

EBS/85/162

CONFIDENTIAL

June 27, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Jamaica - Staff Report for the 1985 Article IV Consultation
and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Jamaica and its request for a stand-by arrangement equivalent to SDR 115 million. Draft decisions appear on page 32.

This subject will be brought to the agenda for discussion on Wednesday, July 17, 1985.

Mr. Hardy (ext. 7158) 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 1985 Article IV Consultation
and Request for Stand-By Arrangement

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. Kanesa-Thanan

June 27, 1985

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I. Introduction

Jamaica has had almost continuous arrangements with the Fund since the late 1970s, and has also utilized the compensatory financing facility eight times, most recently in June 1984. As of end-June 1985 outstanding use of Fund resources by Jamaica, under tranche policies, amounted to SDR 540 million or 371 percent of Jamaica's quota, with an additional SDR 102 million (70 percent of quota) outstanding under the CFF (Table 1).

In the attached letter, dated June 7, 1985, the Jamaican authorities request a 22-month stand-by arrangement in an amount of SDR 115 million (equivalent to about 43 percent of quota on an annual basis) in support of a financial program covering the remainder of the current Jamaican fiscal year through March 31, 1986, and the fiscal year April 1, 1986 to March 31, 1987. The proposed arrangement would be financed by SDR 33.4 million from ordinary resources and SDR 81.6 million from borrowed resources.

It is proposed that the amount of the arrangement would be made available in nine purchases, with the last purchase conditional on the observance of performance criteria at the end of March 1987. The distribution and phasing of purchases through April 1986 under the arrangement is presented in Table 1. Repurchases under tranche policies and CFF over the period July 1985-April 1987 would be SDR 220.5 million, or SDR 105.5 million more than the anticipated purchases under the arrangement. Assuming that all repurchases are made as due, purchase of the full amount under the arrangement would lower Fund credit to Jamaica, under tranche policies, to 316 percent of quota, while outstanding credit under the CFF would fall to 53 percent of quota.

Jamaica has frequently experienced difficulties in remaining current in its payments to the Fund; however, delays have been usually brief and Jamaica is at present current with the Fund.

The discussions for the stand-by arrangement were held concurrently with the 1985 Article IV consultation and were conducted by a staff team consisting of Messrs. Hardy (Head), Escobar, Lee (all WHD), Kibuka (FAD), and Thomsen (ETR), and Ms. Khattak (Secretary-ETR). Mr. Joyce, Executive Director for Jamaica, participated in the policy discussions. The team was assisted by Mr. Citrin, the Fund resident representative in Jamaica. The discussions took place in Kingston from March 26-30, 1985, continued in the period April 17-May 14, 1985, and were concluded during the period June 3-7, 1985.

The last Article IV consultation discussions were held in Kingston in January 1984, and were concluded by the Executive Board on June 8, 1984 (EBS/84/101 and SM/84/111).

Table 1. Jamaica: Projection of IMF Position during Period of
Stand-by Arrangement: June 1985-April 1987

	Out- standing June 30 1985	1985			1986		1986/87
		July 1- July 31	Aug. 1- Sep. 30	Oct. 1- Dec. 31	Jan. 1- Mar. 31	Apr. 1- June 30	July 1- Apr. 30
(In millions of SDRs)							
<u>Transactions under</u>							
<u>tranche policies (net) 1/</u>		-8.6	5.4	-8.6	-13.7	-13.2	-42.0
Purchases		7.5	7.5	13.3	13.3	13.4	60.0
Ordinary resources		(3.75)	(3.75)	(6.65)	(6.65)	(6.7)	(588)
Borrowed resources		(3.75)	(3.75)	(6.65)	(6.65)	(6.7)	(5.8)
Repurchases		-16.1	-2.1	-21.9	-27.0	-26.6	-102.0
Ordinary resources		(-5.1)	(--)	(-9.1)	(-9.2)	(-9.1)	(-26.4)
Borrowed resources		(-11.0)	(-2.1)	(-12.8)	(-17.8)	(-17.5)	(-75.6)
<u>Transactions under special</u>							
<u>facilities (net) 2/</u>		-2.6	--	-5.0	-5.0	-5.0	-7.2
Purchases		--	--	--	--	--	--
Repurchases		-2.6	--	-5.0	-5.0	-5.0	-7.2
<u>Total Fund credit out-</u>							
<u>standing (end of period)</u>	642.1	630.9	636.3	622.7	604.0	585.8	536.6
Under tranche policies 1/	539.7	531.1	536.5	527.9	514.2	501.0	459.0
Special facilities 2/	102.4	99.8	99.8	94.8	89.8	84.8	77.6
(In percent of quota)							
<u>Total Fund credit out-</u>							
<u>standing (end of period)</u>	441.3	433.6	437.3	428.0	415.1	402.6	368.8
Under tranche policies 1/	370.9	365.0	368.7	362.8	353.4	344.3	315.5
Special facilities 2/	70.4	68.6	68.6	65.2	61.7	58.3	53.3

Source: IMF.

1/ Ordinary and borrowed resources.

2/ Compensatory financing facility.

II. Summary of Recent Developments

Many of Jamaica's financial and economic problems can be ascribed to an intensification of government intervention in the economy and a major increase in government expenditures on social programs, undertaken in the first half of the 1970s. Central government budget deficits ranged around 12-15 percent of GDP a year on average, and resulted in a rapid buildup of foreign debt and recurring balance of payments crises, while the economy stagnated.^{1/}

The Government which took office in 1980 designed an economic program aimed at a revitalization of the private sector and export-led growth. Large-scale balance of payments support was to be used in the initial phase to rehabilitate the productive sectors and rebuild inventories, but reliance on exceptional financing was expected to taper off with the projected growth of bauxite/alumina exports and a recovery in other exports and in tourism. The budget deficit was to be reduced from about 17 percent in 1980/81 to about 10 percent of GDP by 1983/84. The Government's program was supported by an EFF arrangement with the Fund, by Structural Adjustment Loans from the World Bank, and ESF loans from U.S. AID. In the event, the authorities persisted in following overly expansionary policies despite a major decline in exports of bauxite/alumina (which represent about 60 percent of exports). As a result the quantitative performance criteria established under the EFF arrangement were not observed and drawing rights were suspended after September 1983. The emerging balance of payments crisis worsened as external payments arrears accumulated, trade financing came to a halt, and rapid domestic credit expansion accommodated the higher than programmed fiscal deficit and fueled private capital outflows.

A stand-by program covering the Jamaican fiscal year 1984/85 was approved in June 1984. The program envisaged a major adjustment effort through tight demand management, and a unified market-determined exchange rate. Structural reforms were to be accelerated, particularly in the area of liberalization of external trade.

Important policy adjustments have been made in the Jamaican economy over the past year and a half. Under the foreign exchange auction system, the Jamaica dollar depreciated to J\$5.5 per U.S. dollar by March 1985, compared with J\$3.5 per U.S. dollar one year earlier, resulting in a real effective depreciation of 18 percent during the program period. The authorities increased administered prices and utility rates sharply, and raised taxes and carried out budgetary spending cuts, including a significant reduction in public employment. The budgetary measures included tax increases, mostly on cigarettes, beer, spirits, and services,

^{1/} In this paper the coverage of the Central Government refers to the central government budget. Thus, it is not consolidated with a number of extrabudgetary activities consisting of the Capital Development Fund, the National Insurance Fund, the National Housing Trust, the Human Employment and Resources Training Trust and the Food Aid Program.

estimated to yield about 2.1 percent of GDP in revenue. Expenditure measures included reductions in food subsidies, in transfers to public entities and in public sector employment affecting some 4,000 persons. As a result, the nonfinancial public sector deficit was reduced from 15.2 percent of GDP in 1983/84 to 6.4 percent in 1984/85, with the central government deficit declining from 15.1 percent to 6.6 percent of GDP (Table 2). The strong performance of the public sector was offset in part, however, by a sharp increase in losses of the Bank of Jamaica reflecting the higher cost of external debt servicing because of devaluation, and, to a lesser extent, because of exchange guarantees given on certain private sector arrears. When these losses are included, the overall public sector deficit declined from 18.6 percent of GDP to 12.7 percent over the same period.

In addition, credit policies were tightened and administered interest rates were raised by around 7-9 percentage points over the program period, as price increases accelerated to 30 percent from 15 percent the previous year, largely reflecting public utility price and exchange rate adjustments. Real GDP declined marginally in 1984/85, and unemployment (broadly defined) remained about level at 26.5 percent of the labor force.

Despite the improvement in public sector finances and the restrictive monetary policy, the current account of the balance of payments showed only marginal improvement and was almost twice as large as programmed (Table 3). This reflected major shortfalls in traditional exports and tourism compared to what had been programmed, while imports remained roughly level with the previous year. Bauxite/alumina exports, traditional agricultural exports, and exports to CARICOM declined by 13 percent, but nontraditional exports to other markets performed strongly, increasing by more than 57 percent in U.S. dollar terms. Earnings from tourism were significantly lower than programmed; this was mainly attributable to civil disturbances that broke out in the wake of adjustments in petroleum prices early in 1985, following which tourist arrivals dropped by 18 percent.

The higher than expected current account deficit was facilitated by short-term capital inflows. Rather than causing a major reduction in imports, the rapid depreciation of the Jamaica dollar combined with the tight credit policy led to a significant inflow of short-term capital, much of which reflected a renewed use of trade credits by both the private sector and by public enterprises.

Jamaica had difficulties meeting the 1984/85 program targets on arrears reduction largely because of unexpected delays in loan disbursements. After approval by the Executive Board of waivers on the ceilings on arrears (EBS/84/233 and EBS/85/107) Jamaica was able to continue its purchases. Moreover, as the balance of payments prospects worsened considerably in early 1985 following the social disturbances and the closure of a major alumina plant, additional fiscal and monetary measures

Table 2. Jamaica: Main Economic Indicators

	1980/81	1981/82	1982/83	1983/84	Prel. 1984/85	Prog. 1985/86	Prog. 1986/87
(Percentage annual change)							
Real GDP	-3.6	2.4	0.5	2.3	-0.2	-3.8	—
Real nonbauxite GDP	-4.6	3.3	2.6	2.1	0.6	-3.3	—
Nominal GDP	11.0	11.4	11.4	20.6	29.8	18.6	13.0
GDP deflator	15.2	8.7	10.9	17.9	30.1	23.4	13.0
Consumer price index							
Annual average	26.5	9.0	7.1	14.9	29.7	23.0	12.0
End of period	19.4	7.4	8.2	21.1	29.7	15.0	10.0
Broad money	17.6	22.5	27.7	24.7	22.3	18.6	14.0
(In percent of GDP)							
Nonfinancial public sector deficit 1/	-13.8	-14.5	-14.9	-15.2	-6.4	-4.7	-2.0
Of which:							
Central government deficit	(-16.5)	(-15.6)	(-14.2)	(-15.1)	(-6.6)	(-6.0)	(-4.0)
Rest of public sector	(2.8)	(1.1)	(-0.7)	(—)	(0.2)	(1.3)	(1.9)
Bank of Jamaica operating losses	—	—	—	-3.4	-6.3	-3.6	-1.5
External current account deficit 2/	-9.0	-20.2	-23.3	-12.7	-12.3	-11.5	-7.2
Outstanding external debt	70.8	97.6	142.4	138.6	158.5	206.2	216.8
(In millions of Jamaican dollars)							
Real GDP 1974 prices	1,843	1,888	1,897	1,941	1,937	1,863	1,863
Nominal GDP	4,870	5,425	6,043	7,289	9,461	11,225	12,684
<u>Memorandum items</u>							
Real effective exchange rate index (1980=100) 3/	106.3	110.6	108.1	76.1	63.6	...	...
Average annual exchange rate per US\$1							
Official	1.78	1.78	1.78	2.47 (	4.36	6.20	7.00
Shadow 1/	2.32	2.51	3.06	3.27 (

Source: Bank of Jamaica and Fund staff estimates.

1/ Consists of central government budget and selected entities (see Table 3, of Annex II. The latter includes the Capital Development Fund, the National Insurance Fund (NIF), the National Housing Trust (NHT), the Human Resource and Employment Trust (HEART) and the main public enterprises.

2/ Before 1983/84 calculated on the basis of the shadow exchange rate, which is the rate necessary to maintain constant the real effective exchange rate at the 1978 level.

3/ End of period.

Table 3. Jamaica: Balance of Payments

(In millions of U.S. dollars)

	1980/81	1981/82	1982/83	1983/84	Prog. 1984/85	Prel. 1984/85
<u>Current account deficit</u>	<u>-189</u>	<u>-438</u>	<u>-461</u>	<u>-282</u>	<u>-133</u>	<u>-267</u>
Trade account	-192	-599	-658	-529	-435	-513
Exports, f.o.b.	(1,010)	(889)	(734)	(722)	(870)	(723)
Bauxite/alumina	/785/	/669/	/473/	/477/	/563/	/436/
Nontraditional (excluding CARICOM)	/80/	/84/	/105/	/96/	/130/	/151/
Other	/145/	/136/	/156/	/149/	/177/	/136/
Imports, c.i.f.	(-1,202)	(-1,488)	(-1,392)	(-1,251)	(1,305)	(-1,236)
Bauxite related	/-284/	/-300/	/-230/	/-216/	/-285/	/-207/
Nonbauxite related	/-918/	/-1,188/	/-1,162/	/-1,035/	/-1,020/	/-1,029/
Service and transfer account	3	161	197	247	302	246
Travel (net)	(230)	(301)	(317)	(361)	(430)	(368)
Interest payments (net)	(-176)	(-219)	(-250)	(-252)	(-262)	(-279)
Other services (net)	(-146)	(-45)	(-20)	(-15)	(-36)	(10)
Transfers (net)	(95)	(124)	(150)	(153)	(170)	(147)
<u>Capital account</u>	<u>37</u>	<u>481</u>	<u>241</u>	<u>-166</u>	<u>644</u>	<u>764</u>
Public (net)	211	427	314	65	626	567
Inflow	(314)	(649)	(639)	(450)	(1,055)	(974)
Bilateral	/66/	/188/	/293/	/273/	/611/	/583/
Multilateral	/25/	/66/	/51/	/51/	/116/	/65/
Commercial banks	/52/	/119/	/44/	/—/	/166/	/164/
Other	/171/	/276/	/251/	/126/	/162/	/162/
Outflow	(-103)	(-222)	(-325)	(-385)	(-429)	(-407)
Private capital (net) ^{1/}	-174	54	-73	-231	18	197
<u>Overall balance of payments</u>	<u>-152</u>	<u>43</u>	<u>-220</u>	<u>-448</u>	<u>511</u>	<u>497</u>
<u>Financing</u>	<u>152</u>	<u>-43</u>	<u>220</u>	<u>448</u>	<u>-511</u>	<u>-497</u>
Change in net international reserves						
(increase -)	152	-43	122	306	-283	-266
Gross reserves	(11)	(-57)	(44)	(27)	(-88)	(-127)
Net use of IMF resources	(-36)	(168)	(134)	(39)	(58)	(39)
Arrears ^{2/}	(65)	(-106)	(—)	(190)	(-190)	(-118)
Other	(112)	(-48)	(-56)	(50)	(-63)	(-60)
Other arrears ^{3/}	—	—	98	142	-228	-231
<u>Memorandum items</u>						
Bauxite equivalent (millions of metric tonnes)	12.4	11.0	7.8	8.5	9.8	7.6
Current account deficit (in percent of GDP)	-9.0	-20.2	-23.3	-12.7	-6.4	-12.3
Rescheduled debt (millions of US\$)	52	87	153	111	...	535
Outstanding debt (millions of US\$)	...	...	2,812	3,090	...	3,440
Debt service (in percent of goods and services) ^{4/}	...	...	36.5	41.5	44.9	48.6

Sources: Bank of Jamaica; and Fund staff estimates.

^{1/} Includes errors and omissions.

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

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

^{4/} Before rescheduling.

were adopted as a condition for completing the final program review. The review also included a modification of the program targets to cover end-April 1985 (EBS/85/107).

The quantitative performance criteria and actual outturns for the 1984/85 program are shown in Table 4. The improvement in net foreign assets of the Bank of Jamaica during 1984/85 was US\$266 million, compared to US\$283 million envisaged under the program before its final modification to establish April targets. Of this increase in net foreign assets, US\$113 million represented a reduction in arrears, some of which was through rescheduling. Some US\$72 million in official arrears still outstanding at end-March 1985 were eliminated in April and private sector arrears which had been US\$14.5 million at end-March 1985, were eliminated by mid-June 1985.

Jamaica's external public debt (including obligations to the Fund) at end-March 1985 totaled US\$3.4 billion, equivalent to 158 percent of GDP and the debt service ratio (before rescheduling) was 49 percent of exports of goods and services in 1984/85. External interest payments were some 20 percent of exports of goods and services and represented about 13 percent of GDP in 1984/85.

III. The Medium-Term Outlook

The balance of payments outlook for Jamaica has worsened significantly since the Board's discussion of the 1984 Article IV consultation, as world market prices and demand for bauxite and alumina have weakened further. The spot market price of aluminum had fallen to US\$0.45 per pound in mid-June 1985, close to the lowest level registered in 1982 and compared with an average of US\$0.81 per pound in 1980. In February 1985, ALCOA (Aluminum Company of America) shut down its alumina plant; another major plant, operated by ALPART (Alumina Partners of Jamaica) is likely to close down during 1985/86, leaving only the ALCAN (Aluminium Company of Canada) plant operating at about three quarters capacity. The Government is keeping the ALCOA plant operating under a leasing arrangement, but is unlikely to be able to sell alumina from this plant at prices that will result in any significant net foreign exchange earnings. Assuming the ALPART plant closed from the middle of 1985/86, net foreign exchange earnings from exports of bauxite and alumina are projected to be US\$74 million less in 1985/86 than in 1984/85. The volume of Jamaica's bauxite/alumina exports in 1985/86 is projected at 6.2 million tons (bauxite equivalent) just half the volume shipped only five years ago, falling further to 5.8 million tons in 1986/87.

The medium-term balance of payments outlook through 1989/90 summarized in Table 5 incorporates the following main assumptions. In the bauxite/alumina sector, the ALCOA plant is projected to reopen on a commercial basis toward the end of 1986 on the assumption that Jamaica's bauxite levy is reduced so that the profitability of the plant will be re-established. The Jamaican authorities are in agreement with the

Table 4. Jamaica: 1984/85 Stand-by Arrangement Quantitative Performance Criteria

	1984								1985	
	June		September		December		March/April			
	March 1/	Program	Actual	Program	Actual	Program	Actual	Program	Actual	
(End of period, in millions of U.S. dollars)										
Net international reserves <u>3/</u>	-863	-750	-739.0	-755	-733.9	-680	-680.3	-595 <u>8/</u>	-557.3 <u>8/</u>	
Public sector external arrears	362	114	113.5	76	74.6 <u>4/</u>	10	44.7	—	—	
Net external debt disbursements <u>5/</u>	—	279	214.2	377	282.4	399	379.7	489 <u>8/</u>	462.4 <u>8/</u>	
(In millions of U.S. dollars)										
Reduction in stock of private sector external arrears	—	14	14.0	14	14.3	14	16.0	6 <u>8/</u>	9.7 <u>8/</u>	
(End of period, in millions of Jamaica dollars)										
Net domestic assets of the Bank of Jamaica <u>6/</u>	3,968	3,516	3,470.7	3,546	3,448.8	3,325	3,323.8	2,950 <u>8/</u>	2,802.9 <u>9/</u>	
Central government net borrowing requirement <u>7/</u>		229	216.5	518	503.8	710	688.5	697 <u>9/</u>	683.5 <u>9/</u>	
Net banking credit to selected public sector <u>7/</u>		-38	-100.3	65	-118.2	35	-255.7	67 <u>9/</u>	-5.8 <u>9/</u>	
Net nonbank credit to selected public sector <u>7/</u>		42	-3.9	42	-11.9	42	-10.9	42 <u>9/</u>	-22.9 <u>9/</u>	

Source: Technical Memorandum of Understanding.

1/ Actual.

2/ As modified in EBS/84/233, Sup. 1 (12/7/84).

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

4/ Includes US\$44.8 million of new arrears incurred during the July-September quarter.

5/ 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 December 31, 1983. Any excess in net disbursements is to be added to net international reserves.

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

7/ Cumulative change from March 31, 1984.

8/ End-April 1985.

9/ End-March 1985.

Table 5 . Jamaica: Medium-Term Balance of Payments Outlook

	Prel.	Program		Proj.		
	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
(In millions of U.S. dollars)						
<u>Current account deficit</u>	-267	-209	-131	-112	-77	-36
Trade account	-513	-467	-404	-409	-411	-405
Exports, f.o.b.	(723)	(632)	(670)	(780)	(882)	(1,001)
Bauxite/alumina	/436/	/326/	/313/	/360/	/385/	/412/
Nontraditional (excluding CARICOM)	/151/	/177/	/211/	/259/	/319/	/392/
Other	/136/	/129/	/146/	/161/	/178/	/197/
Imports, c.i.f.	(1,236)	(1,099)	(1,074)	(1,189)	(1,293)	(1,406)
Bauxite related	/207/	/190/	/179/	/212/	/227/	/243/
Nonbauxite related	/1,029/	/909/	/895/	/977/	/1,066/	/1,163/
Service and transfer account	246	258	273	297	334	369
Travel (net)	(368)	(394)	(429)	(468)	(510)	(555)
Interest payments (net)	(-279)	(-324)	(-316)	(-326)	(-323)	(-328)
Other services (net)	(10)	(33)	(—)	(-11)	(-24)	(-35)
Transfers (net)	(147)	(155)	(160)	(166)	(171)	(177)
<u>Capital account</u>	764	208	85	89	103	87
Public (net)	567	168	85	89	103	87
Inflow	(974)	(606)	(499)	(456)	(445)	(435)
Bilateral	/583/	/228/	/230/	/200/	/200/	/200/
Multilateral	/64/	/97/	/60/	/45/	/45/	/45/
Commercial banks	/164/	/97/	/99/	/90/	/67/	/45/
Other	/162/	/184/	/110/	/121/	/133/	/145/
Outflow	(-407)	(-438)	(-414)	(-367)	(-342)	(-348)
Private capital (net)1/	197	40	—	—	—	—
<u>Overall balance of payments</u>	497	-1	-46	-23	26	51
<u>Financing</u>	-497	-96	-85	-165	-178	-132
Change in net international reserves						
(increase -)	-266	-81	-85	-165	-178	-132
Gross reserves	(-127)	(34)	(-6)	(-20)	(-20)	(-20)
Net use of IMF resources	(39)	(-19)	(-65)	(-131)	(-158)	(-112)
Arrears	(-113)	(-72)	(—)	(—)	(—)	(—)
Other	(-65)	(-24)	(-14)	(-14)	(—)	(—)
Other liabilities 2/	-231	-15	—	—	—	—
<u>Financing gap/exceptional financing</u>	--	97 3/	131 4/	188	152	81
<u>Memorandum items</u>						
Exports of bauxite and alumina in bauxite equivalent (millions of metric tonnes)	7.6	6.2	5.8	6.1	6.1	6.1
Current account deficit (in percent of GDP)	-12.3	-11.6	-7.2	-6.1	-4.1	-1.8
Outstanding debt (in millions of US\$)	3,440	3,730	3,931	4,122	4,264	4,365
(in percent of GDP)	159	206	217	223	225	222
Debt service (in percent of exports of goods and services)	48.6	57.0	54.2	47.9	43.0	37.4

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Includes net errors and omissions.

2/ Arrears that were excluded from reserves for program purposes.

3/ The financing gap is expected to be closed through rescheduling of debt falling due to official bilateral creditors. Under the assumption that creditors who participated in the 1984 Paris Club rescheduling again will agree to reschedule 100 percent of principal payments and 50 percent of interest payments falling due on not previously rescheduled debt contracted before October 1, 1983, the cut-off date applied under the 1984 rescheduling, US\$70 million in debt relief will be forthcoming from such creditors. Furthermore, the Jamaican authorities intend to request other bilateral creditors (mainly Venezuela and Mexico) to reschedule 100 percent of principal payment on not previously rescheduled debt, estimated at US\$27 million.

4/ Assuming rescheduling on same terms as in 1985/86 (see footnote 3), US\$82 million of the 1986/87 financing gap can be covered through rescheduling with official bilateral creditors, which would still leave a gap of about US\$49 million.

staff that a significant restructuring of the bauxite levy is necessary and the medium-term projections have been built on the assumption that the remaining companies (Alcoa, Alcan, Kaiser) will maintain their operations in Jamaica if the bauxite levy is reduced from US\$12.7 per ton of bauxite in 1985/86 to US\$7.5 per ton as from 1986/87. The net foreign exchange earnings from exports of bauxite and alumina are projected at US\$137 million in 1985/86 and US\$106 million in 1986/87, compared to US\$211 million in 1984/85 and US\$353 million five years earlier. These net earnings are not expected to recover substantially from the 1986/87 level over the remainder of the projection period.

Nontraditional exports other than to CARICOM are projected to increase by 15 percent a year in volume terms on the assumption that a continuation of structural reforms and the maintenance of flexible exchange policies will enable this sector to maintain the momentum gained in the last year and a half. Exports to CARICOM, however, are likely to stagnate because of economic difficulties in the region. Tourism volume is expected to rise by 5 percent a year. As nontraditional exports are growing from a small base, it is the assumption with respect to tourism, combined with a further reduction in import demand, that accounts for much of the projected improvement in the current account.

The projections indicate that even under optimistic assumptions about exceptional balance of payments support, nonbauxite-related imports will have to decline by about 15 percent below the 1984/85 level in volume terms over the next two years and can only rise modestly in the subsequent period if the current account deficit is to be brought down from the equivalent of 12.3 percent of GDP in 1984/85 to the level of about 4 percent by 1988/89, a level which is likely to be sustainable in the long run.

For 1985/86, it has been assumed that nonbauxite-related imports will be reduced by about 11 percent in volume terms; that commercial banks will reschedule 100 percent of principal falling due, including previously rescheduled debt; that official bilateral creditors will reschedule all not previously rescheduled debt on terms similar to those granted by the Paris Club last year; and that Jamaica will purchase SDR 41.6 million from the Fund in the period July 1985-March 1986 under the proposed stand-by arrangement. Jamaica has secured an incremental inflow of new money of US\$30 million from bilateral sources above the already high level reached in 1984/85. Net inflows of short-term and private capital are assumed to reach US\$40 million.

As far as 1986/87 is concerned, the projections reveal a financing gap of about US\$131 million before rescheduling of payments falling due to official bilateral creditors but after a further compression in import volumes of 5 percent. These projections also incorporate full rescheduling of principal payments to commercial banks, maintenance of the recently secured incremental flow of new money from bilateral sources, continued support from multilateral institutions, and disbursements

from the Fund under the proposed stand-by. However, even on the assumption that official bilateral creditors again agree to rescheduling on terms similar to those assumed for 1985/86, there remains a financing gap of about US\$50 million, which might call for a even larger decline in the volume of imports than the 5 percent reduction that has been built into the forecast.

The medium-term projections also show substantial financing gaps in the later years of the decade; specific assumptions about the mix of adjustment and exceptional balance of payments support needed to close those gaps have not been incorporated in the projections. However, it is clear that high levels of exceptional support will continue to be needed.

This difficult scenario underlines the need to pursue very intense efforts in the area of structural reform and to focus on the reduction in the consolidated public sector deficit. The overall deficit of the consolidated public sector is programmed to decline from 6.4 percent of GDP in 1984/85 to 4.7 percent in 1985/86 and further to 2 percent in 1986/87 and beyond. The bulk of the adjustment will need to be in the central government finances. Measures to reduce expenditures and improve expenditure control, and tax reforms are expected to reduce the scope of government in the economy while encouraging a more dynamic growth from improved private sector resource allocation.

IV. Proposed Stand-by Program

The program supported by the 22-month stand-by represents a continuation and intensification of policies implemented last year, in the context of the broader effort to restructure the Jamaican economy and move it toward a viable external position. Even though considerable progress was made in 1984/85 to correct existing imbalances, the adjustment effort will have to be further intensified to cope with the more severe balance of payments constraint that has emerged. In particular, because of the expected decline in fiscal revenues from the bauxite sector, further significant adjustments are to be made in the public finances. Restrictive demand management policies would be supported by continued flexible interest and exchange rate policies, and further structural adjustment efforts.

Consistent with the programmed 11 percent decline of nonbauxite-related imports in 1985/86 and 5 percent further decline in 1986/87, real GDP is expected to contract by about 4 percent in 1985/86 and is to show no growth in 1986/87 while inflation is expected to average 23 percent in 1985/86 and to decelerate to around 13 percent in 1986/87. Despite the declines in imports, the external current account deficit is expected to decrease only marginally in 1985/86, from 12.3 to 11.5 percent of GDP (as GDP is also expected to drop in U.S. dollar terms) but to fall to 7 percent of GDP in 1986/87.

1. Policies for 1985/86

a. Domestic policies

A substantial portion of the fiscal, monetary, and price measures needed for 1985/86 were implemented as prior actions for the second review of the 1984/85 program, which was completed by the Executive Board on May 20, 1985. These measures included a major increase in tariffs on imports, increases in controlled interest rates by 4-5 percentage points, and a hike in the cash reserve requirements on banks. Prices of basic foods were increased by 20-25 percent during April and domestic sugar prices by 37 percent in May. In addition, commitments were made at that time on adjusting prices of public enterprises, including gasoline prices. Expenditure reductions in the central government budget equivalent to 1 percent of GDP were also implemented as prior actions for the proposed program.

Quantified fiscal and monetary targets have been established for the remainder of the current Jamaican fiscal year, which runs through March 31, 1985, and macroeconomic targets agreed for 1986/87. Quantitative performance criteria for 1986/87 will be set by March 1986.

(1) Fiscal policies

(a) Central Government

Overall fiscal policy in 1985/86 aims at limiting the deficit of the consolidated nonfinancial public sector to 4.7 percent of GDP, representing a reduction of 1.7 percentage points from the previous year. The central government deficit is targeted to decline to 6 percent of GDP from 6.6 percent in 1984/85 (Table 6).^{1/} Securing even this apparently modest improvement compared to last year, requires revenue increases and expenditure reductions equivalent to about 4.6 percent of GDP to cover a decline in expected bauxite levy receipts of 2 percentage points relative to GDP and a 2 percentage points increase in foreign interest payments relative to GDP. The deficit will be financed through substantial recourse to external resources, including rescheduling, and the central government will retire debt to the domestic banking system equivalent to 7.5 percent of GDP.

On the revenue side, additional tariffs on imports in the form of stamp duties were imposed on April 13, 1985. These incremental stamp duties of 10 percent on raw materials, 20 percent on capital goods and

^{1/} The target expressed in the letter of intent is 6.8 percent of GDP because of a different treatment of the 1982 advance of bauxite levy which the staff views as a loan by the bauxite companies. While the Jamaican authorities net out the repayments from levy receipts, because they recorded the advance as revenue when it was received, the staff presents the levy receipts on a gross basis and the repayments are shown as external amortization.

Table 6. Jamaica: Summary Operations of the Central Government 1/

	Actual				1984/85		Program	
	1980/81	1981/82	1982/83	1983/84	Prog.1/	Prel.	1985/86	1986/87
(In millions of Jamaica dollars)								
<u>Revenue</u>	1,217	1,512	1,659	1,798	2,738	2,709	3,479	3,553
Tax revenue	916	1,160	1,407	1,535	2,060	2,021	2,541	3,095
Tax measures 1985/86	—	—	—	—	—	—	319	—
Nontax revenue	71	52	54	69	129	182	132	127
Bauxite levy	230	300	198	194	484	481	345	170
Of which: advanced levy 2/	(—)	(—)	(16)	(34)	(61)	(61)	(81)	(44)
Grants	...	...	...	...	65	25	142	161
<u>Expenditure</u>	2,022	2,358	2,518	2,902	3,374	3,332	4,163	4,520
Current	1,550	1,715	1,861	2,394	2,830	2,818	3,393 3/	3,556 3/4/
Capital	472	643	657	508	544	447	770	964
Float and unrecorded items 5/	—	—	—	—	—	66	—	—
<u>Adjustment gap</u>	—	—	—	—	—	—	—	460
<u>Overall balance</u>	-805	-846	-859	-1,104	-636	-623	-684	-507
<u>Total financing</u>	805	846	859	1,104	636	623	684	507
Net external 2/3/	220	504	419	411	1,551	1,047	955 6/	972 6/
Net domestic	585	342	440	693	-915	-424	-688	-1,147
Banking system	(490)	(189)	(644)	(790)	(-1,062)	(-654)	(-850)	(-1,330)
Other (including residual) 5/	(95)	(153)	(-204)	(-97)	(147)	(230)	(162)	(183)
Financing gap/exceptional financing	—	—	—	—	...	—	417 7/	682 7/
(In percent of GDP)								
<u>Revenue</u>	25.0	27.9	27.5	24.7	28.9	28.6	31.0	28.0
Tax revenue	18.8	21.4	23.3	21.1	21.8	21.3	22.7	24.4
Tax measures 1985/86	—	—	—	—	—	—	2.8	—
Nontax revenue	1.5	1.0	0.9	1.0	1.4	1.9	1.2	1.0
Bauxite levy	4.7	5.5	3.3	2.6	5.1	5.1	3.1	1.3
Grants	...	...	...	...	0.6	0.3	1.2	1.3
<u>Expenditure</u>	41.5	43.5	41.7	39.8	35.6	35.2	37.0	35.6
Current	31.8	31.6	30.8	32.8	29.9	30.5 8/	30.1	28.0
Capital	9.7	11.9	10.9	7.0	5.7	4.7	6.9	7.6
<u>Adjustment gap</u>	—	—	—	—	—	—	—	3.6
<u>Overall balance</u>	-16.5	-15.6	-14.2	-15.1	-6.7	-6.6	-6.0	-4.0
<u>Total financing</u>	16.5	15.6	14.2	15.1	6.7	6.6	6.0	4.0
Net external	4.5	9.3	6.9	5.6	16.4	11.1	8.5	7.7
Net domestic	12.0	6.3	7.3	9.5	-9.7	-4.5	-6.1	-9.0
Banking system	(10.0)	(3.5)	(10.7)	(10.8)	(-11.2)	(-6.9)	(-7.5)	(-10.5)
Other (including residual)	(2.0)	(2.8)	(-3.4)	(-1.3)	(1.5)	(2.4)	(1.4)	(1.5)
Financing gap/exceptional financing	—	—	—	—	...	—	3.7	5.4
Memorandum item								
Fiscal year GDP (millions of Jamaica dollars)	4,870	5,425	6,043	7,289	9,461	9,461	11,225	12,684

Sources: Ministry of Finance; and Fund staff estimates.

1/ As shown in EBS/84/233, Supplement 1.

2/ Corresponding to an advance of the levy in 1982/83, to be repaid out of yearly bauxite production, which are included in net external financing.

3/ External interest is on a commitment basis.

4/ Incorporates expenditure reduction measures estimated at 2 percent of GDP implemented in 1985/86.

5/ Through 1983/84, float and unrecorded items are treated as part of financing residual items. Since 1984/85 these are treated as part of expenditures.

6/ Before rescheduling of external principal obligations.

7/ The financing gap for 1985/86 and part of the gap for 1986/87 is expected to be closed through rescheduling as indicated in footnotes 5 and 6 of Table 5.

8/ Includes float and unrecorded items.

30 percent on consumer goods are expected to yield about 2.8 percent of GDP in revenue. Imports of basic foods, fertilizers, and other agricultural inputs, certain pharmaceutical products, motor vehicles and parts, imports from CARICOM and imports by exporters are exempt from these duties. These exemptions cover some 50 percent of nonbauxite/non-oil imports. The Government has undertaken to curtail ad-hoc exemptions so as to boost the revenue yield and public enterprises are being required to pay all taxes. Nevertheless, in the discussions, the staff pointed out that the margin of error in the yield calculations could be quite large. Tax revenues excluding the new stamp tax are expected to grow by 26 percent in 1985/86 and increase as a ratio to GDP. This reflects in part the effect of the expected devaluation of the Jamaican dollar on import related receipts. In addition, higher revenues are expected from the customs tax and retail sales tax on cars that were imported in 1984/85 and are expected to be sold in the current year. Also, new taxes on the tourist sector which were imposed last year will be fully implemented following settlement of a dispute with the hotel industry. Grants will increase substantially as certain donors have stepped up efforts to assist Jamaica in various bilateral projects.

In 1984/85 bauxite levy collections accounted for 18 percent of total government revenue and 5.1 percent of GDP. Declining world prices and the deepening crisis of the Jamaican bauxite/alumina industry indicate that these tax arrangements need to be changed and discussions are underway between the Government of Jamaica and the companies on this issue. The authorities expect that any reduction in the levy that might be agreed would only take effect from April 1986 and therefore would not affect receipts in 1985/86. Thus, the projected drop in bauxite levy receipts for 1985/86 reflects only the assumed closure of the ALPART alumina plant by the middle of the program year, and the fact that under the leasing arrangement, no levy payments are likely to be forthcoming from the ALCOA plant. The staff stressed that should there be any shortfall in levy receipts because of further closures or declines in prices, or because of an early renegotiation of the tax arrangements, offsetting action would be needed to preserve the targets of the program. Even though the discussions with the bauxite companies have not been concluded, a contingency plan for a cutback in expenditure from the budgeted level equivalent to 0.8 percent of GDP has been drawn up and is being implemented in light of the possibility of a further shortfall in revenues, with the cuts mainly falling on capital outlays.

In the event that a shortfall in levy receipts does not materialize and the contingency plan should prove unnecessary, total expenditures would increase slightly as a ratio to GDP in 1985/86 because in addition to increased interest payments there is a programmed increase in fixed capital expenditures needed to rehabilitate basic infrastructure, although capital transfers to public sector enterprises will be reduced (Table 7). As regards current expenditures, the Government is facing difficult negotiations on wage contracts for public sector employees. The authorities are committed to contain the increase in wages under collective bargaining

Table 7. Jamaica: Central Government Expenditures 1980/81-1985/86

(In percent of GDP)

	1980/81	1981/82	1982/83	1983/84	Prog. 1984/85	Prel. 1984/85	Prog. 1985/86
<u>Total expenditures</u>	<u>41.5</u>	<u>43.6</u>	<u>41.7</u>	<u>39.8</u>	<u>35.9</u>	<u>35.2</u>	<u>37.0</u>
Current expenditures	31.8	31.7	30.8	32.8	29.9	29.8	30.1
Wages and salaries	(14.0)	(13.5)	(14.0)	(13.3)	(11.2)	(11.0)	(10.8)
Interest payments	(7.7)	(7.8)	(8.6)	(10.7)	(11.3)	(10.6)	(12.6)
Transfers	(5.4)	(4.8)	(3.8)	(5.0)	()	(3.9)	(2.9)
Other	(4.7)	(5.6)	(4.4)	(3.8)	(7.4)	(4.3) ^{1/}	(4.2)
Capital expenditures	9.7	11.9	10.9	7.0	6.0	4.7	6.9 ^{2/}
Capital formation	(4.0)	(7.5)	(7.4)	(4.1)	(3.9)	(3.1)	(4.9)
Transfers	(5.3)	(3.8)	(3.5)	(2.8)	(1.9)	(1.7)	(2.0)
Other	(0.4)	(0.6)	(--)	(0.1)	(0.2)	(--)	(--)

Sources: Ministry of Finance and Planning; and Fund staff estimates.

^{1/} Includes float and items under adjustment estimated at J\$66 million.

^{2/} To be reduced by 0.8 percent of GDP under the contingency plan.

negotiations to no more than 12.5 percent in 1985/86 compared with an expected inflation of 23 percent on average. Current outlays, other than interest payments, are expected to decline as a ratio to GDP by about 2 percentage points in 1985/86; this is to be achieved by the phase out of subsidies on basic foods introduced last year, by a compression in outlays on operations and maintenance, and partly through further expenditure reduction measures. In light of the need for further fiscal adjustment in 1986/87 and the time required for expenditure reduction measures to yield results, the Government is implementing reductions in recurrent expenditures in 1985/86 over and above those incorporated in the budget. These measures will yield at least 2 percent of GDP in savings for 1986/87 and the following years. Because of the redundancy payments associated with employment reductions, a net saving of only about 0.3 percent of GDP is expected in 1985/86 from these measures.

As explained in the attached letter, these expenditure reductions are being carried out in two phases. The first phase which is to be implemented by mid-July 1985, includes a reduction in the services duplicated at the local and central government level such as health, sanitation and water provision, a further cutback in certain operational and maintenance expenditures, and layoffs of at least 2,100 public employees. The second phase of expenditure cuts designed to yield a further 1 percent in savings is to be identified and agreed with the Fund by September 1985 and fully implemented by December 1985.

Capital expenditures which are incorporated in a three-year rolling Public Sector Investment Program (PSIP), prepared with the assistance of the World Bank, will increase by about 2 percent of GDP compared with 1984/85. Outlays on capital formation are slated to double to 5 percent of GDP as part of the effort to rehabilitate and improve the productive sectors, including agriculture, tourism, and industry. Capital transfers to entities like Air Jamaica, Urban Development Corporation, National Water Authority, and Jamaica Railway Corporation reflect steps to improve the capitalization of these enterprises, or in the case of UDC, to service its debts. As noted above, until the question of bauxite sector taxation is resolved, capital expenditures are being held back according to the contingency plan.

The authorities have undertaken to review the whole structure of expenditures and will seek technical assistance from the Fund for this purpose. The restructuring and scaling down of expenditure will have particular importance as the Government is committed to implement certain tax reforms starting 1986/87 to improve incentives for the productive sectors, which might have an initial negative impact on revenue.

(b) Rest of public sector

In the rest of the public sector, including the selected non-financial enterprises, the objective of the program is to generate an overall surplus of about 1.3 percent of GDP in 1985/86 and 1.9 percent

in 1986/87, compared to approximate equilibrium in 1984/85. The authorities have undertaken to adjust the prices of goods and services sold by enterprises promptly to reflect changes in the exchange rate and other costs in order to achieve the program financial targets. The prices of products sold by the Jamaica Commodities Trading Corporation (JCTC) will be adjusted monthly to reflect cost movements and to build up a net cash surplus of J\$90 million (0.8 percent of GDP) during 1985/86. Prices of petroleum products will be adjusted according to an agreed formula which incorporates changes in crude petroleum prices, changes in the exchange rate and other costs. Prices will be adjusted when calculations indicate that the accumulation of resources into a special fund has fallen below an agreed minimum level on an annual basis. Prices of petroleum products would then be adjusted to secure an agreed annualized accumulation into the fund that would make up for the previous shortfall. The program projects accumulation of J\$84 million (0.7 percent of GDP) in this fund in 1985/86. Prices for other enterprises will be reviewed on a quarterly basis.

(2) Monetary policies

Monetary policies for 1985/86 aim at restraining domestic credit expansion to a level consistent with the targeted improvement of US\$81 million in the net international reserves of the Bank of Jamaica (Table 8). Accordingly, total banking system credit is projected to increase by about 5 percent, in relation to liabilities to the private sector at the beginning of the period, and outstanding domestic bank borrowing by the Central Government is expected to decline by some 16.5 percent on the same basis. These credit targets are needed to offset net operating losses of the Bank of Jamaica and amortization of its medium- and long-term foreign liabilities. Operating losses of the Bank of Jamaica which mainly stem from the effect of the depreciation of the Jamaican dollar on its debt servicing obligations are expected to be lower than the previous year. Bank credit to the private sector is programmed to increase by about 9 percent in 1985/86 (in relation to liabilities to the private sector), compared with 10 percent in 1984/85.

In order to tighten credit policies and raise interest rates, the authorities recently introduced a number of measures. Banks were given instructions to hold outstanding credit to the private sector constant between March and June, and to increase such credit by only 2 percent between July and September 1985. The cash reserve requirement was raised progressively from 14 percent in March to 20 percent by mid-July, and the liquid asset requirement was raised from 44 percent to 48 percent in mid-March. The authorities also introduced a cash reserve requirement on nonbank financial intermediaries of 5 percent of deposit liabilities, effective mid-July.

^{1/} The expected reduction in these losses to the equivalent of 3.6 percent of GDP in 1985/86 from 6.3 percent the preceding year reflects the slower expected relative depreciation of the Jamaica dollar and the fact that there are no exchange guarantees to be paid on private arrears in 1985/86.

Table 8. Jamaica: Summary Monetary Accounts

	1980/81	1981/82	1982/83	1983/84	1984/85	Program	
						1985/86	1986/87
(Flows in millions of Jamaica dollars)							
I. Banking System							
Net international reserves	-212	95	-178	-459	977	504	595
Net domestic credit	546	268	721	1,151	-306	212	-56
Net credit to Central Government	490	154	679	794	-656	-850	-1,330
Net credit to rest of public sector	—	-25	-42	141	-258	—	—
Net credit to other financial institutions	-63	-31	64	-52	-63	-139	-38
Net credit to private sector	238	338	423	339	341	352	315
Medium- and long-term foreign liabilities	-22	8	-121	-254	-332	355	786
Net operating losses	—	—	—	250	602	400	201
Other unclassified	-97	-176	-282	-67	60	94	10
SDR allocation	15	—	—	—	—	—	—
Liabilities to private sector	319	363	543	692	671	716	539
Money	43	103	16	110	157	170	126
Quasi-money	211	352	478	455	412	535	368
Other	65	-92	49	127	102	11	45
II. Bank of Jamaica							
Net international reserves 1/	-207	77	-261	-556	1,063	504	595
Net domestic credit	237	-30	292	602	-999	-434	-541
Net credit to Central Government	518	-72	557	739	-824	-1,007	-1,425
Net credit to rest of public sector	—	6	-55	98	-146	-95	—
Net credit to banks	-103	3	115	-477	-318	-107	-103
Medium- and long-term foreign liabilities	-19	9	-113	-238	-328	355	786
Net operating losses	—	—	—	250	602	400	201
Other unclassified	-159	24	-212	230	15	20	—
SDR allocation	15	—	—	—	—	—	—
Currency in circulation	15	47	31	46	64	70	54
III. Commercial Banks							
Net foreign assets	-5	18	83	97	-86	—	—
Net domestic credit	309	298	429	549	693	646	485
Net credit to Central Government	-28	226	122	55	168	157	95
Net credit to rest of public sector	—	-31	13	43	-112	95	—
Net credit to Bank of Jamaica	180	-142	-150	418	329	132	113
Net credit to other financial institutions	-63	-31	64	-52	-63	-139	-38
Net credit to private sector	238	338	423	339	341	352	315
Medium- and long-term foreign liabilities	-3	-1	-8	-16	-4	—	—
Net unclassified	-15	-61	-35	-237	34	49	—
Liabilities to private sector	304	316	512	646	607	646	485
Demand deposits	28	56	-15	64	93	100	72
Time and savings deposits	211	352	478	455	412	535	368
Special deposits	71	-141	—	51	7	-58	—
Other	-6	49	49	76	95	69	45
(Changes in percent)							
Banking system 2/							
Net domestic credit	36.4	14.8	33.1	42.3	-9.0	5.2	-1.2
Net credit Central Government	32.7	8.5	31.2	29.2	-19.2	-16.5	-27.7
Credit to private sector	15.9	18.6	19.4	12.5	10.0	8.6	6.6
Liabilities to private sector	21.3	20.0	24.9	25.4	19.7	17.5	11.2

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\$6.2 = US\$1 in 1985/86, and US\$7 = US\$1 in 1986/87.

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

As expressed in paragraph 15 of the attached letter of intent, the authorities are committed to maintain domestic interest rates at levels which are broadly positive in real terms. By end-April the minimum interest rate paid on savings deposits was raised to 20 percent from 15 percent in March 1985. The minimum savings rate is the basic rate upon which most other interest rates are determined. In addition, the Bank of Jamaica raised its rediscount rate from 19 to 21 percent and the ceilings on mortgage rates were eliminated. With these measures, interest rates on large CDs are expected to rise to around 24-25 percent and most lending rates would exceed 28 percent. Further, to support the interest rate structure the authorities have undertaken to raise the statutory limit on outstanding Treasury bills by J\$250 million to J\$1 billion and to float new Treasury bills, thereby increasing the assets available to banks to meet their liquid asset requirement. Recently, due to the limited availability of Treasury bills, excess demand has tended to exert downward pressure on the Treasury bill rate.

The cash and liquid asset requirements, by creating a captive demand for government paper, may result in somewhat lower interest rates on such paper than would otherwise be the case and thus contribute to widen the spread between private sector deposit and loan rates. It is expected that the cash and liquid asset requirements would begin to be eased later this year and that the authorities will rely increasingly on open market operations to influence domestic credit expansion and interest rates.

To prevent the restrictive credit policies from placing an undue constraint on the productive sectors, the authorities will continue to implement selective measures. In particular, the ceilings on bank credit to the distribution and personal services sectors will be lowered by 15 percent. Also, the productive sectors will be able to obtain resources from a more intensive use of the IBRD-financed Export Development Fund (which lends foreign exchange to finance the import requirements of exporters) and from foreign official loans channeled through the National Development Bank and the Agricultural Credit Bank.

(3) Wages and price policies

The authorities' commitment to restrict central government wage increases to 12.5 percent in 1985/86 would represent a useful guideline for wage agreements in the rest of the economy, including public enterprises. In addition, the authorities intend to improve the wage monitoring unit at the Ministry of Labor in order to provide data on wage developments on a timely and detailed basis.

The Government has been reducing the scope of price controls in the economy and is committed to eliminate specific price controls before the end of 1985. At present only 3 basic items are subject to such controls, down from 17 items at the end of March 1984. In addition, 3 products are subject to notional price controls, whereby increases in prices are reported to the Prices Commission, and 15 items are subject to markup controls.

b. External sector policies

(1) Refinancing and exceptional financing

As noted earlier, substantial refinancing and exceptional financing are needed in 1985/86 and beyond. The program assumes that, as in the previous year, all principal payments falling due to commercial banks in 1985/86, including payments on previously rescheduled debt, will be rescheduled. This is expected to provide debt relief of about US\$97 million. Tentative agreement was reached in Kingston on May 10, 1985 at a meeting of the steering committee of creditor banks and final agreement, possibly involving multiyear rescheduling, is expected in early July. With regard to official bilateral creditors, it is assumed that they will agree to reschedule all not previously rescheduled debt on terms similar to those granted in 1984/85. As in last year's rescheduling, Paris Club participating creditors are assumed to reschedule the equivalent of 100 percent of principal payments and 50 percent of interest payments falling due on medium- and long-term debt contracted before October 1, 1983, resulting in debt relief of about US\$70 million (see Table 5). As for debts to other official creditors, the Jamaican authorities will seek the same terms as the Paris Club participants. The program assumes rescheduling of 100 percent of principal payments falling due on not previously rescheduled debt, estimated to amount to US\$27 million. If Jamaica is able to obtain rescheduling over and above these amounts, however, the incremental amount is to be used to increase reserves. As for exceptional financing, the program was drawn up on the assumption that Jamaica would secure new money from official bilateral sources of US\$30 million above the already high level obtained in 1984/85. A commitment by donor countries for such additional assistance was obtained at the meeting of the Caribbean Group (CGCED) on June 21, 1985. It is also assumed that Jamaica would purchase SDR 41.7 million from the Fund in the period July 1985-March 1986, under the proposed stand-by arrangement.

According to the letter of intent, the rescheduling negotiations with commercial banks and official bilateral creditors are to be concluded no later than August 31, 1985 and the review mission that is scheduled to visit Jamaica in early September will study the consistency between the outcome of those negotiations and the assumptions underlying the financial program. A precondition for completing that review will be that satisfactory rescheduling arrangements have been made.

The program assumes a net use of short-term trade and suppliers' credits of US\$40 million in 1985/86 but net use of such credits by public enterprises will be limited to US\$20 million.

(2) Net foreign assets target

The program calls for an improvement in the net international reserves of the Bank of Jamaica of US\$81 million in 1985/86 and US\$80-100 million in 1986/87. This improvement is to result from a reduction in foreign liabilities, specifically the elimination of payment arrears (that already took place in April 1985) and net repurchases to the Fund of SDR 19.4 million in 1985/86, and of SDR 65 million in 1986/87. Although gross reserves by end-March 1986 are projected to amount to some US\$160 million, only about US\$40 million, equivalent to 2.3 weeks of nonbauxite related imports, would be freely available. The nonliquid reserves would include about US\$60 million that serve as collateral for short-term oil credits from an external commercial bank. The authorities will not earmark further foreign reserves for such purposes, since this practice could lead to a recurrence of payment arrears. Quarterly ceilings have been established on the net international reserves of the Bank of Jamaica through March 1986.

(3) Exchange rate policy

Achievement of the balance of payments targets is to be attained through the programmed tightening of demand management policies in combination with a fully market-determined exchange rate intended to ensure that any excess demand for foreign exchange will be balanced by a depreciation of the Jamaican dollar. With the ceilings on official external borrowing, including short-term borrowing by the public sector, such a depreciation is expected to compress imports, encourage exports and tourism, and lead to some reflow of private capital.

The exchange rate will continue to be determined in the twice-weekly foreign exchange auctions. The use of the "Dutch" auction technique in the foreign exchange auction, whereby each successful bidder pays his bid price, may involve a multiple currency practice. In recent auctions, bids have converged and the differential between the highest and lowest accepted bids for several weeks has been less than 3 percent. Due to this convergence and because there have been frequent changes to the exchange system in the recent past, the authorities wish to maintain the "Dutch" auction system for the time being and have requested Board approval for an extension of this practice through October 1985.

The authorities considered that the depreciation of the Jamaica dollar of over 200 percent (in terms of Jamaica dollars per U.S. dollar) since the beginning of 1983 and 60 percent over the past 12 months had enhanced Jamaica's competitiveness; together with the recent adjustments in oil and food prices, this depreciation would have an impact on demand for imports. The newly imposed tariffs on imports and tightening of credit policies would play a significant role in restraining imports. They added that a major further depreciation in the Jamaican dollar could have serious social consequences at this juncture. The staff stressed that, in any event, it was essential that the exchange rate be allowed to move to a level consistent with achievement of the program targets.

(4) Trade and payments system

Significant reforms have been made in the exchange and trade system in the last 18 months. In April 1985, most of the remaining import licensing and quotas were eliminated ahead of schedule; the remaining items on the restricted list comprise motor vehicles, basic food items and fertilizers provided by bilateral aid programs, restricted drugs and medicines, and firearms and explosives. These items are estimated to account for about 30 percent of 1985/86 nonbauxite, non-oil imports.

The only restriction on current payments applies to allowances for travel, other than for business purposes, which, at present are limited to US\$55 per person a year. The authorities will review this limit when conditions in the foreign exchange market are more normal.

2. The program for 1986/87

A further decline in the volume of nonbauxite-related imports of at least 5 percent may be necessary in 1986/87, consistent with a reduction of the current account deficit from 11.5 percent of GDP to about 7 percent of GDP. Even with such an improvement in the current account, large-scale exceptional financing would be needed again in 1986/87. As noted above, after further rescheduling of debt falling due to commercial banks and official bilateral creditors on terms similar to those assumed for 1985/86, maintenance of the incremental bilateral assistance obtained in 1985/86, and disbursement of SDR 60 million under the proposed stand-by arrangement, a financial gap of some US\$50-60 million remains. The closing of this gap will be addressed during the review and negotiations on the quantitative performance criteria for the remaining period of the arrangement, in early 1986.

Demand management policies during 1986/87 will have to remain very tight, and the public finances will need to be adjusted further. The expenditure measures undertaken in 1985/86 should assist in the achievement of the targeted reduction in the deficit of the Central Government from 6 percent of GDP in 1985/86 to about 4 percent of GDP in 1986/87. However, since the implementation of the first phase of the tax reform in 1986 may lower tax revenues by about 1 percent of GDP in 1986/87 and receipts from taxes on the bauxite/alumina sector are likely to decline by another 1.5 percent of GDP, further expenditure reductions and off-setting revenue measures would be clearly needed, amounting to some 4-5 percent of GDP. These measures will also be identified and discussed early next year in the negotiation and review mission.

V. Structural Adjustment Policies

The Government's stated aim is to reduce the role of the public sector, and to create an environment in which the private sector could develop rapidly with an export-oriented outlook. Thus, economic deregulation and export development are key elements in the Government's strategy. Given the deteriorating medium-term outlook, an intensification of the structural reforms in the Jamaican economy is clearly needed. Three Structural Adjustment Loans (SAL) from the World Bank for a total of US\$190 million were approved in the period 1982-84 and further SAL loans are expected. The SAL programs have complemented Fund-supported stabilization programs. In addition, the World Bank has been active in many sector loans (details of the financial relations of the World Bank with Jamaica are shown in Attachment IV). Table 9 describes the main areas in which structural reform has taken place, and outlines the main policy issues that remain to be addressed by the Government.

Among these policy areas, the Government is contemplating a tax reform designed to support the structural adjustment effort, with changes to be implemented starting 1986/87. As a first stage, legislation to restructure the tax administration to improve its efficiency has been presented to Parliament. A major tax review study with various proposals to improve the tax system has been completed and the Government has set up a review committee pending a formal submission of the proposals to Parliament. The reform aims at reducing income tax rates, widening the tax base and improving the integration between corporate and individual taxes. The reform of indirect taxes will center on the introduction of a general consumption tax and a rationalization of existing taxes to improve equity and efficiency. The first phase of the reforms is targeted for implementation starting January 1, 1986 and the remainder over the following five years. The proposed reduction in income tax rates and the possible indexation of allowances may result in a short-term loss of revenue even with a widening of the tax base. However, in the longer run the improved incentives to productive activities are expected to provide a more diversified and dynamic revenue base which will more than offset the short-run adverse impact.

The Government also plans to accelerate the privatization of government-owned commercial operations. A committee which has been operating since 1980 with the object of divesting companies owned by the Government, has identified 41 companies for divestment, but implementation has been very limited. To date only five companies have been sold and one is being managed by a foreign concern. In addition, a number of important hotels have been leased and four small enterprises have been liquidated or closed. A further six enterprises are advanced to the point of soliciting tenders and two are under serious negotiation for divestment. The remainder are under evaluation by the committee's technical secretariat in preparation for possible tenders by the end of 1985/86. The 1985/86 financial program has not included any estimate for proceeds from the sale of enterprises.

Table 9. Jamaica: Progress in Structural Reform

Policy Area	Development Issue	Policy Reform to Date	Issues to be Addressed
<u>Foreign Exchange Allocation System</u>	The exchange rate had previously been maintained at an overvalued rate, leading to noncompetitive-ness of exports, excessive demand, and the need to allocate foreign exchange by administrative means.	A two-tier exchange rate system was introduced in January 1983 and replaced in November 1983 by a unified rate which is determined at twice-weekly foreign exchange auctions. Under the auction system, the rate has moved from J\$3.15=US\$1.00 to over J\$5.50=US\$1.00 by May 1985. The new system appears to have stemmed the flight of capital.	Government should continue to ensure the maintenance of a competitive exchange rate.
<u>Trade Regime</u>	The system of quantitative restrictions and import licensing had led to excessive levels of protection for manufacturing industry in particular, and to an over-administered system for allocating import licenses.	A program to remove all QRs over a five-year period was adopted in 1982. In April 1985 all remaining QRs were abolished along with the remaining licensing system, and import controls are now limited to basic foods, drugs, agricultural imports and motor vehicles and parts. In addition, stamp duties of 10, 20, and 30 percent were imposed on imports of raw materials, consumer goods and capital goods, respectively. Exceptions include basic foods, drugs, agricultural imports, motor vehicles and parts, imports from CARICOM and imports by exporters.	The liberalization program should be continued. Upon completion of a comparative advantage and incentives study, a new tariff structure should be installed, taking account of the new exchange rate, which would provide a reasonable degree of protection to domestic industry, and encourage exports.
<u>Central Government Finances</u>	The Central Government's overall deficit was running at 14-17 percent of GDP until 1984/85.	In FY 1984/85, the overall deficit was reduced to 6.6 percent of GDP.	The Government should continue to reduce the overall deficit to a sustainable level, probably about 4 percent of GDP. Given the high level of taxation and low level of capital expenditure, efforts should be concentrated on reducing current expenditure and transfers.
<u>Public Administration</u>	The public service grew very rapidly in the 1970s. In particular, many parastatals were created to bypass the central government budget process including the civil service salary structure, which weakened Central Administration.	An administrative reform program (ARP) has been launched, including senior civil service salary revisions, the introduction of performance (program) budgeting, and decentralized personnel policies. At the same time, the fiscal program has reduced the number of public employees.	The ARP should be pursued vigorously. In particular, efforts to raise senior civil service salaries should continue despite fiscal problems. Given the need to reduce the deficit further, additional personnel cuts will be necessary, and the ARP should help to make this a more rational process.
<u>Tax Reform</u>	Currently income tax rates are high, contributing to substantial tax evasion. Most allowances are not included in the tax base and most self-employed people are not assessed for tax purposes. Indirect taxes are largely levied on imports, distorting the tariff structure in favor of import substitution. Tax administration is not well coordinated and is in need of strengthening.	A study launched in July 1983 has been completed and the report is under study by a review committee. A bill to revamp the entire tax administration has been presented to Parliament.	Complete legislation on tax administration and implement requisite changes. Introduce new tax legislation to implement tax reform, including a broad-based general consumption tax.
<u>Public Enterprises Savings</u>	Most enterprises have been either making losses or only marginal contributions to savings. This has been primarily due to inappropriate pricing and inadequate management. In addition, there are too many enterprises involved in activities which could be carried out by the private sector.	Management audits have been carried out for the main enterprises, and pricing policies have been extensively revised. Financial targets and monitoring systems have been developed. A list of enterprises targeted for divestment has been drawn up.	Efforts must continue to ensure that substantial current savings are generated by the enterprises and that individual enterprises' action programs are carried out. The divestment program, which has to date had few positive results, must be pursued vigorously.

Table 9. Jamaica: Progress in Structural Reform (Continued)

Policy Area	Development Issue	Policy Reform to Date	Issues to be Addressed
<u>Public Investment</u>	The public sector investment program (PSIP) had grown rapidly, but with few controls, little monitoring, no clear decision process, and without integration with the capital budget. Most sources of long-term capital had disappeared. The approval process for private investment had become very cumbersome.	A three-year rolling PSIP has been developed at a more appropriate level. A monitoring system has been developed, and a formal decision making process is in place. The Government established the National Development Bank (NDB) and the Agricultural Credit Bank (ACB) as apex institutions channelling long-term resources through commercial banks, and Jamaica National Investment Promotion Ltd. (JNIP) as a "one-stop" investment promotion agency.	Efforts to continue to integrate the PSIP process with the budget process should be pursued. Continued improvements in appraisal techniques and approval procedures will also be needed, as will efforts to make the monitoring system more relevant. Having established itself on the market place, the NDB should now streamline its procedures so as to improve efficiency and the speed of response. While JNIP seems to have done a good job, it should continue efforts to improve coordination with other Government institutions, and to streamline the approval process for private investment.
<u>Interest Rates, Private Savings, and Monetary Policy</u>	Interest rates have proved very rigid in nominal terms. While generally freely determined, certain rates are fixed centrally. Taxation on savings was high. Interest rates for the private sector are much higher than those to the public sector.	Time deposits over one year were made tax-free. The minimum savings rate has been raised to 20 percent and the overall level of rates has been raised as part of a tight money policy. Liquidity ratios have been raised from 36 percent to 48 percent.	Yields on different forms of savings should be treated more equally in the Government's ongoing tax reform programs. The Bank of Jamaica should phase out liquidity ratios and rely on base money management.
<u>Housing Finance</u>	Housing finance is dominated by public institutions. The National Housing Trust (NHT) is financed by a 5 percent payroll tax. The Jamaica Mortgage Bank (JMB) has not effectively provided a secondary mortgage facility, and is technically bankrupt. A ceiling on private mortgage lending rates has been maintained below average interest rate levels.	Few substantial changes on housing finance policy have been enacted. Ceilings on mortgage interest rates of the building societies were removed in May 1985.	The Government should urgently consider closing the JMB and foster a private secondary mortgage market. With the high unemployment rate, an alternative way to fund NHT should be identified.
<u>Money and Capital Markets</u>	Most Jamaican companies have very high debt/equity ratios. The stock exchange has been very limited in operations. Corporate taxes are very high and dividends are double-taxed. The money market is very thin, and the main paper that exists is 90-day treasury bills and 10-year local registered stock.	Little attention has been paid to this area to date.	To encourage the development of and equities market, Government should give tax breaks to new public companies and remove the double-taxing of dividends. The Stock Exchange should be widened in membership. As an initial boost to the money market Government should broaden the range of its financial instruments. A state deposit insurance scheme should be considered and financial institutions' supervision should be strengthened.
<u>Export Incentives</u>	The system of protection combined with an overvalued exchange rate led to anti-export bias, and a low level of nontraditional exports outside the regional market.	In addition to liberalization and devaluation, some explicit incentives have been introduced. In particular, a scheme to rebate raw materials import duties to exporters has been instituted.	Upon completion of the comparative advantage study, the new tariff system should provide for exporters to operate on a free trade basis. Most important will be the maintenance of a competitive exchange rate.
<u>Marketing and Technical Assistance to Exporters</u>	Efforts have sometimes been unfocused and inadequately funded, and are mainly done by public institutions.	Action programs to promote individual exports have been developed, with major success in the garments area. More recently, Government has established a Technical Assistance Fund for Exporters, to finance individual companies' activities.	While these efforts should continue, attention should also be paid to the further rationalization of the various public institutions in this sector.

Table 9. Jamaica: Progress in Structural Reform (Concluded)

Policy Area	Development Issue	Policy Reform to Date	Issues to be Addressed
<u>Bauxite and Alumina</u>	Since the imposition of the bauxite levy in 1974, and the oil crises of the 1970s, Jamaica has become uncompetitive in bauxite/alumina production, which has fallen from 15 million tons in 1976 to under 8 million tons in 1983 and 1984. In 1985, the industry is in deep crisis, with production likely to be not more than 5.5-6 million tons. Alumina production is dependent on imported oil.	The bauxite levy was restructured in 1984 to encourage higher production, and the devaluation has lowered local costs in foreign exchange terms.	The deepening crisis in this industry calls for urgent review by Government. Discussions should be held with the companies to find out what can be done to save the industry, including changes in the levy, shared coal conversion costs.
<u>Tourism</u>	Tourist arrivals stagnated in the 1970s, and little new construction took place. Profit levels fell with the overvalued exchange rate, and infrastructure became run down.	A vigorous promotion campaign and better international image has led to a rapid increase in arrivals. Profitability has been restored and some rehabilitation has taken place, particularly in hotels previously operated by the Government National Hotels and Properties, and now leased to the private sector. The tourism sector has been the brightest spot of the economy in the 1980s.	Disturbances in Jamaica in Jan. 1985 led to the first setback since 1980 for the industry, but should soon be overcome. The promotion campaign should continue, and JNIP should focus attention on the search for new investors in tourism, since capacity constraints are beginning to emerge.
<u>External Marketing Organizations for Agricultural Exports</u>	The EMOS (for coffee, cocoa, citrus and pimento) have subsidized inefficient nonmarketing activities through low producer prices made possible by their monopsony position. However, they have succeeded well in creating a special image for these exports, reflected in above world market prices.	Producer prices have been revised upwards. Nonmarketing activities are being divested to the private sector. Private marketing of such crops is now permitted under certain conditions. Export-based pricing formulae are being developed.	The ongoing reform programs should be completed, including early introduction of the pricing formulae. The deregulation of marketing should continue but with due regard to the maintenance of quality control, and protection of Jamaica's special export markets.
<u>Sugar</u>	Sugar production has been gradually declining, productivity is very low, and very large public subsidies continue to be necessary.	Two factories have been closed, management reorganized, and domestic prices raised. More recently, export foreign management has been contracted to run the industry, and a sugar rehabilitation program has been developed.	Government will have to be strong in its support of the new management, and may have to face further hard decisions. Where appropriate, programs to utilize existing sugar lands for other crops should be devised.
<u>Bananas</u>	Bananas suffered a similar fate to sugar, although compounded by the effect of the 1980 hurricane. 1984 saw a record low level of banana production.	The industry is in the process of a restructuring. New plantations are being developed, and most non-marketing activities of the Banana Company have been divested.	While production is expected to rise, Government remains in firm control of the sector. Full deregulation should be pursued, including banana marketing, and government-owned banana plantations leased or sold to the private exporters.
<u>Nontraditional Agriculture</u>	This is the only sector, apart from Government that showed positive growth in the 1970s. This was mostly through production for the local market, as export agriculture continued to decline. However, agricultural services are both expensive (in terms of public expenditure) and relatively uncoordinated.	The Government has launched the ambitious AGRO 21 program designed to continue import substitution and produce new export crops. In addition, some rationalization of credit delivery, extension services, and research has taken place.	These efforts should be continued. The Ministry of Agriculture should be considered as the first candidate for action under the Administrative Reform Program. Further rationalization of research and extension services should continue. Specific diversification programs will also continue to be needed.
<u>Energy</u>	Jamaica has virtually no energy resources, relying on imported oil for 98 percent of commercial energy requirements. Extensive efforts since 1974 have revealed no exploitable oil deposits, or economical sources of hydropower. Only peat deposits and small hydro-schemes have proved possible. In addition, pricing policies—for electricity and gasoline—have at times been inappropriate.	Pricing policies have been revised to pass on the full costs of imported petroleum. An energy conservation program has been launched as part of a National Energy Plan. Further studies of peat, hydro and coal conversion have been carried out within a least cost power generation study. Oil exploration has continued unsuccessfully.	Energy options are limited for Jamaica. Coal conversion seems to be an option worthy of deeper study, and mini-hydro schemes deserve support. Peat development should be approached very cautiously. Some reorganization and improved coordination of public institutions is warranted.

VI. Performance criteria, consultation provisions, and review clauses

The performance criteria pertaining to the program for the period through March 31, 1986 are set out in the Technical Memorandum of Understanding annexed to the letter of intent (Annex II to Attachment VI). Reviews of the exchange system and demand management policies before September 30, 1985, December 31, 1985, and March 31, 1986 are performance criteria. The policies and performance criteria for the remainder of the arrangement must also be established by March 31, 1986:

The following performance criteria are subject to continuous testing during the program year through March 31, 1986:

- a. Quarterly ceilings on the financing requirement of the Central Government, defined to include all sources of domestic and foreign financing. The Central Government will not incur payments arrears.
- b. Quarterly ceilings on net banking system credit to the selected public entities. The selected public entities will not incur payments arrears.
- c. Quarterly ceilings on the net domestic assets of the Bank of Jamaica.
- d. A set of balance of payments targets framed in terms of the net international reserve position of the Bank of Jamaica (including external payments arrears as foreign liabilities). The balance of payments targets will be subject to an upward adjustment for any excess over certain amounts of net official medium- and long-term foreign borrowing, including rescheduling of official debt servicing.
- e. Quarterly limits on net official medium- and long-term foreign borrowing and on gross borrowing in the one to five years' maturity range.

In addition, the program includes as performance criteria a limit on disbursements of medium- and long-term external loans for capital projects by the public sector other than the Central Government; a limit on the short-term external debt of the public sector, including net use of trade and suppliers' credit; and the customary injunctions against restrictions on the trade and payments system.

A summary of the quantitative performance criteria is presented in Table 10.

Table 10. Jamaica: Quantitative Performance Criteria, 1985/86

	Actual	Projected			
	1985	1985			1986
	March	July	Sept.	Dec.	March
<u>(End of period, in millions of U.S. dollars)</u>					
Net international reserves <u>1/</u>	-563	-567	-545	-527	-482
Net external debt disbursements <u>2/</u>		55	110	124	205
Of which: 1-5 years <u>2/3/</u>		(31)	(59)	(80)	(98)
Other public sector					
capital projects <u>2/</u>		68	68	68	68
Public sector short-term					
net debt disbursements <u>2/</u>		20	20	20	20
<u>(End of period, in millions of Jamaica dollars)</u>					
Net domestic assets of					
the Bank of Jamaica <u>4/</u>	4,147	4,176	4,042	4,022	3,713
Central government net					
borrowing requirement <u>2/</u>		464	595	730	764
Net bank credit to selected					
public enterprises <u>2/</u>		27	22	53	--

Source: Technical Memorandum of Understanding.

1/ Targets adjustable upward for net external debt disbursements over amounts specified in paragraphs 7 and 8 of the technical memorandum attached to the Letter of Intent.

2/ Cumulative change from March 31, 1985.

3/ Ceilings represent gross cumulative disbursements from March 31, 1985.

4/ Ceilings adjustable downward for net external debt disbursements over amounts specified in paragraphs 7 and 8 of the technical memorandum attached to the Letter of Intent.

VII. Staff Appraisal

During the past 12-18 months significant adjustments have been made in the Jamaican economy, and these have been reflected in a major decline in the deficit of the overall public sector. However, the strong performance of the nonfinancial public sector last year was partly offset by an increase in operating losses of the Central Bank and by private sector dissavings, and the current account deficit of the balance of payments showed only marginal improvement. With the depreciation of the Jamaica dollar under the flexible exchange rate system, a realignment of relative prices has taken place which is helping to

improve resource allocation and promote the growth of nontraditional exports and tourism. Major progress was made in liberalizing the economy, and with the assistance of substantial refinancing external arrears have been eliminated.

Despite these achievements Jamaica continues to face severe economic problems. Indeed, the sharp deterioration in the prospects of the the bauxite/alumina sector has worsened the medium-term outlook and will result in a higher debt burden in relation to the country's income. It has been evident in recent months that adjustment measures have to be carried considerably further. Therefore, the authorities have moved to more restrictive policies through imposition of an import tariff, a temporary freeze on private sector credit, measures to tighten liquidity and raise interest rates, and major adjustments in administered prices.

The economic program over the next 22 months, in support of which the authorities are requesting a stand-by arrangement, centers on a further tightening in demand management policies and continued reliance on a flexible exchange rate system, together with further pursuit of policies designed to promote structural change and economic diversification.

In the fiscal area, the overall deficit of the nonfinancial public sector is to be reduced to 4.7 percent of GDP in 1985/86 and about 2 percent of GDP in 1986/87, from 6.4 percent in 1984/85; the deficit of the Central Government is to be reduced to 6 percent of GDP in 1985/86 and about 4 percent in 1986/87, from 6.6 percent of GDP in 1984/85. Achievement of the central government target for 1985/86 requires adjustment measures equivalent to over 4 percent of GDP to offset the expected loss of bauxite sector revenues and the higher cost of debt servicing.

The fiscal program relies heavily on the proceeds of an import tariff imposed in mid-April that is to generate revenues equivalent to 2.8 percent of GDP. To buttress this measure, the authorities will need to curb the practice of giving special duty exemptions and to ensure that state enterprises pay all taxes and duties. In the expenditure area, the program requires restraint on wages and compression in other expenditures. There is no margin to accommodate any deviation from the programmed 12.5 percent wage increase in the negotiations with government employees. Expenditure reductions are to be implemented this year that will yield 2 percent of GDP in net savings on an annual basis. A first package of such expenditure cuts, equivalent to 1 percent of GDP on an annual basis, already has been implemented: the second package is to be identified by September and implemented by December 1985 as prior actions for the respective program reviews. These reductions will involve laying off a significant number of public sector employees, and little net savings are expected in 1985/86 because of redundancy payments. Difficult as they may be for the authorities to implement, these expenditure reductions are essential to establish a more viable fiscal position.

A reduction in taxes on the bauxite/alumina industry is needed to restore the international competitiveness of the industry. Although the authorities hope that any restructuring of the bauxite levy will only take effect from 1986/87, it may be necessary to move more quickly in this area. Therefore, until new tax arrangements on the bauxite companies are finalized, it is important that the authorities operate the budget according to the agreed contingency plan, which involves holding back capital expenditures equivalent to about 0.8 percent of GDP with immediate effect and during the balance of 1985/86.

Changes in the tax system are needed to provide greater incentives to the productive sector. The staff therefore welcomes the authorities' intention to begin implementation of tax reforms in 1986. However, these reforms may initially have a negative impact on revenue. Thus, alternative revenue measures, as well as further expenditure cuts, will be needed in 1986/87 to attain the targeted reduction in the fiscal deficit. The authorities therefore should begin to prepare plans now for further reductions in expenditure next year.

The program provides for an improved performance of the rest of the public sector as a key element of the adjustment effort. This requires that prices and tariffs of goods and services provided by public enterprises be adjusted promptly, whenever changes in costs dictate. In addition, the Government is to accelerate its program to divest state enterprises in order to reduce inefficiency and to encourage greater private sector participation, both local and foreign, in the operation of the economy.

Tight credit policies will be required throughout the program period, and a positive structure of real interest rates is to be maintained in order to stimulate savings and protect the capital account of the balance of payments. The staff therefore welcomes actions that have been taken recently to raise the level of interest rates to a more appropriate level. The staff would urge the authorities to rely on open market operations to maintain an adequate level of interest rates and to restrain credit expansion. This may be complemented by a reduction in the existing cash reserve and liquid asset requirements over time as a means of reducing the spread between borrowing and lending rates for the private sector.

The flexible exchange rate system is a fundamental element of the program as it will enable the achievement of the balance of payments objectives and will foster the needed restructuring in the economy. It is crucial that the authorities allow the auction market to equilibrate the supply and demand for foreign exchange and refrain from intervening in the market to affect the level of the exchange rate. Although the use of the "Dutch" auction in the twice weekly foreign exchange auction may result in a multiple currency practice, the staff considers that further modifications to the auction system at this time would not be opportune and thus recommends approval for an extension of this practice until October 31, 1985. The staff also welcomes the recent progress made in

liberalizing the foreign trade system, as a result of which some 70 per-cent of nonbauxite, non-oil imports are now free from import restrictions. Together with the elimination of arrears and the foreign exchange auction mechanism, the liberalization of the trade system should greatly assist the process of structural change.

In light of the adjustment measures undertaken last year and the measures already taken or that will be implemented in the course of this fiscal year, the staff feels that the proposed program represents an appropriate balance between adjustment and financing, and that it will continue to move Jamaica toward a more viable external position. Nevertheless, given the extremely difficult medium-term outlook, there is no room for any relaxation of effort, and further adjustments will clearly be needed in 1986/87 and beyond to restore the balance of payments to viability. Thus, general and sector-specific policies designed to foster structural change in the economy need to be pursued vigorously. In the meantime, Jamaica will need continued access to significant amounts of exceptional external financing and debt relief. Given the country's extremely high debt burden, such assistance should be on highly concessional terms and refinancing and restructuring arrangements should incorporate realistic grace and amortization periods. In these circumstances, the role of the Fund should be a catalytic one.

It is recommended that the next Article IV consultation with Jamaica be held on the standard 12-month cycle.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

Article IV 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 1985 Article IV consultation with Jamaica conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).
2. Jamaica maintains a multiple currency practice resulting from the auction system as described in EBS/85/162. In view of the circumstances of Jamaica, the Fund grants approval of this practice until October 31, 1985.
3. Jamaica maintains restrictions on payments and transfers for current international transactions as described in EBS/85/162. In view of the circumstances of Jamaica, the Fund grants approval of this restriction until April 30, 1986 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 July , 1985 through May 31, 1987 in an amount equivalent to SDR 115 million.
2. The Fund approves the stand-by arrangement set forth in EBS/85/162.
3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Jamaica - Fund Relations

(As of May 30, 1985)

I. Membership status

(a) Date of membership: February 21, 1963.

(b) Status: Article VIII.

(A) Financial Relations

II. General Department

(a) Quota: SDR 145.5 million

(b) Total Fund holdings of Jamaica dollars:
SDR 792.75 million or 544.7 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>647.18</u>	<u>400.8</u>
Of which: Under tranche policy	544.78	374.4
Credit tranches	74.91	51.5
Extended facility	469.87	322.9
Ordinary resources	(135.68)	(93.3)
Supplementary financing	(167.79)	(115.3)
Enlarged access resources	(166.4)	(114.4)
Under CFF	102.4	70.4

(d) Reserve tranche position: --

III. Current stand-by or extended arrangement and special facilities

(a) Current stand-by arrangement:

(i) Duration: June 22, 1984 to June 21, 1985

(ii) Amount: SDR 64 million

(iii) Utilization: SDR 64 million.

(iv) Undrawn balance: none.

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

<u>Type</u>	<u>Date</u>	<u>Duration</u>	<u>Amount</u>	<u>Utilization</u>	
				<u>(millions of SDRs)</u>	<u>(In percent of then quota)</u>
Stand-by	6/01/73	1 year	26.5	26.5	50.0
Stand-by	8/11/77	2 years	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

(c) Special facilities during the last 3 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

IV. SDR Department

- (a) Net cumulative allocation: SDR 40.61 million
- (b) Holdings: SDR 5.91 million (14.6 percent of net cumulative allocation)

V. Administered Accounts

- (a) Trust Fund loans: --
- (b) SFF Subsidy Accounts: Payments by Fund

August 10, 1982	SDR	4.67	million
September 29, 1983	SDR	3.33	million
July 20, 1984	SDR	3.07	million
Total	SDR	11.07	million

VI. Overdue 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 eight weeks. Jamaica is at present current with the Fund.

(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 1984. The band was eliminated on November 27, 1984.

VIII. Last Article IV consultation

January 1984, completed by the Executive Board on June 8, 1984 (Standard 12-month cycle).

IX. Technical Assistance

- (a) CBD: Two CDB advisors were assigned to the Bank of Jamaica from April 1983 to November 1984.

X. Resident Representative

Mr. Daniel Citrin, since December 1, 1984.

XI. Statistical Issues

(a) Outstanding Statistical Issues

1. National accounts

GDP figures were revised in September 1984; however, a more recent GDP deflator or constant price GDP figures have not yet been reported.

2. Government finance

Government Finance Statistics Yearbook: Detailed statistics for revenue are available only through 1978, for expenditure through 1977 and for financing for the year 1976. These data were compiled during a technical assistance mission to Jamaica in June 1984, and no further data have been received from the correspondent since then.

3. Merchandise trade

In view of the recent devaluations of the Jamaica dollar, it would be desirable to obtain export and import data in U.S. dollars. In the Bank of Jamaica's Statistical Digest export and import data are in fact provided in U.S. dollars (Table 48.0) but, before using them, it would be helpful to know how these trade data were compiled and if export data for major commodities are also available in U.S. dollars.

4. Balance of payments

There is a discrepancy between the data reported as deposit money banks' short-term capital in Report Form 20R and those reported in the balance of payments report form.

(b) 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 June 1985 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, although the government finance data are very uncurrent.

(c) Status of IFS Data

		Latest Data in June 1985 <u>IFS</u>
Real Sector	- National Accounts	1983
	- Prices	March 1985
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/surplus	Q3 1981
	- Financing	Q3 1981
	- Debt	Q4 1982
Monetary accounts	- Monetary authorities	February 1985
	- Deposit money banks	February 1985
	- Other financial institutions	January 1985
External sector	- Merchandise trade: value	March 1985
	prices	n.a.
	- Balance of payments	1983
	- International reserves	March 1985
	- Exchange rates	April 1985

Jamaica—Basic Data

Area and population

Area	4,411 sq. miles (11,424 sq. kilometers)
Population (1984)	2.2 million
Annual rate of population increase (1978-84)	1.1 percent
Unemployment rate (October 1984)	25.4 percent

GDP (1984)1/

SDR 2,319 million
US\$2,376 million
J\$9,368 million

GDP per capita (1984)

SDR 1,054

Origin of GDP (1984)

(percent)

Agriculture and fishing	9.3
Mining	4.2
Manufacturing	15.9
Construction	5.4
Government	19.6
Other	45.6

Ratios to GDP (1984)

Exports of goods and nonfactor services	60.6
Imports of goods and nonfactor services	65.6
Central government revenues (fiscal year from April 1)	28.6
Central government expenditures (fiscal year from April 1)	35.2
External government and government-guaranteed debt (fiscal year from April 1)	158.5
Gross national savings	8.1
Gross domestic investment	21.0
Money and quasi-money (end of year)	38.2

Annual percentage changes in selected economic indicators

	1981/82	1982/83	Rev. 1983/84	Est. 1984/85
Real GDP per capita	2.0	-1.5	0.6	-1.5
Real GDP	2.2	0.5	1.1	-0.2
GDP at current prices	22.5	11.4	20.2	29.8
Domestic expenditure (at current prices)	19.6	10.0	14.5	23.6
Investment	(51.2)	(3.8)	(18.9)	(27.2)
Consumption	(13.9)	(11.5)	(13.5)	(22.8)
GDP deflator	19.9	10.4	19.0	29.8
Consumer prices (period average)	9.0	7.1	14.9	29.9
Money and quasi-money	31.3	26.8	26.3	18.3
Money	(17.4)	(2.3)	(21.3)	(22.1)
Quasi-money	(36.9)	(35.5)	(26.5)	(17.1)
Net domestic bank assets 2/	24.3	33.1	57.6	-12.2
Credit to public sector (net)	(...)	(30.6)	(17.3)	(-19.2)
Credit to private sector	(17.8)	(20.5)	(17.6)	(4.3)
Central government revenues	24.5	9.9	9.9	50.7
Central government expenditures	16.9	9.7	14.1	14.8
Merchandise exports (f.o.b., in U.S. dollars)	-11.9	-17.4	-1.7	0.1
Merchandise imports (c.i.f., in U.S. dollars)	23.8	-6.5	-10.1	-1.2
Travel receipts (net, in U.S. dollars)	30.5	5.6	13.7	1.9

				Prel.
<u>Central government finances</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
	(millions of Jamaica dollars)			
Revenues	1,482.9	1,629.0	1,798.0	2,708.9
Expenditures	2,364.7	2,594.4	2,902.0	3,332.0
Current account deficit (-)	-238.0	-292.4	-596.0	-109.0
Overall deficit (-)	-881.8	-965.4	-1,104.0	-623.1
External financing (net)	503.7	376.2	411.0	1,047.1
Domestic financing (net) and residual	378.1	589.2	693.0	-424.0
<u>Balance of payments</u>	(millions of U.S. dollars)			
Merchandise exports (f.o.b.)	889.1	734.2	721.8	722.7
Merchandise imports (c.i.f.)	-1,487.7	-1,391.6	-1,250.7	-1,235.8
Travel (net)	300.4	317.3	360.9	367.7
Investment income (net)	-225.3	-214.6	-215.6	-296.0
Other services and transfers (net)	85.7	94.2	101.2	157.0
Balance on current and transfer accounts	-437.8	-460.5	-282.4	-267.4
Official capital (net)	427.1	314.4	65.4	567.2
Private capital (net) and errors and omissions	54.3	-73.3	-231.2	197.4
SDR allocation	--	--	--	--
Overall balance	43.0	-220.0	-448.2	497.2
<u>International reserve position</u>	(end of period, millions of U.S. dollars)			
Central Bank (gross)	130.7	188.1	65.0	191.6
Central Bank (net)	-539.8	-619.2	-859.3	-555.2

1/ Based on the average exchange rate for the Jamaica dollar.

2/ In relation to the stock of bank liabilities to the private sector at the beginning of the period.

Jamaica: Selected Economic and Financial Indicators,
1981/82-1986/87

	1981/82 1/		1982/83		1983/84		1984/85		1985/86	1986/87
	Program	Actual	Program	Actual	Program	Actual	Program	Prel.	Program	Program
(Annual percent changes, unless otherwise specified)										
National income and prices										
GDP at constant prices	3.8	2.4	4.5	0.5	3.3	2.3	0.8	-0.2	-3.8	—
GDP deflator	18.0	8.7	9.8	10.9	8.4	17.9	18.9	30.1	23.4	13.0
Consumer prices (period average)	18.0	9.0	10.0	7.1	9.0	14.9	19.4	29.7	23.0	12.0
External sector (in U.S. dollars)										
Exports, f.o.b.	23.8	-12.0	11.1	-17.4	24.2	-1.7	18.4	0.1	-12.6	6.0
Imports, c.i.f.	24.9	23.8	12.4	-6.5	-10.9	-10.1	3.2	-1.2	-11.2	-2.3
Nonoil imports, c.i.f.	...	32.1	...	-2.6	-13.0	-13.6	3.8	-2.7	-9.3	-0.9
Export volume	...	-11.4	...	-14.8	...	5.8	11.5	-0.7	-8.0	2.4
Import volume	...	18.3	...	-9.1	...	-15.8	-3.6	-0.3	-12.2	-5.0
Terms of trade	...	-5.1	...	-5.8	...	-8.6	-0.7	1.4	-6.2	0.7
(depreciation -)										
Nominal effective exchange rate (depreciation -) 2/	...	4.9	...	-2.6	...	-38.4	...	-31.2	...	...
Real effective exchange rate 2/ (depreciation -)	...	1.2	...	-0.7	...	-29.6	...	-16.4	...	...
Government budget										
Revenue, excluding grants	19.5	24.4	21.8	9.8	21.7	9.9	46.5	49.9	24.3	1.6
Total expenditures	17.0	17.0	10.7	9.7	1.7	15.5	15.3	11.1	24.2	-1.9
Money and credit 3/										
Domestic credit	16.6	14.8	-8.3	33.1	11.4	42.3	14.1	-9.0	5.2	-1.2
Government 4/	7.7	7.3	4.6	29.3	-3.9	30.8	-30.8	-22.2	-16.5	-27.7
Private sector	23.1	18.6	16.5	19.4	11.6	12.5	7.2	10.0	8.6	6.6
Money and quasi-money (M)	25.0	20.0	15.2	24.9	18.1	25.4	17.0	19.7	17.5	11.2
Velocity (GDP relative to M)	4.0	2.8	2.9	2.4	2.4	2.4	2.3	2.5	2.5	2.5
Interest rate (annual average rate, one-year deposit)	...	9.85	...	10.70	...	12.60	...	15.5	...	...
(In percent of GDP)										
Overall public sector deficit	...	-14.5	...	-14.9	...	-15.2	...	-6.4	-4.7	-2.0
Central government savings	-3.8	-3.7	-1.7	-3.3	-2.4	-8.1	-0.8	-1.9	0.9	1.5
Central government budget deficit (including grants)	13.3	15.6	12.9	14.2	10.3	15.1	7.6	6.6	6.0	4.0
Domestic bank financing	1.0	3.5	0.3	10.7	-1.6	10.8	-12.8	-6.9	-7.6	-10.5
Foreign financing	11.3	9.3	10.6	6.9	7.8	5.6	17.5 5/	11.1	12.2	13.0
Gross domestic investment	17.7	21.3	23.9	22.1	15.8	21.8	23.1	20.6	18.7	17.0
Gross domestic savings	7.8	1.1	9.7	-1.2	12.8	9.1	16.7	8.3	7.2	9.9
External current account deficit										
Excluding grants	12.8	24.6	17.4	27.8	7.2	13.5	15.3	14.3	14.1	10.0
Including grants	9.9	20.2	14.2	23.3	3.0	12.7	6.4	12.3	11.5	7.1
External debt 6/										
Inclusive of use of Fund credit	...	97.6	180.9	132.0	86.6	144.2	170.3	158.5	206.2	216.8
Debt service ratio (in percent of exports of goods and services) 7/	...	21.7	21.1	29.4	26.3	15.9	37.3	46.1	40.5	34.2
Interest payments (in percent of exports of goods and services)	...	14.0	14.0	17.8	15.2	10.7	18.7	19.3	22.2	20.9
(In millions of U.S. dollars)										
Overall balance of payments	40	43	12	-220	198 8/	-448	511	497	81	85
Gross official reserves (weeks of imports)	—	—	—	—	—	2	6	8	7	8
External payments arrears	25	—	—	98	98	418	—	72	—	—

1/ For 1981/82 actual ratios were affected by a sharp downward revision of GDP.

2/ December to December.

3/ In relation to banking system liabilities to the private sector.

4/ Includes selected public entities.

5/ Includes 7.4 percent of GDP of refinancing.

6/ Actuals and 1984/85 projections calculated using an exchange rate adjusted on purchasing power parity basis.

7/ Cash payments, includes arrears repayments.

8/ Comprises changes in net reserves of US\$125 million and repayment of oil arrears of US\$73 million.

Jamaica: Financial Relations of the World Bank
Group with Jamaica

(In millions of U.S. dollars)

	Outstanding as of March 31, 1985				
	Disbursed	Undisbursed	Total	Repayments	
<u>Total IBRD</u>	<u>504.29</u>	<u>137.83</u>	<u>642.12</u>	<u>79.79</u>	
Agriculture and forestry	38.38	14.80	53.18	9.35	
Education	25.26	4.69	29.95	10.41	
Population and rural development	23.03	--	23.03	6.05	
Transportation	58.38	29.23	87.61	14.91	
Power	51.04	20.50	71.54	21.77	
Utilities	20.62	8.37	28.99	4.82	
Program loan	30.00	--	30.00	5.78	
EDF	64.40	--	64.40	2.41	
SAL	163.86	27.54	191.40	--	
Industrial development	11.30	24.07	35.37	1.34	
Other	18.02	8.63	26.65	2.95	
<u>IFC investments</u>	<u>10.40</u>	<u>--</u>	<u>10.40</u>	<u>2.45</u>	
Net Disbursements During Fiscal Year 1/					
	Actual		Est.	Proj.	
	1981/82	1982/83	1983/84	1984/85	1985/86
<u>Net disbursements (IBRD)</u>	<u>91.5</u>	<u>77.5</u>	<u>34.8</u>	<u>61.8</u>	<u>94.2</u>
Disbursements	99.2	99.2	49.6	77.4	112.3
Repayments	7.7	7.7	14.8	15.6	18.1

Source: IBRD.

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

2/ Includes disbursements of US\$60 million for a fourth structural adjustment loan.

Jamaica: Summary of Stand-by Program

The basic objective is to consolidate the gains and continue the policies initiated in the 1984/85 stand-by program, aimed at restructuring the Jamaican economy over the medium-term to achieve sustainable growth with balance of payments viability.

1. Principal targets and assumptions

	Actual 1984/85	Program 1985/86 1986/87	
	(In percent)		
Real GDP growth	-0.2	-3.8	--
GDP deflator	30.1	23.4	13.0
Consumer prices (period average)	29.7	23.0	12.0
<u>External sector</u>			
Growth of bauxite/alumina exports (volume)	-10.4	-18.5	-6.2
Growth of tourism receipts	1.0	8.5	8.8
Current account deficit (per- cent of GDP)	-12.3	-11.5	-7.1
Balance of payments surplus (millions of US\$)	-497	-96	-85
Gross debt service ratio (per- cent of goods and services)	48.6	57.0	53.8
External debt/GDP	159	206	217
<u>Public sector finances (percent of GDP)</u>			
Central government overall deficit	-6.4	-4.7	-2.0
Central government current balance	-1.1	0.8	1.5
Rest of public sector overall balance	0.1	1.2	1.9
Bank of Jamaica operating losses	-6.3	-3.6	-1.5
<u>Money and credit</u>			
Broad money growth (no change in velocity)	19.7	17.5	11.2
Net domestic credit expansion	-9.0	5.2	-1.2
Net credit expansion to Central Government 1/	-19.2	-16.5	-27.7
Net credit expansion to private sector 1/	10.0	8.6	6.6

1/ In relation to private sector liabilities at the beginning of the period.

2. Principal elements of the program

a. Fiscal policy

The main element of the fiscal program incorporates a continuation of restraint in public expenditures begun in 1984/85. In particular, this calls for further expenditure measures, as well as revenue measures on the part of the Central Government. The rest of the public sector is expected to improve its financial position through changes in its structure of prices and tariffs as cost movements dictate.

(1) Tax measures introduced in early 1985/86 are expected to yield 2.8 percent of GDP, which more than offsets a 2 percent loss in taxes from the bauxite sector. There could be further losses in the bauxite taxes depending on the outcome of ongoing negotiations on the levy. In 1986/87 the introduction of the first phase of the tax reform program is likely to have a negative impact on tax revenues.

(2) Substantial reduction in expenditures in 1985/86, involving further reductions in the wage component of recurrent expenditures; for 1985/86 the Government will limit wage adjustments to 12.5 percent of the wage bill. Current outlays other than wages and interest payments are to decline by 2 percentage points of GDP. In addition, expenditure reductions are to be carried out that would produce net savings of 0.3 percent of GDP in 1985/86 and 2 percent in 1986/87. Even so further adjustments in expenditures in 1986/87 are contemplated.

(3) Pending the finalization of current negotiations on the taxation on the bauxite sector, the Government would operate its finances based on a contingency plan. This involves further restraint on capital outlays, amounting to some 1 percent of GDP.

3. Money and credit policies

(a) In 1985/86 the expansion in net domestic credit of the banking system is to be limited to about 5 percent, while in 1986/87 bank credit is expected to decline slightly.^{1/} In 1985/86 net domestic credit is subject to quarterly ceilings that are adjustable downward for any cumulative excess over specified levels of disbursements of external loans and rescheduling of debt.

(b) Quarterly limits on the use of bank credit during 1985/86 have been established for the selected public entities. For the year as a whole, these public entities will not use any net bank credit in both 1985/86 and 1986/87.

^{1/} In relation to private sector liabilities at the beginning of the period.

(c) Net banking system expansion of credit to the private sector has been targeted at about 9 percent and 7 percent in 1985/86 and 1986/87, respectively.^{1/} Further, to ensure that more credit is redirected to productive sectors, selective credit ceilings on net credit to the distributive and consumer sectors will be lowered by 15 percent in 1985/86.

(d) The cash reserve requirement on commercial banks has been raised from 14 percent of deposit liabilities to 20 percent and a 5 percent reserve requirement was imposed on nonbank financial intermediaries. At the same time the liquid asset ratio of commercial banks has been raised by 4 percentage points to 48 percent.

(e) The interest rate structure will be reviewed continuously to ensure that it is positive in real terms. The Bank of Jamaica has raised the interest rate on savings deposits by 5 percentage points to 20 percent and has raised rediscount rates to 21 percent from 19 percent. To support the interest rate structure, the statutory limit on outstanding stock of Treasury bills will be raised from J\$750 million to J\$1 billion, thereby increasing the availability of financial instruments.

4. External sector policies

(a) The floating exchange system is the key element in the restructuring of the economy, and equilibrating the supply and demand for foreign exchange. The current auction system for determining the exchange rate will be maintained.

(b) Quarterly targets on the accumulation of the net international reserves of the Bank of Jamaica have been established. These targets are subject to upward adjustment for any excess over specified levels of disbursements of external loans and rescheduling of debt.

(c) No external payments arrears should be incurred during the program period.

(d) The program also limits the net disbursements of external loans and credits, with subceilings on loans with a maturity of one-five years and on the total amount of rescheduling or refinancing. Further, there is a limit on the net use of short-term trade and suppliers' credit of the public sector.

^{1/} In relation to private sector liabilities at the beginning of the period.

Jamaica--Stand-By Arrangement

Attached hereto is a letter, with annexed technical memorandum of understanding, dated June 7, 1985 from the Prime Minister and Minister of Finance and the Governor of the Bank of Jamaica requesting a stand-by arrangement and setting forth:

(a) the objectives and policies that the authorities of Jamaica intend to pursue for the period of this stand-by arrangement;

(b) the policies and measures that the authorities of Jamaica intend to pursue for the period through March 31, 1986 of this stand-by arrangement; and

(c) 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 remaining 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 July __, 1985 to May 31, 1987 Jamaica will have the right to make purchases from the Fund in an amount equivalent to SDR 115 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. (a) Until May 1, 1986 purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 55 million, provided that purchases shall not exceed the equivalent of SDR 7.5 million until August 20, 1985, the equivalent of SDR 15 million until October 20, 1985, the equivalent of SDR 28.3 million until January 20, 1986, and the equivalent of SDR 41.6 million until April 20, 1986.

(b) The right of Jamaica to make purchases during the remaining period of this stand-by arrangement shall be subject to such phasing as shall be determined.

(c) None of the limits in (a) or (b) 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 resources and borrowed resources in the ratio of 1 to 1 until purchases under this arrangement reach a total of SDR 66.75409 million and thereafter each purchase shall be made from borrowed resources,

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 Jamaican 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 the data at the end of the preceding period indicate that

(i) the limit on the central government borrowing requirement described in paragraph 2 of the technical memorandum of understanding annexed to the attached letter, or

(ii) the limit on net domestic credit to the selected public entities 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, 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, is not observed; or

(b) if the limit on external payments arrears as described in paragraph 5 of the technical memorandum of understanding annexed to the attached letter is not observed, or;

(c) if 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 are not observed; or

(d) if Jamaica fails to observe the limits on net disbursements of new public and publicly guaranteed foreign indebtedness described in paragraph 7 of the technical memorandum of understanding annexed to the attached letter; or

(e) if Jamaica fails to observe the limits on external public debt rescheduling or refinancing and on disbursements for capital projects by public sector entities other than the Central Government as described in paragraphs 8 and 9 of the technical memorandum of understanding annexed to the attached letter; or

(f) if the limit on short-term external debt of public entities as described in paragraph 10 of the technical memorandum of understanding annexed to the attached letter, is not observed; or

(g) during any period after September 30, 1985 and December 31, 1985, until the reviews referred to in paragraph 17 of the attached letter have been completed and any understandings deemed by the Fund to be necessary have been reached pursuant to these reviews; or

(h) during any period after March 31, 1986 until suitable performance criteria have been established in consultation with the Fund pursuant to the end-March 1986 review as contemplated in paragraph 17 of the attached letter, or after such performance criteria have been established, while they are not being observed; or

(i) 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 new 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 17 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.

June 7, 1985
(Rev. June 20, 1985)

Mr. Jacques de Larosiere
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D. C. 20431

Dear Mr. de Larosiere:

1. The Government of Jamaica hereby requests from the International Monetary Fund a 22-month stand-by arrangement in an amount of SDR 115 million, in support of its financial programme covering the remainder of the current fiscal year ending March 31, 1986 and the next fiscal year April 1, 1986 to March 31, 1987.

2. In June 1984, the International Monetary Fund approved a one-year stand-by arrangement in support of an economic programme aimed at a continued movement of the Jamaican economy toward a viable medium-term balance of payments position. The difficult external situation required a major adjustment in FY 1984/85, in particular as related to the central government finances, but also including a tight credit policy, a flexible exchange rate system that would reflect market forces, and large rescheduling and refinancing of external debt in line with the debt management policy of the Government.

3. The adjustment effort in FY 1984/85 led to the reduction of the overall budget deficit of Central Government to around 7 per cent of GDP compared to 16 per cent in FY 1983/84. The reduction in the overall deficit of the consolidated public sector was of a similar magnitude. However, this was partly offset by a considerable increase in the operating losses of the Bank of Jamaica. The current account deficit of the balance of payments was reduced by only around 1 per cent of GDP to 12 per cent in FY 1984/85 due in part to the continued decline of bauxite and alumina exports. However, the net international reserves of the Bank of Jamaica improved by US\$266 million compared to a decline of US\$306 million in FY 1983/84, and external payments arrears were eliminated (except for US\$9.7 million of private sector arrears) by the end of April 1985. This outcome was supported by refinancing arrangements with official bilateral creditors and external commercial banks.

4. When the FY 1984/85 programme was adopted, the medium-term balance of payments showed large financing gaps in the years ahead, notwithstanding the assumption of a recovery of bauxite/alumina exports. However, the continued decline in international alumina prices, the closure of the ALCOA alumina plant in February 1985, and the adverse impact of the January civil disturbances on tourist arrivals, resulted in reduced foreign exchange inflows and further pressure on the exchange rate. It became evident that a much larger external and fiscal gap had emerged and that an acceleration in the adjustment process was needed over the medium term. As a first step to addressing the problem for FY 1985/86, as well as to ensure the attainment of the objectives of the FY 1984/85

programme, the Government took steps in March and April 1985 to tighten demand management. Credit policies were implemented which reduced liquidity in the banking system and lifted the interest rate structure. An additional stamp duty was levied on a range of imports, and the prices of basic foods and other imported products were adjusted to reflect movements in the exchange rate and other costs. During the current programme year, demand management policies will be kept very tight and structural change will be supported by the flexible exchange rate, liberalisation of the trade and payments system, the reform of the taxation system, and selective credit policies.

5. Over the next few years the balance of payments current account deficit should be reduced to a sustainable level of 4 per cent of GDP. This implies that non-bauxite related imports must be held at or below the nominal level of FY 1980/81 over the next 2 - 3 years. However, even though the programme for FY 1985/86 projects a reduction in non-bauxite related imports of more than 12 per cent, the current account deficit is only expected to improve modestly to 11 per cent of GDP.

6. The continued current account deficits and substantial external debt repayments in the next few years will require access to large scale exceptional financing. With respect to FY 1985/86, external commercial banks will be asked to refinance 100 per cent of some US\$97 million of government-direct and government guaranteed debt maturities falling due during the year. Also, official bilateral creditors will be requested to reschedule a significant portion of principal and interest payments falling due. On terms equivalent to those granted last year, reschedulings by such creditors would provide debt relief of US\$97 million. The rescheduling arrangements with commercial banks and multilateral agreements under Paris Club will be concluded by August 31, 1985. Finally, Jamaica has received commitments from donor countries for new financing of about US\$230 million. In respect of FY 1986/87, rescheduling and new borrowings of a similar magnitude will be needed.

7. All official external payment arrears were eliminated at the end of April 1985 and the remaining private sector arrears of US\$9.7 million will be cleared by mid-June 1985. Thereafter, no external payment arrears will be accumulated. Net international reserves are programmed to improve by US\$81 million during FY 1985/86 and the Bank of Jamaica will maintain sufficient liquid foreign reserves to meet seasonal variations in payments without accrual of arrears. In FY 1986/87 the government has targeted an improvement in net international reserves in the range of US\$80 - 100 million. There will be no new restrictions on current transactions.

8. The Foreign Exchange Auction System has gained wide acceptance within the Jamaican community and the Government believes that this system should continue unchanged. Currently, those who bid for resources from the Auction are required to pay the bid price rather than the marginal price if their bids are accepted. This "Dutch" bidding system which might give rise to a multiple currency practice, was approved temporarily by the Fund and the Government seeks extension of the approval through October 1985.

9. A sustained reduction in the central government budget deficit is needed over the medium term. For 1985/86 new measures are needed to offset the decline of bauxite revenues relative to GDP of 2 percentage points and the projected increase in interest payments relative to GDP of a similar magnitude. The Government has already undertaken tax measures and intends to implement expenditure reduction measures, in order to restrict the overall Central Government deficit to 6.8 per cent of GDP in FY 1985/86 - about the same level as in FY 1984/85. In FY 1986/87 the deficit is targeted at around 4 per cent of GDP. Stamp duties were increased as of April 13, 1985 and are estimated to yield an additional 2.8 per cent of GDP. The Government has reduced special exemptions from duties for importation of equipment and other goods by manufacturers. The Government will also modify the incentives provided under the various investment laws, so as to tailor exemptions to the specific need of each industry and minimize revenue losses. State enterprises will also be required to pay import duties and levies, including the recently increased stamp duty. On the expenditure side, public sector wage payments and other current outlays will be restrained. The Government recognizes that its ability to attract and retain staff at critical management, professional, and technical levels depends on appropriate compensation. An administrative reform programme has been put in place with the assistance of the World Bank, to address this issue. However, consistent with the need to reduce current outlays in real terms in FY 1985/86 and in subsequent years, the Government will contain increases in the wage bill and continue implementing the staff adjustment programme designed to make the public sector smaller but more effective.

10. Achievement of the targeted Central Government overall budget deficit of around 4 per cent of GDP in FY 1986/87 will require further major adjustment measures in that year. A tax reform package designed to improve incentives to productive sectors, will begin to be implemented. The planned reforms in income tax aim to reduce tax rates, widen the tax base and harmonize individual and corporate taxation. Reforms in indirect taxes will introduce a broad-base general consumption tax and thereby rationalise existing excise, consumption and import taxes. These reforms may result in a revenue loss. Further adjustment of expenditure will therefore be required and as a first step, the Government of Jamaica will identify and implement in FY 1985/86 a detailed programme of recurrent expenditure reductions equivalent to 2 per cent of GDP on an annual basis.

11. The Government has identified measures to reduce recurrent expenditure in an amount of J\$128.0 million on an annual basis (1 per cent of GDP) but which will also provide net savings of at least J\$35 million (0.3 per cent of GDP) in the current fiscal year. This set of measures will be fully implemented by July 15, 1985. Furthermore, the Government of Jamaica will undertake a comprehensive review of expenditure in order to identify and implement further cuts in outlays that are recurrent in nature, equivalent to an additional J\$128.0 million on an annual basis (1 per cent of GDP). These additional measures will be identified by September 1985, and fully implemented by December 1985.

12. The Government will establish a framework for a public sector budget to embrace the Central Government ministries and departments, local authorities, statutory agencies and public enterprises as from FY 1986/87. The three-year public investment programme will be integrated within this budget process. Finally, budget procedures including budget formulation and preparation, will be strengthened together with the system for recording and control of financial commitments and expenditure, and the provision of timely financial and other reports to the Ministries of Finance and the Public Service will be improved.

13. Overall, fiscal policy in 1985/86 aims at limiting the consolidated deficit of the nonfinancial public sector to 5.5 percent of GDP, a reduction of 1.6 percentage points from the previous year. The rest of the public sector other than the Central Government is targeted to improve its position from a surplus of 0.2 percent of GDP to a surplus of 1.3 percent of GDP. State enterprises which engage in commercial operations will continue to improve their efficiency and their pricing policies will be geared to the objective of generating operating surpluses sufficient to service external and domestic debt and make a major contribution to financing their investment. The product prices for such enterprises will be reviewed on a quarterly basis and adjusted as necessary to reflect changes in the exchange rate and other costs, and to achieve their financial targets under the programme. The prices of petroleum products will be adjusted according to an agreed formula based on maximum and minimum rates of accrual into the Accord Fund of J\$100 million and J\$65 million, respectively. In the case of the Jamaica Commodity Trading Corporation, the prices of its products will be adjusted on a monthly basis to reflect cost movements. In addition, the Corporation will build up a net cash surplus of J\$90 million by March 1986.

14. In the monetary policy area the authorities will continue to restrain expansion in the net domestic credit consistent with the balance of payments objectives of the programme. The public sector will not use domestic bank credit on a net basis over the programme period. The programme projects a net increase in credit to the private sector from the commercial banks and the development banks of 15 per cent in FY 1985/86 compared with 11 per cent in the preceding year. To facilitate the channeling of credit to the priority areas of the productive sector, the selective credit ceilings on the distributive sector and personal services will be set so as to reduce outstanding credit in those areas by 15 per cent during FY 1985/86. For FY 1986/87 private sector credit is expected to grow in line with GDP. To improve the allocation of financial resources and reduce distortions in the structure of interest rates the authorities also plan to implement reductions in the cash and liquid assets requirements on the commercial banks and non-bank institutions on a phased basis beginning later this year.

15. The Government will continue to pursue flexible interest rate policies which support the mobilization of savings and efficient

allocation of resources and assist in achieving the balance of payments target. In recent months, the interest rate structure has been raised through an increase in the minimum savings rate of commercial banks to 18 per cent per annum on April 1, 1985 and 20 per cent per annum on May 1, 1985, and the average lending rate of commercial banks is expected to exceed 28 per cent. The Government will also raise the statutory limits on the stock of outstanding Treasury Bills to J\$1,000 million by July 15, 1985, and increase the issue of such bills in order to support the present level of deposit rates. Open market operations of the Bank of Jamaica will also be undertaken for the same purpose. Building Societies have adjusted deposit rates to maintain competitiveness with commercial banks and have given notice of an increase in mortgage rate from 16 percent to 21 percent per annum effective in June, 1985. With this upward shift in the interest rate structure real interest rates have become positive.

16. The Government will continue to pursue its policy to deregulate the economy and to reduce the scope of public sector involvement in the market-place. Most of the remaining quantitative restrictions on imports were removed in April 1985. The incidence of price controls is low and the Government is committed to eliminating the remaining specific price controls before the end of 1985. With regard to wages, the Government will continue to urge moderation in wage settlements in the private sector.

17. The Government of Jamaica believes that the policies and programmes set out in the foregoing paragraphs and further elaborated in the annexed Technical Memorandum of Understanding are consistent with the strategies, direction and objectives for the improvement of the balance of payments and the maintenance of a satisfactory level of liquid reserves. The Government will periodically consult with the Fund in accordance with the Fund's policies on such consultations, about the progress being made in the implementation of the programme described and about any policy adaptations judged to be appropriate for the achievement of its objectives. In any event, the Government will complete reviews with the Fund by September 30, 1985, December 31, 1985 and March 31, 1986 on the progress made in implementing the policies affecting demand management and the exchange system described in this letter and accompanying annex and, if necessary, will reach understandings in the context of such reviews on any additional measures as may be needed. The Government will also reach understandings with the Fund by March 31, 1986 on the policies and performance criteria for the remaining period of the standby arrangement.

Yours sincerely,

/s/
Horace G. Barber
Governor
Bank of Jamaica

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

Technical Memorandum of Understanding

1. This Memorandum describes more concretely certain key targets and policy understanding of the letter of the Government of Jamaica dated June 7, 1985, regarding Jamaica's economic program for the period March 31, 1985 through March 31, 1986.

2. The financing requirement of the central government over the period from March 31, 1985 through March 31, 1986 will not be more than J\$764 million. This financing requirement will not be more than J\$464 million from March 31, 1985 through July 31, 1985, will not be more than J\$595 million from March 31, 1985 through September 30, 1985 and will not be more than J\$730 million from March 31, 1985 through December 31, 1985. For the purpose of this paragraph, the financing requirement is defined to be the sum of central government net foreign borrowing valued at the exchange rate prevailing when the loan is disbursed, net domestic banking system credit, net domestic nonbank borrowing, and the net domestic credit of the Capital Development Fund, as set out in attached Tables 1 and 2 which also detail projected quarterly flows. The central government will not incur any payments arrears during the period March 31, 1985 to March 31, 1986.

3. The stock of net domestic banking system credit to the selected public entities will not increase over the period from March 31, 1985 through March 31, 1986. This stock will not increase by more than J\$27 million from March 31, 1985 through July 31, 1985; will not increase by more than J\$22 million from March 31, 1985 through September 30, 1985; and will decline by not less than J\$53 million from March 31, 1985 through December 31, 1985. For the purpose of this paragraph, selected public entities are as defined in attached Table 3. Further, during the period from March 31, 1985 to March 31, 1986, the selected public entities will not increase the stock of net domestic nonbank credit, or incur any payments arrears.

4. The stock of the net domestic assets of the Bank of Jamaica will be no higher than J\$4,176 million from March 31, 1985 through July 31, 1985; no higher than J\$4,042 million from March 31, 1985 through September 30, 1985; no higher than J\$4,022 million from March 31, 1985 through December 31, 1985; and no higher than J\$3,713 million from March 31, 1985 through March 31, 1986. These ceilings will be subject to downward adjustments, for any excess over (a) the projected net external debt disbursements and (b) the projected total external debt rescheduling or refinancing described in paragraphs 7 and 8 below and set out in attached Table 4 and Table 5. For the purpose of this paragraph 4, 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 including those denominated in special drawing rights (SDRs) will be converted into Jamaica dollars at the accounting rate of US\$1.00 = J\$6.20.

5. The net international reserve position of the Bank of Jamaica which was negative US\$563 million on March 31, 1985, will not be less than negative US\$567 million through July 31, 1985; will not be less than negative US\$545 million through September 30, 1985; will not be less than negative US\$527 million through December 31, 1985; and will not be less than negative US\$482 million through March 31, 1986. The net international reserve targets will be subject to upward adjustments for any cumulative excess over (a) the projected net external debt disbursements and (b) the projected total external debt rescheduling or refinancing described in paragraphs 7 and 8 below and set out in attached Table 4 and Table 5.

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. In addition, for the purpose of this paragraph, any 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 any 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 6 will continue to be treated as such, irrespective of any change in maturity. No new external payments arrears will be incurred during FY 1985/86. Arrears are defined to include all external payments arrears, including overdue obligations of the Bank of Jamaica, the Government or governmental entities, and to exclude the "programmed refinancing" specified in Table 4, which has been derived under the assumption that the listed payments will be rescheduled in 1985 on terms equivalent to those obtained under the 1984 rescheduling agreements with commercial banks and official bilateral creditors. Overdue replenishment obligations by the Bank of Jamaica to the EDF will also 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. Assets and liabilities in foreign currencies will be converted into U.S. dollars at cross exchange rates prevailing on March 31, 1985.

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. The change in the stock of medium- and long term external debt of the public sector (defined as consisting of the Central Government, local government, 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) will not exceed US\$55 million between March 31, 1985 and July 31, 1985, US\$110 million between March 31, 1985 and September 30, 1985, US\$124 million between March 31, 1985 and December 31, 1985, and US\$205 million between March 31, 1985 and March 31, 1986. Furthermore, during the period any change in this stock in excess of US\$55 million between March 31, 1985 and July 31, 1985, US\$90 million between March 31, 1985 and September 30, 1985, US\$104 million between March 31, 1985 and December 31, 1985, and US\$185 million between March 31, 1985 and March 31, 1986 will lead to adjustments in the net domestic assets and the net international reserve targets described in paragraphs 4 and 5 above. The gross disbursement of external debt of the public sector with an original maturity range of between 1-5 years will not exceed US\$31 million between March 31, 1985 and July 31, 1985, US\$59 million between March 31, 1985 and September 30, 1985, US\$80 million between March 31, 1985 and December 31, 1986, and US\$98 million between March 31, 1985 and March 31, 1986. 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 (a) will exclude Bank of Jamaica reserve liabilities, and other borrowing with a maturity of less than one year; (b) will exclude gross inflows associated with project financing by multilateral and other official development agencies; and (c) will include the repayment of arrears on debt. 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. External debt rescheduling or refinancing between March 31, 1985 and March 31, 1986 from external commercial banks, and official bilateral creditors in excess of US\$202 million will lead to adjustments in the net domestic assets and the net international reserve targets described in paragraphs 4 and 5 above. Any external debt rescheduling or refinancing in excess of US\$63 million between March 31, 1985 and July 31, 1985, US\$97 million between March 31, 1985 and September 30, 1985, and US\$149 million between March 31, 1985 and December 31, 1985 will be added to the reserve target. For the purpose of this ceiling, external debt rescheduling or refinancing will exclude Bank of Jamaica reserve liabilities. The projected changes in the external debt rescheduling or refinancing are set out in Table 5.

9. Total disbursements of medium- and long-term external loans for capital projects by the public sector, other than the Central Government, will not exceed US\$68 million between March 31, 1985 and March 31, 1986.

10. The stock of short-term external debt of the public entities listed in Table 7 which was US\$116 million as of March 31, 1985 will not increase by more than US\$20 million between March 31, 1985 and March 31, 1986. The stock of short-term external debt of public entities not listed in Table 7 will not increase. Short-term credit is defined as loans with original maturities of less than one year, including trade and suppliers' credits.

11. During the program period, the Government does not intend to introduce any multiple currency practice or impose new or intensify existing restrictions on payments and transfers for current international transactions or, for balance of payments reasons, introduce new or intensify existing restrictions on imports, and will not enter into bilateral payments agreements with member countries of the Fund.

Table 1. Jamaica: Summary Central Government
Operations--1985/86 1/

(In millions of Jamaica dollars)

	April 1- July 31	April 1- Sept. 30	April 1- Dec. 31	April 1- March 31
<u>Total revenue</u>	<u>890.8</u>	<u>1,438.7</u>	<u>2,288.7</u>	<u>3,406.5</u>
Tax revenue	721.9	1,114.7	1,731.9	2,541.2
Tax measures	93.1	142.5	226.1	319.0
Nontax revenue	16.8	36.5	65.5	139.9
Bauxite levy	43.0	112.0	181.0	264.0
Grants	16.0	33.0	84.2	142.4
<u>Total expenditure</u>	<u>1,354.7</u>	<u>2,033.0</u>	<u>3,018.7</u>	<u>4,170.7</u>
Current	1,164.7	1,753.0	2,538.5	3,392.1
Capital	190.0	280.0	480.2	778.6
<u>Overall balance</u>	<u>-463.9</u>	<u>-594.3</u>	<u>-730.0</u>	<u>-764.2</u>
<u>Financing</u>	<u>463.9</u>	<u>594.3</u>	<u>730.0</u>	<u>764.2</u>
Net external	387.9	599.2	919.8	1,452.6
Net domestic	76.0	-4.9	-189.8	-688.4
Capital development fund	--	--	--	--

Sources: Ministry of Finance and Planning; and Fund staff estimates.

1/ This presentation excludes an estimated J\$80.6 million of deductions from the bauxite levy in repayment of an advance on the levy from 1982/83. By including this repayment, the overall deficit and the financing would be J\$683.6 million.

Table 2. Jamaica: Central Government Financing
1985/86 (Cumulative)

(In millions of Jamaica dollars)

	April 1- July 31	April 1- Sept. 30	April 1- Dec. 31	April 1- March 31
<u>Total (net)</u>	<u>463.9</u>	<u>594.3</u>	<u>730.0</u>	<u>764.2</u>
<u>Net external</u>	<u>387.9</u>	<u>599.2</u>	<u>919.8</u>	<u>1,452.6</u>
<u>Inflows</u>	<u>861.8</u>	<u>1,298.1</u>	<u>1,994.7</u>	<u>2,911.5</u>
Project loans/supplier credits	68.3	112.5	181.5	250.5
Donor countries	270.5	499.1	858.7	1,184.2
United States	(255.2)	(471.2)	(812.2)	(1,128.4)
United Kingdom	(3.0)	(9.3)	(18.6)	(27.9)
Germany	(12.3)	(18.6)	(27.9)	(27.9)
Multilateral - IBRD (SAL)	170.5	170.5	170.5	418.5
Rescheduling	352.5	516.0	784.0	1,058.3
Outflows	-473.9	-698.9	-1,074.9	-1,458.9
<u>Net domestic</u>	<u>76.0</u>	<u>-4.9</u>	<u>-189.8</u>	<u>-688.4</u>
Banking system (net)	45.0	-84.9	-309.9	-805.0
Other domestic (net)	31.0	80.0	120.0	161.6
<u>Memorandum item:</u>				
<u>IMF presentation</u>				
<u>Total (net)</u>	<u>443.7</u>	<u>554.0</u>	<u>669.5</u>	<u>683.6</u>
Total (net) (as above)	463.9	594.3	730.0	764.2
Repayment of bauxite levy loan (tolling)	-20.2	-40.3	-60.5	-80.6

Source: Ministry of Finance and Planning; and Fund staff estimates.

Table 3. Jamaica: Selected Public Entities

Airports Authority of Jamaica
Air Jamaica Limited
Banana Company of Jamaica Limited
H.E.A.R.T. (Human Employment and Resource Training)
Jamaica Broadcasting Corporation
Jamaica Commodity Trading Company Limited
Jamaica Development Bank
Jamaica International Telecommunications Limited
Jamaica Merchant Marine Limited
Jamaica Mortgage Bank
Jamaica National Investment Company Limited
Jamaica Omnibus Services Limited
Jamaica Public Service Company Limited
Jamaica Railway Corporation
Jamaica Telephone Company Limited
Montego Bay Bus Company
National Hotels and Properties Limited
National Housing Corporation Limited
National Housing Trust
National Insurance Fund
National Sugar Company Limited/Jamaica Sugar Holding Ltd.
National Water Authority/Water Commission
Petroleum Corporation of Jamaica /Petrojam/Accord Fund
Port Authority of Jamaica
Sugar Industry Authority
Urban Development Corporation

Table 4. Jamaica: Cumulative Net Disbursements of
External Debt

(In millions of U.S. dollars)

	1985/86			
	March 31- July 31	March 31- Sept. 30	March 31- Dec. 31	March 31- March 31
<u>Inflows</u>	<u>173.0</u>	<u>270.0</u>	<u>409.3</u>	<u>594.0</u>
Bilateral	48.0	89.0	157.0	228.0
United States	(41.0)	(76.0)	(131.0)	(187.0)
Canada	(2.0)	(4.0)	(8.0)	(13.0)
United Kingdom	(0.5)	(1.5)	(3.0)	(4.5)
Germany	(2.0)	(3.0)	(4.5)	(4.5)
France	(2.5)	(4.5)	(6.5)	(9.0)
Italy	(--)	(--)	(4.0)	(10.0)
Multilateral	37.0	42.0	50.0	98.0
World Bank	(28.0)	(28.0)	(28.0)	(68.0)
IDB	(9.0)	(14.0)	(22.0)	(30.0)
Other	25.5	45.0	60.0	75.0
Rescheduling	62.5	94.0	142.3	193.0
Commercial banks	(31.2)	(45.9)	(73.9)	(96.5)
Official creditors	(31.3)	(48.1)	(68.4)	(96.5)
<u>Outflows</u>	<u>-118.4</u>	<u>-180.1</u>	<u>-305.8</u>	<u>-408.8</u>
<u>Net disbursements</u>	<u>54.6</u>	<u>89.9</u>	<u>103.5</u>	<u>185.2</u>

Source: Bank of Jamaica.

Table 5. Jamaica: Cumulative Disbursements of Rescheduled
Public Debt Service Payments

(In millions of U.S. dollars)

	1985/86			
	March 31- July 31	March 31- Sept. 30	March 31- Dec. 31	March 31- March 31
<u>Total</u>	<u>62.5</u>	<u>97.0</u>	<u>148.3</u>	<u>202.0</u>
Commercial banks	31.2	45.9	73.9	96.5
Official creditors	31.3	51.1	74.4	105.5

Source: Bank of Jamaica.

Table 6. Jamaica: Net International Reserves of the Bank of Jamaica

(In millions of U.S. dollars)

	Actual	Proj.			
	March 31	July 31	Sept. 30	Dec. 31	March 31
	1985	1985	1985	1985	1986
<u>Net international reserves</u>	<u>-562.7</u>	<u>-566.6</u>	<u>-544.7</u>	<u>-526.2</u>	<u>-481.3</u>
<u>Assets</u>	<u>191.5</u>	<u>113.7</u>	<u>141.1</u>	<u>132.0</u>	<u>158.2</u>
Liquid	61.1	1.0	21.1	12.0	38.2
Nonliquid	130.4	112.7	120.0	120.0	120.0
<u>Liabilities</u>	<u>754.2</u>	<u>680.3</u>	<u>685.8</u>	<u>658.2</u>	<u>639.5</u>
IMF <u>1/</u>	623.6	631.0	636.5	622.9	604.2
Commercial banks	2.0	2.0	2.0	2.0	2.0
Central Bank of Libya	42.0	42.0	42.0	28.0	28.0
Marubeni	9.1	--	--	--	--
Norway Consultancy Fund	0.7	0.7	0.7	0.7	0.7
CARICOM	4.6	4.6	4.6	4.6	4.6
Payments arrears (n.i.e.)	72.2	--	--	--	--

Sources: Bank of Jamaica; and Fund staff estimates.

1/ SDRs converted at US\$1 = SDR 1.

Table 7. Jamaica: Stock of Short-Term External Debt
at March 31, 1985

(In millions of U.S. dollars)

1.	Air Jamaica	2.9
2.	JAMINTEL	--
3.	Jamaica Broadcasting Corporation	--
4.	Jamaica Commodity Trading Corporation	26.2
5.	Jamaica Public Service Company	0.1
6.	Jamaica Telephone Company	0.5
7.	National Sugar Company/Ja. Sugar Holdings	1.3
8.	Petroleum Corporation of Ja./Petrojam	85.2
9.	Sugar Industry Authority	<u>--</u>
	TOTAL	116.2

