Jamaica's

Memorandum of Economic and Financial Policies

&

Technical Memorandum of Understanding

Submitted to the IMF

17 April 2013

ANY REPLY OR SUBSEQUENT REFERENCE SHOULD BE ADDRESSED TO THE FINANCIAL SECRETARY AND THE FOLLOWING REFERENCE NUMBER QUOTED:-

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MINISTRY OF FINANCE AND PLANNING
30 NATIONAL HEROES CIRCLE
P.O. BOX 512
KINGSTON
JAMAICA

April 17,2013

Miss Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde,

In recent decades, the Jamaican economy has been caught in a cycle of low growth and high debt that has resulted in sustained high unemployment rates, large-scale emigration of labour and high poverty rates. Since the mid-1990s, real GDP growth averaged less than 1 percent per year. Public debt has risen to almost 150 percent of GDP and market access has been greatly impaired.

The Jamaican Government has embarked on a comprehensive economic programme aimed at progressively raising the rate of real GDP and per capita income growth. The strategy of accelerating growth centres on attracting significant new investment in areas such as agriculture, tourism, shipping, logistics and business process outsourcing. This growth agenda is driven by fiscal and monetary policy reforms aimed at creating a stable, predictable and resilient macroeconomic environment; structural reforms aimed at significantly strengthening Jamaica's external competitiveness and productivity; catalytic and strategic private and public investments; and social stability. Fiscal consolidation is a clear and critical ingredient to ensure macroeconomic stability. It will be supported by efforts to ensure on-going financial system safety and stability including reforms to strengthen the financial system oversight framework and improve access to credit.

With the strong, front-loaded macroeconomic adjustment, social protection initiatives are particularly important to maintain social cohesion, build capacity and improve productivity. The focus of Government's efforts is to support the most vulnerable while promoting and facilitating empowerment and self-agency among those who have the ability to become self-reliant and economically productive.

The Government of Jamaica is deeply committed to the objectives and measures underlying this programme and intends to pursue them regardless of any formal financing arrangement with the International Monetary Fund (Fund).

In the current context, however, support from the Fund and other multilateral financial institutions should contain risks and boost investor confidence, including the provision of a liquidity cushion to avoid shortfalls in external inflows that could put the programme at risk. Given the structural nature of many of the sources of economic and financial vulnerability, and the extensive medium-term structural reform agenda for addressing these, sustained multilateral engagement over the medium term is essential, including through the provision of technical assistance in priority areas. To this end, the Government of Jamaica is requesting a 48-month arrangement under the Extended Fund Facility (EFF) in an amount equivalent to SDR 615.38 million or 225 percent of quota that will support the programme detailed in the attached Memorandum of Economic and Financial Policies (MEFP). In this context, we request that the equivalent of SDR 58 million (US$90 million) as part of the first purchase be used to help meet the government's financing needs directly.

The Government believes that the policies described in the attached MEFP are adequate to achieve the programme's objectives; however, if necessary, the Government stands ready to take any additional measures that may be required. The Government will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. The Government will also provide the Fund staff with all the relevant information required (as established inter alia in the Technical Memorandum of Understanding) to complete programme reviews and monitor performance.

The Government will observe the standard performance criteria against imposing or intensifying exchange restrictions, introducing or modifying multiple currency practices, concluding bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement and imposing or intensifying import restrictions for balance of payments reasons.

The Fund is hereby authorized to publish this letter and the attached MEFP, to facilitate access to and review of Jamaica's policies both locally and internationally.

Very truly yours,

Peter D. Phillips, Minister of Finance and Planning Jamaica	Brian Wynter Governor, Bank of Jamaica Jamaica

Memorandum of Economic and Financial Policies

BACKGROUND AND RECENT DEVELOPMENTS

1. **Jamaica faces severe economic challenges.** Since the mid-1990s, real GDP growth averaged less than 1 percent a year, which has contributed to sustained high unemployment rates and large-scale emigration of labor. Anemic growth and recurring bouts of financial market instability have been rooted in increasingly high levels of public debt, which reached 137 percent of GDP at the end of 2011, and is currently approaching 150 percent of GDP. Sustained high debt service obligations and large refinancing needs have resulted in costly risk premiums and helped crowd out private sector investment. The high debt levels have also exposed the country to adverse shifts in market sentiment. With interest payments alone accounting for approximately 37 percent of government revenues, the fiscal accounts are stretched too thin to pursue productivity-enhancing social and infrastructure investment.

2. **Despite initially positive developments, the objectives of Jamaica's 2010 economic programme, which was supported by the Fund, were not achieved.** For FY 2011/12, the central government ran a primary surplus equivalent to 3.2 percent of GDP, compared to a budgeted 5.2 percent of GDP.[1] The public sector fiscal deficit in this context amounted to 6.4 percent of GDP. At the end of that fiscal year, public debt stood at 142 percent of GDP, in excess of levels that could be considered sustainable. The government is well aware of the challenges faced by Jamaica and has prepared a comprehensive set of policies to address them.

3. **Fiscal performance has been under control in recent months, but economic growth has stalled and the economy remains fragile.** After expanding by 1.5 percent in 2011 real GDP slowed down in 2012 with unemployment reaching 13.75 percent by October. Inflation increased to 8 percent in December when compared to the similar month in 2011, while the banking sector remained stable and well-capitalized. The fiscal position is under pressure and external imbalances have risen with the widening of the external current account to 14.1 percent of GDP in FY 2011/12 owing in part to a higher oil bill. At the same time, the capital account weakened significantly, in part due to a sharp drop in external loan disbursements, in particular to the central government. Net international reserves fell to under US$0.9 billion at end-March 2013.

PROGRAMME OBJECTIVES AND STRATEGY

4. **The Jamaican government has embarked on a comprehensive economic programme aimed at significantly raising the rate of real GDP and per capita income growth**. The programme presented in this document covers the period through FY 2016/17 (i.e. through March 2017). It is underpinned by the understanding that fiscal and debt sustainability are necessary conditions for macroeconomic stability and economic growth. In

[1] The fiscal year in Jamaica covers from April to March.

particular, a sharp reduction in the debt burden will conduce to higher private sector led growth as government frees more of the available domestic resources. In addition, in this environment, government spending can be directed toward the catalytic development of infrastructure to support growth.

5. The GOJ's growth agenda will be driven by:

- Time bound fiscal consolidation, supported by fundamental fiscal and monetary policy reforms aimed at creating a stable, predictable and resilient macroeconomic environment conducive to high levels of long term foreign and domestic investment;
- Time bound structural reforms aimed at significantly strengthening Jamaica's external competitiveness and generating higher levels of factor productivity;
- Catalytic and strategic private/public investments; and
- Social stability.

6. To help soften any negative impact on the poor, the programme includes important measures to strengthen the social safety net. The government is well aware that adverse economic conditions are generating drastic socio-economic changes in Jamaica. The contraction in activity has led to a significant increase in layoffs, exacerbating the already high unemployment rate. The most vulnerable social groups are most affected by the decline in economic activity. The programme has been designed to ensure that the adjustment burden is effectively shared across society and economic agents. Safeguards have been included to ensure that the social safety net is not only preserved but broadened, with special attention being given to enhancing those social programmes that are well targeted and far-reaching.

MEDIUM-TERM MACROECONOMIC FRAMEWORK

7. Recognising that fiscal and debt unsustainability have been the main sources of external and macroeconomic vulnerability in Jamaica, the government's medium term strategy aims at virtually eliminating the fiscal deficit and substantially reducing the debt burden. As legislated under the Fiscal Responsibility Framework (FRF), the government is committed to the achievement of the following fiscal objectives by the end of FY 2015/16:

- A central government budget consistent with an overall fiscal balance of 0 per cent of GDP.
- A debt/GDP ratio of no more than 100 per cent by FY 2015/16. It should be noted that despite actions being taken in pursuit of this objective, current projections under the programme suggest that the target will not be achieved.[2] Within this context, and based on

[2] This refers to debt excluding domestic public sector guarantees and PetroCaribe debt. Including projections for these two elements, debt would be about 15 percentage points larger.

performance during the programme the government may amend the Financial Administration and Audit Act to be consistent with actions to achieve debt sustainability.

- A ratio of wages/GDP for the central government of no more than 9 percent of GDP.

Beyond 2015/16, these targets are to be maintained or—in particular, for the debt ratio—to be improved further. The long run objective is to reduce the debt ratios of the government to around 60 per cent of GDP.

8. **The programme aims at yielding permanent growth dividends by raising growth to at least 2 percent by FY 2016/17,** with significant upside potential as investment plans are implemented and structural reforms result in improvements in the business climate and productivity.

9. **Inflation is estimated at 8.75 percent (end of period) for FY 2012/13, reflecting the impact of the revenue measures and a faster rate of depreciation, but it is expected to abate in later years and remain under effective control**. Inflation is projected to fall to around 8 percent by 2016/17 supported by an effective monetary policy strategy.

10. **In this context, reserves are projected to rise to adequate levels, as the balance of payments is expected to improve markedly over the medium term.** The current account deficit of the balance of payments is estimated to have narrowed to 12 per cent of GDP in FY 2012/13, but remain elevated reflecting the impact of capital goods imports associated with a rebound in foreign direct investment as well as the assumption that crude oil prices will remain elevated. The current account deficit is projected to decline to more sustainable levels by FY 2015/16, supported by the fiscal consolidation as well as improved price and non-price competitiveness.

GROWTH STRATEGY

11. **The government is committed to implementing a growth strategy built on time bound fiscal consolidation and structural reforms aimed at reducing impediments to growth, complemented by strategic investment facilitation**. Among the main impediments to growth are high public debt (142 percent of GDP as of end 2011/12), low factor productivity and competitiveness, high energy cost, bureaucratic business processes, high crime and inadequate legal enforcement. The programme of structural reforms will require careful sequencing over the programme period, in particular across areas of public sector modernization, private-sector led growth, social protection, and public financial management. Noting different mandates and existing financial and technical assistance support, the government proposes a close collaboration among the IMF, the World Bank, and the Inter-American Development Bank (IDB) to support capacity building and implementation of structural reforms.

Enhancing the Business Environment

12. The growth strategy envisages an initial phase of reforms to improve dynamic efficiency. The government has made progress in facilitating the transfer/refinancing of existing loans, the process of probate, has approved licensees for establishing credit bureaus and increased the participation rate for electronic filing of taxes. The government commits to improving the business environment in the areas of enforcing contracts, registering a business, improving access to credit, especially for small and medium-size enterprises, and initiatives to reduce the cost of doing business in the MSME sector through innovation in digital technology. Specifically the government will undertake the following initiatives:

- Establish a **Secured Transactions Framework** to facilitate improved access to credit through the inclusion of movable property as allowable forms of collateral:
    - Submit a Secured Obligations Bill to the Legislative Committee of Cabinet (March 2013)
    - Table the Secured Obligations Bill in Parliament, August 2013)
    - Establish and operate the Central Collateral Registry (*Structural Benchmark*, December 2013)
- Increase the civil jurisdiction of the lower courts from J$250,000 to J$1,000,000 to reduce the case flow burden of minor claims in the Commercial Division of the Supreme Court and thereby improve the timely disposal of substantial commercial disputes
- Table an **Insolvency Act** in Parliament (December 2013)
- Streamline the **Business registration process** through the use of a multi-purpose registration instrument ("business registration superform" and associated IT platform) (December 2013)
- Establish a **Port Community System** (PCS) to electronically integrate and streamline export and import procedures:
    - Select preferred bidder and commence final negotiations (August 2013)
    - Phased roll-out of PCS starting in March 2014, with complete implementation by end-2015/16
- Implement Mobile Money initiative, which will harness ICT to facilitate greater access to financial services by the underserved such as the MSME.[3]

[3] The Development Bank of Jamaica (DBJ) launched a pilot project known as Mobile Money for Microfinance (M3) in February 2013 having received non objection from the BOJ in December 2012 to proceed. The project will allow the DBJ to work through the challenges of deploying Mobile Money services for the microfinance user in order to meet its economic development and financial objectives. A technology company and a major financial

(continued)

Enhancing Access to Credit and Private Sector Project Finance

13. The government will complement these initiatives with an increase in MSME-financing wholesaled through the Development Bank of Jamaica (targeting a doubling of available MSME financing by 2016/17 relative to 2013/14). It will also increase business development support through the Jamaica Business Development Corporation (JBDC), the establishment of a venture capital framework for promoting the incubation of ideas (end-2014), and the implementation of a divestment/strategic investment framework, including a public-private-partnership policy.

14. The government recognizes the significant benefits of using Public-Private-Partnerships (PPPs) for developing and upgrading physical infrastructure and service delivery. It intends to increase the use of PPPs in the construction of schools, port expansion and development, re-development of towns, agriculture and agro-processing, health and health-tourism, information and communication technology and logistics and transport. In this context, the government has already passed a PPP Policy (approved by Parliament in November 2012) that establishes principles, criteria, an institutional framework and processes for managing PPPs. The policy aims at ensuring PPPs provide value for money, optimal risk transfer and support for fiscal responsibility through adequate monitoring and management of contingent liabilities. Cognizant of fiscal risks, the government has formed two new operating units to manage and preserve the integrity of the PPP programme: (i) the Privatisation and PPP Unit within the Development Bank of Jamaica; and (ii) the PPP Node within the Ministry of Finance and Planning. These units are guided by a Strategy Committee and the Privatisation/PPP Committee of the Cabinet. Technical assistance and financing of training opportunities has been provided by multi-lateral development partners.

Labour Market Interventions and Reform

15. The government will continue to promote labour market reform centering among other things on:

- A review of labour legislation;
- Enhancing the social protection framework to reduce the impact of high separation costs; and
- Addressing the mismatch between training and employment through greater alignment of training with the manpower needs of strategic sectors.

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institution have partnered with the DBJ on this pilot M3 project with the expected duration being a year, across four phases with review and analysis at the end of each phase.

Accordingly, during the programme period the government will pursue the following initiatives:

- Establish flexible work arrangements by the end of FY 2013/14;

- Establish HEART workforce colleges and three TVET Institutes by end FY 2013/14 with quality assurance for the programmes to be provided by the Council of Community Colleges of Jamaica (CCCJ);

- Implement on-going and new programmes of training and certification. HEART has engaged stakeholders in selected sectors such as transportation, logistics, manufacturing, ICT and tourism to design and implement sector-specific training and recruitment interventions to support the emerging skills requirement in strategic growth sectors.

On-going initiatives include:

- Development of a training initiative to support the logistics hub project within the areas of maritime, aviation, and logistics plus various supporting sectors;

- Provision of customized curriculum design, training and recruitment services to operators in the Business Process Outsourcing (BPO) sector (in partnership with JAMPRO); and

- Provision of customized training aimed at expanding the variety and quality of craft products available to the Tourism sector (in partnership with TPDCo).

New training initiatives for the Agriculture and Energy sectors include:

- Provision of training in Small Ruminants Husbandry (in partnership with the Ministry of Agriculture and Fisheries) in support of the government's drive to improve the small ruminant stock in Jamaica (beginning September 2013); and

- The Renewable Energy and Efficiency Technology Programme (in partnership with the CARICOM Education for Employment Programme) to create a skilled workforce to design, install and maintain Renewable Energy Systems (beginning January 2014).

16. A reduction in bureaucracy through public sector rationalization, coupled with other fiscal reforms (specifically on tax policy and tax and customs administration), is also expected to increase the efficiency of government operations and capital, boost the pace of commerce and provide upside potential to growth prospects**.**

Strategic Investments

17. The first phase reforms are expected to lay the foundation for specific growth projects in areas where Jamaica has a competitive advantage. These include logistics, shipping, tourism, agriculture and business process outsourcing and will be supported by initiatives in research and development, education and training, energy and the strengthening of the information and communications infrastructure to facilitate improved electronic-based transactions. Specifically, the government aims to:

- **Establish Jamaica as a logistics hub—including expanding port, cargo and maritime facilities and economic zones.** This initiative will involve the phased roll-out of several components targeted to be completed by 2015, including the development of the Caymanas Economic Zone, expansion (and privatisation) of the Kingston Container Terminal and the privatisation and upgrading of the Norman Manley International Airport. A Logistics Master Plan is to be prepared by the middle of FY 2013/14 and will seek to integrate all the elements of the project including the establishment of a Commodity Port, Dry Dock, and Vernamfield air cargo and passenger facility.

- **Implement energy sector initiatives to achieve fuel-source diversification, facilitate energy conservation and promote liberalization in delivery to achieve progressive reductions in the cost of energy.** Accordingly, the government will:

    - Diversify energy sources from oil to gas based and renewables.[4]

    - Increase efficiency in the public spaces, and promote conservation in the private sector through public education, technical assistance, and increased access to specialized credit for energy efficiency-enhancing investments.[5]

    - Promote liberalization in delivery through continued efforts to facilitate distributed generation networks.[6]

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[4] The construction and commissioning by the Jamaica Public Service Company (JPS) of a 360 Megawatt Combined Cycle plant by 2015 remains a centerpiece of the medium term energy sector strategy, as well as a build out of renewable energy capacity. With regard to the promotion of renewable energy, the JPS All Island Electricity Licence was amended to, among other things, establish a 25MW ceiling (previously 15MW) for renewable energy generation capacity to be installed and sold to the JPS grid without competitive tendering. In addition, in November 2012 the Office of Utilities regulation (OUR) issued a Request for Proposals for the supply of 115MW of electricity generation from Renewable Energy and the bid period was subsequently extended by two months to June 2013.

[5] Under a project financed by the IDB (The Energy Efficiency and Conservation Programme) which is slated for completion in 2015, the Government is seeking to implement energy efficiency and energy conservation cost saving measures in the public sector through investments in renewable energy installations and the retrofitting of Government facilities, including Lighting, Air conditioning and Building Envelopes.

[6] In 2011, the Government introduced Net Billing regulation, and in May 2012 issued licenses for the first eleven participants in the Net Billing initiative. The Government, through the Energy Security and Efficiency Enhancement Project has provided resources for a US$4.6 million line of credit through the Development Bank of Jamaica for businesses to implement renewable energy and efficiency-enhancement projects. In addition, The Development Bank of Jamaica has instituted a J$100 million fund for residential energy loans to finance renewable energy solutions such as small wind turbines, solar panels or biogas ingesters, while the National Housing Trust has introduced two loan facilities to facilitate the installation of Solar Water Heaters and Solar Photovoltaic Panels.

- Implement regulatory and legislative changes to improve the business environment, facilitate private sector investment in the energy sector and enhance consumer protection and safeguard standards.[7]

- **Strengthen the resilience of the country to natural disasters** through Climate Change Adaptation and Disaster Risk Reduction initiatives and targeted public infrastructure projects (with explicit incorporation in annual budgets of central government or public entities).

- **Measures to improve the business conditions for medium and small enterprises and small farmers** including, for the latter, specific projects aimed at increasing the resilience and adaptive capacity of rural communities that are vulnerable to risks from climate change and natural hazards. To this end, the government is committed to partnering with the private sector for the establishment of nine Agro Parks to stabilise the agricultural supply chain, deepen inter-industry linkages, increase competitive import substitution and activate unutilised rural land and labour. The parks, funded partly by the European Union, are to be complemented by improved inputs, including irrigation, transport infrastructure, and technical services. Three of the nine Agro parks (Amity Hall, Ebony Park and Plantain Garden) have already started productive activity.

Important milestones include:

- Finalization of discussions with the IDB on reallocating funds towards the establishment of the parks is expected by end May 2013

- Commencement of productive activity at four more of the nine parks by end FY 2013/14

- Establishment of all nine parks by end FY 2014/15

- Supporting resilience in the agricultural sector through four environmental-related projects:

  - ***Climate Change Adaptation and Disaster Risk Reduction Project***: To build resilience in the agriculture sector and install protective infrastructure along the Negril coastline, restoring some 2000–2500 meters of the shoreline.

  - ***EPA Capacity Building Project***: To build capacity of the infrastructure and the facilities to support the export industry, promoting export competitiveness and food security.

[7] The regulatory and legislative reforms include: development of an Electric Power Sector Policy and the Modernization of the Electric Lighting Act (policy framework to be completed by September 2013); and the development of a Natural Gas Regulatory Framework (draft Natural Gas Act, Regulations and Policy by March 2014).

- ***Climate Data and Information Management Project:*** To improve quality climate information for effective planning and action at the local and national levels. Benefits will include: (a) more accurate predictions and early warning of extreme weather events; (b) increased capacity to interpret climate change scenarios and effect planning processes for agro park projects; (c) increased awareness of the impact of climate change and the adoption of initiatives to improve resilience.

- ***Institutional, Mainstreaming and Sectoral Adaptation Project:*** To incorporate the impact of climate change into development plans for vulnerable sections of Rio Bueno and Rio Minho river basins. Adaptation options include: (a) Water Harvesting & Management; (b) Sustainable Land Management; and (c) Agriculture Risk Management.

- Renewing community infrastructures and promoting entrepreneurial development to foster self-agency and job creation.

MACROECONOMIC PROGRAMME

A. Fiscal Sustainability

18. The government is committed to improving the overall public sector deficit from 4.3 percent of GDP in FY 2012/13 to a surplus slightly above 1 percent of GDP by FY 2016/17, which involves improving the central government fiscal balance, in line with the FRF. Consistent with this, the central government's primary surplus would rise from 5.2 percent of GDP in 2012/13 to 7.5 percent in 2013/14 and in subsequent years during the programme period. The deficit of the public bodies is projected to be balanced by FY 2013/14 and in subsequent years during the programme period. Achieving these objectives requires a combination of corrective revenue and spending measures and structural reforms. The government is committed to pass a FY 2013/14 budget consistent with the programme outlined below and in the attached macro-framework tables and its recent tabling in parliament is a structural benchmark (April 2013).

Revenue and Spending Measures

19. To raise the primary surplus of the central government in FY 2012/13, the GOJ has implemented revenue enhancing measures for FY 2012/13 amounting to approximately 1.6 percent of GDP (annualized), complemented by a reduction in expenditure equivalent to 1.4 percent of GDP. The main element of the revenue package of June 2012 was a 1.0 percentage point reduction in the GCT rate while widening the GCT base such that some previously exempted and zero-rated items are now taxable. The projected intake for FY 2012/13 from this package amounts to about 1.2 percent of GDP due to the later than customary start of the budget presentation to allow for completion of the consultative process on tax reform.

20. In order to raise the primary surplus of the central government to 7.5 percent of GDP in FY 2013/14 and balance the budget of the public bodies, the government has committed to further measures that will be adopted in the context of the FY 2013/14 budget. At the level of the public sector as a whole:[8]

Central Government:

- On the revenue side, the changes in government taxes and fees listed in Text table 1, with an estimated positive revenue impact of J$27.3 billion, was tabled in Parliament in February 2013 to allow for a full fiscal-year effect. Among the changes is an increase in property taxes, which are payable to local government. This will help improve the central government balance though a corresponding reduction in the required transfers to local government by J$3.4 billion.

- Central government capital spending will increase marginally to 3.0 percent of GDP and recurrent non-debt spending will be lowered by at least 0.4 percent of GDP reflecting the wage agreement (see below), efficiency gains through improved tracking of medical supplies, and the introduction of health cards and better management of pharmacies, among other measures.

- The central government's primary surplus will be enhanced by the provision of financial support from the NHT. This change has been supported by legislation. The adverse impact of this on the balance of the public bodies will be offset by higher fees and spending adjustments (see below).

[8] Changes are relative to an unchanged policy scenario, unless indicated otherwise.

Text Table 1. Selected Reform Options and Associated Potential Revenue Effects

Reform measure	Revenue yield (J$ billion)
1. Apply a customs administration fee (CAF) on all imports except for charitable organizations and the bauxite sector.	1.2
2. Amendment to the fee structure and gross profit tax of betting, gaming, and lottery sector.	1.5
3. Increase property tax rates to take effect for fiscal year 2013/14 and initiate measures to improve the relatively low property tax compliance rate.	3.4
4. Include the special telephone call tax (TCT) as part of the GCT base.	1.3
5. Include all fees and taxes paid at the port (environmental level and customs administration fee) as part of the GCT base.	1.5
6. Increase the tax on divident to 15 percent.	0.8
7. Impose a surtax of 5 percent on large unregulated companies.	1.2
8. Telecom providers should account for GCT on the face value of prepaid vouchers/airtime.	0.2
9. Increase the Education tax rate by 0.5 percentage points for employers and 0.25 percentage points for employees.	2.8
10. Increase the Stamp duty and transfer tax rates (for properties) up from the current 3 and 4 percent rates to 4 and 5 percent, respectively.	2.0
11. Financial support from the National Housing Trust (NHT) for fiscal consolidation over the period April 1 2013 through March 31, 2017	11.4
Total	**27.3**

Public Bodies:

- On the expenditure side, the Road Maintenance Fund will reduce its spending by J$9 billion, in large part owing to the completion of the Jamaica Development Infrastructure Programme. PetroCaribe Development Fund will curtail its grants to the Central Government by J$1 billion. In addition, Petrojam expects to see savings of J$4 billion on trade credits. Capital expenditures by public bodies will be rationalized taking into account the capacity of each public entity to deliver projects. Furthermore, current expenditures will be capped in real terms for the public entities.

- Also, for several agencies, previously planned increases in expenditure will be controlled. The National Housing Trust (NHT) will continue to deliver on its core mandate, that of providing housing solutions for its contributors. Cost savings on its activities will result from cuts in administrative expenses, actions to increase compliance rates and reductions in current arrears. Capital expenditure will be contained at $29.0 billion, a reduction of $5.0 billion over a previously planned amount of $34.0 billion. Capital expenditure by the National Water Commission will be contained to $10.0 billion, a reduction of $5.0 billion over a previously planned amount of $15.0 billion. The Port Authority of Jamaica, through a public private partnership project, will transfer part of its cost to the private counterpart, thereby containing capital expenditure to $1.9 billion representing an $8.0 billion reduction on previous plans.

21. Beyond these immediate measures, the government will contain expenditure growth over the programme period.

- **Wages and salaries.** The government has signed a no-increase agreement with public sector unions for FYs 2010/11 and 2011/12, and concluded discussions on a compensation agreement for FYs 2012/13 through 2014/15. These discussions have resulted in a labor agreement that is consistent with lowering the wage bill to 9 percent of GDP by 2015/16. In particular, an agreement has been reached with major unions (representing 81 percent of government workers) as a prior action on: (i) foregoing wage increases for FY 2012/13 (and limiting performance increments to no more than 2.5 percent); and (ii) limiting the sum of wage increases and performance increments to an annual average of no more than 5.0 percent for the period FY 2013/14–FY 2014/15. In this context, the government is committed to annual targets for the wage bill for interim years, of 10.6 percent of GDP in 2013/14 and 9.7 percent of GDP for 2014/15.

  During the programme period the government will also ensure implementation of a comprehensive reform of the public sector to enhance efficiency and support containment of the wage bill in a durable manner. In that regard, the government commits to not undertaking any new reclassification exercises during the programme period that may result in additional wage or salary costs or impact an entire occupational grouping. The government may however, within the context of the public sector rationalisation or other streamlining operations, undertake reorganisations as necessary, in consultation with Fund staff, to support efficient and effective performance of core activities. Any such reorganisation will be limited in scope and undertaken within the framework of achieving the 2015/16 legislated wage/GDP target of 9.0 percent.

- **Civil Service Positions**. The GOJ will reduce the size of the public sector over the next two years through the elimination of some posts and an attrition programme. Following the permanent removal of 3000 posts from the Civil Service in September 2012 and the elimination of an additional 3000 posts in the wider public sector in early 2013, an additional 1000 positions that will become vacant due to natural attrition by end-2013 will not be filled. There will be no net hiring of workers by the government in any year during the programme period. More generally, in order to ensure that the GOJ's overall wage ceiling of 9 percent of GDP by 2015/16 is met, the filling of vacant positions will be constrained as needed.

- **Social spending**. Expenditure rationalisation with respect to social spending will be implemented with a view to effecting savings through enhanced targeting and efficiency without impairing, and possibly improving, social services (see below). The programme includes a floor on social spending (indicative target) that signifies the priority attached to it, and that will help safeguard this spending category. For this purpose, the floor on social spending is defined as a minimum annual expenditure on specified social protection initiatives and programmes.[9] These programmes are funded by GOJ resources only and comprise: conditional cash transfers to children 0–18 years and the elderly; youth employment programme;[10] the poor relief programme for both indoor and outdoor poor; the school feeding programme and the basic school subsidy; basic education including early childhood, primary and secondary education; provision of assistance for persons with disabilities; and targeted components of primary health care. The floor will be quantified at a level that is the equivalent of the FY 2012/13 budget allocations, in real terms.

- **Capital expenditure**. Capital spending will be guided by national priorities aimed at supporting the growth agenda and social protection, while ensuring fiscal prudence. In order to ensure the maximum impact of public investment on growth and equity, the government will introduce a 5-year public sector investment programme (PSIP), beginning with FY 2013/14, to be updated on an annual basis (s*tructural benchmark,* April 2013). All capital investments by central government and all State-owned Enterprises will be governed by the PSIP. These investments will be selected according to efficiency criteria and consistency with the growth and equity goals; they will be subject to transparent procurement procedures; and their financing, in each case, will be cleared by the Debt Management Branch. Each annual programme of investments will be included in the fiscal budget approved by Parliament, which will include a report on the alignment of capital investments in the previous fiscal year with the corresponding programme for that year.

- Furthermore, to help safeguard attainment of the budget target for 2013/14, the government has identified **contingency measures** which could include but are not limited to increases in fees and charges for government services. Implementation of contingency measures will be enacted by the government, in consultation with Fund staff, as soon as a monthly review of budget implementation indicates that the target is at significant risk.

- **In the area of public bodies, improvement is to be achieved**. The sector's overall balance is projected to be in balance by end FY 2013/14 and to remain in balance for all programme years. To enhance transparency, the annual reports (including audited statements) for public bodies will be completed within six months of the end of the FY; this is to be achieved by end-2014 for self-financing public bodies and by September 2015 for all other public bodies. Monitoring of public bodies will be strengthened by (1) enforcing a time limit for submission of public bodies' financial statements to the Auditor General; and (2) bolstering capacity within the Auditor General's office for more in-depth and frequent reviews of these statements.

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[9] The social spending floor covers only a subset of the GOJ's social protection framework

[10] Youth Employment programmes defined to include: On the job training; Summer Employment; and Employment Internship programmes under the Citizens Security & Justice Programme (CSJP). Programme

Public Debt Management Strategy

22. The government is committed to sharply reducing public debt. Sustained debt reduction will be driven by a strong fiscal programme, generating large primary surpluses. However, while the budgetary measures outlined above should bring about a sharp improvement in the fiscal accounts, they would not by themselves close the financing gaps and put public debt on a sustainable path, even with a fiscal rule. Therefore, fiscal consolidation will be complemented by debt restructuring, improved debt management practices and support from official external partners. The programme assumes that the total contribution of all measures to reduce public debt will deliver a debt ratio of not more than 96 percent of GDP by end-March 2020. It is recognized that a successful completion of the debt exchange and official external support are essential to the programme and securing these is necessary for financing assurances. For purposes of the IMF-supported programme, reporting on public debt will be expanded to also include domestically guaranteed debt and PetroCaribe debt.

23. The Government has engaged its creditors in a debt exchange aimed at securing fiscal savings by exchanging existing debt for new instruments that have lower coupons and longer maturities. The debt exchange was launched on February 12, 2013 with a settlement date of February 22, 2013 and a second phase in March 2013. With the assistance of debt advisors, a strategy was developed that emphasized information transparency and dialogue with creditor groups. The success of the exchange is an essential element of closing the government's financing gap, reducing the rollover risk and improving the maturity structure of government debt. The key elements of the debt exchange were as follows:

- Objectives. The exchange was explicitly targeted at achieving a reduction of public debt-to-GDP ratio by at least 8.5 percent by 2020. The completion of the debt exchange consistent with a reduction in the public debt-to-GDP ratio by at least 8.5 percent by 2020 was set as a prior action. The exchange was successful in achieving the targeted reduction in the public debt-to-GDP ratio by at least 8.5 percent of GDP by 2020.

- A mix of fixed and variable interest rate instruments were offered, with the aim of maintaining a range of benchmark securities along the yield curve.

24. The debt exchange was designed carefully, taking into account financial sector stability concerns. Development of contingent measures is an important aspect of this design. A contingency planning framework is in place with the Financial Regulatory Council (FRC) taking the lead role in ensuring appropriate coordination and communications. FRC is an interagency policy level group, chaired by the BOJ. Funds from the multilateral institutions will be devoted to re-establishing a Financial Sector Support Fund (FSSF) as a backstopping mechanism primarily to provide temporary assistance to solvent financial institutions, in the amount of approximately US$760 million. This fund was established by the government and administered by the BOJ, as was the case in 2010.

25. Licensed deposit taking institutions, securities dealers and insurance companies will again be eligible for access to the FSSF provided the institution and the group to which the institution belongs tender in the debt exchange at least 97 percent of their holdings of eligible assets. The government will authorize access to the FSSF, informed by the assessment and recommendation of the FRC. The FRC will use the existing technical working group (TWG), also chaired by BOJ staff, to assess applications from institutions seeking financial assistance. Assessments will be made of the liquidity needs of the system and the financial condition of the institution requesting support. The work of the TWG will be ongoing and it will provide periodic reports to the FRC. The FRC will monitor specific thresholds, which will trigger further evaluation and action by the primary supervisor. The disbursement of liquidity will be secured by eligible collateral, which would be Government of Jamaica (GOJ) instruments excluding Old Notes subject to the offer. Institutions will be required to repay liquidity support extended under the FSSF as quickly as possible. Higher penalty rates will apply if liquidity advances are not repaid within the agreed repayment period and in any event will be subject to a punitive interest rate after six months at the latest. A framework for supervisory action has been developed based on the level of liquidity support provided as a percentage of total funding (excluding funds for on-lending). If the stock of liquidity accessed by an institution and/or the group to which the institution belongs reaches certain levels, institutions will be subject to escalating supervisory response including inspections, intensive monitoring and intervention. Any institution receiving support for recapitalization will be required to submit an agreed plan of recapitalization and operational restructuring, be subject to stringent viability assessment taking into account stress tests and an independent asset quality review, restrictions on dividend payments and other measures as determined by the authorities. The authorities will consult with the Fund once 50 percent of the FSSF resources have been disbursed.

26. The government will reduce public debt further through a combination of debt-asset swaps and reductions in government-guaranteed domestic debt.

- The government is committed to a reduction in public debt through debt-asset swaps (based on land, buildings, etc.) by at least 1 percent of GDP over the programme period. A preliminary valuation of these assets will be completed by end-June 2013. The legal and administrative processes involved in the exchange of these assets will be fully elaborated, an action plan for their completion developed by September 2013 and the specific operations will be executed before end-2013/14;

- The government is committed to the withdrawal of guarantees issued to underwrite private domestic loans to public entities, equivalent to at least 1 percent of GDP. The government will establish the modalities and legal requirements to effect the reduction in guarantees and execute the specific operations before end-2013/14.

27. The government is committed to adopting further measures, as needed, to deliver the target debt ratio of 96 percent of GDP by end-March 2020. With the policies mentioned above, public debt is projected to decline to less than 100 percent of GDP by March 2020. By end-May 2014, the authorities will collaborate with Fund staff to assess the scale of any remaining efforts that may be needed to reduce public debt to the end-March 2020 target of 96 percent of GDP, or less. If necessary to achieve this objective, the government will identify at that time further measures as part of the programme, that could include, for example, further asset sales or swaps and/or other debt reduction measures. The latter could possibly include using exceptional assistance by development partners, and, in this context, the government has approached the Paris Club to explore options for debt relief. The implementation of these measures would be completed no later than end-February 2015.

28. The government will further strengthen its debt management strategy. The efficiency of the Debt Management Branch will be strengthened through increased staffing of the middle office, skills training and effecting improvements to securities operations, including greater use of auctions for debt placements over the programme period. Approval by Parliament of the Public Debt Law, which is aimed at consolidating various debt related acts, was attained in November 2012 as a prior action, and will contribute to strengthening debt management.

B. Structural Fiscal Reforms

29. The programme prioritizes a set of structural fiscal reforms that aim at entrenching fiscal discipline and bolstering transparency. These reforms also seek to ensure that the gains achieved during the programme period will be sustained and deepened over the medium term.

Public Financial Management

30. Fiscal rules will be strengthened further in order to bolster the credibility and predictability of sustained fiscal consolidation. Important improvements to the fiscal responsibility framework (FRF) were introduced in the context of the 2012/13 budget, including the codification of sanctions for off-budget spending. During the first year under the programme the government commits to the design and adoption of a legally binding fiscal rule to take effect with the FY 2014/15 budget (*structural benchmark*). The rule will provide guidance to policy makers and the public by ensuring a sustainable budgetary balance, taking into account transient factors that are to be incorporated in the annual budgets. A first, conceptual proposal for the design of this rule will be presented to Fund staff by end-August 2013 (structural benchmark). Technical assistance has been requested from FAD for the design of this rule. The government also aims to strengthen the implementation of a structured multiyear budgeting process within the programme period.

31. Strengthening of fiscal responsibility framework (FRF). The Minister will table a half-yearly report in December on the performance of the economy as required under the FRF. The Public Administration and Accountability Committee (PAAC) will consider this, and report on the status of the medium-term economic programme; the progress on meeting specified fiscal targets; and the implications for the specified targets for the ensuing fiscal year and the medium term. The PAAC will report to Parliament its view on spending priorities, borrowing and revenue needs within the context of the medium-term targets no later than March 1 of each year.

32. The Government of Jamaica is committed to improving public financial management. In this direction, the government will take stock of recent assessments, including the February 2013 PEFA report, and, on that basis, develop an action plan for financial management reform by end-May 2013. The action plan will cover a range of areas, including: public procurement; the process of budget preparation, execution, and reporting (in particular the integration of the presentation and discussion of estimates of expenditure and revenue measures consistent with the medium-term budget framework, and the above-mentioned five-year investment programme); and completion of the Central Treasury Management System (CTMS). The government will seek support from development partners concerning the various elements of this plan. A CTMS, with a single treasury account at the Bank of Jamaica has been tested and was fully operational for the Ministries of Finance, Education, and Transport and Works, and the Accountant General's Department as of end-March 2013 (intended in the staff-level understandings to be set as a structural benchmark, and already implemented). CTMS for the remaining Ministries, Departments, and Agencies will be operational by March 2014.

Tax Reform and Tax Administration

33. The government will prioritize upfront reforms to strengthen tax administration. These reforms include:

- The appointment, by end-April 2013, of a regular Commissioner General of the Tax Administration Jamaica, after the appointment of an Acting Chief Executive Officer in September 2012.

- Parliamentary approval of the legislation to establish Tax Administration Jamaica as a semi-autonomous authority, realized in March 2013 (intended in the staff-level understandings to be set as a structural benchmark, and already implemented).

- Parliamentary approval of the legislation for the introduction of a write-off policy for tax and customs duties arrears inclusive of interest, penalty and surcharge consistent with FAD advice, realized in March 2013 (intended in the staff-level understandings to be set as a structural benchmark, and already implemented).

- Fast-tracking parliamentary approval of amendments to the Revenue Administration Act that (i) provide access to third-party information, to enhance compliance management, and (ii) empower the TAJ to require mandatory e-filing for groups of taxpayers and/or types of taxes (*structural benchmark*, June 2013). Subsequent improvements to this Act will aim at strengthening, in particular, tax and customs enforcement and collection powers. It is anticipated that parliamentary approval will be received prior to the parliamentary summer recess during FY 2013/14.

- Publication, without delay, of delinquent tax payers and traders upon the initiation of court action ((intended in the staff-level understandings to be set as a structural benchmark, and already implemented).

- Increasing the resources of the Large Taxpayer Office (LTO) by June 2013, to 120 staff members (structural benchmark). In addition, the government moved the responsibility of managing domestic excises to the LTO at the end of February 2013.

- Improving risk management in the context of SEMCAR, by end-2013/14. Furthermore, the government will formulate a plan with specific targets and timelines for expanding filing according to taxpayer types.

- Expanding the automated waiver system, to fully track tax waivers.

- Measures to encourage the payment of tax obligations through financial institutions, in line with FAD and IDB advice. In this context, the government will negotiate with financial institutions to reduce their transaction fees towards international standards for receiving tax payments directly or through the e-payment system.

- Jamaica Customs Department is in the process of transforming to an Executive Agency (EA) within the Ministry of Finance by the end of FY 2013/14.

34. Key tax policy reforms will also be undertaken. The government is committed to a comprehensive tax policy reform that includes a significant cutback in the system of tax incentives, exemptions and zero rates. The tax reform will be targeted to significantly broaden the tax base, simplify the tax system, reduce economic distortions in the system and allow for a phased reduction in tax rates to a competitive level.

- The GOJ commits to adopting a decision (as a prior action) and ensuring (under a continuous structural benchmark) that:

  a) Discretionary waivers, excluding those granted to charitable organizations and for charitable purposes, will no longer be granted except when this is required to satisfy the GoJ's contractual or other legal obligations. These contractual or other legal obligations comprise: (i) those related to international treaties that have not yet been ratified, (ii) existing contracts for government projects (as of the start of the arrangement period), (iii) existing sector-specific arrangements implemented by way of a letter or contract. All exceptions are spelled out in the TMU.

  b) Any new discretionary waivers that are not covered by the exceptions mentioned above in point (a) and for which a statutory solution cannot be put in place in time may be granted only up to a *de minimis* cap (this excludes specific discretionary waivers agreed in advance and listed in the TMU). This *de minimis* cap will amount to J$10 million per month.[11] In addition, total discretionary waivers, excluding those to charitable

[11] This cap, and the other two caps on waivers mentioned below, are not cumulative, i.e., unused amounts in any month do not raise the cap in subsequent months.

organizations will be capped at J$80 million per month. Waivers to charitable organizations and for charitable purposes will be capped at a level equivalent to the average of the last three years. This cap is determined at J$250 million on a monthly basis.

c) No new or renewed waiver category or other tax incentive will be approved (unless required under existing legislation) and no amendment to existing legislation which could generate further tax expenditures will be undertaken until the passage and coming into effect of the new Omnibus Incentive Law.

- The process to amend the tax acts (Income Tax Act, General Consumption Tax Act, Transfer Tax Act, Property Tax Act, and Customs Act) to harmonize the tax treatment for charities across tax types will be concluded by end-May 2013 (*structural Benchmark*), guided by TA provided by the IDB and in consultation with Fund staff. The amendments to the tax acts will provide clear guidelines for the tax treatment of charities until the Charities Act is ratified by parliament. These amendments will: (a) define charitable purposes; (b) clearly define what a charity is for tax purposes; (c) define and outline the tax treatment for donations to charities (e.g. whether in money or in kind); (d) outline the tax treatment according to each tax type; (e) remove ministerial discretion to grant tax waivers for charitable institutions and for charitable purposes; and (f) outline the administrative process to be followed by the TAJ. Amendments to the tax acts will become effective immediately upon approval. Subsequent changes in these provisions during the programme period may be introduced only with prior joint agreement with Fund staff. Subsequently, a Charities Bill will be tabled in the House of Representatives by September 2013 (*structural benchmark*), guided by TA provided by the IDB and in consultation with Fund staff. Charitable organizations will need to apply for eligibility under the Charities Bill as of end-November 2013, after which date they will no longer be eligible for exemptions granted under the tax acts (*structural benchmark*).

- An action plan for tax reform was prepared in consultation with IDB and IMF staff in March 2013 (intended in the staff-level understandings to be set as a structural benchmark, and already implemented). The action plan provides a specific timeline for the implementation of each tax reform milestone as well as the correspondent indicators that will measure progress towards approving and implementing the tax reform.

- The Omnibus Tax Incentive Act, guided by TA provided by the IDB and in consultation with Fund staff will be tabled in Parliament by September 2013 (*structural benchmark*). As of end-December 2013 (*structural benchmark*), the GOJ will no longer consider new applications under existing tax incentive regimes. After December 31, 2013, new applicants will only be considered under the Omnibus regime, and will need to meet the associated new criteria. A first draft of the legislation will be shared with IMF staff by July 2013. The Act will eliminate ministerial discretionary powers to grant or validate any tax relief, and put in place a transparent regime for limited tax incentives. Any new tax incentives, based on the new Act, will be implemented administratively, without any ministerial discretion in its validation, based on a contract signed regarding the specific project (under the umbrella of the Omnibus Tax Incentive Act). Furthermore, any incentives will be published promptly.

- The broader tax reform, to be prepared in consultation with Fund staff and guided by TA provided by the IDB, which will become effective with the start of the FY 2014/15 (*structural Benchmark*), will include legislation to (i) modernize income tax, property tax, customs tariffs and social security contributions; (ii) greatly reduce tax and tariff exemptions in all major taxes (except for a limited range of specific goods and services);
(iii) remove zero rating (except for exports in the case of the GCT); and (iv) establish an initial prudent reduction in tax rates.

- A further phased reduction of statutory rates on GCT, SCT, and taxes on international trade will be considered at a later stage depending on the improvement in revenue performance associated with these reforms. The tax reform will be tailored to reduce overall tax expenditures, from more than 6 percent of GDP in recent years to no more than 2.5 percent of projected GDP by the end of 2015/16 (excluding any possible changes in the measurement of GDP). Achievement of this objective will be reviewed in consultation with IMF and IDB staff, and this assessment will correct for unforeseen significant shifts in economic structure.

Public Sector Reform

35. The government is committed to improving the efficiency, quality, and cost effectiveness of the public sector. It has adopted a timetable for finalizing its review of the Public Sector Master Rationalisation Plan, and for implementing its adapted plan, which aims at, inter alia, improving the financial oversight of public agencies and public bodies, the introduction of shared corporate services, the reallocation, merger, abolition and divestment/privatization of units, and outsourcing of services. According to this timetable, the following actions will be taken:

- Shared Corporate Services**.** Consultants have been engaged to produce a Strategic Implementation Strategy by April 2013. Implementation of the strategy will commence with the establishment of a 6-month pilot programme by June 2013, the approval of a roll-out plan by early 2014 and full implementation across ministries during 2014/15. The commencement of the pilot phase will be contingent on procurement and implementation of a human resources software system for the public sector (the Enterprise HR System), commencing with the transactional aspects of human resources. A request for proposals for the software procurement is currently being prepared by Fiscal Services Limited.

- The Strategic Human Resources Management Section of the Office of the Cabinet will be fully staffed by September 2013. The recently completed web-based Employee Census System (E-Census) application will be used to update census data through 2012 by July 2013, and action will be taken to expand the share of MDAs that utilize the service by end-2013/14.

- Further examination of funded public bodies to determine suitability for transformation into Executive Agencies will be undertaken during FY 2013/14. Future programme conditionality will be guided by the results of this examination.

As part of this initiative, a review of public sector employment and remuneration will be initiated shortly, to be completed by March 2014 (*structural benchmark*), with technical assistance from international development partners, to guide the subsequent rationalization of the modalities and terms of employment, while maintaining the wage bill within 9 percent of GDP.

36. The pension system for the central government will be reformed to make the system more actuarially sound and contain pension costs to the government. The government of Jamaica is committed to a reform that will reduce the government's pension costs over the medium and long term, and not increase them during any programme year, compared with a no-reform scenario, as well as establish sustainability of pension payments. Initial reforms include: (i) a gradual increase in the retirement age to 65 years and; (ii) a contribution rate of 5 per cent by new employees. The forthcoming White Paper (end-March 2013) will also cover the accrual rate, commutation rules, possible pension indexation, and other aspects of the system. Legislative amendments are expected to be submitted by end FY 2013/14. A timetable for implementation of the new system by FY 2015/16 will also be formulated that can guide future programme conditionality.

37. The ongoing rationalisation and reform of Jamaica's public bodies will continue over the medium term. The government's three-pronged plan aims at: (i) divesting commercial entities; (ii) merging entities when feasible to bolster efficiencies; and (iii) winding-up inactive entities. In particular, concerning Clarendon Alumina Production Ltd, the government is committed to finalizing its divestment or implementing an asset lease agreement, with option of purchase, by December 2013 (*structural benchmark*). In addition, negotiations towards the divestment of Wallenford Coffee Company (WCC) are underway and should be concluded by December 2013. Efforts are also being made with World Bank support to enter a public private partnership for the operations of the Kingston Container Terminal, the Norman Manley International Airport, and the Jamaica Railway Corporation.

Reform of Social Spending

38. The Government of Jamaica is committed to administering a social protection framework that supports the most vulnerable while promoting and facilitating empowerment and self-agency among those who have the ability to become self-reliant and economically productive. These social protection initiatives include:

- Improved training and certification for labour market participants.

- Enhanced benefits for households under PATH—a conditional cash transfer programme. In particular, individual PATH benefits will be increased to maintain real value, in accordance with the Benefit Review Mechanism.

- Enhanced welfare-to-work (WTW) exit strategies for vulnerable households.

- Increasing the effectiveness of the targeting of beneficiaries under PATH, through a process of re-certification. Actions to determine how best to graduate beneficiaries from PATH, and to consolidate existing employment programmes, are also being considered. In addition to WTW, initiatives to enhance exit strategies from PATH include:

    - By September 2013, defining a national strategy, improving and expanding agency networks, strengthening appropriate administrative systems, and preparing human resources, in anticipation of a scaling-up of the Steps-to-Work (STW) programme island-wide;

    - By July 2013, defining a graduation strategy for PATH households;

    - By October 2013, completing the re-certification exercise for PATH households.

- Continued implementation and progressive scaling up of the Community Renewal Programme and the Steps-to-Work (STW) Programme.

39. Spending on education will also be made more efficient and effective. There will be a balancing of student-teacher ratio within and between schools. This will be achieved through, among other things:

- Structured attrition e.g. a freeze on the hiring of new teachers in schools that are overstaffed, to allow the number of existing teachers to decline by attrition.

- Mandatory retirement at the normal retirement age (schools with teachers beyond retirement age will be notified to regularize by September 2013).

- Standardization of the student/teacher ratios at the secondary level (to begin 2013).

- Establishing a clear accountability mechanism enabling the Central Government to set policies that grant schools more autonomy particularly with respect to greater flexibility in the deployment and redeployment of teachers.

- The process of voluntary reallocation of staff will continue over the medium term pending the enabling legislation for mandatory redeployment (enactment by FY 2015/16).

Other measures include reforming the current study leave policies to take account of the new hiring policy; restructuring the current scholarship programmes into separate need-based and merit-based components (review and design of the scholarship mechanism in the 2013/14 academic year with full implementation in 2014); instituting greater cost recovery at the tertiary level and improving the funding structure of the student loan scheme to facilitate increased access to tertiary level training.

40. The provision of health care will be improved by creating greater efficiency and cost containment through the reduction of programme duplication and increased cost-sharing with third party payers while protecting the poor and vulnerable population. To help achieve this, the government will among other things: (i) expand the benefit coverage of the National Health Fund through a review of the list of NCDs covered and drugs offered in addition to improved procurement and management of pharmaceuticals; (ii) revitalize primary health care (PHC) by establishing regional centers of excellence and improving health centers island wide; and (iii) establish a referral system to reduce unnecessary costs at the secondary and tertiary level. Additional measures will be considered, including strengthening the billing mechanism to maximize revenue from payments by private insurance companies, addressing inefficiencies in drugs procurement and distribution, and developing a mechanism to institute 24 hour per day service delivery.

C. Monetary and Exchange Rate Policy

41. Monetary policy will focus on maintaining single digit inflation. The interest rate on the BOJ's 30-day certificate of deposit will continue to be the main instrument of monetary policy in the near term and will be adjusted according to the Bank's assessment of the risks to the inflation target. The monetary base (and broad monetary aggregates) will continue to be the leading indicators monitored by the BOJ and in this regard the Bank will manage its balance sheet so as to attain the programme targets for the BOJ's net domestic assets.

42. The BOJ will continue to conduct monetary policy within the framework of a managed floating exchange rate regime, in which the rate is allowed to adjust in an orderly manner, according to fundamentals. The authorities are committed to exchange rate flexibility and supporting adequate price competitiveness. It may still be necessary at times to intervene in the foreign exchange market to avoid disorderly short-run movements. In this context, the programme contains clear reserve targets that serve to safeguard the adequacy of reserve coverage—a key policy priority in the current context. The BOJ has made significant progress in improving the quality of balance of payments statistics and will continue the development work in accordance with the programme and targets agreed to with the IMF Statistics Mission of October 2011. Specifically, quarterly reporting on the balance of payments and international investment position, including sectoral and instrument disaggregation, on a timely basis and consistent with BPM6 was introduced in March 2013 (intended in the staff-level understandings to be set as a structural benchmark, and already implemented).

43. The BOJ aims to progressively put in place the requirements for full-fledged inflation targeting (FFIT) for implementation once the issue of fiscal dominance has been successfully resolved by the medium term economic programme. The near-to medium-term policy strategy includes steps to strengthen BOJ governance, through enhanced independence and commensurate adjustment to the treatment of BOJ profit and loss transfers to and from the government. Measures to further develop the foreign exchange market will be aimed at enabling the market to intermediate lumpy flows and efficiently deal with volatility. This process will commence with measures for strengthening the operations of the foreign exchange market in order to facilitate a better information and price discovery process, including through the planned development of an electronic platform for foreign exchange trading. The BOJ will also develop mechanisms to enhance its communication and education strategy and improve its data collection and monitoring capabilities.

D. Financial System

44. Important work needs to be completed to mitigate the risks inherent in Jamaica's highly interconnected financial system. To allow for more effective supervision of the financial sector, the government will enact an Omnibus Banking Law, consistent with Fund staff advice, that will harmonize the prudential standards across deposit takers, facilitate consolidated supervision of financial conglomerates, strengthen the corrective, sanctioning and resolution regime and ensure that the Bank of Jamaica (BOJ) has operational independence for supervision (*structural benchmark*, March 2014). In addition, the government will amend the Financial Services Commission Act in order to strengthen the Financial Services Commission's (FSC) enforcement powers and the BOJ Act in order to vest the BOJ with overall responsibility for financial stability.

45. The government will reform the securities dealer sector in order to strengthen the sector's ability to withstand shocks and provide a wider range of financial services going forward, by phasing out the "retail repo" business model over time. To ensure that less risky business models are available for securities dealers, the government will implement a legal and regulatory framework conducive for collective investment schemes (CIS). In this regard, and in consultation with Fund staff, the government will amend the Securities Act and attendant regulations to establish a comprehensive framework for the regulation of CIS; amend the income tax law to remove double taxation of CIS; reform the Companies Act to eliminate (or exempt CIS from) the need to register unit-holders in the companies' registry; and publicly commit to a timetable for raising the cap on investments in foreign securities from 5 percent of assets to at least 25 percent by end-2015, and removing the cap by end-2016 unless extraordinary circumstances require a reassessment (*structural benchmark*, December 2013). In conjunction with these reforms, we will seek technical assistance from the Fund to tighten the liquidity regulations and assess further prudential reforms (e.g., capital requirements, margin rules, and concentration and minimum transaction size limits) which could be applied to the retail repo sector over time.

46. The government will take steps without delay to further protect the interest of retail repo clients. We will phase out licenses issued to individuals who are securities dealers and continue the freeze on issuing new licenses to securities dealers whose business model is based on retail repos (except those resulting from mergers and/or acquisitions of existing firms) and the application of enhanced reporting and oversight by the FSC for existing licensees who are eligible to conduct this business. By May 2013 we will require daily reconciliation of Client Holding Accounts held at Jamclear and the FSC will regularly verify these independently using data provided by Jamclear. In consultation with Fund staff, the government will establish a distinct treatment for retail repo client interests in the legal and regulatory framework in order to protect their interests prior to and in the event of the insolvency of a securities dealer, including a single, local master repurchase agreement for retail repo transactions that defines the parameters for client disclosure and for dealer substitution of underlying collateral (*structural benchmark*, March 2014).

47. The government commits to remain vigilant to protect the integrity of the financial sector as it undergoes this transition. The government will seize the opportunity presented by pursuing broader legislative reforms to the BOJ Act, FSC Act, Securities Act and the adoption of the Omnibus Banking Law, to incorporate the legislative changes outlined in the technical assistance advice previously provided by Fund staff (*structural benchmark*, March 2014). This will enable the BOJ and the FSC to investigate and impose administrative and civil remedies on unlawful financial organizations that engage in fraudulent or otherwise unlawful activities (for example, Ponzi schemes). Going forward, the government will develop plans to operationalize the institutional reforms, including providing adequate resourcing, necessary to effectively carry out these new powers.

E. Financing Under the Programme

48. In support of the economic programme, the government envisages the need for financing from multilateral sources of at least US$1 billion over the next 4 years. Total funding from the IMF is expected to be SDR 615.4 million or 225 percent of quota. The first disbursement, available upon approval of the arrangement, amounts to SDR136.8 million. In addition, Jamaica will continue to draw financing from the PetroCaribe facility and to strategically access external commercial markets and bilateral loans, where possible. Remaining fiscal financing needs will be filled through domestic financial sector borrowing.

F. Safeguards Assessment

49. The government fully recognizes the importance of completing a safeguards assessment of BOJ before the first review of the EFF. To facilitate such an assessment, the central bank's external auditors have been authorized to hold discussions directly with Fund staff. An IMF mission to conduct the safeguards assessment is scheduled for before the completion of the first review and the BOJ will provide Fund staff with all necessary information in preparation for that mission.

G. Programme Monitoring

50. The 4-year programme will be monitored through quantitative performance criteria, indicative targets, and structural benchmarks. Programme reviews will be conducted quarterly and the phasing of access under the arrangement and the review schedule are set out in Table 1 of this memorandum. The quantitative performance criteria and indicative targets through end-2013 are set out in Table 2. Broad fiscal performance is monitored through performance criteria on both the primary balance of the central government and the overall balance of the broader public sector, including the self-financing public bodies. For the purposes of this programme the broader public sector is defined as: the central government and the self-financing public bodies.[12] Programme reviews will assess the achievement of the quantitative targets and focus on progress in key structural reforms. In this context, the first programme review will consider in particular the FY 2013/14 budget and progress in structural fiscal reforms. The second review will focus on progress in improving competitiveness. Structural benchmarks are set out in Table 3. Programme conditionality and reporting requirements are further specified in the accompanying Technical Memorandum of Understanding.

[12] Non-self financing public bodies are captured in the Central Government data.

Table 1. Jamaica: Schedule of Reviews and Purchases

Date	Amount of Purchase: Millions of SDR	Amount of Purchase: Percent of Quota	Conditions 1/
	Purchases to be made		
April 25, 2013	136.75	50	Approval of Arrangement
September 20, 2013	19.97	7	First Review and end-June 2013 performance criteria
December 20, 2013	19.97	7	Second Review and end-September 2013 performance criteria
March 20, 2014	45.95	17	Third Review and end-December 2013 performance criteria
June 20, 2014	45.95	17	Fourth Review and end-March 2014 performance criteria
September 22, 2014	45.95	17	Fifth Review and end-June 2014 performance criteria
December 22, 2014	45.95	17	Sixth Review and end-September 2014 performance criteria
March 23, 2015	28.32	10	Seventh Review and end-December 2014 performance criteria
June 22, 2015	28.32	10	Eigth Review and end-March 2015 performance criteria
September 21, 2015	28.32	10	Nineth Review and end-June 2015 performance criteria
December 21, 2015	28.32	10	Tenth Review and end-September 2015 performance criteria
March 21, 2016	28.32	10	Eleventh Review and end-December 2015 performance criteria
June 20, 2016	28.32	10	Twelveth Review and end-March 2016 performance criteria
September 22, 2016	28.32	10	Thirteenth Review and end-June 2016 performance criteria
December 22, 2016	28.32	10	Fourteenth Review and end-September 2016 performance criteria
March 20, 2017	28.33	10	Fifteenth Review and end-December 2016 performance criteria
Total	615.38	225.0	

1/ Apart from periodic performance criteria, conditions also include continuous performance criteria.

Table 2. Jamaica: Quantitative Performance Criteria 1/

(In billions of Jamaican dollars)

	2012	2013				2014
	end Dec.	end Mar. 2/	end Jun.	end Sep.	end Dec.	end Mar.
	Actual	Estimate	Performance Criteria			Performance criteria
Fiscal targets						
1. Primary balance of the central government (floor) 3/	39.1	70.3	14.0	38.2	61.6	111.5
2. Tax Revenues (floor) 3/ 8/	225.0	322.2	73.3	150.7	231.9	360.5
3. Overall balance of the public sector (floor) 3/	-52.1	-70.0	-14.3	-21.6	-30.7	-6.7
4. Central government direct debt (ceiling) 3/, 4/	1558.7	150.1	13.9	21.4	27.5	8.6
5. Central government guaranteed debt (ceiling) 3/	166.7	6.0	9.0	8.4	8.4	8.3
6. Central government accumulation of domestic arrears (ceiling) 5/, 11/	n.a.	0.0	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 6/, 11/	n.a.	0.0	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 7/,11/	...	0.0	0.0	0.0	0.0	0.0
9. Social spending (floor) 8/ 9/	...	18.2	4.1	8.3	14.4	20.1
Monetary targets						
10. Cumulative change in net international reserves (floor) 7/, 10/	1115.3	-260.7	-209.0	-242.3	-220.5	96.3
11. Cummulative change in net domestic assets (ceiling) 10/	-7.3	13.8	10.8	16.2	26.4	-10.7

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Preliminary estimates except for the floor on the cumulative change in net international reserves and for the ceiling on cummulative change in net domestic assets.
3/ Cumulative flows from April 1 through March 31.
4/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
5/ Includes debt payments, supplies and other committed spending as per contractual obligations.
6/ Includes tax refund arrears as stipulated by law.
7/ In millions of U.S. dollars.
8/ Indicative target.
9/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
10/ Cumulative change from end-December 2012.
11/ Continuous performance criterion.

Table 3. Jamaica: Structural Program Conditionalities

Measures	Status/Timing	
Prior Actions		**Implementation status**
Fiscal consolidation		
1. Cabinet to adopt a decision to:		Met
1. a. Cease the granting of discretionary waivers, excluding: (i) those granted to charitable organizations and for charitable purposes; (ii) those required to satisfy the GoJ's already existing contractual or legal obligations; and (iii) waivers up to a 'de minimis' cap of J$10 million per month (for any that are not covered by the exceptions under (i) or specifically exempted in the Technical Memorandum of Understanding (TMU).		
1.b. Cap total discretionary waivers, excluding those for charitable organizations and for charitable purposes at J$80 million per month. Waivers for charitable organizations and for charitable purposes will be capped at J$250 million on a monthy basis.		
1.c. Not approve any new waivers or renew any waiver category (unless required under existing legislation) or other tax incentive and not to amend existing legislation to generate further tax expenditures until the Omnibus Incentive Law has come into effect.		
2. Public sector wages: Conclude a multi year agreement with major unions (representing at least 70 percent of government workers) limiting nominal wage increases to zero for 2012/13 (and limiting merit increases to no more than 2.5 percent), and an annual average (including merit increases) of no more than 5 percent in the two subsequent years.		Met
Public debt management		
3. Approval by parliament of the Public Debt Law, which consolidates various debt related acts and helps strengthen debt management.		Met
4. Government to complete a debt exchange for domestic government bonds consistent with a reduction in the public debt-to-GDP ratio by 2020 equivalent to at least 8.5 percent of GDP.		Met
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1. Government to table in parliament a budget in line with program commitments.	April 30, 2013	
2. Government to introduce a 5-year public sector investment program (PSIP), beginning with FY2013/14, to be updated on an annual basis.	April 30, 2013	
3.a. Government to present to Fund staff a conceptual proposal for the design of a fiscal rule.	August 31, 2013	
3.b. Adoption of a legally binding fiscal rule to ensure a sustainable budgetary balance, to be incorporated in the annual budgets starting with the 2014/15 budget.	March 31, 2014	
4. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	
5. Government to finalize the divestment of CAP or implement an asset lease agreeement.	December 31, 2013	
Tax Reform		
6. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as described in paragraph 34 of the MEFP.	Continuous	
7. Parliament to adopt amendments to the relevant tax acts to harmonize the tax treatment for charities across tax types and remove ministerial discretion to grant waivers for charities and charitable purposes as described in paragraph 34 of the MEFP.	May 31, 2013	
8.a. Government to table a Charities Bill in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff.	September 30, 2013	
8.b. Government to cease the granting of waivers to charities other than under the Charities Bill.	November 30, 2013	
9.a. Government to table Omnibus Tax Incentive Act in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff, to eliminate ministerial discretionary powers to grant or validate any tax relief, and put in place a transparent regime for limited tax incentives.	September 30, 2013	
9.b. Government to cease the granting of tax incentives under the regime prior to the Omnibus Tax Incentive Act and of any discretionary tax waivers.	December 31, 2013	
10. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (MEFP paragraph 34).	March 31, 2014	

Table 3. Jamaica: Structural Program Conditionalities (continued)

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Tax Administration		
11. Parliament to adopt amendments to the Revenue Administration Act to (i) provide access to third-party information, to enhance compliance management, and (ii) empower the the TAJ to require mandatory-filing for groups of taxpayers and/or types of taxes.	June 30, 2013	
12. Government to increase the professional staff of Large Taxpayer Office (LTO) to 120 staff members.	June 30, 2013	
Financial sector		
13. Government to Establish and Operate a Central Collateral Registry.	December 31, 2013	
14. Government to implement a legal and regulatory framework conducive to Collective Investment Schemes (MEFP Paragraph 45) in consultation with Fund staff.	December 31, 2013	
15. Government to implement legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	
16. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (MEFP Paragraph 46) in consultation with Fund staff.	March 31, 2014	
17. Enact Omnibus Banking Law consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	

Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) sets out the understandings between the Jamaican authorities and the IMF regarding the definitions of quantitative performance criteria, and indicative targets for the program supported by the arrangement under the EFF. It also describes the methods to be used in assessing the programme performance and the information requirements to ensure adequate monitoring of the targets. In addition, the TMU specifies the requirements under the prior action and the continuous structural benchmark concerning discretionary tax waivers. As is standard under all Fund arrangements, we will consult with the Fund before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the programme, and provide the Fund with the necessary information for programme monitoring.

For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program exchange rates" as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates. The program exchange rates are those that prevailed on January 31, 2013. Accordingly, the exchange rates for the purposes of the programme of the Jamaican dollar (J$) to the U.S. dollar is set at J$94.14 = US$1, to the Special Drawing Right (SDR) at J$144.92=SDR 1, to the euro at J$126.72 = €1, to the Canadian dollar at J$93.73 = CND$1, and to the British pound at J$149.22 =£1.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

Definitions: The central government for the purposes of the programme consists of the set of institutions currently covered under the state budget. The central government includes public bodies that are financed through the Consolidated Fund.

The fiscal year starts on April 1 in each calendar year and ends on March 31 of the following year.

A. Cumulative Floor of the Central Government Primary Balance

Definitions: The primary balance of the central government is defined as total revenues minus primary expenditure and covers non-interest government activities as specified in the budget.

Revenues are recorded when the funds are transferred to a government revenue account. Revenues will also include grants. Capital revenues will not include any revenues from asset sales proceeding from divestment operations. Central government primary expenditure is recorded on a cash basis, and includes compensation payments, other recurrent expenditures, and capital spending. Primary expenditure also includes transfers to other public bodies which are not self-financed. Costs associated with divestment operations or liquidation of public entities, such as cancellation of existing contracts or severance payments to workers will be allocated to current and capital expenditures, accordingly.

All primary expenditures directly settled with bonds or any other form of non-cash liability will be recorded as spending above-the-line, financed with debt issuance, and will therefore affect the primary balance.

Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.

B. Cumulative Floor on Overall Balance of the Public Sector

Definitions: The public sector consists of the central government and public bodies. Public bodies are institutional units that are themselves government units or are controlled, directly or indirectly, by one or more government units. Whether an institution belongs to the public or private sector is determined according to who controls the unit, as specified in the Government Financial Statistics (GFS) Manual 2001—Coverage and Sectorization of the Public Sector. For the purposes of the programme, the assessment of whether an entity belongs to the public or the private sector will be based on the guidance provided by the GFS criteria.

Public bodies consist of all self-financed public bodies, including the 18 "Selected Public Bodies", and "Other Public Bodies". The 18 "Selected Public Bodies" include: Airport Authority of Jamaica (AAJ); Human Employment and Resource Training Trust (HEART); Jamaica Mortgage Bank (JMB); Housing Agency of Jamaica (HAJ); National Housing Trust (NHT); National Insurance Fund (NIF); Development Bank of Jamaica (DBJ); National Water Commission (NWC); Petrojam; Petroleum Corporation of Jamaica (PCJ); Ports Authority of Jamaica (PAJ); Urban Development Corporation (UDC); Jamaica Urban Transit Company Ltd. (JUTC); Caymanas Track Ltd. (CTL); Wallenford Coffee Company Ltd. (WCC); National Road Operating and Constructing Company Ltd. (NROCC); Petro-Ethanol; Clarendon Aluminum Production (CAP);. "Other Public Bodies" include: Bauxite and Alumina Trading Company of Jamaica Ltd. ; Road Maintenance Fund; Jamaica Bauxite Mining Ltd.; Jamaica Bauxite Institute; Petroleum Company of Jamaica Ltd. (Petcom); Wigton Windfarm Ltd.; Broadcasting Commission of Jamaica; The Office of Utilities Regulation; The Office of the Registrar of Companies, Runaway Bay Water Company, Jamaica National Agency for Accreditation, Spectrum Management Authority; Sports Development Foundation; Bureau of Standards Jamaica; Factories Corporation of Jamaica Ltd.; Kingston Freezone Company Ltd.; Micro Investment Development Agency Ltd.; Montego Bay Freezone Company Ltd.; Postal Corporation of Jamaica Ltd.; Self Start Fund; Betting Gaming and Lotteries Commission; Culture, Health, Arts, Sports and Education Fund; Financial Services Commission; Jamaica Deposit Insurance Corporation, Jamaica Racing Commission, National Export-Import Bank of Jamaica Ltd.; PetroCaribe Development Fund; Tourism Enhancement Fund, The Public Accountancy Board; Students' Loan Bureau; National Health Fund; Agricultural Development Corporation; Agricultural Marketing Corporation, Cocoa Industry Board; Coffee Industry Board; Sugar Industry Authority; Overseas Examination Commission; Aeronautical Telecommunications Ltd.; Jamaica Civil Aviation Authority; Jamaica Ultimate Tire Company Ltd.; Jamaica Railway Corporation Ltd.; The Firearm Licensing Authority; Ports Management Security Corps Ltd.; Transport Authority.

The overall balance of public bodies will be calculated from the Statement A's provided by the Public Enterprises Division of the Ministry of Finance and the Planning (MoFP) for each of the selected public bodies and the group of the other public bodies as defined above. The definition of overall balance used is operational balance, plus capital account net of revenues (investment returns, minus capital expenditure, plus change in inventories), minus dividends and corporate taxes transferred to government, plus net other transfers from government. For the particular case of the National Housing Trust and the House Agency of Jamaica, capital account revenues will not be netted out since they do not refer to flows arising from assets sales but rather to contribution revenue, and therefore will be included among recurrent revenue such as is done for pension funds.

The definitions of "Selected Public Bodies" and "Other Public Bodies" will be adjusted as the process of public bodies' rationalization, including divestments and mergers, advances. However, this process will not affect the performance criterion unless specifically stated. All newly created entities, including from the merging of existing entities, will be incorporated in either of these two groups.

The overall balance of the public sector is calculated as the sum of central government overall balance and the overall balance of the public bodies.

Reporting: Data will be provided to the Fund with a lag of no more than 6 weeks after the test date.

C. Ceiling on the Stock of Central Government Direct Debt

Definitions: Central government direct debt includes all domestic and external bonds and any other form of central government debt, such as supplier loans. It excludes IMF debt. It includes loan disbursements from the PetroCaribe Development Fund to finance central government operations. The target will be set in Jamaican dollars with foreign currency debt converted using the programme exchange rate. The change in the stock of debt will be measured "below the line" as all debt issuance minus repayments on all central government debt.

For the purposes of computing the debt target, debt inflows are to be recorded at the moment the funds are credited to any central government account.

Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.

Adjusters: The target will be adjusted upwards if explicit government guarantees (defined as the stock of existing guarantees as of end March 2012 plus new guarantees allowed to be issued under the programme) are called. The target will be adjusted downwards if net divestment revenues (i.e. net of divestment expenses) take place. The debt target will be adjusted for cross-currency parity changes; and pre-financing, as reflected by the increase in central government deposits.

The target will be adjusted downward by 20 percent of the value of the bonds converted through the February 2013 debt exchange into "Fixed Rate Accreting Bonds" (FRAN).

D. Ceiling on Net Increase in Central Government Guaranteed Debt

Definitions: Net increase in central government guaranteed debt is calculated as issuance minus repayments of central government guaranteed debt, in billions of Jamaican dollars, including domestic and external bonds, loans and all other types of debt. Foreign currency debt will be converted to Jamaican dollars at the programme exchange rate. Central government guaranteed debt does not cover loans to public entities from the PetroCaribe Development Fund. The cumulative targets are computed as the difference between the stock of government guaranteed debt as of end-March of each year and the stock of government guaranteed debt as of the target date.

The cumulative net increase in central government guaranteed debt will be monitored on a continuous basis.

Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.

Adjuster: In the case where the central government debt guarantees are called, the stock of central government guaranteed debt will be adjusted downwards to preserve the performance criteria.

E. Ceiling on Central Government Accumulation of Domestic Arrears

Definition: Domestic arrears are defined as payments to residents determined by contractual obligations that remain unpaid 90 days after the due date. Under this definition, the due date refers to the date in which domestic debt payments are due according to the relevant contractual agreement, taking into account any contractual grace periods. Central government domestic arrears include arrears on domestic central government direct debt, including to suppliers, and all recurrent and capital expenditure commitments.

The ceiling on central government accumulation of domestic arrears will be monitored on a continuous basis.

Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.

F. Performance Criterion on Non-accumulation of External Debt Payments Arrears

Definitions: consolidated government includes the central government and the public bodies, as defined in sections A and B, respectively.

Definitions: external debt is determined according to the residency criterion.

Definitions: the term "debt" [1] will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

i. Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

ii. Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

iii. Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property. For the purpose of the programme, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

Definitions: under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Definitions: under this definition of debt set out above, external payments arrears consist of arrears of external debt obligations (principal and interest) falling due after March 29, 2013 that have not been paid at the time due, taking into account the grace periods specified in contractual agreements. Arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or rescheduling agreement is being sought are excluded from this definition.

[1] As defined in Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, Decision No. 6230-(79/140), as amended.

The consolidated government and the BOJ will accumulate no external debt payment arrears during the programme period. For the purpose of this performance criterion, an external debt payment arrear will be defined as a payment by the consolidated government and the BOJ, which has not been made within seven days after falling due.

The stock of external arrears of the consolidated government and the BOJ will be calculated based on the schedule of external payments obligations reported by the MoFPS. Data on external arrears will be reconciled with the relevant creditors, and any necessary adjustments will be incorporated in these targets as they occur.

This performance criterion does not cover arrears on trade credits.

The performance criterion will apply on a continuous basis.

Reporting: The MoFPS will provide the final data on the stock of external arrears of the consolidated government and the BOJ to the Fund, with a lag of not more than two weeks after the test date.

G. Ceiling on Central Government Accumulation of Tax Refund Arrears

Definition: Tax refund arrears are defined as obligations on tax refunds in accordance with tax legislation that remain unpaid 90 days after the due date.

The central government accumulation of tax refund arrears will be monitored on a continuous basis.

Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.

H. Floor on Accumulation of BOJ Net International Reserves

Definitions: Net international reserves (NIR) of the BOJ are defined as the U.S. dollar value of gross foreign assets of the BOJ minus gross foreign liabilities with maturity of less than one year. Non-U.S. dollar denominated foreign assets and liabilities will be converted into U.S. dollar at the programme exchange rates. Gross foreign assets are defined consistently with the Sixth Edition of the *Balance of Payments Manual and International Investment Position Manual (BPM6)* as readily available claims on nonresidents denominated in foreign convertible currencies. They include the BOJ's holdings of monetary gold, SDR holdings, foreign currency cash, foreign currency securities, liquid balances abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currency vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets.

Gross foreign liabilities are defined consistently with the definition of NIR for programme purposes and include all foreign exchange liabilities to nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), and all credit outstanding from the Fund (including credit used for financing of the FSSF, but excluding credit transferred by the Fund into a Treasury account to meet the government's financing needs directly).

Reporting: Data will be provided by the BOJ to the Fund with a lag of no more than five days past the test date.

Adjusters: NIR targets will be adjusted upward (downward) by the surplus (shortfall) in programme loan disbursements from multilateral institutions (the IBRD, IDB, and CDB) relative to the baseline projection reported in Table 1. Programme loan disbursements are defined as external loan disbursements from official creditors that are usable for the financing of the consolidated government. NIR targets will also be adjusted upward (downward) by the surplus (shortfall) in disbursements of budget support grants relative to the baseline projection reported in Table 1.

Table 1. External Program Disbursements (baseline projection)

Cumulative flows from the beginning of the fiscal year	(In millions of US$)
External loans from multilateral sources	
End-June 2013	15
End-September 2013	101
End-December 2013	126
End-March 2014	346
Budget support grants	
End-June 2013	0
End-September 2013	10
End-December 2013	27
End-March 2014	67

The NIR target will be adjusted upwards (downwards) by the amount by which, at a test date, the cumulative changes from end-December 2012 in BOJ's foreign exchange liabilities to residents (including banks' foreign currency deposits in BOJ against reserve requirements) are higher (lower) than the baseline projection for this change reported in Table 2.

Table 2. Reserve liabilities items for NIR target purposes

	(In millions of US$) 1/
1. BOJ's foreign liabilities to residents	
Outstanding stock	
End-December 2012	277.1
Cumulative change from end-December 2012	
End-March 2013	40.0
End-June 2013	45.0
End-September 2013	50.0
End-December 2013	53.0
End-March 2014	56.0

1/ Converted at the programme exchange rates.

I. Ceiling on Net Domestic Assets of the Bank of Jamaica

Definition: The Bank of Jamaica's net domestic assets (NDA) are defined as the difference between the monetary base and NIR. The monetary base includes currency in the hands of the non-bank public plus vault cash held in the banking system, statutory cash reserve requirements against prescribed liabilities in Jamaica Dollars held by commercial banks at the Bank of Jamaica, and the current account of commercial banks comprising of credit balances held at the central bank.

Reporting: Data will be provided to the Fund with a lag of no more than three weeks after the test date.

QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

J. Cumulative Floor on Central Government Tax Revenues

Definition: Tax revenues refer to revenues from tax collection. It excludes all revenues from asset sales, grants, bauxite levy, and non tax revenues. To gauge the impact of the tax policy reforms and improvements in tax administration, the programme will have a floor on central government tax revenues (indicative target). The revenue target is calculated as the cumulative flow from the beginning to the end of the fiscal year (April 1 to March 31).

Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.

K. Floor on Central Government Social Spending

Definition: Social spending is computed as the sum of central government spending on social protection programs as articulated in the central government budget for a particular fiscal year. These programmes are funded by GOJ resources only and comprise conditional cash transfers to children 0–18 years and the elderly; youth employment programmes; the poor relief programme for both indoor and outdoor poor; the school feeding programme; and the basic school subsidy.

In particular, this target comprises spending on specific capital and recurrent programmes. On capital expenditure *only* the following specific programmes will be part of the target:

- *Youth employment programmes* comprising on the job training, summer employment, and employment internship programme.
- *Conditional cash transfers* comprising children health grant, children education grants, tertiary level, pregnant and lactation grants, disabled adult grants, adult under 65 grants, and adults over 65 grants.
- *Poor relief programme.*

On recurrent expenditure, *only* the following specific programmes will be part of the floor on social expenditure:

- School feeding programme operating costs;
- Operating cost of poor relief (both indoor and outdoor);
- Golden Age Homes;
- Children's home, places of safety, and foster care including operating cost;
- Career Advancement Programme; and
- National Youth Service Programme.

Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.

CONDITIONALITY ON TAX WAIVER REFORM

Several aspects of the prior action and the continuous structural benchmark regarding the application of discretionary tax waivers merit specification.

For the purposes of these conditions, discretionary waivers are defined as: any reduction in tax or customs duty payable, effected through the direct exercise by the Minister of Finance of his powers under the various tax statutes; in circumstances where there is no express provision for exemption in any statute.

The conditionality stipulates a 'de minimis cap' on granting new discretionary waivers that excludes waivers that are (i) granted to charitable organizations and for charitable purposes; (ii) required to satisfy the GoJ's already existing contractual or legal obligations; or (iii) specifically exempted in the Technical Memorandum of Understanding (TMU). These exceptions are specified below.

The GOJ already existing contractual or legal obligations (Ad (ii) above) comprise international treaties that have not yet been ratified, listed sector-specific arrangements, and existing contracts for government projects (as of the start of the arrangement period). International treaties that have not yet been ratified refers to CARICOM suspension for goods purchased outside of CARICOM. Sector specific arrangements on the basis of which waivers may be granted beyond the 'de minimis' cap are limited to the following:

- Attractions Initiative—approved list of items based on the type of attraction and the capital needs. Waivers from customs duties and GCT only, up to 10 percent.
- Tourism Ground Transportation/U-Drive—buses and cars for use in the tourism industry.
- JAMPRO—Motion Picture Industry Act—Directive that motor vehicles for the motion picture industry should be signed off by the Minister of finance and Planning.
- Jamaica Tourism Board—Conference materials for the sector, for re-export.
- Ministry of Agriculture—Motor Vehicles and equipments for approved farmers. Waivers for SCT only.

Existing contracts for government projects (as of the start of the arrangement period) comprise the following:

Contractor/Consultant	Government/Construction Project
COMPLANT International Sugar Industry Co. Ltd.	Agreement for Sale and Purchase between SCJ Holdings Limited, Sugar Company of Jamaica Limited, The Minister of Housing, Commissioner of lands, National Sugar Company Limited, Sugar Industry Authority, Sugar Shipping Limited and COMPLANT
Stanley Consultants Inc.	Southern Coastal Highway Improvement Project Feasibility Study and Preliminary Design. Segment 1: Port Antonio to Harbour View Segment 2: Mandeville to Negril.
Kier Construction Limited	IDB Loan No. 2026/OC-JA Dry River Bridge, Harbour View, St. Andrew
Surrey Paving and Aggregate Company Limited	CDB Loan No. 16/SFR-OR-JAM Construction Contract No. WBIP/CDB/05/01—Fifth Road (Washington Boulevard Improvement) Project Vol. 1 – Contract Document
Surrey Paving and Aggregate Company Limited	CDB Loan No. 16/SFR-OR-JAM Construction Contract No. WBIP/CDB/05/01—Fifth Road (Washington Boulevard Improvement) Project Vol. 11 – Works Requirements
China Harbour Engineering Co. Ltd.	Jamaica Development Infrastructure Programme (JDIP) Island wide
China Harbour Engineering Co. Ltd.	Palisadoes Shoreline Protection and Rehabilitation Works
Golden Grove Sugar Company	Agreement for sale and Purchase (Duckenfield Estate, St. Thomas) SCJ Holdings Limited, National Sugar Company Limited, St. Thomas Sugar Company Limited
Vinci Construction Grands Project	Kingston Water & Sanitation Project–Rehabilitation of Mona & Hope Water Treatment Plants KSA/WI
Kier Construction Limited	Kingston Water Sanitation Project – Construction of New Waste Water Pump Station at Darling Street KSA/W2
M&M Jamaica Limited	Rehabilitation of the Negril Waste Water Treatment Plant
China Harbour Engineering Company	Jamaica North South Highway Project
Bouygues, Trans-Jamaican Highway, Jamaica Infrastructure Operators	Highway 2000
COMPLANT	Jamaica Economical Housing Project

Additional waivers specifically exempted in the TMU (Ad (iii) above) are:

- Waivers from the CET for the procurement of oil outside of Caricom; and

- Waivers related to financial sector restructuring required by the Supervisor pursuant to statutory provisions to enhance supervisory functions and facilitate supervision on a consolidated basis.

INFORMATION REQUIREMENTS

To ensure adequate monitoring of economic variables and reforms, the authorities will provide the following information:

L. Daily

- Net international reserves; nominal exchange rates; interest rates on BOJ repurchase agreements; total currency issued by the BOJ, deposits held by financial institutions at the BOJ; required and excess reserves of the banking sector in local and foreign currency, total liquidity assistance to banks through normal BOJ operations, including overdrafts; overnight interest rates; GOJ bond yields.

- Disbursements from the Financial System Support Fund, by institutions.

- Deposits and liquidity assistance to institutions, by institution.

- Bank of Jamaica purchases and sales of foreign currency.

- Amounts offered, demanded and placed in Bank of Jamaica open market operations, including rates on offer for each tenor.

- Amounts offered, demanded and placed in Government of Jamaica auctions; including minimum maximum and average bid rates.

M. Weekly

- Balance sheets of the core securities dealers, including indicators of liquidity (net rollovers and rollover rate for repos and a 10 day maturity gap analysis), capital positions, details on sources of funding, including from external borrowing on margin, and clarity on the status of loans (secured vs. unsecured). Weekly reports will be submitted within 10 days of the end of the period.

- Deposits in the banking system and total currency in circulation.

N. Monthly

- Central government operations, with a lag of no more than four weeks after the closing of each month.

- Public entities' Statement A: consolidated and by institution for the "Selected Public Bodies", and consolidated for the "Other Public Bodies" with a lag of no more than six weeks after the closing of each month.

- Stock of public external and domestic debt, by creditor and by currency, as at end month. Data is to be provided within four weeks of month end.

- Central government debt amortization and repayments, by instrument (J$-denominated and US$-denominated bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans). Includes government direct, government guaranteed, and total. In the case of issuance of government guaranteed debt, include the name of the guaranteed individual/institution. The reporting lag should not exceed four weeks after the closing of each month.

- Balances of the Consolidated Fund and main revenue accounts needed to determine the cash position of the government.

- Stock of central government expenditure arrears.

- Stock of central government tax refund arrears.

- Stock of central government domestic and external debt arrears, and BOJ external debt arrears.

- Central government spending on social protection programmes as defined for the indicative target on social spending.

- Central government debt stock, including by (i) creditor (official, commercial domestic, commercial external; (ii) instrument (J$-denominated and US$-denominated bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans); (iii) direct and guaranteed. The reporting lag should not exceed four weeks after the closing of each month.

- Holdings of domestic bonds (J$-denominated and US$-denominated) by holder category. The reporting lag should not exceed four weeks after the closing of each month.

- Legal measures that affect the revenue of the central government (tax rates, import tariffs, exemptions, etc.).

- Balance sheet of the Bank of Jamaica within three weeks of month end.

- A summary of monetary accounts providing detailed information on the accounts of the Bank of Jamaica, commercial banks, and the overall banking system. Include a detailed decomposition on Bank of Jamaica and commercial bank net claims on the Central

Government, selected public bodies, and other public bodies.[2] This information should be received with a lag of no more than six weeks after the closing of each month.

- Profits of the Bank of Jamaica on a cash and accrual basis, including a detailed decomposition of cash profits and profits from foreign exchange operations with a lag of no more than three weeks from month end.

- Deposits in the banking system: current accounts, savings and time deposits within six weeks after month end. Average monthly interest rates on loans and deposits within two weeks of month end; weighted average deposit and loan rates within six weeks after month end.

- Financial statements of other (non-bank) deposit taking institutions and insurance companies within six weeks of month end.

- The maturity profile of assets and liabilities of core securities dealers in buckets within six weeks of month end.

- Monthly balance sheet data of deposit taking institutions, as reported to the BOJ within six weeks of month end.

- Data on reserve liabilities items for NIR target purposes (Table 9) within three weeks after month end.

- A full set of monthly FSIs regularly calculated by the BOJ, including capital adequacy, profitability and liquidity ratios, within six weeks of month end.

- Imports and exports of goods, in US$ million within five months after month end. Tourism indicators within three months after month end. Remittances' flows within four weeks after month end.

- Consumer price inflation, including by sub-components of the CPI index within four weeks after month end.

- Use of the PetroCaribe Development Fund, including loan portfolio by debtor and allocation of the liquidity funds in reserve within four weeks after month end.

- The balance sheet of the PetroCaribe Development fund.

- Data on discretionary waivers, specifying those under the 'de minimis' cap, those under the broader cap, and those covered by the exceptions from these caps.

- Data on tax waivers for charities and charitable giving.

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[2]Selected public bodies and other public bodies are defined as outlined in Section IV (B).

O. Quarterly

- Summary balance of payments within three months after quarter end. Revised outturn for the preceding quarters and quarterly projections for the forthcoming year, with a lag of no more than one month following receipt of the outturn for the quarter.

- Gross domestic product growth by sector, in real and nominal terms, including revised outturn for the preceding quarters within three months after quarter end; and projections for the next four quarters, with a lag no more than one month following receipt of the outturn for the quarter.

- Updated set of macroeconomic assumptions and programme indicators for the preceding and forthcoming four quarters within three months of quarter end. Main indicators to be included are: real/nominal GDP, inflation, interest rates, exchange rates, foreign reserves (gross and net), money (base money and M3), credit to the private sector, open market operations, and public sector financing (demand and identified financing).

- BOJ's Quarterly Financial Stability Report.

- Quarterly income statement data of deposit taking institutions, as reported to the BOJ within eight weeks of the quarter end.

- Summary review of the securities dealer sector, within eight weeks of quarter end.

- Summary report of the insurance sector (based on current FSC quarterly report), within eight weeks of quarter end.

- Capital adequacy and liquidity ratios (against regulatory minima) for DTI's and non-bank financial institutions within four weeks of quarter end.

- FSC status report detailing compliance (and any remedial measures introduced to address any non compliance) with the agreed guidelines for the operation of client holding accounts at the CSD and FSC independent verification of daily reconciliations using data provided by Jamclear. Reports are due within four weeks of end quarter.

P. Annual

Financial statements of pension funds within six months of year end.

Number of public sector workers paid by the consolidated fund by major categories.