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BUFF/ED/92/80

December 10, 1992

Statement by Mr. Smee on Jamaica
Executive Board Meeting 92/149
December 11, 1992

Jamaica has had Fund programmes almost continuously since 1978 and is one of the longest users of Fund resources. Nevertheless, outstanding Fund credit to Jamaica has declined from 445 percent of quota as at end-May 1985 to 181 percent of quota as at end-September 1992. Moreover, a further reduction in Fund exposure in Jamaica is envisaged over the medium term, even including the purchases under the proposed extended arrangement.

Looking back, Executive Board discussions on Jamaica have, by necessity, had a predominantly short-term focus. This can be attributed both to the review process of stand-by arrangements and to the difficulties that Jamaica has had to overcome in recent years. This short-term focus has prevented an appreciation of important long-term policy developments that have taken place in the Jamaican economy. I would thus like to provide some perspective on how far along the road of adjustment Jamaica has come and where my authorities intend to be in three years' time.

Over the years, Jamaica has implemented a strategy of progressively reducing fiscal imbalances. To this end, there have been ongoing efforts of fiscal consolidation, which have succeeded in bringing the public sector borrowing requirement from 13 percent of GDP in 1988/89 to near balance in 1991/92. Jamaica has implemented comprehensive tax reforms which have lowered marginal tax rates, broadened and increased the elasticity of the tax base, and simplified the tax system through the introduction of the General Consumption Tax (GCT).

On the expenditure side, my authorities have carried out substantial streamlining of the public sector to improve efficiency and administrative effectiveness, as well as to eliminate virtually all general subsidies. Further, discipline is being maintained over the public sector wage bill, thus contributing to private sector wage moderation. Wage negotiations with the central government employees union are taking place now, but the Government is committed to limiting any settlement to achieve the programme's objectives.

With regard to the monetary system, Jamaica has pursued efforts to improve the effectiveness of monetary policy instruments and the efficiency of financial system operations. My authorities have been successful in increasing reliance on indirect instruments in the conduct of monetary policy, and have increased the use of open-market operations. For some time now, interest rates have been determined by market forces and have thus been

free of direct government control. In addition, progress has been made in improving the Bank of Jamaica's supervisory function, and a plan is being implemented to eliminate Bank of Jamaica losses.

Jamaica has also implemented major structural reforms. Progress has been made in strengthening the process of divesting assets and privatizing public holdings. Efforts have been directed toward improving management practices and price structures of remaining public enterprises. Notable has been the elimination of the import monopoly of the Jamaica Commodity Trading Corporation and the upward price revisions designed to eliminate subsidies. Similarly, automatic cost pass-through mechanisms have been established for the electricity company, the water supply authority and the state petroleum company (PETROJAM).

Foreign exchange liberalization has figured prominently in Jamaica's most recent Fund programme. All restrictions on payments and transfers for current international transactions have been eliminated and virtually all controls on capital transactions (including surrender requirements) have been removed. The value of the Jamaica dollar is now determined by a fully liberalized interbank market. With the tightening of financial policies and the reversal of speculative activity, the value of the Jamaican dollar has remained stable since June 1992.

With respect to trade liberalization, Jamaica's external trade is now essentially free of quantitative controls, and the licensing requirements that remain reflect mainly health and security concerns. My authorities have also been at the forefront in seeking support from other CARICOM governments for a substantial reduction in the average level and dispersion of regional import tariff rates. In addition, Jamaica continues to work towards improving the regulatory environment affecting international trade.

A positive performance has been recorded in the external accounts, with the current account deficit declining from 8 percent of GDP in 1988/89 to 5 percent in 1991/92, with reasonable prospects of trimming the ratio to around 1 percent of GDP in the current fiscal year. This stronger current account performance, together with healthy net private capital inflows should continue to allow further improvements in the Bank of Jamaica's net international reserves.

Despite all of these accomplishments, external debt burden continues to be large, with external interest payments alone accounting for 10-11 percent of GDP. This issue has been raised as a concern on a number of occasions in the Executive Board, as it inhibits the achievement of medium-term balance of payments viability and, thus, Jamaica's economic prospects. Although Jamaica is still one of the most indebted countries in the world, it has nevertheless generally serviced its debt in a timely manner. As such, Jamaica's management of its debt in recent years should be viewed as an important achievement.

While considerable progress has been made in past years, further reforms are necessary to place Jamaica firmly on the path of balanced, sustained growth. My authorities are committed to continuing adjustment so

as to increase the economic and financial viability of Jamaica and, thus, ultimately to obviate the need for Fund-supported programmes and exceptional balance of payments support.

It is in this context that my authorities have developed a medium-term strategy designed to consolidate the progress achieved to date, to attain a viable external position, and to make further improvements in the incentive structure for private investment as a basis for promoting sustained economic growth. This strategy focuses on raising domestic savings and investment and improving the efficiency of resource utilization through restrained financial and incomes policies, supported by further structural reforms.

My authorities envisage a progressive improvement in the public sector balance to reach a surplus position of 3.5 percent of GDP by 1995/96. Bank credit expansion will be restrained to achieve the objectives of price and exchange rate stability. Additional structural reforms will focus on fostering private sector activities through privatization and liberalization of the trade and regulatory environment. Confidence arising from the pursuit of sound economic policies and a stable economic environment should help raise private sector savings and investment.

Jamaica's medium-term programme seeks to achieve substantial improvements in the balance of payments so as not to require recourse to exceptional financing from Paris Club creditors after the expiration of the proposed extended arrangement. On the basis of my authorities' policies and external prospects, the external current account deficit is projected to shift to a surplus by 1995/96. Given that Jamaica's small open economy will continue to be vulnerable to external shocks, the programme envisages a sizeable build-up of international reserves.

My Jamaican authorities believe that the policies described in the Letter of Intent and further elaborated in the Technical Memorandum of Understanding will achieve the objectives of their economic programme over the next three years. My authorities would like to express their appreciation to the staff and management for their assistance and continued support.

