (4)
Debt service ratio 2/	26.3 per cent (25.7)
Central Government finances	
Overall deficit	10.3 per cent of GDP (15.7)
Current deficit	2.4 per cent of GDP (3.9)
Money and credit	
Broad money growth	19.5 per cent (24.5)
Increase in net credit to consolidated public sector	-3.3 per cent (30.8)
Increase in credit to private sector	18.7 per cent (36.0)

Principal elements of the program.

1. Fiscal policy

Reduction in central government deficit to 10.3 per cent of GDP to be achieved through:

(a) Measures to increase revenue to 31.0 per cent of GDP from 28.7 per cent in 1982/83, including improvements in tax administration (J$60 million), new tax measures (J$60 million), and the transfer of current and accumulated profits from public enterprises and the Bank of Jamaica (J$100 million). Special bauxite transactions to provide J$80 million of revenue.

(b) Measures to lower expenditures to 41.2 per cent of GDP from 44.3 per cent, mainly through cutbacks in capital expenditure.

1/ Figures in parentheses refer to 1982/83, estimated outurn.
2/ In terms of exports of goods and services, including obligations to IMF.

2. Money and credit policies

(a) Cumulative limit on increase in net domestic credit to the consolidated public sector, with appropriate quarterly ceilings (performance criterion).

(b) Cumulative reduction in the net domestic assets of the Bank of Jamaica, with appropriate quarterly ceilings (performance criterion). Both credit ceilings are adjustable in a downward direction without limit for any excess in special external assistance over projected amounts; an upward adjustment of up to a limit of J$27 (US$15) million will be permitted for shortfalls in assistance for the December quarter only.

(c) Maintenance of liquid assets ratio at 40 per cent. Interest rates to continue to be market-determined.

3. External sector policies

(a) Minimum improvement in the net international reserves of the Bank of Jamaica of US$125 million, with appropriate quarterly ceilings, adjustable as in 2(b) above (performance criterion).

(b) The transfer of US$484 million in foreign exchange payments to the parallel market.

(c) Special bauxite/alumina contracts to provide US$160 million in incremental exports.

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

(e) Limits on disbursements of debt contracted on nonconcessional terms of US$250 million within the maturity range 1 to 12 years and of US$60 million within the maturity range of 1 to 5 years (performance criteria).

4. Deregulation

(a) No further reduction in the incidence of price controls, but termination of the requirement of prior notification of price changes.

(b) Further reduction of items on the restricted list of imports, subject to discretionary licensing procedures.

(c) Increased government divestment by further reductions in participation in commercial activities through the sale or leasing of state-owned enterprises.

Description of Modified Exchange Arrangements, as of May 18, 1983

I. Summary

On January 10, 1983, Jamaica legalized the informal parallel foreign exchange market and implemented a number of important changes to its exchange and trade control regime. Subsequently, on May 18, new regulations governing CARICOM transactions were also implemented. All foreign exchange transactions in the parallel market must now be conducted through the commercial banks, which set buying and selling rates in accordance with prevailing conditions of supply and demand. The official and parallel markets are delineated by both type of transaction and status of transactor. The official market handles the following transactions: traditional exports, 50 per cent of nontraditional exporters' earnings from non-CARICOM trade, essential imports (including food, petroleum, agricultural inputs, and pharmaceuticals) and certain invisible transactions and capital transfers. In addition, all other imports by the Government and EDF participants, specified raw material imports by JCTC, and the basic import requirements of tourism operators are financed at the official exchange rate. All other non-CARICOM transactions take place on the parallel market. CARICOM transactions, except those payments designated for the official market, are conducted at special exchange rate of J$2.25 = US$1. An illustrative list of the cash payments and receipts conducted in the official market is presented in Table 22 of this attachment.1/

II. Arrangements for Exporters

1. Traditional exports

All proceeds derived from the export of bauxite, alumina, bananas, and sugar must be surrendered at the official exchange rate. The essential import requirements of the agricultural sector may also be purchased in the official market.

2. Nontraditional exports

(a) Non-CARICOM. Nontraditional exporters to non-CARICOM countries are required to surrender at least 50 per cent of their export earnings at the official rate. The local currency proceeds may either be retained or used to repay outstanding obligations to the EDF. The remainder of the export earnings must be surrendered to a commercial bank in exchange for a negotiable foreign currency claim. This claim provides automatic access to imports of raw materials, spare parts, and

1/ This list will be modified as transactions are shifted to the parallel market as provided for under the 1983/84 program.

capital goods (i.e., all imports except consumer goods). Apart from the retained earnings scheme, the nontraditional exporter may finance his import requirements in any of three ways. First, upon fulfillment of certain conditions, he is entitled to an annual foreign exchange allocation from the EDF for imported inputs, equivalent to 50 per cent of planned export earnings; all EDF transactions are valued at the official exchange rate. Second, he may, subject to any import quota restrictions that may apply, purchase foreign exchange on the parallel market. And third, he may utilize JECIC lines of credit, repayments of which are made at the parallel exchange rate. Nontraditional producers who export to CARICOM and non-CARICOM countries more than 5 per cent of their annual output and/or producers with access to EDF resources may import without quantitative limit all goods except consumer items. Quota restrictions apply to producers who do not fall into either of these categories.

(b) CARICOM. Nontraditional exporters to CARICOM countries are required to surrender their foreign currency proceeds at the special CARICOM exchange rate. They are entitled to EDF foreign exchange allocations equivalent to 80 per cent of official rate anticipated export earnings; these allocations are also valued at the special CARICOM exchange rate.

III. Import Procedures

On January 10, 1983, the practice of issuing "no-funds" import licenses for all goods, except genuine gifts and imports by the bauxite sector was, terminated. Three separate procedures apply for obtaining authorization to import.

1. EDF participants. Nontraditional exporters may obtain automatically and without quantitative limit permits for all imports, except consumer goods. These imports may be financed through EDF funds, retained export earnings, and/or foreign exchange purchased on the parallel market. EDF documents are sufficient to clear goods through customs; no import permit is required.

2. Nonrestricted imports. For those importers not participating in the EDF and who export 5 per cent or less of their total output, nonrestricted imports are issued automatically up to pre-specified quota limits. The quotas apply to individual importers, but are computed on the basis of aggregate import ceilings across broad groups of commodities. For producers, quotas are determined on the basis of imported input/output relationships, for traders on "performance" during the preceding period, and for higglers on the basis of returns made to the Revenue Board. These regulations apply to both official and parallel market transactions.

3. Restricted imports. Permits are issued on a discretionary basis. All imports in this category must be purchased on the parallel market.

A further 60 items were taken off the restricted list on February 28, 1983 and present policy provides for the removal of the remaining 240 items over the next three years.

IV. Exchange Control

All invisible transactions and capital transfers continue to require Bank of Jamaica authorization. With effect from January 10, 1983, no new funds may be credited to Retained Accounts and Special Retained Accounts; existing balances may be either sold on the parallel market or used to purchase imports against valid import permits. All but a specified list of private sector invisible payments (including education and medical expenses, passenger fares, and profit and dividends) are now conducted on the parallel market. No changes were made in the quantitative limits on foreign exchange allocations for invisible payments. Proceeds from loans and investment abroad and principal and interest payments in respect of loans approved by the Bank of Jamaica continue to be handled on the official market. The modified exchange control regulations do not require sellers of foreign exchange on the parallel market to divulge the source of their earnings.

Table 22. Jamaica: Illustrative List of Foreign Exchange Cash Payments and Receipts in the Official Market

Sales to Official Market		Purchases From Official Market	
By transaction	By transactor	By transaction	By transactor
1. Exports of bauxite, alumina, sugar, bananas	1. Government	1. Basic food 1/	1. Government 3/
	2. Tourism operators	2. Basic agricultural materials 1/	2. Specified raw materials imported by JCTC 1/
2. 50 per cent of non-traditional exporters' earnings		3. Petroleum 2/	3. EDF participants (non-CARICOM)
3. Freight charges		4. Essential items for tourism 1/	
4. Interest, profits, dividends		5. Commercial arrears	
5. Loans, investments		6. Medical products and expenses 1/	
		7. Business travel/passenger fares 1/	
		8. Education expenses	
		9. Private sector interest, profits, dividends 1/	
		10. Principal payments 4/	

1/ To be shifted to parallel market as provided for in 1983/84 program.
2/ 50 per cent (US$110 million) to be shifted to parallel market.
3/ 55 per cent (US$30 million) to be shifted to parallel market.
4/ On private debt contracted after January 10, 1983 and converted at the official rate of exchange.

Kingston, Jamaica
May 24, 1983

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

Dear Mr. de Larosiere:

1. Annexed are (1) an Economic Policy Memorandum of the Government of Jamaica approved by Cabinet and covering the policies and programme for FY 1983/84, the third year of the extended arrangement, and (2) a Technical Memorandum of Understanding setting out certain operational guidelines for FY 1983/84. In accordance with the extended arrangement approved by the Fund on April 13, 1981, we request that the equivalent of SDR 149.8 million be made available to Jamaica during the third year of the extended arrangement, including appropriate use of the Fund's borrowed resources.

2. The annexed Technical Memorandum of Understanding describes the key targets and policy undertakings for the third year of the programme set out in the attached Economic Policy Memorandum. The Government of Jamaica understands that during any period until March 31, 1984, in respect of which any of these targets or policy undertakings are not observed, Jamaica will not request any purchase under the arrangement until reaching understandings with the Fund regarding the circumstances in which such purchases may be resumed.

3. The Government of Jamaica recognises that the performance clauses of March 31, 1983, relating to net international reserves, net domestic assets, net domestic credit to the selected public sector and arrears on current external payments, were not observed. This nonobservance resulted from shortfalls in the balance of payments support programme under the EFF arrangements for FY 1982/83 as well as reduced export earnings consequent on the world economic recession. The Government has initiated discussions to secure the external resources required to offset the shortfall experienced in FY 1982/83. If these efforts are not successful, Jamaica will intensify the adjustment process by measures described in the accompanying Economic Policy Memorandum in order to meet substantially the balance of payments and fiscal targets established for the EFF programme. Jamaica will continue to pursue the export-oriented adjustment programme implicit in the EFF arrangements and the improvement of the net international reserves of the Bank of Jamaica through the strengthening of the external accounts. The Government, therefore, requests that the Board of Executive Directors of the Fund grant a waiver relating to the nonobservance of the relevant performance clauses at March 31, 1983.

4. The Government of Jamaica believes that the polices set out in the annexed Economic Policy Memorandum for the third year of the extended arrangement and further elaborated in the annexed Technical Memorandum of Understanding are consistent with the strategies, direction and objectives of the economic programme which was presented to the Fund as a basis for the extended arrangement. 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 in the annexed Economic Policy Memorandum and about any policy adaptations judged to be appropriate for the achievement of its objectives. In any event, the Government will consult with the Fund before October 31, 1983 on the policies affecting demand management and the exchange system, as outlined in paragraph 36 of the annexed Economic Policy Memorandum. The Government will consult with the Fund on or before March 31, 1984 on the policies and measures for a possible subsequent arrangement with the Fund in support of the medium-term strategy outlined in the attached Economic Policy Memorandum.

Yours sincerely,

/s/
Horace Barber
Governor
Bank of Jamaica

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

Annexed: Economic Policy Memorandum of the Government of Jamaica for FY 1983/84.
Technical Memorandum of Understanding

Technical Memorandum of Understanding

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

2. The stock of net domestic credit to the selected public sector over the period from March 31, 1983 through March 31, 1984 will not increase by more than J$173 million. This stock will not increase by more than J$200 million from March 31, 1983 through June 30, 1983; by more than J$312 million from March 31, 1983 through September 30, 1983; and by more than J$316 million from March 31, 1983 through December 31, 1983. The third quarter ceiling will be subject to an upward adjustment of J$27 million for any cumulative shortfall in disbursements of external loans and credits from the projected amount set out in the attached Table 1. The quarterly ceilings will be subject to a downward adjustment for any excess of disbursements of external loans and credits over the projected amount set out in the attached Table 1. For the purpose of this paragraph 2, net domestic credit to the selected public sector is defined to include the net credit from the Bank of Jamaica and the domestic commercial banks to the Central Government, local government, and selected public sector entities, less Bank of Jamaica and domestic commercial bank holdings of government securities and less the change in the stock of government securities held by the selected public entities during the program year, plus the total outstanding stock of Government securities. The selected group of public sector entities is listed in attached Table 3.

3. The stock of the net domestic assets of the Bank of Jamaica over the period from March 31, 1983 through March 31, 1984, will decline by no less than J$192 million. This stock will increase by no more than J$85 million from March 31, 1983 through June 30, 1983; increase by no more than J$175 million from March 31, 1983 through September 30, 1983; and by no more than J$130 million from March 31, 1983, through December 31, 1983. The third quarter ceiling will be subject to a maximum upward adjustment of J$27 million for any cumulative shortfall in disbursements of external loans and credits from the amounts set out in attached Table 2. These quarterly ceilings will also be subject to a downward adjustment, for any excess over the projected disbursements set out in attached Table 2. For the purpose of this paragraph 3, 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 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 4 below.

4. The net international reserve position of the Bank of Jamaica will improve to at least negative US$494 million by March 31, 1984. During FY 1983/84, the reserve position will not deteriorate below negative US$662 million from March 31, 1983 through June 30, 1983; will

not deteriorate below negative US$715 million from March 31, 1983 through September 30, 1983; and will not deteriorate below negative US$656 million from March 31, 1983 through December 31, 1983. The net international reserve target will be subject to a maximum downward adjustment of US$15 million during the third quarter of the program year for any cumulative shortfall in disbursements of external loans and credits from the amounts set out in attached Table 2. The net international reserve targets will be subject to upward adjustments, for any cumulative excess over the projected disbursements set out in attached Table 2.

External commercial payments arrears which amounted to US$25 million on March 31, 1983 will not exceed US$17 million through June 30, 1983 and through September 30, 1983, and will be eliminated by December 31, 1983. The authorities do not intend to permit any new commercial arrears to be incurred after that date. Outstanding replenishment obligations to the EDF will be eliminated by August 1, 1983. Due obligations for oil payments to Venezuela and Mexico, which amounted to US$73 million on March 31, 1983 will be reduced to US$65 million by June 30, 1983, to US$41 million by September 30, 1983, to US$20 million by December 31, 1983, and eliminated by March 31, 1984.

Projections of the net international reserves of the Bank of Jamaica for March 31, 1983, are shown in attached Table 4. For the purpose of this paragraph 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 by the Bank of Jamaica related to any prepayment of exports other than receipts from normal bauxite levy prepayments; (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; and (iii) external payments arrears. Liabilities arising from disbursements from the Venezuela and Mexico oil facility will be treated as liabilities of the Central Government for purposes of these reserve targets. All reserve liabilities shown in the attached Table 4 will continue to be treated as such, irrespective of any change in maturity. Arrears are defined to include all external payment arrears, including overdue obligations of 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. After August 1, 1983, any replenishment obligations by the Bank of Jamaica to the EDF in excess of the defined quantities by the World Bank will also be considered arrears. All assets and liabilities in SDRs will be converted into U.S. dollars at the accounting rate of SDR 1 = US$1.13. These assets and liabilities in other currencies will be converted into U.S. dollars at the rates used by the Bank of Jamaica on March 31, 1983.

5. During FY 1983/84, from April 1, 1983 to March 31, 1984, disbursements on account of external debt of the public sector (defined

as consisting of the Central Government, local government, the group of selected public sector entities listed in attached Table 3, the Bank of Jamaica and any other public sector entity) and of the private sector with government-guarantee, with maturities of at least one year and up to and including five years, will not exceed US$60 million; and disbursements on account of such debt with maturities of at least one year and up to and including 12 years will not exceed US$250 million. For the purpose of this paragraph, the external debt disbursements covered by these ceilings are defined to exclude loans and credits extended or guaranteed by foreign governments, their agencies, and multilateral lending institutions, but to include all loans from commercial banks, including those cofinanced under the SAL or those to refinance FY 1983/84 maturities. External debt disbursements will be expressed in U.S. dollars, with conversions from other currencies effected at the exchange rates prevailing when the debt is disbursed.

6. During FY 1983/84, the Government does not intend to introduce any new multiple currency practice other than those described in paragraphs 37 and 38 of the attached Economic Policy Memorandum 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.

Table 1. Jamaica: Disbursements of Special Assistance for Budgetary Support, FY 1983/84 1/

(In millions of Jamaica dollars)

April 1, 1983-June 30, 1983	130
April 1, 1983-September 30, 1983	312
April 1, 1983-December 31, 1983	536
April 1, 1983-March 31, 1984	795

1/ Excludes disbursements under project loans/suppliers' credits.

Table 2. Jamaica: Disbursement of Special Assistance
for Balance of Payments Support, FY 1983/84 1/

	Millions of U.S. dollars	Millions of Jamaica dollars
April 1, 1983-June 30, 1983	101	180
April 1, 1983-September 30, 1983	212	377
April 1, 1983-December 31, 1983	405	721
April 1, 1983-March 31, 1984	594	1,056

1/ Excludes disbursements under project loans/suppliers' credits and levy prepayments.

Table 3. Jamaica: Selected Group of Public Entities

Airports Authority
Air Jamaica
Capital Development Fund
Jamaica Broadcasting Corporation
Jamaica Merchants Marine
Jamaica National Investment Company
Jamaica Commodity Trading Corporation
Jamaica Omnibus Service
Jamaica Public Service Company
Jamaica Telephone Company
Jamaica International Telecommunications Company
Montego Bay Bus Company
National Hotels and Properties
National Housing Corporation
National Housing Trust
National Insurance Fund
National Sugar Company
National Water Authority
Port Authority
Sugar Industry Authority
Urban Development Corporation
Water Commission

Table 4. Jamaica: Net International Reserves of the Bank of Jamaica

(In millions of U.S. dollars)

	March 31, 1983 1/ Actual	March 31, 1984 1/ Projection
Net international reserves	-619.2	-494.2
Assets	87.7	308.4
Liquid	32.1	270.3
Nonliquid	55.6	38.1
Liabilities	706.9	802.6
IMF	626.2	748.7
Compensatory financing	(74.6)	(54.5)
Stand-by purchase	(24.6)	(24.6)
Extended Fund facility	(527.0)	(669.6)
Commercial banks	1.5	--
Central Bank of Libya	50.0	50.0
Norway Consultancy Fund	1.0	1.0
Bank of China	0.6	0.3
Bank of Ecuador	--	--
CARICOM	2.9	2.6
Payments arrears	24.7	--

Sources: Bank of Jamaica; and Fund staff estimates.

1/ SDRs converted at US$1.13 = SDR 1.

Economic Policy Memorandum of Jamaica
Financial Year 1983/84

Introduction

1. The Government of Jamaica enters the third year of the Extended Fund Facility programme (FY 1983/84) with a continuing and abiding conviction that an export-led development strategy is the only viable path for achieving economic recovery at levels of real growth that will be sustainable without recourse to special balance of payments support. The Administration believes that an enduring solution to the foreign exchange problem which has plagued Jamaica for many years is attainable only by this route.

2. The policies and actions supporting this strategy are reflected in a Structural Adjustment Programme implemented by the Government in FY 1981/82 with the assistance of the World Bank. Appendix A sets out the action already taken. The Government considers that the programmes supported by Structural Adjustment and the Extended Fund Facility complement each other in ensuring the economic recovery of Jamaica in the shortest possible time. Nevertheless, these programmes must be supported by urgent action for reviving world economic activity and trade. These and other related issues are matters for other forums but must be kept in mind in an assessment and evaluation of the strategy and action which Jamaica is pursuing to secure growth, reduce unemployment, improve living standards, and meet the rising expectations of its peoples.

3. There may be less occasion this year for an extended statement on the Jamaica Economic Recovery Programme of the type presented to the Fund in March 1981 and 1982, respectively. However, while a statement in detail of the course to be pursued may not now be necessary, it is appropriate to restate some of the basic elements and the principles to which this Administration is irrevocable committed--if only to provide a backdrop for assessment and evaluation of policies and programmes.

Part I--Policies and Structural Adjustment

4. The export-oriented Recovery Programme emphasises the rehabilitation and expansion of the traditional exports of tourism, bauxite/alumina, and agriculture; and the initiation of policies and programmes for <u>structural adjustment</u> of the productive sector to facilitate exports of manufactured and agricultural goods mainly to the markets of North America, and the European Economic Community. Reliance will be placed on the private sector as the propellant force for productive and commercial activities and on measures to ensure the efficient working of the market system. The State will establish the policy environment and infrastructure to allow the market mechanism to function effectively;

and government participation in the productive sector will be confined largely to traditional utility operations in the areas of power, transportation, and telecommunications.

Deregulation

5. During the past two years, the Administration has established a climate conducive to private initiative and enterprise by liberalising the market system through progressive elimination of regulatory measures on trade and commerce, including price controls, import licensing and state marketing. The majority of items has been removed from specific price control and the number of items which require prior notification to the Prices Commission substantially reduced. Currently 20 items are subject to price control compared with 81 at the beginning of the programme. Except for prohibited goods, import licenses are now issued on an automatic basis. State marketing is restricted largely to bilateral transactions with friendly governments through food aid and related programmes; in any event, such commodities are retailed through the distributive system of the private sector. A programme has been implemented for progressively dismantling over a period of five years, the system of quantitative restrictions on imports applied to some 300 products. Already 40 per cent of restricted items have been removed and ultimately, import restrictions will be confined solely to products which are strategic to national and social interests.

6. On January 10, 1983, the Administration took additional steps to improve the operation of the market system and encourage expansion of the export sector. A two-tier foreign exchange regime was introduced with the legislation and institutionalising of the nonformal parallel market as a function of the domestic commercial banking system. A fixed exchange rate regime (at parity) is operated by the Central Bank for specified transactions such as official debt service, oil payments and essential imports and services. Receipts from bauxite/alumina, traditional agricultural exports, specified tourism services, official loan flows and 50 per cent of receipts from nontraditional agricultural and manufacturing exports, are directed to the official market. All other payments and receipts take place within the parallel market at a floating rate of exchange and currently, amounts to 22 per cent of non-bauxite transactions for goods and services.

7. As an incentive, exporters to countries outside the CARICOM area may retain 50 per cent of export receipts in the form of a negotiable export certificate. These export certificates may be sold within the parallel market regime to any domestic or export producer, and used by the holder for imports of raw materials, spare parts and capital goods.

Sector programmes

8. Specific structural adjustment measures have been implemented for the manufacturing, agricultural and the public sectors. Action programmes for seven priority subsectors have been devised to assist the

manufacturing sector in reorganising sub-sector operations. The focus will be on a range of products competitive with imported substitutes and, where comparative advantage permits, access to external markets. Private foreign investment inflows are an important ingredient for the expansion of the manufacturing sector and the export thrust. The Government has initiated investment promotion in North America, certain European countries and the Far East to attract new ventures. Proposals have been made covering activities in manufacturing, mining, transportation, tourism and agriculture. Already, 181 new enterprises are in place with an investment level of US$139 million. To further strengthen the export efforts, a comprehensive review of the competitiveness of Jamaican production with particular emphasis on the manufacturing sector will be undertaken by September 1983 with World Bank assistance. The objective is to develop an action plan and related measures to remove constraints to exports and to secure the improvement in industrial efficiency necessary for quantum increases in exports of manufactured goods.

9. The structural adjustment programme in agriculture emphasises better resource use, the reconstruction of commercial agriculture with a bias toward exports, including rehabilitation programmes for the sugar and banana sub-sectors, and the deregulation of external marketing organisations. After extensive study, an action programme is now in place for reviving the sugar sector. The objective is to lift sugar production and exportables to meet the requirements of the guaranteed share of the Common Market and also Jamaica's share of the U.S. market under the trade component of the Caribbean Basin Programme. The target is an export level of 156,000 tons for FY 1983/84 rising to 190,000 tons in FY 1985/86. Related export earnings should attain US$72.2 million in FY 1985/86 compared to US$45 million in FY 1982/83.

10. The banana export sector has been more difficult to reorganise and revitalise. However, it is now agreed that production for exports should be confined to high yielding but relatively small acreage with the potential of attaining output levels to meet export requirements on a competitive basis. The agreed action programme which is supported by foreign commercial enterprises, projects export levels of 40,000 tons for FY 1983/84 rising to 100,000 tons in FY 1985/86. Output of exportables was at the low level of 25,000 tons in FY 1982/83. Export earnings will rise to US$43 million in FY 1985/86 compared to US$11 million in FY 1982/83.

11. In regard to the Public Sector the Government has divested 26 enterprises by sale, lease or liquidation, and 8 enterprises are currently up for sale. Action programmes have been implemented to reduce costs and improve efficiency and profitability of the air transportation, power, water and communication utilities which remain in Government ownership. Budget subsidies to Public Enterprises have been reduced from J$43 million in FY 1981/82 to J$19 million in FY 1983/84. The objective is to eliminate current subsidies altogether.

12. Tax revenues have been increased from 18 per cent of GDP in FY 1980/81 to 24 per cent of GDP in 1982/83, by a continuing programme of upgrading tax administration and securing tax compliance. Payroll taxes and a shift of some commodity taxes from specific to ad valorem system, have been implemented. The Administration is reviewing the impact of the tax system on industrial and commercial policy with specific reference to the effect of the tax burden on productive effort and a shift of fiscal emphasis from duties on imports to internal taxes.

13. A Three-Year Public Sector Investment Programme through FY 1985/86 has been agreed with the World Bank and a system is in place for its preparation and monitoring on an ongoing rolling-plan basis. Both the Central Government Capital Budget and the rest of the Public Sector components of the programme are consistent with the criteria of the GOJ/Fund Programme relating to net external and domestic financing. The investment programme contains a "core" programme which applies two key criteria in admitting projects: firstly, projects which maintain essential economic and social infrastructure and secondly, those which support the export-oriented development strategy.

14. Equally important is the strategy to maintain Current Expenditure within appropriate growth rates to attain positive Central Government savings. An evaluation study of Current Services commissioned to assist the evolution of such strategy will determine the adequacy and need for resources within existing prescribed mandate, mission and objectives, and also identify inefficiency and waste. Overall, Public Sector savings are targeted at a level of 3 per cent of GDP for FY 1983/84 compared to a deficit of 1.6 per cent of GDP in FY 1982/83.

15. The financial institutional structure for medium-term credit to the agricultural and manufacturing sector has been strengthened by the establishment and operation of development financing agencies which mobilise external financing flows and disburse resources to the productive sector through the commercial banking system. Furthermore, monetary instruments are being developed for attracting external migrant flows through foreign currency denominated deposits of the banking system and foreign currency denominated bonds of the Central Bank.

Part II--Current Economic Performance

16. The programme for FY 1982/83 and the related structural adjustment action outlined in previous paragraphs, were framed against a modest improvement in world economic activity and some recovery of international trade from stagnation levels. The programme projected buoyancy in the Jamaican export sector with traditional and nontraditional exports rising sharply. Instead, the year 1982 has seen a marked deterioration in world economic activity and the worst recession in 50 years. To further compound matters, the debt problems of middle level developing countries assumed alarming proportions. The ensuing enormous

strains on the international financial system inhibited the transfer of financial resources through the commercial banking mechanism. External banking institutions withdrew previous willing support of sovereign risk medium-term credit to developing countries for balance of payments purposes; for many banks the Latin American and Caribbean area became untouchable for lending operations.

17. Despite this dismal world picture, the Jamaican economy registered real growth of 2 per cent during FY 1982/83 compared to the program target of 5 per cent and outturn of 1.2 per cent for FY 1981/82. The nonbauxite sector grew by 3.7 per cent compared with 2.5 per cent in FY 1981/82. However, the bauxite/alumina sector declined by 17.3 per cent in real terms relative to FY 1981/82. Capital formation achieved 20.8 per cent of GDP compared to 19.5 per cent in FY 1981/82 and 15.4 per cent in FY 1980/81. Inflation was constrained to 7 per cent compared to 4.7 per cent in FY 1981/82 and 24 per cent in FY 1980/81. Finally, unemployment worsened marginally to 27.9 per cent of the labor force at October 1982 compared with 27 per cent at April 1982.

18. Notwithstanding the creditable real sector performance, the quantitative performance criteria at March 31, 1983 relating to net international reserves, net domestic assets, net domestic credit to the selected public sector and arrears on current external payments, were exceeded. The net domestic credit ceiling was J$137.2 million above target as Central Government fiscal performance deteriorated in relation to the program. The Current Account deficit of 1.9 per cent of GDP compared to a program level of 1.6 per cent and deficits of 2.0 per cent and 7.3 per cent for FY 1981/82 and FY 1980/81, respectively. The overall deficit achieved 13.7 per cent 1/ of GDP against the program target of 12.9 per cent and outturn of 14.2 per cent for FY 1981/82. This deterioration was largely due to the reduction in the export levy on bauxite resulting from the sharp drop in world demand. Normal levy receipts for the year attained only 53 per cent of the program estimate. The Administration initiated a special arrangement for prepayment of levy on three years of future bauxite exports to provide alternative resources. Each prepayment will be set off against future tax liability but will be foregone if a tax liability is not incurred during the three-year period. Both tax revenues and overall expenditure improved relative to programme levels for FY 1982/83 with overall expenditure 3.2 per cent below programme estimates.

19. The balance of payments reflects mixed fortunes. The balance of payments registered a deficit of US$147 million in FY 1982/83 compared to the projected programme surplus of US$13 million and the improvement of US$42 million in FY 1981/82. Additionally, as of end March 1983, there were arrears of trade payments amounting to US$25 million and outstanding credits for oil transactions of US$72 million. The main

1/ The difference from the Fund estimate of overall deficit of 15.5 per cent of GDP arises from the treatment of resource flows relating to a special bauxite transaction in FY 1982/83, which Jamaica regards as an overpayment of taxes rather than a financing flow.

reasons for the substantial deterioration in the net international reserves of the Bank of Jamaica were the reduction in targeted export earnings by US$336 million of which bauxite/alumina earnings accounted for US$257 million; shortfalls of US$170 million in special balance of payments assistance; and increased capital flight. Nevertheless, the Current Account deficit improved to 13.4 per cent of GDP, largely due to a contraction of imports.

20. The programmed private capital inflows of US$75 million were reversed to a net outflow of US$112 million and compares with a net inflow of US$71 million in FY 1981/82. The developments and World Bank-IMF/GOJ discussions in the second half of 1982 relating to the formalisation of the parallel market through the banking system led to speculation against the Jamaica dollar and increased the leakage of foreign currency from the official market. The prior action undertaken by the Government of Jamaica on January 10, 1983, in implementing a two-tier exchange rate regime is expected to address this issue of the massive hemorrhaging of foreign exchange.

Part III - Future Prospects and Programme for FY 1983/84

21. The Government is determined to continue policies and actions for sustaining improvements in the Jamaican economy and securing gains already achieved. The Government fully recognises that the forthcoming programme must take account of the realities of the changed world economic environment. Furthermore, the programme must rely increasingly on Jamaica's own foreign exchange earnings and less on concessional balance of payments support. The associated net external financing needs must be consistent with prudent external debt service policy and management. To this end, the Government has evaluated the economic programme through FY 1985/86 based on a firm programme for FY 1983/84 and indicative programmes for subsequent years. The evaluation parameters include the export-oriented development strategy and related structural adjustment programme and actions referred to in previous paragraphs.

22. The medium-term scenario indicates that the Jamaican economy will attain real growth of 3 per cent per annum or more. The cardinal assumption is the recovery of world economic activity to a growth rate of over 2 per cent per annum and a rise in the volume of world trade of not less than 3 per cent per annum. Consumer prices would rise by an annual rate of 10 per cent in FY 1983/84 compared to the single digit performance of the two previous years. Thereafter, price changes should be in line with the experience of Jamaica's trading partners. The main reason for the rise of prices to double digits in FY 1983/84 is the impact on costs of the parallel market which was institutionalised in January 1983.

Wages policy

23. The policy of free collective bargaining based on ability to pay and, within appropriate and effective conciliation and arbitration

mechanisms, will continue. Pay awards within the private sector averaged 15 per cent in FY 1982/83. It is expected that such awards during FY 1983/84 will be contained within the projected inflation level. Many of the more significant awards (Sugar, Bauxite, Utilities, etc.) were settled last year on a multiyear basis and do not constitute pay disputes for this programme year.

24. Currently, Public Sector pay awards are under negotiation within the limits of the overall central government deficit agreed with the Fund. The Government recognises that its ability to attract and retain staff at critical management, professional and technical positions turns on an appropriate compensation plan. The success of the Structural Adjustment Program depends on the availability of such staff in the right numbers, at the right place and at the right time. A strategy will be developed during this year within the context of the World Bank SAL II to enable key positions to be filled by suitable personnel.

Fiscal policy

25. Initially, the EFF Programme projected a turn-around in the Current Account from a deficit to a surplus of at least 1 per cent of GDP and a narrowing of the overall deficit to 10 per cent of GDP at FY 1983/84. A review of the scenario for fiscal improvement became necessary when fiscal performance deteriorated in FY 1982/83, due to a decline in the export levy on bauxite and shortfalls in external flows. The overall deficit is now projected to improve to a level of 10.8 per cent of GDP in FY 1983/84, 10 per cent of GDP in FY 1984/85 and 9.0 per cent of GDP by FY 1985/86 compared to an estimated 13.7 per cent for FY 1982/83.1/ In the same period, the Current Account will turn from a deficit of 1.9 per cent of GDP to a surplus. The underlying reasons are threefold. Firstly, tax policy and action will maintain revenues at an average of 26 per cent of GDP per annum for the period compared to 18 per cent of GDP in FY 1980/81 and 24 per cent in FY 1982/83. In addition, it is projected that the export levy on bauxite will recover to previous years' amounts of over J$340 million with the anticipated turn-around in world economic activity.

26. Secondly, measures will be taken to contain the growth rates of current services below that for Current Account resources. An action program will be prepared on the basis of a study commissioned under World Bank SAL II, to evaluate existing current services and determine the adequacy and need for resources to meet mission objectives. Public Enterprises have been directed to pursue financial policies and programmes for generating surpluses as a contribution to their respective

1/ Due to different treatment of resource flows relating to a special bauxite transaction in FY 1982/83, these projections correspond to 10.3 per cent of GDP in FY 1983/84, 9.5 per cent of GDP in FY 1984/85, and 8.5 per cent of GDP in 1985/86 in the Fund's projections.

investment programmes. Thirdly, the Government has implemented a rolling three-year Public Sector Investment Programme which is constrained by the availability of sustainable external inflows and the need of the productive sector for domestic credit.

27. The Central Government overall deficit is projected at 10.8 per cent 1/ of GDP for FY 1983/84 compared to 13.7 per cent for FY 1982/83. Programmed fiscal resources of 30 per cent of GDP include a tax effort equivalent to 1.7 per cent and will raise tax revenues to 25.7 per cent of GDP. The intensification of compliance efforts will realise some 50 per cent of the incremental amount; and increases in internal taxes on commodities will yield the balance. An amount of J$150 million equivalent to 2.3 per cent of GDP, will come from the transfer of profits of Public Enterprises and special transactions for marketing incremental amounts of bauxite and alumina. The Government commits itself to increase the tax effort for FY 1983/84 to the extent that any of the special transactions now under negotiation produce less than the desired amount.

Monetary policy

28. By voluntary agreement with the commercial banks, the applicable liquid asset ratio during FY 1982/83 was set at 40 per cent of prescribed liabilities compared to the statutory ratio of 29.5 per cent. However, the banks maintained lower ratios than agreed which resulted in excessive credit expansion to the private sector. A proportion of this credit found its way to low priority sectors. In January 1983, the Bank of Jamaica took corrective action by increasing the statutory liquid asset ratio to the full extent permitted by Law and in March 1983, further raised the legal ratio to 36 per cent. This liquid asset ratio will be maintained for FY 1983/84. Incremental credit to the Productive sector is targeted to meet the growth objectives of the programme. To achieve this, the Central Government will be a net lender to the Banking System in the amount of about J$100 million. Additionally, the Bank of Jamaica will maintain the existing ceilings on credit to the distributive sector and for personal services, so that sufficient credit is channelled to the priority sub-sectors.

29. The foregoing Credit Policy, supported by the agreed Fiscal Policy and Programme, will ensure that domestic expenditure is consistent with the programmed balance of payments and price objectives. Appropriate limits have been placed on net domestic assets and net domestic credit to the public sector. The Government will pursue interest rate policies to provide for optimum mobilisation of savings and allocation of resources to priority sectors. All Central Bank rediscount rates will continue to be set at levels no lower than the Treasury Bill rate which is responsive to market forces.

1/ The difference from the Fund estimate of 10.3 per cent of GDP is due to adjustment to the fiscal accounts because of the treatment by the Fund of the Special Bauxite Transactions of FY 1982/83.

Balance of Payments management

30. A significant improvement in the net international reserves of the Bank of Jamaica through the strengthening of the External Accounts remains the single most important objective of the Economic Recovery Programme. At the commencement of the EFF Programme, the strategy for the activation of the economy was to finance the projected trade gap and Current Account deficit largely through concessionary balance of payments support. Over time, reliance on such flows would be replaced by a quantum increase in export earnings. However, the experience of FY 1982/83 indicates that the development of flows to replace concessional finance will take a much longer time than envisaged. While there was a modest improvement in net international reserves of US$43 million in FY 1981/82, a deterioration of US$147 million occurred in FY 1982/83 mainly due to the drop in world demand for exportable products.

31. The revised medium-term scenario projects an improvement in the Current Account deficit from 13.4 per cent of GDP in FY 1982/83 to 6.0 per cent by FY 1985/86. This will result from a recovery in exports of bauxite/alumina on the resumption of world economic activity with the major impact by the third year. Furthermore, a sharp increase in export earnings should result from the action now taken under the Structural Adjustment Programme to improve the performance of traditional agricultural exports and to encourage the expansion of nontraditional agricultural and manufacturing products. A balance of payments surplus is projected over the three years averaging around US$75 million per annum.

32. A major feature of the recovery program has been the concessionary balance of payments support provided by Donor Countries and multilateral and bilateral financial institutions at around 10 per cent of GDP in FY 1981/82 and FY 1982/83, respectively. It is the expectation that there will be a gradual shift to more sustainable current and capital inflows, and such concessionary flows will decline to 6 per cent of the GDP by FY 1985/86.

33. The Current Account deficit is estimated at 3.0 per cent of GDP for FY 1983/84 compared to 13.4 per cent in FY 1982/83. Exports are projected to rise sharply reflecting the recovery in world economic activity as well as the domestic structural adjustment programme. However, in the absence of an adequate flow of foreign exchange imports will decline by 10 per cent relative to FY 1982/83. A substantial reduction in inventory levels during the programme year, will supplement imports to support the projected real growth target. Subsequently, inventories will be restored and imports for FY 1984/85 are projected to rise by 9.4 per cent over FY 1982/83. The continued growth of tourism, though at rates below previous years, will ensure a rising net surplus on the service account.

34. The balance of payments target for FY 1983/84 is set at US$125 million with projected support from concessionary financing of US$390 million or 10.8 per cent of GDP compared with US$313 million or 9.7 per cent of GDP in FY 1982/83. Accordingly, gross foreign reserves of the Bank of Jamaica will rise to around US$308 million equivalent to three months of nonbauxite imports. This compares with gross reserves of US$88 million at year end FY 1982/83.

35. Arrears on payments and transfers for current international transactions amounting to US$25 million at March 31, 1983, will be cleared by December 31, 1983. No further arrears will be accumulated. Due obligations under the Venezuela-Mexico Oil facility amounted to US$72 million at end of March 1983. Arrangements have been made to meet such obligations in four tranches in the course of 1983.

36. To support and strengthen a viable balance of payments programme, greater use will be made of the parallel market mechanism which was implemented on January 10, 1983. The Government will transfer External Account transactions amounting to US$484 million to the parallel market which will then cover 35.4 per cent of nonbauxite imports and 34.4 per cent of service and transfer payments. The parallel market mechanism has the objective of attracting the foreign exchange earnings which have not been surrendered to the Bank of Jamaica, and permits the use of such resources for priority imports and services. Furthermore, the mechanism serves as a protective shield for improving the gross foreign reserves of the Bank of Jamaica to levels supportive of normal trade-related financing. The system will be continuously evaluated by the Bank of Jamaica to ensure its efficacy, so as to ease the present foreign exchange constraint on an enduring basis. The Bank of Jamaica will not intervene in the parallel market on a net basis over the programme year. The domestic resources corresponding to the exchange loss incurred with each purchase of foreign exchange will be sterilised.

37. The decision of 10th January 1983 to legalise and institutionalise the nonformal parallel market, was interpreted by CARICOM countries as an attempt by Jamaica to reduce, if not eliminate, the competitiveness of their exports. Under the arrangements nondesignated goods imported from CARICOM were valued at the parallel market exchange rate, while the official rate of exchange was applied to export proceeds and Bank of Jamaica clearing balances. Countervailing measures were taken by some countries and in consequence CARICOM trade was substantially reduced. Accordingly, the countries participating in the CARICOM Trade and Payment system, have agreed that effective from May 18, 1983, Jamaica will apply an intervention rate of J$2.25 = US$1.00 in settlement of CARICOM transactions which are not designated for the official market, as well as Bank of Jamaica balances in the CARICOM clearing facility. This CARICOM reference rate will be reviewed in six months or earlier as necessary. In view of the limited size of trade within the CARICOM region, the economic impact of this exchange rate action will be minimal.

38. The Bank of Jamaica is servicing Current and Capital transactions within the official market from export earnings and loans. The cost to the Bank is not now covered by the present commission charge to its customers of 1/16 of 1 per cent on sales of foreign exchange. The Government has agreed that the commission charge should be increased on a temporary basis to 3 per cent of foreign exchange sales.

39. A major factor in the fiscal and balance of payments performance for FY 1982/83 was the shortfall of US$170 million in the programmed special balance of payments assistance and the sharp drop in external earnings. For FY 1983/84 external official capital inflows are projected at US$719 million including major support from commercial loan sources. The Government of Jamaica recognises that measures must be in place to meet any eventuality of a substantial reduction in these flows. The main objective will be to sustain the targeted balance of payments surplus of US$125 million for FY 1983/84 and the corresponding increase in the foreign exchange reserves of the Bank of Jamaica to three months of nonbauxite imports. In the event, therefore, that external earnings and programme inflows are substantially reduced, imports will be contracted by an equivalent amount except where alternative trade-related financing support becomes available. In the event also that the shortfalls reduce resources to the Central Government Budget, there will be an equivalent adjustment to the Public Sector Investment Programme. An evaluation of possible shortfalls will be undertaken by the end of July 1983 and the appropriate adjustments determined in consultation with the Fund.

Government of Jamaica
April 1983

Jamaica: Second Structural Adjustment Loan Program

Sector and Policy Issue	Structural Adjustment Program: Action Already Taken	Structural Adjustment Program: Steps to be Taken
I. Balance of Payments Management		
1. Foreign exchange allocation mechanism	The informal foreign exchange market has been fully legalized and institutionalized within the commercial banks, with rates varying according to demand/supply conditions.	Action: The operations of the parallel exchange market will be carefully monitored to determine whether any additional measures are necessary. A review of the competitiveness of Jamaica's exports of goods and services will be carried out prior to release of the second tranche, and any necessary corrective action would be decided upon at that time.
2. Import licensing system	The import licensing system has been completely reorganized. Imports now either receive an import quota in US$ by broad category of goods, or if they are nonmarginal exporters, they are quota-free except for imports of consumer goods. All import permits are issued automatically to holders of quotas and holders of exporter status certification.	Action: The operations of the new system will be carefully monitored to ensure that automaticity is maintained. The quota system will be reviewed prior to release of the second tranche with a view to its early modification or elimination if necessary.
II. Savings and Investment		
1. Public sector savings	Government is committed to eliminating all current subsidies to the public enterprises in FY 1983/84. For most enterprises, action programs have already been adopted to achieve this, and to increase the enterprises contributions to the financing of their investment programs. For six enterprises, specific conditionality is included in the SAL, including sugar and bananas (see IV below).	
	Jamaica Omnibus Service: A decision has been taken to privatize JOS by June 30, 1983. The detailed plan for this has been approved by the Bank.	Action: JOS - The JOS is to be fully privatized by June 30, 1983, in accordance with the plan agreed with the Bank.
	Jamaica Public Service Co.: A tariff increase designed to achieve a 5 per cent rate of return on assets was put into place in February 1983.	Program Development: JPS is required to make an 8 per cent return on assets in 1984. The plans for this would be reviewed prior to release of the second tranche.
	National Water Commission: A team of management and financial consultants has been hired to overhaul the management and structure of NWC over a one-year period. First priority would be given to the corporate area.	Action: NWC - Prior to July 31, 1983, measures including tariff changes, would be undertaken to ensure a 4 per cent rate of return on assets in the Kingston Corporate area. Program Development: NWC - Satisfactory progress in the preparation of an action program for water supply in the rural areas would be a condition for the release of the second tranche.

Jamaica: Second Structural Adjustment Loan Program

Sector and Policy Issue	Structural Adjustment Program: Action Already Taken	Structural Adjustment Program: Steps to be Taken
	Jamaica Railway Corporation: A consultant has been recruited to review the tariff structure and identify uneconomic lines, and to devise an action plan to achieve economic viability.	Action: JRC - Prior to release of the second tranche, the action program would be agreed and any necessary tariff measures/lines closures would be undertaken.
2. Public sector investment program	A three-year PSIP for the years FY 1983/84-FY 1985/86 was prepared. Regular quarterly monitoring reports are being prepared and submitted to the Bank. For FY 1983/84 a "core program" has been developed which is identical with the capital budget and is consistent with IMF targets. Economic criteria for the selection of road projects have been agreed with the Bank.	Action: Prior to release of the second tranche, the PSIP would be rolled over to cover the years FY 1984/85-FY 1986/87, and within this program a core program would be developed. The ceiling for the overall PSIP would be reviewed and if necessary revised downwards in the light of expected available financing. The program would be extended to include all the major public enterprises, by the addition of the Banana Company and the Petroleum Corporation.
3. Private savings	Foreign exchange denominated accounts can now be held by migrants within the commercial banking system, and these may be converted at the parallel exchange rate. Similarly, migrants' transfers can now be converted at the parallel rate. A study of the tax reform program has been completed. A study to determine ways to improve the functioning of capital markets has been completed and reviewed by the Government and the Bank.	Program Development: A review of tax reform measures designed to increase private savings would be carried out in midyear, with the adoption of an action program as a condition for the release of the second tranche. Action: Satisfactory progress in the formulation of measures to improve the functioning of the capital markets would be a condition for the release of the second tranche.
4. Private investment	Government has established the National Development Bank and Agricultural Credit Bank and these are now operational. Bank loans for each of these institutions are being processed at the same time as the SAL, and any necessary measures would be included in the conditionality of those loans.	
III. Industry		
1. Increasing nontraditional exports		
(a) Phased elimination of quantitative restrictions	Under SAL I, a program to eliminate the 360 QRs over a five-year period was agreed upon. 64 were removed in February 1982, and a further 60 in February 1983. A study has now been completed to determine the level of tariff that would be appropriate for each item upon removal from the list. In addition, all QRs on production inputs and capital goods required by exporters for their exports have been removed.	Action: Prior to release of the second tranche, a list will be published showing the order for the removal of all remaining QRs, and the tariffs that will apply to each item after removal.

Jamaica: Second Structural Adjustment Loan Program

Sector and Policy Issue	Structural Adjustment Program: Action Already Taken	Structural Adjustment Program: Steps to be Taken
(b) Establishment of export incentives	An incentive program under which exporters of nontraditional goods may retain 50 per cent of their foreign exchange earnings from outside CARICOM, or sell these retained earnings on the parallel market has been satisfactorily put in place through the commercial banks.	Action: A review of the competitiveness of Jamaica's exports of goods and services would be completed prior to release of the second tranche, and corrective action would be taken if necessary.
(c) Lack of foreign exchange for exporters	Import licensing is now fully automatic for exporters, and exporters are free from quotas, i.e., they have unrestricted access to import purchases through the parallel market.	Action: Prior to release of the second tranche, the quota system and import licensing system would be reviewed, both to ensure the full automaticity of licensing for exporters, and also to determine any modifications necessary for the quota system.
(d) Action programs for priority subsectors	Action programs for most of the 7 priority subsectors have been defined, and the work is continuing.	Action: The implementation of the action programs would be reviewed prior to release of the second tranche and any corrective necessary measures would be taken.
2. Institutional reform	A study to develop a program for the rationalization of institutions within the industrial sector has been carried out.	Program Development: By July 31, 1983 a program for the reform of the institutions would be adopted, together with a timetable of actions. Action: Satisfactory progress in the implementation of the program would be a condition for the release of the second tranche.
3. Import duties and tax reform	Reviews of industrial and trade policy, and of the tax reform program have been carried out by the Bank and Government.	Program Development: A mid-year review of taxes on imports, together with other possible tax reform measures, would be carried out, and agreement on these matters would be reached prior to release of the second tranche.
IV. Agriculture		
1. External marketing organizations	Management audits of the EMOs for coffee, cocoa, citrus, and pimento have been carried out and the recommendations are being implemented. Studies of the marketing and non-marketing functions of the EMOs are being carried out. A program has been agreed for each of the four commodities for the passing on to farmers of the benefits of the export incentive scheme. At the same time subsidies to farmers on seeding /planning material and crop care for these products have been eliminated.	Program Development: Upon completion of the two studies, action programs would be agreed, together with a timetable for implementation, prior to July 31, 1983. Action: Satisfactory progress in the implementation of the action programs would be a condition for the release of the second tranche.

Jamaica: Second Structural Adjustment Loan Program

Sector and Policy Issue	Structural Adjustment Program: Action Already Taken	Structural Adjustment Program: Steps to be Taken
2. Sugar	Detailed studies of the sugar sector have been carried out, and a revised rehabilitation program has been developed, adopted, and financed. Manning levels in factories have been reduced, and the domestic price of sugar has been raised by 30 per cent, as well as the introduction of important changes in the management structure. Efforts are continuing to sell/lease the sugar factories.	Action: Satisfactory progress in the implementation of the program would be a condition for the release of the second tranche. Program Development: A study is to be carried out to determine the optimum size for the sugar industry in Jamaica, including an assessment of which factories, if any, should be closed down.
3. Bananas	A management audit of the Banana Company has been completed and an action program adopted. A revised plan for the restructuring of the banana industry in Jamaica is now before the Government for agreement.	Action: Satisfactory progress in the implementation of the recommendations of the management audit and of the restructuring plan would be a condition for the release of the second tranche.
4. Land use	A program for the sale/lease of government-owned lands is under way and progressing satisfactorily.	Action: Continued satisfactory progress in the implementation of the program would be a condition for the release of the second tranche.
V. Public administration		
1. Public service staffing	A task force has been set up to investigate ways of ensuring that staffing policy and procedures are consistent with the Government's priority needs.	Program Development: Prior to release of the second tranche, the Government will adopt a strategy to enable it to fill priority posts in the Government.
2. Financial management	Deficiencies and weaknesses in GOJ's budgeting and financial management systems and practices have been identified and a long-term plan to improve these has been agreed to. Consultants have been appointed to assist in the implementation of Phase I of the program.	Action: Completion of Phase I of the reform program, and adoption of a program for Phase II would be a condition for the release of the second tranche.
3. Improvement of the core agencies	Management audits for the Ministry of Finance and Planning, Ministry of Public Service, and the Public Service Commission have been started through the Bureau of Management Support in the Prime Minister's Office.	Program Development: The audits would be completed and action programs adopted prior to release of the second tranche.