

**EXECUTIVE
BOARD
MEETING**

EBS/20/93
Correction 1

May 13, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Jamaica—Request for Purchase Under the Rapid Financing Instrument**

Board Action: The attached corrections to EBS/20/93 (5/11/20) have been provided by the staff:

Evident Ambiguity **Pages 3 (para. 2, line 4 “Partly, as”), 4, 6 (para. 7)**

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views **Pages 1, 2 (discussions box, line 3), 3 (para. 2, lines 2-3, and line 4 “restricted”), 5**

Typographical Errors **Pages 2 (discussions box, line 1), 6 (para. 10), 7, 8, 27**

Questions: Ms. Goretti, WHD (ext. 38243)
Mr. Danforth, WHD (ext. 38568)
Mr. Youssef, WHD (ext. 37139)



JAMAICA

May 10, 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Summary. The COVID-19 shock hit Jamaica only a few months after the successful completion of its precautionary Stand-By Arrangement with the Fund, which was underpinned by strong ownership and civil society oversight. Jamaica's established track record of economic reforms has created buffers that are invaluable today in responding to the COVID-19 crisis. However, the domestic impact of the outbreak, increasing fiscal needs, falling remittances, and a sudden stop in tourism receipts are generating a sizable balance-of-payments need. The authorities are, therefore, requesting emergency financial support under the Rapid Financing Instrument (RFI) of 100 percent of quota (SDR 382.9 million or about US\$520 million).

Policy Response. The most pressing policy challenges are to minimize the loss of human life and protect livelihoods from the impact of this pandemic. The Government of Jamaica has ~~called a national state of emergency~~ declared the whole of Jamaica a disaster area and established a special taskforce to coordinate the country's COVID-19 response and recovery efforts. The authorities have introduced targeted measures to support jobs and provide resources to vulnerable segments of the population. They remain fully committed to continuing their medium-term debt reduction efforts, but recognize the national emergency warrants a temporary reduction of the primary surplus. This will, in turn, lead to a modest (two-year) delay in achieving the Fiscal Responsibility Law's goal of bringing debt down to 60 percent of GDP, although they are committed to accelerate these efforts, should growth overperform. The Bank of Jamaica (BOJ) has maintained an accommodative monetary policy stance and provided liquidity to ensure market functioning and avoid an undue tightening of credit conditions.

Staff Assessment. The RFI is the appropriate instrument for Jamaica at this juncture. The urgent balance-of-payments needs facing the country and the high degree of uncertainty regarding the duration and scale of the COVID-19 pandemic make it infeasible to put in place an upper-credit-tranche arrangement. Staff remain confident that the authorities will pursue appropriate policies based on their strong track record and policy commitments. The requested access under the RFI is within applicable limits under the GRA. Jamaica's debt remains sustainable over the medium term (albeit subject to risks) and, while the outlook remains highly uncertain, Jamaica maintains an adequate capacity to repay the Fund. Staff therefore recommends Board approval of Jamaica's request for a purchase under the RFI of 100 percent of quota (SDR 382.9 million).

Approved by:
Nigel Chalk (WHD)
and Maria Gonzalez
(SPR)

Discussions were held with Minister of Finance and the Public Service Nigel Clarke, Governor of Bank of Jamaica Richard Byles and other officials from April 2018 to May 1, 2020. The team comprised Manuela Goretti (Mission Chief), Jeff Danforth and Aleksandra Babii (all WHD), Keiichi Nakatani (SPR), Justin Matz (STA), and Karim Youssef (Resident Representative), with assistance from Sheng Tibung and Tianle Zhu (all WHD). Garima Vasishtha (OED) joined the discussions.

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RECENT DEVELOPMENTS AND OUTLOOK

1. Only a few months after Jamaica successfully completed its precautionary Stand-By Arrangement the COVID-19 shock hit the country. Over the last seven years, under the auspices of consecutive successful Fund arrangements, Jamaica institutionalized fiscal discipline through a Fiscal Responsibility Law and moved to inflation targeting with greater exchange rate flexibility. The country's reform efforts led to entrenched macroeconomic stability, lowered public debt, brought unemployment to an all-time low, and strengthened oversight of the financial system. However, the outbreak of COVID-19 has led to an unprecedented sudden stop in tourism, falling remittances, and economic contraction. The authorities reacted swiftly with public health measures and a stimulus package to support jobs and protect the most vulnerable segments of the population.

2. The COVID-19 pandemic is expected to lead to significantly weaker growth in the year ahead. Despite efforts to contain the spread of the disease, as of end-April 2020, 396,422 cases had been confirmed, with 78 fatalities. The Government of Jamaica has declared ~~a state of emergency~~ the whole of Jamaica a disaster area, closed air and sea borders to incoming passenger traffic, and ~~prohibited~~ restricted communal gatherings. Partly, As a result of these containment efforts, the economy is expected to contract by 5.3 percent in FY2020/21. Tourist arrivals are expected to recover only gradually, the fall in remittances will weigh on domestic demand, and mining-sector weakness is expected to persist (in part due to delays in reopening the Alpart alumina refinery). The Jamaican dollar depreciated against the US dollar by 6 percentage points in April, offsetting the appreciation earlier in the year. As a result, the nominal effective exchange rate has remained broadly stable year to date. Banks remain well capitalized, with low levels of non-performing loans.

3. Jamaica faces a pronounced balance-of-payments shock. The current account deficit for FY2020/21 is projected to widen from 2.3 to 7.3 percent of GDP. Although lower oil prices will help the trade balance, the effects are expected to be more than offset by a sudden stop in tourist arrivals, weak mining exports, and a drop in remittances. On the financial account, FDI inflows are expected to decline. The combined effect is an urgent external financing need of nearly US\$1.2 billion (close to 8 percent of GDP). It is expected that financial support from the Fund and additional resources from IFIs, notably from

Jamaica: External Financing Requirements and Sources (In millions of US dollars)			
	2019/20	2020/21	
		Pre-COVID19	Post-COVID19
Financing requirements	1,616	885	1,674
Current account deficit	362	394	1,114
o/w: Travel receipts	3,113	3,108	995
Oil imports	1,423	1,396	656
Remittances	2,292	2,361	1,902
Capital account	11	-5	29
Government 1/	2,551	488	488
Other capital outflows	-1,308	9	43
Financing sources	1,699	939	496
FDI (net)	219	492	216
Government borrowing 1/	1,270	433	251
Other items (net)	210	14	29
Financing gap	-83	-53	1,177
Potential financing sources	-83	-53	1,177
RFI			529
IFIs			312
Other official support / reserves drawdown	-83	-53	337
Memorandum			
Current account (percent of GDP)	-2.3	-2.3	-7.3
Reserves	3,688	3,634	3,351
(In months of prospective imports of GNFS)	6.0	6.0	7.3
(In percent of ARA metric)	112	109	105

Sources: Jamaican authorities and IMF staff estimates.

1/ Large government repayments and borrowing in FY2019/20 are associated with a global bond buy back conducted in September 2019.

the IDB, World Bank, and CDB, will be able to meet this financing need, limiting the drawdown of international reserves. Reserves are expected to decline to around US\$3.3 billion, although they would remain above 100 percent of the Fund's reserve adequacy metric.

RISKS

4. The principal risk facing Jamaica arises from the pandemic being more severe and long-lasting than is currently expected. Staff projections assume that the spread of the disease will be contained at moderate levels and activity will resume once the public health crisis and containment efforts recede domestically and in partner countries. However, the situation could evolve along a more adverse trajectory which would require additional actions to strengthen domestic healthcare services, support [economic](#) activity, and mitigate the impacts on people's livelihoods. These could in turn generate additional external and fiscal pressures, despite available buffers and contingency plans, weakening debt dynamics (see also ¶10 and Annex I). Regardless of the path of the public health crisis, it will be critically important to maintain social cohesion and protect the most vulnerable from the effects of the pandemic (particularly bearing in mind the long-standing issues with crime on the island).

AUTHORITIES' RESPONSE TO THE CRISIS

5. Fiscal policy has appropriately shifted its focus toward providing economic relief to mitigate the impact of the pandemic.

- The FY2019/20 primary balance was 7 percent of GDP (exceeding the 6.5 percent of GDP budget target). As part of the immediate response to the COVID-19 shock in March, this included an additional allocation of 0.1 percent of GDP for medical equipment and training for healthcare workers and an increase in the contingency reserve of 0.1 percent of GDP.

Jamaica: FY2020/21 Fiscal Impact of COVID						
	Pre-COVID		Post-COVID			
	Fiscal Policy Paper		Budget Speech		Projection	
	J\$ millions	% GDP	J\$ millions	% GDP	J\$ millions	% GDP
Revenue	675,885	29.7	660,885	29.0	579,584	27.3
o/w Tax Revenue	603,785	26.5	588,785	25.8	509,884	24.0
Expenditure	661,018	29.0	671,018	29.4	640,292	30.1
Programme	232,803	10.2	242,803	10.7	228,711	10.8
o/w CARE program	10,665	0.5	16,000	0.8
Compensation of Employees	221,368	9.7	221,368	9.7	221,426	10.4
Interest	132,645	5.8	132,645	5.8	135,983	6.4
Capital	74,203	3.3	74,203	3.3	54,171	2.5
Overall Balance	14,867	0.7	-10,133	-0.4	-60,708	-2.9
Primary Balance	147,512	6.5	122,512	5.4	75,275	3.5
Memo Items:						
Nominal GDP	2,278,800		2,278,800		2,126,404	
Sources: GOJ and IMF staff estimates.						

- The budget in early March reset the primary surplus target for FY2020/21 and outer years from 6.5 to 5.4 percent of GDP benefiting from the fiscal space created by the authorities' asset divestment strategy and in line with the Fiscal Responsibility Law. This reduction comprised 0.6 percent of GDP in permanent tax cuts and, in the wake of the COVID-19 shock, additional spending of nearly 0.5 percent of GDP to support the COVID Allocation of Resources for Employees (CARE) program, aimed at providing temporary income support to workers, grants to businesses, and social assistance payments to vulnerable segments of the population.
- The authorities are further revising their primary surplus target for FY2020/21 to 3.5 percent of GDP. A supplementary budget will be submitted to Parliament in May, to account for the expected revenue shortfalls (notably in travel and accommodation taxes) and necessary spending reallocations to meet the urgent needs arising from the effects of the pandemic.
- To finance the increased fiscal needs, the government intends to redirect resources from delayed capital projects and less urgent programs toward essential spending priorities and rely on available cash buffers, built in part from the proceeds of recent divestment of public assets (including the Wigton Wind Farm and Trans-Jamaican Highway). The authorities are currently not envisaging drawing down RFI resources for budget financing, given their cash resources and additional financing available from other IFIs (mainly the IDB, WB, and CDB, including new loans and reprioritization of existing project financing). Nonetheless, given the uncertainties facing the country, the authorities are asking for RFI resources to be available for budget support, should the need arise (see ¶113).

Jamaica: COVID Allocation of Resources for Employees (CARE)	
Measure	Beneficiary
Supporting Employees with Transfer (SET) – of Cash	Employees in any sector who lost their job after March 10 (date of Jamaica's first COVID case)
COVID General Grant	Grants targeted at occupational groups that have been particularly affected by COVID measures including barbers, hairdressers, bar operators, market vendors, craft vendors, taxi and bus operators among other groups who are registered with the appropriate authority
COVID Compassionate Grant	Unconditional grants to the informally employed and unemployed who apply
Business Employee Support and Transfer (BEST) – of Cash	Businesses in the tourism sector that retain workers earning less than the lowest tax threshold of J\$1.5 million
COVID PATH Grants	PATH beneficiaries receive 50% increase in benefits for the Apr – Jun period
COVID Student Loan Relief	Deferral of student loan principal and interest payments for the months of April, May and June
COVID Special Grants	Additional funding to existing programmes that target the homeless, those in shelters and infirmaries as well as the disabled who may have difficulty applying for the Compassionate Grant
COVID Small Business Grants	MSME's with sales of J\$50 million or less less than J\$-50 million who filed tax returns and payroll returns in 2019/20
Source: GOJ.	

6. The authorities intend to continue to adhere to best practices in procurement and contract awards related to the pandemic. All public sector purchases are subject to the policies and guidelines under the Public Procurement Act of 2015, which adheres to the principles of transparency, fairness, integrity and ensuring public confidence in procurement processes, even for

emergency-related fast-track procedures. Both the Integrity Commission and the Auditor General's Department are empowered to undertake any audit of public procurement. Specifically, the authorities plan to make publicly available key information on procurement contracts, including beneficial ownership information of awarded companies, and request that the Auditor General's Department undertakes and publishes an ex-post audit of COVID-related spending. Moreover, the CARE program is subject to multiple verification processes that require beneficiaries to register using their tax identification numbers and through a transparent online portal with relevant authorities.

7. Monetary policy remains accommodative. The BOJ has kept the policy rate at its historic low (of 0.5 percent) and is boosting systemic liquidity by supporting deposit taking institutions and securities dealers. They are also undertaking secondary market purchases of Government of Jamaica bonds, redeeming certain BOJ securities early, undertaking repo operations under enhanced collateral rules, and removing limits and penalties on overnight borrowing by financial institutions. To support the anticipated increase in electronic payments during this period, the BOJ has temporarily waived their Real-Time-Gross-Settlement (RTGS) fees for customer transactions.

8. The BOJ is appropriately allowing the exchange rate to adjust flexibly in response to the shock. The central bank stands ready, however, to smooth undue FX volatility and counter disorderly market conditions through FX sales, FX swaps, and the sale of long-dated FX-linked central bank notes.

9. Efforts are underway to provide credit relief to borrowers amid the COVID-19 shock. The Development Bank of Jamaica is rescheduling SME loans for up to three months and offering loan moratoria and payment holidays to the Business Process Outsourcing (BPO) sector. In addition, the National Housing Trust has reduced rates on new and existing mortgage loans. Banks are also considering on a case-by-case basis loan moratoria, payment holidays, and changes in loan covenants for households and firms that have been hard hit by COVID-19.

DEBT SUSTAINABILITY

10. Despite the severe COVID-19 shock, Jamaica's public debt remains sustainable. Public debt has fallen from 114 percent of GDP in FY2016/17 to 93.5 percent in FY2019/20 as a result of large primary surpluses. The debt ratio is expected to increase to 97.6 percent of GDP in FY2020/21, given the severe economic contraction due to the COVID-19 shock and the temporary suspension of the annual fiscal target of 5.4 percent of GDP. The authorities remain committed to resuming their debt reduction efforts after the COVID-19 crisis wanes, although the medium-term debt target of 60 percent of GDP under the Fiscal Responsibility Law will need to be amended and modestly deferred from FY2025/26 to FY2027/28. The authorities have successfully extended maturities through proactive debt management so gross financing needs are modest. No international bond redemption is coming due over the next year and domestic debt rollovers are manageable. Nonetheless, the projected debt path remains vulnerable to a weaker economic outlook, exchange rate risks, the realization of contingent liabilities from public bodies, or the ever-present natural disaster risks.

POLICY RECOMMENDATIONS

11. Staff supports the measures taken by the authorities to address the pandemic. The authorities' fiscal response appears appropriate given the severity of the COVID-19 shocks. Their renewed commitment to the medium-term debt target, despite the increased fiscal needs created by the ongoing pandemic, will be critical to anchor fiscal policy as the shock recedes. The BOJ should maintain an accommodative monetary policy stance, allow the exchange rate to move in line with market conditions (and be more effective in acting as a shock absorber), and deploy FX interventions to counter disorderly market conditions should they arise. Payment holidays and changes in loan covenants offered by financial institutions can help support businesses and households facing liquidity problems, provided they are introduced in a transparent, targeted and prudent manner in line with regulatory best practices. Supervisors should enhance their monitoring of emerging credit risks in banks and nonbanks and continue to cooperate closely with counterparts on possible cross-border spillovers from regional conglomerate structures.

MODALITIES OF SUPPORT

12. The RFI is the appropriate instrument for Jamaica at this juncture. Jamaica meets the qualification requirements for support under the RFI. It has an urgent balance-of-payments need, which, if not addressed promptly, would result in immediate and severe economic disruption. It is also not feasible at this stage to put in place an upper-credit-tranche arrangement due to the urgent needs facing Jamaica and the high degree of uncertainty regarding the duration and scale of the COVID-19 pandemic. On the basis of Jamaica's strong track record and policy statements, staff is confident that the authorities will continue to consult with the Fund to find solutions in response to the balance-of-payments shock and pursue policies appropriate to address the impact of COVID-19 and ensure macroeconomic stability over the medium-term.

13. Staff considers access of 100 percent of quota under the RFI to be appropriate. Jamaica does not currently have an IMF arrangement, and access of 100 percent of quota is within the applicable access limits under the GRA. The annual access of 100 percent of quota (SDR 382.9 million or about US\$520 million), together with financial assistance from other IFIs, would provide relief to the sizable BOP needs facing Jamaica, supporting the country's policy response to the COVID-19 shock. RFI resources will be initially disbursed to the BOJ in a dedicated account to bolster FX reserves, as fiscal financing needs are currently expected to be met through other sources, but can be drawn down by the government for budget support, should the need arise.¹ Remaining external financing needs are expected to be filled through other official sources and a modest drawdown of international reserves. Jamaica is assessed as having sustainable debt (Annex I) and,

¹ All repayments, costs, and charges related to the funds received from the Fund for budget financing will be the responsibility of the Ministry of Finance and the Public Service, with the BOJ handling these transactions as the fiscal agent of the Government.

while key external debt indicators will be at elevated levels in FY2020/21 after drawing on the RFI (Table 7), Jamaica's capacity to repay the Fund remains adequate, with risks mitigated by its strong track record of policy implementation and past use of Fund resources.²

14. The authorities commit to undergo a safeguards assessment. This would need to be completed before the Executive Board approval of any subsequent arrangement to which the safeguards policy applies. The authorities agree to provide Fund staff with the most recently completed external audit reports and to authorize the external auditors to hold discussions with staff. Given the potential for budget support, the authorities confirm in their Letter of Intent that they will establish a framework (e.g., through a memorandum of understanding) between the Bank of Jamaica and the Ministry of Finance and the Public Service, that clarifies the responsibilities for timely servicing of the financial obligations to the Fund.

AUTHORITIES' VIEWS

15. The authorities foresee a significant economic impact from the COVID-19 shock, which remains subject to a high degree of uncertainty. They envisage a sharp economic contraction, with a sudden stop in tourist arrivals and drop in remittances, acknowledging that possible confidence effects in source countries could further delay the recovery. The authorities emphasized the importance of preserving Jamaica's broad-based policy consensus to contain the pandemic as well as to fast-track the recovery efforts and welcomed ongoing discussions with the Fund and other IFIs to secure the necessary financial assistance. They noted how their ongoing work in developing a Natural Disaster Risk Management policy framework aided their ability to proactively respond to the COVID-19 shock.

16. The fiscal response is being directed to support Jamaica's health needs and protect livelihoods, while safeguarding debt sustainability. The authorities foresee a reduction in the primary balance for FY2020/21 to 3.5 percent of GDP to respond to the shock. While they currently expect to meet their additional fiscal financing needs with existing cash buffers, domestic borrowing, and support from other official creditors, they welcome the possibility of relying on the RFI for budget financing should the need arise, while safeguarding adequate reserve buffers at the BOJ. Despite the crisis-related delay, they are committed to maintaining a primary balance of 5.4 percent of GDP after the resolution of the pandemic and meeting the 60 percent of GDP debt target by FY2027/28. Should growth overperform, they will utilize the additional revenues to meet the debt target sooner.

17. The inflation targeting framework, under greater exchange rate flexibility, provided the central bank with the necessary room to respond to the shock. The BOJ highlighted the ongoing efforts to ensure system-wide liquidity, while allowing the exchange rate to respond to market conditions and intervening in the FX market to stem excessive volatility. The BOJ is cooperating closely with the Financial Services Commission and carefully monitoring the health of

² Fund credit outstanding will reach about 6½ percent of GDP or 31 percent of exports by the end of FY2020/21.

Against this background, the Government of Jamaica requests emergency financing from the IMF under the Rapid Financing Instrument (RFI) in the amount of SDR382.9 million, equivalent to 100 percent of quota, to proactively respond to these severe balance of payment needs. Coupled with our own reserves and available support from the World Bank and Inter-American Development Bank, this disbursement will help fill the external financing gaps in FY2020/21.

Despite the uncertain endpoint of the COVID-19 crisis, we are determined to protect Jamaica's hard-won reform gains and advance our structural agenda to support the recovery efforts. We will continue to develop our FX and debt markets and to upgrade our institutions, notably by enshrining BOJ independence in law and establishing a fiscal council, and further support strong and inclusive growth, by boosting access to finance, especially for SMEs, and reducing our skills gap, while also working to reduce crime. We also remain committed to improving the governance of public bodies, enhancing public financial management, advancing public sector transformation, addressing gaps in our AML/CFT framework, and ensuring long-term financial sector stability.

The Jamaican government will maintain its open dialogue with the IMF. We are committed to continued macroeconomic stability and will avoid any measures or policies that would exacerbate balance of payments difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement.

In line with the IMF safeguards policy, we commit to undergoing a safeguards assessment. We will provide IMF staff with the BOJ's most recently completed external audit reports and authorize our external auditors to hold discussions with IMF staff. Given that financing from the IMF could be on-lent to the government to meet potential additional fiscal needs, a framework agreement will be established between the Ministry of Finance and the Public Service and the BOJ on the respective responsibilities for servicing financing obligations to the IMF. We will continue to adhere to best practices in procurement and contract awards related to the pandemic, ensuring transparency and ease of tracking of COVID-19 expenditures in the budget. Key information on procurement contracts, including beneficial ownership information of awarded companies, will be publicly available. Moreover, the authorities will request that the Auditor General's Department undertakes and publishes an ex-post audit of COVID-related spending. We also commit to continue disseminating information among citizens, to educate them on the measures being taken by the government and the resources available to them.

We authorize the IMF to publish this Letter of Intent and the staff report for the request for disbursement under the RFI, in line with the commitment to transparency of our government.

Very truly yours,

/s/
Andrew Holness
Prime Minister

/s/
Nigel Clarke
Minister of Finance and
the Public Service

/s/
Richard Byles
Governor,
Bank of Jamaica