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Minutes of Executive Board Meeting 81/56

3:00 p.m., April 13, 1981

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	O. Kabbaj
	L. D. D. Price
A. Buira	M. A. Senior
	J. E. Leimone, Temporary
	O. Uçer, Temporary
B. J. Drabble	M. Casey
	M. Z. M. Qureshi, Temporary
	H. Suzuki, Temporary
J. C. Iarezza	R. T. Salazar
	H. Askari, Temporary
	J. R. Gabriel-Peña
B. Kharmawan	V. Supinit
	J. M. Jones, Temporary
	G. Winkelmann
	C. P. Caranicas
	T. Aulagnon
S. Nana-Sinkam	
	D. L. Kannangara
J. J. Polak	
	P. L. Mapa, Jr.
J. Sigurdsson	L. Vidvei
Zhang Z.	

L. Van Houtven, Secretary
W. C. Austin, Assistant

Also Present

African Department: W. B. Tshishimbi. Asian Department: J. Schulz. European Department: E. Croce, M. Dakolias. Exchange and Trade Relations Department: C. D. Finch, Director; H. W. Gerhard, M. Guitian, G. R. Kincaid. Legal Department: H. Elizalde, W. E. Holder, J. M. Ogoola. Research Department: G. I. Brown, N. M. Kaibni. Treasurer's Department: A. J. Mathuran. Western Hemisphere Department: E. W. Robichek, Director; S. T. Beza, Deputy Director; C. E. Sansón, Deputy Director; A. I. Abdi, O. Albertelli, E. O. Bell, H. Bierman, M. E. Bonangelino, J. E. Gonzalez, M. E. Hardy, C. S. Lee, S. J. Stephens, F. van Beek, J. F. van Houten, G. Yadav, E. V. Zayas, J. E. Zeas. Office of External Relations: S. Irving, G. P. Newman. Personal Assistant to the Managing Director: C. M. Watson. Advisors to Executive Directors: C. Bouchard, S. E. Conrado, G. Jauregui, F. A. Tourreilles. Assistants to Executive Directors: S. R. Abiad, A. F. P. Bakker, M. J. Callaghan, M. V. Carkovič, J. L. Feito, J. U. Holst, G. B. Lind, J. S. Mair, J. R. Novaes de Almeida, P. D. Peroz, J. Reddy, P. S. Tjokronegoro, P. Wichert, J. F. Williams, T. H. Williams.

1. JAMAICA - PURCHASE TRANSACTIONS - COMPENSATORY FINANCING FACILITY, AND FIRST CREDIT TRANCHE; EXTENDED ARRANGEMENT; AND EXCHANGE SYSTEM

The Executive Directors continued from the previous meeting (EBM/81/55, 4/13/81) their consideration of a request from Jamaica for a purchase in the first credit tranche and for an extended arrangement (EBS/81/79, 3/30/81; Cor. 1, 4/7/81; Sup. 1, 4/8/81; and Sup. 2, 4/10/81). They also considered a request from Jamaica for a purchase equivalent to SDR 37 million under the compensatory financing facility (EBS/81/78, 3/30/81; Cor. 1, 4/3/81; and Sup. 1, 4/10/81).

Mr. Caranicas commented that the policies of the Jamaican authorities were aimed at a sustained revival of the Jamaican economy, the same objective that had been unsuccessfully pursued by the previous administration. Both Mr. Drabble and the staff had mentioned adverse factors that had been beyond the control of the authorities and other factors that had resulted from inappropriate or ineffectively implemented government policies. A period of rapid growth from 1972 to about 1977 had led the Government to take certain basic measures to redistribute income and to grant new welfare benefits. It should not be forgotten that those policies of social reform had been carried out with the agreement of the Fund.

Other policies fostered by the Jamaican authorities, however, had been more controversial, Mr. Caranicas remarked. A Fund communiqué of June 1979 had stated that a more favorable setting for productive investment had been created, as Jamaica's international competitiveness had been restored by a sizable depreciation of the currency. However, new inflationary pressures had emerged with the depreciation of the currency, while the control of wages had brought about renewed social unrest. He wondered whether that was not an example of a Fund-endorsed policy that, with the benefit of hindsight, might perhaps be characterized as inappropriate.

The difficulties experienced by the authorities in attempting to increase bauxite and alumina exports and to reassure the private sector in an effort to restore business confidence were understandable, Mr. Caranicas continued. But, as pointed out, the authorities could not ensure an uninterrupted supply of materials and spare parts to the industrial sector during the first months of the previous stand-by arrangement. Whether a similar situation might not develop under the new arrangements remained to be seen, although the new "supply-side" and related policies, greatly needed at present, would be decisive in restoring business confidence. Positive expectations about exchange rates and inflation and business confidence were essential for smooth adjustment, but those factors were difficult to evaluate at the present time.

As the staff had pointed out, excessive government regulation and overstaffing in the public sector had resulted in serious inefficiencies in the past, Mr. Caranicas considered. In order to eliminate such handicaps, it might be better for the authorities to attempt to implement the new policy measures as quickly as possible. In fact, the success of the new three-year program, with a reorientation of economic philosophy, might critically depend upon the program's rapid and strict implementation. Such a concerted effort would be crucial in promoting the resumption of investment and capital inflows. Concerning the earlier flight of capital from Jamaica, it would be helpful to know whether there were calculations available regarding the possible repatriation of funds, prompted by renewed public confidence in the Jamaican economy. Like the return of managerial talent, the sooner the process of repatriation of funds began, the better for the country.

At present, given the recent agreements with donor nations, the expected approval of renegotiations with commercial banks, and the pledges of new foreign investment and assistance from international organizations, there existed a kind of euphoria about Jamaica, Mr. Caranicas stated. Thus, it was important for the authorities to maintain the present momentum and to undertake their austerity program with great intensity. Finally, he agreed with the new extended arrangement, with the purchase under the first credit tranche, and with the purchase under the compensatory financing facility.

Mr. Zhang stated that he supported the requests by the Jamaican Government, but noted with concern that the country's present difficulties had been of long duration. He wondered whether such fundamental problems could be reversed during the course of a three-year program. The basic reorientation of the authorities' policies, seemingly from one extreme to another, also provoked concern. The success or failure of the present program would also probably be dependent upon favorable external circumstances, which were not likely to be forthcoming in the next few years. Also, he questioned whether Jamaica would be eligible for further Fund assistance after three years, given the large size of the present drawing.

Mr. Nana-Sinkam said that he welcomed the application of the policy of enlarged access to Fund resources in the case of Jamaica. The circumstances appeared to warrant the waiver of the 600 per cent limit upon which the Executive Board had previously agreed. If management had concluded that the Jamaican case warranted a larger amount of assistance, there was no reason not to exceed the 600 per cent ceiling.

Several questions came to mind, however, not about the size and general character of the program itself, but about certain policy measures that had been taken by the authorities, Mr. Nana-Sinkam considered. First, assistance under the extended Fund facility should be directed toward long-term development of the economy, not to the solution of more immediate problems. In studying EBS/81/79, he had been particularly concerned with measures taken by the authorities to solve their problems over the medium term. He questioned the emphasis given to diversification of the economy, and whether the Government's concentration on alumina and bauxite production would fulfill the objective of strengthening the export sector. A visit to Jamaica in 1976 had revealed that the bauxite/alumina sector involved serious problems of waste treatment and disposal, and high energy consumption. Those problems remained and would undoubtedly complicate any efforts to increase exports. Further staff information on the difficulties in expanding the bauxite/alumina sector would be most helpful.

With respect to the budget, Mr. Nana-Sinkam said that the objective of merely limiting the deficit was inadequate as part of an extended arrangement. More decisive measures in the budgetary field might have been expected. Further information regarding the effect of the subsidy program on the budget would also be of benefit. While the staff had indicated that an improvement in the economy was anticipated, based partly on renewed vitality in the private sector, expenditures were still rising more quickly than revenues. Increased revenues could not be expected from the bauxite/alumina sector, however, unless tax structures were designed to promote the increased productivity and profitability of that sector.

While an announced objective in the monetary field was to improve the savings structure, the necessary measures to increase savings were not being contemplated by the authorities, Mr. Nana-Sinkam went on. Also, in the matter of the balance of payments, a certain reduction in the deficit might have been expected, although it might have been difficult in the present circumstances. In the development field, it was unclear how the authorities expected to increase GDP from -5.4 per cent in 1980 to 1.7 per cent in 1981, as indicated on page 35 of EBS/81/79. During the same period, investments were expected to increase by only 20 per cent, the same rate at which they had increased the previous year; any increase in investment was of course to be directed particularly to the production sector, which would offer some explanation of the anticipated growth.

As there would be an increased inflow of financial resources in 1980/81, every effort should be made by the authorities to take appropriate policy measures, Mr. Nana-Sinkam remarked. There was the danger of becoming overdependent on external assistance, if determined adjustment steps were not taken promptly. There was danger also if Fund assistance under an extended arrangement was used to pay arrears. Drawings under the extended Fund facility were intended to contribute to the productive vitality of the economy; medium-term assistance to pay arrears or to meet other international commitments would contribute little to adjustment over the medium term. In any case, he hoped that the pledges from donor countries to increase financial assistance to Jamaica would be realized. He supported the Jamaican requests, given the impressive promises of external assistance and the strong leading role taken by the Fund.

Mr. Gabriel-Peña, agreeing with the remarks of previous speakers, said that he hoped that policy actions being undertaken by the Jamaican authorities would bring about economic recovery.

The staff representative from the Exchange and Trade Relations Department recalled that several speakers had inquired about what appeared to have been a breach of the guideline for Fund assistance of 600 per cent of quota, which had been a cumulative limit discussed in the staff report on enlarged access to Fund resources. In that context, Table 1 on page 2 of EBS/81/79 indicated that the projected IMF position vis-à-vis Jamaica, excluding drawings under the compensatory and buffer stock financing and oil facilities, would reach the equivalent of some 642 per cent of quota. However, it should be borne in mind that the 642 per cent represented the Fund's holdings of Jamaican currency, while the 600 per cent guideline referred to a concept of net use of Fund resources. The guideline, formulated in terms of Fund holdings, would be 700 per cent of quota, and Fund assistance to Jamaica had therefore not breached the ceiling. With respect to the possibilities for further Fund assistance to Jamaica at the end of the three-year program, resources still remained available within the existing guideline. It should also be noted that the 600 per cent of quota guideline took into account the repurchases scheduled during the life of the arrangement; the applications up to 1984 had been shown in Table 1.

The Director of the Western Hemisphere Department stated that the present proposal undoubtedly involved high risk. As Mr. Polak had accurately suggested, the return of public confidence would play an essential role in the economic revival. Obviously, no one could predict with much assurance how quickly confidence would return, but its restoration would bring an accelerating improvement to the economy; conversely, any drop in confidence would result in the acceleration of economic decline. Concerning the current optimism prevailing in Jamaica, it was probably somewhat of an exaggeration to call it euphoria, because the private sector in Jamaica was actually waiting for Executive Board approval of the extended arrangement. No demonstrable response was to be expected until the Executive Board had ruled on Jamaica's request, but a fairly quick reaction could be expected from the private sector following Fund approval.

To provide any quantified evidence on the exodus of managerial talent was extremely difficult, the Director continued. However, there were some indications that a movement of managerial talent back to Jamaica had already begun.

The staff agreed that a more precise definition of policy measures for the years ahead would have been desirable, the Director stated. However, the length and precision of any definition of future policy involved complications, because the authorities believed that to make public any specific commitments to future action would be politically as difficult as taking the measures immediately. Consequently, they had shown a considerable reluctance to spell out their policy intentions. On the one hand, they had wanted to convey a measure of optimism in order to encourage the return of public confidence; but on the other hand, they had been reluctant to give promises to the Fund that might be impossible to keep. In the past, the previous Government's inability to keep its policy commitments had brought a decline in domestic and international confidence.

Referring to Mr. Zhang's question about the length of the adjustment process, the Director remarked that it was doubtful that the process could be completed in three years. It was an ongoing process that might take a decade, but sufficient adjustment could be completed within the three-year program to put the Jamaican economy back on track. With respect to Mr. Nana-Sinkam's skepticism about projected GDP growth figures for calendar year 1981, the Director considered it preferable to look ahead to fiscal year 1981/82. The figure given for that 12-month period was an estimate by the Jamaican authorities and was quite possibly on the conservative side. The 3 per cent, 4 per cent, and 5 per cent growth targets for the three program years could well turn out to be reversed; in other words, it was probable that there would be more growth in the first year than in subsequent years, if everything went according to plan, because of the general underutilization of capacity in the economy at present. So, although the economic policy memorandum gave the figures of 3 per cent, 4 per cent, and 5 per cent for the three program years, the staff had used slightly different figures for fiscal year 1981/82 in its own projections--a 3.7 per cent GDP growth rate. All in all, the staff was therefore inclined to be less skeptical than Mr. Nana-Sinkam about the GDP growth rate for the period immediately ahead.

Jamaica would continue to have large current account deficits, as had been the case when the Jamaican economy had been doing well, the Director said. However, during more prosperous times, spontaneous private capital inflows had financed the bulk of the current account deficit. More recently, balance of payments assistance from public sources abroad had been required to finance the deficit. Once again, it was a question of how quickly confidence would return and how that confidence would be reflected in spontaneous inflows of capital--foreign capital as well as a return of resident flight capital. In that context, if the capital flight was eliminated, that in itself would represent a considerable balance of payments relief.

The present parallel market, which was barely tolerated, was thought to be fed for the most part by marijuana exports, the Director observed. The magnitude of those exports, or more precisely the portion of those exports flowing back into Jamaica, was extremely difficult to estimate. The U.S. State Department had at one time attempted to estimate the landed value of marijuana exports from Jamaica arriving in the United States, and had come up with a staggering figure. The staff had made three notional estimates of the inflow of receipts from marijuana exports: $10 million a month, $20 million a month, and $30 million a month. In his view, the intermediate estimate was probably the most nearly correct. Thus, a market of approximately a quarter billion U.S. dollars was involved, which was certainly an appreciable amount in relation to the inflows through the official market. The staff expected that the semilegalization of the parallel market would encourage inflows from other sources, including workers' remittances, although some of them were already coming through the street market. Nevertheless, it was conceivable that there would be an encouragement of workers' remittances with the semilegalization of the parallel market. How much of those inflows would go into imports was difficult to estimate. The staff expected that an import volume of something on the order of $100-$150 million would be passed through that market. The parallel market was still only a tolerated market, because under the exchange controls there was no legal way that residents of Jamaica could hold funds abroad. Therefore, the amendments of the Exchange Control Regulation really only referred to transactions in Jamaica, physically intermediated in Jamaica through a system of retained accounts. However, the staff had received an official interpretation to the effect that any inflows, including operations offshore, would be tolerated. The staff had received word from the highest authority that the financial police under the control of the Ministry of Finance would no longer be used to enforce the exchange control regulations. Thus, any resident or non-resident could expect to operate in the parallel market with impunity.

As several Executive Directors had pointed out, the staff had taken the position in May 1979 that the Jamaican exchange rate had been brought back to an equilibrium level, the Director continued. Since that time the rate of inflation in Jamaica had far exceeded the rate in its trading partners. There were, therefore, grounds for skepticism about the viability of the official exchange rate. However, the Jamaican authorities were firmly of the view that the worst thing that they could do, in terms of trying to restore confidence, was to perform an official exchange rate adjustment at present. Whether they would be more open to such an adjustment at some future time was difficult to predict. It was the resistance to an exchange rate adjustment that had led the staff to insist on the legalization of the parallel market as a safety valve. If the parallel market could really take hold, it would probably take pressure off the official exchange rate.

As far as import licensing restrictions were concerned, the staff had strongly urged greater liberalization, as indicated in EBS/81/79, the Director stated. One of the problems was that import licensing had not been used as a balance of payments instrument only, but as a protectionist device as well. As a result, the authorities were rather reluctant to engage in liberalization on a broad front. On a limited front, the staff had received the necessary assurances that there would be a liberalization of the import licensing restrictions as the exchange constraint eased. The staff had received the full support of the World Bank in calling for liberalization, and the World Bank was likely to insist on further liberalization as a condition for a structural adjustment loan.

As to external payments arrears, several Directors were apparently under the impression that the target was to eliminate two thirds of $170 million, the Director noted. That was not correct; the target was two thirds of what had been estimated to be the starting level of $120 million, which now turned out to be a starting level of just over $105 million, as announced earlier. Thus, the target was to bring down the arrears to something on the order of $40 million, which should be quite realistic. It was even conceivable that if the program was observed, the payments arrears would be totally eliminated by the end of the first year.

Although Jamaica faced depressed tourist demand in the world at large, it could look forward to an appreciable increase in capacity utilization, the Director remarked. Staff projections on the recovery of the tourist industry were not excessive, and had been based on plans adopted by the Jamaican authorities following an extensive dialogue with Fund staff. With respect to exports, Mr. Nana-Sinkam had questioned whether it was wise to rely so heavily on the bauxite and alumina sector given a not particularly strong world market for alumina, and Mr. Mapa and other speakers had pointed out that alumina smelting was very energy-intensive. However, the bauxite levy had been negotiated in such a way that the levy rate diminished as output increased, which, of course, was a powerful incentive for full utilization of existing capacity. Concerning the ruling of the U.S. Internal Revenue Service, the matter of Jamaican bauxite and alumina exports was under consideration, but there was no way of knowing what the decision would be.

With respect to fiscal policies, the authorities appeared to be determined to undertake a tax reform, although they were proceeding cautiously because of the need for preparatory work, the Director added. The authorities, however, had agreed to speed up the tax reform, provided the Fund was willing to offer technical assistance. On the subject of taxation, it was possible that the sharp reduction in tax collection was evidence of tax buoyancy with a negative sign. Jamaica had gone through so many years of declining income that what had been seen as an over-reaction of the tax system might actually be evidence of much greater tax buoyancy than indicated in EBS/81/79.

As stated in the Economic Policy Memorandum, the variable item, as far as current expenditure was concerned, was the wage bill, the Director continued. Although the authorities were not willing to undertake a program of extensive dismissals in the public sector, they were willing to allow attrition to work its course. In the central government's budget, J$39 million had been provided for subsidies. However, that was not the full extent of subsidization in Jamaica, which was also reflected in the deficits incurred by some of the public services, as in the case of the Jamaica Omnibus Service. The public service areas were precisely the sectors in which the Government had committed itself to make a new start, involving a rather radical overhaul as well as divesting itself of certain deficit state enterprises. One area of present, and more so of potential, subsidization was the petroleum sector. As indicated in EBS/81/79, by early 1980 the prices charged to consumers had more than caught up with costs. A suspense account had been established with funds derived from price hikes in excess of cost increases to keep prices of petroleum derivatives stable for a period ahead. The authorities had indicated that it was their intention to carry on that policy as long as there were funds in the suspense account. The staff had strongly urged that the Jamaican authorities follow through with their commitment to raise petroleum prices again when the funds in the suspense account became exhausted. Concerning price controls, he referred Executive Directors to page 9 of EBS/81/79 and emphasized that the major concern was not the scope of the price controls, but rather how some of those prices were actually administered. Consequently, the authorities had agreed to modify their approach in the future.

Two important elements were apparent with regard to monetary policy, the Director said. First, the Bank of Jamaica was committed to what was basically a zero ceiling on the expansion of its net domestic assets, which meant that there could not be any major credit operations with either the public sector or with the rest of the banking system. Second, there was the matter of interest rate policy, which had been fully explained in EBS/81/79. Government policy basically involved allowing market forces to determine the yield on treasury bills, which were sought by banks because they were the highest yielding asset that qualified under the liquid asset ratio.

Concerning relations with third parties, there had been consultations not only with the World Bank, but also with other international financial institutions within the framework of the Caribbean Group for Cooperation in Economic Development, which was now in its third year, the Director recalled. The Caribbean Group was led by the World Bank with the cooperation of the Inter-American Development Bank, the Caribbean Development Bank, the United Nations Development Programme, and the Fund. There were annual plenary sessions as well as interim sessions, and Jamaica had been an important beneficiary of that group. The latest meeting had recently been held in Kingston, and on that occasion a certain number of pledges had been received; they had been cited by the press as amounting to $350 million.

With respect to the World Bank's role in advising Jamaica on an investment program and the extent to which that advice would be reflected in future programs, the Director stated that the World Bank had been extremely active in Jamaica. Currently, World Bank officials were exploring the possibility of a structural adjustment loan, having indicated to the Caribbean Group Donors' Meeting that they were undertaking an extensive review of the Jamaican public investment program. Included in the World Bank's general review of Jamaica's investment priorities would be a detailed investigation of energy policy. World Bank involvement to date with respect to the Jamaican Investment Program was outlined on pages 10 and 11 of EBS/81/79.

In reference to Mr. Nana-Sinkam's statement about the use of Fund resources to pay off arrears, the Director considered that, if Fund resources had not been used in that way, the current account deficit would have been that much larger. With the magnitude of expected inflows from other international financial institutions and donor governments, it had only been reasonable to use Fund resources to pay off arrears that had done great damage to Jamaica's credit standing. With respect to the possibility of a waiver, mentioned by Mr. Price and Mr. Mapa, there was little reason to request a waiver for Jamaica. Because all the ceilings in the present proposals were adjustable, at least partially, for shortfalls in expected inflows, adequate flexibility already appeared to be present. All performance criteria of the program were subject to testing at all times--in the present case, there was no quarterly test. The staff's intention was to combine the next Article IV consultation with the fiscal review, called for in a special review clause, which was expected to take place about mid-1981.

Thus far, no model for pricing policies by state enterprises had been designed, but those policies had been among the improvements promised by the authorities, the Director went on. In his view, there would continue to be deficient pricing policies in certain areas, especially in the public transport field. However, the new Government had made a commitment to divest itself of several such enterprises as quickly as possible. Of course, the realization of that commitment would depend upon finding appropriate buyers. Several committees had been established to draft rules for divestment. Some of the designated state enterprises were beginning to appear on the market, particularly certain enterprises in the tourist sector. In addition, he hoped that the Government would divest itself of commercial enterprises. With regard to state enterprises that would continue to remain to some extent in deficit, the Jamaican authorities were looking to improvements in their management or to restriction of their operational scope in the hope of obtaining better financial results.

The staff representative from the Research Department explained why travel receipts were included in the calculation of the shortfall under the compensatory financing facility. In the case of Jamaica, the shortfall of merchandise exports alone was sufficiently large to justify the proposed drawing of SDR 37 million under the compensatory financing facility. The authorities, however, had requested that travel receipts be included in the calculation, which perhaps underscored their confidence in the prospects for that sector. With reference to the questions on bauxite and alumina, it was clear that bauxite and the other major commodities, sugar and bananas, had either stagnated or declined sharply during the period from 1975. The recovery that was projected would start in 1981 for bauxite and alumina, and in 1982 for sugar and bananas. The bauxite and alumina recovery would stem from two factors. Higher output from existing capacity would be combined with increased output from new capacity that was likely to be installed during the period under consideration. Substantial tonnage of bauxite would probably be exported to new markets, in addition to moderate increases expected in shipments to traditional markets. The shortfall in volume of bauxite and alumina stemmed from projected increases in the two postshortfall years and not from a decline in the shortfall year itself.

Mr. Nana-Sinkam commented that Fund assistance under extended arrangements should not be used to solve problems of payments arrears; those problems could be solved through Paris Club negotiations or through other monetary institutions. If Fund resources were used to meet payments arrears, and if appropriate measures were not taken in the development field, the difficulties that had initially caused the payments arrears would return.

The Chairman stated that the authorities were counting on the revival of private investment as one of the major lines of recovery. Obviously, that revival required a supportive financial environment, and the elimination of arrears was crucial for the creation of that environment. By helping Jamaica to eliminate its arrears, the Fund was bolstering the financial confidence that was one of the conditions for future growth of the private sector in Jamaica. While the distinction had to be made between payments arrears and the rescheduling of the external debt, it would have been difficult not to address the question of the elimination of arrears when considering the use of Fund resources to promote the medium-term adjustment of the Jamaican economy.

Mr. Drabble said that, on behalf of his authorities, he was grateful for the sympathetic understanding shown by Executive Directors in their consideration of the economic difficulties in Jamaica and the proposed adjustment program. Many speakers, he noted, viewed the reluctance of the authorities to intensify the adjustment in the first year, particularly in the area of the budget, as comprehensible, even though they were disturbed by the low degree of adjustment effort contemplated in the second and third years. Speakers were also concerned that the extremely large foreign assistance expected in the first year of the program could not be counted upon in the subsequent years. While his authorities hoped to see a revival of private capital inflows, from foreign investors and on the part of the Jamaican private sector, which did have appreciable assets abroad, the capital inflows would constitute a good deal less than the amount pledged through official support during the first year. He tended to agree with those speakers who felt the need to be cautious in estimating the volume of external assistance that might be available in the second and third years. One of the problems that had developed during the previous extended arrangement had been the periodic shortages of foreign exchange, which had made it impossible on several occasions to supply foreign exchange to importers with licenses for essential raw materials and spare parts.

As several Directors had mentioned, it was somewhat surprising that government revenues were expected to perform rather weakly in the first year of the recovery, Mr. Drabble continued. The official estimates of revenue had been made on the conservative side, since the authorities were concerned with avoiding the problems of overoptimistic forecasts that had arisen in the past. While there was a need for much improvement in the tax administration and collection machinery, government revenue efforts should be helped considerably by the introduction of ad valorem taxes on many items. With regard to the fiscal effort that was needed, the question of ensuring an adequate flow of revenue while not discouraging production had been a central concern of the authorities. To continue pressing for further overall reductions on the expenditure side would be extremely difficult, but there might be some scope for economy within the government sector, especially in terms of the public payroll. However, it should be borne in mind that within the public sector a number of areas had been in effect run down by past years of austerity. In areas such as transportation and public utilities, an increase in investment would be necessary if they were to play their role in an economic revival.

With regard to the Government's divestment policy, Mr. Drabble remarked that it should be recognized that the Government wanted to time sales to the best advantage. For instance, before attempting to sell certain hotels that had been taken over by the Government, the authorities were waiting for evidence of a pickup in hotel bookings, in order to realize something closer to the original cost to the Government of those enterprises. In some cases, problems resulted from serious losses incurred, and it might be argued that in those cases the enterprises would have to be sold below their nominal value to avoid further losses. However, in general, the authorities were making every effort to ensure that their divestments were made on the best possible commercial terms.

Referring to the authorities' efforts to increase exports, Mr. Drabble stated that there were a number of possibilities beyond bauxite, alumina, and the revival of the sugar and banana industries. There was great potential within the agricultural sector, in terms of both developing new products and producing additional exports. For instance, Jamaica currently produced a high-quality coffee, 70 per cent of which was being sold to Japan; it was encouraging to note that there was substantial scope for an increase in coffee production. Moreover, given Jamaica's climatic advantages, there was considerable scope for development of nontraditional exports of fruits and vegetables. In that context, more of the food consumed by tourists in Jamaica could be produced locally, thus allowing a cut in imported food. The authorities had determined that it would be possible to produce at least enough beef in Jamaica to supply the tourist demand in the hotels. They also planned to develop rice production, which would help to reduce Jamaica's present dependence on cereal imports. Furthermore, there was scope for producing most, if not all, of the vegetable oil needed for domestic purposes; much of the required vegetable oil was now imported. Thus, there was considerable scope for expanded production in agriculture that would allow greater import substitution and the development of nontraditional exports.

The Jamaican authorities were also exploring with the World Bank the possibility of creating the Jamaica Free Zone, which would permit the operation of industries outside the local tax framework, Mr. Drabble observed. Such an arrangement had turned out to be very useful for Barbados--also in his constituency--by providing a valuable source of diversification in the economy, as well as creating additional jobs with attractive wages. Overall, much more substance could be expected in the definition of the program before the second year because the new Government had been in office for only about five months and had had to devote a great deal of its attention to extremely difficult short-term problems. But with those problems now better in hand, he was certain that the various aspects of longer-term development would be given very careful consideration in the immediate period ahead.

Concern had been expressed about the abrupt reversal of policy, but that reversal was to a large extent more apparent than real, Mr. Drabble continued. Of course, there was clearly a reorientation in overall perception on the part of the present Government, with greater reliance on market forces than on government intervention and regulation. However, the record indicated that the previous Government had been increasingly concerned with the need to address problems of production, as opposed to problems of income distribution that had initially been given high priority. Thus, the previous Government had undertaken a number of policy measures, which were now being further carried out by the present administration. Of course, having come into office with a certain degree of ideological enthusiasm in its early days, the previous Government had had some difficulty in making the policy shift, which had become increasingly necessary. Indeed, some of the policy statements of the previous Government in connection with Fund programs attempted to make very clear what was seen as an important role for the private sector; there was a real effort to develop a partnership between the Government, the labor unions, and the private sector. But, unfortunately, that partnership had been difficult to realize because of the previous Government's earlier statements and actions. The new Government, having been out of office for eight years, was not burdened with a legacy of previous policy commitments. In general, the change in policy emphasis was due to the increasing perception that priority had to be given in a most urgent way to boosting production and to improving the balance of payments through a rapid development of specific economic sectors.

With regard to the rescheduling of debt, Mr. Drabble said that he believed that the lead banks involved in lending to Jamaica had agreed to a 100 per cent rescheduling of capital repayments falling due in the next three years, and were considering the provision of an additional amount of approximately $70 million of new lending. That agreement represented an appreciable improvement over what it had been previously possible to obtain from those banks. Under a previous extended arrangement, there had been only an 85 per cent rollover, and it had not proved possible to obtain any net additional funds from the banks. Thus, the recent agreement had been an important step in encouraging other external financing.

The Director of the Western Hemisphere Department added that the commercial banks had agreed to defer 100 per cent of the amortization payments and maturities in fiscal years 1981/82 and 1982/83, which had not been previously deferred--those payments would have amounted to $58 million. Nondeferrable maturities--those that had already been deferred--constituted a relatively small amount, less than $20 million. In addition, the lead banks had agreed in principle to raise another $70 million, which would be more than adequate to finance the already rescheduled maturities. The Jamaican authorities also hoped to obtain a deferral of approximately $40 million owed to two governments; that would leave amortization payments of some $78 million to be paid to international institutions, bilateral lenders, and banks. An installment on the capital payment to the former owners of bauxite companies that had been nationalized--an amount totaling some $26 million--was also due. In total, the deferrals amounted to approximately $100 million, which left a similar amount of amortization payments actually to be made.

The Executive Board then took the following decisions:

Purchase Transaction - Compensatory Financing Facility

1. The Fund has received a request by the Government of Jamaica for a purchase of the equivalent of SDR 37 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).

2. The Fund notes the representation of Jamaica and approves the purchase in accordance with the request.

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

Decision No. 6824-(81/56), adopted
April 13, 1981

Purchase Transaction - First Credit Tranche

1. Jamaica has requested a purchase equivalent to SDR 21.8 million, which is the balance available in the first credit tranche. The Fund approves the requested purchase.

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

Decision No. 6825-(81/56), adopted
April 13, 1981

Extended Arrangement

1. The Government of Jamaica has requested an extended arrangement for a period of three years from April 13, 1981 in an amount equivalent to SDR 477.7 million.

2. The Fund approves the extended arrangement in an amount equivalent to SDR 236.4 million set forth in EBS/81/79, Supplement 1.

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

4. In accordance with the request of the Government of Jamaica, the extended arrangement approved by the Fund on June 11, 1979 is cancelled as of April 12, 1981.

5. The Fund will be prepared to augment the amount of the new arrangement to SDR 477.7 million when the enlarged access policy becomes operational.

Decision No. 6826-(81/56), adopted
April 13, 1981

Exchange System

Jamaica maintains a multiple currency practice arising from the informal foreign exchange market, and an exchange restriction arising from arrears on payments and transfers for current international transactions, and other restrictions on payments and transfers for current international transactions described in EBS/81/79. In view of the circumstances of Jamaica, the Fund grants approval of the multiple currency practice and these restrictions until March 31, 1982, or the completion of the next Article IV consultation, whichever is earlier.

Decision No. 6827-(81/56), adopted
April 13, 1981

APPROVED: August 31, 1981

ALAN WRIGHT
Acting Secretary