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January 22, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Jamaica - Staff Report for the 1987 Article IV Consultation
and the Third Review Under the Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with Jamaica and the third review under the stand-by arrangement, which is proposed to be brought to the agenda for discussion on Monday, February 22, 1988. Draft decisions appear on page 22.

Mr. Elson (ext. 8477) 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 1987 Article IV Consultation
and the Third Review under the Stand-by Arrangement

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations
Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by S.T. Beza and S. Kanesa-Thanan

January 21, 1988

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I. Introduction

The discussions for the 1987 Article IV consultation with Jamaica and the third review under the 15-month stand-by arrangement approved in March 1987 were conducted in Kingston during the period November 23-December 8, 1987. ^{1/} The representatives of Jamaica in these discussions included the Prime Minister, who is also Minister of Finance, the Governor and Deputy Governors of the Bank of Jamaica, the Accountant General, and other senior officials. The staff team comprised Messrs. Elson (Head-WHD), De Zoysa (FAD), and Guzman (WHD), Mrs. Schmitz (WHD), Mr. Weerasinghe (ETR), and Mrs. Puri (Secretary-WHD). The team was assisted by Mr. Hill, the Fund resident representative in Jamaica. Mr. Massé, Executive Director for Jamaica, participated in some of the policy discussions.

The previous Article IV consultation was concluded by the Executive Board on March 2, 1987 (EBM/87/34) at the same time that the current stand-by arrangement for SDR 85 million was approved (annual access of 46.7 percent of quota), together with a CF purchase equivalent to SDR 40.9 million (28.1 percent of quota). Thus far, Jamaica has made four purchases under the arrangement for a total amount of SDR 55 million. A purchase equivalent to SDR 15 million, which will become available on or after February 20, 1988, is conditional upon completion of the third program review and observance of end-December 1987 performance criteria.

As of December 31, 1987, Jamaica's outstanding use of Fund credit stood at 329 percent of its quota of SDR 145.5 million, including the equivalent of 65.5 percent of quota under the compensatory financing facility. Because scheduled repurchases exceed projected purchases during the remaining period of the stand-by arrangement, total Fund credit outstanding to Jamaica would decline to 305 percent of quota by the end of the arrangement in May 1988 (Table 1). Information on Jamaica's relations with the Fund is provided in Appendix I.

In concluding the 1986 Article IV consultation, Directors noted the severe external constraints affecting Jamaica, and stressed the need to continue the adjustment effort while intensifying policy reforms to improve resource allocation and promote export-led growth. In this connection, they underscored the importance of a realistic exchange rate and further improvements in public sector savings to accelerate capital formation and thus to reduce unemployment and the burden of external debt.

^{1/} Jamaica has accepted the obligations of Article VIII under the Fund Agreement.

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

Outstanding Dec. 31, 1986	1987				1988	
	Actual				Jan.-Mar.	Apr.-May
	Jan-Mar.	Apr.-June	July-Sept.	Oct.-Dec.		
(In millions of SDRs)						
Transactions under tranche policies (net)	-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 <u>1/</u>	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
Transactions under special facilities (net) <u>2/</u>	33.6	-2.4	-11.5	-9.1	-9.1	--
Purchases	40.9	--	--	--	--	--
Repurchases	-7.3	-2.4	-11.5	-9.1	-9.1	--
Total Fund credit outstanding (end of period)	554.4	531.4	526.1	492.6	478.3	445.5
Under tranche policies <u>3/</u>	469.7	413.1	410.2	388.2	383.0	359.3
Special facilities <u>2/</u>	84.7	118.3	115.9	104.4	95.3	86.2
(In percent of quota)						
Total Fund credit outstanding (end of period)	381.1	365.2	361.6	338.6	328.7	306.2
Under tranche policies <u>3/</u>	322.8	283.9	281.9	266.8	263.2	246.9
Special facilities <u>2/</u>	58.2	81.3	79.7	71.8	65.5	59.2

Source: IMF.

1/ Available borrowed resources arranged under the enlarged access policy presently consist of amounts borrowed from Saudi Arabia under agreements with the Saudi Arabian Monetary Agency; borrowed resources have also become available under the December 1986 borrowing agreement with the Government of Japan.

2/ Compensatory Financing Facility.

3/ Ordinary and borrowed resources.

II. Background

1. Recent developments and performance under the current stand-by arrangement

In the early 1980s the Jamaican authorities embarked on an adjustment program supported by large-scale foreign financing, including an extended arrangement from the Fund. The program ran into difficulties partly because of the collapse of Jamaica's bauxite industry, but also because of the financial policies pursued and the growing loss of external competitiveness resulting from the fixed exchange rate policy followed up to late 1983. During the period 1983-85, under successive stand-by arrangements from the Fund, economic policy focused on improving competitiveness by means of a depreciation of the Jamaica dollar through an auction system and on curbing the overall fiscal deficit (including central bank losses) which had been in the range of 15-20 percent of GDP in the period 1980-84. These programs experienced difficulties and interruptions because of a continued decline in bauxite exports, but some progress began to be made in reducing the public sector deficit.

In 1986 Jamaica's long-standing financial imbalances were substantially reduced and there was a revival of economic activity. The fall in the price of petroleum and in international interest rates provided a major benefit to the economy; in addition, tourism performed strongly and the demand for Jamaica's bauxite and alumina improved. Real GDP rose by 3 percent in 1986/87 1/ after a 4 percent decline in 1985/86, while inflation moderated to less than 8 percent during the year ended March 1987 from 20 percent during the previous 12-month period (Table 2). The overall public sector deficit was reduced to 5 1/2 percent of GDP in 1986/87 from nearly 14 percent of GDP in 1985/86 and the external current account deficit narrowed to about US\$90 million (3 1/2 percent of GDP) from around US\$250 million (12 percent of GDP) in the previous year.

The 1987/88 stand-by program aimed at a further improvement in Jamaica's economic performance, including a consolidation of the external position in the context of a stable exchange rate regime. The external current account deficit was projected at around 4 percent of GDP 2/ in 1987/88 and the overall payments position was programmed to be in substantial surplus and thus to accommodate sizable repurchases to the Fund. To achieve these objectives, the overall public sector deficit (including the losses of the Bank of Jamaica) was to be reduced to 3 percent of GDP, 2/ the growth of the credit and monetary aggregates

1/ Jamaica's economic accounts are presented on a fiscal year basis (April 1-March 31).

2/ These figures refer to the original targets of the program and differ from those shown in Table 2 which refer to revised projections of the second program review.

Table 2. Jamaica: Main Economic Indicators

	1981/82	1982/83	1983/84	1984/85	1985/86	Prel. 1986/87	1987/88	
							Prog. Proj. <u>1/</u>	Rev. Est.
<u>(Percentage annual change)</u>								
Real GDP	1.9	1.5	1.7	-1.4	-4.0	3.0	4.0	5.0
Real nonbauxite GDP	2.9	3.7	1.3	-0.7	-3.4	3.2	4.1	5.2
Nominal GDP	9.8	14.8	23.3	30.1	21.9	20.2	11.3	12.3
GDP deflator	7.8	13.1	21.3	31.9	26.9	16.7	7.0	7.0
Consumer price index								
Annual average	9.0	7.1	14.7	29.7	24.2	11.4	7.0	7.0
End of period	7.4	8.2	21.1	29.7	19.8	7.7	7.0	7.0
Domestic interest rate (in percent) <u>2/</u>	10.6	11.2	13.1	16.1	19.2	16.0	14.5	15.1
Broad money	28.7	25.0	25.0	20.0	24.3	23.6	17.0	17.0
<u>(In percent of GDP)</u>								
Overall public sector balance <u>3/</u>	-15.9	-15.7	-19.6	-15.1	-13.8	-5.6	-6.3	-3.4
Of which:								
Central government deficit	-15.8	-14.1	-15.8	-6.3	-5.5	-1.4	0.1	1.5
Rest of public sector	-0.1	-1.0	-1.9	-3.0	-1.2	1.5	-1.3	0.5
Bank of Jamaica losses	...	-0.7	-1.9	-5.8	-7.1	-5.7	-5.1	-5.4
External current account balance	-14.6	-15.7	-9.1	-10.9	-11.7	-3.4	-5.1	-5.6
Outstanding external debt	71.1	73.3	91.1	136.2	160.7	126.9	118.2	115.4
<u>Memorandum items</u>								
Nominal GDP (in millions of Jamaica dollars)	5,350	6,143	7,577	9,856	12,014	14,439	16,068	16,220
Real effective exchange rate index (1980=100) <u>4/</u>	110.0	102.6	75.1	63.9	68.1	68.6	68.3	68.3
Average annual exchange rate J\$ per US\$	1.78	1.78	2.47	4.36	5.65	5.50	5.50	5.50

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Revised estimates presented in second review of the program (EBS/87/217, 8/15/87).

2/ Weighted average deposit rate of the commercial banks.

3/ Measured as the use of foreign and domestic financing by the public sector, which includes the losses of the Bank of Jamaica. Includes government-guaranteed on-lending to the private sector.

4/ End of period.

was to be slowed significantly, and wage increases in collective contracts were to be limited to 10 percent a year.

To date Jamaica's performance under the stand-by arrangement has been good. Output growth, led by an expansion in tourism, nontraditional exports, and construction, is currently projected at around 5 percent (compared with an earlier projection of 3 percent). In October 1987 the unemployment rate fell to 21 percent, the lowest in 10 years. Meanwhile, the 12-month rate of inflation in October had declined to around 5 percent, 2 percentage points less than projected in the program. All quantitative performance criteria for end-September were met, with significant margins in respect of the ceilings on net external debt disbursements and the net financing requirements of the Central Government and the overall public sector (Table 3).

The consolidated public sector (including the losses of the Bank of Jamaica) registered a deficit of J\$168 million during the first half of 1987/88, compared with one of J\$390 million projected in the second review. The overperformance was mainly attributable to a stronger than projected revenue increase of the Central Government and selected public entities. Total central government revenues during the first half of 1987/88 were 10 percent above the revised program projections mainly because of buoyant collections from income taxes and customs duties and large inflows of divestment proceeds. The strong growth of tax revenue reflected both the rapid pace of economic activity and the effect of income tax reforms introduced last year and cutbacks in import duty exemptions introduced earlier this year. Divestment proceeds were about two thirds above the level projected because of the sale of additional shares (US\$35 million) in the national telecommunications enterprise to a foreign company, which has raised its equity participation to 40 percent.

During the first half of 1987/88, government expenditures were around 5 percent higher than projected mainly due to a step-up in investment outlays linked to higher divestment proceeds from abroad. All in all, the Central Government ran an overall surplus of J\$150 million in the first half of 1987/88, compared with one of J\$9 million projected in the program (Table 4).

The public entities yielded an overall surplus of J\$219 million in the first half of 1987/88, compared with one of J\$164 million projected in the program. A strong growth in the net operating surplus of the entities linked to the buoyant level of economic activity, as well as a significant underexecution of investment projects, were the main factors behind this outturn.

The expansion in bank credit to the private sector accelerated, on a 12-month basis, from 21 percent at end-March 1987 to 34 percent at end-September, and exceeded the program projection for the first half of the fiscal year (Table 5). At the same time the 12-month growth in bank liabilities to the private sector fell from 23 percent at end-March to

Table 3. Jamaica: Quantitative Performance Criteria, 1986/87-1987/88

	1987								
	March			June			September		
	Prog.	Actual	Margin	Prog. Rev.	Actual	Margin	Prog. Rev.	Actual	Margin
(End of period, in millions of U.S. dollars)									
Net international reserves <u>1/</u>	-576	-560	16	-463	-445	18	-473	-453	20
Net external debt disbursements <u>2/</u>	38	-59 <u>3/</u>	97	76	-14 <u>3/</u>	90	78	-26	104
Gross disbursements of external public debt of 1-5 years maturity <u>4/</u>	133	113	20	171	146	25	208	149	59
(In millions of U.S. dollars)									
Increase in the stock of short-term external public debt <u>5/</u>	25	19	6	45	30	15	45	16	29
Stock of external payments arrears	25	1	24	--	--	--	--	--	--
(End of period, in millions of Jamaica dollars)									
Net domestic assets of the Bank of Jamaica <u>6/</u>	4,044	4,009	35	3,435	3,395	40	3,558	3,458	100
Overall public sector net financing requirement <u>7/</u>	746 (940) <u>8/</u>	644 <u>3/</u>	102	738 (997) <u>8/</u>	451 <u>3/</u>	287	973 (1,306) <u>8/</u>	672	301
Central Government net financing requirement <u>7/</u>	1,113 (1,210) <u>8/</u>	1,095	18	1,282 (1,416) <u>8/</u>	1,128	154	1,568 (1,736) <u>8/</u>	1,258	310

Sources: Technical Memorandum of Understanding; Jamaica authorities; and Fund staff estimates.

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 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/ Revised.

4/ Figures refer to cumulative change from March 31, 1986.

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

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

7/ 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. Also adjustable upward for the purchase of the Clarendon alumina refinery plant, when the purchase is made. The adjustment allowed is equal to the cost of acquisition up to a maximum of US\$50 million.

8/ Ceiling before adjustment for shortfall over programmed disbursements of project-related foreign inflows.

Table 4. Jamaica: Public Sector Fiscal Balances and Financing

	1981/82	1982/83	1983/84	1984/85	1985/86	Prel. 1986/87	1987/88			
							1st Half		Year	
							2nd Prog. Review	Prel. Est.	2nd Prog. Review	Rev. Est.
(In millions of Jamaica dollars)										
Central Government <u>1/</u>	-849.9	-868.5	-1,196.3	-624.3	-659.6	-203.5	9.2	150.5	11.5	251.2
Rest of general government	174.3	109.5	72.0	167.6	190.3	154.5	55.0	87.0	123.9	145.9
Selected public entities	-23.7	-126.3	-93.4	-133.6	-167.2	249.6	164.1	218.5	163.4	192.1
Bank of Jamaica losses	...	-41.6	-142.1	-576.0	-857.9	-822.0	-401.1	-445.1	-826.2	-883.6
Other public sector on-lending <u>2/</u>	-26.7	-28.1	-40.3	-51.9	-75.7	-172.3	-157.7	-162.8	-234.9 <u>3/</u>	-239.6 <u>3/</u>
Purchase of Clarendon refinery	--	--	--	--	--	--	--	--	-247.5	--
Others and discrepancy	-125.3	-11.6	-85.0	-267.0	-83.4	-16.1	-60.2	-15.6	--	-15.6
Overall public sector balance	-851.3	-966.6	-1,485.1	-1,485.2	-1,653.5	-809.8	-390.7	-167.5	-1,009.8	-549.6
Domestic financing <u>4/</u>	167.1	15.3	407.0	599.1	852.9	1,225.4	324.4	381.3	630.8	636.3
Foreign financing <u>5/</u>	684.2	951.3	1,078.1	886.1	800.6	-415.6	66.3	-213.8	379.0	-86.7
(In percent of GDP)										
Central Government <u>1/</u>	-15.8	-14.1	-15.8	-6.3	-5.5	-1.4	...	...	0.1	1.5
Rest of general government	3.3	1.8	1.0	1.7	1.6	1.1	...	...	0.8	0.9
Selected public entities	-0.4	-2.0	-1.2	-1.3	-1.4	1.7	...	...	1.1	1.2
Bank of Jamaica losses	...	-0.7	-1.9	-5.8	-7.1	-5.7	...	...	-5.1	-5.4
Other on-lending <u>2/</u>	-0.5	-0.5	-0.5	-0.5	-0.6	-1.2	...	...	-1.5 <u>3/</u>	-1.5 <u>3/</u>
Purchase of Clarendon refinery	--	--	--	--	--	--	...	...	-1.5	--
Others and discrepancy	-2.5	-0.1	-1.2	-2.9	-0.8	-0.1	...	...	--	-0.1
Overall public sector balance	-15.9	-15.7	-19.6	-15.1	-13.8	-5.6	...	...	-6.3	-3.4
Domestic financing <u>4/</u>	3.1	0.2	5.4	6.1	7.1	8.5	...	...	3.9	3.9
Foreign financing <u>5/</u>	12.8	15.5	14.2	9.0	6.7	-2.9	...	...	2.4	-0.5
Memorandum items										
GDP (in millions of Jamaica dollars)	5,350.2	6,142.9	7,576.5	9,856.3	12,013.7	14,439.0	...	...	16,068.0	16,220.0
Overall public sector bor- rowing requirement <u>6/</u> (In millions of Jamaica dollars)	851.3	982.9	1,430.2	1,476.2	1,636.9	644.4	192.0	28.1	789.6	328.9
(Percent of GDP)	(15.9)	(16.0)	(18.9)	(15.0)	(13.6)	(4.5)	(...)	(...)	(4.9)	(2.0)

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

1/ Includes accrued levy receipts earmarked to repay a 1982 advance (tolling arrangement) and on-lending to the private sector (pass-throughs).

2/ In 1981/82-1985/86 not all on-lending by the rest of the public sector is included, but only its two main components: (a) World Bank disbursements to the Export Development Fund, and (b) IDB disbursements to the Rehabilitation Fund.

3/ Includes on-lending of US\$10 million to the cement company. The majority of the shares of this company were sold to private investors by end-June.

4/ Includes changes in the net domestic assets of the Bank of Jamaica, except for those which are the counterpart of changes in its net foreign assets or in its medium- and long-term foreign liabilities.

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

6/ Definition used in technical memorandum of understanding, which excludes "tolling arrangement" and on-lending to the private sector.

Table 5. Jamaica: Monetary Accounts

					1987/88			
					First Half		Year	
					Prog. Second Review 1/	Prel.	Prog. Second Review 2/	Prog. Third Review
	1983/84	1984/85	1985/86	Frel. 1986/87				
(Flows in millions of Jamaica dollars)								
I. Banking System								
Net international reserves	-459	977	196	295	481	545	947	900
Net domestic assets	1,133	-302	786	892	75	-18	110	157
Net credit to Central Government	794	-656	191	392	-456	-282	-1,333	-1,477
Net credit to rest of public sector	317	-163	-502	-800		-264		
Net Bank of Jamaica losses	142	576	858	822	401	449	826	883
Net credit to other financial institutions	-54	-102	-170	-225	53	31	-28	-4
Credit to private sector	480	124	313	545	470	501	784	931
Medium- and long-term foreign liabilities	-254	-332	-158	15	-183	-27	-96	10
Net unclassified	-292	251	254	143	-210	-426	-43	-186
SDR allocation	—	—	—	—	—	—	—	—
Liabilities to private sector	674	675	982	1,187	556	527	1,057	1,057
Money	92	184	222	310	97	123	217	217
Quasi-money	455	389	715	712	400	355	731	731
Other	127	102	45	165	59	32	109	109
II. Bank of Jamaica								
Net international reserves 1/	-556	1,063	346	305	481	593	947	947
Net domestic assets	602	-1,000	-125	-158	-441	-546	-829	-829
Net credit to Central Government	739	-824	-224	21	-541	-407	-1,417	-1,388
Net credit to rest of public sector	415	-120	-393	-216		-302		
Net losses	142	576	858	822	401	449	826	884
Net credit to banks	-477	-318	-334	-672	-22	-55	-194	-278
Net credit to other financial institutions	-2	1	-51	-120	68	61	50	46
Medium- and long-term foreign liabilities	-238	-328	-156	29	-183	-29	-96	8
Net unclassified	23	13	175	-21	-164	-263	2	-101
SDR allocation	—	—	—	—	—	—	—	—
Liabilities to private sector	46	63	221	147	40	47	118	118
Currency in circulation	46	63	114	138	30	42	98	98
Certificates of deposit	—	—	107	9	10	5	20	20
III. Commercial Banks								
Net foreign assets	97	-86	-150	-10	—	-48	—	-48
Net domestic assets	531	698	911	1,050	535	528	939	987
Net credit to Central Government	55	168	415	371	2/ 85	124	85	-90
Net credit to rest of public sector	-98	-43	-109	-584	2/	39		
Net credit to Bank of Jamaica	418	329	435	771	-24	31	149	233
Net credit to other financial institutions	-52	-103	-119	-105	-16	-30	-79	-50
Credit to private sector	480	124	313	545	470	501	784	931
Medium- and long-term foreign liabilities	-16	-4	-2	-13	—	2	—	2
Net unclassified	-256	227	-22	65	—	-139	—	-39
Liabilities to private sector	628	612	761	1,040	515	480	939	939
Demand deposits	46	121	108	172	67	81	114	118
Time and savings deposits	455	389	608	703	389	350	711	711
Special deposits	51	7	-58	—	—	—	—	—
Other	76	95	103	165	59	49	110	110
(Changes in percent)								
Banking system								
Net domestic assets 3/	42.0	-9.0	19.4	17.7	-2.8	-4.4	1.8	2.5
Net credit to the public sector 3/	46.4	-7.2	13.5	8.2	-2.8	-3.6	-8.2	-9.6
Credit to private sector	28.4	5.7	13.7	20.9	33.0	34.2	23.8	29.6
Liabilities to private sector	25.0	20.0	24.3	23.6	18.4	17.9	17.0	17.0

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

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

18 percent at end-September. Since the end of August 1987 the liquidity position of the banks has tightened significantly, as the Bank of Jamaica has increased its net placements of treasury bills and certificates of deposit with a view to reducing the loanable resources of the commercial banks. By mid-November 1987, the excess reserves of the banks held in the Bank of Jamaica had been nearly eliminated and the annual yield on three-month treasury bills had risen by about 200 basis points above its recent low in June of 17.6 percent.

The overall balance of payments for the first half of 1987/88 was broadly in line with program projections, with net international reserves rising by US\$108 million; close to one half of this improvement represented a reduction in Jamaica's net indebtedness to the Fund (Table 6). The current account deficit exceeded program projections by US\$16 million, however, and this difference was financed by larger inflows of private capital.

The larger than projected current account deficit in the first half of 1987/88 was caused by lower than projected tourist receipts and somewhat higher interest payments abroad. Imports were lower than projected at the time of the last review, mainly because of lower fuel cost. However, nonbauxite, nonfuel imports continued to grow strongly (they were 31 percent higher than in the first half of 1986/87), with imports of capital goods and raw materials rising rapidly.

Net official capital inflows were below projections because of lower loan disbursements and higher than projected repayments. However, direct investment inflows were substantially higher than projected because of the divestment abroad of shares in Jamaican public entities including the National Cement Company (US\$4.5 million) and the telecommunications enterprise mentioned earlier. In addition, the residual item in the balance of payments, which is thought to reflect mainly private capital, became increasingly positive in the first half of 1987/88, perhaps in response to the interest rate differential in favor of Jamaica and the improved prospects for a stable value of the Jamaica dollar.

2. Relations with the World Bank

Since 1980 the World Bank has substantially increased its lending to Jamaica based on loans in support of policy reforms and directly productive projects. From FY 1981 to FY 1985 the Bank approved 17 operations totaling US\$376 million; about one half of this amount was approved in the form of three Structural Adjustment Loans (SALs). 1/

1/ Jamaica's financial relations with the World Bank are summarized in Appendix II; data refer to the Bank's fiscal year beginning July 1.

Table 6. Jamaica: Balance of Payments, 1984/85-1987/88

(In millions of U.S. dollars)

	1984/85	1985/86	1986/87	1987/88			
				First half		Year	
				Rev. prog.	Prel.	Rev. prog.	Rev. proj.
Current account balance	-246.7	-248.1	-88.3	-87.8	-103.4	-149.5	-164.0
Trade balance	-548.1	-494.8	-422.0	-298.2	-284.8	-592.2	-578.1
Exports	673.3	539.3	609.7	342.8	348.8	691.5	725.5
Bauxite/alumina	(381.6)	(283.8)	(297.1)	(162.6)	(159.7)	(346.6)	(356.9)
Nontraditional, excluding CARICOM 1/	(150.6)	(142.7)	(167.2)	(105.0)	(111.7)	(210.0)	(227.0)
Other	(141.1)	(112.8)	(145.4)	(75.2)	(77.4)	(134.9)	(141.6)
Imports	1,221.4	1,034.1	1,031.7	641.0	633.6	1,283.6	1,303.6
Bauxite sector: fuel	(100.4)	(56.3)	(35.7)	(24.1)	(19.4)	(48.1)	(45.5)
Bauxite sector: other	(80.1)	(49.3)	(36.1)	(27.7)	(15.5)	(55.4)	(43.0)
Nonbauxite fuel	(293.9)	(236.7)	(163.5)	(104.0)	(97.2)	(208.0)	(197.0)
Nonbauxite nonfuel	(747.0)	(691.8)	(796.3)	(485.2)	(501.5)	(972.1)	(1,018.1)
Tourism (net)	389.2	396.8	503.0	276.8	258.3	581.1	570.9
Interest payments (net)	-279.0	-308.7	-305.0	-150.4	-157.9	-312.9	-312.9
Other services (net)	44.2	3.6	-12.6	-6.4	-8.4	-10.8	-15.1
Transfers (net)	147.0	155.0	148.3	90.4	89.4	185.3	171.3
Of which: official grants	(37.4)	(38.4)	(25.8)	(28.5)	(11.7)	(60.3)	(43.8)
Capital account balance	743.9	324.5	143.7	204.1	214.6	329.8	347.2
Direct investment (net)	--	20.0	2.0	31.2	58.3	-9.7 3/	80.3
Official (net)	558.8	195.4	-9.1	103.7	72.1	224.5	166.9
Inflows	971.1	654.8	567.1	325.2	314.2	685.5	642.9
New money	(436.0)	(423.0)	(252.3)	(223.9)	(214.1)	(484.3) 3/	(441.5)
Rescheduling	(535.1)	(231.8)	(314.8)	(101.3)	(100.1)	(201.2)	(201.2)
Outflows	-412.3	-459.4	-576.2	-221.5	-242.1	-456.0	-476.0
Other private capital (net), including errors and omissions	185.1	109.1	150.8	69.2	84.2	110.0	100.0
Overall balance	497.2	76.4	55.4	116.3	111.2	180.6	183.2
Exchange valuation contingency 2/	--	--	--	3.7	3.3	8.2	10.8
Change in reserves (increase in assets -)	-265.7	-61.9	-55.4	-112.6	-107.9	-172.4	-172.4
Assets	-125.6	-10.1	38.7	-16.2	-21.1	-16.6	-16.6
Liabilities	-140.1	-51.8	-94.1	-96.4	-86.8	-155.8	-155.8
IMF (net)	39.1	-19.4	-87.3	-46.7	-46.7	-103.1	-103.1
Purchases	(105.6)	(77.6)	(61.1)	(36.0)	(36.0)	(72.0)	(72.0)
Repurchases	(-66.5)	(-97.0)	(-148.4)	(-82.7)	(-82.7)	(-175.1)	(-175.1)
Arrears	-113.2	-38.4	-32.6	-1.2	-1.2	-1.2	-1.2
Other	-66.0	6.0	25.8	-48.5	-38.9	-51.5	-51.5
Other arrears	-231.5	-14.5	--	--	--	--	--
Memorandum items							
Ratios to GDP (percent)							
Current account balance							
Including grants	-10.9	-11.7	-3.4	...	...	-5.1	-5.6
Excluding grants	-12.6	-13.5	-4.3	...	...	-7.2	-7.0
Debt (medium- and long-term, end period)	139.3	163.5	132.8	...	...	118.2	117.9
Ratios to exports of goods and services (percent)							
Debt (medium- and long-term, end period)	218.7	272.5	237.6	...	...	212.0	211.0
Debt service (before rescheduling)	52.0	67.7	69.5	...	...	57.9	57.9
Debt service (after rescheduling)	27.4	49.5	48.0	...	...	45.5	45.6
Oil import price (U.S. dollar per barrel, c.i.f.)	...	26.4	14.5	...	...	19.0	18.0
Bauxite/alumina net foreign exchange earnings (millions of U.S. dollars)	246.3	167.6	171.6	...	...	184.6	208.8
Bauxite/alumina exports (millions of tons of bauxite equivalent)	7.7	6.0	7.1	...	...	7.6	7.4
Nonbauxite exports (percent change)	19.3	-12.4	22.3	...	...	10.4	17.9
Tourism earnings (percent change)	6.4	3.7	24.8	...	...	14.8	13.0
Nonbauxite nonoil imports (percent change)	-3.0	-7.4	15.1	...	...	22.1	27.8

Sources: Bank of Jamaica; and Fund staff estimates.

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

2/ Additional cost of net repurchases from the Fund implied by an average exchange rate of SDR 1 = US\$1.32, as compared with program accounting rate of SDR 1 = US\$1.2.

3/ Includes offsetting entries of US\$45 million for the proposed purchase of Clarendon Alumina Plant.

The SALs were designed as medium-term programs to complement the stabilization efforts supported by the Fund, and were aimed mainly at promoting an expansion and diversification of exports, a liberalization of the economy, and improvements in public sector operations.

Because of difficulties in implementing the adjustment effort, net disbursements fell to less than US\$2 million in FY 1986 (compared with an average of US\$56.5 million a year in the previous three years). Also, no new loan was approved by the Bank for Jamaica during 1986 because of concerns over the country's creditworthiness. Bank lending to Jamaica was resumed in June 1987 with the approval of a package of four loans: two policy-based loans to support improvements in public enterprise operations (US\$20 million) and trade and financial sector reforms (US\$40 million); and two project loans in the areas of population and health (US\$10 million) and sugar sector rehabilitation (US\$34 million). A fourth power project loan for US\$18 million was approved in August 1987.

At the end of November 1987 Jamaica's net indebtedness to the World Bank amounted to US\$475 million, or approximately 15 percent of Jamaica's external public debt. As in the case of the Fund, Jamaica's debt service payments to the Bank have increased rapidly and now represent around 12 1/2 percent of total debt service payments, or about 6 1/2 percent of total exports. In terms of these indicators, the World Bank's exposure to Jamaica is one of the highest in Latin America and the Caribbean.

III. Policy Discussions

The policy discussions focused on a review of developments and prospects under the current stand-by arrangement, as well as the outlook for the medium term. In the latter connection, particular attention was given to the Government's medium-term policy framework paper which was presented to a special subgroup meeting on Jamaica of the IBRD-sponsored Caribbean Consultative Group (CGCED) in early December 1987.

1. Prospects for the remainder of the current stand-by arrangement

a. Domestic policies

A key issue of discussion in relation to the current stand-by program was the appropriate stance of fiscal and credit policies in the light of the strong pace of economic recovery and the significant increase in the external current account deficit in prospect for this year. While the authorities considered developments in the external sector to be favorable in that they reflected a strong investment drive by the private sector, they recognized that the pace of economic reactivation posed the risk that pressures might build up on domestic

prices and the external value of the Jamaica dollar. In this connection the authorities reiterated their commitment to the understandings reached in the second program review to reduce the rate of bank credit expansion by means of open market operations and to maintain a significant margin under the fiscal deficit limits of the program.

The authorities considered that fiscal policy had been a stabilizing factor in the current economic conjuncture as public sector revenues had grown strongly in the first half of the fiscal year because of buoyant tax collections and larger than projected divestment flows, while expenditures at the government and public enterprise levels had been held close to budgeted amounts.

For the remainder of the fiscal year, the authorities anticipated some step-up of government investment outlays to take care of flood damage and to develop infrastructure for the support of export-oriented projects and tourist development. Central government capital outlays were projected to reach J\$1,246 million (7.7 percent of GDP) for the year as a whole, or J\$374 more than the "core" level of investment initially incorporated in the program (Table 7). This increment would be less than the foreign proceeds from divestment now projected for the program and therefore would be broadly consistent with the understandings reached in the first program review. Thus, a significant part of the excess of domestic tax collections above program projections would serve to create a margin in respect of the program's fiscal deficit limit estimated at approximately J\$240 million, or 1.5 percent of GDP.

The overall fiscal deficit also was expected to be lower than projected earlier because the Government's proposed purchase of the Clarendon Alumina Plant from ALCOA would not be concluded. ^{1/} In late October 1987 ALCOA announced its intention to resume operations of the plant in February 1988 in accordance with the terms of an existing contract under which it would have claim to 94 percent of the plant's future output. At the time of the consultation discussions, the Government was reviewing the terms of a new production-sharing agreement and changes in the bauxite levy in order to ensure access to sufficient alumina production to meet supply commitments with a foreign trader who had provided external financing this year against future export sales.

The authorities were concerned about the continuing rapid growth in bank credit to the private sector and believed that monetary policy had to be restrained during the remaining months of the program. Notwithstanding the tight liquidity situation of the banks, the authorities intended to increase open market sales and to limit any temporary accommodation by the Bank of Jamaica to cover legal reserve deficiencies. In respect of open market operations, the authorities were prepared to

^{1/} In the first program review (EBS/87/152; 7/8/87), a modification was introduced in the program to allow for an upward adjustment to the limit for the public sector borrowing requirement (up to a maximum of US\$50 million) in the event that this purchase was completed.

Table 7. Jamaica: Summary Operations of the Central Government

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88			
							First half		Year	
							Second Review	Prel.	Second Review	Rev.
(In millions of Jamaica dollars)										
Revenue	1,509.1	1,649.5	1,794.7	2,686.0	3,150.7	4,386.1	2,370.0	2,608.3	4,901.6	5,475.5
Tax revenue	1,157.6	1,396.1	1,532.1	2,022.6	2,716.9	3,758.3	1,970.9	2,099.9	4,098.4	4,494.1
Nontax revenue	45.1	55.2	64.8	174.2	145.6	139.3	61.2	55.3	130.7	136.8
Bauxite levy	300.0	198.2	194.0	481.2	280.5	463.5	141.9	125.1	368.5	416.6
Capital revenue	6.4	--	3.8	8.0	7.7	25.0	196.0	328.0	304.0	428.0
Of which: divestment proceeds	--	--	--	--	--	25.0	196.0	328.0	304.0 ^{1/}	428.0 ^{2/}
Grants	--	--	--	25.0	123.7	130.0	63.0	83.0	241.0	246.3
Expenditure	2,358.2	2,518.0	2,902.1	3,265.1	3,843.8	4,677.0	2,410.1	2,527.1	5,079.8	5,419.3
Current	1,715.3	1,861.4	2,394.0	2,817.9	3,253.0	3,755.0	1,957.1	2,007.1	4,141.3	4,173.3
Interest	424.0	518.0	780.0	1,000.9	1,303.0	1,515.0	810.0	788.0	1,568.0	1,623.0
Other	1,291.3	1,343.4	1,614.0	1,817.9	1,950.0	2,240.0	1,147.1	1,219.1	2,573.3	2,550.3
Capital and net lending	642.9	656.6	508.1	447.2	590.8	922.0	453.0	520.0	938.5	1,246.0
Pass-throughs ^{3/}	--	--	88.9	70.2	90.2	42.6	13.7	13.7	51.3	51.3
Overall balance	-849.1	-868.5	-1,196.3	-624.3	-659.6	-203.5	9.2	150.5	11.5	251.2
Financing	849.1	868.5	1,196.3	624.3	659.6	203.5	-9.2	-150.5	-11.5	-251.2
Foreign	503.7	419.1	499.5	1,117.2	636.7	-151.7	...	...	598.6	479.7
Domestic	342.3	439.6	696.8	-492.9	22.9	355.2	...	...	-610.1	-730.9
Banking system	189.2	643.7	790.0	-654.3	-53.8	-42.0	...	...	-890.1	-1,210.9
Other	156.2	-194.3	-93.2	161.4	76.7	397.2	...	...	280.0	480.0
(In percent of GDP)										
Revenue	28.3	26.9	23.7	27.2	26.2	30.2			30.5	33.7
Tax revenue	21.7	22.9	20.3	20.5	22.6	26.0			25.5	27.7
Nontax revenue	0.8	0.9	0.9	1.8	1.2	1.0			0.8	0.8
Bauxite levy	5.6	3.2	2.5	4.9	2.3	3.2			2.3	2.6
Capital revenue	0.1	--	--	--	--	0.2			1.9	2.6
of which: divestment proceeds	--	--	--	--	--	0.2			1.9	2.6
Grants	--	--	--	0.3	1.0	0.9			1.5	1.5
Expenditure	44.1	41.0	38.3	33.1	32.0	32.4			31.6	33.4
Current	32.1	30.3	31.6	28.6	27.1	26.0			25.8	25.7
Interest	7.9	8.4	10.3	10.1	10.8	10.5			9.8	10.0
Other	24.1	21.9	21.3	18.4	16.2	15.5			16.0	15.7
Capital	12.0	10.7	6.7	4.5	4.9	6.4			5.8	7.7
Pass-throughs ^{3/}	--	--	1.2	0.7	0.8	0.3			0.3	0.3
Overall balance	-15.8	-14.1	-15.8	-6.3	-5.5	-1.4			0.1	1.5
Financing	15.8	14.1	15.8	-6.3	5.5	1.4			-0.1	-1.5
Net external	9.4	6.8	6.6	11.3	5.3	-1.1			3.7	3.0
Net domestic	6.4	7.2	9.2	-5.0	0.2	2.5			-3.8	-4.5
Banking system	3.5	10.5	10.4	-6.6	-0.4	-0.3			-5.5	-7.5
Other	2.9	-3.2	-1.2	1.6	0.6	2.8			1.7	3.0

Sources: Ministry of Finance; and Fund staff estimates.

^{1/} Includes foreign proceeds for the equivalent of J\$154 million.

^{2/} Includes foreign proceeds for the equivalent of J\$428 million.

^{3/} Guaranteed on-lending to the private sector.

raise the yield on CDs issued by the Bank, and in early December they began sales of a one-month CD with an annual yield of 20 percent. They also intended to rely increasingly on government debt instruments in open market operations in order to reduce the interest rate burden on the Bank of Jamaica and to diversify their maturity structure in order to match more closely the portfolio preferences of the commercial banks.

The authorities indicated that they would continue to phase out the liquid asset ratio applied to financial institutions in line with commitments undertaken in connection with the World Bank's trade and financial sector reform loan. Since the beginning of 1986, the liquid asset requirement had been reduced from 48 percent to 35 percent of deposit liabilities and was to be reduced to a ratio of 20 percent which was equivalent to the banks' minimum cash reserve requirement. The phasing down of the liquid asset ratio and an increase in remuneration on reserve deposits held at the Bank of Jamaica had led to an increase in the effective yield of the banks' asset portfolio and a reduction in the spread between average lending and deposit rates in the banking system.

Given the apparent lag between open market sales by the Bank of Jamaica and credit activity of the banks, the authorities did not believe it was feasible to lower the annual growth in bank credit to the private sector to the rate of around 25 percent targeted in the second program review, but instead projected an annual growth of 29-30 percent. On the basis of the improved fiscal position and the outlook for private financial savings, the revised projection for private sector credit expansion was considered to be consistent with attainment of the program's net international reserve target.

The authorities reported that wage awards negotiated during the second quarter of the fiscal year continued to conform to the 10 percent wage guideline established in January 1987. During the period July-September 1987, 27 agreements were negotiated and all but two of them involved pay increases of 10 percent or less in the first year of the contract. In two cases, wage increases of up to 15 percent were granted, but in these cases negotiations had begun prior to the effective date of the 10 percent guideline. The authorities were generally satisfied with the experience under the pay guidelines in the private sector, but were concerned about certain negative effects of the "wage fund" concept used in the public sector on compressing the Government's salary structure and widening the gap between salaries for higher level civil servants and those outside the Government.

The authorities believed that they would continue to rely on wage guidelines for the private and public sectors in the next fiscal year, although they had not decided on the specific limit to be applied. In this connection the staff stressed the importance of restraint, especially given the authorities' objective of maintaining a stable, but realistic, exchange value for the Jamaica dollar. The guideline needed

to take into account both the authorities' target for inflation and the ability of the individual enterprise to pay.

b. External sector policies

The authorities were generally satisfied with the balance of payments outturn in 1987/88, in particular because of the strong growth in nontraditional exports and tourism. They believed that this development reflected the marked improvement in Jamaica's competitiveness in the past several years, as well as efforts by the National Export Corporation (JNEC) to promote the development and marketing of nontraditional exports abroad and efforts by the Tourist Board to promote Jamaica as a year-round vacation resort.

The authorities also reported that the boom in tourist activity was being accompanied by a major expansion in tourist facilities on a scale unknown since the early 1960s. During the current year, about 580 new rooms were being added to the existing stock of 13,000 rooms and construction had begun on an additional 890 rooms. Over the next five years it was estimated that capacity would expand by nearly 50 percent.

Notwithstanding a higher than projected current account deficit and lower net inflows of official capital, the overall balance of payments target was expected to be exceeded by a small margin because of buoyant inflows of private capital to a large extent related to the Government's divestment program. The authorities also expected toward the end of the fiscal year some inflows (around US\$8 million) of private capital under the Government's debt-equity conversion scheme established earlier this year.

The authorities recognized that the maintenance of a fixed exchange rate for the Jamaica dollar in terms of the U.S. dollar had been facilitated by the depreciation of the U.S. dollar against other major currencies. From end-1986 to November 1987 the Jamaica dollar had depreciated in real effective terms by around 5 percent (Chart 1). The value of the Jamaica dollar continued to be significantly below the level which would call for an exchange rate adjustment under the program (a cumulative appreciation of more than 5.8 percent in real effective terms from the level of December 1986). Since June 1987, no payment delays have occurred in the auction system.

In regard to the Paris Club rescheduling, the authorities indicated that bilateral agreements had been signed with all creditors (except Canada) in accordance with the Agreed Minute of March 1987. Agreement with Canada had been delayed because of data problems; these problems have now been resolved, and an agreement was expected to be signed in early 1988. The authorities also reported that the legal claim by a creditor who refused to participate in the bank rescheduling agreement of May 1987 had been settled out of court in late October 1987. The claims on Jamaica by this creditor were sold in the secondary market to

three private institutions in Jamaica which were expected to convert these claims into equity investment under the Government's debt conversion scheme.

Jamaica's exchange system continues to involve a number of restrictions on current international transactions, including limitations on profit remittances abroad under the debt-equity conversion scheme; limitations on travel expenditure and other personal service payments abroad; and an export rebate of 7 1/2 percent on the f.o.b. value of exports which gives rise to a multiple currency practice. Also, the foreign exchange auction has intermittently given rise to a multiple currency practice.

2. Medium-term external outlook

The mission reviewed with the authorities the medium-term outlook for Jamaica against the background of the Government's three-year public sector investment program (PSIP) and policy framework paper which were presented to a donors' meeting on December 9. World Bank and Fund staff collaborated with the Jamaican authorities in the preparation of these documents.

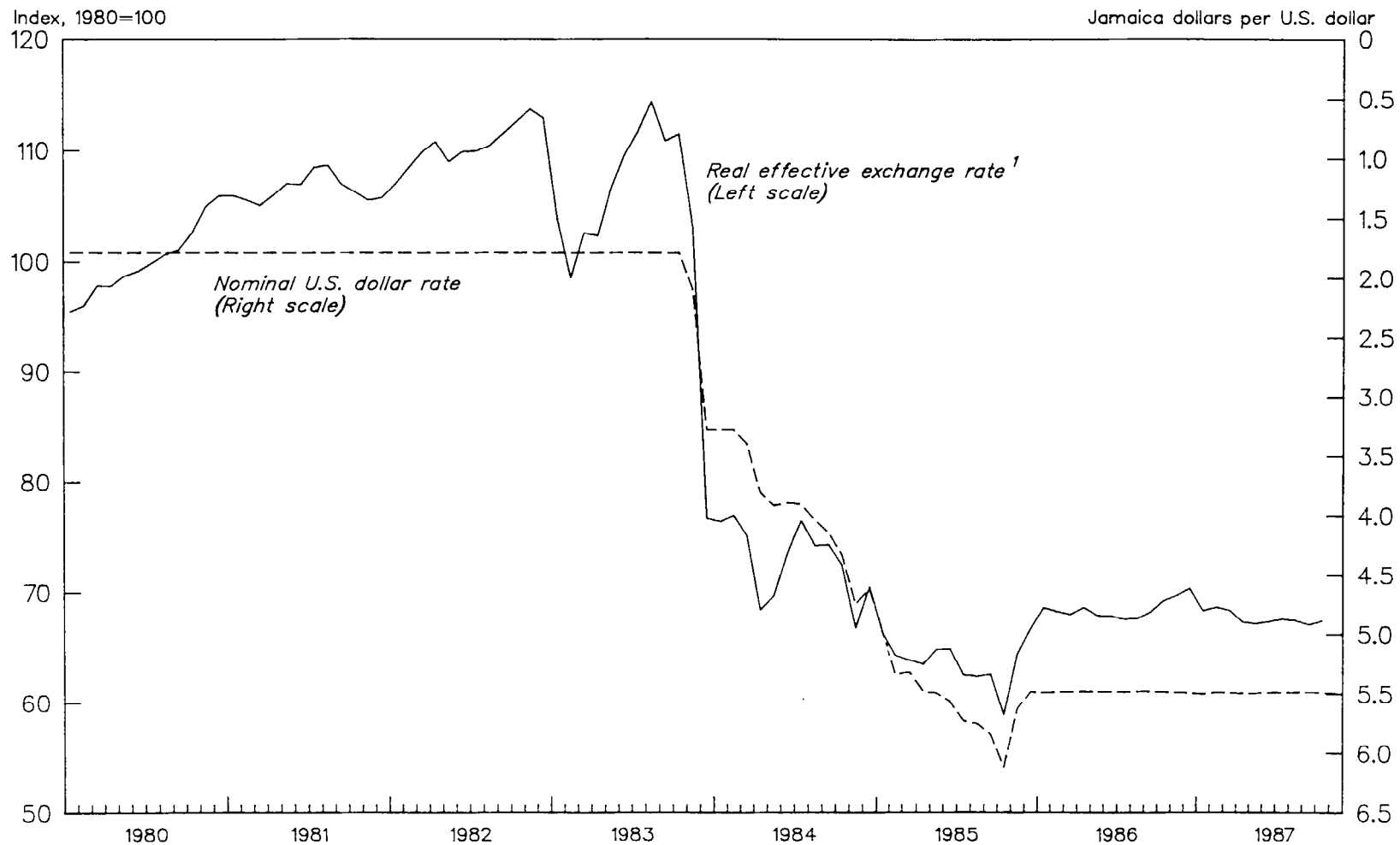
The Jamaican authorities have developed a growth-oriented adjustment strategy for the period 1988/89-1991/92 which is designed to maintain an average growth in real GDP of 3 1/2 percent per year, while reducing the debt burden to a more manageable level through further improvements in the country's overall fiscal position. The PSIP, which the Government wishes to launch in 1988/89, focuses on investments in economic infrastructure to sustain the recent economic recovery and large expansion in tourism, and on rehabilitating social infrastructure (particularly in health and education). This program would amount to J\$6 billion over the next three years, or roughly 12 percent of GDP, which is similar to the average public investment ratio over the last four years.

Jamaica's balance of payments position will continue to be under pressure over the medium term because of heavy debt service obligations (including those to the IMF and the World Bank), even after the effect of commercial and bilateral rescheduling. At the end of 1987/88, Jamaica's outstanding external public debt is projected to amount to 118 percent of GDP and its public debt service payments (after rescheduling) to represent about 46 percent of exports of goods and services.

In the medium-term external projections, the ratio of external debt to GDP and of debt service payments to exports of goods and nonfactor services have been targeted to fall to around 80 percent and 30 percent, respectively, over the next five years; these targets would imply that the external current account deficit would have to be scaled down from around 5 1/2 percent of GDP in 1987/88 to less than 1 percent in

CHART 1
JAMAICA

EXCHANGE RATE DEVELOPMENTS, JANUARY 1980 TO NOVEMBER 1987



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.



1992/93. This result is judged to be feasible on the basis of an average real growth of 3 1/2 percent for exports of goods and nonfactor services and one of 2 1/2 percent for imports (Table 8).

The improvement in the external current account and Jamaica's growth prospects will depend importantly on the further expansion of tourism and nontraditional exports. Tourism growth is expected to remain robust in 1988/89 (real growth of 6 percent), but to decline slightly thereafter to rates more in line with the rise of income abroad. The growth in nontraditional exports is expected to fall from about 30 percent in real terms in 1987/88 to 5 percent a year from 1988/89 to 1990/91 and to about 4 percent thereafter. Exports of bauxite/alumina are projected to grow by about 3 percent a year throughout the projection period. The commodity price assumptions for the export and import projections in the medium-term scenario are similar to those used in the current WEO exercise.

The capital account shows future disbursements of official loans of roughly US\$320 million a year in line with existing commitments in the pipeline and declining amounts of rescheduling flows on the basis of agreements negotiated this year. Net private capital inflows are projected at roughly half the estimated level for 1987/88, based on further inflows of divestment proceeds (in connection with projected sales of certain hotels now owned by the Government), debt-equity swaps (around US\$10 million a year) and other private inflows.

On the basis of these projections and future repurchase obligations to the Fund, an external financing gap of about US\$175 million a year would remain over the next four years. These gaps would need to be filled by concessional aid and new rescheduling from bilateral donors, as well as further financial arrangements from the Fund. The latter would be expected to be in amounts that would result in a continuing reduction in outstanding Fund exposure.

The Jamaican authorities recognize that achievement of their growth and external objectives will require continued improvement in the public finances, as well as further structural reforms in the financial and external sectors to raise the efficiency of the economy and the output of internationally tradeable goods. The overall public sector deficit (including the losses of the Bank of Jamaica and excluding foreign divestment proceeds) is targeted to fall from around 6 percent of GDP in 1987/88 to about 1 1/2 percent of GDP in 1992/93. Part of this improvement is expected to come from a reduction in the net losses of the Bank of Jamaica (as a ratio to GDP) stemming from a lowering of Jamaica's external interest rate burden. The authorities indicated that further improvements in the operations of the nonfinancial public sector would be sought by means of tight control over recurrent government outlays, greater efficiency in public enterprise operations, and a strengthening

Table 8. Jamaica: Medium-Term Balance of Payments

(In millions of U.S. dollars)

	1985/86	1986/87	Rev. Prog. 1987/88	Projections 1988/89	1989/90	1990/91	1991/92	1992/93
Current account balance	-248	-88	-164	-106	-70	-41	-18	-12
Trade balance	-495	-422	-578	-584	-612	-637	-678	-727
Exports	539	610	726	791	840	901	955	1,007
Bauxite/alumina	(284)	(297)	(357)	(393)	(411)	(442)	(463)	(481)
Nontraditional, excl. CARICOM ^{1/}	(143)	(167)	(227)	(247)	(268)	(289)	(311)	(335)
Other	(113)	(145)	(142)	(151)	(161)	(171)	(181)	(191)
Imports	1,034	1,032	1,304	1,374	1,452	1,539	1,633	1,734
Bauxite sector: fuel	(56)	(36)	(46)	(48)	(51)	(55)	(57)	(59)
Bauxite sector: other	(49)	(36)	(43)	(49)	(52)	(56)	(60)	(64)
Nonbauxite fuel	(237)	(164)	(197)	(207)	(217)	(228)	(240)	(252)
Nonbauxite nonfuel	(692)	(796)	(1,018)	(1,070)	(1,132)	(1,199)	(1,276)	(1,359)
Tourism, net	397	503	571	627	682	735	792	847
Interest payments, net ^{2/}	-309	-305	-313	-299	-300	-309	-311	-313
Other services, net	4	-13	-15	-22	-12	-4	6	7
Transfers, net	155	148	171	171	173	174	174	174
Official grants	38	26	44	45	45	45	45	45
Capital account balance	325	144	347	128	82	9	-19	1
Official net,	195	-9	167	18	-7	-72	-89	-69
Inflows	655	567	643	399	385	320	320	320
New money	(423)	(252)	(442)	(304)	(323)	(320)	(320)	(320)
Rescheduling	(232)	(315)	(201)	(95)	(62)	(...)	(...)	(...)
Outflows	-459	-576	-476	-381	-392	-392	-409	-389
Direct investment, net	20	2	80	40	30	30	20	20
Private capital, net (including errors and omissions)	109	151	100	70	60	50	50	50
Overall balance	76	55	183	22	12	-32	-37	-11
Exchange valuation contingency ^{3/}	--	--	11	--	--	--	--	--
Change in reserves (increase in assets -)	-62	-55	-172	-219	-187	-137	-118	-75
Assets	-10	39	-17	-20	-32	-35	-35	-35
Liabilities	-52	-94	-156	-199	-155	-102	-83	-40
IMF (net)	-19	-87	-103	-191	-147	-94	-79	-36
Purchases	(78)	(61)	(72)	(20)	(...)	(...)	(...)	(...)
Repurchases	(-97)	(-148)	(-175)	(-211)	(-147)	(-94)	(-79)	(-36)
Arrears	-38	-33	-1	--	--	--	--	--
Other	6	26	-52	-8	-8	-8	-4	-4
Other arrears	-14	--	--	--	--	--	--	--
Financing gap	--	--	--	197	175	169	155	86
Memorandum items:								
Ratios to GDP (percent)								
Current account balance	-11.7	-3.4	-5.6	-3.4	-2.1	-1.1	-0.5	-0.3
Including grants	-13.5	-4.3	-7.0	-4.8	-3.4	-2.4	-1.6	-1.4
Excluding grants								
Debt (medium- and long- term, end period)	163.5	132.8	117.9	109.5	102.2	95.1	88.0	82.0
Ratios to exports of goods and services (percent)								
Debt (medium- and long- term, end period)	272.5	237.6	211.0	195.9	183.1	171.0	159.5	150.1
Debt service (before rescheduling)	67.7	69.5	57.9	48.5	42.5	37.7	35.8	32.1
Debt service (after rescheduling)	49.5	48.0	45.6	43.2	39.3	...	...	...
Bauxite/alumina exports (millions of tons of bauxite equivalent)	6.0	7.1	7.4	8.2	8.3	8.7	8.9	9.0
Bauxite/alumina net foreign exchange earnings (millions of U.S. dollars)	167	172	209	217	229	250	260	267
Nonbauxite exports (percent change)	-12.4	22.3	17.9	8.0	8.0	7.0	7.1	7.0
Tourism earnings (percent change)	3.7	24.8	13.0	9.7	8.7	7.6	7.6	7.0
Nonbauxite related imports (percent change)	-7.4	15.1	27.8	5.4	5.7	5.8	6.2	6.2

Sources: Bank of Jamaica; and Fund staff estimates.

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

^{2/} Includes interest payments on borrowing to cover the projected financing gaps.

^{3/} For 1987/88, the additional cost of net repurchases from the Fund implied by the current estimate for the SDR/US\$ rate, as compared with program accounting rate of SDR 1 = US\$1.2.

of the tax effort. In the area of tax policy, the Government is planning to introduce during 1988/89 a general consumption tax (or value-added tax) to replace the existing array of excise taxes and consumption duties.

In the area of external sector policy, the authorities indicated that they intend to pursue a flexible exchange rate policy that would avoid any significant erosion in external competitiveness and would make possible a further relaxation of exchange restrictions. In addition, they intend to continue the customs tariff reform that was initiated this year under a World Bank sectoral adjustment loan. This reform is aimed at the reduction and simplification of the tariff structure to a system of four rates ranging from 5 to 30 percent within four to five years. By April 1, 1988, maximum tariffs are to be reduced to 60 percent (20 percent in the case of capital goods). In conjunction with the tariff reform and introduction of a general consumption tax, a new more comprehensive import-duty rebate scheme will be introduced that would apply automatically to all exporters and would replace the temporary 7 1/2 percent export rebate introduced in 1987/88. The authorities believe that the customs tariff reform, together with the phasing out of import duty exemptions, will help to eliminate the anti-export bias which was characteristic of Jamaica's trade system in the past.

IV. Staff Appraisal

The imbalances that characterized the Jamaican economy for many years were reduced significantly in 1986/87 and the economy began to recover. This turnaround was the result of a combination of favorable external developments and efforts over the last few years to strengthen the public finances and improve competitiveness.

Under a stand-by arrangement approved in March 1987, Jamaica has sought to build on the progress achieved in 1986. Performance to date under the arrangement has been commendable. On the basis of strong growth in tourism and nontraditional exports, real GDP is projected to rise by about 5 percent in 1987/88, while inflation has remained relatively low (5 to 6 percent). Through September 1987, Jamaica had met all the quantitative tests provided in the performance criteria of the arrangement, with significant margins in the case of the targets for net international reserves and the limits on external debt and on the public sector borrowing requirement.

The growth in output in 1987/88 has been accompanied by a sharp expansion in domestic bank credit to the private sector and imports which is resulting in a widening of the current account deficit of the balance of payments, but this difference in the external gap has been covered by increased private capital inflows (including the proceeds from divestment of public entities). To restrain domestic demand the authorities intend to reduce the rate of growth of bank credit to the private sector by means of open market operations and to maintain a significant margin under the fiscal deficit targets of the program. The

staff welcomes these policy commitments in the present economic circumstances as a means of ensuring that the growth in aggregate spending will not lead to pressures on domestic prices and the external value of the Jamaica dollar.

Notwithstanding the gains that have been made under the current stand-by program, Jamaica's adjustment effort will need to be continued in the future in order to strengthen its external position and reduce its external debt burden to more manageable levels. To this end, restrained financial and wage policies are called for, as well as a liberalization of exchange and trade restrictions. In this context, the staff would also note that the external financing gaps projected beyond the period of the present stand-by arrangement indicate a continuing need for exceptional financing on concessional terms over the medium term.

In the fiscal area, a further strengthening of public savings will be required to finance the Government's three-year investment program and bring about a reduction in the overall fiscal deficit (including the losses of the Bank of Jamaica). In this connection, the staff would emphasize that proceeds from divestment cannot be a permanent source of government revenue and should be used to bridge the time required to make lasting reforms in the public finances. Emphasis therefore needs to be placed on economies in current government operations, improvements in domestic tax administration, and greater efficiency within the public enterprise sector. The staff believes that the proposed implementation of a value-added tax could provide significant fiscal benefits. At the same time, the staff would recommend that clear priorities be established in the public investment program so that the pace of execution can be adjusted in the light of developments in the fiscal position.

In view of Jamaica's balance of payments position, credit policy will need to be held on a tight rein. The staff welcomes the development of open market operations as an instrument of credit control, but would caution the authorities that bank lending rates may have to be maintained at a high level for a significant period of time in light of the demand for credit. At the same time, completion of the Government's financial sector reform should help reduce interest rate spreads and increase the efficiency of the financial system.

In order to maintain external competitiveness, prudent financial policies need to be supported by a restrained wage policy. Therefore it is critically important that wage guidelines in the future be set in line with the objective of maintaining a low rate of inflation and continue to be monitored closely to ensure compliance. The recent decline of the U.S. dollar has helped to maintain Jamaica's external competitiveness, but the authorities need to be prepared to be flexible in respect of the exchange rate in response to changes in the country's external situation.

The combination of a flexible exchange rate policy, together with a rationalization of the tariff schedule and exemptions already under way, can be expected to improve resource allocation and strengthen incentives for nontraditional exports. To reinforce the effect of the tariff reform on export incentives and to control import demand, compensating adjustments in the exchange rate should be made as needed. A flexible exchange rate policy would also allow for a further liberalization of exchange restrictions. In this connection, the staff notes the intention of the authorities to eliminate the export rebate scheme in conjunction with the customs tariff reform and establishment of a general consumption tax.

On the basis of the current policy stance of the authorities, the staff recommends that the Executive Board conclude the third review under the present stand-by arrangement and that the exchange restrictions and multiple currency practices maintained by Jamaica be approved until May 31, 1988.

It is expected that the next Article IV consultation with Jamaica will take place on the standard 12-month cycle.

V. Proposed Decisions

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

1987 Consultation

1. The Fund takes this decision relating to Jamaica's exchange measures subject to Article VIII, Sections 2(a) and 3, in the light of the 1987 Article IV consultation with Jamaica conducted under Decision No. 5392 - (77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).
2. The restrictions on payments and transfers for current international transactions and the multiple currency practices involved in the foreign exchange auction system and the export rebate scheme, as described in EBS/88/10, are subject to approval under Article VIII, Sections 2(a) and 3.
3. The Fund urges Jamaica to adopt policies that would allow for the prompt removal of these exchange practices, and in the meantime grants approval for these practices until May 31, 1988.

Stand-by Arrangement

1. Jamaica has consulted the Fund in accordance with paragraph 4(d) of the stand-by arrangement for Jamaica (EBS/87/27, Supplement 3, 3/4/87, EBS/87/152, 7/8/87) and EBS/87/217, 10/15/87) and paragraph 14 of the letter of December 31, 1986 (amended January 17, 1987; February 26, 1987; June 19, 1987; and October 2, 1987) from the Prime Minister and the Governor of the Bank of Jamaica concerning the third review of progress made in implementing the policies affecting demand management and the exchange system.
2. The Fund decides that the third review contemplated in paragraph 4(d) of the stand-by arrangement is completed.

Jamaica - Fund Relations

I. Membership status

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

(A) Financial Relations (as of December 31, 1987)

II. General Department

- (a) Quota: SDR 145.5 million
(b) Total Fund holdings of Jamaica dollars:
SDR 623.80 million or 428.72 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>	<u>478.24</u>	<u>328.7</u>
Of which: Under tranche policy	385.89	265.2
Credit tranches	99.06	68.1
Extended facility	283.83	195.1
Ordinary resources	71.88	49.4
Supplementary financing	47.91	32.9
Enlarged access resources	164.04	112.7
Under CFF	95.35	65.5
(d) Reserve tranche position: None		

III. Stand-by or extended arrangements and special facilities

- (a) Current stand-by arrangement:
(i) Duration: March 2, 1987- May 31, 1988
(ii) Amount: SDR 85 million
(iii) Utilization: SDR 55 million
(iv) Undrawn balance: SDR 30 million

- (b) Stand-by and extended arrangements during the last ten years:

Type	Date	Duration	Approved Amount (In millions of SDRs)	Amount Drawn (In millions of SDRs)	Amount Drawn (In % of quota)
Stand-by	8/11/77	1 year	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	6/22/84	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
CFF	3/02/87	SDR 40.9 million

IV. SDR Department

- (a) Net cumulative allocation: SDR 40.61 million
- (b) Holdings: SDR 0.99 million (2.44 percent of net cumulative allocation)

V. Administered Accounts

- (a) Trust Fund loans: None
- (b) SFF Subsidy Accounts: SDR 15.96 million

VI. Financial 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.

	Overdue Financial Obligations 12/31/87	<u>Principal and Interest Due</u>		
		1988	1989	1990
Principal	--	163.2	130.8	82.1
Repurchases	--	163.2	130.8	82.1
Trust Fund Repayments	--	--	--	--
Charges and interest including SDR and Trust Fund (provisional)	--	31.6	20.2	12.1
<u>Total</u>	--	<u>194.8</u>	<u>151.0</u>	<u>94.2</u>

(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 and modified in March and November 1984. Since November 1985, the exchange rate has been effectively fixed at J\$5.5 per U.S. dollar.

VIII. Last Article IV Consultation

July 1986, completed by the Executive Board on March 2, 1987 (EBM/87/34). Jamaica is on the standard 12-month cycle.

IX. Technical Assistance

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. John Hill has been resident representative since March 3, 1987.

Jamaica: Financial Relations with the World Bank

(In millions of U.S. dollars)

	Outstanding as of November 30, 1987				
	Disbursed	Undisbursed	Total	Repayments	Net Outstanding
<u>Total IBRD</u>	<u>623.89</u>	<u>131.35</u>	<u>755.24</u>	<u>149.01</u>	<u>474.88</u>
Agriculture and forestry	46.75	40.12	86.87	18.09	28.66
Education	29.17	0.63	29.80	15.11	14.06
Population and rural development	23.03	10.00	33.03	9.58	13.45
Transportation	63.64	23.64	87.28	24.24	39.40
Power	67.27	3.35	70.62	29.33	37.94
Utilities	24.76	4.05	28.81	6.74	18.02
Program loan	30.00	--	30.00	12.71	17.29
EDF	64.40	--	64.40	14.69	49.71
SAL	221.40	30.00	251.40	8.66	212.74
Industrial development	22.21	13.16	35.37	3.67	18.54
Other	31.26	6.40	37.66	6.19	25.07
<u>IFC investments</u>	<u>15.76</u>	<u>5.92</u>	<u>21.68</u>	<u>9.98</u>	<u>5.78</u>
Net Disbursements During Fiscal Year 1/					
	Actual				Proj.
	1983/84	1984/85	1985/86	1986/87	1987/88
<u>Net disbursements (IBRD)</u>	<u>35.4</u>	<u>56.0</u>	<u>1.6</u>	<u>14.1</u>	<u>20.0</u>
Disbursements	49.6	75.3	23.7	52.8	60.0
Repayments	14.2	19.3	22.1	38.7	40.0

Source: IBRD.

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

APPENDIX III

Jamaica-Basic Data

	1984/85	1985/86	Prel. 1986/87 (percent)	Rev. Program 1987/88
<u>Origin of GDP</u>				
Agriculture	8.7	8.9	8.5	8.5
Mining	5.7	5.1	5.4	5.4
Manufacturing	15.4	16.3	16.3	16.3
Construction	5.7	5.3	5.4	5.4
Government	19.0	18.0	17.7	17.7
Other services	45.5	46.4	46.7	46.7
<u>Ratios to GDP</u>				
Exports of goods and nonfactor services	59.9	59.0	55.9	57.0
Imports of goods and nonfactor services	64.9	61.3	49.7	54.1
Current account of the balance of payments	-10.9	-11.7	-3.4	-5.6
Central government revenues <u>1/</u>	27.5	27.3	31.3	35.3
Central government expenditures <u>2/</u>	39.7	39.9	38.4	39.2
General government savings <u>2/</u>	-4.3	5.4	1.3	2.3
General government overall surplus or deficit (-) <u>2/</u>	-10.7	-12.1	-6.9	-4.5
External public debt (end of year)	136.2	160.7	126.9	115.4
Gross national savings	12.9	11.4	15.3	13.8
Gross domestic investment	23.8	23.1	18.7	19.5
Money and quasi-money (end of year)	36.6	37.9	38.6	40.2
<u>Annual changes in selected indicators</u>				
Real GDP	-1.4	-4.0	3.0	5.0
GDP at current prices	30.1	21.9	20.2	12.3
Domestic expenditures (at current prices)	28.8	19.2	9.9	16.4
Investment	37.0	18.3	2.9	14.5
Consumption	26.6	19.5	13.6	16.8
GDP deflator	31.9	26.9	16.7	7.0
Consumer prices (annual averages)	29.7	24.2	11.4	7.0
Central government revenues <u>1/</u>	51.1	20.8	37.9	26.7
Central government expenditures <u>2/</u>	24.8	22.5	15.6	14.7
Liabilities to private sector <u>3/</u>	20.0	24.3	23.6	17.0
Money <u>3/</u>	5.5	5.4	6.2	3.5
Quasi-money <u>3/</u>	11.5	17.7	14.2	11.8
Net domestic assets of the banking system <u>3/</u>	-9.0	19.4	17.7	2.5
Credit to public sector <u>3/4/</u>	-7.2	13.5	8.2	-9.6
Credit to private sector	5.7	13.7	20.9	29.6
Merchandise exports (in U.S. dollars)	-6.7	-19.9	13.1	19.0
Merchandise imports (in U.S. dollars)	-2.3	-15.3	-0.2	26.4
<u>Central government finances</u>	(millions of Jamaica dollars)			
Revenues <u>1/</u>	2,710.9	3,274.4	4,516.1	5,721.8
Expenditures <u>2/</u>	3,911.3	4,791.9	5,541.6	6,354.2
Current account surplus or deficit (-)	-691.0	-844.2	-85.9	236.9
Overall surplus or deficit (-)	-1,200.4	-1,517.5	-1,025.5	-632.4
External financing (net)	1,117.2	636.7	-111.0	531.0
Domestic financing (net)	83.2	880.8	1,136.5	101.4

APPENDIX III

	1984/85	1985/86	Prel. 1986/87	Rev. Program 1987/88
	(millions of U.S. dollars)			
Balance of payments	673.3	539.5	609.7	725.5
Merchandise exports	-1,221.4	-1,034.1	-1,031.7	1,303.6
Merchandise imports	-281.6	-353.3	-398.7	-418.0
Investment income (net)	583.0	600.0	732.5	832.2
Other services and transfers (net)				
Balance on current account	-246.7	-248.1	-88.2	-164.0
Official capital	23.7	-16.4	-323.8	-34.3
Private capital, including errors and omissions	185.1	109.1	152.6	169.5
Basic balance	-37.9	-155.4	-259.4	-28.8
Debt rescheduling	535.1	231.8	314.8	201.2
Changes in reserves	-265.7	-61.9	-55.4	-172.4
Changes in arrears, n.i.e.	-231.5	-14.5	--	--
Other exceptional financing	--	--	--	--
International reserve position	(millions of U.S. dollars)			
Central Bank (gross)	191.6	201.8	159.7	176.3
Central Bank (net)	-555.2	-615.8	-560.4	-388.0

Social and Demographic Indicators

Population characteristics and health	1965	1985
Life expectancy at birth (in years)	65	73
Infant mortality (aged under 1, per thousand)	49	20
Population per physician	1,980	2,700 ^{5/}
Education		
Enrollment as percent of age group		
Primary	109	106 ^{6/}
Secondary	51	58 ^{6/}
Nutrition		
Daily calorie supply per capita	2,232	2,585
GDP per capita (1986)		SDR 848
Area and population (1986)		
Area	4,411 sq. miles (11,424 sq. kilometers)	
Population	2.3 million	
Annual rate of population increase	1.1 percent	
Unemployment rate	23.6 percent	
GDP (1986)	SDR 1,981 million	

^{1/} Includes grants and proceeds of divestment.

^{2/} Includes Bank of Jamaica losses.

^{3/} As a percent of liabilities to the private sector at the beginning of the period.

^{4/} Includes Bank of Jamaica losses, and net credit to the selected public entities and the rest of the public sector.

^{5/} 1981.

^{6/} 1984.

Jamaica--Statistical Issues

1. Outstanding Statistical Issues

a. Prices, trade, and national accounts

The consumer price index is based on weights derived from a household expenditure survey (HES) conducted in 1986. The results of the HES should be used for improving the estimates of consumption expenditure in the national accounts.

b. Government finance

Government finance data are reported on a monthly basis for IFS and refer to the operations of the budgetary central government only.

The presentation in the 1987 GFS Yearbook is incomplete for Central Government and does not include local governments. Detailed statistics for revenue are available through 1981, for expenditure through 1977, and for outstanding debt by type of debt holder through 1982. Detailed financing statistics are available only for the year 1976. No reply to the statistical tables for the 1987 questionnaire was received.

c. Monetary accounts

Although monetary data are provided on a timely basis, the quality and coverage of monetary accounts needs to be improved. Technical assistance was offered to improve the monitoring of public sector finances and the reporting of data for nonbank financial intermediaries. The authorities agreed with the need for such assistance which is tentatively scheduled for early 1988.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Jamaica in the January 1988 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Bank of Jamaica, which during the past year have been provided on a timely basis.

Status of IFS Data

		<u>Latest Data in January 1988 IFS</u>
Real Sector	- National Accounts	1986
	- Prices	September 1987
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	December 1986
	- Financing	1984
	- Debt	December 1986
Monetary Accounts	- Central Bank	July 1987
	- Deposit Money Banks	August 1987
	- Other Financial Institutions	August 1987
Interest Rates	- Discount Rate	September 1987
	- Bank Lending/Deposit Rates	July 1987
	- Government Bond Yield	September 1987
External Sector	- Merchandise Trade: Values	October 1987
	Prices	n.a.
	- Balance of Payments	1985
	- International Reserves	November 1987
	- Exchange Rates	November 1987