

EBS/87/27

CONFIDENTIAL

February 9, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Jamaica - Staff Report for the 1986 Article IV Consultation and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Jamaica and its request for a stand-by arrangement equivalent to SDR 85 million. Draft decisions appear on page 29.

This subject, together with Jamaica's request for a purchase under the compensatory financing facility (EBS/87/23, 2/6/87), is tentatively scheduled for discussion by the Executive Board on Monday, March 2, 1987.

Mr. Hardy (ext. 7158) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

JAMAICA

Staff Report for the 1986 Article IV Consultation
and Request for Stand-by Arrangement

Prepared by the Western Hemisphere and Exchange and Trade
Relations Departments

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

Approved by E. Wiesner and S. Kanesa-Thanan

February 6, 1987

I. Introduction

The 1986 Article IV consultation discussions were initiated in Kingston in the period July 16-August 5, 1986. Further discussions took place in Washington in October and November, and in Kingston in the period December 10-23, 1986. The staff team in these discussions consisted of Messrs. Hardy (Head), Escobar, Guzman (all WHD), Hacche (ETR), and Teijeiro (FAD), and Ms. Rowles and Ms. McLeod (Secretaries-WHD). The team was assisted by Mr. Citrin, the Fund resident representative in Jamaica. The representatives of Jamaica included the Prime Minister, who is also Minister of Finance, the Governor and Deputy Governors of the Bank of Jamaica, the Minister of Mining, Energy, and Tourism, and other senior officials.

The previous Article IV consultation discussions were held in Kingston in April-May 1985; the consultation was concluded by the Executive Board on July 17, 1985 (EBM/85/76 and SM/85/200), and a request for a 21-month stand-by arrangement was approved. At that time, the Board noted that in view of the sizable external financing gaps projected for the next few years, Jamaica would have to make a very determined and sustained adjustment effort. Directors stressed the importance of maintaining a realistic market-determined exchange rate in order to promote export-led growth and ensure the consistency of economic policies. A restrained wage policy also was viewed as essential to promote adjustment and minimize inflation. Directors stressed the need to reduce the size of the public sector and of the public sector deficit in Jamaica, through a major reduction in government current expenditure, prompt adjustments in public sector prices, and steps designed to reduce the operating losses of the Bank of Jamaica. In addition, it was emphasized that efforts to implement structural adjustment needed to be intensified.

In the attached letter, dated December 31, 1986 (and amended January 17, 1987), the Jamaican authorities request a 15-month stand-by arrangement in an amount of SDR 85 million (equivalent to 46.7 percent of quota on an annual basis) in support of a financial program covering the remainder of the current Jamaican fiscal year through March 31, 1987, and the fiscal year April 1, 1987 to March 31, 1988. The proposed arrangement would be financed in the ratio of one to two from ordinary and borrowed resources. The Managing Director has been informed in the same letter that the Jamaican authorities are also requesting a purchase of SDR 40.9 million (28.1 percent of quota) under the Compensatory Financing Facility.

It is proposed that the amount of the stand-by arrangement would be made available in six purchases, with the last purchase conditional on the observance of performance criteria at the end of March 1988. The phasing of purchases under the proposed arrangement is presented in Table 1. Repurchases under tranche policies and the CFF over the period March 1987-May 1988 will be SDR 166.6 million, or SDR 40.7 million more than the sum of the purchases under the proposed stand-by arrangement and the proposed CFF purchase. Assuming that all repurchases are made as due, purchases of the full amount under the arrangement would leave Fund credit to Jamaica under the tranche policies at 245 percent of quota at the end of May 1988, compared with 323 percent of quota at the end of 1986 (299 percent of quota excluding overdue obligations). Outstanding credit under the CFF at the end of May 1988 would be 59 percent of quota, compared with 58 percent at the end of 1986 (55 percent excluding overdue obligations).

Jamaica has had almost continuous arrangements with the Fund since 1977, and has used the CFF eight times, most recently in June 1984. Jamaica has frequently experienced difficulties in remaining current in its payments to the Fund, although until 1986 delays were usually brief. Jamaica is at present current with the Fund.

II. Economic and Financial Developments 1981/82-1985/86

During most of the 1970s Jamaica experienced a sustained decline in output, large public sector deficits, and strong inflationary pressures. In the early 1980s, heavy foreign borrowing facilitated a sharp widening of both the fiscal deficit and the current account deficit of the balance of payments. Meanwhile, with the official exchange rate fixed, the Jamaica dollar became increasingly overvalued, which slowed the progress of efforts to foster exports. A sharp decline in exports of bauxite and alumina exacerbated Jamaica's financial imbalances, but the authorities perceived the contraction as temporary and delayed policy adjustments. As a result, following nonobservance of the performance criteria under the Fund-supported program, and with rapid domestic credit expansion fueling private capital outflows, a balance of payments crisis ensued in 1983. In FY 1984/85 (April-March) and 1985/86, in the context of new arrangements with the Fund, domestic

Table 1. Jamaica: Projection of IMF Position during Period of Stand-By Arrangement: February 1987-May 1988

Outstanding Dec. 31, 1986	1987				1988	
	Jan-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-May
(In millions of SDRs)						
<u>Transactions under tranche policies (net)</u>	-56.6	-2.9	-22.0	-5.2	-23.7	-2.2
Purchases	10.0	15.0	15.0	15.0	15.0	15.0
Ordinary resources	3.3	5.0	5.0	5.0	5.0	5.0
Borrowed resources	6.7	10.0	10.0	10.0	10.0	10.0
Repurchases	-66.6	-17.9	-37.0	-20.2	-38.7	-17.2
Ordinary resources	-15.4	-6.4	-9.2	-8.6	-10.8	-5.6
Borrowed resources	-51.2	-11.6	-27.9	-11.6	-27.9	-11.6
<u>Transactions under special facilities (net) 1/</u>	33.6	-2.4	-11.5	-0.1	-9.1	--
Purchases	40.9	--	--	--	--	--
Repurchases	-7.3	-2.4	-11.5	-9.1	-9.1	--
<u>Total Fund credit outstanding (end of period)</u>	554.4	531.4	526.1	492.6	478.3	443.3
Under tranche policies 2/	469.7	413.1	410.2	388.2	383.0	357.1
Special facilities 1/	84.7	118.3	115.9	104.4	95.3	86.2
(In percent of quota)						
<u>Total Fund credit outstanding (end of period)</u>	381.1	365.2	361.6	338.6	328.7	304.7
Under tranche policies 2/	322.8	283.9	281.9	266.8	263.2	245.4
Special facilities 1/	58.2	81.3	79.7	71.8	65.5	59.2

Source: IMF.

1/ Compensatory Financing Facility.

2/ Ordinary and borrowed resources.

policies were tightened and a flexible exchange rate policy adopted. However, a further contraction of the bauxite sector, combined with a tapering off of aid inflows and rapidly accumulating debt service, necessitated a sharp compression of imports and led to a significant decline in real GDP in those years.

From 1980/81 to 1985/86 bauxite and alumina exports fell from the equivalent of 12.4 million tons of bauxite to 6 million tons, as Jamaica's share of the world bauxite market shrank by more than one half (Table 2). World market prices also declined during this period. The slowdown in world demand and an increase in output in other countries led to a particularly severe cutback in bauxite and alumina production in Jamaica because of its high relative cost, which includes a substantial export tax--the bauxite levy. Meanwhile, over the same period, medium- and long-term external public debt (including debt to the Fund) more than doubled to some US\$3.4 billion, equivalent to over 160 percent of GDP, and total debt service in 1985/86, before rescheduling, rose to the equivalent of 65 percent of exports of goods and services from about 21 percent at the beginning of the decade.

A 30 percent surge in nonbauxite imports early in the decade helped raise the current account deficit of the balance of payments to US\$461 million in 1982/83 from US\$189 million in 1980/81. The drop in bauxite exports and the rise in interest payments far outpaced the growth of receipts from other exports and tourism. Although nonbauxite imports were reduced sharply after 1982/83, and by 1985/86 had returned to the level of 1980/81, the current account deficit in 1985/86 (US\$248 million) was still almost 12 percent of GDP, compared with 7 percent at the beginning of the decade.

The official exchange rate remained fixed at J\$1.78 per U.S. dollar from May 1979 until November 1983. A dual rate system was established in January 1983 through the legalization of the parallel market, and during 1983 there was a progressive shift of transactions into that market. Nevertheless, over the period May 1979-October 1983 the Jamaica dollar appreciated by 24 percent in real effective terms. The perception of an overvalued currency within the dual market arrangements, coupled with easy credit policies and the interruption of the EFF arrangement with the Fund, led to large private capital outflows in 1983.

In November 1983, the exchange markets were unified at the level of J\$3.15 per U.S. dollar and a new adjustment program supported by a stand-by arrangement with the Fund was implemented in 1984. The program involved a unified flexible exchange rate and a major tightening of domestic financial policies. Under the new exchange arrangements, the Jamaica dollar depreciated in real effective terms by about 45 percent from the third quarter of 1983 to the third quarter of 1985. After a further sharp drop in October 1985, when the exchange rate briefly reached J\$6.4 per U.S. dollar, the authorities fixed the exchange rate at J\$5.50 per U.S. dollar in November 1985. As a result, and despite

Table 2. Jamaica: Balance of Payments, 1980/81-1985/86

(In millions of U.S. dollars)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	
						Prog.	Actual
Current account	-189	-438	-461	-282	-253	-209	-248
Bauxite/alumina (net foreign exchange earnings)	380	347	267	286	246	202	174
Nontraditional exports excluding CARICOM ^{1/}	80	84	105	96	151	177	144
Other exports	145	136	156	148	141	129	112
Nonbauxite related imports	-918	-1,188	-1,162	-1,035	-1,041	-909	-917
Tourism (net)	230	301	317	361	389	394	397
Interest payments (net)	-176	-219	-250	-252	-279	-324	-305
Other services (net)	-24	-24	-45	-39	-7	-32	-7
Transfers (net)	94	124	150	153	147	155	155
Capital account	37	481	241	-166	750	305	321
Official capital inflows	314	649	639	450	974	703	675
New money	263	562	486	339	438	510	443
Rescheduling	52	87	153	111	535	194	232
Official capital outflows	-103	-222	-325	-384	-406	-438	-448
Other (net) including errors and omissions	-174	54	-73	-231	183	40	95
Overall balance	-152	43	-220	-448	497	96	74
Change in reserves	152	-43	220	448	-497	-96	-74
Assets	11	-57	44	27	-127	35	-4
Liabilities	141	14	176	421	-371	-130	-70
IMF (net)	-19	168	134	39	39	-19	-19
Purchases	—	233	171	77	106	78	78
Repurchases	-19	-65	-37	-38	-67	-97	-97
Arrears	65	-106	98 ^{2/}	332 ^{2/}	-345 ^{2/}	-87 ^{2/}	-53 ^{2/}
Other	95	-48	-56	50	-65	-24	3
Memorandum items							
Bauxite/alumina exports (millions of tons of bauxite equivalent)	12.4	11.1	7.9	8.6	7.7	6.8	6.0
Nonbauxite exports (percentage change)	...	-2.2	18.8	-6.4	19.3	4.9	-12.4
Tourism earnings (percentage change)	11.9	36.0	6.1	13.3	6.4	2.9	3.7
Nonbauxite imports (percentage change)	...	29.4	-2.2	-10.9	0.6	-12.7	-11.9
Current account deficit/GDP (in percent)	6.9	14.6	13.4	9.2	11.2	11.6	11.7
Medium- and long-term outstanding debt, including Fund, end-period (US\$ million)	1,524	2,119	2,567	2,845	3,195	3,485	3,423
Debt service/exports of goods and services (in percent) ^{3/}	20.9	33.3	36.5	42.6	48.6	57.0	64.7
Principal	8.5	18.7	18.0	25.4	29.8	34.4	41.0
Interest	12.4	14.6	18.5	18.8	18.8	22.6	23.7
Debt service/exports of goods and services (in percent) ^{4/}	17.5	28.4	25.8	34.9	11.4	43.4	46.6

Sources: Bank of Jamaica; and Fund staff estimates.

^{1/} Nontraditional exports here comprise domestic exports other than bauxite, alumina, sugar, and bananas.

^{2/} Includes arrears on nonreserve liabilities.

^{3/} Before rescheduling.

^{4/} After rescheduling

the subsequent decline of the U.S. dollar, by November 1986 the Jamaica dollar had appreciated in real effective terms by around 12 percent compared with the third quarter of 1985 and by over 18 percent compared with the low point of October 1985, but was still about 30 percent more depreciated than at the beginning of the decade (Chart 1).

Large public sector deficits have been a salient feature of Jamaica's economy for many years. The overall deficit (including Bank of Jamaica losses) averaged about 17 percent of GDP a year in the period 1980/81 to 1983/84 before declining to 13 percent of GDP in 1985/86 (Tables 3 and 4). The decline in the deficit of the Central Government was particularly steep, but increased losses of the Bank of Jamaica offset this improvement to a significant extent. These losses stemmed mainly from rapidly rising interest payments on the large volume of external debt that was contracted or assumed by the Central Bank, compounded by the effect of the real depreciation of the Jamaica dollar. From 1980/81 to 1985/86, foreign interest payments of the public sector rose by the equivalent of 8 percentage points of GDP, which was mainly reflected in the Bank of Jamaica accounts. Over the same period bauxite tax collections declined significantly. The fiscal burden imposed by rising interest payments and falling bauxite revenues was equivalent to 14 percent of GDP over these years.

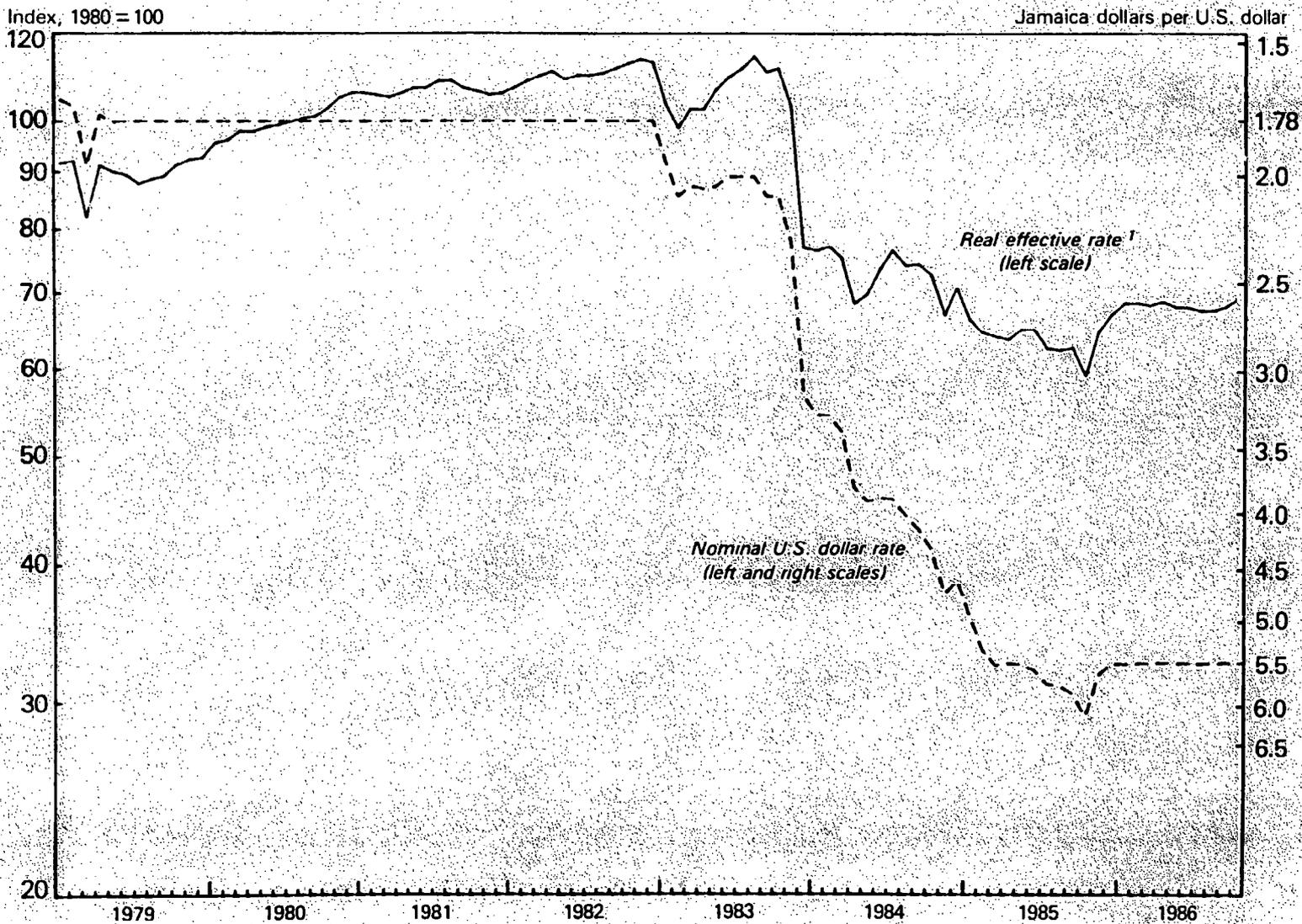
In order to curb the overall public sector deficit, in 1984/85 the Government raised domestic taxes and prices charged by public enterprises and reduced non-interest expenditures in real terms. Central government tax revenue (excluding the bauxite levy) rose by 2.3 percentage points of GDP in 1984/85 and 1985/86, while over the same period central government wage and transfer payments declined by 5 percentage points of GDP and capital outlays and capital transfers by almost 2 percentage points. A substantial part of the improvement in the central government accounts has been made possible by a strengthening in the financial operations of the public enterprises in recent years, mainly through price adjustments, rationalization measures and improved efficiency, and sales of assets. As a result, central government transfers to the selected entities have declined significantly.

During the four years to 1983/84, net domestic credit of the banking system rose on average by over 30 percent a year (Table 5); this strong credit expansion to both the public and private sectors led to heightened inflationary pressures and a loss of net international reserves of the Bank of Jamaica. More recently, the need to rebuild reserves, and continued heavy borrowing in 1985/86 by the public sector and the Bank of Jamaica from the commercial banks and the rest of the financial system, has resulted in crowding out of private sector credit. In real terms private sector credit declined by almost 25 percent in 1984/85-1985/86.

After expanding by about 1 1/2 percent a year in the three years through 1983/84, real GDP contracted by 1.4 percent in 1984/85 and by 4 percent in 1985/86. Unemployment has remained at a high level--about

CHART 1
JAMAICA

EXCHANGE RATE DEVELOPMENTS, JANUARY 1979-OCTOBER 1986



¹ Value of Jamaica dollar in terms of 1980 trade-weighted average of partner countries' currencies, adjusted for relative movements in consumer prices. Decline represents real depreciation of Jamaica dollar. Incorporates officially-sanctioned dual market transactions and transactions in the black market during January-November 1983.

Table 3. Jamaica: Main Economic Indicators

	1980/81	1981/82	1982/83	1983/84	1984/85	Prel. 1985/86	Program 1986/87	1987/88
	(Percentage annual change)							
Real GDP	-3.6	1.9	1.5	1.7	-1.4	-4.0	2.2	1.1
Real nonbauxite GDP	-4.6	2.9	3.7	1.3	-0.7	-3.4	2.9	1.0
Nominal GDP	11.0	9.8	14.8	23.3	30.1	21.9	20.2	9.1
GDP deflator	15.2	7.8	13.1	21.3	31.9	26.9	17.6	7.9
Consumer price index								
Annual average	26.5	9.0	7.1	14.7	29.7	24.2	12.5	9.6
End of period	19.4	7.4	8.2	21.1	29.7	19.8	11.3	7.0
Broad money	17.6	22.5	24.5	22.4	17.7	26.1	17.0	10.0
	(In percent of GDP)							
Overall public sector balance ^{1/}	-17.8	-15.9	-15.7	-18.4	-14.4	-13.0	-6.1	-3.0
Of which:								
Central government deficit	-16.5	-15.8	-14.1	-14.6	-5.6	-4.7	-2.6	-1.8
Rest of public sector	-1.3	-0.1	-1.0	-1.9	-3.0	-1.2	-1.5	-3.5
Bank of Jamaica losses	...	...	-0.7	-1.9	-5.8	-7.1	-5.4	-4.7
External current account balance	-6.9	-14.6	-13.4	-9.2	-11.2	-11.7	-4.7	-3.8
Outstanding external debt	58.1	71.1	73.3	91.1	136.2	160.7	133.3	124.6
	(In millions of Jamaica dollars)							
Real GDP 1974 prices	1,843	1,879	1,907	1,940	1914	1,837	1,878	1,898
Nominal GDP	4,871	5,350	6,143	7,577	9,856	12,014	14,440	15,750
<u>Memorandum items</u>								
Real effective exchange rate index (1980=100) ^{2/}	106.3	110.0	102.6	75.1	63.9	68.1	71.0	73.9
Average annual exchange rate J\$ per US\$	1.78	1.78	1.78	2.47	4.36	5.65	5.50	5.50

Sources: Bank of Jamaica; and Fund staff estimates.

^{1/} Measured as the use of foreign and domestic financing by the public sector, which includes the losses of the Bank of Jamaica. Excludes government-guaranteed on-lending to the private sector.

^{2/} End of period.

Table 4. Jamaica: Summary of Data on Public Sector
Fiscal Balances and Financing

	1980/81	1981/82	1982/83	1983/84	1984/85	Prel. 1985/86	Program	
							1986/87	1987/88
(In millions of Jamaica dollars)								
Central Government <u>1/</u>	-804.8	-849.9	-868.5	-1,107.4	-554.1	-569.4	-379.5	-293.8
Rest of general government	139.4	174.3	109.5	72.0	167.6	194.8	139.2	320.0
Selected public entities	-6.8	-23.7	-126.3	-93.4	-133.6	-167.2	130.8	233.0
Bank of Jamaica losses	...	...	-41.6	-142.1	-576.0	-857.9	-781.0	-733.0
Others and discrepancy	-193.2	-152.0	-39.7	-125.3	-318.9	-163.7	--	--
<u>Overall public sector balance</u>	<u>-865.4</u>	<u>-851.3</u>	<u>-966.6</u>	<u>-1,396.2</u>	<u>-1,415.0</u>	<u>-1,563.4</u>	<u>-890.5</u>	<u>-473.8</u>
Domestic financing <u>2/</u>	219.3	167.1	15.3	407.0	599.1	852.9	799.7	522.8
Foreign financing <u>3/4/</u>	646.1	684.2	951.3	989.2	815.9	-710.5	90.8	-49.0
(In percent of GDP)								
Central Government <u>1/</u>	-16.5	-15.8	-14.1	-14.6	-5.6	-4.7	-2.6	-1.8
Rest of general government	2.9	3.3	1.8	1.0	1.7	1.6	1.0	2.0
Selected public entities	-0.1	-0.4	-2.0	-1.2	-1.3	-1.4	0.9	1.5
Bank of Jamaica losses	...	...	-0.7	-1.9	-5.8	-7.1	-5.4	-4.7
Others and discrepancy	-4.1	-3.0	-0.6	-1.7	-3.4	-1.4	--	--
<u>Overall public sector balance</u>	<u>-17.8</u>	<u>-15.9</u>	<u>-15.7</u>	<u>-18.4</u>	<u>-14.4</u>	<u>-13.0</u>	<u>-6.1</u>	<u>-3.0</u>
Domestic financing <u>2/</u>	4.5	3.1	0.2	5.4	6.1	7.1	5.5	3.3
Foreign financing <u>3/4/</u>	13.3	12.8	15.5	13.0	8.3	5.9	0.6	-0.3
<u>Memorandum items</u>								
GDP (in millions of Jamaica dollars)	4,870.5	5,350.2	6,142.9	7,576.5	9,856.3	12,013.7	14,438.9	15,750.0
Overall surplus (in millions of Jamaica dollars) <u>5/</u>	-865.4	-851.3	-966.6	-1,485.1	-1,485.2	-1,653.6	-1,176.5	-704.8
(in percent of GDP)	-17.8	-15.9	-15.7	-19.6	-15.1	-13.8	-8.1	-4.5

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

1/ Includes accrued levy receipts earmarked to repay a 1982 balance (tolling arrangement).

2/ Includes changes in the net domestic assets of the Bank of Jamaica that are not offset by changes in its net foreign assets or in its medium- and long-term liabilities.

3/ Includes changes in medium- and long-term liabilities and in net foreign assets of the Bank of Jamaica.

4/ Excludes government-guaranteed on-lending to the private sector (pass-throughs).

5/ Includes guaranteed on-lending by the Central Government to the private sector in 1983/84-1985/86. In 1986/87-1987/88 comprises all programmed public sector guaranteed on-lending.

Table 5. Jamaica: Summary Monetary Accounts

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	Program	
							1986/87	1987/88
(Flows in millions of Jamaica dollars)								
I. Banking System								
Net international reserves	-212	95	-178	-459	977	196	495	715
Net domestic credit	546	268	721	1,151	-330	902	421	-105
Net credit to Central Government	490	154	679	794	-656	191	-71	-789
Net credit to rest of public sector	--	-25	-309	317	-163	-502	-736	-348
Net credit to other financial institutions	-63	-31	64	-54	-102	-170	-151	-110
Credit to private sector	238	338	447	480	124	313	345	295
Medium- and long-term foreign liabilities	-22	8	-121	-254	-332	-158	219	114
Net Bank of Jamaica losses	--	--	42	142	576	858	781	733
Net unclassified	-97	-176	-81	-274	223	370	34	--
SDR allocation	15	--	--	--	--	--	--	--
Liabilities to private sector	319	363	543	692	647	1,098	916	610
Money	43	103	16	110	156	338	223	154
Quasi-money	211	352	478	455	389	716	573	394
Other	65	-92	49	127	102	45	120	62
II. Bank of Jamaica								
Net international reserves 1/	-207	77	-261	-556	1,063	346	495	715
Net domestic credit	237	-30	292	602	-1,000	-125	-335	-635
Net credit to Central Government	518	-72	557	739	-824	-224	-440	-1,052
Net credit to rest of public sector	--	6	-298	415	-120	-393	-276	-348
Net credit to banks	-103	3	115	-477	-318	-334	-523	-60
Net credit to other financial institutions	--	--	--	-2	1	-51	-80	-22
Medium- and long-term foreign liabilities	-19	9	-113	-238	-328	-156	241	114
Net losses	--	--	42	142	576	858	781	733
Net unclassified	-159	24	-11	23	13	175	-38	--
SDR allocation	15	--	--	--	--	--	--	--
Liabilities to private sector	15	47	31	46	63	221	160	80
Currency in circulation	15	47	31	46	63	114	87	62
Certificates of deposit	--	--	--	--	--	107	73	18
III. Commercial banks								
Net foreign assets	-5	18	83	97	-86	-150	--	--
Net domestic credit	309	298	429	549	670	1,027	756	530
Net credit to Central Government	-28	226	122	55	168	415	369 3/	263
Net credit to rest of public sector	--	-31	-11	-98	-43	-109	-460 3/	--
Net credit to Bank of Jamaica	180	-142	-150	418	329	435	451	60
Net credit to other financial institutions	-63	-31	64	-52	-103	-119	-71	-88
Credit to private sector	238	338	447	480	124	313	345	295
Medium- and long-term foreign liabilities	-3	-1	-8	-16	-4	-2	-22	--
Net unclassified	-15	-61	-35	-238	199	94	144	--
Liabilities to private sector	304	316	512	646	584	877	756	530
Demand deposits	28	56	-15	64	93	224	136	92
Time and savings deposits	211	352	478	455	389	609	500	376
Special deposits	71	-141	--	51	7	-58	--	--
Other	-6	49	49	76	95	103	120	62
(Changes in percent)								
Banking system								
Net domestic credit 2/	36.4	14.8	33.1	42.3	-9.7	22.2	8.2	-1.7
Net credit to the public sector 2/	34.3	7.7	18.9	46.0	-7.1	13.5	-0.5	-6.7
Credit to private sector	23.6	31.5	36.0	28.4	5.7	13.7	13.2	10.0
Liabilities to private sector	21.3	20.0	24.9	25.4	19.0	27.0	17.8	10.0

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Valued at accounting rates of J\$1.78 = US\$1 in 1980/81 through 1982/83, J\$1.90 = US\$1 in 1983/84, J\$4.00 = US\$1 in 1984/85, J\$5.65 = US\$1 in 1985/86, and J\$5.5 = US\$1 in 1986/87 and 1987/88.

2/ Changes in relation to the stock of private sector liabilities at the beginning of the period.

3/ Includes J\$395 million of domestic bank refinancing of debt of public entities assumed by Central Government.

25 percent by the broad definition used in Jamaica. ^{1/} Inflation accelerated to almost 30 percent in 1984/85 before dropping back to 20 percent in 1985/86 (see Table 3).

Price controls were eased in the early 1980s, but direct price controls still apply to a range of basic food items, hardware items and medicines, and there are controls on markups of a number of imported items. In 1986 and early 1987 the list of items subject to price controls was widened to include fertilizers, animal feed, and herbicides/pesticides. Quantitative import restrictions were relaxed in 1984, though they still apply to goods representing about one fifth of non-oil, nonbauxite sector imports. With the support of U.S. AID, a comprehensive tax reform is under way, with the first element--personal income tax reform and simplification--implemented at the beginning of 1986. This reform lowered the previous steeply progressive tax rates to a flat 33 percent rate, reduced exemptions, and introduced a withholding tax on interest earnings.

World Bank lending in Jamaica has covered a wide range of sectors and development issues (see Attachment Ib). In 1982, the Bank provided US\$76 million under the first structural adjustment loan (SAL), which was followed in 1983 and 1984 by second and third SALs of US\$60 million and US\$55 million, respectively. Current and planned World Bank policy-based lending includes sector adjustment loans in the areas of trade and financial reforms, and in support of improvements in the savings performance of certain public enterprises. The Bank is also contemplating sector lending for the agricultural and export manufacturing sectors.

III. Performance Under the 1985/86 Financial Program

Jamaica entered into a 21-month stand-by arrangement in July 1985. The program envisaged reductions in the public sector deficit in 1985/86 and beyond, through a combination of tax measures and cuts in current expenditures in real terms. Nontraditional exports and tourism were expected to perform strongly, but bauxite exports were expected to decline further. As net capital inflows were projected to taper off--despite incremental assistance from donor countries and large-scale debt rescheduling by bilateral creditors and commercial banks--the value of nonbauxite-related imports and GDP in real terms were projected to fall by 11 percent and 3.8 percent, respectively, and the balance of payments current account deficit was targeted to decline to US\$209 million in

^{1/} The Labor Force Survey counts as unemployed those who are not actively seeking employment.

1985/86 from US\$253 million the previous year. The program relied on the continuance of a flexible, market-determined exchange rate and was drawn up on the assumption of an average exchange rate of J\$6.2 per U.S. dollar in 1985/86, implying a depreciation from J\$5.5 per U.S. dollar at the beginning of April 1985 to around J\$6.9 per U.S. dollar by March 1986.

The program quickly ran into difficulties because of a delay in receiving an expected foreign loan and overexpansionary domestic financial policies. The September performance criteria of the program relating to the net international reserves and net domestic assets of the Bank of Jamaica, and to external payments arrears, were not observed and there was a delay in completing the required program review and in reaching understandings on policy actions for the remainder of the program period. After depreciating steadily during July-September, the Jamaica dollar came under heavy pressure, falling to J\$6.4 per U.S. dollar in October 1985. Fearing a recurrence of social unrest, the authorities increased the supply of foreign exchange to the auction market to cause an appreciation of the Jamaica dollar to J\$5.5 per U.S. dollar, the rate at which it has subsequently been maintained. The Government also requested that the IBRD, U.S. AID, and the Fund take a "fresh look" at the Jamaican adjustment program with a view to determining the feasibility of a policy mix that would rely less on demand restraint and would achieve a higher rate of economic growth.

Following this shift in exchange rate policy and the nonobservance of the end-December 1985 performance criteria on net international reserves, net domestic assets, external payments arrears, and the central government borrowing requirement, a modification to the stand-by arrangement, including indicative targets for end-January 1986 and revised targets for end-March 1986, was approved by the Executive Board on March 3, 1986. The policy modifications were oriented toward supporting the exchange rate action that had been taken by the authorities, and included a further reduction in the targeted central government deficit, a larger improvement in the financial position of the selected public entities, and a tightening of credit policy. On the basis of these understandings, the Fund waived the end-September and end-December 1985 performance criteria and Jamaica made the corresponding purchases.

At the end of March 1986, the quantitative performance criterion on net international reserves was missed by US\$46.2 million, which included external payments arrears of US\$34 million (though not to the Fund). The ceiling on net domestic assets of the Bank of Jamaica was exceeded by J\$206 million (equivalent to 5.1 percent of banking system liabilities to the private sector at the beginning of the period), and the indicative target on the monetary base was exceeded by J\$222 million or 5.5 percent. The central government deficit in 1985/86 exceeded the revised program ceiling by a small margin despite advanced tax payments by the government-owned alumina trading company and delays in certain government expenditures (including domestic interest payments to the Bank of Jamaica). More significantly, the overall public sector deficit

(including net lending) turned out at about 14 percent of GDP, compared with 9 percent of GDP contemplated under the modified program, as Bank of Jamaica losses were much higher than projected.

The deficit in the current account of the balance of payments in 1985/86 was US\$39 million higher than had been projected. Both bauxite and nonbauxite exports were lower than programmed (indeed, nonbauxite exports declined by 12 percent in 1985/86); at the same time, non-oil, nonbauxite imports were higher than programmed. Net capital inflows were larger than programmed by about US\$16 million, as a US\$38 million shortfall in net official capital inflows was outweighed by a US\$55 million overperformance in other capital inflows, including errors and omissions (see Table 2).

The Jamaican authorities ascribed the nonobservance of the March 1986 program targets to the shortfall in net official capital inflows, and specifically to the nondisbursement of two sector adjustment loans from the World Bank. However, agreement had not been reached between Jamaica and the Bank on policy actions required under the two loans; moreover, following the request for the Tripartite Mission and the associated shift in government policies, the Bank took the view that there was no medium-term macroeconomic framework for its loan operations. It should also be noted that, irrespective of the outcome regarding the quantitative performance criteria, according to the terms of the stand-by arrangement no purchases could have been made after March 1986 without understandings having been reached with the Fund on policies and performance criteria for the remainder of the arrangement. With the stand-by inoperative, Jamaica cancelled the arrangement on July 17, 1986.

The Tripartite Mission report, completed in May 1986, saw scope for only very modest growth of real GDP over the next few years and for no increases in real per capita consumption. Demand management policies (particularly fiscal policies) would need to remain restrictive, and structural reforms would need to be intensified. The Report emphasized the need to (i) permit the exchange rate to be determined by market forces; (ii) reduce the overall public sector deficit by 3-4 percent of GDP in 1986/87 and progressively to around 2 percent of GDP by 1990/91; (iii) implement a monetary policy aimed at reducing inflation and eliminating the distortions that result in discriminatory interest rates charged to the private sector; and (iv) modify the structure of incentives with a view to eliminating the anti-export and anti-agriculture bias of the economy and removing discretionary benefits and exemptions. These last reforms would encompass changes in the import regime, institution of a rebate of import duties for exporters, and a phasing out of exchange controls.

In the succeeding months, despite an improvement in the current account of the balance of payments as a result of lower oil prices, arrears increased rapidly: at end-December 1986 official payments arrears stood at US\$191 million, including overdue payments to the Fund

of US\$61 million; at the same time liquid reserves were only US\$3.5 million. Arrears to the Fund have been cleared since that time with the help of a commercial loan against future deliveries of alumina.

IV. Summary of the Discussions and Description of the Economic Program

The following sections cover the discussions on the short- and medium-term outlook for Jamaica, and the authorities' policies and program for the remainder of 1986/87, and 1987/88.

1. External policies and outlook

a. Balance of payments

(1) Program period

The deficit in the current account of the balance of payments in 1986/87 is projected to decline to US\$123 million (4.7 percent of GDP), from US\$248 million (11.6 percent of GDP) the previous year (Table 6). The improvement in 1986/87 stems mainly from lower oil prices and interest rates, which have provided a net benefit to the economy of about US\$120 million (5 1/2 percent of GDP). Although bauxite sector exports are projected to recover by 10 percent in volume, net foreign earnings from the bauxite sector are projected to decline because of price reductions. Nonbauxite exports are projected to rise by only 6 percent, but receipts from tourism are projected to increase by 19 percent in 1986/87, helped by a rebound from the poor outturn in the previous year when tourism had been adversely affected by social unrest. Despite the major drop in oil imports, total nonbauxite imports are projected to remain level with the previous year, with non-oil imports up by 14 percent.

The authorities' program foresees a further reduction in the current account deficit to US\$110 million (3.8 percent of GDP) in 1987/88, based on an expected further increase of about 6 percent in earnings from nontraditional exports and tourism. Non-oil, nonbauxite-related imports are projected to rise by only 2 percent in volume. The projections for oil imports use the WEO assumption of an import price of US\$15.4/bbl., c.i.f., which for Jamaica would be consistent with the last WEO. If world market prices are sustained at their recently increased levels, Jamaica's nonbauxite oil import bill would likely be about US\$30 million (1 percent of GDP) higher than projected.

Net official capital inflows, including debt relief, in 1986/87 and 1987/88 are projected at about US\$160 million a year, down from US\$227 million in 1985/86. The reduced level of net inflows reflects lower aid inflows and growing repayments on debt accumulated over previous years, even after continued large-scale rescheduling. Inflows



Table 6. Jamaica: Balance of Payments, 1985/86-1991/92

(In millions of U.S. dollars)

	1985/86		Staff Projections					
	Prog.	Actual	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92
<u>Current account</u>	-209	-248	-123	-110	-79	-60	-18	-24
Bauxite/alumina (net foreign exchange earnings)	202	174	154	158	167	172	172	171
Nontraditional exports excluding CARICOM 1/	177	144	150	159	169	180	193	207
Other exports	129	112	131	135	146	155	164	169
Nonbauxite-related imports	-909	-917	-916	-978	-1,038	-1,105	-1,183	-1,247
Tourism (net)	394	397	476	512	550	591	635	683
Interest payments (net)	-324	-305	-306	-289	-269	-256	-209	-206
Other services (net)	-32	-7	9	14	21	28	35	44
Transfers (net)	155	155	179	178	175	175	175	174
<u>Capital account</u>	305	321	-83	-19	135	88	79	70
Official capital inflows	703	675	424	440	372	381	390	400
New money	510	443	424	440	372	381	390	400
Rescheduling	194	232	...	...	...	...	...	...
Official capital outflows	-438	-448	-561	-536	-307	-343	-361	-380
Other (net) including errors and omissions	40	95	54	77	70	50	50	50
<u>Overall balance</u>	96	74	-205	-129	56	28	61	46
<u>Change in reserves</u>	-96	-74	-90	-130	-205	-175	-131	-115
Assets	35	-4	47	-14	-20	-32	-35	-35
Liabilities	-130	-70	-137	-116	-185	-143	-96	-80
IMF (net)	-19	-19	-88	-103	-177	-135	-88	-76
Purchases 2/	78	78	61	72	18	...	...	...
Repurchases	-97	-97	-149	-175	-195	-135	-88	-76
Arrears	-87 3/	-53 3/	-34	...	...	...	...	...
Other	-24	3	-16	-13	-8	-8	-8	-4
<u>Financing gap 4/</u>			295	259	149	147	70	69
<u>Memorandum items</u>								
Bauxite/aluminum exports (millions of tons of bauxite equivalent)	6.8	6.0	6.6	7.6	8.6	8.8	8.8	8.8
Bauxite levy (\$/ton of total production)	11.5	9.1	8.3	7.0	6.1	6.0	6.0	6.0
Nonbauxite exports (percentage change)	4.9	-12.4	10.1	4.7	7.2	6.2	6.4	5.5
Tourism earnings (percentage change)	2.9	3.7	18.7	7.4	7.4	7.4	7.4	7.4
Oil import price (\$/barrel c.i.f.)	30.0	26.4	15.0	15.4	15.9	16.4	16.9	17.4
Non-oil nonbauxite imports (percentage change)	-13.7	-7.4	12.6	7.0	6.4	6.6	7.2	7.2
Current account deficit/GDP (in percent)	11.6	11.7	4.7	3.8	2.6	1.9	0.5	0.5
Medium- and long-term outstanding debt, including Fund, end-period (US\$ million)	3,485	3,423	3,505	3,574	3,629	3,693	3,717	3,738
Debt service/exports of goods and services (in percent) 5/	57.0	64.7	72.1	66.4	47.1	42.3	36.1	35.3
Principal	34.4	41.0	50.6	47.6	30.9	27.8	24.6	24.7
Interest	22.6	23.7	21.5	18.8	16.2	14.5	11.5	10.6
Debt service/exports of goods and services (in percent) 6/	43.4	46.6	50.7	48.9	...	...	...	...

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Nontraditional exports here comprise domestic exports other than bauxite, alumina, sugar, and bananas.

2/ Includes drawings under proposed stand-by and CFF arrangements in 1986/87-1988/89.

3/ Includes arrears on nonreserve liabilities.

4/ The financing gaps shown for 1986/87 and 1987/88 are expected to be closed by rescheduling of debt service payments falling due to official creditors and commercial banks.

5/ Before rescheduling.

6/ After rescheduling, including rescheduling expected in 1986/87 and 1987/88.

of bilateral assistance for balance of payments support are expected to be almost US\$50 million lower on average during the two program years than in 1985/86, owing to a sharp cutback in U.S. AID disbursements. This should be offset by increased project financing and by higher disbursements from the World Bank under various sector adjustment loans. Disbursements for balance of payments support from the World Bank are programmed at US\$80 million during the period January 1987 through March 1988. However, because of delays in reaching agreement on policies with the Bank, there may be a slippage in the timing of disbursements and a shortfall of US\$20 million. The projections for official capital also include net disbursements on commercial terms against future alumina exports under revolving purchase arrangements of US\$33 million (US\$90 million gross) in 1986/87, and about US\$40 million (US\$110 million gross) in 1987/88. Net exposure under these arrangements would reach around US\$145 million by March 1988, equivalent to two years of deliveries under a ten-year purchase contract.

Achievement of the program targets will require rescheduling by official creditors and commercial banks. Jamaica is requesting creditors who participated in the 1984 and 1985 Paris Club reschedulings to reschedule 100 percent of principal payments and 50 percent of interest payments falling due and not previously rescheduled on debt contracted before October 1, 1983 (approximately US\$97 million). Mexico has agreed to restructure Jamaica's debt obligations over nine years, giving rise to debt relief of US\$50 million during 1986/87 and 1987/88. In addition, the Jamaican authorities are requesting Venezuela to refinance some US\$112 million out of maturities of US\$178 million under various oil financing arrangements, on terms similar to those granted by Mexico. Furthermore, under the commercial bank debt rescheduling and consolidation agreement of September 27, 1985, debt relief amounting to US\$250 million is being sought for the program period.

The net international reserve position of the Bank of Jamaica is targeted to improve by US\$90 million in 1986/87 and US\$130 million in 1987/88, compared with an improvement of US\$74 million in 1985/86. These improvements include the elimination of arrears by March 1987, with no incurring of arrears thereafter, and end-program liquid reserves of US\$69 million, the equivalent of 3 1/2 weeks of nonbauxite sector imports. Assuming purchases are made as envisaged under the proposed stand-by arrangement and compensatory financing request, net repurchases to the Fund would be US\$88 million (SDR 77 million) in 1986/87, and US\$103 million (SDR 86 million) in 1987/88.

Even with major new loans against future alumina exports and incremental debt relief, the decline in net official capital inflows and the increase in net repurchases to the Fund during the program period will fully offset the benefits of lower oil prices and interest rates. Including debt to the Fund, over the two-year period 1986/87-1987/88, net medium- and long-term public external debt, would rise by only

US\$70-80 million (roughly 2 percent) a year. After rescheduling, official debt service payments in relation to exports of goods and services in 1986/87 and 1987/88 would still be close to 50 percent, of which interest service would be over 19 percent.

(2) Medium-term outlook and capacity to service obligations to the Fund

The staff's projections for the medium term (see Table 6) indicate that Jamaica's balance of payments position will remain quite weak for several years. Scheduled repurchases from the Fund, the servicing of other debt obligations, and the rebuilding of a more adequate stock of gross reserves are likely to leave scope for only modest growth in imports. Further exceptional financing is likely to be required beyond the program period if Jamaica is to remain current in its external obligations. However, both the current account deficit and the debt service burden are projected to decline significantly over the next few years, and the external financing gaps are projected to be considerably reduced by the early 1990s.

The projections assume that there is no significant relaxation of domestic financial policies beyond the program period, no significant erosion of external competitiveness from the base level used in the program, and no major increases in oil prices and interest rates. Total export earnings are projected to rise by 8 percent a year on the strength of a further modest recovery in the bauxite sector, where output is projected to level off in 1989/90 at 8.8 million tons a year, and a volume growth of nontraditional exports outside CARICOM of 3-4 percent a year. Earnings from CARICOM exports and from sugar are likely to register much slower growth. Tourist arrivals are assumed to increase by 4 percent a year in line with the projected growth of tourism in the Caribbean region. With a volume growth of nonbauxite-related imports of 2-3 percent a year, consistent with the authorities' growth targets, the current account deficit is projected around 1 percent of GDP by 1990/91 and 1991/92.

In the capital account, bilateral balance of payments support flows, net alumina prepayments, and policy-based lending by the World Bank are assumed to taper off over the medium term, while project-related inflows are assumed to be maintained in real terms. A sharp reduction in amortization payments is projected after 1987/88, mainly reflecting the consolidation agreement with commercial banks and a bunching of maturities on debt to non-OECD creditors during the program period.

The targets for net international reserves reflect Jamaica's repurchase obligations to the Fund and the objective of rebuilding liquid reserves to a level of about eight weeks of nonbauxite-related imports by March 1992. Scheduled repurchases from the Fund (taking into account purchases under the current program) would reach a peak in 1988/89 equivalent to 12 percent of exports of goods and services

(15 percent, including charges). If there were no further purchases from the Fund after the proposed stand-by arrangement is completed, Jamaica would repurchase about SDR 400 million between March 1988 and March 1992 and its use of Fund credit at end-March 1992 would be down to SDR 47 million, or 32 percent of quota. During that period, scheduled payments to the Fund would decline to the equivalent of 5 percent of exports of goods and services by 1991/92.

Unless the performance of exports and tourism turns out much better than presently envisaged, or unless Jamaica's improved external financial position attracts larger capital inflows than assumed in the projections, financing gaps of about US\$150 million a year are foreseen for 1988/89 and 1989/90, declining to about US\$70 million in the following two years. The debt service ratio at the end of the period in 1991/92 is projected at 35 percent, about half the peak level of 1986/87. In the absence of larger donor flows, the financing gaps imply that exceptional financing, including debt relief and Fund support which would be in amounts that would result in a sustained reduction in outstanding Fund exposure, may be required beyond the program period.

b. Exchange rate policy

In the discussions with the staff, the authorities recognized that the Jamaica dollar had appreciated substantially in real effective terms since October 1985. However, they stressed that the real effective exchange rate was still almost 30 percent lower than in 1980; Jamaica's exports, therefore, still had a strong competitive edge.

The Jamaican representatives were of the view that the exchange rate reached in October 1985 involved an excessive depreciation brought about by speculation. They considered that the absence of a significant difference between the official rate and the so-called street market rate indicated that the exchange market was in equilibrium. They felt that the responsiveness of bauxite/alumina exports to exchange rate movements was limited and that the tourism and agricultural sectors remained highly competitive--tourism in particular was performing very strongly. However, they acknowledged the poor performance of nontraditional exports since the shift in exchange rate policy. They therefore planned to improve the profitability of manufactured exports by instituting an export rebate of 7 1/2 percent on f.o.b. value, pending the implementation of a General Consumption Tax that would allow for the reimbursement to exporters of domestic taxes paid on inputs. The rebate, introduced on February 2, 1987, will be administered by the Bank of Jamaica and would entail a multiple currency practice.

The authorities felt strongly that the real effective depreciation that had occurred during the last few years allowed them to design policies around the goal of maintaining a stable exchange rate in nominal terms. They noted that depreciation of the Jamaica dollar results in price increases of highly sensitive items such as fuels and basic foods, and tends to trigger an almost simultaneous movement in

wages because of the strongly organized labor movement. Thus, they were of the view that selective policies (such as an export rebate) aimed at poorly performing sectors, coupled with tight domestic financial policies, would be more effective in promoting exports while containing pressures on the balance of payments.

Although the authorities' program focuses on the tightening of fiscal, monetary, and wage policies with the aim of maintaining the current exchange rate, they recognize that the country's international competitiveness cannot be allowed to erode significantly. Therefore, the program provides that should the real effective exchange rate rise by more than 5.8 percent compared with its level in December 1986, 1/ the nominal exchange rate would be adjusted to restore the base level. Also, in case of underperformance in regard to the quarterly targets for net international reserves, the authorities are prepared to take corrective action by increasing net retentions from the foreign exchange auction over the currently targeted levels; such action would be expected to result in a depreciation of the Jamaica dollar. In addition, the program requires that understandings be reached with the Fund on the exchange system during each of the reviews of the program.

2. Demand management policies

a. Monetary policy

The authorities explained that the Bank of Jamaica was targeting an expansion of broad money of about 17 percent during 1986/87 and 10 percent during 1987/88, which in their view was consistent with revised growth and inflation targets of 2 percent and 12.5 percent, respectively, in 1986/87, and 1 percent and 7 percent, respectively, in 1987/88 (see Table 5). The increase in credit to the private sector would be limited to about 13 percent and 10 percent in the two years, and would be funded to an important extent by credits from international organizations to the Government for on-lending through domestic commercial banks. In light of the rapid growth of the monetary aggregates in the first half of 1986/87 (15 percent in April-October and 30 percent in the year ended October 1986), the revised monetary program implied a sharp slowdown in the growth of domestic credit and the monetary aggregates in the balance of the fiscal year, which was needed to curb inflation and to achieve the balance of payments objectives of the program.

The Jamaican authorities have embarked on a program of financial reform that seeks to eliminate distortions in the interest rate structure. In the past, the large unremunerated reserve requirement and the liquid assets ratio, 2/ which provides a captive market for government

1/ I.e., the difference between projected domestic and trade-weighted foreign inflation rates during the program period.

2/ The proportion of commercial bank assets that must be held in the form of cash and government paper.

securities, have resulted in relatively low interest rates on government paper and correspondingly high spreads between deposit and lending rates for the private sector. In February 1986, the authorities began paying market-related interest rates on 3 percentage points of the cash reserve requirement (which presently is 20 percent) and lowered the liquid assets ratio from 48 percent to 38 percent of prescribed deposits. A further reduction in the liquid assets ratio to 35 percent is to take place by March 1987, and the authorities plan to eliminate the liquid assets ratio altogether before the end of 1987/88, leaving only the cash reserve requirement. In addition, it is planned to increase the remunerated portion of the cash reserve requirement. These measures, which are being supported by a World Bank sector loan, should help reduce the spread between deposit and lending rates for the private sector.

In May 1986, the authorities changed their procedure for open-market operations from one in which they auctioned fixed amounts of Bank of Jamaica Certificates of Deposit (CDs) and let the interest rate be determined by the market, to an auction in which the interest rate is pre-set and the amount of CDs sold determined by market demand. The objective of this change was to lower interest rates with a view to promoting private investment. Since mid-July CD rates, which had been as high as 28 percent early in 1986, have been set at 18 percent. Also the minimum savings rate was reduced from 20 percent to 16 percent in May 1986 and further to 15 percent in August, leading to a decline in bank lending rates of around 4 percentage points since April 1986 to 23-26 percent. These rates compare with inflation of 10.8 percent over the 12 months through November 1986.

The authorities recognize that positive real interest rates will be needed to promote domestic financial saving and protect the balance of payments, and it is expected that in the short run there may be some upward pressure on interest rates with the tightening of monetary policy. In any event, interest rates on CDs and treasury bills, as well as the minimum savings rate, will be maintained at least at current levels through mid-1987. In line with the targets for monetary expansion under the stand-by program, and in order to remain within the program ceilings for the net domestic assets of the Bank of Jamaica, the Bank will move more aggressively to curb the growth of the monetary aggregates. This implies returning to a system where interest rates on CDs will be basically market-determined. In addition, it is planned to use treasury bills for monetary control purposes, and the legal ceiling on their outstanding amount is to be raised from the present level of J\$1.0 billion to J\$1.5 billion.

b. Public finances

The authorities' fiscal program for 1986/87 as set out in the budget adopted in May 1986 was formulated on the basis of a 5.5 percent real growth objective, and a big boost was planned in central government capital outlays. However, in light of the sharp decline in net official

capital inflows, the authorities subsequently scaled back planned current and capital spending and established a target of 6.1 percent of GDP for the overall public sector deficit in 1986/87. This would represent an improvement of about 7 percentage points of GDP over last year's outturn (see Table 4). Much of the improvement stems from the fiscal windfall from lower oil prices. (Prices of gasoline, certain other petroleum products, and electricity to nonresidential users were kept unchanged following the decline in international petroleum prices; this was only partly offset by a rollback in prices of basic foods, cement, and electricity for households.)

For 1987/88 the authorities have targeted an overall public sector deficit of 3.0 percent of GDP, to be achieved mainly by expenditure restraint, including a reduction in public sector capital outlays. The latter will be held below the nominal level of 1986/87, representing a cut of around 8 percent in real terms.

A number of fiscal actions were announced recently. These include an increase in specific stamp duties on a range of domestic financial transactions; an increase in business license fees; reforms to the trade regime (reducing tariff exemptions and imposing minimum tariffs, while lowering the maximum tariff rate and the stamp duty on capital goods imports); and other actions to improve the finances of the public enterprises, including lower subsidies on certain types of powdered milk and on the domestic manufacture of soya products, and an increase in telephone rates. Overall, these various measures are expected to improve the fiscal outturn in 1987/88 by about 1 percent of GDP.

(1) Central Government

The revised targets for 1986/87 envisage a central government deficit of 2.6 percent of GDP (J\$380 million), compared with a deficit of 4.7 percent of GDP in 1985/86 (Table 7). The improvement is expected to result from an increase in tax revenues of over 2.7 percentage points of GDP partially offset by an increase in expenditures of 0.5 percentage point of GDP. The rise in revenue largely reflects a new excise on fuel products (equivalent to 2.1 percent of GDP) established to capture part of the windfall accruing from the oil price decline. Revenues are also being boosted by collections of taxes and dividends from certain public enterprises, and by the full-year impact of a January 1986 tax package. A new 33 percent withholding tax on interest income is expected to more than offset the reduction in personal income tax collections in terms of GDP stemming from the reform introduced in January 1986. On the expenditure side, noninterest current outlays are projected to decline by 0.7 percentage point of GDP, while capital outlays are projected to rise by the equivalent of 1.6 percentage points of GDP.

The central government deficit for 1987/88 is projected at J\$294 million (1.9 percent of GDP). Domestic revenues are projected to decline slightly in relation to GDP, mainly reflecting lower proceeds

Table 7. Jamaica: Summary Operations of the Central Government

	1981/82	1982/83	1983/84	1984/85	1985/86	Program	
						1986/87	1987/88
(In millions of Jamaica dollars)							
<u>Revenue</u>	<u>1,509.1</u>	<u>1,649.5</u>	<u>1,794.7</u>	<u>2,686.0</u>	<u>3,150.7</u>	<u>4,191.5</u>	<u>4,463.2</u>
Tax revenue	1,157.6	1,396.1	1,532.1	2,022.6	2,716.9	3,655.0	3,933.2
Nontax revenue	45.1	55.2	64.8	174.2	145.6	146.0	178.0
Bauxite levy	300.0	198.2	194.0	481.2	280.5	390.5	352.0
Capital revenue	6.4	--	3.8	8.0	7.7	--	--
<u>Grants</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>25.0</u>	<u>123.7</u>	<u>126.0</u>	<u>141.0</u>
<u>Expenditure</u>	<u>2,358.2</u>	<u>2,518.0</u>	<u>2,902.1</u>	<u>3,265.1</u>	<u>3,843.8</u>	<u>4,697.0</u>	<u>4,898.0</u>
Current	1,715.3	1,861.4	2,394.0	2,817.9	3,253.0	3,761.0	4,026.0
Interest	424.0	518.0	780.0	1,000.0	1,303.0	1,515.0	1,545.0
Other	1,291.3	1,343.4	1,614.0	1,817.9	1,950.0	2,246.0	2,481.0
Capital and net lending	642.9	656.6	508.1	447.2	590.8	936.0	872.0
<u>Overall balance</u>	<u>-849.1</u>	<u>-868.5</u>	<u>-1,107.4</u>	<u>-554.1</u>	<u>-569.4</u>	<u>-379.5</u>	<u>-293.8</u>
<u>Financing</u>	<u>849.1</u>	<u>868.5</u>	<u>1,107.4</u>	<u>554.1</u>	<u>569.4</u>	<u>379.5</u>	<u>293.8</u>
Foreign	503.7	419.1	410.6	1,047.0	546.5	568.7	596.8
Domestic	342.3	439.6	693.8	-490.7	22.9	-189.2	-303.0
Banking system	189.2	643.7	790.0	-654.3	-53.8	-466.2	-789.0
Other	156.2	-194.3	-93.2	161.4	76.7	277.0	486.0
(In percent of GDP)							
<u>Revenue</u>	<u>28.3</u>	<u>26.9</u>	<u>23.7</u>	<u>27.2</u>	<u>26.2</u>	<u>29.0</u>	<u>28.3</u>
Tax revenue	21.7	22.9	20.3	20.5	22.6	25.3	25.0
Nontax revenue	0.8	0.9	0.9	1.8	1.2	1.0	1.1
Bauxite levy	5.6	3.2	2.5	4.9	2.3	2.7	2.2
Capital revenue	0.1	---	--	--	--	--	--
<u>Grants</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>0.3</u>	<u>1.0</u>	<u>0.9</u>	<u>0.9</u>
<u>Expenditure</u>	<u>44.1</u>	<u>41.0</u>	<u>38.3</u>	<u>33.1</u>	<u>32.0</u>	<u>32.5</u>	<u>31.1</u>
Current	32.1	30.3	31.6	28.6	27.1	26.0	25.6
Interest	7.9	8.4	10.3	10.1	10.8	10.5	9.8
Other	24.1	21.9	21.3	18.4	16.2	15.5	15.8
Capital	12.0	10.7	6.7	4.5	4.9	6.5	5.5
<u>Overall balance</u>	<u>-15.8</u>	<u>-14.1</u>	<u>-14.6</u>	<u>-5.6</u>	<u>-4.7</u>	<u>-2.6</u>	<u>-1.9</u>
<u>Financing</u>	<u>15.8</u>	<u>14.1</u>	<u>14.6</u>	<u>5.6</u>	<u>4.7</u>	<u>2.6</u>	<u>1.9</u>
Net external	9.4	6.8	5.4	10.6	4.5	3.9	3.8
Net domestic	6.4	7.2	9.2	-5.0	0.2	-1.3	-1.9
Banking system	3.5	10.5	10.4	-6.6	-0.4	-3.2	-5.0
Other	2.9	-3.2	-1.2	1.6	0.6	1.9	3.1

Source: Fund staff estimates.

from the bauxite levy and from corporate income taxes. Expenditure is expected to decline by 1.4 percentage points of GDP, reflecting reductions in both current and capital outlays in real terms. The wage bill of the Central Government is to rise by less than 7 percent next year, and a contingency reserve of J\$46 million is being set aside in the budget until the October 1987 program review, to be released only if tax compliance efforts improve revenue performance beyond program projections. As noted earlier, a rebate equivalent to 7.5 percent of export value is being introduced for exports of manufactured goods to non-CARICOM countries: the cost in 1987/88 is projected at J\$34 million.

(2) Rest of general government and selected entities ^{1/}

The overall surplus of the rest of the nonfinancial public sector is expected to increase from 0.2 percent of GDP in 1985/86 to 1.9 percent of GDP in 1986/87, largely as a result of the winding down of certain large projects, cuts in the importation of automobiles and inventory reductions by the state trading corporation (JCTC), increased efficiency in the electricity sector because of new equipment, and a large increase in water tariffs at the beginning of 1986. In addition, the proceeds from the sale of 51 percent of the National Commercial Bank (NCB), equivalent to 1/2 percent of GDP, has improved the financial outturn in 1986/87. The net use of foreign financing by the rest of the nonfinancial public sector is expected to decline in 1986/87 because of net repayments of short-term oil credits and because of the completion of certain major foreign-financed capital projects (cement and electric power plants).

The overall surplus of the rest of the nonfinancial public sector is projected to rise further to 3.5 percent of GDP in 1987/88, reflecting reduced subsidies on powdered milk and on soya oil, a major increase in telephone tariffs, and a freeze on capital spending by the enterprises, including a cutback in domestically financed capital spending and lending by the National Housing Trust and the Urban Development Corporation. Moreover, the Sugar Industry Authority is expected to reduce domestic spending, and the remaining NCB shares are to be sold to the private sector yielding significant resources in 1987/88.

(3) Bank of Jamaica losses

Losses of the Bank of Jamaica, which were negligible in the early 1980s, reached 7.1 percent of GDP in 1985/86. As noted earlier, this development was mainly caused by a substantial increase in the Bank's service payments on foreign debt at market-related interest rates, reflecting direct borrowing and the assumption by the Bank of

^{1/} Comprises the rest of the general government (i.e., the National Insurance Fund, National Housing Trust, Capital Development Fund), and a number of major public enterprises.

nonfinancial public sector debts, and the rapid depreciation of the Jamaica dollar. In addition, in 1984/85 and 1985/86, domestic interest payments by the Central Government to the Bank of Jamaica were postponed. The lowering of foreign interest rates, reductions in the Bank's foreign liabilities, and the appreciation of the Jamaica dollar are expected to reduce the losses of the Bank of Jamaica to 5.4 percent of GDP in 1986/87 and 4.7 percent of GDP in 1987/88.

3. Incomes policies

Most wage contracts in Jamaica are for two years. The most recent contract for central government employees involved increments of 12 1/2 percent and 10 percent for professional staff and 18 percent and 12 1/2 percent for nonprofessional staff in July 1985 and April 1986, respectively. Certain groups such as police, teachers, and nurses obtained somewhat larger increases for 1986. In the state enterprises up to January 1987 wage guidelines allowed increases of up to 15 percent a year, except for entities that receive direct government subsidies where the guideline was 10 percent a year. The personal income tax reform enacted in January 1986 involved an additional increase in after-tax income for most public sector employees, which has been estimated by the authorities at around 5 percent on average. In the private sector recent wage settlements generally entailed increases of at least 15 percent a year. The basic minimum wage was raised by 30 percent in January 1985.

The authorities acknowledged that a stable nominal exchange rate could only be sustained if domestic cost inflation was held down. They felt that a reduction of the wage guidelines was feasible in the context of a program that focused on a stable exchange rate. They argued that improvements in productivity in the export sectors relative to competitors could permit wage increases throughout the economy somewhat higher than abroad without weakening Jamaica's international competitiveness. To buttress their economic program, in February 1987 the Government enacted guidelines limiting pay increases in collective contracts signed after January 1, 1987 to 10 percent a year; the limit applies to pay inclusive of wages and fringe benefits. Exceptions would only be allowed where offers had already been tabled by employers in accordance with the previous guidelines.

4. Structural reforms

In 1986 the Government introduced the first stage of a comprehensive tax reform by modifying the personal income tax. A reform of the corporate income tax was announced in January 1987, which changed provisions for loss carry forward in order to replace existing special incentive legislation, and reduced the tax rate to 33 1/3 percent, in line with the personal income tax rate. In future years, the authorities plan to introduce a General Consumption Tax of the value-added type, which would incorporate and replace most existing domestic consumption and excise taxes, and broaden the tax base.

Certain reforms to import taxes are about to be introduced as the first stage of a reform process aimed at simplifying the import tariff system, reducing exemptions and preferences in favor of specified sectors, and introducing three or four basic tariff rates which would apply in conjunction with the CARICOM external tariff (whichever is higher) pending agreement in CARICOM on a lowering of tariff rates. Presently, about two thirds of imports enter free of duty, while duties on other imports are extremely high. The reforms will reduce the number of categories of exemptions, affecting about 13 percent of imports, lower the maximum tariff to 68 percent, and introduce minimum tariffs on all items except basic foods and drugs. At the same time, as already noted, a rebate has been introduced for manufactured exports, which will be superseded in future by the General Consumption Tax. These reforms are being supported by a World Bank Sector Adjustment Loan.

The authorities' program includes a plan to reduce exchange controls, starting with the remaining controls on current transactions. This will include delegation to commercial banks of exchange control authority for all current transactions, including for service payments such as interest and dividends, by mid-1987. The authorities recently increased the basic exchange allowance for tourist travel to US\$150 from US\$56 per person per year, and it is planned to replace the general prohibition on remittances of income from emigrants' property, remittances for family maintenance and cash gifts with reasonable allowances.

5. Performance criteria, consultation provision, and review clauses

The following performance criteria would apply during the program period:

- a. Quarterly ceilings on the overall public sector borrowing requirement, adjustable downward (upward) for shortfalls (excesses) from projected disbursements of project-related foreign loans. The maximum allowable upward adjustment is US\$10 million.
- b. Quarterly ceilings on the borrowing requirement of the combined Central Government and Bank of Jamaica, adjustable downward (upward) for shortfalls (excesses) from projected disbursements of project-related foreign loans. The maximum allowable upward adjustment is US\$10 million.
- c. Quarterly ceilings on the change in the stock of medium- and long-term official foreign debt (apart from project loans) with a subceiling on gross disbursements of one-five years' maturity. The ceilings on the change in the stock of debt exceed programmed amounts by US\$20 million; however, any excess over programmed amounts up to the limit of US\$20 million will necessitate an equivalent upward adjustment in the target on net international

reserves and downward adjustment in the ceiling on net domestic assets of the Bank of Jamaica.

d. Quarterly ceilings on the net domestic assets of the Bank of Jamaica.

e. Quarterly targets for net international reserves with external payments arrears, which are to be eliminated by March 1987, included as reserve liabilities.

f. A limit of US\$25 million on the increase in the stock of short-term external public debt, including net use of trade and suppliers' credits.

g. Limits on the Bank of Jamaica net forward position in foreign exchange.

A summary of the quantitative performance criteria is presented in Table 8.

The program contains an explicit trigger mechanism for exchange rate action that is designed to prevent any significant further real appreciation of the Jamaica dollar over the medium term. Under this provision, if and when the real effective exchange rate has risen by more than 5.8 percent compared with the December 1986 level, the Jamaica dollar will be adjusted to restore the base level. Exchange rate action also would be triggered by underperformance in the balance of payments: the technical memorandum attached to the letter of intent notes that if the program targets for net international reserves are not observed, Bank of Jamaica net retentions from the foreign exchange auction will be increased, and that it is expected that such action will result in a depreciation of the Jamaica dollar.

Reviews of the program by July and October 1987 and January 1988 are also performance criteria. Indicative targets have been set for base money and for the net accumulation of government paper by the public entities. The program also contains the customary injunction against increases in restrictions in the trade and payments system.

V. Staff Appraisal

For a number of years the Jamaican economy suffered from the effects of large public sector deficits and inadequate incentives for exports. Balance of payments difficulties became acute as a result of the sharp decline of Jamaica's bauxite industry and the rapid buildup of external debt. Disbursements of official loans have been declining while Jamaica's debt servicing commitments (including those to the Fund) have risen. Although lower oil prices and interest rates have provided relief equivalent to around 5 percent of GDP in 1986/87, the overall external situation leaves little room for relaxation of the adjustment

Table 8. Jamaica: 1986/87-1987/88 Stand-by Arrangement
Quantitative Performance Criteria

	1987				1988
	Mar.	June	Sept.	Dec.	Mar.
<u>(End of period, in millions of U.S. dollars)</u>					
Net international reserves <u>1/</u>	-526	-463	-473	-466	-396
Net external debt disbursements <u>2/</u>	88	101	103	108	140
Gross disbursements of external public debt of 1-5 years maturity <u>2/</u>	133	171	208	251	293
<u>(In millions of U.S. dollars)</u>					
Increase in the stock of short- term external public debt <u>3/</u>	25	25	25	25	25
Stock of external payments arrears	--	--	--	--	--
<u>(End of period, in millions of Jamaica dollars)</u>					
Net domestic assets of the Bank of Jamaica <u>4/</u>	3,769	3,435	3,490	3,561	3,116
Overall public sector net financing requirement <u>5/</u>	940	997	1,306	1,320	1,464
Central Government net financing requirement <u>5/</u>	1,210	1,450	1,892	2,028	2,287

Source: Technical Memorandum of Understanding.

1/ Targets adjustable upward for any cumulative excess of net external debt disbursements over programmed amounts.

2/ Refers to medium- and long-term debt excluding project loans by multilateral and other official development agencies and trade financing contracted by the private sector with a government guarantee. Figures refer to cumulative change from March 31, 1986. Any excess in net disbursements over programmed amounts (which are US\$20 million below these limits) is to be added to net international reserves.

3/ In relation to the end-December 1986 level.

4/ Ceilings adjustable downward for any excess of net external debt disbursements over programmed amounts.

5/ Cumulative change from March 31, 1986. Adjustable upward (downward) for any excesses (shortfalls) over programmed disbursements of project-related foreign inflows. Maximum upward adjustment is the Jamaica dollar equivalent of US\$10 million.

effort. Moreover, the external financing gaps projected beyond the period of the proposed stand-by arrangement indicate a continuing need for exceptional financing over the medium term.

An important correction to the value of the Jamaica dollar was made from 1983 to October 1985 under the exchange auction system. However, in November 1985 the Government abandoned its floating rate policy, induced an appreciation of the currency, and has subsequently intervened to ensure a stable nominal exchange rate. Through November 1986 the Jamaica dollar appreciated by about 12 percent in real effective terms relative to July-September 1985. Even so, it was still some 30 percent lower in real effective terms than at the beginning of the decade.

While the authorities' desire for a fixed exchange rate is understandable, Jamaica cannot afford to allow any significant further deterioration in its competitive position, without risking losing the momentum of change toward a more export-oriented economy. Because of difficult medium-term balance of payments outlook and the country's poor growth record over the past 10-15 years, the staff places great importance on the authorities' commitment not to allow the Jamaica dollar to appreciate by more than a limited margin in real terms from its current level, and to undertake corrective exchange rate action through increased retentions from the foreign exchange auction if needed to meet the program net international reserve targets.

To give assurance that the balance of payments goals of the program will be met without unduly restricting private sector credit, it is important that the overall deficit of the public sector (including Bank of Jamaica losses) be reduced sharply. Achievement of the program targets requires utmost restraint on expenditure in all parts of the public sector. The authorities should also be ready to make adjustments of public sector prices and specific taxes as necessary to maintain the revenues of both the public entities and the Central Government in real terms.

Domestic credit has been expanding unduly rapidly in recent months and immediate steps are needed to slow down its rate of growth. Bank of Jamaica open market operations should be used aggressively to curb the growth of credit and liquidity so as to reduce pressures on the balance of payments and prices. It is likely that interest rates on CDs and treasury bills will need to be maintained at least at current levels over the next six months.

A firm wages policy is essential if the momentum of inflation is to be reduced and competitiveness maintained. It will be most important to ensure compliance with the newly promulgated wage guidelines, particularly in the public sector.

The maintenance of appropriate financial and exchange rate policies needs to be accompanied by an acceleration of structural reforms designed to facilitate the transition to export-led growth. The staff

welcomes the steps that are being taken to reform the tax system, and stresses the importance of completing this process, including early implementation of a General Consumption Tax. Potentially important reforms also are under way in the area of import tariffs, with the aim of reducing exemptions and moving gradually toward a relatively flat across-the-board tariff. The staff also urges the authorities to move promptly to reduce exchange controls; the delegation of exchange control authority to commercial banks will be a welcome first step.

The export rebate scheme introduced with effect from February 1, 1987 results in a multiple currency practice. Since this is expected to be a temporary measure pending the introduction of a General Consumption Tax, the staff recommends approval of the multiple currency practice that is involved until March 31, 1988 or the completion of the next Article IV consultation, whichever comes first.

It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

Article IV Consultation

1. The Fund takes this decision relating to Jamaica's exchange measures subject to Article VIII, Sections 2 and 3, in the light of the 1986 Article IV consultation with Jamaica conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).
2. Jamaica maintains multiple currency practices resulting from the auction system and from an export rebate scheme, as described in EBS/87/27. Jamaica also maintains restrictions on payments and transfers for current international transactions as described in EBS/87/27. These include external payments arrears which Jamaica intends to eliminate by March 31, 1987. The Fund encourages Jamaica to eliminate the multiple currency practices and remaining exchange restrictions and in the meantime grants approval for these practices until March 31, 1988 or the completion of the next Article IV consultation, whichever is earlier.

Stand-by Arrangement

1. The Government of Jamaica has requested a stand-by arrangement for the period from _____ through May 31, 1988 in an amount equivalent to SDR 85 million.
2. The Fund approves the stand-by arrangement set forth in EBS/87/27.
3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Jamaica - Fund Relations

I. Membership status

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

(A) Financial Relations (as of December 31, 1986)

II. General Department

- (a) Quota: SDR 145.5 million
 (b) Total Fund holdings of Jamaica dollars:
 SDR 699.99 million or 481.09 percent of quota
 (c) Fund credit (i.e., Fund holdings of Jamaica dollars
 subject to repurchase and charges):

	Millions of SDRs	As Percent of Quota
<u>Total Fund credit</u>	554.42	381.0
Of which: Under tranche policy	469.70	322.8
Credit tranches	84.80	58.3
Extended facility	384.90	264.5
Ordinary resources	(107.35)	(-73.8)
Supplementary financing	(97.12)	(-66.7)
Enlarged access resources	(180.43)	(-124.0)
Under CFF	84.73	58.2

- (d) Reserve tranche position: None

III. Current stand-by or extended arrangement and special facilities

- (a) Current stand-by arrangement: none
 (b) Stand-by and extended arrangements during the last ten years:

Type	Date	Duration	Approved Amount (In mil. of SDRs)	Amount Drawn (In mil. of quota)	Amount Drawn (In % of quota)
Stand-by	8/11/77	2 years	64.0	19.2	25.9
EFF	6/09/78	3 years	200.0		
(augmented)	6/11/79		259.7	155.0	209.5
EFF	4/13/81	3 years	477.7	402.8	362.9
Stand-by	6/27/84	1 year	64.0	64.0	44.0
Stand-by	7/17/85	21 months	115.0	41.6	28.6

- (c) Special facilities during the last 5 years:

CFF	4/13/81	SDR 37.0 million
CFF	8/25/82	SDR 19.4 million
CFF	6/26/84	SDR 72.6 million

IV. SDR Department

- (a) Net cumulative allocation: SDR 40.61 million
- (b) Holdings: SDR 0.0 million (0.0 percent of net cumulative allocation)

V. Administered Accounts

- (a) Trust Fund loans: None
- (b) SFF Subsidy Accounts: Payments by Fund

August 10, 1982	SDR 4.67 million
September 29, 1983	SDR 3.33 million
July 20, 1984	SDR 3.07 million
July 24, 1985	SDR 2.70 million
December 23, 1986	SDR 1.51 million

Total SDR 15.28 million

VI. Overdue Obligations to Fund

Jamaica has frequently experienced difficulty in remaining current with the Fund within the past two years and has been overdue on payments for periods ranging from a few days to several months. Jamaica is at present current with its obligations to the Fund.

(B) Nonfinancial Relations

VII. Exchange Rate Arrangement

In November 1983, Jamaica adopted a unified floating rate within an adjustable exchange rate band. An auction mechanism to determine rates was instituted in December 1983, modified in March and November 1984. Since November 1985, the exchange rate has been effectively fixed in terms of the U.S. dollar.

VIII. Last Article IV Consultation

March 1985, completed by the Executive Board on July 17, 1985 (standard 12-month cycle).

IX. Technical Assistance

CBD: (1) Two CBD advisors were assigned to the Bank of Jamaica from April 1983 to November 1984. (2) CBD experts visited Jamaica in 1986 to review proposed changes in central banking and banking legislation and to advise on possible improvements in the structure and operations of the Research Department of the Bank of Jamaica.

X. Resident Representative

Mr. Daniel Citrin was resident representative until January 3, 1987. Mr. John Hill is scheduled to replace him in late February.

Jamaica: Financial Relations With the World Bank

(In millions of U.S. dollars)

	Outstanding as of June 30, 1986				
	Disbursed	Undisbursed	Total	Repayments	Net Outstanding
<u>Total IBRD</u>	<u>563.40</u>	<u>91.91</u>	<u>655.31</u>	<u>106.02</u>	<u>457.38</u>
Agriculture and forestry	41.59	11.28	52.87	13.59	28.00
Education	25.66	4.14	29.80	12.21	13.45
Population and rural development	23.03	--	23.03	7.56	15.47
Transportation	59.94	27.34	87.28	18.68	41.26
Power	60.84	9.78	70.62	25.84	35.00
Utilities	22.95	5.85	28.80	5.85	17.10
Program loan	30.00	--	30.00	9.24	20.76
Export Development Fund	64.40	--	64.40	7.30	57.10
SAL	191.40	--	191.40	--	191.40
Industrial development	15.90	19.47	35.37	1.86	14.04
Other	27.69	14.05	41.74	3.89	23.80
<u>IFC investments</u>	<u>10.40</u>	<u>--</u>	<u>10.40</u>	<u>2.45</u>	<u>7.95</u>

Net Disbursements During Fiscal Year 1/

	Actual				Proj.
	1982/84	1983/84	1984/85	1985/86	1986/87
<u>Net disbursements (IBRD)</u>	<u>91.5</u>	<u>34.8</u>	<u>59.5</u>	<u>1.6</u>	<u>60.5</u>
Disbursements	99.2	49.6	75.1	23.7	95.9
Repayments	7.7	14.8	15.6	22.1	35.4

Source: IBRD.

1/ World Bank fiscal year (July 1-June 30).

Jamaica--Basic Data

Area and population

Area	4,411 sq. miles (11,424 sq. kilometers)
Population	2.2 million
Annual rate of population increase	1.1 percent
Unemployment rate (1985)	25.0 percent

GDP (1985)

SDR 1,996 million

US\$2,026 million

GDP per capita (1985)

SDR 1,055

<u>Origin of GDP</u>	<u>1983/84</u>	<u>1984/85</u>	<u>Rev.</u> <u>1985/86</u> <u>(percent)</u>	<u>Prog.</u> <u>1986/87</u>	<u>Prog.</u> <u>1987/88</u>
Agriculture	8.1	8.7	8.9	8.9	8.9
Mining	6.4	5.7	5.1	5.0	5.0
Manufacturing	15.8	15.4	16.3	16.3	16.3
Construction	6.2	5.7	5.3	5.3	5.3
Government	18.7	19.0	18.0	18.1	18.0
Other services	44.8	45.5	46.4	46.4	46.5

Ratios to GDP

Exports of goods and nonfactor services	44.0	59.9	58.7	52.6	52.2
Imports of goods and nonfactor services	50.4	65.5	61.6	50.3	49.3
Current account of the balance of payments	-9.2	-11.2	-11.7	-4.7	-3.8
Central government revenues	23.7	27.5	27.3	29.9	29.2
Central government expenditures	38.3	33.1	32.0	32.5	31.0
General Government savings <u>1/</u>	-6.9	-4.1	-4.0	0.4	1.8
General Government overall surplus or deficit (-) <u>1/</u>	-15.5	-9.8	-10.3	-7.1	-4.5
External public debt (end of year)	91.1	136.2	160.7	133.3	124.6
Gross national savings	13.5	12.8	12.3	17.3	16.7
Gross domestic investment	22.7	24.0	24.0	22.0	20.5
Money and quasi-money (end of year)	40.7	36.8	39.0	37.9	38.2
Change - Money and quasi-money	8.2	4.8	8.8	5.5	3.5

Annual changes in selected indicators

Real GDP	1.7	-1.4	-4.0	2.2	1.1
GDP at current prices	23.3	30.1	21.9	20.2	9.1
Domestic expenditures (at current prices)	18.4	29.0	18.9	14.1	8.3
Investment	31.8	37.3	21.8	10.4	1.4
Consumption	15.2	26.8	18.0	15.2	10.3
GDP deflator	21.3	31.9	26.9	17.6	7.9
Consumer prices (annual averages)	14.7	29.7	24.1	12.5	9.6
Central government revenues	8.8	51.1	20.8	31.9	6.4
Central government expenditures	15.3	12.5	17.7	22.2	4.1
Liabilities to private sector <u>2/</u>	25.4	19.0	27.1	17.7	10.0
Money <u>2/</u>	4.0	4.6	8.3	4.3	2.5
Quasi-money <u>2/</u>	16.7	11.4	17.6	11.2	6.5
Net domestic assets of the financial system <u>2/</u>	42.3	-9.7	22.2	8.2	-1.7
Credit to public sector <u>1/2/</u>	46.0	-7.1	13.5	-0.5	-6.7
Credit to private sector	28.4	5.7	13.7	13.2	10.0
Merchandise exports (in U.S. dollars)	-1.7	-6.7	-19.9	3.6	13.4
Merchandise imports (in U.S. dollars)	-10.1	-2.3	-16.0	-0.1	7.8

	<u>1983/84</u>	<u>1984/85</u>	<u>Rev.</u> <u>1985/86</u>	<u>Prog.</u> <u>1986/87</u>	<u>Prog.</u> <u>1987/88</u>
<u>Central government finances</u>					
	<u>(millions of Jamaica dollars)</u>				
Revenues	1,794.7	2,711.0	3,274.4	4,317.5	4,604.2
Expenditures	2,902.1	3,265.1	3,854.8	4,697.0	4,898.0
Current account surplus or deficit (-)	-603.1	-114.9	13.7	556.5	578.2
Overall surplus or deficit (-)	-1,107.4	-554.1	-569.4	-379.5	-293.8
External financing (net)	410.6	1,047.0	546.5	568.7	596.8
Domestic financing (net)	696.8	-492.9	22.9	-189.2	-303.0
<u>Balance of payments</u>					
	<u>(millions of U.S. dollars)</u>				
Merchandise exports	721.8	673.3	539.5	558.7	633.3
Merchandise imports	1,250.7	1,221.4	1,025.8	1,024.8	1,104.5
Investment income (net)	-237.6	-273.8	-339.7	-361.0	-371.6
Other services and transfers (net)	484.1	569.1	578.5	703.9	733.1
Balance on current account	-282.4	-252.8	-247.5	-123.2	-109.7
Official capital	-45.6	32.2	-5.0	-136.6	-95.9
Private capital, including errors and omissions	-231.2	182.7	94.4	54.7	76.6
Basic balance	-559.2	-37.9	-158.1	-205.1	-129.0
Debt Rescheduling	111.0	535.1	231.8	295.1	259.0
Changes in reserves	306.0	-265.7	-59.2	-90.0	-130.0
Changes in arrears, n.i.e.	142.2	-231.5	-14.5	--	--
Other exceptional financing	--	--	--	--	--
<u>International reserve position</u>					
	<u>(millions of U.S. dollars)</u>				
Central Bank (gross)	65.0	191.6	201.8	154.6	168.5
Central Bank (net)	-859.3	-555.2	-615.8	-525.8	395.8

1/ Includes Bank of Jamaica losses.

2/ As a percent of liabilities to the private sector at the beginning of the period.

Jamaica: Summary of Stand-By Program

The program's basic objective is to continue the adjustment and restructuring efforts so as to achieve sustained growth, a lower rate of inflation, and balance of payments viability in the medium term. The program emphasizes the need to contain public expenditure, reduce the public sector deficit, curb the rate of growth of money and credit, restrain increases in pay, and maintain international competitiveness.

1. Principal targets and assumptions

	<u>Actual</u> 1985/86	<u>Program</u>	
		1986/87	1987/88

(Percent increase from previous year)

<u>Output and prices</u>			
Real GDP	-4.0	2.2	1.1
GDP deflator	26.9	17.6	7.9
Consumer prices (average)	24.1	12.5	9.6
Consumer prices (end-period)	19.8	11.3	7.0

(In percent)

<u>External sector</u>			
Current account deficit (ratio to GDP)	11.7	4.7	3.8
Gross debt service (ratio to exports of goods and services)	64.7	72.1	66.4
Debt service after rescheduling	46.6	50.7	48.9
External debt (end-period, ratio to GDP)	161.0	133.5	124.8

(In millions of U.S. dollars)

Overall balance of payments surplus	73.7	90.0	130.0
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(In percent of GDP)

<u>Public sector finances</u>			
Overall balance (including Bank of Jamaica) 1/	-13.0	-6.1	-3.0
Central Government balance	-4.7	-2.6	-1.8
Central Government current account balance	1.1	3.9	4.0
Bank of Jamaica balance	-7.1	-5.4	-4.7
Rest of public sector balance	-1.2	1.9	3.5

	<u>Actual</u> 1985/86	<u>Program</u> 1986/87 1987/88	
<u>(Percent increase)</u>			
<u>Money and credit</u>			
Base money	18.9	17.2	9.8
Broad money	20.0	17.0	10.0
Net domestic assets of the Bank of Jamaica <u>1/</u>	-3.1	-6.4	-10.5
Net domestic assets of banking system <u>1/</u>	22.2	8.2	-1.7
Net credit expansion to overall public sector <u>1/</u>	13.5	-0.5	-6.7
Credit expansion to private sector	13.7	13.2	10.0

1/ In relation to banking system liabilities to private sector at beginning of period.

2. Fiscal policy

Both the overall public sector borrowing requirement and the combined borrowing requirements of the Central Government and Bank of Jamaica are subject to quarterly limits during the program period. The limits in both cases are adjustable for deviations from projected disbursements of project-related official capital flows, with a ceiling of the equivalent of US\$10 million on the allowable upward adjustment.

a. Expenditure

While the expected reduction in the overall public sector deficit in 1986/87 largely reflects the benefits derived from the decline in international oil prices, the further reduction in the deficit programmed for 1987/88 relies mainly on expenditure restraint. Overall expenditure by the Central Government is to increase by no more than 4.3 percent from 1986/87 to 1987/88. This excludes a contingent expenditure margin of J\$46 million (0.3 percent of GDP) which may be approved following completion of the second program review, if equivalent improvements have materialized from efforts to improve tax compliance.

Capital expenditure by the overall public sector in 1987/88 is to be held to the same nominal level as in 1986/87, representing a reduction in real terms of about 6 percent. In addition to the cut in the central government capital budget, this will require a halt in expenditure on a range of domestically financed capital projects by public entities, so that foreign-financed projects may proceed.

Measures have been taken to reduce the capital expenditures of the National Housing Trust, the Urban Developing Corporation, and Air Jamaica, by a total of J\$84 million (0.5 percent of GDP), compared to 1986/87. In addition, the Sugar Industry Authority is to reduce domestic spending by J\$59 million (0.4 percent of GDP), and the Jamaica Commodity Trading Company has restructured subsidies on certain products, obtaining a saving of J\$33 million (0.2 percent of GDP).

b. Revenue

A number of measures announced in early 1987 are expected to increase revenues by J\$106 million (0.7 percent of GDP) in 1987/88. These comprise increases in specific stamp duties on certain domestic financial transactions, increases in telephone charges, and increases in business license fees.

Further reforms of the trade regime also have been announced which are expected to have a positive net effect on revenues amounting to J\$31 million (0.2 percent of GDP) in 1987/88. These reforms entail a reduction in tariff exemptions, together with a lowering of the maximum tariff rate and a reduction in stamp duties on certain capital goods.

Following the reform of personal income taxation in 1986, there will be a reduction in the effective rate of corporate income tax from 45 percent to 33 1/3 percent in 1987. The expected revenue loss from this measure is J\$82 million (0.5 percent of GDP).

The introduction of a General Consumption Tax has been postponed pending further study of the effects of the trade reforms. Meanwhile, a rebate equivalent to 7.5 percent of export value has been introduced from February 1, 1987 for exports of manufactured goods to non-CARICOM countries, with certain exemptions. The cost of this scheme in 1987/88 is expected to be J\$34 million (0.2 percent of GDP).

Following the partial sale in 1986/87 of the Government's shares in the National Commercial Bank (NCB), the remaining 49 percent will be sold in 1987/88, bringing in capital revenue of J\$150 million (1.0 percent of GDP). The privatization of NCB is part of a continuing process of divestment of a number of state enterprises.

3. Pay and prices

a. Pay

The Government has established a norm limiting increase in pay in the public and private sectors to no more than 10 percent a year for contracts signed after January 1, 1987, exemptions being granted only where negotiation of contracts was far advanced prior to that date. This replaces the former pay guideline of 15 percent.

b. Prices

Public sector prices will be adjusted as necessary to offset increases in costs, so as to ensure the achievement of the public sector's financial targets. In January 1987, price controls were imposed on fertilizers, animal feed, herbicides/pesticides, certain medicines and school books. The scope of price controls will not be further increased during the program period.

4. Monetary policy

a. Targets

The net domestic assets (NDA) of the Bank of Jamaica will be subject to quarterly limits; these will be adjusted downwards for any cumulative excess of net external debt disbursements within the limits referred to in (5b) below. The program also includes indicative targets for the growth of base money which are based on assumptions about the growth of the public's demand for liquid assets. It is expected that the NDA of the banking system will grow by no more than around 8 percent in 1986/87 and decline by about 2 percent in 1987/88, in relation to banking system liabilities to the private sector at the beginning of the period. After allowing for the programmed financing of the public sector by the banking system, bank credit to the private sector is targeted to increase by 13 percent in 1986/87 and 10 percent in 1987/88.

b. Instruments

The targets for the monetary and credit aggregates will be achieved mainly through open market operations in public sector debt instruments. The Bank of Jamaica will sell CDs in amounts necessary to meet the program's indicative quarterly targets on base money. Also, in order to facilitate the management of credit and liquidity, the Government has raised the ceiling on the outstanding issue of Treasury Bills from J\$1.0 billion to J\$1.5 billion, and will increase the issue of longer-term variable rate bonds as necessary. The program implies a reduction in the growth rates of credit and liquidity which may require interest rates to rise; in any event, the minimum savings deposit rate and the rate on Bank of Jamaica CDs will not be reduced from their current levels of 15 percent and 18 percent respectively, at least until the program review of July 1987.

In order to hasten the narrowing of spreads between banks' deposit and lending rates, the authorities will accelerate the program of financial reform which aims to eliminate by March 1988 the liquid assets requirements applying to banks and other financial institutions and to increase the remuneration of commercial banks' reserve assets.

5. External sector policies

a. International reserves

Quarterly targets have been set for the accumulation of net international reserves (NIR) by the Bank of Jamaica. These targets are subject to upward adjustment for up to US\$20 million over the programmed net external debt disbursements referred to in (5b) below.

Official and private external payments arrears will be cleared by end-March 1987. Thereafter, no external payments arrears will be incurred.

b. Debt

The program places ceilings on net disbursements of medium- and long-term external loans to the public sector excluding project financing, with sub-ceilings on gross disbursements of loans with original maturities of 1-5 years. There is also a limit of US\$25 million on the net use of short-term credit by the public sector. The NDA and NIR targets are based on projected net disbursements of medium- and long-term external debt (excluding project-related disbursements) that are US\$20 million less than the ceilings on such disbursements at each test date. If the disbursements of such debt exceed the projected level at any test date within this margin, adjustments will be required in the targets for the NDA and NIR of the Bank of Jamaica (4a and 5a above).

c. Exchange rate

The program incorporates two trigger mechanisms for exchange rate action:

(i) if any NIR target is not observed, the Bank of Jamaica will decrease the supply of foreign exchange at the auction as necessary, which would tend to lead to a depreciation of the Jamaica dollar; and

(ii) whenever Jamaica's real effective exchange rate index rises by more than 5.8 percent from the base level of December 1986, the domestic currency will be depreciated so as to restore that base level.

d. Exchange controls

(i) The basic allowance for non-business travel abroad has been raised from US\$56 to US\$150 per person per year, with effect from January 15, 1987.

(ii) From April 1, 1987, remittances of income from emigrants' property, remittances for family maintenance, and cash gifts will no longer require specific approval up to certain limits.

(iii) The administration of exchange control authority for all current transactions is being delegated to the commercial banks; this will be completed by end-June.

Jamaica--Stand-By Arrangement

Attached hereto is a letter, with annexed Technical Memorandum of Understanding, dated December 31, 1986, and amended on January 17, 1987, from the Prime Minister and Minister of Finance and the Governor of the Bank of Jamaica requesting a stand-by arrangement and setting forth the objectives, policies, and measures that the authorities of Jamaica intend to pursue for the period of this stand-by arrangement, and understandings of Jamaica with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Jamaica will pursue for the period of this stand-by arrangement.

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

1. For the period from 1987 to May 31, 1988 Jamaica will have the right to make purchases from the Fund in an amount equivalent to SDR 85 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 10 million until May 20, 1987, the equivalent of SDR 25 million until August 20, 1987, the equivalent of SDR 40 million until November 20, 1987, the equivalent of SDR 55 million until February 20, 1988, and the equivalent of SDR 70 million until May 20, 1988.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Jamaica's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 2, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Jamaica will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Jamaica's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

(a) during any period in which

(i) the limit on the public sector financing requirement described in paragraph 2 of the Technical Memorandum of Understanding annexed to the attached letter, or

(ii) the limit on the financing requirement of the Central Government as described in paragraph 3 of the Technical Memorandum of Understanding annexed to the attached letter, or

(iii) the limit on net domestic assets of the Bank of Jamaica as described in paragraph 4 of the Technical Memorandum of Understanding annexed to the attached letter, or

(iv) the target for the net international reserves as described in paragraph 5 of the Technical Memorandum of Understanding annexed to the attached letter,

is not observed; or

(b) if

(i) the limit on external payments arrears as described in paragraph 5 of the Technical Memorandum of Understanding annexed to the attached letter, or

(ii) the limits on the forward position and commitments of the Bank of Jamaica or any subsidiary described in paragraph 6 of the Technical Memorandum of Understanding annexed to the attached letter, or

(iii) the limits on the medium- and long-term external debt of the public sector and the gross disbursements of external debt of the public sector described in paragraph 7 of the Technical Memorandum of Understanding annexed to the attached letter, or

(iv) the limit on short-term external debt of the public sector as described in paragraph 8 of the Technical Memorandum of Understanding annexed to the attached letter,

are not observed; or

(c) if Jamaica fails to implement the understandings on exchange rate measures as contemplated in paragraphs 9 and 10 of the attached Technical Memorandum of Understanding; or

(d) during any period after July 31, 1987, October 31, 1987, and January 31, 1988, until the reviews referred to in paragraph 14 of the attached letter have been completed and any understandings on performance criteria deemed by the Fund to be necessary have been reached between the Fund and Jamaica, or after such understandings have been reached, while they are not being observed, or

(e) during the entire period of this stand-by arrangement if Jamaica

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

- (ii) introduces multiple currency practices, or
- (iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or
- (iv) imposes new or intensifies existing import restrictions for balance of payments reasons.

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

5. Jamaica will not make purchases under this stand-by arrangement during any period of the arrangement in which Jamaica has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase.

6. Jamaica's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Jamaica. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Jamaica and understandings have been reached regarding the circumstances in which such purchases can be resumed.

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

8. The value date for purchases under this stand-by arrangement involving borrowed resources will be determined in accordance with Rule G-4 (b) of the Fund's Rules and Regulations. Jamaica will consult the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d).

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

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

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

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

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

12. In accordance with paragraph 14 of the attached letter Jamaica will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Jamaica has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Jamaica's balance of payments policies.

December 31, 1986
(Amended January 17, 1987)

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

Dear Mr. de Larosière:

1. The Government of Jamaica hereby requests from the International Monetary Fund a 15-month Stand-by Arrangement, in the amount of SDR 85 million, in support of its financial programme covering the period January 1, 1987 to March 31, 1988. The Government is also requesting a purchase under the Compensatory Financing Facility of the Fund.
2. Jamaica's adjustment efforts in recent years have concentrated on changing relative prices and implementing structural reforms so as to favour export-led growth while, at the same time, seeking to reduce the public sector deficit. The unification of the official and parallel foreign exchange markets in November 1983, and the introduction of the auction market in foreign exchange, was followed by a rapid depreciation of the Jamaican dollar. In 1984/85, the average level of the real effective exchange rate was 28 percent lower than in the previous year; and a further 8 percent real depreciation occurred in 1985/86. The overall public sector deficit excluding pass-throughs was reduced from 18 1/2 percent of GDP in 1983/84 to about 13 percent of GDP in 1985/86. This was achieved in large part through the containment of current and capital expenditure, and significant revenue raising efforts to offset declining bauxite sector revenues and rising interest payments.
3. In July 1985, the International Monetary Fund approved a 22-month Stand-by Arrangement in support of a programme aimed at a continued movement of the Jamaican economy toward a viable medium-term balance of payments position. The decline in tourist arrivals that took place during the first half of 1985 and the closure of the Alpart alumina plant in August added to pressures on the exchange rate. During the period September-October 1985, the Jamaican dollar began to depreciate very rapidly which, in turn, would have led to steep increases in domestic prices. To prevent a recurrence of social unrest that would have resulted from such increases, the Government decided to stabilise the Jamaican dollar at around the level of J\$5.50 = US\$1.00 and to support this step by a further tightening of monetary and fiscal policies. The rate of inflation declined from 31 percent in 1984/85 to 19 percent in 1985/86 but real GDP declined by 4 percent and unemployment remained at a high level.
4. It was not possible to observe the revised programme balance of payments targets for March 1986, due primarily to lower than programmed

loan inflows. The Government therefore decided to cancel the second year of the 22-month Stand-by Arrangement and began negotiations for a new arrangement which would place greater emphasis on achieving stability in the exchange rate and prices. The programme of the Government of Jamaica, which is described in the following paragraphs, seeks to achieve further progress toward viability in the balance of payments over the medium term, while at the same time encouraging growth and promoting greater price stability.

5. Monetary and fiscal policies have been drawn up so as to contain aggregate demand to levels consistent with the targetted reserve accumulation, with planned levels of net foreign borrowing, and with domestic inflation of 13 percent and 7 percent, respectively, in 1986/87 and 1987/88.

6. In the area of monetary policy, the Bank of Jamaica will aim to manage domestic credit to secure achievement of balance of payments objectives and a forecasted growth in broad money of 17 percent in 1986/87 and 10 percent in 1987/88. The Government has increased the ceiling on the outstanding issue of Treasury Bills to J\$1.5 billion and will increase the issue of variable rate longer-term bonds so as to provide alternative instruments to the Government to meet its borrowing needs and to the Bank of Jamaica for managing liquidity. The ceiling on the Treasury Bill issue will be adjusted from time to time to meet the Government's loan programme needs. The Bank of Jamaica will at least maintain interest rates on CDs and savings deposits at 18 percent and 15 percent, respectively, until compliance with the programme's fiscal and balance of payments targets for the first quarter of 1987/88 has been verified. Interest rate policy will be subject to review in the light of fiscal and balance of payments developments. In order to reduce distortions in the structure of interest rates, the Bank of Jamaica has decided to accelerate its programme of financial reform, which aims to eliminate the liquid assets ratio by March 1988, and envisages changes in the cash reserve ratio applied to different categories of deposits. It is expected that understandings on these modifications will be reached in the first programme review.

7. It is recognised that in order to attain a viable external position, a sustained reduction in the public sector deficit is needed over the medium term. During the programme period, the overall public sector borrowing requirement (including central government, public entities, and Bank of Jamaica losses) is targetted to decline to 6.4 percent of GDP in 1986/87 and to 3.3 percent of GDP in 1987/88. Expenditure restraint will help significantly to achieve these targets as the growth of central government overall expenditure in 1987/88 is to be limited to 4.3 percent compared with the revised estimates for 1986/87. This excludes a contingent expenditure margin of J\$46 million which will be approved, subject to improvements in tax compliance; release of these funds will not be authorized before the October programme review has

been completed. The following measures have been taken affecting public entities' expenditures for 1987/88, as compared with the revised estimates for 1986/87.

a. The National Housing Trust (NHT) will scale down its net lending operations through other financial institutions by an amount approximately equivalent to J\$30 million.

b. The commercial building activities of the Urban Development Corporation (UDC) will be reduced by approximately J\$32 million.

c. The Jamaican Commodity Trading Company has restructured subsidies on powdered milk and will discontinue domestic processing of soybean meal, obtaining an overall saving of J\$33 million.

d. Air Jamaica will reduce its investment in transportation equipment by an amount equivalent to J\$22 million.

On the revenue side, emphasis will be placed on continued implementation of the Tax and Tariff reform programmes. As part of the trade reforms, no new applications for import duty incentives will be accepted after December 31, 1986 under the Hotel Incentives Act, the Industrial Incentive Act, and the Export Industry Encouragement Act, among others. Similarly, no further applications for incentives will be accepted after that date for ministerial remissions of import related duties, except for some special cases like charitable programs, cases of national disaster, and grants. In addition, exemptions will be eliminated for 50 of the 77 items presently under the Second Schedule of the Custom Tariff Act covering approximately 10 percent of imports and minimum tariffs imposed on previously exempt or zero-rated items; the corresponding revenue gains are expected to be around J\$77 million; however, the reduction in the stamp duty rate charged to some capital goods from 30 percent to 25 percent and the reduction to a maximum of 68 percent of the total of custom and stamp duties to be imposed on some imports, is expected to reduce customs related revenues by J\$46 million. Thus, collections of import related duties are expected to increase on balance by J\$31 million. The reform of income taxation will be completed in 1987 with the reform of corporate income taxation, basically comprising a reduction in the effective rate from 45 percent to 33 1/3 percent. The expected revenue loss from this measure is J\$82 million. Also, the following additional revenue measures have been taken:

a. Specific stamp duties on cheques, promissory notes, bonds, mortgages, and insurance policies, among others, will have been substantially increased as of January 19, 1987 from their present minimal levels; the corresponding revenue gain is expected to be J\$25 million.

b. Increases in telephone rates of the Jamaica Telephone Company and Jamintel will have been announced by mid-February 1987 with effect from April 1, 1987, and are expected to improve the net surplus of the public sector by an additional J\$61 million in 1987/88.

c. Business license fees will have been raised from minimal levels starting February 1, 1987. The expected revenue yield is J\$20 million.

8. The Government recognises that the success of the strategy to achieve external viability and growth with low inflation hinges critically on containing cost increases in Jamaica. Therefore, a Ministry Paper establishing a norm limiting increases in pay to no more than 10 percent a year for any contracts signed after January 1, 1987 will be laid in Parliament and all efforts made to reach understandings with the social partners by that time. This limit applies to the sum of all components of pay: straight time pay plus the money value of allowances and fringe benefits. However, allowances which are reimbursable such as travelling, provisions for uniforms, and tools and equipment, will not be included as part of pay. Increases in pay within the total pay bill limits will be permissible only given the demonstrated ability of the employer to make the payment. Exemptions to the new guidelines may be made only where negotiation of contracts was far advanced prior to January 1, 1987 and offers by the employer were within the previous wage guidelines. This pay policy will be monitored and compliance encouraged by the Ministry of Labour which will take these norms into account in determining the national interest. The Government will invoke the provisions of the Labour Relations and Industrial Disputes Act as it relates to the Industrial Disputes Tribunal. Wage settlements must be reported to the Ministry of Labour within 14 days of their conclusion as provided for by Section 29 (2) (b) of the Labour Relations and Industrial Disputes Act.

Prices of goods and services provided by the public sector will be adjusted as necessary to ensure the achievement of the targetted financial program in the public sector. Price controls are in place for certain basic foods, animal feed, fertilizer, herbicides/pesticides, medicines, and textbooks, but controlled prices of these items will be adjusted as necessary at the wholesale and retail levels to reflect increases in costs. The scope of price controls will not be increased during the programme period.

9. Helped mainly by the fall in international oil prices, increased tourism receipts, and expansion of free-zone exports, the deficit in the current account of the Balance of Payments is targetted to be reduced from a level of 11.6 percent of GDP in 1985/86 to 4.7 percent and 3.8 percent of GDP in 1986/87 and 1987/88, respectively. Nevertheless, the expected current account deficits and substantial external debt payments falling due in the next few years will require continued large scale access to exceptional financing. With respect to 1986/87 and 1987/88, foreign commercial banks will be asked to refinance 100 percent of some US\$250 million of government-direct and government-guaranteed debt maturities which fell due or will fall during the period, and official bilateral creditors (both OECD and non-OECD) will be requested to reschedule a significant portion of principal and interest payments

falling due. On terms equivalent to those granted last year, reschedulings by such creditors would provide debt relief of US\$251 million. The rescheduling arrangements with commercial banks and the Paris Club will be concluded by March 31, 1987. Special refinancing arrangements will have been concluded before mid-February with Venezuela providing additional debt relief of US\$53 million in 1986/87-1987/88. With this rescheduling, and with the help of major loans against future bauxite exports, net official capital inflows are programmed to average US\$161 million a year in 1986/87 and 1987/88. Public short-term and private capital inflows are estimated to average about US\$65 million per year over the two-year period.

10. Official and private external payments arrears will be cleared by end-March 1987. Thereafter, no external payments arrears will be accumulated. Net international reserves are programmed to improve by US\$90 million during 1986/87 and by a further US\$130 million in 1987/88 so as to enable the Bank of Jamaica to meet its external obligations and maintain sufficient liquid foreign reserves to meet seasonal variations in payments without accrual of arrears.

11. Financial policies have been drawn up with the aim of maintaining the current exchange rate of J\$5.50 = US\$1.00 through March 1988. This policy goal recognises the importance of maintaining an adequate level of competitiveness for Jamaica's exports of goods and services. Despite the shift in exchange rate policy since November 1985, the Jamaican dollar in October 1986 was still 30 percent more competitive than in 1980, measured in terms of the Fund's real effective exchange rate index. Given this improvement of competitiveness achieved in recent years, a modest real appreciation of the Jamaican dollar that may occur during the programme period is not expected to adversely affect export performance, except perhaps in the manufacturing sector. The Government recognises that there may be a need for measures to improve the competitiveness of the latter sector. It has therefore introduced an export rebate scheme for exports of manufactured goods with effect from February 1, 1987 at a rate of 7.5 percent of export value. More generally, the Government of Jamaica recognises that the overall competitiveness of the economy must be preserved. Thus, during the programme period, the real effective exchange rate will be maintained within envisaged margins. Furthermore, it is recognised that in the event of failure to observe the programme balance of payments targets, additional action will be taken.

12. The Foreign Exchange Auction System has gained wide acceptance within the Jamaican community, and the Government believes that this system should continue unchanged. Currently, those who bid for resources from the auction are required to pay the bid price rather than the marginal price if their bids are accepted. This "Dutch" bidding system, which might give rise to a multiple currency practice, has been approved temporarily by the Fund and the Government seeks extension of the approval through May 31, 1988.

13. The Government will continue to pursue its policy to deregulate the economy, to improve the incentives for private investment and export-led growth, and to reduce the scope of public sector involvement in the market place. The second stage of a comprehensive tax reform is to be implemented at the beginning of 1987, and includes a reduction in the rate of corporate taxation to 33 1/3 percent (in line with the new flat rate income tax). The last stage of the tax reform contemplates the eventual introduction of a general consumption tax which will consolidate a range of existing indirect taxes and broaden the tax base. As noted earlier, the Government has begun to implement changes in import taxes as part of a programme of reforms to trade policy, supported by the World Bank, which aims to reduce exemptions from import duties to a very low level and to move to a three or four tier tariff structure over the next two to three years.

The Government is also moving to reduce exchange controls so as to assist in creating confidence and facilitate the smooth functioning of the economy. The basic allowance for foreign travel other than for business and professional reasons, which had been set since 1977 at US\$56, has been raised to US\$150 a person for each calendar year. It has been decided that from April 1, 1987, remittance of income from emigrants' property, remittances for family maintenance, and cash gifts, which have hitherto been approved only in specific cases by the Minister of Finance, will no longer require specific approval below certain reasonable levels to be announced. In addition, the administration of exchange control authority for all current transactions, including interest and dividends, is being delegated to the commercial banks; this will be completed by the end of June.

In keeping with the policy to reduce the scope of public sector control in the economy, the Government is in the process of privatising a range of publicly owned companies. A number of smaller companies have already been privatised and a major step in this process was taken in 1986 with the sale of shares of the government-owned National Commercial Bank. The remaining 49 percent of shares of NCB will be sold in 1987/88 and the Government will proceed thereafter with the privatisation of other publicly owned commercial operations, equivalent to around J\$150 million a year over the next several years.

14. The Government of Jamaica believes that the policies and programmes set out in the foregoing paragraphs and further elaborated in the annexed Technical Memorandum of Understanding are consistent with the strategies, direction, and objectives for the improvement of the balance of payments and the maintenance of a satisfactory level of liquid reserves. The Government will periodically consult with the Fund in accordance with the Fund's policies on such consultations, about the progress being made in the implementation of the programme described and about any policy adaptations considered to be appropriate for the achievement of its objectives. In any event, the Government will complete reviews with the Fund by July 31, 1987, October 31, 1987, and January 31, 1988 on the progress made in implementing the policies

affecting demand management and the exchange system described in this letter and accompanying annex and, if necessary, will reach understandings in the context of such reviews on any additional measures as may be needed.

Yours sincerely,

/s/
Headley Brown
Governor
Bank of Jamaica

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

Technical Memorandum of Understanding

1. This Memorandum describes more concretely certain key targets and policy understanding of the letter of the Government of Jamaica dated December 31, 1986, regarding Jamaica's economic program for the period through March 1988.

2. The financing requirement of the overall public sector over the period from March 31, 1986 through March 31, 1988 will not be more than J\$1,464 million. This financing requirement will not be more than J\$940 million from March 31, 1986 through March 31, 1987, will not be more than J\$997 million from March 31, 1986 through June 30, 1987, will not be more than J\$1,306 million from March 31, 1986 through September 30, 1987, and will not be more than J\$1,320 million from March 31, 1986 through December 31, 1987. For the purpose of this memorandum the overall public sector comprises the Central Government, local governments, the Capital Development Fund, the Bank of Jamaica, and all other public sector entities. The financing requirement is defined as the sum of foreign financing and domestic financing of the overall public sector. Foreign financing is defined as the sum of net official foreign capital flows (excluding pass-throughs listed in Table 7, and tolling), and net short-term debt flows of the overall public sector, minus the change in net international reserves as defined in paragraph 5 below, all valued at the exchange rate prevailing at the time of the transaction. Domestic financing is defined as the sum of (i) the change in banking system liabilities to the private sector and to other financial institutions, minus the increases in bank credit to the private sector and to other financial institutions, and in the net foreign assets and net unclassified assets of the commercial banks; (ii) the change in net credit of the nonbank financial institutions to the public sector; and (iii) the change in the holdings of public debt instruments by the nonfinancial private sector. Public debt instruments held by the nonfinancial private sector are defined to include any financial obligations of the public sector, including Bank of Jamaica Certificates of Deposit.

The limits on the overall public sector financing requirement as set out in attached Tables 1 and 2 will be subject to downward (upward) adjustment for any shortfalls (excesses) from the projected levels of disbursements of project-related foreign inflows. Such excesses and the corresponding upward adjustment may not exceed by more than US\$10 million or its Jamaica dollar equivalent the level of such projected disbursements at any test date as set out in attached Table 2. Indicative targets for the changes in the holdings of government securities or Bank of Jamaica Certificates of Deposit of selected public entities are set out in Table 3. External payments arrears of the public sector will be eliminated as described in Paragraph 5, below. The public sector will not incur any domestic payments arrears during the period December 31, 1986 to May 31, 1988.

3. The financing requirement of the Central Government, including the losses of the Bank of Jamaica, over the period from March 31, 1986 through March 31, 1988 will not be more than J\$2,287 million. This financing requirement will not be more than J\$1,210 million from March 31, 1986 through March 31, 1987, will not be more than J\$1,450 million from March 31, 1986 through June 30, 1987, will not be more than J\$1,892 million from March 31, 1986 through September 30, 1987, and will not be more than J\$2,028 million from March 31, 1986 through December 31, 1987. For the purpose of this paragraph, the financing requirement is defined to be the sum of net foreign borrowing of the Central Government and the Bank of Jamaica (including the change in net international reserves) valued at the exchange rate prevailing at the time of the transaction, and net domestic financing to the overall public sector as defined in paragraph 2 minus the change in the net banking system and nonbank credit to the public sector entities (excluding local government and the Capital Development Fund) as set out in attached Tables 1 and 2 which also detail projected quarterly flows. The limits on the central government financing requirement will be subject to downward (upward) adjustment for any shortfalls (excesses) from the projected levels of disbursements of project-related foreign inflows. External payments arrears of the Central Government and the Bank of Jamaica will be eliminated as described in paragraph 5 below. The Central Government and the Bank of Jamaica will not incur any domestic payments arrears during the period December 31, 1986 to May 31, 1988.

4. The stock of the net domestic assets of the Bank of Jamaica will be no higher than: J\$3,769 million from December 31, 1986 through March 31, 1987; J\$3,435 million from April 1, 1987 through June 30, 1987; J\$3,490 million from July 1, 1987 through September 30, 1987; J\$3,561 million from October 1, 1987 through December 31, 1987; and J\$3,116 million from January 1, 1988 through March 31, 1988. These ceilings will be subject to downward adjustment for any cumulative excess of net external debt disbursements as specified in paragraph 7 below. For the purpose of this paragraph, the stock of the net domestic assets of the Bank of Jamaica is defined as the difference between (i) the sum of the stocks of currency in circulation (defined as the currency issue minus the amounts held by the Bank of Jamaica and the domestic commercial banks), and the local currency counterpart of the gross cumulative allocation of special drawing rights; and (ii) the stock of net international reserves of the Bank of Jamaica as defined in paragraph 5 below. For the purpose of this paragraph, all foreign assets and liabilities except those denominated in special drawing rights (SDRs) will be converted into Jamaican dollars at the accounting rate of US\$1.00 = J\$5.50. The foreign assets and liabilities denominated in special drawing rights (SDRs) will be converted into Jamaican dollars at the accounting rate of SDR 1 = J\$6.60.

In seeking to achieve these targets, the Bank of Jamaica's open market operations will aim to achieve a level of base money of J\$2,078 million at end-March 1988, with intermediate targets of J\$1,893 million for end-March 1987, J\$1,943 million for end-June 1987, J\$1,967

million for end-September 1987, and J\$2,149 million for end-December 1987. Base money is defined as currency in circulation plus commercial bank reserve holdings at the Bank of Jamaica. These indicative targets may be modified upon understandings with the Fund staff in light of any changes in reserve requirements or any restructuring of reserve requirements resulting from reforms to the financial system.

5. The net international reserve position of the Bank of Jamaica which was negative US\$615.8 million on March 31, 1986, will not be less than: negative US\$526 million through March 31, 1987; negative US\$463 million through June 30, 1987; negative US\$473 million through September 30, 1987; negative US\$466 million through December 31, 1987; and negative US\$396 million through March 31, 1988. The net international reserve targets will be subject to upward adjustments for any cumulative excess over the projected net external debt disbursements specified in paragraph 7.

Foreign assets of the Bank of Jamaica are defined to exclude the foreign assets of the Government of Jamaica and the foreign assets of the Export Development Fund. For the purpose of this paragraph, foreign exchange held by the Bank of Jamaica to provide cover on its net forward commitments will be excluded from the foreign assets of the Bank of Jamaica. Net forward commitments are defined as forward sales of foreign exchange less forward purchases of foreign exchange. All foreign assets acquired in the form of swaps from foreign and domestic entities will be excluded from the foreign assets of the Bank of Jamaica. Swaps are defined as reversible purchases of foreign assets in exchange for domestic currencies or obligations.

Foreign liabilities of the Bank of Jamaica are defined to include (i) promissory notes related to prepayment of exports; (ii) any new borrowing by the Government, Bank of Jamaica, or any public sector entity with a maturity of less than one year not directly related to imports; and (iii) external payments arrears. All reserve liabilities shown in the attached Table 5 will continue to be treated as such, irrespective of any change in maturity. Official and private external payments arrears will be eliminated by end-March 1987. Thereafter, no external payments arrears will be incurred. Arrears are defined to include all external payments arrears, including overdue obligations of the Bank of Jamaica, the Government, or governmental entities, and up to March 31, 1987 exclude the programmed refinancing specified in Table 4, which has been derived under the assumption that the listed payments will be rescheduled before March 31, 1987 on terms equivalent to those obtained under previous rescheduling agreements with commercial banks and official bilateral creditors. Overdue replenishment obligations by the Bank of Jamaica to the EDF will be considered arrears. "Undue delays" for the purpose of defining arrears will include any delays of more than seven banking days beyond the date on which payments are due. All assets and liabilities in SDRs will be converted into U.S.

dollars at the accounting rate of SDR 1 = US\$1.20. Assets and liabilities in foreign currencies will be converted into U.S. dollars at cross exchange rates prevailing on March 31, 1986.

6. The uncovered forward position of the Bank of Jamaica (or any subsidiary) will not at any time exceed US\$2 million. Further, the total forward commitments of the Bank of Jamaica (or any subsidiary) whether covered or not, will not at any time exceed US\$10 million. The uncovered forward position is defined as the sum, in foreign exchange, of forward sales of foreign exchange less forward purchases of foreign exchange plus spot purchases of foreign exchange for the purpose of providing forward cover.

7. Any change in the stock of medium- and long-term external debt of the public sector (defined as consisting of the central government, local governments, the group of selected public sector entities, any other public sector entity, the Bank of Jamaica, and of the private sector with a government guarantee) in excess of US\$68 million between March 31, 1986 and March 31, 1987; US\$81 million between March 31, 1986 and June 30, 1987; US\$83 million between March 31, 1986 and September 30, 1987; US\$98 million between March 31, 1986 and December 31, 1987; and US\$120 million between March 31, 1986 and March 31, 1988 will lead to adjustments in the net domestic assets and the net international reserve targets described in paragraphs 4 and 5 above. Furthermore, the change in this stock will not exceed US\$88 million between March 31, 1986 and March 31, 1987; US\$101 million between March 31, 1986 and June 30, 1987; US\$103 million between March 31, 1986 and September 30, 1987; US\$108 million between March 31, 1986 and December 31, 1987; and US\$140 million between March 31, 1986 and March 31, 1988. The gross disbursement of external debt of the public sector with an original maturity range of between 1-5 years will not exceed US\$133 million between March 31, 1986 and March 31, 1987; US\$171 million between March 31, 1986 and June 30, 1987; US\$208 million between March 31, 1986 and September 30, 1987; US\$251 million between March 31, 1986 and December 31, 1987; and US\$293 million between March 31, 1986 and March 31, 1988. All projected changes in the stock of external debt are set out in Table 4. For the purpose of these ceilings, the definition of debt (i) will exclude Bank of Jamaica reserve liabilities; (ii) will exclude gross inflows associated with project financing by multilateral and other official development agencies; (iii) will include the repayment of arrears on debt; and (iv) will include disbursements from the United States Economic Support Fund. External debt transactions will be expressed in U.S. dollars, with conversions from other currencies effected at the exchange rates prevailing when the loan is disbursed.

8. The stock of short-term external debt of the public sector which was US\$60.9 million as of December 31, 1986 will not increase by more than US\$25 million between December 31, 1986 and March 31, 1988. Short-term debt is defined as trade and suppliers' credits with original maturities of less than one year.

9. In the event that the net international reserve (NIR) target during any programme period is not attained for reasons other than a temporary shortfall in ESF or IBRD-SECAL disbursements that is reversible within the programme period, the Bank of Jamaica will increase its net retentions from the foreign exchange auction market during the following quarter above previously programmed levels in order to facilitate attainment of the NIR target for that quarter. The modification is expected to trigger a depreciation of the exchange rate that would strengthen the performance of the overall balance of payments.

10. During the programme period, the exchange rate of the Jamaican dollar vis-à-vis the U.S. dollar will be adjusted as necessary; whenever the index of the real effective exchange rate of the Jamaican dollar indicates a cumulative appreciation from the level of December 1986 of more than 5.8 percent, the domestic currency will be depreciated by that amount, within a period of no more than four foreign exchange auctions. The measurement of the real effective exchange rate will be based on the index monitored by the Information Notice System of the Fund.

Table 1. Jamaica: Summary Public Sector Operations, 1986/87-1987/88

(In millions of Jamaica dollars, cumulative)

	March 31, 1986 March 31, 1987	March 31, 1986 June 30, 1987	March 31, 1986 Sept. 30, 1987	March 31, 1986 Dec. 31, 1987	March 31, 1986 March 31, 1988
<u>Overall public sector balance</u>	<u>-940.0</u>	<u>-996.9</u>	<u>-1,305.9</u>	<u>-1,319.5</u>	<u>-1,463.3</u>
<u>Central Government</u>	<u>-429.0</u>	<u>-508.6</u>	<u>-715.5</u>	<u>-710.4</u>	<u>-772.3</u>
Total revenue	4,268.0	5,292.4	6,437.1	7,539.9	8,822.7
Tax revenue	3,657.0	4,531.3	5,530.0	6,405.6	7,468.3
Measures	--	36.1	65.1	95.3	121.9
Nontax revenue	245.0	290.0	338.0	416.0	514.0
Bauxite levy	341.0	410.0	479.0	548.0	643.5
Divestment proceeds	25.0	25.0	25.0	75.0	75.0
Total expenditure	4,697.0	5,801.0	7,152.6	8,250.3	9,595.0
Current	3,761.0	4,662.0	5,724.0	6,682.0	7,787.0
Capital	936.0	1,139.0	1,428.6	1,568.3	1,808.0
<u>Bank of Jamaica</u>	<u>-781.0</u>	<u>-941.3</u>	<u>-1,176.4</u>	<u>-1,317.1</u>	<u>-1,514.0</u>
<u>Public entities</u>	<u>270.0</u>	<u>453.0</u>	<u>586.0</u>	<u>708.0</u>	<u>823.0</u>
<u>Memorandum item</u>					
Overall balance of Central Government and Bank of Jamaica	-1,210.0	-1,449.9	-1,891.9	-2,027.5	-2,286.3

Table 2. Jamaica: Public Sector Financing, 1986/87-1987/88

(In millions of Jamaica dollars, cumulative)

	March 31, 1986- March 31, 1987	March 31, 1986- June 30, 1987	March 31, 1986- Sept. 30, 1987	March 31, 1986- Dec. 31, 1987	March 31, 1986- March 31, 1988
Total financing	940.0	996.9	1,305.9	1,319.5	1,463.3
Foreign	140.3	-35.2	146.1	270.4	140.7
Net official capital	921.3	1,145.7	1,315.7	1,547.8	1,867.9
Pass throughs	-286.0	-338.3	-384.7	-452.4	-517.2
Change in reserves	-495.0	-842.6	-784.9	-825.0	-1,210.0
Domestic	799.7	1,032.1	1,159.8	1,049.1	1,322.6
Banking system	599.7	794.1	901.8	811.1	1,024.6
Other	200.0	238.0	258.0	238.0	298.0
Memorandum item					
Central Government and Bank of Jamaica financing	1,210.0	1,449.9	1,891.9	2,027.5	2,286.3
Foreign	-8.2	-217.5	-90.3	8.4	-190.8
Net official capital	519.8	665.3	736.6	898.6	1,103.5
Pass throughs	-33.0	-40.2	-42.0	-65.2	-84.3
Change in reserves	-495.0	-842.6	-784.9	-825.0	-1,210.0
Domestic	1,218.2	1,667.4	1,982.2	2,019.1	2,447.1
Public entities financing	-270.0	-453.0	-586.0	-708.0	-823.0
Foreign	148.5	182.3	236.4	262.0	331.5
Net official capital	401.5	480.4	579.1	649.2	764.4
Pass throughs	-253.0	-298.1	-342.7	-387.2	-432.9
Domestic	-418.5	-635.3	-822.4	-970.0	-1,154.5
Project disbursements (excluding pass-throughs)					
Overall public sector	382.8	507.1	651.2	771.7	947.7
Central Government	165.0	234.3	315.2	378.4	457.1

Table 3. Jamaica: Targeted Increases in Government Paper Held by the Selected Public Entities from December 31, 1986

(In millions of Jamaica dollars, cumulative)

	1986				1987
	March 31	June 30	Sept. 30	Dec. 31	March 31
<u>Total increases</u>	<u>77</u>	<u>254</u>	<u>371</u>	<u>388</u>	<u>465</u>

Table 4. Jamaica: Cumulative Net Disbursement of External Debt

(In millions of U.S. dollars)

	March 31, 1986 March 31, 1987	March 31, 1986 June 30, 1987	March 31, 1986 Sept. 30, 1987	March 31, 1986 Dec. 31, 1987	March 31, 1986 March 31, 1988
<u>Inflows</u>	<u>627.6</u>	<u>745.3</u>	<u>900.9</u>	<u>1,052.1</u>	<u>1,207.6</u>
Bilateral	134.5	162.1	192.2	225.8	265.5
United States	94.0	114.5	135.0	161.5	190.5
Canada	5.0	6.2	8.5	8.7	10.0
United Kingdom	4.5	5.6	6.7	7.8	9.0
Germany	5.0	6.2	7.5	8.7	10.0
France	6.0	6.0	7.0	7.0	8.0
Japan	3.0	4.2	5.5	6.7	8.0
Other	17.0	19.4	23.0	26.4	30.0
Multilateral	73.0	78.0	93.0	118.0	123.0
World Bank	50.0	50.0	60.0	80.0	80.0
IDB	23.0	28.0	33.0	38.0	43.0
Other	125.0	157.0	189.5	227.0	265.0
Rescheduling	295.1	348.2	426.2	481.3	554.1
<u>Outflows</u>	<u>-560.5</u>	<u>-664.5</u>	<u>-818.8</u>	<u>-954.5</u>	<u>-1,087.6</u>
<u>Net disbursements</u>	<u>67.1</u>	<u>80.8</u>	<u>82.1</u>	<u>97.6</u>	<u>120.0</u>
Memorandum item:					
Programmed refinancing	275.1	321.3	388.9	436.4	501.3

1/ Outflows include US\$11.4 million of principal arrears outstanding at March 31, 1986.

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

(In millions of U.S. dollars)

	Actual 1986 Mar. 31	Proj.				1988 Mar. 31
		1987				
		Mar. 31	June 30	Sept. 30	Dec. 31	
<u>Net international reserves</u>	<u>-615.8</u>	<u>-525.8</u>	<u>-462.6</u>	<u>-473.1</u>	<u>-465.8</u>	<u>-395.8</u>
<u>Assets</u>	<u>201.8</u>	<u>154.6</u>	<u>202.4</u>	<u>151.7</u>	<u>137.9</u>	<u>168.5</u>
Liquid	69.0	44.6	92.4	41.7	37.9	68.5
Nonliquid	132.8	110.0	110.0	110.0	100.0	100.0
<u>Liabilities</u>	<u>817.6</u>	<u>680.4</u>	<u>665.0</u>	<u>624.8</u>	<u>603.7</u>	<u>564.3</u>
IMF 1/	725.0	637.7	631.3	591.1	574.0	534.6
Central Bank of Libya	42.0	36.0	32.0	32.0	28.0	28.0
Bank of China	0.1	--	--	--	--	--
Norway Consultancy Fund	0.7	0.7	0.7	0.7	0.7	0.7
Marubeni	15.0	5.0	--	--	--	--
Commercial banks	1.0	1.0	1.0	1.0	1.0	1.0
Payments arrears (n.i.e.)	33.8	--	--	--	--	--

Source:

1/ SDRs converted at the rate SDR 1 = US\$1.2.

Table 6. Jamaica: Stock of Short-Term External Debt
at December 31, 1986

(In millions of U.S. dollars)

1.	Air Jamaica	0.9
2.	JAMINTEL	--
3.	Jamaica Broadcasting Corporation	--
4.	Jamaica Commodity Trading Corporation	10.2
5.	Jamaica Public Service Company	--
6.	Jamaica Telephone Company	2.4
7.	National Sugar Company/Jamaica Sugar Holdings	--
8.	Petroleum Corporation of Jamaica/Petrojam	46.2
9.	Sugar Industry Authority	--
10.	National Investment Bank	1.2
	<u>Total</u>	<u>60.9</u>

Table 7. Jamaica: Cumulative Cross Disbursements of External Debt Treated as "Pass Throughs"

(In millions of U.S. dollars)

	March 31, 1986 March 31, 1987	March 31, 1986 June 30, 1987	March 31, 1986 Sept. 30, 1987	March 31, 1986 Dec. 31, 1987	March 31, 1986 March 31, 1988
<u>Total</u>	<u>52.0</u>	<u>61.5</u>	<u>69.9</u>	<u>82.2</u>	<u>94.0</u>
Central Government	6.0	7.3	7.6	11.8	15.3
U.S. E.S.F.	6.0	6.0	6.0	8.5	11.5
U.S. AID - Energy Sector Assistance	--	0.2	0.5	0.8	1.1
IBRD - Students' Loan Bureau	--	1.1	1.1	2.5	2.7
Government guaranteed	46.0	54.2	62.3	70.4	78.7
IDB-Rehabilitation Fund	23.0	28.0	33.0	38.0	43.0
IBRD - Export Crops	10.0	10.9	11.8	12.7	13.7
U.S. AID - Energy Credit Fund	2.0	2.0	2.0	2.0	2.0
U.S. AID - rural farms credit	7.9	7.9	7.9	7.9	7.9
U.S. AID - agrobusiness development	2.1	2.1	2.1	2.1	2.1
Brazil - line of credit	1.0	1.0	1.0	1.0	1.0
Japan - coffee project	--	1.6	3.2	4.8	6.3
CDB - agricultural credit	--	0.7	1.3	1.9	2.7