

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**FOR
AGENDA**

EBS/87/27
Supplement 1

CONFIDENTIAL

February 27, 1987

To: Members of the Executive Board

From: The Acting Secretary

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

The attached supplement to the staff report for the 1986 Article IV consultation with Jamaica and its request for a stand-by arrangement has been prepared on the basis of additional information. Revised draft decisions appear on page 3.

Mr. Hardy (ext. 7158) is available to answer technical or factual questions relating to this paper prior to the Board discussion on Monday, March 2, 1987.

Att: (1)

INTERNATIONAL MONETARY FUND

JAMAICA

Staff Report for the 1986 Article IV Consultation
and Request for Stand-By Arrangement
Supplementary Information

Prepared by the Western Hemisphere and
Exchange and Trade Relations Departments

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

Approved by E. Wiesner and S. Kanasa-Thanan

February 26, 1987

I. Introduction

This paper provides information on the implementation of various domestic policy actions included in the letter of the Jamaican authorities of December 31, 1986 (amended January 17, 1987), and on certain financing arrangements that had been envisaged in the program. Because the disbursement of certain World Bank loans will come later than had been expected, a modification of the program net international reserve target and related ceilings for March 1987 is being proposed by the authorities and is supported by the staff, resulting in an amendment of the Technical Memorandum of Understanding annexed to the letter of intent, and in the relevant paragraphs of the draft stand-by arrangement (see Attachments I, II, and III).

II. Policy Actions

The staff has been informed that all of the initial policy actions contemplated under the program have now been completed. These included: increases in certain specific stamp duties; an increase in business license fees effective April 1, 1987; a reduction in subsidies on powdered milk and on soya oil; announcement of an increase of 55 percent in international telephone rates, effective April 1, 1987; implementation of an export rebate scheme and of reforms to the trade regime; an increase in the travel allowance to US\$150 per person per year; an increase in the ceiling on Treasury Bill issues to J\$1.5 billion; and promulgation of wage guidelines, limiting pay increases after January 1, 1987 to 10 percent a year.

III. Financing Arrangements

As explained in EBS/87/27, certain financing arrangements had to be confirmed before the program would be discussed by the Fund's Executive Board. These included arrangements for refinancing debts with Venezuela, commitments regarding prepayments for bauxite exports and completion of negotiations on certain sector adjustment loans with the World Bank. The program also contemplates rescheduling by official

creditors through the Paris Club, and by commercial banks. The Paris Club has agreed to discuss Jamaica's rescheduling request on March 5, 1987. A meeting of the Bank Advisory Group on Jamaica is set for March 9, 1987 to discuss refinancing of maturities for the period 1987/88-1989/90 (the refinancing of 1985/86 and 1986/87 maturities has already been agreed and will be completed by April 15). No new money from commercial banks is envisaged under the program.

On February 11, 1987 Venezuela agreed to reschedule US\$201 million out of US\$218 million of outstanding obligations of Jamaica to that country. Obligations on US\$73.4 million to the Central Bank of Venezuela were rescheduled over a six year period with two years grace, at LIBOR, and obligations of US\$127.7 million to the Venezuelan Investment Fund were rescheduled over a ten year period with three years grace at an interest rate of 5 1/2 percent. These arrangements will provide debt relief of US\$157.9 million during the program period, which is US\$45.5 million higher than had been assumed in the program. Jamaica has also received confirmation that net prepayments under a long-term 1986-1995 alumina purchase contract will reach US\$150 million during the period through March 1988 (US\$145 million was envisaged in the program).

Jamaica's negotiations on sector adjustment loans with the World Bank are in progress, but initial disbursements are now expected to take place only in May 1987 instead of March 1987, and will be only US\$30 million instead of US\$50 million as previously indicated. During the program period as a whole there will be a shortfall of US\$20 million in disbursements under the various sector loans of the Bank. However, since this will be more than offset by higher financing from other sources, the staff considers that no action is needed with regard to the basic parameters of the program. It will be recalled that, under the program, excesses in net non-project related debt disbursements of up to US\$20 million over the program assumptions would lead automatically to an upward adjustment of the target on net international reserves.

The Jamaican authorities have proposed a reduction of US\$50 million in the net international reserve target for March 1987 to reflect the delay in disbursements of World Bank loans together with corresponding reductions in the ceilings on external debt by US\$50 million and an increase in the ceiling on the net domestic assets of the Bank of Jamaica by an amount equivalent to US\$50 million. As a consequence of the shortfall in loan disbursements, it will no longer be possible to eliminate arrears by March 31, 1987 as envisaged in the program. The authorities therefore are proposing a ceiling of US\$25 million on arrears for end-March 1987 and that arrears would be eliminated by June 30, 1987. The modified March quarterly targets would be as shown in Table 8 (revised). No adjustments are proposed for the targets and ceilings for the rest of the program period.

The staff supports the proposal of Jamaica. Accordingly, the following revised decisions on the Article IV consultation (to reflect the delay in elimination of arrears) and on the stand-by arrangement are proposed for adoption by the Executive Board. The revised text of the stand-by arrangement and the amended Technical Memorandum of Understanding annexed to the letter of intent are attached to this paper.

1986 Consultation

1. The Fund takes this decision relating to Jamaica's exchange measures subject to Article VIII, Sections 2 and 3, in the light of the 1986 Article IV consultation with Jamaica conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).
2. Jamaica maintains multiple currency practices resulting from the auction system and from an export rebate scheme, as described in EBS/87/27. Jamaica also maintains restrictions on payments and transfers for current international transactions as described in EBS/87/27. These include external payments arrears which Jamaica intends to eliminate by June 30, 1987. The Fund encourages Jamaica to eliminate the multiple currency practices and remaining exchange restrictions and in the meantime grants approval for these practices until March 31, 1988 or the completion of the next Article IV consultation, whichever is earlier.

Stand-by Arrangement

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

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

	1987				1988
	Mar.	June.	Sept.	Dec.	Mar.
(End of period, in millions of U.S. dollars)					
Net international reserves <u>1/</u>	-576	-463	-473	-466	-396
Net external debt disbursements <u>2/</u>	38	101	103	108	140
Gross disbursements of external public debt of 1-5 years maturity <u>2/</u>	133	171	208	251	293
(In millions of U.S. dollars)					
Increase in the stock of short- term external public debt <u>3/</u>	25	25	25	25	25
Stock of external payments arrears	25	--	--	--	--
(End of period, in millions of Jamaica dollars)					
Net domestic assets of the Bank of Jamaica <u>4/</u>	4,044	3,435	3,490	3,561	3,116
Overall public sector net financing requirement <u>5/</u>	940	997	1,306	1,320	1,464
Central Government net financing requirement <u>5/</u>	1,210	1,450	1,892	2,028	2,287

Source: Technical Memorandum of Understanding.

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

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

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

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

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

Kingston, Jamaica
February 26, 1987

Mr. Michel Camdessuss
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Camdessuss:

Since disbursements from expected World Bank sector adjustment loans will not occur prior to end-March 1987, the Government of Jamaica hereby proposes that the Technical Memorandum of Understanding annexed to the letter of intent dated December 31, 1986, (as amended January 17, 1987) be further amended by adjusting downward the programme target for March 1987 on the net international reserves of the Bank of Jamaica by US\$50 million, with corresponding adjustments in related ceilings in the programme, as detailed in the annexes to this letter. As a consequence of the shortfall in loan inflows it will not be possible to eliminate arrears as quickly as previously envisaged. The Government therefore requests that a limit of US\$25 million be set for arrears as of March 31, 1987, and will eliminate arrears by June 30, 1987.

Yours sincerely,

/s/
Headley Brown
Governor
Bank of Jamaica

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

Changes to Technical Memorandum of Understanding

Paragraph 4 (net domestic assets): line 2

J\$3,769 million from December 31, 1986 through March 31, 1987 should read J\$4,044 million.

Paragraph 5 (net international reserves): line 3

negative US\$ 526 million through March 31, 1987 should read negative US\$576 million.

Paragraph 5 (arrears): line 28 "payments arrears will be eliminated by end-March 1987" should read "payments arrears will be no more than US\$25 million at end-March 1987 and eliminated by end-June 1987".

Paragraph 7 (external debt): line 5

US\$68 million between March 31, 1986 and March 31, 1987 should read US\$18 million

Paragraph 7 (external debt): line 12

US\$88 million between March 31, 1986 and March 31, 1987 should read US\$38 million.

Tables 2, 4 and 5 of the technical memorandum are amended to reflect the modifications to the program and the revised timetable of World Bank disbursements and rescheduling assumptions.

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

(In millions of Jamaica dollars, cumulative)

	March 31, 1986- March 31, 1987	March 31, 1986- June 30, 1987	March 31, 1986- Sept. 30, 1987	March 31, 1986- Dec. 31, 1987	March 31, 1986- March 31, 1988
<u>Total financing</u>	<u>940.0</u>	<u>996.9</u>	<u>1,305.9</u>	<u>1,319.5</u>	<u>1,463.3</u>
Foreign	140.3	-35.2	146.1	270.4	140.7
Net official capital	646.3	1,145.7	1,315.7	1,547.8	1,867.9
Pass throughs	-286.0	-338.3	-384.7	-452.4	-517.2
Change in reserves	-220.0	-842.6	-784.9	-825.0	-1,210.0
Domestic	799.7	1,032.1	1,159.8	1,049.1	1,322.6
Banking system	599.7	794.1	901.8	811.1	1,024.6
Other	200.0	238.0	258.0	238.0	298.0
<u>Memorandum item</u>					
Central Government and Bank of					
Jamaica financing	1,210.0	1,449.9	1,891.9	2,027.5	2,286.3
Foreign	-8.2	-217.5	-90.3	8.4	-190.8
Net official capital	244.8	665.3	736.6	898.6	1,103.5
Pass throughs	-33.0	-40.2	-42.0	-65.2	-84.3
Change in reserves	-220.0	-842.6	-784.9	-825.0	-1,210.0
Domestic	1,218.2	1,667.4	1,982.2	2,019.1	2,447.1
Public entities financing	-270.0	-453.0	-586.0	-708.0	-823.0
Foreign	148.5	182.3	236.4	262.0	331.5
Net official capital	401.5	480.4	579.1	649.2	764.4
Pass throughs	-253.0	-298.1	-342.7	-387.2	-432.9
Domestic	-418.5	-635.3	-822.4	-970.0	-1,154.5
Project disbursements					
(excluding pass-throughs)					
Overall public sector	382.8	507.1	651.2	771.7	947.7
Central Government	165.0	234.3	315.2	378.4	457.1

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Table 4. Jamaica: Cumulative Net Disbursement of External Debt

(In millions of U.S. dollars)

	March 31, 1986 March 31, 1987	March 31, 1986 June 30, 1987	March 31, 1986 Sept. 30, 1987	March 31, 1986 Dec. 31, 1987	March 31, 1986 March 31, 1988
<u>Inflows</u>	<u>577.6</u>	<u>745.3</u>	<u>900.9</u>	<u>1,052.1</u>	<u>1,207.6</u>
Bilateral	134.5	162.1	192.2	225.8	265.5
United States	94.0	114.5	135.0	161.5	190.5
Canada	5.0	6.2	8.5	8.7	10.0
United Kingdom	4.5	5.6	6.7	7.8	9.0
Germany	5.0	6.2	7.5	8.7	10.0
France	6.0	6.0	7.0	7.0	8.0
Japan	3.0	4.2	5.5	6.7	8.0
Other	17.0	19.4	23.0	26.4	30.0
Multilateral	23.0	58.0	63.0	78.0	103.0
World Bank	--	30.0	30.0	40.0	60.0
IDB	23.0	28.0	33.0	38.0	43.0
Other	125.0	157.0	189.5	227.0	265.0
Rescheduling	295.1	368.2	456.2	521.3	574.1
<u>Outflows</u>	<u>-560.5</u>	<u>-664.5</u>	<u>-818.8</u>	<u>-954.5</u>	<u>-1,087.6</u>
<u>Net disbursements</u>	<u>17.1</u>	<u>80.8</u>	<u>82.1</u>	<u>97.6</u>	<u>120.0</u>
Memorandum item:					
Programmed refinancing	295.1	368.2	456.2	521.3	574.1

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

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

(In millions of U.S. dollars)

	Actual 1986 Mar. 31	Proj.				
		1987				1988 Mar. 31
		Mar. 31	June 30	Sept. 30	Dec. 31	
<u>Net international reserves</u>	<u>-615.8</u>	<u>-575.8</u>	<u>-462.6</u>	<u>-473.1</u>	<u>-465.8</u>	<u>-395.8</u>
<u>Assets</u>	<u>201.8</u>	<u>129.6</u>	<u>202.4</u>	<u>151.7</u>	<u>137.9</u>	<u>168.5</u>
Liquid	69.0	19.6	92.4	41.7	37.9	68.5
Nonliquid	132.8	110.0	110.0	110.0	100.0	100.0
<u>Liabilities</u>	<u>817.6</u>	<u>705.4</u>	<u>665.0</u>	<u>624.8</u>	<u>603.7</u>	<u>564.3</u>
IMF 1/	725.0	637.7	631.3	591.1	574.0	534.6
Central Bank of Libya	42.0	36.0	32.0	32.0	28.0	28.0
Bank of China	0.1	--	--	--	--	--
Norway Consultancy Fund	0.7	0.7	0.7	0.7	0.7	0.7
Marubeni	15.0	5.0	--	--	--	--
Commercial banks	1.0	1.0	1.0	1.0	1.0	1.0
Payments arrears (n.i.e.)	33.8	25.0	--	--	--	--

Source:

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

ATTACHMENT II

Jamaica--Stand-By Arrangement

Attached hereto is a letter, with annexed Technical Memorandum of Understanding, dated December 31, 1986, and amended on January 17, 1987, and February 26, 1987, from the Prime Minister and Minister of Finance and the Governor of the Bank of Jamaica requesting a stand-by arrangement and setting forth the objectives, policies, and measures that the authorities of Jamaica intend to pursue for the period of this stand-by arrangement, and understandings of Jamaica with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Jamaica will pursue for the period of this stand-by arrangement.

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

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

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

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

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

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

(a) during any period in which

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

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

(iii) the limit on net domestic assets of the Bank of Jamaica as described in paragraph 4 of the Technical Memorandum of Understanding annexed to the attached letter as amended on February 26, 1987, or

(iv) the target for the net international reserves as described in paragraph 5 of the Technical Memorandum of Understanding annexed to the attached letter as amended on February 26, 1987,

is not observed; or

(b) if

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

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

(iii) the limits on the medium- and long-term external debt of the public sector and the gross disbursements of external debt of the public sector described in paragraph 7 of the Technical Memorandum of Understanding annexed to the attached letter as amended on February 26, 1987, or

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

are not observed; or

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

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

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

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

(ii) introduces multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes new or intensifies existing import restrictions for balance of payments reasons.

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

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

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

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

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

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

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

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

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

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

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

Technical Memorandum of Understanding (amended 26 February 1987)

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

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

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

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

4. The stock of the net domestic assets of the Bank of Jamaica will be no higher than: J\$4,044 million from December 31, 1986 through March 31, 1987; J\$3,435 million from April 1, 1987 through June 30, 1987; J\$3,490 million from July 1, 1987 through September 30, 1987; J\$3,561 million from October 1, 1987 through December 31, 1987; and J\$3,116 million from January 1, 1988 through March 31, 1988. These ceilings will be subject to downward adjustment for any cumulative excess of net external debt disbursements as specified in paragraph 7 below. For the purpose of this paragraph, the stock of the net domestic assets of the Bank of Jamaica is defined as the difference between (i) the sum of the stocks of currency in circulation (defined as the currency issue minus the amounts held by the Bank of Jamaica and the domestic commercial banks), and the local currency counterpart of the gross cumulative allocation of special drawing rights; and (ii) the stock of net international reserves of the Bank of Jamaica as defined in paragraph 5 below. For the purpose of this paragraph, all foreign assets and liabilities except those denominated in special drawing rights (SDRs) will be converted into Jamaican dollars at the accounting rate of US\$1.00 = J\$5.50. The foreign assets and liabilities denominated in special drawing rights (SDRs) will be converted into Jamaican dollars at the accounting rate of SDR 1 = J\$6.60.

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

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

5. The net international reserve position of the Bank of Jamaica which was negative US\$615.8 million on March 31, 1986, will not be less than: negative US\$561 million through March 31, 1987; negative US\$463 million through June 30, 1987; negative US\$473 million through September 30, 1987; negative US\$466 million through December 31, 1987; and negative US\$396 million through March 31, 1988. The net international reserve targets will be subject to upward adjustments for any cumulative excess over the projected net external debt disbursements specified in paragraph 7.

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

Foreign liabilities of the Bank of Jamaica are defined to include (i) promissory notes related to prepayment of exports; (ii) any new borrowing by the Government, Bank of Jamaica, or any public sector entity with a maturity of less than one year not directly related to imports; and (iii) external payments arrears. All reserve liabilities shown in the attached Table 5 will continue to be treated as such, irrespective of any change in maturity. Official and private external payments arrears will be no more than US\$25 million at end-March 1987 and eliminated by end-June 1987. Thereafter, no external payments arrears will be incurred. Arrears are defined to include all external payments arrears, including overdue obligations of the Bank of Jamaica, the Government, or governmental entities, and up to March 31, 1987 exclude the programmed refinancing specified in Table 4, which has been derived under the assumption that the listed payments will be rescheduled before March 31, 1987 on terms equivalent to those obtained under previous rescheduling agreements with commercial banks and official bilateral creditors. Overdue replenishment obligations by the Bank of Jamaica to the EDF will be considered arrears. "Undue delays" for the purpose of defining arrears will include any delays of more than seven banking days beyond the date on which payments are due. All assets and liabilities in SDRs will be converted into U.S. dollars at

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

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

7. Any change in the stock of medium- and long-term external debt of the public sector (defined as consisting of the central government, local governments, the group of selected public sector entities, any other public sector entity, the Bank of Jamaica, and of the private sector with a government guarantee) in excess of US\$18 million between March 31, 1986 and March 31, 1987; US\$81 million between March 31, 1986 and June 30, 1987; US\$83 million between March 31, 1986 and September 30, 1987; US\$98 million between March 31, 1986 and December 31, 1987; and US\$120 million between March 31, 1986 and March 31, 1988 will lead to adjustments in the net domestic assets and the net international reserve targets described in paragraphs 4 and 5 above. Furthermore, the change in this stock will not exceed US\$38 million between March 31, 1986 and March 31, 1987; US\$101 million between March 31, 1986 and June 30, 1987; US\$103 million between March 31, 1986 and September 30, 1987; US\$108 million between March 31, 1986 and December 31, 1987; and US\$140 million between March 31, 1986 and March 31, 1988. The gross disbursement of external debt of the public sector with an original maturity range of between 1-5 years will not exceed US\$133 million between March 31, 1986 and March 31, 1987; US\$171 million between March 31, 1986 and June 30, 1987; US\$208 million between March 31, 1986 and September 30, 1987; US\$251 million between March 31, 1986 and December 31, 1987; and US\$293 million between March 31, 1986 and March 31, 1988. All projected changes in the stock of external debt are set out in Table 4. For the purpose of these ceilings, the definition of debt (i) will exclude Bank of Jamaica reserve liabilities; (ii) will exclude gross inflows associated with project financing by multilateral and other official development agencies; (iii) will include the repayment of arrears on debt; and (iv) will include disbursements from the United States Economic Support Fund. External debt transactions will be expressed in U.S. dollars, with conversions from other currencies effected at the exchange rates prevailing when the loan is disbursed.

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

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

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

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

(In millions of Jamaica dollars, cumulative)

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

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

(In millions of Jamaica dollars, cumulative)

	March 31, 1986- March 31, 1987	March 31, 1986- June 30, 1987	March 31, 1986- Sept. 30, 1987	March 31, 1986- Dec. 31, 1987	March 31, 1986- March 31, 1988
<u>Total financing</u>	<u>940.0</u>	<u>996.9</u>	<u>1,305.9</u>	<u>1,319.5</u>	<u>1,463.3</u>
Foreign	140.3	-35.2	146.1	270.4	140.7
Net official capital	646.3	1,145.7	1,315.7	1,547.8	1,867.9
Pass throughs	-286.0	-338.3	-384.7	-452.4	-517.2
Change in reserves	-220.0	-842.6	-784.9	-825.0	-1,210.0
Domestic	799.7	1,032.1	1,159.8	1,049.1	1,322.6
Banking system	599.7	794.1	901.8	811.1	1,024.6
Other	200.0	238.0	258.0	238.0	298.0
<u>Memorandum item</u>					
Central Government and Bank of Jamaica financing	1,210.0	1,449.9	1,891.9	2,027.5	2,286.3
Foreign	-8.2	-217.5	-90.3	8.4	-190.8
Net official capital	244.8	665.3	736.6	898.6	1,103.5
Pass throughs	-33.0	-40.2	-42.0	-65.2	-84.3
Change in reserves	-220.0	-842.6	-784.9	-825.0	-1,210.0
Domestic	1,218.2	1,667.4	1,982.2	2,019.1	2,447.1
Public entities financing	-270.0	-453.0	-586.0	-708.0	-823.0
Foreign	148.5	182.3	236.4	262.0	331.5
Net official capital	401.5	480.4	579.1	649.2	764.4
Pass throughs	-253.0	-298.1	-342.7	-387.2	-432.9
Domestic	-418.5	-635.3	-822.4	-970.0	-1,154.5
Project disbursements (excluding pass-throughs)					
Overall public sector	382.8	507.1	651.2	771.7	947.7
Central Government	165.0	234.3	315.2	378.4	457.1

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

(In millions of Jamaica dollars, cumulative)

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

Table 4. Jamaica: Cumulative Net Disbursement of External Debt

(In millions of U.S. dollars)

	March 31, 1986 March 31, 1987	March 31, 1986 June 30, 1987	March 31, 1986 Sept. 30, 1987	March 31, 1986 Dec. 31, 1987	March 31, 1986 March 31, 1988
<u>Inflows</u>	<u>577.6</u>	<u>745.3</u>	<u>900.9</u>	<u>1,052.1</u>	<u>1,207.6</u>
Bilateral	134.5	162.1	192.2	225.8	265.5
United States	94.0	114.5	135.0	161.5	190.5
Canada	5.0	6.2	8.5	8.7	10.0
United Kingdom	4.5	5.6	6.7	7.8	9.0
Germany	5.0	6.2	7.5	8.7	10.0
France	6.0	6.0	7.0	7.0	8.0
Japan	3.0	4.2	5.5	6.7	8.0
Other	17.0	19.4	23.0	26.4	30.0
Multilateral	23.0	58.0	63.0	78.0	103.0
World Bank	--	30.0	30.0	40.0	60.0
IDB	23.0	28.0	33.0	38.0	43.0
Other	125.0	157.0	189.5	227.0	265.0
Rescheduling	295.1	368.2	456.2	521.3	574.1
<u>Outflows</u>	<u>-560.5</u>	<u>-664.5</u>	<u>-818.8</u>	<u>-954.5</u>	<u>-1,087.6</u>
<u>Net disbursements</u>	<u>17.1</u>	<u>80.8</u>	<u>82.1</u>	<u>97.6</u>	<u>120.0</u>
<u>Memorandum item:</u>					
Programmed refinancing	295.1	368.2	456.2	521.3	574.1

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

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

(In millions of U.S. dollars)

	Actual 1986 Mar. 31	Proj.				
		1987				1988 Mar. 31
		Mar. 31	June 30	Sept. 30	Dec. 31	
<u>Net international reserves</u>	<u>-615.8</u>	<u>-575.8</u>	<u>-462.6</u>	<u>-473.1</u>	<u>-465.8</u>	<u>-395.8</u>
<u>Assets</u>	<u>201.8</u>	<u>129.6</u>	<u>202.4</u>	<u>151.7</u>	<u>137.9</u>	<u>168.5</u>
Liquid	69.0	19.6	92.4	41.7	37.9	68.5
Nonliquid	132.8	110.0	110.0	110.0	100.0	100.0
<u>Liabilities</u>	<u>817.6</u>	<u>705.4</u>	<u>665.0</u>	<u>624.8</u>	<u>603.7</u>	<u>564.3</u>
IMF 1/	725.0	637.7	631.3	591.1	574.0	534.6
Central Bank of Libya	42.0	36.0	32.0	32.0	28.0	28.0
Bank of China	0.1	--	--	--	--	--
Norway Consultancy Fund	0.7	0.7	0.7	0.7	0.7	0.7
Marubeni	15.0	5.0	--	--	--	--
Commercial banks	1.0	1.0	1.0	1.0	1.0	1.0
Payments arrears (n.i.e.)	33.8	25.0	--	--	--	--

Source:

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

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

(In millions of U.S. dollars)

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

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

(In millions of U.S. dollars)

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