

EBS/86/26
Correction 1

CONFIDENTIAL

February 27, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Jamaica - Review Under Stand-By Arrangement and Proposed
Understandings on the Program

The attached page 10 "Table 6. Jamaica: Balance of Payments" of EBS/86/26 (2/3/86) is being reissued to include the financing gap in 1985/86 that was closed by the Paris Club.

Att: (1)

resulted in a liquidity expansion from end-September through mid-December. Data for end-December are not yet available.

By September it was clear that the current account deficit in the balance of payments would be much larger than envisaged in the program. It is now estimated at US\$323 million (16 percent of GDP), or some US\$114 million above program, reflecting a sharp drop in alumina prices, a modest performance of nontraditional exports and tourism, and higher than programmed imports. The decline in net foreign exchange receipts from exports of bauxite and alumina is estimated at about US\$80 million, some US\$40 million more than programmed; tourist receipts could be some US\$30 million less than originally projected, and imports are now projected to be US\$30 million above program (Table 6).

During the period April-September, the adverse trends in the current account of the balance of payments were compounded by shortfalls in official capital inflows resulting from slow execution of projects and a late disbursement of certain economic assistance. However, private capital inflows amounted to US\$120 million in the period, which was well above program levels and largely offset the deterioration in the current and official capital accounts. These inflows seem to have been mainly in response to the interest rates and tight monetary conditions prevailing from March to September. They also may reflect other factors which encouraged the use of foreign credit, such as denial of access of importers and banks to the auction market to obtain foreign exchange to be used as escrow for the opening of letters of credit or as payment for imports on the basis of shipping documents. The net international reserves target of the Bank of Jamaica for September was missed by US\$29 million, of which US\$15 million could be ascribed to delays in disbursements.

As had been foreseen in the program, the Jamaica dollar depreciated gradually, averaging J\$5.5 per U.S. dollar in the period April-June, and J\$5.8 per U.S. dollar in July-September. In early October, however, the the Jamaica dollar came under pressure, depreciating to J\$6.4 per U.S. dollar on October 24. The authorities considered that the exchange rate depreciation and its price consequences could lead to a recurrence of civil unrest and might undermine business confidence. Moreover, they felt that most sectors of the Jamaican economy were internationally competitive at an exchange rate of J\$5.5 per U.S. dollar. They increased the supply of foreign exchange in the auction market to cause an appreciation of the Jamaica dollar to J\$5.5 per U.S. dollar and maintain it at that level (Charts 1 and 2). In this endeavor, the authorities used some resources which had not been foreseen in the program (including proceeds from the sale of an office building in New York), and in addition accumulated significant external arrears. The latter also partly reflected their inability to make further purchases under the stand-by arrangement and delays in disbursements of programmed aid flows. According to preliminary data, by the end of December 1985 arrears amounted to US\$112 million, including SDR 27.7 million to the

Table 6. Jamaica: Balance of Payments

(In millions of U.S. dollars)

	1980/81	1981/82	1982/83	1983/84	Prel. 1984/85	1985/86		April-Sept. 1985/86	
						Prog.	Rev.	Prog.	Prel.
<u>Current account deficit</u>	<u>-189</u>	<u>-438</u>	<u>-461</u>	<u>-282</u>	<u>-267</u>	<u>-209</u>	<u>-323</u>	<u>-135</u>	<u>-193</u>
Trade account	-192	-599	-658	-529	-513	-467	-599	-230	-286
Exports, f.o.b.	1,010	889	734	722	723	632	530	317	289
Bauxite/alumina	785	669	473	477	436	326	275	148	151
Nontraditional (excluding CARICOM)	80	84	105	96	151	177	160	94	80
Other	145	136	156	149	136	129	95	75	58
Imports, c.i.f.	-1,202	-1,488	-1,392	-1,251	-1,236	-1,099	-1,129	-547	-575
Bauxite related	-284	-300	-230	-216	-207	-190	-190	-87	-84
Nonbauxite related	-918	-1,188	-1,162	-1,035	-1,029	-909	-939	-460	-491
Service and transfer account	3	161	197	247	246	258	276	95	93
Travel (net)	230	301	317	361	368	394	365	192	164
Interest payments (net)	-176	-219	-250	-252	-279	-324	-314	-171	-152
Other services (net)	-146	-45	-20	-15	10	33	70	13	17
Transfers (net)	95	124	150	153	147	155	155	61	64
<u>Capital account</u>	<u>37</u>	<u>481</u>	<u>241</u>	<u>-166</u>	<u>764</u>	<u>208</u>	<u>419</u>	<u>167</u>	<u>196</u>
Public (net)	211	427	314	65	567	168	275	105	73
Inflow	314	649	639	450	974	606	702	297	269
Bilateral	66	188	293	273	583	228	347	...	...
Multilateral	25	66	51	51	65	97	82	...	...
Commercial banks	52	119	44	--	164	97	94	...	...
Other	171	276	251	126	162	184	179	...	...
Outflow	-103	-222	-325	-385	-407	-438	-427	-192	-191
Private capital (net) <u>1/</u>	-174	54	-73	-231	197	40	144	62	123
<u>Overall balance of payments</u>	<u>-152</u>	<u>43</u>	<u>-220</u>	<u>-448</u>	<u>497</u>	<u>-1</u>	<u>96</u>	<u>32</u>	<u>3</u>
<u>Financing</u>	<u>152</u>	<u>-43</u>	<u>220</u>	<u>448</u>	<u>-497</u>	<u>-96</u>	<u>-96</u>	<u>-32</u>	<u>-3</u>
Change in net international reserves (increase -)	152	-43	122	306	-266	-81	-81	-17	12
Gross reserves	11	-57	44	27	-127	34	11	48	52
Net use of IMF resources	-36	168	134	39	39	-19	-20	16	13
Arrears <u>2/</u>	65	-106	--	190	-118	-72	-72	-72	-65
Other	112	-48	-56	50	-60	-24	--	-9	12
Other arrears <u>3/</u>	--	--	98	142	-231	-15	-15	-15	-15
<u>Financing gap</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>97</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>Memorandum items</u>									
Bauxite equivalent (millions of metric tons)	12.4	11.0	7.8	8.5	7.6	6.2	5.9	...	...
Current account deficit (in percent of GDP)	-9.0	-20.2	-23.3	-12.7	-12.3	-11.6	-16.2	...	...
Rescheduled debt (millions of U.S. dollars)	52	87	153	111	535	206	206	...	...
Outstanding debt (millions of U.S. dollars)	...	...	2,812	3,090	3,440	3,730	3,741	...	...
Debt service (in percent of goods and services) <u>4/</u>	...	...	36.5	41.5	48.6	57.0	59.8	...	...

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Includes errors and omissions.

2/ Overdue payments treated as reserve liabilities for program purposes.

3/ Includes private sector overdue payments and overdue official debt payments in the process of being refinanced.

4/ Before rescheduling.